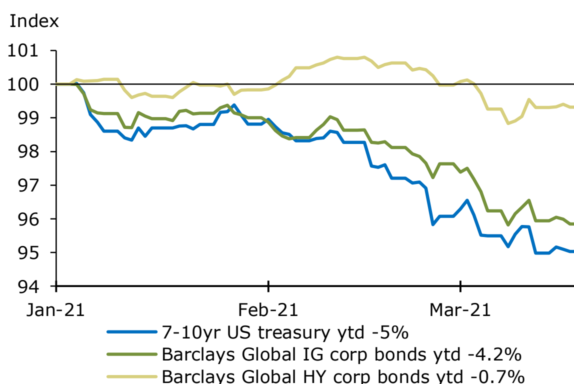
ΛLPINUM INVESTMENT MANAGEMENT

Quarterly Investment Letter – Q2 2021

Many moving parts and a possible regime shift

The American hedge fund manager, Ray Dalio, once said "**An economy is not a complicated thing, it just has a lot of moving parts**". Today's market environment could not be truer of this with the pandemic, central banks' interventions, governments' largesse, pent-up demand, rising inflation, **violent sector rotation in equity markets** and first **painful losses in long duration bond portfolios** (chart 1). For the first time in many years, rising inflation and interest rates are a key factor for financial markets. Investors have to remind themselves that **all asset classes are leveraged to low bond yields**. For the time being, major global central banks are fully committed to keep short as well as long-term interest rates at low levels. First, not to jeopardize the economic recovery and, second, to deflate the pile of government debt. A market environment with large return dispersion and elevated volatility is the ideal hunting ground for active fund managers to generate alpha returns.

Chart 1: Long-duration bond prices suffered year-to-date



Source: Bloomberg Finance L.P., Alpinum Investment Management

United States

More than two million Americans are now receiving the vaccine each day and President Biden has promised **vaccines for all US adults by May 2021**. The US is increasingly reopening its economy and US GDP growth is now expected to reach

Summary Points

- The world is reaching an inflection point in defeating the pandemic, resulting in a possible regime change in inflation, a steepening of the yield curve, equity sector rotation and possibly a revival of commodity prices.
- The US is powering ahead and its GDP growth will likely surprise on the upside with the latest fiscal stimulus programme of USD 1.9 trillion. The US is also ahead of Europe in terms of vaccine doses and defeating the pandemic. The question is to what extent will US consumers spend excess savings.
- According to Germany's Finance Minister, the EU's vaccination strategy is a "total nightmare". Europe is still largely in lockdown and falling behind in defeating the pandemic. Consequently, the recovery is postponed to the summer.
- China's GDP is expected to grow by +8.4%. That said, its economic activity has been moderating lately due to weakening domestic demand. At the National People's Congress, the government announced plans to boost domestic consumption and to make the economy more self-reliant.
- **Conclusion**: We have a positive scenario over the next three to six months. That said, we have rarely seen so many fast moving parts all at the same time, which increase market volatility. The key question is what rising inflation will do to investors' market perception and bond yields. In the end, all asset classes are leveraged to low bond yields. The outlook for low yielding long-duration bonds remains negative and our preference is on credit risk. Within equities growth stocks are at an inflection point and cyclical, commodity and value stocks have begun to shine again.

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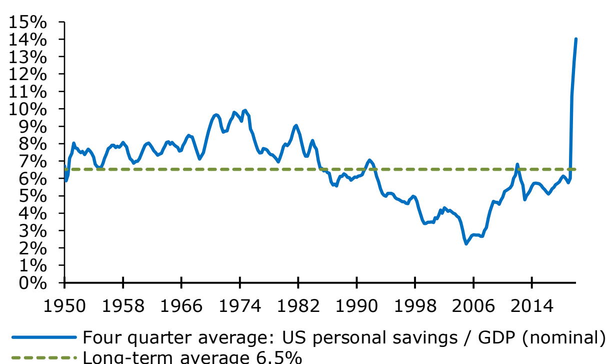
5.7% in 2021. However, combining all the stimulus measures, such as the USD 900 billion fiscal program in December 2020, the USD 1.9 trillion fiscal package from March 2021 and the ongoing preparations for a USD 3 trillion infrastructure package, US GDP growth could easily surprise on the upside, and so could equities, interest rates and the US Dollar. **The combined economic support would equate to around 27% of US GDP** and constitutes the highest level of US government spending since World War II. Historically, this level of wartime spending has led to substantial inflation. **Year-over-year (yoy) inflation rates will undoubtedly increase** due to the yoy base effect and cyclical forces of all kinds. US Fed Chairman Powell made it clear that most of the rise in bond yields reflects economic optimism. With the US Fed's new policy framework of "average inflation targeting", the Fed will tolerate **break-even inflation to exceed 2.5%**. While rising inflation may lead to temporary market jitters, many inflation drivers are transitory in nature and there is still an economic output gap (idle capacity) and a high unemployment rate. A scenario where the US Fed would likely step in is if the risk for stagflation were to rise. Meaning that yields had to continue rising in the absence of economic improvements.

