

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

Update....

We reviewed this fund in 2015. At the time we highlighted the strong performance and income stream. Our view hasn't changed and below is a brief update from the manager, Stephanie Butcher.

Fundamentally the manager is looking for good companies at low valuations and believes she can do this irrespective of the wider macro picture. However, the macro situation cannot be ignored. Presently there are a number of factors which are good for Europe; oil prices, Euro vs USD, bond yields making it more competitive to fund and ECB QE.

All of this is good news for Europe but what is missing is earnings growth and this has hasn't started to show through. Stephanie explained that if materials and commodities is taken out of the averages then there is growth coming through but this needs to expand and she expects to see this over the next couple of years.

Added to this she believes valuations are supportive of growth and there is upside to have. Also cash in many companies is strong and she believes this will drive good dividend income from Europe moving forward.

The fund has tended to favour steady income generators but these are becoming harder to find. One example of a company within this that she likes is Novartis where the net debt is low and getting lower, valuation is reasonable and it still has the ability to grow. But where she is finding value is in financials, telecoms and energy.

Banks as an example suffered from capital deficits but have done a lot to reverse this and a number of banks now have excess capital which she feels is more likely to be used for dividend growth. As an example one holding is UBS which had to change and now focuses more on the global private bank. This has generated higher returns and the dividends have been rising over time.

A more controversial sector is energy and Stephanie feels this is like Pharma in 2007/2008. She explained that the falling oil price has been good for many companies as it has forced capital discipline which they ignored when the price was rising rapidly. Combined with this focus on capital discipline was new management and this was a trigger to invest. She has gradually been building positions since 2013. Her view long term is that these businesses will generate greater cash flows over time than the market believes.

In summary, not much has changed since we originally had an update from Stephanie. This is fundamentally about buying good businesses. This may mean investing in parts of the market which are unloved but in doing this it drives both income and growth. For those looking for a slightly different European Fund then this is certainly one to consider.

LWM Consultants Ltd

Fund performance

Performance since 1 January 2011 to 31 January 2016

	2011	2012	2013	2014	2015	2016
IP European Equity Income Fund	-12.20%	18.41%	40.79%	0.57%	5.77%	-5.47%
iShares MSCI Europe ex-UK ETF	-17.85%	14.00%	21.74%	-2.02%	1.99%	-2.32%

Performance over 1, 3, 5 years and since launch 12 December 2007:

	1 year	3 years	5 years	Since Launch
IP European Equity Income Fund	-3.45%	29.00%	41.56%	43.09%
iShares MSCI Europe ex-UK ETF	-3.89%	8.78%	9.14%	-4.06%

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.

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