The New Ireland Fund, Inc.
Portfolio Manager Commentary
Quarter Ending July 31, 2018

Performance Review

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

Period to July 31, 2018	Benchmark* Return	IRL NAV Return	IRL NAV Return Relative to Benchmark
Quarter	-0.4%	-4.1%	-3.7%
6 months	-3.8%	-7.6%	-3.8%
1 year	+8.4%	-5.8%	-14.2%
3 years	+6.6%	+4.1%	-2.5%
5 years	+10.7%	+9.3%	-1.4%
Since inception	+7.6%	+7.8%	+0.2%

*Benchmark is the ISEQ ex Bank of Ireland up to July 31, 2011, the ISEQ from August 1, 2011 up to July 30, 2015, combined with MSCI All Ireland Capped Index ("MSCI Ireland") from August 1, 2015.

The performance of the MSCI Ireland Index compared to peer global indices is summarized below. While slightly negative in US$ terms, Ireland generally performed well over the quarter versus other markets outside the US.

Market	Quarter ended July 31, 2018 Returns		Year ended July 31, 2018 Returns	
	Local	US $	Local	US $
Ireland SE Overall (ISEQ)	+0.5%	-2.7%	+4.5%	+3.7%
MSCI All Ireland Capped	+2.8%	-0.4%	+9.3%	+8.4%
US Equities (S&P 500)	+6.9%	+6.9%	+16.2%	+16.2%
US Equities (NASDAQ)	+8.9%	+8.9%	+22.1%	+22.1%
UK Equities (FTSE 100)	+4.1%	-0.8%	+9.4%	+8.9%
Japan Equities (TOPIX)	-1.1%	-3.4%	+10.6%	+9.2%
European (Euro STOXX 50)	+1.6%	-1.6%	+5.9%	+5.1%
German Equities (DAX 30)	+1.5%	-1.7%	+5.7%	+4.9%
French Equities (CAC 40)	+2.0%	-1.2%	+11.7%	+10.9%

Investment Overview

Portfolio

Performance wise the portfolio had a negative return for the quarter in absolute and relative terms and for the calendar YTD. The Irish market has struggled YTD and that was the case over the quarter also. In general, we would highlight the following reasons:

- European equity markets have been underperformers with macro concerns that Europe is slowing as well as political spill over from Turkey and Italy;
- Very strong evidence that global asset allocators allocated a lot of money away from European equities. ETF flows confirm this as well as survey evidence;
- The lack of progress on Brexit negotiations appeared to affect sterling once more and sentiment deteriorated;
- Stock market wise, economically sensitive stocks were generally under pressure because of the above. As we know the Irish stock market tends to have little by way of defensive stocks or sectors;
- Stock specific names such as Ryanair and the banks have also weighed on the index and our portfolio. However, we remain confident on their fundamental outlook.

We do believe this to be a temporary challenging period for the market to make any headway, as reflected in our outlook later in this report.

Top performers for the quarter were newly added names Covanta and Mincon Plc. Paddy Power was also a relative outperformer.

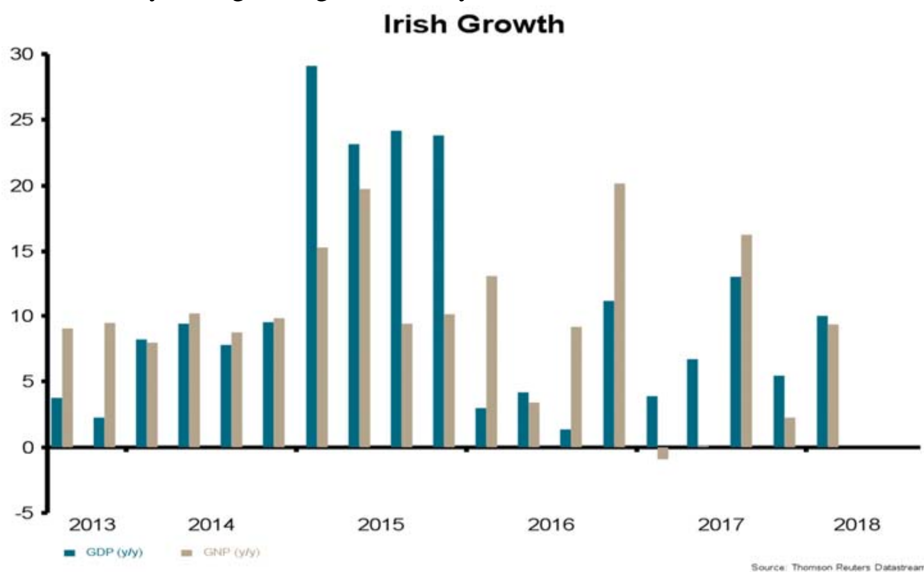
Underperforming stocks were Malin Corp the specialist life sciences company as well as Hostelworld. Cyclical names such as the property companies and construction companies e.g. Saint Gobain were also underperformers.

