Your wealth is our priority.

FACTUM

Investment Report

October 2021

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	7%	↘
Bonds	37%	29%	→
Shares	45%	49%	↗
Alternative investments	15%	15%	→

**Changes since the last Investment Report (06 September 2021) & current assessment.*

Strategy overview

"Development to date in 2021."

The first two quarters could not have been more contrary. In the first quarter, "value" shares clearly outperformed growth stocks and interest-sensitive investments such as gold thanks to rising bond yields. In the second quarter, investors again tended to seek refuge in quality stocks and safe assets such as gold due to increasing concerns about the "delta variant". While stock-markets posted gains during the quieter summer months, "habitual" nervousness returned in September and caused the first price slide of over 5% in more than 220 days.

"Outlook for the coming 3 – 6 months."

The latest collection of reference data confirms our assessment that the global economic upswing is intact and that monetary policy will remain expansionary, albeit not quite to the same extent. Analysts' earnings expectations have returned to normal due to the easing of underlying effects. In view of higher earnings, valuations are not excessive. Against this backdrop, we expect a sound final quarter and are maintaining an equity overweight.

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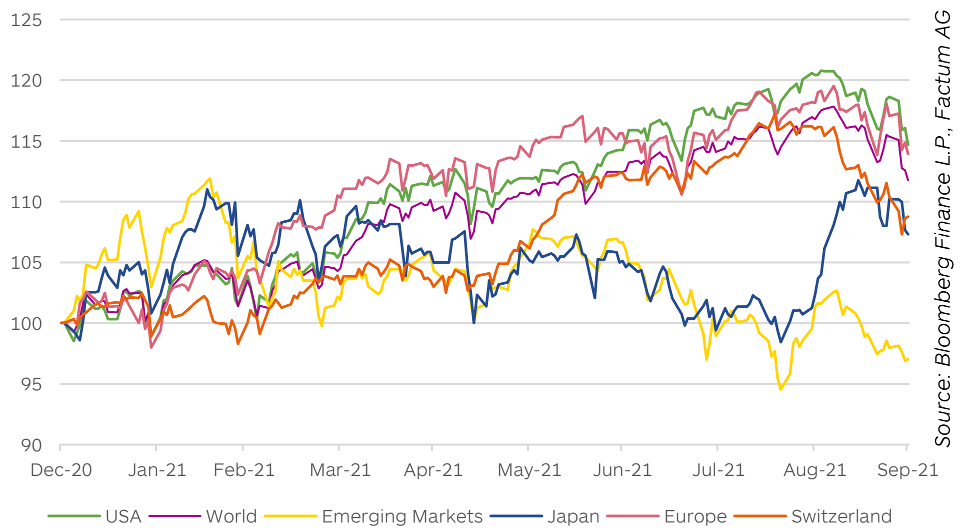
Global equity markets YtD. (indexed)



For a variety of reasons (rising interest rates, developments in China, the ongoing global supply bottleneck and staffing shortages, the resulting high price pressures, the current energy shortages in Europe and Asia, and political wrangling in the USA over the budget and debt ceiling), there was a sell-off in global equity markets from mid-September onwards. This led to certain equity indices experiencing their worst month since October 2020. Losses from the interim highs amounted to 5% to 10%, depending on the particular region. In our view, this correction is a "welcome" reversal in an upward trend. We have used the bargain prices to increase the equity exposure by 2% across all risk profiles. This means we are going into the final quarter with an equity overweight.

"In our view, the correction is a welcome reversal in an upwards trend. We used the bargain prices and raised the equity exposure by 2% across all risk profiles."

With the current weakness in the gold price, gold mining stocks have also been hit, despite the fact that companies are generating high positive cash flows, increasing dividends and refraining from (ill-considered) aggressive acquisitions. We think this sector is fundamentally favourably valued and have returned our exposure back to the original level of 1%.

"Rebalancing the gold mine fund deployed by us."

