Investment Policy

MORA WEALTH MANAGEMENT

April 2018

Tactical positioning

- We remain cautious in **fixed income** favoring **short to medium** maturities due to a very unattractive combination of risk and return in longer maturities. We have maintained **High Yield** and **subordinated debt** exposure as we think that the current economic cycle will be further elongated. **High quality bonds in the US** – particularly **corporate investment grade** – remain attractive in relative terms, and **Treasury bonds** could protect the portfolios from a slowdown in growth, although the latter is now less likely. We also have a significant position in inflation-linked US Treasury bonds (**TIPS**) to get protection against an increase in inflation as a consequence of reflationary policies. Finally, we have also maintained our allocation to **convertible bonds**, as way to further diversify our portfolios

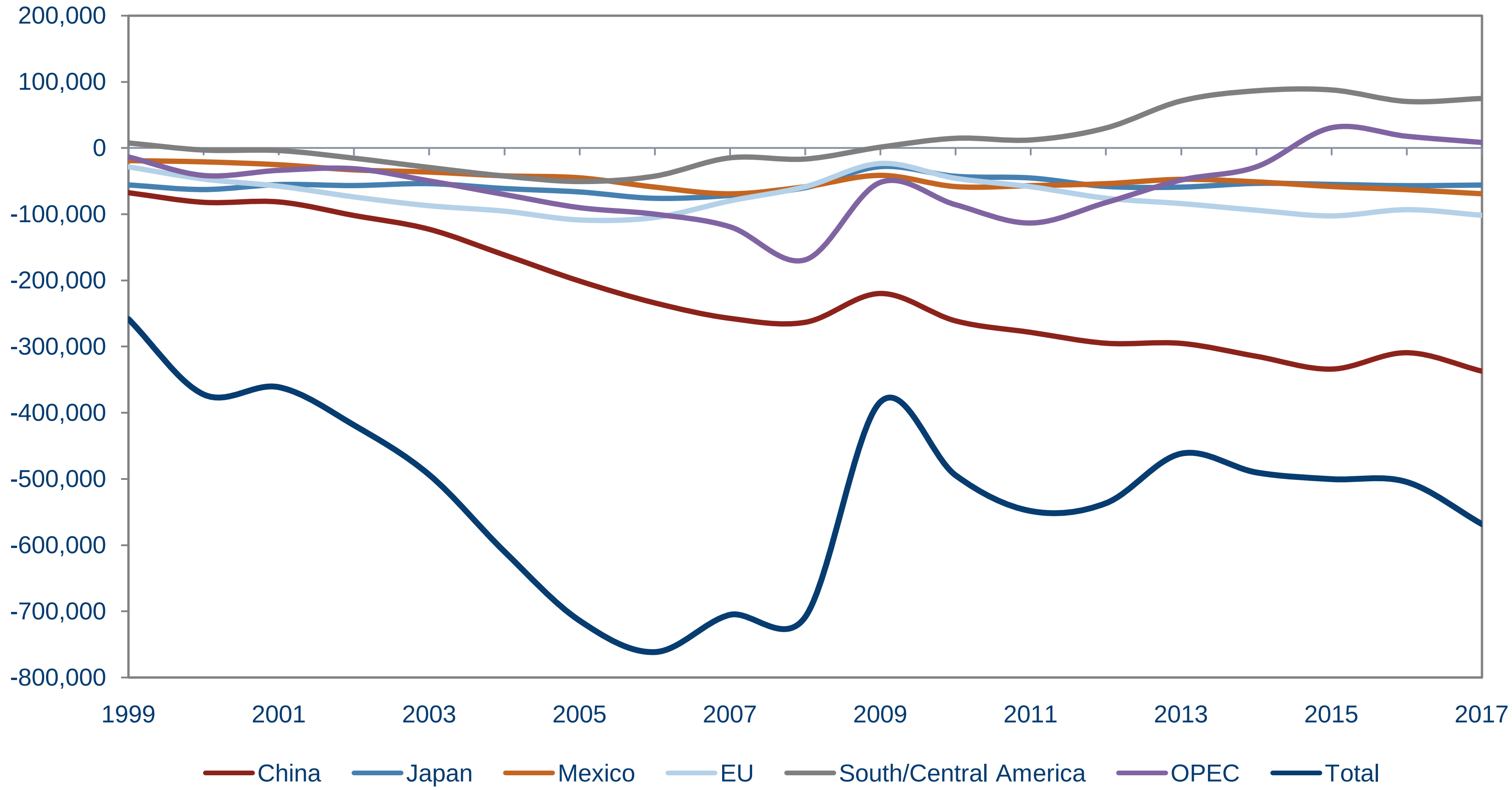
- **Equity valuations in the US** remain very high, mostly **supported by low interest** rates, **tax reform** and **deregulation**. Combined with positive macro data from other main developed markets, we see a **greater chance of a reacceleration in global economic growth.** However**,** with the **Fed potentially normalizing interest rates at a faster pace**, there is a risk of returning to lower valuation multiples. Therefore, we recommend to take equity exposure in a **non-directional way**. From a relative **valuation** perspective, we favor **European, Japanese and emerging markets equities**, **quality growth stocks**, **biotechnology** and **listed real estate**

- Our **diversified commodities** and **gold** allocations, further help us to **increase diversification** and to position the portfolios for a scenario of **rising inflation**

- **Alternative investments** offer a much needed source of **diversification**. Besides **cat bonds** and **private equity**, we have recently increased the allocation to **hedge-funds**, by investing into liquid and low cost **multi-manager/multi-strategy** fund of funds

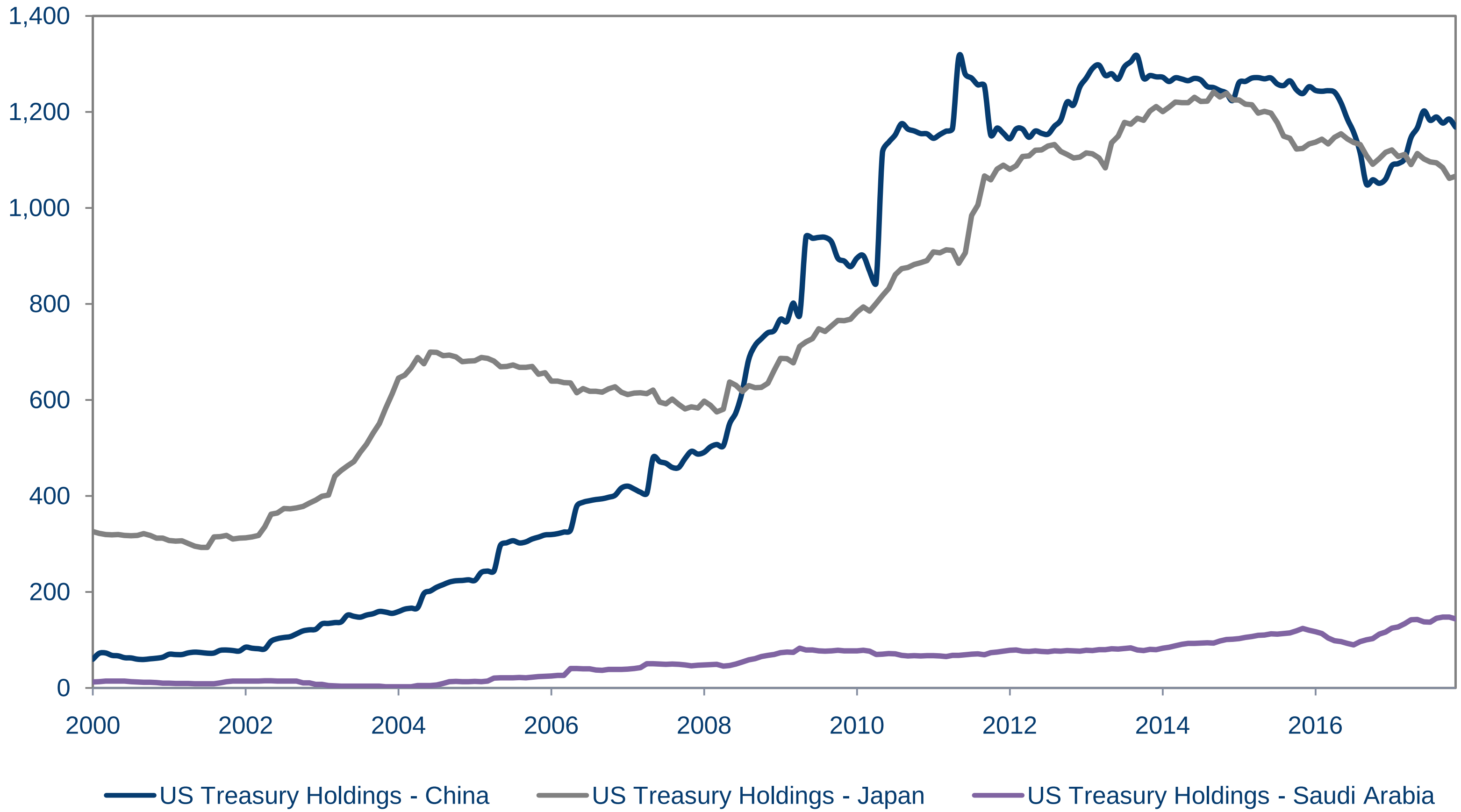
- We have **reduced our cash allocation** as **negative interest rates** have been introduced in some of our reference currencies. We have also **reduced** the allocation to **short-term high quality bonds** that we held as an alternative to cash and increased credit exposure instead, with the aim of increasing the yield of the portfolio

