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## Final quarter rescues the investment year

*Investment Report – 31<sup>st</sup> December 2020*



## Final quarter rescues the investment year

The last quarter saved the investment year. Lush Christmas gifts in the form of government aid packages, the announcement and approval of corona vaccines, the clear election result in the USA and the British-European trade deal helped to brighten up the table of presents for the holidays and the turn of the year. Having a long investment horizon in mind and keeping one's blood cool in difficult times has once again proven its worth.

In March one would not have dared to hope that the investment year 2020 would go down in history as a conciliatory year after all. It was already clear at the end of the first quarter, however, that it would be an extraordinary one, when the all-time highs in January were followed by one of the sharpest and fastest crashes in history.

The marked recovery, which began at the end of March, was continued brilliantly in the fourth

quarter. The government aid packages of unprecedented size – 750 billion euros in the EU alone, 900 billion US dollars in America – fell like warm rain on the financial markets. The disruptive attempts from Poland and Hungary as well as from the White House, where President Trump is still lashing out wildly, could not stop the parliaments' willingness to spend, which in the eyes of investors paved the way for further economic support.

### Money glut supports the economy and stock markets

The fact that the US presidential election ended relatively clear and that the distribution of power between the White House and the Capitol should remain largely in balance also helped to ease the mood.

The actual stampede of the bulls was then triggered by the announcement of a breakthrough in the search for vaccines against the corona virus. Three well-known providers delighted the investor community shortly after one another with this good news, whereupon hopes for an early end to the pandemic and the associated economic restrictions were raised. As a result, there was no stopping the markets. From the point of view of a professional asset manager, it has paid off once again to always have a long-term invest-

ment horizon in mind, to keep one's blood calm in difficult times and not to panic.

In many countries, 2020 will go down in history as the blackest economic year since the Second World War. For 2021, the lights will be green, i.e., a marked recovery is expected. However, we still dare to doubt that the pre-pandemic level will be reached again in the new year.

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

|               |                       | Dec. 2019 | Dec. 2020 | Change |
|---------------|-----------------------|-----------|-----------|--------|
| Asia ex Japan | MSCI AC Asia ex Japan | 509.4     | 636.9     | 25.0%  |
| Europe        | DJSTOXX 600           | 897.5     | 879.6     | -2.0%  |
| Japan         | MSCI Japan            | 2057.0    | 2'237.3   | 8.8%   |
| Switzerland   | SPI                   | 12837.5   | 13'327.9  | 3.8%   |
| USA           | MSCI USA              | 8714.7    | 10'520.8  | 20.7%  |
| World         | MSCI AC World         | 6909.7    | 8'008.5   | 15.9%  |
| Hedge Funds   | HFRX Global HF        | 1292.4    | 1'380.5   | 6.8%   |

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

### Average Growth and Inflation Expectations of the Economists polled in the "Bloomberg Composite Forecast":

|                | Real GDP Growth |      | Inflation |      |
|----------------|-----------------|------|-----------|------|
|                | 2020            | 2021 | 2020      | 2021 |
| China          | 2.0%            | 8.2% | 2.6%      | 1.7% |
| Germany        | -5.6%           | 4.0% | 0.4%      | 1.3% |
| EU             | -7.6%           | 4.7% | 0.6%      | 1.1% |
| United Kingdom | -11.2%          | 5.4% | 0.9%      | 1.5% |
| Japan          | -5.3%           | 2.7% | 0.0%      | 0.1% |
| Switzerland    | -4.0%           | 3.6% | -0.7%     | 0.1% |
| USA            | -3.5%           | 3.9% | 1.2%      | 2.0% |

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The economic recovery is of course also supported by the ultra-loose policy of the central banks. This policy is likely to continue for the time being.

