VALUES WORTH SHARING

Investorama

Trends and developments in the financial markets

Edition 1/2019

Risk factors

Prior to investing, investors should carefully consider the risks associated as detailed in the offering document. The value of an investment can fall and the originally invested amount may never be recovered. Investors should consider the following risks, without limitation:

- Market risk: The risk of losses in positions arising from movements in market prices.
- Currency risk: The risk of losses arising from currency fluctuations, in case the currency of an investment is different from the investor's reference currency.
- Liquidity risks: Adverse effects created by the situation where the fund must sell assets where insufficient market demand exists and lower price levels must be accepted to execute a transaction.
- Operational risks: The fund may suffer losses as a result of insufficient internal processes or systems, misbehavior of employees or external circumstances.
- Political and legal risks: Investments are exposed to changes in the rules and standards applied by the country under the respective jurisdiction. This includes restrictions on currency convertibility, the imposition of taxes or transaction controls, limitations on property rights or other legal risks. Investments in less developed financial markets may expose the fund to increased operational-, legal- and political risk.
- Derivative risk: The risk of losses arising from the usage of derivatives, which can be highly sensitive to price movements of the underlying asset and can result in increased leverage.
- Credit risks: Risk characterized by the failure of counterparties to meet contractual financial obligations.
- Master-Feeder risks: The performance of the Fund may deviate from the performance of the Master-Fund.

Contents

Money is about to have a price again (at last)

Why do most people think so categorically in calendar years? From an astronomical point of view, a year is merely the time it takes for the earth to orbit around the sun. Only a few people are professionally involved in the preparation of financial statements and are thus obliged to take stock of the year every December. All other people (investors included) have few objective reasons to assess the change in their assets compared to the beginning of the year. After all, the financial markets do not run according to a calendar, except for fleeting seasonal effects.

Yet the force of habit prevails, so a brief commentary on the past year is apparently permissible here. The year was eventful and hence challenging, with trends losing the robustness they had shown in previous years. Hardly any asset class performed better than much-maligned cash. The bond, credit, equity, real estate, and commodity markets all lost ground. Even gold fell. Investors outside the US dollar area have also had to battle with high interest rates when hedging currency risks. This toxic mix is unusual and was last seen in the mid-eighties. The somewhat precocious advice in these pages last year to opt for "selective diversification" was thus unable to provide much protection. Nonetheless, the postulate to "carry out rigorous quality controls of all investments" fended off the worst.

The performance of the financial markets can never be unambiguously attributed to specific facts. Trade war, weakening growth, geopolitical tensions, and Brexit may influence the markets, but they never offer the whole story. This is partly because prices are set by people acting according to their emotions and partly because expectations are traded rather than realities. The fundamentals for many asset classes have indeed deteriorated. In my opinion, though, another trend has been more significant. For ten years, the major central banks used low or even negative interest rates to flood the markets with liquidity. What was once intended to be merely an effective emergency measure has become a permanent medication for investors. But bond purchase programs and other unorthodox instruments implemented by central banks are not meant to last eternally. Investors will not accept negative real returns for entire bond markets forever. The winding down of expansionary monetary policy is not a declaration of war on the markets, but merely a return to the practically forgotten normal state of affairs. In other words, money is

about to have a price again (at last) in the form of a positive risk-free interest rate, albeit only in the United States for the time being. This is very welcome, because it will prevent the creation of false incentives with much more damaging consequences in the long-term. But it also has side effects. The risk-free interest rate is a central input factor in the valuation of most asset classes, such as equities. If it rises, discounted future gains fall. Prices seek a new equilibrium.

> "What was once intended to be merely an effective emergency measure has become a permanent medication for investors."

What can we conclude from this? First, monetary normalization is inevitably causing unease and volatility on the markets. Investors should not rely on central banks to iron out economic or market-related signs of weakness immediately, either verbally or with specific measures. Since the financial crisis ten years ago, a lot has been written about high volatility, but in fact there have only been a few short phases with substantial fluctuations. Rather the psyche of investors was burdened by the fear of being underinvested and of missing out on an upswing. It is important to get used to volatility again, as not every correction turns into a full-blown crisis as in 2000/2002 and 2008/2009. Second, investors must decide for themselves how daring they wish to be with respect to risk – this determines their long-term private strategy. Third, it is important for investors who have the necessary staying power to opt for investments that reward risk appropriately. In our opinion, this means high-quality equities, emerging market and insurance-linked bonds, and private market investments.

Alex Borer
Co-Head Multi-Asset Solutions

Trumpelstiltskin

Dr Alex Durrer

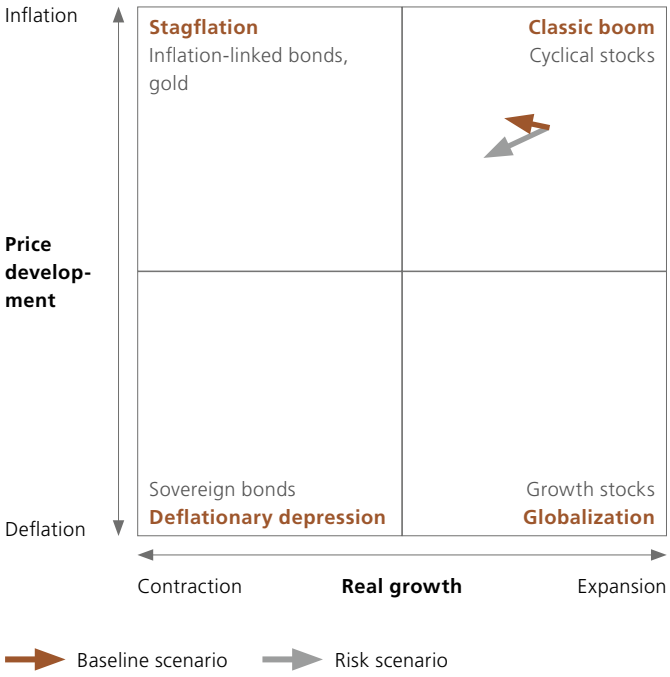
After the first half of Donald Trump's first term in the White House the financial markets are still dominated by the debate about his polarizing economic policy, which is as controversial as it was in the early days of his presidency. When will the US-China trade conflict escalate? Could there also be a currency war? To what extent is the shutdown slowing the US economy? Or is the economy ultimately benefiting more from the improved tax environment, deregulation, and the reduction of red tape, which facilitate investments? Finally, it is even unclear whether Trump could legally unseat Jerome Powell – the new chairman of the Federal Reserve that he appointed himself – out of displeasure with recent interest rate hikes! By comparison, the uncertainties in Europe – from the unclear Brexit finale to the yellow vest protests in France and the resignation of Chancellor Merkel as leader of the CDU party in Germany – seem almost harmless. The financial markets are still being torn back and forth. Even if this overall fairly toxic cocktail of issues has a limited impact on the markets at the end of the day, it will undoubtedly fuel a massive rise in volatility in 2019.

Accordingly, the economic outlook is mixed and opaque. The serious dampeners to sentiment have long since left their mark. The US economy is still driving the global economy, in spite of Trumpelstiltskin. The slowdown in the eurozone is noticeably more unpleasant. The least upbeat outlook is in some structurally weak emerging markets. For example, growth in China slowed again, while the manufacturing sector in countries such as Turkey and South Africa is already shrinking.

Another aspect of the late-cyclical stage is that inflation has returned slowly but surely, already surpassing the target level of the Federal Reserve in the United States. Nevertheless, no one really wants to believe that inflation is making a genuine comeback across the board. As a result, longer-term structural inflation expectations remain in their sideways trend, as the underlying deflationary pressure from the massive levels of public debt is neutralizing the inflationary potential created by monetary conditions.

