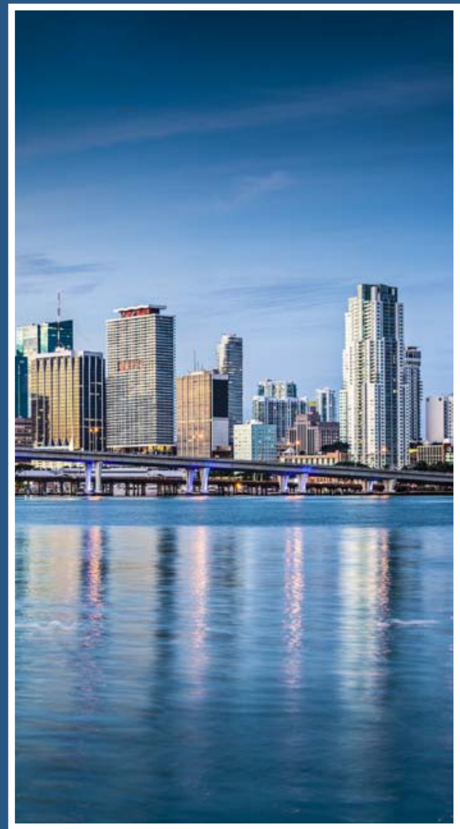
MORA WEALTH MANAGEMENT

Investment Policy

March 2019



Our market view in a nutshell – March 2019

- **China assertiveness and the Fed's sharp U-turn continue providing support to risk assets**. In addition, the progress made towards reaching a **trade agreement between China and the US** increases the chance of experiencing another leg up in equity markets

- For this **"Goldilocks" environment** to continue, the **behavior of inflation is key**, since an inflation overshoot **can force the Fed to revert its stance**. This would put upward pressure on the yield curve, **bringing the economic cycle closer to an end**

- **Monetary authorities currently operate under a high degree of uncertainty**, since statistics may be overestimating inflation and underestimating productivity and growth. In fact, the most accepted estimate of **the neutral level of interest rates is currently indicating that the normalization process may have already ended** and any additional increase in rates will be a tightening of monetary policy

- As for **China, the country is showing a great determination to stabilize its economy**, resorting to **monetary and fiscal stimuli**, for which it still has a wide margin of maneuver. It is important to note that they are changing the way they are implementing fiscal stimuli to control the level of debt, **favoring tax cuts over investments in infrastructure**. They are not alone in this fiscal expansion, as **the US will be running large fiscal deficits in the coming years** and, if the European core enters into recession, **Europe may have to abandon austerity soon**

- Beyond macroeconomic support, **corporate fundamentals remain generally strong** (with the only concern of debt levels), and **corporate profits are showing no sign of a slowdown**. In fact, earnings growth combined with the low level of interest rates render **equities relatively cheap compared to bonds**

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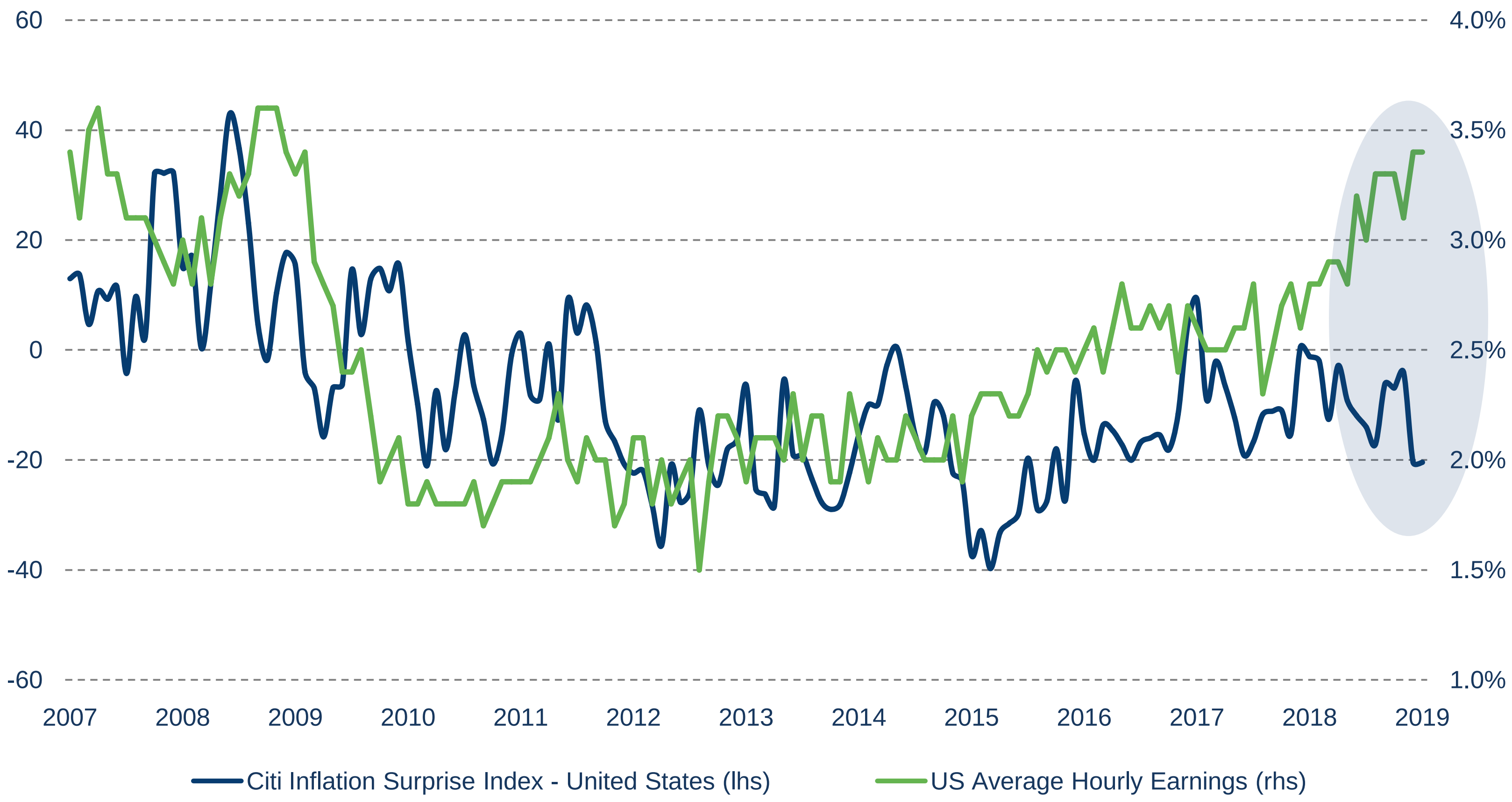
Asset Class		View	Rationale
Fixed Income	US Treasuries	+	Treasuries offer protection from a slowdown in growth – although this less likely with the fiscal stimulus in the US – whilst TIPS offer protection against rising inflation as a consequence of reflationary policies
	US Credit	+	Corporate debt and High Yield currently offer the best combination of risk and return. We prefer medium maturities as the yield curve has flattened considerably and there is little term premium to compensate for taking interest rate risk
	European Sovereign	–	High quality debt in Euros presents a very unattractive combination of risk and return as current yields offer very little cushion to weather potential interest rates increases
	European Credit	=	In European credit we only see value in subordinated debt, asset-backed securities and short-duration high yield
	Emerging Markets	=	Emerging Markets currencies and spreads have adjusted significantly to a stronger dollar and the uncertainties around global growth. With the Fed signaling being closer to the neutral rate, we deem current levels to offer fair value
Equities	US	+	After the recent market corrections, valuations have improved substantially. We have therefore increased our exposure to US equities, mostly through quality and growth oriented companies
	Europe	=	From a relative valuation perspective, we like European stocks as they trade at lower multiples, and we expect profits to pick up as economic activity accelerates
	Japan	=	Japanese stocks are the cheapest in developed markets, but have suffered recently due to sluggish growth, and concerns about global trade
	Emerging Markets	+	Emerging markets have corrected sharply since the beginning of the year affected by a strong dollar and trade concerns. We deem the correction suffered has been excessive, and continue favoring India, Frontier Markets and Brazil within EM
	Sectors & Themes	+	Amongst others, we favor Biotechnology and listed Real Estate
Alternative Investments	Multi-Strategy Hedge Funds	–	Multi-strategy / multi-manager hedge funds with daily liquidity are having a disappointing performance, particularly when compared with other less risky alternatives, like short-term corporate bonds
	Commodities	=	A diversified commodities allocations, further help us to increase diversification and to protect the portfolios against a scenario of rising inflation
	Private Equity	=	Investing in late-stage private equity provides access to the asset class with liquidity provision up to a certain degree

