Investment Policy

MORA WEALTH MANAGEMENT

April 2017

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 **increased High Yield exposure** as we think that after Trump's victory the risk of recession in the US has abated. **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

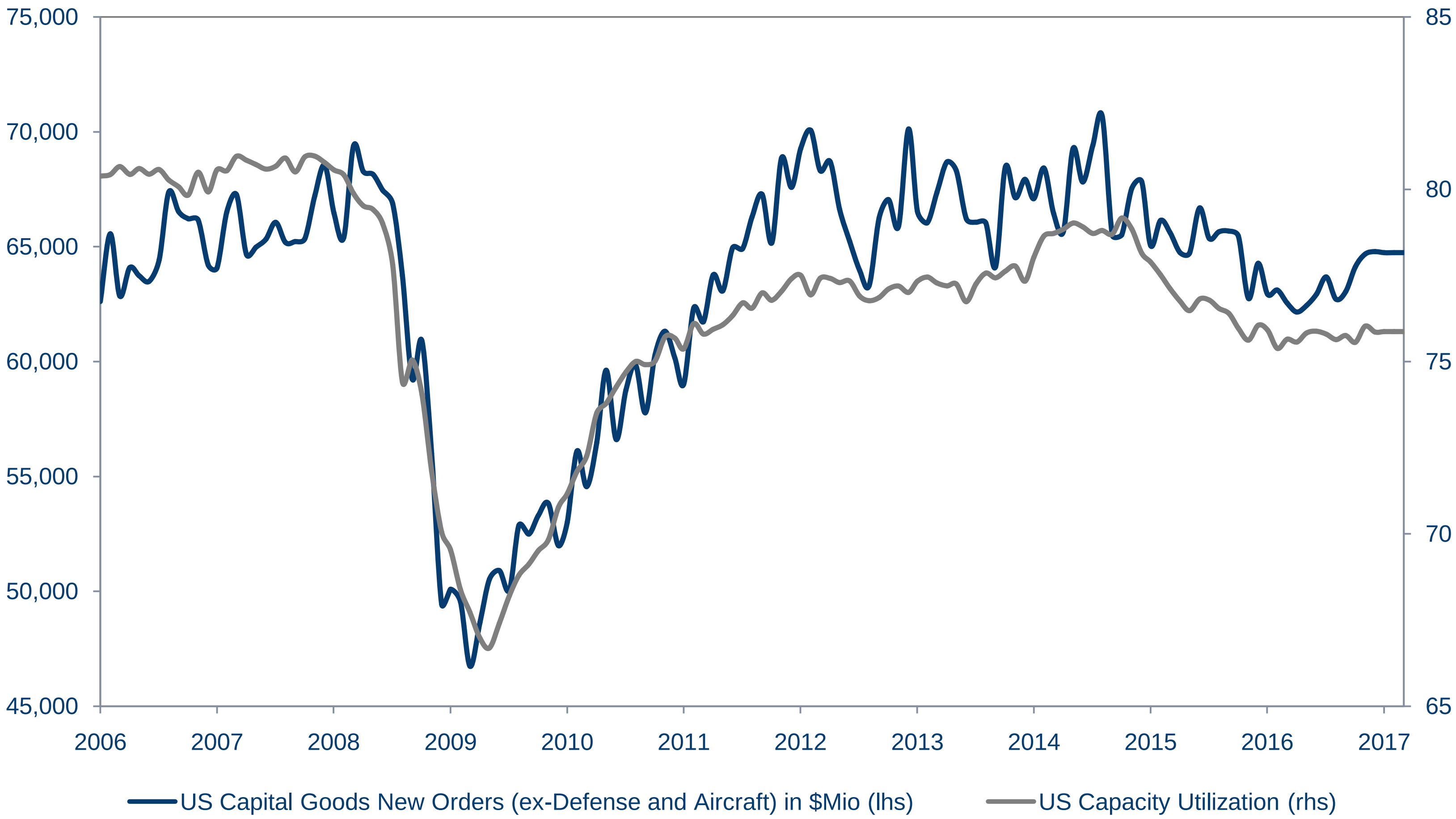
- **Equity valuations in the US** remain very high, mostly **supported by low interest rates** and high expectations **of tax reform** and **deregulation**. Combined with positive macro data from other main developed markets, we see a **greater chance of a reacceleration in global economic growth.** 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 equities**, **quality growth stocks**, **biotechnology** and **listed real estate**

- Our **diversified commodities** and **gold** allocations, further help us to both **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. As a substitute, we have **a large allocation to short-term high quality** bonds that can be easily redeployed should market opportunities arise

