

Bestinver, in search of yields

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BESTINVER

Bestinver, S.A. is 100% owned by ACCIONA. Through subsidiaries Bestinver Gestión, S.A. and Bestinver Pensiones, S.A., it provides asset management services in the form of mutual funds, pension funds and SICAVs. The company's third subsidiary is Bestinver S.V., S.A., a securities firm with a seat on the Madrid Stock Exchange.

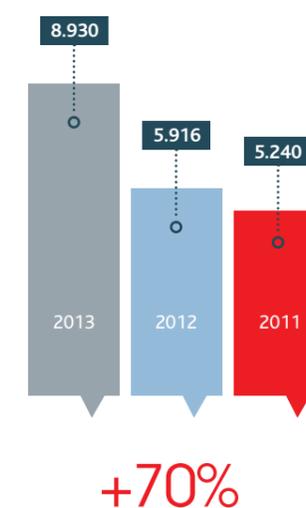
Bestinver increased assets under management by 51%, to 8.93 billion euros at 2013 year-end. This growth is attributable to the average yield of 32% on portfolios managed by the company (which increased assets under management by 1.956 billion euros) and to a net influx of 1.059 billion euros in assets under management. Average assets in the year exceeded the 2012 figure, with the result that revenues expanded by 39%, to 114 million euros, and EBT increased by 42%, to 82 million euros. The number of investors rose by 22%, to 65,000.

The stock markets were the star performer in 2013. Global equities appreciated by more than 20% on

average during the year, according to the MSCI World Index. This appreciation was visible in both the US and Europe, although the former outperformed the latter. The S&P 500 reached a new record high and closed the year up 30%. However, the Nikkei performed even better, appreciating by 56%, its best year since 1972. BRIC indices performed the worst. Brazil, Russia and China ended 2013 in negative territory, in contrast with most bourses around the world.

The Ibex 35 appreciated by 21.4% in 2013 and reached 9,916 points, the highest level since 2009. This performance put an end to three consecutive years of declines: 4.6% in 2012, 13.11% in 2011, and 17% in 2010. Nevertheless, the Ibex 35 is still a long way from the levels attained before the crisis hit in 2008: it peaked at 16,000 points in November 2007. The Lehman Brothers bankruptcy in 2008 triggered the largest-ever decline by the Ibex 35, which shed 39%, though that was partially offset by 30% appreciation in 2009. However, high volatility persisted in 2013. The Spanish index swung

→ Bestinver assets under management (billion euros)



between its low and high for the year in less than four months: from 7,553 at market close on 24 June to 10,037 on 21 October.

Notable support from the central banks, flooding the market with liquidity and reducing returns on most financial assets to historical lows, drove investors to search for yields. This situation favored equities, which also benefited from expectations of economic recovery. This upward trend is expected to continue in 2014, although significant additional growth will hinge on evidence of the expected recovery in corporate earnings.

In the fixed-income market, pressure on Spanish government debt declined notably in the last 12 months. Spanish 10Y bonds' risk premium over the German Bund was 223bp at year-end, with a yield of 4.15%, i.e. practically half the figure in January 2013 (400bp) and a far stretch from July 2012 levels (639bp), before Draghi announced clear support for the euro area. As for other non-core countries, Italy's risk premium ended the year at 221bp, Portugal's at 421bp and Greece's held steady at 650bp.

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After two years as ECB President, in 2013 Mario Draghi cut rates for the fifth time, from 1.5% to the current 0.25%, after executing several unconventional initiatives, including massive injections of liquidity into the banks with a 3-year maturity and a sovereign debt purchasing program in exchange for aid, which reined in the chaos threatening non-core Europe.

The decision to cut interest rates was further justified after 2014 euro area GDP growth projections were downgraded from 1.4% to 1.1%. Euro area inflation in October was 0.7%, compared with expectations of 1.1% (and it actually dipped into negative territory in Spain: -0.1%), i.e. a far cry from the ECB's 2% target. In this context, the ECB expects rates to remain at current levels or even lower for a lengthy period of time, and it has extended its liquidity offer until July 2015.

In the currency market, the euro performed well during the year, compared with weak performance by the yen and

US dollar due to liquidity injections by the Bank of Japan and the Federal Reserve. The dollar ended the year at a five-year high with respect to the yen. The euro appreciated by close to 20% against the yen and by 5% against the dollar, to end the year at EUR/USD 1:1.38.

However, gradual tapering by the Fed and strong growth in the US compared with stagnation in Europe in 2014 could reverse the situation between the two currencies. Moreover, rates in the euro area will remain low since the ECB is assuming that inflation will continue to be controlled in the coming years, after falling below 1% in the last three months.

