Swiss equities revisited

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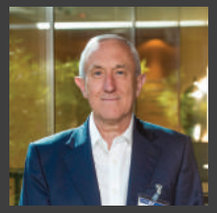

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Switzerland may be considered the laboratory of Europe thanks to its world leading pharma and healthcare companies, but it also deserves this reputation for being among the first countries post-crisis in Europe to experiment with negative rates.

Healthcare, luxury goods and financial services are at the forefront of the Swiss brand and it is here we are seeing an undercurrent of innovation that is bringing new ideas and business practices to the fore. From Fintech start-ups to specialist machinery manufacturers and a wave of cross sector M&A; the reinvention of the economy is already underway

We brought together six investors in Zurich to share their experiences of how they are navigating the changing landscape.

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MAKING SENSE OF BREXIT

"Because of Brexit, growth is likely to be lower, the eurozone will be challenged and this will make the Swiss Franc quite strong, which will be a headwind again for Swiss companies"

Marianne Rameau
ISGAM AG

AMY MAXWELL: How do you see Brexit and the uncertainty surrounding the future of the EU? Is it a positive or a negative for Swiss equities?

MARTIN BÜRKI: We have no idea how the UK will handle the exit strategy. That's definitely not the best scenario for the stock market and, additionally, we also have the American election coming up along with the Trump factor it brings with it. That would result in something similar to Brexit if he wins.

In general, however, I don't think it's very positive. It's maybe a little bit different for the Swiss market, because it's a safe haven in the middle of Europe. If you invest in Switzerland, you can be sure you have a stable currency and solid international companies.

BRIAN PHILLIPS: The issue of uncertainty is a key one for markets and the way we're looking at it is that many of our investors have been waiting for an opportunity to buy into the equity market.

This shakeout is providing that buying opportunity. So the question for me is, at what point will valuations and the outlook balance, to make it attractive to go back into the market?

MARIANNE RAMEAU: I would also underline the effect on the attractiveness of the Swiss equities. It's a very defensive market for currency – the fact that because of Brexit, growth is likely to be lower, the eurozone will be challenged and this will make the Swiss Franc quite strong, which will be a headwind again for Swiss companies. This makes the job of the Swiss National Bank difficult, because they're the only seller of Swiss Francs at the moment and they will probably have to step in regularly to stop the Swiss Franc from appreciating too much.

URS BECK: You could ask, what does it mean for Swiss companies? One way to look at it is to ask what it means for the market and I think it opens the door to new opportunities – because for the companies themselves, it doesn't change much.

The listed companies are all multi-nationals, generally, and for most of them, the European Union is the biggest or second biggest customer. So the forex movements have a big potential to change things but, apart from that, nothing really changes for an international company, be it based in Switzerland or elsewhere.

PETER NUNLIST: I think it's more a political event and not similar to something like the financial crisis that we had in 2008. But we have to think about the banking sector because there, I think they have been in trouble before Brexit and I assume that some institutions will think about changing destinations in Europe now, perhaps away from London.

They keep on battling with their equity requirements and I foresee some troubles in the banking sector; not only Switzerland, but mainly in the European Union, and we have to focus on that because it can bring up some more volatility.

TORBEN DEGN: Right now, we're a little bit cautious and a bit defensive. My take is, if you manage to contain the financial market volatility to the UK and central banks around the world are successful in ensuring it doesn't spread, you will not see a global recession.

But I think if the volatility spikes out of control, that volatility in the financial market will drive a recession in the global market and that's what we're fearing right now because there's so much uncertainty around.

You see things are being cancelled and things such as property funds closing down for redemptions, also in the billions of dollars or billions of pounds, and in this case the question is, what is the knock-on? If people can't take the money out of there, will they take it out of some of the other parts of the market because they're uncertain about their pension savings and funds? We think that we're probably heading in that direction – that the market volatility is going to pick up and we're going to see further downside to these markets.

MARTIN BÜRKI: We did not expect Brexit, but we had 50% in cash two months ago because we thought that if the UK stays within the EU, the market is going up 3%. If they go out, the market is going down 15% and this was quite a negative risk/reward scenario. So we went into cash and we're still staying in cash, because we think the low we saw just after the Brexit will be tested again.

Brexit was more of a trading opportunity because I didn't actually see the reason why the banks went down so much after the Brexit discussion. Of course, international banks may have to transfer a lot of employees within the EU and this will have some costs, but this is not justifying a drop of 15% within one or two days. It was quite a good opportunity to buy into some banks, but as you mentioned, they will still have problems and I would not see it as a long-term investment.

