

Core Holdings

More

than purchasing
securities:

we

invest

in

companies

As Private Bankers and as a family of entrepreneurs, we have contributed for more than 170 years to protecting and developing your assets.

Our investment philosophy invariably meets the same objective: preserving and developing your capital. Our approach is based on the fact that preserving capital and performance are not conflicting concepts, rather they are complementary: the first promotes the second. In effect, long-term performance is constructed first by avoiding excesses, particularly by capitalising on the money that we have avoided losing.

Our conviction:

**“the preservation
of capital
is the source of
long-term
outperformance”**



Context

Today we consider that continually buying and selling shares and practicing indexed wealth management is a method of the past.

In order to depart from this indexed logic, we have developed a new approach entitled “Core Holdings” which reconciles the interests of our private clients and our approach to investment in shares.

What is “Core Holdings”?

“Core Holdings” is our own method for analysing active securities. It is inspired by the “Private Equity” philosophy: we do not only purchase securities, we invest in companies.

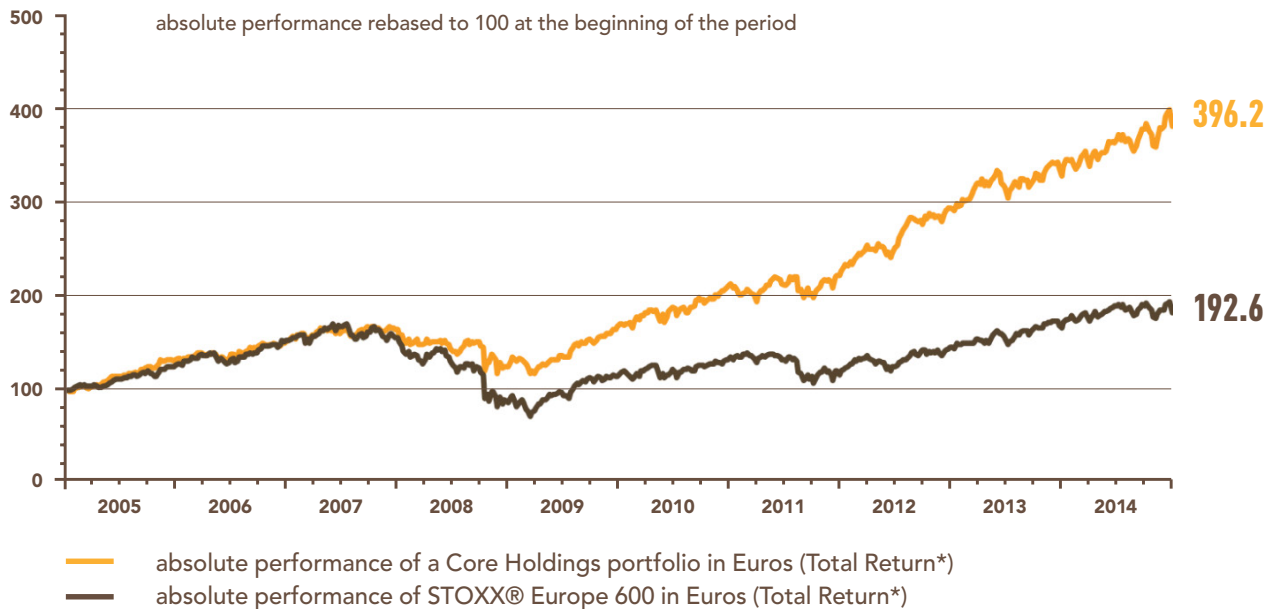
These companies are selected on the basis of the power of their economic model – resilience, cash flow visibility and creation of value over economic cycles – at a reasonable price. These companies constitute the core of our portfolios.

Depending on your appetite for risk, we select so-called “Satellite” securities which complement this. The “Satellite” securities are potentially all those which cannot aspire to the “Core Holdings” label. In practice, they are more exposed to economic cycles, particular situations (such as restructurings, turnarounds, sector concentrations, acquisition targets, regulatory changes) or they rely on topics related to the economic situation.