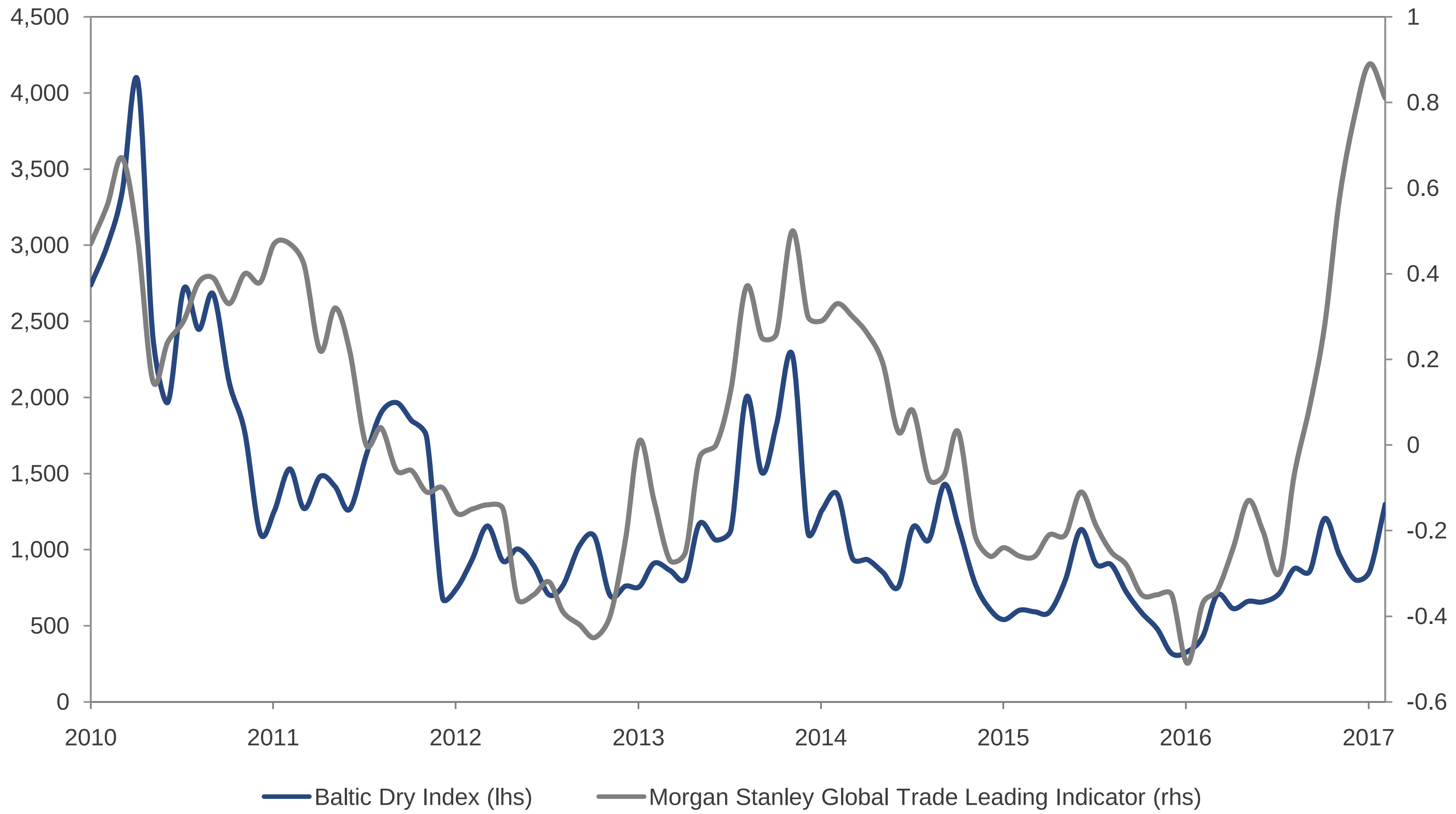
Hard data vs. soft data



- Since the US elections, we have witnessed a widespread **improvement in sentiment indicators**, as well as in other key leading indicators
- This marked improvement in **“soft data”** needs to be matched by a corresponding recovery in **“hard data”**, and **corporate investment** in particular, which has been the weakest component of US GDP. However, there is **still significant slack in the economy**, with capacity utilization well below full capacity

Source: Bloomberg

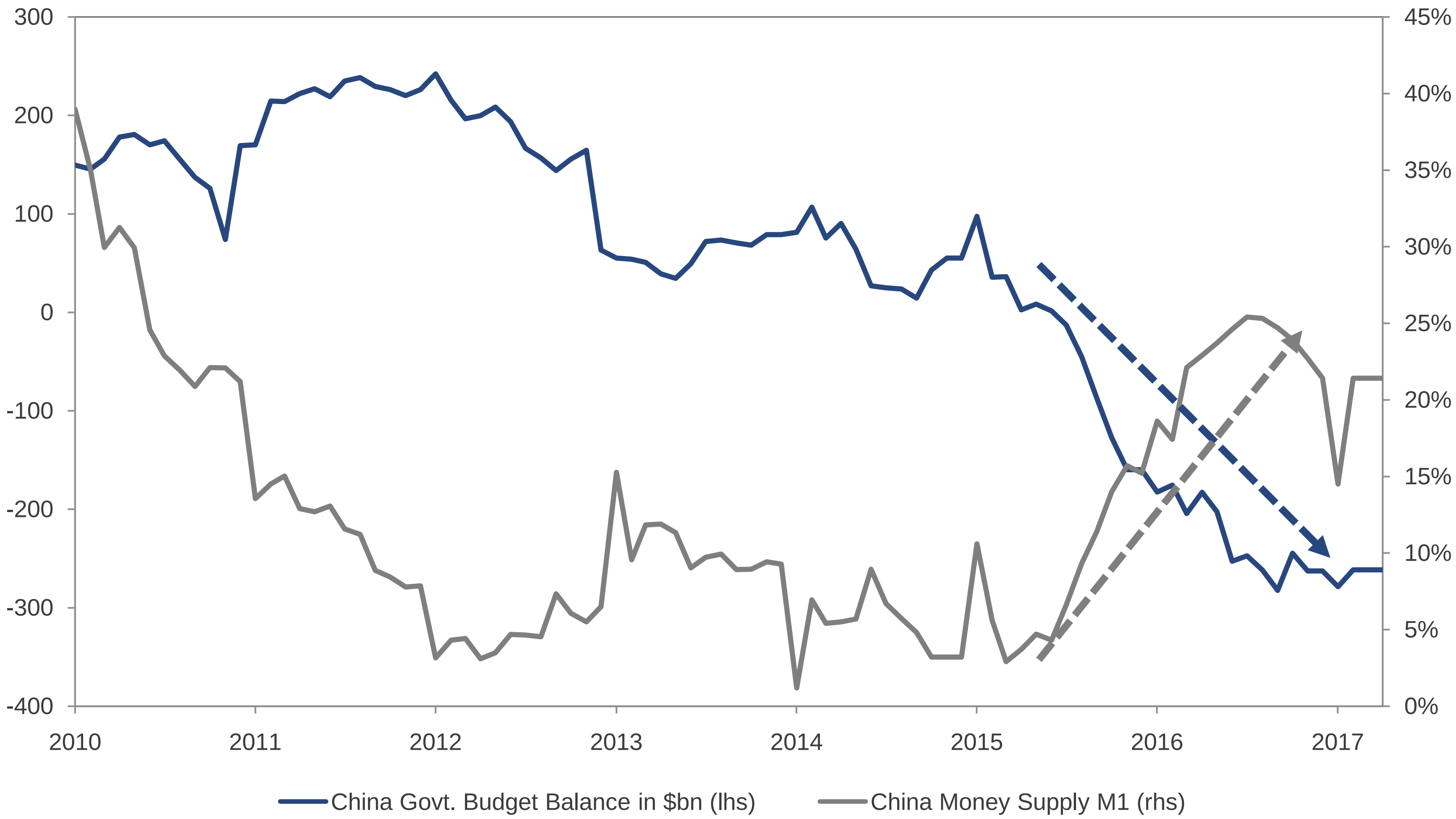
Global trade supporting synchronized recovery



- There are encouraging signs that the **recovery in economic activity is synchronized** across the main developed economies, which is reflected in a stabilization of **commodity** and **global freight** prices
- However, there is also a **gap** between **expectations on trade** recovery and **real data** that remains to be closed

