

LMM COMPASS



Dear readers,

The situation in the financial markets has changed abruptly and uncertainty over the trade conflict between the US and China, the Fed's future policy, the possible slowdown in global economic growth and stock price declines dominate the mood. Despite these headlines, we would like to point out possible long-term changes or trends: sustainability in asset management. Further information you will find in our article on page 3.



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THEMES



Market data

- Markets and strategies



Topic

- Sustainable Investing – from Niche to Standard?



LMM Inside

- Stiftungsforum
North Rhine-Westphalia



INVESTMENT STRATEGIES

Stock markets corrected significantly in the fourth quarter, worldwide. The relatively stable US stock market including the technology stocks also suffered considerable losses of more than 13%. The whole market sentiment was characterized by significant price declines in most asset classes, and only government bonds benefited from price gains due to their “safe haven” status

(eg. government bonds US, Germany, Switzerland). As expected, the US central bank raised interest rates again in December. Further rate moves will depend on the economic development. Financial specialists expect further economic growth in 2019, albeit at a slower pace, due to slower earnings growth, political uncertainties and a more restrictive monetary policy.

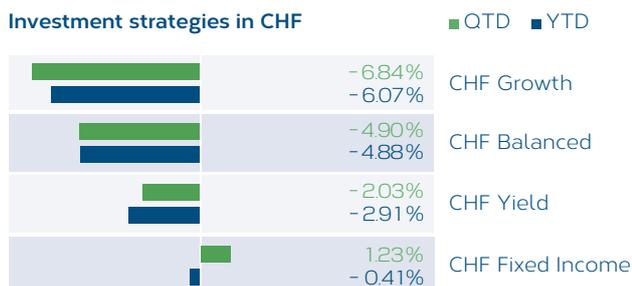
		Value	%QTD	%YTD	Currency
Currencies	EUR/CHF	1.13	-0.68	-3.70	
	EUR/USD	1.14	-1.58	-4.80	
	USD/CHF	0.99	+0.92	+1.16	
	USD/JPY	109.72	-3.41	-2.60	
Bonds	Switzerland	13650	+1.42	+0.07	CHF
	Europe	24971	+0.87	+0.41	EUR
	USA	20466	+1.64	+0.01	USD
	Emerging Markets	390.11	-0.49	-3.02	USD
	Inflation linked	32955	-0.80	-4.11	USD
	High Yield	125667	-3.49	-4.06	USD
	World	478.92	+1.20	-1.20	USD
Equities	Switzerland	2479.94	-8.10	-8.03	CHF
	Europe	19357	-11.32	-10.57	EUR
	North America	6658.74	-13.81	-5.04	USD
	Pacific	5722.92	-12.20	-12.02	USD
	Emerging Markets	445.44	-7.47	-14.58	USD
	World	223.00	-12.75	-9.42	USD
Alternatives	Real Estate	3846.14	-5.46	-4.72	USD
	Commodities	76.715	-9.96	-12.99	USD
	Gold	1282.45	+7.54	-1.58	USD
	Private Equity	2256.91	-19.25	-14.08	USD
	Hedge Fonds	1189.86	-5.56	-6.72	USD

reference date 31.12.2018

In the fourth quarter, the level of equity weighting was crucial for the performance, meaning that, depending on the equity allocation, more or less all investment strategies have lost in value on average. This means, the greater the equity component in the

portfolio, the greater the negative performance impact. Over the year, most investment strategies are increasingly considering a negative performance (note: excluding costs).

Investment strategies in CHF



Investment strategies in EUR



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

Calculation LMM: Period 01.01.–31.12.2018 (before costs)

SUSTAINABLE INVESTING – FROM NICHE TO STANDARD?

Investors are increasingly considering environmental, social and governance (“Environmental Social Governance” – “ESG”) criteria when selecting financial products. Currently, mainly institutional and ecclesiastic investors are driving this development forward. In doing so they have to take account of legal or regulatory requirements that increasingly include sustainability aspects.

The European Commission has developed an action plan for sustainable finance in 2018, based on the work of a group of experts. The aim is to actively involve the financial sector in the goals of sustainable financing. Particular emphasis is placed on mitigating climate change. The action plan includes the following core measures¹:

- Establishment of understandable EU standards in the classification of sustainable activities
- Establishment of an EU label for green financial products to help investors make their decisions
- Definition of responsibilities for asset managers and institutional investors
- Increasing transparency among companies. Mandatory information for issuers in capital market prospectuses regarding their ESG policy
- Anchoring sustainability factors in the regulatory requirements for banks and insurance companies

Disclosure requirements for pension funds of the extent to which environmental, social and corporate governance factors are taken into account in investment and risk management has already been implemented by the IORP Directive². EU Member States must nationally enforce these European requirements by 13 January 2019. Statutory requirements are made, for example, in Germany and Austria in particular in the selection of assets (“according to ethical, ecological and social criteria”) and in the obligation to inform (“consideration of ESG criteria”)³.

Comparable content-related activities are being developed in Switzerland by the “Swiss Association for Responsible Investments” (“SVVK-ASIR”).

These developments make it necessary to consider ESG criteria as part of a comprehensive investment controlling. This ensures that the defined specifications in this area are met. In addition, corresponding ESG reports provide a decision-making basis for responsible bodies and, in addition, information obligations towards stakeholders can be met.

ESG controlling systems should be transparent and traceable in terms of methodology. The question of how a rating is assigned should not be a “black box”. A comprehensive database is a prerequisite that does not limit the asset manager's investment decisions, thereby affecting investment results. The comparability of “ESG ratings” in relation to a benchmark and the respective peer group is also an essential aspect that an ESG controlling should enable.

Our LMM ESG controlling is based with MSCI as a data provider on an internationally recognized system, with the world's largest available database in this area. We would be happy to advise you on how to establish an efficient and tailor-made monitoring and reporting system for sustainability.

¹ Source: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_de#commitments

² EU Directive 2016/2341 of 14.12.2016 on the activities and supervision of occupational pension schemes (IORPs)

³ Compare uA § 25a öPKG, § 7a dAltZertG und §144 dVAG



STIFTUNGSFORUM NORTH RHINE-WESTPHALIA

On November 13, 2018, LMM, as a partner of the Stiftungsführer in Germany, held a workshop at the Stiftungsforum NRW in Cologne on the topic “What has compliance to do with Controlling”. The direct feedback as well as the subsequent discussions with the participants have shown that the topic of “potential liability risks” is very elementary for the vast majority of charitable foundations and the interest for a professional and independent investment controlling as part of a professional investment organization continues to increase.

We were also able to ascertain that foundations in Germany are increasingly learning about the topic of “sustainable investing” (keyword “ESG”). An even smaller but growing proportion of foundations already invest according to ESG criteria.

impressions of the event

<https://www.youtube.com/watch?v=j9lkyO3i54s&feature=youtu.be>



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