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Management Report
4th Quarter 2011

Financial market trends in the 4th quarter
The European debt crisis continued to depress the financial markets in the 4th quarter. A succession of political summits were held at the highest level; however, the initial euphoria was generally followed by still more confusion and uncertainty. Calm was not restored. The American rating agencies stoked the flames by threatening to cut the creditworthiness of several member countries of the eurozone. Interest rates in the eurozone peripheral countries reached dangerous levels in November: over 7.5% for Italian two-year bonds; spreads of French government bonds against German Bunds also substantially widened. Eventually, the financial operators' rapid loss of confidence in the heavily indebted eurozone countries led to government changes in Greece, Spain and Italy. Also to a decision, by the EU Heads of Government, to move towards a fiscal union with clearly defined debt limits and savings criteria. But insufficient evidence was produced to show how a recession - which threatened to occur in Europe because of these austerity programs - could be countered by taking measures to stimulate the economy at the same time. Within the limits of its powers, the ECB did all it could to prevent the crisis from becoming still more acute. The new ECB President, Mario Draghi, already cut interest rates by 0.25% at his first meeting in early November, followed by another identical cut one month later. From the second half of November, trust in the European banks was shaken and liquidity seemed more and more likely to dry up; the banks practically even stopped lending money to each other. To fight this new fire, six leading central banks pumped massive quantities of USD into the money market at the end of November. Towards the end of the year to secure medium-term bank financings, the ECB issued loans worth just under EUR 500 billion to the European banking sector. This was the biggest financial market operation ever undertaken by the ECB and clearly showed that the money markets were seriously out of kilter. On the positive side, performance of the US economy proved better than expected, offsetting these negative trends in Europe. A series of positive economic numbers caused fears of US economic recession to ease again.

As good news from the USA contrasted increasingly with bad reports from euroland, the gap between price trends on the European and US financial markets widened. The Euro tended to weaken while the USD and growth-sensitive currencies like the AUD made strong gains.
In the 3rd quarter, the equity markets suffered a severe correction on recession fears in the US and Chinese economies and the accompanying steep downward revision of earnings estimates; in the 4th quarter they were relieved to find that the worst fears did not materialize and signs of improvement were beginning to appear in the US economy, while a soft landing was looking likely in China. In the 4th quarter, share prices went on to recover strongly from their lows, led by US equities and Chinese equity markets. The eurozone equity markets gained roughly half as much, but even so rose by more than 5%. In the last quarter, the emerging markets, which were the biggest losers year on year, still only reported below average growth. In the 4th quarter, global equity markets made much stronger gains than bonds at just over 8%, while bond prices remained largely overall unchanged. Viewed across the year, the situation was different with bond performance well in the lead at plus 6% against minus 5% for equities. The picture for equities varied between sectors in the 4th quarter; over the year, defensive equities performed significantly better than cyclicals. In the 4th quarter, Swiss real estate stocks stagnated, although they did make clear year on year gains; the situation for commodities was the exact opposite: disappointing year on year performance, but a strong 4th quarter thanks to steep crude oil price rises because of the more favourable economic numbers and the threat of an oil embargo on Iran.

During the last 3 months of the year, the value of the A share has increased by 0.7% from EUR 160.13 to EUR 161.20, the value of the B share has increased by 0.6% from EUR 147.03 to EUR 147.92 and the value of the C share has increased by 0.7% from CHF 100.94 to CHF 101.61.

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