

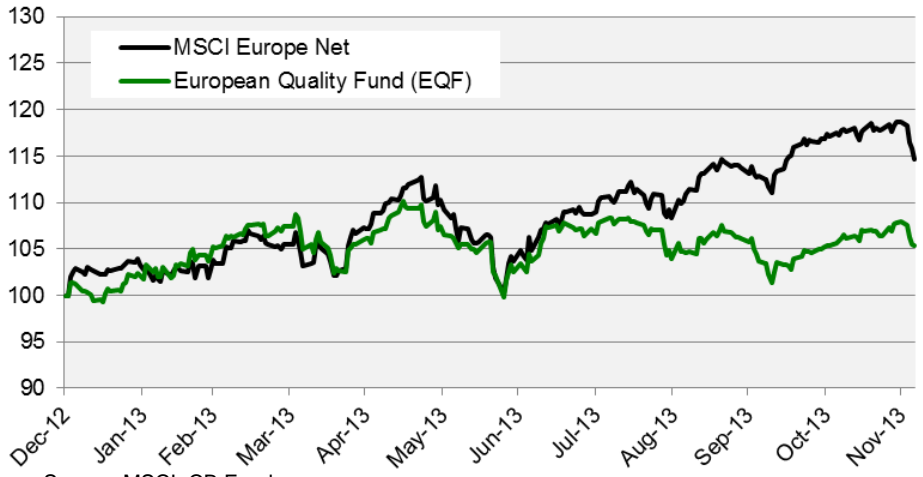
# CB FONDER

Europe – our view

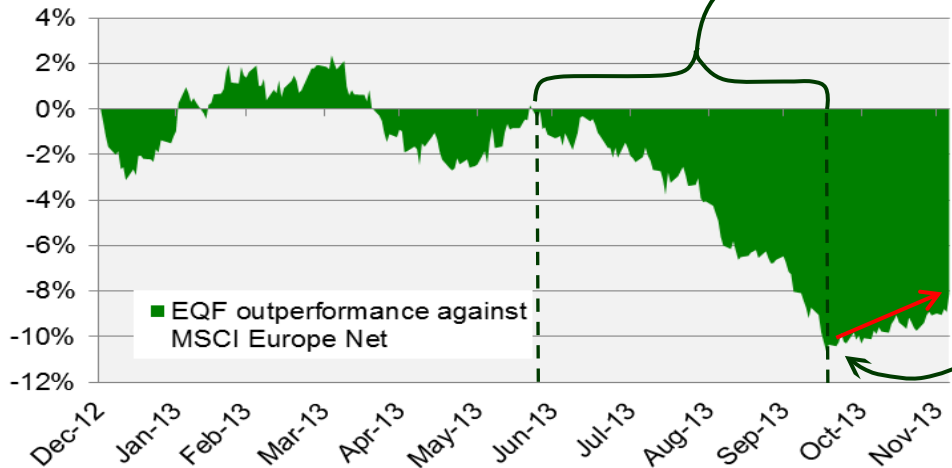
2013-12-06

# We have seen a strong market rotation...

The fund's performance against MSCI Europe, YTD, EUR



Source: MSCI, CB Fonder



Source: MSCI, CB Fonder

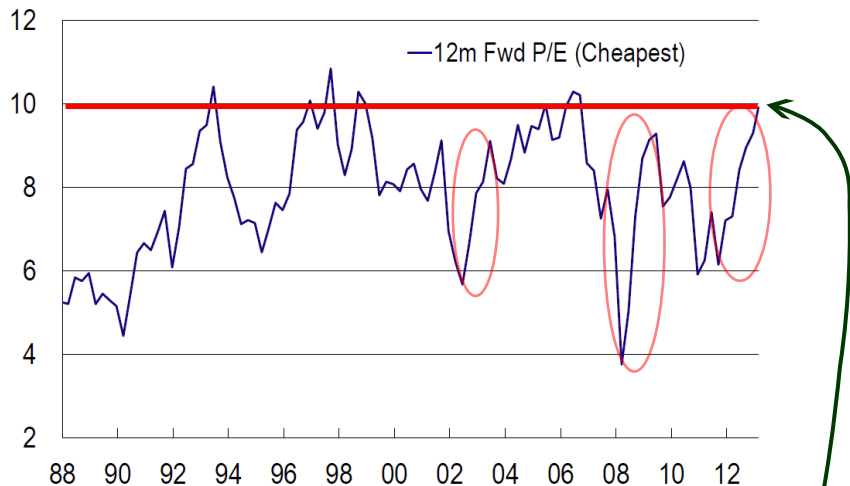
*Jun-Oct 2013:  
Strong market rotation with a  
significant underperformance  
for quality companies*