Source: Bloomberg

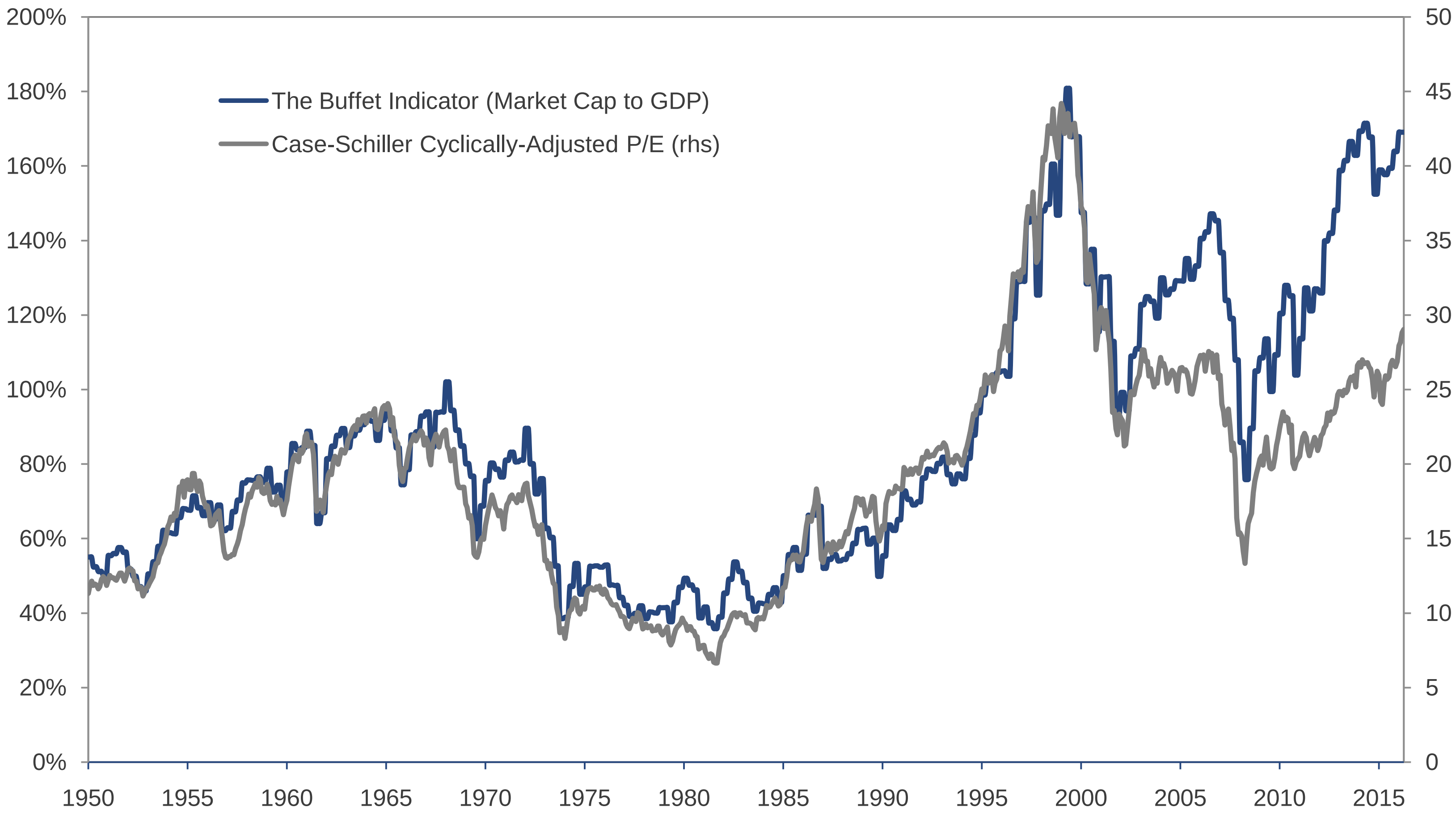
How much comes from a China stimulus delayed effect?



- A significant part of the **recovery in economic activity** since the second quarter of last year has been undoubtedly driven by the **fiscal and monetary measures implemented by the Chinese** authorities to stabilize its economy
- Although it is to be expected that the **Chinese economy will be supported in the short term**, at least until the 19th National Congress concludes at the end of the year, **no significant incremental stimulus is to be expected**

Source: Bloomberg

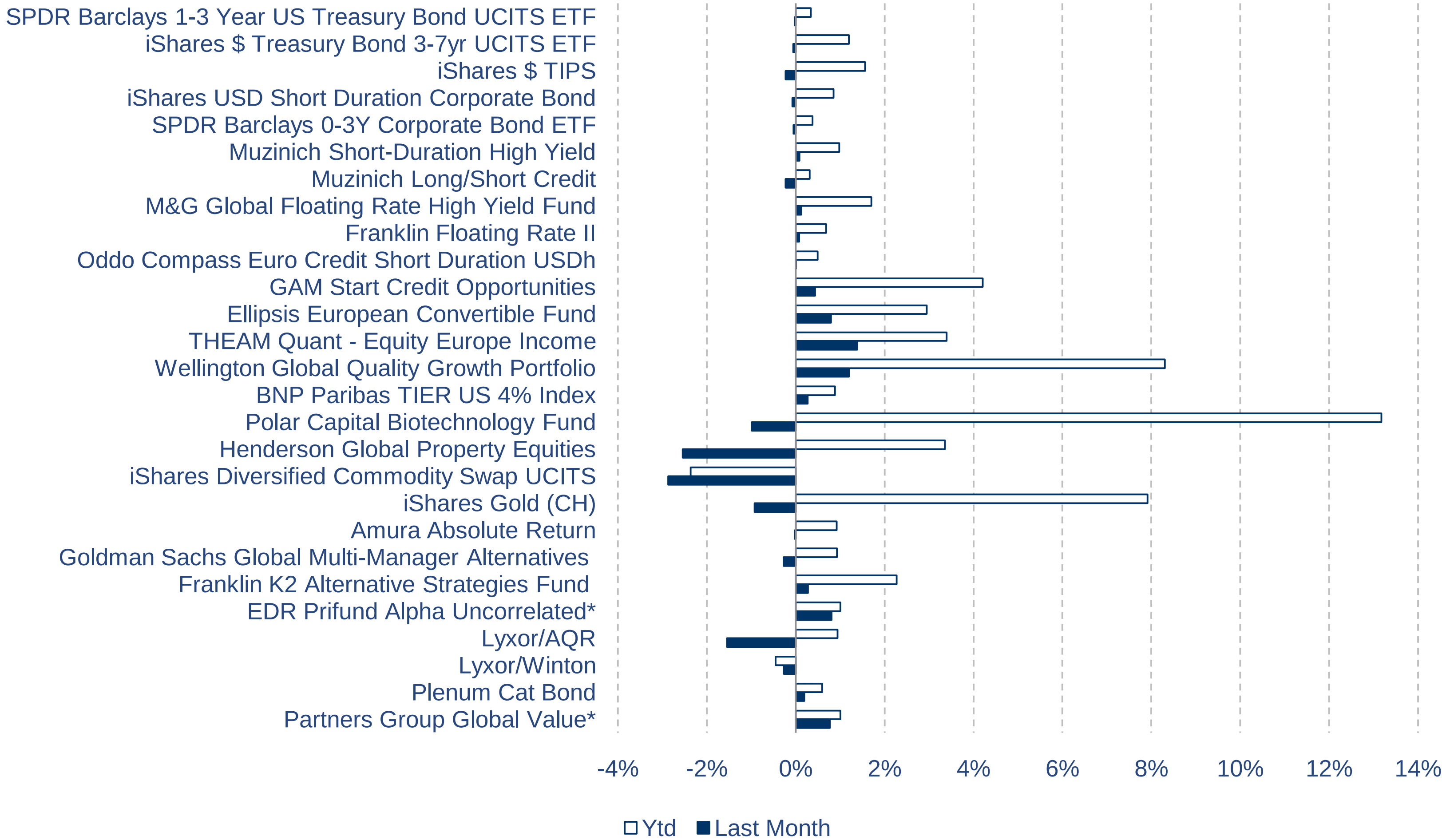
Valuations remain the biggest concern



- High **equity valuations remain the largest risk to the US economy**. Under most metrics, US equity markets are richly priced, with valuation ratios well above historical averages
- This is reflective of an **environment of very low interest rates**, which is starting to normalize. Should the **Fed raise rates decisively** in response to raising inflation, **compression in equity valuation multiples** is to be expected

