



EUROPE: DON'T JUDGE A BOOK BY ITS COVER!

by Mark DENHAM
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Whilst there seem to be few reasons to be cheerful about Europe, if you know where to look, there is much to be optimistic about. Listen to Mark Denham, our Head of European Equities, talk about opportunities in Europe.



“ There are many great businesses within Europe for investors to choose from ”

- Mark Denham, Head of European Equities

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“Europe does face many challenges, most notably discussions over the Italian budget between the Italian government and the European Commission. Economic growth is relatively modest compared with other regions, we're talking about GDP growth of 1 to 2% compared with 2 to 3% or more in the U.S. and obviously much higher levels in emerging markets. So in Europe we don't benefit from a rising tide lifting all boats. And, of course, the Brexit issue is a hurdle that Europe has to overcome.

But when you reflect on Europe, it's a patchwork of different countries, more than 20 countries, so there's always some political event or some macroeconomic event or some challenge that is around the corner. I think any investor in European equities has to remember that they're investing on a 3 to 5-year time horizon or longer and that inevitably there's going to be volatility around these events. But one should look to take advantage of these events rather than allow them to dominate one's thinking.

Ultimately, we're looking to invest in strong companies because strong companies aren't going to be too disrupted by these events and we should look at using any volatility to the downside as buying opportunities. We seek to invest in businesses that have the best long-term prospects, that can grow under their own steam, secular growth opportunities. In order to determine that, we have a particular investment approach focusing on companies that have exhibited high sustainable profitability in the past, that are also reinvesting internally in growing their own business for the future, and for us, incorporating environmental, social and governance (ESG) factors into our investing goes hand-in-hand with those best long-term prospects. So, it is not an additional restriction, it is just part and parcel of the kind of companies that we're looking for.

Let's not lose sight of the fact that within Europe there are many great businesses many of which are world leaders in their respective industries. Considering European equities within a global point of view, over recent years we've seen really strong performances in other regions driven really by the advent of some technology giants in the likes of Amazon and Facebook in the US, in the likes Alibaba and Tencent in emerging markets... And they've driven the returns in those markets at superior levels to what we've seen in Europe because Europe hasn't really had those global giants emerging over recent years.

But I think it's easy to be distracted by that. I think Europe has some true leaders in certain sectors. For instance, luxury goods, we have companies like Hermes, LVMH, Gucci, which are leading that sector. Europe is a leader in renewable energies: Vestas and Siemens GEMESA are the two largest wind turbine manufacturers in the world. Sportswear companies Puma and Adidas as well are world leaders in their respective fields. There are many great businesses within Europe for investors to choose from.

So let's not be too downbeat about Europe within the global context, because we have some real leaders here, let's capture these opportunities and not be too distracted by what's going on in other regions.”

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