



Aberdeen

# Pan Europe Update

## Market Overview

European equities fell in volatile trading last month on fears that Greece's debt woes could trigger a full-blown regional crisis and undermine the fragile global recovery. Financial stocks came under heavy selling pressure because of concerns over the banking sector's exposure to Greece, as did the euro which lost ground against most major currencies.

Investor attention was transfixed on the unfolding crisis in Greece, which grew more dire because of Germany's perceived foot-dragging. When the first semblance of a rescue finally came via €30 billion in emergency aid, markets were unimpressed. Yields of two-year Greek government bonds spiked to nearly 20%.

Worse was to follow. Greece became the first member of the European Union (EU) to lose its investment grade credit rating after Standard & Poor's downgraded it to junk status. Portugal and Spain's credit ratings were also cut.

Confidence took a further knock. Sharply falling markets led to the EU's second, albeit unsuccessful, attempt at shoring up sentiment. It crafted a three-year €110 billion bailout with IMF involvement after the month end. In return, Greece acceded to imposing drastic austerity measures.

As concerns over systemic risk grew, the EU announced a €750 billion stabilisation fund to buttress continental economies should they face funding difficulty. Also lending support were the ECB, which said it was prepared to buy government debt, and the US Fed, which reactivated swap lines with major central banks to ensure ample dollar supply.

These developments overshadowed improving economic conditions. A composite PMI of Europe's services and manufacturing industries rose in April as companies ramped up output. In the UK, industrial production, house prices and retail sales all posted gains.

The UK election delivered a hung parliament, as was widely anticipated. Five days of intense talks among parties ensued, with prime minister Gordon Brown offering to resign by September. But the Liberal Democrats threw in their lot with the Conservatives, which had to cede ground on taxation and electoral reform. With the Tories' David Cameron as PM and Liberal Democrat leader Nick Clegg as his deputy, the newly formed coalition government faces the tricky task of pushing through aggressive spending cuts without undermining the incipient recovery.

Investor sentiment is likely to remain weak in the short term. While the Greek rescue has soothed immediate contagion fears, uncertainty remains. Bailout details have yet to be released, and there is concern that such a short-term leveraged fix will only complicate long-term structural problems. Rising public discontent will test the resolve of indebted countries to bite the fiscal bullet. A default or debt restructuring by Greece remains a distinct possibility.

The uncertain macro outlook belies the more promising prospects at the corporate level. European companies have increasingly looked to Asia and emerging markets for growth, given their sluggish home markets. This should help underpin future earnings. Those with healthy balance sheets and quality management – key attributes of our holdings – would be even better placed to capitalise on opportunities that surface during such difficult times.

## Model Portfolio News (Pan Europe)

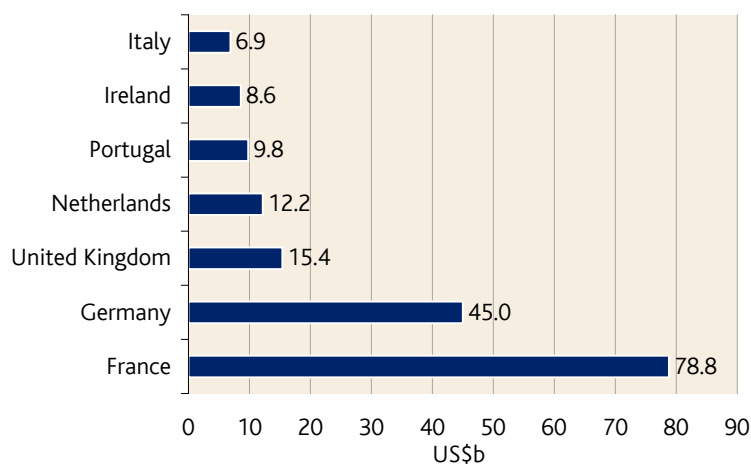
In portfolio activity, we sold Deutsche Post in view of more attractive opportunities elsewhere. Against this, we added to GDF Suez, Italcementi, Mapfre, Roche and Wincor Nixdorf on the back of relative price weakness.

### 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.*

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### Focus: It's a banking problem, too



Source: BIS and Citigroup, 30 Apr 10

European banking stocks, to which our portfolios are underweight, have lagged the broader market this year, reflecting concerns over the sector's hefty exposure to Greece. One big worry is that if Greece defaults on its debt, the region's banks will face massive losses on their holdings of Greek bonds. Another concern is a likely spike in bad loans, as Europe's weaker economies stagnate or even contract because of severe austerity measures. In addition, IMF data show that European banks have yet to write down US\$250 billion of the US\$665 billion in losses incurred between 2007 and 2010. All this suggests a very uncertain outlook for the sector.

### Corporate News

**Basic materials:** The majority of **BHP Billiton's** Asian customers agreed to switch their existing iron ore contracts to shorter-term ones linked to the spot market.

**Consumer goods:** **Associated British Foods'** first-half profits were underpinned by its sugar division, while cost cuts and emerging market expansion lifted **Philips Electronics'** earnings. **British American Tobacco** sold its Belgian distribution business. **BMW's** China car sales more than doubled in the first quarter.

**Consumer services:** **Metro's** first-quarter results benefited from cost savings and the buoyant performance of its hypermarkets. **Millennium & Copthorne** faced difficulties in China, as a local joint venture partner seized control of its domestic business.