The equity funds employed by us achieved the following returns since the beginning of the year, partly exceeding their benchmarks:

|   |       |
|---|-------|
| Aberdeen Asia Pacific (USD)                             | 28.6% |
| Barings ASEAN Frontiers Equities (USD) **               | 19.9% |
| GAM Japan Stock Fund (CHF hedged)                       | 13.8% |
| GAM Japan Stock Fund (€ hedged)                         | 13.8% |
| Strategy Certificate SIM – Swiss Stock Portfolio Basket | 1.0%  |
| iShares Core SPI ETF (CHF)                              | 4.0%  |
| iShares Stoxx Europe 600 ETF (€)                        | -2.0% |
| Performa European Equities (€)                          | -8.7% |
| Performa US Equities (USD)                              | 52.6% |
| BBAdamant Medtech & Services Fund (CHF)                 | 6.5%  |
| BBAdamant Medtech & Services Fund (€)                   | 7.0%  |
| BBAdamant Medtech & Services Fund (USD)                 | 16.6% |
| State Street SPDR MSCI World Energy ETF (USD)*          | 12.8% |

Performance in fund currency. Source: Bloomberg or respective fund company. \*) Performance since May 2020. \*\*) Performance since October 2020.

As a result, interest rates are likely to remain very low for a long time, and inflation is – at least for the moment – not a threatening issue. The flip side of the coin is global debt, which is also advancing into completely new spheres.

The world has entered unexplored territory here and continues to move deep into an area that can simply be described on the map as a large white patch full of imponderables. Among other things, and this can be seen as certain, high debt will hinder long-term growth potential.

#### Asset Allocation

At its meetings, the Investment Committee decided on the following changes to the asset allocation for medium risk balanced Swiss Francportfolios, 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 quota fell somewhat in the final quarter because we made an additional bond purchase in a proven investment fund. It still stands: Money market investments are not simply money for which we have no investment ideas, but a strategically and tactical instrument

that is used in a targeted manner, which serves as a buffer against price fluctuations in other asset classes and as a reserve so that we can quickly seize opportunities.

Other funds employed by us performed as follows:

|  |       |
|--|-------|
| Acatis IFK Value Renten Fond (CHF hedged)                      | -2.1% |
| Acatis IFK Value Renten Fond (€)                               | -2.1% |
| Franklin Templeton K2 Alternative Strategies Fund (CHF hedged) | 4.8%  |
| Franklin Templeton K2 Alternative Strategies Fund (€ hedged)   | 4.9%  |
| Franklin Templeton K2 Alternative Strategies Fund (USD)        | 6.9%  |
| Lyxor ETF Euro Corp. Bond Fund (€)                             | 2.4%  |
| Pictet CH-CHF Bond Fund  | 1.1%  |
| Swiss Rock Absolut Ret. Bond Fund (CHF hedged)                 | 0.2%  |
| Swiss Rock Absolut Ret. Bond Fund (€ hedged)                   | 0.3%  |
| ZKB ETF Gold (USD)   | 23.8% |

Performance incl. re-invested dividends where applicable.

#### Bonds

In mid-November, within the bond portfolio we increased the holding in the globally operating Acatis IFK Value Renten Fonds, which has proven itself over the years. This was executed immediately after having been able to talk to the fund manager about the latest status of his work and the fund’s annual distribution. Despite this adjustment, we are still underweighted in bonds overall and are at the lower end of the range of the strategic asset allocation.

#### Equities Switzerland

The Swiss stock market continued to improve in the fourth quarter (Swiss Performance Index, SPI +4.7%), which means that our home market also posted a positive performance for the whole year (+3,8%). Our direct investment portfolio “Swiss Stock Portfolio” (SSP) ended the year with a plus of 2.9% and was able to narrow the gap to the index.

The outperformance of our selection of stocks compared to the overall market since May can be seen as a direct consequence of the increased focus on qualitative factors in the spring.

Over the course of the year, Also (+58% over a year), LafargeHolcim (+33% since purchase in May) and Siegfried (+40% over a year) were among the best securities in this stock selection, which was

compiled according to value criteria. The heavy-weights in the index such as Nestlé, Novartis and Roche, on the other hand, failed to shine for once in 2020 and lagged the overall market development during the recovery. For the “Strategy Certificate linked to the SIM – Swiss Stock Portfolio Basket” certificate (Valoren no: 36524524, ISIN: CH0365245247) based on the SSP, the performance for 2020 is 1%.

In the long term, the development of the “Swiss Stock Portfolio” is quite presentable. Since 2012, the average annual performance of the SSP amounts to 14.2%, a result that beats the average benchmark’s performance of 10.7% markedly.

