Forum Finance Group

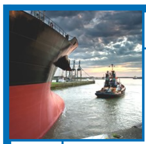
since 1994

January 2015

Investment Perspectives 2015

INVESTMENT PERSPECTIVES 2015

Table of contents | **Pages**



EXECUTIVE SUMMARY

Global economic growth disappointed in 2014 with weakness observed across many regions. The **euro zone**, including Germany, **was impacted by a slowdown of economic activity** and by the backlash of sanctions imposed on Russia following its annexation of Crimea in March. In contrast, the **US economy grew at a healthy rate**. This divergence of growth trends between the US and the rest of the world was also reflected by the **diverging monetary policies of the major central banks**.

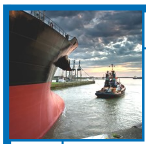
In 2014, the financial markets were characterized by an **unexpected rally of sovereign bonds** due to the absence of inflation and the accommodative stances of central banks. During the second half, **the dollar** finally matched expectations as it **appreciated strongly against all currencies**. As in 2013, **US equities outperformed those of the other developed markets** and **emerging markets struggled**. **Commodity prices were under persistent selling pressure during the second part of the year**, acerbated by a China effect, **with oil prices plunging by more than 50%**.

Global economic growth is expected to pick up modestly in 2015, but the level of risk is rising. Europe will have to contend with a potential exit of Greece, a number of elections on the calendar and **high levels of expectations related to ECB monetary easing**. **The Federal Reserve will have to tread carefully** to avoid upsetting finely balanced markets while **oil-producing countries will have to cope with shrinking oil revenue** as prices have declined to 5-and-a-half year lows.

A number of investment decisions impacted the profile of our portfolios throughout 2014 even if **the allocations to the different asset classes remained much the same**. Back in January, we sold our remaining exposures to emerging market debt in local currencies and to physical gold; in March we then reduced our allocation to emerging market equities. Other key moves were to replace a portion of our European high-yield position by Europeans loans and to increase developed markets equities in May; during the summer, we sold US high-yield bonds to invest into an unconstrained US fixed-income strategy and initiated a positive call on Japanese equities.

At the beginning of 2015, **we have reduced our overweight into the equity asset class** but maintained our **preference for developed markets equities** over those of the emerging markets. Over the course of the year, **equities should benefit from better valuations compared to bonds** and from the **accommodative policies of central banks**. Furthermore, the search for yield will continue to attract investors towards the **high dividends distributed by blue chip companies**. Our allocation to debt instruments will remain underweight as **the risk/reward profile of highly-rated sovereign bonds is more asymmetric than ever**. Our search for yield is focused on investment-grade sovereign debt outside of Europe and the US and on European credit, high-yield and loans.

Despite the overwhelming market consensus, **we expect further appreciation of the US dollar**. We continue to **avoid the commodity asset class** as fundamentals have deteriorated over the last year due to slowing Chinese demand, ample supply, a stronger dollar and low inflation. Finally, the **outlook does not look too promising for gold** as some of its market dynamics have weakened during the past years; a firm dollar and the risk of a rise of real interest rates represent headwinds that are difficult to ignore.



2014: REVIEW OF OUR INVESTMENT THEMES

Developed market equities were our favourite asset class

At the beginning of 2014, our key asset allocation decisions were to maintain an overweight exposure into equities, with a clear bias towards equities of the developed markets, and to adopt a cautious positioning towards highly-rated sovereign debt and investment grade credit. Whilst our call to favour developed markets equities over those of the emerging markets has proved to be appropriate, the strong performance of G-7 sovereign debt has clearly confounded our (and the markets!) expectations that long-term interest rates would edge somewhat higher over the course of the past year. The absence of an exposure to emerging markets debt denominated in local currencies turned out to be a good decision in the light of the severe depreciation of the currencies of some developing countries.

Our key currency forecast was for a stronger dollar

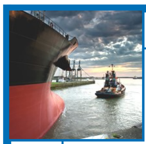
Our main currency forecast was for the US dollar to strengthen throughout 2014, particularly against the Euro and the yen; it took until the summer for these trends to become clearly established, but the impact of diverging monetary policies and the much faster growth pace of the US economy triggered significant depreciations of both currencies. As widely expected, the EUR/CHF parity evolved within a relatively narrow range even though persistent upside pressure on the franc during the second half of 2014 has meant that the pair ended the year just above the Swiss National Bank's floor of 1.20 francs per euro.

We opted not to be exposed to commodities

For the first six months of 2014, our recommendation not to be exposed to commodities at first appeared to be well off the mark as the asset class recorded unexpected gains, in particular due to the higher prices of energy and gold. However, this trend proved to be unsustainable, as most commodities shed all of their first-half gains and as energy prices fell by over 50% from their peak levels observed in June.

Returns of hedge funds have been somewhat below expectations

Finally, we must admit that the returns produced by the hedge fund industry in 2014 have struggled to match our expectations; the on-going interventions of the main central banks, severe sectorial rotations and a regime of low volatility are some of the main factors that have prevented better performances.



2014: ECONOMIC DEVELOPMENTS

The divergence of the monetary policies of the major central banks

Diverging regional trends trigger different monetary policies

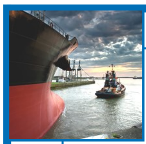
One of the major developments throughout 2014 has been the opposite directions taken by the monetary policies of the main central banks; on one side, the Federal Reserve and the Bank of England have withdrawn some of their support and moved somewhat closer to start raising their interest rates. In contrast, the European Central Bank and the Bank of Japan have decided to introduce additional quantitative easing. The higher threat of deflation in Europe and the lack of reform progress in Japan are the main reasons behind their central banks' decisions to further expand their balance sheets. So far, the most visible consequence of these divergent policies has been observed in the currency markets, with significant changes of some of the major parities since the summer.

The Federal Reserve ended its asset purchase program as planned

In-line with its end-2013 announcement, the Federal Reserve scaled back the size of its bond-buying program from January onwards, effectively ending it in October; this means that the size of the bank's balance sheet has stopped expanding. In parallel, the Fed has maintained its dovish tone and kept the level of its interest rates at record lows despite the improvement observed in the labour markets. This cautious stance is largely due to below-par inflation expectations and the lack of wage growth as the US central bank manages its dual mandate of ensuring stable prices, with an inflation target of around 2%, and of supporting maximum employment.

The Federal Reserve could start raising rates in 2015

In contrast to the concerns expressed by the central banks of other key regions, the Fed has declared its confidence in the progress realized by the US economy and the consensual expectations are for the bank to first raise interest rates towards the middle of 2015. However, the range of expectations relative to when the central bank will first act is quite wide, depending on whether one's analysis is based on positive domestic developments or on external risks due to the discrepancy between economic trends observed in the US and the rest of the world.



The European Central Bank is back in action mode

The ECB announced a radical change of its monetary policy in 2014 as stuttering growth and ever declining inflation expectations in the euro zone have cornered the central bank into action mode. The ECB President, Mario Draghi, has declared his intention to expand the size of the bank's balance sheet by up to one trillion euros as he aims to move the ECB's balance sheet towards its early-2012 size of around €2.7 trillion; the balance sheet now stands at €2 tn. This will be carried out through both new long-term refinancing operations (TLTROs) and quantitative easing via the purchase of a range of fixed-income assets that could also include sovereign debt. However, there is a high degree of uncertainty related to how this objective will be achieved in the light of internal disagreement within the bank's committee and questions regarding the legality of buying sovereign bonds. The main consequences of these announcements have been the trend of declining sovereign debt yields, an additional narrowing of spreads between bonds of peripheral and core countries as well as the steep depreciation of the euro.

