



Edwards Wealth
Management AG
Switzerland

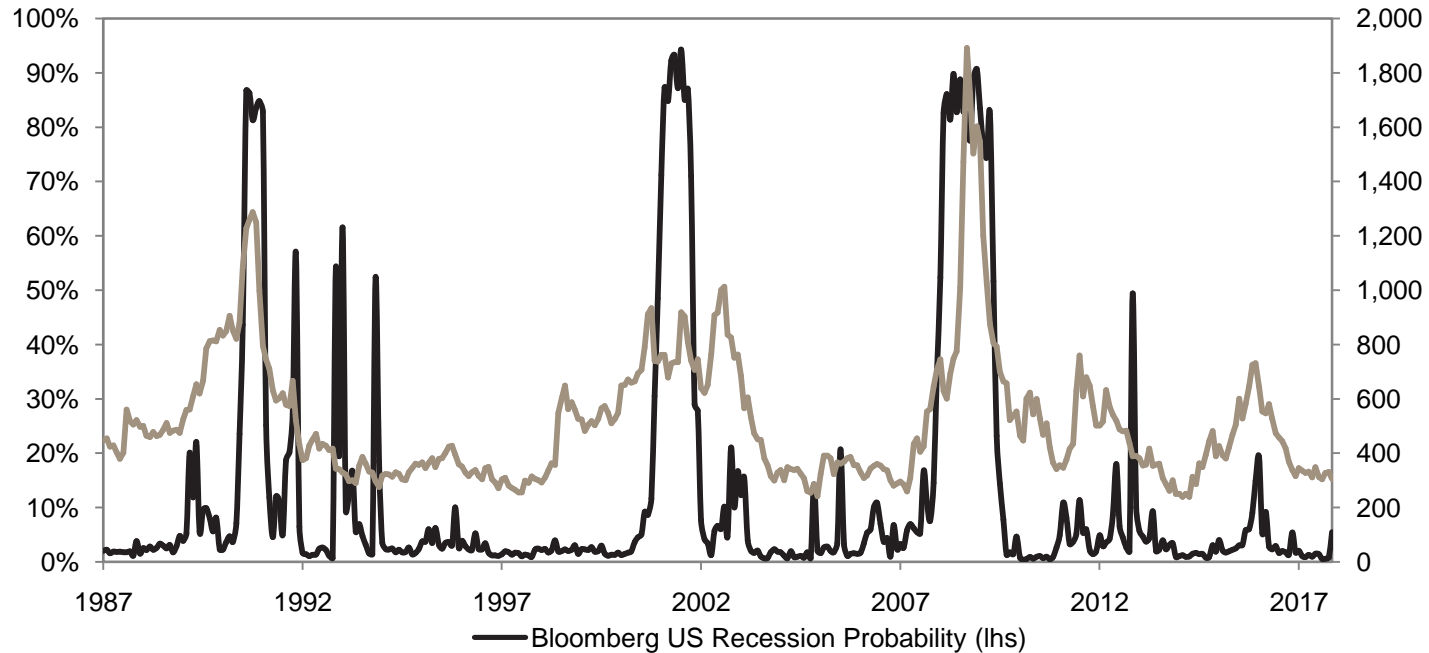
Investment Policy

March 2018

Tactical positioning

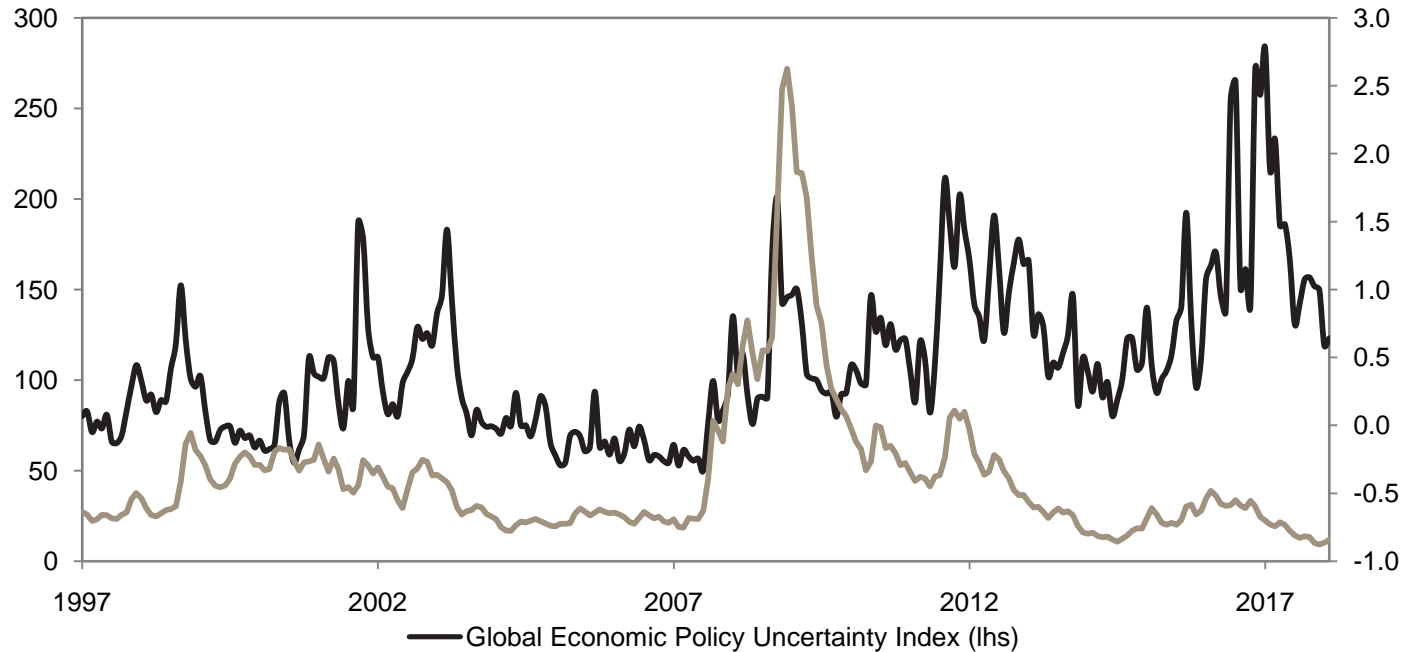
- We remain cautious in fixed income favoring short to medium maturities due to a very unattractive combination of risk and return in longer maturities. We have maintained High Yield and subordinated debt exposure as we think that the risk of recession in the US has abated. High quality bonds in the 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 and high expectations of 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

