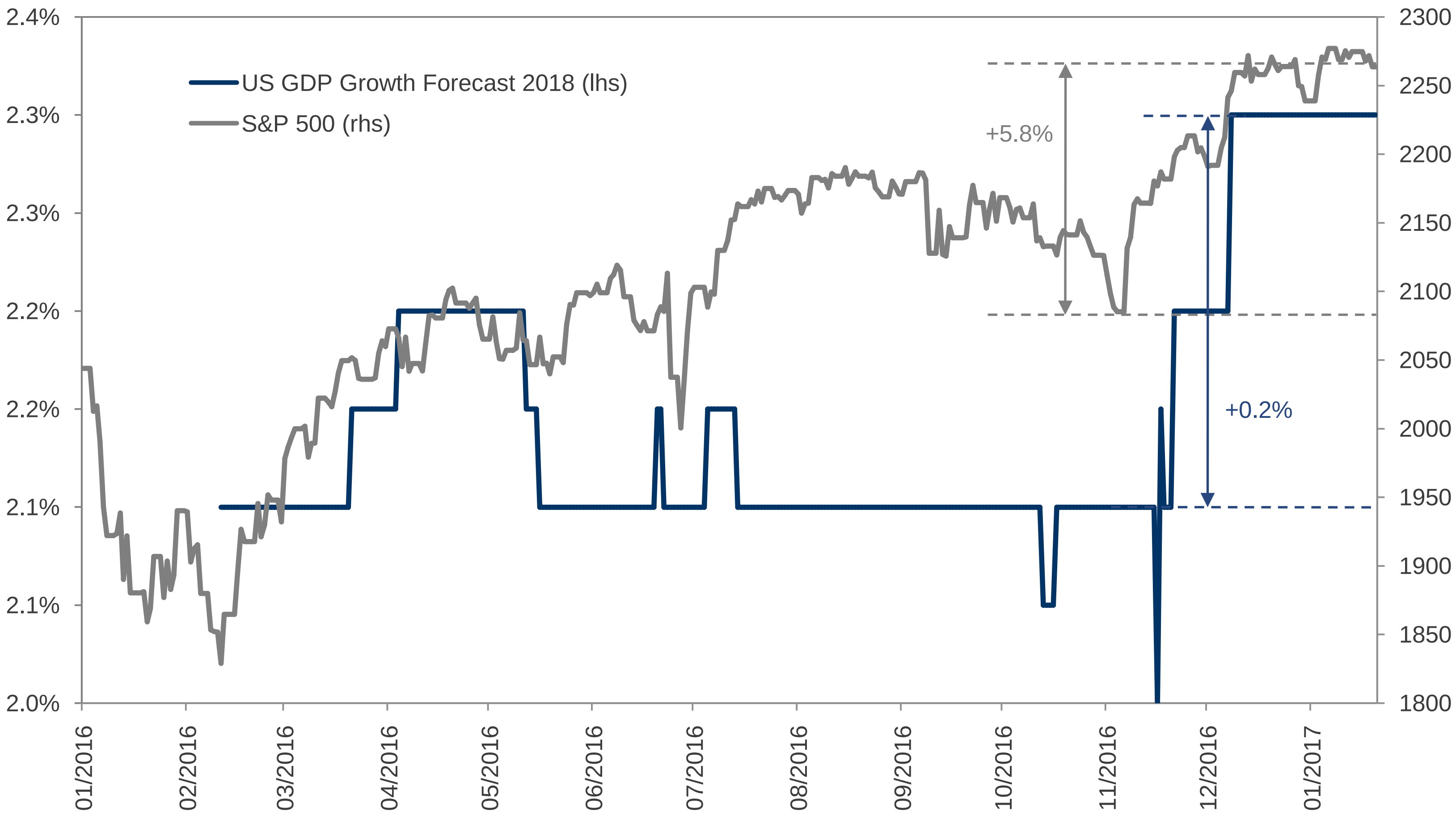
Investment Policy

MORA WEALTH MANAGEMENT

January 2017

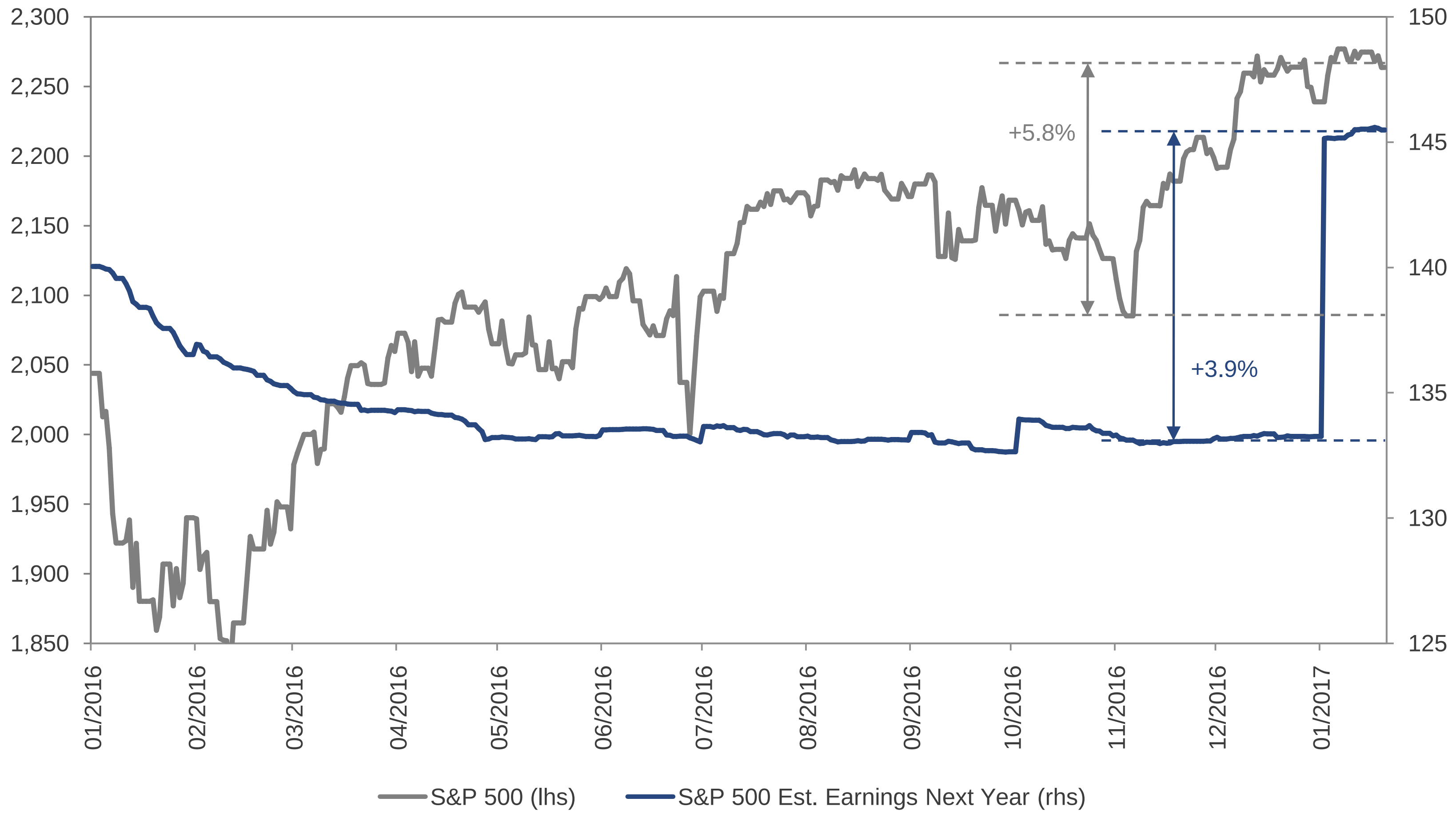
Growth projections only marginally improved



