

LMM COMPASS



Dear readers,

Even if an internal control system (ICS) is mandatory for certain institutions, we recommend our clients to keep in mind the essential aspects of an ICS. This is not only the case for institutional investors but also for foundations and private individuals.

An internal control system can reduce the risk, the liability and the costs of the asset management. You can read more about it in our recent topic.



Jürg Meier
Partner, CEO



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Member of the
Management Board

THEMES



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MARKETS AND STRATEGIES

Most of the asset classes could gain in value during the 3rd quarter of 2017. Despite mutual threats between North Korea and the USA, the S&P 500 Index reached all-time highs. The Euro appreciated 12.1% year-to-date vs. the USD thanks to improved economic confidence

in the European economy. The process of building a new coalition in Germany has become quite difficult, nevertheless the DAX reached new highs. Increased demand and hurricanes in the USA pushed oil prices up.

		Value	%QTD	%YTD	Currency
Currencies	EUR/CHF	1.14	+4.72	+6.70	
	EUR/USD	1.83	+3.66	+12.09	
	USD/CHF	0.97	+1.03	-4.80	
	USD/JPY	112.56	+0.18	-3.49	
Bonds	Switzerland	135.76	-0.01	-0.35	CHF
	Europe	247.32	+0.68	+0.13	EUR
	USA	2038.46	+0.85	+3.14	USD
	EMMA	398.67	+2.66	+8.64	USD
	Inflation linked	334.15	+2.22	+5.65	USD
	High Yield	1298.59	+2.84	+9.49	USD
	World	479.56	+1.76	+6.25	USD
Equities	Switzerland	2630.51	+3.03	+14.60	CHF
	Europe	215.10	+2.70	+9.56	EUR
	North America	6590.64	+4.30	+13.90	USD
	Pacific	6023.20	+3.87	+15.41	USD
	EMMA	485.36	+7.89	+27.78	USD
	World	232.84	+5.18	+17.25	USD
Alternatives	Real Estate	3887.88	+1.84	+7.31	USD
	Commodities	84.46	+2.25	-3.49	USD
	Gold	1280.15	+3.11	+11.10	USD
	Private Equity	2597.29	+5.74	+23.97	USD
	Hedge Fonds	1256.79	+1.83	+4.43	USD

reference date 30.09.2017

The weaker CHF led to currency gains on investments in foreign currencies and therefore CHF-strategies were benefitting from this effect. The opposite was the case in EUR-strategies, the stronger Euro led to

losses on the foreign currency side. All strategies benefitted in the 3rd quarter from continued positive stock market returns and from stable or slightly falling bond yields.

Investment strategies in CHF

■ QTD ■ YTD

		3.44%	7.80%	CHF Growth
		2.61%	5.31%	CHF Balanced
		1.60%	2.61%	CHF Yield
		0.58%	0.26%	CHF Fixed Income

Investment strategies in EUR

■ QTD ■ YTD

		1.23%	3.47%	EUR Growth
		0.86%	1.96%	EUR Balanced
		0.44%	0.41%	EUR Yield
		0.08%	-0.79%	EUR Fixed Income

Please note: Performance figures gross (Custody- and management fees not included)

Calculation LMM, Period 31.12.2016–30.09.2017 (before costs)

TRUST IS GOOD, BUT CONTROL IS BETTER

What is the key to a sustainable excellent performance? This question cannot be answered easily. There are several factors that in combination turn the balance. The appropriate investment strategy, the right portfolio structure and an efficient implementation are such important factors. In addition, an effective control system can make a difference.

However, the latest point is not always on top of the investor's agenda. Processes in order to protect wealth effectively do not only reduce risk, but also help to improve investment results. It has been shown in a recent study carried out among Swiss pension funds that a sustainable positive correlation exists between returns and risk management¹.

Risk cannot be delegated. Only those who know their risks can reduce them. Where are however those typical risks in asset management? The next points are characteristic dangers that need to be avoided:

- The investment strategy is not in line with the Investor's risk profile.
- The asset manager does not comply with his guidelines.
- The costs of the asset management are not in line with the market.
- The assets are not enough diversified (cluster risks).
- The investments are not correctly categorised by the custodian (distortion of risk structure).
- The valuation of assets is wrong resp. not accurate.
- Counterparties are not reviewed.
- There is a latent liquidity risk by illiquid assets.
- Basic decisions (for example the asset manager selection or the definition of the investment strategy) are not understandable due to missing documentation.
- From the reporting system, the necessary information for an accurate decision base cannot be derived.

Efficient control systems and seasoned experts recognise such risks in an early stage and enable the investor to understand them and take the necessary counter measures. In order to keep one eye on all risks a comprehensive approach is needed.

The table below shows typical processes that, based on our experience, lead to a reduction of risk:

DOMAIN	PROCESS
Segregation of functions	Division of execution (asset management) and control (investment controlling)
Organisational regulation	Investment guidelines, information and reporting flows, commissions resp. advisory board
Automatisation of control	Specified surveillance and control processes supported by dedicated IT systems (e.g. bank voucher processing and financial data providers)
Reporting system	Management information, consistent valuations, monthly reconciliation of asset statements, wealth consolidation (of bankable and non-bankable assets)
Early warning system	Identification of risks and breaches of investment guidelines by a prompt transaction check. Regular performance calculation and analysis of deviations from risk profile.
Documentation	Comprehensible documentation of decisions as well as outcomes of review and control measures (audit trail). Filing of contracts and essential correspondence.

With our Investment Controlling, we professionally cover the above-mentioned necessary processes and contribute to the protection and investment success of your wealth.

¹ Source: <http://dievolkswirtschaft.ch/de/2017/09/ammann-10-2017>



Our service requires a relationship based on mutual trust with our clients. Our employees are the key to this. We employ currently a staff of 16 employees at locations in

Vaduz, Zurich, Dubai and Vienna. In our "LMM Inside" we want therefore introduce to you employees of our teams on a regular basis.



YESICA GARCIA LUIS

Assistant to CEO



PETER INDRA

Director

What is your job at LMM and when did you join the company?

I joined LMM five years ago. Since then, my area of responsibility has developed continuously. I see myself as an all-rounder who assists and supports the CEO, as well as our executives, in their daily work.

What did you work before?

I am coming from the banking sector and I completed my apprenticeship at the VP Bank. After my apprenticeship I worked as an assistant in the private banking at VP Bank.

What do you enjoy most about your job?

We are an excellent team complementing each other ideally. "One for all and all for one" perhaps sums it up best. My work is diversified and challenging and therefore I enjoy it.

What do you do in your free time?

I love to bake and as a balance I do a lot of sport such as Zumba and Step Aerobic.

What is your job at LMM and when did you join the company?

I have been with LMM since 2009 and as the team head I am responsible for looking after private and institutional clients.

Where did you work before?

To a certain extent I was working before on the "other side" – in other words did I work for almost 20 years in the areas of private banking and asset management.

What are you working on currently?

We are continuously working on improving our services. Currently I am working with colleagues on the integration of sustainability criterias in the reporting. An exciting field that is getting more and more important for our institutional clients.

Where do you spend your free time?

As a father of two children I enjoy spending time with my family. Sometimes it may be however, a journey with colleagues to the Piedmont region or to the Burgenland. I am particularly intrigued by these two wine regions.



Content:

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LMM Investment Controlling Ltd. is an independent provider of Investment Controlling services and represents the interests of private and institutional clients towards banks and asset managers. Apart from the head office in Vaduz, LMM has branches in Zurich, Dubai and Vienna.

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