Monthly Asset Allocation
Private Banking Europe Investment Committee

December 12, 2018

In a nutshell

- **For a mixed mandate, we keep a balanced risk positioning at asset allocation level**
- **The only "risk on" position is our ongoing overweight in equities; as regions we favor the US and Europe**
- **We recommend investors to focus on high liquidity investments in the coming year**

More emotionally driven trade conflict and Brexit uncertainty affect sentiment to the year end

Towards the end of the year the capital markets find themselves in an unsettling situation, mainly due to the increasingly emotionally driven trade conflict between the USA and China, the stalled Brexit negotiations and a global economy losing momentum. The resulting increased uncertainty is weighing on investors' already strained nerves. Although the macroeconomic leading indicators have weakened at a high level, we expect a solid economic environment in the coming quarters. A recession is not in sight in the coming months. However, GDP growth should slow to 3.0 to 3.5% on a global basis, after a slowdown to 3.8% in 2018. As a result, the current nervousness, especially on the equity markets, remains a constant companion. For a mixed mandate, we keep a balanced risk positioning at asset allocation level. From a cross-asset perspective, bonds make a neutral contribution to the overall risk of the portfolio. The overweight in equities is our only risk-on position at portfolio level. The significant underweight in alternative investments and the overweight in liquidity contribute to a significant risk-off effect. Our overweight in gold and yen are two further stabilizing factors. In times of increasing volatility, the tradability of instruments is of central importance as it increases the flexibility and agility in the portfolio. Therefore, we recommend investors to focus on high liquidity investments in the coming year.

Table 1: Generic Tactical Asset Allocation LGT Private Banking Europe (December 12, 2018)

	Asset Class	SAA	underweight -8% -6% -4% -2% · Tactical allocation versus SAA · +2% +4% +6% +8% overweight	USD	EUR	CHF
Equities	US equities	20.0%		24.0%	19.0%	19.0%
	Europe equities	6.0%		8.0%	11.0%	7.0%
	UK equities	3.0%		3.0%	4.0%	2.0%
	Switzerland equities	1.0%		1.0%	2.0%	8.0%
	Japan equities	4.0%		4.0%	4.0%	4.0%
	APAC ex JP equities	3.0%		3.0%	3.0%	3.0%
	Emerging markets equities	6.0%		6.0%	6.0%	6.0%
	Total Equities	**43.0%**		**49.0%**	**49.0%**	**49.0%**
Fixed Income	Government bonds	6.0%		3.0%	3.0%	0.0%
	Inflation-linked bonds	6.0%		6.0%	6.0%	5.0%
	Investment grade bonds	12.0%		16.0%	16.0%	20.0%
	High yield bonds	6.0%		0.0%	0.0%	0.0%
	Subordinated Debt	0.0%		0.0%	0.0%	0.0%
	Emerging markets bonds	6.0%		8.0%	8.0%	8.0%
	Total Fixed Income	**36.0%**		**33.0%**	**33.0%**	**33.0%**
Alternatives	Hedge funds	7.0%		0.0%	0.0%	0.0%
	Listed private equity	2.0%		0.0%	0.0%	0.0%
	Real estate trusts	3.0%		3.0%	3.0%	3.0%
	Insurance-linked bonds	3.0%		4.0%	4.0%	4.0%
	Commodities	2.0%		2.0%	2.0%	2.0%
	Precious metals	2.0%		4.0%	4.0%	4.0%
	Total Alternatives	**19.0%**		**13.0%**	**13.0%**	**13.0%**
	Cash	**2.0%**		**5.0%**	**5.0%**	**5.0%**
			-8% -6% -4% -2% · +2% +4% +6% +8%			
Currencies	USD	86.5%		82.5%	8.0%	8.0%
	EUR	0.0%		0.0%	74.1%	0.0%
	CHF	0.0%		0.0%	0.0%	74.7%
	GBP	0.0%		0.0%	0.0%	0.0%
	JPY	0.0%		2.0%	2.0%	2.0%
	Others (incl. EM)	13.5%		15.5%	15.9%	15.3%

Source: LGT Investment Services Europe
*all calculations based on a "Balanced Portfolio" in USD including AI. For EUR and CHF portfolios weights differ for subclasses; over- and underweights apply analogously.

