Analysts’ Conference – Helvetia Group
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Investment result

(The spoken word takes precedence)

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Slide (15) Asset management

Ladies and Gentlemen, Events in the financial markets in 2013 were dominated by the liquidity policies of the central banks, which had different effects on the various asset classes.

The equity markets in the US and Europe were very strong with significant increases again following their excellent performance in the previous year. The Fed’s tapering announcements were the source of temporary turbulence in the markets but ultimately could not spoil the good mood. Only the emerging markets underperformed expectations. Economic concerns and the prospect of interest rate hikes curtailed the price potential of the markets there.

With their extraordinarily expansionist monetary policies, the central banks created an important framework for the economic recovery. In this environment, interest rates eased from their artificial lows and spreads narrowed. As a result, the performance data for fixed-income securities were mixed. While high-quality bonds in the AAA and AA segments were hurt by the rise in interest rates and saw prices drop, bonds with lower credit ratings achieved total returns in the mid-single digit percentage range.

With the minimum exchange rate of CHF 1.20 per euro still in place, the exchange rate to the euro – the most important currency for us – was quite stable.

In this market environment, Helvetia once again achieved a solid performance of 1.9%. The individual elements and the composition are shown on slide 16.

Slide (16) Investments – overall performance

Direct income – the backbone of our investment returns – amounted to CHF 986 million and turned in a very stable performance despite the sustained period of low interest rates. The direct yield fell by just 0.1 percentage point and is now 2.7%. This moderate decline reflects the success of the policy that has been in place for several years of gradually decreasing the duration gap between the interest-bearing assets and the liabilities from the life business. In addition to direct income, extraordinary gains amounted to CHF 226 million. In line with market developments, equities and
convertible bonds made the lion’s share of the contributions in this category. Small losses on foreign currency positions in fixed-income securities and derivatives reduced the result slightly, in both cases as the result of hedging costs. The overall profit from investments was slightly over CHF 1.2 billion, which represents a return of 3.3%. This is an increase of CHF 35 million over the already very good performance in the previous year.

Due to the rise in interest rates, unrealised gains in equity from bond holdings were reversed. Considering the positive contribution of equities, this results in an overall net effect of minus CHF 528 million. However, it must be taken into account that interest-rate related price fluctuations and the resulting unrealised gains or losses in equity are of little significance as we hold the vast majority of the interest-bearing securities to maturity from an integral asset-liability point of view. In addition, although the interest-rate related correction reduces the level of unrealised gains, it does not eliminate them. Unrealised gains still amounted to over CHF 820 million as at the end of the year. With a performance of 1.9% and an effective return of 3.3%, the investment objectives for the year were comfortably exceeded.

Slide 17 has a breakdown of the profit and performance-related contributions of the individual asset classes.

Slide (17) Direct yield and performance 2013

The direct yields of the various asset classes are set within a narrow range. All categories delivered sustainably reliable current income, which underlines the high quality of our investment portfolio. At 4.1%, real estate continues to generate the highest return.

The investment result was balanced. The interest-bearing investments valued at par made a contribution of CHF 744 million, including CHF 651 million from interest-bearing securities and CHF 93 million from mortgages. Tangible assets provided a contribution of CHF 412 million, equities contributed CHF 224 million and real estate contributed CHF 188 million.

The investment performance was dominated by equities. At a total of CHF 354 million, equities provided significantly more than half of the total profit from group financial assets and investment property, followed by real estate at CHF 193 million and mortgages at CHF 93 million. The result for interest-bearing investments was hurt by interest rate developments. The decrease in equity from unrealised gains was again a negative offset to the result on profit from current income and sales.

In the reporting year the volume of new investments and reinvestments under management was CHF 1.5 billion. As you can see in the lower part of the slide three-quarters of these funds were invested in fixed-income securities. In addition, the equity portfolio was expanded by taking full advantage of our tactical limits. 12% of new investments were made in this category. The rest went into real estate (9%) and mortgages (5%). The direct yield on new investments is 2.5% despite low
interest rates and high internal quality requirements. With a yield of 4.7%, investment properties are also at a high level.

The resulting asset allocation can be seen on slide 18.

**Slide (18) Well-diversified investment portfolio**

Only marginal changes occurred compared to the previous year. Helvetia continues to have a well-diversified investment portfolio which is primarily based on investments in interest-bearing securities and adapted to the liabilities from the insurance business. The balanced distribution of the portfolio applies both between and within the individual asset classes. In order to avoid cluster risks, absolute exposure limits apply to the individual counterparties, depending on their creditworthiness. Moreover, Helvetia places high demands on the quality of the counterparties. The credit quality of our portfolio is shown on slide 19.

**Slide (19) Bond credit ratings (1/2)**

You can see from the slide that 90% of the portfolio has a rating of A or better. Three-quarters of the exposures receive the top grades, with 47% in AAA and 28% in the AA range.

Slide 20 has details on the 10% of the securities with ratings below A.

**Slide (20) Bond credit ratings (2/2)**

60% of the exposure is in Italian and Spanish government bonds, which we are holding due to our operations in these countries in order to be able to offer our customers attractive products. Italian securities predominate because of the rather significant life business of our business units Chiara Vita and Helvetia Vita. The remaining 40% are listed in the chart on the above right. Only 120 million is in the non-investment segment. This corresponds to 0.3% of our total capital investments.

The high portfolio quality overall is also confirmed by the fact that no impairments or losses were recorded in the past financial year.

**Outlook**

The economic recovery in America and Europe is expected to continue in the current year, creating an overall positive climate for the economy which should also have a favourable affect on the investment markets. However, many risks remain that could produce market turbulence at any time, whether as a result of the unresolved problems of the European debt crisis or a deterioration of the situation in the emerging markets.

For this reason, we will continue our proven investment policy and our successful operational risk management in the current year.

I will now hand you over to Philipp Gmür who will now provide you with more information about the Swiss business. >>>