October 2019

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)	10.25
AUM	EUR 41m
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	2.97%	6.21%	-0.53%
Benchmark**	1.01%	3.25%	0.11%

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

European banks: Recent events and outlook

European banks outperformed the overall European market in October 2019 (+1.7% for the SX7P Index vs +1% for the SX5E). ***Main drivers of future sector performance***:

1) US-China Trade War: A short term de-escalation more than a truce. The US is about to sign with China Phase I of a multi-phase trade agreement (Phase I has so far included postponing a tariff hike –from 25% to 30%- on October 15th on $250bn of Chinese imports and China's commitment to buy c.$40bn of US agricultural products in 2020). The market expects the US to postpone, reduce or cancel the expected Dec-15th new tariffs on Chinese products (15% on $160bn) before Phase I is concluded. Besides, recently, the US has hinted it might not impose tariffs on European cars.

2) Brexit: Johnson Stand-by Deal (hard Brexit) / Soft Brexit or Remain? Elections will take place in Dec-12th after BJ managed to agree a new exit deal with the EU that modifies the NI protocol (NI will be aligned with the EU regulations but within the UK customs territory). Two are the most likely scenarios; i) A Tory Government could either mean passing BJ's deal without a referendum (if Tories were to command a majority in Westminster) or conditioning the approval of the deal upon a future referendum (to gain the LibDem support) and ii) A Labour Government supported by the SNP and the LibDems that would likely lead to a very soft Brexit and a referendum. Hence, no-deal seems to have very slim chances of happening. Anyhow, the shape of the future relationship between the UK and the EU is likely to focus the next phase and still exert uncertainty on the macro backdrop throughout 2020.

3) Macro / Rates – Low growth but no recession in sight: Eurozone PMIs stabilized in October and could even rebound in 4Q or 1Q20 in line with M1. Very flexible financial conditions (lower depo rate at -0.50%, QE II at €20bn/month and TLTRO III) together with the short-term uncertainty relief from Brexit and US trade-wars could contribute somehow to the rebound. Anyhow, we expect 2020 GDP growth to remain low at levels similar to 2019 (c.1% GDP). Against this backdrop, we expect the Fed to pause and the ECB to stick to the current depo rate until 2020-end (no more rate cuts in Europe).

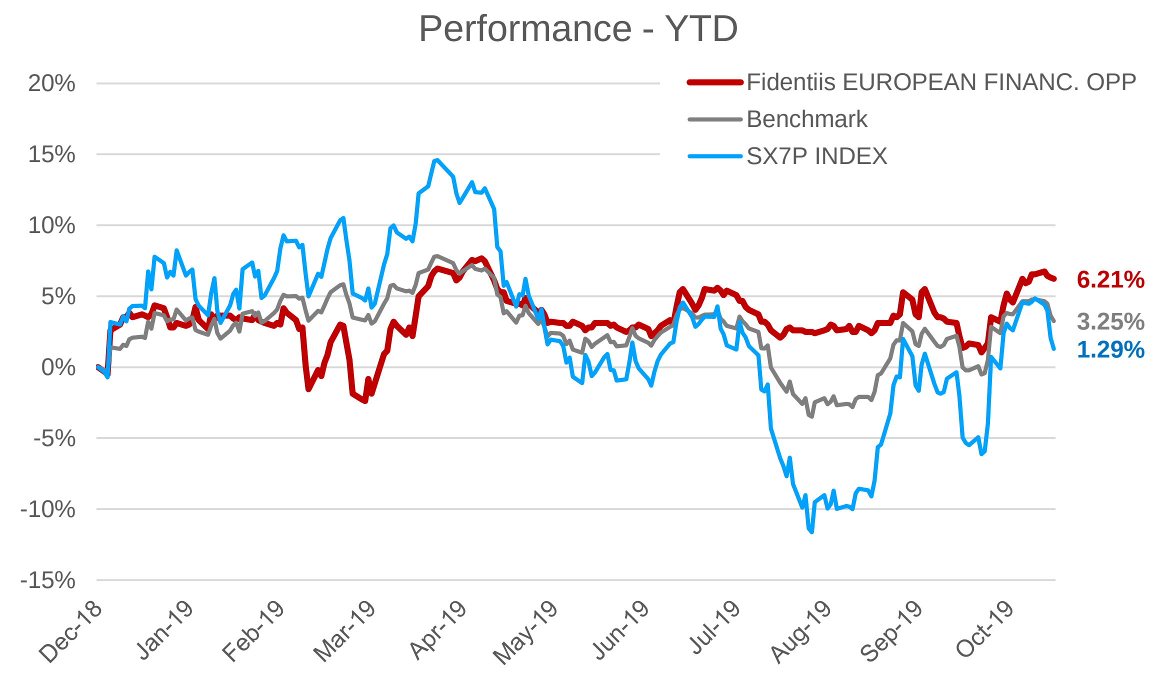
4) 3Q19 Numbers: Pick in LLPs, subdued outlooks and capital constraints. The main takeaway of 3Q19 numbers is that LLPs surprised on the upside. While this is normal in a decelerating GDP growth environment it clearly points to a higher than forecast CoR in 2020 (and, hence, to 2020 consensus EPS cuts). Besides, in a low growth and still uncertain environment, the guided 2020 revenue outlook was cautious. Finally, capital constraints (TRIM, B4, ECB NPL coverage indications…) are biting and capping the expectations of shareholder remuneration. HSBC, SAN, Lloyds, SHB has so far disappointed.

5) SX7E valuations have recovered from <80 in August to >90 now. Although we could see an extension of the current leg-up in bank valuations in the weeks to come, we doubt the right conditions are in place for a meaningful bank-led rally in the stock market. Hence, we remain tactic but cautious in our positioning. We think the low growth scenario is here to stay and there will be ups / downs in the way.

What to do? We have been quite long during October and we are still net long in our equity exposure. We will monitor the upcoming events closely and decide the right exposure to equity.

EFO UCITs: Portfolio and investment policy

We launched the Fund on 01/03/17. At the end of October, the EFO UCITs was 42.5% 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 October

The Fund (class Z) was +2.97% in October, outperforming the SX7P (+1.7%) mainly due to our partial hedges and the defensive positioning of our equity portfolio. At the end of October, the Fund had outperformed the two main European banking indexes materially since inception (+26% and +27% vs the SX7P and the SX7E in 2.5 years, respectively). YTD the Fund was up by 6.2% vs +1.3% 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…). 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.