

E. GUTZWILLER & C^{IE}
BANQUIERS

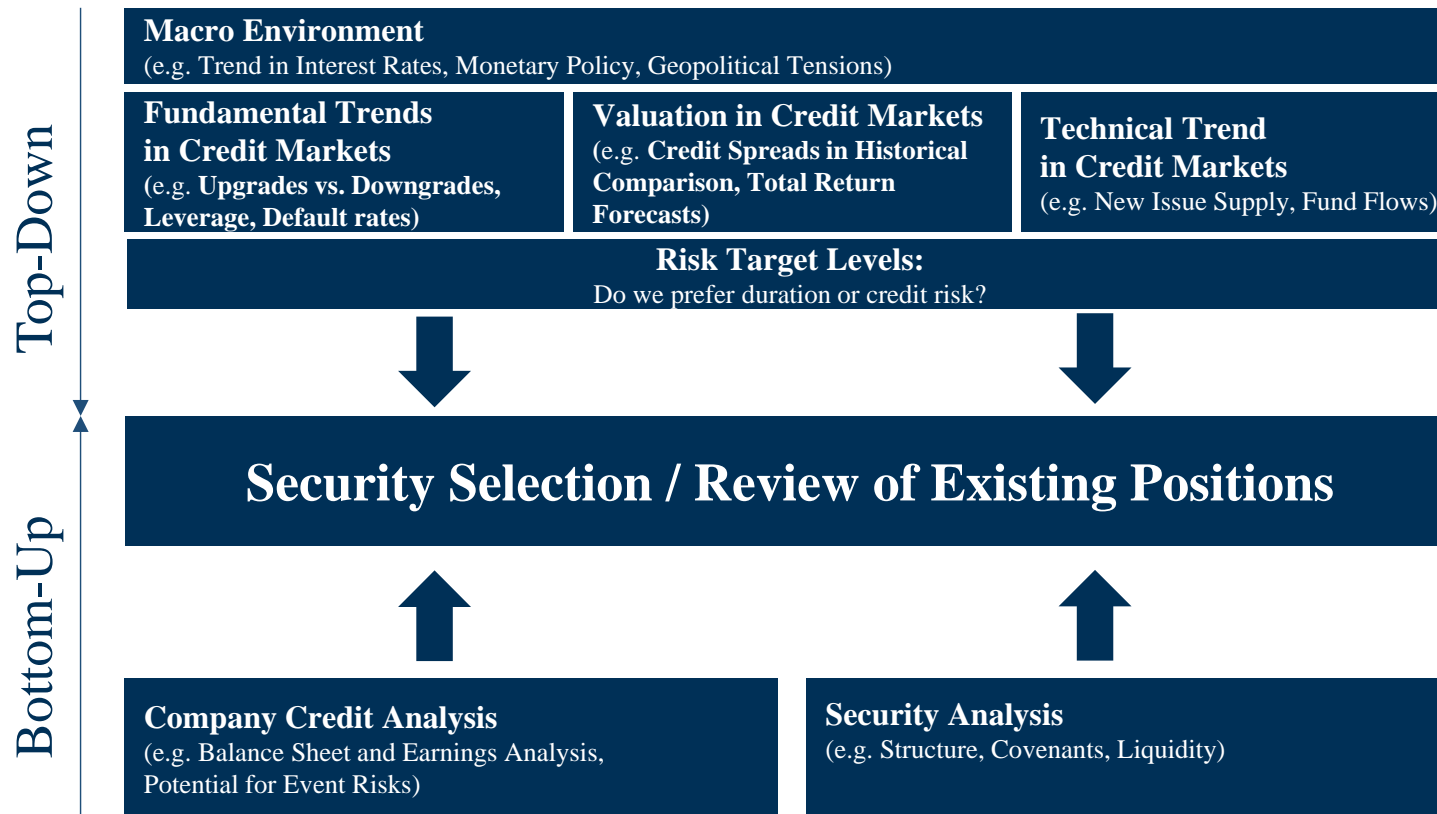
EG CHF Bond Fund

March 2019
Zurich

E. GUTZWILLER & C^{IE}
BANQUIERS

Fixed Income Investment Process

Overview Fixed Income Investment Process



Top-Down Analysis: Which risks (interest vs. credit) do we currently like?

