VALUES WORTH SHARING

Investorama

Trends and developments
in the financial markets

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Risk factors

Prior to investing, investors should carefully consider the risks associated as detailed in the offering document. The value of an investment can fall and the originally invested amount may never be recovered. Investors should consider the following risks, without limitation:

- Market risk: The risk of losses in positions arising from movements in market prices.
- Currency risk: The risk of losses arising from currency fluctuations, in case the currency of an investment is different from the investor's reference currency.
- Liquidity risks: Adverse effects created by the situation where the fund must sell assets where insufficient market demand exists and lower price levels must be accepted to execute a transaction.
- Operational risks: The fund may suffer losses as a result of insufficient internal processes or systems, misbehavior of employees or external circumstances.
- Political and legal risks: Investments are exposed to changes in the rules and standards applied by the country under the respective jurisdiction. This includes restrictions on currency convertibility, the imposition of taxes or transaction controls, limitations on property rights or other legal risks. Investments in less developed financial markets may expose the fund to increased operational-, legal- and political risk.
- Derivative risk: The risk of losses arising from the usage of derivatives, which can be highly sensitive to price movements of the underlying asset and can result in increased leverage.
- Credit risks: Risk characterized by the failure of counterparties to meet contractual financial obligations.
- Master-Feeder risks: The performance of the Fund may deviate from the performance of the Master-Fund.

Contents

Swimming with or against the current?

Whether we are talking the latest fashion, political currents, economic news flow or movements in capital, similarities exist between developments in the fashion world and trends in politics, the economy and the financial world. Certain conclusions can be drawn from these parallels and analogies. In all these areas, there are not just short-lived but also longer-lasting trends. And time and time again, we are faced with the question of whether and how long we should swim with the current or when we should start swimming against it.

Fashion is almost exclusively about subjective questions of taste regarding current ideals and role models – which is why decision-making is allowed to be spontaneous and "from the gut". The goal of a fashion-conscious person is to spot new lifestyle trends before most people do and to dress or do their hair accordingly. Those who do not like swimming with this current prefer to stick to the classic look, one that is never really "out of fashion". Only in exceptional cases can rational and objective evaluation criteria for one or the other attitude be identified.

In political matters, questions of style (up to and including targeted provocations) can also play a certain role, but here the decision-making process is more challenging and should be more analytical, more a "head matter". If one wants to get to the heart of the current zeitgeist, look no further than the climate protection movement and rallies by critics of globalization which are now center stage (if one first takes out of the equation all of the political issues around the coronavirus). The two currents have much in common: on one side, there is a core of legitimate justification, on the other an affinity for planned intervention in the economy, right up to a radical rejection of the market economy system. These tendencies even reach as far as the central banks. But these currency guardians are solely responsible for price stability, which is difficult enough and definitely no dull affair. So they should not want to invest their billions created from "quantitative easing" in "green" assets, ergo the ECB does not have to mutate into an "ESG CB" under its new leadership. After all, a cyclical instrument such as monetary policy is demonstrably unsuitable for solving a structural phenomenon such as climate change. And history has plenty of examples showing that politicizing monetary authorities always ends badly, as it means central banks one day become responsible for almost everything, but no longer capable of achieving anything.

During the coronavirus crisis, public and private sector decision-makers have also been exposed to currents. China has led the way in imposing lockdowns, the disproportionate narcotization

of all socioeconomic life, and most governments have floated along in the stream of this authoritarian great power. Few have dared to break free of the pull of the masses and swim against the current. One of them is Sweden, which has refrained from shutting down the economy and has striven for herd immunity without adopting herd mentality. Or the rebellious libertarian Tesla visionary Elon Musk, who, flouting the diktats of the health authorities, restarted his Californian production facilities early. Both swam against the current using their "common sense", and averted greater damage, but took heavy flak from the majority of know-alls.

> "Shrewd investors have learned to closely monitor every move of their central bank and to operate in its financial wake."

Just like at a fashion show, when trying on clothes in front of the mirror, or as in the context of political decision-making, investors are constantly asking themselves in relation to financial markets, which trends they should put their money on. When is it better to stick by the motto "the trend is your friend", and when is it better to stand aside or even play the "contrarian"? Are we currently at a turning point, or is one just around the corner? Under no circumstances should investors base their decisions solely on their interpretation of the economic news flow, which is overlaid by a strong random component. Besides taking into account various opposing interrelationships with different inherent time horizons, a multitude of both structural factors and technical orientation variables must also be assessed – including the current market situation and market valuation. On this basis, the stock markets' recent perfect "V-pattern" cannot be classified as irrational – not (yet) because a V-shaped recovery back to the former growth path after the sharpest and shortest recession of all times would be a foregone conclusion, but because of the continuing very low interest rates at which even very distant future earnings are discounted. Shrewd investors have also learned to closely monitor every move of their central bank and operate in its financial wake – as long as the central bank does not go off course, needless to say! After all, a healthy dose of "gut feeling" is also required on the stock markets.

I was once standing at the stern of a Mediterranean ferry looking into the swirling wake. A big piece of paper floated up. Suddenly it was snatched out of its previous course and abruptly dragged along by our wake in the opposite direction. On financial markets, unlike that piece of paper – which had no will of its own after all – one should deliberately avoid such hasty changes of direction based on outside influences.

As with a personalized style analysis to work out your optimal wardrobe or hairstyle, when you are determining your personal investment style you need to make a realistic and honest assessment of your own ambitions and risk appetite at the outset (both being often overestimated). After that, it is important to remain fundamentally true to a suitable style. Even when there are temporary setbacks (a kind of "negative feedback from the markets"), it is not suddenly the time to start doubting yourself and go against your own choices. If you follow this rule and have the patience to wait for well-deserved "stock market compliments", you will improve your wealth and self-confidence at the same time. If in doubt, let yourself be inspired, ask your client advisor about our current "fall collection" or for a tailor-made investment proposal!

Dr Alex Durrer
Chief Economist

V-shaped market, V-shaped recovery?

Dr Alex Durrer

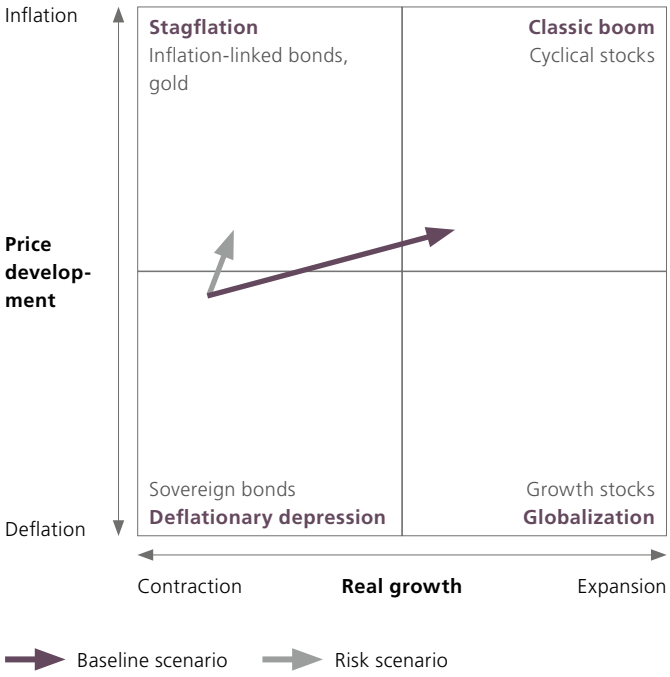
For months, the tiresome topic of the coronavirus pandemic has dominated not only the whole of social life around the world, but also global financial markets. After the market reaction in the first half of the year followed a psychological rather than a logical pattern (1. Ignore the problem – 2. Panic about the problem – 3. Recover from the problem, always in sharp contrast to the respective news flow), concerns about a "second wave" with second-round effects as negative consequences and the hope for a quick vaccine miracle have more or less found an equilibrium since early summer. Surprisingly, the discussions about the virus have so far drowned out all the background noise of both the US election campaign and the coronavirus-induced accelerated trend in the EU towards the mutualization of sovereign debt.

