

Quarterly Insight

Summer Edition 2016







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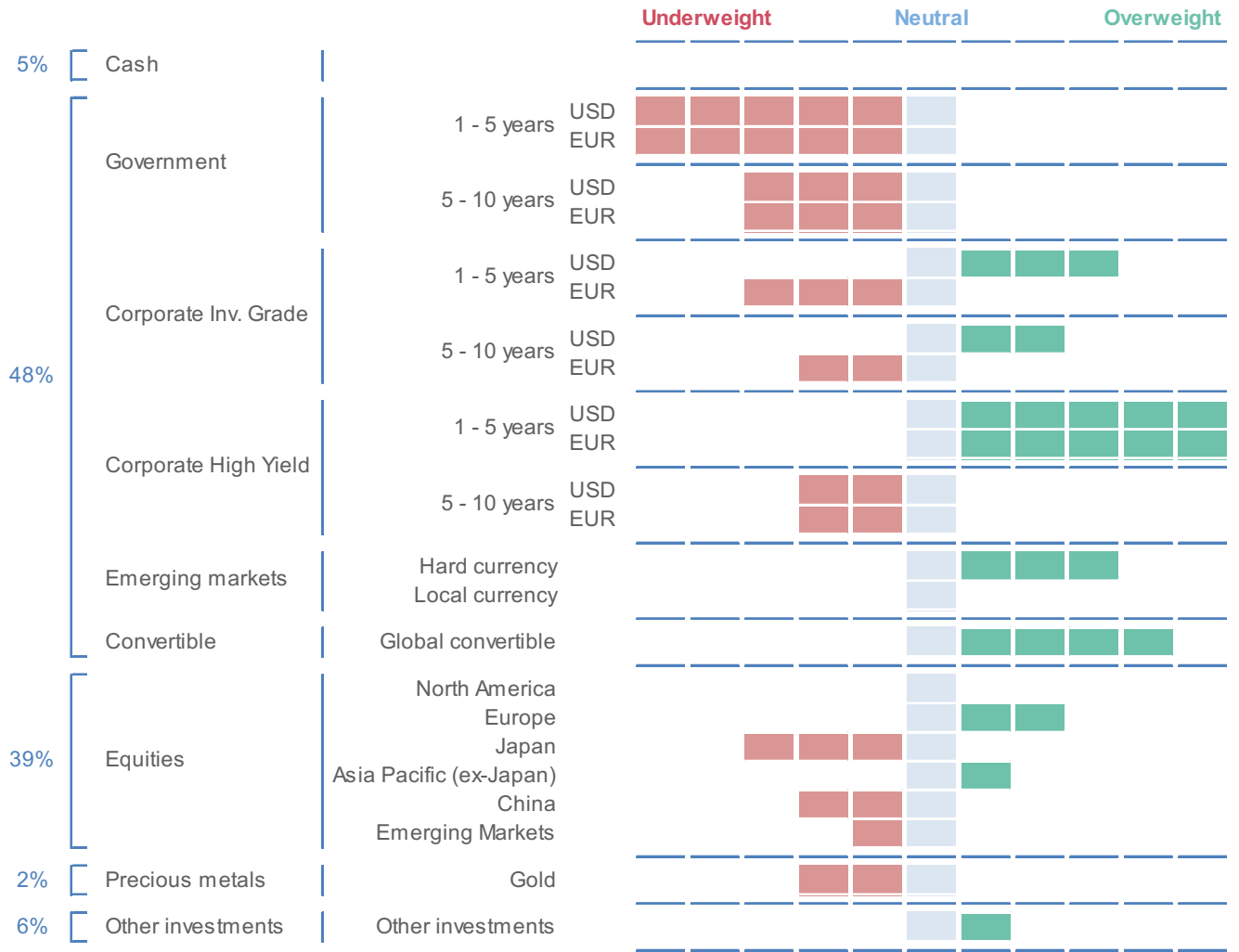
Imprint

Publication date : July 1, 2016
Prices as of : June 30, 2016





ALLOCATION MONITOR





ALLOCATION COMMENTARY

In our last edition, we were affirming that the economic ground was arid. Despite a rainy spring, the situation did not really improve, and investors face a hostile financial environment.

On Friday, June 24th 2016, the Europe woke up with a pounding headache. We have all been astounded, even people who supported it, when the British people decided on Brexit after a referendum that took place on Thursday, June 23rd 2016. The result of the vote implies the implementation of the article 50 of the Lisbon treaty, which concerns the exit of a member state through bilateral negotiations.

A European Union without the UK is certainly a different Europe, but not necessarily a weaker one. After the vote we estimate that the UK will face an economic slowdown, or even a recession in the next 18 months, but our analysis points out that this will have only a limited impact, maybe of few tens of basis points on the economic growth of the world, which should be absorbed without too much pain.

Even if the results of the recent vote surprised financial markets and will certainly have a negative impact in the coming months, we consider that equity indices overreacted to the news. In a panic movement, investors have reduced risk in their portfolios without asking questions, wanting to have time to analyze and evaluate the situation. The recent buying volumes from bond investors who turned to high dividend equities also explain part of the move. Facing a market correction, they have probably decided to sell their equity high dividend investment.

On the fixed income and currency side, the reaction was less violent (except for the GBP), and it is rather a good omen for a normalization of the situation.

By looking at the global picture, we see signs of stabilization. US unemployment reached the lowest level since 2007 at 4.7% and the FED seems to be there to sustain the economy by keeping interest rates near the current low levels. Housing prices, private consumption and record car sales are also signaling an improving situation.

