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Investment Report

July 2020

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	4%	11%	→
Bonds	37%	29%	→
Convertible bonds	4%	0%	→
Shares	41%	43%	→
Alternative investments	14%	17%	→

**Changes since the last Investment Report (08 June 2020) & current assessment.*

Strategy overview

A truly memorable six months have drawn to a close. It got off to a picture-perfect start, which took international stockmarkets to new all-time highs, following on from a bull market that had already lasted for over a decade. Then came the fastest-ever collapse into a bear market in mid-February. The global economy suffered its most significant downturn since the Second World War. Global financial markets have been more volatile than they have been since the 2008 financial crisis, and governments as well as central banks announced support measures on a scale that has never been seen before. Total global stimulus measures put in place since the start of the year - apart from the 134 interest rate cuts - added up to a staggering figure of over USD 18 trillion. Of this, USD 10.4 trillion is fiscal and USD 7.9 trillion is monetary, equivalent to almost 21% of global GDP. Prices have been recovering since the fourth week of March. The last two movements in particular were quite remarkable. Measured in terms of the S&P 500 in the United States, the market fell over 30% and then rose over 40%.

"A memorable six months have drawn to a close."

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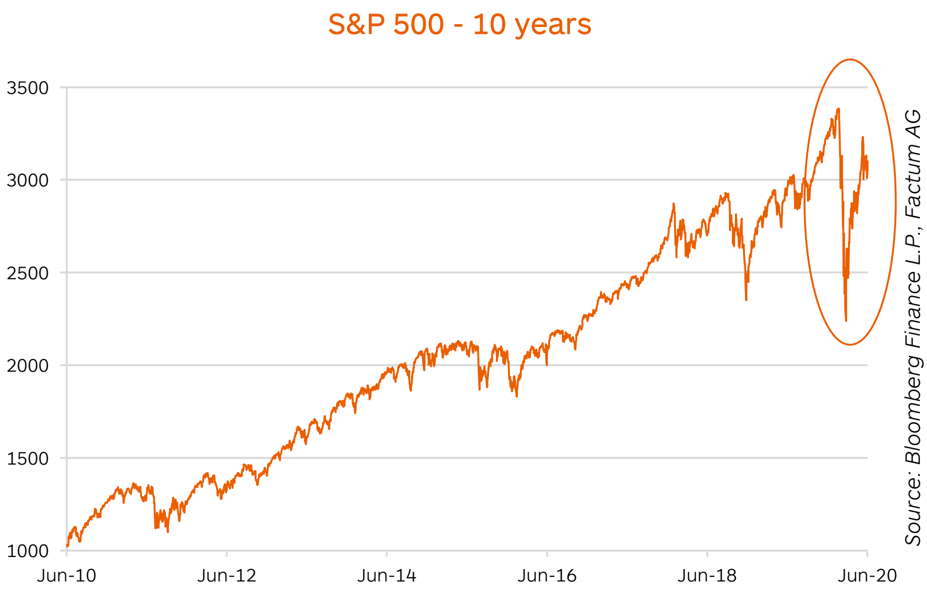

Now, more than ever: The future belongs to the bold! Anyone who has invested and has kept their nerves or even converted cash into shares is one of the winners. Those who lost their nerves are now in a losing position. As has already been mentioned on numerous occasions in previous Investment Reports, long-term investment and discipline pay off.

"The future belongs to the bold!"

The unprecedented events of recent months have prompted us to rethink aspects of our investment approach in order to make our portfolios more robust for the future wherever possible. The upshot is that we are making our equity allocation more global – that is to say, are reducing the "home-bias approach". We have also expanded our risk monitoring system and will monitor active risks even more closely in order to be able to react promptly to exceptional events.

"We have reconsidered aspects of our investment approach."

