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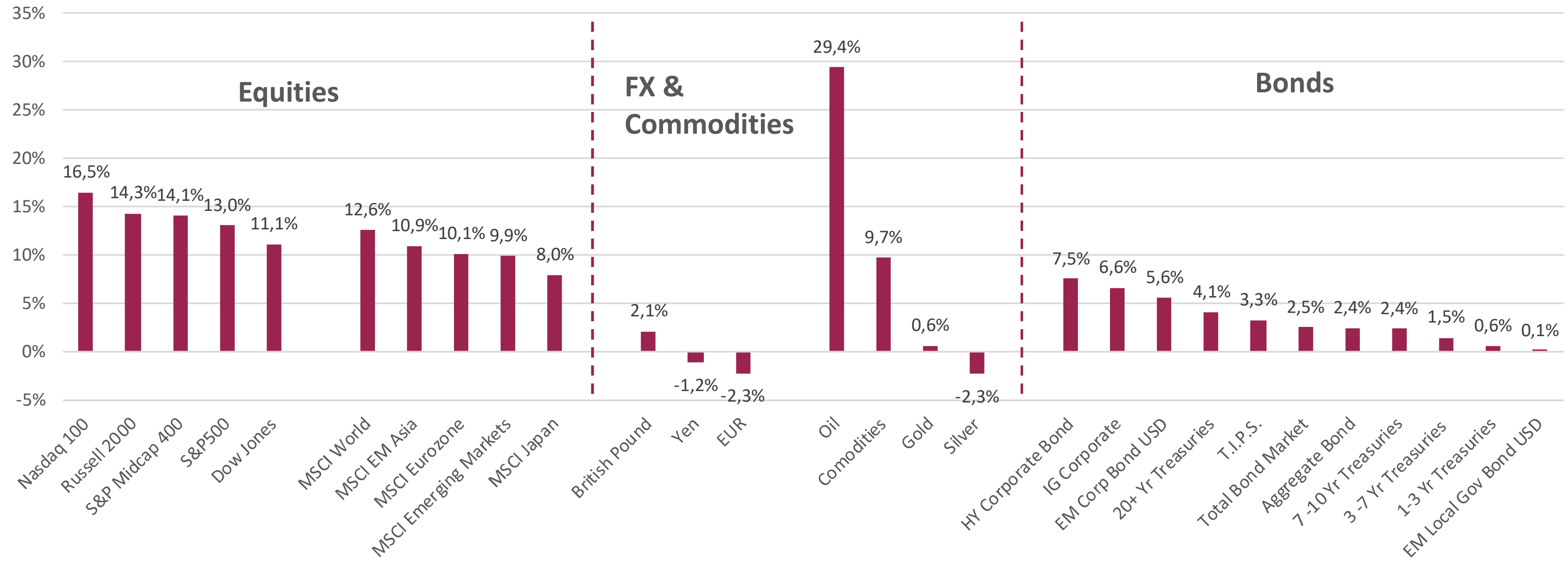
Investment Letter No 6
Week 14
2019

Table of Content

How various assets have performed in Q1 2019

USD-Total Returns of listed Exchange Traded Funds in %:
dark mangenta = Q1 2019 total returns



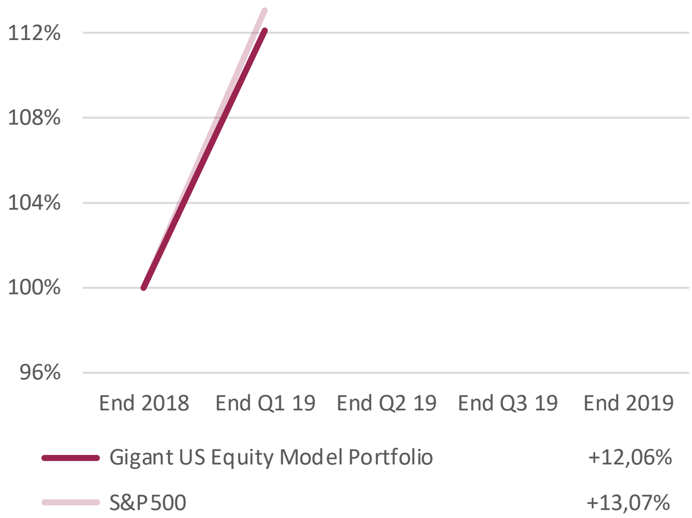
To put Q1 2019 into context:

- While **earnings expectations** for the S&P 500-index **dropped** the most since Q1 2016, **the index experienced its best quarterly performance since 2009**.
- In line with stocks, **bonds rose across the board**. While Credit Spreads dropped the most since Q1 2012, an aggregate of global sovereign bond yields dropped to the lowest level since early 2018.
- After its collapse in Q4 2018, oil soared by the most since Q2 2009. While **commodities were also stronger across** the board, **there weren't any major currency fluctuations**. The USD-rose modestly, being up for the 4th quarter in a row.

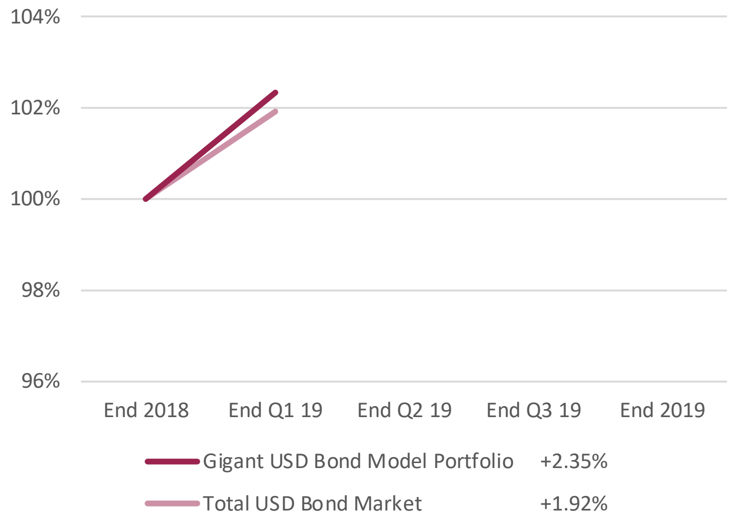
Source: Bloomberg; FIS Market Map; FactSet; all data as of 29th of March

How our Model Portfolios have performed in Q1 2019

Performance Q1 19 Equity Model Portfolio vs Benchmark:



Performance Q1 19 Bond Portfolio vs Benchmark:



Equity Conclusion:

As a quick reminder: our US Equity Model Portfolio outperformed the US Equity Market in 2018 by +5%, mainly thanks to our defensive positioning which helped avoid larger losses in Q4 18. As regular readers know, our Investment Strategy maintained **equities** on **"underweight"** during Q1. With hindsight, this **was off course wrong** but given this defensive positioning, **lagging the benchmark by just about -1% feels like a success**.

Bond Conclusion:

During Q1, we **aggressively added duration** (from 2,5 at the beginning of the year to 3,3 at present) **as well as taking more credit risk** via Emerging Markets (although not by a large extend) wasn't without any risk since it opposed last years success factors. Anyhow, it **proved to be just right** which is why our Bond Model Portfolio is already and again after 2018 ahead of its benchmark.

Source: FIS Market Map; Bloomberg; Stockopedia; own calculations; all data as of 29th of March

Tracker Certificate on "High Income Emerging Market Bond Strategy"
Factsheet as of 29th of March 2019

About the product:

- Within the framework of this **actively managed** strategy, we **invest into a basket of Emerging Market Corporate- and Government Bonds, denominated in USD**. The strategy deliberately puts a **strong focus on Turkey**.
- The strategy puts a **particular emphasis on low investment grade / high junk-credit ratings**. While it avoids the lowest rating buckets, the strategy does not have any credit rating restrictions. Accordingly, it may also invest into securities without official credit rating.

