Annual Management Report

MAP Fund Management

December 2016

Table of Contents

1. MAP Fund Management – Sustainable Global Bonds CHF/EUR/USD

a) Economic and Financial Environment

In 2016, the economic environment was marked by two phases. During the first half, we saw an increase in deflationary pressures, exacerbated by the decline in commodity prices, as well as the greater risks associated with a major slowdown in China. Despite benefiting from an increase in real production, nominal growth underwent a significant decline, hitting recessionary levels and leading to decreased profits. Given the threat of deflation on their economy, central banks relaxed their monetary policy. The FED proved to be more accommodating in postponing its planned interest rate hike. The Bank of Japan introduced negative interest rates by lowering its base rate from 0% to -0.10%. The ECB reduced its key interest rates and increased its monthly asset purchase programme from EUR 60 billion to EUR 80 billion. It extended the eligibility of bonds to corporate debt and launched a new series of four targeted longer-term refinancing operations (LTRO) over a period of four years starting in June 2016. In China, the government decided to prioritise economic recovery over structural adjustments. As a result of the reflation brought about by monetary authorities, deflationary pressures eased and global nominal growth rebounded. Despite the risks tied to Brexit, the global economy accelerated during the second half. This was encouraged during the 4th quarter by the prospects of reorientating economic policies in the United States, especially with the election of President Donald Trump. Expectations of a tax reduction, a rise in infrastructure and an easing of banking regulations reassured investors, entrepreneurs and consumers, in turn improving sentiment indicators.

Despite their over-valuation, government bond markets significantly appreciated during the first six months of the year under review, supported by the decline in price indices and monetary easing. In the second half, yields increased due to the upturn in world growth and regained confidence of economic actors, putting an end to the rise in government bonds. Over the whole year, they rose by just under 3%. In developed countries, Euro-denominated assets achieved the highest total returns, while their USD counterparts underperformed. Emerging market bonds were very strong thanks to new capital inflows. In terms of credit, risk premiums – having risen in January and February – decreased thanks to improved profit prospects, benefiting all segments, especially high-yield bonds.

On the currency markets, the environment was marked by a slight strengthening of the US dollar against the Euro, due to the wider monetary policy differences between the United States and the Eurozone. However, the dollar fell against emerging currencies, especially against the Brazilian real and the Russian rubble. The exceptions were the Mexican peso and the renminbi, which depreciated. The former was affected by the restrictive trade policy advocated by the new US Administration, and the latter was negatively impacted by major capital outflows from China. In Europe, the most significant movement proved to be the fall of the British pound caused by Brexit and by the additional easing introduced by the Bank of England. Thanks to the recurring interventions by the Swiss National Bank on the foreign exchange markets, the Swiss franc resisted the weakness of the Euro.

b) Investment Strategy

The strategy in 2016 was implemented in two phases. In the first half, bond commitments were overweighted and benefited from longer durations than benchmark indices due to rising deflationary pressures. In terms of allocation, bonds in AUD, EUR, GBP and CHF were overweighted at the expense of their USD counterparts. As for debtor categories, government bonds were prioritised over securities issued by corporations, given the deterioration of the financial situation of US companies. During the second half of the year, the improved economic outlook and strengthening of global nominal growth led us to significantly reduce portfolio durations and bond exposure. Given their expensive valuation, assets in EUR, GBP and – to a lesser extent – in USD were significantly underweighted. Treasury inflationprotected securities (TIPS) were not prioritised given the low level of real interest rates. After being underexposed, private debtors were overweighted thanks to the pick-up in profit prospects.