No recession on the horizon



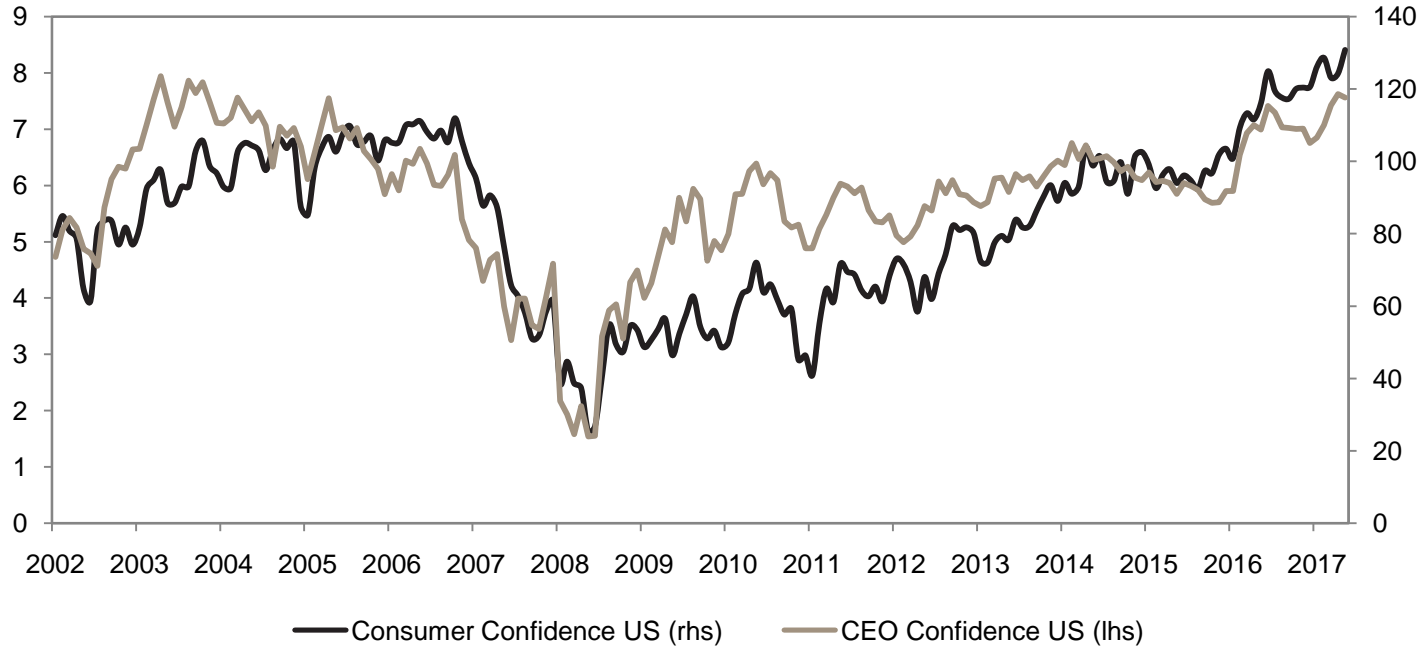
- Despite the recent market turbulence, most **macroeconomic indicators** (employment, industrial production, PMI, etc.) point towards a **continuation of the current economic expansion**
- The **correction has been confined to the equity market**, whilst credit spreads continue trading at close to their historical lows, not showing any sign of stress

Uncertainty has actually decreased



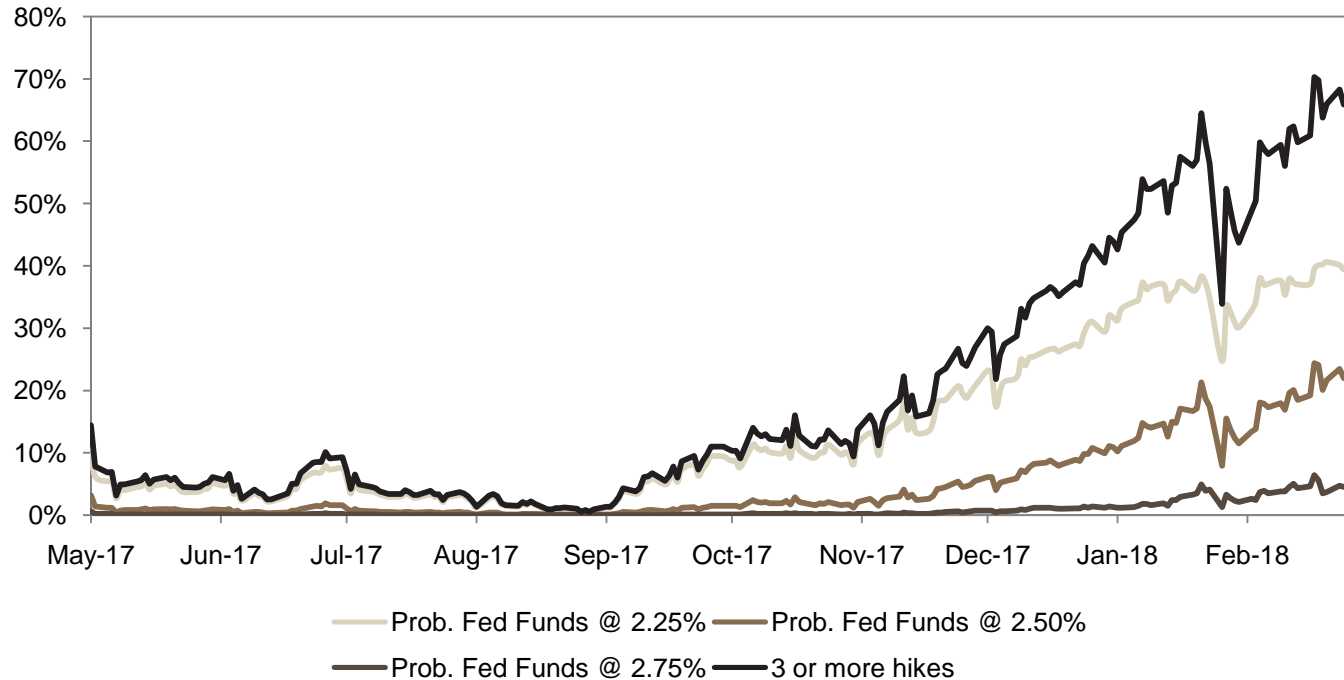
- Despite the recent rise in volatility, **economic uncertainty has sharply decreased** over the last year (elections in Europe, concerns around Trump's presidency, North Korea)
- **Financial conditions** are also **extremely benign**, reflecting that despite the Fed starting to tighten cycle, monetary policy remains largely accommodative

