EUROPEAN GROWTH FUND

30 OCTOBER 2015

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

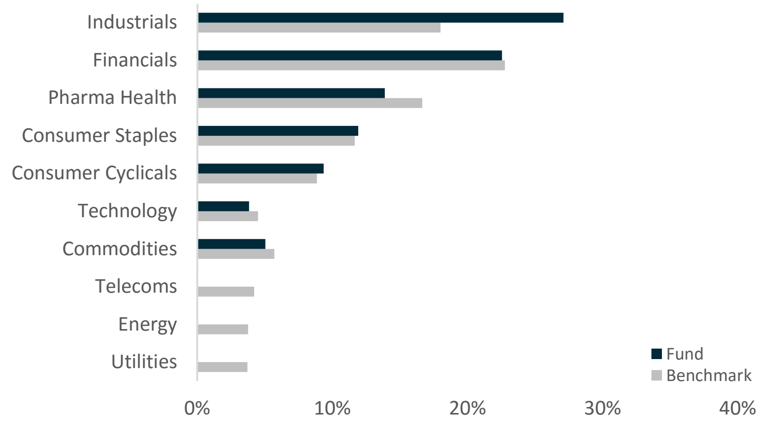
Fund Aim

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

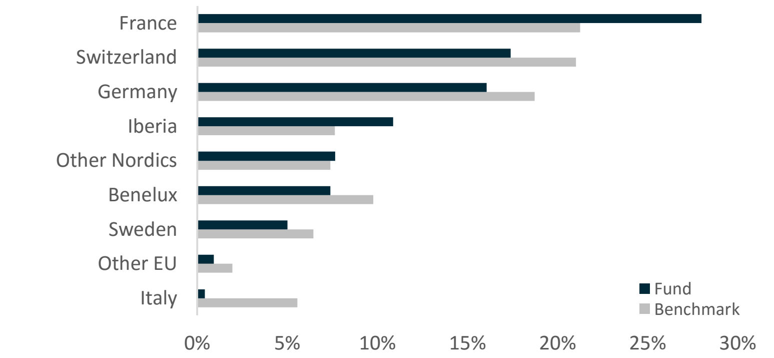
TOP 10 HOLDINGS

1.	Nestle	4.0%
2.	Novartis	3.9%
3.	Roche	3.8%
4.	BNP Paribas	3.2%
5.	KBC Groupe	2.9%
6.	Societe Generale	2.7%
7.	Renault	2.6%
8.	Nordex	2.6%
9.	Nordea	2.5%
10.	Novo Nordisk	2.5%

Sector Allocation



Country Allocation



Commentary

The last couple of months have been nothing short of eventful. The Comeragh European Growth Fund launched on September 11th, and between then and now markets have been on a turbulent ride, falling 10% before reversing all those losses and more. Over this time we have had a China-induced panic, an emissions scandal at Volkswagen that sent ripples through anything auto-related, and a subsequent rally in markets that has been breath-taking in velocity. The Comeragh European fund has risen 3.3% since inception (Euro B2 accumulation class), an underperformance versus the Euro Stoxx 600 ex-UK index, which rose 4.4%.

Whilst underperformance is never welcome, we were fairly content to emerge from this period relatively unscathed. Having to deploy cash into whipsawing markets can leave one a hostage to fortune, and indeed this initial period was always going to suffer from having to bear the cost of turning over 100% of the portfolio in short order.

The fund has been fairly conservatively positioned over this time. Our defensive “anchor” stocks make up 37% of the invested portfolio – slightly higher than what we would consider typical.

We also hold 6.1% in cash, which has been a drag on performance. On the plus side, nearly half of this cash came from selling our holding in the French auto parts supplier, Montupet, upon a takeover bid for the company, and given the speed at which the market has rallied we are happy to wait for better opportunities to arise before reinvesting it. In the autos sector generally, we were fortunate not to own Volkswagen (for which the pre-scandal investment proposition looked reasonably attractive), preferring Renault. A French car company without much brand cachet may not seem an obvious pick, but Renault has been one of our star performers over the period. It is highly leveraged to growth in the European car markets, has limited presence in China (hitherto seen as a big disadvantage!) and promises margin improvement through a combination of cost-cutting and an upcoming product cycle refresh. The crisis at VW allowed us to pick up the shares at an implied negative enterprise value, once the value of Renault's stake in Nissan is deducted from the market cap – always an interesting starting point for an investment, and particularly compelling when one considers the strong business momentum and likelihood of positive earnings revisions.

