NPB Asset management at a glance

Cornerstones of our investment strategy

Exploiting potential for diversification

Over the long term, global diversification of investments helps to generate higher yields with lower risk. The same applies when investments are made in as many different asset classes as possible. NPB has wide-ranging expertise in different asset classes including alternative investments. Where required, services from external investment specialists who have made a name for themselves through outstanding performance can be offered to clients.

Disciplined investment process

NPB follows an investment strategy which pursues a long-term approach, is based on external and internal macro-economic forecasts and identifies the key global trends.

The bank also buys external research from global securities issuers and research specialists, covering both macro-economic forecasts and equities and bonds. In addition, NPB's investment strategy makes use of state-of-the-art quantitative analysis tools from external providers.

Independence and "best-in-class" selection for all products

The best investment instruments are selected using transparent criteria, independent of any "false" monetary incentives.

Extensive selection options with investment modules

Client portfolios are structured on a modular basis, whereby investors can choose to invest selectively or in combination in individual securities, actively managed funds, ETFs, structured products as well as in alternative investments (hedge funds, private equity, private debt securities, real estate [indirect], infrastructure [indirect], precious metals, etc.).

Professional expertise

NPB's asset management team comprises highly qualified employees with decades of investment experience.

Modular asset management with different investment instruments

Choice of suitable investment products – extensive individual selection options

A multitude of different asset classes and investment instruments are available to today's investors. NPB offers you a modular system of investment instruments for the various asset classes, allowing you to achieve your investment objectives. You can pick and choose from different investment instruments or combine them.

Core-satellite approach

NPB's asset management approach involves a core portfolio of the key investment classes of bonds and equities through the use of various instruments (individual investments, ETFs and investment funds). As an option, the core investment may be supplemented by alternative investments (hedge funds, private equity, private debt securities, real estate [indirect], infrastructure [indirect], precious metals, etc.). This approach is also referred to as core-satellite.

Modular asset management

Satellite portfolio

Additional returns

Private equity
- Listed private equity
- Fund of funds

Private debt
- Fund of funds

Diversification

Listed real estate
- ETF
- Funds

Listed infrastructure
- ETF
- Funds

Precious metals, gold
- Physical
- ETF
- Structured gold products

Hedge funds
- Long/short equities
- Macro
- CTA
- Other strategies

Core portfolio

Global ETFs

Equity indices
- Countries, sectors, themes

Bond indices

Smart beta
- Low volatility
- Momentum
- Other investment styles

Individual securities

Long-term champion equities

Bonds
- Government bonds
- Corporate bonds
- High interest-bearing bonds
- Inflation-linked bonds

Structured equity products

"Best-in-class" funds

Equity funds
- Countries, sectors, themes

Bond funds

Thematic funds

Core portfolio: Selection or combination of individual securities – ETFs – active funds

Equities and bonds – investing in individual securities

Investing in individual equities and bonds gives the investor a strong sense of identification with "his" companies. A disadvantage can be too narrow a diversification and a one-side weighting of companies in local markets. **NPB specialises in offering a portfolio with equities of companies with sustainable and reliably predictable business models – a so-called long-term champions portfolio.** By carefully selecting structured products based on these champion equities or other securities fluctuation risks can be reduced and positive returns generated even in slightly weaker or sideways markets.

Exchange-traded funds (ETFs) and index funds – cost-effective diversification

Exchange-traded funds (ETFs) and index funds track stock indices, such as the Swiss Market Index (SMI). They provide investors with an instrument that enables them to invest in a broadly diversified equity or bond portfolio in a very cost-effective manner, and also providing them with the assurance that the return on their investment will be similar to that of the benchmark.

Actively managed investment funds – aimed at outperforming a benchmark

Countless empirical studies have shown that only a few fund managers successfully achieve a better performance than a benchmark over the long term, particularly as the fees are considerably higher compared with ETFs. However, in less mature equity markets (e.g. in emerging markets or in individual segments such as technology stocks) there are successful asset managers that manage to clearly outperform their benchmark over several years. NPB identifies such funds for you based on comprehensive fund databases. An interesting addition in this area are "thematic" funds, which invest in new investment themes and megatrends or companies in sunrise industries.

Supplementary portfolio: Alternative investments and their typical characteristics

Alternative investments – additional diversification

Alternative investments such as hedge funds, private equity, private debt securities, real estate [indirect], infrastructure [indirect], precious metals or even art provide **additional diversification** as their prices often follow different patterns to those of equities or bonds for instance. The addition of these investments can help to reduce the fluctuations of a portfolio leaving the return potential intact.