- The **post-election rally** on equity markets has **not been accompanied** by a corresponding optimism in **economic projections**. As an example, the IMF has revised US GDP growth projections for 2018 by only 0.5%
- Equity markets and the economy do not necessary have to go hand in hand, and part of the rally may be simply justified by the expectation of **lower corporate taxes**. However, the divergence is a sign of how much of the **market rally has been built on expectations** that can prove to be unrealistic

Source: Bloomberg

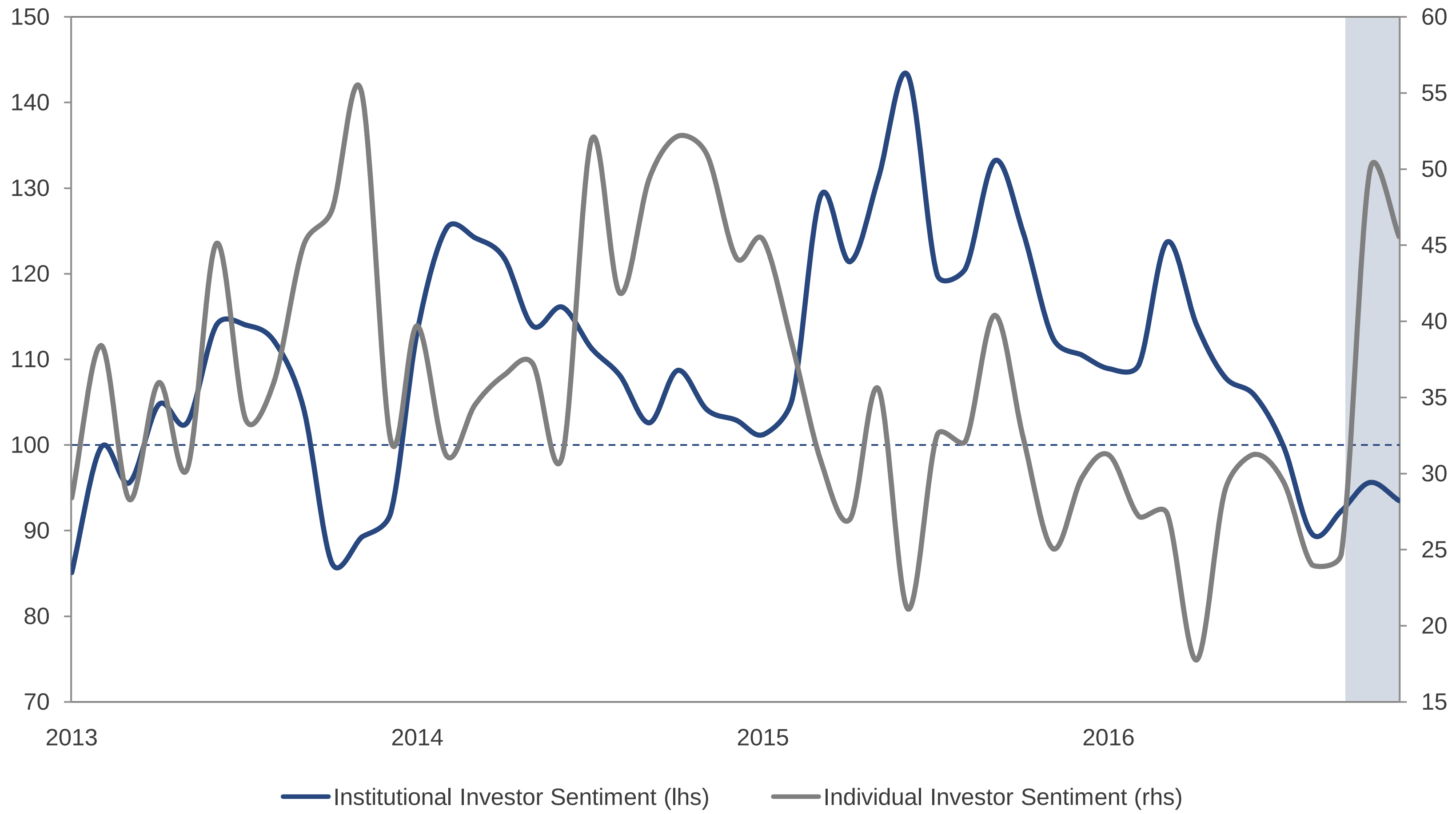
Stock analysts are starting to respond



- Stock analysts have been **initially reluctant to increase earning projections** immediately after the US elections, but have started to do so in 2017
- The projected increase in earnings however is **far from the double-digit growth** implied by current valuations, taking into consideration that interest rates have also increased