The Bank of Japan boosts its program

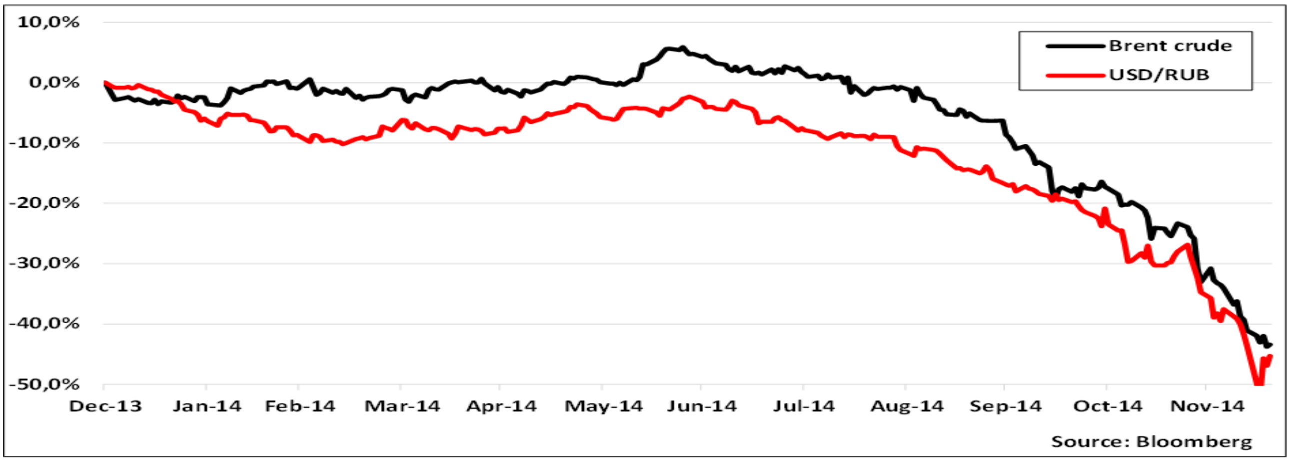
The Bank of Japan also announced at the end of October that it would expand its asset-buying program by as much as a third and buy not just more government bonds, but also stocks and real-estate funds. This means that the central bank will be buying on the market the equivalent of more than twice the amount of new bonds issued by the government, a level well beyond what the Federal Reserve and other central banks have purchased in their stimulus programs. In conjunction, the welfare ministry gave details of a long-awaited plan to shake up the $1.2 trillion investment portfolio for the Government Pension Investment Fund. It said it would raise the share of its assets in Japanese and foreign stocks by more than 10 percentage points each, in a bid to improve returns for Japan's rapidly growing population of retirees.

Emerging markets have been impacted by a number of headwinds

Growth contributions of emerging markets have declined

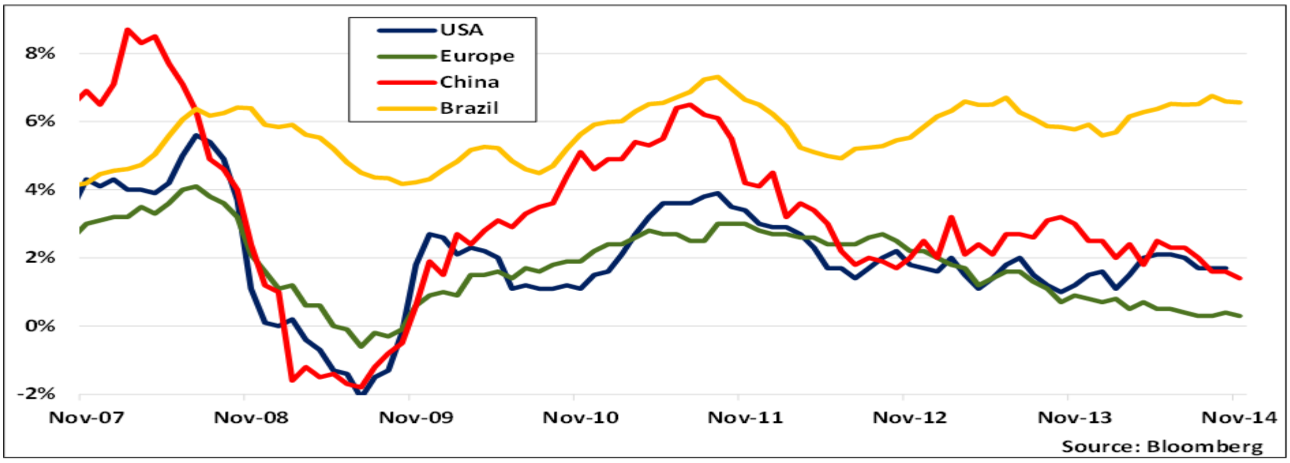
Another noteworthy trend observed in 2014 was the lower contribution to global growth from the economies of emerging countries, in particular from those of the Latin American and Eastern Europe regions. These economies have been impacted by a series of events, including the threat of war, economic sanctions, political protests and the slump of commodity prices. Also, the growth dynamics of China's economy have continued to weaken as the country's leaders attempt to reconcile a soft landing from previously higher rates of growth with sufficient job creation and a lesser dependence on exports and fixed capital investment.

The collapse of oil prices

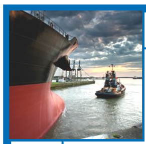


The collapse of oil prices during the second half of 2014 had a major impact on the financial stability of certain oil-producing countries such as Venezuela and Russia; the risks of a sovereign debt default by Venezuela have significantly increased due the country's over-dependence on oil exports, while Russia has had to take a series of measures to support its plunging currency. The chart shows the near-perfect correlation between oil prices and the rouble; at the time of writing, the downside pressure on the rouble has somewhat abated.

Inflation across the world (2007-2014)



Inflation rates and outlook have declined to such an extent in certain regions that the concerns over deflationary risks have led to interest rate cuts and additional monetary easing by some of the major central banks. In Europe, headline inflation has dropped from + 0.8% at the end of 2013 to - 0.2% in December, with core inflation remaining stable over the same period at a level of + 0.8%. The US economy is in the early stages of an upside trajectory in wage growth, which could contribute to partly compensate the impact of imported disinflation. While headline CPI is significantly weighed down by declining energy prices, underlying price pressures should keep the core inflation rate close to 2% in 2015.



Conclusions

The role of central banks to remain key

Central banks remain in accommodative mode and continue to be the main drivers of capital markets; even if the Federal Reserve were to start hiking interest rates, it will only be very progressive and well flagged to the markets; in fact, the FOMC might choose to delay any rise considering the relative strength of its economy compared to the rest of the world's. The ECB is under pressure to deliver on its promise to expand its balance sheet.

The US economy expected to shoulder the bulk of global growth

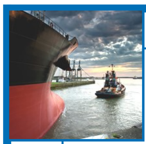
Global growth has become more dependent on the activity of developed economies, in particular the United States, as emerging countries struggle to introduce structural reforms and to rebalance their economies at lower rates of growth. The collapse of energy prices and the general weakness of commodity markets are creating instability in certain developing regions that could trigger negative knock-on effects.

The lack of inflationary pressures

There are little reasons to believe that global inflationary pressures will start to pick up in the quarters ahead, especially when considering the prevailing trends of commodities prices and the high levels of supply. In the US, the healing labour markets could bring some pressure on wages and contribute to higher inflation expectations.

Emerging markets need to adjust to slower rates of growth

The growth of emerging markets is structurally slowing with China in the middle of a process where it attempts to rebalance its economy towards a model less reliant on exports. The impact of weaker commodity prices varies considerably from one region to another and the normalization of US monetary policy makes the countries dependent on external capital more vulnerable.



2014: THE FINANCIAL MARKETS

The collapse of government bond yields and the plunge of oil prices were the most noteworthy trends observed throughout 2014 and also, to a large extent, the least anticipated. In contrast, the strength of the US dollar was not a surprise, even if its appreciation surpassed most forecasts. As for equity markets, conditions turned out to be more difficult than predicted and US equities outperformed the other major markets once again.

