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Managers Report
European Financial Opportunities (UCITS)

KEY DATA	
Manager	LUIS PEÑA
Focus Market	FINANCIAL SECTOR
Style	Balanced Flexible
Benchmark	40%SX7P/10%SXPI/50%MS+200bp
NAV (Class Z)	9.93
AUM	EUR 35.63 m
Inception	1 March 2017
Performance Fee	7% Over HWM
Admin & Custodian	Edmond de Rothschild

CLASS A	LU1555973301		FTSEFAE LX
CLASS I	LU1555973566		FTSEFIE LX
CLASS Z	LU1555973723		FTSEFZE LX
	MTD	YTD	S.I.*
Class Z	-0.28%	2.89%	-0.28%
Benchmark**	-3.35%	-2.09%	-4.61%

* Annualised Return
** 40%SX7P/10%SXPI & 50% MidSwap+200bp

European banks: Recent events and outlook

European banks underperformed the overall European market in August 2019 (-7% for the SX7P Index vs -1% for the SX5E). ***Main drivers of future sector performance***:

1) Valuation bounce but unlikely to last, we think. Despite the escalation in US-China trade tensions at August-end (tariffs increased from 25% to 30% on $250bn worth of imports and from 10% to 15% on $300bn), the market expects that the new set of trade talks (scheduled for the beginning of October) could erase the last uplift in tariffs and somehow ease the path towards a "balanced" trade deal. The expected absence of negative trade news in September together with diminished chances of a no-deal Brexit -after Westminster passed the "Benn bill"- and the expectation of some sort of mitigant against further rate cuts embedded in the upcoming ECB bazooka plan have helped to boost sentiment.

2) Upcoming ECB bazooka: Tiering mitigation unlikely to offer much help against further negative rates. Quite likely Draghi will cut the depo rate (money markets pricing in -11bps already and another -20bps cut in he depo rate before 4Q20), mitigate the impact of lower rates on banks (via introducing a tiered depo rate) and open the door to further asset purchases (€30bn a months for 6-9 months). While we welcome the mitigation against further negative rates, we believe the prospect of additional rate cuts could contain the positive market reaction of the measure. We believe additional Eurozone easing is likely to have a very limited impact on overall financial conditions / growth (apart from depreciating the Euro) but will have some perverse effects.

3) Brexit: Deal or New Elections. Johnson is likely to focus its efforts in forcing Ireland to assume the backstop should be ditched and convince the rest of the EU that some sort of "alternative arrangements" on the border could be implemented. However, with the threat of no-deal now greatly diminished, he is unlikely to be successful in his negotiations with the EU, we think. Hence, Johnson might step down as PM after the upcoming European Council and force new elections in November (if not before). The very likely extension of the Brexit saga until there is clarity on the outcome of the likely upcoming polls could further hurt manufacturing indicators in Europe.

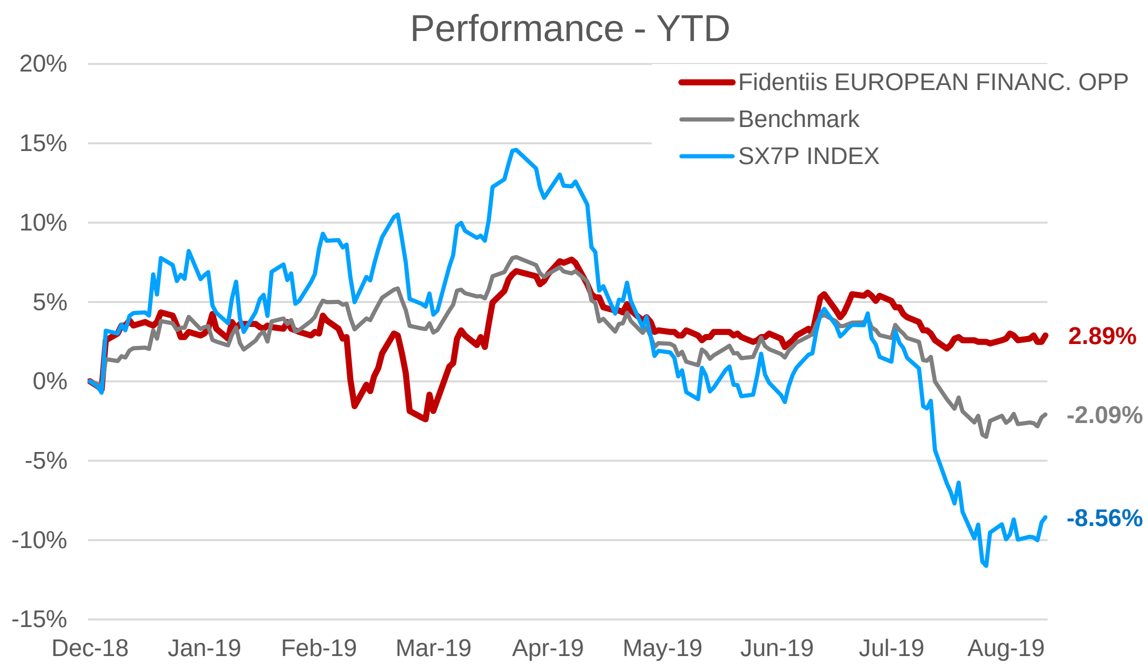
4) Potential EPS impacts (flat / declining rates by 2021 and 2020 recession): Stripping out any European rate rises until end-2021 would reduce EPS by 3% on average for European banks (5% on average for Spanish and Italian banks). On top of this reduction, a 20bps reduction in the deposit rate (to -0.60%) would reduce EPS by an average of 3% (again 5% for Spanish and Italian banks, on average). As a rule of thumb, a shallow European recession in 2020 (-1% in GDP) could triple the CoR from 20bps in 2019 to 60bps and reduce 2021 earnings on average by 30%. The three impacts combined could reduce current profit forecasts by c.40%.

