Edwards Wealth Management AG
Switzerland

MORA wealth management

Investment Policy

May 2019

Our market view in a nutshell – May 2019

- **Stock markets have been negatively impacted by the derailment of trade negotiations** between the United States and China, which caused the imposition of additional tariffs by the United States. In our opinion, this turnaround **is just a continuation of President Trump's negotiating tactics**, consisting in pressing with new rates when the stock market is up, and becoming conciliatory when the opposite happens

- In general, **we do not assign a significant probability of a profound restructuring of the trade regime** built over the last decades, since both parties have too much to lose. In spite of the apparent winning hand that the American position has, **President Trump cannot afford to face his re-election with a bear market and the economy in recession**; On the other hand, Chinese leaders need to keep the economy growing to suppress criticism of the one-party system

- The obvious **risk is that there is a miscalculation by any of the sides, and the economic damage ends being severe**. In this respect, the largest threat would be a **competitive devaluation of the Chinese Renminbi**. However, the **risk is two-sided, since an agreement may also be reached (our baseline scenario)**, and markets may rally on the news

- The **trade dispute clouded the positive developments at micro level. Corporate earnings for Q1 surprised on the upside**, providing support to the market, as valuations continue improving. At sector level, the Fed's U-turn has benefited **interest-rate sensitive sectors like Utilities and Real Estate, which have turned relatively expensive**. On the contrary, **Healthcare**, has been the lagging sector, and currently offers a very attractive valuation for a defensive sector

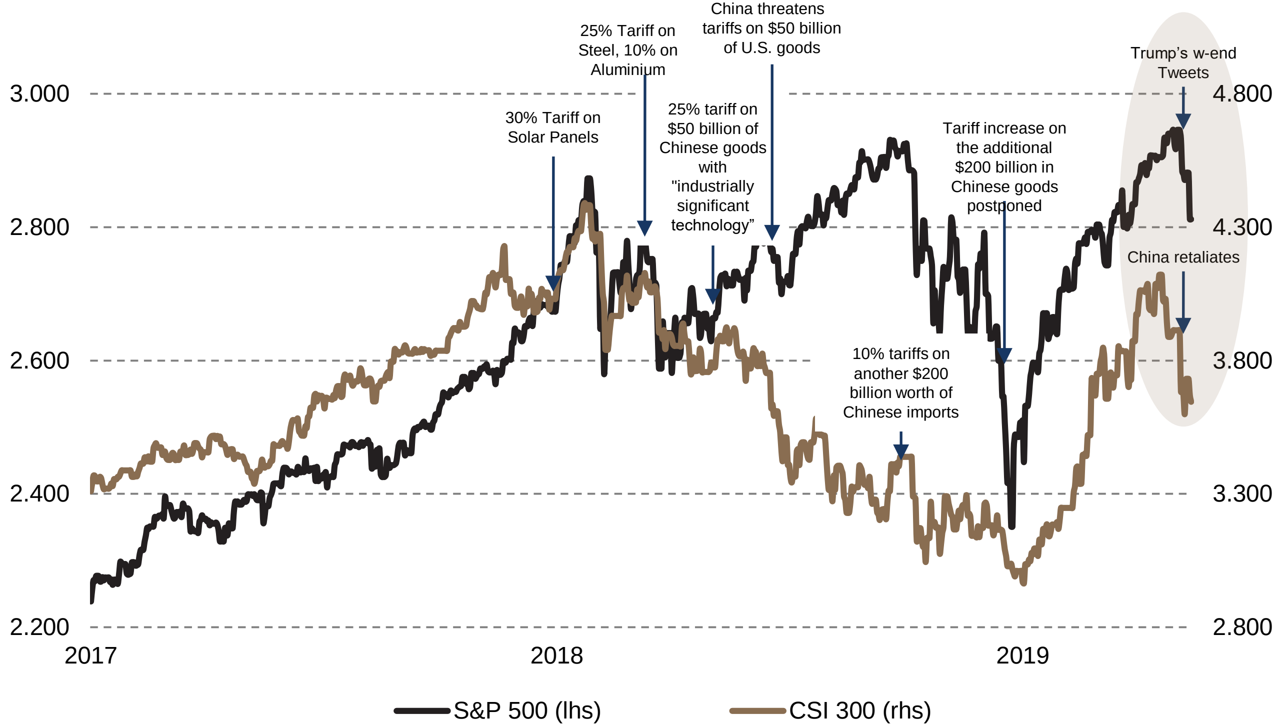
- Concerning the **gap in valuation between value and growth stocks**, this have further increased and is currently at record highs. However, **in the current late-cycle environment, we continue preferring quality-growth stocks**

EWM Investment Policy

Asset Class		View	Rationale
Fixed Income	US Treasuries	+	Treasuries offer protection from a slowdown in growth – although this less likely with the fiscal stimulus in the US – whilst TIPS offer protection against rising inflation as a consequence of reflationary policies
	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, valuations have improved substantially. 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 corrected sharply since the beginning of the year affected by a strong dollar and trade concerns. We deem the correction suffered has been excessive, and continue favoring India and Frontier Markets within EM
	Sectors & Themes	+	Amongst others, we favor Biotechnology and listed Real Estate
Alternative Investments	Commodities	–	In the present late-cycle environment, with inflation pressures remaining subdued, we see limited upside for commodities
	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
	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

Trade Wars – Episode 3



- The last turn in the commercial dispute between the US and China continues to follow the script, so that Pres. **Trump presses with new tariffs when the stock market is buoyant**, and becomes conciliatory when the opposite happens
- In this game of relative strength, both parties have very **asymmetric economic and political positions**. While the United States has a stronger economic hand due to the trade balance, politically, with the US elections approaching, Pres. Trump needs much more agreement than the Chinese leaders

