



Editorial

Change is the lifeblood of the future. With this in mind, I am delighted to have recently handed over the reins to my two colleagues with unlimited liability. Having done so, I am now returning to the ranks. In this way, we can ensure the continuity that is so important for us, and it also means I can still be here for you. I have had the privilege of spending 60 hugely enjoyable years in my job. Serving clients has always been what I have liked best, identifying with them, finding out their needs and requirements, and combining their requirements with the financial markets.

“He, that noble prize possessing –
He that boasts a friend that’s true,
He whom woman’s love is blessing,
Let him join the chorus too!” (Schiller).
I have been truly blessed, with my wonderful wife and many clients who have become real friends. And for this, I say thank you from the bottom of my heart. ■



Karl Reichmuth, General Partner

TURNING POINTS

US heading for interest rate hike, more free market influence in China

*Uncertainty is seldom good for the financial markets.
The difficulty amid the glut of information is to distinguish between transitory noise and real news.*

While the headlines on Greece rank more among the former, the developments in the US and China are likely to mark real turning points.

US on the verge of a rate hike

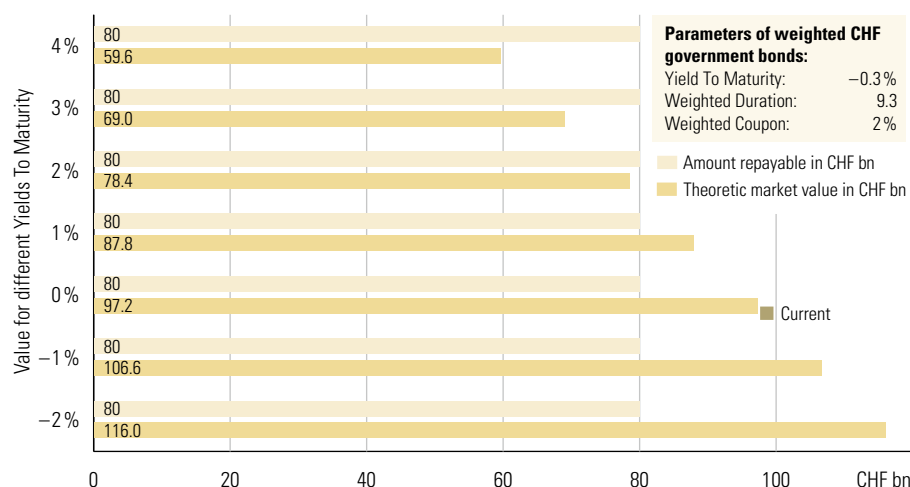
The US appears to be the only region that is faring relatively well. Although it also has its problems owing to the low oil price and the attendant difficulties for the erstwhile growth sector of shale gas/oil, there can be scarcely any doubt that the first interest rate increases are in the offing there. This is essentially supporting the USD, even though inflation in the US is higher than elsewhere. It is unclear whether the interest rate rise will be accompanied by a global economic slowdown, which would then bring pressure to bear on the US equity market. USD bonds are still offering yields of around 2% up to medium-term maturities, and for this reason they strike us as being more attractive than the US stock markets at present.

China letting the market play a bigger role

There appears to be a further turning point discernible in China. The recent devaluation of the CNY has heightened the uncertainty on the financial markets. The failed efforts to support the Chinese stock market, which suffered a massive correction after gaining 100% in three months, put into question China’s willingness to give the market a greater say in capital allocation in the future. That said, we currently view the moves in China as being positive. Following on from tackling corruption, a model with market-oriented incentive mechanisms is fundamentally correct. Whether the negative effects of allowing the markets to play a bigger role – namely more volatility – will also be tolerated remains to be seen. Nevertheless, the Chinese government seems to be firmly committed to doing the right thing. Perhaps China’s current President will become a benevolent dictator akin to Lee Kuan Yew in Singapore.

continued on next page

What are the outstanding Swiss government bonds with a nominal value of CHF 80 billion worth?



