Investment Report

January 2021

Factum AG
Current positioning:

Portfolio balanced	Neutral	Current	Change*
Liquidity	3%	8%	→
Bonds	37%	29%	→
Shares	45%	46%	→
Alternative investments	15%	17%	→

**Changes since the last Investment Report (07 December 2020) & current assessment.*

“2020 – an investment year like no other.”

Strategy overview

The year 2020 underscored just how important it is to stick to an investment strategy. Admittedly, we did not expect prices to recover so quickly. Previously, however, that was always the case, and there was no reason to suspect that this time would be any different. The investment year 2020 was certainly a year like no other. Record prices were followed by the fastest slide and the most rapid rebound in stockmarket history, together with new highs. Oil prices were even negative for a time and the value of not exactly modestly valued companies such as Tesla or that of the cryptocurrency Bitcoin multiplied. The global equity index MSCI World gained almost 17%. US technology stocks, which rose 44% as measured by the Nasdaq Composite Index, played a major role in this.

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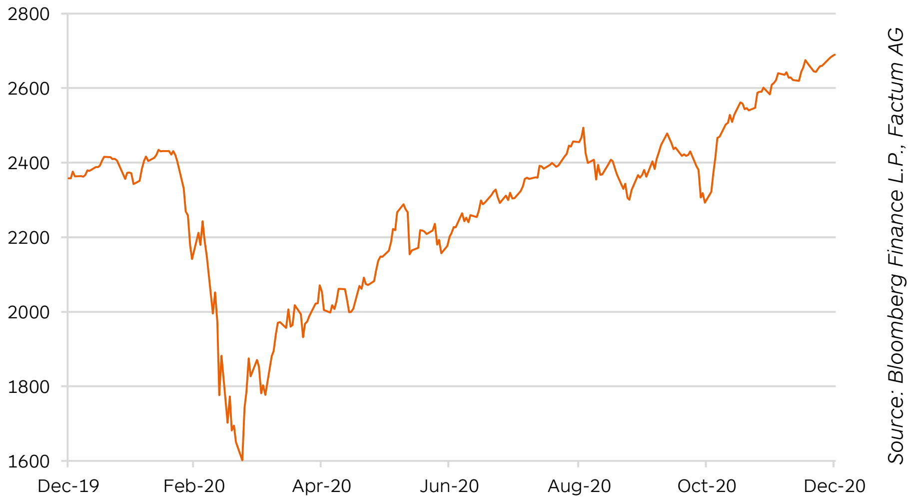
MSCI World Index



What could the 2021 investment year bring us? It cannot be denied that it is extremely difficult to distinguish between noise and information. In our view, it is important to understand the current system and structural trends. We are broadly positive about the prospects for the 2021 investment year. The availability of vaccines points to a continued global economic recovery. A large number of companies have optimised their cost bases, meaning that the economic upturn should be clearly reflected in earnings. Market-watchers are hoping that president-elect Joe Biden will be less inclined to impact international trade with disputes and punitive tariffs in the years ahead. Central banks are likely to continue endeavouring to stimulate the economy with extremely loose monetary policies for some time to come. Asia, and above all China, has coped well with the pandemic to date and is emerging stronger from it. For this reason we have overweighted this region in the equity sector. In certain cases, we see warning signals in high valuation levels or an overheating market for stockmarket newcomers.

"Positive aspects clearly predominate for 2021."

We are all in the dark when it comes to saying with certainty what the much-discussed "new normal" will look like once the pandemic is over. It is also difficult to assess what the impact will be on the economy and financial markets. In our view, however, it is possible that the artificially low interest rates maintained by central banks and the resulting lack of alternatives will continue to encourage investors to buy into risky securities such as equities. We have consequently raised the neutral equity ratio in the strategic asset allocation, reflecting the medium to long-term view. The adjustment is due to the higher long-term return outlook for equities compared to the other asset

"We raised the neutral equity ratio in the strategic asset allocation."

classes. In the current negative interest rate environment, in particular, this argument is gaining additional weight.

"What is our positioning as we go into the 2021 investment year?"