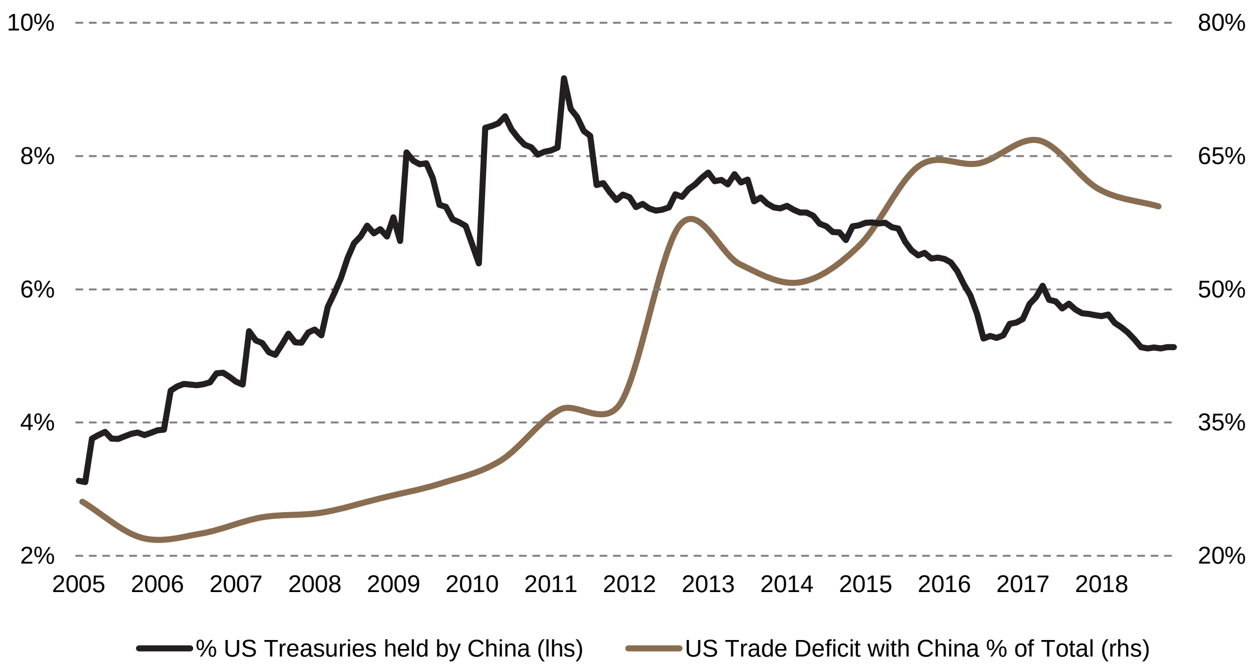
Source: Bloomberg

No irreversible economic damage so far

- The **risk, as in the beginning of any war, is that there is a miscalculation** and the result ends up causing great harm on both sides. However, the **risk is two-sided**, since an agreement may be reached, and markets may rally on the news
- It is also important to bear in mind that the **economic impact of tariffs takes time** to reveal, and that **tariffs can be revoked as quickly as they are imposed**. This helps explains the relatively **muted reaction of credit markets** so far

Source: Bloomberg

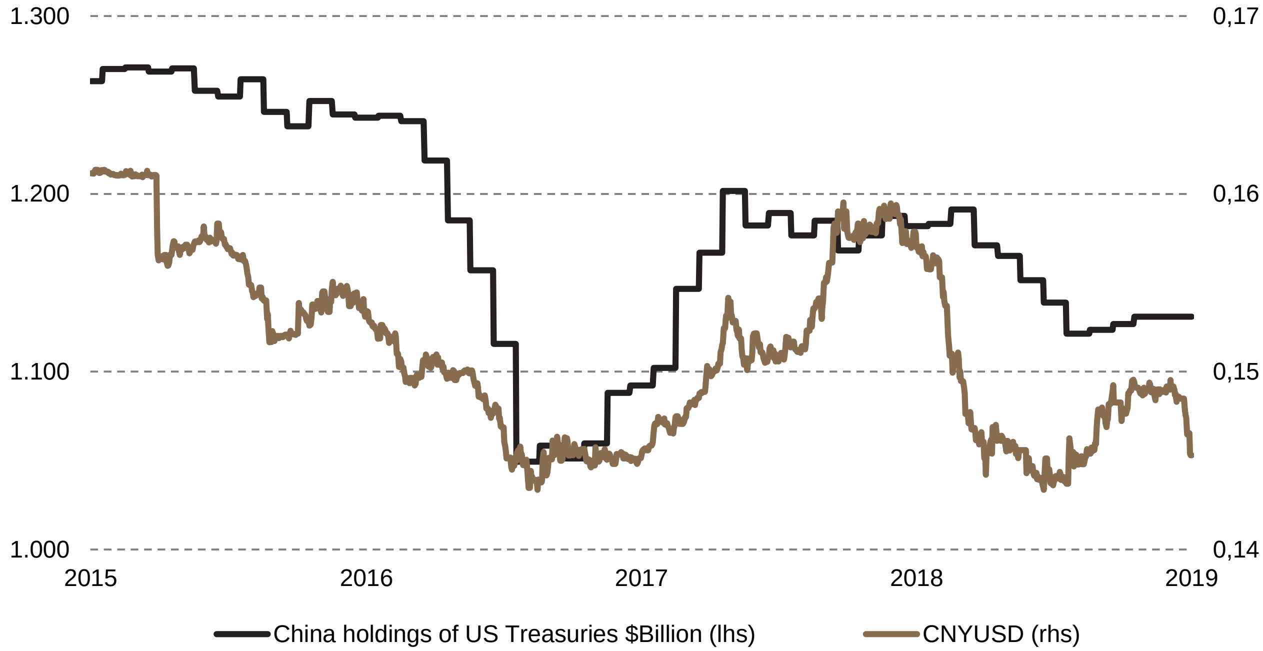
The US has more powerful economic warheads



- The risk of **China retaliating by selling US Treasuries is not a real possibility**, taking into consideration that their holdings of US Treasuries are only 5% of the total bonds outstanding
- The **trade deficit with China represents 60% of the total**, being 3 times larger than with the EU, 4 times larger than with Mexico and 6 times larger than with Japan

