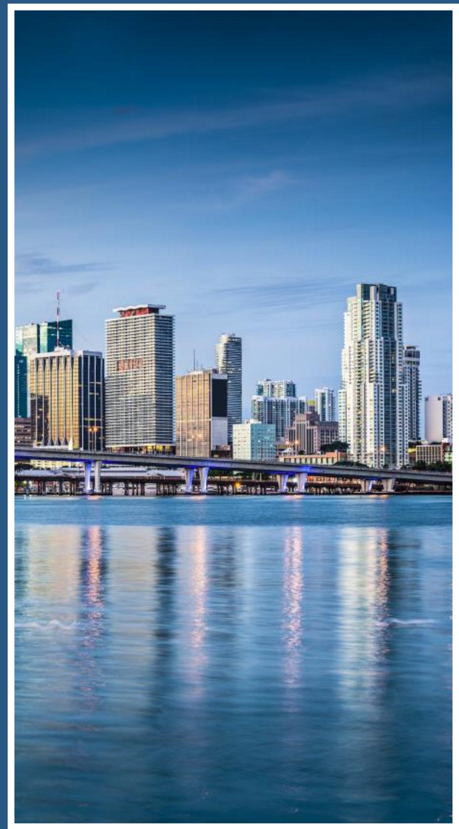
MORA WEALTH MANAGEMENT

Investment Policy

September 2019



Our market view in a nutshell – September 2019

- Over the summer we have witnessed a **dramatic decrease in interest rates in the US**, with long-term Treasury bond yields approaching historical lows. At the same time, the Fed cut rates for the first time since 2008, halted the balance sheet reduction and guided the market towards further cuts in the future. All this implies **that the Fed has completely abandoned the idea of normalizing interest rates**, recognizing that the economy can currently support a much lower level of interest rates than in the past

- There are two dominant narratives that explain the current low interest rate environment. Under the **"secular stagnation" narrative**, low interest rates are the consequence of weak nominal growth as a result of a lack of aggregate demand and a deflationary environment (probably much more than what is reported in the official statistics). The **competing narrative**, however, explains low interest rates as a sign the **market is anticipating an incoming recession**

- **Evidence so far is mixed**, since we can observe a **global slowdown of manufacturing activities** as a consequence of the uncertainty caused by the trade war, but a **very strong service sector, record-low unemployment, and a strong consumer confidence**. Taking into account that consumption represents more than 2/3 of the US economy today, and despite the risk of contagion from the industrial sector, we think it is **too early to call a recession**

- Whether one or the other narrative prevails, it will have **profound consequences for the positioning of portfolios**. If rates are low due to structural factors, and the economy does not dive into a recession, **stocks are cheap whilst bonds are somewhat expensive**. However, if the opposite occurs, equity valuations offer enough risk premium to mitigate the extent of the fall, while given current interest rates levels, bonds can only appretiate moderately

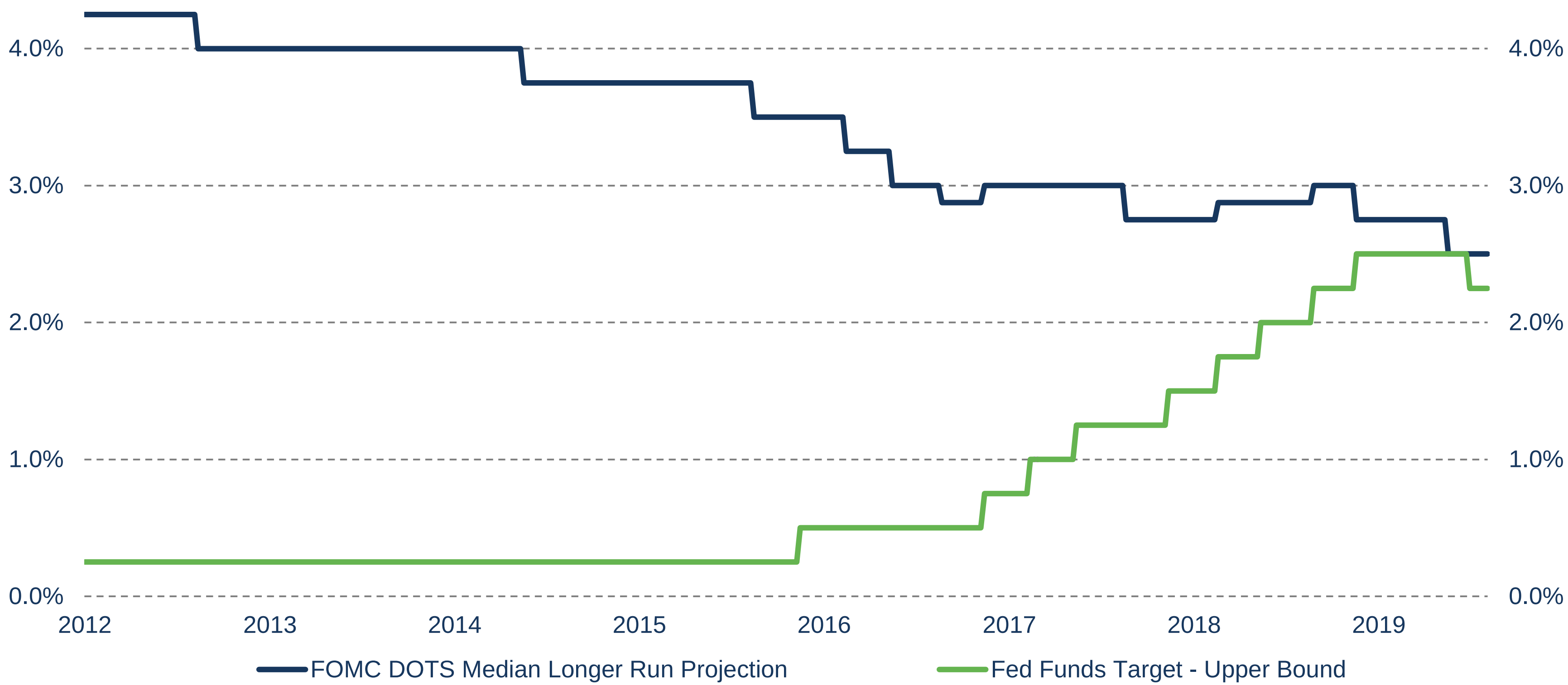
- A final implication of the drop in interest rates in the US is the **decrease of support for the US dollar**, as interest rate differentials against other currencies narrow. The fact that real interest rates are now negative in the US also **supports real assets like gold, real estate and infrastructure**

MWM Investment Policy

Asset Class		View	Rationale
Fixed Income	US Treasuries	+	Treasuries offer protection from a slowdown in growth, but we believe that current long-term yields are unattractive, preferring shorter maturities
	US Credit	+	Corporate debt and High Yield currently offer the best combination of risk and return. We prefer medium maturities as the yield curve has flattened considerably and there is little term premium to compensate for taking interest rate risk
	European Sovereign	–	High quality debt in Euros presents a very unattractive combination of risk and return as current yields offer very little cushion to weather potential interest rates increases
	European Credit	=	In European credit we only see value in subordinated debt, asset-backed securities and short-duration high yield
	Emerging Markets	+	Emerging Markets currencies and spreads have adjusted significantly to a stronger dollar and the uncertainties around global growth. With the Fed signaling being closer to the neutral rate, we deem current levels to offer fair value
Equities	US	+	After the recent market corrections and the increase in corporate earnings, valuations have improved. We have therefore increased our exposure to US equities, mostly through quality and growth oriented companies
	Europe	=	From a relative valuation perspective, we like European stocks as they trade at lower multiples, and we expect profits to pick up as economic activity accelerates
	Japan	=	Japanese stocks are the cheapest in developed markets, but have suffered recently due to sluggish growth, and concerns about global trade
	Emerging Markets	=	Emerging markets have recovered significantly as the outlook for a stronger dollar and an economic slowdown subside. Consequently, we have seized the opportunity to reduce our exposure
	Sectors & Themes	+	Beyond our core call for quality-growth companies, we favor Real Estate, Infrastructure, Biotechnology and Healthcare
Alternative Investments	Multi-Strategy Hedge Funds	–	Multi-strategy / multi-manager hedge funds with daily liquidity are having a disappointing performance, particularly when compared with other less risky alternatives, like short-term corporate bonds
	Commodities	–	In the present late-cycle environment, with inflation pressures remaining subdued, we see limited upside for commodities
	Private Equity	=	Investing in late-stage private equity provides access to the asset class with liquidity provision up to a certain degree