In Europe, we also see sign of improvement, with the CITI Economic Surprise index running higher. What is still missing is some signs of inflation, which would favor higher nominal interest rates and should have a positive effect on the nominal global GDP growth rate.

Even if the economic situation is getting brighter, the global economy will face huge challenges: the US presidential election, a multi-party agreement in Spain to build a stable government and the negotiation in Europe of a soft and painless UK Brexit.

Moreover, despite announcements of special measures taken by governments, the reality is that public debt to GDP in the developed world has risen in the seven years following the subprime crisis, from 95% to 106% of GDP. This will soon or later become a serious problem, one that will be hardly manageable.

In this economic context, and considering a net negative expected return, we continue to significantly underweight government bonds as well as European investment grade corporate bonds, where positive yield is only a memory of the past. In US dollar terms, yields are slightly higher, around 1.5-2% for a four-year bond and 3-3.5% for longer maturities, which permits to maintain our allocation in this segment.

In order to have some positive yield, we continue to favor crossover bonds (from BBB- to BB-), hard-currency emerging market bonds as well as convertible bonds that, although riskier, continue to offer an attractive risk-return profile. For private investors, we argue in favor of global diversified instruments such as funds and ETFs.

On the equity side, we reduced our underweight stance after the Brexit correction. The two day market drop offered an interesting entry point from a technical point of view, but a poor macroeconomic environment will probably make this decision a short-term one. Indeed, despite the recent increase in our equity allocation, we continue to favor a conservative approach as the economic background is still fragile and corporate profits are not well oriented.



GOVERNMENT BONDS



The last quarter saw global short-term government bond yields falling further and approaching 2016 lows. This is the case for Japan and Europe, where central banks continue to adopt dovish monetary policies. Central banks are suppressing yield and distorting the allocation of capital, especially in fixed income markets. International statistics show that one in three sovereign securities now offers a negative yield. This means that investors face the prospect of locking in a capital loss at redemption. They are forced to take risk, but hardly get any return (especially in EUR, CHF and JPY).

Going ahead, we expect short-term government yields to remain at very depressed levels. Even the FED, which has started its interest rate normalization cycle at the end of last year, seems to be adopting a wait and see approach. The pace of interest rate increases (the famous "dot plot") has been reduced and will be slower than initially indicated: FOMC members expect only one more rate hike this year.

In the current near zero yield environment, we consider short-term government bonds as an asset class offering a risk/reward profile that is not interesting for private clients.



Long-term government bond yields have approached this year's lows in the US and their all-time lows in Europe, Switzerland and Japan. The trend is strong and is likely to last in the short term.

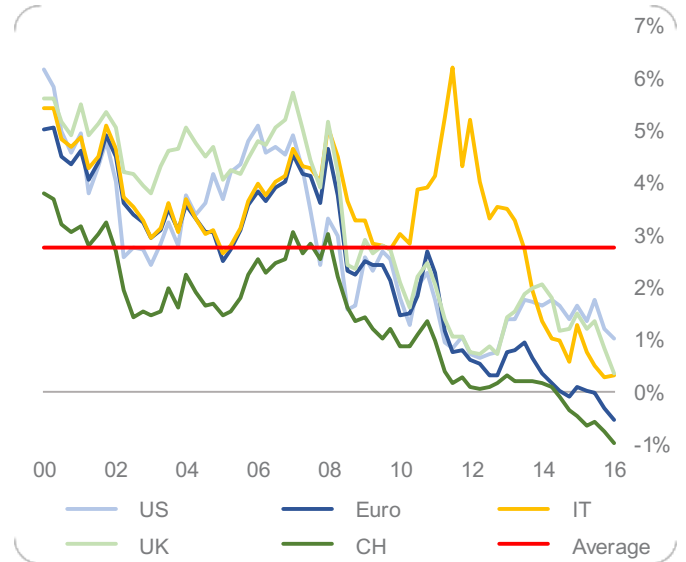
No matter which segment of the market investors look at, bond income-generating capacity is under threat. Yields are so low that it would only take a mild selloff to wipe out years of coupon payments. Fixed income investors are short of options and are obliged to increase duration and credit risk in order to get positive (expected) yields.

Strangely enough, this low yield environment does not result in improving fundamentals. Public debt to GDP in the developed world has risen in the seven years following the subprime crisis, from 95% to 106% of GDP. Needless to say that if yields were not artificially kept low by central banks, much of this debt would be unsustainable, pushing multiple countries to default.

Even if the trend is positive and these distortions are likely to last for some time, we think that the risk/reward potential of this asset is strongly asymmetric and not compelling anymore.

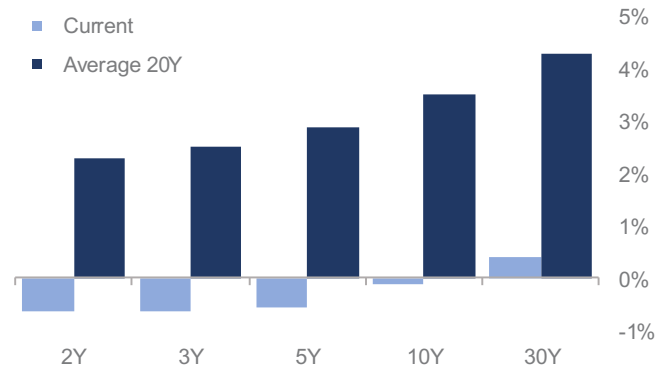
5 YEARS INTEREST RATES

Source: CBH, Bloomberg Financial L.P.



