



Pan Europe Update

Market Overview

European equities fell sharply in May, amid volatile trading caused by the ongoing debt crisis. Germany's unilateral ban on naked short-selling and increased tension on the Korea peninsula also unsettled markets. The euro continued to lose ground against the US dollar after Spain's credit downgrade sparked fresh concern over Eurozone sovereign debt.

Banks were among the laggards, weighed down by anxiety over the health of the region's financial sector – the ECB forecast that lenders face the risk of a further €195 billion worth of loan write-downs in a second wave of losses from the financial crisis – and news that the Spanish central bank had taken control of one of its larger regional players.

First-quarter GDP growth in the Eurozone was ahead of expectations, driven largely by the rebuilding of inventories, while a strong rebound in industrial production and business services supported the UK economy. But more recent economic indicators pointed to muted activity on the Continent. Retail sales in April disappointed, as uncertainty over jobs and government spending curbed consumer demand, while business and consumer confidence slipped in May, sparking fears that the incipient recovery may be derailed. In the UK, a drop in mortgage approvals and net lending for the same period renewed doubts over the sustainability of recent stabilisation in house prices.

The ECB left interest rates unchanged as inflation stayed below its target ceiling. The Bank of England also kept rates steady and refrained from any further asset purchases as it sought to provide markets with some stability after the election delivered a hung parliament. By the end of June, the new chancellor will have outlined cuts to the deficit in an emergency budget.

Europe's economic prospects look grim in the short term as it struggles with the debt problem. The EU and IMF have unveiled massive rescue packages for struggling peripheral nations, but investors remain fearful that should individual countries default, it is the banks left holding the debt which will be badly hit. This, coupled with stubbornly high unemployment and drastic cuts to fiscal spending, has fuelled worries over the possibility of a period of stagnation or even a double-dip. Financial markets are likely to suffer from further bouts of turbulence, amid the uncertainty and heightened risk aversion.

The outlook for corporate earnings growth, however, appears more encouraging. European companies that are exporting more to Asia and emerging economies to counter sluggish domestic demand have done well so far, with many of them benefiting from healthy profit margins. Our holdings appear poised to capitalise on any opportunities that arise in such uncertain times, given that they are well managed and have robust balance sheets.

Model Portfolio News (Pan Europe)

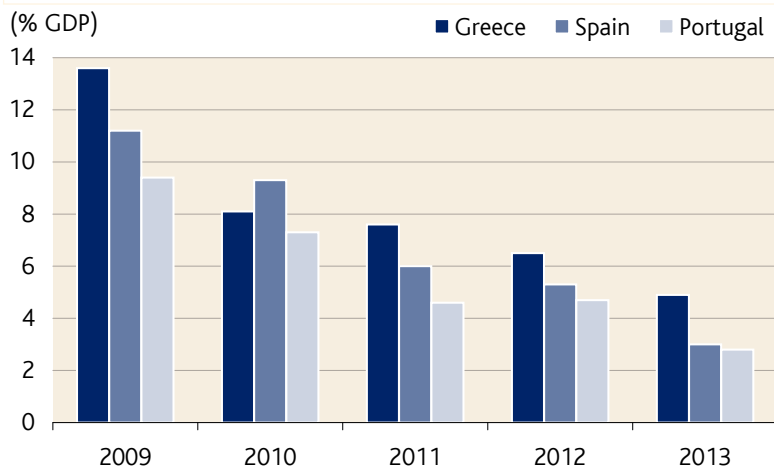
In portfolio activity, we introduced Tesco, a well-run supermarket operator with good long-term growth potential from its international expansion, and Weir Group, a solid industrial company with a broad client base and an established repeat business. Against this, we sold Millennium & Copthorne Hotels following its strong relative performance, and Portugal Telecom in view of better opportunities elsewhere.

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: Europe's austerity measures and the double-dip threat



Source: CLSA Asia-Pacific Markets, 20 May 2010

From trimming public spending, to slashing welfare benefits and raising taxes, Europe is embarking on a protracted period of austerity to bring its ballooning debts under control, with the troubled periphery aiming to halve its deficits by 2013 (see above chart). But fiscal consolidation is happening when the entire Eurozone has barely recovered from one of its deepest ever downturns. European leaders' challenge, therefore, is to implement their plans without jeopardising economic growth, which could lead to a double-dip recession. Still, fears of sovereign defaults have eased – for now at least.

