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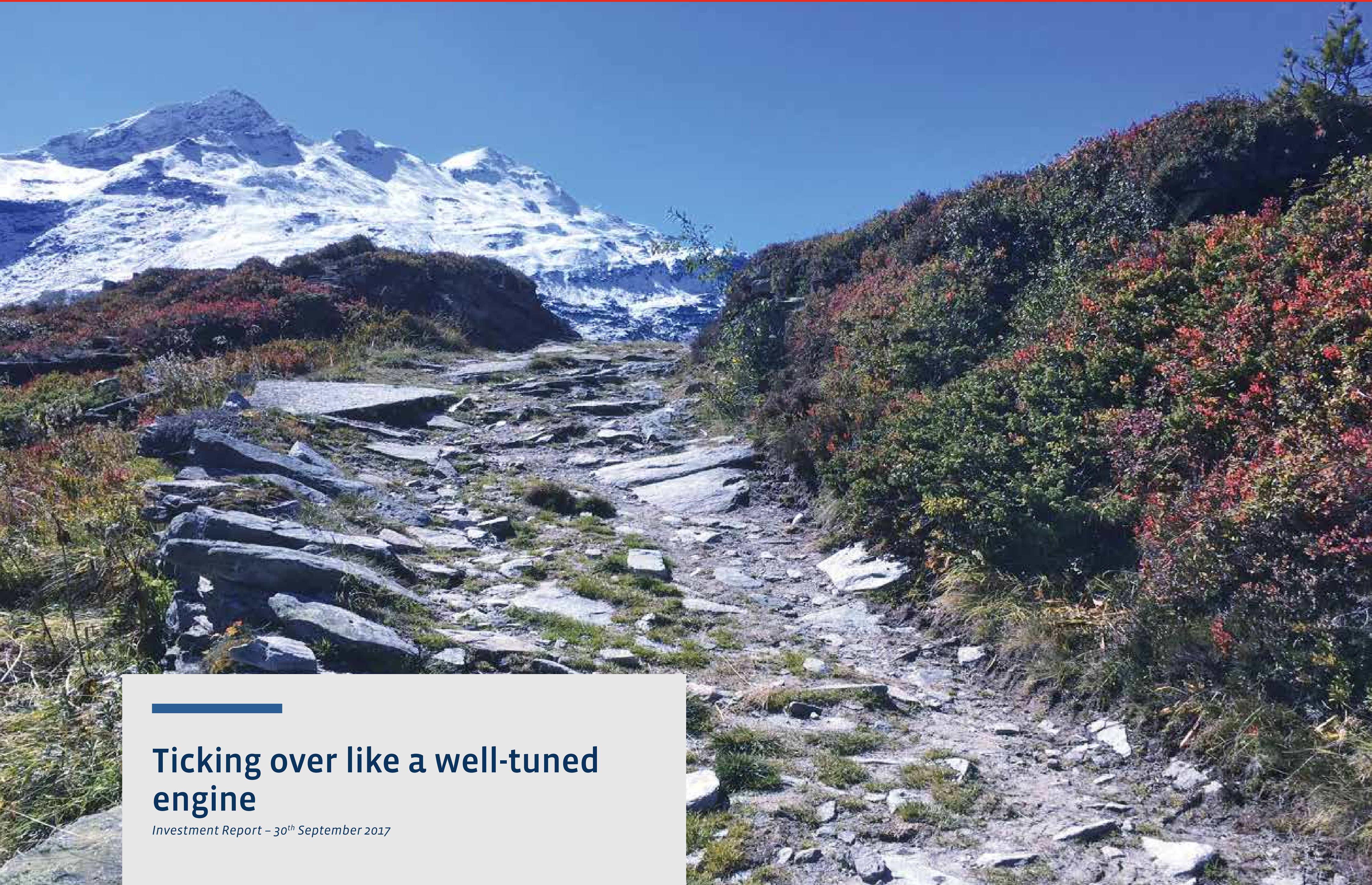

Ticking over like a well-tuned engine

Investment Report – 30th September 2017

Ticking over like a well-tuned engine

Once again, global economic growth made for good moods on the majority of financial markets during the third quarter and this support is likely to continue. Equities, gold and hedge Funds continued to rise. However, bond performance was patchy. The specialist funds employed by us performed very well, whereas regular bonds did not pull their weight.