Example of a theoretical “Core Holdings” Europe portfolio 2004-2014

composed of: Anheuser-Busch InBev NV, Atlas Copco, Bayer, British American Tobacco plc, Bureau Veritas SA, Cie Financière Richemont, Geberit, GlaxoSmithKline plc, Hennes & Mauritz, Inditex, Kone, Legrand SA, Nestlé, Novo Nordisk, Novozymes, Reckitt Benckiser Group plc, Reed Elsevier NV, Roche Holding, SAP SE, Syngenta, SGS, Unilever plc, Wolters Kluwer

Core Holdings portfolio vs STOXX® Europe 600



Source: Thomson Reuters Datastream

Over the long term,
we are convinced that the
“Core Holdings”
companies
that we select
will outperform
the classical reference indexes
in difficult markets.

	Core Holdings Euro absolute performance	STOXX® Europe 600 absolute performance	Core Holdings relative vs STOXX® Europe 600 performance
2005	34,27%	27,24%	7,03%
2006	13,84%	21,31%	-7,47%
2007	8,70%	2,83%	5,87%
2008	-22,20%	-43,41%	21,21%
2009	33,99%	33,34%	0,65%
2010	22,17%	12,24%	9,93%
2011	10,62%	-8,06%	18,67%
2012	26,41%	18,98%	7,43%
2013	18,71%	21,50%	-2,80%
2014	12,81%	7,80%	5,01%

Total Return Performance. The dividends are reinvested.

Our process of selection

Our process for selecting companies looks at the following characteristics:

- a sustainable potential for growth over the cycles;
- high economic profitability, together with relatively low capital intensity, in order to create high and positive free cash flows at all times;
- profitability of the capital employed which is consistently higher than the cost of capital, in order to guarantee continual creation of value;
- high return on equity, resulting from the most optimal use possible of the sources of external financing;
- a controlled level of debt in order to guarantee security in the low phases of the economic cycle.

The selection of companies

This meticulous and thorough analysis of the cash flow may only be applied to a limited number of companies. Consequently, we filter the various companies in order to retain only those that are eligible for our “Core Holdings” selection by means of an extremely rigorous process.

An example for Europe:

European shares
STOXX® Europe 600
600
companies

primary quantitative pre-selection criteria

- capacity to generate liquidities (FCF/sales)
- strong creation of economic value (ROCE-WACC)
- strong return on equity (ROE)
- controlled debt ratios (ND/equity; ND/EBITDA)

~ **100**
companies

Preliminary analysis; companies which have any of the following are excluded

- an insufficient liquidity
- a Business Model at the end of its lifespan
- an over-exposure of sales to regional and/or product dependence (a single product, for example)

~ **70**
companies

Fundamental in-depth analysis

- study of the viability of the Business Model over the long term: end-markets, competitive positions, dynamics, traditional resilience of sales and margins
- study of prices (theoretical fair value) on the basis of a model for updating future cash flows, homogeneous with the various sectors

Core Holdings
Europe
Fund **20-25**
companies

the best companies at the best price

We do more than buying securities, we invest over the long term in companies and ultimately select listed companies that present remarkable resilience in the low phases of the markets and whose performance over the long term is less sensitive to economic cycles.

We are convinced that this “Core Holdings” approach presents a potential for performance that is greater than the indexed strategies of the institutional type.

We find in this “shares” approach the fundamentals of our investment philosophy: “the preservation of capital is a source of long-term outperformance”.

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As Private Bankers in the truest sense of the word, with great stability and financial solidity, we cultivate our independence in order to ensure you take advantage of a “Bordier experience”, namely the alliance of a tailor-made service and sustainable performance. The control of risks and the performance are clearly part of our DNA and constitute our added value.

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