Quarter ending July 31, 2018 (MSCI Ireland -0.4%)			
Strongest portfolio returns		**Weakest portfolio returns**	
Covanta Holding Corp	+22.6%	Malin Corp PLC	-33.9%
Mincon Group PLC	+14.4%	Hostelworld PLC	-26.3%
Paddy Power Betfair PLC	+10.8%	Saint Gobain	-12.6%
Origin Enterprises PLC	+9.5%	UDG Healthcare	-12.3%
Greencore Group PLC	+6.4%	Ryanair PLC	-12.0%

12 months ending July 31, 2018 (MSCI Ireland +8.4%)			
Strongest portfolio returns		**Weakest portfolio returns**	
Mincon Group PLC	+51.5%	Malin Corp PLC	-56.2%
Smurfit Kappa PLC	+42.4%	Amryt Pharma PLC	-32.7%
Dalata Hotels PLC	+42.1%	Ryanair Holdings PLC	-21.2%
Kingspan PLC	+41.6%	Greencore PLC	-20.5%
Kerry Group PLC	+18.7%	Glanbia PLC	-19.3%

Irish Economic Review

In the latest available data, for Q2 2018, Ireland's GDP grew by 10.0% relative to the same quarter of the previous year, while GNP grew by 9.4%. The performance of both measures has been consistently strong, though extremely volatile, for some time, as the chart shows.

