Edwards Wealth Management AG
Switzerland

BOREAL
CAPITAL MANAGEMENT

Investment Policy

November 2020

Our market view in a nutshell – November 2020

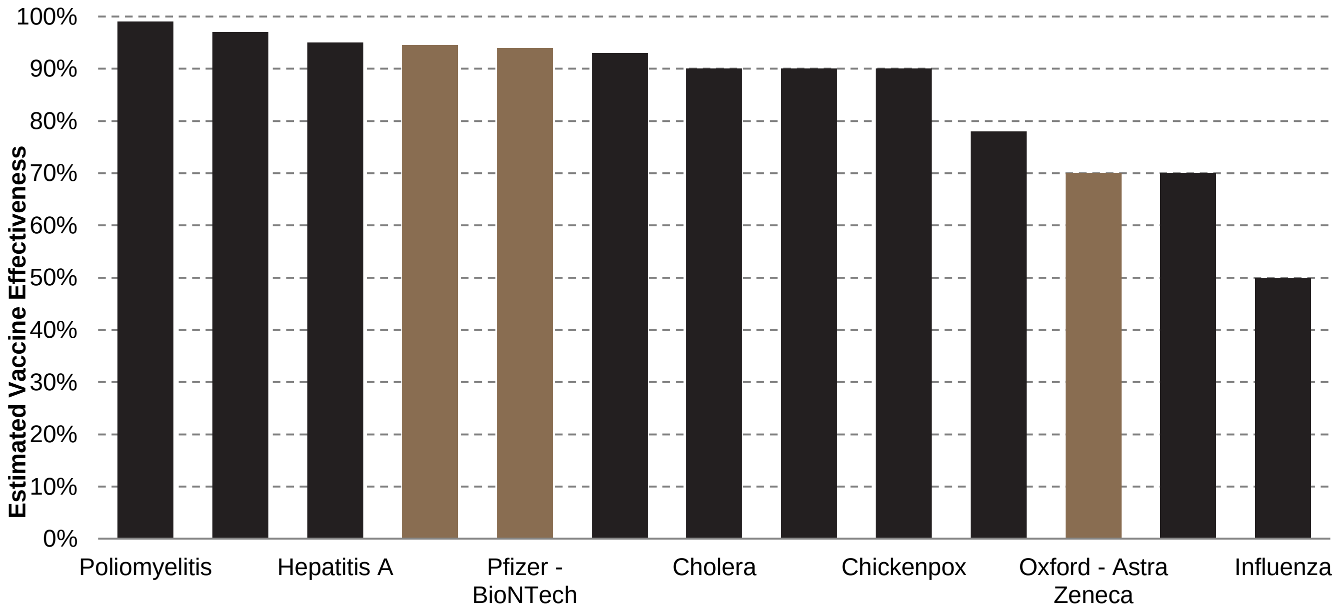
- The **pandemic continues to dominate everyday life and, with it, the economy and financial market**s as well. Despite an **eventful US presidential election**, which has yet to be formally resolved, headlines were quickly taken by the **announcement of the discovery of a vaccine, the efficacy of which exceeded all expectations**. No matter how much science and human inventiveness were relied upon, the vaccine, until now, was a hope and not a reality; and there was a high risk that the pandemic would run its course for a long and uncertain period. **The importance of this discovery cannot be overstated**, given that no matter how large the amount government support was, **it is only now that economic agents can begin to plan with a degree of certainty**
- As if finding a highly effective vaccine wasn't enough, this discovery was followed by **the announcement of two more vaccines**; one of them even more efficient and easier to handle than the first. The fact that we now have three vaccines does not create any redundancy, but rather much needed competition. **More supply means a lower price, fewer logistical bottlenecks and, as a result, wider distribution and a faster resolution of the pandemic**
- Meanwhile, **the economy continues to recover despite a surge in infections** that made further restrictions necessary. More importantly**, leading indicators continue to point to a strong recovery**, supported by **extremely benign financial conditions**. Additionally, third quarter corporate **earnings came in strongly ahead of expectations**
- Against this backdrop of favourable financial conditions and improvements in corporate earnings, **equity markets are reaching all-time highs**. Looking ahead, **we still see room for further appreciation**, as the impact of the dramatic drop in interest rates has not been fully priced in by markets, and corporate earnings should recover to pre-pandemic levels
- Unlike equities, **credit spreads are close to their historical floor, which, combined with the collapse in interest rates, leaves little room for future appreciation of fixed income investments**. The latter should be rather regarded as an asset class that plays a role in lowering the overall level of risk in portfolios, rather than as a significant source of return

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, hence 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 only partially reacted 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 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

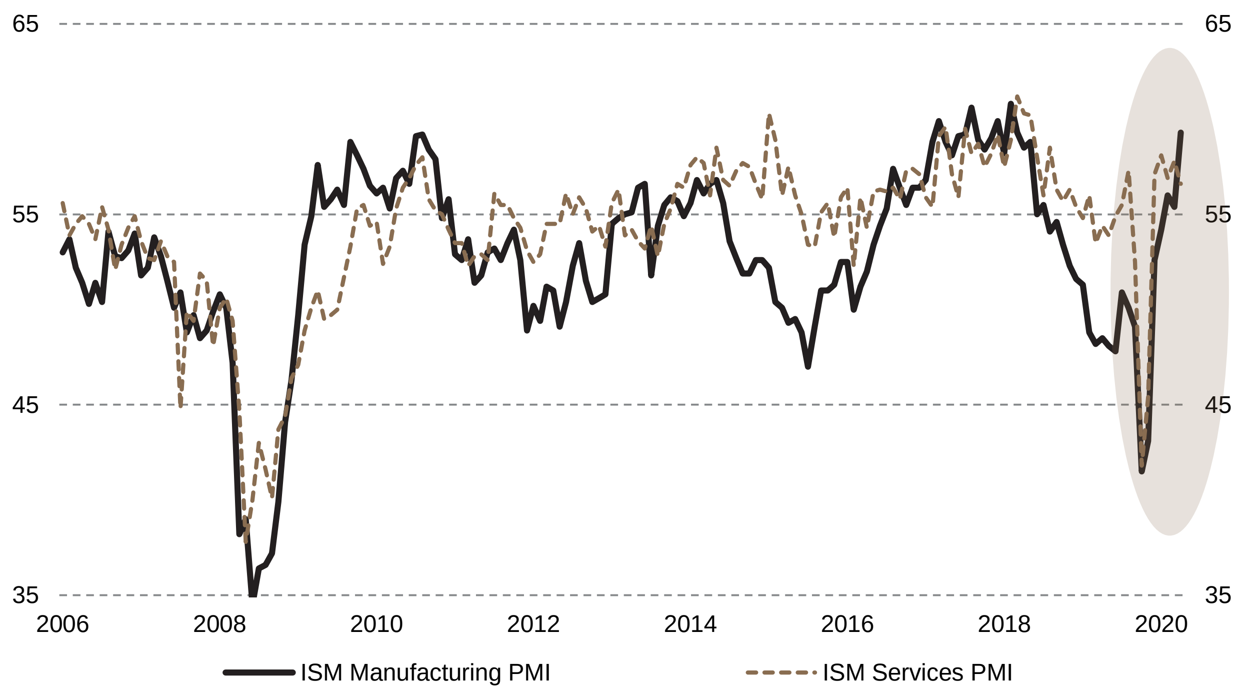
The beginning of the end of the pandemic



