

RESEARCH METHODOLOGY JUNE 2019

This publication has been produced by Bank Julius Baer & Co. Ltd., Zurich, which is authorised and regulated by the Swiss Financial Market Supervisory Authority (FINMA). The methodology applies to global financial research.

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MORNINGSTAR EQUITY RESEARCH

GENERAL

The large, independent investment research team at Morningstar Inc. (Morningstar) allows Julius Baer to offer a broad equity universe and focus on the core universe of 500+ stocks. This approach provides investment insights based on global expertise.

Various Julius Baer publications will include stocks covered by the Julius Baer equity universe as well stocks covered by Morningstar. The Morningstar-covered stocks are based on Morningstar analysis and its respective methodology, with Julius Baer acting as a distributor.

For definitions (e.g. star ratings, moat, etc.) and the used methodologies (**Morningstar Equity Research Methodology** and the **Morningstar Quantitative Equity Ratings Methodology**), please click on the following link:
<https://shareholders.morningstar.com/investor-relations/governance/Compliance--Disclosure/default.aspx>

MORNINGSTAR EQUITY SELECTION CRITERIA

First and foremost, the selection is applied according to the needs of the individual publication, list, etc., in terms of the geographical, sectoral or topical profile. After selecting the respective sample of stocks needed, there is a second layer of prioritising the stocks within the sample:

The order of preference for selecting stocks covered by Morningstar **Qualitative** reports will follow the star rating in descending order. Stocks with the same star rating can then be further ranked in order of priority: (i) by the strength of the moat (wide, narrow or none), (ii) by the moat trend (positive, stable or negative), (iii) by the uncertainty rating (low, medium, high, very high or extreme), and (iv) by the upside to fair value (highest to lowest).

The order of preference for selecting stocks covered by Morningstar **Quantitative** reports will follow the star rating in descending order. Stocks with the same star rating can then be further ranked in order of priority: (i) by the strength of the moat (wide, narrow or none), (ii) by the uncertainty rating (low, medium, high, very high or extreme), (iii) by the financial health (weak, moderate or strong), and (iv) by the upside to fair value (highest to lowest).

Only stocks rated three stars or higher will be considered. One exception to this rule: stocks with a one- or two-star rating may also be mentioned, but only within the context of relevant breaking news, corporate actions, mergers & acquisitions or as the peers of other stocks.

MEANS OF COMMUNICATION AND PUBLICATIONS

The following areas will publish reports that include stocks covered by Julius Baer Equity Research as well as stocks covered by Morningstar Equity Research:

Strategy Research, Next Generation, Equity Research, Commodity Research (for details, please refer to the specific chapter below in this Julius Baer Research Methodology).

STRATEGY RESEARCH

GENERAL

Julius Baer Strategy Research develops the equity strategy for countries (major developed and emerging markets), sectors and various investment styles.

METHODOLOGY

The fundamental assessment is derived using a top-down approach. Relative attractiveness is derived from macroeconomic forecasts such as gross domestic product (GDP) growth, interest rates, exchange rates, as well as valuation metrics (see Equity Research section below) and technical indicators (e.g. fund flows, cash allocations).

RATINGS

Countries, sectors and investment styles are rated as follows:

Overweight	Expected to outperform regional or global benchmark indices in the coming 9-12 months, unless otherwise stated.
Neutral	Expected to perform in line with regional or global benchmark indices in the coming 9-12 months, unless otherwise stated.
Underweight	Expected to underperform regional or global benchmark indices in the coming 9-12 months, unless otherwise stated.

These ratings are based on our expectations for relative performance versus global benchmark indices. Equity investments are divided into three different risk segments. Risk here is defined as the historical five-year volatility based on monthly returns in CHF. Based on the data of all segments in our universe (constituents of developed markets, emerging markets, global sectors, and investment styles) the following distinction is made:

Conservative	Investments whose historical volatility is in the bottom quartile of the universe described above.
Medium	Investments whose historical volatility is in the middle two quartiles of the universe described above.
Opportunistic	Investments whose historical volatility is in the top quartile of the universe described above.

MEANS OF COMMUNICATION AND PUBLICATIONS

Comments and opinions are communicated through a number of Julius Baer publications such as Research Focus, Daily Wire, Research Weekly and Insights.

NEXT GENERATION

GENERAL

Julius Baer Next Generation (NG) Research follows a thematic investment approach with a focus on long-term structural growth. The objective of the investment approach is to seek out growth opportunities in the equity space by identifying companies with a competitive advantage in structurally growing markets, thereby harnessing megatrends to deliver superior investment returns.

