

## SWISS PERSPECTIVE

July 2011

### Investment Changes

As for the investment funds

- PIA Strategy Income Fund
- Diversified Global Equities Fund:

The liquidation has now been completed. The assets are now available at the custodian bank for reinvestment.

### Current Situation of Investments

Once again, we would like to give you a short update on the current state and outlook for the investments made under the previous management before 2009.

#### 1. Public Private Real Estate Fund

This investment remains marked at zero. There was no information forthcoming from the fund company in Q1. However, we continue to monitor recovery efforts.

#### 2. DAS Diversified Alternative Strategy Fund - Barclays triple-i Certificates

As regards the Diversified Alternative Strategy Fund (DAS), this fund will remain in liquidation until further notice. As the two "Barclays triple-i Asset Based Lending" certificates contained within the fund are themselves illiquid this has no impact on the investments. The step to allow the fund to remain "in liquidation" was taken to ensure that there will be no fees or charges to you as client in association with the fund.

The value of the two certificates decreased further in Q2 2011. On June 15, 2011, Crystal Fund Management as the administrator of the underlying Taurus Finance Fund took the decision to liquidate the Taurus Finance Fund. Crystal has taken this step as recovery of the underlying funds' value since the value corrections and the portfolio cleanup since June 2010 is considered unlikely. We will report on these developments in detail in the Q3 mailing as information is provided to us by the fund administrators.

In July, it is planned that about 10% of the value of the certificates will be paid out in cash into the DAS fund. This money will be reinvested according to the investment strategy as defined by the POM Investment Committee.

#### 3. Principal Protected CPPI Notes Nomura Bank International Plc 2008-14.12.2015 on Protected Platinum All Star Index

After gaining almost 30% in Q1, the security had a smaller downward correction in Q2 2011.

### Global Economy

In general, the indicators are pointing to a recovery in growth in Q2. The economic recovery is actually looking more robust than previously assumed. However, there are early signs of a "dent" in the global economic growth and a weakening in Q3. That said, a fall back into recession appears unlikely. While global growth has now climbed back to pre-recession levels, inflationary pressures have clearly grown, particularly in emerging markets. The recent runup in commodity prices is, in our opinion, the largest threat to continued global growth.

In view of the inflation risks, more central banks are normalising their expansionary monetary policies. A gradual normalisation of interest rates with a series of small hikes, well spaced, seems the most likely scenario.

### Interest Rates

After the various natural and man-made disasters in Q1, the increasing global geo-political risk was topic number one for Q2. Although government bonds performed well in Q2, we believe this is temporary. Although conditions are still quite favourable for economic growth, the slowly increasing interest rates will not keep pace with inflation. Real interest rates are already negative in most developed economies.

In view of this, money market investments remain unattractive, in particular in the USA, Japan and Switzerland. The recent rate hikes of the European Central Bank (ECB) have improved the short term rate situation in Europe, at least relative to other countries, where the real rate is even more negative.

## **Currency Movements**

The most noticeable event in Q2 was the strength and appreciation of the Swiss Franc. During the debt crisis in Europe, the Swiss Franc was again seen as a “safe haven”. Given the rapid appreciation, the Franc is looking overvalued. That said, downward pressure on the Franc in Q3 looks very limited, reason being the continuing government debt crisis in the Eurozone.

The decision of the European Central Bank to start normalising interest rates supported the Euro in Q2. The ECB is expected to maintain its more restrictive monetary position during the summer. Negative impact on the Euro due to the situation in Greece, Portugal and Spain should be neutralised through higher interest rates.

Any recovery in the US Dollar against the Euro or the Swiss Franc is likely to be weak. Recent events, including the recent covering of short positions in the Dollar, have not brought the expected recovery.

In general, we expect currencies in the third quarter of 2011 to continue to be dominated by expectations of and central bank actions in the process of rate normalisation. That will mean a strong Euro and Swiss Franc against a weaker US Dollar and Yen.