It is about China



- **US trade deficit** is far from being in troubling zone. Its absolute level is **close to that of 2003**, when US GDP was 40% smaller than the current one
- It is **mostly against China** that the deficit has consistently widened, whilst against other major trading partners the trend has been stable and even reverted. Hence, **we deem very unlikely that the US will engage in a full-blown global trade war**, and will sought instead to get concessions from China

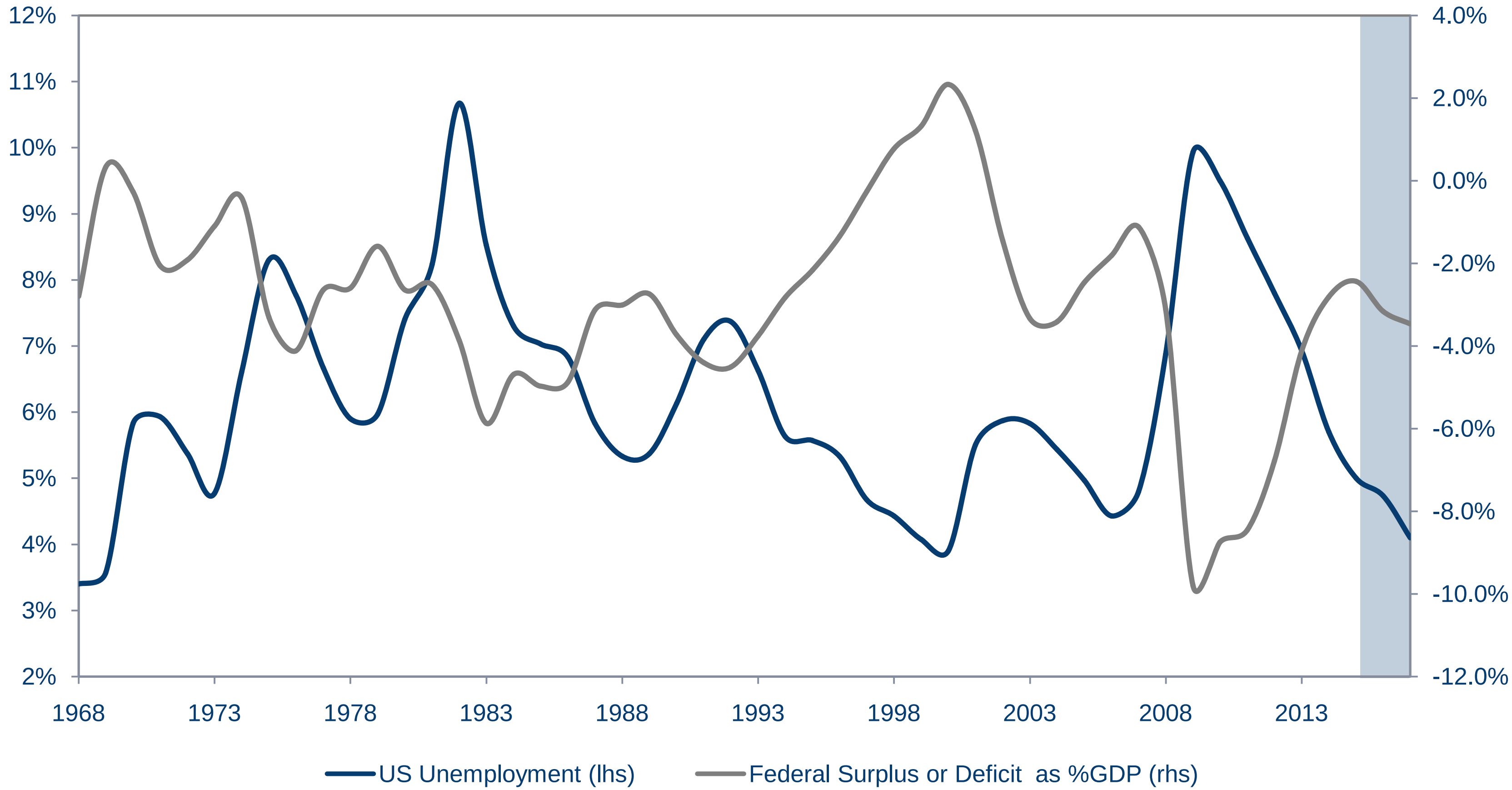
Source: U.S. Bureau of Economic Analysis



- Should trade tensions escalate, there is a **risk that trading partners will shun away from US Treasuries**, which they usually hold to recycle their trade surpluses
- Lower demand for US Treasuries would cause their yield to increase, inducing a **tightening of financial conditions** that would feed into asset valuations and economic activity – as a reference, the Fed holds about $12.5 trillion in US Treasuries after the successive QE programs

Source: Bloomberg

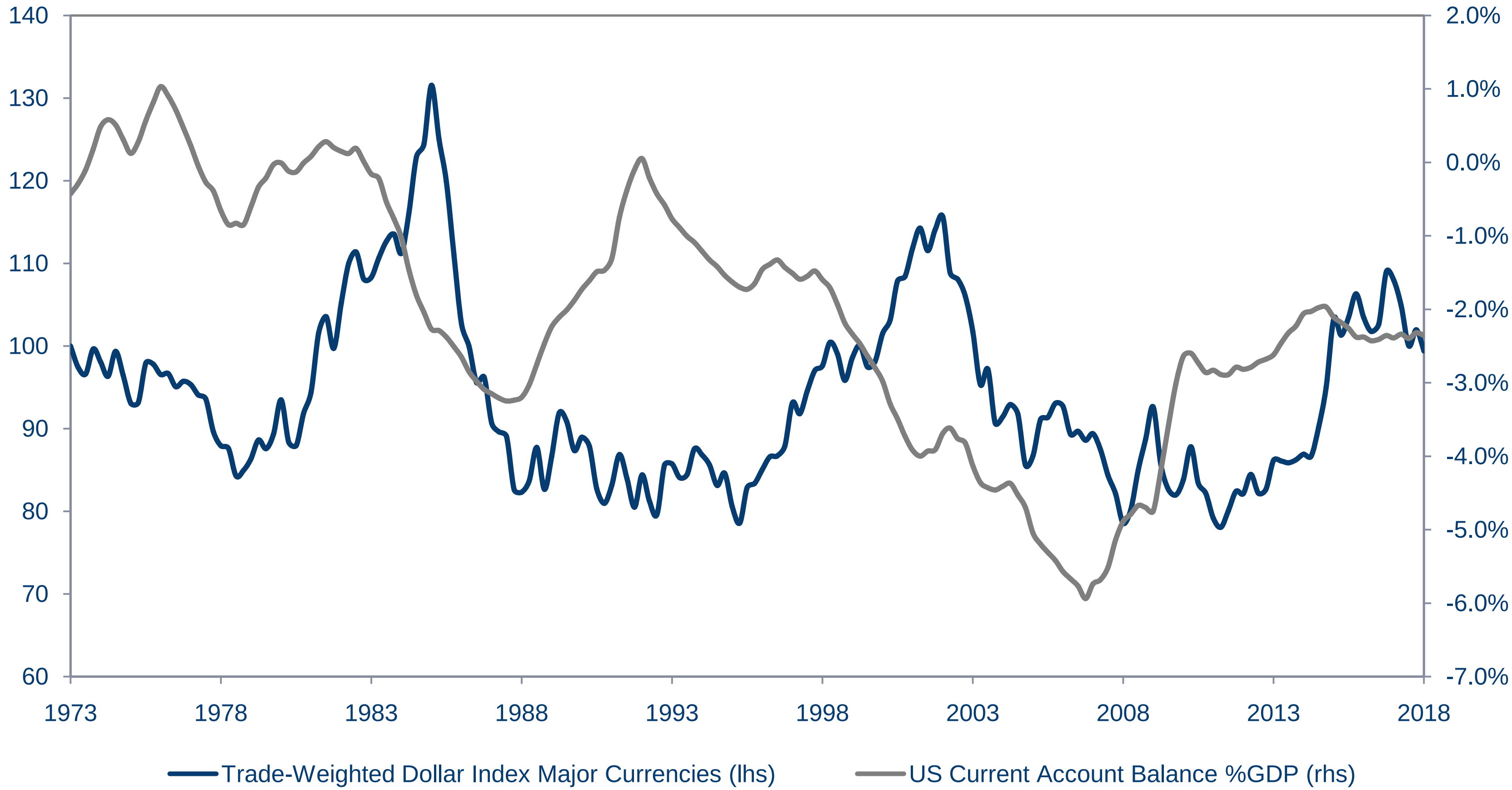
At a time the US will have to borrow record amounts



