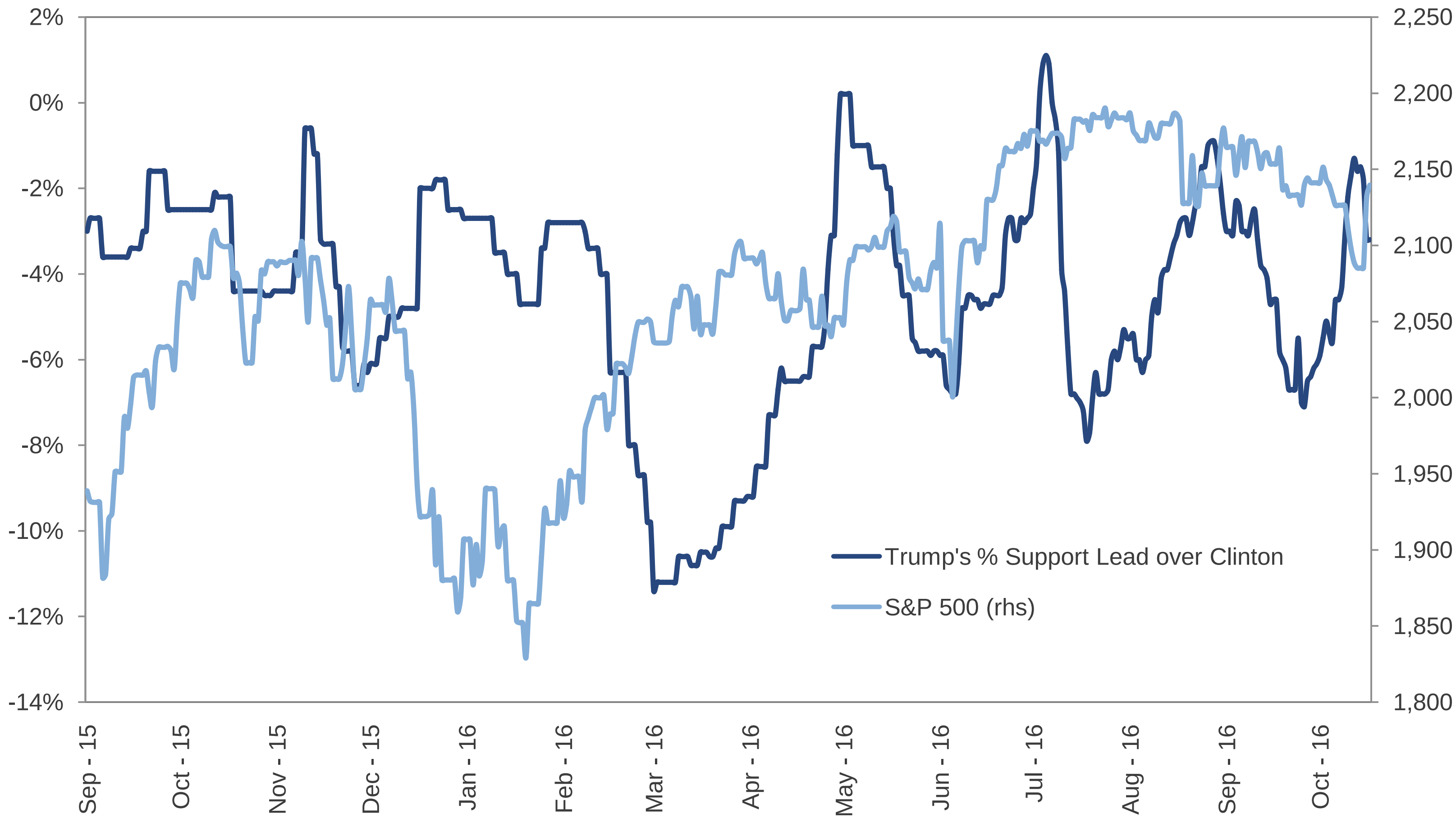
Investment Policy

MORA WEALTH MANAGEMENT

November 2016

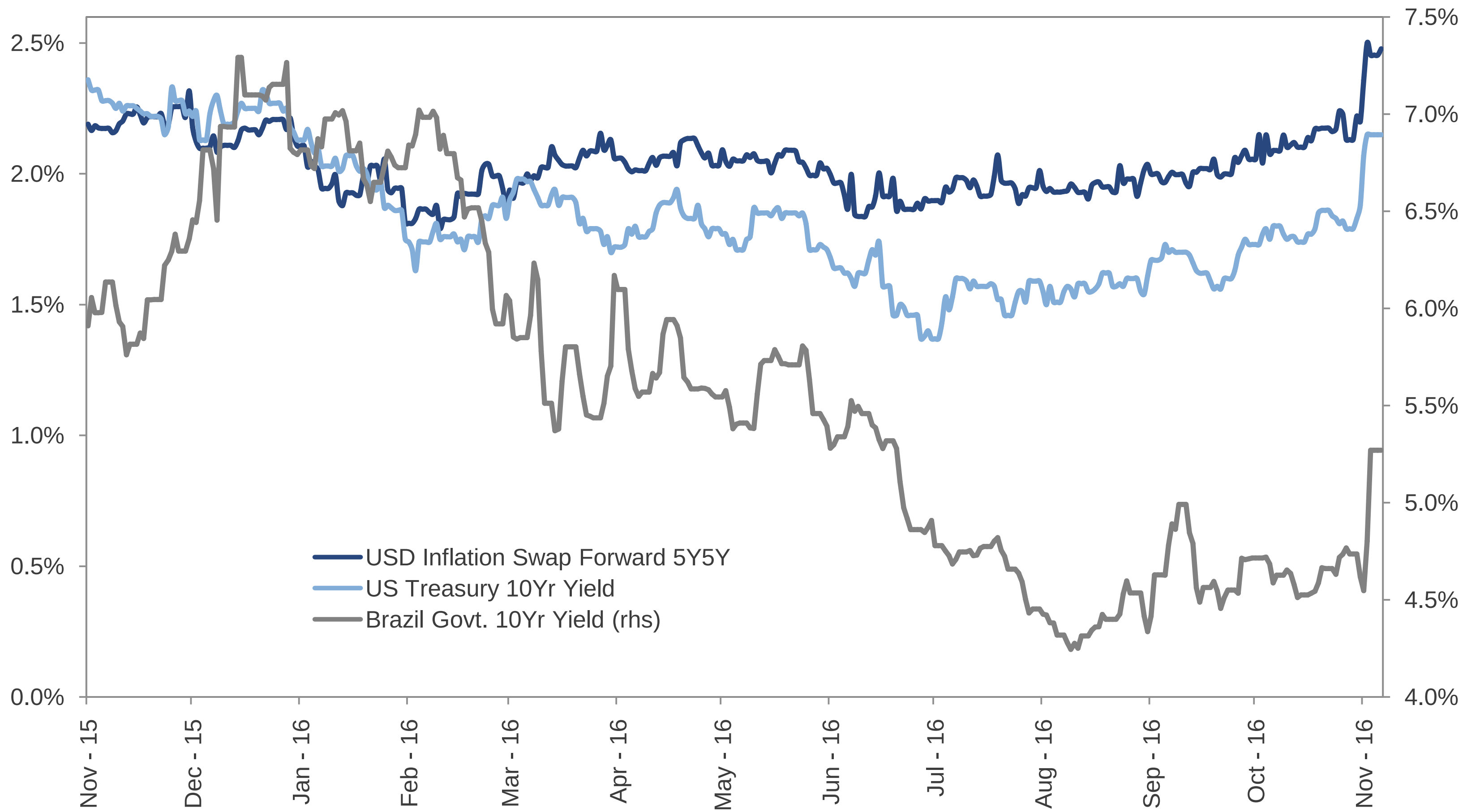
Surprise result and surprise market reaction



