Edwards Wealth Management AG
Switzerland

BOREAL
CAPITAL MANAGEMENT

Investment Policy

May 2020

Our market view in a nutshell – May 2020

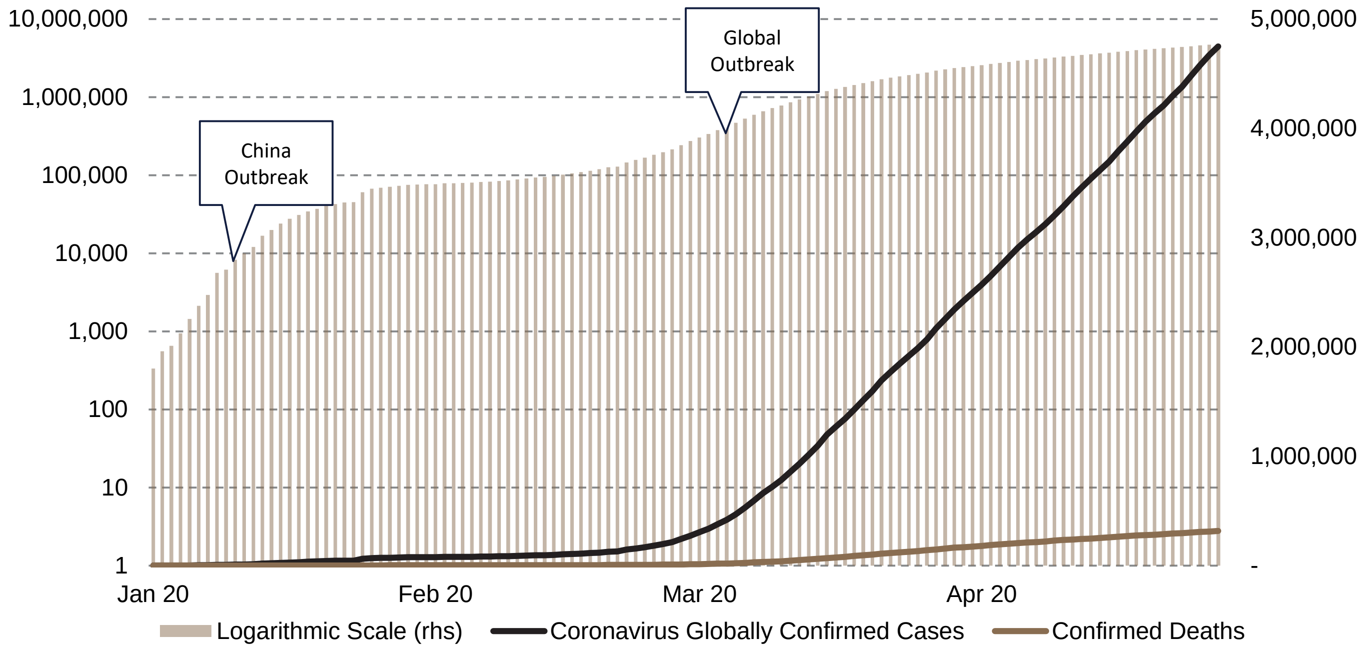
- Two months have passed since the health emergency caused by Covid-19 forced governments to impose severe lockdowns. This happened due to a **combination of lack of foresight in the health care systems, as well as a lack of public awareness** about the ease of transmission and the potential severity of the condition
- Once the epidemic is under control, the marginal benefits of maintaining quarantines are far lower than its economic and social costs. **Basic hygiene and social distancing measures should be sufficient to allow a return to quasi-normality**. Our working hypothesis is that the virus will continue to spread until the population is immunized, either thanks to a vaccine (which seems to be getting closer and closer) or through herd immunity. But it is **highly unlikely that health systems will be overwhelmed again**
- Governments begin to glimpse the **enormous toll that such desperate measures are having on the economy**, which is why **support measures** follow one another with the **aim of minimizing the long-term economic loss**. However, both the economic structure and the fiscal position differ greatly between countries, which will result in **a very uneven recovery**
- **Asset prices reflect a combination of highly uncertain scenarios**, as it is unclear how long and deep the crisis will be. At first glance, the rally from the bottom in risk assets appears to be out of sync with a crisis of unprecedented proportions. However, these **valuations can be easily explained if it is taken into account that monetary policy will continue to be extremely accommodative for years to come**. Central banks will have no alternative but to keep interest rates to a minimum, with the aim of stimulating the economy and helping governments to cope with the debt burden
- Economic uncertainty and monetary exceptionality tell us that this is not a time for complacency. The recent bounce from the lows is giving investors an **opportunity to reposition their portfolios**. It is never too late to **increase in quality and diversification**, betting on those companies that are better positioned to weather the crisis, and emerge stronger from it

EWM Investment Policy

Asset Class		View	Rationale
Fixed Income	US Treasuries	=	Treasuries offer protection from a slowdown in growth, but we believe that current long-term yields are unattractive, preferring shorter maturities
	US Credit	=	Although the incoming economic recession will undoubtedly increase the number of defaults, both debt and High Yield offer attractive spreads right now
	European Sovereign	–	High quality debt in Euros presents a very unattractive combination of risk and return as current yields offer very little cushion to weather potential interest rates increases
	European Credit	=	In European credit we only see value in subordinated debt, asset-backed securities and short-duration high yield
	Emerging Markets	–	A weaker dollar should help emerging markets, but both currencies and credit spreads have reacted only partially to the risk that the Covid outbreak represents for these countries. In addition, the oil price war will harm exporting countries
Equities	US	+	After a sharp sell-off, valuations have improved. We have therefore increased our exposer to US equities, mostly through quality and growth oriented companies.
	Europe	–	The European economy has been more affected by Covid than that of the US or Asia. Relaunching it will require a greater fiscal effort, which will have to be financed by new debt. A repeat of the sovereign debt crisis is a real risk
	Japan	=	Japanese stocks are the cheapest in developed markets, but have suffered recently due to sluggish growth, and concerns about global trade
	Emerging Markets	–	Emerging markets, in general, will lack sufficient fiscal freedom to stimulate the economy after the pandemic
	Sectors & Themes	+	Beyond our core call for quality-growth companies, we favor Real Estate, Infrastructure and Biotechnology
Alternative Investments	Multi-Strategy Hedge Funds	–	Multi-strategy / multi-manager hedge funds with daily liquidity are having a disappointing performance, particularly when compared with other less risky alternatives, like short-term corporate bonds
	Commodities	–	In the present late-cycle environment, with inflation pressures remaining subdued, we see limited upside for commodities. However, we favor gold in the current negative real interest rates environment.
	Private Equity	=	Investing in late-stage private equity provides access to the asset class with liquidity provision up to a certain degree

+ Overweight – Underweight = Neutral

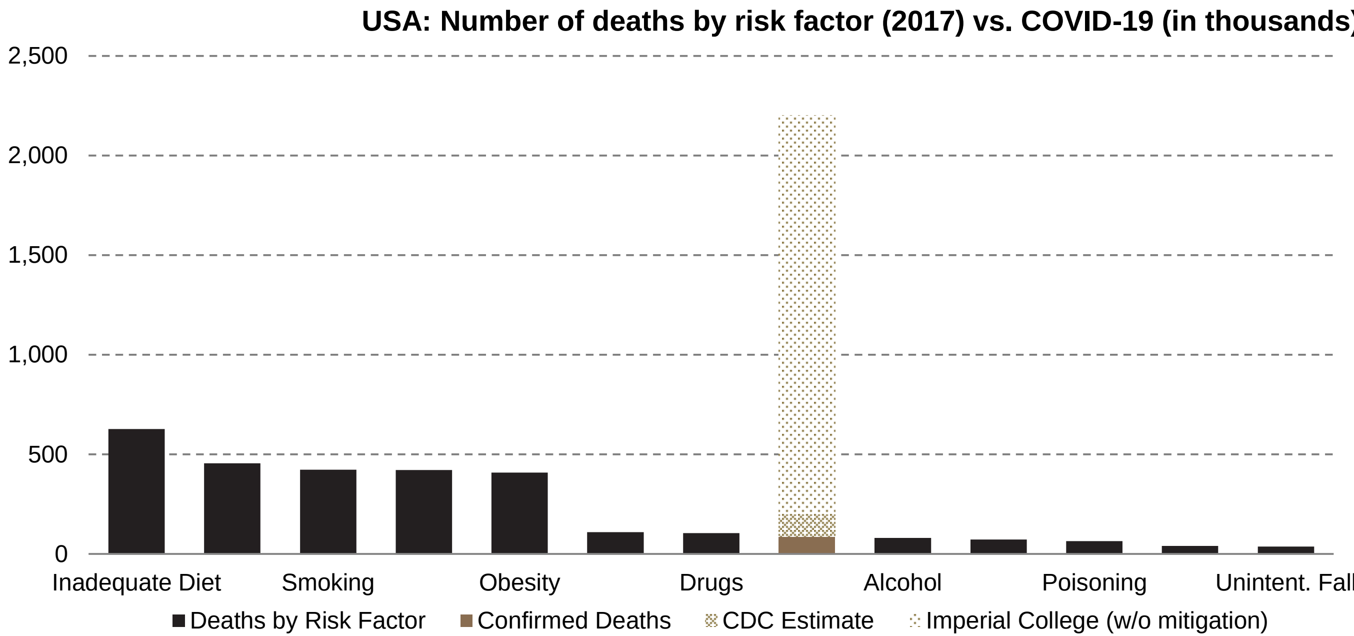
From containment to control and protection