- The US is embarking into a sort of **economic experiment** with a **late-cycle fiscal expansion** whose impact in the economy is difficult to predict
- What is certain is that in the short-run the fiscal **deficit will worsen**, and that the US Treasury will have to **issue record amounts of debt** to finance it

Source: Bloomberg

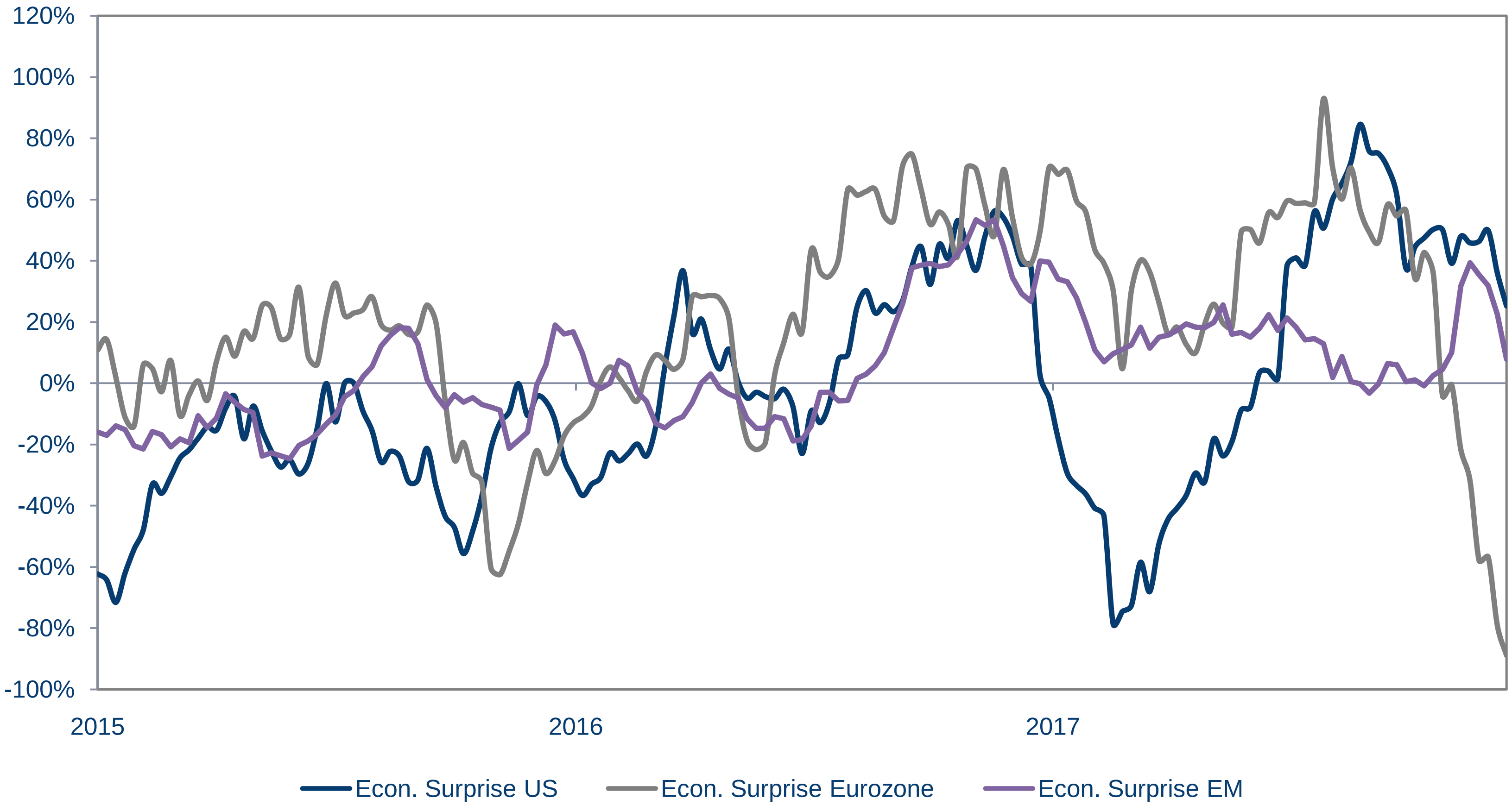
And would probably cause an appreciation of the USD



- All things being equal, **current account deficits** are historically associated with a **weak dollar**, as they increase the demand for foreign currencies
- **Protectionist measures** would cause the **deficit to narrow**, hence **putting upward pressure on the dollar** over the medium term

Source: Bloomberg

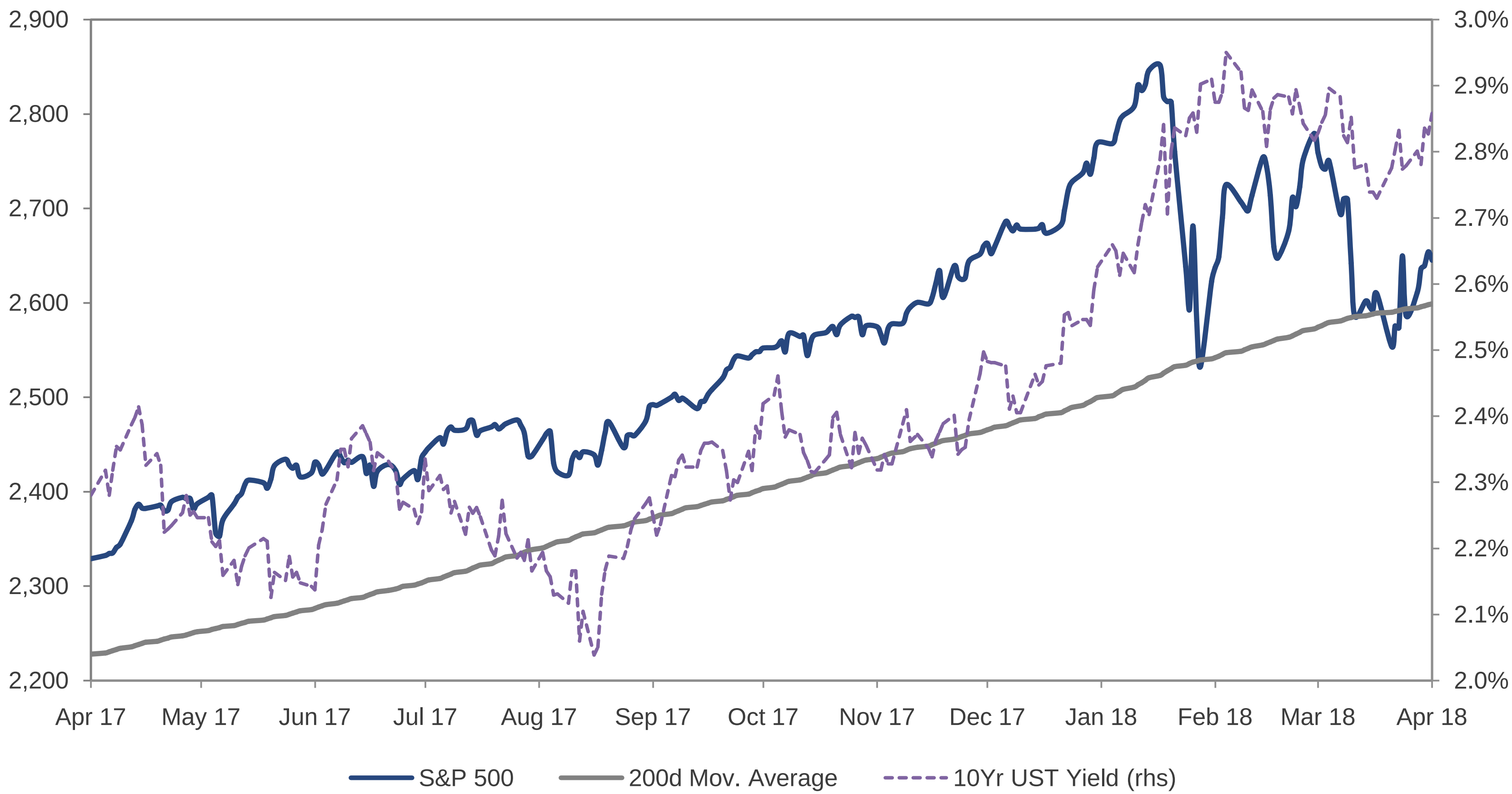
Synchronized global growth put at risk



- In the current globalized economy, the **most direct transmission channel** of a trade war would be a **decrease in overall level of economic activity**, as there will be **no winners in absolute terms**
- As a consequence, trade tensions are **rising uncertainty** at a time when we are starting to see **signs of a deceleration in global growth momentum**, which may put an end to the period of synchronized growth

