

# Portfolio Management Quarterly Report.

Q1 2023



*Gutmann*  
PRIVATE BANKERS



## With a steady hand.



Robert Karas  
Chief Investment Officer  
Partner

Stock and bond prices took off like racehorses from the starting gate in January. In March, however, dark clouds appeared on the investment horizon and the bank run on the Silicon Valley Bank left no one untouched.

We entered 2023 with optimism. In mid-September of 2022, we invested more in equities and, in return, reduced the proportion of bonds in the asset management portfolios. But in February and March 2023 our convictions were tested. While in February it was the fear of persistently high inflation and the decisive actions of central banks that put pressure on prices, on March 10, the financial world held its breath for a completely different reason. On that day, U.S. authorities declared Silicon Valley bank SVB insolvent. Founded in 1983, the institution was number 16 in the U.S. in terms of size. SVB's demise was the largest bank failure since Washington Mutual in 2008. As if that were not enough, on Sunday, March 19, Credit Suisse, the major Swiss bank in distress, was taken over by its competitor UBS. Beforehand, the Swiss Federal Council had to make the merger palatable by providing guarantees.

Investors who devoted themselves to the more pleasant things in life and ignored the news would not have lost their cool at the end of the quarter. Both equity and bond strategies of the Gutmann portfolio management closed the quarter on a positive note. Once again, navigating through the storm with a steady hand at the helm paid off. The fact that we were mindful and managed the investment strategy actively can be seen in Gutmann portfolio management's latest quarterly report.

# Gains in equities and bonds.

Since last summer, a trend has manifested itself. Yields on short-term bonds have climbed steadily. Two-year German and Austrian government bonds rose up to 3.3%. Their counterpart in the USA even topped 5%. In the face of these developments, it is all the more astonishing that the stock markets resisted this headwind and ended the past quarter with performance gains.

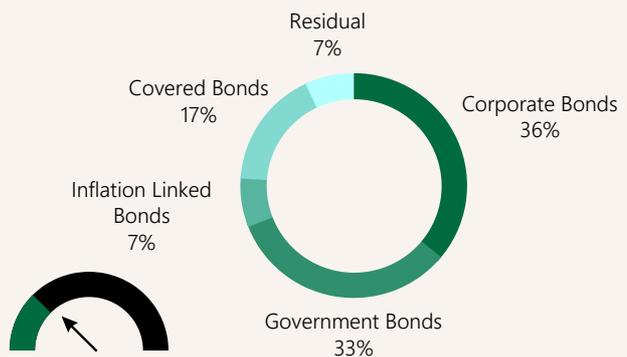
What will happen on the financial markets now? No one can seriously predict how the prices of stocks and bonds will develop over the next few months. However, we know the earnings of companies, which are published on a quarterly basis, and we know the interest rate landscape. The fourth-quarter 2022 corporate earnings released earlier this year were down. But that did not come as a surprise. It was important for us to see that the companies in the Gutmann equity strategies were able to raise their prices in an inflationary environment and maintain their market position.

## Higher interest rates

Speaking of inflation. Even good companies must pay higher interest rates in the current environment. This is positive for corporate bonds, the most important component of Gutmann's bond strategy. Bonds issued by companies with good credit ratings are again paying around 4% for 5 years. With expected average inflation of 2.5% over the next 5 years traded on the markets, this is quite attractive.

Following the adjustments in September and December 2022, we again increased the average duration of Gutmann's bond investments in mid-February. Duration is a measure of interest rate risk. It indicates how long the capital is tied up on average before it can be used again. With yields rising across all maturities, we wanted to lock in the higher level for a longer period. The inverse yield curve attracts savers to short-term investments, as shorter maturities currently offer higher interest rates than longer ones. As long-term investors, however, we are not comfortable with this. After all, it is almost impossible to find the perfect time to flip the switch and move from 3-month time deposits into 5-year bonds. Over the past 15 months, we have therefore gradually increased the duration from 3 years to over 4.5 years.