PERFORMANCE OVERVIEW *):	1 Month	1 Quarter	YTD	ITD
NAV as of end of months	-0.72%	+1.27%	+1.25%	+2.40%

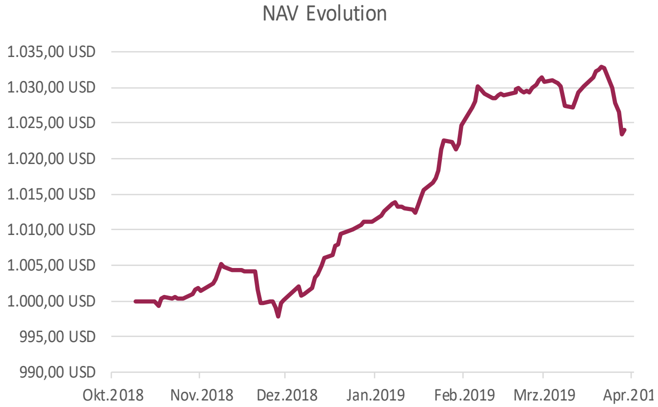
Manager Comment for March & Q1 2019:

The turmoil in the Lira-financing market during the second half of the months sent 10yr Turkish Govt Bond Yields from 6,90% to 7,70% MoM and subsequently Turkish credit spreads erased most of the gains achieved in Jan & Feb. In anticipation of end of March municipal election, we had already reduced our country-exposure in early March by taking profits on most Turkish-holdings with maturity > 2021. While most of the proceeds were temporarily held in cash, we added a position in Indian Railway. This prudent positioning helped us to contain losses compared to the broader market and leaves us with plenty of ammunition to buy in at lower prices again.

5 Biggest Holdings	Issuer	Maturity	Rating	Weight
5.5%	IS Bankasi	21.04.2019	B2	11.63%
4%	Yapi Kredi Bankasi	22.01.2020	B1	11.12%
4.75%	Indian Oil	16.01.2024	Baa2	5.99%
4.75%	Towngas Finance	Open End	A3	5.85%
5.15%	Gaz Capital	11.02.2026	BBB-	5.84%

CERTIFICATE KEY FACTS:	
Launch Date:	05.10.2018
Issue Price:	1'000 USD
End of Month NAV:	**1'024.01 USD**
ISIN:	CH0436997461
Management Fee:	1.5%
Performance Fee:	0%
Agent / Issuer:	Bank Vontobel AG
Index Manager:	Gigant Swiss Consulting

POTFOLIO RISK FACTORS:	
Yield to Maturity:	6.93%
Duration:	3.5



*) The performance quoted represents NET past performance and does not guarantee future results. *Current* performance may be lower or higher than the performance quoted.
Source: Vontobel, SIX Swiss Exchange, all data as of 29th of March

Tracker Certificate on "Gigant Option Based Equity Growth Strategy"
Factsheet as of 29th of March 2019

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About the product:

- The Certificate tracks the performance of the «Gigant Option Based Equity Growth Strategy»
- The strategy which consists of equity index options aims to generate positive results independent from the overall equity market direction
- The strategy's return may be derived from the overall market direction, changes in volatility and in particular time decay. The strategy may make use of leverage

PERFORMANCE OVERVIEW *):	1 Month	1 Quarter	YTD	ITD
NAV as of end of months	-9.75%	-29.21%	-29.21%	-27.63%

Manager Comment for March & Q1 19:

With the equity rally slowing and none of the major equity benchmarks posting fresh new all time highs, our investment strategy re-established fresh short positions in mid March. In order to mitigate eventual losses, Call-Options with higher strikes were also purchased. When looking at the price evolution during Q1, one could intuitively conclude that our strategy was permanently short during an ever-rising market. Anyhow, that is not the case. What is right instead is that the strategy identified various potential turning points at which short positions were opened (and yes, which were subsequently stopped out). Due to the relatively high leverage, relatively small moves in the underlying market caused larger losses which due to the mark-to-market valuation of listed options instantly translate into a substantially lower NAV. If the market was going to rise further, our strategy is flexible to adapt its positioning. Fresh all time highs in equity indices would be the trigger point for switching to a net long exposure.

Open Positions	Contract	Underlying	Maturity	Strike	Performance
Short	Put	DAX Index	April	10'500	-14%
Long	Call	DAX Index	May	11'500	+27%

