LMM COMPASS

Dear readers,

Once again, reality shows that it is difficult to predict developments on the financial markets. After the gloomy mood at the end of 2018, stock markets are up by 20 % and the other asset classes are showing above-average positive returns. Practical effects are also shown by the regulations at European level through the so-called MiFID II. The bank client receives a wide variety of additional information. Unfortunately, the interpretation and comparability of these details requires a lot of expertise and experience.

Omar El Ashker
Director Business Development

Gerhard Seger
Member of the Management Board

THEMES

Market data
- Markets and strategies

Topic
- Does MiFID II create cost transparency?

LMM Inside
- Negative interest rates on account balances
- Bonds are having negative yields
- Inclusion of further investment categories

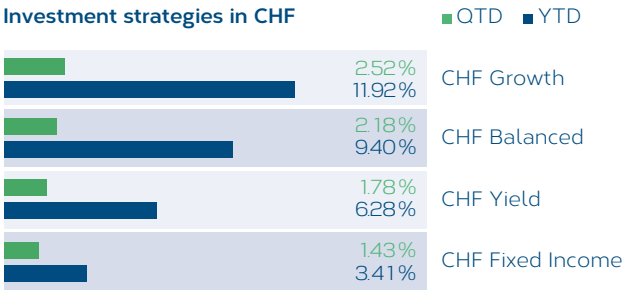
INVESTMENT STRATEGIES

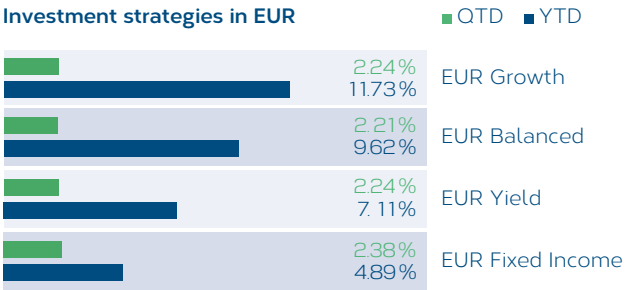
Stock markets experienced a series of ups and downs in the second quarter. After a positive April, prices declined in May and had a subsequent recovery to new highs in June. Once again, investors were able to benefit from falling interest rates and a decline in risk premiums. In alternative investments, the performance of gold is worth mentioning. The US Federal Reserve's outlook for stable or even lower interest rates led to a significant increase in share prices.

		Value	%QTD	%YTD	Currency	Index
Currencies	EUR/CHF	1.1104	-0.71	-1.47		
	EUR/USD	1.138852	+1.43	-0.37		
	USD/CHF	0.974991	-2.10	-1.10		
	USD/JPY	107.7371	-2.66	-1.80		
Bonds	Switzerland	140.89	+1.36	+3.22	CHF	SBI Total AAA-BBB
	Europe	263.2064	+2.83	+5.41	EUR	Bloomberg Barclays Cap. Euro-Aggr.
	USA	2171.71	+3.08	+6.11	USD	Bloomberg Barclays Cap U.S. Aggr.
	Emerging Markets	424.6507	+3.74	+8.85	USD	Bloomberg Barclays EM Hard Currency Agg TR Unh. USD
	Inflation linked	349.9898	+2.21	+6.20	USD	Bloomberg Barclays Gl. Inflation-Linked TR Unh. USD
	High Yield	1375.872	+2.97	+9.49	USD	Bloomberg Barclays Gl. High Yield TR Unh. USD
	World	505.5858	+3.29	+5.57	USD	Bloomberg Barclays Cap GA
Equities	Switzerland	3007.663	+6.13	+21.28	CHF	MSCI Switzerland Net
	Europe	225.017	+3.01	+16.25	EUR	MSCI Europe Net
	North America	7886.421	+4.13	+18.44	USD	MSCI USA Net
	Pacific	6362.03	+2.43	+11.17	USD	MSCI Pacific Net
	Emerging Markets	492.628	+0.61	+10.59	USD	MSCI EM Net
	World	259.1876	+3.61	+16.23	USD	MSCI AC World Net
Alternatives	Real Estate	4426.531	+0.20	+15.09	USD	FTSE EPRA/NAREIT Glb TR USD
	Commodities	79.653	-1.77	+3.83	USD	Bloomberg Commodity Index
	Gold	1409.45	+9.07	+9.90	USD	Gold (1 ounce)
	Private Equity	2855.287	+10.54	+26.51	USD	LPX 50 Index
	Hedge Fonds	1240.1	+1.58	+4.22	USD	HFRX Global HF Index USD

Values in local currencies; Source Bloomberg; reference date 30.06.2019

In the second quarter, all investment strategies increased significantly, with values between 1.5% and 2.5%. This clearly shows the positive effects of declining bond yields (price gains on bonds) and the further increase in stock markets. In view of the very low or negative bond yields, it will be even more difficult in the future for investment strategies with a high proportion of fixed income to achieve similarly high performance levels. Only further declining yields or a yield expansion with a negative sign could have further positive impacts.





