

November 2020

Capital & Markets



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Dear Readers

The US elections are coming up in less than two weeks. The market even seems to be coming to terms with a «blue wave» – an election outcome in which the Democrats win the White House, the House of Representatives, and now even a majority in the Senate. But regardless of what the polls suggest, the race is not over yet. Another wave is also approaching us right now: the second COVID-19 wave, which has been predicted since the spring. Europe in particular seems to be hit hard once again.

Our currencies article on page 5 and our economy and interest rates article on page 6 show that although the economy is recovering, this isn't a sure thing. While China's growth is already solid again, the United States is engaged in a bitter debate over another fiscal stimulus package.

It's well known that the situation for bond investors has been difficult for quite some time. Our bond markets article looks at whether it makes more sense to include risk in the portfolio via the interest rate risk or possibly via credit quality in order to generate any yield at all.

The (trade) war between the United States and China is spreading to several other arenas. Our focus topic, «Strategic commodities», is devoted to the range of disputes that have meanwhile arisen between the two sides.

Both the outcome of the US elections and the further course of the pandemic have an impact on companies, as discussed in our equity strategy article on page 9. Concrete stock recommendations in this regard can be found on the following pages 10 and 11. Our alternative investments article on page 12 discusses real estate, cat bonds, and the current situation on the crude oil market.

We wish you a stimulating read.

Yours faithfully

A handwritten signature in black ink that reads "M. Wiedemann". The signature is fluid and cursive, with a long horizontal stroke at the end.

Markus Wiedemann
Chief Investment Officer

Market assessment

Currencies – page 5

- Despite its stable development recently, the Euro faces short-term risks. These risks may weigh on the single currency for the near future. Containment of the coronavirus in China is accompanied by economic recovery. This will benefit the Renminbi.

Economy and interest rates – page 6

- The recovery of the world economy has become broader in recent months. There are signs of a strong rise in GDP in the third quarter. A rapid normalisation of economic development and return to full employment is not expected due to the rising number of new infections.

Bond markets – page 7

- A turbulent year for bonds is drawing to a close. The outlook for 2021 does not give much hope that the situation will calm down, however. At the same time, inflation expectations are rising. So where should investors enter into risk in bonds – duration or credit risk?

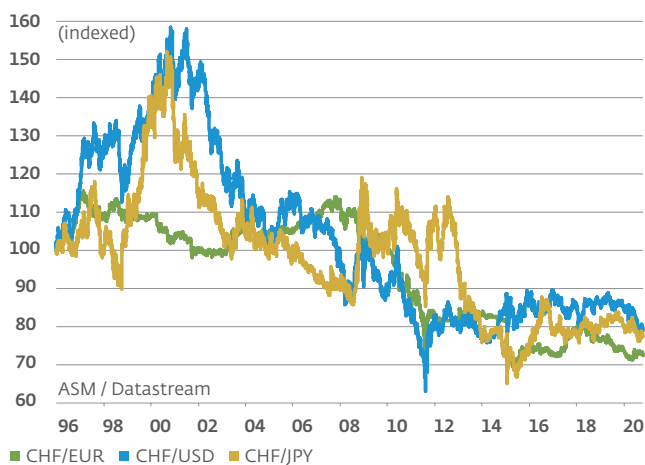
Equity markets – page 9 to 11

- Two weeks left until the US elections – the market moves over the past few days and weeks indicate that investors are even expecting positive effects from a Democratic election victory for the time being. Negative consequences of election «promises» are being ignored for now.

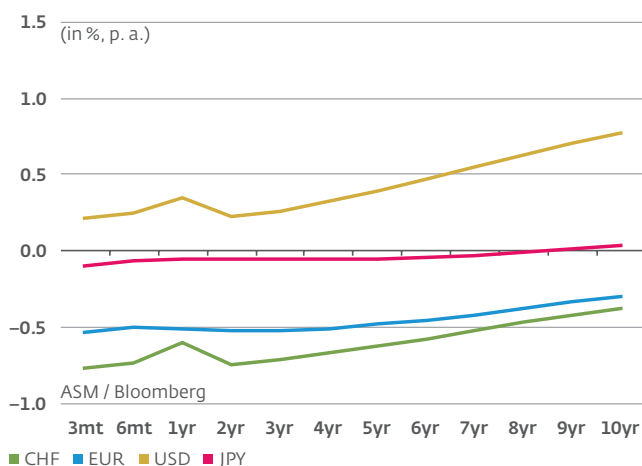
Alternative investments – page 12

- Global real estate equities continue to trend sideways. So far, they have not yet been positively affected by the low interest rate level.
- The hedge fund universe was only briefly impressed by the decline in equity prices in September. Hedge funds are currently trading at an annual high.
- Hurricane Delta frightened cat bond investors only briefly. The gratifying annual performance remains unaffected.
- The demand recovery needed for higher commodity prices remains highly uncertain due to the resurgence of the coronavirus.

CHF exchange rates EUR, USD, JPY



Yield curves CHF, EUR, USD, JPY



Macroeconomic indicators ¹

	Switzerland		Eurozone		UK		USA		Japan	
	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021
Gross domestic product, % yoy	-4.0	3.5	-8.0	5.0	-10.0	5.5	-3.8	3.8	-5.0	2.5
Consumer price index, % yoy	-0.6	0.1	0.4	1.0	1.0	1.8	1.0	1.9	0.1	0.5
Budget balance, % GDP	-5.0	-2.0	-9.6	-5.0	-13.3	-7.0	-17.0	-10.0	-11.0	-7.1
Public debt, % GDP	46	47	121	119	138	136	129	133	244	248
Current account balance, % GDP	8.5	9.0	2.4	2.6	-3.4	-3.7	-2.3	-2.5	3.0	3.2
Unemployment, %	3.4	4.0	8.1	9.3	5.7	6.9	8.5	7.6	3.0	3.2
Interest rates, 3 months Govt. bonds	² -0.8	³ -0.7	² -0.6	³ -0.5	² 0.0	³ 0.0	² 0.1	³ 0.1	² -0.1	³ -0.1
Interest rates, 10 years Govt. bonds	² -0.6	³ -0.4	² -0.6	³ -0.3	² 0.2	³ 0.3	² 0.8	³ 0.8	² 0.0	³ 0.0

¹ Sources: ASM, Bloomberg, OECD etc., ² current, ³ 12-month view, as per October 2020

Currencies



Despite its stable development recently, the Euro faces short-term risks. These risks may weigh on the single currency for the near future. Containment of the coronavirus in China is accompanied by economic recovery. This will benefit the Renminbi.

Euro (EUR)

After a phase of weakness, during which the Euro fell to about USD 1.16, the single currency has stabilised recently. The Euro is facing short-term devaluation risks, however. The second coronavirus wave has hit member countries such as Spain and France with full force, and the economic recovery will lose momentum. Moreover, despite a withdrawal agreement between the UK and the EU, a no-deal Brexit cannot be ruled out. Negotiations on the EU financial framework for 2021–2027 have also stalled, given that the planned linking of EUR 750 billion in payments from the recovery fund to the rule of law is being rejected by the countries affected, Poland and Hungary. Adoption of the EU budget and the recovery fund could be delayed until 2021. The delayed provision of financial assistance to the countries most affected by the coronavirus is likely to slow down the recovery of the European economy. In that scenario, the ECB would be forced to expand securities purchases. The realisation of the aforementioned risks could temporarily push the Euro in the direction of USD 1.15. However, we believe that robust fundamental data supports a strengthening of the Euro in the medium term.

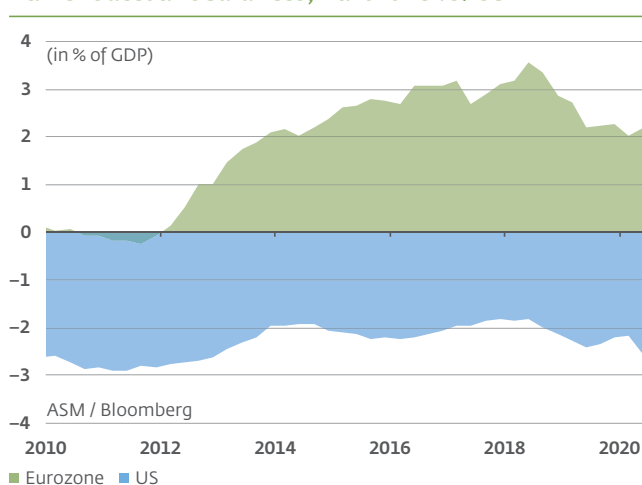
Chinese Renminbi (CNY)

After a first-quarter crash in GDP due to the coronavirus, the Chinese economy began expanding again in the second quarter. The economic recovery continued in the third quarter. The recent robust economic data is reflected in the currency: The Renminbi has appreciated by more than 6 % against the US Dollar since the end of May. Given China's ongoing transformation in the direction of a consumption- and innovation-driven growth model, a stronger Renminbi is advantageous. The gain in purchasing power can be reflected in higher consumption of domestic and foreign goods, but if appreciation is rapid, the requisite adjustment process may slow down economic momentum. The Chinese central bank has therefore reacted to the recent appreciation of the Renminbi by liberalising the forward exchange market. The 20 % fee charged on forward exchange contracts has been abolished, which could temporarily slow down the appreciation of the Renminbi. Movement within a range of CNY 6.55 to CNY 6.95 is expected for now.

