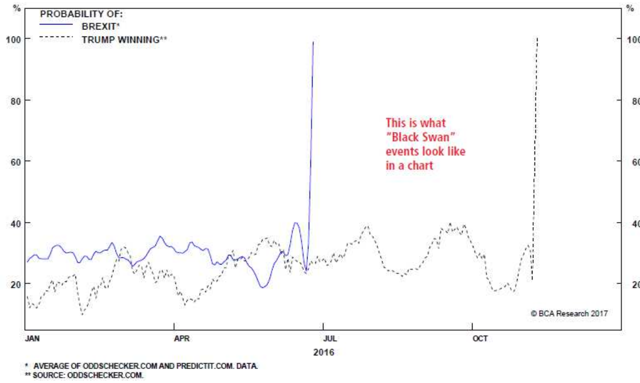
Quarterly Investment Letter – Outlook 2017

Q1/2017

Shifting Regimes to Pro-Growth

Entering 2016, we expected a challenging and volatile year given the planned U.K. referendum and U.S. elections. That is what we witnessed as the year started with global equities falling on the basis of growth's fears, followed by the Brexit shock and the surprising US election result. Given that we had not predicted the Brexit and Mr. Trump's election outcome, our disciplined and risk-managed investment approach allowed us to navigate these events with minimum negative impacts to our portfolios and we quickly adjusted to the new realities. This environment should have been conducive for alternative strategies but the reality was that equity long-short managers had one of their most challenging years since 2008 as the market dynamics surrounding these key market events clearly caught them by surprise.

Chart 1: Surprises and high market volatility in 2016



Sources: BCA

Following Mr. Trump's win as the next President of the U.S., investors looked past the initial surprise to focus on actual intended policies and their economic impact going forward. The equity markets rallied primarily in the U.S. while Emerging Market equities and bonds suffered a lot as we had expected under a Trump win scenario.

We believe that 2017 will prove to be the pivotal year as the global economies will set the stage **for a paradigm shift** stretching the current economic cycle

Summary Points

- We are witnessing the **transition from monetary stimulus to fiscal stimulus** (tax cuts, infrastructure spending) and from **disinflation to reflation**.
- The **rise of populism** in the Developed Markets is finally forcing governments to adopt more pro-growth policies after years of austerity.
- **De-globalization and protectionism** are becoming themes with more weight and credibility in context with the rising populism.
- The **current economic cycle should be stretched even further** given the pro-growth policies to be implemented around the world.
- Global growth will still take some time to recover but we anticipate positive signs in Europe, U.S. and in selective Emerging Markets.
- The **largest risk** we see to the global growth would be **escalating tensions between China and the U.S.** affecting global trades and the potential election of **populist parties in major European countries.**
- We see increasing **value in global equities** over investment grade bonds.
- We **favor high yield credit over investment grade** and shorter duration as we expect yields (especially in the U.S.) to rise over time.
- U.S. domestic equities (given their high valuations) justify caution and we foresee increasing **potential for European** and selective **Emerging Market equities** to outperform.
- Government and high credit rating **Investment Grade bonds face structural headwinds** as the markets start to focus on interest rates normalization.

even further. We are now witnessing a transition from **monetary to fiscal policy and from globalism to populism**, driving governments from Developed Countries to start establishing more pro-growth policies. We expect that these changes will benefit investors and risky assets over time, but there will be increasing uncertainty and volatility associated with such important changes and their related implementation.

Not only will we witness U.S. policies focusing on stimulating the largest economy in the world but we will also have to go through the **uncertainty associated with the upcoming French and German elections** where the rise of populism raises fears for the very survival of the Euro. Not to forget the **risks of escalating tensions between China and the U.S.** which could significantly impact global trades and investors' sentiment. Again, as in 2015 and 2016, the year will be full of significant events and most likely quite challenging.

The **world's growth continued to slowdown in 2016** only to show signs of stabilization in the second part of the year (see below graph). With a real GDP growth of around 2.7% for the year, we clearly witness the structural problem the whole world is facing to jump-start growth following the great financial crisis. Even with the systematic and continued support from the largest Central Banks, inflation is very low and global real growth is at historically low levels. **We expect 2017 to be the key year during which we will witness a widespread mindset change** within the developed economies, setting new foundations for a renewed global growth towards the end of 2017, and more specifically for 2018.

