January 2020

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)	10.03
AUM	EUR 39.42m
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	-3.98%	-3.98%	0.31%
Benchmark**	-2.08%	-2.08%	-5.21%

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

European banks: Recent events and outlook

European banks underperformed the overall European market in January 2020 (-5% for the SX7P Index vs -3% for the SX5E). ***Main drivers of future sector performance***:

1) Macro / Rates –2019 Exit macro data weaker, Jan PMIs showing some signs of recovery but coronavirus could kill the 1H20 recovery. 4Q19 Eurozone GDP was weaker than forecast and the current market expectation of +0.1% could prove optimistic. January 2020 PMIs pointed to a mild recovery underway (+51.3 vs +50.9 in Dec-19, +50.6 in Nov and 50.1 in Sept). However, the expected disruption coming from the Coronavirus outbreak is likely to hit the 1H20 Eurozone GDP somewhat. As a result, we expect Eurozone macro data to stall or deteriorate from here rising the chances of a ECB rate cut in 1H20.

2) 4Q19 Results: no negative revisions, capital beats and expectation of SBBs. So far, the overall market reaction to the 4Q19 European bank figures has been quite positive (prominent exceptions were UBS and Sabadell). Although persistent revenue weakness was a common trend, we think two reasons were behind the good performance; i) 2020-21 EPS numbers are -for the first time in many years- realistic (very low expectations) and, hence, 4Q19 could hardly lead to negative EPS revisions and ii) the desire to report a strong CET1 at YE19 (cutting date for the upcoming 2020 ECB Stress tests) has led banks to report a healthy capital build in 4Q19. A stronger capital base in 4Q19 together with hints from the ECB that regulatory pressure on the sector could abate (CRD5 capital benefit could offset B4 by 90bps) have prompted expectations of SBBs across the sector. ***At least 9 European banks are expected to conduct a SBB in 2020 and another 4 in 2021***.

3) So, what is the bull case from here? The bull case is predicated upon the following assumptions; i) the European GDP will remain weak at about c1% in 2020 but in positive territory, ii) a more supportive regulatory framework could lead to stable capital requirements and a boost to shareholder remuneration via dividends and SBBs that could give support to share prices in 2020-21, iii) from 2022 the ECB will proceed with the normalization of negative rates, something that could boost profitability by 1-2% on average and iv) last but not least, the end of the contribution to the SRF (single resolution fund) from 2024 could further boost the profitability of the sector by 1% on average.

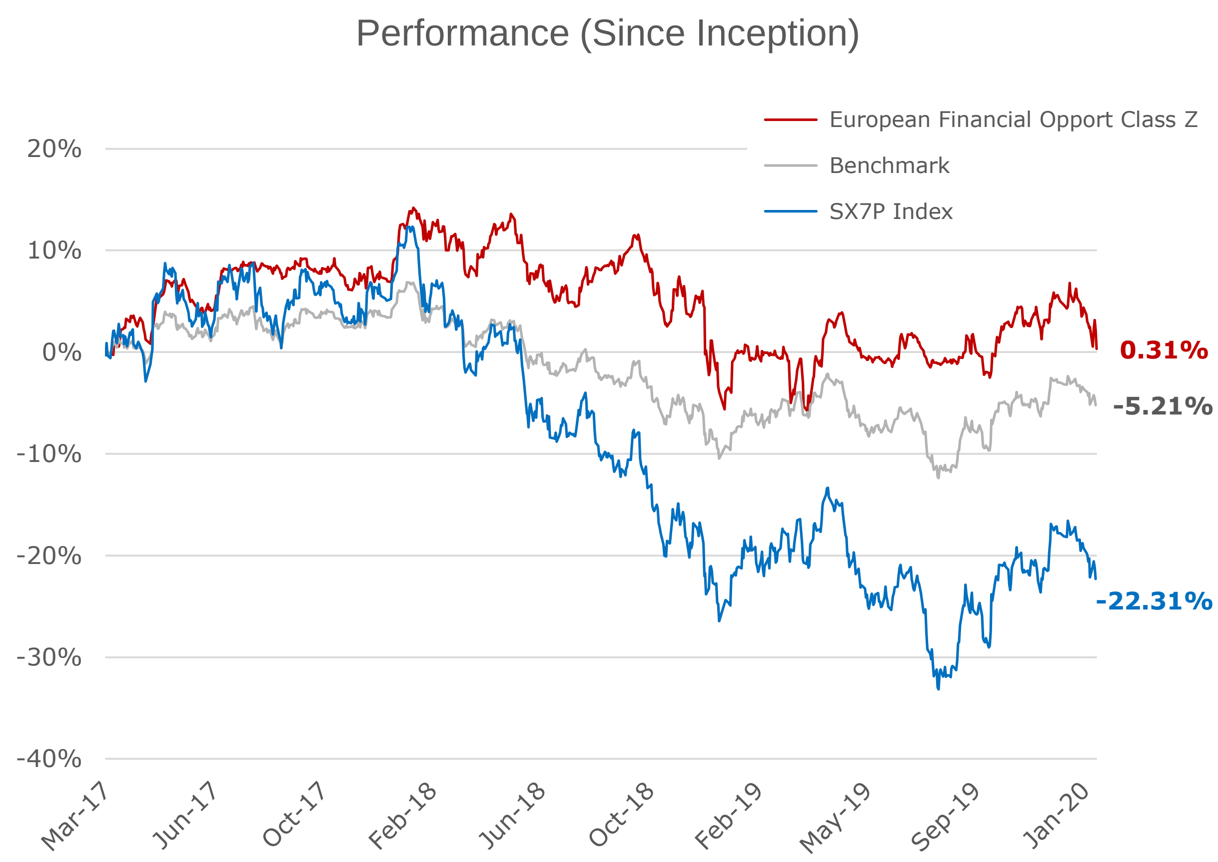
4) BUT do not be too carried away... Although the capital situation of the sector seems to be a tailwind now for the 2020-21 investment case, the macro situation is still quite uncertain in Europe, specially in the short term (coronavirus hit to Eurozone GDP is yet to be reported). We would not rule out another dovish turn in the ECB policies in case the impact of the virus were to be greater than forecast on activity 1H20 (something the consensus is not pricing in at the moment).

5) Prices: weak January (-5.5% in the SX7E) followed by a sharp rebound until February 10th (+9% MTD). The 4Q19 reporting season has been a positive catalyst for bank share prices. Although we are more constructive fundamentally for 2020-21, we doubt the recent strength in share prices could continue in the short term until there is more clarity on the macro front.

What to do? We have been quite long during January and the beginning of February.

EFO UCITs: Portfolio and investment policy

We launched the Fund on 01/03/17. At the end of January, the EFO UCITs was 113.63% 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 January

The Fund (class Z) was -4% in January, outperforming the SX7P (-5%) mainly thanks to our stock picking. At the end of January, the Fund had outperformed the two main European banking indexes materially since inception (+23% and +24% vs the SX7P and the SX7E in 2.8 years, respectively).

Our equity portfolio reflects a defensive positioning with exposure to countries or business that show positive growth rates (CEE, asset & wealth management, insurance…) and attractive dividend yields. Nonetheless, 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 now have approximately 10% of the Fund invested in this field.

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