

## Market Overview:

We believe that equities will outperform fixed-income securities over the course of 2014, but we continue to expect that equity markets will potentially rise between 5 and 10 per cent. More importantly, the significant rotations across and within assets classes should be a constant feature for the remainder of 2014. *Allianz Global Investors Q2 2014*

## Eurozone:

Leading indicators are signalling an acceleration of growth in the Eurozone. This is a positive sign for corporate profits. When it comes to profitability, Europe's companies continue to lag behind their U.S. peers. They have some catching up to do.

## Equity inflows continue:

A look at past valuation ratios, however, reveals one thing: Equities are not overvalued yet. Moreover, higher growth is likely to trigger an increase in corporate earnings. The so-called "smart money" should underweight bonds that offer lower yields at higher risk—and place its bets on stocks.

Deutsche retains a massive developed market preference (equity allocations 89%, emerging 11%) and puts Eurozone and Europe generally in its most favoured region, with its most favoured sectors being Information technology, Financials and Consumer discretionary, its least favoured Consumer staples, Telecoms and Utilities. *Deutsche Asset & Wealth Management May 2014*

"The euro area will remain a region of low growth and vulnerability due to the lack of drivers of domestic demand and the real convergence and financial stability that national economies need as reflected in the disturbing trends of French and Spanish government deficits." *La Française Asset Management, April 2014*

Total Western European equity fund flows in Q1 fell from inflows of €39.5B in Q1 2014 to inflows of €26.9B in Q1 2014. Source – EFAMA

## WEU results

Western Europe saw inflows of \$23.7B running at one third of inflows into the US. Inflows were driven almost equally by US investors (+\$11.6B) and UK (+\$10.2B) with good support also from Asia (+\$2.2B). Western European investors were net sellers of the region – although they invested a net \$3.8B into US equities, they sold \$2.5B of WEU equities. The bulk of inflows came from index investors (inflows of \$23.2B) followed by those growth investors who were so busy selling emerging markets:

### By investment style

Growth funds prefer developed markets notably USA (+\$41B) and WEU (+\$14B) while selling \$16B in emerging markets (-\$18B in Asia ex Japan and -\$1B in Russia) thus providing a welcome underpinning to western European equities

Index funds invest \$15B in developed markets, pull -\$8.5B from emerging – and Western Europe was by far the biggest beneficiary of this inflow of index funds, worth \$23.2B because index equity funds withdrew \$7.6B from North American markets

Alternative investors invest \$28.7B in developed markets, versus \$4.5B in emerging

Over the 12 months to march 31<sup>st</sup> 2014 Western Europe has seen equal inflows of \$56B from growth and index funds with value funds trailing (net inflows of \$23.5B)

### By investor region

As in previous quarters Western European equities saw a sharp division between local investors making sales and foreign investors making further investments.

North American investors led inflows with \$11.6B of inflows. That is a healthy number but it is one third the level of Q3 2013 (+\$30.9B) and under half the level of Q4 (+\$24.8B). Primecap Management Company and OppenheimerFunds led the buyers (but Capital Group companies Capital World and Capital Research made heavy sales, notably in the Netherlands, Germany and France)

UK investors followed the US as a major investor; as the US, inflows have declined quarter on quarter since Q3 2013 but at a slower rate, and now stand at \$10.1B for Q1 with growth investors Henderson Global Investors, JP Morgan Asset Management (UK) and MFS International UK leading the way

Where US and UK investors continue to make new investments, Western European & Scandinavian investors continue to be net sellers. WEU (excl Scandinavian) investors sold \$2.5B, Scandinavian \$2.2B. They were led by Credit Suisse AG (Asset management), Carmignac Gestion (selling Switzerland above all) and Denmark's FondsmæglerSelskabet Maj Invest. This is the second quarter to see both Western European & Scandinavian investors selling

China's State Administration of Foreign Exchange (+\$2.7B) drove net Asian investment of \$1.1B

### By market of issuer

The famous European North-South split shows no sign of narrowing, with many investors eager to sell Northern European markets and invest in what are still seen as exceptional value opportunities in Southern Europe. In the 12 months to 31<sup>st</sup> March 2014 Southern Europe has seen net inflows of \$28.8B against \$110B for western Europe as a whole. In Q1 2014 Southern Europe saw inflows of \$10.3B where the Netherlands, Scandinavia and Germany were net sold

### By investment style

As in much of 2013, the dominant role is played by index and then growth investors who are investing money in developed rather than emerging markets or being very selective when it comes to emerging markets.