The economic outlook for this year is very mixed: For the first time since the Great Depression of the 1930s, industrialized countries were in recession at the same time as emerging and developing countries – and it was the worst downturn since the Second World War, it should be noted. But that is not all: The politically prescribed narcotization of society and the economy has resulted in a simultaneous shutdown of the manufacturing and service sectors.

But thanks to the assortment of fiscal and monetary policy bailouts, a broad-based recovery is already on the horizon: According to leading indicators, GDP is likely to have grown strongly again worldwide in the third quarter. But if a V-shaped recovery back to the previous growth path is to crystallize, the PMI indicators must remain well above 50 for some time to come. We are not there yet – although this has not stopped the stock markets from drawing a perfect V. And thanks to the low interest rates at which future earnings are discounted, this is not even irrational. The fact that inflation is no longer an issue on a three to six-month horizon is consistent with the economic picture. As the recovery progresses, the combination of supply-side constraints (due to deglobalization) and a resurgence in demand will lead to increasing price pressure from around the middle of 2021.

In our baseline scenario, the sharpest, but also shortest recession ever is followed by a similarly strong recovery. Nevertheless, there is no end in sight to the most massive fiscal and monetary stimulus in history. In view of this situation, we recommend a rather ambitious tactical positioning with an increased equity component, combined with a substantial gold position. ◆

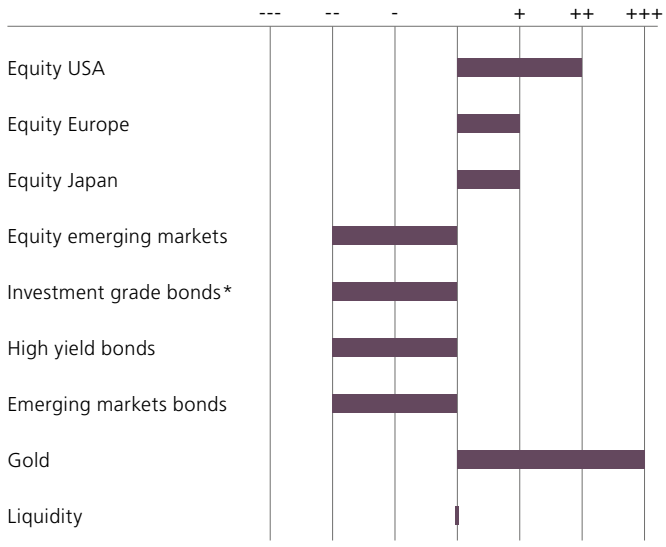
Global macroeconomic landscape*



* The macroeconomic landscape has a time horizon of 3-6 months

Source: LGT

Overview investment policy as per September 28, 2020



* Includes global government, inflation-linked, and corporate bonds

Money printing presses send gold soaring

Johannes Oehri

After several years of consolidation, the gold price has been heading north again since summer 2019 and has even put on a real spurt this year. The strongest and most sustained driver is the unprecedented expansionary monetary policy, and the signs therefore continue to point to a bull market.

To combat the self-imposed economic collapse, states around the world are continuing to pile up their mountains of debt at record speed. The experiences of the euro area countries have shown that we clearly will not be able to pay them down at some point in the future through harsh austerity. Liberal democracy has simply reached its limits here. The only viable way forward is therefore to print money and gradually expropriate from savers using artificially low interest rates. For example, since March, global central banks have been printing over USD 1.5 bn in new money every hour – although to be precise it is not being printed as such but being created at the click of a mouse! This glut of money has driven up stock markets, the price of gold and other asset prices. At the same time, the US Federal Reserve relaxed its price stability target at its annual rendez-vous of the monetary policy elite. It is now targeting 2% as a long-term average rather than as a maximum rate of inflation. This means it can tolerate a higher inflation rate over a longer period of time without having to tighten the monetary reins. But if price stability is defined in this way, the purchasing power of a currency is halved every 36 years – a very strange type of stability indeed!

Interest rates will therefore remain low for some time to come, but inflation risks are increasing. Accordingly, real interest rates have fallen significantly since the beginning of the year and are likely to remain negative for several years. This will boost the price of gold. Although gold does not bear interest, a zero rate of interest is pretty attractive if the alternative is to hold paper currencies with a guaranteed loss of purchasing power. When currencies are so carelessly guarded, investors should themselves be on their guard and diversify a part of their savings from their home currency into gold – because this precious metal is and will remain the ultimate hard currency that no central bank can print at will. ◆

Overview of currencies as per September 28, 2020

Currencies	Exchange rate	Year-to-date	Medium-term trend	Comment
EUR-USD	1.16	3.7%	→	EU's move toward fiscal union overshadows the ECB's ultra-expansive monetary policy
GBP-USD	1.28	-3.1%	→	Despite Brexit concerns, the GBP stubbornly continues to trend sideways
USD-JPY	105.63	-2.8%	↘	Safe haven flight is contributing to JPY strength and Kuroda's displeasure
USD-CHF	0.93	-4.2%	→	Recapturing the parity level remains difficult
AUD-USD	0.70	0.3%	↗	The AUD is moving further away from "Down Under"
USD-CAD	1.34	3.3%	→	The "fragile" outlook for oil is taking the wind out of the CAD's sails
USD-SGD	1.37	2.2%	→	The NEER band is limiting the appreciation potential of the SGD
USD-KRW	1173.55	1.5%	→	The more the won appreciates, the bigger the headache for exporters
USD-CNY	6.82	-2.1%	↘	The better macro environment compared with the US is providing a tailwind for the CNY
USD-MXN	22.51	19.2%	↗	Negative economic consequences of the coronavirus crisis are weighing on the MXN
USD-RUB	79.16	27.5%	↗	The outlook for oil prices is not giving the ruble any grounds to cheer
EUR-CHF	1.08	-0.6%	→	To Jordan's dissatisfaction, the appreciation in the CHF is intact for now
EUR-SEK	10.57	0.6%	→	The cheap SEK still remains undervalued
EUR-NOK	11.07	12.2%	→	Norges Bank is still the hawk among the G10 doves

Government bonds: Rescue operations – the never-ending story

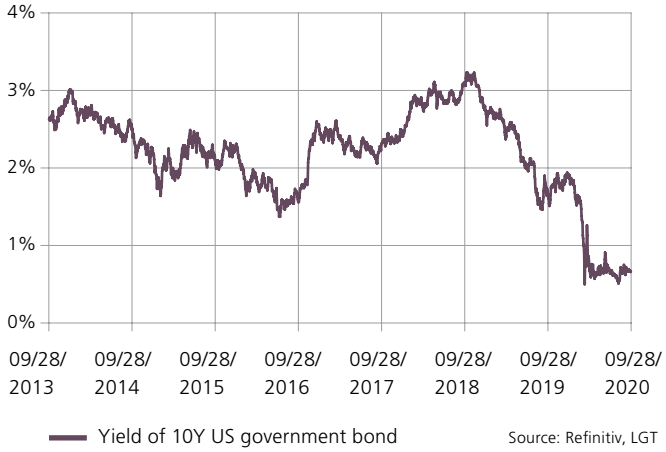
Ewald Duer

2020 has been a year of many firsts – not least in international monetary policy. All taboos have been broken, and formulations such as "no limits" and "whatever it takes" are clear pointers to there being a boundless supply of money. To get the crisis under control, the US Federal Reserve, the European Central Bank and several others have dramatically expanded their traditional role and have already provided money in unimaginable quantities. Many countries have also reacted quickly to the pandemic. For example, Germany alone has set up aid measures totaling over EUR 1 tn.