Source: Bloomberg

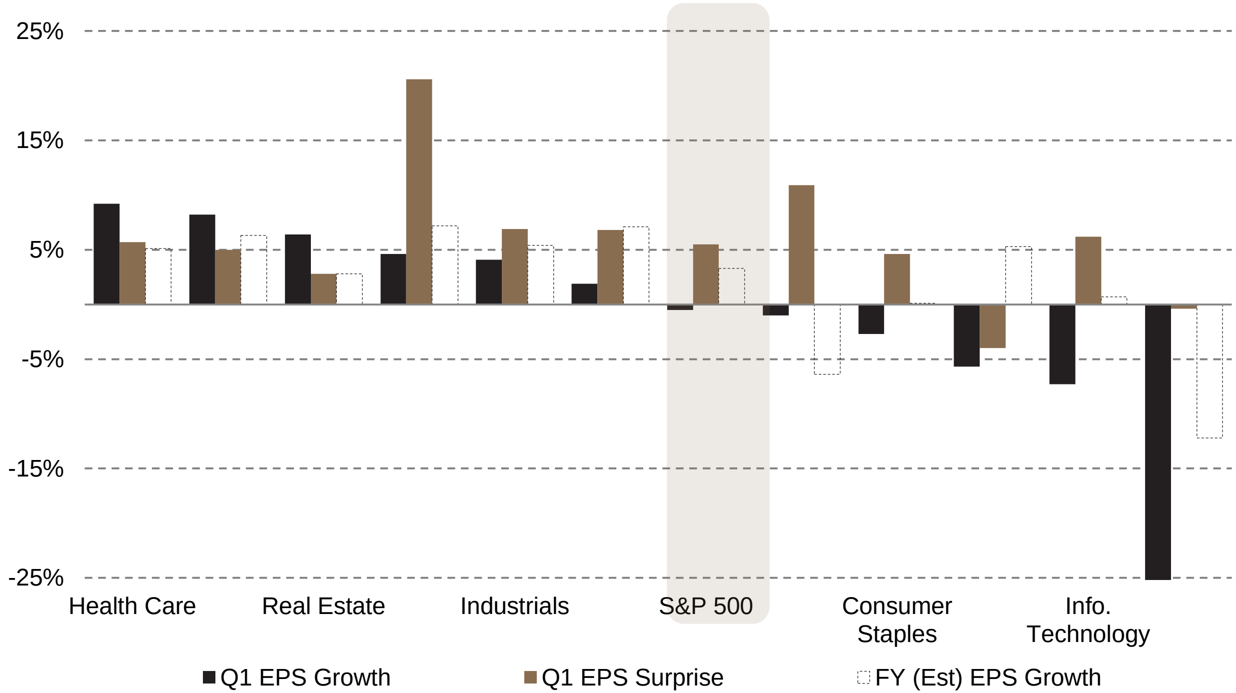
The Renminbi back in the spotlight



- A **competitive devaluation of the Renminbi remains the most effective weapon** that the Chinese authorities would have to combat the increase in tariffs, but until now **they have stabilized the currency using their dollar reserves**
- This would have a **deflationary impact on the world economy** and would probably mean that the Treasury would include China in the list of "currency manipulators", which could trigger an **escalation of tariffs and/or sanctions**

Source: Bloomberg

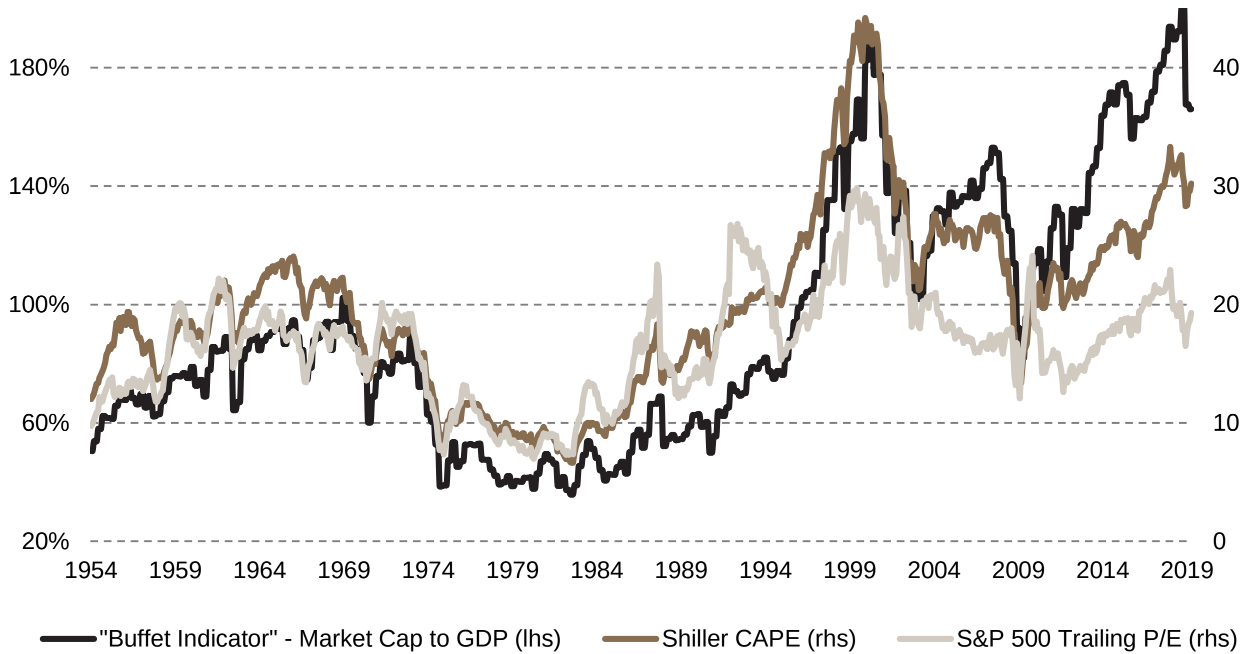
Corporate earnings provide market support



- With 90% of the companies in the S&P 500 having reported, **76% of them have reported a positive EPS surprise**. This corresponds with an **earnings decline of -0.5%**, which if confirmed, will be the first decline since Q2 2016
- Part of this decline can be attributed to the **base effect caused by the tax cuts**. And evidence of this can be seen in the fact that **companies increased their revenue by 5.3%** during the same period

Source: Bloomberg

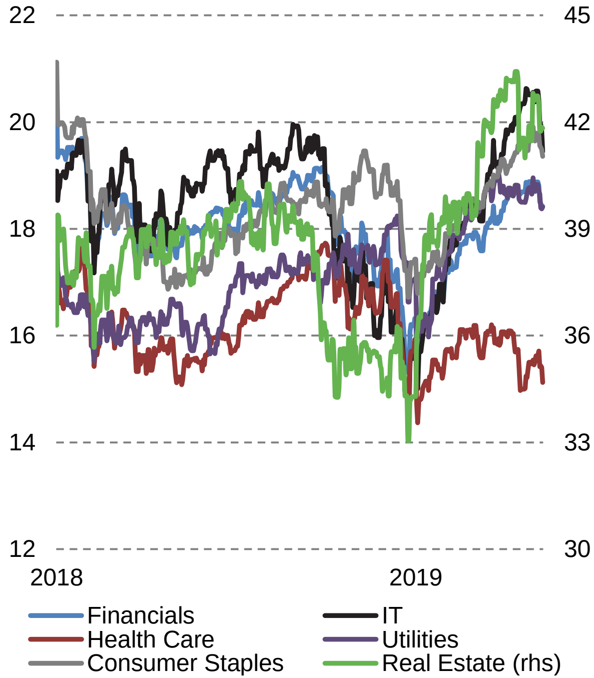
Valuations continue to improve

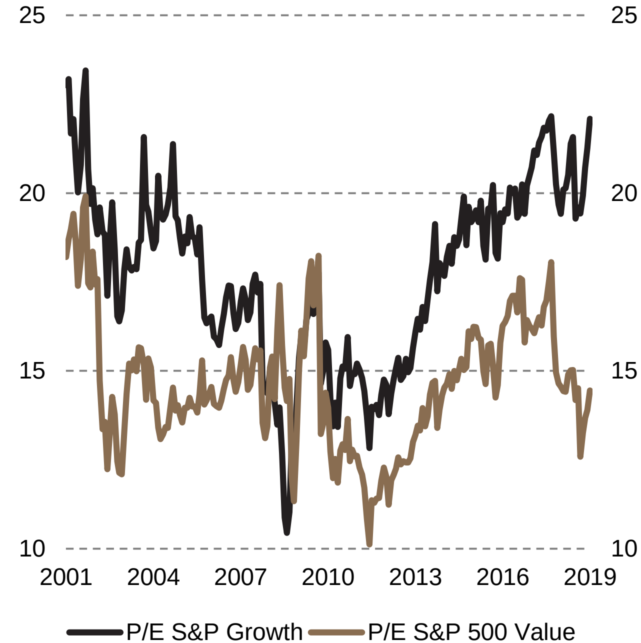


- The **valuation metrics continue to improve, despite the apparent overvaluation shown by some widely followed indicators**; since these indicators fail to capture the secular decline in interest rates, as well as the business transformations caused by globalization
- In the case of the cyclically-adjusted PE (CAPE), there is also a significant **base effect due to the financial crisis**, which has started to fade, as the ratio is calculated taking the average inflation-adjusted earnings from the previous 10 years