So-called "value" or cyclically sensitive stocks performed significantly better than "growth" stocks between November 2020 and March 2021. However, as expectations of slower economic growth took hold in the spring, investors turned their attention back to more "defensive" growth stocks. Statements by various central bankers that the higher inflation environment is only temporary and that interest rates should be kept low helped to reinforce this

"We promote a mix of so-called value & growth stocks."

trend. We do not entirely share this view. For this reason we would not recommend a positioning towards growth stocks that is too one-sided. Supply chain problems as well as the shortage of skilled labour could mean inflation remains elevated for an extended period of time. Although current growth prospects have eased to a certain extent, they are still above the long-term potential rate of growth. This would therefore justify higher interest rates at the longer end of the yield curve. Both higher inflation and a steeper yield curve argue for "value" stocks.

We have therefore trimmed our position in Fidelity Global Focus and increased the iShares Edge MSCI World Value Factor by the same amount.

"Investment in iShares Edge MSCI World Value Factor."

Politics

At long last: On 12 October, the US House of Representatives supported the Senate bill of the previous week, securing a Democrat majority. This is designed to prevent a "shutdown". With this approval, a looming American government default has been averted for the present. The bill raises the debt ceiling by USD 480 billion to give the government financial leeway, at least until the beginning of December. An imminent default, which would undoubtedly have had catastrophic economic consequences, has therefore merely been postponed. It remains unclear how the Administration will proceed from December onwards.

"US House of Representatives approves debt ceiling increase."

The interim solution that has now been adopted was preceded by heated disputes between Democrats and Republicans. Democrats wanted temporarily to suspend or significantly raise the debt ceiling. Republicans voted against this, however. Wrangling for a long-term solution is likely to be back on the agenda soon. Treasury Secretary Janet Yellen had warned of a financial crisis and subsequent recession should the US government default on its debt for the first time. According to her Department, the US would have run out of money on 18 October.

"Without the agreed stopgap solution, the US would have run out of money on 18 October."

The US infrastructure project is expected to cost USD 4.5 trillion – or about six times Switzerland's gross domestic product. Specifically, there are two separate legislative packages, but Congress has yet to approve them. On the one hand, there is the "Bipartisan Infrastructure Framework" (BIF). This package is a combination of already-approved spending and around USD 550 billion in new investment over ten years. These funds are to flow mainly into roads, bridges, public transport, the electricity grid and water pipes. Inter alia, unused funds once earmarked to combat the coronavirus pandemic are to be used to finance the BIF. As the name "bipartisan" suggests, these

"Biden's infrastructure programme set to cost USD 4.5 trillion."

measures are not exactly controversial amongst the two parties. In August of this year, the Senate passed the package by 69 votes to 30, with 19 Republicans voting in favour at the time. The reason this package has not yet been adopted is that the Democrats have linked it to a second package.

"The Build Back Better Act is the real sticking point."

The Build Back Better Act (BBB) is substantially more costly than the BIF, entailing an investment of USD 3.5 trillion over the course of a decade – and remains very controversial. The BBB is a colourful smorgasbord of Democratic interests, and is vehemently opposed by the Republicans. The Biden Administration wants to expand the American social system significantly with the BBB. The BBB will see financial resources flow primarily into education, health and affordable housing. Biden and his Administration want to secure funding for the BBB through a tax hike. Corporations with annual profits of more than USD 5 billion and private individuals with incomes of more than USD 400,000 are to be taxed significantly more heavily.

"Is the BBB Act coming in a pared-down form?"

It is already clear that this bill will not achieve the required qualified majority of 60 votes in the Senate. But the Democrats are aiming to sidestep this obstacle. So-called "budget reconciliation" makes it possible to pass budget legislation and ordinances once per annum with a simple majority. But this, too, is certainly not yet in the bag. Some Democrats are reluctant to approve the BBB as it currently stands. At USD 3.5 trillion, they consider the package far too expensive. Tax increases are also strongly opposed by certain Democratic Party representatives. One thing is likely to be clear: If President Biden really wants to get his project of the century through Congress, the BBB will probably have to be submitted in a slimmed-down form.

Economy

"Is the stagflation scenario realistic?"

