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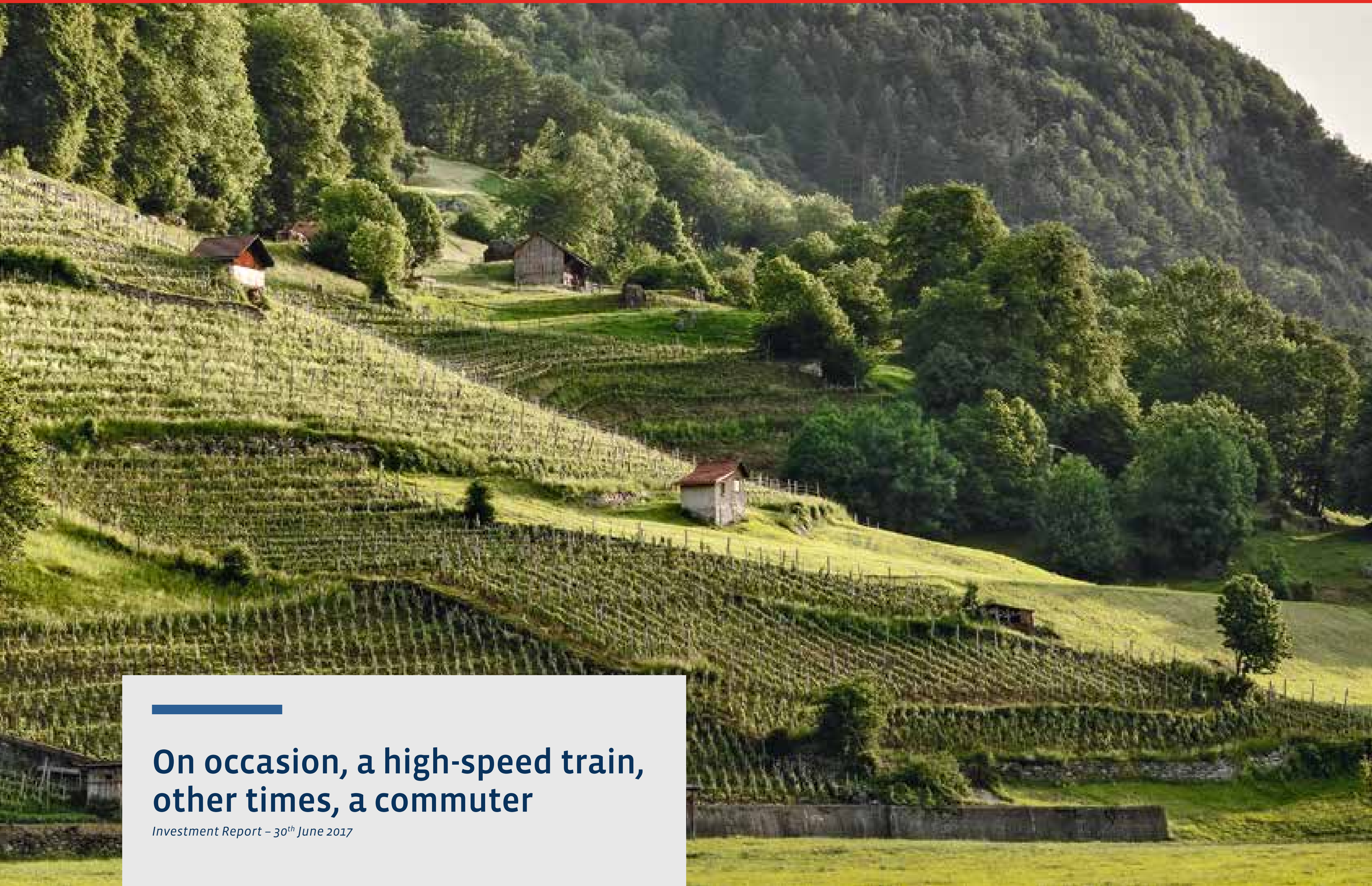

On occasion, a high-speed train, other times, a commuter

Investment Report – 30th June 2017

On occasion, a high-speed train, other times, a commuter

The second quarter provided investors with further profits, with Swiss and European equities cutting a particularly fine figure. We undertook some major regroupings to our Swiss and Asian equity positions and we launched a new investment product.

