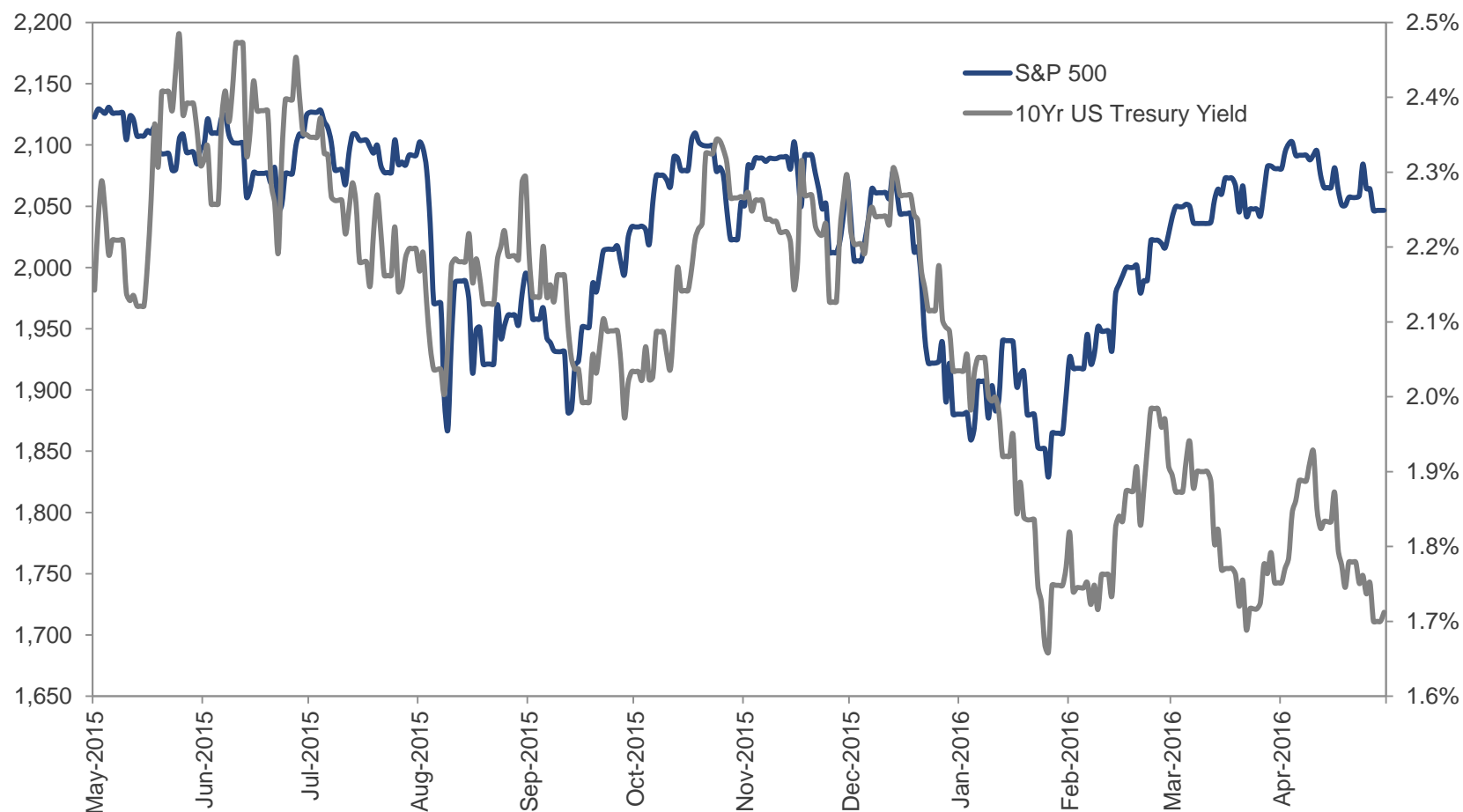




*yours
independently*

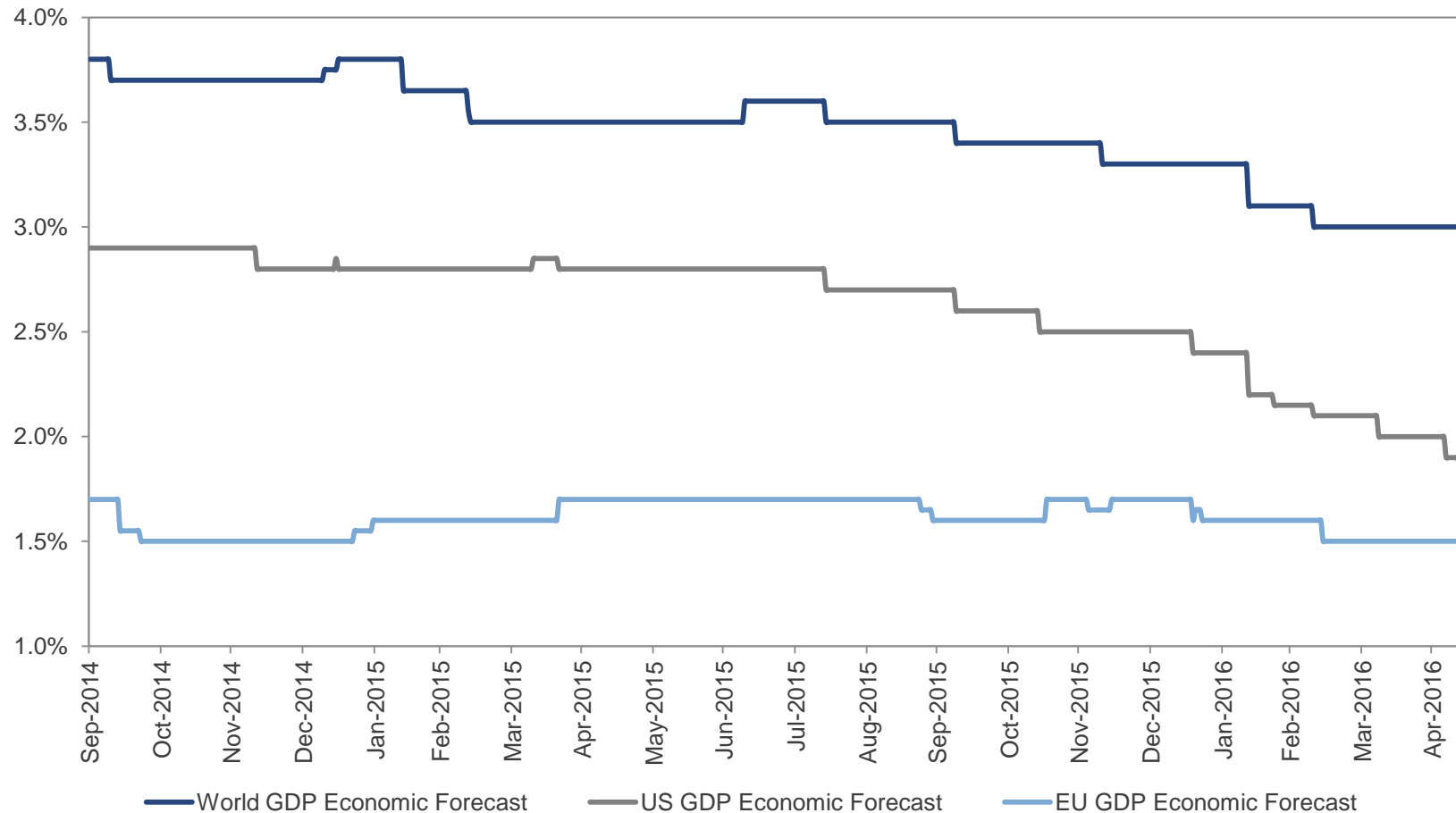
Investment Policy

Which market is right?