Source: Bloomberg

Sector and factor differentiation is critical

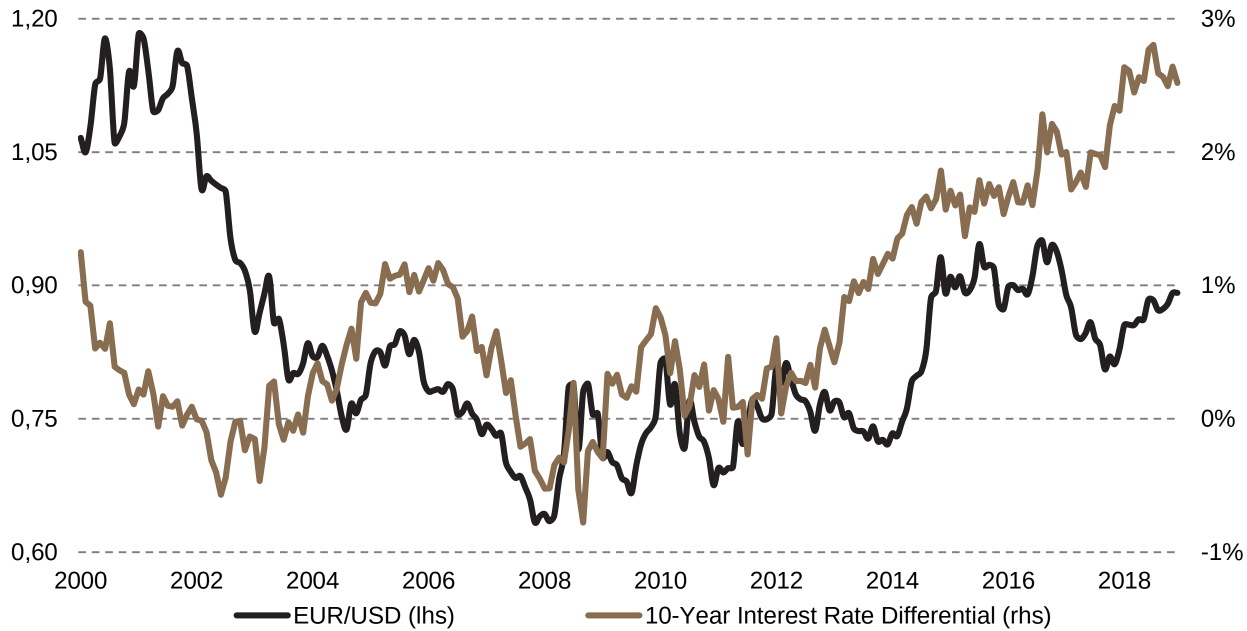




- At sector level, the **Fed's U-turn has benefited interest-rate sensitive sectors like Utilities and Real Estate**, which have turned relatively expensive. On the contrary, **Healthcare, has been the lagging sector**, and currently offers a very attractive valuation for a defensive sector
- On the other hand, the **gap in valuation between value and growth stocks have further increased** and is currently at record highs. However, in the current **late-cycle environment, we continue preferring quality-growth stocks**

Source: Bloomberg

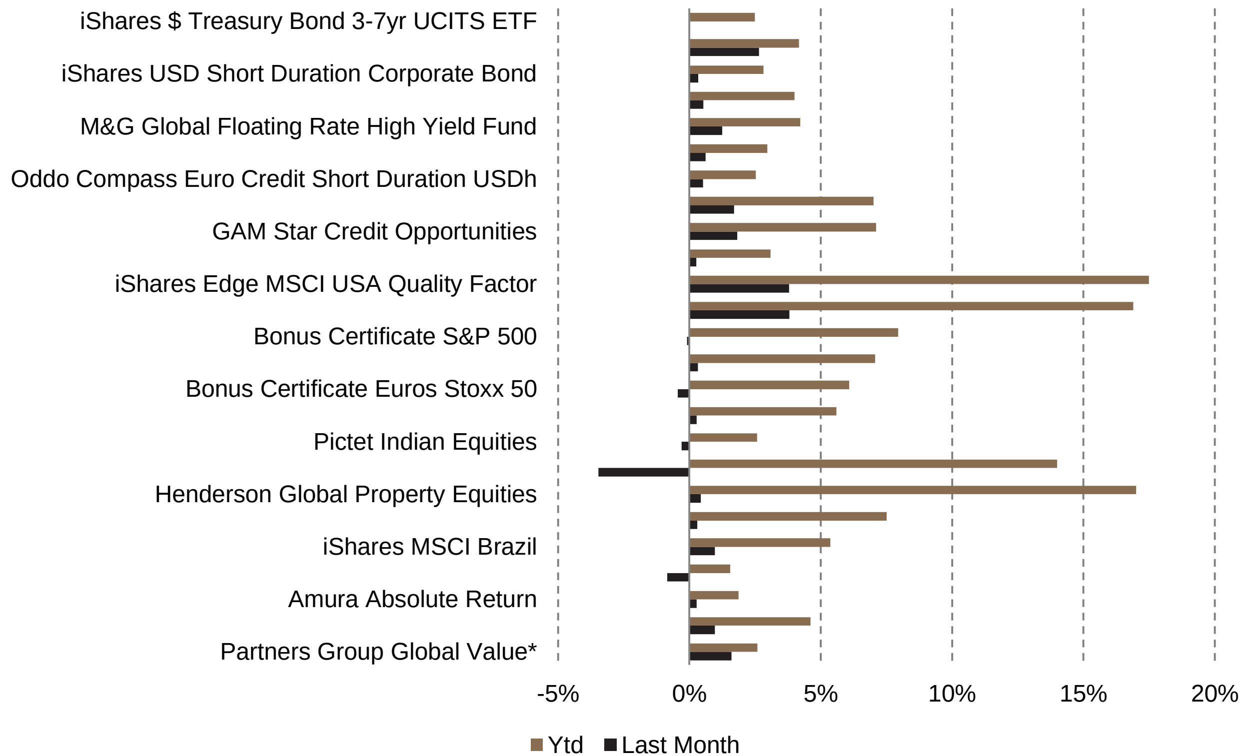
The US dollar remains strong



- The sharp **decline in Treasury yields since November last year has barely undermined the fundamentals** that support the US dollar, as the decline in **bond yields has occurred globally**
- With positive growth differentials between the US and the Eurozone, and similar inflation dynamics, **interest rate differentials will continue underpinning the US dollar**