5) Valuation is very close to the 2012 and 2016 lows. Although valuation in itself is not a catalyst, it could signal a buying opportunity if newsflow were to change. We are a bit more constructive at the moment although we are closely monitoring the numerous open risks.

What to do? We were pretty hedged at the end of month but we have reduced a bit the hedging at the beginning of September.

EFO UCITs: Portfolio and investment policy

We launched the Fund on 01/03/17. At the end of August, the EFO UCITs was 35% invested (net). The performance of the Fund was as follows (please refer to the Fund's factsheet for greater detail on the portfolio):

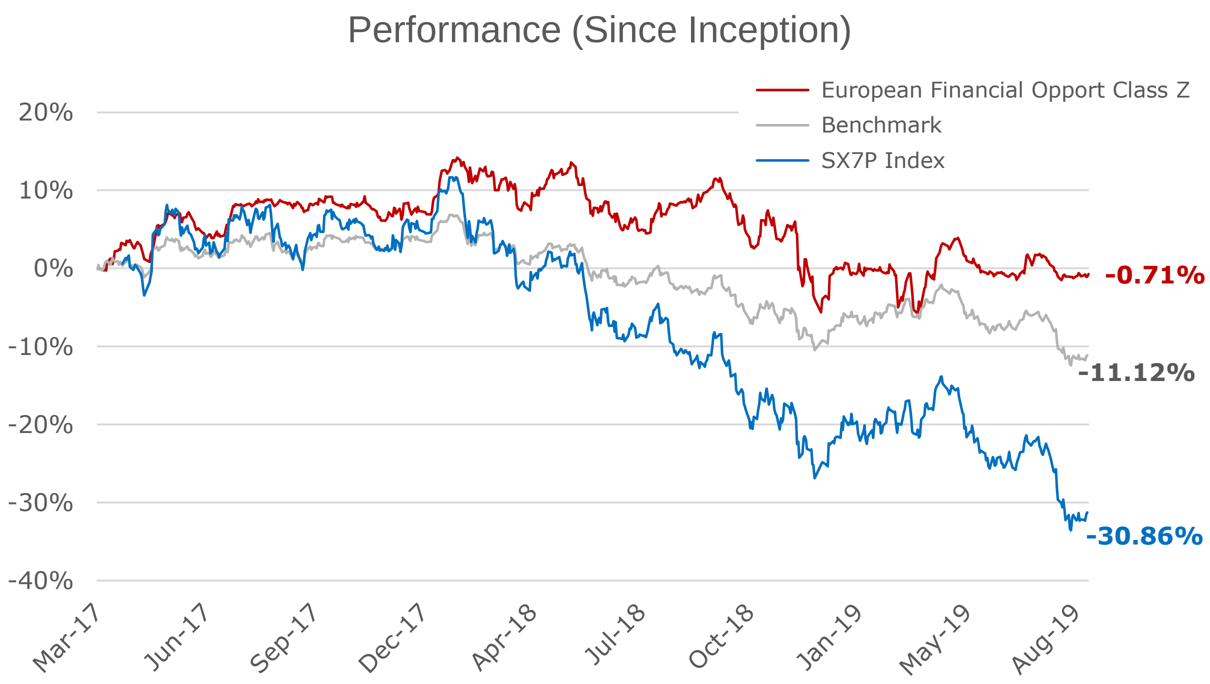


Comment on the Fund's performance in August

The Fund (class Z) was -0.3% in August, outperforming the SX7P (-7%) mainly due to our partial hedges of the equity portfolio. At the end of August, the Fund had outperformed the two main European banking indexes materially since inception (+32% and +33% vs the SX7P and the SX7E in 2.5 years, respectively). YTD the Fund was up by 2.9% vs -9% of the SX7P.

Our equity portfolio reflects a defensive positioning with exposure to countries or business that show positive growth rates (CEE, private banking, insurance…). We have been almost fully hedged throughout the month of August. In any event, we would monitor events and re-assess our equity exposure when we perceive valuations already price in very negative scenarios and/or the macro backdrop clarifies.

We plan to look closely at listed Fintech players in order to identify potential opportunities. We have taken a couple of small positions in this field recently.



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