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Investment Letter

No 7
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2020

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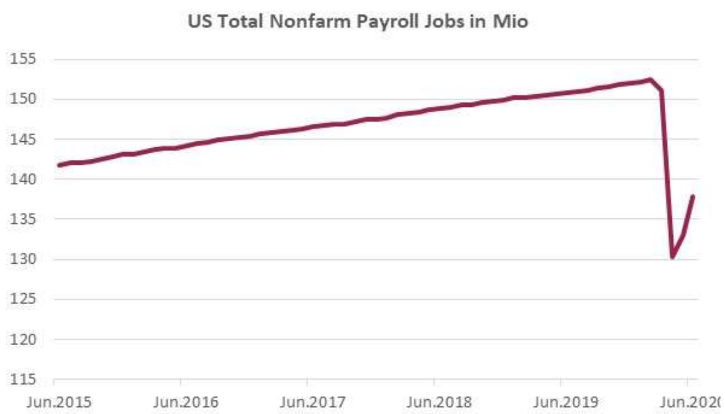
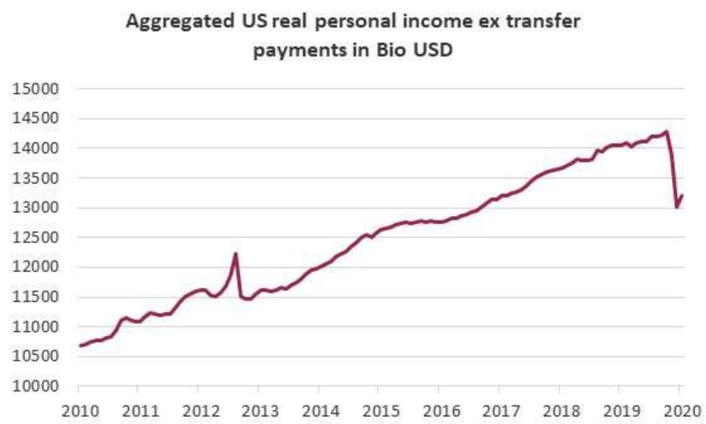
“If you want to have a better return than the crowd…

Two months ago, when we reduced equities from “neutral” to “underweight” (again), part of our argumentation was that the spike in US unemployment would hurt consumer spending which accounts for approx. 2/3 of US GDP. In the meantime, the US economy has added 4,8mio jobs in June, the largest monthly gain since start of the data series in 1939. That again has triggered another wave of bullish market sentiment. As good as this might sound, we remind investors that the **US has only clawed back 7,5 out of the 22mio jobs shed** since March *(see upper graph on the right).* In the June edition of our Investment Letter we have then showed that the US savings rate has been higher than ever before an we speculated that part of this money was about to be directed to the stock market by a large number of small investors as USD money market rates have reached almost 0%. Interestingly, the **higher savings rate** is partially a function of **higher income-** something which is not intuitively logic during a recession. However, a closer lock at the data reveal that **higher incomes** were **mainly driven by government subsidies whereas net personal incomes after government subsidies actually declined** *(see lower graph on the right).* Those subsidies which are set to expire end of July are likely to be extended by congress as unemployment is still elevated and a new round of lockdowns looms. While such an announcement might be again taken as another bullish short term sign by markets it is also apparent that **subsidies** of that magnitude **will have to roll off in the long term**. As long as unemployment does not recover to more normal level, there is thus a clear **risk to discretionary consumption,** THE key driver behind US GDP growth. The problem to this rather shaky outlook is that it comes with sky high prices in risk assets. The **valuation** of the overall **equity market** has been **cheaper 98% of the time since the popping of the “dot-com-bubble”** and currently, investors pay a **premium** of as much as **30% over the average of the last 10 years**,





Source: St.Louis FRED, Bloomberg

…you must do different than the crowd!" *)

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Source: FactSet; Bloomberg; Crestmont Research