METHODOLOGY

Julius Baer Next Generation (NG) Research employs a combination of proprietary top-down and bottom-up fundamental equity analysis techniques. In the first instance, NG research analysts identify growing industries with high barriers to entry and stable market share dynamics that are aligned with the Next Generation investment themes and topics (or ‘sub-themes’).

In the second instance, NG research analysts identify the winning and losing companies within these industries; winning firms hold substantial competitive advantage and are able to generate sustainable operating cash flow growth and shareholder value creation.

THEME EXPOSURE RATINGS

Companies and stocks are rated according to their exposure to a given theme or topic. Any theme exposure rating (‘Next Generation rating’, ‘NG rating’ or ‘thematic exposure rating’) must be understood in connection with a corresponding theme or topic. The equity universe for NG themes may comprise any stock that has been assigned a theme exposure rating, which renders the stock in-scope for NG investments. Theme exposure ratings are assigned on a discretionary basis, providing an assessment of (1) whether a company is projected to benefit from or to be threatened by structural change (Implications) and (2) the expected impact on its business (Impact).

Implications

Positive	In the context of the theme, the company is well positioned within its industry and projected to benefit from structural change, likely fostering its future growth perspectives.
Negative	In the context of the theme, the company is not adequately positioned within its industry and projected to be threatened by structural change, likely weighing on its future growth perspectives.

Impact

High	Company whose business model is defined by its role in providing critical services/products consistent with the investment theme and which shows a high sales share in the context of the theme.
Medium	Company whose business model is defined by its role in providing services/products consistent with the investment theme but which shows moderate sales shares in the context of the theme.
Low	Company whose business model is not defined by its role in providing services/products consistent with the investment theme but shows limited or projected sales exposure in the context of the theme.

MEANS OF COMMUNICATION AND PUBLICATIONS

Comments and opinions (generally in the form of Next Generation Studies on a particular investment theme or topic) are communicated through a number of Julius Baer Research publications such as Research Focus, Daily Wire, Research Weekly or Insights, as well as separate Next Generation podcasts.

EQUITY RESEARCH**GENERAL**

Julius Baer Equity Research conducts mainly secondary global equity research aimed at creating value for clients through single-stock recommendations and sector analyses. Primary sources of information are company data (financial reports, corporate websites, presentations, conference calls, management meetings), broker reports, Bloomberg Finance L.P., Thomson Reuters, Datastream and FactSet.

METHODOLOGY

Analysts base their investment ratings on the analysis of a company's business model, the market the company operates in (growth outlook, demand/supply, technological developments, etc.), the company's market position, the competitive environment, the balance sheet, the legal framework and various risk factors. The analysts then compare the findings of their company analysis with market expectations and what is already reflected in the current share price. Different valuation methodologies are applied depending on the industry group, among them discounted cash flow valuation, sum-of-the-parts valuation and comparative valuation multiples. The most commonly used comparative valuation multiples are P/E (price-to-earnings ratio), EV/EBITDA (enterprise value to earnings before interest, taxes, depreciation and amortisation ratio), P/S (price-to-sales ratio) and P/B (price-to-book ratio).

RATINGS

The investment ratings in use are Buy, Hold and Reduce.

Buy	Expected to outperform the regional industry group by at least 5% in the coming 9-12 months, unless otherwise stated.
Hold	Expected to perform in line ($\pm 5\%$) with the regional industry group in the coming 9-12 months, unless otherwise stated.
Reduce	Expected to underperform the regional industry group by at least 5% in the coming 9-12 months, unless otherwise stated.

Under Review: An investment rating may be put under review by the relevant analyst due to significant unexpected events or news impacting the business activities of the company. In such cases, the current investment rating should be disregarded until the analyst publishes an updated investment recommendation.

The risk rating (**High/Medium/Low**) is a measure of a stock's expected volatility and risk of losses in the case of negative news flow. This non-quantitative rating is based on criteria such as historical volatility, industry, earnings risk, valuation and balance-sheet strength.

MEANS OF COMMUNICATION AND PUBLICATIONS

Our systematically covered and rated universe of companies is made available daily in our Coverage List. Buy-rated companies are featured on the Buy List, which is also published on a daily basis. The coverage universe is flexible. Coverage of companies can be initiated and discontinued according to client needs and share price upside potential.