WEU saw net inflows of \$23.2B from index investors in Q1 2014 and \$14.3B of inflows from growth investors

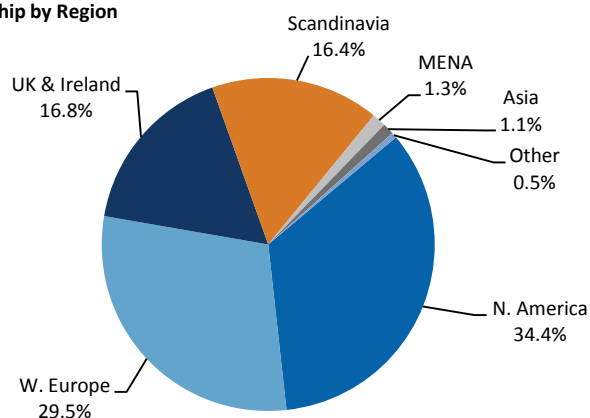
Value investors took out \$5.3B in the same period and GARP investors sold \$4.1B; value investors made the biggest sales in the Netherlands (-\$2.9B) led by Capital World, Mondrian Investment Partners and Old Mutual Global Investors, Germany (-\$6B with Credit Suisse and Capital Research the top sellers by far) and Scandinavia (-\$1B)

Value investors prefer emerging markets but are either neutral on developed markets (e.g. the USA) or negative (Scandinavia, Germany, Netherlands) with the exception of France where they see some value, investing a net \$1.3B (against only \$660M) invested in Southern Europe Growth investors made up all top 6 investors in WEU in Q1 2014 and 7 of the top 10. While emerging markets (now more generally designated a neutral rather than a negative as they were in Q4 2013 / Q1 2014) retain limited interest growth investors will continue to prefer the developed markets' combined offering of growth and lower volatility

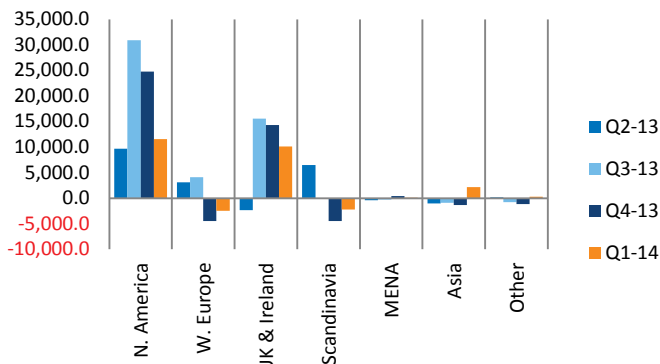
"On the smallcap front, Southern European markets saw a massive increase in trading. The FTSE Italia Smallcap and IBEX Smallcap Indexes both saw three times the flow they did in the opening quarter of last year."

