

# BRUELLAN DYNAMIC SWISS EQUITIES

November 2018



## PORTFOLIO REVIEW

European indices trailed their US and Asian peers in November. The Stoxx 600 and SPI closed the month down 0.97% and 0.89% respectively, while the MSCI Asia Pacific and S&P 500 were up 2.88% and 2.04%.

Within the SPI, Health Care was the main driver of performance, with Roche gaining 5.71% and Novartis 3.08%. Together with Nestle, which was flat in November, these large index components displayed their defensive characteristics in a market that saw small- and mid-caps drop more than 5%. In this environment, the fund was down 2.72% versus a 0.9% decline for the benchmark.

Our shift towards larger caps helped mitigate the fund's November loss. From a sector perspective, Utilities delivered the best absolute performance, with BKW up 6% and accounting for 0.21% of the fund's monthly return. Being significantly underweight the Consumer Discretionary sector added 0.51% to the fund's performance relative to the SPI. Conversely, Healthcare detracted 1.61%.

At the company level, not surprisingly, Roche and Novartis were our top two performers in absolute terms, contributing 0.51% and 0.40% to performance, while BKW and Swiss life were the best in relative terms, beating the SPI by 0.20% and 0.17%. At the other end of the spectrum, Straumann and Tecan were the fund's worst performers in both absolute and relative terms.

During the month, we took our profits on Sika and Kardex. We also sold both our technology holdings, Temenos and Logitech, using the proceeds to initiate positions in companies such as Helvetia, Lindt and Barry Callebaut. And we added to our Roche position in order to reduce our underweight relative to the SPI.

Our repositioning into large caps during 2018 is mainly a tactical decision. We expect large caps such as Nestle, Novartis and Roche to continue to act as safe havens over the next few months. Down the road, however, we plan to rebuild significant exposure to the small- and mid-cap segment, where we see much greater earnings momentum over the long term.

## MARKET OUTLOOK

After particularly low volatility in 2017 (S&P 500 360-day price volatility hit a 50-year low), all major equity indices suffered two severe corrections during 2018. The January-February decline erased some 10%, while the correction that began in September has (so far) erased just over 10%.

Were we to focus only on corporate results, the picture is constructive. 2018 earnings reports have been positive in Europe, Asia ex-Japan and Japan – and outstanding in the US (mostly due to tax reform). In Switzerland, SPI annual EPS growth is expected at around 16% this year and 10.7% in 2019.

That said, at major turning points, earnings are a poor indicator of equity returns. Early in 2008, S&P 500 full year EPS growth was expected to reach 12%. Unfortunately, the final number came in at -19% and the stock market crashed 38%...

With equity markets under severe pressure recently, should we assume that 2019 will be a major turning point?

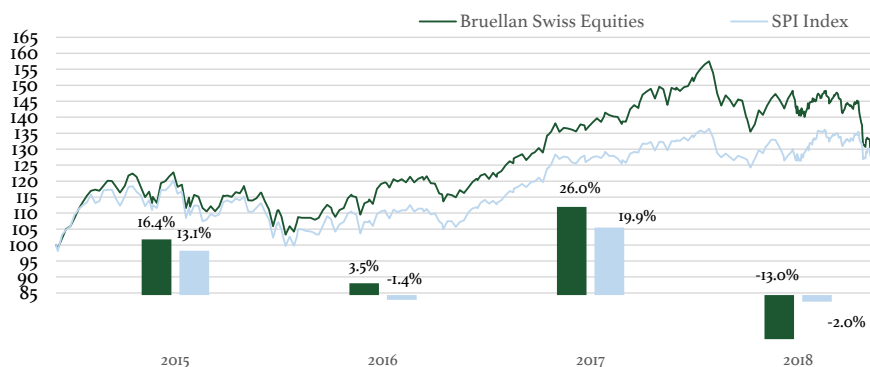
We do not believe so, even though growth has been decelerating across the globe for the past 10 months. Looking at manufacturing PMIs, 75% of countries remain in expansionary territory, compared to 58% during the 2015 slowdown. The US world engine also continues to run at a strong pace. The most advanced component of the US PMI, new orders, is not at a level that would suggest a recession is pending.

Moreover, central banks remain accommodative and, even after three years of tightening in the US, real rates are still very low (real Fed funds stand at 0%). We also note few signs of contagion: US credit spreads have not widened significantly and, in Europe, the Italian budget crisis has not materially impacted other peripheral countries' spreads.

In conclusion, we do not feel that markets are at a major turning point but, in the light of the current slowdown, do need to assume that earnings will undergo significant downward revisions during coming months. However, given how severe the correction has been, equities are already pricing in an important slowdown. With a SPI forward P/E of 15.1x, below the range of the last four years, we consider the Swiss equity market attractive.

