



Aberdeen

Pan Europe Update

Market Overview

European markets fell in January on renewed risk aversion, as the FTSE World Europe Index closed 3.8% lower. Sentiment was hurt by credit tightening in China, proposed banking curbs in the US and sovereign debt fears. Defensive sectors such as consumer goods and services as well as health care proved resilient, whereas basic materials and financials lagged.

Markets in Greece, Portugal and Spain saw heavy sell-offs, as concerns about the fiscal health of Europe's peripheral countries escalated. The European Commission reproached Greece for falsifying its public debt data, even as the country announced an ambitious three-year plan to curb its massive budget shortfall. Fitch cut Greece's debt rating to BBB plus. Subsequently, Greece issued €8 billion in new debt but the heavy oversubscription failed to assuage fears. Deficit worries soon spread to Spain and Portugal, leading to a spike in the cost of underwriting the sovereign debt for the three countries. The euro also sank to near eight-month lows against the US dollar.

On the policy front, the European Central Bank and Bank of England kept interest rates unchanged, as was widely expected. Inflation in the Eurozone, Switzerland and the UK accelerated but slowed unexpectedly in Germany as jobless fears dampened consumption.

Eurozone services and manufacturing activity expanded sharply in December but unemployment remained a key worry. The region's jobless rate worsened unexpectedly to the highest level in more than 11 years, with job prospects weakening in Italy, Germany and Spain.

In Germany, the government raised its 2010 growth forecast, as exports picked up, but cautioned that the recovery was still fragile. Industrial orders were resilient although production fell, while business confidence improved.

The UK, meanwhile, became the last major economy to turn around, though fourth-quarter GDP expanded only marginally. In a setback for its financial services sector, Standard & Poor's downgraded UK banks, citing their high dependence on state support. It said the weak economy would continue to hinder the country's credit profile and warned of further downgrades if the government failed to tackle the record budget deficit.

Looking ahead, sovereign debt risk is likely to continue to weigh on sentiment. As it is, the ECB may have to halt the withdrawal of emergency lending measures, given that fiscal problems have severely eroded confidence in Europe's economic recovery. The possibility of a bailout package for Greece has been raised, but both Germany and France have reiterated that the country needs to first put its fiscal house in order. The tone could change if uncertainty over a resolution to Greece's debt problems further unnerves markets and contagion spreads to the rest of the continent.

Model Portfolio News (Pan Europe)

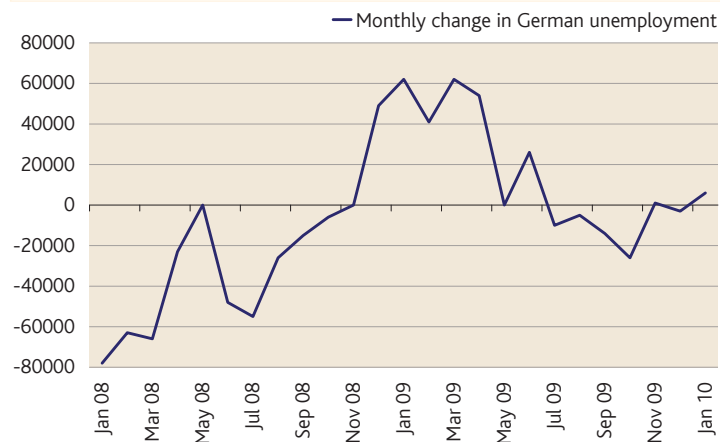
In portfolio activity, we pared Mothercare and Portugal Telecom on recent relative strength. Against this, we added to Standard Chartered, which has exposure to growing Asia markets and a conservative balance sheet, and Rolls Royce, which has a robust order book and recurring revenue from its aerospace business.

Note:

The changes mentioned in this part refer to our model portfolio, which is the basis for actual portfolios we manage that have similar investment objectives. However, there might be minor variations among these, so the above descriptions might not apply to the actual portfolios.

