SALMANN
INVESTMENT MANAGEMENT

Into spring with vigour

Investment Report – 31st March 2017

Into spring with vigour

Better economic data and rising corporate profits helped equity markets to rake in some nice profits during the first quarter. All signals are set on go.

Financial markets succeeded in delivering an opening cut to fit this year. In doing so, green was the dominating colour on traders' screens. Asian stocks were particularly sought after during the first quarter, with their barometers (excluding Japan) gaining a double-digit percentage. However, Switzerland, Germany and the USA were also well placed with gains of between 5.5 % and 7.5 %. Climbing by 6.4 %, the World Equity Index stands testament to the breadth of this market movement. Only Japan was unable to keep up with the field and finished bringing up the rear. Gold, on the other hand, had a good run. A profit of 7.6 % was the precious metal's contribution to returns in the three-month period.

Regarding bonds, the rise in long-term yields of many countries' government bonds somewhat dampened the mood. A noteworthy glimmer of hope can be found in newly purchased bonds of certain countries of the southern European periphery, where yields have returned to looking more normal than they have done in the past. Ten-year government bonds in Italy yield 2.33 %, in Portugal, 4.25 % and in Greece, even 7.25 %, admittedly at corresponding risks. In Switzerland and core European countries, however, fixed interest instruments continue to provide a decidedly lean diet. The funds we employ in specialist sectors of the fixed interest universe almost all show positive returns.

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

	Real GDP Growth 2017	Real GDP Growth 2018	Inflation 2017	Inflation 2018
China	6.5 %	6.3 %	2.3 %	2.4 %
Germany	1.6 %	1.6 %	1.8 %	1.6 %
Euroland	1.6 %	1.6 %	1.6 %	1.4 %
United Kingdom	1.6 %	1.2 %	2.6 %	2.7 %
Japan	1.1 %	1.0 %	0.8 %	1.0 %
Switzerland	1.4 %	1.6 %	0.2 %	0.6 %
USA	2.3 %	2.4 %	2.3 %	2.3 %

Growth expectations stimulate market rally

The spring awakening of equity markets has its roots in a markedly-improved appraisal of global economic activity. The global purchasing managers index (PMI), as an important leading indicator for example, is signalling the strongest upturn in three years. Within the group of the most important industrialised countries, only the PMIs of Brazil and South Korea are pointing towards a contraction. In all other countries, values above 50 were already pointing during the winter towards an expansion. The March figures now trickling in do not suggest an abrupt change in course towards the negative in this pleasing environment. Based on historical observations, experience has shown that PMI readings such as these, taken as a whole, point towards global growth of about 4 %.

In the USA, the situation looks particularly good, as several sub-indicators climbed to multi-annual highs. In addition, taking a quick look at the American job market where the unemployment rate at 4.7 % has reached pre-financial-crisis levels, it does not come as a surprise that consumers in America are also euphoric. In March, the consumer confidence index calculated by the Conference Board jumped to a level not seen for 16 years. As far as the projections for gross domestic product (GDP) are concerned, the big hitters are still in the Far East. China and India are shining stars there, with expectations of 6.5 % and 7.2 %, respectively, for 2017. In the West, Spain and the USA seem like they are in relatively good shape.

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

		Dec. 2016	Mar. 2017	Change[1]
Asia ex Japan	DJ STOXX A/P	445.3	491.9	10.5 %
Germany	DAX	11'481.1	12'312.9	7.2 %
Europe	DJ STOXX 600	361.4	381.1	5.5 %
Japan	TOPIX	1'518.6	1'512.6	-0.4 %
Switzerland	SPI	8'965.7	9'637.8	7.5 %
USA	S & P 500	2'238.8	2'362.7	5.5 %
World	MSCI Weltindex	421.8	448.9	6.4 %
Hedge Funds	HFRX Global HF	1'203.2	1'223.1	1.6 %

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

Corporate profits picking up markedly

Encouraging news comes from corporate headquarters too. The earnings recession, during which corporate profits as a whole declined for about four quarters, has definitely been overcome. For example, during the fourth quarter 2016, profits of the 500 largest US enterprises (as reflected in the S&P-500) rose by 9.3 % vis-à-vis the same quarter of the previous year. Estimates for the first three-month period of the New Year come in at similar levels. Europe's pick-up in economic activity, combined with the continued very low level of interest rates in the Old World, lead us to expect a recovery of profits for European companies too.

