



Aberdeen

Pan Europe Update

Market Overview

European markets rose last month, as confidence was bolstered by the US Federal Reserve's decision to hold interest rates and a European rescue package for Greece. Gains, however, were pared by a downgrade in Portugal's sovereign credit rating.

Sovereign debt concerns receded as Greece unveiled a third austerity package and its efforts at regaining confidence paid off on some fronts. The country sold €10 billion in seven-year and 10-year bonds, while Standard & Poor's left Greece's credit rating unchanged.

The euro fell to a 10-month low on Greek worries and the Portugal downgrade. Chinese central bank comments that Greece was just the tip of the iceberg also hurt the currency. But sentiment was later buoyed by the Eurozone-IMF financial safety net for Greece and the European Central Bank's decision to continue to accept Greek government bonds as collateral.

Ireland, meanwhile, moved to strengthen the balance sheets of its struggling banks by buying toxic assets from them at a deep discount. It also enacted fresh capital rules that could place more lenders under government ownership.

On the economic front, recovery remains export-led. Manufacturing output in the UK and Eurozone expanded in March on emerging market demand. In contrast, consumption was lacklustre. German retail sales were flat and French consumption fell. In the UK, house prices saw their first monthly decline since last June, while consumer confidence deteriorated.

Policymakers kept interest rates unchanged. The UK Budget included modest cuts to public spending, tax breaks for homebuyers and a £2.5 billion growth package.

In politics, Italian Premier Silvio Berlusconi's coalition government made strong gains in regional elections, as it won four regions from the opposition.

A self-sustaining recovery remains elusive, given that exports have been the region's main growth driver and other components of aggregate demand have yet to turn a corner. Weak labour markets continue to depress consumption, while spare capacity has constrained capital spending. To reduce burgeoning budget deficits, governments have to cut spending and raise taxes, which are contractionary for economies.

Hence, we are cautious even as loose monetary conditions provide short-term support for equity markets.

Model Portfolio News (Pan Europe)

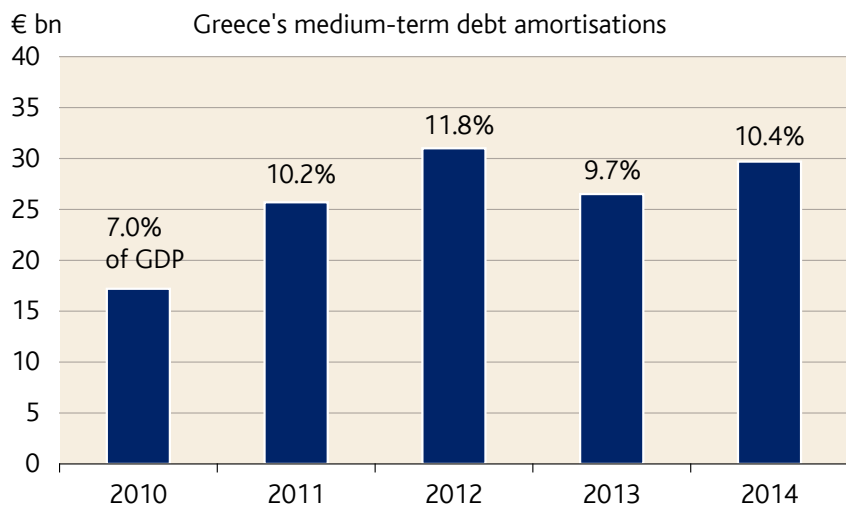
In portfolio activity, we sold Austrian airport operator Flughafen Wien, in view of better opportunities elsewhere, and pared BNP Paribas, Rolls Royce and Zurich Financial Services on relative strength. Conversely, we added to Spanish bank BBVA, which had been weak because of investor concerns over Spain's sovereign debt.

