SALMANN
INVESTMENT MANAGEMENT

Hill Climb Trophies

Investment Report – 30th June 2019

Hill Climb Trophies

What a quarter! The second three-month period bestowed gains on all asset classes. Even bonds in developed economies, which hardly anyone would have accredited with room on the upside in view of the low yields over an extended period now, managed to shine with positive results again. Adding in those achieved in the first quarter, quite handsome returns were achieved by mid-year, leading the Swiss business journal "Finanz und Wirtschaft" (Finance and Economy) to enthuse about the "best investment half-year in decades".

It is not only in cycling that Hill Climb Trophies are awarded these days. Investors too can celebrate quite a few stage victories at dizzy heights. Gold proved to be quite a cunning climber during the second quarter. With a performance of above 8 %, it clearly outdistanced other asset classes.

Change in **Equity Markets since the beginning of 2019:**

		Dec. 2018	June 2019	Change
Asia ex Japan	MSCI AC Asia ex Japan	431.1	477.2	10.7 %
Europe	DJ STOXX 600	707.7	824.2	16.5 %
Japan	MSCI Japan	1'736.20	1'837.1	5.8 %
Switzerland	SPI	9'830.10	11'977.4	21.8 %
USA	MSCI USA	6'658.80	7'886.4	18.4 %
World	MSCI AC World	5412.1	6'331.1	17.0 %
Hedge Funds	HFRX Global HF	1'189.90	1'240.1	4.2 %

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

Equities also succeeded in producing pleasant results in most countries and regions, with German and Swiss stocks exhibiting outstanding stamina, closely followed by American stocks. The World Equity Index achieved a total return (price change plus dividends) of 4 %. Only Asian markets were in danger of being picked up by the sweeper-bus as race stragglers during this period. Notwithstanding, here too, positive values were attained in the half-year.

Worries batted away by investors

This despite the markets not looking too rosy for some time now. With the trade war between the USA and China escalating ever further, exchanges suffered in May. Theresa May's resignation, the bickering between the EU and Italy, about this that and the other, there was not much to put investors into a festive mood. The increasing political tension around the Persian Gulf though gave wings to gold and precious metals, at the same time, however, clipping those of stocks.

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

Aberdeen Asia Pacific (USD)	13.5 %
Swiss Rock Emerging Markets Equities (USD)	10.0 %
GAM Japan Stock Fund (CHF hedged)	5.7 %
GAM Japan Stock Fund (€ hedged)	5.8 %
Strategy Certificate SIM–Swiss Stock Portfolio Basket	15.0 %
iShares Stoxx Europe 600 ETF (€)	15.6 %
Performa European Equities (€)	10.8 %
Performa US Equities (USD)	25.5 %
BB Adamant Medtech & Services Fund (USD)	17.0 %
BB Adamant Medtech & Services Fund (CHF)	15.7 %
BB Adamant Medtech & Services Fund (€)	17.4 %

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

First and foremost, there was (and still is) the fear of a global cooling of the economy. Many individual indicators point towards a decline in economic dynamics. The augurs revised down their growth estimates for 2019 and 2020. This, as well as the moderate inflationary expectations, fuelled a further rise in bond prices.

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To be sure, the US Fed and the European Central Bank (ECB) have played a part in this. Whereas in the winter, by a large majority, the Fed board members expected benchmark rates to remain unchanged throughout the current year, some of its members' expectations have since changed towards a possible easing.

Easing in the pipeline?

The market shares this view too. For the Fed's end-of-July board meeting, markets predict a 78% probability of an unchanged Fed Fund target range of between 2.25 and 2.5%. For the September meeting, however, markets expect an easing by ¼ percentage point, with a 60% probability. At the same time, those responsible at the ECB are audibly musing about a further reduction of the already negative deposit rate for commercial banks, as well as additional easing measures.