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

|                | Dec. 2019 | Dec. 2020 | Change |
|----------------|-----------|-----------|--------|
| Europe         | -0.19%    | -0.57%    | -200%  |
| United Kingdom | 0.82%     | 0.20%     | -76%   |
| Japan          | -0.01%    | 0.02%     | 300%   |
| Switzerland    | -0.47%    | -0.55%    | -17%   |
| USA            | 1.92%     | 0.91%     | -53%   |

Since 2012, the total cumulative return of this strategy amounts to about 230%, while that of the index is 149%. The SSP figures bear transaction costs, whereas the benchmark index does not bear any costs.

### Equities Europe

Our European direct investment portfolio, the “European Stock Portfolio” (ESP), had a picture-perfect quarter. Its value shot up by no less than 18.1% in the last three months. After the good news from vaccine manufacturers and the adoption of gigantic aid packages around the world raised hopes for an early end to the pandemic and its economic consequences, the markets saw massive shifts to previously badly shaken value stocks.

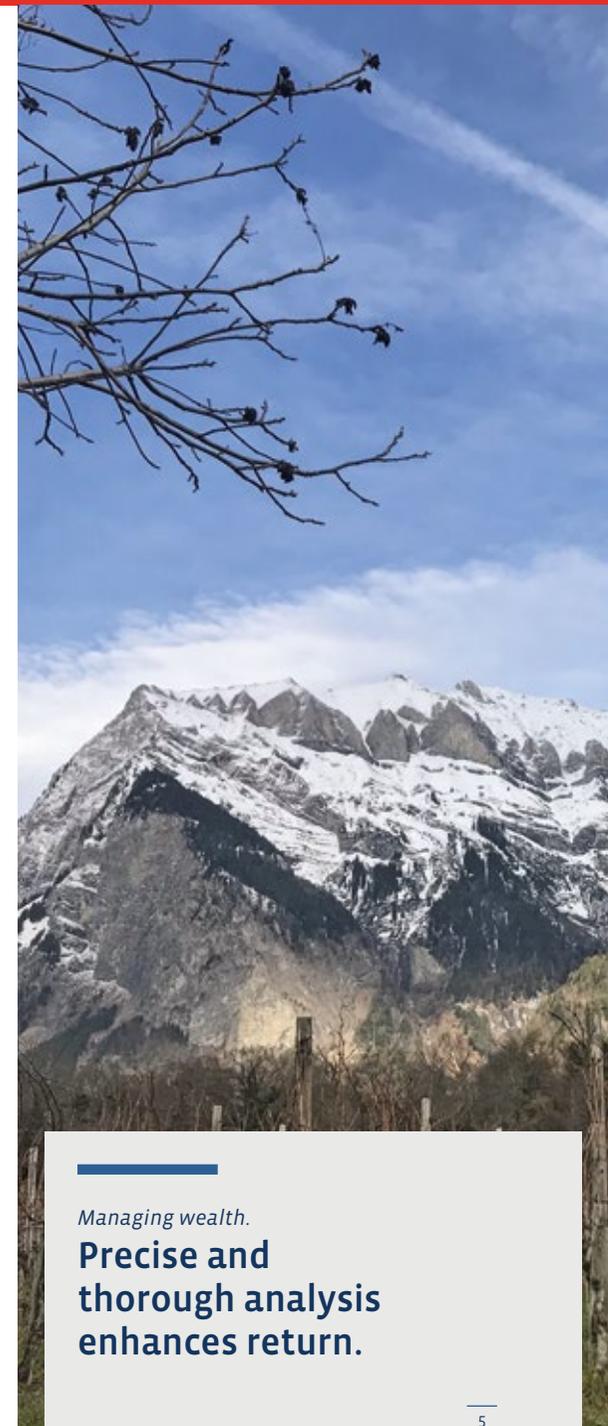
The ESP was ahead of the broader market, represented by the Dow Jones Stoxx 600 Index, by over 7 percentage points in this period. Since the changeover in April, when the focus on balance sheet and dividend quality was also sharpened – analogous to the Swiss stock selection – the ESP has outperformed the market by over 18 percentage points.

The stocks of Neste (refinery, Finland) with a plus of 108%, ASM International (semiconductor, Netherlands) with +91% and Siltronic (silicon wafers, Germany), which were quoted 84% higher on New Year’s Eve than in April, were among the best performance suppliers of this European stock selection since the reorganization in April.

