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The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.

# Funds Event Luxembourg 2016

Henderson :

Is there still value in European Equities?

**Nick Sheridan**  
European Fund Manager



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# Defining Styles

# Equity styles and the Capital cycle

## Value

- Priced around Book
- EPS stable / improving
- Higher than average ROA/ROE
- Capacity neutral/reducing relative to demand

## Growth

- Priced at a high multiple of Book
- EPS growth is robust
- High ROA/ROE
- Capacity neutral/growing relative to demand

INCOME

## Deep Value

- Priced below Book
- EPS degrading
- Reducing ROA/ROE
- Capacity reducing relative to demand

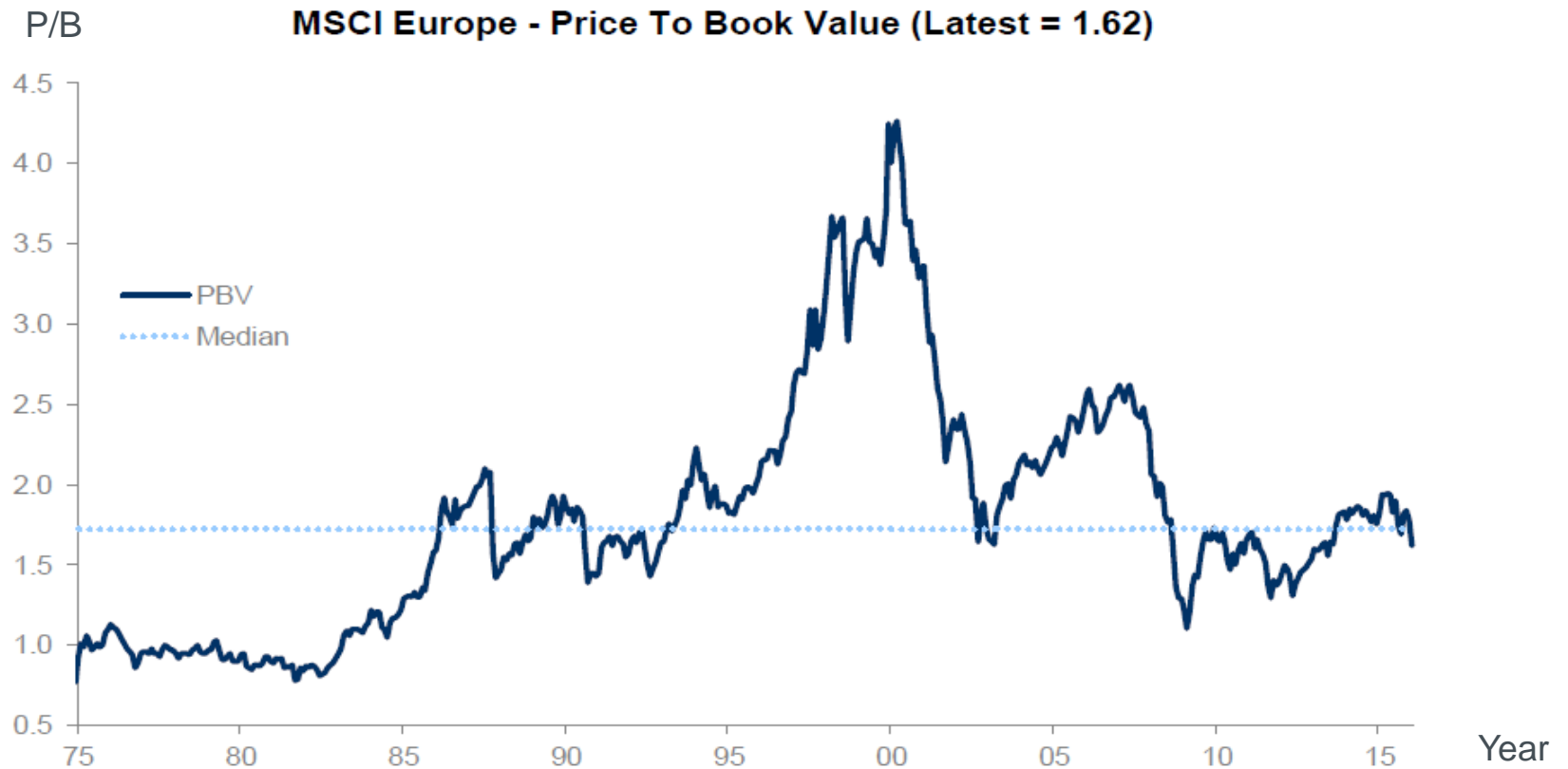
## Growth / Value Trap

- Priced below / around Book
- Recovering Earnings Profile
- Improving ROA/ROE
- Capacity growing relative to demand



# Europe P/B rating ?

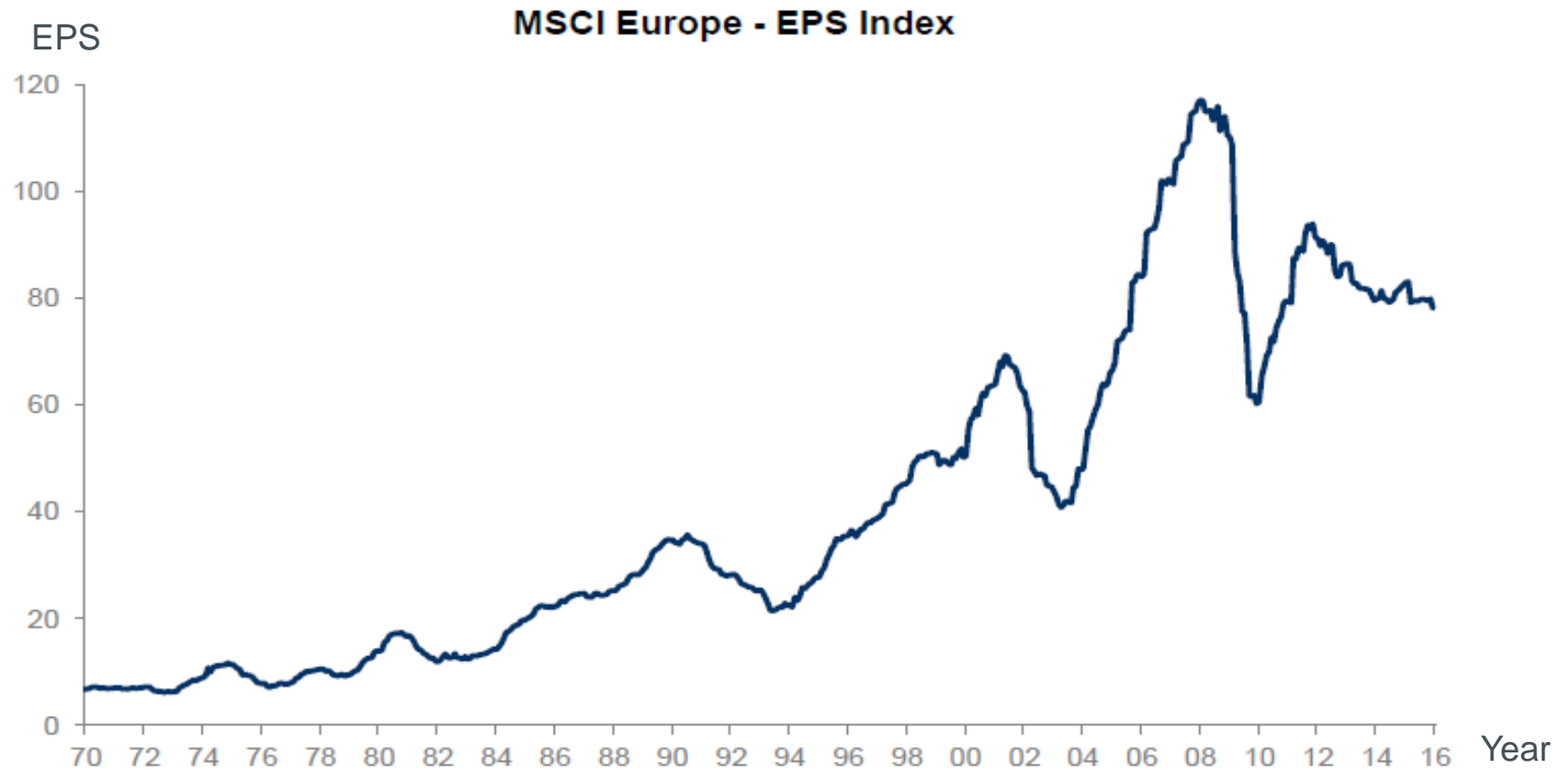
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Source: MSCI, Global Financial data, Morgan Stanley Research, as at 8 January 2016

