

REPORT 2015 OF THE COPRE INVESTMENT COMMITTEE

RETROSPECTIVE 2015

The year 2015 constituted a challenge for both companies and investors, in particular due to very significant fluctuations on the share markets. Among the triggering factors were fears of a slowdown in the American economy at the beginning of the year, new concerns over a possible Greek exit from the euro, uncertainties as to the solidity of the Chinese economy, preoccupations concerning a possible crisis in Brazil and other emerging markets, significant price decreases on the commodities market, geopolitical tensions and major terrorist attacks, and finally the disconcerting communication from the Fed on its interest rate policy.

2015 was definitely the year of the uncoupling of the monetary policies between the two sides of the Atlantic; on one side, the beginning of the normalisation of the American economy on 16 December last and the end of the catch-up phase of the cycle triggered at the low point of the 2008 – 2009 crisis, and on the other, an expansive monetary policy on the part of the European Central Bank (ECB) which on 4 December added an envelope of 360 billion euros in purchases of assets. The result of this turnaround in rates is a divergent monetary policy, producing tensions on the capital markets which can lead to veritable cataclysms, as we saw at the beginning of 2016.

Growth in the USA was slower, while it was tardy and modest in the euro zone. Furthermore growth in the emerging countries was limited. Those in Asia suffered on the one hand from the slowdown and transition in China, with its economy switching from industry and exports towards services and domestic consumption, and on the other from the modest growth in the United States and Europe. The principal economic indicators, in particular GDP, show that the euro zone has finally come out of recession. Growth is back, albeit modestly. However this remains less than satisfactory. The fall in raw material prices and low inflation, even in economies benefiting from accommodating monetary policies, reveals a persistent deficit in demand.

One cannot speak of 2015 without mentioning the evolution of the oil price. Since the beginning of the year, its price effectively collapsed by nearly 40 % to reach its lowest level for more than 11 years. Certain analysts, and not the least, now anticipate a further quite rapid drop to a level of 20\$ a barrel. If this doesn't happen, the pressure should in any case remain strong. One cannot overlook the effect of geopolitics as an "economic destabiliser" in 2015. The Syrian crisis and the rising power of the self-proclaimed Islamic State (IS) have pushed a huge number of migrants out of their home countries and created endless debate as to the policy to adopt, particularly in the euro zone.

The Swiss economy has officially avoided a recession despite the strong appreciation of the franc at the beginning of 2015, and has entered a phase of stagnation. Investors experienced a turbulent year on the share markets. The abandonment of the minimum rate against the euro at the beginning of the year, the strong correction on the emerging markets (2015: -17%) combined with the continued collapse of the oil price (2015: -30.5%), the saga of the Greek debt in the 2nd quarter and the bursting of the Chinese shares bubble (2015: + 5.6%) in the 3rd quarter made world markets nervous. The Fed closed the year with its first interest rate increase since 2006.

The value of government bonds increased slightly on a global level. Only credit loans took a hit due to the extension of credit risk premiums during the summer. Two events will be recorded in the "history books of the Swiss share market in 2015". Firstly the unexpected decision of the SNB on 15 January to abandon the minimum exchange rate of CHF 1.20 for one euro. The share market reacted to this news by losing 15% in two days. Secondly, the simultaneous extension of negative rates on the banks' sight deposits with the SNB by an additional percentage point of 0.5 to reach - 0.75%. The return on 10-year loans thus fell into negative territory.

The rental housing market in Switzerland remained solid, sought after as an alternative asset to Swiss bonds. The market for office and sales premises saw its price decline outside the central locations. As always, Copré continued to develop its real estate portfolio by acquiring its first properties in German-speaking Switzerland with a view to reaching an exposure of about 35% in the long term

The performance of COPRE's assets at 31 December 2015 is 2.4%, which is significantly higher than the Credit Suisse index (0.95%) and the barometer of the UBS and the ASIP (0.7%).

Copré succeeded in performing well by pursuing its investments in Trade Finance funds, taking its first steps in Private Equity funds and through a promise of investment in a large infrastructure fund.

INFORMATION ON THE ACTIVITIES OF THE INVESTMENT COMMITTEE (COPLA)

Copla has again been very busy. As of January, Copré proceeded with its first pledge of investment in a Private Equity fund, marking the beginning of the construction of its own programme, with the assistance of its consultants on this matter, Portfolio Advisors in Zurich. At the end of the year the position in this non-traditional asset class amounted to 5.42% of the total assets, with a performance of 7.95% in 2015. It should be noted that the pledges amounted to CHF 21.5 million at end December.

Aware that the exposure in bonds can represent a structural risk in the long term, Copla decided, in line with the decision at the end of 2013 to reduce from 42% to 22% its portion of bonds, to innovate and to increase in particular its exposure to Trade Finance, during the year, in three funds situated on three different continents. At the end of 2015, this exposure amounted to CHF 42 million and was one of the contributing factors to the good annual performance with a yield of 4.5%.

The acquisition of a dozen real estate properties in German-speaking Switzerland at the beginning of the year, as well as the declared intention of diversifying the portfolio throughout Switzerland, required a solicitation of bids from five national property management companies, with the support of our real estate portfolio managers (CBRE Geneva SA). This process led to the validation of the mandate entrusted to the Régie du Rhône – Privera, with a confirmation of the quality of the work performed and a reduction in costs from 2016. Copré acquired 21 properties for CHF 83 million, of which 14 in German-speaking Switzerland, after analysing over forty acquisition or development files. In parallel, Copla monitored the raised construction sites of Lamartine 22bis and 24 in Geneva, the building-raising projects of Livron 21 and 23 in Meyrin and of Tour 1 in Lausanne, as well as the New Centre project in Crans-Montana. It also authorised participation in the new neighbourhood project “Métamorphose” on the Route des Plaines du Loup in à Lausanne, with an integrated mix variant and a second with residences for the elderly.

At the end of August, at the initiative of Mr Ch. Gerbail, Copré explored the possibility of purchasing life lease properties so as to minimise the impact of negative interest rates and find new alternatives. The property acquisitions were carried out at the beginning of 2016, requiring an adaptation of our investment regulations and the establishment of particular specifications. Mr Martin Dunning, our real estate specialist within Copla, was again in great demand and gave Copré the full benefit of his expertise, for which he deserves our sincere thanks. Foreign real estate was not forgotten, with a new investment in a residential property fund in Berlin. To conclude the review of new investments, at the end of the summer Copré subscribed to an infrastructure fund located in the USA and investing throughout the world.

Constantly seeking alternatives to investment in bonds Copla, accompanied by a consultant specialised in this search, examined new aspects and potential in non-traditional investments.

To conclude, it should be noted that in 2015, and for the fourth time in succession, Copré was awarded first prize from the *SonnatgsZeitung* for the best performance over the past ten years. Copré is therefore satisfied with the year 2015, with non-traditional investments having significantly contributed to this positive performance, despite a quite normal increase in management costs, as these investments were more complex to put in place and to manage. As you can see, the members of the Investment Committee have not been short of work or ideas, and they will pursue their efforts so that the performance of Copré's investments can be sustained in the long term.