It is absolutely right to respond to the crisis with state aid. However, fiscal policy interventions should be targeted and temporary, otherwise debt levels might explode. But central banks and governments now seem to have lost all fear of being excessively in the red. In any case, the interconnections between them are becoming ever closer. The European, US, Japanese and Swiss central banks have brought in zero or negative interest rates for the foreseeable future. This makes it easy to fund government debt. For many observers, the Rubicon of monetary financing has been crossed. "Monetary government financing", i.e. funding financial policy by creating central bank money, is prohibited in Europe if it is done in a direct way. However, it has already become reality to a certain extent since the central banks started buying government bonds during the financial crisis of 2008 and the euro crisis of 2012. The volume of government debt purchased is now enormous. In the United States, for example, it has reached levels not seen since the Second World War. The central bank subjects itself to the primacy of fiscal policy and becomes, as it were, its vicarious agent. Politicians thus lack any incentive to get finances back in balance. In the case of companies, the persistently low financing costs are leading to riskier behavior, while investors have to constantly increase their risk investments in order to have any return at all. This leads to a fragile economic system, which in turn limits central banks' scope to normalize their policies.

So far, all attempts to normalize the base rate and balance sheet have failed. They are prisoners of their own policies. And despite the never-ending flood of money, negative real rates indicate that the market is expecting anemic economic growth for the next few years. Although central banks are searching hard for a way out, there is no painless solution. ◆

Yield of US government bonds



Overview target rates and yields on 10y government bonds as per September 28, 2020

Economy	Target rate	Trend	Comment	10y yield	Trend	Comment
USA	0.125%	→	No rate increase in foreseeable future	0.66%	↓	Money flow is not followed by a liquidity ebb
Eurozone (DE)	0.00%	→	No rate increase in foreseeable future	-0.53%	→	Christine Lagarde is keeping interest rates low
Japan	-0.10%	→	No rate increase in foreseeable future	0.02%	→	Yield curve control is fulfilling its purpose
UK	0.10%	→	No rate increase in foreseeable future	0.16%	↘	Brexit concerns are not yet overcome
Switzerland	-0.75%	→	No rate increase in foreseeable future	-0.55%	→	Helvetic bonds are in big demand
Brazil	2.00%	→	No rate increase in foreseeable future	7.08%	→	Monetary conditions remain relaxed
Malaysia	1.75%	→	No rate increase in foreseeable future	2.79%	↓	Support measures are taking effect

Inflation-linked bonds: Full steam ahead

Dieter Gassner

The resumption of economic activity after the lockdown caused by COVID-19 has led to an increase in inflation expectations in recent months. For example, ten-year US break-even inflation rates have recovered to their pre-crisis levels since their low of 55 basis points in March. Although it was not as pronounced, the trend in Europe was similar. The uptick in these market-based inflation expectations has been accompanied by an outperformance of inflation-linked bonds over comparable nominal bonds. Moreover, since real yields have fallen sharply in recent months, linkers have been catching up not only in relative but also in absolute terms. Nevertheless, current inflation expectations and thus relative valuations from a historical perspective still appear attractive.

Furthermore, global central banks are unlikely to reverse their expansive monetary policy for some time to come, after changing tack only in the spring and bringing in unprecedented measures to manage the supply of money and cost of borrowing. In fact, monetary watchdogs are not afraid to explore new ways and means of overcoming the crisis, as Fed Chairman Jerome Powell recently demonstrated once again. The latter announced a change in the Fed's monetary policy strategy at the end of August. Instead of pursuing its previously rigid inflation target of 2%, the Fed will in future try to achieve an average inflation level of 2%. This means that, in phases where the inflation rate is below 2%, periods with an inflation rate above 2% are not only tolerated, but deliberately worked toward. This also applies to the economic recovery that is coming, where the aim is now to keep inflation above the 2%-mark. A similar adjustment could also take place in Europe, where discussions on monetary policy realignment are also currently underway.

Given the further expansion of ultra-expansive monetary policy, the risk of inflation is asymmetrical to us in the longer term. We are therefore deliberately keeping a strategic quota of around 20% of the bond segment invested in this asset class. ◆

Emerging markets hard currency bonds: On the right course

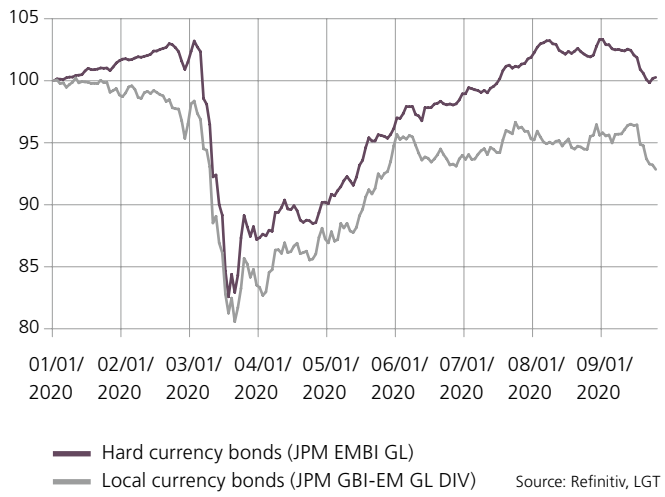
Ikram Boulfernane

Thanks to a gain of approximately 0.3% (in USD) since the beginning of the year, emerging market hard currency bonds are heading into the profit zone. Their counterparts in local currencies, on the other hand, are still navigating choppy waters with a minus of around 7.2% (in USD).

As investors hunt for yield, negative real rates in industrialized countries are providing a tailwind for the emerging markets. The V-shaped recovery of some leading indicators does not seem to have been fully priced in by investors yet. There is therefore potential for positive surprises. However, emerging markets are a heterogeneous asset class, and for some, the clouds on the horizon cannot be ignored. Due to the weaker reaction to the crisis compared with industrial nations – with the exception of some Asian countries – and the smaller fiscal and monetary support measures, emerging markets are more exposed to the economic headwinds.

But the weakness of the US dollar is taking the wind out of the emerging market bears' sails. Thanks to a devalued greenback in combination with low US interest rates, the emerging market hard currency bonds ship is still on the right course for now. ◆

Performance (in USD; indexed as of 01/01/2020)



Source: Refinitiv, LGT

Equities US: Seasonal pattern

Manfred Hofer

Following the strong second quarter, the rise in prices on the US stock market has so far remained intact in the third quarter. The February/March crash has been almost completely reversed, which is a very positive development, even if the road has been a bit bumpier lately. But the truth too is that part of this performance is due to exchange rates.

The US economy seems to be on the right track to record one of the shortest recessions in the last 150 years. We wrote about this in the last issue of Investorama: "The support measures, especially in the United States, are on too large a scale not to be taken seriously." And so, thanks to the fiscal and monetary policy bailouts, signs of a broad economic recovery are indeed there. We also said: "The concern is that the upcoming presidential elections in the fall will be an additional source of volatility." We still stand by this statement.

The elections will take place on November 3 – and until then the election campaign will be one of the top topics on capital markets. The US stock market has performed impressively since Trump's inauguration – so Wall Street may prefer Trump to be re-elected. However, the race could once again be close – and protracted political trench warfare in Washington will not be conducive to market sentiment.

The outcome of the election is difficult to predict and, from a behavioral finance perspective, not a decisive point. What is more interesting is the analysis of the market environment on which the voters' decision is based. What is the general state of the market (market structure)? How have shareholders been positioning themselves in the market in the run-up to the event? What is the investors' sentiment at the moment? These are only a few points that need to be analyzed.

