

# Pan Europe Update



## Market Overview

European equities fell in June as lacklustre economic data fuelled doubts about the pace of the global recovery. Uncertainty over the US financial reform bill and fears that the European Central Bank was scaling back its emergency support to Eurozone banks outweighed the short-lived gains from China's move to de-peg the renminbi. Financials lagged, but the losses were mitigated by the G20 leaders' rejection of a proposed global bank levy. Mining stocks came under heavy selling as the change in Australia's leadership caused confusion over the proposed resources tax.

Economic data out of the region pointed to muted activity. The Eurozone manufacturing and services PMI declined in June, along with key sentiment indices in Germany, France and Italy, as looming fiscal austerity clouded the growth outlook. Unemployment continued to rise across much of Europe, while bank lending to businesses contracted.

Similarly in the UK, business and consumer confidence declined in the face of planned government spending cuts announced in the emergency budget. The manufacturing sector's recent recovery was short-lived as factory output dropped, while export growth slowed in June as the Continent's debt woes and the decline of the euro hit sales of UK goods.

Looking ahead, nagging fears of a sovereign debt default and worries over the strength of the region's economic revival are expected to weigh on market sentiment for some time. Although Eurozone economies appear to be on the mend, the uneven pace of growth across the bloc means that recovery remains precarious. An emphasis on fiscal belt-tightening appears ill timed, while hopes that the publication of bank's stress test results will soothe investor anxiety seem misplaced.

Given the macroeconomic backdrop, we will maintain vigilance at the company level, monitoring results, meeting management regularly, and keeping a close eye on valuations. Overall, we still see good value in stockmarkets and view corrections as opportunities to add to selective holdings.

## Model Portfolio News (Pan Europe)

During the month, we added to UK retailer Tesco, which has a strong global presence. We pared BMW after its share price rose sharply, to balance our exposure to the cyclical sector.

*Note:*

*The changes mentioned in this part refer to our model portfolio, which is the basis for actual portfolios we manage that have similar investment objectives. However, there might be minor variations among these, so the above descriptions might not apply to the actual portfolios.*

## Corporate News

**Basic Resources:** **BG Group's** new offshore well at Tupi Alto, Brazil was a success. **Rio Tinto** will invest US\$469m nickel and copper mine in the US after receiving the necessary approvals, a positive development that highlights the diversity of the group's asset base and its growth profile. **BHP Billiton** agreed with Western Australia to amend iron ore royalty rates and various state contracts. The move will enable its existing operations to run more efficiently as well as aid the proposed joint venture between BHP and Rio, which still requires approvals from both regulators and shareholders.

**Consumer goods:** Toy and model maker **Hornby** reported higher annual sales, although profits were hurt by customer destocking. Soft drinks bottler **AG Barr's** sales were aided by the strong performances of its core brands. Household and personal care products supplier **McBride** expects a more challenging trading environment, given the rising cost of raw materials.

**Consumer services:** Growing sales and an expanding asset base underpinned **Fuller, Smith & Turner's** full-year results, while **Majestic Wine's** annual profits more than doubled because of a change to its minimum purchase rule. **Halfords'** preliminary full-year results showed improving sales and operating profits, thanks to its higher margin divisions. **WH Smith** reported modest sales weakness, though its travel unit is expected to continue outperforming.

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**Whitbread** started the financial year well, with good sales growth, particularly from its Premier Inn budget hotels.

**Financials:** One of **Schroders'** subsidiaries bought a 49% stake in RWC Partners, a boutique investment firm. **Prudential** announced solid new business performance for the year to date, particularly in Asia and the US; it continues to maintain a strict pricing discipline.

**Industrials:** **Imtech's** acquisition of Swedish technical services provider NEA will strengthen its market leadership in Scandinavia, while **Schneider** and **Alstom** finalised their takeover of Areva's transmission and distribution businesses. **Saint Gobain's** new German plant will produce rooftop solar panels, marking a milestone in its foray into renewable energy. **Chemring's** half-year results pointed to upbeat earnings growth. **Weir Group** said orders for replacement parts exceeded expectations and that it continues to benefit from favourable foreign exchange movements.

