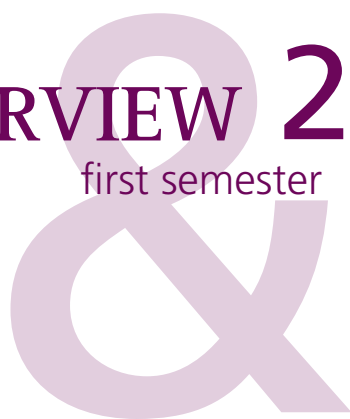


# OVERVIEW 2011

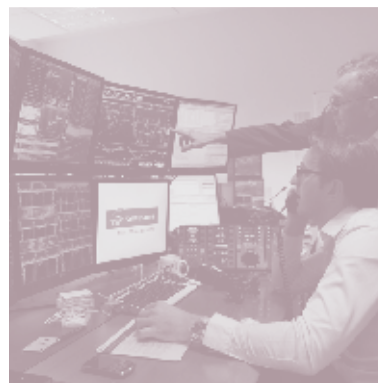
first semester



## PERSPECTIVES ■■■

### CORE MANAGEMENT

- MONEY MARKET
- FIXED INCOME
- EQUITY



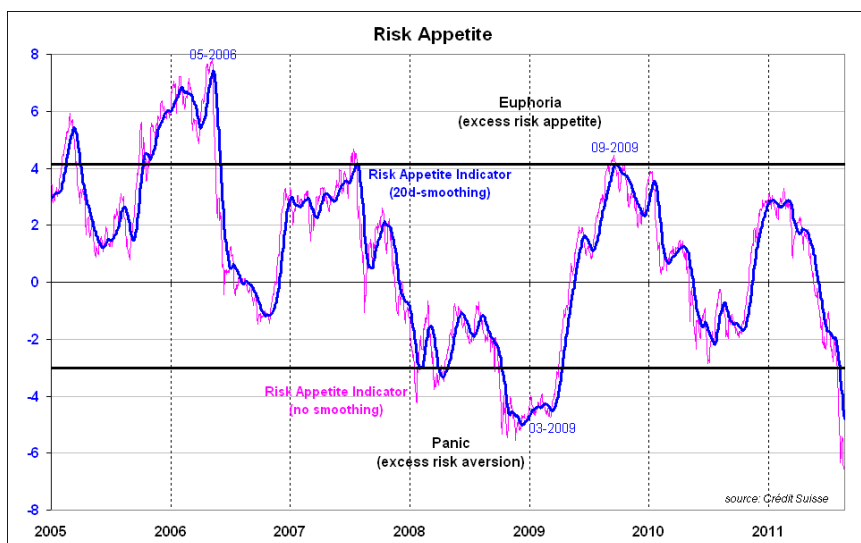
Marketing material

ACTIVELY RESPONSIBLE ASSET MANAGEMENT





In our publication “Overview and Perspectives for 2010” we emphasised the **level of volatility in the markets**, which we believe will continue into 2011 face to a number of areas of uncertainty that are still unresolved. There is no option but to accept that the sources of these concerns have multiplied (Greece’s ability to meet its debt repayments, the earthquake in Japan, the downgrading of financial ratings in some countries in the Eurozone and that of the United States, the fear of a global economic slowdown, etc.) and the fact that investors are clearly jittery.



The management of government debts in the eurozone was a very influential factor in this 1<sup>st</sup> half-year, over all the markets. The markets have alternated phases of rise and decrease depending on meetings held and decisions taken by European institutions. This volatility has led to a **continuous rise of risk aversion** (cf. graphic). At the end of August, the level of **pessimism was extremely high**, influenced by disappointing macroeconomic indicators that led to a resurgence of fears of a significant global economic slowdown.

This context led us to show a **degree of restraint in our management** over the first eight months of the year. On our fixed income management, our modified duration and credit modified duration stayed between 95% and 105% and our geographical allocation was strongly oriented towards the core countries of the eurozone, with a preference for corporate sector.

On our equity management, we posted an underweighting in the financial sector since the beginning of the year. More recently, we have reinvested a part of our liquidities to benefit from attractive valuations while remaining very selective.

This approach, coupled with an opportunistic tactical management, enabled us to **post good relative performances on 31/08/2011 for our “Euro Government” portfolios as well as for “European Equities” portfolios**. Our “Euro Credit” and “Aggregate” portfolios suffered from a more offensive positioning (which penalised them during the phases of sudden turnaround); however, this should be more favourable to us during an potential phase of gradual tightening of credit spreads.



