



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

In the first quarter of 2018, the Fund returned -6.2%* underperforming its benchmark, the MSCI Europe Net Index (EUR), which returned -4.3%.

European equities suffered their worst quarter since the start of 2016, and their first negative quarter since the second quarter of 2016. Markets around the globe felt the effects of a rise in protectionist policies, which has resulted in fears of a trade war emanating from the U.S. There were also signs of a slowdown in European economic growth and the positive economic shock predicted for 2018 has not yet materialised. The only positive returns at a country level were for Finland, Italy and Portugal; all the others lost ground during the quarter.

Software company Micro Focus International was the biggest detractor from returns over the period as it suffered from the departure of its CEO after only months in the role, and gave a sales warning. Paddy Power Betfair, the Irish gaming company, announced that its CFO would be stepping down and there were also concerns over increasing investment and marketing costs. Recordati Spa, the pharma company, suffered as its results narrowly missed estimates and its earnings guidance for 2018 was below consensus.

Ryanair was the largest contributor to relative returns in the first quarter as investors continued to benefit from a sharp rise in earnings. The London Stock Exchange continued its strong start to 2018 with high growth in cash, derivatives and over-the-counter clearing volumes. ASML, the Dutch semiconductor company benefitted from positive sentiment despite getting partially caught up in the aftermath of the Facebook scandal. Luxury goods company LVMH was also positive for performance.

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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