**Pharmaceuticals:** **GlaxoSmithKline** received exclusive rights to commercialise Sweden-based **Medivir's** cold sore treatment Xerclear. **Roche** will postpone the development of experimental drug Taspoglutide by at least 12 to 18 months after side effects were reported. The US drug regulator delayed its decision on **AstraZeneca's** experimental infant lung drug motavizumab to August.

**Real Estate: Development Securities** bought a serviced office in London's outskirts and the Manchester Evening News Arena; it also jointly acquired a mixed-use central London property with Caenwood Ventures. **Great Portland Estates** purchased an office building in London's West End for £53 million. **Hammerson** will sell its 75% stake in the Espace Saint Quentin shopping centre near Paris to Allianz Real Estate, but will remain as manager. **Helical Bar**, which returned to profitability in the full year, will build a 19-storey tower in the City of London.

**Utilities:** The French energy regulator ruled that **GDF Suez** may raise household natural gas prices by 4.7% from July. The UK's emergency budget may hurt UK utilities, as capital allowances will fall from 20% to 18%. These changes, however, will be implemented only in 2012.

We hold the companies highlighted above.

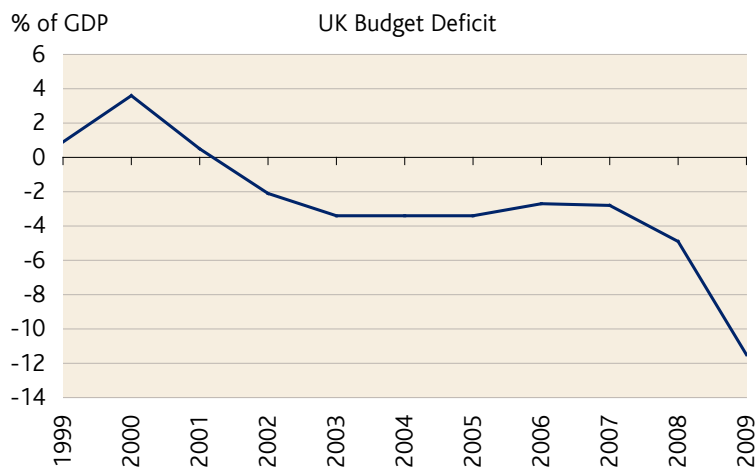
### Performance of European Stock Markets<sup>^</sup>

