



## EURO GLOBAL BOND – Outlook 2019 & 2018 Analysis

### Introduction

The main objective of this report is to evaluate the performance of our flagship fund “Efficiency Growth Fund – Euro Global Bond” (EGB) and to present an exhaustive analysis of the factors that directly or indirectly affected our performance in 2018, compared to the other funds of the Euro Aggregate Bond Category.

In the 1<sup>st</sup> paragraph, we plot the yearly returns for the market as a whole, showing that 2018 was a negative year for nearly all major asset classes.

In the 2<sup>nd</sup> one, we focus on our asset class (EUR Aggregate Bond) and identify the main topics of the year contributing to our performance relative to the peer group and to the reference index.

The 3<sup>rd</sup> paragraph compares our 2018 return to the first quartile, median and third quartile of our peer group and summarizes our main risk/return statistics. A quick comment of our positioning during the year precedes the graphs.

In the 4<sup>th</sup> and last section, we detail our outlook for 2019 and explain how we plan to adjust our portfolio positioning according to the outcome of the main events of the year.

### Methodology

We define as peer group the set of 48 funds identified by Morningstar in the Category “EUR Diversified Bond” and having a correlation with our reference Index (JPM Maggie) higher than 0.60.

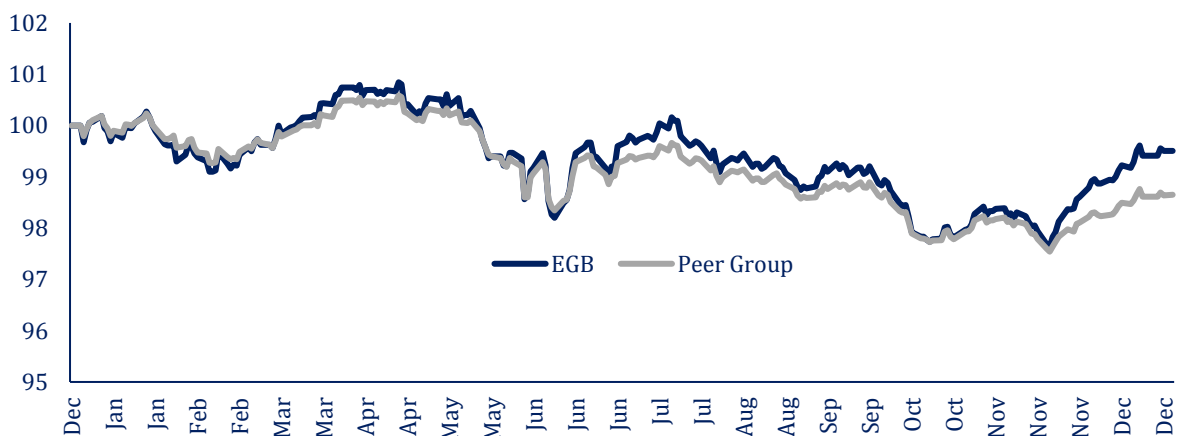


Figure 1: 2018 Performance of EGB vs Peers



## 1. Market in 2018

While almost all Asset Classes delivered a negative return in 2018, Sovereign Bonds, boosted by the performance of European Core Countries, ended the year slightly positive.

