Investment Report – 31st December 2015

Leap year

So, it has arrived now, the first interest hike in the USA since 2006 and, as we expected, it has been received fairly well by financial markets. And no, it is not the quarter-percent by which the US Central Bank (Fed) increased the so-called Fed Funds Rate that placed this step in the limelight. Much rather, it is what preceded it and the current environment. Never before has the Fed Funds Rate been kept so low for so long, and never before have they been nominally as low as they were now.

According to the Swiss trade magazine "Finanz und Wirtschaft", neither the former chairman, Ben Bernanke, nor the entire board of the Swiss National Bank currently in office have ever had to answer for what the current head of the Fed, Janet Yellen, has had to take responsibility for; a key interest rate hike.

Having said that, the responsibility ought not to weigh too heavily. After all, the economic statistics in the US have been suggesting the likelihood of a tightening of the reins for months now. Hence, markets have been looking to see a first sign of normalisation ever more eagerly. Anything else but a hike in December would have been a disappointment.

Diverging Central Bank policies

The question is, where do we go from here? Subject to the economic train not decelerating, further mini interest hikes appear likely during the course of the coming twelve months, presumably gradually and with caution. What is pivotal to the size and pace of these is not just the evolution of the US's economic activity alone, but also that of other important economic regions too, primarily that of China, but needless to say, also those of Japan and Europe too.

Emerging economies will also remain on the radar of the Fed governors. Should the US Dollar rise too much thanks to its regained yield advantage, this will bode ill for many emerging economies, as their sometimes large US Dollar debts will increase in domestic currency terms. Of course, there are interdependencies here too. For one, the Chinese still own the largest block of US Treasuries outside the USA. They are unlikely to object to either higher yields, or the added benefits of a strong US Dollar. And this not only from an investor's point of view, but also from an exporter's standpoint.

In Europe, on the other hand, the indications are towards a continuation of the ultra-lax Central Bank policy. Switzerland will not be able to evade this situation and will be forced to keep interest rates low in order to counteract a devaluation of the Euro.

All in all, investors have a great many "ifs" and "buts" to contend with at the start of the New Year. The economic train mentioned above is indeed rolling, but an express train would certainly look different. And the smooth ride may yet be disrupted. Threats are looming, particularly on the geopolitical front. These are primarily emerging from Syria, Iran, Saudi Arabia and the IS. But less obvious candidates such as China, Russia, as well as certain EU countries, are carrying arrows in their quivers that could prove poisonous to financial markets.

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

	Real GDP Growth		Inflation	
	2015	2016	2015	2016
Germany	1.6%	1.7%	0.2%	1.3%
Euroland	1.5%	1.6%	0.1%	1.1%
United Kingdom	2.4%	2.2%	0.1%	1.2%
Japan	0.6%	1.2%	0.7%	0.9%
Switzerland	0.9%	1.3%	-1.1%	-0.2%
USA	2.4%	2.5%	0.2%	1.8%

Usually, it is not so much the factual consequences, but rather fears associated with the threats that put markets on edge, as the year 2015 again proved. Just think back to the 10 % dive the Swiss leading index took on the day the Euro minimum exchange rate was abandoned. However, the year-end saw the index in positive territory. Other exchanges were also tossed to and fro by the Euro crisis, concerns over growth in China, and the bear market in commodities.

Mixed balance of year as a whole

The overall balance sheet shows marked differences. On the one hand, several European, as well as the Japanese, equity markets put on a good show with double digit percent growth in places (Belgium, Denmark, Italy). On the other hand, Asian, as well as commodity-related, equities posted a negative year. Faced with rising yields, bond markets (with the exception of Switzerland) found themselves retreating.

Change in **Equity Markets in 2015:**

		Dec. 2014	Dec. 2015	Change[1]
Asia ex Japan	DJ STOXX A/P	486.7	429.1	**-11.8%**
Germany	DAX	9,805.6	10,743.0	**9.6%**
Europe	DJ STOXX 600	342.5	365.8	**6.8%**
Japan	TOPIX	1,407.5	1,547.3	**9.9%**
Switzerland	SPI	8,857.0	9,094.0	**2.7%**
USA	S&P 500	2,058.9	2,043.9	**-0.7%**
World	MSCI World Index	417.1	399.3	**-4.3%**

The **equity funds employed by us** achieved following returns[2] in 2015, with some beating their benchmarks:

Aberdeen Asia Pacific (USD)	**-14.9%**
JB Japan Stock Fund (CHF hedged)	**9.1%**
JB Japan Stock Fund (EUR hedged)	**10.7%**
Performa Asian Equities (USD)	**-12.6%**
Black Rock Swiss Small & Midcap Opp. (CHF)	**14.9%**
Raiffeisen Futura Swiss Stocks (CHF)	**4.6%**
Performa European Equities (EUR)	**5.5%**
Performa US Equities (USD)	**1.8%**

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: Once again, the money market allocation was above the long-term strategic weighting as defined by us. For reasons of diversification, we have in part invested in money market funds. As far as return is concerned, however, this segment is stranded high and dry.