- The Covid crisis is following practically the **best possible scenario**. The virus advances but in a controlled way, and not just one, but several **vaccines have been developed in record time**, exceeding all expectations regarding their **effectiveness**
- This great achievement **marks the beginning of the end of the crisis**. This is of utmost importance, as it dramatically **improves the visibility** that economic agents have when planning investment and consumption decisions

Source: Bloomberg

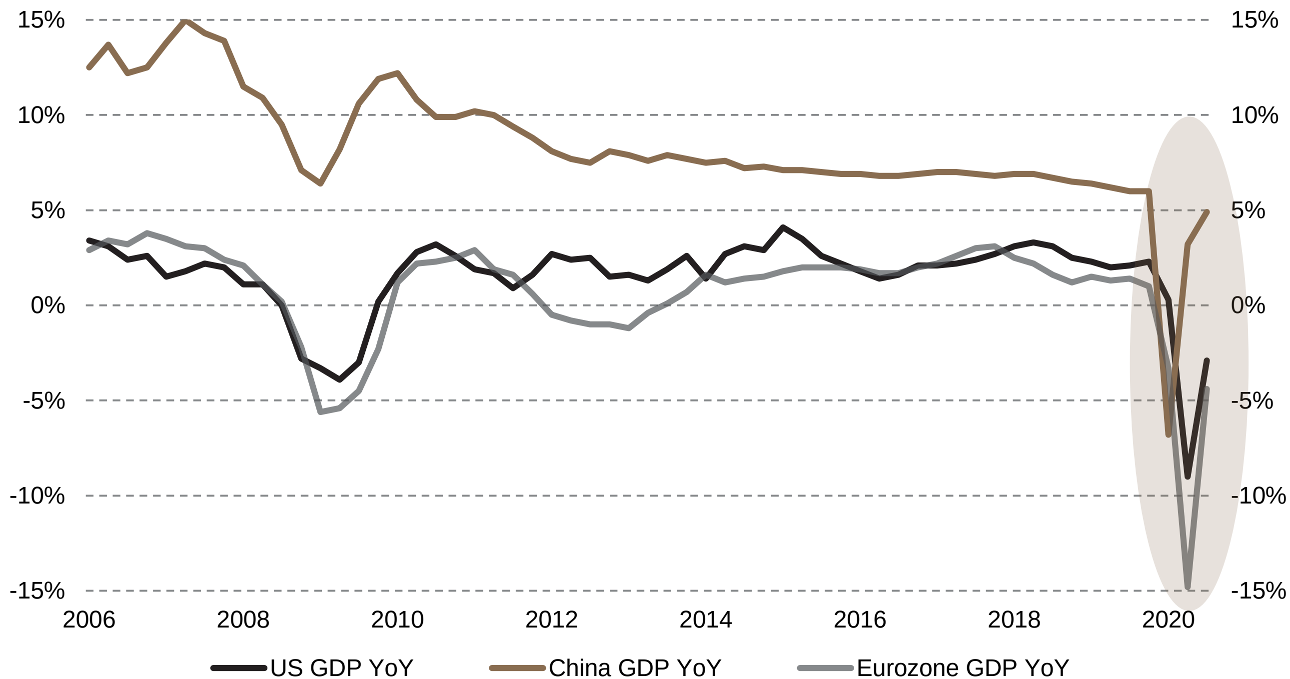
The economy keeps bouncing back



- Meanwhile, **fiscal and monetary measures continue to prevent the collapse of the economy**
- Despite increased restrictions due to the surge in infections, **leading indicators continue to point towards an acceleration** in economic activity

Source: Bloomberg

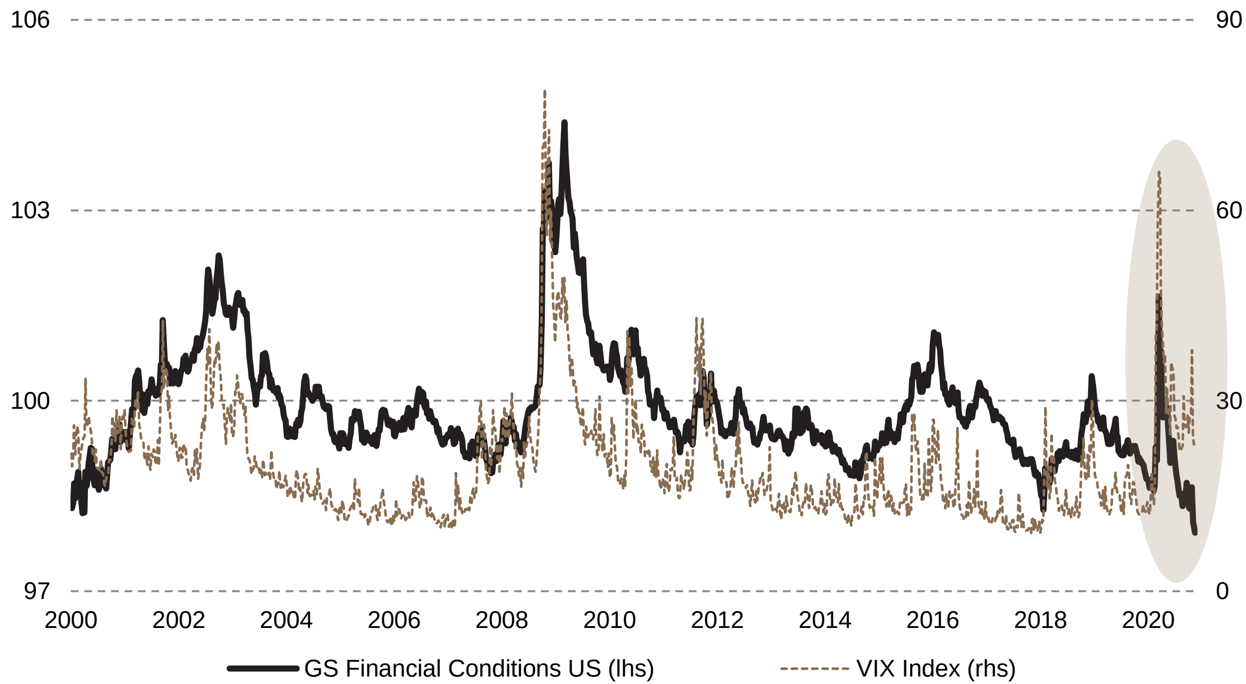
China's recovery as a template



- The **Chinese economy has almost managed to recover to its pre-covid level**, managing to grow for two consecutive quarters. This shows a way out of the crisis to other countries that were later affected by the virus
- However, growth in other countries were not comparable to that of China before the pandemic, nor did their economies contract in the same way. **For most developed countries, the challenge will be to achieve sustained growth to cope with over-indebtedness**