Against the backdrop of the above, we are starting the new investment year with an overweight of the liquidity ratio. We see this allocation as a means of protecting the capital base and exploiting any investment opportunities that may arise. We are underweighted in the bond field, on account of the interest rate situation. Yields on first-class government bonds are still at very low levels, in some cases are even negative, and are therefore not interesting. To achieve acceptable returns, we are investing in a mix of government and corporate bonds and inter alia use funds with active duration management. We have a neutral weighting for inflation-linked bonds at present. We also have a neutral weighting for emerging market bonds at the moment. In comparative terms, this is where the most attractive yields are to be found. When it comes to equities, we are starting with a slight overweight, mainly due to the support provided by fiscal policies as well as a further recovery in the global economy. We have also overweighted alternative investments. For diversification reasons, we still consider the addition of hedge funds in the portfolio to be the best approach. We have also invested a portion in global real estate stocks with attractive returns under the heading of alternative investments. The gold position has proven to be a useful diversifier and remains a fixed portfolio component. A detailed breakdown of our current positioning is shown on Page 1.

Politics

"Are we likely to see significant shifts in geopolitics?"

The question that many are probably asking at the moment is whether the new US president will signal a geopolitical shift. As geopolitics remains an important consideration for financial markets, the answer to this question is of central importance for 2021 and the years thereafter. For the next four years with Joe Biden as president – presuming that he stays in office for the full four years – the style, but not so much the content of America's geopolitical profile is likely to change. This applies in particular with regard to the aggressive superpower China. For the most part, Biden and his administration do not have a positive opinion of the way China is exercising power and its behaviour in Hong Kong, especially with regard to respecting human rights. It was a Democratic president, Bill Clinton in 1996, who sent two American aircraft carriers to patrol the coast of China after China fired missiles over the Gulf of Taiwan as a threat. The tremendous rivalry between America and China in the battle for supremacy in leading technologies and in the conflict for military dominance will continue under a democratic US president.

China's military ambitions in the region (from Taiwan to Singapore) are reminiscent of Japan's aggressive policy in the same region after 1940.

Where we do see a geopolitical thaw, however, is in the relationship between the US and Europe. Unsurprisingly, the election of Joe Biden was very well received, in particular by France and Germany. It is safe to assume that the new US president will not only re-join the Paris Climate Agreement, but also underscore the transatlantic bonds of friendship regarding NATO, thereby sending a clear message to Russia.

"On the other hand, we see a thaw in the relationship between the USA and Europe."

Under the new US President Biden, the above considerations could produce the following investment policy conclusions: Firstly, European equities should benefit from capital flows from the USA generated by the improvement in sentiment. Secondly, in view of the potential for conflict that will continue for years to come in particular between the two superpowers, the USA and China, gold remains an important medium-term portfolio component.

"What investment policy conclusions are to be deduced from this?"

There were stormy run-off elections in Georgia for two Senate seats at the beginning of January. The two Democratic candidates Raphael Warnock and Jon Ossoff defeated the two incumbent Republican opponents Kelly Loeffler and David Perdue. For the first time in a decade, the Democrats will again hold both senators in one of the "Deep South" states. This result, the so-called "blue wave", should make President Biden's job much easier, as he had feared going down in history as a president who was a "lame duck" right from the start.

"Biden will be strengthened as president."

In practice, however, it is not as simple as it looks. The Democrats will not have carte blanche to govern in any way they wish. The balance of power in the Senate is too tight for that. Utopian fantasies, such as court packing, appointing Democratic judges to the Supreme Court, raising the capital district of Washington to the status of a new federal state, or radical climate policies cannot be implemented with the present Senate. This is mainly because most substantive decisions in the Senate require a qualified majority of 60 percent. If this cannot be achieved, Republicans can block all votes with so-called filibusters. Since filibuster rules were abolished for personnel decisions in the past decade, many Democrats are now demanding the same for statutory instruments and other substantive issues. However, a conservative Democrat in the Senate has already made it clear that he will block this. This means policymakers in Washington will remain bound by the need to conduct themselves in a moderate manner, listening to the voices of their political opponents, which is a good sign for a democracy. To a certain extent,

"Despite this, Biden and his administration will not have carte blanche to govern in any way they wish."

President Biden's balance of power will hamper him. But it will also prevent him – he comes from the moderate wing of the Democratic Party – from being pushed into risky territory by the radical left.

Economy

"The once-in-a-century event of the coronavirus pandemic."