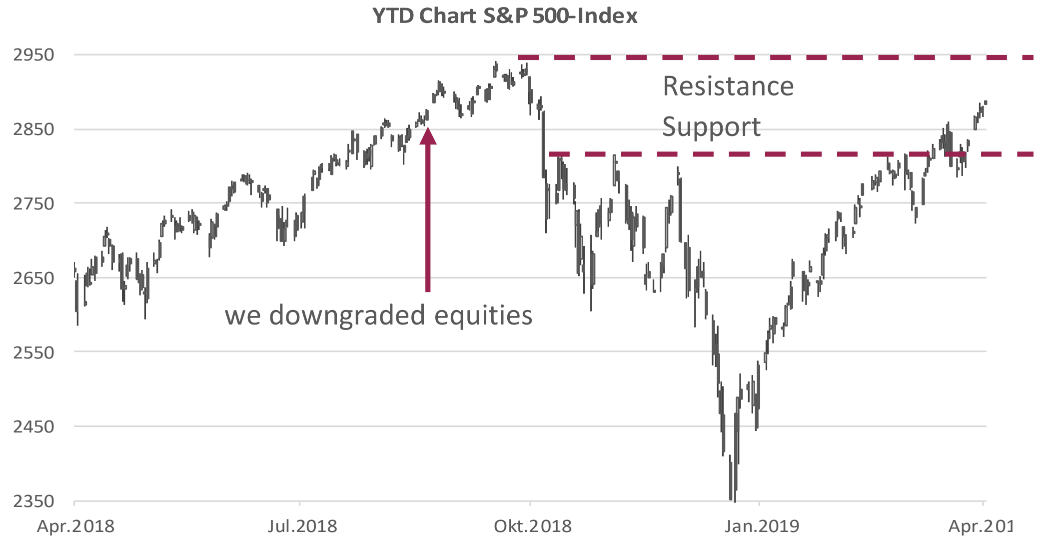
CERTIFICATE KEY FACTS:	
Launch Date:	01.09.2017
Issue Price:	10'000 USD
End of Month NAV:	7'236.98 USD
ISIN:	CH0366634860
Management Fee:	0%
Performance Fee:	20%
Agent / Issuer:	Leonteq Securities
Index Manager:	Gigant Swiss Consulting

RISK FACTORS:	
Max. Drawdown:	-32.59%
Volatility p.a.:	22.87%

NAV Evolution

*) The performance quoted represents NET past performance and does not guarantee future results. *Current* performance may be lower or higher than the performance quoted.
Source: Leonteq, SIX Swiss Exchange, all data as of 29th of March

Equities: benefit of the doubt- upgrade to “neutral”



In late August 2018, ore more than **6 months ago, we downgraded equities** to “underweight”. Back then, the S&P 500-index traded in the area of 2850 to 2900 points. During that time, we wrote repeatedly about **our fear of a macro economic cooling down**. And indeed, the economic environment did not only deteriorated but markets followed suit and crashed during Q4 18. The **very early adoption of our cautious stance helped us trim losses** during that sell off, resulting in relatively sound performance figures for 2018 when compared to the overall markets. What we **did not have in the cards** instead was the **dramatic central bank easing** from early 2019 which lead to a sudden and unexpected renaissance of risk assets. No wonder that we were not able to fully capitalize on this raging bull ride which dominated the stage in Q1 19. Ironically, the S&P 500-index is now almost exactly back at where we downgraded our equity allocation some half a year ago. So **what** exactly **makes us being bullish** right now (maybe “less bearish” is the better expression since we do only lift our “underweight” recommendation)? Well, it’s **not the *current* state of the global economy** which clearly shows signs of slower growth compared to 6 months ago. It’s also **not corporate earnings** which show the same slow down. And it is **definitely not a “Trade Deal”** although the Public Relation Department of the Trump Administration tells us almost on a daily basis that “an agreement of a phenomenal deal is imminent” (sorry, but that is just none-sense, even if there was finally a deal, it would just be a Kim Jong U & Trump-style paper tiger !). The **single factor** which **has** indeed **changed** big time over the last 6 months **is monetary policy!** Subsequently, market expectations changed from an expected +60bps hike in September 2018 to an expected cut of-40% for end of 2019! That is an unprecedented full percentage point lower in just 6 months! **For now**, backward-looking **macro economic data do not** yet **point** to an **re-acceleration of growth** (although some indicators as for instance the Chinese Purchasing Manager Index) suggest that the slowing has stalled for now. The jury is still out if the u-turn in monetary policy will translate into higher growth again**, but at least equity markets think so**. We do not have any other explanation as to justify the admittedly strong rally. Anyhow, what we know for sure is that **investors should not bet against the money flow- whether the flow makes sense or not**!

