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)	7.69
AUM	EUR 28.63 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**	**S.I.***
Class Z	-20.44%	-26.35%	-23.06%
Benchmark**	-14.16%	-19.65%	-22.22%

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

European banks: Recent events and outlook

European banks strongly underperformed the overall European market in March 2020 (-30% for the SX7P Index vs -16% for the SX5E). *Main drivers of future sector performance*:

1) Covid19 – European lockdown extension, shorter than Wuhan? The lockdown in Wuhan lasted for almost 11 weeks (76 days). Applying the same lockdown length to Italy and Spain would mean "stay at home" orders will last until 23rd and 30th May, respectively. As we write, Italian restrictions will be in place until May 3rd and the Spanish Government has mentioned that plans to maintain the national lockdown until May 10th. So, barring further extensions, the market is currently discounting that the European lockdowns will last approximately 8 weeks (2 months) or 3 weeks less than in China. Any extension over the proposed dates is likely to translate into further market weakness, in our view.

2) Covid19 – Updated EZ GDP impact: Approximately -5% GDP fall in 2020. In our February report we roughly assessed that the Eurozone GDP could fall by -2/-3% in 2020. That forecast is now outdated. The German Government is projecting an annual GDP fall of 5% in 2020. The French INSEE has calculated that each month of lockdown means -3% of GDP. Market estimates range from -5% to –10% GDP declines in 2020 for the Eurozone this year. We think Spain, Italy and France could be more impacted than Germany, Austria, Switzerland and Scandinavia given the higher reliance of the former countries on tourism and services.

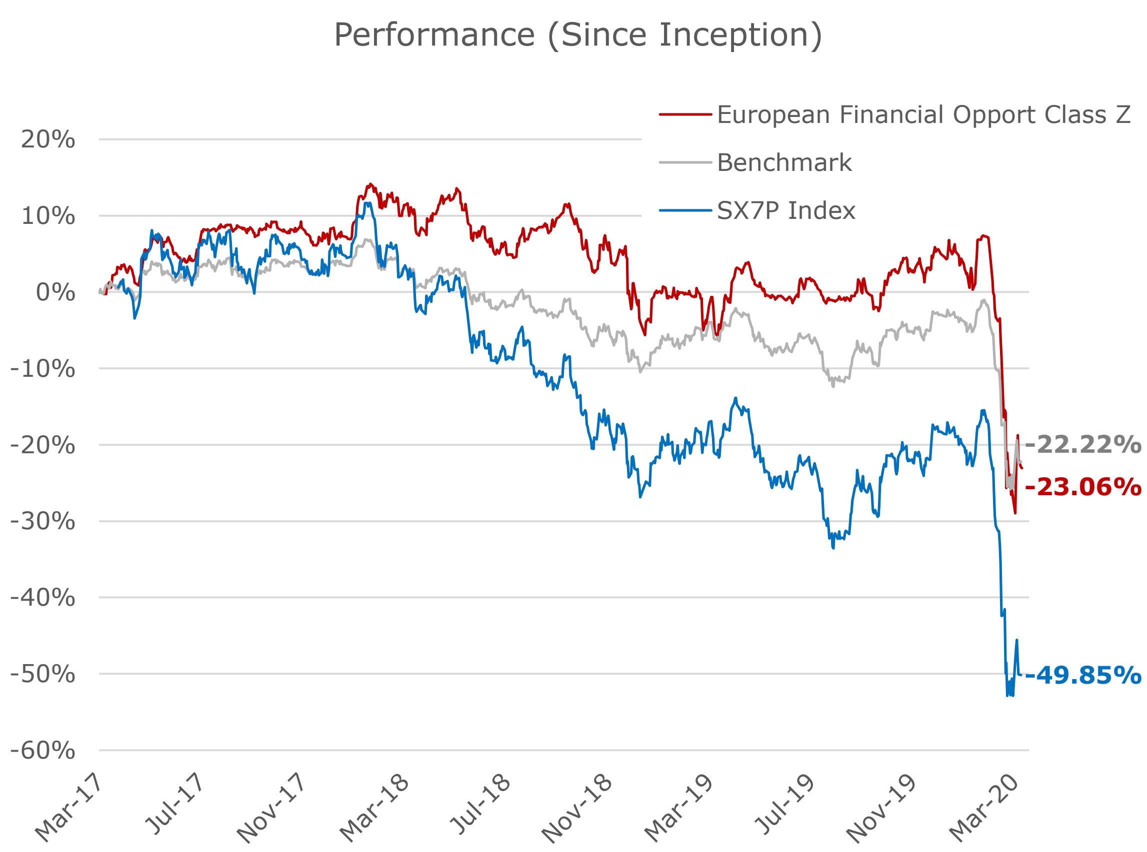
3) Covid19 – Fiscal response. Governments have been quick to launch fiscal measures aimed at cushioning the impact of the virus on the economy. However, not all the countries have the same fiscal space. The US, UK and Germany are implementing fiscal measures of between 5% and 10% of their GDPs. However, Southern European countries with more limited fiscal room have restricted their fiscal expansion programs to 1-2% of GDP so far. Hopefully, the recent Eurogroup decision to set up €500bn of new funding through the ESM, BEI and SURE programs could facilitate a more even fiscal response from countries with a high sovereign burden.

4) European banks EPS 2020-21 to be revised down by -35% and -20%, respectively, on average. Assuming for 2020 a 1-2% cut to NII, -10% to forecast fees and an average CoR of 90bps (3x that of 2019), we believe 2020 EPS numbers will have to fall by 35% on average (roughly 20% for 2021). We think Government loan guarantees will somehow contain the increase in LLPs in 2020-21. Anyhow, in the short term, we expect market prices to be driven by the expected length of the lockdowns.

Positioning: Defensive. We prefer companies whose profits will bounce once the recovery comes: payments, insurers and banks with strong B/S.

EFO UCITs: Portfolio and investment policy

We launched the Fund on 01/03/17. At the end of March, the EFO UCITs was 90.53% 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 March

The Fund (class Z) was -20% in March, outperforming the SX7P (-30%) mainly thanks to our stock picking and hedges. At the end of March, the Fund had outperformed the two main European banking indexes materially since inception (+37% and +38% vs the SX7P and the SX7E in 3 years, respectively).

Our equity portfolio reflects a defensive positioning with exposure to countries or business that show positive growth rates (payments, insurance, asset & wealth management…) 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.

Food for thought: Will fiscal stimulus finally revive inflation?

Some market observers believe inflation could be the side effect of the massive fiscal programs put in place. Any improvement in inflation expectations could bring higher future rates in 2/3 years.

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