

LMM COMPASS



Dear readers,

In the past years, after the setbacks in the years following the financial crisis Private Equity-Funds experienced a record high inflow of capital from investors. Mainly, institutional investors are able to benefit from the advantages of this asset class. Reason enough to have a closer look at Private Equity investments and discuss its hurdles and particularities. Read more about it in our latest "Compass" edition.



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THEMES



Market data

- Markets and strategies



Topic

- What makes Private Equity so special?



LMM Inside

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INVESTMENT STRATEGIES

In the first three weeks of the new year, equity markets kept rising until they were dampened by a major correction at the beginning of February. Market participants were surprised by an unexpected rise of volatility

(VIX-index). At the same time, bond yields went up in view of the good global economic outlook and the announcement by the US Federal Reserve of interest rate increases.

		Value	%QTD	%YTD	Currency	Index
Currencies	EUR/CHF	1.18	+0.64	+0.64		
	EUR/USD	1.23	+2.42	+2.42		
	USD/CHF	0.96	-1.73	-1.73		
	USD/JPY	106.35	-5.59	-5.59		
Bonds	Switzerland	135.48	-0.68	-0.68	CHF	SBI Total AAA-BBB
	Europe	250.51	+0.73	+0.73	EUR	Bloomberg Barclays Cap. Euro-Aggr.
	USA	2016.48	-1.46	-1.46	USD	Bloomberg Barclays Cap U.S. Aggr.
	EMMA	398.05	-1.04	-1.04	USD	Bloomberg Barclays EM Hard Currency Agg TR Unh. USD
	Inflation linked	349.18	+1.60	+1.60	USD	Bloomberg Barclays GL Inflation-Linked TR Unh. USD
	High Yield	1305.13	-0.36	-0.36	USD	Bloomberg Barclays GL High Yield TR Unh. USD
Equities	World	491.33	+1.36	+1.36	USD	Bloomberg Barclays Cap GA
	Switzerland	2535.30	-5.98	-5.98	CHF	MSCI Switzerland Net
	Europe	207.14	-4.30	-4.30	EUR	MSCI Europe Net
	North America	6958.78	-0.76	-0.76	USD	MSCI USA Net
	Pacific	6460.42	-0.68	-0.68	USD	MSCI Pacific Net
	EMMA	528.85	+1.42	+1.42	USD	MSCI EM Net
Alternatives	World	243.81	-0.96	-0.96	USD	MSCI AC World Net
	Real Estate	3863.04	-4.30	-4.30	USD	FTSE EPRA/NAREIT Glb TR USD
	Commodities	87.47	-0.79	-0.79	USD	Bloomberg Commodity Index
	Gold	1325	+1.68	+1.68	USD	Gold (1 ounce)
	Private Equity	2582.49	-1.68	-1.68	USD	LPX 50 Index
	Hedge Fonds	1262.63	-1.02	-1.02	USD	HFRX Global HF Index USD

Values in local currencies; Source Bloomberg; reference date 31.03.2018

In the first quarter, negative returns were recorded across the investment strategies. The two major asset classes, equities and bonds, were down and therefore all investment strategies were affected.

The rise in interest rates at the beginning of the year has slowed down towards the end of the quarter,

moreover interest rates tended downward after the highs of January. Thus, the quarterly loss of investment strategies with a high bond exposure was significantly smaller compared to strategies with a high equity exposure.

Investment strategies in CHF

■ QTD ■ YTD

CHF Growth	-2.95 % -2.95 %
CHF Balanced	-2.31 % -2.31 %
CHF Yield	-1.40 % -1.40 %
CHF Fixed Income	-0.44 % -0.44 %

Investment strategies in EUR

■ QTD ■ YTD

EUR Growth	-2.45 % -2.45 %
EUR Balanced	-1.79 % -1.79 %
EUR Yield	-0.88 % -0.88 %
EUR Fixed Income	0.11 % 0.11 %

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

WHAT MAKES PRIVATE EQUITY SO SPECIAL?

The year 2016 was a record breaking year for Private Equity Funds. In Europe alone, they collected commitments of EUR 73.8 Bln, the highest value since 2008. The market is dominated by institutional investors. Merely 9% of inflows come from Family Offices and private investors¹.

Under the term "Private Equity", a wide range of investment opportunities are found in practice. These can differ not only with respect to their legal form but also with respect to risk, return and costs.

"Private Equity" is generally understood as an investment into non-listed companies. Depending on their specialisation, funds are investing in different development stages of companies (for example Venture, Buyout or Turnaround). Fund of funds or secondary funds offer additional opportunities for diversification.