Source: Bloomberg

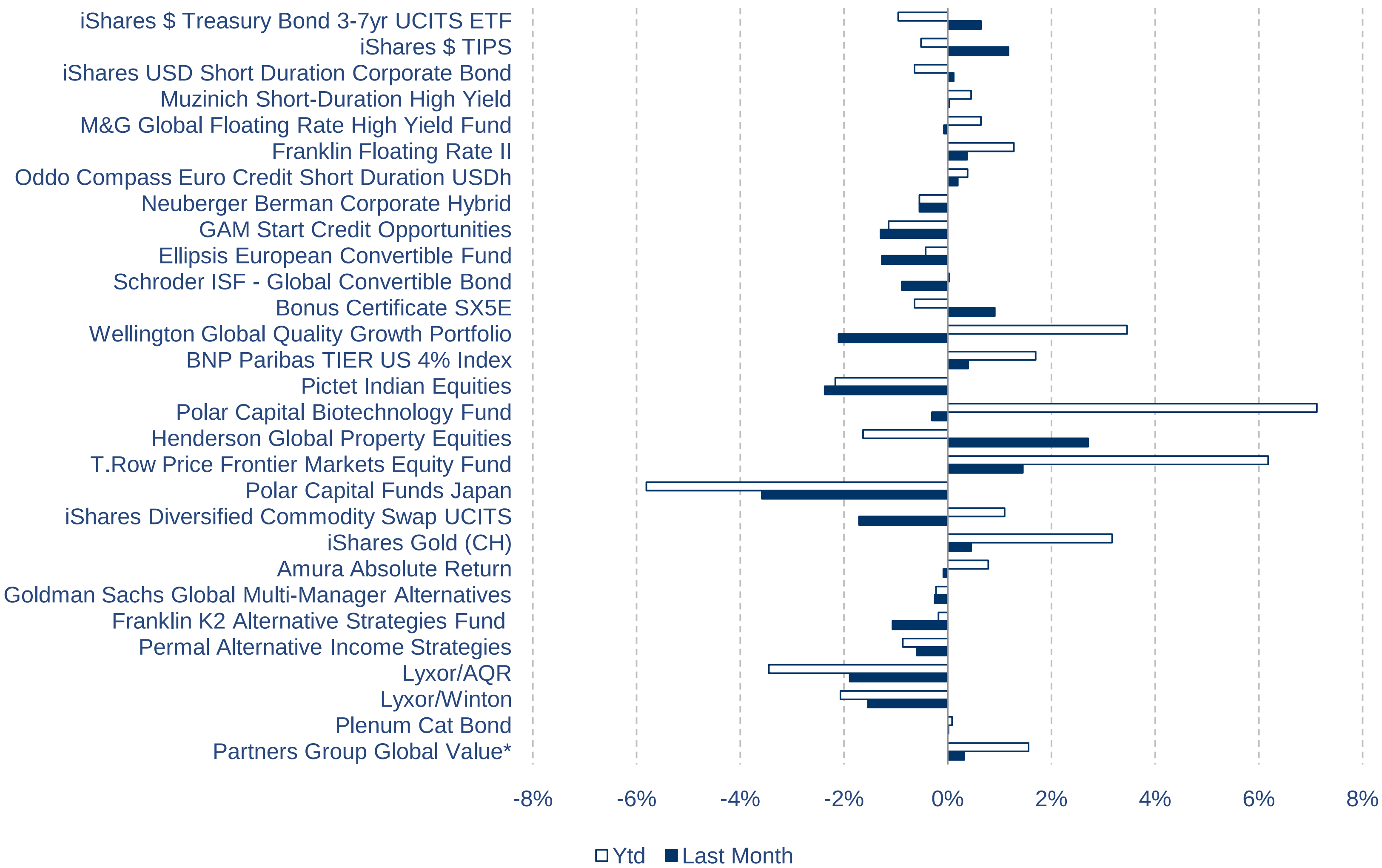
Key technical levels being tested



- The market has **entered into correction territory** several times in 2018, following concerns about rising interest rates, technology stocks, and geopolitical tensions
- **10-year US Treasury yields** have halted their rising **trend towards 3%,** but this has coincided with **risk-off environments** when their safe-haven status cause them to decrease. A good **earnings season** will be determinant for weathering future increases in interest rates

Source: Bloomberg

Model portfolio evolution



• A highly unusual month marked by wide **dispersion within and across asset classes**

Source: Bloomberg as of April 11, 2018
* Fund publishes monthly NAV with a 1 month of delay

Investment scenarios

	Scenario 1 Recession by political/policy accident	Scenario 2 Goldilocks	Scenario 3 New regime
Drivers	• Global economic slowdown caused by political accidents or policy errors (Trade war with China, EU breakup, a too aggressive Fed, etc.) • Deflationary scenario due to a combination of low growth and structural factors, although the rise of protectionism would be inflationary • The Fed will have to reverse curse, which would be complicated if inflation is rising	• The fiscal stimulus in the US provides a short-term impulse to the global economy, but not enough to attain a higher growth trajectory • Inflation, particularly in the US will pick-up, but remains subdued globally due to structural factors (demographics, low aggregated demand, deleveraging) • The Fed will continue its normalization path	• Growth concerns dissipate, with economic activity accelerating in US, Europe and Japan • Inflation in the US increases, as a consequence of president Trump's fiscal stimulus, and pulls other developed economies off deflation • The Fed will have to step up the pace of rate increases and/or reduce balance sheet
Market impact	• Correction in credit due to a rise in defaults and a widening of corporate spreads • Correction in equities due to lower projected earnings, though low rates will offer support • Sovereign and IG credit to profit due to flight to quality and the continuation of an ultra-loose monetary policy globally • USD neutral to weak as flight to quality is counterbalanced by low interest rates • Commodities will fall	• Equities appreciate moderately, with Europe and Japan catching up with the US • Credit spreads remain stable as the credit cycle is further elongated • Sovereigns suffer as monetary policy is progressively normalized • USD appreciate moderately due to higher interest rate differentials • Commodity prices will rise in the short-term, normalizing once the impulse vanishes	• Impact on equities will depend on how much real economic growth is sustained, and how accommodative the Fed remains • Sovereign and IG bonds will face steep losses due to higher rates, particularly if long-term inflation expectations rise • Corporate credit will correct moderately if inflation comes together with higher growth • The USD will appreciate, particularly against those currencies facing deflation • Commodities will gain from higher inflation
Probability	30% (+5%)	40%	30% (-5%)

Short-term catalyzers

Fiscal stimulus in the US, improvement in macro-data globally, lower geopolitical tensions

Other risks

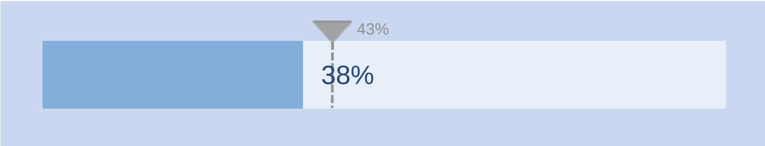
Trade wars, Spread of populist political parties, China slowdown, Terrorism

MWM Investment Policy

Cash

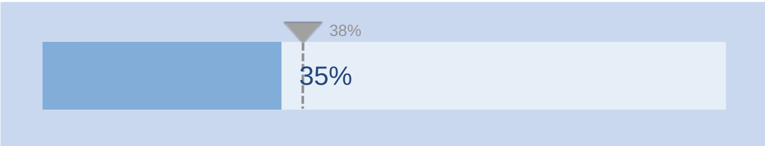
- In the current environment holding cash is becoming costly. Hence, we prefer to invest in short-term high quality bonds as a substitute for cash

Fixed Income



- Corporate debt and High Yield currently offer the best combination of risk and return. Treasuries can benefit from a slowdown in growth – although this less likely with the expected fiscal stimulus in the US – whilst TIPS offer protection against rising inflation
- We avoid emerging markets until there is more clarity on trade policy by the new US administration

