Quarterly Review (As at 31 December 2020)

New Capital Lux Swiss Franc Bonds Fund

Q4 2020

FIXED INCOME

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Overview of the Quarter

2020 was certainly a turbulent and dramatic year. Fiscal and monetary stimuli have been unprecedented. The Swiss economy was hit hard by the pandemic crisis. However, the second wave of Covid-19, which affected the fourth quarter, appears less damaging than the first wave due to less severe restrictions, containment measures already in place and, all in all, a healthier global economic situation, especially in Asia.

Switzerland proved to be more resilient than other major economies although macro data remained mixed. The Swiss export industry has so far not been so much impacted by the second wave. In November, seasonally adjusted real exports rose by 4.6% to CHF 18.8bn, in line with pre-Covid level. Once again, exports were driven by the pharma industry. The Swiss PMI also showed an improvement, at least in the manufacturing sector, while the Service PMI was more damaged by partial lockdowns and it fell below the 50-point growth threshold. The KOF leading indicator at 104.3 for December remained at an historical high level. Third quarter GDP, released in December, rebounded strongly by 7.2% from a collapse of -7.0% in the second quarter, but it is expected to lose momentum in the fourth quarter affected by the second coronavirus wave.

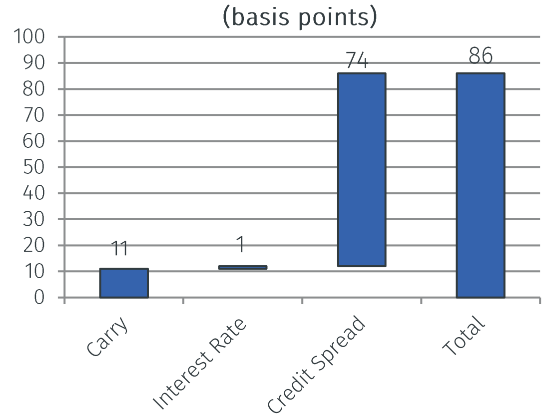
On 16 December the US Treasury designated Switzerland as “a currency manipulator” as all three criteria for this label were met, i.e. a bilateral trade surplus with US greater than USD 20bn, a current account surplus exceeding 2% of GDP and persistent unilateral currency interventions exceeding 2% of GDP over 12 last months. Nevertheless, the SNB confirmed on 17 December, during its regular quarterly monetary policy assessment, its willingness to intervene further and “more strongly” in the currency market as the Swiss Franc is still “highly valued”. Currency interventions are for the SNB to pursue its price stability mandate, given on the one hand the already low policy rate at -0.75% and, on the other, the difficulty of implementing asset purchases given the small size of the Swiss domestic bond market. SNB forex interventions is therefore to be considered a tool to fight the Swiss franc appreciation rather than an instrument to actively weaken the national currency for competitive purposes.

CHF yields moved in the range in place for several months. Neither the negotiations between the EU and UK over Brexit, nor the US election or the US fiscal stimulus package had any significant impact on the Swiss fixed income market which lacked on domestic catalysts. Swiss 10-year government yields fell to -0.55% from -0.49% and 10y swap yields rose to -0.28% from -0.35%. The Swiss fixed income market returned positively. The foreign segment performed slightly better than the domestic segment, where Swiss government bonds were the laggards. Credit spreads tightened.

Performance and Positioning

The New Capital Fund Lux - Swiss Franc Bonds Fund delivered a positive total return of 0.71% net of fees in the fourth quarter, outperforming the reference index by 4 basis points. Credit spread was the main source of return (Chart 1) given the spread tightening, while interest rates contributed marginally as interest rates remained rather stable. The best performers were mainly issuers from the emerging markets space and

Chart 1: Performance Attribution (basis points)



Past performance is not necessarily a guide to the future. Performance is gross of fees.

Source: UBS Delta, EFGAM

issuers that particularly suffered during first pandemic peak in March.

The swap curve bearish steepened during the quarter and it was inverted for maturities beyond 20 years. The Fund ended the quarter with a duration of 3.9 years, shorter than the reference index. Exposure to the long end of the curve was very small and the negative impact of slightly higher yields was negligible. Securities in the 7-10 years bucket were the best performers, both in relative and in absolute terms. The Fund had an underweight duration in 5-10 years segment.

The rally in spread was driven, on the one hand, by increased risk appetite due to good news on vaccine approvals and, on the other hand, by investors demand in a market characterized by low seasonal liquidity, particularly towards the end of the year. The Fund's exposure to A-rated bonds, based on a best rating approach, amounted to 40% and to BBB bonds to 19% at the end of December. Both buckets were overweight. BBB bonds were the major contributors to the return within the investment grade space, followed by A-rated bonds. The exposure at the end of the quarter to AT1 securities was 10%. The exposure to green bonds amounted to 4%.

