Investment Report – 30th June 2015

Shaken, not stirred

The escalation of the Hellenic drama, as well as the wave of terrorist attacks, unsettled investors during the second quarter and gave certain markets or market segments a thorough shaking. The fundamental framework, however, has hardly changed and, apart from politically-motivated imponderables, indicates a continuation of the reasonably fair overall climatic conditions for financial investments.

Economy growing

In consequence, the economy is growing satisfactorily. In fact, the prognosis for growth for both Germany and the Eurozone has been raised since the end of March. In the case of the UK and Switzerland, the pundits expect unchanged growth rates. By contrast, expectations for the USA and Japan came in slightly lower. In spite of slight improvements, unemployment, particularly in Europe, remains at high levels. In May, unemployment in the EU was reported to be 9.6%, whereas for Euroland it was 11.1%. Particularly depressing are the unemployment rates of 25.6 and 22.5%, respectively, in Greece and Spain, whereas the situation in Germany as well as the UK with 4.7 and 5.4%, respectively, is best of all better. In Switzerland, unemployment during May stood at a seemingly utopian 3.2%.

Average **growth and inflation forecasts** from “The Economist's" June poll of economists:

	Real GDP Growth		Inflation	
	2015	2016	2015	2016
Germany	1.8%	2.1%	0.5%	1.7%
Euroland	1.5%	1.8%	0.2%	1.3%
United Kingdom	2.4%	2.4%	0.3%	1.6%
Japan	0.8%	1.6%	0.6%	1.0%
Switzerland	1.0%	1.3%	-0.9%	0.1%
USA	2.3%	2.8%	0.4%	2.1%

On the exchanges, not only speculation about Greece's possible exit from the Eurozone was running wild, but also the question as to when precisely a loan or bond is officially in default. This is important as the status “in default” usually not only refers to the bond immediately concerned, but as a general rule puts all other bond owners, even those of bonds with later maturities, in a position to demand immediate repayment.

Change in **Equity Markets since the beginning of the year:**

		Dec. 2014	June 2015	Change[1]
Asia ex Japan	DJ STOXX A/P	486.7	477.5	**-1.9%**
Germany	DAX	9,805.6	10,945.0	**11.6%**
Europe	DJ STOXX 600	342.5	381.3	**11.3%**
Japan	TOPIX	1,407.5	1,630.4	**15.8%**
Switzerland	SPI	8,857.0	8,918.6	**0.7%**
USA	S&P 500	2,058.9	2,063.1	**0.2%**
World	MSCI World Index	417.1	423.5	**1.5%**

This commonly employed “cross default clauses” are used to ensure that all bond holders of a particular debtor are on equal terms in case of insolvency. It is easy to picture what the official stamp “in default” would mean for Greece, should it be so labelled.

America's Greece

Talking about default; while Americans are unnerved about Europe's inability to deal with the Hellenic issue, they have their own version of Greece right on their doorstep, meaning Puerto Rico, a peripheral territory of the USA. There, delays occurred in debt repayments by the government-controlled electricity utility. In addition, the governor of the Caribbean State announced that the country will not be in a position to honour its obligations of 72 billion Dollars. He called on the creditors to make concessions.

US President Obama, who also is the head of state of Puerto Rico, precluded that the USA would provide financial assistance. In the USA, Puerto Rican Bonds are traded on the market for so-called “Municipals” (debentures of federal debtors). Relative to the market's total volume, however, Puerto Rican Bonds constitute only a fraction.

Nevertheless, a default would be the largest of its kind in this investment segment that is most popular with American investors. Shock waves generated from here would have the potential of having an impact on the US Central Bank's decision making regarding

[1] Development of index in local currency. Exceptions Asia ex Japan and World in USD

interest rate rises, and could push the timing of the first interest rate hike in the USA further back.

The **equity funds employed by us** achieved the following returns[2] since the beginning of the year, with some beating their benchmarks:

Aberdeen Asia Pacific (USD)	1.0%
JB Japan Stock Fund (CHF hedged)	16.5%
JB Japan Stock Fund (EUR hedged)	17.3%
Performa Asian Equities (USD)	2.1%
Black Rock Swiss Small & Midcap Opp. (CHF)	4.9%
Raiffeisen Futura Swiss Stocks (CHF)	0.7%
iShares ETF MDAX-Index (CHF)	-0.3%
Performa European Equities (EUR)	12.5%
iShares ETF Core S&P-500-Index (USD)	-0.2%
Performa US Equities (USD)	8.6%
Perkins US Strategic Value (USD)	-2.0%

Asset Allocation:

At its meetings, the Investment Committee decided on the following changes to the asset allocation for medium-risk balanced Swiss Franc portfolios, not subject to client's restrictions (mandates in different reference currencies at times display different nominal weightings and weighting changes):

Money Market: Money markets are currently not havens of much happiness, at least not from the point of view of their (non-existent) returns. Notwithstanding, every portfolio has to hold a certain cash quota at any given time in order to allow us to react to opportunities as they arise, and as a low volatility diversification to other investment categories.