Table 2: Current asset allocation preferences

Next meeting: Jan 28, 2019	What we like	What we dislike
Equities	▪ US equities ▪ European equities	
Bonds	▪ Low duration ▪ Investment Grade bonds	▪ Sovereign bonds ▪ High yield bonds
Alternative Investments	▪ Gold ▪ Insurance linked bonds	▪ Hedge Funds ▪ Listed private equity
Currencies	▪ Japanese yen	

Sources: LGT Investment Services Europe

Equities: Valuation on historical average

The turbulences on the global stock markets have caused valuations to fall to a long-term average. In the USA, a reduction in the price/earnings ratio was even observed, the extent of which would normally only be justified by a sustained profit recession. After an exceptional year in 2018, sales and earnings growth should return to normal, especially in the US. Nevertheless, expected earnings on a global basis are anticipated to grow between 5% and 8%. Within the equities quota, we prefer Europe and the US as regions. US securities should continue to have the best earnings prospects in 2019. Added to this are the market-supporting share buyback programs of the large, internationally operating US corporations. Due to the absolute valuation, on the one hand Europe remains a clear "value case" for us with a price-earnings ratio of 12 to 13 and a dividend yield of over 3.5%. On the other hand, relative to a cross-asset comparison, equities offer a return of more than 6% compared with a five-year German government bond that does not yield a return at all.

Fixed Income: Neutral risk positioning

Ten-year US government bond yields rose from 2.4% to 3.25% in 2018, thus serving as a safe haven again during the phase of recent equity market corrections. In the eurozone, government bonds also acted as risk-off investment vehicles. Ten-year German government bonds, for example, are trading at 0.25%. In the medium term, we expect long-term interest rates to rise again, since inflation in the major developed economies is likely to increase as wage inflation picks up. We therefore recommend a short residual term in the fixed income area. In the US dollar segment, we see short-term US Treasuries as an attractive way of temporarily "parking" money. In a mixed mandate, we are refraining from high-yield bonds. However, we are maintaining our predominance of first-class investment-grade bonds, which serve as stabilizing factors in the portfolio. Emerging markets in local currency remain overweight at the tactical level as an attractive portfolio admixture.

Currencies: Japanese yen and gold as portfolio stabilizers

Neither the gloomy growth outlook nor the Fed's statement that it intends to raise interest rates at a slower pace in the coming quarters could have any effect on the US dollar. For 2019, however, we believe that the “glory” days of the Greenback are numbered and that we should be able to say goodbye continuously to its highs. This can also be seen in the developments of the past trading days, in which neither the US dollar appreciated nor the euro further weakened, despite the many problems, such as the deadlocked Brexit negotiations, the unresolved budget dispute in Italy or the unrest in France. At portfolio level, we have an overweight in the Japanese yen and gold – two factors which should give the portfolio additional stability in turbulent times.

If you require further information or advise, please contact your LGT relationship manager.

Author: Thomas Wille, Head Investment Strategy & Communication;