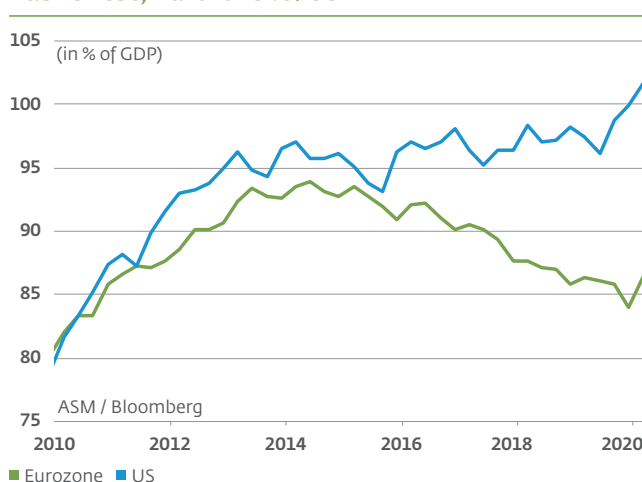
Waldemar Lukas

Investment Class Researcher Fixed Income/Currencies

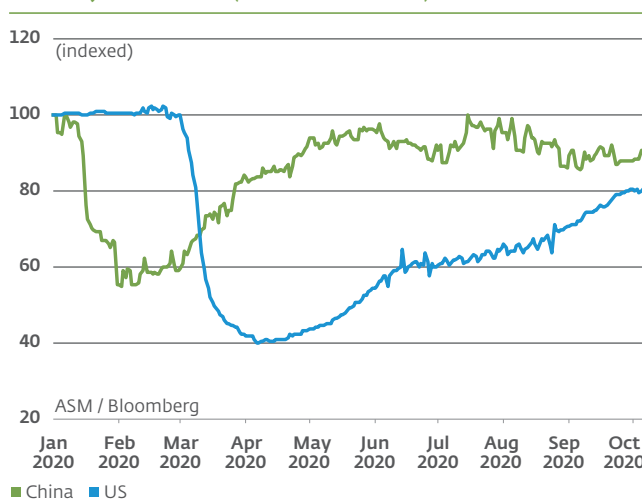
Current account balances, Eurozone vs. US



Public debt, Eurozone vs. US



Activity indicators (alternative data)



Economy and interest rates



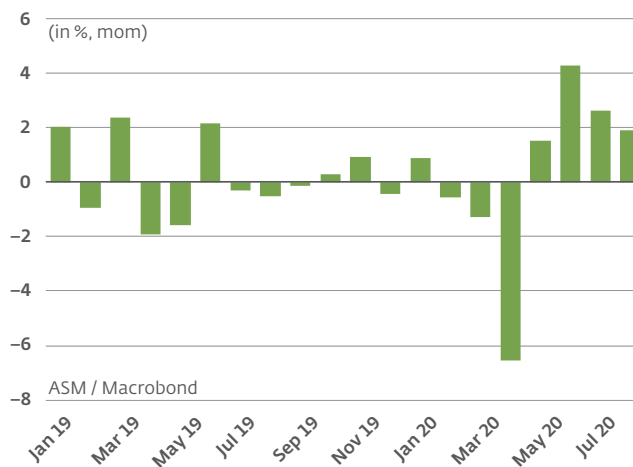
The recovery of the world economy became broader over the summer. Despite the strong rise in GDP in the third quarter, the coronavirus shock has not yet been absorbed. The upswing requires further fiscal support.

The recovery of the world economy has become broader in recent months. Demand for capital goods has accelerated in both the United States and the Eurozone, which should have a positive impact on corporate investment. The RWI/ISL index for container throughput in 89 major ports and the strong increase in Chinese imports in September point to expanding world trade. On the labour market, between one third and one half of the spring employment losses have now been made up, supporting consumer demand. Economic output in industrialised countries is therefore expected to rise strongly in the third quarter.

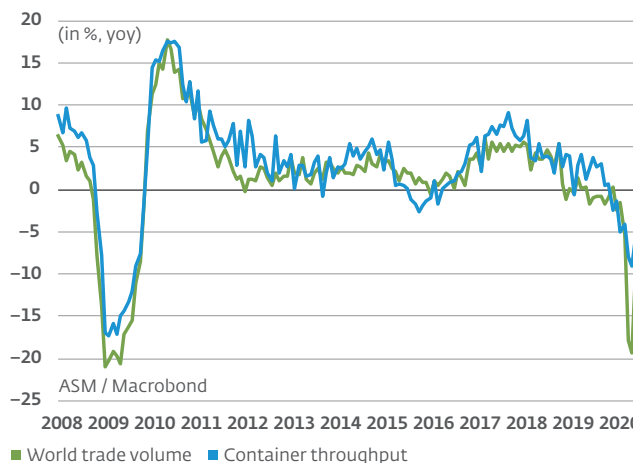
Despite these positive signs, economic activity should not be expected to normalise rapidly. The number of new infections is increasing again. Contact restrictions have been reimposed in some European regions and are likely to slow down the pace of growth in the coming months. In Germany, the expectations of financial experts regarding the further course of the economy have already become gloomier. If further restrictions become necessary, it cannot be ruled out on the basis of the flat growth path that economic output will contract again in some Eurozone countries, at least temporarily. In the United States, the further course of the economy will depend significantly on the development of the labour market. Although the unemployment rate has fallen in recent months – from 14.7% in April to 7.9% in August – it will take quite some time for the US economy to reach full employment. The decline in job vacancies in August indicates that the labour market is losing momentum. Since the financial crisis, it also appears that it has taken longer to find a new job in the US. Experts accordingly fear a rise in long-term unemployment, which would have a negative impact on long-term growth opportunities. They are therefore calling for a fiscal programme including transfer payments to households, higher unemployment benefits, support for small businesses, and payments to states and municipalities in order to reattain the pre-pandemic growth path by mid-2021. Without a correction, fiscal policy will slow down growth next year. The Chair of the Federal Reserve likewise believes that the risk of over-stimulation that would trigger an overheating of the economy is currently low.

Peter Goller
Chief economist

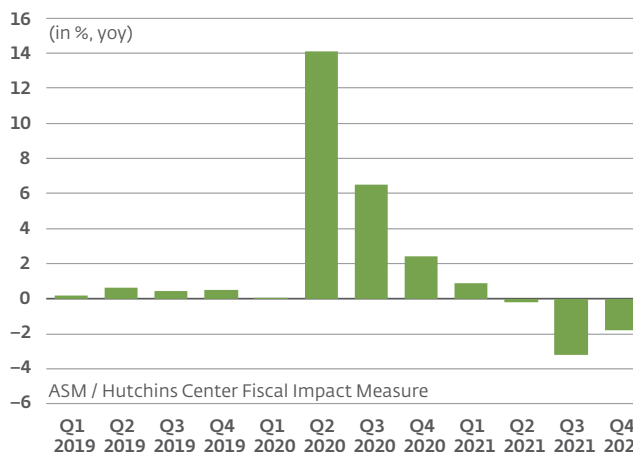
US: New orders for capital goods



Recovery of world trade



US: Impact of fiscal policy on GDP growth



Bond markets



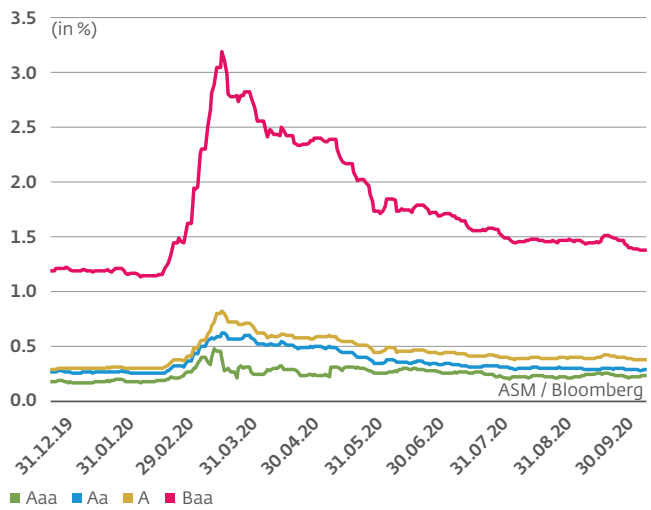
A turbulent year for bonds is drawing to a close. The outlook for 2021 does not give much hope that the situation will calm down, however. At the same time, inflation expectations are rising. So where should investors enter into risk in bonds – duration or credit risk?

Following the sudden jump in March, risk premiums on corporate bonds subsequently recovered quite quickly. At index level, however, the levels of early March have not yet been recovered. The recession is being fought with a mix of expansionary monetary and fiscal policy. This not only supports the economy but also risky capital investments. At the same time, inflation expectations are rising. Should investors now increase their portfolio risk accordingly? In order to maintain a minimum level of expected returns, this is probably unavoidable. But doing so solely in the form of credit risk could prove problematic. The environment is definitely positive for (credit) risk on aggregate. However, investors are confronted with idiosyncratic risks. This means that while it is good to have risky borrowers in the portfolio, it is important to choose the right ones. We expect that 2021 will also see sporadic bankruptcies of investment grade borrowers. Sufficient diversification and intensive monitoring of issuers in the portfolio are now more important than ever. With the accelerating second wave of coronavirus infections, it cannot be ruled out that investors' risk appetite could decline again – at least in the short term.