In our baseline scenario, the global economy will continue to lose momentum and the cyclical divergence will become more pronounced. The Goldilocks economy of "the best of all worlds" is now definitely over. Thus caution is called for, which is one of the reasons why we recommend a less aggressive tactical position, with a neutral weighting on equities. ◆

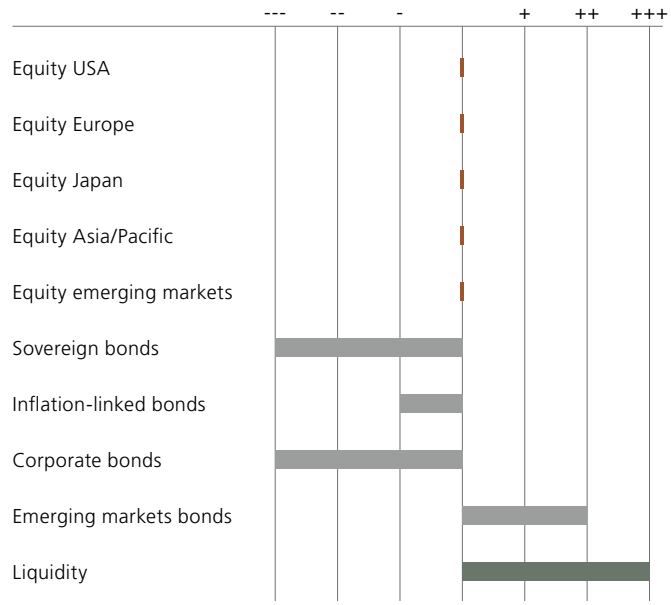
Global macroeconomic landscape*



* The macroeconomic landscape has a time horizon of 3-6 month

Source: LGT

Overview investment policy as per January 21, 2019



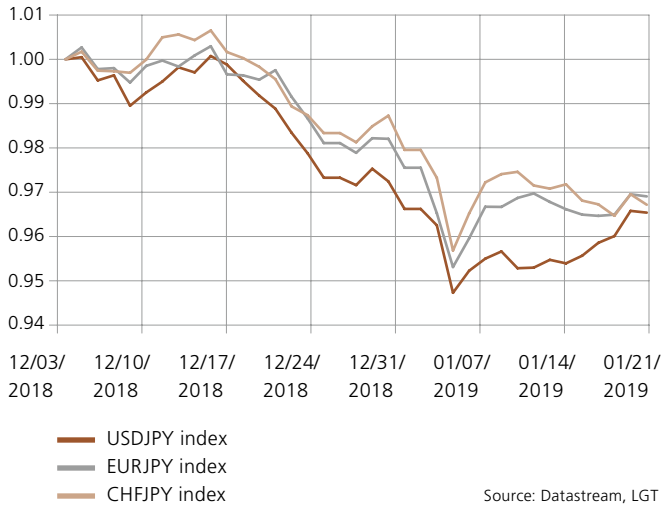
JPY: steering toward a safe haven

Michel Roth

The new year began with fireworks for Japan's yen. The reason for the move in the exchange rate was a "flash crash" (i.e. other currencies lost value versus the JPY). While the supposedly technical causes cannot be definitively determined, the pattern nonetheless fits in with the fundamentally explainable trend toward a stronger Japanese currency.

In particular, the cyclical slowdown in China, volatile equity markets, and the prospect of a somewhat less restrictive Federal Reserve have boosted the attractiveness of the safe-haven currency, despite negative interest rates. Another factor is the volatile geopolitical situation around the trade dispute. Even if ostensible discussions surrounding trade tariffs ease, the unresolved geostrategic tensions between China and the United States in their search for technological supremacy remain. Moreover, as the global economy could gradually weaken in the coming months and the slow normalization of monetary policy is proceeding, sporadic waves of volatility are likely to continue to hit markets. In such an environment, the yen is favorable among safe-haven currencies, not least because of its attractive valuation. Anyone thinking of investing in the yen over the long-term should exercise caution, however, as sustained yen strength would run counter to the reflationary policy of the world's third-biggest economy. Tactical navigators looking for temporary protection from the next storm tide can nonetheless steer confidently toward this safe haven. ◆

Japanese yen versus various currencies (indexed)



Source: Datastream, LGT

Overview of currencies as per January 21, 2019

Currencies	Exchange rate	Year-to-date	Medium-term trend	Comment
EUR-USD	1.14	-0.6%	→	Political risks against a backdrop of slowing growth speak against the EUR
GBP-USD	1.29	1.2%	↘	The uncertain outcome of the Brexit finale is dominating the GBP
USD-JPY	109.62	-0.1%	→	Japan's policy-makers will know how to prevent a sustained JPY appreciation
USD-CHF	1.00	1.2%	→	The CHF is struggling to break away from its sideways trend – in line with the SNB's policy desires
AUD-USD	0.72	1.6%	↘	China's growth slowdown and the lack of interest rate hikes are denting the AUD
USD-CAD	1.33	-2.7%	↗	Lower oil prices are weighing on the CAD, making the greenback the stronger dollar
USD-SGD	1.36	-0.2%	→	The monetary reins remain tight, which is supporting the SGD
USD-KRW	1128.05	1.1%	↗	The BoK's accommodative monetary policy is unlikely to change for now
USD-CNY	6.79	-1.1%	↗	China's growth slowdown and the trade dispute with the US are taking their toll on the CNY
USD-MXN	19.19	-2.6%	↗	The challenging market environment should trigger phases of MXN volatility
USD-RUB	66.38	-4.3%	↗	The domestic energy sector and looming US sanctions are setting the tone for the RUB
EUR-CHF	1.13	0.6%	↘	The CHF is benefiting from the political uncertainty in Europe
EUR-SEK	10.25	1.2%	→	The positive economic outlook favors the SEK
EUR-NOK	9.74	-1.6%	→	Norway's robust growth momentum is supporting the NOK

Government bonds: ECB – has the turnaround in monetary policy come to an end even before it has begun?

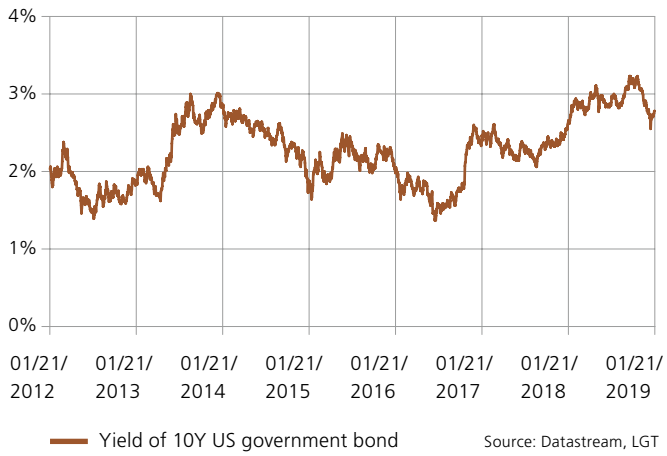
Ewald Duer

The euro is celebrating its 20-year anniversary. It was introduced on January 1, 1999 as book money and three years later as cash. Politicians love to celebrate it as a model of success, but difficulties have increasingly emerged, especially with regard to the uniform interest rate policy for this very diverse economic area. This has been evident not just in the different economic trends of the member countries, but also in the onset of the EU peripheral crisis.

The economies of the core EU countries have largely recovered, but the monetary policy of the European Central Bank (ECB) is just as extreme as it was at the height of the crisis. Its key interest rate is still 0%. After adjusting for inflation, it is clearly negative. The deposit facility rate is even -0.4%. Then there is the huge bond purchase program, which has enabled the ECB to pump nearly EUR 2.6 tn into the markets over the past three years. EUR 2.0 tn alone of this have flown into government bonds, which basically constitutes indirect (and originally forbidden) state financing. In December, the European Court of Justice ruled that the bond purchase program was legally valid. ECB President Draghi was visibly relieved by what he immediately called a very important verdict. He said that quantitative easing "is part now of the toolbox; it's permanent." After six years of economic growth and with inflation rates close to the ECB goal of 2%, the central bank has now announced a normalization of its monetary policy. Realistically, however, it will not likely change its interest rate policy much. Additional purchases of government bonds were ended, but rising jitters in the markets prompted Draghi to immediately correct himself. In view of the "confusion," he confirmed that the bond purchase program was not being stopped, but that maturing bonds in the amount of EUR 2.6 tn would continue to be reinvested in replacement securities – and for longer than previously announced. It is becoming increasingly clear that the ECB is thus postponing an interest rate hike, probably even until 2020.