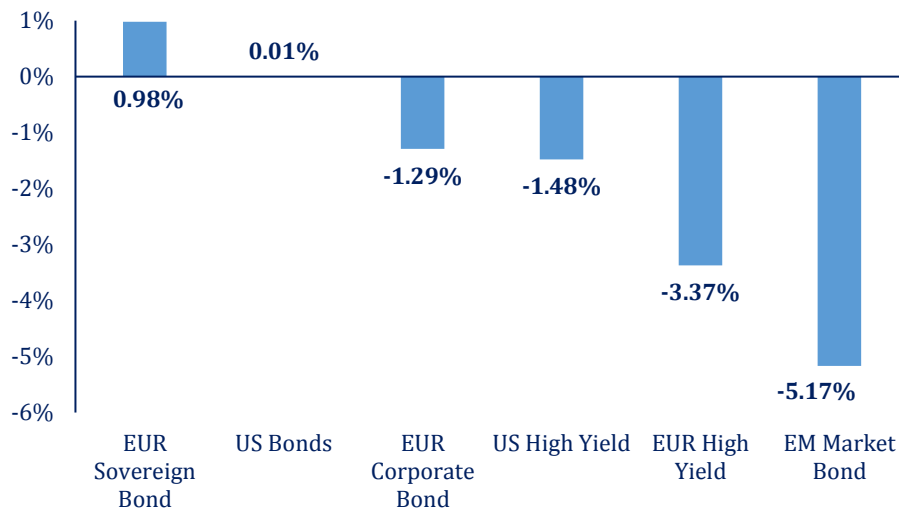


Figure 2: Performance of Fixed Income markets in 2018

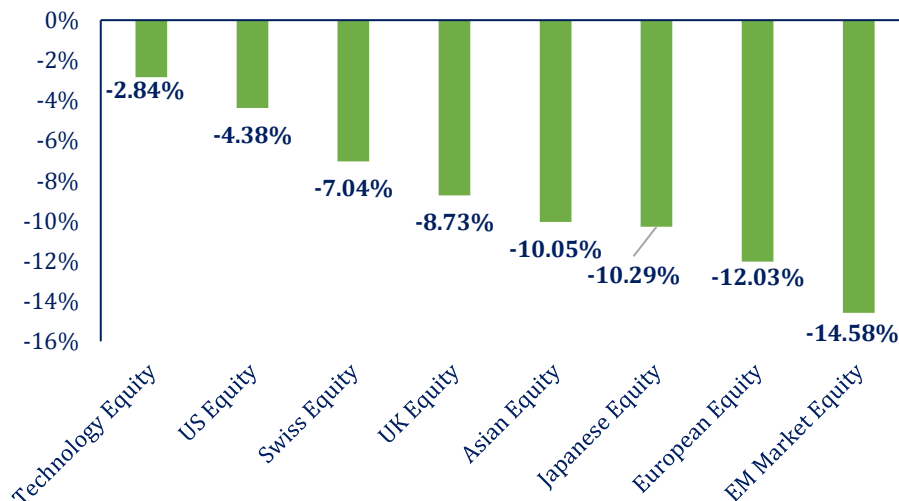


Figure 3: Performance of Equity markets in 2018



## 2. EUR Aggregate Bond Category

The main events that impacted the EUR Aggregate Bond Category in 2018 were:

1. **Jan-Feb 18 - Inflation Scare:** US Hourly Earnings came out at 2.9%, raising fears of a potential sudden increase in inflation. Core countries yield curves shifted higher by more than 40 bps. We suffered more than our peers because of our strategic view (no inflation and low interest rates)
2. **May-Jun 18 - Btp/Bund Spread widened by 200 bps:** Italian political risk appeared in a totally dislocated way, showing a really strong bearish flattening. We had an overweight on Italy in terms of spread duration, but a flattening positioning on the Italian curve. The combined effect was negative compared to our peers.
3. **Sep-Oct 18 - Credit strongest widening in the last 5yr:** liquidity and market makers suddenly disappeared. Our exposure on the short-term financial sector penalized our performance.
4. **Dec 18 - Btp rebound:** we kept our positive view on Italy. We continued to buy Btp until 3.70% on the 10-year yield. Below 3%, we reduced our exposure keeping along bias with target at 2.50%.

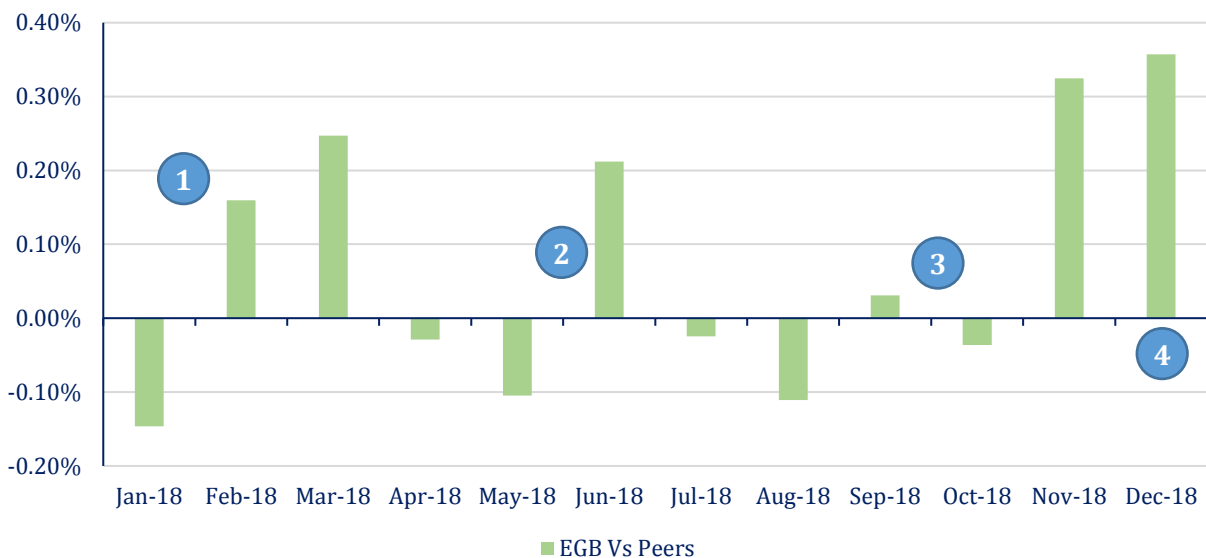


Figure 4: Month by Month Under/Out Performance of EGB with respect to the peer group