In terms of currencies, USD exposure was underweighted at the beginning of the year, to the benefit of the CHF, JPY and EUR. In the second quarter, exposure to the dollar was increased following the widening monetary policy differences between the United States and its main partners. Whereas, the weighting of the GBP was reduced and then gradually strongly underexposed given the excessive decline of British interest rates. In terms of selecting securities, we maintained a reduced tracking-error compared to benchmarks, while continuing to favour quality debtors that efficiently integrate Environmental, Social and Governance criteria.

c) Performance Analysis

In 2016, EUR, CHF and USD Sustainable Global Bonds funds appreciated by 0.10%, 1.99% and 1.62% respectively, compared to the increase of 0.32%, 1.67% and 1.76% for their respective benchmarks. The slight underperformance of the CHF segment is mainly due to the inefficiency of the Swiss market and the monetary diversification put in place. The excess return achieved by its EUR counterpart was especially due to the overweight position of private debtors, while the sub-fund in USD slightly underperformed as a result of the underweight position of corporate debt during the 2nd and 3rd quarters.

2. MAP Fund Management – Sustainable Global Equities CHF/EUR

a) Economic and Financial Environment

In 2016, the economic environment was marked by two phases. During the first half, we saw an increase in deflationary pressures, exacerbated by the decline in commodity prices, as well as the greater risks associated with a major slowdown in China. Despite benefiting from an increase in real production, nominal growth underwent a significant decline, hitting recessionary levels and leading to decreased profits. Given the threat of deflation on their economy, central banks relaxed their monetary policy. The FED proved to be more accommodating in postponing its planned interest rate hike. The Bank of Japan introduced negative interest rates by lowering its base rate from 0% to -0.10%. The ECB reduced its key interest rates and increased its monthly asset purchase programme from EUR 60 billion to EUR 80 billion. It extended the eligibility of bonds to corporate debt and launched a new series of four targeted longer-term refinancing operations (LTRO) over a period of four years starting in June 2016. In China, the government decided to prioritise economic recovery over structural adjustments. As a result of the reflation brought about by monetary authorities, deflationary pressures eased and global nominal growth rebounded. Despite the risks tied to Brexit, the global economy accelerated during the second half. This was encouraged during the 4th quarter by the prospects of reorientating economic policies in the United States, especially with the election of President Donald Trump. Expectations of a tax reduction, a rise in infrastructure and an easing of banking regulations reassured investors, entrepreneurs and consumers, in turn improving sentiment indicators.

As a result of the significant drop in nominal growth, corporate earnings contracted, causing a further decline in stock markets during January and February. Given the heightened risks of deflation, central banks – against expectations – relaxed their monetary policy, significantly easing financial conditions. Thanks to the major decrease in the cost of capital, multiples substantially appreciated, allowing equities to rise during the year. Two exogenous factors temporarily put a stop to the rising markets: i.e. Brexit and Donald Trump's election to the United States Presidency. Alongside the improved monetary environment, profit prospects stopped deteriorating and improved with the pick-up in nominal growth and new dynamism inspired by the economic policy advocated by the new US Administration. In terms of geographical allocation, emerging markets – undervalued following concerns over the outlook for China's growth – appreciated the most, and outperformed their developed country counterparts. In advanced nations, the US, Canadian and British stock markets overperformed. The first benefited from the rise in small and mid caps, the second from the pick-up in energy prices, and the third from the decline of the pound Sterling. Whereas, the Swiss and Eurozone markets – Italy in particular – declined. Swiss securities were impacted by the underperformance of defensive sectors, such as healthcare, and by the strength of the franc. Meanwhile, Eurozone securities were negatively affected by ongoing tensions within the European banking system. At sectoral level, energy and raw materials appreciated the most, while defensive securities underperformed including telecommunications and public services.