And confidence remains strong



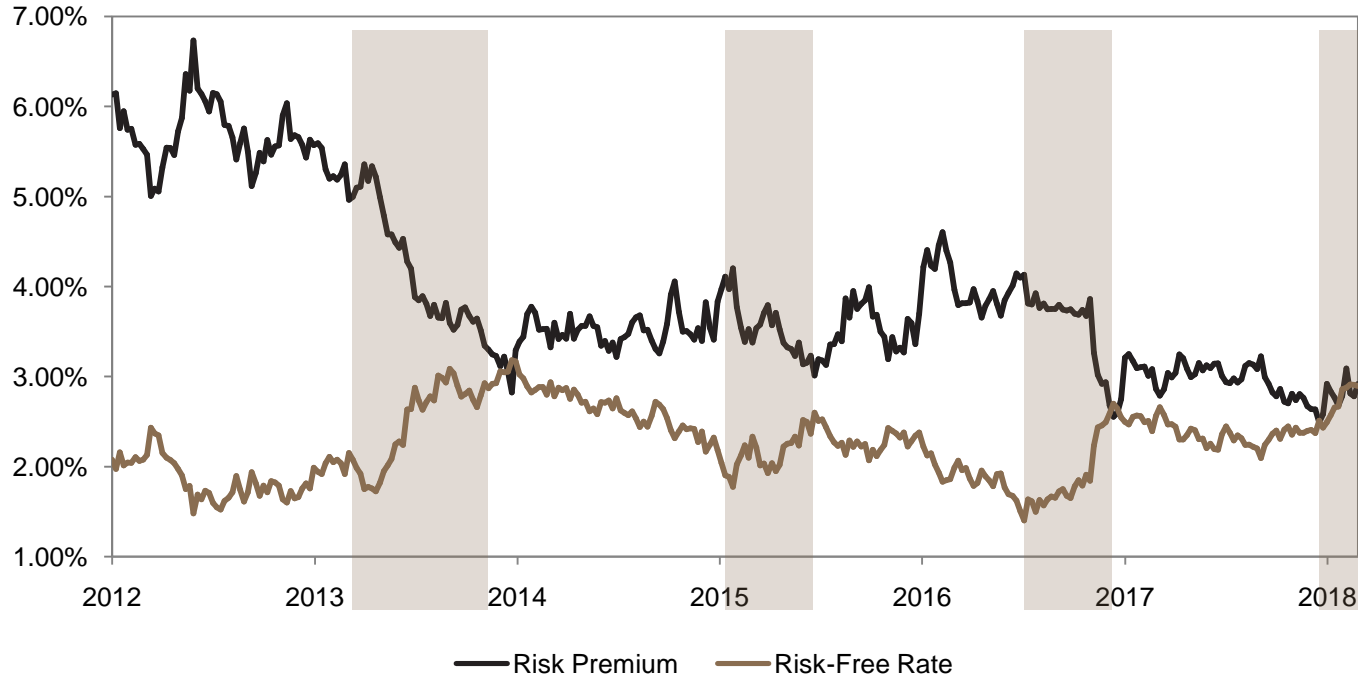
- **Consumer and business confidence** in the US **continued rising**, fostered by Trump's tax reform and deregulation agenda
- If this optimism translates into higher consumption and corporate investments, the **current 9-year expansion may end being the longest on record (12 years)**

Markets reassessing interest rates



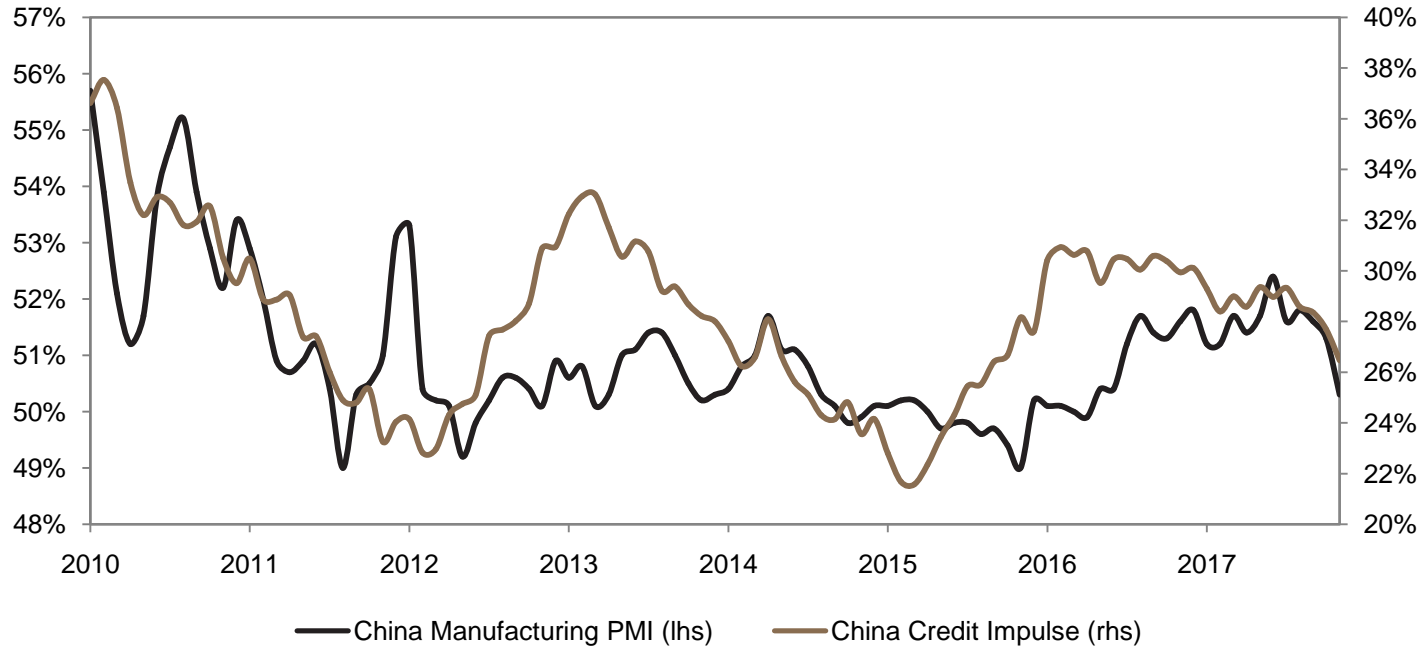
- The **root cause** of the stock-market correction has been the **gap between market's expectations** for the path of monetary policy and the **Fed's own projections**
- Recent **wage inflation data** has caused the market to come closer to the Fed, which has translated in an **increase in long-term interest rates**