One of the main reasons for the move away from the "home- bias approach" is the sector composition of individual country indices, such as Switzerland with its particular focus on pharmaceuticals and food. Groundbreaking topics in fields such as IT, social networks, automation, robotics, artificial intelligence, etc. are often only marginally represented. Most of these companies originated in the United States or Asia. We aim to take account of this circumstance with our global approach. More attention will also be paid to the topic "ESG / SRI / etc." As a first step, when selecting our investment solutions, we will favour those that have a better "ESG score".

"Taking account of long-term topics and sustainability criteria in the selection process."

We have already pointed out on several occasions in previous Investment Reports that, in our opinion, relative considerations are more important when it comes to assessing stockmarkets in the medium term, and we therefore remain confident about stockmarkets. At the same time, however, handsome valuations limit the potential for future price gains. When it comes to the threatened second wave of the coronavirus pandemic, we take the view that governments will not impose a new blanket lockdown. Instead, they are likely to rely on less restrictive measures, which will include social distancing, compulsory wearing of masks, more testing, contact tracing and selective quarantine measures, in addition to those that continue to apply. In our view, therefore, we consider the further decline in GDP in the 4th quarter of 2020 that the OECD predicts in the event of a second wave to be overly pessimistic. Although this would cause the economic recovery to suffer a noticeable damper, it would not come to a complete standstill.

“We remain essentially positive for equities.”

On the investment side, we have given risky assets a neutral weighting - also see our current positioning on page 1. The price-earnings ratio for global equities is close to an all-time high, suggesting that the market is pricing in a V-shaped recovery and partially ignoring existing risks. For this reason we are very comfortable with our current high liquidity ratio and the overweighting of the gold position. However, if global equity markets were to fall by 5-10%, we would consider increasing the equity allocation.

“In overall terms, we remain neutrally weighted in risky assets - our current positioning is detailed on page 1.”

Politics

Presidential elections are scheduled to be held in the USA in four months' time, namely on 3 November 2020. Even though it is definitely too early to make a prediction, the Democrats seem to hold some trump cards against incumbent Donald J. Trump. The following chart, which is based on figures from RealClear Politics, shows that President Trump's chances of being re-elected are currently 36.1%. Prior to the outbreak of the coronavirus pandemic, his chances of garnering electoral support were much higher, at just under 60%.

“The chances of Trump being re-elected have suffered a significant set-back in recent months.”

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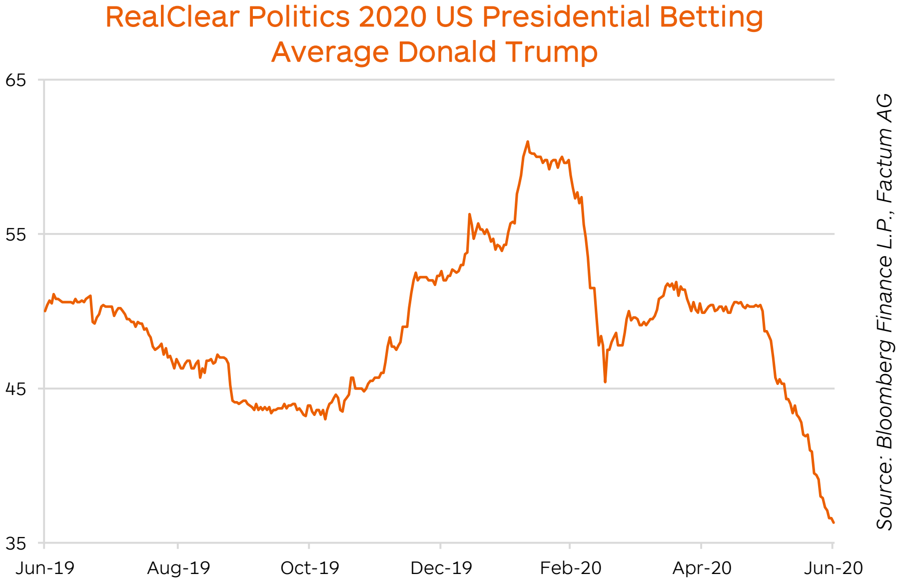


History shows that the incumbent has great advantages. Since the founding of the United States at the end of the 18th century, only 10 out of 44 sitting presidents have not been re-elected. In our view, a number of factors have recently emerged that cast strong doubts on Trump's chances of re-election. We would like to outline the most important factors.

