HELVETICAN

Systematic Equity Allocation

Sachseln Switzerland, December 2018

SYSTEMATIC EQUITY ALLOCATION

INCREASING RETURN BY SYSTEMATICALLY MANAGING RISK

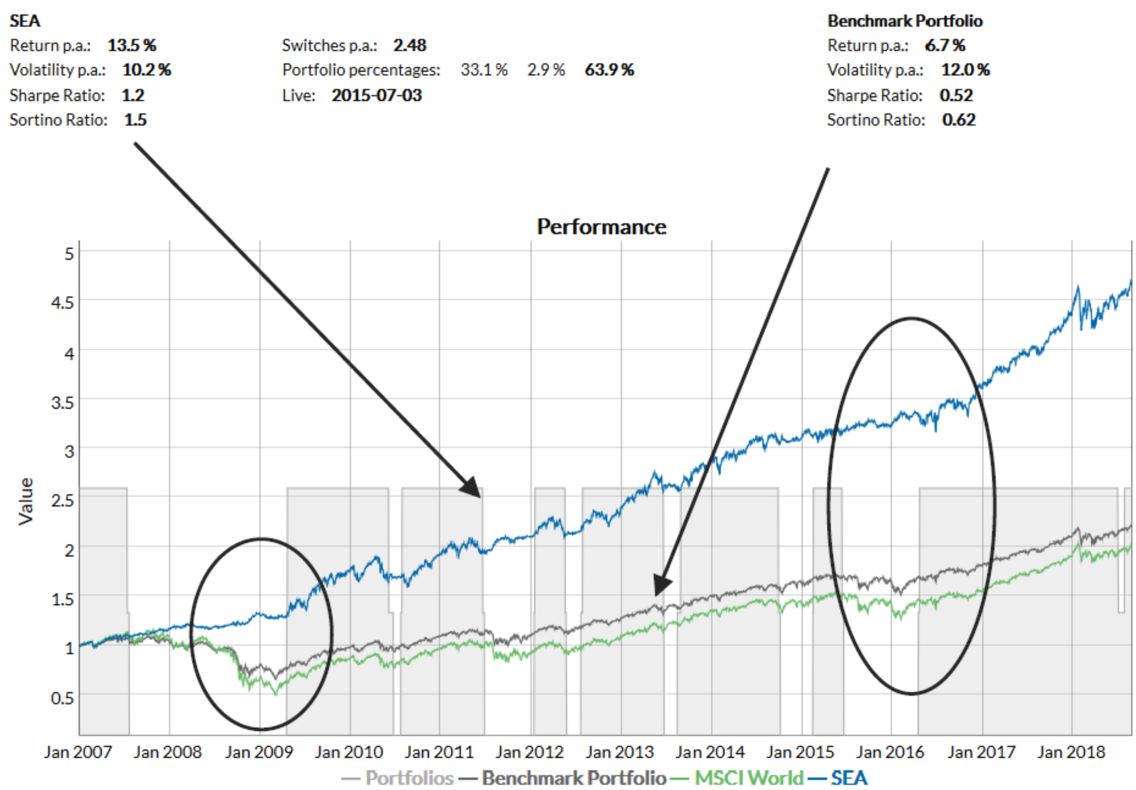
The Systematic Equity Allocation portfolio is a dynamically managed multi asset portfolio systematically shifting its equity allocation from zero to 100%. The aim and aspiration of the strategy is to create long term total return, specified as outperforming a balance benchmark with 67% equities and 33% bonds on a 3 year horizon and to outperform MSCI world across the full business cycle. By reducing the equity weight when the outlook for financial markets deteriorates, we seek to limit volatility and drawdowns and thereby have higher starting points for building asset values when equity markets resume their upwards trend. 2008, and 2015 – 16 are recent examples.

The Systematic Equity Allocation Portfolio offer:

- Designed to outperform its benchmarks and global equities by systematically managing the risk and equity holdings in the portfolio across the business cycle
- Shifts its assets from equities to fixed income asset classes when the outlook deteriorates
- Uses algorithms based on behavioural finance to secure consistency, objectivity and speed in making allocation decisions
- Can be tailored to individual client and business needs
- Has outperformed MSCI World equity markets on 1, 5 and 10-year horizons

The Systematic Equity Allocation portfolio illustrated in the figure below has an allocation of close to 100% equities most of the time. However, when the market outlook deteriorates, the portfolio's equity allocation is reduced to 67% and, in cases of a very negative outlook, further to zero (detailed allocation shown to the right in figure 2 on the following page). When equities are reduced, the balance of the portfolio is invested in fixed income instruments. The performance of this strategy is shown as the blue line "Dynamic Strategy" in figure 1 below.