Chart 2: US Inflation Rates

Source: The Economist, Haver Analytics

In 2016, there was a significant divergence in monetary policy between the U.S. and the Europe/Japan, whereas Brexit has clearly changed the stance of the Bank of England who had to become more accommodative to support the economy. We should expect that the relatively strong **recovering U.S. economy will lead the way to more monetary normalizations with 2 to 3 interest rate hikes** of each 0.25%. At the same time, **Europe will extend the Quantitative Easing program** but if our expectations of a relatively resilient European economy materializes, the ECB might start, towards the end of the year, to prepare investors for an eventual retreat from its asset buying program. Such anticipated announcement would most likely be followed by **rising EUR interest rates** (and also the EUR itself) and could also rattle both bond and equity markets if the majority of investors believe that the European economy is not strong enough to function on its own without the active and significant help of the ECB. An accelerated banking reform would clearly be needed to reassure investors that Europe might have turned the corner almost a decade after the financial crisis, something that has now finally started in Italy in December 2016.

The **election of Mr. Trump has led to a change of mindset** within the investment community as many of the pre-electoral promises, if indeed implemented, would create significant stimulus to the economy and **such impulse could very easily spread to the rest of the world.** The most significant expected agenda points will focus on corporate and individual tax cuts, de-regulation, infrastructure spending and increased protectionism. Given the already tight labor market in the U.S., we can expect that these pro-growth policies **would eventually lead to increased inflationary wage pressure**, higher interest rates and a continued strong USD, although we would argue that the market has already discounted much of the appreciation of the dollar at this point and some consolidation from the current levels versus most currencies is to be expected.

Chart 3: Chinese RMB

Source: www.tradingeconomics.com

We can't discuss the global growth outlook without mentioning China, which is the single largest contributor to it as highlighted in the graph above (chart 3). Throughout 2016, **China has been able**

to successfully stabilize its economy (China is still by far the major source of global growth) by actively and tactfully implementing or phasing-out monetary, fiscal or regulatory policy stimulus to boost or restrict flows and investments into different sectors of its economy.

China is transitioning its economy to one based on production of goods to one based on domestic consumption and services. The government is carefully juggling between keeping growth at an acceptable level and the need for structural reforms to maintain a long-term acceptable level of growth. We had foreseen that China's economic slowdown might require to devalue its currency and this is what happened with the **Yuan having lost -6.5% in 2016 and already -11% since 2015**, providing significant support to the slowing economy. Given the divergence of monetary policies between the FED and the PBOC (People's Bank of China), we expect that the currency will most likely continue to depreciate throughout 2017, providing some additional competitive advantages to Chinese exporters to help the economy and to counter potential new tariffs imposed by the Trump administration. Given Mr. Trump's repeated attacks on China and the recent diplomatic tensions over Taiwan's official call and the US Army's drone saga, we have to be cognizant of the fact that any major tariffs imposed on Chinese exports by the U.S. could quickly escalate into a counter-productive trade war which could derail the positive impacts from fiscal policies.

Chart 4: Brent Oil in USD

Source: www.tradingeconomics.com

At the moment, **we expect China to still ride the latest wave of stimulus until the second part of 2017** when the effects might start to phase-out and additional easing policies and stimulus would be expected to keep the economic growth on track for a real GDP growth of 6% to 6.5%. The biggest challenge of Chinese policymakers comes from the handling of the **significant credit bubble, mainly linked to the frothy real estate market**, which is required to sustain the country's current growth rate. Such credit growth is not indefinite but it still can be carried forward in the foreseeable future. We maintain our stance that China will stabilize and find a way to pull the different levers at hand to maintain the economic growth and reforms on track in order to avoid any credit and growth crisis for the next year. We think that China will have to deal carefully with Mr. Trump in ways that might appear more significant to the media / population than it is in reality.

Regarding the rest of the Emerging Markets, their diversities make them very difficult to categorize as it was the case 10 years ago. With **OPEC and Russia agreeing on oil production cuts to sustain the oil price**, we have witnessed the first concrete agreement to stop the last few year's pricing war versus the US shale oil producers. With oil expected to stabilize between $45 to $65, investments by energy companies will start again and the oil price would still be relatively affordable throughout the world not to impact negatively the growth of many Emerging Market countries (especially in Asia) while providing support for some energy exporting economies which have been suffering greatly for a few years already. If global growth surprises to the upside, it would then be possible that the oil price could trade in the upper-range (or slightly higher) of our expected band but we view prices above $65 to be not sustainable given the market dynamic with low cost shale producers able to resume production at such decent levels. If the oil price stabilizes, the USD consolidates and the US rates follow an expected path of 2 to 3 additional rate hikes (provided widespread solid growth conditions in the U.S.), then **we can foresee that Emerging Markets might start to offer once again good opportunities** for investors able to stomach higher volatility.

