Edwards Wealth Management AG
Switzerland

BOREAL
CAPITAL MANAGEMENT

Investment Policy

March 2021

Our market view in a nutshell – March 2021

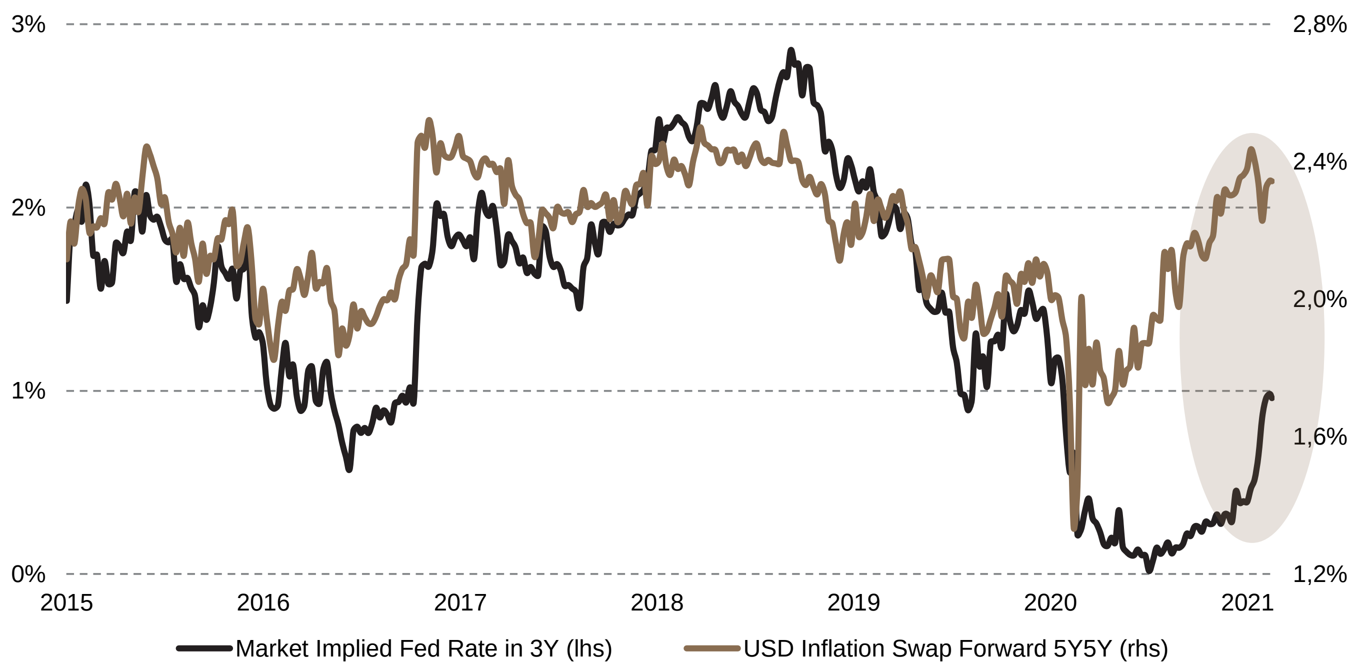
- **Over the past month, we have suffered on multiple fronts**. Government bonds have incurred significant losses, while riskier bonds held up better. Value stocks outperformed quality and growth stocks; while gold fell, despite the fact that the trigger for all this was an increase in inflation expectations
- **Narratives are spreading out of control lately**, and markets are sometimes capricious when it comes to picking them. We have gone from celebrating a new round of fiscal stimulus to **worrying about whether the last package passed may turn out to be too much**. However, in the eyes of policymakers, **the risks of falling short are much higher**. Despite the stimulus and the success of the vaccination campaign in the US, the challenge remains to avoid economic scarring, thereby facilitating the economy to return to its pre-crisis growth trend
- There is **no guarantee that excess savings generated during the pandemic will automatically translate into consumption once the economy reopens**. Just as it is **very doubtful that the trend growth of the economy will increase due to the latest round of stimulus**. After all, the main problem in the economy over the last decade has been persistent overcapacity, and **the secular trends that caused it have been strengthened by the pandemic**
- Although the increase in long-term rates to pre-pandemic levels may be justified by the economy returning to normal, **further increases will begin to meet more resistance**. If asset prices undergo a significant correction, we may see the **Fed implementing new measures**, such as yield curve control
- As for the **rotation in equity markets from growth to value, we believe it will prove to be short-lived**. Low rates have been one factor supporting the valuations of growth stocks, but not the main contributor to their performance. It is the differentiating role of technology and innovation in determining winning and losing business models that has tipped the balance toward growth stocks. **A tactical repositioning therefore seems risky from a long-term perspective**