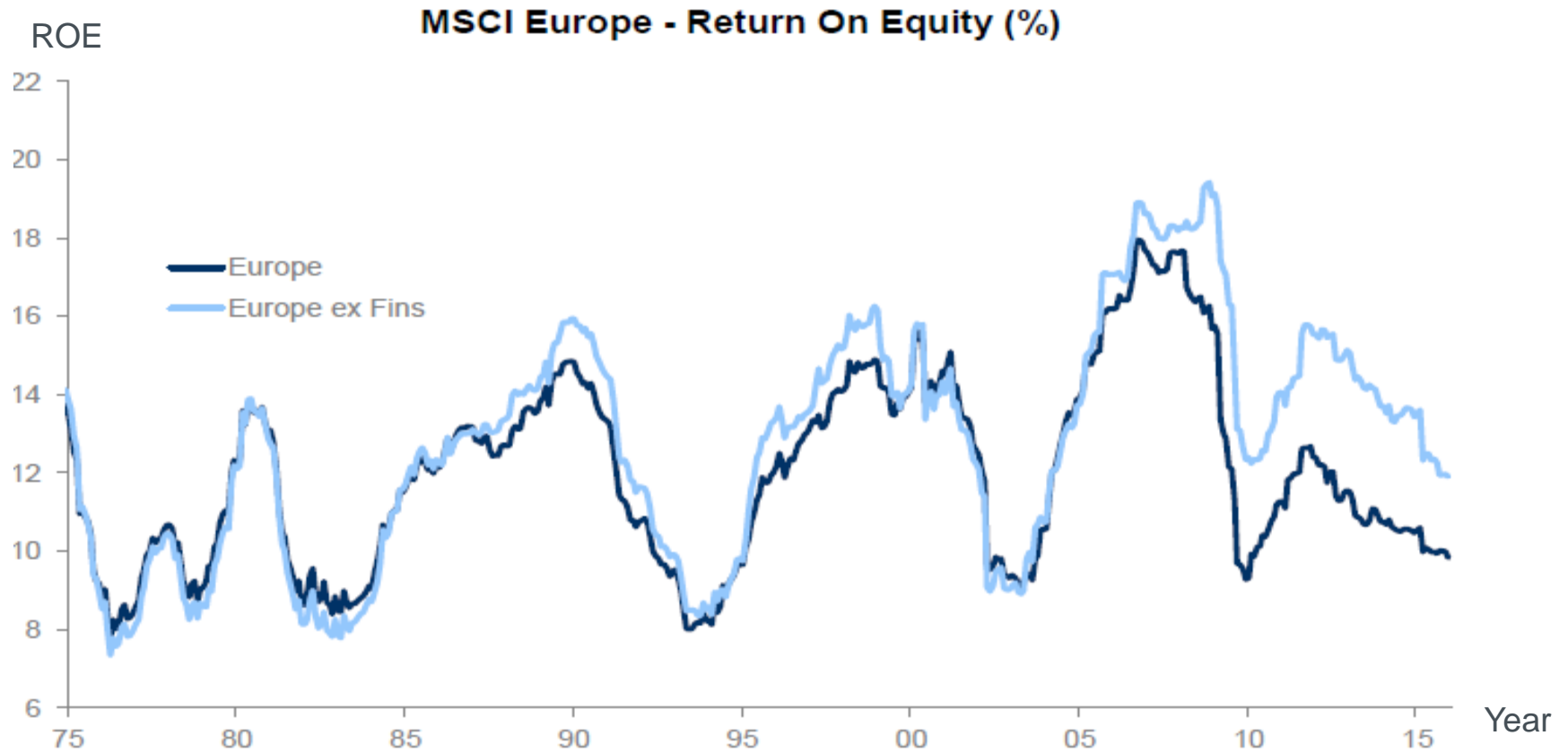
# Europe EPS history

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Source: MSCI, Global Financial data, Morgan Stanley Research, as at 8 January 2016

# Europe ROE history



Source: MSCI, Global Financial data, Morgan Stanley Research, as at 8 January 2016