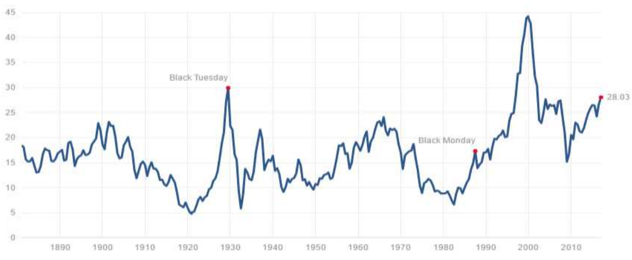
Chart 5: Gold in USD

Source: The Economist, Haver Analytics

Given the pro-growth initiatives in the U.S. combined with the already tight labour market, some protectionism policies and a higher oil price, the eventual return of inflation would be a natural consequence. As such, given the already depressed level of **gold** price, close to the cost of production of many producers, we would argue that any **inflation pressure could spark investors to consider buying back some gold** as a potential protection against the loss of purchasing power. In addition, there was in early December 2016 the **adoption of the Sharia Gold Standard** that some experts qualify as a "game changer" in the gold market. While we have acknowledged that rising interest rates and a strong USD are headwinds for the price of gold, we think that the current price reflects these expectations and that it is currently trading at depressed levels. Given the inherent volatility and unpredictability of the price of gold, we are still careful not to have too high of an allocation in any of our portfolios.

Given the relatively good health of the economy and the promised corporate and personal tax cuts, infrastructure spending and the push to deregulation, investors have had since the U.S. elections many reasons to believe that these will help the corporate sector expand and foster a climate more conducive for investments into new projects. **U.S. equities**, especially the smaller companies driving their revenues from domestic sales, have seen their valuation aggressively adjusted to new highs on such hopes and expectations.

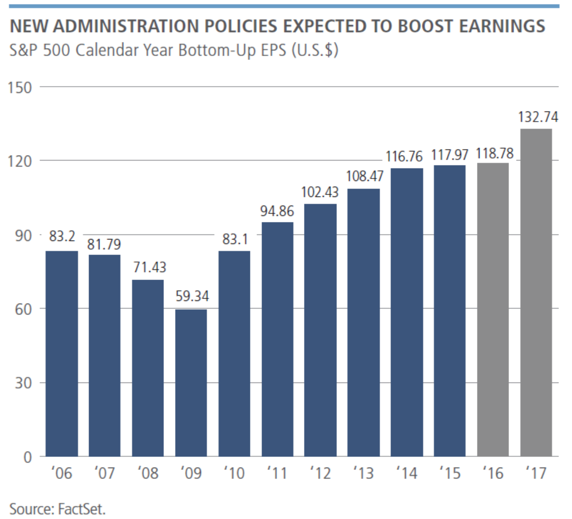
Chart 6: Shiller Price/Earnings Ratio (Inflation-adjusted earnings)



Source: www.multpl.com

Valuations which were already quite elevated by historical standards (see chart 6 above) **are now reaching even more stretched levels on significant earnings growth**. However, when taking into consideration the expected positive developments to their earnings, the valuation still appears lofty but no longer at unsustainable levels. **Investors have already incorporated a lot of positive news which might take time to implement or might get implemented only partially**. The U.S. economy has the ability to reflate quicker than many may anticipate and it would be imprudent to underestimate the market where the most business friendly policies will be incorporated.

Chart 7: New Administration Policies can boost US earnings



Source: FactSet

We recognize that **valuations alone are not the sole driver of share prices** and that fundamentals can maybe take some time to catch-up to the elevated valuation levels. However, with these high prices, the room for a significant market correction along the way increases proportionately and investors must therefore have to withstand more volatility not to be forced sellers in a market correction but conversely, they should view these painful moments as opportunities to add to their core positions at more attractive levels.

The **European equity markets are trading at a significant discount to their U.S. peers** (see chart 8 on the next page) for already many years because of the economic and political situation that has been clouded with uncertainties. The precious help of the ECB to keep the anemic economic recovery from faltering means that investors have to closely follow and analyze what Mario Draghi intends to do with its asset buying program and other policy initiatives. Especially towards the third quarter of the year when investors will start to speculate about the likelihood to taper and/or extend again such programs. The **impact of Brexit will most likely start to be felt in the second part of the year** prompted by delayed corporate investments caused by the lingering uncertainty about the outcome of the negotiations. In addition, the global populist rise combined with a busy election agenda in Europe for 2017 will further add to the uncertainty of France or Germany surprisingly electing parties which may also promote leaving the EU. A scenario we believe is still unlikely but one that would nevertheless lead to a complete reform of the EU or even its collapse. In such a scenario, all risky assets would suffer heavily.