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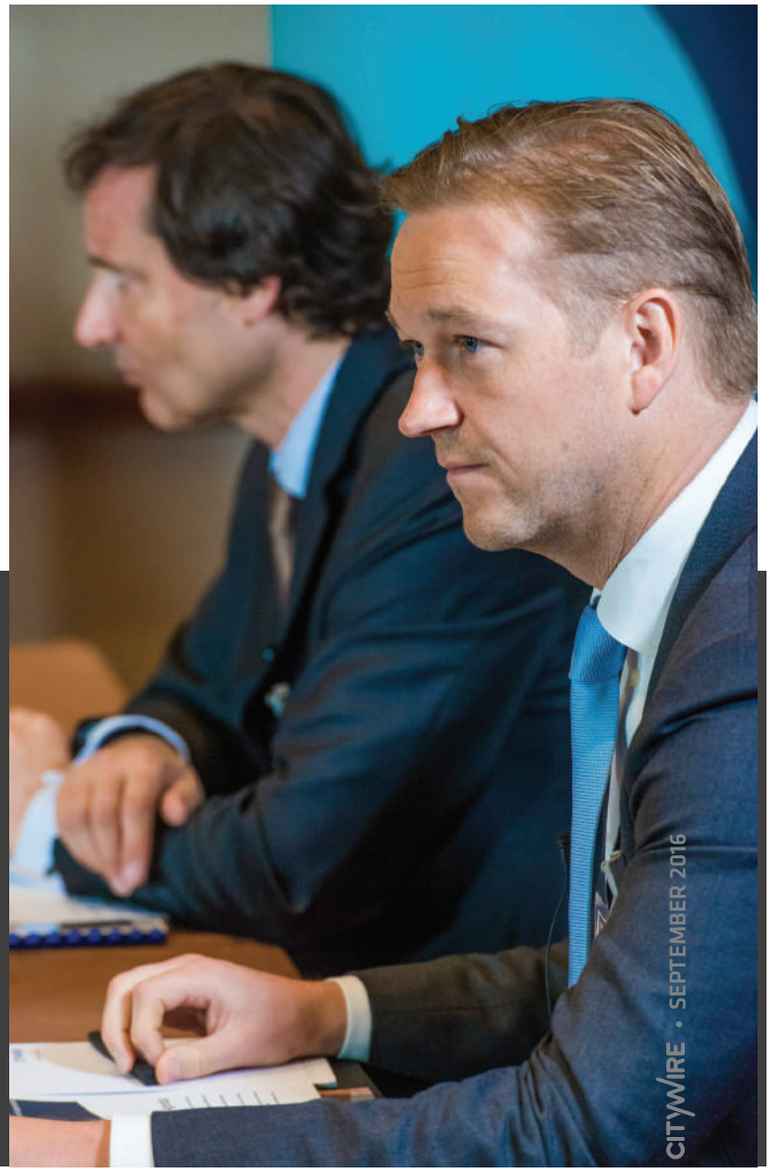

VOLATILITY AND OTHER RISKS

AMY MAXWELL: What other global factors do you see weighing on Swiss equity valuations at the moment?

URS BECK: If we think in sectors, obviously, there is a big issue with how banks have handled their investment banking books. We don't really know what damage has been inflicted on the books, but I'm a little bit afraid about the two large players here in Switzerland – UBS and Credit Suisse. They have had to take some losses.

On a global basis, if we expand it to include the next big risk, for example Donald Trump has been mentioned in that sense. But when looking at pharmaceuticals, another big sector especially prominent in Switzerland, I think the drug market might be the next big issue we have to discuss.

Both presidential candidates have their doubts about the current system and obviously it is a very strange one if you compare the US to Europe – their healthcare costs are around 16% of GDP, whereas it's closer to 10% in Europe.

But the US drug market makes up 60% of the world's drug market. So whenever there are changes to the pricing structure in the US drug market, it has large implications for the Swiss indicies, of which 30% is made up of Novartis and Roche.

This is much more an issue for the Swiss market than banking, because UBS and Credit Suisse just lost their importance for a Swiss equity manager – we are talking 1% and 3% index weight if we talk UBS and Credit Suisse. So my fund has a life without banks, but it's going to be tough to get around any impact on the two big pharma stocks.

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MARIANNE RAMEAU: Pharma or healthcare stocks have already declined quite a lot last year as well as this year and actually, if you look objectively at PE ratios compared to their history or the overall market, they look cheap on the surface. So to a certain extent, definitely in US pharma, I think part of that risk has been priced in.

PETER NUNLIST: You asked about risks and thinking not about the pharma indication, but how the growth risks of the US and China could affect the market more negatively.

The discussions after Brexit show that this is a topic where a lot of pessimists will come around the corner and tell us a lot of things that we really cannot justify.