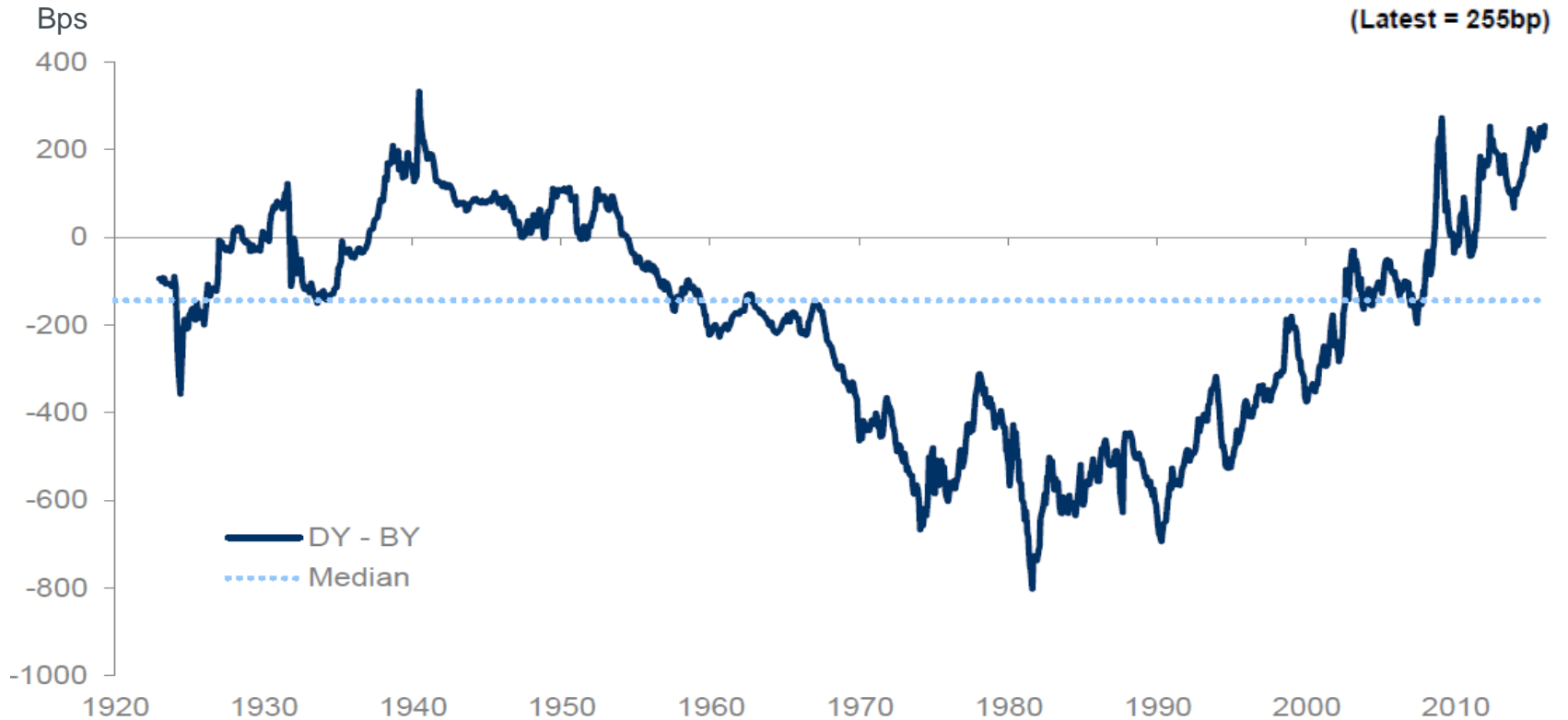
# What does Schiller say?

	Current Shiller PE (x)	LT Median	Disc, %
Italy	11.9	25.5	-53%
Portugal	8.5	14.1	-40%
Spain	11.6	19.0	-39%
Japan	25.6	41.2	-38%
<b>Eurozone</b>	<b>13.5</b>	<b>20.5</b>	<b>-34%</b>
France	16.4	22.7	-28%
UK	13.1	18.1	-27%
World	20.9	23.3	-10%
Germany	18.2	19.8	-8%
Switzerland	21.9	21.4	2%
<b>US</b>	<b>24.7</b>	<b>22.8</b>	<b>8%</b>



Source: JP Morgan, as at 5 January 2016

# European Equity Yield relative to Govt Bonds



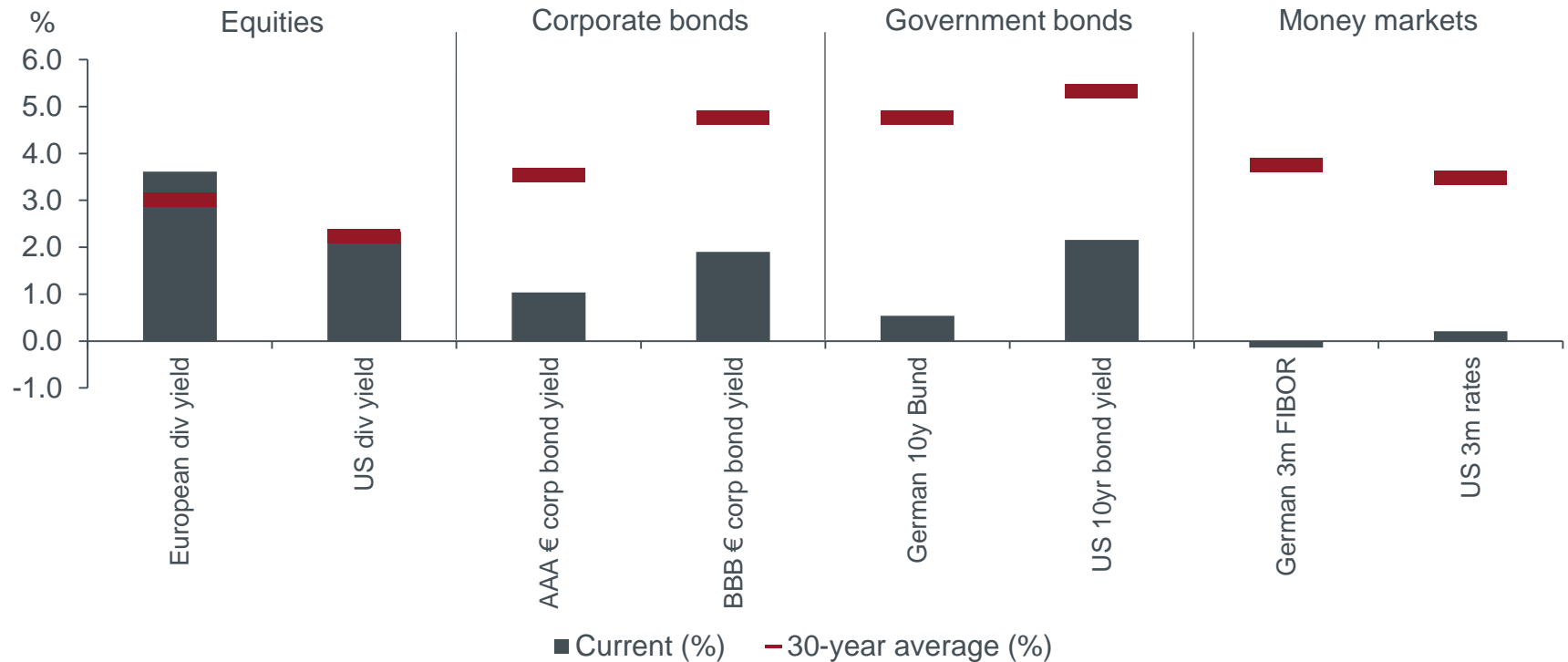
Source: MSCI, Global Financial data, Morgan Stanley Research, as at 8 January 2016