Source: Bloomberg

Model portfolio evolution



Source: Bloomberg ,as of May 10, 2019
* Fund publishes monthly NAV with a 1 month of delay

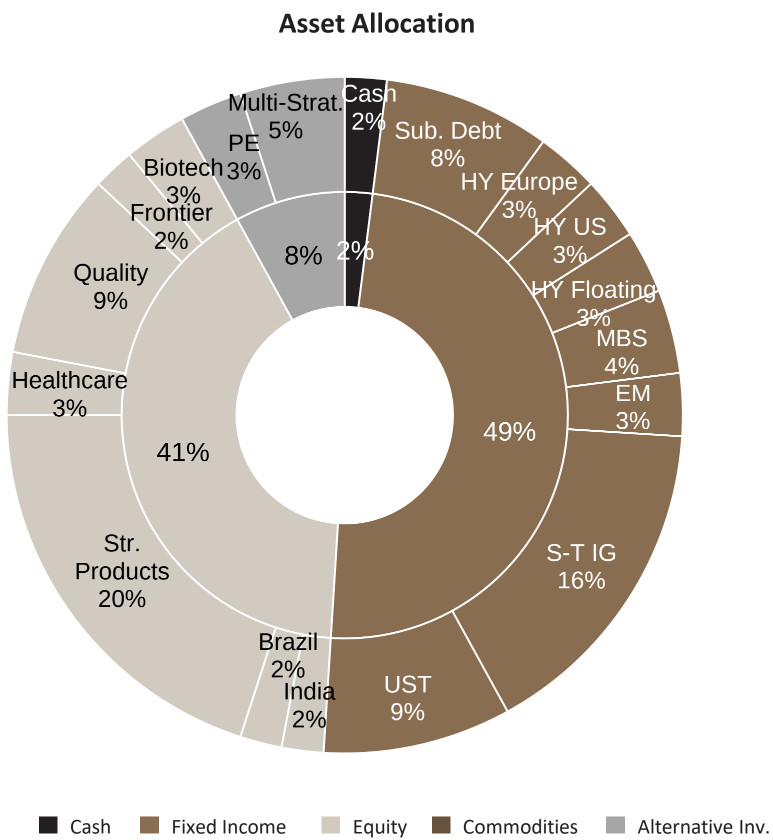
Investment scenarios

	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	35%	40%	25%

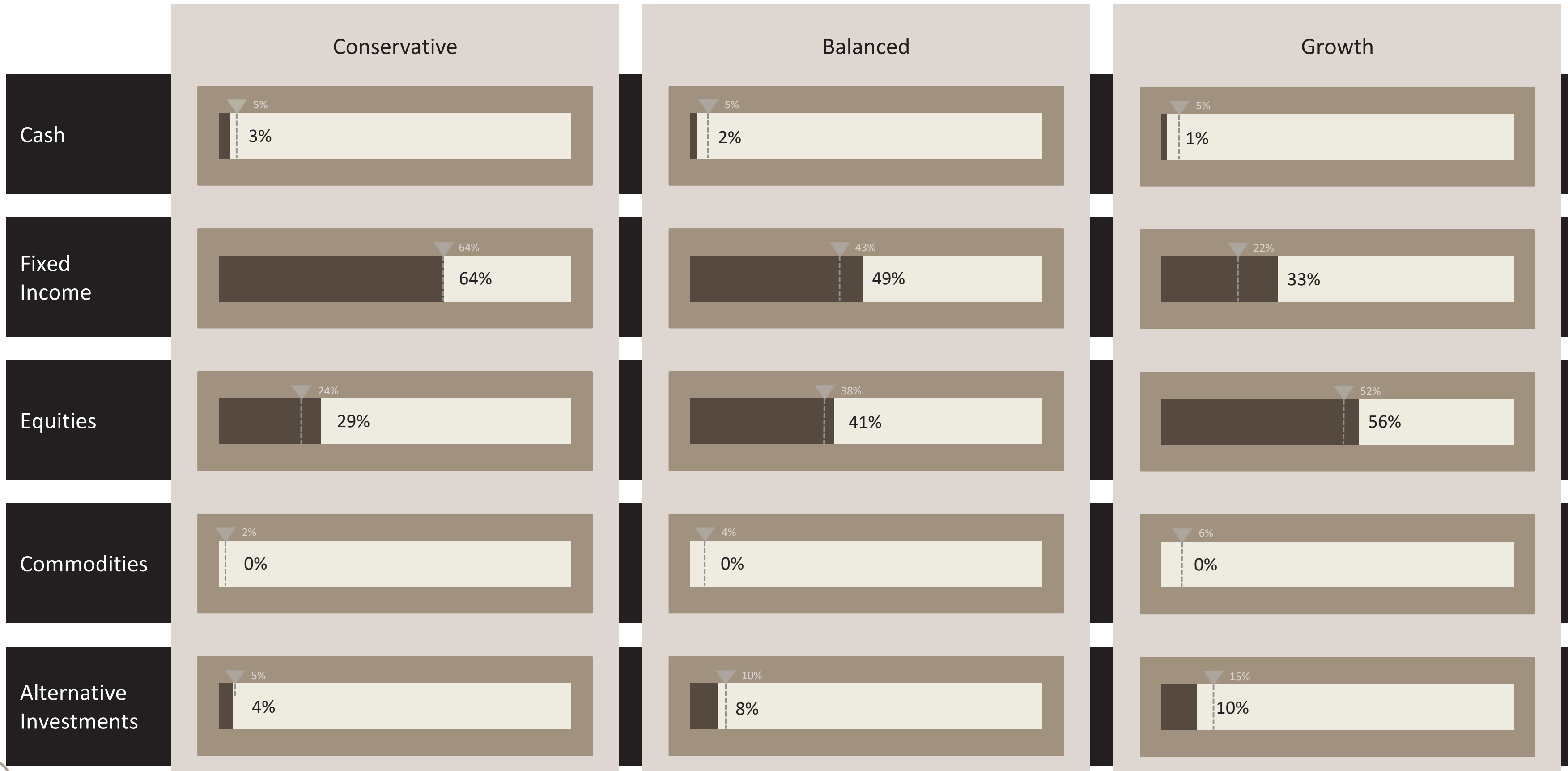
Short-term catalyzers
Fiscal stimulus in the US, improvement in macro-data globally, lower geopolitical tensions

