Edwards Wealth Management AG
Switzerland

BOREAL
CAPITAL MANAGEMENT

Investment Policy

June 2020

Our market view in a nutshell – June 2020

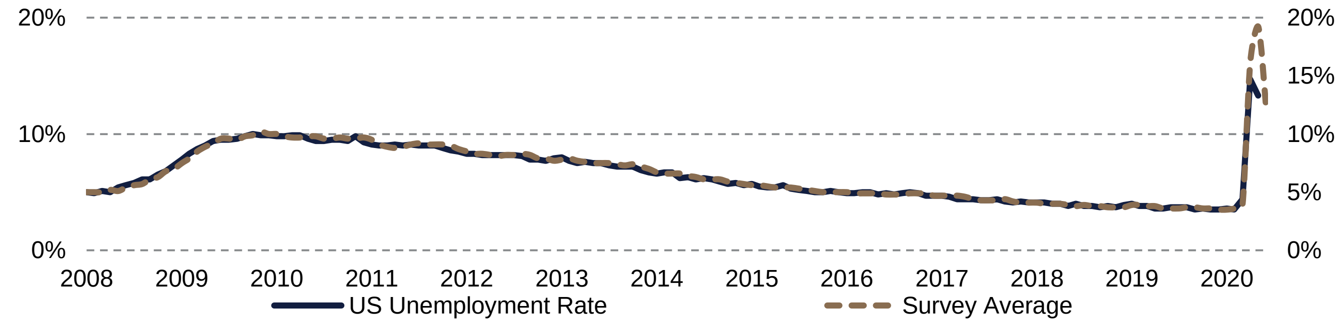
- After a long string of disheartening macroeconomic data caused by a sudden stop in the world economy, we are witnessing a similarly sharp reversal. **Employment, confidence and consumption data point to the long-awaited "V" shaped economic comeback**
- This is the result of **coordinated fiscal and monetary stimuli of an unprecedented size and scope**. With countries gradually returning to normal, and the pandemic seemingly under control, **the most optimistic scenario seems to be unfolding**
- Notwithstanding the positive surprises, **we are facing a sure recession, and there is still great uncertainty about the economic damage** to be endured by countries, companies and individuals. The apparent **disconnect between asset prices and the dire economic reality** can only be explained by the **quasi-certainty that interest rates will remain depressed** for the foreseeable future
- The market rally from the lows is offering investors a **unique opportunity to reposition their portfolios**. We recommend **improving diversification and pivoting towards high-quality assets**, both in equities and in fixed income. Although quality companies may look more expensive, they offer more protection against less benign recovery scenarios, and also provide better long-term growth prospects
- As for the FX market, decisive Fed action appears to have completely eliminated the prospect of a liquidity crisis. **With funding markets returning to normal, the US dollar is trading again guided by fundamentals**. The latter support a **weakening of the dollar in line with narrower interest rate differentials**. This will also have a positive effect on the financial markets, as it leads to further relaxation of global financial conditions

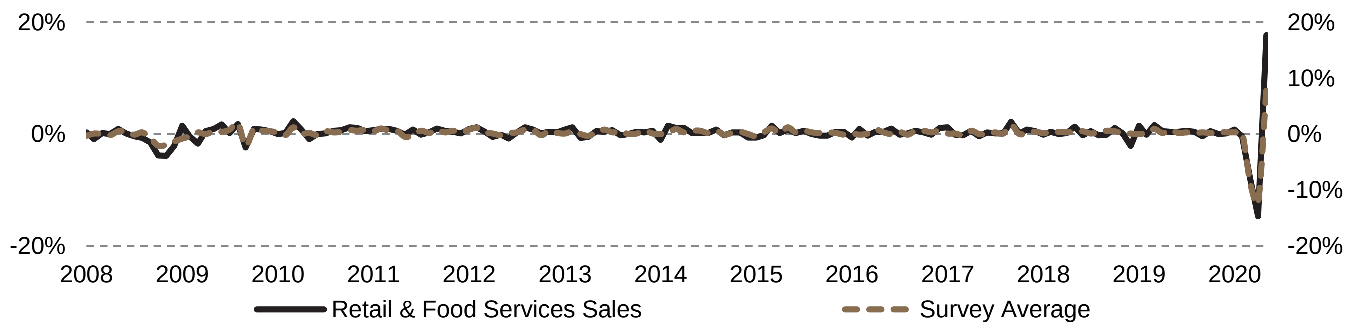
EWM Investment Policy

	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

The expansion is dead, long live the expansion!

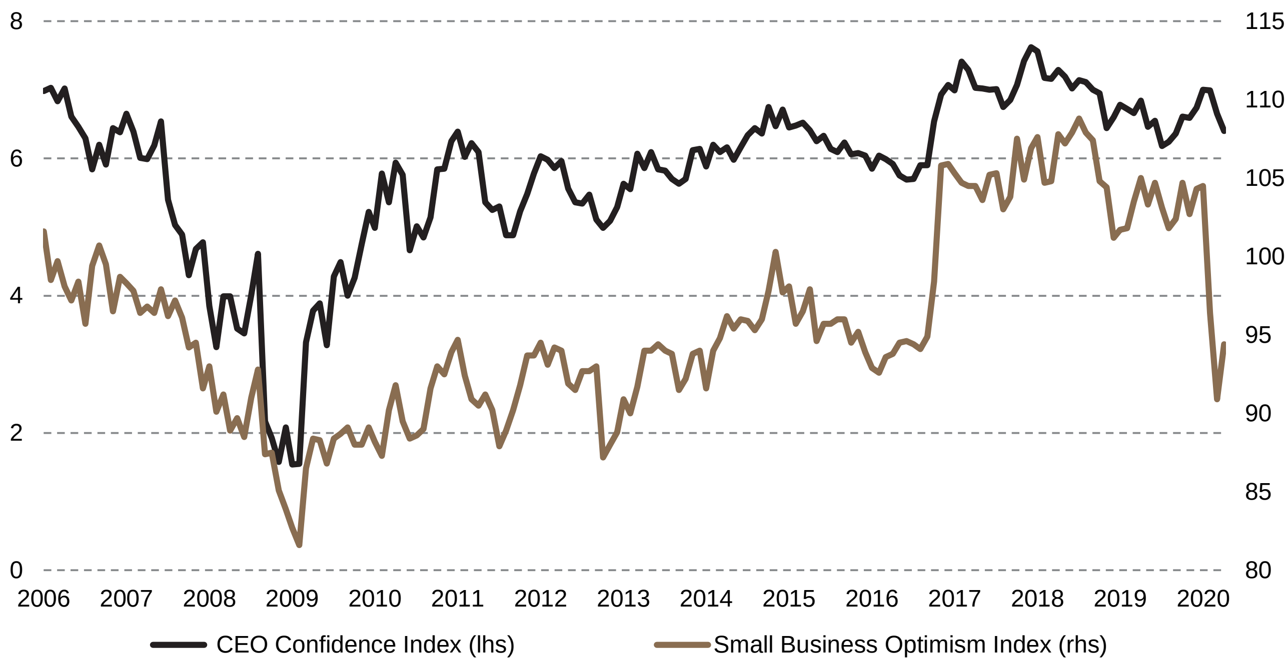




- The **longest economic expansion on record (128 months) has officially ended**. The NBER recently stated that the US entered a recession in February, with GDP in the first quarter tanking -5%
- However, just as the end of the economic expansion has been sudden, we are **now seeing encouraging data indicating that the expected "V-shaped" recovery has begun**

