



Investment Outlook and Strategy

First quarter 2012



Investment Outlook and Strategy

Global Macro-Economy & Fixed Income

The outlook for the world economy has deteriorated significantly since mid-Summer. Economic indicators are now pointing towards a more severe downturn in the global economy, particularly in Europe, and to a lesser extent in the US.

A “zero or low growth environment” in Western economies is the most likely scenario. Concerns about a severe “double-dip” recession are however overdone, except for Europe which will be negatively impacted by austerity measures. Led by some pockets of growth in emerging economies (*China, India, etc.*), the world’s output growth will remain positive but slowing towards 3.0-3.5% in 2012 (*IMF forecast : +4.0% for 2011 and 2012*).

Despite the end of “QE2”*, the US Fed “liquidity shop” is not yet closing. Further “Quantitative Easing” remains open. Neither the US Fed nor the ECB are expected to raise key interest rates in the medium term.

By rescuing the financial system, governments were the “solution” to the recent economic crisis. Now they are the “problem” with ballooning national debts and fiscal deficits. In the wake of the sovereign debt crisis, fiscal tightening measures will weigh on growth.

The sovereign credit crisis is driving government bond yields** at unsustainable low historic levels, inconsistent with the most likely economic scenario. We continue to prefer quality corporate bonds over government bonds and stay focused on short to medium term maturities.

Investment Outlook and Strategy

Equities – Regions & Sectors

The current upheavals in financial markets is fuelled by a crisis of confidence, leading to a huge discrepancy between the “macro-economic fears” and the “fundamentals” of good quality companies.

At current levels, a recession with severe earnings contraction seems to be already priced in stock markets.

It is difficult to evaluate how long it will take for this crisis to be resolved and for the confidence to be restored.

Risks to growth have certainly increased as a result of both fiscal austerity plans and “wait and see attitude” of many economic players.

Many companies have restructured their business, enjoy solid balance sheets and still have good financing access at low interest rates (*except financials*). Many companies will continue to come out with fairly solid numbers, but comparisons will become difficult.

Both US and Europe (*including Switzerland*) continue to be favoured in our asset allocation.

Some reasonable exposure to emerging markets is also justified (*mainly China and India*).

We have no exposure to Japan (*deflationary conditions, unfavourable fiscal, debt and demographic situations*).

Investment Outlook and Strategy

Strategic Positioning & Summary

Equities remain fundamentally attractive with low historic valuations (*i.e. low P/E ratios, high dividend yields, free cash flow yields at all-time high relative to corporate bond yields*).

Stock markets are however likely to remain volatile and trade sideways for some time until confidence comes back.

In the medium-term, a rebound is however likely. The available cash will be redeployed in due time in order to capture the next upside move.

Emphasis on cash generating companies (*i.e. energy/oil, consumer staples, healthcare, selected information technology*).

Very limited exposure to financials (*“value traps”**) and “government-regulated” sectors.

Some exposure to cyclical stocks best suited to capture the next market uptrend in light of possibly slightly more resilient economic data going forward.

Bonds are pricing a deflationary environment and look rather expensive in a “low growth” economic scenario.

Focus on corporate bonds and short-dated maturities.

* “value trap” : a stock that has experienced a large price depreciation and looks like a bargain on some valuation metrics used by investors, but is finally mistaken to be a value stock given further deterioration of its fundamentals, likely leading to even further price declines.

Investment Outlook and Strategy

Strategic Positioning & Summary *(continued)*

Regarding currencies, the US dollar will strengthen somewhat in the short-term, benefitting from its reserve currency status (*FX targets : EUR/USD 1.25-1.30, CHF/USD 1.00*).

Long-term, the US dollar will continue to structurally weaken.

The CHF/EUR floor set by the Swiss National Bank looks credible and should not be tested any time soon.

Important Information

EMC Gestion de Fortune S.A. is a Swiss registered independent asset management company.

These materials are intended solely to demonstrate the investment style and techniques generally used by EMC Gestion de Fortune S.A. Any information contained herein for which a source other than EMC Gestion de Fortune S.A. or one of its affiliates is cited is not warranted to be accurate.

It is the responsibility of any person in possession of this material to inform himself or herself about and to observe all applicable laws and regulations of the relevant jurisdictions. The past performance of EMC Gestion de Fortune S.A. or any market or type of security or any historic returns or historic asset class risks discussed in the attached materials are no guarantee of future results and the value of investments may fall as well as rise. Any of EMC Gestion de Fortune S.A. performance results contained herein may represent a composite of different portfolios and do not necessarily fully take into account all expenses to which such portfolios were subject and have not been audited or certified by any independent party.

Changes in the rate of exchange between currencies may cause the value of investments to diminish or increase. In the event that performance figures are shown for a mutual fund of EMC Gestion de Fortune S.A., the performance of any such fund demonstrated herein should not be taken as indicative of a separate tailored portfolios' future performance, even if the proposed account would be managed in substantially the same style and by the same managers. Performance figures may be affected by different investment limitations and restrictions and by the daily cash flow into and out of the fund. Any hypothetical portfolio allocations contained herein are given solely for illustrative purposes. In constructing any hypothetical portfolio contained herein EMC Gestion de Fortune S.A. has not undertaken any legal, tax or accounting analysis relating to the suitability of the portfolio instruments for clients, and does not represent that any such instruments may actually be purchased by clients under applicable laws. Clients should seek their own independent advice on such matters. In addition, any results demonstrated by hypothetical portfolio allocations contained herein assume current market conditions, which may vary in the future and do not fully take into account all expenses to which an actual portfolio investment would be subject, including advisory fees, transaction costs, taxes etc. Accordingly, EMC Gestion de Fortune S.A. does not guarantee that it could actually create a portfolio based on any hypothetical portfolio allocation contained herein or, if such portfolio were created, that it would achieve the results forecasted.

Any outlooks, forecasts or model portfolio weightings that may be presented herein are those of EMC Gestion de Fortune S.A. as of the date made. Such outlooks, forecasts or model portfolio weightings are subject to change. Statements in this document regarding investment policy refer to the official strategy of our Investment Committee, are subject to change and are not necessarily reflective of the strategy employed in all accounts managed by EMC Gestion de Fortune S.A., which might be influenced by specific client guidelines and suitability requirements. Any information contained herein for which a source other than EMC Gestion de Fortune S.A. is not warranted by EMC Gestion de Fortune S.A. to be accurate.

Any evaluations of particular securities contained herein are provided only to demonstrate investment management processes and any references to particular securities are not to be construed as recommendations to buy, hold or sell any security.

Certain transactions, including those involving futures, options, structured securities, and emerging markets might give rise to substantial risk and are not suitable for all investors. Further information on any financial instrument or type of transaction mentioned in these materials may be obtained upon request.

Any research in this document has been procured and may have been acted on by EMC Gestion de Fortune S.A. for its own purposes. The results are being made available only incidentally. The views and policies expressed do not constitute investment or any other advice and are subject to change without notice.