US consumer spending is close to 70% of GDP and US consumers have accumulated USD 2 trillion in excess savings. This is more than double the average annual increase in US GDP and has led the "US personal savings to GDP" ratio shoot up to multi-decade highs (chart 2). Needless to say, **US consumers have the fire power to spend** to propel economic momentum. They can even surprise on the upside once the pandemic is under control. **Key indicators to follow** are US headline retail sales (7 months high in January 2021 with 5.3%) and the level of discretionary spending.

Chart 2: US personal saving vs GDP highest since decades



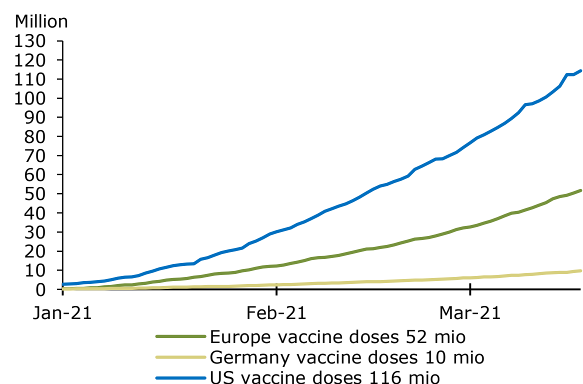
Source: Federal Reserve, Alpinum Investment Management

Europe

For 2021, market expectations are for the Eurozone **GDP to increase by +4.2%**. Just a few months ago Europe was expected to grow 4.6% versus the US with 3.9%. In the meantime, **the US has taken over Europe again** thanks to the massive fiscal programme and Europe's trouble on distributing the vaccine. Overall frustrations reached a peak when Germany's Finance Minister, Olaf Scholz, said that **Europe's vaccination strategy is a "total nightmare"** (chart 3). Reasons for Europe to fall behind were delays in vaccine approvals, under procurement and overzealous regulators. First, the European Medicines Agency's (EMA) approval process took three to five weeks longer than in other countries and governments began to interfere in various ways. A number of EU countries, for example, have stopped AstraZeneca against the advice of EMA and Hungary struck a separate deal with Russia for its Sputnik vaccine. All told, the **vaccine issues will delay the European recovery** into the summer, which is reflected in the difference between the US and EU composite purchasing manager indices. The good news is that savings have increased as well and there is ample fire power to spend on vacations, clothes, cars and sporting events once the pandemic is under control.

Although there might be some contagion from rising US yields, the European Central Bank (ECB) **remains highly committed to keep financial conditions extremely accommodative**. Many governments are able to issue new debt at a negative real yield (10-year real yield: Germany -1.7%, Italy -0.2%, Portugal -0.1%). For Brussel to suspend its fiscal rules for an extra year is a "fait accompli". **The EUR strength may soften a bit over the next two quarters** as the long end of the EU/US interest rate differential has increased again.