Source: Bloomberg and http://www.econ.yale.edu/~shiller/data.htm

High correlation amongst asset classes remains



- **Most asset classes** with the exception of commodities, continue in **positive territory** for the year
- During the month, those which are more volatile have experienced corrections

Source: Bloomberg as of March 31, 2017

* Fund publishes monthly NAV with a 1 month of delay

Investment scenarios

	Scenario 1 Recession by political/policy accident	Scenario 2 Muddling through “+”	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%	30%	40%

Short-term catalyzers

Fiscal stimulus in the US, improvement in macro-data globally, oil price stabilization

Other risks

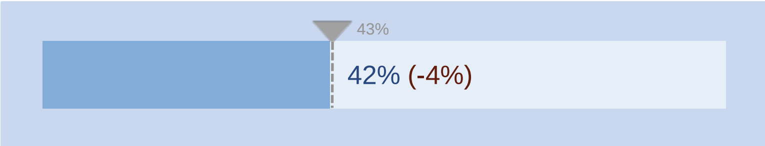
Trade wars and EM slowdown, Spread of anti-establishment parties, EU Breakup (Frexit, Nexit …), China, Terrorism

MWM Investment Policy

Cash

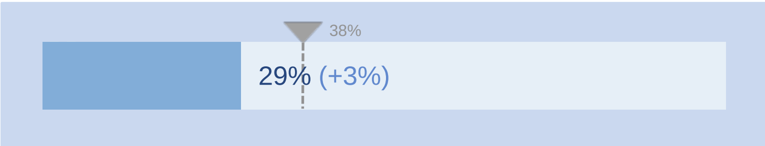
- In the current environment waiting for good investment opportunities is a sensible investment strategy. However, holding cash is becoming costly in some of our reference currencies

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

Equity



- The expected fiscal stimulus 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	5%	5%
Fixed Income	US Treasuries	• iShares Treasury Bond 3-7yr	3%	42%
	Short-Term Corporate Bonds	• SPDR Barclays 0-3Y Corporate Bond	5%	
		• iShares USD Short Duration Corporate Bond	5%	
	US TIPS	• iShares $ TIPS	8%	
	High Yield US	• Muzinich Short Duration High Yield	3%	
	High Yield Europe	• Oddo Compass Euro Credit Short Duration	3%	
	High Yield Absolute Return	• Muzinich Long/Short Credit Yield	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	3%	
	Convertible Bonds	• Ellipsis European Convertible Fund	3%	
Equity	Volatility	• Reverse Convertibles on Blue Chips	15%	29%
	Growth	• Wellington Global Quality Growth Portfolio	4%	
	Europe	• THEAM Quant Equity Europe Income	4%	
	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	• EDR Prifund Alpha Uncorrelated	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)

Cash	Cash	• Cash	5%	5%
Fixed Income	US Treasuries	• iShares Treasury Bond 3-7yr	3%	42%
	Short-Term Corporate Bonds	• SPDR Barclays 0-3Y Corporate Bond	5%	
		• iShares USD Short Duration Corporate Bond	5%	
	US TIPS	• iShares $ TIPS	8%	
	Global Investment Grade	• Carmignac Portfolio - Global Bond	3%	
	High Yield US	• Neuberger Berman High Yield Bond Fund	3%	
	High Yield US	• Lord Abbett High Yield Fund	3%	
	High Yield Europe	• iShares € High Yield Corp Bond UCITS ETF	3%	
	Leveraged Loans	• Franklin Floating rate II	3%	
	Subordinated Debt	• GAM Star Credit opportunities	3%	
	Convertible Bonds	• Calamos Global Convertibles	3%	
Equity	Volatility	• Reverse Convertibles on Blue Chips	13%	29%
	Growth	• MFS Meridian Global Concentrated Fund	5%	
	High Dividend Yield	• Schroder Global Dividend Maximizer	5%	
	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	• IQ-Hedge Multi-Strategy Tracker ETF	4%	
	Private Equity	• iShares Listed Private Equity	4%	