*October 17: Trend reversal*

# ...in which value has outperformed quality

- We have seen three large market rotations in the past decade, all triggered by expected cyclical troughs (2003, 2009 and 2013). In these periods, the cheapest stocks (i.e. value) have become much more expensive in a short period of time.
- The prior occasions of this sort have all led to unsustainable valuation levels for value companies relative to quality companies.

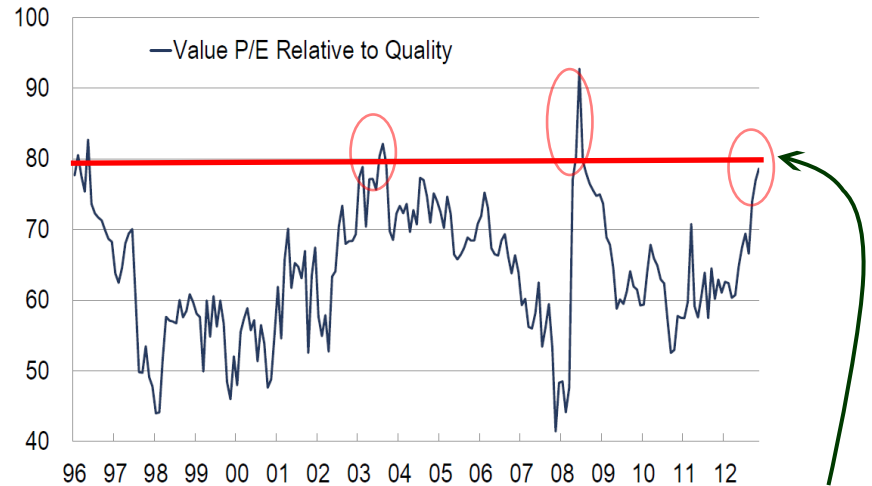
### MSCI Europe, cheapest quartile



Source: Datastream & Citi Research  
Comments: CB Fonder

*P/E 10: Value historically expensive*

### MSCI Europe: Value relative to Quality



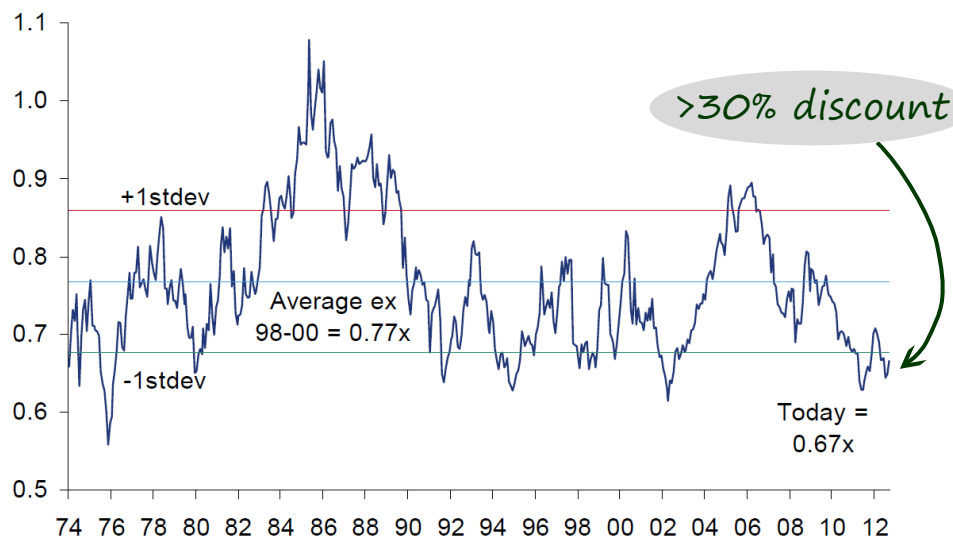
Source: Citi Research  
Comments: CB Fonder

