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INVESTMENT MANAGEMENT

Blooming

Investment Report – 31st March 2019

Blooming

The first quarter saw a broadly based recovery. All asset classes contributed to an all-round positive investment return. True, the global economy is cooling down, but for the time being, a recession does not seem to be around the corner. Financial markets are oscillating between hope and fear.

"Easy go, easy come" could be the fitting expression to describe the exchanges' development in the new year. With equities leading the way, starting already back in January, the year-end portfolio statements' gloom and doom was put into perspective, with the calming therapy continuing throughout February and March. Bonds, gold and alternative investments also played their part in contributing to the gradual improvement of investors' wellbeing.

Wellbeing? Well – not only! Looking at the current state of affairs in the world was, and still is, not apt to inspire a cosy feeling of security without any "ifs" and "buts". Indeed, there are a number of issues for investors to fret over, in spite of the broad recovery.

Dip in growth, or recession?

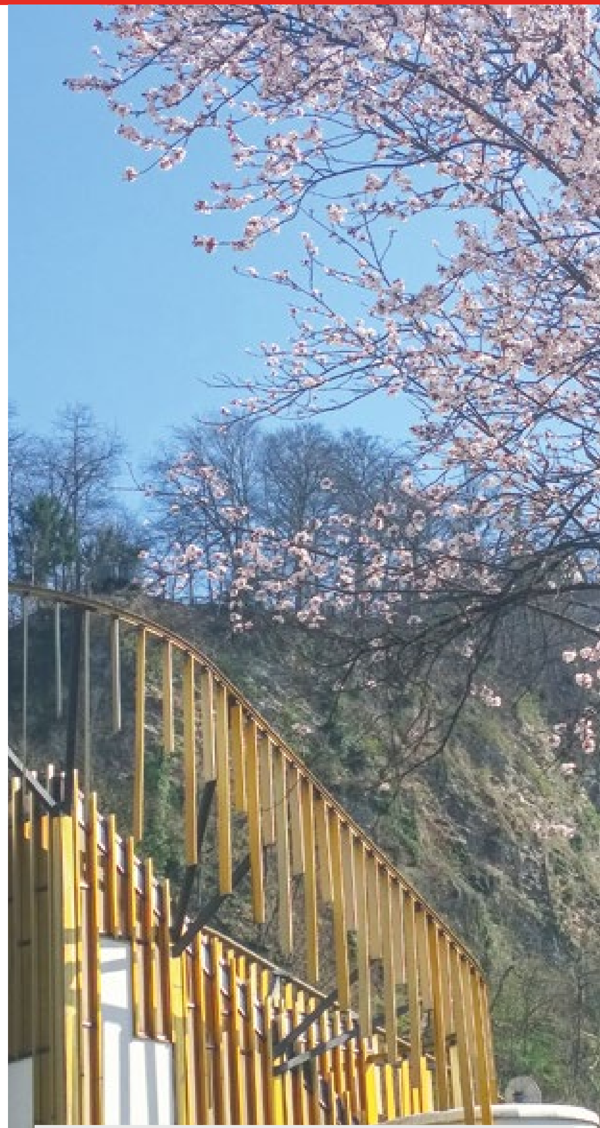
On the one hand, there is the economy, which has lost momentum. In the USA, which provided significant momentum to the global economy in 2018, gross domestic product (GDP) still rose by an annualised 2.6% during the fourth quarter, compared to the 3.4% achieved in the third quarter. Capital investment and rising retail sales (except for the decidedly dull Christmas season) were positive contributors, whereas the government shutdown threw a spanner in the works. Forecasts predict 2.4% growth in the current, and 1.9% in the following year (see table "Average growth and inflation forecasts"). It goes (almost) without saying that the White House's own projections (or aspirations?) are markedly higher, at about 3.2% for the same period.