Editor: Natija Dolić, Senior Investment Communication Officer

General risk information

This publication is intended only for your information purposes. It is not intended as an offer, solicitation of an offer, or public advertisement to buy or sell any investment or other specific product. The publication addresses solely the recipient and may not be forwarded to third parties. The content of this publication has been developed by our staff and is based on sources of information we consider to be reliable. However, we cannot provide any confirmation or guarantee as to its correctness, completeness and up-to-date nature. The circumstances and principles to which the information contained in this publication relates may change at any time. Once published information is therefore not be interpreted in a manner implying that since its publication no changes have taken place or that the information is still up to date. The information in this publication does not constitute an aid for decision-making in relation to financial, legal, tax or other matters of consultation, nor should any investment decisions or other decisions be made solely on the basis of this information. Advice from a qualified expert is recommended. Investors should be aware of the fact that the value of investments can decrease as well as increase. There-fore, a positive performance in the past is no guarantee of a positive performance in the future. Investments in foreign cur-rencies are subject to fluctuations in exchange rates. We disclaim, without limitation, all liability for any losses or damages of any kind, whether direct, indirect or consequential nature that may be incurred through the use of this publication. This publication is not intended for persons subject to a legislation that prohibits its distribution or makes its distribution contingent upon an approval. Any person coming into possession of this publication is therefore obliged to proactively inform himself/herself about any restrictions that may apply to the publication and its use, and to comply with them. In line with internal guidelines, persons responsible for compiling this publication are free to buy, hold and sell the securities referred to in this publication.

Risk information for single stock/single bond recommendations

Responsibilities

Responsible for compilation: LGT Bank (Switzerland) Ltd., Glärnischstrasse 36, CH-8027 Zurich, Switzerland. Responsible supervisory authority: Swiss Financial Market Supervisory Authority FINMA, Laupenstrasse 27, CH-3003 Berne, Switzerland. Responsible for distribution within the meaning of article 8 FinMV [Financial Analysis Market Abuse Ordinance]: LGT Bank Ltd., Herrengasse 12, 9490 Vaduz, Principality of Liechtenstein. Responsible supervisory authority: Liechtenstein Financial Market Authority (FMA), Landstrasse 109, P.O. Box 279, 9490 Vaduz, Principality of Liechtenstein. Responsible for distribution within the meaning of the Directives on the Independence of Financial Research from the Swiss Bankers Association (SBA): LGT Bank (Switzerland) Ltd., Lange Gasse 15, CH-4002 Basel, Switzerland. Responsible supervisory authority: Swiss Financial Market Supervisory Authority FINMA, Laupenstrasse 27, CH-3003 Berne, Switzerland. Responsible for distribution within the meaning of section 48f BörseG [Stock Exchange Act] and the circular regarding financial analysis in connection with the interpretation of section 48f Stock Exchange Act [Börsegesetz (BörseG)]: LGT Bank AG, Zweigniederlassung Österreich, Bankgasse 9, A-1010 Vienna, Austria. Responsible supervisory authority: Liechtenstein Financial Market Authority (FMA), Landstrasse 109, P.O. Box 279, 9490 Vaduz, Principality of Liechtenstein; Austrian Financial Market Authority (FMA), Otto-Wagner-Platz 5, 1090 Vienna, Austria.

Precautions for avoiding and dealing with conflicts of interest

Employees of LGT Capital Partners Ltd., Pfäffikon, LGT Bank Ltd., Vaduz, LGT Bank (Switzerland) Ltd. and LGT Bank AG, Zweigniederlassung Österreich, who are responsible for compiling and/or distributing financial analyses, are subject to the applicable regulations as prescribed by law and supervisory legislation. In particular, measures were taken to avoid conflicts of interest (e.g. checking information exchanged with other employees, independence of the remuneration of the employees concerned, preventing the exertion of influence on these employees, compliance with rules on employee transactions, etc.). In addition, the handling of financial analyses is governed by an internal, group-wide directive issued by LGT Group Foundation, Vaduz. Adherence to the regulations and organizational instructions is monitored by a Compliance Officer.

Reference regarding analysis history

If this analysis was made available to any issuers mentioned in the publication prior to its distribution or publication, no changes were made to the price or rating after the issuer's feedback. Important references for Liechtenstein can be found in articles 3 to 6 FinMV [Financial Analysis Market Abuse Ordinance], for Switzerland in the Swiss Bankers Association Directives on the Independence of Financial Research, and for Austria in section 48 BörseG [Stock Exchange Act], the Austrian analysis principles of the Österreichische Vereinigung für Finanzanalyse und Asset Management [Austrian Association for Financial Analysis and Asset Management, ÖVFA] and the Austrian Society of Investment Professionals (ASIP) and the Standard Compliance Code of the Austrian banking sector.