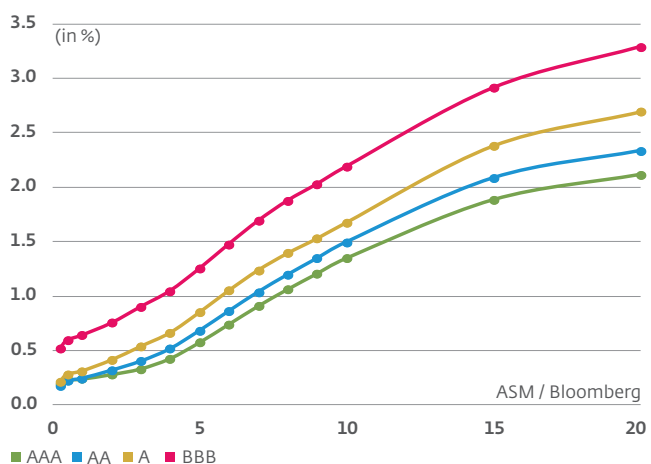
In light of rising inflation expectations, it would at first glance appear not to make sense to include risk in the form of interest rate risk in the portfolio. But it does make sense. We expect rising consumer prices and thus rising interest rates at the long end of the yield curve – but not yet next year. For companies to be able to raise prices, the economy must already have recovered, and capacity utilisation must also increase. It will take at least another six to eight quarters before these two factors are met. Therefore, it makes sense to do without some risk premium in the coming quarters and to add more highly rated corporate bonds to the portfolio. The loss in yields can at least partially be offset by slightly longer maturities, however. Another positive side effect is the lower correlation with the equity markets, with a positive diversification effect on the investor's overall portfolio. For private investors with higher risk appetite, this would mean preferring six-year A bonds over four-year BBB bonds.

Mirko Mattasch
Head Fixed Income Management

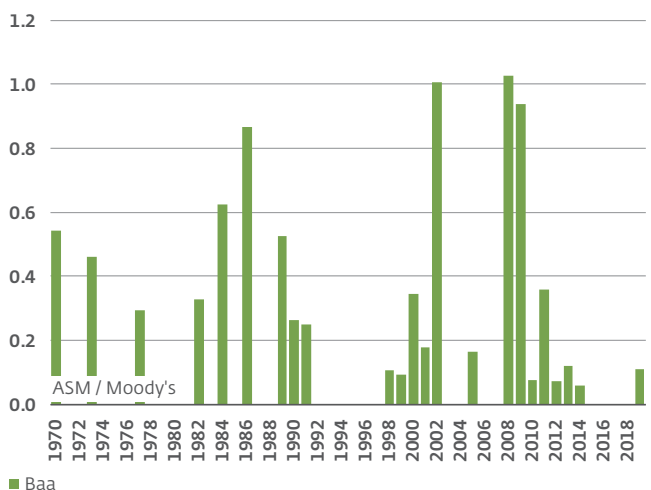
Risk premiums by rating



Yield curves by rating



Share of defaulting BBB borrowers by year



Strategic «commodities»



The increased competition between the US and China for technological know-how, protection of consumer data, and strategic metals will hardly ease as a fundamental matter – regardless of who is elected US president in November.

40 % of which is owned by the Chinese company Tencent, is in conflict with Apple over the availability of the Fortnite game in the Android and iOS app stores. Given that we expect the game industry to experience strong structural growth over the coming years, in part due to the impact of the coronavirus pandemic, this issue is likely to become increasingly relevant. Consumer data protection is an emerging global megatrend.

Technological know-how: Intel

The semiconductor industry can be described as the growth catalyst of the world economy. Today, digitalisation and the use of electronic aids are an important topic in almost all areas of life. For the United States, the protection of technological know-how in the field of semiconductor production is therefore crucial. The military in particular is heavily dependent on high-quality semiconductors developed and manufactured in the United States. In this light, Intel's announcement was shocking that it might be dependent on foreign help in developing the latest chip generation relying on 7 nm technology, possibly from TSMC, a contract manufacturer from Taiwan. Under the One China policy, Taiwan is considered part of China – with a resulting high potential for strategic conflict regarding the protection of intellectual property in semiconductor manufacturing in a foreign jurisdiction potentially under Chinese administration.

Safety of consumer data: TikTok

With the squabbles surrounding TikTok and WeChat, the United States is demonstrating that it is very concerned about protecting consumer data. All data of US users on those social media platforms is to be stored and managed in the United States. For the Chinese, however, this probably means having to disclose the important algorithms for evaluating and interpreting user behaviour. If data storage and processing cannot be separated, the Chinese have signalled that they will withdraw from the US. In the spirit of tit-for-tat, Netflix and Google services are banned in China until further notice. It can currently be observed that a similar dynamic is also emerging in the game industry. Epic Games,

Strategic commodities: Rare earths and uranium

Strategic commodities are primarily metals playing a crucial role in electronics, electric car manufacturing, and energy supply. As part of their declaration of intent on sustainable reduction of CO₂ emissions, the global economies will inevitably have to expand renewable energy sources and at the same time restrict fossil fuels. The basic load cannot be covered with stochastic power sources such as wind and solar, however. Nuclear energy – as a carbon-free, stable energy source – could gain importance again. In an executive order, the Trump administration has already classified various geological goods – including uranium – as strategic commodities. Access to crucial metals requiring complex or costly mining methods will become increasingly important.

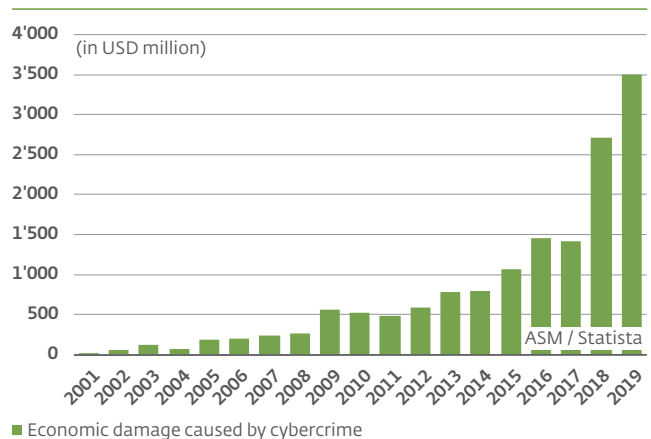
More domestically driven growth in the United States and China could mean greater protection of strategic resources. Secure energy supply and protection of consumer data and intellectual property will play an important role in capital markets over the coming years.

Timo Gruber
Fund Manager

Capital market share, US and China



Economic damage caused by cybercrime



Equity strategy



Two weeks left until the US elections – the market moves over the past few days and weeks indicate that investors are even expecting positive effects from a Democratic election victory for the time being. Negative consequences of election «promises» are being ignored for now.

Equity markets still gained somewhat in the first two weeks of October. IT shares were also able to make up most of the losses they suffered in September. The MSCI World (in CHF, including dividends) was recently back at the level of the beginning of the year, which is gratifying in light of the overall situation.

The scenario of a «blue wave» is being discussed very intensively on the market – which means a Democratic victory in the presidential election, a clear majority in the House of Representatives, and now also a majority again in the Senate. Market players no longer appear to be pricing in this election outcome as immediately detrimental to equity price performance. The main argument of the bulls is that they expect a strong and rapid fiscal stimulus – there is talk of up to USD 3 trillion – which would primarily boost consumption and accordingly have a rapid positive effect on the sales and earnings development of US companies. On the other side of the equation, US household debt continues to rise dramatically, but this is not (yet) perceived as a threat.

Negative effects such as the planned tax increases by Democrats (see last issue of C&M) are being ignored. Higher capital gains taxes would probably also be on the table, which might lead to realisation of profits before implementation. These topics, however, will probably not come up on the (equity) market until a few months after the elections. Apart from fiscal measures, the House Antitrust Subcommittee adopted an investigation report on 6 October on competition in the digital markets, which could have far-reaching negative con-

sequences for the largest US technology companies if the Democrats gain a majority in the Senate as well. Given this, the revived rally in technology stocks is indeed somewhat surprising.

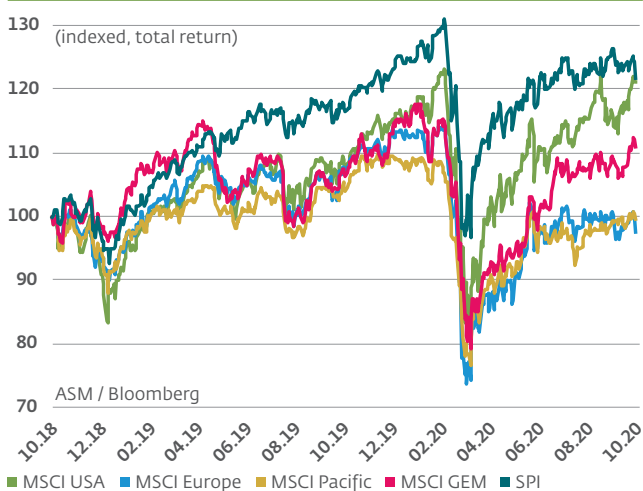
Investors are now looking at company reporting for the third quarter. It is striking that manufacturing is recovering from the crisis much more quickly than services. One of the main reasons for this is China, where the central bank's credit impulse gave an early boost to investment and thus to industrial activity. Low inventories are now being replenished everywhere. In addition, local consumers are more willing to buy again, as can be seen from car sales figures.