- During the campaign, the **market seemed to be preferring a democrat victory**, and the surprise rally after Trump's victory is somehow puzzling
- **Equity** and **currency** markets seem to have **discounted most of the potential benefits from Trump's economic program** (tax cuts, infrastructure investments and deregulation) on earnings (the Numerator), without factoring in its **potential impact on interest rates** (the Denominator)

Source: Bloomberg

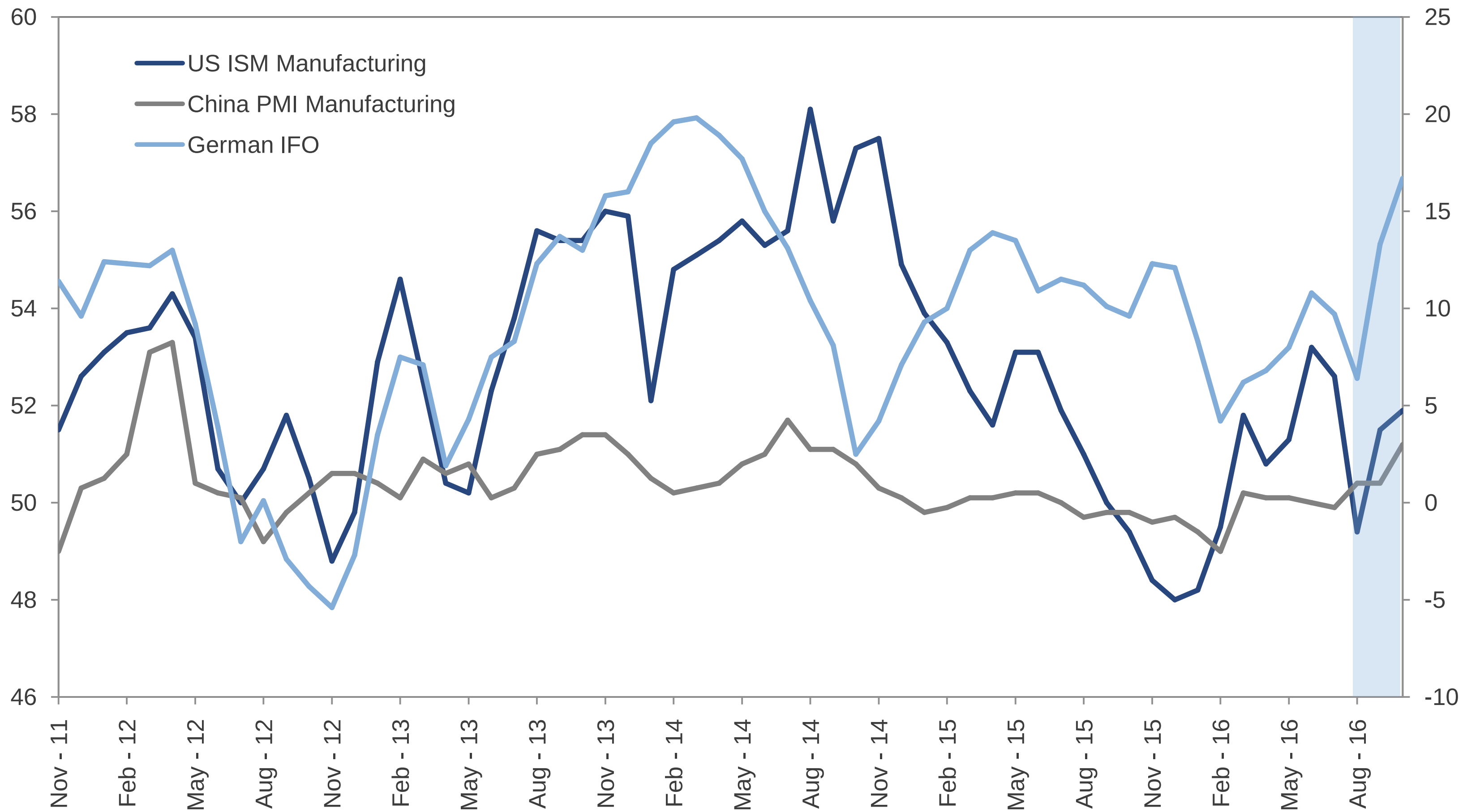
The bond market has had a different reading



- The **bond market** on the contrary has reacted by **pricing higher inflation** and **higher interest rates** as a result of the incoming fiscal expansion, and **yields have sharply increased**
- Trump's election has also not been welcomed by **Emerging Markets**, which have **sold off massively** as a consequence of the **appreciation of the US dollar**

