

Annus horribilis

Investment Report – 31st December 2022

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The fourth quarter on the financial markets was like balm for the soul for investors. All the major stock markets posted share price gains. Bonds were also able to slow their downward trend or recover somewhat. Overall, however, 2022 will go down in the annals as an "annus horribilis".

"It is difficult to make predictions, especially about the future." In the past year, this quote, (allegedly) from Mark Twain, has once again been confirmed as being extremely true. It has been a very long time since the majority of forecasters were proven as wrong as they were in 2022, when most predictions about economic development,

inflation, interest rates and the financial markets turned out to be completely incorrect. Of course, the assumption that Russia was just sabre rattling on the Ukrainian border was also completely misplaced.

In hindsight, we acknowledge that the economy is flagging (instead of booming), inflation is stubbornly high (instead of collapsing), interest rates have risen at an unprecedented rate in an extremely short space of time (instead of rising moderately) and the financial markets have entered one of the darkest periods in years (instead of pleasing investors with the continuation of the bull market). Last but not least, we also have to concede that the world has become a much more uncertain, not to mention dangerous, place.

The prognosis for 2023 does not look very rosy at the moment either. The economy is limping along, and a look at the evolution of the pandemic (e.g. in China), as well as at the political landscape, is not conducive to sparking euphoria. Since September alone, the growth forecasts of "Bloomberg" for gross domestic product have been downgraded in 23 out of 26 countries. According to today's forecast, the European Union is expected to grow by only 0.1% and the USA by 0.3%. The estimates for inflation in 2023 have increased somewhat, although fortunately inflation is likely to be significantly lower than the levels reached in 2022.

Change in Equity Markets since the beginning of the year:

		Dec. 2021	Dec. 2022	Change
Asia ex Japan	MSCI AC Asia ex Japan	606.8	487.5	-19.7%
Europe	DJSTOXX 600	1'098.7	981.8	-10.6%
Japan	MSCI Japan	2'538.1	2'424.1	-4.5%
Switzerland	SPI	16'444.5	13'734.9	-16.5%
USA	MSCI USA	13'304.0	10'663.8	-19.8%
World	MSCI AC World	9'755.7	7'985.9	-18.1%
Hedge Funds	HFRX Global HF	1'430.9	1'367.9	-4.4%

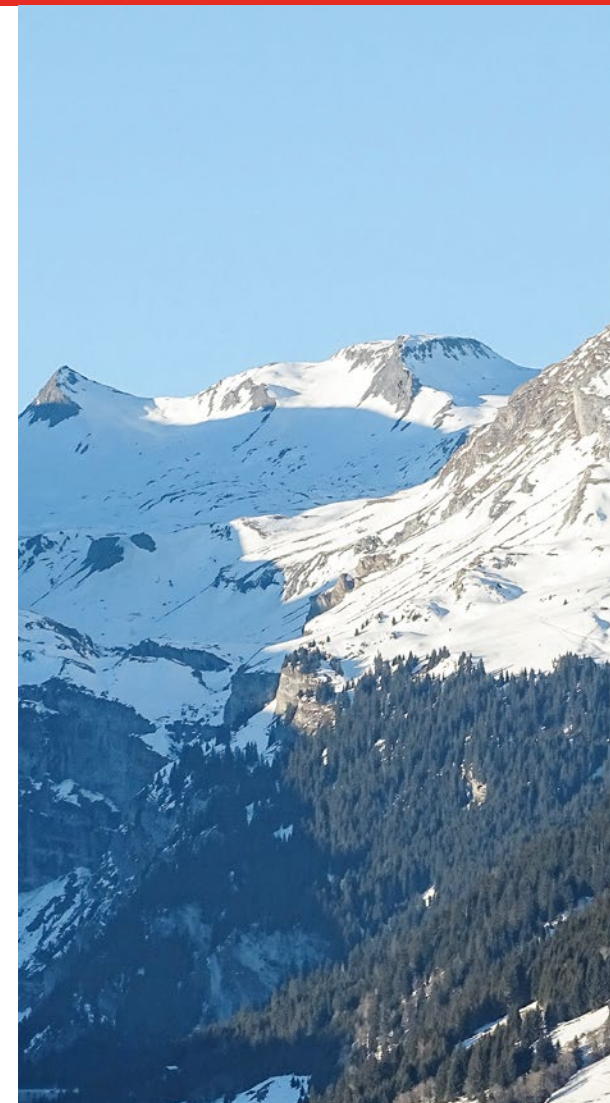
Development of index in local currency. Exceptions Asia ex Japan and World in USD. MSCI-Indices are net total return.

