

press release

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Investing in the unloved – funds for the contrarian investor

With many investors currently unsure about where to go for the best returns, Andy Parsons, advice team manager at The Share Centre, suggests higher risk investors with a long term strategy may wish to consider a number of regions perceived by many as either out of favour or simply too risky.

In the past couple of months markets have once again experienced significant volatility, primarily on the back of the US down grade following their continual wrangling on how to tackle their burgeoning debt level and the continuing economic crisis in the EuroZone and the will they, won't they default concerns over Greece.

However, given that investing in funds should always be for the longer term. For investors prepared to accept a higher degree of risk, the current market volatility has created the opportunity to take advantage and regularly drip feed money in to their portfolios.

Just as a contrarian fund manager will look for companies that are out of favour but that have solid foundations, investors can use these principles when selecting funds.

Three funds that focus on geographical regions currently under intense scrutiny are the **BlackRock European dynamic fund**, the **Aberdeen Emerging Markets fund** and the **Schroder US Mid Cap fund**.

Whilst fund managers have to have a consideration of the political, regional and economic situation of the countries they invest in, it is the underlying corporates in which they invest that is their primary concern. Corporates worldwide have had to take decisive action during the downturn; whether that is through a thorough review of their business models, cutting costs or cutting the workforce – the hardest decision of all. This has resulted in corporates being in a position of remarkable strength.

In addition, investors should remember that although companies may be located in a particular region its core business may be undertaken in another part of the world.

BlackRock European dynamic fund

Investing in European funds provides diversification that an investment portfolio based solely in UK could not provide. For example, Denmark is a world leader in alternative energy solutions and Germany has world class engineering companies and car manufacturers.

The BlackRock European Dynamic fund has a flexible investment mandate that allows it to invest across the complete market cap spectrum. Although in terms of actual underlying investments, the portfolio is fairly concentrated comprising around 35 to 65 companies. The investment team believes that markets are not efficient and therefore, through rigorous analysis opportunities can be identified.

A shift in European corporate governance in recent years will also have an impact on this fund. Directors were previously given free options when joining a business which they could exercise at will. Now, more directors are encouraged to stake a personal financial commitment in the company and become more involved in growing the company's earnings per share. These key changes should enable fund managers, such as Alister Hibbert, to identify potential and on going opportunities.

Aberdeen Emerging Markets fund

What makes emerging market investment attractive is the broad access to investments in Asia, Eastern Europe and Latin America. These regions of the world have growing populations, an abundance of raw materials, developing financial markets and with many now starting to demonstrate internal consumer demand.

The Aberdeen Emerging Markets fund is an ideal way of investing within this sector as its managers and analysts are involved with the participants of these markets on a daily basis. Unlike the vast majority of funds, this fund has no single manager at the helm and is instead managed on a team basis by Aberdeen's emerging market specialists.

The fund invests in approximately 50 - 60 companies, favouring a blend of large and mid cap companies. In terms of equity choice the team focus on a bottom-up approach with the main emphasis on absolute returns rather than the benchmark. Investments are generally bought on the basis of being held for the longer-term rather than regularly traded.

Schroder US Mid Cap fund

The Schroder US Mid Cap Fund was launched in April 2005 and has been managed since then by Jenny Jones. Jenny has 30 years investment experience and has consistently delivered top and second quartile performance for this fund. The portfolio predominantly concentrates on companies with a market cap size between US\$1bn to US\$7bn although companies can be held with a cap size of less than US\$1bn.

The fund typically contains between 60 to 90 stocks which are selected using a qualitative and quantitative analysis processes. For those companies held, they will fall into one of three distinct categories, those offering superior growth potential, those providing a steady return or finally those in a turnaround situation. Investors should also be aware that this fund is likely to outperform in flat, negative or steadily rising markets. However, in strong rising markets given the emphasis on quality companies and avoidance of momentum companies, it is likely to underperform.

This fund is suitable for investors wishing to add diversification to a US holding away from the mainstream large cap funds. In addition, it offers investors the opportunity to benefit from potentially higher growth of small-mid size companies compared to large cap peers.

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For further information please contact:

The Share Centre

Stephanie Reynolds

PR Manager

01296 439 256

Stephanie.reynolds@share.co.uk

Rebecca Kempself

PR Executive

01296 439 426

Rebecca.kempself@share.co.uk

Lansons Communications

Chantal Heckford / Lisa Grando / Sarah Waterson
0207 294 3630 / 0207 294 3669 / 0207 294 3649
Chantalh@lansons.com / Lisag@lansons.com / SarahW@lansons.com

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The Share Centre was established in 1990 to provide value-for-money share services for private investors. Its range of services includes buying and selling shares (by Internet, telephone and post) and a comprehensive share administration and safe custody service. Tax-efficient investment 'wrappers' including ISAs, CTFs and SIPPs are also available.

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