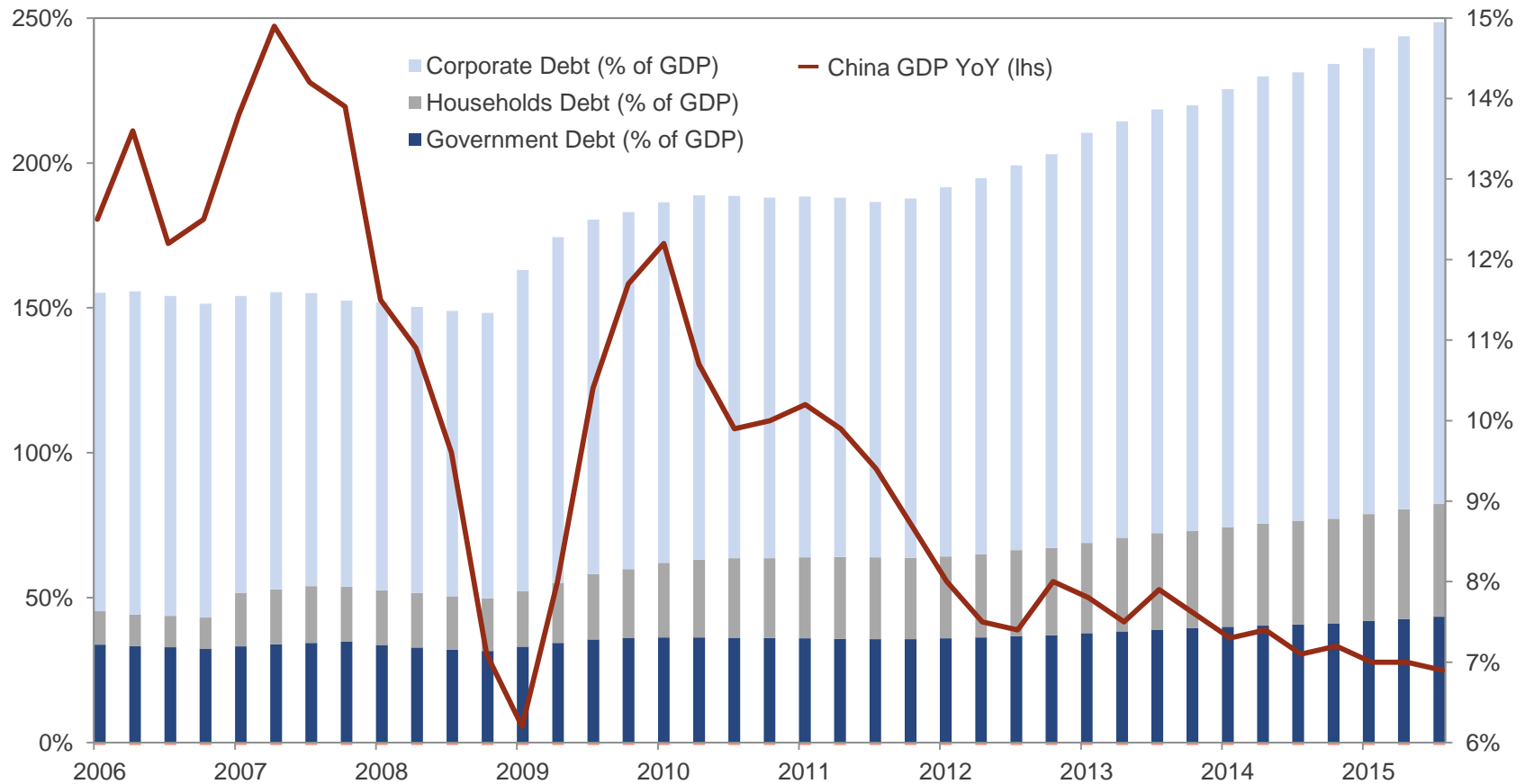
- **Equity and bond markets have decorrelated sharply** since the beginning of the year. This is **typical of an early cycle** recovery but very **unusual when the Fed is starting to tighten**, and reflects to which degree the **unconventional policies of central banks are distorting valuations**
- If economic **fundamentals were to improve**, **US Treasury yields should rise**. Otherwise, more **central bank support** will be necessary to help equities avoid a **valuation “gravity pull”**

Lackluster economic growth remains the biggest concern



- Despite unprecedented monetary stimulus, **economic growth remains subdued**, as shown by the first quarter figures in the US (0.5%), Europe (+0.6%) and Japan (+0.7%)
- More worryingly, the **marginal impact of new stimulus is decreasing**, as proven by the latest decisions of the Bank of Japan and the ECB, which were partly interpreted as **desperate measures** by investors
- This also raises questions on the **policy options available** if the Fed were to combat an economic recession, particularly once the pace of **policy normalization has slowed down**

