Quarterly Review (As at 31 March 2019)

New Capital Global Equity Conviction Fund

Q1 2019

Equity

Jeff Li
Senior Portfolio Manager

Overview of the Quarter

What a difference a quarter made!

After the significant sell-off in global markets in the last quarter of 2018, the sentiment took a U-turn in the first quarter of 2019. The long list of macro risks that investors were worried about merely three months ago such as rising interest rates, a global growth slowdown, deteriorating fixed income markets and an escalating US-China trade relationship seemed to have improved over the course of the past quarter, triggering a relief rally in global markets.

In the US, the messages that the Fed sent to the market were positive. Despite the market rally and improved credit markets this year, the Fed decided to pause on future interest rate increases and signalled to the market that it would stop shrinking its balance sheet as early as September this year. A more dovish Fed significantly improves the liquidity condition in the market which we believe is the major reason behind this year's rally.

A more dovish Fed also allowed much needed room for the Chinese government to further ease with more stimulative fiscal and monetary policies. Within this quarter, Total Social Financing, a measure of liquidity in the Chinese economy, troughed and the real economy usually bottoms after 1-2 quarters based on historical experiences. In April, we already saw early signs of economic recovery with Chinese PMI data accelerating at the fastest speed since 2012. Meanwhile in the fourth quarter, the Chinese market's valuation had dropped to as low as the 2008 financial crisis level. All these factors made the Chinese market one of the best performing markets globally so far this year.

Meanwhile, the US and China trade talks seem to be making some progress and a trade deal between the two largest economies of the world could be imminent.

However, not all signs are positive. European data deteriorated further over the past quarter. What makes the situation more challenging was that EU seemed to be running out of room for further monetary stimulus or fiscal stimulus. Meanwhile, Brexit still remains largely unpredictable and the moment of truth now keeps getting delayed.

On the trade front, although both US and China have incentives to reach a near-term agreement for now, we have argued over the past few quarters that the two would compete and confront each other for decades to come. Now that the market has rallied again, Trump seems to want to engage with in another "trade war", this time, with Europe.

From a sector perspective, technology took leadership in the market, as a low rate, low growth environment is generally positive for the sector. The same macro environment is less positive for financials, particularly banks, which lagged this quarter.

Return of major markets in USD

	2017	2018	4Q 2018	1Q 2019
MSCI AC World	21.6%	(11.2%)	(13.1%)	11.6%
EM	34.3%	(16.6%)	(7.8%)	9.6%
DM	20.1%	(10.4%)	(13.7%)	11.9%
USA	19.5%	(6.3%)	(14.1%)	13.3%
Europe ex UK	24.1%	(17.1%)	(13.2%)	9.9%
UK	17.4%	(17.7%)	(12.5%)	10.3%
Japan	21.8%	(14.5%)	(14.4%)	5.7%
Asia ex Japan	38.7%	(16.4%)	(9.0%)	11.2%
China	51.1%	(20.4%)	(10.8%)	17.7%

Source: EFGAM, FactSet as at 31/03/19

Performance and Positioning

In the first quarter of 2019, the Global Equity Conviction Fund was up 16.27% compared to the benchmark MSCI All Countries World which was down 12.17%. Financials made the largest positive contribution to our performance driven by our overweight position in the Asian financial sector as well as overall good stock selection. The information technology sector was also a significant positive contribution driven by mostly good stock selection as well as our sector overweight position.

From a stock perspective, the top positive contributors this quarter were ServiceNow, SS&C Technologies and MasterCard which were up 38.4%, 41.4% and 25.0% respectively during the quarter.

ServiceNow, a mid-cap US software company specialising in cloud based process automation software continued its strong business momentum this quarter by growing its subscriber base more than expected and showing no signs of slowing down. We remain positive with ServiceNow's business over the long term as it is still early in penetrating the large total addressable market and we expect profitability to increase as well as the company to scale up.