Coverage of companies is detailed in Baer[®]Insight Equity Research publications, where all necessary information about companies' financial results is made available. Buy-rated equities are updated on a quarterly basis. Hold- and Reduce-rated equities are updated as events warrant, but no less than semi-annually.* Comments and opinions on the companies under coverage will also be communicated through other Julius Baer publications (e.g. Daily Wire or Research Weekly).

*Publication intervals may vary and do not always account for 90/180 days exactly. All indications about frequencies refer to the calendar year.

FIXED INCOME RESEARCH

GENERAL

Julius Baer Fixed Income Research (FIR) frames the duration and segment strategy for bond investments in mature markets and emerging markets and provides secondary market research for a predefined universe of issuers. The strategy is elaborated in conjunction with Economic Research to ensure consistency with the investment research strategy. For its strategy and issuer research, FIR incorporates data from external providers and third-party research, including information obtained from Credit Rating Agencies (CRA).

FIR maintains a universe of issuers for which it assigns Buy, Hold or Sell ratings. These issuers are analysed using qualitative and quantitative analyses. Beyond this **active universe**, FIR maintains a broader **passive universe** of issuers, which is analysed using the quantitative methodology only. See below for details on the respective methodologies.

FIXED INCOME STRATEGY RESEARCH – METHODOLOGY

The fundamental assessment is derived using a top-down approach. Relative attractiveness is derived from macroeconomic forecasts and technical indicators. The duration and segment strategy is elaborated in conjunction with Economic Research to ensure consistency with the investment research strategy.

FIXED INCOME STRATEGY RESEARCH – RATINGS

Fixed income market segments are rated as follows:

Overweight	Expected to outperform the broad fixed-income market over the next 3-6 months.
Neutral	Expected to perform in line with the broad fixed-income market over the next 3-6 months.
Underweight	Expected to underperform the broad fixed-income market over the next 3-6 months.

ISSUER RESEARCH – QUALITATIVE METHODOLOGY

Analysts base their ratings on company data from specialised providers, if possible on an adjusted basis, and on the assessment of the issuers' business model. The observed variables include financial ratios, such as leverage and interest coverage; industry-specific data, such as the company's market position and risk factors; as well as a market-based risk assessment, such as credit-spread comparisons. The findings are compared to views provided by third-party research, including rating agency reports, where available.

ISSUER RESEARCH – QUANTITATIVE METHODOLOGY (SCORE)

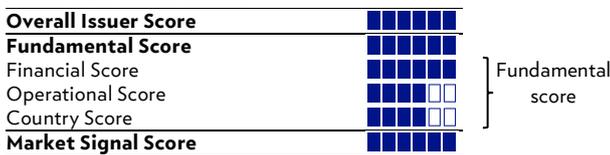
The Julius Baer quantitative scoring system is an automated method based on a proprietary algorithm that takes into account both business metrics as well as market-based indicators for issuers of fixed income securities, or their re-

spective legal guarantor. The scoring results are principally backward-looking (and are not a guarantee for future performance). Scores always refer to the issuer of fixed income securities only and not specifically to their outstanding securities. The scoring scale is 1-6, with 6 being the strongest score and 1 being the weakest.

Two different frameworks are used to calculate scores for either **financial/corporate issuers** or **sovereign/supranational** issuers. Both frameworks calculate an ‘Overall Issuer Score’, which consists of a weighted average of the issuer’s ‘Fundamental Score’ and ‘Market Signal Score’. The Fundamental Score consists of several component scores, which differ between financial/corporate issuers and sovereign/supranational issuers as follows:

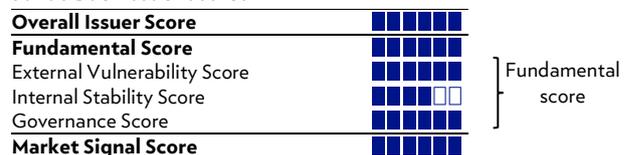
Financial/Corporate issuers

Julius Baer issuer scores



Sovereign/Supranational issuers

Julius Baer issuer scores



Please find definitions of all component scores below:

Overall Issuer/Guarantor Score – Explanation of score level

■■■■■	Based on the Fundamental Score as well as the Market Signal Score, issuers or guarantors with a score of 6 are expected to be able to service and repay their debt under all normal circumstances. Julius Baer considers their senior unsecured debt as top quality.
■■■■■□	Based on the Fundamental Score as well as the Market Signal Score, issuers or guarantors with a score of 5 are expected to be able to service and repay their debt with a very high probability. Julius Baer considers their senior unsecured debt as high quality.
■■■■□□	Based on the Fundamental Score as well as the Market Signal Score, issuers or guarantors with a score of 4 are expected to be able to service and repay their debt with a high probability. Julius Baer considers their senior unsecured debt as safe.
■■■■□□□	Based on the Fundamental Score as well as the Market Signal Score, issuers or guarantors with a score of 3 are expected to be able to service and repay their debt, but have a small risk of default. Julius Baer considers their senior unsecured debt as slightly risky and only appropriate for risk-friendly investors with diversified portfolios.
■■□□□□	Based on the Fundamental Score as well as the Market Signal Score, issuers or guarantors with a score of 2 have a non-negligible risk of default and may not be able to service and repay their debt. Julius Baer considers their senior unsecured debt as risky and not appropriate for capital preservation.
■□□□□□	Based on the Fundamental Score as well as the Market Signal Score, issuers or guarantors with a score of 1 have a material risk of default and may not be able to service and repay their debt. Julius Baer considers their senior unsecured debt as highly risky and not appropriate for capital preservation.

Fundamental Score – Explanation of score level

An issuer’s Fundamental Score is a composite score (weighted average) of relevant factors. These factors differ for corporate and sovereign/supranational issuers.

The Fundamental Score of corporate issuers or guarantors is calculated based on data reported by the issuers or guarantors and provided by third-party vendors that Julius Baer Fixed Income Research regards as reliable, but for which it cannot take responsibility. The Fundamental Score of sovereign and supranational issuers and guarantors is calculated based on historical data and estimates of the International Monetary Fund, the World Bank and Transparency International. It is then amended with the economic forecasts of Julius Baer Economic Research, where appropriate.

The Fundamental Score is calculated with proprietary weighting schemes. The corporate issuer or guarantor score captures the financial health (short-term liquidity and solvency) and the operational quality (long-term solvency) of an issuer or guarantor, while the Country Score includes aspects of internal stability (the likelihood of the government remaining solvent), external vulnerability (ability to service debt in foreign currencies) and governance (protection of investors’ interest). For sovereign/supranational issuers, these factors make up the Fundamental Score. The weighting of the financial health indicators, such as leverage, interest coverage, level and stability of profit margin, and the operational indicators, varies across the predefined ca 40 business sectors. The weighting scheme is calibrated to reflect the default probability of the issuer or guarantor in a mid-cycle environment. It can be adjusted at any time.

Financial Score – Explanation of score level

■■■■■■■	A score of 6 is awarded to issuers or guarantors that have reported very strong financial credit metrics.
■■■■■□	A score of 5 is awarded to issuers or guarantors that have reported strong financial credit metrics.
■■■■□□	A score of 4 is awarded to issuers or guarantors that have reported solid financial credit metrics.
■■■□□□	A score of 3 is awarded to issuers or guarantors that have reported moderate financial credit metrics.
■■□□□□	A score of 2 is awarded to issuers or guarantors that have reported weak financial credit metrics.
■□□□□□	A score of 1 is awarded to issuers or guarantors that have material deficits in financial credit metrics.

Operational Score – Explanation of score level

■■■■■■■	A score of 6 is awarded to issuers or guarantors that have reported very strong operational indicators.
■■■■■□	A score of 5 is awarded to issuers or guarantors that have reported strong operational indicators.
■■■■□□	A score of 4 is awarded to issuers or guarantors that have reported solid operational indicators.
■■■□□□	A score of 3 is awarded to issuers or guarantors that have reported moderate operational indicators.
■■□□□□	A score of 2 is awarded to issuers or guarantors that have reported weak operational indicators.
■□□□□□	A score of 1 is awarded to issuers or guarantors that have material deficits in operational indicators.

Country Score – Explanation of score level

The Country Score reflects factors of internal stability, external vulnerability and governance of a corporate issuer’s parent country. These factors are summarised in the Country Score for corporate issuers and in the Fundamental Score for sovereign/supranational issuers and are explained below.

■■■■■■■	Countries with a score of 6 exceed basic governance and economic stability rules based on the above-described methodology. These countries may be regarded as very safe for investors.
■■■■■□	Countries with a score of 5 exceed basic governance and economic stability rules based on the above-described methodology. These countries may be regarded as safe for investors.
■■■■□□	Countries with a score of 4 fulfil basic governance and economic stability rules based on the above-described methodology. These countries offer sufficient protection for investors as long as the general economic environment stays stable. We regard the political and financial situation of these countries as better than average.
■■■□□□	Countries with a score of 3 fulfil basic governance and economic stability rules based on the above-described methodology. These countries offer sufficient protection for investors as long as the general economic environment stays stable. However, in the case of an adverse change in the environment, these countries are likely to suffer disproportionately, increasing investment risks for debt holders.
■■□□□□	Countries with a score of 2 do not fulfil some basic governance and economic stability rules based on the above-described methodology. These countries offer comparably minor protection for investors.

