CB FONDER

Why we find Europe attractive, again

After having returned 31% in absolute terms and outperformed MSCI USA by 10% since our last European forecast, we once again find Europe attractive relative to the US. Today, Europe trades at historical lows in terms of relative P/B and P/E ratios and looks attractive from a technical standpoint as well.



Carl Bernadotte
Portfolio Manager

Marcus Grimfors
Portfolio Manager

Alexander Jansson
Portfolio Manager

In June last year, we forecasted that Europe was an attractive exposure both in absolute terms and relative to the U.S. market (read the analysis here); to date, the MSCI Europe index has returned +31% compared to +21% for the MSCI USA index (in EUR). Our view of Europe (relative to the U.S.) remains positive. Below is a fundamental and a technical reason for it, and why we think our European fund, CB European Quality Fund, now offers an interesting opportunity to get exposure to this trend.

1. Valuation. In terms of price-to-book value (P/B ratio), Europe trades at more than one standard deviation below the long-term average relative to the U.S. market. In terms of price-to-earnings (P/E ratio), Europe trades at a record discount relative to the U.S.

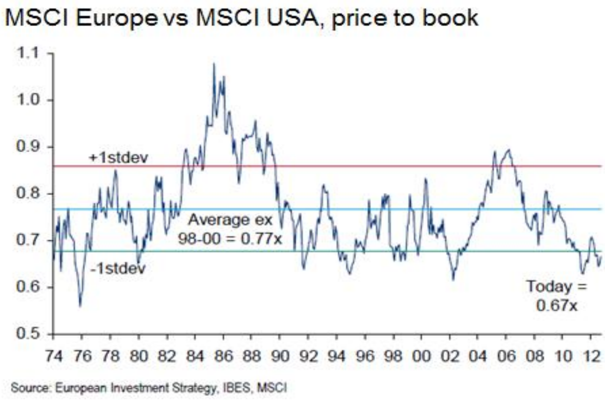
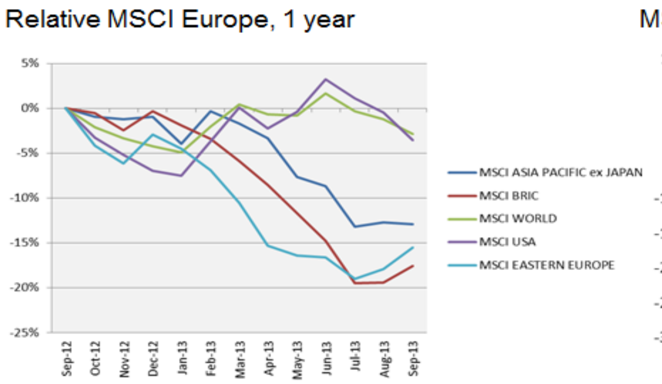


Figure 1 and 2. *P/B and P/E ratios for MSCI Europe are at historical lows relative MSCI USA.*

2. Technically. MSCI Europe has over the past year outperformed all other major indices. Relative to the MSCI USA, MSCI Europe has created a textbook example of a double bottom reversal which can be a very bullish signal for Europe relative to the U.S. Data as of 2013-09-26, in EUR.



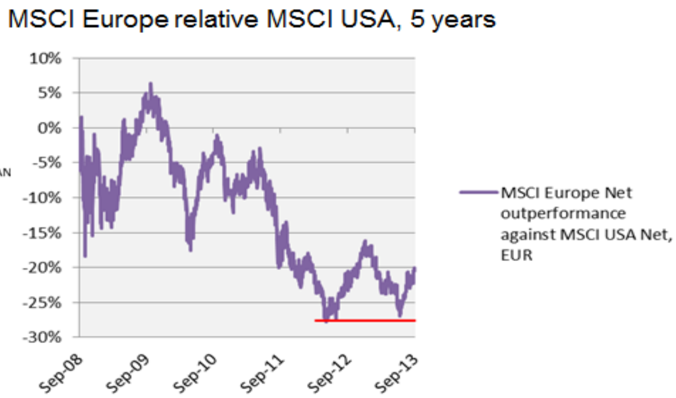


Figure 3 and 4. *MSCI Europe has outperformed all major indices the past year and the relative performance vs. MSCI USA has formed an interesting technical signal. Data as of 2013-09-26 (in EUR).*

3. CB European Quality Fund (EQF). Our European portfolio holds European quality stocks with stable earnings - a strategy that historically delivered above average return with lower than average risk. The graph below shows the performance for the last five years. Data as of 2013-09-26, in EUR.