Average **growth and inflation** forecasts of economists surveyed by the "Bloomberg Composite Contributor Forecast":

	Real GDP Growth		Core-Inflation	
	2022	2023	2022	2023
China	3.0%	4.9%	2.1%	2.3%
Germany	1.7%	-0.6%	8.8%	6.5%
EU	3.3%	0.1%	9.1%	6.5%
United Kingdom	4.4%	-1.0%	9.1%	7.2%
Japan	1.4%	1.2%	2.4%	1.8%
Switzerland	2.0%	0.6%	2.9%	2.1%
USA	1.9%	0.3%	8.0%	4.0%

Fifty shades of red

The dark red that still dominated the stock markets at the end of September paled slightly in the fourth quarter. Some of the markets staged impressive recovery rallies. Among the established markets, Germany in particular stands out, where the DAX index gained 15%. The change in mood from the autumn's end-of-the-world scenario (with the buzz words "energy crisis" and "deep



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recession"), to a frame of mind that can be better described as a "We can do it" attitude, has paid off for shareholders.

The pattern was similar for Asia (excluding Japan) and the World Equity Index, where the relevant indices advanced by around 10%. The Swiss Performance Index (SPI) remained rather pale with a quarterly gain of around 4%, but relative to other stock markets it is slightly less red in the year-end statement.

As regards the financial markets, and depending on the country and currency, one has to go back many, or even a great many years to find a similar

Since the beginning of the year, **yields on ten-year government bonds** have increased everywhere:

	Dec. 2021	Dec. 2022	Change
Europe	-0.18%	2.57%	1528%
United Kingdom	0.97%	3.67%	278%
Japan	0.07%	0.42%	500%
Switzerland	-0.14%	1.62%	1257%
USA	1.51%	3.88%	157%

twelve-month period in which equities and bonds delivered such a uniformly miserable performance. Indeed, other asset classes were unable to counterbalance it. The various tables in this report speak volumes. And yet it was not wrong to rely on diversification, i.e. not to put all our eggs in one basket.

Japanese shares, for example, have lost much less (in Yen) than Asian shares outside Japan, while hedge funds are now less in the red than Swiss shares, and Gold has even managed to achieve a black zero. Put very simply, one could also say that the biggest losers in one year are often the biggest winners in another, and vice versa.

However, this is where the forecasting difficulty alluded to by Mark Twain begins. Identifying which investments will perform best in the future, and which will perform worst, can hardly be answered at the beginning of the year merely based on a view of the coming months.

However, over the long term, it has been proven that equities offer the best returns, even in real terms, i.e. after deducting inflation. A long-term study by the private bank, Pictet, which has evaluated the returns on Swiss equities and bonds since 1926, shows an average annual return of 9.8% nominal and 7.8% real return for Swiss equities in the period between 1926 and 2021 (the update

The **equity funds employed by us** achieved the following returns since the beginning of the year:

Aberdeen Asia Pacific (USD)	-18.6%
Barings ASEAN Frontiers Equities (USD)	-14.1%
CS Index Fund Equity Switzerland Large Caps (CHF) *)	-1.9%
GAM Japan Stock Fund (CHF hedged)	-9.3%
GAM Japan Stock Fund (€ hedged)	-9.0%
GAM Swiss Sustainable Companies Fund (CHF) *)	-0.7%
Strategy Certificate SIM-Swiss Stock Portfolio Basket	-18.5%
iShares Core SPI ETF (CHF)	-16.5%
iShares Stoxx Europe 600 ETF (€)	-12.5%
Performa European Equities (€)	-1.2%
Performa US Equities (USD)	-33.8%
BB Adamant Medtech & Services Fund (CHF)	-15.5%
BB Adamant Medtech & Services Fund (€)	-11.3%
BB Adamant Medtech & Services Fund (USD)	-16.8%

Performance in fund currency.

