



SARASIN

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# Global Snapshot Monthly

July 2010





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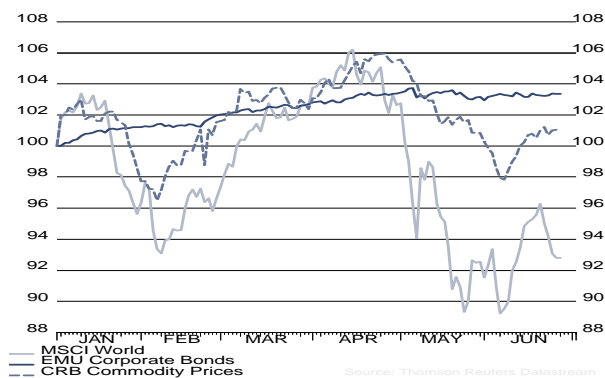
# Window of opportunity for risky assets

Following the equity market correction in the second quarter of 2010, we see a window of opportunity for a recovery in the third quarter. First, concerns about the euro debt crisis should gradually recede and, second, corporate results should spring some very positive surprises. We expect mostly positive news to support a decline in risk aversion and a recovery in risky assets. That said, we expect to see more signs of a global slowdown in growth in autumn at the latest, and the equity markets should resume their downward trend after a temporary recovery.

## Review: Euro debt crisis dampens risk appetite

Investor optimism was riding high at the beginning of Q2 2010. Surprisingly positive corporate results fanned hopes of a lasting upswing. Towards the end of April, however, the Euroland debt crisis came to the attention of investors. In a bid to counter the danger of the Greek crisis spreading to the other European states, the European Union (EU) put together a bailout package worth EUR 750 bn. But these measures were also only able to calm the financial markets for a brief period. Plagued by nascent growth fears, equities as well as commodities corrected sharply in Q2 2010.

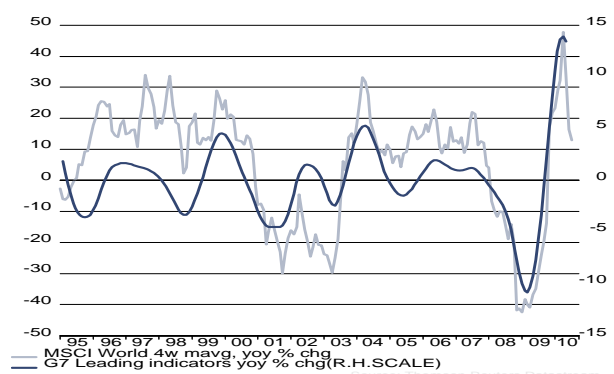
## Equities and commodities correct in Q2 2010



## Macro outlook: Fiscal impulses come to an end

The fiscal and monetary stimuli triggered a spectacular upswing, which has kept up since H2 2009. The labour market has also started to recover since the beginning of 2010. But in the meantime, leading indicators have peaked. The discontinuance of fiscal impulses should trigger an economic slowdown in H2 2010. The reduction of credit bubble excesses will continue to act as a brake until the beginning of 2011. On the other hand, emerging market countries will help to underpin global growth.

## Equity correction discounts part of slowdown



Source: Datastream

## Equity strategy: Summer rally looks likely

The uptrend on the equity markets in Q2 2010 came to an abrupt halt due to the debt crisis in the Euroland. However, the stock market correction appears overdone in the short term and there are good reasons to expect a rebound at the beginning of the third quarter. The spectacular cyclical upswing should engender further positive surprises in corporate results. Also, our market sentiment indicators suggest that investor sentiment is a lot less optimistic than it was at the beginning of Q2. We have upgraded our emerging market equity weighting to neutral after the setback in the second quarter. Emerging market equities are inexpensive and stand to profit the most from a decline in risk aversion. Furthermore, the earnings risks are lower in relation to US equities. Within Europe, we continue to focus on core countries, including Switzerland and the UK, while avoiding equities from the Euroland periphery. A rising level of risk willingness among investors in Q3 suggests the weighting for the cyclical sectors will be increased at the expense of the defensive sectors.

