VALUES WORTH SHARING

Investorama

Trends and developments
in the financial markets

Edition 4/2019

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

The beauty of Multi Asset portfolios

Investing across a diverse range of asset classes can be a simple way for investors to improve potential returns, while lowering portfolio risk at the same time. This is particularly important today, given that equity and bond valuations are elevated, and the investment outlook is becoming more challenging.

In recent years, economic conditions have proved highly favourable for investors, with most traditional asset classes delivering strong positive returns. Equities in particular have performed well, while bonds have also made significant gains. Since the end of 1987, global equities have delivered an average inflation-adjusted return of around 5% per annum. However, as we all know, this level of return comes at a price: namely, volatility. Sharp corrections and bear markets can wipe out years of positive returns in a relatively short time.

Central banks have played a big part in driving up bond and equity markets over the past decade, providing cheap and plentiful cash to stimulate economic activity – but the party cannot last forever. At some point in time, the extraordinary monetary policy support applied by most central banks, in combination with the more recent increase in tariffs on globally traded goods, could very well lead to reflation, and hence ultimately to higher interest rates. This will present a headwind for traditional portfolios that rely only on equities and bonds for returns.

The opportunities for adding alpha and controlling risk do not stop with equities and bonds. By making alternative investments, another key component of our multi asset funds, we aim to enhance potential returns and reduce overall portfolio volatility. Holding alternative assets that have a low correlation with movements in bond or equity markets is a key factor in efficient multi asset strategies, and therefore well suited for the current challenging investment environment.

> "An effectively diversified multi asset portfolio is likely to be more resilient during sharp market declines, leaving the manager psychologically more prepared to think objectively, exercise sound judgement, and act contrarian when opportunities arise."

Private infrastructure, for example, gives investors exposure to interesting projects in hospitals, schools, transport networks, or utilities – all major investment areas once confined to the public sector. Squeezed government budgets following the financial crisis have brought many of these opportunities to the private sector. Large infrastructure projects can generate long-term income with often surprisingly low risk, because they are in many cases backed by governments via public-private partnerships. Infrastructure investments are relatively defensive, lowly correlated with core markets, and often provide inflation-protected returns.

Moreover, financial markets are subject to, often exaggerated, human responses to events, as well as the behavior of other investors. Just like people, markets can thus shift very quickly from relative calm to chaos, and at times behave irrationally. Investing part of the portfolio in private markets such as private infrastructure or private equity can reduce the overall sensitivity of the portfolio to big swings of market participants' mass sentiment.

At the same time, the behavioral biases that dictate investors' short-term decision-making can on the other hand often give rise to attractive investment opportunities. Portfolios with a flexible investment approach can thus offer strong downside protection, given their lower sensitivity to public markets, and free up risk budget that investors can use to take advantage of market dislocations.

Returns from global equities and bonds are likely to be harder to come by in the future, and investors will need to cast the net wider to achieve their performance goals. A diversified multi asset approach is particularly well suited for the current environment, expanding the opportunity set for returns, while providing greater resilience in periods of market stress.

Antonio Ferrer
Head Multi Asset Asia

Expect more... or less of the same!

Dr Alex Durrer

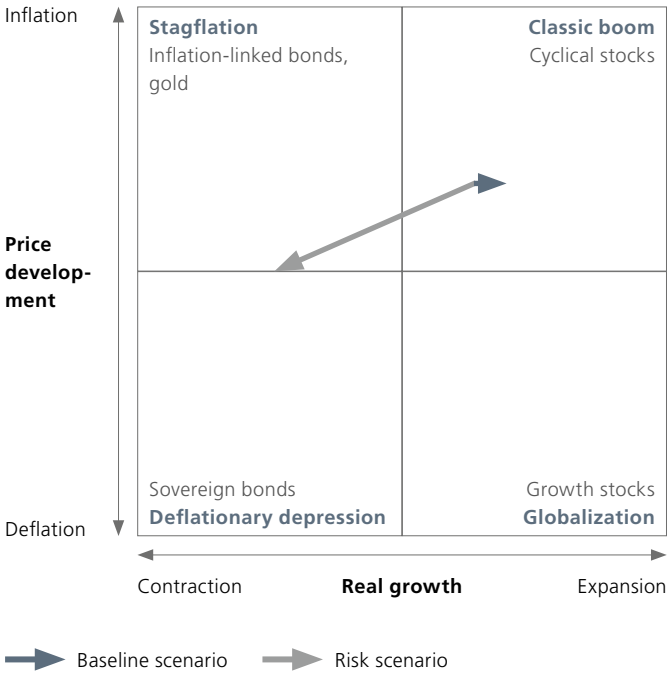
After starting the year in the fast lane and then abruptly down-shifting, the markets are now stuttering. This is not surprising given the number of warning signs in many places: How long will the US-Sino trade conflict last? Was the apparent easing of the trade war just an illusion? The uncertainties in Europe seem to be less significant by comparison or at least more regionally contained. These include the vexatious Brexit finale under Prime Minister Boris Johnson, the now habitual Italian government crisis and the handover of some top EU positions to new incumbents, with Christine Lagarde's succession to Mario Draghi as President of the ECB being the most important such change. The financial markets are still a little nervous, but not broken. Even if the market impact of the wide array of structural issues is ultimately limited, it will likely cause much more volatility.

The economic outlook is also mixed. The various sentiment dampeners have clearly dented industrial orders. If this was representative of the overall economy, a recession would undoubtedly be looming. Fortunately, the services sector, which is more important in modern economies, continues to boom. The United States, the world's economic engine, is still faring best by international comparison. The eurozone looks to be in considerably worse shape. At country level, Germany is bringing up the rear, with the automobile sector being the number one drag. Finally, the outlook for the emerging markets is uneven. The extent to which fiscal stimuli will boost the Chinese economy remains unclear.

It is typical for inflation to cool further in the late stage of the economic cycle. Consequently, the long-dominant phenomenon of monetary divergence has now vanished. Due to structural risks, the cyclical outlook and waning inflationary pressure, all key central banks have called a halt to their monetary normalization efforts. Following two "insurance cuts" by the Federal Reserve, another cut has already been priced in. And Mario Draghi will remain true to his "whatever-it-takes" mode until his last day in office, having followed this approach since 2012.

In our main scenario, the global economy is growing further – albeit with the handbrake on. Caution is therefore called for, which is why we recommend a tactical position that is only modestly aggressive and slightly above the neutral equity weighting. ◆