Multiple expansion may be over



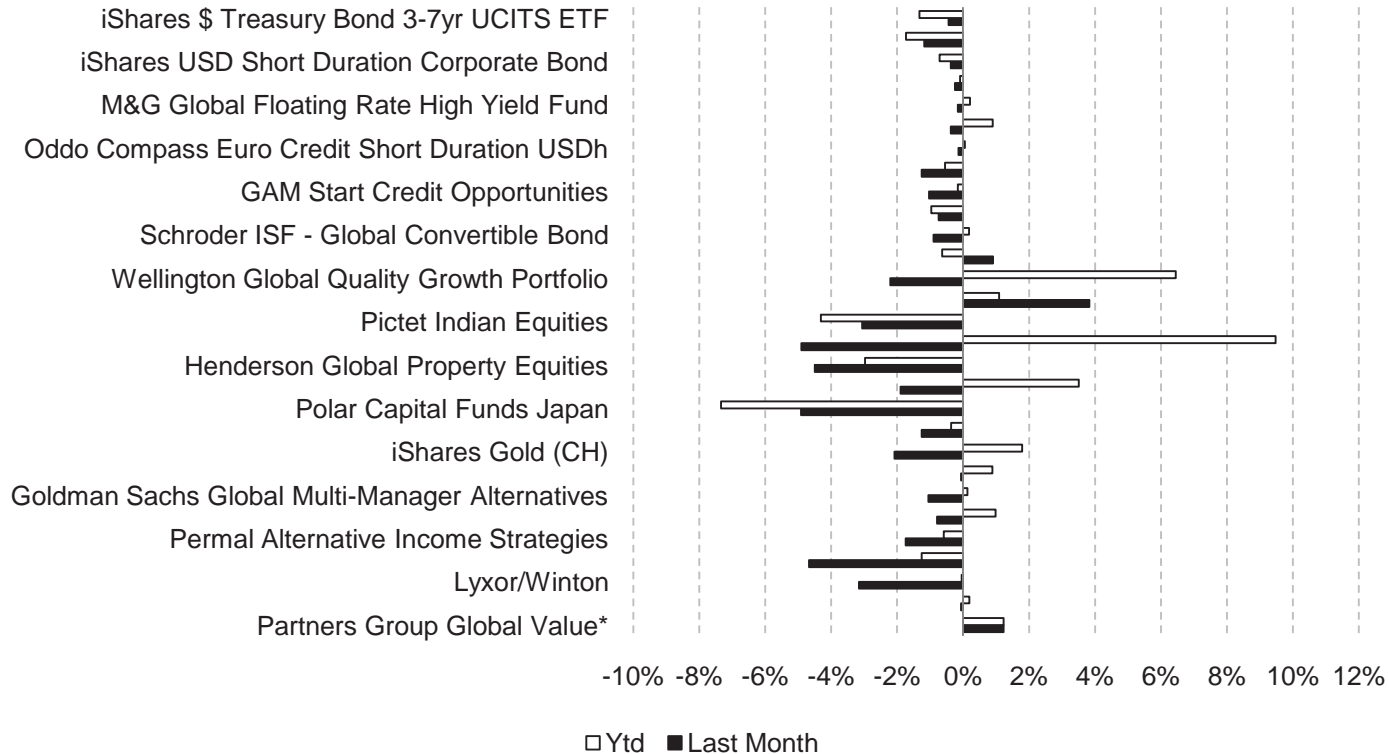
- During the present bull market, on each instance in which **interest rates have rallied**, the impact has been **cushioned by a decrease in the risk-premium**, hence allowing **P/E multiples to keep on rising**
- **February's rates spike** is an exception, as the increase in rates came in tandem with an increase in the risk premium, hence **lowering the P/E via a fall in prices**. This suggests that the **market will be more sensitive to interest rates** moves in the future

Peak (synchronized) growth?



- China's **purchasing managers index** saw its **sharpest drop in 6 years**, bringing it close to the **50 mark** that separates expansion from contraction. **Non-manufacturing PMI** has also decreased, but holds up well in **expansion territory**
- With Chinese authorities determined to **deleveraging the economy**, there is a risk that the global synchronized growth falters

Model portfolio evolution



- **Performance dispersion** continues, with some areas like **Biotechnology** or **Growth** stocks still in positive territory, whilst others like **Real Estate**, **Japan** or **Europe** are in the red
- **Treasuries** have continued **performing poorly**, whilst other traditional safe heavens like **gold** held gains. Hedge funds had a bad month reversing earlier gains

Investment scenarios

	Scenario 1 Recession by political/policy accident	Scenario 2 Goldilocks	Scenario 3 New regime
Drivers	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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%	40%	35%

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

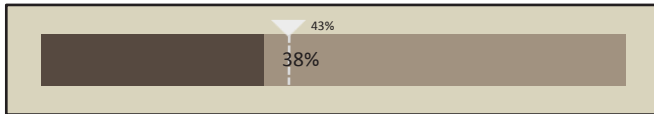
EWM Investment Policy

Cash



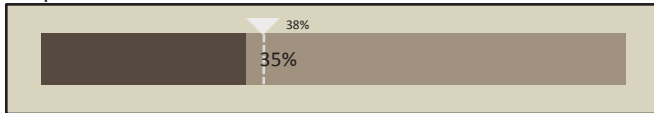
- In the current environment, waiting for good investment opportunities is a sensible investment strategy. However, holding cash is becoming costly due to low interest rates.

Fixed Income



- Corporate and high yield debt currently offer the best combination of risk and return. Treasuries can benefit from a slowdown in growth, although this is less likely with the expected fiscal stimulus in the US, whilst TIPS offer protection against rising inflation
- We will avoid emerging markets until there is more clarity on trade policy by the new US administration

Equities



- 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 extent 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 good diversification for the portfolio