Bonds: Maturities have reduced the weighting in the portfolios. We are reinvesting reluctantly and, if in doubt, prefer redemptions to add to liquidity. As a consequence, we are underweight in bonds.

Equities Switzerland: The Swiss equity market has forfeited some of the gains made during the previous quarter. Overall, the Swiss Performance Index (SPI) closed the first semester with a plus of 0.7%. All the more gratifying, therefore, is the performance of our directly-invested "Swiss Stock Portfolio". Here, profits grew to a total return (including dividends) of 5.98% by 30th June. The annual total return of the SSP since 2010 amounts to 9.71% p.a., whereby the performance stands higher than the benchmark at 8.57%. Whereas the figures for the SSP include transaction costs and taxes at source, the reference index does not have to bear these costs. The Raiffeisen Futura Swiss Stocks, as well as Black Rock Swiss Small & Midcap Opportunities Funds, stayed within the index's range (Raiffeisen), or above, (Black Rock). The positions remained unchanged.

Other funds employed by us developed as follows[3]:

Acatis IfK Value Renten Fond (EUR)	3.6%
Acatis IfK Value Renten Fond (CHF)	2.4%
Lyxor ETF Euro Corp. Bond Fund (EUR)	-2.0%
New Capital Wealthy Nations Bond Fund (EUR)	3.2%
New Capital Wealthy Nations Bond Fund (CHF)	2.8%
New Capital Wealthy Nations Bond Fund (USD)	3.3%
Pictet CH-CHF Bond Fund	1.1%
Swiss Rock Absolute Ret. Bond Fund (EUR hedged)	-0.5%
Swiss Rock Absolute Ret. Bond Fund (CHF hedged)	-1.5%
UBAM Corporate USD-Bonds (EUR hedged)	-1.0%
UBAM Corporate USD-Bonds (CHF hedged)	-1.5%
ZKB ETF Gold (USD)	-3.0%

Equities Europe: Equally unchanged is the overweight position in European Stocks. Prices did recede. This is particularly apparent in the case of German equities (DAX -8.5%; ytd return stands at plus +11.6%). The pan-European equity index, DJ Stoxx 600, ceded about 4 percent. Since the beginning of January though, it is still up in excess of 11%.

The Performa European Equity Fund (+12.5%), as well as our directly-invested European Stock Portfolio (ESP), have both delivered pleasing results. The latter has clocked up a total return (price change plus dividends) of 17.43% since the beginning of the year. The Dow Jones Stoxx 600 Index (total return) achieved 13.4%. Since 2004, the

[2] Performance in fund currency. Source: Bloomberg or respective fund company

[3] Performance incl. re-invested dividends where applicable

average annual performance of the directly-invested portfolio amounts to 10.04%, compared to 7.58% of the benchmark. The figures for the European Stock Portfolio (which can be seen on our website www.salmann.com) take into account transaction costs and dividends taxed at source, whereas the reference index bears no such costs.

Equities USA: Wall Street displayed little conviction. The S&P 500 closed June at the levels of the previous quarter, which in turn is near to the levels at the beginning of the year. No changes have been made to this allocation

Equities Asia (excluding Japan): The position remains unchanged. With an about 5% weighting we are slightly overweight.

Equities Japan: The Land of the Rising Sun has seen prices rise. The Topix Index is up 15.8% on the year end 2014. In Japan too, no changes have been made. The position is of a similar weighting to Asia's, which renders it slightly overweight. The Yen currency risk is hedged into clients' reference currencies.

Alternative Investments: This category is taken unchanged by the 3% position in a gold ETF. With interest rates around zero, no opportunity cost applies to the precious metal. We look upon gold as a diversification of liquidity.

Summary of our current **Asset Allocation**[4]**:**

Investment Category	
Money Market	neutral
Bonds	underweight/short duration
Equities Switzerland	overweight
Equities Europe	overweight
Equities USA	overweight
Equities Asia	overweight
Equities Japan	overweight
Alternative Investments	underweight

[4] For a Swiss Franc referenced portfolio

Conclusion / Outlook

Economy/politics: On a global basis, the Purchasing Managers Index, an important gauge of economic activities, stands above 50 points, signalling expansion. We expect slow growth of the global economy during 2015, and see good chances of an acceleration during 2016. The risks we see are more in politics and psychology. Greece's exit is not seen as a significant economic problem globally. However, market reactions and political consequences are difficult to predict. An orientation of this NATO member towards Russia and/or China, who may be tempted to take on the role of White Knight for the Greeks, is not at the top of the popularity stakes, neither in Europe nor in the USA. The expansion of the IS, the terrorist attacks, China's expansive behaviour in its coastal waters, and the smouldering Ukrainian conflict contain enough fuel for unpleasant market reactions, particularly from the psychological aspect. Inflation continues to remain beyond the horizon and as such is not a threat to equity exchanges.