*) quote by Sir John Templeton who was picked «greatest global stock picker of the century» by Money Magazin in 1999

a period where interest rates were equally low as today (*see upper graph on the left).* In many cases, the current extreme valuation is justified by economic data which shall prove the economic activity is picking up again around the globe. The later is undoubtedly true (but not surprising given the need for make up transactions after the lockdowns) but the **current macro economic numbers** do have **even less explanatory power for the future** than ever before. The **uncertainty** is so **high** that a **record 80% of companies** in the US **have refrained from giving any guidance** for future earnings. Whatever one's future scenario may be, if more than 100 years of history is any guide, the **expected return of an investment** into the Dow Jones Index which is done **at such a high valuation level is dramatically lower than if valuations are low** (*see lower graph on the left).* Additionally, we urge investors **not to confuse** the **upbeat tone from US equity markets with an improvement in the global macro economic situation**. First of all, US equity indices are extremely **concentrated among large tech companies**. Because of their extremely large weighting, they are driving major indices. The **5 largest stocks in the S&P 500-index** (Microsoft, Apple, Amazon, Alphabet, Facebook out of which we hold Microsoft and Alphabet) account for almost 23% of the total index. According to a computation done by Bloomberg, those 5 stocks alone **account for 30% of the gain in the S&P 500-index since its low in late March**! This contrasts as well with most major international stock indices which still trade some -10% to -15% below their previous Covid19-leves. And maybe one last reminder from history about "overconfidence": a concentration of the largest 5 stocks north of 15% of the index had only been reached back in the year 2000: 3 out of the 5 stocks from then (GE, Cisco, Intel) today still trade well below their year 2000-peak. To sum it all up in the sense of Sir Templeton's words: Don't buy when everybody else is buying!

Our Tactical Asset Allocation (6months horizon)

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EQUITIES –> REMAIN UNDERWEIGHT

- As we have highlighted on *page 3 & 4*, the current market rally is extremely concentrated in a few large cap tech stocks (to which we already have exposure via the stock selection in our US Model Portfolio). The **extremely high** current **valuation** level **combined with very low visibility for the future path of corporate earnings does not warrant any increased exposure**.
- **We continue to avoid an increase in cyclical exposure at the expense of more defensives**. Our preference for less cyclical sectors is undermined by the fact that the consumer defensive but also the technology-sector are the first two sectors which just surpassed their previous all time highs and are thus likely to attract more buyers.
- Covid19 is not contained: more regional lockdowns may still occur. Therefore, **the road to normality for the most exposed industries such as transport, leisure, lodging or entertainment is most probably longer than hoped** by many. In our eyes, there is still no need to get exposure to those sectors.
- **Quality**, mainly in form of solid balance sheets and steady cash flow generation capacity remain the factor **criteria of choice**. We well understand that the current euphoric mode leads to high demand for speculative grade stocks (which usually come free of "quality") but that is just a very short term market spleen which is unlikely to pay off over the medium term.

CASH –> REMAIN NEUTRAL

- The March-turmoil in markets was a stark reminder that **large drawdowns must be avoided at any price**: for illustration purposes, when an asset drops by -30% and rises subsequently by +30%, it only trades at 91% of initial value, resulting in a loss of -9%. As this simple example explains, **keeping funds on cash does not always need to be a loss of opportunity**.

Our Tactical Asset Allocation (6months horizon)

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BONDS –> REMAIN NEUTRAL

- We continue to believe that soring funding requirements by the US government will **lead** to a muted **steepening of the US treasury curve** over time which is why we continue to avoid exposure to the long end of the curve (rising yields imply falling bond prices). The time premium, i.e. the extra yield one can earn for holding longer dated bond over shorter ones is still low which is why think one is not adequately compensated for the duration risk.
- Instead, we prefer to have "credit risk" **in the form of low investment grade / high non-investment grade corporate bonds** as we expect **credit spreads of that segment to further tighten**. Accordingly, total returns will be composed by a large parts of price gains- not yield to maturity. There is no contradiction in that view to the fact that default rates are deemed to rise- one just needs to be highly selective.
- We happily maintain our relative preference for **emerging markets** in hard currency but likewise to developed markets, selectivity is more than ever, the strategy of choice. Within Emerging Markets, we now establish a **preference for selected Corporates vs. Governments** as the group of the later are facing (even) larger fiscal deficits due to Covid19-combat measures.