Alternative Investments

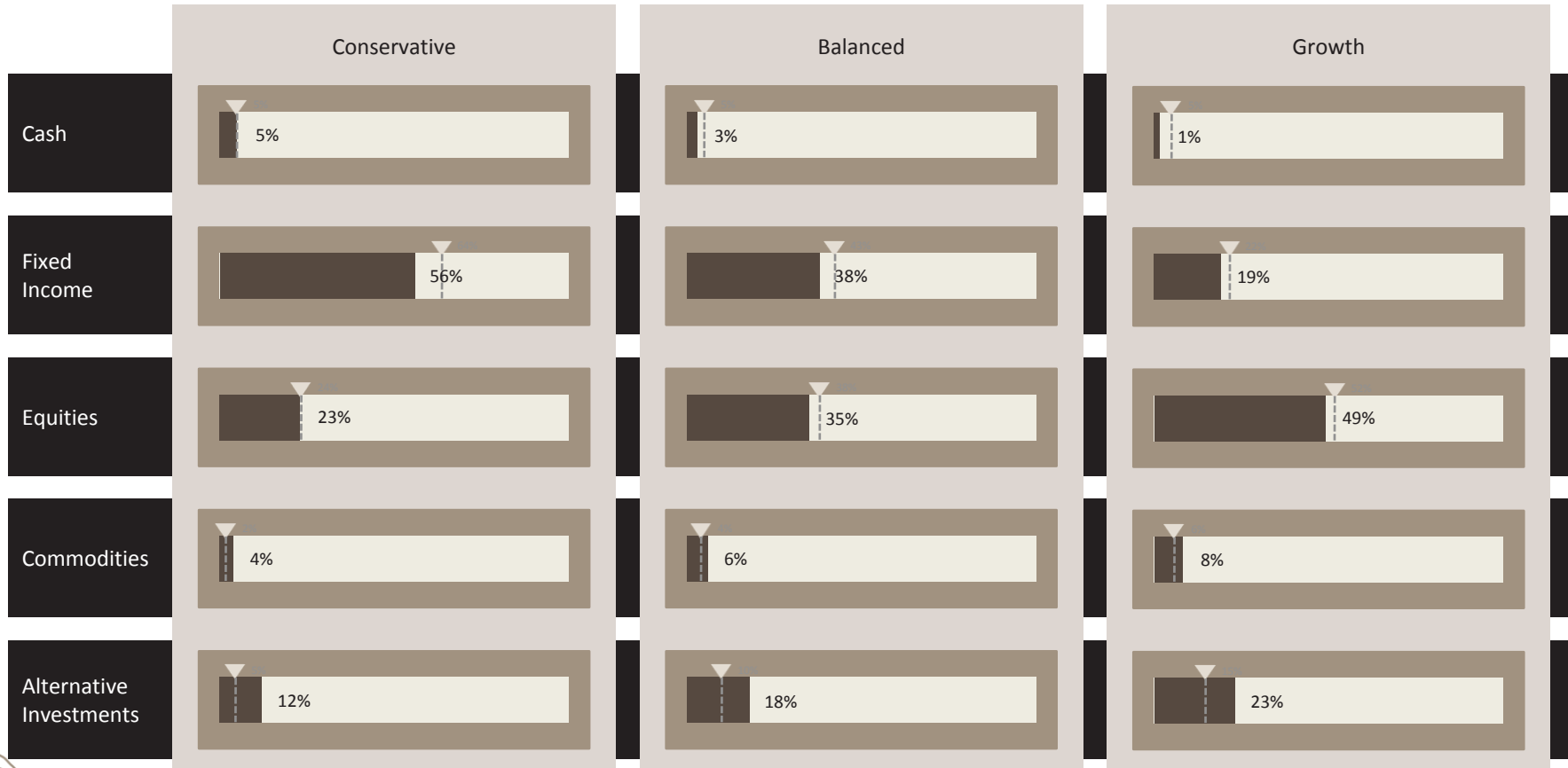


- Alternative investments, as a source of low volatility and uncorrelated returns, are more attractive than ever in the wake of the current latent risks in the market
- However, there is always a certain degree of correlation with traditional asset classes and double digit positive returns cannot be expected in the current environment

EWM Model Portfolio Balanced

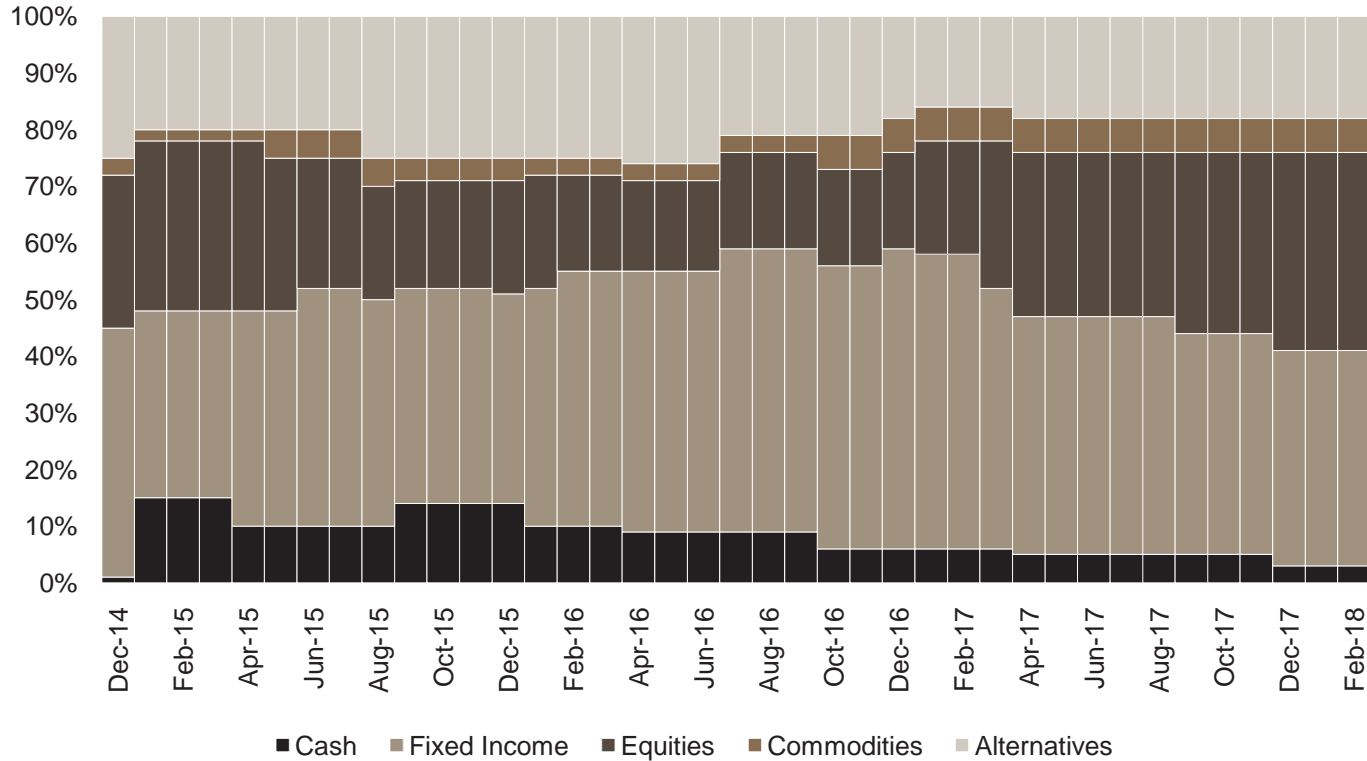
Cash	Cash			
Fixed Income	Cash	• Cash	3%	38%
	US Treasuries	• iShares Treasury Bond 3-7yr	3%	
	Short-Term Corporate Bonds	• iShares USD Short Duration Corporate Bond	4%	
	US TIPS	• iShares \$ TIPS	5%	
	High Yield US	• Muzinich Short Duration High Yield	3%	
	High Yield Europe	• Oddo Compass Euro Credit 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%		