Average **growth and inflation forecasts** from the "Bloomberg Composite Contributor Forecast" poll of economists:

	Real GDP Growth		Inflation	
	2019	2020	2019	2020
China	6.2%	6.0%	2.1%	2.2%
Germany	1.0%	1.5%	1.5%	1.7%
EU	1.5%	1.6%	1.6%	1.7%
United Kingdom	1.3%	1.5%	2.0%	2.0%
Japan	0.7%	0.5%	0.9%	1.3%
Switzerland	1.3%	1.6%	0.7%	1.0%
USA	2.4%	1.9%	1.9%	2.2%

In other countries as well, expectations have been vaporised. Argus-eyed pundits are observing China, where GDP growth of just above 6% is still thought to be possible. It certainly appears that the Chinese regime is intent on counteracting any excessive cooling of the economy. Lower taxes and lower social security contributions for employers, as well as an easy monetary policy, are to address the issue. First indications, such as the Purchasing Managers Index, are indeed pointing towards a stabilisation of the Chinese economy.

The EU, as well as Switzerland, will be lowering their sights in the near future. The estimates collected by the data provider, Bloomberg, are for Swiss growth of 1.3 and 1.6% (whereas the Swiss State Secretariat for Economic Affairs, SECO is aiming even lower), and 1.5 respectively 1.6% in the EU. In the face of this slower pace in most regions globally, as is also evidenced by the staid development of commodity prices, inflation is not a hot topic. Quite the contrary, fear of deflation recently resurfaced in the control rooms of central banks. Central bankers' behaviour, however, indicates their intent on leaving nothing undone. To that end, their bet is on continued low interest rates.



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Performance is the tangible result of our expertise.

Interest rates are the talk of the town…

Interest rates are the stuff of much discussion. So far this year, the American central bank, the Fed, waived any further hike in the Fed Funds Rate, and indicated it would act with restraint in the months ahead. At the end of 2018, the talk was still about two hikes in 2019. Currently, broad market expectations are for unchanged rates throughout the coming nine months. One or two observers even see the chance of a cut.

On top of this, the Fed supremo, Jerome Powell, announced the exit from the exit on the downsizing of the Fed's huge balance sheet. Until now, the central bank did not replace 30 billion US Dollars of maturing bonds in any one month. From May, this will be reduced to 15 billion US Dollars, and come fourth quarter, even all maturing bonds will be reinvested in the market.

The bottom line is, the Federal Reserve will provide stronger support to the bond market again to avert a rise in yields. In doing so, the Fed's conduct converges with that of its European counterpart, the ECB, whereas the European monetary authority is admittedly following an even more accommodative course and continues to follow its ultra-easy money policy for the time being.

Change in **Equity Markets since the beginning of 2019:**

		Dec. 2018	Mar. 2019	Change
Asia ex Japan	MSCI AC Asia ex Japan	431.1	480.4	11.4%
Europe	DJ STOXX 600	707.7	799.8	13.0%
Japan	MSCI Japan	1'736.20	1'868.3	7.6%
Switzerland	SPI	9'830.10	11'241.2	14.4%
USA	MSCI USA	6'658.80	7'573.8	13.7%
World	MSCI AC World	5412.1	6'087.5	12.5%
Hedge Funds	HFRX Global HF	1'189.9	1'220.8	2.6%

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

…the US yield curve even more so

Towards the end of March, a further event caused a stir, namely the fact that the American yield curve inverted. Which is to say that short-term bonds carry higher yields than their longer-term brethren do. In this instance, three-month sovereign bonds, so called Treasury Bills, offer higher yields than ten-year Treasury Bonds. Inverted yield curves are considered a relatively reliable warning signal of an impending recession. The past five economic contractions in the USA were preceded by such a constellation. It has to be said, however, that in the past, 12 to 25 months went by before the recession (defined as two consecutive quarters of zero or negative growth) occurred. A lot can happen in the meantime, good as well as bad.

In any case, by no means do financial markets always move as expected if one were to take economics or politics into account. A good example of this can currently be observed in the UK. If one followed Parliament's debates and voting results on the endless Brexit saga, one would expect that the Pound Sterling and stocks could only go through the floor. Far from it! In the first quarter, the British currency gained between 2.3 and 4.9% against the US Dollar, Swiss Franc and Euro. On the London Exchange, the FTSE 100 Index gained 9.5%.