Source: Bloomberg

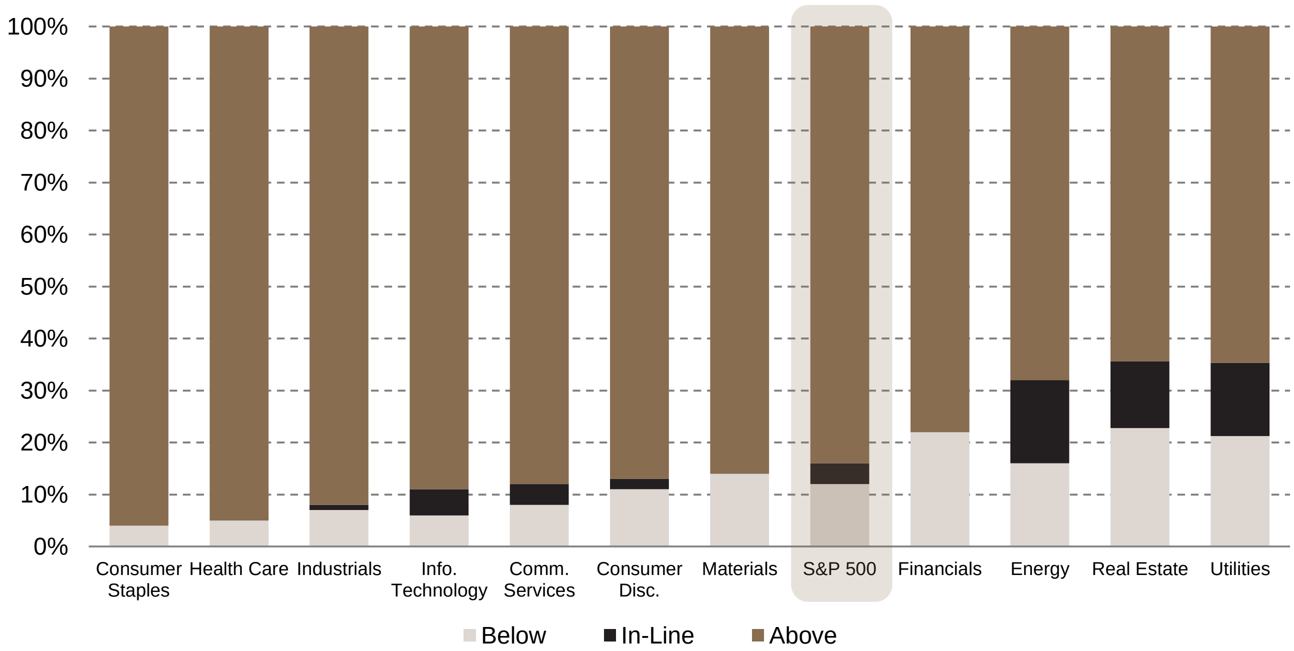
Return to tranquility



- **Financial conditions continue to facilitate both economic and market recovery**
- In fact, the drop in interest rates has been so steep, and the tightening in risk premiums across all asset classes so large, that we are **currently experiencing the most accommodative financial conditions ever experienced**

Source: Bloomberg

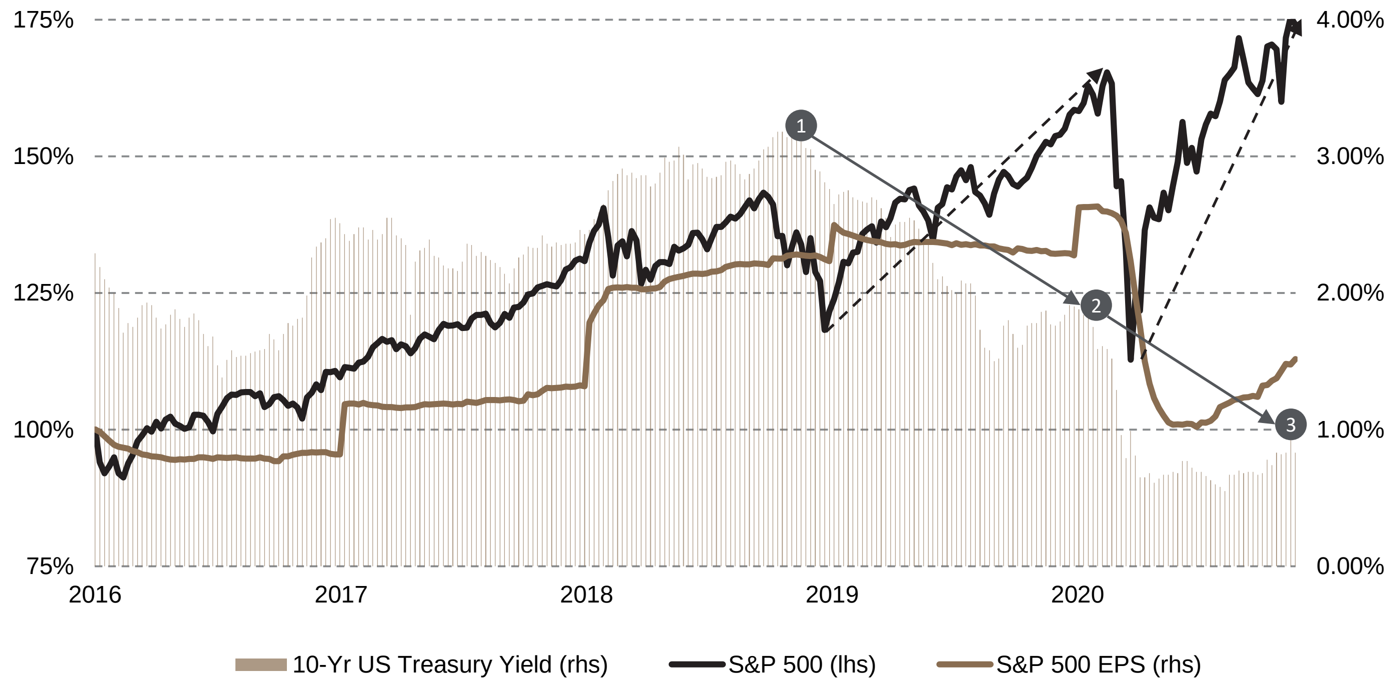
Good crisis management



- An **improving macroeconomic outlook, combined with good management during the crisis**, has helped S&P 500 companies to report earnings well above expectations
- Positive surprises have been seen both in terms of the **number of companies that have exceeded expectations (84%)**, and the **margin with which they have been beaten (19.5% higher earnings)**