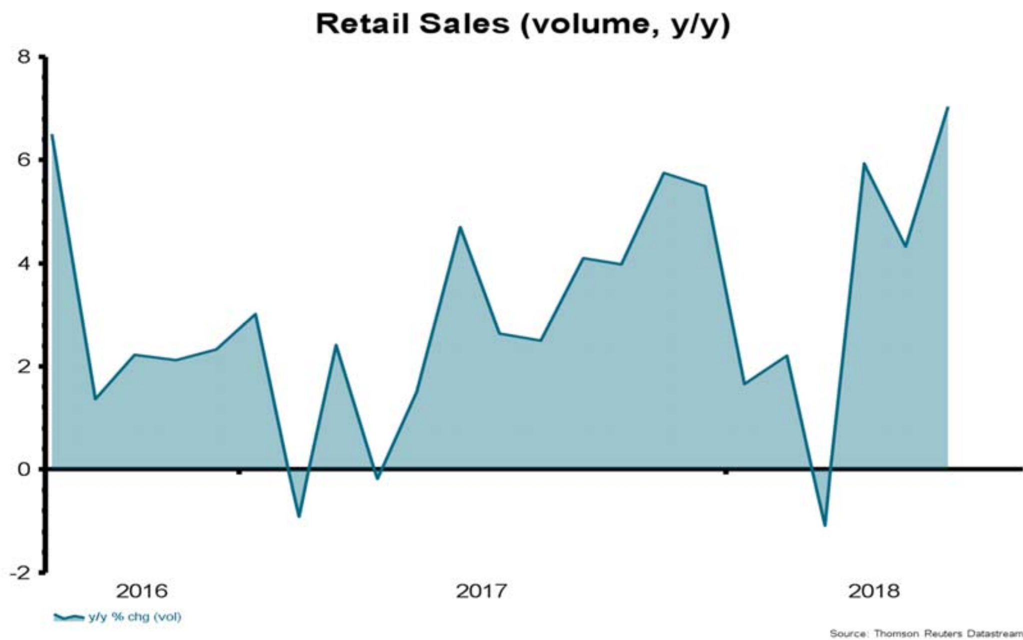


However, as frequently mentioned in these reports, GDP and GNP statistics for Ireland have become somewhat misleading. The issue is not that the statistics are in error, per se, it is that GDP and GNP are no longer as useful as they once were in measuring the real change of activity in an economy, such as Ireland's, which is very open to international capital and trade flows of many kinds. In response, the Central Statistics office has started to produce a new indicator, "GNI*", which is designed to produce a measure of growth which is more meaningful, stripping out the impact of various factors such as redomiciled companies and depreciation of intellectual property. This indicator will, over time, help economists and policymakers to make a more accurate assessment of the pace of economic growth. In the short-term, however, it is of limited value as it not available on a quarterly basis, or in real (inflation-adjusted) terms.

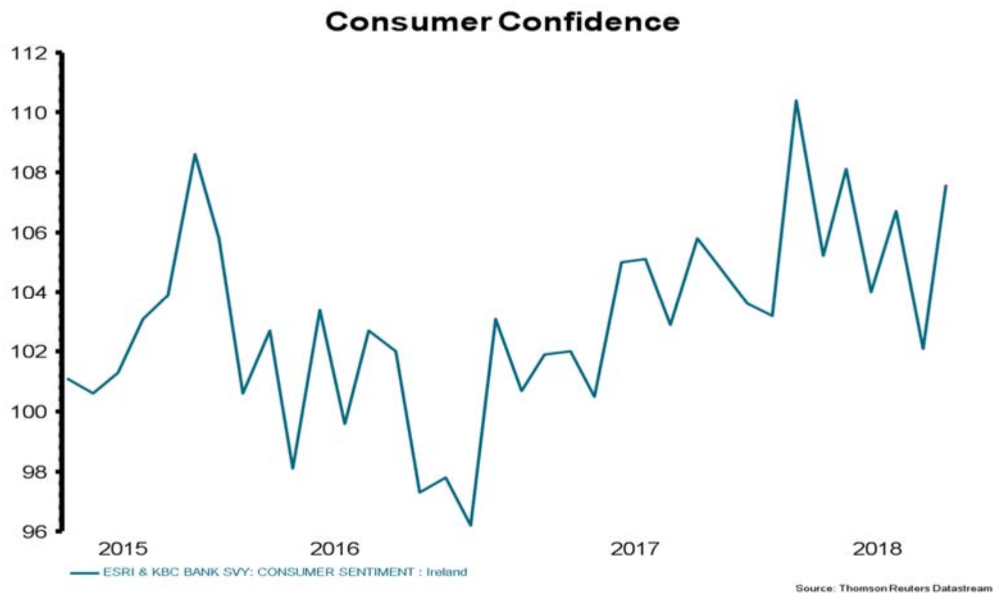
Fortunately, there are of course a range of other indicators which can be used to give us a good sense of what really is happening in the economy, as below.

Retail Sales

Retail sales have generally been very strong so far this year, with the noticeable exception of March, when Ireland was hit by severe weather, with a major adverse impact on consumer spending. The most recent data shows a year-on-year growth rate of 7.0%, for June, an exceptionally strong growth rate by historical standards.