Bonds: Overall, we have not implemented any active changes to this position. Payments from maturing bonds were only reinvested selectively. Markets in the corporate bonds preferred by us have in the main dried up. Our position in the Acatis IfK Value Renten Fund has been increased.

During 2015, **yields on 10-year government bonds** developed inconsistently:

	Dec. 2014	Dec. 2015	Change
Europe	0.54%	0.63%	17%
United Kingdom	1.76%	1.96%	11%
Japan	0.33%	0.27%	-18%
Switzerland	0.32%	-0.06%	-119%
USA	2.17%	2.27%	5%

Equities Switzerland: Regarding the weighting, no changes were made. After a bear start, the SPI managed to close the year with a plus of 2.7%. Our directly-invested Swiss Stock Portfolio (SSP) even managed a positive performance (including dividends) of 15.6%. Here it helped that this selection, comprised of 20 stocks, consisted of numerous mid and small cap stocks. These carry a larger weighting in our portfolio than in the index.

The "stocks of the year" in our Swiss Stock Portfolio were the meat producer, Bell (42%), as well as Lonza (+48%). Thanks to its attractive valuation, Bell is finding more and more followers abroad too, whereas the fine chemicals producer, Lonza, appears to be resilient to negative currency influences and as such, commands investors' favour.

Since 2010, the SSP average annual total return amounts to 10.6% p.a., markedly outperforming its benchmark at 8.3%. Notably, the SSP figures include transaction costs and taxes at source, whereas the comparable index does not include any such costs. The funds employed by us as an alternative to direct investments, Raiffeisen Futura Swiss Stocks and Black Rock Swiss Small & Midcap Opportunities, have also managed to produce a very pleasant performance this year and beat their benchmarks. No changes have been made to the weighting of Swiss equities in the portfolios.

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

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

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

Acatis IfK Value Renten Fond (EUR)	-0.7%
Acatis IfK Value Renten Fond (CHF)	-2.4%
Lyxor ETF Euro Corp. Bond Fund (EUR)	-0.7%
New Capital Wealthy Nations Bond Fund (EUR)	1.9%
New Capital Wealthy Nations Bond Fund (CHF)	1.2%
New Capital Wealthy Nations Bond Fund (USD)	2.4%
Pictet CH-CHF Bond Fund	1.6%
Swiss Rock Absolute Ret. Bond Fund (EUR hedged)	-1.1%
Swiss Rock Absolute Ret. Bond Fund (CHF hedged)	-2.5%
UBAM Corporate USD-Bonds (EUR hedged)	0.3%
UBAM Corporate USD-Bonds (CHF hedged)	-1.2%
ZKB ETF Gold (USD)	-12.0%

Equities Europe: European Markets presented a mixed picture. As measured by their benchmark, the DJ Stoxx 600 Index, the annual return of nearly 7% is quite reasonable. The total return (price change plus dividends) adds up to a positive 9.6%.

The directly-invested European Stock Portfolio (ESP) crossed the finishing line with a gross performance of 7% and as such, as an exception, could not quite manage to beat its benchmark in 2015. Since 2004, the average annual performance of this stock selection, however, amounts to 9.4% (8.7% net of cost), compared to only 7.1% for the benchmark. The figures for the European Stock Portfolio include transaction costs and taxes at source, whereas the reference index naturally operates free of costs.

You can find the performance and benchmark comparisons of ESP and SSP at any time on our website www.salmann.com (under the tab "Produkte"). Among the best performers of the "house selection" were the shares of the generic drug producer Stada Arzneimittel (+51%), which came under pressure in the previous year due to the Russian embargo and the rouble devaluation, as well as CAP Gemini (+46%), which once again benefitted from the digital change driven technology boom.

