



BLOWING THE TRUMPET FOR EUROPE

Has the improving outlook for Europe's recovery encouraged you to increase your allocation to the region's markets? If so, which managers are you backing to ride the resurgence and what strategies do you think will reap the most rewards?



CITYWIRE VERDICT

CHRIS SOLEY
EDITOR, CITYWIRE SELECTOR

Otto von Bismarck famously decried Europe not as a collective entity but as a 'geographical expression'. His statement chimes in many ways with the situation today. As Germany powers ahead while peripheral nations seek stability under the guiding hand of the ECB, the region has rarely looked so divided. And that is without mentioning the UK's on-going efforts to successfully exit club EU.

What does this mean for investors? European bonds and equities are two of the deepest pools of investable assets available, but have these disparate trends reduced their appeal or are there signs that a stronger, more unified continent is set to push performance ahead?

Questions over Europe's future draw a decidedly 'Yes, but...' response from our panel of experts. The strength of the market, according to the likes of Raiffeisen Capital Management's Alexandra Frania, is that corporate profits are improving but this is tempered by the fact that the central bank is providing huge support. With this in mind, Andrej Lippay of Corpia Group is cautiously optimistic but has one eye on the exit. He is looking at shorter-dated debt in lieu of the central bank raising rates or slowing its bond-buying programme.

Davide Montaldo of Banca del Piemonte is another who has had to pay close attention to Mario Draghi's machinations before throwing himself whole heartedly into the region. Sticking with truly active managers, Montaldo says the market is ripe for their opportunistic ideas but they should also demonstrate a keen awareness of the external factors driving the market.

For Marine D'Hartoy of Bedrock Asset Management, Europe has always been a cause for concern, and the London-based investor is looking for more attractive alternatives. While her peers are discussing the potential for European or eurozone-focused equity managers, she is weighing up how the region's infrastructure sector could emerge as a powerful engine of growth.

As with any group of independent thinkers, there is plenty of division. Going against the cautious optimism of his fellow selectors, Levi Sarens of Bank Nagelmackers is unapologetically bullish. Having held an overweight on the eurozone for the entire year, the Belgium-based fund buyer shows no signs of drawing in his horns and believes valuations on the equity side will remain compelling for the foreseeable future.

So where do you stand? Like Bismarck, are you more focused on individual ideas rather than the whole, or are you finding funds that can dip in and out of differing markets? Read on to see how your investment thinking compares.

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JÉRÔME COGNET

 **UBS France**
France

As the equity bull market continues, some investors are considering selling stocks or

hedging. We believe equities can climb higher, supported by a broadening global recovery and rising corporate earnings, so there is an opportunity cost to exiting.

While we may be entering the later stages of the cycle we believe investors should remain exposed to equities. We are still tactically overweight global equities within a well-diversified allocation.

Stronger global demand and room for profit margin expansion should offset currency translation effects, and we remain upbeat on eurozone equities.

Historically, value outperforms during periods of economic expansion and rising inflation expectations.

Value stocks are an attractive cyclical play on solid eurozone growth. Valuations look attractive as the price/book ratio relative to the wider market is trading at the lower end of its historical range. We favour the **Invesco Euro Equity** fund, an actively managed and unconstrained all-cap euro equities strategy which invests in companies below their fundamental worth. The **Schroder ISF Euro Equity** fund is another contender, which seeks undervalued companies with growing franchises, whose earnings growth potential appears underestimated or undervalued by the market.

Dividend growth in the eurozone is also an interesting strategy in such a low interest rate environment. In this space we recommend the **NN Euro High Dividend** fund, a valuation-driven strategy investing in eurozone companies with high dividend characteristics using quantitative screening combined with fundamental analysis.



LEVI SARENS

 **Bank Nagelmackers**
Belgium

We started the year with an overweight position within eurozone equities, and nine

months later, we are maintaining this stance. Political concerns have never really dominated our agenda because, if 2016 has taught us one lesson, then it is that a political outcome can never be accurately predicted. Our decision to overweight eurozone equities stems from a valuation perspective: eurozone multiples are simply more interesting than those of other developed markets, such as the US or Switzerland.

Two of our long-only eurozone equity fund picks, fit with this view. The first is the **Fidicum Sicav - Contrarian Value Euroland** fund managed by

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Hans-Peter Schupp who looks for deep value stocks, mainly large caps. Schupp has focused solely on contrarian, deep value investing for the past 20 years and individual, high-conviction positions of 7-9% are not exceptional for him. Second, is the **Digital Stars Europe Ex-UK** fund managed by **Julien Bernier** who works at Luxembourg-based boutique J. Chahine Capital. This is a purely momentum-driven strategy, which is complementary to the value-driven style of Fidecum and is also the perfect way to profit from the strong momentum within Europe.



ALEXANDRA FRANIA
 **Raiffeisen Capital Management**
 Austria

In Europe we experienced a hot summer in terms of

temperatures and we will see if it becomes a hot autumn in terms of European markets. The dominating theme could be the ECB and its decision on tapering. That said, the support for European equity markets this year has come from a more positive outlook for corporate profits as well as stronger economic data. Strategically we have been overweight in European equities for some time but reduced our overweight position last month.

