



RWC Europe Absolute Alpha Fund

31st May 2018

Fund Aim

To seek positive absolute returns over a 36 month period whilst tolerating short term volatility. The return will be sought by investing in long and short positions, primarily in European equity and equity related securities.

Fund AuM \$22.9m / €19.7m

Team AuM \$283.8m / €243.2m

Firm AuM \$15,585.9m / €13,354.8m

Fund Details

Manager	Graham Clapp
Launch Date	29th July 2010
Structure	UCITS IV Lux SICAV
Domicile	Luxembourg
Share Classes	CHF, EUR, GBP, USD
Minimum Investment	
Share Class A	25,000
Share Class B	75,000,000
Annual Management Charge	
Share Class A	2.00%
Share Class B	1.00%
Performance Fee*	20%
Dealing - Subscriptions	Daily
Dealing - Redemptions	Daily
Dealing Cut Off	13:00 CET
Administrator	Brown Brothers Harriman
Auditor	PricewaterhouseCoopers (LUX)

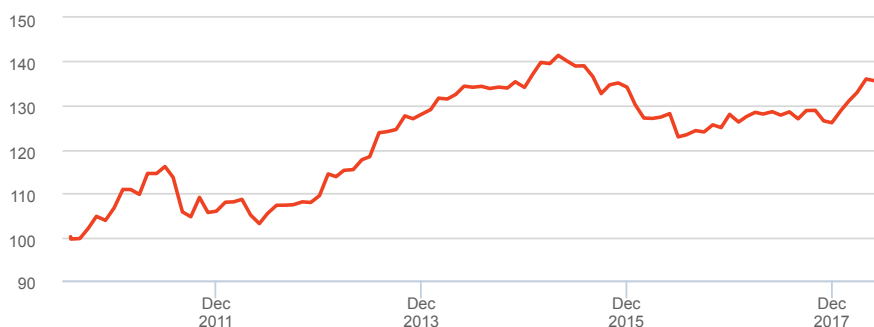
Fund Codes

Share Class	ISIN	Sedol	Bloomberg
A EUR	LU0523287307	B3QC550	RWCEAAE LX
A GBP	LU0523288024	B45P5W4	RWCEAAG LX
A USD	LU0523287646	B46BRN6	RWCEAAU LX
B CHF	LU1234947924	TBC	
B EUR	LU0523287489	B3R3WZ1	RWCEABE LX
B GBP	LU0523288297	B3STYQ3	RWCEABG LX
B USD	LU0523287729	B3V0CG9	RWCEABU LX

Additional Share Class NAV & Performance

Share Class	NAV	1 Month (%)	YTD (%)
A EUR	118.02	-0.40	7.12
A GBP	129.42	-0.28	7.52
A USD	118.62	-0.15	8.22
B CHF	-	-	-
B EUR	135.60	-0.30	7.60
B GBP	138.78	-0.19	8.01
B USD	142.75	-0.01	8.26
R EUR	99.27	-0.24	6.35
R GBP	102.46	-0.19	7.99
R USD	103.34	-0.01	7.09

Cumulative Performance - Class B EUR



Cumulative Performance (%)

	NAV per Share	1M	3M	YTD	1Y	3Y	5Y	SI
B EUR	135.60	-0.30	3.50	7.60	5.49	-3.28	15.33	35.60
EURIBOR 1 Month EUR	-	-0.03	-0.09	-0.16	-0.38	-0.95	-0.75	1.12

Discrete Monthly Performance - Class B EUR (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2018	2.26	1.66	1.47	2.31	-0.30	-	-	-	-	-	-	-	7.60
2017	-1.37	0.99	0.76	-0.31	0.42	-0.61	0.59	-1.24	1.48	0.04	-1.87	-0.34	-1.50
2016	-2.98	-2.35	-0.06	0.23	0.63	-4.16	0.39	0.78	-0.25	1.31	-0.49	2.42	-4.63

Historic Annual Returns (%)

2010	2011	2012	2013	2014	2015
6.57	-0.70	3.35	17.05	4.74	0.04

Commentary

The MSCI Europe continued the positive trend seen in April during early May, before giving a lot back in the final two weeks. The selloff was triggered by political change in Italy. After backing away from early plans to leave the Euro currency union, the new Prime Minister Giuseppe Conte, chosen by a coalition of the anti-establishment Five Star Movement and far-right League, has promised to lead a "government of change" involving fiscal expansion. Other than our position in Banco BPM, we have very little exposure to domestic Italy. The fund returned -0.30% whilst the index declined -0.03%.

One of the key areas of performance was companies linked to UK Government spending. Babcock, Capita and Ultra Electronics all did well over the month. The sector has been challenging for several years, as tougher contract terms and mismanagement of some large projects, had led to several high-profile casualties. In January the collapse of Carillion due to aggressive cash management marked what we now believe was the nadir. We have regularly been in touch with the companies we are invested in, but it was a meeting with Serco's management that led to the conclusion that there was some light at the end of the tunnel for the sector. Limited bidders on new contracts, consolidation and improving contract terms, all mean sector returns should improve going forward. Together the three positions contributed 112bps of Alpha.

An online grocery delivery short was the largest detractor (99bps of Alpha) in the month. Our thesis centred around the poor reported cash generation which we feel is unlikely to improve. Their original Customer Fulfilment Centres (or CFCs, for short) which were built in 2002 and 2013 had been seeing modest scale benefits while their Gross Margin had fallen from 32% to 29%. The new CFC's must operate at 30-40% lower cost (8% of sales -> 5%) to hit their targets and generate any meaningful cash flow. What we underestimated was the likelihood that other supermarkets believed the pitch. A recent US transaction, the detailed terms of which have yet to be agreed, is much larger than expected and bigger than the companies deals in other geographies. We think the market will be focused on their ability to execute the ramp up and deliver the advertised returns going forward. This was a small position before the recent deal. We are maintaining a position given the lack of potential positive catalysts going forward.