Dominated by the financial crisis, the markets will remain jittery. The effective implementation of the rescue package for Greece and the pressure on all countries from the rating agencies is likely to fuel these tensions. In addition, the necessary reductions in public deficits (US and European primarily) are expected to cause concern in a context of declining macroeconomic indicators. **The financial and economic environment remains unstable, resulting in even more volatility on the markets over the coming months.**

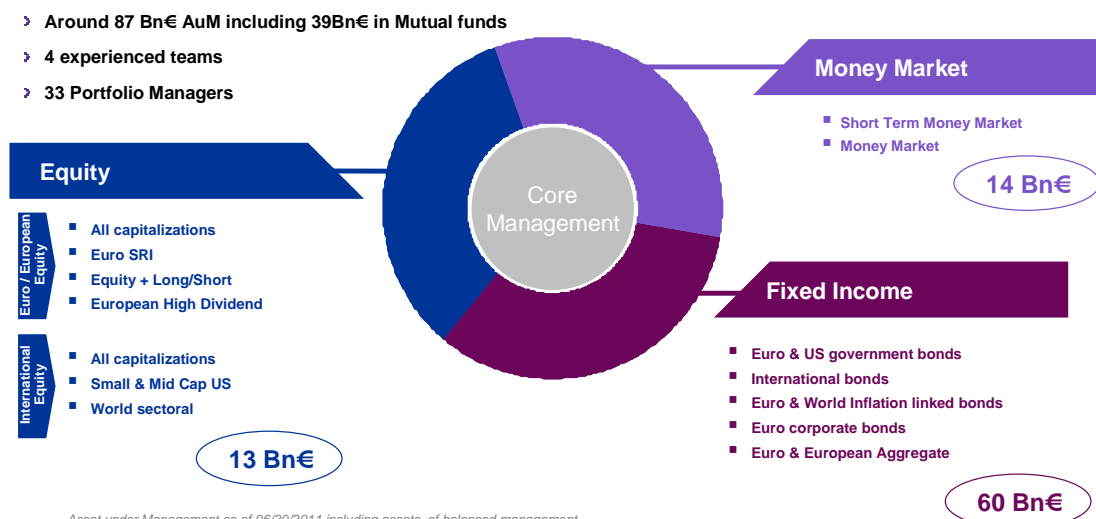
We still believe **that the political and monetary authorities will put in place all the means necessary to avoid a dislocation in the eurozone and to support countries in difficulty.** The ECB is likely to continue to buy out national debt, pending a more structural solution. To restore confidence, the European governments will have to convince investors of their ability to come up with a fiscal and budgetary plan. In the United States, we are taking into account the latest disappointing GDP figures. However, the financial solidity shown by companies now leads us to believe **that there will be a marked slowdown in the US economy rather than a new phase of recession.** The next three months will be crucial to validate this scenario.

On the markets, there is still a great deal of mistrust with regard to risky assets. However, having reached a zone of panic, risk aversion indicators are now showing signs of upturn. Valuations are of course very attractive, even though profit forecasts continue to cause concern. Working on the assumption that there will be a significant drop in earnings during 2012 (-10%) and a PE 2012 multiple of 10x, we reach, more or less, the equity market's **current levels in the eurozone:** these seem to **be reasonable.**

The flight-to-quality phenomenon has largely benefited government bonds issued by the major industrial countries and, according to us, has led to interest rates too low, given the outlooks, albeit modest, for growth and inflation. **A return to a state of calm should prompt a limited rise in interest rates in the core countries of the eurozone.**

On the credit bonds market, widening spreads were strongly correlated to the rise in risk aversion. Even so, issuers' fundamentals remain solid and balance sheets have stabilised significantly over the last three years. This is demonstrated by the fact that companies' default rates are at a historically low level. Technical aspects and flows are currently exerting a great influence on the **credit bonds market.** They lead us to adopt a **neutral positioning** in relation to our indices, particularly in terms of credit modified duration.

## Core Management Expertise



Asset under Management as of 06/30/2011 including assets of balanced management

➤ **Review of the 1st half of 2011:** The money market performed erratically over the first months of the year, as it had at the end of 2010, evolving along with liquidity and technical factors. The recent tensions affecting the financial sphere called into question the money market's normalisation process, with significant liquidity still and banks that have had to call heavily on the European Central Bank (ECB) for refinancing. With an average fixing of 0.91% during August, the EONIA is still a long way below the refinancing rate of 1.50%. At the last meeting of the ECB on 8<sup>th</sup> of September, the tone was markedly less bullish, opening a door to a rate cut and still maintaining non-standard measures.

➤ **Integration of the new regulations into our range:** Since 1<sup>st</sup> July 2011, Short-Term Money Market Funds and Money Market Funds have been the two categories applicable. They meet all the requirements particularly in terms of interest rate risk (WAM – Weighted Average Maturity) and credit and liquidity risk (WAL – Weighted Average Life).