Alternative investments – higher returns with limited liquidity

Investments in private equity and private debt in particular generally yield **higher returns** than those in equities and bonds. The price of these higher returns, though, is limited liquidity, i.e. these investments cannot be sold at any time and as a rule presuppose a longer investment horizon.

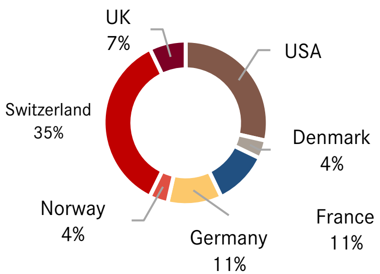
Core portfolio | equity module | long-term champions

Selection criteria

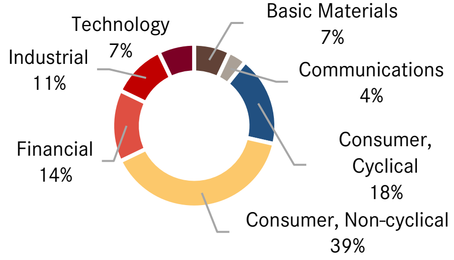
Quality stocks have performed very well over the past few years, particularly those of companies in sectors which are less sensitive to economic cycles and have sustainable business models. They have competitive advantages – in the sense of a “moat” – guaranteeing them a sort of monopoly profit with high operating margins. These are generally companies with high-quality brand-name products. High operating margins also ensure a healthy balance sheet. The long-term champions we select are usually also what are known as dividend aristocrats, i.e. companies that are able to increase their dividends year on year over a very long time horizon. From the point of view of established valuation criteria these companies’ equities are almost never “cheap”, but grow into the high valuations through sustainable profit growth. A portfolio with long-term champion equities that is balanced in terms of countries and sectors experiences fewer fluctuations and price dips than the established benchmarks.

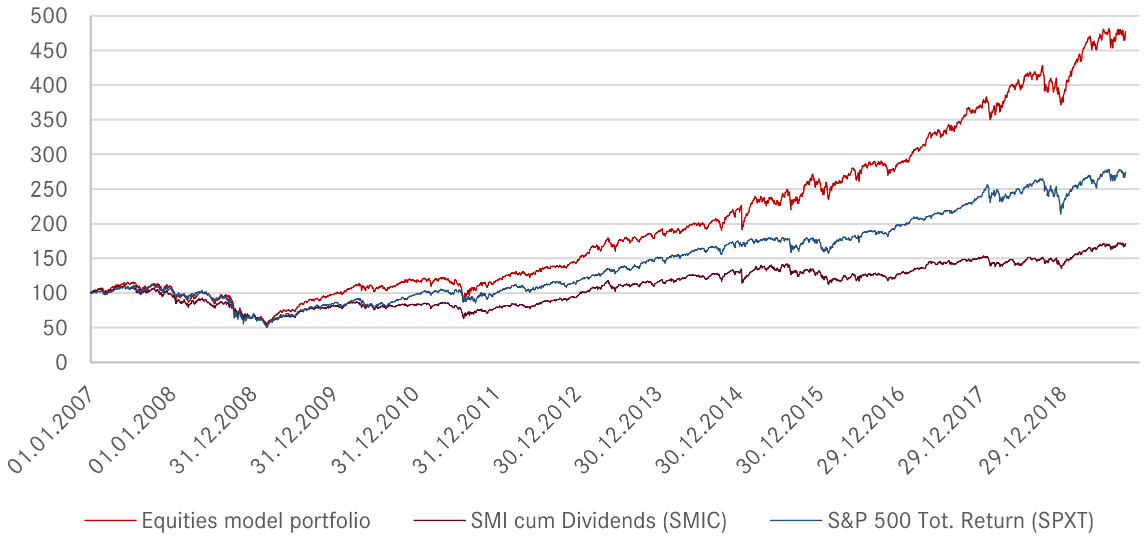
Sample portfolio – long-term champion equities

Geographical allocation



Sector allocation





Description

The (hypothetical) model portfolio consists of 28 direct investments (equities) with the same constant weighting, with dividends being reinvested to keep the cash holding to a minimum.