- After containment strategies initially failed, widespread **lockdowns have managed to control the spread** of the virus, but **at a great social and economic cost**
- But until a vaccine is available, or the population reaches a sufficient degree of immunity, **the strategy should pivot from containment to protection and prevention**

Source: Bloomberg

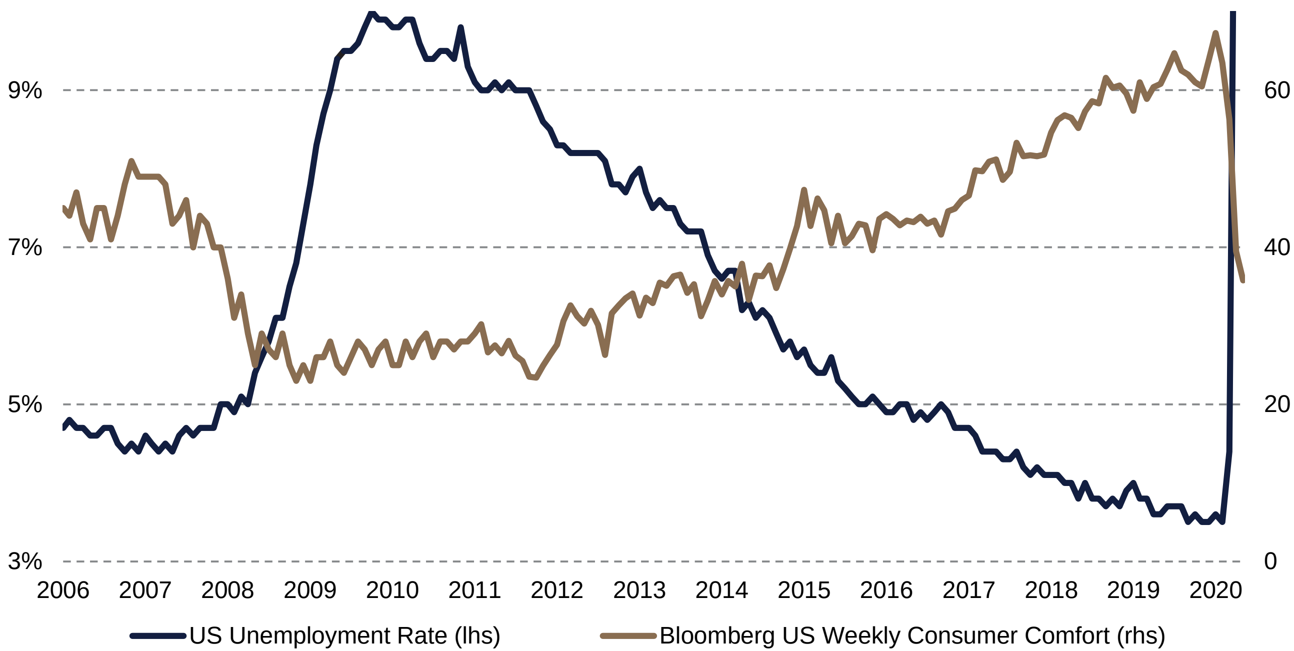
Living is dangerous



- Although the new disease undoubtedly poses a great risk to health, and the world would be much better without it, the final death toll will probably be of the **same order of magnitude as other risk factors with which we live daily without occupying headlines**; and which also have the prospect of lasting for decades to come
- As time sheds light on the **impact that simple protection measures have on the spread of the virus**, societies will gradually return to a certain degree of normality

Source: For Covid-19 CDC, Imperial College; For risk factors https://ourworldindata.org/

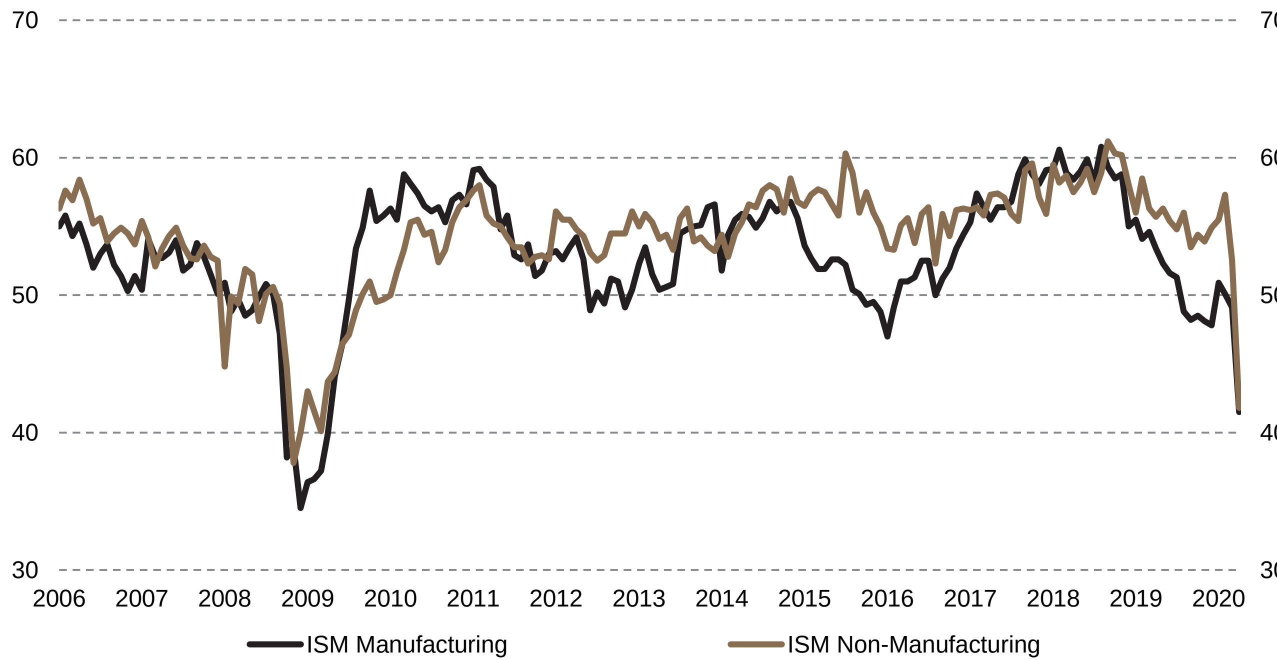
Time to rethink strategy



- The **economic costs of confinements are unprecedented in modern time**s, and they have to force the authorities to **rethink their strategy**
- Once the spread of the virus is under control, each day that social life remains severely curtailed, it has an **increasing marginal cost and decreasing marginal benefit**, which cannot be justified

