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Management Report
4th Quarter 2012

Developments in the Financial Markets during the 4th Quarter 2012

Overall, 2012 turned out to be a good year for financial investments. Many asset classes produced returns of over 10%. This was particularly true for equities – with the Swiss market among the top performers. From a global perspective, the equities that did best were to be found in the financial and cyclical consumer sectors, whereas the energy sector proved disappointing. Emerging markets and corporate bonds jumped by more than 10%. Government bonds, for their part, performed well, producing yields of around 4%. Gold was up by 5.6%, whereas commodities declined somewhat.

The first half of the year was still strongly affected by the continuing euro crisis. At the beginning of 2012, the European Central Bank (ECB) pumped generous amounts of liquidity into the markets, thereby easing tensions. However, the turbulence created by the elections in Greece, together with strains felt throughout the Spanish banking system in the spring, fuelled doubts about the eurozone's stability. Disappointing global economic data heightened risk aversion. The announcement made by the ECB in the summer that, should this prove necessary, it was prepared to buy the bonds of troubled countries in unlimited quantities, removed the extreme risk of a eurozone break-up, encouraging investors to accept greater risks. Improved data on the US economy and China allowed stock exchanges to rebound in the summer. This was helped by the fact that the US Federal Reserve was ready to launch a new quantitative easing programme. In the autumn, the prospect of possible deep cuts in the US budget fanned new fears, as a result of which investors began to divest themselves of riskier assets. Due to a hyper-expansive monetary policy, there were growing signs of an economic recovery in emerging markets, which triggered a strong rally towards the end of the year.

During the 4th quarter, equity markets only managed to match the momentum created during the 3rd quarter sporadically. The fiscal cliff debate in the USA dragged on until the eleventh hour, which had a negative effect primarily on the US stock exchange.

ECB President Mario Draghi announced at the end of August that in order to push down borrowing costs, he was prepared to start buying government bonds, giving activity on the peripheral bond markets a fillip. By contrast, yields were extremely modest for the safe governments bonds, say, of Germany and Switzerland, and in some cases (USA and the UK) losses were sustained. The government bonds of emerging markets (in local currency) and high-yield corporate bonds produced a very respectable performance in the 4th quarter.

During the 4th quarter, the Japanese yen was very much the focus of currency markets. The yen lost a good 11% of its value against the US dollar, which was due to a large extent to political changes in Japan. The euro appreciated slightly against the US dollar in the 4th quarter. The Swiss franc remained within a narrow range of 1.20 to 1.23 against the euro both in the 4th quarter and in 2012 as a whole, sometimes requiring strong intervention by the Swiss National Bank. The price of gold rose perceptibly during the 4th quarter, while commodity prices declined across the board.

During the last 3 months of the year 2012:

the value of the A share increased by 1.4% from EUR 172.50 to EUR 174.99,

the value of the B share increased by 0.6% from EUR 151.87 to EUR 152.78 and

the value of the C share increased by 0.9% from CHF 105.85 to CHF 106.79.

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