During the second quarter, equity prices knew only one direction in nearly every country around the world. Upwards. True, depending on the region, you could find yourself on an express train, or on a commuter. Investors in Switzerland and Japan in particular, as well as the USA, enjoyed a journey like being on a high-speed train, which helped the world equity index to a rapid advance. However, for other indices in Europe and Asia, excluding Japan, the journey was more like travelling on a "stopping at all stations" train. In spite of this, the European stocks held by us saw double-digit gains. You will find more on this, and the regroupings we have made, in the "Asset Allocation" section. Prices on the bond markets moved sideways, or lost ground slightly.

Political spectres scared away

The fact that some political spectres had been scared away, at least for the moment, contributed to the good mood on the markets. Starting already in March in the Netherlands, followed by most notably in France in May and June, the electorate chose not to be drawn into experiments at the extremities of the political spectrum. In the run-up to the German election in autumn, a trend towards the established centre ground appears to have emerged. Great Britain's parliamentary election provided yet another political surprise, which may have taught the forecasters a lesson, but was of little significance to the exchanges. In the White House, President Trump continues to bluster in a now almost familiar fashion, with equally little negative impact on financial markets.

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

	Real GDP Growth		Inflation	
	2017	2018	2017	2018
China	6.7 %	6.3 %	2.1 %	2.3 %
Germany	1.8 %	1.7 %	1.7 %	1.6 %
Euroland	1.8 %	1.6 %	1.6 %	1.4 %
United Kingdom	1.6 %	1.3 %	2.7 %	2.7 %
Japan	1.4 %	1.0 %	0.6 %	0.9 %
Switzerland	1.4 %	1.6 %	0.5 %	0.7 %
USA	2.2 %	2.4 %	2.2 %	2.1 %

Of course, not everything is fine. North Korea continues to play with fire by provoking both East and West. The situation in the Middle East and South Asia continues to be tense. In Europe, debt and economic problems are simmering below the radar of the global community, and have the potential to become a source of increased unrest at any time.

Global economy basking in the sun

Apart from this, the economic parameters are, for the most part, good. For the first time in years, growth in the economies in almost all regions of the world has synchronised. The map of Purchasing Managers Indices, an important leading indicator, presents itself in lush green. This is to say, the index values in most countries are appreciably above the 50 mark, which is equivalent to expansion. For the time being, this is likely to remain so. Risk of a recession is low.

The expected interest rate hike in the USA in June went smoothly. Based on the economic figures, interest rates should be markedly higher, but it appears the FED is anxious to soft pedal, and not to choke off the recovery. After all, the bond purchases in the market are to be cut back and thus, the central bank's balance sheet size gradually reduced. Though only indicated verbally so far,

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the ECB appears to be willing to follow this course in Europe too, at some stage. However, nobody appears to be in a rush on this score in the Old World.

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

		Dec. 2016	June 2017	Change[1]
Asia ex Japan	DJ STOXX A/P	445.3	494.3	11.0%
Germany	DAX	11481.1	12'325.1	7.4%
Europe	DJ STOXX 600	361.4	379.4	5.0%
Japan	TOPIX	1'518.6	1'611.9	6.1%
Switzerland	SPI	8'965.7	10'128.3	13.0%
USA	S & P 500	2'238.8	2'423.4	8.2%
World	MSCI World Index	421.8	465.1	10.3%
Hedge Funds	HFRX Global HF	1'203.2	1'234.9	2.6%

[1] 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[2], with nearly all beating their benchmarks:

Aberdeen Asia Pacific (USD)	21.7%
JB Japan Stock Fund (CHF hedged)	5.8%
JB Japan Stock Fund (€ hedged)	5.8%
Performa Asian Equities (USD)	11.1%
Raiffeisen Futura Swiss Stocks (CHF)	12.8%
Black Rock Swiss Small & Midcap Opp. (CHF)	23.0%
Schroders Swiss Small & Midcap (CHF)	16.6%
iShares Stoxx Europe 600 ETF (€)	7.1%
Performa European Equities (€)	11.6%
Performa US Equities (USD)	10.3%