### SHORT-TERM MONEY MARKET FUNDS

#### GROUPAMA ENTREPRISES

(FR0010213355)

NAV: 4 406 M€

WAL: 78 days\* / WAM: 22 days \*

### MONEY MARKET FUNDS

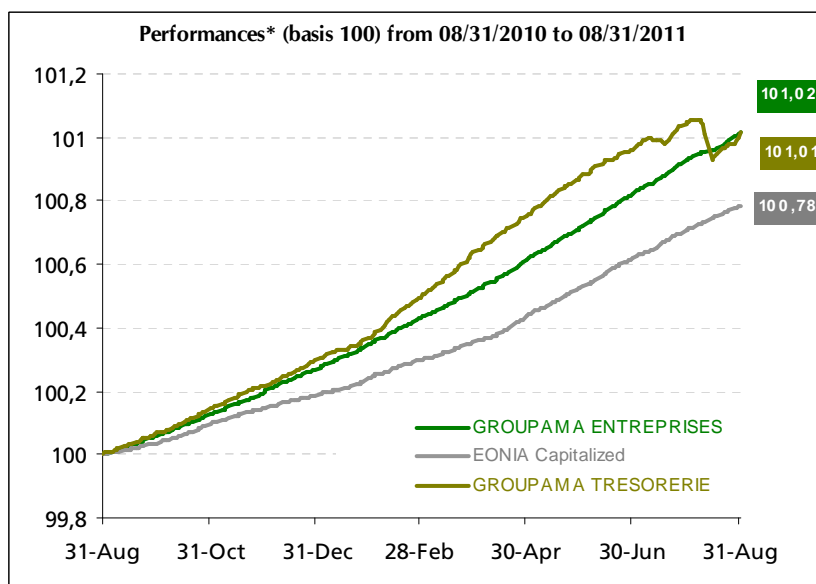
#### GROUPAMA TRESORERIE

(FR0000989626)

NAV: 576 M€

WAL: 205 days\* / WAM: 36 days\*

\*Data as of 08/01/2011



Source : Groupama AM

### ➤ Our management for 2011:

- **Strengthening of the floating rate share**, which at the end of August were close to 75% compared to approximately 50% at the beginning of the year.

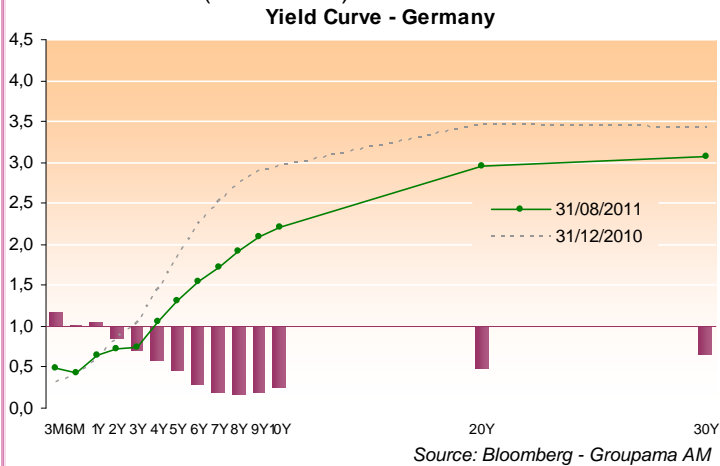
- **Steering clear of government bonds since April:** volatility too high in the peripheral countries and less attractive returns in core countries. More recently, we stopped investing in private sector Portuguese issuers, such that we currently no longer hold any in our portfolios. We also reduced our exposure to Spanish banking issuers.

Groupama Trésorerie (Money Market Funds classification): The mark-to-market valuation of more than 3 months securities has impacted the net asset value of the portfolio during the high volatility periods of this summer.

➤ **Outlooks for 2011:** Monetary policy will remain accommodative “as long as necessary”, in support of the interbank market. In this context, the EONIA rate is likely to continue to evolve below the refinancing rate, with volatility still high. In terms of standard monetary policy, **we now expect the ECB to possibly decrease its main refinancing rate**, which should contain money rates at relatively low levels.

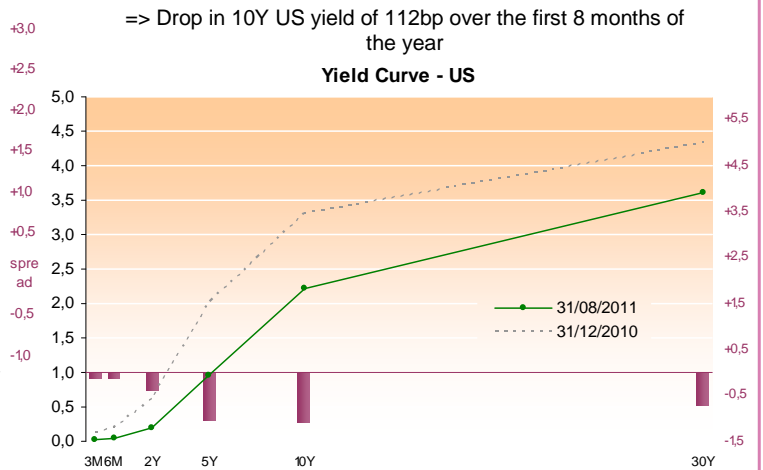
# GOVERNMENT BONDS

In a context of flight to quality, government bonds from the major economies have taken advantage of the situation in 2011 (safe haven).