Seasonal patterns must also be taken into account. Both the traditional and the election year pattern are currently sending out clear signals for the coming quarter: a price low in the first half of October, followed by another price increase. The so-called "turnaround" month of October marks the beginning of the best stock market phase of the year. If our behavioral finance indicators confirm the seasonal pattern, it is important to give it appropriate weight. This is currently the case. A "buy the dip" strategy is therefore recommended for the fourth quarter. ◆

Equities US

Source: Refinitiv, LGT

Overview of equity markets as per September 28, 2020

Stock market (MSCI indices)	year-to-date	since 09/28/2019	since 09/28/2015*	Trend	Comment
United States (USD)	6.4%	16.6%	14.1%	↗	Upwards trend
Eurozone (EUR)	-11.6%	-6.6%	4.3%	→	Volatile sideways trend
Japan (JPY)	-2.2%	4.7%	4.7%	→	Volatile sideways trend
United Kingdom (GBP)	-20.7%	-19.1%	3.4%	↘	Downwards trend
Germany (EUR)	-3.6%	3.2%	5.3%	→	Volatile sideways trend
Switzerland (CHF)	-1.1%	3.8%	7.3%	→	Volatile sideways trend
Asia/Pacific ex Japan (USD)	2.0%	12.7%	10.0%	→	Volatile sideways trend
Emerging markets (USD)	-2.3%	9.2%	9.0%	→	Volatile sideways trend

* annualized

Source: Refinitiv, LGT

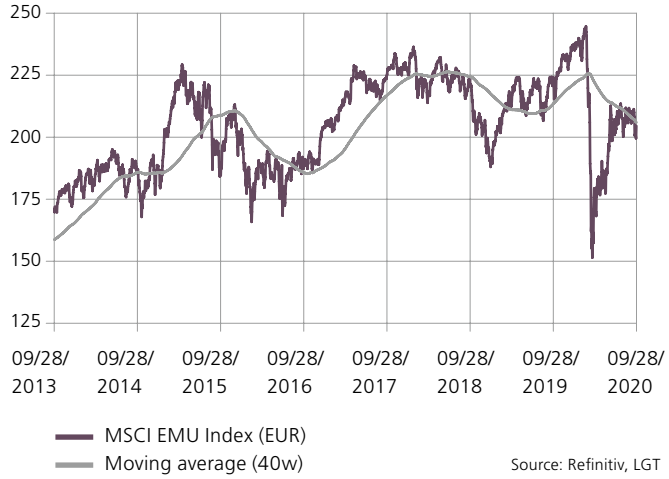
Equities Europe: In the shadow of the US tech giants?

Ralf Piersig

In our last article at the beginning of July, we wrote that, in our view, opportunities and risks on the European stock markets are balanced. And indeed, markets on this side of the Atlantic have grown only moderately, while US indices have posted significant gains. Does this mean that investors are still shunning European shares?

We think a closer look is needed. First, the US dollar has lost almost 4% against the euro, which means that the performance of the two regions is clearly converging. Second, the US leading index S&P 500 is benefiting from this year's price rally by the US tech giants Amazon, Apple, Microsoft and Co, which have a substantially high weighting the index. The US tech companies' now high valuations mean that, based on earnings estimates for 2021 and 2022, European shares have the highest valuation discount compared to US shares since 2005. At the same time, the old continent is still the world leader in future fields such as Industry 4.0, the pharmaceutical segment and renewable energies – with corresponding potential for profits. In our view, this increases the risk-reward ratio for European stocks. ◆

Equities Europe



Source: Refinitiv, LGT

Equities Japan: Early change in leadership

Mikio Kumada

An era has come to an end in Japan. After a historic record of eight years in office, Prime Minister Shinzo Abe somewhat surprisingly announced his resignation at the end of August due to health reasons. However, the succession went smoothly. By mid-September, one of his closest allies in the cabinet, Yoshihide Suga, had won the party's internal elections by a landslide, thus securing the leadership of the government. So, continuity is most likely to be the order of the day in all areas – including and especially in economic policy. However, it is questionable whether Suga will be able to govern as stably and for as lengthy a period of time as Abe. Parliamentary elections are scheduled for next fall at the latest.

While overshadowed by these developments, Japan's stock market was able to stay in the middle of the international pack during this period. With a plus of around 7% since mid-year, the MSCI Japan has been lagging its American and Asian counterparts but is still ahead of the MSCI Europe, which rose by 3.6%. In the wake of the global recovery from the coronavirus shock, the healthcare and materials sectors recorded the highest profits, followed by IT and industrials. ◆

Equities Japan

Source: Refinitiv, LGT

Emerging markets equities: Separating the wheat from the chaff

Michel Roth

The third quarter belonged to emerging market equities – or so one might think. It is true that, at index level, these securities performed better than those of advanced economies. But there were distinct regional differences. Although Asian emerging market indices galloped away thanks to their bias towards technology stocks and cyclical consumer goods, regions more tilted to commodities, such as Latin America, barely made any headway. Even the recent setback in technology stocks could not change this picture. So, is this discrepancy ultimately part of the new post-coronavirus normality?

Structurally, there are some indications that this is the case, as the pandemic has undoubtedly and abruptly accelerated digitalization. However, the discrepancy in regional emerging market returns is also likely to persist for productivity reasons. This is because the "traditional" growth model of the emerging markets, consisting of competitive exports of commodities and goods and, in return, high levels of foreign direct investment, is increasingly being seen as having run its course. For one thing, geostrategic considerations combined with advances in automation are gradually undermining the comparative advantage of lower unit labor costs. For another, increased efficiency in the use of natural resources and China's structural change towards consumption and away from industry are also dampening demand for commodities. Ultimately, consumer behavior is thus increasingly moving away from capital goods and materials toward services and human capital. In an emerging market context, these are mainly to be found in South Korea and Taiwan. According to OECD forecasts, China and India are also expected to catch up with the leaders over the next ten years. Of course, these countries are already heavyweights in the emerging markets equity index. However, in view of the developments mentioned above, their share should increase again. Investors who are already sufficiently diversified across different asset classes should therefore increase their allocation within the emerging markets in favor of these Asian countries today. Or in other words, they need to separate the wheat from the chaff. ◆

Private equity: The power of ESG engagement

Trushna Anand Jhaveri

At LGT Capital Partners (LGT CP), we began integrating environmental, social and governance (ESG) considerations more than two decades ago into our investment process. The ongoing global crisis has highlighted that ESG considerations are now more important than ever. The focus of ESG on themes like health and safety, supply chains and stable employment speak to the heart of the global pandemic as well as other challenges we face today and will face in the years to come. While our process has matured with time, our core approach remains unchanged. Below is an example of how we engage with private equity (PE) managers.

In 2017, a Benelux-based small buyout manager had effectively no process in place for identifying or addressing ESG issues, so it held an ESG rating of 4 (a low score). The team, comprised of operationally involved PE professionals, maintained that their portfolio companies did not need to spend extra time on ESG, reasoning that the management teams of their portfolio companies already focused on health and safety, with key employee statistics part of normal business operations. As such, they considered responsible investment practices an additional burden.

We have encountered similar thinking among a number of PE managers over the years. In response, we conducted several discussions with the manager in 2018, where we explained the importance of ESG to us and our investors, and we pointed out obvious first steps they could take. The team initiated ESG integration when they more clearly came to understand how managing specific material ESG factors in their portfolio companies could add value to the investment.

On the back of proactive dialogue with LGT CP, the manager made significant strides during 2019, developing a clear, practical ESG policy and appointing an ESG officer from within the investment team, which eventually resulted in a rating increase to 2 (a high score) in 2020. The ESG activities are now part of their operational approach to investing and very much focused on value creation. They also have plans to report on their ESG efforts, which we look forward to seeing in future cycles. Overall, we consider their approach a textbook example of ESG integration with a focus on materiality. ◆

Real estate: Home Improvement

Boris Pavlu

As everyone knows, necessity is the mother of invention. In the coronavirus-induced lockdown, numerous changes have had to be made to everyday life, and familiar routine has given way to new ways of keeping busy. There has been a lot of activity around people's homes, from heavy gardening work to ambitious renovation and extension projects. It has been on such a scale that lumber has become increasingly scarce. In the United States, its price on the Chicago Mercantile Exchange, where commodity futures are traded, has recently soared faster than ever before in its trading history. Supply bottlenecks at producers may also have contributed to the shortage, as many sawmills have been temporarily out of action. Retailers specializing in DIY products should also benefit from this development.

