SALMANN
INVESTMENT MANAGEMENT

Investment Report – 30th June 2016

Not amused

One thing we have to give the Britons credit for, they are always good for a Big Bang. The first dates back to 1986 when Margret Thatcher's government deregulated the London financial markets. The majority of market participants perceived this positively as in the years following, the Bang helped to increase the importance of the financial centre on the Thames and to narrow the gap between itself and its major rival on the Hudson River. As a result, prosperity increased throughout the country. However, after Big Bang 2.0, triggered by the unexpected result of the Brexit vote, the sentiment today along the banks of the Thames is very different. Long faces are the order of the day or, borrowing a famous English saying: „The financial community is not amused". The mood was not lightened any further by the rating agency Standard & Poor's decision to downgrade Britain's "AAA" rating to "AA" with a "negative outlook".

Stabbing around in the dark

Global investors are also "not amused". Although many stock exchanges have recovered from the first slump, uncertainty remains high. Yet, financial markets hate uncertainty no matter what the source. It is worrisome that politicians, and even the leading lights of Brexit proponents (who have in part already made themselves scarce), do not seem to have a plan for the separation. The exit that won the approval of the majority also does not put the EU and its leaders in a good light, in that they appear to have equally been caught unprepared.

The first reaction to the news has been that speculation on both sides is rife, for example, regarding growth prospects. Pundits are now expecting Great Britain's growth to slow by approximately one percent. Of the 1.8 % growth expectation stated in the table below, estimated pre-Brexit, only a paltry 0.8 % now remains. A recession can also not be ruled out. Although Britain will remain a member of the European Union for a minimum of two years, companies and private individuals are beginning to prepare for the new and uncertain circumstances immediately, and are likely to react with restrained investment and consumption. Europe might have to face growth being reduced by 0.3 to 0.5 % However, the rest of the world should be less affected directly, since the UK only contributes approximately 3.9 % to the global domestic product (GDP). Nevertheless, it would be wrong to completely dismiss the impact globally.

Average **growth and inflation forecasts** from "The Economist's" June poll of economists (pre-Brexit vote):

	Real GDP Growth		Inflation	
	2016	2017	2016	2017
China	6.6%	6.3%	1.9%	1.9%
Germany	1.6%	1.6%	0.4%	1.5%
Euroland	1.5%	1.6%	0.3%	1.4%
United Kingdom	1.8%	2.0%	0.7%	1.7%
Japan	0.6%	0.8%	0.0%	1.2%
Switzerland	1.2%	1.5%	-0.6%	0.7%
USA	1.8%	2.1%	1.4%	2.2%

There is also speculation about inflation, which could become increasingly uncomfortable for Britons, as the weak Pound will accelerate inflation via imports. On the other hand, exporters and local tourism will benefit from the cheaper currency. Interest rates, another matter for speculation, should stay low in Europe and the U.S., while they may even fall in Great Britain. Futures markets have discarded the possibility of US interest rate hikes in the current year.

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

		Dec. 2015	June 2016	Change[1]
Asia ex-Japan	DJ STOXX A/P	429.1	432.3	**0.8%**
Germany	DAX	10'743.0	9'680.1	**-9.9%**
Europe	DJ STOXX 600	365.8	329.9	**-9.8%**
Japan	TOPIX	1'547.3	1'245.8	**-19.5%**
Switzerland	SPI	9'094.0	8'660.2	**-4.8%**
USA	S & P 500	2'043.9	2'098.9	**2.7%**
World	MSCI World Index	399.3	399.3	**+/-0.0%**

[1] Index performance in local currency. Exceptions Asia ex Japan and World in USD.

And last, but by a long chalk, not least: What will the exit of this important member of the EU mean for the Community in the long run? Will this structure slowly crumble? Or will the EU get its act together and become an institution that is closer to its citizens? Nobody has an answer to this question. It is therefore even more important for investors to invest carefully with a long-term view and to diversify widely.