## Gutmann Global Bonds Strategy



The tachometer displays our current bond positioning: underweight. Bonds of select corporations are the most important pillar of the Global Bonds strategy.

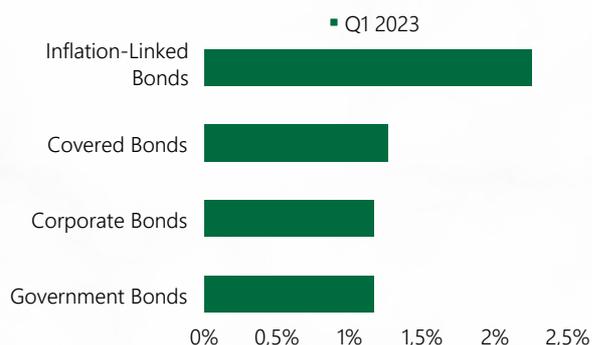
# Defence against inflation.

Gutmann focuses on quality in equities and bonds. Companies are at the heart of both major asset classes. We are deeply convinced that entrepreneurship is the best way to grow wealth in real terms.

Inflation and the central banks' response to it are driving up yields on short-term bonds. This is illustrated by the example of 2-year Austrian government bonds. Over a long period from 2016 to 2021, investors had to pay the government more than 0.5% per year to hold the money for 2 years. We look back on this phase of negative interest rates with astonishment and wonder why this was possible at all.

## Performance of the most important themes of the Gutmann Global Bonds Strategy

Past performance is not indicative of future returns.



All bond investment themes closed the first quarter on a positive note.

Performance Gutmann Global Bonds Strategy 10 years: 2013 0.15%, 2014 6.58%, 2015 0.35%, 2016 2.31%, 2017 0.44%, 2018 -1.87%, 2019 3.02%, 2020 0.70%, 2021 -0.60%, 2022 -9.85%. Front end load up to 3% is not included in the performance figures. The performance is shown in EUR. Due to currency fluctuations the return for investors with a different reference currency may rise or fall. Past performance is not indicative of future returns.

Performance calculation of Gutmann KAG, data as at 31.03.2023

In the meantime, the world has normalized itself and the annual return is a positive 2.6%.

In fact, the expected inflation over the next 2 years is a decisive factor. It makes a difference for buyers of this security whether realized inflation reaches 5% or 2% after 2 years. In the one situation, the invested money would decrease, in the other, increase in real value.

## Taking profits

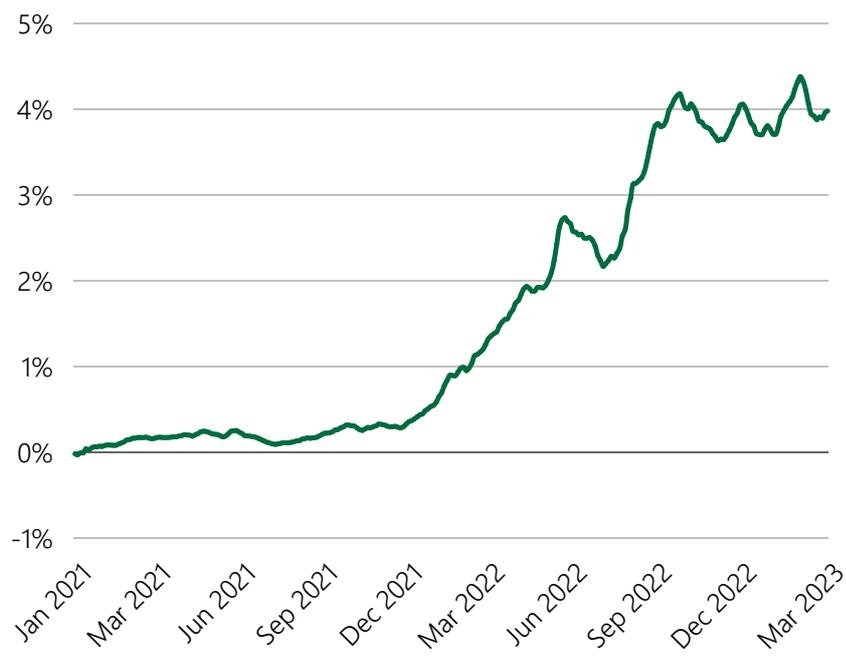
In the wake of the incipient turmoil at US regional banks, we took profits on inflation-linked bonds and reduced the allocation. In mid-2022, this was still 14% of the bond portfolio. Currently it is only 7%. The changed economic environment makes this asset class less attractive relative to traditional bonds. Despite recession fears and market turbulence, the European Central Bank ECB proved that it remains true to its mandate and that fighting inflation remains the top priority.