[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 (€)	4.3%
Acatis IfK Value Renten Fond (CHF)	4.1%
BCV Liquid Alternative Beta (€)	1.6%
BCV Liquid Alternative Beta (CHF)	1.4%
Lyxor ETF Euro Corp. Bond Fund (€)	0.0%
New Capital Wealthy Nations Bond Fund (€)	3.8%
New Capital Wealthy Nations Bond Fund (CHF)	3.5%
New Capital Wealthy Nations Bond Fund (USD)	4.8%
Pictet CH-CHF Bond Fund	-0.4%
Swiss Rock Absolut Ret. Bond Fund (€ hedged)	0.0%
Swiss Rock Absolut Ret. Bond Fund (CHF hedged)	-0.3%
UBAM Corporate USD-Bonds (€ hedged)	1.8%
UBAM Corporate USD-Bonds (CHF hedged)	1.6%
ZKB ETF Gold (USD)	7.1%

[3] Performance incl. reinvested dividends where applicable.

Upshot: Keep to the current heading

In spite of their higher fundamental valuations, we continue to consider equities more attractive than bonds, which is why we are overweight the former and underweight the latter. Arguably, investors will have to get used to higher volatility again in future.

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
Liquidity is above its long-term strategic target and serves as a reserve for arising opportunities. In addition, its function as a buffer against value fluctuations in other asset classes is very valuable.

Bonds

With the exception of Japan and USA, yields on 10-year government bonds increased slightly. Equally, yields on corporate bonds rose in many countries. In light of the synchronous economic upswing, as well as the recognition that current policy is unlikely to be in place ad infinitum, the lows are likely to be behind us. We did not undertake any active changes during the past three months and favour corporate bonds with a maximum remaining term of five years.

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

	Dec. 2016	June 2017	Change
Europe	0.21 %	0.47 %	124 %
United Kingdom	1.24 %	1.26 %	2 %
Japan	0.05 %	0.02 %	-60 %
Switzerland	-0.19 %	-0.02 %	90 %
USA	2.44 %	2.30 %	-6 %

Equities Switzerland

Our selection of Swiss equities composed according to value criteria, the "Swiss Stock Portfolio" (SSP), experienced some changes as it underwent its annual rebalancing during the second quarter. New additions to the attractively valued industrial stocks are Gurit, Autoneum, Georg Fischer, as well as Zehnder. A new addition to the consumer goods sector is the Mobilezone stock. The telecommunication sector is now represented by Swisscom, and in the pharmaceuticals sector, Tecan stock has been added. Vetropack from the industrials sector, and Bell, Nestlé, and Metall Zug kept their place in the selection of the 20 fundamentally most attractively valued Swiss shares, as did Kudelski in technology, and Swiss Life, Swiss Re, UBS and Baloise in the financials. The pharma sector is also dominated by well-known names in the selection, namely Novartis, Roche, Siegfried and Coltene.

Again, this selection of directly held stocks yielded a very pleasing performance achieving 19.14 % (including dividends) in the first six months of the year. Its benchmark SPI (total return) achieved 12.97 % total return during the reporting period. With that, the SSP achieved an outperformance of 6.17 %. Since 2010, the cumulative total return of this strategy amounts to 155 %! The SSP figures are net of transaction costs and withholding taxes. The benchmark, however, does not bear any such costs.

Until now, we have implemented Swiss equities either directly or through first-class funds committed to value investing, depending on client preference and / or size of mandate. Both variants have achieved very pleasing results in the past few years.

Nevertheless, our desire to be able to make our expertise in picking promising stocks available to all our clients has grown over time. This has cumulated in our creating a **new investment certificate** mirroring the Swiss Stock Portfolio on a 1:1 basis. With that, all those who are obligated or choose to forego direct investments are offered an opportunity to invest in our house selection. The certificate has been issued by UBS. It carries the name "Strategy Certificates linked to the SIM-Swiss Stock Portfolio Basket" (Valor: 36524524, ISIN: CH0365245247). As it is a certificate, it will appear in your bank's portfolio report under the category of "Derivatives".