=> Drop in 10Y German yield of 296 bps over the first 8 months of the year

Source: Bloomberg - Groupama AM

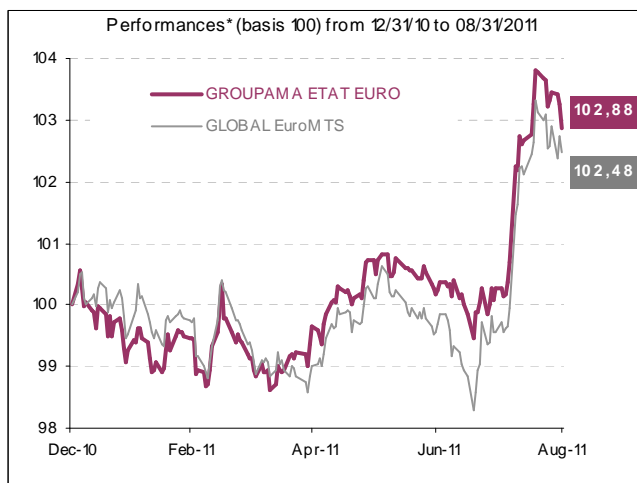


=> Drop in 10Y US yield of 112bp over the first 8 months of the year

Source: Bloomberg - Groupama AM

## Groupama Etat Euro

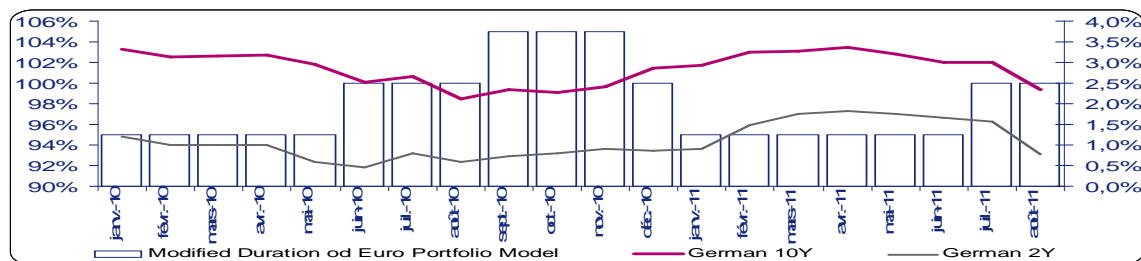
- Mutual fund "Bonds and other debt securities denominated in euros"
- ISIN (I Share): FR0010174631
- NAV as of 08/31/11: 118 M€
- Investment Objective : to outperform its benchmark « Global EuroMTS, closing »



Source: Groupama AM

Like our Euro Government bonds range, Groupama Etat Euro posted good performances:

- A geographical allocation that **avoids the "peripheral" countries** and favours investments in core and semi-core countries -> profit fully from the recovery in rates and avoid, in part, the negative impact of the widening of spreads in countries experiencing difficulty.
- **Active management of modified duration** -> alternate phases of over- and underexposure (see graphic below)
- **Underexposure to the [1-3] segment**, which is the one that profited least from the rally since the beginning of the year.

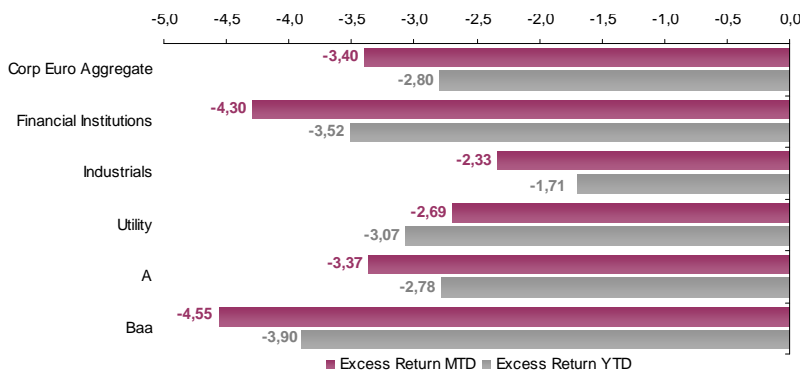


Source: Groupama AM

In the short term, the current situation does not require us to change the positioning of our portfolios in terms of geographical allocation. While we believe that rates in the different countries in the eurozone should ultimately converge, this long process will require more significant integration between the different member states. Given the recent substantial movements in the yield curve, in the short term we prefer to remain **neutral compared to our benchmark indicators in terms of modified duration.**

# CORPORATE BONDS

Having stood up well to a number of exogenous crises since the beginning of the year, credit spreads returned to levels that haven't been seen since the fall of Lehman Brothers, based on **fears of a global economic slowdown** (synonymous with a rise in payment defaults). The CDS iTraxx Main index, which represents the cost of protection against a credit event by the 125 principal European issuers, exceeded 150bp (compared to 65bp in January 2010).



