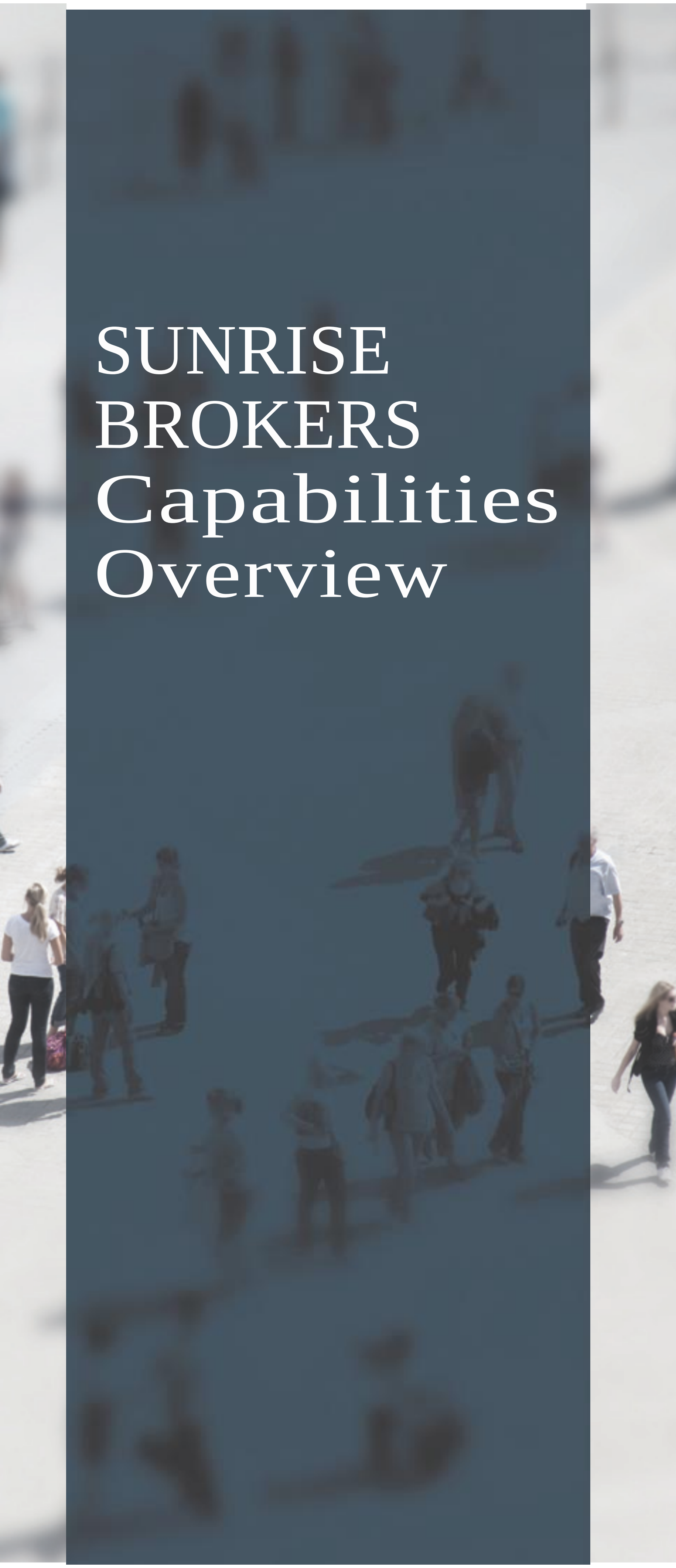


SUNRISE BROKERS Capabilities Overview

SUNRISE

We believe that the foundation for successful investing is a well-diversified portfolio that provides clients with the flexibility to adapt to changing markets, and which incorporates clearly-defined limits around risk.

GENERATING SUSTAINABLE INCOME

The search for sustainable sources of income has become an increasingly difficult one against the low-growth economic environment and with ultra-loose monetary policy from developed market central banks putting interest rates at 140-year lows.

Developed market government bonds would once have been a natural mainstay for income-generation strategies, but yields have fallen to record low levels and, in many instances, bonds offer investors negative real yields. Constrained productivity in the global economy means that other sources of income are also becoming harder and harder to find.

