Helvetia Group Conference Call

Monday, 2 September 2013

Half-year results 2013

(The spoken word takes precedence)

Ralph Honegger, CIO of the Helvetia Group

(Slide 14) Investment result

Ladies and Gentlemen,

The markets were influenced by monetary policy in the first half of 2013. Worldwide, the main central banks supplied the markets with expansionary liquidity – whether to boost the economy, stem the debt crisis or to stabilise exchange rates. This has left its mark. The equity markets benefited in particular until mid-May and posted impressive gains. Since then, indications by the head of the US Federal Reserve that the bank would begin to roll back the programme if the economy continues to recover during the coming year have brought prices down significantly. However, the situation eased in June and many equity markets were able to end the half-year with a respectable performance.

These rigorous monetary policy measures enabled the central banks to stabilise the situation and brought valuable time for solving the underlying problems. As a result, yields on top-rated government bonds recovered somewhat from their record lows. Interest rates rose and spreads narrowed. Nevertheless, we are still in a phase of very low interest rates, which is likely to continue for some time.

The Swiss franc remained quite stable against the euro, which is particularly important for us, and rose slightly from the prescribed minimum rate of CHF 1.20, a further sign of the receding uncertainty in the markets.

In this environment, Helvetia once again achieved a positive investment result of CHF 600 million. With a stable direct yield of 2.8%, this corresponds to a performance of the portfolio of 0.3% (not annualised). The higher interest rates brought the balance sheet valuation reserves on AFS-classified bonds accumulated in the recent years down slightly and dampened performance. However, this does not affect the income statement. The investment result is about 10% higher than the same period last year.

In the first half of the year, new inflows of around CHF 1.0 billion from the insurance business had to be invested. The investments are listed by asset class on slide 15.

(Slide 15) New and reinvestment of maturing funds in the HY 13

As can be seen from the slide, the new inflows of funds were mainly invested in interest-bearing securities. The focus was on government and corporate bonds with the aim of reducing exposure to the financial sector somewhat. In addition, the equity portfolio was moderately expanded within our risk budget. The new investments were made at an attractive average return of 2.2%.

The investment volume rose to CHF 39.2 billion, as shown in slide 16.

(Slide 16) Well-diversified investment portfolio

As planned, there was virtually no change in the asset allocation as a result of the new investments.

Our investment strategy is basically not affected by the low interest rates. The solvency and coverage rules require a majority of the underwriting liabilities to be covered with fixed-income securities. Even the low level of interest rates does not change anything in this regard. Although interest income may be increased somewhat by higher yielding bonds, this is always associated with concessions on quality. Helvetia will continue to adhere to its long established quality policy, i.e. new investments must have at least an A rating. The company has a well diversified investment portfolio, which, besides the dominant fixed-income products, consists in particular of profitable real estate and to a lesser extent mortgages and equities. In addition, the duration gap between assets and liabilities was systematically reduced some time ago. The interest margin will thus fall only gradually with continued low interest rates.

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

The ratings of the interest-bearing securities stabilised at a high level in the first half of the year. Half of the portfolio has the top rating (AAA) and 90% continues to have at least an A rating. Securities in the B-segment are almost exclusively rated BBB and are investment grade. Investments in Italian and Spanish government bonds total CHF 1.3 billion or around 60% in this segment.

The credit quality of the portfolio is subject to continuous controls, in particular with regard to financial assets. Details are provided on slide 18.

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

The share of financial assets is 45%, with a total investment of CHF 23.1 billion in fixed-income securities. This share fell slightly from the previous periods in favour of government and corporate bonds. The quality of this financial portfolio was stable and even improved slightly in the first half-year as measured by the slight increase in the weighting of A-rated bonds as a result of maturities and targeted sales. But the portfolio is measured not only by the relatively slow changes in the rating quality; it is also regularly assessed in terms of the development of spreads. There were no irregularities in the entire bond portfolio in this regard. Nor did any impairments have to be made in the first half of the year.

Details of the government and supranational bond exposure are provided next on slide 19.

(Slide 19) Government and supranational bond exposure

The government and supranational bond exposure comprises four sub-segments: governments, regional authorities excluding countries, near-government enterprises and supranational banks. Government bonds predominate with a share of almost two-thirds of the total. The largest single debtor is the Swiss government with a volume of over CHF 2 billion, accounting for nearly 2% of the outstanding government debt. Along with the exposure to Germany, Austria, the Netherlands, Finland and Luxembourg, the share of AAA bonds totals 62%. This stands in contrast to the BBB-rated bonds from Italy at 18% and those from Spain at 3%, which we must hold because of our business activities in these countries.

Finally, I would like to explain our performance in detail with slide 20.

(Slide 20) Investments – overall performance

Current income in the amount of CHF 511 million is in line with our expectations. The direct yield amounts to 2.8% (annualised), just 12 basis points lower than the previous year despite an environment of very low interest rates. Once again real estate and dividends proved to be stable and reliable sources of income. Extraordinary income, which is supported by equity and currency gains, contributes CHF 89 million to the overall result of CHF 600 million. It is more than CHF 50 million higher than the corresponding figure for the previous period. Investment performance, which, in addition to the profit components just discussed, exclusively includes changes in valuation reserves recorded on the balance sheet, is slightly positive at 0.3%. The strong equity performance of 8.1% before hedging and the sustainably reliable real estate performance of 2.2% more than offset the negative contribution (-0.7%) of the interest-bearing securities. The portfolio dominated by bonds once again achieved a robust and reliable overall performance.

The investment policy of Helvetia is determined by the liabilities arising from the insurance business. Due to the sustained and stable development of our core business, there is no need to alter the investment behaviour for the second half of the year. We will continue to monitor the implementation of the investment strategy with our proven risk management concept in order to counteract any adverse market developments.

Philipp Gmür will now provide you with information on our business in Switzerland >>>