What should we make of the risks mentioned at the beginning of this Report, which were responsible for the stockmarket correction in September? Well, the risks must of course be analysed calmly and objectively. In addition, the spectre of stagflation conjured up by some market-watchers is indeed, in our view, a possible alternative scenario. However, there is currently little sign of a combination of a stagnating economy and high inflation simultaneously, as was last seen in the 1970s. For example, the purchasing managers' indices published in September continued to testify to very robust and broad-based economic growth. In fact, the purchasing managers' index for the global economy actually rose from 52.5 to reach 53.0 points in September. Incoming orders have again increased significantly and the business outlook for the coming twelve months has brightened further at an already high level.

On the industrial side, delivery periods have eased slightly for the third straight month.

"The automotive industry is in a sorry state."

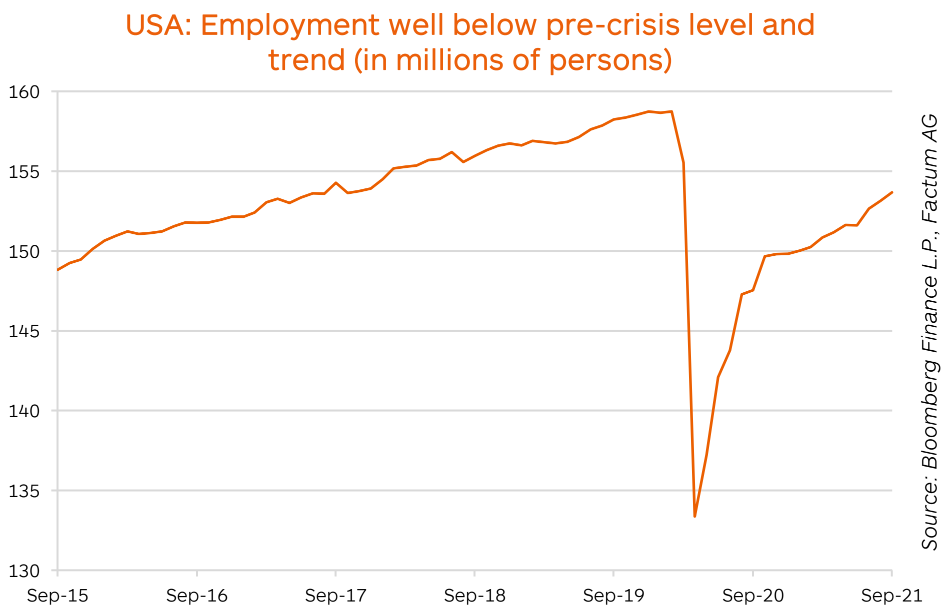
However, the situation remains difficult in some countries such as Germany and the UK. Industrial production in Germany, for example, again fell significantly in August – despite bulging order books. Supply bottlenecks have led to a significant drop in production, particularly in the all-important automotive industry. It is currently producing almost two-thirds fewer vehicles than before the pandemic. In view of the very large backlog of orders, however, there is no reason to believe that this state of affairs will be a long-term problem. With the rapid progress in vaccination throughout the Asia region, supply bottlenecks are expected to ease significantly during the course of the coming year. Added to this is the fact that the recovery in the service sector is continuing. In overall terms, the German economy is still growing at over 1% per quarter, about three times as strongly as in normal circumstances.

"Inflation is being strongly driven by the energy sector."

Concerns about rising inflation are less likely to be allayed, though, because annual rates around the globe have frequently been higher than expected in recent months and the peak is still to come in many countries. Inflation in America, for example, is currently above 5%, and it even reached 3.4% in September in the Eurozone – the highest level recorded in almost 13 years. In some emerging markets it is even in double digits, which is why more than half of central banks have already begun tightening their interest rate belts. This does not alter the fact, however, that inflation continues to be driven very strongly by temporary factors. For example, about 60% of the inflation rise in industrialised countries is due to significantly higher energy prices. Even though oil and gas prices have continued to rise of late, the contribution of this sector to growth will decline in the coming months, which is why inflation will also fall again. The reason is obvious: On the one hand, permanent price increases are required if high inflation is to be sustained. Stabilisation at a high level would consequently automatically lead to declining inflation over time. On the other hand, due to an increase in supply, energy prices might actually be expected to fall in the coming year, which could bring inflation down even faster. The situation on the energy market in Europe has recently eased somewhat. At the beginning of October, President Vladimir Putin announced that Russia would be able to export new record volumes of natural gas to Europe this year.