Pan Europe Update

Focus: Jobs on the line



Source: Bloomberg, 31 Jan 10

Germany's labour market continues to hold up well but longer-term job prospects appear more uncertain. The Kurzarbeit scheme, under which the government subsidises wages, has kept unemployment largely in check, with the latest monthly jobless total – for January – lower than expected. But the country's industry-led recovery appears to be faltering, given the recent weakness in industrial production. Signs of further cost cutting by businesses, along with the expiry of Kurzarbeit subsidies later in the year, will offer a stern test of the labour market's resilience.

Corporate News

Basic Materials: BHP Billiton reported solid growth in petroleum and iron ore production. Separately, it approved US\$2 billion of capital expenditure to expand iron ore capacity in Western Australia and separately bought Canada's Athabasca Potash.

Consumer Goods: BMW China reported the best sales growth for the group, rising by 38% last year against a 10% decline worldwide.

Consumer Services: Mothercare posted higher third-quarter sales, as international demand remained solid.

Financials: Aviva acquired US equity manager River Road Asset Management, as it sought to expand its third-party institutional business in North America. Spain's **BBVA** reported strong income growth and good cost control for the full year, but profits fell as the lender took write-downs and provisions in anticipation of a challenging year ahead.

Health Care: Novo Nordisk's diabetes drug Victoza received regulatory approval in Japan.

Industrials: MAN will merge its military vehicle business with Rheinmetall. It is also expanding capacity at its Brazilian production plant to meet growing demand for commercial vehicles in Latin America. **ThyssenKrupp** raised the projected start-up costs for a new plant in Brazil and a stainless steel mill in the US. **Rolls Royce** will supply engines for up to 90 Jetstar aircraft.

Oil and Gas: Total will buy 25% of Chesapeake Energy's shale gas assets, in a deal worth up to US\$2.25 billion. **OMV** announced that Abu Dhabi-based IPIC increased its shareholding in the company to 20%. **Amec** won a contract to provide engineering services for new UK gas storage facilities and acquired a small Australian project services consultancy. Italy's energy company **Eni** will develop oil fields in Venezuela.

Utilities: Centrica denied it plans to cut 5000 jobs in the UK. **GDF Suez** plans to partner Areva to develop nuclear reactors. Meanwhile, the former said it has not ruled out future talks with International Power after negotiations broke down earlier.

We hold the companies highlighted above.

Pan Europe Update

Performance of European Stock Markets[^]

| Region/Country | Index/Fund | USD Dollars | | | Local Currency | | |
|--------------------------|-----------------------------------|-------------|---------|---------|----------------|--------|--------|
| | | MOM | 3M | YTD | MOM | 3M | YTD |
| Developed Markets | | | | | | | |
| UK | FTSE Allshare | -4.38% | 0.97% | -4.38% | -3.56% | 3.67% | -3.56% |
| UK | FTSE 100 | -4.89% | 0.91% | -4.89% | -4.08% | 3.61% | -4.08% |
| UK | FTSE 250 | -1.48% | 1.82% | -1.48% | -0.64% | 4.55% | -0.64% |
| UK | FTSE Small Cap | 0.43% | -1.47% | 0.43% | 1.29% | 1.17% | 1.29% |
| UK | FTSE 350 Real Estate | -7.81% | -6.10% | -7.81% | -7.03% | -3.59% | -7.03% |
| Europe | FT Europe | -5.91% | -1.62% | -5.91% | -3.76% | 2.93% | -3.76% |
| Europe | FT Europe ex UK | -6.43% | -2.66% | -6.43% | -3.65% | 2.62% | -3.65% |
| Denmark | Denmark - OMX Copenhagen 20 Index | 2.02% | 3.17% | 2.02% | 5.39% | 9.51% | 5.39% |
| Finland | Finland - OMX Helsinki 25 Index | -1.97% | 5.06% | -1.97% | 1.21% | 11.47% | 1.21% |
| France | France - CAC 40 | -7.93% | -1.74% | -7.93% | -5.00% | 4.25% | -5.00% |
| Germany | Germany - DAX | -8.81% | -2.38% | -8.81% | -5.85% | 3.58% | -5.85% |
| Ireland | Ireland - ISEQ Overall Index | -3.03% | -1.96% | -3.03% | 0.05% | 4.02% | 0.05% |
| Italy | Italy - MIB30 | -8.48% | -6.15% | -8.48% | -5.82% | -0.37% | -5.82% |
| Netherlands | Netherlands - AEX | -5.23% | 2.63% | -5.23% | -2.22% | 8.90% | -2.22% |
| Norway | Norway - OBX | -4.66% | 6.54% | -4.66% | -2.80% | 10.20% | -2.80% |
| Portugal | Portugal - PSI 20 | -9.23% | -10.43% | -9.23% | -6.34% | -4.96% | -6.34% |
| Spain | Spain - IBEX | -11.05% | -8.39% | -11.05% | -8.16% | -2.80% | -8.16% |
| Sweden | Sweden - OMX Stockholm 30 Index | -2.61% | -3.14% | -2.61% | 0.21% | 0.96% | 0.21% |
| Swiss | Swiss - SMI | -3.84% | -1.01% | -3.84% | -1.61% | 2.47% | -1.61% |
| World | MSCI AC World Free | -4.30% | 1.77% | -4.30% | -3.70% | 3.11% | -3.70% |
| World | Citigroup World Government Bond | 0.13% | -1.90% | 0.13% | 0.13% | -1.90% | 0.13% |