- Excess Return<sup>(a)</sup>, positive at the end of July, negative by the end of August
- Significant disparities between sectors, quality of issues and the associated sovereign risk
- The financials and the lowest-rated were penalised the most

Graphic 1. Excess Return of Barclays Capital Euro-Aggregate Corporate as of 08/26/11, Source: Barclays

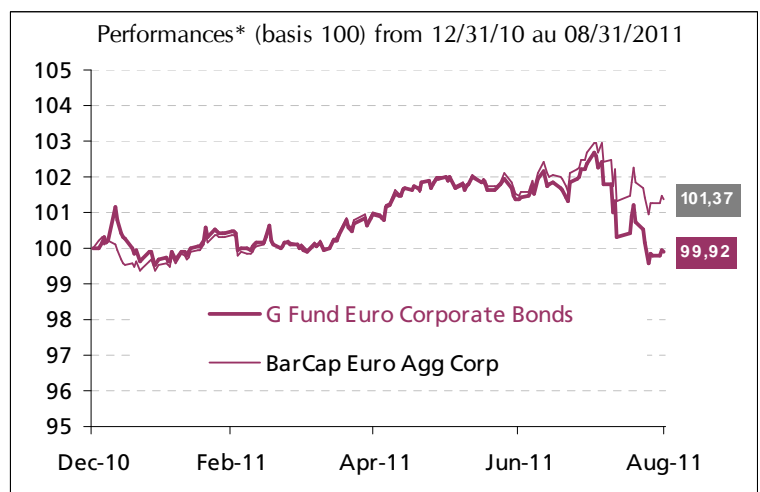
## G Fund Euro Corporate Bonds

- Mutual Fund "Bonds and other debt securities denominated in euros"
- ISIN (I Share): LU0571101129
- NAV as of 08/31/11: 85 M€
- Investment objective : to outperform its benchmark « Barclays Capital Euro Aggregate Credit Corporate»

With the recent sudden movements not favouring clear directional strategies, we decided to remain **neutral** in terms of **modified duration** in our management of the portfolio G Fund Euro Corporate Bonds, compared to our benchmark index.

The geographical allocation, favouring **core and semi-core countries** to the detriment of the peripheral countries, was a driver for the relative performance. In terms of positioning on the credit curve, **our overweighting in the [5-7] segment** to the detriment of the higher segments was a positive choice due to more significant widening on the [7-10] and 10+ segments. However, our **overweighting in some high-beta issuers and T1 subordinated** debts was costly, particularly over the summer period.

In this turbulent context, we **maintained our positions** built up of private sector bonds **with solid fundamentals**. The widening of credit spreads on some quality issues seems, in our opinion, to be somewhat overstated, given the healthy balance sheets of these companies that have profited from the last 3 years to deleverage.



Source : Groupama AM

(a) Excess Return: Return differences in relative to German fixed income reference

## GROUPAMA OBLIG EURO

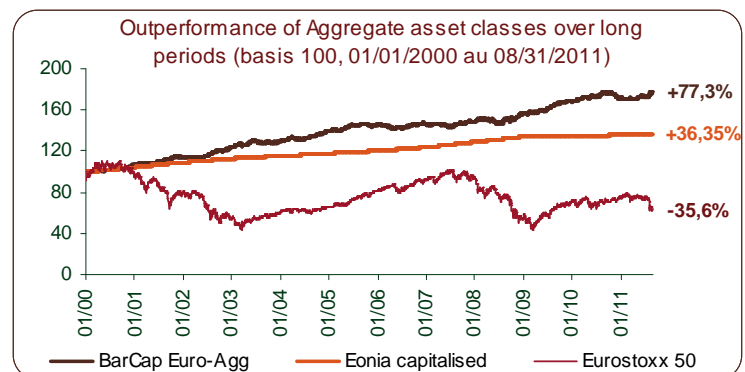
- ISIN (I Share): FR0000991473
- Mutual fund « Bonds and other debt securities denominated in euros »
- Investment objective : to outperform its benchmark « Barclays Capital Euro Aggregate closing »
- NAV as of 08/31/11: 41M€

## GROUPAMA OBLIG EUROPE

- ISIN (I Share): FR0010213397
- Mutual fund « Bonds and other debt securities denominated in euros »
- Investment objective : to outperform its benchmark « Barclays Capital Pan European Aggregate closing hedged »
- NAV as of au 08/31/11: 81 M€

The trends in high volatility over the last three years have had the particular feature of creating **opportunities for hedging between the fixed income asset classes**, thus benefiting diversified fixed income strategies. This market environment, alternating between phases of flight to quality, tightening of credit spreads and even sudden movements in the breakeven inflation rates curve, puts allocation strategies in aggregate management in the best position **to benefit from the various movements in the market and the turnaround of cycles**.

The various drivers for performance of the Aggregate Management strategy enable it to post good performances throughout the different market cycles. For example, on 08/30/2011, with a performance of 15.14% and a volatility of 3.83%, Groupama Oblig Europe posted a **Sharpe ratio of 1.05 over a rolling 3-year period** (minimum investment horizon for this type of investment).

