

# The New Ireland Fund, Inc. Portfolio Manager Commentary Quarter Ending April 30, 2020

## Performance Review

The New Ireland Fund, Inc.'s ("Fund") returns are summarized in the table below.

Period to April 30, 2020	Benchmark* Return	IRL NAV Return	IRL NAV Return Relative to Benchmark
Six months	-18.07%	-19.75%	-1.68%
1 year	-17.07%	-19.64%	-2.57%
3 years	-4.35%	-10.32%	-5.97%
5 years	-0.06%	-3.49%	-3.43%
Since inception	+6.23%	+5.28%	-0.95%

\*Benchmark is the MSCI All Ireland Capped Index ("MSCI Ireland") from August 1, 2015. Prior to July 31, 2015 the benchmark was the Irish Stock Exchange Index ("ISEQ"). Prior to July 31, 2011 it was the ISEQ ex Bank of Ireland.

From the table below, it is quite clear that the Irish market has performed very much in line with the broader European Euro Stoxx 50 index over the quarter and is even slightly ahead now over 6 and 12 months. Ireland has also outperformed the FTSE 250 index of smaller-mid cap UK equities over all these periods, albeit all negative in absolute terms. The S&P 500 has been a major outperformer compared to all European, and indeed global indices, primarily on the strength of the Technology sector.

	NAME	3 Months Perf		6 Months Perf		12 Months Perf	
		Local	USD \$	Local	USD \$	Local	USD \$
ISEQUIT	IRELAND SE OVERALL (ISEQ)	-19.0	-19.9	-13.3	-14.9	-11.6	-13.6
MSIRACS	MSCI ALL IRELAND CAPPED S	-20.4	-21.4	-16.5	-18.1	-15.1	-17.1
S&PCOMP	S&P 500 COMPOSITE	-9.3	-9.3	-3.2	-3.2	0.9	0.9
NASCOMP	NASDAQ COMPOSITE	-2.6	-2.6	7.8	7.8	11.0	11.0
FTSE100	FTSE 100	-18.1	-21.7	-17.2	-19.3	-17.1	-19.8
TOKYOSE	TOPIX	-12.0	-10.8	-10.9	-10.0	-7.1	-3.2
DJESS0I	EURO STOXX 50	-19.1	-20.0	-18.0	-19.5	-14.0	-15.9
DAXINDX	DAX 30 PERFORMANCE	-16.3	-17.3	-15.6	-17.1	-12.0	-14.0
FRCAC40	FRANCE CAC 40	-21.0	-21.9	-19.7	-21.2	-15.7	-17.6
AMSTEOE	AEX INDEX (AEX)	-12.2	-13.2	-9.9	-11.6	-7.4	-9.5
FTSE250	FTSE 250	-21.8	-25.2	-17.0	-19.1	-14.7	-17.5

*Note-Indices are total gross return*

*\* Source: Datastream*

## Irish Economic Review

The Irish economy is set to contract significantly during 2020, by 8% in 2020 and expand again by 6% in 2021 as the Coronavirus pandemic takes its toll, according to the European Commission's latest economic forecast. Given the scale of uncertainty surrounding the pandemic and the speed or

slowness of re-opening the economy there is clearly a wide margin of error possible on such forecasts. The consumer sectors will contract significantly as will service sectors exposed to retail spending, hospitality, tourism and travel. On a positive side exposure to both Information Technology and Pharmaceutical sectors should help.

Ireland will now have a large fiscal deficit in 2020 and the government will continue with measures to help pay unemployment benefits and provide aid to the SME sectors of the economy.

Ireland is a small, open economy and therefore very exposed to the neighboring European economies as well as the broader global economy.

### **‘Coronavirus’**

The Coronavirus (“COVID”) pandemic with which we are now all dealing was a true black swan event that has created both a global health crisis and a global economic crisis. While Ireland has been hit less severely than its closest neighbour, the UK, or than the US, it has had well over a thousand deaths, and economic activity was severely impacted from early March onwards. Schools were closed from March 13th, while most offices began to close from around that date, with all non-essential places of work formally closed by government instruction later in the month. By mid-May, these restrictions had not been lifted or materially eased, though a preliminary five-phase plan was published to reopen the economy over the period from May 18th to mid-August.

As a result, the Irish economy is now clearly in recession and will take many months to return to pre-crisis levels of activity, but Ireland is perhaps well placed relative to other European countries, due to the large exposure to sectors which are among the least-affected by the crisis such as pharmaceuticals, financial services, and IT. The fiscal impact is difficult to assess at this early stage, but undoubtedly significant amounts of cash will be borrowed by the Irish government to finance the various measures it has taken to support consumer incomes and businesses most affected by the slowdown. The various actions taken by the European Central Bank (ECB) to enhance the ability of banks to continue to provide credit to the private sector are helping to offset the worst of the impact.