"Since the founding of the United States, only 10 out of 44 sitting presidents have not been re-elected."

"It's the economy, stupid!" - this slogan was taken up by Bill Clinton and his campaign team in 1992 and still applies today - ultimately, the incumbent President Bush senior was not re-elected in 1992. The state of the economy is considered to be the most important factor determining whether an American president will be re-elected or voted out. For this reason Trump cannot be optimistic about the outcome of the election. Due to the coronavirus pandemic, the US economy is currently in an extreme situation. For example, the unemployment rate has risen from 3.5% in February this year to 13.5% today. The question here is likely to be whether voters ascribe this development to Trump. The US president could argue that the economy flourished until the coronavirus pandemic swept over the country like a natural disaster. Ultimately, the subjective perception of how much individual voters are being hit by the current crisis is likely to be the decisive factor. Trump has undoubtedly lost its greatest trump card, namely the economy, which until very recently was flourishing. All presidents of the last hundred years who were denied a second term in office - Bush senior, Carter, Ford and Hoover - faced considerable economic upheavals in the run-up to their elections.

"It's the economy, stupid!"

What Trump has not managed to do during his term of office to date is to appeal to broad segments of the electorate beyond his base. The unfavourable opinion polls reflect this. This weakness has accentuated during the coronavirus crisis. His polarising style has affronted moderate voters. Approval ratings are a reliable indication of his chances of re-election. If polls indicate support of 50% or more in the summer before the elections, a candidate can expect to be re-elected. If the figure falls below 45% - as is currently the case with Trump - re-election becomes difficult. This was the case with Bush senior, Carter and Ford, who, some four months before the election, garnered only 37 to 45% support in Gallup polls and were then voted out of office The way the American electoral system works, a president does not need to win a majority of the popular vote. The decisive factor is the number of Electoral College electors secured by majorities in the member states. In 2016 Trump won, despite the fact that his Democratic opponent, Hillary Clinton, won more votes nationwide. To repeat this success, however, he would have to win a number of states that have since moved more into the Democratic fold.

"During his term of office to date, Trump has not succeeded in addressing broad segments of the electorate."

In recent weeks, for example, polls have shown the incumbent President on average 2 to 7% behind former Vice President Biden in Florida, Michigan, Wisconsin and Arizona. These are member states that Trump won in 2016, and whose loss would prevent his re-election. However, the election year 2016 showed us how reliable such forecasts are. Biden's lead in most of these "swing states" is wafer-thin. The electoral campaign up to November is likely to be full of surprises and the fact that Trump is a so-called "comeback-kid" does not bode well for the challenger Joe Biden.

"It would be a big mistake to write off Trump, the comeback kid – the race to November is likely to throw up a number of surprises."

Economy

The raft of predominantly upbeat economic and sentiment data continued in recent weeks. The US Economic Surprise Index, for example, reached a new all-time record. It is important to note, however, that the May figures now being released are benefiting from a certain catch-up effect after the lockdown in April. These robust figures therefore overstate the underlying trend and should not be extrapolated to the coming months. Nevertheless, the data supports our assumption that the global economy will return to a path of growth in the third quarter and that the recovery - in a weaker form - will continue throughout the subsequent quarters.

"US Economic Surprise Index hits new record."

US Economic Surprise Index

For example, after three coronavirus-related weak months, new home sales rose sharply in May (16.6%), confirming that the US housing market is set to recover quickly. The significant increase in mortgage applications has already been pointing towards a recovery for several weeks and suggests that the recovery will continue in June.

"Strong recovery in the US housing market."