\+ Overweight – Underweight = Neutral

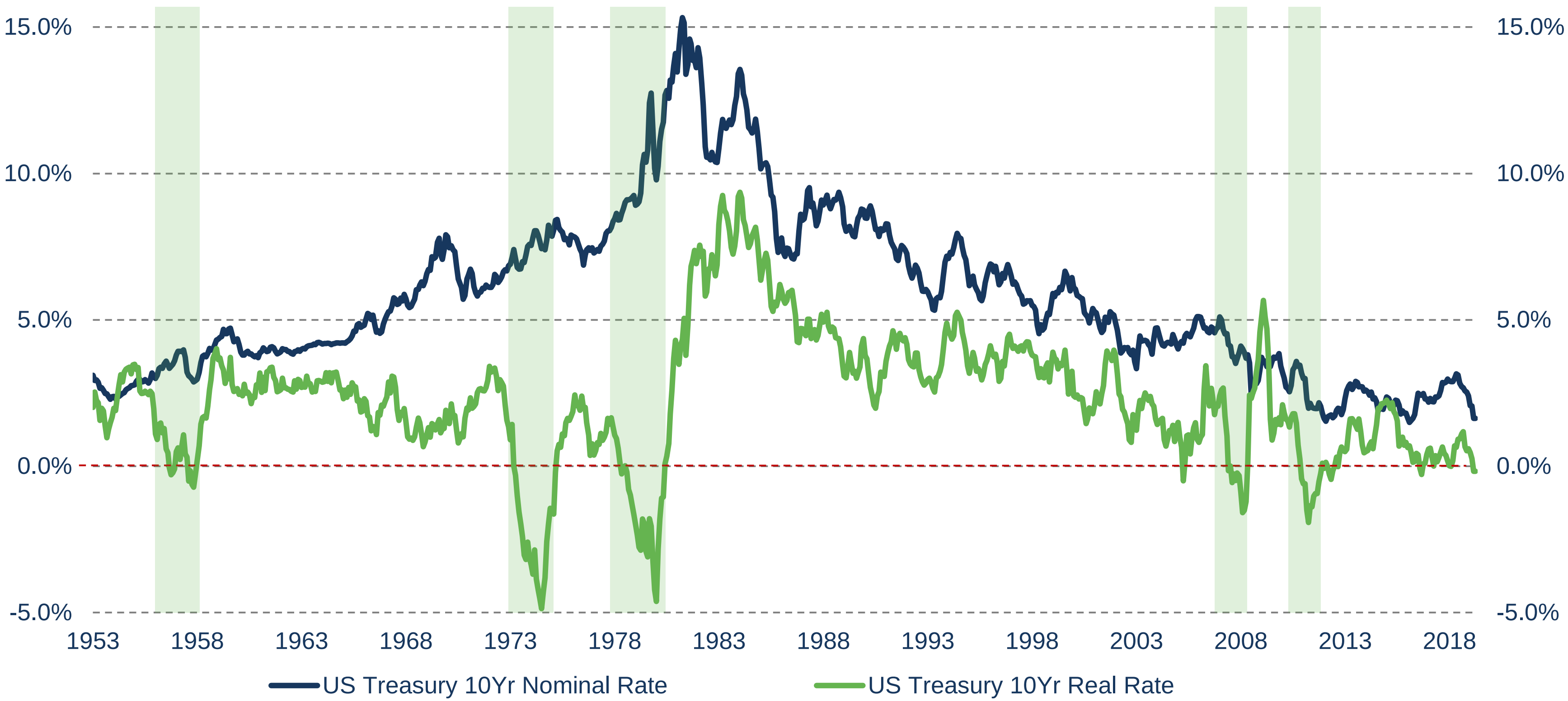
Fed capitulates, normalization is over



- With last month's rate cut, the interruption of QE unwind, and with the market assigning a 100% probability for a new cut in September, **the Fed has completely abandoned the idea of normalizing interest rates**
- However, the Fed had long been **gradually reducing its future expectations**, while continuing to increase interest rates. This lasted until it was clear that he could not continue normalizing without causing a tightening in monetary conditions

Source: Bloomberg

Will nominal interest rates turn negative?

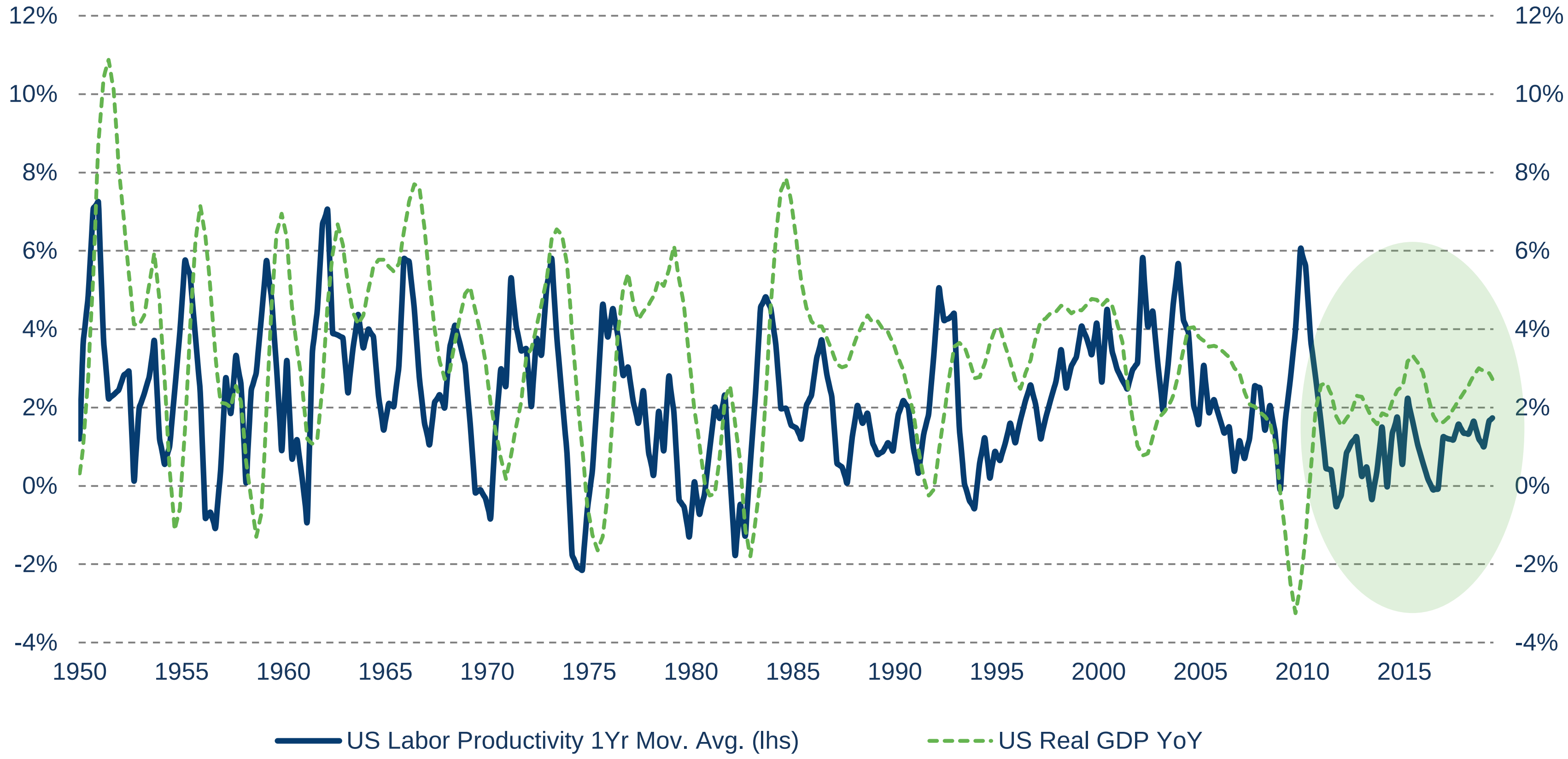


- In the inability to normalize interest rates, the bond market had a lot to do, given that it has consistently ignored the projections of the Federal Reserve. The market has taken long-term interest rates to levels that, in real terms, are negative; and there is a real possibility that **we can see negative nominal interest rates in the US**
- This is not the first time that real interest rates are negative, but compared to previous episodes, the problem is compounded by **slow growth in nominal terms as a result of low inflation**

Source: Bloomberg

Is it a growth problem or a deflation problem?

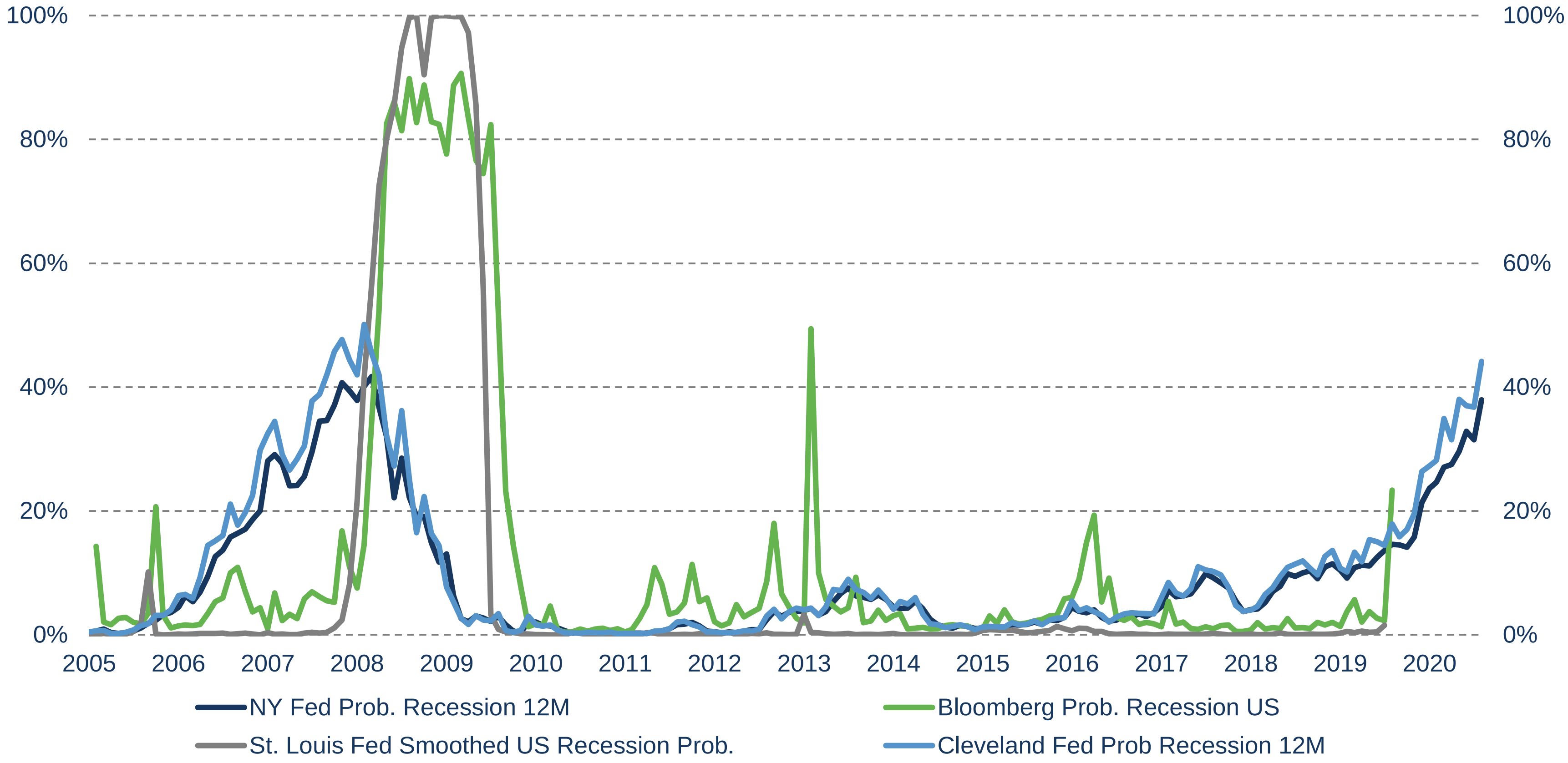
***"You can see the computer age everywhere but in the productivity statistics"* R. Solow, 1987**



