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CONSEQUENT INVESTING CONCEPT

Market views, Asset- and Style Allocation, Fund Selection.

This letter doesn't give you any investment advice, but makes you think. The herein discussed CONSEQUENT INVESTING CONCEPT PORTFOLIO is the emanation of the flexible fund of equity funds (100 to 0% equity exposure) Patrimonium Diamond Sicav that I have managed and that has been rewarded with **5 stars by Morningstar on a 10 year period.**

May 2016 Performance

Dear reader,

Sometimes, performance is not what we expected. Markets were quite strong in May. It looks like – by magic – all dangers are gone : Greece is rescued, the Fed will not rise interest rates, there will be no Brexit, forget Spanish elections, Us economy is in super shape, France is giving an example to the world, Trump is far away, the sun is shining… *Tout va très bien, Madame la Marquise*. The Stoxx Europe 600 and the S&P500 gained 1.75% and 1.53%. The MSCI World in Euro increased by 3.12% of which 1.40% is attributable to the Dollar who rose 2.81%.

My Concept Portfolio had a performance of only 0.50% in May. Due to my not-so-rosy base scenario, I have two big positions that I consider as defensive : 3% gold miners (GDX) and 4% futures on the VIX. These positions will surge strongly when markets will collapse. Of course, when markets go up, like they did in May, these lines cost a lot of money. They caused a loss of 1.10% this month. But no panic, I still beat 4 out of the 5 reference indexes on a 12 and 24 month period (table below) and the year is not finished yet. For the time being, my conviction and pessimistic base scenario remains in place.

Performance	May	YTD	January 2016	2015
Consequent Investing Concept	**0,50%**	**-3,46%**	**-2,00%**	**11,26%**
MSCI WORLD in Euro	3,12%	-1,73%	-5,68%	8,34%
MSCI World in Local Currencies	1,18%	-0,30%	-5,46%	-0,70%
Stoxx Europe 600	1,75%	-5,02%	-6,44%	6,79%
S&P500	1,53%	2,59%	-5,07%	-0,73%
MSCI Emerging Markets	-3,90%	1,68%	-6,52%	-16,96%

We are in the eye of the perfect storm. Investing has very little to do with fundamentals nowadays, because computers dominate the markets. Furthermore, all markets are artificially high (*) due to unconventional aid from Central Banks who are printing banknotes like hell and keeping interest rates abnormally low. Today they are running out of ammunition, and in the mean time they have created dangerous imbalances and bubbles almost everywhere. Bubbles rarely deflate in a nice way, mostly they explode. Mario Draghi told us on Thursday that he will continue to inflate as long as necessary. Just like on the Titanic, he wants the orchestra (ECB) to play until the end.

My **winning-by-loosing-less-strategy** worked out very well last year and in January when the Concept Portfolio largely outperformed all the benchmarks (see table above). The strategy included a delegation of a part of my responsibility to flexible and long/short managers, whom I thought were maybe not smarter, but somewhat better equipped than myself. All selected managers have a long and impressive track record, and **they all performed well in bad times,** which is the most important factor for me. Nevertheless, this year, most of them underperformed the market, and some of them performed very badly. They missed the rebound and some even had a negative return during the rebound. So I had to take a decision.

(*) The European markets are maybe a little bit cheaper, but that is because of the multiple political risks and the lack of structural reforms.

As we are entering **a period of all dangers (Fed, Brexit, Spanish elections, trumping Trump…)** during which the markets will be uncertain and extremely volatile with big ups and downs, I cannot take the risk that these managers could be on the wrong foot again. As upward surprises are unlikely, Cash is a better option, I think.

Thus I halved some of the positions, and sold some others completely. The performance of the remaining funds will be closely watched in the coming days, and other sales could follow. I also sold the United States Oil Fund (USO) with 50% benefice, as my target price for oil has been reached.

Through this, the net equity exposure of the portfolio has been reduced from 52 to 47%. Therein I have 3% gold miners (GDX = a leverage on the gold price) and 4% Belgian real estate that I consider as defensive.

While I was writing this report, the US employment figures came out. US employers added only 38.000 workers, which is the fewest in almost 6 years. Mrs. Yellen wanted a figure to avoid a rate hike ? Well, here it is. Strange, isn't it. The market didn't pay attention to the official unemployment rate who fell from 5% to 4.7%, but that was only due to some 450.000 people who dropped out of the labor force. *So don't despair if you look at the 4.7% figure, my dear Europe, it's fake.*

Stock markets fell on Friday afternoon, and the Dollar literally plunged -1.60% because there will be no rate hike in June. European markets (Euro Stoxx 50) closed at minus 1.20% (weak Dollar = strong Euro is bad for Europe). After the European closing bells, the US market recovered from -0.95% to -0.29%.

I want to end this letter with a little remark on the Brexit.