2014 performances

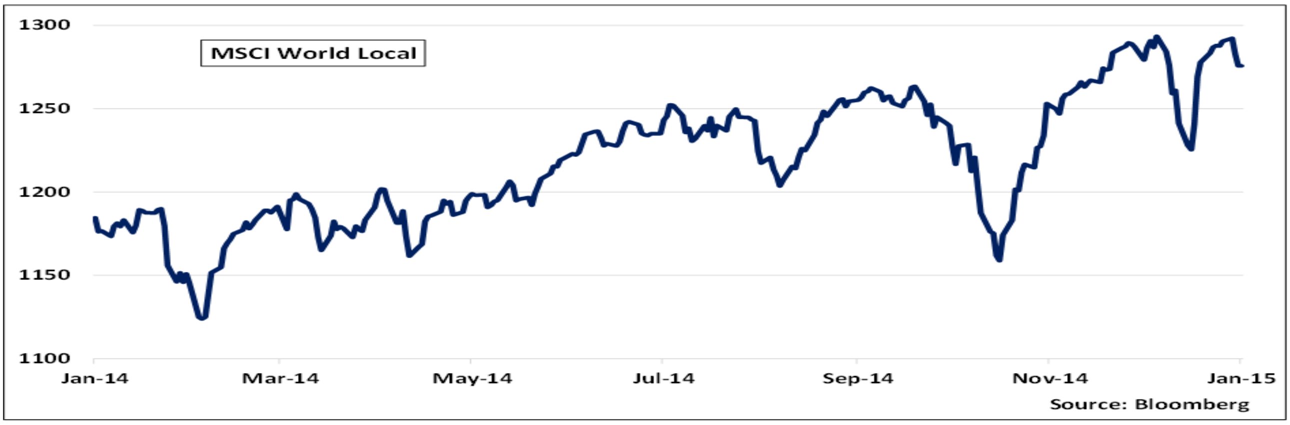
	End 2013	End 2014	2014 performance
Equities			
S&P 500	1848.4	2058.9	+ 11.4%
Euro Stoxx 50	3109.0	3146.4	+ 1.2%
MSCI EM	1002.7	956.3	- 4.6%
Yields			
UST 10-year	3.03%	2.17%	- 86bps
Bund 10-year	1.93%	0.54%	- 139bps
BBB EU	3.42%	1.61%	- 181bps
Currencies			
EUR/USD	1.374	1.210	- 11.9%
USD/CHF	0.893	0.994	+ 11.3%
GBP/USD	1.656	1.558	- 5.9%
USD/JPY	105.3	119.8	+ 13.8%
EUR/CHF	1.227	1.203	- 2.0%
Commodities			
CRB Index	280.2	230.0	- 17.9%
Oil, WTI	$ 98.4	$ 53.3	- 45.9%
Gold	$ 1206	$ 1185	- 1.7%

Equities

Most of the major equity indexes produced single-digit returns in 2014 as disappointing global growth, geopolitical tensions and deflation concerns prevented stocks from performing better. The MSCI World Index gained 7.7% in local currency terms (only 2.9% in USD terms), mainly thanks to the contributions of developed markets; emerging markets experienced another difficult year (- 4.6% for the MSCI EM Index in USD terms), with the exception of China and India.

As in 2013, US equities outperformed all other developed markets under the leadership of the more defensive sectors (utilities, technology and healthcare). The S&P 500 Index appreciated by 11.4%, compared to a 4.4% return for the Euro Stoxx 600 Index, an 8.1% return for the Japanese Topix and a 2.7% drop for the UK's FTSE 100 Index. The focus on high-quality blue chip companies also meant that small caps underperformed (+ 3.5% gain for the Russell 2000) and that the Swiss SMI Index performed well (+ 9.5%) thanks to the contributions of the heavyweights Novartis, Nestlé and Roche.

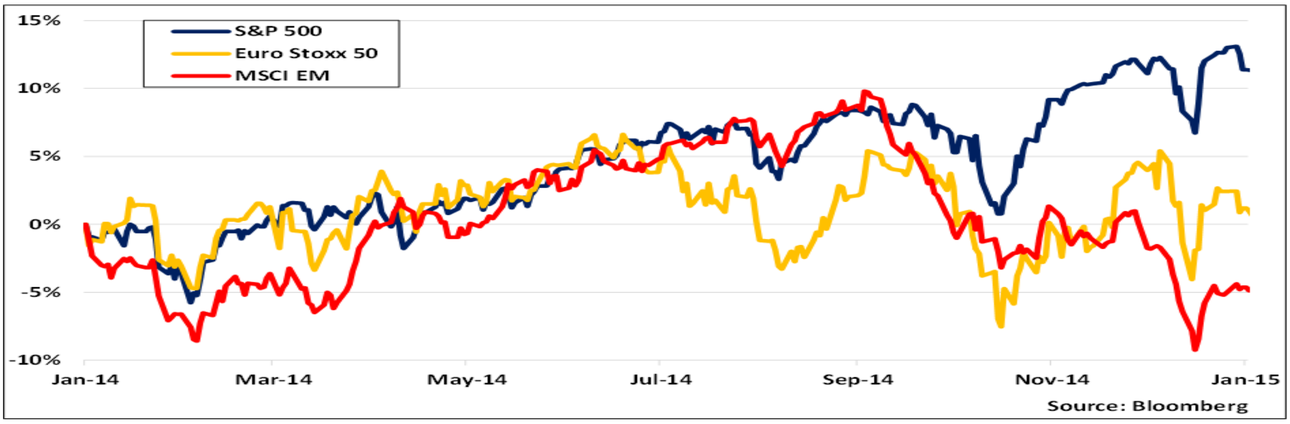
MSCI World Local



Global equity markets got off to a poor start in 2014 as tensions in emerging markets triggered losses across all regions. From February onwards, equity markets proved to be quite resilient as they brushed off geopolitical issues and moved higher on the back of central banks' accommodative policies, corporate activity and relatively attractive valuations.

This relatively smooth trend ended in September as equities experienced a severe correction due to concerns about the ECB's plans to boost the size of its balance sheet and fears that the world was falling into a deflationary environment. This drawdown was followed by a rebound of a similar magnitude as the FED had reassuring words that economic conditions were not that bad and US companies reported strong earnings for the third quarter; equity markets were also boosted by the Bank of Japan's announcement of additional monetary stimulus.

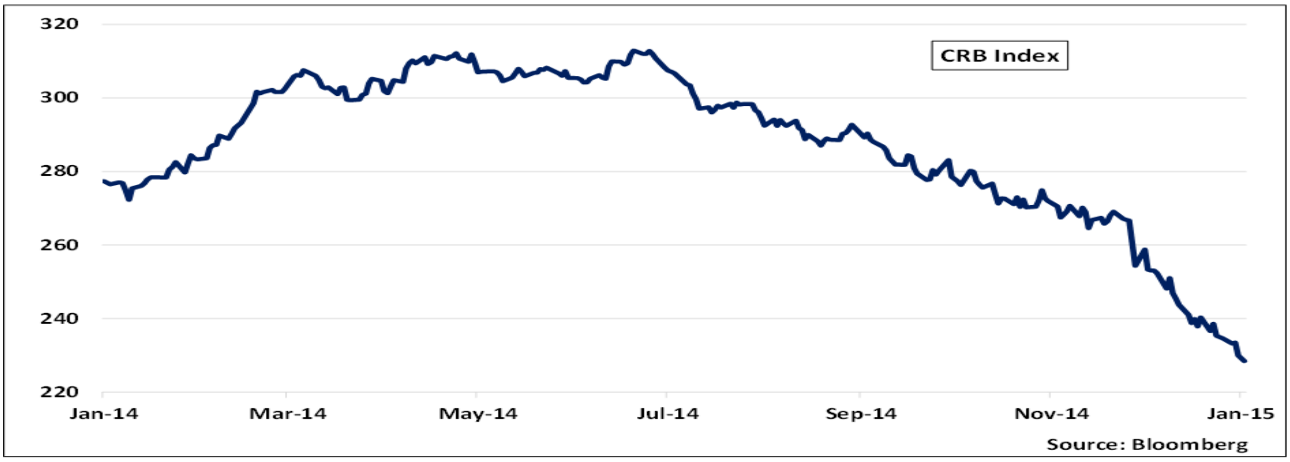
S&P 500 - Euro Stoxx 50 - MSCI Emerging Markets



American, European and emerging market equities performed in a similar fashion during the first half of 2014; from then onwards, US equities clearly outperformed their peers. The escalation of the conflict in Ukraine affected market and business sentiment in Europe whereas the strength of the US economy, raising the prospects of higher interest rates, negatively impacted the financial assets of developing countries.

