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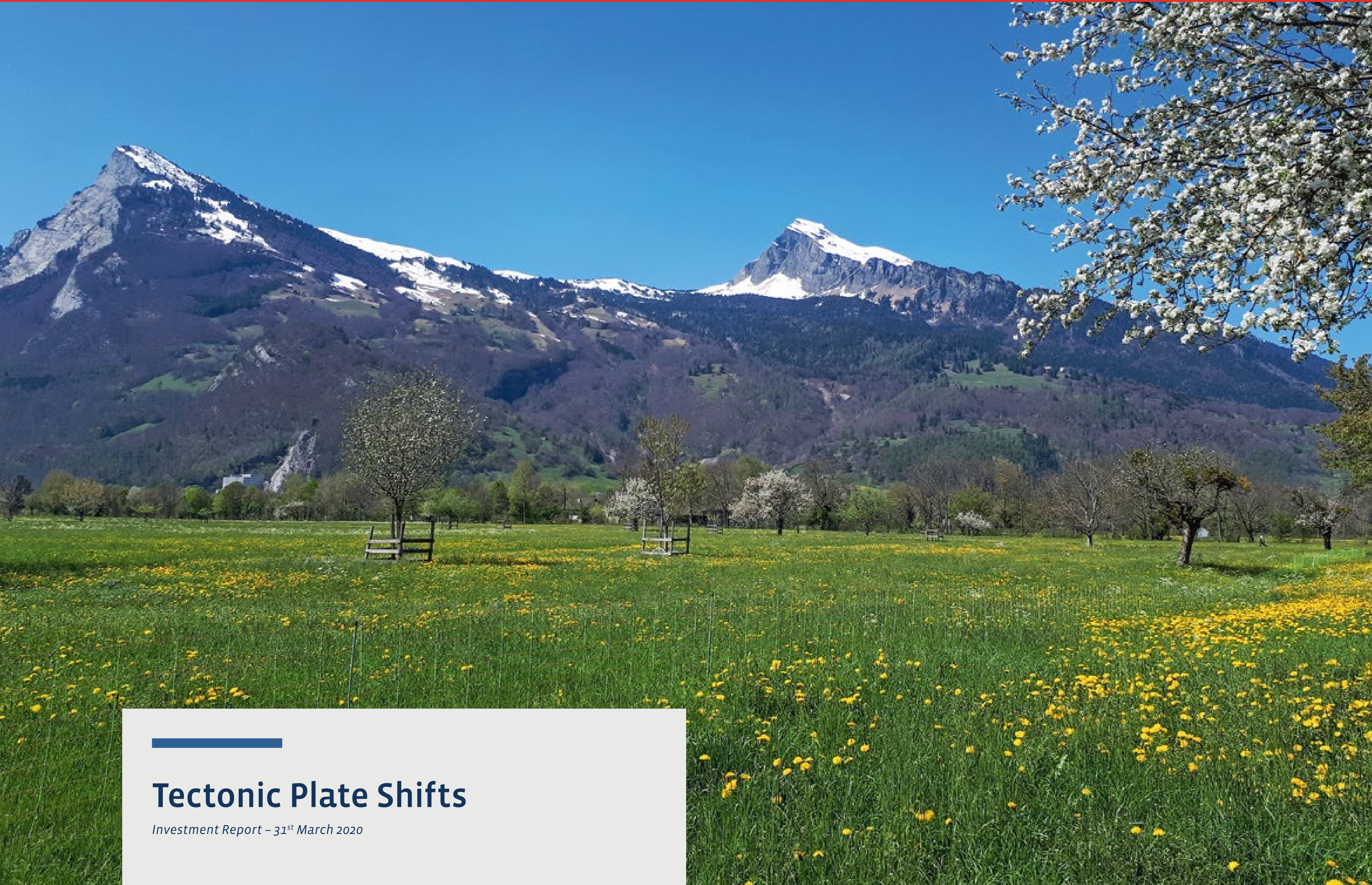

Tectonic Plate Shifts

Investment Report – 31st March 2020

Tectonic Plate Shifts

The Corona pandemic as well as the dispute between Saudi Arabia and Russia about oil production volumes triggered tectonic plate shifts on the financial markets. No asset class escaped, though the intermediate results in terms of price changes were rather varied.