Within the Eurozone, provisional Purchasing Managers' Indices (PMI) recovered in June more strongly than expected. The index for the overall economy, the PMI Composite, jumped from 31.9 to reach 47.5 points, its highest level since February. Markets had been expecting a moderate rise to 43.0 points. The threshold for growth is 50 points, implying that the Eurozone economy has contracted only slightly. In addition, the business outlook has brightened considerably within the space of a year. This is nurturing hopes that the slump in the second quarter will not be quite as dramatic and that the Eurozone economy will return to a path of growth during the second half of the year.

"Europe too is showing positive figures."

The German Ifo Business Climate Index is also sending out a strong signal. This is based on a monthly survey of around 9,000 companies. Sentiment amongst German companies brightened more than expected in June, with the Ifo Index jumping from 79.7 to reach 86.2 points, the strongest monthly rise since the data series began in 1990. The main reason for the significant increase was business expectations, which were significantly more confident across all sectors.

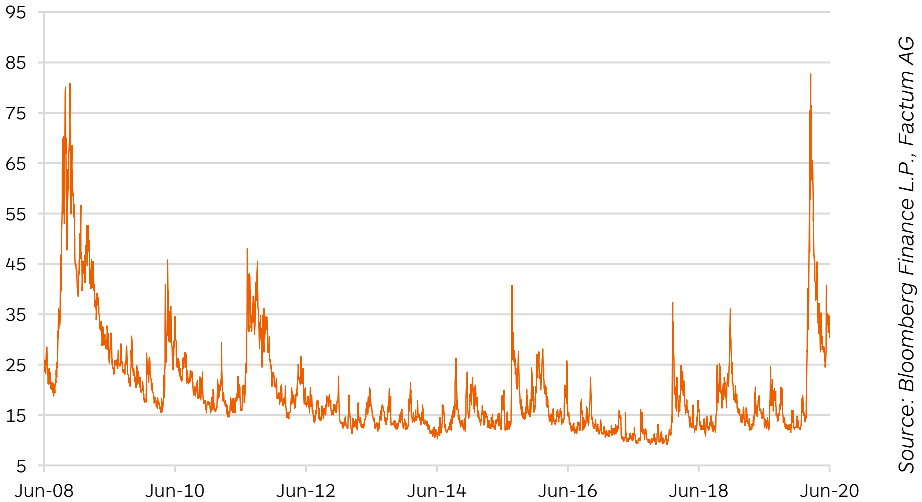
"The German Ifo Business Climate Index sent out a strong signal in June."

Equity markets

The past second quarter brought very respectable price gains on global stockmarkets, and volatility, which peaked at the end of the first quarter at the level of the 2008 financial crisis, declined significantly.

"The past quarter has seen some very impressive price gains."

VIX volatility since the 2008 financial crisis



30.95%, 23.90%, 20.54%, 18.51%, 17.78%, 18.14% and 9.86% - those are the Q2 increases recorded by the following indices: Nasdaq Composite, DAX, S&P 500, Dow Jones, Euro Stoxx 50, MSCI Emerging Markets and SPI. The exorbitant gains posted by the Nasdaq Composite - the US technology stock exchange - stands out in particular. The price records were bolstered by only a select few stocks. Specifically by the index heavyweights, that is to say shares in companies such as Apple, Microsoft, Amazon, Google or Facebook. In the eyes of investors, these companies were barely touched by the consequences of the recent economic crisis. In fact, quite the reverse: investors have to date clearly been assuming that these technology groups will even benefit from the accelerated digitisation of the economy that the measures to prevent the rapid spread of the pandemic have brought with them. Due to the increasing migration of digital applications to the cloud, the spread of teleworking and telelearning as well as the growth of digital commerce, these companies should be able to generate corresponding revenue and earnings growth in the coming years.

"30.95%, 23.90%, 20.54%, 18.51%, 17.78%, 18.14% and 9.86% - those are the Q2 increases recorded by the following indices: Nasdaq Composite, DAX, S&P 500, Dow Jones, Euro Stoxx 50, MSCI Emerging Markets and SPI."