Chart 3: Vaccine doses administered



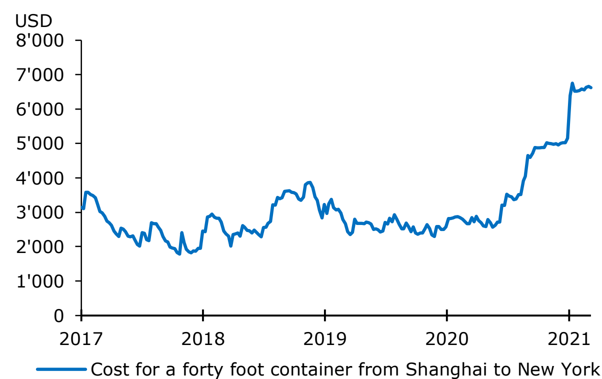
Source: Bloomberg Finance L.P., Alpinum Investment Management

China and emerging markets (EM)

In terms of recovery, China is ahead of the rest of the world but its economic activity has been moderating lately. Nevertheless, for 2021, **market consensus expects China's GDP to grow +8.5%**. On a year-over-year basis, data on industrial production (+35% yoy) and retail sales (+33% yoy) have beaten market expectations. That said, news headlines seem to care less about the fact that absolute numbers are still much lower compared to 2019. It is also noteworthy, that **retail sales are decelerating** and that the main beneficiaries of Chinese policy easing have been manufacturing and exports. In February, Chinese producer price inflation accelerated to 1.7% yoy from 0.3% yoy. **Global price pressures are building on the back of supply chain disruptions**. This can be seen in container shipping prices, which have doubled over the last couple of months (chart 4). Demand-pull inflation will likely increase due to the surge in pent-up demand from US and European consumers who supposedly have plenty of cash in their pockets. At the **National People's Congress**, the government announced plans to focus on "demand-side management" in 2021 and to boost domestic consumption. The Chinese Communist Party **five-year plan's ultimate goals remain** to make the economy more resilient and become more self-reliant on developing key technologies to reduce US dependency and Europe for innovation.

Most **emerging markets are leveraged to the global economic cycle**, commodity prices, the US Dollar and US interest rates. The stronger US Dollar and higher US yields are likely a drag on emerging market momentum in the very short-term. However, US fiscal largesse and a higher current account deficit should **revive economic momentum again after the second half of 2021**.

Chart 4: Cost to ship goods from Shanghai to New York



Source: China National Statistics Bureau, Alpinum Investment Management

Investment conclusions

The world is reaching an inflection point in **defeating the pandemic**. As a result, investors are faced with a **possible regime change in inflation**, a steepening yield curve in the US, equity sector rotation and possibly a revival of commodity prices. Rarely have we seen so **many fast moving parts all at the same time**, which increase market volatility and the opportunity set for active managers both for long only funds and hedge funds. **Over the next three to six months,** the global industrial production cycle has further to run. **The big story**, however, will be how consumers are likely to spend their excess savings on goods and shift from goods towards services, where pent-up demand is at an extreme. **Inflation will undoubtedly increase further** due to the year-over-year base effect, ongoing disruptions in global supply chains and the inflation-pull effect through pent-up demand. The **one-million-Dollar question** is what rising inflation (transitory or not) will do to investors' market perception and bond yields, as all asset classes are leveraged to low bond yields. Although yields in the US and elsewhere in the world have risen, they remain very low in absolute terms. While rising yields can produce a temporary stock market correction, they need to move into restrictive territory in order to trigger a recession and an accompanying bear market in equities. It is almost certain that central banks (US Fed, ECB) will not allow this to happen in 2021 and beyond. **Investors can expect central banks to continue to control and manage the yield curve** to ensure a swift global recovery.

Bonds: Short-term interest rates will remain anchored at historic low levels and the US Fed/ECB will "soft-manage" the long end of the yield curve. The outlook for low yielding long-duration bonds remains negative. In bonds, we **focus on credit risk** in **European loans, US and Scandinavian short-term high yield bonds** and **structured credit.** As corporate default rates have peaked, tactical opportunities have opened up in very low-quality issuers.

Equities: Within equities growth stocks are at an inflection point and **cyclical, commodity and value stocks have begun to shine again**. This trend will likely continue backed by cheaper valuations, potential strong earnings growth and because investors are still largely underweight these segments. Hence, we prefer US cyclical and consumer/services related small/mid caps and financials, followed by European industrials and financials and emerging market commodity stocks.

