Stephanie Butcher

Invesco Perpetual

The European equities manager tells ***Jessica Tasman-Jones*** politics is the reason investors are underweight Europe but she still sees attractive opportunities there

The degree of knowledge of the political scene in Europe among international investors amazes Invesco Perpetual fund manager Stephanie Butcher. "Certainly in the feedback we're getting, US investors are extremely worried Marine Le Pen wins the French election," says the European equities manager, adding the same is true in Asia. "That tells you there's a lot in the price."

But Le Pen does not face the electoral college system that allowed President Donald Trump to make it to the White House, Butcher points out. "Let's remind ourselves that in the US Clinton actually won the popular vote and she was quite an unpopular politician."

Butcher fell into fund management after studying history at Cambridge. The alternative was the Civil Service, but she liked the idea of a career that kept her on her toes day to day. Her £575.3m European Equity Income fund has earned a reputation for consistently outperforming the sector, returning 96.6 per cent over the last five years compared with 75.3 per cent in the sector, according to FE data.

France is the portfolio's largest holding at 18 per cent, behind Switzerland, which accounts for 18.5 per cent and ahead of Germany, which accounts for 17.1 per cent. Emmanuel Macron or François Fillon should be considered the base case, Butcher argues. "When you look at the risk premium that's priced into the European market it suggests that the market actually assumes [Le Pen] is the base case."

Europe is a region that investors don't tend to give the benefit of the doubt, Butcher argues.

Her largest pool of money is part of the €7bn Invesco Pan European High Income fund, which includes 20.9 per cent in equity, alongside 42.4 per cent in high yield and 29.8 per cent in investment grade fixed income. "It's very easy as a regional specialist to just look at your own region and you go native, arguing Europe's great. But if you've got a load of other people arguing it's not as good as this or that you begin to get a sense of where you fit within that."

But that's not the case at the moment and Europe genuinely looks attractive, Butcher argues. "Relative to other asset classes, whether it's bonds, or relative to other equity markets, we do appear cheap."

Butcher admits there have been headwinds. "First of all there was the financial crisis, then there was the sovereign debt crisis, and right now one of the reasons people tend to be underweight Europe is the politics. You put all that together and there are lots of reasons people haven't owned Europe."

But while investors focus on politics – the Netherlands, Germany and possibly Italy will be hitting the ballot box this year – positive economic data is coming out of Europe. "What you tend to see with that type of sentiment is a grudging, unwilling bull market. That's very interesting, because as investors the last thing you want is a very sharp spike; 20 per cent and you're done." Butcher says she doesn't see in Europe the conditions of euphoria that would typically end with the market falling over.

Periphery names continue to trade at a discount, but Butcher argues a lot of that reflects the sectors that make up indices, which tend to be overweight energy, banks and utilities in Spain and Italy. "It's a function of value having become very cheap versus defensive," Butcher says, pointing out that is ▷

CV

1993
Butcher lands a spot on the Lazard Asset Management graduate trainee scheme

1998
Moves onto Aberdeen's European equities desk

2003
Joins the European equities team at Invesco Perpetual

The numbers

£575.3m
Assets in the European Equity Income fund

18%
Allocation to France ahead of presidential elections in May

96.6%
Returns from the fund over the last five years

20.9%
Equity allocation in the €7bn Pan European High Income fund, Butcher's largest pot of assets

something the fund is set up to capture as growth and inflation pick up. "It doesn't need to be huge inflation it just needs to be not deflation, then that value discount begins to normalise."

The European Equity Income portfolio is underweight consumer staples but Butcher says it is a valuation call. "It's nothing to do with the intrinsic value of those companies." However, she notes the sector is highly correlated with the US Treasury. "If we think bond yields are going to go up we're going to have to assume that staples as long-duration assets are going to be impacted by that. What we hope is that that is going to create great opportunities to go back into some of these names."

Yield comes from a broad range of industries and European corporates are increasingly realising the importance of shareholder returns, Butcher says. At the end of December financials accounted for 27 per cent of the portfolio followed by industrials (16 per cent) and energy (11.4 per cent). Novartis is the largest portfolio holding at 5.1 per cent, followed by Roche (3.9 per cent) and ING (3.7 per cent).

Regarding Brexit, Butcher says there are individual companies that will be exposed but she doesn't hold them in the portfolio. "There were a lot of people saying that if it's bad for the UK it's worse for Europe and we never really held to that idea."

In fact Butcher sees some opportunities for Europe. Spain is well placed to attract companies that are currently discussing where to establish a new plant that would have otherwise gone to the UK, she reckons. "It's got fantastic infrastructure, it's got an educated workforce, and they've got quite a lot of unemployment so there's lots of supply."

Furthermore it's got a stable political environment and is low on the list of countries that want to leave the European Union.

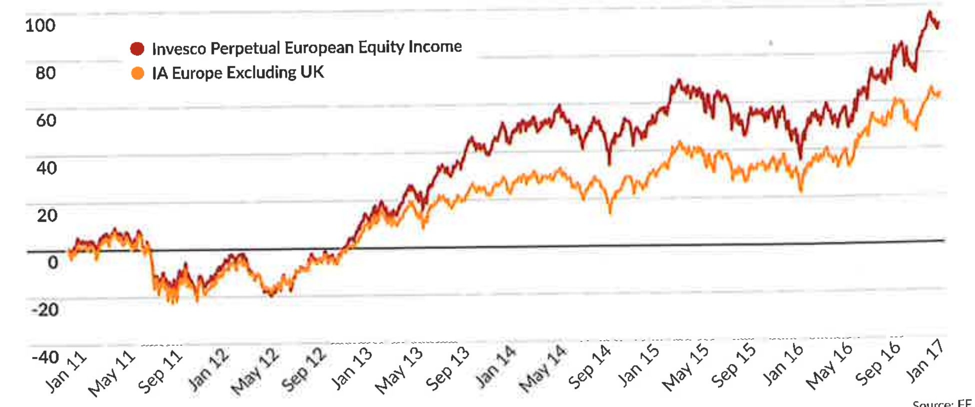
Trump presents potential positives and negatives for Europe. "With reflation comes inflation and that's unequivocally a good thing for Europe because Europe was the biggest discount with deflation risk and therefore it should benefit disproportionately from deflation going away."

Butcher recommends avoiding making knee-jerk reactions to Trump's unpredictable attacks on companies, like when he threatened a 35 per cent tariff on BMW. "They're a net exporter for the US," Butcher says. "They have a massive plant in the States so it was the wrong example to use."

Four hundred management meetings a year gives the team a chance to meet divisional managers and make sure the messaging is consistent across all levels of the business. "I remember one where this poor guy had been shuffled in at the last minute and he was just bang on with everything the top guys were saying. If you can get someone coming in at the last minute saying that you know you're okay."

The curiosity to ask management the right questions is a skill Butcher reckons she developed studying history, arguing "generalist" subjects are good training for fund management. "There's a little too much professionalism of graduates now," Butcher says, arguing that the technical elements can be learnt on the job. "It's trying to understand what the real strategic hook is for that individual manager or that company. That's wider than the numbers."

Invesco Perpetual European Equity Income fund performance since 2011



Shows performance under Stephanie Butcher's tenure.

Source: FE