Source: Bloomberg

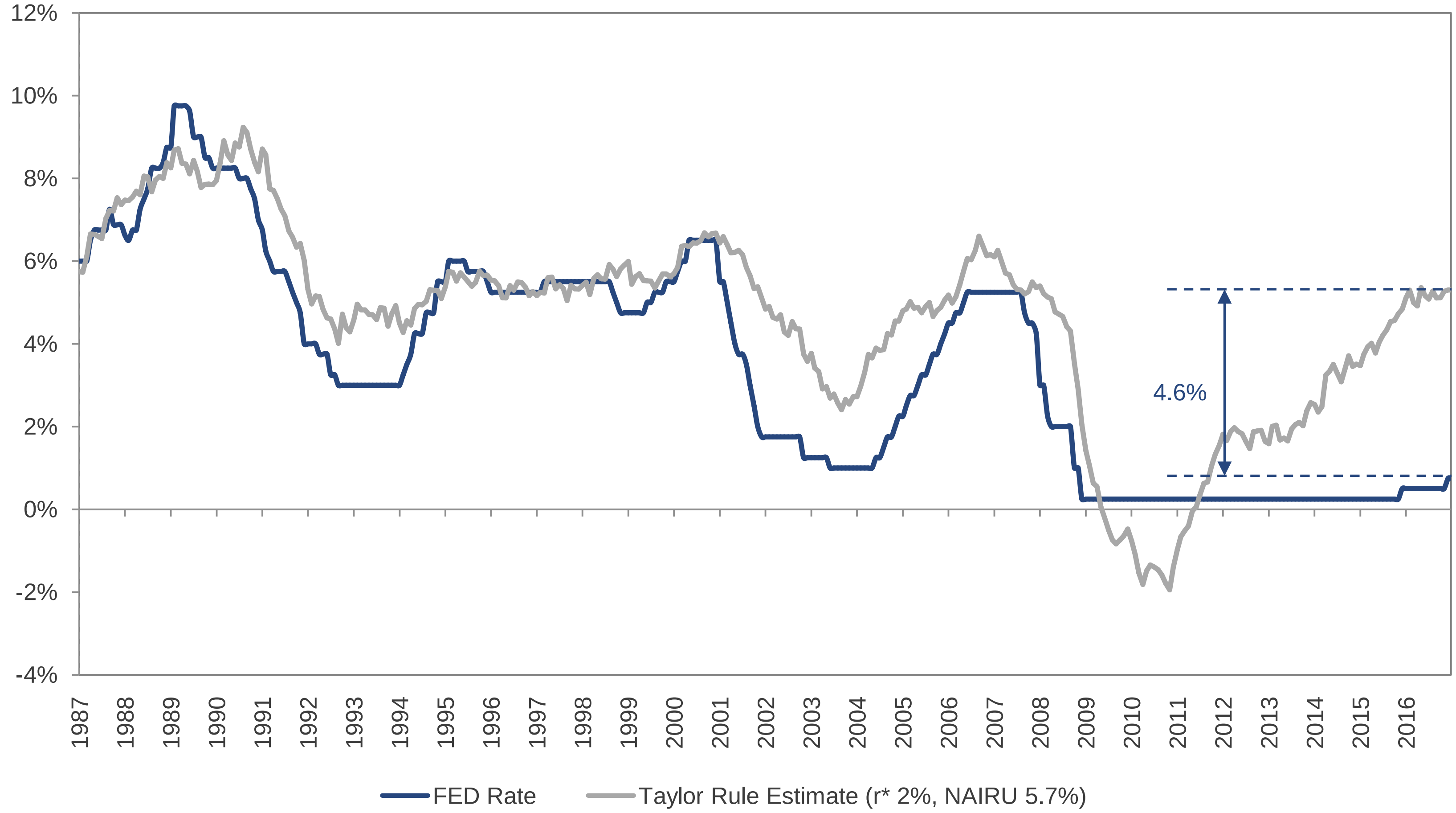
Retail investors have propelled the “Trump trade”



- The biggest change in **investor optimism** after the US election came from **retail investors**, whilst **institutional investors barely changed** their stance
- We have also seen how the **momentum of the “Trump trade’ has started to wane** recently, as concerns over his administration mount in the absence of concrete plans on trade and fiscal policy

Source: State Street Investor Confidence Index For North American Institutional Investor, AAII US Investor Sentiment Bullish Readings

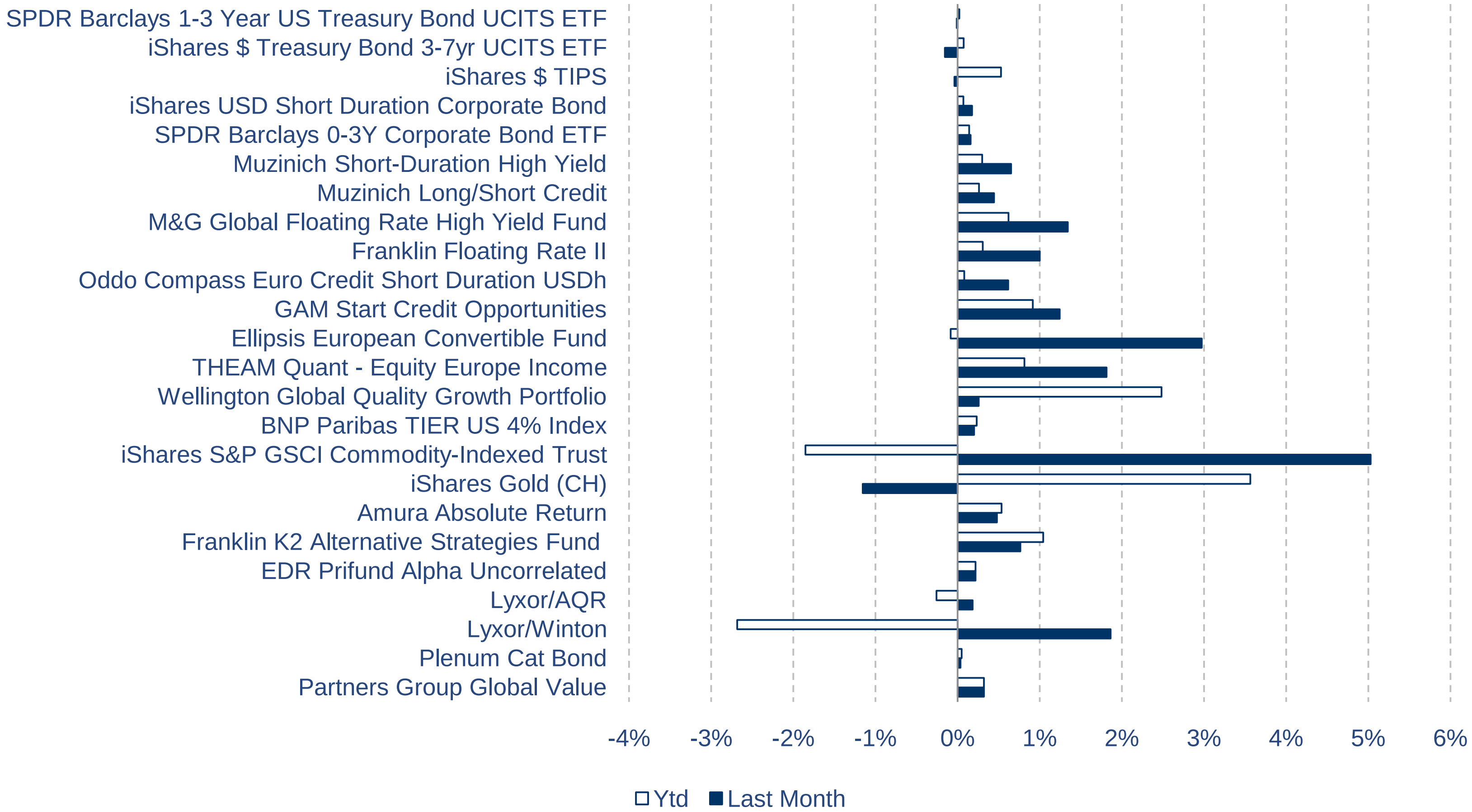
The new narrative needs of the Fed's acquiescence