- It is not clear whether low interest rates are a **symptom of a weak economy or the consequence of a deflationary environment**. If the latter is the case, **the economy may be growing at a healthy pace in real terms**, but not in nominal ones
- It is **difficult to reconcile productivity statistics with the increasing technologization** in society. This is an old problem that dates from the introduction of computers, but has become more important along with the **increasing size of the service sector**

Source: Bloomberg

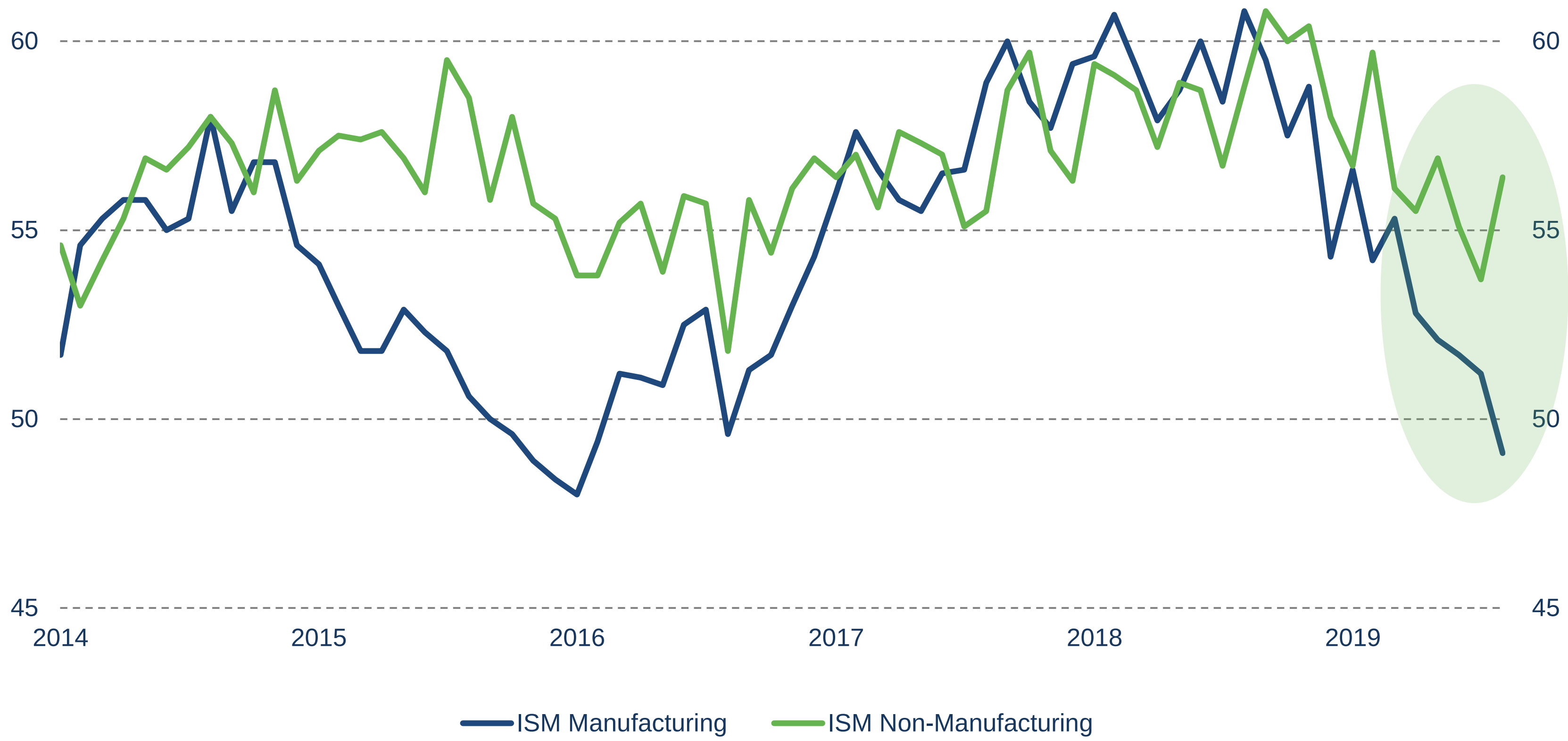
Or is there a recession in the making?



- An **alternative narrative is that the economy is approaching a recession**, which makes investors seek refuge in US Treasury bonds
- The **picture here remains mixed**, since some recession indicators that are based on the slope of the rate curve are in red, while other indicators that incorporate other factors (employment, financial conditions) show a low probability of recession

Source: Bloomberg

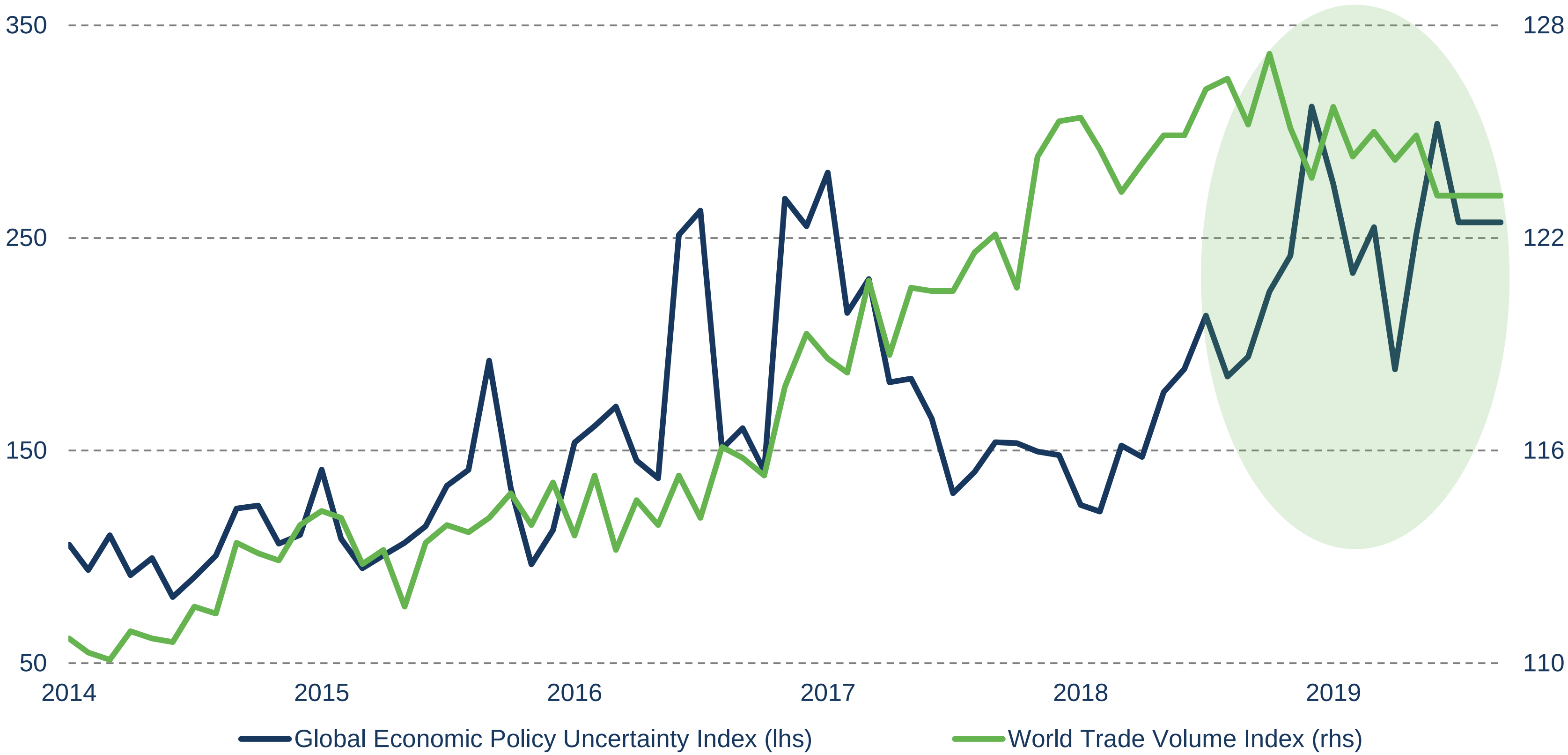
Risk of contagion



- The picture is also mixed when looking at leading indicators, such us purchasing managers intentions. Here we observe a **decoupling between the manufacturing sector, which is decelerating sharply, and the service sector** that remains relatively strong
- Since the service sector represents **70% of the US economy**, the question is to what extent there can be a **contagion towards the industrial sector**. The most obvious channel is through employment and consumption, but so far we have no evidence in this direction