If economic growth slows more rapidly than expected or one of the current risk scenarios materializes – a disorderly Brexit or an escalation of the trade dispute – a rate hike would presumably be put on the back burner for even longer. Even a reactivation of the effective bond purchase program would not be improbable in that case. After all, it "is part now of the toolbox; it's permanent." Whatever happens, it is still too early to speak of an interest rate turnaround despite the announcement of a normalization. ◆

Yield of US government bonds



Overview target rates and yields on 10y government bonds as per January 21, 2019

Economy	Target rate	Trend	Comment	10y yield	Trend	Comment
USA	2.375%	↗	Rate normalization continues	2.78%	→	Growth is declining, but solid
Eurozone (DE)	0.00%	→	No rate changes in foreseeable future	0.21%	→	The end of QE, but not the end of Draghi
Japan	-0.10%	→	No rate changes in foreseeable future	0.01%	→	The BoJ continues to focus on the yield curve
UK	0.75%	→	No rate changes in foreseeable future	1.33%	→	Brexit risks dominate events
Switzerland	-0.75%	→	No rate changes in foreseeable future	-0.23%	→	Still trapped in a sideways trend
Brazil	6.50%	→	No rate changes in foreseeable future	9.04%	→	Bolsonaro-related hopes create a tailwind
Malaysia	3.25%	→	No rate changes in foreseeable future	4.07%	↗	Clouded economic prospects

Inflation-linked bonds: Danger level 2 "moderate"

Dieter Gassner

Winter sports enthusiasts who like to venture off-piste will be familiar with the European avalanche danger scale. Avalanche warning services classify avalanche risks in five different levels: low, moderate, considerable, high, and very high. If this scale were applied to the current inflation trend, it would warrant the "moderate" category – a generally firm inflation situation with occasional alarm signs. This warning bulletin is based on the assumption that the upturn in the global economy will continue, despite diminishing growth momentum and increased downside risks due to the trade war, the chaotic Brexit proceedings, and some controversial budget plans. Moreover, we anticipate that the unbridled fiscal and monetary support from governments and central banks, respectively, will favor the inflation path in 2019 as well. Energy prices need to be watched, as they are a major disruptive factor. For example, the steep 40% decline in the oil price in the fourth quarter of 2018 hammered inflation expectations. By the end of the year, the break-even rates in the eurozone and the United States were at their lowest level for over a year. In Europe, the yield on five-year maturities is about 0.7% and in the United States circa 1.6%; the longer-term benchmarks are only slightly higher. Hence, the current inflation hedge can be considered to be fair to cheap. In the case of higher inflation rates, inflation-linked bonds would fare better than conventional bonds. In the UK, the situation regarding inflation expectations looks different: due to the strong depreciation of the pound on the back of Brexit uncertainty, inflation figures persist above 3%, which is still clearly above the prior-year level.

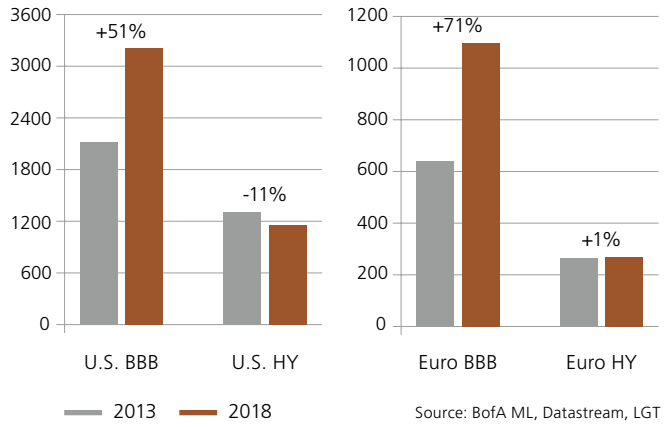
As well as planning their trips carefully, ski tourers and freeriders need to take standard avalanche equipment with them: an avalanche transceiver, probe, shovel, and backpack. In our asset allocation, we use inflation-linked bonds as a kind of avalanche airbag. This asset class does not offer a 100% guarantee, either. But it can diversify the portfolio, improve the risk-return profile and thus protect against a rise in today's low inflation expectations in an emergency. ◆

Credit investments: Without a safety net

Johannes Oehri

The era of quantitative easing may be at an end for the time being. But central banks' money-on-tap strategy distorted the interest rate markets and thus also capital allocation incentives for around a decade. Companies were able to borrow cheaply on the capital market and thus buy back their own shares or acquire other companies – this has been an important factor of support for the equity markets in recent years. The rapid growth in debt is particularly evident in the lowest investment grade bond class (BBB). This category saw dizzying growth rates of 50% (USA) and 70% (eurozone) within just five years. Most issuers can still sustain their high debt levels due to low interest rates and high profitability. But at the latest, the next big cyclical low will knock many of these tight-rope walkers off balance and push their ratings down to junk grade. The potentially large volume of such bonds, known as "fallen angels," will be very difficult for the high-yield market to absorb – especially as this market has shrunk in recent years. Major upheavals are therefore practically predestined. Consequently, credit investors should exercise caution – as they are operating without a safety net. ◆

Size of corporate bond markets (in bn USD, bn EUR)



Source: BofA ML, Datastream, LGT

Equities US: Anticyclical

Manfred Hofer

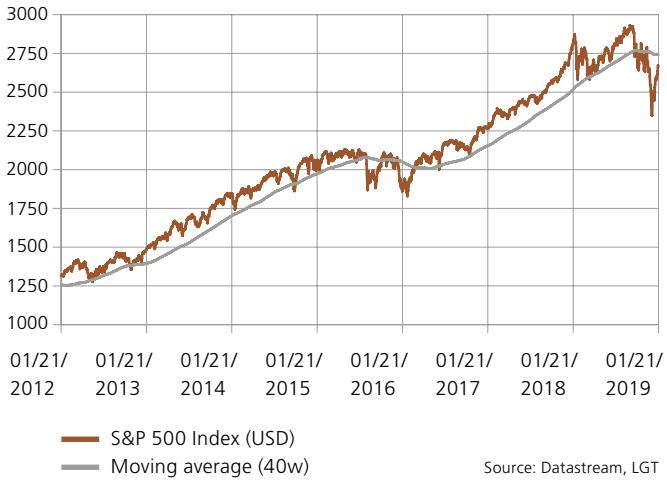
The 2018 stock market year was marked by high volatility. First, the S&P 500, the US leading benchmark index, reached record highs at the end of January, partly due to the euphoria surrounding the US tax reform. A carefree approach to equity investments led to subsequent price corrections, however, which continued into April. In turn, this marked the start of a strong rally that held up until the start of October, with shares hitting a new record high. In the final quarter – above all in December – equity prices finally collapsed. Cyclical fears, concerns about political crises, the trade conflict between the United States and China, and US President Trump's attacks on the Federal Reserve proved to be a toxic combination.

What is next? The global upswing is losing momentum, but the world economy is still on a growth track. The US economy is acting as an economic growth engine on an international level. It is benefiting more from President Trump's economic policy than it is suffering from the trade conflicts. Deregulation, reductions in red tape, and the tax environment are having a positive effect. It is also worth taking a look at valuations – for the first time in a while, US equities are no longer overvalued.

Our behavioral finance estimate: market structure analysis – used for determining the strategic direction of the markets – points to a transitional phase, that is, neither a bull nor a bear market. In this kind of stalemate, it is advisable to give greater weight to soft factors, such as positioning data, news/media analyses, and volatility trends, in order to be more agile and detect signs of a turnaround within a transitional phase.

On balance, our indicators anticipate that the bulls and the bears will be fighting it out. In other words, sudden swings in the markets are to be expected. It is a trading market, in which anticyclical behavior is advisable for the time being. This conclusion was a common thread in comments on US equities in Investorama in 2018 and remains valid today. ◆

Equities US



Source: Datastream, LGT

Overview of equity markets as per January 21, 2019

Index	Points	Year-to-date	Since 01/21/2018	Since 01/21/2014*	Trend	Comment
S&P 500 (USD)	2671	6.5%	-5.0%	7.7%	↘	Slight downward trend
Euro STOXX 50 (EUR)	3125	4.1%	-14.4%	-0.2%	↓	Downward trend
NIKKEI 225 (JPY)	20719	3.5%	-13.0%	5.6%	→	Volatile sideways trend
FTSE 100 (GBP)	6971	3.6%	-9.8%	0.4%	↘	Slight downward trend
DAX 30 (EUR)	11136	5.5%	-17.1%	2.7%	↓	Downward trend
SMI (CHF)	9011	6.9%	-5.2%	1.2%	↘	Slight downward trend
MSCI AC ASIA/Pac ex Jap. (USD)	499	4.6%	-16.6%	1.7%	↓	Downward trend
MSCI EM (USD)	1018	5.5%	-17.4%	1.0%	↓	Downward trend

* annualized

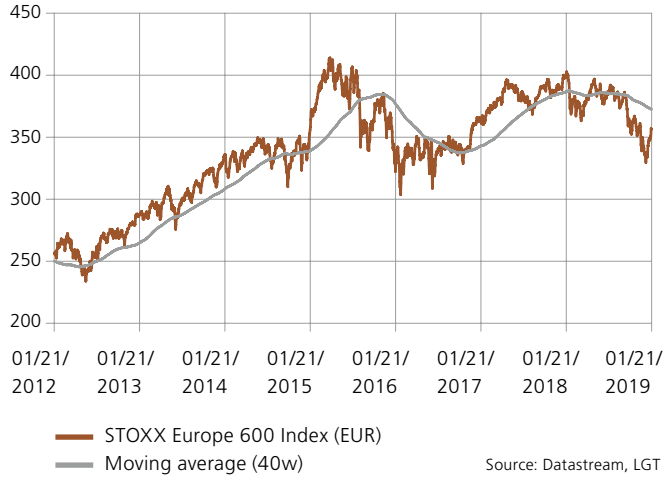
Equities Europe: Keep a cool head

Ralf Piersig

We can look back on a difficult year in the stock markets, in which irrational geopolitical events in particular surprised most market participants (and us) on the downside. It remains to be seen how an aggressive trade dispute between the United States and China, a potentially chaotic Brexit, and Italy's increase in borrowing despite its overindebtedness can serve the common good. Indeed, there are increasing signs that the resulting uncertainty has led to a downturn in economic growth. As a consequence, the equity markets corrected by 13% last year, their worst performance in ten years.