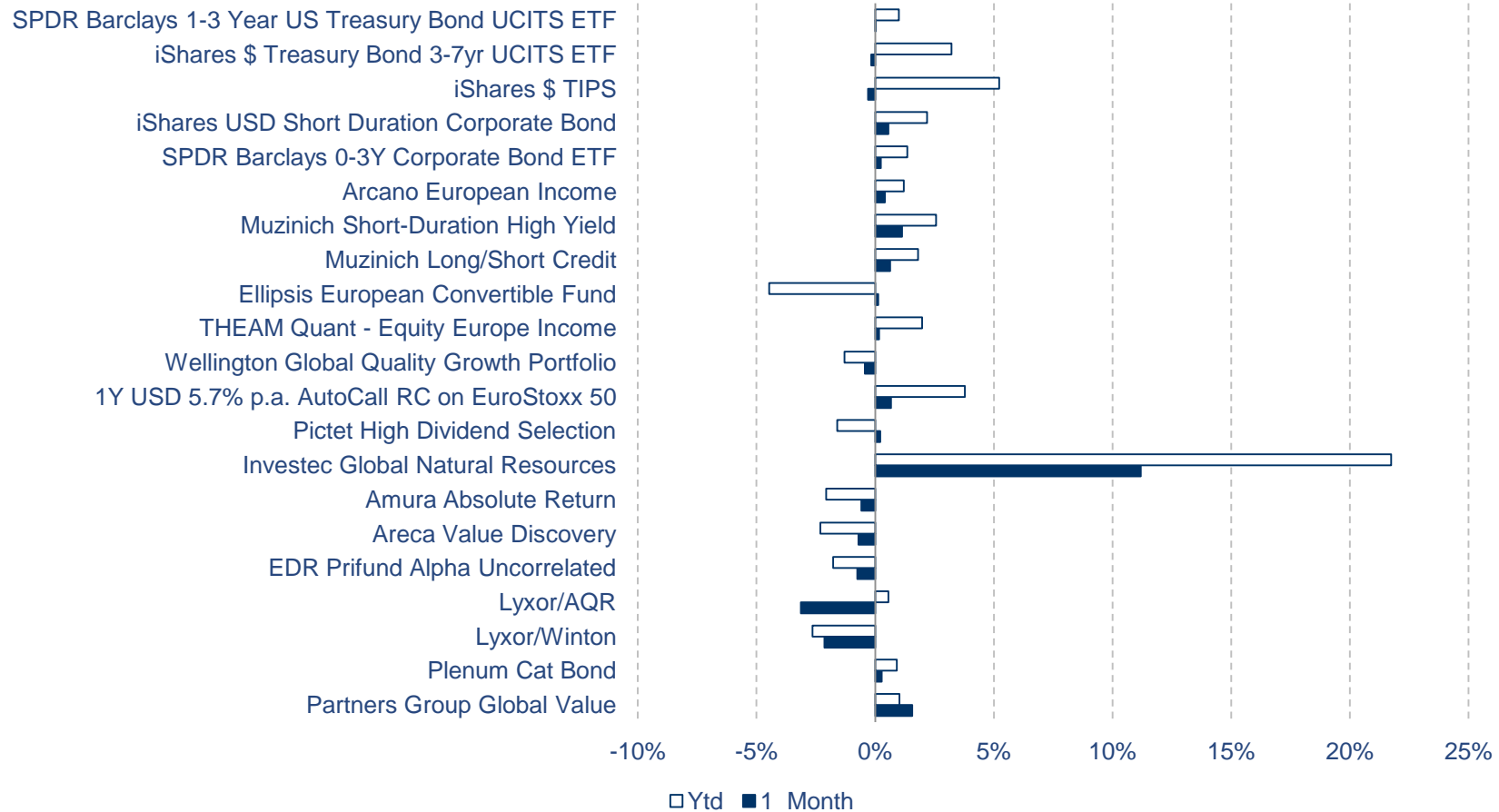
...and China the biggest unknown



- **New borrowing in China increased at a record pace** in the first quarter of 2016. This is the biggest quarterly surge on record, and 50% higher than last year's increase, suggesting the **authorities are in the short-term trying to revive declining growth, despite the risks to financial stability**
- Both the **absolute levels** of debt – comparable to developed economies but far larger than other developing economies – and the **speed** at which this is accumulating are raising red flags

Source: BIS, Financial Times and Bloomberg

Risky assets continued performing better



- **Risky asset classes have continued recovering** (commodities, high-yield and Emerging Markets), whilst **safe assets** performed **neutral or slightly negative**
- **Hedge funds** have continue disappointing in April, reflecting how difficult is for them to perform in the current **volatile non-trending market environment**. Other alternative investments like **cat bonds** or **private equity** continued posting a positive performance

Source: Bloomberg as of February 29, 2016

Investment scenarios

	Scenario 1 Global economic slowdown	Scenario 2 Muddling through	Scenario 3 Inflation surprise
Drivers	<ul style="list-style-type: none"> Global economic slowdown led by a hard-landing in China and/ or recession in the US Fed delays rate rises Strong deflationary scenario due to a combination of low growth and structural factors (demographics, low aggregated demand, deleveraging) 	<ul style="list-style-type: none"> Chinese authorities stabilize the market and halt economic rebalancing (weaker yuan, higher IP). US, Japan and Europe continue exhibiting low but stable growth Fed rise rates at an accommodative pace Low inflation due to structural factors (demographics, low aggregated demand, deleveraging) 	<ul style="list-style-type: none"> Growth concerns dissipate, with economic activity accelerating in Europe and Japan Inflation in US unexpectedly increases The Fed is behind the curve and is forced to rise rates aggressively
Market impact	<ul style="list-style-type: none"> 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 to remain depressed 	<ul style="list-style-type: none"> Equities recover moderately, particularly in Europe 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 Commodities remain weak in short term, but rebound in long-term as supply and demand balance out 	<ul style="list-style-type: none"> Correction in equities due to higher rates. Impact will be mitigated if higher inflation is the consequence of an acceleration in growth 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% ↓	35%	30% ↑

Short-term catalyzers

QE Ramp up (EU, Japan, China?), Fed pauses, macro-data (particularly in China) showing resilience

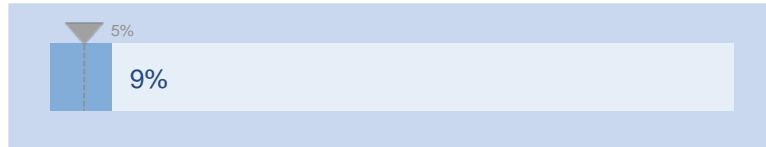
Other risks

Commodity prices lead to political destabilization (Russia, Saudi Arabia, Iran, Venezuela, etc.), US elections, Greece, Terrorism, Brexit...

- We remain cautious in **fixed income** favoring **short-medium** maturities due to a very unattractive combination of risk and return. We **no longer favor credit exposure** as we think the macroeconomic picture has deteriorated significantly. On the other hand, **high quality bonds** – particularly **corporate investment grade** – have turned attractive following the widening in spreads, and **Treasury bonds** can benefit from a slowdown in growth. We have also added a position in inflation-linked US Treasury bonds (**TIPS**) to get partial protection against an unexpected bout of inflation as a consequence of the extremely accommodative monetary conditions
- The **strong recovery** has brought **equity valuations** back at a point where they remain **supported by low interest rates**. Broadly speaking, we think that prospects for **corporate earnings** cannot be positive in an environment of **lackluster economic growth** and a potential **normalization of interest rates** poses a risk of returning to lower valuation multiples. As a consequence, we have **hedged our equity** exposure. From a relative **valuation** perspective, we favor **European equities, high-dividend stocks** and **growth stocks**
- **Alternative investments** offer a much needed source of **diversification** and (partially) **uncorrelated returns**. We recommend allocating a significant part of the portfolio to Multi-Strategy Hedge-Funds, Private Equity, Cat Bonds, Commodities and derivative strategies (covered-calls)
- A **larger than usual cash allocation** is advisable as the **opportunity cost** of holding cash has decreased dramatically, and it offers **flexibility** to enter the market in an opportunistic manner

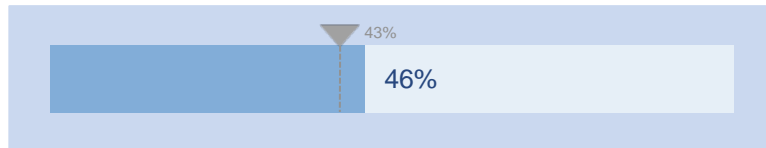
MWM Investment Policy

Cash



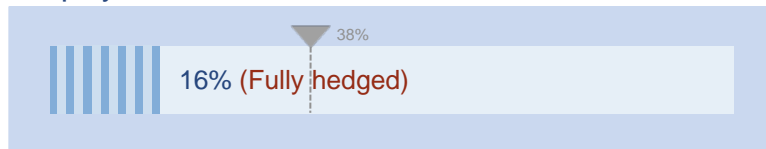
- In the current interest rate environment the opportunity cost of holding cash has significantly decreased, hence, waiting for good investment opportunities is a sensible investment strategy
- Nonetheless, we have reduced the allocation to enhanced cash strategies as we have taken a more conservative stance on credit and allocated to short-term Treasuries

