

BL-EQUITIES EUROPE

July 2015

Management Report

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BL-Equities Europe performed in line with the market over the month. The portfolio gained 4.10% compared to 4.01% for the Stoxx 600 Total Return Index. Despite some knocks in the wake of the Asian markets' contraction, European stock markets rebounded after a spate of falling share prices in the three preceding months. They were buoyed by the agreement reached between Greece and its creditors and by companies reporting their quarterly results. Although it is premature to judge the quality of the results in their entirety since only 50% of companies have reported so far, the trend is in line with previous quarters and a small majority have reported better results or forecasts than predicted by the consensus: the European and US economic situation and the weak euro have helped while the economic slowdown in China is continuing to be detrimental.

Companies in the portfolio also reported decent results, with no great surprises and for the most part supporting our investment cases. We were particularly pleased by pharmaceuticals as a whole, by Reckitt Benckiser and Legrand whose traditional positioning and execution enable them to maintain a unique profile, and by Swatch and above all LVMH and Croda which posted strong organic growth thanks to their internal innovation efforts and their capacity to capitalise on their expertise.

On the other hand, SKF and Johnson Matthey reported lacklustre activity. This was as expected for Johnson Matthey but we were disappointed by SKF which is continuing to lose market share and suffer structural pressure on its margins. Although its business has been impacted by weak demand for ball bearings, we had hoped for improvements in the automotive division. In the absence of information from the new management on the measures it intends to take, we will be re-examining the case for SKF in the light of this ongoing situation.

Dufry's results, which were slightly below expectations, are also worth mentioning. Having participated in its capital increase, Dufry is now a major position in the fund's portfolio. Its organic activity has been weakened by the contraction of its leading customers' currencies, such as the Russian rouble and the Brazilian real. The management has put various commercial measures in place to offset this short-term effect while at the same time working on the incorporation of Nuance and preparing, pending regulatory approval, for the integration of World Duty Free. Dufry is not affected by structural changes and we are comfortable with our investment which offers a fundamental long-term attraction and a valuation that we consider to be attractive.

The stocks that stood out in the portfolio during the month were largely consumer-related (Reckitt Benckiser, Swatch), healthcare (Grifols, Meda, Lonza), and various cyclical stocks (Croda, Assa Abloy, Legrand). In contrast, our exposure to industrials (SKF, Rotork, Spectris) weighed on the fund's performance. The sector is suffering from the weak oil price and the slowdown in Chinese demand, the upshot of which is pressure on companies' industrial capital expenditure.

As regards portfolio transactions, a new line was opened: Meda, a Swedish pharmaceutical company which specialises in respiratory, dermatological and inflammatory diseases. Its business model, in terms of capital allocation and value creation, is to drive growth through acquisitions rather than developing its own expensive and uncertain in-house research and development. The company's entire organisation is therefore structured and focused on seeking out candidates, integrating them and marketing the drugs acquired. This is a significant factor in its differentiation and the management and board of directors have demonstrated their skill and experience in this area over many years. Meda targets drugs (from small or large groups) and small companies with strict strategic and financial criteria, and it has proved it can generate real synergies (production, marketing, overheads) to improve the profitability of its acquisitions and increase the group's consolidated margins.

Following share price weakness, we also marginally increased our allocations in Gemalto, Swatch and Publicis. We like the attractive valuations of these three high-quality companies and their forecasts seem reasonable over our three-year investment horizon.

These transactions were financed by taking profits on major positions in the portfolio that were closing in on their objectives: Novartis, Roche, Air Liquide, Linde, Reckitt Benckiser, LVMH and Lonza.

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Current Portfolio

New Holdings

New Holdings	Additions to investments
Meda	Swatch
	Gemalto
	Publicis
	SKF
	Spectris

Investments sold

Investments sold	Investments reduced
	Air Liquide
	Lonza
	Linde
	Novartis

Sector Allocation

Energy	0,0%
Materials	18,2%
Industrials	15,9%
Consumer Discretionary	21,8%
Consumer Staples	8,5%
Health Care	20,4%
Financials	0,0%
Information Technology	12,7%
Telecommunication Services	0,0%
Utilities	0,0%
Cash	2,3%

Market Capitalizations

Large Caps	(> EUR 10 billion)	54,5%
Medium Caps	(EUR 1-10 billion)	43,2%
Small Caps	(< EUR 1 billion)	0,0%

Top Holdings

Hugo Boss	4,8%
Dufry	4,3%
Bayer	4,3%
Roche Holding	4,3%
Gemalto	4,0%
Novo Nordisk	3,7%
Linde	3,4%
Novartis	3,3%
DCC	3,3%
Syngenta	3,2%
Weight of Top 10	38,4%
Number of holdings	40

Geographic Allocation

United Kingdom	15,0%
Germany	23,8%
Switzerland	22,1%
France	11,0%
Netherlands	8,5%
Denmark	6,3%
Spain	2,9%
Sweden	4,8%
Denmark	6,3%
Ireland	3,3%
Cash	2,3%

Performance¹

	Since 31/12/2014	2014	2013	2012	2011	2010
Fund (B shares)	18,3%	9,2%	17,0%	21,0%	-3,8%	19,5%
DJ Stoxx Europe 600	18,0%	7,2%	20,8%	18,2%	-8,6%	11,6%
Quartile	2	1	3	1	1	1

	1 month	3 months	6 months	1 year	3 years	5 years
Fund (B shares)	4,1%	1,7%	8,5%	23,9%	59,6%	101,8%
DJ Stoxx Europe 600	4,0%	1,0%	10,0%	21,1%	64,6%	79,3%
Quartile	2	2	3	1	2	1

General Information

Total Assets (EUR)	EUR 873,4 mn
Turnover 2014*	19%
TER 2014 (class B shares)	1,09%
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	0,94
Beta	0,87	0,85
Information ratio	0,51	-0,21
Tracking Error*	4,63	4,63

*annualized

¹ Source : Lipper