The New Ireland Fund, Inc.
Portfolio Manager Commentary
Quarter ended October 31, 2018

Performance Review

The New Ireland Fund Inc.'s ("Fund") returns[1] are summarized in the table below:

Period to October 31, 2018	Benchmark* Return	IRL NAV Return	IRL NAV Return Relative to Benchmark
Quarter	-11.38%	-13.71%	-2.33%
6 months	-11.85%	-17.23%	-5.38%
1 year	-9.77%	-21.54%	-11.77%
3 years	+3.15%	-1.26%	-4.41%
5 years	+5.93%	+4.28%	-1.65%
Since inception	+7.09%	+7.17%	+0.08%

*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.

From the table below, it is quite clear that while Ireland is performing poorly this year, it is pretty much in line with the overall broad Euro Stoxx 50 index and the UK FTSE 250 indices for the 3 and 12-month periods. The US has been a better performing market for most of 2018 albeit giving up most of its gains pretty rapidly during the recent quarter. The US dollar strengthened by approximately 3% and 6% over the past 3 and 6 months respectively, reflecting the global risk aversion of investors and the US dollar acting as a safe haven.

The performance of the MSCI Ireland index and peer global indices is summarized below.

Market	Quarter ended October 31, 2018 Returns		Year ended October 31, 2018 Returns	
	Local	US $	Local	US $
Ireland SE Overall (ISEQ)	-9.6%	-12.5%	-10.3%	-12.7%
MSCI All Ireland Capped	-8.5%	-11.4%	-7.2%	-9.8%
US Equities (S&P 500)	-3.3%	-3.3%	+7.3%	+7.3%
US Equities (NASDAQ)	-4.5%	-4.5%	+9.7%	+9.7%
UK Equities (FTSE 100)	-6.9%	-9.3%	-0.9%	-4.6%
Japan Equities (TOPIX)	-5.3%	-6.1%	-4.8%	-4.1%
European (Euro STOXX 50)	-9.1%	-11.9%	-9.9%	-12.3%
German Equities (DAX 30)	-10.6%	-13.4%	-13.5%	-15.8%
French Equities (CAC 40)	-7.4%	-10.3%	-4.4%	-7.1%

Note-Indices are total gross return

[1] All returns are in US dollars unless otherwise noted

Investment Overview:

Portfolio

Performance wise the portfolio had a negative return for the quarter in absolute and relative terms and for the calendar YTD (per table above). The Irish market has at this point experienced its most difficult year since the global financial crisis. As distinct from 10 years ago when the Irish downturn was largely self-inflicted, in this occasion the Irish market is more a victim of global events and generally negative sentiment. The following reasons are pertinent to highlight, especially as Ireland is a small open economy with a stock-market that is vulnerable to swings in either global fundamentals or sentiment:

- Fears escalating for a global trade war from US-China disput;e
- A slowdown in the European economy from the ~3% growth rates seen at the beginning of the year to much slower ~1% growth has caused fears of a return to recession in Europe;
- Playing into these European fears were concerns such as about Turkey or Italian politics;
- The BIG issue pertinent to Ireland remains Brexit and the roller coaster of mainly fear it has induced and which has garnered increased attention as the deadline looms;
- Stock market wise, economically sensitive stocks were generally under pressure because of the above. The Irish stock market tends to have little by way of defensive stocks or sectors. Stock specific names such as CRH, Ryanair and the banks have also weighed negatively on the index;
- Global investors have taken record amounts of money out of European equities over recent quarters due to both political and economic concerns per surveys;

From the Investment Manager’s perspective the fundamentals for the Irish economy and the portfolio have remained robust throughout the year, albeit clearly at a disconnect with how the markets have been performing of late.