What is next? We are in a late-cyclical phase, but there are no signs of a recession. In terms of the equity markets, we do not foresee a bear market yet. The monetary policy of central banks is less and less supportive, but a liquidity crisis like the one in 2008 does not seem to be looming. Additionally, many valuation multiples are at low levels again and have already priced in a mild recession in some cases. We therefore look to the 2019 stock market year with cautious optimism. The strong start to the year is an initial sign of hope. ◆

Equities Europe



Source: Datastream, LGT

Equities Japan: Nikkei: no grounds for (Ja)panic

Mikio Kumada

The Nikkei continued to underperform as the global selloff intensified late last year, especially after Fed Chair Jerome Powell comments following the FOMC meeting of December 19, proved more hawkish than markets were comfortable with. Even though Powell hinted the Fed might hike the upper policy rate range by 50 basis points to 3% during 2019, the 0% interest-paying yen surged about 4% against the US dollar within a few days, as investors sold off risk assets around the world and demand for safe haven investments soared.

The reactions had once again little to do with Japan's economic performance per se, which is proving quite resilient thus far. Merchandise imports, for instance, continued to grow at 12.5% p.a. in November, in line with the average of the preceding two years, underpinned by domestic demand and investment. Labor cash earnings, which have been stagnant for decades, continue to rise faster than forecast. Finally, the Nikkei's under-performance ended on December 25, when markets began to turn around as senior US government circles and the White House began signaling that (1) the Fed chairman would keep his job and (2) US-Chinese trade talks were progressing smoothly. ◆

Equities Japan

Source: Datastream, LGT

Emerging markets equities: Difficult times, good opportunities

Ikram Boulfernane

The global sell-off in 2018 did not spare China's equity markets, as was reflected in the annual performance of its domestic stock exchanges. While the MSCI Emerging Markets index declined around 17% (in USD), the Shanghai Shenzhen CSI 300 index tumbled approximately 30% (in USD).

Whereas the government had provided generous support in the past, it did not do so this time. The Middle Kingdom must balance out the conflicting interests between the deleveraging process and providing sufficient support to the economy. This limits but does not completely eliminate the willingness and ability of decision-makers to implement fiscal and monetary support measures to boost the economy. The additional money in circulation as a result of the stimulation measures will flow increasingly into the infrastructure industry, at least as suggested by various government statements.

The slowdown in growth at both the global and the local level has also left its mark on China's equities. But another key factor driving share prices is the Sino-US trade dispute. Any temporary easing on this front clears the way for a rally. In terms of valuations, China's equities present a positive picture. Their valuations are favorable in historical terms as well as by comparison with the aggregate for the emerging countries and their industrialized counterparts. They are even at levels that were last seen in 2014. Another development that kindles hope in the Chinese investment arena is the planned higher weighting and inclusion, respectively, of Chinese equities in the MSCI, S&P Dow Jones, and FTSE International global indices. This could lead to larger capital inflows and thus create a tailwind for China's equity markets.

This means that even in these difficult times there are good opportunities for identifying healthy companies that have been unfairly dragged down by the quicksand of negative investors' sentiment. Investors who are not afraid of the idiosyncratic risk of Chinese stocks are betting on domestic companies and sectors that primarily serve the domestic market, given the anticipated higher government spending in the area of infrastructure and the ongoing trade conflict with the United States. ◆

Emerging markets local currency bonds: Was 2018 just a taster or a herald of hope for 2019?

Sven Lang

2018 went down in the history books as a difficult year for the emerging markets. Currency crises in Argentina and Turkey as well as the trade dispute between the United States and China seriously dented prices and sentiment. It will be crucial for the new year whether these factors improve or whether the past year was merely the start of an extended difficult phase. Listening to the views of various analysts, it seems that both scenarios are feasible. Compared with opinions at the start of the previous year, this bodes well for a new year with lower volatility. A year ago, many, if not most investors were very positive on the emerging countries and were thus positioned optimistically. As a result, the period of heavy losses from April to the start of September was all the more painful, prompting many investors to reduce their positions. The current balanced assessment and positioning for 2019 therefore seem like a better basis for a calmer year.

Nonetheless, there are potential (political) stumbling blocks in the coming months as well. The most important events will likely be the elections in South Africa in May and in Argentina in October. Both countries will decide whether their current presidents can continue their reform course, which is very important for the capital markets. The first day of March will play a key role in the trade tensions, as it is the date on which the negotiated "ceasefire" in the trade war between the United States and China will come to an end. Aside from the political turmoil and the volatile oil prices, valuations present a robust reward for the risks involved. In view of the sharp price corrections, emerging market assets are definitely not expensively valued, especially in the case of currencies. On the contrary, currencies are attractively valued based on various models. If the US Federal Reserve were to increase its rates less rapidly than is currently expected, this would create a tailwind for currencies in particular. In addition, investors continue to benefit from a high current interest rate of around 6.4%.

The road ahead will likely be stony and full of potholes for emerging market local currency bonds this year as well. Some of these dangers are already reflected in prices and the positioning of investors. The current moderate expectations for 2019 and attractive valuations are thus not a bad basis for a positive surprise. ◆

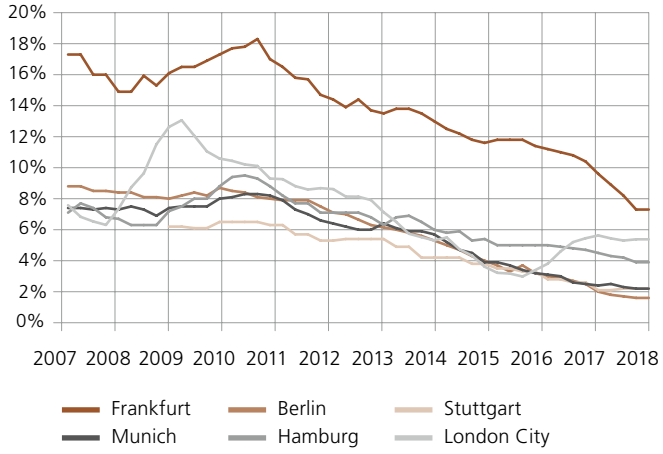
Real estate: Germany's office locations on the rise

Boris Pavlu

Despite the strong international interconnectedness of the global economy, the cycles of individual countries are synchronized only to a limited extent. Real estate cycles are generally even less synchronized, as they are significantly influenced by more local factors, such as development planning and mortgage issuance practices.

For example, in Germany, the recovery in commercial property following 2008 was comparatively sluggish – the oversupply from the preceding construction boom and the euro crisis weighed heavily on the sector. Nonetheless, the German market for office space has picked up momentum in recent years. Even Frankfurt, once an overbuilt banking location, recently saw a rapid decline in vacancies and sizeable increases in rents. This is even more the case in other German metropolises, such as Berlin, Munich, and Stuttgart. It might now be difficult to find large, modern office spaces to rent in those cities. Meanwhile, the City of London is heading in the opposite direction. Since the Brexit decision in June 2016, the related uncertainties have dented Europe's largest financial center, as evidenced by the rise in office vacancy rates. ◆

Office vacancies in selected cities



Source: Bloomberg, LGT

Insurance-linked securities: Reinsurance market review 2018

Siti Dawson

A review of the reinsurance and market of insurance-linked securities (ILS) requires looking back to 2017, one of the worst years in history, which racked up more than USD 140 bn in insured losses worldwide. However, for the majority of insurance and reinsurance companies, these losses were neither severe enough to cause a decline in their capital base (helped by the fact that the capitalization had been at very high levels before 2017) nor significant enough to lead to industry-wide premium increases.