Equities



- Fiscal reform in the US will accelerate growth and postpone the fear of deflation, which will be supportive for equities as the top line will increase. However, it remains to be seen to which extend this comes along with an increase of interest rates, which will be a drag on valuations
- We favor investments in non-directional strategies, as well as in preferred companies and sectors

Commodities

- Commodity prices have recently stabilized. Reflationary policies, and in particular a boost in infrastructure spending, will further support energy and industrial metals
- Gold and precious metals will be dependent on the relative pace of increase in both inflation and interest rates, but offer in any case good diversification for the portfolio

Alternative Investments

- Alternative investments as a source of low volatility and uncorrelated returns are more attractive than ever in the wake of the current latent risks in the market
- However, there is always a certain degree of correlation with traditional asset classes and double digit positive returns cannot be expected in the current environment

▼ Strategic Asset Allocation

MWM Model Portfolio Balanced (CH)

Cash	Cash	• Cash	3%	3%
Fixed Income	US Treasuries	• iShares Treasury Bond 3-7yr	3%	38%
	Short-Term Corporate Bonds	• iShares USD Short Duration Corporate Bond	4%	
	US TIPS	• iShares $ TIPS	5%	
	High Yield US	• Muzinich Short Duration High Yield	3%	
	High Yield Europe	• Oddo Compass Euro Credit Short Duration	3%	
	High Yield Floating	• M&G Global Floating Rate High Yield Fund	3%	
	Leveraged Loans	• Franklin Floating rate II	3%	
	Subordinated Debt	• GAM Star Credit Opportunities	4%	
		• Neuberger Berman Corporate Hybrid	4%	
	Convertible Bonds	• Ellipsis European Convertible Fund	3%	
		• Schroder Global Convertible Bond	3%	
Equities	Volatility	• Reverse Convertibles on Blue Chips	8%	35%
		• Bonus Certificate on Indices	8%	
	Growth	• Wellington Global Quality Growth Portfolio	4%	
	Japan	• Polar Capital Funds Japan	3%	
	India	• Pictet Indian Equities	3%	
	Frontier Markets	• T.Row Price Frontier Markets Equity Fund	3%	
	Biotechnology	• Polar Capital Biotechnology Fund	3%	
	Real Estate	• Henderson Global Property Equities	3%	
Commodities	Diversified	• iShares Diversified Commodity Swap	3%	6%
	Gold	• iShares Gold	3%	
Alternative Investments	Multi-Strategy	• Permal Alternative Income Strategies	2%	18%
	Multi-Strategy	• Amura Absolute Return	2%	
	Multi-Strategy	• Franklin K2 Alternative Strategies Fund	2%	
	Multi-Strategy	• Goldman Sachs Global Multi-Manager Alternatives Portfolio	2%	
	CTA, Diversified	• Lyxor AQR Systematic Total Return	2%	
	CTA, Diversified	• Lyxor Winton Fund	2%	
	Cat Bonds	• Plenum CAT Bond Fund	3%	
	Private Equity	• Partners Group Global Value	3%	

MWM Model Portfolio Balanced (US)

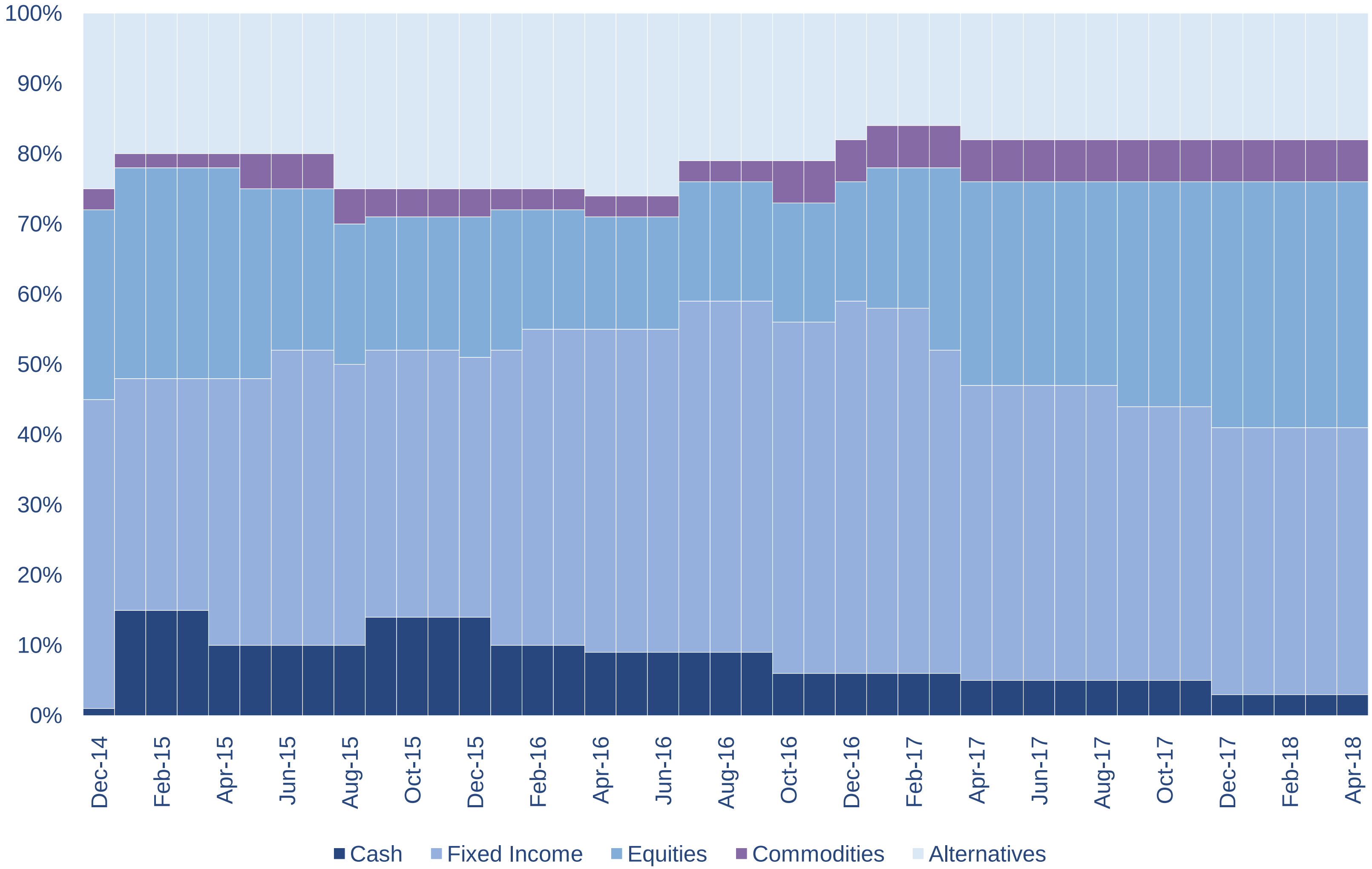
Asset Class	Sub-Class	Fund	Weight	Total
Cash	Cash	• Cash	3%	3%
Fixed Income	US Treasuries	• MFS Meridian - U.S. Government Bond Fund	3%	38%
	Short-Term Corporate Bonds	• Blackrock US Dollar Short Duration Bond Fund Class	4%	
	US TIPS	• PIMCO Global Real Return Fund USD	5%	
	Global Investment Grade	• Carmignac Portfolio - Global Bond	3%	
	High Yield US	• Lord Abbett High Yield Fund	3%	
	High Yield Europe	• Aberdeen Global - Select Euro High Yield Bond	3%	
	Leveraged Loans	• Franklin Floating rate II	3%	
	Subordinated Debt	• GAM Star Credit opportunities	8%	
	Convertible Bonds	• Calamos Global Convertibles	6%	
Equities	Volatility	• Reverse Convertibles on Blue Chips	10%	35%
		• Bonus Certificate on Indices	10%	
	Growth	• MFS Meridian Global Concentrated Fund	5%	
	High Dividend Yield	• Schroder Global Dividend Maximizer	5%	
	Japan	• GAM Star Japan Equity Fund	3%	
	India	• Franklin India Fund	3%	
	Frontier Markets	• Templeton Frontier Markets	3%	
	Biotechnology	• Franklin Biotechnology Discovery Fund	3%	
	Real Estate	• Henderson Global Property Equities	3%	
Commodities	Diversified	• iShares Diversified Commodity Swap	3%	6%
	Gold	• iShares Gold Trust	3%	
Alternative Investments	Multi-Strategy	• Franklin K2 Alternative Strategies Fund	5%	18%
	Multi-Strategy	• Blackrock Multi-Manager Alternative Strategies Fund	5%	
	CTA, Diversified	• Permal Alternative Income Strategies	4%	
	Private Equity	• iShares Listed Private Equity	4%	

