Quarterly Investment Letter – Q2

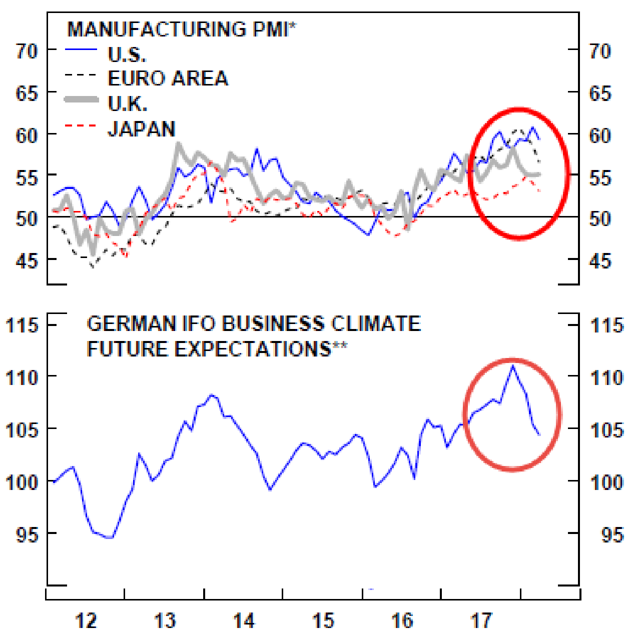
Q2/2018

Economic expansion approaches late cycle

The first four months of 2018 gave investors a full range of emotions from euphoria to nervousness to fear, with equity markets doing a roller coaster.

With the sudden return of volatility to financial markets, recession fears started to emerge as well. However, with respect to the U.S., easy fiscal policies and a continuing accommodative monetary policy do not typically lead to imminent recessions. Stocks typically react about 6 months ahead of a recession as it takes some time for the economic data to confirm in hindsight that a recession had started a few months prior. We do not believe that the U.S. economy is close to this point (although in the later stage of the cycle), as none of the major leading indicators that we are following is signaling danger.

Chart 1: Economic expansion takes a breather



Source: BCA Research Inc. / Alpinum IM

Fear of inflation or even stagflation erupted in February as economic indicators and global growth showed early signs of consolidation or retracement (see chart

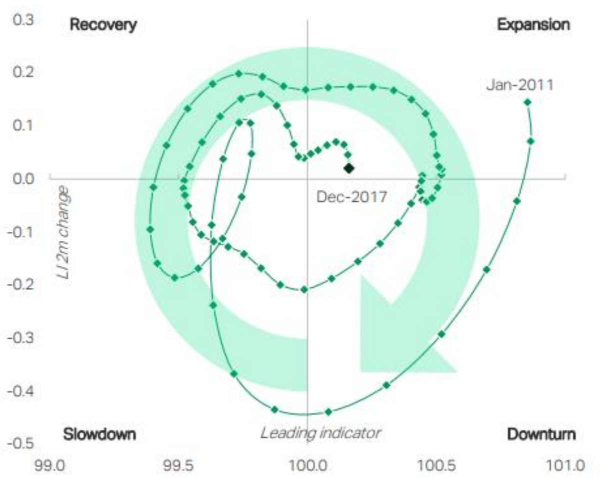
Summary Points

- The first months of 2018 experienced a fast **comeback of volatility**.
- Almost all **traditional asset classes performed negatively in Q1-2018**, **putting alternative strategies back in the spotlight** to diversify and optimize future performance expectations.
- **Economic leading indicators are softening**, but are still not yet flashing warning signs regarding an imminent recession.
- The U.S. tax cuts (fiscal stimulus) should add around 0.8% to 1.3% to the US GDP growth in 2018/19.
- Latest tariffs' dispute between the U.S. and China casts doubts on a potential fully-fledged trade war.
- The Chinese economy has already started to cool down/normalize.
- The USD could technically retrace some of its lost ground versus the EUR, but conflicting forces keep our conviction low.
- The period from **24 to 6 months prior to a recession** has provided **historically great equity returns.**
- In fixed income, we keep duration very low, but we still like selective credit risk. We hold on to our overweight positions in European and US syndicated loans.
- **Secured Lending is in the sweet spot** in terms of generating an attractive return, while minimizing the risk of losing capital. But: Avoid asset-liability mismatch in terms of liquidity management!
- How we effectively invest for our clients in **"Secured Lending".** Please find a **case study** on pages 6-7.

1). This situation has been exacerbated by rising protectionism, mainly initiated by the Trump administration, imposing tariffs and renegotiating trade agreements, which might ultimately cause inflation to be passed to consumers. European markets have been able to stomach Brexit, in addition to the French, German and Italian elections without much disruption, and the consequent rise in the EUR has slowed down the earnings recovery of large cap companies, which in turn is now tampering slightly with the economic recovery.