After the benign first half, the third and fourth quarter saw a series of devastating and very expensive insurance events, which have caused payouts on reinsurance contracts and will likely lead to payouts on some cat bonds as well. The California wildfires, together with the typhoons in Japan, and the major hurricanes in the US, made 2018 the fourth-costliest year on record, accumulating almost USD 80 bn in insured losses. This significantly affected the results of insurers, reinsurers, and some high-risk ILS managers. Market participants have pushed to recoup some of these losses by asking for higher premiums. Whilst this will likely not affect negotiations for European programs which ran largely loss-free, local programs for the US and Japan, and especially retrocession contracts ("reinsurance for reinsurers") are indeed showing an uptick in premiums. The push for rate increases and changes in buying interest is providing the market with a competitive, yet also attractive environment for 2019. ◆

LGT's core competencies in asset management

LGT's investment center is a specialist for multi asset solutions as well as alternative investments. Our core competencies include:

Asset Allocation

Carefully planned asset allocation is the foundation for successful asset management and performance. LGT's long-standing experience and disciplined investment approach enable us to offer our clients traditional and alternative investments as an integrated, comprehensive package and to go to our clients as an authority in this regard. Our transparent investment process covers portfolio construction and implementation in line with our clients' needs as well as continual monitoring of specific risks. The aim of our asset allocation investment solutions is to optimize the long-term risk-return profile. It is important to ensure that our investment solutions participate in market upturns, while offering stability and capital preservation in difficult market periods. The cornerstones of our Asset Allocation expertise are:

- A comprehensive global universe of listed and non-listed investments
- Broad diversification in and between asset classes, segments, styles, specialists and currencies
- A systematic, disciplined process based on a balanced blend of qualitative and quantitative elements

The long-term strategic asset allocation requires a look at the future. But because predicting future developments is possible only to a very limited extent, we use scenario analysis. The knowledge of past developments in economics, politics and the financial markets gives us a basis for our scenarios. Academics and practitioners add their own expert knowledge in certain thematic areas. We then use this array of information to develop various future scenarios. These are either baseline scenarios (high probability of occurring) or alternative scenarios (low probability of occurring). We set the optimum portfolio weighting for each scenario. We then work out investment solutions that we think can bring robust returns for our clients across several scenarios.

Through our tactical asset allocation we take advantage of medium-term inefficiencies and fluctuations. In a quarterly process we reconsider our active positioning also taking into account our findings from economic and market information along with behavioral finance.

Sustainability

Our long-term direction and ESG investment principles are a core element of our corporate culture. We are convinced that we can only invest successfully for our clients by following a long-term approach that contains a strong awareness of environmental, social and governance (ESG) principles. This also applies to investment solutions that we offer our investors as well as to our overall business activities. On the following pages, we will demonstrate how LGT Capital Partners integrates these principles into its business activities.

ESG in our investment and monitoring process

Compliance with ESG criteria is a fixed component of our investment process. It is structured so that it meets the United Nations-supported Principles for Responsible Investment (UN PRI). Our investment teams are responsible for due diligence for potential investments. Every investment opportunity we pursue is examined based on these criteria. These assessments are important information for portfolio managers and the Investment Committee when it comes to making an investment decision. We monitor a broad spectrum of risks, against the background of ESG criteria as well. We work closely with our external managers and offer them advice on how ESG criteria can be integrated even more extensively. For some clients, we check the portfolios according to specific ESG guidelines.

We have developed processes to integrate ESG principles in line with the requirements of the various investment categories and structures. In the context of our private equity, hedge fund and multi-manager long-only portfolios, for example, we focus on the assessment of ESG practice of our external and internal managers, and work with them to raise standards in this area. In our equity and bond portfolios, we rely on

individual stock selection. This way, we can benefit from the fact that substantially more information is available for an ESG assessment. We have therefore developed an internal tool, the ESG cockpit, which enables us to analyze and evaluate the ESG risks and opportunities of every position in these portfolios.

Compliance with international agreements on controversial weapons

Apart from carrying out our own ESG analyses, we are cooperating with Global Engagement Services (GES) and applying their guidelines to avoid investing in companies involved in the manufacture of controversial weapons such as land mines, cluster bombs and ammunition as well as ABC weapons. This way, we can develop portfolios that meet the requirements of international agreements on controversial weapons.

Our definition of ESG

When analyzing managers and companies, we check the following environmental, social and governance factors:

- Environment: greenhouse gas emissions, energy efficiency, water consumption, waste disposal, use of resources and other factors
- Social: refers to subjects such as controversial weapons, human rights issues, labor standards, employee fluctuation, health and safety, training and professional development as well as other factors
- Governance: quality of the board of directors, clear separation between the role of the CEO and president of the board of directors, accounting practices, reporting/transparency, management incentives, shareholders' rights, bribery and corruption as well as other factors

In choosing countries of potential issuers of government bonds, we concentrate on the degree of freedom, democracy, political and civil rights that prevail in the respective country as well as on the level of corruption and the rule of law. This is enhanced by further analyses that illustrate how a country deals with natural resources and the status of social development.

Integration of alternative investments

To achieve robust portfolios, there needs to be as much integration as possible of many uncorrelated return sources. It has been shown that alternative investment classes can make a valuable contribution in particular. LGT Capital Partners has been investing in private market investments and liquid alternative investment classes for 20 years. We have a global network and therefore access to experienced managers in this area, as well as direct investment competence. Investments in private markets can improve the risk-reward ratio of an investment portfolio. They offer investors the opportunity to achieve higher returns while at the same time diversifying their portfolio. With an investment horizon of more than ten years, private equity requires a long-term commitment and readiness to accept reduced liquidity and unexpected capital flows. The returns are also highly dependent on the investor's ability to gain access to the managers with the best performance, as returns from funds in the upper and lower quartile vary enormously from one another. Liquid alternative investments such as alternative risk premia, hedge funds or insurance-based investments play a large part in broader diversification of a portfolio. The integration of these strategies into a portfolio requires in-depth analysis that takes account of investors' aims and requirements. This calls for the relevant analysis tools, as well as for long-term experience.

Overview LGT Funds

LGT Funds	ISIN	Launch date	Price as per 12/31/2018		Performance 2018	Performance -3 years p.a.	Performance -5 years p.a.
Multi asset class							
LGT Alpha Indexing Fund (CHF) B	LI0101102999	30.04.2009	CHF	1461.57	-8.20%	0.86%	2.10%
LGT GIM Balanced (CHF) B	LI0108469029	31.01.2010	CHF	11115.92	-8.57%	-0.04%	0.18%
LGT GIM Balanced (EUR) B	LI0108469169	31.01.2010	EUR	12321.01	-7.43%	0.05%	0.98%
LGT GIM Balanced (USD) B	LI0108468880	31.01.2010	USD	12367.25	-6.63%	1.89%	1.00%
LGT GIM Growth (CHF) B	LI0108469268	31.01.2010	CHF	11849.04	-10.06%	0.58%	0.52%
LGT GIM Growth (EUR) B	LI0108469318	31.01.2010	EUR	13342.18	-8.80%	0.66%	1.45%
LGT GIM Growth (USD) B	LI0108469250	31.01.2010	USD	13183.41	-8.22%	2.46%	1.18%
LGT Sustainable Strategy 3 Years (CHF) B	LI0350494782	10.11.1999	CHF	953.77	-7.84%	0.00%	0.51%
LGT Sustainable Strategy 3 Years (EUR) B	LI0008232162	10.11.1999	EUR	1619.23	-6.60%	0.26%	1.40%
LGT Sustainable Strategy 3 Years (USD) B	LI0350494840	30.04.2010	USD	991.59	-6.01%	2.10%	1.57%
LGT Sustainable Strategy 4 Years (CHF) B	LI0350494907	10.11.1999	CHF	945.73	-9.25%	0.28%	0.87%
LGT Sustainable Strategy 4 Years (EUR) B	LI0008232220	10.11.1999	EUR	1583.59	-7.97%	0.72%	1.76%
LGT Sustainable Strategy 4 Years (USD) B	LI0350494998	30.04.2010	USD	980.83	-7.54%	2.36%	1.77%
LGT Sustainable Strategy 5 Years (CHF) B	LI0350495169	01.10.2004	CHF	939.83	-10.70%	0.53%	0.92%
LGT Sustainable Strategy 5 Years (EUR) B	LI0019352926	01.10.2004	EUR	1607.78	-9.33%	0.90%	1.80%
LGT Sustainable Strategy 5 Years (USD) B	LI0350495227	30.04.2010	USD	973.93	-9.20%	2.54%	1.67%
Money market							
LGT Money Market Fund (CHF) B	LI0015327682	19.01.1998	CHF	1091.60	-0.82%	-0.75%	-0.55%
LGT Money Market Fund (EUR) B	LI0015327740	19.01.1998	EUR	698.51	-0.48%	-0.32%	-0.17%
LGT Money Market Fund (USD) B	LI0015327757	19.01.1998	USD	1505.03	1.65%	1.05%	0.71%
Bonds							
LGT Bond Fund EMMA LC (CHF) B	LI0133634688	30.09.2011	CHF	1088.11	-10.52%	3.45%	0.27%
LGT Bond Fund EMMA LC (EUR) B	LI0133634662	30.09.2011	EUR	1177.21	-7.05%	2.23%	1.97%
LGT Bond Fund EMMA LC (USD) B	LI0133634670	30.09.2011	USD	1002.19	-11.48%	3.97%	-1.77%
LGT Bond Fund EMMA Quality (CHF) B	LI0183910038	30.06.2012	CHF	944.65	-5.20%	0.74%	-1.36%
LGT Bond Fund EMMA Quality (EUR) B	LI0183910012	09.07.2012	EUR	971.63	-4.74%	1.25%	-0.85%
LGT Bond Fund EMMA Quality (USD) B	LI0183909998	15.12.2011	USD	1045.95	-1.99%	3.35%	0.51%
LGT Bond Fund Global Inflation Linked (CHF) B	LI0148578045	17.04.2012	CHF	914.22	-3.30%	-1.15%	-0.97%
LGT Bond Fund Global Inflation Linked (EUR) B	LI0017755534	10.05.2004	EUR	1133.35	-2.79%	-0.56%	-0.36%
LGT Bond Fund Global Inflation Linked (USD) B	LI0148578037	30.09.2010	USD	1011.71	-0.15%	1.35%	0.93%
LGT Select Bond Emerging Markets (USD) B	LI0026536628	31.12.2000	USD	3376.89	-7.51%	4.50%	0.43%
LGT Select Bond High Yield (USD) B	LI0026564604	31.08.2000	USD	2384.68	-3.36%	5.21%	2.80%
LGT Select Convertibles (CHF) B	LI0132437745	31.08.2011	CHF	1214.71	-8.56%	-1.02%	-0.23%
LGT Select Convertibles (EUR) B	LI0132437737	31.08.2011	EUR	1251.53	-8.39%	-0.74%	0.13%
LGT Select Convertibles (USD) B	LI0102278962	31.07.2006	USD	1536.16	-5.71%	1.54%	1.60%
LGT Sustainable Fixed Income Global Opportunities (EUR) B	LI0008232030	10.11.1999	EUR	1622.62	-3.52%	-0.64%	0.15%
LGT Sustainable Bond Fund Global (EUR) B	LI0106892909	30.11.2009	EUR	1466.93	1.60%	-0.05%	3.81%
LGT Sustainable Bond Fund Global Hedged (CHF) B	LI0148577955	22.10.1996	CHF	1019.61	-2.74%	-1.02%	0.61%
LGT Sustainable Bond Fund Global Hedged (EUR) B	LI0148577948	22.10.1996	EUR	1055.88	-2.35%	-0.53%	1.17%
LGT Sustainable Bond Fund Global Hedged (USD) B	LI0015327872	22.10.1996	USD	2769.05	0.44%	1.59%	2.62%
LGT Sustainable Quality Bond Fund Hedged (CHF) B	LI0183909808	30.06.2012	CHF	964.85	-3.22%	-1.57%	-1.03%
LGT Sustainable Quality Bond Fund Hedged (EUR) B	LI0183909782	30.06.2012	EUR	998.87	-2.72%	-0.99%	-0.44%
LGT Sustainable Quality Bond Fund Hedged (USD) B	LI0183909790	30.06.2012	USD	1062.52	-0.04%	0.89%	0.75%