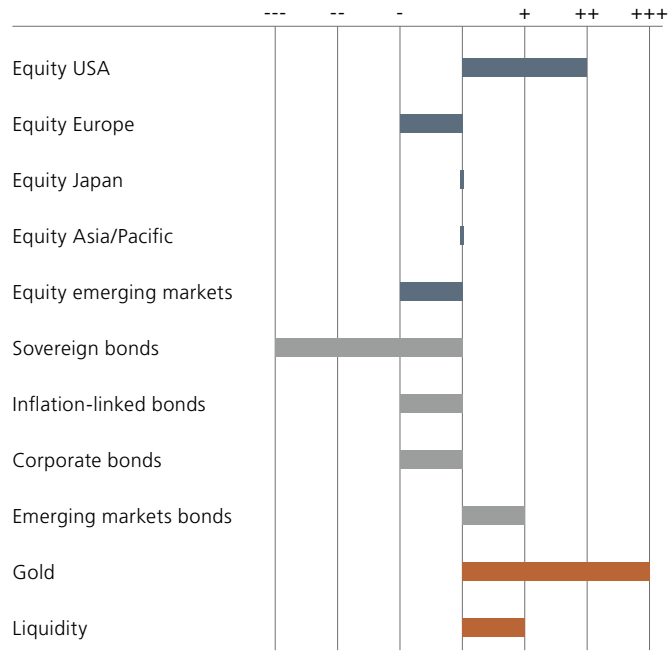
Global macroeconomic landscape*



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

Source: LGT

Overview investment policy as per September 30, 2019



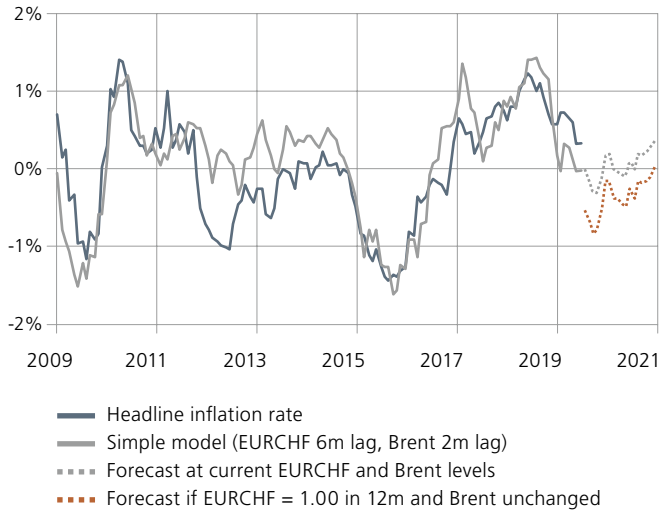
EURCHF: Why the SNB continues to defend the franc

Michel Roth

Ever since the European Central Bank lowered its interest rates and announced the resumption of asset purchases, the Swiss National Bank (SNB) has been under pressure to act. In principle, there are three options: do nothing, buy currencies or lower interest rates. Unlike 2015, when the central bank last cut rates, growth, the labor market and inflation are looking more robust today. Moreover, the franc is no longer valued at a prohibitively high level. The SNB bore these factors in mind in mid-September. But caution is called for.

As a small, open economy, Switzerland remains a price-taker with respect to global inflation or indeed to the current global disinflation (i.e. decrease in the inflation rate). A model can thus approximate realized inflation with a simple combination of the oil price and the EURCHF exchange rate. If we impose that, due to ongoing subdued global growth and persistent geopolitical uncertainties, these two values will not change over the next 12 months, the inflation rate should fall further in the near future. The more sophisticated models used by the SNB also take account of these pronounced interconnections. Given the strong influence of the exchange rate on prices in Switzerland, the SNB ultimately has hardly any room to maneuver if the franc comes under upward pressure. To fulfil its mandate of ensuring price stability, it will continue to intervene in the currency markets and if needed, rates could still fall somewhat more. The EURCHF exchange rate will thus remain well bid. ◆

Conditional inflation forecast of a simple model



Source: Datastream, LGT

Overview of currencies as per September 30, 2019

Currencies	Exchange rate	Year-to-date	Medium-term trend	Comment
EUR-USD	1.09	-4.6%	↘	Draghi's monetary policy will likely be maintained by the new ECB head Lagarde
GBP-USD	1.23	-3.2%	→	Brexit risks and economic reality are priced into the GBP
USD-JPY	108.08	-1.5%	→	The uncertain market environment favors safe havens and thus also the JPY
USD-CHF	1.00	1.2%	→	The SNB will be in a position to prevent a sharp appreciation of the CHF
AUD-USD	0.67	-4.2%	↘	Lower rates and China's subdued import demand keep the Aussie in check
USD-CAD	1.32	-3.1%	→	Fed doves trigger a greater interest rate spread in favor of the Loonie
USD-SGD	1.38	1.5%	→	Gloomier growth prospects prompt a loosening of monetary reins
USD-KRW	1196.15	7.2%	↗	KRW's downward trend remains intact, which is welcomed by the crucial export industry
USD-CNY	7.14	4.0%	↗	The unwritten rule that the mark at 7 must not be breached is now history
USD-MXN	19.74	0.3%	→	MXN is withstanding trade policy uncertainties and persisting in its sideways trend
USD-RUB	64.88	-6.5%	→	The resilience of the Russian economy is creating a tailwind for the RUB
EUR-CHF	1.09	-3.5%	↘	Political risks and suboptimal macro data will continue to weigh on the EUR
EUR-SEK	10.72	5.8%	↗	The SEK is historically very cheap, but there is no appreciation in sight
EUR-NOK	9.91	0.1%	→	The interest rate differential and the macro environment should favor the NOK

Government bonds: Central banks are fueling risk

Ewald Duer

When the central banks originally introduced negative interest rates during the crisis, they were intended as an unconventional tool in an exceptional situation. Yet now they seem to be the new normal. The central banks are using them to create confidence. But negative interest rates do not just have a positive impact. This kind of "medicine" has huge side effects. It considerably jeopardizes the retirement provisions of an entire generation. A prolonged low interest rate environment causes countless problems, not only for savers, but also for banks, life insurers and pension funds. And there is no end to the low-interest period in sight.

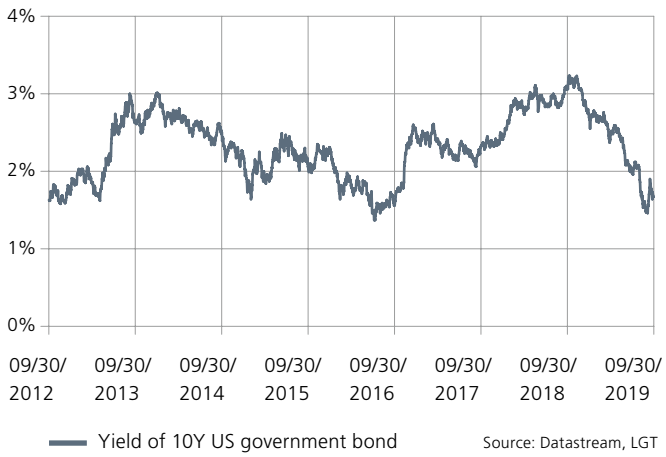
On the contrary, all-time low yields on the bond markets are keeping investors on tenterhooks. As a result of central banks' extreme interest rate policies, tens of billions of bonds worldwide now offer negative yields. For example, the yields on all German government bonds were negative in August, even for instruments with 30-year maturities.

This distorted interest rate world prompts disbelief. Investors no longer balk at maturities of 100 years. And it is also fairly odd that some junk bonds (bonds with a low credit rating of BB+ or less) are in negative territory. That means that instead of receiving a risk premium, investors are actually paying to assume the risk that the issuer might not be able to pay back the money at the end of the term. Investors still looking for positive returns are obliged to accept even higher risks or invest in even less liquid asset classes.

The renewed monetary loosening by the ECB and the Fed is fueling the risk of speculative bubbles in the capital and real estate markets, and zombifying the economy, because unproductive companies are staying alive to the detriment of healthy firms. It is also very improbable that the renewed loosening will create a massive economic boom. The positive impacts of expansionary policy have worn off. In fact, it is more likely to have the opposite effect: the latest interest cuts will probably do more damage than good.