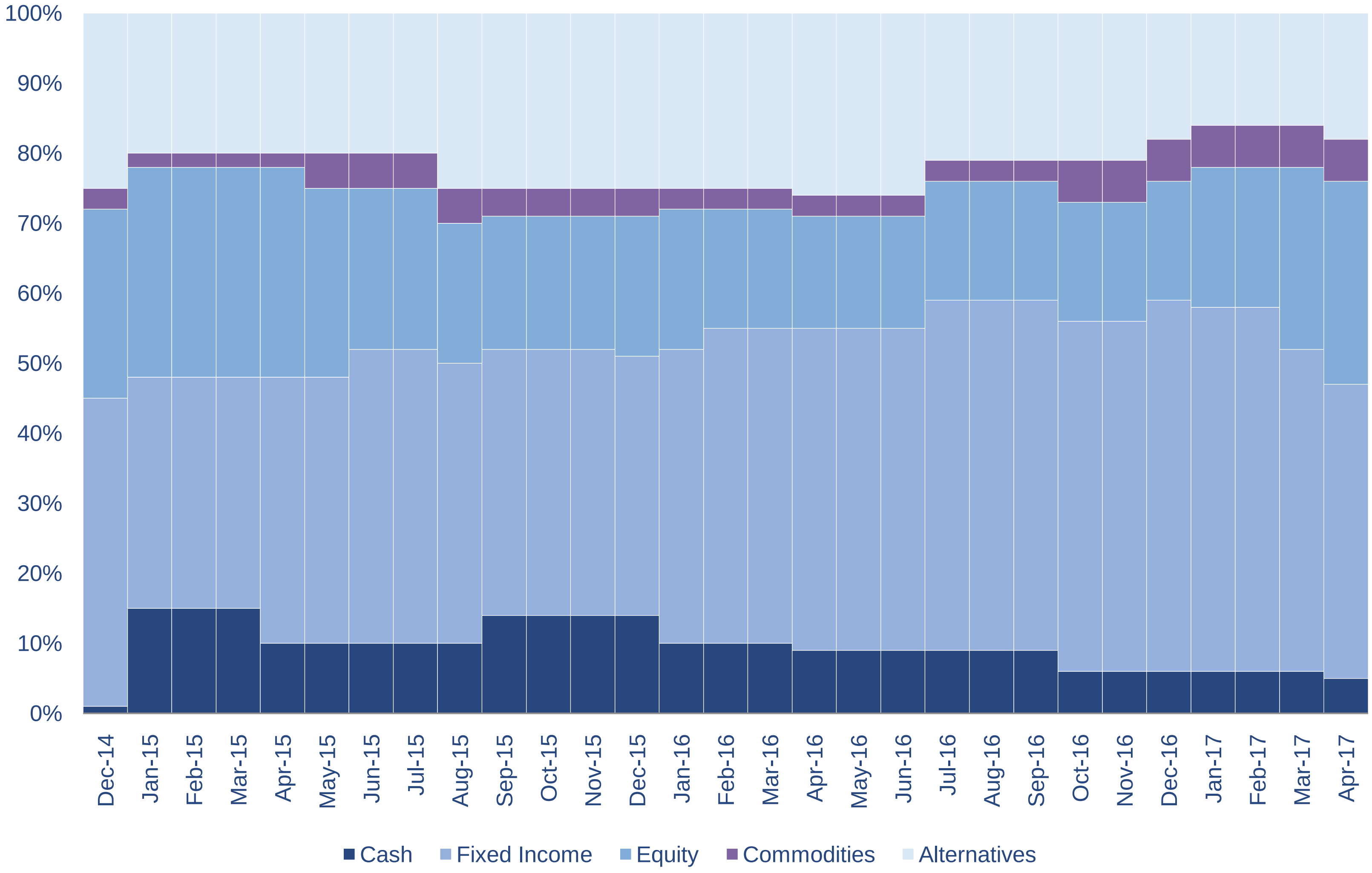
MWM Investment Profiles

MORA WEALTH MANAGEMENT

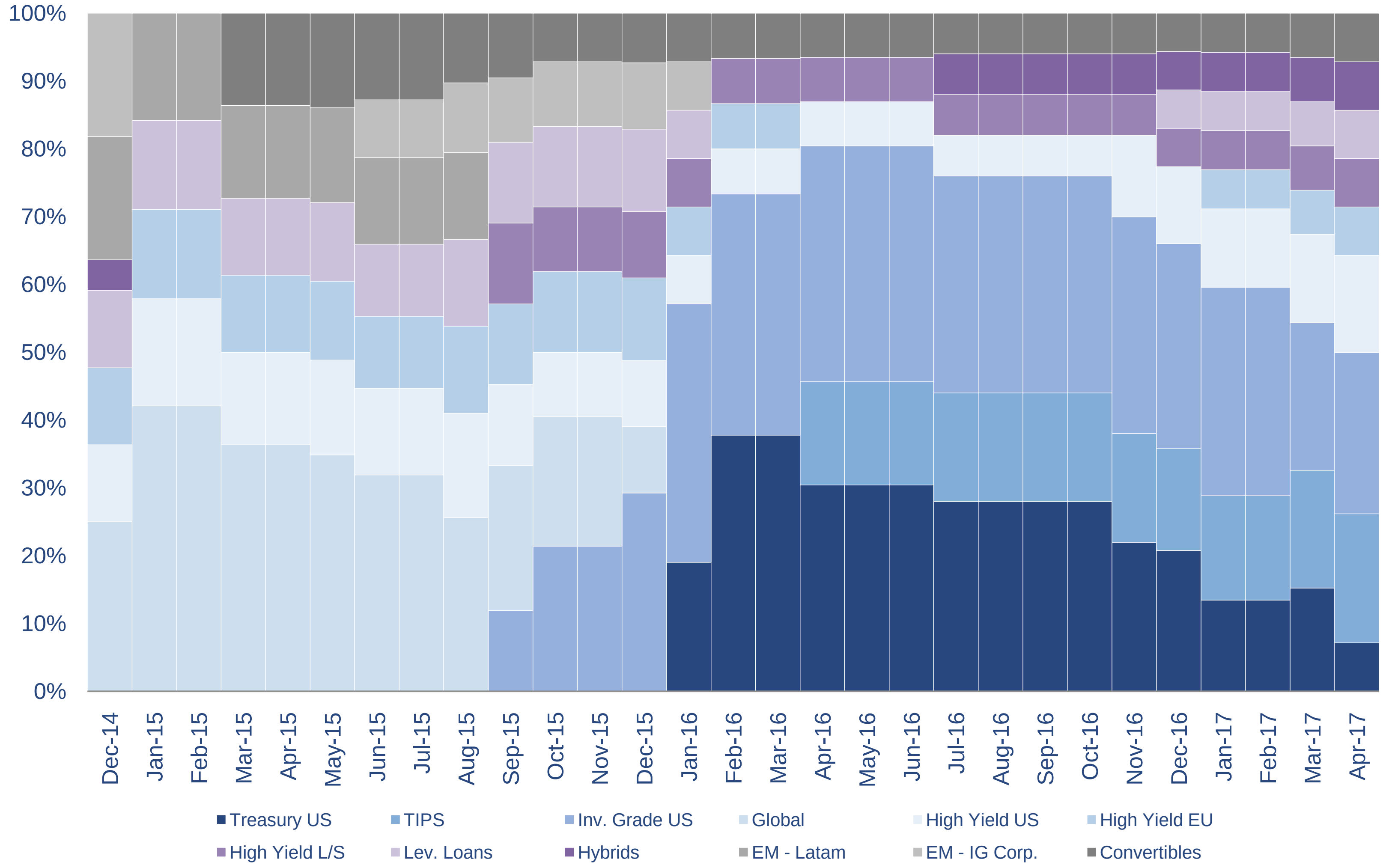
	Conservative	Balanced	Growth
Cash	7% (5%)	5% (5%)	2% (5%)
Fixed Income	60% (64%)	42% (43%)	24% (22%)
Equity	17% (24%)	29% (38%)	43% (52%)
Commodities	4% (2%)	6% (4%)	8% (6%)
Alternative Investments	12% (5%)	18% (10%)	23% (15%)

