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Management Report
2nd Quarter 2011

Financial market trends in the 2nd quarter
Events on the financial markets the 2nd quarter 2011 were badly affected by the further escalation of the Greek crisis and a weakening US economy. Although investors remained in festive mood and on the lookout for high-risk investments up to the end of April, the mood became much darker at the beginning of May and the focus increasingly turned to the dangers of the potential sovereign default of Greece and falling corporate profits as a result of the slowdown of the US economy.

The big central banks responded variously. Whilst the US Central Bank, with an eye on the anaemic economic recovery, the ailing US housing market and still high unemployment rate, did not alter the base rates despite the rising inflation but left them at their extremely low level, the European Central Bank raised the base rates for the first time in 3 years by a quarter of a point to a still very low 1.25%. It did so in spite of the obvious signs of crisis in the Euro area and the virulent debt problems in some European countries. If nothing else, the ECB intended to demonstrate that its duty is still to maintain monetary stability and that despite all the current difficulties caused by the over indebtedness in some parts of the EUR area, it is continuing its efforts to regularise monetary policy so as to have some downward room for manoeuvre if necessary in the future.

On the currency front interestingly enough, the fears about Greece did not produce a weak EUR as was widely and mistakenly claimed. The EUR lost substantially, i.e. 6%, only against the CHF, which is benefiting from Switzerland‘s excellent and extremely stable fundamentals. The EUR did not devalue, and even firmed up, in relation to all the other major currencies, for example the USD and the GBP.

In the 2nd quarter it was the bond markets that benefitted from the doubts about how the economic situation would develop and from money looking for a safe haven. 10-year gilt yields fell by c. 30 – 40 basis point across the board. The only exceptions to the otherwise benign bond markets were in the countries afflicted by high levels of sovereign debt, Greece, Portugal and Ireland, where bond yields rose steeply and bond prices recorded correspondingly enormous losses. 10-year Greek bonds for example, downgraded to junk status by the rating agencies, lost 14.5% in value.

The global equities markets moved sideways during the second quarter. In April, equity prices recovered quickly from the nuclear disaster in Japan. As the quarter progressed however, investors became much more risk-averse in a context of escalating debt crisis in the peripheral countries of the European monetary union, with Greece fighting to stay solvent, and fears of profit disappointments due to the weakening economy. Share prices worldwide subsequently came under considerable pressure between the start of May and mid-June. At the end of the quarter, the markets responded with relief to the acceptance of the austerity package by the Greek parliament, which opened up opportunities for further support from the IMF, the ECB and the European Union. So in the end the US and the European equity markets even came out slightly positive. The emerging economies continued to suffer from the largely restrictive monetary policy in their area and declined. In terms of individual sectors, the defensive sectors were outright winners worldwide. Financials and energy shares declined markedly.

Commodity prices came under pressure with oil and agriculturals in particular recording double-digit percentage price losses. The real estate investment sector in contrast was able to increase slightly during the quarter thanks to the positive interest situation.

During the last 6 months of the year, the value of the A share has increased by 0.02% from EUR 163.04 to EUR 163.07 and the value of the B share has increased by 0.34% from EUR 145.16 to EUR 145.66. From the 31st of May until the 30th of June, the value of the C share has decreased by -0.12% from CHF 100 to CHF 99.88.