What we are watching:

Macro picture:

- Economic developments
- Monetary policies (US, ECB, Swiss National Bank)
- Political and geopolitical developments

Valuations:

- Credit spread and yields at the index level (between regions (e.g. Emerging Markets vs. Developed Markets, across rating segments etc.)
- Total return forecasts (carry, spread moves, roll-down)

Corporate Earnings and Fundamentals:

- Trend in leverage, interest coverage, bank capital ratios, etc.

Credit Quality Trend:

- Downgrades, upgrades, rating migration
- Default rates (actual and expected)

Technical:

- Upcoming corporate redemptions
- Supply in primary market
- Fund flows (hard and local currency, US HY, EU HY)
- Street and primary dealers positioning

What does it tell us with regards to our positioning?

Interest rate risk:

- Is it time to increase / decrease duration of portfolio?
- Which part of the interest rate curve is most attractive (short end vs. medium and long end of the curve)?

Credit risk:

- Do we prefer corporate or government bonds?
- Within corporates, do we prefer HY or IG bonds?
- Is the timing right to go deeper in the capital structure (senior vs. subordinated and deeply subordinated bonds)?
- Is it time to invest in more cyclical sectors?

Liquidity risk:

- Is the compensation for more complex bonds (CoCos, corporate hybrids) adequate?



Bottom-Up Analysis(1): Company Analysis

- Company's reports and statements
- Public market information
- Financial and specialized press
- Sell-side research
- Rating agency publications

Financial Review

- Credit metrics and financial ratios
- Balance sheet / debt structure analysis
- Cash flow available for debt servicing
- Working capital and capital expenditure requirements
- Dependency on and access to capital markets

Operating Review

- Business consistency and revenue stability
- Competitive and market position
- Corporate strategy
- Quality, track-record, continuity, credibility and incentive structure of management

Event Risk

- Regulatory risk
- Acquisition or LBO risk
- Pension deficit
- Debt or share buy-back
- Rating event

Investment Decision

In a sum-of-the-parts exercise, we invest in the companies with the best risk / reward ratio

Bottom-Up Analysis(2): Bond Analysis

- Analysis at the security level is key to place the issuer's fundamental credit assessment in a market and portfolio context
- Three factors influence future price action in a bond: **relative value**, **specifics**, and **liquidity**

#1: Valuations

Assess a bond value relative to:

- Issuer's fundamentals
- Own spread / yield history
- Other securities of the same issuer across the curve and the capital structure
- Comparables
- CDS
- Secondary market (for new issues)

#2: Specifics

- **Ranking and collateral:** senior secured / unsecured, subordinated, first / second lien
- **Structure features:** make-whole, poison puts, callable, perpetual, etc
- **Financial covenants:** negative pledge, CoC, cross default, merger restriction, ratings trigger, debt service coverage ratio, etc.

#3: Liquidity

Key emphasis on liquidity;

- Issue size (typically deal sizes greater than CHF 50mn)
- Sourcing
- Multiple market makers
- Ability to hedge potential credit-related downside risk

