

# MARKET OUTLOOK



**RICHARD PEASE ON EUROPE EXCLUDING THE UK – JUNE 2008**

Since restructuring the portfolio at the beginning of the year the Dublin-domiciled New Star European Growth Fund, lead managed by Richard Pease, outperformed both its benchmark and sector over the five months to 30 May 2008\*. The fund, which is AAA rated by Standard & Poor's†, returned 2.06% in the month to end May versus 1.49% from the FTSE World Europe ex UK Total Return Index\*. Below Richard details the opportunities he sees in stocks with earning streams less reliant on global economic conditions.



Stockmarkets in Europe excluding the UK endured challenging conditions from the summer of 2007 to early 2008, with investors retreating from companies in so-called cyclical sectors regardless of the quality and stickiness of their earnings. Encouragingly, investors appear to have become more discerning in recent months, with companies again being judged on their individual merits.

The valuations of many stocks, particularly medium-sized growth companies, have fallen significantly over the past year and it is probable that much of the negative economic outlook is already reflected in market prices. While company statements have become more circumspect, the message being conveyed by managements is cautiously optimistic. Indeed many are now buying stock for themselves as well as for cancellation.

Corporate Europe is not over-gearred and the health of the consumer compares favourably to the US. Earnings results so far in 2008 indicate that Continental European companies outside the financial sector are doing reasonably well. This is reflected in many of the companies being considered for investment by the New Star European Growth Fund having underlying free cash flow yields approaching 10%. It would appear that the rocky first quarter has thrown up an attractive longer-term opportunity for selective buying.

It is, however, likely to be far from plain sailing over the summer months, with headwinds predominantly coming from the West. Deteriorating statistics confirm that the risk remains of a significant US slowdown or recession. Investors are nervous about the likely length and severity of this slowdown and are uncertain about how it will affect growth trends in Europe and in emerging markets. Markets are, therefore, likely to be unsettled until prospects for the US economy become clearer.

Rising inflationary pressures resulting from higher commodity prices and wage increases are an additional complication. The US central bank has eased monetary policy aggressively; by contrast,

the European Central Bank may be more reluctant to cut its repo rate and the resultant strength in the Euro may cause competitive problems for European exporters.

In such circumstances, the New Star European Growth Fund is focusing on companies with strong pricing power in consolidated sectors. It has been avoiding businesses that depend on discretionary spending and has been underweight in telecommunications, pharmaceuticals and utilities. The fund's exposure to financial stocks has also been reduced with uncertainty remaining over asset impairments and profitability due to the difficulty of obtaining funding. It therefore seems prudent to seek attractively priced companies in sectors outside financial services for the time being.

Robust companies that have relatively stable earnings and that trade on undemanding valuations remain the favoured hunting ground. A recent addition to the portfolio is Fugro, the global leader in offshore geotechnical and survey services. This company is building up a bigger share in marine seismic and is well placed to benefit as companies and governments seek to tap fossil fuels from increasingly challenging environments. Another purchase was Autogrill, the world's biggest provider of food, beverage and retail services for travellers. The company should benefit from the integration of several acquisitions together with the secular growth in international travel.

Moving into the summer months, the fund will continue to avoid cyclical stocks, preferring to concentrate on companies that operate in niche markets and are capable of growing regardless of the wider economic picture. Such businesses should prove resilient if the economic climate takes a turn for the worse and, importantly, have the potential to bounce sharply when wider investor sentiment improves.



*Past performance is not necessarily a guide to future performance. The opinions expressed here represent the views of the fund manager at the time of writing and should not be interpreted as investment advice.*

\*Performance at 30 May 2008. Data source: Lipper. All rights reserved, base currency Euros, gross income reinvested. For performance purposes the New Star European Growth Fund is measured against the FTSE World Europe ex-UK Total Return Index and is in the IMA Europe excluding UK sector.  
†Rating at 30 April 2007.



## NEW STAR EUROPEAN GROWTH FUND

### Important information

Past performance is not necessarily a guide to future performance. The value of investments and any income from them may fall as well as rise and investors may not get back the amount originally invested. The value of investments may also increase or decrease as a result of changes in exchange rates between currencies. Investments made in the fund mentioned in this document involve certain risks, as described in the relevant prospectus. Any opinions expressed in this document may vary without prior notice and do not constitute investment advice.

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The fund mentioned in this document should be viewed as an investment suitable only for investors who can fully evaluate and bear the risks involved. Full details of the fund can be found in the prospectus or Offering Document, in the case of Hong Kong. Any investment decision must be made solely on the basis of the information contained in the prospectus/Offering Document, the simplified prospectus, the Articles of Association and the most recent annual and interim reports which are available upon request.

The shares referred to in this document have not been and will not be registered under any United States securities laws, and, except in a transaction that does not violate the United States securities laws, may not be directly or indirectly offered or sold in the United States of America, or any of its territories or possessions, or areas subject to its jurisdiction or to or for the benefit of a United States person.

The New Star Global Investment Funds PLC (the Fund), of which the European Growth Fund is a sub-fund, is regulated by the Irish Financial Services Regulatory Authority (Irish Financial Regulator).

The Manager of the Fund, New Star Investment Funds (Ireland) Limited, is regulated by the Irish Financial Regulator. The Investment Manager, New Star Asset Management Limited, is regulated by the Financial Services Authority of the United Kingdom (the FSA). The custodian is State Street Custodial Services (Ireland) Limited.

The Fund has been registered for distribution in Luxembourg with the Commission de Surveillance du Secteur Financier (CSSF), in Denmark with the Danish Financial Supervisory Authority, in Sweden with the Swedish Financial Authority, in Finland with the Finnish Financial Supervision Authority, in Malta with the Malta Financial Services, in France with the Autorité des Marchés Financiers, in Spain with the Comisión Nacional del Mercado de Valores under number 407, in the Netherlands with the Autoriteit Financiële Markten, in Italy by the Bank of Italy and in the United Kingdom with the FSA. Fortis Foreign Fund Services Ltd., Rennweg 57, P.O. Box 8021, Zurich has been appointed as the representative of the Fund in Switzerland. For Hong Kong: The Fund has been authorised by the Securities and Futures Commission (the SFC). Authorisation by the SFC does not in anyway imply any official approval or recommendation by the SFC. In Singapore the sub-funds are recognised as Restricted Collective Investment Schemes by the Monetary Authority of Singapore.

For your protection, calls are recorded and may be monitored.

This document has not been verified or approved by any relevant supervisory authority in the jurisdictions where the Fund is registered.

Issued by: New Star Asset Management (Bermuda) Limited.

### FUND FEATURES

- Alpha generation driven by bottom-up stock selection
- Not benchmarked; country weightings are a result of the fund's investments
- Stock selection driven by four principal criteria: clear business strategy, high quality management, sound financial ratios, attractive valuations

### FUND AT A GLANCE

Fund type:	Irish authorised OEIC
Base currency:	Euro
Other currency classes:	Institutional (US\$ and €) and retail (US\$) share classes are also available. The retail £ share class is currently closed to new investors.  GBP and US\$ share classes are hedged against the euro
Launch date:	16.08.2002
ISIN EUR:	IE0031946548
USD:	IE0031946431
GBP:	IE0031946654
Bloomberg:	NSEURGE ID
Sedol:	3194654
Valor:	1657134
Registration:	UK, Ireland, France, Spain, Italy, Switzerland, Netherlands, Malta, Denmark, Sweden, Finland, Luxemburg, Hong Kong, Singapore (recognised)

Fund information at 30 May 2008.

### HOW TO CONTACT NEW STAR INTERNATIONAL

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