



Investment Policy | 1.2018

English Version

2018

Axion | SWISS Bank

Investment Policy & Outlook 2018

Private & Confidential



Macro

The global economic outlook looks bright for 2018, with expectations of sustained synchronised growth. We are however a bit more cautious and expect negative surprises driven by policy uncertainty and global geopolitical tensions undermining current high confidence levels.

Fixed Income

There is little value left, except if central banks (CB) are cornered and nominal rate fixing, as in post WW II, becomes the norm. Only dollar denominated assets offer diversification and "adequate" risk premia. For Euro and Swiss Franc based investors there is little to cheer. But, it may well be that CBs are cornered, indeed.

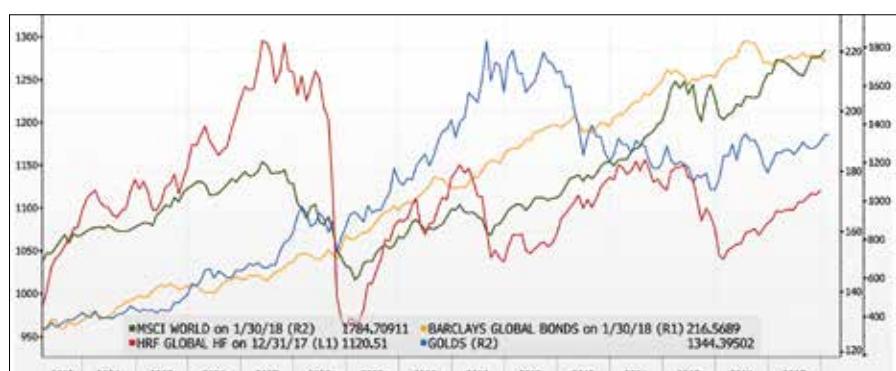
Equities

After a decade of stellar equity returns, courtesy of shrinking risk free rates and QE's, we are more cautious. Valuations are high, pricing power generally weak, and besides tax stimuli in the US, corporate profits should be negatively impacted by wage pressure and global competition/disruption by the new trust of technological innovation. Selectivity will be the key to superior returns.

Investment Policy

If 2017 was a year of surprisingly good returns, 2018 will be the year where particular attention to capital preservation is required. Available sources of risk free returns have been removed by a decade of central bank Quantitative Easing (QE). Yields on most traditional fixed income segments have never been lower (government bonds, investment grade (IG) & high yield (HY) in Europe, Japan and the USA), whilst the return on cash balances in Swiss Francs and Euros is being taxed into negative territory.

Graph 1: Cumulative Returns (in Euro) since 31.3.2003



Equities, alas, are "cheap" only in relative terms to fixed income. We think that buying an asset with a pay-back period of 20 to 25 years in a time of such technological, social and environmental uncertainty has to be well considered. Think of the industrial revolution of 1880s and the period up to WWI.

Defining an investment policy is always hard, an art, a science. This time it is even harder. At Axion Swiss Bank we strive to protect your capital whilst giving you performance. In 2018, performance will be delivered by protecting capital first.

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Alternative Investments

Alternative Investments have lagged as volatility and valuation dispersion has collapsed — until recently. We think that long equity positions should be substituted by L/S equity funds, volatility based, and truly uncorrelated strategies. Gold remains a controversy that looks like it is losing its shine vs. cryptocurrencies, but we remain convinced that it should be core to any portfolio as it is truly in limited supply and, ultimately a key beneficiary of negative real interest rates that are required to redistribute wealth from creditors to debtors in coming decades.

Forex

Currencies are the most liquid asset overall and are the fastest to reflect changes in investors' expectations. The European currency is regaining strength after years of lingering doubts about the sustainability of the EU. We believe it to continue to do well also in 2018, more so because of a negative reassessment of the strength in the US economy in H1. The Swiss Franc and the Japanese Yen could regain a bid as "safe heaven currencies" over the year.