ALTERNATIVES –> REMAIN OVERWEIGHT

- **Gold**, which we have been advocating for quite some time is the **best performing asset in 2020**. Short term, the level of USD 1'800 per ounce around which the price is hovering at the time of writing might be a short term resistance level. Therefore, intermediate setbacks would only be natural & healthy. Anyhow, **any lower level we shall see is just another buying opportunity** as the overall investment case for real assets such as gold has not changed.

House View: our Preferences on one Slide

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Asset Class	We Like	We Don't Like
Equities	*Area*: **businesses not affected by lockdowns** *Sectors*: **Consumer defensives, Healthcare, Technology** *Style:* **Quality, Value, Dividends**	*Area*: **businesses affected by lockdown** *Sectors:* **Energy, Materials, Consumer Cyclicals** *Style:* **Value traps, High Growth with no quality**
Bonds	*Duration:* **Medium term duration** of up to **5** years *Area:* **Emerging Markets corporate debt in hard currency** *Credit:* **high & low grade IG; subordinated debt**	*Duration*: **duration > 7 years** Area: **EU government bonds, EM sovereign in local currency** *Credit:* **High Yield, Senior Loans, Convertible Bonds**
FX & Commo-dities	*FX Majors:* **EUR** *FX Minors:* *Commodities:* **Gold**	*FX Majors:* **GBP** *FX Minors:* **TRY** *Commodities:* **Base Metals**
Alternatives	*Alternatives:* **relative value strategies, Gigant Option based Equity Growth Strategy**	*Alternatives:* **listed Private Equity**

mangenta = recent changes

Removed from our Model Portfolio: JOYY Inc

Sector:	Technology
Risk Type:	**Adventurous**
Market Cap:	7bn USD
Holding Period:	708 days
Total Return:	**-3.10%**

Company Description:

Joyy Inc. (previously YY) operates two online social and video platforms in China. YY Live offers live and short-form video, along with social games, dating, messaging, and news services. It aims to connect and engage users in real-time group chats and games. Huya is YY's platform targeting younger users, and with a heavier focus on game streams. The company generates the vast majority of its revenue by taking a cut of tips and virtual gifts users send to stream hosts or each other. It also generates some revenue from games, memberships and advertising.

Rationale of Disposal:

- With hindsight (where everything is much easier when it comes to investing), we have bought Joyy at a relatively high price (although the valuation of the company was already cheap back then). As a Chinese Company listed in the US, it’s stock price has been subdued by ever rising political tensions between the US and China, leading to a massive valuation gap which was detrimental to stocks of the later group.
- After several quarters of slowing growth, Joyy has reported again a strong rise in revenue growth during Q1 2020, mainly driven by its platform Bigo. YY Live was also more resilient than expected. Since the Q1 earnings release, the rally in Joyy shares has thus gathered pace.
- Joyy Inc remains an ideal company to bank on the secular growth trend in global live streaming and short video formats. Anyhow, the most recent share price rally, which sent shares from as low as USD 40 at the midst of the Covid19-market sell off to well above USD 90, is finally closing the valuation gap of Joyy. We therefore decide to sell our position at levels which are (finally) very close to our purchase price.