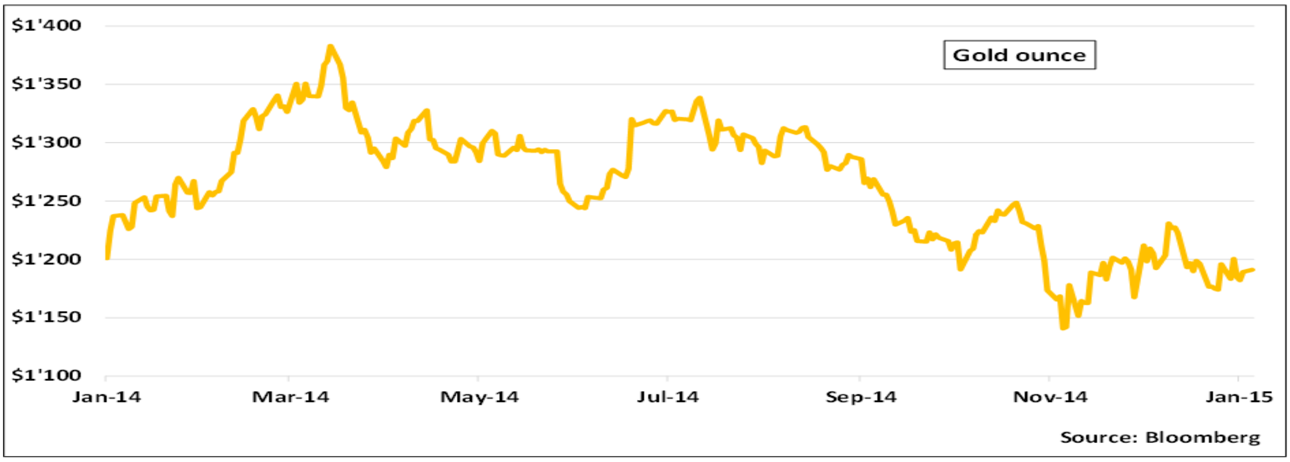
Commodities

CRB Index



2014 was a year of two halves for the commodity asset class; the positive first-half performance of commodities was largely unexpected, considering the modest pace of economic growth and the ample levels of supply for most commodities. The trend of commodity markets changed dramatically during the second half of the year; the most significant event was the collapse of oil prices, as excess supply more than offset any concerns related to geopolitical issues in the Middle East and Ukraine. The end-of-November decision by oil exporting countries (OPEC) to refrain from any cut of their production added to the on-going pressure on prices, which dropped by more than 50% since their peak observed in June.

Gold

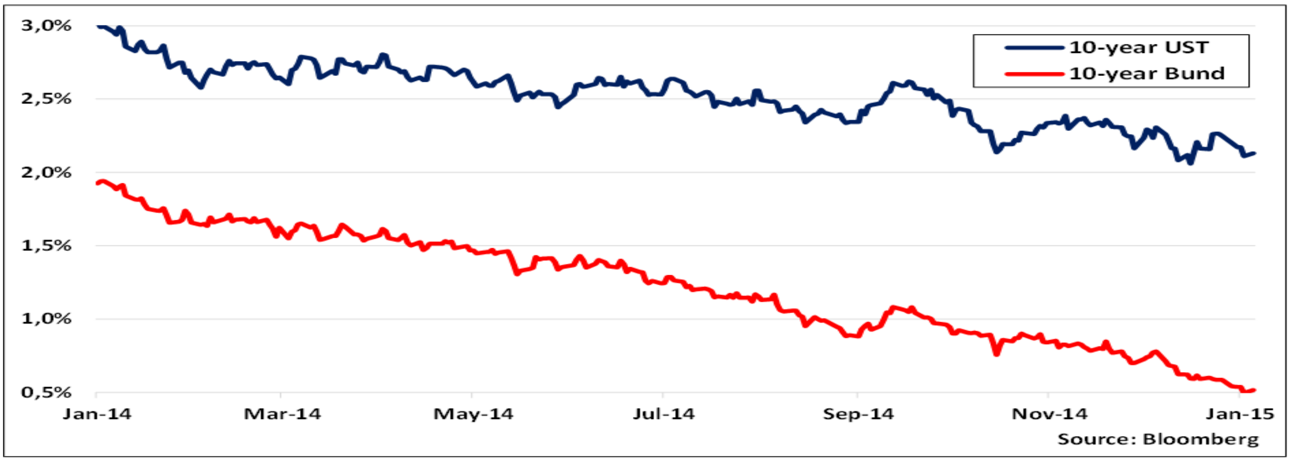


As for most other commodities, the price of gold initially fared much better than expected as it appreciated by 15% during the first quarter; following a period of relative stability which lasted until the end of summer, gold then gave up all of its gains to end the year with a 1.7% loss, mainly due to the strength of the dollar.

Debt instruments

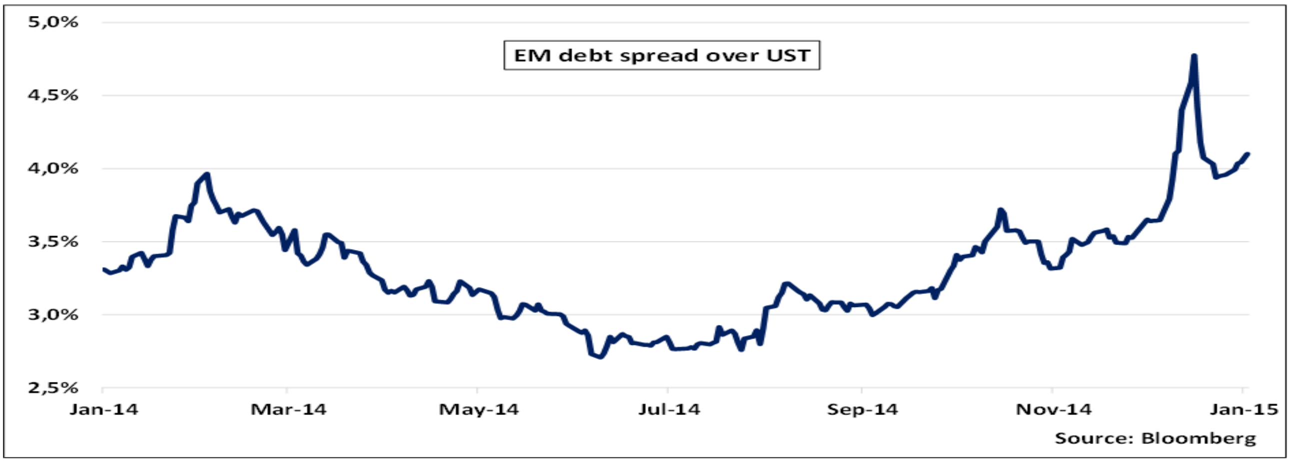
The performance of global government bonds has been the major surprise of 2014 as yields have reached record lows in many markets. At the beginning of the year, investors were generally concerned about the risk of rising yields, but an environment of extremely low inflation and an ongoing search for yield have represented major supports for highly-rated sovereign debt.