Source: Bloomberg or respective fund company.

*) Performance since purchase December 2022.

including 2022 was not yet available at the time of going to print). The nominal return on Swiss franc bonds was 4.2% and the real return 2.3%.

A 100-franc note invested in equities in 1926 would therefore have grown to an impressive 157,384 francs by the end of 2021. In contrast, the same initial capital would have grown to only 4,911 francs by investing in bonds. The national Consumer Price Index has risen from 100 to 619 during the course of the period under study.

Conclusion: To overcome the challenge, a steady hand is needed

We are convinced that with the strategic and tactical asset allocation currently in place, together with the stock selection we have made, we are well positioned for the future. We are basing this on a scenario with the following key points:

Interest rates in Swiss Francs and Euros will probably continue to rise, and this more strongly than in US Dollars, where the peak already seems to be in view. Inflation is likely to have more or less passed its peak. Falling commodity and transport prices, a further easing of difficulties in the supply chains and a cooling economy are contributing to this. Economic growth continues to slow, but a recession will only occur in some economies and will be rather mild. The overvaluation of many equity markets has given way to a more realistic valuation.

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 other reference currencies show partially deviating changes and weightings.

Other funds employed by us performed as follows:

Acatis IfK Value Renten Fond (CHF hedged)	-13.1%
Acatis IfK Value Renten Fond (€)	-12.8%
BCV Liquid Alternative Beta Fund (CHF hedged)	-7.6%
BCV Liquid Alternative Beta Fund (Euro hedged)	-7.4%
BCV Liquid Alternative Beta Fund (USD)	-5.2%
Lyxor ETF Euro Corp. Bond Fund (€)	-13.5%
Pictet CH-CHF Bond Fund	-12.3%
Plenum European Insurance Bond Fund (CHF hedged)	-15.8%
Plenum European Insurance Bond Fund (€)	-15.7%
ZKB ETF Gold (USD)	0.0%

Performance incl. re-invested dividends where applicable.

Money market

In the fourth quarter, we did not make any active changes to the Swiss Franc-denominated mandates. On the other hand, we slightly reduced our cash holdings in US dollars and Euros and, in return, slightly increased our holdings in the corresponding bonds. Overall, however, we continue to be overweighted in liquid assets in all reference currencies.

Bonds

We did not actively change our positions in Swiss Francs and continue to be underweighted in bonds, albeit less significantly than before. Opportunities have arisen, especially for mandates in US dollars, to buy one or the other security and to extend the maturities slightly. This was less pronounced in Euros and Swiss Francs, but it can also be said that the investment drought in these two currencies, in which there were hardly any returns to be had, has come to an end.

Equities Switzerland

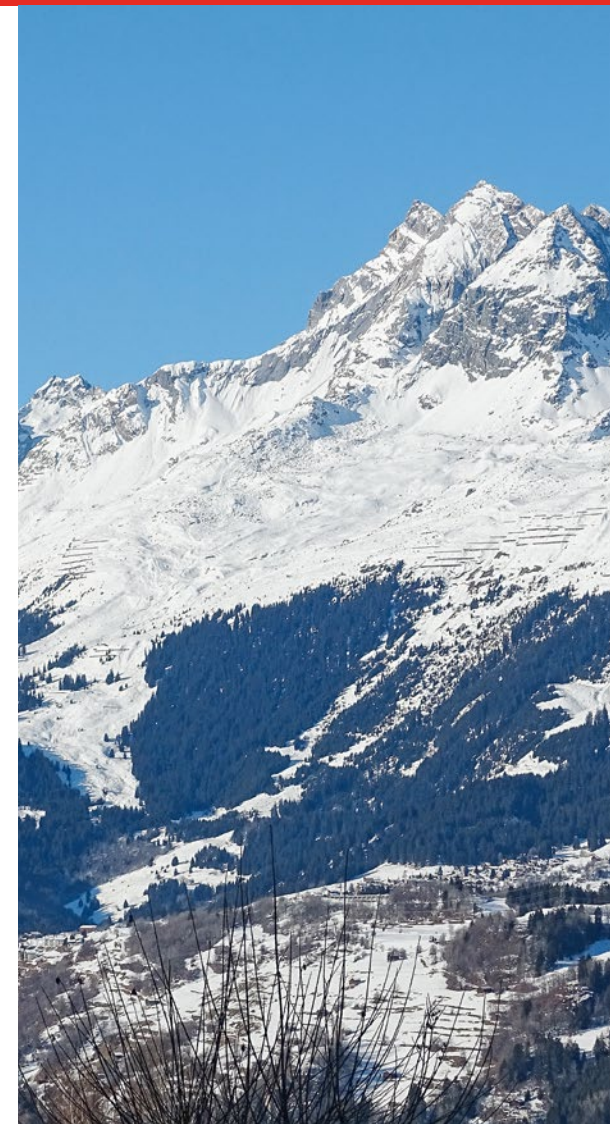
Our value stock selection, the "Swiss Stock Portfolio" (SSP), put in a final spurt in the fourth quarter in which it was able to distance itself from the benchmark. During this phase, our selection returned 7.7%, compared to the 4.3% gain of the Swiss Performance Index (SPI). The year-end surge was dominated by Bucher Industries (+24%), Vetropack (+23%) and Tecan (+20%). The taillights