Equities USA: With the exception of a well-performing technology sector and massively falling commodity stocks, Wall Street experienced an unspectacular year. No changes were made during the fourth quarter, and with that maintaining the slightly overweight position.

Equities Asia (excluding Japan): No changes were implemented to this position. With an about 5% weighting, we carry a roughly neutral allocation.

Equities Japan: Japanese stocks managed to produce an impressive rally during the last quarter and propelled the Kabutoche exchange from a flat performer at the end of September to one of the top places by the end of December. Again, no changes were made to the positions. We are slightly overweight in Japanese equities. The Yen is hedged into clients' reference currencies.

Alternative Investments: In this category, a 3% gold ETF position remains the only holding.

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

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

Conclusion / Outlook

We expect moderate growth in the global economy. In Europe, the periphery countries have succeeded in taking a turn for the better, while the core countries continue with their positive trend. The financial markets are not facing an easy year. In the fixed interest sector, the investment state of emergency is ongoing. Equities are not cheap any more, but continue to be more attractive than bonds. What we do know already for certain; 2016 is going to be a leap year – literally, as well as metaphorically.

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

[4] For a Swiss Franc referenced portfolio

Measured on the **price/earnings ratio**[5] using the latest 12 months profit figures, most of the markets have become more expensive (red):

	Dec. 2014	Dec. 2015	Change
DAX Index/DE	17.2	22.8	**33%**
DJ STOXX 600 Index/EU	21.3	23.4	**10%**
MSCI World Index	16.9	20.7	**22%**
S & P 500 Index/USA	18.2	18.2	**+/-0%**
SPI Index/CH	19.5	25.4	**30%**
TOPIX Index/JPN	16.1	16.5	**2%**

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

	Price / Book	Div. Yield
DAX Index/DE	1.7	2.8%
DJ STOXX 600 Index/EU	1.8	3.5%
MSCI World Index	1.9	2.6%
S & P 500 Index/USA	2.8	2.2%
SPI Index/CH	2.2	3.1%
TOPIX Index/JPN	1.3	1.8%

On a personal note

At the beginning of 2016, Adrian Müller is to take over the position of Head of Portfolio Management at our head office in Vaduz. **Adrian Müller**, B.Sc. in Business Administration is Deputy Director and a Member of the investment committee, where he holds signatory responsibility for Swiss equities. Following his apprenticeship at a Swiss Bank, he continued to work there for two years in the client services and securities departments. Subsequently, he read business administration at the FHS St. Gallen, focusing on corporate finance. Currently, he is on the last stretch of his studies to qualify as a Certified Financial Analyst (CFA). He has been a portfolio manager at Salmann since 2008. We also have pleasure in welcoming a new member to our team, **Loris Eugster**, who, following his traineeship last summer, joined the administration department in Vaduz in October. Previously, Loris Eugster worked for an investment fund administration company in Liechtenstein.

We thank you for the trust placed in us. It was a pleasure to work with you. All our best wishes for the New Year.

Alfred Ernst
Vaduz/Zurich, 31st December 2015

[5] Source: Bloomberg

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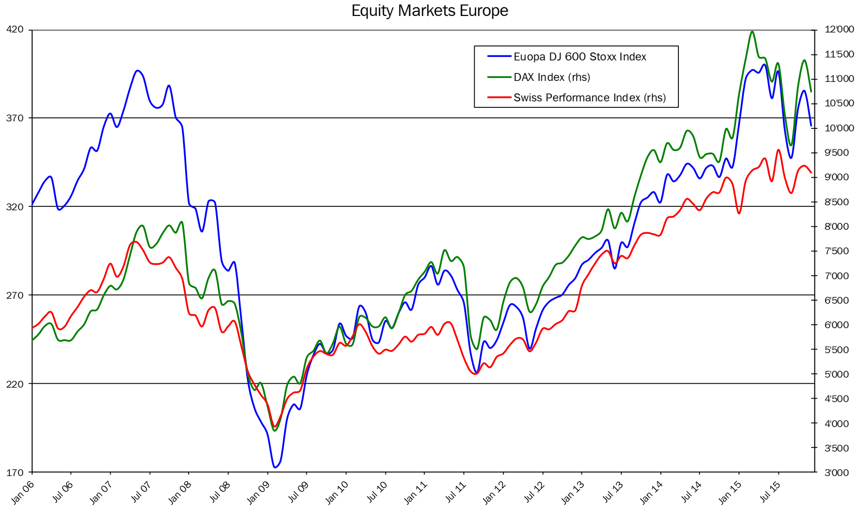