| Region/Country | Index/Fund                        | USD Dollars |         |         | Local Currency |         |         |
|----------------|-----------------------------------|-------------|---------|---------|----------------|---------|---------|
|                |                                   | MOM         | 3M      | YTD     | MOM            | 3M      | YTD     |
| UK             | FTSE Allshare                     | -1.37%      | -12.93% | -12.75% | -4.48%         | -11.60% | -5.84%  |
| UK             | FTSE 100                          | -1.75%      | -13.84% | -14.01% | -4.85%         | -12.53% | -7.20%  |
| UK             | FTSE 250                          | 0.65%       | -8.44%  | -5.27%  | -2.53%         | -7.04%  | 2.24%   |
| UK             | FTSE Small Cap                    | 1.40%       | -7.41%  | -8.76%  | -1.80%         | -6.00%  | -1.53%  |
| UK             | FTSE 350 Real Estate              | -1.77%      | -14.43% | -20.04% | -4.86%         | -13.12% | -13.71% |
| Europe         | FT Europe                         | -0.84%      | -15.11% | -16.57% | -2.47%         | -9.57%  | -6.33%  |
| Europe         | FT Europe ex UK                   | -0.15%      | -15.61% | -17.56% | -1.21%         | -8.04%  | -5.75%  |
| Denmark        | Denmark - OMX Copenhagen 20 Index | 0.68%       | -6.90%  | 0.67%   | 1.11%          | 2.86%   | 17.89%  |
| Finland        | Finland - OMX Helsinki 25 Index   | -0.61%      | -14.21% | -8.48%  | -0.30%         | -5.28%  | 7.06%   |
| France         | France - CAC 40                   | -1.77%      | -19.24% | -22.99% | -1.47%         | -10.83% | -9.96%  |
| Germany        | Germany - DAX                     | -0.29%      | -12.20% | -14.40% | 0.02%          | -3.06%  | 0.14%   |
| Ireland        | Ireland - ISEQ Overall Index      | -2.60%      | -17.73% | -16.31% | -2.30%         | -9.17%  | -2.15%  |
| Italy          | Italy - MIB30                     | -0.56%      | -20.94% | -26.55% | -0.64%         | -13.00% | -14.50% |
| Netherlands    | Netherlands - AEX                 | -1.52%      | -15.34% | -17.41% | -1.21%         | -6.53%  | -3.43%  |
| Norway         | Norway - OBX                      | -4.81%      | -20.14% | -21.18% | -4.40%         | -12.60% | -11.76% |
| Portugal       | Portugal - PSI 20                 | -0.40%      | -17.83% | -25.72% | -0.09%         | -9.27%  | -13.15% |
| Spain          | Spain - IBEX                      | -0.92%      | -21.18% | -31.96% | -0.61%         | -12.98% | -20.41% |
| Sweden         | Sweden - OMX Stockholm 30 Index   | 3.27%       | -6.72%  | 0.17%   | 2.58%          | 0.66%   | 8.63%   |
| Swiss          | Swiss - SMI                       | 4.13%       | -11.70% | -7.48%  | -2.92%         | -9.47%  | -3.79%  |
| World          | MSCI AC World Free                | -3.05%      | -11.96% | -9.11%  | -3.66%         | -10.33% | -6.43%  |
| World          | Citigroup World Government Bond   | 1.72%       | 0.29%   | -1.04%  | 1.72%          | 0.29%   | -1.04%  |

<sup>^</sup> Total indices performance table for the month ended 30 Jun 10  
Source: Bloomberg

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### Focus: Regaining economic health



Source: Bloomberg, 30 Jun 10

As continental Europe heads down the path of austerity, the UK is the next to embark on a phase of unprecedented belt tightening. Drastic cuts in public services and benefits, a levy on banks, as well as a hike in the VAT and capital gains tax marked the new coalition government's debut budget, aimed at turning the record deficit (see above chart) into a modest surplus in five years. While the budget has been generally well received, the question remains whether the government will be able to reduce the deficit without stifling the fragile recovery. Much difficulty lies ahead as the real pain of the cuts are still to come.

### During the month, we met the following companies:

**Austria:** Andritz, EVN, OMV, Schoeller Bleckmann, Wienerberger, Zumtobel.

**France:** Areva, Air Liquide, Alstom, BNP Paribas, Cap Gemini Ernst & Young, Compagnie De Saint-Gobain, Dassault Systemes, Essilor International, GDF Suez, Ingenico, L'Oreal, Saft, Silic, Sodexo.

**Germany:** Daimler, Deutsche Telekom, Metro Group.

**Greece:** Alpha Bank, Coca Cola Hellenic Bottling, Jumbo, National Bank of Greece.

**Italy:** Eni, Snam Rete Gas.

**Netherlands:** Arcadis, Fugro, Imtech, Wolters Kluwer, Vopak.

**Spain:** Baron De Ley.

**Switzerland:** Bank Sarasin & Cie, Burckhardt Compression, Geberit, Lindt, PSP Swiss Property, SGS, Sulzer, Syngenta.

**Sweden:** Ericsson, Svenska Handelsbanken.

**UK:** Acal, Arriva, Astra Zeneca, BP, British Land Company, Chemring, Chloride Group, Fuller Smith & Turner, Hornby, Intermediate Capital Group, Intertek, Majestic Wine, McBride, National Grid Transco, Oxford Instruments, Pinewood Shepperton, Penna Consulting, Prudential, RPC, Sage, Schroders, SSL International, Tomkins, Umeco, Unilever, United Utilities, WH Smith, Workspace.

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