Source: Bloomberg

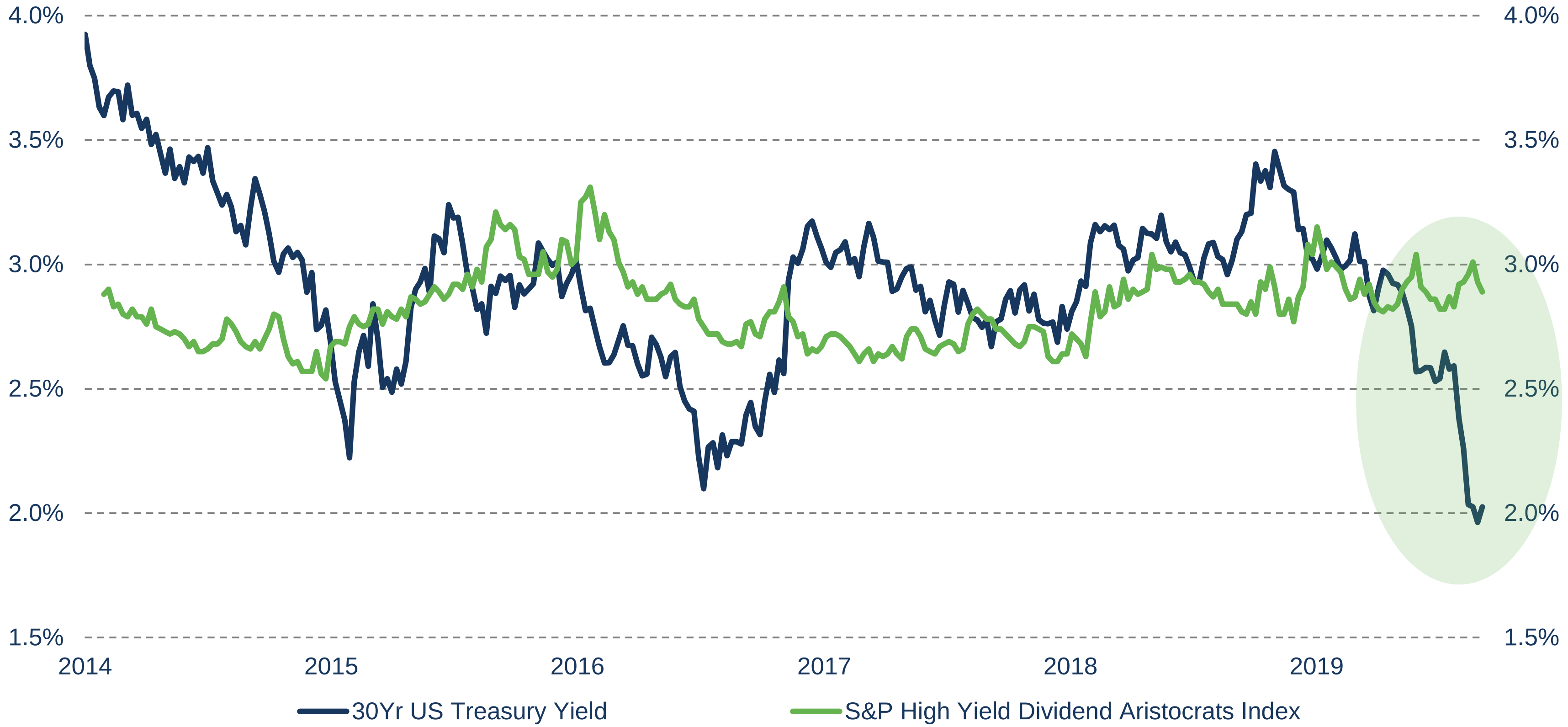
Trade war effects are starting to be seen



- Manufacturing is under pressure because of the **uncertainty surrounding the revamp of the global trade regime** that the US administration is seeking
- In fact, not only are businesses being cautious about production and investments, but **real trade volume has already begun to decrease**

Source: Bloomberg, Baker, Bloom & Davis, CPB Netherlands Bureau for Economic Policy Analysis

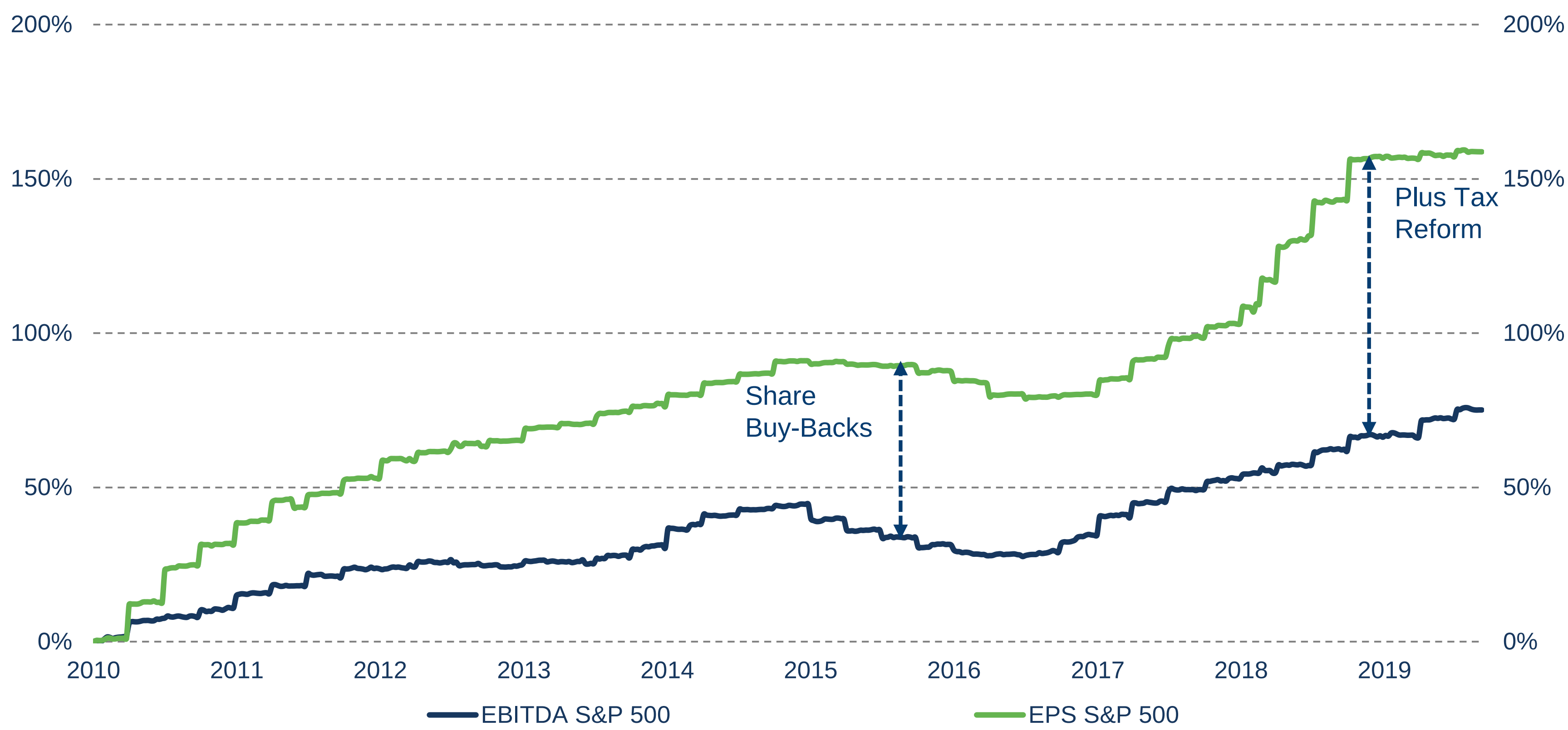
Are equities very cheap or bonds very expensive?



- Whether the "secular stagnation" narrative or the "recession" one prevails, it will have profound **consequences for the positioning of portfolios**
- The only way to reconcile the extremely low yields of long-term bonds, and equiy muiltiples (high but relatively contained) is through a combination of the two scenarios. **But if we do not finally have a recession, bonds are expensive and stocks are cheap**

