Investment Policy

MORA WEALTH MANAGEMENT

June 2018

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 maintained **High Yield** and **subordinated debt** exposure as we think that the current economic cycle will be further elongated. **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. Finally, we have also maintained our allocation to **convertible bonds**, as way to further diversify our portfolios

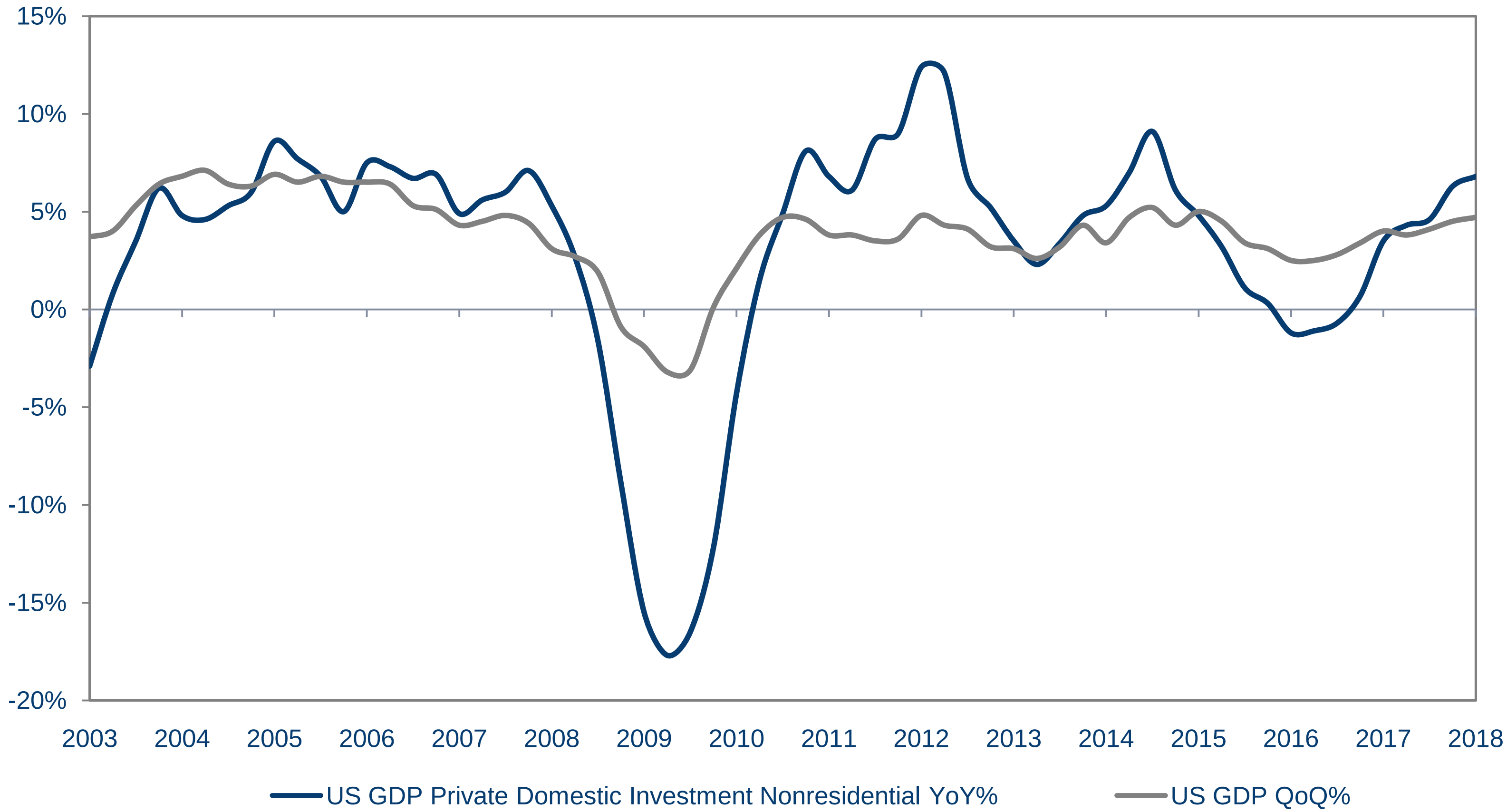
- **Equity valuations in the US** remain very high, mostly **supported by low interest** rates, **tax reform** and **deregulation**. Combined with positive macro data from other main developed markets, we see a **greater chance of a reacceleration in global economic growth.** However**,** with the **Fed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

- Our **diversified commodities** and **gold** allocations, further help us to **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. We have also **reduced** the allocation to **short-term high quality bonds** that we held as an alternative to cash and increased credit exposure instead, with the aim of increasing the yield of the portfolio

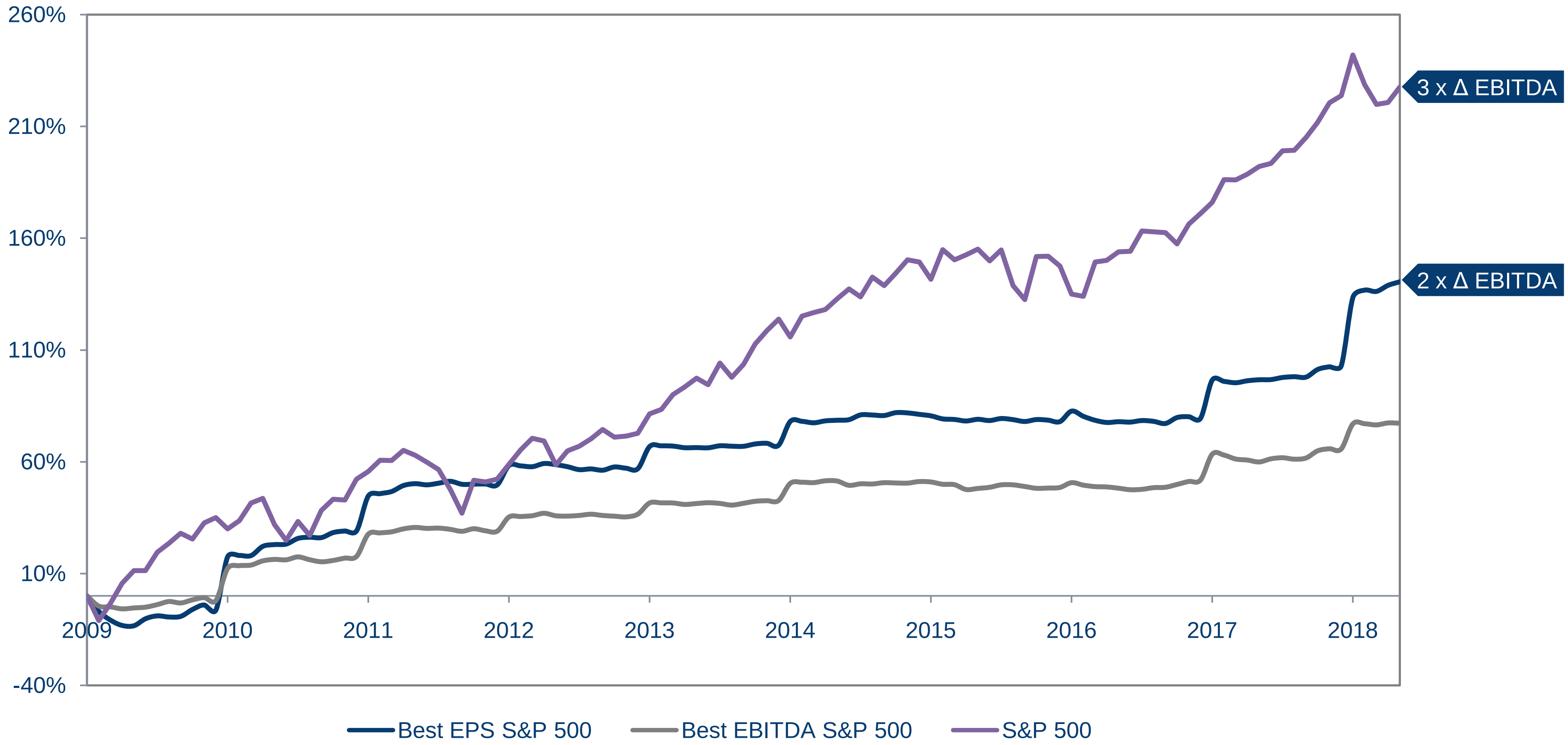
Towards the longest economic cycle



- Despite the **length of the current economic cycle** – second longest on record – economic activity remains robust and the main **leading economic indicators do not point to an immediate turn**
- In fact, the effects of the **tax reform** in the US are starting to be felt in the **pickup in corporate investment**. The risk however is that this sort of **late-cycle fiscal expansion** – with unemployment currently at 3.8% – may cause an **overheating** of the US economy that prompts the **Fed to be more aggressive** in rising rates