As risks are hardly being rewarded any more, we recommend that investors take all the more care with their risk budgets. ◆

Yield of US government bonds



Source: Datastream, LGT

Overview target rates and yields on 10y government bonds as per September 30, 2019

Economy	Target rate	Trend	Comment	10y yield	Trend	Comment
USA	1.875%	↘	No signs of interest rate normalization	1.67%	↘	Positive interest attracts demand
Eurozone (DE)	0.00%	→	Interest rates at historical lows	-0.57%	↘	Lagarde will keep interest rates low too
Japan	-0.10%	→	No rate changes in foreseeable future	-0.22%	↘	Interest rate normalization remains a utopia
UK	0.75%	→	No rate changes in foreseeable future	0.40%	↘	Defying the domestic political uncertainties
Switzerland	-0.75%	→	No rate changes in foreseeable future	-0.55%	↘	Negative interest is here to stay
Brazil	5.50%	↘	There is room to cut rates	7.05%	↘	Economic policy allows for market optimism
Malaysia	3.00%	→	More rate cuts are expected	3.35%	↘	Interest rates withstand the market uncertainties

Inflation-linked bonds: Coming, ready or not

Dieter Gassner

Everyone is familiar with hide-and-seek, the children's game that is popular across the globe in a variety of forms. In the financial world, central bankers are playing the game too. But it is inflation they seek, not people. Unlike the children's game, their game has lasted for years already, rather than an hour or so. They have tried a number of measures, including unconventional ones, to keep the inflation rate at its target level – but without any lasting success so far. The PCE, the US Federal Reserve's preferred price index, is at 1.8%, below the target of 2%. Moreover, long-term market-based inflation expectations are at levels comparable with the recessionary phases in 2001 and 2008.

The situation in Europe seems more hopeless, as the ECB has undershot its inflation target for years. ECB President Mario Draghi launched another round of monetary stimulus shortly before the end of his period of office, setting out a far-reaching package of measures to prop up the economy and boost inflation, including an interest rate cut, tiered interest rates and a new bond buying program. The amount of the monthly purchases was slightly below market expectations, but the bond-buying program is to run "as long as necessary to reinforce the accommodative impact of the policy rates" and until inflation approaches 2% and will not be stopped until shortly before the next key ECB rate hikes. At the subsequent press conference, Mario Draghi stressed unambiguously that the main tool now is fiscal policy. This call for action was addressed primarily to Germany and the Netherlands, which have the largest room to maneuver fiscally in view of their low public debt. The message shows that the ECB will continue to act in a very expansionary manner for a very long time. In contrast to our game of hide and seek ("Coming, ready or not"), the central bank depends on extra support, and the outcome of the experiment remains unclear.

We will persevere in this game of inflationary hide-and-seek and stick to our strategic mix of inflation-linked bonds due to the diversifying nature of this asset class. ◆

Credit investments: Unreasonably unprofitable

Johannes Oehri

The strong summer rally in the fixed-income markets has pushed yields on many bonds down below zero. If we exclude the USD market, which still offers relatively high yields, around 45% of investment-grade bonds worldwide are trading at negative yields.

But it is no longer just governments that can obtain debt for free. More and more companies are getting paid to take up credit. In the euro area in particular, many issuers enjoy this privilege. More than EUR 800 bn worth of corporate bonds are trading at negative yields there, which corresponds to around a quarter of the entire market. And the situation will likely worsen, as the ECB is expected to continue to buy up assets under its new boss Christine Lagarde.

The negative yields partially express the extent to which the economy is crying out for investment. So much so that investment projects could be financed in the capital market at negative interest rates and would therefore hardly have to earn any returns to be economically viable. But despite this low barrier to profitability, corporate investment activity remains disappointingly subdued – which is by no means due solely to the frequently cited political uncertainties. The cheap money policy fosters a kind of zombie economy, in which unprofitable companies are kept alive artificially, meaning that resources are allocated inappropriately and the productivity of the entire economy is stymied. Additionally, Europe's population is hardly growing any more.

Instead of making real investments, the companies are using the free money to reschedule their debts or make financial investments. Or in other words, they are distributing the money to shareholders – in the form of acquisitions, stock buybacks or dividends. That may please shareholders, but at the expense of creditors. And it is pushing asset prices up again.

Negative interest rates are unreasonable. And it is unreasonable to invest in assets that guarantee nominal losses. Yet, large investors, such as insurance companies and pension funds, often have no choice. They are bound by regulations to buy such instruments – how unreasonable! The most reasonable move for anyone who has a choice would be to pull out of such investments. ◆

Equities US: Seasonal trend reversal in October

Manfred Hofer

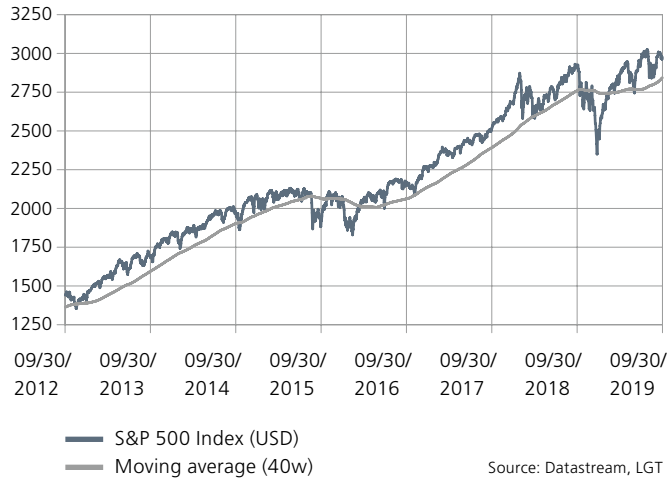
The stock market is significantly up since the start of the year. It is tempting to see this as a positive early economic indicator. Past experience shows that equity markets tend to lead the way for the economy. The current situation is not so clear, however, as prices collapsed shortly before year-end, 2019 gains are actually measured against a very low base.

Increasing concerns about an end to the US economic upswing recently came to the fore. Reasons for this include the trade dispute with China initiated by Donald Trump. Overall, the US economy appears very resilient, however. Investors seem to confirm this too. They consider recessionary fears to be exaggerated, based on the latest stock market rotation in favor of second-liners. Trump will not want to jeopardize this situation, which is to his benefit – after all, he wants to be re-elected in November 2020. And the Federal Reserve is to a certain extent hostage to these circumstances. It is being practically forced to take appropriate measures to clean up the mess caused by the economically calamitous actions of the current US President.

"The stock markets are still in a transitional phase – they are neither bull nor bear markets. We can expect to see stronger price fluctuations during this phase, which may accompany us for large parts of the year. In this kind of stalemate situation, it is advisable to give greater weighting to soft factors in steering the tactical asset allocation." This was the key insight from our behavioral finance analysis in the last Investorama, and it remains applicable.