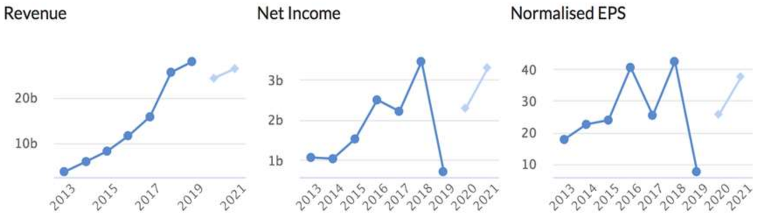
Quality Measures:

		vs. Industry	vs. Market
Return on Capital	1.7%		
Return on Equity	2.0%		
Operating Margin	2.79%		

Growth Measures: 12m Forecast Rolling

		vs. Industry	vs. Market
PE Ratio (f)	21.8		
PEG Ratio (f)	n/a		
EPS Growth (f)	-8.4%		
Dividend Yield (f)	0.00%		

Historical Revenue & Profit Evolution:



Source: www.stockopedia.com; FIS Market MAP; all numbers as of 25th of June

Overview US Equity Model Portfolio

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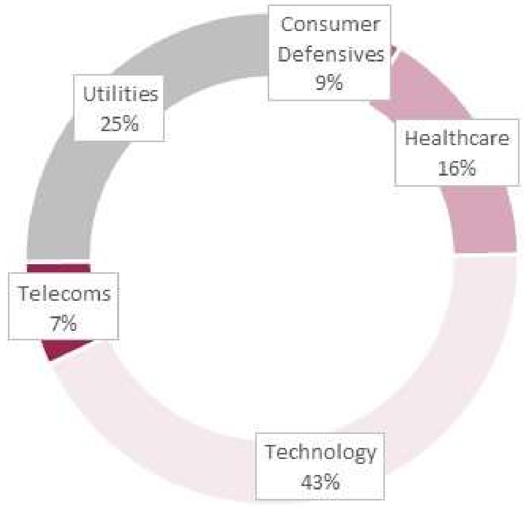
Performance Overview	2020	2019	2018	2017	ITD *)
Gigant US Equity Model Portfolio	**+8,77%**	**+30,56%**	**-1,2%**	**+17,6%**	**+64,88%**
S&P 500	-1,88%	+28,88%	-6,2%	+19,4%	+41,59%
Dow Jones	-8,66%	+22,34%	-5,6%	+25,1%	+31,90%
Nasdaq 100	+22,14%	+37,96%	-1,0%	+27,1%	+119,2%

Current Situation:	
Current Value:	1’648’790 USD
Start Value:	1’000’000 USD
Realized Gains:	+398’982 USD
Unrealized Gains:	+188’701 USD
Dividend Income:	+61’107 USD
Cash:	542’312 USD (33%)
Equities:	1’106’478 USD (67%)

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 8th of July; *) inception date = 31th of Dec 2016

Constituents of our US Equity Model Portfolio

GICS Sector	Stock & Performance		
Energy			
Basic Materials			
Industrials			
Consumer Discretionary			
Consumer Defensives	**CVS Health** -21,60%	**Philipp Morris** -8,75%	
Health Care	**Merck** 32,40%		
Financials			
Technology	**Alphabet** 36,90%	**Microsoft** 78,30%	**Visa** 38,00%
Telecom	**AT&T** -15,90%		
Utilities	**NextEra Energy** 8,59%	**Orsted** 22,60%	
Real Estate			

performance = price return exluding dividends

computed by stockopedia.com; all data as of 8th of July

Changes to our USD Bond Portfolio:
BUY CEMEX 2024 to replace ALFA 2024

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6% Cemex Finance LLC 01.04.2024

Rating:	BB
Price:	100.35%
Yield:	**5.88%**
Duration:	**3.15%**
Min. Size:	200'000 USD

Investment Rationale: While the credit rating of Cemex is a notch lower than that of Alfa S.A.B., the bond we sell to finance the Cemex purchase, this switch-transaction does neither change the country- nor duration- exposure of the portfolio. However, what we get is an decent extra +2,5% of yield for a risk which in the context of the overall portfolio looks manageable as the lower credit rating of Cemex seems mostly a function of its higher leverage compared to that of Alfa S.A.B.