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

Aberdeen Asia Pacific (USD)	10.1%
Swiss Rock Emerging Markets Equities (USD)	7.9%
GAM Japan Stock Fund (CHF hedged)	7.9%
GAM Japan Stock Fund (€ hedged)	8.0%
Strategy Certificates SIM–Swiss Stock Portfolio Basket	10.0%
iShares Stoxx Europe 600 ETF (€)	13.3%
Performa European Equities (€)	10.1%
Performa US Equities (USD)	17.7%
BB Adamant Medtech & Services Fund (USD)	11.9%
BB Adamant Medtech & Services Fund (CHF)	13.0%
BB Adamant Medtech & Services Fund (€)	13.9%

Performance in fund currency. Source: Bloomberg or respective fund company.

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
Nothing has changed in this asset class. Liquidity is slightly overweight.

Since the beginning of the year,
yields on **10-year government bonds** declined across the board:

	Dec. 2018	Mar. 2019	Change
Europe	0.24 %	-0.07 %	-129 %
United Kingdom	1.28 %	1.00 %	-22 %
Japan	0.05 %	-0.08 %	-260 %
Switzerland	-0.25 %	-0.38 %	-52 %
USA	2.68 %	2.41 %	-10 %

Bonds
No active changes were made on the bond position either, maintaining its slight underweight. As a consequence of the lower economic dynamics, and the swinging back of almost all central banks to a course of cheap and easy money, government bond yields in Europe and Japan fell back into negative territory. According to Bloomberg, over 10 trillion US Dollars (a ten plus 12 zeros) are currently trading at negative yields, which is an environment we cannot fully escape from either.

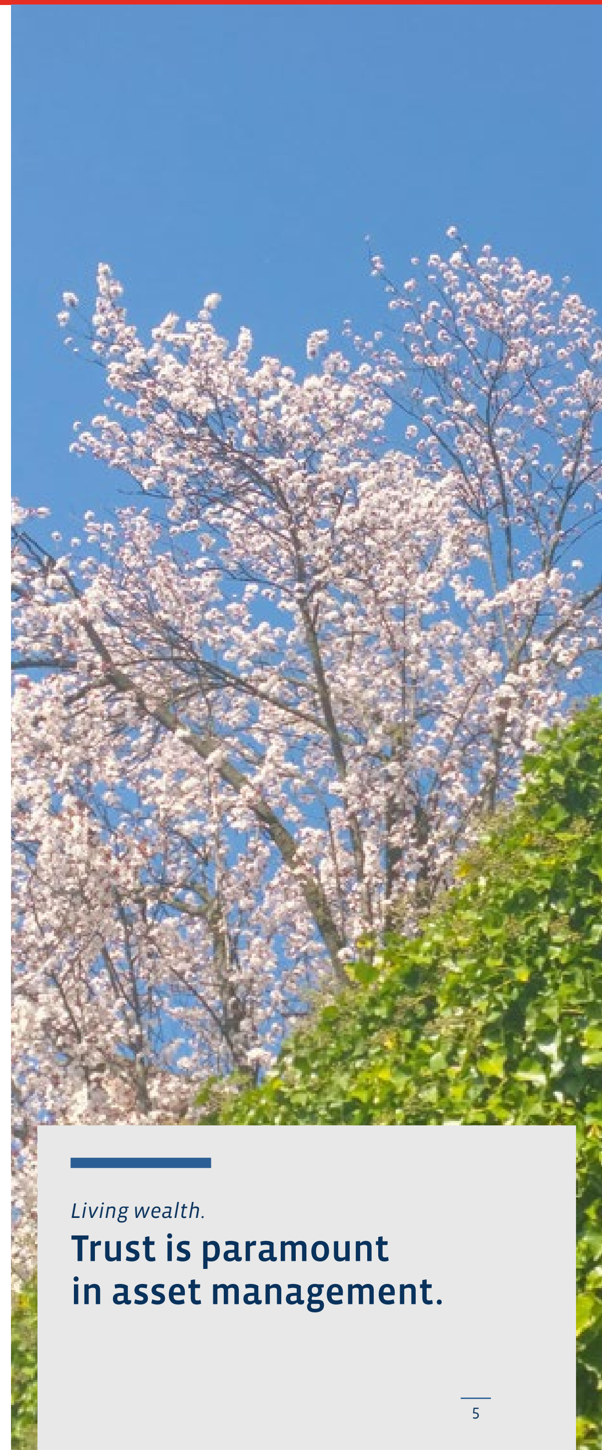
Other funds employed by us
developed as follows:

Acatis IfK Value Renten Fond (€)	4.4 %
Acatis IfK Value Renten Fond (CHF hedged)	4.4 %
BCV Liquid Alternative Beta (€ hedged)	3.8 %
BCV Liquid Alternative Beta (CHF hedged)	3.8 %
BCV Liquid Alternative Beta (USD)	4.7 %
Franklin Templeton K2 Alternative Strategies Fund (€ hedged)	3.6 %
Franklin Templeton K2 Alternative Strategies Fund (CHF hedged)	3.5 %
Franklin Templeton K2 Alternative Strategies Fund (USD)	4.4 %
Lyxor ETF Euro Corp. Bond Fund (€)	3.3 %
Pictet CH-CHF Bond Fund	1.8 %
Swiss Rock Absolut Ret. Bond Fund (€ hedged)	1.2 %
Swiss Rock Absolut Ret. Bond Fund (CHF hedged)	1.2 %
ZKB ETF Gold (USD)	1.3 %

Performance incl. re-invested dividends where applicable.

Equities Switzerland
We remain unchanged neutral weight in Swiss stocks. The directly-invested "Swiss Stock Portfolio" (SSP) recovered well. Its performance, including dividends, amounts to 10.4 %. The Swiss Performance Index (SPI) is in positive territory, at 14.4 %. Since 2010, the average annual performance of the SSP, typically comprised of about 20 stocks, amounts to 10.3 %, a result that clearly beats the average benchmark's performance of 7.8 %

Since 2010, the total cumulative return of this strategy amounts to about 148 %, while that of the index to 99.8 %. The SSP figures bear transaction costs, whereas the benchmark index does not bear any costs. The "Strategy Certificates linked to the SIM Swiss Stock Portfolio Basket" (Valor: 36524524, ISIN: CH0365245247) achieved a performance of exactly 10 % during the first three months of the year.



Living wealth.
Trust is paramount in asset management.

For the second quarter, the annual rebalancing is on the agenda, whereby the Swiss market's fundamentally most attractive stocks will remain in, respectively, be added to the portfolio, whilst the priciest stocks will be sold off. At the same time, the size of all components will be set back to equal weight. Direct investments, as well as the composition of the certificate, will be equally affected.

Measured on the **price/earnings ratio** using the latest 12 months profit figures, most equity markets have become more expensive:

	Dec. 2018	Mar. 2019	Change
SPI Index	17.5	26.3	50.3 %
DJ STOXX 600 Index	15.5	17.5	12.9 %
MSCI AC Asia ex Japan	12.1	13.6	12.4 %
MSCI Japan	11.5	13.4	16.5 %
MSCI USA	16.8	19.0	13.1 %
MSCI AC World Index	15.6	17.5	12.2 %

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

Equities Europe
European equities also moved ahead during the first quarter. The directly-invested "European Stock Portfolio" (ESP) added nearly 11%. The benchmark index managed 13 %. Both values are total return, i. e. price change plus distributions. Since 1993, this equity selection's average annual performance amounts to about 8.4 %%, compared to the 6.9 % achieved by the above-mentioned broad benchmark. The transaction costs, as well as taxes withheld, are deducted in ESP figures, whereas the index is calculated without bearing any costs. The cumulative performance of the ESP since 1993 amounts to above 800 %, that of the benchmark to about 508 %.

The positioning remained unchanged during the first three months, with that maintaining its neutral weight. For European stocks, the rebalancing described in the "Equities Switzerland" section is scheduled to take place in the coming weeks.