Bond Selection

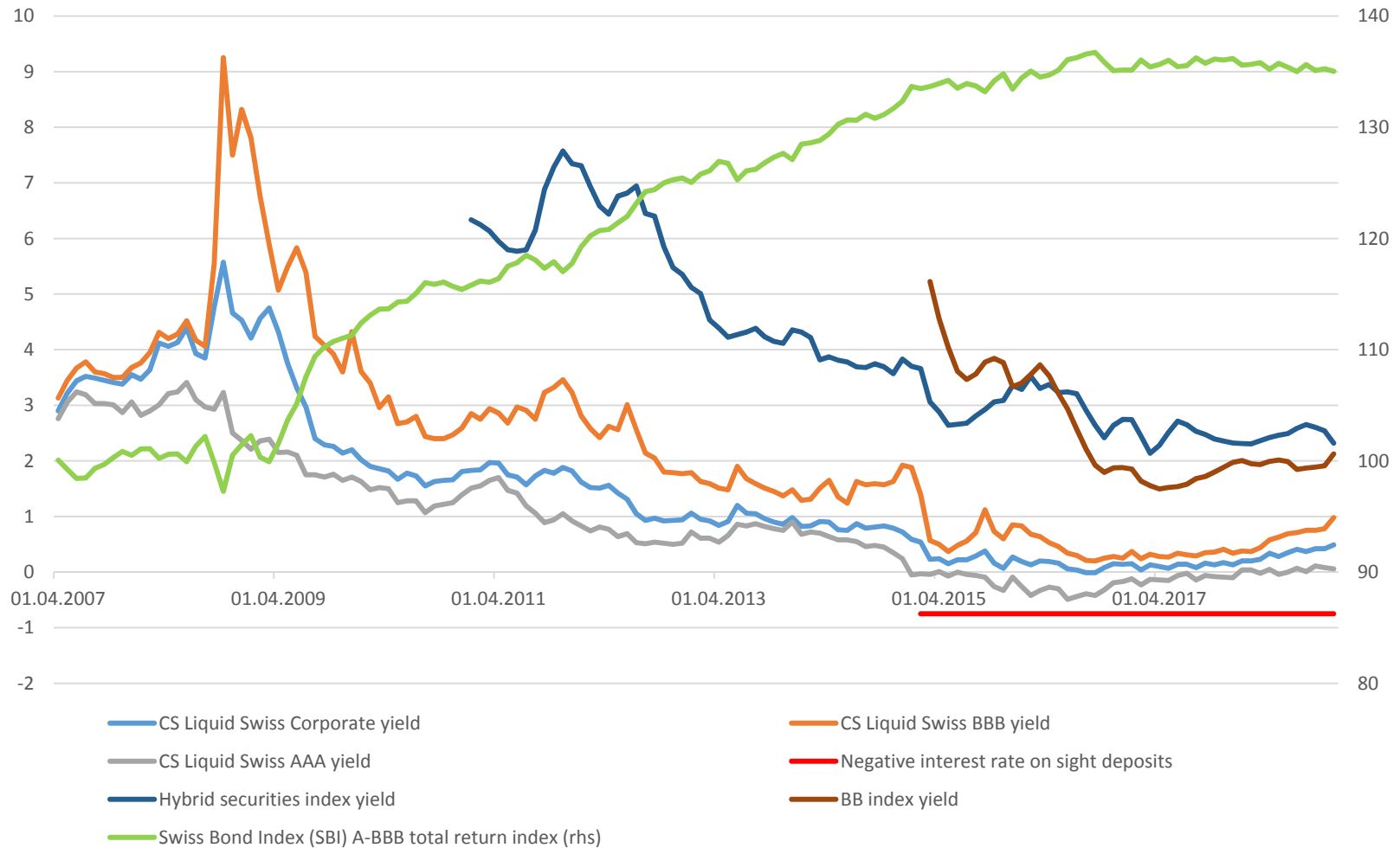
We select the bond that offers the **best risk-reward** profile and contributes to achieve the overall strategic positioning of the portfolio (duration, curve, rating allocation, etc.) within the investment guidelines

