

REPORT OF THE COPRÉ INVESTMENT COMMITTEE 2013

REVIEW 2013

Political events continued to have a significant impact on financial markets in 2013. Blessed with injections of liquidity by the central banks, 2013 will have been a prosperous year for a large number of financial assets.

Nevertheless, there were some rough periods. At the end of the first quarter, tensions rose on the markets when it was necessary to rescue Cyprus, and in particular its banking system, through a financial aid package. In mid-May, it was the boss of the US Federal Reserve, Ben Bernanke, who triggered a reversing of the trend by stating that the Fed was going to reduce its purchases of government bonds (tapering) if new positive economic figures were published. This announcement provoked a rise in interest rates, leading to losses on rates for bonds and a strong correction on the share markets. However, the favourable climate on the financial markets persisted in the second quarter, supported by positive economic data from the United States, the reduction of interest rates by the European Central Bank and the continuation of satisfactory corporate results.

Finally, during the last quarter, the principal issues of the year were again on the agenda; on the one hand the shift in monetary policy direction in the United States and the surge of growth in the developed countries, where the after-effects of the financial crisis of 2008/09 are beginning to fade, and on the other hand the weakening of the economic situation in certain heavyweights among the emerging countries. The share markets of the industrialised countries progressed very well, unlike those of the emerging countries which lagged behind.

The weak growth continued in the emerging countries, The tapering triggered outflows of capital in these countries. In view of the historically low level of interest rates since the financial crisis of 2008/09, many investors were ready to take more risks to increase their returns. While this approach bore fruit last year for corporate bonds and high returns, this was not the case for emerging market bonds.

It appears that the debate on tapering had the effect of provoking the long-awaited turnaround of the rates. The statement of the President of the ECB, Mario Draghi, indicating that the Central Bank would if needed buy as many bonds of countries in crisis as necessary (via the MTO programme) produced a lasting effect. Spain, Italy and the euro zone as a whole profited from the opportunity to make reforms.

In any event, what matters for the markets is that the monetary policy remains very accommodating throughout the world.

The global economic prospects for 2014 are very promising: the United States should be the principal motor of the economy, followed by the euro zone, whose perimeter countries have, let us hope, extracted themselves definitively from their deep recession. The prospects with respect to inflation remain favourable, both internationally and in Switzerland. In the euro zone, the threat of deflation raises the spectre of the long Japanese stagnation and increases the prudence of the ECB.

The performance of COPRÉ's assets at 31 December 2013 is 6.32 %, which is about average, as the Swisscanto study indicates a performance of 6.1 %.



INFORMATION ON THE CONTINUATION OF THE “CRISP” PROGRAMME

This programme, initiated in 2010, continued in 2013. It aims at a reduction of Costs and Risks and an improvement in Image, Systems and Benefits.

In our pursuit of cost reductions, the mandates of Aforge Capital Management SA and Swiss & Global Asset Management AG were terminated at the end of February, as the management charges involved were no longer justifiable in view of the persistent shortfall against the benchmark.

The establishment of index-linked management for the major part of the assets in securities as of March 2013 (with Credit Suisse and UBS) gave full satisfaction - the costs of managing the securities assets have been halved compared to the 2010 financial period and will fall further in 2014. The sum of the management costs calculated on the basis of the TER (ratio making it possible to know the cost of managing an investment fund) turned out to be only CHF 15,400 for 2013, a paltry amount with, moreover, the rate of transparency on costs being equivalent to 100 %.

The Investment Committee had indicated its wish to drastically reduce costs for the benefit of affiliates and the insured, and it has achieved this.

Copré's image has again made the spotlight with the award received from the SonntagsZeitung for the best performance for the years 2005 to 2012, and this for the second consecutive year.

With respect to benefits, the implementation of the CRISP programme resulted in an attribution of 3 %, for the second year running, on affiliates' savings accounts at 31.12.2013, and, in parallel, a new reduction in the technical rate to 2.5 % from this date.

During 2013 an invitation to tender was launched for a manager of real estate assets, and in the end it was the company CBRE (Geneva) SA that was selected, due to its competence in this field, attractive costs, its activity throughout Switzerland and its presence all over the world. The particular involvement of the Committee's real estate specialist, Mr Martin Dunning, is to be noted on this file, and we thank him sincerely. The property valuation remained at 6.25 %, in the expectation of a determination of an individualised rate per property. This valuation at 6.25 % is therefore prudent, and a stated wish of the Board of Trustees.

On the Committee's recommendation the Board of Trustees accepted the adaptation of the investment strategy as of 1 January 2014. One of the objectives is to benefit from the liquidity risk premium, wishing to benefit from the long-term horizon available to a pension fund and thus reduce the proportion of bonds in favour of two new asset classes, namely Private Equity and infrastructures. A second objective is to reduce the proportion of foreign shares in favour of Swiss shares, as Copré strongly believes in the domestic “real economy”, and finally to increase the proportion of Swiss real estate by 5 % and also open a new opportunity in indirect foreign real estate.

These new very promising asset classes have demanded, and continue to demand, an intense involvement on the part of the members of the Investment Committee, who constantly keep in mind the fiduciary duty of a pension fund.

So the work continues, still with the same enthusiasm.

The Investment Committee