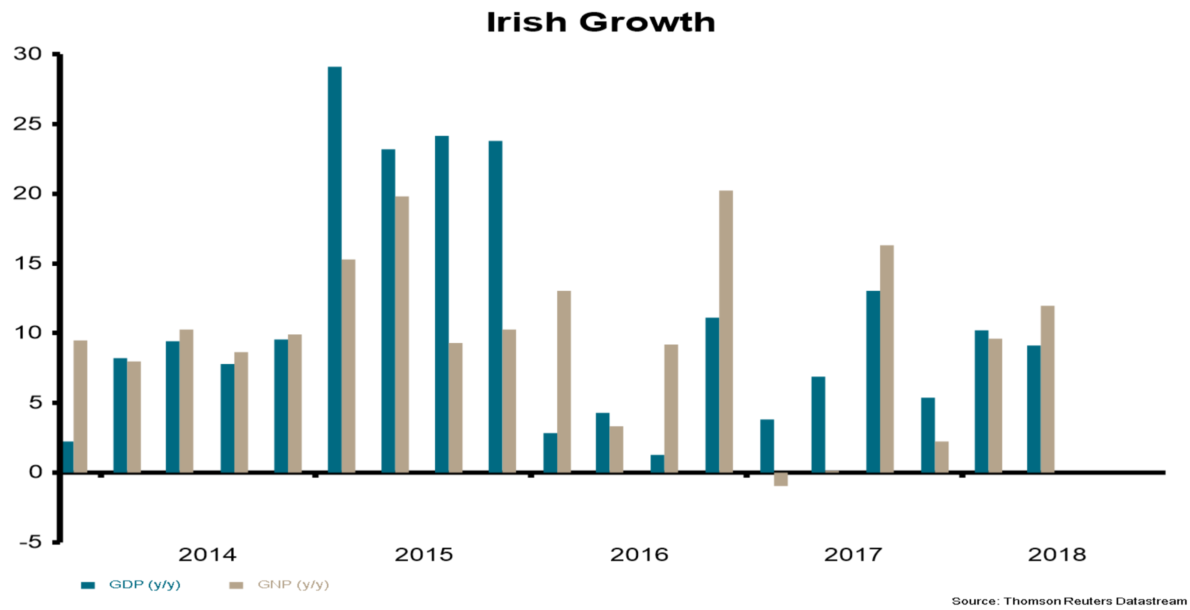
Top performers for the quarter were dominated by defensive consumer staple names Glanbia, Greencore and Kerry Group along with high yielders such as Greencoat Renewables and Green REIT. While underperforming stocks were dominated by stock specific stories such as Hostelworld, Glenveagh Properties, UDG Healthcare, Malin Corporation and Mincon.

Quarter ending October 31, 2018 (MSCI Ireland -11.4%)			
Strongest % move		Weakest % move	
Glanbia	+7.7%	Hostelworld Group	-31.0%
Greencore Group	+4.3%	Glenveagh Properties	-27.7%
Greencoat Renewables	-1.3%	UDG Healthcare	-26.6%
Irish Continental Group	-2.9%	Malin Corporation	-25.6%
Kerry Group	-3.1%	Mincon Group	-22.0%

12 months ending October 31, 2018 (MSCI Ireland -9.8%)			
Strongest % move		Weakest % move	
Smurfit Kappa	+12.2%	Malin Corporation	-59.2%
Mincon Group	+7.6%	Hostelworld Group	-35.6%
Kingspan Group	+4.9%	Cie St Gobain	-33.8%
Kerry Group	+2.7%	Amryt Pharma	-33.7%
Dalata Hotel Group	+0.0%	UDG Healthcare	-33.5%

Irish Economic Review

In the latest available data, for Q2 2018, Ireland's GDP grew by 9.1% relative to the same quarter of the previous year, while GNP grew by 12.0%. The performance of both measures has been consistently strong, though extremely volatile, for some time, as the chart shows.