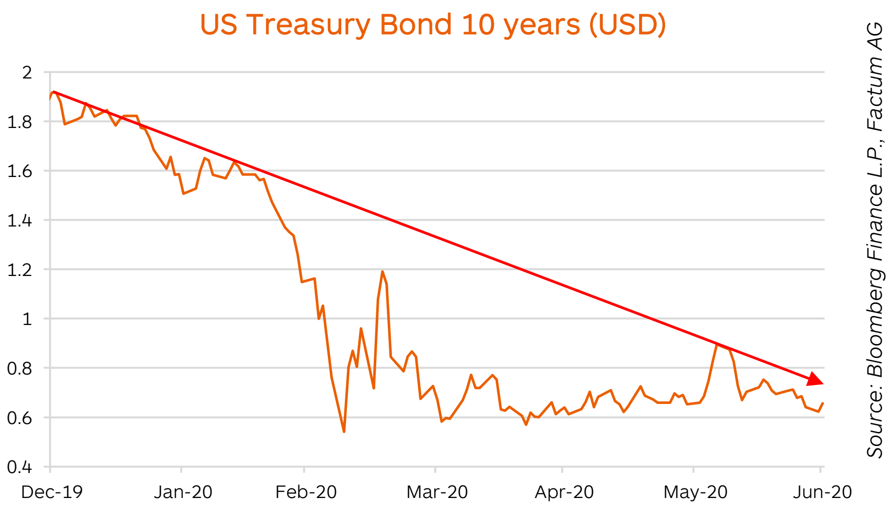
Apple and Microsoft each have a market capitalisation of around USD 1.5 trillion and Amazon of around USD 1.3 trillion. In terms of gross domestic product, these three companies are consequently worth about as much as Germany or about six times as much as Switzerland.

"In market capitalisation terms, Apple, Microsoft and Amazon are worth about six times as much as Switzerland."

Bond markets

The determined intervention of governments and central banks around the world within the context of the coronavirus pandemic was crucial when it came to stemming the downturn with all possible means. The cuts in key interest rates, the enormous expansion of quantitative easing (securities purchase programmes) and the promise to continue ultra-loose monetary policies for years to come have caused yields to fall significantly.

"Governments and central banks stepped up their fight against the coronavirus pandemic."



In comparison to the start of the year, the yield has more than halved, as shown by the above chart US Treasury Bond - 10 years (USD). This is making equity markets appear attractive relative to bond markets, despite the strong recovery seen in recent months. The tried-and-tested TINA argument consequently remains valid.

"Yields have fallen massively."

Since the highs at the start of the Corona crisis, risk premiums for euro corporate bonds have narrowed. There are indications that spreads will fall to pre-crisis levels in the coming months. For investors, this would mean price gains. The brightening economy, the continuing low interest rate environ-

"The situation in the bond sector has also calmed."

ment, positive impulses from fiscal and monetary policies as well as the constant demand for corporate bonds should provide support during the second half of the year. Despite the recent rally, risk premiums on investment-grade bonds (rating "BBB-" and better) are still 50 to 60% above the levels seen at the beginning of the year. In view of the fact that central banks on both sides of the Atlantic are buying investment-grade corporate bonds, there should still be scope for a recovery in yield premiums.

The situation for so-called high-yield bonds (non-investment grade) is less rosy. In this segment - at least in the United States - defaults have risen to their highest level since 2010. This mainly affects companies in the energy and telecommunications sectors, where caution is the order of the day.

"Difficult situation in the high-interest bond sector."

Commodities

USD 1,780.96 per troy ounce or +17.40%, that is the performance of the gold price in the current year. Following a two-month sideways phase in which the troy ounce fluctuated between USD 1,700 and USD 1,750, it then broke out of this band in an upward direction. The current price is the highest it has been since October 2012. This was mainly due to the strong inflows recorded by exchange-traded funds (gold ETFs). With a holding of 37.5 million ounces, we are currently at the highest level since April 2013.

