Quarterly Review (As at 31 December 2018)

New Capital US Small-Cap Growth Fund

Q4 2018

EQUITY

Tim Butler
Senior Portfolio Manager

Overview of the Quarter

Amidst higher volatility, surging trade tensions and fears of an overly hawkish Fed, investor appetite for risk assets – while elevated through much of the year – evaporated in the final months of 2018. Market sentiment turned decidedly negative, with the S&P 500 at one point declining nearly 20% from record levels in September. The S&P 500 total return for 4Q18 was -13.6%, while the Russell 2000 Growth Index declined 21.6%. In general, larger market cap stocks performed better than smaller cap stocks, and growth stocks underperformed in the quarter versus value stocks, but generally did better for the full year 2018. The utilities sector was the only sector to produce positive returns in 4Q18 while energy, industrials, and technology were the worst-performing sectors, further underscoring market angst about the pace of future economic growth.

Most objective observers would agree that economic signals remain decidedly mixed. However, in our view, we see few of the traditional recession indicators flashing caution right now. In fact, several key metrics remain squarely in expansionary territory with only the housing market and inflation trends in more neutral territory. By contrast, labour markets remain healthy with unemployment still hovering near a 50-year low, wages are rising, and sentiment amongst consumers and small businesses remains in an uptrend. Inflationary pressures have also abated, augmented by a downturn in commodity and energy prices during 4Q18. These deflationary effects should bode well for a bullish outlook for the US consumer.

Economically, current trends point to a modest deceleration in GDP growth in 2019 rather than to an outright recession, as the market appeared to begin discounting in 4Q18. Although prevailing estimates for S&P earnings have been subject to downward revisions of late, they remain solidly above prior year levels. Absent a prolonged trade war with China, fiscal stimulus should remain a tailwind to growth as the positive impact to GDP actually increases this year versus 2018 levels. This runs counter to the commonly-cited narrative that recent fiscal policy changes are more one-time in nature and unlikely to provide an ongoing lift to growth.

While generally constructive on prevailing economic conditions and, in particular, bullish on company-specific catalysts, we remain mindful of the risks. A prolonged trade war, Fed policy mistake, and/or more political gridlock and vitriol remain potential negative catalysts for risk assets. However, after enduring one of the worst 4Q market performances of all time, and with valuations returning to a level from which returns are far more likely to be positive, we believe the bias should be toward the upside in 2019.

Performance

The US Small-Cap Growth Fund was down 23.1%* in 4Q18, underperforming the Russell 2000 Growth Index by 278bps. The worst performing stocks in the first nine months of 2018 – defensive sectors like utilities, staples and REITs – were the best performing stocks in 4Q18 as investor sentiment shifted to a defensive, risk-off mode. Despite the dramatic market sell-off and subsequent underperformance in the quarter, the Fund did indeed manage to outperform the benchmark by 314bps for the full year. In 4Q18, the top contributing sectors were technology +33bps, materials +24bps (we were underweight) and healthcare +12bps, while producer durables -146bps, financials -106bps, and energy -66bps were detractors. Top contributing individual stocks included MongoDB, SendGrid and Exponent, while key detractors were Whiting Petroleum, Oceaneering International and our bank holdings. Emblematic of market stress during 4Q18, our cash position – which we increased throughout the quarter – contributed +50bps to performance.

*Source: EFGAM, Bloomberg, as at 31/12/18.
Since inception (09 December 2016) the Fund has returned 32.5%.

“the Fund did indeed manage to outperform the benchmark by 314bps for the full year”

Positioning & Outlook

Healthcare: Healthcare is the largest sector weight, and we maintained a substantial overweight (+160bps) driven by high conviction positions in biotech (Arena Pharmaceuticals, Esperion Therapeutics, Horizon Pharma, and Madrigal Pharmaceuticals) and medical devices (BioTelemetry, Glaukos and Natera). Our bullish stance is supported by strong company-specific fundamentals and the potential for heightened year-end M&A activity (due to cash repatriation flows into large pharmaceutical companies). **Technology:** Tech is the 2nd-largest sector weight and remains our largest overweight (+390bps) as we continue to find a plethora of unique growth opportunities and robust fundamental trends, particularly among disruptive software names with large and growing addressable markets. **Consumer discretionary:** We are +60bps overweight as we continue to favour companies with strong product momentum, rising market shares and poised to benefit from increased consumer spending following US tax reform. **Financial services:** We reduced our weighting to a sizable underweight (-260bps). **Producer durables:** We reduced our weighting and are now underweight by -220bps as we await additional clarity on Trump’s long-awaited infrastructure package (now slated for late-2019) and seek more tangible evidence of momentum in underlying fundamentals. **Consumer staples:** We reduced our weighting and are now slightly underweight (-60bps). However, we continue to own two high-conviction names with attractive growth profiles – Freshpet and Calavo Growers. **Energy**: We reduced our weighting amidst a 38% slide in Crude oil prices. **Materials:** This is our largest underweight (-600bps) as most of these companies sell undifferentiated, commoditised products, and the underlying stocks tend to be quite volatile. **Utilities:** We have no exposure as this sector offers a dearth of growth properties. Cash: In the face of negative investor sentiment and heightened volatility, we increased our cash position materially from 1.6% at 30-Sep to 7.8% at year-end 2018.

Active positioning

Section Weight	Active allocation	Direction of allocation	Key Stocks
Healthcare (27.2%)	+1.6%	↘	BEAT, XNCR, LOXO
Technology (20.5%)	+3.9%	=	MDB, OKTA, SEND
Consumer Discretionary (18.8%)	+0.6%	↗	RH, CHDN, ETSY
Producer Durables (13.2%)	-2.2%	↘	EXPO, PRLB, HUBG
Financial Services (8.2%)	-2.6%	↘	SF, GDOT, EVR
Energy (1.2%)	-0.6%	↘	WLL, OII
Consumer Staples (2.1%)	-0.6%	↘	FRPT, CVGW
Materials and Processing (1.0%)	-6.0%	=	TREX
Utilities (0.0%)	-1.9%	=	n/a
Cash (7.8%)	n/a	↘	n/a

Source: EFGAM as at 31 December 2018

Performance Table

	Fund	Benchmark	Difference
1 Month	-10.45%	-11.75%	1.30%
3 Months	-23.33%	-21.81%	-1.53%
6 Months	-18.65%	-17.62%	-1.03%
YTD	-5.79%	-9.93%	4.13%
1 Year	-5.79%	-9.93%	4.13%
Since Inception Annualised	8.64%	3.14%	5.51%
Since Inception	18.61%	6.56%	12.05%

Past performance is not necessarily a guide to the future

Benchmark: Russell 2000 Growth Index

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.

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.