The **equity funds employed by us** achieved the following returns[2] since the beginning of the year with some beating their benchmarks:

Aberdeen Asia Pacific (USD)	**4.0%**
JB Japan Stock Fund (CHF hedged)	**-18.4%**
JB Japan Stock Fund (€ hedged)	**-18.4%**
Performa Asian Equities (USD)	**1.7%**
Black Rock Swiss Small & Midcap Opp. (CHF)	**1.1%**
Raiffeisen Futura Swiss Stocks (CHF)	**-1.1%**
Performa European Equities (€)	**-13.5%**
Performa US Equities (USD)	**-2.3%**

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: We do not wish to elevate the proverbial "Cash is King" to the position of a general strategy, but a certain liquidity quota has been beneficial recently. The target allocation is 12 %. Although it currently does not yield a return, it helps to mitigate volatility in other asset categories. Furthermore, it does not harm to keep some of your powder dry in difficult times.

Bonds: The bond market continues to venture into uncharted territory. Brexit caused a further flight to safe havens such as U.S., Japanese and Swiss government bonds, with the result that meanwhile it is estimated that globally more than 9,000 billion(!) EURO worth of bonds are traded on negative redemption yields. These price gains are well reflected in the handsome performances of the bond holdings and of the bond investment funds employed by us. (See table below). We have not made any active changes to the positions.

During the current year, **yields on 10-year government bonds** declined massively across the board:

	Dec. 2015	June 2016	Change
Europe	0.63%	-0.13%	-120%
United Kingdom	1.96%	0.87%	-56%
Japan	0.27%	-0.22%	-181%
Switzerland	-0.06%	-0.58%	-867%
USA	2.27%	1.47%	-35%

Equities Switzerland: During the second quarter, the allocation remained unchanged. Direct investments were rebalanced. This annual procedure aims to sell or reduce those shares that, according to our fundamental analysis, are most expensive and to replace them with the cheapest. Furthermore, each position is reset to five percent of market exposure. Bachem, Baloise, Bucher Industries, Conzzeta and Kudelski are new additions to the preferred stocks. The following stocks were eliminated: Autoneum, Huber & Suhner, Lonza, Rieter, as well as Vaudoise, while Vetropack, Syngenta, Bopst, Bell, Hochdorf, Nestle, Metall Zug und Swatch remain in the team. Further members of the selection are the financials, Swiss Life, UBS and Swiss Re, as well as the stocks of Novartis, Roche, Siegfried and Coltene.

Measured on the price/earnings ratio[3] using the latest 12 months profit figures, some of the equity markets have become dearer since the beginning of the year (red), while others have become more attractive (green):

	Dec. 2015	June 2016	Change
DAX Index/DE	22.8	21.2	**-7%**
DJ STOXX 600 Index/EU	23.4	26.9	**15%**
MSCI World Index	20.7	20.0	**-3%**
S & P 500 Index/USA	18.2	19.4	**7%**
SPI Index/CH	25.4	21.1	**-17%**
TOPIX Index/JPN	16.5	14.8	**-10%**

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

[3] Source: Bloomberg

During the first half of this year, the Swiss Stock Portfolio (SSP) has achieved a positive performance of 1.9% (inclusive dividends), while its benchmark index, the SPI (Total Return) trades 4.8% in the negative. Since 2010, the annual performance of SSP amounts to 10.1% p.a., clearly beating the performance of the benchmark of 6.9%. SSP figures include transactions costs and taxes at source while the index is not subject to such deductions. In addition, the Swiss equity funds, Raiffeisen Futura Swiss Stocks and Black Rock Swiss Small & Midcap Opportunities, have had a good run compared to the benchmark.

Other funds employed by us developed as follows[4]**:**

Acatis IfK Value Renten (€)	**5.3%**
Acatis IfK Value Renten (CHF)	**5.0%**
Lyxor ETF Euro Corp. Bond Fund (€)	**3.4%**
New Capital Wealthy Nations Bond Fund (€)	**6.5%**
New Capital Wealthy Nations Bond Fund (CHF)	**6.3%**
New Capital Wealthy Nations Bond Fund (USD)	**7.3%**
Pictet CH-CHF Bond Fund	**4.0%**
Swiss Rock Absolut Ret. Bond Fund (€ hedged)	**1.0%**
Swiss Rock Absolut Ret. Bond Fund (CHF hedged)	**0.6%**
UBAM Corporate USD-Bonds (€ hedged)	**4.4%**
UBAM Corporate USD-Bonds (CHF hedged)	**4.1%**
ZKB ETF Gold (USD)	**26.6%**