LGT Funds	ISIN	Launch date	Price as per 12/31/2018		Performance 2018	Performance -3 years p.a.	Performance -5 years p.a.
Equities							
LGT Select Energy Infrastructure (USD) B	LI0241754428	31.07.2014	USD	554.27	-17.26%	-2.44%	n.a.
LGT Select Equity Asia/Pacific ex Japan (USD) B	LI0026536305	30.10.1999	USD	2458.13	-13.08%	3.28%	1.46%
LGT Select Equity Emerging Markets (USD) B	LI0026536354	31.12.2000	USD	3767.89	-18.25%	8.16%	1.05%
LGT Select Equity Europe (EUR) B	LI0026536404	19.10.2006	EUR	1911.58	-16.01%	-0.45%	2.74%
LGT Select Equity Japan (JPY) B	LI0026536511	31.10.1999	JPY	1544.00	-19.42%	2.35%	5.10%
LGT Select Equity Japan (USD) B	LI0230813219	22.01.2014	USD	1314.33	-18.01%	3.31%	n.a.
LGT Select Equity North America (USD) B	LI0026536560	31.10.1999	USD	2422.29	-3.27%	9.28%	6.17%
LGT Select REITS (USD) B	LI0148225985	01.04.2004	USD	1378.40	-6.83%	0.68%	2.64%
LGT Sustainable Equity Fund Europe (EUR) B	LI0015327906	30.09.2000	EUR	1039.45	-15.32%	-3.00%	1.89%
LGT Sustainable Equity Fund Global (CHF) B	LI0148540441	17.12.2012	CHF	1868.73	-7.26%	7.94%	9.19%
LGT Sustainable Equity Fund Global (EUR) B	LI0106892966	31.12.2009	EUR	2367.93	-3.67%	6.67%	11.04%
LGT Sustainable Equity Fund Global (USD) B	LI0148540466	17.12.2012	USD	1740.69	-8.25%	8.48%	6.97%
LGT Sustainable Quality Equity Fund Hedged (CHF) B	LI0183907844	30.06.2012	CHF	1445.17	-7.24%	2.82%	4.42%
LGT Sustainable Quality Equity Fund Hedged (EUR) B	LI0183907836	09.07.2012	EUR	1426.12	-6.75%	3.28%	5.03%
LGT Sustainable Quality Equity Fund Hedged (USD) B	LI0183907802	30.06.2012	USD	1682.37	-4.10%	5.43%	6.26%
Insurance-linked investments							
LGT (Lux) I – Cat Bond Fund (CHF) B	LU0816333040	30.11.2010	CHF	107.98	-1.74%	-0.53%	0.07%
LGT (Lux) I – Cat Bond Fund (EUR) B	LU0816332828	30.11.2010	EUR	111.81	-1.39%	-0.22%	0.46%
LGT (Lux) I – Cat Bond Fund (USD) B	LU0816332745	30.11.2010	USD	120.53	1.32%	1.79%	1.82%
Alternative investments							
LGT Crown Listed Private Equity (EUR) B	IE00B7T8CN06	18.02.2013	EUR	177.98	-5.16%	7.08%	9.24%
LGT Crown Listed Private Equity (USD) D	IE00BJVWTR76	28.07.2014	USD	122.64	-9.71%	8.92%	n.a.
LGT Crown Managed Futures UCITS SF Class B (USD)	IE00B66PKW27	09.07.2010	USD	981.63	-6.09%	-3.60%	-0.62%
LGT Crown Managed Futures UCITS SF Class C (EUR)	IE00B66MZ845	25.06.2010	EUR	916.49	-8.54%	-5.40%	-1.59%
LGT Crown Managed Futures UCITS SF Class H (CHF)	IE00B3PT4X32	30.09.2010	CHF	818.09	-9.02%	-5.90%	-2.24%
LGT Alpha Generix UCITS Sub-Fund Class O (USD)	IE00B7VFVC16	01.10.2012	USD	948.07	-6.01%	-0.07%	0.21%
LGT Alpha Generix UCITS Sub-Fund Class P (EUR)	IE00B82ZPK32	01.10.2012	EUR	887.55	-8.64%	-2.14%	-0.99%
LGT Alpha Generix UCITS Sub-Fund Class Q (CHF)	IE00B46N8H32	01.10.2012	CHF	854.74	-9.11%	-2.71%	-1.68%


Liechtenstein.
1813

Ferdinand Runk, detail from "View of the Amphitheatre, Fortress and Schloss Liechtenstein at Maria Enzersdorf," 1813

Emerging markets – irritating drumbeat disrupts the fundamental harmony

The US-China trade war, global withdrawal of liquidity, a slowing world economy – there is no shortage of reasons for investor pessimism towards the emerging markets as an asset class. Long-term investors are looking at the solid fundamentals, however, which give room for optimism.

In 2017, investors were still singing the praises of investments in emerging markets (EM). But they changed their tune last year. Songs of crisis and lamentation dominated the events in this asset class in 2018. The EM equity complex, in particular, suffered severe losses. Lower earnings expectations, valuation corrections, and falling exchange rates play a minor key based background tune. In fact, 2018 will go down in the history books as an "Annus horribilis" for emerging market investments.

The corrections in Argentina and Turkey, for example, were justified in many respects, but they raised concerns about contagion across all emerging markets. These worries materialized and the hysteria of the moment culminated in a major sell-off. Countries that are actually in good shape were not spared, as the downturn pulled them into the maelstrom as well. However, this development is not justified for the majority of the EM, as the long-term structural and fundamental conditions are positive.

The current EM crisis is not comparable to the problems experienced in the 1990s, which were frequently triggered by imbalances in the balance of payments. Today, many of these countries have flexible exchange rates, and if needed they can devalue their currencies before the balance of payments comes under pressure. In contrast to earlier crises, credits and loans are increasingly being issued in local currencies rather than hard currencies, which keeps the exchange rate risk in check. Moreover, the developing countries overall have adequate foreign currency reserves that can be used appropriately in times of crisis. The trade balance in most EM countries is in better shape than in the past.