\+ Overweight – Underweight = Neutral

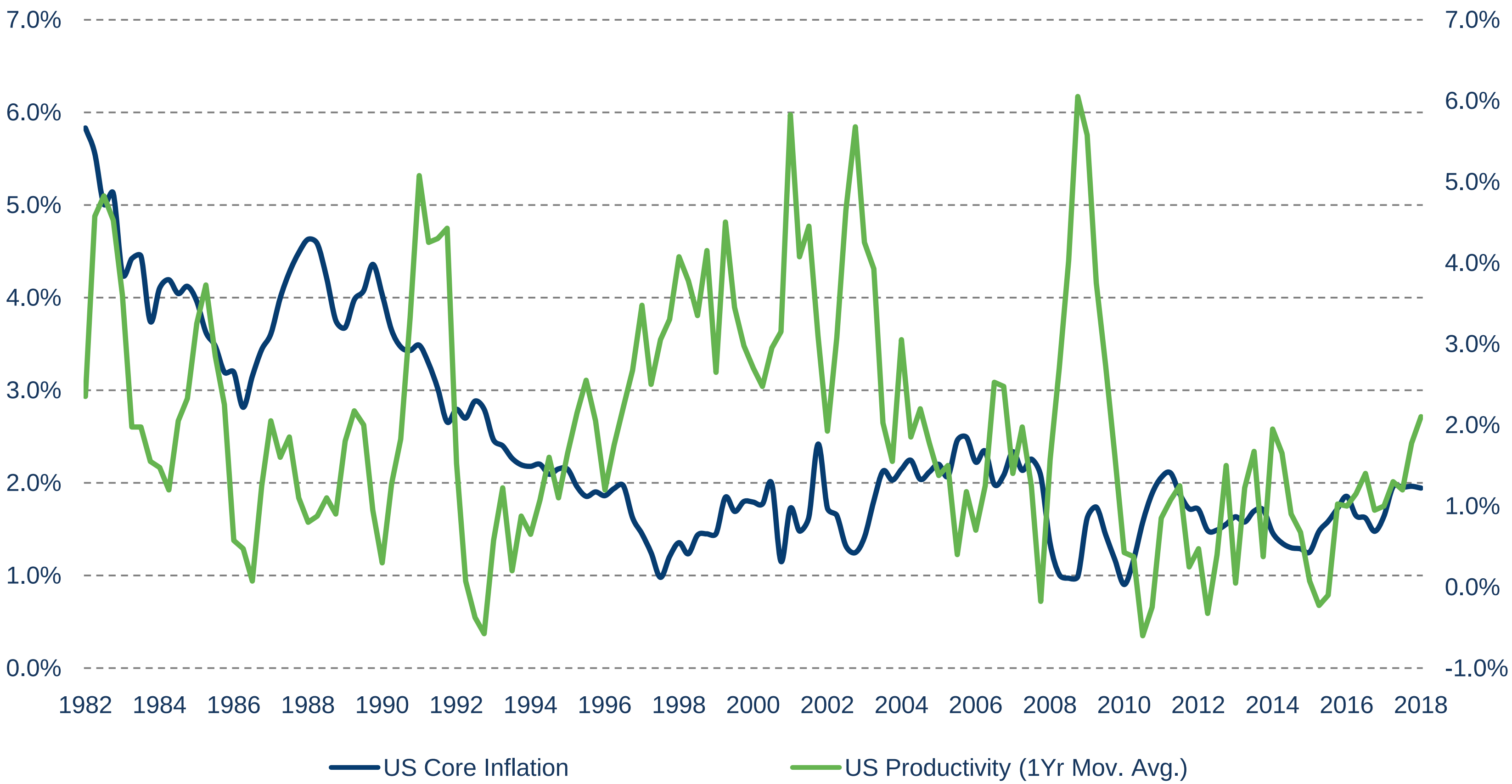
The inflation conundrum



- With markets recovering after the Fed's U-turn, inflation returns to the front page. Since **the Fed can remain patient only if prices remain under control**
- Since the financial crisis, **inflation readings have consistently been below expectations**, despite the low level of unemployment and the recovery of wages; questioning well-established economic theories such as the Phillips curve

Source: Bloomberg

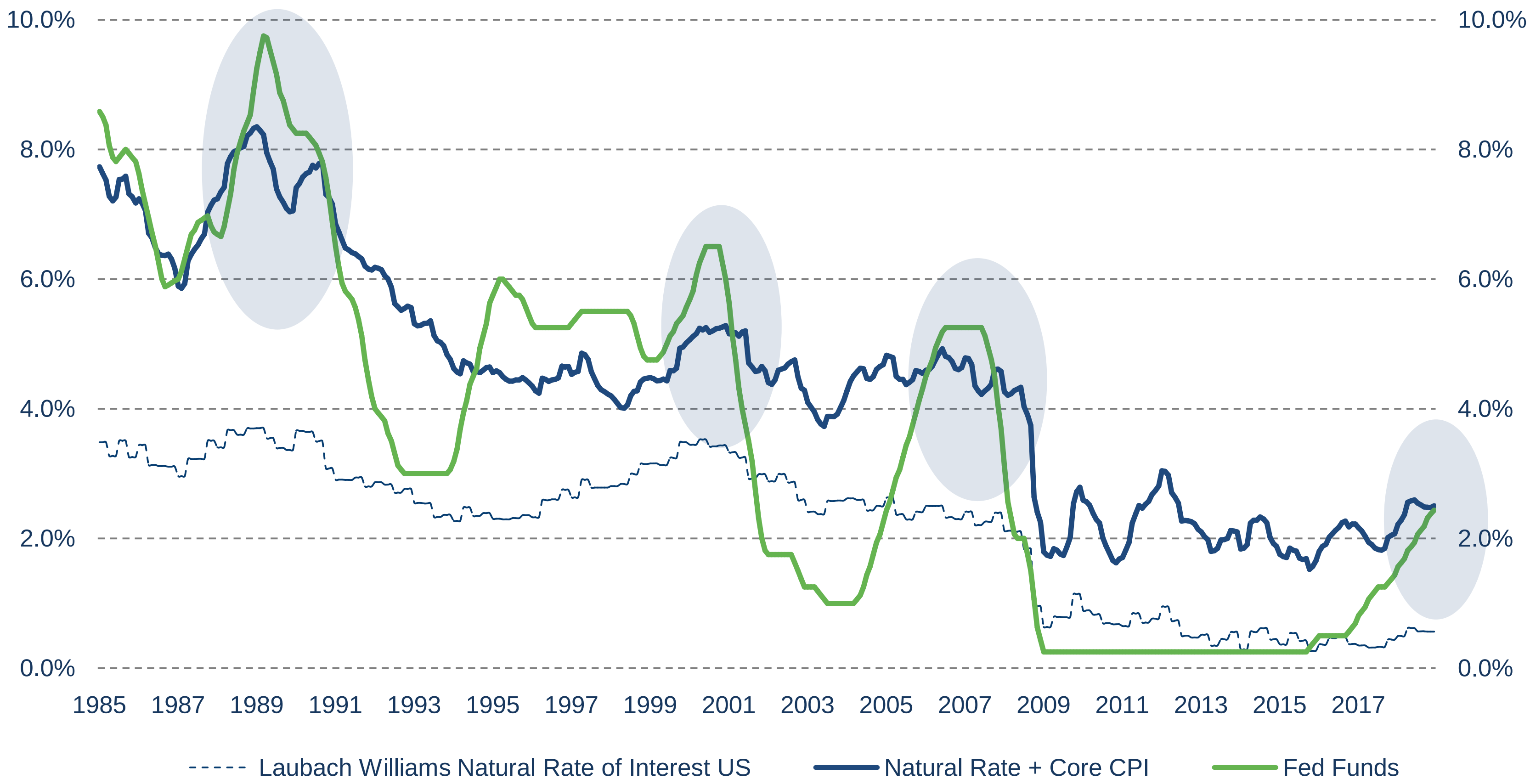
Or is it a productivity conundrum?



- Inflation has been installed in a **declining secular trend for decades**, due to the impact of globalization, and the orthodoxy of central banks. The trend seems to have hit bottom at the beginning of the new century, but **it could well be that our inflation measures are defective** and, as a result, we are living in deflationary times
- **If inflation is overestimated, productivity is underestimated**, and vice versa. So it is possible that the real economic growth (not nominal) is greater than what is reflected in the statistics

Source: Bloomberg

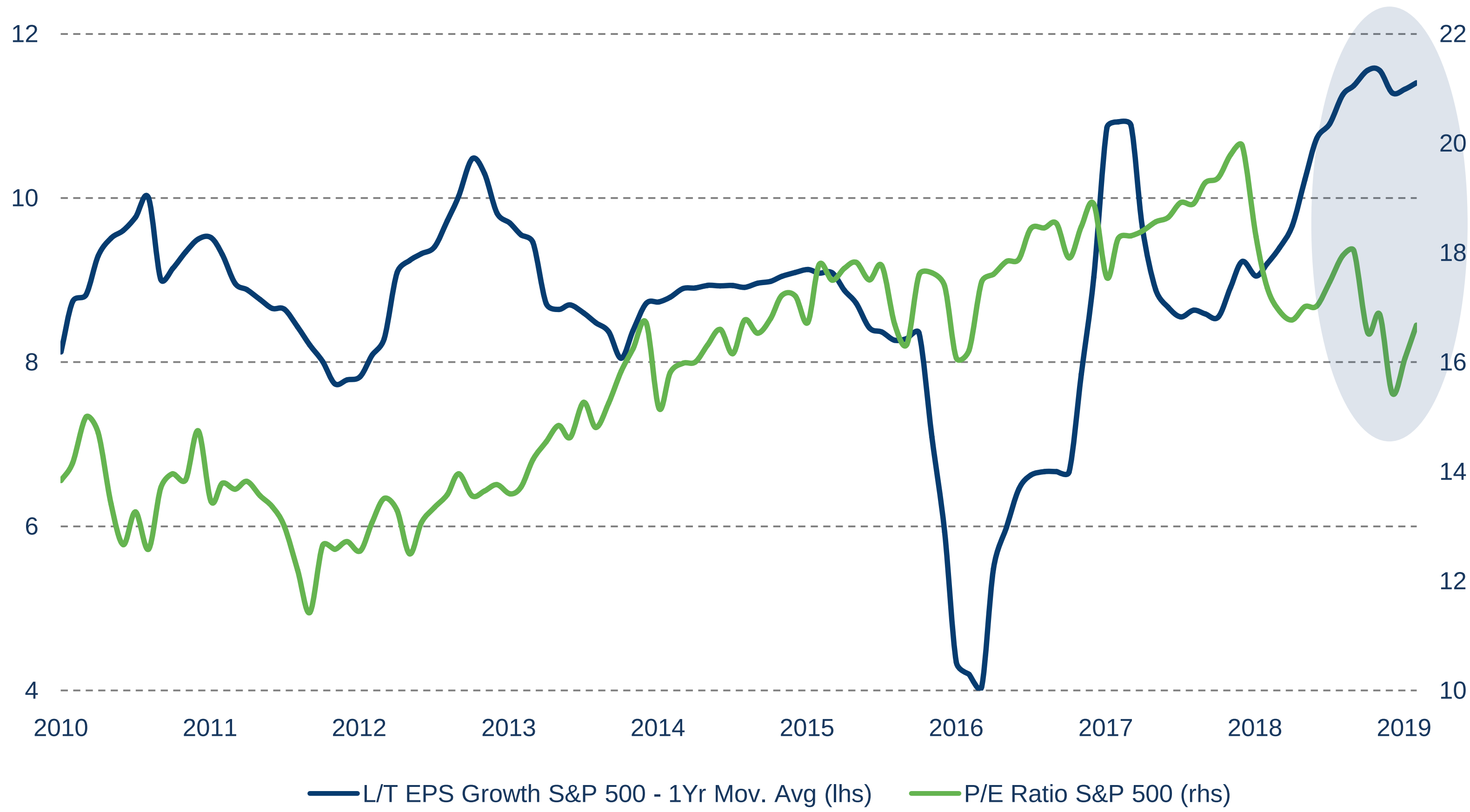
The Fed pivot signals the end of normalization