## Asset Allocation

### Bond strategy: Debt crisis still a driving force

Central banks are likely to stick to their zero interest rate policy in the coming 12 months, due to the debt crisis and the incipient economic upswing. Together with the dampening impact of inflation, this should keep interest rates on the long end of the yield curve low. However, we cannot rule out a setback in the short term due to the princely valuation of government bonds. Since the credit spreads on corporate bonds rose in Q2 2010 while the fundamental data improved, we see greater potential once more for corporate bonds.

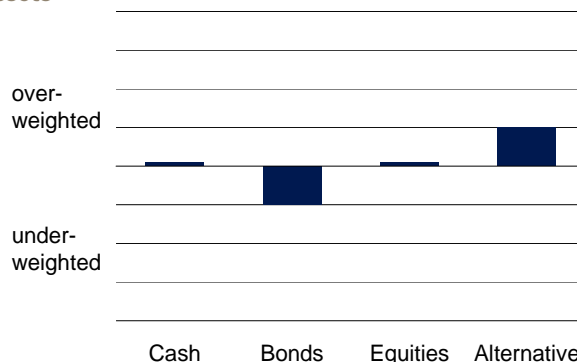
### Currencies: Swiss franc remains in demand as a safe-haven currency

The level of confidence shows that the euro will pass its test. However, the euro recovery is likely to be short-lived: the dramatic consolidation measures mean monetary tightening is no longer an issue for now. Relative monetary policy will support the US dollar and the Swiss franc will remain in demand as a safe-haven currency. Since the Swiss National Bank (SNB) stopped making intervention threats in June, the Swiss franc should continue to trend firmly.

### Alternative assets: Hopes of a recovery

The projected decline in risk aversion should also lead to a recovery in alternative assets. Relatively speaking, commodities are more attractive than real estate assets because they are likely to profit from the rising level of demand in the emerging markets. The hardest-hit commodities – i.e. industrial metals, in particular – should record the biggest gains during a recovery. Fears of a global slowdown in growth should re-exert their negative influence on commodity prices and real estate assets in autumn at the latest.

### Asset allocation for Q3 2010: Overweight alternative assets



Source: Sarasin

### Asset allocation: Balanced investment strategy

After we reduced our equities allocation to underweight at the beginning of Q2 2010, the risk/return profile after the correction looks more attractive again. At the beginning of Q3 2010, positive news should outweigh negative news again on the back of strong corporate results. Accordingly, we have increased our equity allocation to neutral. On the other hand, bonds do not have any more potential left since interest rates are at a record low level. We have therefore discarded bonds in favour of risky asset purchases. Thanks to the high level of volatility in June, we were able to purchase alternative assets with attractive yields. We have upgraded real estate assets from underweight to neutral. We continue to overweight commodities and expect them to also recover in Q3.

Philipp E. Bärtschi, CFA

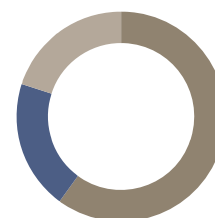
### Attractiveness of different asset classes

Asset class	Switz.	Euroland	UK	USA	Japan	Emerging
Cash	=					
Currencies	=	=	=	=	=	=
Equities	=/+	=/+	=/+	=	-	=
Bonds	-	-	+	+	=	=
		<b>Total return</b>	<b>Real estate</b>	<b>Commodities</b>		
Alternative assets	+	+	=	+		

Source: Sarasin

**Asset Allocation <defensive>**

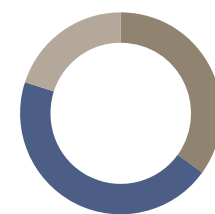
Asset Class	CHF	EUR	USD	GBP
<b>Cash</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Bonds</b>	<b>60.0</b>	<b>60.0</b>	<b>60.0</b>	<b>60.0</b>
Home	47.5	60.0	60.0	60.0
World	12.5	0.0	0.0	0.0
<b>Equities</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>
Home	10.0	10.0	10.0	10.0
World	10.0	10.0	10.0	10.0
Developed Markets	7.0	7.0	7.0	7.0
Emerging Markets	3.0	3.0	3.0	3.0
<b>Alternative Assets</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>
Return of SAA (1985-2009)	5.4%	7.5%	8.3%	8.6%
Risk of SAA (1985-2009)	4.5%	4.6%	4.7%	5.1%



