Edwards Wealth Management AG
Switzerland

BOREAL
CAPITAL MANAGEMENT

Investment Policy

July 2020

Our market view in a nutshell – July 2020

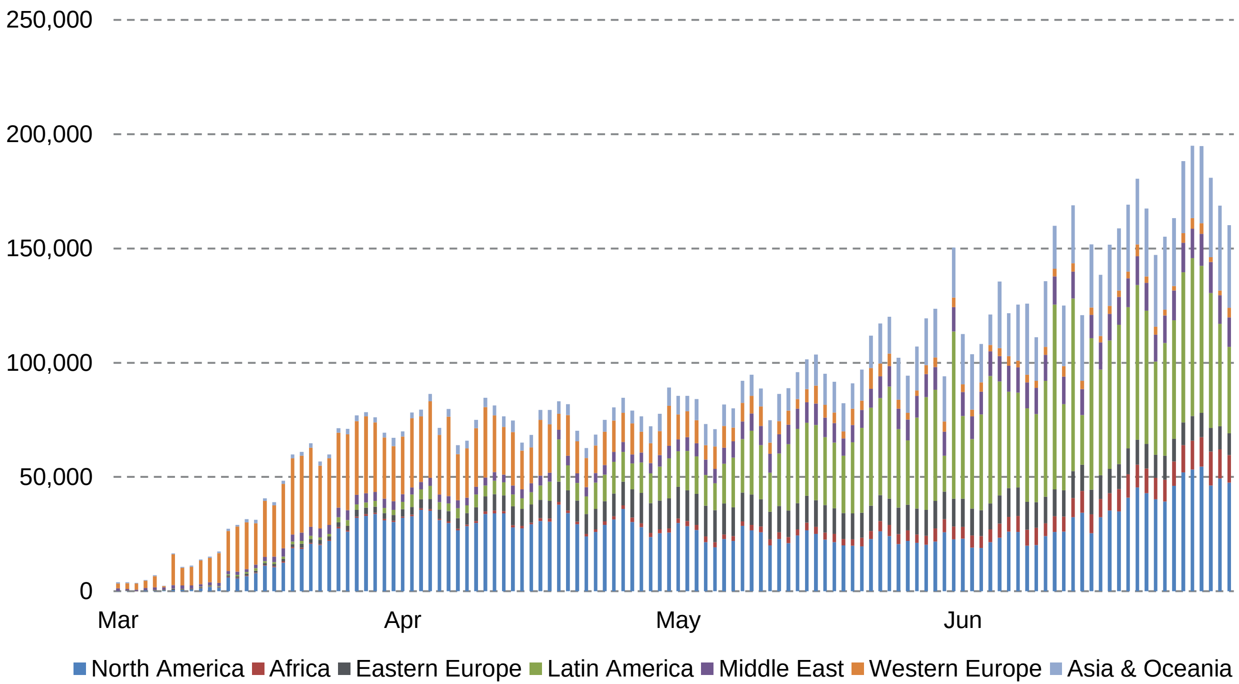
- The economy and financial markets remain inextricably linked to the evolution of the pandemic. New **outbreaks of the virus, like those seen in the US, will be inevitable** until a vaccine is ready, or a certain degree of collective immunity is achieved
- Our baseline scenario remains that a **high degree of awareness, coupled with social distancing and prophylaxis measures, will keep the spread of the virus under control**; thus facilitating a broad economic recovery
- So far, the momentum of the **bounceback in the US continues to exceed all expectations. In the rest of the world, however, the recovery is more gradual**. But overall, fiscal and monetary support measures are helping the world economy regain lost ground. It remains to be seen whether they will suffice, or whether further stimuli will be necessary to avoid a permanent economic loss
- **Presidential elections in the US are a potential source of volatility for financial markets. Even though a Biden presidency would be largely regarded as market-friendly** (particularly compared to other Democratic candidates), there is still a **risk that Trump-era tax cuts will be partially reversed**. There is also concern about how it could affect the pharmaceutical and technological sectors
- Against this backdrop, **some investors are waiting for an impending correction. However, timing the market can be very costly in the long run** since, from a psychological point of view, selling is a much easier decision than having to buy at a higher level than previously sold
- Furthermore, the **prospect of facing negative real interest rates over time, encourages investors to try to lock in higher returns for their portfolios in the future**. This increases the demand for positive-yielding quality stocks and bonds, as well as real assets (gold, real estate, etc.)

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	=	The incoming economic downturn will undoubtedly lead to an increase in the number of corporate defaults. Although credit spreads already reflect this risk, we favor Investment Grade over High Yield.
	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

