

SHINING A LIGHT ON..... IP EUROPEAN EQUITY INCOME FUND

At a glance

Europe has had a rocky ride since the start of the financial crisis with ever increasing worries about whether the Eurozone can survive. Even in 2015 fears were raised over a potential Greek exit. However, despite all of this uncertainty many now see Europe as offering greater potential for growth compared to the likes of the US which is seen as fair value.

In this update we talk to the manager of the IP European Equity Income Fund and look at Europe and the fund. The fund has delivered strongly since launch with an income of currently 3.50% p.a. It may therefore appeal to investors seeking an income or as a blend within a growth portfolio.

Who are the team behind the fund?

The fund was launched on the 12 December 2007 and Stephanie Butcher took on the management role on 30 November 2010. She joined Invesco in 2003. Prior to that she worked at Lazard and Aberdeen.

She is highly regarded by trustnet having outperformed her peers over a long track record.

Fund highlights?

We started the discussion by talking about Europe! Stephanie feels there are signs of a recovery coming through. The M1 is a leading indicator which is showing growth coming through and this is really important as it reflects a number of positive tailwinds for Europe. These tailwinds include lower oil prices, currency, lower lending rates and QE.

Stephanie also argued that earnings in Europe are a long way from their peak, and if you are comparing to the US then she can see more opportunities because there hasn't been the same correction.

In Europe economies like Spain are seeing positive structural reforms making a significant difference and even in Italy where there has been reluctance to reform evidence is coming through. Some argue that the slowdown in China will impact on Europe but there are two things to consider; stabilisation is filtering through to China so the biggest fear of a hard landing is slowly moving away and the domestic side is much more important to many. For example, Germany imports more to Holland than it does to China.

But like the US investing is not simply about buying the index, real care is needed. For example, areas like consumer goods, healthcare and technology are expensive whereas financials and oil and gas are cheap.

Taking this a step further not all countries are cheap. For example, the US is fair value whereas Italy is at a 51% discount to market and Germany 7%. The UK is at a 26% discount, Asia 19% and Emerging Markets 38%. The point Stephanie was making is that it is not just about fishing for the right companies but also in the right areas.

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Unsurprisingly the fund is overweight in financials, cyclicals, telecoms, oil and gas and the periphery economies. It is underweight in basic materials, healthcare, consumer goods and countries including Switzerland and Germany.

The focus is on large cap divided payers and the top five includes Novartis, Roche, Total, ING and Nokia. Currently there are just over 50 holdings with the top ten making up just over 30% of the portfolio.

Turning to companies the fund has three groupings:

1. Steady income generators – established business models and accepted dividend payers. The focus as with all groups is getting the stocks at the right valuations
2. Change in income perceptions
3. Depressed earnings and or valuations

Stephanie just touched on the energy sector and explained that now is a perfect time to invest. New management teams are streamlining the firms to make them more efficient and profitable in the environment of lower oil prices.

In summary the fund is all about finding good companies at low valuations. The fund is well managed and has delivered strong performance since launch.

Fund performance

Performance from 2010 to 31 October 2015:

	2010	2011	2012	2013	2014	2015
IP European Equity Income Fund	2.60%	-12.20%	18.41%	40.79%	0.57%	5.12%
iShares MSCI Europe ex-UK	1.95%	-17.85%	14.00%	21.74%	-2.02%	1.18%

1, 3, 5-year and since launch performance:

	1 Year	3 Years	5 Years	Since launch
IP European Equity Income Fund	5.13%	58.30%	56.86%	50.44%
iShares MSCI Europe ex-UK	2.37%	27.96%	15.05%	-2.56%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

The source of information in this note has been provided by IP and is correct as at November 2015. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.