Source: Bloomberg

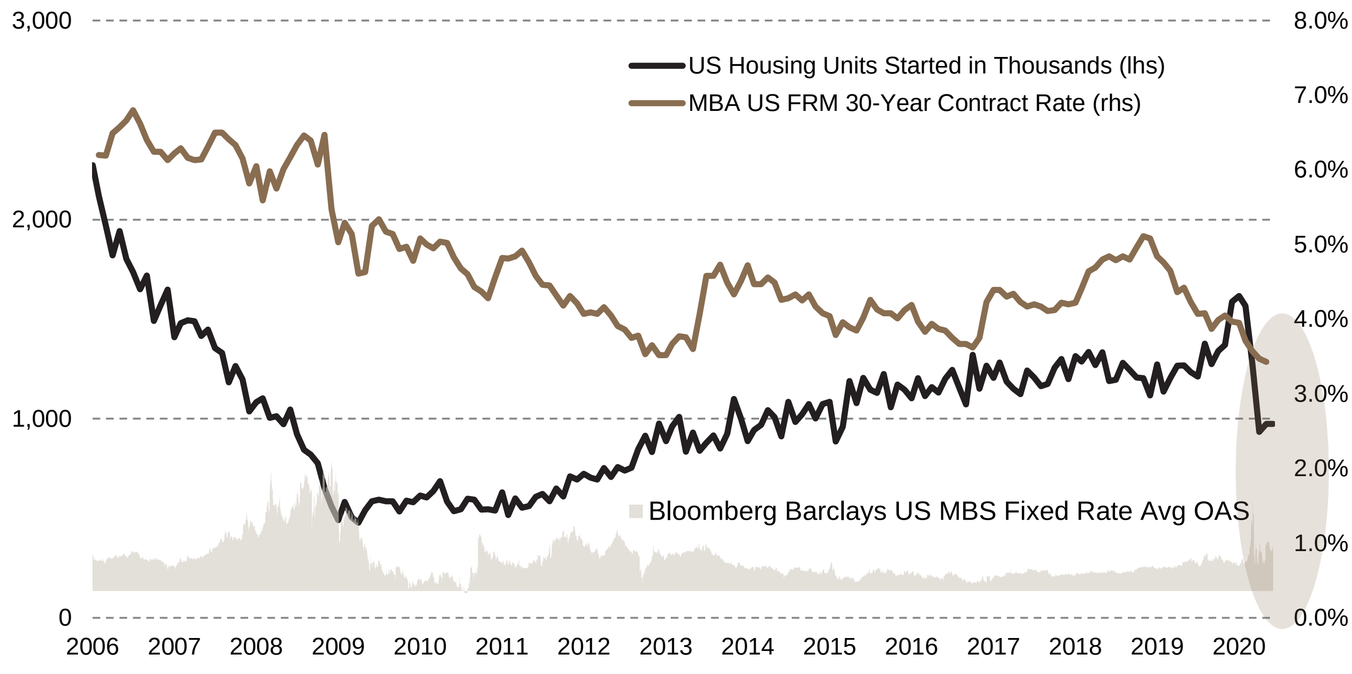
Cautious optimism



- **Economic agents have reacted in a relatively calm way**, despite the magnitude of the economic crater that opened before their eyes
- Relief measures have helped to maintain **expectations that we were enduring a sort of "temporary glitch"**, and that the economy would return to normal after the pandemic ended

Source: Bloomberg

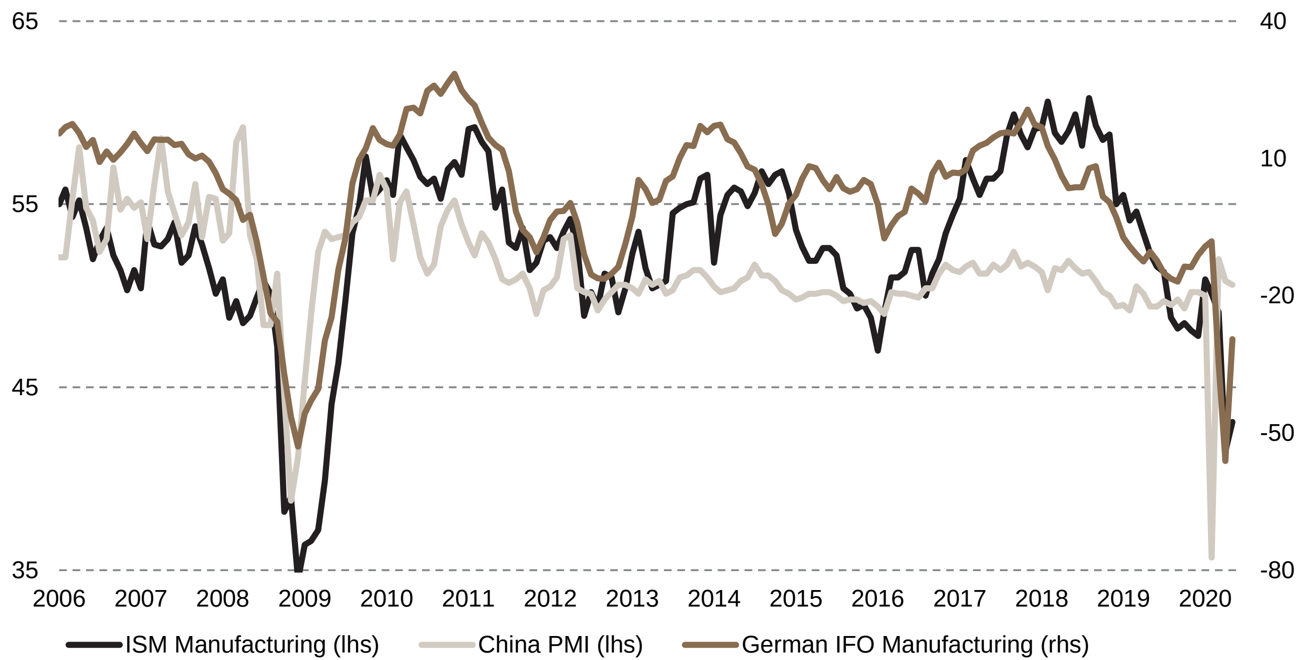
Fiscal and monetary policy working in tandem



