FINANCIAL TIMES

May 24, 2012 9:29 pm

# Big European funds dump euro assets

87.

By David Oakley and Alice Ross in London


Some of Europe's biggest fund managers have confirmed they are dumping euro assets amid rising fears over a possible Greek exit from the eurozone and single currency turmoil.

The euro's sudden fall this month caught many investors by surprise. Europe's single currency has lost 5 per cent in the past three weeks after barely moving against the US dollar for much of the year. On Thursday, the euro hit a fresh 22-month low at $1.2514.

Amundi, Europe's second-biggest private fund manager, and Threadneedle Investments, the big UK manager, have cut their exposure to the euro in recent days as frustration grows with political leaders' efforts to resolve the crisis.

US-based Merk Investments, the currency specialists, has cut all of its euro holdings in its flagship fund this month.

"We sold our last euro on May 15," said Axel Merk, chief investment officer. "We're concerned about how dysfunctional the process is. No one is there to talk to in Greece."

Amundi, which manages money for some of the continent's biggest pension funds and companies, said the risk of the crisis spreading to the bigger economies of Spain and Italy was growing because policy makers had failed to convince investors it had built a sufficient firewall.

Other big fund managers fear the likelihood of a so-called "Grexit", in the event of Athens leaving the euro, has risen sharply in the past week.

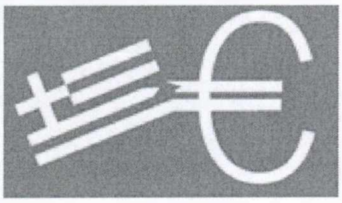
European leaders put off any decisions on shoring up the region's banks at a late-night summit on Wednesday despite rising concerns that instability in Greece was undermining confidence in the eurozone's financial sector. Citigroup says the euro could fall close to parity in the event of a disorderly exit.

Richard Batty, investment director at Standard Life Investments which has been underweight in European equities and bonds for the past two years, said: "This is a crisis that looks like worsening and that is why the euro has come under pressure."

Neil Williams, chief economist at Hermes Fund Managers, which has reduced its exposure to European peripheral equities to close to zero, said: "There is a failure by the politicians to convince the markets they are tackling the problems in the eurozone."

FT series

**If Greece goes...**



Greece is back on a knife edge. In a timely and far-reaching series, the FT looks at the potential consequences of it leaving the eurozone

Trading desks at investment banks say that asset managers and pension funds in particular have been selling the euro in recent days.

Amundi, which was created through a merger of Crédit Agricole Asset Management and Société Générale Asset Management three years ago and has €659bn in assets under management, has switched some of its money out of euro-denominated bonds into dollar assets.

Eric Brard, global head of fixed income at Amundi, said: "Although we have reduced our exposure to the euro, a weaker euro could be good news for Europe and exporting companies in the region."

He added: "Our baseline scenario is that the eurozone will not break up and Greece will remain in the monetary union. However, taking a pragmatic view, in recent weeks the market's perception of risks of a eurozone break-up and Greece exiting have risen."

Threadneedle, which has £73bn under management, has reduced its euro exposure through its absolute return fund in the belief the euro will fall further.