In 2018, more than 90% of the Euro Aggregate Bond funds underperformed the reference index. The main reason is that usually the funds keep a higher risk profile than the market ( $\beta > 1$ ). As 2018 was characterized by a fly-to-quality and risk-off environment, the ex-ante alpha sources (country and credit spread) had a negative impact on the overall relative performance.



The return of the JP Maggie Index was in the Top 5 performers of the Euro Aggregate Bond Category in 2018. The dispersion around the average return of the peer group has been larger than the historical average (5% vs 3% on average).

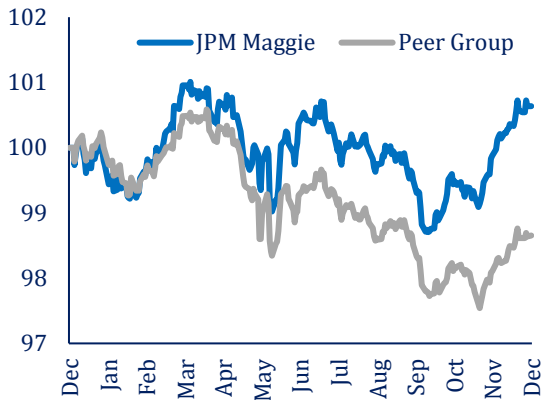


Figure 5 (left): 2018 Performance

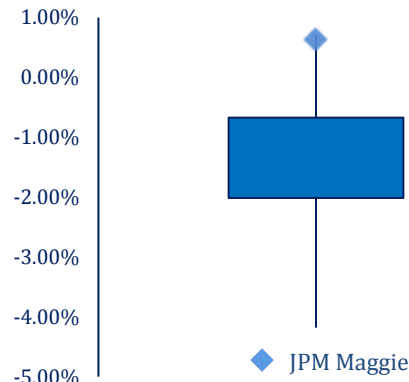


Figure 6 (right): Distribution of peer group 2018 returns (first and fourth quartile represented with the whiskers)

We divided the peer group in four different sets, in light of their realized volatility in 2018, to assess the results achieved by different management styles (aggressive vs conservative). We can see that until April high-volatility funds outperformed. As the Italian political uncertainty materialized, these funds suffered global yield and spread widening due to their Btp and Credit exposure, ending up below their low-volatility peers.



Figure 7: 2018 returns of different set of peers in relation to the realized volatility



### 3. EGB vs peers

In the first part of the year, our profile has been rather aggressive. Our lack of exposure to the short end of the Govies yield curve (< 5yr) allowed us to avoid the strong Btp widening in May, which mostly affected the 2yr yield. We rebalanced our strategic positioning after the summer and increased the Btp exposure for the last three months. As the Italian situation gradually normalized towards the end of the year, we climbed up in the peer ranking and reached the 1st quartile.



Figure 8: 2018 return evolution of the first quartile, median and third quartile of returns within the peer group

Euro Global Bond return is ranked in the top quartile of the peer group.

Our reference index (JP Maggie) tends to be more volatile than the peer group. Due to our low tracking error, we are also more volatile than the peer group.



Figure 9 (left): Distribution of peer group 2018 returns (first and fourth quartile represented with the whiskers)

Figure 10 (right): Distribution of peer group 2018 Volatility (first and fourth quartile represented with the whiskers)



Higher levels of correlation prove that we managed the fund with a consistent strategy.

We delivered a very satisfy tracking error (below 1%) that ranks Euro Global Bond in the best decile of the peer group. Within this decile, our performance is one of the highest.



*Figure 11 (left): Distribution of peer group 2018 Correlation (first and fourth quartile represented with the whiskers)*

*Figure 12 (right): Distribution of peer group 2018 Tracking Error (first and fourth quartile represented with the whiskers)*



## 4. 2019 Outlook

In 2019, we still expect uncertainties to remain. In particular, we believe negotiations between the US and China will be long and complex and will certainly weigh on investor's expectations on the future of the two major world economies. In the UK, the Brexit deal had been rejected by the Members of Parliament. Different scenarios are possible at this stage, with markets pointing to the likelihood of an extension of the official deadline of 29<sup>th</sup> March 2019. In France, the yellow vest protests are still a concern and have already started to impact the French economy.