EWM Investment Policy

Asset Class		View	Rationale
Fixed Income	US Treasuries	+	Treasury bonds offer protection against an economic slowdown and / or increased risk aversion. With interest rates anchored at current levels, and credit spreads that have narrowed massively, we favor long-term US Treasuries
	US Credit	–	The crisis caused by the pandemic will lead to an increase in the number of corporate defaults. Credit spreads hardly reflect this risk currently
	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 and Investment Grade
	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	+	We recommend investing selectively in the region; favoring high growth stocks
	Emerging Markets	–	Emerging markets are expensive, in general. We only recommend to allocate to Chinese government bonds in Renminbis
	Sectors & Themes	+	We favor Cybersecurity, Infrastructure, Biotechnology, Fintech and Clean Energy
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

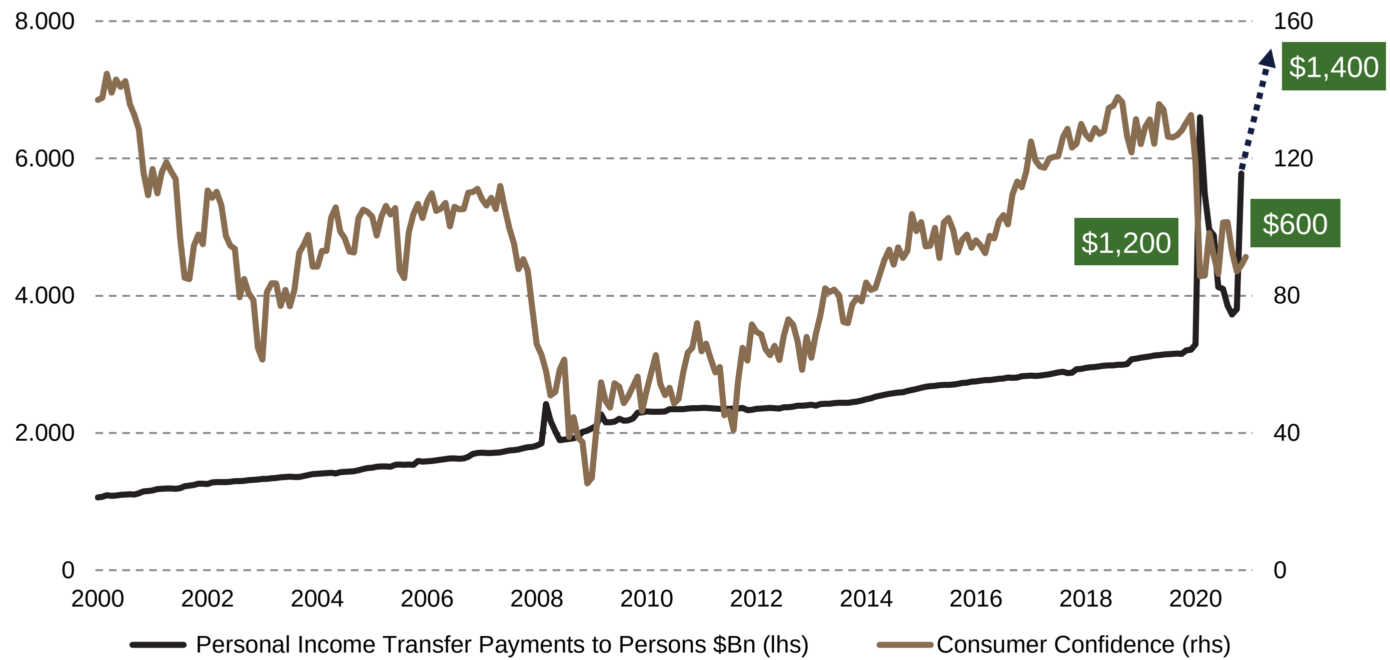
Markets do not believe the Fed



- The main driver of the recent increase in interest rates has been the **sudden change in inflation expectations**, as a result of the passage of a **$1.9tn stimulus package**
- **Despite the assurances given by the Fed that they will remain very patient** before raising rates, the market has moved from expecting no interest rate hike in the next three years, to pricing a 1% hike