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

EWM Model Portfolio Balanced USD

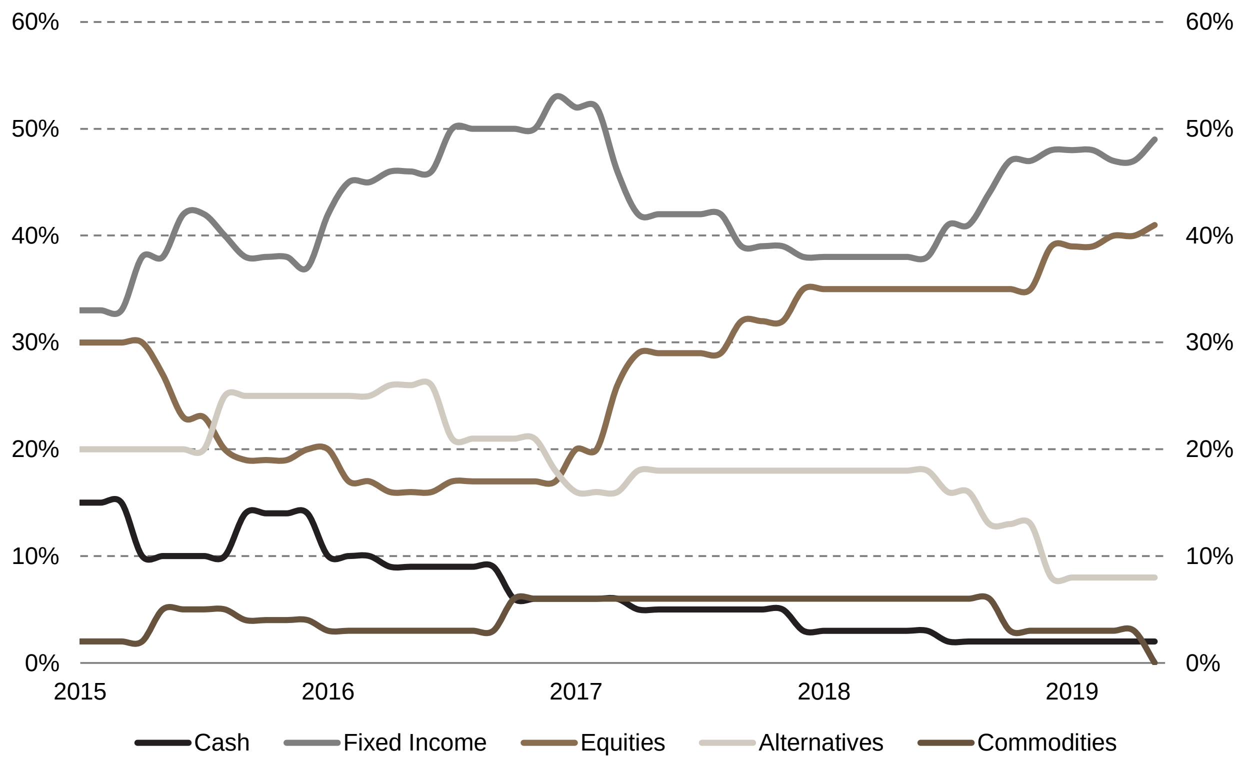


EWM Investment Profiles

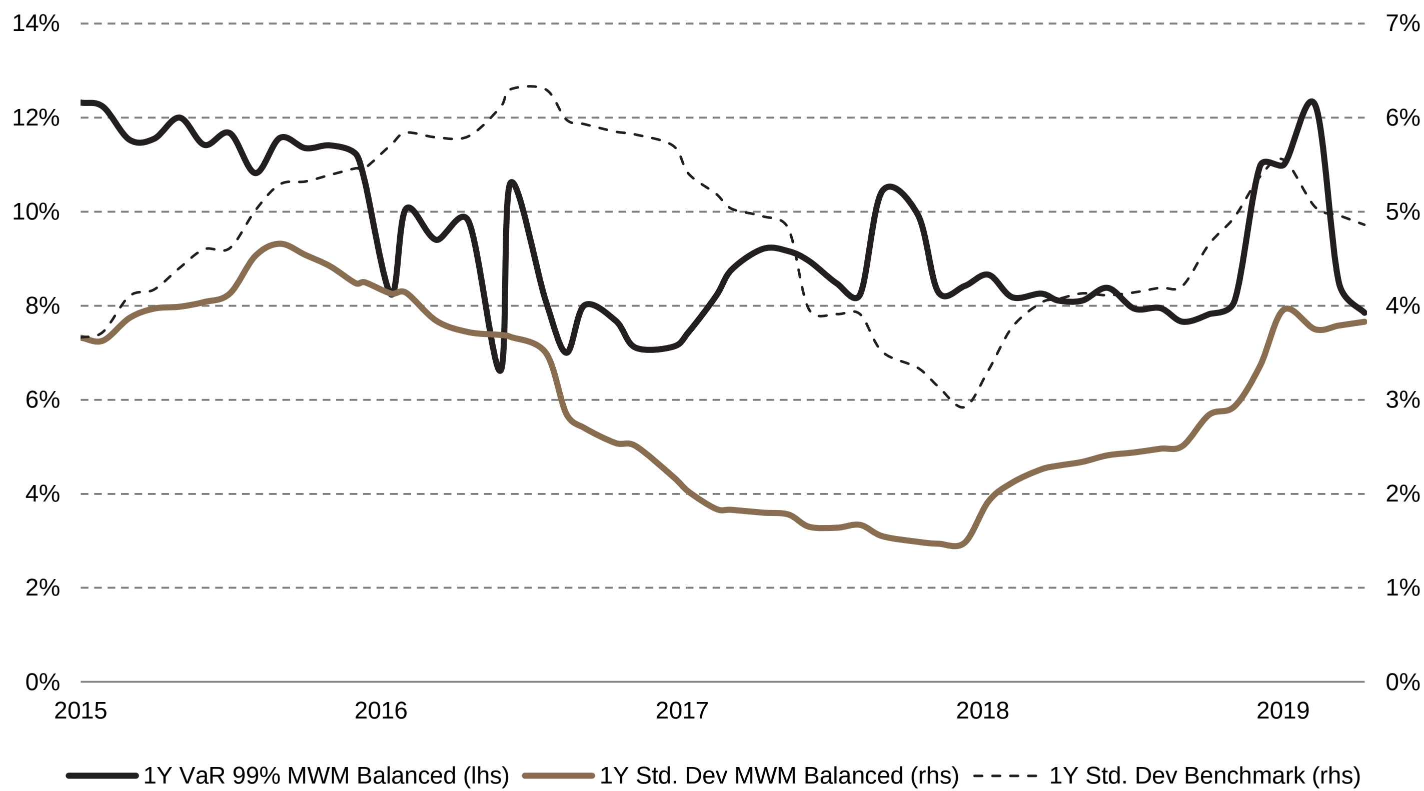


Strategic Asset Allocation

EWM Model Portfolio – Asset Allocation evolution

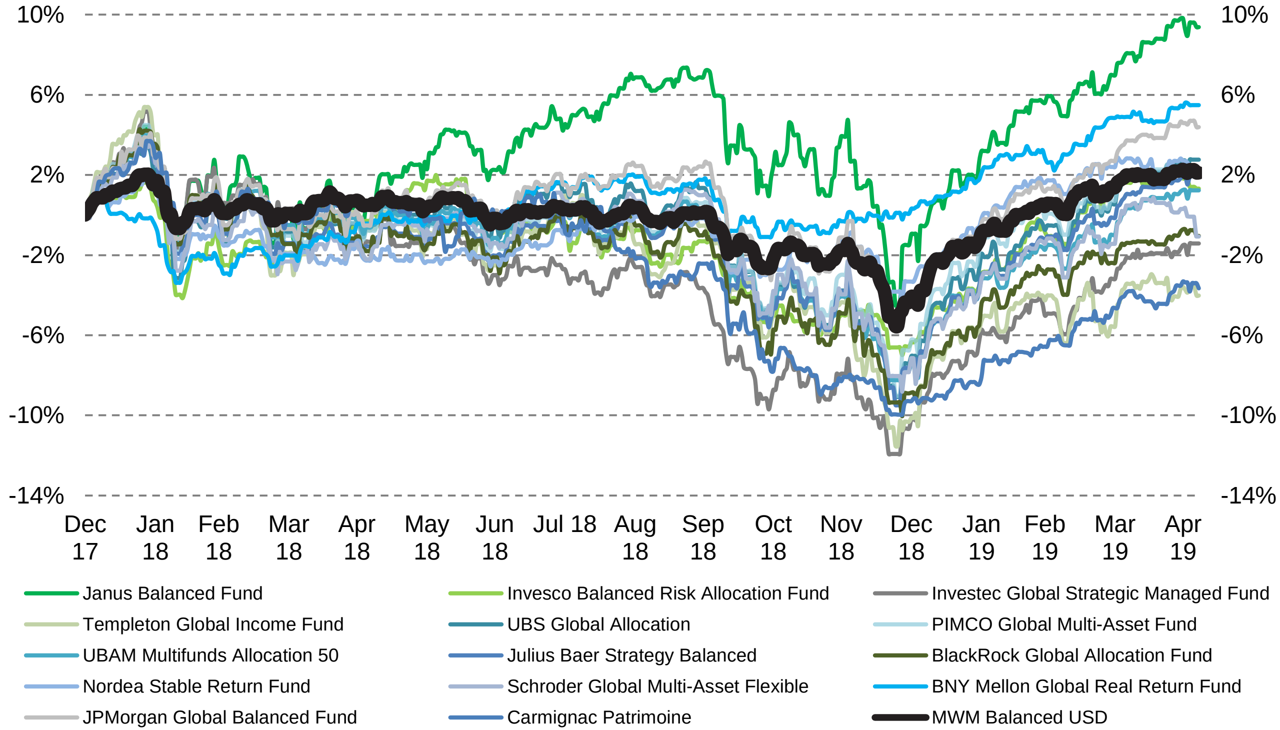