E. GUTZWILLER & C^{IE}
BANQUIERS

Overview CHF Bond Market

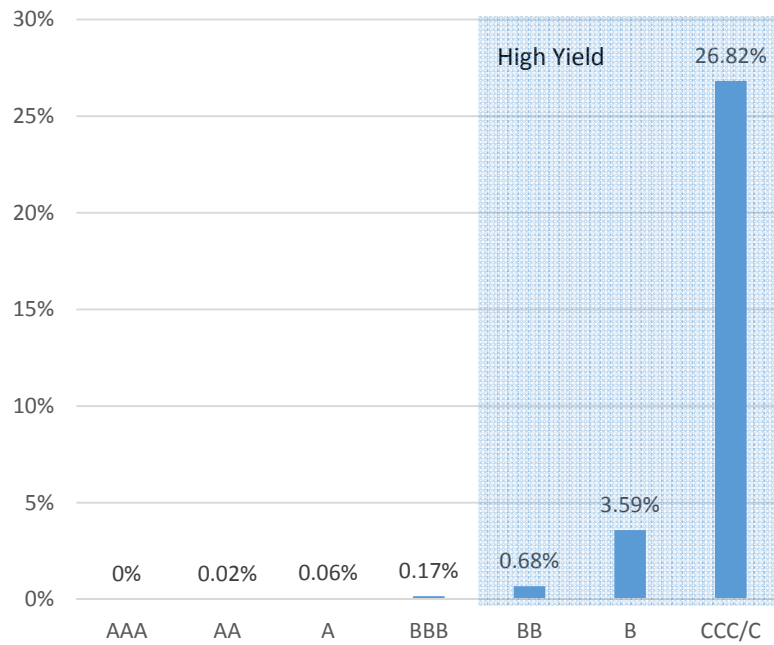
Swiss bond yields have recovered from all-time lows

Yield of different rating segments and total return of the SBI A-BBB index



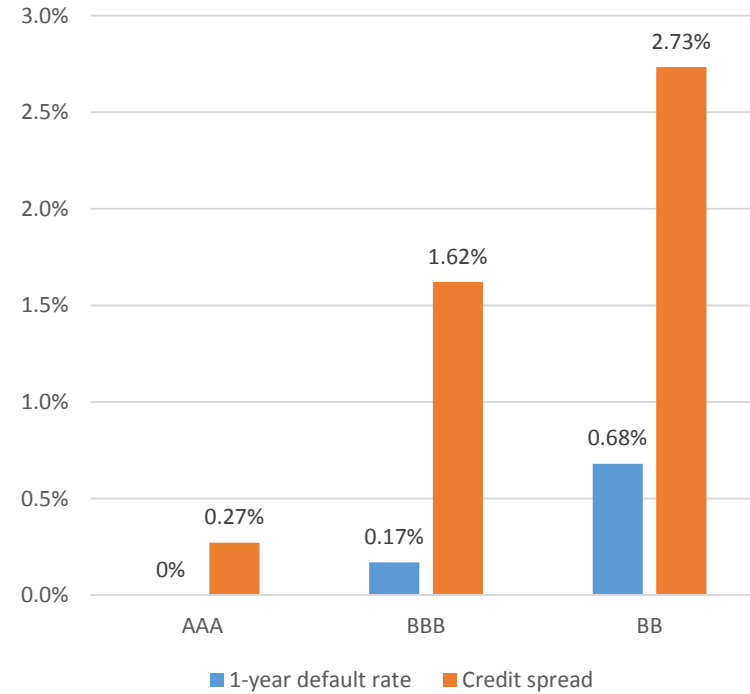
Lower rated bonds compensate well for credit risk...

One-year global default rates (long-term averages)



Source: Bloomberg, SIX (as per end of 2017)