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

|                       | Dec. 2019 | Dec. 2020 | Change |
|-----------------------|-----------|-----------|--------|
| SPI Index             | 15.9      | 22.6      | 42.1%  |
| DJ STOXX 600 Index    | 20.7      | 51.4      | 148.3% |
| MSCI AC Asia ex Japan | 16.3      | 25.8      | 58.3%  |
| MSCI Japan            | 15.7      | 30.7      | 95.5%  |
| MSCI USA              | 22.2      | 30.4      | 36.9%  |
| MSCI AC World Index   | 20.6      | 33.3      | 61.7%  |

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



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The latter company has since agreed to a takeover offer from Taiwanese competitor GlobalWafers Co, and we have sold the stock. Overall, this share has delivered a total return of around 66% since its purchase in April 2019, significantly more than the overall market, whose performance for the period in question amounts to 8.1%.

For 2020, the overall performance (price changes plus distributions) of the European Stock Portfolio adds up to 3.69%, while overall market was down 1.99%. The Dow Jones Stoxx 600 Value Index, which is focused on the value style, shows a minus of 9.59% for the whole year.

In the long term, the ESP displays a marked out-performance against the broad index. Since 1993 the ESP has returned on average 8.4%, compared to 6.8% 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 930%, while that of the benchmark to about 569%.

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

|                       | Price/<br>Book | Div.<br>Yield |
|-----------------------|----------------|---------------|
| SPI Index             | 2.28           | 2.81%         |
| DJ STOXX 600 Index    | 1.96           | 2.34%         |
| MSCI AC Asia ex Japan | 1.99           | 1.78%         |
| MSCI Japan            | 1.44           | 2.03%         |
| MSCI USA              | 4.32           | 1.50%         |
| MSCI AC World Index   | 2.96           | 1.82%         |

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

**Equities USA**

The records tumbled in series on Wall Street. Thus, over Christmas, the most important indices such as the well-known Dow Jones Industrial Index, the broader S&P 500 index and the Nasdaq index recorded new highs. The highest-rated company in the world in terms of market capitalization – Apple –, the most expensive software giant – Microsoft –, the most heavily capitalised retailer – Amazon – as well as the most expensive car manufacturer in the world – Tesla –; they all are listed on Wall Street and caused share prices to soar to heights previously hard to imagine.

The Performa US Equities Fund we used benefited in a most gratifying manner from this tailwind. Yes, it was even much faster on the way than the high-flyer Nasdaq and ended the year with a full plus of 52.6%. The BB Adamant Medtech and Services Fund and the MSCI World Energy ETF have also moved up, the latter mainly thanks to the impressive rally in the fourth quarter.

**Equities Asia (ex Japan)**

With even more momentum, the equity markets of the Asian emerging markets were catapulted through the fourth quarter. The MSCI Index Asia ex Japan gained over 18% in the last three-month period, bringing the annual result to a plus of 25%. The fund employed by us, the Aberdeen Asia Pacific Equity Fund, gained around a quarter in the final quarter alone and can therefore look back on an annual result of around 29%. The Barings ASEAN Frontiers Equity Fund also got off to a tailor-made start, climbing almost a fifth since its purchase at the end of September. As a result of the price gains, we are now somewhat overweight in the Asian emerging markets.

Since the beginning of the year, selected **foreign exchange rates** have developed as follows:

|            | Dez. 2019 | Sept. 2020 | Change |
|------------|-----------|------------|--------|
| CHF / Euro | 1.0855    | 1.0821     | -0.3%  |
| CHF / USD  | 0.9676    | 0.8852     | -8.5%  |
| Euro / USD | 0.8918    | 0.8178     | -8.3%  |
| Yen / USD  | 108.61    | 103.3      | -4.9%  |

Source: Bloomberg.

**Equities Japan**

The fact that the sun rises in Japan was also true in the final quarter of Kabutocho, the Far Eastern counterpart to Wall Street and City of London. It was a bit more leisurely here than in the emerging markets or in the USA, but given the three-month performance of the leading index of almost 13% and an annual performance of around 9%, investors and stock market traders were allowed to treat themselves to some sake and sushi at Christmas. The GAM Japan Equity Fund employed by us even provided a little more purchasing power for culinary delights. We have not changed anything in this position and are therefore still slightly overweight in Japan.

### Alternative Investments

For the alternative investments, too, the final result for 2020 lights up in lush green. Although this investment category did not necessarily tear the thickest ropes, it had been punished much less in March than other investment classes. We made no changes to the positions in the fourth quarter and are therefore still underweight.