Another reason for the shortage is that house building in general has picked up again significantly, especially outside the major centers of the United States. The figures show that many people are leaving the big cities and are able to do so thanks to the new normality of earning money without leaving home. The public health crisis has shifted office work from commercial business districts to households. Demand for single-family homes in low-density areas such as suburban and rural areas has increased significantly, and the current extremely favorable mortgage rates are supporting this trend. But in view of the high unemployment rate, which is a reflection of the fact that the number of people out of work is in the double-digit millions, and the significant rise in lumber prices, it remains questionable whether the foundations of the robust state of the US real estate market will hold over the long term. It also remains to be seen whether this exodus from the city will turn out to be a fleeting phenomenon or a real new trend. ◆

Insurance-linked securities: Hurricanes, wildfires and COVID-19 keep ILS markets busy

Siti Dawson

The storm activity in the North Atlantic has already confirmed forecasts that the 2020 hurricane season will be very active: This year already saw more than 20 named storms (twice the number than the long-term average), eight hurricanes and one major hurricane ("Laura", almost reaching Cat 5 strength at time of landfall). Luckily, although Laura was an exceptionally strong hurricane, the storm moved quickly over the border region of Louisiana and Texas, which significantly reduced the risk of extended rainfall and flash floods in the affected areas, and largely sparing the more densely populated metropolitan areas of New Orleans (Louisiana) and Houston (Texas).

September is the key period for North Atlantic hurricane risk, with historically close to 50% of all storm formation occurring within the month. At the same time, September is also one of the strongest months regarding the performance of insurance-linked strategies: Cat bond prices typically start to increase in September and October and the performance contribution from CRI-contracts typically sees a significant pick-up as the typhoon and hurricane risk reaches its peak.

On the west coast of the US, extreme weather conditions (namely a very wet winter followed by a dry, hot summer) and a series of "dry lightning" has led to hundreds of wildfire outbreaks especially in the states of California and Oregon, affecting thousands of households and burning down millions of acres of woodland. However, although the number of wildfires is truly massive, to date the insured losses are significantly lower compared to the devastating wildfire seasons of 2017 and 2018.

Lastly, COVID-19-related claims continue to affect global insurance and reinsurance markets. Current estimates state the insured losses from the global pandemic at up to USD 50 bn. However, the ILS market and especially ILS managers with a strong focus on natural catastrophe reinsurance are expected to be only marginally affected. Investors should ultimately even be able to benefit from the market situation, as the additional pressure due to COVID-19 supports the premium development for 2020 and beyond. Further, ILS continue to offer an attractive return potential, with very limited correlation to financial market movements. ◆

LGT's core competencies in asset management

LGT's investment center is a specialist for multi asset solutions as well as alternative investments. Our core competencies include:

Asset Allocation

Carefully planned asset allocation is the foundation for successful asset management and performance. LGT's long-standing experience and disciplined investment approach enable us to offer our clients traditional and alternative investments as an integrated, comprehensive package and to go to our clients as an authority in this regard. Our transparent investment process covers portfolio construction and implementation in line with our clients' needs as well as continual monitoring of specific risks. The aim of our asset allocation investment solutions is to optimize the long-term risk-return profile. It is important to ensure that our investment solutions participate in market upturns, while offering stability and capital preservation in difficult market periods. The cornerstones of our Asset Allocation expertise are:

- A comprehensive global universe of listed and non-listed investments
- Broad diversification in and between asset classes, segments, styles, specialists and currencies
- A systematic, disciplined process based on a balanced blend of qualitative and quantitative elements

The long-term strategic asset allocation requires a look at the future. But because predicting future developments is possible only to a very limited extent, we use scenario analysis. The knowledge of past developments in economics, politics and the financial markets gives us a basis for our scenarios. Academics and practitioners add their own expert knowledge in certain thematic areas. We then use this array of information to develop various future scenarios. These are either baseline scenarios (high probability of occurring) or alternative scenarios (low probability of occurring). We set the optimum portfolio weighting for each scenario. We then work out investment solutions that we think can bring robust returns for our clients across several scenarios.

Through our tactical asset allocation we take advantage of medium-term inefficiencies and fluctuations. In a quarterly process we reconsider our active positioning also taking into account our findings from economic and market information along with behavioral finance.

Sustainability

Our long-term direction and ESG investment principles are a core element of our corporate culture. We are convinced that we can only invest successfully for our clients by following a long-term approach that contains a strong awareness of environmental, social and governance (ESG) principles. This also applies to investment solutions that we offer our investors as well as to our overall business activities. On the following pages, we will demonstrate how LGT Capital Partners integrates these principles into its business activities.

ESG in our investment and monitoring process

Compliance with ESG criteria is a fixed component of our investment process. It is structured so that it meets the United Nations-supported Principles for Responsible Investment (UN PRI). Our investment teams are responsible for due diligence for potential investments. Every investment opportunity we pursue is examined based on these criteria. These assessments are important information for portfolio managers and the Investment Committee when it comes to making an investment decision. We monitor a broad spectrum of risks, against the background of ESG criteria as well. We work closely with our external managers and offer them advice on how ESG criteria can be integrated even more extensively. For some clients, we check the portfolios according to specific ESG guidelines.

We have developed processes to integrate ESG principles in line with the requirements of the various investment categories and structures. In the context of our private equity, hedge fund and multi-manager long-only portfolios, for example, we focus on the assessment of ESG practice of our external and internal managers, and work with them to raise standards in this area. In our equity and bond portfolios, we rely on

individual stock selection. This way, we can benefit from the fact that substantially more information is available for an ESG assessment. We have therefore developed an internal tool, the ESG cockpit, which enables us to analyze and evaluate the ESG risks and opportunities of every position in these portfolios.

Compliance with international agreements on controversial weapons

Apart from carrying out our own ESG analyses, we are cooperating with Global Engagement Services (GES) and applying their guidelines to avoid investing in companies involved in the manufacture of controversial weapons such as land mines, cluster bombs and ammunition as well as ABC weapons. This way, we can develop portfolios that meet the requirements of international agreements on controversial weapons.

Our definition of ESG

When analyzing managers and companies, we check the following environmental, social and governance factors:

- Environment: greenhouse gas emissions, energy efficiency, water consumption, waste disposal, use of resources and other factors
- Social: refers to subjects such as controversial weapons, human rights issues, labor standards, employee fluctuation, health and safety, training and professional development as well as other factors
- Governance: quality of the board of directors, clear separation between the role of the CEO and president of the board of directors, accounting practices, reporting/transparency, management incentives, shareholders' rights, bribery and corruption as well as other factors

In choosing countries of potential issuers of government bonds, we concentrate on the degree of freedom, democracy, political and civil rights that prevail in the respective country as well as on the level of corruption and the rule of law. This is enhanced by further analyses that illustrate how a country deals with natural resources and the status of social development.