Market Consensus Forecasts

GDP growth (%)	2019	2020	2021e	2022e
World	2.8	-3.5	5.6	4.1
United States	2.2	-3.5	5.7	4.0
Eurozone	1.3	-6.6	4.2	4.1
Germany	0.6	-4.9	3.5	4.0
France	1.5	-8.1	5.7	3.9
Italy	0.3	-8.9	4.5	4.1
United Kingdom	1.5	-10.1	4.7	5.7
Switzerland	1.2	-3.0	3.4	2.9
Japan	0.3	-4.9	2.8	2.1
Emerging economies	4.7	-0.6	5.3	5.2
Asia Ex-Japan	5.4	1.4	5.8	5.7
Latin America	1.3	-6.3	4.6	2.9
EMEA region	2.5	-3.0	3.6	3.5
China	6.0	2.3	8.5	5.5
India	6.5	4.0	-7.5	10.4
Brazil	1.4	-4.1	3.5	2.5
Russia	2.0	-3.1	3.0	2.5

Inflation (%)	2019	2020	2021e	2022e
World	3.5	3.2	2.8	2.9
United States	1.8	1.2	2.4	2.2
Eurozone	1.2	0.3	1.5	1.2
Germany	1.4	0.4	2.0	1.4
France	1.3	0.5	1.2	1.1
Italy	0.7	-0.2	0.9	0.8
United Kingdom	1.8	0.9	1.6	1.9
Switzerland	0.4	-0.7	0.3	0.4
Japan	0.5	0.0	0.1	0.5
Emerging economies	3.9	3.1	3.4	3.5
Asia Ex-Japan	2.6	2.6	2.2	2.5
Latin America	9.5	2.9	9.3	8.1
EMEA region	6.0	5.1	5.8	5.1
China	2.9	2.5	1.6	2.3
India	3.7	6.6	6.2	4.6
Brazil	3.7	3.2	4.1	3.5
Russia	4.5	3.4	4.5	3.8

Central bank rates (%)	2019	2020	2021e	2022e
US Fed Funds	1.75	0.25	0.25	0.35
ECB Main Refinancing	0.00	0.00	0.00	0.00
China 1yr Best Lending	4.35	4.35	4.30	4.30
Bank of Japan Overnight	-0.07	-0.03	0.00	0.00
UK Base Rate	0.75	0.10	0.10	0.20
Swiss 3mth CHF Libor	-0.75	-0.75	-0.75	-0.75

Commodities	2019	2020	2021e	2022e
NYMEX WTI oil USD/barrel	55	49	57	54
ICE Brent oil USD/barrel	60	52	60	57
Iron Ore USD/metric ton	91	159	146	n.a.
Copper USD/metric ton	6174	7766	8898	8839
Gold USD/troy oz	1518	1899	1743	1755
Silver USD/troy oz	17.9	26.4	26.1	25.4

Major interest rates (%)	2019	2020	2021e	2022e
USA 3mth rate	1.9	0.2	0.3	0.4
USA 10yr Gov't Bonds	1.9	0.9	1.7	2.0
Eurozone 3mth rate	-0.4	-0.5	-0.5	-0.4
Eurozone 10yr Gov't Bond	-0.2	-0.6	-0.2	0.0
China 3mth rate	3.0	2.8	3.0	2.9
China 10yr Gov't Bond	3.1	3.1	3.2	3.2
UK 3mth rate	0.8	0.0	0.1	0.2
UK 10y Gov't Bond	0.8	0.2	0.8	1.0
Swiss 3mth rate	-0.7	-0.8	-0.7	-0.7
Swiss 10y Gov't Bond	-0.5	-0.6	-0.2	-0.1

Exchange rates	2019	2020	2021e	2022e
EURUSD	1.12	1.22	1.23	1.24
EURCHF	1.09	1.08	1.12	1.14
USDCHF	0.97	0.89	0.91	0.93
EURJPY	122.20	126.16	129.00	131.00
EURGBP	0.85	0.89	0.86	0.85
USDJPY	108.72	103.20	105.00	107.50
GBPUSD	1.33	1.37	1.40	1.44
USDCNY	6.96	6.53	6.36	6.25
USDBRL	4.02	5.19	5.15	4.95
USDRUB	62.49	74.03	70.50	69.25

Performance table

		Performance		
Global equity markets	Price	Q1	12mth	Div.yld
MSCI World (USD)	2788	3.8%	39.7%	1.9
MSCI World (USD) hedged	1348	5.0%	41.8%	n.a.
HFRX Global Hedge Fund	1402	1.7%	11.1%	n.a.
S&P 500	3911	4.8%	42.4%	1.5
Russell 1000	2206	4.5%	45.6%	1.5
Nasdaq 100	13018	1.3%	63.8%	0.8
Stoxx Europe 600	423	5.6%	24.5%	3.0
MSCI Emerging Markets	1324	2.7%	39.6%	2.3
Nikkei 225	28406	3.5%	44.2%	1.5
China CSI 300	4929	-3.6%	23.3%	2.1