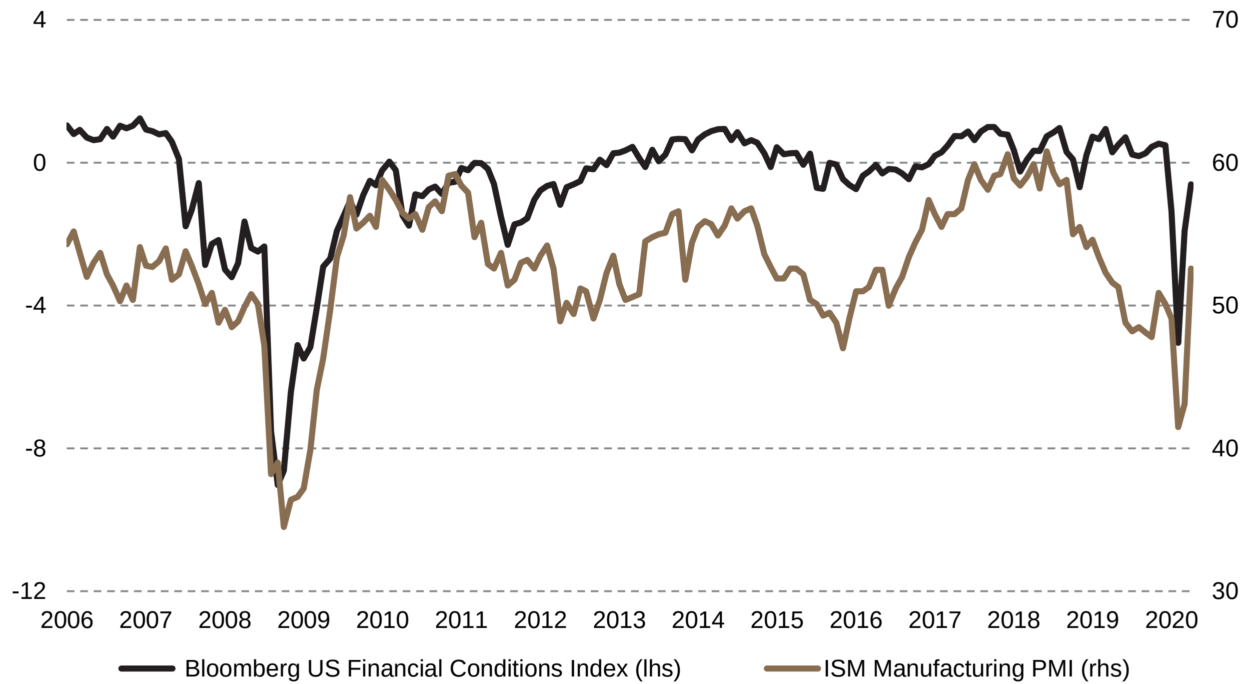
Wave or tide?



- After the inicial exicement for the end of the lock-downs, and the strong bounce back of macroeconomic indicators, **the increasing number of Covid infections in recent weeks is generating anxiety among investors**, given the possibility that we may face the dreaded second wave
- The increase in cases since the social distancing measures were relaxed was inevitable. Although **the high level of awareness among the population, combined with hygiene and prophylaxis measures, will probably translate into a low intensity spread of the virus**

Source: Bloomberg

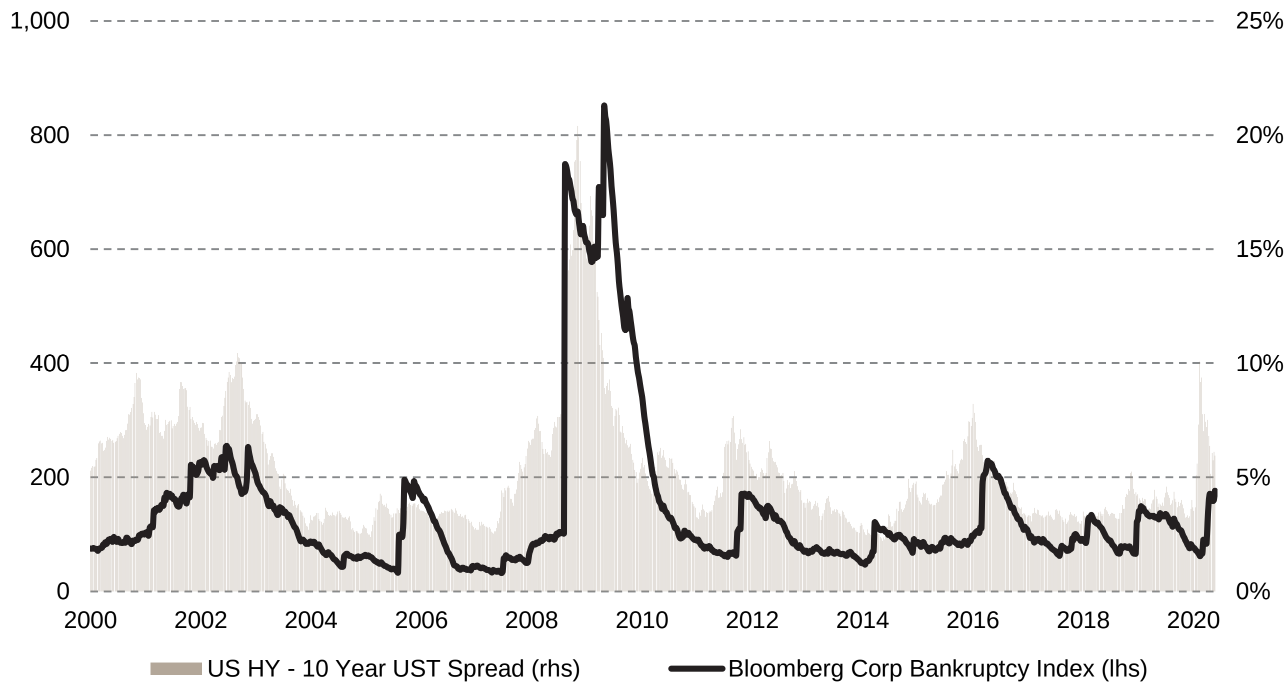
A “V” as narrow as it gets



- Purchasing Manager Indices show a **strong rebound to levels that point to an expansion of economic activity, while financial conditions continue to normalize**
- The fact that there is a clear **"base effect" does not diminish the importance of the improvement in the data**; given that these are the best indicator that fiscal and monetary support measures are proving to be very effective

Source: Bloomberg

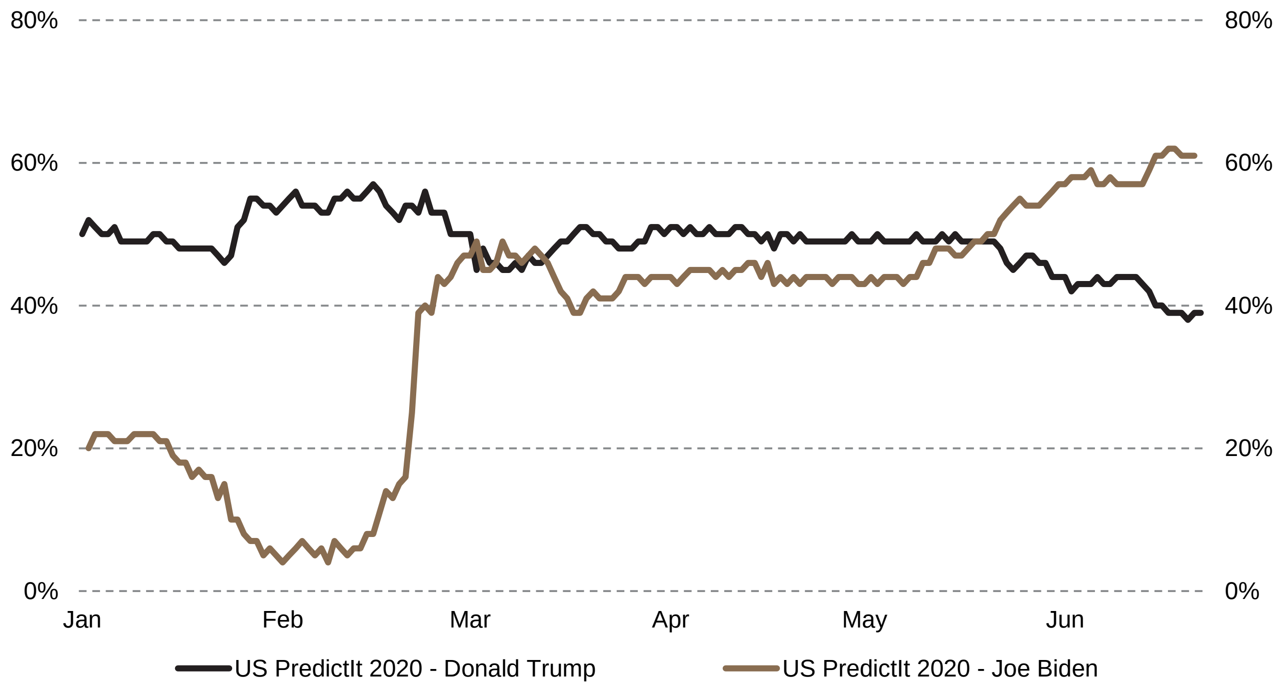
A second wave in corporate defaults?



- The **number of corporate defaults so far remains modest compared to previous crises**; one more sign that government support measures are being effective
- However, there is a **risk that any delay in the process of normalizing the level of economic activity**, due to new outbreaks of the virus, **will end up causing irreversible economic losses**

Source: Bloomberg

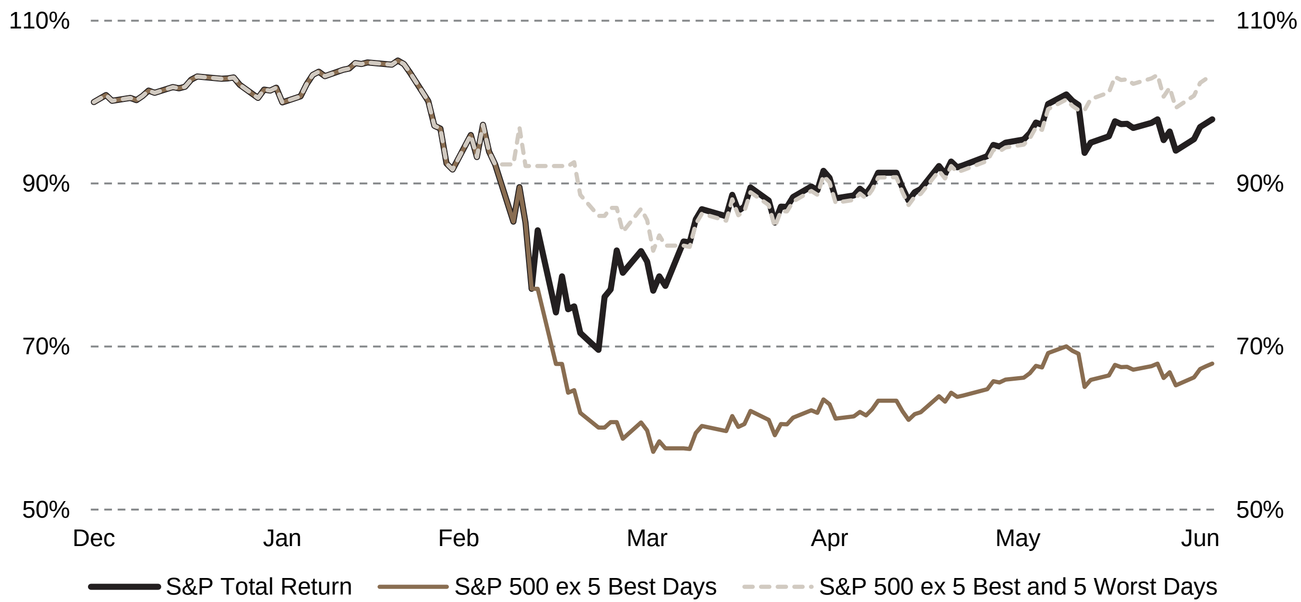
Place your bets



- **As we get closer to the November presidential election, volatility is likely to increase**. So far, both the polls and the betting market are giving **Joe Biden a clear lead of 20 percentage points**, but there is great disbelief about these numbers
- Although **a Biden presidency would be largely regarded as market-friendly** – particularly compared to other Democratic candidates – **there is a risk that the tax cuts championed by the Trump administration will be partially reversed**. There is also concern about how it could affect some sectors, particularly the **pharma and tech sectors**

Source: Bloomberg

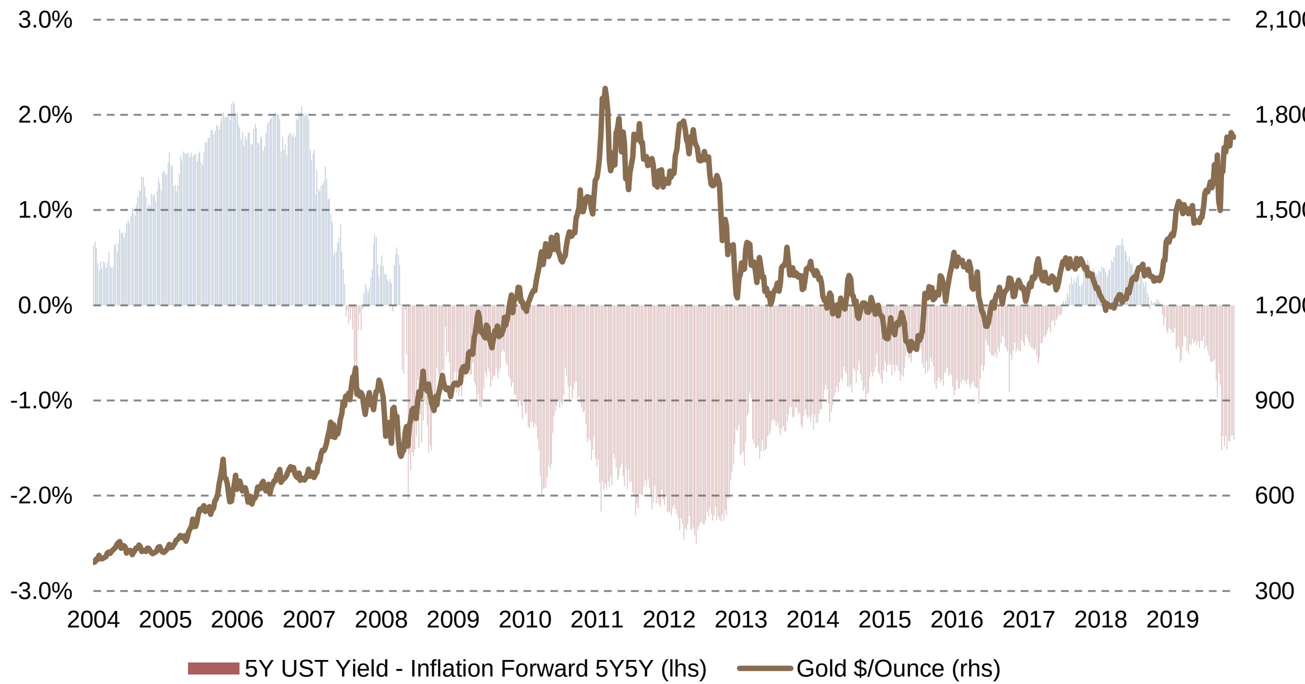
Thinking about timing the market?



- With an increase in Covid cases, the US elections approaching, and stock markets near their all-time highs, **some investors are waiting for a market correction to happen**
- However, **timing the market can be very costly in the long run since**, from a psychological point of view, selling is a much easier decision than having to buy at a higher level than sold

Source: Bloomberg

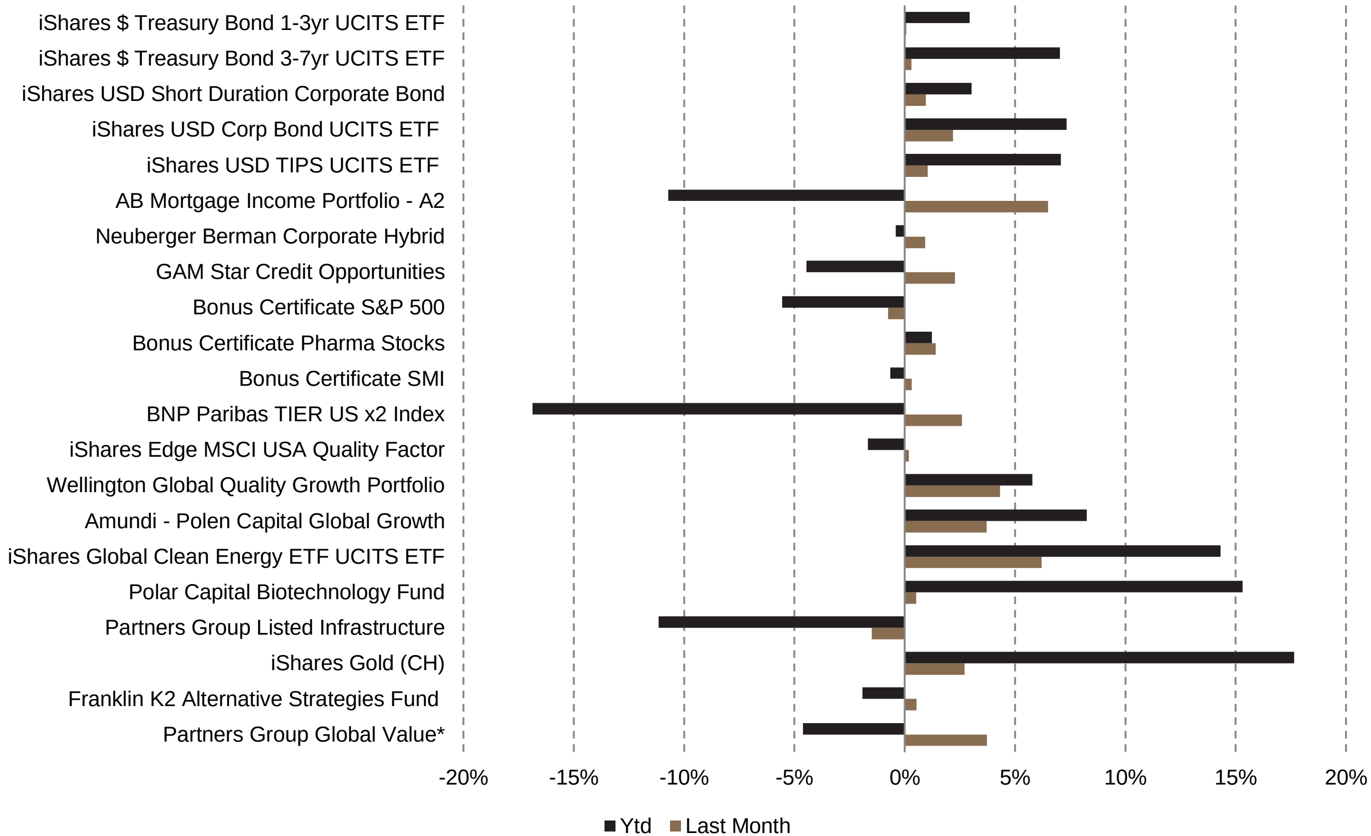
The appeal of real assets



- With **inflation expected to remain above interest rates for a long time**, investors need to brace for a future of low returns, and therefore try to **lock in as much yield as possible now**
- **Real assets are particularly attractive as they adjust for inflation**. Stocks, real estate, infrastructure and precious metals are among the asset classes that can benefit from the ultimate chase for yield

Source: Bloomberg

Model portfolio evolution



Source: Bloomberg ,as of July 7, 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	10% (-5%)	55%	35% (+5%)

Short-term catalyzers

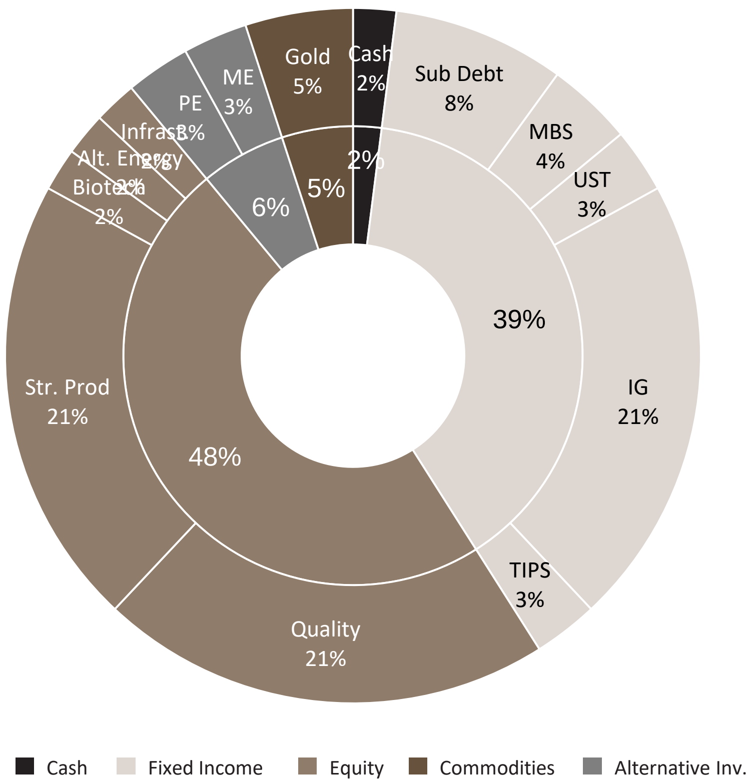
Fiscal stimulus in the US, improvement in macro-data globally, lower geopolitical tensions

Other risks

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

EWM Model Portfolio Balanced USD

Asset Allocation



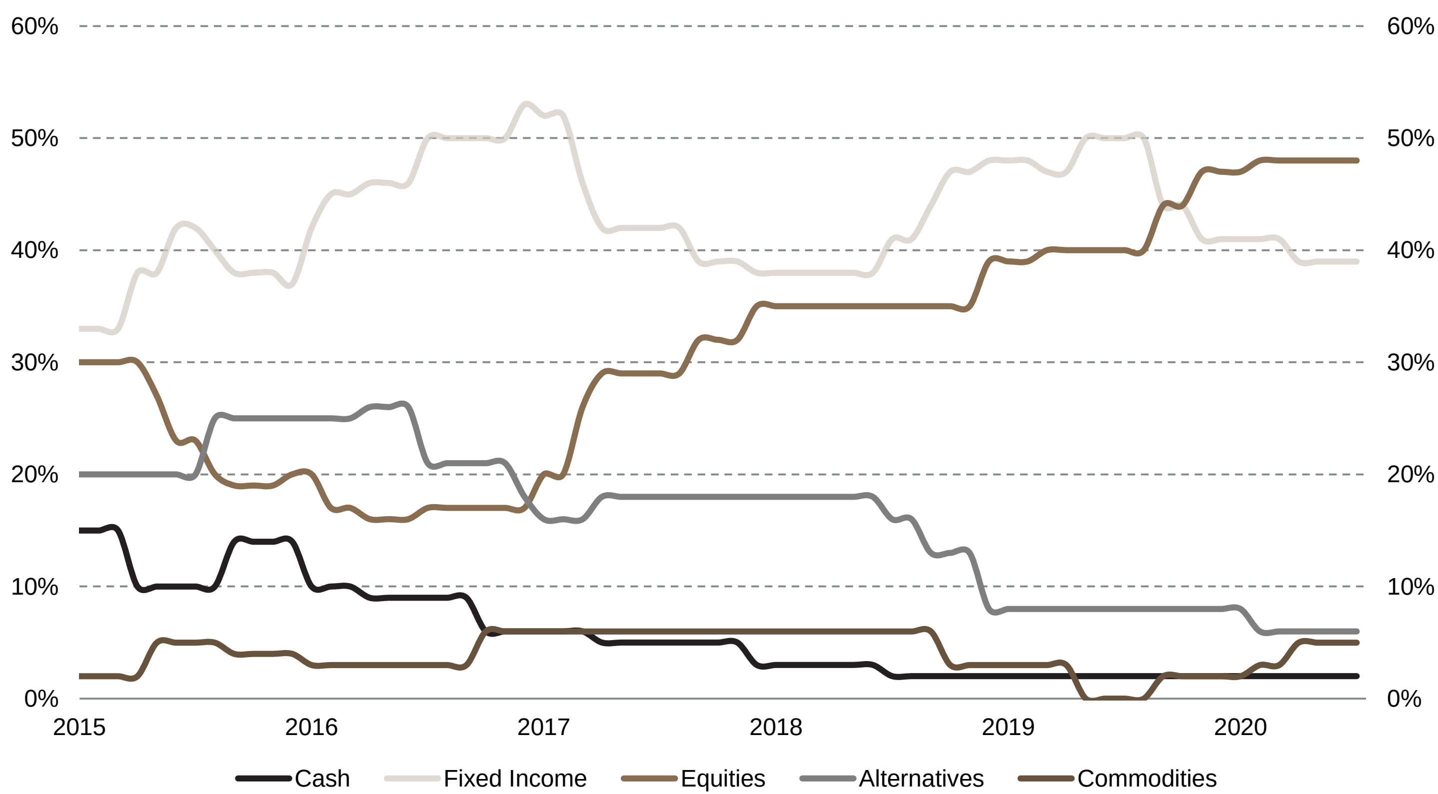
Currency Allocation

EWM Investment Profiles

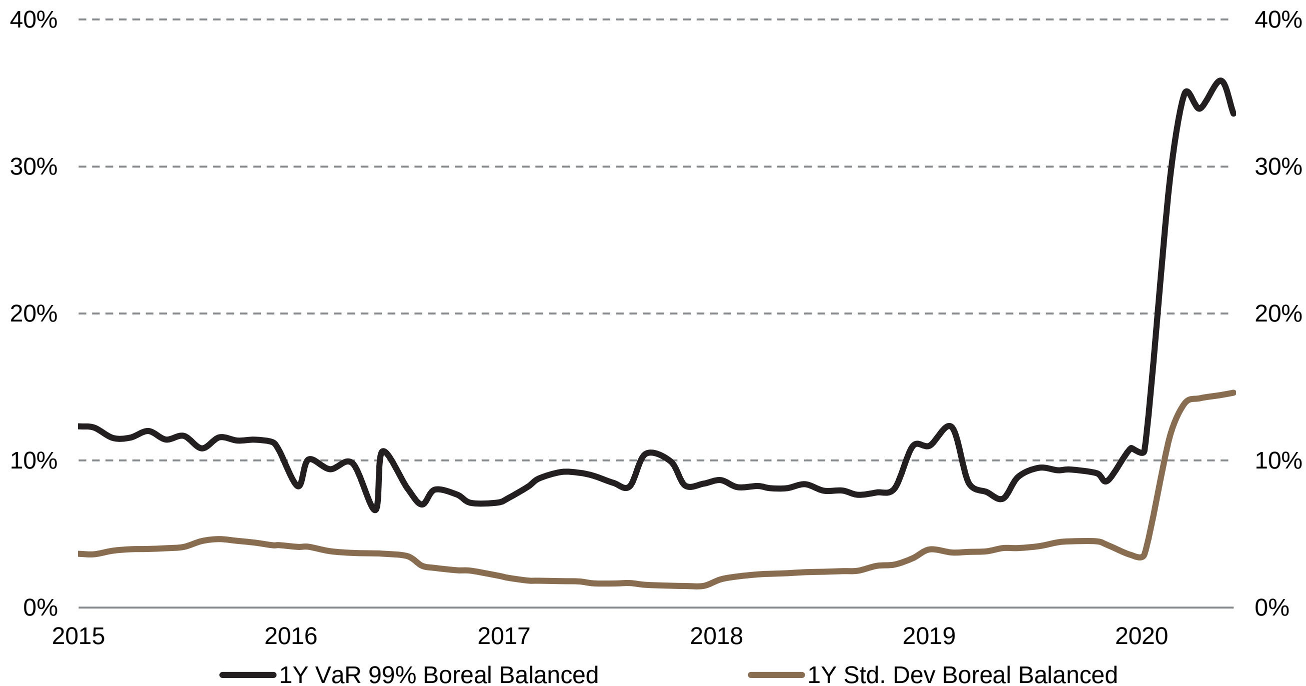
	Conservative	Balanced	Growth
Cash	3% (5%)	2% (5%)	1% (5%)
Fixed Income	57% (64%)	39% (43%)	25% (22%)
Equities	34% (24%)	48% (38%)	60% (52%)
Commodities	3% (2%)	5% (4%)	6% (6%)
Alternative Investments	3% (5%)	6% (10%)	8% (15%)