### **‘Irish Political Outlook’**

At the time of writing, the political outlook and the composition of the next government is still uncertain, though becoming slightly clearer. The February general election was inconclusive, in so far as the three largest parties each received about 25% of the votes and slightly less than 25% of the seats in the Dáil – the lower house of the Irish Parliament. The party which won the most votes and was generally seen as the winner of the election was Sinn Fein, a left-wing party which has economic policies which do not appear to be compatible with those of the other main political parties. In addition, it has a controversial past, having supported terrorist activity in Northern Ireland.

At the time of writing, the most likely outcome is that the two large centrist parties, Fine Gael and Fianna Fáil, will combine with the help of other smaller parties (and in particular the Green Party) to form a coalition government. Such a government would have broadly similar economic policies

to the outgoing administration. Negotiations have begun between these parties to see if they can reach agreement on a programme for government, but it cannot be taken for granted that agreement will be reached, particularly given the scepticism among Green Party politicians that the other parties are sufficiently committed to policies to significantly address the climate change crisis.

If the parties cannot reach agreement, a second general election is quite possible.

## **‘Brexit’**

The UK left the European Union on January 31, 2020. However, as of now there has been little to no impact on international trade or other Brexit related issues as the UK is now in an 11-month transition period during which in practice it remains a member of the European Union in all but name. This transition period ends on December 31, 2020, and the EU and UK are engaged in intensive negotiations to determine the trade arrangements that will be in place following that date. Early indications are that the UK is not willing to make the necessary concessions to gain a comprehensive trade deal with the EU, and that consequently there is a medium/high risk of trade barriers being put in place from January 1 next, disrupting supply chains and raising costs.

## **Equity Market Review**

There is no debate but that the global economy will imminently enter a sudden and deep recession, but we believe that the crisis will be relatively short lived, and we can look forward to a back-ended recovery during the second half of the year. Global earnings are expected to drop sharply and in our opinion, we expect we might see a 35% contraction for 2020. The good news is that the combined monetary and fiscal response by authorities has been unprecedented in scale and is likely to be the greatest in post-war history. Record policy responses including fiscal spend to the tune of \$4-5 trillion have been announced so far across the world. Monetary policy responses have been equally impressive to date. There is no doubt however that while all these combined measures will cushion the financial system and limit the damage to economies, what is absolutely needed is clear evidence that COVID is being contained. Until there is strong confidence that global health authorities are on top of infection counts, the shape and speed of the economic recovery will remain unclear. Through the months of April and May there is evidence of a material slowdown in new infection counts to single percentage daily rises in many key economies.

We do expect that markets will calm down and a market bottom will be reached during the second quarter of 2020. As we await both the economic data and company profits to be released over the second quarter, we expect these will be very negative and undoubtedly will contain surprises, both positive and negative. Having observed that investors have, during the first quarter, indiscriminately sold shares of smaller capitalized companies, more cyclical industries, and value or yield income-oriented companies while maintaining blind faith in larger capitalized companies, defensive sectors and growth stocks, we certainly believe the latter group are now particularly vulnerable and we expect a rotation or mean reversion across markets throughout the upcoming quarter. The Irish equity market is certainly more weighted towards stocks in the former group and in our opinion,

should be well positioned for any rotation back to more value, cyclical or small-mid capitalization stocks. The US stock market has been the beneficiary of the latter grouping thus far.

We would also point out that the valuation of the growth and defensive sectors is currently extremely stretched versus that of value and cyclical sectors. This extreme positioning is at a point where we are looking to a resumption of growth into 2021 aided by the unprecedented monetary and fiscal injections into the global economy. The economic expansion that commenced with the Global Financial Crisis during 2008 is now ending and we must now focus on the new cycle and how it may be very different in character to the one of the past 12 or so years.

In the short-term we will focus on the success or otherwise of COVID containment measures across Europe, North America, and other regions, assessing whether these measures can be as effective as the measures that China took. Sentiment has been more positive of late as markets eye a re-opening of economies. We do remain somewhat wary that sentiment may be overly positive at this juncture and that the eventual pace of re-opening of the global economy may disappoint the more bullish investors. The ultimate positive is a vaccine but that is expected to be 12-18 months away.

### **Irish Market Outlook:**

For Ireland and the Irish equity market, as an open economy and stock market it is not immune or insulated to any great extent from these global forces. As highlighted in the Economic Review, the large presence of more defensive sectors such as technology and pharmaceuticals are a positive for the economy. It is not enough however and many more service-oriented parts of the economy such as the tourism and hospitality sectors will be badly affected by the impact of COVID.

Aware that severe downgrades to company earnings outlooks for 2020 lie ahead, the portfolio team's first focus has been on estimating both the damage to 2020 and the likely rebound for 2021 and beyond to the P&L for the stocks held in the Fund. We want to have a sufficient level of comfort that the businesses we own can endure a severe recession. With this in mind, we completed a thorough review of the solvency and liquidity of the portfolio companies to ensure comfort from a balance sheet perspective. We believe we have constructed a portfolio that can participate in the upside and get us through times like these.

Through all the panic and commotion over the last quarter, we continue to remain steadfast in our investment approach, and build the portfolio in a balanced way, playing on many of the same themes at present, as we have over the last year.

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