In summary, **the environment is still positive for risky assets, but there are some clouds forming on the horizon** (see also chart 2 below for better illustration). A close monitoring of the leading indicators and the market sentiment will be paramount to successfully implementing our investment strategies.

Chart 2: OECD Cycle Clock indicates late cycle



Source: TS Lombard

The first quarter 2018 proved to be more challenging than many of us expected, especially after the great start to the year. The February and March correction brought investors back to reality: Asset price levels were getting ahead of themselves from already elevated levels and that situation could not last forever. In this context, we view this small correction as a healthy one, especially since the global economies' fundamentals, and in particular the U.S., have continued to be supportive. With the U.S. passing late December 2017 a bill that will significantly reduce taxes paid by many corporations and individuals, and Europe making significant progress on the Brexit negotiations, while the political uncertainty surrounding Italy's elections is now something of the past, the global landscape is very positive. However, **whenever everything looks rosy, investors can therefore easily be disappointed** and reactions to negative surprises can often be amplified. It is therefore not much of a surprise if the latest tariffs imposed by the U.S. on metals and other Chinese imports are prompting investors to question if a fully-fledged trade war, with the ability to derail the robust and synchronized global economy, is potentially around the corner.

The recent market jitters, triggered initially by sudden fears of inflation finally raising its head (at least in the U.S.) and surprising many investors, **may mark the end of a low volatility environment, leading into the last stage of the economic cycle.** Current easy fiscal policies and the continuing accommodative monetary policy are typically not leading economies into imminent recession. In fact, the U.S. economy still seems to continuously stretch the already longest economic cycle since 1945. We have been expecting the cycle to be much longer post-2008 financial crisis, given how structurally profound the recession had been, but there are now clouds starting to form on the horizon to give us some early warnings that the situation might change within the next 2 years or so. For conservative clients, it might be time not to over-extend their stay, hoping to collect the last stretch of return on their most risky assets.

Chart 3: Equity returns tend to be strong in late business cycle

ANNUALIZED REAL RETURNS (%) PRIOR TO RECESSIONS	13-TO-24 MONTHS	1-TO-24 MONTHS	7-TO-12 MONTHS
S&P 500 — Returns tend to be strong in the late stage of the business cycle...			
AVERAGE RETURNS POST-1950s	14.2	6.8	8.0
JUL 1953 - MAY 1954	21.9	12.0	17.8
AUG 1957 - APR 1958	15.8	7.1	-17.0
APR 1960 - FEB 1961	31.3	16.8	6.6
DEC 1969 - NOV 1970	13.4	-1.3	-11.0
NOV 1973 - MAR 1975	16.9	4.9	-11.3
JAN 1980 - JUL 1980	0.5	2.2	6.8
JUL 1981 - NOV 1982*	...	...	32.2
JUL 1990 - MAR 1991	14.3	13.1	22.2
MAR 2001 - NOV 2001	8.9	-0.7	20.0
DEC 2007 - JUN 2009	11.6	7.6	13.6

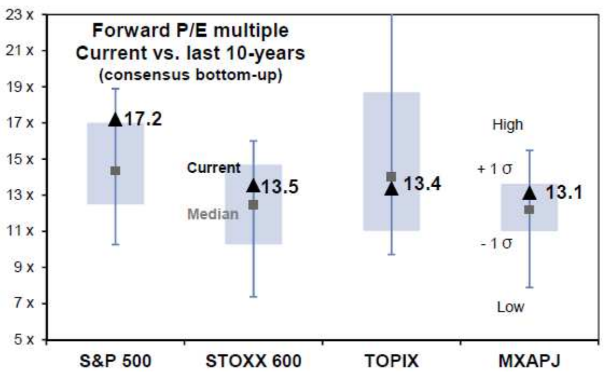
In more recent business cycles, investors have reaped strong returns in the 7-to-12 months prior to the recession

Source: BCA Research Inc.

Interestingly, for investors with a higher risk tolerance, the **period between 7 and 24 months prior to the start of a recession, equity markets (at least in the U.S; see chart 3) have witnessed some of their strongest performances** (blow-out phase).

We believe that we are entering that period, but at the same time, given the already elevated valuation levels (see chart 4 below), we doubt that any "blow-out" phase would be as strong as in the last few cycles.

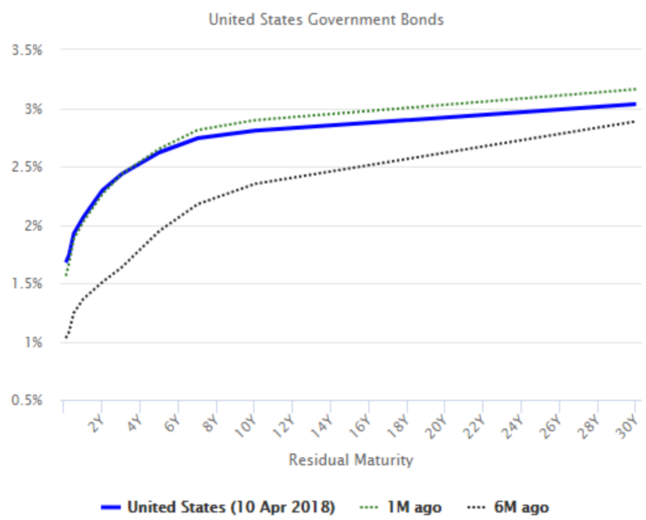
Chart 4: Forward P/E multiple Current vs. last 10 years