Source: FIS Market Map

Our Tactical Asset Allocation (6months horizon)

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EQUITIES –> UPGRADE TO NEUTRAL

- As describe on the previous page**, this upgrade does not happen because fundamental data are awfully attractive** or because we have a ultra-strong conviction that they were to increase dramatically. **Rather it is market price action which is very strong** and which would end in tears if we were to fight it. It doesn't truly matter if there is something such a reason or justification behind this price action- it is just what it is. By all means, all we do for now is leave our underweight positioning in order not to get grilled if the bull run continues. Furthermore, **the window of opportunity for this move is rather short**, which means **we expect fresh new highs in Q2 whereas Q3 could be a totally different story again**.
- For the time being, we don't make any adaptions to sector allocation other than **adding (again) "technology" to our most preferred sectors**. As in the previous years, secular growth stories within the tech sector are set to outperform in an environment of low-growth and low-rates.

CASH –> DOWNGRADE TO NEUTRAL

- The above **raise of our equity allocation comes at the expense of cash** which until now has had an overweight within our investment strategy. **Gold to be downgraded** on the back of lower rates and a lack of inflationary pressure.

BONDS –> REMAIN NEUTRAL

- No changes to our bond positioning for now. Duration was already extended during Q1 and credit risk was slightly increased but mostly on the very short end of the curve.
- With the **USD** poised to be relatively **stable and USD-rates lower** for longer, **EM will continue to do well**.

ALTERNATIVES –> REMAIN OVERWEIGHT

- As the mantra of lower rates for longer is more actual than ever before, remaining overweight on assets whose return is decoupled from traditional assets such as equities and bonds is a must.

House View: our Preferences on one Slide

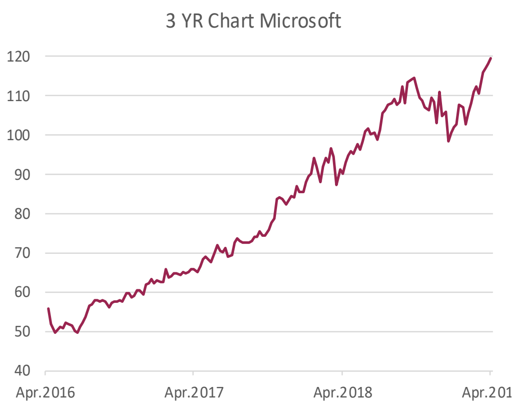
Asset Class	We Like	We Don't Like
Equities	*Area*: **Diversification among US, EU & EM** *Sectors*: **Pharma, Consumer Defensives, Utilities, Technology** *Style:* **Growth (with Quality)**	*Area*: **China** *Sectors:* **Telecom, Energy** *Style:* **High growth *without* quality**
Bonds	*Duration:* **Medium term duration** up to **7** years *Area:* **US; *selected* Emerging Markets** *Credit:* **low grade IG**	Area: **China** *Credit:* **EU & US High Yield**
FX & Commo-dities	*FX Majors:* **JPY** *Commodities:* ~~**Gold**~~	*FX Majors:* **GBP** *FX Minors:* **NOK** *Commodities:* ~~**Base Metals**~~
Alternatives	*Alternatives:* **Gigant Option Based Equity Growth Strategy; strategies with uncorrelated payoffs to equity & bond market direction**	

mangenta = recent changes

Added to our Model Portfolio: Microsoft

Microsoft

Sector:	Technology
Risk Type:	**Conservative**
Market Cap:	916bn USD
Dividend:	1.59%
1Yr-Return:	+31%



Company Description: Founded in 1975, Microsoft is one of the world's largest software companies generating $100bn+ in annual revenue. Operating in over 190 countries, the company is a market leader across numerous IT categories, with core solutions including a broad array of cloud computing services, enterprise infrastructure software, business productivity applications, as well as personal computing/gaming devices.

Investment Rational:
For years if not decades, Microsoft has been a leader in software as the number of worldwide personal computers grew. Today, the sale of Windows- and Office-software creates impressive and steady cash flow although growth has virtually stalled as the market is saturated. Microsoft's growth engine instead is its cloud business Azure which is the industry's second largest franchise after Amazon and well ahead of competitors such as Google or IBM. Azure sales rose at an annualised rate of +76% in the last quarter. While this growth rates are unlikely to be maintained the more the market matures, it will likely remain a growth driver for the company for the years to come. Another well diversified growth engine is LinkedIn (+29% revenue growth in 2018) which was taken over by Microsoft back in 2016. During times Facebook is facing more regulatory pressure, the more business focused social media platform could become even more important. Various activities in artificial intelligence (e.g. the most recently launched AI-headset which could be used in in the autonomous vehicle market) do neither generate revenues nor profits today but are promises for the future. Overall, we are of the opinion that Microsoft is still in the early stage of a substantial corporate transformation away from a pure software vendor which is not reflected in todays valuation.

