Letter from the President and the Fund managers

June 2009

The markets continued to decline in the first quarter of 2009, and it wasn't until March that stock prices began to rebound a little. Despite the upturn, the performance for the first three months was negative, due to the unfavourable economic statistics and negative data from the financial sector. First of all, the new U.S. Government had to develop convincing political and economic concepts to combat a severe recession. But the measures taken were not all successful, in particular those aimed at reinforcing the U.S. financial system, which has suffered badly. It wasn't until March that the Obama Administration, and April that the members of the G-20, were able to gradually convince the markets of the effectiveness of their economic policy. The stock market recovery continued in April and, little by little, the following monetary and economic policy measures are encouraging investors to return to the market.

- Base rates approaching zero percent
- Unconventional monetary policy measures (buy-back of asset-backed securities and commercial paper as well as Government and corporate bonds)
- Vast public economic stimulus package
- Government aid to mortgage holders (in conjunction with the U.S. Federal Reserve)
- Measures to increase the equity of financial companies.

Despite all of these efforts, the American economy has not yet managed to pull out of the recession. The U.S. GDP once again contracted by 6.1% in the first quarter, worse than the forecast of 4.7%. Banks continue to grapple with toxic assets on their balance sheets, causing a credit crunch and making it nearly impossible to raise capital. To support the financial sector, the U.S. Treasury announced a new plan to buy back 500 billion to 1 trillion U.S. dollars worth of risky mortgages and securities with the help of private investment fund managers. Despite the sharp drop in the GDP, personal consumption – which represents 70% of the index – rebounded unexpectedly by 2.2%. Moreover, inventories have dropped faster than expected, another positive sign. Based on these favourable conditions, we can hope for an economic recovery in 2010.

At present, although the bond markets are profiting from the global recession and low base interest rates (in particular in the Eurozone), there are fears that the Government's use of the capital markets may push interest rates higher. However, the risk of hyperinflation induced by the sharp rise in central banks' balance sheets appears low, given that the production capacities of the global economy are largely under-used.

Currency fluctuations were also relatively significant during the first few months of 2009. There was a strong demand at times for currencies traditionally seen as a refuge against

a global slowdown, such as the U.S. dollar, the Japanese yen and the Swiss franc. Moreover, the U.S. dollar and the Swiss franc suffered from a particularly expansionist monetary policy, in which the central banks made use of surprising and unconventional methods such as bond buy-backs and interventions on the currency markets. However unexpected they may be, such measures have only a temporary impact on currency rates. Most of the measures were taken in March, resulting towards the end of the quarter in a depreciation of the U.S. dollar and the Swiss franc against the Euro – which has also been buffeted recently. The worsening of the financial crisis in January and February increased the risks associated with Government bonds in the Eurozone, in particular for smaller countries. This caused U.S. investors to shed their investments in Europe, causing the Euro to slump. This trend reversed itself in part in March, which saw renewed confidence in the solvency of the countries in question.

Investment activities consisted chiefly in reinforcing the defensive nature of the portfolio in the beginning of the year by decreasing our stock position and giving preference to top rated bond issuers. The stock position was increased slightly in early March, with the first concrete signs of recovery. Management activities also consisted in completing the final phase of repositioning the portfolio with a view to switching the reference currency from the Swiss franc to the Euro, in order to align the reference currency of the asset portfolio with the currency used by a large majority of our beneficiaries. A point worthy of note is that the switch was done at a favourable moment, just as the Swiss franc began falling against the Euro.

As of 30 April 2009, the value of the growth segment (A share) expressed in Euros had dropped by -0.36%. The value of the conservative segment (B share), also in Euros, had appreciated by +0.5%.

Do we expect a sustainable, steady recovery of the financial markets? Absolutely not. The crisis is not yet resolved, considering the potential effects of the sudden increase in unemployment and the toxic assets still on the books of financial institutions. We are likely to see a saw-tooth pattern emerge. An intermediate peak, or a “W shape” recovery is also possible. We are following the trends closely and we now see an improvement in the economic and market indicators suggesting that stocks are likely to rebound. Hence we are maintaining the portfolio’s holdings in order to take advantage of the upturn. If these advanced indicators should reverse – lower corporate earnings expectations, more negative economic climate, widening of credit spreads, etc. – we will reduce our stock position.