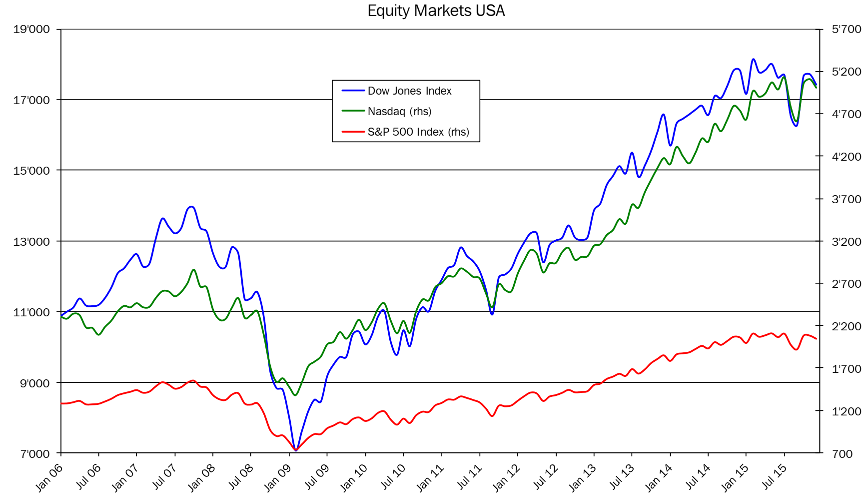

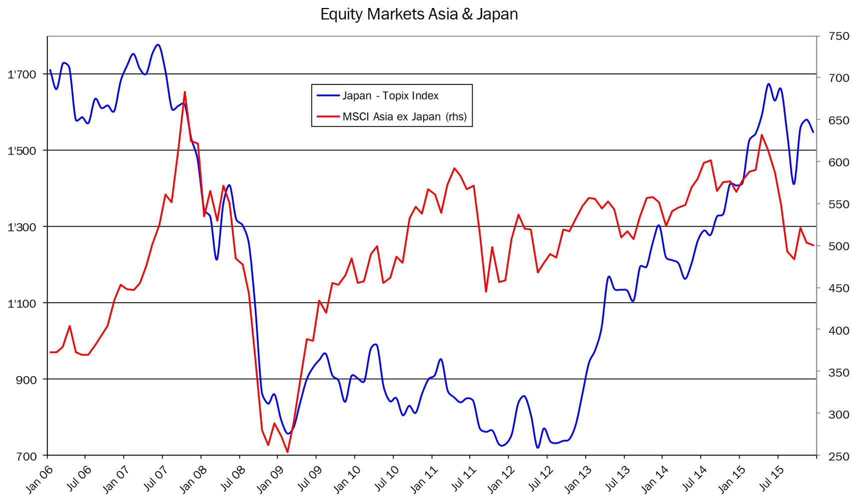

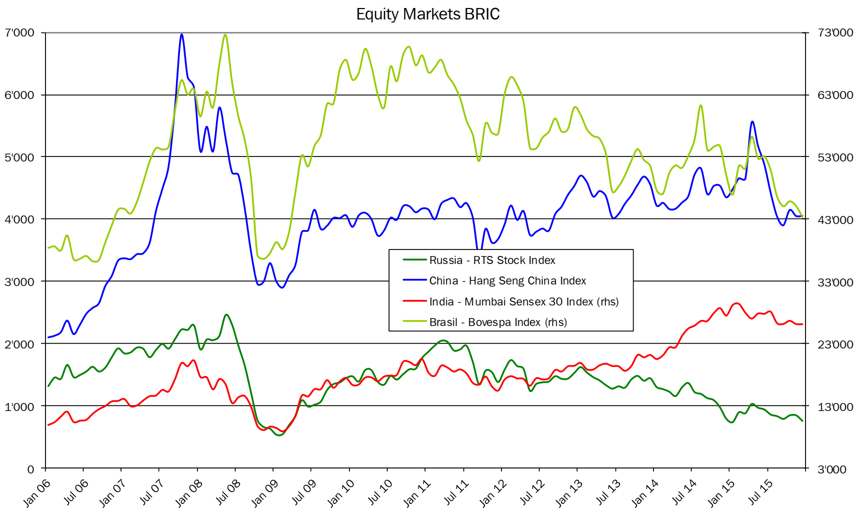

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