Equities Europe: European stocks still have the same weighting. They also underwent the annual rebalancing. Fundamentally, the shares of Aberdeen Asset Management, Swiss Re, EasyJet, Hugo Boss and Renault count among the cheapest. The following stocks have been newly selected: UPM Kymmene (lumber, paper) and Metso (construction machinery), the Italian Saras (oil refinery) as well as the British companies, Atkins (consulting) and Elementis (specialty chemicals). The stocks of Viscofan (meat packaging), Austria Technologie & Systemtechnik and Dialog Semiconductors (technology), IG Group (trading platforms), Land Securities (property) and Evonik Industries (chemicals) complete the list. The following stocks have kept their position: Stada, Orion, as well as Syngenta. The latter is also among our Swiss favourites.

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

The directly-invested European Stock Portfolio (ESP) ended the half year with a performance of -9.9%, and thus two percent below its benchmark. Since 2004, the average annual performance of this selection is +8.6%, compared with +6.7% of the benchmark. The figures of the ESP are inclusive of transaction costs and withholding tax, whereas the benchmark is free of charges. You will always find the performance of the ESP and SSP in comparison with its index on our website: www.salmann.com („Produkte“).

Equities USA: No change. We are slightly overweight this allocation due to its better relative performance.

Equities Asia (ex-Japan): We have not changed this position. With approximately 4.6% we are slightly overweight.

Equities Japan: Japanese equities again performed badly in the second quarter. There were no changes. The position has a neutral weighting.

Alternative Investments: There were no changes in the second quarter. This allocation represents a neutral weighting.

Precious Metals: For once, everything that glitters really is gold. With a plus of 27% in USD and 23% in Swiss Francs, the precious metal was one of the best investments in the first half of the year. The decision in February to double our position has paid off.

Summary of our current **Asset Allocation**[5]**:**

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

[5] For a Swiss Franc referenced portfolio

And finally this

“Mirror, mirror on the wall, who is the fairest one of all?” What the wicked stepmother’s mirror was in “Snow-white and the Seven Dwarfs” has found its equivalent in today’s world for all manner of comparisons in the media, with casting shows, rankings, hit parades etc. While the focus is primarily on acoustically and optically attractive competitions with high entertainment potential, the mirror could also be asked about less glamorous topics such as portfolio management. The Swiss Economic Magazine “Bilanz” (issue 05/2016), for example, offers one such opportunity. Not that we would have put the question to this “mirror” ourselves, but recently a report on this subject landed on our desks. Out of curiosity, we used this **performance comparison of independent investment managers** to compare against our own achievements.

In fact, the magazine analysed the performance of various investment managers in different risk categories from the beginning of 2013 to the end of 2015. Participating managers had to submit all transactions for the whole period, which were then analysed by an independent institution. And, what was the result? For your (and our) peace of mind, we can state that having studied the numbers, we did not have to rush over seven mountains to eliminate the prettier competitor as did the stepmother in the fairy tale. Rather, we took notice that the winner’s performance was nice but not prettier than our own. While the winner of the “Bilanz” test in the category “balanced” achieved a cumulated performance of +17.9 %, a selection of our clients’ portfolios in Swiss francs, which during the period had followed the risk profile “balanced”, achieved a performance of 19.8 percent on average.

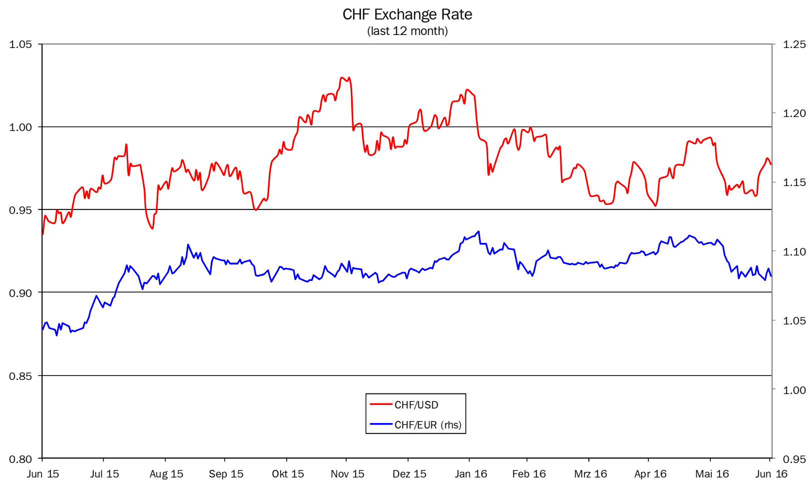
In explanation of the method used, the “Bilanz” test did not apply a strict risk profile. Rather, risk was controlled by a rolling risk budget, which was dependent on volatility. This could lead to a portfolio changing into a higher or lower category as soon as certain risk parameters so indicated. In contrast, our mandates are managed within fixed bandwidths for stocks and bonds. The range for equities is 35 to 65% of the portfolios. However, we consider this slightly different definition of the two approaches as negligible.