As energy prices are likely to decline in the medium term and supply bottlenecks are also normalising for the foreseeable future, other drivers would be needed for inflation to remain high. So far, there is little to suggest that inflation expectations and wage demands are set to rise relentlessly and thus set in motion a wage-price spiral. More to the point, unemployment levels are still high in most regions. By contrast, shortages of workers are particularly pronounced in the USA. The number of job vacancies has risen to a record high and half of companies are struggling to fill vacancies. In some sectors, this has already led to noticeable wage pressures. At the same time, job growth has recently been disappointing. In September, only 194,000 new jobs were created, significantly fewer than had been expected (500,000). Compared to the pre-crisis level of February 2020, this still leaves a shortfall of almost five million jobs. If one also takes account of the fact that the total population and the number of people of working age have continued to increase since then, the shortfall is in fact 8.3 million jobs. It is also important to remember that with the end of the generous benefits scheme for the unemployed, the supply of labour should now increase significantly once again, which will also dampen wage pressures.

"What are the prospects for the labour market?"



Despite the looming insolvency of the highly indebted real estate developer Evergrande, neither a real estate crisis nor an economic slump in China is our base scenario. The Chinese government is very keen to prevent any domino effects. While the possibility of a political miscalculation cannot be ruled out entirely, at the same time there is a broad consensus that in the current quarter new monetary and fiscal policy measures will boost the recently

"The Chinese economy took market-watchers by surprise of late."

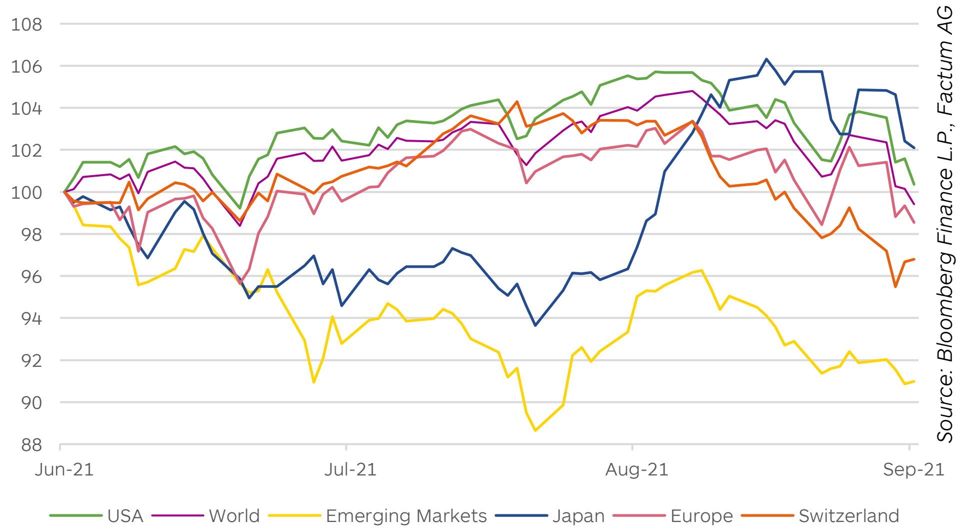
weak growth performance once again. According to the consensus, the world's second-largest economy grew only 0.4% in the third quarter relative to the previous quarter. However, this is largely due to the pandemic and renewed restrictions at the local level. In the interim, lockdown measures have been relaxed once again and the latest purchasing managers' indices point to a robust recovery. For example, the privately collated Caixin Purchasing Managers' Index for the service sector rose significantly in September from 46.7 to reach 53.4 points. In view of this, we are expecting a healthy recovery in the fourth quarter.

Equity markets

Mounting nervousness has had very different impacts on the major stock exchanges. Japan and India produced positive surprises. The situation at the quarterly level in Switzerland is less rosy. There was selective profit-taking in highly valued growth stocks. At the sector level, commodity companies came particularly under pressure, largely due to the possible real estate crisis surrounding Evergrande in China. Heavily indebted utilities were badly hit by the rise in interest rates. By contrast, financial companies – above all the insurance sector – benefited from rising yields.

"Sentiment flipped at the end of September."