Historically, the global economy has been repeatedly hit by economic, political or natural shocks. The Corona pandemic, however, eclipses all such events that have occurred since the end of the Second World War. The global outbreak of Covid-19 at the beginning of 2020 and the sweeping measures imposed by governments to contain the spread of the virus brought about the most severe global economic recession seen in the past 70 years. With the exception of China, all of the economies of the G20 countries are likely to have contracted in 2020. Nobody had been expecting such an event, which is why it is clear that all the forecasts predicting economic development were way off the mark. Instead of moderate growth in the global economy, the biggest slump of the post-war period materialised. At the end of 2020, global GDP is likely to have been around 4% lower than it had been twelve months previously. The aggressive and rapid response of monetary and fiscal policies to the economic slowdown stopped the situation going from bad to worse, however. Central banks lowered key interest rates to the region of zero percent, where this was still possible, and quantitative easing was significantly expanded again in many countries. At the same time, governments established huge credit and support programmes to cushion the negative impact of the pandemic on businesses and private households.

"America believes in a fiscal boom."

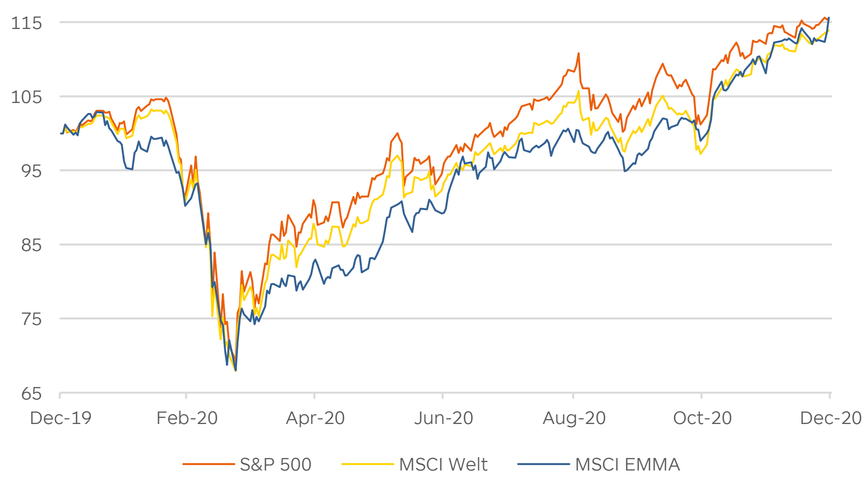
Following Joe Biden's electoral victory, the "blue wave" in the USA reinforced the euphoric sentiment on international financial markets. The basic tenor is that huge fiscal stimulus measures can be expected in the next few years, irrespective of escalating public deficits. Biden is planning to spend $2,000 billion during his four-year term of office, above all to renovate or expand roads, bridges, power grids, schools, universal broadband internet access as well as the electrification of railways. In addition, the Democrats want to make the USA climate-neutral by 2035, in particular the public transport systems. The public sector will be encouraged to buy battery-powered cars, it wants to promote the construction of 500,000 charging stations for e-cars and the development of battery technology and thus support the domestic automotive industry, amongst others. In addition, millions of buildings are to be renovated to make them more energy efficient, renewable energies are to be promoted and subsidies for fossil fuels are to be eliminated. The scope of the targeted stimulus package will spur economic activity in the eyes of experts of the Keynesian school, which would disproportionately benefit financial services companies as the brokers of cheap money. If an inflationary boom develops, they could even improve their margins as business volumes increase.

Equity markets

2020 was not an investment year for investors of a delicate disposition. After a stellar investment year in 2019, markets initially continued to move seamlessly northwards, with a number of stockmarket indices setting new records during the first few weeks. Then, when the pandemic struck, stockmarkets plummeted in February and financial markets were seriously unsettled. Buoyed by hopes of rapid economic normalisation, share prices began to recover as early as March. This was reinforced by the prospect of early availability of vaccines to combat Covid-19, and continues to this day. Even the second or even third wave of the pandemic that occurred in many places did nothing to stop the recovery in prices.

"2020 was not an investment year for investors of a delicate disposition."

