Letter from the President and the Fund Managers
January 2012

2011: a (really) appalling year for the performances of the securities exchanges

After the first half of the year had been characterised by good market resilience, interrupted temporarily in March by the shock caused by the tsunami that hit Japan, the uncertainties associated with the sovereign-debt crisis in Europe finally triggered a panic movement, which began at the end of July 2011 and led to a forceful correction of the equity markets in August 2011. This correction spread to all high-risk asset classes (equities, lending, commodities and so on) and all regions (developed and emerging). It was only government instruments that really played their role as a safe haven, and they did that despite the anxieties surrounding the over-indebtedness of several countries and their (potential or real) downgrading by the rating agencies. So 2011 is going to go down in history as producing a (very) poor vintage as regards the performances of the securities exchanges, with the European exchanges falling by a mean of more than 15%. As far as currencies are concerned, the apparently minor appreciation of the Swiss franc relative to the euro, taking the year as a whole, is to be ascribed solely to the sudden plunge in its value, which accompanied the decision by the Swiss National Bank to use “unlimited” resources in defending an exchange-rate floor of 1.20 vis-à-vis the European currency, following a period in which the Swiss currency had appreciated by more than 30% in the course of the first half of 2011.

European debt: at the heart of concerns

In the short term, it seems obvious that the market movements are going to continue to be conditioned by what happens as far as the European debts are concerned. This issue is still the focus of investors’ attention, and during the opening months of the year several very important refinancing deadlines are, one after the other, going to constitute sources of stress for the markets, while the recent downgrading of the credit ratings of several member countries of the euro zone, including France, could compromise the attempt to solve the situation through the European Financial Stability Facility (EFSF), which is based entirely on the guarantees provided by the countries judged to be the most solvent to those considered to be the most fragile. At the beginning of 2012, the market players have, on the one hand, absorbed the nature and the effective scope of the crisis, while, on the other hand, the European countries are reconsidering the need to transfer sovereignty, which up until now has been refused. Moreover, the arrival of Mr Draghi at the head of the European Central Bank (ECB) has made it possible to continue, and even amplify, the interest-rate reductions anticipated by the markets, without, however, openly committing the ECB to the role of lender of last resort to the European states, as is the case with the corresponding institutions in Japan, the United Kingdom and the USA.

Outlook for 2012

It may well be that the world economy is staying within a zone of severe vulnerability, but it has not, at least as yet, flipped into the worse-case scenario, and, despite the sovereign-debt crisis, the majority of businesses are continuing to report solid profits. If states manage to safeguard their finances, whilst progressively reducing their budgetary deficit, if the global deleveraging movement continues (especially by the banks) and if businesses acquire an appetite for investment again, motivated by generating growth and not merely by reducing costs, then it is feasible that we will emerge from this stress period on a high in the course of the year. Whatever happens, 2012 is going to be a trying year for the world economy and, faced with colossal uncertainties, our view is that it is still the best strategy to aim for effective diversification of the portfolios as well as retaining control over the risks in them and striking a judicious balance between them.

In the course of 2011, the value of the A share (“growth” segment) moved from EUR 163.04 to EUR 161.20, in other words an annual change expressed in EUR of -1.13% (or -4.01% in CHF, -3.61% in GBP and -4.33% in USD). The value of a B share (“conservative” segment) moved from EUR 145.16 to EUR 147.92, corresponding to an annual performance in EUR of +1.90% (or -1.07% in CHF, -0.66% in GBP and -1.39% in USD). Since it was launched in May 2011, the value of the C share has moved from CHF 100.00 to CHF 101.61, or a performance in CHF of +1.61% over seven months (or 2.64% in EUR, -1.85% in GBP and -7.32% in USD).