Global equity markets end the quarter in a weak state



Despite the current challenges, we still see more light than shadow in the coming months, which is why equities remain our favoured asset class. Driven by inflation and the impending normalisation of monetary policy, bond yields have recently also risen significantly again. The yield on 10-year US Treasuries, for example, has risen from around 1.3% to reach 1.6% in just over

"Equities remain the favoured asset class – we therefore consider an overweight justified."

a fortnight. However, this is still well short of what is needed to make bonds more attractive again relative to equities, especially since analysts' earnings expectations have risen further and valuations have edged lower again from their very high levels. The risk premium on the US equity market has therefore actually been increasing again of late. Valuations are relatively high in historical terms in the USA and Switzerland, but otherwise mostly moderate. From a sentiment perspective, there is no longer any immediate danger. The predicted technical "pullback" occurred at the end of September. It is our assumption that equity markets will tend to trend upwards over the next few months, which is why we consider a current overweighting of the equity ratio to be justified.

Bond markets

"US Fed likely to begin tapering soon."

Once again, the order of the day was: "All eyes on the Fed". Investors eagerly awaited the Fed's Open Market Committee statement on its tapering intentions. The Fed meeting largely came up with the expected results. The monetary watchdogs indicated that bond purchases will soon be curbed. Fed officials are therefore clearly not being distracted by the recent softer economic environment. According to our scenario, the phrase "soon" means an announcement in November. In terms of the pace of the tapering process – which is due to be completed by mid-2022 – the Fed is hinting at a relatively swift tapering of bond purchases. We take the view that securities purchases can effectively be reduced for the first time at the beginning of December, and could then be ended on 1 July. In our view, the economic forecasts presented few surprises. The short-term growth outlook was downgraded and the inflation forecast was raised slightly. The forecast path for base rates caused more of a stir. Exactly half of the monetary watchdogs are now expecting an interest rate hike in the coming year. It is worth noting, though, that this scenario can also change again at short notice. If inflation temporarily falls below the target value in the second half of 2022 and, on the other hand, growth weakens against the trend due to burdensome fiscal effects. This would be an environment in which the Fed is unlikely to push for rate hikes.

Yield on ten-year US treasuries in %

A clear underweighting of the bond ratio remains justified on account of the interest rate risk. “Spread segments” such as corporate bonds or “EM debt” are to be preferred over government bonds due to the continuing sound growth environment.

“In our view, a clear underweighting of the bond ratio is justified on account of the interest rate risk.”

Of the major central banks in industrialised countries, the Bank of Japan and the Swiss National Bank also conducted their monetary policy assessments at the end of September. As expected, both central banks remain expansionary, especially since neither Japan nor Switzerland are expected to see a dynamic and sustained rise in inflation. The SNB once again described the Swiss franc as highly valued and pointed to imbalances in the real estate market.

“As expected, BoJ and SNB have not signalled a policy shift.”

In emerging markets, as we know, monetary tightening is already in full swing and the rate hike cycle will be gaining breadth and momentum by the end of the year. This applies in particular to Latin America. As expected, the Central Bank of Brazil raised its base rate by 100 basis points to 6.25% in September. This is now the second interest rate step of this magnitude, after smaller interest rate steps of 75 basis points were approved at the three previous meetings of the Central Bank. Since the beginning of the rate hike cycle in March this year, the Central Bank has now raised its base rate by a cumulative 425 basis points. Brazil is currently struggling with price pressures in the food and electricity sectors due to the persistent drought. In its scenario analysis, the Central Bank is accordingly expecting a further base rate hike of 200 basis points to 8.25% by the end of this year. It is therefore also holding out the prospect of raising the base rate by a further 100 basis points at the next monetary policy meeting.

“Banco Central do Brasil with further base rate move.”

