Letter from the President and the Fund managers
January 2009

The year just ending, 2008, brought the worst financial crisis since the end of World War II and will probably go down in history as one of the stock market's worst ever. The real force driving this crisis was a credit dry-up precipitated by the sudden collapse of the American real-estate market. Still, the crisis had the merit of shedding light on the shortcomings of the capitalist financial system: the sometimes obscene remuneration of senior executives, business development that is not always fully understood or mastered, an inability to appropriately identify and manage risks, and faulty oversight systems.

While the impact on the real economy is unlikely to be felt before well into 2009, the extent to which the economy was rapidly deteriorating—in both Europe and the United States—had already become very clear in the last quarter of 2008. Due to the financial turmoil, there is a complete freeze on the credit market and financing costs are exploding. Like the American automobile sector, weak economic players are struggling for survival, while the healthy are taking preventive cost-reduction measures leading to a widespread increase in unemployment.

A look at the stock market alone reveals that in 2008 the severity of the financial crisis has raised risk aversion to levels not seen for decades. Indeed, we have experienced the biggest drop on the stock market since 1931 (!).

In the midst of this storm, supposedly "diversifying" assets have also taken on water. Hedge funds, commodities and private equity (investments in unlisted companies) have all suffered a fate similar to that of shares, though sometimes to a lesser degree. Currencies have also been caught up in the cycle of volatility: the U.S. dollar has fallen below the Swiss franc, the Pound sterling has almost caught up with the Euro, and the Euro has lost ground against the Swiss franc after a seven-year cycle of gradual appreciation. Despite our cautious positioning and our focus on the quality of securities, we were of course not able to completely circumvent the effects of the large drop in asset value, affecting especially investments in shares. While CPIC's strategy for diversifying over the largest possible number of asset classes has not paid off as well as initially hoped, it has still served to limit the reduction in the portfolio's value.

For CPIC beneficiaries, the positive note in 2008 is that the Swiss franc has strongly appreciated against other major currencies, especially the Euro. As announced at the last General Assembly held in Brussels on May 31, 2008, the Management Board had already decided at the end of 2007 to change the portfolio's reference currency from the Swiss franc to the Euro as of January 1, 2009. The goal was to align the services offered by CPIC as closely as possible with the reference currency of the vast majority of our beneficiaries. In this context, the Swiss franc's strong appreciation of more than 10% against the Euro is welcome in more than one respect, since in addition to softening the effects of 2008 for most beneficiaries residing outside Switzerland, it also allows the conversion of Shares in Swiss francs to Euros at a particularly favourable exchange rate that nearly matches the historic low.

So despite the Swiss franc's fall of 19.8% since the beginning of the year, the growth segment (A Shares) declined by only 10.3% in Euro terms, a reasonable decrease when all is said and done, given the large stock market correction. The conservative segment (B Shares) admirably fulfilled its function of protecting capital in this particularly tumultuous environment; although it has lost 3.1% in Swiss francs since the beginning of the year, its 2008 performance in Euros of +8.4% was very positive.

The change in reference currency for the accounts also implies a gradual changeover of the investments underlying the portfolios to this same reference currency. The transition was made in stages over the past year. Although the bulk of the assets held by the Fund is now in Euros, the Management Board has deliberately kept fairly significant Swiss franc investments, this currency having once again demonstrated in 2008 its advantages as a safe haven during periods of acute crisis. For example, a large portion of the investments in shares are in Swiss francs, and most real estate investing will continue to be done in Switzerland, especially since the country's property market was far from experiencing the same excesses that led to a speculative bubble in other countries, and consequently has remained particularly healthy in comparison to the international picture.

Although the economy is weakening faster as 2009 begins, we must note, in light of 2008's historic stock market correction, that many pieces of bad news at the macroeconomic level have already been anticipated and incorporated into current stock market prices. Furthermore, the strongest comprehensive stimulus measures ever seen are being taken to mitigate the intensity of the crisis that has befallen our economies, namely massive interest-rate reductions by the central banks, bailouts of entire segments of our economies (banking and automobiles, to name only the leading sectors) and stimulus packages whose total amounts are still unknown. Though still maintaining a cautious stance, our two Fund managers are always on the lookout for a chance to benefit from opportunities that will appear on the financial markets once the situation turns around. And it goes without saying that during this period of turmoil, CPIC's Management Board is keeping a close eye on their activities and on changes in the Share values.