## Institutional Investment Flow

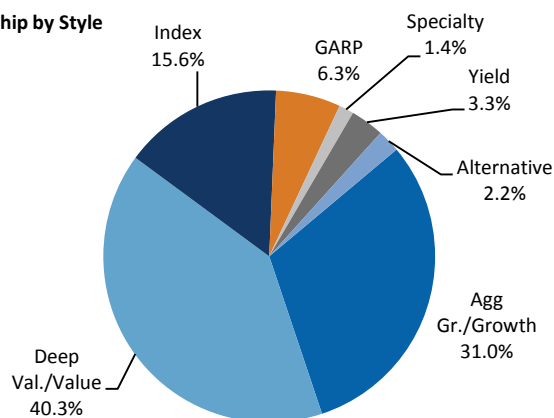
Ownership by Region



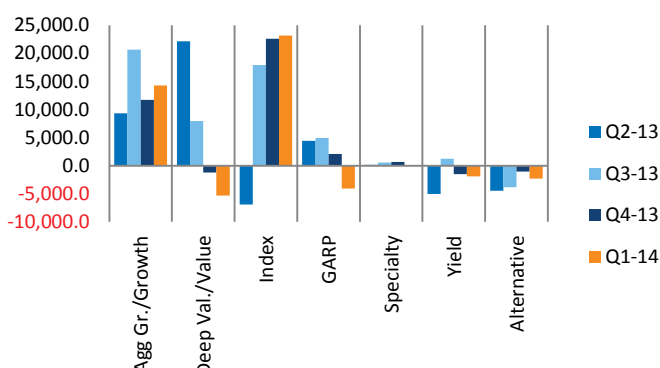
Net Change (\$M Value) by Region



Ownership by Style



Net Change (\$M Value) by Style



## City Analysis

Most Invested

Country / City	Total Equity Assets (\$M)	Value (\$M)	Activity (\$M)	# Firms
United Kingdom (London)	2,150,349.7	390,803.7	5,265.6	294
France (Paris)	399,765.8	261,351.8	-2,118.5	158
Sweden (Stockholm)	371,715.9	246,128.3	183.5	82
Norway (Oslo)	576,841.5	199,792.4	1,102.1	26
United States (New York)	3,276,003.5	181,425.5	2,322.9	453
United States (Boston)	2,124,690.4	175,402.1	-399.8	120
United States (Los Angeles)	1,146,151.5	157,012.6	-7,945.4	41
Germany (Frankfurt)	243,993.3	113,821.9	-620.2	44
Switzerland (Zürich)	218,120.8	77,932.5	-4,160.8	79
United Kingdom (Edinburgh)	352,620.3	65,993.1	50.8	22
Netherlands (Amsterdam)	164,002.6	53,192.8	-54.2	15
United States (Chicago)	499,358.3	44,977.7	897.6	74
United States (San Francisco)	381,483.5	43,474.0	-459.1	60
Finland (Helsinki)	47,355.9	36,531.4	-1,698.4	40
Qatar (Doha)	84,064.7	36,181.6	190.9	3
Canada (Toronto)	585,694.5	34,080.8	-236.5	79
Italy (Milan)	51,905.9	27,872.7	1,668.6	38
Switzerland (Geneva)	88,451.8	27,164.1	86.1	45
Spain (Madrid)	38,495.8	23,759.3	1,106.9	75
Belgium (Brussels)	41,689.7	22,504.7	744.1	14
<b>Excludes Passive/Index Investors</b>	<b>1,869,663.8</b>	<b>-6,319.8</b>	<b>1,319</b>	

Most Investors

Country / City	Total Equity Assets (\$M)	Value (\$M)	Activity (\$M)	# Firms
United States (New York)	3,276,003.5	181,425.5	2,322.9	453
United Kingdom (London)	2,150,349.7	390,803.7	5,265.6	294
France (Paris)	399,765.8	261,351.8	-2,118.5	158
United States (Boston)	2,124,690.4	175,402.1	-399.8	120
Sweden (Stockholm)	371,715.9	246,128.3	183.5	82
Switzerland (Zürich)	218,120.8	77,932.5	-4,160.8	79
Canada (Toronto)	585,694.5	34,080.8	-236.5	79
Spain (Madrid)	38,495.8	23,759.3	1,106.9	75
United States (Chicago)	499,358.3	44,977.7	897.6	74
United States (San Francisco)	381,483.5	43,474.0	-459.1	60
Japan (Tokyo)	483,760.0	11,624.3	-404.7	47
Switzerland (Geneva)	88,451.8	27,164.1	86.1	45
Germany (Frankfurt)	243,993.3	113,821.9	-620.2	44
Luxembourg (Luxembourg)	29,054.0	10,160.8	-468.5	44
United States (Los Angeles)	1,146,151.5	157,012.6	-7,945.4	41
Finland (Helsinki)	47,355.9	36,531.4	-1,698.4	40
Italy (Milan)	51,905.9	27,872.7	1,668.6	38
United States (Houston)	239,864.2	17,497.3	136.1	36
United States (Dallas)	164,216.9	4,919.0	-17.0	36
Singapore (Singapore)	252,621.2	13,832.5	-74.7	35
<b>Excludes Passive/Index Investors</b>	<b>1,479,335.6</b>	<b>2,401.8</b>	<b>1,474</b>	

