Performance

According to the EU's Markets in Financial Instruments Directive (MiFID) and its implementation in national law, performance information may only be shown to retail clients if it covers a period of at least 12 months.

Market developments

Global equity markets began the year with a relief rally after the US deal to avert a 'fiscal cliff' of tax rises and spending cuts. While questions remain over how the US will close the long term deficit, their fiscal picture was more stable in the first quarter than it has been recently, with slow but steady economic recovery indicated by a pick up in job creation, consumption and housing.

Meanwhile, in Europe, inconclusive Italian elections revived fears over the sovereign debt crisis. Furthermore, Cyprus became a focus towards the end of the quarter as it was forced to seek a bailout. Japanese stock markets were given a boost by prime minister Shinto Abe's efforts to push the Bank of Japan to be more accommodative, resulting in unprecedented levels of monetary stimulus that – if executed – would double the monetary base in the next two years.

Portfolio review

At the end of the first quarter 2013 there were 32 holdings in the portfolio. The largest positions were Qualcomm, National Oilwell Varco and Reckitt Benckiser, whilst the fund held 2.1% in cash. Approximately 45% of the portfolio is invested in companies listed in the US. All of the companies in the portfolio are leaders in their industries in terms of competitive position and their track record of generating superior returns on invested capital (ROIC).

We added one new position to the portfolio during the quarter – Novo Nordisk – and exited one – Caterpillar-. The sale of our holding in Caterpillar was triggered by the company's fall from its top quartile position for generating ROIC relative to its peers. As a result, it no longer met the fund's criteria for investment.

By adding health care company Novo Nordisk the fund took advantage of the company's share price weakness following Novo Nordisk's failure to win US regulatory approval for a new insulin product, despite it having been approved in Europe and Japan already. Novo Nordisk is the leader in the diabetes treatment market with the broadest portfolio of different modern insulin treatments. The company commands a 26% share of the global diabetes market and a 40% share of the global insulin market. Novo Nordisk is also the market leader in both Europe and China and a strong number two in the US. This market is expected to grow by 8-9% per annum over the next two decades, driven by growing rates of obesity as well as changes in diets and lifestyles in both developed and developing regions. Novo Nordisk maintains a cost advantage over its competitors and with only three main players in this particular market we believe that Novo Nordisk will be able to continue to demonstrate attractive structural growth rates going forward, offering plenty of opportunities to reinvest their high free cash flows into new growth projects.

Among our existing holdings, we slightly trimmed our position in Google, taking some profits following a strong run. The position remains a key holding in the fund as we believe Google is structurally the best-positioned internet firm to benefit from all growth areas relating to the internet, such as video, mobile, local, social and advertising.

Performance analysis

The relative underperformance of the fund was driven by stock selection and country exposure, in particular a market rally early in the quarter favouring lower quality stocks, which the fund does not invest in, no exposure to Japan where quantitative easing has been boosting the market regardless of fundamentals, and overweights in the UK where our positions suffered from a collapse of the pound of more than 4% against the US dollar in February alone.

By sector, although our stock selection process is primarily driven by bottom-up fundamentals, the portfolio proved to be well positioned. We benefited from a significant overweight in health care, the best performing sector in the global market, and an underweight position in materials, the worst performing sector in the market. Two health care companies were among the top five positive contributors to performance in the first quarter: Giliead Sciences and Allergan. The worst performing stock was Antofagasta, a materials company and one of the globally leading copper producers.

Outlook

Our investment style favours high quality stocks with superior profitability and strong balance sheets. Therefore we expect to outperform in normal as well as falling markets, but underperform in periods where low quality stocks with low return on invested capital and weak financials rally. Historically, periods in which low quality stocks are favoured tend to be short (as experienced in January 2011 and January 2012), so over the cycle we expect our consistent and disciplined approach focusing on leading companies with sustainable high returns to outperform.

In 2013 we expect financial austerity measures to continue in the developed economies, with Continental Europe remaining in recession. In our view, China remains an underestimated force with its large domestic market and high levels of investment giving them a competitive advantage over global peers.

Fund information

Share Class	Currency	ISIN	Inception Date
A	USD	LU0848325295	14/12/2012
B	USD	LU0848325378	14/12/2012
H	CHF	LU0848326186	17/12/2012
H	EUR	LU0848326269	17/12/2012
I	USD	LU0848325618	14/12/2012

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