- The **pre-election narrative** for justifying high equity valuations was based on the notion of interest rates remaining **"lower for longer"**, whilst the **post election narrative** is predicated on **higher growth and inflation**
- The transition from one narrative to the other has been accompanied by ever higher equity prices, under the assumption that corporate earnings will increase. However, **in such a scenario interest rates should normalize further**, something that should weigh down on stock prices

Source: Philadelphia Fed NAIRU Average 1997-2010, Bloomberg

Complacent markets in December



- **Most asset classes had a positive month** in December, with the **exception** of **US Treasuries** and **Gold**
- **Credit** and **convertibles** were the **strongest performers**

Source: Bloomberg as of December 31, 2016

Investment scenarios

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	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	25%	35% (+5%)	40% (-5%)

Short-term catalyzers
Fiscal stimulus in the US, improvement in macro-data, oil price stabilization

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

- We remain cautious in **fixed income** favoring **short to medium** maturities due to a very unattractive combination of risk and return. 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** – particularly **corporate investment grade** – remain attractive in relative terms, and **Treasury bonds** could benefit 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** remain very high, mostly **supported by low interest rates**. We think that despite the expected fiscal stimulus in the US, **corporate earnings** will not reaccelerate significantly in an environment of **lackluster global economic growth,** and with the **Fed normalizing interest rates at a faster pace**, there is a risk of returning to lower valuation multiples. From a relative **valuation** perspective, we favor **European equities** and **growth stocks**

- **Alternative investments** offer a much needed source of **diversification**. However, they **have not performed as expected in the current market environment** and we have **continued reducing exposure** towards a more neutral stance

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

- 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

MWM Investment Policy

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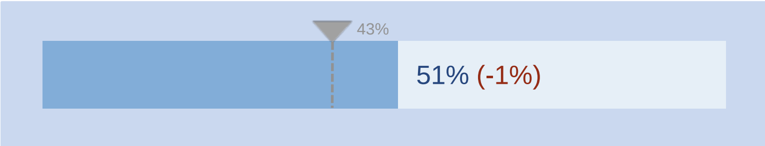
Cash

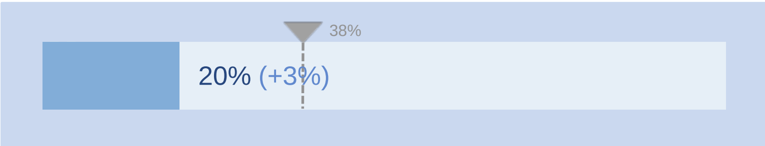
- In the current environment waiting for good investment opportunities is a sensible investment strategy. However, holding cash is becoming costly in some of our reference currencies

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)

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Cash	Cash	• Cash	6%	6%
Fixed Income	US Treasuries	• iShares Treasury Bond 1-3yr	4%	52%
		• iShares Treasury Bond 3-7yr	3%	
	Short-Term Corporate Bonds	• SPDR Barclays 0-3Y Corporate Bond	8%	
		• iShares USD Short Duration Corporate Bond	8%	
	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	11%	20%
	Growth	• Wellington Global Quality Growth Portfolio	3%	
	Europe	• THEAM Quant Equity Europe Income	3%	
	Biotechnology	• Polar Capital Biotechnology Fund	3%	
Commodities	Diversified	• iShares Diversified Commodity Swap	3%	6%
	Gold	• iShares Gold	3%	
Alternative Investments	Multi-Strategy	• EDR Prifund Alpha Uncorrelated	2%	16%
	Multi-Strategy	• Amura Absolute Return	2%	
	Multi-Strategy	• Franklin K2 Alternative Strategies Fund	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)

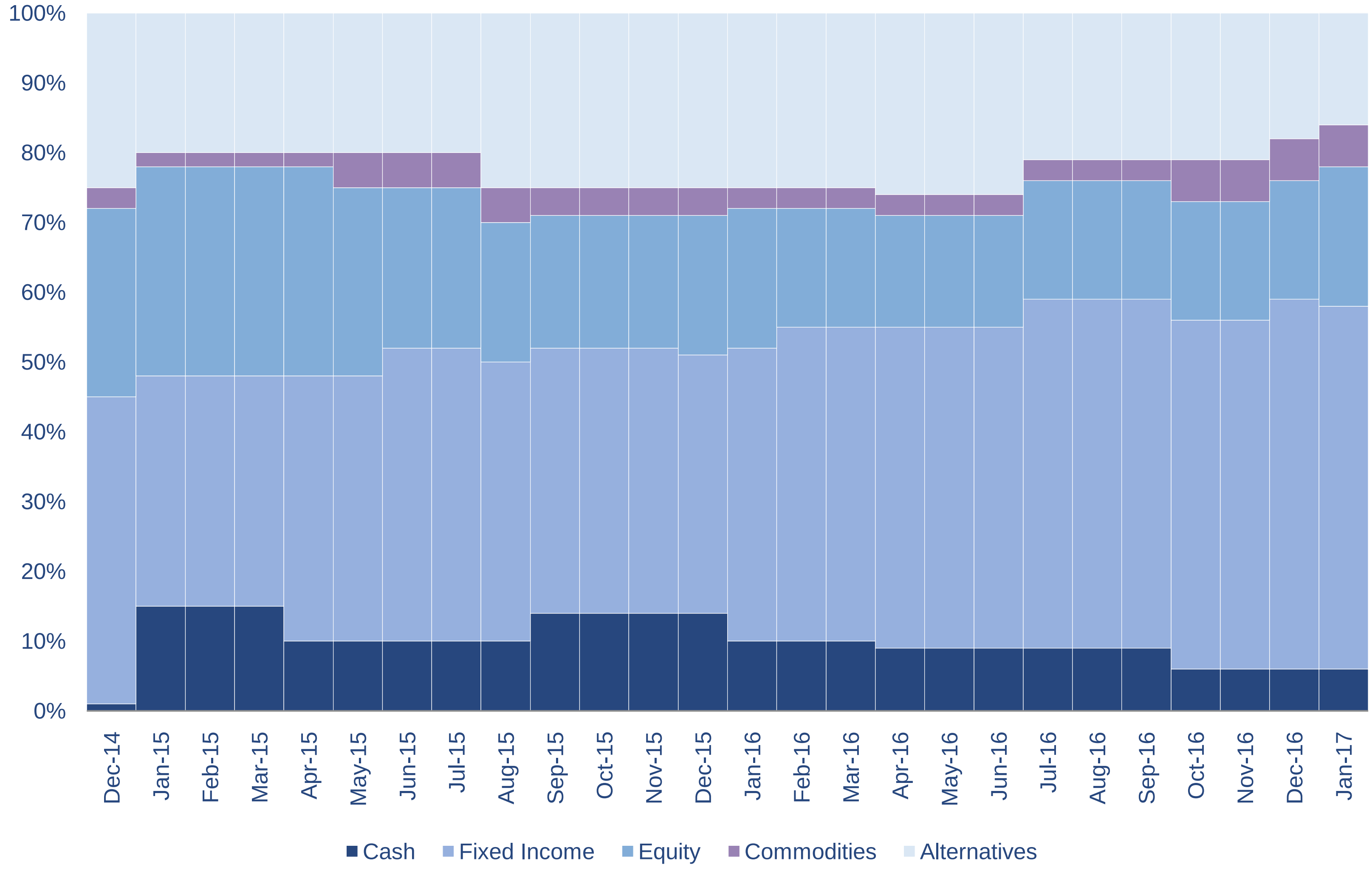
Asset Class	Category	Holding	Weight	Total
Cash	Cash	• Cash	6%	6%
Fixed Income	US Treasuries	• SPDR Barclays 1-3 Year US Treasury Bond UCITS ETF	7%	52%
		• iShares Treasury Bond 3-7yr	4%	
	Short-Term Corporate Bonds	• SPDR Barclays 0-3Y Corporate Bond	7%	
		• iShares USD Short Duration Corporate Bond	8%	
	US TIPS	• iShares $ TIPS	8%	
	Global Investment Grade	• PIMCO Global Bond	3%	
	High Yield US	• Neuberger Berman High Yield Bond Fund	3%	
	High Yield US	• Lord Abbett High Yield Fund	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	9%	20%
	Growth	• MFS Meridian Global Concentrated Fund	5%	
	High Dividend Yield	• Schroder Global Dividend Maximizer	3%	
	Biotechnology	• Franklin Biotechnology Discovery Fund	3%	
Commodities	Diversified	• iShares Diversified Commodity Swap	3%	6%
	Gold	• iShares Gold Trust	3%	
Alternative Investments	Multi-Strategy	• Franklin K2 Alternative Strategies Fund	5%	16%
	Multi-Strategy	• Blackrock Multi-Manager Alternative Strategies Fund	5%	
	CTA, Diversified	• IQ-Hedge Multi-Strategy Tracker ETF	3%	
	Private Equity	• iShares Listed Private Equity	3%	

