C P I C

Management Report

1rst Quarter 2020

Market Review

The beginning of 2020 was very similar to the end of 2019: in January, leading economic indicators indicated a gradual recovery, allowing equity investments to continue to grow. By mid-February, equities had already posted a performance of around +5% since the beginning of the year. Market participants were far from imagining that only six weeks later, the WHO would have declared a state of international health emergency, leading to the closure of borders, most trade and transport and the confinement of more than 3 billion people worldwide. In this unprecedented environment, all asset classes experienced a peak in volatility higher than that observed during the 2008 crisis, and investors massively exited equities (down 20% on average over the quarter) and switched to government bonds (up nearly 5% on average over the period).

The warning signs of a crisis were felt as early as the end of January, when an epidemic due to a new coronavirus broke out in China. The Chinese government's closure of the Wuhan metropolis, an important international trading centre, also had repercussions on the financial markets. The consequences of the clean break caused by the paralysis of many sectors on the world's second largest economy would affect the global economy. While the virus was spreading outside China, Europe only became aware of the extent of the crisis with the sharp increase in the number of infections in Italy. Most governments reacted by introducing exit restrictions or other equally drastic protective measures. Public life came to a virtual standstill, leading to a collapse in value creation in many sectors.

Very quickly, the prices of investments in equities and some bonds collapsed. The initial timid measures to support the economy failed to calm the panic that gripped the markets, which posted levels of decline not seen since 1987.

A slight lull then occurred in the financial markets as some central banks and governments announced unprecedented support measures in record time. The Federal Reserve cut its key rates to zero and the U.S. Congress passed budget measures in the order of 10% of gross domestic product. Although lagging behind the US decision, European governments also decided to suspend the rules applying to their public deficits and debt and announced the availability of funds to help businesses, companies and employees in difficulty.

After China, Italy, France and Spain, then gradually most developed and emerging countries - including the most reluctant to implement restrictive measures that could impact the economy (United Kingdom and United States) - ended up implementing more or less strict containment measures. These measures have generally resulted in economic paralysis and a lack of income for entire sections of the population. In the United States, this situation led to an increase in the number of first-time unemployment benefit claims by 3 million in one week. China, the initial focus of the crisis, was at least beginning to show signs of economic recovery.

The lowest point in the equity markets was hit on March 23, and at the end of March the markets went up a few days, a sign that the market considered that the measures implemented in terms of health (containing the spread of the virus and avoiding saturation of hospital capacity), budgetary (implementing tax cuts or income transfers to protect economic players from a lack of turnover) and monetary (avoiding a liquidity crisis and ensuring companies' need for liquidity at a very low cost) were adequate.

As far as equities are concerned, the crisis has spared no sector and no region. Even stocks in the usually more defensive public services or healthcare sectors fell by more than 10%. The fall was even steeper for energy and financial stocks, with some losing up to 40% of their value. Of all the regions, those with a defensive orientation of their sectors, such as Switzerland, were less hard hit.

As for bonds, there was a significant difference between the behaviour of sovereign bond rates (stable over the period for eurozone and Japanese bonds, and falling sharply in the United States) and the behaviour of corporate bond rates (rising sharply over the period, reflecting investors' mistrust of the ability of companies to repay their debt and consequently an increase in the fear of defaults).

Currencies, meanwhile, behaved in a way typical of crisis situations: the US dollar appreciated over the quarter, but it was above all the safe haven currencies, particularly the Swiss franc and the Japanese yen, that appreciated against the majority of the world's currencies.

The economic shockwave also led to a collapse in demand for raw materials. The oil market was hit hard: Russia, by refusing to limit its production as requested by the Organization of the Petroleum

Exporting Countries (OPEC), triggered a price war with Saudi Arabia and flooded the oil markets even more. The price of Brent fell from US$66 to US$22 per barrel. The price of gold also suffered temporarily from the appreciation of the US dollar and the increase in real interest rates, before recovering. It closed in positive territory at over US$1,600 per ounce.

The unexpected coronavirus pandemic has thus turned central bank scenarios for 2020 upside down. Until recently, central banks had been forecasting moderately optimistic growth, based on favourable economic data. Particularly concerned about the simultaneous shocks to global supply and demand, they now forecast a recession in most countries, but one that is expected to be temporary and contained in the first half of 2020, followed by a recovery in the fourth quarter of 2020 and an acceleration in 2021.

Although "deconfinement" strategies are still under discussion and are the subject of much debate, a return, if not to "normal life", at least to a level of activity that avoids mass unemployment will be the key factor in the coming weeks and months. For recovery to begin, it is also necessary that the number of cases of Covid-19 contamination continue to decline in the coming weeks, particularly in Europe and then in the United States.

Finally, for the situation on equity markets to continue to evolve favourably, it is essential that corporate bonds regain some liquidity and that yields on euro area government bonds stabilise at an acceptable level. Such developments would be a sign that the measures implemented by central banks and governments are taking effect and that market participants are not afraid that liquidity will dry up or that payment defaults will explode.

Changes in share values

In this very special context, which is anxiety-provoking for some and dramatic for others, we wanted to put these few difficult weeks into perspective with the years of good results recorded by the various segments of CPIC over the years. We would also like to take advantage of this exceptional management report to recall the management philosophy of each of the segments available.

Segment A (in EUR):

The implementation of management for the A segment is well diversified, on the one hand with active management (aiming in the long term to outperform, with controlled risk, the benchmark of the mandate); on the other hand, with management based on a risk budget (seeking to minimise risk while ensuring a return). This portfolio is logically exposed to short-term fluctuations in the financial markets, both upwards and downwards, but in a contained manner thanks to its diversification. Moreover, CPIC's past experience shows that Segment A unitholders have benefited from long-term growth in the value of their units, even after the market downturns of 2002 and 2008.

Since the beginning of the year, the value of Segment A ("growth") has dropped from EUR 248.24 to EUR 226.74, i.e. a performance in EUR of -8.66% over 3 months. Over 15 months (i.e. since 1 January 2019), the cumulative performance of segment A is 4.74%.

Segment B (in EUR):

The unit value of Segment B, a conservative portfolio in EUR, remained stable over the same period in line with expectations. Indeed, the B Segment aims to preserve retirement assets, with a limited return, in order to offer short-term protection in the event of a market downturn.

The value of Segment B ("conservative") slightly dropped from EUR 159.48 to EUR 158.19, representing a performance in EUR of -0.81% over 3 months. Over 15 months (i.e. since 1 January 2019), the cumulative performance of segment B is 0.76%.

Segment C (in CHF):

The share value of Segment C, a growth portfolio in Swiss francs, based on a risk budget strategy (seeking to minimise risk while ensuring a return) is more resistant to market fluctuations than a traditional growth portfolio, even though it may also experience phases of decline.

The value of Segment C dropped from CHF 124.44 to CHF 114.45, representing a performance in CHF of

-8.03% over 3 months. Over 15 months (i.e. since 1 January 2019), the cumulative performance of Segment C is 0.00.

This report was prepared jointly by the investment teams of Lombard Odier Investment Managers and Vontobel Asset Management.