

BL-EQUITIES EUROPE

March 2013

Management Report

Ivan Bouillot, CFA
Fund Manager



In March 2013, we sold our investment in the Swiss industrial group Sulzer. Sulzer is a global group, exposed to the energy, oil, and transport sectors, for which the company provides equipment, systems and state-of-the-art technology services in industrial pumps, surface-coating technologies and static separation and mixing columns (for oil refining in various derivative products). The sale was mainly due to Sulzer's stock market valuation which, although not excessive, seems to us to reflect the group's good fundamentals and has enabled us to take a tidy profit. We will monitor the progress of the group's service division to assess the merit of reviewing our estimate of the normalised value of Sulzer, our main reference point for our investment decisions.

We also continued to reduce our exposure in oil groups ENI and Total, whose allocation in the portfolio had increased significantly – during the Libyan and Italian crisis for ENI, and during 2011 for Total due its good dividend. Somewhat disappointed by the performance of these two stocks in weak markets, and with the price per barrel of oil remaining below an optimal level, we are taking our profits in order to reallocate capital to investments offering a margin of security and more favourable development prospects.

For these reinvestments, we decided on Aryzta, Dufry, Johnson Matthey, Linde, Novo Nordisk, Oriflame, Sanofi, SAP and Swedish Match.

The investment in Aryzta is explained by the discount that we continue to note against the company's intrinsic value. A heavyweight in a very fragmented global industrial bakery market, Aryzta is continuing to roll out its transformation in encouraging fashion – despite a sometimes difficult environment, especially in terms of its SAP platform, cost structure, and asset base – thereby providing greater certainty on the realisation of its strategic objectives in the medium term.

We built our position in Swedish Match very quickly in order to take advantage of the 30% slide in its share price, which brought the company back to a relatively attractive valuation level. We think that this share price slump, precipitated by the aggressive marketing strategies of Imperial Tobacco and British American Tobacco on the entry level "snus" (tobacco in a little pouch for oral use, placed inside the consumer's lip) market in Sweden, is excessive. Swedish Match has already been faced with this type of competition in the past. Beyond a specific impact reducing its capacity to set prices, its strong positioning and the unlikelihood of its competitors' continuing to pursue a sales drive that is not very profitable over the medium term, these policies have not led to a faster structural decline in Swedish Match's market share than the current rate of decline linked to the ending of a virtually monopolistic situation.

Johnson Matthey is an investment that we are building in stages, on weaknesses in the company's share price. It is difficult to precisely define the low point or the turning point in its share price, but we are starting to benefit from a margin of security, through a discount against its normalised valuation, in a medium-term perspective. Its current price weakness is due to the end of an exclusive contract with a major client, Anglo Platinum, and the weakness of the market in Europe. We consider the first to be the clarification of an uncertainty while, rather than weak demand in the current environment, we are focusing on the structural strengths which underpin demand for catalytic products in emerging markets as well as the context of stricter environmental standards. With its technological leadership, Johnson Matthey is bound to continue to be a beneficiary of this.

BL-EQUITIES EUROPE

March 2013

Current Portfolio

New Holdings

-	Aryzta	Oriflame
	Dufry	
	Johnson Matthey	
	Linde	
	Novo Nordisk	

Investments sold

Sulzer	ENI
	Total

Additions to investments

Investments reduced

Top Holdings

British American Tobacco	6,1%
Novartis	6,1%
Reckitt Benckiser	5,3%
Sanofi	5,1%
Linde	4,4%
Roche	4,2%
Unilever	4,1%
Deutsche Boerse	3,6%
Sage	3,6%
Bayer	3,4%
Weight of Top 10	45,8%
Number of holdings	46

Sector Allocation

Energy	1,3%
Materials	14,4%
Industrials	11,6%
Consumer Discretionary	5,3%
Consumer Staples	28,8%
Health Care	21,9%
Financials	3,8%
Information Technology	10,9%
Telecommunication Services	0,0%
Utilities	0,0%
Cash	2,1%

Geographic Allocation

England	21,9%
Switzerland	21,5%
Germany	21,3%
France	11,0%
Sweden	9,5%
Netherlands	4,1%
Italy	2,8%
Luxembourg	2,6%
Spain	1,7%
Denmark	1,0%
Belgium	0,6%

Market Capitalizations

Large Caps	(> EUR 10 billion)	60,3%
Medium Caps	(EUR 1-10 billion)	35,1%
Small Caps	(< EUR 1 billion)	2,4%

Company Profiles

Consistent earners ¹	58,5%
Growing franchises ²	22,1%
Value opportunities ³	17,3%

Performance⁴

	Since 31/12/2012	2012	2011	2010	2009	2008
Fund (B shares)	8,3%	21,0%	-3,8%	19,5%	36,6%	-36,6%
DJ Stoxx Europe 600	5,7%	18,2%	-8,6%	11,6%	32,4%	-43,8%
Quartile	1	1	1	1	1	1

	Since 31/12/2012	3 months	6 months	1 year	3 years	5 years
Fund (B shares)	8,3%	8,3%	11,9%	19,7%	42,4%	46,6%
DJ Stoxx Europe 600	5,7%	5,7%	10,5%	15,2%	22,1%	12,4%
Quartile	1	1	1	1	1	1

General Information

Total Assets (EUR)	EUR 597,7 mn
Turnover 2012*	17%
TER 2012 (class B shares)	1,14%
ISIN Code (class B shares)	LU0093570330
ISIN Code (class I shares)	LU0439765321

* min (purchases, sales) / average of net assets

Statistical Data⁴

	1 year	3 years
Correlation	0,83	0,85
Beta	0,74	0,86
Information ratio	0,68	0,72
Tracking Error*	5,55	7,13

*annualized

¹ Company is well-known and enjoys strong market share acquired over a long period through the expert management of its competitive advantage. It is very profitable, has a solid financial structure and low levels of debt. Shareholder payouts and/or maintaining a high level of ROE are important criteria in the management of the company.

² Company specialised in a market niche that it has either created or in which it has established itself as a key player. Its revenue growth is outpacing the market average. The structure of the income statement is still rather flexible, but the return on investments is starting to stabilise or exhibit a rising trend.

³ Company with strong assets embarking on restructuring to refocus the business or move up the value chain to achieve more structurally sound profitability. No significant financial imbalance.

⁴ Source : Lipper