Despite all these uncertain points, we believe that the fundamental recovery of Europe will eventually dominate investors' sentiment as most of the uncertainties have already been discounted in the current share prices and any marginally better outcome or fading uncertainties would be positively viewed by investors. **The U.S. pro-growth policies and related economic boost will most likely spread also to the old Continent**, further helping Europe's fragile recovery.

Chart 8: Trailing and Forward P/E Ratios

INDEX as of Dec 31, 2016	COUNTRY	TRAILING P/E	FORWARD P/E
MSCI WORLD	WORLD	22.0	16.7
S&P 500	U.S.	21.0	17.5
RUSSELL 2000	U.S.	48.7	26.0
EURO STOXX 50	EUROPE	21.2	14.2
MSCI EMERGING MARKETS	EM	18.7	16.8
HANG SENG	CHINA	12.2	11.4

Source: Bloomberg

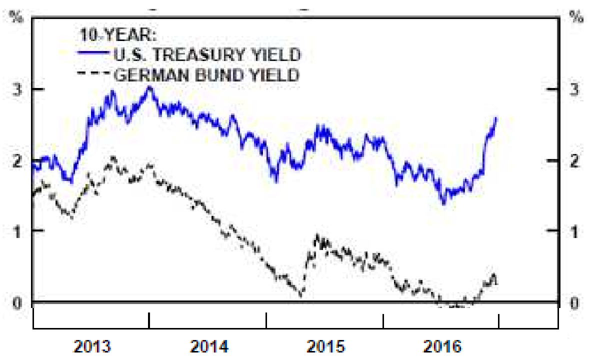
Therefore, we believe that Europe has a high probability to see its stock market climb a wall of worries in 2017 and we believe that European markets have the potential to surprise on the positive side. However, we acknowledge the need to be careful about increasing our exposure, waiting for confirmation that our scenario is playing-out and buying more on strength while not overlooking any unanticipated developments and react quickly to sell-out if needed.

Emerging Market equities have been for many years underperforming as China's high flying growth levels came to normalize in the last few years, putting significant pressure on revenues and earnings of many companies. With China carefully stabilizing its economic growth, India successfully implementing important reforms allowing to unlock sustained long-term growth and many other countries either benefiting from stabilizing energy prices or having been through multi-years of various reforms, investor sentiment might be about to turn positive. Of course, we can argue that the **U.S. interest rates** expected to rise another 0.5% to 0.75% next year, **combined with the potential continued appreciation of the USD might put increased pressure on many Emerging Market** countries' budget being financed via USD denominated debt. This would in turn slow the economic recovery and the attractiveness of equities, but we would argue that **most of these factors are already being discounted in the low equity valuations** (see chart 8 for both Price/Earnings ratios trailing 12 months and Expected Forward 12 months).

On the positive side, equity margins have already increased from very depressed levels during 2016 and sales/earnings have so far stabilized their downtrend. **It would not take much for investors' sentiment to turn more positive**, especially given the significant valuation cushion involved (about 20% to 30% lower valuations than their U.S. counterparts on Price/Earnings ratios).

Fixed income investors have had a very interesting 2016. The first part of the year was dominated by Government and Investment Grade bond yields in Developed Markets going negative (prices soaring) for most issuers on deflationary and growth concerns. This trend reversed in the second part of the year on new pro-growth/inflation policies announced by the upcoming new U.S. President. However, corporate high-yield and emerging market bonds have had a very strong overall year despite some significant volatility as the overall economic conditions are still supportive for both asset classes, especially the corporate side.

Chart 9: 10 Year US Treasury/Geman Bund Yields



Source: BCA

The **US Treasury (10-year) yields have already rallied significantly from a low of 1.37% to a recent high of 2.6%** (see graph above; chart 9) on expectations of the intended tax cuts, infrastructure spending, decreased regulation and interest rates normalization, all leading to potentially higher inflation given the already tight labour market. While we expect some consolidation around the current level or even a moderate pullback, the path of least resistance, given the new regime shift in the U.S., is still to see yields go higher towards 3%. The fact that the U.S. employment is quite strong and that many policies by the Republican would favor domestic projects, consumption via tax cuts while becoming more restrictive on immigration, we believe that the topic of inflation would eventually reappear amongst the investment community. It could quickly go from the current 1.5% to the FED's targeted 2% level, pressuring Janet Yellen to accelerate the interest rate normalization and therefore pressuring Government and Investment Grade bond prices through the year. However, such a normalizing environment, with **slightly higher interest rates, inflation and fiscal policies is clearly positive for corporate high-yield bonds, but investors need also to take into their equation that credit spreads trade already at relatively tight spreads.**