in the final quarter were held by Siegfried (-16%), Roche (-10%) and Coltene (-1%).

For the year as a whole, the SSP suffered a loss of 17.6%, the SPI one of 16.5%. Over the long term, the performance is clearly better. Since 2012, the average annual performance has been 11.4%, which clearly exceeds the average benchmark performance of 9%. Since 2012, this strategy has achieved a cumulative total performance of around 227%, while the index has achieved 157%. Transaction costs are deducted in the SSP figures, whereas the benchmark index is cost-free.

In the fourth quarter, we decided to change the orientation of the mandates in Swiss Francs that hold investment funds instead of direct investments. We sold the UBS tracker certificate on the SSP, which would have expired in 2023 anyway, in the fourth quarter. The fact that only the net amount after withholding tax could be credited with the incoming dividends proved to be a structural disadvantage in the long term, which, contrary to expectations, could not be compensated with disproportionate price gains.

Instead of the tracker certificate, a very cost-effective index fund is now used for the large-cap stocks (the so-called blue chips). Specifically, this is the CSIF Equity Switzerland Large Caps Fund.



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For the mid- and small-capitalised Swiss equities, we now use the GAM Swiss Sustainable Companies Fund. In the course of this reallocation, the shares in the iShares Core SPI ETF were also sold in the aforementioned mandates with investment funds, because this equity would represent a duplicate of the index fund.

The **price/earnings ratios** based the latest 12 months profit figures, have mostly become cheaper:

	Dec. 2021	Dec. 2022	Change
SPI Index	16.4	17.7	7.9%
DJ STOXX 600 Index	20.8	14.6	-29.8%
MSCI AC Asia ex Japan	16.2	12.3	-24.1%
MSCI Japan	15.1	13.5	-10.6%
MSCI USA	27.1	18.9	-30.3%
MSCI AC World Index	23.2	16.7	-28.0%

Source: Bloomberg. MSCI-Indices are net total return.

Equities Europe

The European stock selection, the "European Stock Portfolio" (ESP), could not escape the adverse market situation, although it managed to catch up considerably in the last quarter. The performance in the last three-month period was +12.9%, which means that the selection outperformed the DJ Stoxx 600 Index (+9.8%).

The best-performing individual stocks for the quarter included Kindred Group, up 29%, BE Semiconductor (+27%) and A2A, up 24%. On the negative side, Nestle (-4%), Persimmon (-2%) and Equinor (+1%) did not keep pace with the portfolio average or the overall market. The above changes are all expressed in Euros.

For the year, the ESP has a loss of 13.1%. The benchmark is down 10.6%. In the figures for the ESP, transaction costs and withholding taxes are deducted, whereas the benchmark index is calculated without costs.

The long-term performance of the ESP since 1992 shows an annual average return of 7.9%, compared to 6.7% for the benchmark. The portfolio has thus accumulated 955% since the beginning of the measurement period, compared to 647% for the cumulative index performance. The Performa

Price/Book and Dividend Yield of major equity markets:

	Price/Book	Div. Yield
SPI Index	2.5	3.0%
DJ STOXX 600 Index	1.7	3.4%
MSCI AC Asia ex Japan	1.4	2.8%
MSCI Japan	1.2	2.7%
MSCI USA	3.9	1.7%
MSCI AC World Index	2.8	2.3%

Source: Bloomberg. MSCI-Indices are net total return.