"2020 – to date a gold year with a performance of +17.40%."

Gold - 10 years

Source: Bloomberg Finance L.P., Factum AG

Gold is receiving support from a range of quarters. First and foremost, there is the uncertainty associated with the coronavirus pandemic, which has prompted some to buy gold, the safe-haven currency. Stimulus measures taken by governments and central banks have once again significantly increased the risk of a dramatic expansion of national debt and the money supply. Consequently, the danger of rising inflation is also increasing, which is why gold, because of its reputation as a good protection against monetary depreciation, serves as an alternative. Another important factor when it comes to holding gold is the fact that real earnings and bond yields have been negative for some time.

"Gold is currently attractive from a number of perspectives."

Geopolitical and trade policy risks, such as the unrest in Hong Kong and the trade conflict between the USA and China also provide support for the gold price. As soon as a source of tension of this nature becomes more visible, this usually has a positive effect on the price of gold.

"Geopolitical and trade policy risks also speak for gold."

The precious metal is currently gaining additional support from a somewhat weaker dollar. Such phases make gold more attractive to buyers from other currency areas, which tends to stimulate their demand. We are maintaining our overweight in gold on account of the above factors.

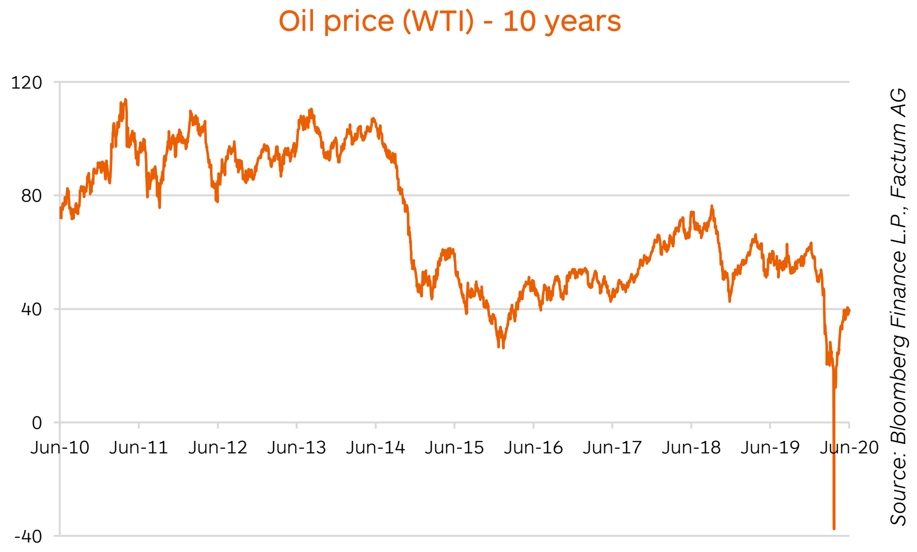
"The weak US greenback is giving gold support."

The energy sector is in a turbulent state. For example, the oil price (WTI) recently fell briefly into negative territory for the first time. The British energy giant BP recently announced a billion-dollar write-down on reserves and assets and in the United States there is an increasing number of insolvencies of shale oil and gas companies. According to a study conducted by the law firm of Haynes and Boone, 226 companies with liabilities equivalent to USD 132 billion have undergone restructuring over the past five years - and the trend is rising. A pioneer in the fracking industry pioneer, Chesapeake Energy, recently joined them.

"The energy sector is currently characterised by major upheavals."

Due to the coronavirus pandemic, the market for fossil fuels has seen demand collapse. It had already been hit by structural oversupply and bulging inventories. Oil and gas prices are comparatively low. Whether they will pick up again in the future, despite the sharp drop in investment in conventional production, also depends on how rapidly electric mobility and alternatives such as hydrogen become established. Public-sector support programmes for "green technologies" could, under certain circumstances, lead to a structural break in demand and make further write-downs such as those of BP necessary.