*20% discount: The quality premium is historically low*

# Europe is attractively valued relative to the US, from a historical perspective...

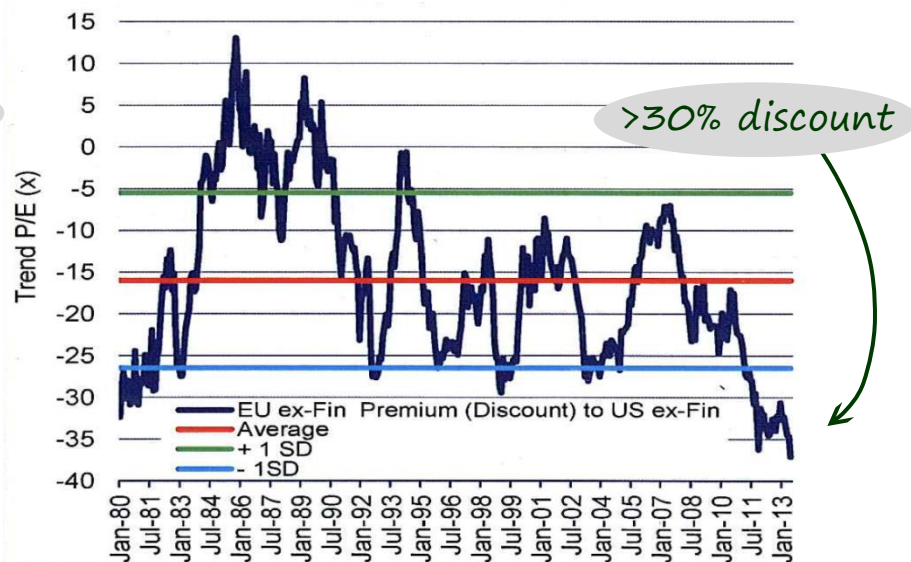
- Europe trades at one standard deviation below the historical average for the relative P/B ratio against the US.
- Europe trades at a record discount on the P/E ratio relative to the US (*ex-Financials*).

## Europe relative to the US, P/B



Source: European Investment Strategy, IBES, MSCI

## Europe relative to the US, P/E

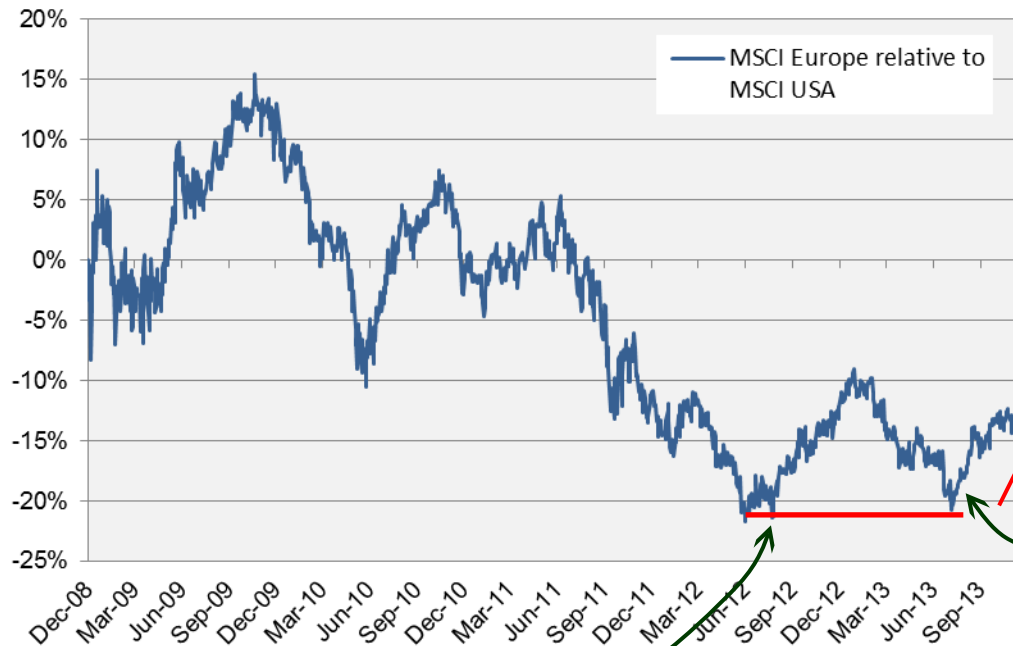


Source: Mirabaud, Henderson Global Investors

# ...and has strong momentum, technically speaking, against the US market

- Over a 5-year period Europe has underperformed significantly against the US.
- However, earlier this year we saw a double bottom reversal being formed, which can be seen as a very positive signal for Europe relative to the US.