EWM Model Portfolio – VaR evolution



[1] As of May 10, 2019
Source: Bloomberg

EWM Model Portfolio – Peer comparison

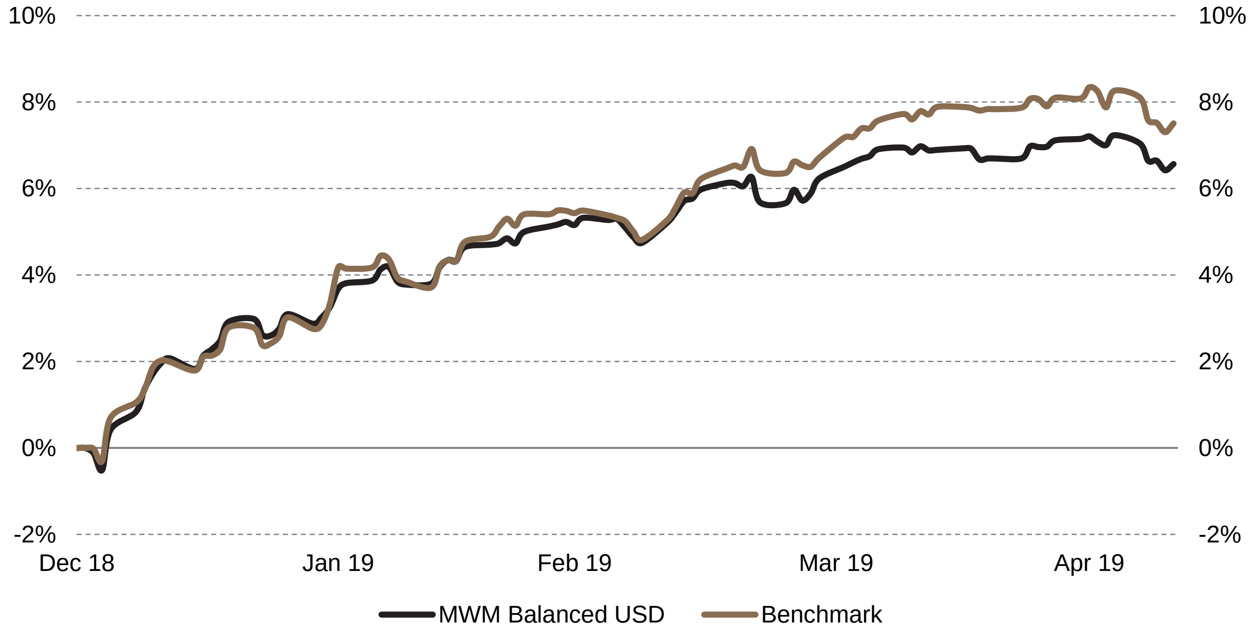


- **Total Return** (Ytd[1]): **10th out of 15**
- **Standard Deviation** (1 year[1]): **1st out of 15**
- **Downside Risk** (1 year[1]): **2nd out of 15**
- **Sharp Ratio** (1 year[1]): **n/a**

