Letter from the President and the Fund Managers
January 2014

2013: Greater differentiation between financial assets

Although it is possible to look back on 2013 as a year generally moving in the right direction, it was, nonetheless, one full of contrasts, given the big performance differences between the various asset classes. From a macro-economic perspective, 2013 is likely to go down in history as one that saw a cyclical improvement without inflationary pressure.

Comparing the major asset classes, equities in the developed countries advanced perceptibly in the course of the twelve months gone by, which contrasts with equities in the emerging countries, which posted negative performances over the same period. The MSCI World index chalked up a gain of 21% (in euros), while MSCI Emerging weakened by nearly 7.0%. Turning to fixed-interest instruments, government and corporate bonds also had diverging results to show. The cyclical improvement observed in most economic zones brought a perceptible increase in interest rates with it and that impaired the performance of the government bond indices (with the Citigroup World index, for instance, declining 8.6% in euros), while corporate bonds, benefiting from a lower rate of defaults, succumbed by only 2.5% (in euros) taking the year as a whole, and the main explanation for that downward trend was exchange movements. Commodities, finally, suffered both from an environment globally devoid of inflationary pressures and from the US energy shock triggered by the intensification of gas production from hydraulic fracturing.
The key element in how investors allocate their assets has shifted. This is no longer based on striking a balance between risky and risk-free assets but on the analysis of the fundamentals within each asset class. This trend must be viewed as basically positive, since it is a sign of economic and financial normalisation.

2014: year of normalisation?

Five years after the outbreak of the financial crisis, the world economy is clearly in a better state of health. A drawn-out process of returning to balance has made it possible for the world economy to find its way back into growth in 2013. Industrial activity in the USA is indeed robust, permitting a clear upturn in employment and also a recovery in the real-estate market. The cyclical improvement was initially limited to the USA but broadened to encompass the rest of the world as the months went by. The need to rebalance their economies, however, had a big impact on the emerging countries. Brazil, India and China still showed high growth rates but not as high as in previous years. Facing an ever-growing demand for wealth to be shared, these countries are now going through an evolutionary phase in their model and their restructuring process that might well temporarily drag down their level of activity.
Contrary to previous recoveries, inflationary pressures are absent on this occasion – and that despite the fact that very considerable liquidity has been injected by the central banks. Several indicators are tending to suggest that the risk to price trends is more likely to come from deflation than inflation.
Nonetheless, the element that is really missing in the current recovery is companies' willingness to invest – and that is happening despite their profitability levels (which remain very high) that have been achieved thanks to exceptional financial conditions and bigger and bigger gains in productivity. This is a situation that cannot last indefinitely, and 2014 may see a marked revival in investment, thus generating a more "classical" recovery with an acceleration in the creation of new jobs and a reversal of the price trend.

Prospects for 2014

In the context just sketched out, we continue to feel that the environment will remain favourable for higher-risk assets. Equities in developed countries and corporate bonds will benefit from an expanding worldwide growth tendency, a financial context remaining very favourable and the continuation of the decline in systemic risk. However, the cyclical improvement might induce the central banks to run down their "non-conventional" support gradually, provoking an overreaction by the market players and an increase in rates not matched by the real economic situation.

Taking 2013 as a whole, the value of a share in segment A ("growth") moved from EUR 174.99 to EUR 179.76, which is an increase of 2.73% in EUR (the equivalent of 4.30% in CHF, 5.41% in GBP and 7.39% in USD). The value of a share in segment B ("conservative") moved from EUR 152.78 to EUR 153.20, corresponding to an annual performance of 0.27% in EUR (or 1.81% in CHF, 2.90% in GBP and 4.82% in USD). The value of a share in segment C moved from CHF 106.79 to CHF 106.39, corresponding to a performance of -0.37% in CHF (or -1.88% in EUR, +0.68% in GBP and +2.57% in USD).