I think the big sectors like pharma and foods especially are not affected by Brexit. I feel comfortable with them and I wouldn't see any further problems due to the US presidential election that will come in autumn. What we can think about it is whether there is any chance that, by surprise, the interest rates or the inflation can rise up because central banks will certainly try to stabilise the situation and are going to expect more QE programmes to follow.

BRIAN PHILLIPS: I suspect the uncertainty knowing what's going to be coming over the course of the next few months is putting a lot of decision-making activities on hold. I can't believe, in the very short-term that there's going to be a sudden resurgence in everybody wanting to go out and do deals.

MARTIN BÜRKI: Looking in general around risk, we believe in the long-term financial cycles and we think they stay in place. But it's the politics that we currently see as the biggest risk.

What we see is an anti-establishment movement in most developed markets. People have lost hope: they want to have new solutions and they listen to everybody who brings new arguments and who is different from the others. This may be one reason why the Brexit was successful.

Whenever there are elections in the US or in other countries, such as France, we are always very careful because this anti-establishment movement can give us surprises that we don't expect.

URS BECK: Like markets in general, I don't like uncertainty and I especially don't like political risk. There's nothing I can do to influence this and I will never have a better estimate than the consensus, which the market reflects. So what I am really trying to avoid are specific business models that are exposed to political risks and this constitutes more than worrying about whether a nuclear power plant will have to shut down in two or in 10 years.

They're the things I try to avoid when it comes to the general movement away from establishment. I think that there's just no way around it, I take this as a given because there's no way I can add value by going away from the consensus, therefore the focus lies, specifically for the moment, on single stock risks.

NEGATIVE RATE ENVIRONMENT

AMY MAXWELL: In Switzerland, you've been living with negative interest rates for longer than many other countries. And as well as being a great scientific and laboratory exporter, you're also living in this environment and having to run businesses under a regime where you have to pay to store your capital. How do you communicate this to your clients and where do you see it going from here?

TORBEN DEGN: People have to get used to the fact that the return on their overall portfolio is going to be lower, be it an equity portfolio or a balanced portfolio. It doesn't really matter because the equity risk premium is going to move around the same level as it always has done.

The credit spread is also going to move around the same level and I think the challenge for a lot of people is to convey that message to clients and to not be entrapped in the migration into more risky assets.

So you either have to tell your clients, "Listen, you have to settle for less or you have to take more risk, you can't have both" and that's a debate that needs to take place between clients and their relationship managers or asset managers.

I have the feeling that there's this waterfall effect – there are so many tourists in markets. If you see the high yield market for instance, in terms of size it's more than doubled. And in terms of the broker/dealer inventory, it's more than halved. So once people are running for the door, it's going to be extremely small and one of the things I fear actually most about these markets is that there's no liquidity out there.

MARIANNE RAMEAU: We are looking at very low or negative interest rates for probably a long time to come. All the secular downward pressure on growth, such as demographics and technological advancement will increase volatility going forward.

When you have very low interest rates, by definition you have very long duration and people will probably take on more risk in less liquid asset classes to get some returns. We will be looking at very volatile markets going forward, which is another thing you need to be very clear with your clients about. Cost is another factor that becomes very important when the base rate is very low.

TORBEN DEGN: What I have seen anecdotally – and I don't know if that's the general trend – is that people are moving more towards illiquid markets. So all of a sudden, the Holy Grail is private equity and for me, that makes absolutely no sense.

If you look at the private equity deals being done today, by and large they are extremely leveraged. I think in the US, the operational leverage is about six, which is higher than pre-financial crisis. The price anchor will always be the liquid market, because you have the possibility of either an IPO or selling to a private equity firm.

So you have high prices, extreme leverage and lack of growth. It's going to be very difficult for these people to grow into their balance sheet and I think the private equity segment is something that I would definitely advise people to stay out of.

PETER NUNLIST: We can assume that the interest rates will remain very low for the time being. But in my eyes, the cash will find its way back, especially to stocks. The bad experience that we have had, however, was that some ETFs developed better than active managed funds.

So I will implement a mix between some actively managed funds with special themes or sectors and direct investments, where you can count on dividend payments that will come as cashflow in the coming months.

Additionally, I would focus on the United States. I know from

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a valuation point of view it is quite high at the moment, but I do foresee that they will benefit from the situation and that we will again have a certain bull market on the stock markets before the next recession crisis will come.

Volatility of course is the theme, but I wouldn't be that downbeat and I wouldn't be that cautious.

URS BECK: I think one thing that is very interesting to follow is how life insurers sell their products and obviously, when the interest rate environment started to go towards zero after the financial crisis, this market was dead.

So nobody was ready to get a guaranteed return of 0.5%, to buy such an insurance policy, but over the years, people got used to that. So first you see the nominal terms and it obviously takes a few years before consumers like ourselves realise that it's actually the real terms that count and not the nominal terms.