	TAA	SAA
Cash	0.0	0.0
Bonds	60.0	65.0
Equities	20.0	20.0
Alternative	20.0	15.0

**Asset Allocation <balanced>**

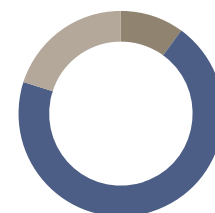
Asset Class	CHF	EUR	USD	GBP
<b>Cash</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Bonds</b>	<b>35.0</b>	<b>35.0</b>	<b>35.0</b>	<b>35.0</b>
Home	25.0	35.0	35.0	35.0
World	10.0	0.0	0.0	0.0
<b>Equities</b>	<b>45.0</b>	<b>45.0</b>	<b>45.0</b>	<b>45.0</b>
Home	22.5	22.5	22.5	22.5
World	22.5	22.5	22.5	22.5
Developed Markets	15.5	15.5	15.5	15.5
Emerging Markets	7.0	7.0	7.0	7.0
<b>Alternative Assets</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>
Return of SAA (1985-2009)	6.6%	8.0%	9.1%	9.0%
Risk of SAA (1985-2009)	8.5%	8.5%	7.9%	8.3%



	TAA	SAA
Cash	0.0	0.0
Bonds	35.0	40.0
Equities	45.0	45.0
Alternative	20.0	15.0

**Asset Allocation <dynamic>**

Asset Class	CHF	EUR	USD	GBP
<b>Cash</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Bonds</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>
Home	7.5	10.0	10.0	10.0
World	2.5	0.0	0.0	0.0
<b>Equities</b>	<b>70.0</b>	<b>70.0</b>	<b>70.0</b>	<b>70.0</b>
Home	35.0	35.0	35.0	35.0
World	35.0	35.0	35.0	35.0
Developed Markets	24.0	24.0	24.0	24.0
Emerging Markets	11.0	11.0	11.0	11.0
<b>Alternative Assets</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>	<b>20.0</b>
Return of SAA (1985-2009)	7.6%	8.2%	9.6%	9.2%
Risk of SAA (1985-2009)	12.9%	12.9%	11.8%	12.0%



	TAA	SAA
Cash	0.0	0.0
Bonds	10.0	15.0
Equities	70.0	70.0
Alternative	20.0	15.0

TAA = Tactical Asset Allocation; short term strategy based on return/risk expectations

SAA = Strategic Asset Allocation; long term strategy based on investment profiles



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Will there be any  
**energy**  
left for the next  
**generation?**

To qualify for inclusion in a Sarasin sustainability portfolio, companies in sectors such as automobile manufacture must meet stricter requirements than firms in less polluting industries such as telecommunications. Sarasin takes a differentiated approach when analyzing individual companies.

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# JP Morgan Chase

Diversified Financials

**JPMorgan Chase (JPM) is in a very good competitive position thanks to its strong capital base, excellent reputation and the quality of its balance sheet. JPM will be one of the first banks to revert to a normal level of earnings and to restore its dividends to where they stood before the financial crisis broke. Although tighter regulations in the industry are a negative factor, JPM is in a position to take measures to alleviate their effects. We also believe that the corresponding risks are now reflected in the current share price. We therefore think the company's valuation looks attractive at present and give the share a Buy rating.**

## A port in the storm

JPMorgan Chase (JPM) is one of the world's biggest banks and has emerged as a winner from the recent financial crisis. Thanks to its diversified business model, this globally active provider of financial services has managed to stay in the black for the entire crisis and has even been able to expand through acquisitions. This has allowed JPM to strengthen its position in investment and retail banking. The capital position is very high compared with its peers, so that JPM should be one of the first US banks to restore its dividend to the pre-crisis level.