Source: Bloomberg

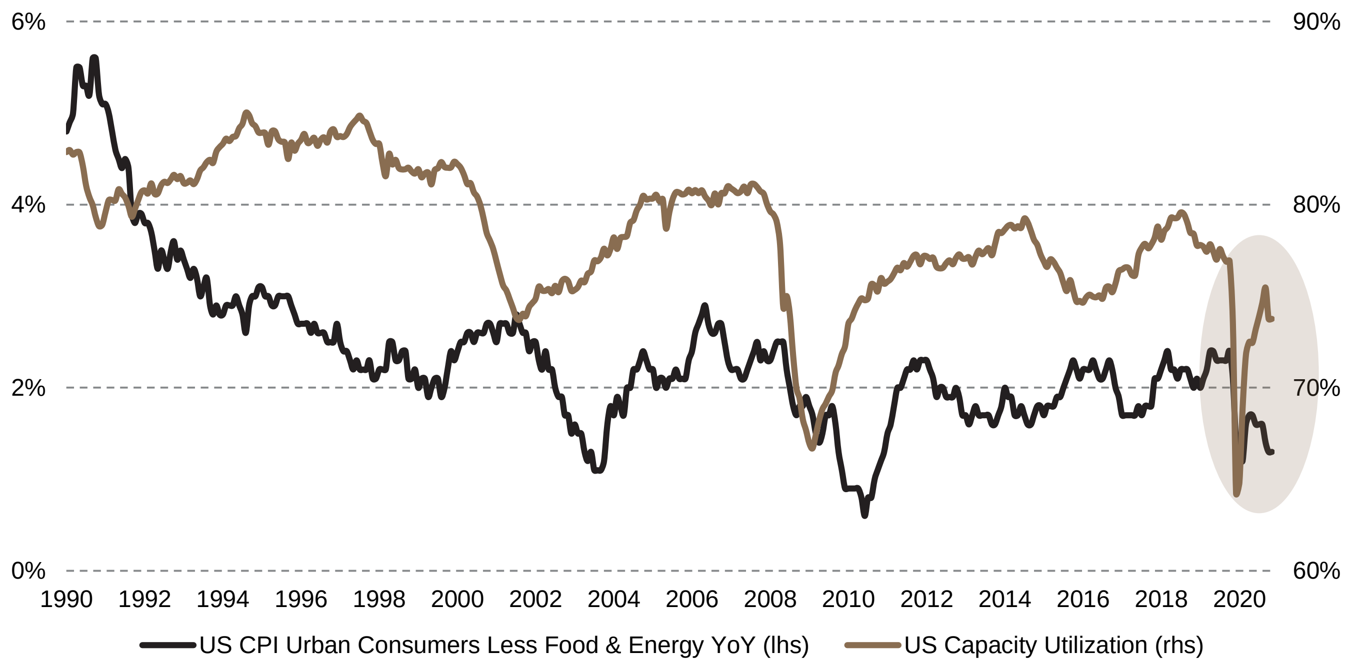
Easy come, easy go



- Markets are sometimes capricious. We have gone from imploring for a new round of fiscal stimulus, to worrying that the latter might prove excessive. However, **the risks of a failed recovery far outweigh those of overshooting**
- It is also **not at all clear if the extra savings accumulated during the pandemic will translate into consumption**, or if households will consider them as assets to preserve for the still uncertain future