Source: Bloomberg

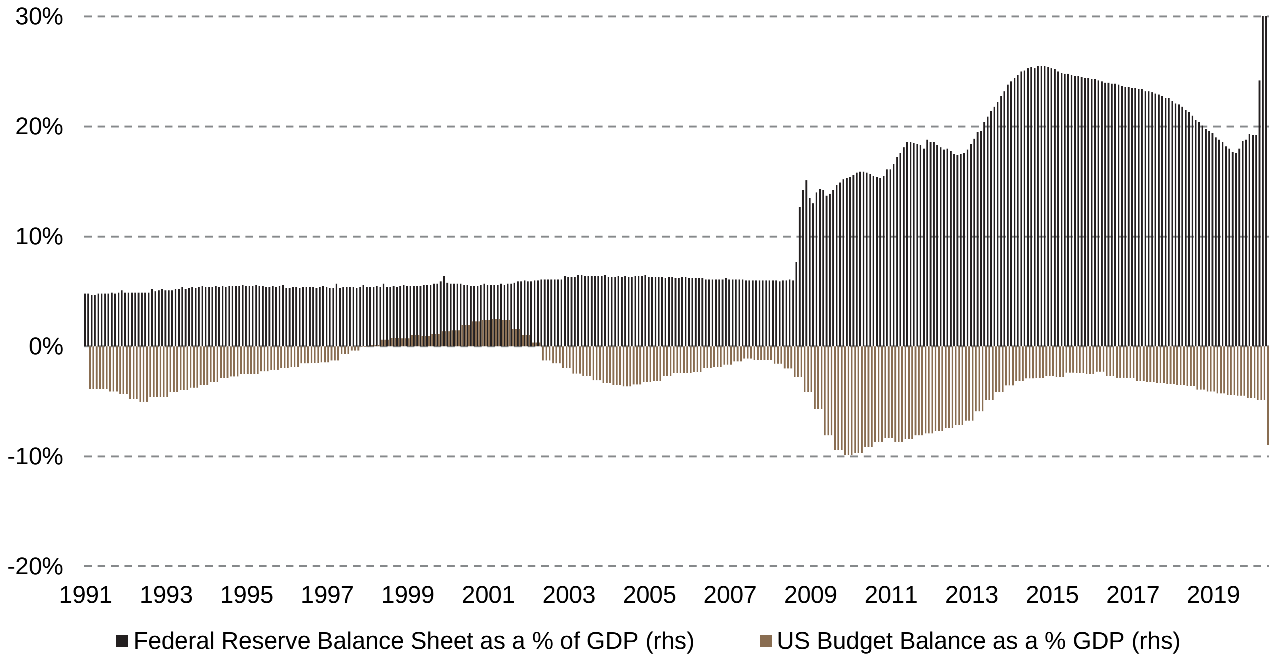
The economy was already in a “soft patch”



- To further complicate matters, the **economy was already in a “soft patch” before the virus hit**, due to the trade dispute between the US and China
- The exchange of accusations about the management of the outbreak, and the **threat of new sanctions as a means of reparation, threatens to stoke the dispute**

Source: Bloomberg

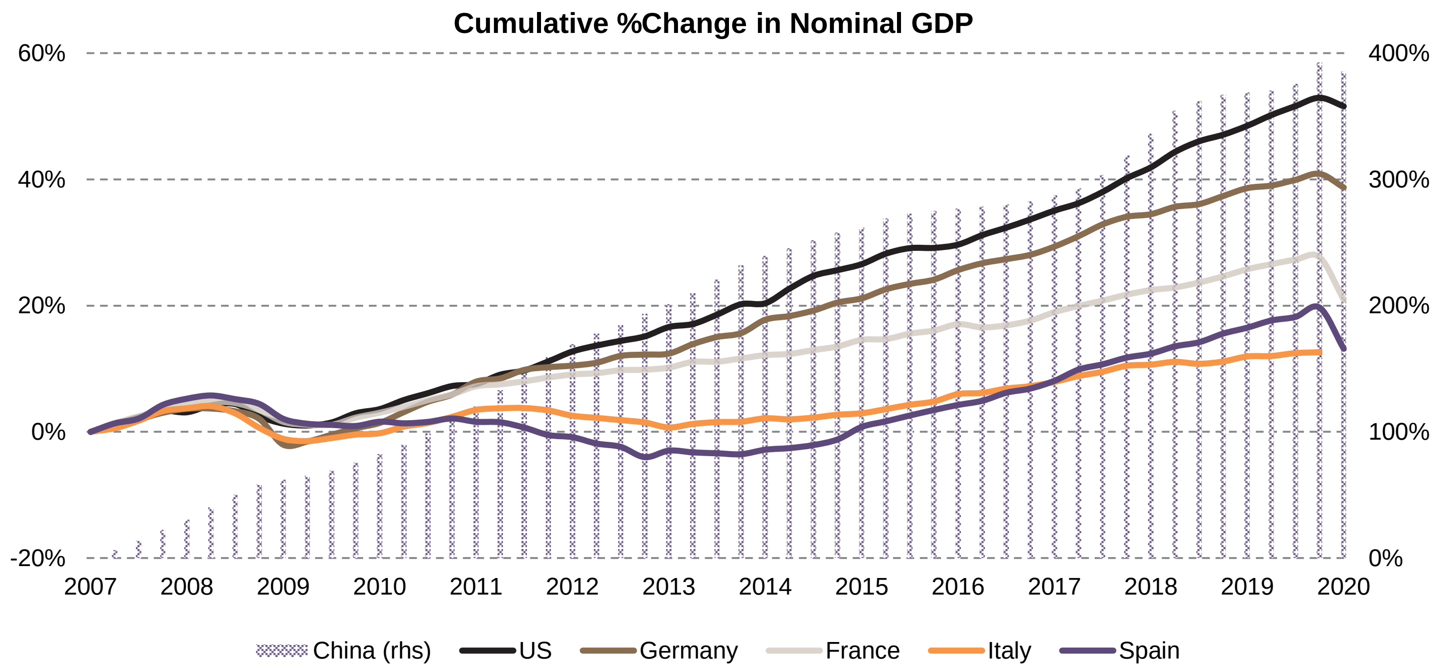
Massive fiscal an monetary support



- The difference compared to 2019 is that **the economy is no longer on "autopilot"**
- The **scale of fiscal and monetary support will be much greater than after the financial crisis**, given that both central banks and governments have decisively come to the rescue

Source: Bloomberg

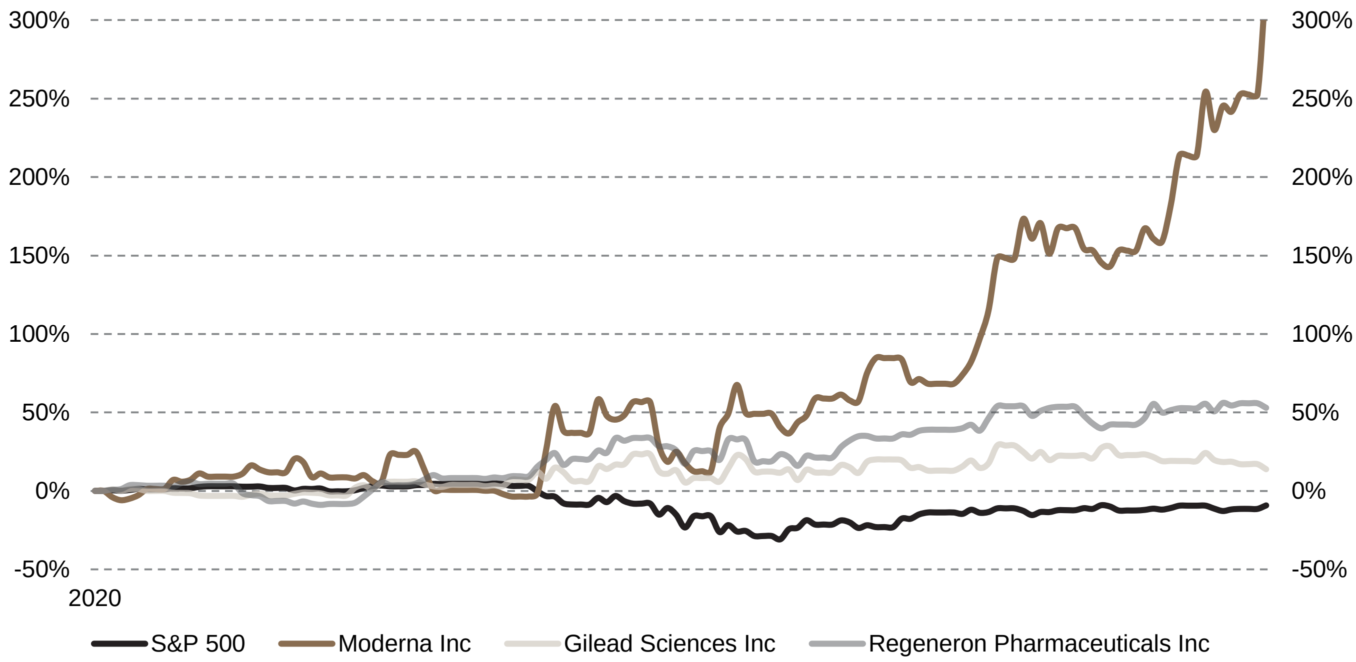
Recovery will be very uneven



- As happened after the financial crisis, **there will be great differences between countries** in the severity and duration of the incoming recession
- We believe that both the **US and Asia will recover faster than Europe and Japan**. There will also be wide dispersion among emerging markets

