

Henderson Horizon Pan European Equity Fund

February 2017

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Overview

February has been a good month for equity markets in Europe. Markets have been buoyed by a continuation of the 'Trump rally' in the US, and by further encouraging signs of economic growth and inflation returning to Europe. This has continued to fuel the 'reflation trade' that has now been in place for almost 12 months. As ever in Europe, the path has not been straightforward.

Performance and activity

There has been a distinct increase in what might be called 'Eurostress'. While Greece is a well-known issue, concerns have spread first to Italy and now more recently to France. In the latter case the May/June Presidential elections have been further complicated by the furore over payments by Francois Fillon (the dynamic and credible Right Wing candidate) to his family. While the payments are legal, it is disputed as to whether the family actually did any work for him. This has led to a widening in French government bond yields when compared to their German equivalent, reflecting a heightened risk premium. This in turn has hit French banks where we now have a heavy weighting. That weakness, along with poor performance from UBS, has contributed to our underperformance. The huge jump in Unilever's share price (a stock we do not hold) after the approach from Kraft to buy the company, also had a negative impact on our relative performance. On the positive side Amundi and Heineken and Relx all performed well.

During the month we further reduced exposure to the UK by selling both Lloyds Bank, after a strong rally, and Babcock, where we remained concerned that the UK government will continue to be a difficult client. We also expect Article 50 to be exercised early in March and we remain concerned that the government has no clear plan for what sort of relationship the UK will have with its closest market place (inhabited by around 400 million people).

Outlook

Over the last nine months we have increased the fund's exposure to both financials and industrials on a selective basis, with the latter concentrating on those more economically sensitive names. While we continue to hold many of our reliable growth names that have lagged, we feel that the valuations of these have now reached attractive long-term levels. The bid approach to Unilever is a clear demonstration of attractive valuation through a long-term lens. Politics will continue to make headlines in Europe, but we feel the fund is well positioned to benefit from both the stronger economy and the improvement in consumer demand.

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