Source: Bloomberg

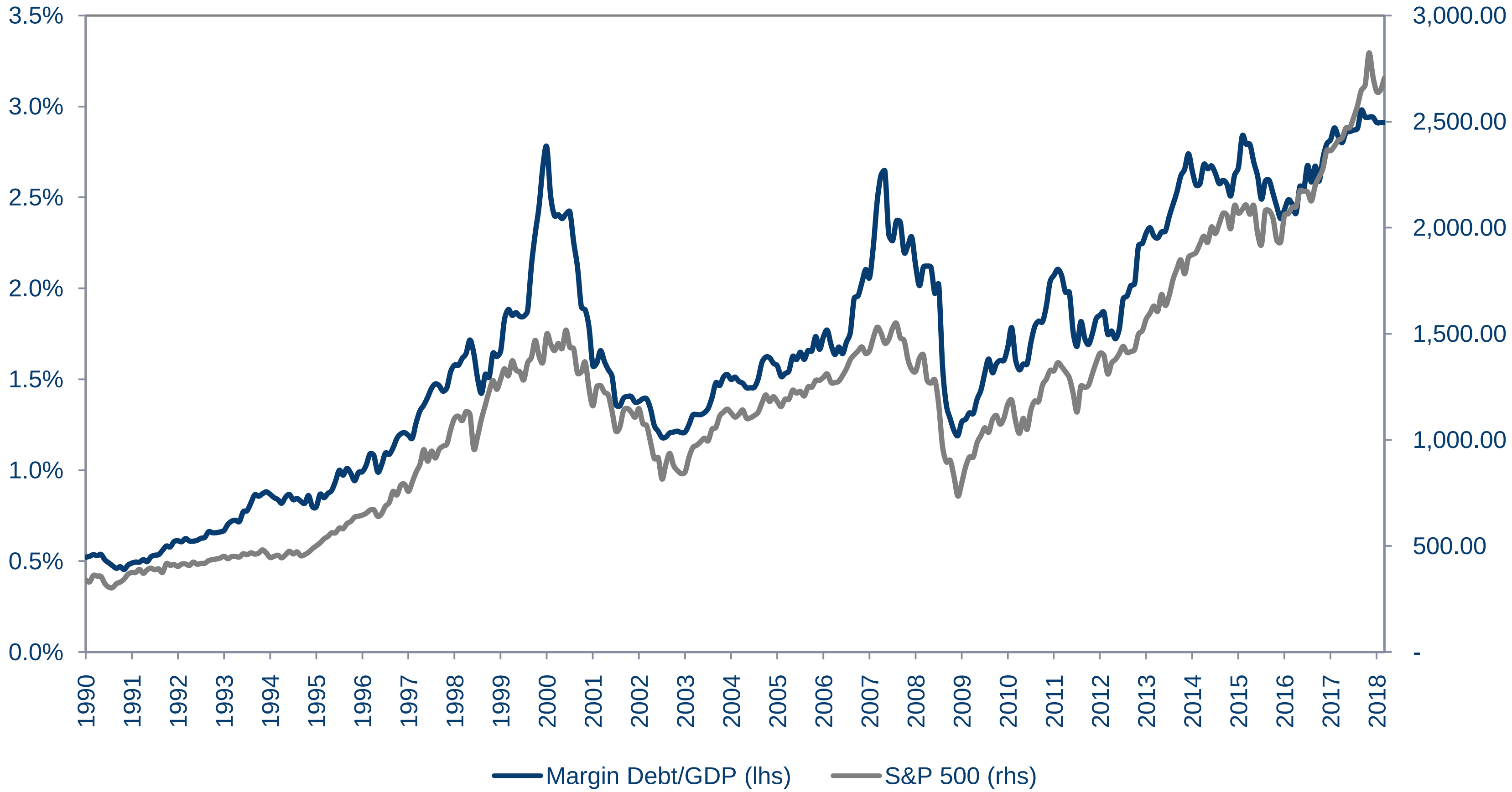
And the longest bull market…



- If January's peak is surpassed, the present will be the **longest bull market on record**. But, contrary to what we see at macro level, we perceive more **signals of fatigue in the market cycle**
- One of them is the **quality of earnings**, which tends to deteriorate in the last stages of the cycle, when companies find harder to grow revenues organically and resort to **accounting gimmicks**. This pattern can be observed when comparing **EPS vs. EBITDA** (although the last jump corresponds to the effects of the **tax reform** and not to financial engineering)

Source: Bloomberg

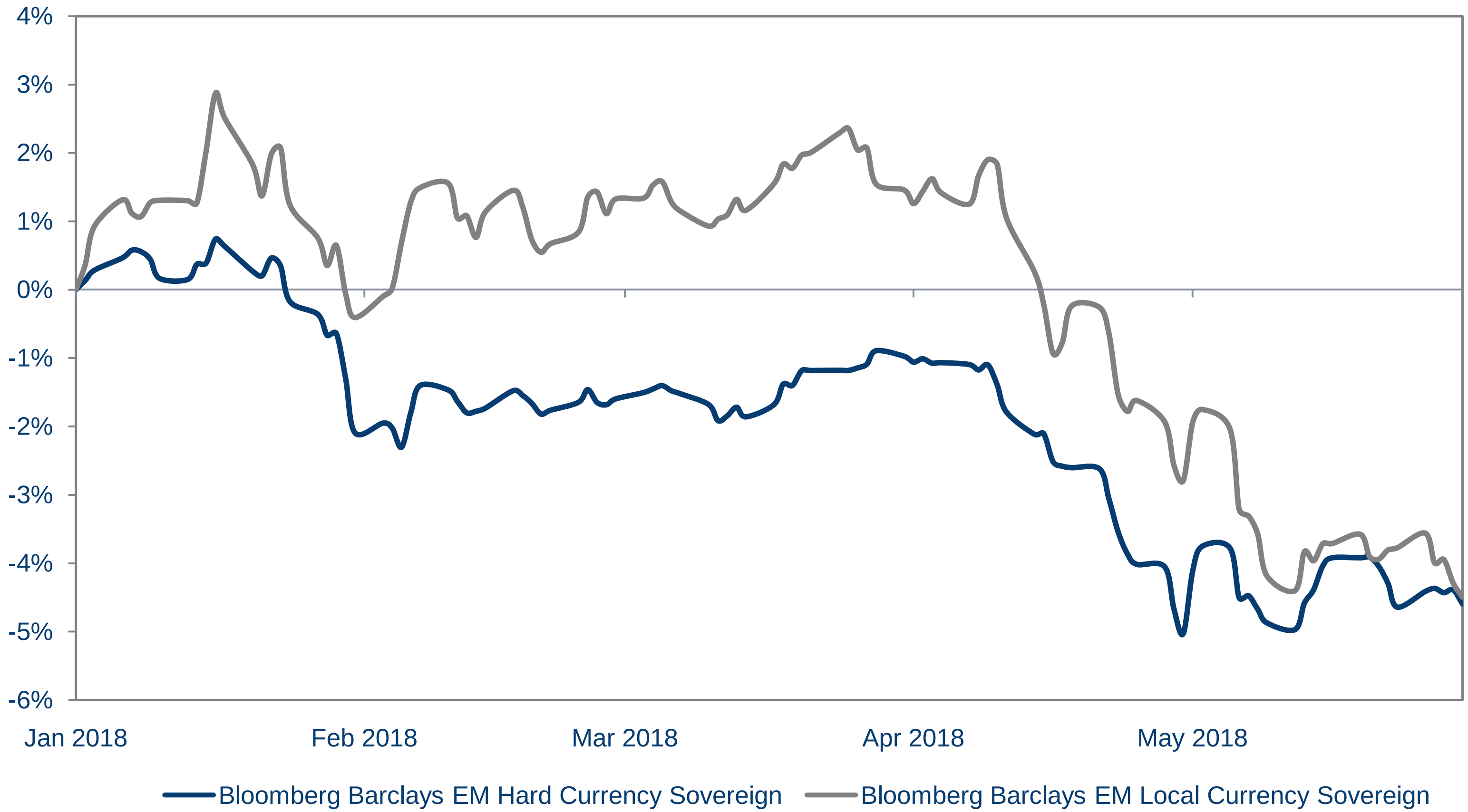
Greed prevails over fear



- The length of the bull market coupled with central banks' largesse has **transformed investors' attitudes towards risk**, as the **"buy the dips" mentality** has been rewarded by an unprecedented number of equity markets rebounds
- This is encouraging **speculative investing**, which renders the market more vulnerable to a sudden correction – in the words of H. Minsky: **"stability breeds instability"**

Source: MFS and Bloomberg

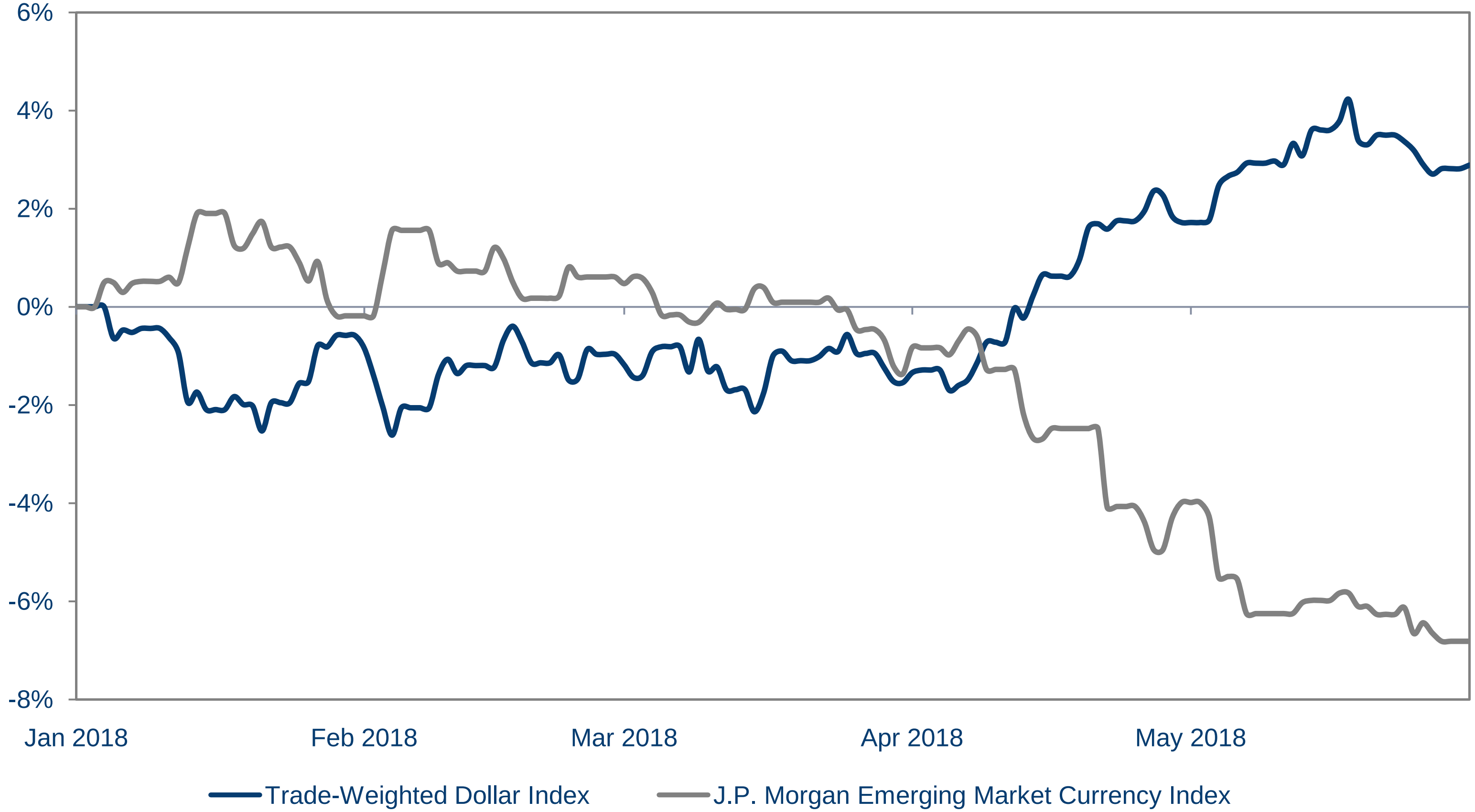
Early withdrawal symptoms from dollar liquidity



- As the Fed continues making progress in the **normalization of monetary conditions**, its consequences are starting to be felt in financial markets. The first tremor occurred at the **end of January**, when bond and equity markets corrected in tandem as market participants recalibrated the number of interest rate hikes
- This has been followed in April by a correction in **emerging markets bonds**, both in hard currency and in local currency

Source: Bloomberg

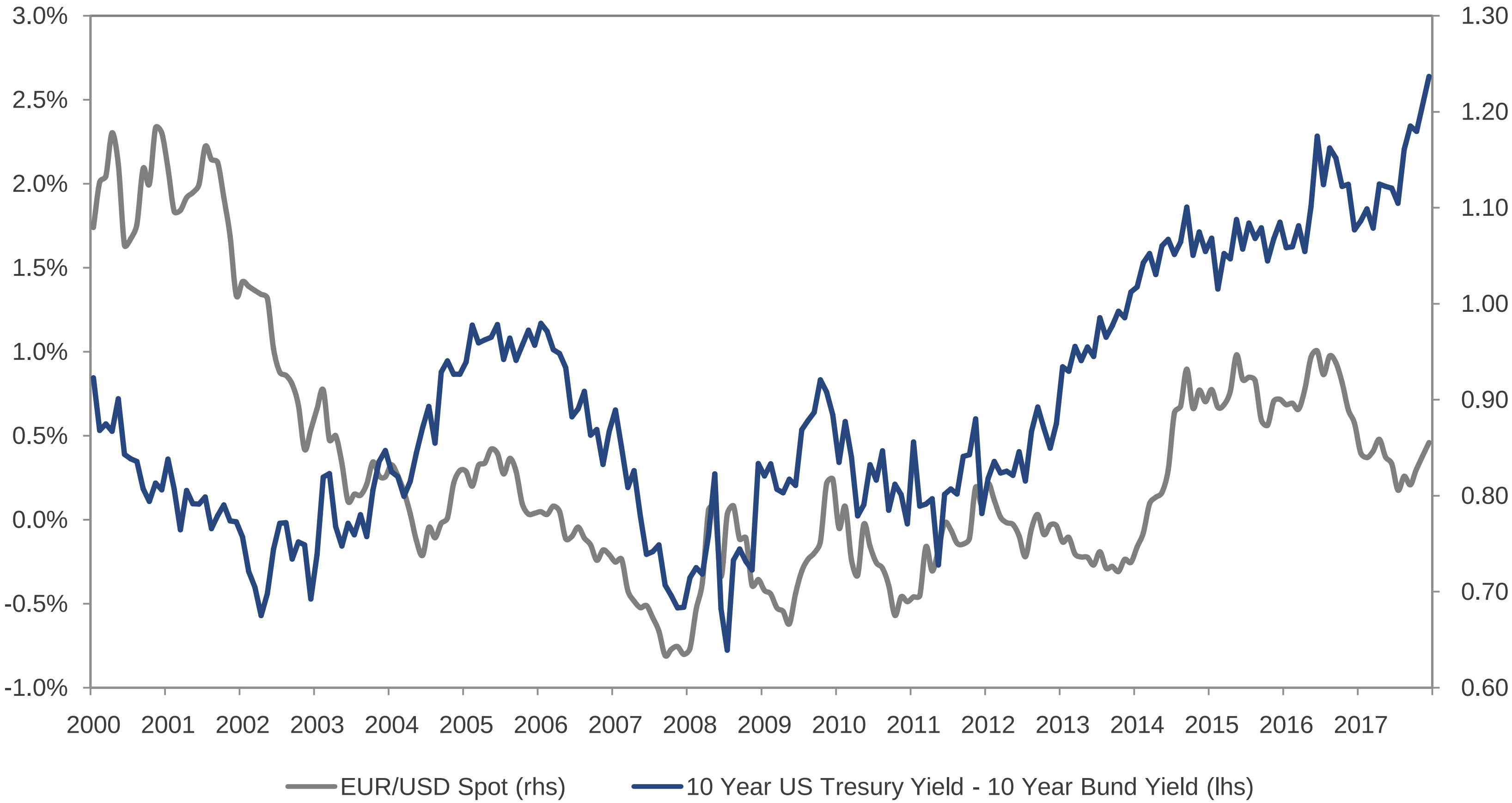
Causing the US dollar to strengthen



- Currencies have acted as a **transmission channel** reacting to higher dollar rates, and **EM currencies** in particular have experienced a significant depreciation, most notably in the case of the **Argentine Peso** and the **Turkish Lira**
- All this is reminiscent of the **"tapper tantrum"** and shows the growing influence that the Fed will exert on financial markets going forward

Source: Bloomberg

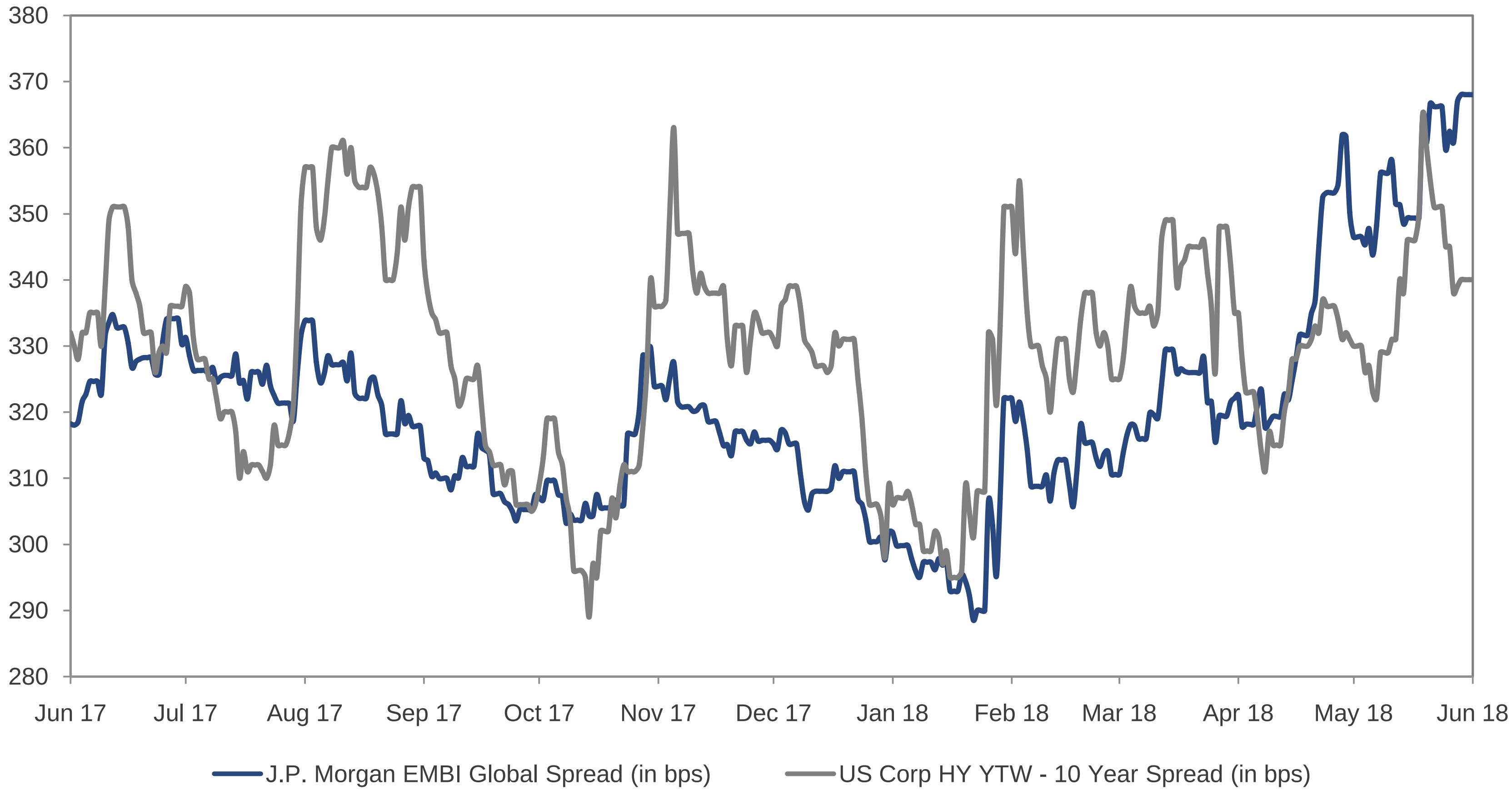
Dollar strength to remain



- The **interest rate differential** between the US Treasuries and German Bunds has reached **all-time highs**. The recent widening in the spread has caused the Euro to depreciate from the highs earlier in the year
- Although we see potential for further dollar appreciation, an **early than expected exit from the QE program** in Europe will cause the Euro to strengthen

Source: Bloomberg

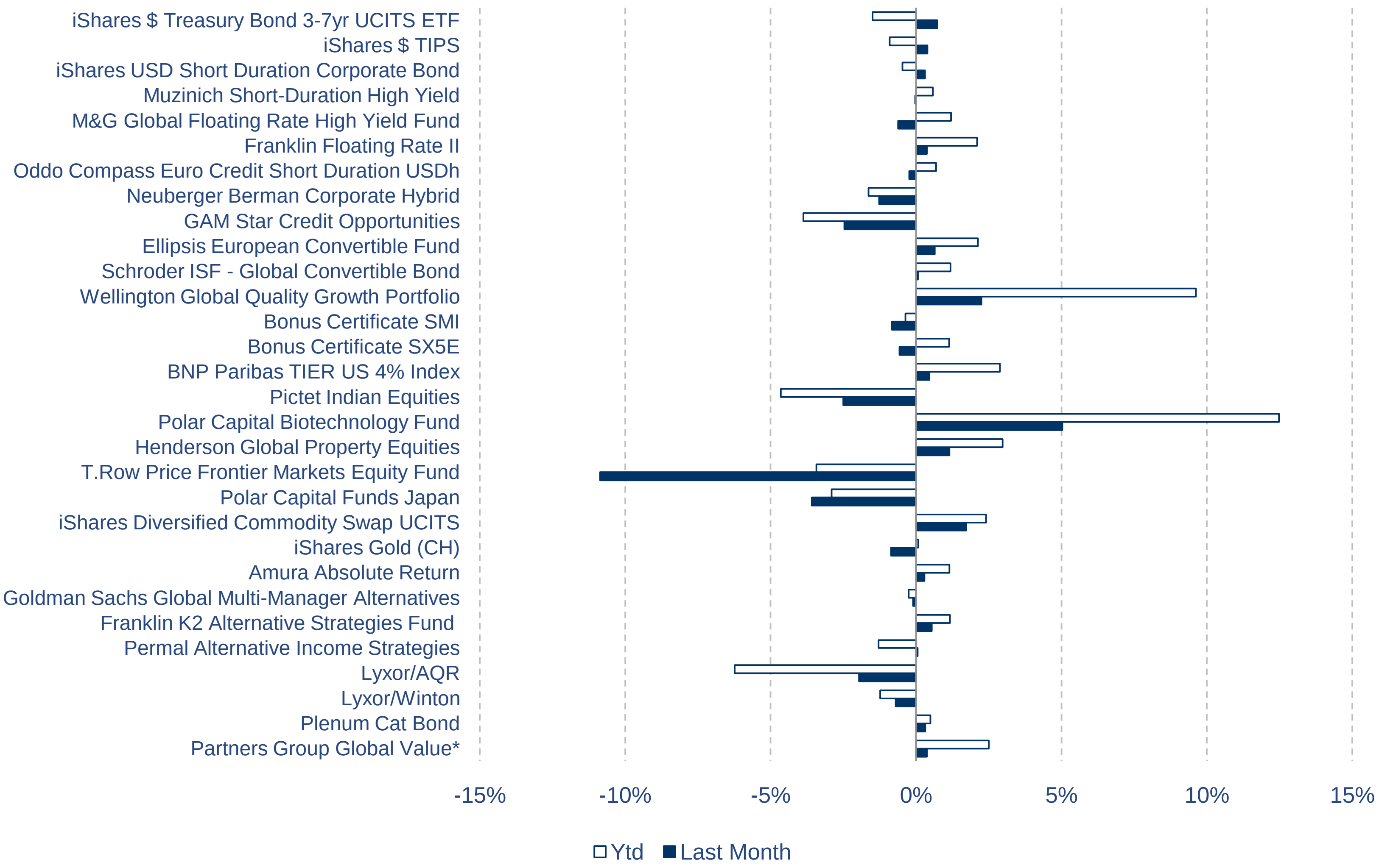
Credit spreads trend higher but remain content



- **Higher interest rates** have also **had a toll on high yield spreads**, which have widened in tandem with emerging markets
- However, we interpret this move as a **reversion to the mean** rather than a correction driven by a **deterioration in economic fundamentals**

Source: Bloomberg

Model portfolio evolution



- Last month we saw a reversal, **recovery** in **high quality bonds**, a **correction in credit**, and wide **dispersion in equity** markets across sectors and regions

Source: Bloomberg as of June 1, 2018
* 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 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%	40%	30%

Short-term catalyzers

Fiscal stimulus in the US, improvement in macro-data globally, lower geopolitical tensions

Other risks

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

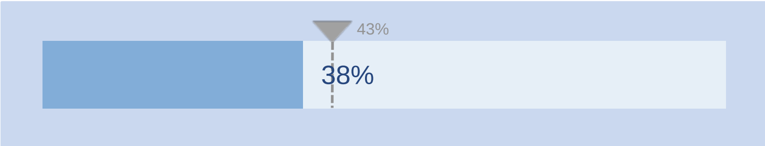
MWM Investment Policy

MORA WEALTH MANAGEMENT

Cash

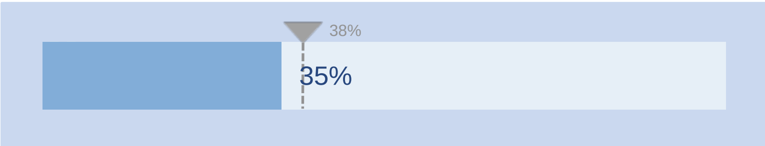
- In the current environment holding cash is becoming costly. Hence, we prefer to invest in short-term high quality bonds as a substitute for cash

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

Equities



- Fiscal reform 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

MWM Model Portfolio Balanced (CH)

Asset Class	Sub-Class	Fund	Weight	Total
Cash	Cash	• Cash	3%	3%
Fixed Income	US Treasuries	• iShares Treasury Bond 3-7yr	3%	38%
	Short-Term Corporate Bonds	• iShares USD Short Duration Corporate Bond	4%	
	US TIPS	• iShares $ TIPS	5%	
	High Yield US	• Muzinich Short Duration High Yield	3%	
	High Yield Europe	• Oddo Compass Euro Credit Short Duration	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	4%	
		• Neuberger Berman Corporate Hybrid	4%	
	Convertible Bonds	• Ellipsis European Convertible Fund	3%	
		• Schroder Global Convertible Bond	3%	
Equities	Volatility	• Reverse Convertibles on Blue Chips	8%	35%
		• Bonus Certificate on Indices	8%	
	Growth	• Wellington Global Quality Growth Portfolio	4%	
	Japan	• Polar Capital Funds Japan	3%	
	India	• Pictet Indian Equities	3%	
	Frontier Markets	• T.Row Price Frontier Markets Equity Fund	3%	
	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	• Permal Alternative Income Strategies	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)

MORA WEALTH MANAGEMENT

Cash	Cash	• Cash	3%	3%
Fixed Income	US Treasuries	• MFS Meridian - U.S. Government Bond Fund	3%	38%
	Short-Term Corporate Bonds	• Blackrock US Dollar Short Duration Bond Fund Class	4%	
	US TIPS	• PIMCO Global Real Return Fund USD	5%	
	Global Investment Grade	• Carmignac Portfolio - Global Bond	3%	
	High Yield US	• Lord Abbett High Yield Fund	3%	
	High Yield Europe	• Aberdeen Global - Select Euro High Yield Bond	3%	
	Leveraged Loans	• Franklin Floating rate II	3%	
	Subordinated Debt	• GAM Star Credit opportunities	8%	
	Convertible Bonds	• Calamos Global Convertibles	6%	
Equities	Volatility	• Reverse Convertibles on Blue Chips	10%	35%
		• Bonus Certificate on Indices	10%	
	Growth	• MFS Meridian Global Concentrated Fund	5%	
	High Dividend Yield	• Schroder Global Dividend Maximizer	5%	
	Japan	• GAM Star Japan Equity Fund	3%	
	India	• Franklin India Fund	3%	
	Frontier Markets	• Templeton Frontier Markets	3%	
	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	• Permal Alternative Income Strategies	4%	
	Private Equity	• iShares Listed Private Equity	4%	

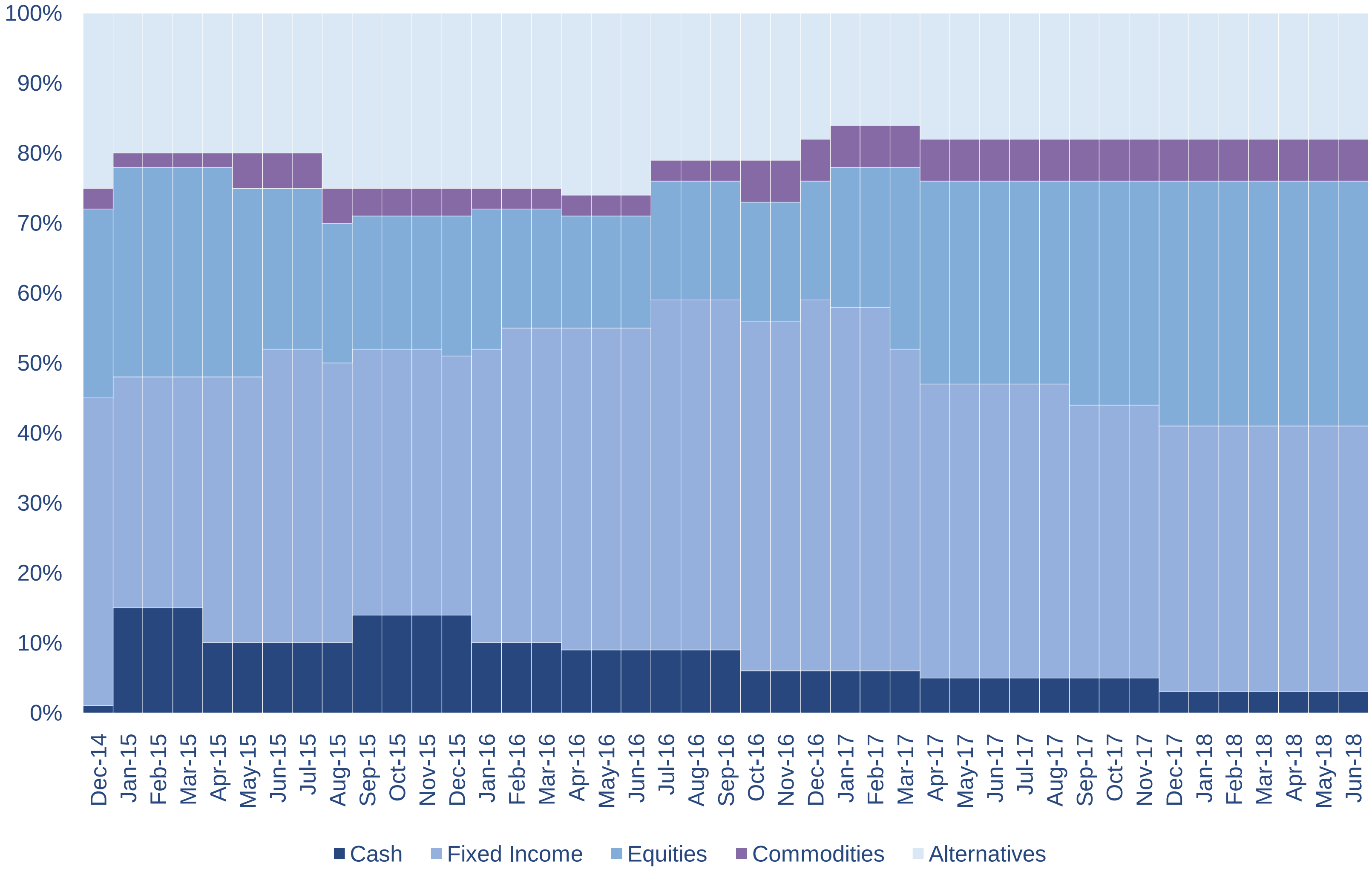
MWM Investment Profiles

MORA WEALTH MANAGEMENT

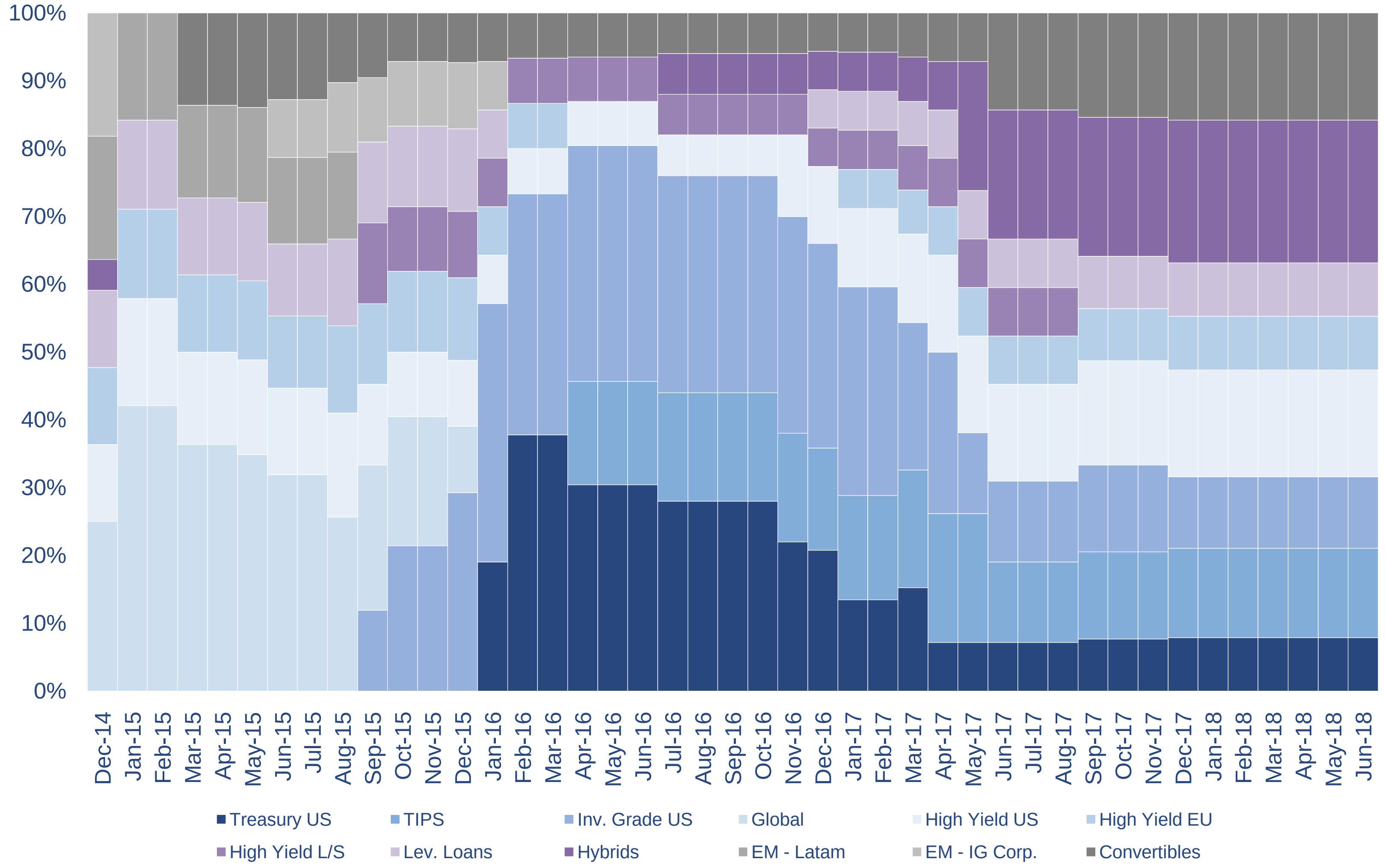
	Conservative	Balanced	Growth
Cash	▼5% 5%	▼5% 3%	▼5% 1%
Fixed Income	▼64% 56%	▼43% 38%	▼22% 19%
Equities	▼24% 23%	▼38% 35%	▼52% 49%
Commodities	▼2% 4%	▼4% 6%	▼6% 8%
Alternative Investments	▼5% 12%	▼10% 18%	▼15% 23%

▼ Strategic Asset Allocation

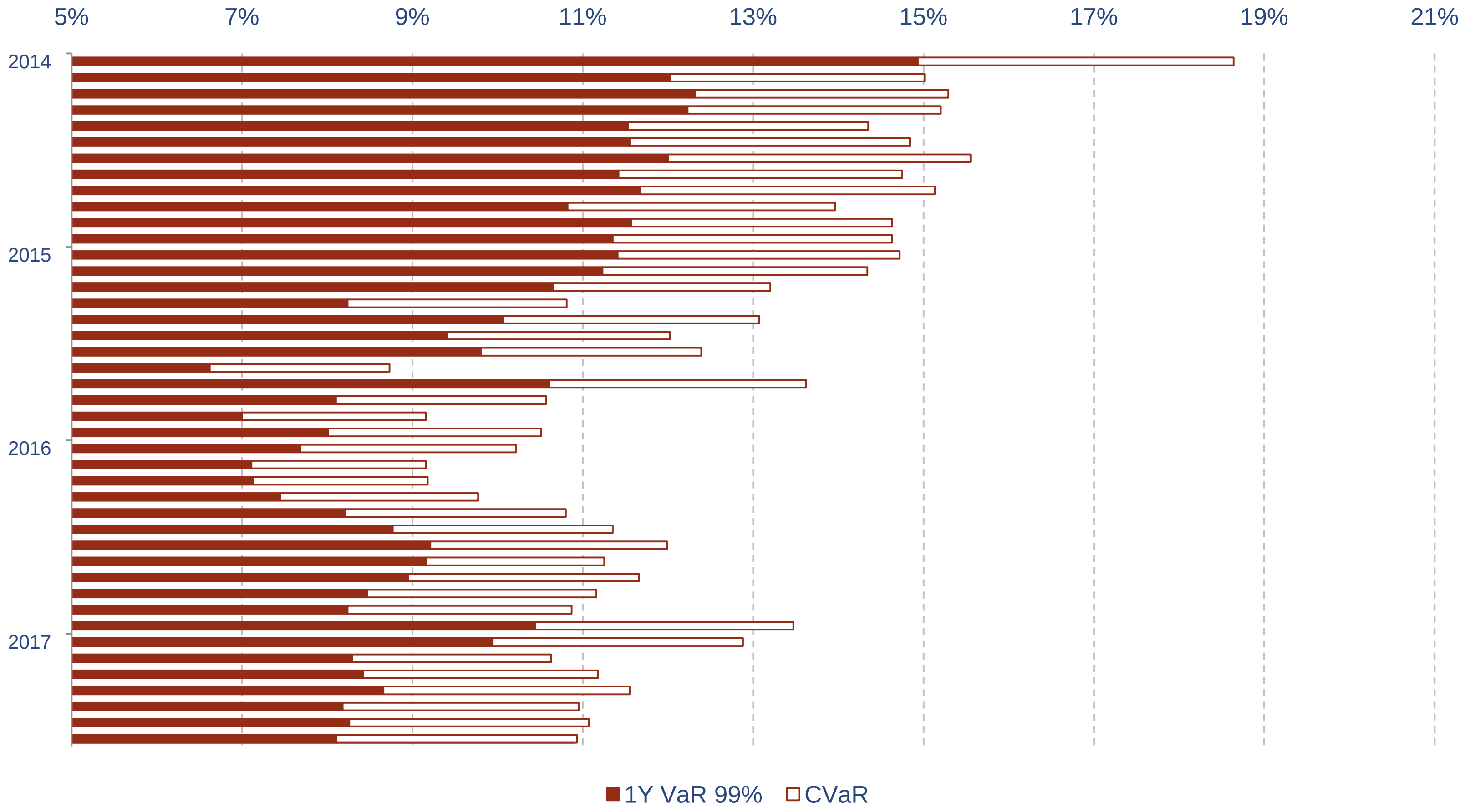
MWM Model Portfolio – Asset Allocation evolution



MWM Model Portfolio – Fixed Income evolution

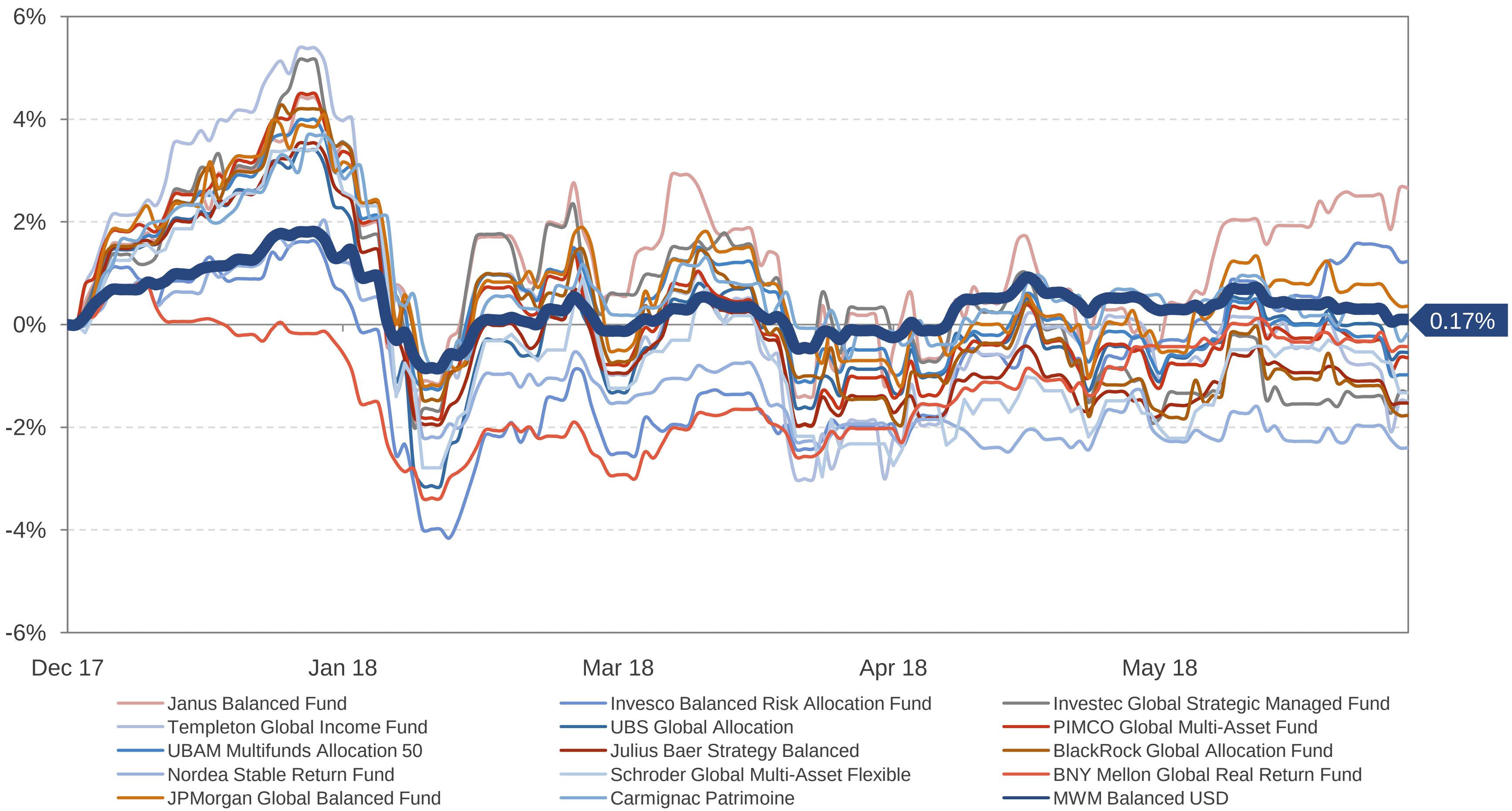


MWM Model Portfolio – VaR evolution



- The **VaR** of the portfolio remains contained, despite the recent rise in volatility, reflecting the conservative positioning of our portfolio

MWM Model Portfolio - Peer comparison

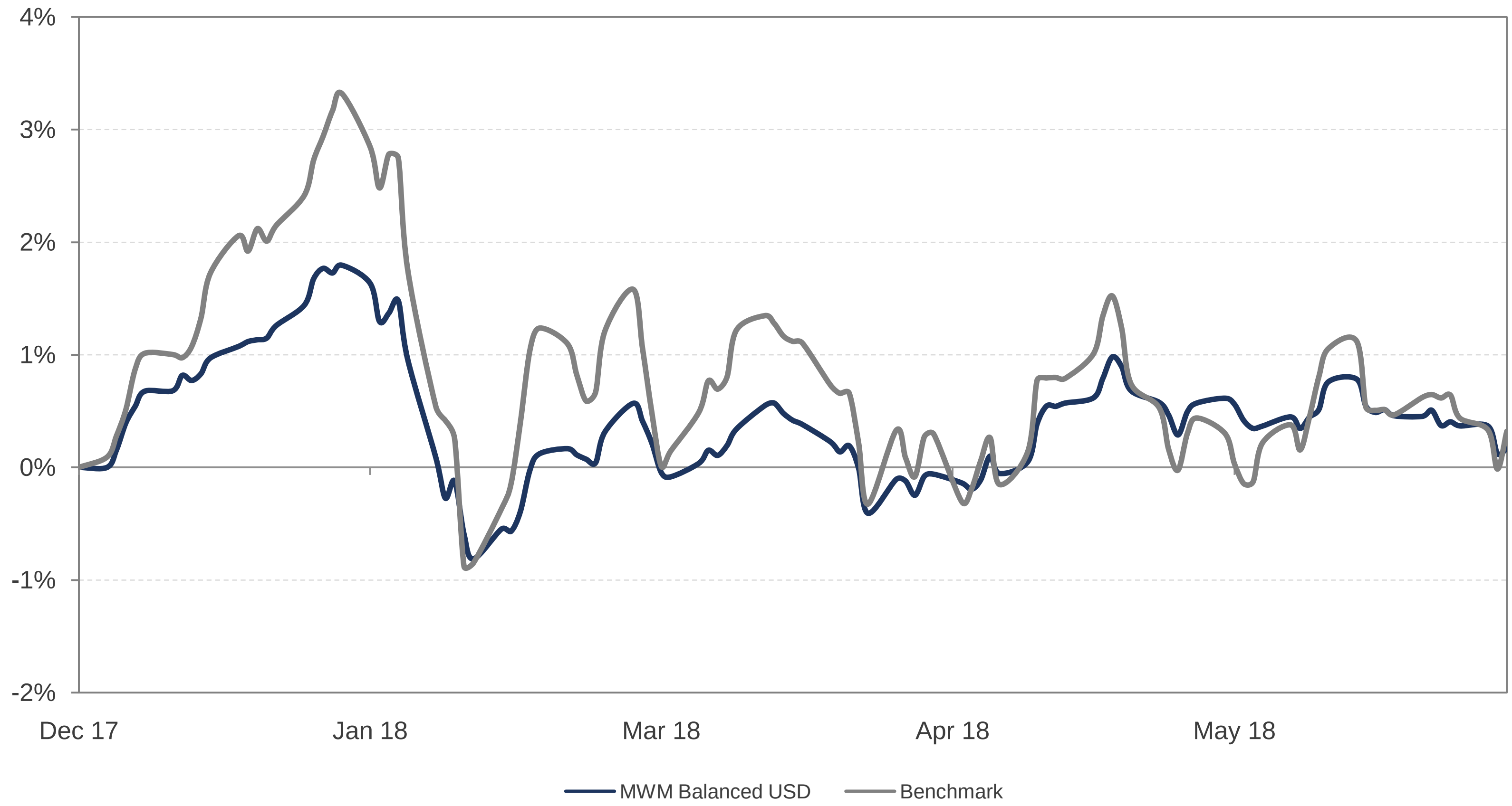


- **Total Return** (Ytd[1]): **4th out of 15**
- **Standard Deviation** (1 year[1]): **1st out of 15**
- **Downside Risk** (1 year[1]): **1st out of 15**
- **Sharp Ratio** (1 year[1]): **6th out of 15**

[1] As of June 1, 2018

Source: Bloomberg

MWM Model Portfolio - Ytd performance

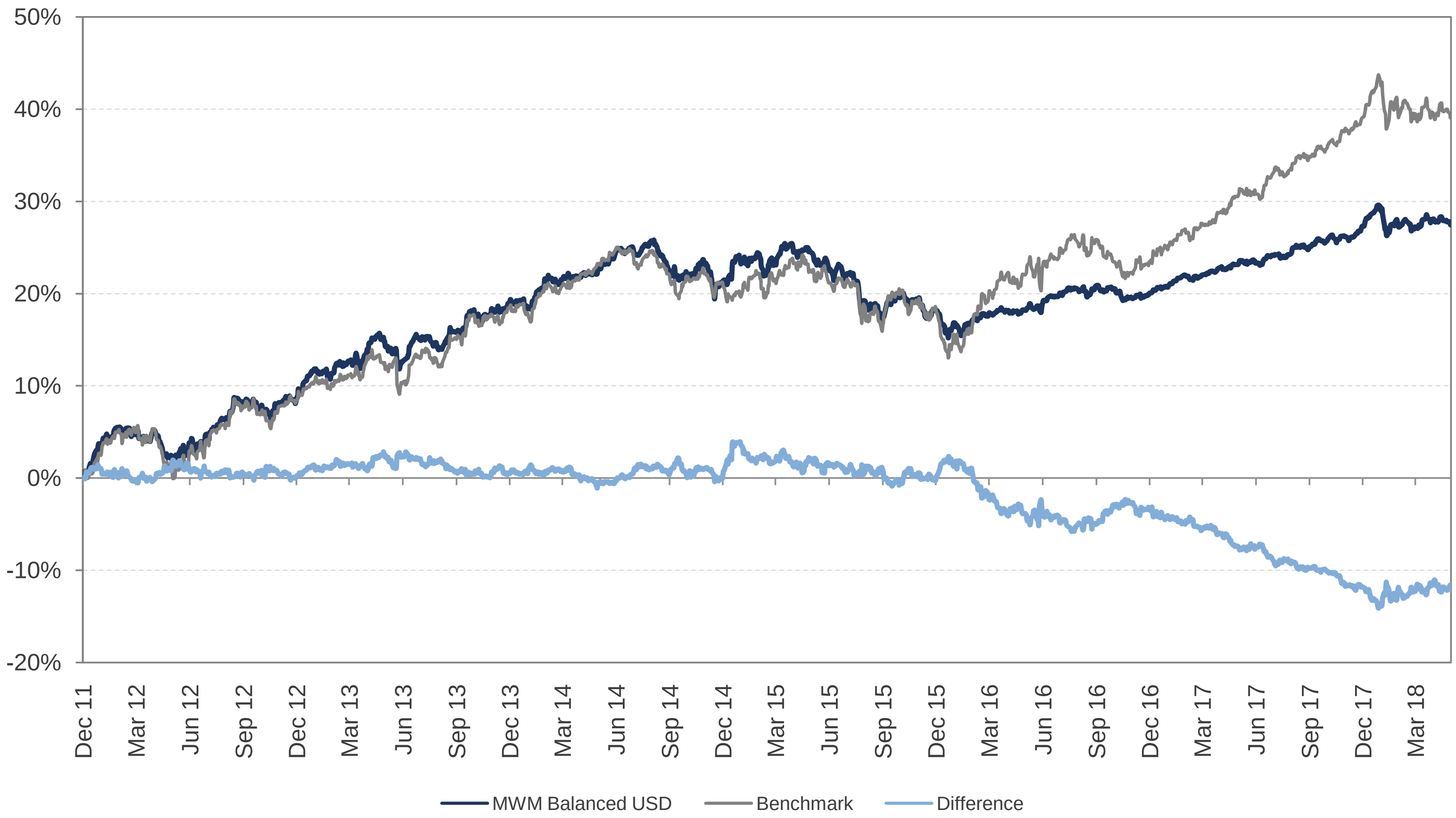


- **Total Return** (Ytd[1]): **0.31%** vs. **0.51%** Benchmark[2]
- **Standard Deviation** (Ytd[1]): **2.98%** vs. **5.46%** Benchmark[2]
- **Downside Risk** (Ytd[1]): **2.38%** vs. **4.28%** Benchmark[2]
- **Sharpe Ratio** (Ytd[1]): **-0.30** vs. **-0.05** Benchmark[2]

[1] As of June 1, 2018

[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)

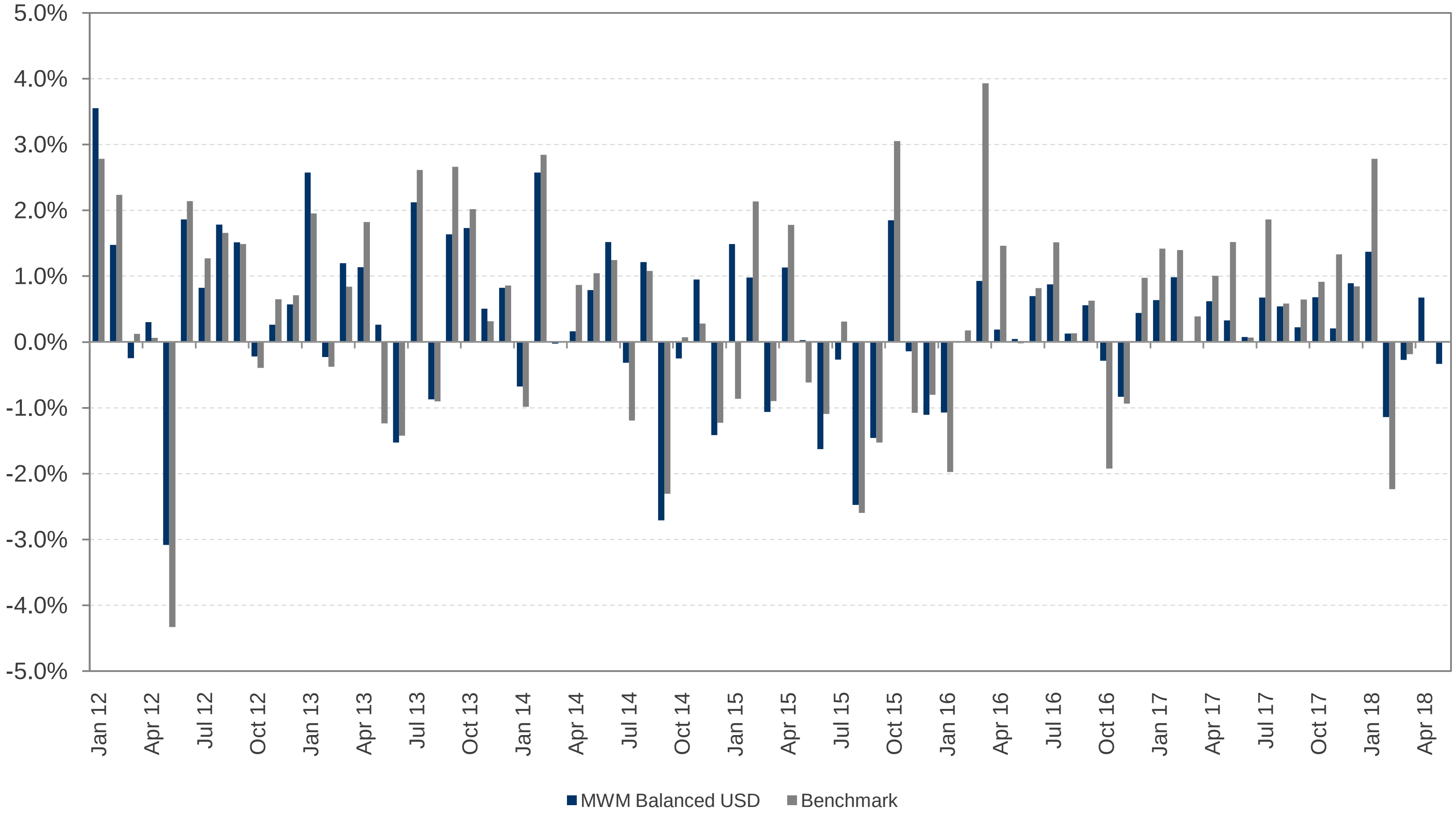


- **Total Return** (1 year[1]): **3.53%** vs. **6.81%** Benchmark[2]
- **Total Return** (3 year[1]): **2.67%** vs. **14.29%** Benchmark[2]
- **Total Return** (Since Jan 12[1]): **27.68%** vs. **33.78%** Benchmark[2]

[1] As of June 1, 2018

[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]): **2.29%** vs. **4.12%** Benchmark[2]
- **Downside Risk** (1 year[1]): **1.79%** vs. **3.21%** Benchmark[2]
- **Sharpe Ratio** (1 year[1]): **0.97** vs. **1.35** Benchmark[2]
- **Var 95% - 1day** (1 year[1]): **-0.20%** vs. **-0.41%** Benchmark[2]

[1] As of June 1, 2018
[2] Benchmark = 5% Fed Funds + 43% JPM Global Aggregate Bond Index + 38% MSCI World + 4% S&P GSCI + 10% HFRI FoHF

This document is for information purposes only and does not constitute, and may not be construed as, a recommendation, offer or solicitation to buy or sell any securities and/or assets mentioned herein. Nor may the information contained herein be considered as definitive, because it is subject to unforeseeable changes and amendments.

Past performance does not guarantee future performance, and none of the information is intended to suggest that any of the returns set forth herein will be obtained in the future.

The fact that MWM can provide information regarding the status, development, evaluation, etc. in relation to markets or specific assets cannot be construed as a commitment or guarantee of performance; and MWM does not assume any liability for the performance of these assets or markets.

Data on investment stocks, their yields and other characteristics are based on or derived from information from reliable sources, which are generally available to the general public, and do not represent a commitment, warranty or liability of MWM.

MORA WEALTH MANAGEMENT

www.morawealth.com