EWM Investment Profiles

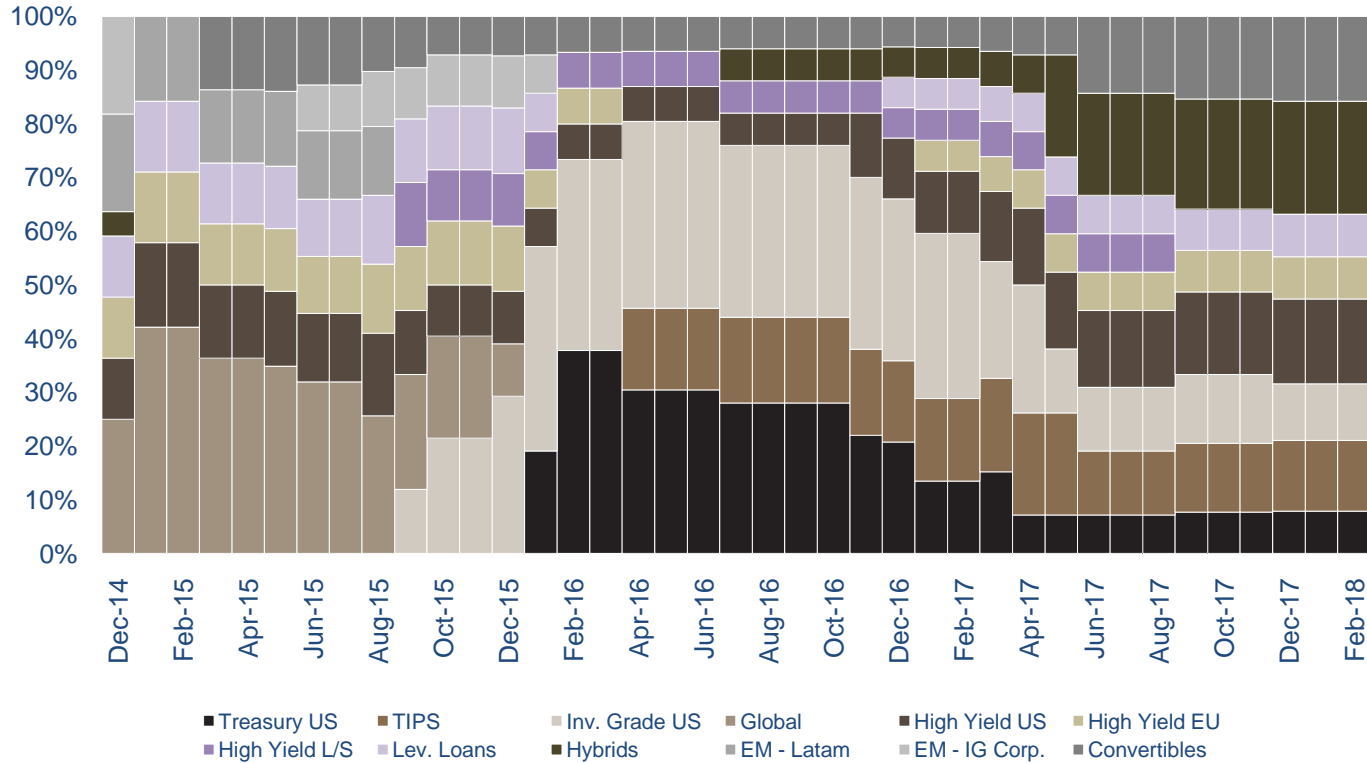


▼ Strategic Asset Allocation

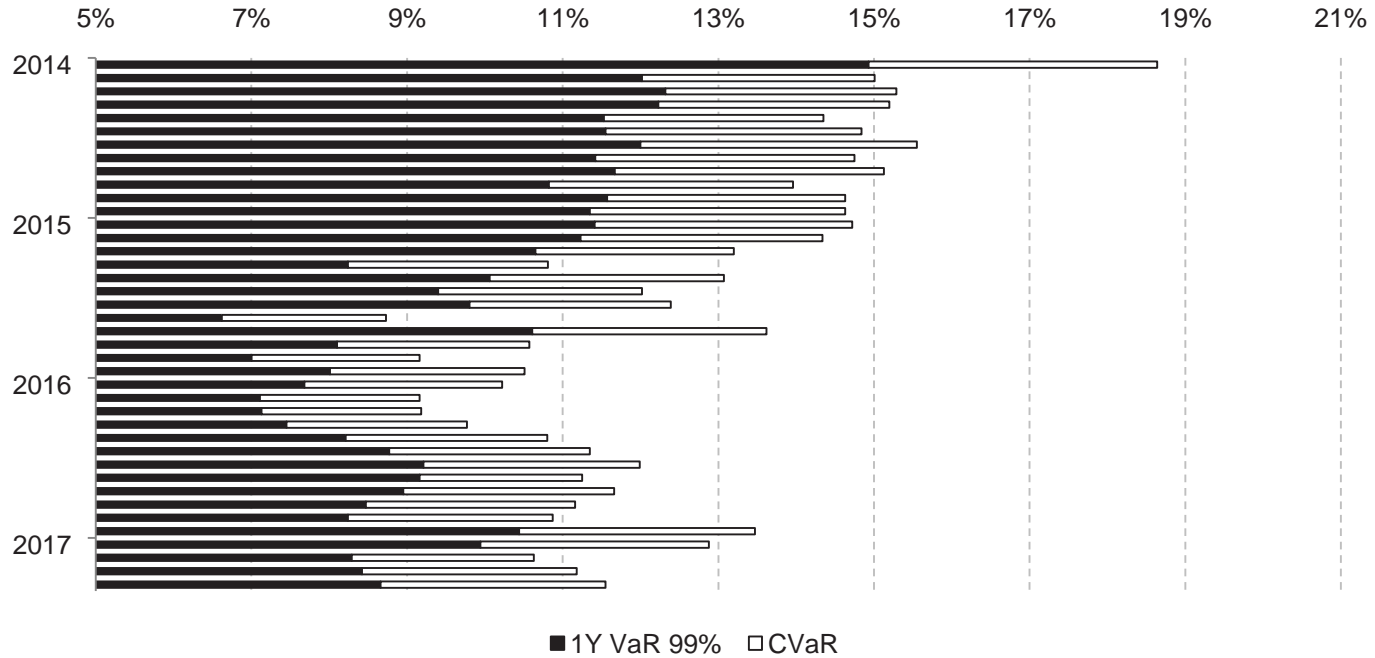
EWM Model Portfolio – Asset Allocation evolution