Stock markets climbed to new highs as recently as February. This was followed by a stall that saw prices plummet with a very rarely seen intensity in the shortest possible time. During this phase, high quality sovereign bonds were highly sought after on one day, just to be sold again the next. Corporate bonds were, depending on sector and standing, either in high demand or viewed suspiciously.

Change in **Equity Markets since the beginning of 2020:**

		Dec. 2019	Mar. 2020	Change
Asia ex Japan	MSCI AC Asia ex Japan	509.4	415.8	-18.4 %
Europe	DJ STOXX 600	897.5	694.9	-22.6 %
Japan	MSCI Japan	2057.1	1'700.4	-17.3 %
Switzerland	SPI	12837.5	11'319.5	-11.8 %
USA	MSCI USA	8714.7	6'991.8	-19.8 %
World	MSCI AC World	6909.7	5'455.1	-21.1 %
Hedge Funds	HFRX Global HF	1292.4	1'203.2	-6.9 %

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

Prices of lower credit quality issuers and those of exposed sectors such as tourism, airlines and energy were severely punished. Gold benefited initially as a safe haven, followed by a massive drop, to rise markedly again towards the end of the quarter.

Waves of panic selling followed by similar counter movements dominated market activity. Not only did the S&P 500 Index experience its third largest single-day loss since the inception of this barometer in the year 1923, but also its ninth largest single-day gain ever. As the erratic movements of gold and government bonds indicate, both epitomes of safe havens, market participants had (or were forced) to sell supposedly sound assets in order to generate liquidity and/or to cover losses on other investments.

At present, it is entirely open as to what the future has in store for us. As Gabor Steingart, the former chief editor and publisher of the German "Handelsblatt" and now a newsletter and podcast author puts it: "Conclusion: Currently, no conclusion is possible. History is in the making." Nevertheless, an attempt is made in the following to sketch out what possible future course the economy and financial markets may take.

Economic outlook shrouded in thick fog

To what degree the crisis in the real economy, hit simultaneously by a supply and demand shock, will evolve, remains open. What is certain is that the skid marks will be distinctly visible. Various leading indicators, such as the number of unemployment claims filed or the purchasing managers' indices, are registering spikes that equal or even exceed those seen during the 2008 financial crisis. The initial filing of unemployment claims in the USA, for example, skyrocketed to above 3.2 million for the week ending 21st March. An explosion such as this has never been seen before.

Everything depends on how long the current lockdown measures endure, respectively, on the "if, when and how" they are relaxed. True, many countries launched gigantic bailout packages at potentially record-breaking speed (see table "Bailout packages and government debt of various countries"). However, these are emergency measures only suitable for weeks, rather than months.

The return to normality, or at least a move in that direction, clearly depends upon what course the number of infections and fatalities take. Sadly, it has to be feared that the number of fatalities will rise, not only because of COVID-19 infections, but also because of the lockdowns. Fatalities may also rise as a consequence of the financial worries and

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isolation (social isolation, loneliness) that follow a deterioration in the economic, psychological and physical constitution of humankind. Fortunately, the curve in the number of infections already appears to be flattening (at the editorial deadline of this report). This gives rise to hope of an approaching return to normality.

In the meantime, economists are attempting to model various scenarios. Will there be just a brief, sharp recession followed by a swift recovery of the economy (V-shaped course)? Or is it rather to be a prolonged recession followed by a sluggish economic recovery (U-shaped course)?

Scenarios miles apart

The Swiss financial newspaper, "Finanz und Wirtschaft", published scenarios drafted by the Roland Berger (RB) consultancy firm. In this article, RB forecasts in their best-case scenario that the Chinese GDP 2020 will come in 1.9 percentage points below the expectations prior to the onset of the crisis. This would mean growth of 4.1% in 2020. For Europe, a benign scenario would see a decline of 2.4% in GDP and with that, 3.4 percentage points below the former expectations. In the USA, GDP would decline by 2.5% according to this model, implying a COVID-19 induced deterioration of 4.2 percentage points compared to earlier estimates.