The structural situation is another reason to be optimistic about EM investments. Population growth is enormous in these countries compared to their industrialized counterparts and this "demographic dividend" definitely plays into the hands of the EM. In addition, the age structure of the EM populations is healthy. The greater productivity growth in comparison to the West and the megatrend towards urbanization are cornerstones of the upbeat economic growth potential. Furthermore, the prosperity of emerging economies is developing rapidly, which should lead to a disproportionate development in private consumption.

Currently, investor concerns are still dominating the EM sphere. But as soon as these concerns fade and investors refocus on the robust fundamentals, EM investments should once again gain their attention. However, the potential for higher returns is accompanied by greater risks. A selective approach and active management give the beat for this asset class. Investors with a long-term horizon should not let themselves get thrown off course by the current drumbeat that is disrupting the fundamental harmony in the EM, and should use the low valuations as a buying opportunity. ◆

LGT Sustainable Strategy 4 Years (USD) B

Fund description

The fund is an actively managed portfolio with integrated sustainability criteria. It is broadly diversified and invests in money market instruments, bonds, equities as well as real estate (REITs). The investments cover a range of different currencies. The broad diversification is designed to achieve an optimal long-term risk-return ratio and the fund aims to actively exploit attractive market opportunities. The implementation is mainly through direct investments, the quality and sustainability of assets being the focus of the selection process. In certain niche markets funds can be used.

Why invest in the LGT Sustainable Strategy 4 Years?

- Robust portfolio due to scenario planning
- Flexible portfolio management to take advantage of market trends
- Investment process combining sustainable (ESG) and fundamental analysis
- A sound risk management to minimize losses
- Crisis-proven concept since 1996

Opportunities

- Our comprehensive portfolio management process enables us to use a variety of investment vehicles efficiently. This structured process allows for optimally combining decisions and instruments to take advantage of market trends.
- The probability of making a loss over the appropriate investment horizon is reduced to a minimum by managing the asset allocation and other downside protection elements, targeting an appropriate risk-adjusted return for the investor.

Risks

Market risk: The risk of losses in positions arising from movements in market prices.

Currency risk: The risk of losses arising from currency fluctuations, in case the currency of an investment is different from the investor's reference currency.

Liquidity risks: Adverse effects created by the situation where the Fund must sell assets where insufficient market demand exists and lower price levels must be accepted to execute a transaction.

Operational risks: The Fund may suffer losses as a result of insufficient internal processes or systems, misbehavior of staff or external circumstances.

Political and legal risks: Investments are exposed to changes in the rules and standards applied by the country under the asset's recognized jurisdiction. This includes restrictions on currency convertibility, the imposition of taxes or transaction controls, limitations on property rights or other legal risks. Investments in less developed financial markets may expose the Fund to increased operational-, legal- and political risk.

Fund data

Inception	April 30, 2010
Fund domicile	Principality of Liechtenstein
ISIN	LI0350494998
Distribution	None, retains profits
Reference currency	USD
Management fee p.a.	1.40%
Operations fee p.a.	0.30%
Total fund assets	USD 349.85 m (as of 12/31/2018)
Registration	AT, CH, CZ, DE, HU, IT, LI, RO, SK

Performance (net of LGT fees)

Past performance is not a guarantee, nor an indication of current or future performance. Returns may increase or decrease as a result of currency fluctuations.

"Every market crisis always creates winners and losers"

2018 was a very difficult year for the markets in general and emerging markets in particular. The markets continued to set new lows, testing the patience of investors. In terms of fundamentals, however, the emerging markets remain an attractive investment destination. The expert and pioneer for investments in emerging markets, Mark Mobius, makes the case in the following interview that this asset class still offers lucrative opportunities despite the challenging market environment.

Investorama: From a fundamental point of view, emerging markets (EM) seem to be less vulnerable compared to previous episodes of EM stress. Still, the asset class experienced significant drawdowns during 2018. How do you explain this sell-off?

Mark Mobius: The sell-off was primarily due to the strong US stock market and the strong US dollar which attracted investment dollars to the US. The threat and then the reality of a trade war, accompanied by a strengthening dollar, have contributed to a bear market. Currencies have weakened in the vast majority of developing nations, while Turkey and Argentina have suffered financial crises. The MSCI Index has fallen around 17% last year.

But there are also some positive signs. These markets remain the fastest growing economies in the world. The IMF estimated that EM will grow 4.7% in 2019, more than double the predicted growth for developed countries. Furthermore, FX reserves have increased almost five times, from USD 1.7 tn to over USD 8 tn, between 2002 to 2017. EM government debt (as a % of GDP) is now lower than in 2002. This mitigates concerns about the rising cost of hard currency interest payments. Crucially, intra-EM trade has also increased significantly in the last few years, now representing 41% of total EM trade. This makes local champions far less dependent on developed markets.

Most crucially, EM now offer a dramatically more attractive set of companies that no longer follow the developed markets – they lead.

Which factors are clouding the outlook for EM?

From an investor psychology point of view many would become bearish if the US-China trade war continues, oil prices go back up, and US interest rates move above a 5% level. But the US-China trade war is beneficial to a number of EM since they will pick up the manufacturing and export business that China has to abandon. As regards to interest rates, much of that has already been discounted and – unless rates in the US go above 5% – much of the interest rate expectation is already in the prices and exchange levels. So those factors cloud the outlook but are, at least for 2019, not critical.

What could trigger the next EM bull run?

A halt in US interest rate rises and a subsequent weakening of the US dollar could trigger an EM bull run. Also positive growth numbers in those markets, although they already are good, would be another trigger. A rise in populist policies would be another trigger. For example, in India there are proposals by the government to cancel farm loans and at the same time recapitalize the banks. This would result in a surge of spendable cash in the hands of consumers resulting in a consumption boom. Although such free spending government policies could result in future financial instability and inflationary tendencies, in the short-term they would be bullish for markets.

Given the current pessimism of market participants, are their fears justified or is it time to take a contrarian approach and buy EM?

Many market participants have been holding off investing amid the recent volatility, particularly in view of falling EM currencies. We should acknowledge that this offers more attractive prices for overseas investors.

Every market crisis always creates winners and losers. It is our job as investors to ensure that we can dig out the winners. The sharp drop in currencies and the fall in the market give investors a double opportunity for potential upside.

Where do you see attractive investment potential in EM (e.g. countries, sectors, corporates)?

Countries like Argentina and Turkey, that have suffered the most from the recent crisis, could offer the greatest opportunities. In terms of its economic size and export potential, Turkey could be particularly interesting. However, this is contingent on whether the volatile political situation calms down. At this stage, it is all about winning back the confidence of investors. With the Lira down, any exporter will be in a good position to trade with developed countries. At the same time, the currency crisis makes investments in Turkey relatively cheap.

Generally, the global currency depreciation is a big opportunity for EM. It will allow them to grab a bigger share of the export market. Furthermore, countries like Brazil, Mexico, and India, for example, could benefit from a continued trade war between the US and China. Brazil could sell more soybeans to China, Mexico could take a portion of Chinese auto parts exports, while India could grab some of the manufacturing capacity moving out of China.

As investors, these changes to the status quo and the knock-on effects are where we see the greatest opportunities.

EM have been the winners of the (hyper-)globalization of the past decades. Is the fact that we have reached the peak of this development and globalization's momentum is declining a chance or a threat for EM?

EM are estimated to grow more than double the rate of developed countries this year. A lot of this growth is coming from intra-EM trade and internal demand.

Populations and living standards in emerging and frontier markets have ballooned, creating enormous middle classes with growing consumption levels. Furthermore, there has been a notable shift from traditionally export-driven industries such as textiles, towards sectors such as technology. These new industries tap much more strongly into the home market. When I go to trade shows, it is increasingly the EM companies that have started to dominate in areas such as robotics and high value component manufacturing. Intra-EM and especially intra-Asian trade is a common characteristic for a number of sectors such as technology, fashion, shipping, and media.

In China, technology "unicorns" are being born with increasing frequency, without ever leaving the domestic market. In Indonesia, entire sectors (such as banking) remain undeveloped, offering numerous multi-billion-dollar markets to tap into for Southeast Asian companies that can combine cultural and domain expertise.

These sorts of domestic and regional growth opportunities, regardless of what happens in developed markets, offer resilience at a time when many are concerned about a fallout from the ongoing trade war and a decline in the globalization movement.