■□□□□□	Countries with a score of 1 do not fulfil several basic governance and economic stability rules based on the above-described methodology. Investor protection is low, and the economic deficiencies could seriously impair the ability of the sovereign and/or domestic issuers to service and repay their debt in an orderly manner.
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External Vulnerability Score – Explanation of score level

■■■■■■■	A score of 6 is awarded to issuers or guarantors that can service debt in foreign currencies under all circumstances.
■■■■■□	A score of 5 is awarded to issuers or guarantors that have a very strong ability to service debt in foreign currencies.
■■■■□□	A score of 4 is awarded to issuers or guarantors that have a strong ability to service debt in foreign currencies.
■■■□□□	A score of 3 is awarded to issuers or guarantors that are expected to service debt in foreign currencies as long as the general economic environment stays stable.
■■□□□□	A score of 2 is awarded to issuers or guarantors that have a limited ability to service debt in foreign currencies.
■□□□□□	A score of 1 is awarded to issuers or guarantors that lack the ability to service debt in foreign currencies in an orderly manner.

Internal Stability Score – Explanation of score level

■■■■■■■	A score of 6 is awarded to issuers or guarantors that are expected to remain solvent under all circumstances.
■■■■■□	A score of 5 is awarded to issuers or guarantors that have a very high probability of remaining solvent.
■■■■□□	A score of 4 is awarded to issuers or guarantors that have a high probability of remaining solvent.
■■■□□□	A score of 3 is awarded to issuers or guarantors that are expected to remain solvent but have a small risk of default.
■■□□□□	A score of 2 is awarded to issuers or guarantors with a non-remote risk of insolvency.
■□□□□□	A score of 1 is awarded to issuers or guarantors that have a material risk of insolvency.

Governance Score – Explanation of score level

■■■■■■■	Countries with a score of 6 exceed basic governance rules. These countries may be regarded as very safe for investors.
■■■■■□	Countries with a score of 5 exceed basic governance rules. These countries should be regarded as safe for investors.
■■■■□□	Countries with a score of 4 fulfil basic governance rules. These countries offer sufficient protection for investors as long as the general economic environment stays stable. We regard the political and financial situation of these countries as better than average.
■■■□□□	Countries with a score of 3 fulfil basic governance rules. These countries offer sufficient protection for investors as long as the general economic environment stays stable. However, in the case of an adverse change in the environment, these countries are likely to suffer disproportionately, thereby increasing investment risks for holders of debt.
■■□□□□	Countries with a score of 2 do not fulfil some basic governance rules. These countries offer comparably minor protection for investors.
■□□□□□	Countries with a score of 1 do not fulfil several basic governance rules. Investor protection is low, and the economic deficiencies could seriously impair the ability of the sovereign and/or domestic issuers to service and repay their debt in an orderly manner.

Market Signal Score – Explanation of score level

The Market Signal Score is based on the spread between the issuer’s or guarantor’s yield to maturity of a synthetic five-year senior unsecured bond and the risk-free rate, usually the dominant government bond in the respective currency. In case the synthetic five-year senior unsecured bond cannot be calculated, bonds of a different payment rank or maturity might be used to calculate the Market Signal Score.

■■■■■■■	A score of 6 is granted to issuers or guarantors whose bonds trade with a credit spread of up to 40 basis points over risk-free government bonds, implying no default risk.
■■■■■□	A score of 5 is granted to issuers or guarantors whose bonds trade with a credit spread between 41 and 100 basis points over risk-free government bonds, implying very low default risk.
■■■■□□	A score of 4 is granted to issuers or guarantors whose bonds trade with a credit spread between 101 and 180 basis points over risk-free government bonds, implying low default risk.
■■■■□□□	A score of 3 is granted to issuers or guarantors whose bonds trade with a credit spread between 181 and 300 basis points over risk-free government bonds, implying considerable default risk.
■■□□□□	A score of 2 is granted to issuers or guarantors whose bonds trade with a credit spread between 301 and 450 basis points over risk-free government bonds, implying high default risk.
■□□□□□	A score of 1 is granted to issuers or guarantors whose bonds trade with a credit spread above 450 basis points over risk-free government bonds, implying very high default risk.