# The scarcity of income

## Equity dividend yield relative to other asset classes

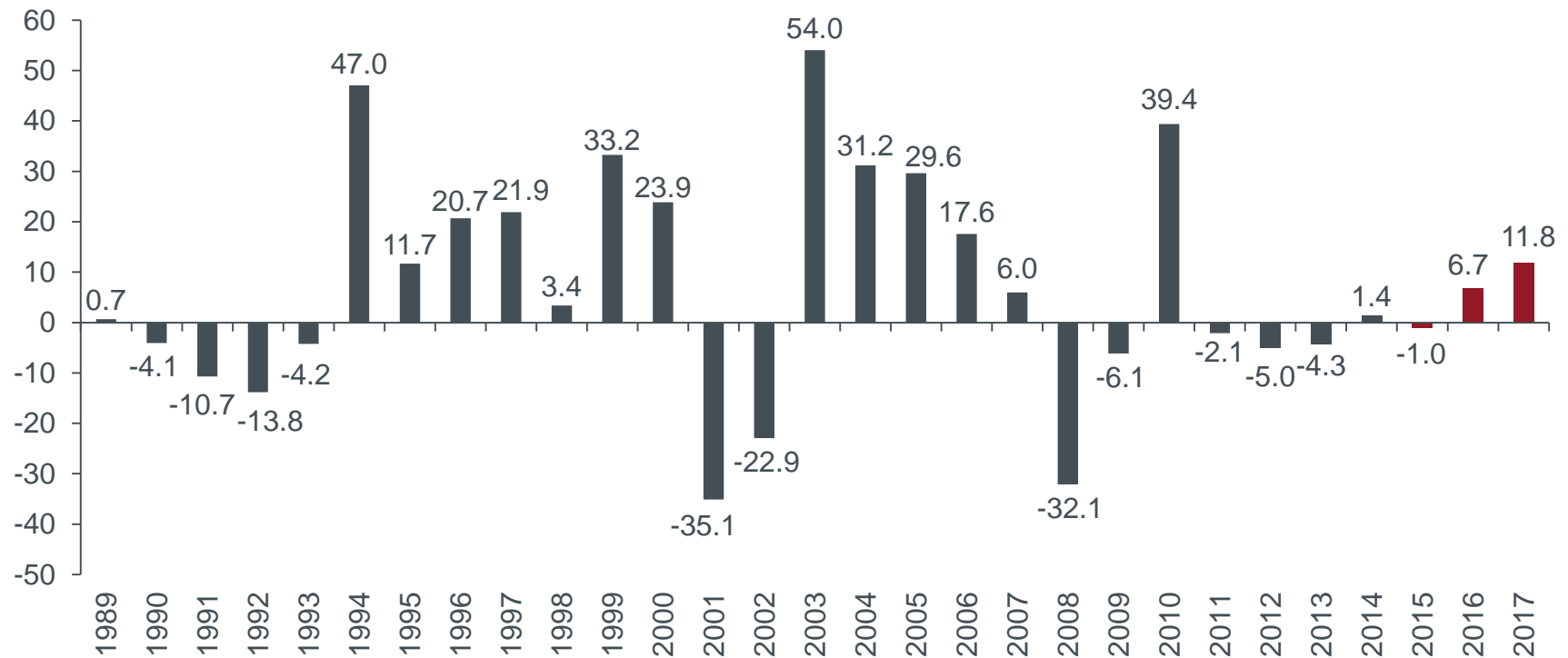
### Bonds vs dividend yields



Source: Datastream, as at 11 January 2016

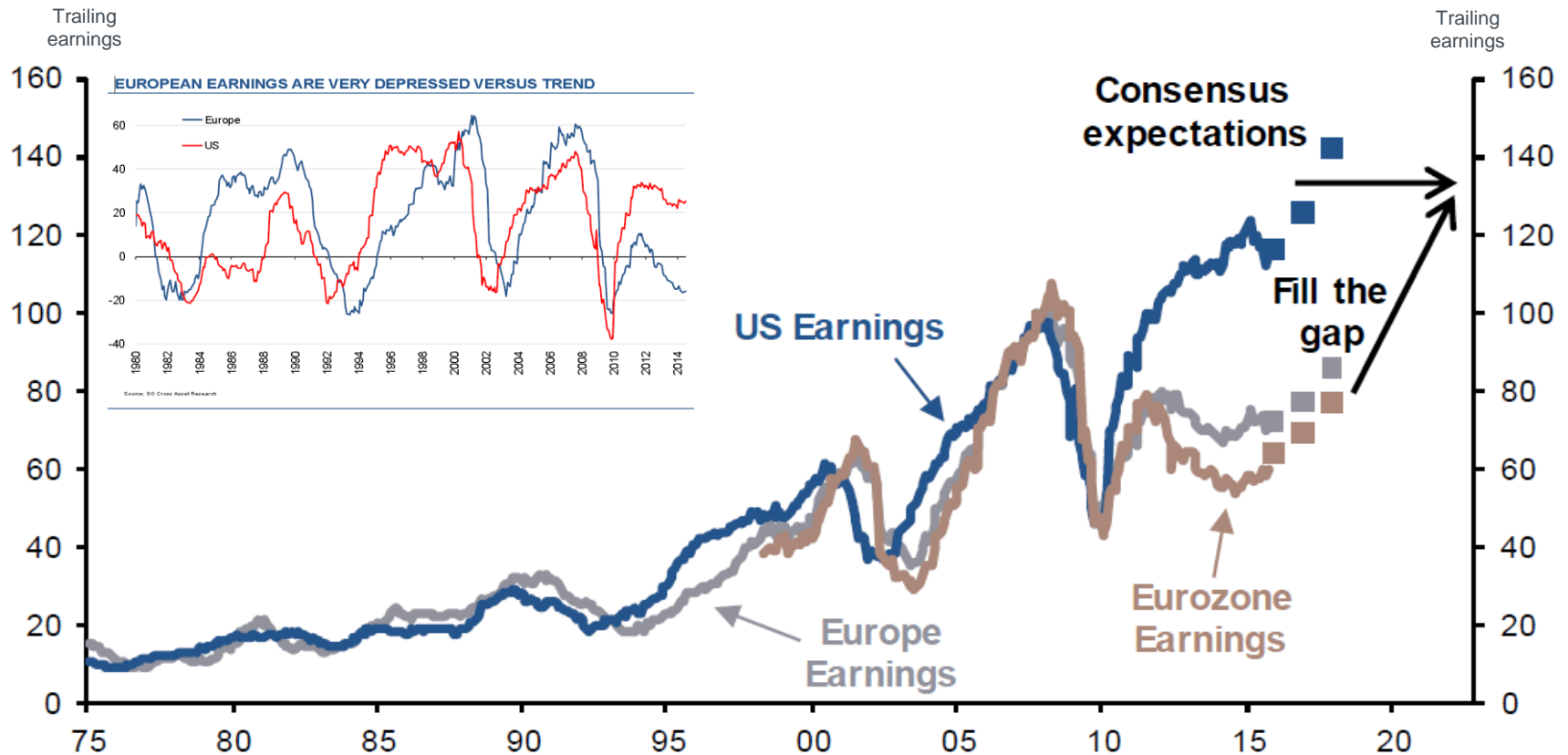
# Earnings growth – forecast

## European earnings growth (YoY %)



Source: Henderson Global Investors, Goldman Sachs research, Citi group research, as at 31 December 2015  
Red bars represent forecasts