## NET PERFORMANCE AND ANNUAL PERFORMANCE IN CHF

19.1.2015 to 30.11.2018



	Fund	Bench.	+/-
1 Month	-2.7%	-0.9%	-1.8%
3 Months	-9.8%	-1.9%	-7.9%
YTD	-13.0%	-2.0%	-11.1%
Since inception	31.6%	31.1%	0.5%

## INVESTMENT OBJECTIVE

To achieve capital appreciation on an absolute and relative basis over the medium to long-term horizon through investment in Swiss equity markets in a concentrated but diversified portfolio, with high liquidity.

## RISK & REWARD



Low High

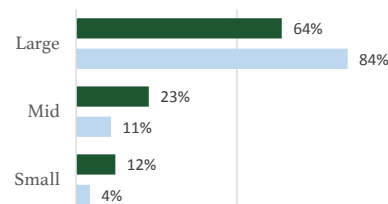
## FUND FACTS

Domicile	Switzerland
Inception date	19 January 2015
Currency	CHF
Fund Managers	Florian Marini, CFA, CMT BAM Team
Fund size	CHF 39.2 Millions
Liquidity (sub./red.)	Daily
Min. Investment	Retail: 1000 CHF Instit.: 1 million CHF
Management fees	0.8%-1.2%
Performance fees	20%
High Water Mark	Yes
Benchmark	SPI Index
ISIN	Retail: CH0253810144 Instit.: CH0253810169
Bloomberg	Retail: BDFSECA SW Instit.: BDFSECB SW
NAV	Retail: 1306.02 Instit.: 1315.64

## STATISTICS

	Fund	Bench
Leading PE	16.9	16.0
EV/EBITDA	16.9	13.3
P/Book	3.4	1.7
Dividend Yield	2.6%	3.0%
ROE	13.8%	9.5%
Debt/Equity	40.7%	43.0%
Interest Coverage	29.9	12.6
Beta	0.92	1.0
Volatility	12.6%	12.9%

## ALLOCATION BY MARKET CAP

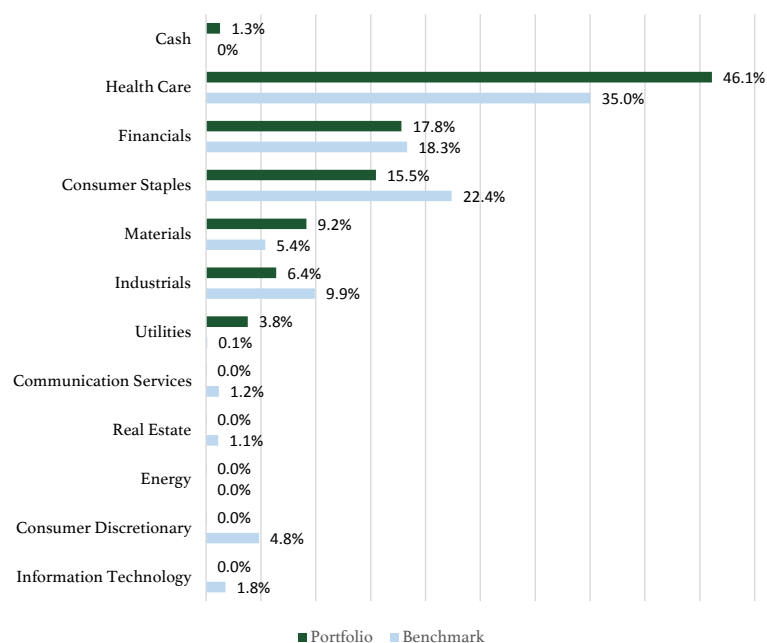


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## ALLOCATION BY SECTOR



## TOP 10 HOLDINGS

	Sector	Weight
NOVARTIS AG-REG	Health Care	12.9%
ROCHE HOLDING AG-GENUSSSCHEIN	Health Care	10.0%
GIVAUDAN-REG	Materials	8.1%
NESTLE SA-REG	Consumer Staples	7.5%
SWISS LIFE HOLDING AG-REG	Financials	7.0%
LONZA GROUP AG-REG	Health Care	6.6%
SONOVA HOLDING AG-REG	Health Care	4.9%
TECAN GROUP AG-REG	Health Care	4.4%
STRAUMANN HOLDING AG-REG	Health Care	4.0%
BKW AG	Utilities	3.8%
<b>Total</b>		<b>69.2%</b>
Total number of Holdings		24

## FUND COMPLEMENTARY DETAILS

Administrator	CACEIS (Switzerland) SA, Rte de Signy 35, CH-1260 Nyon
Investment Manager	Bruellan SA
Custodian	CACEIS (Switzerland) SA, Rte de Signy 35, CH-1260 Nyon
Auditor	KPMG

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