Corporate News

Basic materials: Our holdings, such as **OMV**, **Linde** and **Fuchs Petrolub** reported positive first-quarter earnings that were aided by improving margins and demand growth.

Consumer goods: **Elringklinger** released solid first-quarter results that benefited from a rapid rebound in new car sales in many of its primary markets. **Unilever** is seeking partners in South Korea as part of its global strategy to increase sales.

Consumer services: Corporate results were mostly upbeat: a recovery in advertising and a robust performance from business-to-business markets underpinned **Daily Mail & General Trust's** interim earnings, while **Mothercare** saw continued domestic and international sales growth in the first half. For the March quarter, hotel operator **Millennium & Copthorne** posted strong growth with help from its Asian operations. **Lufthansa** saw a turnaround in passenger traffic, but higher fuel prices hurt profitability. The **Restaurant Group's** sales were resilient, although its airport concessions business was affected by the disruption of air travel caused by a volcanic ash cloud.

Financials: **Prudential** saw record sales in the first three months of the year, driven by robust performance in Asia; separately, it withdrew from its bid for **AIA**, after failing to negotiate a lower price for the Asian arm of US insurer **AIG**. First-quarter results were upbeat: **Zurich Financial Services** gained from robust growth in its global life and US Farmers Exchange businesses, while cost cuts and the acquisition of Fortis bank buoyed **BNP's** earnings. Despite lower net interest income, recovering commissions and cost cuts lifted **Intesa Sanpaolo's** profits. **Vienna Insurance Group's** results were solid, with healthy premium growth in several Eastern European markets and its life insurance business. **Intermediate Capital Group's** full-year results showed a sharp return to profitability and a steady dividend.

Health care: **GlaxoSmithKline** bought a 9.9% stake in South Korea's Dong-A Pharmaceuticals, strengthening its position in emerging markets. **Dechra Pharmaceuticals'** quarterly sales were driven by revenue from its flagship Vetoryl drug.

Industrials: Most of our holdings reported encouraging results: **ThyssenKrupp's** half-year earnings improved significantly on the back of higher productivity and cost savings. **Palfinger's** first-quarter revenue rose from the previous quarter for the first time since 2008, with profits supported by cost cuts. Although declining volumes in mature markets weighed on **Italcementi's** results in the March quarter, better performance in the emerging markets and

Pan Europe Update

cost cuts mitigated the losses. **Holcim** overcame the difficult trading environment in developed markets to register a rise in operating profits. In other news, UK building materials company **Travis Perkins** is in advanced discussions to acquire plumbing supplier BSS via a cash and share offer. France's **Saint Gobain** will construct a new flat glass plant in Brazil with its joint venture partner, while **Weir Group** will partner Mitsubishi Heavy Industries to develop activities in the UK nuclear developer market.

Oil and gas: **Royal Dutch Shell** will acquire most of US oil & gas company East Resources' assets for US\$4.7 billion, thereby increasing its exposure to shale gas. **BP** managed to place a cap over its ruptured oil well in the Gulf of Mexico, but it is still too early to tell if it is working optimally. The energy company assured investors that it has the financial wherewithal to absorb the costs associated with the spill.

Real estate: Our holdings posted positive full-year earnings. **Land Securities** was underpinned by improving market conditions and plans to increase development in London. **British Land's** higher rental income was driven higher by new office lettings and a resilient retail division. **Great Portland Estates** also did well and is in a solid position for new acquisitions. **Shaftesbury** reported a solid recovery in asset values and decent progress on both developments and rental growth during the interim period. **Helical Bar** swung back to profit for the full year; the company had earlier acquired a £50 million portfolio of industrial and commercial assets, located in London and the South East, from ING Real Estate Investment Management.

Technology: **Vodafone's** annual earnings were helped by growth in Asia Pacific and the Middle East, although gains were pared by impairment charges on its Indian operations because of stiff competition, as well as declining sales in Europe.

Telecoms: **Portugal Telecom** rejected Telefonica's offer to buy its stake in their Brazilian mobile joint venture Vivo.