Calculation LMM: Period 31.12.2018 - 30.06.2019

Note: the figures are before costs (exclusive of custody- and management fees)

TOPIC

DOES MIFID II CREATE COST TRANSPARENCY?

The requirements of the second European Financial Market Directive ("MiFID II" for short) oblige financial service providers to inform their customers about all costs and additional costs in connection with investment services and the relevant financial instrument.

Fees and costs were previously shown spread over several documents. Customer-related costs were found in advisory or management contracts, ancillary agreements to contracts or fee schedules. Product related costs could be taken from the Key-Investor-Information Document (KIID or KID) or Factsheets. The aim of the legislator was to compile this information in a clear way for the customer.

In future, financial service providers will have to inform their customers about the costs and additional costs of the product or service both before (ex-ante) and after (ex-post) service provision.

Upon request, the financial services provider must also provide the customer with a detailed itemized list of costs. It contains at least a breakdown into one-off and ongoing costs and also informs about costs related to transactions and ancillary services. In addition, contributions from third parties have to be disclosed.

However, many requirements are not defined precisely in the directive. This opens up room for interpretation and leads to the fact that the cost statement can look different from one institute to another regarding content.

In the case of investment funds, the actual costs often only come with an annual statement, i.e. are available months later. Caution is also required for products that have no explicit costs, but where the costs are indirectly offset by the interest. An isolated assessment of individual cost items is not recommended. An overall assessment of costs, returns and risk expectations is necessary in order not to limit long-term investment opportunities due to short-term effects.

With our daily Investment Controlling activities, we have already made the costs transparent and ensured that these are settled in accordance with market and contractual requirements. We also ensure that the comparisons are made according to a consistent approach to give you an optimal basis for decision-making.

SERVICE COSTS	EXAMPLES
One-off costs	Opening, change or termination fees
Ongoing costs	Administrative and advisory fees, custody fees
Transaction costs	Brokerage costs, transaction taxes, sales charges, foreign exchange fees
Additional costs	Research costs

PRODUCT COSTS	EXAMPLES
One-off costs included in the product price (start / end)	Structuring costs, distribution fees
Ongoing (charged to the "product value") costs	Management and performance fees, service costs, securities lending costs, financing costs
Transaction costs	Commissions, entry and exit fees paid by the Fund, sales charges, taxes, foreign exchange fees

As investment controllers, we serve individuals and institutional investors like pensions funds or foundations. In addition to the different customer profiles and investment options, there are topics that are currently being discussed by all our customers. In the following, we would like to briefly summarize three.

Negative interest rates on account balances

The policy of the central banks, especially in Switzerland and Europe leads to the situation that deposits at the central banks are charged with negative interest rates. The banks continue to pass on these "negative credit rates". Our experience shows that in this regard, however, no uniform handling is observed. In Austria, for example, private individuals may only be charged to a limited extent with negative interest rates. For private foundations, the same conditions apply here as for private individuals. It is advisable to check whether an optimization can be achieved by bundling services and to continue to include the point of negative interest in the negotiation of the conditions.

Bonds are having negative yields

Market participants expected bond yields to rise, but they instead declined. 10-year government bonds are having negative returns of up to -0.6% p.a.! With regard to new investments, the question arises as to whether further investments should be made in bonds or whether any impairment of debtor quality may be made. The resulting change in the return / risk profile, any liquidity risks and the probabilities of default are to be examined in detail.

Inclusion of further investment categories

The lack of attractiveness of high quality bonds and the surge in equities prompt many clients to consider other asset classes. The finance industry is active in the structuring and sale of such products. Our experience shows that, in principle, there are no new investment products and that many financial products have similar characteristics. Therefore, every investor should ask himself if he understands the investment product and its opportunities, risks and costs. If necessary, these points should be presented by the consultant in a clear and transparent manner. Furthermore, it is indispensable to examine to what extent the use of the new investment products changes the overall return / risk profile.

As Investment Controllers we are at your disposal with an independent second opinion.

Content:
LMM Investment Controlling Ltd. (Head office)
Zollstrasse 32 · P.O. Box 174 · LI-9490 Vaduz
www.lmm-ic.com

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