Worthy of mention is our high level of activity on the primary market. Quality was the primary focus in the selection of new bond issues. The already solid bond portfolio was strengthened once again, and the share of covered bonds increased to 17% throughout the quarter.



# Yield of the Gutmann Global Bonds Strategy.

Past performance is not indicative of future returns.



The average yield of the Gutmann Global Bonds Strategy rose sharply over 2022. Coupled with declining inflation expectations, bonds from solid issuers again offer attractive yield prospects.

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# Moment of shock on the financial markets.

Eight US credit institutions are defined as Global Systemically Important Banks (G-SIBs). Among them are the well-known names such as JP Morgan, Bank of America, and Citigroup. These global giants are subject to higher requirements in terms of capitalization, liquidity, and stress test scenarios. Yes, they even have to define living wills. After the great financial crisis of 2008, the aim there was to ensure that these institutions did not threaten the financial system.

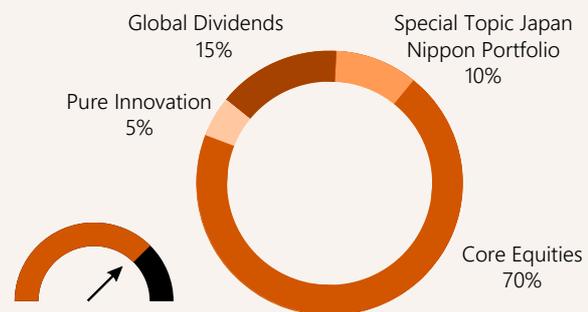
However, in the banking crisis that burgeoned in March, the focus was not magnified on them at all, but mainly on other medium-tier banks that come after the top 8. There are several thousands of these often regionally significant institutions in the USA. In addition to the big 8 institutions, 4,695 U.S. banks are covered by deposit protection. In total, the insured deposits of all U.S. banks comprise a volume of around \$10 trillion. A bank run on the U.S. regional banks would overwhelm the system by far. Hence the decisive action by all official bodies.

Gutmann's equity strategies coped extremely well with the volatile period. Less than 6% of the Gutmann Core Equities strategy is invested in banks. In the Gutmann Global Dividends strategy, the figure is a good 3%. These strategies include two US institutions, JP Morgan and Bank of America. Both are G-SIBs. The Gutmann Pure Innovation strategy does not hold any bank shares.

## The heart of the equity portfolio

The Gutmann Core Equities strategy is the heart of the equity portfolio. The strategy performed well in the turbulent environment. Systematic adjustment of the asset allocation every 3 months creates a balance that avoids high concentration in individual stocks and themes.

## Gutmann World Equity Portfolio



The tachometer displays our current equity positioning: overweight. The Gutmann World Equity Portfolio brings together the best companies in the world for your investment portfolio.

# Balance is important.

The Gutmann World Equity Portfolio is based on a solid foundation of different equity strategies. Stock selection is determined by the quality of the companies' business models and the most important topics for the future.

