Letter from the President and Fund managers
July 2010

2010: A Year of Transitional?

While in the first quarter of 2009 the most dominant theme by far was the worldwide financial upheaval, with its contracting economies and foundering stock markets, since the third quarter of 2009 the market recovery has been monopolising all the attention. By early 2009, our Fund managers had already realised that the effects of monetary and budgetary stimulus efforts would be felt during the second half of 2009, stabilising the world economy.

The basic assumption at the beginning of 2010 was that this year and in 2011, the world economy would continue to grow, but at a below-average rate. In the expectation that this assumption would prove true, two main investment themes were selected for 2010:

1) Stocks remain attractive. Transition towards defensive sectors this year.

Indeed, even after a solid performance in 2009, the world stock markets are not overpriced, so they continue to offer opportunities for attractive yields.

2) Government bond yields will gradually increase.

Euro: Loss of Confidence

The Euro's weakness is due primarily to the budget situation of Greece, which begs the question as to what the Eurozone would do should one of its members be declared "in default."

At the same time, it is "thanks" to Greece that the Euro is depreciating, a development that European countries have long been praying for. From Switzerland's point of view, this situation has complicated exchange policy issues. The Swiss National Bank has in fact tried to keep the exchange rate above 1.50 Swiss francs per Euro.

The curtain rose on the Greek tragedy in the spring of 2010, triggering a series of market events aggravated by shilly-shallying on the part of governments obviously overwhelmed by the scope of the problem. Uncertainty grew, the Euro weakened and interest rates soared not only in Greece but also in Portugal, Italy, Ireland and Spain. The lack of a quick, unanimous decision led some economists to express their fears for the Euro's life.

The Near Future

Still, things have calmed down slightly because, in response to this untenable situation, the European Union (EU) finally undertook to fulfil its responsibilities: in late May/early June 2010, it created a financial stabilisation fund of 750 billion Euros, including 250 billion from the IMF.

The EU also decided to institute a preliminary review of member states' budgets by the European Commission, and demanded immediate and painful budget stabilisation measures.

In this environment, forecasts for growth in profits were revised downwards and since the end of May 2010, CPIC's investment strategy has been adjusted: the stock portfolio has been reduced while liquidities have been increased in expectation of new opportunities.

Growth in share value from the beginning of 2010 until June 30 was as follows. A share (traditional segment) performance: EUR +4.02%, CHF -7.36%, GBP -4.15%, and USD -11.19%. B share (conservative segment) performance: EUR +1.64%, CHF -9.47%, GBP -6.34%, USD -13.22%.