In this transitional phase, the markets recently bottomed out, which is a positive sign. This was confirmed by our indicator set (which corresponds to the previously mentioned soft factors). It was at an advanced sell-off level. The sentiment and overall positioning of investors have considerably deteriorated, while stock valuations have become more attractive. Our news/media analysis also shows pleasing signals, as do the risk and trading indicators. Overall, a positive conclusion can be drawn, as we are still a long way from seeing euphoria in the markets. The stock markets are traditionally turbulent at this time of year up to around mid-October. Potential price corrections could be used to build up an anticyclical position, as the stock markets will then benefit from seasonal support as the best period of the year begins. ◆

Equities US



Source: Datastream, LGT

Overview of equity markets as per September 30, 2019

Index	Points	Year-to-date	Since 09/30/2018	Since 09/30/2014*	Trend	Comment
S&P 500 (USD)	2977	18.7%	2.2%	8.6%	↗	Upward trend
Euro STOXX 50 (EUR)	3569	18.9%	5.0%	2.0%	→	Volatile sideways trend
NIKKEI 225 (JPY)	21756	8.7%	-9.8%	6.1%	→	Volatile sideways trend
FTSE 100 (GBP)	7408	10.1%	-1.4%	2.3%	→	Volatile sideways trend
DAX 30 (EUR)	12428	17.7%	1.5%	5.6%	→	Volatile sideways trend
SMI (CHF)	10078	19.6%	10.9%	2.7%	↗	Upward trend
MSCI AC ASIA/Pac ex Jap. (USD)	502	5.2%	-4.5%	1.2%	→	Volatile sideways trend
MSCI EM (USD)	1001	3.6%	-4.5%	-0.1%	→	Volatile sideways trend

* annualized

Equities Europe: Cyclicals send a sign of life

Ralf Piersig

If you look at the absolute performance posted by European stocks since our last article in early July, it seems as if not very much has happened. Overall, they are still trading at around the same level. The impression is deceptive, as everyone knows. European leading indices initially corrected by approximately 7.0% before mid-August on the back of worse-than-expected global economic figures, additional tariffs in the US-China trade dispute and absolute chaos within the UK government prior to its departure from the EU. The subsequent recovery was much more gratifying. In an abrupt sector rotation, cyclical industries and value stocks in particular picked up, following a pattern that was last seen three years ago. We recently drew attention to the positive surprise potential of cyclicals.

We continue to recommend a neutral positioning in terms of sector and style. Although we believe that the earnings estimates for 2020 are still too high based on the dimming economic outlook, we also see extreme investor exposure to classically defensive quality companies. Significant valuation discounts in cyclical sectors thus continue to offer an attractive risk-return profile. We recommend a selective approach. ◆

Equities Europe

Source: Datastream, LGT

Equities Japan: When is it time to catch up?

Mikio Kumada

Japan was at best ranked in the international midfield this year. With a plus of around 8.7% since the start of the year, the Nikkei 225 is ahead of the emerging markets, but clearly lags the EuroStoxx (circa +19.5%) and S&P 500 (circa +19.8%).

This can hardly be explained by companies' performances, as the rolling annual profit of Nikkei companies has risen by 3.8% since the start of the year, compared with zero growth for the S&P 500 and a drop of around 4.5% for the EuroStoxx. Rather, the Sino-US trade dispute has sparked particularly pessimistic expectations of Japan, compared with other countries. It is doubtful whether this is justified. After all, Japan is one of the few industrialized countries that have signed up to the new free trade agreement with the EU and ten neighboring Pacific countries this year. Additionally, Tokyo agreed a trade treaty with the United States at the end of August, while other countries are still involved in disputes. Meanwhile, the Japanese economy grew in line with expectations in the past quarter, gaining 1.3% year-on-year. It must now be seen whether the Nikkei can catch up on its international competitors based on the pleasing macro data. ◆

Equities Japan

Source: Datastream, LGT

Emerging markets equities: More stable than shaky

Ikram Boulfernane

Capital is like water – it seeks the path of least resistance which is currently at a relatively high level in the emerging markets (EM). The Sino-US trade dispute, geopolitical turbulences and China's economic slowdown are taking a toll on the developing countries, clouding growth prospects and increasing uncertainty. Investments are being held back, and EM stocks have turned into the problem child of the international investor community.

However, it would not be appropriate to definitively bury the concept of potential return opportunities in EM stocks in the cemetery of failed investment utopias. Western investors often throw out the baby with the bathwater in times of increased risk aversion, seeing quality stocks from the emerging markets – the current stars in the universe of this asset class – in the same way as all other emerging market investments.

A glance at the MSCI EM Index shows that the five largest companies together have a stronger weighting than the 22 smallest countries. Therefore, relying solely on geographical diversification within the emerging markets to generate reliable returns and optimize the portfolio cannot be a dominant investment strategy. A carefully considered selective process that does not neglect EM quality stocks is required.

From a historical point of view, quality stocks are more resilient than other risk assets in the late phase of business cycles, which is where we are today. Accordingly, emerging market companies with strong balance sheets and a robust business model will likely fare better than their lower-quality counterparts. At the moment, investing in EM stocks and the associated idiosyncratic risks requires strong nerves and lots of staying power. Anyone considering such investments should keep their eyes on quality. Because in this uncertain and shaky market environment, EM quality stocks can offer a certain amount of stability. ◆

Private equity: Private equity and ESG – a win-win when done well

Trushna Anand Jhaveri

To be truly successful, we believe a business should orient itself not only towards operational excellence, but should also systematically integrate environmental, social and governance (ESG) considerations across its activities. This improves its ability to succeed in a sustainable way while also helping the world address pressing problems.

With intensifying interest in ESG, investors have been responding, especially private equity (PE) investors. The nature of PE investing, with its multi-year time horizon and usually stable ownership base, lends itself particularly well to the long-term perspective required to implement and sustain ESG objectives.

Europe has long led the way on ESG development, as asset owners there made it a priority early on. The belief in many European countries is that companies have a responsibility to a wide array of stakeholders in addition to shareholders, such as the communities in which they operate or those affected by the social and environmental impacts of their business activities. Many large European pension funds see their responsibility to their beneficiaries extending beyond providing financial security – they must contribute to a "good retirement" in a world with clean air, clean water and stable communities.

Communities and the environment are not the sole beneficiaries of businesses' ESG focus. PE firms with strong ESG capabilities often have an edge in enhancing the value of their portfolio companies across many dimensions, including enhancing financial returns and reducing risks. For example, ESG efforts have lowered the energy bill and staff turnover for selected PE companies, while others that had problems with legal, regulatory and environmental factors addressed ESG issues and were able to transform into innovative and successful businesses.

Improvements in the way businesses are designed and run are not easy to implement and they do not happen overnight. However, the change in governance facilitated when PE firms invest is an ideal moment to enable positive ESG change. The systematic inclusion of social and environmental factors into the investment and portfolio management process may not be what everyone typically expects from PE, but if done well, it can greatly support businesses. ◆

Real estate:
Real estate investments in climate change

Boris Pavlu

Climate change entails a whole raft of new risks for properties and their owners. Such risks are often divided into physical risks – that is damage, which could be caused by more frequent and more extreme natural events – and transformation risks. The latter constitute the potential costs and additional investments necessary to stave off large-scale global warming. Real estate cannot dodge the debate about the climate, partly because it is a key emitter of greenhouse gases (in operations due to its consumption of energy and in construction in the production of cement, etc.) and partly because it is vulnerable to damage resulting from natural catastrophes.

Some measures have already been taken in the industry to tackle transformation risks. Take, for example, the ecological building standards and certification favored by investors, such as Minergie Standard in Switzerland and LEED in the United States. Yet by no means are all buildings ready for an impending heightening of environmental regulations to meet ambitious emission targets.