Source: Goldman Sachs

The **U.S. economy**, the one that is at the most advanced stage, should see its GDP benefit between 0.8% (2018) and 1.3% (2019) from the recent fiscal stimulus package, mainly via low taxes. By itself, this **stimulus has the power to offset the negative impacts** of the current trade-war tensions with China and any negative impact from rising interest rates by the FED.

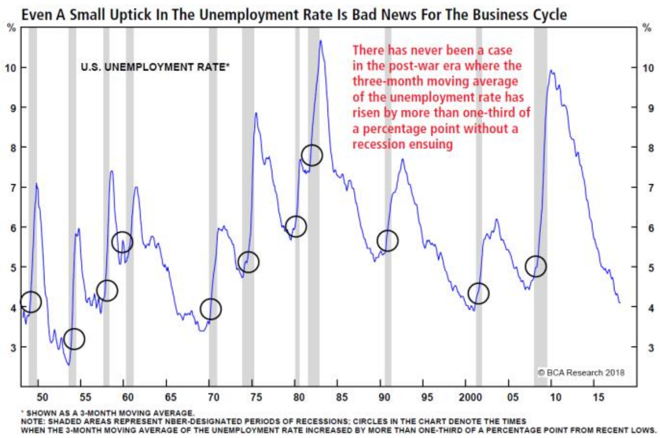
Chart 5: United States Yield Curve – 10 Apr 2018



Source: BCA Research Inc.

We are still of the opinion that a **recession is not on the cards until late 2019 or probably 2020**, whenever the positive effects of the fiscal stimulus will start to fade, then creating a headwind for economic growth. The few leading factors we are closely watching include the unemployment rate (every recession was preceded by an increase of over 0.3% as shown in graph 6), credit spreads increasing significantly, ISM indicator showing a clear contraction, the yield curve inverting (every recession was preceded by an inversion of the yield curve; graph 5 below shows only a moderate flattening). All these **indicators are nowadays still far from showing signs of stress.** So we are confident that the current market correction will be relatively short-lived and not too deep from the current lower levels.

Chart 6: U.S. Unemployment Rate



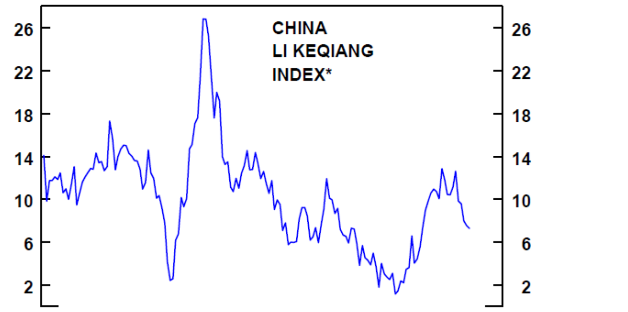
Source: www.worldgovernmentbonds.com

Of course, we can never exclude technical sell-offs, pushing prices below their fundamental valuation levels, but we would consider these as potential buying opportunities. We are constantly monitoring headline news, the fundamental and technical indicators and the U.S. / China trade "tensions". We are not ignoring that many **indicators around the world have been recently softening from their recent highs, but we believe that this is not worrisome** given that they come from relatively high recent levels and we expect a consolidation whenever fundamental data points like earnings release will comfort investors.

When we look at **Europe and the Emerging Markets**, these regions are showing **economic growth in-line with mid-cycles** and would likely have much more room to go before investors would start fearing the end is coming. However, given that the U.S. market is the largest and the most financially integrated, whatever happens in the U.S. will have knock-off consequences everywhere else on the different economies and financial assets. That is why we currently spend more time analyzing and focusing on the American markets. However, as we had pointed out in our last year review, the **Chinese economy**, which had been outperforming on the back of a massive stimulus in 2016, **is now slowing down**, as shown in the chart

7 below (hang-over effect from the end of the stimulus) **towards a more reasonable 6.3% level** (from 6.8%).

Chart 7: Chinese Economy Has Slowed



Source: BCA Research Inc.

Since these markets are influenced by the level of the USD, having a view on its direction is proving to be important. Fundamentally, the **USD is still quite expensive versus many currencies around the world**. However, versus the EUR, it has probably depreciated too quickly in the last 9 months, helped by massive speculative flows switching from being long USD to long EUR. Although, a small retracement of the USD would be normal and expected for many technical reasons, it has not yet materialized. The reason being that there are many strong and conflicting forces affecting the USD (especially versus the EUR).