Our favoured funds include the **Invesco Pan European Structured Equity** fund. Its two experienced managers, **Michael Fraikin** and **Thorsten Paarmann**, interact with a team of 40 members around the world with the aim of adding value through a systematic approach. We welcome their continuous development of the investment process in terms of stock selection and risk management. The low volatility of their equity investment process and their efficient use of the available risk budget makes the fund attractive for various kinds of clients.



DAVIDE ALFANO
 **Kaleidoscope Capital UK**

We remain constructive on Europe as we have been for the whole year. We think that much of the political concern at the beginning of 2017 was still being driven by the uncertainty triggered by Brexit, but we have always maintained a positive attitude.

Although we aim to provide our clients with long-term investment solutions via a balanced exposure to different strategies, we have a positive stance to European equity-driven funds, both long-only and absolute return.

One of our picks in the equity long/short space is the **Liontrust GF European Strategy Equity** fund, co-managed by **James Inglis-Jones** and **Samantha**

Gleave. Thanks to their unique process, based on a forensic, systematic analysis of corporate cash flows, the fund offers great differentiation, even in a portfolio of absolute return strategies. In 2016, a challenging year for equity long/short managers, it was one of the few funds delivering positive returns. The managers' current view on the market is quite constructive and has a positive bias towards energy, materials and mining.



DAVIDE MONTALDO
 **Banca del Piemonte Italy**

At the beginning of 2017, most market analysts pointed to incoming political

events as a threat to the European Union, which appeared fragile and in danger of breaking up.

However, after the French elections, most observers returned to a focus on central bank policies, improving European growth and falling inflation.

Investment decisions were not easy to make during the first nine months of the year. The absolute winner was the euro. The single currency grew strongly in relation to the USD, reflecting the shift from a disaster scenario for the European Union to a more constructive one. As a consequence, threats to the European economy today could come from both a strong currency and a possible tapering by the ECB.

In mid-2016 we decided to devote a significant amount of space to active managers in our portfolios, and we still embrace this philosophy. We conduct deep due diligence when we search for active portfolio managers. What we want is to partner with them. We only choose managers keen to spend time talking with us, explaining and commenting on positioning and strategies, what went wrong and what was a success. If they don't, we won't invest.

Following this criteria, starting from middle of 2016 we put money into the **Schroders Strategic Credit** fund and more recently into **Franklin European Total Return**. In addition, we are

starting to invest in the **Schroder ISF Euro Credit Absolute Return** fund. These are our main choices in the European fixed income space.

In the equity liquid alternative arena we also have a new entry and have added **PTR-Corto Europe** to our shortlist. The Geneva-based managers recently improved their investment process, and we feel comfortable with it. The team are able to fully hedge the portfolio in case they see volatile markets ahead.

We have also made some allocation choices in order to adapt to current market situations. To this

end we are introducing the **Fidelity Iberia** fund to our portfolios. Our aim is to back European growth with more global players and financials.



DAVID BENSKIN
 **Strabens Hall (HK) Hong Kong**

Sentiment is certainly improving within continental Europe and we are seeing encouraging signs

of economic recovery. In particular, markets gave a warm reception to the election of Emmanuel Macron as president and to his party's subsequent victories in the legislative elections. Political risks remain generally under control although Italy could still prove to be problematic.

Inflation remains subdued with core CPI at 0.9%, well below the ECB's target of 2%. The ECB is therefore continuing to purchase €60 billion of securities every month, which should help asset prices.

Some of our global equity managers are slowly rotating from some of their US positions over to European equities at the moment.

In terms of specific exposure to European managers, we favour the **BlackRock Continental European Flexible** fund run by **Alister Hibbert**. We like Hibbert's bottom-up stock-picking approach, favouring companies with strong management where the growth potential is underestimated by the market. The fund also has a robust sell discipline.



MARINE D'HARTOY
 **Bedrock Asset Management UK**

Economic expansion has deepened and synchronised around the globe. Positive surprises have finally come

from the eurozone, where above-trend growth is set to continue, driven by strong domestic demand and less drag from political uncertainty. Our portfolios have, for a long time, been slightly underweight Europe but the gap has narrowed.

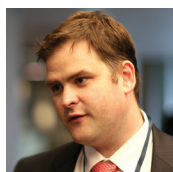
One of our highest convictions over the past few years has been an investment in the subordinated debt of European banks. Significant regulatory changes have ensured that the industry has vastly improved from a fundamental perspective, while renewed European growth, coupled with accommodative ECB policy, continue to support this asset class. We have been invested through a well-diversified manager, who has been able to select names carefully, avoiding poorly capitalised banks. The fund has benefited from both income and capital gains, and is up more than 10%. Yields remain relatively high, and duration is short, limiting the sensitivity of our portfolios to higher interest rates.