# The future?



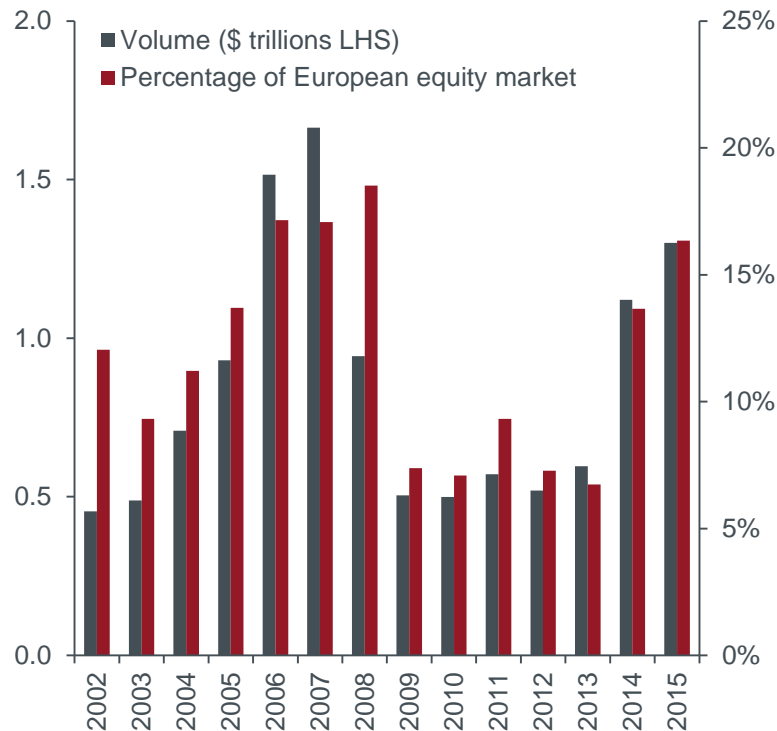
100=01/10/2007, 12-month trailing earnings. Eurozone earnings started in May 1998. Source :MSCI, IBES, Datastream, SG Cross Asset

Research/Equity Strategy

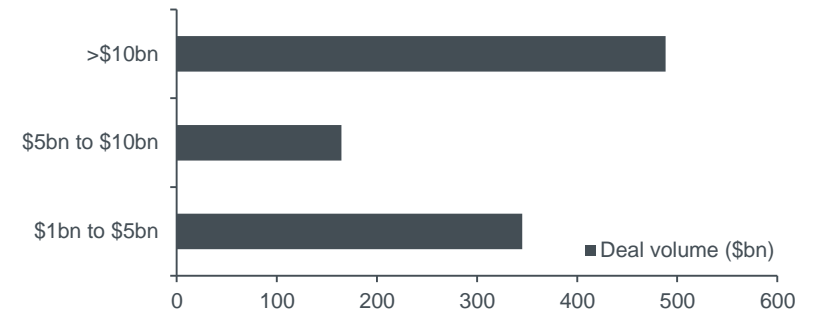
Source: Soc Gen, Lapthorne - November 2015 & SG European Equity Strategy 2016

# M&A – it's happening

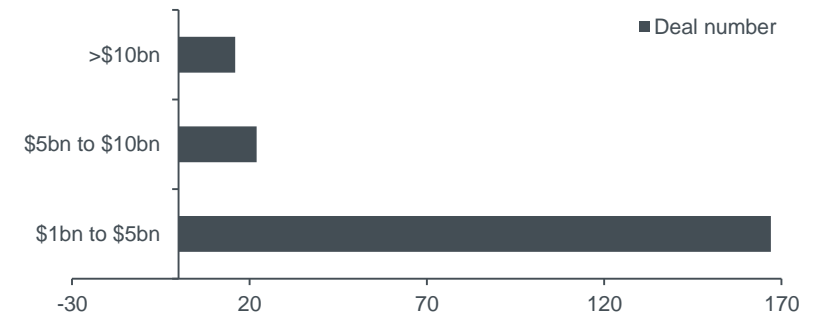
## M&A volume



## Deal volume (\$bn)



## Deal number



Source: Henderson Global Investors, Bloomberg, as at 31 December 2015

Note: European M&A volumes

Deal value and deal number refer to 2015 in Western Europe

Percentage of European equity market = \$ M&A volume divided by \$ market value of MSCI Europe