“Everything is going to be better!” is what financial markets appear to be telling us at the moment. Indeed, international exchanges saw prices rise throughout during the third quarter, lifting the first nine-months performances into double digits in many places. Alternative investments such as hedge funds, as well as gold, won investors’ favour as prices rose. Bonds languished in calmer waters, still caught in a state of shock by the continuing extremely low interest rates, but at least they did not undermine the overall performance of balanced portfolios.

Average **growth and inflation forecasts** from “The Economist’s“ September poll of economists:

	Real GDP Growth		Inflation	
	2017	2018	2017	2018
China	6.8 %	6.5 %	1.8 %	2.2 %
Germany	2.1 %	1.9 %	1.6 %	1.5 %
Euroland	2.0 %	1.8 %	1.5 %	1.3 %
United Kingdom	1.5 %	1.3 %	2.7 %	2.6 %
Japan	1.6 %	1.3 %	0.5 %	0.8 %
Switzerland	1.3 %	1.7 %	0.5 %	0.6 %
USA	2.1 %	2.3 %	1.9 %	2.0 %

So, everything is fine? From an economic point of view, yes. In this respect, equity markets’ optimism is justified. The global economy is in the midst of a broadly based and synchronised upswing. This has led the augurs of the “Economist” to raise their estimates of GDP growth in most countries slightly, compared to their June estimates. This even applies to the notorious “slowpokes” such as France, Italy, Japan and Switzerland and the positive trend is likely to continue.

Economic train primed and ready for the off

It is in these countries in particular that the keenly scrutinised Purchasing-Manager-Indices (PMIs), considered important leading indicators, are all firmly in positive territory. 61.7 in Switzerland, 56.3 for Italy, and 56.1 for France are values that in September were higher even than the global average of 53.2. Of this quartet, only the captains of industry in Japan remain slightly cautious (52.9), while readings above 50 point towards expansion. The Netherlands (60.0), Germany (60.6) and America (60.8) continue to be under a full head of steam. Only South Africa and South Korea lay below or at the expansion threshold, at 44.9 and 50.6 points respectively.

Speaking of South Korea, faced with a neighbour playing with fire, it is hardly surprising that its mood is subdued. This is also where the big “But” comes in. The political horizon around the globe is looking much less rosy than the economic one. The face-off between the autocratic ruler in Pyongyang and the boss in the White House, who in turn is at loggerheads with rulers in Teheran and elsewhere, is casting shadows here and there, and has the potential of being substantially disruptive. The only thing to do is hope that nobody loses their cool in this tense situation; otherwise, we could be faced with a stormy autumn on financial markets.

Europe poses less of a threat after chancellor Merkel in Germany held her ground again, even though with a heavy loss in votes. The potentially protracted task of forming a government does not jeopardise the respite. Italy will only vote in 2018, an item on the agenda that may cause excitement on financial markets at a later date. However, observers are turning their focus with slight concern on Spain, where the referendum for independence in Catalonia took an unpleasant turn, and on Great Britain where the situation remains unchanged. Brexit remains a crucial point, likely to cause quite

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a few headaches. It is interesting to note that in spite of the considerable uncertainties, a recession in the United Kingdom is still not expected.

US-Federal Reserve applying brakes gingerly

Nearly a decade after the great financial crisis, the American central bank (Federal Reserve, in short – Fed) announced the start of a gradual shrinking of its 4,500 billion balance sheet. Starting October 2017, the plan is to refrain from reinvesting monthly maturing debt to the tune of 10 billion US-Dollars. This amount is to rise continuously throughout 2018, until ultimately, 50 billion a month will be drained from the balance sheet. These are small amounts in comparison with the size of the current balance sheet, hence, the downsizing will drag on for many years.

In any case, the markets have not allowed themselves to be perturbed by these plans. Moreover, it remains unclear what is considered the "right" target size for the Fed's balance sheet these days. In parallel, the Fed plans to increase the Federal Funds Rate, the next time most likely being in December. Currently, the markets are estimating an increase of ¼-percentage point as a 77 % probability. No concrete plans for applying the brakes have been announced by the European Central Bank (ECB) yet.