I expect a few years of pretty depressed businesses for companies like international insurers. The Swiss guys, who have been in this low interest rate environment for many years, have seen a pick-up in the business around a year ago. So it took five to six years until we adapted to this low rate environment.

MARTIN BÜRKI: If you talk about negative interest rates, I think in general, the strategy of the national banks is to force the people into risky assets. But this strategy has some negative side effects and that is the liquidity aspect.

I think the biggest problem is that the risk-free rate is illiquid and if the risk-free rate is illiquid and jumping, everything else in the market is jumping too.

A solution for this is that we look to introduce a totally new asset class in your active asset allocation and it's actually quite simple – it's cash. Why not stay 30%, 40% in cash for a while? The banks can't do it because their business model is to move money on products to earn money, but independent asset managers can use this and stay in cash for a certain while.

TALKING CURRENCY

AMY MAXWELL: What are your currency expectations are over the next 12 to 18 months and how does this weigh on the attractiveness of Swiss equities and other asset classes?

MARTIN BÜRKI: On the bond side, we completely avoid the currency risk, as we only use hedge share classes. On the equity side, I'm a bit negative on the US because I'm afraid of the currency. I think we will see a lower dollar because it is a world currency, but the world currency is only working if you get some stability.

So when Trump is going up in the polls, then this is not actually the indication you want to have in a stable world currency. Until the election, we think that the US dollar will come under pressure, so we're actually going a bit further away from the US.

MARIANNE RAMEAU: Our currency exposure in fixed income and alternative investments is completely in the client's base currency, because any low return investment cannot bear currency risk.

In equity portfolios, on the other hand, we found that hedging the currency for equity investment doesn't make much sense. In our equity portfolios, we have very much a global diversification with a home country bias and we do not usually hedge the currencies.

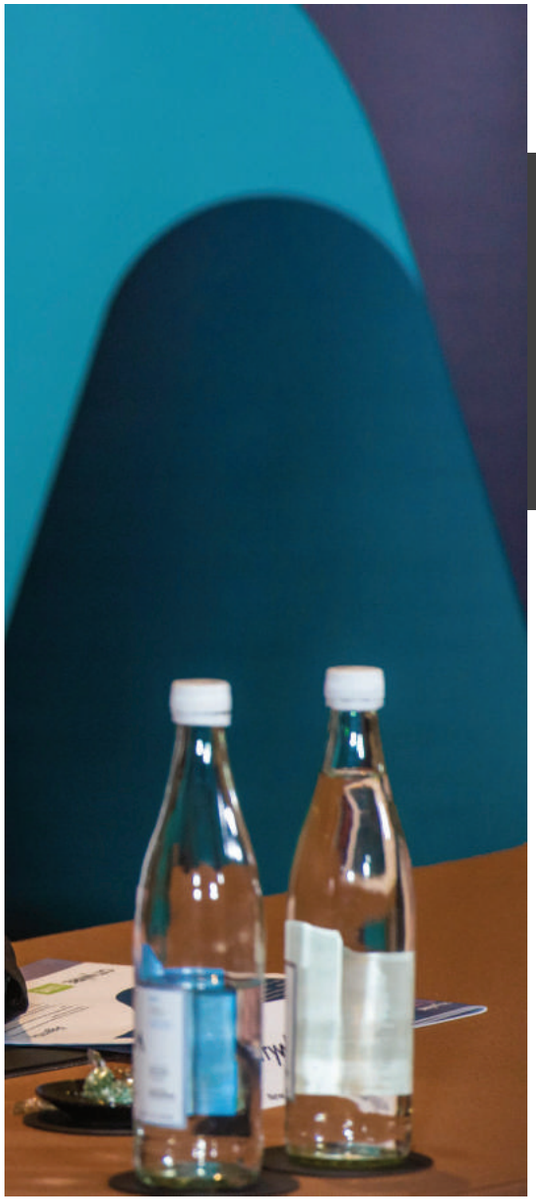
In terms of the major currencies, we've come to a situation where central banks probably – and hopefully – see that further competitive devaluation is a zero sum game.

I do not believe that negative interest rates in Japan, Switzerland and the eurozone can go much more negative without seriously undermining the banks. So I am hoping that at some point, we will get some fiscal stimulus in countries that can afford it and I would think that Switzerland is a country that can afford it, considering that its total federal debt of 46% of GDP is very low.

In terms of the competitive devaluation of currencies, I think we've come to the end of the road and I don't actually expect big moves in the major currencies going forward.

AMY MAXWELL: Has the movement in the Franc surprised you at all?