- The lessons learned during the 2008 crisis, coupled with the shock's symmetry and the absence of any "moral hazard", have fostered a **coordinated fiscal and monetary response**. This has been critical in **limiting the magnitude of the crisis**
- **A good example is the housing market**, where a combination of deferred rent payments, interest rate cuts, and liquidity injections are helping to avoid a real estate crisis

Source: Bloomberg

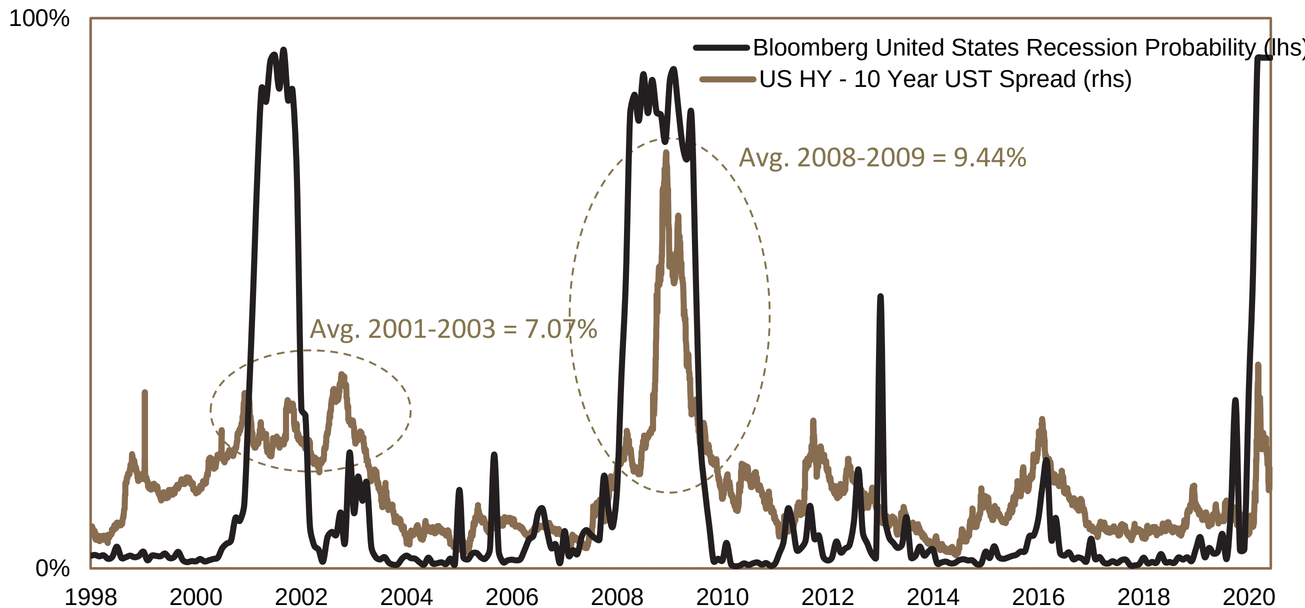
Stimulus enough to jump-start, or take off?



- However, despite the positive evolution of all macroeconomic indicators, **it remains to be seen how far the economy will return to normal**
- It may happen that the economy bounces back partially, without succeeding in sustaining further expansion. But it can also happen that huge fiscal and monetary stimuli put the economy on a stronger growth path than before the crisis

Source: Bloomberg

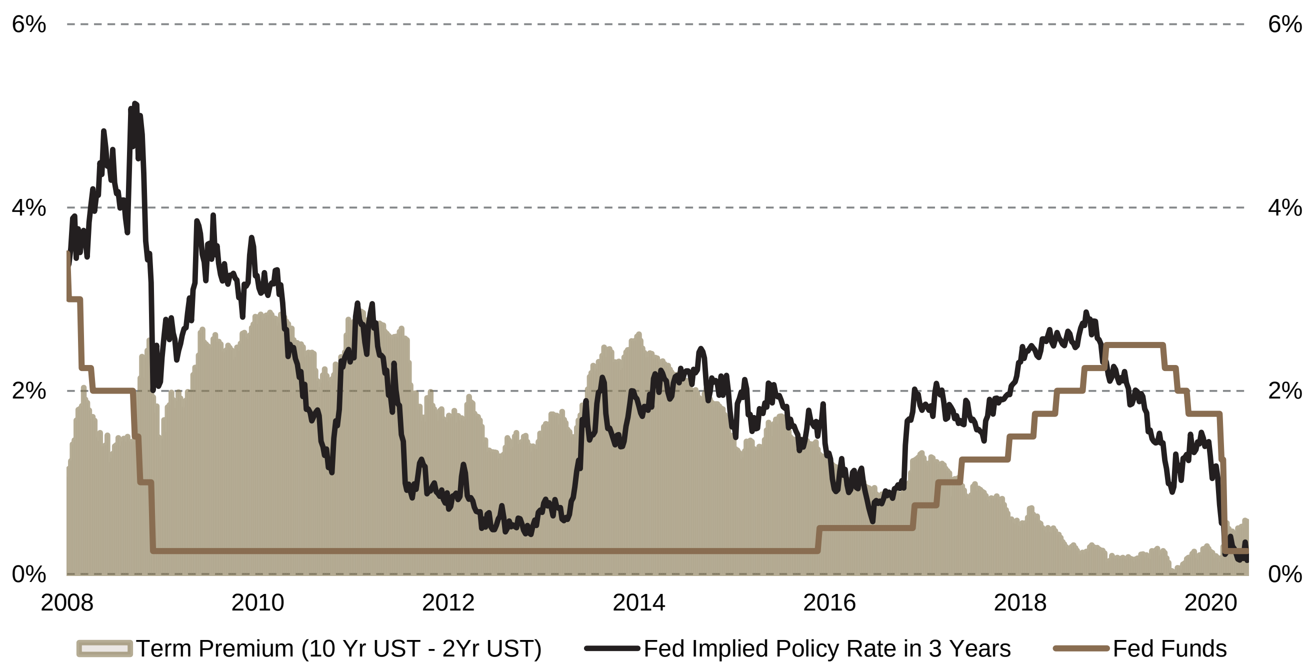
Are asset prices unaware of the recession?



- There seems to be a puzzling **disconnect between asset prices and the current state of the economy**
- Financial markets appear to be pricing assets as if the crisis were a temporary phenomenon. However, the level of uncertainty remains very high, and **valuations are much richer than in previous periods of economic weakness**

Source: Bloomberg

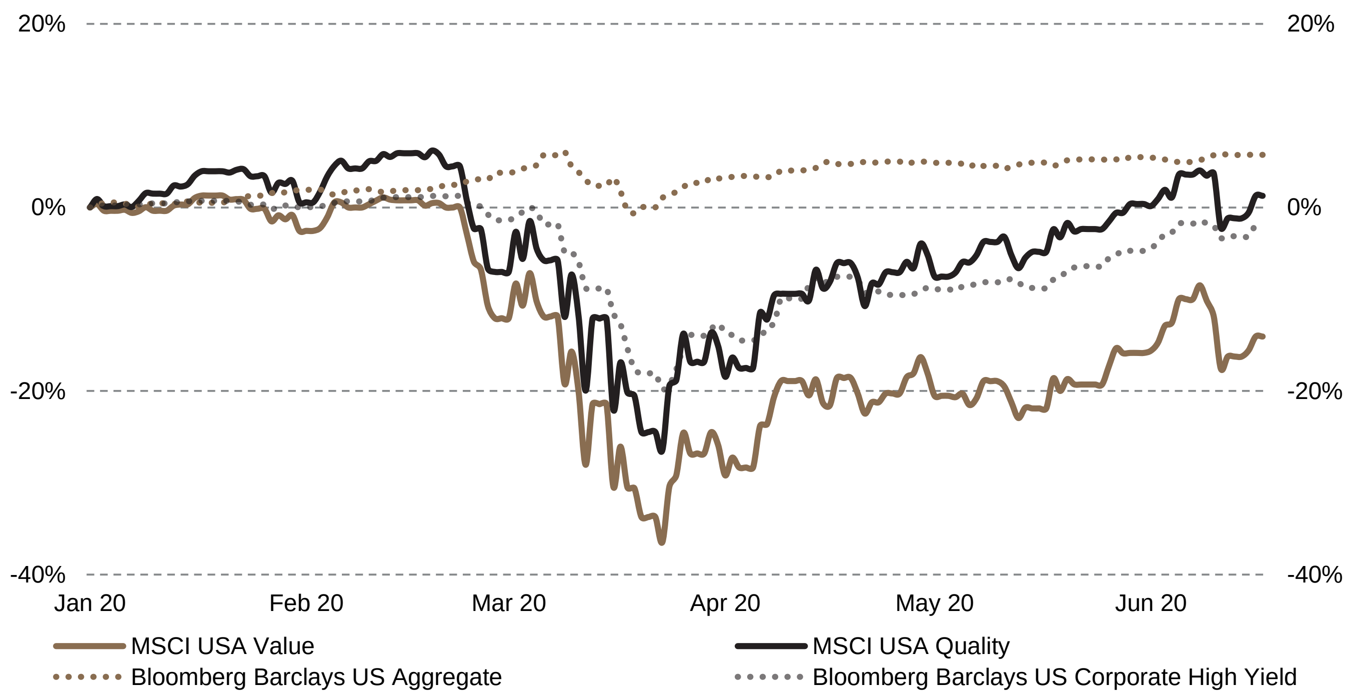
“Zero Kelvin” in interest rates



- The explanation for the apparent disconnect between markets and the economy lies in **expectations about the evolution of interest rates**
- With rates expected to **remain close to zero for the years to come, and with a very small term premium** – given that the Fed is likely to embark in “yield curve control”– the value of any yield-generating asset has to increase

Source: Bloomberg

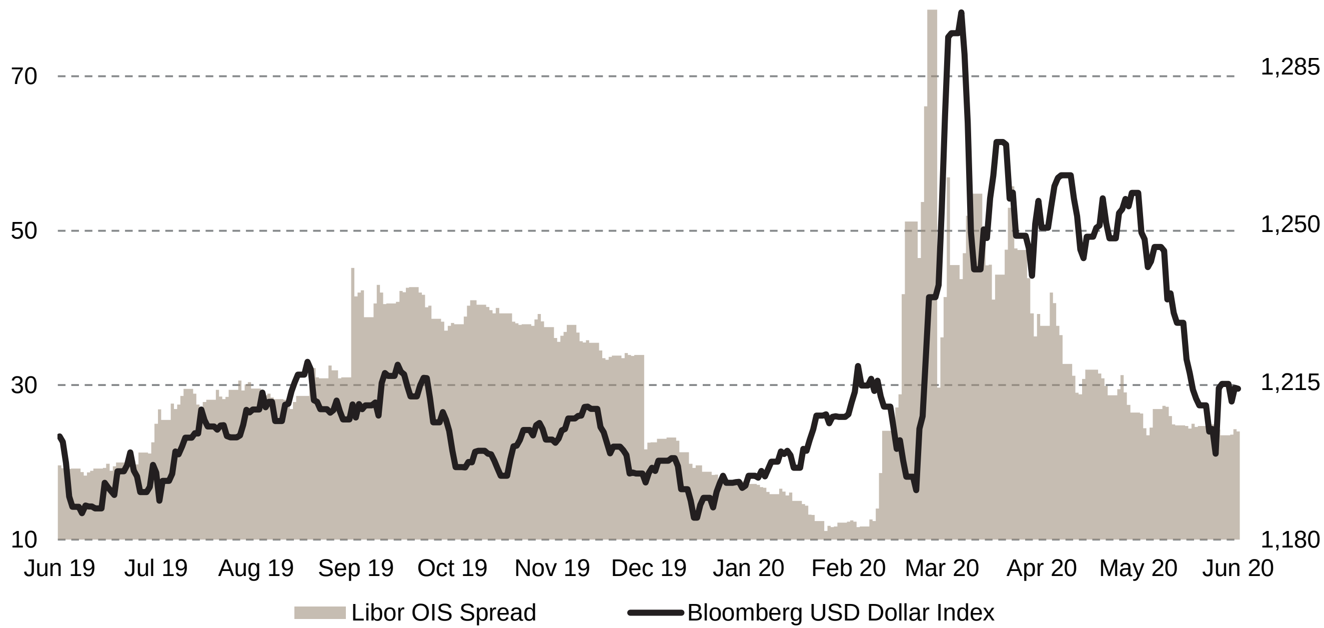
Time for a quality upgrade



- But not all yield-generating assets are alike, and once they have repriced to reflect lower interest rates, returns **will remain depressed in the longer term**
- The key to improving return expectations, as well as mitigating price fluctuations – if rates start to normalize in the future, or the economy stalls again – is to **focus on companies that have the ability to reliably grow their revenues**

Source: Bloomberg

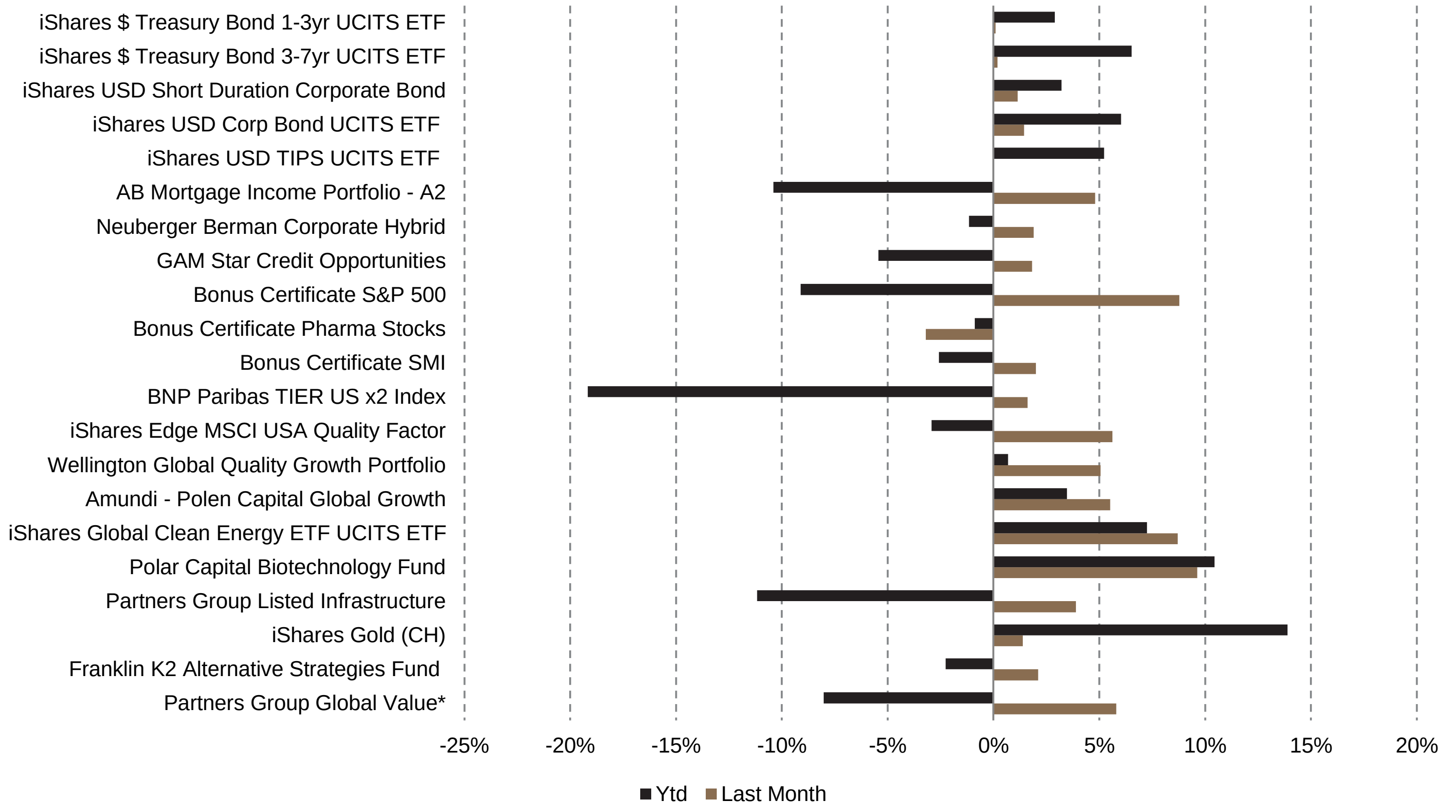
Back to currency fundamentals



- **Decisive action by the Fed has prevented a liquidity crisis**, and a further appreciation of the dollar that would have translated into a tightening of financial conditions at global level
- With interest rate differentials returning to their average levels, **growth and inflation data will become determining factors in currency movements**

Source: Bloomberg

Model portfolio evolution



Source: Bloomberg ,as of June 17, 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	15% (-5%)	55% (+5%)	30%