Equity markets in comparison



Source: Bloomberg Finance L.P., Factum AG

Numerous tech companies benefited from the coronavirus pandemic, such as the online mail order company Amazon, whose shares rose by 76%, or the provider of software for video conferencing Zoom Video Communications (+396%). The share prices of Apple (+82%) and Netflix (+67%) also soared. However, shares in the electric car manufacturer Tesla, whose price increased more than eightfold, eclipsed everything (+743%).

"Tech companies profiting from the coronavirus pandemic."

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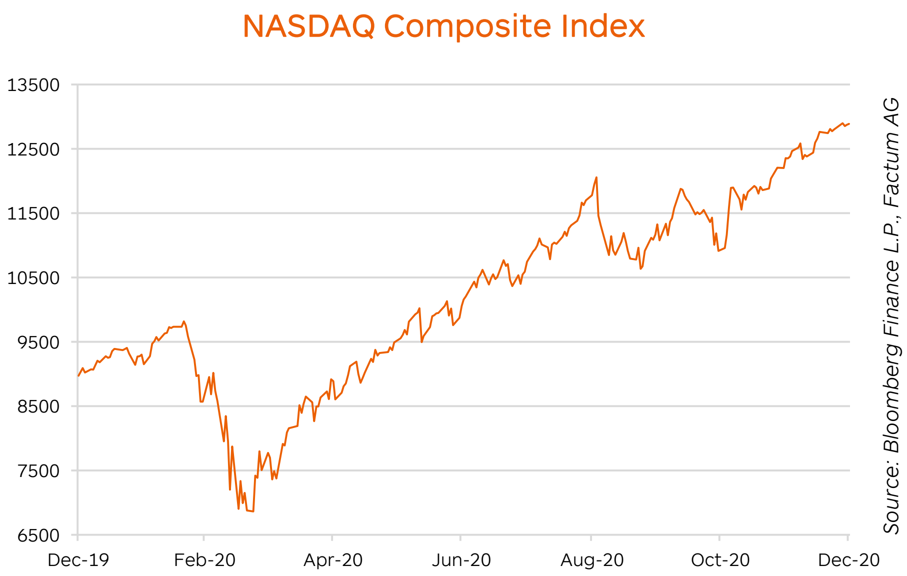


In addition to US equities, Chinese mainland equities (A-shares) also stood out, gaining 27%. Chinese equities benefited from the fact that China, like many other Asian countries, coped comparatively well with the pandemic and was one of the few countries whose economic output actually increased in 2020. Japanese equities also did better than average for a change (+18%), while in Europe the gains were more modest. Swiss and German stocks edged slightly higher (+4% each), with the latter reaching a new record high shortly before the end of the year. For the Eurozone as a whole, stock prices slipped around 3% by the end of the year. British equities were amongst the biggest losers (-12.5%). On the one hand, they were squeezed by the fact that the outcome of the Brexit talks was unclear right up to the very last minute. On the other hand, stocks of energy companies make up a sizeable proportion of the London Stock Exchange. Like airline or hotel stocks, these were hit hardest by the pandemic and ended the year soundly in negative territory.

"China (A shares) gained 27% in 2020."

With vaccines in the pipeline and the prospect of a broad normalisation of economic and social life over the course of the year, not to mention continued expansionary monetary and fiscal policies, we believe there is much to suggest that equity markets will continue to deliver attractive total returns this year. Although some equity market price-earnings ratios are clearly above the customary mean values, equity markets are still not overpriced relative to bonds. The risk premium that equities yield compared to bonds is still above the longer-term average. So long as this remains the case, investors will continue to favour equities.

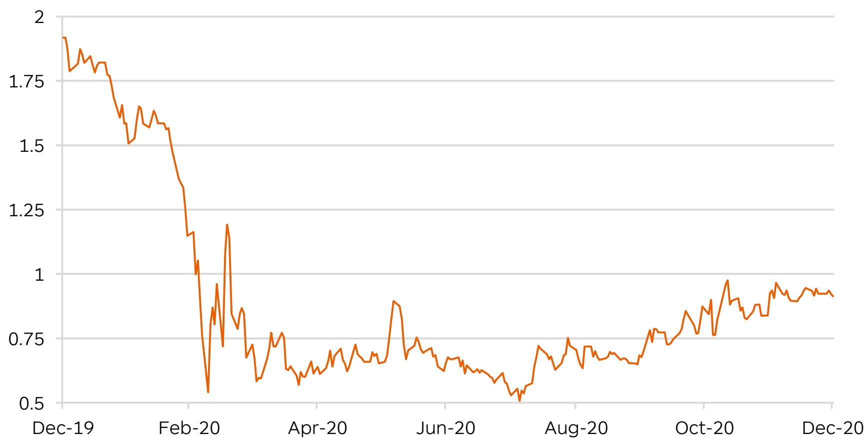
"Equity market – despite high valuations, further upside potential remains."