## Positive operating outlook

Investment Banking accounts for almost a third of net revenues, but at the moment it is one of the most profitable sides of the business. JPM was able to make the best of the improving market conditions – especially in Q1 2010 – to post one of its best results ever. We are rather more cautious about the second-quarter performance due to the fragile state of financial markets, but in the long term we expect the high profit contributions to continue as the write-downs on financial investments start to normalise. In Retail Banking and Credit Cards, as well as in Commercial Banking, JPM stands to benefit from the recovering economy and the resulting decline in write-downs on credits.

## Regulatory risks adequately reflected in the share price

Banks have to deal with an increasingly difficult regulatory and political environment, and this represents the biggest risk of an investment in JPM shares. The potential reforms include the new Basel III regulations, taxes on assets held on the balance sheet and restrictions on certain business activities. In many cases investors tend to forget that banks are able to change their capital alloca-

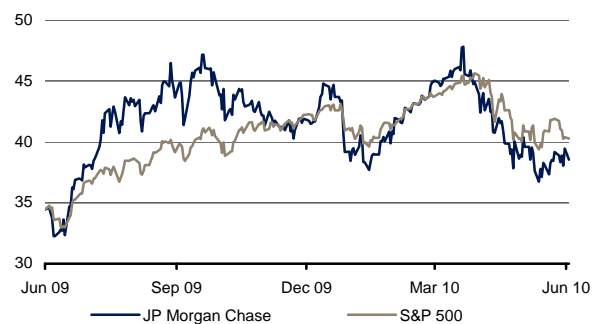
tion and actually have a certain amount of pricing power. Furthermore, a reasonable transition period should be granted before the new measures are introduced, giving banks enough time to alleviate their effects.

## Attractive valuation

JPM shares are trading at a 2011E P/E of just over 8x. This equates to a modest discount to the sector. JPM shares are also attractively valued in a historical comparison (12x), and we therefore give them a Buy rating.

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Share Price Performance (USD) Price (USD) 38.54



Source: Datastream

## Valuation Metrics

Data as of 28.06.2010	2009A	2010E	2011E
P/E	17.2	12.2	8.2
EPS growth (%)	63.5	41.1	48.4
MV/Revenues	1.4	1.4	1.4
Div. Yield (%)	0.5	1.0	2.5

Source: Datastream

## Equities

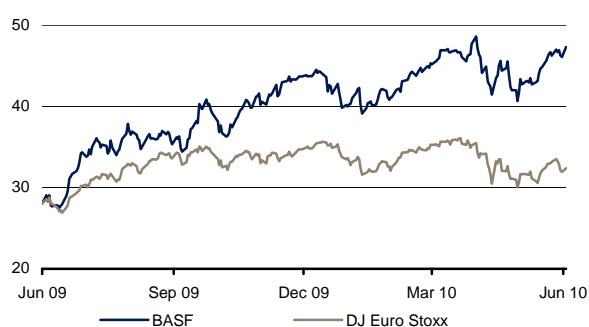
# BASF

## Materials

### Valuation Metrics

Data as of 28.06.2010	2009A	2010E	2011E
P/E	15.7	12.0	10.7
EPS growth (%)	-16.4	31.2	11.6
EV/Sales	1.0	1.0	0.9
Div. Yield (%)	3.6	4.1	4.4

### Share Price Performance (EUR) Price (EUR) 47.30



Source: Datastream

BASF is the world's leading chemicals company, with group sales of EUR 50.7 billion (2009). Its portfolio ranges from bulk & fine chemicals to high-performance products, agricultural products, oil and gas. Thanks to its own oil and gas exploration activities, BASF is in a position to cover most of the chemicals value chain, which not only provides it with cost leadership but flexibility in its margins. The company has made a good start to 2010. The first quarter figures in the early cyclical divisions were 50% up on the previous year. The integration of Ciba is progressing well, and the announced takeover of Cognis will enable BASF to strengthen its position in the business of less cyclical products with high margins in the fields of healthcare, food, cosmetics and cleaning products. The company still has very promising prospects and its share price offers further upside potential.

