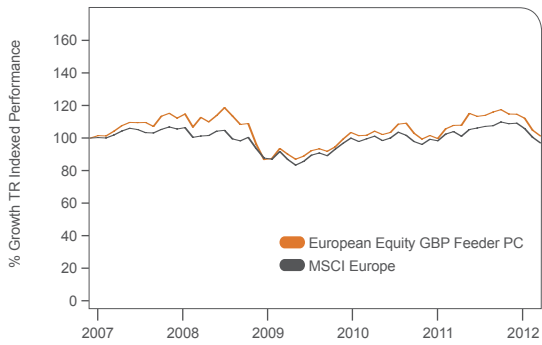


## European Equity Fund PC - £ Feeder Fund

### Investment objective

To achieve long-term capital growth through a diversified portfolio of equity or equity related investments in companies incorporated in any European country. The Fund will focus on the quality and attractiveness of individual companies rather than the outlook for particular markets. The Investment Manager is also permitted to invest in securities traded in other markets where the underlying companies derive a significant proportion of their earnings from the European region.

### Performance



Annual average compound rate of return: 3.42%

Benchmark: MSCI Europe. Source: Lipper.

Growth (%)	Fund	MSCI Europe
YTD	12.06	3.81
1 Yr	-10.69	-13.48
3 Yr	40.84	29.64
since launch	23.36	7.95

Volatility (%)	Fund	MSCI Europe
since launch	26.27	20.21

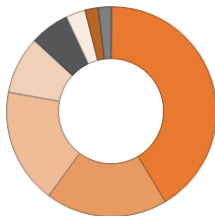
Ratios	Beta	Sharpe
1 Yr	1.41	-0.32
3 Yr	1.10	0.60
since launch	1.14	0.05

### Strategy

Sector Weightings (%)	Ashburton Weighting	Benchmark	Over/under weight vs Benchmark
Energy	47.18	11.93	35.25
Basic Materials	14.64	10.07	4.57
Industrials	15.31	10.86	4.45
Cash	1.62	0.00	1.62
Info Technology	3.63	2.95	0.68
Utilities	0.00	4.61	-4.61
Con Discretionary	3.20	8.89	-5.69
Financials	11.95	18.12	-6.17
Telecom Services	0.00	6.29	-6.29
Health Care	2.47	11.86	-9.39
Con Staples	0.00	14.42	-14.42

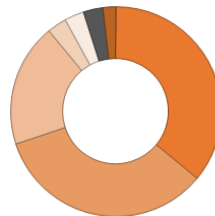
### Geographical Weightings (%)

41	Scandinavia
19	UK
18	Germany
9	France
6	Other
3	Switzerland
2	Italy
2	Cash



### Currency Weightings (%)

36	Norwegian Krone
34	Euro
19	Sterling
3	Swedish Krona
3	Swiss Franc
3	Others
2	Danish Krone



### Largest Holdings (%)

Sector	%	Sector	%		
Ophir Energy Plc	Energy	3.12	S.d. Standard Dril	Energy	2.40
Aker Solutions	Energy	2.97	Prospector Offshor	Energy	2.27
Kvaerner Asa	Energy	2.82	Agrinos As	Materials	2.26
North Atlantic Dri	Energy	2.73	Det Norske Olje	Energy	2.22
Asia Offshore Dril	Energy	2.60	Electromagnetic Ge	Energy	2.19

### Fund Facts



Lead Fund Manager  
Richard Robinson

Launch Date	01/12/06
Fund Size	£26.60m
Fund Currency	GBP
Sell Price	1.0509
Buy Price	1.0009
Minimum Investment	£10,000 or foreign currency equivalent
Initial Charge	5%
Annual Management Fee	1.5%
Total Expense Ratio	1.85%
Dealing Day	Daily
ISIN No	JE00B1G6ZH08
Sedol No	B1G6ZH0
Dividend Distribution Dates	15 April and 15 October
Manager	Ashburton Fund Managers Limited
Investment Manager	Ashburton (Jersey) Limited
Custodian	RBC Fund Services (Jersey) Ltd
Reporting Fund	Yes
FSA Recognised	Yes
ISA/PEP Eligible	Yes
Authorised for public sale in	Jersey, Guernsey, UK, Sweden, Australia and South Africa

**Regulation:** Collective Investment Funds (Jersey) Law 1988 (as amended). Operated in accordance with C.I.F. (Recognised Funds) (Rules) (Jersey) Order 2003. (UK FSA Recognised under section 270 of the UK Financial Services & Markets Act 2000).

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### Commentary highlights

- As we begin to look towards the second half, we anticipate a macro environment that continues to be sticky, LTRO's are running low and elections are freezing potential actions from the Merkozy team – so what are we left with?

- The Fund performed relatively well during the month, returning almost 1% Alpha. The strongest performing areas emanated, once again, from the Energy sector, an area that has contributed 7.7% alpha year to date.

- We remain skewed towards areas of the market that are supply-constrained with strong contract prospects and (in our opinion undervalued).

Read the full commentary overleaf.