MWM Investment Profiles

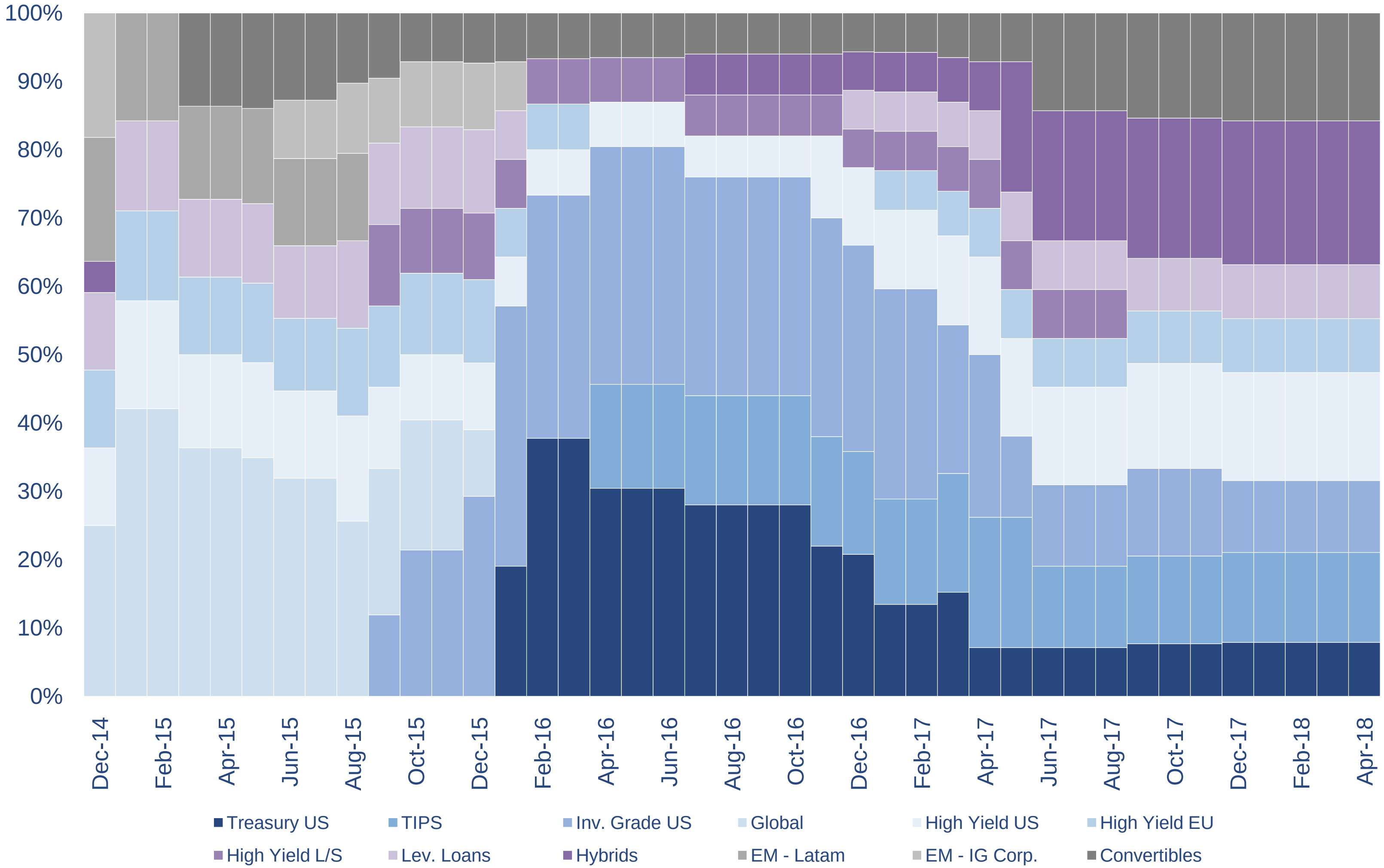
	Conservative	Balanced	Growth
Cash	5% (SAA 5%)	3% (SAA 5%)	1% (SAA 5%)
Fixed Income	56% (SAA 64%)	38% (SAA 43%)	19% (SAA 22%)
Equities	23% (SAA 24%)	35% (SAA 38%)	49% (SAA 52%)
Commodities	4% (SAA 2%)	6% (SAA 4%)	8% (SAA 6%)
Alternative Investments	12% (SAA 5%)	18% (SAA 10%)	23% (SAA 15%)

▼ Strategic Asset Allocation

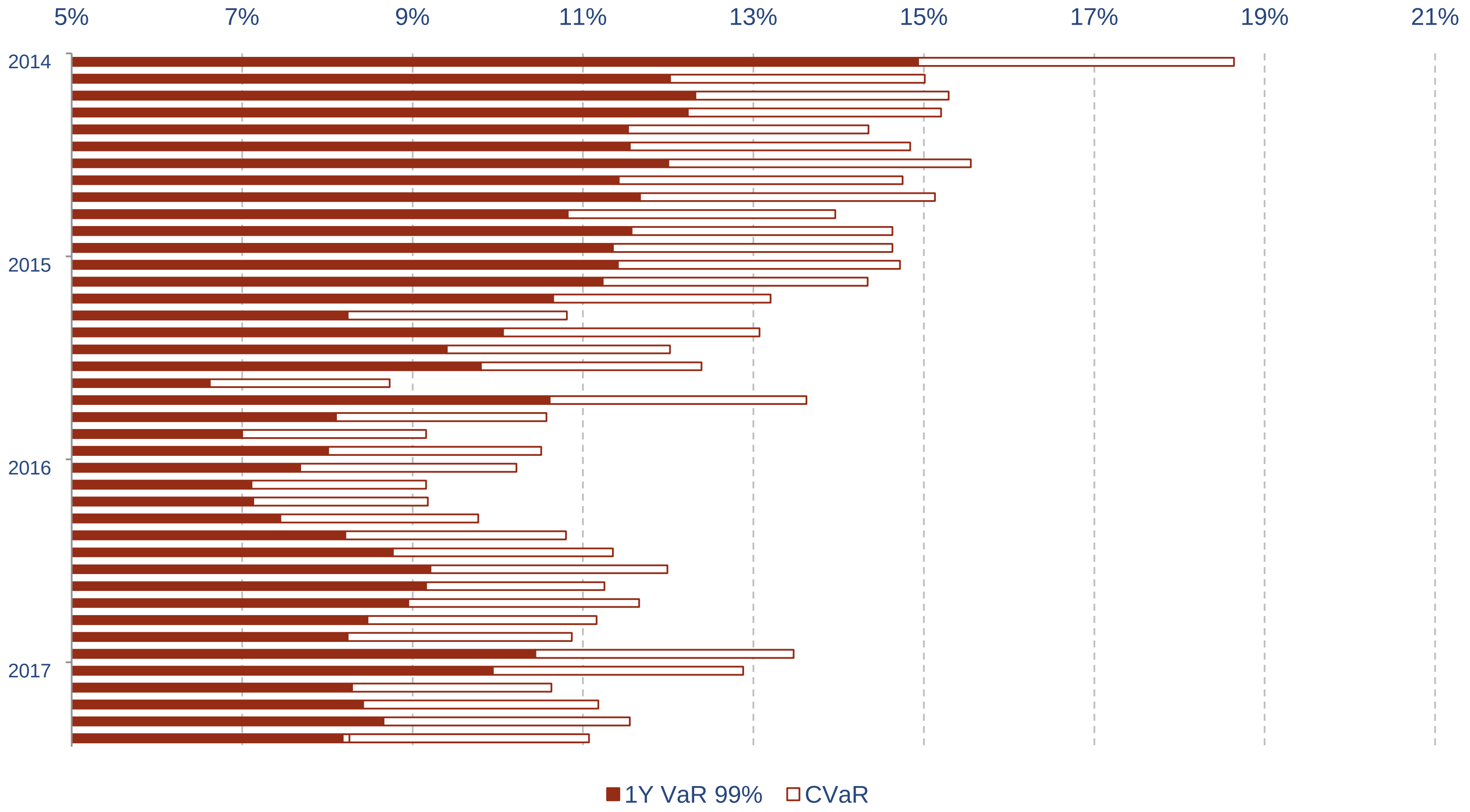
MWM Model Portfolio – Asset Allocation evolution