	Forward		EPS growth	
Equity market valuations	PE	PB	2021e	2022e
MSCI World (USD)	21.0	2.8	17%	14%
MSCI World (USD) hedged	n.a.	n.a.	n.a.	n.a.
HFRX Global Hedge Fund	n.a.	n.a.	n.a.	n.a.
S&P 500	22.7	4.0	14%	15%
Russell 1000	23.3	3.9	18%	15%
Nasdaq 100	28.5	7.3	41%	14%
Stoxx Europe 600	17.9	1.9	22%	15%
MSCI Emerging Markets	15.6	1.9	20%	16%
Nikkei 225	21.1	2.1	19%	4%
China CSI 300	13.4	1.9	30%	6%

		Performance		
Global gov't bonds	Yield	Q1	12mth	YtW
10yr US Treasury	1.62	-4.9%	-6.1%	n.a.
10yr Euro gov't bond	-0.36	-1.3%	0.0%	n.a.
10yr German gov't bond	-0.36	-1.4%	-3.7%	n.a.
10yr Italian gov't bond	0.59	-0.4%	9.3%	n.a.

		Performance		
Global bond indices	Price	Q1	12mth	YtW
Barclays Global Corporate IG	295	-3.9%	2.3%	1.7
Barclays US Corporate IG	3394	-4.5%	-0.1%	2.3
Barclays Euro Corporate IG	265	-0.6%	2.5%	0.3
Barclays Emerging Market USD	1249	-2.9%	3.5%	3.9
Barclays US Corporate HY	2346	0.4%	13.0%	4.4
Barclays Pan-European HY	428	1.9%	9.9%	3.3

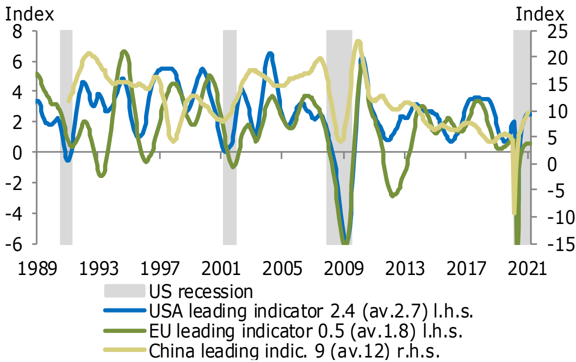
		Performance	
Commodities and currencies	Price	Q1	12mth
Brent oil	62	21.2%	81.1%
US Energy Services	52	18.0%	81.4%
Copper	8991	14.7%	62.7%
Gold	1732	-8.6%	3.1%
EURUSD	1.18	-3.9%	3.3%
EURCHF	1.11	2.1%	4.5%

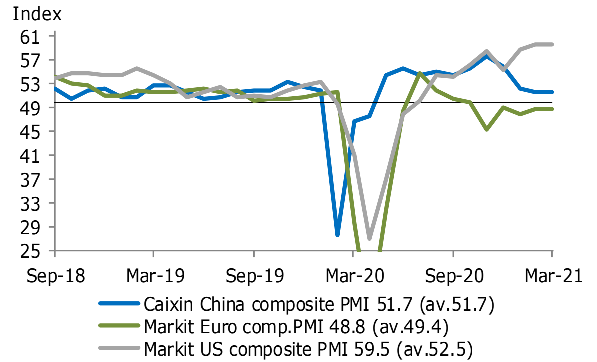
Source: Bloomberg Finance L.P., Alpinum Investment Management
Note: Q1 = data as of March 24, 2021 / PE=price-earnings / PB=price-book / EPS=earnings per share / YtW=yield-to-worst