Utilities: **National Grid** launched a £3.2 billion rights issue to fund future capital expenditure. **GDF Suez's** first-quarter earnings and net income fell because of lower gas and power prices. An increase in demand for energy boosted **E.On's** first-quarter earnings.

We hold the companies highlighted above.

Performance of European Stock Markets[^]

Region/Country	Index/Fund	USD Dollars			Local currency		
		MOM	3M	YTD	MOM	3M	YTD
Developed Markets							
UK	FTSE Allshare	-11.03%	-5.99%	-11.54%	-6.18%	-1.16%	-1.42%
UK	FTSE 100	-10.92%	-6.71%	-12.35%	-6.06%	-1.91%	-2.33%
UK	FTSE 250	-11.66%	-0.89%	-5.88%	-6.84%	4.21%	4.89%
UK	FTSE Small Cap	-11.74%	-5.41%	-10.02%	-6.92%	-0.55%	0.27%
UK	FTSE 350 Real Estate	-11.73%	-7.87%	-18.60%	-6.91%	-3.13%	-9.29%
Europe	FT Europe	-12.18%	-8.63%	-15.87%	-5.76%	-0.67%	-3.96%
Europe	FT Europe ex UK	-12.74%	-9.56%	-17.43%	-5.57%	0.00%	-4.59%
Denmark	Denmark - OMX Copenhagen 20 Index	-12.28%	0.06%	-0.01%	-5.54%	10.65%	16.59%
Finland	Finland - OMX Helsinki 25 Index	-13.00%	-4.77%	-7.93%	-6.08%	5.35%	7.38%
France	France - CAC 40	-12.76%	-12.35%	-21.61%	-5.83%	-3.04%	-8.62%
Germany	Germany - DAX	-9.95%	-3.70%	-14.16%	-2.79%	6.54%	0.12%
Ireland	Ireland - ISEQ Overall Index	-19.49%	-6.29%	-14.07%	-13.09%	3.68%	0.15%
Italy	Italy - MIB30	-14.38%	-14.68%	-26.14%	-7.33%	-5.04%	-13.95%
Netherlands	Netherlands - AEX	-13.49%	-7.10%	-16.14%	-6.61%	2.78%	-2.25%
Norway	Norway - OBX	-17.68%	-9.62%	-17.20%	-10.04%	-1.38%	-7.70%
Portugal	Portugal - PSI 20	-9.05%	-12.02%	-25.42%	-1.82%	-2.67%	-13.07%
Spain	Spain - IBEX	-16.10%	-16.73%	-31.33%	-9.44%	-7.88%	-19.92%
Sweden	Sweden - OMX Stockholm 30 Index	-13.31%	-3.13%	-3.00%	-6.66%	6.22%	5.90%
Swiss	Swiss - SMI	-10.58%	-10.06%	-11.15%	-4.25%	-3.33%	-0.89%
World	MSCI AC World Free	-9.39%	-3.31%	-6.25%	-7.18%	-0.84%	-2.87%
World	Citigroup World Government Bond	-1.05%	-3.08%	-2.71%	-1.05%	-3.08%	-2.71%

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

Source: Bloomberg

Pan Europe Update

During the month, we met the following companies:

France: Alstom, Gemalto, Rallye.

Germany: Adidas, Basf, Thyssenkrupp, Linde.

Italy: Intesa Sanpaolo.

Netherlands: KPN.

Norway: Kongsberg Gruppen.

Spain: Mapfre.

Switzerland: Novartis, SGS, Zurich Financial.

UK: Aveva Group, Aberforth Smaller Companies, ARM Holdings, Associated British Foods, Aviva, Bloomsbury, BP, Cobham, Compass Group, Daily Mail & General Trust, Davis Service, Easyjet, FirstGroup, GEA, Great Portland Estates, Halfords, Holidaybreak, Interserve, Keller, Land Securities Group, Meggitt, Morgan Sindall, National Grid Transco, Numis Corporation, Prudential, RM, Rugby Estates, Sage, Scottish & Southern Energy, Shaftesbury, Smiths Group, Unilever, Victrex, Vodafone Group.

US: Sierra Monitor.

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

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