C P I C

Management Report
2nd Quarter 2016

One topic overshadowed everything else in the second quarter, and particularly in June: The vote by the British public for their country to leave the European Union (Brexit). But there were also other events causing major movements on the financial markets. The price of crude oil continued its impressive recovery, reaching a level of more than 50 dollars a barrel in mid-May. This upward trend was a result of production cutbacks in the US shale oil industry and production losses in countries such as Nigeria and Iraq. The price rise boosted the financial markets. The reason for this was that higher oil trading prices significantly reduced the risk of payment default on the part of energy companies, and even of states, which had been greatly increased in the previous quarters. Investors also placed a positive interpretation on statements made by various American central bankers in May. Their comments indicated the possibility of an interest rate rise in the summer, driven by stronger economic data. However, the hope of any further normalisation of interest rate policy in the USA evaporated at the start of June, following surprisingly weak US labour market figures.

On the first day of trading after the British voted to leave the EU, the British pound lost around 7% against the Swiss franc. The stock markets in the Eurozone slumped by 8.6 percent on that Friday, calculated in euros. In this situation, investors sought safety in so-called secure investments, such as gold (up 4 percent on 24 June). In spite of this, at the end of the quarter there was slight plus for global shares, amounting to 0.6 percent in local currency (-0.3 percent in the first half of the year). In general, life was made particularly difficult for cyclically-oriented companies by recurring economic worries in the last quarter (cyclical consumer goods -4.3 percent, financial securities -1.2 percent, technology stocks -2.7 percent). In contrast, equities from the emerging markets held up relatively well, benefitting from the stabilisation of crude oil prices.

At the same time the global bond indices benefited from the emerging anxiety about growth and the waning probability of further US interest rate increases. The performance of the global "Fixed Income" markets amounted to 2.8 percent in local currency (6.7 percent in the first half of the year).
For the first time ever, the yields on ten-year German government bonds fell below zero! The movement in Swiss government bonds was even more striking: The yields on all these, including the 50-year bonds, fell below zero. This was due to economic worries and negative inflation rates, but also to the giant bond purchase programme of the European Central Bank ECB). Riskier bonds such as those paying high interest also benefitted from falling yields. This was against the background of the recovering oil price, which reduced the risk premiums of this segment compared with government bonds from April onwards. Securities of this type survived the turbulence following the British referendum relatively unscathed. The same applies to emerging market bonds . Even the securities of countries on the European periphery recorded no major losses connected with Brexit.

Once again great attention was paid to the movements in precious metals. Both silver (+20 percent) and gold (+7 percent) continued their price rises in the second quarter. This can be explained on the one hand by worries about the global economy. On the other hand, there are some scenarios in which the central banks could permit more inflation to boost the economy. More inflation is traditionally good for the price of gold.
Since the beginning of 2016, our diversified investment strategy allowed us, in spite of the very volatile markets, to stabilize the overall performance.

Since the beginning of 2016:

the value of the A share increased by 0.46 % from EUR 204.57 to EUR 205.52,

the value of the B share increased by 0.48% from EUR 155.73 to EUR 156.48 and

the value of the C share increased by 1.93% from CHF 110.47 to CHF 112.60.

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