Fixed Income



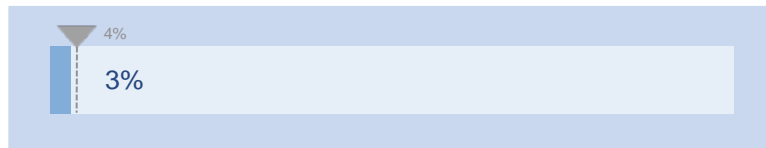
- High-quality fixed income in USD currently offers a better combination of risk and return since credit spreads have widened. Treasuries can benefit from a slowdown in growth, whilst TIPS offer protection against an unexpected bout of inflation
- We avoid high-yield and emerging markets in the light of the bleak global economic outlook

Equity



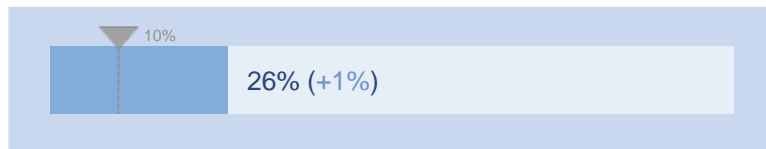
- The strong recovery has brought valuations back at a point where they remain supported by low interest rates. Low economic growth and a potential normalization of interest rates pose a risk of returning to lower valuation multiples. As a consequence, we have hedged our equity exposure
- In relative terms, Europe looks still more attractive than US and Asia

Commodities



- The sell-off in commodities can no longer be solely explained due to an oversupply in the market, and needs to be reflecting certain expectations of a deceleration in global economic activity
- Despite we think that the price decline has been too pronounced and current levels may be a good entry point, we prefer to cut exposure to mitigate downside risks in case we are proved to be wrong

Alternative investments

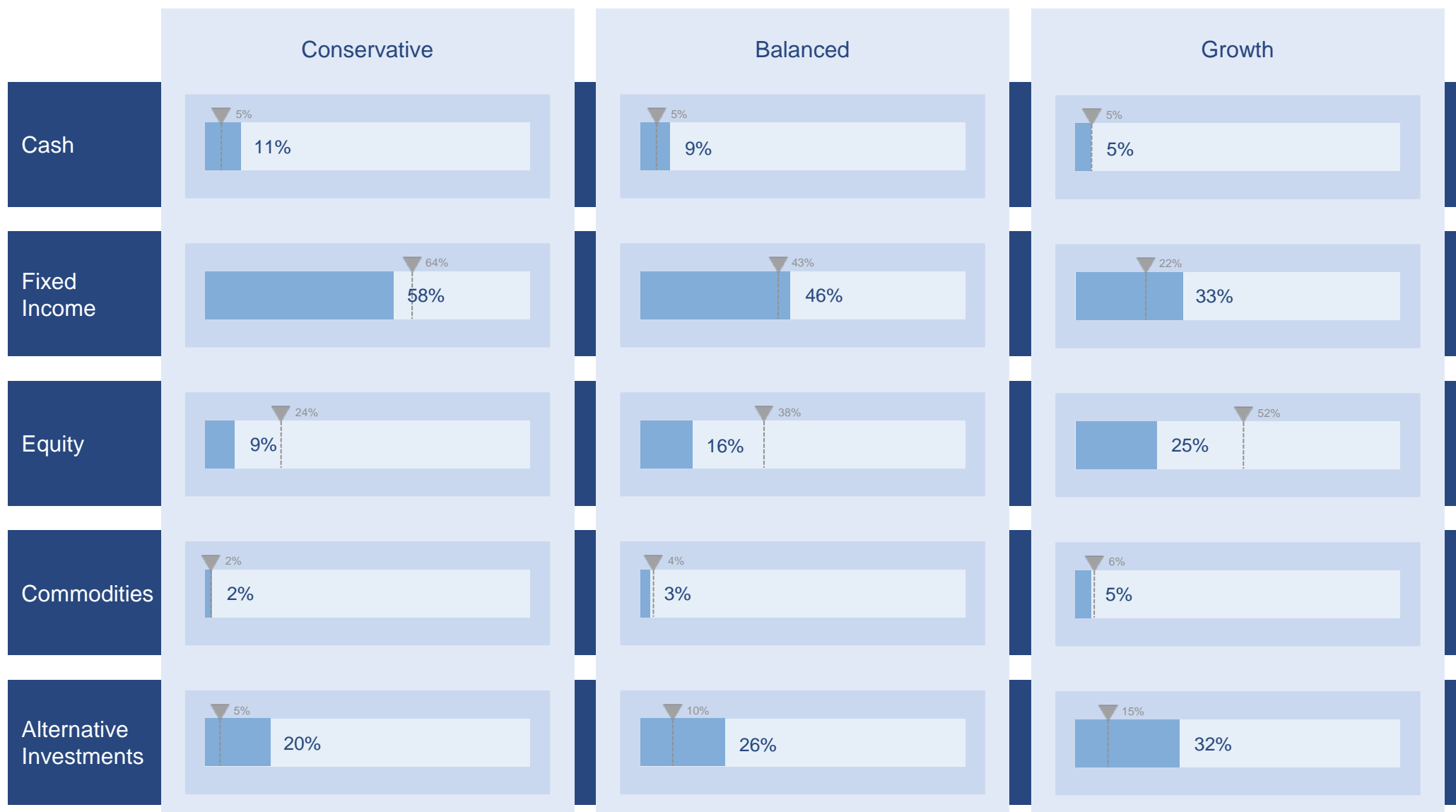


- Alternative investments as a source of low volatility and uncorrelated returns are more attractive than ever in the wake of the current latent risks in the market
- However, there is always a certain degree of correlation with traditional asset classes and double digit positive returns cannot be expected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