## Top Holders, Buyers & Sellers

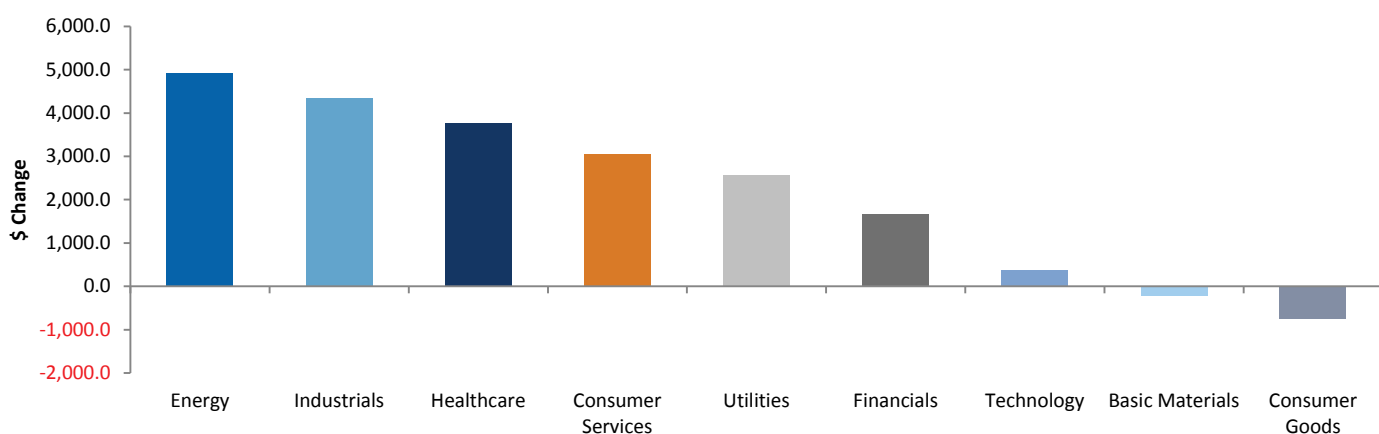
TOP HOLDERS	Country	Style	Turnover	Equity Assets (\$M)	Value (\$M)	Change (\$M)	% Portfolio	% Portfolio Chg
Norges Bank Investment Management (Norway)	Norway	Value	Low	525,765.6	166,189.5	644.1	31.6	0.4
Capital World Investors (U.S.)	United States	Value	Low	545,438.9	92,813.3	-5,115.1	17.0	-5.2
BlackRock Investment Management (U.K.), LTD	United Kingdom	Growth	Low	325,418.8	55,055.0	-2,292.4	16.9	-4.0
Fidelity Management & Research Company	United States	Growth	Medium	804,042.4	48,880.4	-2,179.9	6.1	-4.3
Natixis Asset Management	France	Value	Medium	61,460.8	48,626.8	206.3	79.1	0.4
Capital Research Global Investors (U.S.)	United States	GARP	Low	384,232.1	48,087.3	-4,181.7	12.5	-8.0
APG Asset Management N.V.	Netherlands	Yield	Low	137,451.2	42,325.8	138.4	30.8	0.3
MFS Investment Management	United States	Value	Low	235,285.0	39,138.8	554.6	16.6	1.4
Dodge & Cox	United States	Deep Value	Low	148,535.8	38,398.5	-101.6	25.9	-0.3
Amundi Asset Management	France	Value	Low	56,881.9	36,712.5	179.1	64.5	0.5
				<b>616,227.7</b>	<b>-12,148.1</b>			

