

Personal Finance

Don't Fear Greeks Bearing Gifts

Lately, European markets keep giving fund manager David Marcus what he calls "gifts." Stocks keep getting cheaper every day as Europe grapples with its financial crisis. "I'm like, enough with the gifts already," says the manager of the Evermore European Value Fund.

Surely, these are interesting times to be a European fund manager. Some of the most distressed European markets have come close to retesting their lows from the 2008-09 credit crisis. Yet while investors pull money out of equities and run full-tilt away from risk, managers such as Marcus say the buying opportunities in Europe are among the best they've ever seen.

Marcus is a dyed-in-the-wool value investor, having previously worked for 14 years as an analyst and manager at famed value shop Mutual Series. He's had a tough time attracting assets to his fund, which opened in January of 2010. Year to date it's down 22 percent and has only \$10 million in assets. Yet Marcus remains optimistic: "In the long-run you get some of your best investment ideas in the middle of a crisis."

Just look at Italy, he says. On Sept. 23 the iShares MSCI Italy Index ETF, which tracks the country's benchmark index, fell to \$10.88 a share, almost half its \$20 price this April and just shy of its all-time low of \$10.03 on March 2, 2009. Marcus says he's seeing extraordinary values in companies like Exor SpA, parent company of automaker Fiat. "The stock is down 40 percent this year and trades for less than five times forward 12-month earnings," he says. And it isn't just Italy. The average foreign stock in the MSCI EAFE index has a price-to-book value of 1.3, almost half that of the S&P 500's 2.5.



A Greek national flag, left, flies beside a European Union (EU) flag in Athens on Sept. 21, 2011. Photographer: Kostas Tsironis/Bloomberg

Although Europe has serious fiscal problems, there are stark differences between today's crisis and 2008's. Back then the problems were in the private sector; today they're in the public sphere. It's the debt of Portugal, Italy, Ireland, Greece and Spain at risk of default, not the debt of corporations. "I have example after example of companies in demonstrably better financial shape today than they were in 2008 and yet they're trading at their 2008-2009 lows," says Sarah Ketterer, manager of the Causeway International Value Fund. "The most extreme ones are in the European financial services sector."

Ketterer has six percent of her portfolio in European banks such as BNP Paribas S.A., and Barclays Plc. Another six per-

cent is in insurers such as AXA SA and Zurich Financial Services AG. Investor worries about banks' holdings of sovereign debt are overblown, she says. Even pricing in an almost complete wipeout of Greece's and Portugal's bonds, she says France's BNP has so little exposure of that kind of distressed debt that its stock would fall about 20 percent. She thinks the potential upside for the company, in the more likely event of a bailout, is in excess of 150 percent.

Ketterer thinks concerns about a potential dissolution of the European Union because of its fiscal problems are unfounded. "The meltdown situation isn't even something we're modeling for our portfolios," she says. "The costs for a euro zone disintegration are common knowl-

edge among the region's leaders and they realize it would be much too high."

Any country leaving or being kicked out of the EU would face default on its Euro denominated debt, a devalued currency and flagging trade. According to a recent report by UBS economist Stephane Deo, "Euro Break Up - The Consequences," the cost of a weak country leaving the EU would be 9,500 to 11,500 Euro per person in the exiting country in the first year, with an estimated 3,000 to 4,000 Euros per capita cost in subsequent years.

Even if the EU were to dissolve, many European companies would continue to prosper, as much of their business is either outside the euro zone or has little to

do with the health of local governments. "There's a big difference between global franchise companies we buy, which happen to be headquartered in Europe, versus their countries," says Alberto Jimenez Crespo, co-manager of the Nuveen Tradewinds International Value Fund. "Their countries are a total mess, but their businesses have very strong franchises and earnings power. They're growing in emerging markets and have very significant means to pay their dividends."

In fact, Crespo says dividend yields on many European stocks exceed that of ten-year government bonds in the region -- yet the companies are in better financial health than the governments. He

owns GlaxoSmithKline Plc and Sanofi, as well as telecom plays Vodafone Group Plc and Belgacom SA, all of which have strong cash flows and dividend yields in excess of 4 percent. "If you look out at the next 20 years, the chances of [these four companies] having strong earnings power and being able to pay their dividends are significantly higher than the chances of European governments remaining solvent," he says. After all, even if the EU goes away, people will still need to call their doctors to get medicine.

*By Lewis Braham
(Lewis Braham is a freelance writer
based in Pittsburgh.)*

Posted from *Bloomberg.com*, October 5, 2011, copyright by Bloomberg L.P. with all rights reserved.
This reprint implies no endorsement, either tacit or expressed, of any company, product, service or investment opportunity.
#1-29276743 Managed by The YGS Group, 717.505.9701. For more information visit www.theYGSgroup.com/reprints.

Mutual fund investing involves risk, including loss of principal. In addition to the normal risks associated with equity investing, international investing may involve risk of capital loss from unfavorable fluctuations in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Diversification does not prevent all investment losses.

To determine if this Fund is an appropriate investment for you, carefully consider the Fund's investment objectives, risk factors, charges and expenses before investing. This and other information can be found in the Fund's prospectus, which may be obtained by calling 1-866-947-7000 or visit our website at www.causewayfunds.com

Causeway Capital Management LLC serves as investment adviser for the Causeway Funds. The Funds are distributed by SEI Investments Distribution Co., which is not affiliated with Causeway Capital Management LLC.

The above commentary expresses the adviser's views as of the date shown and should not be relied upon by the reader as research or investment advice regarding any stock. These views and the portfolio holdings are subject to change. There is no guarantee that any forecasts made will come to pass.

Information on funds other than the Causeway International Value Fund is provided strictly for illustrative purposes and should not be deemed an offer to sell or a solicitation of an offer to buy shares of any funds, securities, etc., other than the Causeway International Value fund, that is described in this article.

Top Ten holdings in the Causeway International Value Fund as of 09/30/2011 are: British American Tobacco PLC (3.3%), Rolls-Royce Group PLC (3.3%), Reed Elsevier NV (3.2%), Novartis AG-REG SHS (3.1%), KT&G Corp (2.9%), Sanofi (2.6%), Toyota Motor Corp (2.6%), Siemens AG (2.6%), Akzo Nobel (2.6%), Linde AG (2.4%).