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Equities Europe
The equity portfolio for Europe, compiled by abiding by the same valuation criteria, also went through its annual rebalancing. Some regrouping of investments has to be reported here as well. New amongst the most attractive stocks are Neste (Refining), Eiffage (Civil Engineering Construction), Centamin (Gold producer) and Dürr (Engineering). Also new in the portfolio are EDP Energias de Portugal (Utilities), Amsterdam Commodities (Commodities), Jeronimo Martins (Food) as well as Barratt Development and Lundbergföretagen (both Real Estate). Rounding off the new additions are Eutelsat Communications (satellite communication), BNP Paribas, Nordea Bank, as well as Fresenius Medical Care, Novo Nordisk and the chemical producer, Arkema. Saras (Refining), UPM Kymmene (Paper) Renault, EasyJet, Freenet, Dialog Semiconductors, as well as Swiss Re, IG Group Holdings, Evonic Industries and Capgemini kept their places amongst the selection of the most attractively valued stocks in Europe.

The directly-invested "European Stock Portfolio" (ESP) achieved a 12.55% return in the first half of the year. The DJ STOXX 600 Index achieved only a return of 7.04% during the same time span (both values are total return, i. e. incl. dividends), yielding an outperformance of 5.55% to the ESP. Compared to a pure value index which more closely reflects our investment approach, the outperformance even amounts to some 6.37 percentage points.

Since 1993, the mean annual performance of our equity selection amounts to about 9.20% compared to the 7.04% 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 840%!

Equities USA
The American market continued its climb in the second three-month period too. Technology stocks in particular managed to please; as a consequence, the Nasdaq index climbed even stronger than the broader market. We have not made any changes, and are neutrally positioned.

Equities Asia (excluding Japan)
Whilst Asian equities managed to carry-over some momentum into the second quarter, the pace decelerated. We did not make any changes to the tactical weighting, however, we did make changes to the selection. We relinquished the units of the Performa Asia Equity Fund, the proceeds of which are being invested in the Swiss Rock Emerging Equity Fund.

Measured on the **price/earnings ratio**[4] 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	June 2017	Change
DAX Index/DE	18	19.8	10.0%
DJ STOXX 600 Index/EU	27.4	24.3	11.3%
MSCI World Index	21.1	20.5	-2.8%
S & P 500 Index/USA	21	21.5	2.4%
SPI Index/CH	16.1	17.2	6.8%
TOPIX Index/JPN	19.8	16.7	-15.7%

[4] Source: Bloomberg

This Swiss managed fund also invests with a focus on Asian emerging countries, but also considers promising companies in other emerging markets. In this fund, we expect a closer dialogue with the fund managers and obviously, a better performance too. With respect to the weighting of Asian stocks, we are about neutral weight.

Equities Japan
The Japan equity fund held by us is changing its name. Originally branded as a Julius Bär fund, it will in future be called "GAM Japan Equity Fund". This is because the fund manager, GAM, who has held signatory authority for the JB Fund for a long time, has now decided to present all their funds in a uniform branding. The change of name does not have an impact on either the fund manager or the investment style. Our positions in the fund remained unchanged throughout the quarter.

Alternative Investments
No changes here. The fund employed by us represents a neutral weighting and achieves its purpose, thanks to low volatility growth.

Precious Metals
Again, no changes to our Gold position. After some ups and downs, the precious metal is quoted about the same as the levels of the end of March.

Summary of our current
Asset Allocation[5]:

Investment Category	
Money Market	overweight
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

[5] For a Swiss Franc referenced portfolio.

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

	Price/ Book	Div. Yield
DAX Index / DE	1.7	2.7 %
DJ STOXX 600 Index / EU	1.8	3.4 %
MSCI World Index	2.3	2.4 %
S & P 500 Index / USA	3.1	2.0 %
SPI Index / CH	2.1	3.1 %
TOPIX Index / JPN	1.3	1.9 %