10-year US and German government bond yields



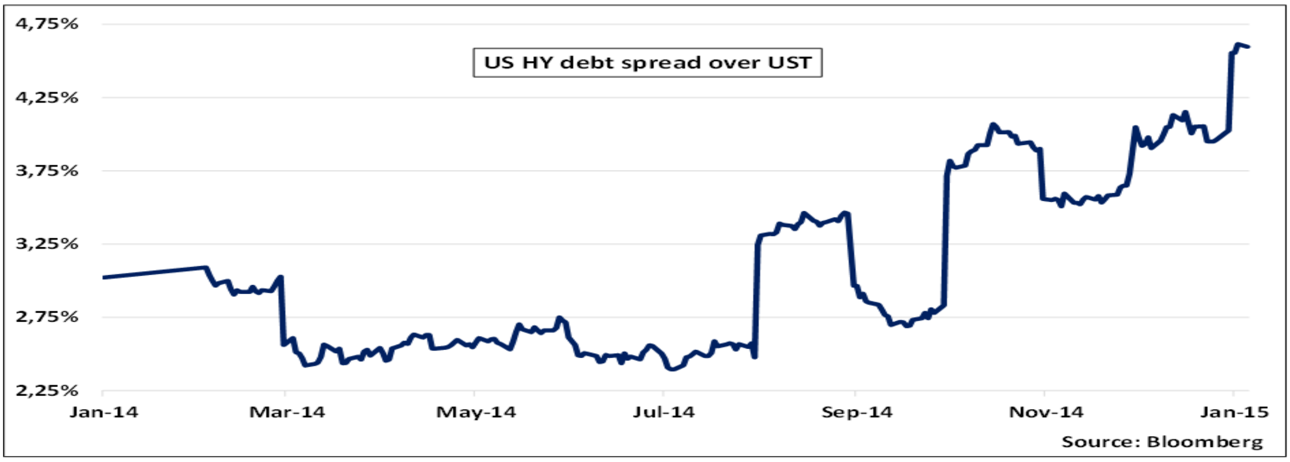
The decline of the yields of the benchmark 10-year U.S. Treasuries and German Bunds was relentless in 2014; as shown in the chart above, their yields have declined from 3.03% and 1.93% at the end of 2013 to end-year levels of 2.17% and 0.54% respectively.

Emerging Market Debt spread



The spread of emerging market debt yields over U.S. Treasury yields (JPMorgan EMBI Global Spread Index) has widened to 4% from an end-2013 level of 3.3%, after having reached a year-low of 2.7% in June. The rising dollar and investors' concerns about a potential downgrade in Russia and a potential default in Venezuela have contributed to this wider spread.

US High Yield spread



Some stress has been observed in the high yield space since the summer as ETF outflows triggered wider spreads, largely due to the inability of market makers to absorb the volumes on offer.

Debt instruments' market performance in 2014 (USD)

World Government Bond Index	*+ 7.9%*
U.S. Credit AAA	*+ 5.4%*
U.S. Credit BBB/BB	*+ 11.6%*
Global Emerging Market Sovereign	*+ 7.1%*
U.S. High Yield	*+ 1.8%*

Currencies

The USD appreciated against all currencies under the influence of strong US economic growth and the shift of the Federal Reserve away from stimulus. At the same time, the European Central Bank and the Bank of Japan introduced further monetary easing to expand the size of their balance sheets and to support their economies, triggering a depreciation of their currencies during the second half of the year.

The downside pressure on the euro meant that the EUR/CHF parity hovered just above the floor fixed by the Swiss National Bank more than 3 years ago; however, the central bank did not need to intervene much in the markets to prevent the franc from breaching the 1.20 level.

The currencies of commodity-exporting countries were under intense pressure in 2014, with the most dramatic move being experienced by the Russian rouble as it depreciated by 46% against the dollar due to the dual impact of economic sanctions and the collapse of oil prices. Since the beginning of the year, Russia's central bank raised interest rates by 11.5% to 17% and spent $120bn in reserves to defend its currency and fight against inflation.

Hedge funds

Most hedge fund managers struggled to generate strong performances in 2014 as the average hedge fund produced low to mid-single digit returns. The best annual results were recorded by trend following funds (CTA) which benefited from robust trends in the currency, bond, equity and energy markets; paradoxically, systematic trading started 2014 as the least-loved strategy and had been the only one suffering from outflows over the course of the previous year. Funds in the credit space fared relatively well, while the Long/Short strategy only produced modest performances despite a favourable equity environment. Global Macro managers also failed to match expectations as they were negatively impacted by an environment of low interest rates and muted swings in prices.

The difficulties of the hedge fund industry in 2014 were reflected by the high number of funds closing down; during the first half, 461 funds closed according to Hedge Fund Research, making it the worst year for closures since 2009, when there were 1'023 liquidations. Despite the fact that the hedge fund industry has the highest amount of assets ever, many small and medium sized firms have been unable to grow their assets and the likelihood of redemptions could leave them facing a decision whether to carry on or not.

HFRX Global Hedge Fund Index

Hedge Fund strategies' performances in 2014 (* end November)

HFRX Global Hedge Fund Index	- 0.6%
HFRX RV FI Convertible Arbitrage Index	- 9.4%
HFRX Multi-Emerging Markets Index	+ 1.0%*
HFRX RV FI Corporate Index	+ 3.5%*
HFRX Equity Hedge Index	+ 1.4%
HFRX Macro Multi-Strategy Index	+ 3.1%*
HFRX Event Driven Index	- 4.1%
HFRX Equity Hedge Short Bias Index	- 7.0%*
HFRX Macro Systematic Diversified CTA Index	+ 3.2%

2015: ECONOMIC OUTLOOK

A modest improvement for the world economy in the year ahead

Following another year of disappointing economic growth, expectations are for a slight improvement of global economic activity in 2015. The US economy has been leading the way and should remain the main engine of growth in the quarters ahead; the country's improvement is based on a stronger domestic economy benefiting from lower unemployment, a recovery of housing markets and lower energy costs.

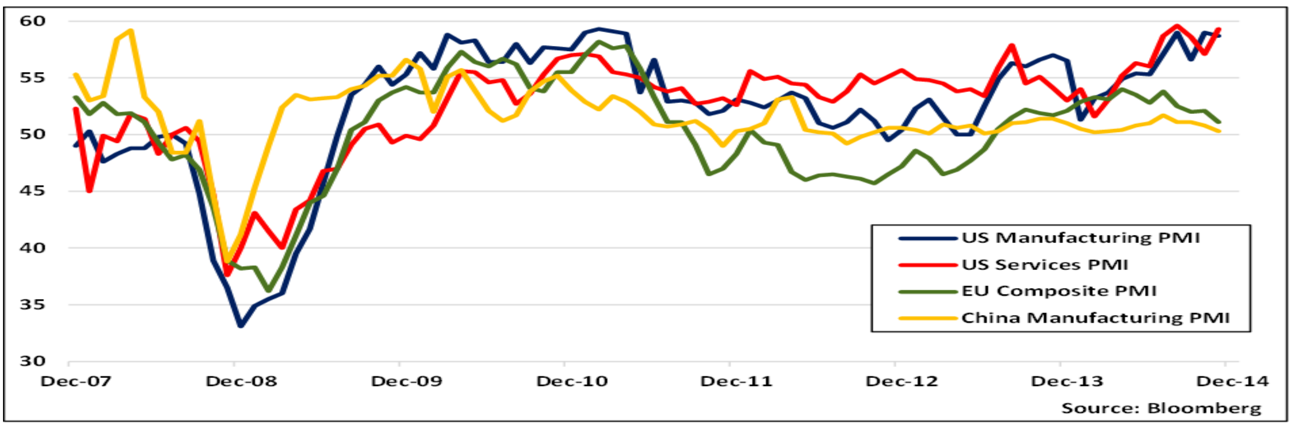
Many challenges await the euro zone

Europe is expected to fare a little bit better thanks to a weaker currency, additional support from the region's central bank and a modest improvement of the credit cycle. However, the year ahead will be a challenging one due to political risks in the form of a busy electoral calendar, with populism and extreme parties on the rise; other risks are represented by divisions within the ECB and opposition to its QE program as well as the lack of meaningful reforms in France and Italy.