Chart 9: Uptick in economic activity in Europe should lead to higher inflation and cause yield pressure some time in 2017

Source: MARKIT / BCA

In Europe, the inflation is still low and initiatives by the ECB to promote higher inflation are taking a lot of time to produce meaningful results. However, given our scenario in which **Europe may still be able to go through a challenging year relatively unscathed**, we feel that upcoming discussion on the timing of further ECB Quantitative Easing program tapering might translate into European yields already rising more significantly in anticipation. With the ECB backstopping any economic slowdown for the foreseeable future and a potentially more resilient and pro-growth economy, this is a good environment for corporate credits, especially high-yield bonds and loans.

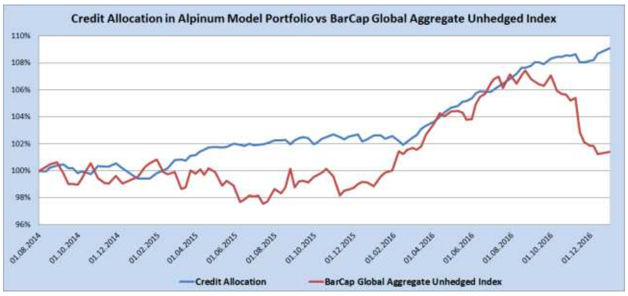
Emerging Market bonds were surprisingly resilient during 2016 as investors' outflows were only really significant following Mr. Trump's election given his pre-electoral policy promises which are negative for Emerging Market countries. However, we are also witnessing that investors are nowadays more sophisticated and consequently differentiate a lot more between the many countries instead of treating all of them as a single asset class. That translates into a higher level of differentiation for fixed income between countries and corporations as well as for equities. While it is true that a higher USD and U.S. interest rates are negative for Emerging Market bonds quoted in both local and hard currencies, the reality is that most of the negative price impact was already felt in the post-U.S. election weeks. In addition, **these bonds carry/carried a significant risk premium over U.S. or European Government bonds** justifying, in a low yielding environment, being comfortable to invest in them even if there is a slight headwind building-up. Given our view that most of the USD appreciation is behind us and that the 2 to 3 upcoming interest rate hikes are already fully priced in the markets, we also believe that the premium on many Emerging Market bonds is worth the extra risk but we will need to be quick to sell-out if our scenario doesn't unfold and especially if global investors are pulling-out with large outflows.

In summary, **corporate bonds and loans (especially of high yield companies) in developed markets should still be the favored asset class**, followed by emerging market bonds and asset-backed structures on real estate or loans. We are clearly seeing the global shift away from US and European Government bonds on the face of too low nominal yields combined with expected higher interest rates, so keeping shorter average maturities would be key to avoid losses on these bonds. Again, given the fundamental changes happening within the banking sector where some niche markets are not being serviced anymore by the traditional banks, investors willing to commit capital to few years can earn high single digit yields or even low double digits if leverage was taken into the equation.

Model Portfolio Positioning

Our Absolute Return model portfolio weathered the volatility surrounding the Trump-win without damage. While our portfolios have a structural underweight exposure in duration for some years, we also had sold out most of our emerging debt exposure ahead of the presidential elections. Moreover, we had quickly adjusted our positioning once it became obvious that equity markets were reacting positively to the US election results. With respect to the sell-off in government and investment grade bonds post elections, our credit/fixed income exposure was mostly insulated as the chart below does well demonstrate.

Chart 10: Alpinum Credit Exposure vs Global Bond Index

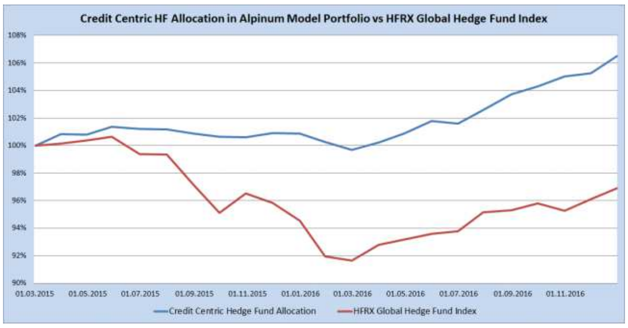


Source: Bloomberg / Alpinum Investment Management

In **fixed income**, we continue to hold on to our structural overweight positions in corporate loans as well as short term high yield bonds, whereas the geographic focus of our loan exposure remains primarily in Europe. We also maintain our exposure in (European) CLO's and our positions in U.S. RMBS. While we had significantly reduced our emerging debt allocation (as described above) ahead of the US elections, we have recently started to buy back some of the exposure. Such new allocations include Asian investment grade bonds denominated in USD, but also Indian government bonds in local currency.