- The challenge for the Fed is compounded by **another secular trend, the decline in economic growth**, which leads to a **decrease in the neutral interest rate (**also known as r-star)
- The most accepted r-star estimates currently place it at 0.6%. If we add core inflation to obtain the nominal rate, we see that we reach a level very close to the current discount rate of the Federal Reserve. **If the r-star estimates are correct, the Fed would have completed the normalization process**, and any additional increase in the rates will be a tightening of monetary policy

Source: Bloomberg

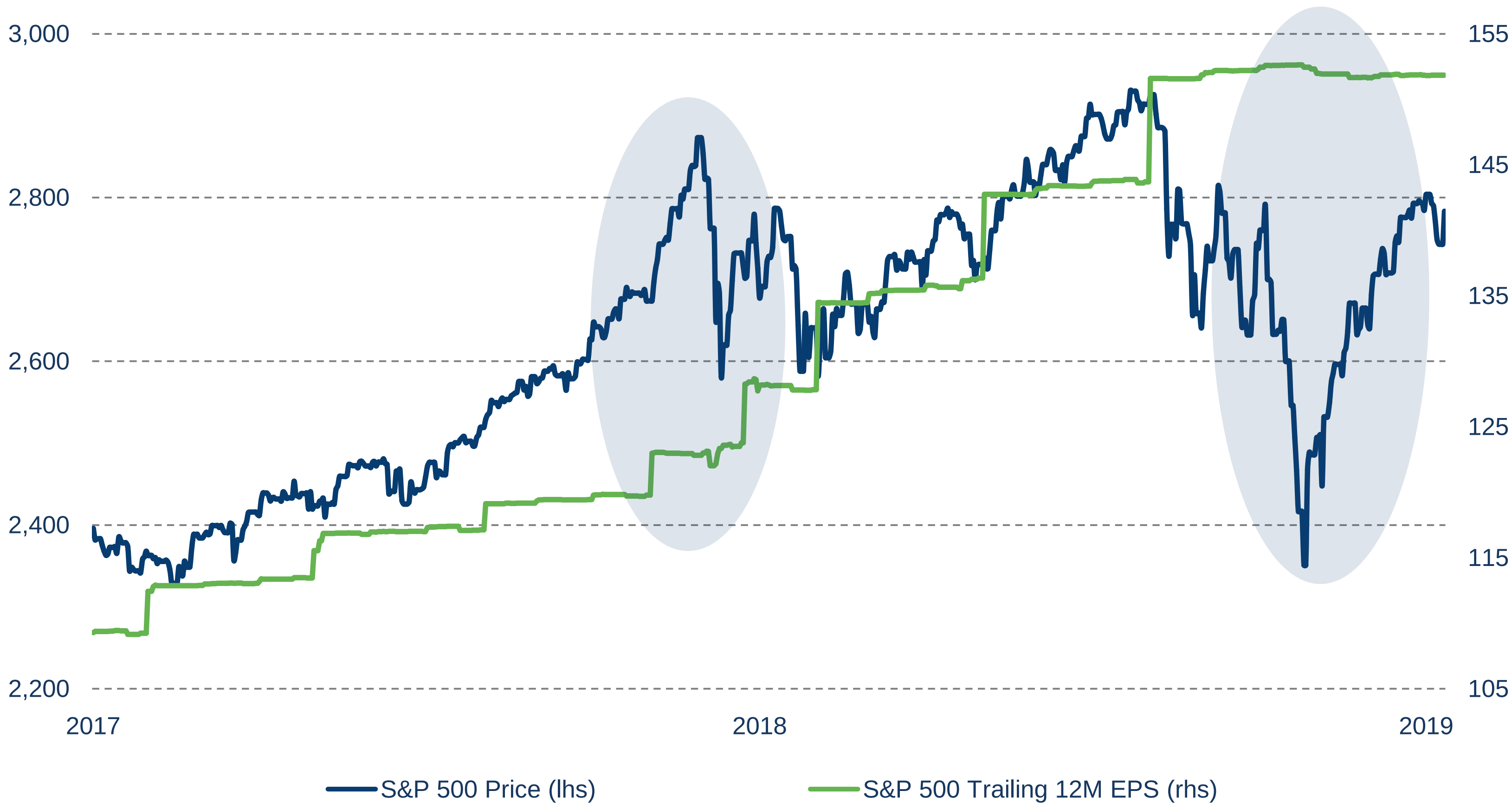
Equities are not expensive



- **If interest rates are to remain low for the foreseeable future**, from a multiples perspective, **current stock valuations look relatively cheap**
- The attractiveness of US stocks would be even greater if long-term estimates of earnings growth materialized. In fact, **when long-term growth is taken into account, US stocks compare attractively against European or Japanese** stocks, despite commanding a higher P/E

Source: Bloomberg

In the long run it is all about earnings growth



- In fact, earnings growth is the ultimate driver of stock performance. **Looking only at stocks prices creates an "optical illusion" by which actions tend to look expensive** compared to the past. The investment discipline consists in adjusting equity exposure based on the relative evolution of stock prices and corporate profits
- Stock prices were ahead of corporate earnings in 2017, while they corrected in 2018 with rising profits; but unlike what happened in 2015-16, **we have not seen a contraction in corporate profits**