And most real estate owners rely almost exclusively on pure property insurance to deal with physical risks. However, the premiums they currently pay are based on historical experiential values. If natural catastrophes become more frequent, premiums would have to be increased substantially. In extreme cases, insurers might completely stop covering such risks. A study shows that around 35% of real estate held by REITs (real estate investment trusts, mainly exchange-listed, tax-privileged investment instruments) is exposed to serious physical climate risks, such as coastal flooding and hurricanes. Real estate investors should therefore consider now how resilient their properties are and take account of climate risk from the start when they make new investments. ◆

Insurance-linked securities:
Subdued cat bond returns despite a benign hurricane season – so far

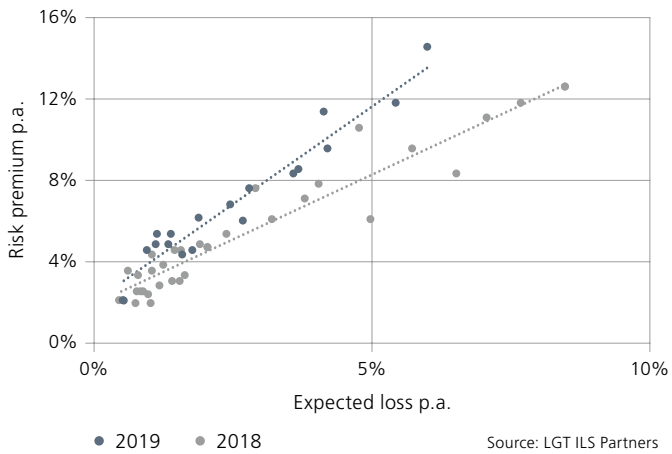
Siti Dawson

The 2017 and 2018 catastrophe events are still leaving their marks in 2019: either in the form of adverse loss development on Hurricane Irma or Typhoon Jebi, the element of trapped collateral or through the reduced investor interest triggered by these events. On the other hand, thanks to these two consecutive loss-heavy years, the current market conditions are in fact very attractive: for the first time in years, the insurance-linked securities market has seen a significant premium increase.

However, whilst these higher premiums are warmly welcomed by investors as they ultimately result in higher returns, they have led to a price correction for many outstanding cat bonds to reflect the higher premium levels in the overall market, especially during the first half of 2019. The good news is that this repricing process has come to an end and "vintage" cat bonds are now priced in line with 2019 spreads, and will see a recovery as they come closer to maturity.

Market participants agreed that the two recent windstorms – Hurricane Dorian in the Bahamas and the US and Typhoon Faxai in Japan – would not generate substantial losses, thus not becoming relevant for the upcoming renewal negotiations. However, the US hurricane season is still ongoing and the threat of another landfalling hurricane remains. ◆

Risk/return characteristics of cat bond issuance



Source: LGT ILS Partners

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 08/31/2019		Performance YTD	Performance -3 years p.a.	Performance -5 years p.a.
Multi asset class							
LGT Alpha Indexing Fund (CHF) B	LI0101102999	30.04.2009	CHF	1590.90	8.85%	1.98%	2.70%
LGT GIM Balanced (CHF) B	LI0108469029	31.01.2010	CHF	12016.90	8.11%	1.45%	0.90%
LGT GIM Balanced (EUR) B	LI0108469169	31.01.2010	EUR	13453.63	9.19%	1.80%	1.81%
LGT GIM Balanced (USD) B	LI0108468880	31.01.2010	USD	13577.36	9.78%	3.52%	2.13%
LGT GIM Growth (CHF) B	LI0108469268	31.01.2010	CHF	12945.30	9.25%	2.40%	1.38%
LGT GIM Growth (EUR) B	LI0108469318	31.01.2010	EUR	14733.92	10.43%	2.80%	2.42%
LGT GIM Growth (USD) B	LI0108469250	31.01.2010	USD	14611.26	10.83%	4.39%	2.45%
LGT Sustainable Strategy 3 Years (CHF) B	LI0350494782	10.11.1999	CHF	1030.12	8.01%	1.36%	1.16%
LGT Sustainable Strategy 3 Years (EUR) B	LI0008232162	10.11.1999	EUR	1764.86	8.99%	1.92%	2.14%
LGT Sustainable Strategy 3 Years (USD) B	LI0350494840	30.04.2010	USD	1087.02	9.62%	3.66%	2.62%
LGT Sustainable Strategy 4 Years (CHF) B	LI0350494907	10.11.1999	CHF	1026.81	8.57%	1.93%	1.58%
LGT Sustainable Strategy 4 Years (EUR) B	LI0008232220	10.11.1999	EUR	1737.56	9.72%	2.56%	2.59%
LGT Sustainable Strategy 4 Years (USD) B	LI0350494998	30.04.2010	USD	1080.21	10.13%	4.14%	2.87%
LGT Sustainable Strategy 5 Years (CHF) B	LI0350495169	01.10.2004	CHF	1027.83	9.36%	2.41%	1.80%
LGT Sustainable Strategy 5 Years (EUR) B	LI0019352926	01.10.2004	EUR	1777.14	10.53%	2.95%	2.80%
LGT Sustainable Strategy 5 Years (USD) B	LI0350495227	30.04.2010	USD	1079.22	10.81%	4.44%	2.95%
Money market							
LGT Money Market Fund (CHF) B	LI0015327682	19.01.1998	CHF	1086.26	-0.49%	-0.81%	-0.66%
LGT Money Market Fund (EUR) B	LI0015327740	19.01.1998	EUR	697.40	-0.16%	-0.36%	-0.23%
LGT Money Market Fund (USD) B	LI0015327757	19.01.1998	USD	1528.17	1.54%	1.40%	0.99%
Bonds							
LGT Bond Fund EMMA LC (CHF) B	LI0133634688	30.09.2011	CHF	1124.84	3.38%	0.70%	-1.19%
LGT Bond Fund EMMA LC (EUR) B	LI0133634662	30.09.2011	EUR	1258.14	6.87%	0.84%	0.84%
LGT Bond Fund EMMA LC (USD) B	LI0133634670	30.09.2011	USD	1031.89	2.96%	0.48%	-2.70%
LGT Bond Fund EMMA Quality (CHF) B	LI0183910038	30.06.2012	CHF	972.02	2.90%	0.16%	-1.05%
LGT Bond Fund EMMA Quality (EUR) B	LI0183910012	09.07.2012	EUR	1003.92	3.32%	0.69%	-0.51%
LGT Bond Fund EMMA Quality (USD) B	LI0183909998	15.12.2011	USD	1102.43	5.40%	3.17%	1.26%
LGT Bond Fund Global Inflation Linked (CHF) B	LI0148578045	17.04.2012	CHF	938.39	2.64%	-1.30%	-1.22%
LGT Bond Fund Global Inflation Linked (EUR) B	LI0017755534	10.05.2004	EUR	1167.92	3.05%	-0.73%	-0.58%
LGT Bond Fund Global Inflation Linked (USD) B	LI0148578037	30.09.2010	USD	1062.49	5.02%	1.58%	1.09%
LGT Select Bond Emerging Markets (USD) B	LI0026536628	31.12.2000	USD	3646.71	7.99%	2.79%	0.70%
LGT Select Bond High Yield (USD) B	LI0026564604	31.08.2000	USD	2649.33	11.10%	5.23%	4.03%
LGT Select Convertibles (CHF) B	LI0132437745	31.08.2011	CHF	1292.46	6.40%	0.70%	-0.07%
LGT Select Convertibles (EUR) B	LI0132437737	31.08.2011	EUR	1334.47	6.63%	0.94%	0.30%
LGT Select Convertibles (USD) B	LI0102278962	31.07.2006	USD	1672.77	8.89%	3.65%	2.20%
LGT Sustainable Fixed Income Global Opportunities (EUR) B	LI0008232030	10.11.1999	EUR	1669.94	2.92%	-0.84%	0.22%
LGT Sustainable Bond Fund Global (EUR) B	LI0106892909	30.11.2009	EUR	1644.19	12.08%	1.93%	4.37%
LGT Sustainable Bond Fund Global Hedged (CHF) B	LI0148577955	22.10.1996	CHF	1073.63	5.30%	-0.77%	0.42%
LGT Sustainable Bond Fund Global Hedged (EUR) B	LI0148577948	22.10.1996	EUR	1115.21	5.62%	-0.33%	1.00%
LGT Sustainable Bond Fund Global Hedged (USD) B	LI0015327872	22.10.1996	USD	2986.25	7.84%	2.23%	2.87%
LGT Sustainable Quality Bond Fund Hedged (CHF) B	LI0183909808	30.06.2012	CHF	999.08	3.55%	-0.92%	-0.82%
LGT Sustainable Quality Bond Fund Hedged (EUR) B	LI0183909782	30.06.2012	EUR	1038.20	3.94%	-0.35%	-0.20%
LGT Sustainable Quality Bond Fund Hedged (USD) B	LI0183909790	30.06.2012	USD	1125.76	5.95%	1.94%	1.38%