EWM Model Portfolio – Fixed Income evolution

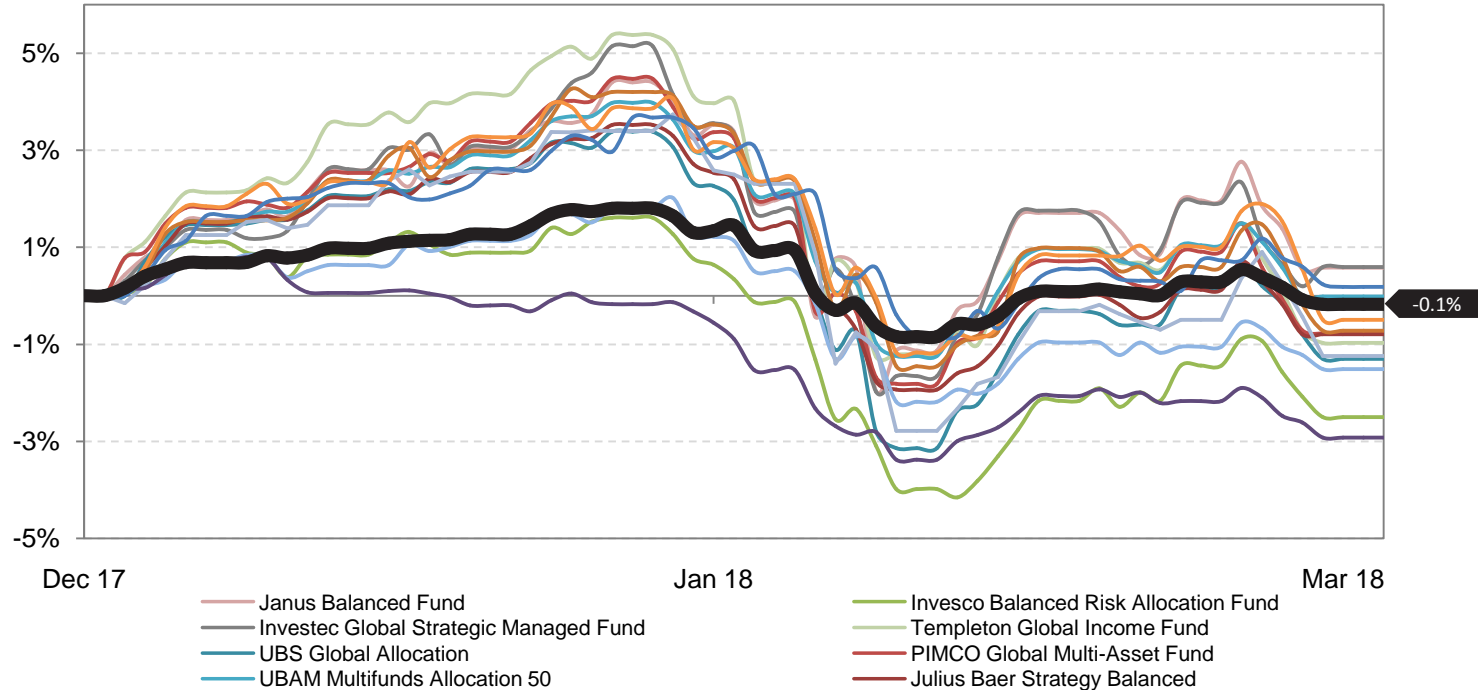


EWM Model Portfolio – VaR evolution



• The VaR of the portfolio has **increased slightly** with the recent bout of volatility, but remains low in absolute terms reflecting the conservative positioning of our portfolio

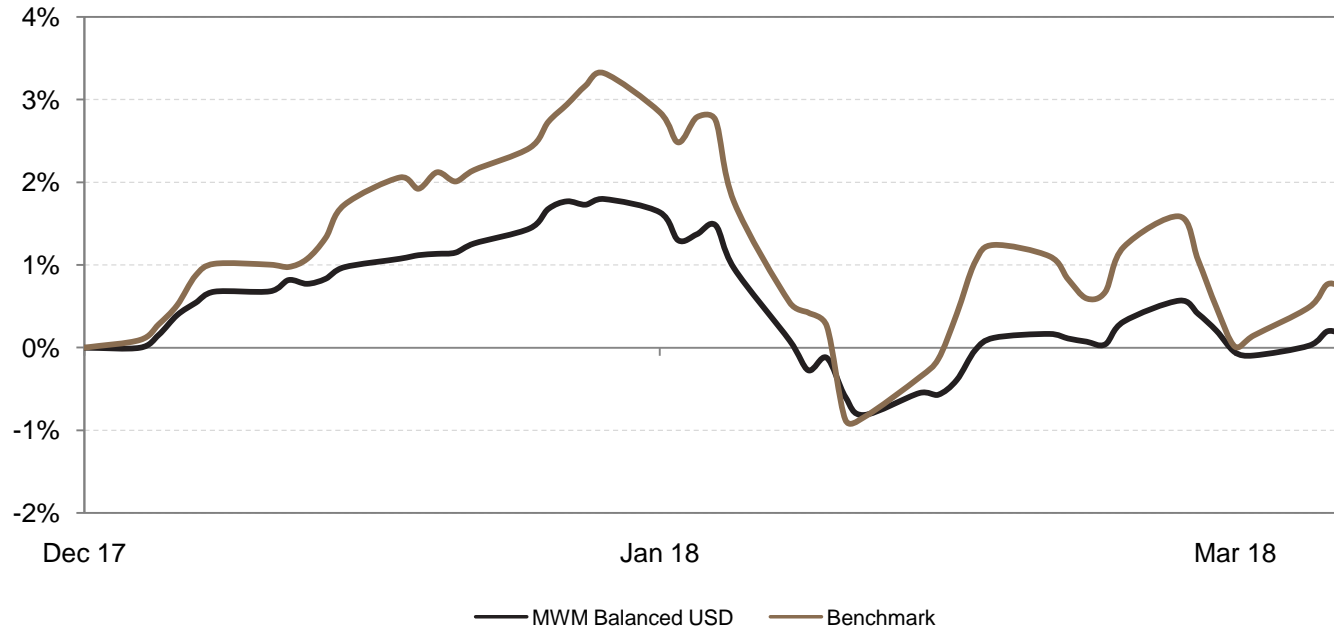
EWM Model Portfolio – Peer comparison



- **Total Return (Ytd¹): 5th out of 15**
- **Standard Deviation (1 year¹): 1st out of 15**
- **Downside Risk (1 year¹): 1st out of 15**
- **Sharp Ratio (1 year¹): 7th out of 15**

