



## RBC Funds (Lux) – European Equity Focus Fund – First Quarter 2019 Commentary

In the first quarter of 2019, the Fund returned 10.5%\* underperforming its benchmark, the MSCI Europe Net Index (EUR), which returned 12.8%.

European stocks had their best quarter in four years as they all but erased the losses suffered in the Q4 2018. The key drivers of the reversal were the dovish stance of the Federal Reserve (Fed) which announced that it would slow the pace of interest rate rises and the apparent progress in the trade talks between the U.S. and China. Despite the market rally, concerns still remain over the continued weakness in global growth. Softer Chinese domestic demand has hampered markets; questions still remain about the effect a lack of further progress in U.S.-China trade talks or a more hawkish Fed may have on global markets. Economic activity in Europe remains subdued and manufacturing figures have been particularly poor as have export figures (industrial production is down 2.5% since its peak in December 2017). Despite this, unemployment continues to decline, with labour markets strong across Europe. The ongoing uncertainty over the UK's departure from the European Union continues although it is unlikely that there will be a 'no-deal' Brexit.

The biggest contributor to returns in the quarter was our holding in UK financial, London Stock Exchange. The stock rose as LCH benefitted from market volatility in 2018 to set a record year for volumes and financials and LSE announced it had bought a stake in Euroclear. French luxury conglomerate LVMH also contributed as the stock rose after strong results showed continued strength from domestic Chinese demand. Pharmaceutical companies Novo Nordisk and Roche Holdings also helped performance. Novo Nordisk announced strong results and also progressed its oral diabetes drug with an FDA filing. Roche enjoyed a positive reaction to its purchase of Spark Therapeutics. UK house builder Barratt Developments also contributed to returns with quarterly results ahead of expectations.

A position in Swedish bank Swedbank was the biggest detractor from returns as it was drawn further in to the Danske money-laundering scandal. The company has since sacked its CEO. Eyewear manufacturer EssilorLuxottica also detracted as a governance dispute following the merger continues to drag on. German chemical producer Henkel suffered as the stock price fell when the market reacted badly to the company's plan to increase spending on branding and upgrades. Irish bookmaker Paddy Power Betfair fell despite results being nearly in line with expectations. Spanish financial Caixabank suffered as low interest rates contributed to difficult quarterly results and German pharmaceutical Bayer's stock fell after the company lost a second trial concerning its Monsanto product Roundup. A complainant was awarded USD80m in damages.

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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