CPIC

Management Report
4th Quarter 2013

In 2013, only a few asset classes generated positive returns in Swiss francs: equities in industrialised countries (+23.7%) alongside some segments of the bond market and hedge funds (+5.7%). Conversely, most government and corporate bonds, emerging market equities and bonds, as well as commodities and precious metals lost ground. The Swiss franc strengthened against most currencies. The performance of the Japanese yen and commodity currencies (the Australian dollar, Norwegian krone and Canadian dollar) was particularly weak.

US monetary policy was the crucial factor in the development of the global financial markets. When the US Federal Reserve (Fed) made it clear in September that it would temporarily continue with its quantitative-easing programme, a recovery took place in developed-country stock markets, which had come under pressure in the first half of the year, as well as in bonds and emerging-market currencies. Many stock markets recorded new historical highs. After some initial turbulence at the beginning of December, interest rates remained almost static after the Fed's mid-December decision to slightly scale back its bond purchases at the start of 2014. The equity markets reacted positively to the Fed's specification that it would only raise key interest rates well after the threshold unemployment rate of 6.5% had been reached.

With growth rates of 29.6% in local currencies, stock markets in developed countries were the star performers in 2013, while emerging-market equities grew only slightly by +3.8%. Among the industrialised countries, the Japanese Nikkei stood out with a performance of 56.7% in local currency; at 32.4%, the S&P500 was also well above the average. The US equity markets benefited from the sustained boom in the real-estate market, in shale gas and oil, and from the continuous improvement of the labour market. The DAX (+25.5%), SPI (+24.6%) and EuroSTOXX50 (+21.5%) also recorded some very good performances. Following initial uncertainty regarding the euro, the equity markets in the euro zone were among the best performers, which was attributable to a considerable increase in business sentiment from the middle of the year onwards. The European Central Bank (ECB)'s interest-rate reductions and the bank's increasingly expansionary stance also had a positive impact.

Since the Fed gave the all-clear in September to keep rates low, the government bond markets have been able to recoup some of the previous losses recorded in the global financial markets. However, US government bonds were down 3.4% (in US dollars) at the end of the year, while German government bonds lost 2.3% (in euros). Emerging-market bonds, particularly those in local currencies, recorded major losses (-11.6%). Government bonds of European peripheral countries as well as high-yield and convertible bonds generated a positive overall return.

In the UK and Switzerland, business and consumer climate indices climbed to multi-year highs and triggered a strong rally in the pound and the franc against most currencies. The euro rebounded as recessionary fears abated, and this recovery was accelerated by the ECB's policy, which was not particularly expansionary. Commodity currencies, particularly the Australian dollar, suffered as a result of monetary-easing measures and reduced demand for commodities in China. The currencies of numerous emerging markets came under major pressure as uncertainty regarding the scaling down of the Fed's bond purchasing programme prevailed in May/June 2013.

During the last 3 months of the year 2013:

the value of the A share has increased by 2.07% from EUR 176.12 to EUR 179.76,

the value of the B share has increased by 0.07% from EUR 153.10 to EUR 153.20 and

the value of the C share has increased by 0.04% from CHF 106.35 to CHF 106.39.

This report was prepared by René Exenberger, Vontobel Asset Management, Zurich