URS BECK: Even when you're talking about recent years, if you look at the



> "You could draw a chart of the Swiss Franc against any currency in the world over decades and it's the strongest"
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whole timing since 1.20 was introduced, it's been four years and now we're appreciating 10% over four years. That's a very normal average rate and it's been part of the Swiss life for decades – you could draw a chart of the Swiss Franc against any currency in the world over decades and it's the strongest.

Obviously, it's giving you a very hard time if you are a little exporter and it's very tough if you're a little "ma-and-pa" shop here in Switzerland. It's completely different if it comes to these large listed companies, however, as when you get a listing you're typically already at a size in your business where you have an international footprint. So for the listed companies, it's not that much of an issue, but it becomes one for smaller shops.

AMY MAXWELL: For pension funds, it's probably a bigger issue. How do you sense that they're coping with it?

URS BECK: They shouldn't take risks in a currency they don't need. If I am a pension fund and my policyholders are Swiss employees having their life here, thinking in Swiss, I shouldn't be putting their money at risk in foreign currency.

PETER NUNLIST: When we come back to the expectation of high volatility, it's rather advisable to use blue chip stocks like Nestle, Novartis and Roche as we mentioned before.

But actually, I think there is a chance for an economic recovery in the European Union with the help of some tax benefits.

So when there is a small recovery to observe, I would rather bet on the small and mid-cap companies, which are in certain niches and would benefit more than the large-caps of course. So we'll have to find a little bit of a balance between both sides and it's maybe a question of catching the right timing.

OPPORTUNITIES ACROSS MARKET CAPS

AMY MAXWELL: Where do you currently view the best opportunities – is it in the global names or in that mid to small-cap space?

BRIAN PHILLIPS: Mid and small caps in the emerging markets and growth markets is where we're putting our clients.

AMY MAXWELL: In Switzerland specifically, do you ask a fund manager to invent it at their discretion or do you buy single named stocks?

BRIAN PHILLIPS: Single named stocks. For the clients that we have that are investing in that particular category again, it's back down to the asset liability modelling, looking at where they have their base currencies and so on. But if they're looking for real growth opportunities, then it's about looking at the small and mid-caps pretty much globally. For the frontier markets, emerging markets are where our focus tends to be.

MARIANNE RAMEAU: We're much more focused on the sustainability of dividends because with interest rates being so low, I do think that people will come to depend more on dividends. So I am very focused on companies that have a sustainable dividend.

I look at things like return on capital, return on equity, whether companies possess a solid balance sheet and a competitive advantage in the business area.

Because Swiss companies have been working with a very strong currency for such a long time, they've become very good at protecting their profit margins. I saw last year that many had used their profit margins as a cushion to be able to cut their export prices so that they could maintain market share.

Maybe because of this challenging environment within many different sectors of Swiss industry, you find companies that manage their profit margins very well and I think for the sustainability of cashflows and dividends, that's very important.

AMY MAXWELL: We're looking at these smaller companies as entrepreneur or nimble companies, but we have spoken before about the potential liquidity implications. Is there a trade-off between getting access to the extra punch and also having to accept the reduced liquidity?

MARTIN BÜRKI: I think the key is here to stay flexible. If we have some strong ETF flows after a crisis, it may be an excellent chance to buy large-caps. But on the other side, you also have very good chances in the small-cap sector and if we do fund selection and give the money to the best talents, we currently prefer so-called flex-cap managers.

If you have some dogmatic managers who just invest in large-cap or just invest in small-caps and that is not the key of success at the moment. You really need to have flexible strategies and to search for managers who can take the opportunities wherever they are.

TORBEN DEGN: Again, it's a question of risk tolerance. You have to have that on the table whenever you do a recommendation and say where you want to go. Because if you do go to the frontier, small mid-cap market, they will on average have a much higher beta than the US equity markets.

I don't disagree with the fact that over the long term, you need to be in tomorrow's winners and you'll find them in this part of the market. However, if you want to be up in market cap size, I would also probably refrain from using the larger mutual funds out there.

I want a high active share risk in the portfolio and I don't want 100 shares, I want a maximum of 40. Otherwise, you're just going to be at the benchmark minus fees. So if you want to go up there's smarter ways that you can do it, via either ETFs or smart beta.

URS BECK: I could listen to everyone here speak for hours because I think this is exactly the way the market should go and I think this is where we are today. So the way I have built the fund that I manage is to harness flexibility.

The fund is all-cap and what I've done recently with these Brexit movements, was to utilise short-term liquidity forces in defensive names, resulting in a 10% up move in Nestlé.

FINTECH AND FINANCIALS

AMY MAXWELL: Looking closer at this smaller cap, micro-cap area, we're seeing fintech start-ups, crowd funding, essentially disintermediation of the bank. Are any of you involved in seeding this activity?

URS BECK: My focus is obviously listed equities and I won't seed something like this. I think it's very tough to find the future winners because they're at a very, very early stage.

