Management Report
2nd Quarter 2012

The mood swing in Q2 had economic and political causes: on the one hand, doubts about the global economic recovery in the second half of the year resurfaced. The economic outlook for the Eurozone and other industrial countries deteriorated and the newly industrialised countries failed to deliver the anticipated growth impulse to the global economy. Aggressive quantitative easing measures by the central banks of China and particularly Brazil indicated the seriousness of the situation. On the other hand, the elections in France and Greece as well as increasing risks in the Spanish banking sector created enormous nervousness. Hopes that the central banks in the industrial countries would play a more active role were dashed: The Fed failed to ring the bell for another round of extraordinary measures. The European Central Bank (ECB) in turn did nothing to prevent a new increase in the bond yields of countries such as Italy and Spain. The quarter nevertheless ended on a conciliatory note from a political perspective: hopes of a banking union were rekindled during the EU Summit at the end of June. Approval was also obtained to use the resources of the European Stability Mechanism (ESM) for direct recapitalisation of European banks.

After the stock market rise in the first quarter, the second quarter saw sharp price falls. With regard to the developed markets, Japan was ranked last with -10%. The USA posted -3% despite strong growth. The defensive Swiss stock market experienced the smallest decline (-1%). The aggravation of the euro crisis caused the stock markets in the Eurozone (-5%) to underperform in relative terms. Prices in the “problem countries" Greece (-24%) and Portugal (-13%) in particular came under pressure. The emerging markets reacted negatively to the economic woes and lost 5%.

The aggravation of the euro crisis in the second quarter caused a flight, similar to the last quarter 2011, to government bonds of the “core countries” of the Eurozone. The consequence was falling yields, with short-term bonds in so-called safe havens such as Germany and Switzerland even showing negative yields The opposite trend was seen in Greece, Spain and Italy. Yields of 10y Spanish government bonds rose in June to a record high of over 7%. However, as a result of the EU Summit the situation stabilised again by the end of the quarter. Outside the Eurozone concerns about global economic performance caused yields to fall in many areas, including in the emerging markets.

So-called anti-cyclical currencies such as the USD and particularly the Yen, which tend to show gains in a "difficult market environment”, performed well. The Yen posted the strongest gain against the USD with +3%. European currencies performed less well: the Euro and the CHF, which has in effect been coupled to the Euro since last September, fell most sharply against the USD (-5%). Emerging market currencies also fell against the USD.

Property as an asset class held up very well again in an altogether difficult environment for financial investments. Shares in Swiss real estate companies in particular were very sought after and made sizeable gains of just under 8%.

Commodities showed a completely different picture; they all came under pressure in the 2nd quarter as a result of growth concerns. Crude oil, experienced a real slump when it fell by 20%.

During the last 6 months of the year, the value of the A share increased by 3.43% from EUR 161.20 to EUR 166.73, the value of the B share increased by 1.66% from EUR 147.92 to EUR 150.38 and the value of the C share + increased by 1.27% from CHF 101.61 to CHF 102.90.

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