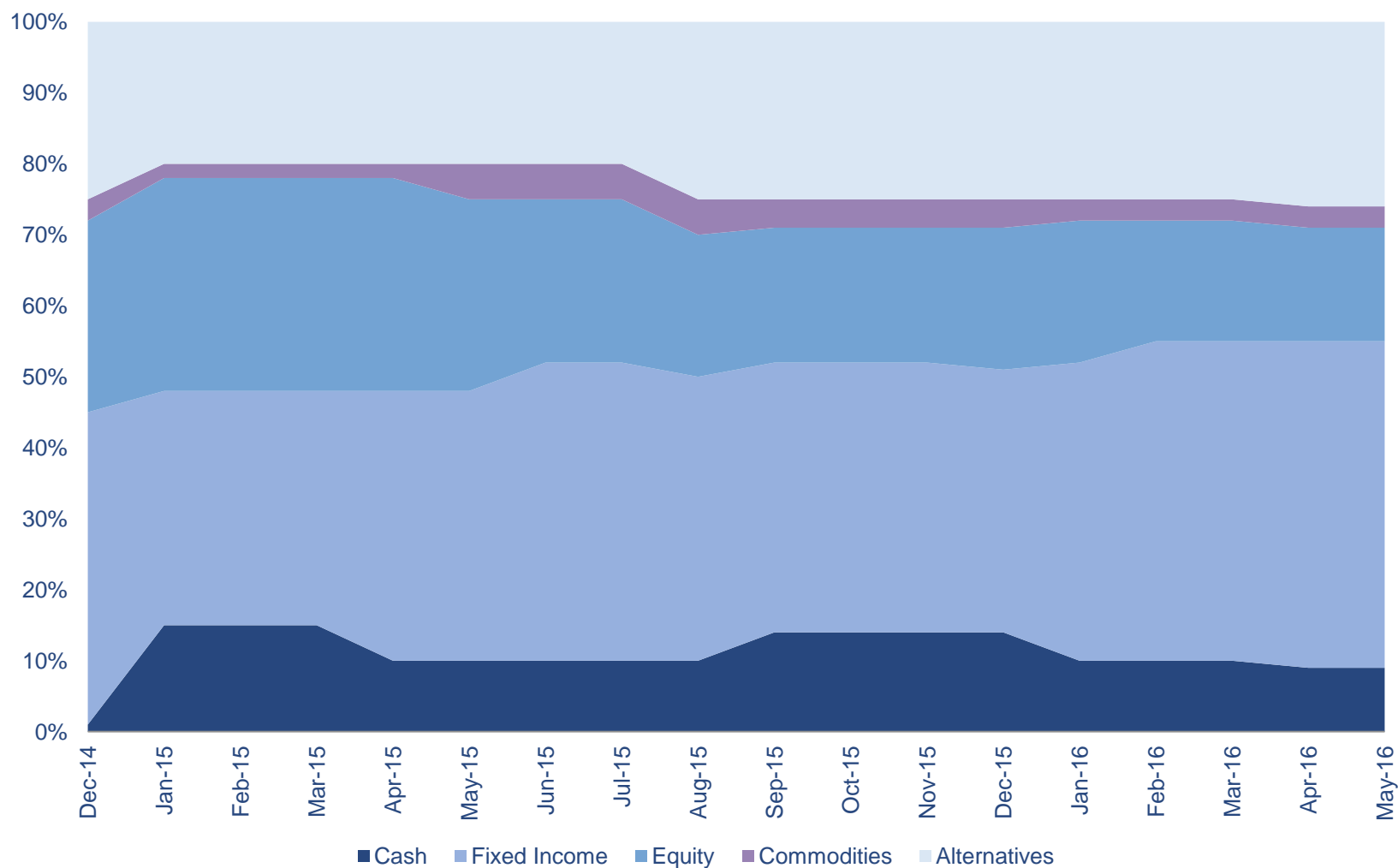
MWM Model Portfolio

Cash	Cash	• Cash	3%	9%
	Money market	• Mora Money Market	3%	
	Margin account	• Mini-Short S&P	3%	
Fixed Income	US Treasuries	• iShares Treasury Bond 1-3yr	8%	46%
		• iShares Treasury Bond 3-7yr	6%	
	Short-Term Corporate Bonds	• SPDR Barclays 0-3Y Corporate Bond	8%	
		• iShares USD Short Duration Corporate Bond	8%	
	US TIPS	• iShares \$ TIPS	7%	
	High Yield US	• Muzinich Short Duration High Yield	3%	
	High Yield Absolute Return	• Muzinich Long/Short Credit Yield	3%	
	Convertible Bonds	• Ellipsis European Convertible Fund	3%	
Equity	Growth	• Wellington Global Quality Growth Portfolio	3%	16%
	Europe	• THEAM Quant Equity Europe Income	3%	
	Volatility	• Reverse Convertibles on Blue Chips	6%	
	High Dividend Yield	• Pictet High-Dividend Selection	4%	
Commodities	Diversified	• Investec Global Natural Resources	3%	3%
Alternative Investments	Multi-Strategy	• EDR Prifund Alpha Uncorrelated	4%	26%
	Multi-Strategy	• Amura Absolute Return	4%	
	Relative Value	• Areca Value Discovery	4%	
	Multi-Strategy	• Lyxor AQR Systematic Total Return	3%	
	CTA, Diversified	• Lyxor Winton Fund	3%	
	Cat Bonds	• Plenum CAT Bond Fund	4%	
	Private Equity	• Partners Group Global Value	4%	