In a worst-case scenario, Chinese GDP would more or less stagnate (+0.3%) in the current year and with that, leave growth 5.7 percentage points below initial estimates. Europe would have to withstand a collapse in GDP of 9.3%, while the USA would suffer one of 10.4%, resulting in a double-digit difference to the previous estimates in both regions. The global economy would be faced with a decline in GDP of 5.6% in the worst-case scenario and with that, taking the negative COVID-19 contribution to 9 percentage points.

The **equity funds employed by us** achieved the following returns since the beginning of 2020:

Aberdeen Asia Pacific (USD)	-19.8 %
Swiss Rock Emerging Markets Equities (USD)	-24.9 %
GAM Japan Stock Fund (CHF hedged)	-17.2 %
GAM Japan Stock Fund (€ hedged)	-17.2 %
Strategy Certificate SIM–Swiss Stock Portfolio Basket	-16.7 %
iShares Core SPI ETF (CHF)	-11.3 %
iShares Stoxx Europe 600 ETF (€)	-22.6 %
Performa European Equities (€)	-28.3 %
Performa US Equities (USD)	-18.0 %
BB Adamant Medtech & Services Fund (CHF)	-15.8 %
BB Adamant Medtech & Services Fund (€)	-13.8 %
BB Adamant Medtech & Services Fund (USD)	-15.8 %

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

How do things look in Switzerland? Here, estimates for the 2020 GDP growth are currently in the range of -3% (UBS), -2.5% (BAK Economics) and -1.7% (State Secretariat for Economic Affairs). Of course, all the augurs emphasise that all estimates are subject to a high degree of uncertainty. In respect of the scenarios drafted by Roland Berger, we do not expect either their best or their worst-case scenario to materialise, rather, we will find ourselves somewhere in the middle.

Equities have become attractive

Whether the markets have already priced-in the coming economic environment sufficiently is a difficult question to answer. The Canadian research institution, Bank Credit Analyst, opines that as far as the American market is concerned, equities are now attractively valued, in particular so when compared to the completely overvalued US Treasury bonds. With a view to the coming twelve months, the first are to be given preference. Further setbacks in the market, however, cannot be excluded.

Other funds employed by us developed as follows:

Acatis IfK Value Renten Fond (CHF hedged)	-12.5 %
Acatis IfK Value Renten Fond (€)	-12.8 %
BCV Liquid Alternative Beta (CHF hedged)	-11.8 %
BCV Liquid Alternative Beta (€ hedged)	-11.6 %
BCV Liquid Alternative Beta (USD)	-10.8 %
Franklin Templeton K2 Alternative Strategies Fund (CHF hedged)	-8.0 %
Franklin Templeton K2 Alternative Strategies Fund (€ hedged)	-7.9 %
Franklin Templeton K2 Alternative Strategies Fund (USD)	-7.2 %
Lyxor ETF Euro Corp. Bond Fund (€)	-5.5 %
Pictet CH-CHF Bond Fund	-2.9 %
Swiss Rock Absolut Ret. Bond Fund (CHF hedged)	-6.9 %
Swiss Rock Absolut Ret. Bond Fund (€ hedged)	-7.0 %
ZKB ETF Gold (USD)	6.6 %

Performance incl. re-invested dividends where applicable.

We share the view that stock prices (not only in the USA) will be higher twelve months from now. Volatility, which in places reached historical highs during March, will remain high for the time being. With this in mind, we created some liquidity already in mid-March, so that in the event of marked setbacks, we are ready to add equities. In the case of Swiss Franc referenced portfolios, this would be at a level of just above 9000 points for the Swiss Performance Index (SPI), which closed the quarter at 11'319. We would then buy a position of 5% of portfolio value at this level. This limit has not been reached to date.

