



March 9, 2011

Dear clients and colleagues,

According to the 2010 Merrill Lynch Capgemini World Wealth Report, the world's population of high net worth individuals (HNW's) grew 17.1% to 10M in 2009, returning to levels seen in 2007; this despite the contraction in world gross domestic product (GDP). Global HNW wealth similarly recovered, rising 18.9% to US\$39T, with HNW wealth in Asia-Pacific and Latin America actually surpassing levels last seen at the end of 2007.

Private banking is a global business in which the Swiss banks are key players. Switzerland is considered a safe hub, particularly in terms of emerging market wealth, where political and fiscal instability can be negative considerations. According to a survey by Roland Berger, lack of political security in the home country and quality of advice are two out of the three top reasons why high net worth individuals keep their savings in Switzerland.

This week we shall profile Bank Sarasin (BSAN SW- CHF38.80), a current holding in the portfolio.

<http://www.sarasin.ch>

#### ***Business overview and history***

Established in 1841, and headquartered in Basel, Switzerland Bank Sarasin is a leading Swiss banking firm that provides asset management and investment advisory services to private and institutional clients. The bank manages funds for a range of clients including individuals and institutions, unit trusts and investment companies. As of FY2010, it had CHF103.4B of assets under management (AUM's).

Sarasin is 35% owned by Rabobank, one of the few Banks with a AAA credit rating. With locations in Switzerland, Europe, the Middle East and Asia, it positions itself as a leading investment advisor and asset manager for private and institutional clients. Its business activities are divided into five segments. Private Banking is responsible for acquisition, service and support of customers in global private client business. Trading Family Offices provides advisory services for family offices and external asset managers (EAM). The Asset Management, Products and Sales division provide services to institutional clients and wholesale distribution partners. The 57.5% owned bank Zweiplus Ltd is a settlement platform for clients of independent financial advisors, asset managers and life insurance companies, among others. The Corporate Center provides internal support.

#### ***The market***

The HNW population in the Asia-Pacific region rose to 3M in 2009, equaling the figure for Europe. Assets in the Asia-Pacific region grew by 31% to USD 9.7T and growth in the region was led by Hong Kong and India. The World Wealth Report assumes that in future China and India will continue to grow more rapidly than the more developed economies both in terms of economic growth and HNW growth, and are likely to record the world's strongest levels of HNW growth.

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Private wealth is growing rapidly in Asia because of rapid economic growth and thriving entrepreneurship. The population of 477,000 HNW's in China became the fourth largest in the world in 2009. The number of HNW's in India rose to 126,700 from 84,000 in 2009 according to the 2010 Asia-Pacific Wealth Report.

### ***Competitive advantages and competition***

Rabobank's international network helps Sarasin's expansion, as was recently the case in Poland and India. Bank Sarasin has high net asset inflows and is a market leader in Switzerland and is on track to achieving a similar position in Europe. It has a strong reputation for sustainable investment and as of FY2010 had CHF13.4B in assets invested according to sustainable criteria.

The bank competes against Zurich Financial Services, Julius Baer Group, Lombard Odier Darier Hentsch & Cie, Vontobel Holding AG, HSBC Holdings plc, Credit Suisse Group, and UBS AG.

### ***Growth strategy***

Sarasin aims at positioning itself as an internationally active Swiss private bank and plans to achieve it through positioning itself as a provider focused on the client and focusing on core markets that offer good growth potential. For example, this includes selected individual markets in EU such as Germany, and in the growth markets of the Middle East and Asia.

It has opened offices in Bahrain and Abu Dhabi, and expects to reap positive benefits from its recent entry into the Indian market and the banking license granted to its Hong Kong branch in 2010; it plans a similar upgrade in Singapore. With a "pure play" profile, a strong inflow outlook and a strong capital position, Sarasin features many attractive qualities. From an operational perspective, inflows remain strong and hiring of client relationship officers (CROs) should help continue growth.

### ***Management***

Joachim Straehle has served as the Chief Executive Officer since 2006. From 1999 to 2006, Mr. Straehle held many executive positions at Credit Suisse Group in Switzerland and abroad, culminating in his appointment as the Chief Executive Officer. He is 51 years old and a graduate of the School of Management in Zurich and of the Executive Program for Overseas Bankers, Wharton School, University of Pennsylvania.

### ***Risks***

Key risks include higher or lower than expected asset levels and unforeseen strength/weakness in inflows.

### ***Market data***

Market Cap: CHF2.4B, Operating income: CHF691M, fwd P/E: 12.0x, Price/Book 1.7x, Dividend Yield: 3.5%, AUM CHF103.4B

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### ***Investment theme and catalyst***

There is a demographic shift as more and more individuals see their net worth increase. Individuals are opting for private client services and private banks are meeting this demand by offering clients better and customized financial services than what's available in their home country.

### ***Valuation***

Using sum-of-the parts and adjusted relative P/E valuations, we derive a target price of CHF55.

Have a good week.

Regards,  
The Global Alpha Team

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