LGT Funds	ISIN	Launch date	Price as per 08/31/2019		Performance YTD	Performance -3 years p.a.	Performance -5 years p.a.
Equities							
LGT Select Equity Asia/Pacific ex Japan (USD) B	LI0026536305	30.10.1999	USD	2637.49	7.30%	2.51%	0.76%
LGT Select Equity Emerging Markets (USD) B	LI0026536354	31.12.2000	USD	3908.54	3.73%	4.34%	-0.24%
LGT Select Equity Europe (EUR) B	LI0026536404	19.10.2006	EUR	2186.71	14.39%	5.64%	4.71%
LGT Select Equity Japan (JPY) B	LI0026536511	31.10.1999	JPY	1562.00	1.17%	6.89%	5.86%
LGT Select Equity Japan (USD) B	LI0230813219	22.01.2014	USD	1352.14	2.88%	8.95%	6.63%
LGT Select Equity North America (USD) B	LI0026536560	31.10.1999	USD	2921.75	20.62%	14.75%	9.54%
LGT Select REITS (USD) B	LI0148225985	01.03.2004	USD	1636.46	18.72%	4.81%	3.70%
LGT Sustainable Equity Fund Europe (EUR) B	LI0015327906	30.09.2000	EUR	1207.46	16.16%	3.74%	3.53%
LGT Sustainable Equity Fund Global (CHF) B	LI0148540441	17.12.2012	CHF	2180.18	16.67%	8.07%	10.08%
LGT Sustainable Equity Fund Global (EUR) B	LI0106892966	31.12.2009	EUR	2856.08	20.62%	8.22%	12.34%
LGT Sustainable Equity Fund Global (USD) B	LI0148540466	17.12.2012	USD	2022.69	16.20%	7.83%	8.39%
LGT Sustainable Quality Equity Fund Hedged (CHF) B	LI0183907844	30.06.2012	CHF	1804.72	24.88%	8.72%	7.78%
LGT Sustainable Quality Equity Fund Hedged (EUR) B	LI0183907836	09.07.2012	EUR	1785.16	25.18%	9.20%	8.42%
LGT Sustainable Quality Equity Fund Hedged (USD) B	LI0183907802	30.06.2012	USD	2149.30	27.75%	11.94%	10.14%
Insurance-linked investments							
LGT (Lux) I – Cat Bond Fund (CHF) B	LU0816333040	30.11.2010	CHF	104.01	-3.68%	-2.13%	-0.83%
LGT (Lux) I – Cat Bond Fund (EUR) B	LU0816332828	30.11.2010	EUR	107.98	-3.43%	-1.75%	-0.44%
LGT (Lux) I – Cat Bond Fund (USD) B	LU0816332745	30.11.2010	USD	118.88	-1.37%	0.65%	1.32%
Alternative investments							
LGT Crown Listed Private Equity (EUR) B	IE00B7T8CN06	18.02.2013	EUR	216.18	21.46%	13.66%	11.21%
LGT Crown Listed Private Equity (USD) D	IE00BJVWTR76	28.07.2014	USD	143.50	17.01%	13.24%	7.72%
LGT Crown Managed Futures UCITS SF Class B (USD)	IE00B66PKW27	09.07.2010	USD	1051.28	7.12%	-1.90%	-0.03%
LGT Crown Managed Futures UCITS SF Class C (EUR)	IE00B66MZ845	25.06.2010	EUR	961.87	5.11%	-4.12%	-1.40%
LGT Crown Managed Futures UCITS SF Class H (CHF)	IE00B3PT4X32	30.09.2010	CHF	855.68	4.79%	-4.58%	-2.08%
LGT Alpha Generix UCITS Sub-Fund Class O (USD)	IE00B7VFVC16	01.10.2012	USD	1042.38	9.95%	0.48%	0.44%
LGT Alpha Generix UCITS Sub-Fund Class P (EUR)	IE00B82ZPK32	01.10.2012	EUR	956.48	7.77%	-1.96%	-1.17%
LGT Alpha Generix UCITS Sub-Fund Class Q (CHF)	IE00B46N8H32	01.10.2012	CHF	918.25	7.43%	-2.48%	-1.87%
LGT Dynamic Protection UCITS Sub-Fund Class F (USD)	IE00BD365334	20.04.2017	USD	1094.65	8.24%	n.a.	n.a.
LGT Dynamic Protection UCITS Sub-Fund Class G (EUR)	IE00BD365441	30.04.2017	EUR	1037.06	6.01%	n.a.	n.a.
LGT Dynamic Protection UCITS Sub-Fund Class H (CHF)	IE00BD365557	30.04.2017	CHF	1025.24	5.59%	n.a.	n.a.

Detail of the inlaid parquet floor in the Great Kurbari Room of the second floor piano nobile of the Liechtenstein City Palace, executed by Michael Thonet

Quality prevails

Slowing global growth, trade war, low interest rate environment, hard Brexit, Trump's impulsive tweets – currently there are plenty of reasons for investors to furrow their brows. In such an uncertain environment, stability is particularly sought after – and quality stocks are more likely to offer this.

Given the gratifying performance of quality stocks, it would not be surprising if investors who have been putting their money into quality since the beginning of the year are now dancing with joy Zumba. But what exactly are quality stocks? There is no single definition for this sub-asset class. Of all the definitions available, however, one idea seems to have become established: These defensive stocks stem from companies with robust business models and balance sheets.

The business model of a company defines which assortment the company will offer, in which markets and with which strategies. It provides an overview of the earnings potential, with the corresponding return opportunities and risks. A robust business model features high barriers to entry for competitors, including, for example, economies of scale and scope, network effects, customer loyalty, strong brands, patents and licenses. It is difficult for the competition to copy such factors, and they contribute to building and maintaining competitive advantages. Therefore, lucrative and high-growth business models can be protected from the competition.

Finally, a robust business model must also lead to robust financial results. Strong barriers to entry enable a company to have high gross margins and operating margins. Ideally, a company will achieve stable and reliable profits that grow over time – in the same way that distributions to shareholders grow over time. In addition, the focus is on earnings, cash flows and the balance sheet structure. The emphasis when looking at a balance sheet is on a low debt level.

In addition to the variables of the business model and the balance sheet, the management team is also a key component of the quality equation. Legendary investor Warren Buffett said: "I try to buy stock in businesses that are so wonderful that an idiot can run them. Because sooner or later, one will." This statement underscores the importance of having talented people steering the fortunes of a company. Because quality requires qualification: High-quality companies are managed by a high-quality management team. Low fluctuation rates and a logical and clear management structure can be interpreted as positive signs.

Quality is also related to sustainability, which stands for durability and longevity in its original meaning. After all, if a company takes into account the interest of shareholders, society and the environment, it will incur fewer reputational risks and experience more stable corporate growth over the long term.