Independently of this, purchases would in any event be made once the lower weighting limit defined in any individual mandate were to be undercut. It is static mechanisms such as these that replace emotions that naturally run extremely high in such market conditions, with historically proven and disciplined action. Long-term, this way of proceeding has always paid off.

Bonds put on a good show

Bond markets were also affected by the pandemic. Even bonds with good credit rating came under pressure as large waves of selling drowned markets. On direct engagements, we adhere to our scaling across the rating spectrum and continue to concentrate on good quality. In addition, we only invest in so-called investment grade bonds (i.e. at least a BBB rating). We are convinced that the currently subdued prices of some issues will recover. Many quotes are not really representative, as bond markets are registering hardly any turnover at times.

Bailout packages and government debt
of various countries:

	Bailout Package in % GDP	Govt. Debt in % GDP
China	3	61
Germany	21	61
France	2	100
Italy	2	137
Spain	16	98
Switzerland	6	41
USA	10	105

Source: Liechtensteinische Landesbank.

Overall, however, the stress in fixed-interest markets is not over yet. Rising risk premiums vis-à-vis German Bundesanleihen are to be expected, for example, for Italian and Spanish government debt. The average credit quality in the bond universe will continue to trend down. The fear of a break-up in the Eurozone is being raised once more. Furthermore, analogous to the problem last seen during the 2008 financial crisis, the securitised loan market is seeing many sellers of such titles, but nobody is willing to buy.

Hold on to gold

Whatever you do, do not let go of gold these days. The sheer volume of government debt created by the bailout packages argues for a trend in rising interest rates and supports rising inflation in the long term. A recovery in commodity and crude oil prices, in particular, could also add to inflationary pressures. This supports gold. Interestingly, the physical gold market has experienced supply shortages. This is because, amongst other factors, three important foundries in Ticino had to shut down. On the demand side, bullion bars and coins apparently featured equally on consumers' shopping lists as did rice, pasta and toilet paper.

Generally, it is imperative to continue to keep your calm. The portfolios are broadly diversified. Panic

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selling has always been counterproductive in our experience. Should markets turn upwards sharply before the envisaged buying limits are reached, we hold sufficient equities in the portfolio to benefit. As a matter of course, we are monitoring the situation continuously and following it closely. Any change in the situation will trigger a review of the tactical asset allocation, and as the case may be, to changes being implemented.

Asset Allocation

The Investment Committee sat frequently and at close intervals during March, continuously monitoring the situation. At these 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 money market allocation increased slightly during the first quarter and is now overweight. During March, we sold part of the alternative asset allocation, which had held up rather well during the storm, to raise some cash for potential additions to the equity allocation.

Bonds
We did not initiate any active changes to the inventory and remain underweight in this sector.

During the course of the year, **yields on 10-year government bonds** declined almost everywhere:

	Dec. 2019	Mar. 2020	Change
Europe	-0.19 %	-0.47 %	-147 %
United Kingdom	0.82 %	0.36 %	-56 %
Japan	-0.01 %	0.02 %	300 %
Switzerland	-0.47 %	-0.33 %	30 %
USA	1.92 %	0.67 %	-65 %

Equities Switzerland
In the main, due to the index heavyweights Nestlé, Novartis and Roche, Swiss equities exited the past quarter less dishevelled than their counterparts in other countries. The trio accounts for about 50% of the index. In general, large capitalised stocks fared better than medium or small capitalised stocks. The directly invested "Swiss-Stock-Portfolio" (SSP) suffered a loss of 16.4% during the first quarter. The Swiss Performance Index (SPI) lost 11.8% over the same period. We are slightly underweight Swiss equities now.

In the long term, the performance of our value-criteria driven selection is quite respectable. Since 2012, the average annual performance of the SSP amounts to 12.7%, a result that beats the average benchmark's performance of 9.5% markedly. Since 2012, the total cumulative return of this strategy amounts to about 168%, while that of the index to 112%. The SSP figures bear transaction costs, whereas the benchmark index does not bear any costs. The "Strategy Certificate linked to the SIM Swiss Stock Portfolio Basket" (Valor: 36524524, ISIN: CH0365245247) declined by 16.7% during the first quarter.