Average **growth and inflation forecasts** from the "Bloomberg Composite Contributor Forecast" poll of economists:

	Real GDP Growth		Inflation	
	2019	2020	2019	2020
China	6.3%	6.0%	2.3%	2.3%
Germany	0.8%	1.2%	1.5%	1.5%
EU	1.5%	1.5%	1.5%	1.6%
United Kingdom	1.3%	1.4%	1.9%	2.0%
Japan	0.7%	0.4%	0.7%	1.1%
Switzerland	1.2%	1.5%	0.6%	0.9%
USA	2.5%	1.8%	1.8%	2.1%

Asset Allocation – a measured approach pays off

It has certainly paid off for us continuing to hold on to our high equity allocation throughout the semester and not entering into any timing-driven sales or purchases. Equally, the waiver of any costly hedging exercises contributed positively to the overall portfolio performance.

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

"All Quiet on the Western Front", one is inclined to say with a view to money markets. As we did not make any changes to the overall weighting of any asset class, the money market allocation too remained unchanged. Cash is slightly above its long term strategic target allocation serving as an opportunistic reserve. In addition, it is a worthwhile buffer against value fluctuations in other asset classes.

Bonds

Bond markets in developed industrial nations are a gigantic drought zone. The sum of all bonds trading at negative yields continued to rise, reaching a new high of 13 trillion US Dollars (a 13 followed by 12 zeros). In the past twelve months alone, this amount has doubled, according to the "Neue Zürcher Zeitung" (NZZ). Bonds with negative yields to maturity are a phenomenon unknown prior to the financial crisis. Needless to say, we, as well as our clients, are suffering from thirst in this drought zone.

Other funds employed by us developed as follows:

Acatis IfK Value Renten Fond (€)	6.6%
Acatis IfK Value Renten Fond (CHF hedged)	6.4%
BCV Liquid Alternative Beta (€ hedged)	4.6%
BCV Liquid Alternative Beta (CHF hedged)	4.5%
BCV Liquid Alternative Beta (USD)	6.3%
Franklin Templeton K2 Alternative Strategies Fund (€ hedged)	4.8%
Franklin Templeton K2 Alternative Strategies Fund (CHF hedged)	4.6%
Franklin Templeton K2 Alternative Strategies Fund (USD)	6.5%
Lyxor ETF Euro Corp. Bond Fund (€)	5.6%
Pictet CH-CHF Bond Fund	3.3%
Swiss Rock Absolut Ret. Bond Fund (€ hedged)	1.9%
Swiss Rock Absolut Ret. Bond Fund (CHF hedged)	1.8%
ZKB ETF Gold (USD)	10.1%

Performance incl. re-invested dividends where applicable.

Equities Switzerland

We remain unchanged neutral weight Swiss stocks. The directly invested "Swiss Stock Portfolio" (SSP) achieved a performance of 16.2% during the first half of the year. The Swiss Performance Index (SPI) came in with 21.8% and with it, ranks among the top performers of the semester. Only Athens' (39.6%) and Moscow's (28.2%) performance looked more spectacular from a Swiss Franc perspective. Since 2012, the average annual performance of the SSP, typically comprised of about 20 stocks, amounts to 15.8%, a result that clearly beats the average benchmark's performance of 11.4%

Since 2012, the total cumulative return of this strategy amounts to about 200%, while that of the index to 124%. 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) achieved a performance of 15% during the first six months of the year.

The second quarter saw the annual rebalancing take place. In the process, the most attractive names of the Swiss market are either added, or remain in the portfolio, whereas the least attractive ones are sold. At the same time, all stocks with the exception of Nestlé, Novartis and Roche are rebalanced to equal weight. The three heavyweights of the index are newly also overweight in this selection. We have given them a double weighting.

