



Geneva 14 01 2014

## MANAGEMENT REPORT on 31 12 2013

### The main facts and trends since 30 06 2013 are:

- The European economy has stopped contracting and has stabilised.
- The recovery of the US economy is confirmed in accordance with our scenario.
- The structural defects of the Eurozone have not been corrected.

### Fundamentally:

- The financial system has not been stabilised as the ultra expansionist monetary policies of the central banks are recreating bubbles.
- The burden due to the mountain of debts of the States is weighing down and will continue to weigh down strongly on the quality of life and the heritage of Europeans.
- With our management strategy we:
  - Continue to select with extreme severity our custodian establishments.
  - Remain fiercely away from opaque investments.
  - Persist in our niche strategy.
  - Recommend less penalising tax structures for the management of liquid assets: Life insurance, Capitalisation contract, Family holdings.

In order to ensure our clients **transparency, security and performance.**



## **STRATEGY FOR 2nd SEMESTER 2013**

### **Concerning the share market we have:**

- Persisted with our very cautious strategy despite the prevailing euphoria which to us seems dangerous.
- Continued to implement our medium-term niche strategy for special situations. The aim is to be protected by the company's intrinsic value, even though it can take time before it is reflected in the stock market price.
- Retained our positions.

### **Concerning the bond market we have:**

- Maintained the strong weighting of bonds in the portfolios
- Continued to implement our niche strategy on high-return bonds of medium and large companies.
- Sold 2016 and 2017 maturity bonds at a high profit and reinvested in 2020 maturity bonds. We refuse to take the easy option by increasing the average maturity of the portfolio in order to guard against a possible increase in rates.



## PERFORMANCE ON 31 12 2013

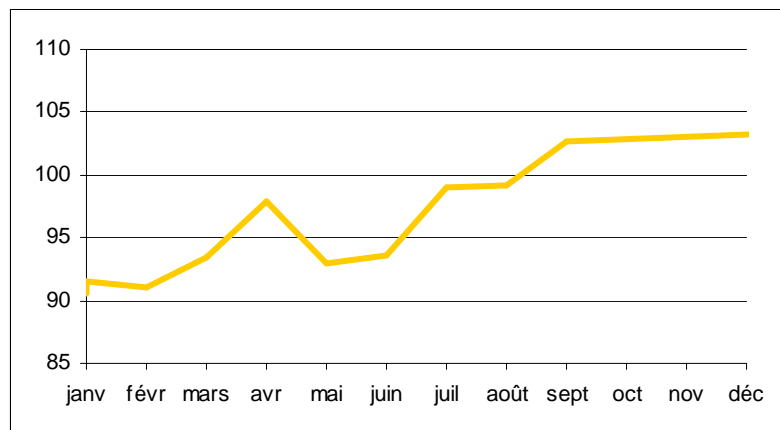
Our management:

- Our share selection underperformed the share markets (which is very rare).
- Our bond selection strongly overperformed the bond market.

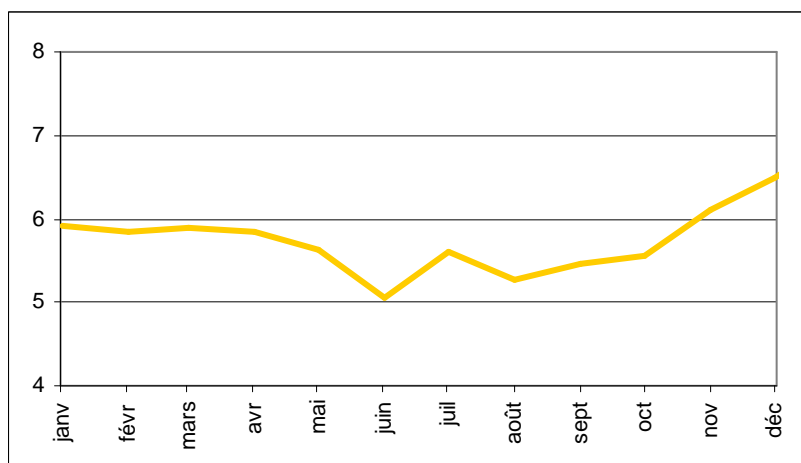
Portfolio 100% bonds	Portfolio 75% bonds
+ 10.2%	+ 10.8%
Bond index €  + 6.1%	Benchmark:  + 13.4%

