

BL-EQUITIES EUROPE

December 2014

Management Report

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Grifols is a Spanish healthcare company. The group produces plasma-based therapies. Founded in 1940 by Dr. J.A. Grifols, a blood transfusion specialist, the company is now world leader in the sector and continues to be run and controlled by the family. Its principal competitors are Baxter and CSL. Grifols operates two core businesses. The Bioscience division collects plasma in its own specialised centres and transforms it into products (such as albumin) for therapeutic use (coagulation problems, Alzheimers, liver cirrhosis etc.). The Diagnostic division provides equipment for blood tests and analyses for laboratories, hospitals and blood banks. The group has always been managed with a long-term perspective and has the necessary production capacities to seize market opportunities and develop new products. It also offers the attraction of being a firm lead player on a highly consolidated market, with the top three cornering 75% of the market. Margins are structurally protected as entry barriers are very high and the sector is growing fast. We seized the opportunity of the recent fall in the share price to open a position – this dip was fuelled by fears (not shared by the fund manager) of future overcapacities that would put strong pressure on Grifols' profitability.

The manager also increased the fund's positions in Bayer, Hugo Boss and Croda, as their continually improving fundamentals have not yet been totally factored into their share prices. The position in SKF was also increased to take advantage of the Swedish manufacturer's attractive valuation, both in absolute and relative terms.

These moves have been financed by taking some profits on British American Tobacco and the sale of WPP and Nestlé. In light of recent macroeconomic developments, the manager preferred to step back from WPP amid the uncertainty over budgets and the risks weighing on the agency's business model. In the case of Nestlé, the manager took advantage of a high valuation alongside a lull in the Swiss group's activity. Its operating efficiency allows few opportunities to improve margins through internal measures should the slowdown in sales continue.

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Current Portfolio

New Holdings

Grifols	Bayer
Hermes International	Hugo Boss
Indivior	Croda International
	SKF
	Unilever

Additions to investments

Investments sold

WPP	British American Tob
Nestle	

Investments reduced

Top Holdings

SAP	4,9%
British American Tobacco	4,5%
Linde	4,4%
Bayer	4,4%
Sage Group	3,9%
Air Liquide	3,8%
Novo Nordisk	3,8%
Reckitt Benckiser	3,7%
Novartis	3,5%
LVMH	3,3%
Weight of Top 10	40,3%
Number of holdings	40

Sector Allocation

Energy	0,0%
Materials	20,6%
Industrials	11,3%
Consumer Discretionary	11,5%
Consumer Staples	19,3%
Health Care	18,5%
Financials	0,0%
Information Technology	13,7%
Telecommunication Services	0,0%
Utilities	0,0%
Cash	5,2%

Geographic Allocation

United Kingdom	22,6%
Germany	23,0%
Switzerland	17,7%
France	17,5%
Sweden	6,1%
Denmark	3,8%
Netherlands	3,7%
Spain	0,6%
Cash	5,2%

Market Capitalizations

Large Caps (> EUR 10 billion)	62,7%
Medium Caps (EUR 1-10 billion)	30,5%
Small Caps (< EUR 1 billion)	1,6%

Performance¹

	2014	2013	2012	2011	2010
Fund (B shares)	9,2%	17,0%	21,0%	-3,8%	19,5%
DJ Stoxx Europe 600	7,2%	20,8%	18,2%	-8,6%	11,6%
Quartile	1	3	1	1	1

	1 month	3 months	6 months	1 year	3 years	5 years
Fund (B shares)	-0,4%	3,2%	2,7%	9,2%	54,5%	77,5%
DJ Stoxx Europe 600	-1,3%	0,2%	0,9%	7,2%	53,0%	56,1%
Quartile	2	1	1	1	1	1

General Information

Total Assets (EUR)	EUR 654,2 mn
Turnover 2013*	41%
TER 2013 (class B shares)	1,10%
ISIN Code (class B shares)	LU0093570330
ISIN Code (class I shares)	LU0439765321

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

Statistical Data¹

	1 year	3 years
Correlation	0,96	0,90
Beta	0,84	0,81
Information ratio	0,44	-0,02
Tracking Error*	4,22	5,60

*annualized

¹ Source : Lipper