



Market Review, Outlook and Crimean Crisis

Recently we have seen increased market volatility due to the political crisis in Ukraine, and Russia enforcing its interests in Crimea. The political situation has seemed to stabilize for now. Sanctions in force today are very moderate, although tougher sanctions could be enacted in the future. It is important to monitor the situation over the next 2 weeks to see how the political and economic situation develops. We think politicians and corporations will do everything to calm the situation. The most likely outcome is for the Russian Federation to include Crimea in its territory and after a while, the situation will become normal again.

Unfortunately we did not anticipate a political escalation in Ukraine, nor its influence on European equity markets. Comparing US and European equity markets, the US has performed better. We expect the political crisis in Crimea to end soon and European markets will pick up again. Our expectations that European markets will outperform US markets this year remains intact.

Current developments in China are more worrying. Several corporations have missed their debt payments, which are being funded by the “shadow” banking system. Market experts have already been warning about the massive Chinese shadow banking systems for years. The latest defaults could lead to a similar systematic banking failure in China as Lehman Brothers in the US. Chinese authorities declared that they are

not willing to bailout companies anymore, which could exacerbate the situation. Shoreline views the situation as being fragile but not explosive yet. The Chinese government has enormous cash reserves to extinguish any problem which arises, despite the strict stance they are publicly taking. However, we would avoid Chinese equities and choose to be overweight Europe and US equities for now.

Clients have been asking us how they could potentially profit from the current uncertainties in the markets, especially focusing on Russia. Our simple answer is to invest in carefully selected Russian equities and Eurobonds. Eurobonds of government-backed companies like Sberbank and Rosneft are our favorites. For direct equity investments, we prefer to invest in companies that do not have direct government involvement, such as Surgutneftgas, MTS and PhosAgro amongst others.

Since the start of 2014 Shoreline started a model portfolio with handpicked stocks. Up to now, the portfolio is outperforming most major equity markets, showing a performance of +4% as of 19 March 2014. We also have a list of 10 equities that are recommended to our portfolio management clients. The focus is on stable income with potential for capital appreciation. So far, 2014 has been a good year and a short performance list can be found below.

Picked Stocks*:	Change %			Major Markets:	Change %		
	Week ago	YTD	1 Year		Week ago	YTD	1 Year
	Enel	-1.96%	27.64%		53.72%	S&P 500	-0.35%
AstraZeneca	-2.17%	10.01%	19.51%	EuroStoxx50	0.74%	1.34%	16.89%
New York Mortgage Trust	-3.61%	11.35%	1.97%	MSCI World	0.60%	0.07%	18.43%
National Grid	-1.21%	4.40%	8.41%	MSCI EM	0.90%	-4.08%	-3.85%
Total SA	-1.88%	7.31%	23.07%				
*Shoreline recommended these stocks starting from Oct 2013							
Major investments were made in December 2013 and January 2014.							
Performance shown is net of dividends.							Performance as of 25.03.2014

List of Russian Eurobonds:											
Yield (Latest Price)	Latest Price	Bond Name	Coupon	Date of Maturity	Rating (Moody's)	Coupon Frequency	Duration	mod. Duration	Currency	Denomination	
3.54831	97.00%	GAZPROMBK (SCHWEIZ) 13-16	2.375	09-12-16	not rated	Annually	2.649	2.558	CHF	5000	
4.18519	108.54%	GAZ CAPITAL 07/18 MTN	6.605	13-02-18	Baa1	Annually	3.564	3.42	EUR	50000	
4.67621	102.16%	SB CAPITAL 10/17 MTN REGS	5.4	24-03-17	not rated	Semi-annually	2.751	2.628	USD	100000	
4.92726	110.76%	ROSNEFT FINAN. 07/18 REGS	7.875	13-03-18	not rated	Semi-annually	3.517	3.352	USD	100000	
5.75817	107.75%	ROSNEFT FINAN. 10/20	7.25	02-02-20	not rated	Semi-annually	4.889	4.623	USD	100,000	
7.08672	88.50%	SB CAPITAL 13/23 MTN	5.25	23-05-23	not rated	Semi-annually	7.128	6.657	USD	200,000	

For any further assistance on how to buy Russian Eurobonds or markets/stocks related questions please contact our office.

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