# Helvetia Group conference call on the half-year results

# Tuesday, 1 September 2015

**Half-year results 2015**

(the spoken word takes precedence)

**Ralph-Thomas Honegger, CIO of Helvetia Group**

**(Slide 20) Investment result**

Ladies and Gentlemen, with the unpegging of the Euro exchange rate on 15 January this year, the Swiss National Bank provoked a severe market reaction. The Euro immediately lost almost 20% against the Swiss franc and fell below parity. It then stabilised again for a long period of time at a level of CHF 1.04 against the Euro. The Swiss equity market fell by around 15% immediately after the Swiss National Bank's decision, but recovered remarkably quickly from this fall. Interest rates fell further and settled below the 0% threshold also in the long term driven by the negative interest rate policy of the National Bank. The property market saw a mixed performance. Whereas residential property continued to benefit from low interest rates, the prices of commercial property came under pressure due to higher vacancy rates and economic concerns in the wake of the strong Swiss franc.

European equity markets began to surge, encouraged by the European Central Bank's bond purchasing programme and the imminent economic recovery. The liquidity glut pushed interest rates to historic lows and interest rate spreads continued to narrow. The Greece crisis, which became more acute around mid-year, triggered strong corrections in equities and resulted more broadly in further rises in interest rates. Nevertheless the markets were not hugely impacted by the increasingly confusing situation.

The US equity market took a break after a strong 2014 and consolidated in expectation of an initial interest rate hike by the Fed at a high level. Interest rates saw a volatile performance. From the 10-year maturity range, coupons were mostly above 2% in the second quarter. The US bond market – especially the corporate segment – was comparatively attractive, although the required currency hedging reduced yields.

Overall, the market environment was demanding and challenging, not only due to the continuing low interest environment, but also due to the lack of liquidity in bond markets.

In the first six months, Helvetia achieved an investment result recognised in the income statement of CHF 522 million. Details of the investment performance can be seen on slide 21.

**(Slide 21) Investments – overall performance**

Helvetia generated current income of CHF 503 million in the first six months of 2015. Despite the integration of the Nationale Suisse assets, earnings were CHF 7 million lower year-on-year. This was due to two reasons: firstly, the devaluation of the Euro meant that current investment income generated in Euro was significantly lower year-on-year after translation to Swiss franc; secondly, the continuing low interest rates put pressure on investment income.

Direct yield on investments fell to 1.1% – not annualised. This performance is largely due to the extremely low yields on new investments and reinvestments.

In addition to the current income, realised and book gains of CHF 19 million were achieved. These resulted from equity market gains and proceeds from the sale of bonds, mainly as a consequence of targeted shifts in the bond portfolios away from low-yielding Euro to currently more attractive USD bonds. The currency losses resulting from the Swiss National Bank's decision were largely offset by our hedging programmes. In total, an investment result of CHF 522 million was achieved, CHF 60 million less than in the very strong previous year.

The reduction in unrealised gains of CHF 539 million recognised in equity neutralised the effect on the income statement, meaning that the overall investment result for the Group was negative at -CHF 17 million. The investment performance was 0%. This decrease was especially due to the rising interest rates and interest spreads in Euro which occurred in the course of the unresolved Greek crisis.

Finally, I would also like to point out that we generated income of CHF 87 million on investment-linked insurance solutions for our customers.

Slide 22 shows the investment result broken down by the individual asset classes.

**(Slide 22) Direct yield and performance HY 2015**

Just under two thirds of the current income of CHF 503 comes from fixed-interest securities and mortgages, which contributed CHF 272 million respectively CHF 45 million in absolute figures. CHF 49 million was earned from dividends from shares, and CHF 119 million from rental income. Taking into account the aperiodic dividend income, investment properties again achieved the highest direct yield on a non-annualised basis.

Gains and losses on investments were CHF 19 million. The main contributors to this result were equities and income from currency hedges, recognised under “Other”, while fixed-interest securities suffered losses due to the Euro devaluation. The investment result of CHF 522 million recognised in the income statement came from equities, investment property, mortgages and income from currency hedging.

Unrealised losses recognised in equity resulted from the interest and spread performance, as mentioned already. The valuation margins on the fixed-interest portfolio fell by CHF 468 million. To explain this fall, I would like to remind you that an increase of almost CHF 1.7 billion was posted for the whole year 2014.

The reinvestment returns achieved are stated on an annualised basis in the bottom half of the chart. A total of around CHF 3 billion was reinvested in the first half of 2015, 80% of which flowed into fixed-interest values and, particularly, into the newly established BBB Corporate segment, in USD bonds and in convertibles. This allowed us to more or less navigate around the negative interest rates in Switzerland. However, the foreign currency investments also resulted in higher hedging costs. In addition, the funds to be reinvested were invested mainly in equities and in mortgages. In the latter investment category, Swiss life insurers were able to offer attractive terms due to their long-term liabilities. Helvetia benefited from this market opportunity and expanded its mortgage portfolio above budget via its own sales force and via third-party channels, doing so at comparatively attractive spreads and without watering down the high security requirements. By contrast, the prevailing market situation permitted an even more beneficial risk selection.

The overall direct yield on new investments is therefore 1.7% annualised.

Asset allocation changed only marginally in the first six months of 2015, as you can see on slide 23.

**(Slide 23) Investment portfolio by asset class**

In short, you can see that the weighting towards interest-bearing securities fell in favour of property and mortgages.

The investment portfolio reduced from CHF 48 billion to CHF 46 billion due to the sharp Euro devaluation. This was mainly due to currency-related lower values of Euro investments of our European subsidiaries. This is reflected by corresponding decline in CHF-denominated insurance liabilities.

The rating quality of the bond portfolio is shown in the following slide.

**(Slide 24) Credit quality of interest-bearing securities**

The quality of the portfolio continues to be very strong. The proportion of securities with at least an A-rating was 87%. Almost half of these have the top rating of AAA. The establishment of the BBB corporate segment was seen in a slight rise in the proportion of BBB.

I would now like to give you an outlook for the second six months. We can assume that interest rates will remain at a low level due to the expansionary monetary policy of the central banks in general and the European Central Bank's bond purchasing programme in particular. Although the expected interest rate hike by the Fed may result in slightly higher yields, we do not expect an actual turnaround in interest rates. In this environment, we will continue the investment policy adopted in the first half of 2015 and test out alternative investment options with attractive risk/return profiles.

I will now hand over to my colleague Philipp Gmür. >>>>