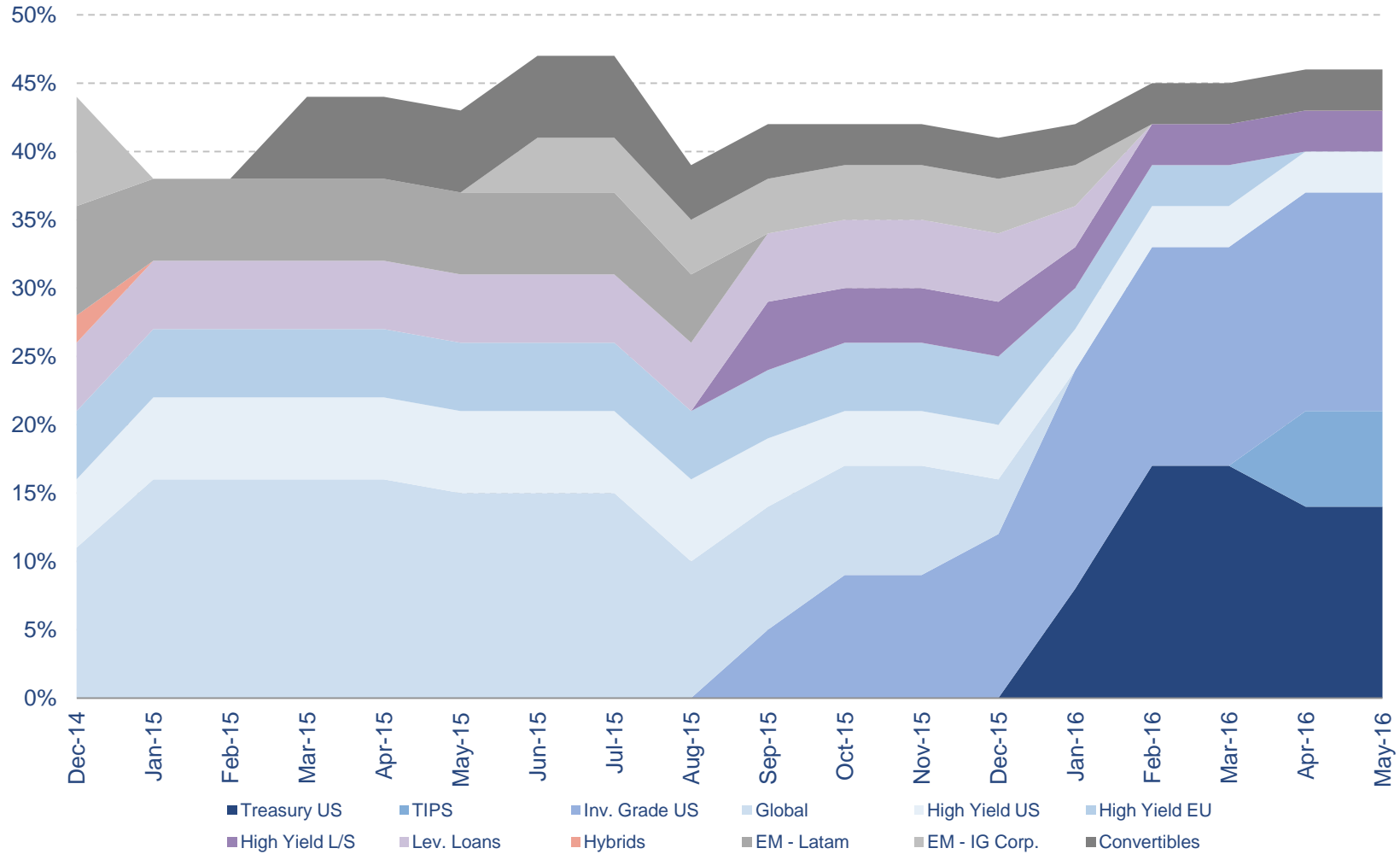
MWM Investment Profiles



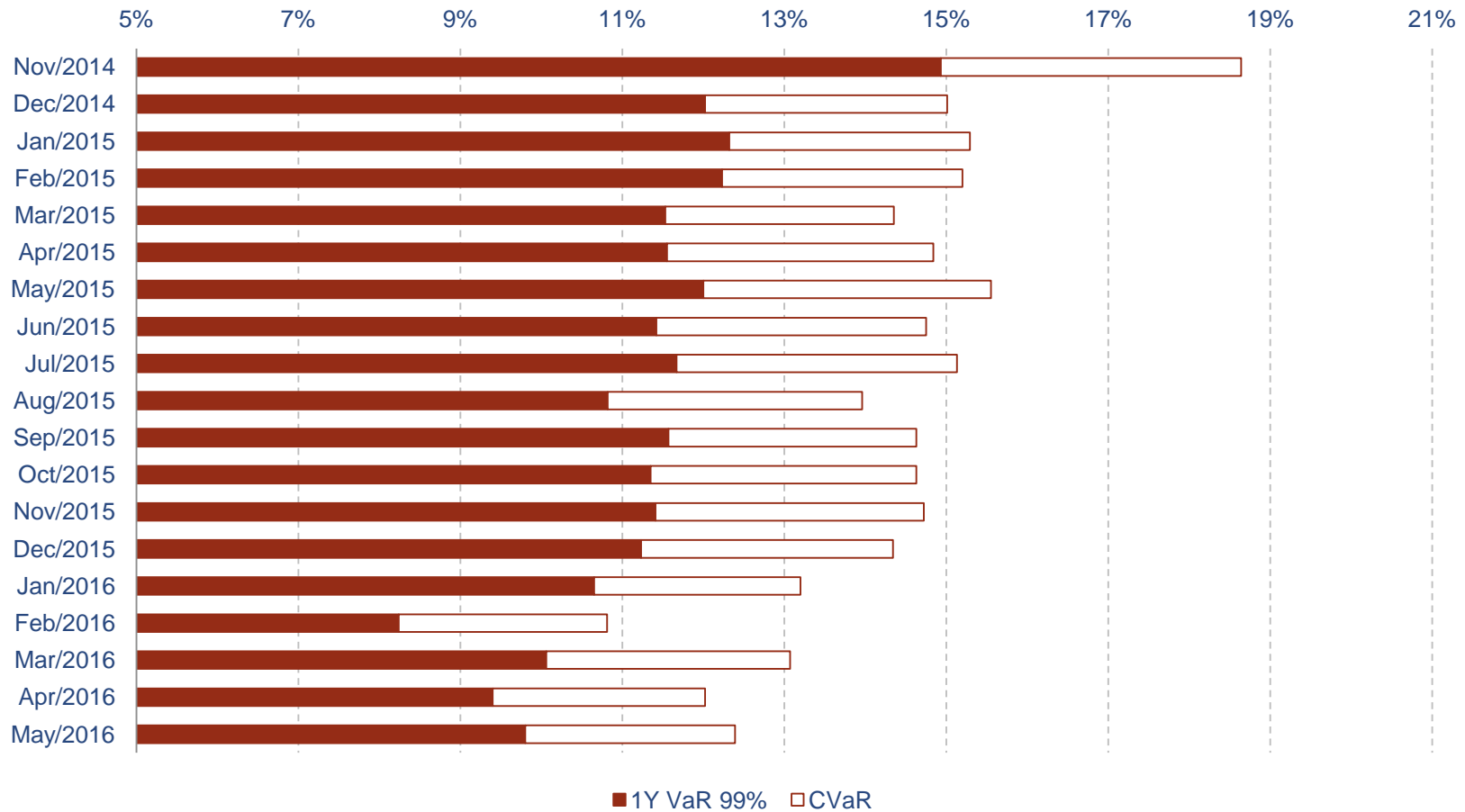
MWM Model Portfolio – Fixed Income Evolution



