

## Report of the Investment Committee 2010

### The financial markets in 2010

The end of the year 2009 did not bode well, with the outbreak of the Greek crisis in October. Unfortunately, the year 2010 fulfilled these expectations and will go down as the real starting point of an unprecedented sovereign crisis in the euro zone, as evidenced in particular the rescue of two countries, Greece and Ireland, and the surge in peripheral returns. The year also confirmed the predominant role of the Central Banks with on the one hand the US Federal Reserve going for continuity and on the other the European Central Bank which caused surprise by putting in place its programme of purchasing government bonds.

From a macro-economic point of view the year 2010 was also, astonishingly, characterised by a strong recovery in growth on a global basis (already initiated in the second half of 2009), by the dichotomy between the growth rates of the emerging and developed countries, and by the crisis in European sovereign debts.

This two-speed world, with on one hand overheated countries and on the other countries under threat of deflation, explains the divergences in monetary policies pursued in 2010.

Moreover, this divergence had a strong impact on Copré's results. The euro and the dollar depreciated by 9.66% and 15.70% respectively during 2010.

While the debts of States well graded by the rating agencies were considered as non-risky assets, it appears that this status is no longer irreversible. As in the cases of Ireland or Spain, many developed economies are now paying for the excesses at the origin of the crisis (credit, real estate bubbles etc.). The AAA club contains fewer and fewer members, whereas certain emerging countries are extremely well managed ( South Korea, Brazil, Poland and so on) and do not present any major economic imbalance.

In 2011, investors will certainly have to ask themselves the following questions:

- with a deficit that continues to grow, reaching 9.4% of GNP in 2011, will the United States debt be immune indefinitely from the troubles that affected Europe in 2010?
- to what extent have the markets absorbed the loss of quality on OECD states in relation to certain emerging countries?

Inflation has also become a topic of discussion. This year it will reach an average of 4.5% worldwide, against 3.7% in 2010 and 2.5% in 2009, its historical low point. This rise, which concerns both advanced and emerging economies, is due to the evolution of raw material prices. It will undoubtedly be the factor to monitor during 2011, especially with respect to the interest rates and debt related to Copré's real estate activities.

Based on the «CRISP» programme presented in the last newsletter and targeting a reduction of costs and risks as well as an improvement in image, systems and benefits, the Investment Committee found that the dynamic management of assets did not always procure in the long term a remuneration commensurate with the risk taken. The relevance of this finding has increased with the uncertainty about how the financial markets will evolve, as described above.

#### Headquarters:

8, rue Jacques-Grosselin case postale CH-1227 Carouge T 022 308 86 69 [www.copre.ch](http://www.copre.ch)

#### Administration :

39, rue de la Madeleine case postale CH- 1800 Vevey 1 T 021 924 87 40 [copre@copre.ch](mailto:copre@copre.ch)

Accordingly the Committee has begun to consider the merits of adopting a passive strategy for part of the portfolio. This strategy no longer involves high opportunity costs or active decisions by managers. The asset management must therefore replicate as faithfully as possible a chosen reference index, in this case the LPP 2000 40 index (40% shares). This approach also permits a substantial reduction in asset management costs.

The unsatisfactory performance of one of Copré's agents accelerated the implementation of this process during the last quarter of 2010. In fact, on the recommendation of the Investment Committee, the Board of Trustees decided to terminate the mandate of EIM for end December 2010. In parallel, the Committee proceeded with an invitation to tender with various indexed asset managers. The choice fell on Crédit Suisse, based on its recognised skills in this area and its advantageous pricing scale of management fees. This new mandate commenced on 1st February 2011, with an amount under management of CHF 37 million. The Investment Committee also reviewed the management fees paid to the various asset managers, and particularly the fees charged on the internal funds used. It renegotiated the fees of IAM, resulting in a reduction in management costs from the year 2011.

With respect to the real estate activity, the Investment Committee noted that the Copré manager was putting in place a new tool enabling better monitoring of this activity, due in particular to an instrument panel compatible with the accounting situation. The Investment Committee intends to further improve the monitoring of the real estate activities, with a view to performance and to approaching the real estate reference index of the Conference of Directors of Investment Foundations ([www.kgast.ch](http://www.kgast.ch)). This index achieved a performance of 4.9 % en 2010.

In the framework of the cost reduction programme, Copré also joined in 2010 a grouping of pension funds which are currently in the process of pooling part of their assets while respecting their own independence. This initiative will be pursued in 2011.

Copré also participated in 2010 in the national survey carried out by the firm of Towers Watson to evaluate its performance in comparison with its peers. The performance of our institution is situated at the level of the national average.

The performance of Copré's total fortune as at 31 December 2010 is estimated at 3.24%, i.e. 1.93% higher than the reference index. This figure is an encouragement to continue a policy based on the control of risk, the appropriateness of costs and the pursuit of performance over the long term.

The Investment Committee

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