TOP BUYERS	Country	Style	Turnover	Equity Assets (\$M)	Value (\$M)	Change (\$M)	% Portfolio	% Portfolio Chg
Primecap Management Company	United States	Growth	Low	90,025.4	11,259.8	3,281.5	12.5	41.1
OppenheimerFunds, Inc.	United States	Growth	Medium	139,489.1	26,358.0	3,158.7	18.9	13.6
State Administration of Foreign Exchange (SAFE)	China	Growth	Medium	31,082.0	6,918.4	2,677.7	22.3	63.1
Henderson Global Investors, LTD (U.K.)	United Kingdom	Growth	Medium	59,380.2	22,677.4	2,504.9	38.2	12.4
J.P. Morgan Asset Management (UK), LTD	United Kingdom	Growth	Medium	110,802.3	23,069.8	2,492.5	20.8	12.1
T. Rowe Price Associates, Inc.	United States	Growth	Low	479,314.4	17,631.9	1,876.9	3.7	11.9
Northern Cross, LLC	United States	Value	Low	50,187.4	33,506.8	1,741.0	66.8	5.5
Zürcher Kantonalbank Asset Management	Switzerland	Value	Medium	11,383.8	5,221.0	1,718.2	45.9	49.1
MFS International (U.K.), LTD	United Kingdom	Growth	Low	43,939.1	14,467.2	1,558.3	32.9	12.1
Deutsche Asset & Wealth Management Investment Gmb	Germany	Value	Medium	59,140.8	29,915.2	1,429.7	50.6	5.0
				<b>191,025.5</b>	<b>22,439.4</b>			

TOP SELLERS	Country	Style	Turnover	Equity Assets (\$M)	Value (\$M)	Change (\$M)	% Portfolio	% Portfolio Chg
Capital World Investors (U.S.)	United States	Value	Low	545,438.9	92,813.3	-5,115.1	17.0	-5.2
Credit Suisse AG (Asset Management)	Switzerland	Value	Low	70,856.0	29,178.9	-5,019.6	41.2	-14.7
Capital Research Global Investors (U.S.)	United States	GARP	Low	384,232.1	48,087.3	-4,181.7	12.5	-8.0
BlackRock Investment Management (U.K.), LTD	United Kingdom	Growth	Low	325,418.8	55,055.0	-2,292.4	16.9	-4.0
Fidelity Management & Research Company	United States	Growth	Medium	804,042.4	48,880.4	-2,179.9	6.1	-4.3
Mondrian Investment Partners, LTD	United Kingdom	Value	Low	20,794.0	3,214.7	-1,618.7	15.5	-33.5
Carmignac Gestion	France	Growth	Medium	31,824.4	8,507.1	-1,477.5	26.7	-14.8
Fondsmæglerselskabet Maj Invest A/S	Denmark	Growth	Low	5,025.3	1,845.4	-1,214.5	36.7	-39.7
Templeton Global Advisors, LTD	Bahamas	Value	Low	54,678.3	20,941.5	-1,097.7	38.3	-5.0
Morgan Stanley Investment Management Inc.	United States	Growth	Medium	68,893.5	5,080.6	-1,089.6	7.4	-17.7
				<b>313,604.1</b>	<b>-25,286.5</b>			

*Includes Investors with EUM greater than \$100M; Excludes Passive/Index Investors*

## Most Bought & Sold Sectors/Stocks



## Most Bought and Sold Stocks

BOUGHT Securities	Industry	Change \$M	SOLD Securities	Industry	Change \$M
Roche Holding AG	Healthcare	4,011.6	LyondellBasell Industries N.V.	Basic Materials	-2,044.1
Royal Dutch Shell PLC	Energy	2,346.7	Airbus Group NV	Industrials	-1,930.5
Glencore Xstrata plc	Basic Materials	1,716.2	Daimler AG	Consumer Goods	-1,890.6
ProSiebenSat.1 Media AG	Consumer Services	1,689.3	Bayer AG	Healthcare	-1,790.1
Bankia	Financials	1,438.3	Pernod Ricard S.A.	Consumer Goods	-1,618.1
		<b>11,202.1</b>			<b>-9,273.3</b>