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LONDON

Mark Lovett, manager of the award-winning¹ Charter European Trust and Co-CIO European Equities, RCM², comments on the outlook for Europe.

- The situation in Europe is serious but throws up many opportunities
- Manager anticipates a substantial divergence in economic performance across the European countries
- Charter European Trust is trading at a 13% discount³

European markets

“Understandably current sentiment towards Europe is downbeat as the crisis continues to unfold. However, it is important to remember that the nations causing the headlines are peripheral countries. The heart of Europe, in terms of economic growth is Germany, France and Scandinavia. These countries are benefiting massively from the devaluation of the Euro and we believe that the export-driven northern European countries will get quite a noticeable boost to GDP growth from this.

“Whilst the extreme market tensions within Europe were not expected, we have been anticipating a large differential in growth between European countries and have therefore positioned the portfolio accordingly. What matters now is the duration of the problem. Country specific factors have not been an issue for the past 10 years, but now it’s an incredibly powerful factor to consider.

Value of the Euro

“The recent EU package is credible, very market focused and substantial in size. The debt burden is not being eliminated, it is being shared around. There is no doubt that the market is challenging the European Central Bank’s perceived conservative credentials. The actions of this organisation suggests a more expansive and, many would say, more politicised contribution to seeing us through this global credit crisis. With the International Monetary Fund being involved it is likely that the austerity packages will be put in place as otherwise the risk is that the Euro falls apart.

“In the short term, the uncertainties around the execution of the imposed austerity packages will remain a drag on the Euro. If there is a perception that the southern European countries now ‘get it’ and are seen to be taking the medicine, then there is a chance that the Euro could regain its status as a reserve currency. There are a number of points of challenge before we get to that kind of stability, but if it holds together then the Euro will definitely be perceived as being much stronger for having got through this crisis.

“Northern European exporters are already seeing significant improvement in their trading terms, particularly with the relative strength of the dollar and other dollar based currencies. Exports from southern European countries are not a big enough part of global trade to offset the benefit the northern European exporters are seeing from the Euro weakness. The danger is their effect on the overall union, and the risk of contagion, rather than their effect on the global economy.

Portfolio positioning

“Whilst Charter European Trust is not managed according to thematic views, the companies in which it currently invests fit into five broad themes, which I believe remain very strong drivers of return going forward. These are: business to business spending, the weakness of the Euro, structural growth and high financial returns where companies are re-rated, contrarian opportunities, and finally specific banks where the balance of risk / reward is so much improved.

“Within the portfolio, country bias very much takes a back seat to individual stock selection, however, at present there happens to be a very heavy focus on companies based in the northern European countries including Scandinavia. There remains an emphasis on business to business spending, which is going to be a much more powerful driver than public spending or consumption over the next few years, which I have generally avoided. However the portfolio is exposed to Asian and emerging market consumer spending growth, which I believe is very strong and where stocks such as Swatch and Richemont have been incredibly robust performers.”

- Ends -

Charter European Trust

The award-winning Charter European Trust plc aims to deliver capital and income growth. It is a bottom-up, focused, European investment trust with a flexible mandate, currently favouring larger capitalisation 'growth' companies.

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Notes to Editors:

1 - Charter European Trust was winner of Investment Week's "Investment Trust of the Year Award" (Europe) 2008.

2 – RCM is a global asset management company providing active investment strategies. RCM is a company of Allianz Global Investors.

3 – Source RCM as at 25/05/10.

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Awards

- RCM named winner of Active North American Equity at Pensions & Investment Provider awards 2009. RCM US Large Cap Select Growth is managed by Scott Migliori, CIO US, RCM.
- RCM named No.1 leading fund management firm for SRI Research by Thomson Reuters Extel 2009.
- Global CIO of RCM, Andreas Utermann, named CIO of the Year by Funds Europe magazine 2008.
- Winner of European Investment Trust of the Year by Investment Week magazine, 2008, for the RCM-managed Charter European Trust.

About RCM (all data source: RCM as at 31/12/09)

RCM is a global asset manager operating from six international offices - San Francisco, London, Frankfurt, Hong Kong, Tokyo and Sydney – with assets under management of over \$140 billion worldwide. The firm provides a range of investment management solutions to institutions and individual clients. At RCM we believe that by generating and exploiting an information advantage, we will be able to deliver superior and consistent investment results for the benefit of our clients - a philosophy we call RCM informed. RCM is a company of Allianz Global Investors, a pre-eminent global asset management group committed to helping clients achieve sustainable success. As a company of Allianz Global Investors, RCM offers a distinctive investment philosophy and culture, while benefiting from the scale and substantial resources of our parent; including business support, industry best-practices and financial investment. This enhances our ability to attract and retain talent, and provide superior insight and investment performance.

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