On currency markets, the environment was marked by a slight strengthening of the US dollar against the Euro, due to the wider monetary policy differences between the United States and the Eurozone. However, the dollar fell against emerging currencies, especially against the Brazilian real and the Russian rubble. The exceptions were the Mexican peso and the renminbi, which depreciated. The former was affected by the restrictive trade policy advocated by the new US Administration, and the latter was negatively impacted by major capital outflows from China. In Europe, the most significant movement proved to be the fall of the British pound caused by Brexit and by the additional easing introduced by the Bank of England. Thanks to the recurring interventions by the Swiss National Bank on the foreign exchange markets, the Swiss franc resisted the weakness of the Euro.

b) Investment Strategy

During the first quarter of 2016, the investment strategy implemented for the Sustainable Global Equities funds was marked by the underweight position of equities resulting from the sharp decline in earnings prospects and the temporary tightening of financial conditions. In the second quarter, net exposure was gradually increased in line with the improvement of the financial environment and pick-up in estimated earnings. On the whole, geographical allocation was marked by a major overweight of British equities and – to a lesser extent – European equities. Given their high valuation, US equities kept their underweight position. Sector weighting stayed in keeping with the exposure provided by the MSCI developed markets benchmark, given the established investment philosophy.

In terms of currencies, USD exposure was underweighted at the beginning of the year, to the benefit of the CHF, JPY and EUR. In the second quarter, exposure to the dollar was increased following the widening monetary policy differences between the United States and its main partners. Whereas, the weighting of the GBP was reduced and then gradually strongly underexposed given the excessive decline of British interest rates.

In terms of selecting securities, we maintained a reduced tracking-error compared to benchmarks, while continuing to favour quality companies that efficiently integrate Environmental, Social and Governance criteria, have recurring cash flows and generate a return on invested capital which is higher than their cost of capital.

c) Performance Analysis

In 2016, Sustainable Global Equities CHF funds depreciated by 0.14%, while its EUR counterpart rose by 0.94%. While overperforming their domestic index, they significantly underperformed against their benchmark index: 6.08% for the former and 6.43% for the latter. This underperformance is mainly due to the underweight position of equities and the underexposure to the United States in particular. The under-investment on the US stock market was caused by the high valuation owing to the expected trends for corporate earnings.

3. MAP Fund Management – Sustainable Wealth Management CHF/EUR/USD

a) Economic and Financial Environment

In 2016, the economic environment was marked by two phases. During the first half, we saw an increase in deflationary pressures, exacerbated by the decline in commodity prices, as well as the greater risks associated with a major slowdown in China. Despite benefiting from an increase in real production, nominal growth underwent a significant decline, hitting recessionary levels and leading to decreased profits. Given the threat of deflation on their economy, central banks relaxed their monetary policy. The FED proved to be more accommodating in postponing its planned interest rate hike. The Bank of Japan introduced negative interest rates by lowering its base rate from 0% to -0.10%. The ECB reduced its key interest rates and increased its monthly asset purchase programme from EUR 60 billion to EUR 80 billion. It extended the eligibility of bonds to corporate debt and launched a new series of four targeted longer-term refinancing operations (LTRO) over a period of four years starting in June 2016. In China, the government decided to prioritise economic recovery over structural adjustments. As a result of the reflation brought about by monetary authorities, deflationary pressures eased and global nominal growth rebounded. Despite the risks tied to Brexit, the global economy accelerated during the second half. This was encouraged during the 4th quarter by the prospects of reorientating economic policies in the United States, especially with the election of President Donald Trump. Expectations of a tax reduction, a rise in infrastructure and an easing of banking regulations reassured investors, entrepreneurs and consumers, in turn improving sentiment indicators.

Despite their over-valuation, government bond markets significantly appreciated during the first six months of the year under review, supported by the decline in price indices and monetary easing by central banks. In the second half, yields increased due to the upturn in global growth and regained confidence of economic actors, putting an end to the rise in government bonds. Over the whole year, they rose by just under 3%. In developed countries, Euro-denominated assets achieved the highest total return, while their USD counterparts underperformed. Emerging market bonds were very strong thanks to new capital inflows. In terms of credit, risk premiums – having risen in January and February – decreased thanks to improved profit prospects, benefiting all segments, especially high-yield bonds.