Sources: Bloomberg, own data

Waiting for Godot in Europe

Nobody knows whether Godot exists, or whether he will actually come. Similarly, there is as yet no sign of solutions to the current problems, and growth is also conspicuous by its absence. Wolfgang Schäuble is right when he says there can be no debt haircuts in a currency union without fiscal union. However, Yanis Varoufakis is also correct in his assertion that Greece cannot bear its excessively high debt burden. Despite this, political will has once again given rise to a Greek bailout package. Economic common sense has been left by the wayside, and stagnation established as a firm fixture for the foreseeable future. The Eurozone is ailing as a result of the chronic imbalance in competitiveness. It is to be hoped that this patient already doing poorly doesn't catch a cold. After all, the ECB's room for maneuver is still restricted to printing even more money, as interest rates remain close to zero.

Hyper-expansionary central banks

In the absence of a cure, the focus turns to alleviating the symptoms. For this reason, we currently see no prospect of a normal interest rate environment. And the longer interest rates remain at zero or lower, the more the scene is set for

bubbles to form on the markets. It is difficult to understand why anyone would buy government bonds offering a negative yield. The most likely to do so would be inattentive index investors, or institutions whose hand has been forced by regulations. It is probably better that we do not try to make head or tail of this.

"Valuable" sovereign debt

Switzerland currently has bonds worth CHF 80 billion outstanding. However, in the buyers' portfolios they have a value of CHF 100 billion. The weighted coupon is 2%, the duration 9 years, and the yield to maturity -0.3% p.a. Are efficient markets at work, or should we simply view this as meaning that financial investments are overvalued by around 20%? A coupon of 2% for government bonds around the 10-year mark would sound reasonable to us, at least in the current environment. Based on this observation, equities and real estate are also likely to be overvalued by around 20%. Given the market interventions by authorities around the world, we do not expect any change on this front. We can see no signs of an environment in which the state limits itself to providing the basic operating framework and where central banks pursue monetary stability as their primary goal.

Heightened threat of a deflation shock

Against this backdrop in particular, commodity prices and currency developments point to an increased threat of falling prices. Digitalization is exacerbating this yet further, as one industry after another is shaken up by new business models. New ideas are geared towards client benefits, and are circumventing rigid, over-regulated structures, paying little attention to the stability of the existing system desired by politicians.

Why are we still recommending equities?

In our view, the bubble forming scenario is still much more likely than the deflation scenario. In an environment marked by financial repression, equities are a better alternative than bonds. Against this backdrop, investments that generate cash flow are attractive if their price risks are justifiable. Out-and-out price risks without cash flow, such as in the case of bonds in core Europe, hardly fall into this category. Furthermore, we always break the headline performance figures down into the more meaningful components "income" (interest and dividends), "price movements", and "currency effects". This is the only way to get a true assessment of the results of a strategy, and so to adopt the right positioning for the future.

We are using the current correction to increase the quality of our investments. If all equities correct equally, we will switch from equities of low quality to stocks with a higher quality. We will be happy to explain this to you in more detail in person. ■



Christof Reichmuth, General Partner

OUR SCENARIO ANALYSIS IN A NUTSHELL

Increased probability of a deflationary shock

Bubbles forming – financial repression and stagflation

Political and regional trouble spots (Greece, China) give rise to uncertainty and prevent an economic upswing. Companies invest less in growth, focusing instead on managing their share price. Despite the improvement in the US labor market, the Federal Reserve remains tentative with interest rate rises. In the other regions, the central banks continue their expansionary courses, keeping interest rates low or even negative. Amid the dearth of alternatives, investors are forced into anything offering returns. The markets become increasingly bloated. Key structural reforms fail to materialize. The real economy remains weak and unemployment high in many industrialized countries. Trust in central banks and state authorities reaches tipping point.

Deflationary shock – China-induced crisis

The cooling in the Chinese economy is more pronounced, with negative consequences for the global economy: export-oriented companies in Europe suffer slumps in sales, and margins crumble. Owing to declining revenues, commodity-producing countries become mired in a debt trap. Credit spreads rise. Tension mounts on the international currency front, with marked depreciations in emerging markets in some cases, thus exacerbating the deflationary pressure. The strong USD heightens the debt burden for companies with debt denominated in USD. Against the backdrop of this uncertainty, growth wanes in industrialized countries. As real interest rates and credit spreads rise, the central banks are increasingly caught in the deflation trap.