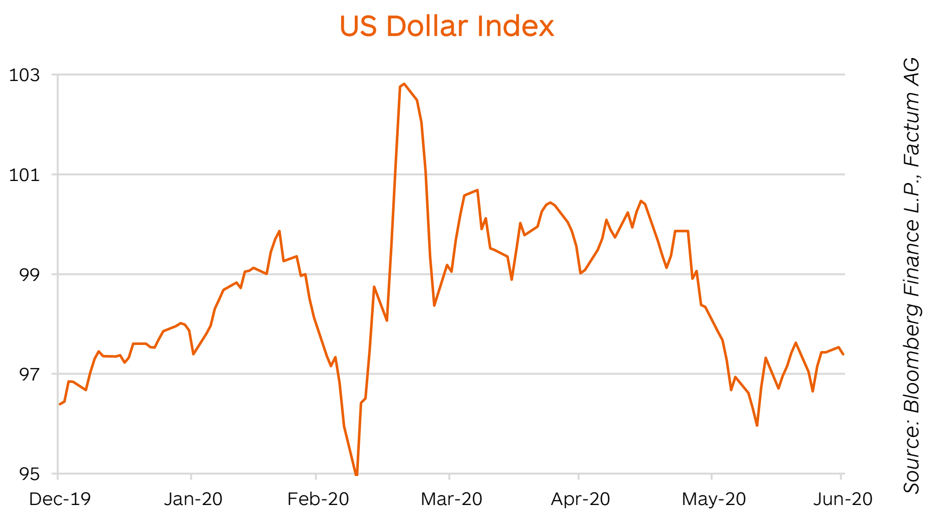
"Fossil fuels in competition with electric mobility and alternatives such as hydrogen."



Currencies

The value of the greenback has slipped around 3% since April. In our view, there are a number of reasons for this. First and foremost, there is the interest rate advantage, which has practically disappeared due to the Fed's interest rate cuts. In addition, liquidity conditions have improved considerably as a result of the unprecedented fiscal and monetary stimulus provided by central banks. In addition, momentum, one of the most reliable indicators, has turned against the greenback.

"The US dollar has recently been exhibiting signs of weakness."



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The euro should benefit from an environment where the US dollar is weakening and global growth is recovering. In addition, the outperformance of cyclical sectors and concerns about the overvaluation of the US market could lead to portfolio inflows into the euro area. Over the coming months, a development around the USD 1.15 level per euro is a realistic scenario.

"Over the coming months, a development around the USD 1.15 level per euro is a realistic scenario."

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Market overview 30 June 2020

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	10,045.30	2.17	-2.34
SPI	12,436.03	1.55	-3.13
Euro Stoxx 50	3,234.07	6.48	-11.97
Dow Jones	25,812.88	1.82	-8.43
S&P 500	3,100.29	1.99	-3.09
Nasdaq	10,058.77	6.07	12.74
Nikkei 225	22,288.14	1.99	-4.74
MSCI Emerging Countries	995.10	7.36	-9.70
Commodities			
Gold (USD/fine ounce)	1,780.96	2.93	17.38
WTI oil (USD/barrel)	39.27	10.65	-35.69
Bond markets			
US Treasury Bonds 10Y (USD)	0.66	0.00	-1.26
Swiss Eidgenossen 10Y (CHF)	-0.44	0.03	0.03
German Bundesanleihen 10Y (EUR)	-0.45	-0.01	-0.27
Currencies			
EUR/CHF	1.06	-0.31	-1.97
USD/CHF	0.95	-1.49	-2.00
EUR/USD	1.12	1.20	0.19
GBP/CHF	1.17	-1.04	-8.43
JPY/CHF	0.88	-1.56	-1.47
JPY/USD	0.01	-0.11	0.65

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