**Financials:** In quarterly results news, **BBVA** was boosted by solid net interest income growth, falling provisions and tight cost control, while declining losses and better trading earnings helped **Nordea**. **Corporacion Mapfre's** premium growth improved, though its profitability was hurt by the Chilean earthquake. Meanwhile, **Standard Chartered** plans to list in India.

**Health care:** **Roche** bought insulin pump developer Medingo to strengthen its position in the growing diabetes-care market.

**Industrials:** **Schneider Electric's** first-quarter earnings were boosted by its industrial and IT divisions, as well as emerging economies, while **MAN's** good results were attributed to its commercial vehicles division and strong growth in Latin America. **Rolls Royce's** trading also met expectations; separately, it is partnering India's Larsen & Toubro to make parts and provide services for light water nuclear reactors. Rolls Royce also acquired Norwegian marine tech firm Odim, in which it already holds a one-third stake. **TNT** plans to spin off its mail operations.

**Oil and gas:** In corporate results, **Eni** saw first-quarter profits improve on the back of rising oil prices and higher production. In other developments, **Amec** bought a water services consultancy business for £61.2 million; separately, it clinched a deal to help build nuclear plants in the UK. **Wood Group** extended its contract with **Total** to provide support for its North Sea operations. **OMV's** first-quarter trading statement showed slightly lower oil production compared to the end of last year, despite an improvement in its refining margin.

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**Technology:** **Ericsson** won contracts worth US\$3.1 billion to expand networks for India's Bharti Airtel as well as the mainland's China Mobile and China Unicom.

**Utilities:** **E.ON** and **Centrica** are among several electricity suppliers that will be taxed by the government to fund greenhouse gas-reducing projects. **GDF Suez** won a contract with Swiss engineering firm Foster Wheeler to build a biomass-fuelled power station in Poland, and a £600 million contract to supply power to water companies in the UK.

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
<b>Developed Markets</b>							
UK	FTSE Allshare	-0.77%	3.98%	-0.57%	-1.36%	8.95%	5.07%
UK	FTSE 100	-1.41%	3.45%	-1.61%	-2.00%	8.40%	3.97%
UK	FTSE 250	2.98%	8.14%	6.55%	2.37%	13.31%	12.59%
UK	FTSE Small Cap	3.46%	1.51%	1.95%	2.84%	6.36%	7.73%
UK	FTSE 350 Real Estate	-1.32%	0.02%	-7.79%	-1.91%	4.80%	-2.56%
Europe	FT Europe	-2.52%	1.81%	-4.20%	-1.61%	5.90%	1.92%
Europe	FT Europe ex UK	-3.15%	1.12%	-5.38%	-1.43%	4.86%	1.03%
Denmark	Denmark - OMX Copenhagen 20	5.42%	11.72%	13.98%	7.69%	17.11%	23.43%
Finland	Finland - OMX Helsinki 25 Index	-0.80%	7.95%	5.83%	1.15%	12.97%	14.34%
France	France - CAC 40	-5.75%	-2.39%	-10.13%	-3.90%	2.15%	-2.96%
Germany	Germany - DAX	-2.21%	4.53%	-4.67%	-0.29%	9.39%	2.99%
Ireland	Ireland - ISEQ Overall Index	4.91%	10.06%	6.73%	6.97%	15.18%	15.24%
Italy	Italy - MIB30	-7.14%	-5.74%	-13.73%	-5.51%	-1.40%	-7.14%
Netherlands	Netherlands - AEX	-0.64%	2.29%	-3.06%	1.32%	7.04%	4.67%
Norway	Norway - OBX	1.91%	5.49%	0.58%	1.62%	5.56%	2.60%
Portugal	Portugal - PSI 20	-9.29%	-9.66%	-18.00%	-7.50%	-5.46%	-11.46%
Spain	Spain - IBEX	-5.18%	-7.99%	-18.15%	-3.32%	-3.71%	-11.57%
Sweden	Sweden - OMX Stockholm 30 Inde	4.20%	14.89%	11.89%	5.14%	13.22%	13.45%
Swiss	Swiss - SMI	-5.17%	3.33%	-0.64%	-2.60%	5.20%	3.51%
World	MSCI AC World Free	0.22%	8.12%	3.46%	0.28%	8.66%	4.64%
World	Citigroup World Government Bonc	-0.36%	-1.81%	-1.68%	-0.36%	-1.81%	-1.68%

<sup>^</sup> Total indices performance table for the month ended 30 Apr 10

Source: Bloomberg

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

**Austria:** Vienna Insurance Group

**France:** GDF Suez, Iliad

**Germany:** E.ON

**Italy:** Hera

**Netherlands:** Philips Electronics

**Sweden:** Getinge

**Switzerland:** Flughafen Zuerich, Roche

**UK:** Aberforth Geared Income Trust, Arriva, AstraZeneca, British American Tobacco, Cable & Wireless Worldwide, Cairn Energy, Centrica, Chesnara, Cineworld, Daily Mail & General Trust, Derwent London, Fenner, Forth Ports, Imperial Tobacco, James Fisher and Sons, M&C Saatchi, Mouchel Group, Persimmon, Pinewood Shepperton, Primary Health Properties, Rio Tinto, Royal Dutch Shell

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