ISSUER RATINGS

Issuer ratings

Issuers in the **passive universe** are assigned a score based on the quantitative methodology. All issuers of the **active universe** are additionally assigned an investment rating:

Buy	The issuer has a strong financial and business profile (e.g. strong balance sheet, income statement and cash flow), and its bonds are an attractive investment from a risk/return perspective.
Hold	The issuer has stable credit fundamentals and/or average expected return characteristics relative to industry peers, and its bonds remain an attractive investment from a risk/return perspective.
Sell	The issuer’s fundamental data has deteriorated significantly relative to industry peers, and its bonds are no longer an attractive investment from a risk/return perspective.

Risk categories

Fixed Income Research allocates each issuer of the **active universe** to one of the following four risk categories:

Conservative	Supranational issuers, top-rated sovereigns or bodies directly and fully guaranteed by such institutions. These issuers are most likely to preserve their top rating throughout the business cycle.
Quality	Sovereigns and corporate issuers very likely to service and repay debt within a five-year credit scenario. These issuers are likely to preserve their investment-grade rating throughout a normal business cycle.
Opportunistic	Issuers quite likely to service and repay debt within a five-year credit scenario. They have an attractive risk/return profile but are subject to rating downgrade risk and might thus be periodically replaced.
Speculative	Sub-investment-grade issuers likely to service and repay debt in the current credit scenario. These issuers are subject to a higher downgrade and default frequency, demanding active management.

MEANS OF COMMUNICATION AND PUBLICATIONS

Comments and opinions on the fixed income strategy are communicated through a number of Julius Baer publications such as Research Focus, Daily Wire, Research Weekly and Insights.

Our **active universe** of issuers is made available daily in our Coverage List. Buy-rated companies are featured on the Fixed Income Issuer Buy List, which is also published on a daily basis. The coverage universe is flexible. Coverage of

companies can be initiated and discontinued according to investment conviction, resource capabilities and the issuer's ability to honour the debt obligations.

Coverage of an issuer in the **active universe** will be detailed in a Baer®Insight Fixed Income publication, where all necessary information about the issuer's business model and financial strength is made available. Ratings and assessments of financial or corporate issuers will be updated as events warrant, but no less than semi-annually. Ratings and assessments of sovereign or supranational issuers will be updated as events warrant, but no less than annually.*

The results of the quantitative analysis may be displayed as the Issuer Overall Score or as the component scores of the Issuer Overall Score on the Bond Portrait (does not constitute investment research) for all issuers of the **passive universe**. The scores of financial or corporate issuers are updated as events warrant, but no less than semi-annually. Scores of sovereign or supranational issuers are updated as events warrant, but no less than annually.* In the event the Market Signal Score cannot be calculated for an issuer, then the issuer's Market Signal Score section will be empty.

Comments and opinions on the issuers under coverage will also be communicated through other Julius Baer publications (e.g. Daily Wire, Research Weekly, Insights, Research Focus, Fixed Income Top Picks [does not constitute investment research]).

*Publication intervals may vary and do not always account for 180/360 days exactly. All indications about frequencies refer to the calendar year.

ECONOMIC RESEARCH

GENERAL

Julius Baer Economic Research produces global economic analyses with a focus on current and future growth, the inflation backdrop, central bank interest rates and benchmark bond-yield developments, and integrates input from Commodity, Currency and Fixed Income Research. Whenever possible, primary research via proprietary indicators and models is used. Gaps are filled with secondary research.

METHODOLOGY

Julius Baer Economic Research determines the global economic backdrop and outlook using:

- 1) Own analysis and aggregation tools, including proprietary models and indicators, using data from public or private data providers, such as statistical offices or financial information systems.
- 2) Various secondary research reports: the sources being integrated must fulfil the principles of consistency and plausibility and must be backed by facts.
- 3) Input from other research units within Julius Baer, in particular Commodity Research, Currency Research, Fixed Income Research and Research Asia, within the permitted framework.

RATINGS

Julius Baer Economic Research does not provide explicit ratings but rather generic forecasts of key economic indicators.

MEANS OF COMMUNICATION AND PUBLICATIONS

The Julius Baer Baseline Scenario publication presents the economic backdrop and outlook in a quantitative way and is updated every month or on special occasions.

The qualitative description of changes in the scenario and risk measures is added when necessary. Regarding regions and indicators, some responsibilities for forecasts are split among Economic Research, Fixed Income Research and Research Asia.