[^] Total indices performance table for the month ended 31 Jan 10

During the month, we met the following companies:

Austria: Zumtobel

France: Medica

Germany: Deutsche Post, E.ON, ElringKlinger, Palfinger, Salzgitter, SGL Carbon and Wincor Nixdorf

Greece: Jumbo

Italy: Banca Popolare Di Milano

Spain: BBVA and Indra

Switzerland: SGS and Dufry

UK: Berkeley Group, Braemar Shipping, British Land Company, Cairn Energy, Chemring, IG Group, Interserve, Kesa Electricals, McBride, Pinewood Shepperton, PZ Cussons, Real Estate Investors, Rentokil Initial, Sage and Tesco

Pan Europe Update

For more information

Client Services Team

Tel: +65 6395 2701

Fax: +65 6438 0743

Aberdeen Asset Management Asia Limited

21 Church Street

#01-01 Capital Square Two

Singapore 049480

Tel: +65 6395 2700

Fax: +65 6535 7159

www.aberdeen-asia.com

Important information

This document is not an advertisement and does not constitute or form part of any offer or solicitation to issue, sell, subscribe or purchase any investment nor shall it or the fact of its distribution form the basis of or be relied on in connection with, any contract for the same. The contents in this document are for information, illustration or discussion purposes only and should not be construed as a recommendation to buy or sell any investment product and do not purport to represent or warrant the outcome of any investment product, strategy program or product. Reference to individual companies or any securities or funds is purely for the purpose of illustration only and should not be and should not be construed as a recommendation to buy or sell or advice in relation to investment, legal or tax matters.

Any research or analysis used to derive, or in relation to, the above information has been procured by Aberdeen Asset Management Asia Limited ("Aberdeen Asia") for its own use, without taking into account the investment objectives, financial situation or particular needs of any specific investor, and may have been acted on for Aberdeen Asia's own purpose.

Aberdeen Asia does not warrant the accuracy, adequacy or completeness of the information herein and expressly disclaims liability for any errors or omissions. The information is given on a general basis without obligation and on the understanding that any person acting upon or in reliance on it, does so entirely at his or her own risk. Any projections or other forward-looking statements regarding future events or performance of countries, markets or companies are not necessarily indicative of, and may differ from, actual events or results. Aberdeen Asia reserves the right to make changes and corrections to the information, including any opinions or forecasts expressed herein at any time, without notice. No reliance may be placed for any purpose on the information and opinions contained in this document or their accuracy or completeness.

This document may not be reproduced in any form without the express permission of Aberdeen Asia and to the extent it is passed on, care must be taken to ensure that this reproduction is in a form that accurately reflects the information presented here.

Aberdeen Asset Management Asia Limited, Registration Number 199105448E