Our **hedge fund strategies**, which experienced a relatively challenging time at the beginning of the year, have been able to recoup the losses and experienced a very strong final quarter. While we are not satisfied with the returns of our equity long short exposure in 2016, we were very pleased with the remaining hedge fund allocations we have exposure to. Noteworthy is the compelling performance of our allocation to credit centric long short strategies. These sub-strategies did not only benefit from a healthy environment for credit in general, but the selected managers were also able to generate high alpha returns. Please see below the performance of our credit centric HF allocation in the chart below.

Chart 11: Credit centric HF allocation vs HFRX Global Index



Source: Bloomberg / HFRX / Alpinum Investment Management

Looking ahead, the general shift of politics to a more "growth-friendly" behaviour will also positively influence the cap-ex plans of corporates. This will ultimately stimulate private consumption as (US) wage growth is also expected to pick up in tandem. Therefore, **we continue to prefer equity and credit sensitive investments over duration centric investments** for the months and quarters to come. We are already positioned to benefit from such an environment. However, we do not expect a gradual up-move in valuations, but rather expect volatility to kick in along the way. Therefore, we keep our portfolios broadly diversified and remain conscious of the prevailing risks. Should the macro environment drastically worsen, we will be ready to lower the portfolio risks. However, should a market correction not be fundamentally backed by weak data, we will try to tactically increase our risks at these more attractive entry levels.

From a portfolio perspective we will implement **one large allocation adjustment in Q1 2017.** We have identified another **attractive investment opportunity in direct lending** and will put a sizeable position into a secured lending fund, which is expected to deliver us high single digit returns irrespective of the macro environment. It is a **closed ended fund structure that ensures no liquidity-mismatch between assets and liabilities**. We foresee a **net IRR of 8-9% over a 3 years period and a multiple exceeding 1.25x** over the full length of the investment. The strategy focuses on short term, full-recourse loans to professional property investors, whereas all loans are originated, underwritten and serviced by a UK specialist lending platform with more than a decade specific market experience.

Absolute Return Mandates	Comments
Equities	
▪ Start increasing slowly equity exposures (beta) with a particular focus on Europe and Emerging Markets. ▪ Buy U.S equities on weakness with a bias to domestically-focused companies.	▪ U.S. equities will witness fundamental tailwinds in the coming quarters when Mr. Trump's policies will be approved. However, the markets have already pushed equities much higher in anticipation and making them vulnerable in the shorter term to a correction if policies disappoint. ▪ European and Emerging market equities may attract investors anticipating the firming-up of fundamentals and receding uncertainty.
Credit / Fixed Income	
▪ Do not yet consider Government or Corporate Investment Grade bonds unless yields on Treasury 10-year reaches levels close to 3%. ▪ Focus mainly the allocation to US/European High Yield bonds and loans with shorter maturities or even called bonds (to be repaid in few months). We purposely avoid duration, especially in the middle part of the yield curve (5 to 10 years). Harvest some less liquid opportunities with good collateral as guarantee. ▪ Emerging Market bonds, now offer more interesting value in both hard and selective (for example India) local currencies. ▪ Financials via investing into their lower-ranked sub-ordinated bonds (for example: preferred securities) may also benefit from the improved interest rate landscape and the expected fiscal and de-regulation policies.	▪ The 30-year bull market for Government bonds is most likely over with the normalization across the world of interest rates, starting with the U.S. and followed to a lesser extent by other Developed Market countries. Rates should trend steadily higher over time but we expect some retracements when they move upwards too quickly versus the fundamentals. ▪ Pro-growth policies in the U.S. will be very conducive for high yield bonds/loans as these companies will be able to increase their sales and margins. The ECB's economic support and healing European market is also providing a similarly positive environment for these bonds. ▪ Selective Emerging Market bonds offer great yield premiums for countries which are fundamentally even sounder than some of higher levered Developed Markets. ▪ Consider harvesting the generous premium from illiquid investments such as offered by direct loans. We like private loans both in senior secured corporate debt and property backed credit.
Alternatives	
▪ Credit Long-Short strategies, with normalizing interest rates, should continue to do well while equity long-short should also benefit from the increased performance dispersion between sectors. ▪ After a very difficult year for Asian-focused hedge funds, a return to more normal trading market conditions in Chinese markets should allow for performance to come back.	▪ With the FED's normalizing rates, Credit Long-Short managers will experience a lot more dispersion between the different bonds and are consequently expected to continue to have many opportunities to generate interesting risk-adjusted returns. ▪ Global macro managers should also have more opportunities with the diverging global monetary and fiscal policies between countries.
Real Assets	
▪ Gold might have bottomed and could hedge returning inflation expectations.	▪ Gold has recently traded solely on the basis of higher U.S. rates and stronger USD but a return of inflation pressure is definitely not priced-in by investors. Slightly increasing gold exposure on weakness could prove an interesting contrarian trade.