MWM Model Portfolio – Fixed Income evolution

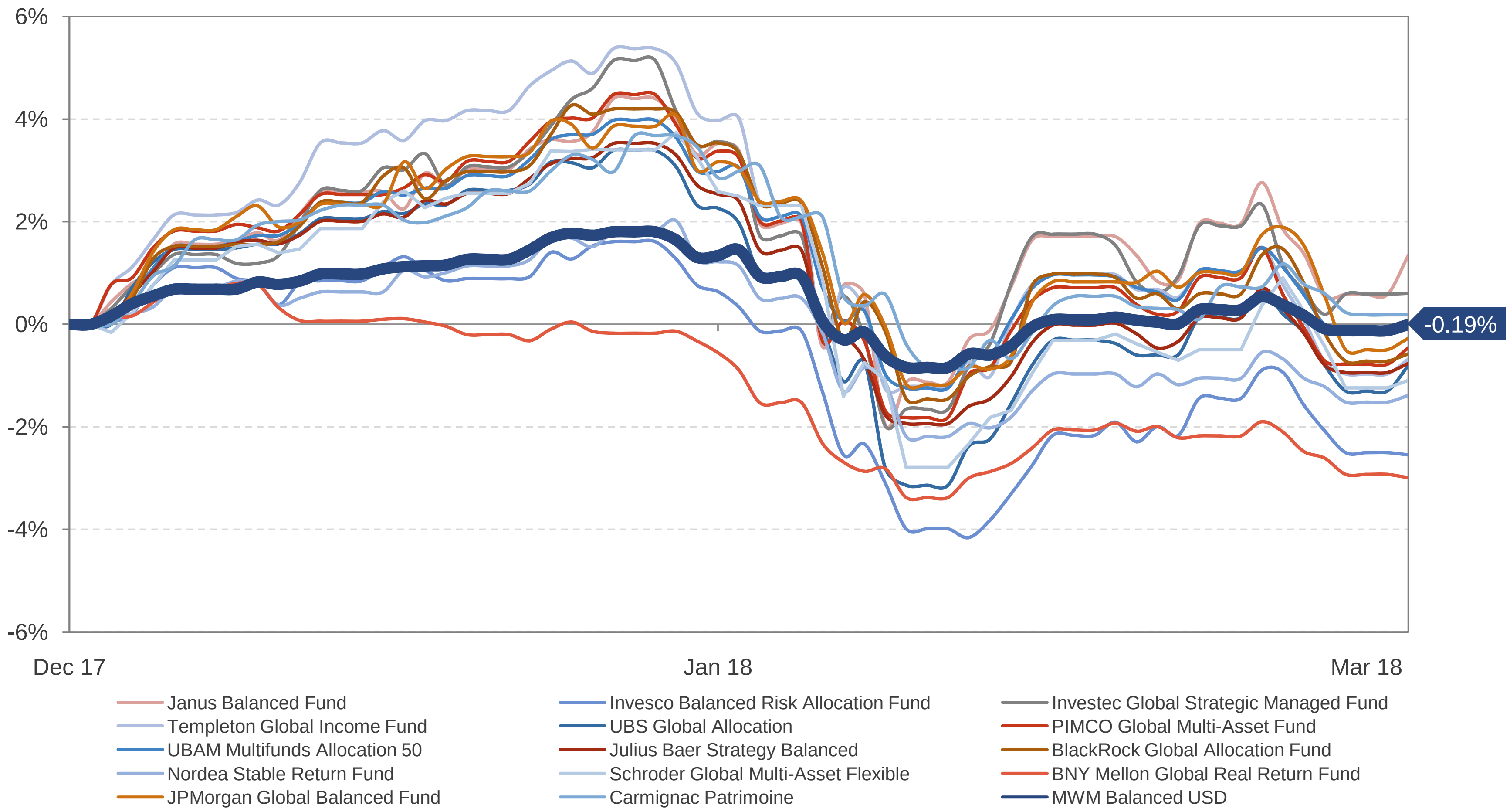


MWM Model Portfolio – VaR evolution



- The **VaR** of the portfolio remains contained, despite the recent rise in volatility, reflecting the conservative positioning of our portfolio

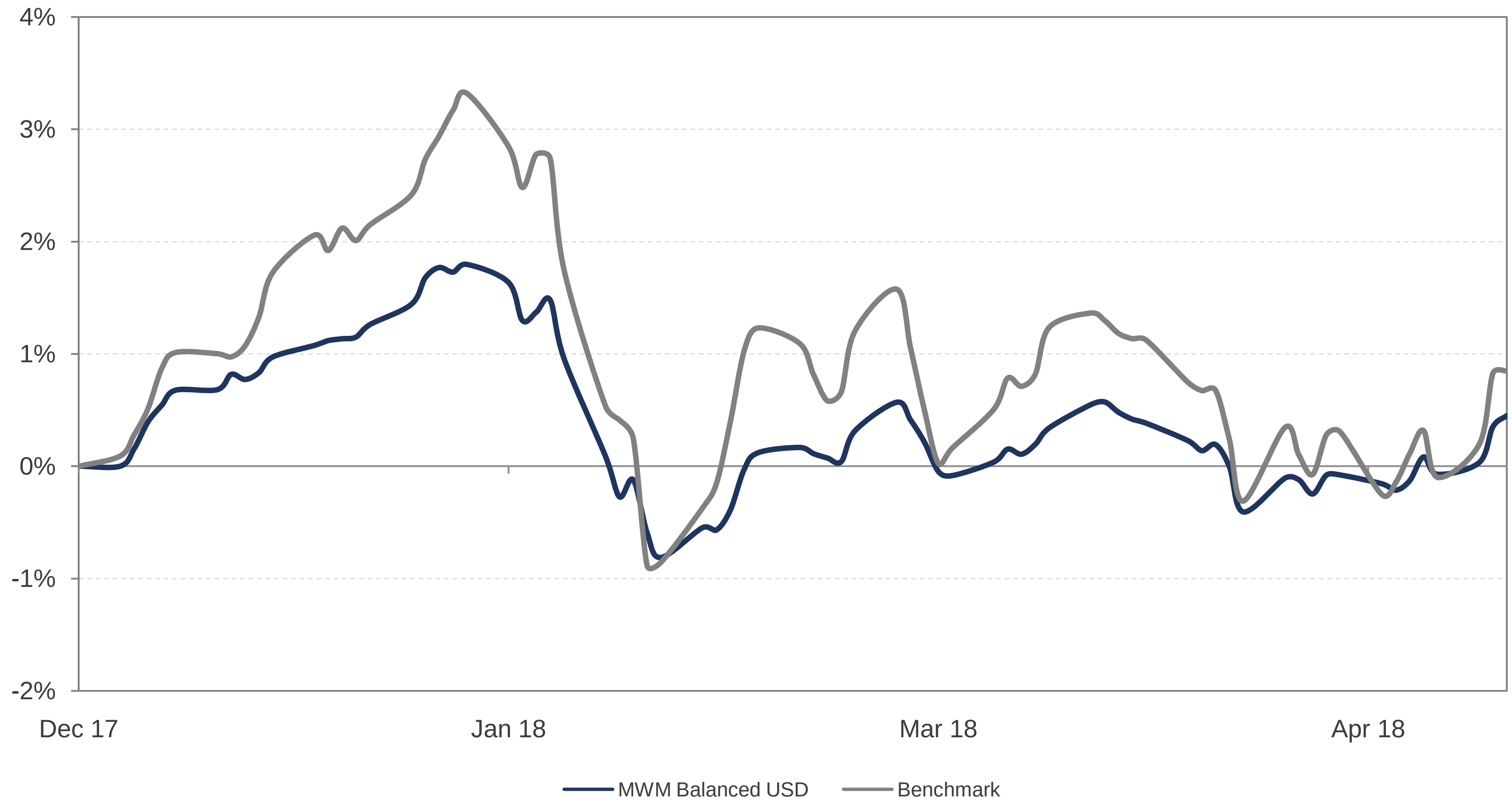
MWM Model Portfolio - Peer comparison



- **Total Return** (Ytd[1]): **3rd out of 15**
- **Standard Deviation** (1 year[1]): **1st out of 15**
- **Downside Risk** (1 year[1]): **1st out of 15**
- **Sharp Ratio** (1 year[1]): **4th out of 15**