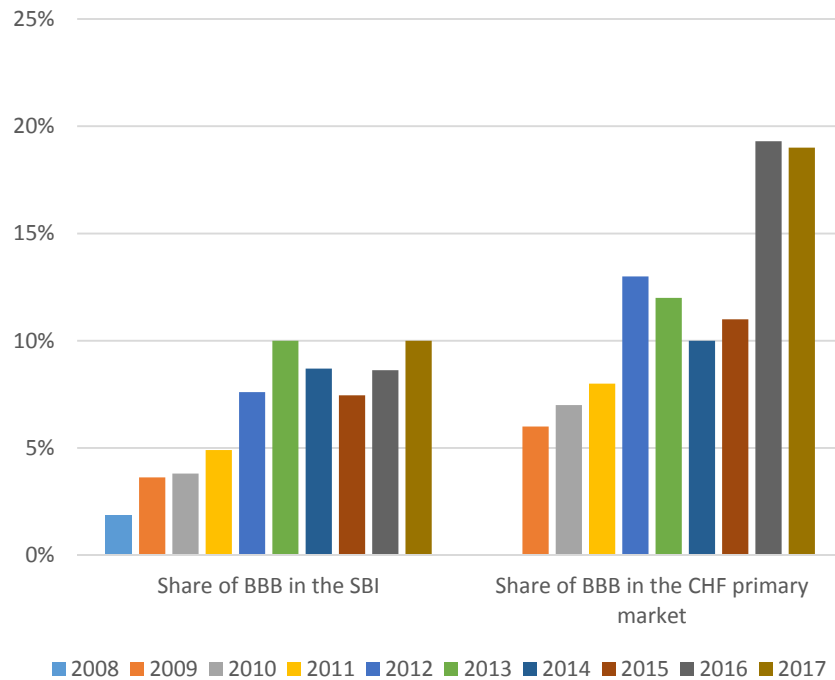
CHF credit spreads vs. default rate



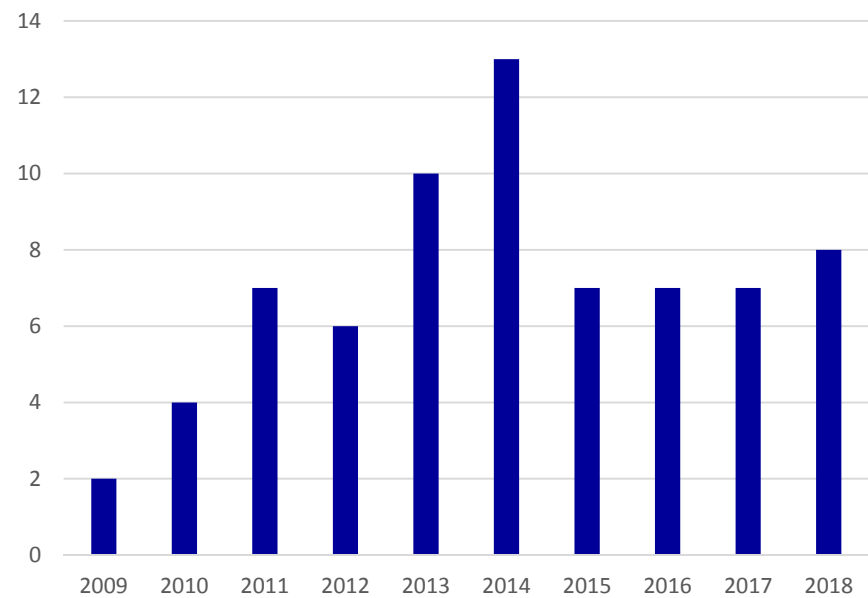
Source: S&P Global Fixed Income Research