Source: Bloomberg

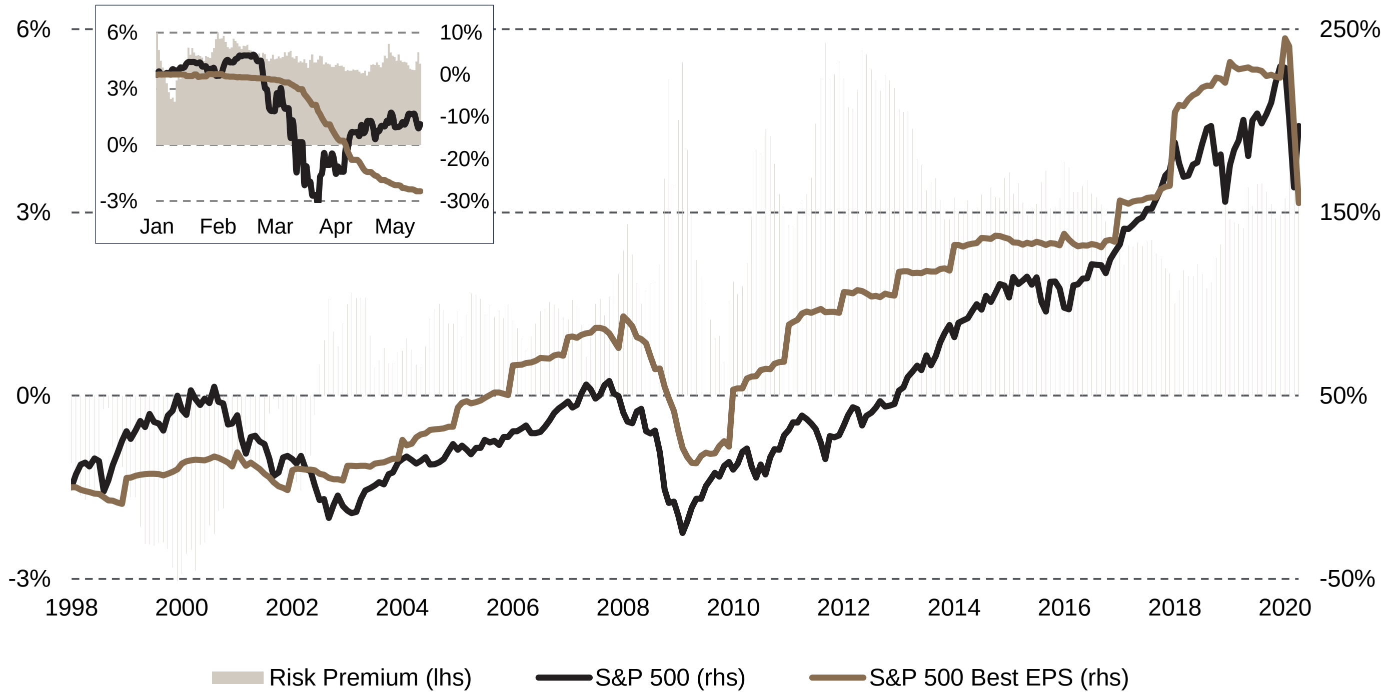
Promising therapeutic advances



- Both the duration and severity of the economic crisis will be **critically affected by advances in the search for a vaccine or effective treatment**
- **Over the past month, we have had promising results** from Moderna, which gained FDA approval to begin Phase 2 clinical trials, and FDA emergency approval for Gilead's Remdesivir, a decision also endorsed by Japan and most likely by the EU

Source: Bloomberg

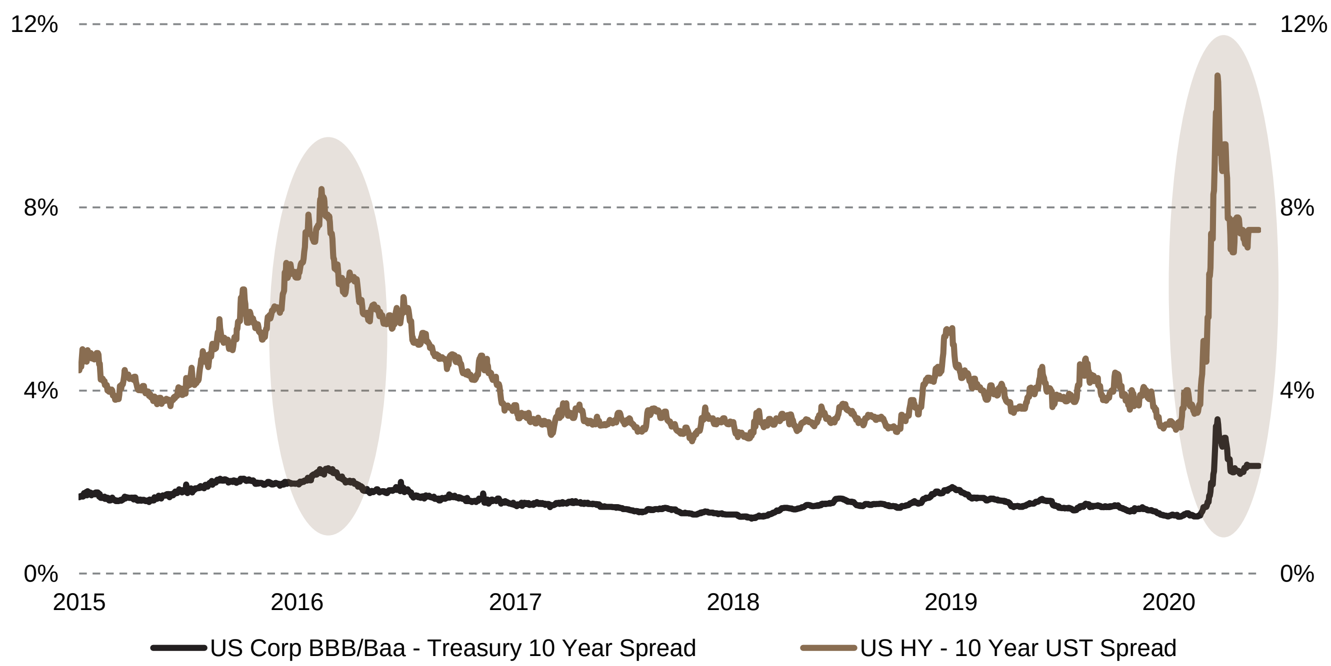
Markets are still calibrating



- The great uncertainty about the duration and depth of the crisis is forcing **markets to have to assign probabilities to widely varying scenarios**
- From a fundamental point of view, despite the rally from the lows in March and the downward revisions to corporate earnings, **quality equities remain attractively priced**

Source: Bloomberg

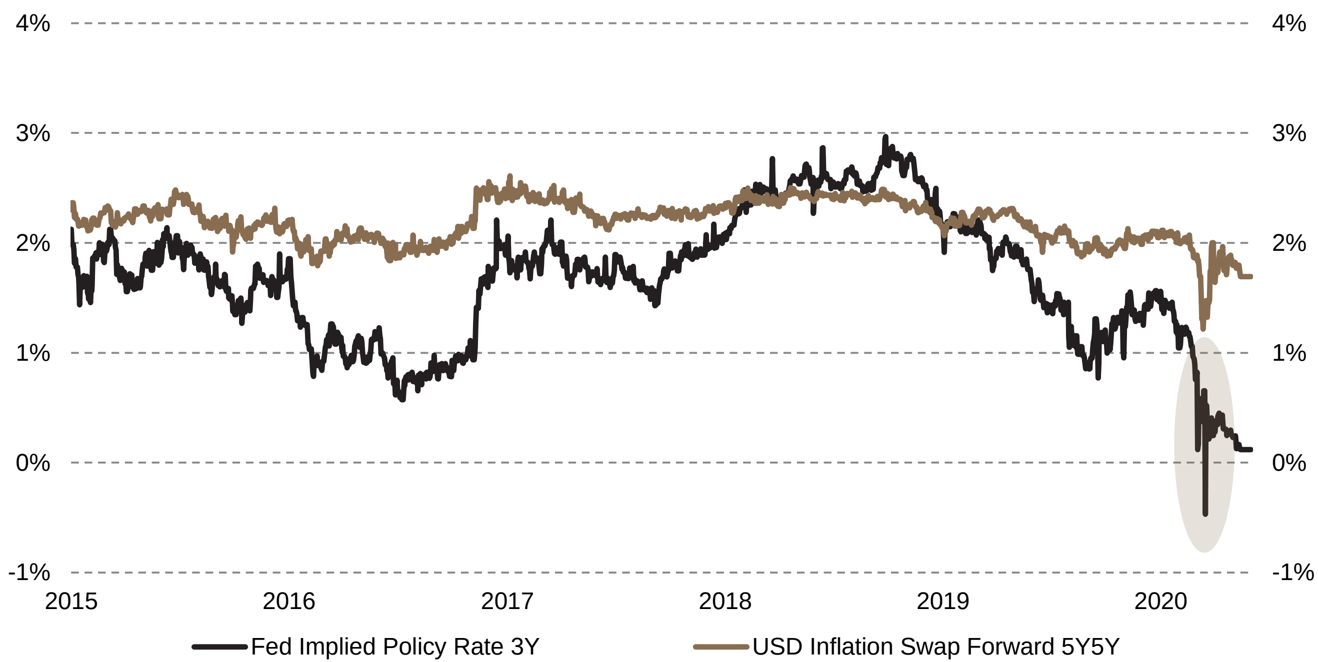
Credit markets are more difficult to assess