The inequalities caused by the pandemic for the different economic sectors are enormous. It is therefore crucial for investors to position themselves in the «right» sectors and industries. While news of a vaccine approval could help lagging industries (airlines and their suppliers, the hotel industry, etc.) to make spectacular price jumps in the short term, we continue to be cautious in these sectors, given that an enormous amount of cash is being burned right now. In contrast, our view of the entire automotive sector, including suppliers, is much more positive, not just because of China.

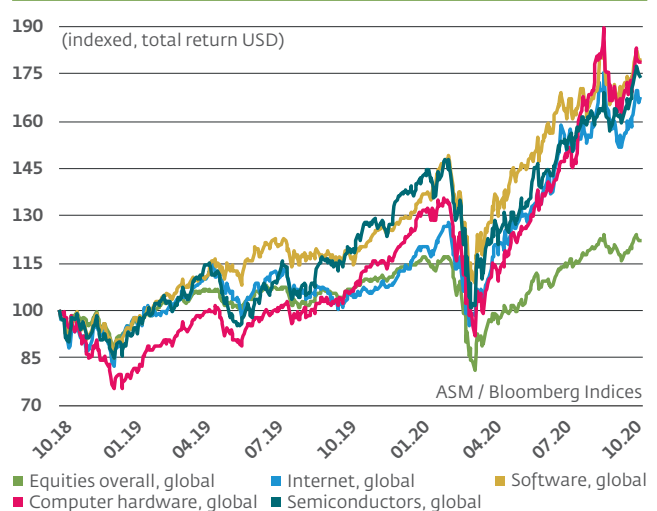
The first Q3 figures published by US banks are a cause for slight optimism. The sector is still lagging far behind the overall market in both the United States and Europe. Following more recent gains by the markets in recent weeks, we advise investors to keep their equity exposure slightly below their strategic allocation, at least through the elections, and to wait for a better entry opportunity.

Christian Zogg
Head Equity and Fixed Income Management

Equity markets in Swiss Francs – 2 years



Performance of global IT industry groups



Switzerland



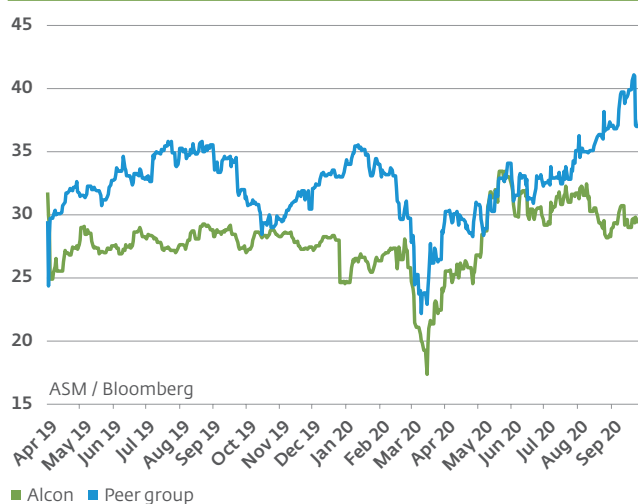
Alcon has well-known brands, high market shares, and economies of scale. Its focus on older population groups is likely to pay off, given that this segment is growing and has purchasing power. Compared to its competitors, Alcon's valuation is attractive.

Alcon is active in both Surgical (eye surgery) and Vision Care (contact lenses and eye care products). Its broad surgical portfolio includes implants, consumable products, and surgical instruments. Its Vision Care business covers daily disposable, reusable, and colour-enhancing contact lenses and an extensive portfolio of eye health products including eye dryness products, contact lens care products, products for eye allergies and redness, and eye vitamins. Alcon was founded in Texas in 1945 and acquired by Nestlé in 1977. Novartis acquired the company in 2010 and floated it on the stock market as a separate company last year.

As the market leader in eye surgery, Alcon has an extremely strong position, especially in cataract surgery, which mainly affects older patients. Management expects medium-term growth of about 4 %, which we believe is realistic in light of the demographic trend towards an older population. We also believe it is important that older people in many countries have higher assets relative to other age segments and have been able to increase those assets, e.g. in the United States and the Netherlands. Alcon's valuation is significantly cheaper than the average of the peer group (Zeiss and Cooper).

Thomas Kühne
Fund Manager LLB Equities Switzerland

Expected price/earnings ratio



Europe



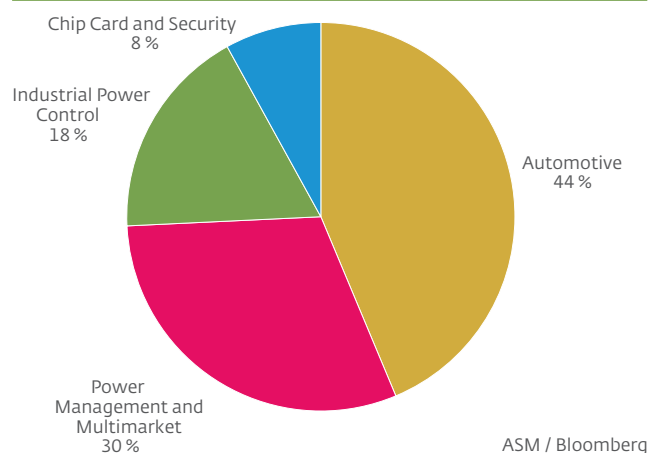
When we think of technology, we mainly think of US companies that are world leaders in their segment. But there are also European technology companies that play a leading role in their segment.

One of those companies is Infineon, which is a leader in semiconductors that control the flow of energy in wind power plants and electric vehicles. The penetration of semiconductors is also steadily increasing in conventional cars. This entails structural growth in that segment, regardless of how quickly electromobility becomes established, and Infineon is at the forefront. A recovery of the automotive sector – which was hit hard by the coronavirus crisis – can already be seen in China, and this recovery should give an additional boost to growth. The climate crisis and the European Commission's CO₂ targets are forcing manufacturers to place more of their bets on electromobility.

Infineon has the greatest exposure to the automotive sector and especially to a recovery of the European car market. Industrial customers and car manufacturers together make up 85 % of Infineon's sales. Infineon is also very well positioned in terms of sustainability, with a leading position in power management for electric vehicles as well as wind and solar power plants. In electric vehicles, Infineon leads with 36 concrete implementations (design wins) in new models. The acquisition of Cypress Semiconductor brings synergies and additional capacity in addition to new and interesting growth areas. Compared with other US and European semiconductor manufacturers, Infineon's valuation appears moderate.

Dr. Karlheinz Gfall
Fund Manager LLB Equities Europe

Infineon: Sales by division



North America



With the death of Justice Ruth Bader Ginsburg, the uncertainty surrounding Obamacare has increased significantly. In particular, hospital operators and health insurers with a high government share are likely to meet with little investor interest until mid-November.

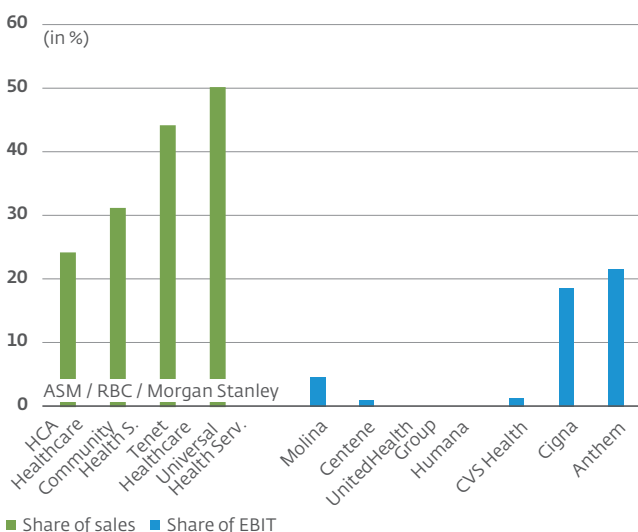
In calendar week 46 – one week after the presidential election – the Supreme Court will hear a case on the constitutionality of Obamacare. Donald Trump has already nominated 48-year-old Amy Coney Barrett as a successor, meaning that conservative Supreme Court justices will have a comfortable 6:3 majority. The probability that Obamacare will be ruled unconstitutional is now significantly higher. We expect a deliberate delay of the judgment or a confirmation of the Affordable Care Act (ACA) without its individual mandate. Chief Justice Roberts and even Justice Kavanaugh (!) have recently repeatedly expressed concerns about the public reputation of the Supreme Court and the separability of the ACA from this penalty tax.

A judgment that would effectively deprive about 22 million Americans of their health insurance coverage during a global pandemic would be hard to comprehend. Operators of outpatient hospitals in states where Medicaid is already fully applied (e.g. HCA Healthcare, Tenet Health, and Community Health Systems) and also health insurers with high government exposure (e.g. Centene, Molina, and UnitedHealth) will meet with little buying interest in the coming weeks and months. We see an entry opportunity for long-term investors, however, especially in HCA Healthcare and CVS Health.