Source: Bloomberg

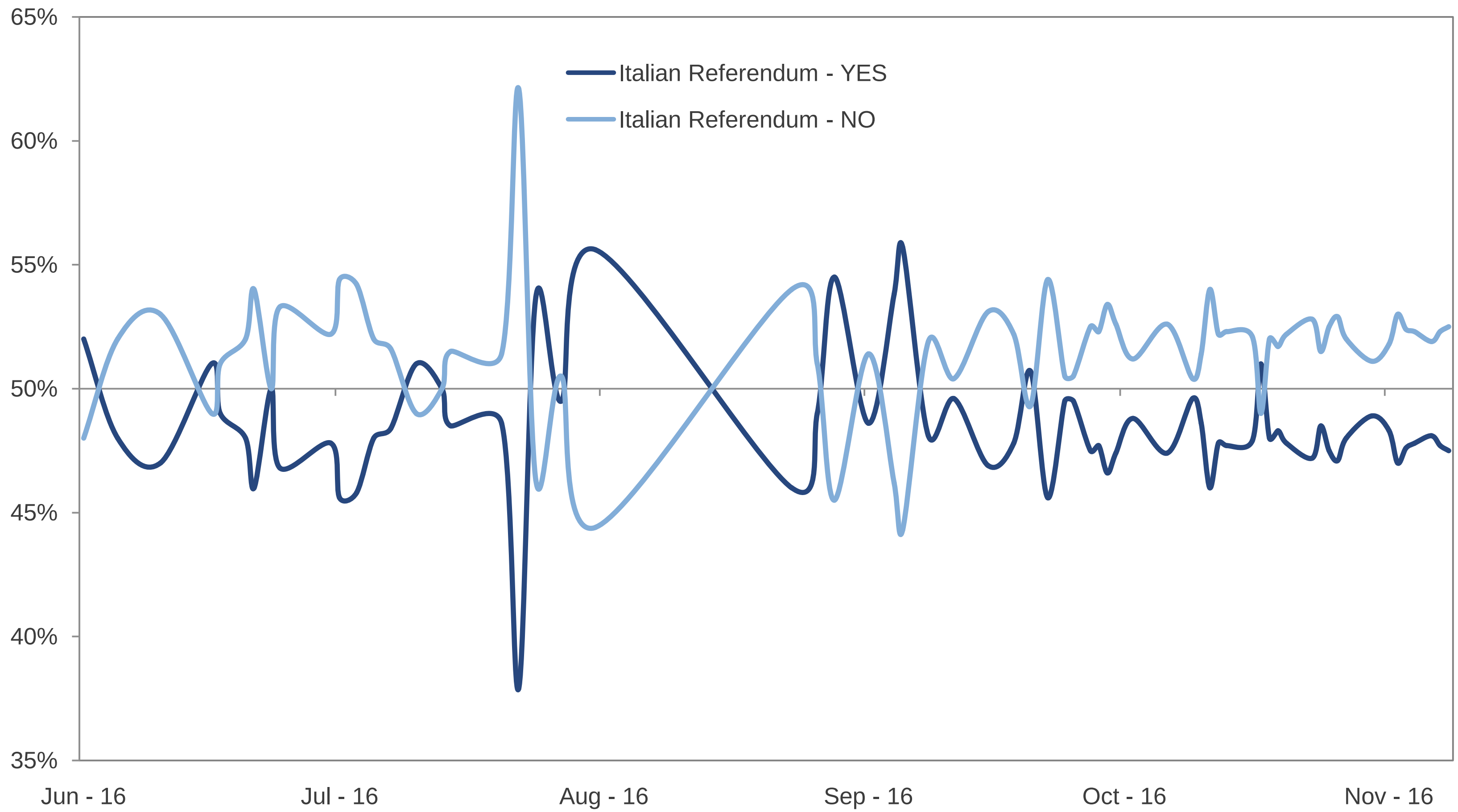
Recession risk has significantly abated



- **Economic data has overall improved**. In the **US**, **Q3 GDP**, has rebounded to 2.9%, with both **productivity** and **manufacturing** also picking up. With **Trump's economic program**, the **risk of a recession has significantly abated**
- In **China**, **GDP** was stable and leading indicators like the **PMI** pointed towards an acceleration in economic activity. On the negative side, **exports** declined and the **Yuan** continued depreciating, with the country experiencing capital outflows
- In **Europe**, data was more **mixed**, although key leading indicators like the **German IFO** point towards an acceleration

Source: Bloomberg

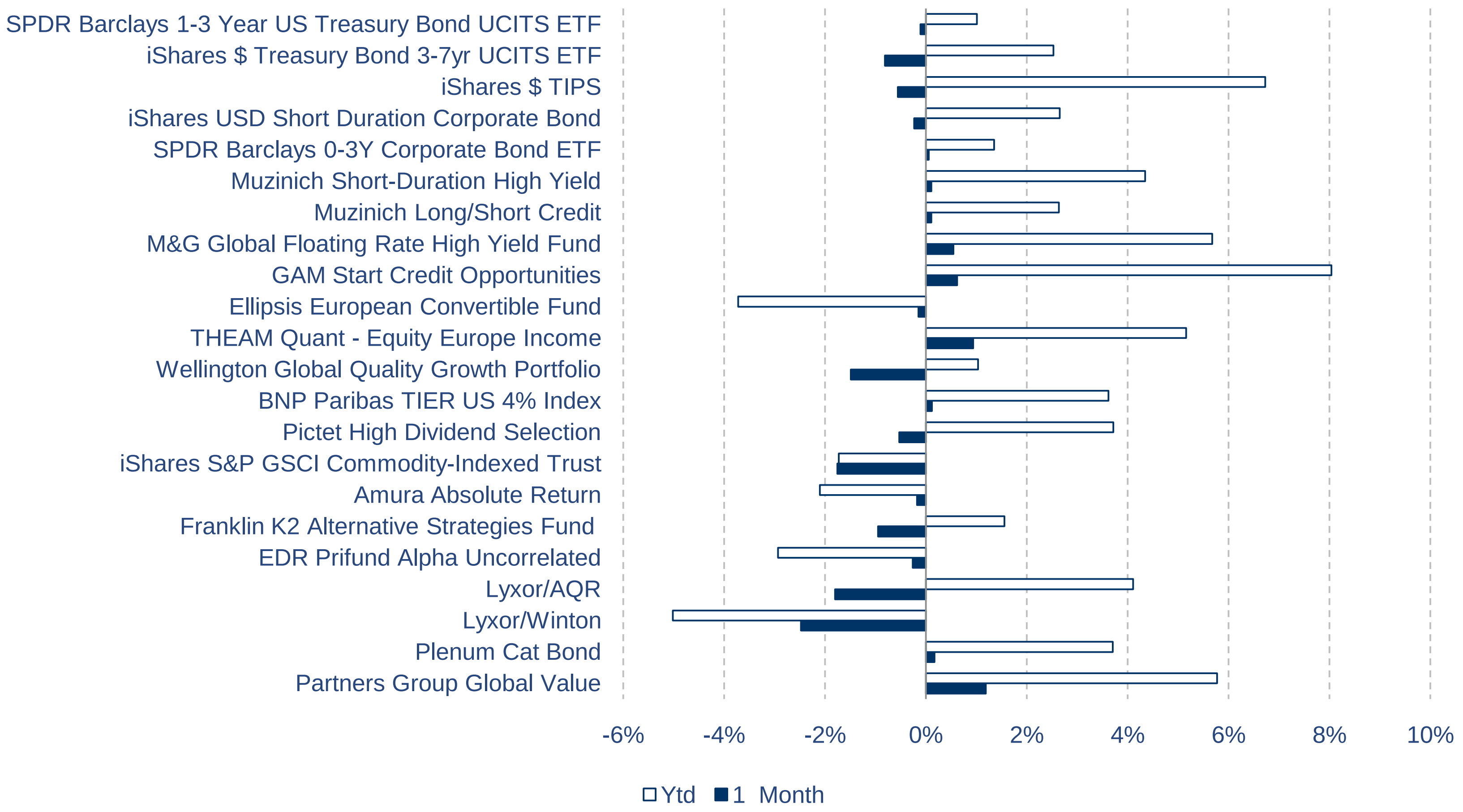
Political risks have only increased after the US election



- A **clear outcome from the US elections** have served to **remove a source of market**. However, Trump's victory has actually **increased political risk**, as like Brexit, it lends legitimacy to a **rising tide of populist parties**
- The next event will be the **Italian constitutional referendum**, which may trigger the resignation of Renzi, and the 5 Star party – which is calling for leaving the EU – is tied in polls with the Democratic Party
- Next year there will be **elections** in **France**, **Germany** and **The Netherlands**, where nationalist parties have been enjoying a constant surge in vote