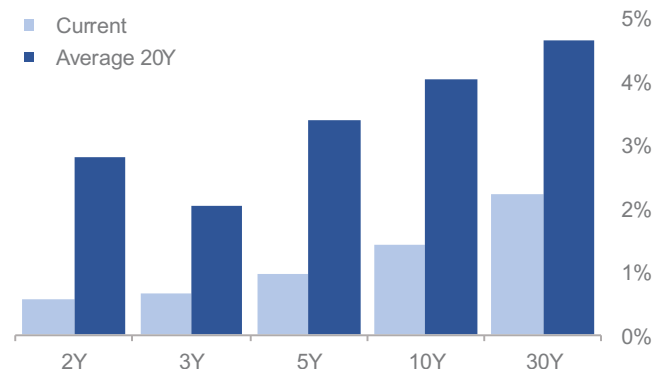
GERMAN CURRENT and 20Y AVERAGE CURVE

Source: CBH, Bloomberg Financial L.P.



US CURRENT and 20Y AVERAGE CURVE

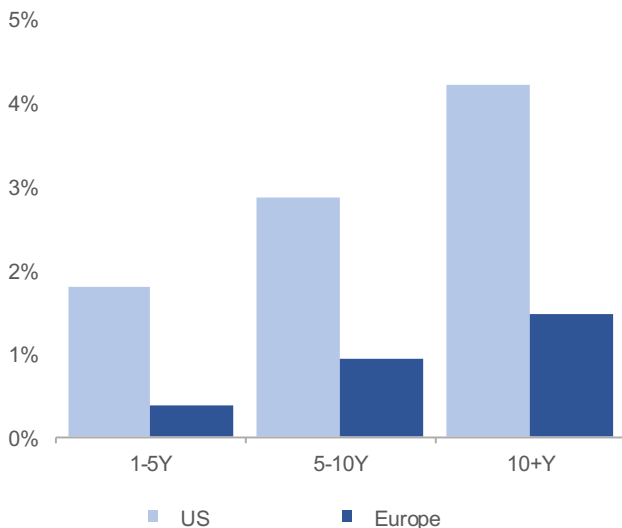
Source: CBH, Bloomberg Financial L.P.



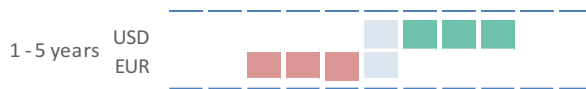


INVESTMENT GRADE CURVES

Source: CBH, Bloomberg Financial L.P.



INVESTMENT GRADE BONDS



Investment grade corporates continued to recover during the last quarter. Financial bonds, as well as subordinated issues, also had a good quarter, but were more volatile.

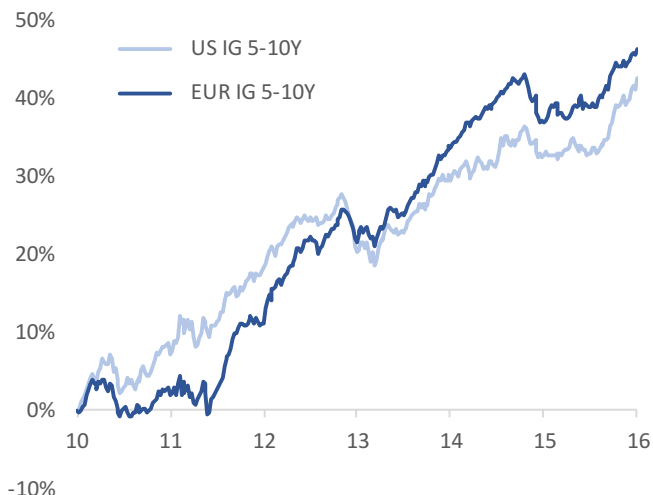
The ECB policy of purchasing EUR-denominated bonds of non-financial corporates is further distorting the supply-demand balance, on top of the highly controversial decision to charge negative rates on banks' deposits with the central bank. These factors have further pushed short-term bonds into overvalued territory: private investors will only find risk, but hardly any return in EUR, CHF or JPY short-term bonds.

In terms of credit risk, in a diversified global bond portfolio, we continue to target the cross-over credit tranche: lower investment-grade (BBB) or good quality high yield (BB) issuers.

Within the asset class, we still prefer USD-denominated bonds to EUR-denominated ones. This is dictated by the higher yield/carry and relative better liquidity of the former.

INVESTMENT GRADE BOND TOTAL RETURN

Source: CBH, Bloomberg Financial L.P.



Long-term corporate bonds have witnessed a strong quarter. Our call to increase exposure on this asset class has therefore been rewarding. Considering the strong rally of long duration bonds, we will adopt a more cautious approach because the risk/reward is now less interesting.

Generally, we prefer adopting a relatively moderate duration approach in portfolios, considering the current low yield environment and flattish curves. The problem is that a fall in bond prices is hardly a remote possibility. This is especially the case in the EU, where the current yield of the 10y Bund is only a fraction of its "fair" level. Even if it is probably not an imminent risk, any speculation of a tapering-off of the ECB bond purchase program could trigger a material correction, as evidenced by US Treasuries in the summer 2013. Moreover, spreads have already contracted markedly since the start of the year.

Nevertheless, despite some signs of deterioration in corporate balance sheets, we believe defaults should remain at historically low levels and remain supportive for credit. Investor demand for corporates is also set to increase given the very low or negative yields across many government bonds.

In conclusion, we suggest moderating duration risks going forward and privilege US credit markets over EU ones. For investors already long the asset class, we advise to keep the positions.





HIGH YIELD BONDS



After having witnessed a tumultuous start of the year, High Yield bonds rallied. Multiple factors have sustained the rebound: stabilizing macroeconomic statistics, improving commodity markets, a falling greenback, more dovish global central banks to name a few. Attractive valuations and a “relentless search for yield” environment were also major factors supporting the asset class. Even after the recent rally, the asset class is still offering attractive valuations. Moreover, it even seems to be able to digest the more recent issues: Fed-induced volatility, “Brexit” fears and the upcoming US elections.