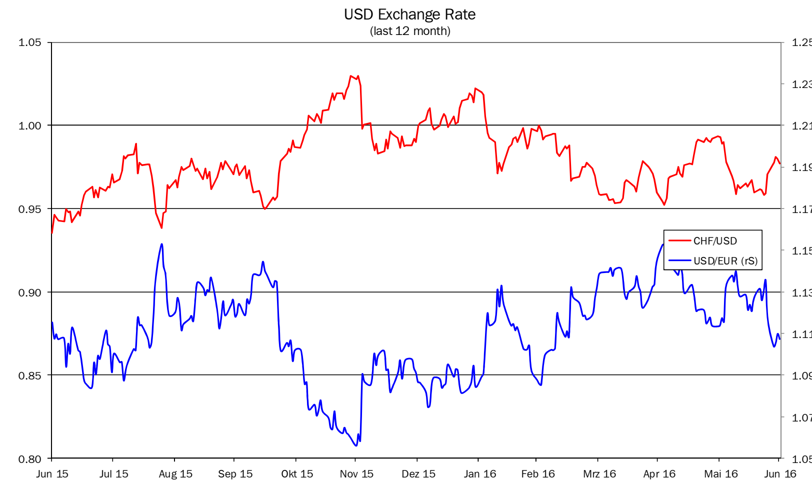
Price/Book and Dividend Yield of major equity markets:

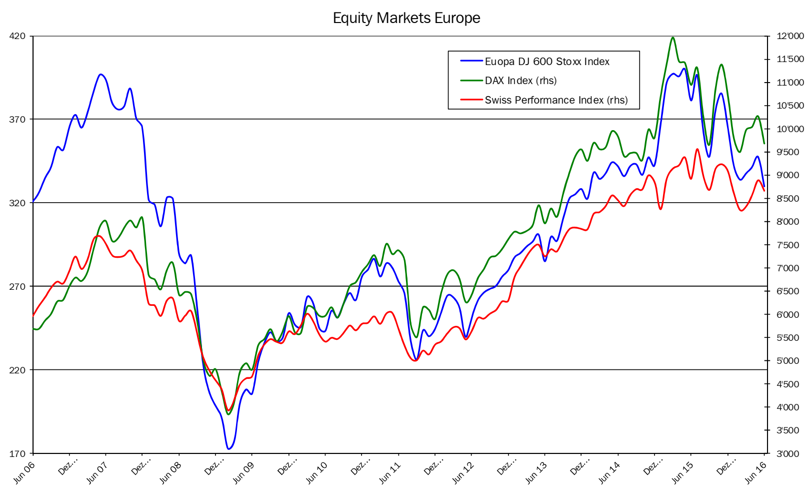
	Price / Book	Div. Yield
DAX Index/DE	1.5	3.2%
DJ STOXX 600 Index/EU	1.7	3.8%
MSCI Welt Index	2.0	2.7%
S & P 500 Index/USA	2.8	2.2%
SPI Index/CH	2.1	3.6%
TOPIX Index/JPN	1.1	2.3%

We thank you for the trust placed in us as well as your kind cooperation and wish you some relaxing and sunny summer days.

