COMMENTARY

February 6th, 2009

Dear clients and colleagues,

This week's continued to bring bad news about the economy around the World. However markets shrug off the news with positive returns across all indexes, with the US and European benchmarks leading and Asian benchmarks lagging.

Let us reiterate some of the reasons that make us optimistic about markets in 2009.

1. Central Banks and Government are injecting massive amount of liquidity and stimulus into the financial system and the economy.

2. The Housing market shows sign of bottoming. Prices are down, mortgage rates are low. As an example, the resale market in California and in Hong Kong is booming.

3. Volatility is abating, the VIX is now in a downtrend, and same for credit spreads.

4. The recession is now 12 months old. Except for the Depression era, most people are expecting a recovery in the 2nd half of this year.

5. Stocks are cheap. That is using all traditional measures, valuation, yield, etc.

We made a few more changes in the portfolio. These changes with the ones we made since the end of December position the portfolio well for the year. Our strategy remains to choose around 60 well managed companies with solid competitive advantage, good growth prospects and strong balance sheet. We seek to control Country/Currency risk as well as sector deviation risk. Our portfolio has a barbell structure. We have a good exposure to companies in defensive sector with high recurring revenues, such as healthcare equipment and services and Food companies. We also have a good exposure to companies that will benefit from an economic recovery such as retailers, auto parts companies, homebuilders, etc.

This week we sold two companies in the oil sector and replaced them by two other companies in the same sector. Our exposure to the sector remains the same. The companies we sold were CoreLabs, a Netherland company that is a leader in reservoir optimization; we replaced it by Pride International, an offshore drilling and Service Company. We also sold Schoeller-Bleckmann, an Austrian supplier of drilling rig equipment and replaced it with Unit Corp, an integrated driller and oil and gas producer in the US.

BE Aerospace (BEAV US - $10.96)
www.beaerospace.com

Founded in 1987, BE Aerospace has evolved from a $3 million company to over $2 billion in revenues today making it the world's leading provider of interior products and solutions, and the world's leading distributor of aerospace fasteners and consumables for the commercial, business jet and military markets.

Market cap $1,090M, div yield 0%, p/e 12/09 6.0x, roe 14.2%, ev/ebitda (TTM) 5.2x, sales: $2.1B, Net debt/t12 ebitda: 2.8x, insider ownership 2%, one year return -73%.

Target Market Size
The company has around 50% of the commercial and business jet cabin interior industry (market of $2B growing at around 7-8% per year) and around 20% of the aerospace-grade fastener industry (market of $4.5 Billion growing at around 8-10% per year)

Competitive advantages
The company is the largest player in its markets. In the distribution division, it stocks over 275 000 items.

The company is the technological leader with the largest R&D organization in the industry.
The company has a large installed base providing it with high recurring revenues.
The company is well diversified across products and geographies.

Growth strategy
The growth in the worldwide aircraft fleet and the existing installed base offer significant growth opportunities for the Company. In addition, the company is strong in product innovation.

Risk
Significant cancellation or deferral of new plane deliveries.

Investment Theme
The Airline Monitor project worldwide air traffic to grow at a compound rate of 5% per year during the next 15 years. Driving the number of planes required as well as the continued retrofit and refurbishment of the existing aircraft fleet.

Valuation
Target price = $23, using DCF model at growth rate of 10% for the first 7 years, 8% after, discount rate of 11.5% (Beta of 1), payout at maturity of 60%

Have a good week.