MWM Investment Profiles

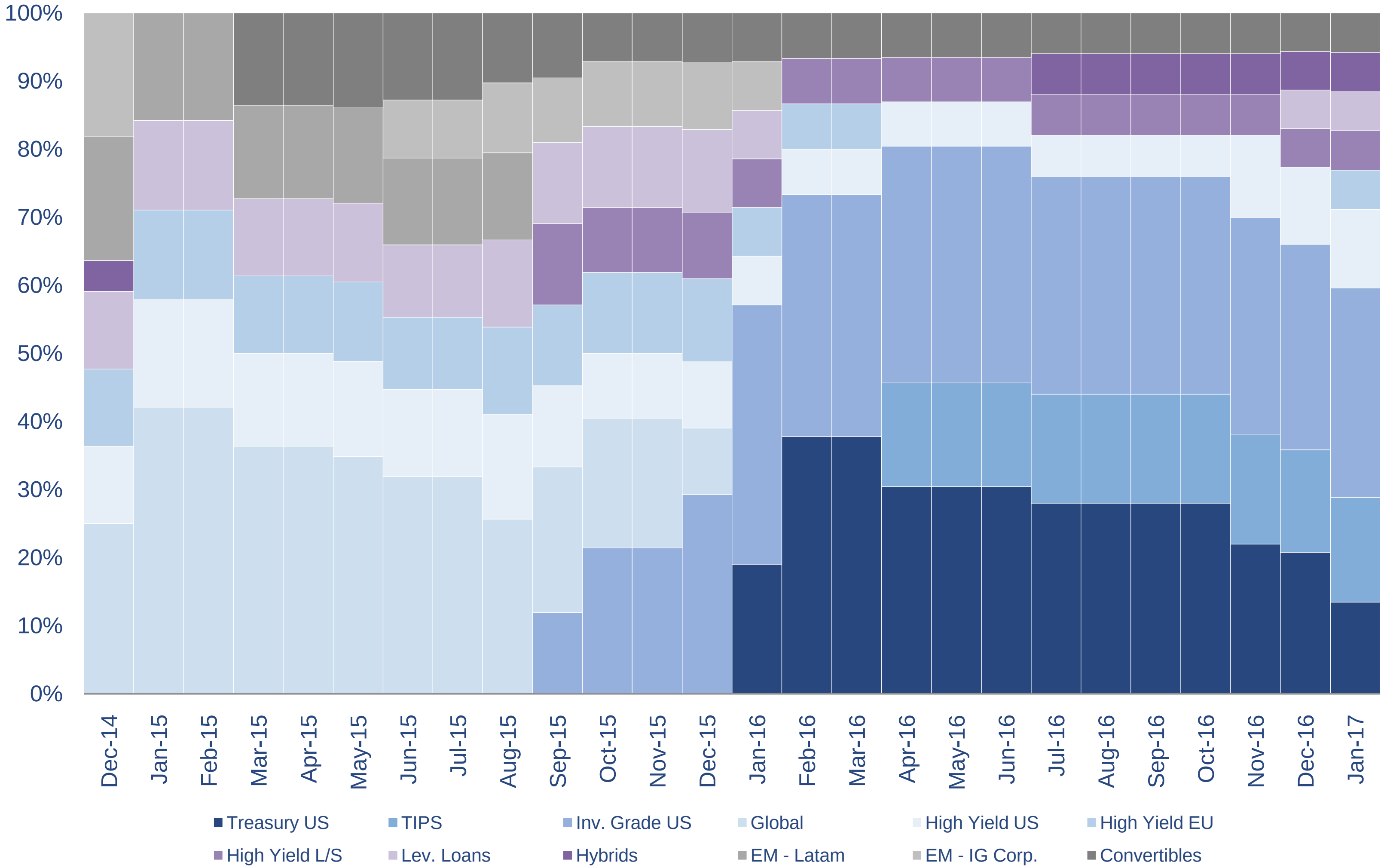
	Conservative		Balanced		Growth	
Cash	5%	8%	5%	6%	5%	3%
Fixed Income	64%	67%	43%	52%	22%	39%
Equity	24%	11%	38%	20%	52%	30%
Commodities	2%	4%	4%	6%	6%	8%
Alternative Investments	5%	10%	10%	16%	15%	20%