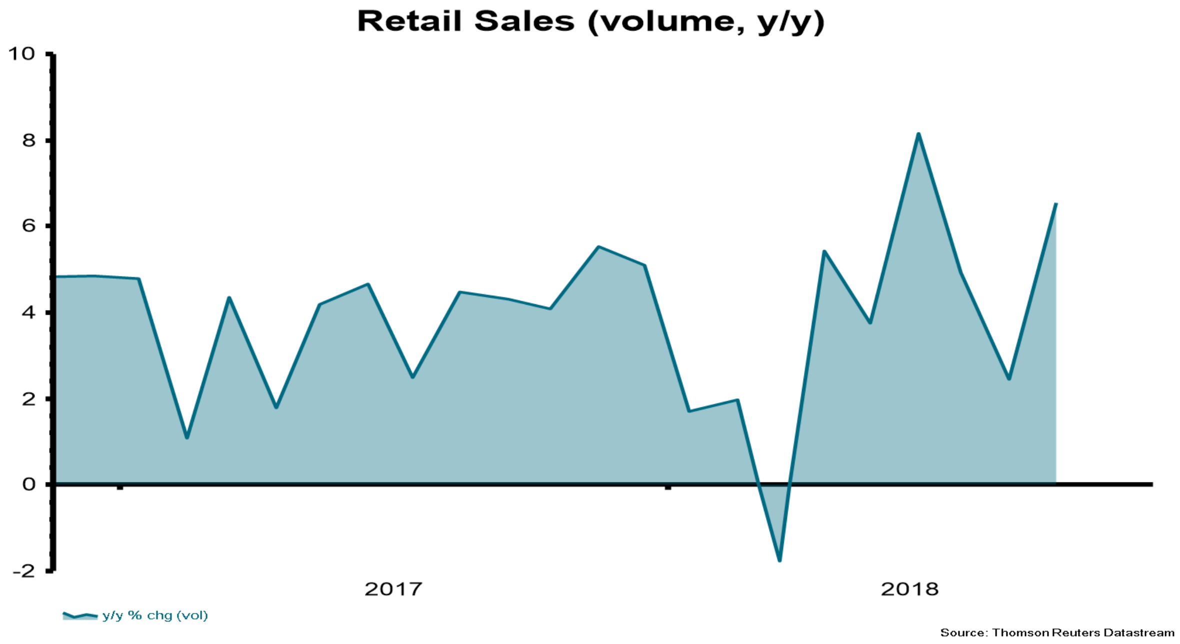
However, as frequently mentioned in these reports, GDP and GNP statistics for Ireland have become somewhat misleading. The issue is not that the statistics are in error, per se, it is that GDP and GNP are no longer as useful as they once were in measuring the real change of activity in an economy, such 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[2]", 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.

[2] Gross National Income

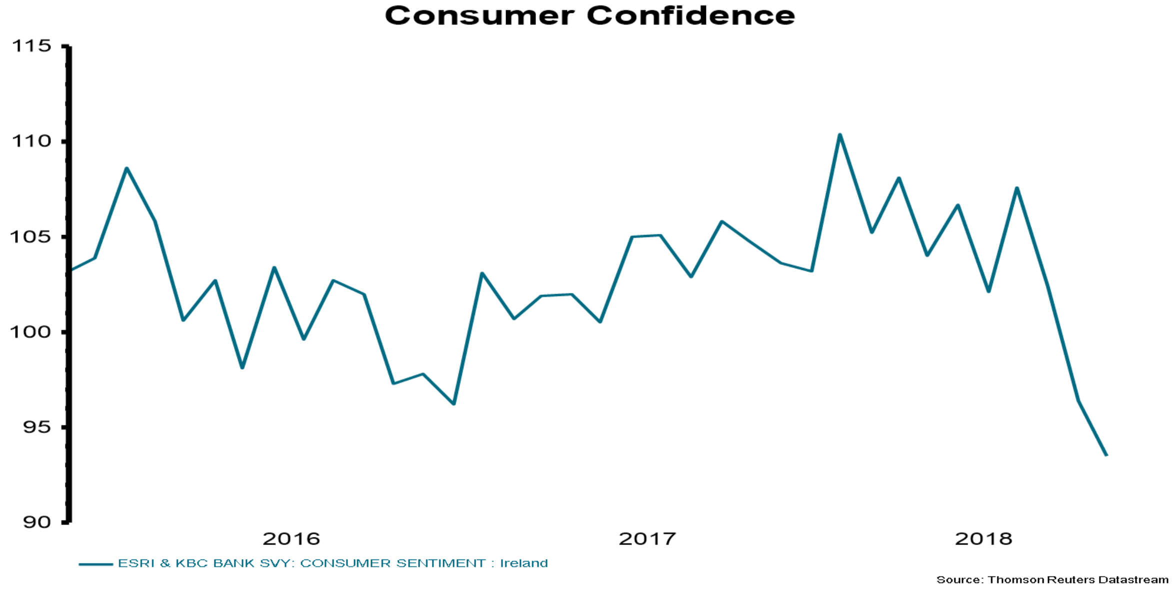
Fortunately, there are a range of other indicators which can be used to give us a good sense of what really is happening in the economy, as below.