Source: Bloomberg

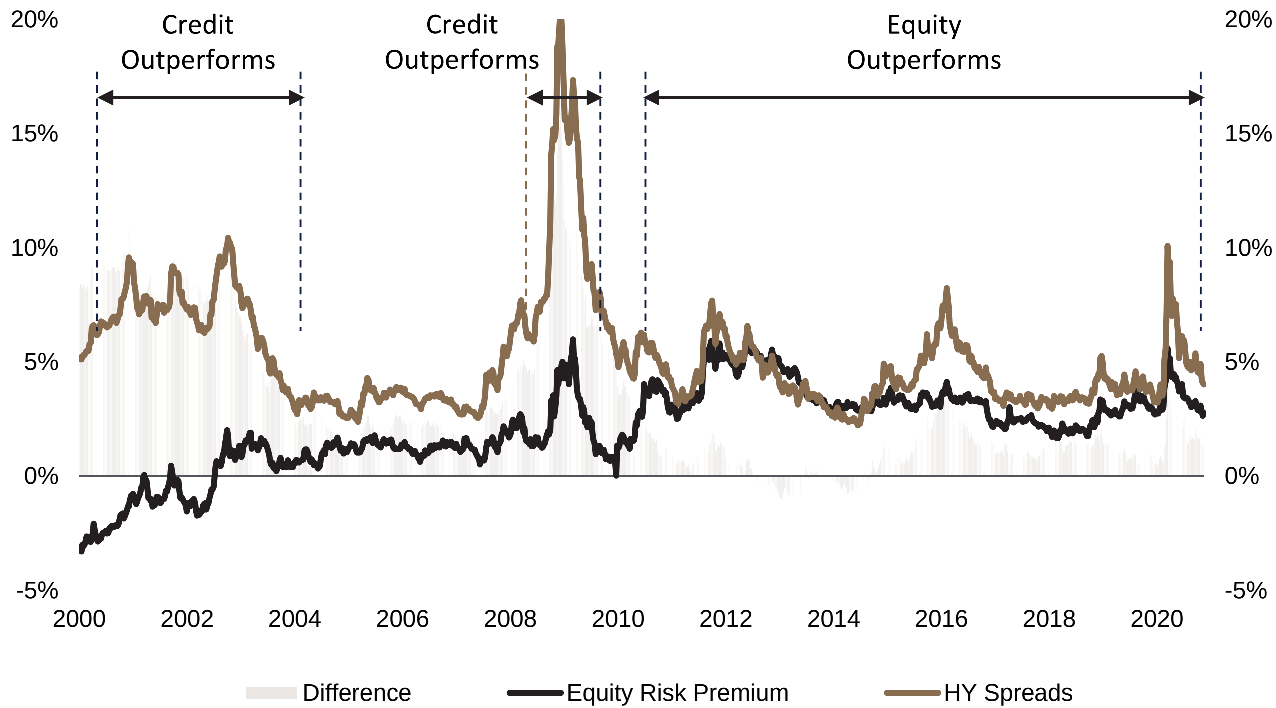
The bullish case for equities



- Against this backdrop of favorable financial conditions and improvement in corporate earnings, equity markets are reaching all-time highs. Looking ahead, **we still see room for further multiple expansion**, as the impact of the dramatic drop in interest rates has not been fully priced in by markets
- In addition, **as the economy recovers, we expect a "tail wind" in corporate earnings**, which should reach at least pre-pandemic levels; thereby turning valuations cheaper (the 12-month forward P/E for the S&P 500 is 21)

Source: Bloomberg

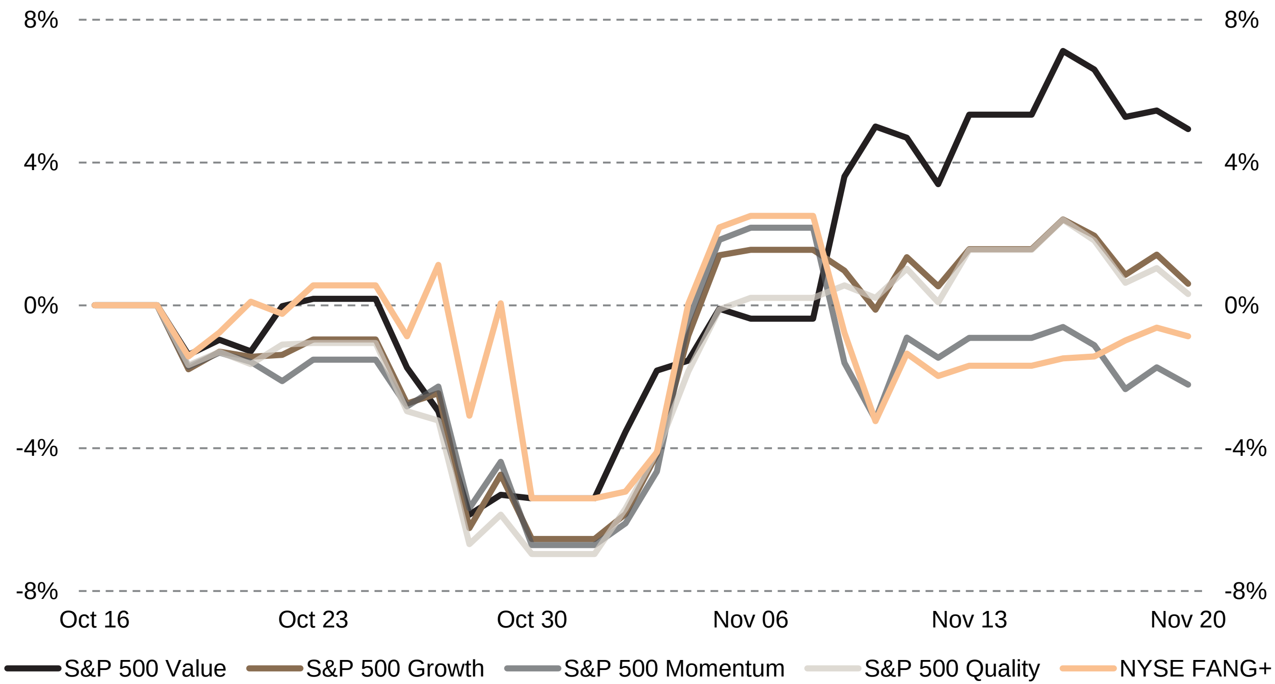
A word of caution regarding credit markets



- The search for yield not only causing an increase in equity valuations, but also a **sharp tightening in credit spreads**
- Unlike equities, where we still see upside potential, **credit spreads are close to their historical floor**, leaving little room for future appreciation