We think these factors could induce a short-term spike in volatility, but the underlying trend should remain positive, especially for short duration high yield bonds.

Short-term HY bonds seem to be in a sweet spot scenario: positive but not “overly” strong growth, dovish central banks and attractive valuations. We therefore continue to maintain our positive view on this asset class.



Long-term HY bonds have also had a strong run. Moreover, thanks to falling government bond yields and tightening spreads, their higher duration has amplified their performance, strongly outperforming the short-term part of the curve.

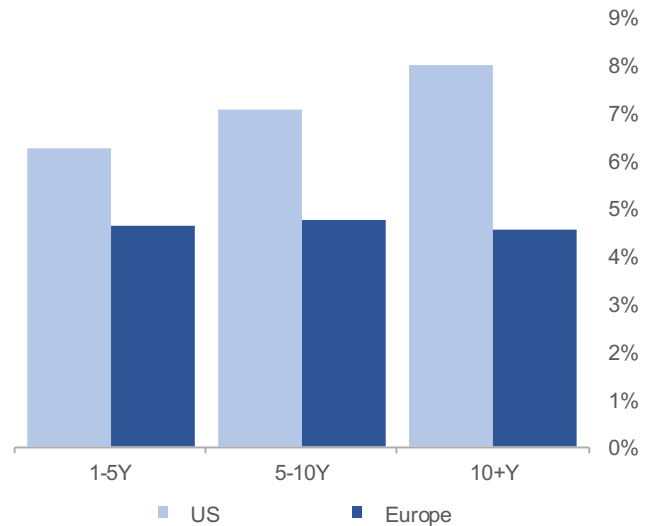
Valuations remain attractive and spreads remain at higher levels compared to the average of the last 3-5 years. This should continue to attract investors in search of yield into the asset class. However, going ahead, we expect that the performance will be more driven by coupon income rather than price appreciation, especially in Europe, where the ECB bond buying program has already been priced in. However, as long as the ECB fuels demand for yield, downside should be limited.

More generally, investing in High Yield requires strong credit selection skills and high diversification. Good selection will permit to “safely” navigate potentially troubled waters while diversification will reduce the damage from unexpected negative events.

In conclusion, we turn less positive on the asset class and advice to be invested a diversified investment vehicle. If potential gains could be more modest than in the past years, volatility and downside risk should also be less important.

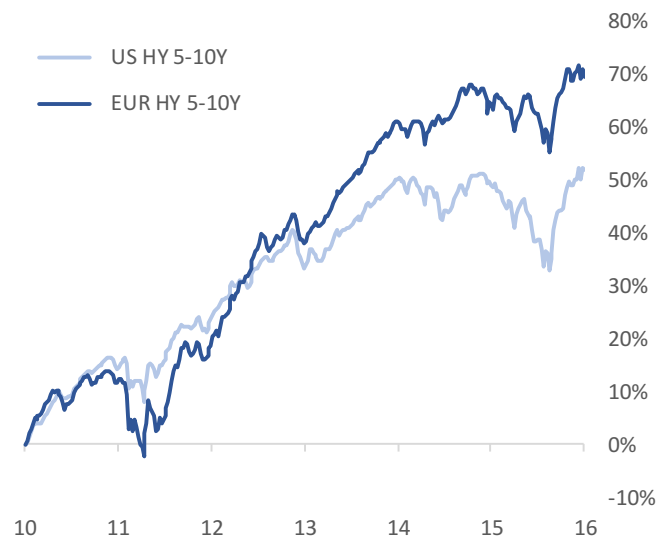
HIGH YIELD CURVES

Source: CBH, Bloomberg Financial L.P.



HIGH YIELD BOND TOTAL RETURN

Source: CBH, Bloomberg Financial L.P.

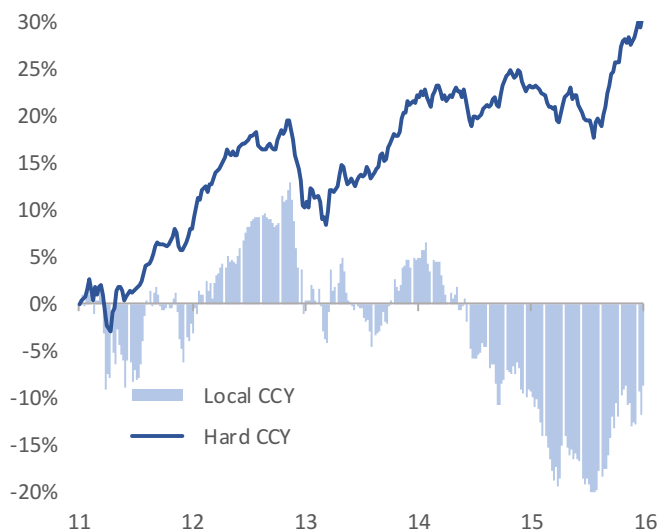




EMERGING MARKET BONDS

EMERGING MARKET BOND TOTAL RETURN

Source: CBH, Bloomberg Financial L.P.