Simon Öhri

Fund Manager LLB Equities North America

Exposure to ACA and Medicaid states



Pacific



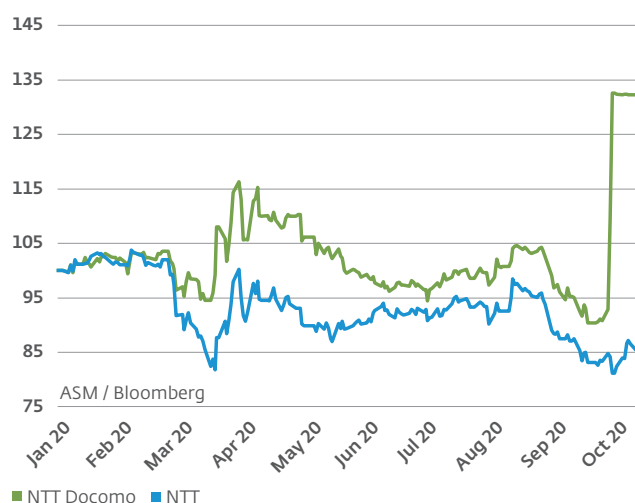
Nippon Telegraph and Telephone Corp. (NTT), the largest telecommunications company in Japan, is planning to integrate NTT Docomo – two thirds of which it already holds – into the corporate group by means of a full takeover.

NTT is offering JPY 3900 per share. The purchase price of JPY 4.25 trillion will be fully debt-financed through a bridging loan and repaid by November 2021. This maintains flexibility for share repurchases or further dividend increases. We believe that integration as a wholly owned subsidiary makes sense, given that this will increase competitiveness in the mobile communications business. The merger will intensify the group's R&D strength in the 5G/6G segment. This also makes additional restructuring of the mobile segment possible, which in the past has struggled with margin problems. Additional cost savings will increase the group's freedom to adjust pricing, which in turn will lead to a competitive advantage over rival KDDI. NTT expects an additional EPS boost of JPY 50. This will allow the company to earn its cost of capital and, with control over Docomo, to generate an additional JPY 600 billion in free cash flow, corresponding to a yield of more than 10%. Why is this important? NTT would then be able to further reduce its already low debt in the Asian telecom context. Will the new government under Prime Minister Suga put pressure on pricing? Yes, it will – but the pressure in the high-price segment should be limited, and price-setting power should be preserved. With a return on equity of nearly 10% and a price/earnings ratio of 9, NTT also has a very attractive valuation. We welcome the deal and would buy more NTT if it continues to be weak.

Christoph Hilfiker

Fund Manager LLB Equities Pacific

NTT – a buy at current levels



Alternative investments



Real estate equities, hedge funds, and cat bonds
 The performance range of individual hedge funds and entire styles continues to be wide. The NASDAQ index gains are catapulting fundamental growth managers ahead.

For investors in real estate equities, the impact of China's new rules on debt capacity is very important. In light of the urgent need to reduce debt to meet the new «three red lines» rules this year, capital increases by Chinese developers may be approaching an all-time high. Spin-offs or off-balance sheet debt are also possible to raise the necessary funds. For us, this underscores the great importance of having real estate equities with convincing balance sheet quality in the LLB Equities Real Estate Global fund. Separating the wheat from the chaff is our maxim – especially since reports indicate that major developers will have to participate in the government pilot project to achieve their debt targets by mid-2023.

The forecasts for the ongoing hurricane season were still gloomy at mid-year. As the course of events so far from a cat bond perspective shows, however, claims have been rather low. Hurricane Delta in October caused much anxiety. On its way from Mexico to the US coast, it increased significantly in strength, leading to closures of oil production facilities and with a predicted higher-category landfall strength. Fortunately, the storm weakened substantially in the hours before landfall, so that the cat bond fund providers were able to give the all-clear. Their brief conclusion, «We can now confirm that Hurricane Delta is a non-event for our portfolios,» is also reflected in the continued positive performance of the cat bond index.

Bernhard Schmitt
 Head Equity & Multi Manager Management

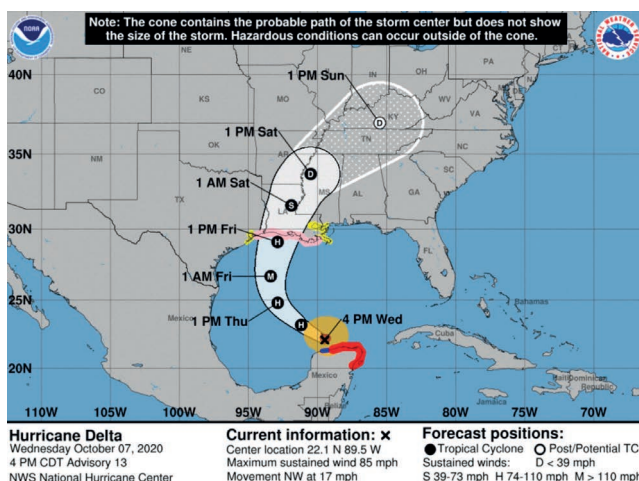


Commodities
 Because of Hurricane Delta, oil production companies in the Gulf of Mexico had to shut down about 70 % of their production capacity. The negative effect on supply is likely to be offset quickly, however.

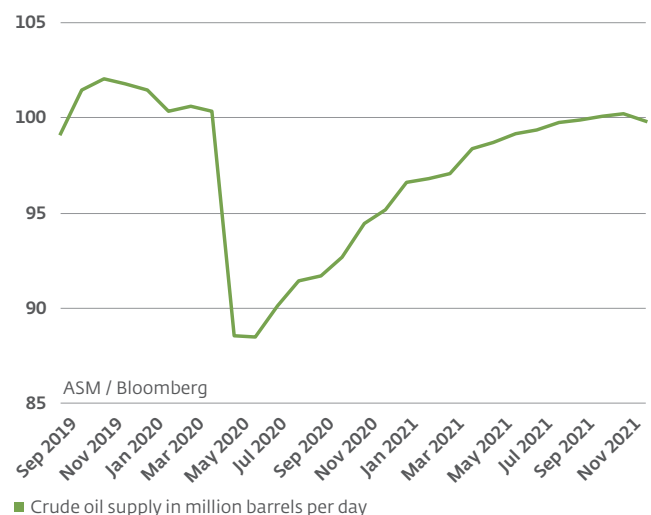
Significantly more important than the temporary losses in US offshore production is likely to be the fundamental recovery momentum in global oil production. Of the approximately 12 million barrels per day lost after the global lockdown, supply recovered rapidly by about 4 million barrels per day. The market is expecting a sustained recovery by another approximately 8 million barrels to the pre-crisis level by the end of 2021. This means that the commodities market is expecting a full recovery in supply within the next 14 months. Recovery might be even faster given the possibility of friendlier US foreign policy towards Iran and Venezuela under a Biden presidency. However, if demand does not increase just as quickly, this would result in lower prices for energy commodities, at least temporarily. While there is a slight risk stemming from too few measures on the fiscal policy side, the determinative issue remains what measures will be taken in the future to contain the virus. There is still little clarity in this regard. It goes without saying that light lockdowns or regional restrictions would have a significantly lower impact on demand than another broad-based shutdown of the entire economy. In the medium term, we assume that society will adapt and that it will take significantly longer than initially assumed to reach the activity levels of before the health crisis. We therefore expect a less dynamic recovery of energy commodity prices in the short term.

Timo Gruber
 Investment Class Researcher Commodities

Path of Hurricane Delta



Global crude oil supply



Advisory models

LLB Invest – your assets in good hands

Traditional investment advice and asset management meet innovative, modern advisory models. Whether you want to delegate the management of your assets and enjoy the other things life has to offer or you prefer to take the active role in making investment decisions, LLB offers a tailor-made solution for both private and institutional clients: LLB Invest.

Straightforward and easy to understand

We provide transparent and professional investment advice and asset management. You decide on the right solution for investing your assets.

Flexible and individual

You and your personal wishes are central. LLB Invest can be tailored to fit you perfectly.

Clear and transparent

Our advice is systematic and understandable. We carry out ongoing analysis of your assets, provide detailed performance reporting, and make concrete recommendations for you to invest your wealth optimally.

With LLB Invest, our focus is on your assets at all times, from a range of perspectives.



Security and monitoring

You decide how intensively you want us to monitor your portfolio in line with your own individual investment strategy. Depending on the advisory model you have selected, we will inform you if we notice any deviations from your investment strategy.



Advisory services and management

All of the advisory models include personal advice and individual support for your investment decisions. It is up to you to decide the frequency, the communication channel and the scope of the advice. You will also be able to call on our investment specialists' know-how.



Optimisation and performance

You decide whether you want us to send you new investment recommendations if your portfolio moves outside of the agreed parameters or if we see new market opportunities. An annual performance report is included as standard in all models.

Our advisory models

	LLB Basic	LLB Consult	LLB Expert	LLB Comfort
Objectives	Personal – partnership-based support	Security-conscious – first-class advice	Dedicated – always abreast of the market developments	Stress-free – outstanding asset management, optimised continuously
Characteristics				
Advantages	<ul style="list-style-type: none"> ✓ Personal advice ✓ Standardised investment recommendations 	<ul style="list-style-type: none"> ✓ Excellent risk management ✓ Personal advisor ✓ Individual investment recommendations 	<ul style="list-style-type: none"> ✓ Excellent risk management ✓ Highest flexibility in terms of portfolio selection ✓ Personal advisor ✓ Access to investment specialists ✓ Pro-active information on market opportunities ✓ Tailored, expanded investment recommendations 	<ul style="list-style-type: none"> ✓ Excellent risk management ✓ Highest flexibility in terms of portfolio selection ✓ Personal advisor ✓ Access to investment specialists ✓ Comprehensive service ✓ Active exploitation of market opportunities ✓ Detailed performance reporting

LLB Comfort – our discretionary portfolio management

Securing and profitably managing your assets is our most important concern. As an effective and capable partner, we are happy to support you in all aspects of asset management.