- Judging by where spreads are, **credit markets in the US appear to be discounting a sort of "standard recession"**
- **Investment Grade bonds offer a better risk-adjusted return than High Yield bonds**, and provide us with a window of opportunity to improve quality in portfolios

Source: Bloomberg

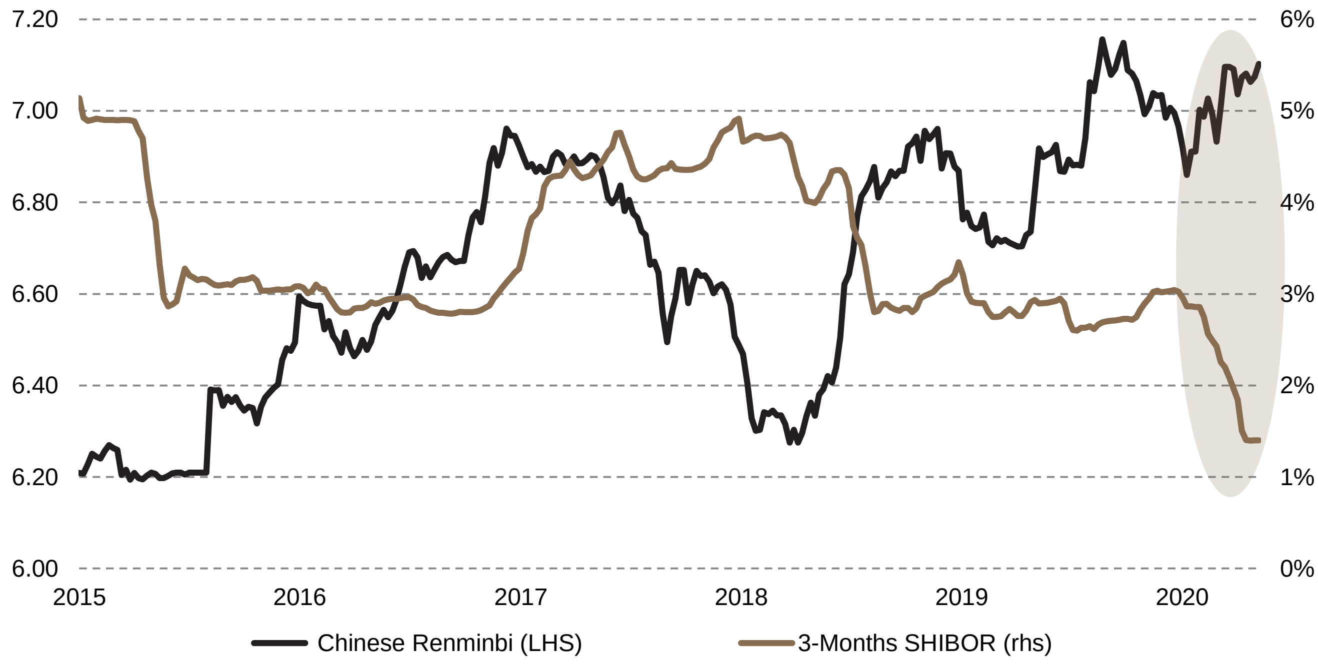
Negative interest rates are in sight



- The apparent high valuation of risk assets must be weighed against **the low probability that interest rates will rise in the coming years**
- The Fed is ruling out negative interest rates for the time being, but measures like QE and yield curve control will similarly repress interest rates. The objective being to **stimulate the economy and help alleviate the debt burden**

Source: Bloomberg

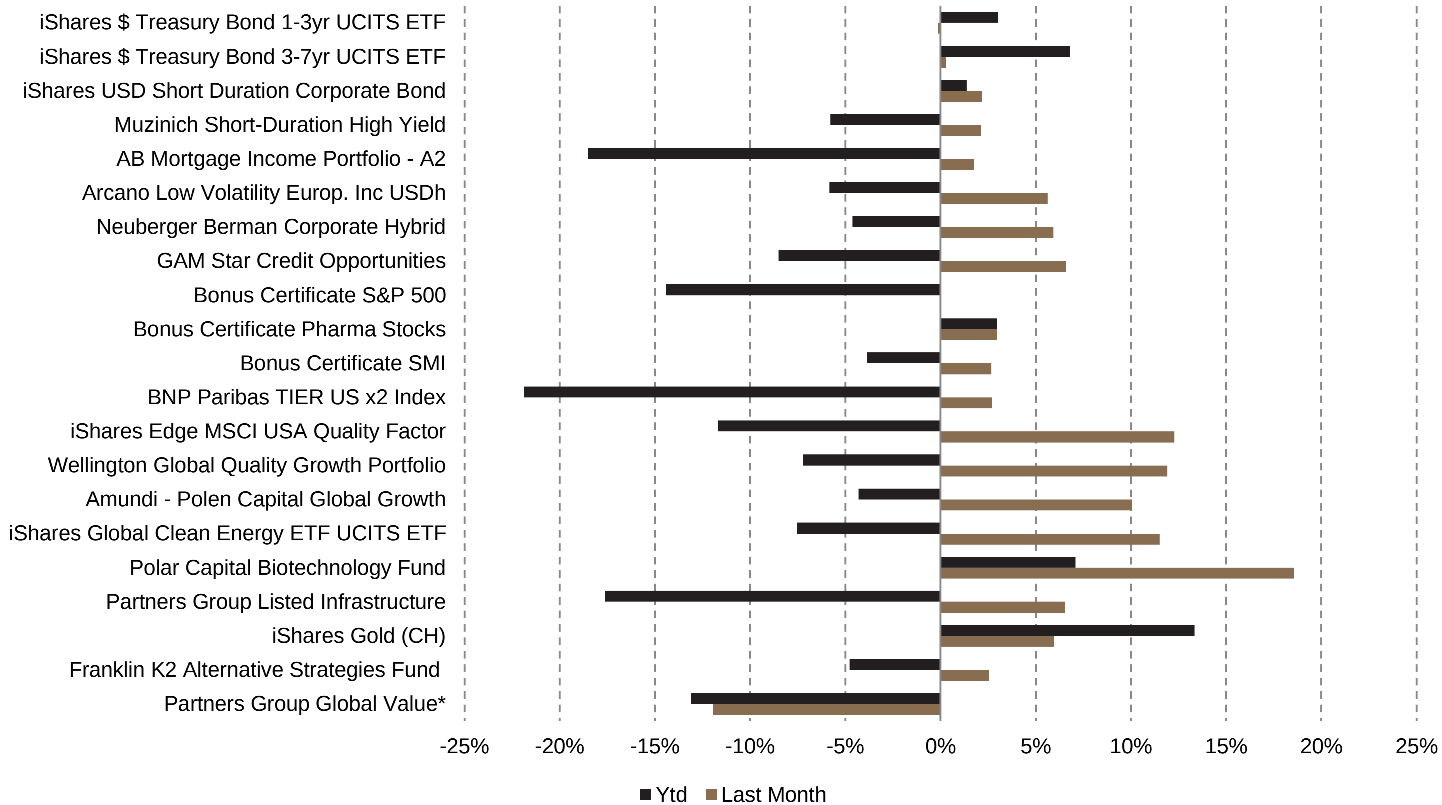
US-China relations can destabilize markets



- The virus outbreak has opened a bitter **dispute between the US and China, which has the potential to destabilize markets**
- With the US elections on the horizon, it is expected that the level of rhetoric will increase, but not to a point that could harm the economy. However, after the elections, **nothing can be ruled out**

Source: Bloomberg

Model portfolio evolution



Source: Bloomberg ,as of May 13, 2020
* Fund publishes monthly NAV with a 1 month of delay