Key Charts

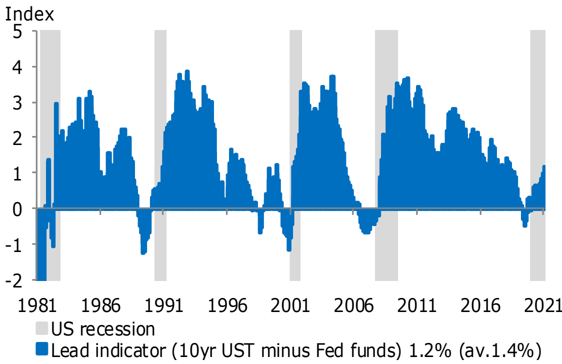
Leading indicators and manufacturing

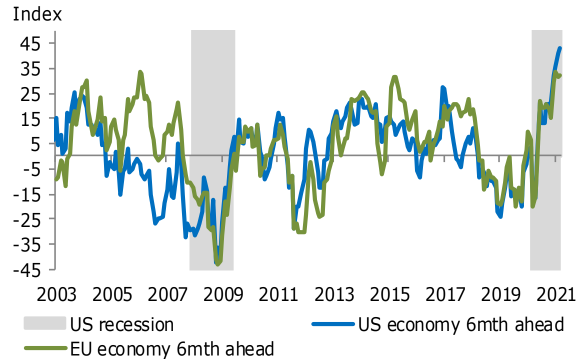
Source: Bloomberg Finance L.P., Alpinum Investment Management



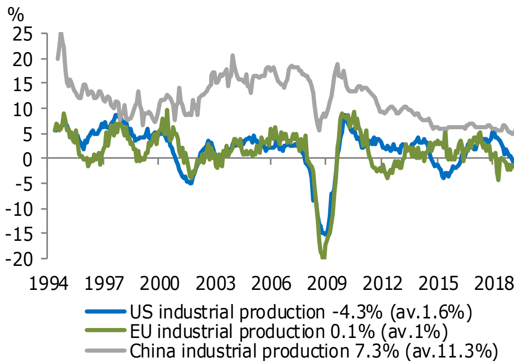


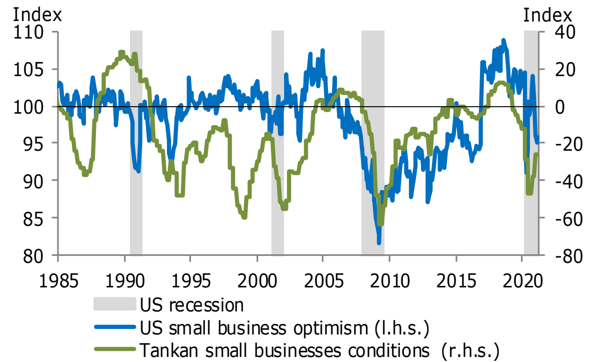
Recession indicator



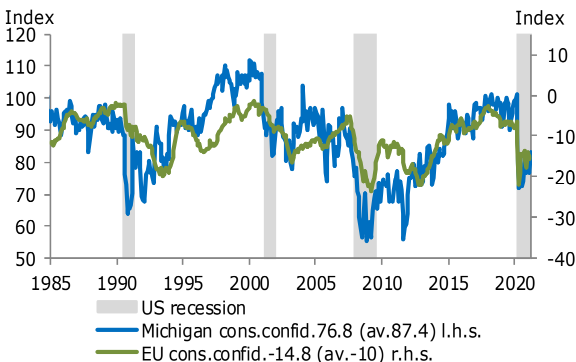


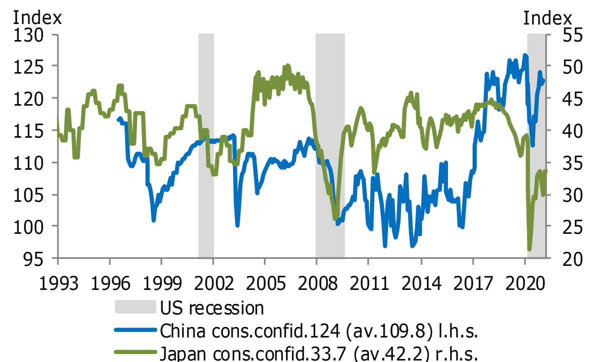
Industrial production and small businesses