New to the portfolio are the stocks of Helvetia, Swatch, Swisscom and Ypsomed, whereas Bobst, Feintool, Vifor Pharma, as well as Zurich

Since the beginning of the year,
yields on **10-year government bonds** declined across the board:

	Dec. 2018	June 2019	Change
Europe	0.24%	-0.33%	-238%
United Kingdom	1.28%	0.83%	-35%
Japan	0.05%	-0.16%	-420%
Switzerland	-0.25%	-0.53%	-112%
USA	2.68%	2.00%	-25%

Insurance, have had to make room. Adecco, Also, Autoneum and Vetropack remain in the selection of fundamentally attractive stocks. The same goes for the consumer stocks of Bell Food, Metall Zug, Nestlé and Orior. While Swiss Life, Baloise and Cembra Bank represent the financial sector, and the pharmaceuticals and health industry by Coltene, Novartis, Roche, Siegfried, as well as Sonova. These adjustments apply equally to the direct investments in clients' portfolios as well as the composition of the certificate.

Equities Europe

European equities also underwent their rebalancing. New amongst the most attractively valued stocks are Randstad and SKF, the Italian utility A2A, as well as the consumer stocks Persimmon and British American Tobacco. The technology sector is newly covered by the German companies Siltronic and Software AG, as well as the French Sopra Steria Group. As the most attractive financial stocks, Jupiter Fund Management and CNP Assurances are now part of this selection consisting of 25 names. The chemicals and pharmaceuticals sector is represented by the Belgian UCB and the British Hikma Pharmaceuticals.

Repsol, Saras, Aurubis and Babcock International held on to their places. Amsterdam Commodities, Tate & Lyle, Barratt Developments, as well as Renault, also remain aboard. Amongst the financials,

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Legal & General as well as Nordea Bank asserted their position, as did Fresenius Medical, Arkema and Covestro in the chemical and pharmaceutical sector. As part of these adjustments, all names in the portfolio were put on equal weights again.

The Dow Jones Stoxx 600 Index achieved a total return (price change plus dividends) of 16.5%. This put our stock selection behind. The directly invested "European Stock Portfolio" (ESP) achieved 6.9%.

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

	Price/Book	Div. Yield
SPI Index	2.2	3.0%
DJ STOXX 600 Index	1.8	3.7%
MSCI AC Asia ex Japan	1.5	2.6%
MSCI Japan	1.2	2.5%
MSCI USA	3.5	1.9%
MSCI AC World Index	2.4	2.5%

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

We see the following reasons for this: Firstly, value style investing generally underperformed growth style investing these past months. Secondly, stocks of small and mid-capitalised companies rose less than those of the large "battleships" contained in the benchmark. In the past, however, the addition of small to medium-sized companies proved a valuable contributor to the long-term outperformance of the ESP vis-à-vis the reference index.

The third reason is to be found in an unusual cluster of unfavourable, company-specific factors. Companies in sectors such as automotive, financials, chemicals and commodities have in part been punished excessively as their business performance was affected by the trade war, suffered from the decline in oil, copper and other raw material prices, or were affected by the British Pound's weakness following Theresa May's resignation.

Long term, the ESP selection's outperformance remains intact. Since 1993, the ESP has returned on average 8.2% compared to the 6.9% achieved by the Dow Jones Stoxx 600 Index. 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 above 769%, while that of the benchmark to about 527%.

Equities USA
American stocks did things in style, as the six months' return of the MSCI Total Return USA with a plus of 18.4% illustrates. The Performa US Equities Fund employed by us even outshone this, with its performance of 25.5%. At 17%, the sector specific BB Adamant Medtech and Services Fund also returned well into the double digits. We did not make any changes to the US stock weighting and with it, maintained its slight overweight position.