▼ Strategic Asset Allocation

EWM Model Portfolio – Asset Allocation evolution

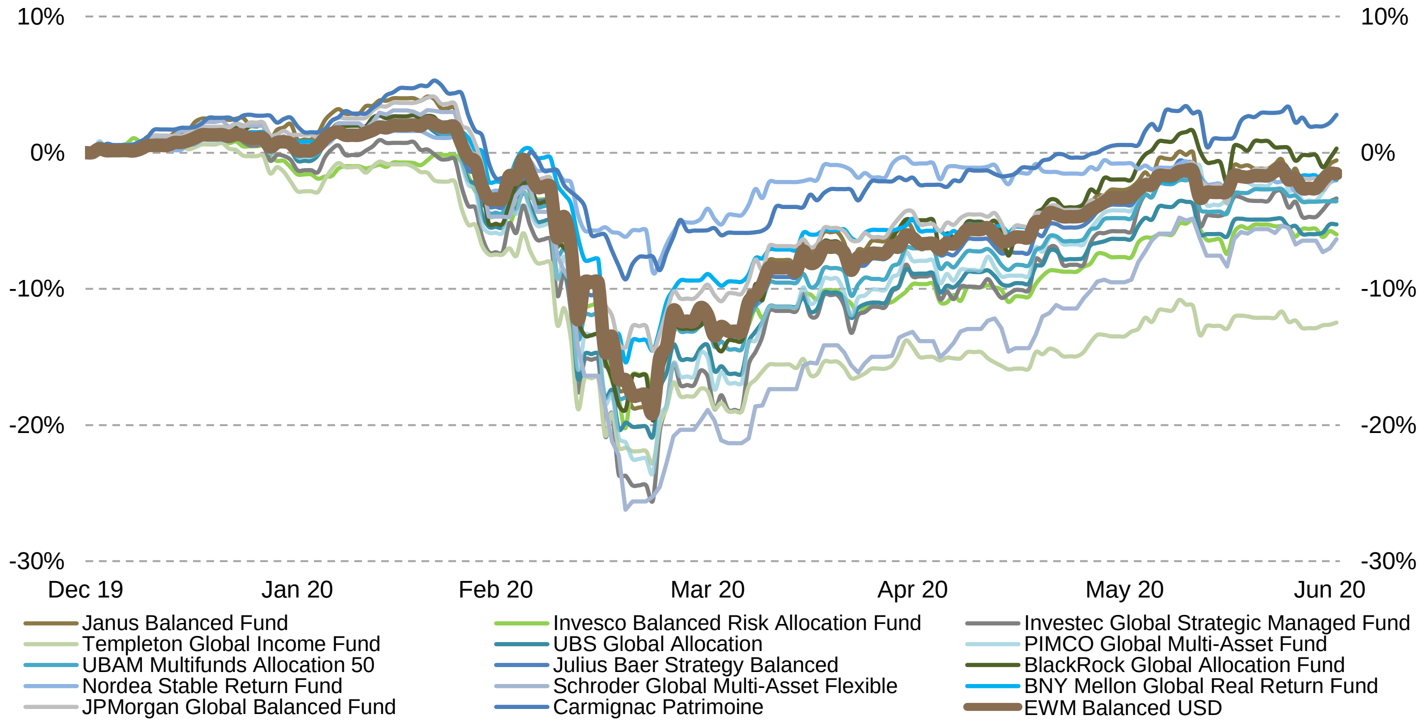


EWM Model Portfolio – VaR evolution



[1] As of June 15, 2020
Source: Bloomberg

EWM Balanced Portfolio – Peer comparison

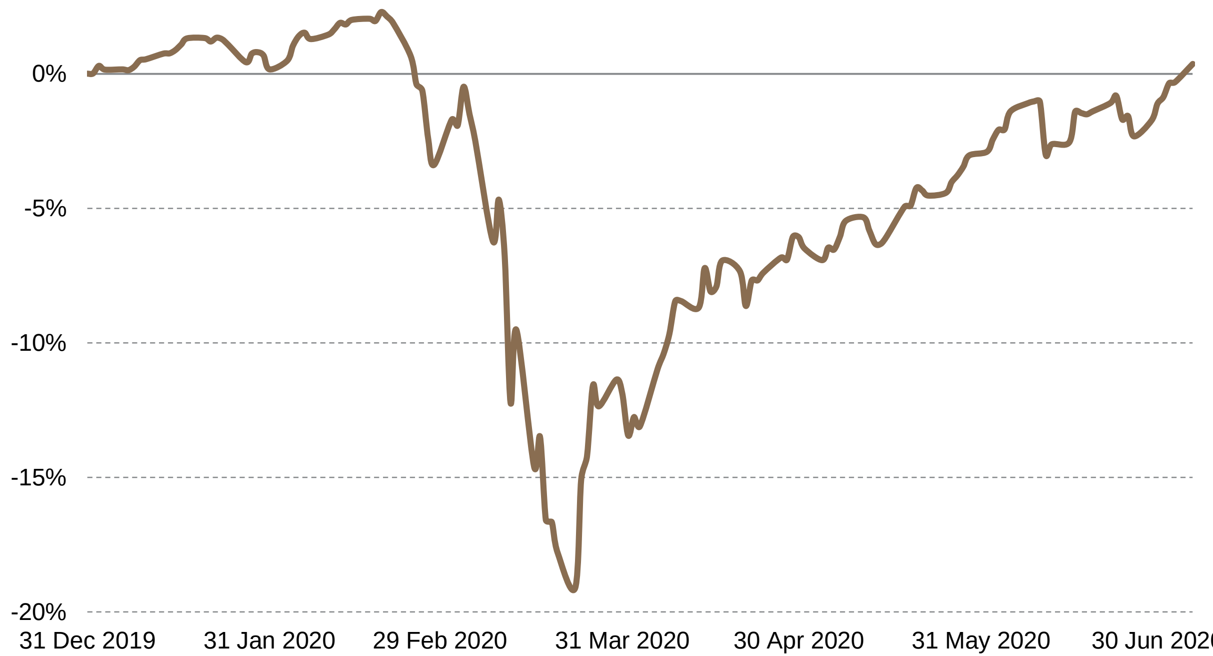


- **Total Return** (Ytd[1]): **4th out of 15**
- **Standard Deviation** (1 year[1]): **11th out of 15**
- **Downside Risk** (1 year[1]): **6th out of 15**
- **Sharp Ratio** (1 year[1]): **7th out of 15**

[1] As of July 1, 2020

Source: Bloomberg

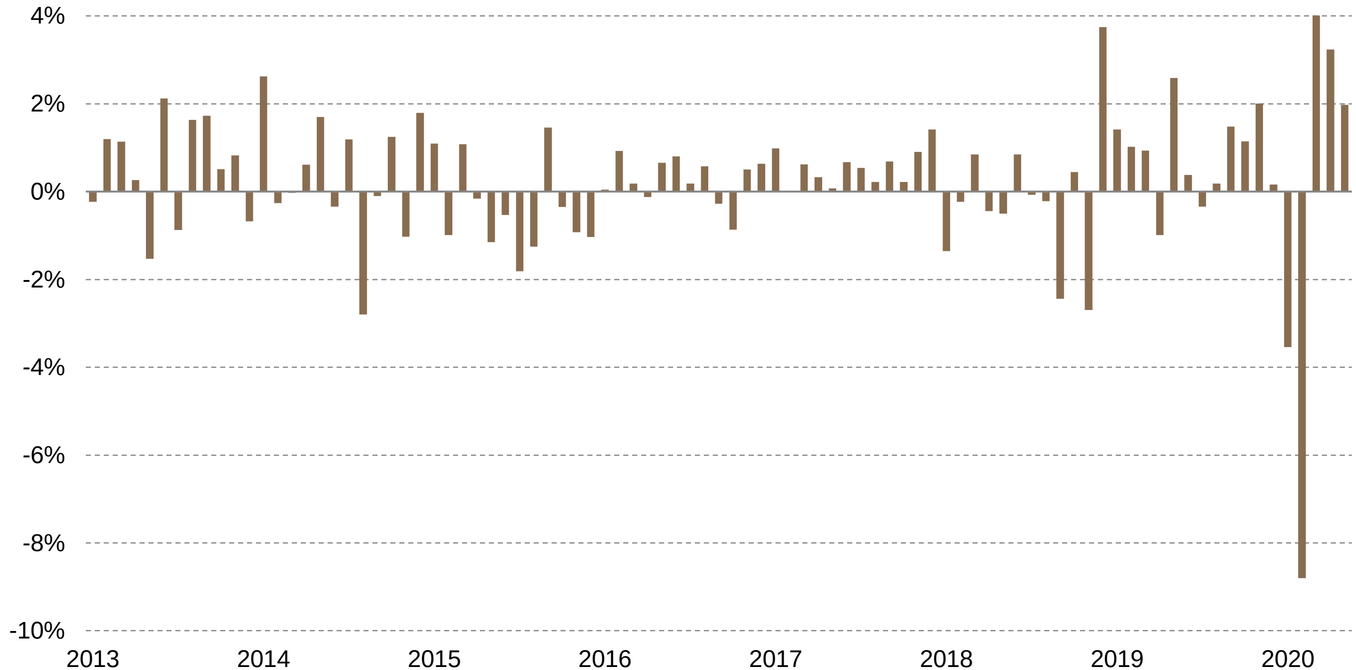
EWM Model Portfolio – Ytd performance



- **Total Return** (Ytd[1]): **0.36%**
- **Standard Deviation** (Ytd[1]): **20.09%**
- **Downside Risk** (Ytd[1]): **15.78%**
- **Sharpe Ratio** (Ytd[1]): **0.01**

[1] As of July 7, 2020

EWM Model Portfolio – Historical performance (1)



- **Total Return** (1 year[1]): **4.85%**
- **Total Return** (3 year[1]): **13.45%**
- **Total Return** (Since Jan 13[1]): **24.79%**

[1] As of July 7, 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%	0.36%
Std. Deviation	3.82%	3.59%	3.67%	2.08%	1.45%	3.77%	3.78%	20.09%
Sharpe Ratio	2.54	0.58	-0.48	0.62	3.57	-1.70	3.49	0.01

Annual Return: 3.53%
Annual Std. Dev: 6.13%

[1] As of July 7, 2020

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