

## European Value

EQUITY

# Value keeps on outperforming

## Consolidation and higher risk appetite

**Markets:** The month of April was characterized by increased risk willingness in markets and further weakness in the USD. The reason was probably that we saw macroeconomic consolidation in April after a somewhat disappointing first quarter in especially the US.

The growth in US industrial production was still negative (-2%) in March, but we expect improvement going further into second and third quarters. For the Eurozone, the growth in industrial production was still positive (0,8%) and we also expect a gradual improvement for the Eurozone over the coming 12 months.

The tightening of both the European and US labor markets continue in the latest data points. In the US, we saw that initial jobless claims were at the lowest level since 1973. The unemployment rate for the Eurozone also dropped more than expected (to 10,2%) for the month of February.

Most macroeconomic data points are still showing moderate or stabile improvement for the Eurozone. Both PMI-surveys and ZEW-surveys are at expansionary levels and retail sales are still showing solid growth, although the growth is slightly lower than at the end of 2015.

Inflation figures are still flirting with deflation in the Eurozone (0,9% in the US), but 5Y5Y-inflation swaps show that long-term inflation expectations are growing slightly during April, which is probably primarily a result of a large increase in energy prices from the bottom in first months of the year.

## Value strategy delivers

**Performance** European stocks performed well in April recording gains of almost 2%. The fund returned 2.97% outpacing its benchmark.

Small-cap stocks fared slightly worse than large caps during the month, which was not beneficial to the fund. Meanwhile, value stocks outperformed the European market for the second month in row, which of course gave some tailwind to the fund.

In terms of industry sectors, materials was the biggest contributor, followed by energy, driven by the continued stabilization in commodity prices. The relative overweight in these two best performing sectors, helped generate fund outperformance, but individual stock selection played an equal part. Hence, our stocks within the two sectors outperformed the benchmark constituents.

Some of the best performing stocks in the portfolio were the same that contributed negatively when markets took a dive in the beginning of the year. Other than energy and commodity related names, some of the best performers in were Brexit-related stocks like UK Banks and companies with a large degree of revenue stemming from the UK. Such stocks are expected to continue to have elevated volatility levels as we get closer the EU referendum. So far, Q1 earnings season has revealed a significant drop in earnings, but still the results are better than feared. Obviously, those who disappoint the most in these nervous markets feel the pain. Consequently, Swedish Ericsson was the worst performer of the month after its disappointing results.

## Strategy

The fund invest in value stocks. Through careful fundamental analysis, the team strives to identify companies that trade at healthy discounts relative to intrinsic value. A risk-aware approach to portfolio construction ensures a well diversified portfolio. The Fund pursues an active value investment strategy, which is the reason why performance may deviate from benchmark.