Temenos is one stock that comes into play when it comes to fintech and they utilise what I think is a very interesting approach. Essentially what they offer, is a marketplace for banks – like an app store. You put your fintech offering on this marketplace and if you're a Temenos user, you've got the access to this application and you can offer it to other banks. It's evolving now, but in the end I want to see cashflows and these are typically too far away for me as a listed stock investor.

PETER NUNLIST: Temenos shows us exactly the way to go. We talked before about Brexit of course, but this was an answer in a way, against globalisation and I always count on old-fashioned words like, "The market is always right".

So the market lost a bit of trust and confidence in a wide variety of things, but when I'm talking to investors, I finally get the feeling that they expect more inventions to come in the future and they are ready to invest in the future.

"When I'm talking to investors, I finally get the feeling that they expect more inventions to come in the future and they are ready to invest in the future"

Peter Nunlist
Peter Nunlist Limited

Our homework should be to remain flexible and to allocate some niches, where established or small-cap companies remain flexible to find answers for the digital new age and so on. In a way, I remain positive about the low interest rate environment, because that gives entrepreneurs and companies some time to be ready to invest into the future.

BRIAN PHILLIPS: I think that brings to the fore some of the reasons for looking at private equity. There are a couple of shops in Zurich that are very good at picking out disruptive technologies and some of our clients use the private equity funds as a way of themselves spotting what's coming along.

When these things do become liquid, they can get into them very early on as well. So private equity does have a role to play in that particular aspect.

TORBEN DEGN: We try to take the helicopter perspective here and for our clients, we have made three investments that would be regarded as fintech. One is in China, a P2P lender, one is in Germany, which is real fintech and the other was in Scandinavia, which develops app solutions and other solutions for banks across the board.

AMY MAXWELL: We're seeing lots of pressure on banks and, in addition to increased regulation, you're also seeing new technology disrupting the sector, with fintech investing in new areas. How do you see the future of the big institutions here?

MARIANNE RAMEAU: Financials in the Swiss index are not actually a big part of the index. Financials, including the insurance companies, are only about 14% of the SMI index, which is relatively small and it's about equivalent to the share of GDP that the whole finance sector generates in Switzerland.

The balance sheets of just Credit Suisse and UBS, the two big Swiss banks, are almost three times the size of Swiss GDP. Comparatively, if you add up the balance sheets of all the large US banks, it comes to 0.6 times US GDP. So I think the regulation on the Swiss banks will be incredibly stringent because there's absolutely no way the Swiss government could ever bail out the banks if it came to a problem, just because of their sheer size.

In that sense, I think the regulatory pressure on the big Swiss banks and the level of capital they are required to hold will make them not very attractive from an equity investment perspective.

MARTIN BÜRKI: I see quite a lot of older, richer clients who have a very negative image of banks. This is mainly driven by the fact that banks always have to be invested with the client money and push them constantly into products that are actually just good for the banks and not for the clients. Currently, it's a very good time for independent asset managers.

BRIAN PHILLIPS: A successful economy needs to have successful banks and so there is the question now of, what is the correct balance? I think it is the question of balance that's going to be very actively discussed over the next few years. It has to be rebalanced, like a lot of things.

PETER NUNLIST: Sometimes you have to invest with an anticyclical approach. So it can be that this crisis with the banks, is the bottom. When you look at it in detail, you then see that a lot of the big ones have reduced the investment banking side. So now in a way, they look less sexy than before, but they have added considerably more into the asset management.

It's a good timing for independent asset managers, but the banks are investing into asset management too because that's a good place to have a profitable base afterwards. So I would not bet on the sinking ship of the banks. It can also be the opposite that we see now.

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Peter Nunlist
Peter Nunlist Limited

SEEKING INNOVATION

AMY MAXWELL: There is a wave of innovation going on underneath the surface. So let's hear a little bit more about where you see pockets of opportunity and promise.

URS BECK: This may be actually true for more than just Switzerland, looking more generally at Europe and additionally, that doesn't exclude the UK because if you're looking at this list of the best universities, the UK is pretty present there – Switzerland is, but Germany isn't.

So I think human capital innovation is really the big driver. The second is cheap capital and that's around as well. So I think that the two main ingredients for successful companies are here in Switzerland and they're present in the UK as well so there is life outside of the EU.

If you've got these drivers of innovation, what's driving the stock price? If you are a big stable dividend payer, it's nice to have a dividend, but there's no move in the stock price because we know how the stock or the company is going to look like a year from now.

When it comes to these younger innovative firms, there's this big chance to have the earnings estimates running behind or getting upgraded every six months.