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

	Dec. 2019	Mar. 2020	Change
SPI Index	15.9	9.6	-39.6 %
DJ STOXX 600 Index	20.7	15.3	-26.1 %
MSCI AC Asia ex Japan	16.3	13.2	-19.0 %
MSCI Japan	15.7	13.5	-14.0 %
MSCI USA	22.2	17.6	-20.7 %
MSCI AC World Index	20.6	16.3	-20.9 %

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

The regular annual rebalancing is upcoming during the second quarter, whereby the fundamentally most attractive stocks of the Swiss equity marked will be added to, respectively, remain in the portfolio, whereas the most expensive stocks will be sold. During these times, even more than usual the focus will be on high quality. At the same time, the weighting of the individual components will be adjusted. Direct investment will be affected equally as is the composition of the certificate.

Equities Europe
Our value-style centric, directly invested "European Stock Portfolio" (ESP) suffered a loss of 28.7% during the first quarter, measured in Euro. The broad Dow Jones Stoxx 600 Index suffered a loss (price change plus dividends) of 22.6%% during the same period, whereas the value-style driven Dow Jones Stoxx 600 Value Index lost 29.2%.

In the long term, the ESP displays a marked outperformance against the broad index. Since 1993, the ESP has returned on average 7.2% compared to the 6.1% achieved by the 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 about 608%, while that of the benchmark to about 429%.

The rebalancing described in the preceding "Equities Switzerland" paragraph will similarly be executed for European stocks during the coming weeks. We are currently underweight European equites.

Equities USA
American equities have gone to rack and ruin, whereas the Performa US Equities Fund employed by us did better than the benchmark. The same applies to the BB Adamant Medtech & Services Fund engaged in the specialist sector of medicinal technology. We have not made any changes to the US stock weighting and with that continue to be overweight.

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

	Price/Book	Div. Yield
SPI Index	0.69	3.2%
DJ STOXX 600 Index	1.37	4.4%
MSCI AC Asia ex Japan	1.27	2.9%
MSCI Japan	1.06	2.7%
MSCI USA	2.85	2.3%
MSCI AC World Index	1.98	2.9%

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

Equities Asia (excluding Japan)
Equities in emerging economies were also dragged down, although to a lesser extent than in Europe. Having said that, neither was this part of the world amongst the top performers in 2019. We left the allocation unchanged during the quarter and with that, underweight.

Equities Japan
The verdict on equities in the Land Of The Rising Sun was similar to the above. The positioning remained unchanged and slightly above neutral weight.

Alternative Investments
Alternative investments suffered less than equities. Here we divested the larger part in March to create sufficient liquidity for potential equity purchases. With that, we are newly underweight here.

Precious Metals
A rise of 10% to nearly 1700 US Dollars per ounce by mid-March was followed by a precipitous fall to below 1500. For gold, which has the reputation of serving as a safe haven, to suffer a reversal like this, makes us think that during the worst days market participants were forced to dump the precious metal onto the market to stop up gaping holes elsewhere. Since then, the price has recovered to about 1600 US Dollars. We kept the position unchanged, which corresponds to an overweight position.