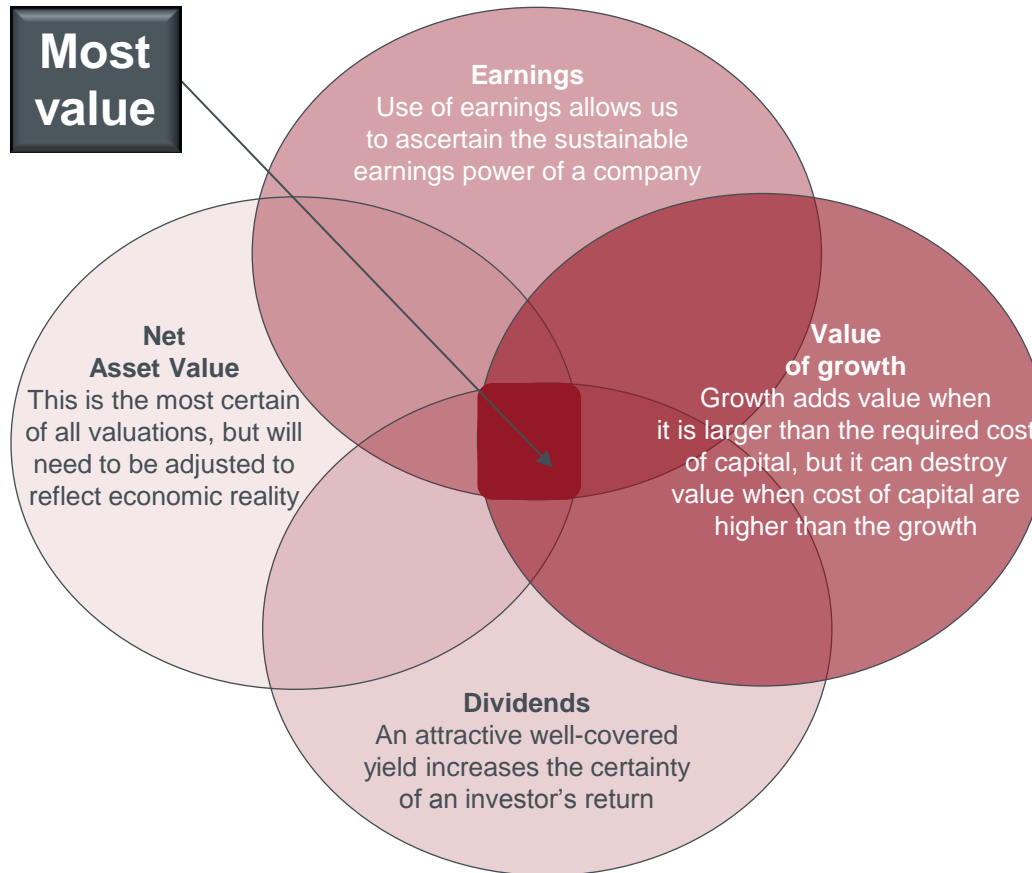
# Investment process



# Investment process

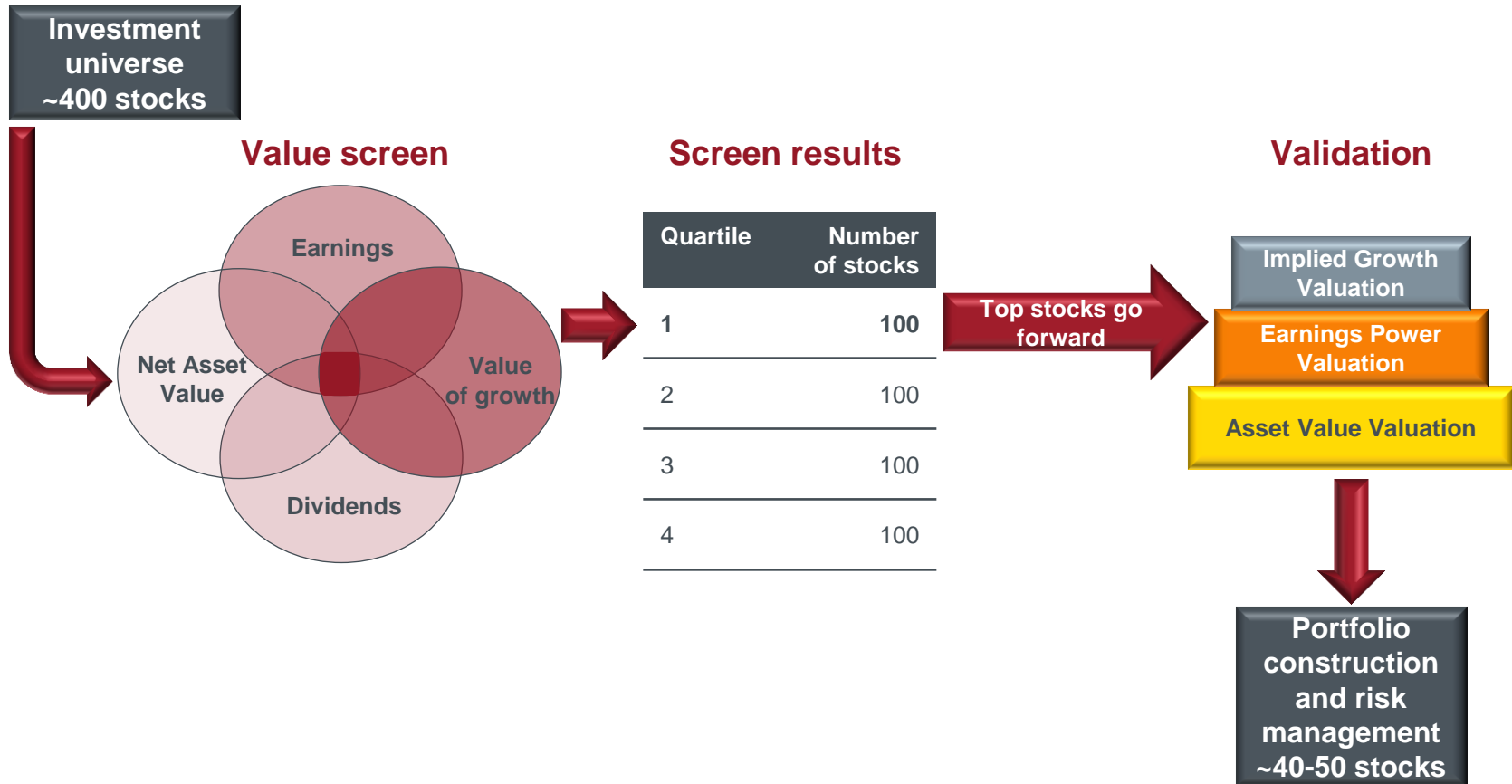
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## Stock screen used to establish investment value



# Investment process

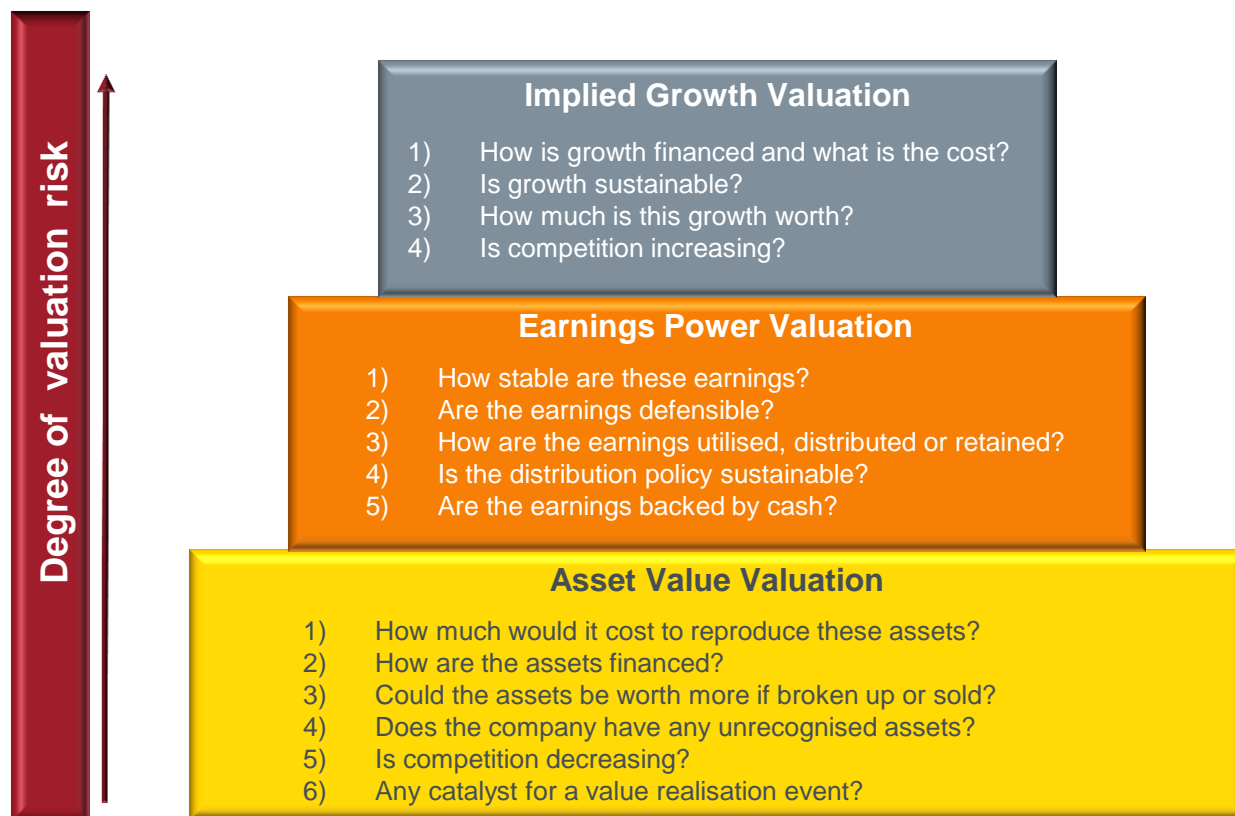
## An overview



# Investment process

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## Validation – based on solid foundations





