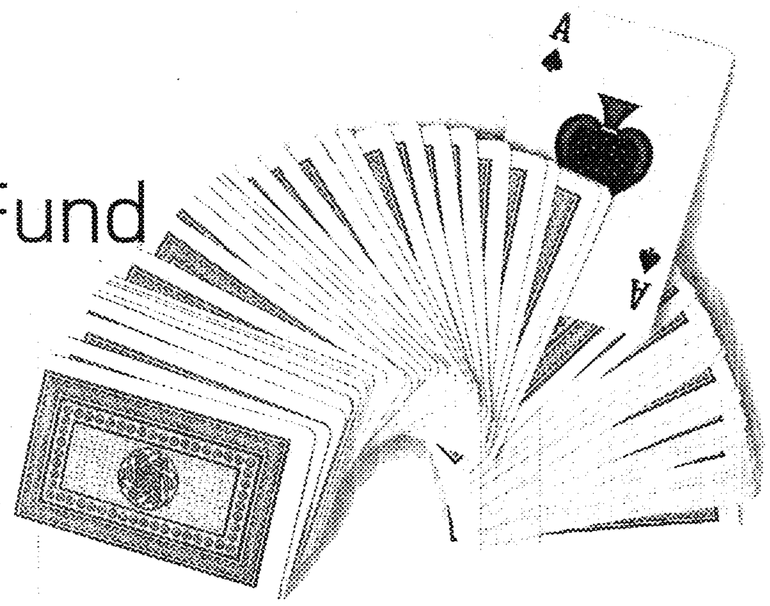
Credit Suisse European fund vs Threadneedle European Select Fund



This week there is a continental European backdrop to a David and Goliath-style confrontation. That particular contest managed to produce a clear-cut winner of course. However, it is defeats all round, judging by our panel's responses to the two portfolios in the frame this week. Andrew Michael reports.

Credit Suisse European fund

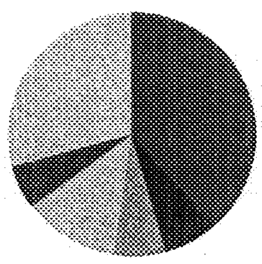
What *New Model Adviser*® says:

The fund is run by Credit Suisse Asset Management and the aim of the portfolio is to maximise the total return to investors, mainly from capital growth. The fund is benchmarked against the FTSE Europe ex-UK index.

The investment policy of the portfolio is to invest in any or all of the countries in Europe west of the Urals (excluding the UK). The fund can invest in any economic sector and a minor proportion of the fund is allowed to invest in smaller companies. It can also invest in investment trusts, open-ended and closed-end funds and units in unit trusts, which are themselves dedicated to investing in Europe ex-UK west of the Urals.

What Credit Suisse says:

'The fund performed negatively in absolute terms over the second quarter of 2006,' says Jeff Currington, the fund's manager. 'Our exposure to the aerospace and defence sector was a negative contributor to relative performance due to negative news flow relating to the civil aerospace sub-sector.

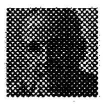


'We maintain our view that the overall equity market is attractively valued and therefore expect favourable, longer-term performance. Over the short term, however, we expect markets to continue to be volatile and believe there is a reasonable risk of further downward corrections.

'Our key sector overweights continue to be pharmaceuticals and energy. The pharmaceuticals overweight is based on the view that valuations are attractive relative to the earnings growth potential within the sector.

'Our energy overweight continues to be driven by our view that valuations in the sector discount far lower, longer-term oil prices than we expect.'

What the advisers say:



Peter Chadborn
Principal
CBK

The fund manager has had a mere 11 months to make an impression on this disappointing fund and he has clearly got his work cut out. Performance has been way below both the sector average and the index by some margin and for some time.

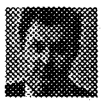
Diversity should be achievable as there are no real geographic or economic restrictions and this is reflected with low volatility when compared to the rest of the sector. Gradual improvements are being made as performance has increased in recent months but the consistent long-term fourth-quartile performance does nothing to inspire confidence. The European (excluding UK) sector is strong with many quality managers posting consistently good performances, therefore it is not difficult to class this fund as a **fold**.

Jeremy Robinson
Director
Capitolcapital Investment Solutions

A definite **fold** for a fund that has been fourth-quartile over all periods.

Consider the figures – because this fund has been ranked 87th out of 94, 90th out of 92, 83rd of 83 and 75th of 75 over the six-month, one-year, three-year and five-year period to 30 June 2006 respectively.

The fund has had its chances and failed with a number of fund managers over the years.



Daniel Minett
Independent financial adviser,
Investment Quorum

The performance of this fund has been consistent – consistently bottom-decile, that is, over one, three, five and 10 years.

It is difficult to ascertain how Credit Suisse wishes to position itself in the market and where its focus lies, as currently one in every two funds within their offering is a multi-manager fund.

Considering Credit Suisse Euro Frontiers fund has posted stellar performance figures and within the company's European equity team there is almost definitely an overlap of research and ideas between the funds the underperformance of this fund is therefore even more disappointing.

In the last five years an average fund in this sector would have given you a 30% return on your money. This fund would have produced 4%.

A definite **fold**.

