BLI - Banque de Luxembourg Investments
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BL-EQUITIES EUROPE

September 2013

Management Report

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Fund Manager

There were no changes to the portfolio during September. Some existing positions were strengthened as and when opportunities arose due to sector rotations on the markets in the last four months.

Since June, the sectors in which we traditionally invest have been under heavy pressure. In fact consumer goods, industrials, pharmaceuticals, etc. have performed adversely against more cyclical sectors and banking and telecommunications. We are structurally precluded from investing in these stocks.

Although the relative valuation between these sectors is likely to narrow over time, presaging the movement we are seeing, in our view these effects are intensified in the short term due to three key trends: significant inflows of capital returning to the European markets and focusing on cheap sectors, sector rotation within the portfolios of many fund managers who had taken refuge in quality stocks, and hopes of a recovery in Europe's economic activity.

Although the portfolio was able to withstand this until the end of July due to a balance between defensive and industrial or cyclical stocks, the portfolio’s relative performance against the market started to suffer from the effects of this rotation from the end of August, and this was exacerbated in September and early October.

Our approach does not involve adapting our portfolio structure on the basis of a hypothetical macroeconomic scenario or probable sector rotation on the market. We construct the portfolio based on the attractiveness of valuations of companies comprising our investment universe, and according to the opportunity cost of holding a particular stock. As banking and telecoms (and some other sectors) are not part of this universe, we have to maintain our strict discipline and long-term focus and endure this impediment to performance, while trying to take advantage of stocks that have been most sidelined by these trends in capital flows and portfolio reallocations. Although this methodology involves a risk of losing ground against the market in the short term, it will bear fruit in the medium and longer term, ultimately providing better prospects for the investments held in the portfolio.

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Current Portfolio

New Holdings	Additions to investments
-	BAT
	Danone
	Hugo Boss
	SAP
	Schneider

Investments sold	Investments reduced
-	Van de Velde

Top Holdings	
Sanofi	5,2%
Novartis AG	5,0%
British American Tobacco p.l.c.	4,6%
SAP AG	4,6%
Deutsche Boerse AG	4,3%
Linde AG	4,1%
Reckitt Benckiser Group plc	3,7%
Unilever NV Cert. of shs	3,4%
Schneider Electric SA	3,2%
The Sage Group plc	3,1%
Weight of Top 10	41,2%
Number of holdings	43

Sector Allocation	
Energy	0,0%
Materials	14,5%
Industrials	13,3%
Consumer Discretionary	8,1%
Consumer Staples	25,0%
Health Care	22,6%
Financials	4,4%
Information Technology	11,7%
Telecommunication Services	0,0%
Utilities	0,0%
Cash	0,6%

Geographic Allocation	
Germany	22,5%
United Kingdom	21,5%
Switzerland	19,9%
France	13,6%
Sweden	11,4%
Netherlands	3,4%
Denmark	2,9%
Luxembourg	1,6%
Spain	1,1%
Belgium	0,3%

Market Capitalizations		
Large Caps	(> EUR 10 billion)	65,8%
Medium Caps	(EUR 1-10 billion)	30,5%
Small Caps	(< EUR 1 billion)	1,7%

Company Profiles	
Consistent earners [1]	66,3%
Growing franchises [2]	18,4%
Value opportunities [3]	13,3%

Performance[4]

	Since 31/12/2012	2012	2011	2010	2009	2008
Fund (B shares)	11,4%	21,0%	-3,8%	19,5%	36,6%	-36,6%
DJ Stoxx Europe 600	13,9%	18,2%	-8,6%	11,6%	32,4%	-43,8%
Quartile	3	1	1	1	1	1

	Since 31/12/2012	3 months	6 months	1 year	3 years	5 years
Fund (B shares)	11,4%	5,0%	2,9%	15,1%	43,8%	78,4%
DJ Stoxx Europe 600	13,9%	9,4%	7,7%	19,0%	31,1%	41,5%
Quartile	3	4	4	3	1	1

General Information	
Total Assets (EUR)	EUR 665,7 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 Data [4]	1 year	3 years
Correlation	0,93	0,76
Beta	0,85	0,65
Information ratio	-0,73	0,28
Tracking Error*	4,38	10,99

*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