Source: Bloomberg

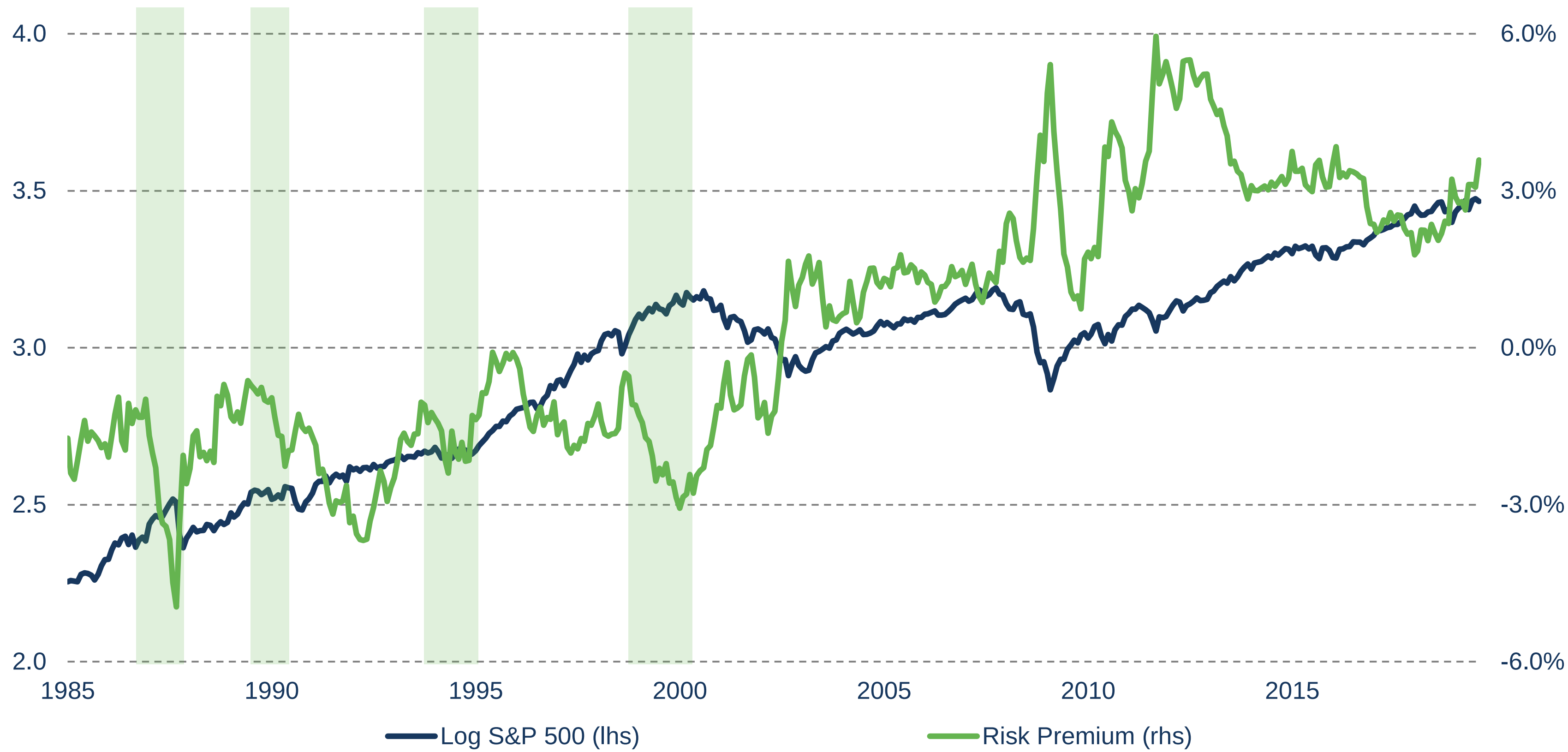
No earnings recession yet



- With the second quarter reporting seasons finished, the S&P 500 as a whole has experienced **two consecutive quarters of declining earnings**; although if we exclude the energy sector, the benefits would have increased slightly
- This mediocre performance is strongly **influenced by the base effect caused by the tax reform**, which entered into force in 2018. However, if we observe the evolution of EBITDA, we obtain a more positive picture

Source: Bloomberg

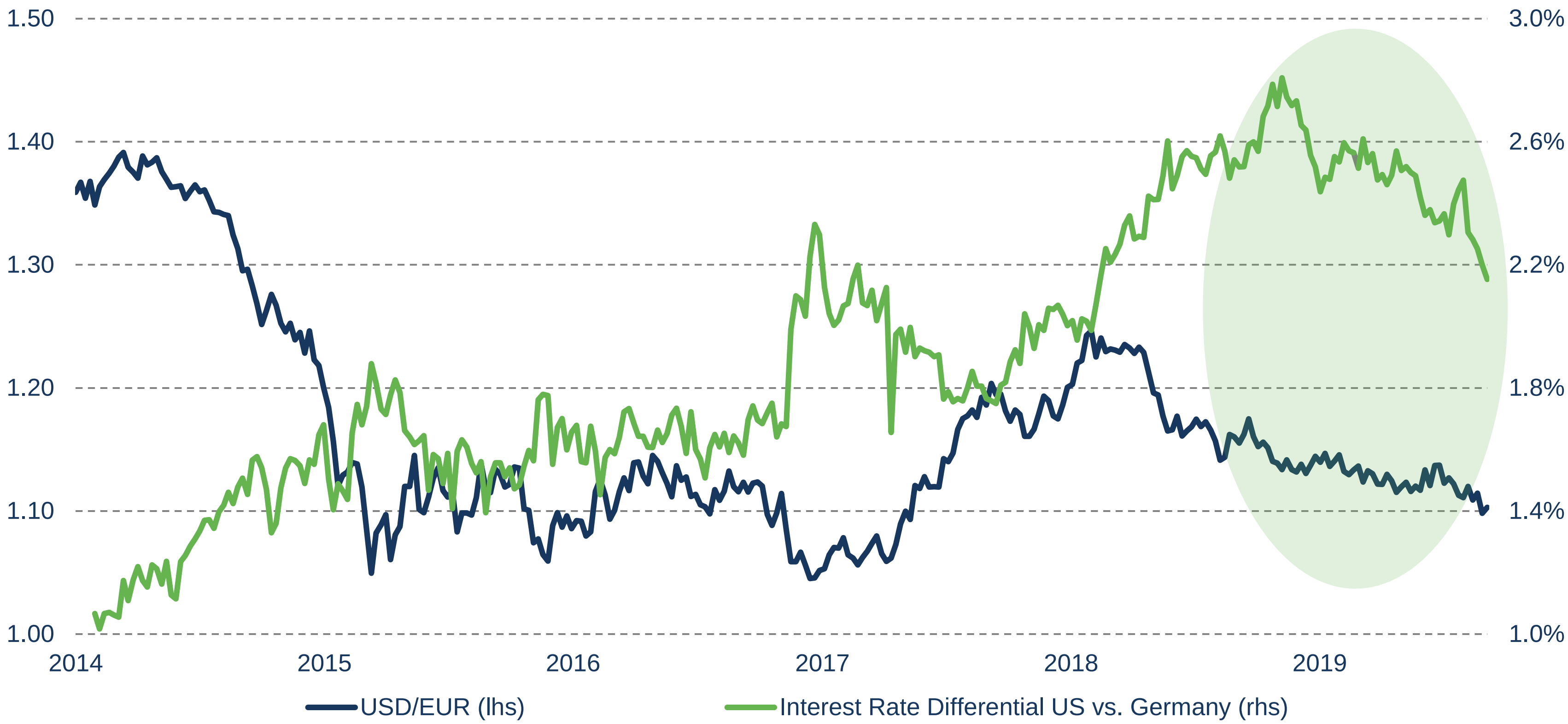
Equity valuations remain reasonable



- Despite the relatively high P/E multiples, **equity valuations show no signs of "irrational exuberance"** since the implicit risk premium remains at a very healthy level compared to its historical average
- **In almost all major corrections that occurred in the past, the risk premium had been deteriorating previously as stock prices reached new highs**. The exception to the rule was the 2008 crash, which was not caused by high valuations but by a financial collapse. This reminds us that risks are very difficult to predict and that there is never certainty in financial markets

Source: Bloomberg

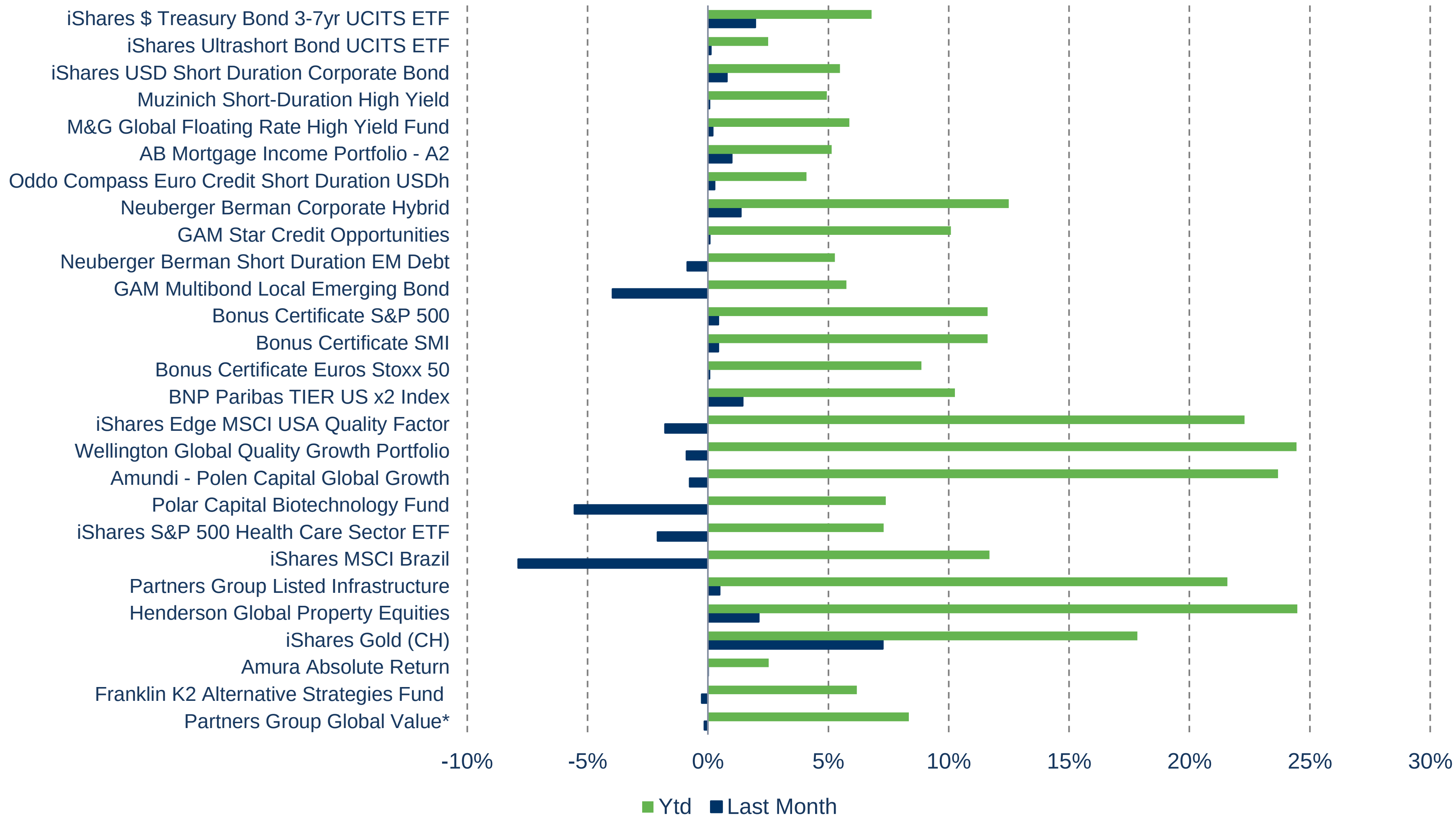
The USD is losing support from fundamentals



- The sharp decline in interest rates has significantly **reduced the differential between the US and the rest of the developed world**. And although this is still at a relatively high level, which supports a strong dollar, its decrease subtracts some of the support
- It is also important to recognize that **the Fed has much more room to manoeuvre to reduce rates than the ECB or the Bank of Japan**, which means that there is more room for the differential to continue to reduce, than the opposite

Source: Bloomberg

Model portfolio evolution



Source: Bloomberg, as of September 2, 2019
* Fund publishes monthly NAV with a 1 month of delay