Some developing countries will be hoping for higher oil prices

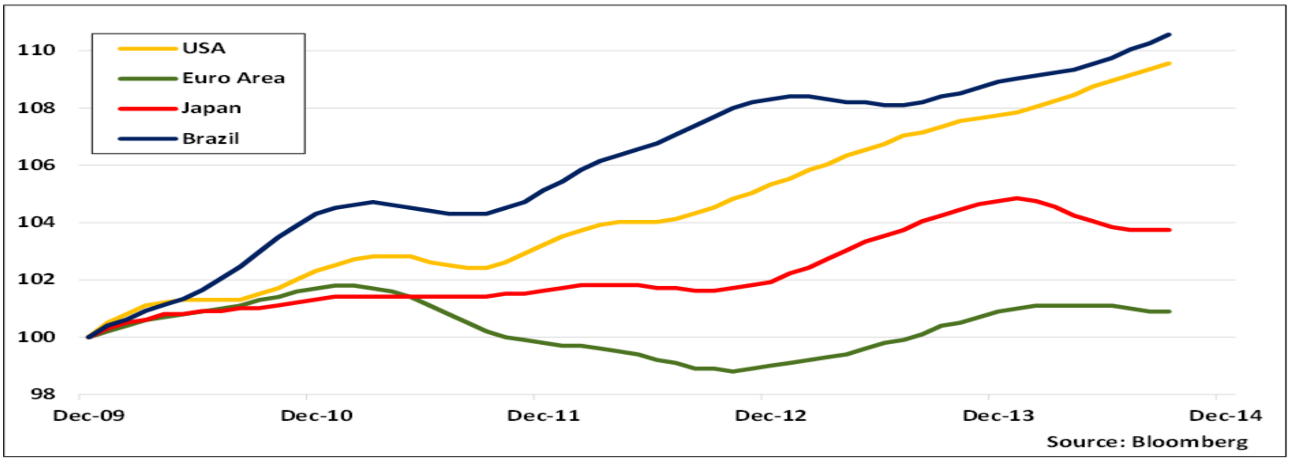
The global economy and most countries should be better off as a result of the slump in oil prices, including key emerging markets such as China and India. Of the major advanced economies, Japan will benefit the most, while the US, the euro-zone and the UK will also profit. Aside from the Gulf producers, the biggest losers include Nigeria, Venezuela and Russia.

Leading indicators: Purchasing Manager Indexes



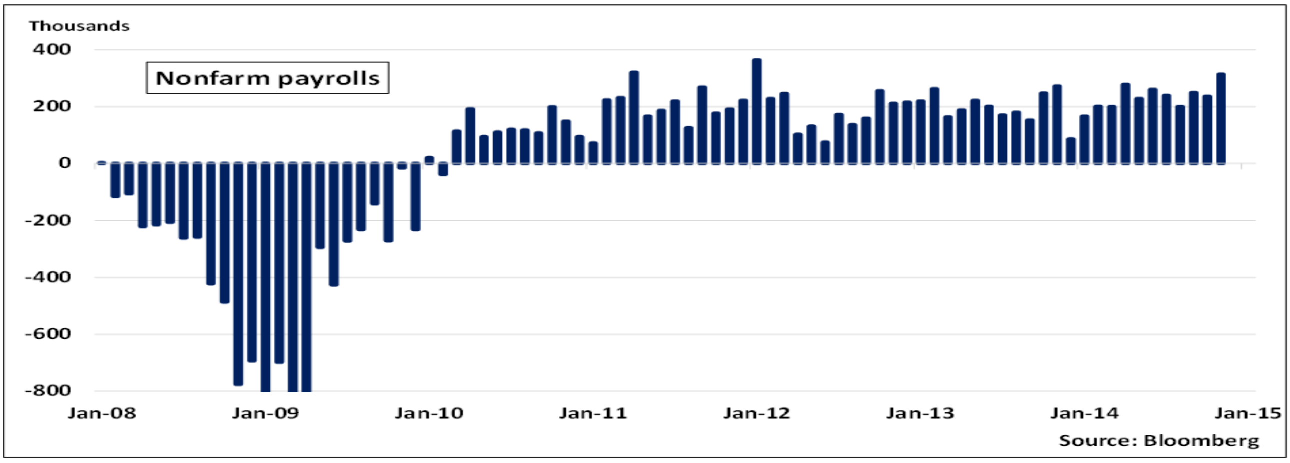
The chart above shows that while the US economy has gained momentum throughout 2014, activity in the euro zone has dipped, with the region's composite PMI dropping from 53.8 in July to 51.1 in November. The same trend can be observed in China where manufacturing PMI has fallen from 51.7 to 50.3 during the same period.

Leading indicators: OECD Composite Leading Indicators



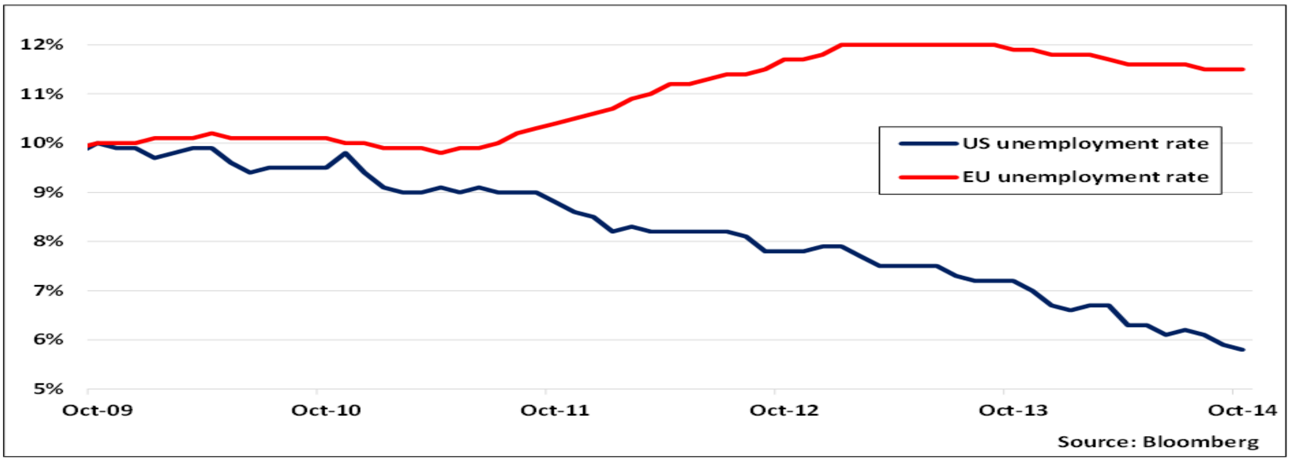
The chart reflects the different trends observed across the different regions; the rude health of the US economy is reflected by the constant improvement of its Leading indicators and by its catch-up with the Brazilian economy. For 2015, the contributions to global growth from the more mature economies, particularly the US and the UK, will increase relatively more than those of the developing countries. Whereas all Leading indicators were signalling an improvement in all regions at the end of 2013, the recent developments in Europe and Japan have been less encouraging as indicated by the flattening slopes of their respective Leading indicators.