¹ As of March 5, 2018
Source: Bloomberg

EWM Model Portfolio – Ytd performance

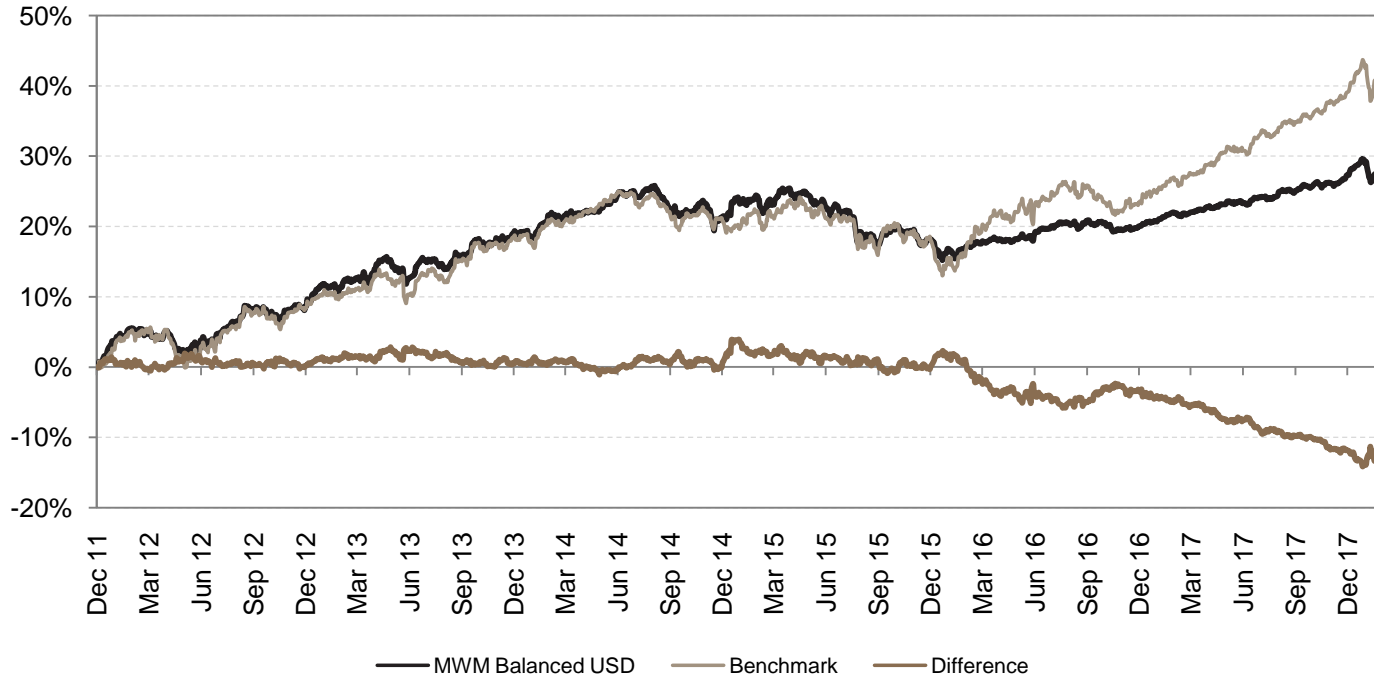


- **Total Return (Ytd¹): 0.14% vs. 0.70% Benchmark²**
- **Standard Deviation (Ytd¹): 3.70% vs. 6.53% Benchmark²**
- **Downside Risk (Ytd¹): 3.09% vs. 5.39% Benchmark²**
- **Sharpe Ratio (Ytd¹): -0.18 vs. 0.39 Benchmark²**

¹ As of March 8, 2018

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)

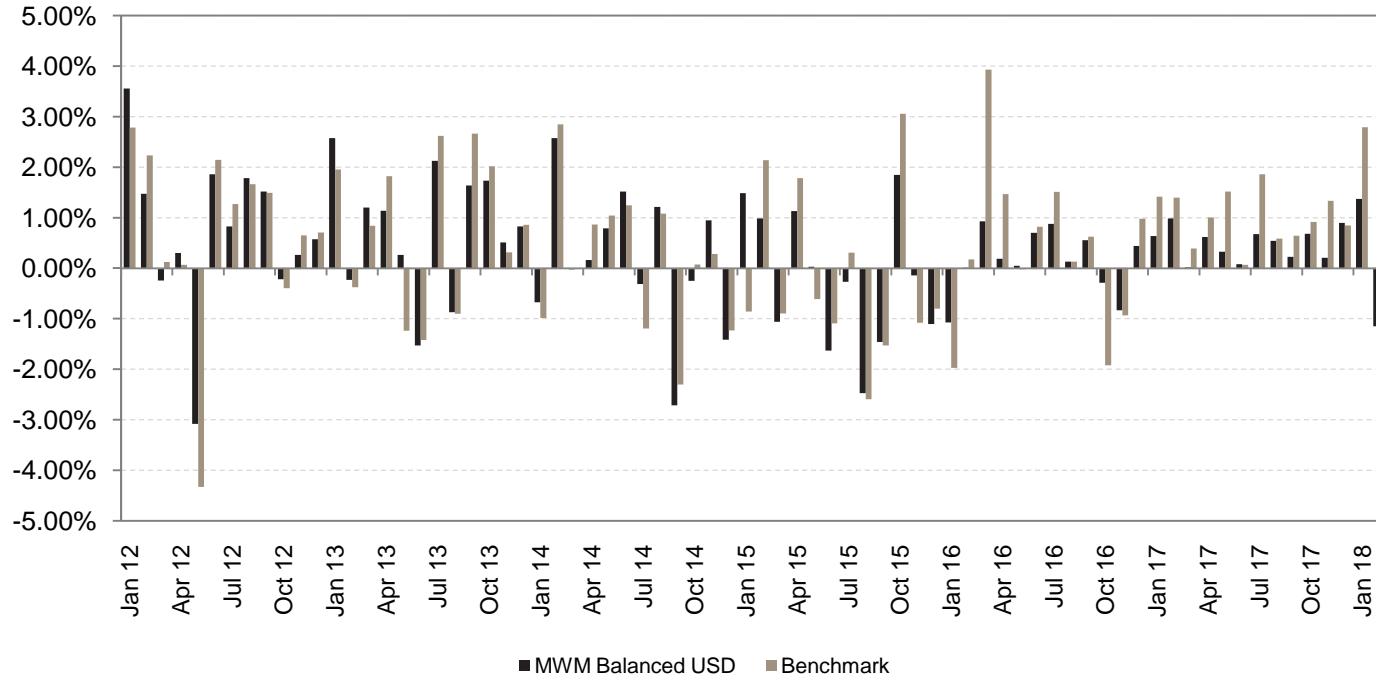


- **Total Return (1 year¹): 4.75% vs. 10.80% Benchmark²**
- **Total Return (3 year¹): 3.71% vs. 16.20% Benchmark²**
- **Total Return (Since Jan 12¹): 27.47% vs. 40.04% Benchmark²**

¹ As of March 8, 2018

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 year¹): **2.09%** vs. **3.79%** Benchmark²
- **Downside Risk** (1 year¹): **1.65%** vs. **2.95%** Benchmark²
- **Sharpe Ratio** (1 year¹): **1.76** vs. **2.58** Benchmark²
- **Var 95% - 1day** (1 year¹): **-0.17%** vs. **-0.31%** Benchmark²

¹ As of March 8, 2018

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



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