Investment scenarios

	Scenario 1 End of the cycle	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 sharply 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 remains subdued globally due to structural factors (demographics, low aggregated demand, deleveraging, globalization) • The Fed hold rates, or lowers them preemptively to avoid a slowdown	• 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 has 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 declining 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 growth outperforming value • Credit spreads remain stable as the credit cycle is further elongated • Short-term sovereign and IG offer interesting yields with little interest rate and credit risk • If the Fed continues to loosen, the USD will weaken, as interest rate differentials narrow • Commodity prices will rise moderately, as prices remain still relatively depressed	• 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	40%	40%	20%

Short-term catalyzers

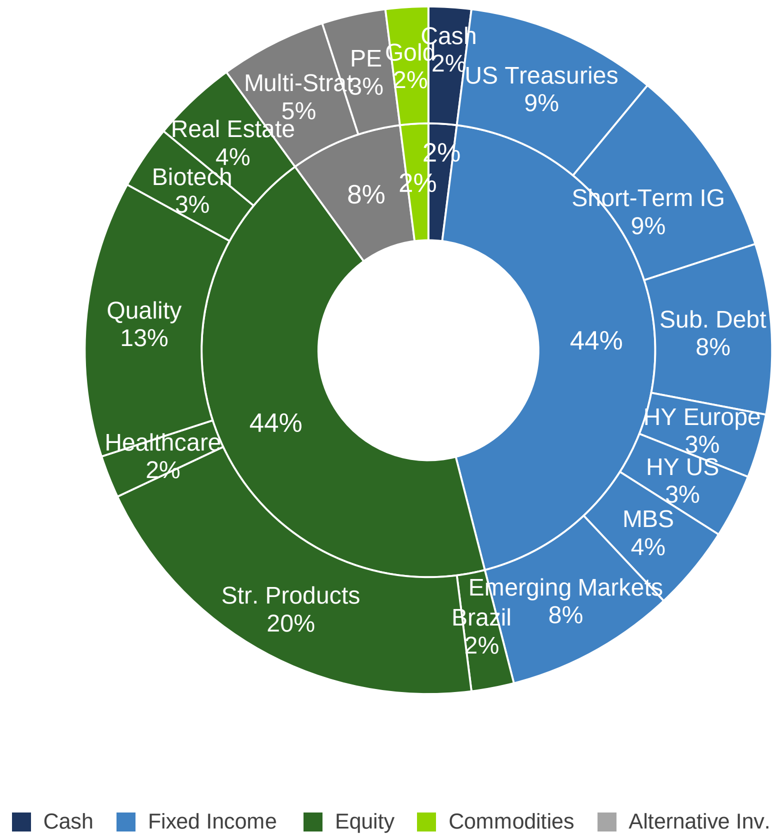
End of trade dispute, improvement in macro-data globally, lower geopolitical tensions

Other risks

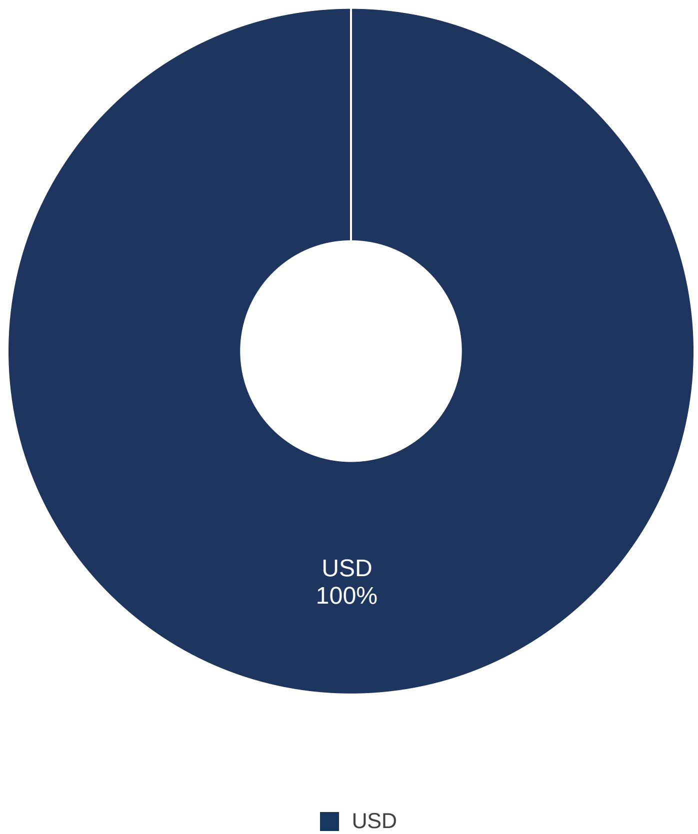
Trade wars, Hard Brexit, Spread of populist political parties, China slowdown, Terrorism