More diversity in terms of issuers and instruments in the Swiss bond market

Share of BBB rated bonds in the index and in the primary market

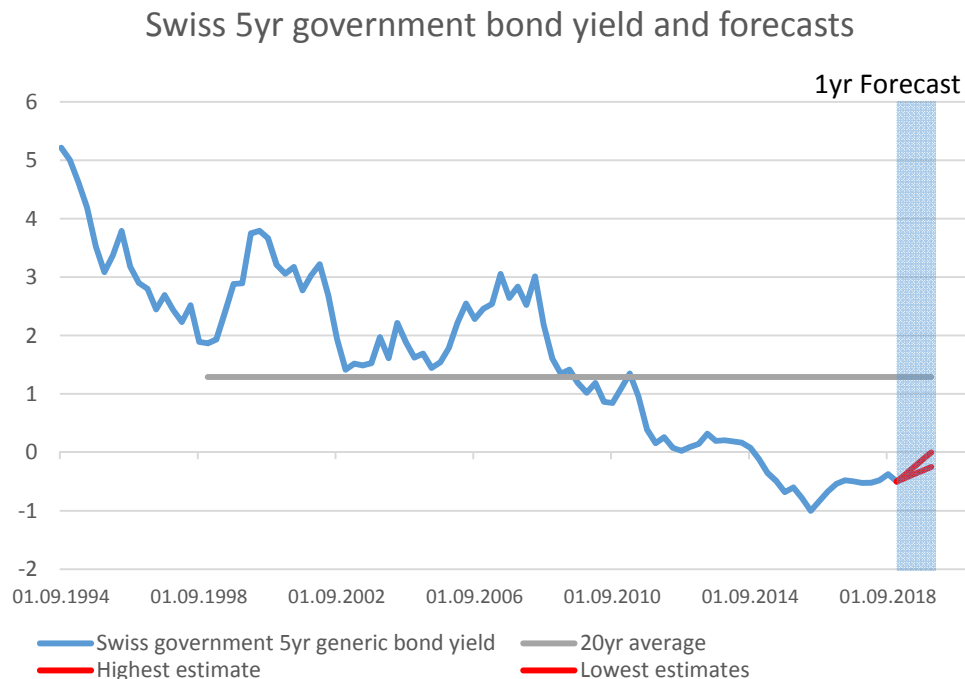


Number of hybrid transactions



Source: Bloomberg, SIX (as per end of 2017)

Interest rates will only rise gradually (if at all)



- According to most economists, the ECB will announce the first rate hike at the earliest end of 2019.
- The SNB will not hike rates before the ECB does.
- Hence, the SNB's policy rate will most likely not be positive before 2020.
- Further postponements increasingly probable as the structural problems in Europe (e.g. Italian budget) are again in the focus and (global) growth seems to slow down.
- Swiss 5yr Eidgenossen rates are expected to rise between 0.25% and 0.50% in the coming year.
- Personally, given the signs of an economic slowdown (e.g. negative Swiss Q318 GDP growth), I believe interest rates will only rise marginally.
- Under this circumstances and given the steepness of the interest and credit curve, 4-5 years duration can be considered most attractive at the moment.

Overview CHF Bond Market: Summary

- Yields have recovered from all-time lows and corporates return almost 1% more than compared to mid-2016.
- In the last decade, lower rated securities and hybrid bonds have become more common in the Swiss bond market.
- As we saw, BBB/BB/hybrids bonds offer a significant premium, with a credit risk that is still very low and manageable (global historical 1-year default risk for a BBB rated bonds is 0.21%, according to S&P).
- However, exploiting these opportunities requires a thorough analysis of every investment.
- Interest rate risk is very moderate and zero short-term interest rates not expected before 2020. At this point, 4-5 years duration can be considered most attractive.