Quality stocks are not, of course, big winners in every environment, such as when share prices are moving sharply higher. But in the current market environment that is characterized by uncertainty, the key is quality, and the next Zumba dance course is just around the corner. ◆

LGT Sustainable Quality Equity Fund Hedged (USD) B

Fund description

In the current market environment, we have a clear preference for high quality companies with robust business models. As we also favor the developed world over emerging markets and large cap over small cap stocks, the LGT Sustainable Quality Equity Fund Hedged is particularly suitable for portfolio implementation. The fund applies sustainability criteria (ESG: environmental, social, governance) and primarily invests in larger high quality companies in developed countries. High quality in this case refers to companies with stable earnings growth and more defensive positioning than the overall market, along with strong fundamental and ESG characteristics. Portfolio candidates are often characterized by high margins, strong business models and pricing power. Typically, the fund consists of 40 to 60 stocks and the foreign currency risk is fully hedged.

Why invest in the LGT Sustainable Quality Equity Fund Hedged?

- Efficient opportunity to participate in sustainable and high quality investment solutions over a full cycle.
- The fund applies sustainability criteria and primarily invests in larger high quality companies in developed countries.

Opportunities

- Investors benefit from a systematic investment process that is based on fundamental analysis and ESG criteria.
- Investors get access to a professionally managed portfolio that sets the focus on multinationals with robust business models and strong balance sheets.

Risks

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

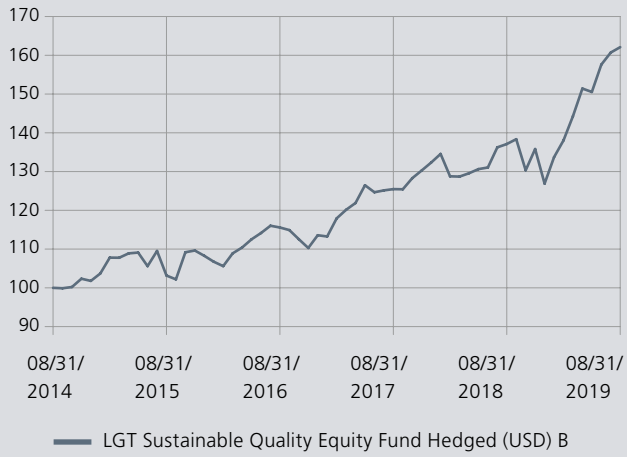
Liquidity risks: Adverse effects created by the situation where the Fund must sell assets where insufficient market demand exists and lower price levels must be accepted to execute a transaction.

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

Fund data

Inception	June 30, 2012
Fund domicile	Principality of Liechtenstein
ISIN	LI0183907802
Distribution	None, retains profits
Reference currency	USD
Management fee p.a.	1.50%
Operations fee p.a.	0.30%
Total fund assets	USD 420.11 m (as of 08/31/2019)
Registration	AT, CH, DE, LI

Performance (net of LGT fees)



Source: LGT

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.

"Quality attributes are not taken into account enough by investors"

When selecting stocks, the attribute of quality should not be neglected. Marc Gonzales, Head Equities at LGT Capital Partners, explains in the interview why this is true and provides an overview of the investment approach for quality stocks.

Investorama: Why is there a case for quality equity?
Marc Gonzales: The case for quality as the essential component in investing may seem at first glance lackluster. If you listen to the buzz in the stock market, you might deduce that the only things you need to know about a company is whether and how fast it can grow and at which valuation. However, experience shows that quality attributes are not taken into account enough by investors. Empirical observations have shown that the fundamental quality of companies is underestimated or, conversely, the potential of risky stocks with high market sensitivity is overestimated. To put it another way, investors overpay for the chance to make large gains. We agree that growth and valuation both matter, but we also think that quality is essential, especially strong, predictable cash generation and the return a company makes on the capital it employs to growth.

Can you give an example?
A simple example shows this: say a company generates free cash flow of USD 100 mn annually. Its return on invested capital is 25% and it has the possibility to reinvest the whole cash at the same rate. Sustained for ten years, this virtuous cycle of cash generation and reinvestments would drive a greater than nine-fold increase in free cash flow. Albert Einstein famously referred to compound interest as the eighth wonder of the world. Compounding of cash flow can be similar astonishing.

What characterizes your quality equity investment approach?
We pursue a long-term investment approach with a low turnover rate. The fund has a focus on a concentrated number of high quality compounding and less cyclical companies. With our quality investment concept, we are looking for companies that have a robust business model with high entry barriers. In the long term, this leads to above-average pricing power and consequently to above-average margins. In addition to having a strong balance sheet, it is also essential for us that the companies make efficient and profitable use of its capital. We pay particular attention to a strong return on invested capital. Companies that use their capital efficiently and profitably in the long term have sufficient capital at their disposal to invest in their own business model and to promote innovations in order to maintain high barriers to entry. These companies have often the capability to pay attractive dividends and increase them over the long term or generate share buybacks. Last but not least, we regard quality at a reasonable price as important. When valuing quality companies, it is vital that the company generates sufficient liquidity (free cash flow). In order to take into account the defensive nature of the fund, we fully hedge the investments against the reference currency of the respective fund share class (CHF, EUR and USD).

In your quality concept you have a focus on "robust business models with high barriers to entry", please explain?
We like companies with business advantages that are hard to replicate and which are resilient to change. The kind of intangible assets we seek are brand names, high market shares, patents, licenses, distribution networks, installed bases and client relationships. We especially like companies that produce goods or services which are consumed at regular intervals and which sell directly to consumers.

A company that sells many small items every day is better able to earn more consistent returns over time than a company whose business is cyclical or capital intensive. As long-term investors, we are mindful that sometimes, credit dries up and that can be bad for companies that require continuous access to credit. Hence, we take a step further and search companies which are able to earn a high return on their capital on an unlevered basis.

Can quality stocks be found across sectors?
We do not find high quality stocks in each sector. We try to avoid highly cyclical, capital intensive businesses with limited pricing power. As stated before, we do not invest in companies that require borrowed money to function. For example, financial companies typically earn a low unlevered return on their capital. They then have to lever up that capital several times in order to earn what they deem to be an acceptable return on their shareholders' equity. Hence, we not only avoid financial companies, we do not like energy, materials, REITs, utilities or telecommunication services. We find our high quality compounding companies mostly in the following sectors: personal care, household products, health care equipment and services, beverages or IT services.

How does ESG fit into the quality equity concept?
We believe that careful company analysis should add value and go beyond classical fundamental analysis. By adding our sustainability analysis, we can gain valuable additional information that influences the company's long-term success. Next to corporate governance and environmental aspects, we assign great importance to social skills like for example employees' retention as a key factor for every company. We think the combination of our selection of quality stocks with a rigorous sustainability analysis creates added value over the long run.

Are quality stocks still attractive?
Admittedly, various valuation parameters suggest that quality equities trade at a premium compared with higher-risk stocks. However, that premium is by no means extreme. Moreover, as mentioned before, the valuation premiums of quality stocks often reflect only some degree of expected operational outperformance, but the actual performance tends to exceed expectations over time. The free cash flow yield of our fund remains at an attractive level above 4%. We are convinced that our quality portfolio deserves a higher valuation, given the strong quality attributes. Taking the current low yield environment and the stage of the bull market into consideration, we are confident that our quality fund remains well positioned. A quality equity portfolio may not always be beneficial in times of turbulent market rallies, but it should prove to be the more appropriate investment strategy over an entire economic cycle. In the long term, quality companies outperform the overall equity market with a lower level of risk. ◆

Marc Gonzales is Head Equities as well as portfolio manager for equity portfolios at LGT Capital Partners Ltd. Since 2013 he is responsible for the LGT Sustainable Quality Equity Fund and the LGT Sustainable Equity Market Neutral Fund. Mr Gonzales holds a Bachelor's degree in Business Administration with main focus on Banking & Finance from the University of Applied Sciences in Chur. He is a Certified International Investment Analyst (CIIA) and holds the Swiss Federal Diploma for Financial Analysts and Portfolio Managers.