Source: Bloomberg

Performance dispersion is back



- **US Treasuries** corrected due to the sustained increase in yields as inflation expectations have risen
- **Credit** had a slightly positive month and **equities** were mixed
- **Commodities** and **alternatives** suffered, with the exception of cat bonds and private equity

Source: Bloomberg as of October 31, 2016

Investment scenarios

	Scenario 1 Global economic slowdown	Scenario 2 Muddling through	Scenario 3 Inflation surprise
Drivers	• Global economic slowdown led by a hard-landing in China and/ or recession in the US • Fed delays rate raises • Strong deflationary scenario due to a combination of low growth and structural factors (demographics, low aggregated demand, deleveraging)	• Chinese authorities stabilize the market and halt economic rebalancing (weaker yuan, higher IP). US, Japan and Europe continue exhibiting low but stable growth • Fed raises rates at an accommodative pace • Low inflation due to structural factors (demographics, low aggregated demand, deleveraging)	• 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 • The Fed does not raise rates preemptively, and real interest rates remain relatively suppressed
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 to remain depressed	• 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	• 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% (-10%)	25% (-10%)	50% (+20%)

Short-term catalyzers

Fiscal stimulus in the US, QE Ramp up (EU, Japan, China?), macro-data (particularly in China) showing resilience

Other risks

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

Tactical positioning

- 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 and **supported by low interest rates**. Broadly speaking, we think that prospects for **corporate earnings** cannot be positive in an environment of **lackluster global economic growth** – with the exception of some sectors in the US – and a potential **normalization of interest rates** poses a risk of returning to lower valuation multiples. From a relative **valuation** perspective, we still favor **European equities**, **high-dividend stocks** and **growth stocks**

- **Alternative investments** offer a much needed source of **diversification**. We recommend allocating a significant part of the portfolio to Multi-Strategy Hedge-Funds, Private Equity and Cat Bonds

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

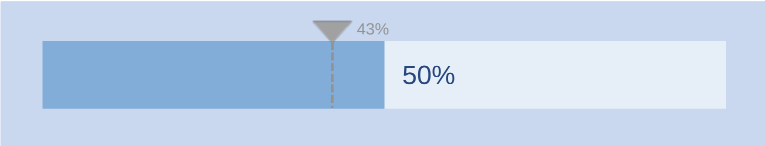
- We have **reduced our cash allocation** as **negative interest rates** have been introduced in some of our reference currencies. As a substitute, we have **a large allocation to short-term high quality** bonds that can be easily redeployed should market opportunities arise

MWM Investment Policy

Cash

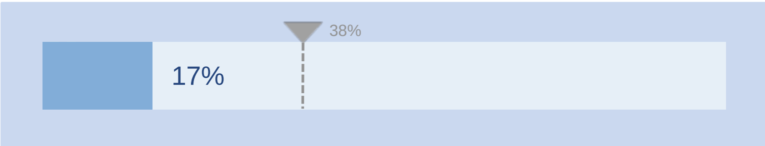
- In the current environment waiting for good investment opportunities is a sensible investment strategy. However, holding cash is becoming costly in some of our reference currencies
- Nonetheless, we have reduced the allocation to enhanced cash strategies as we have taken a more conservative stance on credit and allocated to short-term Treasuries and corporate bonds

Fixed Income



- High-quality fixed income and High Yield in the US currently offer the best combination of risk and return. Treasuries can benefit from a slowdown in growth – although this less likely now – whilst TIPS offer protection against rising inflation
- We avoid emerging markets in the light of the weak global economic outlook and the strong USD

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

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

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	6%	6%
Fixed Income	US Treasuries	• iShares Treasury Bond 1-3yr	8%	50%
		• 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 Absolute Return	• Muzinich Long/Short Credit Yield	3%	
	High Yield Floating	• M&G Global Floating Rate High Yield Fund	3%	
	Subordinated Debt	• GAM Star Credit Opportunities	3%	
	Convertible Bonds	• Ellipsis European Convertible Fund	3%	
Equity	Volatility	• Reverse Convertibles on Blue Chips	7%	17%
	Growth	• Wellington Global Quality Growth Portfolio	3%	
	Europe	• THEAM Quant Equity Europe Income	3%	
	High Dividend Yield	• Pictet High-Dividend Selection	4%	
Commodities	Diversified	• iShares Diversified Commodity Swap	3%	6%
	Gold	• iShares Gold	3%	
Alternative Investments	Multi-Strategy	• EDR Prifund Alpha Uncorrelated	3%	21%
	Multi-Strategy	• Amura Absolute Return	3%	
	Multi-Strategy	• Franklin K2 Alternative Strategies Fund	3%	
	CTA, Diversified	• Lyxor AQR Systematic Total Return	3%	
	CTA, Diversified	• Lyxor Winton Fund	3%	
	Cat Bonds	• Plenum CAT Bond Fund	3%	
	Private Equity	• Partners Group Global Value	3%	

MWM Model Portfolio Balanced (US)