We would like to describe some particularities of Private Equity to you:

Low correlation to liquid asset classes

Due to the low correlation with equities, the allocation to Private Equity shall result in a positive effect to the risk/reward ratio of the portfolio. But it is also the deferred and less frequent evaluation of Private Equity-assets, which has a dampening effect on the volatility. This effect is often not achieved by investments in "Listed-Private Equity".

Higher returns

The returns of successful Private Equity-funds are in the long-term higher than the returns of funds of liquid asset classes. This premium should compensate the investor for the long-term capital commitment.

The following table shows the long-term returns of different strategies:

	5 years	10 years	15 years	18 years
Private Equity	14.6%	9.6%	12.8%	11.4%
Fund of Funds	10.3%	7.4%	8.4%	7.5%
Secondaries	14.7%	15.2%	16.2%	14.6%
S&P 500 (US Equities)	14.0%	7.5%	7.2%	5.6%

Source: Pitchbook Data, Inc./IRRs as of reporting date 30.06.2017

Long-term capital commitment

Private Equity-funds are normally closed-end funds with a previously defined term (10 to 12 years) that can be extended by the manager subject to certain requirements. The investor commits him- or herself to investing a certain amount. Due to the typical capital calls and distributions, normally no more than 70% of the committed capital is tied up in the fund.

Higher entry threshold

Renowned and successful fund provider often require a substantial minimum commitment. This makes it difficult for private investors to have access to top-funds and to build-up a diversified portfolio.

Higher costs

The fees for Private Equity-funds are normally significantly higher than the ones for equity funds. Besides the management fee a performance-related fee ("carried interest") is normally charged as well. The costs for selecting a top-tier manager are higher as well. The quality of the manager is finally the crucial success factor.

Conclusion

Investing in Private Equity requires expert knowledge and experience. The selection process (Manager-Due-Diligence) requires more time and costs as is the case with an investment in traditional asset classes. Private Equity-investments offer the opportunity to generate additional returns. Therefore, Private Equity-investments can be interesting for certain investors, not only in the current market environment.



VOUCHER CHECK

62 099 – that is the number of bank vouchers, that we checked in 2017 for our clients. Part of our activity as Investment Controller is the continuous control of all transaction vouchers. Besides the fee statements, we also have executions of purchases and sales of financial instruments as well as currency transactions thoroughly checked. Thus we ensure, that the asset management is carried out conform to the contract and in line with the market.

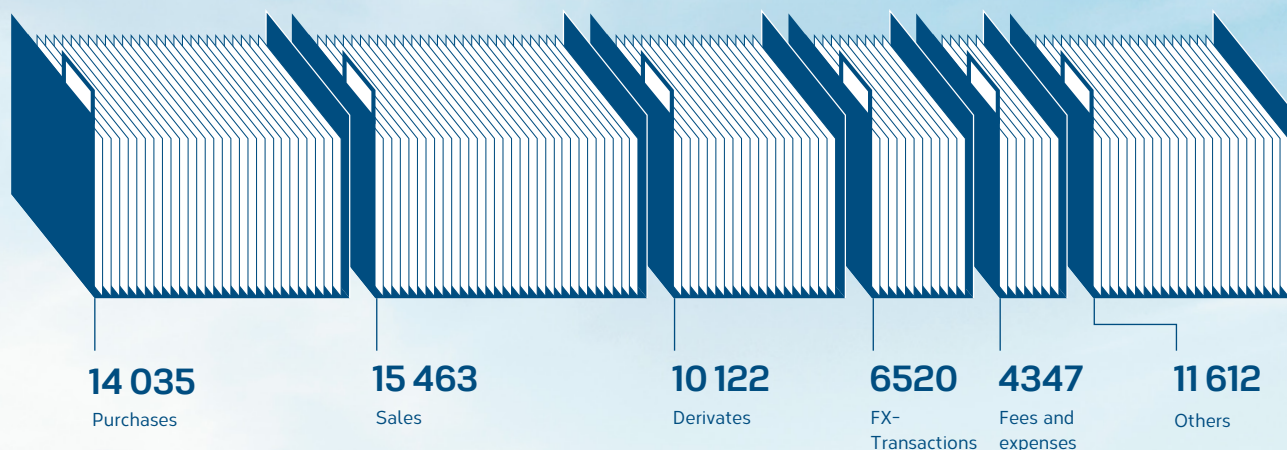
Additionally, the Investment Controller “senses” the changes in the portfolio of his clients. This proximity

to the mandate allows us to inform our clients about developments in a timely manner. Our clients benefit from this proximity to the mandate.

The processing of this enormous amount of vouchers is only possible with technical support. Based on daily business requirements we are forced to continuously improve our systems. Our know-how in the field of data processing, analysis and storage is a key success factor.

62 099

Total bank vouchers in 2017



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