CPIC

Management Report
2nd Quarter 2014

During the second quarter of 2014, the traditional asset classes of equities and bonds generated attractive returns, while alternative investments (primarily commodities and gold) largely drifted sideways. At the beginning of the quarter, the equity markets initially suffered a marked setback, as the conflict with Russia in eastern Ukraine intensified. As the quarter progressed, however, most markets regained ground. This recovery was driven by signs of economic normalisation in the US and the continuation of the gradual upturn in the euro zone. The easing of euro-zone monetary policy, which was approved at the start of June, lent further support to this trend.

Against this backdrop, the equity markets of most industrialised countries and emerging markets posted similar gains (+4.5% and +5%, respectively). Energy (+12.6%), Information Technology (+6%) and Consumer Staples (+5.9%) were among the global sectors with strong profits. Towards the end of the quarter, the unrest in Iraq triggered a renewed temporary correction in the global markets.

Emerging-market bonds were able to benefit from a reduction in economic tensions and a stable rate of inflation in emerging economies (+3.5% in local currency and +4.8% in US dollars). The improved economic outlook in the industrialised countries also had a positive impact on the performance of corporate bonds. Somewhat surprising were the impressive total returns on government bonds of very solid industrialised countries such as the United States (+1.5%), Germany (+2.3%) and Switzerland (+1.6%). In contrast to the prevailing trend in recent years, bond yields in these countries fell during a phase of rising equity markets. The astounding aspect of this development was that it occurred against the backdrop of an economic recovery with no rise in interest rates. On the contrary: real interest rates in practically all industrialised countries declined. This fall was partially driven by lower expectations regarding a first interest-rate hike by the US Federal Reserve (Fed) and the extraordinary measures implemented by the European Central Bank (ECB) to stimulate the economy. On the other side, risk premiums for industrialised countries also fell, as uncertainty regarding the US budget subsided following a political agreement and the European banking union made progress. Furthermore, there was a marked reduction in the US budget deficit again.

The US dollar staged a recovery against most European currencies during the second. The pound sterling posted a 2% gain against the greenback. Emerging-market currencies also posted gains during the second quarter.

Political risks kept the commodity markets on tenterhooks: The price of oil continued its considerable upward trend from the first quarter, rising by 4.8%. In particular, the impending disintegration of Iraq pushed the price of oil up to 114 US dollars per barrel. Gold underwent a correction during the second quarter: The price of the precious metal exceeded the mark of 1,300 US dollars per troy ounce (+ 2.3% during the second quarter).

During the last 6 months of the year :

the value of the A share has increased by 5.45% from EUR 179.76 to EUR 190.13,

the value of the B share has increased by 0.71% from EUR 153.20 to EUR 154.29 and

the value of the C share has increased by 4.25% from CHF 106.39 to CHF 111.11.

This report was prepared by René Exenberger, Vontobel Asset Management, Zurich