Growth – slow recovery

Low interest rates and low commodity prices stimulate growth worldwide. Thanks to further monetary and fiscal policy support programs, growth stabilizes in China at a high 7% and picks up somewhat in Europe and Japan. Growth in the US remains robust, and wages begin to increase. Inflation edges up, but remains below the target range of the central banks. Key interest rates therefore rise only very slowly. Confidence returns, capital spending increases, and unemployment numbers drop. Against the backdrop of rising inflation and some growth, the crisis-hit countries are able to gradually reduce their debt ratios.

Real solutions – shaking out and looking to the future

A political rethink takes hold, and structural reforms are launched. The crisis-hit countries reach agreements on debt haircuts with their creditors. A “bad bank” is set up to handle this, financed by a one-off capital levy. Debt restructuring takes place in the private sector. Parallel currencies are introduced temporarily to ensure the competitiveness of the crisis countries. After initial support, the central banks normalize their interest rate policies so as to provide the right investment incentives over the long term. Following a turbulent phase with a pronounced slump in asset values, the foundations are in place for new beginnings.

Investment ideas

- Dividend stocks
- Stocks of global leaders
- Real estate
- Infrastructure investments with inflation protection
- Consider hedging with puts
- Gold
- USD

60%
probability
12 months

Investment ideas

- High cash holdings
- First-class bonds
- Flexibly hedge funds with short strategies (e.g. short credit)
- Gold as a store of value

34%
probability
12 months

Investment ideas

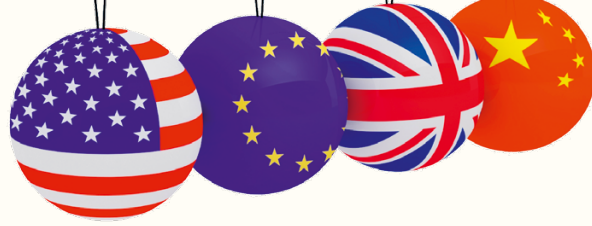
- Stocks from cyclical sectors, with a focus on northern Europe
- Emerging markets
- Commodities
- Hedge funds
- USD

5%
probability
12 months

Investment ideas

- Stocks of global leaders, albeit hedged with exchange-traded put options (low counterparty risk)
- Physical gold in Switzerland
- No nominal monetary assets in crisis countries

1%
probability
12 months



MARKET OUTLOOK

3rd Trimester 2015



Dr. Max Rössler

Until recently exchange rates, interest rates, and the equity markets appeared to be relatively stable, but the unexpected stock market correction, sharp drop in commodity prices and the unexpected economic slump in China are creating fresh uncertainty.

Currencies

The volatility in exchange rates among the major currencies remains high. In the EUR/USD for example we recently witnessed a sudden increase. On the other hand the JPY and CHF have more or less stabilized following the strong depreciation of the yen last year and the franc's pronounced appreciation on January 15, 2015. That said, this apparent exchange-rate equilibrium is unstable, and there may soon be new larger-scale shifts.

The USD has been tending stronger for some time now owing to the interest rate hike expected soon from the Federal Reserve, but it could nonetheless gain further ground after this actually occurs. However, the doggedly high twin deficits (markedly negative current account balance and significant budget deficit) mean a weaker USD is more likely to be on the cards again over the long term.

As the Swiss National Bank never tires of stressing, the CHF is still strongly overvalued in terms of purchasing power. There

has been a gradual trend taking hold of late toward a slight weakening of the CHF, thus mitigating the overvaluation and its negative impacts (pressure on the export industry and tourism).

The unexpectedly sharp decline on the stock market and in economic growth in China has prompted various responses from the government, including a slight devaluation of the CNY. It is difficult to gauge whether this will be sufficient to stabilize the economy. Should the devaluation be widened out, we risk having a competitive devaluation.