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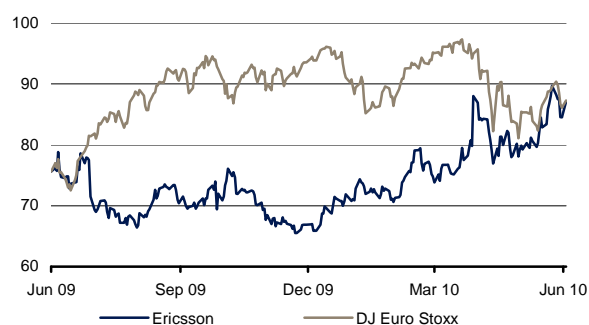
# Ericsson

## Technology Hardware & Equipment

### Valuation Metrics

Data as of 28.06.2010	2009A	2010E	2011E
P/E	17.1	15.6	13.5
EPS growth (%)	-9.4	9.8	15.0
EV/Sales	0.8	1.1	1.0
Div. Yield (%)	2.3	2.5	2.7

### Share Price Performance (SEK) Price (SEK) 87.10



Source: Datastream

Ericsson is a leading provider of telecommunications infrastructure and associated services for both fixed-line and mobile networks. Over 1000 networks in more than 175 countries use Ericsson's equipment and 40% of all mobile phone calls pass through this infrastructure. Ericsson is market leader in GSM and - through acquisitions - in CDMA technology as well. Ericsson is therefore in a good starting position for the continuous roll-out of 4G or LTE technology. Without the two joint ventures Sony Ericsson and ST-Ericsson, the company was able to significantly improve its profitability in the last few quarters. With a huge rise in mobile data volumes (doubling every year) and the technology shift to 4G, we believe Ericsson should be able to benefit more than its peers from the surge in telecoms investment. Ericsson has net cash of SEK 40 billion and an equity ratio of 52%. The company's valuation is moderate compared with its growth rate.

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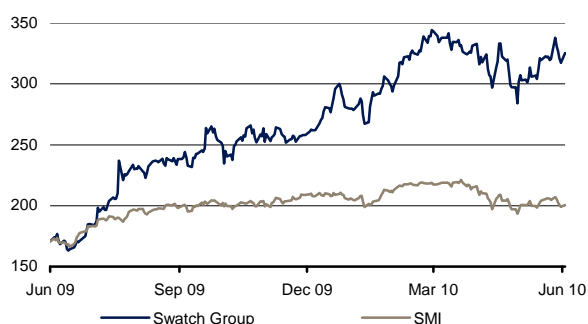
# Swatch Group

## Consumer Durables & Apparel

### Valuation Metrics

Data as of 28.06.2010	2009A	2010E	2011E
P/E	22.8	18.4	16.0
EPS growth (%)	-9.5	23.8	15.1
EV/Sales	1.4	2.7	2.4
Div. Yield (%)	1.2	1.5	1.7

### Share Price Performance (CHF) Price (CHF) 325.40



Source: Datastream

Swatch Group occupies a unique spot in the watch industry with its Production division and its strong positioning in all price segments of the market. The company's balance sheet is extremely sound with a net cash position of above CHF 1bn. Demand for Swiss watches is on a long-term uptrend and Swatch Group stands to gain from it. The company has an outstanding position in the fast growing Asian market – especially in China. Asia ex Japan accounts for about one third of its sales, which is more than at other luxury goods companies. The alliance with Tiffany offers positive surprise potential in the medium term. Like any other stock in the luxury goods sector, Swatch Group shares have an above-average volatility. In view of the group's operating strength, its current valuation levels and still existing potential to surprise the market on the upside – which applies to the future earnings of all three divisions – we recommend buying the shares on possible weaknesses.

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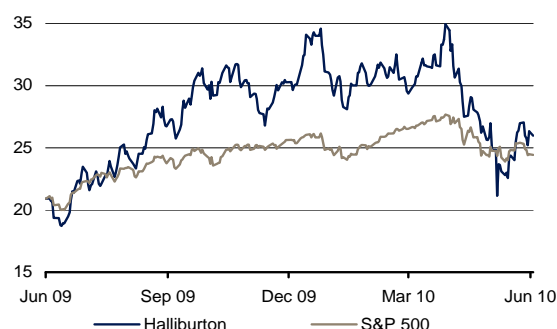
# Halliburton