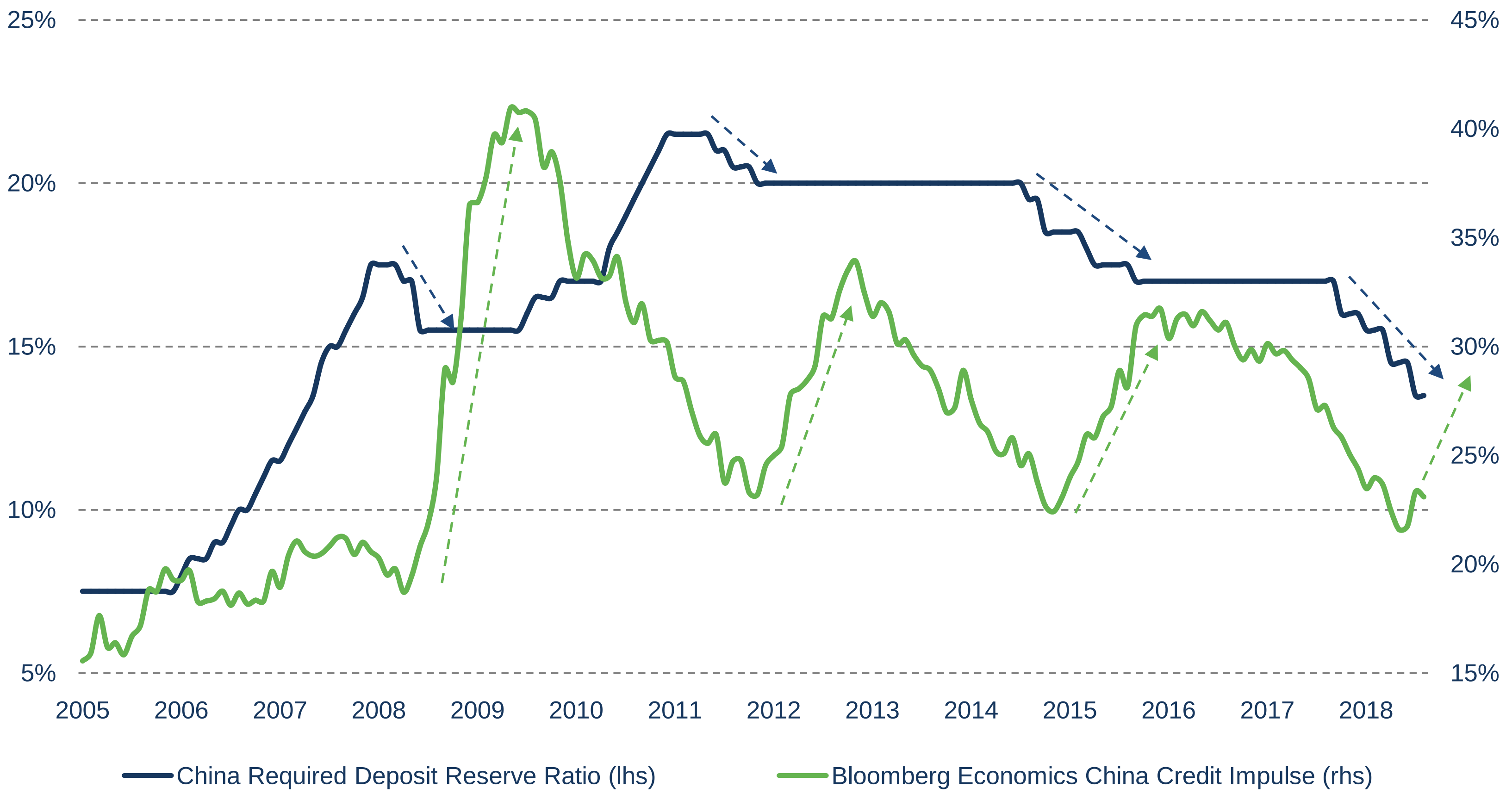
Source: Bloomberg

Recession fears are abating

- **Fears of a recession** caused the stock and credit markets to correct by the end of the year, but they **have decreased considerably since January**
- **Macroeconomic data point to a scenario of low but stable growth**, which should be favorable for risk assets

Source: Bloomberg

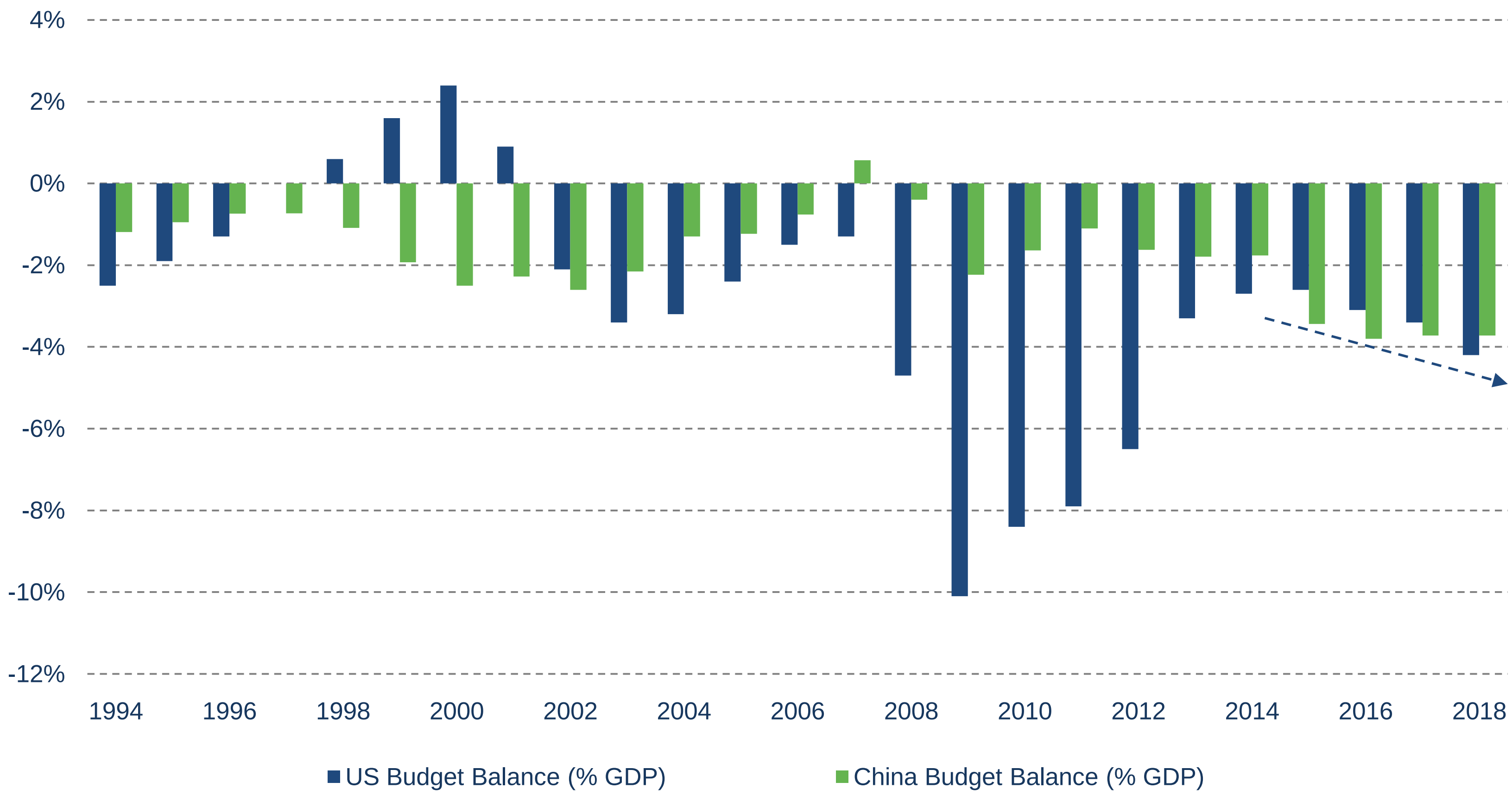
China committed to avoiding a hard landing



- **China is showing great determination to stabilize its econ**omy, resorting to both monetary and fiscal stimuli
- Although they try to curb credit by restricting the “shadow banking system" and financing local governments, they are **pushing banks to increase lending to corporations**

Source: Bloomberg

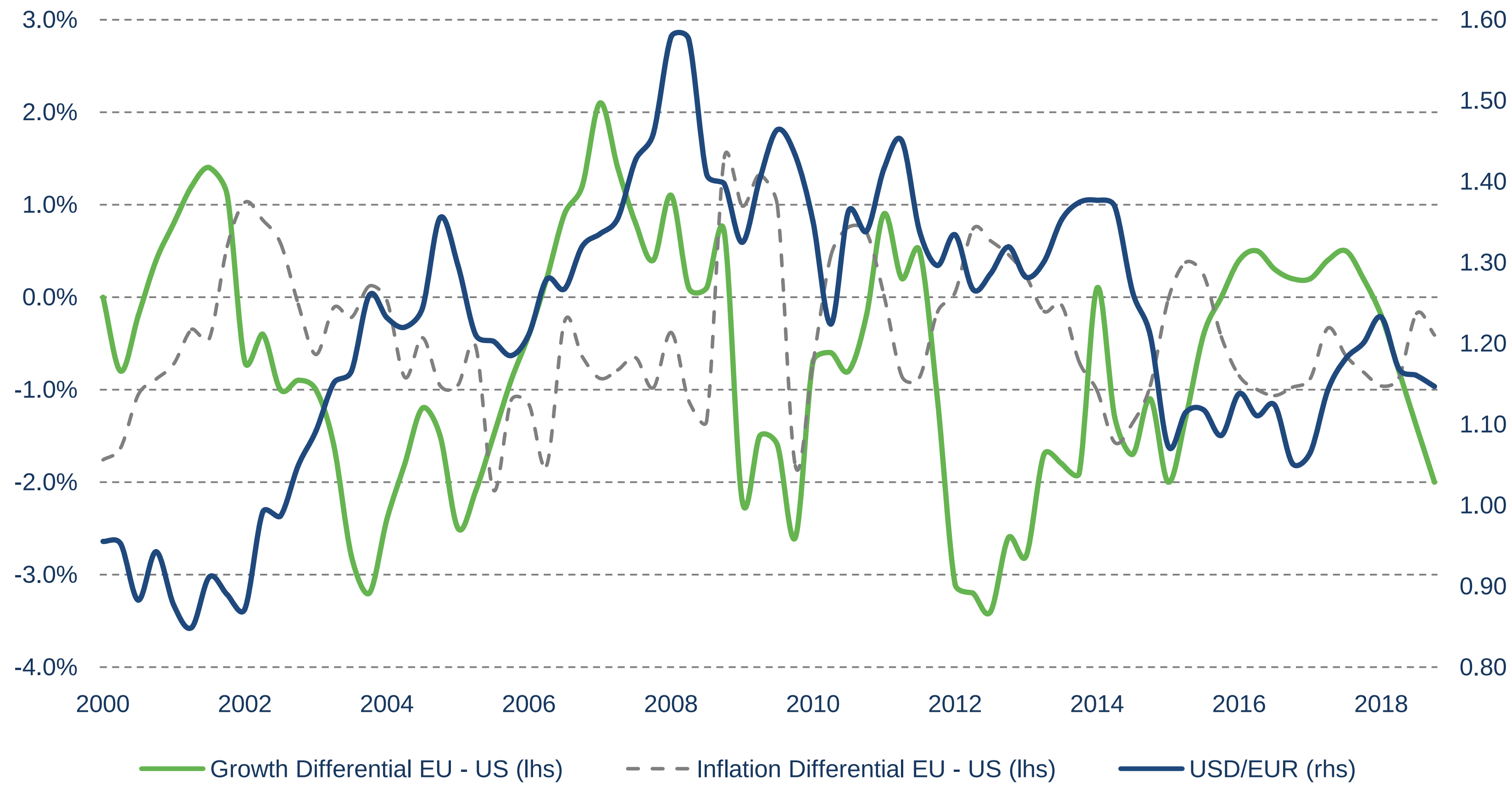
A global fiscal expansion is underway



- China is also changing the way it is implementing fiscal stimuli, **moving from infrastructure investments to tax cuts**, for which it still has ample room to stimulate its economy
- Globally, **fiscal consolidation is a thing of the past**, since only Europe remains committed to austerity. However, as with the QE, they may need to follow the rest soon

