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MARKET INSIGHT

OIL PRICE CONCERN

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High Level Overview

1) We're in a period of cyclical adjustment to the oil price, we should not confuse this with medium term equilibrium. We think the oil price will rise, however, the equilibrium price will be substantially lower than in 2010-2014.

2) We think that once the oil price reaches equilibrium, the market will be in a better position to evaluate the winners and losers from the lower oil price. GCC (Gulf Cooperation Council) is the most competitive region from a cost of production standpoint and should be a winner in the medium term, based on increased market share at a lower price.

3) The GCC's problem is excess fiscal expenditure based on high oil prices, not the cost of production (as per commercial producers). We think the GCC will adjust its fiscal policy to make government finances more sustainable, but the adjustment will be in the medium term view, not the short term. We are already seeing fiscal reforms in Saudi.

4) We think investors often confuse growth with ability to pay. Equity markets should be concerned with growth, i.e. the magnitude of excess profits after debt. Credit markets should be most concerned with the ability to pay, i.e. will equity holders get anything at all. For the GCC we think the ability to pay is extremely high, although profitability will have obviously fallen.

5) Valuations have overshot, Qatar 42 sovereign now trades in line with Hungary. Hungary is a BB+ rated credit that has a history of fiscal problems. Qatar is an AA country with very low levels of gross debt and negative net debt. This does not make sense with a medium term view.

6) Portfolio focus is on the strategic sovereign and quasi sovereign entities which have the greatest discounts and best access to financial resources, and as such are less cyclically exposed.

To conclude, we believe this is a great time to add New Capital Wealthy Nations Bond Fund. If oil prices go lower, this will clean out high cost producers even quicker. If oil price goes higher, GCC is best positioned to capture market share.

Thoughts on the Economics of the Oil Market

Cyclical adjustment, oversupply and no equilibrium yet: We think the low oil price has been engineered by the Saudis in an attempt to win back market share that was being captured by non-OPEC producers. The GCC countries have the lowest cost of production by a substantial margin. It costs the Saudis in the region of $7 to produce a barrel of oil, so the problem for the GCC is not the profitability of production, but high fiscal expenditure. In terms of an oil price war, OPEC has a 60% market share today vs. 50% one year ago, so this goes to show that it is winning back market share, at the cost of short term fiscal deficits.

At the moment there is massive oversupply as unprofitable producers seek to generate cash, however, we think once equilibrium is restored the price will rise, albeit modestly. We don't believe that sub $30 oil is a sustainable price level in the medium term, so it is important not to extrapolate this too far into the future. Production in high cost regions (oil sands etc) are likely to be mothballed and production growth will slow but this may take a year or more. Commercial oil producers are more sensitive to oil prices and will be the ones forced to reduce unprofitable production. Ultimately, the GCC has the greatest staying power in a price war and the greatest financial resources to weather the short term pain. Since revenues are a function of price and volume, higher market share at a marginally lower price, can restore a more healthy level of the oil receipts in the medium term.

The market is not looking through the short term risks and this represents an opportunity from a credit perspective, where the question is sustainable ability to pay, not rate of growth as in the equity markets. We think there are other countries around the world that are far more risky given the slowdown in growth and much less substantial financial buffers.

New Capital Wealthy Nations Bond Fund Positioning

1. **High average credit quality in the strongest GCC countries:** Our exposure is to sovereign and quasi sovereign issuers, i.e. the strongest issuers in the region (with AA/A ratings), and majority in UAE and Qatar which have the most sustainable fiscal and external accounts, even at extremely low oil prices.

