

# Investment reporting as at 31 December 2008

Following the approval by the American Congress of the revised bailout package, calm appeared to return to the markets, triggering hopes of a relaxation in the conditions prevailing in the real economy. However, as had often been the case during the past months, this merely represented a chance for a short intake of breath before the markets proceeded to renew their downward plunge. At the end of October 2008 at the latest, the question being asked was not whether a recession would take hold in the USA, Europe and Japan but rather how serious a one it would turn out to be. Not only equity markets plunged; global consumer sentiment in particular also nosedived in concert with many productivity indices. Considerable risk remained that some companies would not survive the crisis. What had initially affected only banks started in November 2008 to spill over into other sectors. Many companies witnessed a collapse in incoming orders, with the auto industry being particularly hard hit, prompting the US's three biggest auto producers to team up and approach the Senate for financial aid. But other regions and sectors also found themselves affected, in particular European and Asian exporters. December 2008 still failed to witness any turnaround. Fear continued to dominate the markets, commodity prices went into free fall – which also failed to provide the economy with any relief – and one string of bad news just followed the other. Clear signs of a bottoming out of the US housing market continue to be absent, which is viewed in many quarters as the signal needed to kick-start the economy.

Fears of inflation have since been replaced by fears of deflation, and there is concern that the current global economy is comparable to that which prevailed after the 1929 crisis. Falling commodity prices confirm the deflationary scenario. Central banks have run out of options of effecting change by pulling or loosening the monetary reins. Bailout packages have been put together but the market still continues to stall. But it must not be forgotten that governments have taken rapid and vigorous action and sent out clear signals that they will continue to do so.

Developments in the real economy left their mark on the credit market too. The numerous central bank rate cuts pushed down government bond yields to record lows. The flight to quality spurred demand for government paper, which drove up their prices further. Corporate bonds, in contrast, failed to really

benefit given the extent of the fears of further bankruptcies. This uncertainty only served to widen yield spreads (the ratio of corporate bond yields to those of government bonds which are regarded as safe) further. The prevailing distrust reached such proportions that even companies considered to be solid could only raise capital at high interest rate premiums.

Equity markets were especially hard hit, experiencing an extremely bad quarter. October 2008 saw them book enormous losses in practically every region of the world. Market panic, forced selling and further bad news sent prices plunging. Investors didn't differentiate anymore between what was safe and a risk and just sold everything; even defensive stocks. After an exceptionally weak October and no end to the fall in equity prices, a bear market rally set in following the announcement of further intervention and a salvage plan for Citigroup at the end of November 2008, with the result that prices did actually recover somewhat from their lows. But returns reverted to minus territory again in December 2008 in practically all markets.

## Investment performance

Due to the extremely weak equity markets, the portfolio's time-weighted return continued to be clearly negative in the fourth quarter of 2008 at -5.35%. However, the portfolio at least outperformed the benchmark by 0.74 percentage points.

### Performance in 2008

	Vita Portfolio	Benchmark	Deviation
<b>Q1 - Q3 2008</b>	<b>-6.08%</b>	<b>-5.81%</b>	<b>-0.27%</b>
Oct 08	-5.49%	-5.12%	-0.37%
Nov 08	1.02%	0.61%	0.41%
Dec 08	-0.86%	-1.62%	0.76%
<b>Q4 2008</b>	<b>-5.35%</b>	<b>-6.09%</b>	<b>0.74%</b>
<b>2008 (TWR)</b>	<b>-11.13%</b>	<b>-11.55%</b>	<b>0.42%</b>
2008 (MWR)	-11.38%		

**TWR** Time Weighted Rate of Return: performance of a portfolio without accounting for fund inflows and outflows during the valuation period

**MWR** Money Weighted Rate of Return: performance of a portfolio after accounting for fund inflows and outflows during the valuation period

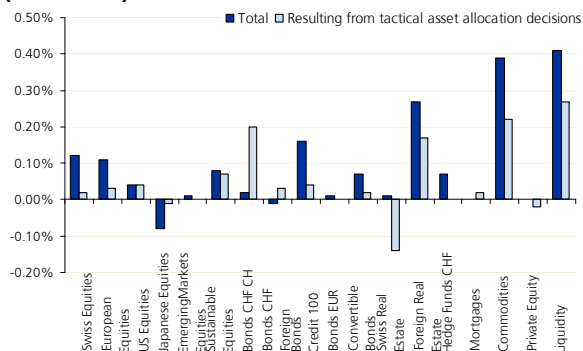
Of the Sammelstiftung Vita's equity portfolio, Swiss (-16.50%) and Japanese (-18.16%) equities still fared the best, with the performance of Japanese stocks still largely attributable to the appreciation of the yen.

Other equity investments lost ground of between 25% and 32%. The 1.31% overall performance of bond investments made up a little for the weak equity performance. However, fixed-term investments also generated widely differing returns. While CHF-denominated domestic bonds generated a 3.52% return, convertibles lost an additional 13.14%. Unfortunately, also the other investments were unable to contribute to the return of the Sammelstiftung Vita. While Swiss real estate investments were solid as usual, with Swiss residential real estate gaining ground of 1.54%, global real estate investments reported an extremely weak fourth quarter 2008 with a return of -33.74%; however, most of this was forfeited in October. The hedge funds also registered further losses, and commodity investments were likewise hard hit, losing almost a third of their value in the fourth quarter of 2008 alone, even more than in what had already been an extremely weak third quarter.

## Return analysis

Given the turbulent market and tactical asset allocation, equities were held clearly underweight in the fourth quarter of 2008, while bonds were held overweight. Both weightings made a positive contribution to the portfolio's performance.

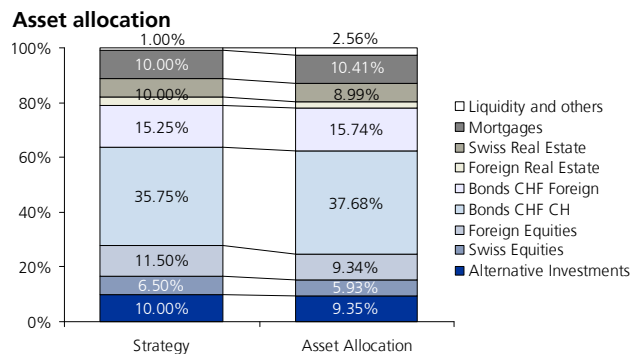
### Contribution to performance compared to strategy (Benchmark)



The only negative contribution in terms of market selection was made by Swiss real estate investments, which were still compulsorily held underweight until shortly before the end of the quarter. Underweighting commodities had a considerably positive effect. The biggest contribution in terms of security selection made Credit 100, Swiss equities and commodities.

## Asset allocation

An examination of the asset structure as at 31 December 2008 makes the bond overweighting and equity underweighting evident. Bonds were held almost 2.5 percentage points above their benchmark while equities were held underweight by a similar amount.



Thanks to large amounts of new investments in mid-December 2008, Swiss real estate was held at approximately the same level as the benchmark probably for the first time since the introduction of this investment class. The current account weighting was unusually high, which is normal in view of the payments payable at the end of the year. All investments were within their strategic range.

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