Source: Bloomberg

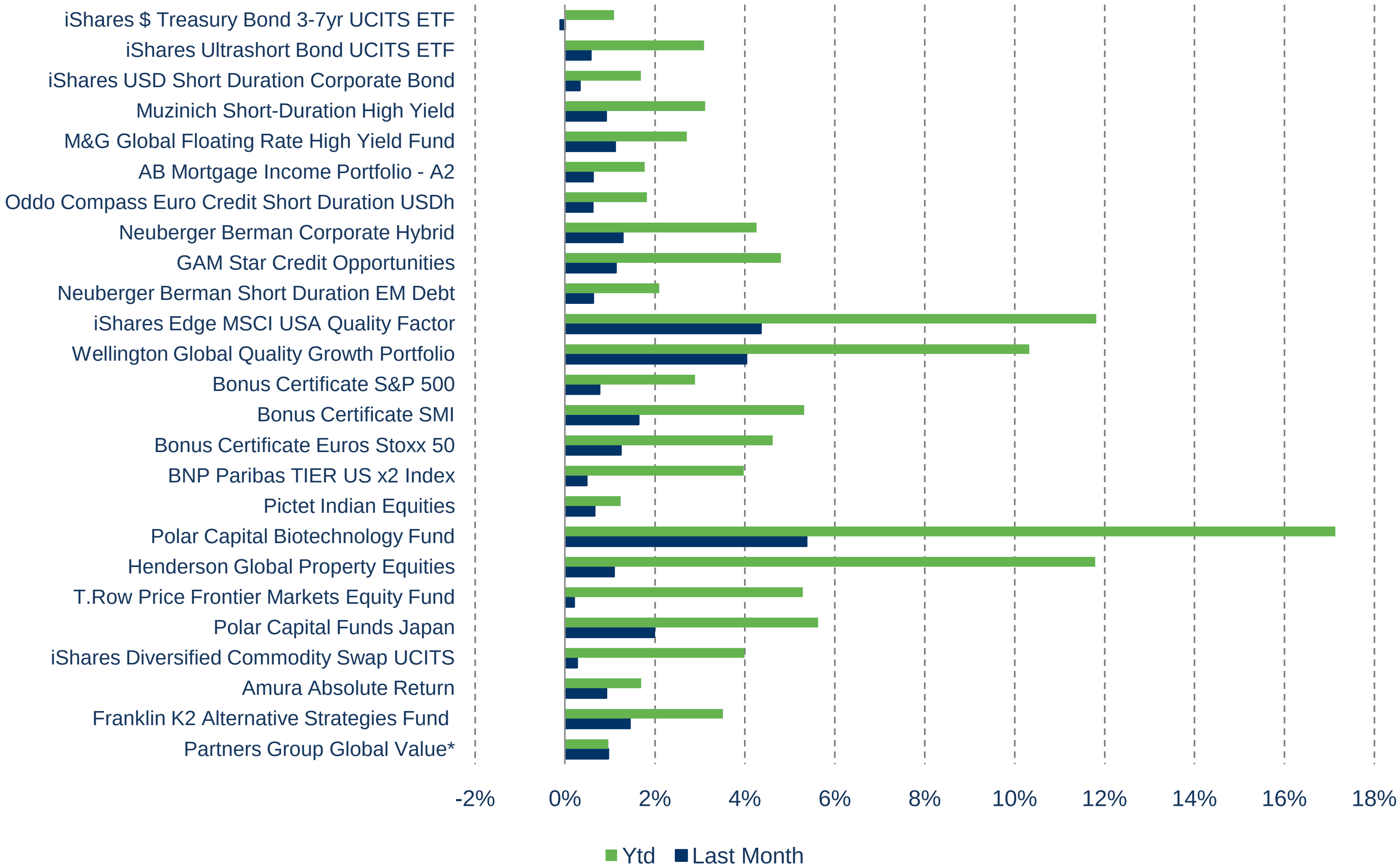
Weak growth is weighing down on the Euro



- The sudden turn of monetary policy by the ECB, not only **mimics that made by the Fed**, but also reflects a significant **downward revision of the growth forecasts**
- Given that the **differentials of growth and interest rates are high** and persistent, and the **inflation differential almost non-existent**, the euro will remain weak

Source: Bloomberg

Model portfolio evolution



Source: Bloomberg ,as of March 11, 2019
* 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 course, 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 hold rates, or increase them only marginally	• 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 declining 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 growth outperforming value • Credit spreads remain stable as the credit cycle is further elongated • Short-term sovereign and IG offer interesting yields with little risk • USD remains strong due to positive interest rate differentials, but upside is limited • Commodity prices will rise moderately, as prices remain still relatively depressed	• 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	35%	40%	25%

Short-term catalyzers

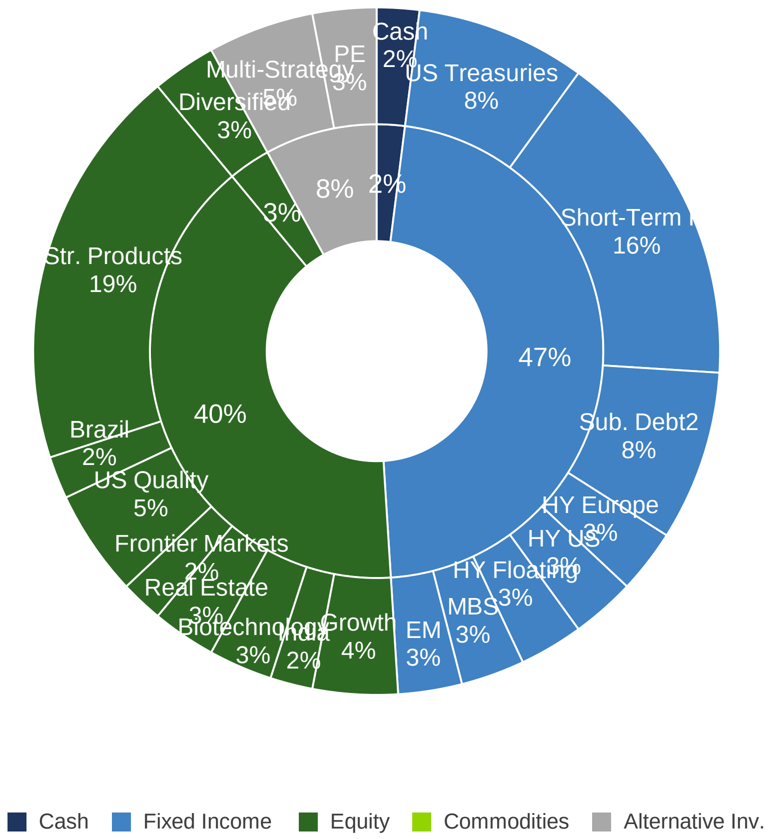
End of trade dispute, improvement in macro-data globally, lower geopolitical tensions

Other risks

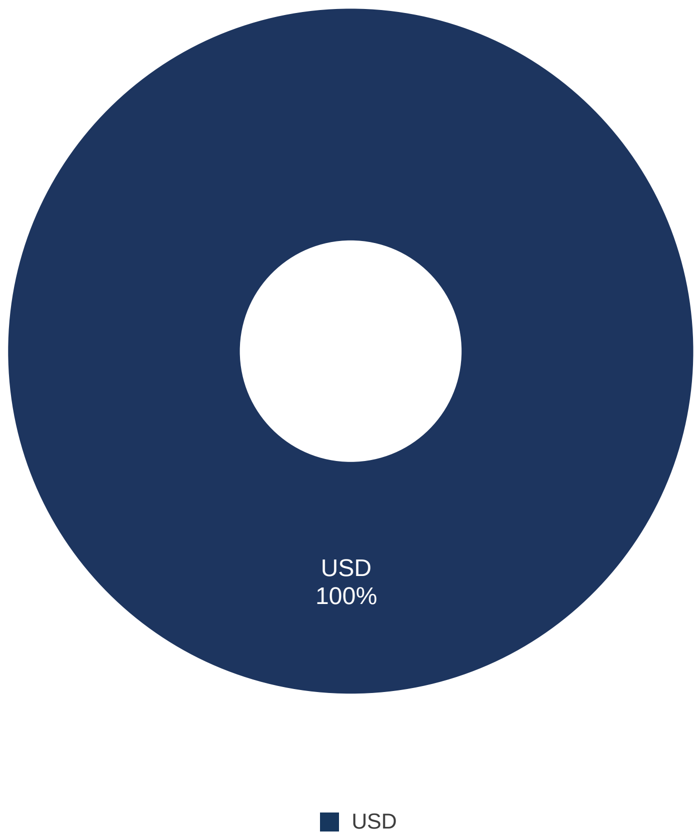
Trade wars, EM crisis, Spread of populist political parties, China slowdown, Terrorism