Retail Sales

Retail sales have generally been very strong so far this year, with the exception of March, when Ireland was hit by severe weather, which had a major adverse impact on consumer spending. As of September, the year-on-year growth rate was 6.5%, exceptionally strong by historical standards.

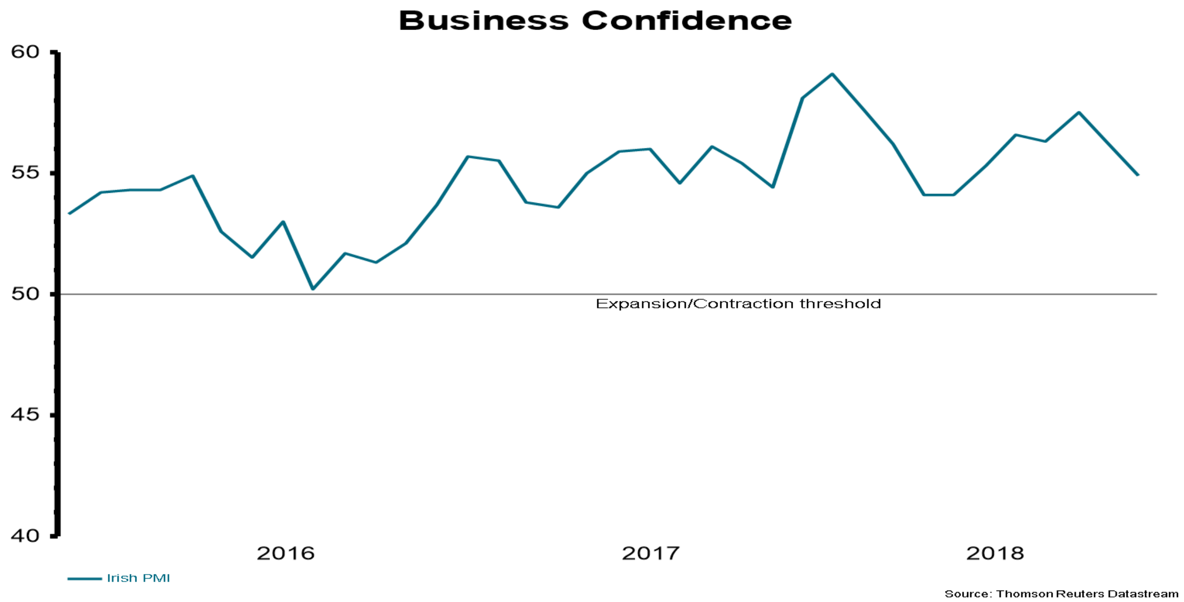


Consumer confidence had been very strong, helped by a strong labor market, but as the chart shows there was a significant drop from July onwards. Although it is not possible to be sure of the reason for this decline, concern about Brexit may have been a significant factor.