News flow and recent substantial forecast adjustments are communicated in the Daily Wire publication. An overview of important economic events and data publications is provided in key Research publications. The Research Focus publication is used on an ad hoc basis to outline current pressing topics in more detail or in-depth analysis of a specific topic. Possible asset-market implications and recommendations included in publications from Economic Research are closely coordinated with the other Research teams. In client presentations, Economic Research outlines the global economic backdrop and outlook, including the Julius Baer view on interest rates, bond yields and exchange rates. Media presence includes contributions to financial market surveys, print media (interviews, quotes, own articles), and radio/TV interviews.

CURRENCY RESEARCH

GENERAL

Julius Baer Currency Research analyses and ranks currencies out of a global universe according to their attractiveness over the short term (three months) and longer term (12 months). The aim is to create value for clients by determining which currencies offer an investment opportunity and which currencies need to be avoided from an investment perspective. The general goal is to detangle currency risks from other investment risks in order to contribute to a transparent and efficient investment process. Advice on whether to conduct investments in foreign currency – hedged or unhedged – follows straight from this approach. In addition, Julius Baer Currency Research conducts point forecasts for various horizons for the bilateral exchange rates.

METHODOLOGY

The bilateral exchange rate analyses and forecasts are anchored in a long-term projection, determined mainly by valuation measures such as purchasing power parity, terms-of-trade developments, external financing needs and productivity differentials. The medium-term forecasts also take flows and central bank policy into account, whereas the shorter-term projections factor in sentiment, momentum, correlations and positioning. The final exchange rate forecasts are determined employing a heuristic approach rather than following a fully specified and mechanical forecasting model. The exchange rate forecasts take into account the global macro picture as well as the financial market constitution to determine the prevailing global currency themes, which in turn serve to identify the relative importance of the above-mentioned exchange-rate drivers.

The global currency ranking is based on the expected risk-adjusted total returns of a currency against a base currency. The total return calculations very much follow an investment-like perspective by calculating alleged return using forward rates as the entry prices. The total returns are adjusted by the risk that investors are exposed to during the investment using implied volatilities. These risk adjustments are ranked, rescaled and distributed among three buckets (positive, negative or neutral).

The responsibilities for the various currencies are split among the different country and regional specialists within Julius Baer Research. The consistency of the various bilateral exchange rates is ensured by a dedicated Head of Currency Research, who has the final responsibility for all exchange rate forecasts and the global currency ranking.

RATINGS

Exchange rates are relative prices. Hence, the currency rating should be understood as a relative rating. The currency ranking is based on a short-term (three months) as well as on a long-term (12 months) exchange rate forecast and the respective forward exchange rate as well as the implied volatility. For each of the currencies in our universe, we award a Bullish, Neutral or Bearish ranking based on the following method of calculation.

Calculation procedure: the currency ratings are based on the forecasted spot exchange rate against the US dollar. The forecasted spot exchange rates are used to determine the total expected returns by calculating the percentage devia-

tion from the respective forward exchange rates. If forward exchange rates are not available, then non-deliverable forward exchange rates are used. The expected total return is adjusted by the implied volatility of the exchange rate. The resulting volatility-adjusted total returns are scaled by using a normal distribution function. Currencies in the top quartile of the scaled ranking are awarded a Bullish ranking while currencies in the bottom quartile receive a Bearish ranking. The currencies in between are ranked Neutral.

Bullish	Volatility-adjusted total expected return ranks in the upper quartile of a normal-distribution-scaled ranking of covered currencies.
Neutral	Volatility-adjusted total expected return ranks between the upper and lower quartile of the normal-distribution-scaled ranking of covered currencies.
Bearish	Volatility-adjusted total expected return ranks in the lower quartile of a normal-distribution-scaled ranking of covered currencies.

MEANS OF COMMUNICATION AND PUBLICATIONS

The currency forecasts are updated and published monthly in the Currency Fact Sheets and Baseline Scenario publications, which also include a short rationale for the forecasts and the associated risks. In addition, currencies are commented on in the Daily Wire, Research Weekly and Insights publications, which also include selected currency forecasts. Special topics and alerts on currency developments are discussed in Research Focus publications.

COMMODITY RESEARCH

GENERAL

Julius Baer Commodity Research conducts global commodity research aimed at creating value for clients through investment recommendations and price forecasts in the commodity sector. The focus is on the energy, precious and base metals segments, which are covered on an ongoing basis. In addition, research is performed on selected commodities outside of this framework upon request. Commodity Research analyses the underlying commodities, as opposed to Julius Baer Equity Research, which covers companies that are active in the commodity complex. A special focus is placed on thematic investment recommendations to determine long-term trends. Primary sources of information are broker reports, independent research, commodity publications, Bloomberg Finance L.P., Thomson Reuters, Datastream, contacts with companies, and company presentations.