Measured on the **price/earnings ratio** using the latest 12 months profit figures, most equity markets have become more expensive:

	Dec. 2018	June 2019	Change
SPI Index	17.5	16.9	-3.4%
DJ STOXX 600 Index	15.5	17.8	14.8%
MSCI AC Asia ex Japan	12.1	14.4	19.0%
MSCI Japan	11.5	13.5	17.4%
MSCI USA	16.8	19.8	17.9%
MSCI AC World Index	15.6	18.3	17.3%

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

Equities Asia (excluding Japan)
Asian equities were not getting anywhere during the second quarter. For the half year, the index performance amounts to 10.7%, the Aberdeen Asia Pacific (ex Japan) Fund employed by us even managed 13.5%. No changes were made to the Asian allocation during the reporting period.

Equities Japan
During the second quarter, the rising sun was nowhere to be seen in Japan. Quotes were plodding along, and bottom line, the level of the leading index dropped off marginally. For the first half of the year, at least a performance of 5.8% remained in the index, the same as for the CHF and Euro hedged share classes of the equity fund employed by us. We are neutral weight Japanese equities, which from a fundamental point of view are amongst the most attractively valued.

Alternative Investments

There was a slight positive for the global Hedge Fund Index in US Dollar, taking the half year's performance just over 4 %. The instruments employed by us in this sector managed a better harvest across the board (in US Dollar). Even the Euro and Swiss Franc hedged share classes employed by us managed to come in on top of this. We have not made any changes to the positions.

Precious Metals

Gold rose to new splendour in the second quarter. The precious metal broke out of its year-long sideways price range. In June, it reached 1420 US Dollar at times, a level not seen since August 2013. Quotes were driven by increased political tensions in the Middle East, a weakening US Dollar and receding interest rates. With interest rates low, investors give up less when holding non-productive gold instead of interest bearing bonds. During times of high interest rates, this opportunity loss argues against the precious metal.

Upon the close of the G-20 summit (renewed dialogue between USA and China) and the handshake between Donald Trump and Kim Jong Un at the Korean internal border, gold gave up some of the gains just towards the end of the quarter, but still managed to carry a double digit increase across the finishing line. We have not made any changes to our position during the reporting period.

Summary of our current Asset Allocation:

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

For a Swiss Franc referenced portfolio.

News of our own

As part of a generational change, Adrian Müller will take over the role of Chief Investment Officer from Teja von Holzschuher on 1st July. The latter will retire to the role of Chairman of the Investment Committee but will continue in his role as Relationship Manager. Adrian Müller joined the Management Board in 2018, where he already holds the position of Head of Portfolio Management.

As Salmann Investment Management's first apprentice, Julian Burgmeier successfully finished his three-year commercial apprenticeship and has received his certificate of qualification. Following a foreign language course abroad, he will join us in his first position in the securities administration department in November. We congratulate Adrian Müller and Julian Burgmeier wholeheartedly, and wish both all the best and every success in their new roles.