[1] As of May 5, 2019

Source: Bloomberg

EWM Model Portfolio – Ytd performance

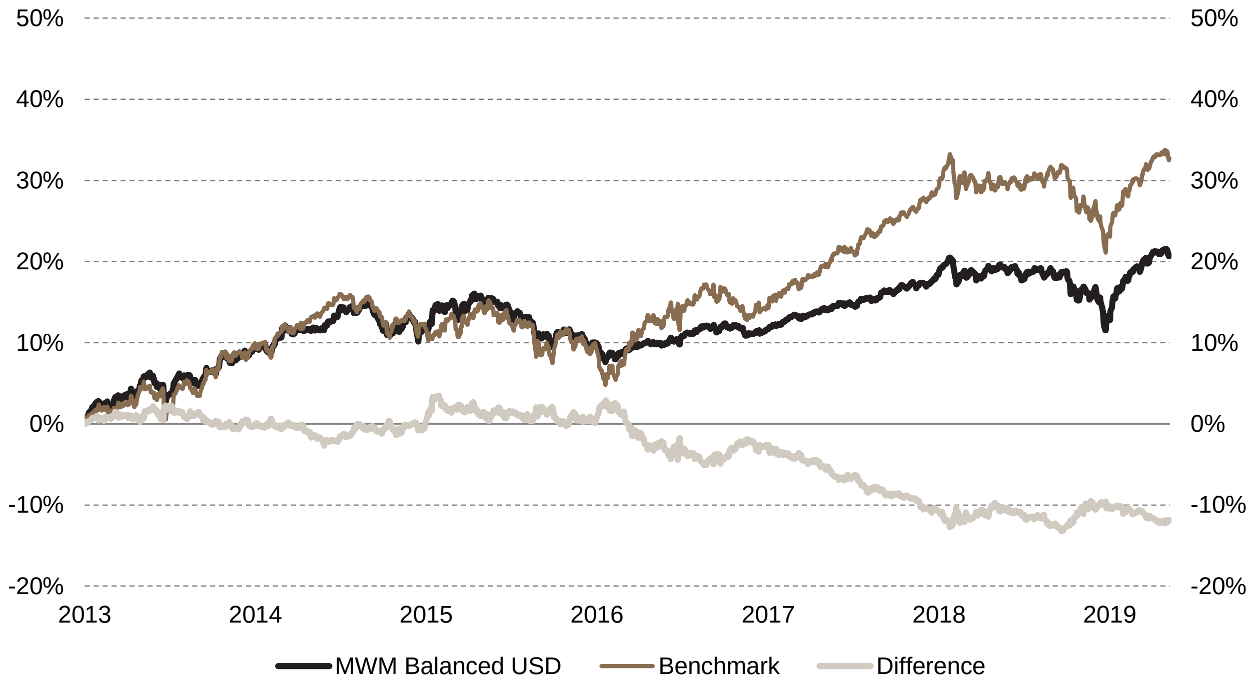


- **Total Return** (Ytd[1]): **6.09%** vs. **7.03%** Benchmark[2]
- **Standard Deviation** (Ytd[1]): **3.73%** vs. **4.20%** Benchmark[2]
- **Downside Risk** (Ytd[1]): **2.68%** vs. **2.82%** Benchmark[2]
- **Sharpe Ratio** (Ytd[1]): **4.05** vs. **4.28** Benchmark[2]

[1] As of May 10, 2019

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

EWM Model Portfolio – Historical performance (1)

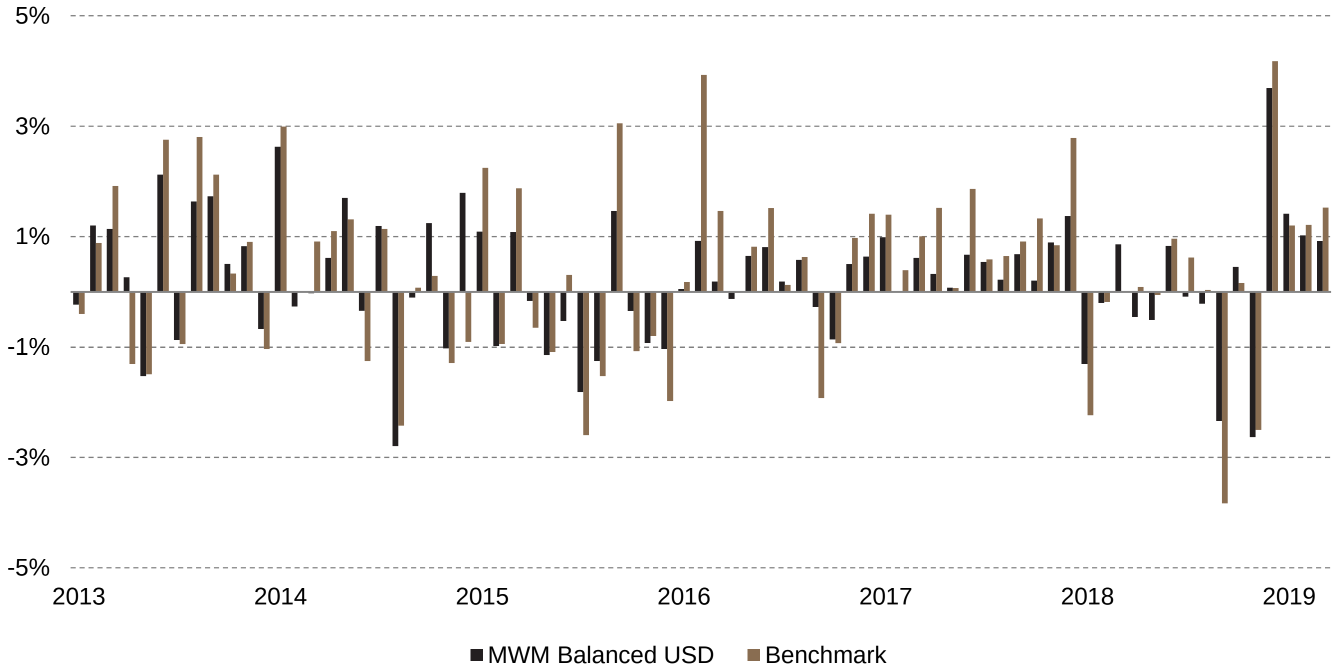


- **Total Return** (1 year[1]): **0.55%** vs. **1.34%** Benchmark[2]
- **Total Return** (3 year[1]): **10.22%** vs. **19.22%** Benchmark[2]
- **Total Return** (Since Jan 13[1]): **9.42%** vs. **17.70%** Benchmark[2]

[1] As of May 10, 2019

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

EWM Model Portfolio – Historical performance (2)



- **Standard Deviation** (1 year[1]): **3.73%** vs. **4.20%** Benchmark[2]
- **Downside Risk** (1 year[1]): **2.87%** vs. **3.52%** Benchmark[2]
- **Sharpe Ratio** (1 year[1]): **-0.41** vs. **0.16** Benchmark[2]
- **Var 95% - 1day** (1 year[1]): **-0.42%** vs. -**0.51%** Benchmark[2]

[1] As of May 10, 2019

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

Edwards Wealth Management AG
Switzerland

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 EWM 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 EWM 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 EWM.

The information contained herein: (1) is proprietary to Mora Wealth Management AG ("MWM"); (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. MWM is not responsible for any damages or losses arising from any use of this information.