METHODOLOGY

For our price forecasts, we use supply-and-demand models that are based on very diverse data sets, ranging from comparably short-term relevant inventory or tactical investor positioning data to longer-term relevant industry, market and technology trends. Movements in interest rates and the USD are key drivers of commodity prices. Thus, our views are aligned and discussed with our economists' and strategists' expectations.

RATINGS

Our recommendation methodology is carried out in two steps. First, we translate the output from our models into directional price views and corresponding price forecasts:

Bullish	Upward-sloping price path, taking into account historical volatility.
Constructive	Future price path, with more upside than downside.
Neutral	Sideways-trading prices, taking into account historical volatility.
Cautious	Future price path, with more downside than upside.
Bearish	Downward-sloping price path, taking into account historical volatility.

Second, specific commodity investment recommendations are given depending on the upside (Bullish) or downside (Bearish) view for single commodities, the shape of the term structure (whether there are profits or losses associated with rolling futures exposure), and the volatility of the curve. These recommendations can be either on the long or short side of futures contracts or even a combination of both (e.g. pair trades) and are published on a regular basis in our key publications. These recommendations are provided for return-oriented investors with a comparatively shorter-term investment horizon and can differ significantly from recommendations for diversification-oriented investors with a long-term investment horizon.

MEANS OF COMMUNICATION AND PUBLICATIONS

Our ratings and recommendations are communicated through a commodity-specific publication (Research Focus, Commodity Fact Sheets) as well as other Julius Baer Research publications (Daily Wire, Research Weekly, Insights). Thematic studies in coordination with Equity Research are also published under the heading of Research Focus publications.

TECHNICAL ANALYSIS

GENERAL

Julius Baer Technical Analysis conducts primary technical analysis aimed at creating value through investment recommendations based on historical prices. Technical Analysis uses historical market prices in order to assess market conditions by chart reading, i.e. following chart patterns, and by observing indicators calculated from historical price movements. Technical Analysis recommendations are independent and not linked to the fundamental in-house view and may differ at any time due to different tools to assess market conditions and recommendations.

METHODOLOGY

Analysts base their investment ratings and analyses on historical data, which is analysed through visual pattern reading and computer-assisted indicators. The combined approach helps to determine a rating and assessment for any instrument with historical market data. All markets can be analysed using the same method, as the theory of technical analysis is based on the belief that all relevant information is priced in markets and that price trends and patterns are repeated throughout history. Technical indicators range from simple trend models to complex dynamic indicators (e.g. momentum oscillators). These provide information on short-, medium- and long-term trends, overbought or oversold markets, and trend reversals or confirmations, among other key characteristics of price movements.

RATINGS

Absolute rating system for global technical analysis:

Buy	↗	Expected to advance by at least 10% in the coming 3-12 months, unless otherwise stated.
Hold	→	Expected to stay flat ($\pm 5\%$) in the coming 3-12 months, unless otherwise stated.
Reduce	↘	Expected to decline by at least 10% in the coming 3-12 months, unless otherwise stated.

All Buy and Sell recommendations are performance-tracked, and any recommendation changes are communicated via Research publications.

Relative rating system for global technical analysis:

Overweight	Expected to outperform its benchmark by at least 5% in the coming 3-12 months, unless otherwise stated.
Neutral	Expected to perform in line ($\pm 5\%$) with its benchmark in the coming 3-12 months, unless otherwise stated.
Underweight	Expected to underperform its benchmark by at least 5% in the coming 3-12 months, unless otherwise stated.

TECHNICAL INDICATOR READINGS (TREND)

Besides individual recommendations, the Technical Analysis team also publishes technical indicator readings, which are mechanically calculated as a source of additional information; they are not intended as investment recommendations. These readings show current trends on an absolute-price or relative basis using up, flat and downtrend arrows for any of the three time horizons tracked. At the same time, support and resistance levels may be displayed.

MEANS OF COMMUNICATION AND PUBLICATIONS

Opinions and recommendations are communicated through the Technical Investment Strategy (TIS) as well as other Julius Baer Research publications (Daily Wire, Research Weekly, Insights).

METHODOLOGY REVIEW

This document will be reviewed at least every two years or as changes in the Julius Baer Research Methodology occur.