Since the beginning of the year, **yields on 10-year government bonds** rose in all countries with the exception of Switzerland:

	Dec. 2014	June 2015	Change
Europe	0.54%	0.76%	41%
United Kingdom	1.76%	2.02%	15%
Japan	0.33%	0.47%	42%
Switzerland	0.32%	0.13%	-60%
USA	2.17%	2.35%	8%

Bonds/interest rates: Yields on bond markets rose in part markedly during the quarter. The lows are likely to be behind us but we do not expect a continuing rapid rise. At the short end, central banks will keep the floodgates open and target low short-term rates. Even in the USA, a tightening of the interest rates screw does not appear to be immediately imminent.

Equities: Fundamentally, valuations became slightly more attractive, nominally however, they are still rather on the high side. Seen in the context of current interest rate levels, however, this is put into perspective. Equities are fairly valued. True, volatility is likely to rise, but a broad-ranging exit from stocks does not appear appropriate.

Measured on the **price/earnings ratio**[5] using the latest 12 months profit figures, most equity markets have become dearer during the course of the year (red), while one has become more attractive (green):

	Dec. 2014	June 2015	Change
DAX Index/DE	17.2	17.7	**+3%**
DJ STOXX 600 Index/EU	21.3	22.7	**+7%**
MSCI World Index	16.9	17.8	**+5%**
S & P 500 Index/USA	18.2	18.2	**+/-0%**
SPI Index/CH	19.5	17.7	**-9%**
TOPIX Index/JPN	16.1	18.5	**+15%**

On our own account

We are pleased to inform you that Salmann Investment Management AG is an associated participant in the investor compensation scheme, which is operated by the Deposit Guarantee and Investor Compensation Foundation PCC (FL-0002.039.614-1) and corresponds with EU law. Further information is available on the Foundation's website under www.eas-liechtenstein.li. And obviously directly from us!

Price/Book and **Dividend Yield** of major equity markets:

	Price / Book	Div. Yield
DAX Index/DE	1.7	2.7%
DJ STOXX 600 Index/EU	1.9	3.4%
MSCI World Index	2.1	2.5%
S & P 500 Index/USA	2.9	2.1%
SPI Index/CH	2.1	3.1%
TOPIX Index/JPN	1.4	1.6%

And finally this

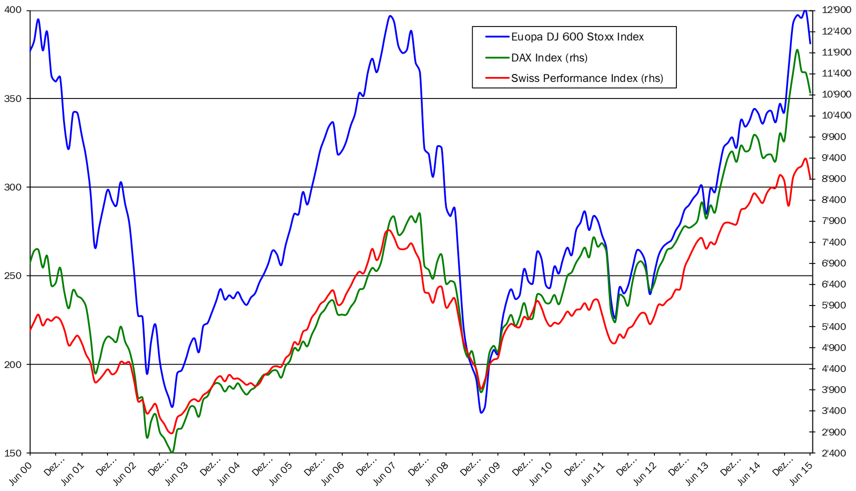
Switzerland is the best country to retire in globally. This is the conclusion of a recent survey conducted and published by the financial institution, Natixis Global Asset Management. Runners-up are Norway and Australia. The assertions about its qualities as a paradise for senior citizens are based on comparisons taken regarding health, quality of life, financial opportunities, tax burden, as well as environmental pollution, security, stability amongst many others. Over a dozen factors are reflected in the Natixis Global Asset Management CoreDate Global Retirement Index. According to which, in 2015 Switzerland successfully defended its leader position that it already attained the previous year. Many central and northern European countries feature in the top ten, amongst them Austria at Number 8, and Germany at Number 9. It is not until tenth place that we find the second non-European, New Zealand. Japan is at the 17th, and the USA at the 19th place. The study attributes little desirability to retirement in Congo, the Central African Republic, or bottom of the table Togo. 150 nations where included in the survey.