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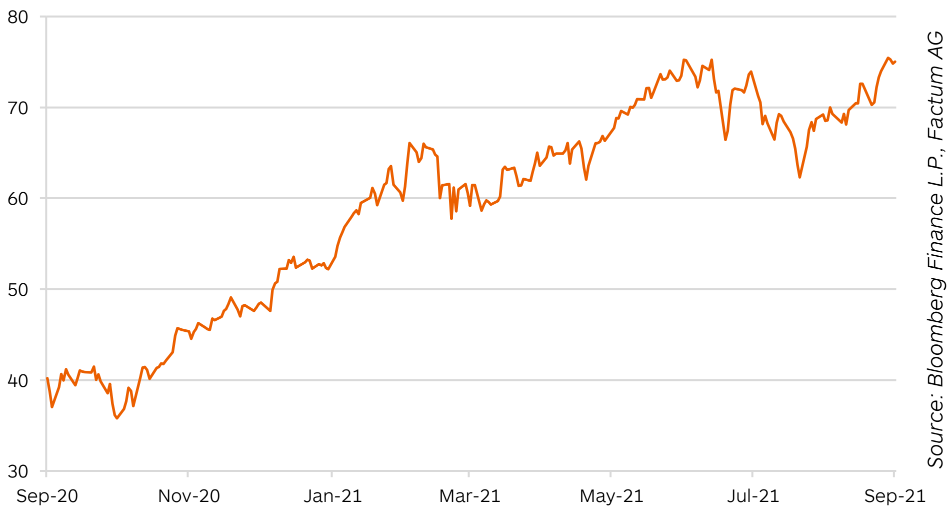
Commodities

While demand has been the main driver for global commodities for several months of the current year, the supply side is now becoming increasingly important, especially when it comes to crude oil. An important driver in the coming months is likely to be the response of US shale oil producers as well as OPEC and Russian production discipline for future supply. In overall terms, cyclical demand ultimately remains the main driver, but supply uncertainties can always cause further volatility spikes. As at the end of September, the price of WTI crude oil listed at USD 75 per barrel, corresponding to an increase of 55% since the beginning of the year.

"The price of crude oil (WTI) has gained 55% in the current year to the end of September."

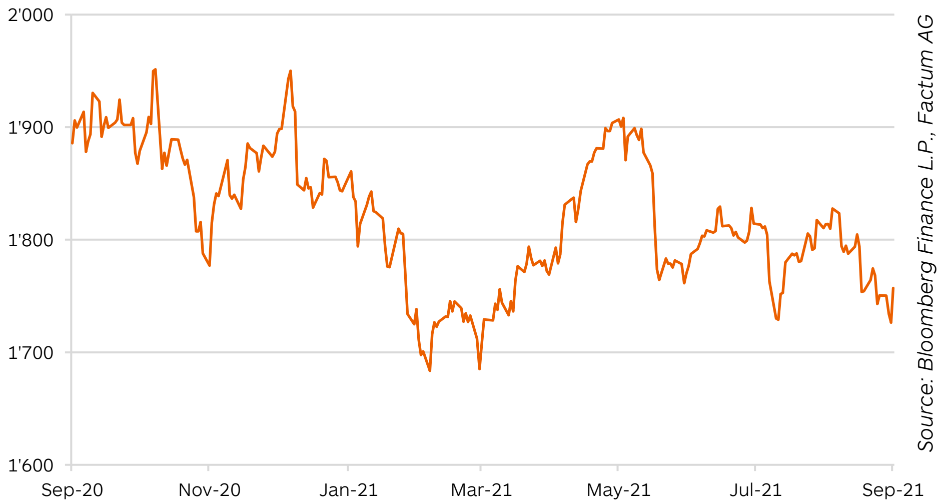
Oil price (WTI) over twelve months



The price of gold has been moving in a range of USD 1,700 and USD 1,900 per ounce for more than a year. Investments in gold can hedge against extreme events such as stockmarket turbulence. The precious metal also remains relevant as a strategic position during difficult market phases. In the longer term, in particular, we see gold as a worthwhile investment, including against monetary and fiscal policy miscalculations. With real interest rates in further decline, the price of gold hit around USD 1,760 per ounce at the end of September. USD indicators – valuation as well as speculative positioning – do not yet point towards a trend reversal in the gold price. In our view, the overall picture for maintaining the neutral ratio is intact, that is to say, in a balanced portfolio we hold 3% of the yellow precious metal.

"The overall picture still favours maintaining a neutral gold ratio."