Innovation is the driver and with fintech, not a lot of that is listed. It's really other sectors that are more important here and I have this one holding, a company called Airopack Technology, which has just reinvented the spray container. It's a little niche, but I think it's very typical of what is happening in Europe.

MARIANNE RAMEAU: There's some incredibly interesting materials companies around at the moment, because when we move to the electric car – or even with traditional cars – they have to consume less and you want very light components.

So all the companies that are involved in making very sturdy,

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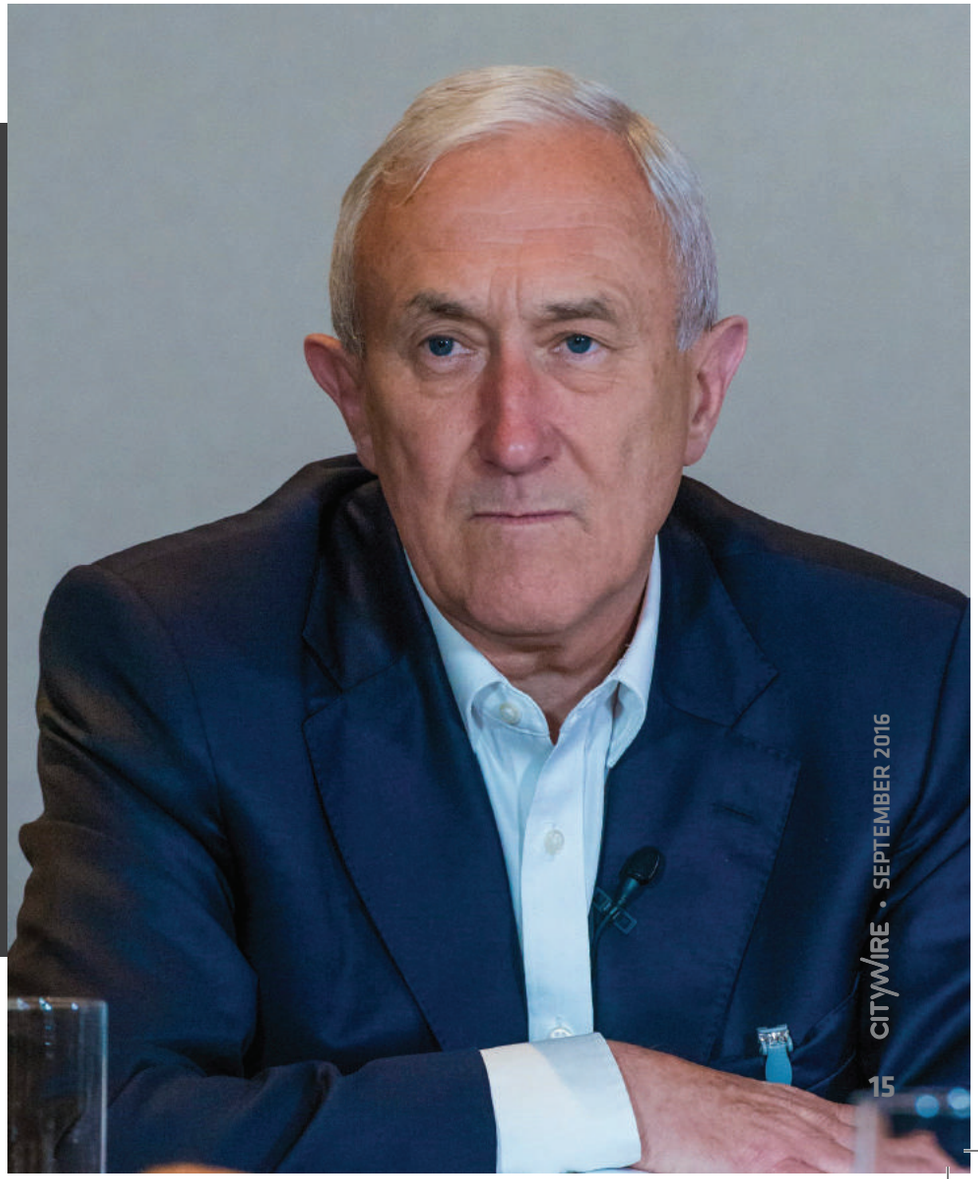

but very lightweight components, may not be a sexy area, but it's an incredible growth area.

The whole food technology company niche that make packaged food taste better with less salt and less sugar, is also a wholly innovative area, which you really have to delve into to find the winning companies. But there's incredible innovation going on in all those sectors and growth.

AMY MAXWELL: All of the uncertainty means low interest rates, low borrowing costs for all of these firms. So surely, that is a positive for those innovation drivers?

MARIANNE RAMEAU: Yes, I would think so.

BRIAN PHILLIPS: Probably tax incentives as well. It will be interesting to see how that goes over the course of the coming years because clearly, we've all seen over many, many years, that smaller companies create job growth not the bigger companies.