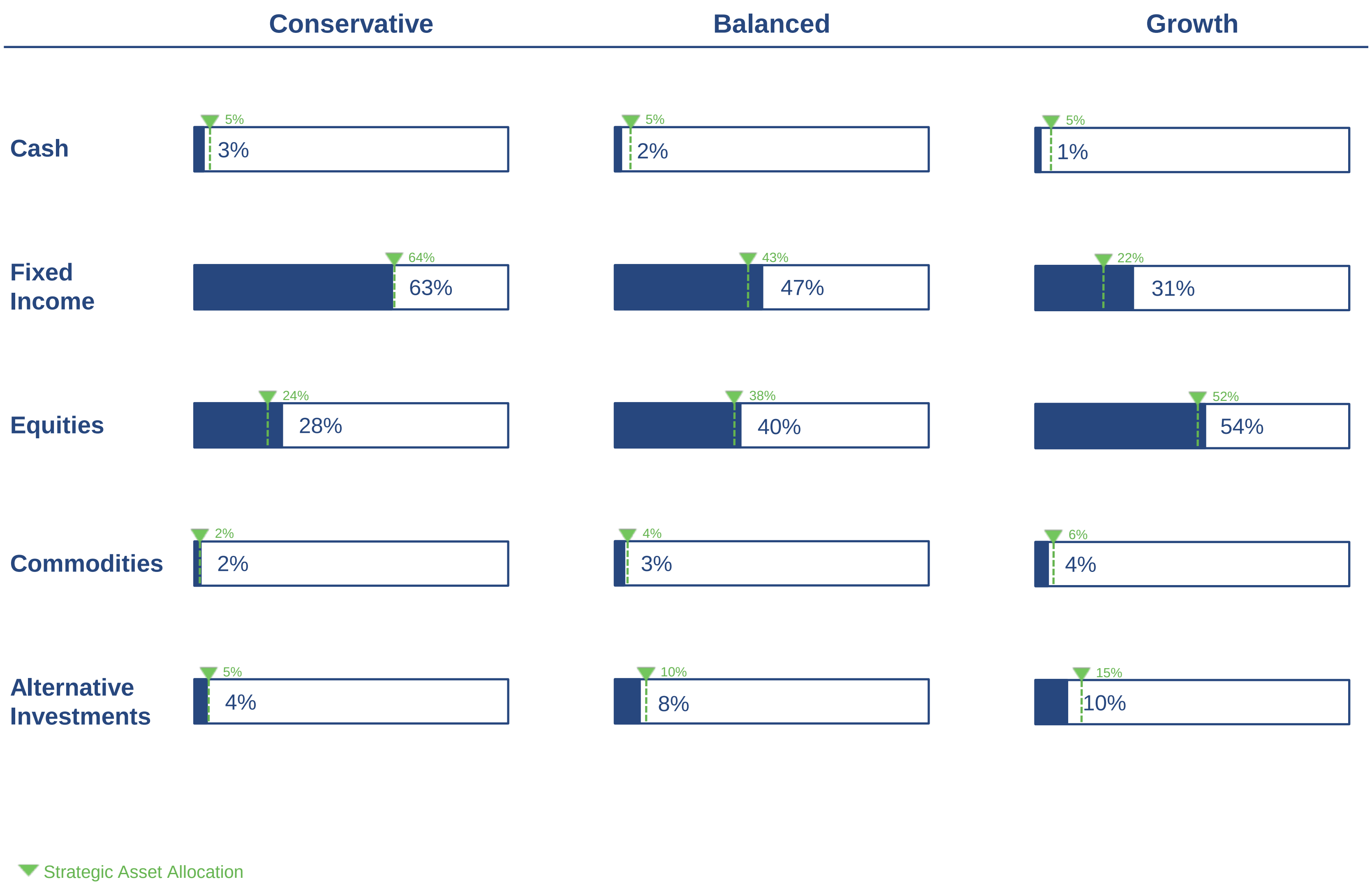
MWM Model Portfolio Balanced USD

Asset Allocation

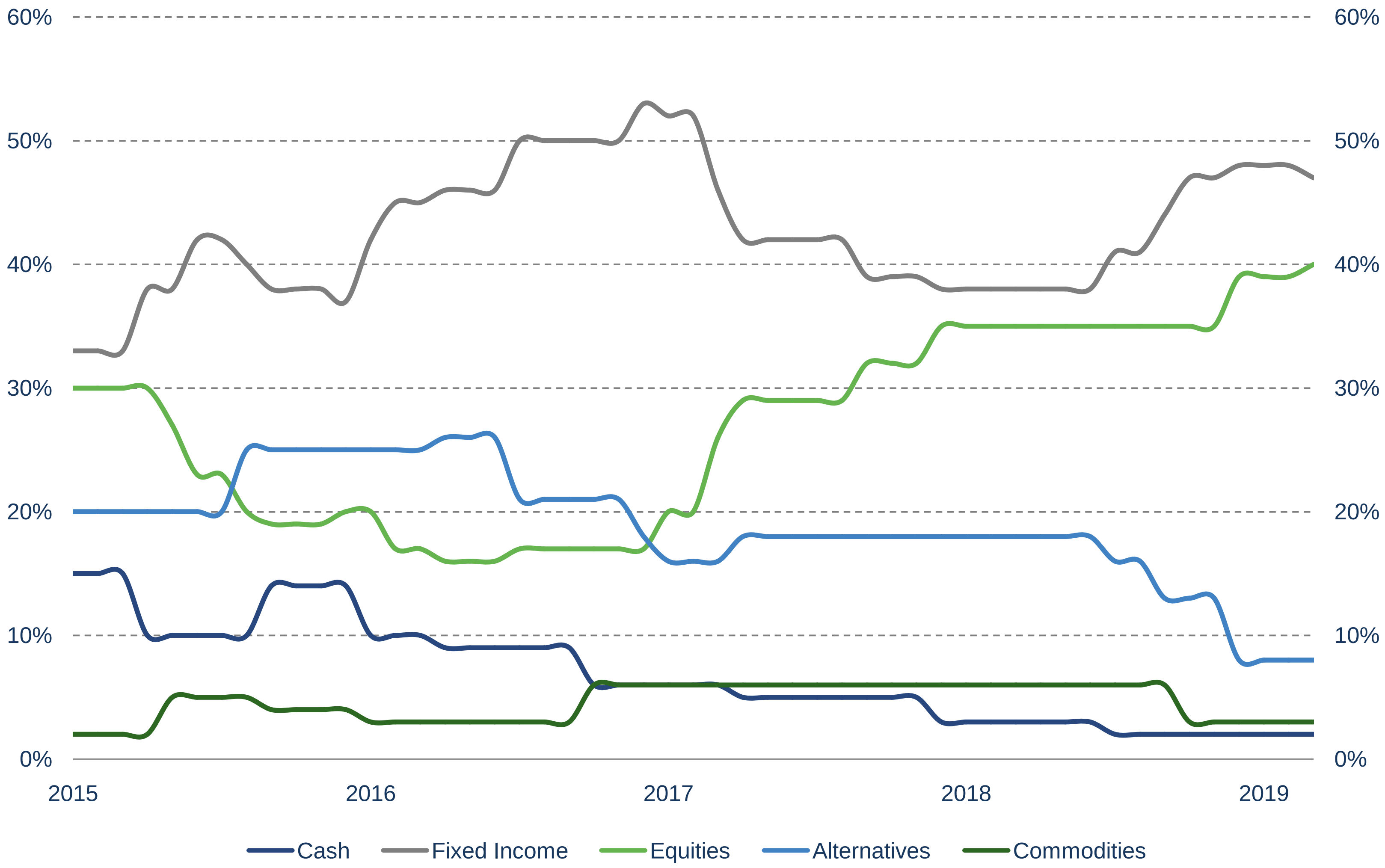


Currency Allocation

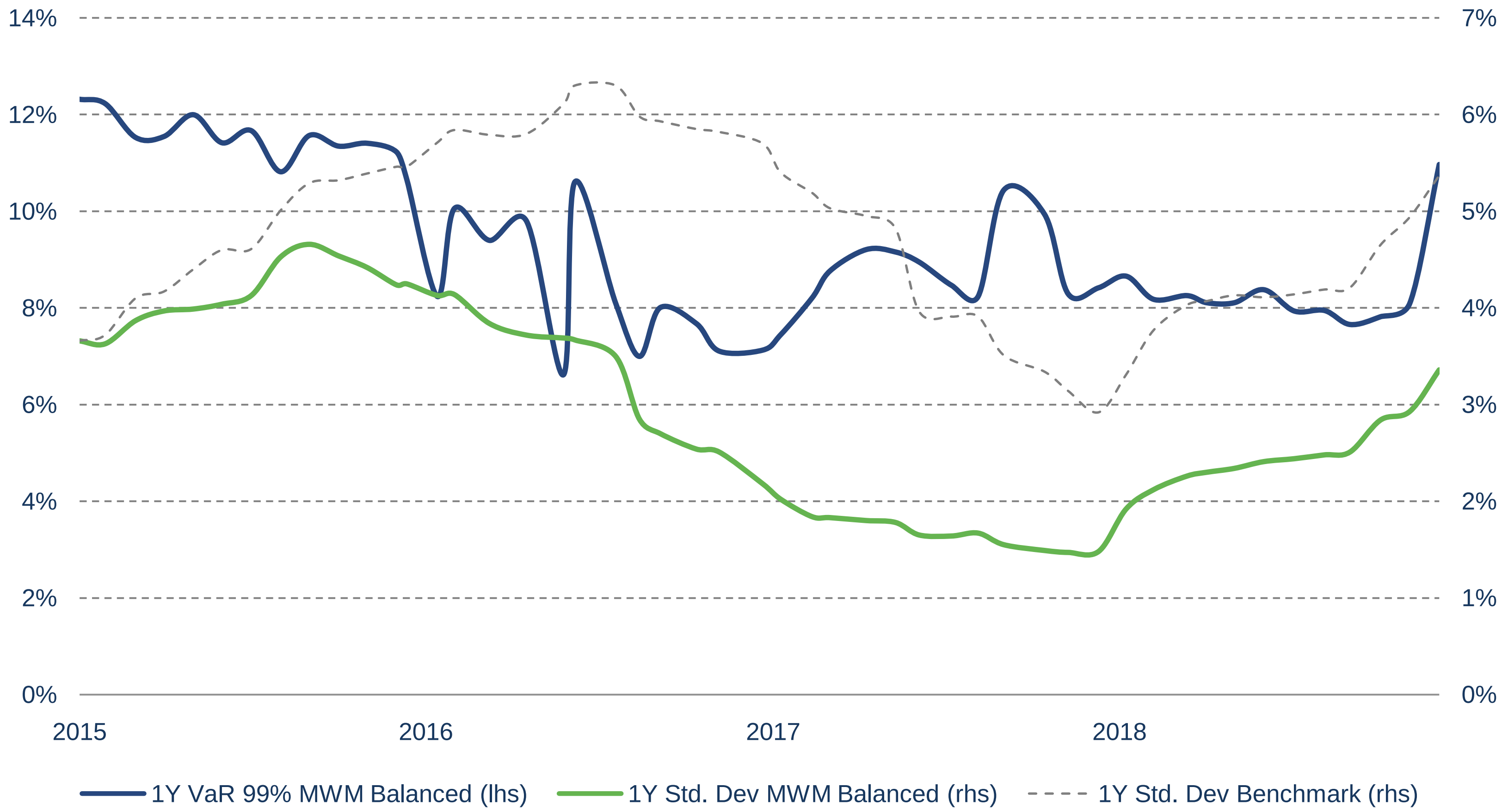



Conservative
Balanced
Growth
Cash
5%
3%
5%
2%
5%
1%
Fixed Income
64%
63%
43%
47%
22%
31%
Equities
24%
28%
38%
40%
52%
54%
Commodities
2%
2%
4%
3%
6%
4%
Alternative Investments
5%
4%
10%
8%
15%