Investment scenarios

	Scenario 1 "U" Recovery	Scenario 2 "V" Recovery	Scenario 3 "W" Recovery
Drivers	• Global depression caused by the unprecedented sudden stop of economic activity • Lockdowns extend longer than initially anticipated and restrictions on movement and commerce prevent a normal return of activity • Fiscal support packages prove to be insufficient, and countries with a lesser fiscal latitude suffer prolonged recessions	• Global recession caused by the unprecedented sudden stop of economic activity • Lockdowns can be lifted by summer, and economic activity is largely resumed, with some adaptations to control the spread of the disease • Fiscal and monetary support allow the economy to rebound strongly, while low interest rates make the debt burden manageable	• Deep recession followed by a rapid but failed recovery • There is some return to normality by the summer, but return of the virus in Autumn causes intermittent lockdowns until a vaccine is available • Countries with a stronger fiscal position may be able to provide further stimulus and avert a "W" recovery
Market impact	• Credit spreads remain high, fueled by a wave of corporate defaults. Weak sovereign bonds underperform significantly • Corporate earnings struggle to reach pre-crisis levels, and equity returns remain lackluster • Sovereign and high-quality benefit from the flight to quality, as well as the continuation of an ultra-loose monetary policy worldwide • USD neutral as flight to quality is offset by low interest rates • Commodities fall further	• Equities appreciate moderately, as TINA ("There Is No Alternative") lure investors back to stock markets, but there is wide dispersion across sectors • Credit spreads remain tight but do not recover to pre-crisis levels, as investors will favor companies with strong balance-sheets • Wide dispersion between both sovereign bonds and currencies, as yield curves will likely steepen as governments flood the market with new debt • Commodity prices will stabilize	• Wide dispersion in both equity and credit markets, with stronger companies recovering and weak companies lagging behind • Credit spreads remain elevated as the market remains highly volatile and defaults increase • Wide dispersion between both sovereign bonds and currencies, as yield curves will likely steepen as governments flood the market with new debt • Relatively strong USD as the US economy turns the corner faster. The Euro may suffer a remake of the sovereign debt crisis
Probability	20%	50%	30%

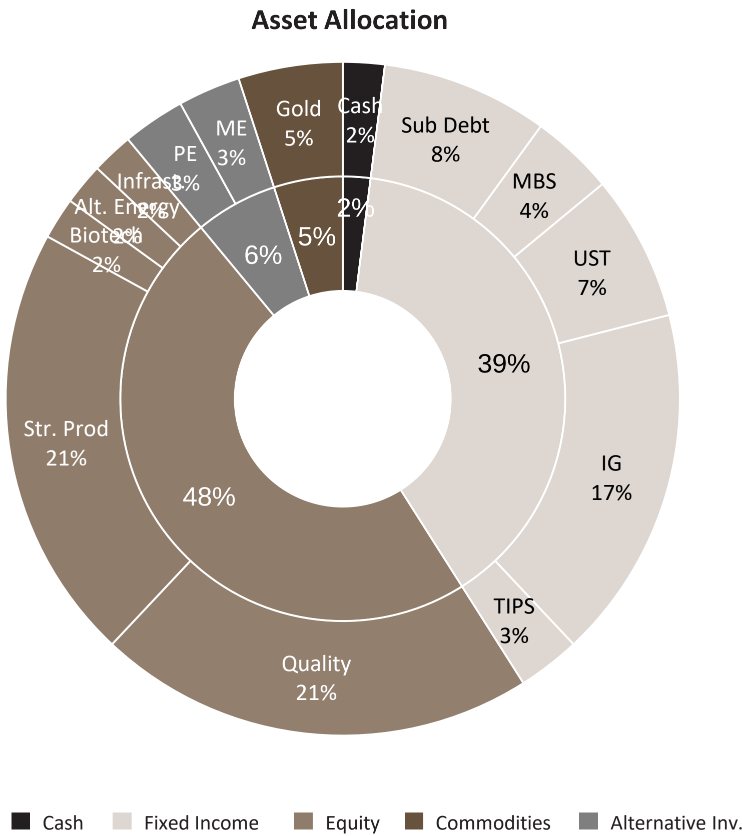
Short-term catalyzers

Fiscal stimulus in the US, improvement in macro-data globally, lower geopolitical tensions