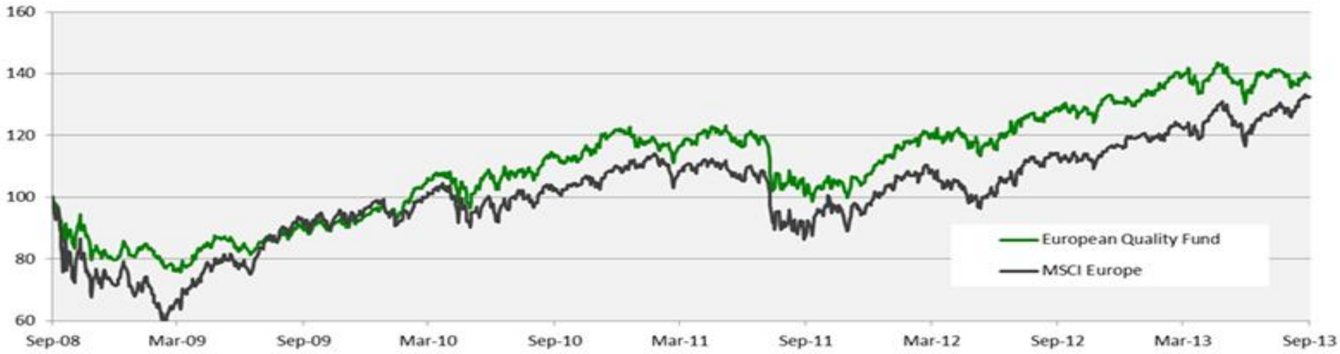


Figure 5. *Five-year return for CB European Quality Fund and MSCI Europe Net. Data as of 2013-09-26 (in EUR).*

However, the fund has underperformed the MSCI Europe index the past 15 months, which is a historically long period. The simple explanation is that our holdings do not have the "leverage" (cyclicality) to an economic recovery – particularly in Europe – that the market has been chasing recently. This has also led to the fact that the portfolio today trades at a historically low valuation relative to the MSCI Europe index. We are not saying that the relative trend has shifted. However, when it happens we see that there is a big relative potential. Please see the below explanatory chart. Data as of 2013-09-26, in EUR.

1. During the period November 2009 – November 2010, EQF outperformed the index about 20%.
2. During the period February 2011 – September 2011, EQF outperformed the index about 23%.
3. During the period October 2011 – May 2012, EQF outperformed the index about 11%.
4. The accumulated outperformance since the market peak in 2007 has rarely been below 5% (red line). That is the level we are at today.

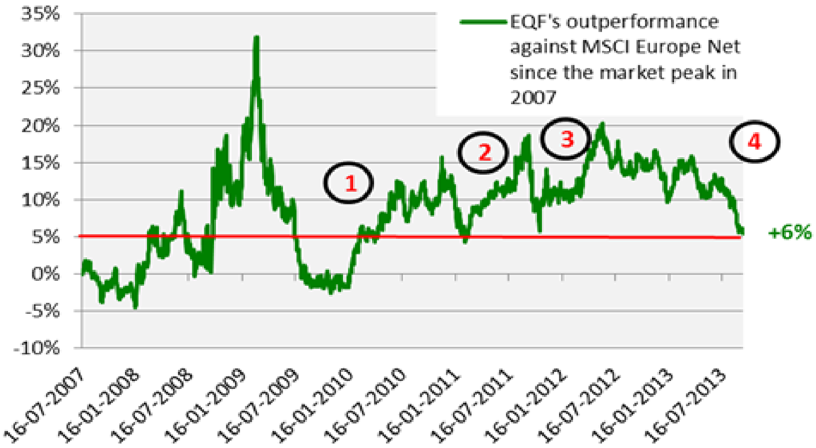


Figure 6. *Illustration of the outperformance of CB European Quality Fund vs. MSCI Europe Net since the market peak in 2007. Data as of 2013-09-26 (in EUR).*

4. Active management charged as passive/an ETF. The I-class of the fund (minimum investment €1 million, ISIN: LU0806934948) charges a management fee of 0.5% p.a. and a performance fee of 20% of outperformance against MSCI Europe Net. Because of the recent underperformance and the applicable high-water mark (collective and eternal), there is now an 8% window until the index is reached and where a performance fee can be charged. In other words: the next 8% of outperformance against MSCI Europe Net will come with only 0.5% management fee p.a.

PS. If you have an interest in extra dividends, EQF Distribution (ISIN: VGG3193T1268) pays a dividend of 6% on 31 October 2013. The money will be paid out in the middle of November.

If you have any questions or remarks, please contact us by e-mail info@cbfonder.se or by phone +46 8-566 133 10.