About the Issuer: Cemex is a building-materials company engaged in the production, distribution, and marketing of cement, ready-mix concrete, and aggregates. Mexico accounted for 23% of net revenues in 1Q20, the US for 32%, LatAm added 12%, Europe 22%, and Africa, the Middle East, and Asia jointly made up for the remaining 11%. Cemex posted relatively strong 1Q20 results, especially considering challenging COVID-19 circumstances. In terms of liquidity, Cemex drew another USD 325mn from its revolving credit facility in April raising its cash position to USD 1.7bn. Although cash flow generation is likely to deteriorate due to COVID-19, we note that cement production has been labelled as essential in Cemex's most relevant markets.

5.25% Alfa S.A.B. 25.03.2024

Rating:	BBB-
Price:	107.25%
Hold. Period:	**539 days**
Tot. Return	**+14.55%**

Rationale of Disposal: Since our purchase, the credit spread of Alfa S.A.B. has tightened quite substantially and the bond is trading almost 7% higher compared to the price we paid back in January 2019. With a yield to maturity of just 3,15% at current market price, it is only approx. +50bps above the yield of the BBB Corp Bond-Index and in our eyes, this pick up can be largely attributed to the country risk of Mexico (which we are happy to own). Therefore, we decide to lock in our accumulated gains.

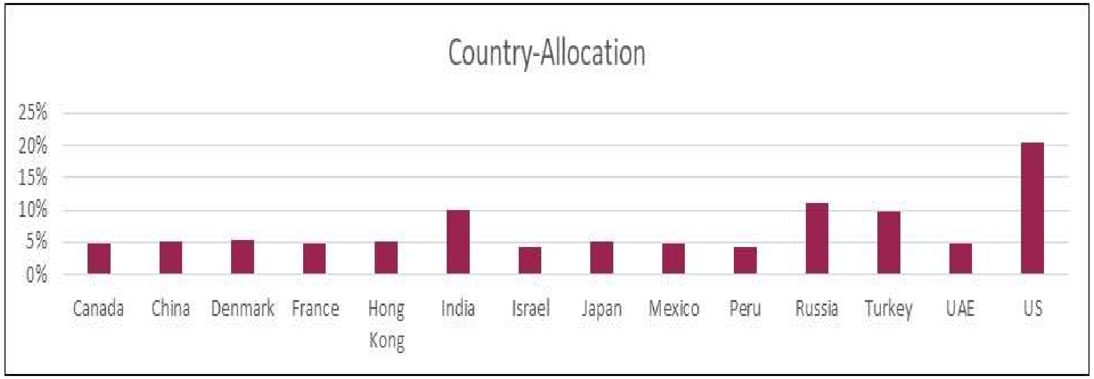
About the Issuer: ALFA is a Mexican conglomerate that operates via subsidiaries in petrochemicals (via Alpek brand), aluminum auto parts (Nemak), food (Sigma), telecommunications (Axtel), and natural gas and hydrocarbons (Newpek). ALFA's diversified business portfolio offers the company some protection in times of economic down-cycles, not to mention Alpek's, Nemak's and Sigma's strong positioning in their respective markets.