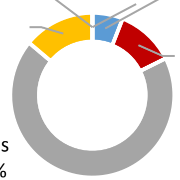
Core portfolio | ETF module

Selection criteria

Exchange-traded funds (ETFs) provide broad diversification, while representing a benchmark (e.g. SMI, EuroStoxx50, S&P500 or even a world index such as the MSCI World). They are a cost-effective passive investment in contrast to relatively expensive actively managed funds that strive for over-performance with active stockpicking. ETFs can be selected by region and country as well as by sector. When selecting the best ETFs various technical characteristics such as size, trade margin, costs, taxes, etc. are also taken into account. NPB also invests in style ETFs that select equities according to individual criteria (e.g. low volatility). In the case of bond funds it should be noted that the funds hedge the currency risk relating to the investor's currency, as otherwise higher returns are rapidly negated by currency losses. The additional costs for currency hedging have paid off especially for those minded to invest in Swiss francs due to the strength of the franc. If desired, the ETF core portfolio can also include other ETFs that track additional asset classes: convertible bonds, inflation-linked bonds, infrastructure equities, listed private equity, real estate equities, etc. Experience with ETFs shows that it is difficult for active managers to outperform a balanced ETF portfolio over the long term.

Sample portfolio – ETF

Sector allocation

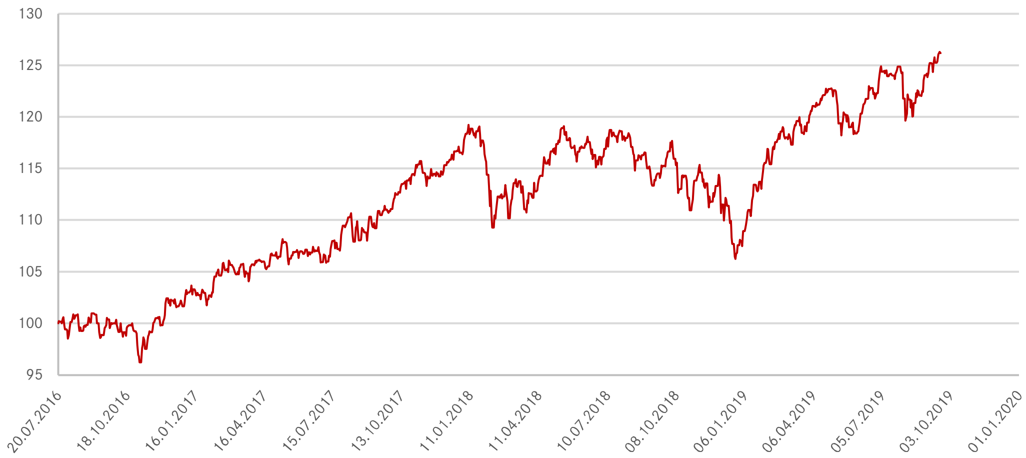


Top 5 holdings

Name	Gewichtung in %
iShares Edge S&P 500 Minimum V	10.23
iShares Edge MSCI Europe Minim	10.03
iShares Edge MSCI EM Minimum V	9.01
UBS ETF CH-SPI	7.57
Lyxor MSCI ACWI Gold UCITS ETF	7.19

Description

The model portfolio consists of 23 direct investments (ETF) with strategic weighting, with dividends being reinvested to keep the cash holding to a minimum. The chart reflects the model portfolio invested by NPB.



Core portfolio | actively managed funds

Selection criteria

There are certainly actively managed funds that outperform a benchmark over a longish period. However, according to a long-term study by the index provider S&P Dow Jones over a time horizon of 15 years just less than 8% off all funds were able to outperform the S&P500 benchmark. In the case of European equities around 12% of all funds generated a higher return than the S&P Europe 350 benchmark over a 10-year time horizon. Furthermore, funds that have been successful in the past often underperform in the periods that follow – a phenomenon also referred to as a "return to the average". Likewise, a change in fund management can spell the end of a fund's success. Experience suggests that it is particularly difficult to overperform in mature markets, such as the US equity market.

On the other hand, in less developed markets, such as the equity markets in emerging countries or specific equity market segments, such as for example those for small and mid-caps, there are more actively managed funds that outperform a benchmark over the long term. A sound investment strategy, therefore, consists of covering mature and highly liquid equity markets through cost-effective ETFs and supplementing these with actively managed funds in less developed markets and the small-mid-caps segment. NPB therefore focuses on identifying actively managed funds, primarily in the less developed market segments, that clearly outperform their benchmarks over longer periods ("best-in-class" funds).

Supplementary portfolio | alternative investments and their characteristics

Broadly speaking, all investments with the exception of equities and bonds are referred to as alternative investments. These include in particular investments in hedge funds, private equity, private debt securities, real estate [indirect], infrastructure [indirect], precious metals, and also investments in art, for instance. Alternative investments make sense for the following reasons in particular: The prices of alternative investments follow different patterns to those of equities and bonds, so an additional diversification effect can be achieved. Private equity and private debt (debt securities) investments in particular generally yield a higher return than the significantly more liquid investments in marketable equities and bonds.