Source: Bloomberg

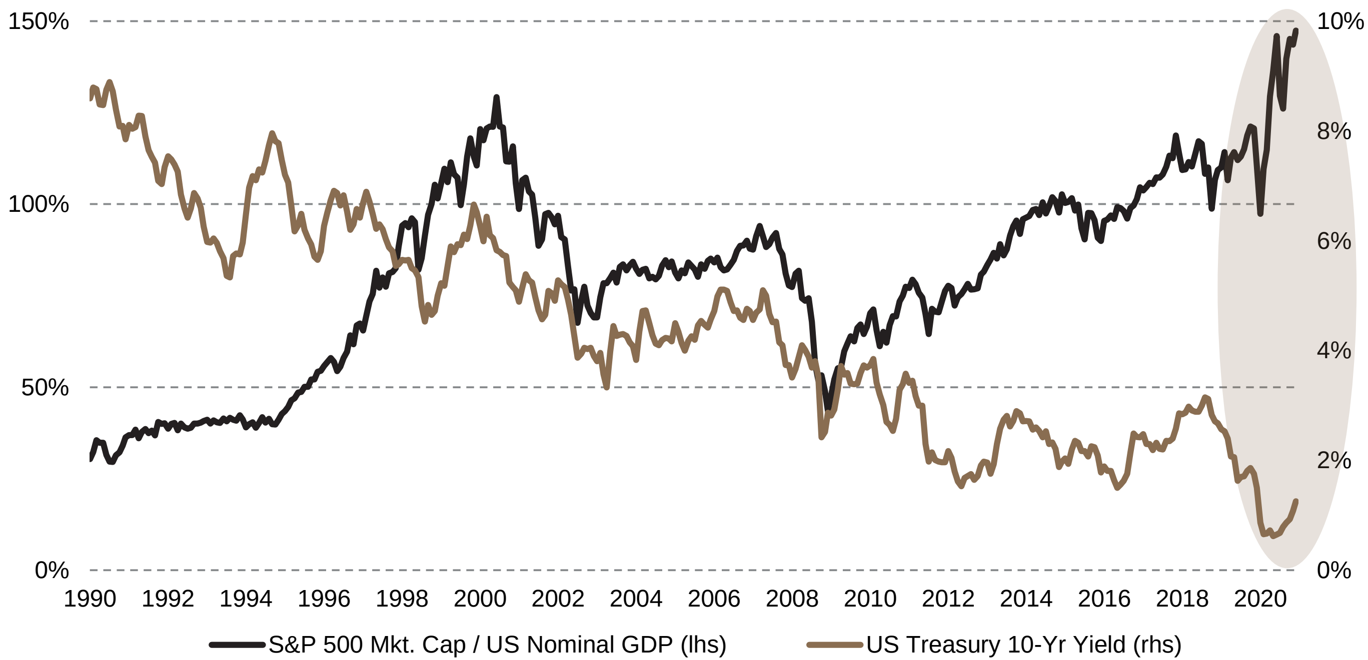
Can direct transfers transform the economy?



- The **secular trends that have kept inflation at bay have proven too powerful**. An unprecedented loose monetary policy, combined with pro-cyclical fiscal stimulus during Trump's tenure, did not manage to put the economy on a higher growth path, let alone generate inflation
- We believe that, **if anything, the pandemic has accelerated the pace of the digital transformation of the economy**, and that sooner or later the challenge will once again be how to keep the economy growing, in nominal terms

Source: Bloomberg

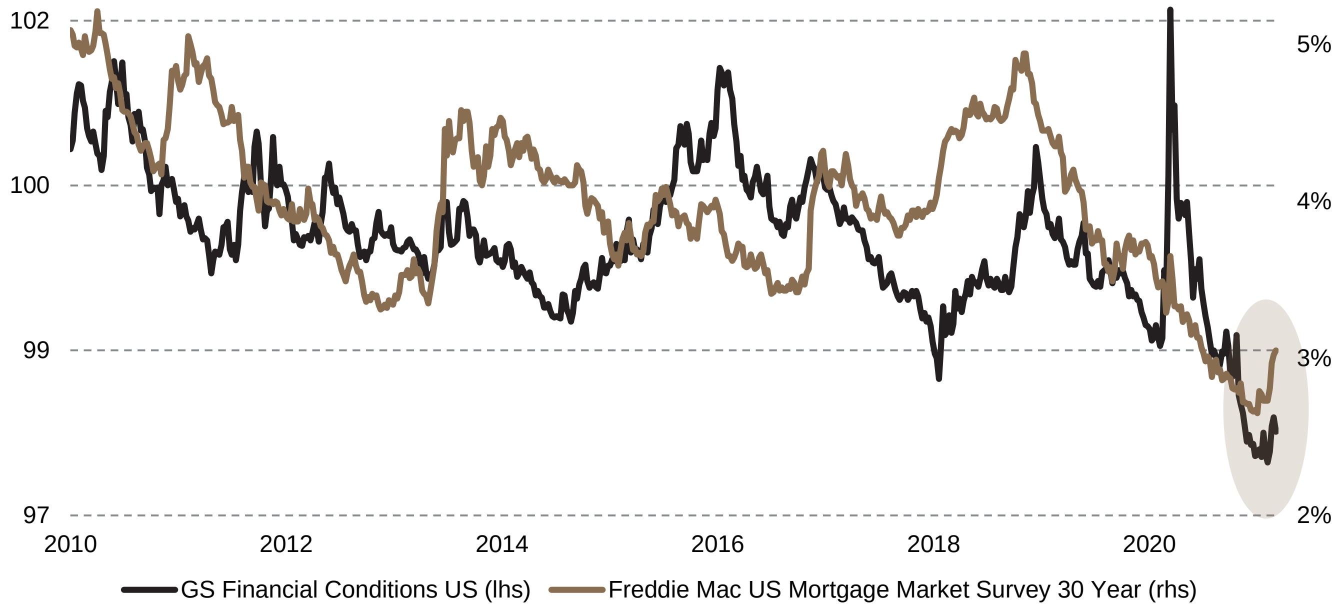
Rates can increase, but only up to a point