Risk associated:
Below consensus growth rates in its cloud computing as well as a deteriorating macro economic environment are the main sources of risk. Anyhow, it should be noted that shares of Microsoft proved to be much more resilient in the H2 2018 sell off than most of the other large tech companies.

Quality Measures:

		vs. Industry	vs. Market
Return on Capital	18.6 %		
Return on Equity	39.2 %		
Operating Margin	32.8 %		

Growth Measures:

12m Forecast Rolling		vs. Industry	vs. Market
PE Ratio (f)	24.6		
PEG Ratio (f)	2.15		
EPS Growth (f)	12.9 %		

Historical Revenue & Profit Evolution:

Source: www.stockopedia.com; FIS Market MAP; all numbers as of 4th of April 2019

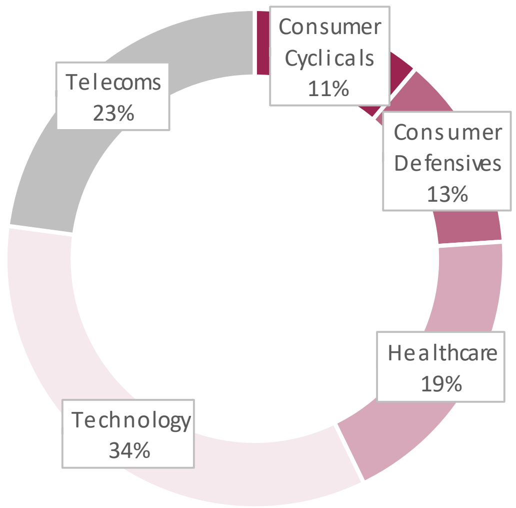
Overview US Equity Model Portfolio

Performance Overview	2019	2018	2017	ITD *)
Gigant US Equity Model Portfolio	**+12.53%**	**-1.24%**	**+17.56%**	**+30.65%**
S&P 500	+14.86%	-6.24%	+19.4%	+28.61%
Dow Jones	+13.11%	-5.63%	+25.1%	+33.51%
Nasdaq 100	+19.12%	-1.04%	+27.1%	+55.04%

Current Situation:	
Current Value:	1’306’533 USD
Start Value:	1’000’000 USD
Realized Gains:	+235’710 USD
Unrealized Gains:	+32’818 USD
Cash:	397’686 USD (30%)
Equities:	908’847 USD (62%)

Evolution of 1Mio USD invested into the Gigant US Equity Model Portfolio since inception:

Current Sector Allocation:



computed by stockopedia.com; all data as of 4th of April; *) inception date = 31th of Dec 2016

Constituents of our US Equity Model Portfolio

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GICS Sector	Stocks & Performance		
Energy			
Basic Materials			
Industrials			
Consumer Discretionary	**Walt Disney Company** 1,69%		
Consumer Defensives	**CVS Health** -33,70%	**Philipp Morris** 15,60%	
Health Care	**Merck** 39,00%		
Financials			
Technology	**Alphabet** 17,10%	**Microsoft** 0,00%	**YY** -12,00%
Telecom	**AT&T** -11,70%	**Soft Bank** 17,20%	
Utilities			
Real Estate			