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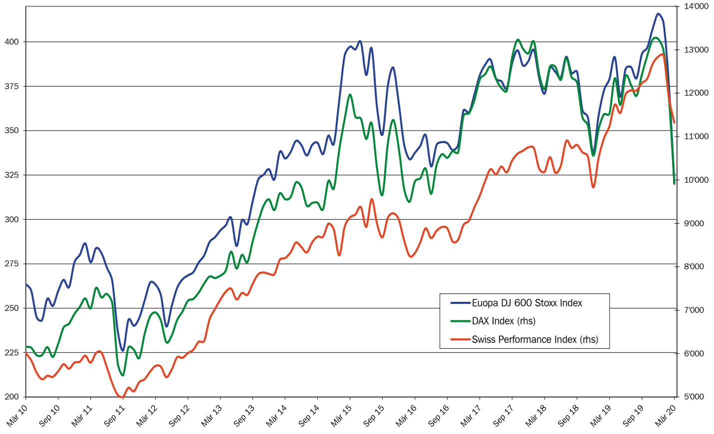
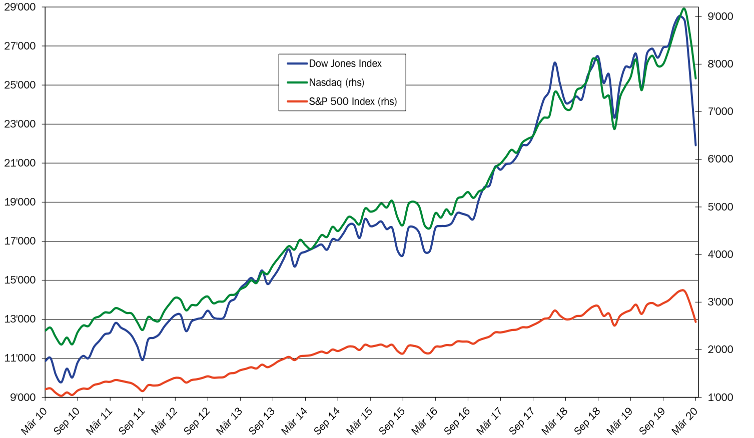
Equity markets at a glance