Change in **Equity Markets since beginning 2017:**

		Dec. 2016	Sep. 2017	Change
Asia ex Japan	DJ STOXX A/P	445.3	506.7	13.8 %
Germany	DAX	11'481.1	12'828.9	11.7 %
Europe	DJ STOXX 600	361.4	388.2	7.4 %
Japan	TOPIX	1'518.6	1'674.8	10.3 %
Switzerland	SPI	8'965.7	10'447.3	16.5 %
USA	S & P 500	2'238.8	2'519.4	12.5 %
World	MSCI World Index	421.8	486.9	15.4 %
Hedge Funds	HFRX Global HF	1'203.2	1'255.3	4.3 %

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

The **equity funds employed by us** achieved since the beginning of the year the following returns. with nearly all beating their benchmarks:

Aberdeen Asia Pacific (USD)	24.3 %
Swiss Rock Emerging Markets Equities (USD)*	7.0 %
JB Japan Stock Fund (CHF hedged)	10.7 %
JB Japan Stock Fund (€ hedged)	10.8 %
Strategy Certificates SIM–Swiss Stock Portfolio Basket*	-1.0 %
iShares Stoxx Europe 600 ETF (€)	6.7 %
Performa European Equities (€)	18.7 %
Performa US Equities (USD)	17.1 %

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

* Performance since launch July 2017.

Other funds employed by us developed as follows:

Acatis IfK Value Renten Fond (€)	6.2 %
Acatis IfK Value Renten Fond (CHF)	6.1 %
BCV Liquid Alternative Beta (€)	3.0 %
BCV Liquid Alternative Beta (CHF)	2.8 %
Lyxor ETF Euro Corp. Bond Fund (€)	0.7 %
New Capital Wealthy Nations Bond Fund (€)	5.2 %
New Capital Wealthy Nations Bond Fund (CHF)	4.8 %
New Capital Wealthy Nations Bond Fund (USD)	6.8 %
Pictet CH-CHF Bond Fund	-0.6 %
Swiss Rock Absolut Ret. Bond Fund (€ hedged)	0.0 %
Swiss Rock Absolut Ret. Bond Fund (CHF hedged)	-0.3 %
UBAM Corporate USD-Bonds (€ hedged)	2.2 %
UBAM Corporate USD-Bonds (CHF hedged)	1.9 %
ZKB ETF Gold (USD)	10.7 %

Performance incl. reinvested dividends where applicable.

Upshot: Equities lead bonds as the better alternative

True, equities have reached relatively rich valuations in certain regions, but the long-term upwards trend remains unbroken. Both the good economic and attractive interest rate environment supports this trend. The equity valuation is put into perspective when compared to bonds, which for their part are fundamentally expensive and generate hardly any returns. All signs continue to be set on "go" for equity investors.

Since the beginning of the year, **yields on 10-year government bonds** developed in a non-uniform manner:

	Dec. 2016	Sep. 2017	Change
Europe	0.21 %	0.46 %	119 %
United Kingdom	1.24 %	1.37 %	10 %
Japan	0.05 %	0.07 %	40 %
Switzerland	-0.19 %	-0.02 %	89 %
USA	2.44 %	2.33 %	-5 %

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
The target weighting for liquidity is slightly lower than in the past, and with that, at a near neutral weighting. The reason behind this you will find in the bond section below.

Bonds
Unreplaced maturities saw the bond allocation decline below 30 % during the past months. As we operate with bandwidths, and the strategic bandwidth for bonds in a balanced portfolio is 30 to 60%, we decided to observe the lower limit where possible, which in this instance was at the expense of the money market allocation. As regards performance, this asset class was inconsistent during the past quarter. Whereas classical bonds did not pull their weight, USD corporate bonds as well as bonds of lower credit quality, which we cover with specialist funds, managed to put on a very pleasing performance.

Equities Switzerland
The Swiss equity allocation did not experience any changes during the past quarter. Unchanged, we maintain a "home-bias" and hence, attach the highest weighting to stocks of the reference currency's country. Consequently, Swiss Franc referenced clients with a balanced portfolio held about 26 % Swiss equities. For Euro referenced clients, a similarly large block of European stocks is thus the focus of the equity allocation.

Our selection of Swiss equities composed according to value criteria, the "Swiss Stock Portfolio" (SSP), grew marginally during the third quarter, taking the total performance (incl. dividends) for the first nine months to 19.85 %. Its benchmark SPI (total return) achieved 16.53 % total return during the same period. With that, the SSP achieved an outperformance of 3.32 %. Since 2010, the SSP's mean annual performance amounts to 12.92% p.a. clearly beating the 8.31% achieved by its benchmark. Since 2010, the cumulative total return of this strategy amounts to 156 %! The SSP figures are net of transaction costs and withholding taxes. The benchmark, however, does not bear any such costs. The certificate we launched in July this year, the „Strategy Certificates linked to the SIM–Swiss Stock Portfolio Basket" (Valor: 36524524, ISIN: CH0365245247), which mirrors this equity portfolio 1:1, has declined 1% since its launch early July.