Long Only Mandates	Comments
Equities	
▪ Start increasing slowly equity exposures with a particular focus on Europe and Emerging Markets. ▪ Buy U.S equities on weakness with a bias to domestically-focused companies. ▪ In the U.S., favor financials, defense, technology, consumer discretionary and health care sectors based on Mr. Trump's intended policies.	▪ U.S. equities will witness fundamental tailwinds in the coming quarters when Mr. Trump's policies will be approved. However, the markets have already pushed equities much higher in anticipation and making them vulnerable in the shorter term to a correction if policies disappoint. ▪ European and Emerging market equities may attract investors anticipating the firming-up of fundamentals and receding uncertainty.
Credit / Fixed Income	
▪ Do not yet consider Government or Corporate Investment Grade bonds unless yields on Treasury 10-year reaches levels close to 3%. ▪ Focus mainly the allocation to US/European High Yield bonds and loans with shorter maturities or even called bonds (to be repaid in few months). We purposely avoid duration, especially in the middle part of the yield curve (5 to 10 years). Harvest some less liquid opportunities with good collateral as guarantee. ▪ Emerging Market bonds, now offer more interesting value in both hard and selective (for example India) local currencies. ▪ Consider mortgage-backed securities and collateralized-loan-obligations (CLO) structures. ▪ Financials via investing into their lower-ranked bonds (for example: preferred securities) may also benefit from the improved interest rate landscape and the expected fiscal and de-regulation policies.	▪ The 30-year bull market for Government bonds is most likely over with the normalization across the world of interest rates, starting with the U.S. and followed to a lesser extent by other Developed Market countries. Rates should trend steadily higher over time but we expect some retracements when they move upwards too quickly versus the fundamentals. ▪ Pro-growth policies in the U.S. will be very conducive for high yield bonds/loans as these companies will be able to increase their sales and margins. The ECB's economic support and healing European market is also providing a similarly positive environment for these bonds. ▪ Selective Emerging Market bonds now offer great yield premiums for countries which are fundamentally even sounder than some of higher levered Developed Markets.
Commodities / Forex	
▪ Gold might have bottomed and could hedge returning inflation expectations. Some gold miners could offer great upside potential if gold price start to pick-up. ▪ Select energy companies have room to surprise on the upside if oil prices stay at elevated levels (around $55 and higher) through the whole year.	▪ For gold to be fundamentally supported, we would need to see the global expectations on inflation turn positive and only the US seems to show very mild inflation at the moment. ▪ Gold has recently traded solely on the basis of higher U.S. rates and stronger USD but a return of inflation pressure is definitely not priced-in by investors. Slightly increasing gold exposure on weakness could prove an interesting contrarian trade.

Asset Class Conviction Levels for Absolute Return Mandates

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

Equities	Valuations	Corporate Profitability	Index Momentum	Underweight	←	Conviction Level over 6 Months Neutral	→	Overweight
North America	Rich	Stable	Positive	☐	☐ →	☑	☐	☐
Europe	Fair	Improving	Positive	☐	☐ →	☑	☐	☐
China	Cheap	Improving	Positive	☐	☐	☑	☐	☐
Japan	Fair	Improving	Positive	☐	☐ →	☑	☐	☐
Asia - Emerging Markets	Cheap	Improving	Neutral	☐	☐	☑	☐	☐
Others - Emerging Markets	Cheap	Improving	Neutral	☐	☐	☑	☐	☐

Fixed Income	Central Banks Policy	Credit Spreads	Expected Default Rates	Underweight	←	Conviction Level over 6 Months Neutral	→	Overweight
US - Treasury Bonds	Tightening	-	-	☐	☑	☐	☐	☐
Euro - Government Bonds	Stimulating	-	-	☑	☐	☐	☐	☐
US - Investment Grade Bonds	Tightening	Fair	Rising	☐	☑	☐	☐	☐
Europe - Investment Grade Bonds	Stimulating	Rich	Stable	☐	☑	☐	☐	☐
Emerging Market Local Currency	Mixed	Fair	Rising	☐	☐	☑	← ☐	☐
Emerging Market Hard Currency	Mixed	Fair	Rising	☐	☐	☐ →	☑	☐
US High Yield / Loans	Tightening	Fair	Rising	☐	☐	☐	☐ →	☑
European High Yield / Loans	Stimulating	Fair	Stable	☐	☐	☐	☐ →	☑