### Precious Metals

As a major exception in the overview of the various investment categories, gold went on the spot in the last quarter of the year. That is not a problem, however, as the annual result shines with a plus of around 24%. In view of the low real interest rates, the rather weak dollar and the unchanged dominant uncertainties regarding global political and economic developments, we have so far seen no reason to part with the precious metal.

Perhaps the consolidation of the fourth quarter can be described with the stock market saying “reculer pour mieux sauter”, i.e., “go back to jump higher”. We kept the positions unchanged, which represents an overweight position.

### Summary of our current Asset Allocation:

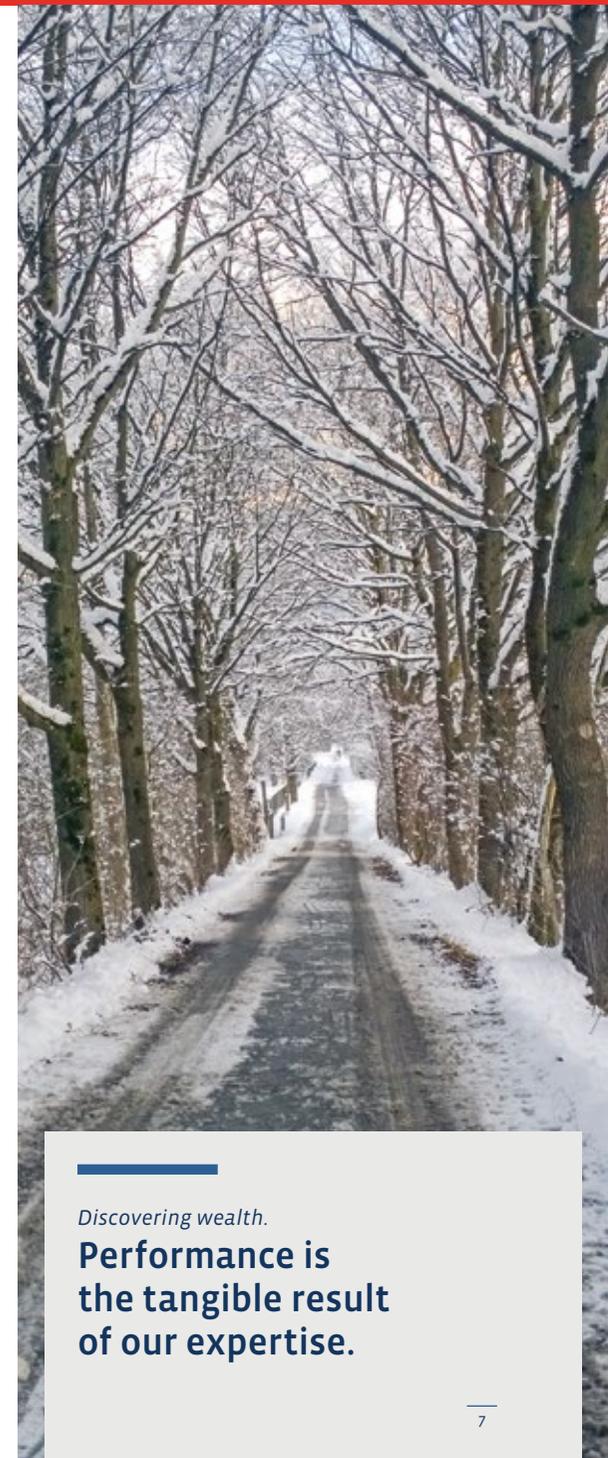
| Asset class             |                                |
|-------------------------|--------------------------------|
| Money Market            | overweight                     |
| Bonds                   | underweight/<br>short duration |
| Equities Switzerland    | neutral                        |
| Equities Europe         | underweight                    |
| Equities USA            | slightly overweight            |
| Equities Asia           | slightly overweight            |
| Equities Japan          | slightly overweight            |
| Precious Metals         | overweight                     |
| Alternative Investments | underweight                    |

For a Swiss Franc referenced portfolio.