Chart 8: EUR/USD

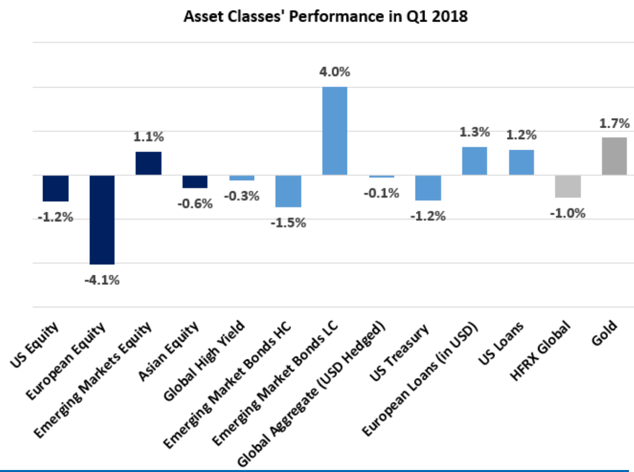
Source: www.tradingeconomics.com

As an example, the rising interest rate differential between the USD and the EUR (or other currencies) is forcing international investors to lower the hedging of their USD denominated investments (pro-USD), while the cheaper valuations of European and Emerging Market equity markets might attract more investments from USD markets (negative USD). Therefore, our conviction level on where the USD will trade within the next 3 to 6 months is relatively low. We believe however that the USD should not move by more than +/- 3-4%, a band that would not materially disrupt Emerging Markets while only marginally affecting European equities, if the EUR would continue to strengthen.

Investment Focus

Many market indices ranging from equities to bonds and credit are showing negative performance on a YTD basis. The positive exceptions are Gold, Emerging Market Equities, Emerging Market Local Currency Bonds and Loans (see chart 9 below).

Chart 9: Q1 2018 Performance



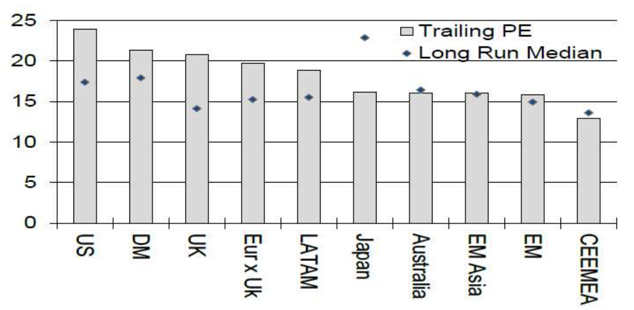
Source: Bloomberg / Marcuard Heritage AG

Therefore, we are satisfied so far how our portfolios have been able to navigate through a complicated first quarter and heading into Q2.

Equities

Based on a solid global backdrop for earnings growth, we **remain constructive for equities** in general, despite their expensive valuation levels. However, as already described before, selectivity is getting of even higher priority in a late cycle environment. On a relative value basis, we prefer European and Emerging Markets equities, whereas US equities appear overpriced at current high PE ratios. Nevertheless, US companies are in good shape and benefit from tax cuts and higher capital spending.

Chart 10: MSCI Regional Trailing PEs

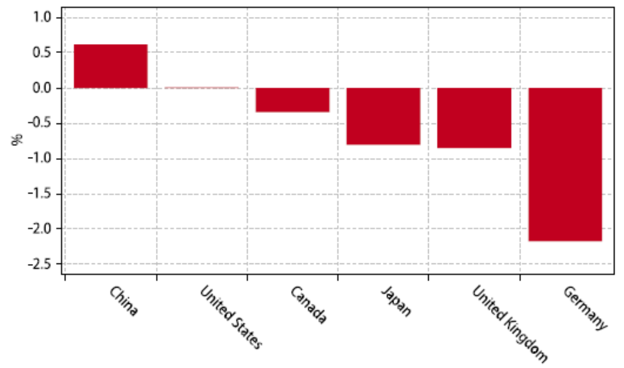


Source: DataStream / Cit Research / Alpinum IM

Fixed Income and Credit

In a rising rate environment, we continue to strongly underweight duration sensitive assets and hold on to our structural overweight positions in European and U.S. loans as they benefit from their embedded adjustable rate feature. Despite the fact that US rates already experienced several Fed rate increases over the last 2 years, real rates in the developed world remain ultra-low or negative as chart 11 demonstrates.