# Stock examples



# Renault an example of asset value

## Business

- International car manufacturer
- Stock stands at a small (~ 12%) premium to value of associate stakes (Nissan 43% €17bn, Daimler 3.07% €2.3bn)

## Management

- Experienced management team

## Financials

- Equity priced below asset value implies no economic value will ever be added (0.81 x book value)
- Product cycle now looks supportive for volume growth
- Negatively impacted by Volkswagen diesel scandal

Share price at 15/01/2016		€75.13
Market cap at 15/01/2016		€21.6bn
Sales	Dec 15E	€44,733m
PE (x)	Dec 15E	7.16x
Dividend yield (%)	Dec 15E	3.20%

Source: Bloomberg, FactSet, prices as at 15/01/2016



Source: Bloomberg, Factset, data as at 15/01/2016

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# RELX (Reed Elsevier) an example of earnings power and growth

## Business

- Professional publishing and Information business, with strong positions in health, legal, risk, exhibition and corporate
- Recurring sales and subscription model give resilience to the business

## Management

- Under long-term incentive plan senior management are required to own significant stakes in the company (multiples of annual salary)
- Management strengthened over recent periods

## Financials

- High margin, high return on equity characteristics
- Significant barriers to entry, client relationships, back catalogue, must-have nature of the product
- Approaching top of capital expenditure cycle, market discounting little revenue growth - reversion to the mean suggests otherwise

Source: Bloomberg, Factset, data as at 15/01/2016

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Share price at 15/01/2016		€14.42
Market cap at 15/01/2016		€15.53bn
Sales	Dec 15E	€8,290 m
PER (x)	Dec 15E	17.67x
Dividend yield (%)	Dec 15E	2.76%

Source: Bloomberg, Factset, prices as at 15/01/2016



**The results**

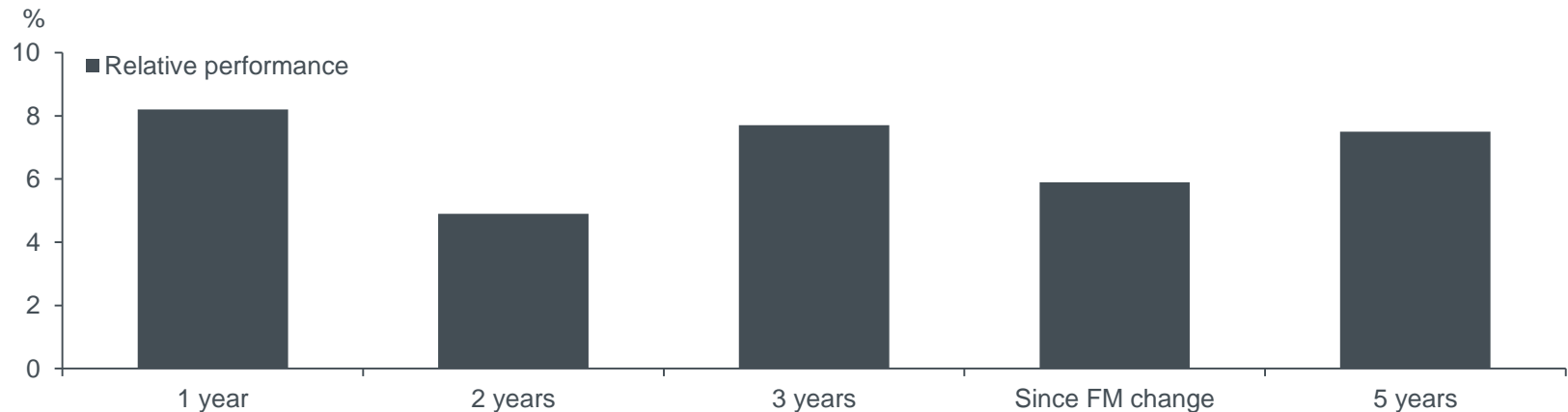
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# Henderson Horizon Euroland Fund

## Performance

### Henderson Horizon Euroland Fund



%	1 month	3 month	6 month	1 year	2 years	3 years	Since FM change	5 years
Fund	-3.9	9.5	0.7	18.0	11.9	19.9	19.5	15.4
Benchmark	-5.7	6.5	-2.7	9.8	7.0	12.2	13.6	7.9
<b>Percentile</b>	<b>23</b>	<b>6</b>	<b>9</b>	<b>8</b>	<b>5</b>	<b>2</b>	<b>1</b>	<b>1</b>

Source: Henderson Global Investors, Morningstar, as at 31 December 2015

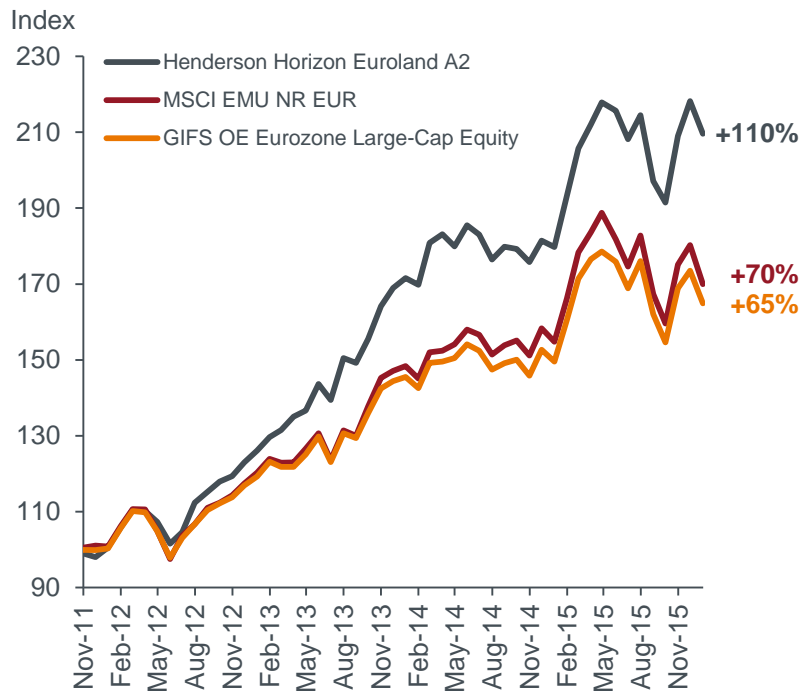
Note: As at 8 November 2011, the fund changed its name to Euroland and has a new objective, benchmark and fund manager. Switched Benchmark from the FTSE W Eur ex UK to MSCI EMU. Performance is based on bid pricing, gross of fees, in Euro, annualised returns, A2 Acc share class, close of business pricing.

