Quarterly Review (As at 30 December 2018)

New Capital Strategic UCITs Fund

Q4 2018

MULTI-ASSET

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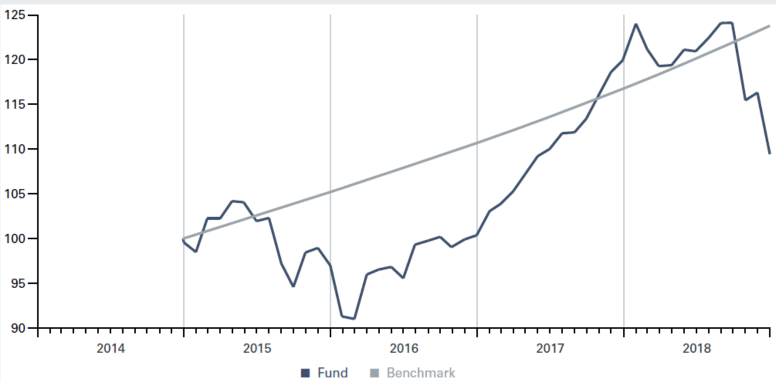
"Our work suggests concerns for 2019 are overdone"

Overview of the Quarter

In a challenging year for financial assets, markets experienced a resurgence of volatility through the final quarter, culminating in the weakest December in ninety years. By the end of December, all major financial markets were in negative territory for the year. The American S&P500 equity index lost close to 14% in Q4 giving a negative return of 4.4% for the year. Eurozone and UK equities closed the year between 9% and 11% lower. Although outperforming over the year, developed markets underperformed their emerging counterparts in the fourth quarter. Overall, global equity markets ended the year 9.4% lower. Government bonds erased the losses of the first nine months, but the majority closed the year more or less where they started. Corporate bond spreads widened with both investment grade and high yield issues on aggregate losing a little over 2% for the year as a whole. Gold, considered a 'safe haven' in times of volatility gained 7.8% over Q4, although still negative for the year. Oil too struggled as a result of unexpected oversupply issues, falling 35% and ending the year where it began.

Markets sold off in October in reaction to concerns over US inflationary data and the resultant path of interest rate hikes. However, as the quarter progressed, fears started to focus on a slowdown in global activity. We had been expecting to see growth moderate through the coming year, but importantly, remain positive. The same holds for our expectations for 2019 corporate profits where we forecast earnings in excess of 8% for the S&P500 index. The S&P500 has seen a Price/Earnings decline of nearly 4 points, a contraction last seen in 2002 during the post dot-com derating. If the US is heading for recession, then perhaps this may be appropriate but at present this is not the case. Much of the market's concern lies with the extent to which the Federal Reserve will continue normalising interest rates in the US. With inflation near to the Fed's 2% target, we believe that we are close to the end of this hiking cycle, leaving the cost of servicing debt accommodative.

Performance



	2014	2015	2016	2017	2018
Fund	-0.43%	-2.58%	3.48%	19.47%	-8.74%
Benchmark	0.03%	5.18%	5.48%	6.07%	6.99%

Past performance is not necessarily a guide to the future

Source: EFGAM as at 31 December 2018

Performance and Positioning

The final three months of the year proved an exceptionally volatile period for risk assets, with the portfolio moving lower in line with the MSCI All Country World Index in USD. Global events took centre stage, with investors concerned about a potential slowdown in global growth and an earnings recession for 2019; views we do not subscribe to.

Our pro-growth stance was held throughout the quarter. Our work suggests concerns for 2019 are overdone and the period provided an opportunity to add to names, themes and regions we favour on a long term basis. We continued to favour equity over fixed income. However, within fixed income we tactically added longer dated maturities, locking in some desirable yields, both in sovereign and corporate entities.

Equities proved a challenge. Our growth and small cap positions came under pressure, whilst an underweight to defensives hurt on a relative basis. Nevertheless, our thesis has not changed and given lower valuations, we added opportunistically to some of our beaten-down names.

In terms of asset allocation:

- Fixed Income: We have increased the allocation in fixed income by reducing exposure to hedge funds. We have switched our barbell approach (FRNs and long duration investment grade bonds) to more 2-7 years fixed coupon bonds to take advantage of the re-steepening of the yield curve. We reduced significantly the exposure in high yield bonds earlier in the year and have therefore meaningfully increased the credit quality of the portfolio. We have started building short duration emerging market investment grade positions after having reduced the exposure at the beginning of the year.