Equities USA
American stocks were also going strong. The benchmark index MSCI Total Return USA, which we newly adopted in 2019, replacing the S&P 500 Index (see also section "New Benchmarks" at the end of the report), achieved a total return of 14 %. The equity fund employed by us even achieved a markedly better 17.7 %. No changes were made to the weighting, maintaining a slight overweight.

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

	Price/ Book	Div. Yield
SPI Index	2.1	3.0 %
DJ STOXX 600 Index	1.8	3.7 %
MSCI AC Asia ex Japan	1.5	2.6 %
MSCI Japan	1.2	2.4 %
MSCI USA	3.4	1.9 %
MSCI AC World Index	2.4	2.5 %

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

Equities Asia (excluding Japan)
Asian equities produced an impressive run into the new year, with Chinese A Shares (domestic stocks) leading the way with a sprightly 24 %, as measured by the Shanghai A Index. Hopes of a compromise in the trade dispute between China and the USA, as well as an improving economy, were particularly helpful here. The broader, and for international investors accessible, Index (MSCI Asia ex Japan) managed a plus of 11 %. The weighting of Asian stocks has not been changed during the reporting period.

Equities Japan
Equities in the Land Of The Rising Sun rose as well, though less strongly than on other exchanges. This lagging-behind is all the more surprising as Japanese stocks show relatively attractive fundamental valuations compared to other countries. We have not changed the positions, leaving Japanese equities neutral weight.

Alternative Investments
Alternative investments too contributed to the positive performance. The funds employed by us (unchanged in selection and weighting), achieved between 3.5 and 4.7 % depending on currency and product.

Precious Metals
Gold rose marginally during the reporting period, and with that remained markedly behind other asset classes' performance. The positioning remained unchanged in the portfolios.

Summary of our current
Asset Allocation:

Asset class	
Money Market	overweight
Bonds	underweight/ short duration
Equities Switzerland	neutral
Equities Europe	neutral
Equities USA	overweight
Equities Asia	neutral
Equities Japan	neutral
Precious Metals	overweight
Alternative Investments	overweight

For a Swiss Franc referenced portfolio.

New Benchmarks

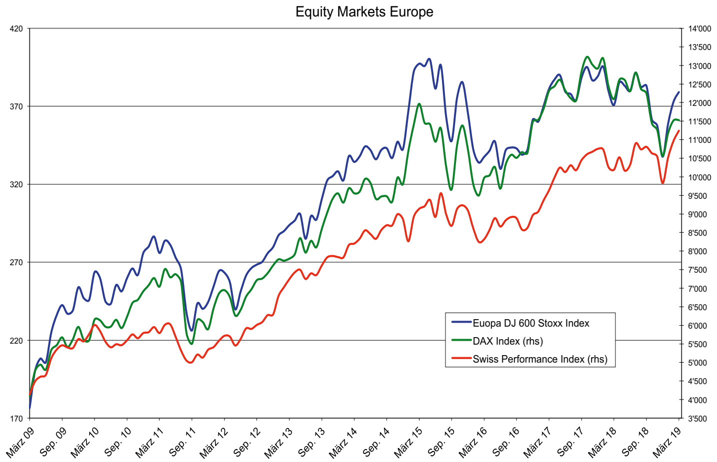
As from this issue of the Investment Report, some benchmark indices of various countries or regions will change. For Asia, we will be using the MSCI AC Asia ex Japan Index, instead of the DJ Stoxx Asia/ Pacific ex Japan Index. In Japan, the MSCI Japan will replace the Topix. In the USA, the MSCI USA will replace the S&P 500 in the tables. All the MSCI Indices used will be calculated "Net Total Return", which is to say they reflect the total return including dividends, less any taxes withheld.