Main Risks:

1. US & China Trade War
2. Brexit
3. European Parliamentary Elections

Our portfolio positioning will depend on the outcome of these events as follows:

<i>Positive Outcome</i>	<b>Spread Duration</b>	<b>Curve Positioning</b>
<b>Overweight</b>	Credit/Peripheral Countries/EM Mkt	Core: 10yr+ portion of the curve Peripheral:0/5yr portion of the curve
<b>Underweight</b>	Rates (Core)	Core: 0/5yr portion of the curve Peripheral:15yr+ portion of the curve
<i>Negative Outcome</i>	<b>Spread Duration</b>	<b>Curve Positioning</b>
<b>Overweight</b>	Rates (Core)	Core: 0/5yr portion of the curve Peripheral:15yr+ portion of the curve
<b>Underweight</b>	Credit/Peripheral Countries/EM Mkt	Core: 10yr+ portion of the curve Peripheral:0/5yr portion of the curve



## Appendix

Please find below the list of Index used to produce Figures 1 and 2:

- EUR Sovereign Bond: iBoxx EUR Sovereign (QW6A Index)
- EUR Corporate Bond: iBoxx EUR Corporates (QW5A Index)
- Emerging Market Bond: J.P. Morgan USD Emerging Markets Bond (JPEICORE Index)
- EUR High Yield: Markit iBoxx EUR liquid High Yield (IBOXXMJA Index)
- US High Yield: Markit iBoxx USD Liquid High Yield (IBOXHY Index)
- US Bonds: Bloomberg Barclays US Aggregate Bond (LBUSTRUU Index)
- European Equity: STOXX EUR 50 (SX5T Index)
- Japanese Equity: Nikkei 225 Index (NKYTR Index)
- Asian Equity: (MAASJ Index)
- Technology Equity: Nasdaq Composite (XCMP Index)
- US Equity: S&P 500 (SPXT INDEX)
- Emerging Market Equity: MSCI Emerging Market Equity (NDUEEGF Index)
- UK Equity: FTSE 100 (TUKXG Index)
- Swiss Equity: Swiss Market Index (SMIC Index)

## Disclaimer

Investment in the Fund involves a high degree of risk and, therefore, should be undertaken only by qualified investors whose financial resources are sufficient to enable them to assume these risks and to bear the loss of all or part of their investment. Please read the Prospectus before subscribing. Past performance is not necessarily indicative of future results, and there can be no assurance that the Fund will achieve comparable results or that targeted, diversification or asset allocations will be met. Actual returns of the Fund will depend on various factors, including actual fees, carried interest and expenses of the Fund, future operating results, the terms of actual investments made and the terms and market conditions at the time of disposition, legal and contractual restrictions on transfer that may limit liquidity, any related transaction costs and the timing and manner of disposition, all of which may differ from the assumptions and circumstances on which the target returns are based. Accordingly, the actual returns may differ materially from the target returns indicated herein. Prospective investors should bear in mind that targeted performance is not a guarantee, projection or prediction and is not necessarily indicative of future results. This publication ("Presentation") does not constitute legal, valuation, tax, or financial consulting advice Nor is it a statement on the performance, management capability or future potential (good or bad) of the company(ies), industry(ies), product(s), region(s) or country(ies) discussed. It is offered as an information memorandum to potential investors. Those interested in specific guidance for shipping, legal, strategic, and/or financial or accounting matters should seek competent professional assistance from their own advisors. Information was furnished to the company by their internal resources and/or extracted from public filings, company representatives, or sources available within the public domain, including other information providers. Any commentary, observation or discussion by the Company about a country, industry or company does not constitute a recommendation to buy or sell company shares or make investment decisions. Although the statements in this report are derived from or based upon various and credible information sources and/or economic models that the Company believes to be reliable, we do not guarantee their accuracy, reliability, or quality, and any such information, or resulting analyses, may be incomplete, rounded, inaccurate or condensed. All estimates included in this report are subject to change without notice. This report is for informational purposes only and may or may not be intended as a recommendation to invest or an offer or solicitation with respect to the purchase or sale of a security, stock, limited partnership instrument, or financial vehicle. This report does not take into account the investment objectives, financial situation or particular needs of any particular person or legal entity





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For any further information about our company and products, please visit our company website [www.gfggroupe.com](http://www.gfggroupe.com) and the one of our SICAV <http://egfund.it/>.

In case you want to receive the weekly or monthly update on EGB, please do not hesitate to contact us:

**Roberta Aldeghi –Assistant Portfolio Manager**

[roberta.aldeghi@gfgmonaco.com](mailto:roberta.aldeghi@gfgmonaco.com)

**Roberto Scisci –Fund Manager**

[roberto.scisci@gfgmonaco.com](mailto:roberto.scisci@gfgmonaco.com)