Bonds continue to appeal to investors as they offer regular and predictable sources of cash flow, while developed market bonds can still provide a relative safe haven during periods of market uncertainty. Specialist regional and high yield portfolios provide an additional dimension.

In equity investing, the greatest potential for generating an income yield over the medium term is likely to be exhibited by companies in Asian and other emerging markets. The dividend culture is becoming firmly established in a number of developing markets and greater scope for economic growth leaves companies in a stronger position to deliver the profits growth needed to fund a committed dividend-paying policy.

Many investors are also looking beyond traditional sectors to areas of the market that might have been considered too esoteric until just a few years ago:

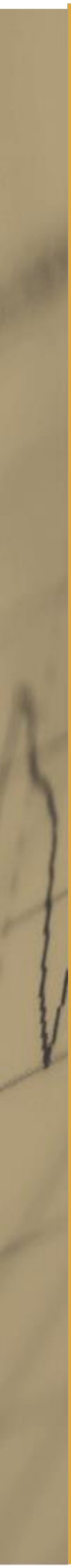
– Emerging market debt has come of age in the last five years and many emerging economies are in better financial shape than their developed counterparts. The range of emerging market debt strategies available has also evolved as the market becomes less homogeneous and more nuanced. Government issuance is no longer confined to 'hard' currencies like the US dollar, with local issuance also on the increase. There is also an expanding corporate bond sector, supported by relatively strong economic growth compared to the developed world.

– For investors concerned about interest rate risk there are short duration strategies that can help to limit a portfolio's sensitivity to rising yields.

– A highly specialist investment area, secured loans are sub-investment grade corporate debt instruments that are secured against the assets of the borrower. They offer a number of advantages to investors, displaying lower secondary market price volatility than high-yield bonds and benefiting from a higher recovery rate in the event of default.

With access to a range of specialist fixed income and market-leading equity income managers, we work with clients to develop effective strategies to deliver against a range of income targets.

OUR CAPABILITIES			
Equity	**Fixed Income**	**Liquid Alternatives**	**Illiquid Alternatives**
A focus on investing for dividends and dividend growth (in some instances supplemented by covered call option writing)	Enhancing yield through a deliberate reduction in credit quality, and greater active management	Cash flows derived from floating rate instruments secured against the issuer's balance sheet	Committing long-term capital to less liquid investments through private market investing can enhance yield — nominal or real or both
– Newton: Income– Global, Asian, Emerging & UK – Center Square: Global Property Securities	– Standish: Emerging Market Debt (Local Currency & USD) – Meriten: Euro Credit Short Duration, Euro High Yield – Insight: Emerging Market Corporate Debt – Alcentra: Global High Yield Bond	– Alcentra: Loans and structured credit	– Siguler Guff: Private Equity/ Healthcare (Drug Royalty Program) & Distressed Real Estate – Insight: Farmland, Consumer Debt Recovery



PREPARING FOR RISING INTEREST RATES

Interest rates in developed markets are sitting at artificially low levels. Official rates have been held at or near zero by major central banks in efforts to boost economic activity, while quantitative easing has driven down yields on government debt. Once policymakers are comfortable that their economies are back on the path to sustainable growth, monetary policy will start to tighten again and interest rates will inevitably rise.

At the same time, many investment portfolios have become more sensitive to the effects of rising rates. While yields on developed market bonds have been falling, the duration on benchmark bonds has risen, leaving many fixed income portfolios with higher levels of duration risk.

There are a number of fixed income strategies that can be adopted to prepare portfolios for a rising interest rate environment depending on their risk/reward profile. For example, average portfolio duration can be reduced by adding exposure to the short end of the yield curve. Or it may be appropriate to look at strategies that can adopt neutral or short duration positions (in other words they aim to generate positive returns in a rising yield environment).

Beyond fixed income, equity sectors are likely to benefit from the dual effect of a pick-up in economic activity and asset rotation as investors move away from fixed income assets. Passive funds and ETF’s will be natural beneficiaries of a shift into the asset class, but there should also be support for other areas of the equity market, for example those companies with exposure to the parts of the global economy that are growing or moving towards growth.

Investing in equity income strategies provides a combination of broad exposure across equity markets and the potential for enhanced yields through selective investment in companies that pay above-average dividends.

