Helvetia Group Conference Call

Monday 1 September 2014

Half-year financial statements 2014

(The spoken word takes precedence)

Ralph-Thomas Honegger, CIO of the Helvetia Group

(Slide 14) Asset management

Ladies and Gentlemen

The loose monetary policy of central banks continued to set the tone for the investment markets in the first half of 2014. The lack of inflationary pressure despite the glut of money caused rates to fall sharply once more and credit spreads for corporate and government bonds of European periphery countries continued to tighten. The continued investment pressure and the search for yield have favoured the equity markets, along with the strong US economy. The tepid upswing in Europe and the geopolitical unrest in Ukraine and the Middle East failed to make a lasting impact on markets - at least in the first half of 2014.

The Swiss real estate market remained stable. Although the vacancy rate for office and commercial properties increased slightly, rental properties, which dominate Helvetia's portfolio, continued to enjoy strong demand.

In general, the investment market was in good shape, with all investment classes achieving positive overall return. Helvetia experienced impressive performance with gains of 3.7%. The details can be seen in slide 15.

(Slide 15) Investments – overall performance

Current income was CHF 510 million and thus at the same level as the previous year. The positive impact from the somewhat higher investment volume was offset by declining interest rates for bonds and loans. Nevertheless, the direct yield declined by only 4 basis points and is now at a non-annualized 1.4%. We expect 2.7% for the year as a whole and thus a decline of 7 basis points.

The extraordinary contributions were CHF 72 million and came primarily from equities and convertible bonds – an investment class we have systematically expanded over the past few months.

The investment result for the Group totalled CHF 582 million and was slightly less than the CHF 594 million from the previous year. The decline is primarily the result of lower realized and unrealized gains on assets. The non-annualized return was 1.6% as in the previous year.

While the investment result remained very stable thanks to the beneficial investment markets, the unrealized gains and losses from equities fluctuated due to volatile interest rate movements over the period. The non-realized gains on equity increased by CHF 776 million due to the unexpectedly sharp drop in interest rates and the lower spreads. Compared to the first half of 2013 – which had an interest-rate induced decline of CHF 485 million – the balance sheet valuation reserves increased by more than CHF 1.2 billion. All of which resulted in an encouraging investment result of CHF 1.358 billion, or performance of 3.7%.
The results do not include the increase in value of bonds classified as "Held to Maturity" and "Loans and Receivables".
Here I would like to emphasize once more that the interest-rate induced price fluctuations and the resulting unrealized gains or losses in equity should not be overvalued, as we hold the great majority of interest-bearing securities to maturity due our integral asset-liability presentation.
Finally I would like to note that the yield from the investments we made as part of our fund- and index-linked life insurance products for the account and risk of policy holders was CHF 116 million and also very gratifying.
Slide 16 has a breakdown of the profit and performance-related contributions of the individual asset classes.

(Slide 16) Direct yield and performance half-year 2014

Interest-bearing investments contributed two-thirds or CHF 331 million to the total yield of CHF 510 million. CHF 285 million came from securities and CHF 46 million from mortgages. Real asset investments generated a third of current income or CHF 158 million with CHF 104 million from property and CHF 54 million from equities.
At 4.7%, the fixed interest securities and the equities performed at exactly the same rate. However, equity performance is almost solely recorded as profit, while the interest-bearing securities of CHF 770 million – roughly more than 72% of the total – was reported in equity as unrealized gains. Property and mortgages produced only marginal deviations between current income and overall performance.
In the lower part of the presentation on slide 16 you can see that almost of 88% of the newly invested funds were placed in fixed-interest securities, followed by mortgages at 8%; investment properties accounted for 3% and only 1% was placed in equities. The average return for new investments was an annualized 2.2%. The figures for the mortgages, fixed-interest securities and equities were comparatively close, while real estate was far higher, in keeping with expectations.
The asset allocation for the half year – after new investments and changes in value – is depicted on slide 17.

(Slide 17) Well-diversified investment portfolio

The overall investment volume at the half-year mark was CHF 41 billion. Three-fourths is invested in interest-bearing securities, loans and mortgages and a quarter is invested in real assets, mainly real estate and equities. Taking into account our liabilities from the insurance business, we see this mix balancing risk and return as ideal both for our policy holders and our shareholders.
I will now discuss the credit quality of our investment policy in slides 18 and 19. First, the rating quality for the overall holdings on slide 18:

(Slide 18) Bond credit ratings (1/2)

The rating quality remained equivalent to the previous period. Almost 90% of the holdings had an A rating, whereby half were classified as AAA. Once again, no impairments were necessary in the first half of 2014. Further details can be found in the notes.
Slide 19 contains details about the A-rated securities.

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

The lion's share of exposure is still in Italian and Spanish government bonds, which we hold due to our life insurance business in these countries. Italian securities dominate, accounting for 50% of the holdings. The remainder – depicted in the graph to the upper right – are distributed among several counterparties and are thus well diversified. The exposure to securities below investment grade makes up only CHF 150 million or 0.3% of our overall holdings.

In H2 2014 we will continue to pursue our investment policy. The geopolitical problems in Ukraine, the Middle East and Iraq may generate market turbulence in the second half of the year. Responsive risk management remains vital.

With that I hand over the presentation to my colleague Philipp Gmür, who will provide additional information about the Swiss national market. >>>