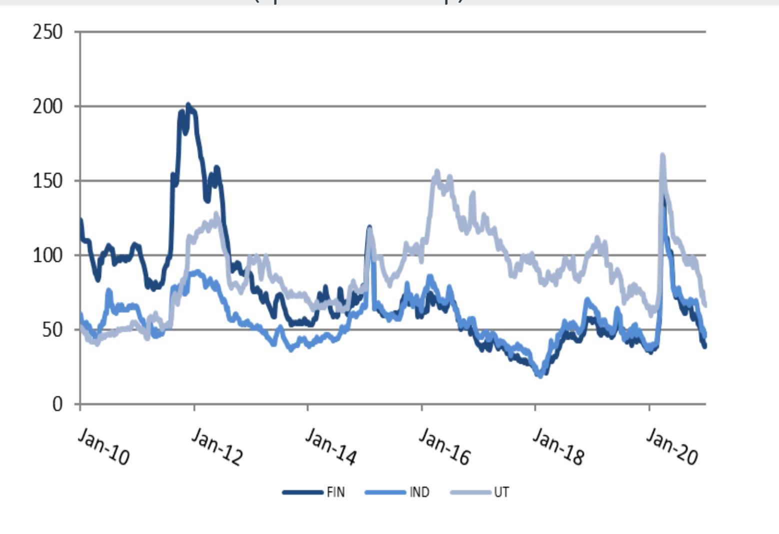
In terms of country allocation and issuers exposure, the Fund is highly diversified. In terms of sectors allocation, we took profit on some non-cyclical bonds as these bonds offered negative yields and had provided good return so far.

Foreign primary issuance in CHF was extremely low in the fourth quarter, confirming the trend that has been going on for several years, while the activity on the domestic primary market was rather intense as usual. We participated in one foreign and two domestic new issues.

Outlook

Will 2021 be the turning point and vaccines the game changer? Will governments start withdrawing support measures? Certainly, vaccines rollout is positive news and reduces some of the downside risks to growth, but the distribution of vaccines is in its first phase and much will depend on people willingness to get them. It will take time to reach herd immunity worldwide. This hopefully may be the case by the end of 2021 and the beginning of 2022. In the meantime, economies are likely to remain vulnerable to further negative news (new Covid variant) and lockdowns during the first quarter.

Chart 2: CS LSI Indices (spread over swap)



Source: Bloomberg, EFGAM

Both monetary and fiscal policy are therefore set to remain accommodative for some time to come in Switzerland and it is unlikely to see interests rates much higher in the first quarter than they are at present. Short rates should remain therefore anchored given expected unchanged monetary policy. Long yields should also remain quite stable due the lack of inflationary pressure. However, a bearish steepening of the CHF yields curve cannot be ruled out in our view, particularly if yields on the long end of the US and EUR curve rise.

Bond yields are very low and even in negative territory and spreads are about 20-30bps above their lowest level of past 10 years (Chart 2). In such an environment, we believe that the potential for spread tightening is limited and careful credit selection remains crucial, as risks are still present in such a fragile context. Nonetheless good news on the pandemic front and technical factors, such as search for yield and supply-demand dynamic, should still support spread compression. increasing in the meantime the exposure to good rated issuers.

In this mixed context of uncertainties and positive news we maintain a cautious approach but will be ready to gradually position the fund for the recovery. "Yield-enhancement", "and "spreads compression" are likely to be the key themes in the first quarter. Preference for green bonds will reflect the new trend arising in the market.

Performance Table

	Fund	Benchmark	Difference
1 Month	0.32%	0.25%	0.07%
3 Months	0.71%	0.68%	0.03%
6 Months	1.49%	1.49%	0.00%
YTD	0.00%	0.15%	-0.15%
1 Year	0.00%	0.15%	-0.15%
3 Years Annualised	0.31%	0.64%	-0.33%
5 Years Annualised	0.17%	0.48%	-0.31%
Since Inception Annualised	0.21%	0.51%	-0.30%
Since Inception	1.39%	3.44%	-2.05%

Past performance is not necessarily a guide to the future. The value of your investments and the income from them may fall as well as rise as a result of market as well as currency fluctuations and you may not get back the full amount invested. Fund performance is net of fees and representative of the M Cap Share Class.

Source: EFG, Bloomberg as at 31 December 2020

Benchmark: Swiss Bond Index SBI Foreign AAA-BBB 1-10. The bencmark is for comparison purposes only.

Inception date: 16 July 2002

Note: Past performance is not necessarily a guide to the future. Returns may increase or decrease as a result of currency fluctuations. Performance is net of fees. Please refer to the Prospectus for further information on this Fund and prior to any subscription. All data sourced New Capital, EFGAM, Bloomberg, as at title date, unless otherwise stated.

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b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

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2. where no consideration is or will be given for the transfer;

3. where the transfer is by operation of law;

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