

**We invest in winners.** That means we invest in strong companies that create value for their shareholders with sustainable business models, solid balance sheets and high margins. We keep the risks low and invest when our position is fuelled by a positive event. We refer to that as the combination of value and event.

### Nestlé S.A.

We presented Nestlé in our Investment Report back in August 2009. Since then, the world's largest food company has ranked as a solid investment amongst our key fund holdings. There has been a whole new dynamic to the company since the appointment of Mark Schneider as CEO on 1 January 2017. Schneider consistently aligns the consumer goods giant, which sells more than 1 billion products daily, with changing consumer needs. Organic, vegan, local and, above all, healthy are what the consumer expects. Small businesses capitalise on this, reacting quickly to new nutrition trends and launching products without large marketing and sales budgets, thanks to digitisation. Nestlé has recognised this trend. Health, innovation and speed are at the heart of what is possibly the most far-reaching transformation experienced by the company since its foundation in 1866. Schneider's great energy and enthusiasm abound all day long. He is passionate about operational details, gets involved with new products and sets the strategic course true to his own motto: "Every day, the world is a new place and you have to constantly prove yourself". He intends to reap the returns in 2020. Revenues are set to rise then by 5% annually and the operational margin amount to an appreciable 18%. Investments are made in four segments which promise sustainable sales and profit growth: coffee, water, baby food and pet food. The remainder is being optimised

for efficiency and provides the cash flow for the realignment. Nestlé's "Skin Health" skin-care division has been a casualty of this. The business that Schneider's predecessor had strengthened as promising just a few years ago is being sold for the hefty price tag of 10 billion USD. The US confectionery business and insurance company Gerber Life have already been sold. Other candidates are on Schneider's strike list, including sausage manufacturer Herta. He made additional purchases with the acquisition of the global marketing rights to the trading arm of coffee house operator Starbucks (7 bill. USD) and Canadian company Atrium Innovations (2 bill. USD), a supplier of health-boosting food products. In addition to that there have only been smaller M&A deals. On account of the strong market position, Nestlé has quickly reached the boundaries of expansion permitted by antitrust law in several divisions. To this extent, we also do not foresee any major acquisitions in future but a series of complementary acquisitions. Nestlé will step up research and development for new and existing products in particular. No other big food group invests as much in future organic growth annually, in absolute terms (2 bill. USD) and as a proportion of the revenue (2%), as Nestlé. "Nothing is more important with regard to long-term growth than innovation," says Schneider. We will continue on this route, especially considering that it will be sweetened with an annual distribution yield from dividends & share buybacks amounting to 5%.

Sincerely yours



J. Henrik Muhle



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