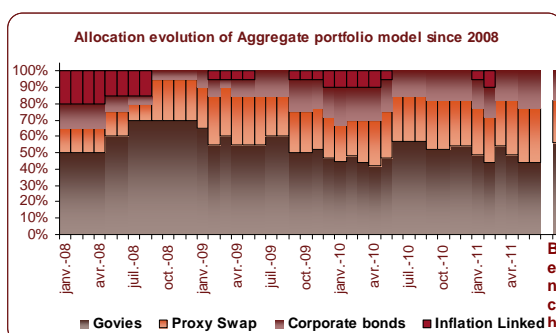


Source: Bloomberg – Groupama AM

Two key elements contributed to the performances of our Aggregate Management:

- Exposure to **inflation-linked bonds** during the 1st quarter. Positive bond-picking: For example, inflation-linked bonds in the eurozone (Barclays Index, all maturities) outperformed their nominal equivalents over the 1st quarter by 2.23%. We took profits on this position during April, to arrive at a zero exposure by mid-May.
- Overweighting in **Proxy Swaps\***, particularly via our exposure to **covered bonds**. Preference for French property bonds as these present the advantage of having good-quality collateral, an attractive valuation compared to some other asset classes (credit, senior financials) and a pick-up in return compared to sovereign bonds with the same maturity.

The solid fundamentals presented by companies led us to favour the Proxy Swaps and Credit asset classes to the detriment of government bonds, in order to encourage carry. The recent widening of spreads has not been favourable for us, but we remain **confident** in our bond-picking, exposed to issuers with **solid fundamentals**.



Source: Groupama AM

Funds (I Share) / Benchmark (as of 08/31/2011)	Modified Duration	Current Yield	Exposure (in % of NAV)		
			Government Bonds	Proxy Swap	Corporate Bonds
Groupama Oblig Euro	5,16	3,45	35,99	32,62	31,39
Barclays Capital Euro Aggregate	5,3	3,21	56,09	26,05	17,71
Groupama Oblig Europe	<b>6</b>	<b>3,87</b>	<b>52,5</b>	<b>26,8</b>	<b>29</b>
Barclays Capital Pan European Aggregate closing hedged	<b>5,67</b>	<b>3,57</b>	<b>56,7</b>	<b>25,1</b>	<b>17,6</b>

Source: Groupama AM

\* **Proxy Swap**: Agencies, supnationals and covered bonds

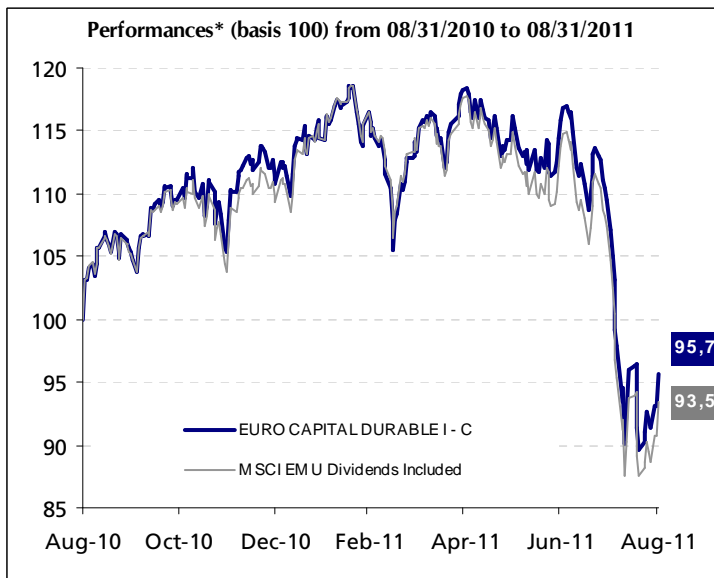
Mid-July, the European equity market will be bending under the pressure of fears of a return to recession in the euro zone and the United States. At the end of August, the MSCI Europe, falling by a little more than 17% between 22 July and 10 August, posted a negative performance of 13.87% since the beginning of the year.

Although the scale and intensity of the turnaround in the market was unexpected, **our management strategy enabled us to stand up to it well** and our “Actions Europe” portfolios at the end of August all posted **better performances than their benchmark index since the beginning of the year**.

For example, our mutual fund “Euro Capital Durable”, which integrates the SRI criteria into its stock-picking.