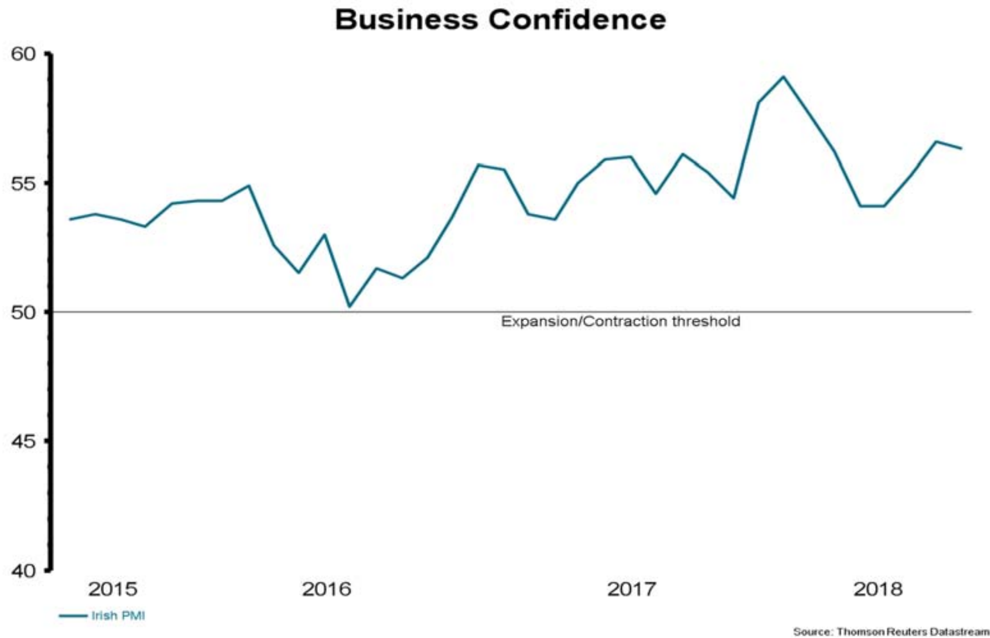
Consumer confidence has generally been quite strong, helped by a very strong labor market and continued strength in residential real estate prices.



Business confidence

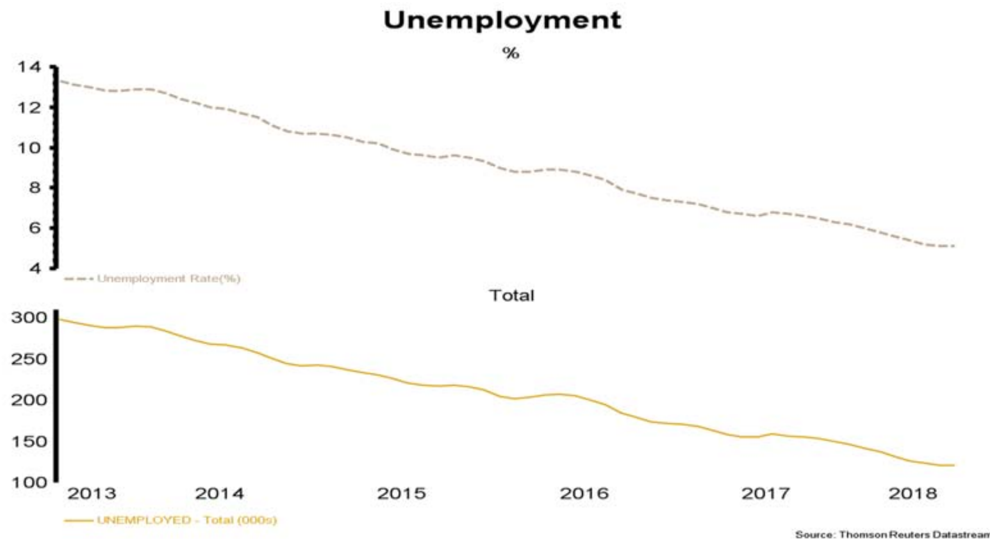
The pattern of business confidence is somewhat different to that seen in consumer confidence. Business confidence fell quite sharply in the immediate run-up to, and the aftermath of, the UK electorate's vote to leave the European Union. But, after a trough in

July 2016 (immediately after the UK referendum result), it has recovered quite well and has exceeded the level achieved in 2015, for example. This is likely to have happened because of improved economic growth and sentiment outside Ireland, adding to the feel-good factor coming from the strength of the domestic economy.