MSCI Europe relative to MSCI USA, 5 years, EUR

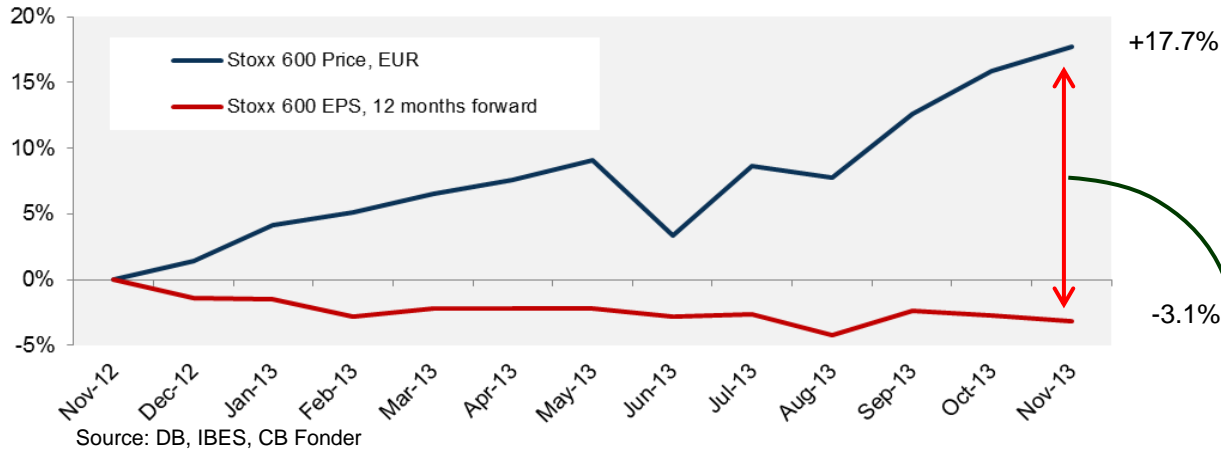


*Draghi declares: "The Euro is irreversible"*

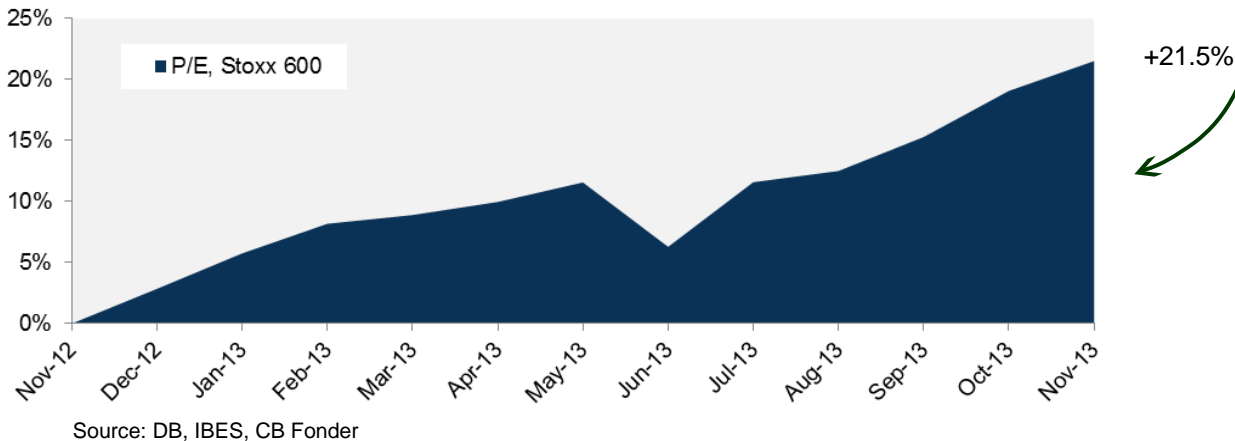
*May 2013 - today:  
Large inflows into  
European equities*