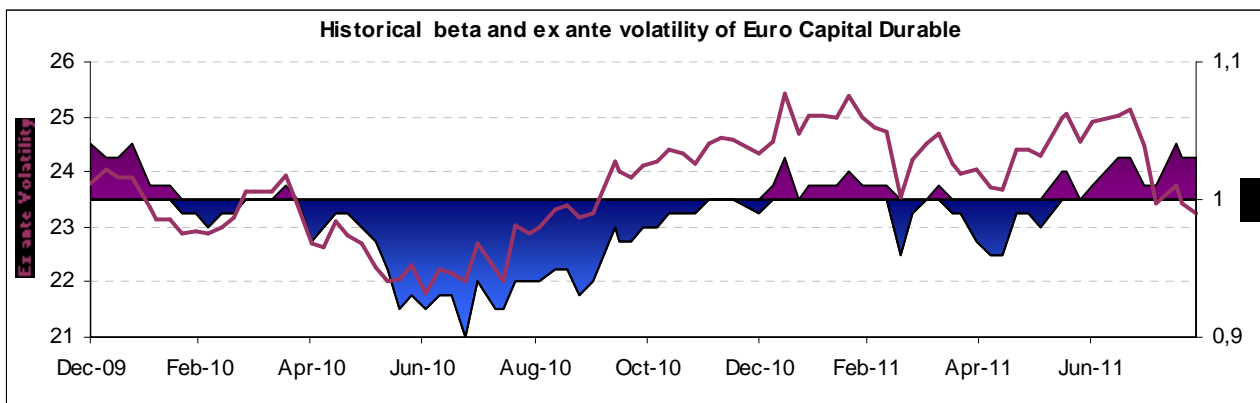
## EURO CAPITAL DURABLE

ISIN (I share): FR0010013987 - NAV as of 08/31/11: 240 M€



### Management in the summer of 2011:

- Gradual constitution of a cash allocation, amounting to 4% at the end of August
- Reduction in some cyclical stocks, particularly in the chemicals and cyclical consumption sectors, to reposition on defensive stocks (retail and telecommunications sectors)
- Underweighting in the financial sector increased in July
- Maintenance of a beta in the region of 1 -> neutral positioning in a turbulent market (see graphic below)



The low current valuation levels encourage us to invest our cash compartment to take advantage of favourable entry point values. These investments will be very progressive depending on the evolution of equity markets, and we will focus on defensive stocks. In addition, we maintain our strong caution and mistrust towards the financial sector, that we significantly underweight.

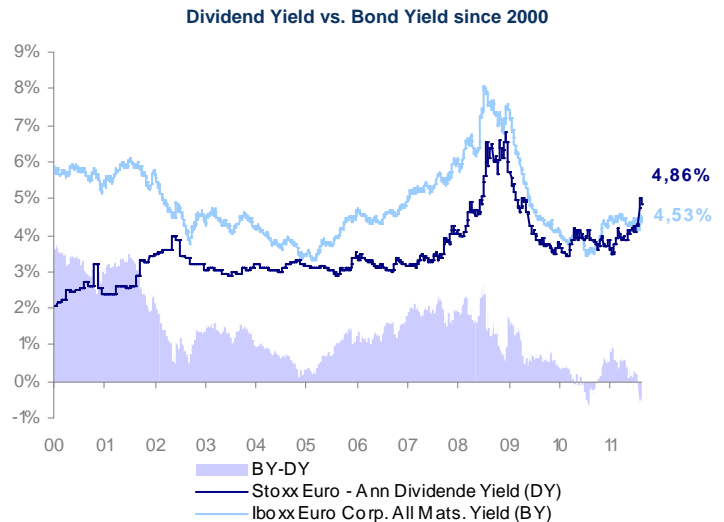
## G Fund European Equity High Dividend

ISIN (ID share): LU0632423496 - NAV as of 08/31/11: 12 M€

### An environment that favours high-return equity strategies:

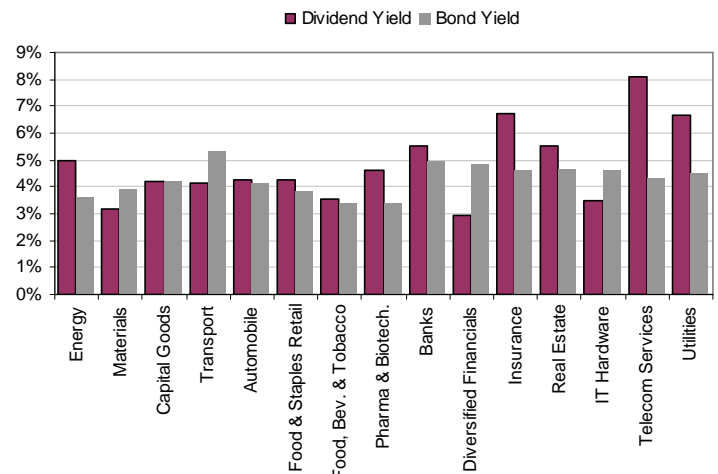
#### Pick-up of equity dividend returns compared to credit returns (private bonds):

- Sharp decline in bond yields including a significant rally of government rates in 2011
- A higher dividend yield of 0.33% compared to bond yield at the end of August: a gap that may become structural in a context of low interest rates



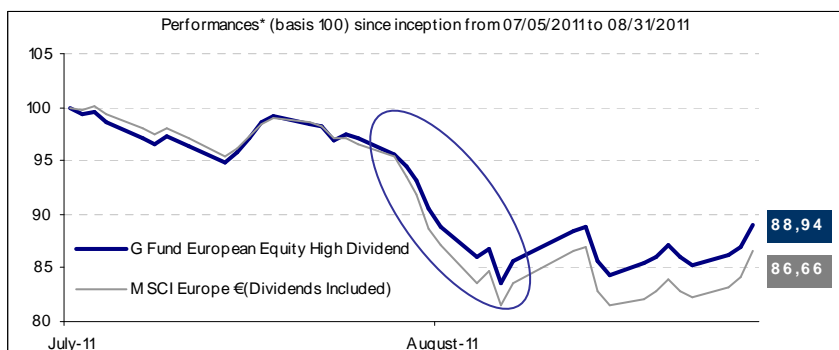
#### Returns on equity dividends higher than credit returns on the defensive sectors:

- Companies from defensive sectors traditionally distribute high dividends: energy, pharmaceuticals, insurance, telecommunications and utilities
- Defensive positioning that enables cushioning against market falls



### G Fund European Equity High Dividend: a selection of stocks whose dividend yield is higher than European zone average

=> A resilience ability in a bear market



=> A search for sustainable yield

**Estimated average annual return of the portfolio => 6.5%**

(No contractual return, calculated from the estimated 2011 Datastream / IBES)

**Estimated average annual return of MSCI Europe => 4.5%**

(MSCI Europe return calculated from the estimated 2011 Datastream / IBES)

Funds	Benchmark	Asset classes	YTD*		July / August**	
			Funds	Benchmark	Funds	Benchmark
Groupama Entreprises	Eonia capitalised	Short term Money Market	0,75%	0,60%	0,19%	0,17%
Groupama Trésorerie	Eonia capitalised	Money Market	0,72%	0,60%	0,05%	0,17%
Groupama Etat Euro	EuroMTS Global closing	Euro Government Bonds	2,9%	2,5%	2,6%	2,6%
G Fund Euro Corporate Bonds	Barclays Capital Euro Aggregate Credit Corporate	Euro Corporate Bonds	-0,1%	1,4%	-1,4%	-0,1%
Groupama Oblig Euro	Barclays Capital Euro Aggregate closing	Euro Aggregate	1,9%	2,9%	1,1%	2,1%
Groupama Oblig Europe	Barclays Capital Pan European Aggregate closing hedged	European Aggregate	2,9%	3,5%	1,9%	2,6%
Euro Capital Durable	MSCI EMU (dividends included)	Euro Equity	-13,7%	-14,5%	-17,4%	-17,9%
G Fund European Equity High Dividend***	MSCI Europe (dividends included)	European Equity	-11,1%	-13,3%	-11,1%	-13,3%

\*Performances (1 share) from 12/31/2010 to 08/31/2011

\*\*Performances from 06/30/2011 to 08/31/2011

\*\*\*Performances since inception (07/05/2011)

## Head of Business Development

**Jean-Marie Catala** + 33 1 44 56 79 18 [jmcatala@groupama-am.fr](mailto:jmcatala@groupama-am.fr)

## Head of international Sales

**Arnaud Ganet** + 33 1 44 56 56 61 [aganet@groupama-am.fr](mailto:aganet@groupama-am.fr)

## Western & Northern Europe

**Alexandre Jaeglé** + 33 1 44 56 89 17 [ajaegle@groupama-am.com](mailto:ajaegle@groupama-am.com)  
**Anne-Laure Mugnier** + 33 1 44 56 56 21 [almugnier@groupama-am.com](mailto:almugnier@groupama-am.com)  
**Matthieu Painturaud** + 33 1 44 56 77 72 [mpainturaud@groupama-am.com](mailto:mpainturaud@groupama-am.com)

## Italy

**Alberico Potenza** + 39 06 80 66 02 61 [apotenza@groupama-am.it](mailto:apotenza@groupama-am.it)  
**Fabrizio Salvi** + 39 06 80 80 361 [fsalvi@groupama-am.it](mailto:fsalvi@groupama-am.it)  
**Dario Carfizzi** + 39 06 85 34 40 43 [dcarfizzi@groupama-am.it](mailto:dcarfizzi@groupama-am.it)

## Spain

**Ivan Diez Sainz** + 34 91 598 28 22 [idiezsainz@groupama-am.es](mailto:idiezsainz@groupama-am.es)  
**Jorge Diaz** + 34 91 598 28 25 [jdiaz@groupama-am.es](mailto:jdiaz@groupama-am.es)

## SRI Development

**Michel Lemonnier** + 33 1 44 56 66 36 [mlemonnier@groupama-am.fr](mailto:mlemonnier@groupama-am.fr)

\* Past performance is no guarantee of future results. Funds' performance detail is available on our website [www.groupama-am.com](http://www.groupama-am.com)

## Warning

The information contained in this document is provided for information purposes only and is therefore not binding for its author. You may contact the sales teams of Groupama Asset Management and its subsidiaries for a personalized recommendation. This document is strictly confidential and intended solely for the recipients. Any unauthorized use or distribution, in whole or in part and in any way whatsoever, is prohibited and subject to penalties. Neither Groupama Asset Management nor any of its subsidiaries may be held liable for the document if altered, changed or falsified.

**GROUPAMA ASSET MANAGEMENT**

**58 bis, rue la Boétie**

**75008 Paris – France**

**<http://www.groupama-am.com>**