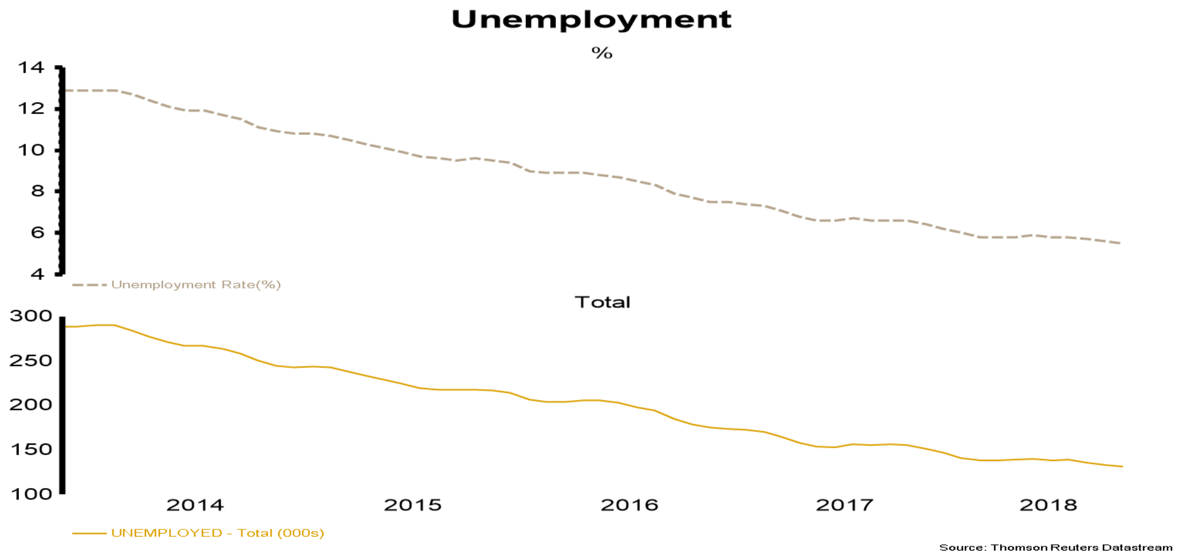
Business confidence

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 vote to leave the European Union. But, after a trough in July 2016 (immediately after the UK referendum result), it recovered quite well, and it has remained reasonably strong since then.