Integration of alternative investments

To achieve robust portfolios, there needs to be as much integration as possible of many uncorrelated return sources. It has been shown that alternative investment classes can make a valuable contribution in particular. LGT Capital Partners has been investing in private market investments and liquid alternative investment classes for 20 years. We have a global network and therefore access to experienced managers in this area, as well as direct investment competence. Investments in private markets can improve the risk-reward ratio of an investment portfolio. They offer investors the opportunity to achieve higher returns while at the same time diversifying their portfolio. With an investment horizon of more than ten years, private equity requires a long-term commitment and readiness to accept reduced liquidity and unexpected capital flows. The returns are also highly dependent on the investor's ability to gain access to the managers with the best performance, as returns from funds in the upper and lower quartile vary enormously from one another. Liquid alternative investments such as alternative risk premia, hedge funds or insurance-based investments play a large part in broader diversification of a portfolio. The integration of these strategies into a portfolio requires in-depth analysis that takes account of investors' aims and requirements. This calls for the relevant analysis tools, as well as for long-term experience.

Overview LGT Funds

LGT Funds	ISIN	Launch date	Price as per 08/31/2020		Performance 2020	Performance -3 years p.a.	Performance -5 years p.a.
Multi asset class							
LGT Alpha Indexing Fund (CHF) B	LI0101102999	30.04.2009	CHF	1610.21	-2.30%	1.04%	2.80%
LGT GIM Balanced (CHF) B	LI0108469029	31.01.2010	CHF	12301.41	-0.33%	1.03%	1.79%
LGT GIM Balanced (EUR) B	LI0108469169	31.01.2010	EUR	13840.27	-0.02%	1.75%	2.21%
LGT GIM Balanced (USD) B	LI0108468880	31.01.2010	USD	14514.86	2.75%	3.80%	4.15%
LGT GIM Growth (CHF) B	LI0108469268	31.01.2010	CHF	13261.98	-1.77%	1.13%	2.41%
LGT GIM Growth (EUR) B	LI0108469318	31.01.2010	EUR	15165.87	-1.47%	1.92%	2.83%
LGT GIM Growth (USD) B	LI0108469250	31.01.2010	USD	15672.33	1.52%	3.93%	4.74%
LGT Sustainable Strategy 3 Years (CHF) B	LI0350494782	10.11.1999	CHF	1049.54	1.20%	1.00%	1.96%
LGT Sustainable Strategy 3 Years (EUR) B	LI0008232162	10.11.1999	EUR	1808.29	1.59%	1.79%	2.51%
LGT Sustainable Strategy 3 Years (USD) B	LI0350494840	30.04.2010	USD	1154.38	4.08%	3.71%	4.43%
LGT Sustainable Strategy 4 Years (CHF) B	LI0350494907	10.11.1999	CHF	1056.38	0.28%	1.28%	2.57%
LGT Sustainable Strategy 4 Years (EUR) B	LI0008232220	10.11.1999	EUR	1797.72	0.67%	2.12%	3.23%
LGT Sustainable Strategy 4 Years (USD) B	LI0350494998	30.04.2010	USD	1161.50	3.38%	4.02%	5.02%
LGT Sustainable Strategy 5 Years (CHF) B	LI0350495169	01.10.2004	CHF	1057.59	-0.80%	1.22%	2.92%
LGT Sustainable Strategy 5 Years (EUR) B	LI0019352926	01.10.2004	EUR	1838.90	-0.41%	2.12%	3.56%
LGT Sustainable Strategy 5 Years (USD) B	LI0350495227	30.04.2010	USD	1162.24	2.40%	3.92%	5.34%
Money market							
LGT Money Market Fund (CHF) B	LI0015327682	19.01.1998	CHF	1076.72	-0.47%	-0.82%	-0.77%
LGT Money Market Fund (EUR) B	LI0015327740	19.01.1998	EUR	693.49	-0.40%	-0.44%	-0.34%
LGT Money Market Fund (USD) B	LI0015327757	19.01.1998	USD	1546.97	0.64%	1.56%	1.21%
Bonds							
LGT Bond Fund EMMA LC (CHF) B	LI0133634688	30.09.2011	CHF	1064.08	-9.12%	-3.97%	1.86%
LGT Bond Fund EMMA LC (EUR) B	LI0133634662	30.09.2011	EUR	1204.37	-8.27%	-2.06%	1.99%
LGT Bond Fund EMMA LC (USD) B	LI0133634670	30.09.2011	USD	1072.52	-2.26%	-1.85%	3.33%
LGT Sustainable Bond Fund EM Defensive (CHF) B	LI0183910038	30.06.2012	CHF	975.28	-0.22%	-0.68%	0.84%
LGT Sustainable Bond Fund EM Defensive (EUR) B	LI0183910012	09.07.2012	EUR	1011.37	0.03%	-0.18%	1.37%
LGT Sustainable Bond Fund EM Defensive (USD) B	LI0183909998	15.12.2011	USD	1134.64	1.26%	2.38%	3.52%
LGT Sustainable Bond Fund Global Inflation Linked (CHF) B	LI0148578045	17.04.2012	CHF	936.38	2.36%	-0.67%	-0.53%
LGT Sustainable Bond Fund Global Inflation Linked (EUR) B	LI0017755534	10.05.2004	EUR	1170.67	2.64%	-0.14%	0.06%
LGT Sustainable Bond Fund Global Inflation Linked (USD) B	LI0148578037	30.09.2010	USD	1087.13	3.85%	2.30%	2.06%
LGT Select Bond Emerging Markets (USD) B	LI0026536628	31.12.2000	USD	3747.52	-2.23%	1.08%	4.27%
LGT Select Bond High Yield (USD) B	LI0026564604	31.08.2000	USD	2759.89	1.06%	4.31%	5.30%
LGT Select Convertibles (CHF) B	LI0132437745	31.08.2011	CHF	1455.66	9.51%	3.68%	2.56%
LGT Select Convertibles (EUR) B	LI0132437737	31.08.2011	EUR	1508.70	9.73%	4.02%	2.92%
LGT Select Convertibles (USD) B	LI0102278962	31.07.2006	USD	1936.54	11.32%	6.86%	5.32%
LGT Sustainable Fixed Income Global Opportunities (EUR) B	LI0008232030	10.11.1999	EUR	1670.87	-0.99%	-0.74%	0.07%
LGT Sustainable Bond Fund Global (EUR) B	LI0106892909	30.11.2009	EUR	1574.95	-1.48%	2.41%	1.91%
LGT Sustainable Bond Fund Global Hedged (CHF) B	LI0148577955	22.10.1996	CHF	1082.18	3.90%	0.56%	0.47%
LGT Sustainable Bond Fund Global Hedged (EUR) B	LI0148577948	22.10.1996	EUR	1129.00	4.19%	1.01%	0.97%
LGT Sustainable Bond Fund Global Hedged (USD) B	LI0015327872	22.10.1996	USD	3090.14	5.51%	3.70%	3.18%
LGT Quality Funds – Sustainable Short Duration Corp. Bond Fund Hedged (CHF) B	LI0183909808	30.06.2012	CHF	982.67	-0.89%	-0.91%	-0.61%
LGT Quality Funds – Sustainable Short Duration Corp. Bond Fund Hedged (EUR) B	LI0183909782	30.06.2012	EUR	1026.20	-0.58%	-0.38%	-0.03%
LGT Quality Funds – Sustainable Short Duration Corp. Bond Fund Hedged (USD) B	LI0183909790	30.06.2012	USD	1135.71	0.55%	2.06%	1.94%