Unique industrial landscape
In addition to the seemingly small factory buildings, there are tunnels that reach a depth of up to 67 meters as well as underground chambers.

From copper and gold to wood and paper

For centuries, the world's oldest corporation operated in its traditional business field. Then it had to undergo a far-reaching and radical change to survive.

Dynamite, the three-point safety belt, ultrasound and bluetooth, pioneer in climate-change protection and digitalization – those are just a few of the examples of the Swedish spirit of invention and innovation that has changed our world. The former mine operator Stora Enso is the oldest public limited company in the far north, a fact that is rarely noted on any list of Swedish innovations and special features.

The history of the copper mine near the small town of Falun began in the Viking era. Copper was first mined here around the year 900, probably not yielding much. It is first mentioned in official documents in 1288, when the Swedish bishop Peter von Västeras bought one-eighth of the Tiskasjöberg mine (today Stora Kopparberget).
In the Middle Ages, the Falun mine supplied two-thirds of Europe's copper needs. Occasionally other metals were also mined there, such as zinc, lead, silver and gold. These metals were a significant source of income for the owners as well as for the king.

During the golden age of Sweden's size and power in the 17th century, the mine was the country's largest industrial operation, employing more than 1000 people. When a decline began in the 18th century, the operating company shifted to iron production and logging. The discovery of gold in 1881 started a new boom. Most of the mining in the 20th century was for pyrite and zinc ore, until the mine was closed in 1992.

The operators now rely entirely on their long-established second sector: the renewable raw material wood and the paper production. A few years after the end of ore mining, Stora merged with the Finnish company Enso, which was founded in 1872 as a sawmill. Internationalization had already begun prior to that. Today, the Finnish-Swedish group has employees in more than 40 countries on five continents. On the basis of production capacity, Stora Enso, with its headquarters in the Finnish capital of Helsinki, is the world's second largest forestry company and one of the largest paper and packaging products manufacturers. ◆

World heritage

The shiny red metal from the copper mines of Falun was used to decorate the roofs of churches and palaces throughout the world. Stora Kopparberget, once the largest copper mine in the world and home to some 4000 shafts and workspaces, is today the heart of a unique historic industrial landscape. In 2001 it was included on the list of UNESCO World Heritage sites. In the mine, which is located among idyllic lakes and hilly woodlands, you can descend into the tunnels and underground chambers, which are up to 67 meters deep. A winding path around the pit leads past log cabins that are dangerously close to the edge and which were formerly used to hoist the ore to the surface with a winch. The mine's more than one thousand year old history is displayed in the local mining museum, whose coin cabinet includes the largest and heaviest coins ever minted, weighing in at 20 kilograms.

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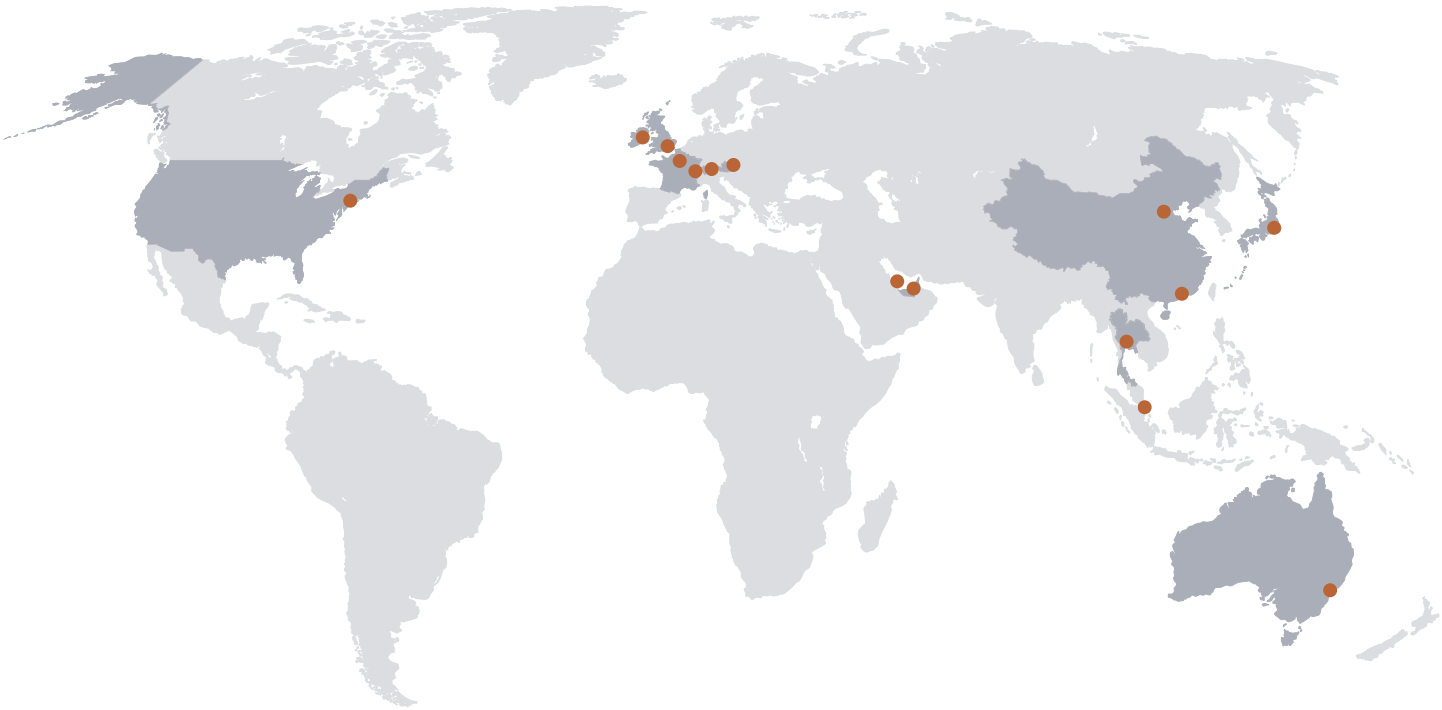
Two companies – the water and electricity utility company American States Water and the US industrial company Dover Corporation – lead the list of companies with the longest series of dividend increases. Five other companies have been paying increasing dividends for more than 60 years, including Procter & Gamble (63 years) and 3M (61 years).

(Source: Finanzen.net)

International presence



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America	United States, *New York*
Asia	China, *Beijing* Hong Kong Japan, *Tokyo* Singapore Thailand, *Bangkok*
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Ernst Graner, detail from "Northern entrance of the Liechtenstein City Palace in Vienna," 1923

A look inside the Princely Collections: The Liechtenstein City Palace is considered the first important example of High Baroque architecture in Vienna. Ceilings featuring Baroque plasterwork blend with the sumptuous Neo-rococo interior, the original furnishings and the sophisticated parquet floors by Michael Thonet to create a harmonious overall impression. The Princely Family built the City Palace in the center of Vienna 25 years before the Principality of Liechtenstein, which this year celebrates its 300th anniversary, was founded.

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: Unkown artist, detail from "Liechtenstein City Palace on Bankgasse in Vienna by night," 1825

www.liechtensteincollections.at

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