Year to date the fund has returned 7.6%, outperforming the market which is up 0.2%. As MIFID 2 regulation is likely to place more emphasis on in-house research, we feel as a team we are more than ever being rewarded for our extensive experience and investment process. With stock market volatility increasing from low levels as evidenced by the VIX, now is the time to back proven stock pickers.

Past performance is not a guide to the future. The price of investments and the income from them may fall as well as rise and investors may not get back the full amount invested. Total Fund returns are calculated on a NAV-NAV basis net income reinvested and are shown net of all fees.

*The performance fee is only applied to performance over the relevant reference index (LIBOR), with a high water mark.

Source: RWC

RWC Partners Limited - Verde 4th Floor, 10 Bressenden Place, London, SW1E 5DH

t. +44 (0)20 7227 6000 f. +44 (0)20 7227 6003 e. invest@rwcpartners.com

www.rwcpartners.com

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Exposure Summary (%)[^]

Gross	250.7
Gross Long	135.6
Gross Short	-115.1
<i>of which Futures/ ETF Net</i>	0.0
<i>of which Options Net</i>	0.0
Net	20.5

Security Breakdown

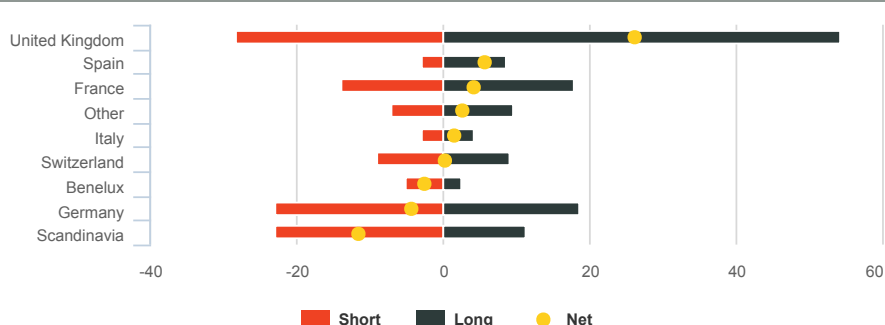
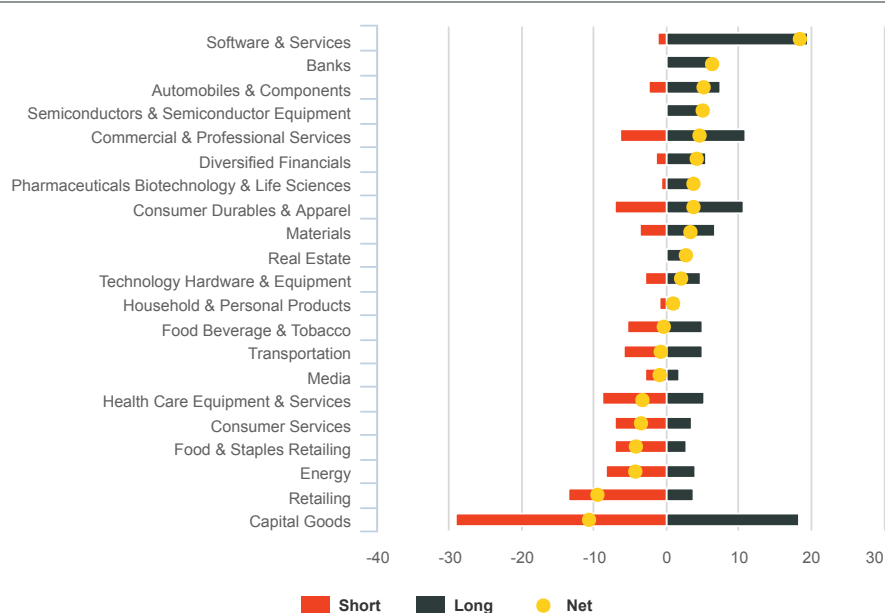
Total No. of Securities Held	120
No. of Securities - Long Side	62
No. of Securities - Short Side	58
Top Ten Long Positions*	32.1

Market Cap Breakdown (% of gross)

> \$5bn	62.9
\$1.5bn - \$5bn	33.3
< \$1.5bn	3.8

Statistical Analysis^{}**

	Fund
Volatility	7.2
Sharpe Ratio	0.5
Sortino Ratio	0.7
Total Return since inception (%)	35.60
Annualised Return (%)	3.96
% of Positive months	60
% of Negative months	40
Largest drawdown (%)	-14.73
Best month (%)	4.62
Worst month (%)	-6.95
VaR (1 month 99%)	6.8

Geographic Breakdown (%)

Sector Breakdown (%)


The information above may differ from figures published elsewhere due to differences in the standard deviation calculation methodology used. The above figures are quoted based upon the population methodology.

[^]Exposures shown on a delta adjusted basis.

^{*}Percentage of NAV.

^{**}Relating to EUR share class using daily data.

Source: MDO & FactSet (using GICS Sector Classifications via MSCI)

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RWC Partners Limited - Verde 4th Floor, 10 Bressenden Place, London, SW1E 5DH

t. +44 (0)20 7227 6000 f. +44 (0)20 7227 6003 e. invest@rwcpartners.com

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