As a result of the significant drop in nominal growth, corporate earnings contracted, causing a further decline in stock markets during January and February. Given the heightened risks of deflation, central banks – against expectations – relaxed their monetary policy, significantly easing financial conditions. Thanks to the major decrease in the cost of capital, multiples substantially appreciated, allowing equities to rise during the year. Two exogenous factors temporarily put a stop to the rising markets: i.e. Brexit and Donald Trump's election to the United States Presidency. Alongside the improved monetary environment, profit prospects stopped deteriorating and improved with the pick-up in nominal growth and new dynamism inspired by the economic policy advocated by the new US Administration. In terms of geographical allocation, emerging markets – undervalued following concerns over the outlook for China's growth – appreciated the most, and outperformed their developed country counterparts. In advanced nations, the US, Canadian and British stock markets overperformed. The first benefited from the rise in small and mid caps, the second from the pick-up in energy prices, and the third from the decline of the pound Sterling. Whereas, the Swiss and Eurozone markets – Italy in particular – declined. Swiss securities were impacted by the underperformance of defensive sectors, such as healthcare, and by the strength of the franc. Meanwhile, Eurozone securities were negatively affected by ongoing tensions within the European banking system. At sectoral level, energy and raw materials appreciated the most, while defensive securities underperformed including telecommunications and public services.

After benefiting from the decline in bond yields during the 1st half, international real estate investments adjusted sharply downwards during the 4th quarter, despite the growth of the real estate business. Gold performed very erratically and irrationally in 2016. It appreciated significantly during the first six months due to the decline in real interest rates and then fell sharply in the last quarter due to the steep rise in the cost of capital and decreased risk premiums.

On the currency markets, the environment was marked by a slight strengthening of the US dollar against the Euro, due to the wider monetary policy differences between the United States and the Eurozone. However, the dollar fell against emerging currencies, especially against the Brazilian real and the Russian rubble. The exceptions were the Mexican peso and the renminbi, which depreciated. The former was affected by the restrictive trade policy advocated by the new US Administration, and the latter was negatively impacted by major capital outflows from China. In Europe, the most significant movement proved to be the fall of the British pound caused by Brexit and by the additional easing introduced by the Bank of England. Thanks to the recurring interventions by the Swiss National Bank on the foreign exchange markets, the Swiss franc resisted the weakness of the Euro.

b) Investment Strategy

The strategy in 2016 was implemented in two phases. In the first half, bond commitments were overweighted and benefited from longer durations than benchmark indices due to rising deflationary pressures. In terms of allocation, bonds in AUD, EUR, GBP and CHF were overweighted at the expense of their USD counterparts. During the second half of the year, the improved economic outlook and strengthening of global nominal growth led us to significantly reduce portfolio durations and bond exposure. Given their expensive valuation, assets in EUR, GBP and – to a lesser extent – in USD were significantly underweighted.

Whereas, during the first part of the year, equities were underweighted due to the sharp decline in earnings prospects and the temporary tightening of financial conditions. In the second quarter, stock market exposure gradually increased in line with the improved financial environment and pick-up in earnings prospects. On the whole, geographical allocation was marked by a major overweight of British equities and – to a lesser extent – European equities. Given their high valuation, US equities kept their underweight position.

In terms of alternative investments, international real estate exposure remained close to its strategic allocation, since, by and large, the economic and financial environment remained somewhat favourable for REITs. After being significantly underweighted due to the strength of the dollar and contraction of international liquidity in the first half, exposure to gold increased given the rise in risk premiums and decreased actual profitability of financial assets.

In terms of currencies, USD exposure was underweighted at the beginning of the year, to the benefit of the CHF, JPY and EUR. In the second quarter, exposure to the dollar was increased following the widening monetary policy differences between the United States and its main partners. Whereas, the weighting of the GBP was reduced and then gradually strongly underexposed given the excessive decline of British interest rates.

c) Performance Analysis

In 2016, the Sustainable Wealth Management funds in CHF, EUR and USD fell by 4.24%, 1.10% and 2.23% respectively. The average underperformance by more than 3% of the three segments is due mainly to the underweight of equities and overweight of gold during the fourth quarter.

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Geneva, 27 February 2017