Alfred Ernst
Vaduz/Zürich, 30th June 2016


CHF Exchange Rate
(last 12 month)
CHF/USD
CHF/EUR (rhs)
1.05
1.00
0.95
0.90
0.85
0.80
1.25
1.20
1.15
1.10
1.05
1.00
0.95
Jun 15
Jul 15
Aug 15
Sep 15
Okt 15
Nov 15
Dez 15
Jan 16
Feb 16
Mrz 16
Apr 16
Mai 16
Jun 16


USD Exchange Rate
(last 12 month)
CHF/USD
USD/EUR (rS)
1.05
1.00
0.95
0.90
0.85
0.80
1.25
1.23
1.21
1.19
1.17
1.15
1.13
1.11
1.09
1.07
1.05
Jun 15
Jul 15
Aug 15
Sep 15
Okt 15
Nov 15
Dez 15
Jan 16
Feb 16
Mrz 16
Apr 16
Mai 16
Jun 16


Equity Markets Europe
Euopa DJ 600 Stoxx Index
DAX Index (rhs)
Swiss Performance Index (rhs)
420
370
320
270
220
170
12'000
11'500
11'000
10'500
10'000
9'500
9'000
8'500
8'000
7'500
7'000
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6'000
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5'000
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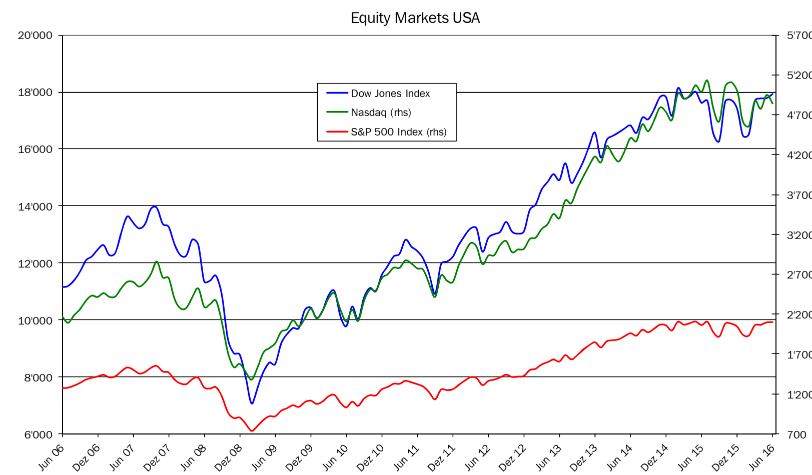
4'000
3'500
3'000