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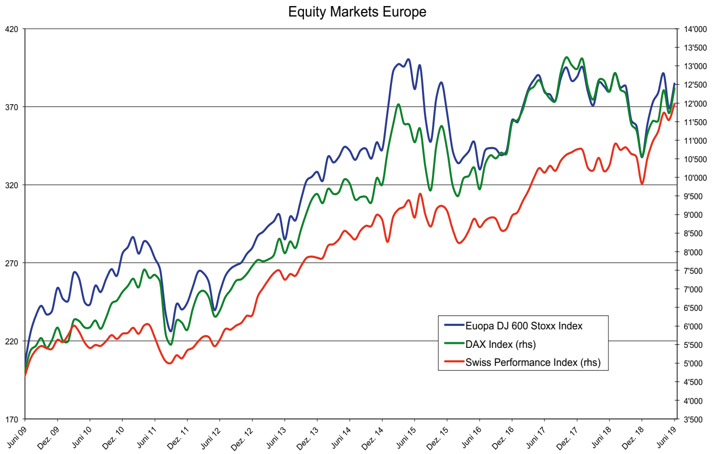
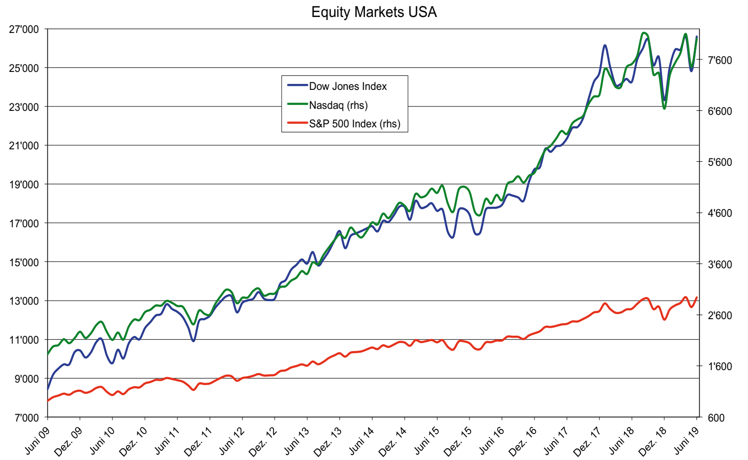
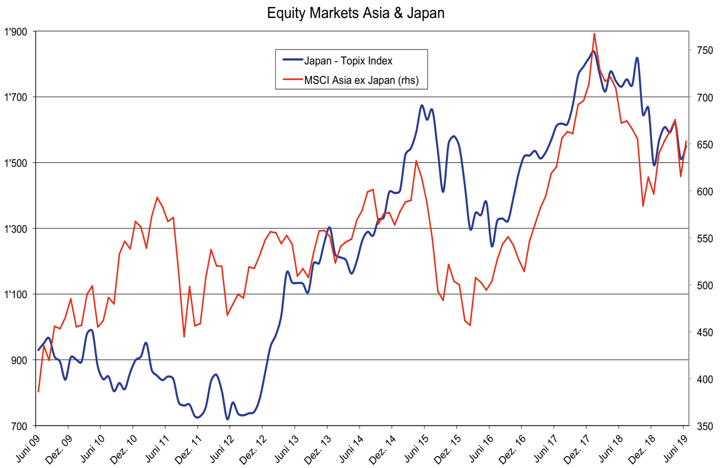
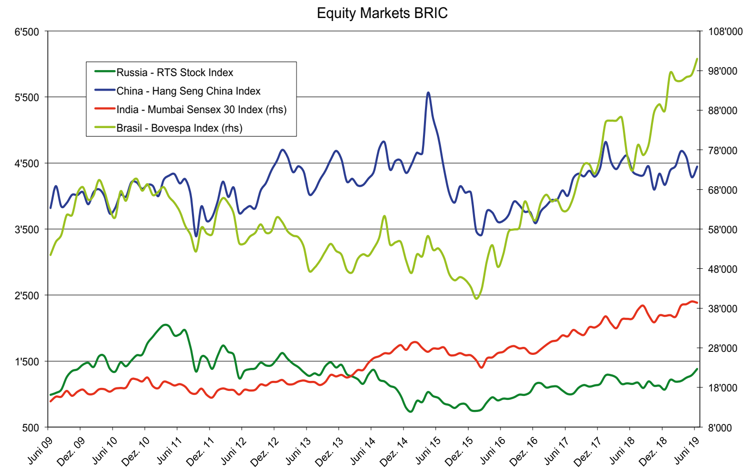
Equity markets at a glance

