EUROPEAN EQUITIES:
FINDING THE BEST INVESTMENT APPROACH


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What impact have recent events in Europe, particularly Greece, and in China had on European equities?

Financial markets, and European equity markets in particular, have been under pressure in recent months, primarily because of three factors.

First, higher US interest rates. The Fed wants to wait until it feels more confident about the US economy before raising its benchmark rate. A rise is inevitable in the next six months, but it will probably be gradual and should be good for European equities. Second, the Greek crisis. The details of the agreement between Athens and its creditors still have to be worked out so we cannot rule out fresh volatility. Third, the brutal downturn on China's stock markets and fears over its economy slowing. In our view, these concerns are understandable but overdone as the IFO survey of Europe's business climate suggests the continent should not suffer material damage from the slowdown in major emerging countries[1]. European equities are still in a favourable position thanks to the weaker euro, an oil price which has been low for more than a year and cheaper funding costs due to the ECB's accommodating stance. At the beginning of 2015, these factors led to **upward revisions in the eurozone's growth outlook.**

And the proof has been seen in better-than-expected company results in the first half of 2015. These positive effects should continue in the second half and eventually boost economic confidence and investment.

What approach to European equities are you focusing on?

Given the current environment, we are overweight cyclicals as they stand to gain the most from a European recovery and are also trading at attractive valuations. These companies have also undergone widespread restructuring in recent years and now boast optimised cost structures. Within this universe, we continue to look for high-quality companies that provide some degree of protection due to their development models, strong balance sheets and high-quality management.

Airbus is a good example: group sales are highly exposed to the US dollar, which is now a positive factor. The company also benefits from an order book of close to 10 years, while the upcoming launch of its new A350 will complete the group's revamping of its range and help it optimise profits.

We are also keen to pick high-visibility stocks in sectors like telecoms that strike us as particularly interesting. The sector has performed well since the beginning of 2015 thanks to reduced competitive pressure, which stabilises revenues, and consolidation, particularly in Europe, which is providing visibility on dividend streams. A good example is Deutsche Telekom: shareholder of TMobile which has grown strongly in the US due to a very aggressive sales policy. It also has a stable dividend which is set to rise significantly in coming years.

> "Today's environment favours European equities"

How do you suggest we gain from this environment?

Our Edmond de Rothschild Europe Value & Yield fund enjoys two performance drivers: value stocks[2], which capture equity market rises, and yield stocks which offer some protection if markets drop. We believe this approach is particularly appropriate in today's markets.

The portfolio is currently biased towards value stocks as Europe's growth momentum is strong. We invested in Peugeot at the beginning of 2014 and the stock, which we still own, has successfully completed its restructuring programme. It has outperformed its sector due to the arrival of a sector specialist as CEO, strong sales growth in China, thanks to the group's partnership with Dong Feng, and a cleaned-up balance sheet.

In insurance, Munich Ré is an interesting investment as the stock is trading at a discount while paying a generous dividend that keeps on increasing.

Edmond de Rothschild Europe Value & Yield has benefited in full from rising equity markets, gaining close to 21% year to date and outperforming its benchmark index by 3.60%[3]. We have made few changes to the portfolio; the most significant moves in the recent past involved taking profits. We aim to maintain this approach for the rest of 2015 while keeping a close eye on any impacts from Greece and China and the rate hike trajectory adopted by the Fed.

Company Profile:

Founded in 1953 by Baron Edmond de Rothschild and presided over since 1997 by Baron Benjamin de Rothschild, the Edmond de Rothschild Group specialises in Asset Management and Private Banking. As of 31 December 2014 the Group holds €136 billion of assets under management and employs nearly 2700 employees spread across 31 offices, branches and subsidiaries throughout the world. In addition to its core businesses of Asset Management and Private Banking, the Group is also active in Corporate Finance, Private Equity and Fund Administration.

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 in Asset management. This builds on recognised areas of expertise such as European and US equities, corporate debt, multimanager, overlay, asset allocation and quantitative asset management.

In Asset Management, the Edmond de Rothschild Group had close to EUR 49bn under management on December 31st 2014 and employed 530 people including 100 investment professionals.

FOOTNOTES

[1] Source: INSEE – Business climate indicator and turning point indicator– July 2015.
[2] Value: stocks considered as undervalued
[3] Source: Edmond de Rothschild Asset Management (France), C share returns at end July 2015. Fund performance (C share) since launch (02/09/1999): +152.66% or an annualised 5.99% vs. +90.10% or an annualised 4.12% for its benchmark, the MSCI Europe (NR).

Figures herein refer to previous periods. Past performance is not a reliable guide to future returns.
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The fund is a category 5 (C, D and I shares) or high risk/return fund as it may be up to 110% exposed to equity markets.
Main investment risks: capital loss risk, equity risk, exchange rate risk, interest rate risk, credit risk.
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