10%
Strategic Asset Allocation

MWM Model Portfolio – Asset Allocation evolution

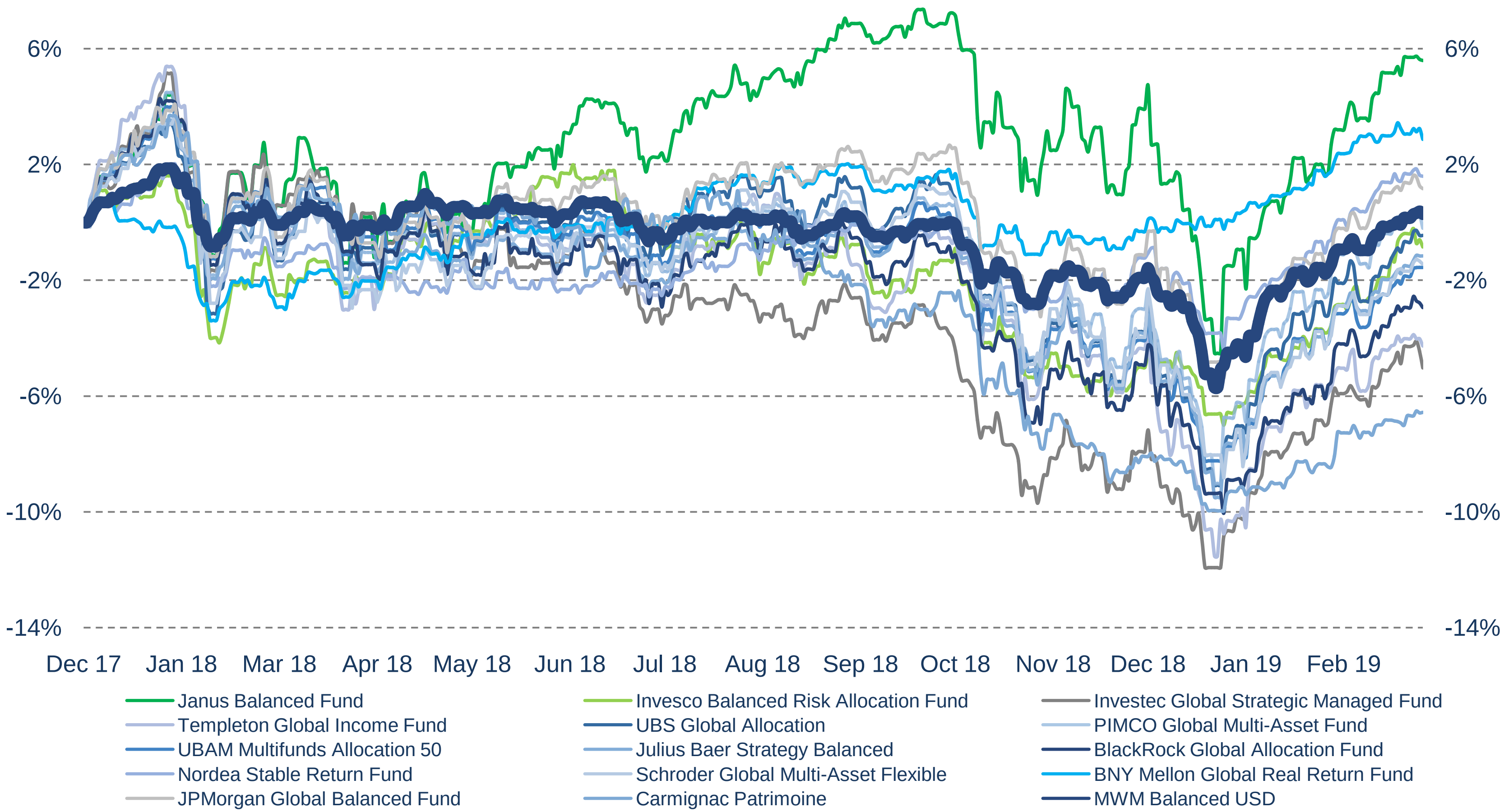


MWM Model Portfolio – VaR evolution



[1] As of February 28, 2019
Source: Bloomberg

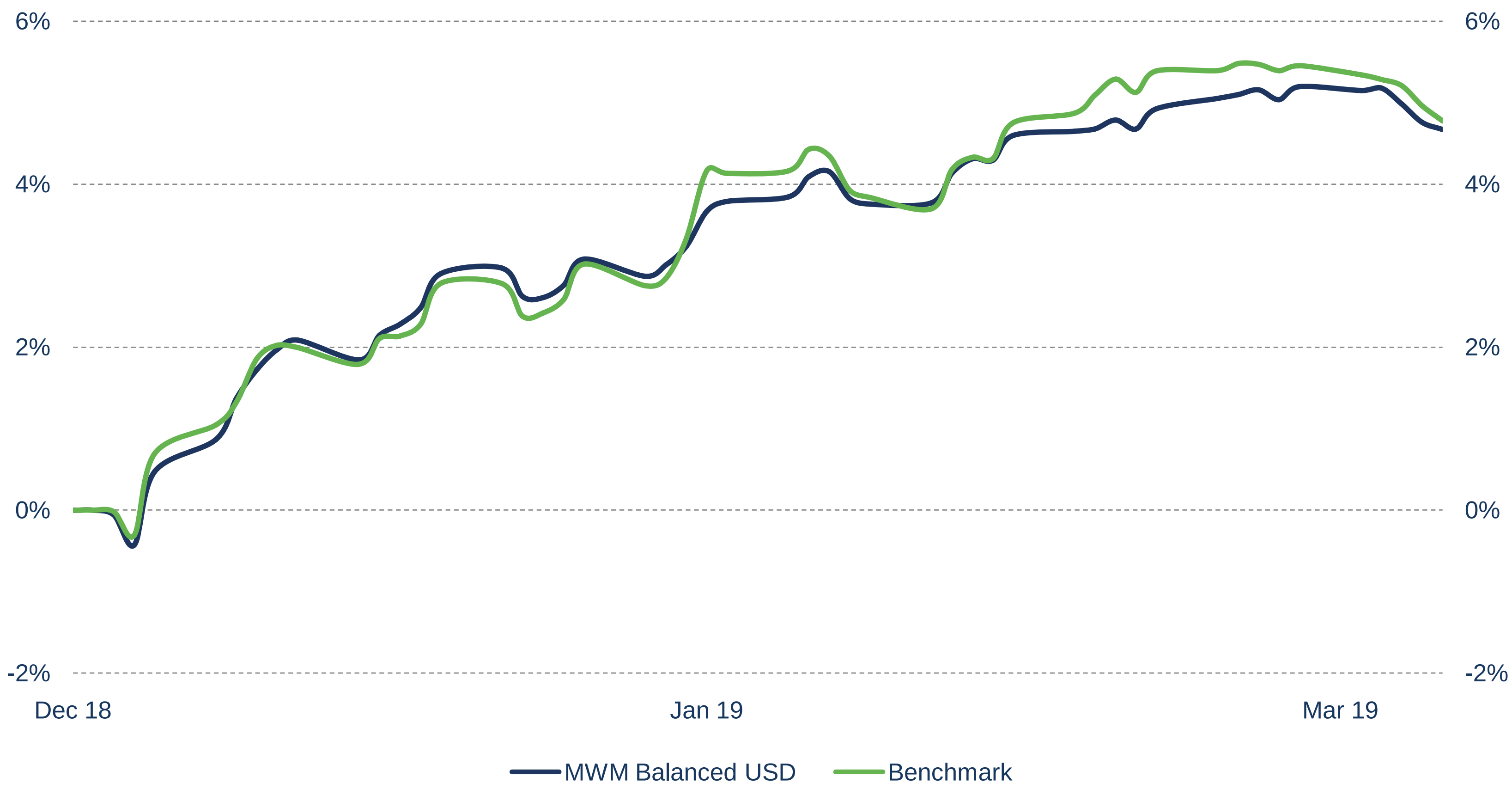
MWM Model Portfolio – Peer comparison



- **Total Return** (Ytd[1]): **13th 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]): **n/a**