Our best performances on 31 12 2013 dividends included


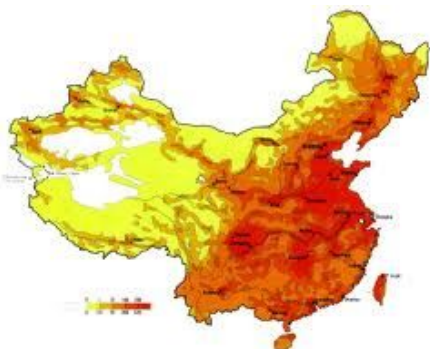

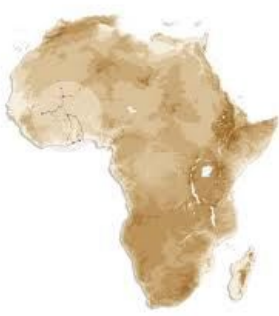
**Bonds: EUROPCAR 2018** + 29.3%



**Shares: AFONE** + 24.9 %



## PROSPECTS

Macro economy	
<p style="text-align: center;"><b>United States</b></p> 	<ul style="list-style-type: none"> <li>- We maintain our conviction (cf. report 2011) that a powerful re-industrialisation cycle is in progress in the USA.</li> <li>- Will this re-industrialisation produce enough wealth to reimburse the excessive debts of the USA? Our conviction is <b><u>probably yes.</u></b> <u>The coming period will bring greater uncertainty due to the attempt to standardize monetary policy.</u></li> </ul>
<p style="text-align: center;"><b>China</b></p> 	<ul style="list-style-type: none"> <li>- The consensus is that growth will remain strong and will be a locomotive for world growth.</li> <li>- Our opinion is that, unavoidably, Chinese growth will decrease to 5% by around 2016 against 7.5% at present. To us, the risks of a brutal slowdown seem very underestimated.</li> </ul>
<p style="text-align: center;"><b>EUROPE</b></p> 	<ul style="list-style-type: none"> <li>- The upgrade is in progress but Europe will be the last to benefit from a re-industrialisation cycle. Furthermore, the economic convergence of the different countries is progressing too slowly, thus running the risk of division due to a possible political crisis.</li> </ul>
<p style="text-align: center;"><b>Africa</b></p> 	<ul style="list-style-type: none"> <li>- Africa has begun a Kondratief-type growth wave, which is a powerful and very long term growth cycle.</li> </ul>



## **STRATEGY FOR 1st QUARTER 2014**

### **Share market**

- The consensus is very much in favour of shares. However, we remain cautious as in our opinion the excess liquid assets supplied by the central banks have largely contributed to this rise. We consider that great selectivity is necessary, which justifies maintaining a niche strategy.

### **Bond market**

- We have been repeating for 4 years: The debts of healthy companies are and will remain of better quality than the debts of the states as the company balance sheets are of better quality than the state budgets.
- Through rigorous selection company bonds remain at buying rates, as proven by the good performance of our selection in 2013.

We retain our discipline as even if the systemic risks are decreasing it is necessary to remain very cautious:

- Minimum 70% company bonds
- Niche strategy for shares



## Our main positions on 31 12 2013

### BONDS

The **capital security / return on capital ratio** is high for our selection.  
If conserved until their maturity date (except for bankruptcy of the issuer) bonds ensure a specific yield that is known in advance.

Bonds	Maturity date	Return on invested capital in relation to value on 31 12
BP CAISSE D'EPARGNE	PERPETUAL CALL 2015	3.9%
DEUTSCHE BANK	PERPETUAL CALL 2015	5.4%
INTESA SAN PAOLO	PERPETUAL CALL 2016	6.2%
EUROPCAR	04 2018	7.7%
PAGES JAUNES	06 2018	10.8%
LEVI STRAUSS	05 2018	6.5%
PICARD	10 2018	6.7%
CMA CGM	04 2019	9.4%
CEGEDIM	04 2020	7.1%
EIRCOM	05 2020	7.8%

### SHARES

AFONE	ORANGE
ALSTOM	VALLOUREC
MEMSCAP	ST DUPONT

**Next report: 30 June 2014**