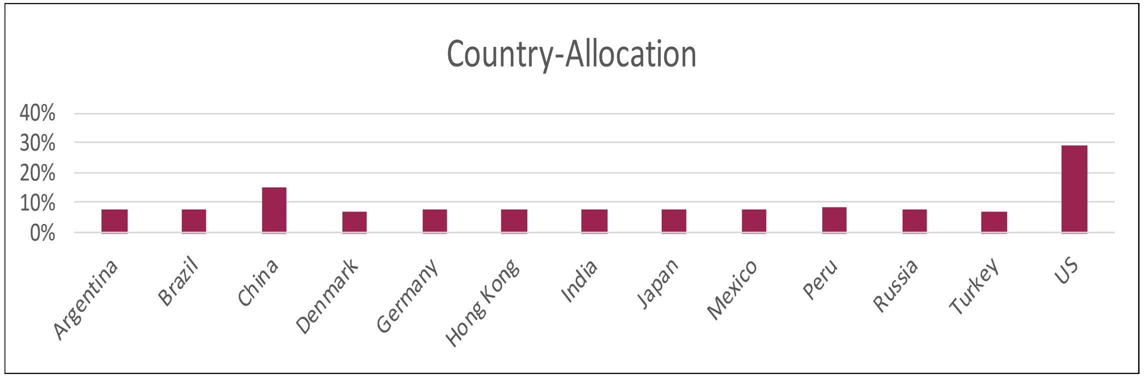
performance = price returns excluding dividends

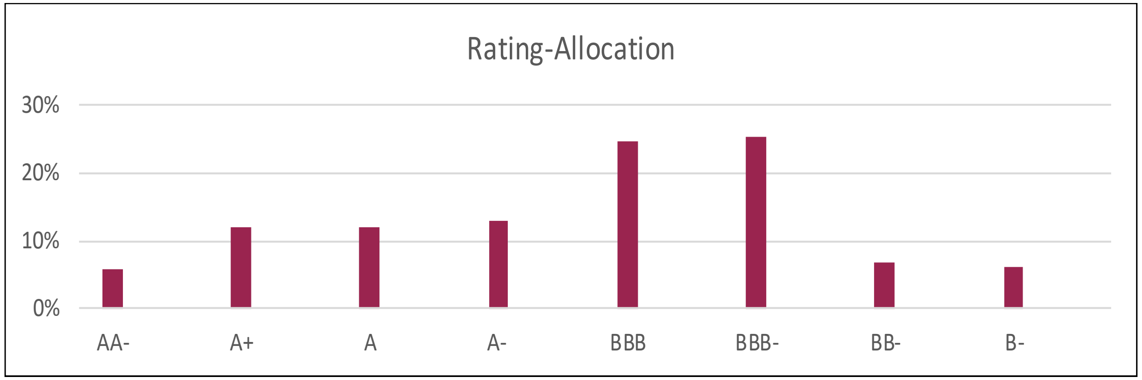
computed by stockopedia.com; all data as of 4th of April

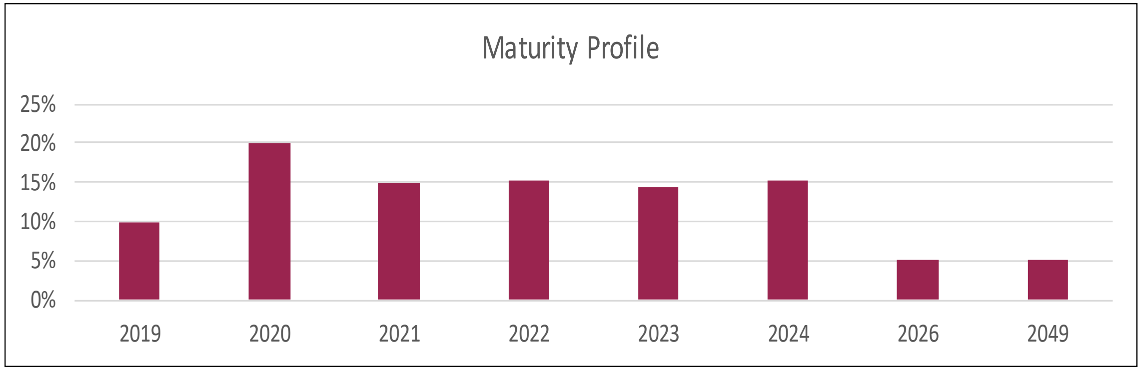
Overview USD Bond Model Portfolio

Performance Overview	YTD	2018	2017
Gigant USD Bond Model Portfolio	**+2.92%**	**+1.00%**	**+4.70%**
Bloomberg Barclays US Aggregate Index	+2.55%	+0.01%	+1.17%
Bloomberg Barclays EM USD Aggregate Index	+2.96%	-2.46%	+6.87%