Equities appear to be the best investment option in 2014, supported by central bank liquidity and the incipient global economic recovery. The yields on currencies, deposits, and most fixed-income do not exceed inflation, fuelling interest in equities.

Bestinver's management spends most of its time evaluating companies

We expect similar volatility to last year given the number of persisting uncertainties. At Bestinver, where we always have a long-term mindset, we take advantage of short-term mismatches in the market to rotate portfolios, increasing or reducing positions in response to share performance. However, as strong believers in value investing, our primary focus is company valuation, to which the team dedicates 95% of its time.

At the end of 2013, Bestinver's net asset value was at a record high, far above the level attained in 2007, just before the crisis began. As a result of this good performance, some of the investments in portfolio have exhausted their upside potential, which poses the usual challenge of reinvesting in attractive alternatives. Nevertheless, we are investing in several companies that were not in portfolio in 2012. At the end of 2013, following notable returns and the consequent reduction in upside, and given the difficulties encountered in creating

value, the portfolio had a historically high level of cash: close to 10%—a level last seen in 2006-7.

Bestinver's model portfolio, which is applied by the Bestinver mutual fund, obtained a return of 31.82% in 2013, compared with 19.35% by its benchmark (70% MSCI, 20% IGBM, 10% PSI). Since its creation in 1993, this portfolio has generated an annual return of 16.52%, compared with 8.97% by its benchmark.

In the last 20 years, Bestinver has received a total of 117 awards in recognition of its management performance.

Hijos de Antonio Barceló, a winery with a global reach

With almost 140 years of experience, Hijos de Antonio Barceló remains firmly committed to expanding internationally and to developing its brand in Spain. The quality of its wines and the balance between tradition and innovation are its distinguishing features.

Internationalization of the business provides the company with a more stable position within the current economic situation

Hijos de Antonio Barceló, founded in 1876, is one of Spain's top 20 wineries. The company focuses on producing, ageing, bottling and marketing quality wines, and operates in Spain and in other countries.

International business accounts for 42% of turnover, placing the company in a more stable position in view of the current situation in Spain. South America accounted for 19.6% of turnover, Europe for 12.2% and the rest of America for 8.5%. The outlook is positive for the United States following a recent agreement with Bronco Wines, the fourth-largest producer of wine in the US, to import our leading wines.

The company has wineries in five of Spain's most prestigious winegrowing areas, where it operates various business lines:

■ **Wines with Denominations of Origin (D.O.) Ribera del Duero, Rueda and Toro**

This line accounts for almost 26% of the group's total turnover. This business operates under the Viña Mayor umbrella brand, which has wines from those three D.O.s:

- Viña Mayor D.O. Ribera del Duero, which is among the top five wineries in this district.
- Viña Mayor D.O. Rueda and Viña Mayor D.O. Toro, which were added more recently and expanded by 15% in 2013.

■ **DOCa wines. Rioja: Bodegas Palacio**

With leading brands such as Glorioso and Cosme Palacio, Rioja accounts for 24% of Hijos de Antonio Barceló's turnover. Rioja sales advanced by 5% in 2013.

Facilities in this region are to be upgraded and expanded in 2014.

■ **Quality rosé wines from Bodegas Peñascal** (Valladolid)

Peñascal, Spain's leading brand in quality rosé wines, performed well in 2013, expanding by 4%. It accounts for 19% of turnover.

■ **Aperitifs, other sweet wines, and wines from Castile and León**, account for the other 31% of turnover.

■ Innovation is a distinctive source of value for a consumer goods company, and Hijos de Antonio Barceló is developing new products for the Lifestyle segment, such as moscato wines under the Ponte Vecchio brand, and Peñascal Frizzante 5.5, a wine with a low alcohol content to cater for a younger public.

THE VINEYARDS

The Group owns 284 hectares of vineyards in Finca Caserío de Dueñas (Villaverde de Medina - Valladolid) and 82 hectares in Finca Anzil (Toro). It applies a vertical integration approach, which allows it to control product quality from growing the grapes to shipping the wine.

Hijos de Antonio Barceló, which combines tradition and innovation in its winemaking, is certified to the following standards: ISO 9001 (Quality Management Systems), ISO 14001 (Environmental Management Systems), and ISO 22000 (Food Safety Management Systems). The company also maintains a commitment to the environment: Bodegas Viña Mayor offset its CO₂ emissions in 2012 and the Ribera del Duero vineyard meets the standards to qualify as an ecological vineyard.

The company's strategy focuses on:

- Developing a broad portfolio from prestigious wine districts that is in tune with demand.
- Developing brands in its segment and expanding internationally.
- Implementing a policy of continuous improvement in management of the company's various functional areas.