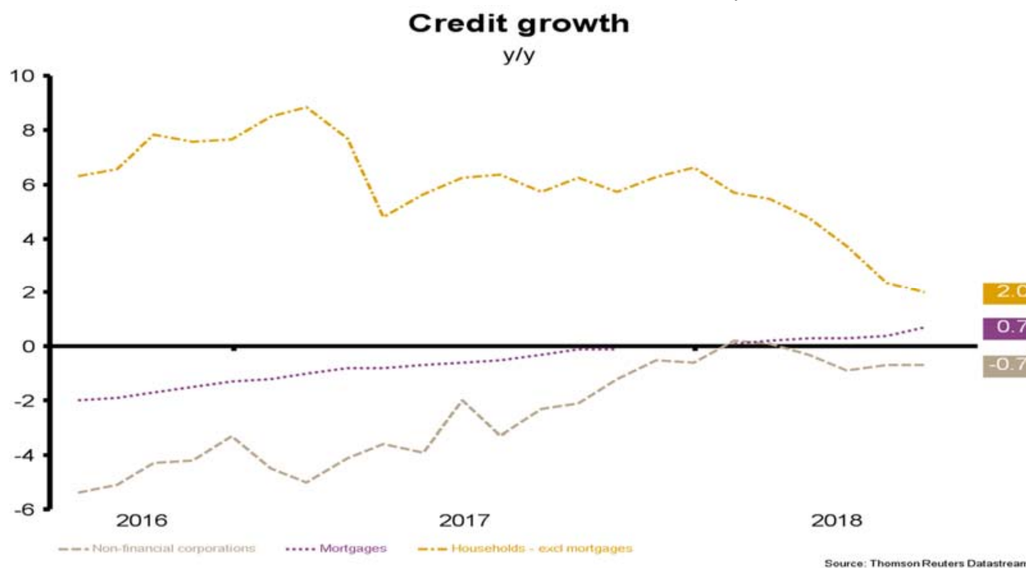
Labor Market

There continues to be a steady trend downwards in unemployment. The number of unemployed on this measure has fallen from a peak of 356,000 in January 2012 to 120,500 in July of this year. The unemployment *rate* has also declined and stands at 5.1% (also July data), down from a peak of 16.0%. Ireland's unemployment rate is now substantially below the eurozone average. Encouragingly, most new jobs have been full-time/permanent rather than temporary, and with job growth being well diversified across a range of sectors.



Credit Growth

Credit to households and non-financial corporations is still growing very slowly. Mortgage lending grew by only 0.7% in the year to June, while loans to the non-financial corporate sector declined by 0.7% over the same period. The overall pattern is that while growth remains strong, it is certainly not being financed by debt. The non-financial corporate sector continues to reduce its indebtedness, as it has almost continuously since 2009.



Government Finances

The government deficit as measured by the "General Government Balance", a standardized EU measure, is estimated to have been 0.3% of GDP in 2017, a 0.4% of GDP improvement relative to 2016. In the 2018 Budget, announced in October, the government again forecast a very small deficit of just 0.1% of GDP, and forecast a return to balance by 2020.

The debt/GDP ratio is estimated to have peaked in 2013, at about 120%, and we estimate that it fell to about 68% at the end of 2017 - though this overstates the real level of indebtedness as it excludes large cash balances. On the other hand, distortions to GDP statistics (to the upside) are exaggerating the scale of the improvement. On balance, these issues make it difficult to be definitive about the size of the improvement but there can be no doubt that the fiscal situation has improved drastically over the last number of years.

All major credit rating agencies now rate Ireland in the "A" range.

"Brexit"

The decision of the UK electorate to vote to leave the European Union may have significant ramifications for the Irish economy. The UK is likely to exit the customs union and the Single Market, as well as the European Union itself. This is the least welcome option for Ireland, as it means that there may have to be customs controls and checks on the land border

between the Republic of Ireland and Northern Ireland, which could be quite disruptive to trade between the two parts of the island.

At the time of writing, there are real risks that the EU and UK will not reach a legal agreement on the practicalities of the UK's exit. Even if an agreement is not reached, however, we believe that the two sides would reach some temporary compromise to avert the very real disruption that could happen if there were no legal provisions in place to provide for an orderly transition period. For example, the date of the UK's exit can be postponed by a year if all parties agree, and this might well happen if no comprehensive transition agreement is in place by the scheduled exit date in March 2019.

Assuming that, in the end, a reasonably orderly exit is achieved; some parts of the Irish economy may gain (financial services in particular) but the overall impact is likely to be negative. The scale of the negative impact is such that it is likely to be noticeable, but not dramatic. We estimate that growth may be in the region of 0.5% lower per year, which is relatively modest for an economy that is growing at a rate of more than 5% per annum.