▼ Strategic Asset Allocation

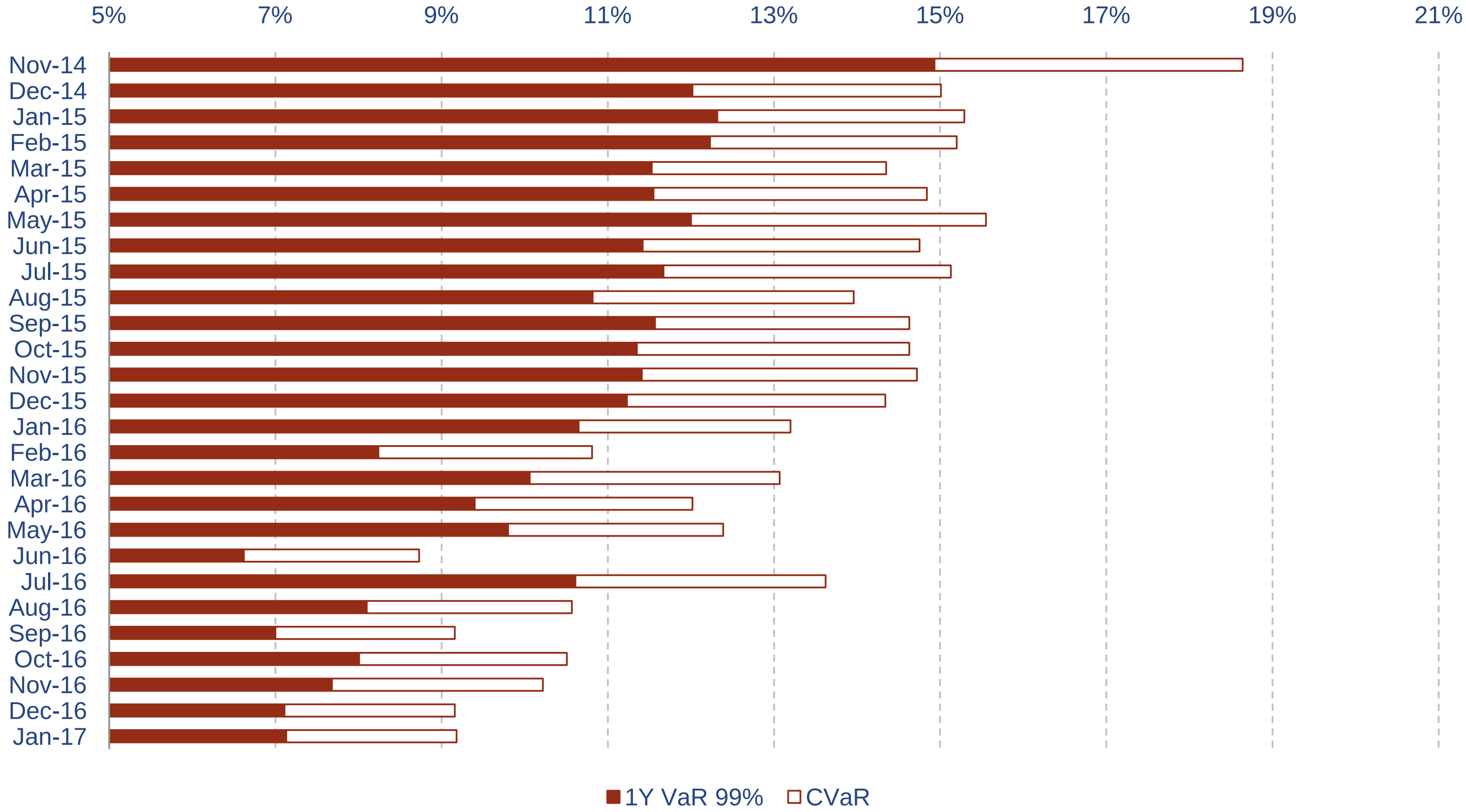
MWM Model Portfolio – Asset Allocation evolution



MWM Model Portfolio – Fixed Income evolution

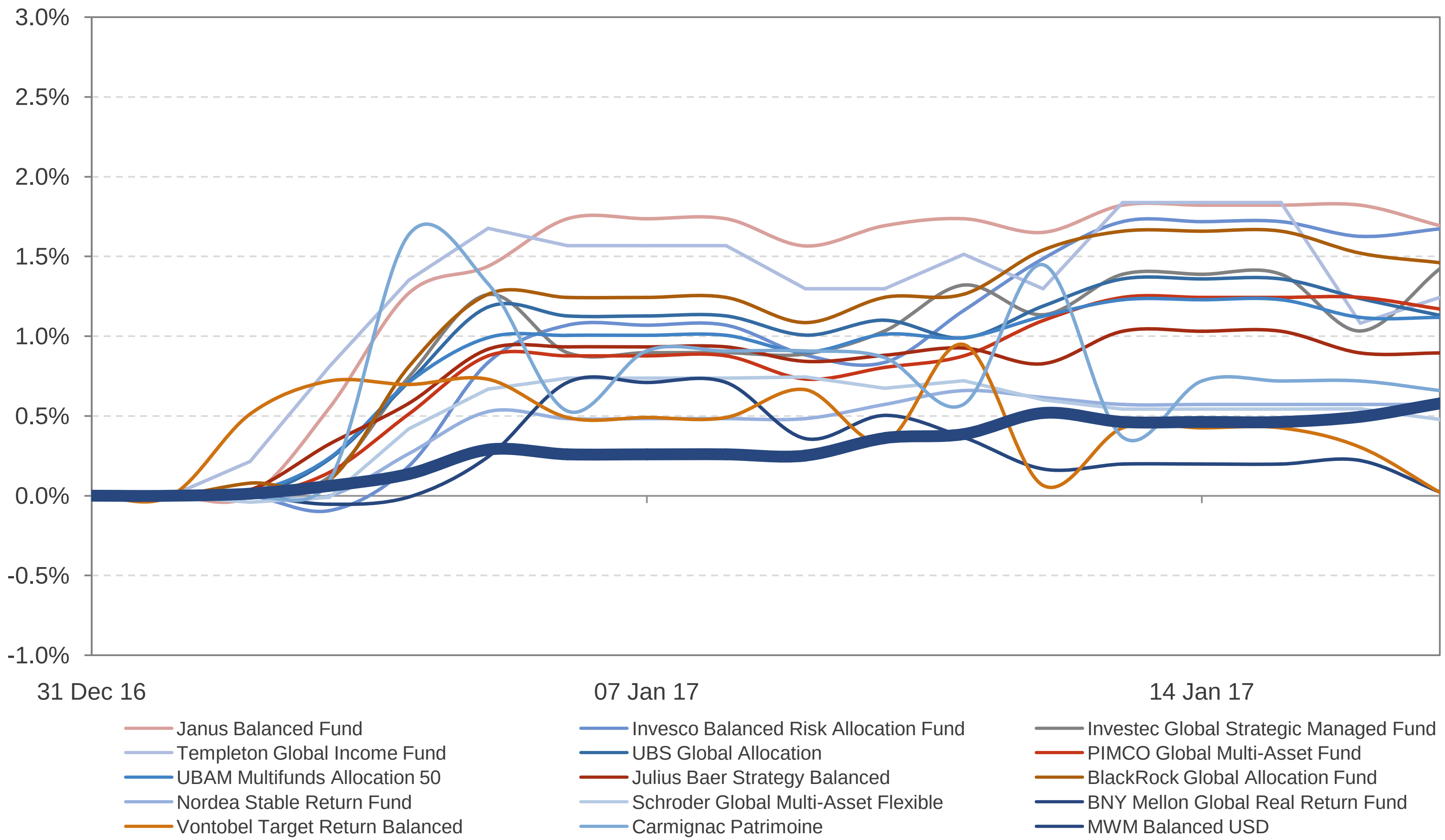


MWM Model Portfolio – VaR evolution



- Despite the addition of the **position in gold** has caused a **reduction in the VaR** of the portfolio, the increase in market volatility over the past month translates into a larger current VaR