We recommend to move out of the riskier parts of fixed income by reducing HY and IG corporate bond (BBBs) exposure. We retain a positive stance on selected hard currency Emerging Market bonds markets, especially Latam. We prefer lower yielding but large, liquid AA and A rated issues of debtors in countries with NFA¹ positions, and a barbell between short duration and exposure at the very long end, at yields above 4%, as neither nominal interest rates nor inflation are likely to rise that high before the next recession.

European equities trade at a discount to most other geographies and have catch-up potential. The US is fully valued whilst Japan could suffer from the expected cyclical slowdown and changes in the BoJ policy, leaving Emerging Markets and Asia ex-Japan as the other attractive regions.

Sector wise we remain committed to the growth potential of technology, as companies will invest massively in tech capex to garner efficiencies through data mining. The ongoing correction is a welcome entry point.

Silver age, millennials and Chinese outbound travel are other themes we remain positive on, alongside domestic, undisruptable concessions and infrastructure themes, including out of favour telcos. We avoid industries that face Chinese competition or disintermediation by the internet.

¹ NFA= Net Foreign Assets, i.e. countries that are owed more than they owe to their foreign creditors

Outlook

Expected returns in Euro terms will be in the single digit range for 2018. When excess liquidity and/or Central Banks's balance sheets are reduced, the reassessment of risks puts downward pressure on the yield of safe assets. 2018 may well be the year highly rated bonds outperform BBB and HY corporates. From equities we expect a more muted performance, especially towards the second half of the year.

Asset Allocation Q1 2018

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Classic Mandate

Axion Swiss Bank's classic mandate allocates at least 65% of assets to the reference currency of the mandate. The investment objectives are Income, Yield, Balanced or Growth. Mandates are available in CHF, EUR & USD.

Multi Currency Mandate

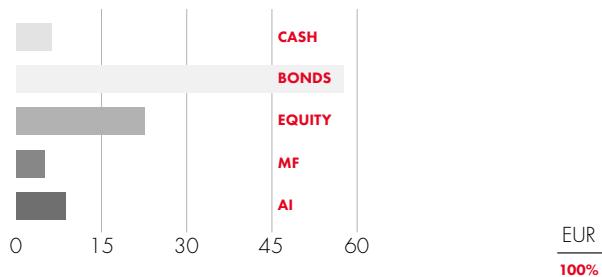
Axion Swiss Bank's multi currency mandate allocates at least 20% of assets to the reference currency of the mandate. A balanced currency diversification is achieved for clients who wish to do so. The investment objectives are Income, Yield, Balanced or Growth. Mandates are available in CHF, EUR & USD.

Contact

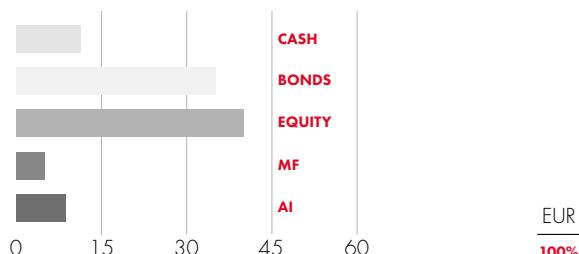
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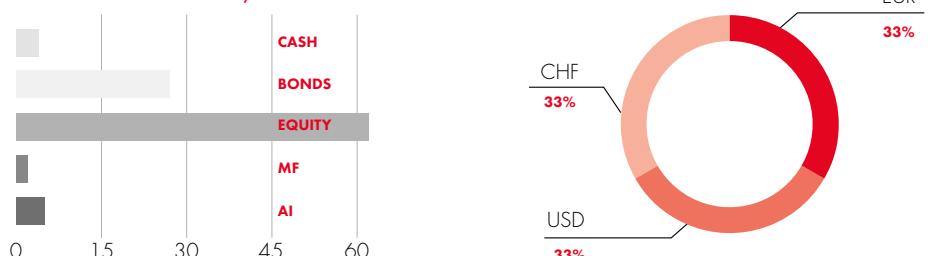
Classic Mandate Yield Euro



Classic Mandate Balanced Euro



Multi Currency Growth Euro



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