Macroeconomic, regulatory, and sociodemographic factors increase the complexity of management tasks. At the same time, investors are rightly demanding increasing flexibility from their asset managers and consideration of their individual needs. The range of services offered by LLB Comfort – the asset management mandates of the LLB – is based on these requirements.

By working together with us in this way, you enjoy the following benefits:

- ♦ You can be certain that your assets will always be looked after in the best possible way and that your wishes will be taken into account.
- ♦ Through permanent monitoring of your portfolio, we strive to improve performance continuously. This means that our specialists systematically search the market for risk premiums and investment opportunities and use them to your advantage.
- ♦ You gain more time for other aspects of asset management because you delegate routine tasks to the specialists of LLB Asset Management.
- ♦ Your personal client advisor is still your direct contact for all financial matters. Your client advisor will also be happy to assist you with other tasks in the management of your assets.
- ♦ We provide you with regular, transparent, and comprehensive information about the development of your assets – with reporting that presents the investment performance transparently and is verified in accordance with international standards (GIPS).
- ♦ We explain our investment decisions in an understandable way – especially because we are convinced that demanding and well-informed clients are the best partners for the long term.

By far the most important factor for investment success is the choice of a suitable strategy. Our client advisors have the knowledge and the means to work with you to find the investment strategy that is tailored to your personal situation.

As individual as our clients are, so different are their needs. We analyse your current asset situation and your investment objectives. We take into account temporal factors such as your earnings expectations, your risk tolerance, and your investment horizon. We pay particular attention to your life situation and your liquidity requirements. In a next step, we work with you to define the investment strategy that suits you best. Based on your investment profile, we make broadly diversified investments and actively manage your assets.

Our experience shows that investors' needs are usually focused on a few typical risk-return profiles. We present these strategies on the next page. We offer these profiles in a risk-controlled and optimised manner in the reference currencies CHF, EUR, and USD. We are happy to include any of your expectations that may go beyond this. Together, we design an investment strategy that is tailor-made for you.

Optimisation and performance

We use a systematic, value-oriented process when selecting securities and funds. Under this process, we invest in securities with favourable valuations and take advantage of their long-term potential to generate above-average returns. We strive for broad diversification both among asset classes and among individual securities within asset classes, given that diversifiable risks are not compensated by the markets. Our globally diversified asset allocation results in high foreign currency exposures. We hedge most of these exposures and invest the freed-up risk budget in return-generating asset classes.

Under our agreement with the client, we deviate from the contractually determined weights of the asset classes to a defined extent. In doing so, we make the best possible use of special market conditions. In our investment committee, we think in terms of earnings expectations over 12 months. We periodically and systematically examine quantitative and qualitative factors. Using our proprietary optimisation software, we construct efficient portfolios that make use of a predefined risk budget to maximise expected returns. We provide an overview of our wide range of products on the following pages.

Investment strategies and tactical asset allocation

Strategies at a glance



As part of our LLB Comfort asset management, we offer our clients a broad range of investment strategies that fulfil all the requirements in relation to investment horizon and the use of different asset classes. All our strategy models have an outstanding risk/return ratio.

LLB strategy models

The LLB strategy models make investments with different weightings in classical asset classes such as money market investments, equities, and bonds. In addition to government and corporate bonds, we also consider convertible bonds, inflation-linked bonds, and high-yield bonds. We pay the utmost attention to the high quality of the securities. We offer six different risk/return models, each in three reference currencies (CHF, EUR, and USD). We call these models Fixed Income, Conservative, Yield, Balanced, Growth, and Stocks. Both the risk and return expectations and the necessary investment horizon for the investor increase in that order.

Investment themes

Supplementing the classic World strategy, we offer a wide range of thematic implementations, each with a different focus – such as Sustainable, Switzerland, Passive, and Alternative. Further details can be found on the following pages or in our LLB Comfort publications.

Liquidity		Overweighting
Bonds		
Investment-grade bonds		Underweighting
Inflation-linked bonds		Overweighting
High-yield bonds		Neutral weighting
Emerging-market bonds		Overweighting
Convertible bonds		Underweighting
Equities		
Developed markets		Underweighting
Emerging markets		Slight underweighting
Real estate equities		Slight overweighting
Alternative investments		
Commodities		Neutral weighting
Hedge funds		Overweighting
CAT-bonds		Overweighting

Tactical asset allocation

Risks weigh on single currency

Despite its stable development recently, devaluation risks have surfaced for the Euro. The second wave of COVID-19 infections has meanwhile spread to the Eurozone. A no-deal withdrawal of the UK from the EU is still possible. Negotiations on the EU multiannual financial framework have recently stalled. This environment will weigh on the Euro for the time being. We are maintaining our neutral currency weighting.

No change for bonds

The monetary policy environment continues to ensure low risk premiums for corporate bonds. In this environment, we believe high-yield and emerging market bonds are more attractive than investment grade corporate bonds. On the government bond side, we prefer inflation-linked bonds, given that we still see potential due to continuingly low breakeven rates. We are therefore maintaining our underweight in investment grade bonds, our neutral weight in high-yield bonds, and our overweight in inflation-linked bonds and emerging market bonds.

COVID-19 and US budget dispute weigh on equity markets

Equity markets have recently made a positive impression again, gaining about 5 % since the beginning of the year in terms of the MSCI World. However, the news situation has recently become somewhat gloomier. No agreement has been reached on another fiscal package in the United States, and the COVID situation has worsened again considerably, which will have a negative impact on economic recovery in the fourth quarter. This close to the US elections, we continue to recommend a moderate underweight in equity exposure.

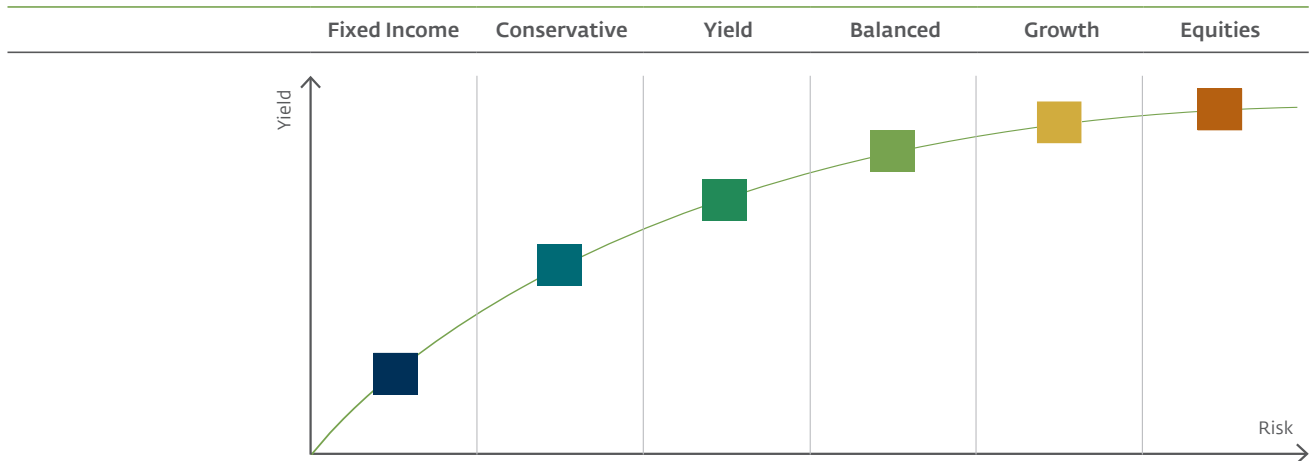
Real estate and alternative investments (incl. cat bonds)

The strong performance of glamour stocks in the United States is having a direct impact on individual hedge fund strategies. We are keeping our neutral positioning in this segment and are maintaining our tactical CTA exposure. This should protect us against a sudden increase in volatility. We also expect our tactical cat bond exposure to provide protection in potentially more volatile financial markets. Natural hazard risks are in principle independent of financial market risks. We continue to maintain our overweight in global real estate equities. Their valuation is still interesting, and there is still price potential relative to global equities. In our strategies, we are maintaining our neutral weight in commodities. If expanded supply rushes ahead of the expected recovery in demand, price volatility continues to be likely.

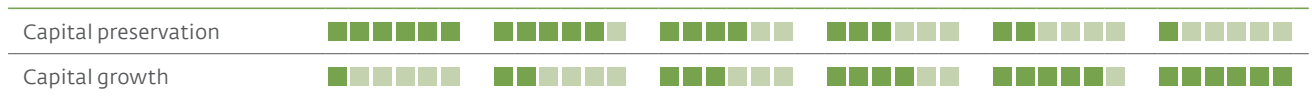
Return and risk of LLB investment strategies

We offer our clients investment strategies tailored to their needs, goals, and possibilities, with varying levels of equity exposure in the reference currencies CHF, EUR, and USD. Investment horizon, risk tolerance, and asset structure play a decisive role in asset management.