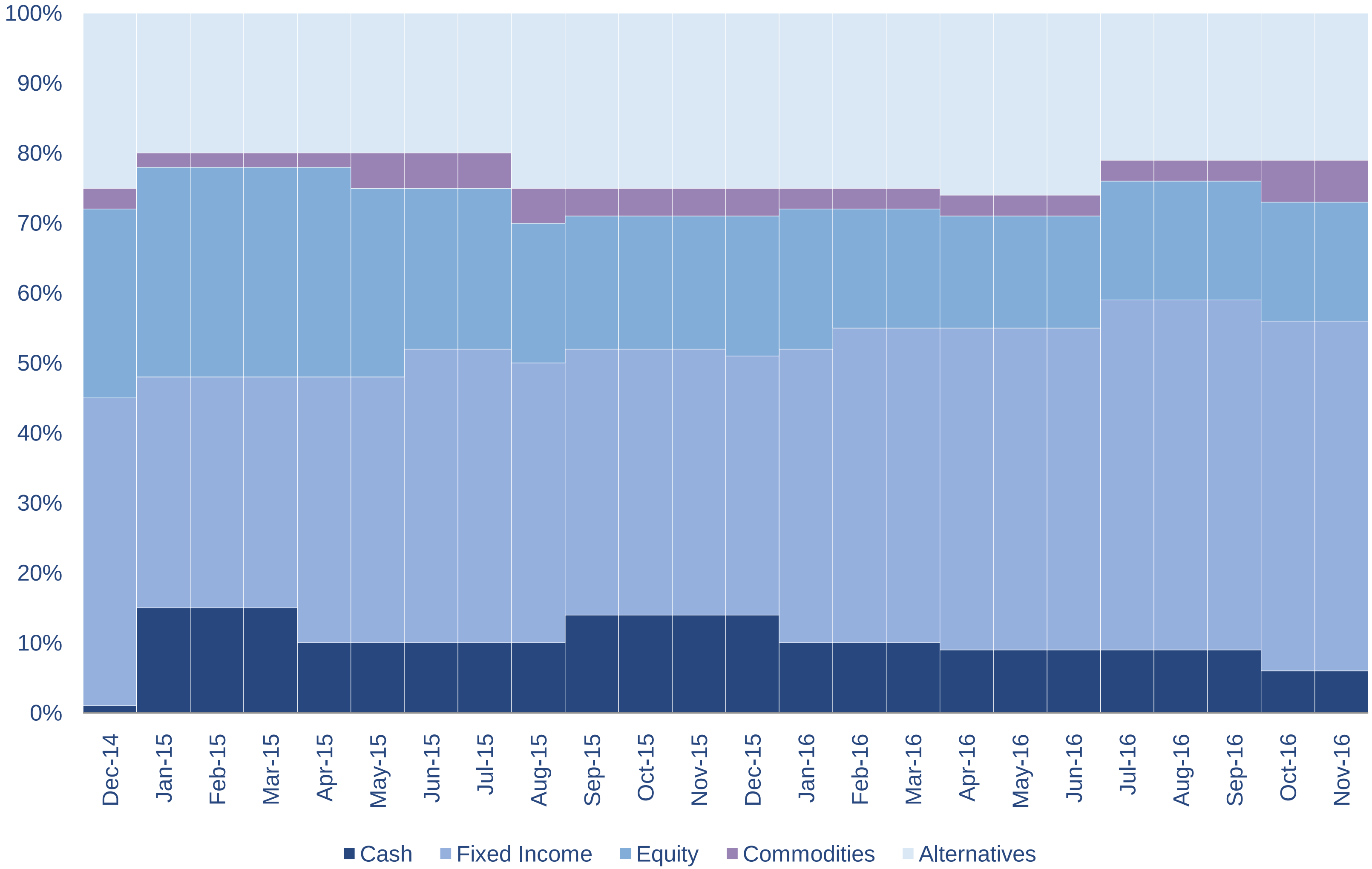
Cash	Cash	• Cash	6%	6%
Fixed Income	US Treasuries	• SPDR Barclays 1-3 Year US Treasury Bond UCITS ETF	8%	50%
		• iShares Treasury Bond 3-7yr	4%	
	Short-Term Corporate Bonds	• SPDR Barclays 0-3Y Corporate Bond	7%	
		• iShares USD Short Duration Corporate Bond	8%	
	US TIPS	• iShares $ TIPS	8%	
	Global 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%	
	Subordinated Debt	• GAM Star Credit opportunities	3%	
	Convertible Bonds	• Calamos Global Convertibles	3%	
Equity	Volatility	• Reverse Convertibles on Blue Chips	7%	17%
	Growth	• MFS Meridian Global Concentrated Fund	5%	
	High Dividend Yield	• Schroder Global Dividend Maximizer	5%	
Commodities	Diversified	• iShares Diversified Commodity Swap	3%	6%
	Gold	• iShares Gold Trust	3%	
Alternative Investments	Multi-Strategy	• Franklin K2 Alternative Strategies Fund	4%	21%
	Multi-Strategy	• Blackrock Multi-Manager Alternative Strategies Fund	4%	
	Multi-Strategy	• IQ-Hedge Multi-Strategy Tracker ETF	4%	
	CTA, Diversified	• Catalyst Hedged Futures Strategy Fund	4%	
	Private Equity	• iShares Listed Private Equity	5%	

MWM Investment Profiles

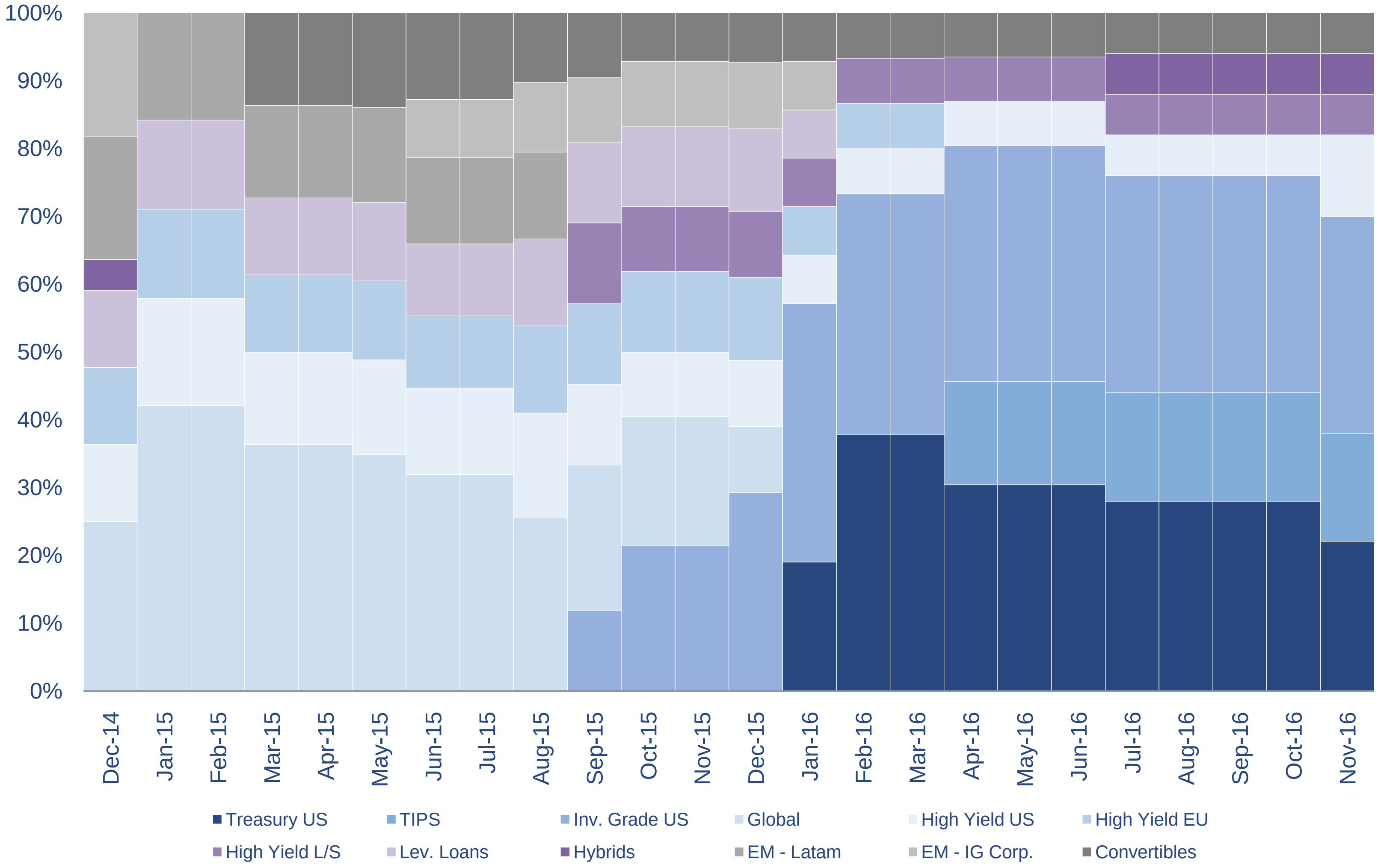
	Conservative	Conservative (Strategic Asset Allocation)	Balanced	Balanced (Strategic Asset Allocation)	Growth	Growth (Strategic Asset Allocation)
Cash	9%	5%	6%	5%	1%	5%
Fixed Income	64%	64%	50%	43%	35%	22%
Equity	9%	24%	17%	38%	27%	52%
Commodities	4%	2%	6%	4%	9%	6%
Alternative Investments	14%	5%	21%	10%	28%	15%