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: Greece not yet in the clear



Source: Goldman Sachs, Greece Debt Management Office, 25 Mar 10

Markets have rallied following an agreement between the EU and the IMF to provide a rescue package for Greece, should it get into more difficulty. This agreement allowed Greece to borrow €5 billion at the end of March, on top of €5 billion of refinancing earlier in the month. But at 300 basis points over benchmark bonds, Greece is paying a hefty premium on its latest borrowing. Against a background of weak growth and swingeing public spending cuts, it will have to find another €75 billion or more to meet debt payments by 2014. That is a tall order for the market. If it has to step in, the IMF could provide €25 billion. But the EU can only make up any shortfall if there is unanimous support. At this juncture a German veto seems inevitable. Greece's debt crisis may have just started.

Corporate News

Basic materials: **Linde** posted robust full-year results, as rising prices and significant cost cuts led to improved margins. 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: **Adidas'** full-year profits disappointed because of weak economic conditions and competition from discount brands. **Philips** will not resume its share buyback plan in 2010; separately, it is proposing a successor to the chief executive later this year.

Consumer services: **Mothercare's** trading update showed robust sales growth overseas.

Financials: In full-year corporate results, **Aviva** gained from cost cuts; **Standard Chartered's** earnings were driven by improved loan impairments and strengthened capital positions; and asset management company **Schroders** reported a strong investment performance and record net inflows. **Intesa Sanpaolo** posted resilient results on the back of tight cost control, contained loan impairments and solid capital ratios. In other developments, **Aviva** entered Indonesia's fast-growing life insurance market with the acquisition of a 60% stake in PT Asuransi Winterthur Life Indonesia. **Standard Chartered** plans to list in India.

Industrials: In 2009 earnings news, Swiss cement maker **Holcim** benefited from cost-cutting and capacity management. Improved performance in emerging markets and cost reductions partially mitigated weaker sales in mature markets for **Italcementi**. Cost savings also helped **Deutsche Post** achieve its profit target. Although **Flughafen Wien's** earnings were hurt by the decline in passenger traffic last year, the airport operator upgraded its expectations for 2010 following a pick-up in recent months.

Meanwhile, **Rolls Royce** won its second contract in two years from the Gas Authority India to supply power systems for a major gas pipeline project. It also inked a pact with Larsen & Toubro to make parts and provide services for light water nuclear reactors.

Oil and gas: **Eni** plans to grow production by 2.5% a year, while cutting costs further. **Amec** bought a water services consultancy business for £61.2 million, enhancing its exposure to the field.

Telecommunications: **Portugal Telecom's** full-year results were boosted by sales growth in its Brazilian unit Vivo, which offset the weakness in its domestic mobile business, and the disposal of its stake in Moroccan mobile operator Meditel.

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

Utilities: Centrica is selling its European operations to fund US investments. France's GDF Suez signed a deal with Russian gas monopoly Gazprom to buy a 9% stake in the Nord Stream gas pipeline; separately, it is expected to benefit from the hike in gas tariffs in France from 1 April.

We hold the companies highlighted above.

Performance of European Stock Markets[^]