Note: Past performance of the fund is not necessarily indicative of the future or likely performance of the fund.

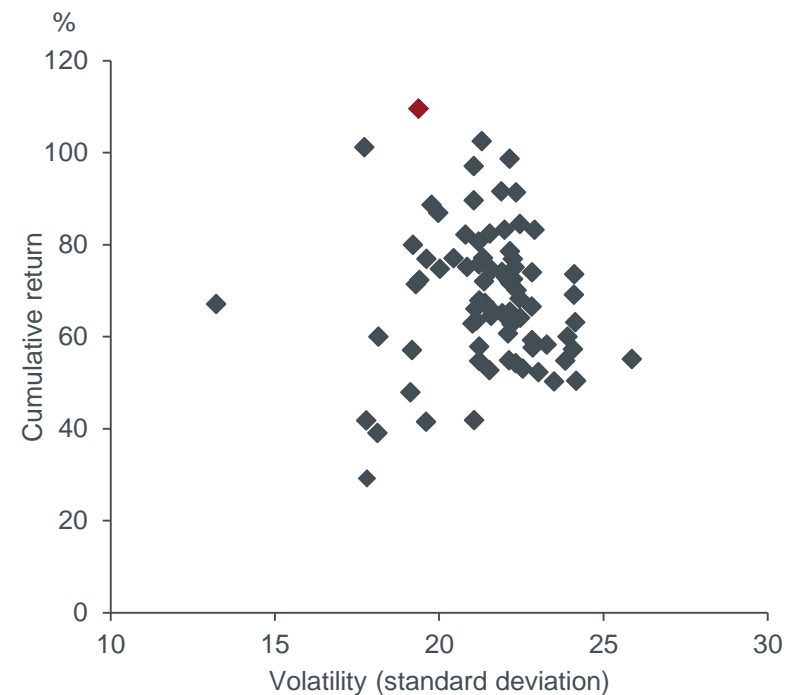
Please note: as at 8 November 2011, the Fund changed its name to Euroland and has a new objective, benchmark and Fund Manager.

# Henderson Horizon Euroland Fund

**Performance since fund manager change  
percentage growth, November 2011 to 31 December 2015**



**Performance since fund manager change  
versus peers, November 2011 to 31 December 2015**



Source: Henderson Global Investors, Morningstar, as at 31 December 2015

Bid-to bid, gross income reinvested, net of fees, in Euro, for the A share class, close of business pricing

Note: Past performance of the Fund is not necessarily indicative of the future or likely performance of the Fund.

Please note: The left chart is rebased to 100 as at 8 November 2011, the Fund changed its name to Euroland and has a new objective, benchmark and Fund Manager.

# Henderson Horizon Pan European Dividend Fund

## Current fund characteristics

	Fund	MSCI EMU Index	Notes
<b>Dividend yield Forecast</b>	4.44%	3.78%	Ahead of the market
<b>P/E Forecast</b>	14.06x	14.92x	Cheaper than the market
<b>ROE</b>	20.18x	16.22x	Better return than the market
<b>Operating Margin</b>	16.2%	15.5%	Higher than the market
<b>Beta</b>	0.91		
<b>Active stance</b>	82.3%		
<b>Forecast tracking error</b>	3.7%		

Source: Henderson Global Investors, Barra Style Research, as at 24<sup>th</sup> January 2016

Note: Past performance of the fund is not necessarily indicative of the future or likely performance of the fund

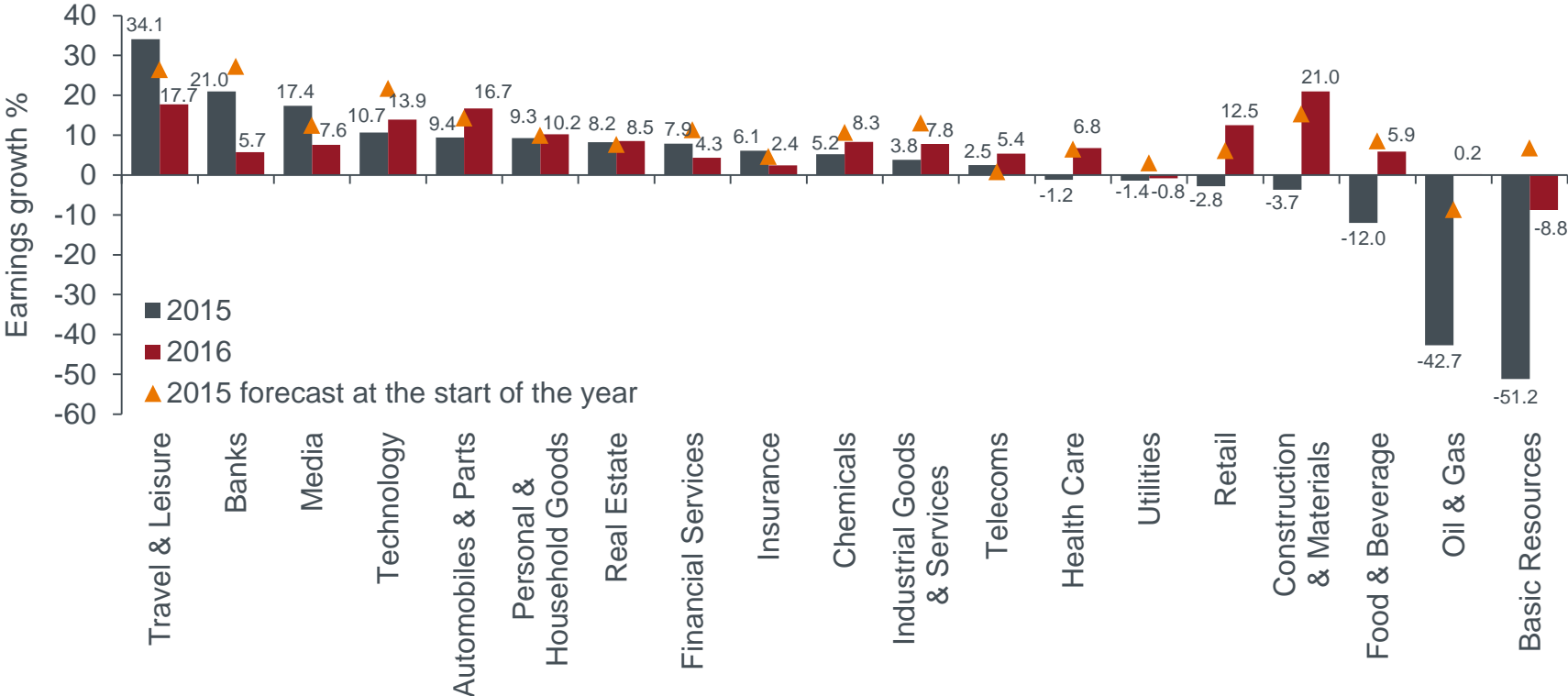
# Appendix

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# European earnings growth forecasts



Source: Citi Research, consensus estimates, as at 31 December 2015

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