▼ Strategic Asset Allocation

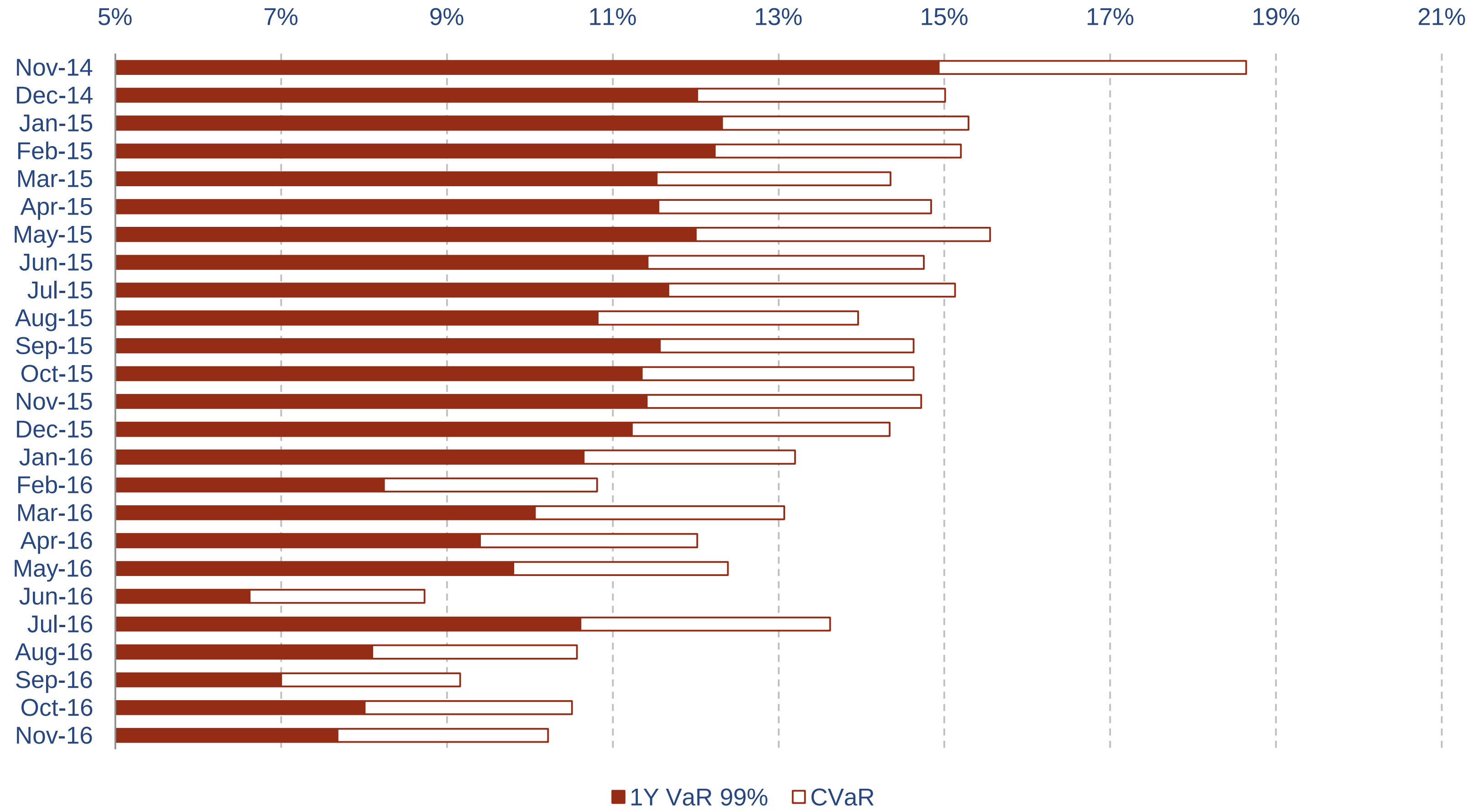
MWM Model Portfolio – Asset Allocation evolution