The hike of short-term benchmark rates in the USA in March by ¼-percentage point did not come as a surprise, and the market took it in its stride. Two further increases of ¼-percentage point each are likely to follow, as long as no new flames flare up in the hot spots (global politics and elections, Italian banks, Greek debt crisis i.a.). With that, the Fed is leading the way for other countries as far as monetary policy is concerned. In Switzerland, the monetary watchdog continues to be forced to counter a further revaluation of the Swiss Franc the best it can with negative rates. The European Central Bank (ECB) is sticking to its ultra-easy monetary policy.

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)	14.0 %
JB Japan Stock Fund (CHF hedged)	0.9 %
JB Japan Stock Fund (€ hedged)	1.1 %
Performa Asian Equities (USD)	10.8 %
Raiffeisen Futura Swiss Stocks (CHF)	8.3 %
Black Rock Swiss Small & Midcap Opp. (CHF)	12.0 %
Schroders Swiss Small & Midcap (CHF)	8.3 %
Performa European Equities (€)	7.1 %
Performa US Equities (USD)	3.9 %

[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 (€)	3.5 %
Acatis IfK Value Renten Fond (CHF)	3.4 %
BCV Liquid Alternative Beta (€)	1.6 %
BCV Liquid Alternative Beta (CHF)	1.4 %
Lyxor ETF Euro Corp. Bond Fund (€)	-0.2 %
New Capital Wealthy Nations Bond Fund (€)	2.7 %
New Capital Wealthy Nations Bond Fund (CHF)	2.5 %
New Capital Wealthy Nations Bond Fund (USD)	3.1 %
Pictet CH-CHF Bond Fund	0.1 %
Swiss Rock Absolut Ret. Bond Fund (€ hedged)	-0.4 %
Swiss Rock Absolut Ret. Bond Fund (CHF hedged)	-0.5 %
UBAM Corporate USD-Bonds (€ hedged)	0.8 %
UBAM Corporate USD-Bonds (CHF hedged)	0.7 %
ZKB ETF Gold (USD)	7.6 %

[3] Performance incl. reinvested dividends where applicable.

Investment style.

Asset management: Flexibility and creativity are key.

Upshot: Political risks exceed economic ones

Equity markets' dynamics appear to be unbroken. There does not appear to be any euphoria about, which generally is a good sign. On the other hand, the very low volatility is a warning sign of investors' heedlessness. Valuations have reached airy heights in places, particularly so in the USA. Europe is more attractively valued. Bonds are no alternative to equities. The risks are currently located less in the economic than in the political corner.

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

	Dec. 2016	Mar. 2017	Change
Europe	0.21%	0.33%	57%
United Kingdom	1.24%	1.14%	-8%
Japan	0.05%	0.07%	40%
Switzerland	-0.19%	-0.09%	52%
USA	2.44%	2.39%	-2%

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
Due to the increase in the European equity allocation, cash has been slightly reduced. It remains, however, above its long-term strategic target, serving as a reserve for new opportunities. Its function as a buffer against value fluctuations in other asset classes appears very valuable to us.

Bonds
Yields increased slightly. At least in the USA, the trend has turned upwards. We did not undertake any active changes during the past three months and exclusively favour short maturities.

Equities Switzerland
Due to the rise in Swiss equities, their weighting increased to a neutral one by the end of the quarter. Our selection of directly held stocks, the Swiss Stock Portfolio (SSP), equally displays a very pleasant performance for the first quarter. It amounts to 10.5% (incl. dividends). The benchmark SPI (total return) achieved a total return of 7.5% during the reporting period, giving the SSP an outperformance of 3%. The annual performance since 2010 amounts to 12.6% p.a., with that, clearly beating its benchmark of 7.7%. The SSP figures bear transaction costs and withholding taxes. The reference index, however, bears no such costs. The funds employed by us also did well and when compared to their benchmark, even very well indeed (see table).