Threadneedle European Select fund

What *New Model Adviser®* says:

The fund is run by Threadneedle Investments. Its objective is to produce above-average capital growth mainly through investing in a relatively concentrated portfolio of stocks from companies domiciled in Continental Europe or which have significant Continental European operations. It is measured against the FTSE World Europe ex-UK index.

However, from the less-than-spectacular returns, the fund appears to be not living up to expectations. Considering the alternative quality funds in this sector this fund is a **fold**.

What Threadneedle says:

'The Select funds are aggressively managed and have a concentrated portfolio. July saw positive returns from European equities and the fund,' says the portfolio's manager Phil Cliff.

'The fund increased its exposure to financials at around the time the market bottomed in mid-July, which proved beneficial.

'We have also been overweight in steel and underweight in areas such as media and technology, which have also proved beneficial. The macro-economic environment and increased market volatility have meant that stock-picking has recently become very tough.

'However, we believe that the slowdown in growth is manageable for both world economies and companies and that at current levels European equity valuations appear very reasonable.'

What the advisers say:

Peter Chadborn
Principal
CBK

At first glance there is little to get excited about with this established fund.

While the absolute returns have been acceptable at a cumulative three-year performance of 58.1%, returns have fallen below the index in all but three of the last four years.

Although the fund manager's tenure is little over a year, in that time performance has remained in the fourth quartile and the volatility has increased with a beta of 4.07 so improvements can indeed be made.

The fund is fairly concentrated with 67 stocks, so increased volatility could be expected but it does have a reasonably broad mandate with no particular geographical or sector restrictions.

Daniel Minett
Independent financial adviser,
Investment Quorum

While this fund can boast a 20-year track record and is the fifth-largest fund in its sector, the performance over the last five years has been pedestrian to say the least.

This fund has average volatility and closely follows, albeit slightly lags, the sector benchmark.

This is a far cry from the company's Select investment approach, which should mean that the fund has the flexibility to take significant stock and sector positions that may lead to increased levels of volatility. The fund's current manager has been at the helm for just over a year but it is difficult at the moment to see a similar situation occurring.

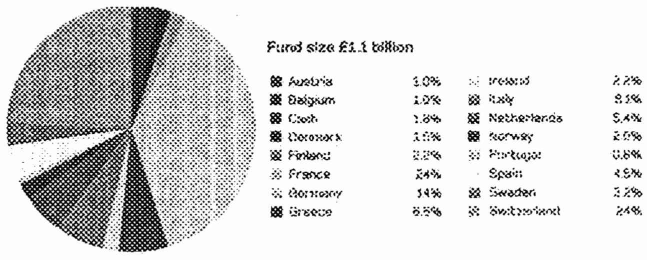
There are better stock-picking funds and managers in this sector and therefore we feel this is another **fold**.

Jeremy Robinson
Director
Capitolcapital Investment Solutions

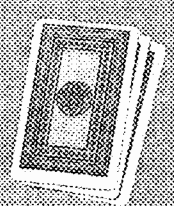
Again a definite **fold**. It is a shame that this fund does not share some of the scope and flair (and stock-picking) of the Threadneedle's European small-cap fund, which is very strong indeed.

This fund contains just 67 stocks and, while not benchmarked, it is a disappointing fourth-quartile performer over both one and three years. Within the 'dynamic' genre it is certainly no match for offerings from JP Morgan or Schroder's Euro Alpha Plus.

Threadneedle European Select portfolio breakdown at 31 August 2006 Source: Threadneedle

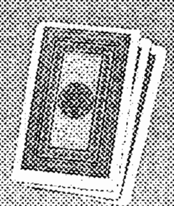


New Model Adviser's® verdict



Credit Suisse

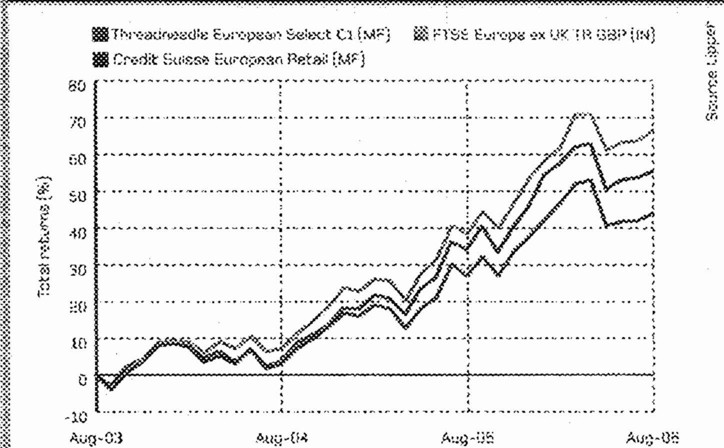
One panellist could see a glimmer of hope but concerns about the figures dominated the way the advisers looked at this fund, which gets a unanimous thumbs down. Fold.

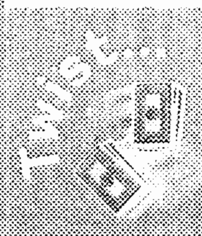


Threadneedle

The fund is supposed to feature high risk, high volatility, high return characteristics. But the panellists query how far that description extends to this fund. It's a unanimous **fold**.

Both featured funds have consistently fared poorly





Although one adviser was not keen on either, one fund in the Europe ex-UK sector he believes deserves recognition is JP Morgan's Europe portfolio.

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