SS&C Technologies was our new addition to the portfolio during the fourth quarter market sell-off. SS&C is a leading provider for mission critical software and services to the asset management industry. We met the company's founder, chairman and CEO Bill Stone at a conference in December 2018 and were impressed with SS&C's competitive advantage as well as the management team's strong capability to allocate capital. SS&C performed well this quarter driven by its strong quarterly results.

MasterCard continued its strong business momentum by reporting solid fourth quarter results with its cardholders spending 15% more compared to the same period last year. MasterCard also provided mid-term guidance for low-teen revenue growths and high-teen EPS growth.

On the negative side, the largest detractor to the performance this quarter was UnitedHealth. The leading US healthcare insurer was under pressure this quarter as noises were picking up again on healthcare regulation as we get closer to an election year. We have seen this before and every time such weakness has provided buying opportunities. It is extremely difficult to rebuild a healthcare system with healthcare insurers like UnitedHealth providing no value proposition. A nationalised system is not the answer in our opinion, as UnitedHealth already proved that they could run public programmes like Medicare at lower costs yet with a higher level of services.

"Across the major regions, we believe the strongest earnings momentum is likely to come from China as the economy is likely to bottom out later this year."

Active positioning

Section Weight	Active allocation	Direction of allocation	Key Stocks
Healthcare	+6.1%	↓	UnitedHealth, Lonza, AstraZeneca
Communication Services	+2.4%	=	Alphabet, Comcast, Tencent
Real Estate	+2.2%	=	Equinix, American Tower
Information Technology	+1.0%	=	MasterCard, Microsoft, Broadridge
Consumer Staples	+0.1%	=	Kerry Group, Mondelez, Estee Lauder
Industrials	-0.8%	=	Fortive, CSX, Thales
Consumer Discretionary	-1.9%	=	Amazon, LVMH, Ulta Beauty
Utilities	-2.4%	↑	NextEra
Financials	-2.4%	=	S&P Global, Ping An Insurance, HDFC
Materials	-2.9%	=	Air Products, Croda
Energy	-5.1%	=	Marathon Petroleum
Section Weight	**Active allocation**	**Direction of allocation**	**Key Stocks**
Americas	-3.3%	↑	UnitedHealth, MasterCard
EMEA	+1.9%	↓	Lonza, Thales, AstraZeneca
Japan	-2.8%	=	Keyence, Softbank
Asia excl. Japan	+0.6%	↑	Tencent, AIA, Alibaba, Treasury Wine

Source: EFGAM as at 31 March 2019

Outlook

On the one hand, we believe the global market has de-risked to some extent compared to the fourth quarter of last year. The biggest improvement came from the liquidity situation in the market with both Fed and Chinese government easing. Bond yields have tightened again. US and China trade talks seem to be making progress as well.

On the other hand, we believe most of these positive developments are already reflected in the current prices. For the market to move higher on a sustainable basis, we need the global economy to continue to expand and company earnings to continue to grow at a healthy rate.

Across the major regions, we believe the strongest earnings momentum is likely to come from China as the economy is likely to bottom out later this year. This will also help emerging market performance as well. The US economy was slowing down last year and we believe is likely to stabilise with better liquidity conditions in the economy. The European economy has the biggest risk of further slowing down.

In terms of style, we discussed our framework last quarter by dividing the market into three groups. The first group are companies that have structural growth drivers and can potentially grow through different phases of the cycle with resilient margin profile, but trade at a premium to the market. We call these "Structural Growers" and a significant part of the technology, healthcare and consumer discretionary sectors belong to this group. The second group are companies that are cyclical with not much visibility in business outlook but usually trade at low earnings multiples. We call it "Cheap Cyclicals" and we would put all cyclical sectors into this group, but significant components are industrials, financials, energy and materials companies. The third group will be the traditional defensive sectors such as consumer staples, telecoms, utilities and real estate. Let's just call this group "Bond Proxies".

We believe the current market environment warrants an overweight stance in "Structural Growers" as growth has become scarcer. That was exactly what we did in the fourth during the market sell-off. We believe we should also have an overweight position in "Bond Proxies" as interest rates are likely to remain low. We will for now underweight "Cheap Cyclicals" with global growth slowing, especially in Europe and banks in developed markets. That said, we might be able to find good opportunities in "Cheap Cyclicals" in emerging markets, particularly China.