- The **economy is extremely dependent on interest rates staying low**. A sustained increase in these would have a very negative effect, by **increasing financing costs, and negatively impacting assets prices**
- However, **interest rates may still rise above pre-pandemic levels** without triggering a massive correction in equity prices

Source: Bloomberg

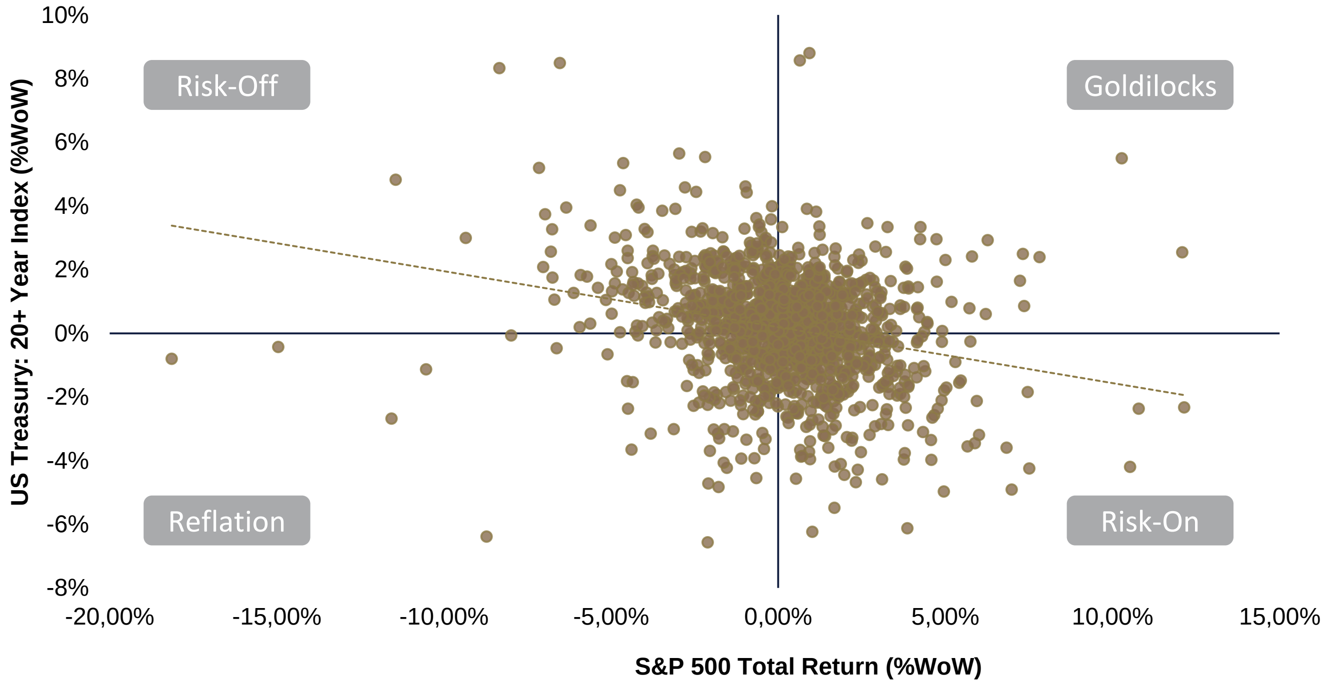
Too early for the Fed to step in



- But despite rising Treasury yields, **financial conditions still remain very accommodative**
- Probably the most determining factor is that **mortgage rates remain very close to historical lows**, still far from putting the residential real estate market at risk