Currency	Exchange rate	Expectation
	24.08.2015	12 months
USD	0.93	↗
EUR	1.08	↗
GBP	1.47	↗
NOK	11.3	↗
CNY	0.15	→
JPY	0.78	→

Interest rates

Inflation rates in the industrialized countries are still below the central banks' targets. The latter therefore have no grounds to abandon their fundamentally expansionary monetary policies. Interest rates will thus remain very low, and any increases in key rates – the first of which will probably come in the US and UK – will be only very modest and made tentatively.

The specific trends in the individual currencies are something of a mixed bag. In the US, the Federal Reserve ceased buying government bonds as planned some months ago in light of rising economic growth. It also announced an initial increase in its key rate, but has since repeatedly postponed this. In Europe, the ECB has a purchasing program in place with a massive monthly volume of EUR 60 billion, and has on occasion gone further still. Here – and also in Japan – we can therefore expect to see short-term interest rates close to zero for some time yet. Meanwhile in Switzerland, they are set to remain in negative territory.

Long-term interest rates, which are influenced more by free market forces than by the central banks, rose sharply in all key currencies in June amid nascent fears that the turnaround had begun. As we have seen so often in the recent past, this turned out to be rooted more in mass psychology than economic facts, and rates thus subsequently fell back to close to where they started. The increase in long-term interest rates will probably be some time coming yet, and will take place only slowly.

Country	3M Libor	10y swap	Inflation
	24.08.2015	24.08.2015	
Switzerland	−0.7 % →	0.2 % →	−1.3 % ↗
US	0.3 % ↗	2.1 % ↗	0.2 % ↗
Germany	−0.0 % →	1.0 % →	0.2 % ↗
Italy	−0.0 % →	1.0 % →	0.2 % ↗
UK	0.6 % ↗	1.9 % →	0.1 % ↗
China	3.1 % ↘	n.a.	1.6 % ↗
Japan	0.1 % →	0.5 % →	0.4 % ↗

Stock markets

The general share price trend on the markets has increasingly flattened over recent months, with index movements mostly hovering around zero, be it in terms of the respective local currencies or a common currency. Recently the speculative exaggeration led to a sharp correction in China, which also impacted markets worldwide, but to a lesser extent. Fundamental equity valuations are not unattractive, especially by comparison with the low yields on bonds. A relatively high weighting of equities in asset allocations therefore continues to make sense.

A good and secure dividend yield remains the most important criterion when selecting stocks. Many equities of first-class companies operating in defensive and relatively less cyclical sectors and offering stable earnings meet this requirement, and

should therefore form the main part of the average investor's equity portfolio. In light of the increased payout ratios, however, we are scarcely likely to see dividends rise yet further and must instead expect them to tend to maintain their current levels.

For investors with stronger risk appetites, there is greater upside potential over the short to medium term in equities from sectors where earnings are subject to strong fluctuations, or where many companies are currently even operating at a loss. These include oil and other energy and commodity stocks, shares of banks with insufficient provisions for bad loans, and shares of export-oriented industrial firms hit hard by exchange-rate movements. However, the selection of such securities calls for extensive specialist expertise, and you should not allow yourself to be dazzled by dividends that may still be high, but are at threat of being reduced or cut altogether. ■

Country	Index	Index level	Expectation	Dividend in %	Price/Book	Price/Sales	Price/Earnings
		24.08.2015					
Switzerland	SMI	8 469	↗	3.3	2.6	2.2	16.6
US	S&P 500	1 893	→	2.3	2.6	1.7	16.0
Germany	DAX	9 648	↗	3.1	1.5	0.7	12.0
Italy	MIB	20 450	↗	3.2	1.1	0.6	15.7
UK	FTSE	5 899	↗	4.4	1.7	1.0	14.5
China	HSCEI	9 602	↗	4.3	1.0	0.8	7.1
Japan	TOPIX	1 481	↗	1.8	1.2	0.7	14.0

MODULAR CONCEPT "PORTFOLIO OF THE FUTURE"