E. GUTZWILLER & C^{IE}
BANQUIERS

The EG CHF Bond Fund

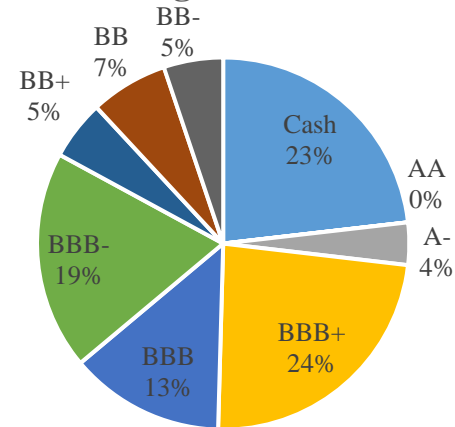
Investment Guidelines

- Minimum 2/3 of the portfolio must be invested (in bonds) at any time.
- Minimum 80% of the total portfolio must be rated investment grade (BBB-/Baa3).
- Maximum 20% of the total portfolio is allowed to be invested in non-investment grade securities (i.e. High-Yield bonds), all of which should be rated BB- or better.
- Maximum 20% of the portfolio can be allocated to emerging markets fixed income securities.
- Maximum 20% of the fund can be invested in hybrid securities, such as subordinated financial bonds (e.g. AT1 bonds).
- Minimum 90% of the portfolio must be in CHF. Any currency risk is fully hedged.
- Fixed income maturities shall be staggered to minimize reinvestment risk. The weighted average modified duration of the portfolio of individual securities must not exceed 5 years.
- A single fixed income issuer (excluding Schweizerische Eidgenossenschaft) may not exceed 5% of the total portfolio value (at cost).

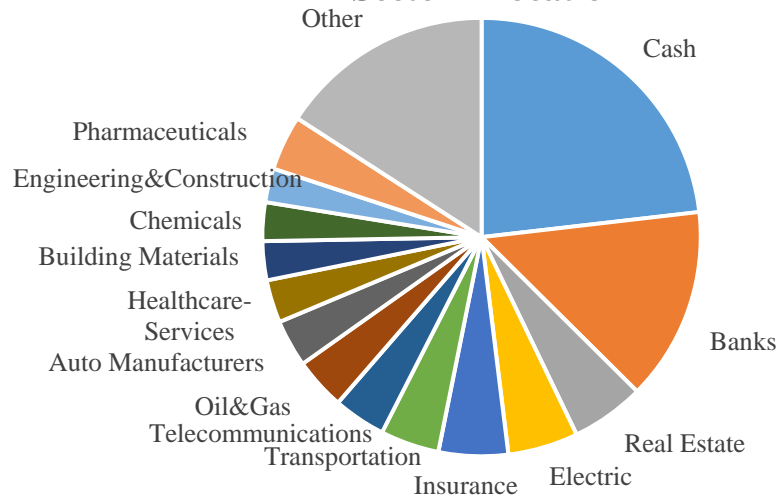
Structure of the EG CHF Bond Fund

- Average rating: **BBB**
- Weighted YTM (incl. 23% cash): **1.31%**
- Average coupon: **2.00%**
- Modified duration: **3.72**
- Share of CHF bonds: **100%**
- Average position size: **1.3%**

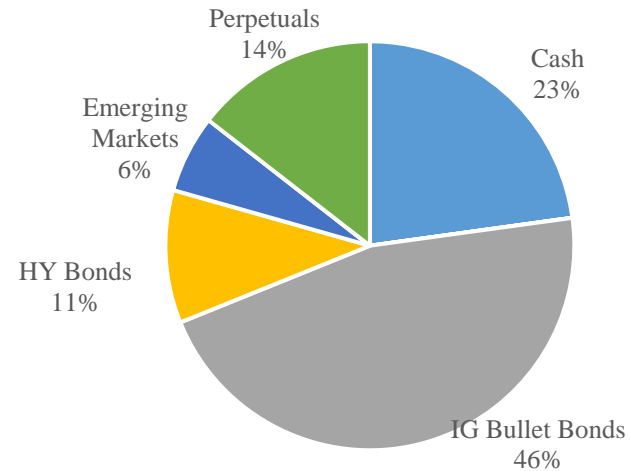
Rating Allocation



Sector Allocation



Asset Allocation



Scenario Analysis (5yr horizon)

Annualized returns		Lackluster economic growth / deflationary pressure			Ongoing recovery / rate normalisation		Inflation shock
		-0.50%	0.00%	0.50%	1.00%	2.00%	5.00%
Change in spread in the next 5 years	-50%	3.1%	2.8%	2.6%	2.3%	1.8%	0.3%
	0%	2.4%	2.2%	1.9%	1.7%	1.2%	-0.3%
	50%	1.8%	1.6%	1.3%	1.1%	0.6%	-0.9%
	100%	1.2%	0.9%	0.7%	0.4%	-0.1%	-1.6%
	200%	-0.1%	-0.3%	-0.6%	-0.8%	-1.3%	-2.8%
	300%	-1.3%	-1.6%	-1.8%	-2.1%	-2.6%	-4.1%
Credit bubble / rising default rates							

As of 25th January 2019; simplified assumptions have been applied, for illustrative purposes only.