Figure 1: Capacity to pay at a macro level

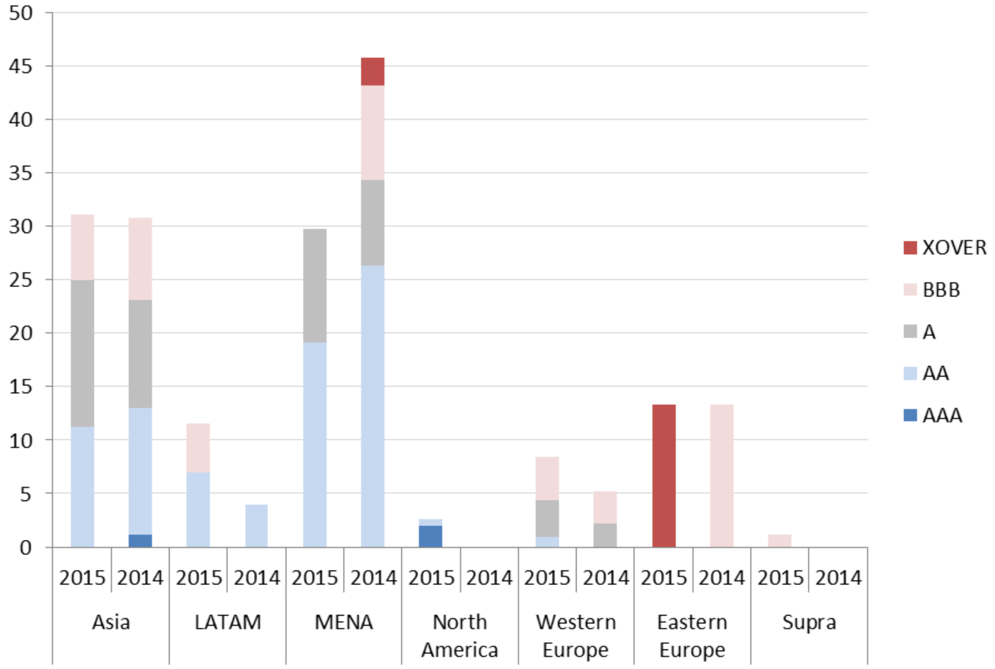
	Oil Price Fiscal Breakeven	Current A/C Breakeven	Fiscal Deficit/ Surplus % GDP	3yr Worst Current A/C Deficit Forecast	Gross Gov Debt % GDP	Gross External Debt % GDP	NFA	Implied years of Gov Expenditure (to -50% NFA)	Implied coverage of C/A deficit	SWF / Total Government Expenditure
Saudi Arabia	$105	$63	-15%	-4.7% (2016)	6.7%	14.9%	178%	10.5 years	44.5years	2.4x
Kuwait	$49	$41	1.2%	7.0% (2016)	9.9%	28.6%	388%	N/a	Surplus	7.3x
UAE	$73	$44	-5.5%	2.9% (2015)	18.9%	61.2%	248%	54.2 years	Surplus	3.9x
Qatar	$55	$46	4.5%	-4.5% (2016)	29.9%	86.1%	292%	N/a	76.0years	5.3x
Bahrain	$107	$72	-14.2%	-4.8% (2016)	66.7%	165%	138%	13.2 years	39.1years	0.6x
Oman	$95	$85	-17.7%	-24.3% (2016)	9.3%	14.4%	64%	6.4 years	2.6years	1.5x

Source: IMF and EFG Asset Management, as at October 2015.

Our exposure is to large, strategic, monopoly entities which have a long term policy objective e.g. sovereign wealth funds, gas transportation, or the sovereign themselves. These are AA/A rated entities for a reason. If these entities were shut out of the market for any reason, they are highly likely to further receive the support of the sovereign should they require capital, or short term finance. As such we do not believe they are exposed to the cyclical risk in the oil markets in the same way as say US high yield or even the oil majors. At the same time valuations do not reflect this.

2. **2015 adjustments:** Outside our quasi sovereign entities, we have historically owned GCC banks. These weathered the 2015 quite well and relative valuations looked expensive. We cut the exposure to focus on the issuers with the greatest valuation cushion vs. their rating, e.g. Qatar as above.

Figure 2: Region and credit quality exposure



Source: UBS Delta, EFG Asset Management as at end December 2015.

You will note that we have cut the low quality (BBB/BB) credit in MENA and the overall exposure is substantially lower than in 2014.

3. **Valuations:** We think valuations at the long end of the GCC curve look particularly cheap with credits priced for multi-notch downgrades. We think this is unrealistic in the medium term.

Note: Past performance is not necessarily a guide to the future. Returns may increase or decrease as a result of currency fluctuations. Performance is net of fees. Please refer to the Prospectus for further information on this Fund and prior to any subscription.

Sources: New Capital Fund Management, Bloomberg. Unless otherwise stated all data as of 27 January 2016.

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b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

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2. where no consideration is or will be given for the transfer; or
3. where the transfer is by operation of law.

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