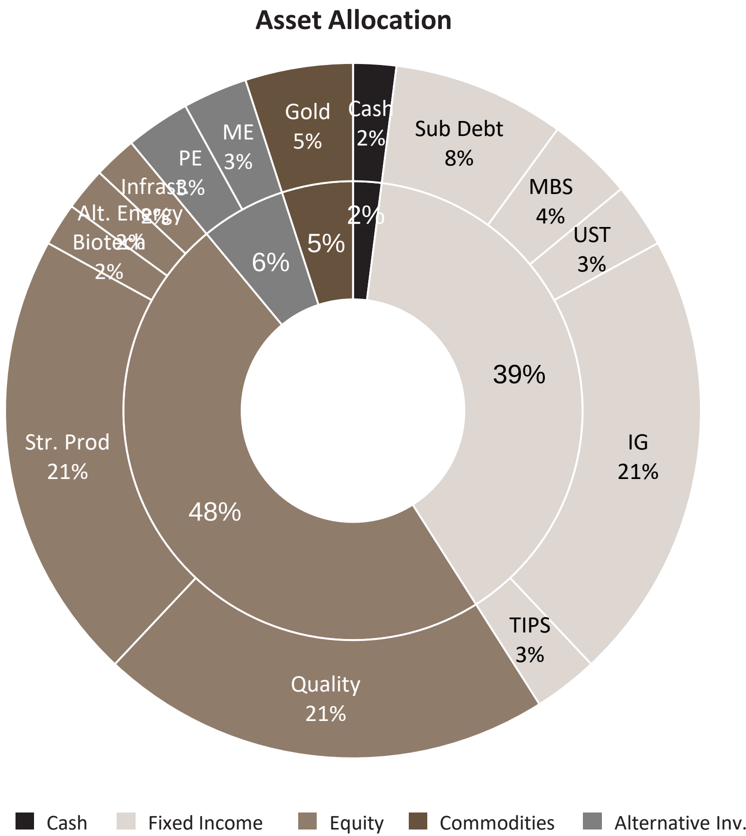
Short-term catalyzers

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

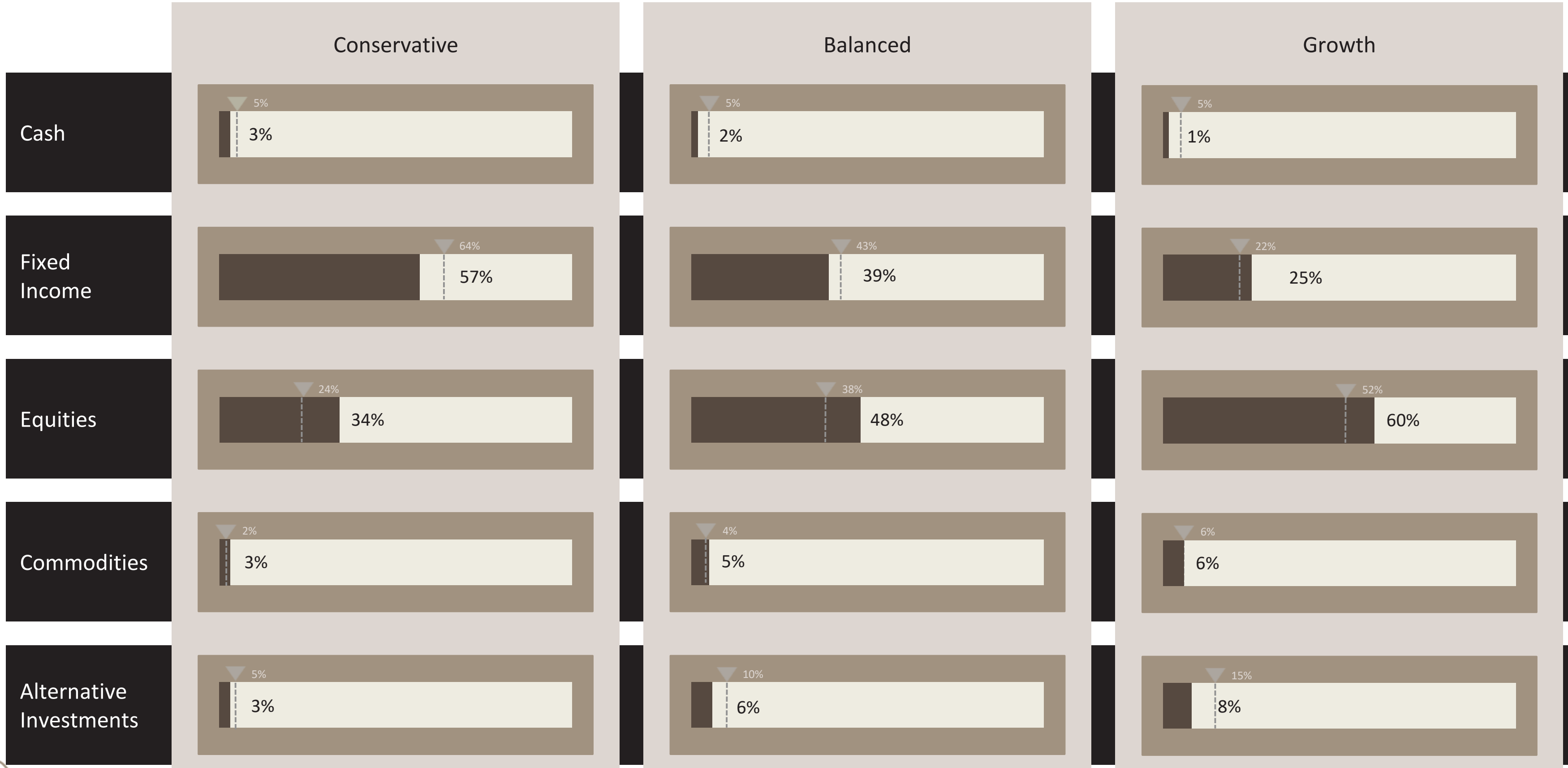
Other risks

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

EWM Model Portfolio Balanced USD

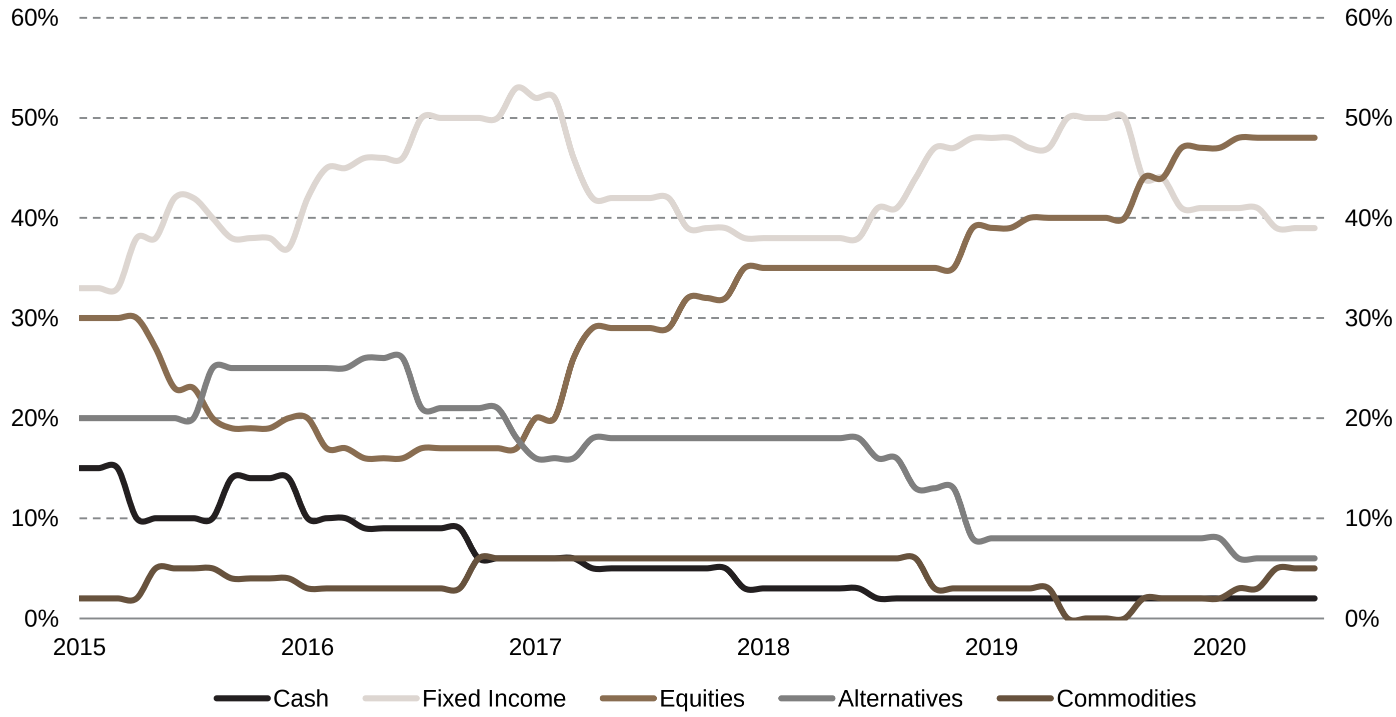


EWM Investment Profiles

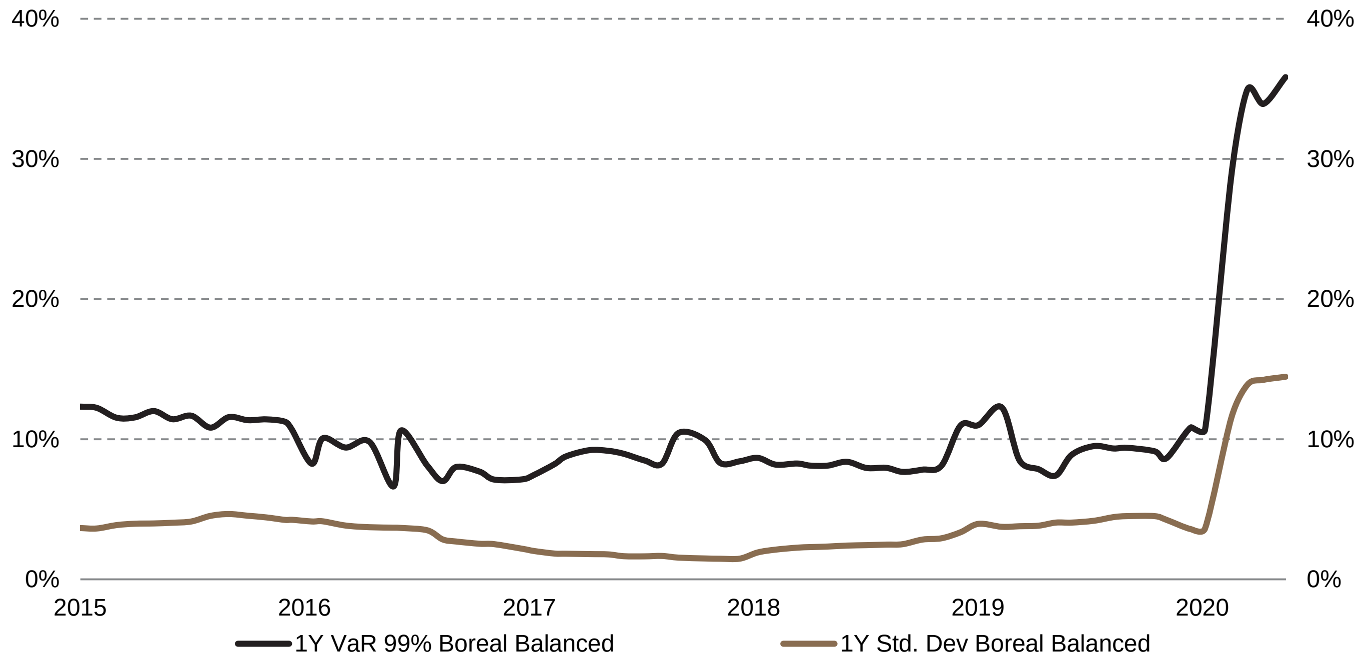


Strategic Asset Allocation

EWM Model Portfolio – Asset Allocation evolution

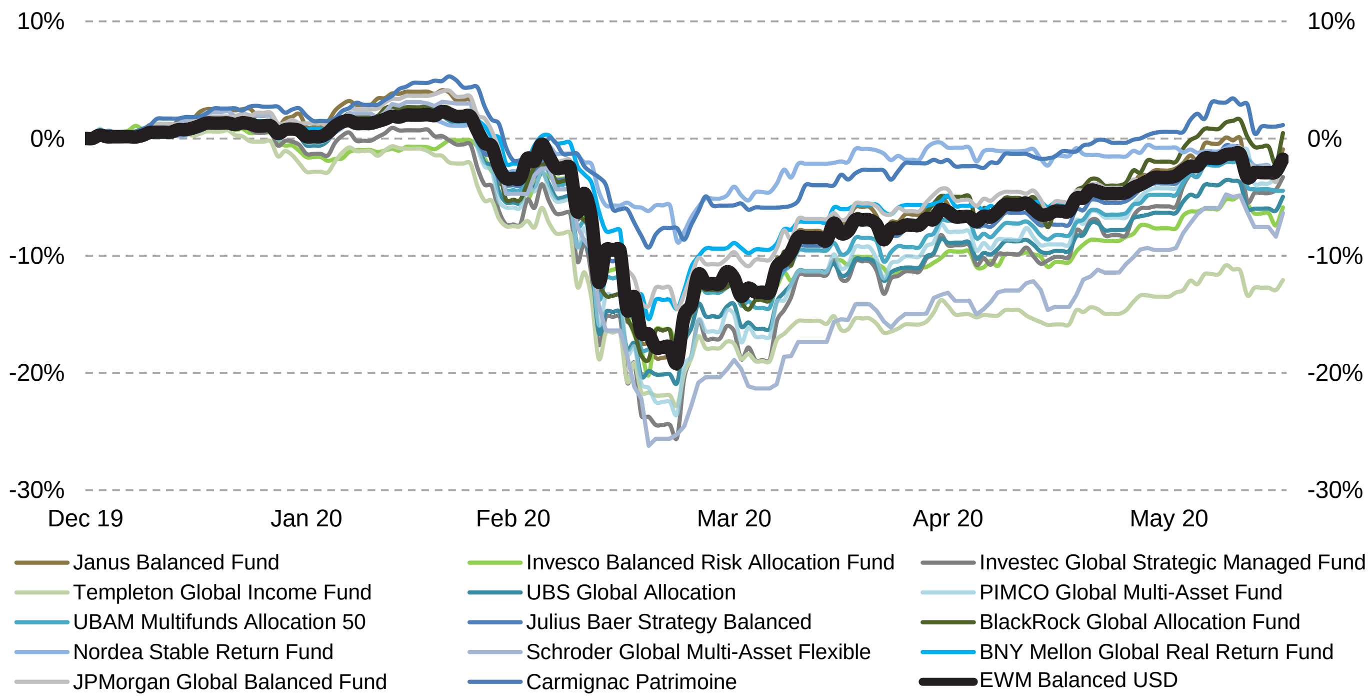


EWM Model Portfolio – VaR evolution