### Finally, this

The idioms of the investment and stock market language seem to be spreading just as quickly as the corona virus. Shortly after the BRIC countries (acronym for the weighty emerging countries Brazil, Russia, India and China) and the PIIGS (pseudonym for the nations Portugal, Ireland, Italy, Greece and Spain, which were particularly hard hit by the financial crisis) had fallen out of fashion, the interested readership was allowed to make friends with a new expression: FANG shares. Behind it was nothing other than the tech giants Facebook, Amazon, Netflix and Google that are reaching to the sky.

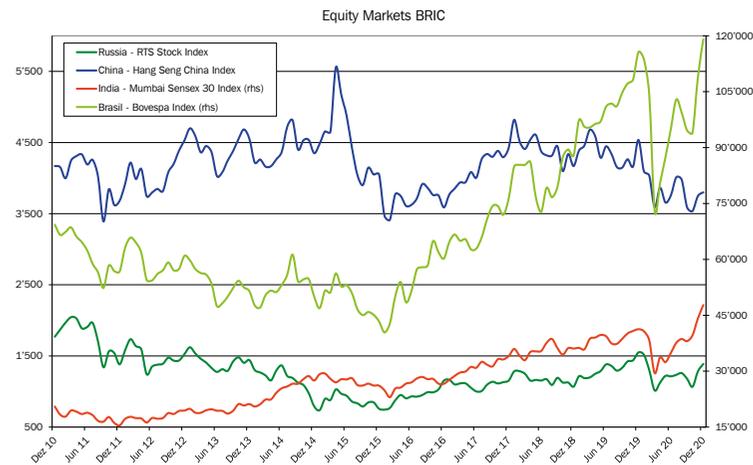
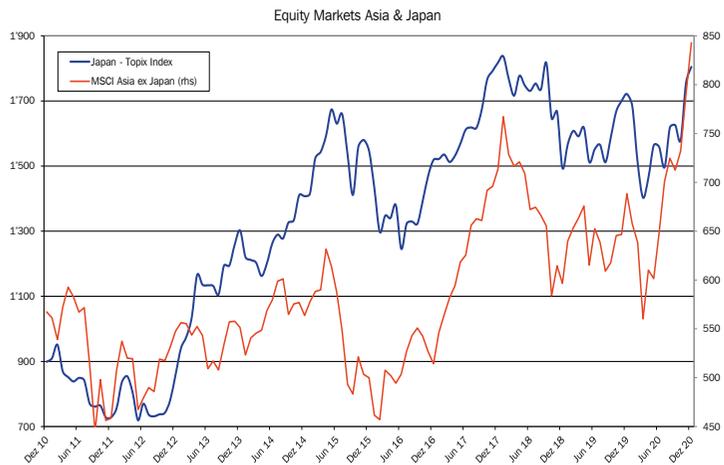
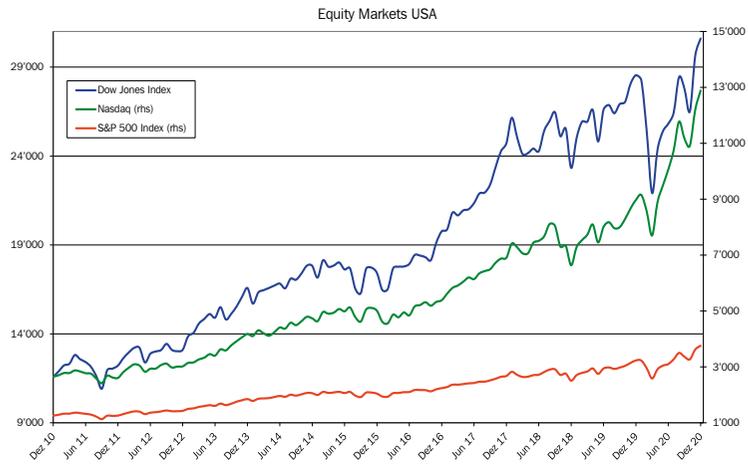
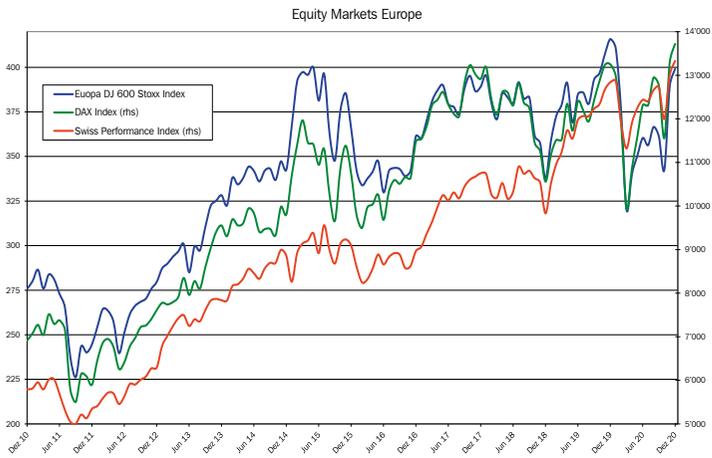
After this, the TINA principle („There is no alternative“) was used as an explanation why equities should continue to rise in spite of their lofty valuations. In the wake of the rapid bull market in recent months, FOMO has now come into play, which means “fear of missing out”, i.e., the fear of market participants to miss something in view of booming prices. It will be exciting to see which word creation from the world of stock exchanges will delight us next.