MWM Model Portfolio – Fixed Income Evolution

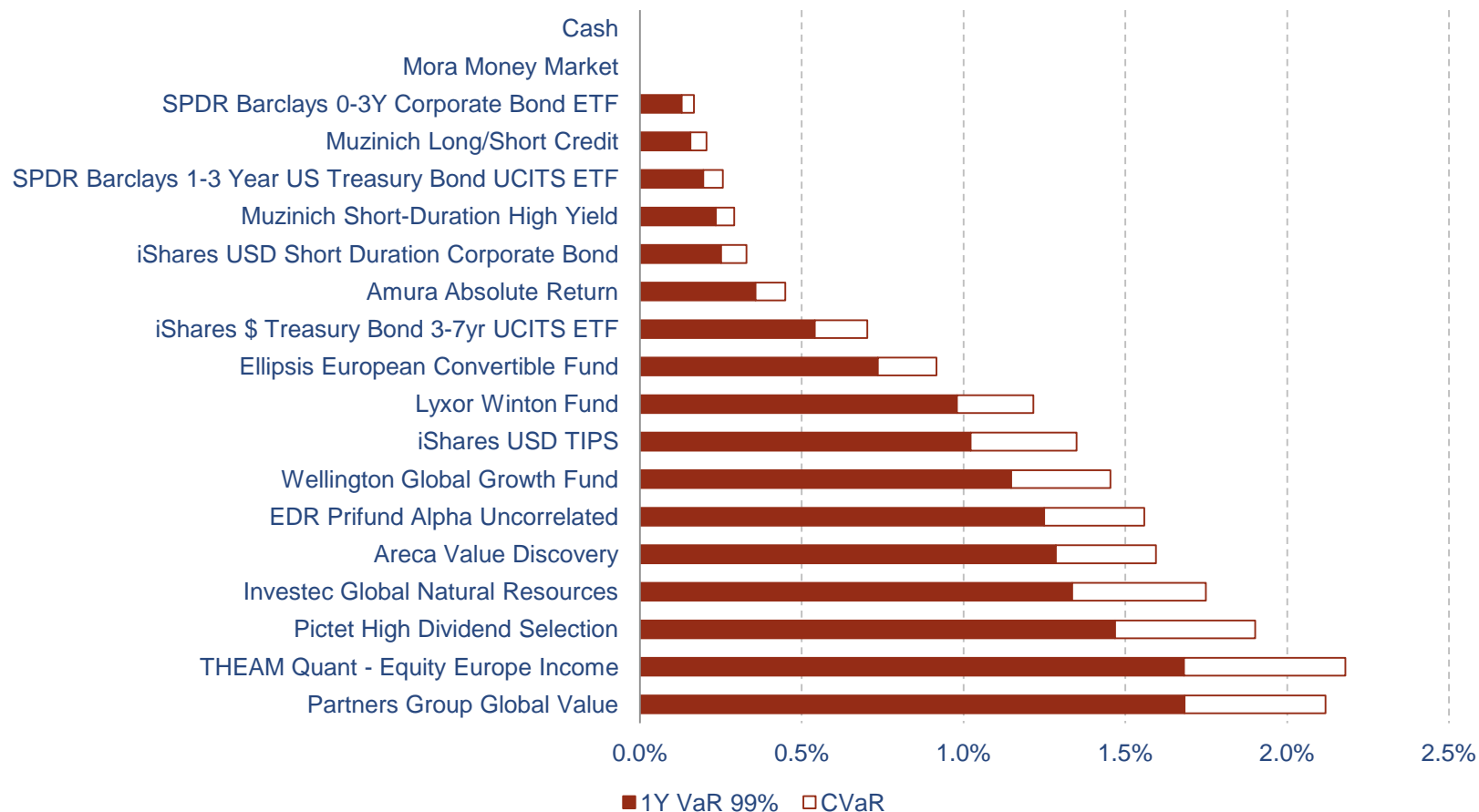


MWM Model Portfolio – VaR Evolution



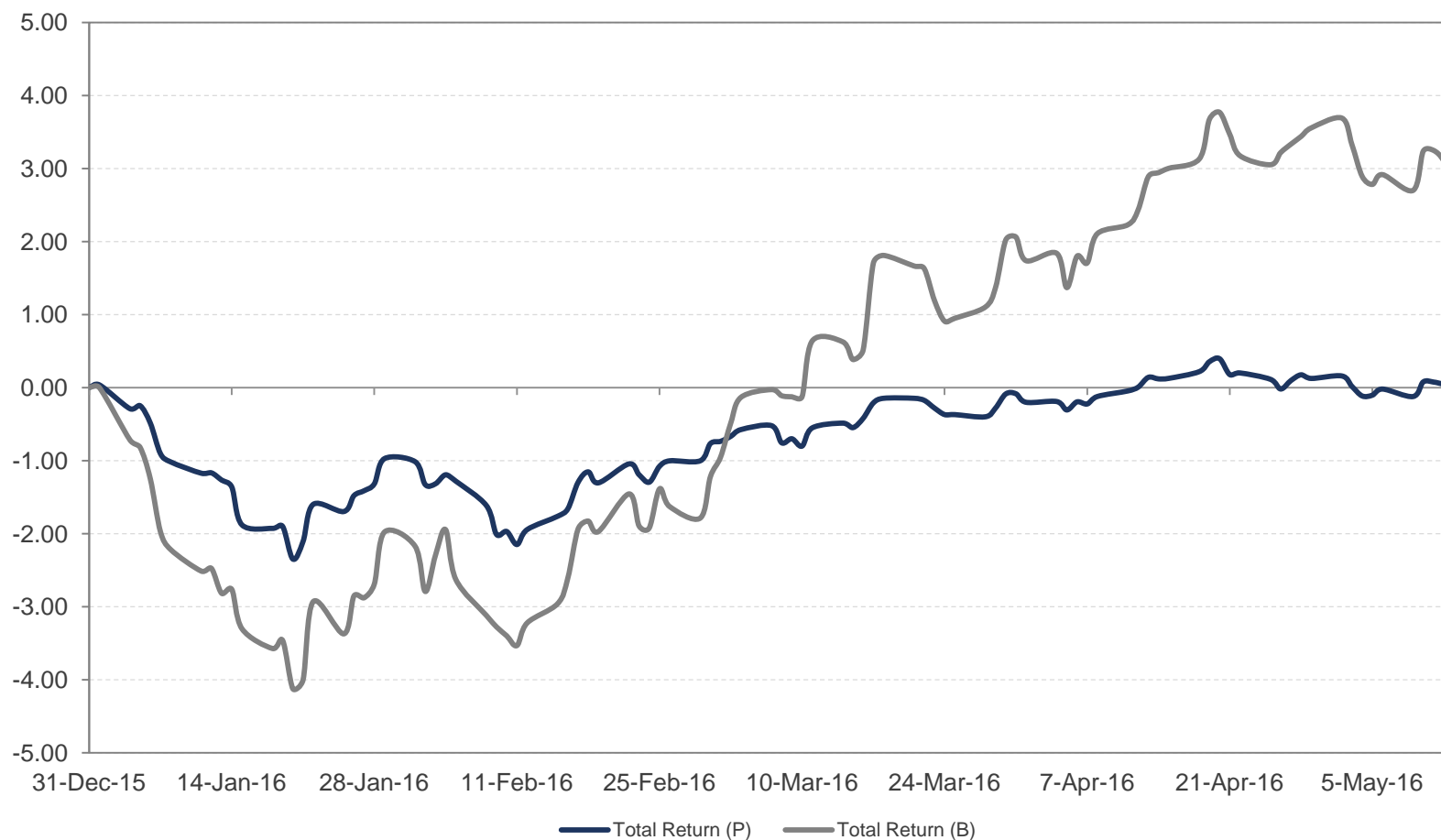
- Since **August's** correction, we have **further taken out risk** from the portfolio; a process continued this year by further **reducing exposure to credit** (High Yield and Emerging Markets) and increasing the allocation to **US Treasuries**
- The **short position on the S&P 500 future** is not reflected in the VaR figure, but it would reduce it to low single-digits

MWM Model Portfolio – VaR Contributions



- Risk is controlled by making larger allocations in the portfolio to positions exhibiting a low VaR, and vice versa
- Recent changes in the portfolio – TIPS for Arcano and Wellington Global Growth replacing Blackrock European Value – have resulted in a reduction of the overall risk in the portfolio

MWM Model Portfolio – Ytd performance (Net)