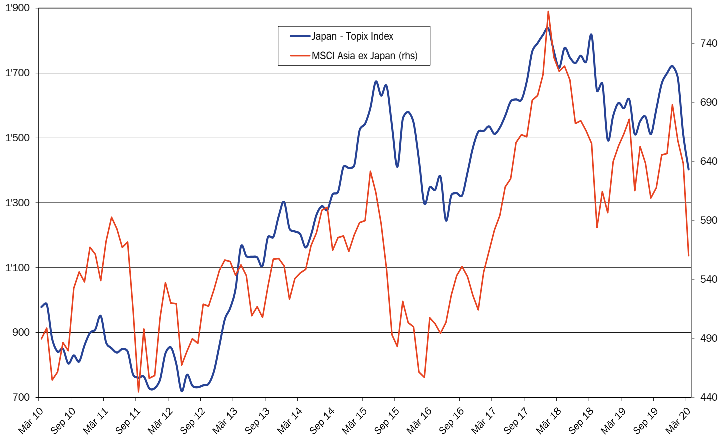
Equity Markets Europe



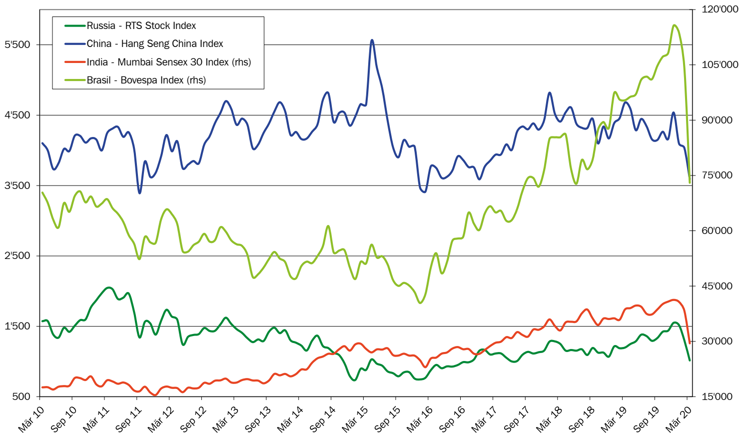
Equity Markets USA



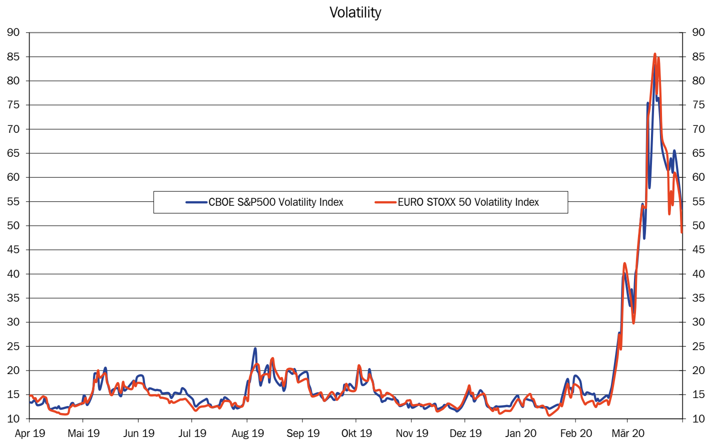
Equity Markets Asia & Japan

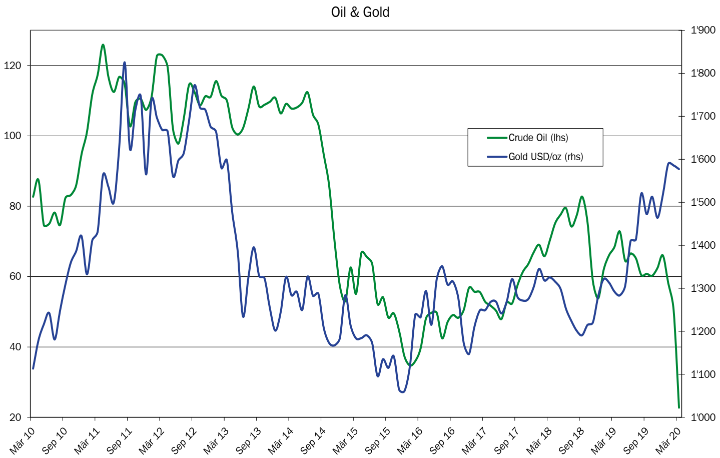


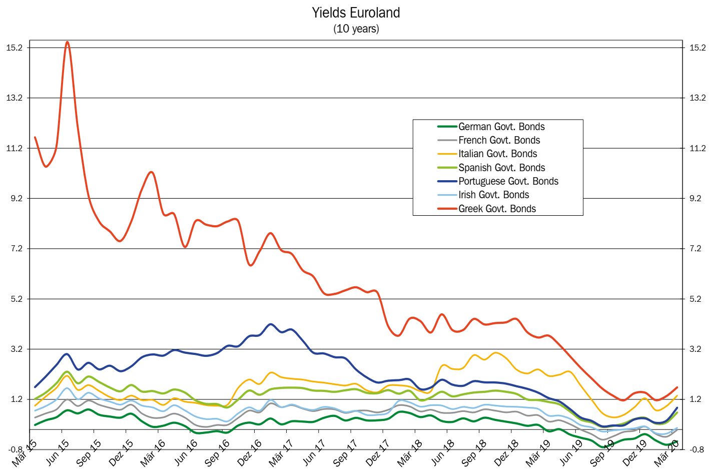
Equity Markets BRIC

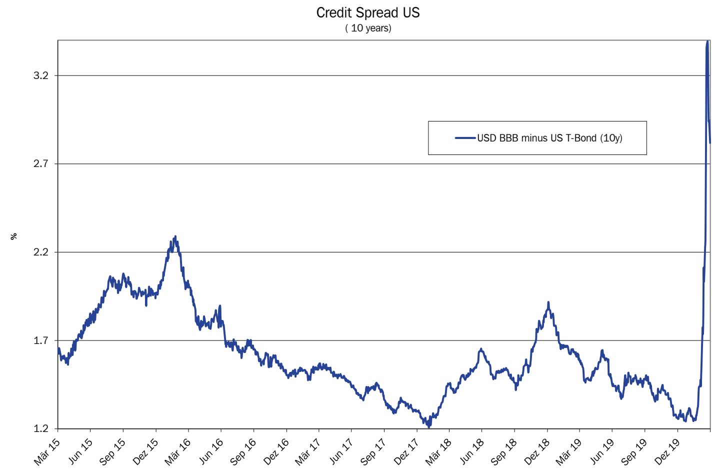


Bond yields and other indicators









Notes

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Closing words

We wish you good health
and thank you for the trust
placed in us.

Alfred Ernst
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