Are International Equity Market Disparities Opportunity Sources For Value Investing?

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Global financial markets have yet to fully take on board the effects of numerous events in 2014. Geopolitical risks featured prominently, including tensions in Ukraine, a rash of Middle Eastern conflicts and fresh political friction in the EU (Scotland's independence referendum, Spanish protests, Greece's parliamentary elections). The interest rate increase everyone expected in 2014 also failed to materialise, while oil prices fell to a six-year low. Risk aversion against such a diverse backdrop has, however, produced a number of value opportunities in cyclicals. Even so, **we believe it also remains vital to adopt a diversified, fundamental and long-term approach to value investing.**

What can we derive from markets in 2014?

Global markets returned close to 20% in euros in 2014. Half of this can be attributed to currency effects[1] but this advance masked the idiosyncrasies of specific markets. Indeed, each of them has its own geographical and sector cyclicality, which urges a diversified approach to multiple investment opportunities and to shift exposure when necessary to sectors which have the most potentially attractive upside.

From a geographical perspective the US economy really stood out in 2014, even if we see a certain aversion to stocks which move with economic cycles. Europe is beginning to show signs of a weak but sustainable recovery, while the picture on emerging markets is very mixed due largely to the fall in commodity prices.

From a sector perspective performance disparity between cyclicals vs. non-cyclicals is high.

And while it is true that sectors like utilities and healthcare massively outperformed, intra-sector performance dispersion was even greater.

In such an environment, why is Edmond de Rothschild Global Value fund an attractive proposition?

Investor risk-aversion effectively benefited non-cyclical growth stocks, which are now trading at an all-time high in Europe, the US and emerging countries. But today's gradual recovery in the global economy and discounted valuations of cyclicals should provide fertile ground for value investing portfolios such as Edmond de Rothschild Global Value, which is exposed to companies correlated to the economy.

The ECB's Quantitative Easing strategy and the lower euro are both factors that will benefit companies, notably in the euro-zone where valuations are also very reasonable. The recovery in lending suggests that growth is improving, while corporate restructuring efforts should translate into higher margins and cash-flow generation.

> "Risk aversion produced a number of value opportunities in cyclicals."

The oil price drop acts as a strong tailwind for the economy, benefiting both companies and consumers. Company profit margins should translate into wage increases, as observed in the United States. This increase in wages, low unemployment and lower energy costs should also boost consumption, which could be one of the growth drivers in 2015.

For example, we have selected:

- **Faurecia**, a French auto parts manufacturer. The stock's upside is geared to further restructuring and margin recovery as well as to a favourable environment in the US, growth improvement in Europe and a dynamic Chinese market.
- **Bank of America** which is largely undervalued. After several years of restructuring, the bank has revamped its offer and settled almost all of its outstanding legal disputes. The company should see a significant increase of its profit and be rerated.
- **Tata Motors**, an Indian auto maker, and owner of Jaguar-Land Rover brand - the largest contributor to group profits. It is also India's leading truck manufacturer, a business which is loss-making today but which is expected to return to break-even due to strong growth in the country and increased infrastructure spending.

What is Edmond de Rothschild Global Value Fund's investment approach and how has it performed recently?

The team deploys a value investing approach, picking companies that are discounted to their sector ("relative value"), and makes opportunistic purchases of turnaround companies ("deep value[2]"). Its purely bottom-up investment process is based on fundamental stock analysis to help exploit the entire investment universe.

The fund returned 17.12% in 2014[3]. It has outperformed its benchmark, the MSCI World (NR) €, since its launch in June 2008 by +14.36% (85.93% vs. 71.57%) at end of December 2014.

Assets under management are now in excess of €418m at end of January 2015 following €124m in new inflows in 2014 – a sign of growing investor interest for the strategy.

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Company Profile:

The Edmond de Rothschild Group is an independent, family-owned group that specialises in private banking and asset management. Founded in 1953, the Group has been chaired since 1997 by Baron Benjamin de Rothschild. At December 31 2013, it had € 133.6bn under management with 2,800 employees and 31 offices throughout the world.

With 6 investment hubs in the world (France, Switzerland, Germany, Hong Kong, Luxembourg and the UK), the Edmond de Rothschild Group is positioned as a multi specialist investment firm. It builds on recognised areas of expertise such as European and US equities, corporate debt, multi manager, overlay, asset allocation and quantitative asset management.

The group's asset management division had close to EUR 45bn under management at December 31 2013 and employed 550 people including 100 investment professionals.

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The fund main risks are: capital loss risk, equity risk, discretionary management risk, risk from investing in emerging markets stocks, risk from investing in small and mid-caps, exchange rate risk.
Figures refer to previous years. Past performance is not consistent over time and is not a reliable guide to future returns.

1 MSCI World (NR) € from 31/12/2013 to 31/12/2014: +19.50% vs. +9.81% from the MSCI World NR in local currency over the same period.
2 Deep value stocks are significantly undervalued and their market capitalisation may be inferior to revalued assets.
3 Data as of 31/12/2014 for the C share class.

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