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Management Report
4th Quarter 2010

Financial market trends in the 4th quarter of 2010

Two issues shaped events on the financial markets in the 4th quarter: further quantitative easing (QE) decided by US monetary policy makers and the drastic worsening of the financial crisis within the EMU. In early November, the Fed saw the need to announce a program to buy up treasuries for 600 billion USD over a period of several months. The reason behind its decision was high unemployment of nearly 10% accompanied by very low core inflation. The US Central Bank Act provides for an interest rate reduction in such circumstances. But as the Fed’s interest rates were already close to zero, "unconventional" monetary policy steps had to be taken once again: Quantitative Easing "QE2", i.e. the creation of additional liquidity by making substantial purchases of securities. The aim is to stimulate the economy essentially through rising asset prices and a weaker US dollar. Moreover, the US banking system will benefit from this very generous injection of liquidity. As a result, the decline in the volume of lending was at the very least halted.

Another severe bout of the euro crisis occurred in Q4 when an emergency credit of 85 billion euros had to be made available to Ireland from the European Financial Stability Facility (EFSF) to prevent insolvency. In 2008 the Government had accepted liability for the insolvent Irish banks whose survival was threatened by a gigantic property bubble. The capital markets began to anticipate the possibility that the crisis might spread further, possibly the need to bail out Portugal as well as Spain (the fourth largest economy in the eurozone). Even after tough State savings programs had been decided in the PIIGS countries, investors remained dissatisfied with the way the European political leaders were handling the crisis. In December, the leaders once again debated how to restore the stability of the EMU. However, only minimal solutions were proposed with no sustainable and convincing visions for the future. As a result, the euro continued to decline heavily against all the other major currencies in Q4 after already weakening sharply in the first 9 months of the year. The heaviest losses of the euro were against the strong CHF: 6% in Q4 and almost 16% for 2010 as a whole!

In Q4, the equity markets performed very well in local currency terms. In the first three quarters, equities moved sideways on average - worldwide. US shares in particular benefited from the "QE2" program as did the weak USD in Q4. European equities achieved a much more modest yield overall; they were adversely affected by the stringent savings measures adopted by the Governments of the PIIGS countries. Performance differences within Europe were unusually wide. The Greek and Spanish markets reported high single figure losses while the German stock market benefited hugely from the weak euro, driven by highly successful export figures, and gained over 10%. Depressed by the strong CHF, the Swiss equity market barely remained in positive territory. The emerging countries’ equity markets reported slightly below average performance in Q4 but continued to lead the field again over the whole year.

With surprisingly positive short-term economic signals coming out of the USA, interest rates began to rise in Q4 placing all the fixed income markets under pressure. Losses on bond issues by countries like Greece, Ireland and Spain, which are at the heart of the euro crisis, were particularly heavy.

Massive rises in commodity prices occurred in Q4 with gains of well over 10% in local currency terms. Except for the weak US dollar, prices were driven forward by the expanding world economy, weather conditions and renewed fears of the solvency of some countries.

During the last 6 months of the year, the value of the A share has increased by 1.64% from EUR 158.11 to EUR 163.04 and the value of the B share has increased by 0.16% from EUR 144.62 to EUR 145.16. .

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