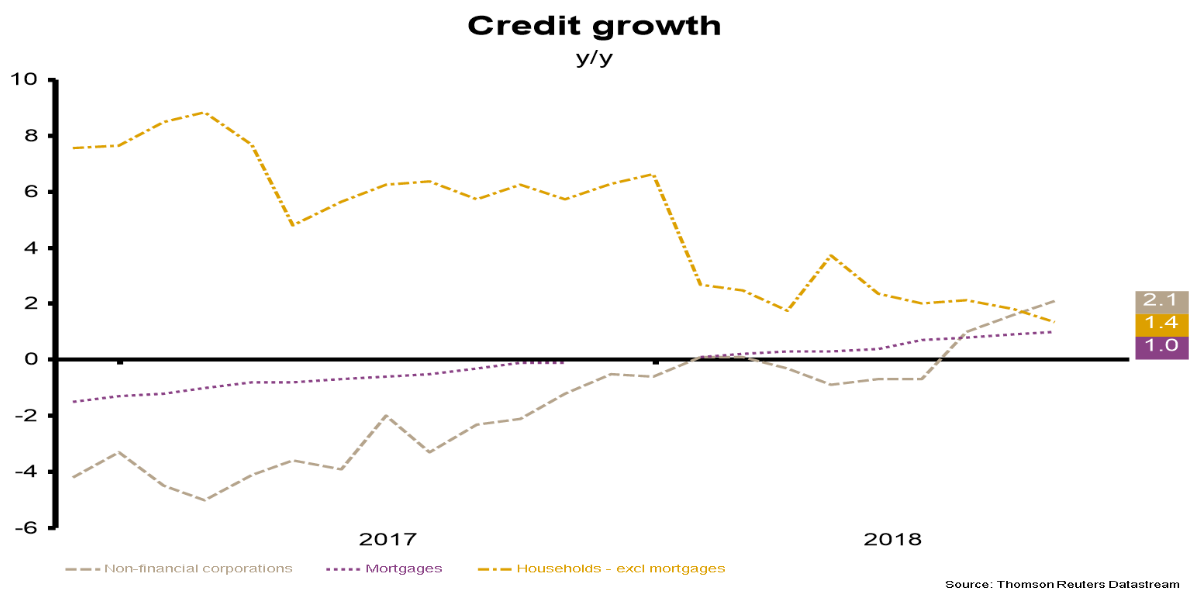
Labor Market

There continues to be a steady trend downwards in unemployment. The number of unemployed has fallen from a peak of 356,000 in January 2012 to 130,800 in October, 2018. The unemployment rate has also declined to 5.5% (also October data), down from a peak of 16.0%. Ireland's unemployment rate is now substantially below the eurozone average of 8.1%. We believe the detail of the employment statistics is encouraging, with most new jobs being fulltime/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 growing very slowly, after many years of declines. Mortgage lending grew by only 1% in the year to September, while loans to the non-financial corporate sector grew by just 2.1% over the same period. The overall pattern is that while growth remains strong, it is certainly not debt-fueled. Both the corporate and household sector have significantly reduced their debt, in absolute terms, since the peak of the last cycle in 2009.



Government Finances

The government deficit as measured by the "General Government Balance", a standardized EU measure, is estimated to have been 0.2% of GDP in 2017, a 0.4% of GDP improvement relative to

2016. A deficit of just 0.1% of GDP is projected for 2018, and the budget is expected to be in balance in 2020 before moving into modest surplus in later years, according to fiscal projections contained in the Irish government's budget documentation.

The debt/GDP ratio is estimated to have peaked in 2013, at about 120%, and we estimate that it will fall to about 64% at the end of 2018 - though we believe this overstates the real level of indebtedness as it excludes large cash-on-hand balances of almost 9% of GDP. On the other hand, distortions to the actual size of GDP 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"

As has been discussed in prior reports, the decision of the UK electorate to vote to leave the European Union may have significant ramifications for the Irish economy. The UK is very likely to leave the European Single Market and may well leave the Customs Union. 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.

In mid-November 2018, agreement was reached between the UK government and the European Union on a Withdrawal Agreement that would, if implemented, result in reasonably free trade between the UK and EU for several years. If this deal is ratified by the UK and EU parliaments, there would still be some negative impact on the UK and Irish economies, but this impact, in our view, would be quite limited, and disruption would be kept to a low level. However, at the time of writing, it is far from clear whether the agreement will be ratified by the UK Parliament. Failure to ratify the agreement could (in the absence of a renegotiation or an extension to previously agreed timelines) result in the disorderly exit of the UK from the EU. We believe this would be very likely to result in significant, or perhaps even severe, disruption to international trade between the UK and the EU (including Ireland) for a period of time likely to be at least weeks, and possibly months. We estimate that there could be a negative impact on economic growth in Ireland amounting to at least 1% of GDP in 2019, with potential for a higher level of impact, although this should be seen in the context of an economy which is currently growing at a pace well in excess of 5% per year.

If a reasonably orderly exit is achieved, some parts of the Irish economy may gain (financial services in particular), however we believe the overall impact is likely to be negative, but modest.

Outlook:

For 2018, the Central Bank of Ireland estimates GDP growth of 6.7% (revised up from 4.7% last quarter) as consumer spending and exports lead the way. We believe that this revised forecast is reasonable, although we recognize that risks remain elevated given the Brexit situation.

