COMMENTARY

March 6, 2009

Dear clients and colleagues,

Once again this week, we treaded shaky waters. From the AIG rescue Monday to weak unemployment data release Friday, no area was spared. In this context of massive sell-offs, small cap indices underperformed their larger counterpart across most regions. Yet, our February performance, and more specifically our judicious stock selection, demonstrates that it is possible to add value amid these challenging times.

During the week, four of our portfolio holdings reported results that were either in line with expectations, or slightly higher:

Eurofins reported a 27% sales growth for FY08. We were pleased to observe that the proportion of sales driven from profitable units increased from 54% to 79%.

Martek reported a 5% sales increase for the last quarter of 2008, and delivered a 130-bps margin improvement. The company continued to expand its line of DHAs by launching new products in a variety of categories.

Chico's posted better-than-expected same-store sale figures, but the company continues to suffer from an unstable retail environment.

Finally, Hospitality Properties was affected by a low level of activity within the lodging industry. Although its balance sheet remains strong, its revenue per available room declined 9.7% during last quarter. Nevertheless, at 32% yield, dividend payments are well covered, and we do not anticipate any dividend cut at this time.

The company we will profile this week is Bachem.

Founded in 1971, Bachem is a European biochemical company that provides full service to pharma and biotech industries. It is specialized in the process development and the manufacturing of peptides and complex organic active pharmaceutical ingredients. Peptides are chains of amino acids that regulate body functions such as hormones and biochemical processes. The company is organized in two segments: the peptides business (70% of sales) and the research ingredients.

Target Market Size
The overall peptides and generics industry has an estimated market size of $700M and enjoys a growth rate of 10%.

Competitive advantages
Bachem has the leading position with a market share of nearly 30%. The efficiency of its manufacturing processes makes it a cost leader. The company's business model sets it apart from its competitors. it is the only player that operates in both the peptides and the research ingredients areas. Bachem really sets the industry standards.

Growth strategy
Growth for peptides is mainly driven by the development and the release of new drugs, but also by the success of a given drug in the market place. Peptide-based drugs are used in the treatment of different kinds of disorders, such as obesity, diabetes, HIV, cancer, Alzheimer's, fertility, allergies, etc.

Risk
Main risks include the probability that customers withdraw an important project, the failure or delay in the manufacturing of new project and the reduction of stock levels at the customer level.

Investment Theme
Peptides are a key element in many new medicines, and there are only two dominant players: Bachem and Lonza. This industry benefits from a high barrier to entry and a strong pricing power.

Valuation
Based on a WACC of 8% and a terminal growth of 4%, our target price is CHF 96 for an expected return of 70%.

Market cap: CHF 780 million, P/E (TTM): 12.5x, P/E (2010): 11.1x, EV/EBITDA (TTM): 10.4x, Debt free, Expected sales growth: 10%, Dividend yield: 5.2%, Founder owns 51%.

Regards,

David Savignac
Assistant portfolio manager