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)	10.45
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	1.14%	8.26%	1.55%
Benchmark**	1.96%	6.64%	-1.14%

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

European banks: Recent events and outlook

European banks outperformed the overall European market in December 2019 (+4.2% for the SX7P Index vs +1.1% for the SX5E). ***Main drivers of future sector performance***:

1) Macro / Rates – 2020 backdrop still uncertain but improving: Consensus expects PMIs to rebound in 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 potential short-term uncertainty relief from Brexit and US trade-wars could contribute somehow to the rebound in the manufacturing sector (Dec Eurozone Manu PMI at 46.3 vs 45.9 in November). Anyhow, we expect 2020 GDP growth to remain low at levels similar to 2019 (c.1% GDP) and risks remain tilted to the downside, in our view, in case Brexit negotiations and / or renewed trade tensions were to resurface.

2) US-China Trade War: a limited Ph-1 deal likely to be concluded in January Ph-1 basically involves i) no tariff escalation, ii) the reduction of the September 2019 tariffs by 50% (to $120bn at 7.5%) and iii) China agreeing to increase its total purchases of US goods and services by at least $200bn over the next two years (included is a commitment by China to increase its buying of US agricultural products to $40bn to $50bn in each of the next two years).

2) UK Elections - Brexit: Focus has now shifted to trade negotiations. Although BJ has sealed in a law the deadline for a trade deal at end-2020, the Government now has >80 majority and, hence, the deadline could be changed easily. Most market observers believe a free trade agreement for goods is feasible in 2020 assuming the UK would maintain a ample degree of regulatory alignment. Services (specially financial services), however, would be the battleground that can determine the future of the UK economy. A Canada-style trade relationship with Europe (little alignment) could complicate service exports from 2021 and harm the UK macro performance and currency.

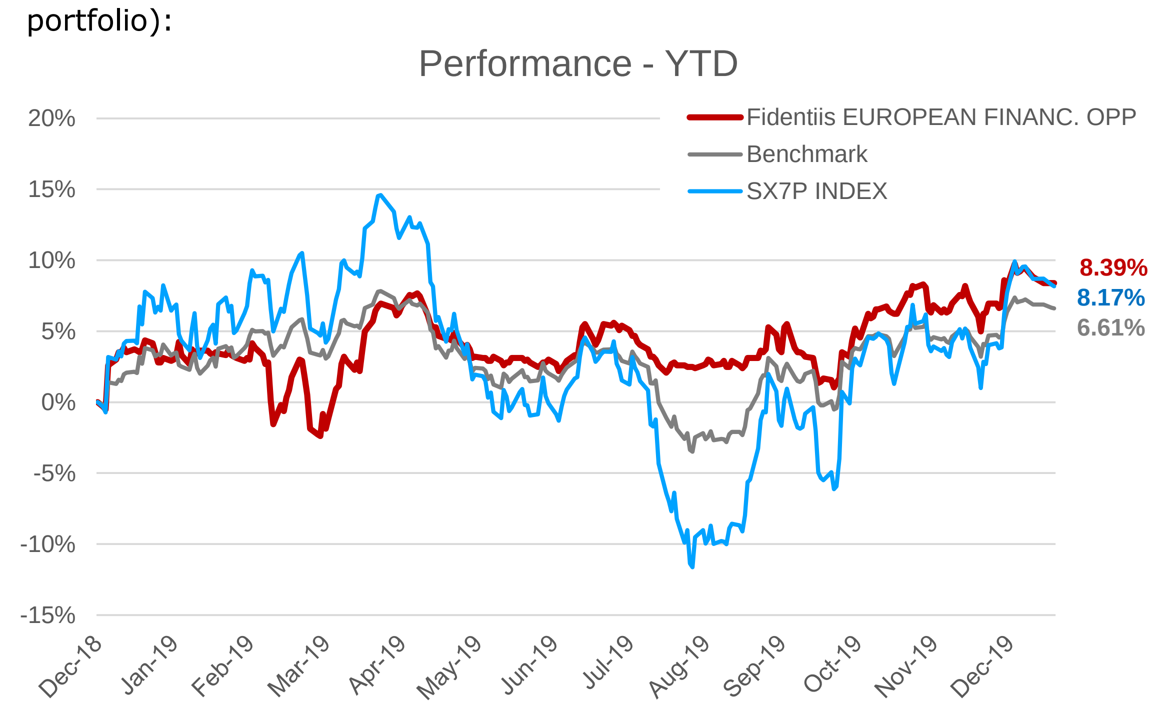
4) Despite an adverse backdrop, European banks could do better that the market this year, we think. Stable capital requirements in 2020 (vs increasing CET1 demands in the past), and a potential B4 relief (CRD5 -to be implemented at the end of 2020- states that P2R could partly be filled with AT1s/T2s -44%- instead of CET1, hence providing a 80bps CET1 relief) could benefit capital distribution via dividends and SBBs. Besides, the normalization of the 10Y Bund to levels of 0% to +0.2%, on the back of better macro data, could provide some short term upside for the sector.

5) SX7E still below 100. 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. We believe low rates and weak credit growth will continue to yield little (if any) EPS growth. Hence, although there is some room for multiple expansion we need to be nimble to change our positioning during the year.

What to do? We have been quite long during December 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 December, the EFO UCITs was 111.45% 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 December

The Fund (class Z) was +1.1% in December, underperforming the SX7P (+4.2%) mainly due to our partial hedges and the defensive positioning of our equity portfolio. At the end of December, the Fund had outperformed the two main European banking indexes materially since inception (+22% and +23% vs the SX7P and the SX7E in 2.7 years, respectively). YTD the Fund was up by 8.26% vs +8.2% 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…) and attractive dividend yields. In any event, we would monitor events and re-assess our equity exposure when we perceive valuations already price in very negative (or positive) scenarios and/or the macro backdrop clarifies / worsens.

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.