Hard currency

Local currency



Hard Currency

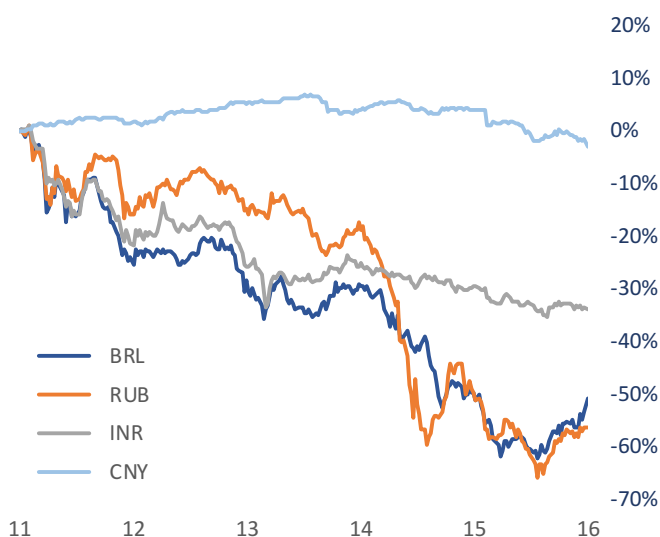
Emerging Market bonds have gone through some turbulence in the beginning of the year, but have demonstrated an impressive recovery since. Attractive valuations and a stabilizing macroeconomic and financial environment were important factors sustaining the recovery of EM hard currency bonds. However, we think that lately, the most important factor driving the rally was the more dovish stance of the FED (and other central banks), which has led to a weakening of the USD, and has pushed investors into riskier segments of the fixed income markets.

While spreads have certainly tightened, strategically we continue to believe that yields on quality emerging bonds still offer unjustifiable high premiums relative to “developed market” peers, especially in an apparently more stable environment. In this sense, our view on Emerging Market fixed income in hard currency, as an asset class, remains positive.

Considering the heterogeneity of the asset class, we continue to focus on issuers with strong balance sheets, decent cash generation, or in case of a lack thereof, boasting strong sovereign support. We continue to like countries like Russia, Turkey, and Brazil, to name a few, despite drastic differences in the macro outlook of the latter countries.

BRIC's CURRENCIES TOTAL RETURN

Source: CBH, Bloomberg Financial L.P.



Local Currency

EM currencies have staged an impressive rally since January. The scale of the rally was surprising, but the market was ripe for a rebound. A less hawkish FED, a falling greenback and a rebound in commodities were the major factors sustaining the rally. A wide yield gap between EM and DM debt markets also encouraged investors back into EM local fixed income markets. Finally, a stabilizing (improving) macro environment in emerging countries, thanks to proactive monetary and fiscal policies, should allow the recovery to continue in the future, even if volatility is likely to remain elevated.

On a valuation perspective, EM currencies are still trading at relatively cheap levels compared to their estimated fair value (based on different valuation models). In addition, flows should be supportive to EM currencies going ahead. We agree with the IIF analysis that anticipate foreign capital inflows to more than double to \$560bn this year, helping to sustain domestic currencies.

In conclusion, we reiterate our improved stance on EM local currency debt. However, we maintain a cautious approach, because not all risks have disappeared and volatility is likely to remain significant. For investors wishing to allocate some capital to this thematic, we would suggest using diversified investment vehicles (our fund recommendation list will provide some suggestions).





EQUITY

North America



After a sideways configuration over most of the second quarter, the US equities ended in red territory led by the vote of UK. So far, most of the impact has been through the forex market. Assuming that a financial contagion may be a significant threat to the US, the Brexit could be a good reason for the Fed to further delay rate-hiking plans. However, the US economy has been shifting to an improving domestic demand despite global growth concerns. Over the coming months, corporate profits will be particularly at glance as a return to declines would lead significant slowdown in capital spending and hiring.

Technically, the S&P500 does not show any positive sign, especially since the Brexit vote. In fact, the US equity market broke its bullish momentum at the beginning of 2015 when the Fed announced the tapering. Since then, the US index never really broke the 2100 resistance and rather drew new lows in September 2015, then February 2016. In that context, we think the chance to break the recent top is more than limited. We would suggest to wait for a significant correction down to the 1870 support in order to buy and target a 10% rebound back to 2100. In addition, we would suggest to avoid the Telecom and Utility sectors which have highly outperformed the index, while Healthcare, Info Tech and Financials have become the most attractive industries to play.

Therefore, we maintain a conservative stance and stay underweight on US equities for the time being. We also suggest the most aggressive investors to pull the trigger if significant US market correction materializes.

Europe



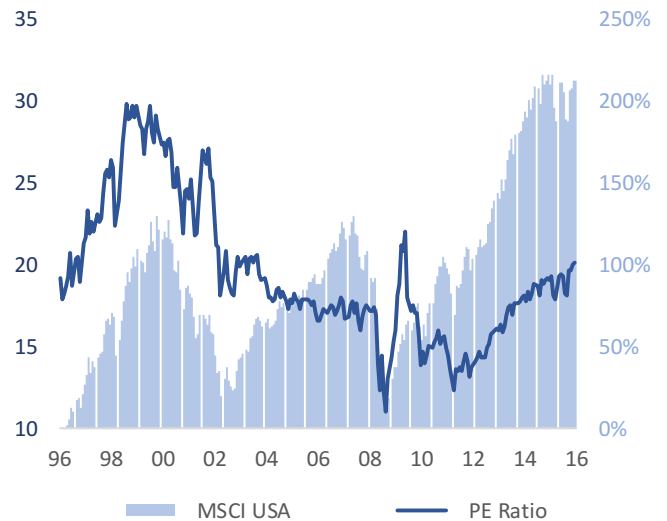
The internet generation would set the status of European equities as "very complicated". The DJ Eurostoxx 50 was already trading in range, giving the impression of an impossible start of positive trend despite some signs of an economic relief. The German IFO survey rose against expectations and the Euro-Area PMI pointed to firm growth. However, the amount of fresh funds demanded at the ECB's new LTRO was much lower than in the past and finally happened the Brexit.