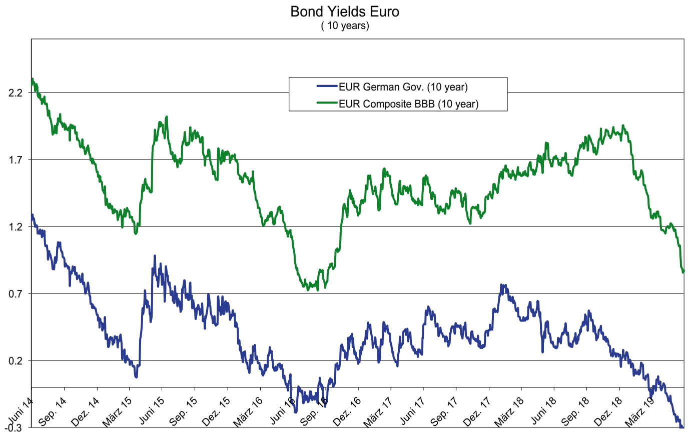


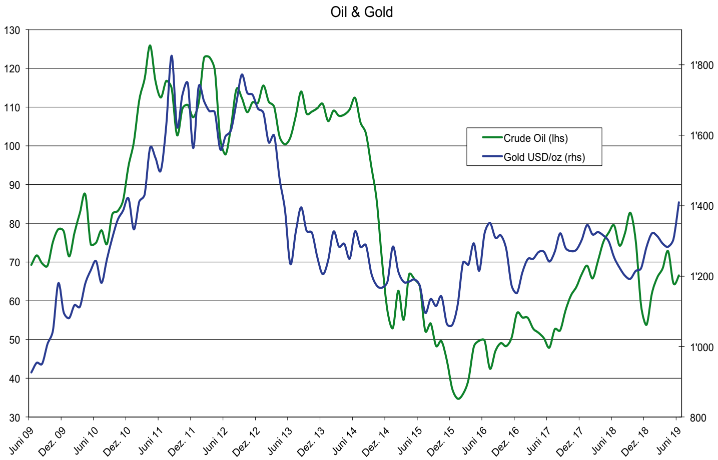


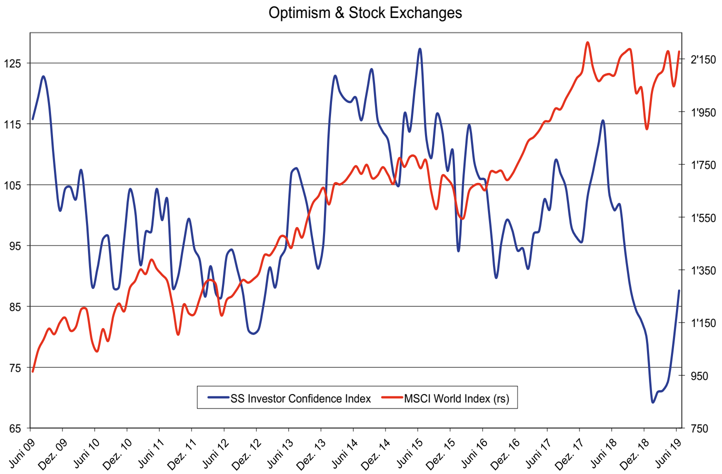


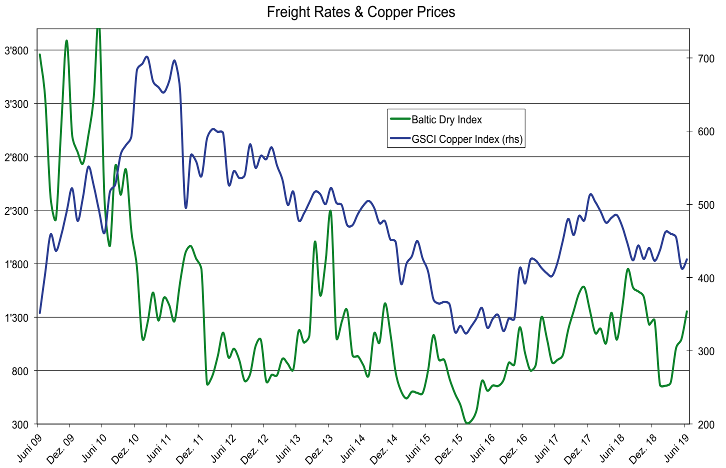


Bond yields and other indicators









Notes

Closing words

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

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