# CURRENT EUROPEAN MACROECONOMIC SITUATION IS FAVOURABLE FOR M&A DEALS

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### IS TODAY'S MACROECONOMIC SITUATION FAVOURABLE FOR EUROPE?

Europe is currently the zone with the highest visibility. First, from the monetary angle, the European Central Bank has recently reiterated its determination to reinforce its asset purchasing programme, which is a big support factor.

Elsewhere, indicators on economic growth are generally sending out upbeat messages. Recent figures have been encouraging, especially as concerns confidence levels and employment data. Third quarter results should also feature some pleasant surprises and 2015 is expected to end with higher earnings. We believe that European markets will continue to rise, albeit at a more moderate pace.

Statistics on mergers and acquisitions (M&A) are also buoyant: as of end September, deals announced this year were up by about 10% compared to the same period in 2014[1]. A combination of moderate growth and low inflation encourages this type of deal and today's low rate environment makes their funding easier. For months, a real recovery in deal-making was impeded by lack of confidence and low appetite for risk. The situation now appears to have changed.

### WHAT APPROACH ARE YOU FOCUSING ON?

Our fund Edmond de Rothschild Europe Synergy has always been positioned in two strategies: M&A and restructuring (IPOs[2], spin-offs[3] and break-ups, for example). The M&A theme represents 70% of assets under management, the balance invested in restructuring stories.

In geographical breakdown terms, the UK and France offer numerous deal opportunities, and valuations there are still attractive. By sector, we still like telecoms, an area that has been very active since the summer of 2013. True, there is now more uncertainty, mainly because the European Commission is closely watching any M&A deals, but in markets such as Italy and the Netherlands we see no significant regulatory hurdles.

That is why we have maintained big positions in Telecom Italia and KPN. Both stocks have made a significant contribution to the fund's performance this year. Telecom Italia is the leader in its domestic market, and Vivendi is now its major shareholder having increased its stake. Iliad's surprise purchase of a Telecom Italia stake at the end of October has reinforced our investment case. In the Netherlands, KPN still has the means to reduce debt through asset disposals and could play a part in the sector's pan-European consolidation over the medium term. We are also overweight consumption, a sector which has been actively involved in M&A deals, notably AB Inbev's bid for SABMiller.

> "A combination of moderate growth and low inflation encourages mergers and acquisitions"

### HOW ARE YOUR CONVICTIONS REFLECTED IN THE PORTFOLIO TODAY?

Several recent announcements have helped drive the fund's performance of 11.15% year to date at end of October 2015[4].

The acquisition of SABMiller by the global N°1 AB Inbev dominated the headlines in recent weeks. If the transaction is completed, it will be the largest ever bid on a UK company and one of the biggest M&A deals in the world. Our exposure to SABMiller represented 3.5% of the fund when the news broke. We subsequently sold the position as soon as the bid was accepted, selling at a 45% premium. In restructuring stories, Fiat, which we also own, has seen some very interesting developments. The group went through a profound change when it took full ownership of Chrysler last year and the recent market listing of its Ferrari subsidiary was a success. This was the key catalyst we had been waiting for. Fiat has jumped 50%[5] so far this year but we believe the stock has further to go as some of the group's divisions are still undervalued.

Other positions which are in the news could soon see interesting developments. For example, United Utilities (UK water distribution), the fund's biggest position, has made a positive contribution to performance. Being a regulated company, it has a certain degree of visibility on cash flow, even more so since the regulatory authority approved its business plan for the next five years. The group also seems more open to a market delisting. For all these reasons, the group is a high-quality target for potential bidders.

## 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.

**Figures refer to previous years. Past performance is not necessarily a guide to future returns.**

**FOOTNOTES**

1 Source: Bloomberg – 30/09/2015. Figures herein refer to previous years and are not a reliable indication of future returns.

2 Initial Public Offering: type of public offering in which shares of a company usually are sold to institutional investors that in turn, sell to the general public, on a securities exchange, for the first time.

3 A spin-off separates a business from a company to create a new company.

4 Performance of the A share class as of 30/10/2015. Performance since inception (05/12/2006): +54.56% (5.01% annualised) vs 34.08% (+3.35%) for the MSCI Europe (NR).

5 Source: Edmond de Rothschild Asset Management (France). Data at 26/10/2015.

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The synthetic indicator ranks that Fund in category 6 (A and I Share) on a scale from 1 to 7, representing an exposure up to 110% of its assets on the equity market which may imply a high reward/risk profile.
Main investment risks: capital loss risk, equity risk, discretionary management risk, risk from investing in small and mid-caps, exchange rate risk.
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