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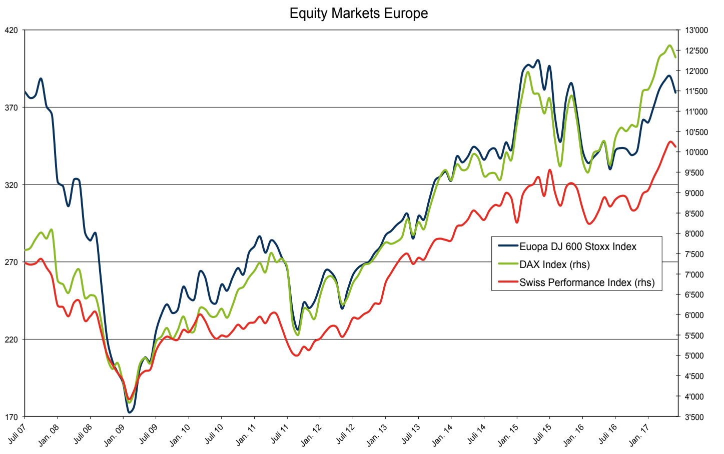
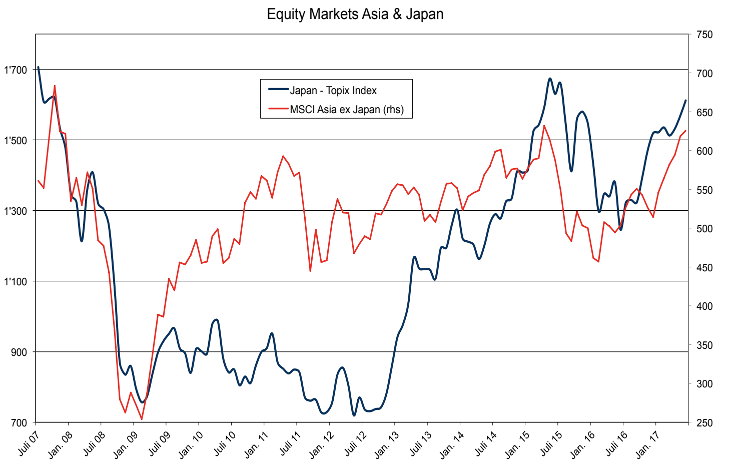
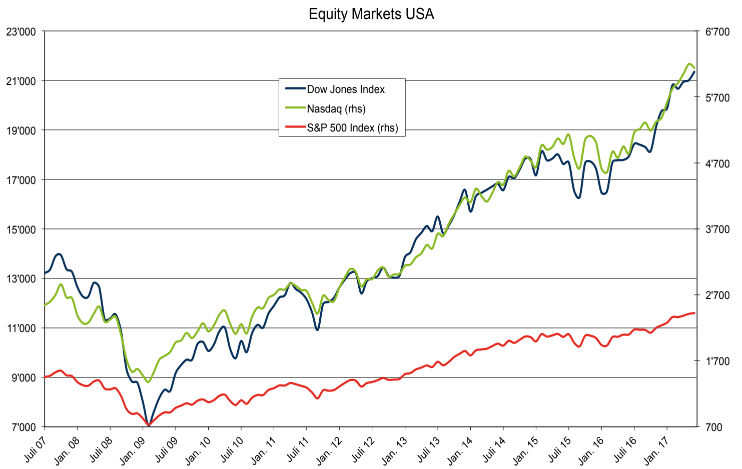
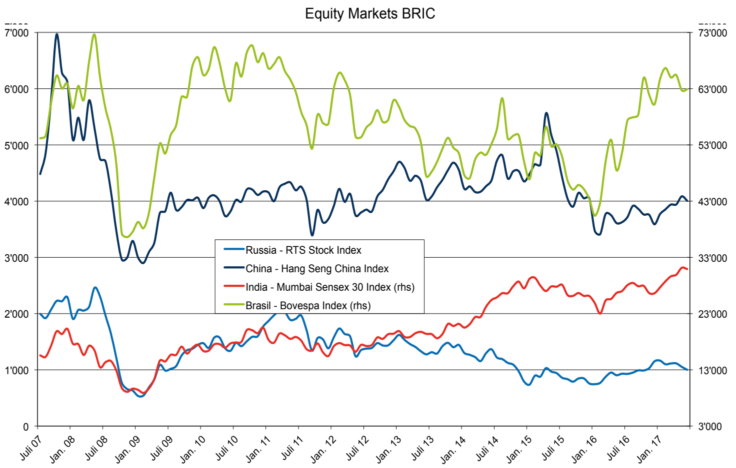
Equity markets at a glance