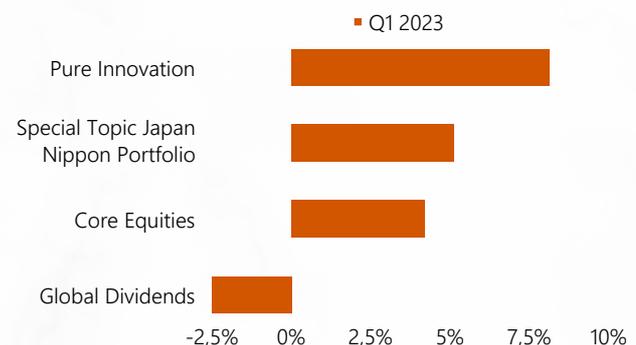
The companies we selected are well positioned, so no major changes were necessary or undertaken. Only at the beginning of the year did we swap one US technology company for another. Shares in the cloud communications company Twilio were sold and securities of Intuit, a software group specializing in accounting and taxes, were added to the Gutmann Core Equities strategy instead.

Balance is also the order of the day across the individual strategies. For example, two strategies came out on top that were at the bottom of the performance rankings in 2022: the Gutmann Pure Innovation strategy with 5% of the equity portfolio and the 10% allocation to Japanese equities. Japanese companies were a sought-after safe haven due to solid balance sheets and low valuations. In addition, the yen stabilized.

The Gutmann Global Dividends strategy took a breather. The winning strategy of 2022 came last in the performance ranking in the first quarter. However, such short-term observations are rather anecdotal and irrelevant in the long term. Once again, we have seen impressive evidence that different strategies can mitigate portfolio volatility. Sometimes growth stocks perform better, sometimes dividend stocks, but over time all the stocks we select must contribute to the return.

## Performance of the Gutmann World Equity Portfolio

Past performance is not indicative of future returns.



The Pure Innovation strategy took the lead within the Gutmann World Equity Portfolio in the first quarter. High-growth digitalization companies were particularly in demand.

Performance 10 years:

Gutmann Core Equities: 2013 13.34%, 2014 11.62%, 2015 9.61%, 2016 8.94%, 2017 4.52%, 2018 -9.36%, 2019 29.11%, 2020 4.34%, 2021 26.35%, 2022 -12.23%.

Gutmann Global Dividends: 2013 17.08%, 2014 16.55%, 2015 10.20%, 2016 7.58%, 2017 4.31%, 2018 -5.15%, 2019 22.95%, 2020 -8.25%, 2021 25.85%, 2022 1.46%

Gutmann Pure Innovation: 2022 -13.42% (seit Fondsstart im März 2022)

Nippon Portfolio (EUR): 2013 17.00%, 2014 7.83%, 2015 18.05%, 2016 6.01%, 2017 4.53%, 2018 -18.95%, 2019 20.85%, 2020 10.36%, 2021 5.74%, 2022 -15.95%

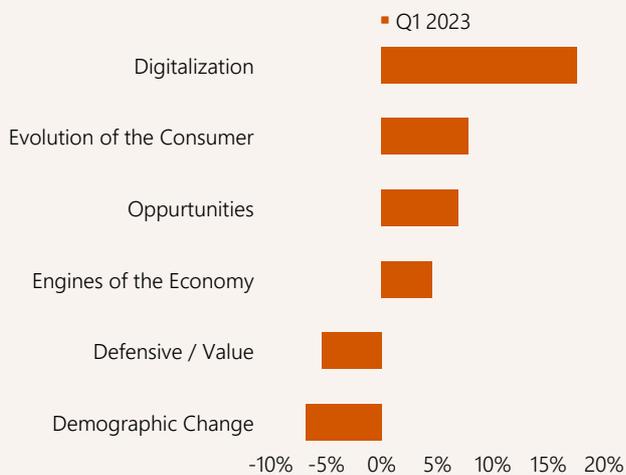
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Performance calculation of Gutmann KAG, data as at 31.03.2023

# Digitalization in the lead.

## Themes of the Gutmann Core Equities Strategy

Past performance is not indicative of future returns.



After a difficult year 2022, digitalization is back at the top of the performance ranking. A balance of themes is important.