The higher return can be regarded as a kind of compensation for the illiquidity or the inability to sell these investments at any time. Another important reason for choosing alternative investments is the negative interest rates in most of the key currencies, making it worthwhile keeping a lookout for investments that yield moderate returns with limited risks. In the case of alternative investments, the problem of separating the wheat from the chaff is accentuated: the differences in performance between good and poor managers of these investments are generally considerably greater than in the case of traditional asset classes.

Supplementary portfolio | alternative investments with diversification potential

Infrastructure (listed infrastructure equities)

The most common are funds or ETFs that invest in listed companies whose main activity involves investing in infrastructure (e.g. motorways, railways, pipelines, airports, electricity infrastructure, wastewater and waste disposal, etc.)

Hedge Fonds

There is a wide variety of hedge fund strategies with **long/short equity** being the most common. With long/short hedge funds attractive equities are bought and less attractive ones sold short (short positions). The objective of this strategy is to generate attractive returns with little risk.

Real estate (listed real estate equities)

Indirect investments in real estate can be made through real estate funds or through listed real estate investment companies. As real estate is a less liquid investment than equities and bonds, problems arise when determining the value of this investment vehicle. Real estate prices demonstrate different patterns to equity markets as they are also strongly influenced by interest rate cycles. Accordingly, a diversification effect can be achieved with these investments.

Supplementary portfolio | alternative investments with higher returns

Private equity (unlisted private shares)

Private investors have the opportunity to invest in funds or ETFs that invest in listed companies whose main activity involves investing in private equity **(listed shares of private equity firms).**

But there are also **private equity umbrella funds** that make use of investment vehicles managed by target fund managers (private equity specialists) who in turn invest their funds in individual private companies, which they usually provide support to. Private equity umbrella funds may be associated with very limited liquidity, with investors needing to have an investment horizon of 8 to 15 years.

Private debt (private debt securities)

There are various forms of investments in private debt and private debt securities, with securitised loans that are secured with various assets (in particular assets of borrowing companies), being some of the most attractive. Interestingly, **collateralised leveraged loans** (CLOs) have on average a lower default rate than high-interest bearing bonds due to the realisable collateral. Because of the complexity of these instruments the quality of the fund manager picked is very important. With investments through funds, monthly liquidity is provided with an additional notice period.

Supplementary portfolio | precious metals (gold)

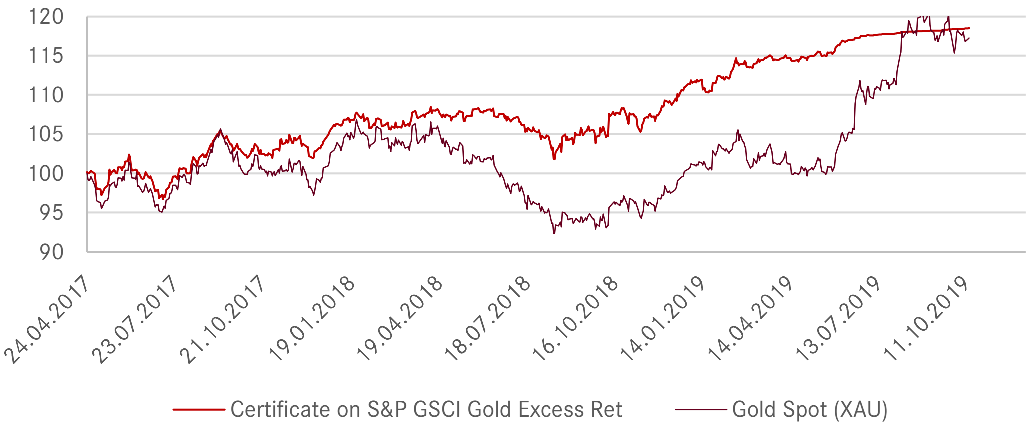
The lure of gold

There may certainly be investors who would like to happily swim in a pool of gold coins like Scrooge Duck. Closer analysis of gold as an investment in the long term reveals the sobering fact that in the last 45 years earnings from gold have been less than half those from an investment in a world equity portfolio (measured on the MSCI Index) and with more pronounced fluctuations in value (see below). From an investor's perspective, gold is, therefore, only suitable for acting as an addition or as an investment that performs strongly in times of high inflation or stock market turbulence, so minimising the fluctuations of a portfolio. For example, the MSCI World lost around 46% (in euro) over the course of the US property and financial crisis from October 2007 to March 2009, whereas the price of gold increased by 33.8%. Similarly during the euro crisis from February 2011 to November 2011 the MSCI World lost almost 18%, whereas the price of gold shot up by almost 29% (see table below).