## Energy

### Valuation Metrics

Data as of 28.06.2010	2009A	2010E	2011E
P/E	20.3	18.4	12.7
EPS growth (%)	-56.2	10.2	45.4
EV/Sales	1.9	1.6	1.4
Div. Yield (%)	1.4	1.4	1.4

### Share Price Performance (CHF) Price (USD) 25.99



Source: Datastream

Halliburton (HAL) is the world's second-biggest oil services company. HAL provides products and support services to oil & gas companies and is involved in locating hydrocarbons and managing geological data, drilling, and optimizing production. 40% of group sales are generated in North America. 60% of revenues come from the international business. Longer term, we expect capital expenditure in the oil business to improve steadily, due to the drop in global production quotas, impaired access to reserves due to geopolitical tensions, and the positive outlook for global growth. Even the Gulf of Mexico event is unlikely to change this. Investments in oil exploration should start to pick up again as prices exceed USD 60 per barrel and in expectation of a resurgence in energy demand. Because of its strong market position (mainland drilling) and intact growth prospects (US shale gas, Middle East), we consider HAL to be a core investment in the traditional energy sector.

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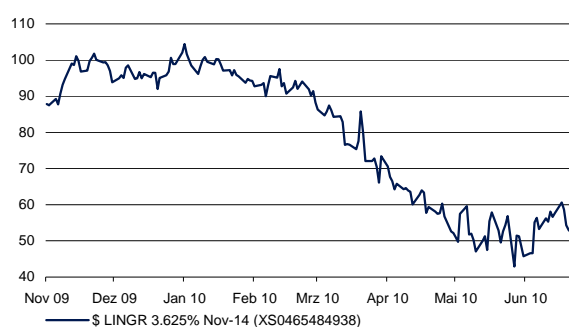
## Bonds

# Linde

### Key credit metrics

	1Q10	1Q09	1Q08
Net Debt / EBITDA	2.5	2.6	2.6
Tot. Debt / Tot. Cap. (%)	40.8	46.4	45.2
CFO / Total Debt	0.27	0.22	0.18
FCF / Total Debt	0.11	0.03	0.03

### Spread Development (ASW, in bp)



Sources: Bloomberg, Merrill Lynch, Company reports

Linde reported a 7% y-o-y increase in 1Q10 revenue. In the Gas division, operating income rose by 14% y-o-y, mainly driven by the emerging markets, whereas developed regions continued to stabilize. The Engineering division reported a 13% increase in operating income, benefiting from improvement in demand for new plant construction and a growing order backlog. EBITDA rose 18% and net debt decreased further, thus improving the leverage to 2.5 from 2.6. In April 2010, Linde's ratings were upgraded by one notch to A3/A- (with stable outlook), based on the resiliency of the business and deleveraging of the balance sheet. Going forward, the leverage is likely to decrease further thanks to additional cost savings and new plant start-ups along with a recovery in demand for liquefied and cylinder gases. In addition, Linde is one of the only sustainable companies in the European chemical sector. We recommend the 3.625% Nov-14 bond in USD.

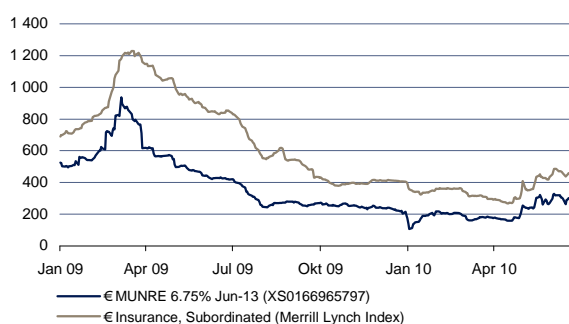
benoit.roboux@sarasin.ch

# Munich Re

### Key financial ratios

in %	1Q10	1Q09	1Q08
COR (reinsurance)	109.2	97.3	103.8
COR (primary)	98.7	96.3	89.0
RoI	5.2	3.1	6.7
RoE	8.5	7.8	5.6

