ARVEST

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Investor Info
Investment Commentary

Briefing from the ARVEST Investment Committee

2015 was a difficult year for all global asset classes. This is true especially for investors with a strong domestic currency such as the Swiss Franc. On January 15, 2015 the Swiss national bank announced that they were lifting the price floor on the Swiss franc against the Euro. This decision instantaneously lead to losses in globally diversified portfolios. Another strong currency last year was the US Dollar, which is the reference currency for many international investors. Alongside the Japanese Yen it was the only other currency to close the year with a small gain of 0.8% and the Japanese Yen at 0.4% against the Swiss Franc.

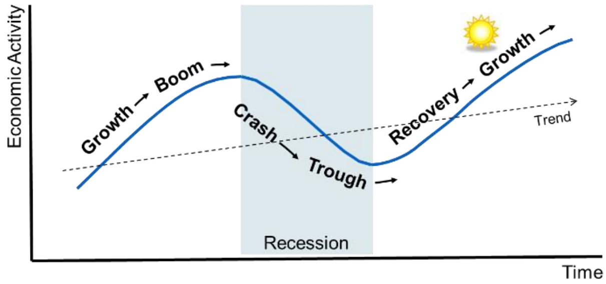
Profits were also hard to achieve with other currencies or investments. With the exception of the Nikkei, all other major stock indices suffered losses. Prominent examples being the U.K. -10%, Canada -25% and Brazil -43%. The same unfortunately applied to the bond markets. The capital and currency losses mostly offset any revenues generated through interest. However, the worst performance in 2015 was exhibited by all investments related to raw material. Raw materials themselves closed with an annual loss of -28%. Gas and oil lost almost 50% in value. Even gold and silver closed with about -10%. Therefore in 2015 even the most diversified of portfolios were unable generate positive returns.

Certain trends continued in 2015. Chinas growth rate continued to weaken. But its development towards becoming a financial super power continued unabated. A fact which was further confirmed by the International Monetary Funds acceptance of the Reminbi as an international currency. The commodity supercycle continued to weaken which hit exporters in emerging markets the hardest. Low raw material prices and excess production capacity resulted in global deflationary pressures. This allowed the continuation of an expansive monetary policy. The resulting low interest rates allowed companies outside of of the raw material or energy sectors to realize substantial corporate profits. Furthermore, companies and states were able to restructure debts and acquire loans under very favourable conditions.

There was a change of trend in monetary policy. The European Central bank started an unprecedented unconventional expansionary monetary program. The US FED on the other hand increased interest rates slighly in December. This was a daring little step towards normalization of monetary policy.

Future Prospects

The ARVEST Investment Committee assesses global economic conditions as basically unchanged to last quarter. We notice a soft patch in industrial growth in the USA, however the significantly larger service sector provides stability to employment and overall economic growth. According to long-term leading indicators no recession is to be expected in the near future. The European and Japanese economies will likely continue to recover in 2016. Making a forecast for China is more difficult. The lack of historical and reliable data makes it hard to conduct a thorough analysis of economic cycles. The irrational capers of Chinese equity markets are not indicative for economic development. We expect lower economic growth due to structural changes in the Chinese economy. However, due to Chinas increasing relevance its positive contribution to global economic growth will remain unaffected. On the whole, the global economy finds itself in a stable growth phase leaning towards weakness rather than boom.



Stock prices have increased strongly since the 2008 financial crisis. Equities are no longer a bargain. According to our estimates stock markets are still fair priced relative to cyclically adjusted corporate profits if we take economic growth, low inflation, low interest rates, rather solid balance sheets and highly liquid stock markets into account. We hardly observe any irrational prices which market participants often pay during a boom. On the contrary, market participants are quite sceptical. This is apparent from weak technical market indicators that are usually observed in times of increased market volatility.

The ARVEST Investment Committee did not notice any signs in the previous quarter that sufficently pointed towards a change of regime in terms of inflation, debt, market liquidity or trust in the institutions. Only the recent collapse in oil prices could lead raw material prices to bottom more quickly than expected. This would imply more dramatic consequences for producers. Nevertheless, a complete reassessment of the overall environment would be premature.

Given the current low interest environment the ARVEST Investment Committee prefers stocks and cash over bonds. Historically, commodities have, in the best case, beaten inflation. In the long term they remain an uninteresting asset class for us. Equity market valuations are more favourable in Europe and Japan than in the United States as corporate profits have more potential to be increased in the former. Investments in emerging markets should be continued to be made with great diligence.

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On behalf of the Investment Committee
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