Note: Past performance is not necessarily a guide to the future. Returns may increase or decrease as a result of currency fluctuations. Performance is net of fees. Please refer to the Prospectus for further information on this Fund and prior to any subscription.

Important Information

This document does not constitute and shall not be construed as a prospectus, public offering or placement of, nor a recommendation to buy, sell, hold or solicit, any investment, security, other financial instrument or other product or service. It is not intended to be a final representation of the terms and conditions of any investment, security, other financial instrument or other product or service. This document is for general information only and is not intended as investment advice or any other specific recommendation as to any particular course of action or inaction. The information in this document does not take into account the specific investment objectives, financial situation, tax situation or particular needs of the recipient. You should seek your own professional advice (including tax advice) suitable to your particular circumstances prior to making any investment or if you are in doubt as to the information in this document.

This document contains material that may be interpreted in the country in which this document has been communicated as a financial promotion and/or advertisement in relation to investment services, securities or other investments. Accordingly, the information in this document is only intended to be viewed by persons who fall outside the scope of any law that seeks to regulate financial promotions and/or advertisements in the country of your residence or in the country in which this document has been communicated. If you are uncertain about your position under the laws of the country in which this document has been communicated then you should seek clarification by obtaining legal advice.

Although information in this document has been obtained from sources believed to be reliable, no member of the EFG group represents or warrants its accuracy, and such information and/or investment research may be inaccurate, incomplete or condensed. Any opinions in this document are subject to change without notice. This document may contain personal opinions which do not necessarily reflect the position of any member of the EFG group. To the fullest extent permissible by law, no member of the EFG group shall be responsible for the consequences of any errors or omissions herein, or reliance upon any opinion or statement contained herein, and each member of the EFG group expressly disclaims any liability, including (without limitation) liability for incidental or consequential damages, arising from the same or resulting from any action or inaction on the part of the recipient in reliance on this document.

The value of investments and the income derived from them can fall as well as rise, and any reference to past performance is no indicator of current or future performance. Any past performance data for collective investment schemes may not take account of the commissions and costs incurred on the issue and redemption of shares. Income from an investment may fluctuate. Investment products may be subject to investment risks involving, but not limited to, possible loss of all or part of the principal invested. The risk of loss from investing in commodity and financial futures, foreign exchange contract securities, warrants and index contracts and options can be substantial.

The publication or availability of this document in any jurisdiction or country may be contrary to local law or regulation and persons who come into possession of this document should inform themselves of and observe any restrictions. No distribution of this information to anyone other than the designated recipient is intended or authorized. This document may not be reproduced, disclosed or distributed (in whole or in part) to any other person without prior written permission from an authorised member of the EFG group.

The information contained in this document is merely a brief summary of key aspects of the New Capital UCITS Fund plc (the “Fund”). More complete information on the Fund can be found in the prospectus or key investor information document, and the most recent audited annual report and the most recent semi-annual report. These documents constitute the sole binding basis for the purchase of Fund units. Copies of these documents are available free of charge and may be obtained at the registered office of the Fund at 5 George’s Dock, IFSC, Dublin 1, Ireland; in the United Kingdom from the facilities agent EFG Asset Management (UK) Limited (“EFGAM”), Leconfield House, Curzon Street, London W1J 5JB, United Kingdom; in Germany from the German information agent, HSBC Trinkaus & Burkhardt AG, Königsallee 21/23, 40212 Düsseldorf, Germany; in France from the French centralizing agent, Societe Generale, 29, boulevard Haussmann – 75009 Paris, France; in Luxembourg from the Luxembourg paying agent, HSBC Securities Services (Luxembourg) S.A., 16 boulevard d’Avranches, L-1160 Luxembourg, R.C.S. Luxembourg, B28531; in Austria from the Austrian paying and information agent, Erste Bank der oesterreichischen Sparkasse AG Graben 21, 1010 Vienna, Austria; in Sweden from the Swedish paying agent, MFEX Mutual Funds Exchange AB, Linnégatan 9-11, 11 447 Stockholm, Sweden; and in Switzerland from the Swiss representative, CACEIS (Switzerland) SA, Route de Signy 35, CH-1260 Nyon and the paying agent, EFG Bank SA, 24 Quai du Seujet, CH-1211, Geneva 2, Switzerland.