▼ Strategic Asset Allocation

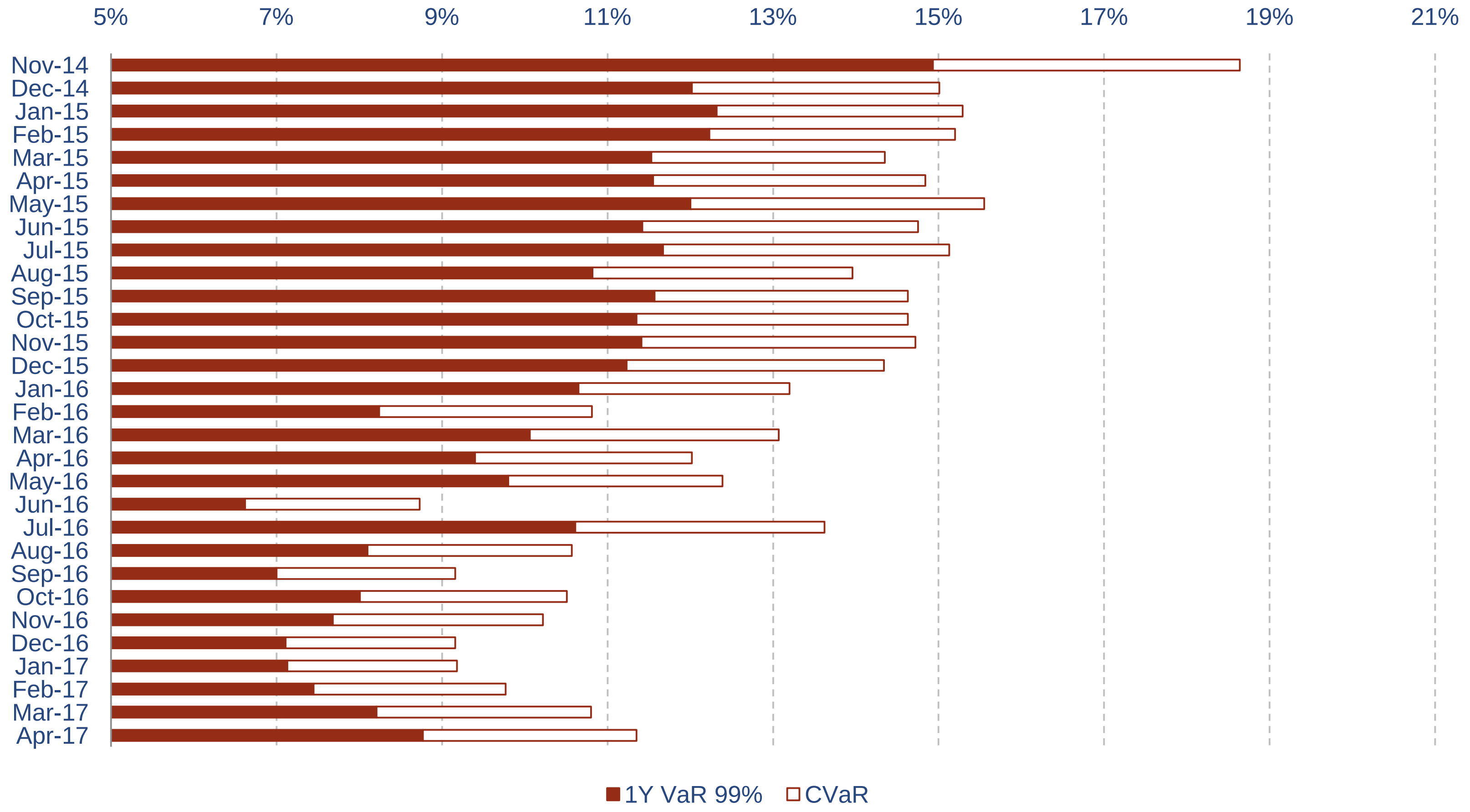
MWM Model Portfolio – Asset Allocation evolution



MWM Model Portfolio – Fixed Income evolution

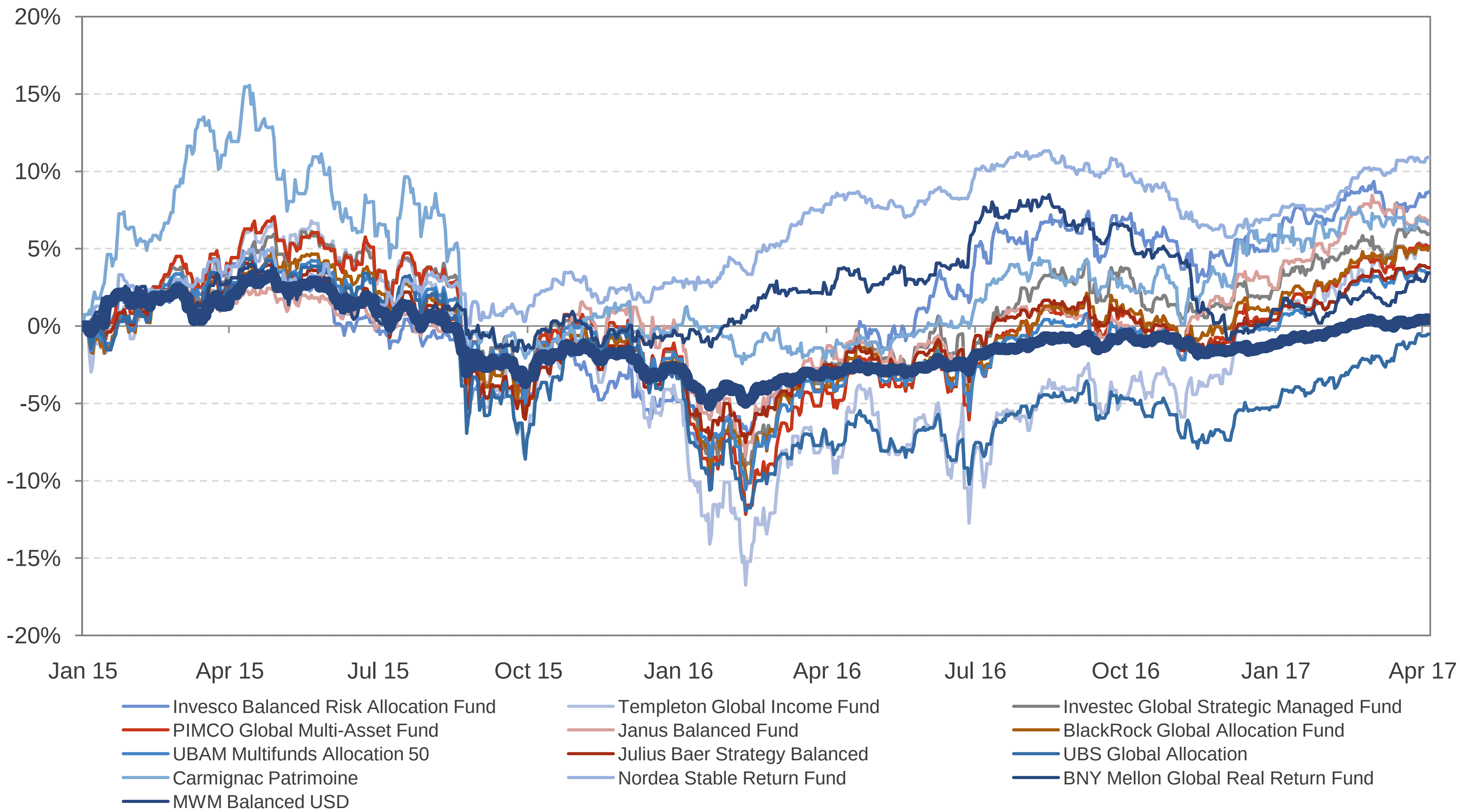


MWM Model Portfolio – VaR evolution



- The **VaR of the portfolio continues increasing in a measured way**. However, the current environment of extremely low volatility provides an understated view