Consumer confidence





Source: Bloomberg Finance L.P., Alpinum Investment Management

Scenario Overview 6 months

Base case 75%

- **US:** U-shaped GDP recovery from -3% in 2020 to +5-6% in 2021. US is past the worst and faces only minor interruptions in its economic recovery path. Vaccination efforts are paying off and the strong recovery goes on. Unprecedented government and Fed support serve as an historic reinsurance: reviving personal consumption, infrastructure spending and boosting business investment.
- **Eurozone** GDP collapsed -7% in 2020 and recovers +~4% in 2021. Immense damage to Southern Europe as the tourism season was disastrous. Huge fiscal stimulus (and solidarity payments from north to south) and unprecedented actions of the ECB will avoid a financial collapse. Europe acts as the weakest link in the Covid-19 crisis.
- **China:** Avoided recession in 2020 and heading for +8% growth in 2021.
- **Oil:** Prices have rallied and keep upward bias with unfolding global economic recovery.

Investment conclusions

- **Equities:** Experienced a V-shape recovery and trade on 2021/22 earnings expectations. Equities are vulnerable with P/E 2021 multiples >20. If the efficacy of the vaccine gets somehow distracted, a market correction would be the consequence. Otherwise, ultra-loose monetary policy provides continued support to equities. Cyclical stocks and value-style are in the lead.
- **Interest rates:** Negative stance on rates exposure as upward pressure on yields remains. (US) Duration exposure serves only as a diversifier and tail hedge, but less effective at these levels.
- **Credit:** Credit spreads are fairly priced and corporate default rates have peaked. We prefer European loans, Asian HY & IG bonds and structured credit exposure.
- **Commodities/FX:** Due to rising rates, the USD remains in demand and commodity prices benefit from cyclical economic recovery.

Bull case 15%

- **US:** V-shaped recovery with GDP growth >+6%. Vaccination roll-out progresses as planned and further regional lockdowns are avoided. Social distancing measures are reduced. Fiscal stimulus programmes are timely implemented. Recovery feeds into all parts of the economy.
- **Europe:** Thanks to a strong recovery in 2021, the immense fiscal (incl. recovery fund) and monetary stimulus, peripheral countries avoid a collapse.
- **China/EM:** Strong cyclical recovery as export markets recover (EU/USA) and interest rates in developed markets remain low. This helps easing the pressure on local EM FX depreciation.

Investment conclusions

- **Equities:** Equities anticipate a V-shaped economic recovery and get a further boost. Chances of a "Keynesian Golden Age" economy provides a goldilocks environment for equities and potentially an exaggeration of equity multiples.
- **Interest rates:** Rates remain low, but curve steepens. Avoid duration as inflation revives.
- **Credit:** Corporate default rates have peaked. Credit in general and loans in particular benefit the most.
- **Commodities/FX:** Support for commodity bloc and precious metals, EUR accelerates, selective emerging market FX rates recover.

Bear case 10%

- **US:** Recovery gets distracted to <+4% in 2021 as new waves of infections spike and vaccine roll-out is interrupted. New local/regional lockdowns are required. Recessionary environment persists as knock-on effects cannot be avoided. Furlough translates into effective unemployment.
- **Europe:** Peripheral countries recover very slowly and a renewed fallout of the international tourism takes its toll. Investors lose faith and Italian long-term yields rise. Germany's recovery gets meaningfully interrupted (EU confidence crisis 2.0).
- **China/EM:** Domestic China recovers, but exports suffer. Rest of EM does poorly as global trade is at low levels and currencies depreciate.

Investment conclusions

- **Equities:** Equities fall but avoid making new lows. Highly priced US equities will lead the correction, followed by Europe.
- **Interest rates:** Rates will go lower, but limited potential outside of the USD. Support for high quality assets (US Treasuries, A and AA corporate bonds or agency bonds). Cash is king!
- **Credit:** Corporate default rates resume their climb and remain above 4% p.a., but thanks to unprecedented monetary and fiscal spending a collapse of the financial system is avoided. Favour short dated/high quality bonds.
- **Commodities/FX:** Negative for the commodity bloc; USD, CHF & JPY act as a safe haven.

Tail risks

- Equity (Tech) bubble bursting, liquidity shock.
- An Italian sovereign debt crisis, Euro break up.
- US/China military conflict in the South China Sea.
- Vaccine loses its efficacy.
- Stagflation (reversion of disinflationary era).
- Emerging market meltdown similar to 1998.