Gold price over twelve months

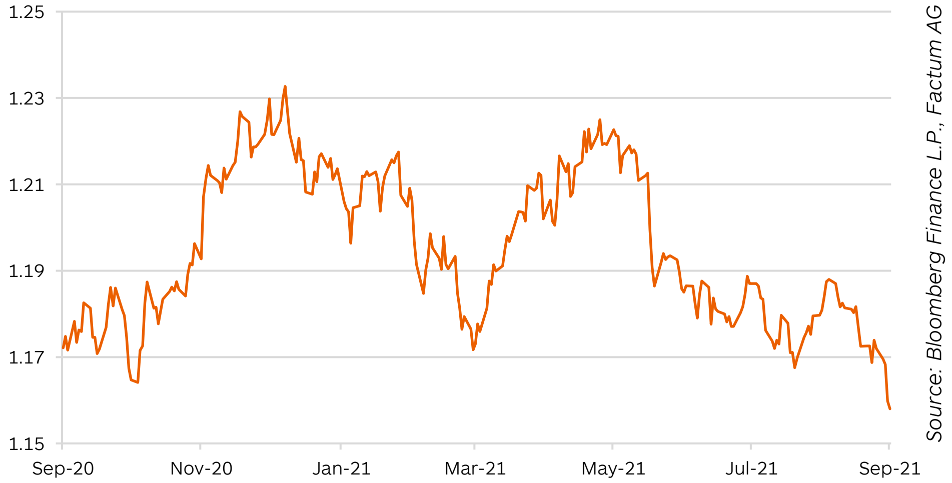


Currencies

The greenback has recently lost some of its strength. This is mainly due to the fact that the Fed has reaffirmed its determination to reduce its monetary stimulus gradually. While the monetary watchdogs stated that the inflation target had been met, the significant employment gap of more than 6 million workers still argued for loose monetary policy. The US labour market needs to be paid close attention after direct payments to the unemployed expired on 6 September. Due to the advanced state of the recovery in the US economy, the Fed is likely to begin tapering its securities purchases at the end of this year. An easing of inflation should take some pressure off the Fed and consequently argue for a leisurely pace of normalisation. Against this backdrop, we consider a movement between USD 1.15 and 1.20 against the EUR to be a realistic scenario.

"The future for the EUR/USD currency pair?"

EUR/USD over twelve months



The Chinese government imposed a ban on all cryptocurrency transactions at the end of September. This edict also affects providers who are based outside China but wish to offer their products to customers on the Chinese mainland. China's government is concerned about three main issues: To prevent illegal transactions, to reduce the electricity consumption that is caused by cryptocurrency mining, and thirdly, the Bank of China wants to keep a tight control over the country's finances. China mined 75% of the world's Bitcoin at its peak, generating substantial wealth. China's struggle against cryptocurrencies dates back to 2013. At the time, the government prohibited banks from using Bitcoin. In 2017, a ban on crypto exchanges and initial coin offerings (ICO) followed.

"China bans transactions in cryptocurrencies."

Market overview 30 September 2021

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	11,642.45	-6.10	11.88
SPI	15,044.61	-5.66	12.88
Euro Stoxx 50	4,048.08	-3.37	16.50
Dow Jones	33,843.92	-4.20	12.12
S&P 500	4,307.54	-4.65	15.91
Nasdaq	14,448.58	-5.27	12.67
Nikkei 225	29,452.66	5.41	8.82
Stocks Emerging Countries	1,253.10	-3.96	-1.16
Commodities			
Gold (USD/fine ounce)	1,756.95	-3.12	-7.45
WTI oil (USD/barrel)	75.03	9.53	54.64
Bond markets			
US Treasury Bonds 10Y (USD)	1.49	0.18	0.57
Swiss Eidgenossen 10Y (CHF)	-0.16	0.16	0.39
German Bundesanleihen 10Y (EUR)	-0.20	0.18	0.37
Currencies			
EUR/CHF	1.08	-0.20	-0.24
USD/CHF	0.93	1.81	5.25
EUR/USD	1.16	-1.94	-5.21
GBP/CHF	1.26	-0.29	3.76
JPY/CHF	0.84	0.66	-2.29
JPY/USD	0.01	-1.14	-7.15

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