

BL-EQUITIES EUROPE

September 2015

Management Report

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The European markets continued to drift downwards in September in the absence of any upbeat news. The trend was fuelled by the deterioration of confidence indicators in China, impacting the cyclical and automotive sectors (the automotive sector being additionally burdened by the Volkswagen scandal) and by uncertainties over the status quo of the US Federal Reserve in a context of global economic weakness. Another, just as pressing, fundamental trend is the downgrading of profit forecasts on European markets despite the continuation of the accommodative monetary policy. The share price rises since the start of the year have been largely sustained by the increase in valuation multiples. In this environment, the most defensive stocks fared best.

The BL-Equities Europe fund's NAV for the month fell 4.1%, the same as the Stoxx 600 index. However, at the close of the third quarter, the portfolio was up 4.1% over the year compared to 3.9% for the index. Over the month, the best performances in our portfolio came from our growth investments like Pandora, Wirecard, Novo Nordisk, Grifols and DCC. Pandora's share price was driven by good export figures for items of jewellery from Thailand to the United States, a market in which Pandora has a 25% share. Its distribution networks in the United States and Australia also produced favourable early indicators, confirming a good start for the internet platform in the United States and ongoing double-digit growth for the group's business. Wirecard, the European specialist in the securitisation of electronic transactions, made headway, especially in terms of the number of new traders joining its network. Novo Nordisk did well following approval of its drug Tresiba in the United States, enabling it to compete with Sanofi on the US diabetes market earlier than expected. Among our investments in traditional businesses, LVMH benefited from Richemont's good results, specifically from its Cartier brand.

On the other hand, Gemalto continued to drag on the portfolio due to lack of visibility for the outlook for the SIM cards division after poor results for the last quarter. This weighed all the more heavily even after the favourable announcement for Gemalto that Apple's new mobile phones would not have a SIM card. Legrand was hit by profit-taking after a good run. Lastly, Hella and Rotork were dented by profit warnings. Hella suffered from a failure in its supply chain after disagreement with a key Chinese supplier. Exceptional charges of EUR 50 million for the termination of this contract will affect its results in the short term. The announcement overshadowed its otherwise very good results. Rotork had to revise its growth forecasts due to lack of investment in the oil sector which underpins 60% of the group's sales; some contracts have been delayed or cancelled due to the slump in the oil price.

In terms of news flows, we note Syngenta's announcement, following its rejection of Monsanto's takeover bid, of the sale of its vegetable seeds business to finance a CHF 2 billion share buyback programme. Its board has emphasised the potential of its pipeline of 15 major innovations that could generate revenues of CHF 6 billion. The group is also expected to increase productivity. In industrials, the new CEO of SKF has presented a strategic review of its automotive division which has been impacted by pressure on prices and longer product cycles. There is no short-term solution due to the slowdown on the Chinese market and competition from Schaeffler in particular. We appreciate the board's openness and hearing its thoughts on the division's competitiveness since it accounts for half the group's margins. These two positions remain on our watch list while we examine their earnings growth potential over the medium term.

A few small-scale purchases took place, especially concerning Hella, DCC, Henkel, Bayer and Air Liquide.

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Current Portfolio

New Holdings

Additions to investments	
	Rotork
	Henkel
	Air Liquide
	Bayer
	Publicis
	Spectris

Investments sold

Investments reduced	

Sector Allocation

Energy	0,0%
Materials	17,4%
Industrials	16,1%
Consumer Discretionary	21,6%
Consumer Staples	8,5%
Health Care	20,3%
Financials	0,0%
Information Technology	12,8%
Telecommunication Services	0,0%
Utilities	0,0%
Cash	3,3%

Market Capitalizations

Large Caps	(> EUR 10 billion)	53,9%
Medium Caps	(EUR 1-10 billion)	42,8%
Small Caps	(< EUR 1 billion)	0,0%

Top Holdings

Hugo Boss	4,9%
Roche Holding	4,3%
Bayer	4,1%
Dufry	4,0%
Novo Nordisk	3,7%
DCC	3,5%
Gemalto	3,3%
Linde	3,2%
Novartis	3,2%
LVMH	3,1%
Weight of Top 10	37,2%
Number of holdings	40

Geographic Allocation

United Kingdom	15,1%
Germany	24,1%
Switzerland	20,9%
France	10,9%
Netherlands	7,8%
Denmark	6,8%
Spain	2,9%
Sweden	4,8%
Denmark	6,8%
Ireland	3,5%
Cash	3,3%

Performance¹

	Since 31/12/2014	2014	2013	2012	2011	2010
Fund (B shares)	4,1%	9,2%	17,0%	21,0%	-3,8%	19,5%
DJ Stoxx Europe 600	3,9%	7,2%	20,8%	18,2%	-8,6%	11,6%
Quartile	3	1	3	1	1	1

	1 month	3 months	6 months	1 year	3 years	5 years
Fund (B shares)	-4,1%	-8,4%	-11,8%	7,4%	37,4%	71,6%
DJ Stoxx Europe 600	-4,1%	-8,4%	-11,0%	4,0%	40,6%	54,8%
Quartile	3	3	3	2	2	1

General Information

Total Assets (EUR)	EUR 780,0 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	0,97	0,95
Beta	0,92	0,88
Information ratio	0,68	-0,14
Tracking Error*	4,82	4,68

*annualized

¹ Source : Lipper