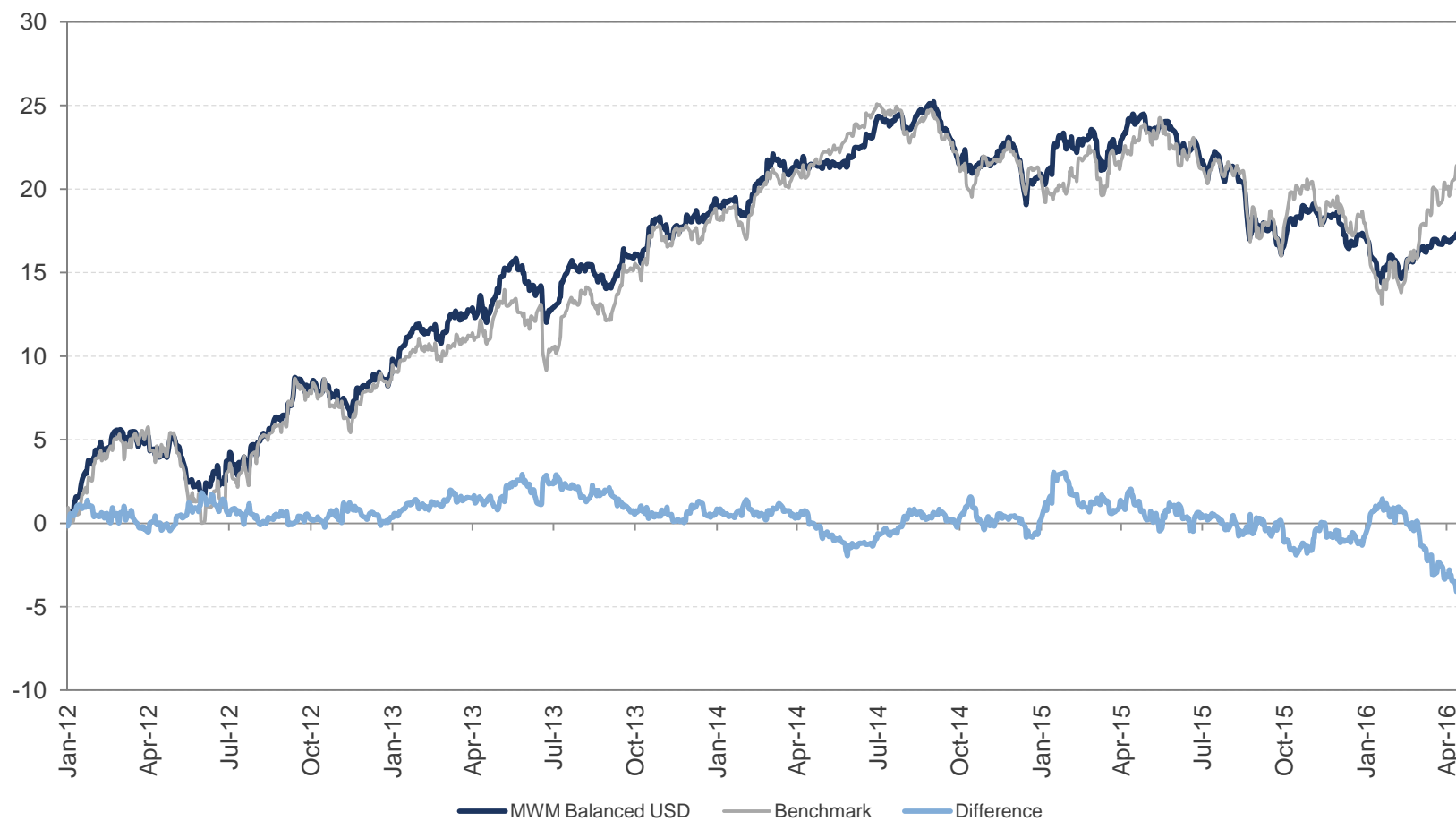


- **Total Return (Ytd¹): -0.70% vs. +0.62% Benchmark²**
- **Standard Deviation (Ytd¹): 3.55% vs. 7.00% Benchmark²**
- **Downside Risk (Ytd¹): 2.62% vs. 4.78% Benchmark²**
- **Var 95% (Ytd¹): -0.41% vs. -0.69% Benchmark²**

¹ As of May 8, 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 (1)

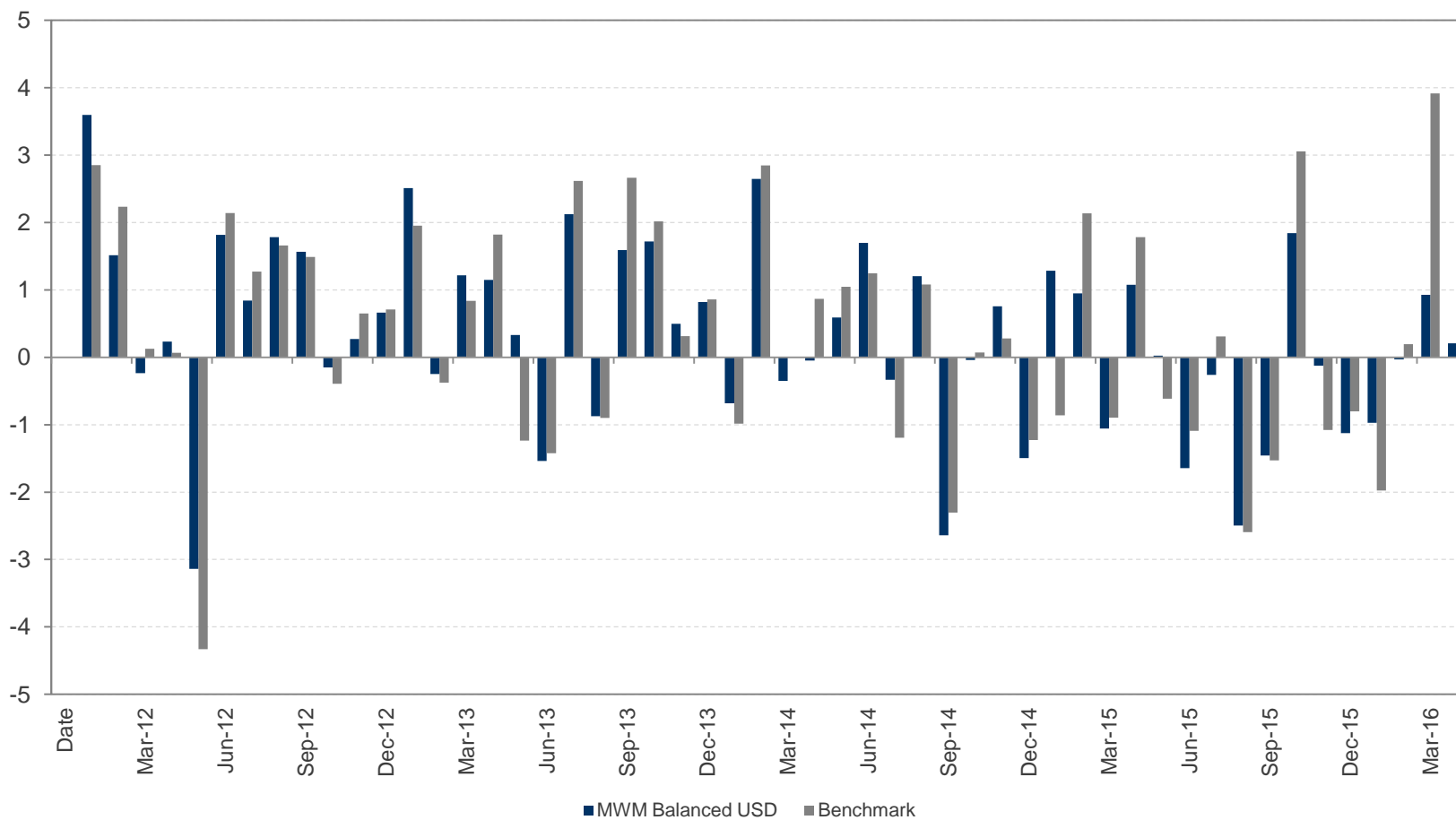


- **Total Return (1 year¹): -5.06% vs. -0.94% Benchmark²**
- **Total Return (3 year¹): 2.85% vs. 8.15% Benchmark²**
- **Total Return (Since Jan 12¹): 17.30% vs. 22.16% Benchmark²**

¹ As of April 30, 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 year¹): 3.69% vs. 5.81% Benchmark²**
- **Downside Risk (1 year¹): 2.80% vs. 4.07% Benchmark²**
- **Sharpe Ratio (1 year¹): -1.39% vs. -0.15% Benchmark²**
- **Var 95% (1 day¹): -0.42% vs. -0.57% Benchmark²**

¹ As of April 30, 2016

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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