The labour markets: U.S. Nonfarm Payrolls (month on month net change)



Conditions in the US labour markets improved during the year, with an increase of the average number of nonfarm jobs created by the private sector to 229'000 from 173'000 in 2013. However, this higher rate of job creation was not accompanied by a pick-up of the participation rate (share of working-age people in the labour force) which stands at an end-2014 level of 62.7%.

The labour markets: U.S. and EU unemployment rates



The chart shows that the unemployment rates in the US and Europe were at similar levels in 2009. Since then, the US unemployment rate has declined to 5.8% and dropped by 1.2% during the past year. However, the labour market is still not fully healed, as wages are only rising moderately. In Europe, the unemployment rate has only slightly declined from its 2013 peak of 12% to an 11.5% rate while the percentage of long-term unemployed continues to rise.

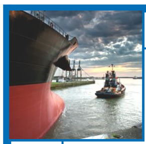
Conclusions

Lower oil prices present some risks

The drop of oil prices is a net positive for the global economy, but it poses a threat to political stability in some producing countries. The central banks of many emerging countries will be under less pressure to raise interest rates considering the weighting of energy in the baskets used to measure inflation. Geopolitical risks have risen during the past year and tensions remain high across several regions. Once again, the rate of global economic growth has been revised downwards by the IMF and now stands at 3.8% for 2015. The US economy will be the main driver of growth and the major central banks will have to match high expectation levels and avoid upsetting finely balanced financial markets.

A modest pick-up of global growth in 2015

We would have liked to be able to express a higher degree of optimism, but the most likely outcome for the global economy is another year of muddle-through as Europe remains a weak spot, Japan still has a long way to go before a real improvement can be observed, China struggles to adjust its economic model and EM countries are growing at slower paces. The main risks are represented by the potential fallout from oil producers' problems, political risks in Europe, the threat of deflation, a hard landing in China and policy errors by the most influential central banks.



2015: FINANCIAL MARKETS' OUTLOOK

Many things look the same as a year ago

At first glance, it would appear that little has changed compared to a year ago; the US is still in a recovery mode, Europe is still struggling to grow, Japan is still fighting against deflation and China is still attempting to control its slowdown. Valuations in stocks are still not extreme, bond yields have continued to decline and central banks' policies remains very accommodative.

Some major trends might start to change

However, a number of shifts might be at work. The US dollar is on the brink of breaking out of a 30-year bear market, depressed long-end rates could finally start to rise and volatility could step up. Improving growth, bottoming inflation and still supportive central banks present a favourable environment for equities and credit in 2015 while government bonds are unattractive. That explains why our recommended asset allocation will not be impacted by any radical changes for the time being.

Debt instruments' outlook

Despite benign conditions, government bonds are not attractive

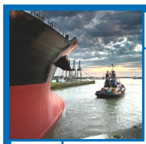
Conditions are benign for debt instruments as the forces that are keeping yields down - excess global savings, low inflation and central banks' policies – are likely to persist in 2015. However, we view government bonds as too expensive and their unattractive risk/reward profile leads us to prefer investing into other fixed-income assets for income purposes.

The timing of the first Fed rate hike is difficult to predict

Currently, U.S. Treasuries are priced for the Federal Reserve to start raising rates in the third quarter, later than what the majority of FOMC members currently expect. If the U.S. economy were to grow above trend in the first half, the odds of an earlier rate rise would greatly increase and push yields higher, which could create a buying opportunity.

Corporate default rates should remain low

The current macro-economic conditions and the actions of the central banks make it likely that the corporate default rates should remain at low levels and contribute to decent returns from spread products. The economic and currency fundamentals for emerging market bonds are still not very attractive and corporate health is deteriorating, meaning that it is too early to return to this asset class.



Equity outlook

Equity markets are still very reliant on accommodative policies

The policies of the key central banks are still supportive for risky assets even though the risks related to miscommunication or policy errors have increased due to the markets' heavy reliance on monetary support. While the Federal Reserve is expected to lift rates in the second half of 2015, central bank balance sheets are likely to expand in aggregate due to the programmes of the European Central Bank and the Bank of Japan.

Valuations of equities are not excessive

From a valuation perspective, equities are more attractive than fixed-income and, with the exception of the U.S. market, developed markets are trading slightly below their long-term historical valuations, based on cyclically-adjusted price-earnings (CAPE). On this basis, Japan, the U.K. and some of the euro area markets are amongst the most attractive.

Emerging markets equities could further underperform

Emerging markets' equities could continue to underperform as their valuations are not sufficiently discounted to compensate for less favourable macro-economic conditions and a bearish commodity cycle.

Alternative investments

Hedge funds add value to portfolios

Alternative investments add value to portfolios due to their ability to exploit market inefficiencies, reduce portfolio volatility, bring diversification and provide access to complex strategies. Some of our current focuses are on global macro and on long/short strategies which should benefit from the lower correlations between equities, sectors and countries.

The conditions for hedge funds should improve

For certain strategies, the economic and market conditions have evolved in a positive way and we think that the environment will generally be more supportive for hedge funds going forward. The changing trends of interest rates and the moving away from risk-on/risk-off market regimes are some of the reasons why hedge fund managers should be able to perform well in the year ahead.

Better opportunities for structured products in case of a higher volatility regime

Our investments into structured products were limited in 2014 due to generally unsupportive conditions for the type of products we invest into. If these conditions were to improve, with in particular a higher level of volatility, we would expect our allocation to this space to increase.

Gold outlook

Gold has lost some of its shine...

On balance, the outlook does not look too promising for gold as some of its market dynamics have weakened during the past years; the announcement of additional monetary easing and more frequent periods of higher volatility no longer seem sufficient to push gold prices much higher. Furthermore, a firm dollar and the risk of a rise of real interest rates represent headwinds that are difficult to ignore.

...but is not to be totally discarded yet

The unappealing short-term prospects for gold prices should not detract from the fact that gold is still considered as a hedge against the more extreme risks, including a potential re-emergence of a crisis within the euro area. The low interest rates and modest expected returns from other assets also mean that the opportunity cost of owning gold is negligible, so we remain open to the possibility of rebuilding a position at some stage.

Currencies outlook

The dollar should continue to appreciate

One of the most consensual markets' views is for further appreciation of the US dollar. While it is never too comfortable to be positioned along with an overwhelming consensus, the reasons for optimism on the dollar appear quite compelling; stronger growth, a tighter monetary policy, domestic political stability and the willingness of other central banks to weaken their currencies should contribute to push the greenback higher.

The Swiss franc will hover above its 1.20 cap

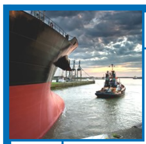
A number of factors applied upside pressure on the Swiss franc during the fourth quarter, leading the Swiss National Bank to introduce a negative interest rate on deposits to hold down the value of its currency. Looking forward, we expect the EUR/CHF parity to evolve within a tight range close to the 1.20 floor.

The yen and the sterling will lose further ground

We expect the Japanese yen to depreciate further against the dollar, under the influence of the aggressive quantitative easing by the Bank of Japan and growth differentials. The sterling should also lose some ground against the US currency due to some signs of economic softness, a large current account deficit and political uncertainty under the shape of upcoming elections.

EM and commodity currencies will remain under pressure

The outlook for commodity-related currencies is also bearish; slowing demand and lower commodity prices should negatively impact the value of currencies such as the Australian dollar and the South African rand. The performance of emerging market currencies will considerably vary, as those pegged to the dollar will outperform others caught up trying to stay competitive.



