



## Swisscanto (LU) Portfolio Fund Equity B

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### Quarter report

#### 1. Market review

In the third quarter, the credit crisis that had started in the US housing market finally developed into an international financial crisis with repercussions on the global economy. In the first half of 2008, investors were still afraid of rising inflation rates and only recognised the deflationary effects of a credit crisis at a late stage. In the meantime, "Japan anxiety" is spreading. The interest rates for government bonds are falling, the risk mark-ups for corporate bonds are reaching new peaks, banks are hardly prepared to grant loans any more and profit expectations must be lowered. The closed credit market and the high level of debt in the financial sector are forcing a rigorous reduction of positions, accordingly leading to falling market prices in all risk-prone asset classes. In this environment, the world equity market lost 16% in value in USD, which is reduced to 7% in CHF thanks to the stronger USD. The biggest losers were those that had profited from rising inflation, such as oil producers (-18%), commodities (-28%), utilities (-9%), as well as the capital goods industry (-10%). Naturally enough, less cyclical sectors, such as household products (+18%), foodstuffs (+8%) or pharmaceuticals (+7%), did better. In general, American equities (-1% in CHF) suffered less than European ones (-14%) did. Emerging markets, such as Latin America (-26%) or Asia ex Japan (-17%), were the great losers. Large cap growth stocks once again outperformed the overall market.

#### 2. Performance review

In the third quarter, the fund did better than the benchmark. All in all, the sectoral strategy made a positive contribution to the performance. The underweights in utilities and capital goods, as well as our overweights in software, health care and non-cyclical consumer goods proved to be correct. The overweight in insurers was also positive, whereas the underweight in other financials, and also in retail trade, cost performance for once. At a style level, we profited from our focus on large-cap growth stocks. Favouring Japan to the detriment of Asia ex Japan was correct; on the other hand, the slight underweight in American equities was wrong.

##### Note concerning performance

Past performance is no indication of future performance and does not guarantee success in the future. The performance data assume that any dividends will be reinvested and do not take account of commission and costs charged for issuing and redemption of units. The calculation is performed in the fund's currency of account CHF. Returns in other currencies may rise or fall as a result of currency fluctuations.

#### 3. Outlook

An end of the credit crisis is not in sight. The profit-making strength of companies even outside of the financial industry will erode increasingly. Heavily indebted companies should thus continue to be avoided. We are maintaining our defensive strategy, with overweights in large cap pharmaceutical, technology, telecom and non-cyclical retail trade (USA) growth stocks. We are very selectively buying further stocks in the financial sector, focusing not only on insurers, but also on banks with very sound balance sheets. Not least Japanese banks meet this criterion.

##### Opportunities/risks

All investments involve risk, especially with regard to fluctuations in value and returns. In addition, investments in foreign currencies are subject to exchange rate fluctuations. The risks are described in detail in the sales prospectus.

**Additional important notes** All information published here is solely for your information and does not constitute investment advice or any other recommendation. While we have carefully researched and compiled the contents, Swisscanto cannot assume warranty for the correctness, completeness and timeliness of the information provided. The sole binding basis for the acquisition of units/shares in Swisscanto investment funds are the respective sales prospectuses and reports on activities.

**Important notes for Austria Luxembourg:** The sales prospectus, simplified sales prospectus, contractual conditions and the most recent annual or semi-annual report may be obtained free of charge from Banque et Caisse d'Epargne de l'Etat, Luxembourg, 1, place de Metz, L-2954 Luxembourg.

**Note concerning TER:** The Total Expense Ratio (TER) refers to the commission continuously charged to the fund's assets (operating expenses) and is expressed as a percentage of the fund's assets. The figure quoted relates to the amount of the TER in the past financial year or half-year and does not guarantee that the figure will be similar in the future.