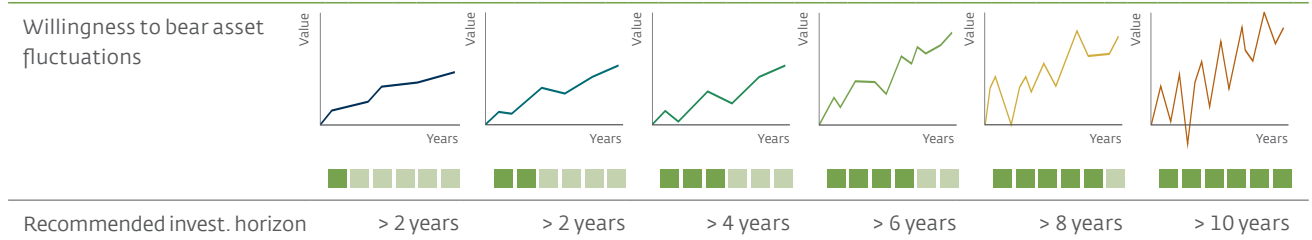
Strategies at a glance



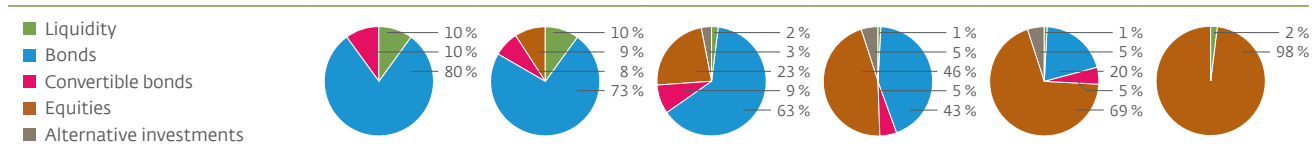
Investment goals



Investor profile



Structure



Performance of global LLB investment strategies in the reference currency CHF

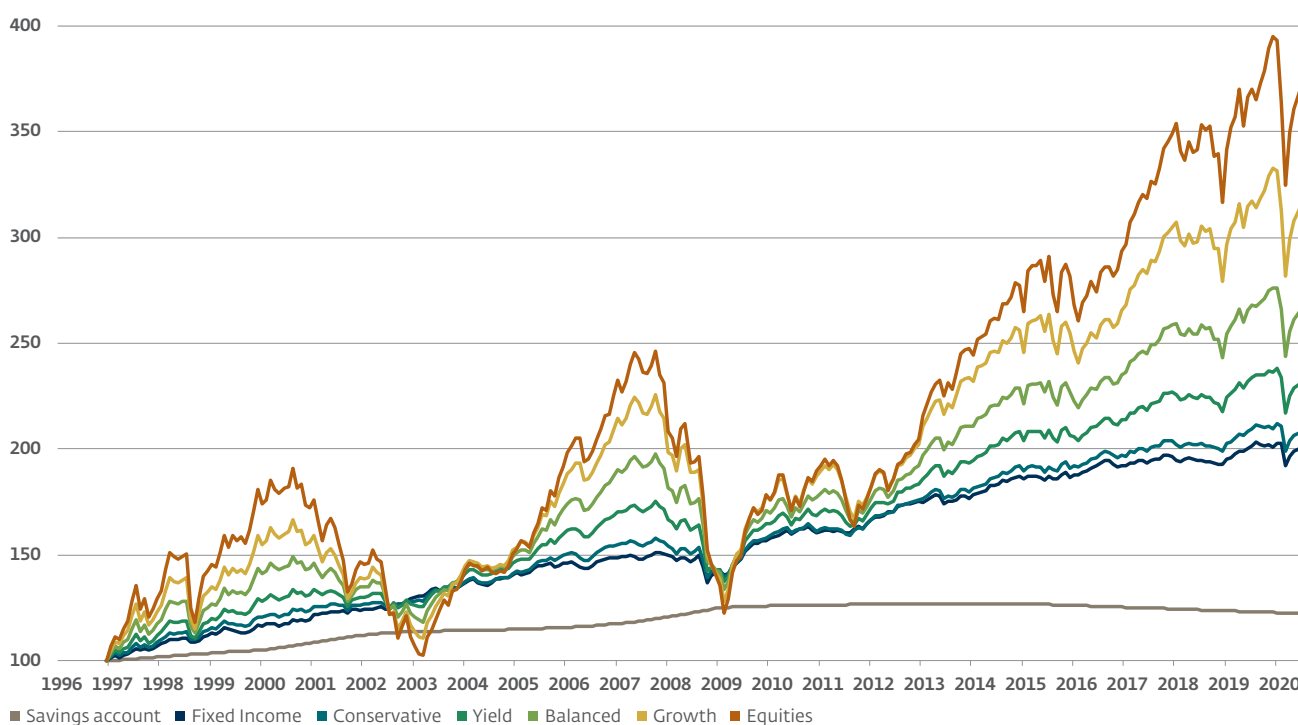
Return and risk of global LLB investment strategies

	Fixed Income	Conservative	Yield	Balanced	Growth	Equities
Expected return per year (3 – 5 years)	0.75–1.25 %	1.00–1.50 %	2.00–2.50 %	3.00–3.50 %	4.50–5.00 %	5.50–6.00 %
Extreme values over 12 months (1996 – 2019)*	▲ +13.8 % ▼ -9.5 %	▲ +14.9 % ▼ -11.8 %	▲ +20.8 % ▼ -18.6 %	▲ +28.8 % ▼ -25.9 %	▲ +39.5 % ▼ -34.9 %	▲ +46.5 % ▼ -40.3 %
Probability of 12-month periods with negative performance (1996 – 2019)*	once in 10.5 years	once in 8.0 years	once in 4.5 years	once in 4.0 years	once in 3.5 years	once in 3.5 years

* This period covers three global extreme situations on the equity markets (Asian crisis in 1998, dot-com bubble in 2000, real estate and financial crisis in 2008).

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CHF investments would have performed as follows from 31 December 1996 to 31 August 2020



The performance of the investment strategies is presented on the basis of the strategic asset allocation. Market indices with weightings as of August 2020 are used as the data basis for each asset class. The period from 1996 to 2020 covers four global extreme situations on the equity markets (Asian crisis in 1998, dot-com bubble in 2000, real estate and financial crisis in 2008, coronavirus crisis in 2020).

Performance at a glance

	Fixed Income	Conservative	Yield	Balanced	Growth	Equities
Historical return per year (1996 – 2019)	3.1 %	3.3 %	3.8 %	4.5 %	5.4 %	6.1 %
Maximum breakeven period after an extreme situation	22 months	26 months	56 months	64 months	72 months	74 months

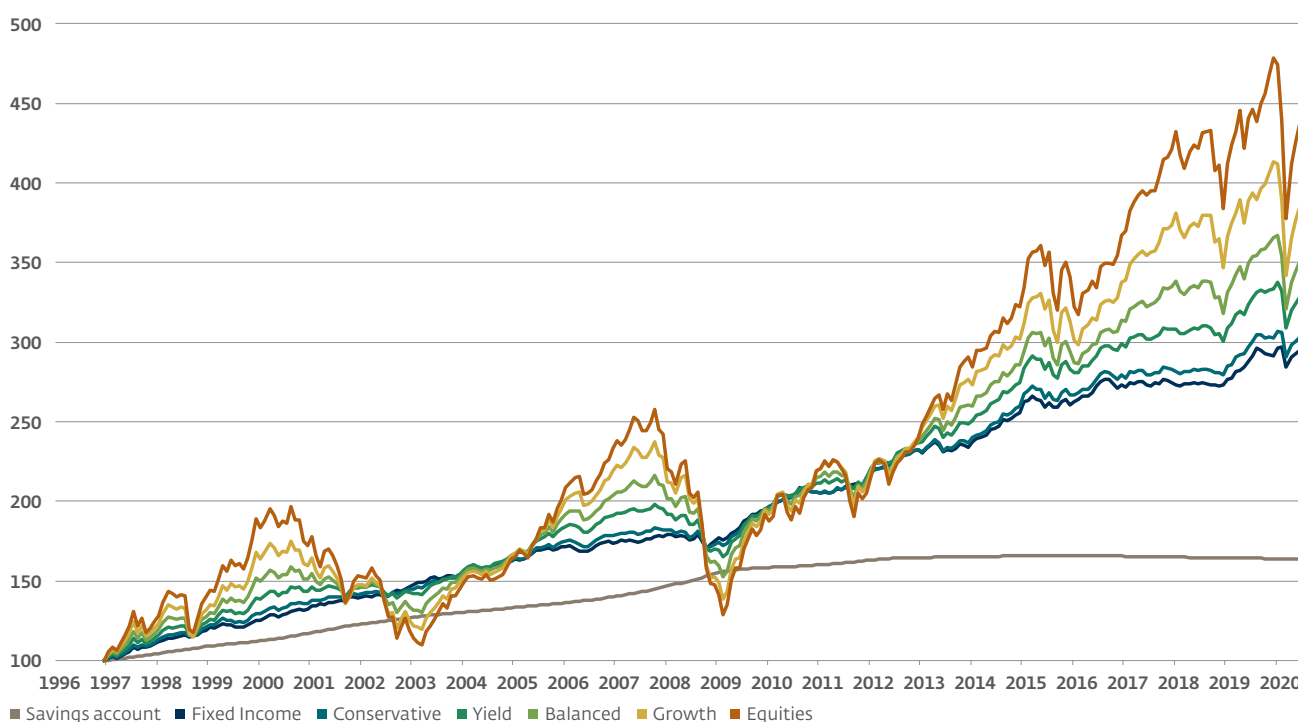
Performance of global LLB investment strategies in the reference currency EUR

Return and risk of global LLB investment strategies

	Fixed Income	Conservative	Yield	Balanced	Growth	Equities
Expected return per year (3 – 5 years)	1.00–1.50 %	1.25–1.75 %	2.25–2.75 %	3.25–3.75 %	4.75–5.25 %	5.50–6.00 %
Extreme values over 12 months (1996 – 2019)*	▲ +12.8 % ▼ -4.1 %	▲ +14.9 % ▼ -6.7 %	▲ +21.2 % ▼ -14.3 %	▲ +30.1 % ▼ -24.3 %	▲ +42.1 % ▼ -34.4 %	▲ +50.6 % ▼ -40.9 %
Probability of 12-month periods with negative performance (1996 – 2019)*	once in 13.5 years	once in 11.0 years	once in 6.0 years	once in 4.5 years	once in 3.5 years	once in 3.5 years

* This period covers three global extreme situations on the equity markets (Asian crisis in 1998, dot-com bubble in 2000, real estate and financial crisis in 2008).