MWM Model Portfolio – Fixed Income evolution

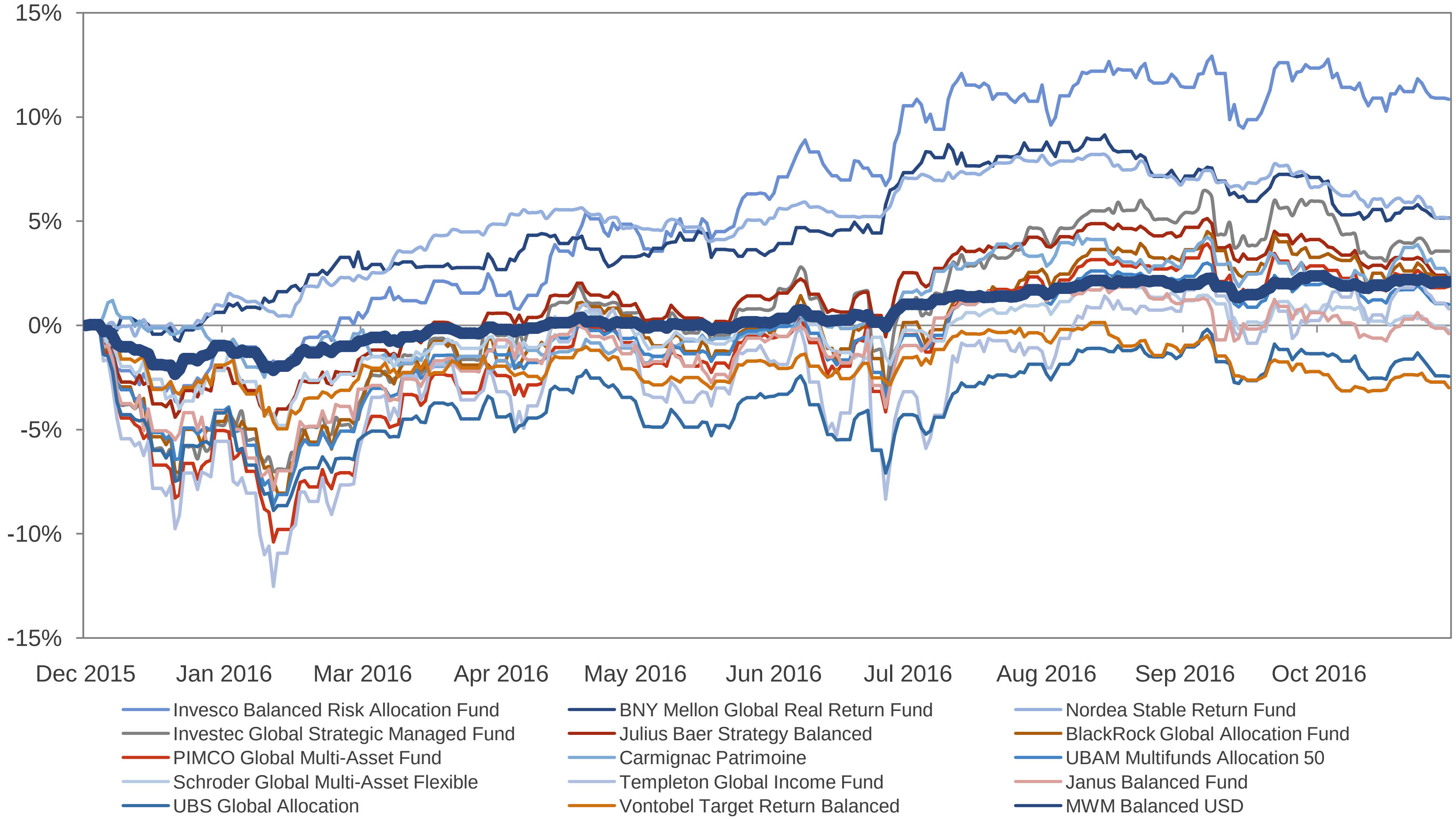


MWM Model Portfolio – VaR evolution



- 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
- 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

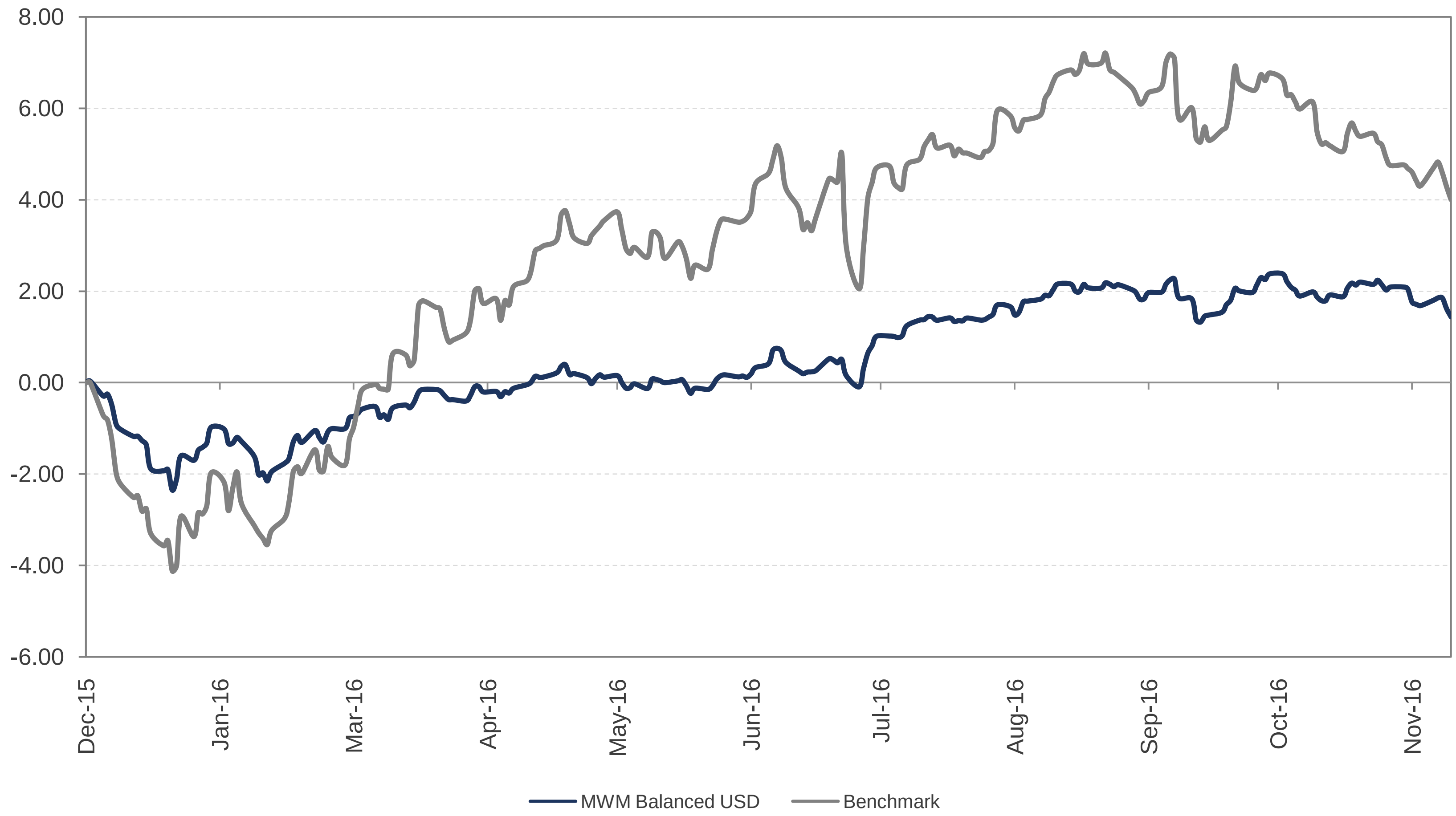
MWM Model Portfolio – Peer comparison (1)



- **Total Return** (Ytd[1]): **8th 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]): **7th out of 15**

[1] As of November 14, 2016
Source: Bloomberg

MWM Model Portfolio – Ytd performance (Net)

