

Report 2012 of the Investment Committee of COPRE

Retrospective 2012

The financial markets weathered several storms, ranging from the uncertainty concerning the "American budgetary wall", the turmoil in Europe following the movement "Occupy Wall Street", and Hurricane Sandy. Yet, these markets, supplied with cheap money by the central banks (thanks Super Mario), seem to ignore the common feeling of an economic crisis in progress.

In view of the excellent performance recorded since January, 2012 proved to be a very good year. International share markets gained 10% while bonds, including those of the emerging markets as well as high-return stocks, generated profits of 10% to 15%. Was this due to an improvement in the economic outlook? No, because apart from Switzerland and the United States most regions were disappointing. Did this come from enhanced company profit forecasts? Again no, their assessments were revised downwards. The resistance of the financial markets resulted exclusively from the extraordinary support provided by the central banks and governments. The efforts of the authorities to prevent a recession following the global deleveraging focused on concepts such as quantitative easing, policies of zero-rate interest, long-term refinancing operations and the European Central Bank bond purchase programme.

By strongly reducing the probability of a systemic risk, the authorities contributed to reducing the premium associated with high risk asset categories. However, current market conditions remain characterised by excessive debt, sluggish economic growth, negative real returns and poor progress in results.

For 2013, in spite of prudent optimism concerning the evolution of the world economy, the stock markets remain in suspense. The odds are in favour of the propensity for risk increasing again during 2013, provided that the American economy continues to rebound, despite the major fiscal challenges.

The performance of COPRE's assets at December 31, 2012 was 7.19%, which is about average since the Swisscanto survey indicates a performance of 7.2%.

The "CRISP" programme

This programme, initiated in 2010, continued during 2012. It aims to reduce Costs and Risks while improving Image, Systems and Benefits.

In pursuing the policy of cost reduction and after more than five years of observation, the mandate of IAM was terminated at the end of September, as the management charges incurred were no longer justifiable in view of the persistent shortfall compared to the benchmark.

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The Investment Committee (COPLA) is aware that cost reduction is not an end in itself. It strives to protect short-term assets, while also seizing long-term growth opportunities. To this end it will continue to examine these in 2013 and on into 2014.

The financial risk has been reduced; index-based management is no longer more risky than market risk and is more a specific risk relating to active management. However, it is to be noted that markets rise and fall outside the control of COPLA; Copré benefits during the rise, but is at risk during a fall. The reason being that in the long term index-based management constantly beats reference indexes. Establishing and applying processes as decided as part of the CRISP programme, in particular a marked investment in index-based management, has given full satisfaction during the 2012 fiscal period.

This picture has been confirmed by award received from the SonntagsZeitung for the best performance for the period 2005 and 2011, which reflects the investment policy we have pursued over recent years.

COPLA has benefited from an improvement in systems through a welcome simplification in financial management, thus allowing for greater involvement in strategic discussions and decisions. We have also been further reinforced by the arrival of Mr Martin Dunning, a real estate professional, who has already made a significant contribution, for which we sincerely thank him.

With respect to the benefits, implementation of the CRISP programme has resulted in an attribution of 3% on affiliates' saving accounts at 31.12.2012, and in parallel a reduction of the technical rate to 3% from that date.

Real estate has also been the centre of the attention, starting with an update of the investment regulations, for real estate, with the definition of expected returns, criteria for buying and selling, the preparation of a call for tender for a real estate asset manager, as well as the sale of properties located in Montreux - holding these properties for less than five years having generated a return of 9.75%. The valuation rate for the buildings remained fixed at 6.25%, pending a determination of the individual rate per building. This valuation at 6.25% is therefore prudent, and is a wish assumed by the Board of Trustees.

After dealing with the call for tender for the real estate management, COPLA will move on during 2013 to examine new investment opportunities which would allow for a degree of illiquidity in wishing to take advantage of the long-term horizon that a pension fund is entitled to consider.

As usual COPLA has addressed many topics, and has (fortunately) plenty more for the years to come.

The Investment Committee

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