EUROPEAN GROWTH FUND

31 MAY 2016

For professional clients only – not for distribution to retail clients.

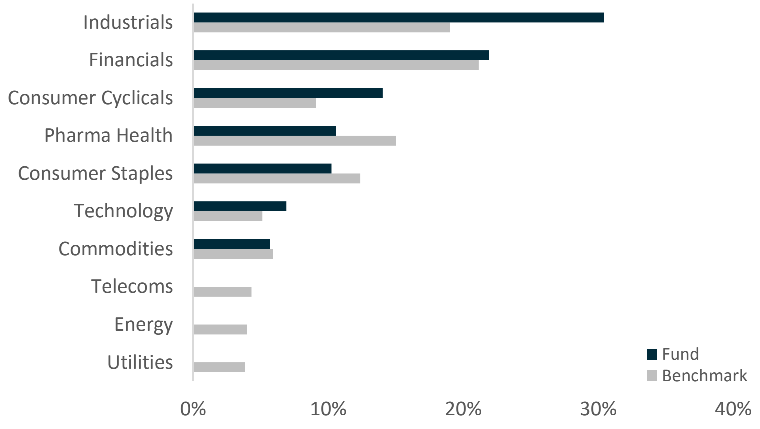
Fund Aim

The fund aims to provide long-term capital growth through investment primarily in Continental European equities.

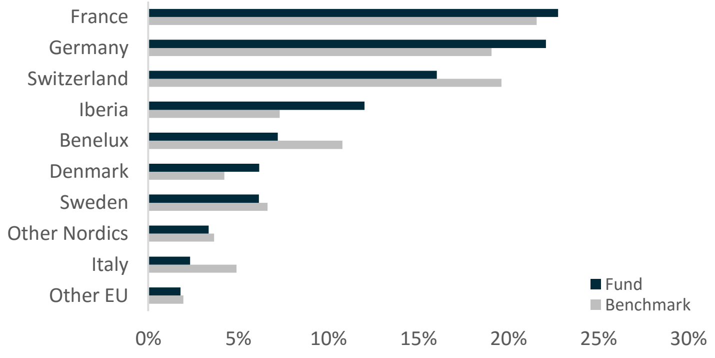
TOP 10 HOLDINGS

1.	Vestas	3.7%
2.	Nestle	3.3%
3.	Roche	3.2%
4.	BNP Paribas	3.1%
5.	Implenia	2.9%
6.	Gamesa	2.8%
7.	KBC Groupe	2.8%
8.	Nordex	2.8%
9.	Nordea	2.8%
10.	CEWE	2.5%

Sector Allocation



Country Allocation



Commentary

In May the Comeragh European Growth Fund rose 2.68%, outperforming the market by 0.41%.

The period was notable for broad based outperformance of banks. The sector is characterised by low Price/Book valuations when compared with return on equity. For the market to fully recognise this value, it is important that capital return is prioritised as a means of shareholder remuneration. Capital positions have improved (giving banks the *ability* to pay higher dividends), whilst we also see signs of increased *willingness* to pay higher dividends amidst a downshift in top line growth targets (requiring less earnings retention), and as uncertainty around regulatory capital requirements abates. For example Deutsche Pfandbriefbank should offer a yield in excess of 6% next year, despite a payout ratio of only 50%! With a Core Tier 1 ratio of nearly 20%, we feel that there is scope for more.

Another reason bank valuations have bounced is the oil price, with Brent recovering to around $50 a barrel. Although the path of future oil prices remains uncertain, the prospect of large oil-related loan loss exposures has diminished accordingly. It is interesting to note that the energy and commodity sectors – where we have essentially no exposure – was a source of outperformance. It remains our view that commodity prices significantly above spot levels are being discounted, and we would not be surprised to see the sector fail to outperform even as underlying commodities recover.

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29 APRIL 2016

Hands down the biggest disappointment of the month has been Bayer. Whilst the exact terms of the deal have yet to be hammered out, the initial bid for Monsanto values the company at $62bn with the prospect of an equity raise to cover about 25% of this figure. The market has punished the stock severely – and for good reason, for even though the promised "EPS accretion" will likely be achieved given cheap debt leverage, it is clear that an acquisition at this price would be value destructive when looked at through the lens of the return on capital metrics we prefer. Even allowing for the $1.5bn in recurring synergies the merger would supposedly create – a figure that at over 10% of Monsanto's current sales sounds somewhat optimistic – and generously ignoring the up-front restructuring costs that will have to be taken, the EBITDA return on capital of the deal amounts to only 10%, and the net profit return on capital about 5%. This is well below Bayer's standalone profitability, and well below a level that we would deem an acceptable return on capital.

Unfortunately for shareholders the damage has been done, the sharp fall in the shares quickly pricing in the premium paid off Bayer's market capitalisation. As such, we remain holders of Bayer stock. Its core business remains defensive, high quality and sensible on valuation – with the unattractively priced Monsanto deal largely discounted in the share price. Whilst it looks increasingly unlikely, we also leave ourselves open to the possibility of a rerating in the event that the deal fails to go through.

Fund Facts

Fund Status	Sub-fund of a Dublin-domiciled UCITS ICAV, authorised and regulated by the Central Bank of Ireland. Recognised in the UK by the Financial Conduct Authority			
Sector	Europe ex UK			
Benchmark Index	Stoxx Europe 600 ex UK			
Fund Size	€60m			
Fund Launch Date	10th September 2015			
Share Classes	**A Euro**	**A Sterling**	**B2 Euro**	**B Sterling**
Unit Type	Income	Income	Accumulation	Accumulation
Initial Investment	€100,000	€100,000	€100,000	€100,000
AMC	0.6%	0.6%	0.6%	0.6%
OCF				
Prices (available at www.comeraghcapital.com)	€100.75	£100.07	€100.75	£100.30
ISIN	IE00BYN38431	IE00BYN38985	IE00BYN38M12	IE00BYN38Q59

Further Information

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