

Report of the Investment Committee 2008

During this busy year, the Committee has met five times formally and on many occasions informally. The essential part of its activities were related to three main issues: the situation of the markets and their volatility; the rapid growth and allocation of the assets; and the selection of new managers.

In early 1998, two managers were mandated by our Foundation for administering its bank assets. From 2002, a third was appointed, specifically dedicated to managing the real estate assets. Since then, no other change had been made. But the assets of the Foundation had grown from about fifty million francs at the beginning of 1988 to more than four hundred francs at the beginning of 2009. And, in addition, the performance of one of the managers was open to criticism and some corrective measures had to be considered. The development of the financial markets, moreover, required a wider consideration than the simple suppression or addition of a manager.

Based upon these observations, the investment committee suggested the following measures to the Board: a substantial reduction in the funds allocated to the least performing manager; the choice of three new managers to whom would be allocated the capital thus released as well as part of the new inflows, and a temporary increase in the share of assets held in real estate. All these recommendations were progressively introduced, and by mid-2008 almost fifty per cent of the Foundation's assets were invested in real estate and liquid assets that then amounted to nearly fifty million.

The search for new managers was a particularly difficult challenge for the investment committee to address. Actually, the investment policy of the Foundation – which declines the systematic use of derived or structured products and « hedge funds » within the scope of management – reduced the circle of managers responding to the criteria of traditional choice to a mere handful. The process leading to the selection of the managers took more than a year. Since it had previously never taken place, it had to be structured by creating a questionnaire of due diligence. The analysis of the responses of the various institutions questioned enabled the choice to be made of three « finalists » on the basis of detailed criteria. The final selections, which are supported by data as well as by interviews, have been documented.

Whatever importance has been attached to each of the subjects treated, priority has been given to the long term soundness of the balance sheet. At a time when the simple fact of leaving money in a current account borders on imprudence, the whole reasoning of the Committee has been focussed upon the risks attached to the possible developments of the current crisis, and upon the fact that the options chosen must leave a maximum time flexibility, while ensuring the highest possible revenues in a situation arising where the markets come durably to fail in their role of « third contributor ».

This extremely cautious policy was aimed more particularly at temporarily protecting the assets against high depreciation rather than by arranging them in a way that would be appropriate for a possible recovery of the markets. It cannot be a question of long-term choice. The risk/yield relationship is indeed evolving rapidly in our greatly changing economic and financial world. Our Foundation has traditionally distributed its

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assets between financial and real estate investments according to its expectations concerning the volatility of the markets. The future potential performance of financial assets must not however be underestimated. The committee is fully aware of this and will carry out the appropriately altered tactics when it considers this to be necessary.

Our investment strategy sets aside thirty percent in directly held real estate assets (reference index SWX Immofond), sixty-eight percent in financial assets (reference index LPP40) and two-percent in liquid assets (reference index Libor 3 months). It is these aggregates that constitute the synthetic index that confronts the results of our managers on the graph that retraces them every month on our internet site (www.copre.ch).

Since the share in real estate can temporarily be increased by fifty percent, the Board decided at the end of 2008 to make use of this possibility with effect from the beginning of 2009. This temporary choice rests in particular on the fact that assets are structurally diluted by an annual inflow of liquid funds to the order of fifty million francs, consisting essentially of premiums collected and real estate earnings. The newcomers/leavers of affiliated companies are expressly not taken into account, since historical record shows that a positive net situation would over embellish the expectations.

At the end of 2008, The LPP 40 index showed a result of -17,28%. The asset management, with a loss of -11,30% was certainly not satisfactory in absolute terms, but in relative terms could perhaps be considered acceptable. Since mid-2007 we were indeed experiencing the most troubled period of the financial world since the beginning of the twentieth century. It should be noted, however, that whereas the reference index of the management of our real estate assets showed a result of +0,53%, the stockholders equity of the Foundation invested in this same class of assets showed a performance of +5.74% over the past financial year.

Although the worst of the financial upheaval may now appear to be behind us, its social consequences are certainly still to come. It is difficult at present to know how the shares of companies that have benefited from public funds will behave or how long the states will remain heavily involved in certain branches of their economies. The development of the international financial institutions is also still under discussion. Raw materials, which fell sharply in 2008, are now raising their head and nobody can predict the exact impact in more than a year on the interest rates of the enormous amounts that have been contributed by the central banks in supporting the economy in general and the financial establishments in particular. Prudence will therefore remain acceptable in 2009, even if the markets show signs of recovering.

For the investment committee

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