Equities – the backbone of our investment strategy

Recommendations for individual portfolios			Investment instrument				
			Voralpin traditional	Alpin diversified	Hochalpin dynamic		
Min.	Neutral	Max.	Liquidity Unattractive due to negative interest rates <ul style="list-style-type: none"> Sufficient cash in home currency to cover obligations for the next two years 	0 %	1 %	-7 %	
Min.	Neutral	Max.	Fixed-income Scarcely any yields available – avoid long maturities <ul style="list-style-type: none"> Only to smooth out fluctuations USD bonds and inflation-linked bonds as diversification 	38 %	31 %	1 %	
Min.	Neutral	Max.	Equities Give preference to shares in companies with strong cashflows and sustainable dividend policies <ul style="list-style-type: none"> Northern European dividend stocks Global leaders Selectively attractively valued emerging markets 	45 %	45 %	72 %	
Min.	Neutral	Max.	Real estate Stable returns and dividends <ul style="list-style-type: none"> Focus on Switzerland Singapore, Spain, and Germany as diversification 	13 %	7 %	6 %	
Min.	Neutral	Max.	Alternative investments Use the diversification potential of specialized investment strategies	not permitted	10 %	17 %	
Min.	Neutral	Max.	Precious metals We regard gold as a currency that no central bank can print	4 %	6 %	11 %	
Min.	Neutral	Max.	Currencies	72 %	71 %	31 %	
				CHF	10 %	13 %	30 %
				USD	6 %	1 %	12 %
				EUR	2 %	5 %	12 %
				Asia	10 %	10 %	15 %
				Various (NOK/SEK/CAD)			

Allocation as of 24.08.2015

Recommendations are subject to change at any time

EXECUTIVE PENSIONS WITHOUT CROSS-SUBSIDIES

Tobias Pfrunder talks to Jean-Pierre Wyss about the pension scheme model of u-blox AG.

Mr Wyss, one year ago u-blox decided to change its pension scheme model. What prompted this move?

We had been with one of the major collective foundations since our company was set up. Despite recent years having been good for investments, we as insured members consistently received modest returns hardly above the statutory minimum interest rate. Owing to the constant growth of this pension scheme, the existing members had to help increase the fluctuation reserves and also to co-finance the existing pension obligations. We wanted to put an end to such cross-subsidies.

You decided to separate basic pension provision from extra-mandatory pension capital. What key advantages do you think this new solution will offer?

We now have a modern pension scheme solution for our management team. The basic pension provision, i.e. for salaries up to CHF 130 000, will be covered via the company's own pension fund with a collective foundation, and the investments will be made collectively for all employees together. The pensions for managers for the salary portions above this threshold are held with the PensFlex Collective Foundation. Here every insured person is free to define their own investment strategy. Furthermore, the employees have a choice of three savings plans. At our company, we expect our employees to work independently and to take responsibility. We are therefore delighted that we can now offer our employees a pension solution where they themselves can make decisions. It is also important for us to be an

attractive employer, and to ensure staff loyalty over the long term. Added to this, u-blox as a listed company also benefits with regard to the accounting regulations (IAS 19).

How have your employees responded to this change?

Thanks to the personal support from the PensFlex advisors on insurance, pensions, and tax matters, as well as from the investment specialists at Reichmuth & Co in selecting the individual investment strategies, there have only been positives for our employees. They have particularly welcomed the fact that this solution means there will be no cross-subsidies and no co-financing of collective fluctuation reserves in future.

Where do you yourself see advantages in your PensFlex account?

The ability to make tax-privileged voluntary contributions is a big plus for me. This allows me to reduce my taxable income while at the same time building up my pension assets. Since I have opted for the savings plan with the highest contributions, this means stronger growth in my pension assets and also optimizes my income tax situation. Added to this, I receive a personal account statement, giving me a transparent overview of the development of my assets. My relationship manager at Reichmuth & Co also aligns the individual investments in my pension account with the securities I hold in my private assets. When it comes to the annual tax planning, I work together with the pensions advisor from PensFlex and the investment specialist from Reichmuth & Co to determine the possible voluntary contributions and the strategy for my pension capital. With the new

PensFlex solution, my voluntary contributions cannot be used to cross-subsidize other insured persons, so I am now prepared to make proper use of this attractive means of reducing my taxes.

Are you aware of the mortgage loan option within PensFlex?