LGT Funds	ISIN	Launch date	Price as per 08/31/2020		Performance 2020	Performance -3 years p.a.	Performance -5 years p.a.
Equities							
LGT Select Equity Emerging Markets (USD) B	LI0026536354	31.12.2000	USD	4452.41	-0.52%	0.60%	7.83%
LGT Select Equity Enhanced Minimum Variance (USD) B	LI0337486141	25.11.2016	USD	1280.31	-1.86%	4.20%	n.a.
LGT Select REITS (USD) B	LI0148225985	01.03.2004	USD	1515.69	-11.38%	2.22%	2.68%
LGT Sustainable Equity Fund Europe (EUR) B	LI0015327906	30.09.2000	EUR	1281.83	-5.93%	3.06%	2.92%
LGT Sustainable Equity Fund Global (CHF) B	LI0148540441	17.12.2012	CHF	2205.05	-4.59%	5.66%	10.23%
LGT Sustainable Equity Fund Global (EUR) B	LI0106892966	31.12.2009	EUR	2923.12	-3.69%	7.77%	10.37%
LGT Sustainable Equity Fund Global (USD) B	LI0148540466	17.12.2012	USD	2247.76	2.62%	7.99%	11.81%
LGT Sustainable Quality Equity Fund Hedged (CHF) B	LI0183907844	30.06.2012	CHF	1992.32	6.83%	10.13%	9.41%
LGT Sustainable Quality Equity Fund Hedged (EUR) B	LI0183907836	09.07.2012	EUR	1975.59	6.93%	10.55%	9.88%
LGT Sustainable Quality Equity Fund Hedged (USD) B	LI0183907802	30.06.2012	USD	2439.73	8.63%	13.62%	12.27%
Insurance-linked investments							
LGT (Lux) I – Cat Bond Fund (CHF) B	LU0816333040	30.11.2010	CHF	108.86	2.20%	-0.69%	-0.07%
LGT (Lux) I – Cat Bond Fund (EUR) B	LU0816332828	30.11.2010	EUR	113.35	2.38%	-0.29%	0.28%
LGT (Lux) I – Cat Bond Fund (USD) B	LU0816332745	30.11.2010	USD	127.31	3.47%	2.18%	2.37%
Alternative investments							
LGT Crown Listed Private Equity (EUR) B	IE00B7T8CN06	25.02.2013	EUR	205.88	-14.62%	4.84%	7.43%
LGT Crown Listed Private Equity (USD) D	IE00BJVWTR76	28.07.2014	USD	148.41	-9.03%	5.05%	8.84%
LGT Alpha Generix UCITS Sub-Fund Class O (USD)	IE00B7VFVC16	01.10.2012	USD	1036.31	4.31%	1.49%	1.45%
LGT Alpha Generix UCITS Sub-Fund Class P (EUR)	IE00B82ZPK32	01.10.2012	EUR	931.85	3.17%	-1.06%	-0.65%
LGT Alpha Generix UCITS Sub-Fund Class Q (CHF)	IE00B46N8H32	01.10.2012	CHF	891.39	3.02%	-1.52%	-1.18%
LGT Dynamic Protection UCITS Sub-Fund Class F (USD)	IE00BD365334	20.04.2017	USD	1150.55	18.20%	5.37%	n.a.
LGT Dynamic Protection UCITS Sub-Fund Class G (EUR)	IE00BD365441	30.04.2017	EUR	1072.14	17.32%	2.80%	n.a.
LGT Dynamic Protection UCITS Sub-Fund Class H (CHF)	IE00BD365557	30.04.2017	CHF	1053.75	16.89%	2.25%	n.a.

From vague visions of the future to concrete portfolio constructions

Having an idea of future financial market developments is the basis of strategic investment decisions. Strategic thinking is needed to identify investment opportunities and risks of the future. Scenario planning has proven to be an extremely helpful tool in this respect.

Strategic asset allocation starts with client needs and an idea of where the financial markets are headed in the coming years. Scenarios act as a tool to improve the process of investment decisions. Scenario planning based on assumptions and trends aims to present logically consistent images of the future. The wide range of potential future developments are illustrated in scenarios. This helps to reduce complexity and enables qualitative analyses to be made about the future. Changes in the investment environment should be identified at an early stage and uncertainties taken into account using various scenarios.

At LGT Capital Partners, scenario planning is essential for strategic asset allocation. The first step in the multistage process is to formulate a general but sufficiently explicit question, the answer to which would solve as many investment decision problems as possible. Influencing factors – originating from the macroeconomic, social or political sphere, among others – and their characteristics are then defined, which serve to answer the question. This requires examining the extent of their impact and which of them involve significant uncertainty. In order to get a range of perspectives, knowledge and expertise from experts in various subject areas and disciplines are also incorporated. Influencing factors with a high uncertainty variable and strong impact are paired. An example of this type of pair would be “technological progress” and “social inequality”. Four scenarios are derived according to the different characteristics of the factors: Technological progress accelerates or stagnates with increasing or decreasing social inequality. Specific future stories are formulated for each scenario. The characteristics of all other influencing factors in the respective scenario are also determined. The impact of disruptive events is examined and the resulting opportunities and risks are discussed.

Quantitative variables such as returns, risks and correlations for various asset classes are added to the qualitative scenarios. This provides the basis for portfolio optimization, whereby a risk-return optimized portfolio is defined for each scenario. Vague visions of the future are then turned into concrete portfolios that may not generate the maximum return in every environment, but which are robust in as many of the relevant scenarios as possible. The market environment is continuously monitored and the strategic asset allocation is adjusted as soon as estimates and assumptions change.

Using the structured process of scenario planning, LGT Capital Partners can put together a portfolio with a long-term investment horizon for its clients, which is designed to meet their needs and is resistant in various market environments. The strategic asset allocation is optimized by tactical investment decisions. ◆

LGT GIM Balanced (EUR) B

Fund description

The fund invests worldwide in a wide range of the investment opportunities available with a higher allocation in fixed-income investments. In so doing, it seeks to achieve an optimized long-term risk/return profile through broad diversification. The investments are made indirectly via the active selection of globally active asset managers. This fund pursues a similar investment approach to that used for the Princely House of Liechtenstein. Investments are made in several currencies and are widely hedged back to EUR.

Why invest in the LGT GIM Balanced?

- Scenario analysis is applied to reduce the complexity of dealing with the uncertainty of future developments.
- Tactical asset allocation is used to identify and exploit short- and medium-term market movements.

Opportunities

- Thanks to an excellent network and longstanding expertise investors gain access to a promising group of investment managers.
- The portfolio is broadly diversified and professionally managed.

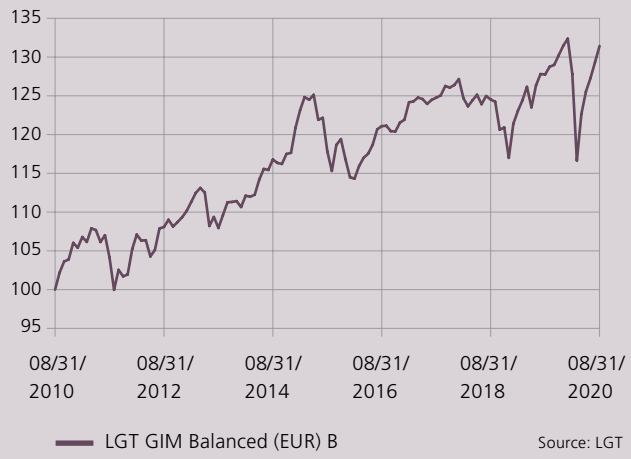
Risks

- **Market risks:** The risk of losses in an investment arising from adverse movements in market prices.
- **Liquidity risks:** The risk that fund is unable to meet short term financing demands or has to sell investment securities at lower price levels under the condition of reduced market demand.
- **Operational risks:** The risk of the Fund incurring losses as a result of inadequate or failed processes, people or systems failures, or from external or force majeure events.
- **Political and legal risks:** The risk of change in rules and standards applied in the jurisdiction of an asset of the Fund. This includes restrictions on currency convertibility, the imposition of taxes or transaction controls, limitations on property rights or other legal risks. Investments in less developed financial markets may expose the Fund to increased operational, legal and political risk.
- **Credit/counterparty risks:** The risk that a counterparty fails to meet contractual financial obligations on a timely basis.
- **Currency risks:** The risk of losses arising from currency fluctuations, in case the currency of an asset is different from the Fund and/or investor's investment currency.