Equity Markets USA
Dow Jones Index
Nasdaq (rhs)
S&P 500 Index (rhs)
20'000
18'000
16'000
14'000
12'000
10'000
8'000
6'000
5700
5200
4700
4200
3700
3200
2700
2200
1700
1200
700
Jun 06
Dez 06
Jun 07
Dez 07
Jun 08
Dez 08
Jun 09
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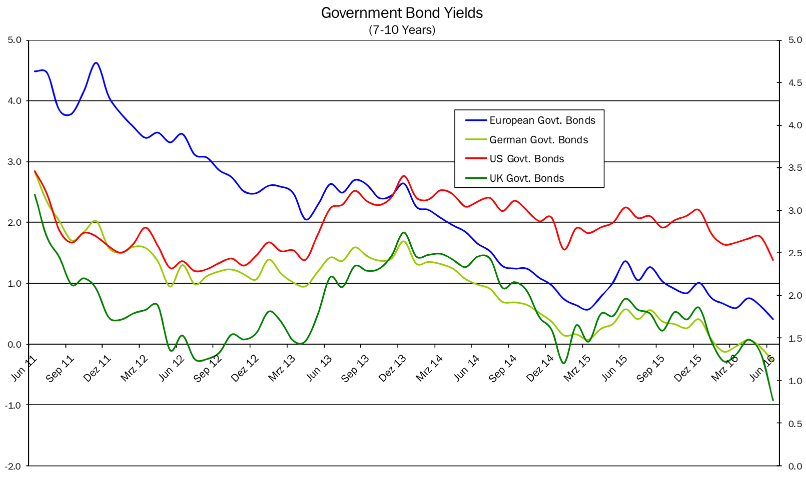
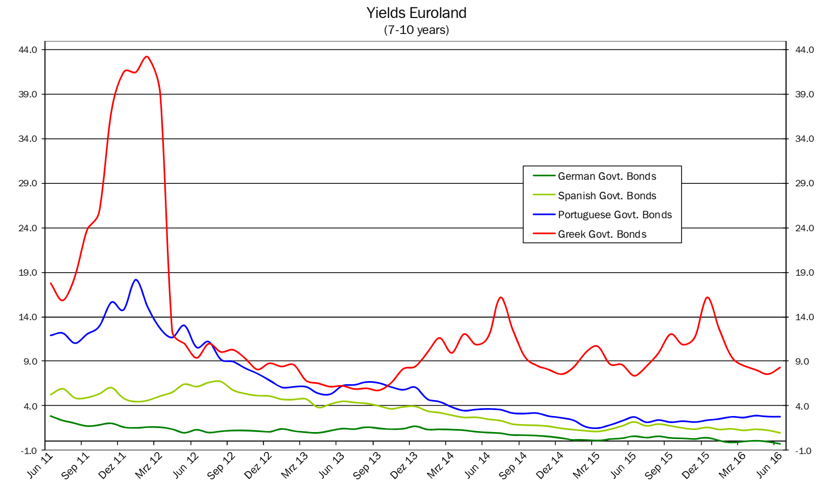
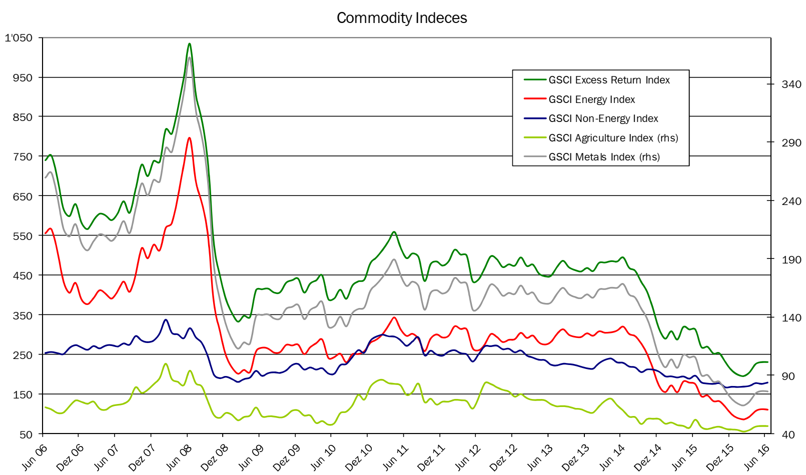
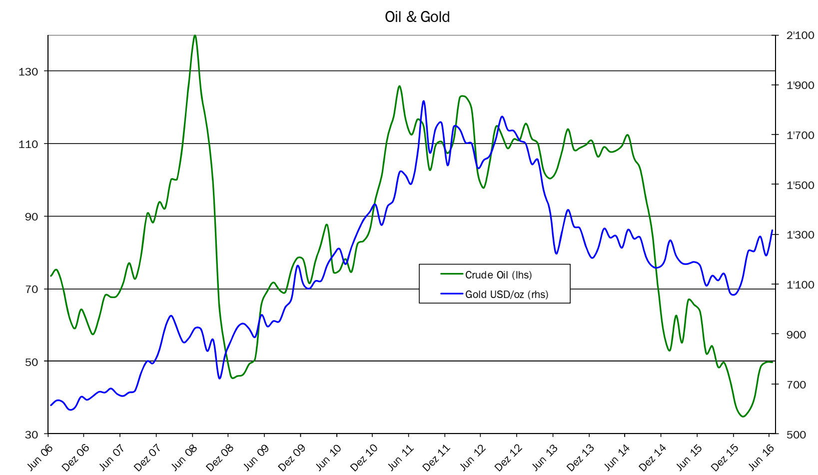
Jun 15
Dez 15
Jun 16


Government Bond Yields
(7-10 Years)
European Govt. Bonds
German Govt. Bonds
US Govt. Bonds
UK Govt. Bonds


Yields Euroland
(7-10 years)
German Govt. Bonds
Spanish Govt. Bonds
Portuguese Govt. Bonds
Greek Govt. Bonds


Commodity Indeces
GSCI Excess Return Index
GSCI Energy Index
GSCI Non-Energy Index
GSCI Agriculture Index (rhs)
GSCI Metals Index (rhs)


Oil & Gold
Crude Oil (lhs)
Gold USD/oz (rhs)