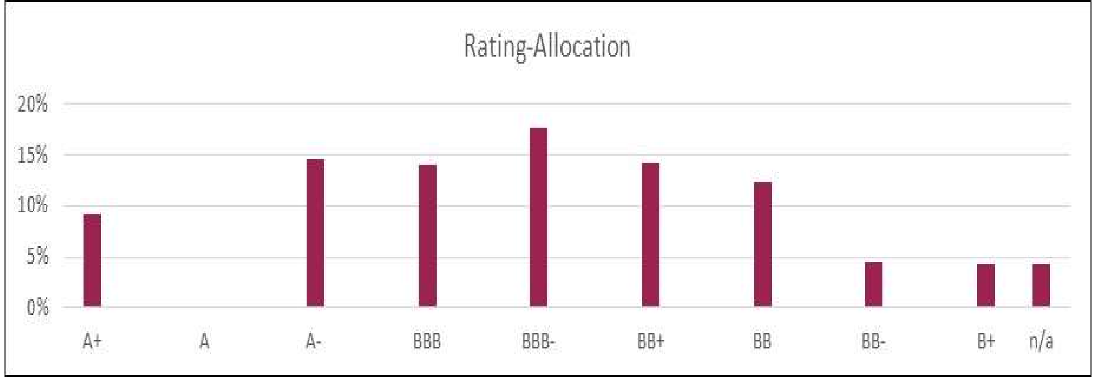
*) total return including coupon payments, changes in price and accrued interest

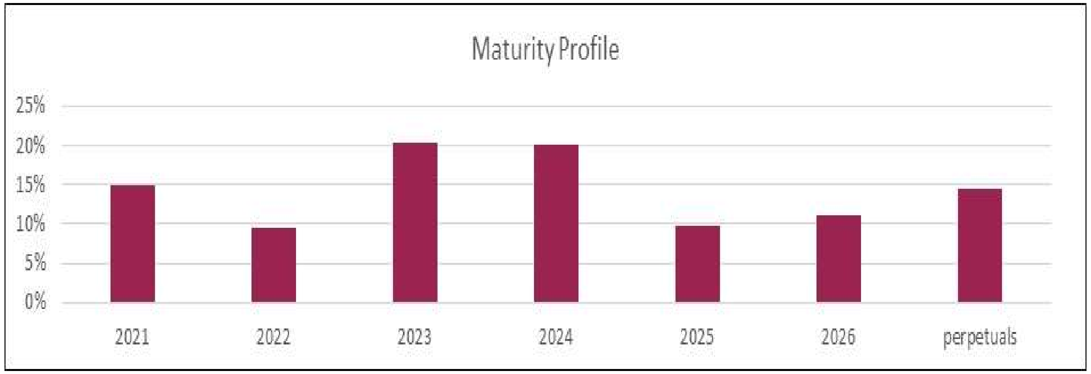
Overview USD Bond Model Portfolio

Performance Overview	YTD	2019	2018	2017
Gigant USD Bond Model Portfolio	**+1,86%**	**+9,5%**	**+1,0%**	**+4,7%**
Bloomberg Barclays US Aggregate Index	**+6,54%**	**+8,7%**	**+0,0%**	**+1,2%**
Bloomberg Barclays EM USD Aggregate Index	**+0,95%**	**+10,1%**	**-2,5%**	**+6,9%**