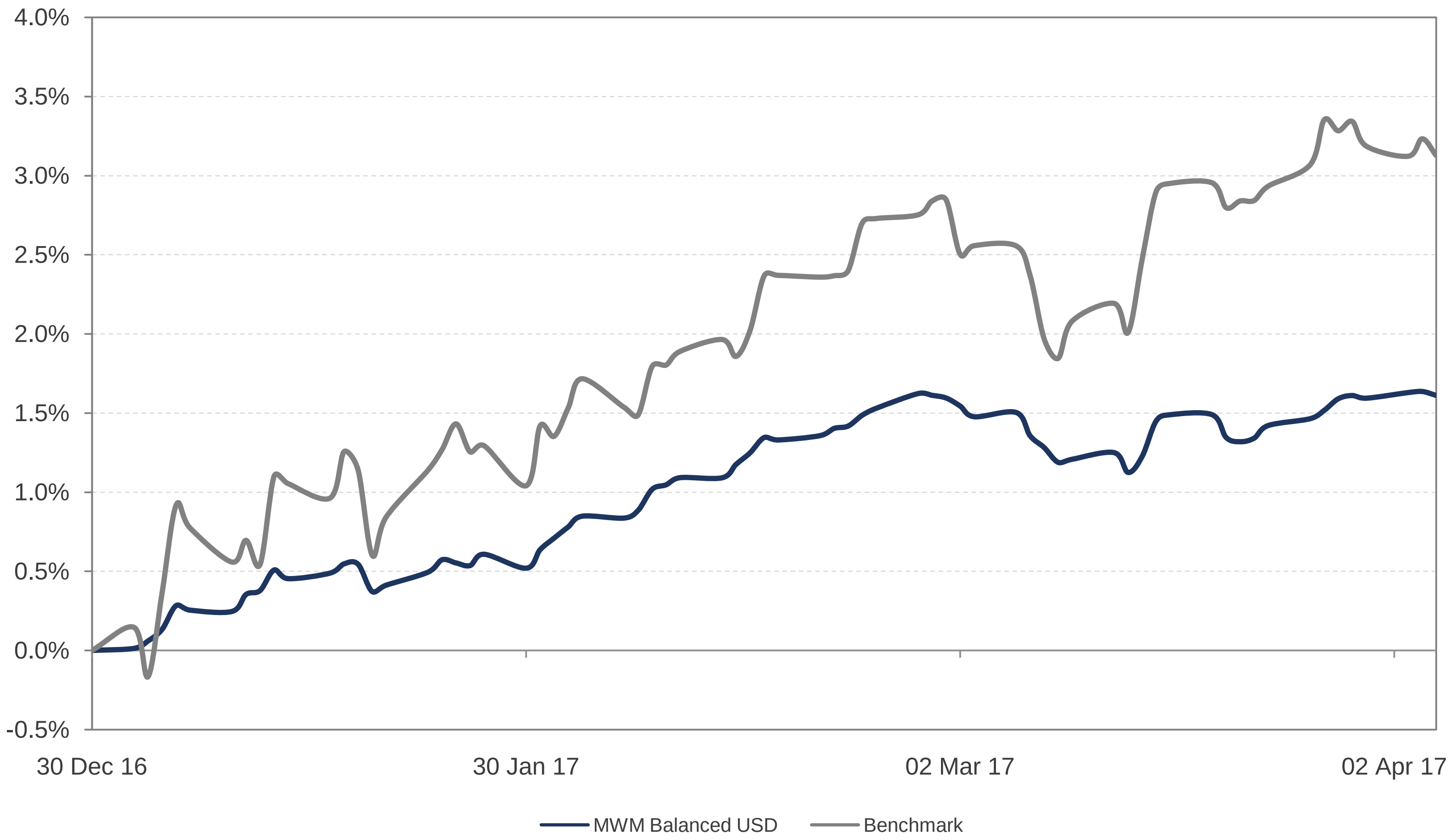
MWM Model Portfolio – Peer comparison



- **Total Return** (Ytd[1]): **14th 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]): **6th out of 15**

[1] As of April 6, 2017
Source: Bloomberg

MWM Model Portfolio – Ytd performance (Net)