| Region/Country | Index/Fund | USD Dollars | | | Local currency | | |
|--------------------------|-----------------------------------|-------------|---------|---------|----------------|--------|--------|
| | | MOM | 3M | YTD | MOM | 3M | YTD |
| Developed Markets | | | | | | | |
| UK | FTSE Allshare | 6.49% | 0.20% | 0.20% | 6.81% | 6.52% | 6.52% |
| UK | FTSE 100 | 6.23% | -0.20% | -0.20% | 6.54% | 6.09% | 6.09% |
| UK | FTSE 250 | 8.95% | 3.47% | 3.47% | 9.27% | 9.98% | 9.98% |
| UK | FTSE Small Cap | 3.59% | -1.45% | -1.45% | 3.89% | 4.75% | 4.75% |
| UK | FTSE 350 Real Estate | 5.76% | -6.56% | -6.56% | 6.08% | -0.67% | -0.67% |
| Europe | FT Europe | 6.72% | -1.72% | -1.72% | 7.13% | 3.58% | 3.58% |
| Europe | FT Europe ex UK | 7.01% | -2.30% | -2.30% | 7.42% | 2.49% | 2.49% |
| Denmark | Denmark - OMX Copenhagen 20 Index | 8.20% | 8.12% | 8.12% | 8.77% | 14.61% | 14.61% |
| Finland | Finland - OMX Helsinki 25 Index | 10.33% | 6.68% | 6.68% | 10.89% | 13.03% | 13.03% |
| France | France - CAC 40 | 6.61% | -4.65% | -4.65% | 7.15% | 0.98% | 0.98% |
| Germany | Germany - DAX | 9.36% | -2.51% | -2.51% | 9.92% | 3.29% | 3.29% |
| Ireland | Ireland - ISEQ Overall Index | 10.95% | 1.73% | 1.73% | 11.52% | 7.73% | 7.73% |
| Italy | Italy - MIB30 | 7.31% | -7.10% | -7.10% | 8.45% | -1.72% | -1.72% |
| Netherlands | Netherlands - AEX | 8.07% | -2.44% | -2.44% | 8.62% | 3.31% | 3.31% |
| Norway | Norway - OBX | 7.73% | -1.30% | -1.30% | 7.89% | 0.97% | 0.97% |
| Portugal | Portugal - PSI 20 | 6.64% | -9.60% | -9.60% | 7.18% | -4.27% | -4.27% |
| Spain | Spain - IBEX | 4.68% | -13.68% | -13.68% | 5.21% | -8.54% | -8.54% |
| Sweden | Sweden - OMX Stockholm 30 Index | 7.24% | 7.38% | 7.38% | 8.24% | 7.91% | 7.91% |
| Swiss | Swiss - SMI | 6.05% | 4.78% | 4.78% | 3.66% | 6.27% | 6.27% |
| World | MSCI AC World Free | 6.48% | 3.24% | 3.24% | 6.53% | 4.35% | 4.35% |
| World | Citigroup World Government Bond | -1.70% | -1.33% | -1.33% | -1.70% | -1.33% | -1.33% |

[^] Total indices performance table for the month ended 31 Mar 10

Source: Bloomberg

During the month, we met the following companies:

Austria: Flughafen Wien, Mayr-Melnhof Karton and OMV

France: Arkema, Carbone Lorraine, Casino, Compagnie De Saint-Gobain, Dassault Systemes, Essilor International, GDF Suez, Orpea, Remy Cointreau, Sanofi Aventis, Schneider Electric, Societe de la Tour Eiffel, Stallergenes and Total

Finland: Sampo

Germany: Allianz, MTU Aero Engines

Ireland: Kingspan

Italy: Eni

Netherlands: Fugro and SBM Offshore

Norway: Kongsberg Gruppen and Prosafe

Portugal: Portugal Telecom

Spain: Telefonica

Sweden: Ericsson

Switzerland: Holcim and Schindler Holding

UK: Abcam, Admiral Insurance Services, Aggreko, Amec, Arriva, Aviva, Barr (AG), BBA, Bellway, BHP Billiton, Bloomsbury, BP, Brit Insurance Holdings, British American Tobacco, British Polythene Industries, Centaur Media, Chaucer Holdings, Close Brothers, CLS Holdings, Cobham, Development Securities, Dignity, Forth Ports, Greggs, Hansteen, HSBC, Inchcape, Interserve, Keller, Liberty, Marshalls, Menzies (John), Pace Microelectronics, Pearson, Primary Health Properties, Provident Financial, Prudential, Reed Elsevier, Resolution, Restaurant Group, Robert Walters, Rolls Royce, Rotork, Royal & Sun Alliance Insurance, Royal Bank Of Scotland, Savills, Segro, SIG, T.Clark, TT Electronics, Tullow Oil, Ultra Electronics, Vodafone, Weir, Wilmington Group, WM Morrison Supermarkets, Wood Group and Zotefoams

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