FLASH NOTE

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# Are there any opportunities in Europe?

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Despite the challenges that Europe is currently facing, we believe that there are attractive long-term investment opportunities to seize, notably on the equity side.

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> Very often European sectors and European names are overlooked

*- Mark Denham, Head of European Equities*

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“We’re quite optimistic on the outlook for European equities, if one takes certainly, a three-year view into the future, but nonetheless it’s true to say that there are issues that could derail that scenario and especially, on the macro side, on the top-down side.

In Europe, we have constant, kind of concerns over the outcome of Brexit, of the Italian budget, and how that will work out. Any kind of tension between European countries and the European Union undermines the case for European equities a little bit.

Plus, you know, the global macro concerns, how much the Trump tariffs' are going to impact global trade and European companies? A lot of European companies are very international in nature, will they be disrupted by those kind of events? We do see troubled European markets occasionally and that represents itself through volatility in stock prices, when we get a lot of headlines perhaps, around one country’s relationship with the European Union, as we’ve seen with Italy testing its budget limits or indeed, the Brexit negotiations, but in general, our approach is to use that kind of volatility to add to our positions, where we have high conviction in the bottom-up investment case.

We’re predominantly bottom-up investors and where a top-down factor like that results in a temporarily weak share price, we try and capture that and add to our position to enhance returns on portfolios. Well, I think there are many long-term opportunities within Europe, but one area of particular focus at the moment are the more innovative areas of the market in technology, internet business models and even biotech. I think when global investors think of those themes and those sectors, very often they’re focused exclusively on, you know, for instance the west coast of the US, the names like Amazon, Apple and the big US names or even the Asian names, like in China we have Tencent and Alibaba and so on. I think very often European sectors and European names are overlooked. So, we’re particularly interested at the moment in some of the internet business models that are quoted in Europe and especially, some of the biotech names within Europe, where global healthcare investors tend to give Europe a wide berth, which I think is unjustified in many cases.

Clearly, Brexit still remains a big uncertainty. I think our central view is that by the time we get to the end of March, we’ll have some form of managed Brexit. Either we’ll reach the end of March and we’ll know-, we’ll understand what our relationship with the European Union will be, whatever that relationship is, or we’ll get to March and to some extent, it will have been deferred-, we’ll have deferred the decision or any kind of relationship. So, in either of those scenarios, I think that’s okay for markets. If we get to March and there’s a no deal and a complete drop out of the European Union without any real planning or understanding of what our relationship was going to be, I think that would be a problem, but we would assess the probability of that as being in a minority at the moment.”

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