- Equities: During the year we had a small cap and growth tilt within our global equity approach. This approach worked well up to September, but the severe rotations in October/November caused some give back of the outperformance. We largely maintained this approach but have begun at the margin to increase our holdings in quality defensive names.

- Hedge Funds: Hedge funds have had a very disappointing 2018, with quantitative strategies having been hit the most. With bond yields higher we are finding fewer reasons to hold hedge funds over bonds. We have therefore reduced our allocation.

- Commodities: We have remained long in copper and have reduced our short position in gold as potential USD weakness (Fed pause) could drive the price of the precious metal higher.

- Real Estate: The allocation has been reduced during 2018 due to the interest rate sensitivity of the asset class. Given the depressed valuation and the potential Fed pause, we are considering increasing our weighting in 2019.

Performance Table

	Fund	Benchmark	Difference
1 Month	-5.91%	0.61%	-6.53%
3 Months	-11.83%	1.84%	-13.67%
6 Months	-9.51%	3.62%	-13.12%
YTD	-8.74%	7.00%	-15.74%
1 Year	-8.74%	7.00%	-15.74%
3 Years Annualised	4.11%	6.18%	-2.07%
Since Inception Annualised	2.28%	5.93%	-3.65%
Since Inception	9.44%	23.79%	-14.35%

Past performance is not necessarily a guide to the future

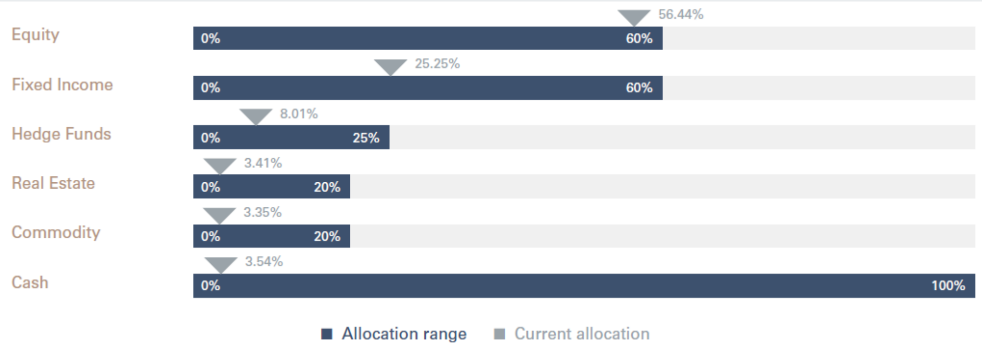
Source: EFGAM as at 31 December 2018

Outlook

The past three months have been brutal for financial markets. The initial reasons for the sell-off in October were not concerns over growth but rather inflation causing a spike in US Treasury bond yields, the implication being that the Fed would have to step up its policy to tighten monetary policy. As yields fell back, it would be logical to expect markets to rebound. However, what we have seen are concerns arising over yield curves inverting, again something our analysis indicates is not imminent. This has coincided with markets becoming increasingly sensitive to geopolitical events, with the United States and its' negotiations with China over trade taking centre stage. Elsewhere, Italy sought to renegotiate its budget with the EU and protests in France by 'Gilets Jaunes' again reminded investors of the issues that face the European Union today. In Britain, Brexit negotiations continue to trudge ahead with few obvious signs of progress.

Markets periodically will exhibit volatility, often as they look to price in all potential outcomes, irrespective of the probability of those events occurring. The macroeconomic environment is relatively weaker than it was at the start of 2018, but remains strong enough to consider a constructive stance towards equity and credit rather than lower yielding government bonds. This is especially true in light of current valuations on offer within many regions following sizeable deratings. Risks to trade from an increase in tension between the US and China needs to be watched, although so far the impact has been light. However, it is possible that we will see elevated volatility for a period and we accept that such an environment will require an opportunistic approach towards tactical allocation in order to capitalise on opportunities as they arise.

Asset allocation



Source: EFGAM as at 31 December 2018

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.

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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.

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