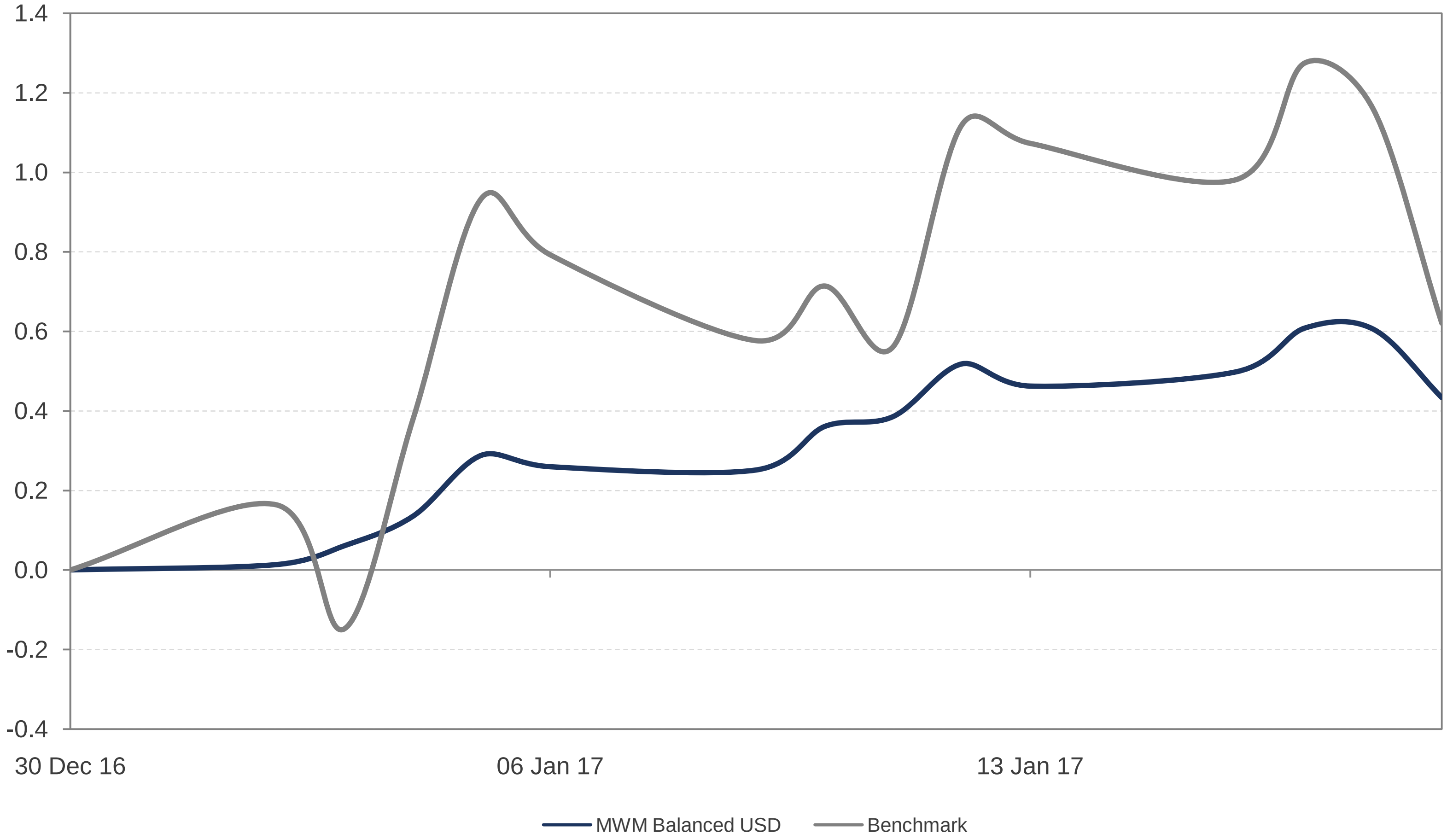
MWM Model Portfolio – Peer comparison



- **Total Return** (Ytd[1]): **11th 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]): **2nd out of 15**

[1] As of January 18, 2017
Source: Bloomberg

MWM Model Portfolio – Ytd performance (Net)