Investments in gold can be in the form of securities (ETF) or even physical. As an alternative, over the past few years NPB has advised its clients to exploit the relatively high volatility of gold and invest in structured products based on gold. In some cases a higher return has been generated in the past few years with these gold-based products than with a pure gold investment, with less fluctuation in price (see chart below).

Equities and gold in periods of crisis / long-term comparison (in EUR)

	Period	Return MSCI World	Return Gold
Black Monday	8.1987 to 10.1988	-24.5%	-7.9%
Japanese real estate crisis	9. 1989 to 10.1990	-36.9%	-13.4%
Russian financial crisis	4.1998 to 9.1998	-16.5%	-12.2%
Bursting of tech bubble	8.2000 to 3.2003	-53%	4.1%
Financial crisis	10.2007 to 3.2009	46.1%	33.8%
Euro crisis	2.2011 to 11.2011	-17.8%	28.7%
Multiple cycles	**1975-2018**	**8.6% p.a.**	**3.8% p.a.**



Investments in negative interest environment: NPB defensive portfolio with reduced equity risk

Negative yields have to be expected with investments in government bonds and other bonds with an excellent credit rating in both Swiss francs and euro. Conversely, in an environment of stagnating or even falling corporate profits equities involve a not insignificant risk of a dip following a multi-year boom. As a basic principle, it has to be expected that the European central banks in particular, including the ECB, will continue to pursue a very expansionary monetary policy for some years yet in order not to stifle the stuttering economy. For investors who want to achieve positive yields with limited risk in an environment of sustained negative interest rates, NPB offers a defensively-oriented portfolio. High interest-bearing bonds, convertible bonds and structured products with risk buffers are added to a portfolio of long-term champion equities. Such a portfolio is not immune to temporary price dips, but over a period of several years there are opportunities for a sustainably positive performance.

Long-term champion equities (low volatility)	**25%**	Companies with sustainable business models, stable operating income and competitive advantages have a reduced risk of dips
Structured equity products with risk buffers	**25%**	Risk-reducing structured products (with higher returns in sideways markets)
Corporate bonds High interest-bearing bonds	**20%**	High level of bond diversification due to increased default risk
Convertible bonds	**20%**	Convertible bonds: over the long term, generate returns almost as high as equities yet with reduced risk
Gold or structured products based on gold	**10%**	As an addition to portfolios, gold has proved to be a portfolio stabiliser in various periods of stress on the equity markets thanks to its opposing price trend

NPB research

NPB selectively uses the research expertise of a large number of external providers. NPB draws upon the macro research of top global securities issuers (BANK OF AMERICA Merrill Lynch, Goldman Sachs) as well as basing its investment decisions on the quantitative models of specialised providers (e.g. Trendrating). The bank also selects equities and funds using analysis tools from external specialists (e.g. theScreener, Morningstar).

Funds research, *theScreener*	***theScreener***
Global equities research	**TRENDRating Momentum Analytics**
Global equities research	**Bank of America Merrill Lynch, *theScreener***
Global research bonds, FX, commodities	**Bank of America Merrill Lynch**
Global macro research	**Bank of America Merrill Lynch**

Company philosophy – your benefits

Experience and professionalism

Thanks to a team of specialists with decades of wide-ranging, professional experience and the use of state-of-the-art technology.

Trust and discretion

Prerequisites for a fruitful and long-term client relationship.

Independence

A guarantee of objective advice tailored exclusively to the investment objective.

Individuality and flexibility

Thanks to customised solutions taking account of our clients' individual requirements.

Continuity

Thanks to an investment strategy focussing on medium- and long-term trends.

Your contact person

Prof. Dr. Dr. Markus Ruffner
CEO/Partner
mruffner@npb-bank.ch
Phone +41 44 265 11 73

Bruno Zürcher, MBA
Head Private Banking/Partner
bzuercher@npb-bank.ch
Phone +41 44 265 11 79

André Huwiler
Head External Asset Managers
ahuwiler@npb-bank.ch
Phone +41 44 265 11 75

Dr. Markus Hofmann, CFA
Head Asset Management
mhofmann@npb-bank.ch
Phone +41 44 265 11 44

Umberto Celentano
Head Brokerage & Trading
ucelentano@npb-bank.ch
Phone +41 44 265 11 93

Denise Züblin
Associate Private Banking
dzueblin@npb-bank.ch
Phone +41 44 265 11 80

Tim Pfister
Brokerage & Trading
tpfister@npb-bank.ch
Phone +41 44 265 11 76

NPB Neue Privat Bank AG
Limmatquai 1 | am Bellevue
P.O.Box
CH-8024 Zurich
Phone +41 44 265 11 88
Fax +41 265 11 90