



## Partisan Strategie Fonds (CHF)

### Strategy Meeting 1st Quarter 2015:

### Foreign Currency Risks after the Removal of the Currency Peg

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#### Foreign currencies

The primary objective of the Partisan is the long-term preservation of inflation-adjusted purchasing power. As we showed in detail some time ago<sup>1</sup>, foreign currency exposure brings about positive diversification effects as long as there are inflation risks. In a longer-term view foreign currencies increase stability and security in the purchasing power of the portfolio to some extent.

In this context, now the question arises whether the removal of the currency peg has reduced the risk of inflation in Switzerland and therefore justifies a reduction of foreign currency positions.

The minimum exchange rate meant in fact a direct connection of the Swiss Franc to the Euro and thus essentially importing long-term inflation rates from the Euro countries. Due to the structural problems in large parts of the Euro area, and the resulting expansive monetary policy of the European Central Bank (ECB), the Euro tends to be weak, which is associated with corresponding medium-term inflation risks. Against the USD, the Euro has depreciated by more than 20% over the past 12 months.

Does the decoupling of the Swiss Franc from the Euro mean that inflation risk for Switzerland emanating from the Euro area has been averted? Should the Swiss Franc appreciate against the Euro once more, the Swiss National Bank (SNB) is still under heavy pressure to intervene in the foreign exchange markets, to mitigate the impact on the export industry. Given the considerable uncertainty with regard to intra-European developments, as well as the significant tensions between Russia and the NATO countries, a scenario in which the Swiss Franc as a save-heaven could appreciate against the Euro once again, does not seem unlikely to us.

Under unfavorable circumstances, the SNB could therefore be forced again, to put more emphasis on exchange rates than on medium-term inflation risks. Since exchange rates and inflation cannot be controlled at the same time, the risk of inflationary monetary policy has decreased to a limited extent only.

Based on this assessment, we will retain some diversification into foreign currencies going forward. Still, we do reduce foreign currency positions (including precious metals) from 31% to 28%.

Specifically, we aim at the following currency breakdown:

- 72% CHF
- 4% Europe (2.5% NOK, 1.5% SEK)
- 6% North America (3% USD, 3% CAD)
- 6% Emerging Markets
- 3% Australia and Pacific
- 9% precious metals (6% gold, 1.5% silver, 1.5% platinum)

This allocation is based on the following rationale:

- broad regional diversification
- currencies of countries with sound finances (exception: USD, which we hold for its role as save-heaven in the event of a crises)
- a certain proximity to commodity markets (NOK, AUD, CAD), since commodities are not represented in the portfolio of the Partisan.

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<sup>1</sup> See [partisan-fonds.ch](http://partisan-fonds.ch): Thema Währungsrisiken (available in German only)

## Equity Portfolio Diversification

In addition, we have analysed and optimized the structure of our equity portfolio concerning sectorial and geographical diversification. Specifically, we have the following breakdown by sector and by country / region:

