Investment Policy

MORA WEALTH MANAGEMENT

July 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

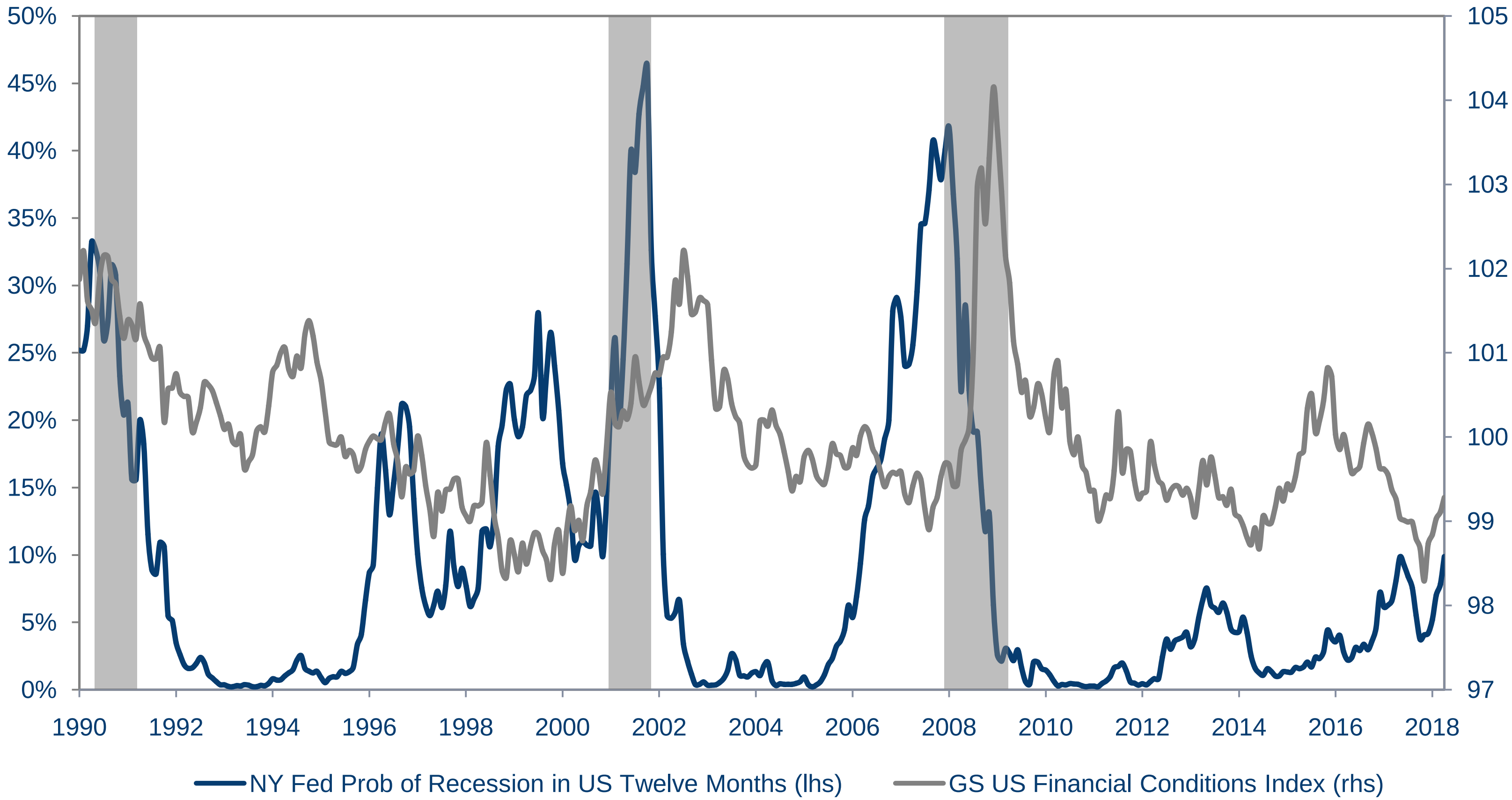
- **Equity valuations in the US** remain very high, mostly **supported by low interest** rates, **tax reform** and **deregulation**. Combined with positive macro data from other main developed markets, we see a **greater chance of a reacceleration in global economic growth.** However**,** with the **Fed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

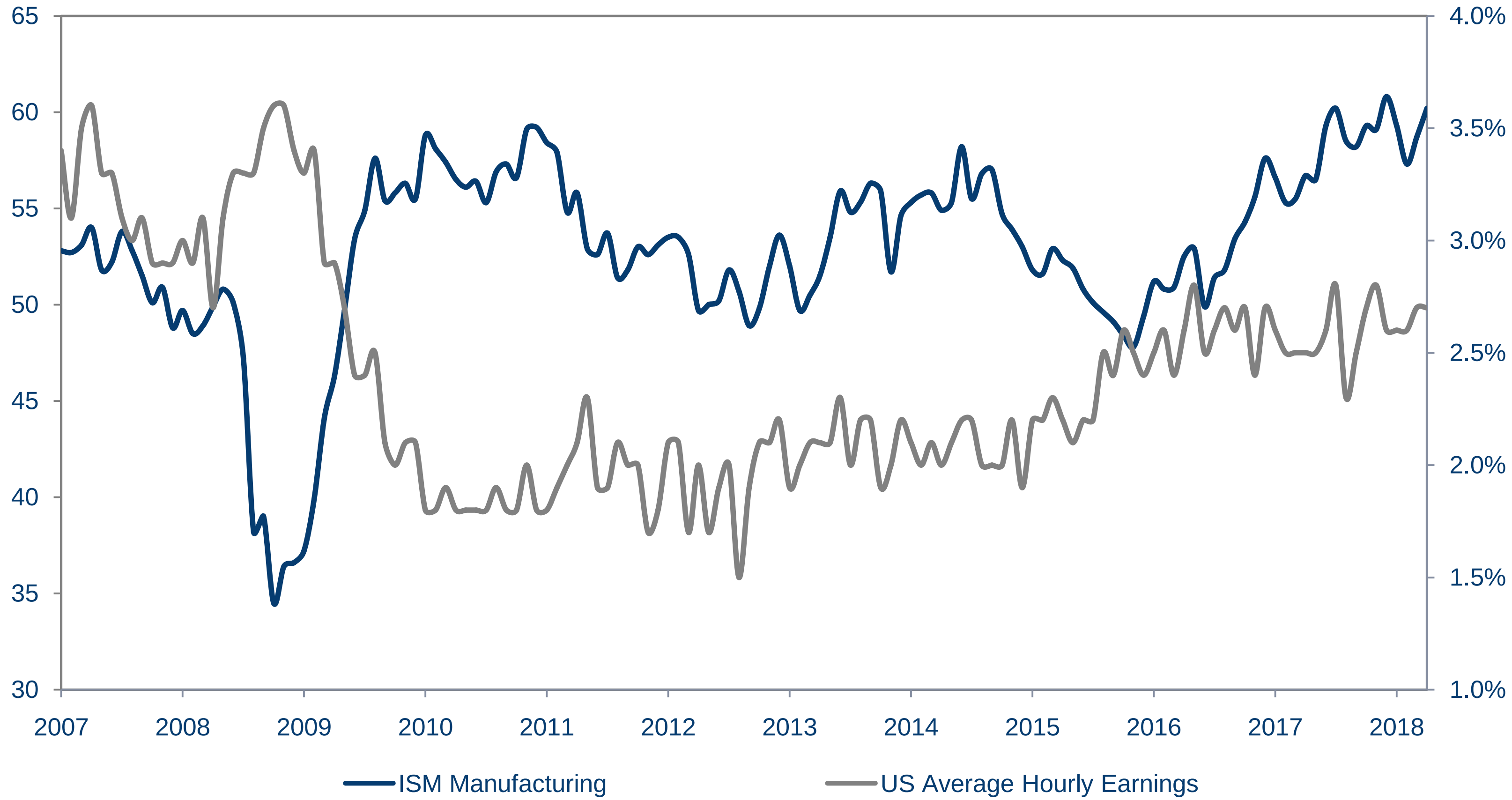
The “R” word



- **Anxiety about the length of the current economic cycle** keep investors looking for **early signs** of an economic downturn
- Some leading indicators like **the shape of the yield curve** – and the fact that monetary policy is becoming tighter, point towards an increasing likelihood of a recession in the next 24 months. However, **financial conditions remain very accommodative**

Source: Bloomberg

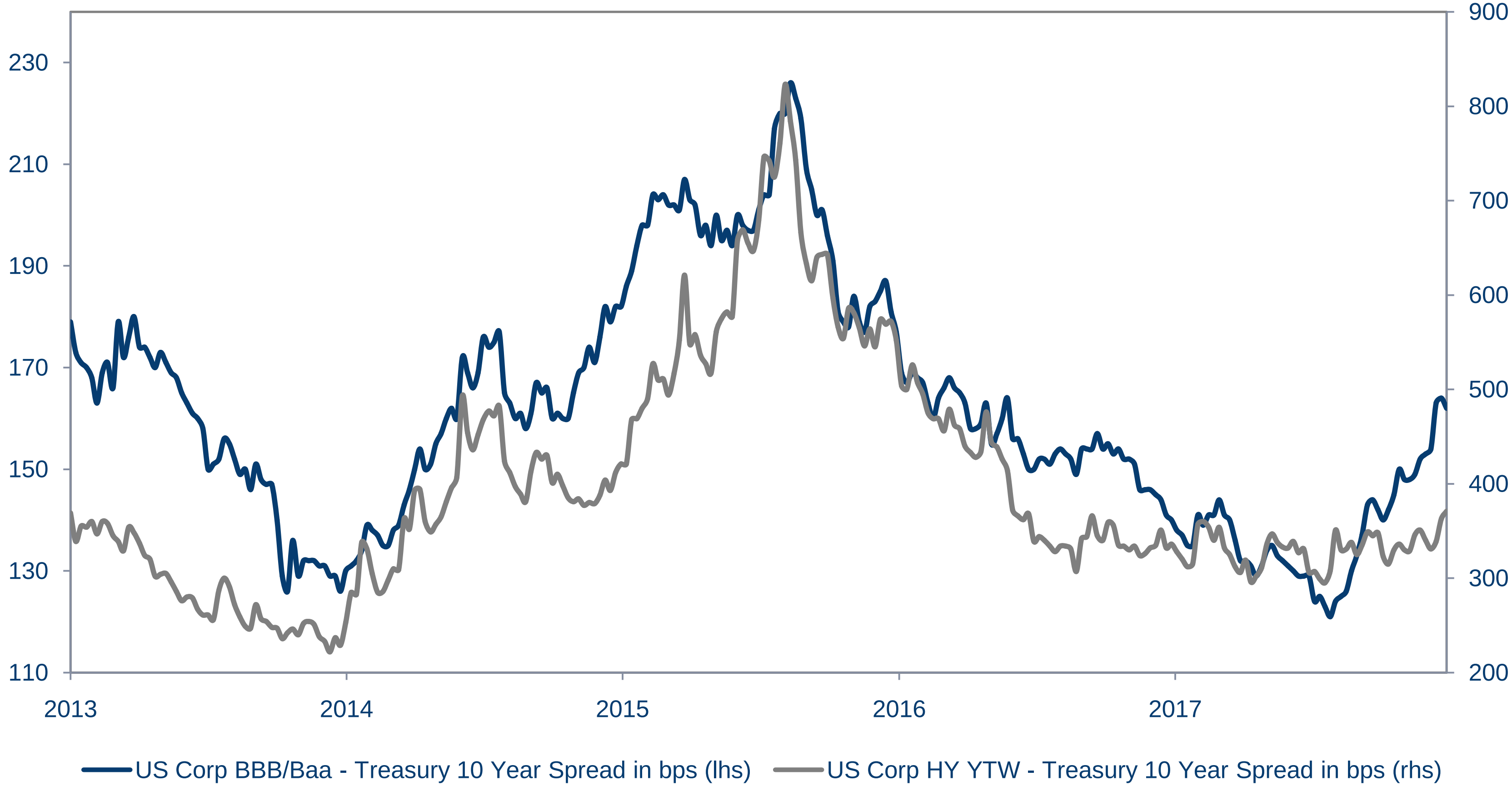
Early signs of overheating



- Typically, at this point in the cycle, the economy is very sensitive to changes in both **business and consumer confidence**. However, with unemployment at all-time lows, and the **impulse provided by the tax reform**, we do not see reasons for concern.
- The **highest risk** we see at the moment is an **acceleration of inflation** due to a sustained increase in labor costs, which would prompt the Fed to speed up the pace of rate increases

Source: Bloomberg

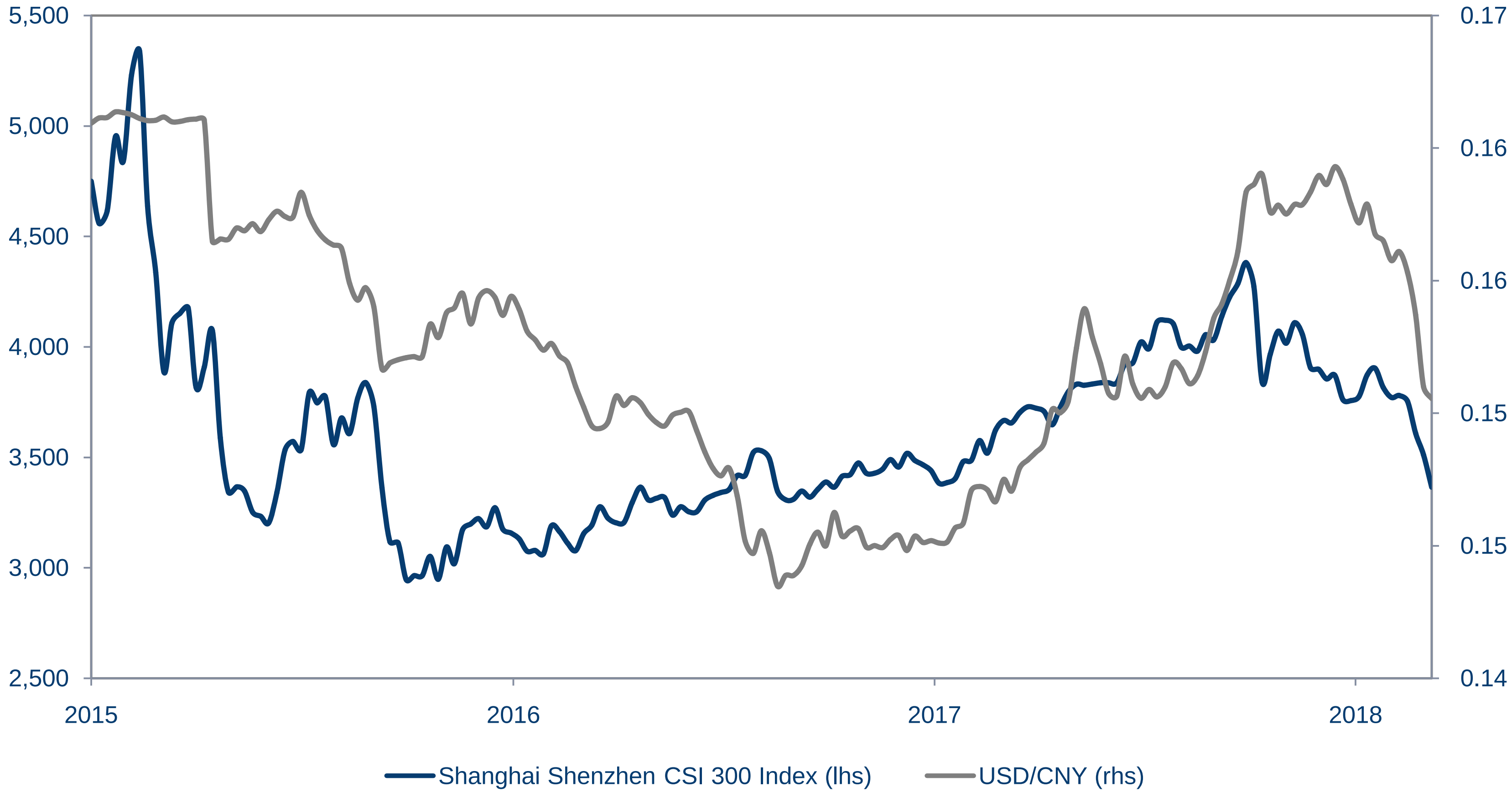
Corporate spreads inching higher



- **Corporate spreads** are showing an **unusual divergence**, whilst Investment Grade spreads have widened significantly since the beginning of the year, High Yield spreads have barely moved
- Nonetheless, we think that both levels are **consistent with the current stage of the credit cycle**, and attribute the difference to the higher impact that interest rates rises are having on **investment grade companies, as these have borrowed** more intensely to finance dividends and share buybacks

Source: Bloomberg

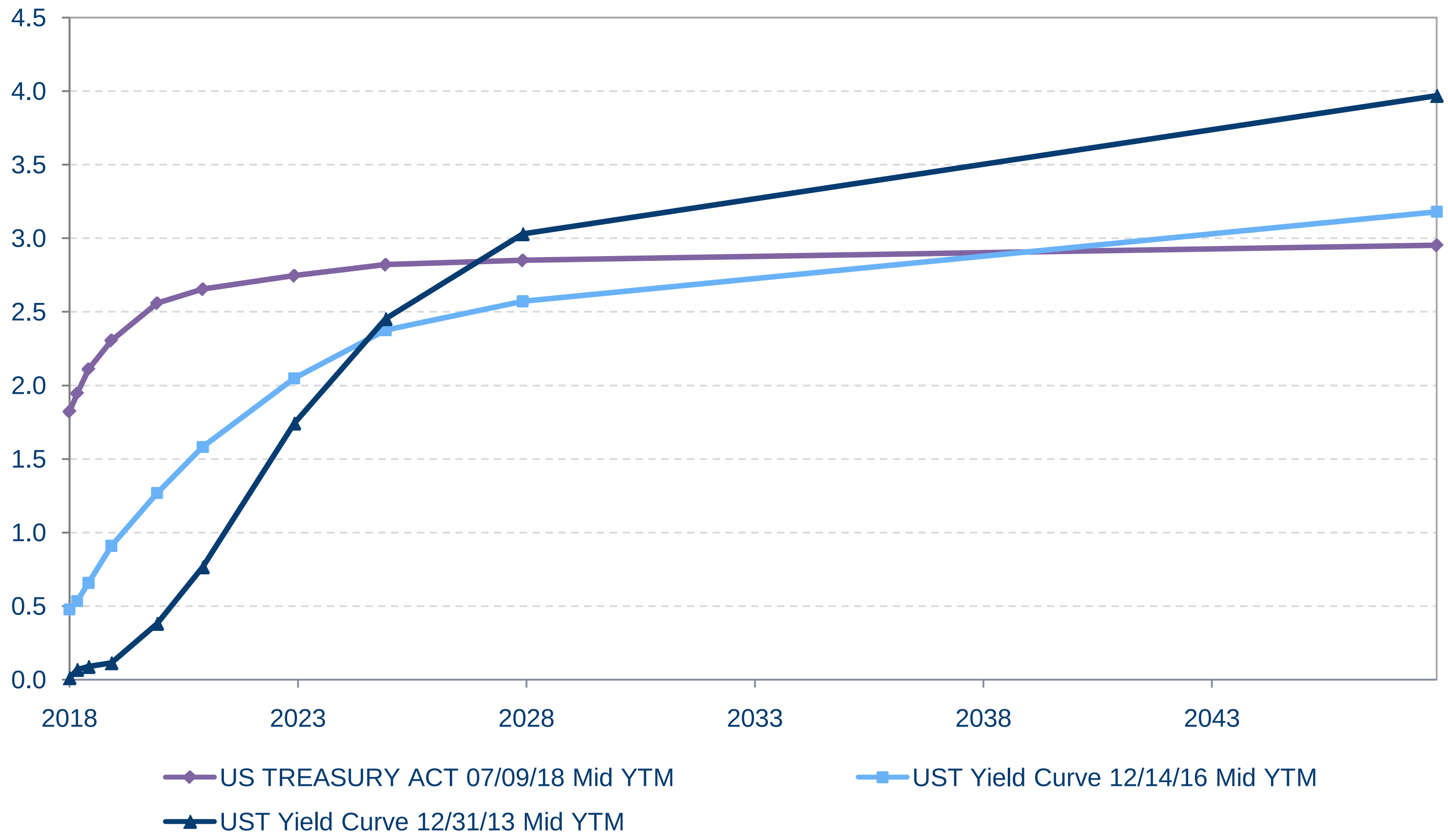
Trade concerns increase economic uncertainty



- An escalation in the trade **dispute between the US and China** has the potential to bring the global economy on the brink of a recession
- Despite the impact of a trade war on economic activity would have a time lag, **currencies may act as a transmission channel**. If the Chinese let the **Yuan depreciate** in reaction to stiffer tariffs, they may create a **deflationary shock** at global level

Source: Bloomberg

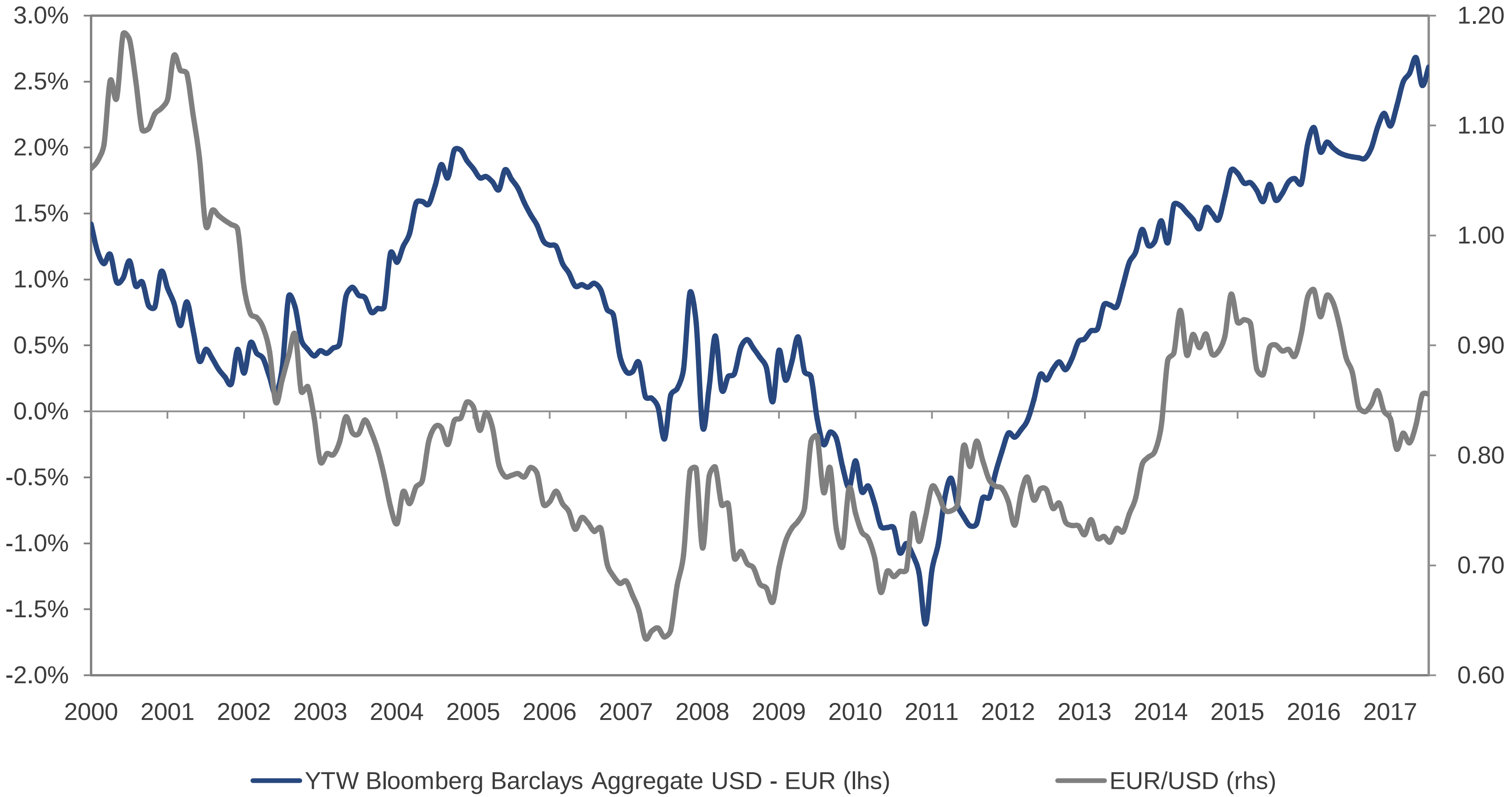
Cash is king?



- Low trend growth, combined with low inflation expectations, are putting downward pressure on long-term interest rates, **removing almost completely the term premium**, and incentivizing the **build up of cash**
- This also **limits the ability of the Fed to keep raising rates** without clear signs of inflation. This would support the **"goldilocks"** scenario, though the lower opportunity cost for cash will speak for lower valuation multiples

Source: Bloomberg

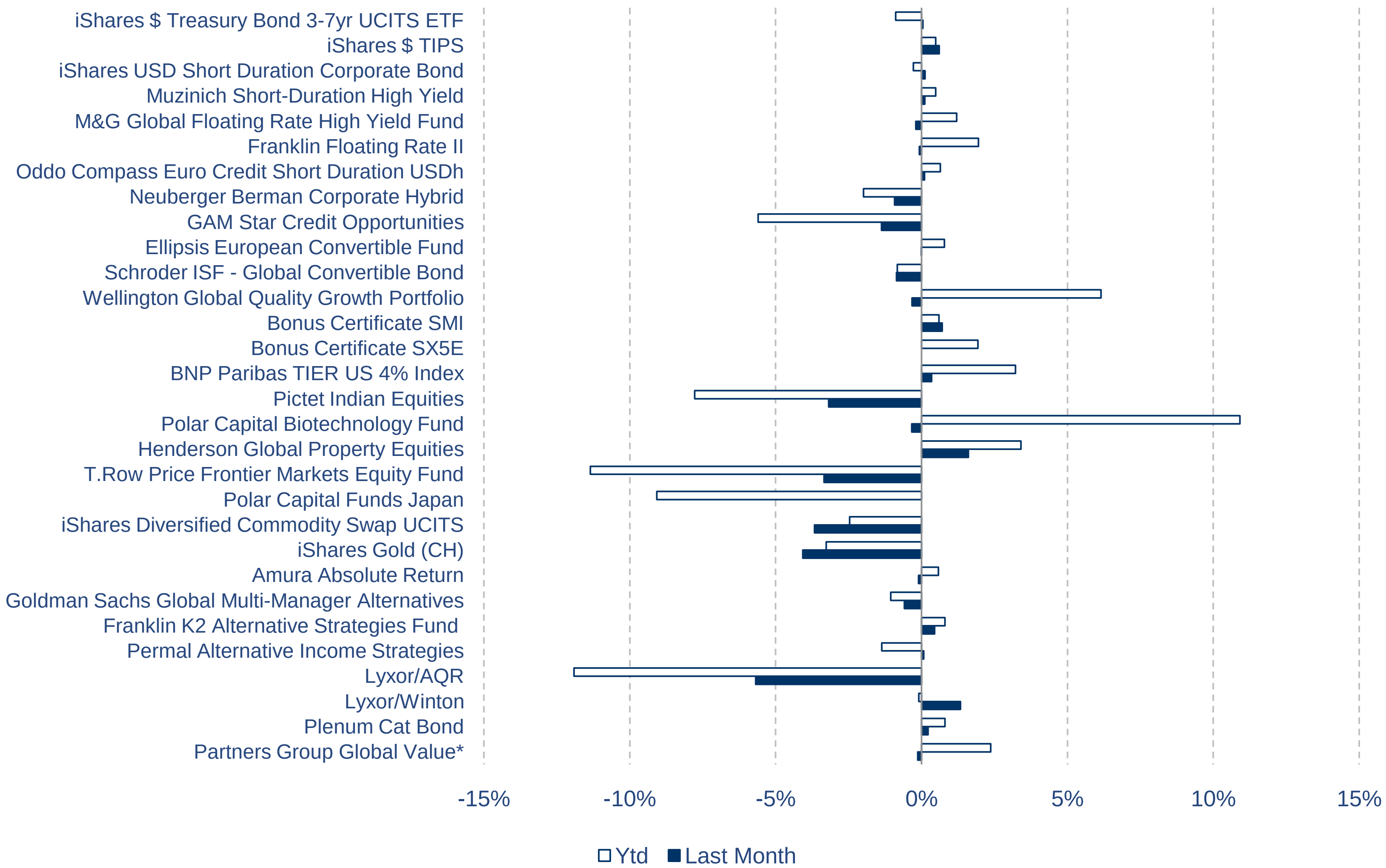
And King Dollar reclaims the throne



- Despite the lukewarm transmission of Fed hikes into the yield curve, the aggregated **yield level of dollar-denominated bonds is overwhelmingly favorable** compared to that of major developed currencies
- As a reference, since the introduction of the Euro the average spread between US dollar and Euro denominated bonds has been 0.79%, and currently stands at 2.69%; whilst the average USD/EUR rate has been 1.23

Source: Bloomberg

Model portfolio evolution



- Last month the portfolio suffered particularly due to the positions in **emerging markets**, **commodities** and **alternative investments**

Source: Bloomberg as of July 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 course, 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	35% (+5%)	35% (-5%)	30%

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

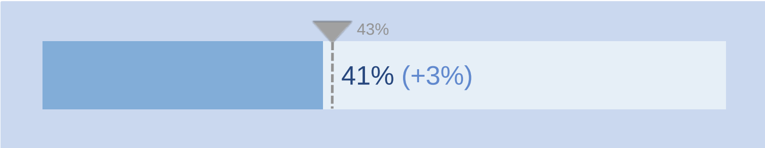
Other risks
Trade wars, Spread of populist political parties, China slowdown, Terrorism

MWM Investment Policy

Cash

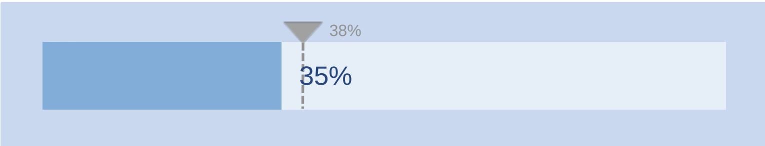
- In the current environment holding cash is becoming costly. Hence, we prefer to invest in short-term high quality bonds as a substitute for cash

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 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

▼ Strategic Asset Allocation

MWM Model Portfolio Balanced (CH)

MORA WEALTH MANAGEMENT

Asset Class	Sub-Class	Fund	Weight	Total
Cash	Cash	• Cash	2%	2%
Fixed Income	US Treasuries	• iShares Treasury Bond 3-7yr	3%	41%
	Short-Term Corporate Bonds	• iShares USD Short Duration Corporate Bond	7%	
	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%	16%
	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%	
	Cat Bonds	• Plenum CAT Bond Fund	3%	
	Private Equity	• Partners Group Global Value	3%	

MWM Model Portfolio Balanced (US)

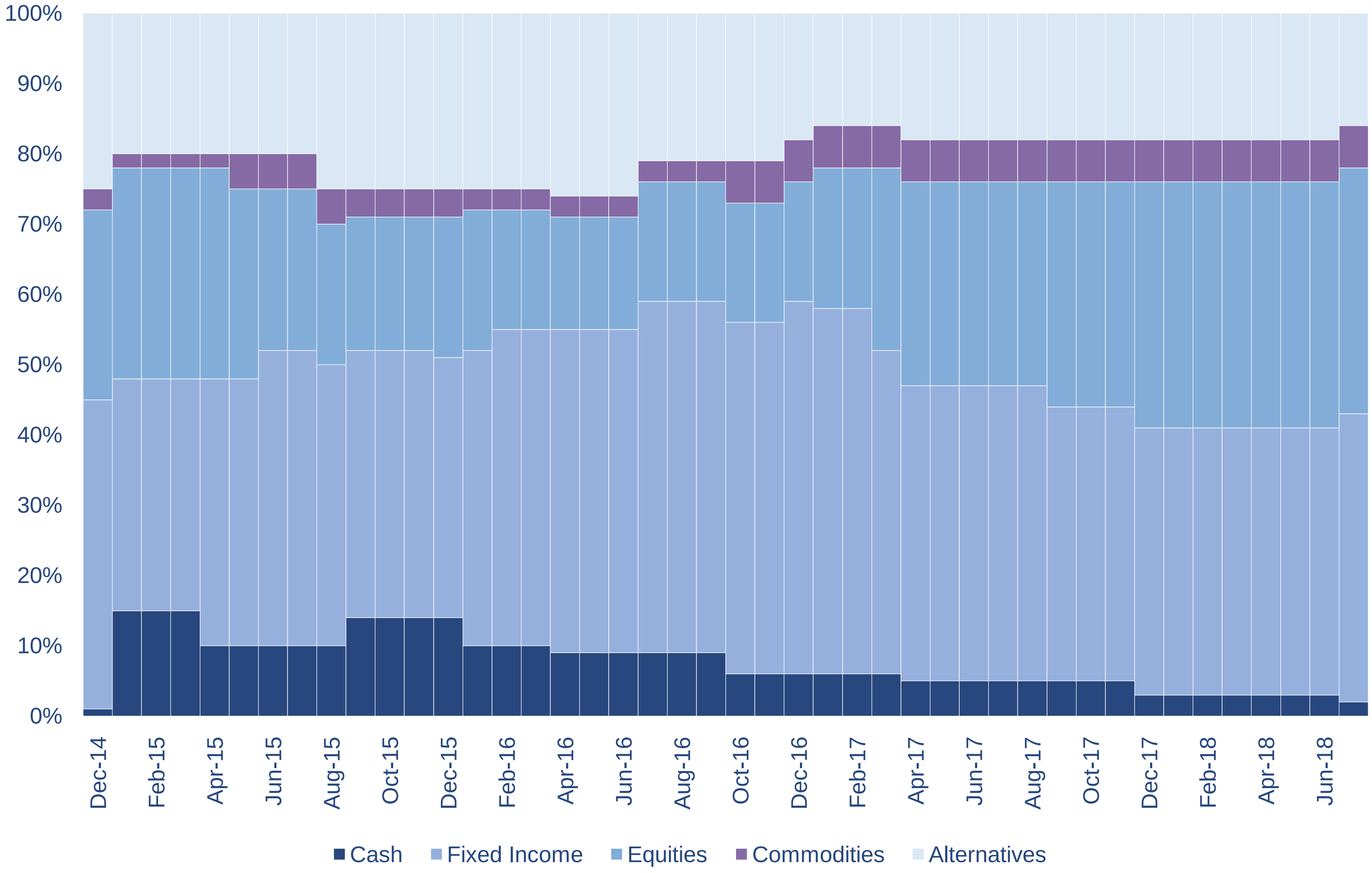
Cash	Cash	• Cash	2%	2%
Fixed Income	US Treasuries	• MFS Meridian - U.S. Government Bond Fund	3%	41%
	Short-Term Corporate Bonds	• Blackrock US Dollar Short Duration Bond Fund Class	7%	
	US TIPS	• PIMCO Global Real Return Fund USD	5%	
	Global Investment Grade	• Carmignac Portfolio - Global Bond	3%	
	High 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	6%	16%
	Multi-Strategy	• Blackrock Multi-Manager Alternative Strategies Fund	5%	
	CTA, Diversified	• Permal Alternative Income Strategies	5%	

MWM Investment Profiles

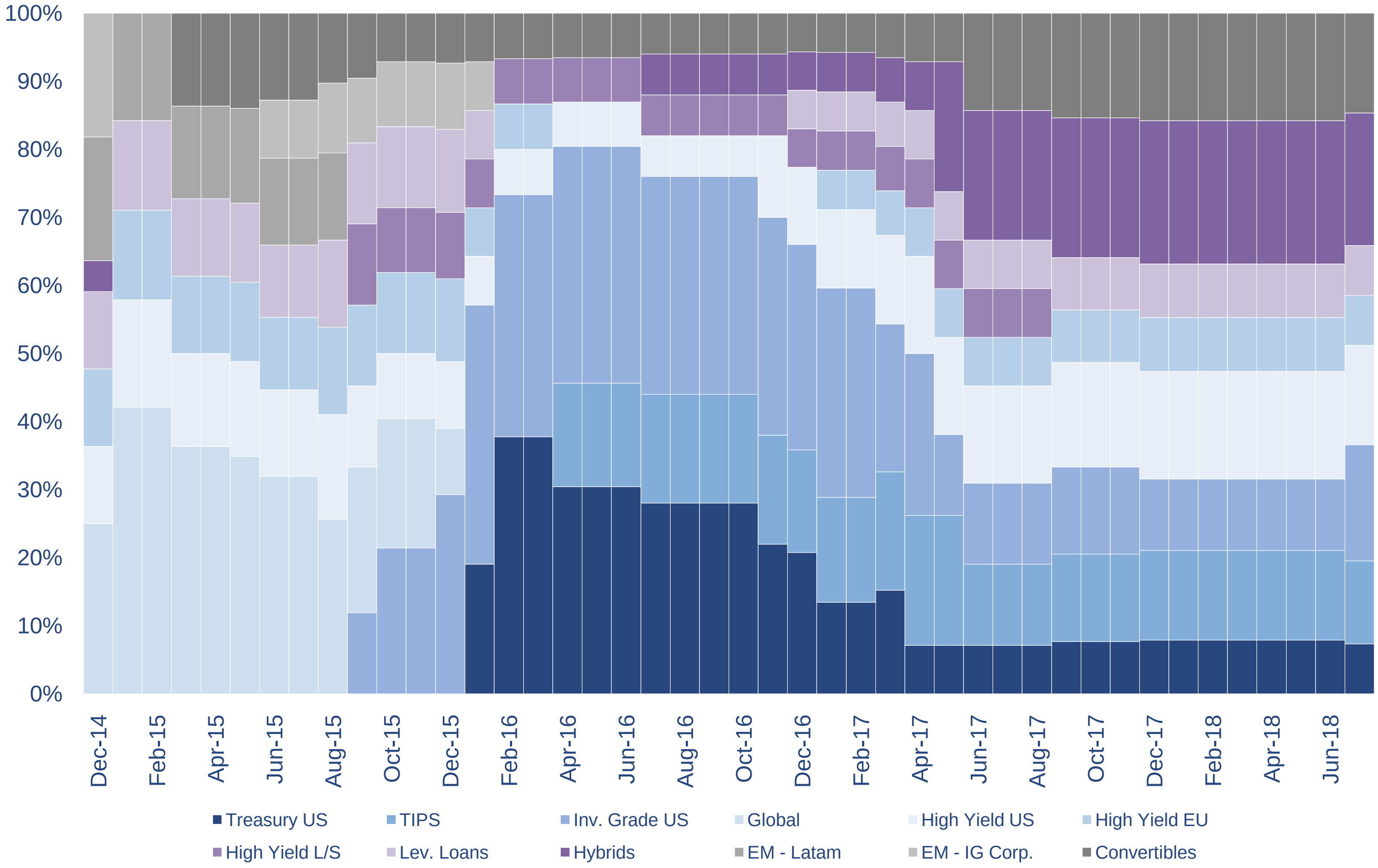
	Conservative	Balanced	Growth
Cash	▼ 5% 4%	▼ 5% 2%	▼ 5% 1%
Fixed Income	▼ 64% 59%	▼ 43% 41%	▼ 22% 21%
Equities	▼ 24% 23%	▼ 38% 35%	▼ 52% 49%
Commodities	▼ 2% 4%	▼ 4% 6%	▼ 6% 8%
Alternative Investments	▼ 5% 10%	▼ 10% 16%	▼ 15% 21%

▼ Strategic Asset Allocation

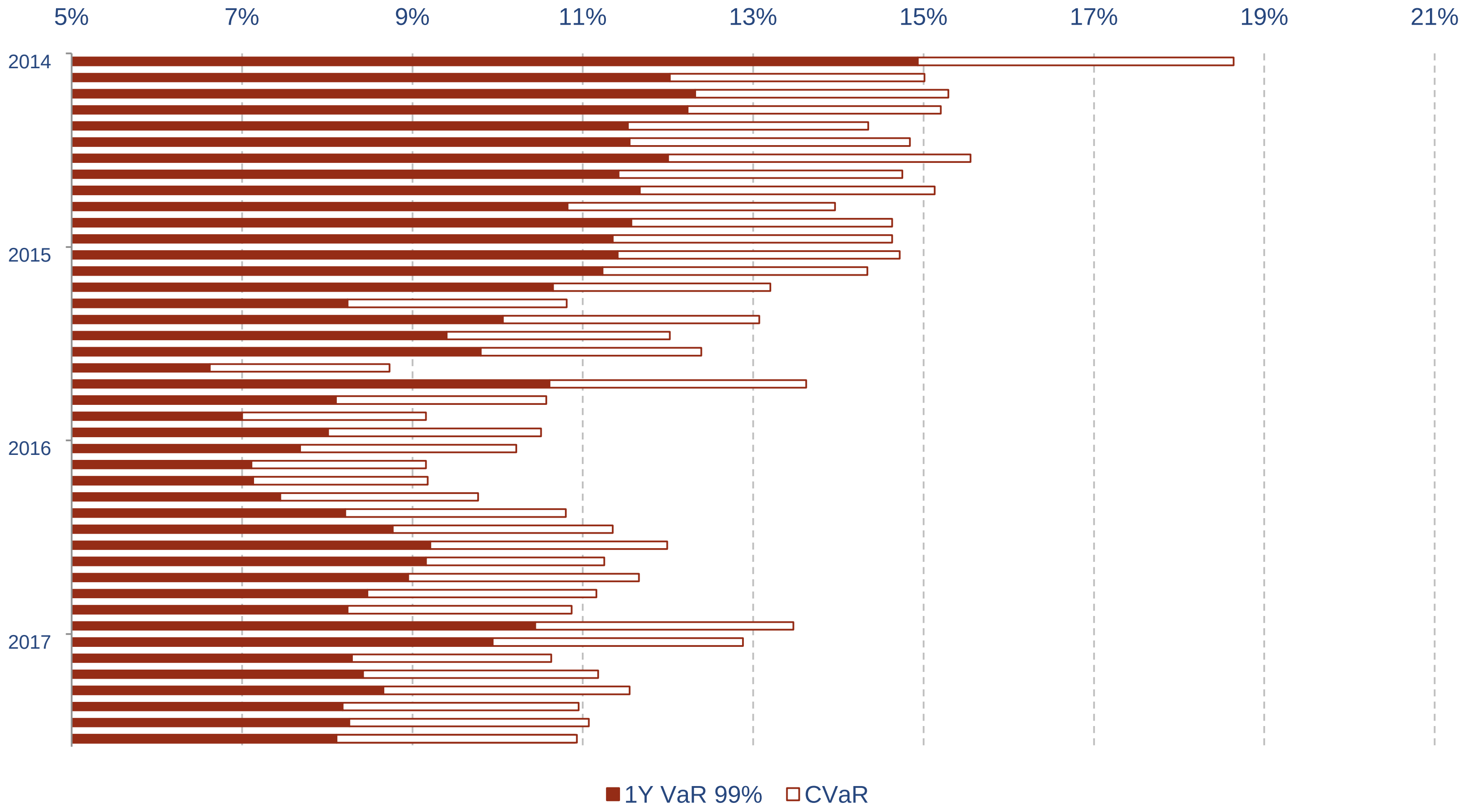
MWM Model Portfolio – Asset Allocation evolution



MWM Model Portfolio – Fixed Income evolution

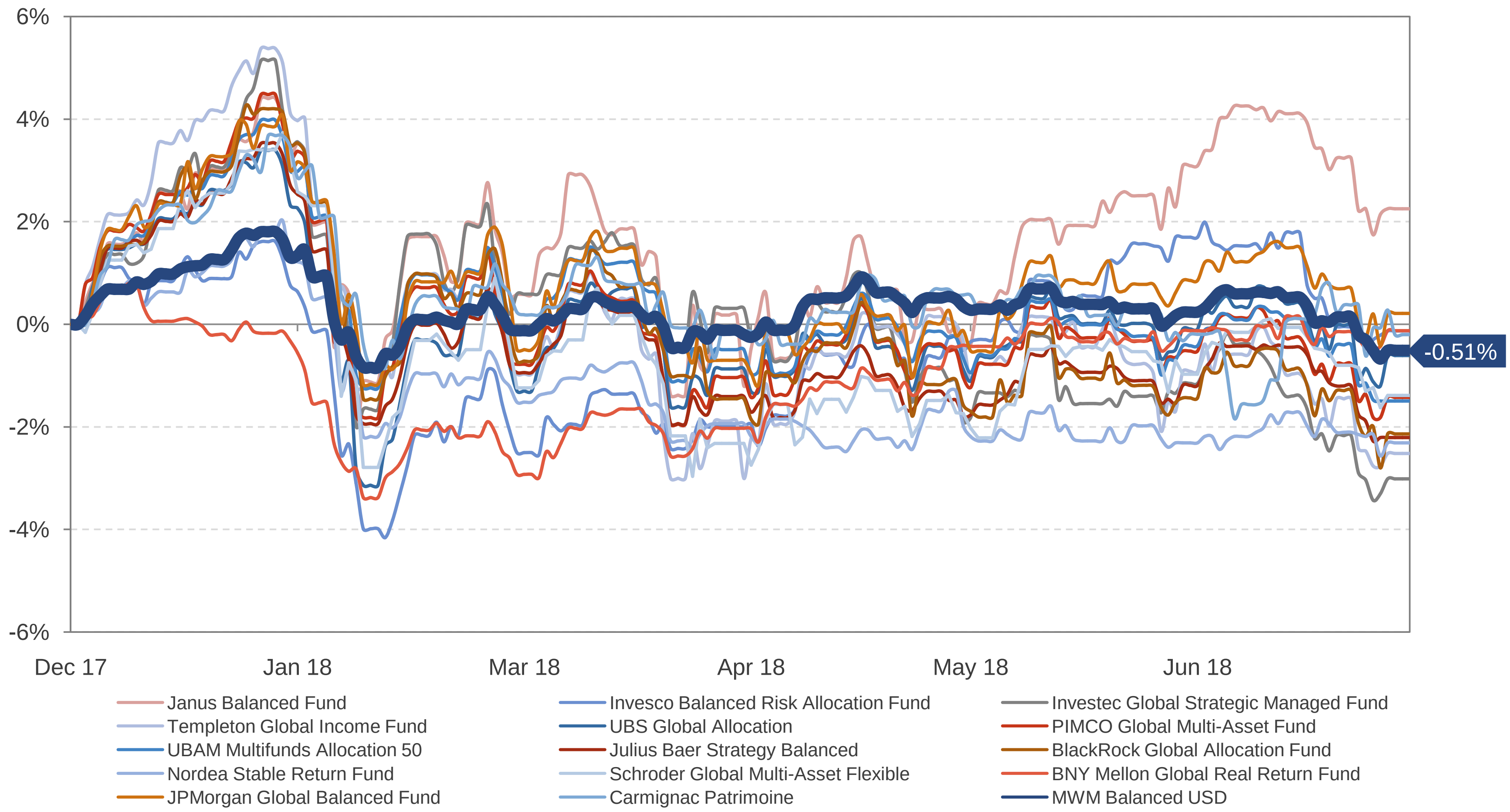


MWM Model Portfolio – VaR evolution



- 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

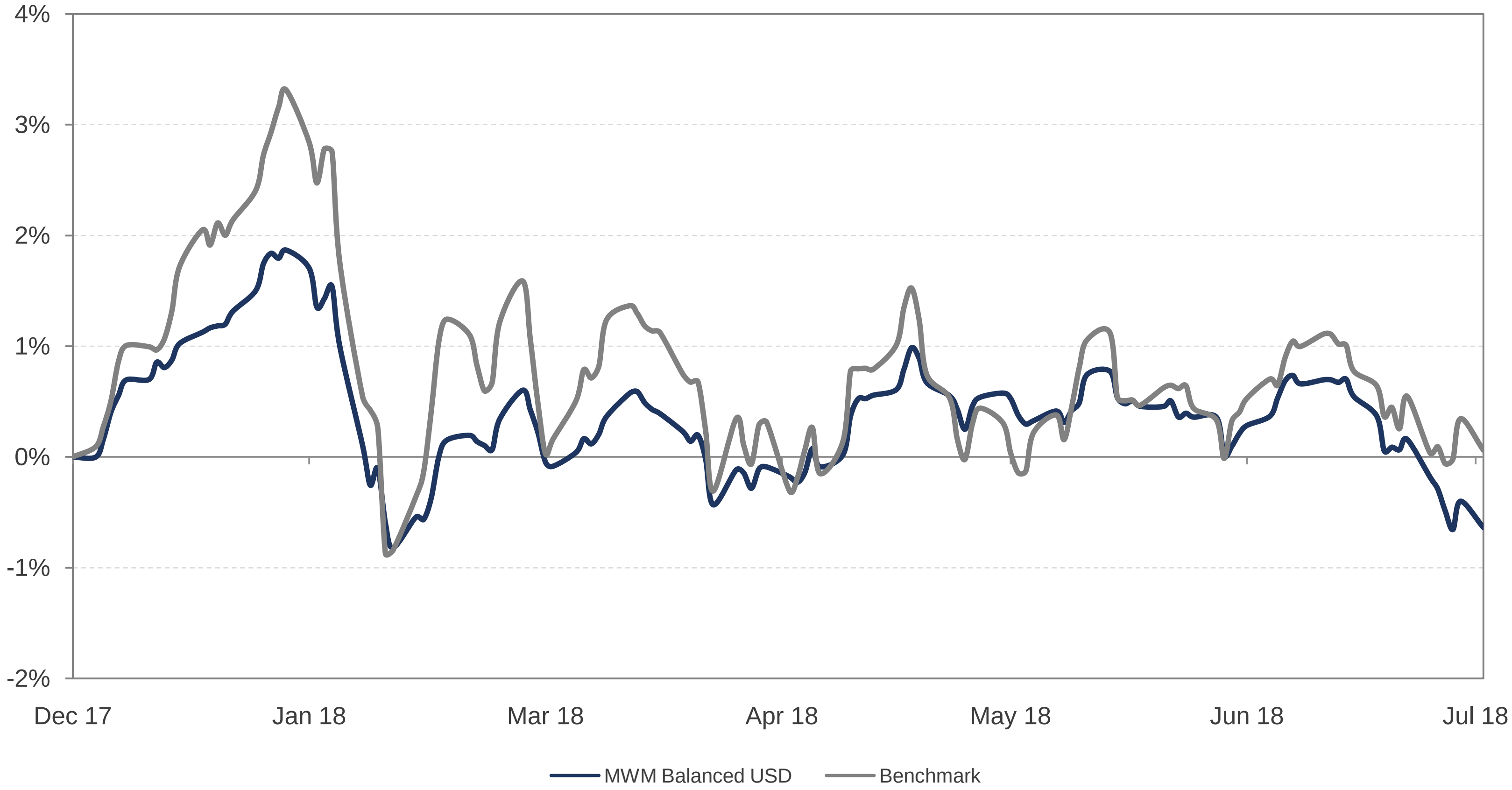


- **Total Return** (Ytd[1]): **7th out of 15**
- **Standard Deviation** (1 year[1]): **1st out of 15**
- **Downside Risk** (1 year[1]): **1st out of 15**
- **Sharp Ratio** (1 year[1]): **6th out of 15**

[1] As of July 2, 2018
Source: Bloomberg

MWM Model Portfolio – Ytd performance

MORA WEALTH MANAGEMENT

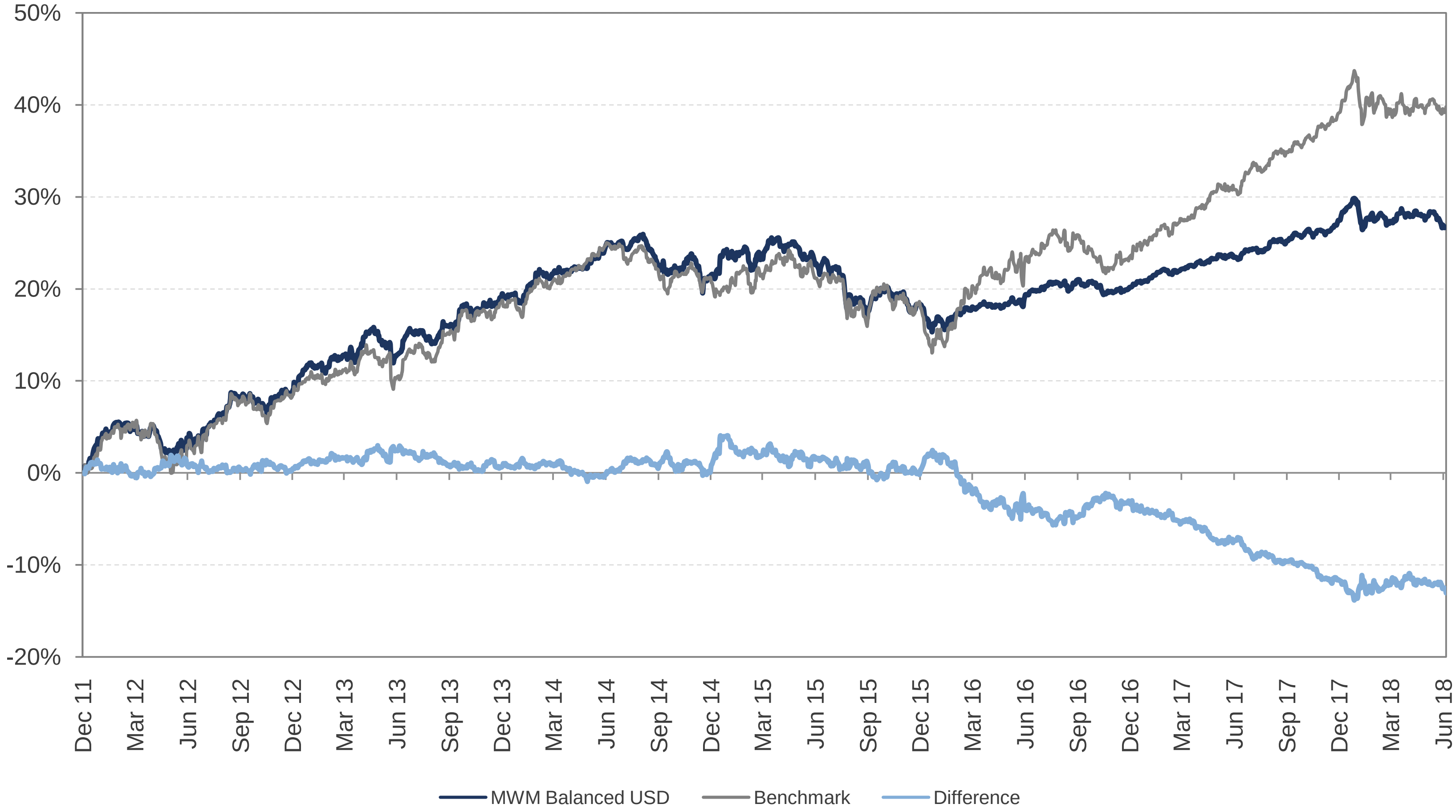


- **Total Return** (Ytd[1]): **-0.58%** vs. **0.51%** Benchmark[2]
- **Standard Deviation** (Ytd[1]): **2.97%** vs. **5.14%** Benchmark[2]
- **Downside Risk** (Ytd[1]): **2.35%** vs. **4.01%** Benchmark[2]
- **Sharpe Ratio** (Ytd[1]): **-0.11** vs. **0.54** Benchmark[2]

[1] As of July 5, 2018

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

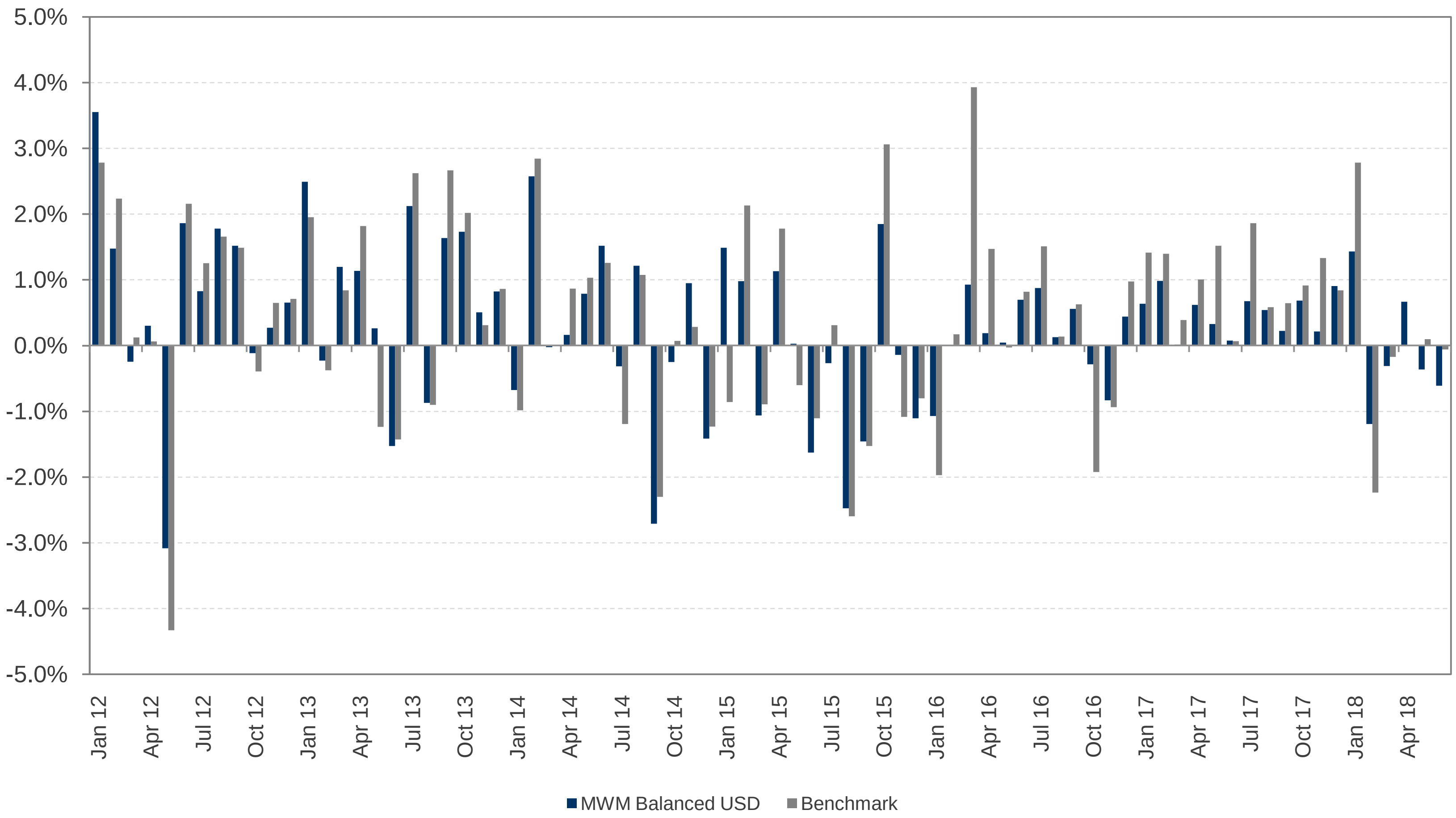
MWM Model Portfolio – Historical performance (1)



- **Total Return** (1 year[1]): **2.70%** vs. **7.00%** Benchmark[2]
- **Total Return** (3 year[1]): **3.33%** vs. **15.40%** Benchmark[2]
- **Total Return** (Since Jan 12[1]): **27.68%** vs. **33.78%** Benchmark[2]

[1] As of July 5, 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]): **2.97%** vs. **5.14%** Benchmark[2]
- **Downside Risk** (1 year[1]): **1.88%** vs. **3.21%** Benchmark[2]
- **Sharpe Ratio** (1 year[1]): **0.54** vs. **1.38** Benchmark[2]
- **Var 95% - 1day** (1 year[1]): **-0.22%** vs. **-0.41%** Benchmark[2]

[1] As of July 5, 2018

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