MWM Model Portfolio Balanced USD

Asset Allocation



Currency Allocation

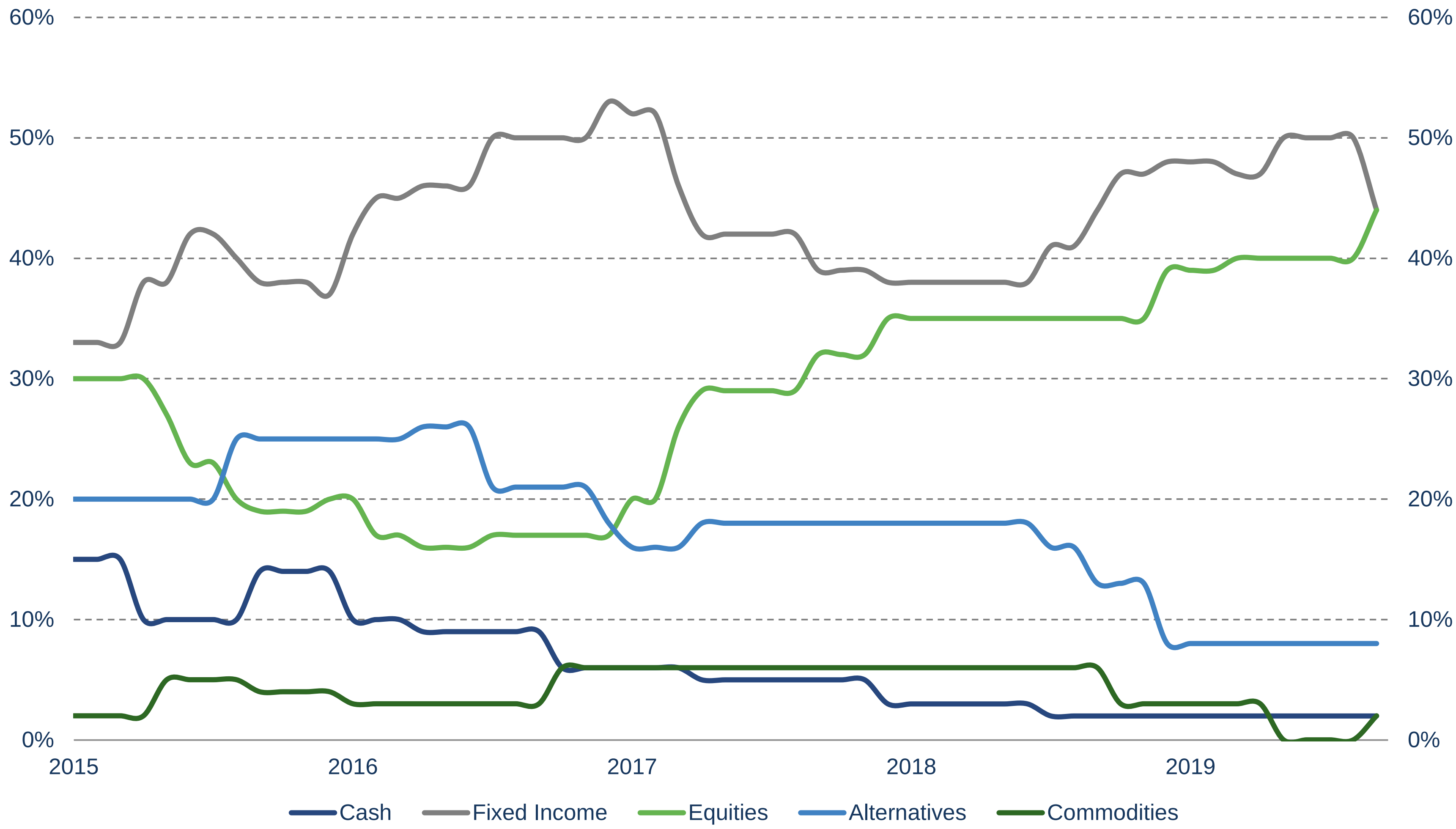


MWM Investment Profiles

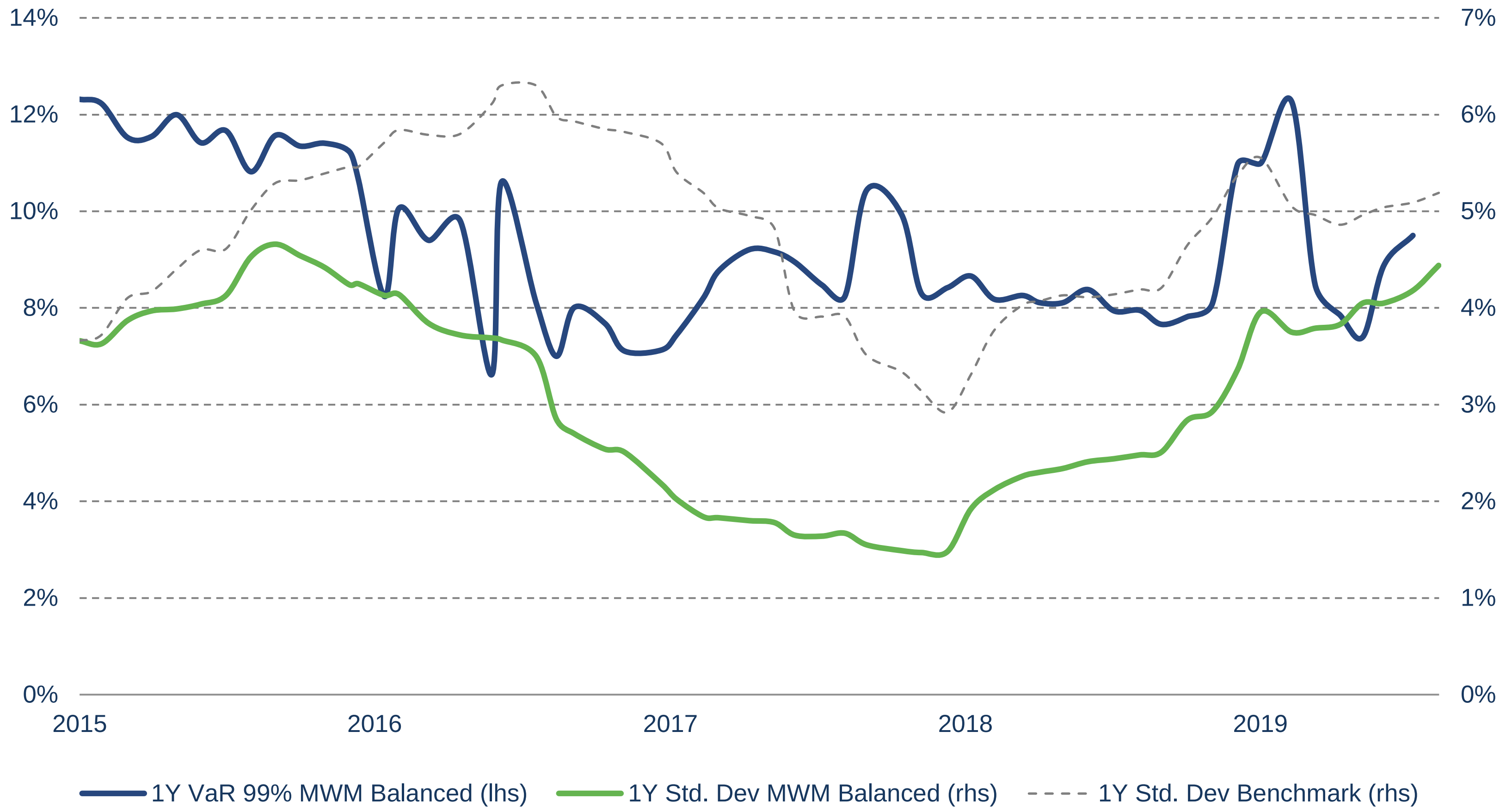
	Conservative	Balanced	Growth
Cash	3% (▼ 5%)	2% (▼ 5%)	1% (▼ 5%)
Fixed Income	60% (▼ 64%)	44% (▼ 43%)	31% (▼ 22%)
Equities	31% (▼ 24%)	44% (▼ 38%)	56% (▼ 52%)
Commodities	2% (▼ 2%)	2% (▼ 4%)	2% (▼ 6%)
Alternative Investments	4% (▼ 5%)	8% (▼ 10%)	10% (▼ 15%)

▼ Strategic Asset Allocation

MWM Model Portfolio – Asset Allocation evolution

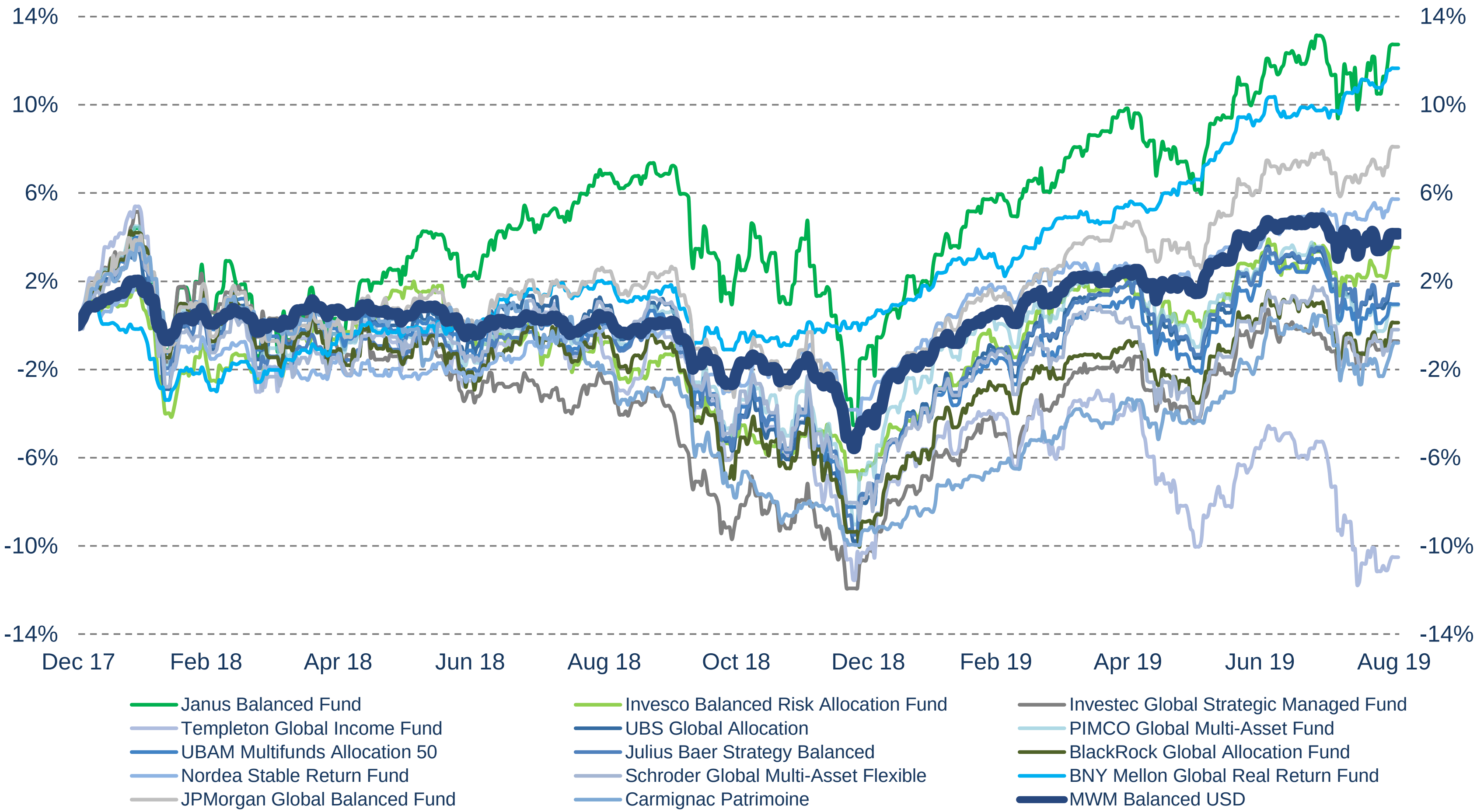


MWM Model Portfolio – VaR evolution



[1] As of September 9, 2019
Source: Bloomberg

MWM Model Portfolio – Peer comparison

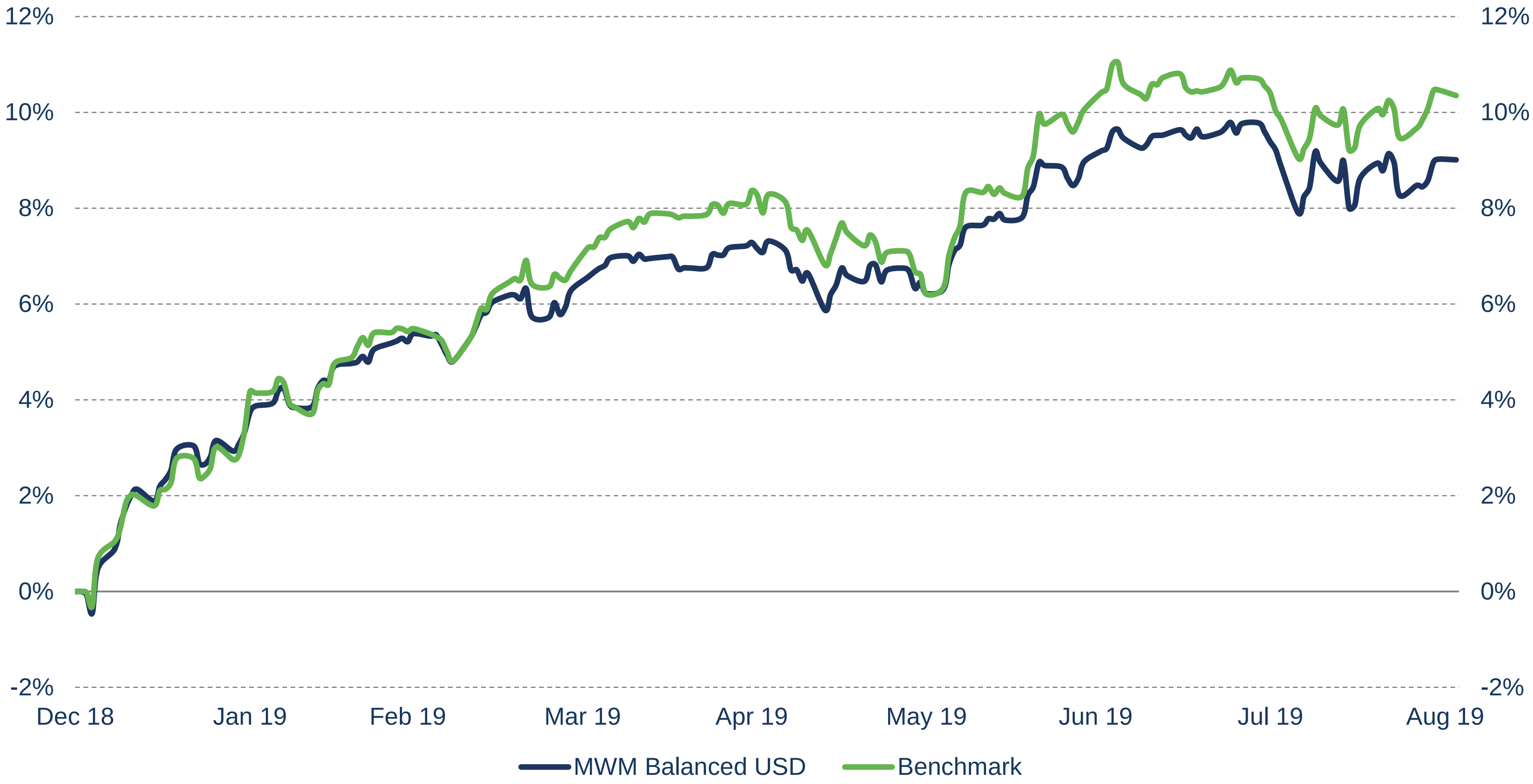


- **Total Return** (Ytd[1]): **12th out of 15**
- **Standard Deviation** (1 year[1]): **1st out of 15**
- **Downside Risk** (1 year[1]): **2nd out of 15**
- **Sharp Ratio** (1 year[1]): **4th out of 15**

