

2014 REPORT OF THE INVESTMENT COMMITTEE OF COPRÉ

RETROSPECTIVE 2014

The evolution of the global economic situation again presented a contrasting picture last year, heavily influenced by the policy of the central banks.

Once more the United States was the motor of the world economy. After a weak start to the year due to bad weather, its economy took off and the rate of unemployment continued to fall, despite the progressive reduction of injection of liquidities since January and the discontinuation of the asset purchase programme at the end of October.

Growth was virtually stagnant in the euro zone, with the risk of deflationary tendencies increasing significantly. However the ECB made efforts to revive demand through cheap money and financial repression, intended to reduce the risks of inflation, especially due to the sharp drop in the price of oil.

Growth continued to weaken in many emerging countries. China posted slightly lower growth, while Brazil and Russia struggled in the face of serious problems provoked by the fall in prices of energy and raw materials. Russia also suffered from outflows of capital due to the Ukrainian conflict.

The collapse of the oil price constitutes another significant occurrence. It led to a generalised decline in inflation rates, which in turn put pressure on interest rates, as well as a reduction in a good number of raw materials prices. This drop in the oil price basically comes at a timely moment for the global economy as a whole. The price drop brings a direct reduction in financial charges for governments, businesses and consumers, to the tune of several hundred billion. Combined with the still very expansionist monetary policy, this should revive global economic growth in the course of 2015.

The Swiss economy followed a considerably more dynamic line than that of the euro zone. It regained a good cruising speed as of the third quarter. Positive impulses came in increased measure from private consumption, investments in construction and finally from external trade.

2014 was a fantastic year for bonds. Swiss government bonds yielded about 9%, and the performance of the global indices of government bonds exceeded 7% on a base covered in CHF. Copré profited from this due to its index-linked exposure.

As mentioned above, the continued highly accommodating monetary policy pursued by the major central banks did however allow the share markets to pick up rapidly. Only the first half of October caused real fears in the markets, when the downward revision of the IMF forecasts for world growth caused the principal stock exchange indices to lose between 5 and 10% in just a few days.

The market for rental accommodation in Switzerland remained solid. In fact, as the tightening of the financing rules brings a reduction in the number of households that become owners, the demand for rental accommodation remains strong. For this reason, Copré is pursuing its aim of developing its real estate portfolio so as to maintain an exposure of about 35%.

The performance of COPRE's assets as at 31 December 2014 is 8%, or slightly higher than the Credit Suisse index (7.73%) and the UBS barometer (7.33%).

The discontinuation of the CHF/EUR floor rate did not have a particular effect on Copré's commitments. Like most pension funds, the Investment Committee decided not to take any special measures, as the exposure to the euro and US dollar is limited. The challenge in the short term lies rather in the negative interest rates on liquidities since May 2015 and, in the long term, in the nearly zero return on bonds.



INFORMATION ON THE ACTIVITIES OF THE INVESTMENT COMMITTEE (COPLA)

Copla was again very busy in 2014. From January, it applied the principles of the new strategic allocation, after receiving CHF 270 million in cash on 06.01.2014. As of March, it decided to strengthen shares in the two index mandates, alternately, for nearly two and a half months. This decision was one of the elements in the good overall performance.

At the beginning of the year, Copré also took its first steps in Private Equity after the acquisition of two funds «inherited» from a pension fund that had joined us. We also began to invest in a trade finance fund, and strengthened this position in the course of the year.

Setting up the strategic allocation in Private Equity required an invitation to tender addressed to a dozen actors, with the support of an external company, and resulted in the choice of Portfolio Advisors in Zurich with a consulting mandate. Copré will thus be able to constitute, over the next five years, a dedicated portfolio of around fifty million. In the meantime, it has invested in a fund that has a majority component in Private Equity as well as monthly liquidity.

The first investments in foreign real estate have been made, on the one hand via a fund with an investment strategy consisting in the acquisition of retirement home buildings in Germany, rented out on long-term leases (25 years) to leading German operators; and on the other hand in a Swiss foundation for real estate investments abroad (AFIAA) which has managed this specific asset on behalf of 36 pension funds for more than 10 years.

Our new real estate portfolio manager (CBRE Geneva SA) analysed the property portfolio and considered it to be stable, well-maintained and optimised. In order to diversify it, CBRE recommended making acquisitions on the Fribourg-Berne-Zurich axis. Copré studied about twenty objects in 2014, and proceeded to negotiate a portfolio of 34 million for 10 buildings in the German-speaking part of Switzerland at the end of the year, the purchase of which took place at the beginning of 2015. Thus, Mr Martin Dunning, Copla's real estate expert, was once again kept very busy.

To conclude, it should be noted that for the fourth year Copré received the first prize from the *Sonntagszeitung* for the best performance over the last ten years.

This recompense confirms the work carried out to date, and encourages the members of the Investment Committee to continue their efforts with perspicacity, perseverance and effective innovative ideas in managing Copré's assets, which have just topped the billion mark.

The Investment Committee