The EG CHF Bond Fund: Summary

- We invest selectively up to 20% in BB-rated and 20% in hybrid bonds, which is increasing the yield significantly while credit risk is still low.
- We take risk, but only where we are paid to do so (e.g. we like MCH 2023 senior bond yielding 5% / we don't like ZKB CoCo FC 2023 yielding 1.5%).
- We actively take advantage of the regular downward overshootings in the CHF bond market (liquidity in individual bonds is strongly influenced by headlines).
- Given the (so far) small size of the fund, we are able to generate alpha (we are a speedboat, not a tanker)
- Given the interest rate outlook, we consider a duration of 4.5-5.0 years as relatively conservative.
- With a high likelihood, the current strategy (duration: 4.5 / ytm: 2.5%) will produce a positive return in the coming years.
- We will constantly review economic conditions in Europe and Switzerland, and if necessary, reduce the interest rate and/or credit risk of the fund.

E. GUTZWILLER & C^{IE}
BANQUIERS

Terms EG CHF Bond Fund

Fund Facts	
Launch Date	1st January 2019
Fund Manager	E. Gutzwiller & Cie., Banquiers
Fund Advisor	Dr. Sergio Andenmatten, CFA, CAIA, ERP, FRM
Fund Size	CHF 25mn
Currency	CHF
Fund Domicile	Switzerland
Fund Legal Structure	FCP / QIF
NAV	CHF100
Valor	44333702
Benchmark	Swiss Bond Index (SBI) A-BBB
Reinvestment fund	Accumulating
Liquidity	Bi-monthly
TER	0.65%

Appendix: Specialists (1)



- Dr. Sergio Andenmatten (Fund Advisor) joined Gutzwiller in 2015 as a Senior Portfolio Manager, specialized in fixed income.
- From 2008-2011, Dr. Andenmatten was a corporate bond Portfolio Manager at the Swiss National Bank, overseeing up to USD 1bn.
- From 2012-2015 he was a Senior Credit Analyst at Bank Sarasin, mainly acting as an advisor to the asset management.
- Mr Andenmatten has a PhD from University of Bern, Switzerland, and Study Center Gerzensee, Switzerland.
- Dr. Andenmatten is a CFA and CAIA Chartholder as well as a Certified ERP and a Certified FRM.



- Mr Roland Pümpin (Portfolio Manager) joined Gutzwiller in 2009 as a member of the management.
- Before, he was working for different renowned banks and has more than 40 years experience in asset management and investment banking.

E. GUTZWILLER & C^{IE}
BANQUIERS

Appendix: Specialists(2)



- Amedeo von Habsburg (Co-Portfolio Manager) joined Gutzwiller in 2017.
- Prior to Gutzwiller, Mr von Habsburg worked as a management consultant for McKinsey & Company, where he was a manager in the Brussels office and for Deloitte, where he started his career, in New York.
- He holds an MBA from Columbia Business School and a BSc in Management from the London School of Economics.

E. GUTZWILLER & C^{IE}

BANQUIERS

Contacts

E. Gutzwiller & Cie, Banquiers
Kaufhausgasse 7
4051 Basel
Suisse

Tel: +41 (0)61 205 21 00
Fax: +41 (0)61 205 21 01

Gutzwiller SA Genève
Rue de la Confédération 7
1204 Genève
Suisse

Tel: +41 (0)22 908 03 33
Fax: +41 (0)22 908 03 44

Gutzwiller AG, Zürich
Stadthausquai 1
8001 Zürich
Suisse

Tel: +41 (0)43 497 27 42
Fax: +41 (0)43 497 27 43