Source: Bloomberg

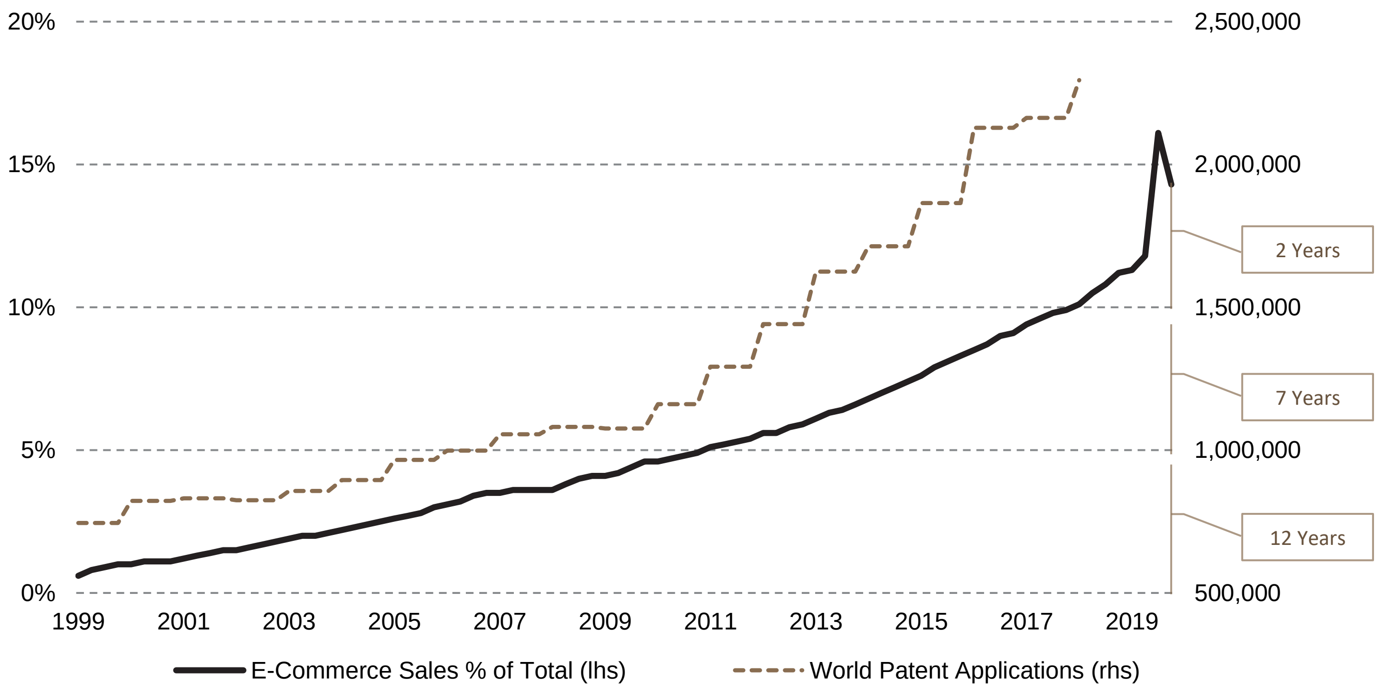
The long-awaited value rotation?



- The announcement of the vaccines has triggered the long-awaited sector rotation, with **investors exiting "Stay-at-Home" stocks and buying those most hardly hit by the pandemic**
- Although there is still room for further catch up of value stocks, we believe that **quality stocks continue to offer the best risk-adjusted return profile**

Source: Bloomberg

Neglecting the pace of transformation is a risk



- **The pace of economic transformation is accelerating**. This is a trend that precedes the pandemic, although the disruption created by the latter has given it an additional boost
- We believe that it is important to **keep some exposure to the fastest growing companies**. However, valuing stocks of the New Economy is becoming increasingly complex, and **diversification is paramount**

Source: Bloomberg

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 earlier, or on a geographical basis, 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%	60% (+10%)	30% (-10%)