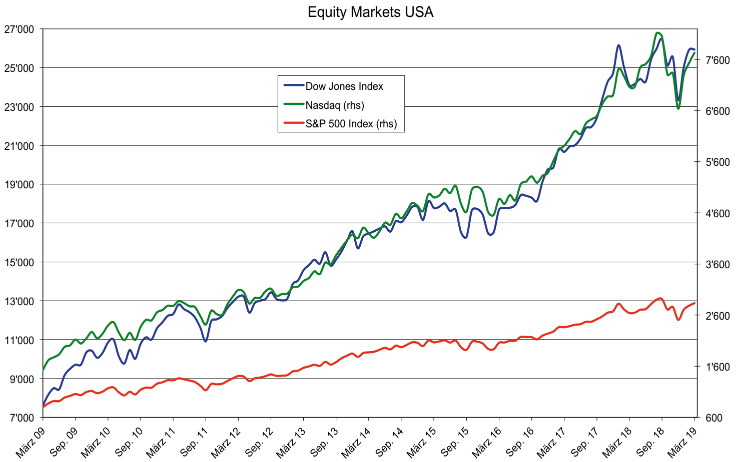
There is no change for Switzerland (SPI) and the European region (DJ STOXX 600 Index). The DAX Index will not feature in the tables any more, as Germany as a single country does not feature in our strategic asset allocation.

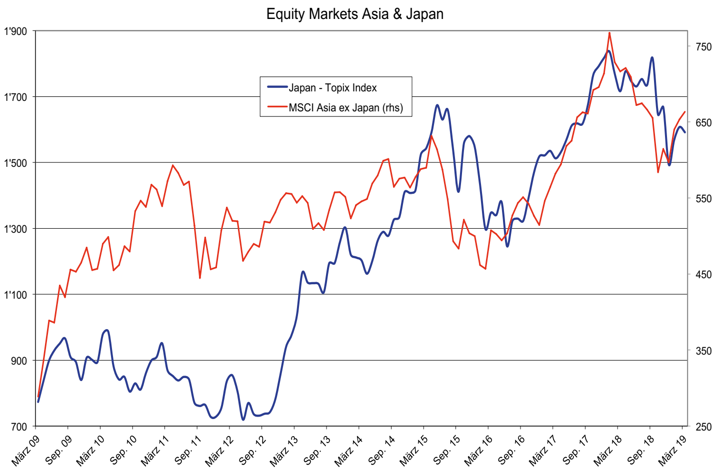
The reason for these changes is on the one hand, to use total return indices, i. e. including price changes as well as dividends, across the board. On the other, the benchmarks now used allow a uniform, as well as coherent view compatible with our strategic asset allocation.

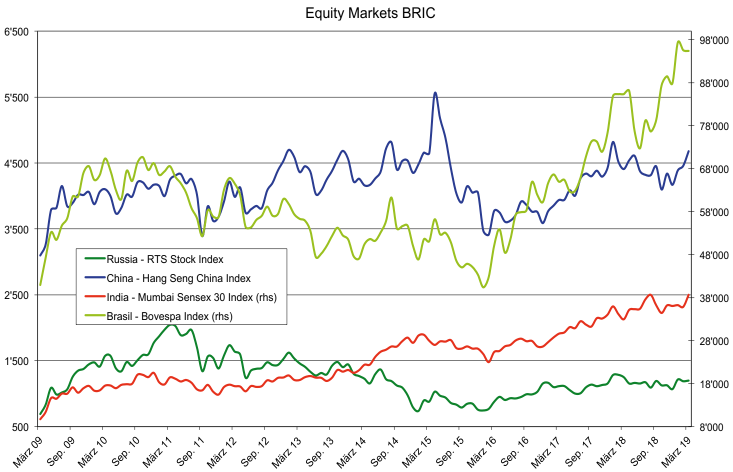
Managing wealth.
Precise and thorough analysis enhances return.