Bond markets

Bonds once again delivered a positive surprise. As in previous years, few investors believed that interest rates could fall even further. Yields went well and truly south in the last investment year, especially where central banks still had room for interest rate cuts. This was the case in particular in the USA, where the Federal Reserve lowered its key interest rate to virtually 0% in March as an emergency measure on account of the pandemic. As a result, the 10-year Treasury yield fell from just under 2% at the start of the year to a historic low of 0.50% at the beginning of March. Even at the end of the year, the US yield of 0.90% was still over 100 basis points below the level before the outbreak of the pandemic.

"Contrary to expectations, interest rates fell further in 2020."

US Treasury Bond 10 years (USD)



Source: Bloomberg Finance L.P., Factum AG

What can we expect from bond markets in the current year? We are expecting major central banks to maintain their expansionary stance for some time to come, in order to cushion the impact of the pandemic and to provide the necessary time for structural real economic adjustments. The loose monetary environment ensures low borrowing costs for companies and private households, and helps to finance the substantial government deficits. Central banks will implement the expansive course primarily with the promise of a long-lasting low interest rate policy (forward guidance) and quantitative easing policies that can be increased still further if necessary. On the other hand, there are not likely to be any further cuts in key interest rates, as most central banks have already reached what they consider to be the minimum key interest rate (effective lower bound). Due to the strong economic recovery during the course of the year, we are nevertheless expecting higher yields at the long end of the yield curve, not least because of rising inflationary expectations. Real interest rates are also likely to rise slightly, however, on account of the improved economic outlook. The low point in the interest

"Rising yields are to be expected in the current year."

rate cycle is therefore definitely behind us. In the US, we are expecting the 10-year Treasury yield to rise towards 1.50% by the end of the year. In Switzerland, the 10-year Eidgenossen yield is likely to edge towards the zero percent mark. In historical terms, however, these are still extremely low yields.

Commodities

"The gold price rose 22% last year."

Although crude oil prices recovered after the spring, by the end of the year both Brent and WTI were trading almost a quarter below their levels at the beginning of the year. The situation is diametrically different when it comes to precious metals. The price of gold began to soar after dipping briefly, and reached a new record high of USD 2,063 per ounce. This was supported by the uncertainties associated with the pandemic and the US elections, such as negative real interest rates in the USA. While it was not able to maintain this level, an impressive gain of 22% remained by the time the year drew to a close. This had a positive impact on the performance of our managed mandates. For example, we have a current allocation of 5% in the balanced strategy. Since hitting an all-time high last August, the price of gold has consolidated in a range between USD 1,800 and 1,950.

Gold YtD.

"The gold mining fund we used in homoeopathic doses saw its value rise by a remarkable 55% in 2020."

Parallel to the rise in the gold price over the past investment year, gold mining stocks have also benefited. The gold mining fund we used in homoeopathic doses saw its value rise by a remarkable 55% in 2020. It was therefore not surprising that gold mining stocks such as Barrick Gold reached a multi-year high. The mines have done their homework over the past few years, and have got themselves into good shape for the future by reducing debt and lowering extraction costs. Big mines managed to reduce their extraction

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costs per fine ounce from USD 1,200 to less than USD 1,000 within just a few years. The balance sheets of the large producers such as Barrick Gold or Newmont, but also of medium-sized mines such as B2Gold or Evolution Mining, are in healthy shape. Mining companies are increasingly concentrating on so-called brownfield projects, i.e. the expansion of existing deposits. This gives more planning certainty, as production can be increased and the life of existing mines extended, bringing lower risk and higher return potential than the development of new mines. There is also good news to report on the dividend front. Newmont Mining has increased its dividend by 60%, resulting in an attractive dividend yield of 2.7% for the North American sector. Other mining companies such as Agnico-Eagle or Kirkland Lake are also looking to increase their dividend payouts by between 50% and 75%.