OUR CAPABILITIES			
Equity	**Fixed Income**	**Liquid Alternatives**	**Illiquid Alternatives**
All forms of equity are likely to experience a picku p in demand as investors reduce fixed income exposure	Limit duration risk or shift risk exposure from rate duration to spread duration (either strategically or tactically)	Unconstrained absolute return-style approach preferably with the ability to run neutral / short rate duration positions	Accept greater illiquidity to access adjustable rate instruments through private market investing
– Newton: Income - Global, Asian, Emerging – Walter Scott: Global – Sunrise Brokers ARX: Brazil – The Boston Company: US	– Meriten: Euro Credit Short Duration – Newton: Global Dynamic	– Newton: Multi-Asset - Real Return – Insight: Absolute Return Bond, European Equity, Absolute Insight Emerging Market Debt, UK Equity Market Neutral, Currency and Credit (Long/Short) – Standish: Global Strategic	– Alcentra: Direct Lending

MANAGING THE WHOLE SPECTRUM OF DOWNSIDE RISK

— In the wake of the financial crisis in 2008, investors have become increasingly aware of the wide range of risks that can impact portfolio returns. Counterparty risk was a particular focus in the immediate aftermath of the credit crunch as the banking sector struggled through a series of high-profile failures. Systemic risks such as inflation and interest rate fluctuations can also have a major bearing on the most appropriate strategy for a portfolio.

— In a relatively low-return environment where markets are being driven as much by policy as fundamentals it becomes even more critical to mitigate the potential loss to capital that can result from market shocks.

— There are a number of approaches that can be adopted including diversifying away risk factors or targeting investments that provide an effective hedge against the risk. This could include investing across a broad range of long only equity funds; introducing a diversifier such as emerging market debt into fixed income portfolios; or adopting an absolute return-style strategy where the managers use derivatives to hedge out risk to varying degrees.

— Any sophisticated investment decision should take into account a comprehensive assessment of the various risks involved. We work closely with clients to develop a clear picture of the risk factors that need to be taken into consideration and build an overview of the risk parameters that should apply to individual portfolios. Building effective downside protection into portfolios is essential to meeting long-term return expectations.

OUR CAPABILITIES			
Equity	**Fixed Income**	**Liquid Alternatives**	**Illiquid Alternatives**
Equity-based strategies specifically designed to mitigate drawdown	Inherently low-risk asset classes and strategies with an explicit focus on nominal or real capital preservation	Unleveraged market neutral approaches and derivative- based risk overlay strategies	Illiquid product structures with features designed to mitigate explicit drawdown risk while maintaining some exposure to the upside

INVESTING FOR THE FUTURE

Many investors are still grappling with the effects of the financial crisis on long-term strategy – previous assumptions about long-term growth trends and the impact of factors like long-run inflation on portfolios are being re-calibrated. How will investors set their investment objectives going forward? What are the most appropriate measures of investment success? Are traditional benchmarks still relevant?

For those investors with long-term liabilities, it is increasingly difficult to have confidence that their investment strategy will stand the test of time. Unprecedented monetary stimulus from the world's policymakers is driving investment markets, while many governments are faced with tough decisions over indebtedness. Regulatory reform of the banking sector and the introduction of stringent capital requirements are also having an impact on their role as lenders to the corporate sector.

The one certainty is that the investment landscape has shifted and that a new approach is needed to ensure portfolios retain flexibility to react to developments in markets and the global economy. The overall approach to building an investment portfolio for the long-term needs to be sensitive to multiple sources of risk, meet the long-term needs of the investor and encompass the wide range of investment strategies available in this increasingly complex world.

OUR CAPABILITIES			
Equity	**Fixed Income**	**Liquid Alternatives**	**Illiquid Alternatives**
All forms of equity have a potential place within the return seeking portion of a portfolio targeting long-term liabilities. A bias to towards quality and yield is logical.	Primary role is duration and credit risk management but certain market segments also used in a return-seeking context	Absolute return-style with limited market risk is an effective approach that introduces minimal risk relative to liabilities	Stable cash flows derived from private market investments to enhance returns (illiquidity premium) and partially manage liability risk (high duration assets)

Whatever the challenges our clients face, we draw on the breadth of experience available through our expert investment boutiques seeking to deliver smart thinking and robust solutions.