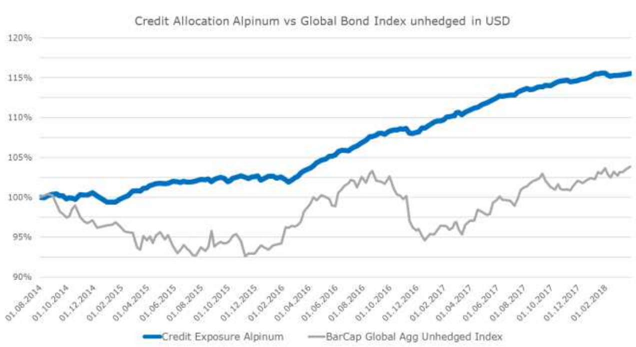
Chart 11: Real yields on 12-months bills



Source: GavekalResearch

Moreover, thanks to the still benign economic outlook (albeit acknowledging the fact that we entered late cycle stage) default rates should only slightly increase throughout 2018. Hence, we continue to like our selected high quality short dated high yield bond exposure that provides us currently an acceptable yield of around 4.5% p.a. In chart 12 we illustrate the performance of our credit-centric portfolio since mid-2014. During this period we were able to weather a few storms with very limited drawdowns as compared to any major fixed income index. On the one hand, we achieved this lower risk profile via our very distinctive bond selection and on the other hand thanks to the very broad diversified portfolio across styles, managers, strategies as well as the inclusion of alternative long only income streams.

Chart 12: Credit long-only Exposure vs Global Bond Index



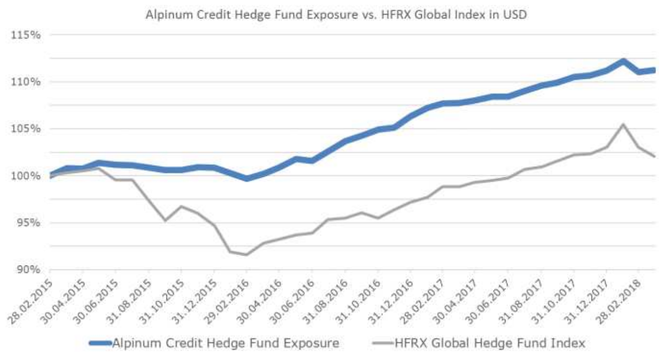
Source: Bloomberg / Alpinum IM

Alternative Investments

As we had described in the last quarterly report, most traditional asset classes trade at relatively high valuation levels, while interest rates are creeping higher. In this environment, non-traditional strategies including hedge funds offer an attractive investment alternative. We consider **hedge funds as an important building bloc to construct portfolios with lower drawdown risks,** while optimising the risk-/return potential at the same time. At the current junction of the (late) market cycle, when equities tend to outperform fixed income assets it seems to be an opportune time to cut duration- and/or credit-sensitive assets in favour of less beta-driven strategies such as hedge funds. This will not only lead to a lower drawdown risk should markets start to correct (negative event), but it should also be beneficiary in a momentum gaining macro environment (positive event) when interest rates start to increase and putting stress on duration-sensitive assets.

We typically form our hedge fund portfolios with low market correlation and low drawdown profiles. Please see below in chart 13 the performance of our credit centric hedge fund allocation vs the HFRX Global index for illustration purposes.

Chart 13: Credit centric HF exposure vs HFRX Global Index



Source: Bloomberg / HFRX / Alpinum IM

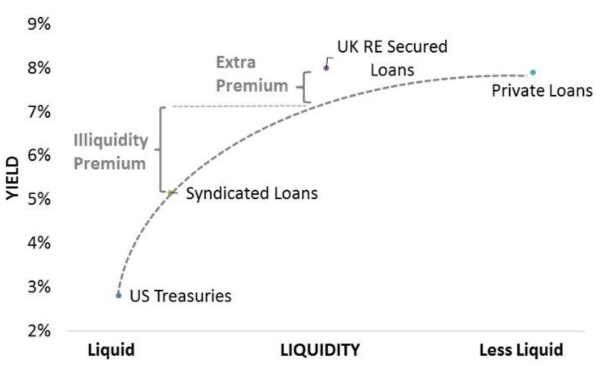
Moreover, for investors with a longer term investment horizon **we recommend diversified portfolios of direct loans, with which investors are able to harvest a complexity and illiquidity premium and generate returns of 7-8% p.a. in USD**. In this context, we introduce you on the next pages specifically to "Secured Lending", an investment strategy that is currently in the sweet spot. The strategy optimally combines the desire for a high return expectation with a very limited risk of losing capital.

Secured Lending

While interest rates are at historical lows and valuations of most traditional asset classes have reached elevated levels, private and institutional investors are in search of alternative income sources to achieve their return goals. In this environment, we have identified within the "secured lending" asset class a very compelling strategy that **optimally combines the reach for an attractive yield with a very low risk of losing capital**. The following example briefly outlines the characteristics of this strategy we have been successfully implementing for our clients.

Generally, a "secured" loan is backed (or secured) by an asset. Hence, the borrower **pledges an asset** (i.e. in our example a property), **as collateral in favour of the loan**. In the event that the borrower defaults, the creditor takes possession of the asset and sells it to recover the amount originally lent to the borrower (via a mortgage repossession procedure to get the keys of the home). Besides real estate there are other assets that can be used as collateral. Most common are hard assets such as airplanes, cars, machineries, equipment, inventories or commodities. Liquid financial assets used are stocks, bonds or invoice receivables.