Gold remains a scarce commodity, and the fact that no significant gold discoveries have been made since 2016 is adding to the pressure on supplies. Gold mining companies are undoubtedly better positioned today than they were a few years ago when it comes to generating shareholder value. With real interest rates remaining stuck in negative territory, the outlook is most certainly intact for the further performance of gold and gold share prices. In the current environment, there is a veritable smorgasbord of arguments for holding gold to diversify portfolios, as an investment alternative and as a hedge against financial and economic risks, which is why we continue to consider gold a fixed portfolio component.

"Gold remains a fixed portfolio component."

The price of silver (+44%) rose even more sharply, even demand from the industrial sector was weak. Precious metal prices have also been supported by the weak US dollar, as it makes them cheaper for buyers outside the dollar area. It is important to remember, however, that an investment in silver is much more volatile than an investment in gold.

"Silver gained an outstanding 44% over the past year."

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Currencies

Last year the greenback lost almost 9% of its value against the Swiss franc. In our view, the main reason for this development was the US Federal Reserve, which effectively eliminated the US dollar's greatest comparative advantage over other currencies by lowering the key interest rate towards 0%. The euro, by contrast, remained stable against the Swiss franc and ended the year almost exactly at the same level as at the beginning of the year. The US Dollar Index is a measure that compares the value of the dollar using a basket of six currencies. As the following chart indicates, the US Dollar Index depreciated steadily over the past twelve months.

"The US currency is continuing to show signs of weakness."

US Dollar Index YtD.

What can we expect for the US dollar and euro in the current investment year? Well, the US dollar is likely to remain weak. Given the decline in value over the past year, however, any further depreciation should be limited. The Fed's zero interest rate policy, which is set to remain in place for a considerable period, is likely to prove burdensome. The prospect of a strong global economy recovery also speaks more for cyclical currencies and less for the US dollar. We believe the euro has some upside potential against the Swiss franc. The most important argument for this is the strong recovery of the European economy, which will start during the course of the year once the vaccines have been rolled out, as well as the continuing slight interest rate advantage over the Swiss franc.

"What can we expect for the US dollar and euro in the current investment year?"

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The value of Bitcoin has increased four-fold. At the end of the year a unit of the cryptocurrency was worth almost USD 29,000. At the start of the year 2021 the price then rose to USD 41,000. For some investors, Bitcoin serves as a safe haven in an environment where loose central bank policies are stoking fears of monetary devaluation. The cryptocurrency cannot be inflated because the circulation was limited to 21 million at the time of its launch. Many investors are probably simply speculating on a further rise in the price of Bitcoin.

"The value of Bitcoin rose four-fold in 2020."

Bitcoin YtD.

Source: Bloomberg Finance L.P., Factum AG

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Market overview 31 December 2020

Stock indices (in local currency)	Current	1 Mt (%)	YtD (%)
SMI	10,703.51	2.20	4.30
SPI	13,327.88	2.50	3.82
Euro Stoxx 50	3,552.64	1.78	-2.59
Dow Jones	30,606.48	3.41	9.72
S&P 500	3,756.07	3.84	18.39
Nasdaq	12,888.28	5.75	45.06
Nikkei 225	27,444.17	3.93	18.24
MSCI Emerging Countries	1,291.26	7.25	18.50
Commodities			
Gold (USD/fine ounce)	1,898.36	6.83	25.12
WTI oil (USD/barrel)	48.52	7.01	-20.54
Bond markets			
US Treasury Bonds 10Y (USD)	0.91	0.07	-1.00
Swiss Eidgenossen 10Y (CHF)	-0.55	-0.03	-0.08
German Bundesanleihen 10Y (EUR)	-0.57	0.00	-0.38
Currencies			
EUR/CHF	1.08	-0.26	-0.40
USD/CHF	0.89	-2.61	-8.42
EUR/USD	1.22	2.42	8.94
GBP/CHF	1.21	-0.10	-5.70
JPY/CHF	0.86	-1.65	-3.82
JPY/USD	0.01	0.97	5.15

Author: Christof Wille, Dipl. Private Banking Expert NDS
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