

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)	9.67
AUM	EUR 35.64 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
Class Z	-3.59%	-7.43%
Benchmark**	-4.41%	-6.40%
		S.I.*
		-3.29%
		-9.39%

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

European banks: Recent events and outlook

European banks performed in line with the overall European market in February 2020 (-8.4% for the SX7P Index vs -8.6% for the SX5E). *Main drivers of future sector performance:*

1) Covid19 - Macro impact: A severe recession is upon us. In our rough and preliminary numbers the GDP of Italy can drop by 4-5% in 2020, Spain -3%, France and Germany -1.5/-2% and the Eurozone -2/-3%. This means that bank net profits will probably fall by 35% on average for 2020 and c.20% in 2021. As we speak, European banks are falling almost 50% YTD in the stock market (SX7E at 49 on March 16th). Certainly, credit related to leisure, travel & tourism, restaurant and catering, retail and oil is likely to deteriorate notably.

2) Investors await a fiscal package. So far, we have seen coordinated measures from Central banks around the world and hints from the EU that fiscal constraints will be eased to fight the consequences of the virus. We expect similar fiscal packages in Italy / Spain / Germany and France that should include i) Government guarantees on credit lines given to SMEs operating in targeted sectors and ii) some sort of household relief to those that may lose their jobs as a result of the crisis (suspension of mortgage installments?). At this point it is unclear the funding of this package for highly indebted countries.

3) The ECB package included new TLTRO III terms and a capital relief. The new TLTRO III terms increase materially the amounts that can be drawn (by €900bn) and put the incentive at 75bps for the banks. Capital relief without breaching MDA limits would be c.1.2% (filling partly the P2R with AT1/T2 adds 0.9% of CET1 and +0.3% comes from the zeroing of the CCyB). As a result, the B4 CET1 FL buffer to MDA on the upgraded terms for European banks would be c.350bps by 2022 on average (and 600bps assuming the CCB would go to zero). This provides a significant cushion against potential losses.

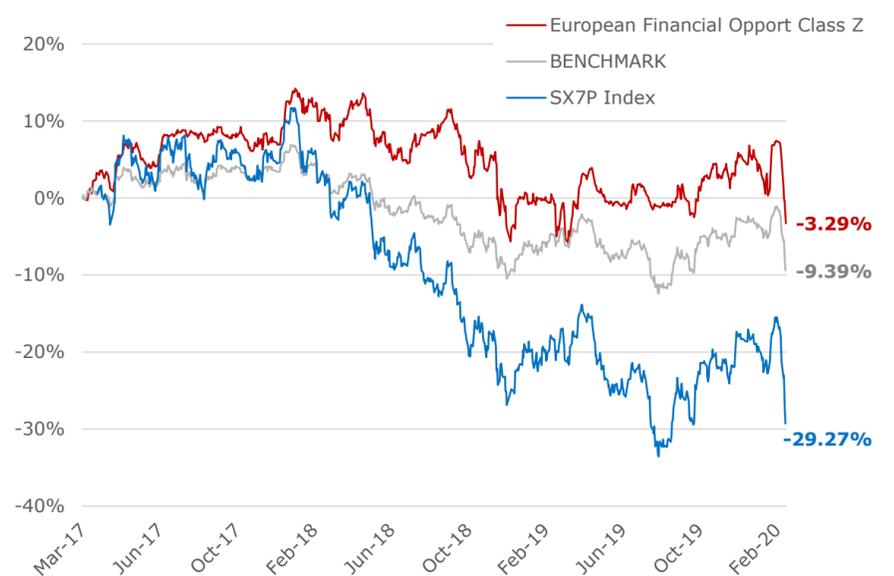
4) SX7E & SX7P indexes are at their all time lows. To gauge whether this is an opportunity to buy or not, we need to assess the magnitude of the cut to 2020/21 EPS numbers. Assuming for 2020 a 1-2% cut to NII, -10% to forecast fees and CoR going back to 2012 levels, we believe 2020 EPS numbers will have to fall by 35% on average (roughly 20% for 2021). Hence, it seems that the abrupt market correction has been excessive. Anyhow, in the short term we expect the market to be driven by the virus evolution in Europe and the US and the newsflow on fiscal stimulus injected by Governments.

This document is solely informative. Past returns do not guarantee future returns.

EFO UCITS: Portfolio and investment policy

We launched the Fund on 01/03/17. At the end of February, the EFO UCITS was 88.71% invested (net). The performance of the Fund was as follows (please refer to the Fund's factsheet for greater detail on the portfolio):

Performance (Since Inception)



Comment on the Fund's performance in February

The Fund (class Z) was -3.6% in February, outperforming the SX7P (-8%) mainly thanks to our stock picking and hedges. At the end of February, the Fund had outperformed the two main European banking indexes materially since inception (+27% and +28% 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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