[1] As of April 3, 2018
Source: Bloomberg

MWM Model Portfolio - Ytd performance

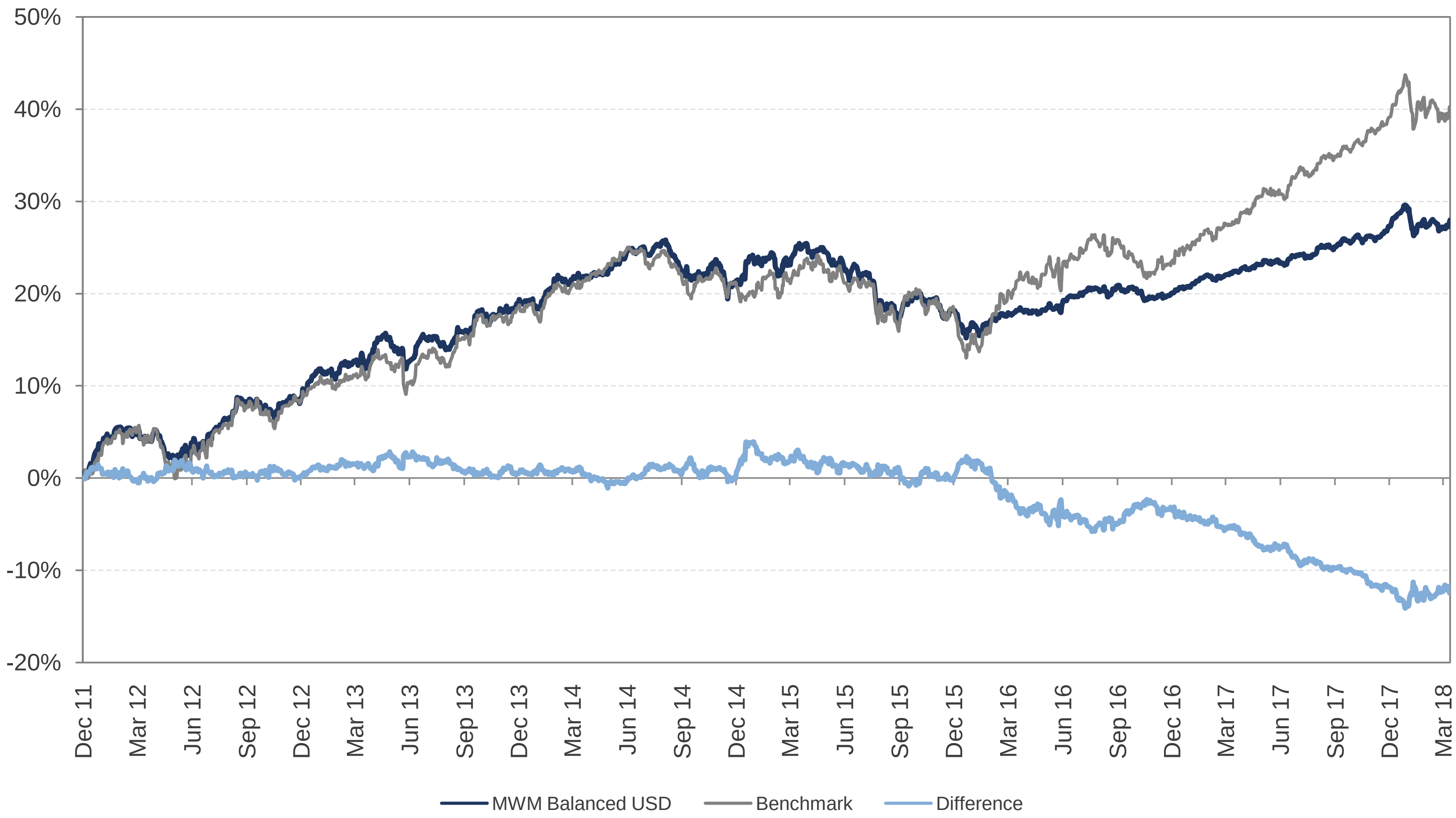


- **Total Return** (Ytd[1]): **0.47%** vs. **0.85%** Benchmark[2]
- **Standard Deviation** (Ytd[1]): **3.35%** vs. **6.05%** Benchmark[2]
- **Downside Risk** (Ytd[1]): **2.71%** vs. **4.80%** Benchmark[2]
- **Sharpe Ratio** (Ytd[1]): **0.05** vs. **0.27** Benchmark[2]

[1] As of April 11, 2018

[2] Benchmark = 5% Fed Funds + 43% JPM Global Aggregate Bond Index + 38% MSCI World + 4% S&P GSCI + 10% HFRI FoHF

MWM Model Portfolio - Historical performance (1)

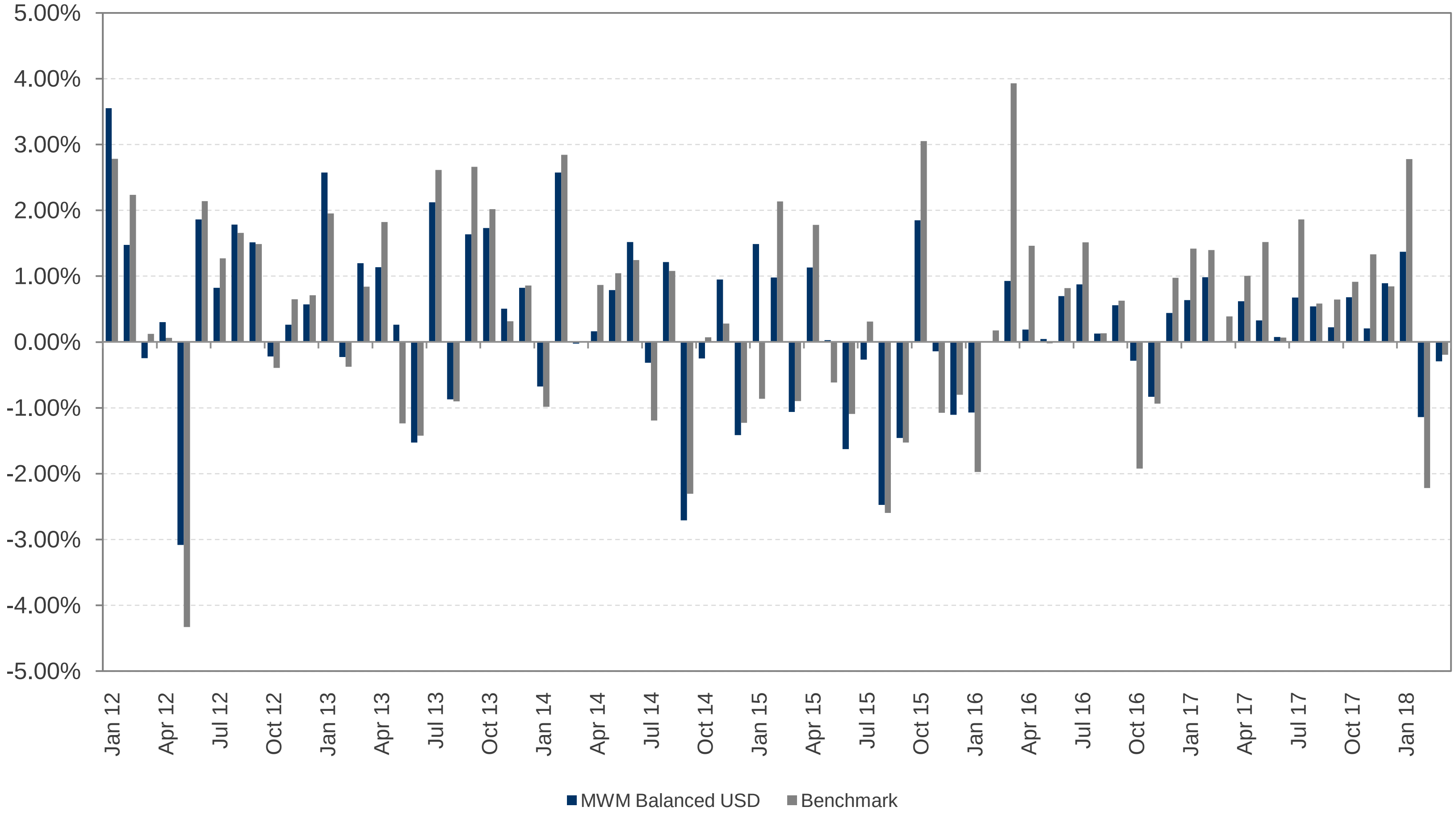


- **Total Return** (1 year[1]): **4.55%** vs. **9.87%** Benchmark[2]
- **Total Return** (3 year[1]): **2.23%** vs. **14.74%** Benchmark[2]
- **Total Return** (Since Jan 12[1]): **27.19%** vs. **39.49%** Benchmark[2]

[1] As of April 11, 2018

[2] Benchmark = 5% Fed Funds + 43% JPM Global Aggregate Bond Index + 38% MSCI World + 4% S&P GSCI + 10% HFRI FoHF

MWM Model Portfolio - Historical performance (2)



- **Standard Deviation** (1 year[1]): **2.21%** vs. **4.02%** Benchmark[2]
- **Downside Risk** (1 year[1]): **1.73%** vs. **3.10%** Benchmark[2]
- **Sharpe Ratio** (1 year[1]): **1.53** vs. **2.18** Benchmark[2]
- **Var 95% - 1day** (1 year[1]): **-0.19%** vs. -**0.37%** Benchmark[2]

[1] As of April 11, 2018

[2] Benchmark = 5% Fed Funds + 43% JPM Global Aggregate Bond Index + 38% MSCI World + 4% S&P GSCI + 10% HFRI FoHF

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