Equity markets at a glance

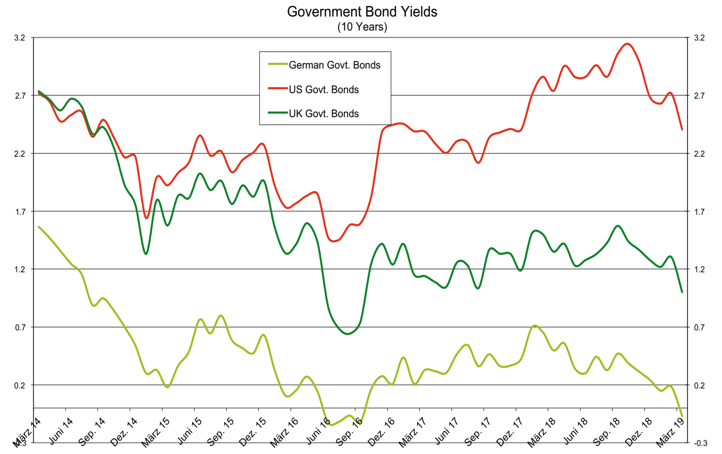


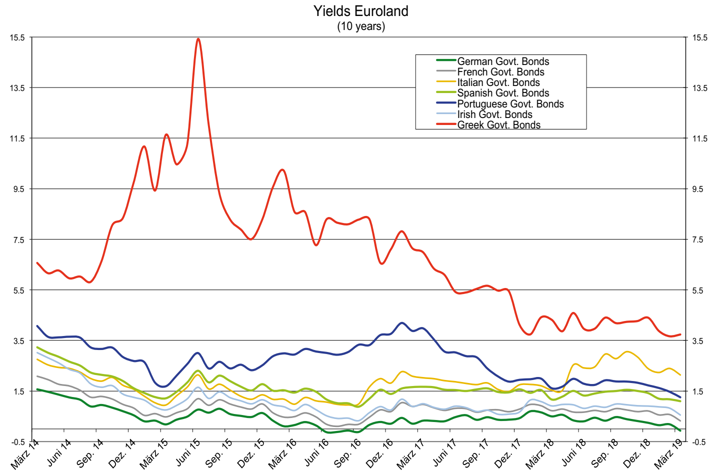


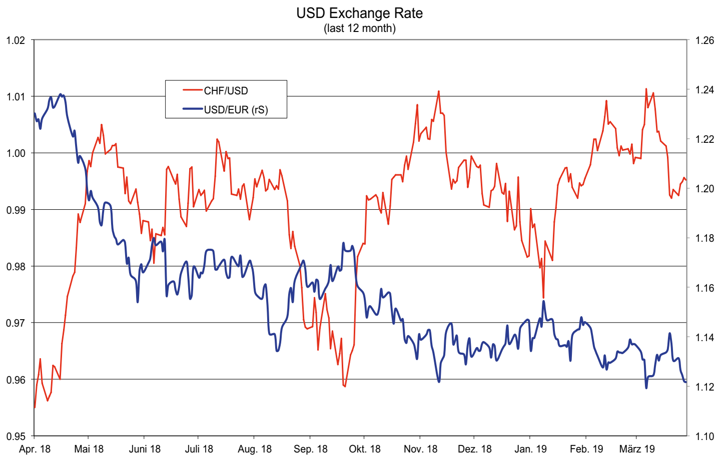


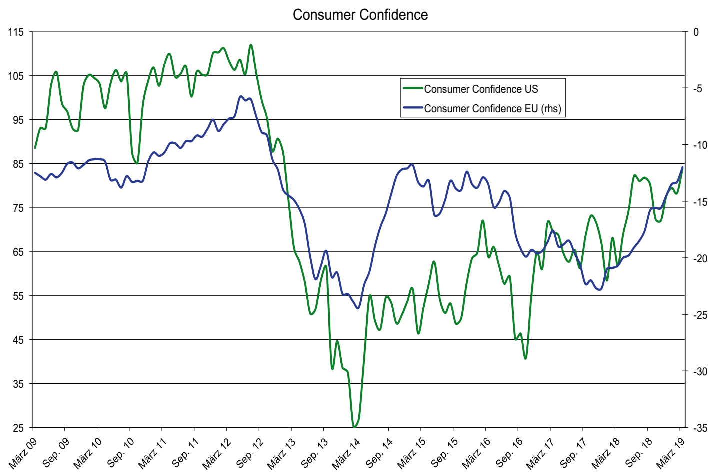


Bond yields and other indicators









Notes

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Closing words

We wish you bountiful
spring days and thank you for
the trust placed in us.

Alfred Ernst
Director, Relationship Manager

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