Another area we'd like to highlight is our positioning in financials. Financials make up 23% of the benchmark, of which banks 13%. You will see that we are neutral weight in financials as a whole, but with over 18% in banks we are strongly overweight in this sub-sector. Broadly speaking, our holdings in banks fall into two categories: "utility" banks and "valuation catch-up" banks. The former includes banks like Nordea and KBC, strong franchises with high returns and solid capital positions allowing high pay-outs to shareholders. In both cases we expect sustainable dividends in excess of 7%, and in a low interest rate environment we would expect the market to view this very favourably.
Towards the other end of the spectrum we own the French banks BNP and Soc Gen. These banks have weaker capital, lower quality of earnings, and operate in areas where we would deem structural headwinds to be stronger. As such they do not fulfil many of the criteria that we prize, but the valuation discount to the wider market makes them too compelling to ignore. Against a backdrop of Eurozone QE and improving capital positions, we feel that a 20% re-rating is very achievable, at which point we would probably look to exit.

Far more typical "Comeragh-style" investments are our holdings in wind turbine manufacturers Vestas, Gamesa and Nordex. At first glance this may appear to be an enormous thematic bet on the growth of the wind energy sector, but we are not thematic investors - each of these companies merits a place in the portfolio on bottom-up fundamentals and a favourable analysis of the profit cycle dynamics. It often happens that certain areas of the market are undervalued as a whole, and when this occurs we are happy to buy into such areas aggressively. In the case of these companies, we see a rising profit cycle driven by both operational leverage and an increased proportion of higher margin service revenue as the installed base of wind turbines grows. Valuation does not appear to reflect this - the market is probably still scarred by the experience of five years ago, when the removal of subsidies led to a collapse in earnings, but this ignores the fact that wind energy is these days a relatively mature, global market. Following restructuring, cost improvements and turbine efficiency gains, wind energy is now pretty cost competitive with grid energy even without government subsidies. Rising orders backlogs at all turbine manufacturers are testament to this, and it is also likely that resolutions made at the upcoming Paris Climate Change Conference will give an added boost to the sector. The global political direction in favour of more renewable energy now seems pretty well established (the UK is the exception here), but crucially it is increasingly economics that drives the investment case and even a slowdown in orders (which we do not expect) could be much more easily absorbed due to the proportion of recurring service revenues these companies now enjoy.

More generally, our "alpha" portion of the portfolio is tilted towards cyclical domestic European growth. Please see our blog recent pieces on BRiCs and inventory cycles for a fuller explanation, but we are confident that the fallout from a slowdown in Chinese investment capex will be contained in the commodity/producer space. Whilst overcapacity will result in challenging profit cycle dynamics for producers of commodities, most chemical companies, and "global growth" facing industrials (notably German and Swedish capital goods exporters), domestic European demand is just beginning to recover. The China story will affect Europe, but only in so far as demand for mining equipment, concrete and steel falls whilst demand for household consumables, consumer goods and holidays abroad rises. Retail sales in China are stronger than ever.
Furthermore, the fall in the oil price is giving Europe a massive terms of trade shock, the favourable effects of which will be felt for at least another year. Combined with monetary easing, a weak currency and sluggish wage growth, a compelling case can be made that profit growth leadership will lie with European equities for the foreseeable future.

The Comeragh European Growth fund is positioned to take advantage of these trends. Our "anchor" stocks are mostly high quality, defensive assets whilst our "alpha" stocks are in areas of the market where we feel good valuation meets a rising profit

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cycle. We have avoided oil, oil services, commodities, utilities, basic chemicals - all sectors were we see structural challenges and the likelihood of deteriorating quality of profits going forwards. More specifically the fund trades on a P/E of 14.3x, a return on equity of 20.5%, and enjoys positive earnings revisions. This compares very favourably to the overall market, which trades on 17x P/E, an RoE of 17.2% and suffers negative earnings momentum. Our headline dividend yield is 3.3% vs the market on 3.4%, so we are not really giving anything up to the market here either - a reflection of our companies' capacity to generate cash, and ability to pay out decent dividends whilst self-funding their growth footprint. Furthermore we believe that our companies will actually be in position to pay out more than forecast, whilst the overall market will disappoint on the dividend front - led mostly by oil majors whose dividends appear increasingly unsustainable. Please see our August blog piece for a detailed discussion on this.

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	IA Europe ex UK			
Benchmark Index	Stoxx Europe 600 ex UK			
Fund Size	€61.09m			
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)	€103.95	£103.43	€103.95	£103.63
ISIN	IE00BYN38431	IE00BYN38485	IE00BYN38M12	IE00BYN38Q59

Further Information

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