### Spread Development (ASW, in bp)



Sources: Bloomberg, Merrill Lynch, Company reports

Munich Re (Aa3/AA-), the world's largest reinsurance company by assets, reported better-than-expected 1Q10 results, with net income of €485m, up by 11% y-o-y, mainly driven by €655mn of realized gains from the disposal of investments. The property-casualty business (34% of total gross premium written) recorded major catastrophe losses of €761m, pushing the combined ratio from 97.3% to 109.2%. But the P&C business remains profitable over the long term and the company's underwriting prudence makes its exposure to large catastrophe risk quite conservative. Life reinsurance business reported strong growth, with premium up by 36% y-o-y. Munich Re's capitalisation proved resilient, and the group maintains a defensive balance sheet, with 45% of fixed income portfolio invested in sovereigns, only 16% of which exposed to PIIGS. We recommend the 6.75% Jun-13 subordinated bond in EUR (rated A2 and A).

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# Fidelity Funds - South East Asia A USD

## Investment Strategy

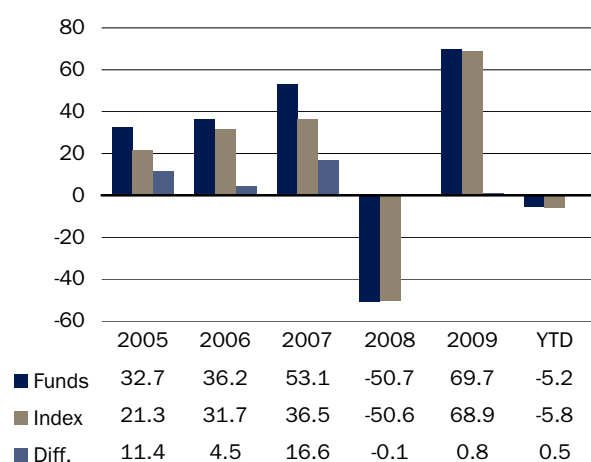
The Fidelity Funds - South East Asia Fund invests in companies located in the South East Asia region. It is actively managed and aims to outperform the benchmark and peer group over the long term. The Manager is a growth-oriented investor and focuses on companies with above-average earnings growth relative to their sector or the market. The fund's performance may deviate substantially from the benchmark index, since the Manager is not restricted to the benchmark.

## Portfolio Split

The fund manager does not aim to hold a specific number of stocks in the portfolio. He may invest in large, mid and small cap stocks. China, South Korea, Taiwan, Singapore and Hong Kong are the highest weighted countries in the fund.

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## Performance (%)



Source: Datastream

## Current Fund Data and Information as of 31.05.10

Share price	5.409
Fund size in millions (share class)	4444
Domicile	Luxembourg
Mgmt. Company / Portfolio Mgmt.	FIL
ISIN	LU0048597586
Swiss Sec. No.	207'547
Currency	USD
EU Tax Directive Status	in scope no tax
Launch date	14.12.1995
Management Fee, p.a. (%)	n.a.
TER, p.a. (%)	1.96
Dividend payment date	-
Payment 2009	none
Reference index	MSCI AC Far East ex Japan

Source: Datastream, Lipper

Past performance does not guarantee future returns. The performance shown does not take account of any commissions and costs charged when subscribing and redeeming units.

## Legal Representatives in Switzerland

Fortis Foreign Fund Services AG, Rennweg 57, P.O. Box, CH-8021 Zurich

## Paying Agent

Fortis Banque (Suisse) S.A., Zurich branch, Rennweg 57, CH-8021 Zurich

**The prospectus, simplified prospectus as well as the annual and semi-annual reports are available free of charge from:**

Fortis Foreign Fund Services AG, Rennweg 57, P.O. Box, CH-8021 Zurich

# Sarasin Sustainable Equity - Global Emerging Markets B

## Investment Strategy

Emerging markets include the developing countries of Asia, Latin America, Eastern Europe and Africa. Sarasin Sustainable Equity - Global Emerging Markets is suited to experienced investors as a complementary holding in emerging market securities. The investment policy is based on a systematic process with an underlying quantitative investment concept.

## Performance (%)

A performance graph will only be produced after a six months track record.

## Portfolio Split

Sarasin Sustainable Equity - Global Emerging Markets invests at least 75% of its assets directly or indirectly in the shares of companies domiciled in emerging markets and which take ecological and social sustainability issues into account in their business operations.