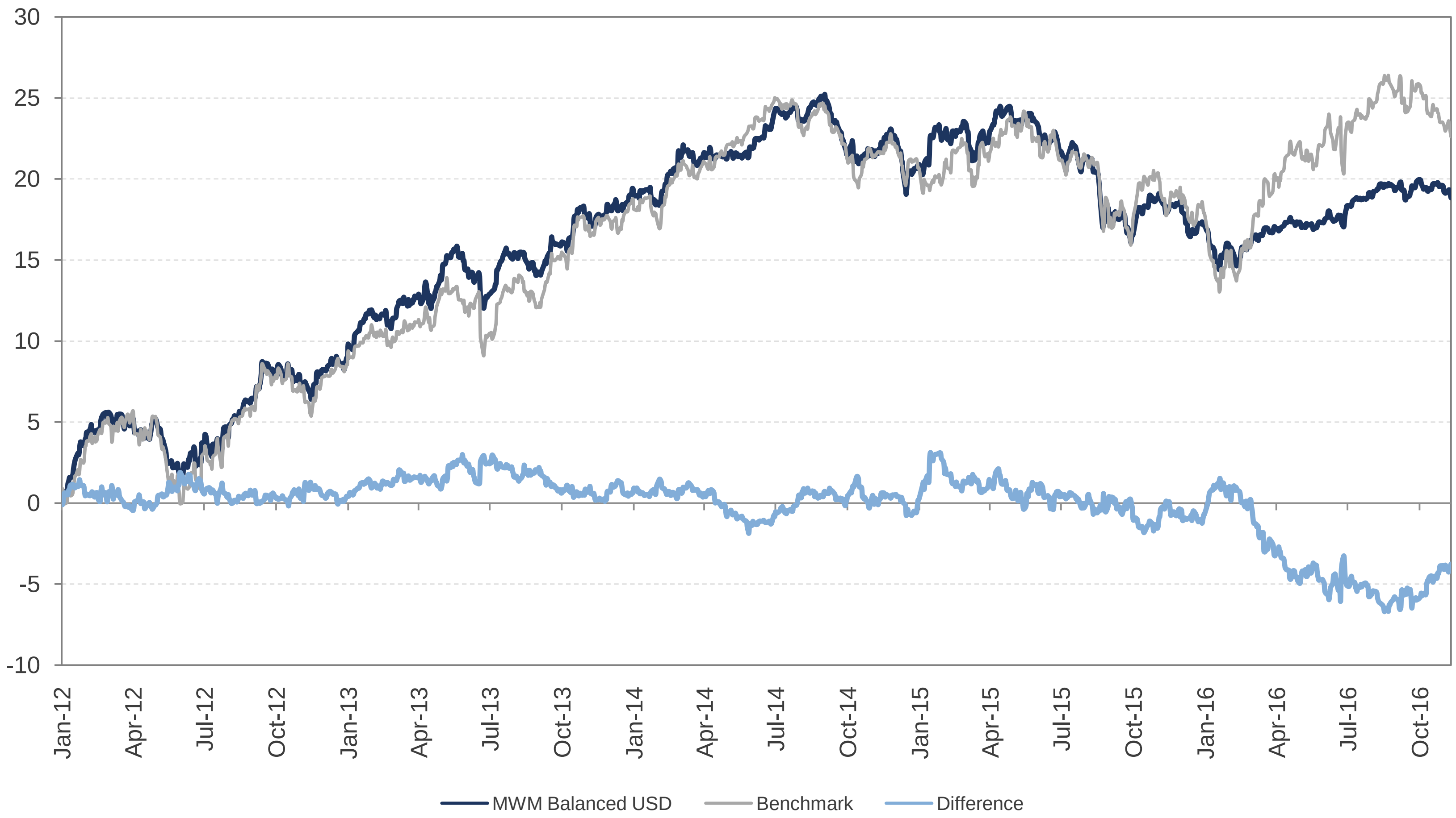


- **Total Return** (Ytd[1]): **1.44%** vs. **4.00%** Benchmark[2]
- **Standard Deviation** (Ytd[1]): **2.45%** vs. **5.98%** Benchmark[2]
- **Downside Risk** (Ytd[1]): **1.82%** vs. **4.31%** Benchmark[2]
- **Var 95% - 1day** (Ytd[1]): **-0.25%** vs. **-0.54%** Benchmark[2]

[1] As of November 14, 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)

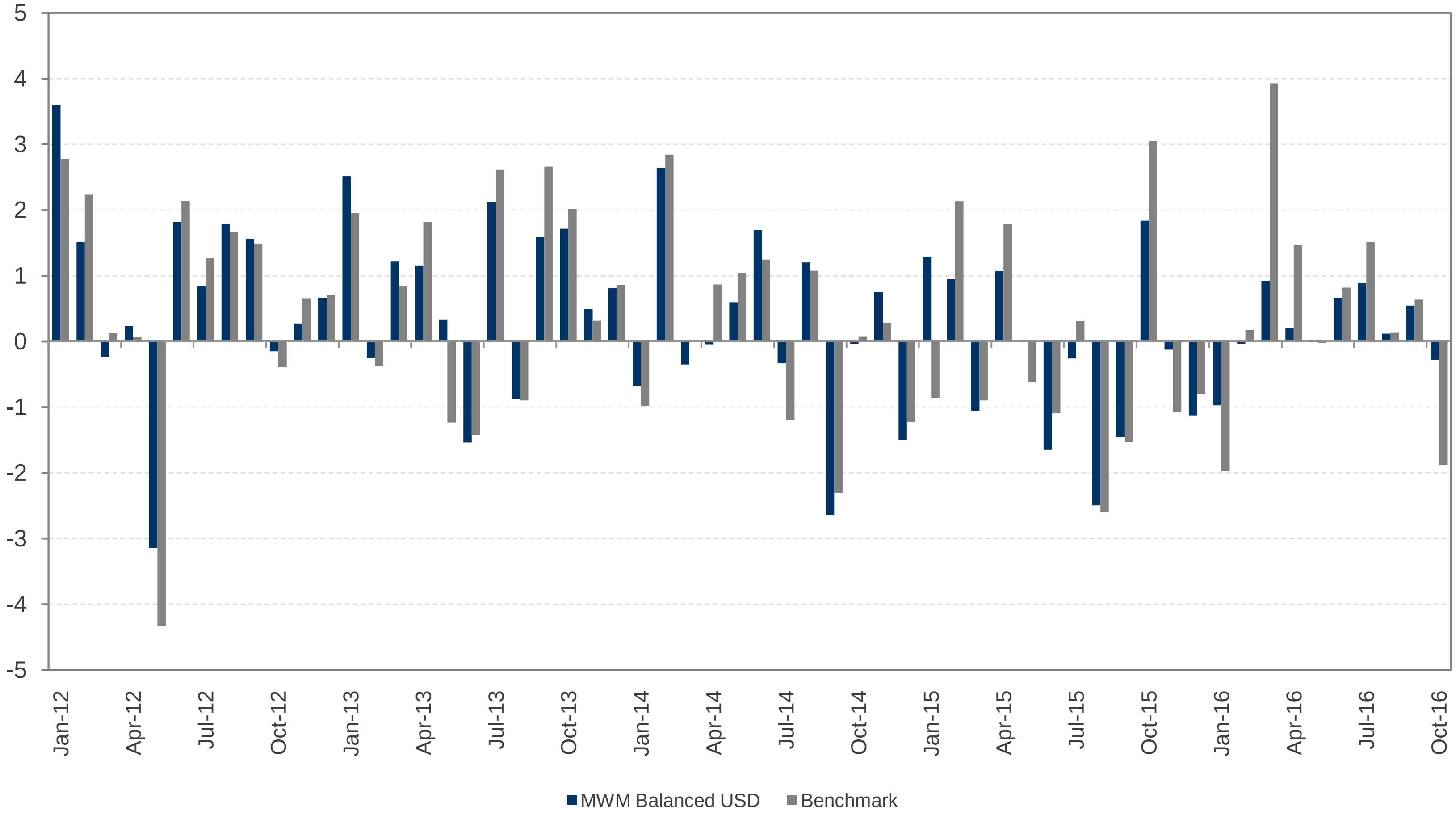


- **Total Return** (1 year[1]): **0.37%** vs. **3.23%** Benchmark[2]
- **Total Return** (3 year[1]): **1.37%** vs. **5.08%** Benchmark[2]
- **Total Return** (Since Jan 12[1]): **18.84%** vs. **22.60%** Benchmark[2]

[1] As of October 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]): **2.52%** vs. **5.85%** Benchmark[2]
- **Downside Risk** (1 year[1]): **1.89%** vs. **4.20%** Benchmark[2]
- **Sharpe Ratio** (1 year[1]): **0.05%** vs. **0.54%** Benchmark[2]
- **Var 95%** (1 day[1]): **-0.30%** vs. -**0.49%** Benchmark[2]

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