Now, it is too early to assess what will be the long term impact of a UK leave on European equities. On short term, we can expect a highly volatile environment with corrections and rebounds led by a rich daily news flow. Our attention is particularly set to financials and carmakers which suffered the most from the recent event and which should logically post the strongest rebound when the situation stabilizes.

In that context, given the medium term window targeted by our quarterly, we decided to upgrade our position on European equities and set our cursor to overweight. In fact, we cannot guarantee that we recently touched the low, but believe the mix of ECB action plan, bottoming euro economy and market overreaction offer an attractive entry point for long term investors.

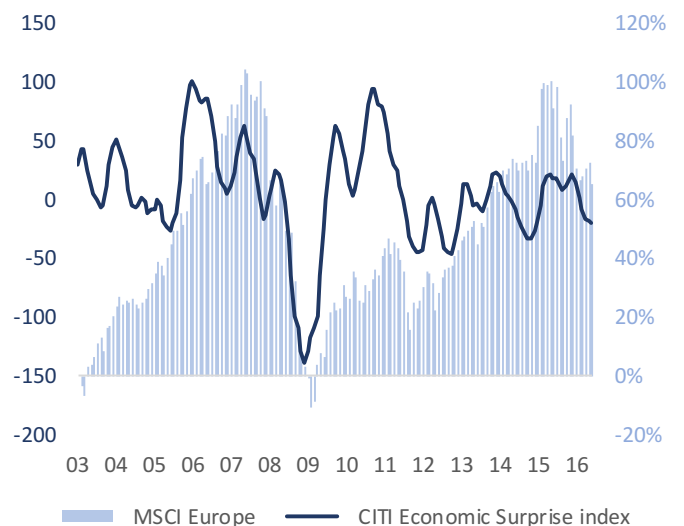
MSCI USA vs P/E RATIO

Source: CBH, Bloomberg Financial L.P.



MSCI EUROPE vs CITI Economic Surprise Index

Source: CBH, Bloomberg Financial L.P.

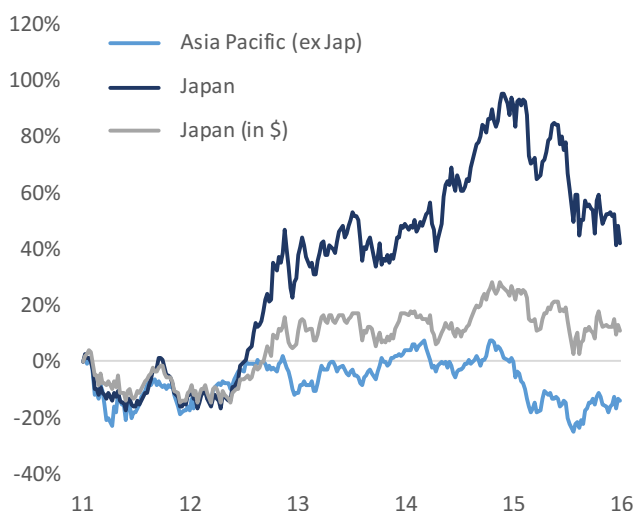




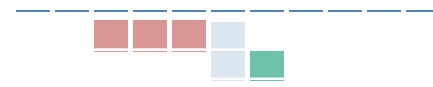
EQUITY (ASIA AND EMERGING)

MSCI ASIA (ex Japan) and JAPAN

Source: CBH, Bloomberg Financial L.P.



Japan
Asia Pacific (ex Japan)

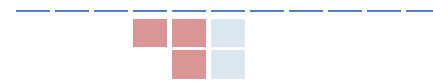


The JPY is back below its October 2014 level, when Kuroda announced its surprise stimulus. In addition, China, South Korea and Taiwan central banks also adopt an easing stance which lead the JPY even more expensive against these respective currencies. This situation will surely hurt exports and may push the Bank of Japan to ease further at its July meeting.

In the meantime, Japan's industrial output slid in May with the Nikkei Purchasing Managers' Index pointing to continued deterioration in June. Therefore, we believe the current headwind is too strong for Japan to benefit from its easing policy over the coming months. Hence, we decide to remain underweight on Japan equities.

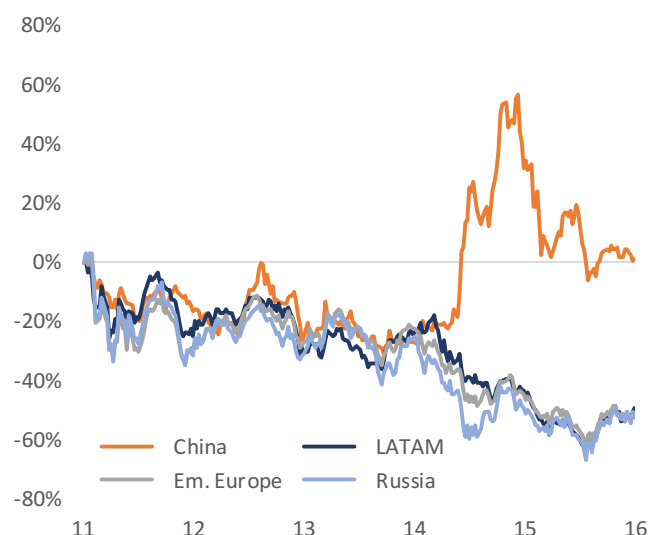
In Australia, corporate profits, especially in mining, have started to stabilize and the labor market had been showing signs of improvement. In fact, Australia has weathered the end of commodity boom better than expected. Growth shows a healthy +3.1%, the currency is weak and interest rates are low. Also, as the latest Capex figures disappointed, the Reserve bank of Australia may decide to maintain its easing bias. Given this, we suggest investors interested in the Pacific area to start building a position on the Australian equity market.