A member of the FirstRand Group

## European Equity Fund PC - £ Feeder Fund

## Commentary

## Review

Markets pulled back over 1.5% during April, led lower by a range of global issues. Chinese growth slowed to 8.1%, US and European macro numbers, on the whole, were slightly weaker, with Spain and the UK officially sinking back into recession. Once again, Europe fell squarely back into the markets sights as Spanish debt worries persisted, the Danish government collapsed and Francois Hollande didn't. However, it wasn't all doom and gloom: the IMF boosted their forecast for global growth (3.5% in 2012 and 4% in 2013, up from 3.3% and 4% respectively) and the US Fed forecast stronger growth and falling jobless numbers. This, together with positive PMI's in the two crucial engines of the world economies, namely the US and China, is encouraging.

The Chinese GDP number (8.1%) might have initially alarmed, but there is growing evidence from leading indicators, that this could be the trough. We are also seeing evidence that there has been a pick up in lending to the small and midcap companies (positive for employment) and property sales in the top 39 cities has begun to turn. If we see a combination of growth, together with falling inflation (PPI has now trended lower for six months) we could be approaching a turning point.

As we begin to look towards the second half, we anticipate a macro environment that continues to be sticky, LTRO's are running low and elections are freezing potential actions from the Merkozy team – so what are we left with? The earnings season has, so far, provided us with some optimism: macros (although sticky) should begin to turn, helped by the Chinese engine (spluttering, but just warming up) and a US engine that is in election year. We are into the transition point of the US recovery (led initially by the growth of corporate profits and now transitioning to more 'inclusive growth' (improving employment that then supports sentiment and ultimately housing). Unfortunately (for the economy) one of the reasons that margins are so strong is that capital is not being 'transitioned' to the worker (via wage increases). As unemployment falls further, this is more likely to begin (albeit slowly). The worry is that now earnings season is all but over (in the US) attention may shift to the 'sticky' macros!

## Activity

The Fund performed relatively well during the month, returning almost 1% Alpha. The strongest performing areas emanated, once again, from the energy sector, an area that has contributed 7.7% alpha year to date. When we consider that the region in the world that contributed the greatest volume of oil discovered last year was Norway it is hardly surprising that the Norwegian Continental Shelf has been a very busy, resilient and profitable area to be in. Exploration and consequent discoveries are followed by development, and it is the development phase that excites us the most. The projects that are keeping the oil service companies busy at the moment are the smaller ones. We haven't even seen the development of the giants like Svedrup or Havis/Skrugard which should be sanctioned during 2013/2014 (projects like these take 10-14 years to develop). Consequently, visibility is becoming ever greater. It looks like we are entering a 'super-cycle' for this sector. Combine this with the fact that competition is reduced as various companies with limited experience from Norway have suffered big delays (Yme), effectively creating very high entry barriers to the Norwegian North Sea and we should be set for a strong market ahead. Lastly, the high tax rate for Norwegian oil companies (78%) means oil companies have strong incentives to pay for quality, as the Norwegian State picks up most of the bill. We remain overweight.

Industrials also performed well, particularly those exposed to auto-spend. The metal press machine manufacturer Schuler confirmed that demand from auto companies remained strong and that visibility is high as sales grew by almost 35% over the last 12 months and their book to bill stood at 1.24 this was not achieved by sacrificing margin – margins were also guided higher! Volkswagen also had very strong figures reaffirming the fact that it is the auto company with the strongest set of brands and the best management in the business, together with the most profitable truck OEM (Scania). Their roll-out of a revolutionary manufacturing process (Modular Tool Kit) remains an exciting driver, not only for VW, but for all those companies that will help in building out the process!

Amongst the other industrials that did well were Moller Maersk and IMI. IMI, a company involved in fluid controls, surprised markets with better growth numbers, particularly from 'LNG' (which constituted 30% of the order-book growth in Q1). Maersk, the container shipping company, benefitted from the turn in box rates. The Asia-Europe box rates jumped by 10.5% during the last week of May. The turn since October has been substantial (up almost 400%) and earnings upgrades should continue to move higher.

## Outlook

We remain skewed towards areas of the market that are supply-constrained with strong contract prospects and (in our opinion) undervalued. The level of uncertainty in the market (as reflected by the increasing sovereign spreads) does give us cause for concern, but the Citigroup Economic Surprise Index, does not put us at anywhere near the lows experienced last year and the global PMI Index suggests that we are on course to meet a global growth rate of 3.2% (with Europe hitting a 'mild' recession). We are also encouraged by the raft of decent numbers coming from corporates at the moment and we have some positive comparisons (following the Japanese earthquake effects last year) moving forwards. A Chinese hard landing is less likely (as indicated by the PMIs) and, with lower inflation, they have more scope for an expansionary stance – so it is not all doom and gloom, unfortunately though the market is reluctant to avert its gaze away from the usual suspects!

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## The way we see things



**European Equity Fund - Lynx** created using  
Le Monde newspaper, 11 €5 notes, 30 staples,  
a pair of scissors, 6 biro inners, 6 biro caps, 15  
scalpel blades, 4 paperclips, 2 tacks.