Chart 14: Earning an Illiquidity and extra premium



Source: Alpinum IM

Sweet Spot in Secured Lending

Our focus in this report is on **short term residential mortgage backed lending**. We believe this strategy represents the sweet spot within the secured lending market as it 1) generates a high income of ~8% p.a., 2) is backed by very strong collateral (homes with LTV* <65%) with extremely low historical loss rates, and 3) the maturity of the loans are short in nature at only 6-18 months. Hence, we can offer this strategy to investors in a relatively liquid format, while **avoiding any potential liquidity mismatch between assets and liabilities**.

Chart 14 illustrates the **unique risk-/return profile** of the strategy. An investor can structurally achieve an additional return, which we describe as illiquidity plus extra premium due to limited market capacity. We gain access to this asset class via a "clean", closed-end fund structure with no asset-liability mismatch.

Short-term property lending market

Since the financial crisis 10 years ago, stricter bank underwriting standards and capital requirements have resulted in more borrowers seeking short-term finance via alternative lenders. Today, the **short-term mortgage market** in the UK is estimated at £4 bn annually. The loan approval times have increased, due to strengthened regulatory guidelines for traditional lenders (banks), leaving limited options to those who require urgent financing other than from the short-term market. Hence, borrowers are increasingly reliant on alternative lenders. To enable borrowers to conclude urgent property acquisitions (often at a discount), credit approval decisions have to be reached quickly. This creates an opportunity to earn a premium rate by providing speed, certainty of funding and the specialized services of alternative lenders.

Senior Secured Lending Strategy

Taking advantage of this unique investment opportunity requires very thorough processes and deep experience in the sector. Sourcing and underwriting standards are of key importance to effectively and continuously reach high income and low loss rates. We have identified a specialist with more than 10 years experience and an extensive history in the property and alternative lending market. So far the asset manager has completed more than 2'100 loans with a value surpassing £1.4 billion of short-term finance. All the loans are backed by UK residential or commercial real estate. They have a very strong credit performance (less than 20 loans suffered a principal loss).

Please find on the next page a "live" example of a loan that describes a typical project in the UK residential property market, to which we have gained exposure.

This niche lending market, where speed is key, an institutional infrastructure and risk management framework are essential. These important features have steadily been developed over the last twelve years and present critical success factors. Dealing with hard money lending presumes focusing not only on the property itself but also on reviewing the borrower involved and the exits that have to be undertaken. Our portfolios have an average loan to value* (LTV) of 63%, whereas each loan has a maximum LTV of 75%, providing a lot of security even in a negative market. The duration range of financing is 6-24 months (average 12.5 months). This means that the liquidity for the end investor is also better than with other similar strategies such as private debt strategies for SME's.

Loan exits are achieved via property sales or long-term refinances, typically via buy-to let mortgages.

Purchase of residential flat requiring refurbishment; exit planned as refinance via buy to let

Rationale: The borrower requires within a short time frame a loan to buy the property described below, which a "normal" bank is not able to provide within the tight time line. After the refurbishment, the borrower pays back the "expensive" bridge loan and replaces it with a "normal" mortgage via a commercial bank. The borrower keeps the property and rents it out in the market.

Loan Balance: £371'000 – South West England

- 2/3 bedroom converted flat on the second floor of a large Edwardian detached property in South West England
- Purpose of the loan is to purchase the flat, which the borrower plans to refurbish to a higher standard (expected Gross Development Value [GDV] of £ 595'000)
- Refurbishment project is being funded by the clients own funds
- The intended exit is to refinance on to a longer term buy to let mortgage via a commercial bank

The loan granted can be characterized as follows:

Loan to Value (LTV):	62.4%
Duration:	12 months
Yield:	11.2%
Security:	senior lien