Fund data

Inception	January 31, 2010
Fund domicile	Principality of Liechtenstein
ISIN	LI0108469169
Distribution	None, retains profits
Reference currency	EUR
Management fee p.a.	1.30%
Operations fee p.a.	0.30%
Total fund assets	EUR 673.38 m (as of 08/31/2020)
Registration	AT, CH, CZ, DE, HU, IT, LI, RO, SK

Performance (net of LGT fees)



Past performance is not a guarantee, nor an indication of current or future performance. Returns may increase or decrease as a result of currency fluctuations.

Making tomorrow's investments with today's knowledge

At LGT Capital Partners, scenario planning is the basis for strategic asset allocation. In this interview, Dr Magnus Pirovino, a proven asset management expert and member of the scenario planning team at LGT Capital Partners, explains how this concept helps to deal with uncertainty about the future when making long-term investment decisions.

Investorama: What is the benefit of scenario planning?
Dr Pirovino: If you have to make decisions that will have an impact a very long time into the future, serious scenario planning is the best preparation. It provides a thorough analysis of all options relevant to these decisions. From time to time, an investment team has to give an account of how a long-term investment strategy is to be implemented in practice. In a traditional investment decision process, the experience of team members is the smaller the team, the easier the decision. Scenario planning is totally different: The decision-making process is easier – and better accepted by all team members – if as many people as possible are involved in it. The broader and more diverse the expertise, the better the result.

Scenario planning is based on assumptions. How do you ensure that these are correct?
It is important that the scenario team includes as many competent experts as possible. The more neutral, internal and external experts are involved, the better the assumptions and fact-finding for the scenarios.

Forecasts try to make predictions about the future using past data – is this a fallacy?
Of course, the future always has currently unimaginable surprises in store. Fortunately, however, history is also "lazy" to an extent, so that uncertainties from the past are often repeated in some form or another in the future. To say it with the alleged words of Mark Twain: "History doesn't repeat itself, but it often rhymes." If we take the uncertainty of the future seriously, I believe scenario planning is the best basis for important long-term decisions. It operates at the maximum of what the most varied experts in their fields can know about a question on an uncertain future in the here and now.

Are there also weaknesses in the scenario planning approach?
The main difficulty of scenario planning is in implementing its results, especially when it comes to investment decisions. LGT Capital Partners has more than 15 years of experience in this field. If you try to make a portfolio robust against as many scenarios as possible, there is nothing left to invest in – except cash. The trick is therefore to be aware of precisely those scenarios in which the portfolio would fail. These disaster scenarios should then always be monitored very closely. For example, the LGT Capital Partners team is well aware that in the event of a "deflationary depression," the performance of its long-term strategies would suffer considerably. How far we are from this scenario is therefore monitored very closely. ◆

Dr Magnus Pirovino began his investment career as a quantitative analyst in 1993 at LGT Bank in Liechtenstein. From 2001 to 2007, he was CEO of LGT Capital Management. In 2011, he founded an independent investment consultancy, OPIRO Consulting AG, and advises banks and professional as well as institutional clients in their investment process. He has a doctorate in mathematics and is a member of the Swiss Society for Financial Market Research and of the Advisory Board of the Master of Science in Quantitative Finance course at the University of Zurich and ETH Zurich.

Photo: Wikimedia Commons/Eric Chan

The futurist Herman Kahn was one of Stanley Kubrick's inspirations for the figure of "Dr. Strangelove" in the film of the same name. In his satire about the Cold War and nuclear deterrence, Kubrick did not go as far as Kahn, who believed that a nuclear war was a distinct possibility (the photo above is of a model of the war room featured in the movie).

Thinking the unthinkable

During the Cold War, Herman Kahn brought many opponents into the arena with his scenarios. While this is what he is best known for, he has also shown that careful scenario analyses are a useful basis for decision-making in many areas.

"We draw scenarios and try to cope with history before it happens," explained Herman Kahn, who introduced the term scenario, which comes from the language of theatre and film, into futurology and economics. The US nuclear strategist, cyberneticist and futurologist had little or nothing to do with the fine arts. He was a rationalist: "I'm against ignorance," he once said of himself. "I'm against sloppy, emotional thinking. I'm against fashionable thinking. I am against the whole cliché of the moment."

Herman Kahn started his career in the late 1940s as a physicist and mathematician for aviation companies and the California research center RAND Corporation. There, he was the heavyweight of the "megadeth intellectuals," a research group that developed nuclear war scenarios. On publishing his first book "On Thermonuclear War," he gained national prominence – mainly because of two highly controversial premises that a nuclear war is practical and feasible, and that it can be won. According to Kahn, life would continue even if hundreds of millions of people died or "only" several large cities were destroyed.

Although Kahn's most important scientific contributions were the theories he developed on the Cold War, in which he dared to consider "the unthinkable," he by no means limited himself to crisis scenarios. His curiosity and interests seemed boundless, ranging from considerations of the tactics of manned bombers in conventional warfare to legalized gambling, from 21st century Brazil to the US postal service to the use of low dams in Colombia. ◆

Dr. Strangelove

He borrowed the term scenario from the world of film – and in turn inspired scriptwriters. Herman Kahn is said to have been one of the inspirations for director Stanley Kubrick's character Dr. Strangelove, played by Peter Sellers in the film of the same name ("Dr. Strangelove or: How I Learned to Stop Worrying and Love the Bomb," 1964). Kahn gave Kubrick the idea for the "Doomsday Machine," an invention that would immediately destroy the entire planet in the event of a nuclear attack.

Kahn was also the inspiration for Walter Matthau's role in US thriller "Fail Safe" (1964), which was set during the Cold War.

1967

Photo: Mike_shots/shutterstock.com

Herman Kahn and Anthony J. Wiener introduced the term scenario into futurology and economics in 1967. They understood scenario analysis to be a synthetic sequence of events designed to draw attention to processes and decision-making requirements in order to analyze the effects of individual changing variables on a specific portfolio.

International presence

LGT Private Banking

Austria, *Salzburg, Vienna*
Bahrain, *Manama*
Hong Kong SAR
Ireland, *Dublin*
Principality of Liechtenstein, *Vaduz*
Singapore
Switzerland, *Basel, Berne, Davos, Geneva, Lugano, Zurich*
Thailand, *Bangkok*
United Arab Emirates, *Dubai*
United Kingdom, *Bristol, Jersey, London*

LGT Capital Partners

Australia, *Sydney*
China, *Beijing*
France, *Paris*
Germany, *Frankfurt*
Hong Kong SAR
Ireland, *Dublin*
Japan, *Tokyo*
Principality of Liechtenstein, *Vaduz*
Switzerland, *Pfäffikon*
United Arab Emirates, *Dubai*
United Kingdom, *London*
United States, *New York*

A complete address list of all LGT locations can be found at www.lgt.com

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A look inside the Princely Collections: More than 30 people from the Grand Ducal workshops of the Medici family worked on the Badminton Cabinet for over five years. Standing 3.80 meters high and 2.30 meters wide, this triumph of Italian craftsmanship combines ebony and gilt-bronze with lapis lazuli, Sicilian red and green jasper, amethyst, quartz and many other precious stones.

For more than 400 years, the Princes of Liechtenstein have been passionate art collectors. The Princely Collections include key works of European art stretching over five centuries and are now among the world's major private art collections. The notion of promoting fine arts for the general good enjoyed its greatest popularity during the Baroque period. The House of Liechtenstein has pursued this ideal consistently down the generations. We make deliberate use of the works of art in the Princely Collections to accompany what we do. For us, they embody those values that form the basis for a successful partnership with our clients: a long-term focus, skill and reliability.

Artwork in this publication: Grand Ducal Workshops (Galleria dei Lavori), Florence and Baccio Cappelli, bronze figures by Girolamo Ticciati, detail from pietra dura, ebony and ormolu "Badminton Cabinet," 1720/1732

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