Essential sources of information

Our analysts draw on publicly accessible information we consider to be reliable. For the compilation of the analysis, publications by domestic and foreign media and news services (e.g. Reuters, Bloomberg, VWD etc.), business publications, trade publications, statistics and rating agencies were used, together with information from the issuers of the analyzed securities – mainly via the Internet, but also in writing or by telephone. We also procure information from investment banks (sell-side research and primary research).

Reference regarding valuation rates

Unless otherwise stated or specified, the rates used in the analysis are normally the share prices provided by the news agencies Reuters and/or Bloomberg at the close of the stock exchange of the domestic market of the analyzed security or the relevant principal market of this security on the respective local stock exchange on the eve of the day of compilation.

Explanation of investment recommendations for stocks

We apply a "hybrid approach" (internal fundamental analysis combined with "theScreener", an external, purely quantitative analysis tool). TheScreener is based on purely quantitative, i.e. computable variables such as (but not exclusively restricted to) profit adjustments of the past few weeks, stock valuation in relation to historical performance and comparison groups, the technical trend, performance in relation to the market etc. The assessment of the equity analysts, which is largely based on a qualitative analysis, does not need to match with the one of theScreener. For the overall judgement the assessment of the equity analysts overrides the one of theScreener. LGT Bank (Switzerland) Ltd. categorizes its analysis recommendations into five ratings: for a "Buy" recommendation we expect a relative outperformance compared with the sector. Only equities subjected to an internal fundamental analysis can be rated "Buy". The recommendation "Attractive" is used for equities exclusively ranked by theScreener without any internal fundamental analysis as "slightly positive" or "positive". A moderate relative outperformance versus the index is expected. For equities that we rate as "Hold" we expect a performance largely in line with the one of the sector. This can comprise both equities for which a fundamental analysis has been carried out as well as equities that theScreener ranks as "neutral" versus the index. The recommendation "Unattractive" is used for equities exclusively ranked by theScreener without any internal fundamental analysis as "slightly negative". A moderate relative underperformance versus the index is expected. By contrast, "Sell" recommendations are based on the expectation of a relative underperformance compared with the sector. This can comprise both equities for which we are recommending "Sell" for fundamental reasons as well as equities that theScreener ranks as "negative" versus the index. Therefore the ratings always reflect a relative consideration versus the sector and/or specified index. The risk assessment is based on the individual judgement of the analyst (e.g. we assume a "high" risk for illiquid shares, highly indebted companies or shares from developing countries).

Reference regarding share valuation basis: The analysis compiled by LGT Bank (Switzerland) Ltd. are essentially based on secondary research relating to fundamental and quantitative analysis. Generally accepted valuation methods (valuation multiples, return figures, sector comparisons, comparisons with past valuations etc.) are used for this. The forecasts for the quantitative analysis are prepared with the help of mathematical-statistical procedures (see statements above concerning the analysis tool "theScreener"). Economic indicators such as interest rates, currencies, commodity prices and assumptions relating to the economy are included in the overall assessment. The mood of the market also affects the company valuation. Moreover, many of the approaches are based on estimates and expectations that may change quickly and without warning, depending on developments specific to the industry. Therefore, the recommendations derived from the analysis can also change accordingly. The investment judgements generally refer to a period of 6 to 12 months. However, they are also subject to market conditions and represent a snapshot of the situation. They may be achieved more quickly or more slowly or be revised upwards or downwards.

