

LMM COMPASS



Dear readers,

The past has shown that sustainable investment returns can be achieved by choosing the right investment strategy and their consistent implementation. The opposite is often achieved by acting short-term or out of a particular occasion. In the current edition we want to pass on to you our practical experience regarding the appropriate investment strategy. In addition, we give you an insight into our technical systems who monitor the consistent implementation.

We hope you enjoy the newsletter and wish you relaxing summer holidays!



Jürg Meier
Partner, CEO



Markus Häni
Member of the
Management Board

THEMES



Market data

- Markets and strategies



Topic

- Which investment strategy leads to success?



LMM Inside

- Ongoing control



MARKETS AND STRATEGIES

The 2nd quarter 2017 was characterised by a slight rise in interest rates in Switzerland and Europe and a stronger Euro. Stock markets continued their upward trend and increased in value. The real estate sector

(REITs) and the formerly disappointing hedge funds increased in value as well in the 2nd quarter. On the other side, a fall in oil prices was recorded.

		Value	% QTD	% YTD	Currency
Currencies	EUR/CHF	1.09	+2.03	+1.89	
	EUR/USD	1.14	+6.64	+8.13	
	USD/CHF	0.96	-4.32	-5.77	
	USD/JPY	112.36	+0.84	-3.66	
Bonds	Switzerland	135.78	-0.49	-0.33	CHF
	Europe	245.65	+0.38	-0.55	EUR
	USA	2021.31	+1.45	+2.27	USD
	EMMA	388.33	+2.50	+5.82	USD
	Inflation linked	326.9	+2.04	+3.36	USD
	High Yield	1262.75	+3.19	+6.46	USD
	World	471.26	+2.60	+4.41	USD
Equities	Switzerland	2553.27	+4.25	+11.23	CHF
	Europe	209.46	+0.68	+6.68	EUR
	North America	6319.02	+2.95	+9.21	USD
	Pacific	5798.69	+3.92	+11.11	USD
	EMMA	449.85	+6.27	+18.43	USD
	World	221.37	+4.27	+11.48	USD
Alternatives	Real Estate	3817.65	+3.01	+5.37	USD
	Raw materials	82.60	-3.22	-5.61	USD
	Gold	1241.55	-0.62	+7.75	USD
	Private Equity	2456.28	+9.40	+17.24	USD
	Hedge Funds	1234.25	+0.89	+2.56	USD

reference date 30.06.2017

The rise of the euro against the US dollar and the Swiss franc is due to positive economic figures out of Europe, a slightly more restrictive EZB and the positively received outcome of the presidential elections in France. Mandates in CHF having an allocation in

equities of more than 40% were benefiting. All other strategies suffered due to the rise in interest rates (decline in bond prices). Mandates in Euro lost in value especially due to the stronger Euro, thus resulting in a negative quarterly performance.

Investment strategies in CHF

■ QTD ■ YTD

CHF Growth	0.61% 4.22%
CHF Balanced	0.19% 2.64%
CHF Yield	-0.19% 1.00%
CHF Fixed Income	-0.42% -0.32%

Investment strategies in EUR

■ QTD ■ YTD

EUR Growth	-1.10% 2.21%
EUR Balanced	-1.03% 1.10%
EUR Yield	-0.81% -0.03%
EUR Fixed Income	-0.42% -0.87%

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

Calculation LMM: Period 31.12.2016–30.06.2017 (before costs)

WHICH INVESTMENT STRATEGY LEADS TO SUCCESS?

Should one still buy Amazon at current price levels? When is the best time to realise profits? Why did my asset manager not sell before the downturn of the market? Investors tend to get influenced by short-term market movements. Also, doubts emerge quickly with regard to the own asset manager when the best friend mentions, that her manager achieved a return twice as high.

Apart from the fact, that apples are often compared to oranges or that such quotes are mostly missing the point, they are symptomatic for a wrong perception of investment management. Long term investment success has nothing to do with short term speculation or self-declared investment gurus.

Empirical studies have proven over again, that performance can mainly be attributed to the weighting of single asset classes. The selection of single instruments within the asset classes, let them be stocks or bonds, only plays a minor role. Also from our experience we can confirm that a large share of long term investment success relies on the definition of the appropriate investment strategy.

Therefore it is recommended to pay attention to the definition of a suitable and personalized investment strategy and its efficient implementation. The questions each investor has to ask go beyond the ones that have to be filled out in the various questionnaires

of asset managers. The discussion of definitions such as risk ability, risk tolerance, investment targets etc. should not be seen as a mandatory regulatory requirement but as a base for investment success. As discussed in the beginning, short term motivated deviations are often a cause for not achieving the originally defined return expectations. Buy low, sell high sounds tempting from a theoretical point of view. However in praxis this will hardly work. Only if the defined investment strategy is consequently maintained, long term expected market returns can be reached.

Staying invested is one of the important success factors. If an investor remained invested in the MSCI all world equity index throughout the last 14 years, his returns would be more than +180% today. If this investor missed the best 20 days, he would be in the red¹. However, in order to maintain an investment strategy in the long term, it has to be adapted to the client's risk profile.

The structure of total assets and the allocation to single asset classes such as bankable assets, properties, equity holdings, gold, etc. has to be considered at the definition of the investment strategy. The asset manager often only knows one part of the total wealth. As an investment controller we support our clients to fine tune the investment strategy according to their individual needs and their total assets structure.

¹ Source: JP Morgan "The weekly Brief", 08/31/2015



PRACTICAL TIPS

Five factors listed below have an influence on risk and should be considered while implicating the investment portfolio:

- **Liquidity:** In periods of market turbulence a lack of liquidity will cause high price volatility and limited trade capacity. For this reason the use of illiquid instruments should be excluded or restricted.
- **Transparency:** Only if I know the risks, I can judge whether these are in line with my risk profile. Intransparent funds or structured products should be avoided.
- **Diversification:** One of the major principles, which has proven itself in the long term. Spread your risks.
- **Now hurry:** Don't let yourself to be pushed into an investment. First you have to understand the investment.
- **Be careful with guarantees:** Risk free excess returns do not exist. Guarantees have their price and should be questioned critically.



LMM INSIDE

ONGOING CONTROL

In recent years we have continuously extended and optimized our data processing. By systematically collecting all investment rule data and checking them continuously, we are able to assure that rules and restrictions are permanently, and not only as per valuation date, complied to.

These ongoing controls of all sorts of transaction vouchers differentiates us from our competitors.

Various transactions are examined on a daily basis. In this way erroneous vouchers can be identified instantly, in a sense of an early warning system.

Philipp Vonbrül, Solfin Financial Service Solutions:
"The state of the art server infrastructure at LMM makes sure that all transaction data and vouchers are archived safely and available at any time."



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

www.lmm-ic.com

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.

Disclaimer: LMM takes the utmost care in compiling the information. We don't grant any warranty, including liability towards third parties, with respect to the accuracy, relevance and completeness of the information and opinions published in this newsletter.