[1] As of September 2, 2019

Source: Bloomberg

MWM Model Portfolio – Ytd performance



- **Total Return** (Ytd[1]): **9.72%** vs. **11.28%** Benchmark[2]
- **Standard Deviation** (Ytd[1]): **4.07%** vs. **4.41%** Benchmark[2]
- **Downside Risk** (Ytd[1]): **3.03%** vs. **3.08%** Benchmark[2]
- **Sharpe Ratio** (Ytd[1]): **3.03** vs. **3.34** Benchmark[2]

[1] As of September 2, 2019

[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)

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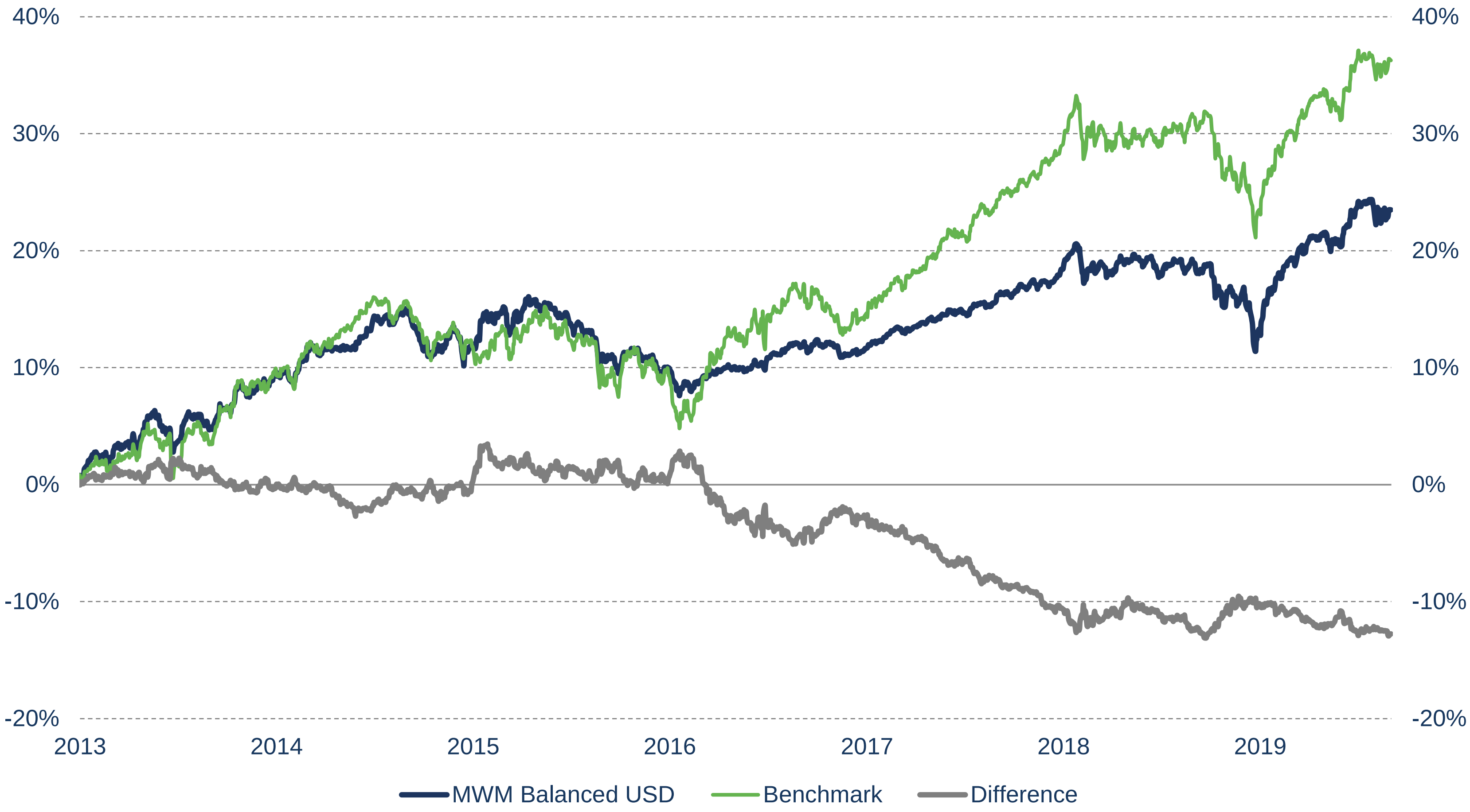
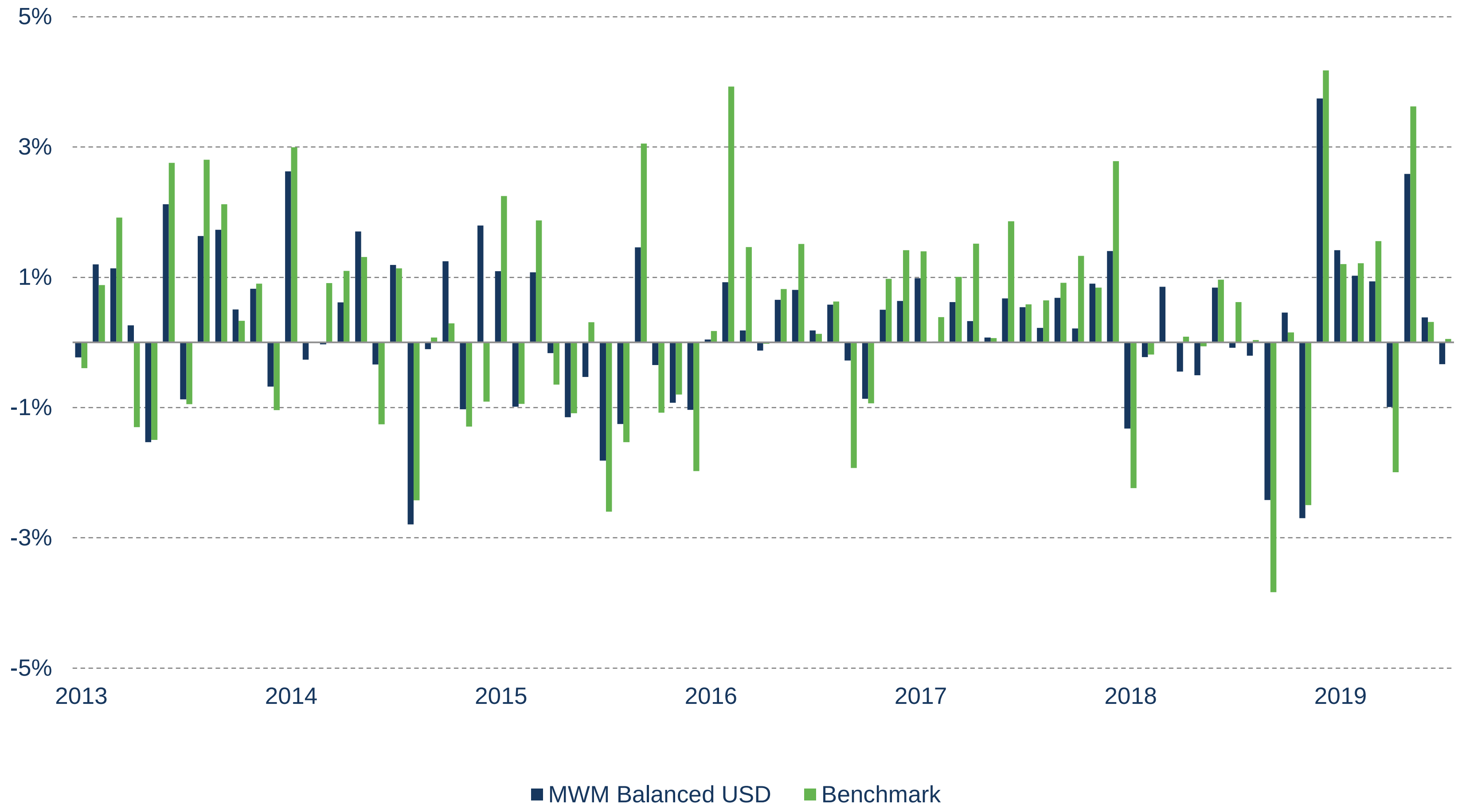


- **Total Return** (1 year[1]): **5.16%** vs. **5.22%** Benchmark[2]
- **Total Return** (3 year[1]): **10.93%** vs. **17.49%** Benchmark[2]
- **Total Return** (Since Jan 13[1]): **23.50%** vs. **36.26%** Benchmark[2]

[1] As of September 2, 2019

[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]): **4.44%** vs. **5.19%** Benchmark[2]
- **Downside Risk** (1 year[1]): **3.31%** vs. **3.71%** Benchmark[2]
- **Sharpe Ratio** (1 year[1]): **0.67** vs. **0.59** Benchmark[2]
- **Var 95% - 1day** (1 year[1]): **-0.51%** vs. **-0.59%** Benchmark[2]

[1] As of September 2, 2019

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