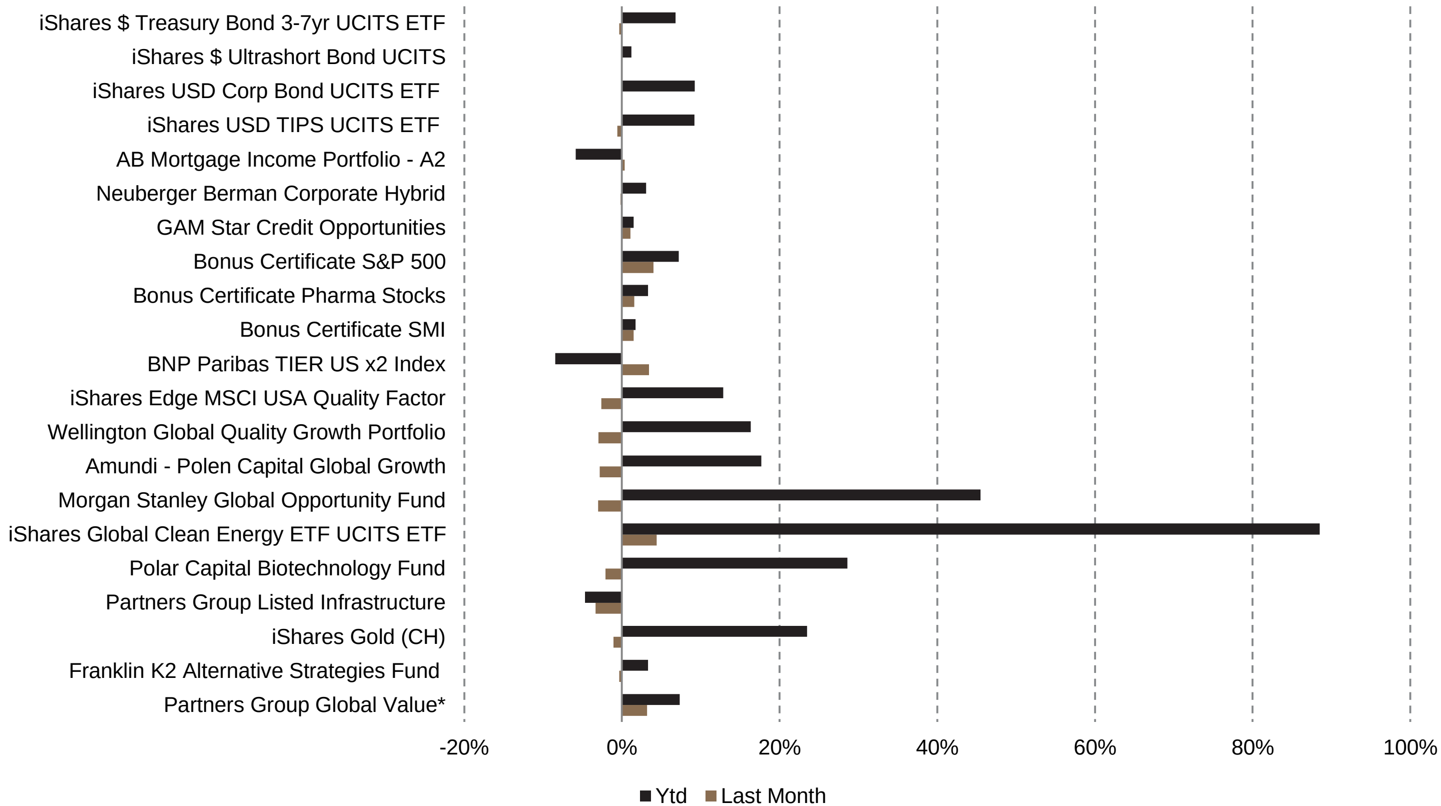
Short-term catalyzers

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

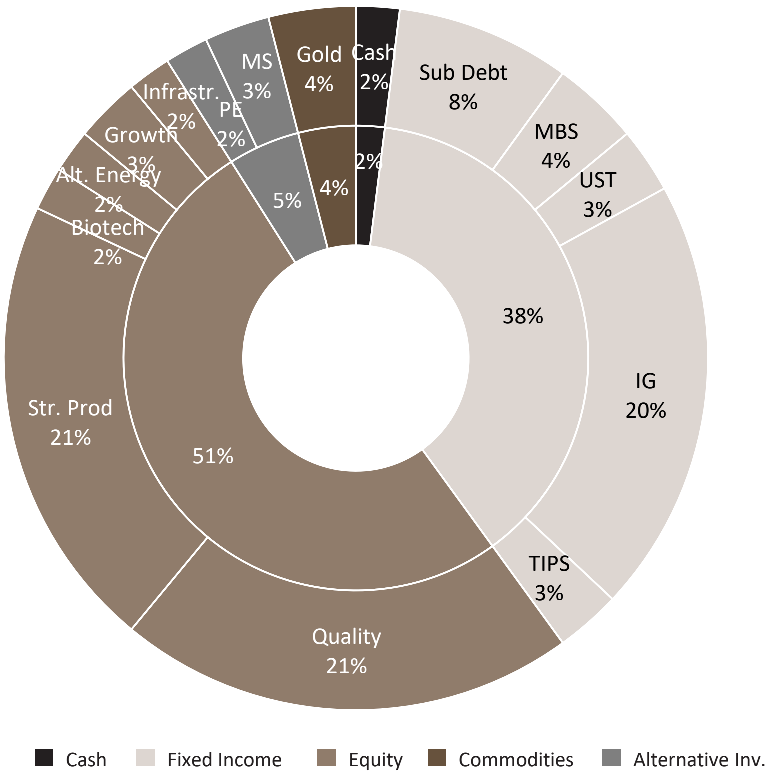
Model portfolio evolution



Source: Bloomberg ,as of November 18, 2020
* Fund publishes monthly NAV with a 1 month of delay