I actually discussed such financing recently with my relationship manager. The possibility of granting myself a loan from my pension account strikes me as an attractive option. In the current low interest rate environment, receiving a tax-free interest rate of 2.75 % p.a. at present is, of course, extremely appealing. Coupled with the possibility of higher deductions on my tax declaration as a result, I benefit twice over. ■



The Swiss firm u-blox AG (SIX:UBXN) was set up in Zurich in 1997 as a spin-off from the Swiss Federal Institute of Technology (ETH). It is a leading provider of semiconductors and modules for wireless communications and positioning. With its headquarters in Thalwil, Switzerland, u-blox is present in 15 countries worldwide, and has branch offices in Europe, Asia, and the US.



Jean-Pierre Wyss, co-founder,
member of the Board of Directors u-blox

A SMOOTH HANDOVER

An interview with the general partners



Christof Reichmuth (CR), Karl Reichmuth (KR) and Jürg Staub (JS)

Why are you still sticking with the legal form based on general partners with unlimited liability?

JS: It is ideally suited to our philosophy centered on taking responsibility, and also instills a sense of discipline that dissuades us from making any seemingly lucrative but risky transactions. As far as we are concerned, this legal form is not up for debate.

Isn't that a disadvantage when it comes to succession planning?

KR: Not for us, and in fact we put our carefully prepared succession plans into effect this summer. Christof Reichmuth has taken over my position as Chairman of the Board of Directors, while Jürg Staub is his successor as CEO.

You've also been appointed "Honorary President". What does that entail?

KR: First and foremost, it is an honorary position without an executive function. That said, I still take enormous pleasure in my work, and in this way I can still be there for our clients. I am looking forward to being a sparring partner for our employees.

Why have you made these reallocations of responsibilities?

CR: The basic regulatory environment is finally clearly defined. Although it's worse than six years ago, we at least have some clarity now. Our strategic focus is still correct, and no changes are needed. We are adhering to our core businesses of integral asset management, forward-looking investment management, and pension provision centered on individual responsibility. We are bringing our structures in line with our strategy.

What does this mean specifically?

CR: We've taken a whole raft of new and innovative ideas on board over the past ten years. We are now grouping these together under Private Banking, Investment Management, and

Integral Pension Concepts. In all three of these areas, the focus will be on harnessing the opportunities that arise.

Will this entail any changes in direction?

CR: As an owner-managed family business with a liberal approach and a critical view of the state, we above all offer integral solutions based on taking individual responsibility. Clients come to us because they share our philosophy, and because we offer them innovative solutions such as PensFlex. And also because we repeatedly identify innovative niche ideas, such as in the infrastructure sector at present. So the answer is "no", we won't be making any changes in our focus.

Where is client demand for your services coming from?

JS: Thus far it has primarily been from entrepreneurs, families, and members of senior management. Our structure, our long-term and independent mindset, and our tax-optimized and flexible pension solutions are ideally suited to their needs.

Will you be changing your investment philosophy?

CR: We will not be tinkering about with our approach centered on a scenario-based investment strategy. We remain active investors with clear opinions, and we also want to continue to realize niche ideas.

What is meant by integral pension concepts?

KR: We are convinced that pension provision is too important to leave to the state. Many countries are currently writing checks they can't cash. Our innovative solutions allow managers to take responsibility for their pensions, while at the same time enjoying tax advantages. Additionally, pensions can be attuned to the individual's private assets and their specific situation. We are now offering this in Germany as well.

What is your take looking to the future?

JS: Very positive! The lack of clarity on the regulatory front over recent years is now a thing of the past. We recently also concluded the US Tax Program for Swiss banks. 2015 marks the smooth transition to the future, and we are aligning our structures accordingly. Our company will soon be 20 years old, and as such is now 'grown-up'. New opportunities are arising all the time, and we are therefore looking confidently to the future. ■

Reichmuth & Co Private Bankers
Integral Investment Management

Rütligasse 1, CH-6000 Lucerne 7
Phone +41 41 249 49 49

Tödistrasse 63, CH-8002 Zurich
Phone +41 44 299 49 49

www.reichmuthco.ch