



As at 30 June 2006

## PRU Pan European Fund

Investors remained hesitant in June following the previous month's severe fall in European equity markets. Over the month, the PRU Pan European Fund fell 1.43%, underperforming the FTSE World Europe including UK Index, which returned 0.78%.

German property business Vivacon was among the major detractors over the month. Shares in the company fell heavily after a deal with a Canadian pension fund fell through. A recent attempt to float Vivacon's property management business also failed. These factors led us to sell our holding in the company.

Emerging market stocks continued to struggle in June with investors preferring more defensive sectors, most notably retailing and healthcare. Our holding in Turkish bank *Turkiye Vakiflar* dampened the Fund's performance. Shares in the business fell heavily after the Turkish Central Bank raised interest rates for the second time in two months in a bid to stabilise the country's currency and stem inflation. Despite this setback, we maintain our confidence in *Turkiye Vakiflar* and believe that the bank remains an attractively valued investment opportunity. Shares in *Titan Cement*, a Greek cement manufacturer, also fell because of the reduced appetite among investors for risk. Our positive opinion of *Titan Cement* remains unchanged and we believe the company offers excellent prospects thanks to its presence in fast-growing markets, including Bulgaria.

Smaller companies lagged their larger peers over the month due to investors' lower appetite for risk. The Fund's overweight position in smaller companies therefore hurt performance.

High levels of gambling during the World Cup lifted shares in Greek lottery operator *Opap*. Revenues at the business from the World Cup are expected to reach €400 million comfortably, surpassing initial estimates of €200 million. *Opap*'s success was attributed to the increased payout of its fixed odds betting game known as *Stihima*.

Speculation that *Kraft Foods* might be interested in buying French food giant *Danone* spurred a rally in the company's share price. Takeover rumours regarding *Danone* first started last summer when a bid from *PepsiCo* was expected. A noticeable preference for defensive sectors such as food producers among investors, as they remained nervous about markets, also lifted *Danone*'s shares. Swiss pharmaceuticals giant *Roche* benefited from the flight to quality as well. In addition, positive feedback regarding the company's cancer drugs boosted the share price.

Over the month, we sold our position in Swiss financial services group *Zurich Financial Services*. The business is highly sensitive to interest rates and we believe there were more attractively valued investment opportunities elsewhere, including German tyre manufacturer *Continental*. The company's management team has worked hard to cut costs, moving operations to less expensive areas, such as Eastern Europe and we are confident about growth prospects. We have previously held *Continental* and sold our holding in the company in May last year. At the time, we were concerned about the negative impact of a potential slowdown in car manufacturing on the automotive side of the business that produces safety protection systems, including brakes.



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# Monthly Market & Fund Commentary

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