May 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)	9.32
AUM	EUR 27.33 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	8.38%	-10.83%	-2.16%
Benchmark**	-0.21%	-18.57%	-7.08%

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

European banks: Recent events and outlook

European banks underperformed the overall European market in May 2020 (-0.5% for the SX7P Index vs +4% for the SX5E). *Main drivers of future sector performance*:

1) COVID19: SECOND LOCKDOWN UNLIKELY / PROBLEMS DEFERRED TO 2021. We think a second lockdown is quite unlikely as the Governments have learnt how to react to the virus and health systems are prepared to control new virus outbreaks; virus clusters are detected in primary attention and traced by special teams. We believe this is one of the reasons behind the strength in the market. We think the crisis will be cushioned by huge fiscal and monetary stimulus put in place by the Governments and Central banks. In the end, we think the main consequence of the crisis would be a significant increase in public deficits & public debt that could be a significant headwind for 2021 growth (more taxes in the way). As we anticipated in April, some countries (namely Denmark, Norway, Austria and Germany BUT also Portugal, Greece and some CEE countries) are likely to suffer a more benign GDP fall than Italy, Spain, the UK and France.

2) COVID19 – UPDATED EZ GDP IMPACT: FORECASTS IMPROVING. Eurozone GDP forecasts in April came down to -11% in 2020 with a +6% subsequent GDP expansion in 2021. However, anecdotal evidence suggests the GDP fall in 2020 will be somewhat smaller than initially projected; the ECB now forecasts EZ GDP to fall by 8.7% in 2020 (with +5.2% in 2021, hence -3.5% accumulated in 2020-21). The Bundesbank expects a -7% contraction in the German GDP in 2020 whereas in Spain, Italy and France GDP falls will be in excess of -10%. A faster reopening together with significant fiscal stimulus (albeit not uniform across the Eurozone) are behind the better GDP performance. In any event, the expected 2021 GDP rebound of peripheral countries is likely to be notably lower than that of Germany due to their deficit and public debt burdens. In this regard, the approval of the Recovery Fund could be instrumental to boost annual GDP in these countries by between 1.5-2% per year in 2021 and 2022. Support from the ECB is also necessary to contain sovereign spreads.

3) EUR BANKS AFTER THE RECENT RALLY. Certainly, European banks were heavily oversold at the end of April (-44% YTD). The reopening of the economies has supported a 40% rebound from the lows. From this level, we think the approval of the Recovery Fund could give further support to the sector. Assuming for 2020 (vs 2019) on average NII to fall by -2%, -10% for fees and an average CoR of 120bps (4x that of 2019), we believe 2020 EPS numbers will have to fall by 50% for Eur banks vs 2019 (roughly -25/-30% for 2021 vs 2019). Note Eurozone banks are down 27% YTD (6th June).

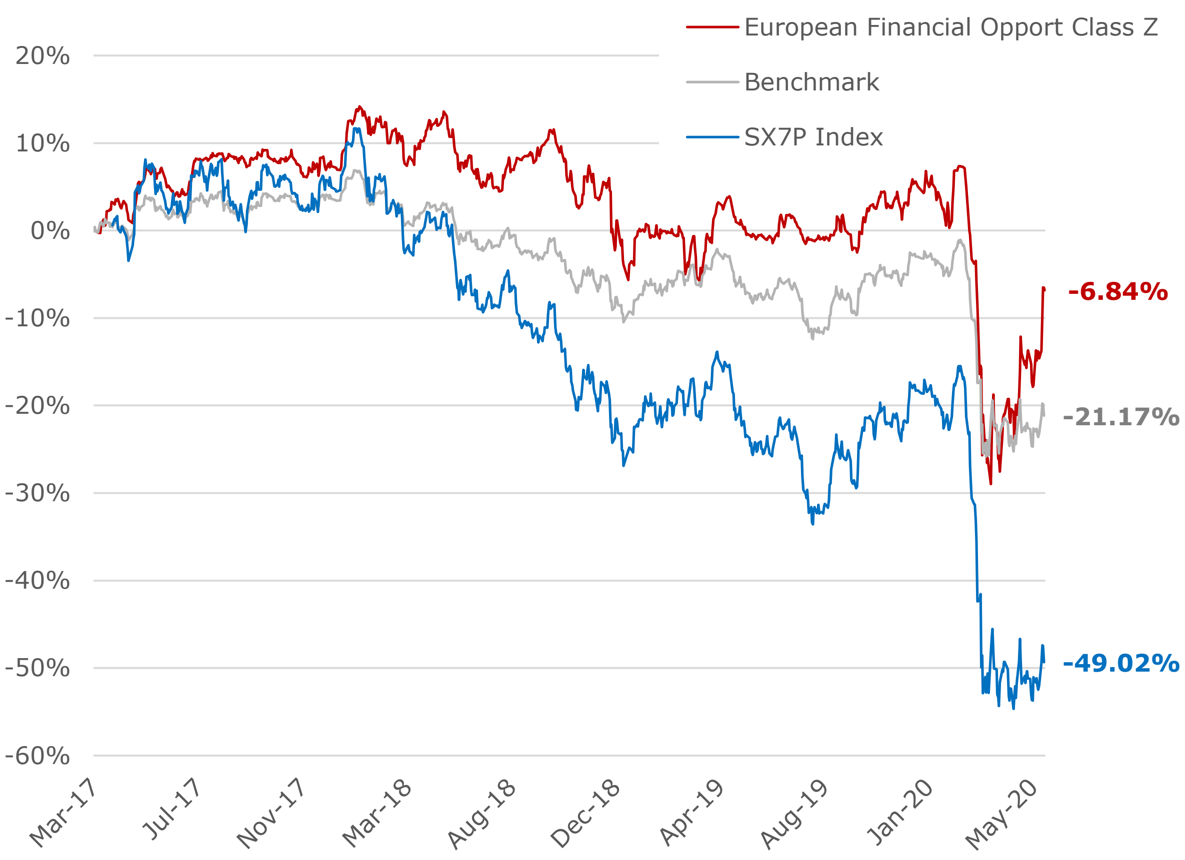
Positioning: Defensive.

What to do? We were anticipating a bounce back in European bank valuations and it has taken place at May-end and June. Although the shape of the recovery seems to be better than expected now, we prefer to be cautious after the recent run in bank valuations. We prefer defensive companies: payments, asset managers, insurers and banks with little gearing to the credit cycle.

EFO UCITs: Portfolio and investment policy

We launched the Fund on 01/03/17. At the end of May, the EFO UCITs was 46.49% 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 May

The Fund (class Z) was +8% in May, outperforming the SX7P (-0.5%) mainly thanks to our stock picking and hedges. At the end of May, the Fund had outperformed the two main European banking indexes materially since inception (+43% and +47% 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.