Experiencing wealth.
Every client has top priority.

Equities Europe
The position in European stocks equally remained unchanged during past three-month period. We continue to be overweight here. The directly-invested "European Stock Portfolio" (ESP) achieved a 16.2% return in the first nine months of 2017. The DJ STOXX 600 Index achieved only a return of 9.95% during the same time span (both values are total return, i. e. incl. dividends), yielding an outperformance of 6.25 percentage points to the ESP. Compared to a pure value index which more closely reflects our investment approach, the outperformance even amounts to some 6.88 percentage points.

Since 1993, the mean annual performance of our equity selection amounts to about 9.24%, compared to the 7.21% of the general 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 872%!

Equities USA
We have not made any changes to this position, and are neutrally positioned. The American market fundamentally ranks among the expensively valued markets, in spite of which it managed to rise during the third quarter and climb to new record highs.

Measured on the **price/earnings ratio** using the latest 12 months profit figures, some of the equity markets have become dearer since beginning of the year, while others have become more attractive:

	Dec. 2016	Sep. 2017	Change
DAX Index/DE	18	17.9	-0.6%
DJ STOXX 600 Index/EU	27.4	21.5	-21.5%
MSCI World Index	21.1	20.3	-3.8%
S & P 500 Index/USA	21	21.6	2.9%
SPI Index/CH	16.1	23	42.9%
TOPIX Index/JPN	19.8	15.7	-20.7%

Source: Bloomberg

Equities Asia (excluding Japan)
Asian equities put their feet down on the gas again during the summer months. With that, they advanced to top region for the last quarter, as well as over the nine-month period. We did not make any changes to the weighting and as such, continue to be about neutral weight.

Summary of our current
Asset Allocation:

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

For a Swiss Franc referenced portfolio.

Equities Japan
Again, our position here remained unchanged. Japan currently tends to count as one of the fundamentally attractive markets. With a plus of 26% during the past twelve-month period, the broad Topix-Index represents one of the best established stock exchanges.

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

	Price/ Book	Div. Yield
DAX Index/DE	1.9	2.6%
DJ STOXX 600 Index/EU	1.9	3.3%
MSCI World Index	2.3	2.4%
S & P 500 Index/USA	3.2	2.0%
SPI Index/CH	2.3	3.0%
TOPIX Index/JPN	1.3	2.0%

Alternative Investments
No changes in this asset class either. Although hedge funds' returns are in the positive range, they remain unspectacular this year. This is partly due to the ups and downs on the financial markets, namely the volatility, being rather subdued, trending more or less upwards in a rather sedate fashion.

Precious Metals
Gold picked up some momentum and managed to build up its US Dollar performance into the double-digit figure range. No changes have been made to the gold position.

And finally this

The financial truism "cash is king" counts for little these days as far as payments are concerned. Particularly in northern European countries, anyone paying for coffee at a petrol station in cash is nowadays regarded with suspicion, never mind for larger transactions. Under the pretence of fighting crime, terrorism and tax evasion, central banks globally strive to withdraw large bank notes from circulation and restrict cash in circulation. By the same logic, however, one could restrict the sale of kitchen knives or lorries, but that is a different topic.

The disappearance of notes and coins, however, has its drawbacks. The financial journal "Finanz und Wirtschaft" recently made an attempt at estimating how long an economy could remain able to function if electronic payment methods were to stop working. Not surprisingly, those with a low level of cash in circulation to gross domestic product (GDP) ratio would start to stumble first. According to the "FuW" Sweden and Norway, where cash in circulation amounts to 1.2% and 1.4% respectively, would already start to struggle after 5 days. In Great Britain, with a ratio of 3.4%, the engine would at least run for about 12 days without disruption, in the USA (8.4%) for 31. Switzerland, where its 11% ratio would grease the engine for another 41 days, would be even better. Best placed to survive the electronic collapse, however, would be Japan (22% cash in circulation) with 80 days, and leading the way is South Africa. With a "cash-to-GDP-ratio" of 29%, its economy could endure 106 days without suffering any deficiency symptoms. When it comes to payments, the saying "cash is king" also has its place after all.

