fidentiis GESTIÓN

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)	9.95
AUM	EUR 40m
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	0.24%	3.14%	-0.18%
Benchmark**	4.40%	2.22%	-2.63%

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

European banks: Recent events and outlook

European banks outperformed the overall European market in September 2019 (+9% for the SX7P Index vs +4% for the SX5E). ***Main drivers of future sector performance***:

1) Macro: rebound coming or heading into recession? September European PMIs and US ISM data pointed to very weak manufacturing activity and some early contagion of the service / consumer sectors. However, as some observers point out, M1 is now growing in Europe and normally that anticipates a rebound in PMIs. Besides, manufacturing data has been heavily influenced by the US-China trade war and Brexit. In both areas, we might see some kind breakthrough during October / November. As a result, the 2020 macro backdrop is nothing but clear.

2) Brexit: No-deal fear to resurface again? Johnson's "all Ireland regulatory zone" proposal that encompass NI (Northern Ireland) remaining in the EU single market but in a different "customs regime" (UK customs policy) is unlikely to fly in its current form, we think. The Irish Republic is strongly against NI having different customs rules and, hence, a border (even soft) within the island. We believe Britain heads to new elections that could provide some clarity on the Brexit conundrum. If the Tory party won a majority in Parliament, the EU could budge and accept a NI "backstop" similar to the current Johnson proposal. In the meantime, however, fear of no-deal is likely to resurface before the October-end deadline if both sides (UK and EU) do not find an agreement before the upcoming European Council.

3) ECB: Goodbye Mario, European banks will not miss you. Draghi is likely to be reminded as the ECB Chairman that saved the Euro but killed the banks by introducing a NIRP (negative interest rate policy) that has not worked but produced significant side effects (very low bank profitability and share prices at all time lows, real estate prices booming, a huge fixed income bubble and savers forced to buy risk assets). Mr Dhaghi's farewell speech hints that monetary policy cannot go much further and that fiscal policies should now be implemented (Germany has given hints of less fiscal discipline recently).

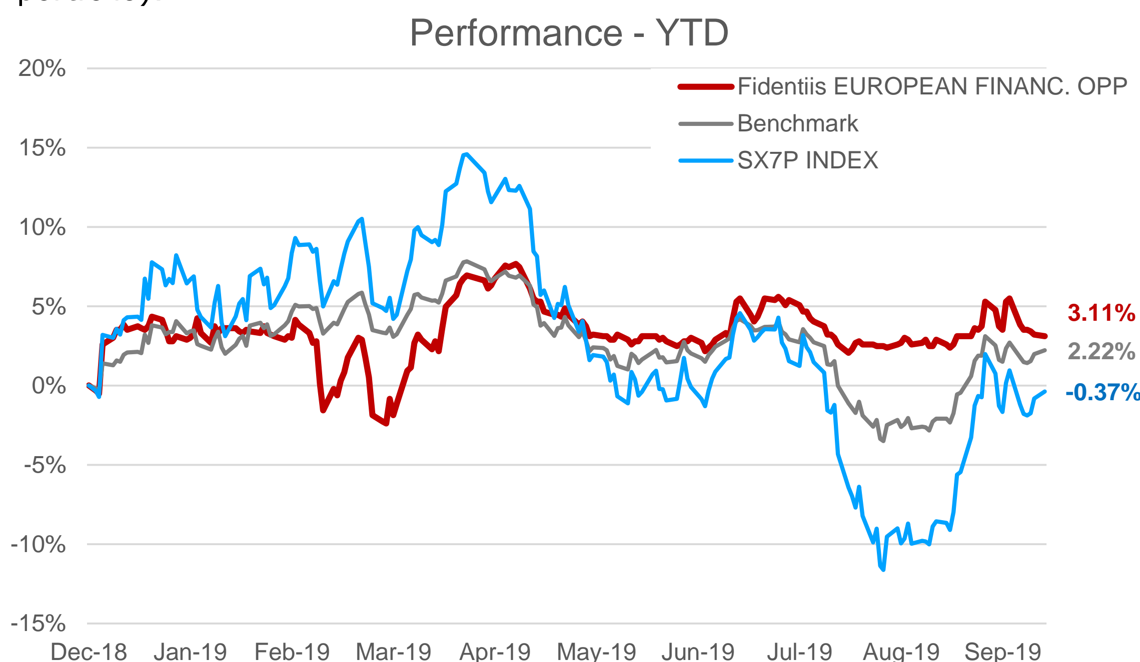
4) September ECB measures show the ECB Governing Council doubts about the benefits of cutting the depo rate even more. The ECB cut the depo rate by 10bps to -0.50% (less than the -15bps the rates market was discounting), improved the terms of the TLTRO III (3 years at depo rate vs 2y & depo rate +10bps) and exempt 6x the minimum bank reserves from paying the depo rate on ECB deposits. Overall, we believe the impact of the 3 measures on the 2020 NII will be null. However, the decline in long term yields (both 10Y debt and 5Y swaps) will likely reduce the contribution of ALM / deposit replicating portfolios to NII next year. The NIM of Sothern European banks might not be worse off in this scenario vis-à-vis that of banks in Central Europe.

