News & Views

April 2016

For Professional Clients and, in Switzerland, Qualified Investors

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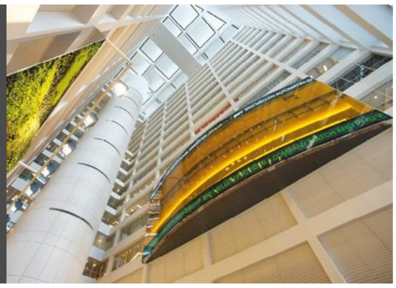

WHERE DISRUPTIVE TECH IS UNLOCKING OPPORTUNITIES IN EUROPE

Mark Bogar of the BNY Mellon Small Cap Euroland Fund says online penetration has taken longer in Europe than other markets, meaning there could still be growth potential ahead.

Retailers, health care and renewables are three sectors in Europe in which small-cap manager Mark Bogar is finding investment opportunities created by disruption.

Bogar, who runs the BNY Mellon Small Cap Euroland Fund at The Boston Company Asset Management[1] in Boston, says online spending, disease treatment advances and wind power are the specific trends he is accessing in these sectors.

"Total European fashion spending was €420bn between 2011 and 2014, and only around 10% of that spending was online. However, while the market as a whole grows only 1% per year, online spending is increasing 15% annually."

He says online penetration has taken a little longer in Europe than some other markets and that is the reason he finds it exciting, as there is a lot of potential growth still ahead.

Bogar plays this trend through holding an online aggregator of premium high street brands. It is headquartered in Germany but has distribution across 15 European countries. "This type of offering is going to become increasingly disruptive for retailers that only offer bricks-and-mortar-based shopping."

Potential game-changers

In health care Bogar invests in a company researching new treatments for cystic fibrosis – a fatally inherited disease of the lungs and digestive system. Currently the life expectancy of someone diagnosed with cystic fibrosis is around 37 years, and there are reportedly 70,000 individuals who carry the defective gene.

"A lot of big pharmaceutical companies have been outsourcing their research and development to smaller more specialist companies. They then have the option of buying into the company if it makes a breakthrough."

Bogar prefers to invest in these companies when they are in phase two or phase three trials with a greater chance of bringing a new drug to market. He believes the lower end of the market cap spectrum is an attractive area of the pharmaceutical market because these companies have smaller portfolios of drugs and a shorter pipeline. This means a successful launch can have a far more dramatic impact on the company's fortunes and future revenues.

Wind power

Lastly, Bogar points to the renewables sector as somewhere he is seeing interesting developments. "The European share of renewable energy doubled from around 8% to 16% between 2004 and 2014 and it continues to grow. At the same time the cost base of wind power has come down and now it is cost competitive with coal

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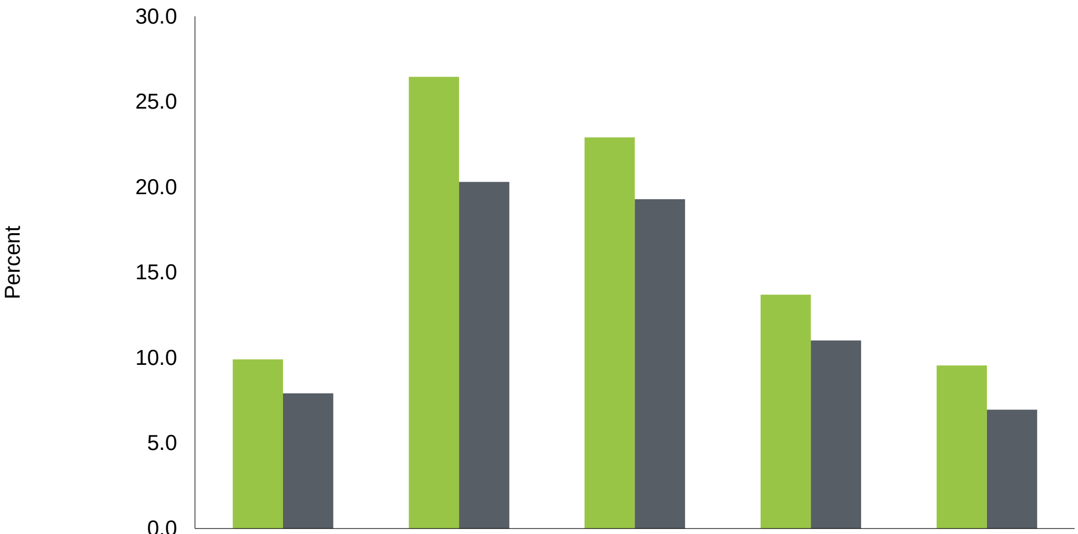
[1] Investment Managers are appointed by BNY Mellon Investment Management EMEA Limited (BNYMIM EMEA) or affiliated fund operating companies to undertake portfolio management activities in relation to contracts for products and services entered into by clients with BNYMIM EMEA or the BNY Mellon funds.

and gas in many markets, even on an unsubsidised basis. We are nearing a tipping point and in certain niches I believe wind power is going to grow and disrupt the traditional part of the energy market."

In the strategy Bogar uses a barbell approach and invests in both value and growth stocks. He aims to have half the strategy in the best value names and half in the best growth names but will at times adjust the balance depending on whether the market is in a' risk-off' or 'risk-on' phase. Generally speaking, says Bogar, during 'risk on' periods value stocks will be favoured and during 'risk off' periods growth will. But he is wary of trying to time the market so will only give the strategy a slight bias when there has been an obvious change in market sentiment. "Generally disruptors are in the growth bucket, and the value part of the strategy tends to be populated through allocations to out-of-favour sectors, such as banks or automakers. We would describe this as a relative value rather than deep value approach."

The strategy has a high active share paired with low tracking error and is generally country and sector neutral. "We are not taking a stance on oil prices, or French GDP growth versus German GDP growth. We are taking positions on specific companies, not macro variables."

Composite Returns, as at 31 December 2015 (euro)[2]



	Quarter	One Year	Three Years	Five Years	Ten Years
Euroland Small Cap	9.92	26.47	22.91	13.70	9.56
S&P Eurozone Small Cap	7.92	20.30	19.30	11.02	6.97

[2] Source: The Boston Company Asset Management. Returns for periods greater than one year are annualized. The returns provided are the composite returns, the name of which is TBCAM Euroland Small Cap Equity. Performance calculated as total return, gross of charges, in euro.

Important Information

Past performance is not a guide to future performance. The value of investments can both fall and rise. Investors may not get back the amount invested. Income from investments may vary and is not guaranteed. For Professional Clients and, in Switzerland, for Qualified Investors only. This is a financial promotion and is not investment advice. In Germany, this is for marketing purposes only. Except where specifically noted, performance is stated gross of management fees. The impact of management fees can be material

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