Current Situation:	
Weighted average YTM:	4,19%
Weighted average Duration:	4,40







Source of data: FIS Market Map; own calculation; all data as of 9th of July

Constituents USD Bond Model Portfolio

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	Coupon	Bond Instruments	Maturity	ISIN / Ticker	Rating	Country	Industry	YTM	Duration	Bid-Price	Value in USD	minimum size	Allocation
	5,950%	GAP INC	12.04.2021	US364760AK48	BB-	US	Supermarkets & Stores	3,21%	0,7	102,00	208.080 USD	200.000 USD	5,03%
	2,362%	CENTRAL NIPPON EXPRESSWAY COMPANY LIMITED	28.05.2021	XS1415611463	A1	Japan	Railways & Transportation	0,73%	0,9	101,42	205.720 USD	200.000 USD	4,97%
	5,000%	**TURKIYE IS BANKASI AS**	**25.06.2021**	**XS1079527211**	**B+**	**Turkey**	**Banking & Finance**	**4,83%**	**0,9**	**100,15**	**200.612 USD**	**200.000 USD**	**4,85%**
	5,375%	VOLCAN COMPANIA MINERA S.A.A.	02.02.2022	USP98047AA42	BB	Peru	Mining & Refining	8,96%	1,4	94,90	180.120 USD	200.000 USD	4,35%
	2,750%	STATE GRID OVERSEAS INVESTMENT (2016) LIMITED	04.05.2022	USG8450LAG98	A+	China	Utilities	1,26%	1,7	102,66	210.761 USD	200.000 USD	5,09%
	8,500%	FORD MOTOR CO	21.04.2023	US345370CV02	BB+	US	Automobile Manufacturers	5,48%	2,4	107,67	231.852 USD	2.000 USD	5,60%
	5,250%	LOUIS DREYFUS COMPANY B.V.	13.06.2023	XS1629414704	n/a	France	Commodity Trading	5,41%	2,5	99,56	198.244 USD	200.000 USD	4,79%
	2,800%	**TEVA PHARMACEUTICAL FINANCE NETHERLANDS III B.V.**	**21.07.2023**	**US88167AAD37**	**BB**	**Israel**	**Pharmaceutical**	**4,45%**	**2,8**	**95,38**	**181.947 USD**	**2.000 USD**	**4,40%**
	3,875%	DANSKE BANK A/S	12.09.2023	US23636BAR06	A-	Denmark	Banking & Finance	1,91%	2,9	106,02	224.805 USD	2.000 USD	5,43%
	4,750%	INDIAN OIL CORPN LTD	16.01.2024	XS1936310371	A-	India	Energy	3,05%	3,2	105,61	223.069 USD	200.000 USD	5,39%
	6,000%	**CEMEX FINANCE LLC**	**01.04.2024**	**USU12763AD75**	**BB**	**Mexico**	**Construction Materials**	**5,89%**	**3,2**	**100,35**	**201.412 USD**	**200.000 USD**	**4,87%**
	5,375%	GMR HYDERABAD INTERNATIONAL AIRPORT LIMITED	10.04.2024	USY3004WAB82	BBB	India	Transport	6,22%	3,2	97,23	189.054 USD	200.000 USD	4,57%
	4,215%	COCA COLA ICECEK URETIM AS	19.09.2024	XS1577950402	BBB	Turkey	Food Manufacturing	3,88%	3,7	101,27	205.122 USD	2.000 USD	4,96%
	4,000%	BOS FUNDING LTD	18.09.2024	XS2052951600	BBB+	UAE	Banking & Finance	3,79%	3,7	100,82	203.293 USD	200.000 USD	4,91%
	6,125%	EQT CORPORATION	01.02.2025	US26884LAH24	BB+	US	Oil & Petroleum	5,59%	3,8	102,13	208.590 USD	200.000 USD	5,04%
	3,500%	OAKTREE SPECIALITY LENDING	25.02.2025	US67401PAB40	BBB-	US	Banking & Finance	3,69%	4,6	99,15	196.626 USD	200.000 USD	4,75%
	5,150%	GAZPROM OJSC	11.02.2026	XS1951084471	BBB	Russia	Oil & Petroleum	3,01%	4,8	110,94	246.154 USD	200.000 USD	5,95%
	4,949%	GTLK EUROPE DESIGNATED ACTIVITY COMPANY	18.02.2026	XS2010044381	BB+	Russia	Banking & Finance	4,49%	4,7	102,23	208.999 USD	200.000 USD	5,05%
*)	4,750%	TOWNGAS FINANCE LTD		XS1933097633	A-	Hong Kong	Utilities	4,53%	15,4	103,60	214.638 USD	200.000 USD	5,19%
*)	4,800%	BANK OF MONTREAL		US06368B5P91	BBB-	Canada	Banking & Finance	4,83%	20,7	99,40	197.621 USD	200.000 USD	4,78%

Source: FIS MarketMap; all data as of 9th of July

mangenta = recent changes

*) Perpetual bonds

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