European Equity Fund, which is used in fund mandates, achieved an excellent result with a virtually black zero.

Equities USA

Although America is doing better economically than the Old World and the United States is much further away from the war in Ukraine than Europe, the performance of American equities is even worse than those in other parts of the world. There are several reasons for this. On the one hand, the US Central Bank, the Fed, started

raising key interest rates earlier, and it has now also raised them to a much higher level.

Currently, the rate for the US key interest rates, the Fed Fund Rate, is 4.5%. This compares with 2.5% currently set by the European Central Bank (ECB) and 1% being targeted by the Swiss National Bank (SNB). These sharp interest rate increases by the US Federal Reserve have massively deflated the previously high valuations of Wall Street's weighty high-tech giants.

The positions did not change in the fourth quarter. With regard to our Performa US Equity Fund, it should be noted that while the fund underperformed its benchmark in 2022, it performed excellently in 2021 (+24.4%), 2020 (+52.6%) and 2019 (+33.8%).

Equities Asia (ex Japan)

In China, the pendulum is clearly swinging towards a deterioration of the political landscape. At the last party congress, head of state, Xi Jinping, further concentrated and cemented his power. It seems that ideology now takes precedence over economic success.

China's behaviour towards Taiwan is also becoming more aggressive, and the alarm bells are also

ringing regarding the Covid pandemic. All this makes us sceptical about China, which is why we intend to look at a possible change in Asian equities (excluding Japan) in the near future. Positions remained unchanged in the fourth quarter.

Equities Japan

Japan was one of the less affected equity markets in 2022. We made no changes in the fourth quarter and remain slightly overweight in the relatively attractively valued Japanese market.

Since the beginning of the year, the selected **foreign exchange rates** have performed as follows:

	Dec. 2021	Dec. 2022	Change
CHF / Euro	1.0375	0.9896	-4.6%
CHF / USD	0.9129	0.9245	1.3%
Euro / USD	0.8793	0.9341	6.2%
Yen / USD	115.08	131.12	13.9%

Source: Bloomberg.

Alternative Investments

This year, hedge funds have again achieved a relative out-performance compared to global equity and bond markets, thus fulfilling their diversification task, although one admittedly could have wished for a rather better result. The asset class did not change in the fourth quarter.

Summary of our **current Asset Allocation:**

Asset class	
Money Market	overweight
Bonds	underweight/ short duration
Equities Switzerland	neutral
Equities Europe	slightly underweight
Equities USA	slightly overweight
Equities Asia	slightly overweight
Equities Japan	slightly overweight
Precious Metals	no position
Alternative Investments	underweight

For a Swiss Franc referenced portfolio.

Precious Metals

Currently, we do not hold any precious metals in the portfolios. After we halved the Gold positions in the second quarter with respectable gains and gave them up completely in July, Gold plunged as a result of the steep rise in interest rates in the USA. With the interest rate rise in America now seemingly flattening out, investors regained hope in November and December and helped the yellow metal to recover.

News from us

After 28 years in the service of our company, **René Frank** will begin his well-deserved retirement in the first quarter of 2023. René Frank joined the Executive Board of Salmann Investment Management in 1994 and was its Chairman from 2000 to 2021. However, René Frank will not be retiring completely. He will continue to serve the company actively as a Partner and Member of the Board of Directors.

We would like to take this opportunity to extend our sincere thanks to René Frank for his decades of loyal service and look forward to continuing to count on his great expertise and far-sightedness even as he enters the third chapter of his life.