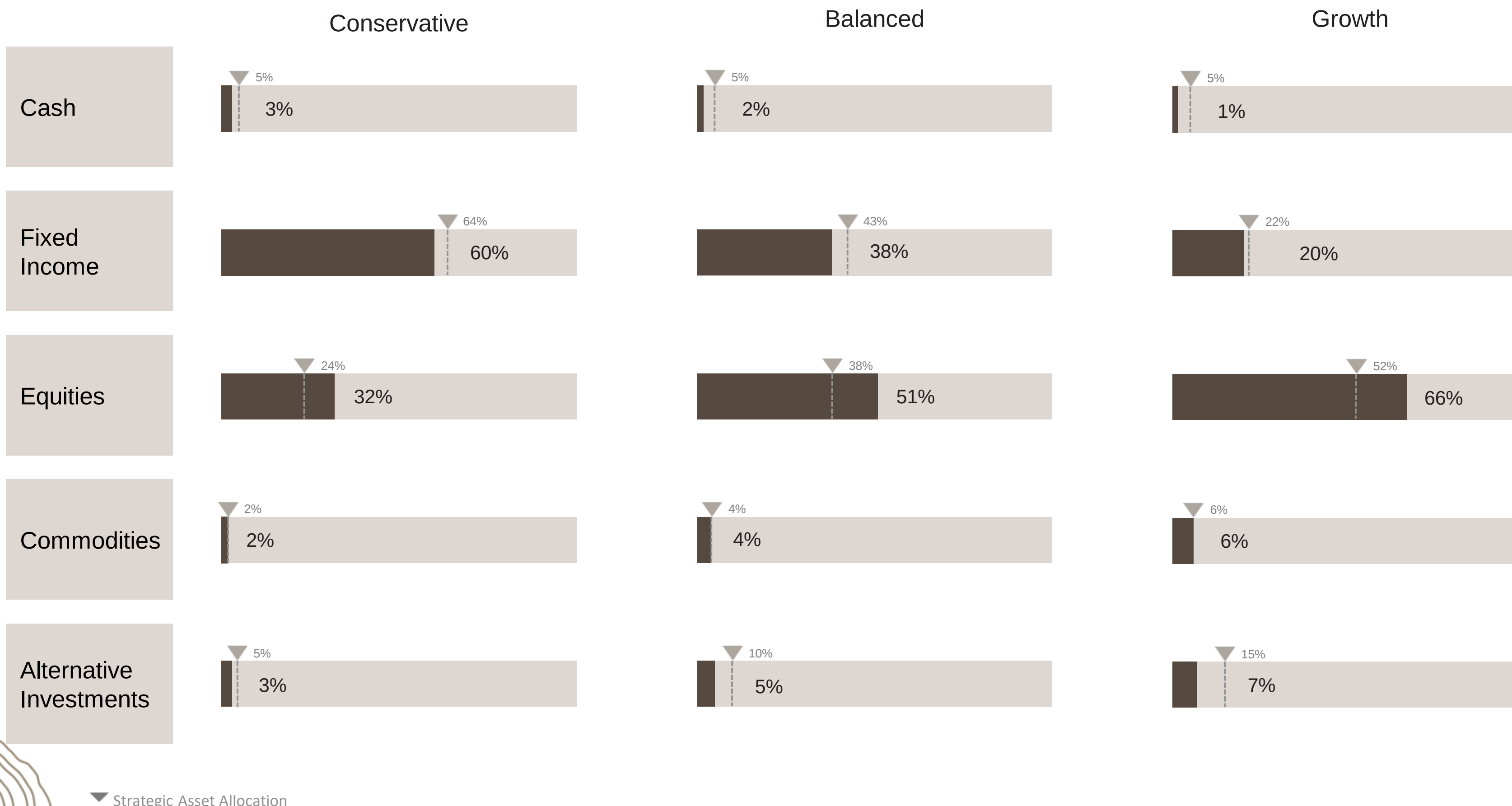
EWM Model Portfolio Balanced USD

Asset Allocation

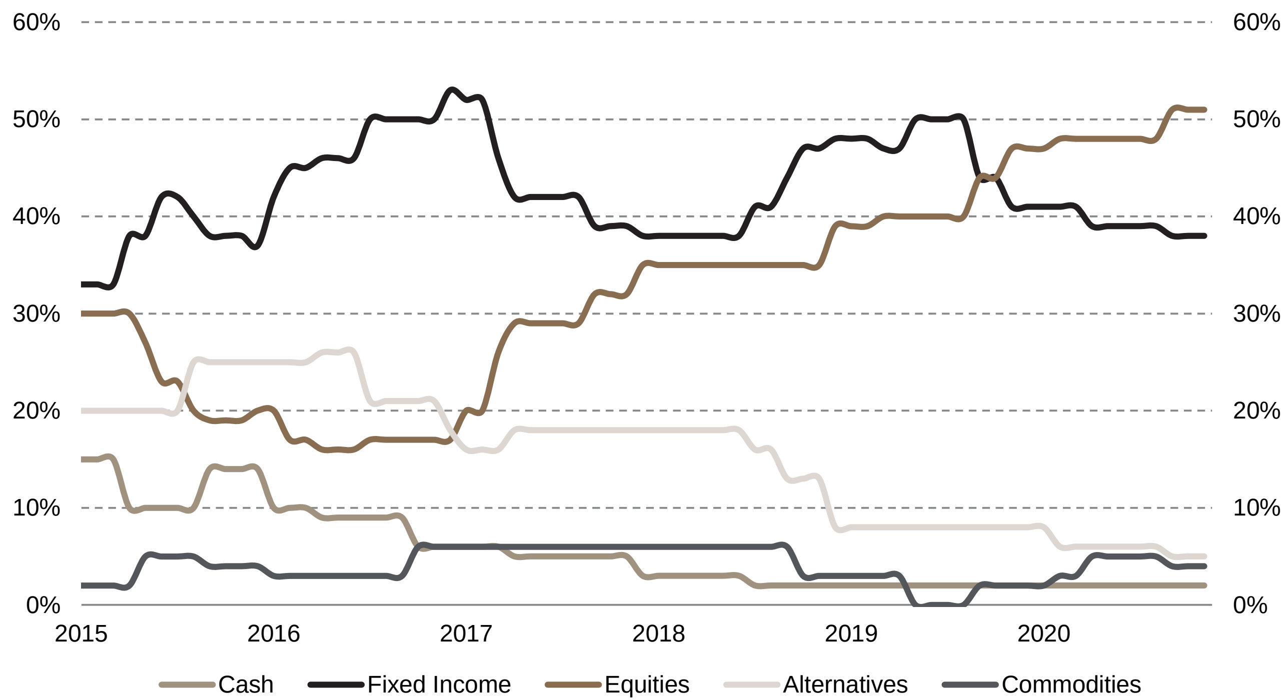


Currency Allocation

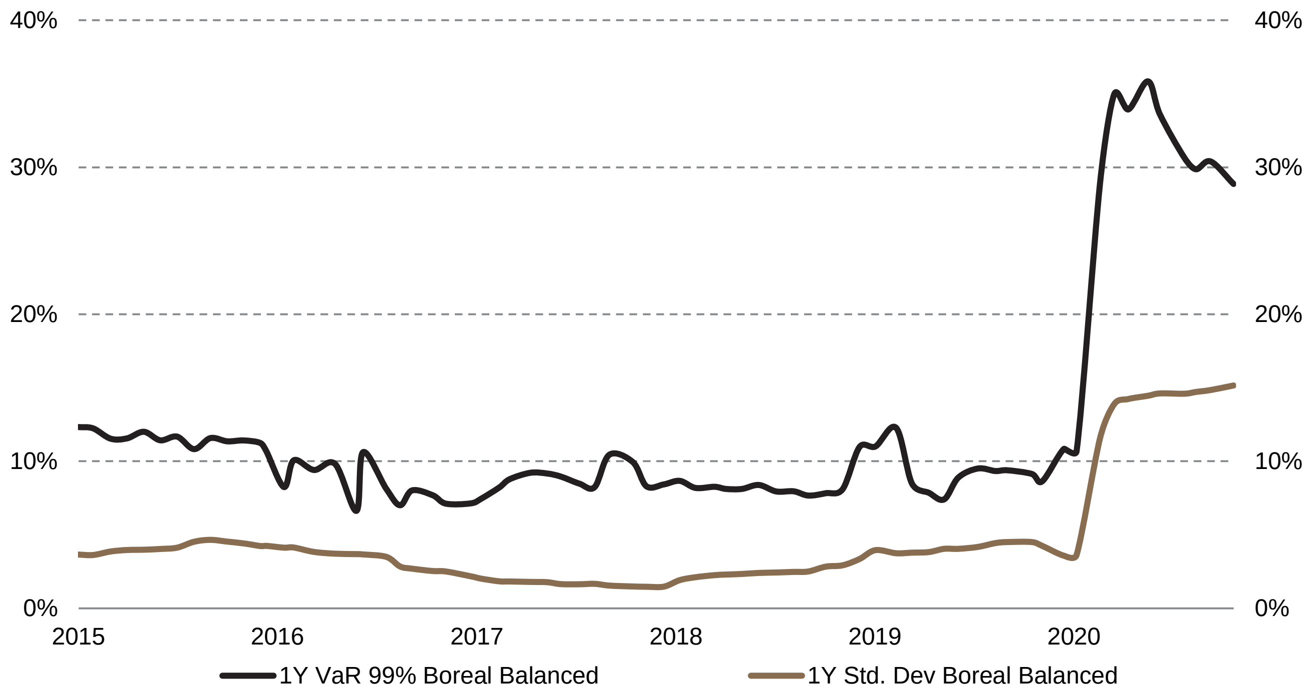
EWM Investment Profiles



EWM Model Portfolio – Asset Allocation evolution

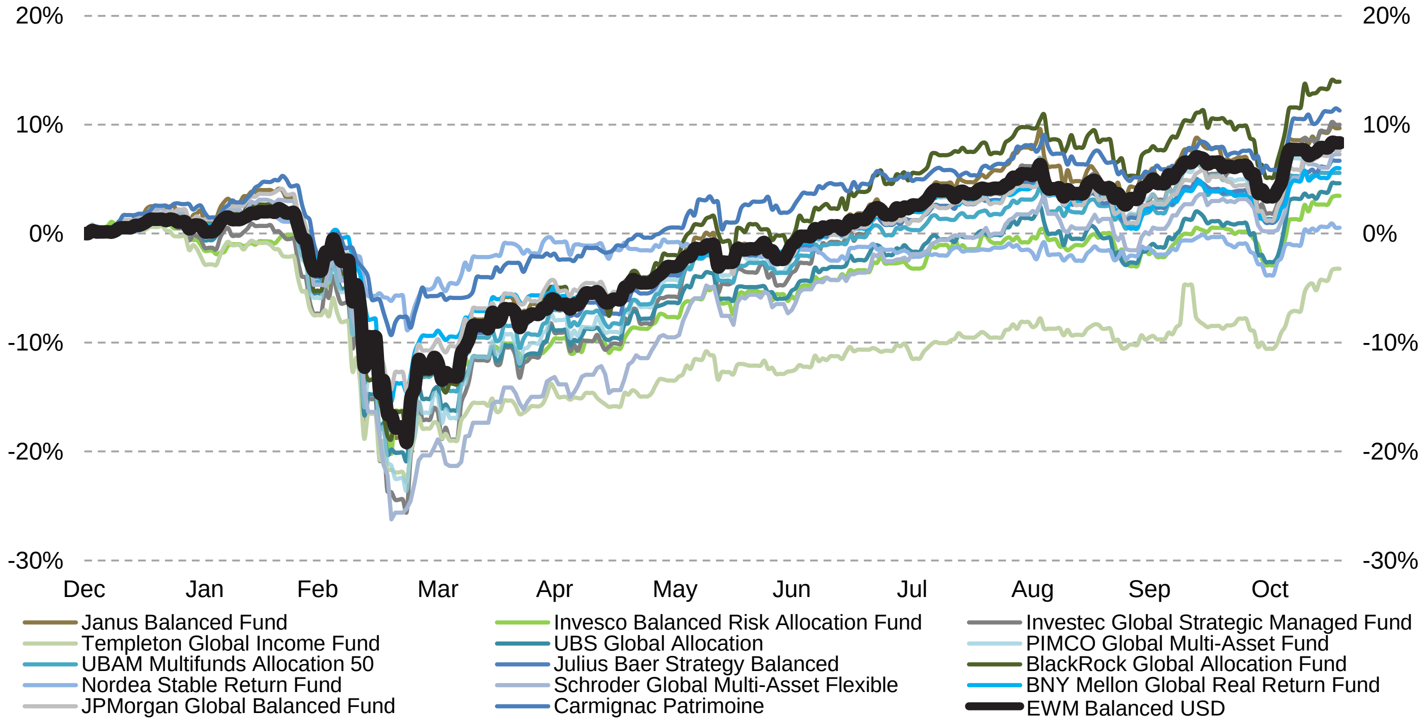


EWM Model Portfolio – VaR evolution



[1] As of November 18, 2020
Source: Bloomberg

EWM Balanced Portfolio – Peer comparison

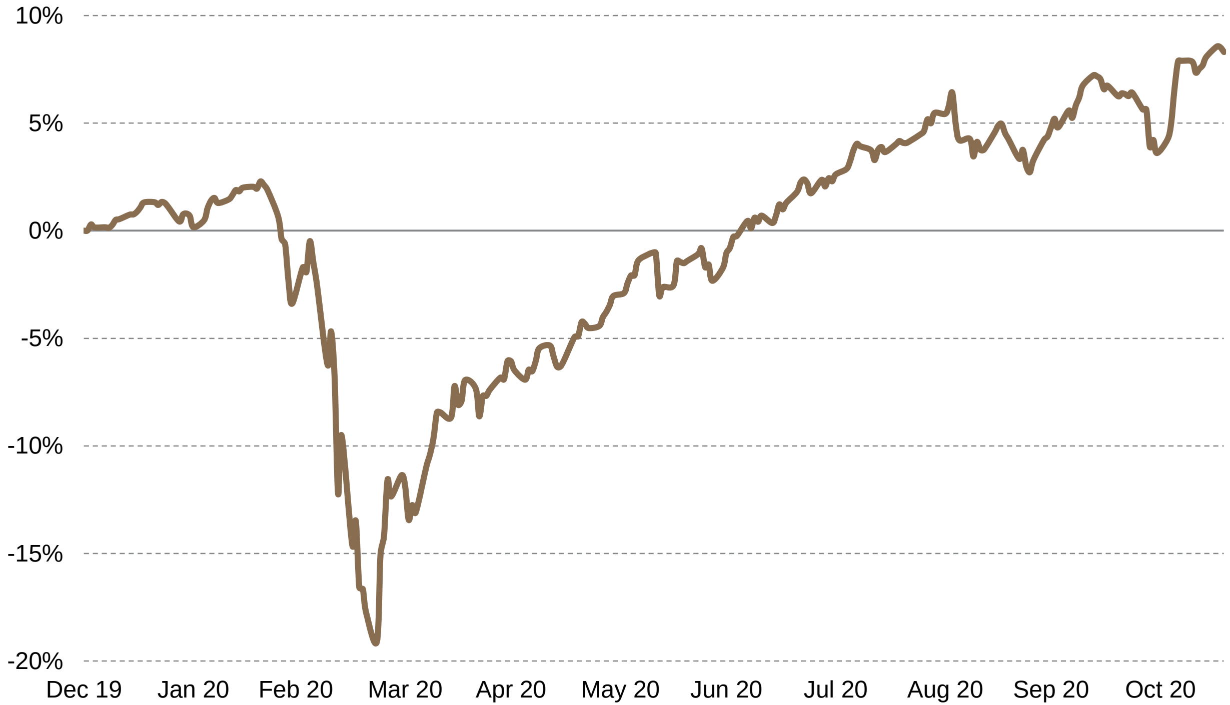


- **Total Return** (Ytd[1]): **6th out of 15**
- **Standard Deviation** (1 year[1]): **11th out of 15**
- **Downside Risk** (1 year[1]): **3th out of 15**
- **Sharp Ratio** (1 year[1]): **2th out of 15**

[1] As of November 18, 2020

Source: Bloomberg

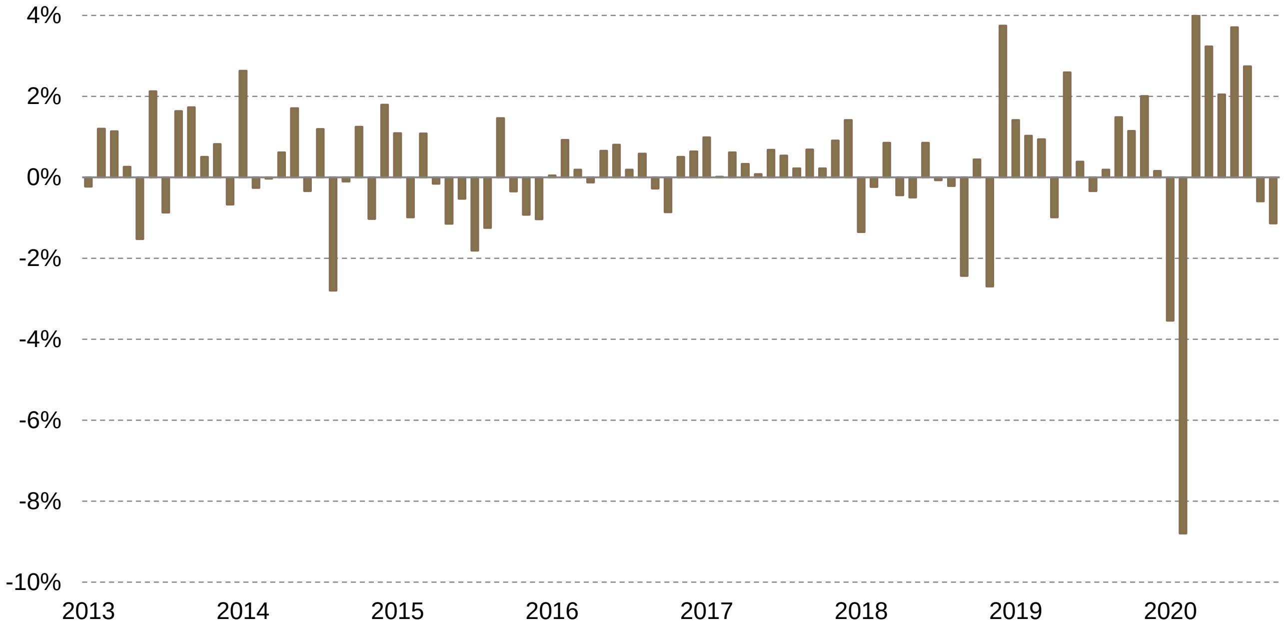
EWM Model Portfolio – Ytd performance



- **Total Return** (Ytd[1]): **8.28%**
- **Standard Deviation** (Ytd[1]): **16.12%**
- **Downside Risk** (Ytd[1]): **12.66%**
- **Sharpe Ratio** (Ytd[1]): **0.65**

[1] As of November 18, 2020

EWM Model Portfolio – Historical performance (1)



- **Total Return** (1 year[1]): **11.04%**
- **Total Return** (3 year[1]): **19.75%**
- **Total Return** (Since Jan 13[1]): **30.76%**

[1] As of November 18, 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%	8.28%
Std. Deviation	3.82%	3.59%	3.67%	2.08%	1.45%	3.77%	3.78%	16.12%
Sharpe Ratio	2.54	0.58	-0.48	0.62	3.57	-1.70	3.49	0.65

Annualized Return: 4.37%
Annualized Std. Dev: 6.23%

[1] As of November 18, 2020

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