The markets seem to be convinced that Brexit is impossible, that people are not so stupid. Don't forget that there are still a lot of people who don't know yet for which camp to vote. If these are people who don't care, it's no problem, they will stay at home. But if they still can be influenced, it's another situation. Recent figures revealed that 300.000 immigrants entered the Kingdom instead of the maximum 10.000 promised by Cameron. Of course, Brexitters are jumping on that. Indeed, it is much more easier to understand "we want to control our own laws and money and borders (read : we don't want Polish workers working for half price)" than to understand the economic and political advantages of staying in a strange, costly, clumsy and inefficient organization that nobody understands. Public is fed up with advice given by "experts" and wealthy bankers who are very far away from the man in the street who has to vote… Most people only know that the monthly migration of the European Parliament between Brussels and Strasbourg costs between 150 and 200 million Euro a year (according the Cour des Comptes) and that these "hard working" eurocrats don't pay taxes. A good example of efficiency and image care. Brexitters (and other eurosceptic extremists in other countries) speak a simple language that is understandable by those who understand nothing. So a Brexit scanario is still in the cards. If that should occur, it would be the beginning of the end of Europe. Aleae iacta non sunt…

When will our political "leaders" learn to speak an understandable language to explain what's happening and what's needed ? Of course if they have to hide their personal interest or their incompetence, it's very difficult to speak a clear language…

Have a nice week.

Proud to count you amongst my readers,

Jacques Bossuyt.

June 3, 2016.

CONSEQUENT INVESTING CONCEPT PORTFOLIO : Structure of the portfolio

This is a flexible asset allocation concept portfolio with an « absolute return » target. The portfolio can have a "net" equity exposure from 0% to 100%.

This table shows the "net" equity exposure at the end of May and on the 2nd of June after some modifications have been made.

Net Equity Exposure 31 May		ASSET ALLOCATION 2 June, 2016	Gross Equity Exposure	(*)	NET EQUITY EXPOSURE
21,51%	Dynamic Part of the portfolio	**GLOBAL Equity Funds**			**19,76%**
5,85%		Long only (full invested)	5,86%		5,86%
10,19%		Flexible	18,38%	/ 2 =	9,19%
3,97%		Long/Short	6,39%	/ 2 =	3,20%
1,51%		Uncorrelated Strategies	3,03%	/ 2 =	1,52%
11,58%		**EUROPEAN Equities**			**10,05%**
5,46%		Long only (full invested)	5,45%		5,45%
1,03%		Flexible	1,02%	/ 2 =	0,51%
6,21%		Long/Short	10,42%	/ 2 =	5,21%
-1,11%		Short Equities ETF	1,12%	(-)	-1,12%
5,82%		**NORTH-AMERICAN Equities**			**5,19%**
9,00%		Long only (full invested)	8,99%		8,99%
1,90%		Long/Short	2,84%		1,42%
-5,08%		Short Equities & Long VIX	5,22%	(-)	-5,22%
4,13%		**EMERGING MKTS Equities**			**4,13%**
4,13%		Long only (full invested)	4,13%		4,13%
0,00%		Short Equities ETF		(-)	0,00%
9,26%		**OTHER ASSETS (equity related)**			**7,58%**
4,28%		Real Estate Funds	4,27%		4,27%
4,98%		Commodity Linked Funds	3,31%		3,31%
	Defensive part	**Fixed Income**			
		Bonds Total Return	3,58%		
		Inflation linked	1,58%		
		Cash	14,41%		
52,30%			100,00%		**46,71%**
26,83%		***US Dollar Exposure (**)***	**25,71%**		

(*) Net Equity Exposure = Gross exposure (all equity & equity related funds) minus short equity & long VIX positions and minus 50% of flexible & long/short funds.
(**) Direct exposure = funds expressed in USD + forward contracts

31 May Net expo	STYLE ALLOCATION	Gross expo	Net exposure
24,44%	Long only Equity (full invested)	24,43%	24,43%
11,21%	Flexible	19,40%	9,70%
12,07%	Long/Short	19,65%	9,83%
1,51%	Uncorrelated Strategies	3,03%	1,52%
-6,19%	Short Equities & Long VIX	6,34%	-6,34%
4,28%	Real Estate Funds	4,27%	4,27%
4,98%	Commodity Linked Funds	3,31%	3,31%
	Fixed Income	5,16%	
	Cash	14,41%	
52,30%		100,00%	46,71%

HISTORY and JUSTIFICATION

This letter is the continuation of my management reports of the Patrimonium Diamond equity fund of funds that I managed, and that has been awarded 5 stars by Morningstar over 10 years. Patrimonium Diamond Sicav belonged to Foyer Patrimonium SA, the asset management branch of the Luxembourg insurance company Le Foyer. I managed the fund according my **CONSEQUENT INVESTING CONCEPT** (= 100 to 0% equity exposure) **until 31/12/2011.** In 2012, following my retirement, the fund was liquidated, but the history is still visible on Bloomberg under the ticker FOADIMD LX**.**

Now I am an active member in various investment committees and I assist medium sized independent wealth managers in terms of asset- & style allocation, fund selection and transparent communication. I also publish this Newsletter in which I develop my ideas on financial markets and asset management through the communication about a model portfolio called **CONSEQUENT INVESTING CONCEPT PORTFOLIO**.

WARNING: This letter contains no investment advice.

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