Explanation of investment recommendations for bonds

We employ both qualitative and quantitative methods to derive our recommendations, which are to be seen as relative to sector/quality peers among comparable maturities. "Buy" and "Sell" recommendations demand a qualitative in-house analyst opinion, in which we incorporate both historical and projected financial results and credit metrics as well as past and anticipated company and sector-specific observations and trends. We recommend "Buy" for a security for which we expect a strong relative outperformance compared to sector/quality peers among comparable maturities. We recommend "Sell" if we expect strong relative underperformance compared to sector/quality peers among comparable maturities. The ratings "Attractive", "Hold" and "Unattractive" can be based purely on a quantitative approach, which includes the market price of credit risk, valuation of equities and associated instruments, corporate leverage, liability structure, size, and agency rating. We recommend "Attractive" for a security for which we expect a relative outperformance compared to sector/quality peers among comparable maturities. We recommend "Hold" if we expect an average performance compared to sector/quality peers among comparable maturities. We recommend "Unattractive" if we expect a relative underperformance compared to sector/quality peers among comparable maturities. This publication does not constitute either an issuing or listing prospectus, nor any other kind of prospectus. This publication also does not constitute any offer for subscription or any other transaction or obligation. Definition of rating categories of S&P and Moody's which are relevant for us:

AAA/Aaa: Borrower with highest credit quality. Default risk also virtually negligible over the longer term
AA/Aa: Safe investment, default risk virtually negligible but more difficult to assess in the longer term
A: Safe investment as long as no unforeseen events impair the overall economy or sector
BBB/Baa: Average investment. However, problems must be expected if the overall economy deteriorates
BB/Ba: Speculative investment. Defaults must be expected if the economic situation deteriorates
B: Highly speculative investment. Defaults are likely if the economic situation deteriorates

For more information on our methodology for bonds, please contact your LGT relationship manager or your local LGT Group company.

Risk information for fund recommendations

No guarantee is provided that the publications and information are up to date. Investment decisions should therefore always be made on the basis of the current prospectus and/or the complete documentation and publication of the third party/fund issuer (in particular the key investor information) and following consultation with an expert. This fund recommendation does not meet all the statutory requirements for guaranteeing the impartiality of financial research. The Swiss Bankers Association Directives on the Independence of Financial Research do not apply to this recommendation. It does not constitute financial analysis within the meaning of the Liechtenstein Ordinance on the Preparation of Financial Analysis according to the Law against Market Abuse in the Trading of Financial Instruments. LGT Bank (Switzerland) Ltd. and/or its affiliated companies are not subject to any prohibition of trading prior to the publication of financial research with regard to the recommended funds. The research can form the basis for the investment decisions of LGT Bank (Switzerland) Ltd. itself and/or those of its affiliated companies. It is possible that LGT Bank (Switzerland) Ltd. and/or its affiliated companies might receive retrocessions from the issuers of the funds dealt with here.
Austria: Investment decisions should only be made on the basis of the current KIID and valid prospectus following consultation with an expert. All selected third-party funds are subjected to a thorough quantitative and qualitative analysis process prior to inclusion in the LGT FundGuide. Selected third-party funds are also subject to a continuous monitoring process. Austria: Investment decisions should only be made on the basis of the current KIID and valid prospectus following consultation with an expert.

Country-specific information

LGT funds: The current full prospectus, the Key Investor Information Document (KIID) and the current annual and semi-annual reports can be obtained free of charge from the fund administrator and from the following addresses: Liechtenstein: LGT Bank Ltd., Herrengasse 12, FL-9490 Vaduz and as an electronic version at www.lafv.li; representative for Switzerland: LGT Capital Partners Ltd., Schützenstrasse 6, CH-8808 Pfäffikon; main distributor and paying agent for Switzerland: LGT Bank (Switzerland) Ltd., Lange Gasse 15, CH-4002 Basel; paying agent in Austria: Erste Bank der österreichischen Sparkassen AG, Graben 21, A-1010 Vienna.