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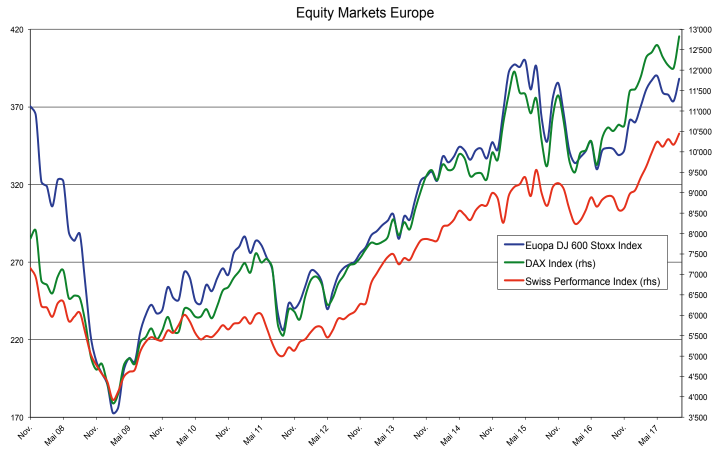
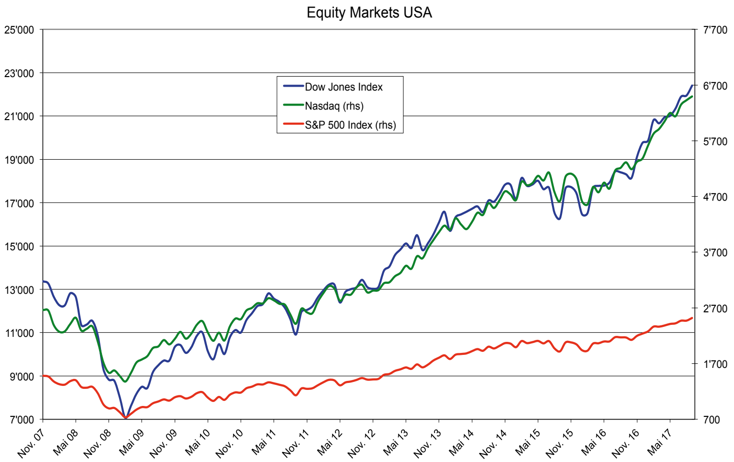
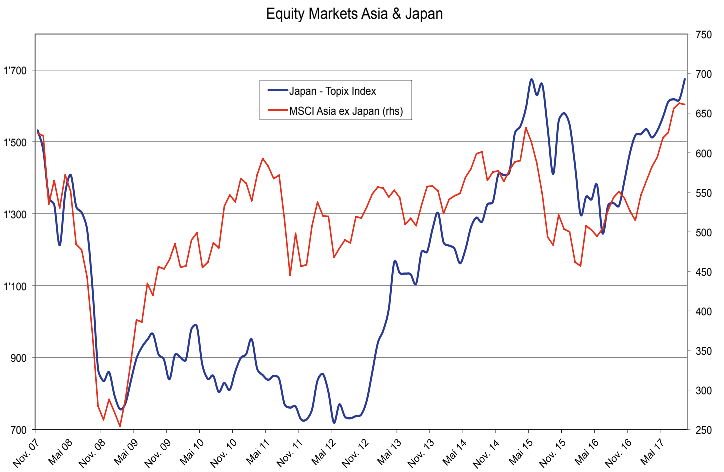
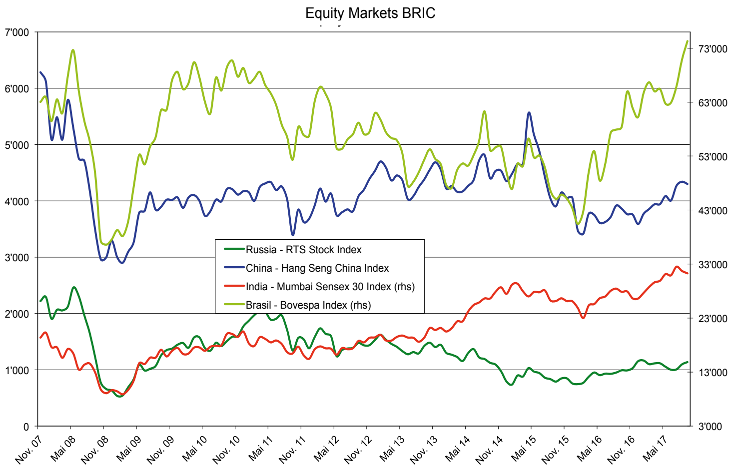
Equity markets at a glance