2015: ASSET ALLOCATION

Debt instruments

We are underweight the debt instruments asset class

Our allocation to debt instruments will remain underweight as the risk/reward profile of highly-rated sovereign bonds is more asymmetric than ever; from a starting point of record low yields, bonds appear to be very vulnerable to a sell-off if economic growth were to surprise on the upside and if the ECB were to fail matching expectations for full-blown quantitative easing.

We favour European credit over US

Our search for yield is focused on investment-grade sovereign debt outside of Europe and the US as well as on European credit, high-yield and loans. During the course of 2014, we exited our position in US high yield due to concerns over valuations and low liquidity; we are not prepared to change our stance at this stage. We continue to avoid emerging market debt denominated in local currencies due to expectations of a stronger dollar and the pockets of stress across several regions.

Equities

We are still overweight equities but to a lesser extent

We are reducing our overweight into the equity asset class but maintaining our preference for developed markets equities over those of the emerging markets. The recent developments in the euro zone (risk of Greece exit, pressure on ECB) have led us to reduce some of our exposure to European equities on a tactical basis and increase our cash position. Over the course of 2015, equities should benefit from better valuations compared to bonds and from the accommodative policies of central banks. Furthermore, the search for yield will continue to attract investors towards the high dividends distributed by blue chip companies.

EM equities could continue to underperform

A combination of declining productivity, political instability and slowing growth in China could weigh on the prices of EM equities despite slightly lower valuations than those of the developed markets. For our exposure to emerging markets' equities, we prefer the Asian region to Latin America and Eastern Europe.

We favour equities of the developed markets

We will maintain a widespread allocation to developed markets' equities; towards the US because of stronger growth and stability, towards Europe for a potential catch-up if no serious mishaps take place and towards Japan because of central bank support, allocation flows and cheap valuations.

Commodities

Commodity fundamentals have deteriorated

The fundamentals for the commodity asset class have deteriorated over the last year as a combination of slowing demand, ample supply, a stronger dollar and low inflation has pushed prices much lower. The collapse of the oil price will reduce the cost of producing commodities, thus exert even more downwards pressure on prices.

Oil prices will stabilize at higher levels in 2015

We expect oil prices to eventually stabilize at higher levels as the current prices are not sustainable over the longer term for most producers; the impact on US shale production will also progressively be felt as it will become more challenging to secure sufficient capital for less profitable projects. For the time being, the market is likely to remain choppy and difficult to predict due to the large influence of geopolitical and strategic decisions.

We avoid a direct exposure to commodities

The conclusion of the above is that we prefer not to be directly invested into the commodity asset class in the near term.

Gold

We are not invested into physical gold

We continue to avoid any physical gold investment for the time being as its main price drivers, the dollar and real interest rates, are likely to act as headwinds in the quarters ahead. The depreciation of many emerging markets currencies will also probably translate into lower demand for gold bullion and jewellery. For some portfolios, we remain invested into gold mining equities for diversification purposes, attractive valuations and industry consolidation.

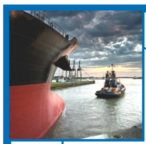
Hedge funds

Hedge funds should contribute more in relative terms

Hedge funds will continue to play a key diversification role in the portfolios, especially when one takes into account the low yields of debt instruments and the modest returns anticipated for equities. The active management approach of hedge funds contributes to the diversification of investors' portfolios and their returns are less correlated to those from traditional assets.

Our hedge funds exposure is focused on liquid strategies

We will continue to favour liquid strategies such as long/short and global macro and also invest into hedge funds that can exploit market inefficiencies which we cannot access. Our search for high-quality hedge funds integrates the need to find those with the most appropriate structures and terms as to fit our requirements within an increasingly complex set of constraints.



FFG PORTFOLIO CONSTRUCTION

- *The construction of an investment portfolio and the selection of its individual components are the result of a well-defined investment process. This process begins with the determination of the client's risk profile, base currency and the chosen investment strategy. This framework will then lead to the tactical positioning of the portfolio within strategic asset allocation ranges for each asset class.*

- *The choice of the base currency is of particular importance as it will affect the way the investment strategy is carried out; firstly, through the determination of the most appropriate level of hedging of currency exposures (if any) and, then, by the selection of the best-suited underlying investments.*

- *The determination of the allocation to the different asset classes is the main driver of the portfolio's performance and serves as the keystone around which the other investment decisions are taken. The role of your investment manager at the Forum Finance Group is to build portfolios based upon all the relevant information and through the selection of investment products from a pre-determined approved investment universe.*

- *Each individual investment has a specific role to play and the selection of any product is based on both its inherent features as well as its complementary properties within the portfolio. It is necessary to fully understand each investment product in order to be able to predict to a large extent its behaviour depending on different market scenarios and to better evaluate its purpose in relation to the other assets.*

- *Therefore, the performance of any specific investment cannot be measured against its peer group without taking into consideration the remainder of the portfolio. Typically, the portfolios' risk budget will be spread across directional assets such as equities, commodities and high-yielding debt. The portion of the portfolios dedicated to the preservation of capital will be invested into assets less correlated to market trends, such as funds of hedge funds, highly-rated bonds and certain structured products.*

HEDGE FUND MANAGERS

- *The Forum Finance Group invests into Funds of Hedge Funds and, for the clients that have approved this asset class in their mandates, into Single Hedge Funds.*

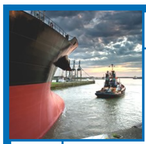
- *Funds of Hedge Funds offer diversification and low volatility, while Single Hedge Funds focus on specialist strategies with an emphasis on risk management. We consider Single Hedge Funds to be genuine alternatives to the traditional asset classes, providing access to outstanding fund managers and improving the risk-return profile of portfolios.*

- *Whereas Funds of Hedge Funds will continue to be classified as a separate asset class, the majority of single manager hedge funds will be classified within the traditional asset classes. Therefore, as an example, the allocation to equities will not only include the direct equity positions and the investments into equity funds, but may also include strategies such as Long/Short equities or Event Driven equities.*

STRUCTURED PRODUCTS

- *From our point of view, structured products also provide an alternative way of investing into traditional asset classes such as equities, debt instruments and commodities. The different structures of these products vary considerably and the selection of a specific structure is not only a function of the prevailing market conditions and the outlook for the underlying asset, but also a function of the capacity of the product to mitigate risk within the global portfolio.*

- *Structured products are classified within the most relevant asset classes at any defined moment. This allows us to better analyse the overall levels of risk of each asset class than if structured products were classified separately. Structured products are, by nature, hybrid instruments and the evolution of their different components will determine whether it becomes necessary to reclassify a particular structured product into a different asset class.*



ASSET ALLOCATION GRID 2015

For our balanced accounts, we apply the following grid:

	Allocation	*January 2015*
Short-term deposits	***0 – 20%***	***13%***
Debt instruments	***15 – 55%***	***27%***
Investment grade bonds	*5 – 45%*	*8%*
EM & high-yield bonds	*0 – 20%*	*10%*
Specialist bonds	*0 – 15%*	*9%*
Equities	***20 – 60%***	***45%***
Developed markets	*15 – 50%*	*40%*
Emerging markets	*5 – 30%*	*5%*
Commodities	***0 – 15%***	***0%***
Physical gold	*0 – 5%*	*0%*
Other commodities	*0 – 10%*	*0%*
Hedge funds	***0 – 25%***	***15%***
		100%

Forum Finance Group

since 1994

Contact

The Forum Finance Group S.A.
6, rue de la Croix d'Or
P.O. Box 3649
CH-1211 Geneva 3
Switzerland

Phone : +41 22 311 8400
Fax : +41 22 311 8465
E-mail : info@ffgg.com
Web : www.ffgg.com