

Financial Media Conference – the Helvetia Group

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Asset management

(The spoken word takes precedence)

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(Slide 15) Asset management

Ladies and Gentlemen - All's well that ends well!? - I am tempted to make this the statement for the investment year 2012. Whether it should have an exclamation mark or a question mark, however, is rather more difficult to say. In fact, the investment markets at the end of the year glowed with astounding performance results and showed much better performance than those at the start of the year due to the unresolved debt crisis, the lacklustre economy and the sluggish reactions of the politicians.

Nevertheless, we were surrounded by many economic and political risks and these had an impact on market developments. First, things progressed very promisingly at the start of the year. The stock markets saw pleasing profits and the spreads of the European peripheral countries were in decline. This aroused hopes that we would soon see an end to the crisis. However, the long uncertain outcome of the Greek elections and the intensifying problems of the Spanish banking sector soon gave rise to doubts, which finally led to an abrupt change of mood. Equities largely lost the gains they had made and the spreads of the crisis states rose rapidly. This development threatened to escalate, particularly in the summer months. The situation became stable only when the European Central Bank announced that it would buy government bonds issued by the problem countries on the secondary market, even to an unlimited extent if necessary, in order to save the Euro. This announcement is likely to have been the driving force behind the positive market developments in the fourth quarter of the reporting year.

Due to our broadly diversified investment strategy, consistent quality policy and real-time risk management, we were able to profit optimally from the market upturn. At the end of the year, we had achieved a pleasing overall performance of 5.5% – the best figure since 2005 when we achieved the same performance.

We retained the same proven and successful investment strategy that we have applied for many years in 2012. As you can see from slide 16, there were only marginal changes to the asset allocation in 2012.

(Slide 16) Well-diversified investment portfolio

Bonds continue to be the dominant asset class with a share of 59%, followed by investment property at 13% and mortgages at 10%. What is not evident from the slide, due to the rounding, is the slight increase in the equity exposure in the second half of the year. As part of our risk capacity, the exposure was increased by at least half a percentage point; primarily by investing in high dividend stocks to support direct investment income. New bond investments were primarily AFS-classified. As a result, there were slight changes in the portfolio with regard to the IFRS categories (on the right-hand side of the slide). The AFS-classified stocks increased by 5% compared to the previous year at the expense of the remaining categories. The aim of restricting interest-induced fluctuations has virtually not been impacted. The largest proportion of the new investments is related to group life business.

The difficult market environment also required consistent management of the investment risks. In addition to the equity and foreign currency exposure which were hedged to a large degree with put options and futures throughout the whole year, we particularly concentrated on counterparty risks.

(Slide 17) Bond credit ratings (1/2)

Despite the extensive waves of downgrading by the rating agencies, the credit quality of fixed-income bonds – as you can see on slide 17 – remained at a high level. The shift that occurred compared to the previous year can particularly be attributed to the downgrading of Italy and Spain to BBB. Despite these downgradings, 90% of the portfolio was given an A rating, with 51% boasting the top rating of AAA.

Credit risks linked to the Euro crisis are regularly and promptly analysed and assessed by a task force we established over a year ago – comprising members of the Executive Management, managers from risk and investment management, and an external expert. The high quality of our portfolio is reflected, on the one hand, in the increase in unrealised gains (gross) in equity of CHF 680 million and, on the other hand, comprehensive simulations have shown that our portfolio has benefited overall from the unfavourable market developments: In all the simulated scenarios, the gains in value on the AAA and AA securities have more than compensated for the losses on the less well classified bonds. Nevertheless, we further improved the composition of the portfolio.

(Slide 18) Bond credit ratings (2/2)

Slide 18 shows the sector allocation of our bond portfolio. The proportion of financials was reduced by 1.6% in favour of corporate bonds and the proportion of government securities remained constant compared with the previous year. The rating of the financial instruments remains high. The proportion of bonds with at least an A rating was 94%, and 54% even have a triple A rating. The proportion of securities with a government guarantee or additional collateralisation – mainly *Pfandbriefe* – increased further and is now more than 70%. Our safety-orientated policy also manifested itself in the development of country exposure – which brings me to slide 19.

(Slide 19) Government and supranational bond exposure

The negligible exposures to Greece, Portugal and Ireland were reduced in full in 2012. The exposure in Spain was reduced by nearly half compared to the previous year and is now CHF 206 million. Our total exposure to Italian and Spanish government bonds is 3.1% of the Group portfolio. That brings me to our investment performance on slide 20.

(Slide 20) Investments – overall performance

Our prudent investment and risk policy enables us to benefit from the favourable market conditions in the fourth quarter and to achieve an overall investment result for Helvetia Group of CHF 1.9 billion. This result is based on a stable current income of CHF 960 million. The direct yield of 2.8% was despite falling interest rates just 12 basis points lower than in the previous year. We recorded gains from all asset classes – equities, bonds and real estate – of CHF 218 million net (i.e. after deduction of hedging costs and currency effects). This resulted in an investment result of CHF 1.2 billion in P&L. Together with the increase in the unrealised gains in equity – which mainly originated from fixed-income shares – this resulted in a performance of 5.5%, which I already mentioned. If we also take into consideration developments in the held-to-maturity classified assets and the loans and receivables, performance increases by a further 0.9% to 6.4%.

In the reporting year, a total amount of CHF 1.8 billion had to be invested or reinvested. Slide 21 shows where these investments were made.

(Slide 21) New and reinvestment of maturing funds in 2012

At least three-quarters of the new and reinvested funds was invested in fixed-income bonds, barely a quarter went to mortgages (9%), investment properties (6%) and equities (11%). Of the fixed-income bonds, around 45% was placed in government bonds, 35% in corporate bonds and only 20% in financials. Overall, new investments were able to achieve an encouraging average yield of 2.6%. Real estate remained at the top, unchallenged, with a value of 5.3%. Furthermore, dividend yields at 3.2% were higher than those of bonds (2.5%) or mortgages (1.9%).

The last slide shows us a previous year comparison.

(Slide 22) Group investment result compared to previous year

On account of the favourable market conditions and our proven investment and risk policy, the investment result increased by a respectable CHF 300 million. Analysing the investment income shows that it is primarily equities and investment funds that once again increased in value in comparison with the previous year. The decline in real estate compared to the previous year is exclusively due to a valuation adjustment to the real estate portfolio in the previous year, which was made due to the good development of the Swiss real estate market. As already mentioned at the start, the result is not only pleasing compared with the previous year, but it is also one of the best results of the last ten years.

Allow me to conclude my explanations by providing a brief outlook. I would like to add a provisional question mark to my opening "All's well that ends well". 2013 has started in the best possible way. Nevertheless, we must assume that the European sovereign-debt crisis is not over. The measures initiated are targeted in the right direction and the first results are encouraging. But, the final recovery will still take a lot of time. Without doubt, there will also be setbacks; growth in the markets remains fragile. In this environment we will continue with our proven investment and risk policy.

Allow me to pass you over to Philipp Gmür. >>>