Equities Europe
The only change in asset allocation concerns European equities. We increased this position across all reference currencies by three percentage points, making this an overweight when compared to our long-term strategic target. Depending upon the mandate, we have either increased the existing positions in European equity funds or bought units in the iShares Stoxx Europe 600 ETF. The directly-invested European Stock Portfolio (ESP) delivered a performance of 5.1% during the first quarter. The DJ STOXX 600 achieved a return of 6.1% during the same period (both values are total return, i.e. including dividends). Comparing it to a pure value-benchmark more closely reflecting our own investment style, the result is an outperformance of 0.6 percentage points. Since 1993, the median annual performance of our stock selection amounts to 9% compared to 7.2% of the general benchmark. The numbers for the ESP bear transaction costs and withholding taxes, whereas the reference index is naturally calculated without costs.

Equities USA
During the course of the quarter price levels advanced into uncharted territory. By now this market is relative highly valued, but is benefitting from a solid technical condition. We have not made any change and are neutrally positioned.

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	Mar. 2017	Change
DAX Index/DE	18.0	20.2	12.2 %
DJ STOXX 600 Index/EU	27.4	26.4	-3.7 %
MSCI Welt Index	21.1	21.0	-0.5 %
S & P 500 Index/USA	21.0	21.8	3.8 %
SPI Index/CH	16.1	17.9	11.2 %
TOPIX Index/JPN	19.8	18.3	7.6 %

[4] Source: Bloomberg

Equities Asia (excluding Japan)
After a patchy fourth quarter 2016, Asian markets literally took off during the past three months. Thanks to last year's increase of the strategic allocation, this has had a positive impact on clients' portfolios. The positioning has not been changed during the quarter, and with about 7.6 %, the weighting is in neutral territory.

Equities Japan
Equally unchanged and neutral is the Japanese positioning (2.9 %), one of the few equity markets that did not manage to get going during the initial quarter of the New Year.

Alternative Investments
Again, no changes were made here. The fund employed by us represents a neutral weighting and achieved its purpose, thanks to low volatility growth.

Precious Metals
Equally unchanged is the gold position. The precious metal made a spirited start into the New Year, and already shone with a nice profit contribution to the overall performance of portfolios.

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	1.8	2.5 %
DJ STOXX 600 Index/EU	1.9	3.3 %
MSCI World Index	2.2	2.4 %
S & P 500 Index/USA	3.1	2.0 %
SPI Index/CH	2.1	3.2 %
TOPIX Index/JPN	1.3	1.9 %

News of our own

Philip Marxer has been accepted into the circle of partner shareholders and at the same time, has been promoted to the position of Director. He has been with the company since 2007 and a member if its management board since 2008, where he heads the operations department that includes infrastructure, staff, accounting and compliance. Mr. Marxer holds a Swiss banking specialist diploma, has over 20 years professional experience in money and foreign exchange markets, as well as client advisory in investment and portfolio management. Before joining Salmann, he held a senior position with a Family Office in Liechtenstein.

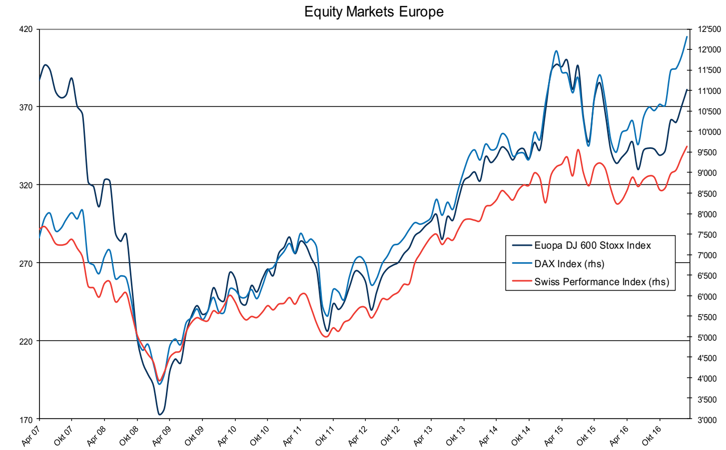
You have certainly already discovered a further innovation for yourself. It concerns the **Investment Report** that you presently have in front of you. It now comes in a more modern, rigorously structured form, with attractive illustrations.