Risk information for recommendations concerning structured products

This recommendation was prepared by LGT and not by an independent financial analysis department. Therefore this recommendation does not meet all the statutory requirements for guaranteeing the impartiality of financial research. The Swiss Bankers Association Directives on the Independence of Financial Research do not apply to this recommendation. Investments in structured products entail a wide range of risks. Investment decisions should therefore only be made on the basis of the valid prospectus or complete documentation following consultation with an expert. This does not constitute financial analysis within the meaning of the Liechtenstein Ordinance on the Preparation of Financial Analysis according to the Law against Market Abuse in the Trading of Financial Instruments.

Risk information in connection with foreign currencies

Information about foreign currencies were produced by LGT Bank (Switzerland) Ltd. and not by an independent financial analysis department. Therefore, forecasts, observations and price information are subject to change at any time and there is no guarantee that the information is complete. Investment decisions should accordingly be made in consideration of the investor's personal risk tolerance and within the overall context of the portfolio. The Swiss Bankers Association Directives on the Independence of Financial Research do not apply to currency analysis. Such analyses do not constitute financial analysis within the meaning of the Liechtenstein Ordinance on the Preparation of Financial Analysis according to the Law against Market Abuse in the Trading of Financial Instruments.

Risk information on LGT Sustainability Rating

To determine the LGT Sustainability Rating, the companies, countries and supranational organizations underlying the investment vehicles are assessed according to criteria defined by LGT with respect to the areas of environment (E), social issues (S) and corporate governance (G). Corporate and country-specific sustainability data (raw data) of external data providers feed into this rating. The LGT Sustainability Rating is a result based on criteria and calculation methods determined by LGT. It does not claim to be exhaustive, accurate or up to date. The LGT Sustainability Rating is not substantiated by LGT. Any liability of LGT is excluded. The LGT Sustainability Rating does not constitute advice, an offer, a solicitation or invitation to submit an offer; it is neither a basis for a decision nor a recommendation to buy or sell investment vehicles or other specific products, and does not constitute advertising for products or services. Advice from a qualified specialist before making an investment decision is recommended. Investments may be subject to fluctuations. A high LGT Sustainability Rating and a high ESG score do not guarantee a good or better performance of the investment vehicle or other products, in particular in comparison with an investment with a lower LGT Sustainability Rating. The LGT Sustainability Rating must be strictly separated from other analyses and assessments.

Risk information for US assets

This investment proposal might contain US assets located in the USA (known as "US situs assets") which might trigger US inher-itance tax consequences. This means, for example, that the estate of the decedent neither domiciled in the USA nor with US citizenship might become liable for tax payment to the US tax authority. Subject to a ceiling, non-US persons may enjoy tax exemptions and reductions if they are entitled to benefit from a double taxation agreement (DTA) which provides for such relief. LGT recommends that clients consult a qualified tax advisor for further information on US inheritance tax and the associated reporting obligations and tax liabilities in the USA. LGT does not automatically report tax liabilities to the Internal Revenue Service (IRS), the US tax authority.

Information related to LGT (Middle East) Ltd.

Where this publication has been distributed by LGT (Middle East) Ltd., related financial products or services are only available to professional investors as defined by the Dubai Financial Services Authority (DFSA). LGT (Middle East) Ltd. in the Dubai International Financial Centre (Registered No. 1308) is regulated by the DFSA. LGT (Middle East) Ltd. may only undertake the financial services activities that fall within the scope of its existing DFSA license. Principal place of business: The Gate Building (East), Level 4, Dubai International Financial Centre, P.O. Box 506793, Dubai, United Arab Emirates.

Impressum:
Private Banking Europe Investment Committee
Voting members:
Thomas Wille (Host), Head Investment Strategy & Communication; Oyvin Furustol, Head Investment Services Europe; Maurice Jiszda, Head Fixed Income; Georg Ruzicka, Head Equities; Ralph Weber, Head Portfolio Management Geneva; Jürgen Lukasser, Head Portfolio Management Vienna; Fabian Studer, Active Portfolio Advisory