How to Profit from European Recovery ?

Finlabo Dynamic Equity, a UCITS fund with a long short approach and a great track record

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After several years of under performance European equity markets are starting to recover, and many investors are betting again on the fortunes of the old continent.

How can investors exploit this opportunity? And what are the best countries and sectors in term of potential gains?

We speak about this with Alessandro Guzzini, CEO of Finlabo SIM, and investment manager of Finlabo Dynamic Equity, a UCITS IV fund which has an excellent track record investing on European Equity markets, with an annualized positive return of about 7% since its inception in July 2006 that compares extraordinarily well to the Estoxx market index that in the same period lost about 2% of its value yearly.

Finlabo SIM was honored recently by the IAIR Awards as the best italian Alternative Asset Management company of the year.

Mr. Guzzini, what is your view on the Eurozone economy?

Eurozone experienced an almost existential crisis in the last 3 years. Greece made default, Cyprus banks collapsed, and even countries like Italy and Spain risked to make defaults on their government bonds.

The response of the politics was really weak and late, at least at the beginning, but then, also thanks to the ambitious plan engineered by Mario Draghi, Eurozone markets started recovering since august 2012.

Now also the Eurozone GDP is showing signs of improvement and the recession that started in 2011 has finally ended.

We still have a very high unemployment rate in Eurozone, especially in the southern countries that are experiencing a near depression.

But we are starting to see a quite good recovery in competitiveness in almost every crisis hit countries, since the private sector restructured a lot and many good companies are exploiting the opportunities that have arisen from a weak labour market, to cut costs and internationalize sales.

So, while we still see a quite weak real estate market in southern countries, and domestic consumption is still very low, we are assisting to a good recovery of export activity.

At the same time, Germany, Austria and other so called core countries are experiencing a boom in real estate: this is indeed causing a slow rebalancing that will lead to a more robust economy in a few years.

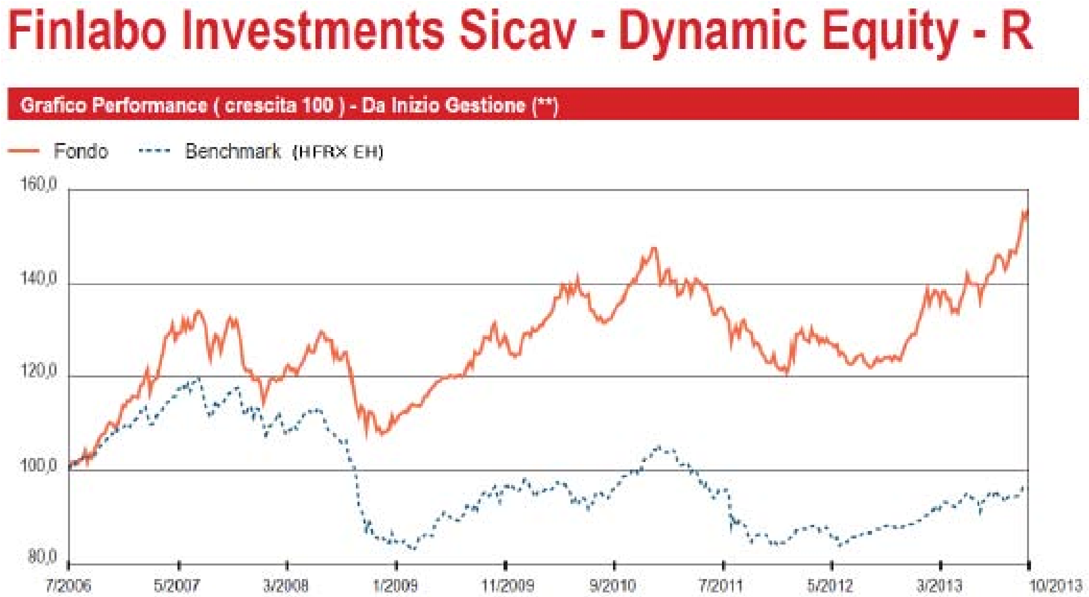
And what about financial markets ?

The bond markets were the first to rally, when Draghi announced the OMT plan. Yields on Italian treasuries went down from 7% to almost 4%, and also most of the peripheral countries experienced the same trend. In the last few months however also the equity markets joined the party, and we are seeing a very good recovery on cyclical and financial stocks, which at the bottom of the crisis were valued a fraction of their book value. Notwithstanding the strong recovery

Alessandro Guzzini, CEO, and Anselmo Pallotta, CIO of Finlabo SIM

registered in the last year or so, the equity market is still very cheap, especially if compared to the bond market.
Just to give you an indication, our portfolio has an average P/E of less than 13 (based on 2013 earning estimates), and an average P/BV of about 1. Especially the P/BV shows that there is an ample margin for recovery in the market, considering that in our opinion profit margins can expand quite a lot in the next few years, as the economy continues to recover. Also the monetary policy in our opinion will remain very supporting for the next 2/3 years at least: we believe that Mario Draghi will probably have to implement some form of quantitative easing in the next months and that will be very supportive for equity markets.

What are the most interesting themes in term of sectors or countries?
We think that the best opportunities are on the financial and cyclical sectors that still have very low market valuations. However we are stock pickers, and we analyse companies one by one, looking for stocks that have the best combination of quality, growth, and good valuations. We buy both growth stock and value stocks, indeed the best investment for us is when we find a good company with great growth potential that



Finlabo outperformed most of its peers in the last 7 years by picking the best European stocks

has a very low valuation.

How can you find these fabulous stocks?
We are helped by a software, developed by our team, that allow us to analyze daily more than 1000 stocks listed on the Eurozone markets. It is this software that allowed us to find stocks like Reply, an Italian IT services company, which more than tripled in price since we bought it at the beginning of 2012. And we still own it, since we believe that in a couple of years it may be worth about 100 euro per share, which would be 20 times 2015 estimated earnings (the last market price is about 48 €).

Can you name some of your latest investments?
In the last few months we bought several stocks; indeed as I said before we are finding a lot of opportunities in the market, especially among cyclical sectors. Just to make a new example we bought Italmobiliare in Italy that is the holding company of Italcementi group (the cement and concrete maker). It's worth about 7 times 2013 earnings and only 30% of its book value. We think that Italcementi may have bottomed since the real estate market is really depressed and is deemed to recovery in the medium term.
We bought Sopra Group, a French IT solutions provider that has a very good track record in term of growth and value creation, and which is worth only 10 times estimated 2014 earnings.
We bought CNP Assurance, a French Insurance with a strong franchise in several European countries, that it is worth only 60% of its book value at current market prices.

This year the Finlabo Dynamic Equity fund is gaining more than 22% and is one of the best performer in its category. However you managed to have good performance also in more difficult year like 2010 or 2008. How did you do it?
We use a hedging technique, based on a statistical model developed internally. Basically we vary the market exposure of the fund by selling index futures to hedge the equity portfolio, using a dynamic approach, that aims to have a higher beta during bull markets and to protect the portfolio during downtrends.
This allowed us to make good performance in years like 2010, when we gained almost 18% while the Estoxx lost 5%, and to gain more than 22% this year, outperforming the Estoxx that is gaining about 15%. At the same time this approach allows us to maintain a much lower volatility compared to that of traditional long only funds: indeed our historical volatility is about only a third of that of the market.