Looking ahead to 2019, we expect GDP growth of about 5%, 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

Ten years on from the Global Financial Crisis, the global bull market continues and is now one of the longest bull markets in history with one constant being investors' persistent penchant to be 'worried' about something! For ten years the financial headlines have tended to be on the gloomy side and 2018 is proving no exception, yet the market continues to climb apart from some recent days in October. 2018 is proving to be a year which is resulting in material performance divergence between the 'haves and have-nots'. We can see a large divergence between the strength of the US equity market and the weakness in Europe and Emerging Markets in particular. We believe the relatively poor performance of Europe and the Emerging Markets reflects some slowdown in growth, as well as concerns over US trade policy and European politics, while the US market has sailed on merrily.

At KBIGI, our central scenario is constructive, and we forecast a more balanced and positive outlook for the global economy into 2019. We believe the US economy will continue to grow strongly above trend, and that the European economy will grow at or above trend – though at a somewhat slower pace than earlier this year. We expect that Emerging Markets in general will be solid – while there may be 'accidents' in smaller, emerging market economies, as is fairly typical. In the US, we believe the Federal Reserve will continue to raise its key interest rate, with inflation in the world economy generally trending higher but not at an alarming rate. Of course, the greatest risk to this scenario would be a material escalation of the trade war between the US and China.

For equity investors what is reassuring is to point out that fundamentals of earnings growth, dividend growth, corporate activity etc., have been strong during 2018 and, in our opinion, certainly not as unbalanced as divergent market returns suggest. From our analysis, it is predominantly investor sentiment that has driven this divergence. At this juncture the US market is 'priced for perfection' while others such as Europe or Emerging Markets increasingly are priced for quite a pessimistic scenario.

Our base scenario is not bearish on the US equity market, as we expect further gains in equities over coming quarters. But we do expect to see better returns outside the US. Relative valuations, positive earnings growth and undervalued currencies are key fundamental supports to this with improved sentiment the most likely catalyst for developed markets, while for Emerging Markets a clear resolution of trade wars will be required.

Looking to the short-term, there are several key events or issues in the coming weeks that bear close watching:

- a final decision on the nature of the UK's exit from the EU;
- progress – or not – in trade talks between China and the US;

- corporate profit growth during the earnings season and outlook into 2019; and
- the outcome from Italian budgetary negotiations.

We will continue to monitor these and other issues but for now we remain reasonably constructive on equity markets though we continue to favor non-US markets. We are encouraged by the fact that so many market participants worry about when this economic cycle will end – this itself shows that markets are not ignoring important risks.

Asset class outlook: Equities

Our central scenario is as outlined. As per our Q3 update, a material deterioration in US-China relations on trade remains the largest equity market risk event we believe. We are ever conscious that we are at the mature stages of a long bull market and as such when building equity portfolios downside protection is more important than ever. To that end we continue to emphasize quality stocks in our portfolios and focus consistently on items such as not owning:

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

Irish Market Outlook:

In our opinion, the medium-term outlook remains very positive for both the Irish economy and stock-market. In the near term there are a couple of binary events that are impossible to predict, namely Brexit and US-China trade negotiations. This is a reason for us to remain patient while managing the portfolio and looking to the medium term rather than attempting to second guess near term events.

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:

- Attractive dividend income---Greencoat Renewables; Covanta; REITS.
- World class growth stocks---Ryanair; Kingspan.
- European recovery --- Saint Gobain.
- Irish domestic economy --- Applegreen; Dalata Hotel; Grafton Group; Banks, Glenveagh.
- Idiosyncratic bottom up picks---Mincon; IPL Plastics; Amryt Pharma; Total Produce Plc.

For the portfolio, we remain confident but also ever vigilant as there are challenges from a macro and geopolitical perspective that will remain over coming months.

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