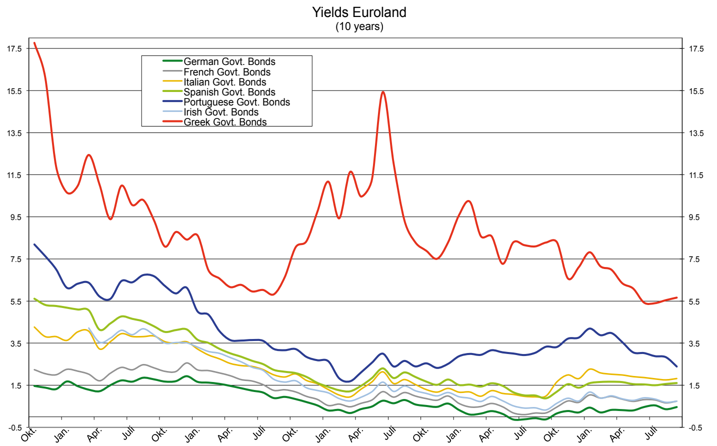


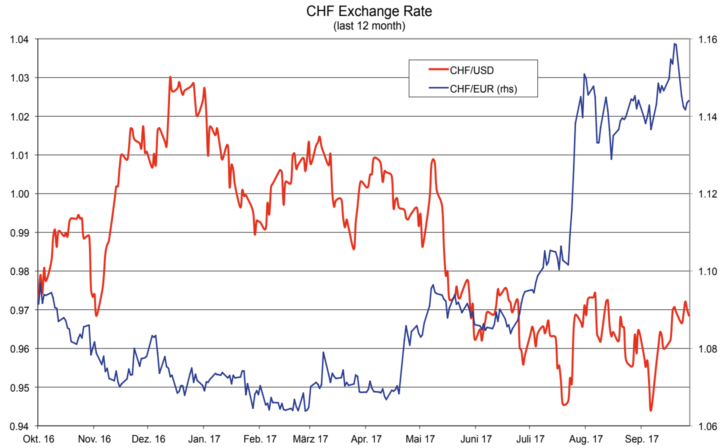


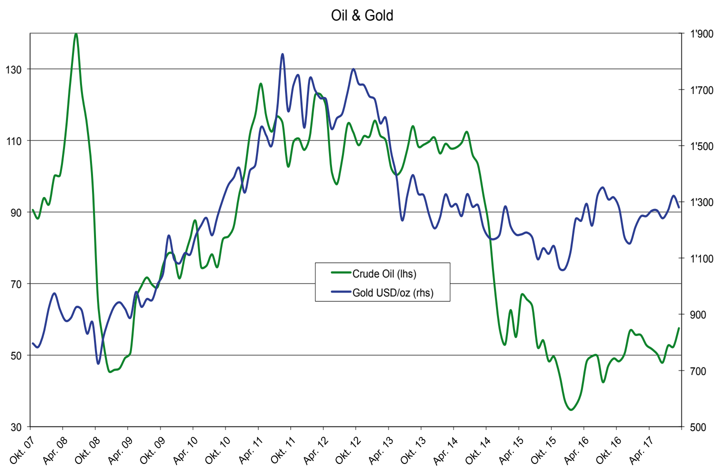


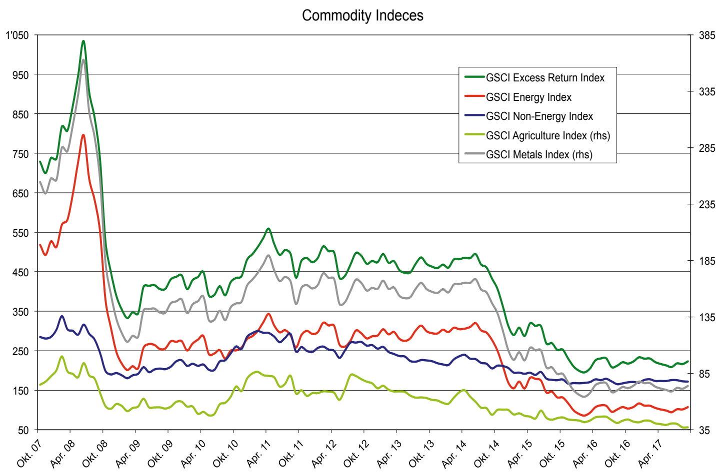


Bond yields and other indicators









Notes

Source of the following graphics: Bloomberg

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Closing words

We wish you golden autumn days and thank you for the trust placed in us.

Alfred Ernst
Director, Relationship Manager

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