



## Partisan Strategie Fonds (CHF)

Strategy Meeting 1st Quarter 2016:

### Foreign Currencies and Precious Metals

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The ever more extreme measures by major central banks have caused us to think about our allocation to foreign currencies and precious metals once again. We remain committed to a moderate currency diversification.

#### Monetary Policy Creates Enormous Uncertainty

For years, major central banks have been trying to accelerate economic growth and inflation rates by lowering interest rates and a vast expansion of their balance sheets ("quantitative easing").

In several currencies negative interest rates have been introduced to encourage companies to take out loans and to expand investments, to urge private persons to increase consumption instead of saving. The resulting demand for goods and services is meant to accelerate economic growth.

This strategy has not produced the desired results so far. There is a simple explanation: Uncertainty dampens consumption and investment decisions. And it is precisely the current monetary policy that contributes to the uncertainty. Regardless of this, the responsible central banks intensify their strategy with ever more of the same. And they are supported by politics: Increasing restrictions on the use of cash and serious proposals for its complete abolition aim at the possibility to push interest rates further into negative territory. As long as they have the option, people will substitute cash for bank accounts and money market investments to evade negative rates.

The President of the European Central Bank and other politicians have also been thinking about "helicopter money". What they mean is the free distribution of money, financed by central banks, and thus ultimately by taxpayers. With this private consumption should be boosted, too. So they hope.

All these measures, plans and musings create enormous uncertainty. No one knows, if, when and how much they will affect economic growth, exchange rates, stock markets, interest rates and price stability. The high complexity does not allow for even remotely reliable forecasts.

Confidence in the central bank and thus in the currencies is eroding perceptibly. The cheap money results in problematic incentives. The natural savings and investment behaviour of economic agents is distorted significantly, with hardly foreseeable consequences. Also a massive redistribution of wealth is consciously taken into account. This can result in tensions not only between social classes but in the euro area also between states. Overall an inherent instability is created.

#### Diversification as a Measure of Protection

Due to its international economic integration, Switzerland is heavily affected by these uncertainties. This creates an extremely difficult situation for local investors. What is to be done? The greater the uncertainty, the more difficult predictions, the more important becomes diversification

For investors in a small, open economy, this is also true for the currency allocation. For if you hold investments in home currency exclusively you are significantly exposed to inflation risks and thus a reduction in purchasing power. Increasing import prices due to a depreciation of the home currency will increase the overall price level rapidly.

In order not to be misunderstood: We do not expect a devaluation of the Swiss franc. Our confidence in the Swiss National Bank (SNB) is substantially higher than the trust in the European Central Bank or the Federal Reserve. With the lift of the peg against the euro, the SNB has credibly reaffirmed its commitment to an independent and price stability oriented monetary policy once again. Nevertheless, a devaluation of the Swiss franc should not be ruled out for two reasons:

- Well-organized pressure groups like the export industry and trade unions continue to request measures to weaken the Swiss franc persistently, while the investors and consumers interest in a strong Swiss franc remain largely unheard due to insufficient lobbying.
- Monetary policy shows its effects with a variable time delay. In addition, economic and political developments abroad that are beyond the control of the SNB, currently play an important role. In case of a decreasing

demand for Swiss francs, the massive expansion of the monetary base since the financial crisis could therefore result in an unexpected and significant depreciation.

### Currency Diversification in the Partisan

The Partisan currently has the following target allocation to foreign currencies and precious metals (which we consider as independent currencies):

Währung	Gewicht	Begründung
CHF	72.5%	<p>The high proportion of Swiss francs is due to three factors:</p> <ul style="list-style-type: none"> <li>• Under normal circumstances, investments in home currency are more secure, as they are not (directly) exposed to exchange rate fluctuations.</li> <li>• The strong performance of the Swiss economy and the high credibility of the SNB make a lasting stability of the Swiss francs value more likely.</li> <li>• Although denominated in Swiss francs, Swiss stocks (about 16% in the Partisan) include quite some exposure to foreign currencies due to their strong international orientation. This considered, the effective economic exposure in CHF is only about 65%.</li> </ul>
USD	2.5%	The USD has the function of a "save-heaven" in many crisis situations. Therefore, we hold some of this currency, despite a long-term depreciation trend. In addition, a possible devaluation is at least partially offset by higher interest rates.
EUR	0.0%	<p>Investments in EUR are fully hedged:</p> <ul style="list-style-type: none"> <li>• Very low confidence in the policy of the European Central Bank</li> <li>• Risk of a breakup of the European Monetary Union</li> </ul>
CAD	2.5%	<ul style="list-style-type: none"> <li>• Relatively healthy public finances</li> <li>• Regional diversification</li> <li>• Desirable proximity to commodities, in which we do not invest directly</li> </ul>
AUD	2.5%	
NOK	2.0%	
SEK	1.0%	
Emerging Markets (inkl. SGD)	7.0%	<ul style="list-style-type: none"> <li>• Regionale diversification</li> <li>• Currency hedging would be too expensive and complicated</li> </ul>
Gold	7.5%	<ul style="list-style-type: none"> <li>• In the long term, precious metals have always provided a stable value, despite strong price fluctuations.</li> <li>• They often have provided protection against unexpected increases in inflation</li> <li>• Especially gold serves as a save-heaven in many crisis situations.</li> </ul>
Silver	1.5%	
Platinum	1.0%	