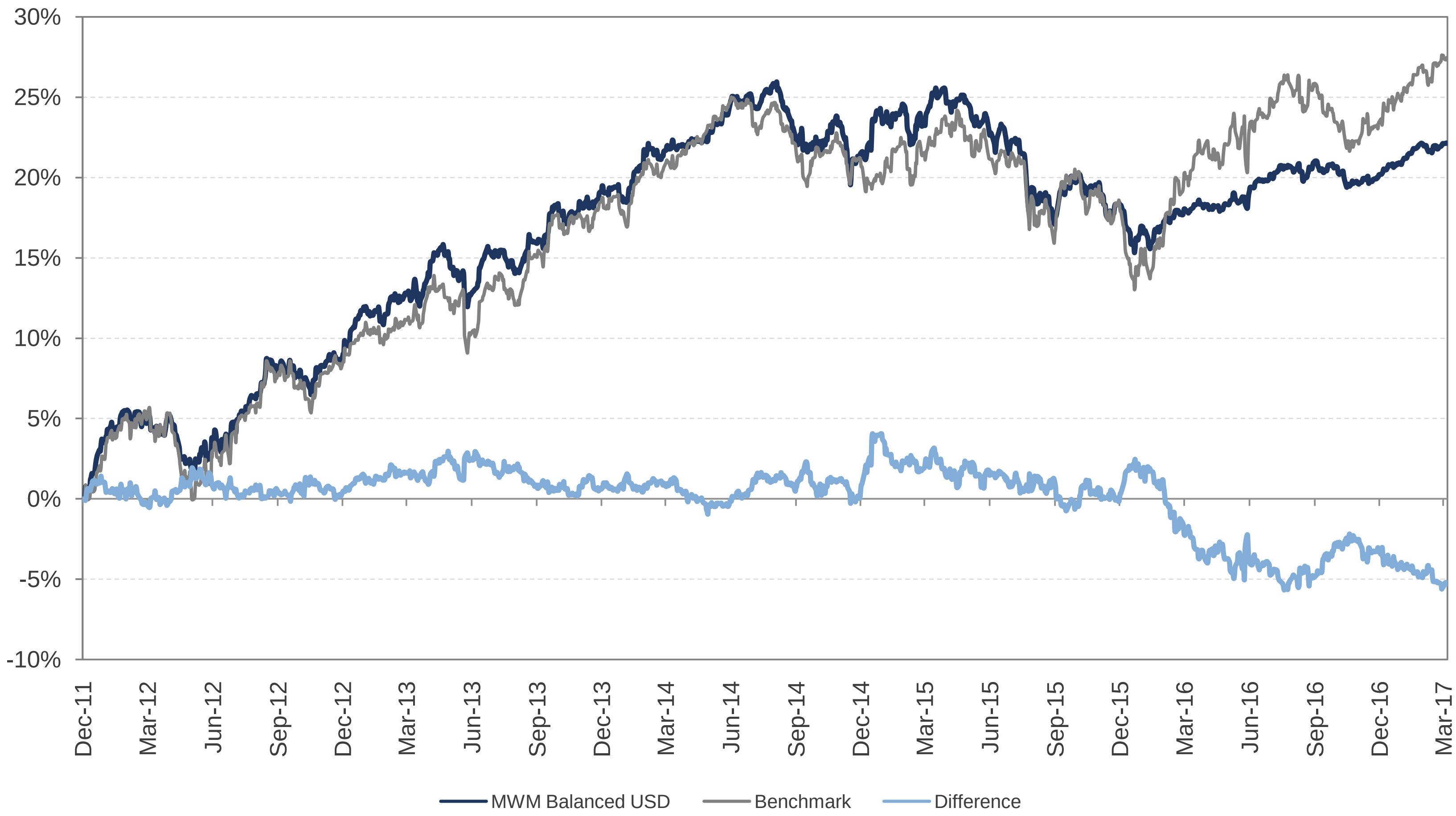


- **Total Return** (Ytd[1]): **1.61%** vs. **3.13%** Benchmark[2]
- **Standard Deviation** (Ytd[1]): **1.15%** vs. **3.54%** Benchmark[2]
- **Downside Risk** (Ytd[1]): **0.86%** vs. **2.41%** Benchmark[2]
- **Var 95% - 1day** (Ytd[1]): **-0.11%** vs. -**0.29%** Benchmark[2]

[1] As of April 6, 2017

[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)

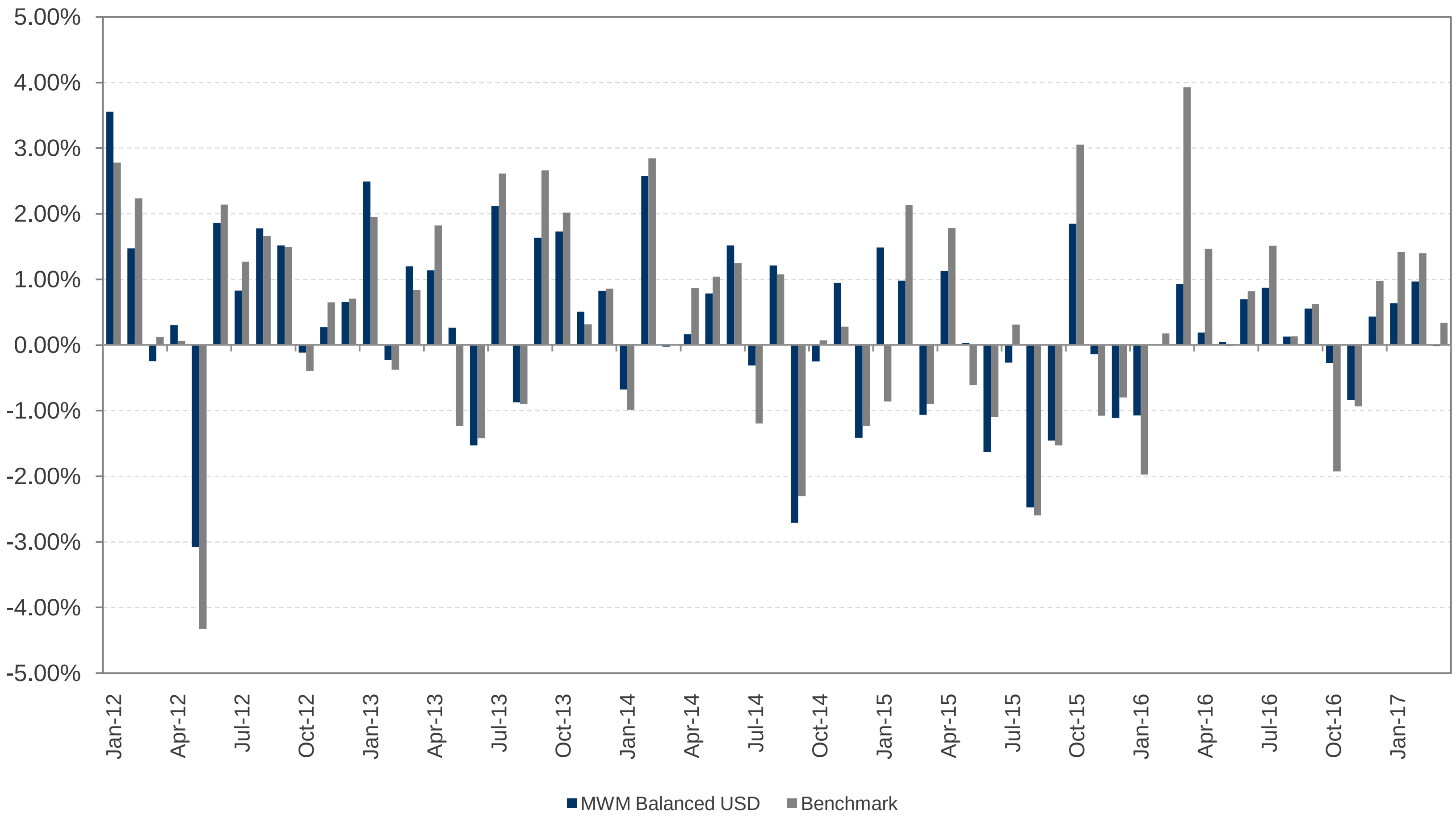


- **Total Return** (1 year[1]): **3.68%** vs. **6.56%** Benchmark[2]
- **Total Return** (3 year[1]): **-0.18%** vs. **4.34%** Benchmark[2]
- **Total Return** (Since Jan 12[1]): **22.12%** vs. **27.33%** Benchmark[2]

[1] As of March 31, 2017

[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]): **1.83%** vs. **5.00%** Benchmark[2]
- **Downside Risk** (1 year[1]): **1.39%** vs. **3.76%** Benchmark[2]
- **Sharpe Ratio** (1 year[1]): **1.81** vs. **1.26** Benchmark[2]
- **Var 95% - 1day** (1 year[1]): **-0.17%** vs. **-0.42%** Benchmark[2]

[1] As of March 31, 2017

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