Outlook:
For 2018, the Central Bank of Ireland estimates GDP growth of 4.7% as capital spending continues to be strong but consumer spending comes under modest pressure from the uncertainty surrounding Brexit. We believe that these forecasts are somewhat overcautious and expect stronger growth, in the region of 6.0%, although we recognize that risks remain elevated given the Brexit situation.

Looking ahead to 2019, we expect growth of about 5% (as measured by GDP), on the assumption that the Brexit process is reasonably well-managed by the UK authorities (an assumption that is of course increasingly open to question).

Global Market Outlook

After almost a decade of a relentless equity bull market, global markets are struggling to make any gains so far during 2018. We have, for some time, highlighted that a transition from a central bank liquidity driven to an earnings driven market would be tricky and likely volatile and indeed this has been the case. Markets have been further restrained with additional uncertainty arising from trade tensions continuously emanating from the USA.

Our central scenario remains that we are in a synchronised growth phase for the global economy and that this will last for a few more years. We do not believe we are at the end of the current economic cycle but do acknowledge that any risks to this view are skewed more to the downside, factoring in the risk of trade wars. Despite strong earnings growth and resilient prospects for further growth, investors have over recent months been more risk averse with markets remaining in the doldrums.

We expect further upside for equity markets over the next 12-18 months but equally highlight that there are short term challenges and markets may find it difficult to make much progress over coming months:

- Geopolitics, especially trade wars. A full-blown trade war, while not our central expectation would be a major negative with nobody a winner. Emerging markets would be in focus.
- The politics of Brexit and some political instability in Germany and Italy. US mid-term elections will be a focus also.
- Any signs of further increases in inflation will raise concerns about further interest rate rises and higher bond yields.
- The fact that the abundant liquidity of recent years will continue to diminish with quantitative tightening ongoing by the Fed and the end of quantitative easing forthcoming by the ECB.

In summary, we have a positive medium-term outlook but reasons to expect little progress in coming months.

Asset class outlook: Equities

Our central scenario is as outlined. Absent a material trade war (as distinct to fears of same) we do not expect an imminent material correction in equity markets nor a bear market.

The equity bull market has been strongly and increasingly driven by a narrow list of growth and momentum stocks and sectors. The relative valuation argument has not mattered during this phase with growth trouncing value. We have seen this before and not least during the technology bubble of the early 2000's. We believe that as confidence is restored in a synchronized global economic cycle, that a rotation within the equity market towards more economically sensitive sectors and style stocks will occur. This should lead the next upward phase of the equity market. It is also critical that companies continue to deliver earnings and dividend growth for this to happen. Emerging Markets should benefit in this scenario.

A theme of ours over recent quarters in portfolio construction has been and will continue to be one of avoiding what we believe to be excesses that may have lots of associated downside potential such as:

- Companies carrying excessive debt on their balance sheets
- Excesses of valuation e.g. certain technology stocks
- Companies funded by more expensive corporate credit

Irish Market Outlook

Despite much lack of progress by the market so far during 2018 (index -1.5% calendar YTD to end July) we remain very confident on the prospects for the market and the portfolio stock positions. Firstly, and most importantly, the Irish economy and outlook for same looks

robust. The only (big) caveat is Brexit where undoubtedly a hard-Brexit would not be a positive outcome for the Irish economy and specific sectors within it. That said, it is important to say that we are not particularly exposed from an overall portfolio perspective, but certain stocks such as the banks would likely be negatively affected.

It will also be important that sentiment towards European economic outlook and equities picks up. We at KBI remain confident on the outlook for same and believe that over coming months we should see more evidence of economic resilience which should see negative allocations reversed.

- We continue to focus on the portfolio with a strong bottom up stock picking emphasis, always seeking superior growth at attractive valuations and not compromising on quality. We continue to build the portfolio in a balanced way and playing on many of the same themes at present, as we have been all year.

For the portfolio, we remain confident and do not at present envisage major changes to the portfolio structure. We remain cautious on the UK exposure as the March 31, 2019 deadline approaches and maintain a preferred exposure to both the European and US economies for external exposure. We believe more confidence on Europe will help performance. As always, we continue to favor stocks with strong cash flows, attractive balance sheets and strong and well managed businesses.

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