Asset Class Assessment

Equities

- We keep our positive bias on equities. Equities get support from the cyclical recovery while inflation is not yet a dominant concern. In addition, equities get natural support due to a scarcity of investment alternatives.
- Overall, we believe equity multiples can stay elevated as we disregard current earnings. Our focus is on 2021/22 earnings and a multiple of 18-20 can be well justified.
- The change of leadership from "Big Tech" to "Cyclicals" will continue as the valuation gap is immense. Operating leverage will be a boost for cyclical sectors in 2021 and beyond.
- Non-US equities could finally outperform. This is especially true if the USD stops strengthening. We hold limited overweight positions in Asia/EM and to a small degree in selective European equities.

Comment

- US equities incorporate advanced valuations compared to other regions. However, the economy is also more resilient with a 2021/22 perspective and also supported by "Big Tech" earnings, which provide a robust floor. Hence, a valuation premium is justified.
- With ultra-loose central banks, high equity multiples are justified, but the air is getting thin at levels >20. For example, a U.S. P/E ratio of 20 results in an earnings yield of 5% and compares still well with a yield of 1.7% for 10 year government bonds. In Europe, this comparison leads to an earnings yield of 6.3% (P/E ratio of 16) compared to negative government bond yields.
- If the vaccine roll-out gets momentum, so will the cyclical recovery and export-led stock markets; EM/Asia/EU will benefit the most.

Credit/Fixed Income

- **Rates**: The near-term outlook for interest rate duration risk remains negative. On a structural basis, duration risk is unattractive, especially in Europe and we hold minimal exposure only. Instead, we consider duration exposure as a portfolio diversifier, whereas we favour US Treasuries.
- **IG**: We hold minimal US investment grade bonds and only selective European IG bonds. Asian IG bonds trade at much more attractive valuations.
- **High Yield:** Loans and high yield bonds offer still relative and absolute attractive yields, whereof we prefer loans. Overall, we favour selective US short-term bonds, European loans and EUR CLOs of all risk categories.
- **Emerging Debt:** Emerging market bonds offer a relative value advantage, whereas we favour hard currency bonds as spreads are still relatively wide. We currently hold only very limited selective local currency bonds.

Comment

- Markets are flooded with liquidity by central banks on a global basis and this will not change any time soon. On the contrary, with the FED's introduction of the "Average Inflation Targeting" framework, the outlook for low rates got further confirmation and inflation should creep higher.
- The ECB is committed to keeping rates low for longer to support the economic recovery.
- With "lower for longer", credit spreads will face a further tightening, which lifts all the boats. The general market remains benign for credit, although, corporate default rates remain elevated.
- We like the structured credit market such as US non-agency RMBS or European CLOs.
- Consider harvesting the illiquidity premium from direct loans (corporate/mortgage backed loans).
- We identify also attractive yield in "new" alternatives, but selection and a proper liquidity management are paramount.

Alternatives

- Credit long-short strategies identify plenty of relative value trades, both long and short.
- Equity long-short strategies benefit from higher volatility and increasing performance dispersion.
- Alternative lending as an asset class is in the spotlight in a "low for longer" rates environment.

Comment

- The current crisis produces many losers and winners, which is a great hunting ground for active managers. Moreover, the "innovative disruption" also leads to more price dispersion among single securities, industries, as well as asset classes.
- Global macro managers benefit from sharp market movements in either direction.

Real Assets

- Gold benefits when real interest rates fall and vice versa. Hence, it is a complex situation for gold in the short term, while rising inflation and a halt of the USD strength are supportive for gold.

Comment

- The cyclical recovery is beneficial for commodity prices. Moreover, a weaker USD is beneficial for the whole commodity FX bloc. Gold suffers temporarily as long as (real) rates increase.

Asset Class Conviction Levels

Equities	Underweight	←	Conviction Level over 6 Months Neutral	→	Overweight
North America	☐	☐	☑	☐	☐
Europe	☐	☐	☑	☐	☐
Switzerland	☐	☐	☑	☐	☐
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)	☐	☐	☑	☐	☐

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

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

Note: The above conviction table reflects on the one hand our view of the relative expected return of an asset class versus well-recognized benchmarks such as BarCap Global aggregate (for bonds) and MSCI World (equities), but does on the other hand also partly incorporate our view of the absolute expected return versus “cash”.

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