Performance Gutmann Core Equities 10 years: 2013 13.34%, 2014 11.62%, 2015 9.61%, 2016 8.94%, 2017 4.52%, 2018 -9.36%, 2019 29.11%, 2020 4.34%, 2021 26.35%, 2022 -12.23%.

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## Sector rotation in the first quarter

It was good to see that the most volatile equity strategy came out on top despite market turmoil. On the one hand, the Gutmann Pure Innovation strategy does not invest in banks, and on the other, it invests in the innovative themes of Digitalization, the Renewable Economy, and NextGen Health. The first two themes in particular were in demand in the first quarter. By contrast, healthcare stocks experienced weakness in all equity strategies. However, this was not due to any particular news. The most likely explanation is a sector rotation following the good performance in 2022.



## Prepared for different scenarios.

In Gutmann's mix of bonds and equities, no quick and drastic action was required even in the most turbulent period of the weeks in March. Good risk management and a disciplined focus on quality enabled prudent activities.

Nothing is worse than trying to correct past mistakes in a panic. The only realization that remains is that the past cannot be changed. Anyone who invests in the financial markets not only has to live with unpleasant surprises but must expect them at any time.

The first quarter showed once again that developments such as a sudden bank run are unpredictable. A look at our stock and bond portfolios showed that we were well prepared. We cannot spare our clients market fluctuations. Rather, it is important to avoid permanent capital losses.

We cannot promise that the stocks and bonds of companies, banks, municipalities, agencies, and sovereigns we select will never be affected by threatening developments. But our disciplined focus on quality increases the likelihood that such events will remain a rarity. Our first imperative is to protect our clients' assets. The second imperative is to increase wealth in real terms. Whatever we do to achieve this must not conflict with the first imperative.

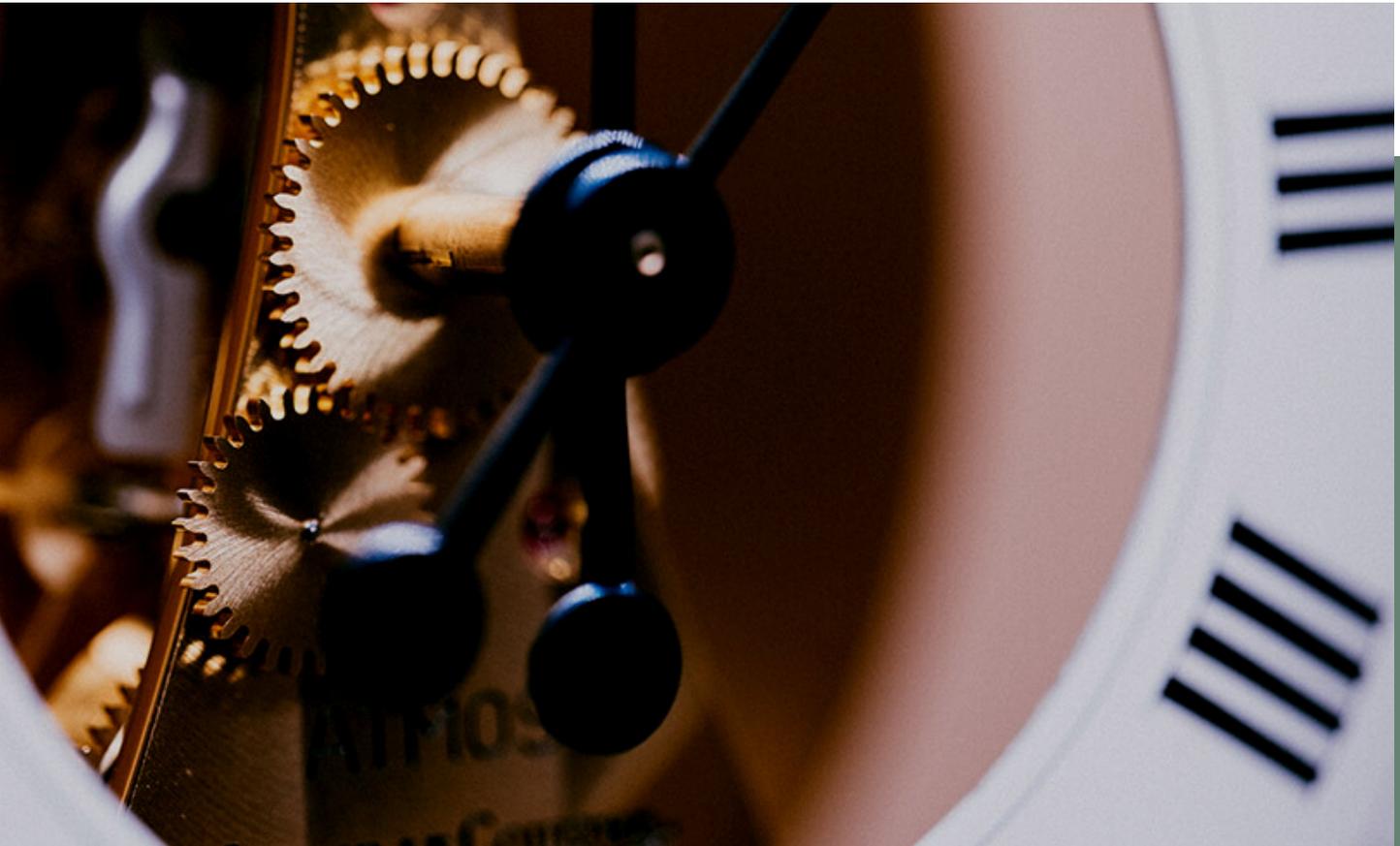
The last sentence of our Q4 2022 report read: We are convinced that the current market environment is favourable, and we are looking into the future with optimism. We at Gutmann carry this sentiment forward into the remainder of 2023.