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## Current Fund Data and Information as of 31.05.10

Share price	89.93
Fund size in millions	22.02
Domicile	Luxembourg
Portfolio Management	Sarasin & Partners LLP, London
ISIN	LU0485309743
Swiss Sec. No.	10 974 731
Currency	USD
EU Tax Directive Status	Out of scope
Launch date	12 March 2010
Management Fee, p.a. (%)	1.75 + Performance fee
TER, p.a. (%)	-
Dividend payment date	Accumulating
Reference Index	MSCI Emerging Markets

Source: Bank Sarasin & Co. Ltd

Past performance does not guarantee future returns. The performance shown does not take account of any commissions and costs charged when subscribing and redeeming units.

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# 200% Callable Outperformance Certificate on Emerging Markets

## Investment idea

Equity markets in the emerging market countries have trended sideways since Q4 2009. In particular, the Chinese market, which has corrected more than 20% from its high, has weighed on the performance of the MSCI Emerging Markets Index. After this consolidation phase, relatively inexpensive entry opportunities are opening up again: although the expected slowdown in growth in H2 2010 will also affect the emerging markets, they should continue to profit from their relatively higher growth trajectory. The higher-than-expected growth in the emerging markets has already led to clear upward earnings revisions. The upside potential for emerging market equities is therefore significant, both in the short term and the medium term.

## Investment instrument

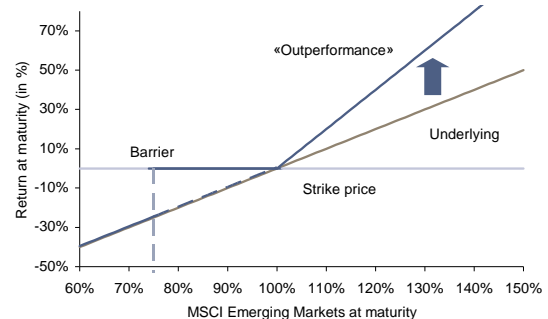
Investors who purchase Callable Outperformance Certificates on the underlying iShares MSCI Emerging Market ETF with a maturity of two years maximum already profit from a leverage effect when the price of the underlying rises moderately: if the price exceeds the strike price, investors benefit from an enhanced participation of 200% in the upside performance of the underlying. These USD-denominated certificates therefore provide a suitable investment instrument when the investor anticipates price gains and wishes to receive a bigger return than is possible with a direct investment – with unlimited upside potential.

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If the underlying at maturity closes above the barrier of 75%, the certificates also afford investors a limited degree of capital protection.

## Payout profile at maturity



If, contrary to expectations, the underlying sustains losses and is below the barrier at the final fixing date, the investor receives a cash repayment that reflects the negative price performance of the underlying. The attractive participation is funded by the dividend payments of the underlying asset, which the investor has to forego. It is also worth noting that after the first year, the issuer can choose to redeem the certificate early, repaying the investor at 115.50% (callable characteristic).

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## Abbreviations

A	actual value
abs.ch	absolute change
ASW	asset swap spread
avg.	average
bn	billion
bp	basis points
corp.	corporate
CPI	Consumer Price Index
Div. yield or DY	dividend yield
E	estimate
EBIT	earnings before interest and taxes
EPS	earnings per share
EV/EBITDA	enterprise value to earnings before interest, taxes, depreciation and amortisation
excl.	excluding
FY	financial year
GAAP	Generally Accepted Accounting Principles
GDP	gross domestic product
GNP	gross national product
gov.	government
m	million
M&A	Mergers & Acquisitions
mavg	moving average
MV/revenues	market value to revenues
N.A.	not available
p.a.	per annum
P/B	price-to-book ratio
P/E	price-to-earnings ratio
R&D	Research & Development
R.H. Scale	right hand scale
ROE	return on equity
SAA	Strategic Asset Allocation, long term strategy based on investment profiles
TAA	Tactical Asset Allocation; short term strategy based on return/risk expectations
vs.	versus
yoy	year over year

**Disclosure**

The analyst holds a participation in the company Swatch Group. This may create a potential conflict of interests.

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