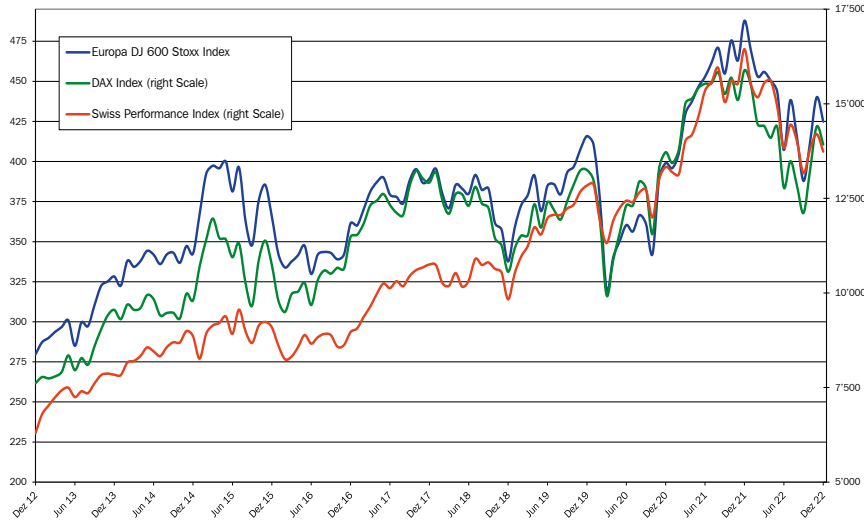


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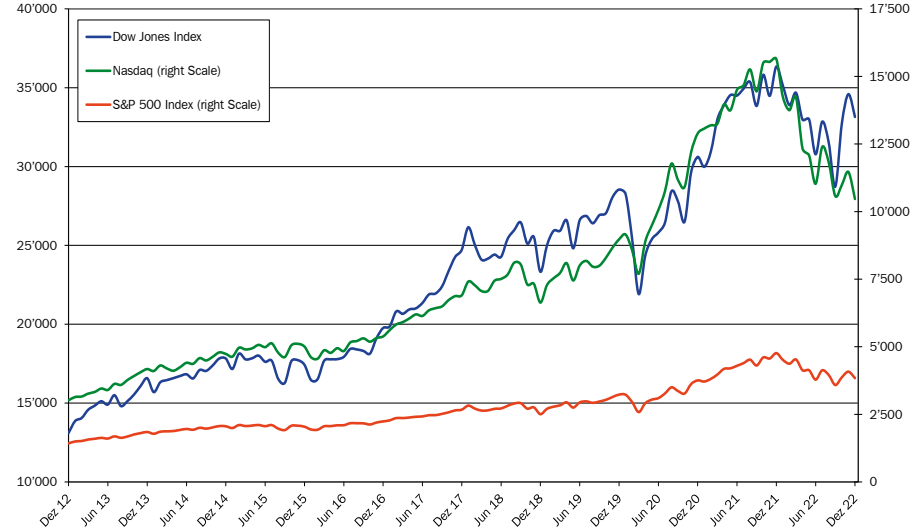
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Equity Markets at a glance