Current Situation:	
Weighted average YTM:	3.65%
Weighted average Duration:	3.3







Source of data: FIS Market Map; own calculation; all data as of 5th of April

Constituents USD Bond Model Portfolio

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	Coupon	Bond Instruments	Maturity	Rating	Country	Industry	YTM	Duration	Bid-Price	minimum size	Allocation
	5,750%	BUENOS AIRES, PROVINCE OF	15.06.2019	B-	Argentina	Municipality	4,10%	0,2	100,30	150.000 USD	4,96%
	4,125%	SEMICONDUCTOR MANUFACTURING INTERNATIONAL CORPO	07.10.2019	BBB-	China	Electrical & Electronic	3,53%	0,5	100,29	200.000 USD	4,96%
	4,950%	BARRICK (PD) AUSTRALIA FINANCE PTY LTD	15.01.2020	BBB-	Canada	Mining & Refining	2,95%	0,7	101,50	2.000 USD	5,08%
	4,375%	AFRICA FINANCE CORPN	29.04.2020	A3		Supranational Agency	2,68%	1,0	101,75	200.000 USD	5,11%
	4,000%	VOLKSWAGEN INTERNATIONAL FINANCE N.V.	12.08.2020	A3	Germany	Automobile Manufacturers	2,92%	1,3	101,41	100.000 USD	5,07%
	2,343%	FORD MOTOR CREDIT COMPANY LLC	02.11.2020	BBB	US	Finance & Investment	3,82%	1,5	97,78	200.000 USD	4,72%
	5,950%	**GAP INC**	**12.04.2021**	**BB-**	**US**	**Supermarkets & Stores**	**3,87%**	**1,9**	103,98	**200.000 USD**	**5,33%**
	2,362%	CENTRAL NIPPON EXPRESSWAY COMPANY LIMITED	28.05.2021	A1	Japan	Railways & Transportation	3,02%	2,0	98,65	200.000 USD	4,80%
	2,125%	CORPORACION ANDINA DE FOMENTO (CAF)	27.09.2021	AA-		Supranational Agency	2,91%	2,3	98,15	1.000 USD	4,75%
	2,750%	STATE GRID OVERSEAS INVESTMENT (2016) LIMITED	04.05.2022	A+	China	Utilities	3,12%	2,9	98,93	200.000 USD	4,83%
	2,500%	PHILIP MORRIS INTERNATIONAL INC.	22.08.2022	A	US	Tobacco	2,70%	3,1	99,36	1.000 USD	4,87%
	5,000%	BBVA BANCO CONTINENTAL	26.08.2022	BBB	Peru	Finance & Investment	3,33%	3,0	105,30	200.000 USD	5,47%
	3,100%	GENERAL ELECTRIC CAPITAL CORPN	09.01.2023	A	US	Finance & Investment	3,28%	3,4	99,37	200.000 USD	4,87%
	3,500%	BRASKEM AMERICA FINANCE COMPANY	10.01.2023	BBB-	Brazil	Chemicals	3,98%	3,4	98,34	200.000 USD	4,77%
	3,875%	DANSKE BANK A/S	12.09.2023	A-	Denmark	Banking & Finance	4,31%	3,9	98,26	2.000 USD	4,76%
	4,750%	INDIAN OIL CORPN LTD	16.01.2024	A-	India	Oil & Petroleum	3,90%	4,1	103,66	200.000 USD	5,30%
	5,250%	**ALFA, S.A.B. DE C.V.**	**25.03.2024**	**BBB-**	**Mexico**	**Industrial (General)**	**4,12%**	**4,2**	105,02	**200.000 USD**	**5,44%**
	4,215%	COCA COLA ICECEK URETIM AS	19.09.2024	BBB	Turkey	Food Manufacturing	5,01%	4,6	96,25	2.000 USD	4,57%
	5,150%	**GAZPROM OJSC**	**11.02.2026**	**BBB**	**Russia**	**Oil & Petroleum**	**4,82%**	**5,5**	101,90	**200.000 USD**	**5,12%**
*)	4,750%	TOWNGAS FINANCE LTD	12.08.2049	A-	Hong Kong	Utilities	4,59%	15,6	102,65	200.000 USD	5,20%

Source: FIS MarketMap; all data as of 4th of April

mangenta = recent changes

*) = Perpetual Bond with next call date on 31th of Jan 2024

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