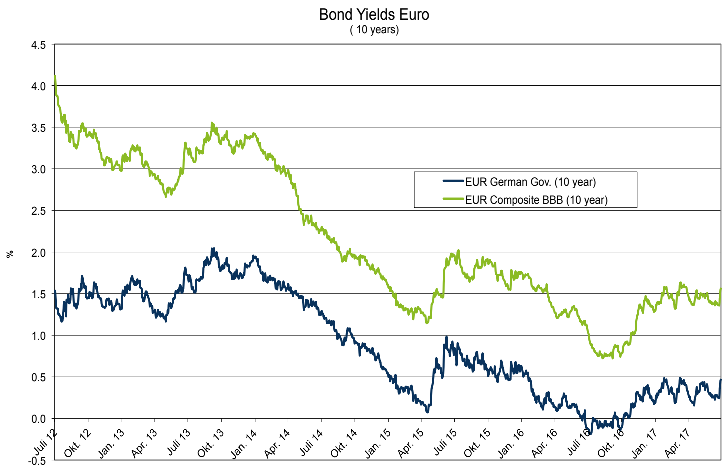


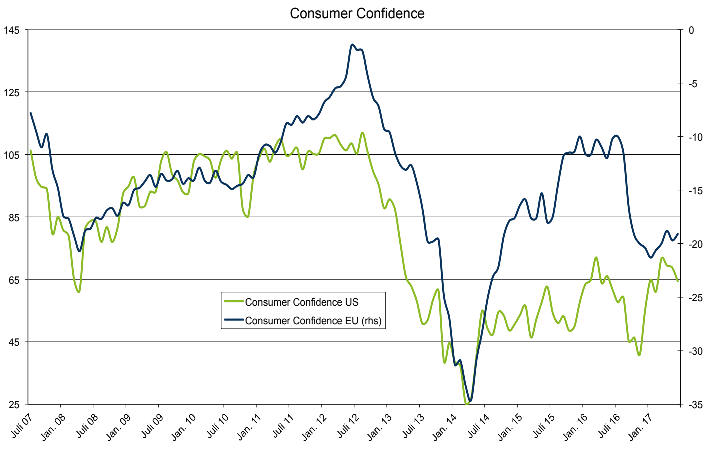


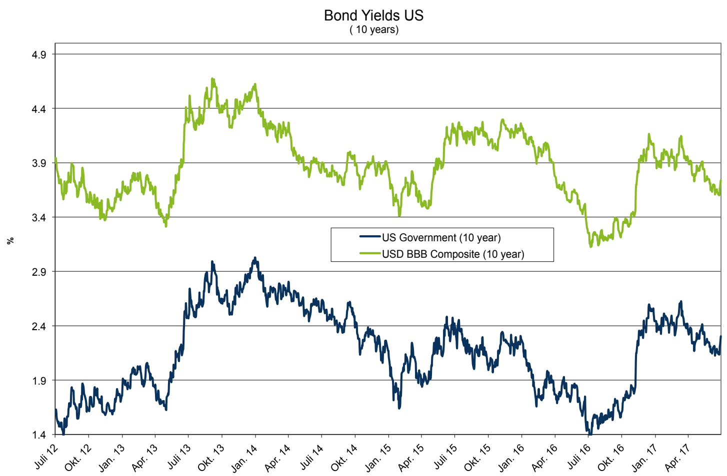


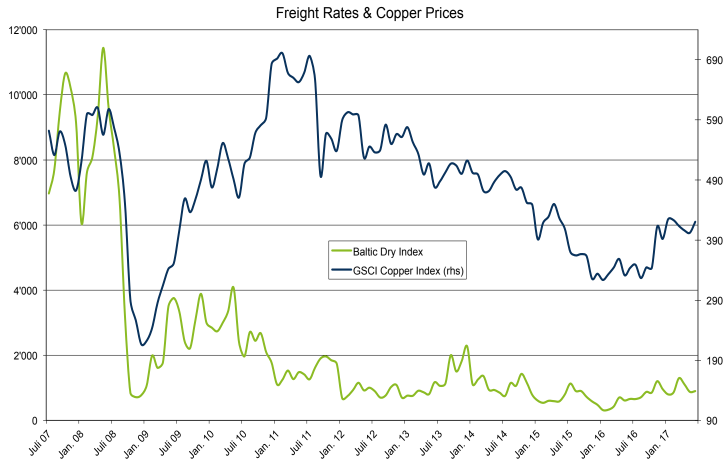


Bond yields and other indicators









Notes

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Closing words

We wish you many sunny and relaxing
summer days and thank you
for the trust you have placed in us.

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