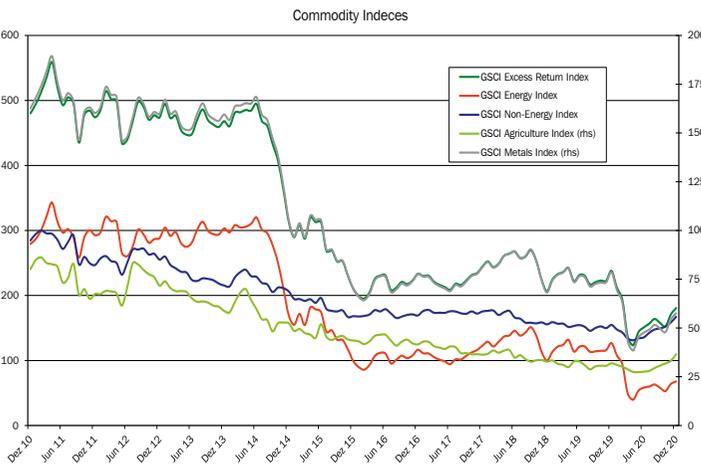
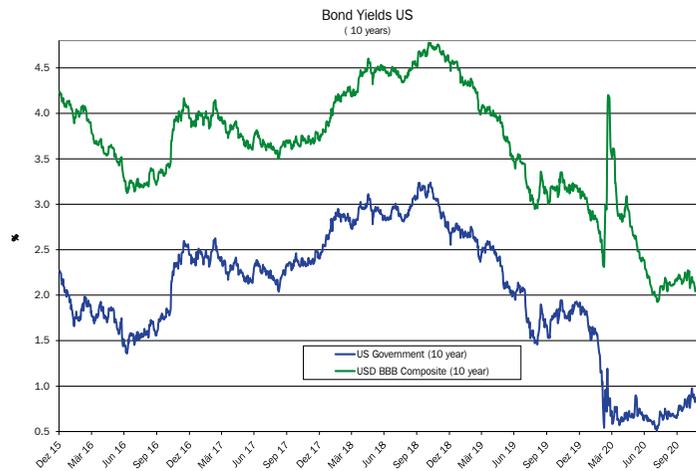
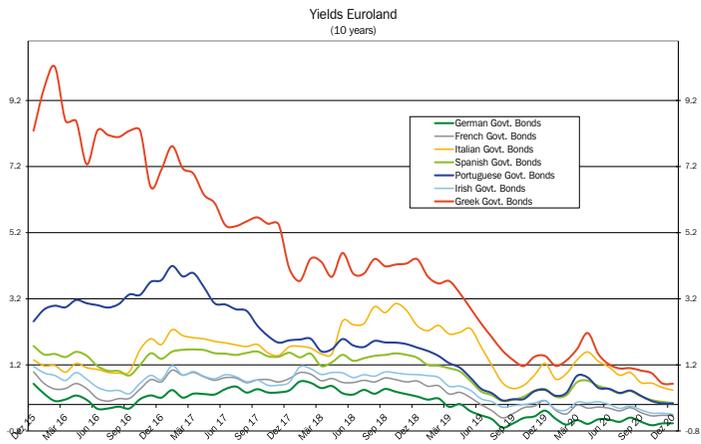
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## Equity Markets at a glance



## Bonds yields and other indicators





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We wish you a healthy and happy New Year and thank you for the trust you have placed in us.

**Alfred Ernst**  
Director, Relationship Manager

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