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

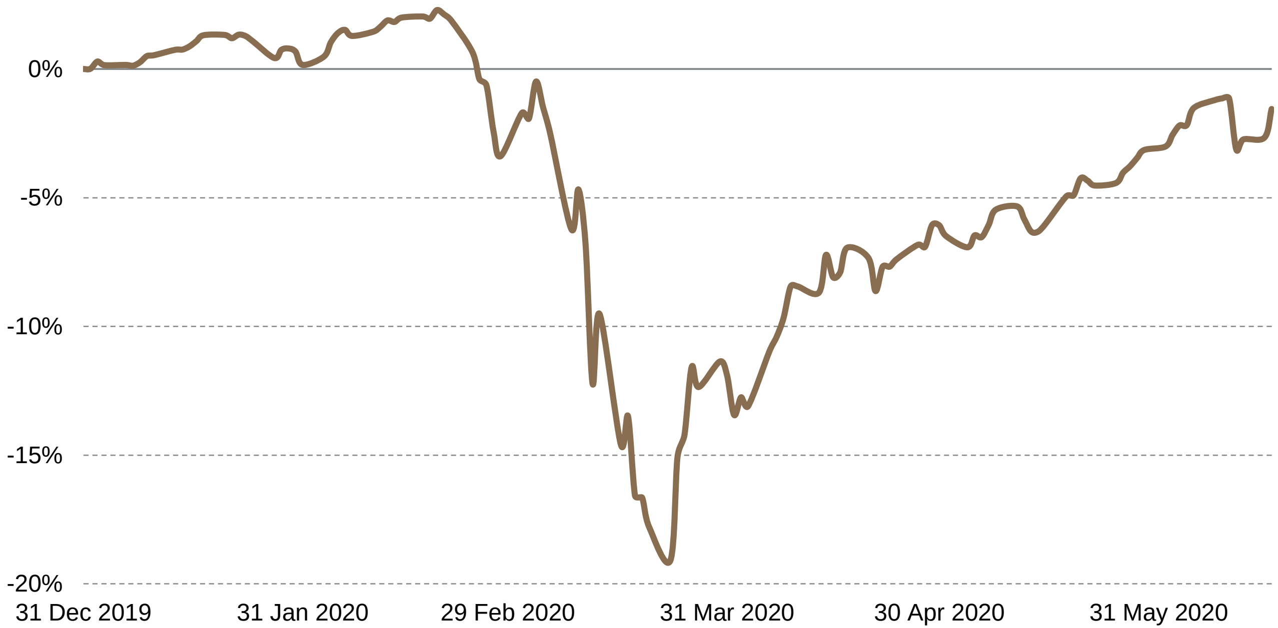
EWM Balanced Portfolio – Peer comparison



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

[1] As of June 16, 2020
Source: Bloomberg

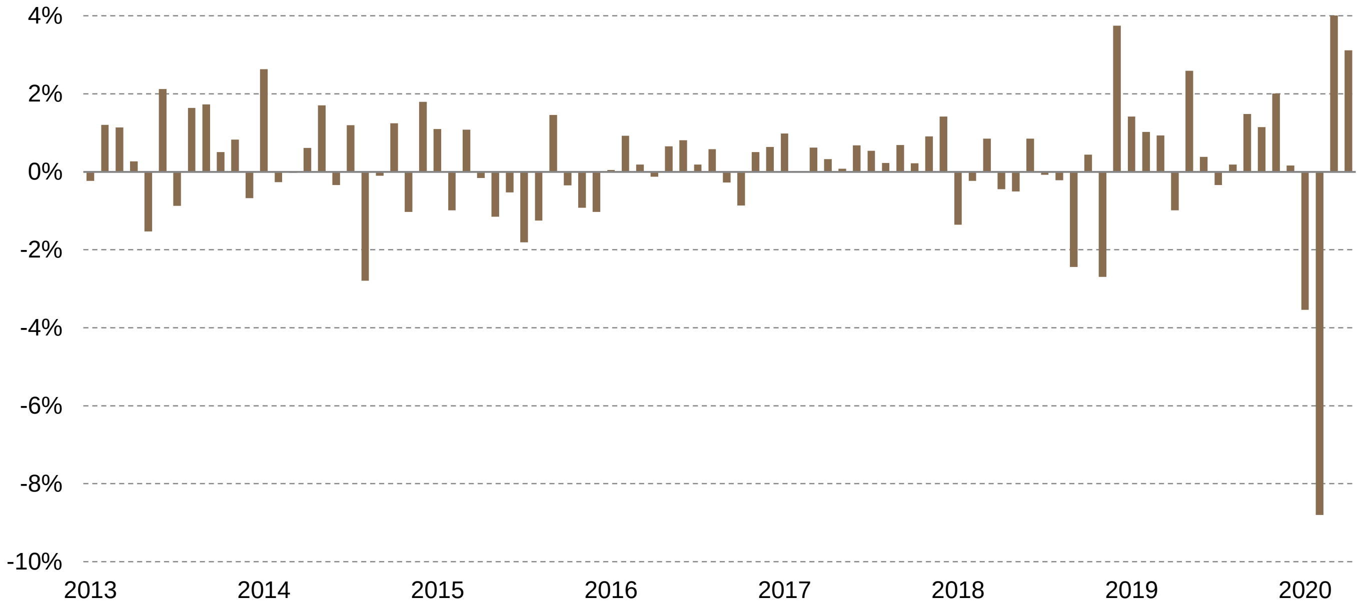
EWM Model Portfolio – Ytd performance



- **Total Return** (Ytd[1]): **-1.56%**
- **Standard Deviation** (Ytd[1]): **21.07%**
- **Downside Risk** (Ytd[1]): **16.50%**
- **Sharpe Ratio** (Ytd[1]): **n/a**

[1] As of June 16, 2020

EWM Model Portfolio – Historical performance (1)



- **Total Return** (1 year[1]): **4.48%**
- **Total Return** (3 year[1]): **11.16%**
- **Total Return** (Since Jan 13[1]): **27.35%**

[1] As of June 16, 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%	-1.56%
Std. Deviation	3.82%	3.59%	3.67%	2.08%	1.45%	3.77%	3.78%	21.07%
Sharpe Ratio	2.54	0.58	-0.48	0.62	3.57	-1.70	3.49	-0.09

Annual Return: 3.29%
Annual Std. Dev: 6.12%

[1] As of June 16, 2020

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