Absolute Return Strategies	Comments
Equities	
▪ US equities have high valuations compared to other regions, but earnings growth and tax cut perspectives should still lead markets higher. Hence, we keep relevant U.S. equity exposure, but with a relative underweight position in favour of Europe, Asia and Emerging Markets. ▪ Commodities tend to be a "late cycle" beneficiary when inflation trends higher. We initiated a small exposure in U.S. energy-related MLPs, which suffered from new income tax allowance ruling and now offer an interesting entry level, while the securities benefit from a high cash flow yield. ▪ Increase global equities should the market correction lead valuations one level lower.	▪ Equities have generally high valuations, especially in the U.S. Nevertheless, due to a strengthening global economic backdrop they still offer more upside based on stronger earnings and the tax cut benefits. ▪ European equities still have some valuation gap versus the U.S. and corporations are supported by accelerating top line growth and increasing profit margins. The same is true for many Emerging Markets where opportunities are still abundant, although investors need to be careful as we expect a lot of dispersion between countries.
Credit / Fixed Income	
▪ Avoid Government bonds unless yields on Treasuries 10-year surpass the 3% level. Buy selectively U.S. Investment Grade bonds if yields increase and credit spreads get wider. ▪ Focus the allocation mainly to U.S./European loans. European High Yield bonds are currently very expensive. Favour U.S. short-term maturities and add longer-term bonds only on weakness. Within IG, we prefer Asian bonds at higher spreads relative to the U.S./Europe. ▪ Emerging Market bonds still offer pockets of opportunities, with local currency bonds being favoured over hard currency bonds. ▪ Financials via investing into their lower-ranked bonds (i.e. preferred securities) offer good value (spreads have recently widened – making them more attractive nowadays) as banks are recapitalizing and the expected fiscal and de-regulation policies are also positive factors.	▪ U.S. interest rates should continue to trend higher, whereas we expect the short end to increase more meaningfully in the short term. ▪ Pro-growth policies in the U.S. continue to support high yield bonds/loans, as these companies will be able to grow their revenues, while default rates remain low. Loans offer better value vs High Yield Bonds. European credit markets also enjoy strong tailwind by low rates and an accelerating economy. The ECB's bond buying program is still a strong support (particularly for IG corporate and peripheral government bonds) and this should not fade in H1 2018. ▪ Selective Emerging Market bonds in local currency offer investors dual income sources with the yield of the bond and the currencies' potential appreciation. However, this will be accompanied by high volatility. ▪ Harvesting the illiquidity premium from direct corporate loans and secured loans in specific areas, which bear strong principal protection.
Alternatives	
▪ Credit Long-Short strategies identify plenty of relative value trades, both long and short. Fixed-Income arbitrage offers more opportunities, as interest rates move as Central Banks are normalizing their policies. Equity Long-Short should benefit from the increasing performance dispersion and the continued support of their long-book helped by continued positive equity markets.	▪ With the FED normalizing rates, Fixed-Income Arbitrage and Credit Long-Short managers will experience increasing price dispersion between different interest rates securities. This leads to more relative value opportunities and credit short opportunities. ▪ Global macro managers should find more opportunities with the diverging global monetary and fiscal policies between countries.
Real Assets	
▪ Gold will be caught between a slightly higher USD and rising U.S. interest rates and the increasing inflation rate. We now expect a higher trading range between $1300 and $1400.	▪ Should inflation meaningfully accelerate in the coming quarters, gold and industrial commodities should also trade higher. However, this will be a rocky path against higher U.S. rates/USD.

Long Only Strategies	Comments
Equities	
▪ US equities have high valuations compared to other regions, but earnings growth and tax cut perspectives should still lead markets higher. Hence, we keep relevant U.S. equity exposure, but with a relative underweight position in favour of Europe, Asia and Emerging Markets. ▪ Commodities tend to be a "late cycle" beneficiary when inflation trends higher. We initiated a small exposure in U.S. energy-related MLPs, which suffered from new income tax allowance ruling and now offer an interesting entry level, while the securities benefit from a high cash flow yield and supporting the investment case. ▪ Increase slightly global equities on cheaper valuation levels towards the peers' allocation.	▪ Equities have generally high valuations, especially in the U.S. Nevertheless, due to a strengthening global economic backdrop they still offer more upside based on stronger earnings and the tax cut benefits. ▪ European equities still have some valuation gap versus U.S. and corporations are supported by accelerating top line growth and increasing profit margins. The same is true for many Emerging Markets where opportunities are still abundant, although investors need to be careful as we expect a lot of dispersion between countries.
Credit / Fixed Income	
▪ As yields on U.S. Treasuries are increasing, start buying some exposure to reduce credit exposure and balance the portfolios towards our peers. Buy some U.S. Investment Grade bonds if yields increase by 0.5% to 1% on higher rates and spreads. ▪ Focus the allocation mainly to US/European loans. European High Yield bonds are currently very expensive. Favour U.S. short-term maturities and add longer-term bonds only on weakness. Within IG, we prefer Asian bonds at higher spreads relative to the U.S./Europe. ▪ Emerging Market bonds still offer pockets of opportunities, with local currency bonds being favored over hard currency bonds. ▪ Financials via investing into their lower-ranked bonds (i.e. preferred securities) offer good value (spreads have recently widened – making them more attractive nowadays) as banks are recapitalizing and the expected fiscal and de-regulation policies are also positive factors.	▪ U.S. interest rates should continue to trend higher, whereas we expect the short end to increase more meaningfully in the short term. ▪ Pro-growth policies in the U.S. continue to support high yield bonds/loans, as these companies will be able to grow their revenues, while default rates remain low. Loans offer better value vs High Yield Bonds. European credit markets also enjoy strong tailwind by low rates and an accelerating economy. The ECB's bond buying program is still a strong support (particularly for IG corporate and peripheral government bonds) and this should not fade in H1 2018. ▪ Selective Emerging Market bonds in local currency offer investors dual income sources with the yield of the bond and the currencies' potential appreciation. However, this will be accompanied by high volatility. ▪ Harvesting the illiquidity premium from direct corporate loans and secured loans in specific areas, which bear strong principal protection.
Commodities / Forex	
▪ Gold will be caught between a slightly higher USD and rising U.S. interest rates and the increasing inflation rate. We now expect a higher trading range between \$1300 and \$1400. ▪ Given the continued global growth and our view that inflation expectations will continue to emerge, oil (Brent) will start to trend higher.	▪ Should inflation meaningfully accelerate in the coming quarters, we expect gold and industrial commodities to go up as well. However, this will be a rocky path against higher U.S. rates/USD. ▪ The oil price is supported by the OPEC's commitment to maintain production levels until year end, while the accelerating global growth is also positive. However, there is a lot of potential supply (mainly from U.S. shale oil) which is ready to hit the market, limiting the upside potential.

