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Management Report
4th Quarter 2009

Developments on Financial Markets during the Fourth Quarter 2009

During the fourth quarter, global equity markets continued to slightly outperform global bond markets. Favourable conditions for equity investments held up. The on-going global economic recovery had a positive impact on corporate profitability, which was itself underpinned by a continued expansionary monetary and fiscal policy. Monetary policy ensured that the financial system was provided with extremely generous amounts of liquidity. In the US banking system, the fall-off in lending slowed, while US property prices stabilised. The number of financial analysts who revised upwards their profit forecasts increased significantly. The biggest growth was recorded in the USA and Europe, while the Japanese market lagged quite a way behind. The Swiss market enjoyed a positive, albeit below average, development. As in the earlier part of the year, the fourth quarter showed once again that the technology and materials sector did best, whereas the defensive sectors, such as telecommunications and utilities, clearly underperformed.

The appreciation of government bonds expressed in local currency proved to be modest, as was expected. EUR bonds moved sideways, while USD and GBP bonds actually dropped in value. The performance of government securities was negatively impacted by the global economic recovery – which increases long-term inflationary risks – and by the strong increase in government borrowing. However, market participants assumed that there would be no sudden spike in inflation. Even though the offer of government securities was likely to remain high in the future, investors did not seem to be overly worried. During the fourth quarter, too, lower quality bond classes continued to deliver better overall returns than high quality classes.

On the currency front, the euro in particular lost attractiveness due to increasing tensions within the European currency union. The rating of Greek government bonds was downgraded because of the country's disastrous budget situation. Austria was forced to nationalise a bank that is important for the region, as a result of which market participants adopted a more cautious attitude vis-à-vis the euro. Among the major currencies, only the yen weakened more than the euro. Once again, the commodity currencies in particular, i.e. the Canadian and Australian dollars, benefited from the global economic recovery. The US dollar, which was weak throughout the year, appreciated in December against all the major currencies. This was due in part to profit taking by investors for whom the US dollar is the reference currency and who took advantage of the weakness of their currency, achieving high returns from their foreign investments.

Alternative asset classes finished strongly during the fourth quarter, and some made considerable gains. This was particularly true for commodities which were given a boost by increased global economic activity, with an average increase of 10 per cent. Precious metals, too, benefited from this rally in commodity prices. Other asset classes, such as hedge funds and real estate investments, also did well, but not to the same extent.

In the 4th quarter 2009, the value of the A-share increased by 3.62%, from EUR 146.69 to EUR 152.00, and in the same period the B-share increased by 0.46%, from EUR 141.63 to EUR 142.28. For the whole year 2009, the A-share has increased by 11.59% and the B-share by 2.06%.

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