[1] As of February 28, 2019
Source: Bloomberg

MWM Model Portfolio – Ytd performance

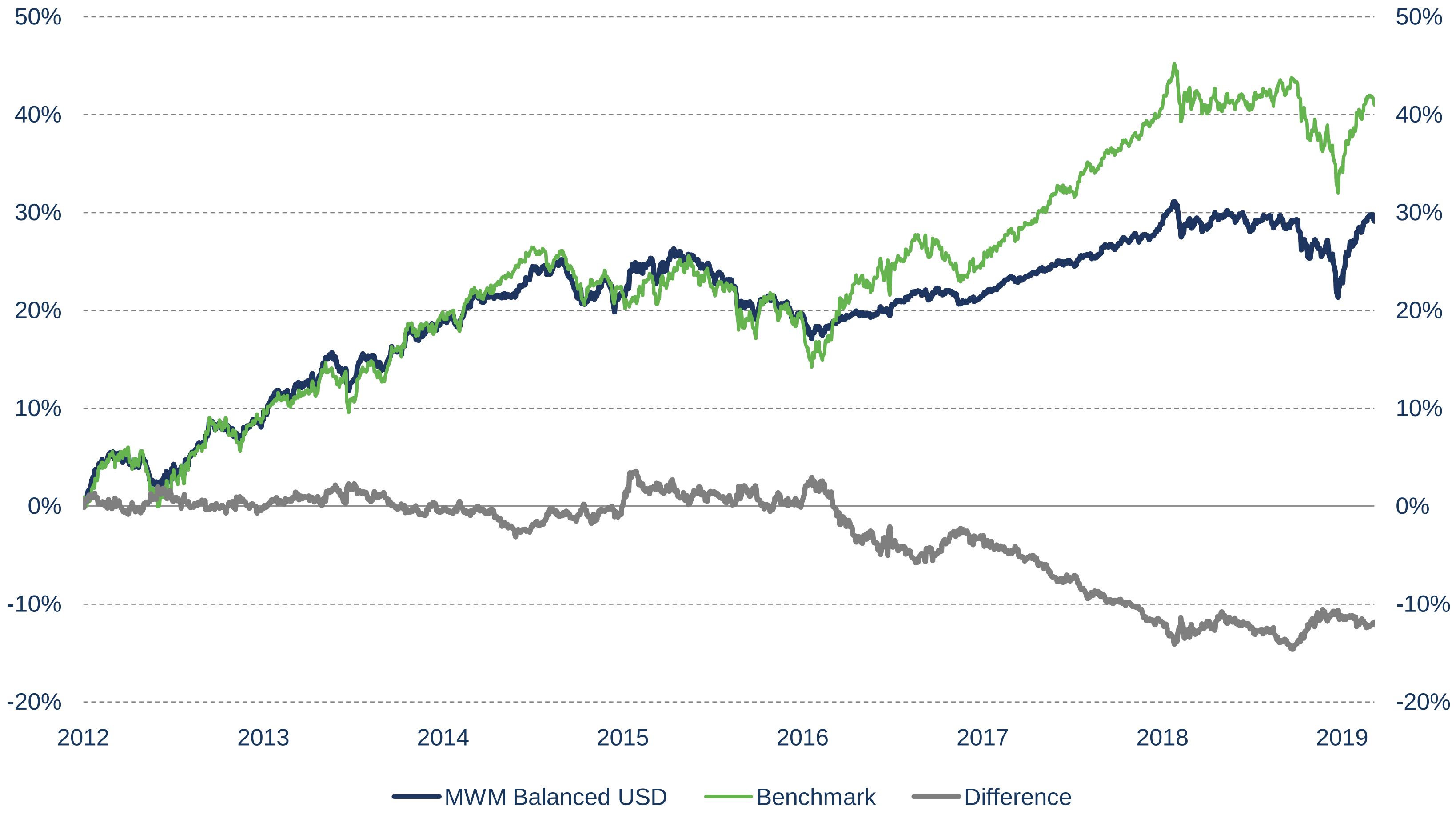


- **Total Return** (Ytd[1]): **5.04%** vs. **5.39%** Benchmark[2]
- **Standard Deviation** (Ytd[1]): **3.88%** vs. **4.68%** Benchmark[2]
- **Downside Risk** (Ytd[1]): **2.62%** vs. **2.95%** Benchmark[2]
- **Sharpe Ratio** (Ytd[1]): **8.38**vs. **7.56** Benchmark[2]

[1] As of February 28, 2019

[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)

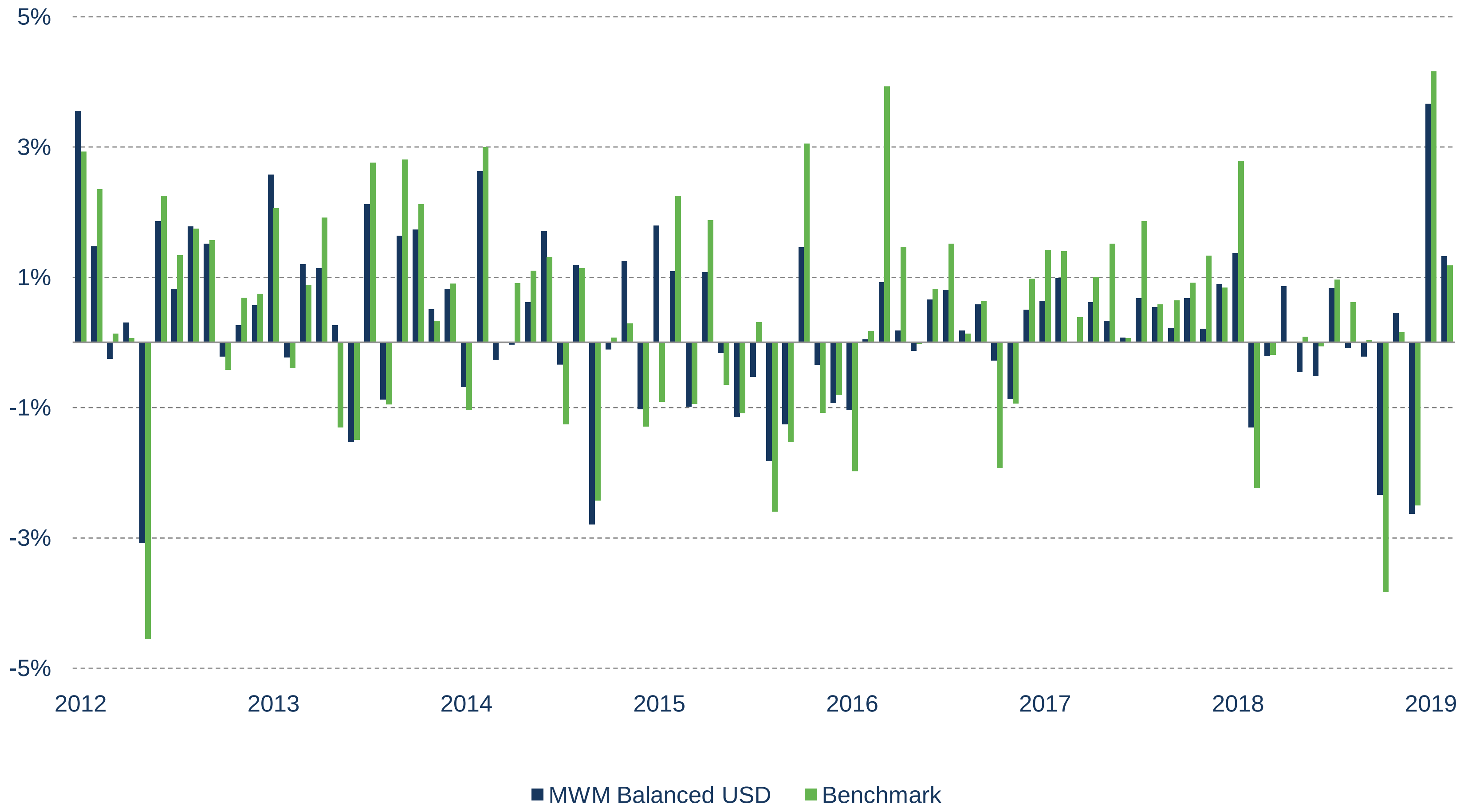


- **Total Return** (1 year[1]): **0.55%** vs. **0.43%** Benchmark[2]
- **Total Return** (3 year[1]): **7.58%** vs. **19.09%** Benchmark[2]
- **Total Return** (Since Jan 12[1]): **29.12%** vs. **41.00%** Benchmark[2]

[1] As of February 28, 2019

[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]): **3.75%** vs. **5.08%** Benchmark[2]
- **Downside Risk** (1 year[1]): **2.74%** vs. **3.63%** Benchmark[2]
- **Sharpe Ratio** (1 year[1]): **-0.40** vs. **-0.30** Benchmark[2]
- **Var 95% - 1day** (1 year[1]): **-0.41%** vs. **-0.54%** Benchmark[2]

[1] As of February 28, 2019

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