China
Emerging Markets



EM EQUITIES TOTAL RETURNS

Source: CBH, Bloomberg Financial L.P.



China has been the big winner of trade and finance globalization over the last decades. While China was particularly insulated over the past years, the recent combination of more open capital account and Yuan uncertainty led China to a higher exposition to the risk of capital flight. This situation may deal a fresh blow to China's asset prices and hit confidence over the coming months. Therefore, we decide to keep a defensive stance and set to underweight our allocation monitor on the Chinese equity market.

The situation in Brazil has deteriorated since our last publication. Unemployment escalated and real wages fell. Furthermore, Industrial production declines along with retail sales measure and the outlook for the coming months is far from improving. Despite some indications from Brazil's central bank of a possible shift toward looser policy, we believe it is premature to enter the equity market now.

In India, the second half of 2016 will be mainly driven by the monsoon, global risk appetite and the oil price. While the banking sector should continue to face some weaknesses, household spending are expected stronger from normal monsoon and government pay raise. Meanwhile, RBI Governor Raghuram Rajan's term expires in September. Whether his tenure will be extended or a new monetary policy committee will be installed is a source of tremendous uncertainty.

In that context, we decided to adopt a defensive stance global emerging equity markets.





GOLD



Following the rally of the yellow metal in 1Q'16, we had not expected gold to break its recent highs, and rather to drop back near \$1200/oz. A price level reached end of May (\$1204/oz.). In fact, a still muted fundamental demand from world's top purchasers raised questions on the sustainability of the gold rally. While in the first place this scenario was frankly not a bad anticipation, it was, of course, without taking into account the fact the Brexit will be voted.

The precious metal retrieved more than ever its safe haven status and clearly challenged our initial forecasts. Safe-haven demand jumped and ETFs' holdings of gold, which had already surged by more than 20% in the last quarter, stepped higher with the yellow metal breaking above the \$1'300/oz., a more than 2 year-high.

But what next? With such a change in the macro picture, even with weak physical demand, we had to slightly reconsider our position. Several factors should maintain Gold price near its current level for some time.

In fact, financial and political strains which gave gold a safe haven boost have certainly not disappeared. In addition, with an unmanly FED, the normalization process of the US monetary policy will be much more than gradual and should contribute to keep the yellow metal as a valid alternative to bonds. Furthermore, as long as interest rates remain at historically low levels, even after storage costs, returns on gold become competitive. In a world of zero bond rates, it potentially replaces bonds in the ability to cushion pullbacks in risky assets as fixed income upside potential is likely to be limited. Also, the metal is not subject to any government's monetary policy and, therefore, represents a relatively low-risk option as far as intervention is concerned.

As a consequence, while fundamental analysis highlights that Gold is overbought; we think the investment demand should maintain Gold price near \$1250-1300/oz. for the coming months and, therefore advise not to reinforce gold exposure, but even to take some profit for investors which benefited from the H1' 16 rally .

OIL

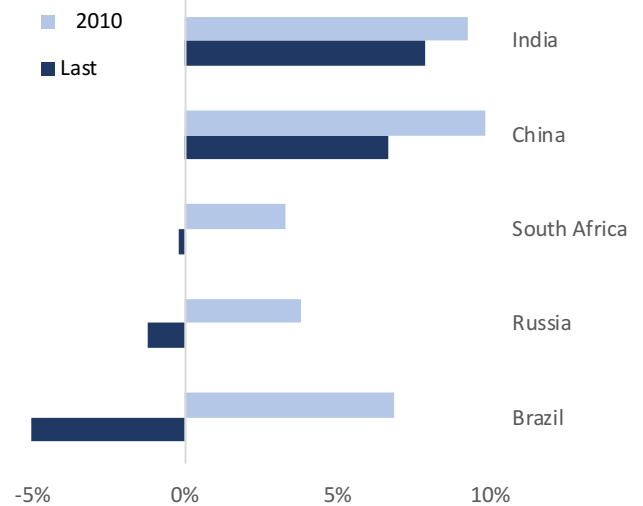
The 2Q'16 has been characterized by a continuation in oil prices rebound. In the last quarter, the WTI and Brent recorded their best quarterly performance since June, 2009 with prices jumping around 25% at \$48/bbl. and \$50/bbl. respectively.

Global oil market continues to be in a rebalancing mode, a process that stays dependent on an ongoing reduction in the US shale oil production. Since the beginning of the year, the number of US crude oil rigs dropped by almost 40%. Additionally, the recent rebound in prices has been also sustained by a still robust Asian demand (mainly China). However, a potentially worsening outlook for the global economy could poses risks to global oil demand, and could weigh on prices.

In this environment, we expect oil prices to consolidate near \$47-50/bbl. in the following months and rather adopt a neutral view.

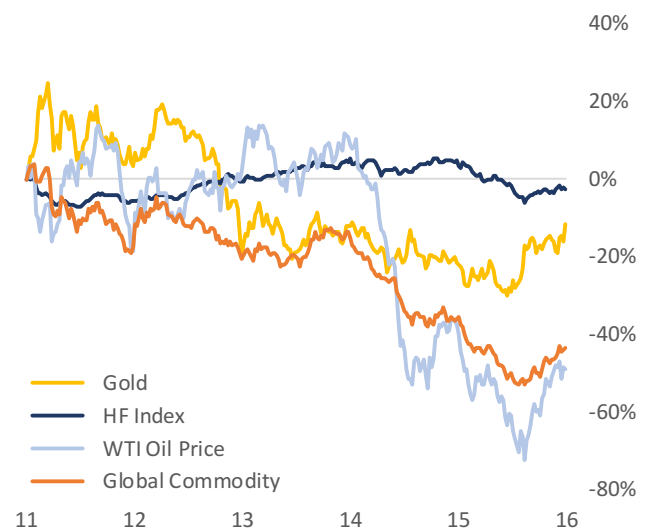
BRICS GDP YEARLY GROWTH RATE

Source: CBH, Bloomberg Financial L.P.



GOLD and OTHER INVESTMENTS

Source: CBH, Bloomberg Financial L.P.





CURRENCIES MARKET EXPECTATIONS

The table below provides an overview of market forecasts for major currencies. It is composed of dozens of individual forecast providers and delivers a consensus forecast. These consensus forecasts represent a median number and all forecasts evaluated correspond to calendar quarter-end dates.

	LAST	Q316	Q416	Q117	Q217	Q417
MAJOR CURRENCIES	EURUSD	1.11	1.10	1.10	1.10	1.10
	EURCHF	1.08	1.08	1.09	1.10	1.10
	EURGBP	0.84	0.82	0.80	0.82	0.81
	EURJPY	114	115	118	117	119
	EURNOK	9.30	9.26	9.20	9.10	9.05
	USDCAD	1.29	1.31	1.32	1.31	1.30
	USDCHF	0.97	0.99	1.00	1.01	1.02
	USDJPY	103	106	108	108	109
	USDCNY	6.66	6.65	6.70	6.75	6.80
	GBPUSD	1.33	1.34	1.35	1.32	1.34
	NZDUSD	0.72	0.68	0.67	0.66	0.65
AUDUSD	0.75	0.72	0.71	0.71	0.71	
OTHER CURRENCIES	USDMXN	18.2	18.9	18.8	18.8	18.3
	USDBRL	3.21	3.60	3.70	3.75	3.85
	USDARS	15.05	15.25	16.00	17.00	17.37
	USDTRY	2.89	3.00	3.06	3.10	3.10
	USDILS	3.84	3.85	3.88	3.90	3.91
	USDHKD	7.76	7.76	7.76	7.76	7.76
	USDINR	67.3	68.0	68.5	69.0	69.1
	USDRUB	64.0	66.4	67.0	66.2	67.5
	USDPLN	3.95	4.02	3.98	3.99	4.00

Source: CBH, Bloomberg Financial L.P.





MARKET RETURNS

	Name	QTD *	YTD	2015	2014	2013
Cash	LIBOR 3m Total Return	0.2%	0.3%	0.3%	0.2%	0.3%
	EURIBOR 3m Total Return	-0.1%	-0.1%	0.0%	0.2%	0.1%
Government bonds	US 1-5	0.8%	2.4%	1.0%	1.3%	-0.2%
	Eurozone 1-5	0.4%	0.9%	1.1%	3.6%	2.2%
	US 5-10	2.3%	6.4%	1.9%	6.3%	-4.5%
	Eurozone 5-10	1.3%	4.2%	2.0%	14.5%	3.4%
Corporate bonds IG	USD Corp 1-5	1.3%	3.1%	1.2%	1.9%	1.6%
	EUR Corp 1-5	0.6%	1.6%	0.6%	3.6%	2.3%
	USD Corp 5-10	3.3%	7.4%	0.6%	7.6%	-1.5%
	EUR Corp 5-10	1.7%	5.3%	-0.9%	12.2%	2.1%
Corporate bonds HY	USD Corp 1-5	5.8%	8.9%	-2.7%	-1.1%	7.8%
	EUR Corp 1-5	1.4%	2.8%	-0.2%	3.7%	7.6%
	USD Corp 5-10	5.2%	9.4%	-3.8%	2.1%	6.1%
	EUR Corp 5-10	1.6%	4.2%	0.8%	7.4%	9.8%
EM bonds	Hard currency	4.9%	10.3%	-0.3%	5.6%	-3.4%
	Local currency	3.1%	14.2%	-14.3%	-5.2%	-8.3%
	Chinese Yuan	-1.1%	2.1%	-2.1%	0.4%	6.9%
Convertible bonds	Global Convertible	0%	0%	1%	2%	18%
Equities	North America	2%	2%	-1%	11%	30%
	Europe	-2%	-9%	5%	4%	16%
	Japan	-8%	-20%	8%	8%	52%
	Asia Pacific (ex Japan)	-1%	1%	-11%	2%	1%
	China	-3%	-13%	-7%	62%	-15%
	Emerging Markets	0%	5%	-17%	-5%	-5%
Other investments	HFRX Alternative	1%	-1%	-4%	-1%	7%
	VIX	12%	-14%	-5%	40%	-24%
	G7 Currency Volatility	2%	20%	-6%	14%	5%
	DJ Global Commodity	13%	13%	-25%	-17%	-10%
	Gold	7%	24%	-11%	-1%	-28%
	Industrial metals	6%	8%	-27%	-7%	-14%
	Agriculture index	13%	13%	-16%	-9%	-14%
	WTI Oil	26%	30%	-30%	-46%	7%
Currencies (vs. \$)	Dollar Index	2%	-3%	9%	13%	0%
	EM Currency Index	0%	4%	-16%	-12%	-8%
	Euro	-3%	2%	-10%	-12%	4%
	British Pounds	-8%	-10%	-5%	-6%	2%
	Swiss Francs	-2%	2%	-1%	-11%	3%
	Japanese Yen	9%	16%	0%	-12%	-18%
	Australian Dollar	-3%	2%	-11%	-9%	-14%

* Last quarter

** Year to date

Source: CBH, Bloomberg Financial L.P.



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