Figure 1: Portfolio statistics for the Systematic Allocation Portfolio



Helvetican AG • Allmendstrasse 16, 6072 Sachseln Switzerland

The “static” strategy with a fixed allocation of 67% equities shown as the green “Benchmark” line alongside the total return for the MSCI World shown as the green line. The strategy’s outperformance of both, the static equity portfolio and the market index shows that the strong relative performance is driven by the dynamic changes in the allocation of the portfolio with changing market outlook, rather than the chosen initial equity allocation mix.

When implementing allocation changes, we seek to benefit from the consequences of the self-reinforcing effects of the economy and financial markets influencing each other and creating strong positive and negative trends, both when things improve and when things deteriorate. Getting such calls right and implementing them with the appropriate size is obviously not an easy task and we therefore use both qualitative and quantitative analysis in the decision-making process.

Figure 2: Systematic Equity Allocation Portfolios

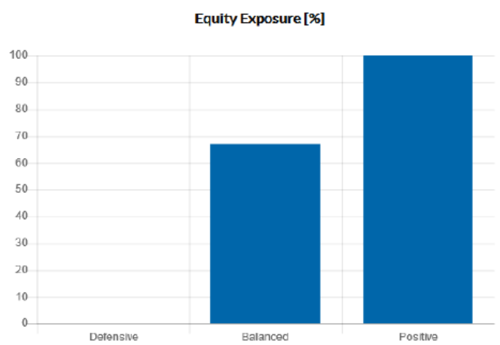
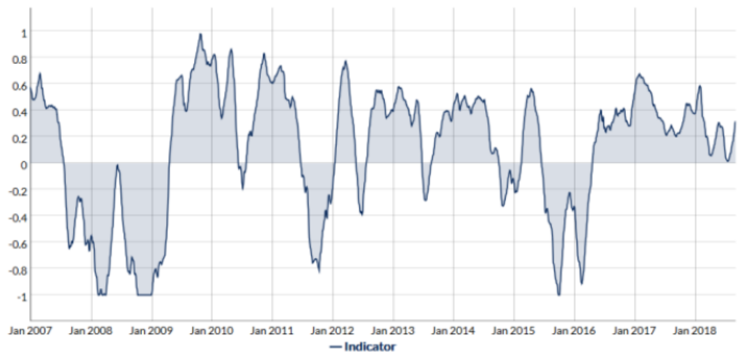


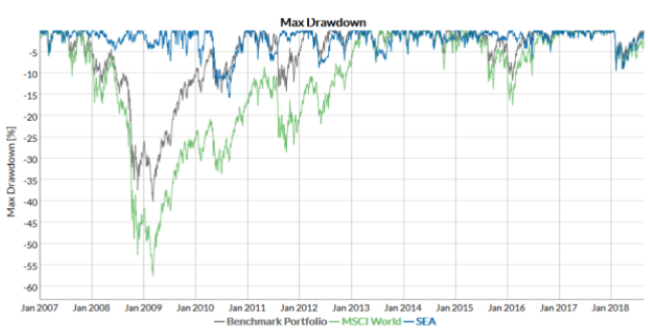
Figure 3: Financial Market Conditions Algorithm



To secure consistency, efficiency and an ability to handle all relevant data at the required speed we use decision support algorithms based on behavioural finance theory. The input to these algorithms and the data processing is based on two decades of practical experience managing multi-billion dollar portfolios. One such algorithm is shown in Figure 3 above. To secure the reliability of the algorithms, we code them in Python and base them on well tested methodologies and techniques known from the software and aerospace industries. The data we use is systematically sorted input of the same type referenced in minutes of central bank meetings or commentary of investment managers. We use both market data and more fundamental micro and macro inputs, covering financial stability, credit availability, interest rates, consumption and employment. The market pricing components of the algorithms primarily help to limit volatility and to avoid the portfolios being captured in value traps or persistent bear markets. The more fundamental data secures alignment to value drives and participation in lasting bull markets.

The chart below shows drawdown of the dynamic strategy, the static portfolio and MSCI World Equities. The dynamic portfolio has not declined more than 15% since 2007, which compares very favourably to the drawdowns experienced in 2008-09, 2011 and 2015-16 by the static equity portfolio and MSCI World. Additionally the it is see that the strategy as of the end of August had recovered the draw down from earlier in 2018 and has delivered significant positive return well above its benchmark and MSCI.

Figure 4: SEA drawdown statistics & return statistics



Year	SEA	Benchmark Portfolio	MSCI World
2013	23.8 %	19.8 %	27.4 %
2014	6.9 %	9.0 %	5.6 %
2015	4.1 %	1.1 %	-0.3 %
2016	11.9 %	8.7 %	8.2 %
2017	20.7 %	15.4 %	23.1 %
5 Y	12.0 %	9.2 %	10.0 %
3 Y	12.8 %	11.2 %	14.3 %
1 Y	13.8 %	9.5 %	12.1 %
2018 (YTD)	7.7 %	5.4 %	6.1 %

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