UNICORN
FINANCIAL SOLUTIONS
Invest In Integrity

For Unicorn Advised Portfolio of Unit Trusts & ETFs Clients Only

UNICORN ADVISED PORTFOLIO OF UNIT TRUSTS & ETFS

New Investment Call – 08/03/2017

Cash Portfolio

Company Name	Current Allocation	New Allocation
China Fund(s) (Equities)	10%	10%
Energy Fund (Equities)	10%	-
Gold ETF	30%	30%
Cash	50%	60%

- For Cash Investments below $11k, we recommend the entire portfolio consist of Gold ETF and Cash only.

CPF/ SRS portfolio

Company Name	Current Allocation	New Allocation
China Fund(s) (Equities)	10%	10%
Resources Fund (Equities)	10%	-
Short Term Duration Bond/ Cash Fund	80%	90%

- For CPFOA/SRS Investment below $11k, we recommend the entire portfolio consist of only Short Term Duration Bond Funds (CPFOA) or Cash Fund (SRS) only.

Regular Savings Plan

- For Regular Savings Plan, we recommend that it will be fully invested in China equities funds.

Why did we recommend you to invest in energy in June 2015?

We made the recommendation to invest in energy in 2015 when energy prices were low. This was on the back of a drop in oil prices from USD $110 in June 2014 to USD $46 by January 2015.[1] This enabled us to purchase a valuable asset at a highly depressed price. We recommended an investment into energy in June 2015, when oil prices was at USD $58 a barrel, and recommended an increase in our investment in energy in August 2015, when oil prices was at USD $45 a barrel.

Why are we recommending you to sell energy today?

After our recommendation to invest in energy, oil prices stayed at the same levels. This ranged from USD $30 to $50.[1]

As of end 2016, oil prices started to rise. This was due to the oil consortium, OPEC ("Organization of Petroleum Exporting Countries"), agreeing to reduce their output of oil. As of end February 2017, oil prices are now at USD $56.[1]

We have reviewed the geopolitical and industrial situation, and this is our analysis:

<u>OPEC</u>

OPEC agreed to reduce their output of oil from January 2017 with a validity of 6 months. OPEC will also favour extending the output reduction if the countries involved commit to the agreement.[2]

However, it is not so straightforward. Saudi Arabia, the world's biggest oil producer is the leading party in coordinating this agreement. Currently, only 3 of 10 members, including Saudi Arabia, meet the targets.[3] Traditionally, OPEC is an unstable alliance, and it is uncertain if the agreement can be held.

<u>Shale Oil</u>

In mid-February, OPEC reduced their oil output by a million barrels a day. Shale Oil producers in the US produced the same amount of oil in the same week.

As oil prices rise, Shale Oil producers will increase their output of oil. A key indicator of their production is their profitability. Most shale oilfields in the US start to be profitable above $60. They will then ramp up their production of oil above this price.[3] As seen in mid-February, the increase in supply of shale oil could offset any reduction of oil supply by OPEC.

<u>Oil Inventory</u>

The US currently stocks 518 million barrels of oil in their inventory, which is 178 million barrels above its 5 year average.[1] Globally, oil inventory stands at 3 billion barrels, 286 million barrels above its 5 year average.[2]

High global oil inventory would limit the effect of reducing oil supply. This is because excess inventory could be released to the markets as well.

US Policy

The current US president, Mr Donald Trump, has stated that he will seek an American First energy policy. This means that he will attempt to make America energy independent, such that it will help America pursue its own economic and political interests. This will also result in independence from OPEC's interests.[4]

He has already moved to approve the construction of of Keystone XL and Dakota Access pipelines. This will connect shale oil to Canada and the Gulf. He has also reduced regulation for oil companies in the US.[1]

In the next few years, we can expect to see lower regulation, bureaucracy and taxes leading to increased oil production in the US.

Conclusion

Therefore, we see that in the near term, gains in oil prices will be capped at around USD $60. This is due to the effect of shale oil production on global supply. In the long term, US policy will increase the supply of oil globally. This will limit the long term appreciation of oil prices.

Given the above, we assess the risk reward balance of investing in energy as unfavourable and hence recommend you to exit your investment in energy.

This may result in crystallizing your gains or losses from the investment that has been switched out. However, switching out of energy into capital preservation funds would mean a better long term risk-reward proposition for your portfolio.

Current Allocation	New allocation
10% to Energy/Resources Funds	0% to Energy/Resources Funds
80% to Capital Preservation Funds	90% to Capital Preservation Funds
10% to China Funds	10% to China Funds

Sources

[1]– Bloomberg
[2]– Reuters
[3]– Oilprice.com
[4]– Donald J Trump for President: Make America Great Again! (donaldjtrump.com)

Important Notes

The recommended funds reallocation above may result in crystallizing your gains or losses from the funds that are being switched out. However, we believe that by switching out of these funds into funds that are carefully selected after our intensive research, this would mean a better long-term risk-reward proposition for your portfolio.

Investment involves risk including the possible loss of principal amount invested. Unicorn’s Investing Committee closely monitors the recommended asset allocation and recommended funds through intensive research, observing market trends and macro-economic developments. However, we do not guarantee the performance of the fund and the past performance of the funds is only one of the many factors we look at; hence, it is not necessarily indicative of the future performance of the funds.