EUR investments would have performed as follows from 31 December 1996 to 31 August 2020



The performance of the investment strategies is presented on the basis of the strategic asset allocation. Market indices with weightings as of August 2020 are used as the data basis for each asset class. The period from 1996 to 2020 covers four global extreme situations on the equity markets (Asian crisis in 1998, dot-com bubble in 2000, real estate and financial crisis in 2008, coronavirus crisis in 2020).

Performance at a glance

	Fixed Income	Conservative	Yield	Balanced	Growth	Equities
Historical return per year (1996 – 2019)	4.7 %	4.9 %	5.3 %	5.8 %	6.3 %	7.0 %
Maximum breakeven period after an extreme situation	14 months	22 months	29 months	52 months	62 months	65 months

One strategy – many possibilities

As diverse as the individual investment strategies of our clients are, as diverse are their implementations. To enable us to respond optimally to your needs and expectations, we offer a wide range of options for your investments. Collective investments are employed. Where it makes sense to do so, direct investments are also made in individual securities. Our proven investment policy always forms the basis for investment decisions.

LLB Comfort World

Globally diversified

You invest worldwide in the most attractive regions. Through international diversification, you participate in global trends and developments.

LLB Comfort Switzerland

Innovative home market

You primarily invest in the Swiss business location – which is characterised by a high level of innovation, competitiveness, and political stability. Investments are mainly made in CHF, and equity investments are exclusively in Swiss companies.

LLB Comfort Alternative

Risk-mitigating opportunities

You invest worldwide in the most attractive regions and increasingly in alternative asset classes. By adding more hedge funds and gold at the expense of bonds, a lower interest rate risk can be achieved without changing expected returns.

LLB Comfort Sustainable

Environmental, social, and responsible

You invest worldwide in line with ESG guidelines. The focus is on environmental friendliness, social responsibility, and responsible corporate governance.

LLB Comfort Passive

Index-tracking investments

You invest worldwide in the most attractive regions. Implementation takes place primarily through passive investment instruments that replicate market developments as closely as possible. Where necessary, active collective investments are used.

Investment form

One-time

We invest the entire investment amount for you immediately upon receiving the asset management mandate. You participate quickly in the developments on the financial markets.

Staggered

The equity component is one of the most important drivers of long-term investment success. Equity exposure is not exhausted from the outset. Rather, it is increased in stages from the starting exposure to the defined target exposure. In regular and manageable steps, you will be able to build up a carefully constructed equity component of your portfolio. Full exposure will be reached after a period of about two years.

Pricing models

All-in model

The optimal pricing model for anyone desiring cost clarity. You pay a flat-rate fee on the assets under management. There are no further brokerage or custody fees.

All-in model – performance-based

The pricing model where the bank participates in investment success. You pay a reduced flat-rate fee on the assets under management as well as a performance fee. This fee is payable only if your assets have performed positively after deduction of all costs. There are no further brokerage or custody fees.

LLB Comfort	World	Switzerland	Alternative	Sustainable	Passive
Focus	Globally diversified	Innovative home market	Risk-mitigating opportunities	Environmental, social, and responsible	Index-tracking investments
Reference currency	CHF / EUR / USD	CHF	CHF / EUR	CHF / EUR	CHF / EUR
Investment strategies	Fixed Income to Equities	Yield to Equities	Yield and Balanced	Fixed Income to Equities	Yield to Equities
Direct investments from 1'000'000	All-in model w / wo performance-dependence	All-in model w / wo performance-dependence	All-in model w / wo performance-dependence	All-in model w / wo performance-dependence	
Collective investments from 100'000	All-in model w / wo performance-dependence	All-in model w / wo performance-dependence	All-in model w / wo performance-dependence	All-in model w / wo performance-dependence	All-in model

Dynamic investing. Built on experience.

With the multiple award-winning
investment expertise of the LLB Group.



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Dynamic, robust, multiple award-winning. Benefit from our 150 years of investment expertise and our in-house asset management. Custom-built solutions for private and institutional investors. www.llb.li



Liechtensteinische
Landesbank¹⁸⁶¹

Tradition meets Innovation.

Transparency in investing

For several years now, the LLB Group has been free of retrocessions, not only in asset management, but also for «LLB Invest» – our paid investment advisory service. The LLB Group is thus deliberately passing on sales commissions for LLB funds and third-party funds to investors.

This offers several advantages for our clients: With this waiver of retrocessions or the full transfer of sales commissions to clients, we create cost transparency, and fund investments become significantly less expensive. At the same time – already since 1 July 2014 – we are setting standards in the investment business. We are one of the first and few providers to take this step in the Swiss and Liechtenstein financial centres.

We offer additional innovative features in the pricing of investment solutions:

- ♦ In our asset management mandates, we rely on a performance fee: Clients pay the variable portion of the fee only if their assets develop positively after deduction of all costs.
- ♦ In several of our strategy funds, we are also one of the first providers to use performance fees that are charged only if returns are positive.
- ♦ In some of our fixed-income funds, we apply fees indexed to interest rates, which take account of the currently very low interest rate environment.

With these features, we offer strong, innovative, and transparent service packages at fair conditions.

Legal information

No offer

The information contained in this publication constitutes neither an invitation nor an offer, nor a recommendation to buy or sell investment instruments or to enter into transactions of any kind. The information in this publication does not constitute an aid for the reader in making decisions. Please consult a qualified person before making investment decisions.

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Risk warning

Please note that the value of an investment may fall as well as rise. The future performance of an investment cannot be derived from its past price development. Investments in foreign currencies are subject in addition to exchange rate fluctuations. Investments involving high volatility can be subject to strong price fluctuations. These price fluctuations may equal or even exceed the value of the invested amount. The preservation of the invested capital cannot therefore be guaranteed. Further information about risks can be obtained from the Liechtensteinische Landesbank AG. In addition, this information can be obtained from the brochure Risks in securities trading issued by the Liechtenstein Bankers Association, or from the brochure «Special risks in securities trading» issued by the Swiss Bankers Association.

No warranty / No guarantee

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Exclusion of liability

To the extent allowed by law, the LLB and its Group companies exclude all liability for losses or damages of any kind (both direct and indirect damages as well as consequential damages) which arise from the use of or in connection with this publication.

Basic methodical approaches to financial analysis

LLB and its LLB Asset Management AG responsible for financial analysis have summarised the basic methodological principles of financial analyses on which the individual investment recommendations are founded in their white paper «Theory and Methodology of Securities Analysis by LLB Asset Management AG». This document (in German) can be accessed at the following link: www.llb.li/securities-analysis.

Additional information

Further information about our publications, in particular

- Summary of the important sources of information
- Valuation principles and methods
- Explanation of the meaning of the recommendations
- List of all recommendations as well
- Information on conflicts of interest

can be requested at www.llb.li/legal-notes. We are providing this information also free of charge in paper form.

Internal organisational and regulatory measures to prevent conflicts of interest

The Liechtensteinische Landesbank and any of its Group companies concerned have implemented internal organisational measures to prevent possible conflicts of interest from arising and, if these do occur, to disclose them.

Explanation

Possible conflicts of interest are indicated by the following numbers placed next to the names of issuers:

The Liechtensteinische Landesbank AG and/or its Group companies

1. have more than a 5 % stake in the issuer,
2. have substantial financial interests in relation to the issuer,
3. participated during the last twelve months in the management of a consortium which placed financial instruments of the issuer in the form of a public offering,
4. act as a market-maker in the financial instruments of the issuer,
5. have during the last twelve months concluded an agreement for services in connection with investment banking services with issuers who themselves or whose financial instruments are the subject of the financial analysis, or have received a performance or the promise of a performance from such an agreement,
6. have concluded an agreement for the production of financial analysis with issuers who themselves or whose financial instruments are the subject of the financial analysis.

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- Competent regulatory authority in Switzerland
Swiss Financial Market Supervisory Authority FINMA
Laupenstrasse 27, 3003 Berne, www.finma.ch
- Competent supervisory authority in Austria
Austrian Financial Market Authority FMA
Otto-Wagner-Platz 5, A-1090 Vienna, www.fma.gv.at

Global Investment Performance Standards (GIPS)

The company definition in accordance with the Global Investment Performance Standards (GIPS), includes all the asset management mandates as well as all the investment funds of Liechtensteinische Landesbank AG which are managed by LLB Asset Management AG. The company claims compliance with the GIPS. A list of all composites and a description of them can be obtained from LLB Asset Management AG, Vaduz, telephone +423 236 95 00. The Global Investment Performance Standards are a trademark of CFA Institute. CFA Institute has not been involved in the preparation or review of this report/advertisement.

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