Asset Class Conviction Levels for Absolute Return Strategies

The below conviction table reflects the investment team's view of the absolute expected return of an asset class/strategy in relation to "cash".

			Conviction Level over 6 Months		
Equities	**Underweight**	←	**Neutral**	→	**Overweight**
North America	☐	☐	☑	☐	☐
Europe	☐	☐	☐	☑	☐
China	☐	☐	☐	☑	☐
Japan	☐	☐	☑	☐	☐
Asia - Emerging Markets	☐	☐	☐	☑	☐
Others - Emerging Markets	☐	☐	☐	☑	☐

			Conviction Level over 6 Months		
Fixed Income	**Underweight**	←	**Neutral**	→	**Overweight**
US - Treasury Bonds	☑	☐	☐	☐	☐
Euro - Government Bonds	☑	☐	☐	☐	☐
US - Investment Grade Bonds	☑	☐	☐	☐	☐
Europe - Investment Grade Bonds	☑	☐	☐	☐	☐
Emerging Market Local Currency	☐	☐	☐	☑	☐
Emerging Market Hard Currency	☐	☑	☐	☐	☐
US High Yield / Loans	☐	☐	☐	☑	☐
European High Yield / Loans	☐	☐	☐	☑	☐

			Conviction Level over 6 Months		
Commodities	**Underweight**	←	**Neutral**	→	**Overweight**
Gold	☐	☐	☑	☐	☐

			Conviction Level over 6 Months		
Hedge Fund: Strategies	**Underweight**	←	**Neutral**	→	**Overweight**
Equity Long-Short	☐	☐	☑	☐	☐
Credit Long-Short	☐	☐	☑	☐	☐
Event-Driven - Corporate Actions	☐	☐	☑	☐	☐
Global Macro	☐	☐	☑	☐	☐

			Conviction Level over 6 Months		
Hedge Fund: Regional Focus	**Underweight**	←	**Neutral**	→	**Overweight**
Hedge Fund: North America	☐	☐	☑	☐	☐
Hedge Fund: Europe	☐	☐	☐	☑	☐
Hedge Fund: China / Japan	☐	☐	☑	☐	☐
Hedge Fund: Emerging-Markets	☐	☐	☑	☐	☐

Asset Class Conviction Levels for Long Only Strategies

The below conviction table reflects the investment team's view of the relative expected return of an asset class in relation to traditional well-recognized benchmarks such as BarCap Global aggregates (bonds) and MSCI World (equities).

Equities	Underweight	Conviction Level over 6 Months	Neutral		Overweight
North America	☐	☐	☑	☐	☐
Europe	☐	☐	☐	☑	☐
China	☐	☐	☐	☑	☐
Japan	☐	☐	☑	☐	☐
Asia - Emerging Markets	☐	☐	☐	☑	☐
Others - Emerging Markets	☐	☐	☐	☑	☐

Fixed Income	Underweight	Conviction Level over 6 Months	Neutral		Overweight
US - Treasury Bonds	☐	☑	☐	☐	☐
Euro - Government Bonds	☑	☐	☐	☐	☐
US - Investment Grade Bonds	☐	☑	☐	☐	☐
Europe - Investment Grade Bonds	☑	☐	☐	☐	☐
US High Yield	☐	☐	☑	☐	☐
US Short Term High Yield	☐	☐	☐	☑	☐
US Loans	☐	☐	☐	☐	☑
US Municipal Bonds	☐	☑	☐	☐	☐
European High Yield	☑	☐	☐	☐	☐
European Short Term High Yield	☐	☑	☐	☐	☐
European Loans	☐	☐	☐	☑	☐
US/EUR Preferred Securities	☐	☐	☐	☑	☐
US/EUR Asset Backed Securities	☐	☐	☐	☑	☐
Emerging Market Local Currency	☐	☐	☐	☑	☐
Emerging Market Hard Currency	☐	☑	☐	☐	☐
Emerging Market High Yield	☐	☐	☑	☐	☐

Commodities	Underweight	Conviction Level over 6 Months	Neutral		Overweight
Gold	☐	☐	☑	☐	☐
Oil (Brent)	☐	☐	☑	☐	☐

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