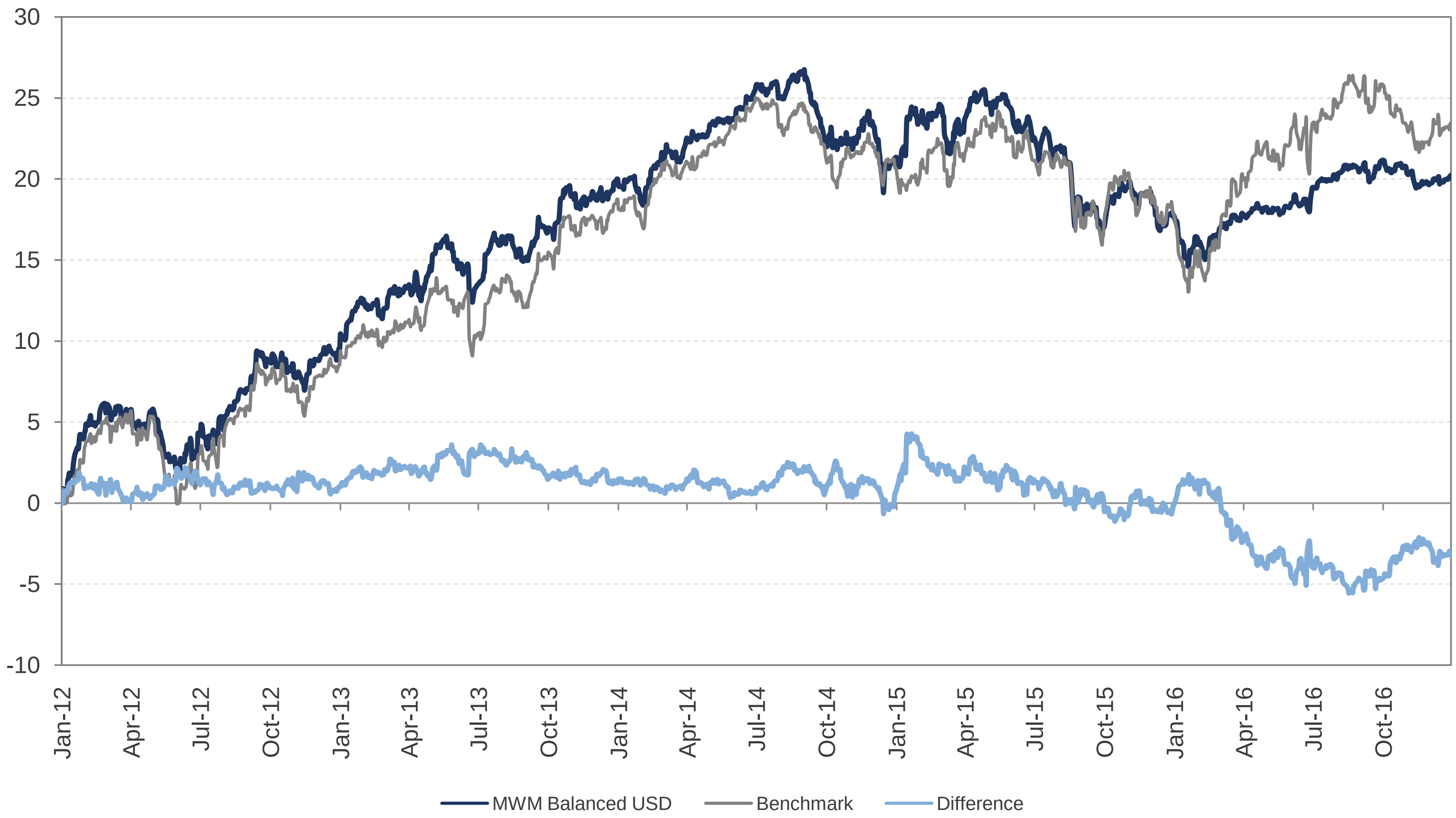


- **Total Return** (Ytd[1]): **0.43%** vs. **0.62%** Benchmark[2]
- **Standard Deviation** (Ytd[1]): **1.38%** vs. **5.46%** Benchmark[2]
- **Downside Risk** (Ytd[1]): **1.05%** vs. **3.62%** Benchmark[2]
- **Var 95% - 1day** (Ytd[1]): **-0.10%** vs. **-0.39%** Benchmark[2]

[1] As of January 18, 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)

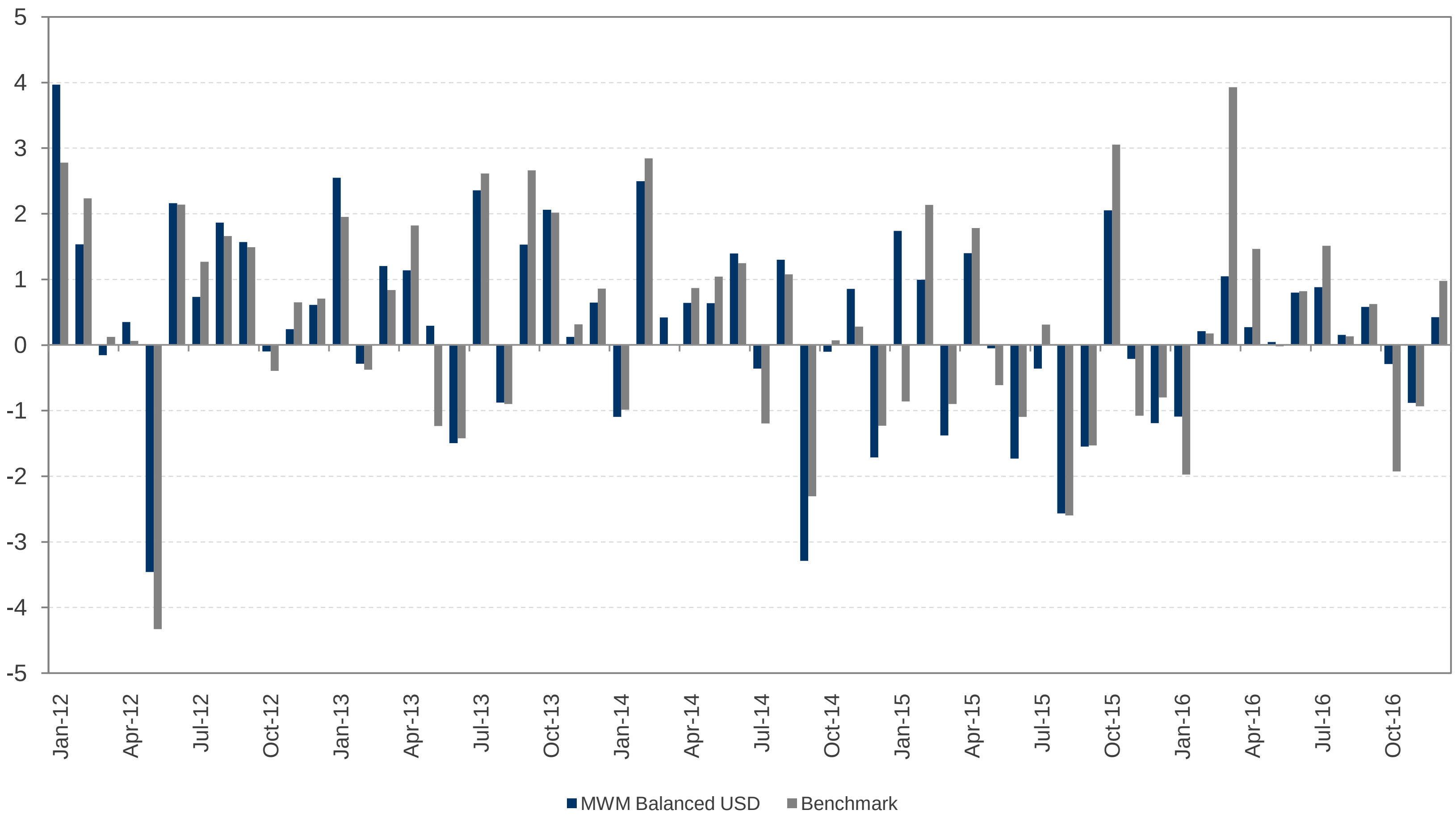


- **Total Return** (1 year[1]): **4.84%** vs. **9.17%** Benchmark[2]
- **Total Return** (3 year[1]): **0.58%** vs. **4.59%** Benchmark[2]
- **Total Return** (Since Jan 12[1]): **20.23%** vs. **23.47%** Benchmark[2]

[1] As of December 31, 2016

[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]): **2.41%** vs. **5.74%** Benchmark[2]
- **Downside Risk** (1 year[1]): **1.77%** vs. **4.15%** Benchmark[2]
- **Sharpe Ratio** (1 year[1]): **1.88** vs. **1.57** Benchmark[2]
- **Var 95%** (1 day[1]): **-0.23%** vs. **-0.50%** Benchmark[2]

[1] As of December 31, 2016

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