# The market has gained, but earnings estimates have come down...

Price and EPS (12 m fwd), Stoxx 600, 1 year



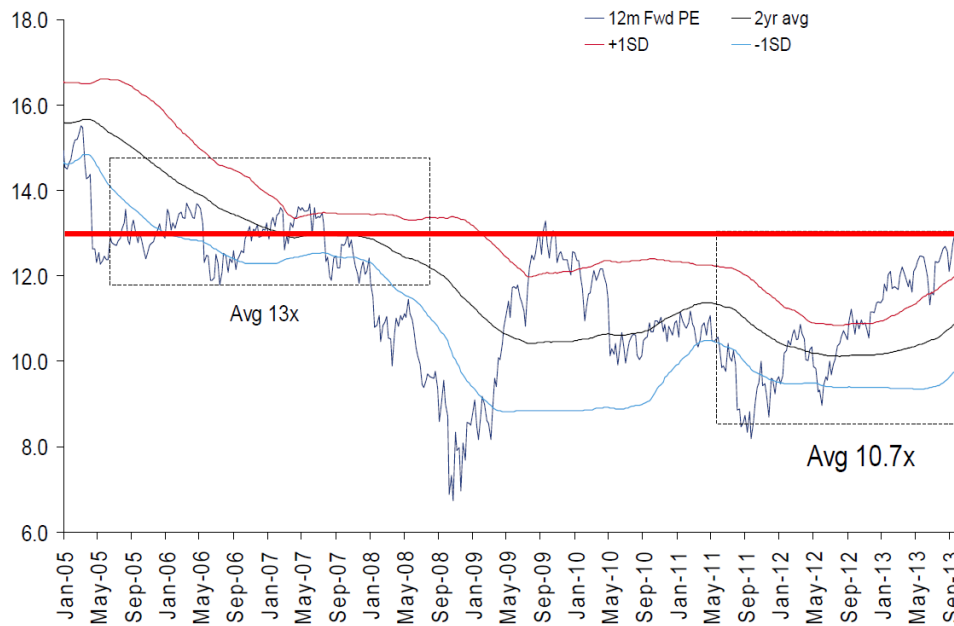
P/E, Stoxx 600, 1 year



Prices up, profit estimates (12 m fwd) down  
 ➔ Multiple expansion

# ...and the market is no longer cheap

- Europe is valued at 13 times earnings (12 m fwd), which is in line with the valuation at the latter part of the 2003-2007 bull market.



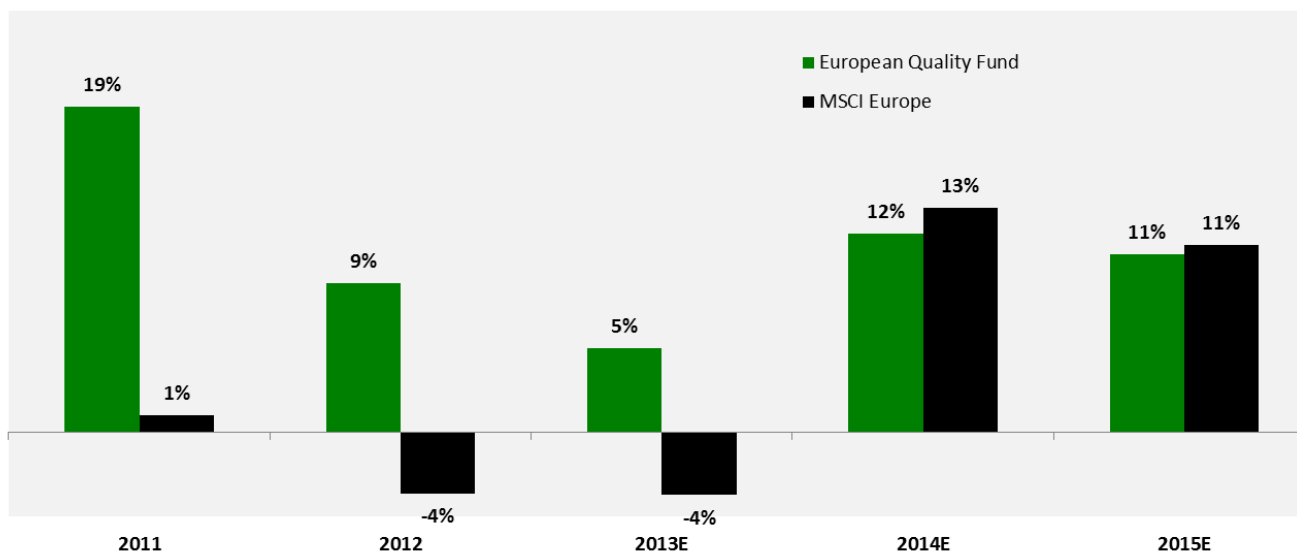
*In order to see rising asset prices without overvaluation tendencies, we need to see an expansion of the denominator (profits) going forward.*