On the equity side, we invested in a listed

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infrastructure fund a few months ago with a bias towards Europe. Keeping pace with global growth will require huge infrastructure investment in the coming decades. As such, we see listed infrastructure as an interesting investment for our clients, especially in Europe where rates normalisation will be a slow burn and less of a headwind for the asset class. European toll roads and airports are particularly attractive because capacity has already been paid for and prices are not reflecting future free cashflow. This position is up 20% YTD.

Going forward, we are focused on finding new areas of opportunity in Europe such as investments related to the aging population, which is expected to fundamentally reshape economies. This theme should benefit particular sectors, such as healthcare, insurance and wealth management.



ANDREJ LIPPAY

 **Corpia Group**
Slovak Republic

Given the fact that we mainly serve EUR-denominated currency clients, we have held

a cautiously optimistic view for past two years. Some of the headwinds provided an interesting entry point or the chance to take advantage of fearful markets. We maintain our view, that with a conservative client base, we need to focus on short-term fixed income securities, preferably with a significant allocation to floating rate notes and variable rate notes. In this area the **Tikehau Taux Variables** fund did very well. We also favour the **M&G Optimal Income** fund and the **SLI - Global Sicav European Corporate Bond** fund. Such strategies offer a relative short-to-medium-term horizon and are well-positioned for any interest rate hikes – we anticipate one ECB rate increase in 2018. We are also becoming increasingly interested in the **First Trust FactorFX** fund.

When it comes to absolute returns, we prefer well-established funds with proven track records, such as the **Nordea 1 Stable Return** fund and the **Carmignac Patrimoine** fund. Both strategies have provided relatively acceptable levels of return over the long term. Meanwhile, the **Flossbach von Storch Multiple Opportunities** fund provides a very good active and slightly more aggressive exposure.

Finally, we like investment opportunities that have a weak correlation with capital markets such as the **Partners Fund Sicav** and the **Dual Return Fund - Vision Microfinance**, albeit this has limited exposure to Europe.



SPOTLIGHT ON SELECTORS' PICKS



European investment managers with a long-term track record are much sought after by fund selectors. Invesco's head of European equities, Jeffrey Taylor, is a case in point, having started out in 1985 as a European equities analyst.

Thirty-two years on and the Citywire + rated manager has won many admirers for his fundamental-driven work on the Invesco Euro Equity fund, including Jérôme Cognet. Zeroing in on the eurozone equity sector specifically, Taylor's €1.57 billion fund has mined the peripheral markets for rising stars, with Spain and Italy both marginal overweights at the time of writing.

In his half-year commentary, Taylor said he was well-positioned to capitalise on both an improving economic outlook and the relative calm which has descended in the wake of populist political sentiment receding. Taylor's value-driven, stock-picking approach has homed in on the region's financial sector, where he has a significant overweight.

Invesco restructured the fund in October 2015, from a France-domiciled strategy, called Invesco Euro Actions, as part of plans to widen its investment audience. In addition, Taylor was given more resources in October last year when Oliver Collin was assigned as a co-manager on the fund.

...AND THE FUNDS IN FULL

FUNDS	MANAGERS	CITYWIRE RATING
Blackrock Continental European Flexible	Alister Hibbert	citywire / AA
Carmignac Patrimoine	Edouard Carmignac, Rose Ouahba	N/A
Digital Stars Europe Ex-UK	Julien Bernier	citywire / +
Dual Return Fund - Vision Microfinance	N/A	N/A
Fidicum Sicav - Contrarian Value Euroland	Hans-Peter Schupp	citywire / +
Fidelity Iberia	Fabio Riccelli	citywire / AAA
First Trust FactorFX	N/A	N/A
Flossbach von Storch Multiple Opportunities	Bert Flossbach	N/A
Franklin European Total Return	David Zahn, John Beck	citywire / + (BOTH)
Invesco Euro Equity	Jeffrey Taylor	citywire / +
Invesco Pan European Structured Equity	Michael Fraikin, Thorsten Paarmann	citywire / + (BOTH)
Liontrust GF European Strategy Equity	James Inglis-Jones, Samantha Gleave	citywire / A (BOTH)
M&G Optimal Income	Richard Woolnough	N/A
NN Euro High Dividend	Nicolas Simar, Manu Vandenbulck	N/A
Nordea 1 Stable Return	Asbjørn Trolle Hansen, Claus Vorm, Kurt Kongsted	citywire / A (Hansen, Kongsted) citywire / + Vorm
Partners Fund SICAV	N/A	N/A
PTR-Corto Europe	Nils Francke, Philippe Sarreau, David Dufour, Olivier Djopwouo	citywire / AA (ALL)
Schroder ISF Euro Credit Absolute Return	Patrick Vogel	citywire / AAA
Schroder ISF Euro Equity	Martin Skanberg	citywire / A
Schroder Strategic Credit	Peter Harvey	N/A
SLI Glo Sicav European Corporate Bond	Craig MacDonald, Felix Freud	N/A
Tikehau Taux Variables	Jean Marc Delfieux, Laurent Calvet	citywire / + (Delfieux)

SOURCE: Citywire