Therefore, I believe that developing economies are well positioned to generate significant and sustainable returns. As a result, this year we might be seeing more money flowing back into EM stocks. ◆

Dr Mark Mobius co-founded Mobius Capital Partners LLP in May 2018, an emerging and frontier markets asset manager offering innovative and sustainable investment solutions. Prior to that Dr Mobius was with Franklin Templeton Investments for more than 30 years, most recently as executive chairman of Templeton Emerging Markets Group. He is an internationally recognized pioneer of emerging markets investing. Dr Mobius has been a key figure in developing the international policy for emerging markets and he is a member of the Economic Advisory Board of the International Finance Corporation (IFC). His career and influence has earned him numerous industry awards, including most recently the Life Time Achievement Award in Asset Management (2017, Global Investor Magazine) and 50 Most Influential People (2011, Bloomberg Markets Magazine).

Emergence

Each of us has an own idea of what an emerging country is – but there is no generally accepted definition.

From a postal point of view, China is considered a developing country. That is why Chinese shippers hardly pay anything for sending a package to an industrialized country. But China is also a political superpower, and it boasts economic weight as the "workbench of the world." The distance that China still has to go to become a fully developed industrial country can be seen in the ambitious program "Made in China 2025," which aims to transform the country into a technology leader. The government has laid out an ambitious plan: by 2049 – the one hundredth anniversary of the People's Republic – China is to become one of the world's strongest economies and a fully industrialized country. This shows that the path to becoming an industrial superpower is long and difficult. Investors will, therefore, be able to count on China for a long time if they bet on the riskier, but higher-yielding investments in emerging markets.

In which countries do emerging market investment funds invest? That is not always clear. The short definition is that emerging countries are those in transition from an agricultural to an industrial nation. This means that an emerging country no longer has the typical features of developing countries. For example, developing countries have a lower standard of living for most of their inhabitants, a poor supply situation for food and consumer goods, poverty, undernourishment and hunger, limited healthcare resources, a high rate of infant mortality, a low life expectancy, and high rates of illiteracy and unemployment. At the same time, not only are the economic indicators far from those of industrialized nations, but the social development indicators also fall short.

However, there is no universal definition for an emerging market. Nevertheless, in addition to the so-called BRICS countries (Brazil, Russia, India, China, and South Africa), which to some extent are synonymous with the emerging countries, numerous other nations may also fall into this category.

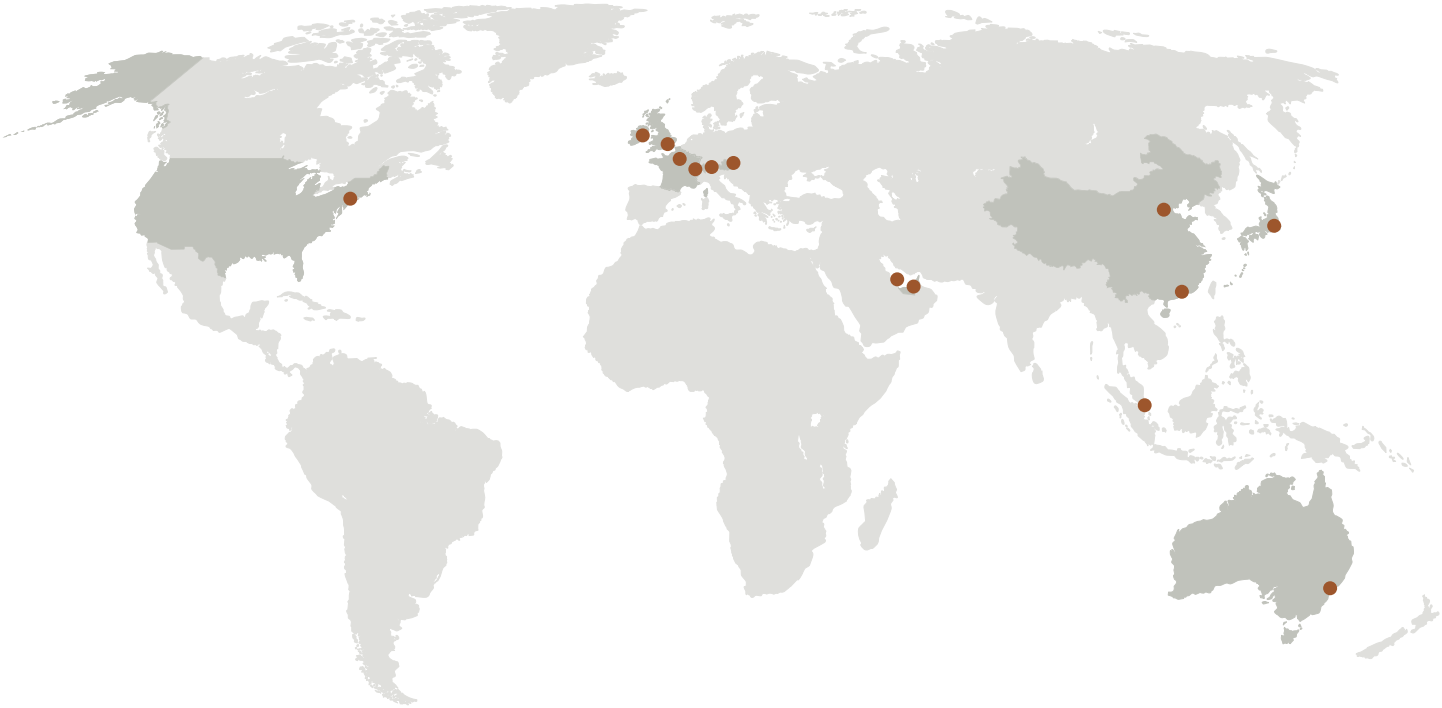
Different institutions, such as the World Bank, the OECD, and the International Monetary Fund, have different lists of emerging countries – which range from 10 to more than 50 nations. There is no binding definition. Recently, the German Federal Ministry for Economic Cooperation and Development and the European Union failed in their joint attempt to establish social and political indicators for the identification of emerging countries on an international level.

Investments in emerging market investment funds – although still attractive – are no longer "exotic." Over the past few years a second row of emerging economies has caught the attention of investors: the so-called frontier markets, which include countries such as Vietnam, Bangladesh as well as many African countries. ◆

5

Four becomes five: Jim O'Neill, at the time the chief economist of the investment bank Goldman Sachs, recognized the common factors that link the four emerging economies of Brazil, Russia, India, and the People's Republic of China and grouped them together under the acronym of BRIC. In 2006, the four countries began an exchange of ideas and founded an association with this name. The name was changed to BRICS in 2010 when South Africa joined the association.
(Photo: Oleg/fotolia.com)

International presence



Europe	Principality of Liechtenstein, *Vaduz* Austria, *Salzburg, Vienna* France, *Paris* Ireland, *Dublin* Switzerland, *Basel, Berne, Davos, Geneva, Lugano, Pfaeffikon, Zurich* United Kingdom, *Bristol, Jersey, London*
America	United States, *New York*
Asia	China, *Beijing* Hong Kong Japan, *Tokyo* Singapore
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Editor
LGT Capital Partners Ltd.
Schützenstrasse 6, CH-8808 Pfäffikon

Editorial team
Dr Alex Durrer, Ikram Boulfernane, Johannes Oehri, Michel Roth

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lgt.investorama@lgt.com

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Johann Adam Klein, detail from "The Old Castle of Liechtenstein in Lower Austria," 1812

A look inside the Princely Collections: Hugo von Petronell, the founding father of the Princely House of Liechtenstein, built Liechtenstein Castle on a rocky ridge on the outskirts of the Vienna Woods in 1130. Although it has been replaced by other castles and palaces as the ancestral seat through the centuries, it has always been a popular subject of landscape painting. Today, the Princely Family resides at Vaduz Castle in the Principality of Liechtenstein, which is celebrating its 300th anniversary this year.

For more than 400 years, the Princes of Liechtenstein have been passionate art collectors. The Princely Collections include key works of European art stretching over five centuries and are now among the world's major private art collections. The notion of promoting fine arts for the general good enjoyed its greatest popularity during the Baroque period. The House of Liechtenstein has pursued this ideal consistently down the generations. We make deliberate use of the works of art in the Princely Collections to accompany what we do. For us, they embody those values that form the basis for a successful partnership with our clients: a long-term focus, skill and reliability.

Cover image: Rudolf von Alt, detail from
"Hall at Liechtenstein Castle near Maria Enzersdorf," 1844

www.liechtensteincollections.at

LGT Capital Partners Ltd.
Schützenstrasse 6, CH-8808 Pfäffikon SZ
Phone +41 55 415 96 00, lgt.cp.kam@lgt.com

LGT Capital Partners (FL) Ltd.
Herrengasse 12, FL-9490 Vaduz
Phone +423 235 25 25, lgt.cp.kam@lgt.com

www.lgt.com

50040en 0119 6H GUT