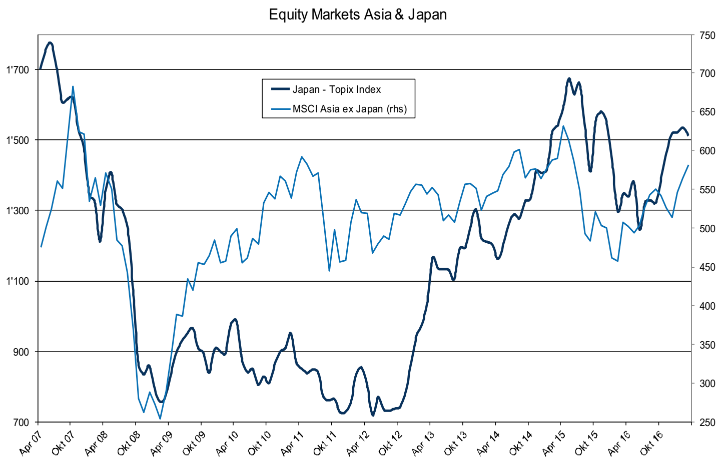
Which brings us to our latest innovation; the **Salmann Website**, which you will find as usual under www.salmann.com. Apart from attractive colours and illustrative design, up-to-date technical features have been integrated so that, amongst others, the site is now optimised for use by mobile devices. A plethora of information awaits you on what and how our services are offered. An investment blog gives interesting insights and opinions. The frequently-asked questions section helps you gain a better understanding of the workings of an independent asset manager. Another new service is the availability of an English language option on the site. Why not simply browse and click your way through the site and let us know what you think of it! We would be pleased to get your feedback. And please do not hesitate to turn to us too if you have any questions on any other topics at any time!

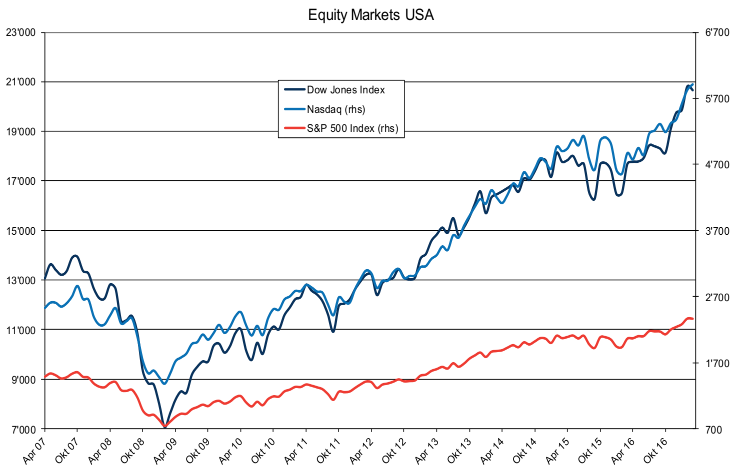
Asset management.

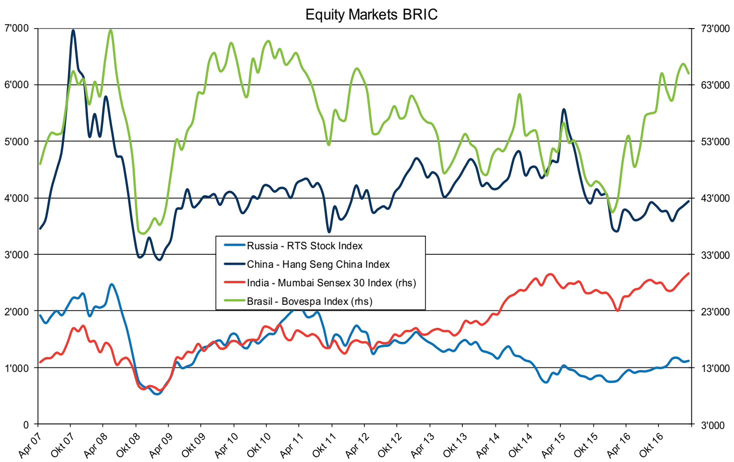
Transparent asset management independent of all banks.