Commodities	Cost of Production	Market Sentiment	Price Momentum	Underweight	←	Conviction Level over 6 Months Neutral	→	Overweight
Gold	Neutral	Positive	Negative	☐	☐	☐ →	☑	☐

Hedge Fund: Strategies	HF Strategy Momentum	Equity Index Momentum	Sector Dispersion	Underweight	←	Conviction Level over 6 Months Neutral	→	Overweight
Equity Long-Short	Positive	Positive	Positive	☐	☐	☑	← ☐	☐
Credit Long-Short	Positive	Negative	-	☐	☐	☐	☑	☐
Event-Driven - Corporate Actions	Positive	-	-	☐	☑	☐	☐	☐
Global Macro	Negative	-	-	☐	☐ →	☑	☐	☐

Hedge Fund: Regional Focus	Sector Dispersion	Equity Index Momentum	Corporate Activity Level	Underweight	←	Conviction Level over 6 Months Neutral	→	Overweight
Hedge Fund: North America	Positive	Positive	Positive	☐	☐	☑	☐	☐
Hedge Fund: Europe	Positive	Positive	Positive	☐	☐	☑	☐	☐
Hedge Fund: China / Japan	Positive	Positive	-	☐	☐	☐	☑	☐
Hedge Fund: Emerging-Markets	Neutral	Neutral	-	☐	☐	☑	☐	☐

Asset Class Conviction Levels for Long Only Mandates

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	Valuations	Corporate Profitability	Index Momentum	Conviction Level over 6 Months Underweight ←		Neutral		→ Overweight
North America	Rich	Stable	Positive	☐	☐	☐ →	☑	☐
Europe	Fair	Improving	Positive	☐	☐	☐ →	☑	☐
China	Cheap	Improving	Positive	☐	☐	☐	☑	☐
Japan	Fair	Improving	Positive	☐	☐ →	☑	☐	☐
Asia - Emerging Markets	Cheap	Improving	Neutral	☐	☐	☐	☑	☐
Others - Emerging Markets	Cheap	Improving	Neutral	☐	☐	☑	☐	☐

Fixed Income	Central Banks Policy	Credit Spreads	Inflation	Conviction Level over 6 Months Underweight ←		Neutral		→ Overweight
US - Treasury Bonds	Tightening	-	Rising	☐	☑	☐	☐	☐
Euro - Government Bonds	Stimulating	-	Rising	☑	☐	☐	☐	☐
US - Investment Grade Bonds	Tightening	Fair	Rising	☐	☑	← ☐	☐	☐
Europe - Investment Grade Bonds	Stimulating	Rich	Rising	☐	☑	☐	☐	☐
US High Yield	Tightening	Fair	Rising	☐	☐	☐	☑	☐
US Short Term High Yield	Tightening	Fair	Rising	☐	☐	☐	☐ →	☑
US Loans	Tightening	Fair	Rising	☐	☐	☐	☐	☑
US Municipal Bonds	Tightening	Fair	Rising	☐	☐	☑	☐	☐
European High Yield	Stimulating	Fair	Rising	☐	☐	☐ →	☑	☐
European Short Term High Yield	Stimulating	Fair	Rising	☐	☐	☐ →	☑	☐
European Loans	Stimulating	Fair	Rising	☐	☐	☐	☐	☑
US/EUR Preferred Securities	Stimulating	Cheap	Rising	☐	☐	☐	☐	☑
US/EUR Asset Backed Securities	Tightening	Cheap	Rising	☐	☐	☐	☑	☐
Emerging Market Local Currency	Neutral	Fair	Mixed	☐	☐	☑	← ☐	☐
Emerging Market Hard Currency	Neutral	Fair	Mixed	☐	☐	☐	☑	☐
Emerging Market High Yield	Neutral	Fair	Mixed	☐	☐	☑	☐	☐

Commodities	Cost of Production	Market Sentiment	Price Momentum	Conviction Level over 6 Months Underweight ←		Neutral		→ Overweight
Gold	Neutral	Positive	Negative	☐	☐	☐ →	☑	☐
Oil (Brent)	Positive	Positive	Positive	☐	☐	☑	← ☐	☐

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