So governments need to be more proactive in that sector and if they get their act together, together with cheap cash and if that is available, it's a growth sector without a doubt.

TORBEN DEGN: One issue is that the banks' balance sheets are shrinking. Basel III and other regulatory challenges that the banks are facing are helping lead to the underfunding of SMEs. Essentially, the ECB has been pushing money down the throat of the banks, but that has not spread to the real economy because the transfer mechanism is broken.

So on the one hand, they're stepping on the accelerator, but on the other hand, with the regulatory environment that they're creating with Basel III, they're stepping on the brakes.

MARTIN BÜRKI: There is a joke: what is a banker? It's somebody who gives you an umbrella when there is sunshine and he wants it back when it's raining and I think a lot of companies exactly experienced this during the crisis. So even if you get cheap money now, you probably don't want it from somebody who wants it back at the wrong time.

BRIAN PHILLIPS: The issue is going to be regulatory pressures on one side, but also governmental pressure to break up the banks and to actually take away the systemic risk. We have this whole banking environment that we've lived through for the last 10 or 20 years that surely has to be reorganised and I think that's the era we're living in.

Brexit is not going to be the catalyst for all change, but it's putting issues on the table that have not been discussed for too long.

MARKET OUTLOOK

> "I will be very underweight European equities and significantly overweight European credits. To sum up: defensively positioned over the next six to 12 months"
>
> Torben Degn
> Woodman Asset Management

AMY MAXWELL: Could you all sum up how you plan to allocate in the next 12 to 18 months, taking in all of the risk factors and opportunities that currently exist in the market?

TORBEN DEGN: I think you can sum it up as being defensively positioned by and large. I will be very underweight equities and probably significantly overweight European credits, which have an ECB eligibility criteria to it.

I would probably also have some of the higher yielding names in the crossover space that have been taking a beating. I will still have some sovereigns in there – specifically US, given the fact that it actually has a positive yield – and then a little bit of gold. That would probably sum it up: defensively positioned over the next six to 12 months.

PETER NUNLIST: I would say we're solid 33% in stocks. Maybe I'll lift up to 40%, but we will certainly have a quota of 10% in gold because the recent months showed that sometimes the correlation was the same with stock markets.

So even people with 50% stocks and 20% gold have reached better performance than a balanced portfolio. But on the stock quota, I would still prefer the Swiss market because I think there is some benefit after Brexit for Swiss companies. They are used to working efficiently, especially after what happened with our currency one year before. So the 33% to 40% stocks, we should keep that rate on for the next months because I'm not that negative overall.

URS BECK: I don't do asset allocation – I'm a Swiss equity manager and 100% invested. I think there are so many chances

out there for corporates in Switzerland. I hold 40 out of more than 200 listed stocks, which means less than one in five makes it into the portfolio. So I can be very picky and you want to be invested in the Swiss, in producing assets, in innovation and leveraging cheap capital.

I think that the asset class makes a lot of sense. You have to be close to the management teams, understanding what their next steps are going to be and how prepared they are for potential risks.

For me however, it makes a lot of sense to have a big part of your portfolio in Swiss equities.

BRIAN PHILLIPS: It's also an issue of timeframe. How long one is investing for, what one's perspective is within the fact that we have buyers who tend to have slightly longer-term issues in terms of how they're planning their portfolios. So we're not looking at short-term performance.

Large Swiss companies – global players – are very important in the portfolio. Diversification, gold and cash are certainly also important, but we still have concerns around global growth issues and the possible continuation of credit contraction and the implications that has.

So the bottom line for us is patience and I don't think we've yet seen the bottom. I think there'll still be some more shakeouts and if you're looking for some growth, we would continue to go into private equity firms that are dealing in the early stage and venture into the market as opposed to the established private equity players.

MARTIN BÜRKI: I think a good summary is if you write the word 'crisis' in Chinese, it has two characters: one is danger and one is chance. There will be chances now to invest again.

We stay with one third in equity, one third in absolute return bond strategies and one third in cash. We don't like gold because the national banks can only bring everything in order if they hold their direct competition down and that is gold.

MARIANNE RAMEAU: We have different building blocks to the portfolio: alternatives, fixed income and equity, because our clients have very different risk profiles, very much depending on their timeframe, their age and their cashflow needs.

So it's up to the client how much they have in each of those envelopes. Then the fixed income we leave in people's base currencies. We've got some credit risk there, but also some stable US bonds hedged into people's base currency for the stability.

In the equity portfolios, we've had more cash than usual this year and I'm also waiting for an opportunity to deploy that. I don't think the time is quite there yet because I still see quite a bit of complacency in the sentiment indicators, compared to the risks that are out there.

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