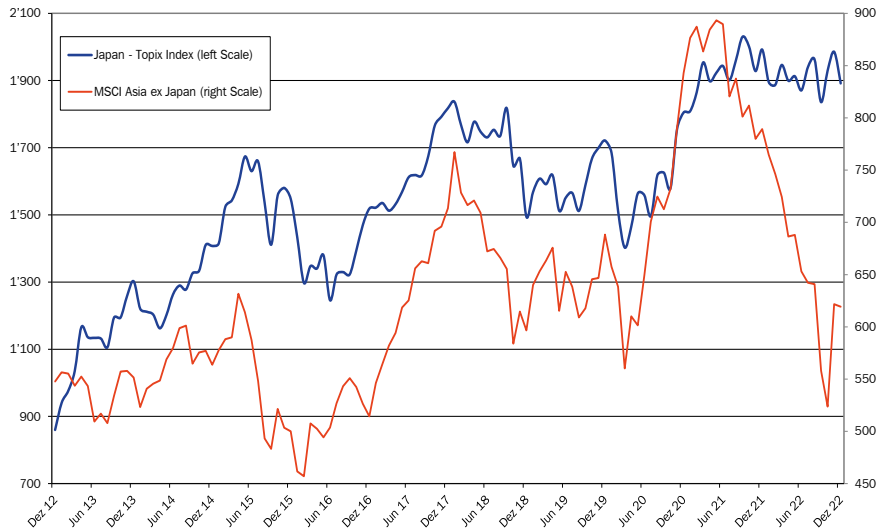
Equity Markets Europe in Index-Points



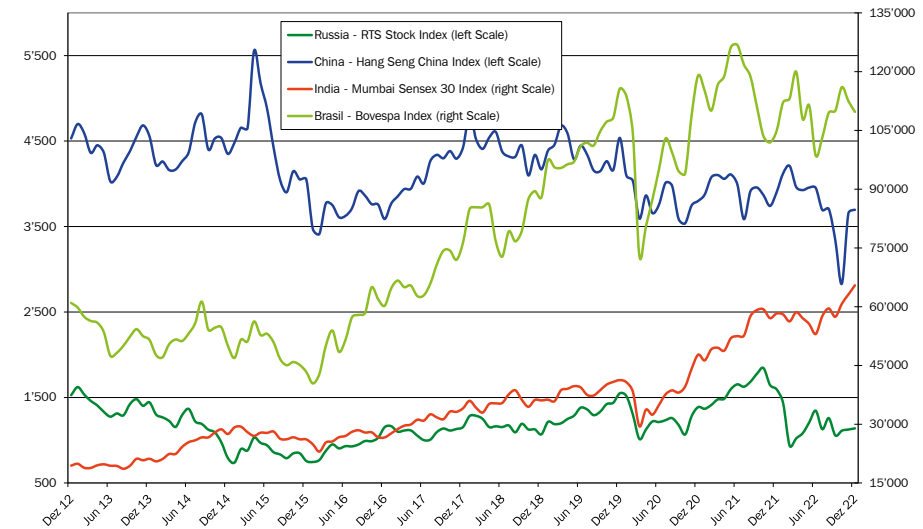
Equity Markets USA in Index-Points



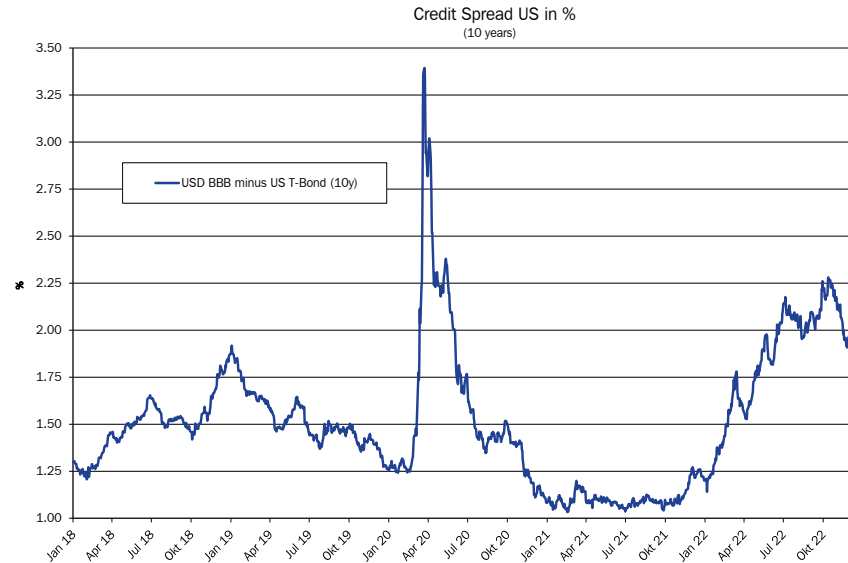
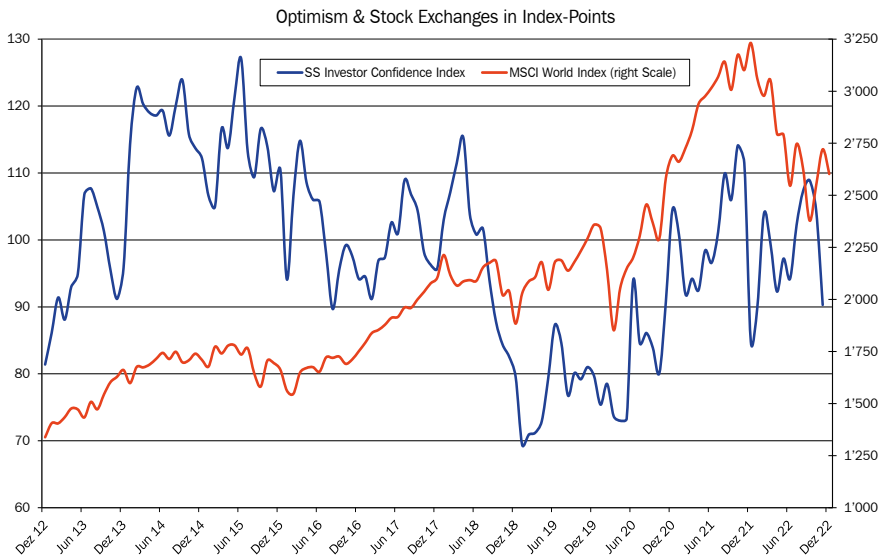
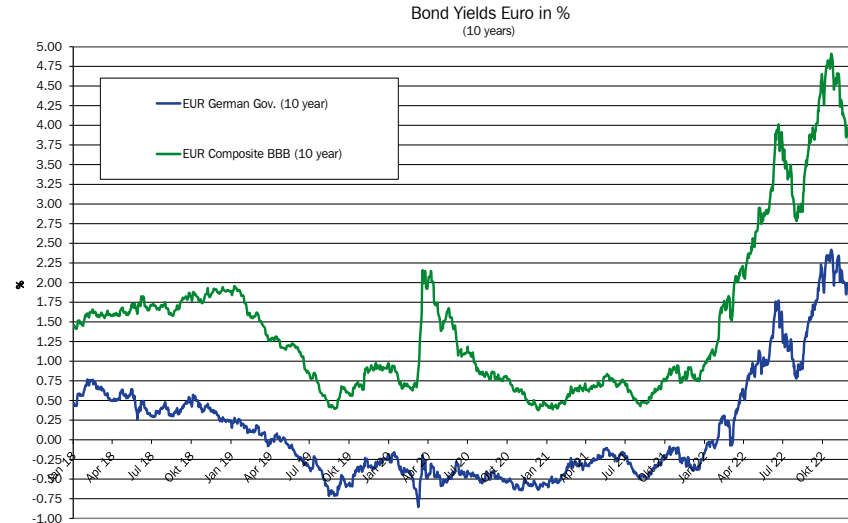
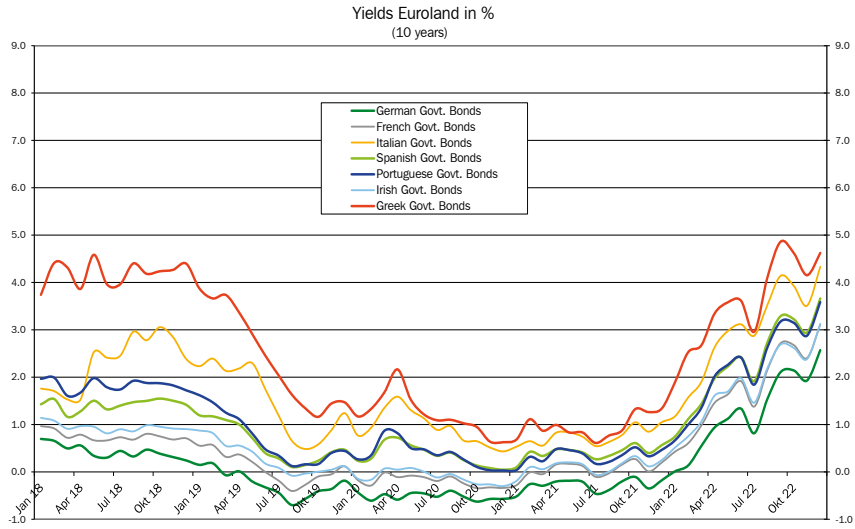
Equity Markets Asia & Japan in Index-Points



Equity Markets BRIC in Index-Points



Bond yields and other indicators



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Closing words

We thank you for the trust you have placed in us and wish you a healthy and happy New Year.

Alfred Ernst
Director, Relationship Manager

Contact us

Salmann
Investment Management AG

Beckagässli 8
FL-9490 Vaduz

T +423 239 90 00
F +423 239 90 01

www.salmann.com