We thank you for the trust placed in us, and wish you sunny and restful summer (holi)days.

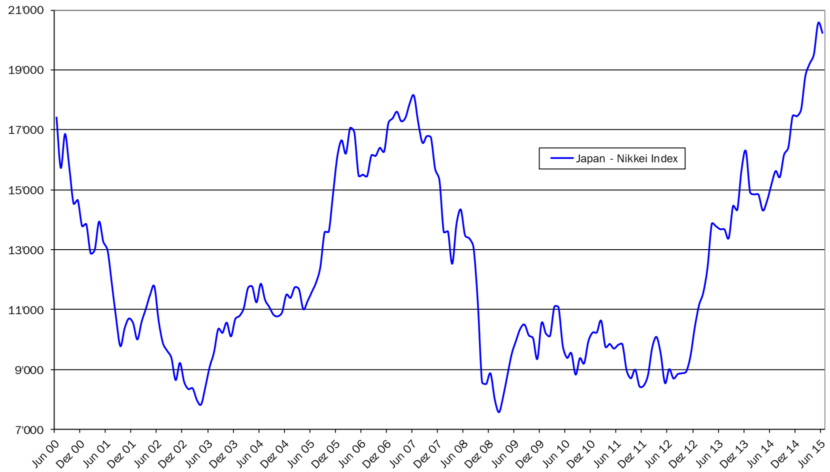
Alfred Ernst
Vaduz/Zurich, 30st June 2015

[5] Source: Bloomberg

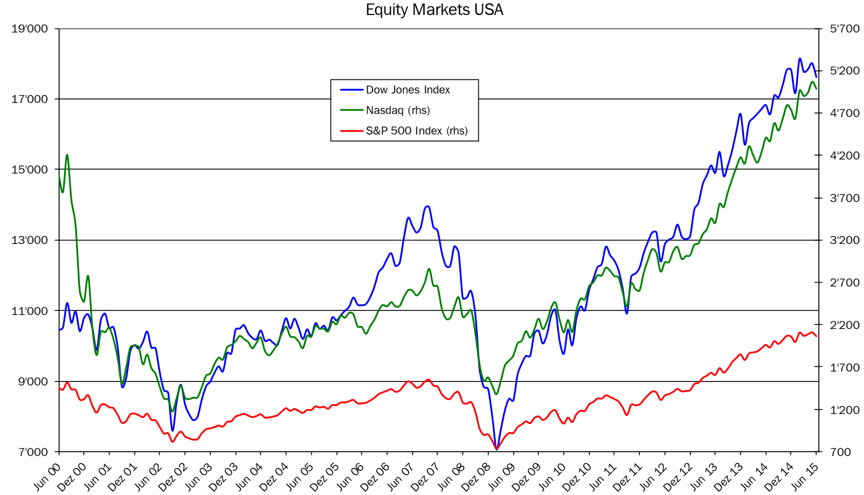
Equity Markets Europe



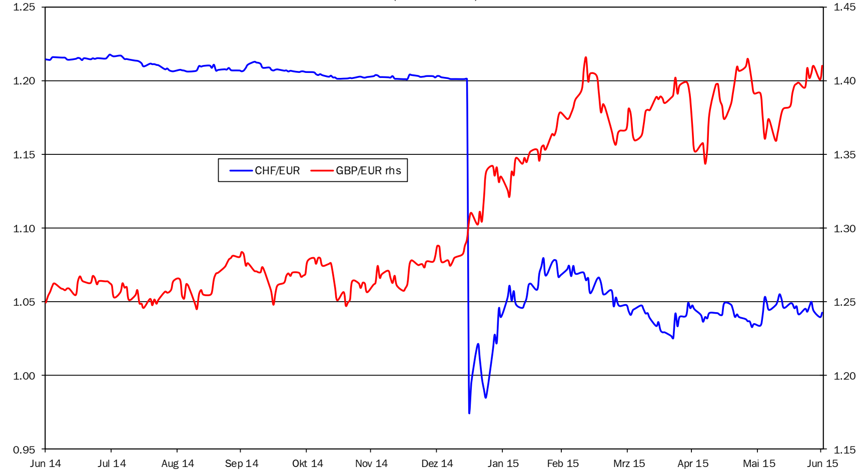
Equity Market Japan



Equity Markets USA



CHF/EURO and EURO/GBP Exchange Rate
(last 12 month)



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