

REPORT 2017 OF INVESTMENT COMMITTEE

THE BEST OF ALL POSSIBLE WORLDS?

2017, a perfect year for investors! It's what's called the « Goldilocks economy », referring to the tale of Goldilocks and the three bears. In the story the little girl enters the empty house of the bears and makes the most of the little bear's bowl of soup, neither too hot nor too cold, and falls asleep in its bed, neither too big nor too small. Applied to the economic world, it implies this ideal context in which growth is strong enough to ward off the spectre of deflation and ensure an increase in corporate profits, but is not excessively strong to the point of bringing a rise in inflation and interest rates.

The year 2017 was marked by a solid strengthening of global economic activity. All regions joined the party, both in developed and emerging markets. The Purchasing Managers' Indices of the manufacturing sector reached levels of optimism unequalled since 2010. This general economic upturn took place in an environment where inflation was still absent, and this despite the context of virtually full employment in the American economy. The 3 successive interest rate rises by the US Federal reserve, amounting to 75 base points, did not succeed in dampening the optimism and confidence of investors. Another illustration of this optimism was to be seen in very low volatility of the shares indices which nothing managed to upset - not even the North Korean nuclear tests or the errors of the Trump administration, or the result of the German elections and the subsequent difficulties in forming a governing coalition. With rose-coloured glasses firmly planted on their noses, investors pursued their frantic quest for returns and pushed the prices of financial and non-financial assets to new heights. The shares of the GAFA and other companies in the technology sector were the real motors of this spectacular upward movement. The rates of the bitcoin also made headlines, as well as the astronomical price paid for Leonardo da Vinci's « Salvator Mundi ». Even the price quoted for the venerable Swiss National Bank posted an unprecedented rise. All these phenomena, apparently not related to each other, nevertheless had in common a unique monetary environment: with a continuing globally expansionist policy on the part of the central banks and negative real rates of return on savings, investors were pushed towards risky and ever more risky assets, sometimes going as far as speculative folly. Valuations reached rather worrying levels on most markets, bringing increased vulnerability to potential corrective shocks.

In this extremely favourable context, share markets posted excellent performances. Furthermore the Swiss Performance Index benefited from a relative relaxation of the Swiss franc against the Euro.

In the absence of inflationary prospects, bond markets ended the year with slightly positive returns, the long-term rates not having followed the upward trend triggered by the US Federal Reserve.

The Swiss real estate market performed well in 2017, but numerous signals indicate the beginning of a correction in certain peripheral zones and encourage prudence here too.

The US dollar weakened against the Swiss franc despite the significant increase in the differential of rates between the two currencies. The opposite scenario took place for the Euro, fuelled by the Macron locomotive and the good economic results of the Euro zone.

ACTIVITIES OF THE INVESTMENT COMMITTEE

The Investment Committee met 5 times during the year 2017. The main challenge was to further reduce the proportion of liquidities, which has been brought from a level of over 9% to less than 3% of assets as at 31.12.2017.

The negative interest rates on the CHF and the Euro, the less than attractive prospects of the bond markets and the high valuation levels on shares have encouraged us to continue to seek non-traditional risk premiums, mainly in private equity

funds, senior loans and trade finance. The proportion of these investments amounts today to over 17% of our assets, in line with our long-term strategy.

During the 1st quarter of 2017, an active increase in investments in shares was undertaken, while at the same time executing systematic operations of sales of call options on the principal share indices as a hedge, so as to reduce volatility and obtain an improved return. These operations, which showed mixed results, have been progressively sold off, in function of market conditions and maturity dates, and will not be renewed.

Activity on the real estate portfolio was limited compared to 2016. Four new purchases were validated in the cantons of Fribourg, Neuchâtel, and Valais as well as in German-speaking Switzerland. An ambitious renovation project on the building of la Levratte in Nyon was approved. Its implementation will be spread over the next 3 to 4 years.

Instead of a single capitalisation rate, a new method for valuing buildings was approved by the Board of Trustees at the end of 2017, so as to better take into account the larger number of buildings in the portfolio and the geographical diversification of the properties. The criteria selected are the market rates for the principal geographical zones, the state of maintenance of each building, its vacancy rate and the average level of charges. This method enables us to be closer to the effective market rates while avoiding their volatility and remaining faithful to the principle of a prudent valuation of the real estate portfolio.

The real estate investment in the Hotel Margaritaville in the Cayman Islands is reaching the end of the construction process. We expect the first operational cash-flows by the end of the 2nd quarter 2018 on the 50 units that we own. We have obtained payment of 8% interest on the capital invested for the months the project was delayed in 2017. These amounts are remitted to us monthly.

In view of the relatively high exposure to foreign currencies following the increase in the proportion of alternative investments, operations to sell call options also took place on the principal currencies, US dollar, Euro and Pound Sterling. These operations were completed at the end of December and have not been renewed. The control of the exposure to foreign currencies and the resulting volatility will from now on be implemented by forward sale operations on a limited part of the assets denominated in foreign currencies.

A renewed Investment Committee took up its duties at the beginning of 2018, and will ensure equal representation of the operational function (CEO/CIO) and strategic function (one member of the Board of Trustees and representative of the affiliates) as well as the contribution of neutral and highly qualified external persons, who will not enjoy voting rights.

PROSPECTS FOR 2018

The year 2018 started on a rather different and much shakier note, with the beginning of a rise in interest rates and a clear correction on the principal share markets. Without wishing to fall into the risky game of forecasting, we note a number of major challenges likely to change the situation significantly: a potential inflationary overheating, leading to a marked increase in interest rates and a derailment of bond markets – a trade war between the USA and China – the mid-term elections in November in the USA – the end of the ultra-expansionist policy of the central banks.

For our Goldilocks, this could well mean a rude awakening due to the return of the bears...

Nevertheless we remain confident in the capacity of our assets portfolio to go through more uncertain and troubled periods smoothly due to its solidity and its broad diversification, which give it the characteristics of a reliable and all-weather vehicle.

The Investment Committee