Equity markets at a glance





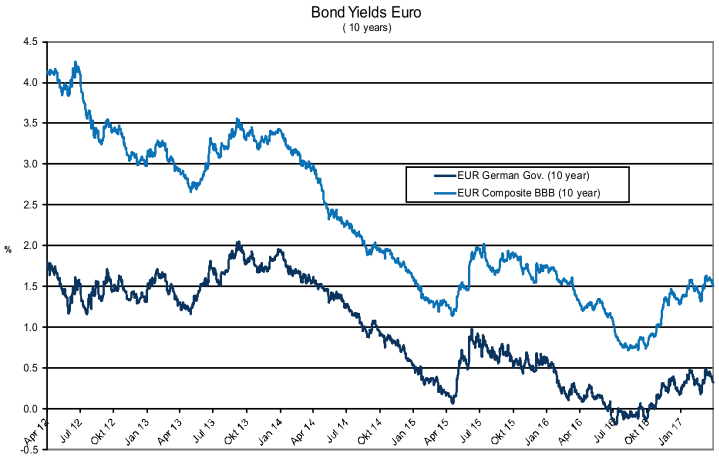


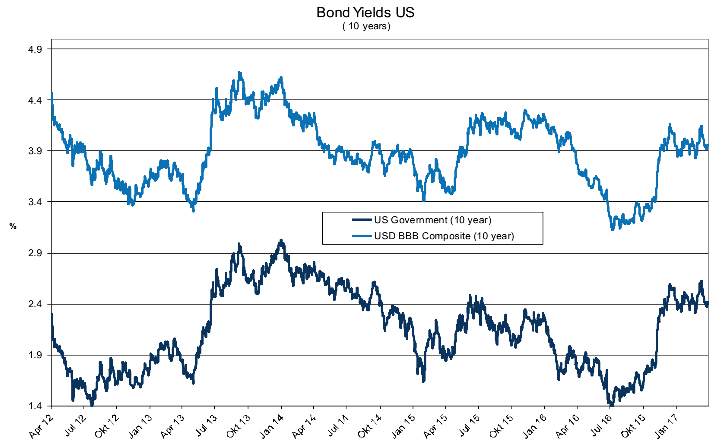


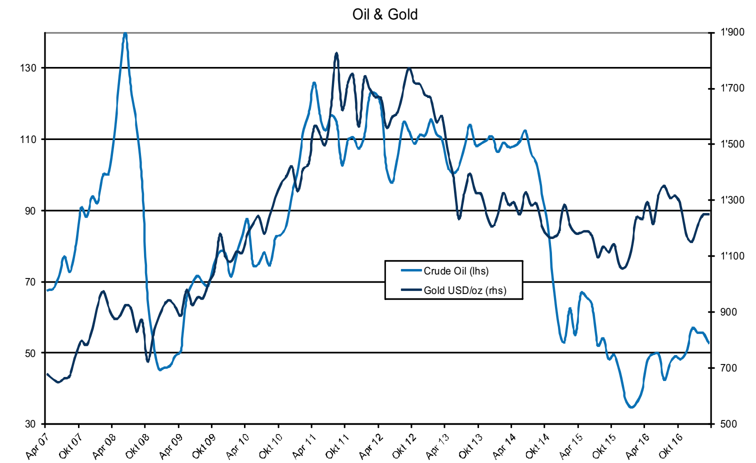
The company.

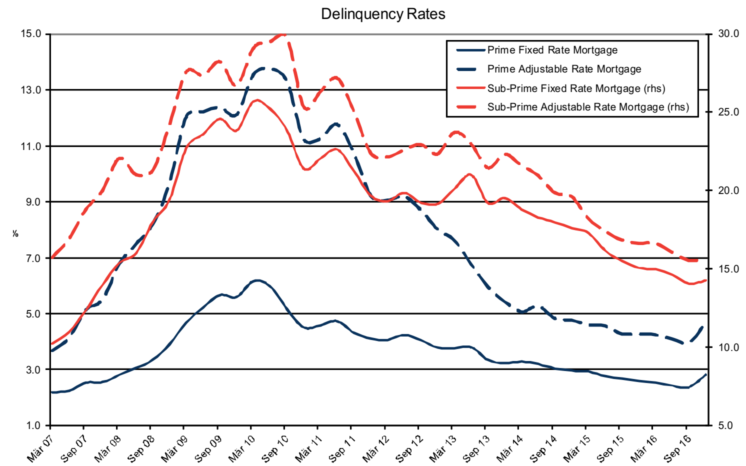
Successful and independent of banks.

Bond yields and other indicators









Notes

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Closing words

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

Alfred Ernst
Director, Relationship Manager

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