5) After the September bounce, valuations are back to the 2012/16 lows. Although valuation in itself is not a catalyst, it could signal a buying opportunity if newsflow were to change. We think the low growth scenario is here to stay and there will be ups / downs in the way (specially this month).

What to do? We were pretty hedged at the end of month but we have reduced a bit the hedging at the beginning of October. 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 September, the EFO UCITs was 33% invested (net). The performance of the Fund was as follows (please refer to the Fund's factsheet for greater detail on the portfolio):

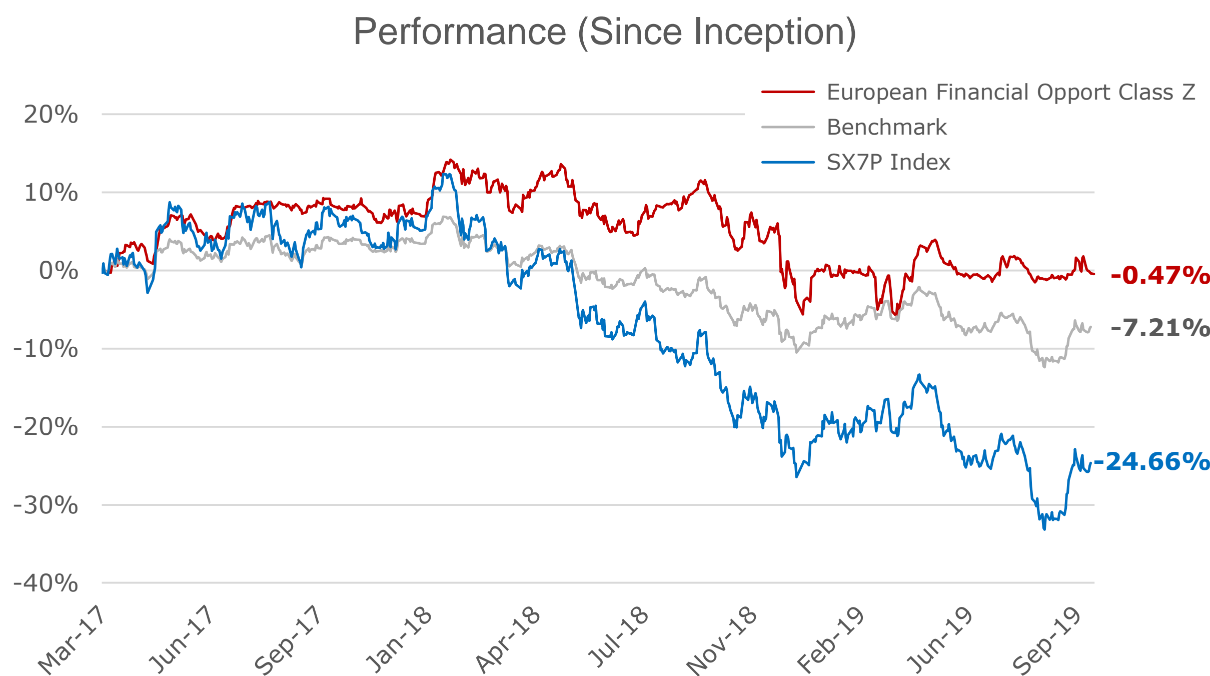


Comment on the Fund's performance in September

The Fund (class Z) was +0.2% in September, underperforming the SX7P (+9%) mainly due to our partial hedges and the defensive positioning of our equity portfolio. At the end of September, the Fund had outperformed the two main European banking indexes materially since inception (+25% and +26% vs the SX7P and the SX7E in 2.5 years, respectively). YTD the Fund was up by 3.1% vs -0.4% 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.



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