



Cazenove European Fund

Fund commentary – January 2012

Review

2011 was a great year for large cap secure and defensive growth. Commentary has 2011 down as being an awful year to be an active manager. Volatility surged, the euro crisis drowned out stock influences, and “risk-on/risk-off” came and went with little logical narrative to justify the swings. Overall trading levels were very low. When looking back at our own performance over the year, the positives we can take in what was a pretty grim year for European equities include two well-timed moves into risk assets, with a trade into banks in January and equities in general in October. We also held on to our long-held positive view on pharmaceuticals, which came right in 2011, while we avoided having too much emerging market exposure as valuations fell in response to rising inflationary pressures. Our failings were in holding on to risk a little too long after the rally had faded and not holding sufficient growth stocks, which once again had a good year in relative terms. Both mistakes were a function of maintaining a value-bias over 2011.

Activity

The fund modestly underperformed in December, with the main contributor being our position in Metro, the German retailer, which issued a pre-Christmas warning on trading conditions, perhaps a sign of the earnings risk to come. We have reduced our exposure as the weakness in trading, which was across all business lines, may hint at something more than just cyclical. On the positive side the two best stocks were Sanofi and Novartis, both adding 20bps each to performance. It is interesting to note that three years after the peak of the financial crisis, the major pharmaceutical stocks have recaptured their relative highs they established in October 2008. For all the money pumping since the crisis began, pharmaceutical stocks have been outstanding performers over the last four years.

Outlook

As outlined above we move into the New Year with a balanced portfolio – in the sense that we do not expect secure and defensive growth to have such a stellar year as it did in 2011. Our main underweights are financials (-3.6%) and growth (-5.9%), while our main business cycle overweight is consumer cyclicals (+7.5%), with most other business cycle styles close to neutral. December ended the year on a more positive tone, and January has started well too. I noted last month that the latest Eurozone meeting was a recipe for long term break-up of the union if it were followed to its logical end. I doubt Merkel’s plan will ever get off the ground, and in the meantime the ECB is offering unlimited three year funds to banks. This will ease the immediate liquidity crisis, but will almost certainly turn the Eurozone banking sector into a Japanese zombie system.

Performance data source: Bloomberg at 31/12/11 unless stated otherwise.

Regulatory Information and Risk Warnings

Issued by Cazenove Capital Management which is the name under which Cazenove Capital Management Limited and Cazenove Investment Fund Management Limited, both authorised and regulated by the Financial Services Authority, provide investment products and services. Telephone calls may be recorded for training and monitoring purposes. Past performance is not a guide to future performance. The value of investments and the income from them can go down as well as up and an investor may not get back the amount originally invested and may be affected by fluctuations in exchange rates. The levels and bases of tax assumptions may change. This document is for information purposes only and does not constitute an offer to enter into any contract/agreement nor is it a solicitation to buy or sell any investment or to provide any services referred to therein.
