



RBC Funds (Lux) – European Equity Focus Fund – Fourth Quarter 2018 Commentary

In the fourth quarter of 2018 the Fund returned -11.5%* performing in line with its benchmark, the MSCI Europe Net Index (EUR), which returned -11.3%.

The final quarter of 2018 saw significant falls in global markets as numerous headwinds continued to negatively impact investor confidence. Despite hopes of a truce towards the end of the quarter, the U.S./China trade war remains a drag on global markets while the political uncertainty surrounding Brexit and the Italian budget also had an impact. This follows growing evidence of a general slowdown in growth across most developed markets. The steady decline of European economic data continued into the fourth quarter, with the HIS Markit Eurozone Composite PMI falling to 51.3, the weakest since November 2014.

U.K. telecommunications company BT Group was the biggest contributor to returns in the quarter. The company's stock price rose the most in five years after quarterly numbers resulted in full year guidance being raised to the upper end of its target range. This was followed by numerous upgrades as well as positive sentiment after the European Commission's approval of Deutsche Telekom's Dutch deal. Other top contributors were holdings in Swiss Pharmaceutical Roche Holding, Italian pharmaceutical Recordati, eyewear manufacturer EssilorLuxottica and I.T. company RELX. Roche benefitted from a shift to defensive holdings, including Healthcare, during the quarter as well as beating sales expectations after some strong U.S. results and Recordati was buoyed as it released confirmation of its 2018 guidance, as well as fresh 2019 guidance incorporating its recent acquisition of French company Tonipharm. EssilorLuxottica rose slightly as the merger of the two companies was completed and RELX fell slightly despite quarterly results being in line and recording 4% underlying revenue growth year-on-year despite difficult conditions.

The biggest detractor over the quarter was our holding in U.K. industrial Ashtead Group. The stock suffered due to concerns over the impact of a trade war upon business sentiment in both the U.S. and Europe, as well as a shift away from more cyclical stocks. Holdings in Irish airline Ryanair, asset manager, Schroders, luxury group LVMH and Nordic insurer Sampo also detracted from returns. Ryanair fell as the effects of higher fuel prices earlier in the year, employee strikes across various countries, and strong capacity additions weighed on the stock. Schroders declined slightly as asset managers served as a proxy for the negative market sentiment. In addition there were some temporary fears regarding the company's participation in a potential mandate for Lloyds Banking Group. LVMH continued to suffer as late cycle fears hit the luxury sector in general, and there were sustained fears over a slowdown in the Chinese market and the country appearing to tighten its enforcement of import laws. Sampo suffered alongside European financials in general and also experienced lower-than-expected profits from its associated company Nordea Bank.

We are always cognisant of the wider macro environment both for its challenges and opportunities. Nevertheless, our focus remains on the discipline of long-term investing in companies with strong competitive positions, low capital intensity, sustainable and/or improving profitability and the right management strategy and governance structures.

* Net of fees and expenses for the O share class

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