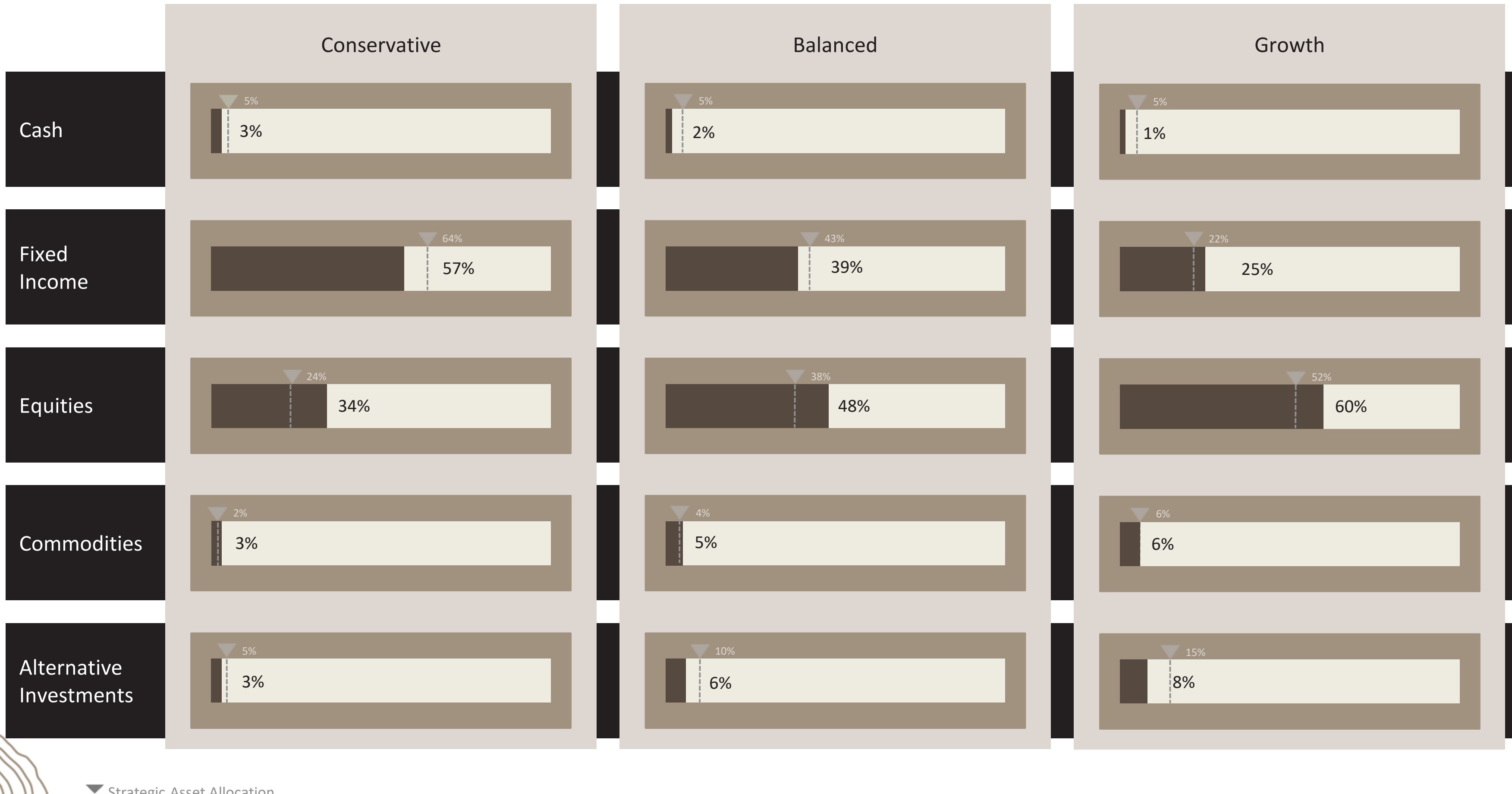
Other risks

Trade wars, Spread of populist political parties, China slowdown, Terrorism

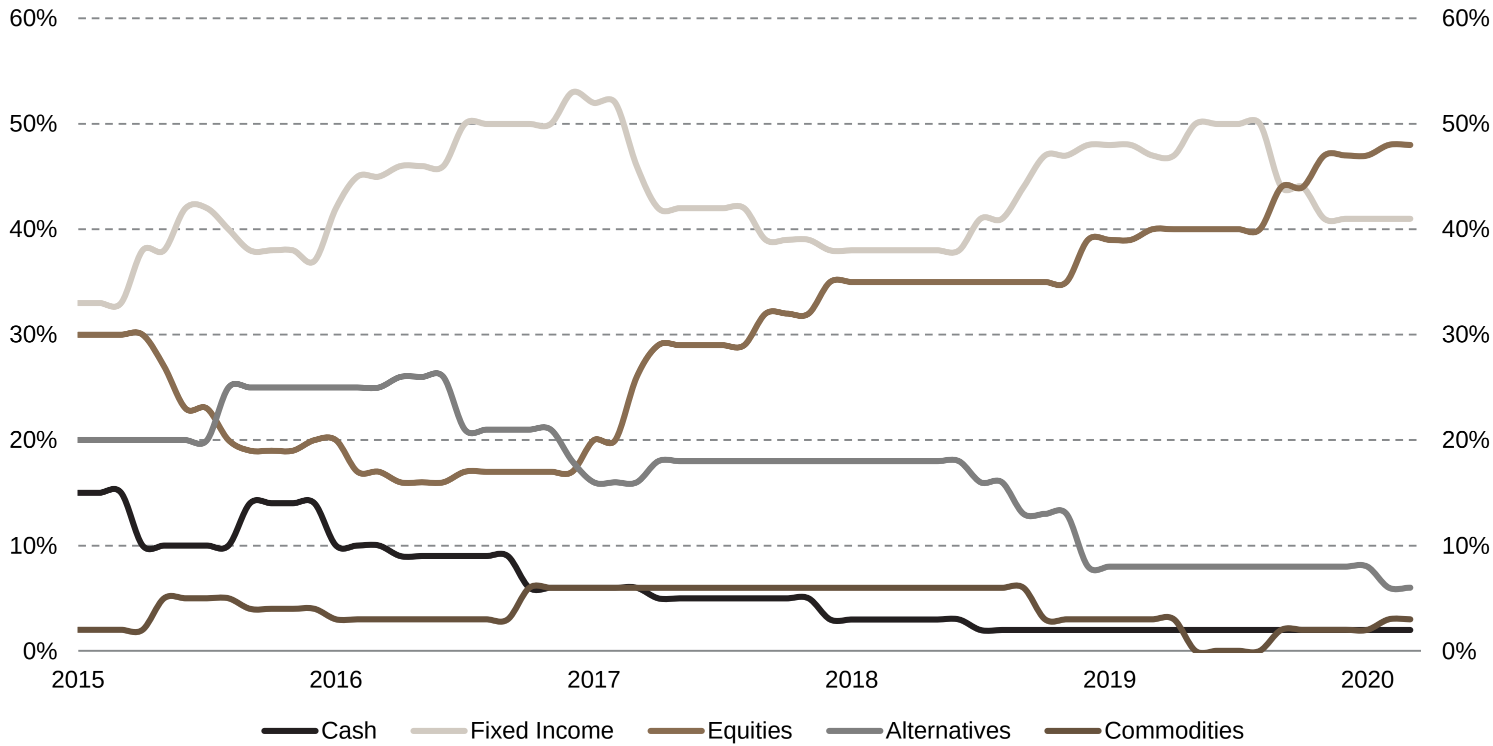
EWM Model Portfolio Balanced USD



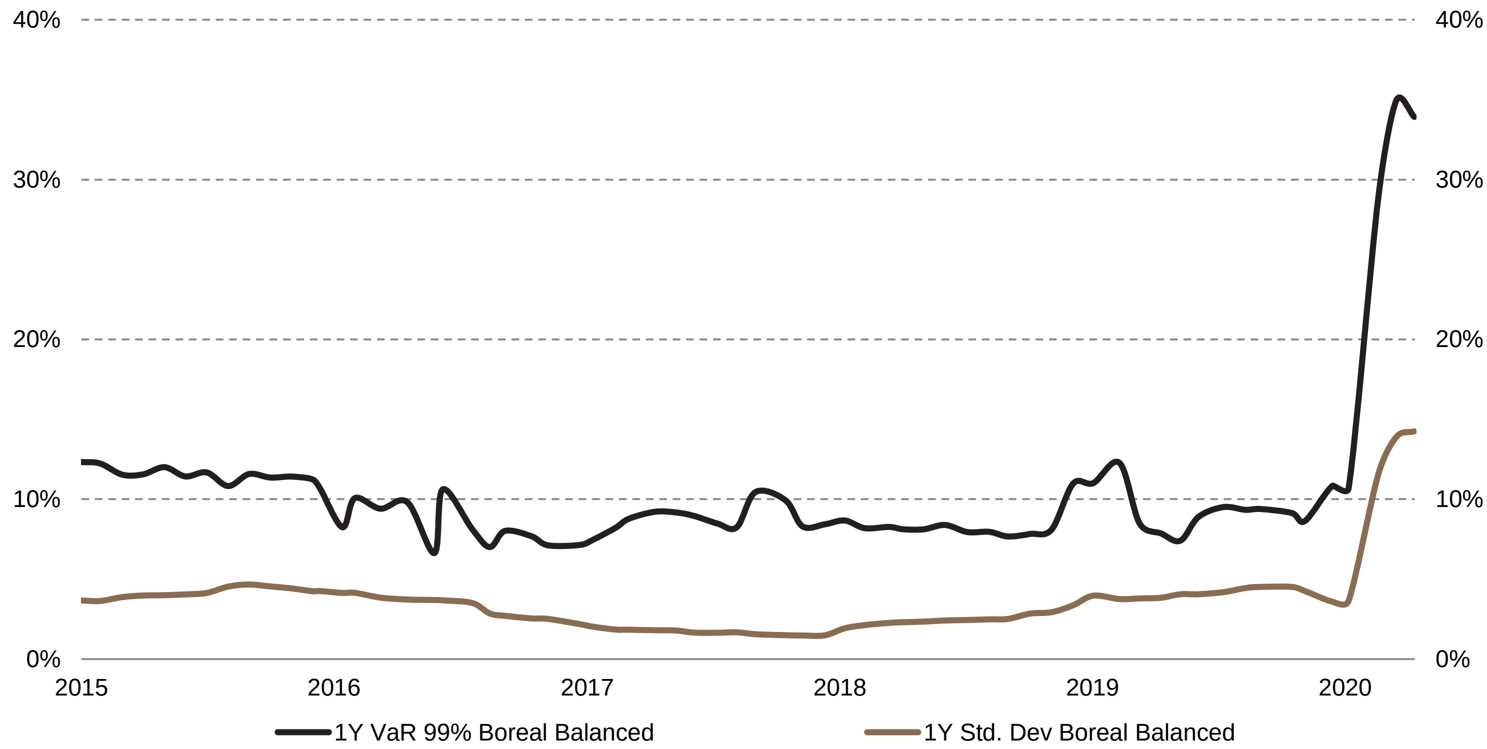
EWM Investment Profiles



EWM Model Portfolio – Asset Allocation evolution

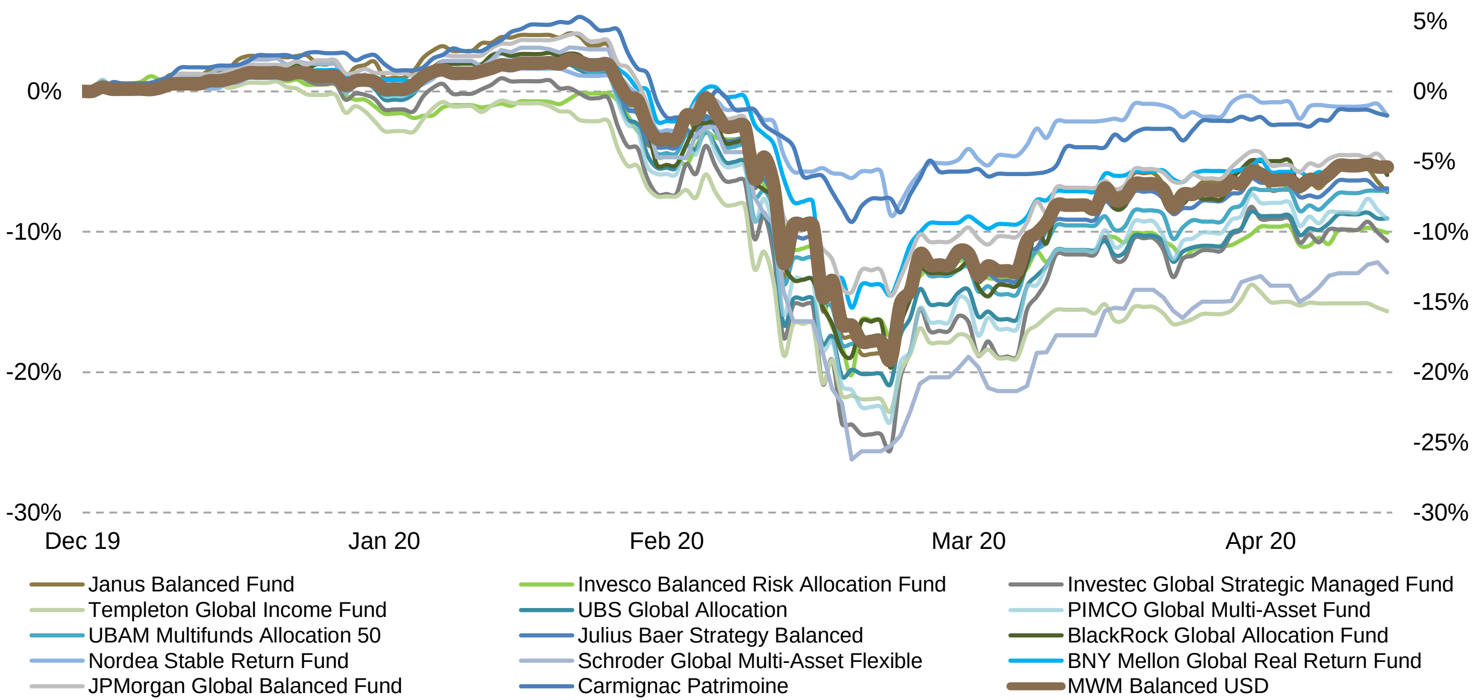


EWM Model Portfolio – VaR evolution



[1] As of May 13, 2020
Source: Bloomberg

EWM Balanced Portfolio – Peer comparison

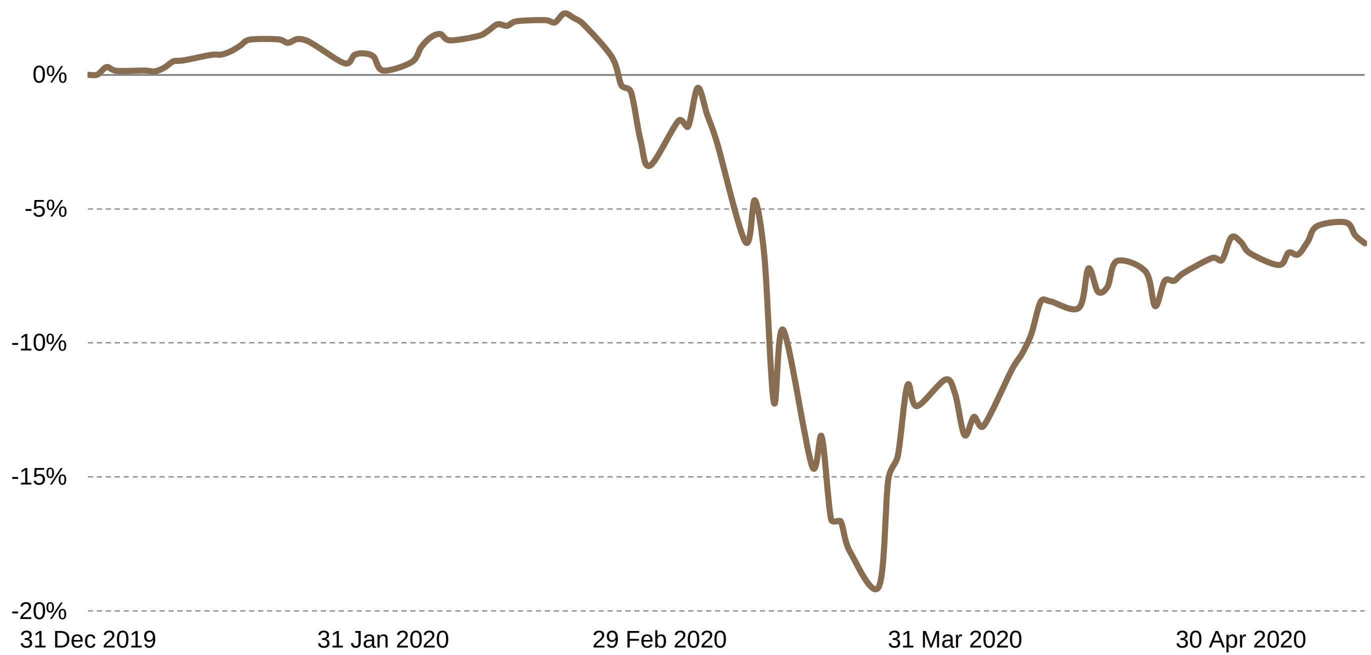


- **Total Return** (Ytd[1]): **5th out of 15**
- **Standard Deviation** (1 year[1]): **10th out of 15**
- **Downside Risk** (1 year[1]): **3th out of 15**
- **Sharp Ratio** (1 year[1]): **n/a**

[1] As of May 4, 2020

Source: Bloomberg

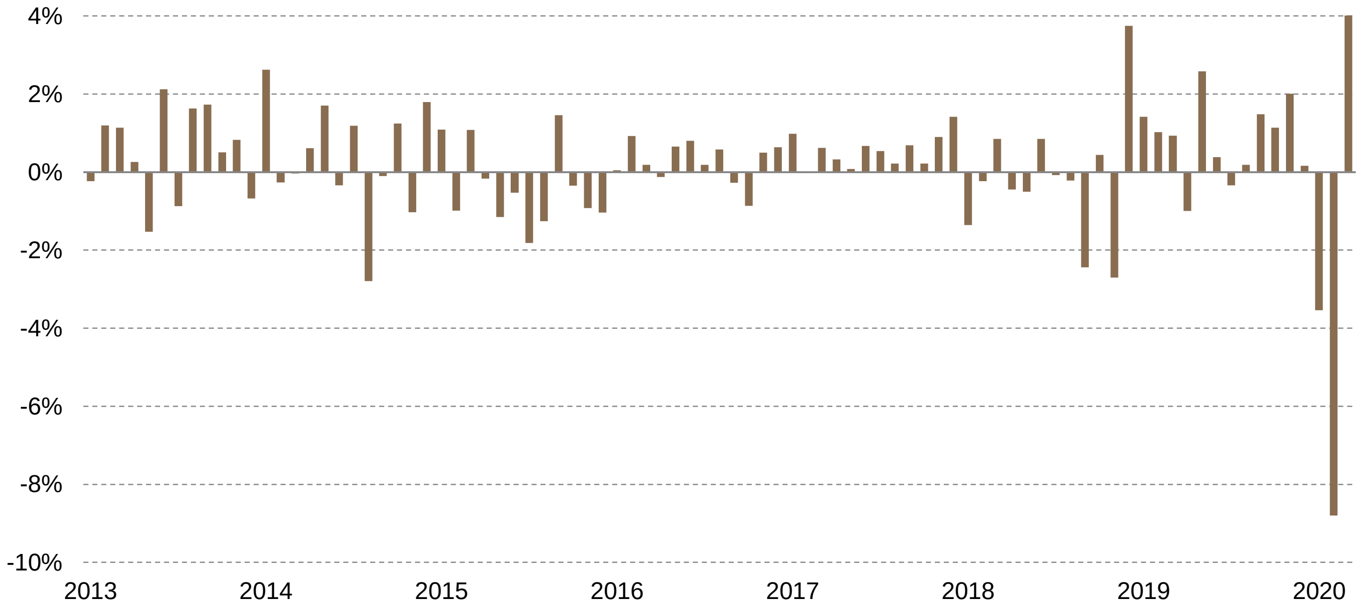
EWM Model Portfolio – Ytd performance



- **Total Return** (Ytd[1]): **-6.48%**
- **Standard Deviation** (Ytd[1]): **23.04%**
- **Downside Risk** (Ytd[1]): **17.82%**
- **Sharpe Ratio** (Ytd[1]): **n/a**

[1] As of May 13, 2020

EWM Model Portfolio – Historical performance (1)



- **Total Return** (1 year[1]): **1.01%**
- **Total Return** (3 year[1]): **6.04%**
- **Total Return** (Since Jan 13[1]): **21.30%**

[1] As of May 13, 2020

EWM Model Portfolio – Historical performance (2)

	2013	2014	2015	2016	2017	2018	2019	2020
Return	9.58%	2.05%	-1.80%	1.57%	6.06%	-4.62%	14.67%	-6.48%
Std. Deviation	3.82%	3.59%	3.67%	2.08%	1.45%	3.77%	3.78%	23.04%
Sharpe Ratio	2.54	0.58	-0.48	0.62	3.57	-1.70	3.49	-0.66

Annual Return: 2.65%
Annual Std. Dev: 6.08%

[1] As of May 13, 2020

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