# Contact us.

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**Gutmann Global Bonds Strategy may invest mainly in categories of assets other than securities or money market instruments.**

**Due to the composition of the portfolio and the used portfolio management techniques the Gutmann Core Equities, Gutmann Global Dividends, Gutmann Pure Innovation and the Nippon Portfolio under certain circumstances can show an increased volatility, i.e. the value of units may be exposed to high up- and downturns within short periods of time.**

Further Information on the main risks of the Fund can be found in the Key Information Document ("PRIIPs-KID") as well as the prospectus or the information for investors pursuant to Article 21 German Act on Alternative Investment Fund Managers (AIFMG - Alternatives Investmentfonds Manager-Gesetz) under the item "Risk profile of the Fund".

The Funds pursue an active management strategy without reference to a benchmark.

All figures made without guarantees. Errors and omissions excepted.

For interested parties the Key Information Document ("PRIIPs KID") in accordance with the Regulation (EU) No 1286/2014 for Nippon Portfolio, Gutmann Global Bonds Strategy, Gutmann Core Equities, Gutmann Global Dividends and Gutmann Pure Innovation respectively the prospectus in accordance with section 131 InvFG for Nippon Portfolio, Gutmann Core Equities, Gutmann Global Dividends and Gutmann Pure Innovation respectively the Information for investors according to section 21 AIFMG for Gutmann Global Bonds Strategy in their current versions are provided in

German language free of charge at Gutmann KAG and Bank Gutmann AG, both Schwarzenbergplatz 16, 1010 Vienna, Austria and on the Website [www.gutmannfonds.at](http://www.gutmannfonds.at) as well as for Nippon Portfolio, Gutmann Core Equities and Gutmann Global Dividends at the German information center Dkfm. Christian Ebner, Attorney at Law, Theresienhöhe 6a, 80339 Munich as well as for Nippon Portfolio at the Dreyfus Söhne & Cie AG, Aeschenvorstadt 14-16, 4002 Basel. The distribution of fund units was notified to the German Federal Financial Supervisory Authority (BaFin). Gutmann KAG may de-notify the distribution of funds in Germany as far the conditions according to Art 93a of Regulation 2009/65/EG are fulfilled.

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