Source: BofA Merrill Lynch European Investment Strategy, Datastream  
Comments: CB Fonder

# Earnings estimates for MSCI Europe 2014-15 in danger

- During the past three years, earnings estimates for the index have been revised downward from around 10% to almost zero or negative profit growth.
- For 2014 profits are once again expected to rise. If history repeats itself estimates for the index will come down.
- At the same time, our holdings in European Quality Fund have delivered stable earnings growth. We are comfortable that they will do so next year too.

*We therefore believe that the profit estimates for 2014 and 2015 represents much more certain predictions for the companies in the fund than for the index as a whole.*



Source: DB, IBES, CB Fonder



# Appendix 1: European Quality Fund

## Investment focus

**European Quality Fund** was launched in 1995 and is a long-only fund investing in large and medium-sized European companies. The investment universe of the fund is comprised by stocks included in MSCI Europe. The fund is focused on western European companies and has no exposure to the so called PIIGS countries.

## Objective

**European Quality Fund** has two benchmarks: to, over any given 36 month period generate a positive return and to outperform the European benchmark index (MSCI Europe) over any given 12 month period. In addition, the fund's risk, as measured by standard deviation, should be lower than the corresponding risk measure for the benchmark index, MSCI Europe.

## Investment model

The fund invests in European companies with a stable profit growth, i.e. companies that the portfolio managers estimate have the ability to maintain profit levels even during a recession. The portfolio is highly concentrated, with 20-33 holdings. The investment perspective is long-term in the sense that there is no short-term trading. As the portfolio managers allocates with individual stocks potential in mind, as opposed to relative weights in different indices, the fund performance may differ substantially from the market performance.

## The 10 largest positions as of 2013-11-30

Company	Country	Sector	Market cap, € bn	Share of AUM	Share of MSCI Europe	EPS growth, 2014E	EPS growth, 2015E
Fresenius	Germany	Healthcare	18.6	8.71%	0.20%	15%	14%
Rolls Royce	UK	Industrials	28.0	7.65%	0.44%	7%	9%
Linde	Germany	Materials	27.9	6.81%	0.44%	12%	11%
Henkel	Germany	Consumer Staples	33.5	6.36%	0.38%	9%	8%
Volkswagen	Germany	Consumer Discr.	88.9	5.16%	0.44%	16%	13%
Syngenta	Switzerland	Materials	26.5	4.82%	0.42%	22%	12%
BASF	Germany	Materials	72.1	4.75%	1.14%	10%	9%
Spirax-Sarco	UK	Industrials	2.7	4.64%	0.00%	7%	9%
Nutreco	Holland	Consumer Staples	2.4	4.58%	0.00%	11%	9%
Legrand	France	Industrials	11.1	4.19%	0.17%	11%	8%
Total/Average	-	-	31.2	57.67%	3.63%	12%	10%

Large deviation from index;  
Active Share for the fund: 93%

## Appendix 2: Share classes

### CB European Quality Fund, SICAV A

- Management fee: 1.5%
- Performance fee: 0%
- Dividend: No
- ISIN: LU0112589485

### CB European Quality Fund, SICAV I

- Management fee: 0.5%
- Performance fee: 20% of outperformance against MSCI Europe Net, with a collective, eternal and relative High-water mark
- Dividend: No
- Minimum investment: €1 million
- ISIN: LU0806934948

### European Quality Fund, BVI Distribution

- Management fee: 1.5%
- Performance fee: 0%
- Dividend: Yes, 6% of NAV as per the last of October each year
- ISIN: VGG3193T1268