Hong Kong: This document does not constitute an offer, solicitation or invitation, publicity or any other advice or recommendation. The information contained within this document has been obtained from sources believed to be reliable and accurate at the time of issue but no representation or warranty, expressed or implied, is made as to the fairness, accuracy or completeness of the information. Investment involves risk. Past performance is not indicative of future results. Before making any investment decision to invest in the Fund, you should read the Hong Kong offering documents and especially the risk factors therein. An investment in the Fund may not be suitable for everyone. If you are in any doubt about the contents of this document, you should consult your stockbroker, bank manager, solicitor, accountant or other financial adviser for independent professional advice. This document is issued by EFG Asset Management (Hong Kong) Limited and has not been reviewed by the Securities and Futures Commission ("SFC") in Hong Kong. The SFC takes no responsibility for the contents of this statement and makes no representation as to its accuracy or completeness.

Singapore: The Fund is not authorised or recognised by the Monetary Authority of Singapore (the "MAS") and the shares in the Fund (the "Shares") are not allowed to be offered to the Singapore retail public. Moreover, this presentation, and any other document or material issued in connection with the offer or sale is not a prospectus as defined in the Securities and Futures Act, Chapter 289 of Singapore ("SFA"). Accordingly, statutory liability under the SFA in relation to the content of prospectuses would not apply. You should consider carefully whether the investment is suitable for you.

This presentation has not been registered as a prospectus by the MAS, and the offer of the Shares is made pursuant to the exemptions under Sections 304 and 305 of the SFA. Accordingly, the Shares may not be offered or sold, nor may the Shares be the subject of an invitation for subscription or purchase, nor may this presentation or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Shares be circulated or distributed, whether directly or indirectly, to any person in Singapore other than under exemptions provided in the SFA for offers made (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 304 of the SFA, (b) to a relevant person (as defined in Section 305(5) of the SFA), or any person pursuant to an offer referred to in Section 305(2) of the SFA, and in accordance with the conditions specified in Section 305 of the SFA or (c) otherwise pursuant to, and in accordance with, the conditions of any other applicable provision of the SFA.

Where the Shares are acquired by persons who are relevant persons specified in Section 305A of the SFA, namely:

a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Shares pursuant to an offer made under Section 305 of the SFA except:

1. to an institutional investor or to a relevant person as defined in Section 305(5) of the SFA, or which arises from an offer referred to in Section 275(1A) of the SFA (in the case of that corporation) or Section 305A(3)(i)(B) of the SFA (in the case of that trust);

2. where no consideration is or will be given for the transfer;

3. where the transfer is by operation of law;

4. as specified in Section 305A(5) of the SFA; or

5. as specified in Regulation 36 of the Securities and Futures (Offers of Investments) (Collective Investment Schemes) Regulations 2005 of Singapore.

The offer, holding and subsequent transfer of Shares are subject to restrictions and conditions under the SFA. You should consider carefully whether you are permitted (under the SFA and any laws or regulations applicable to you) to make an investment in the Shares and whether any such investment is suitable for you and you should consult your legal or professional advisor if in doubt.

This document has been produced by EFG Asset Management (UK) Limited for use by the EFG group and the worldwide subsidiaries and affiliates within the EFG group. EFG Asset Management (UK) Limited is authorised and regulated by the UK Financial Conduct Authority, registered no. 7389746. Registered address: EFG Asset Management (UK) Limited, Leconfield House, Curzon Street, London W1J 5JB, United Kingdom, telephone +44 (0)20 7491 9111.

This document should be considered a marketing communication.