Source: Bloomberg

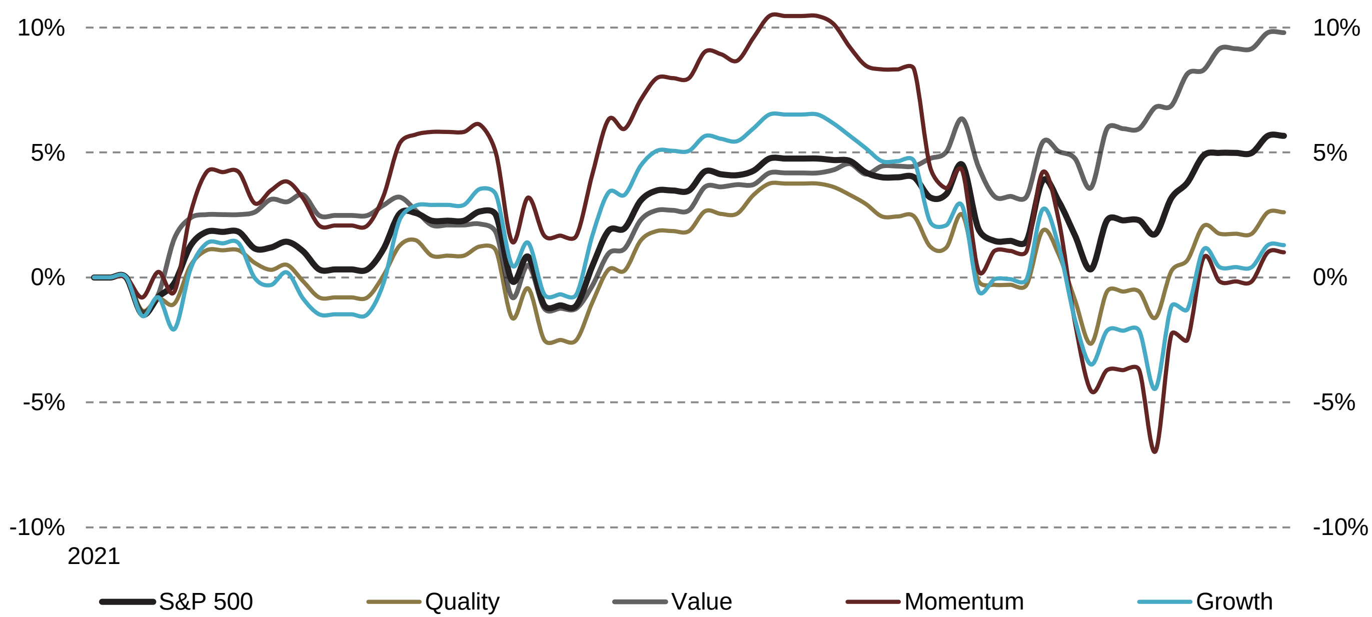
Correlation can kill you



- **Achieving adequate portfolio diversification is increasingly difficult**. Low interest rates leave investors exposed to periods of positive correlation between government bonds and risky assets such as stocks and credit
- **Correlations between different assets classes are not stable**, but in general, **Treasuries remain the only asset class that can protect portfolios against the most adverse market events**

Source: Bloomberg

Revenge of the value investors



• The increase in rates has had an **uneven impact on equity markets**. Growth stocks have suffered a correction, while value and cyclical stocks (particularly banks) which are more linked to the general growth of the economy have performed well

Source: Bloomberg

Investment scenarios

	Scenario 1 "U" Recovery	Scenario 2 "V" Recovery	Scenario 3 "W" Recovery
Drivers	• Inflation accelerates due to large fiscal stimulus combined with Infrastructure spending in the US • Commodity prices rise as the global economy bounces back strongly • Central banks try to assure markets that they will not increase interest rates, but long-term rates do increase anyway	• Global recession caused by the unprecedented sudden stop of economic activity • Strict quarantines are avoided and economic activity continues to a greater or lesser extent, depending on control measures of variable intensity • 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 recovery, but momentum fails to be sustained • The pandemic starts to be under control by summer thanks to massive vaccination campaigns, but economic activity does not fully return to normal • Countries with a stronger fiscal position may be able to provide further stimulus and avert a "W" shaped recovery
Market impact	• Corporate earnings rise sharply, but higher interest rates negatively impact equity valuations • High-quality and sovereign bonds fall due to rising interest rates, failing to play their traditional cushioning role in portfolios • Credit performs relatively better despite higher rates, as the risk of corporate defaults remains low • The US dollar depreciates against safe-heaven currencies, as well as against gold	• Equities appreciate moderately, as TINA ("There Is No Alternative") lure investors back to stock markets, but there is wide dispersion across sectors • Credit spreads recover to pre-crisis levels as the chase for yield intensifies • 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 equity and credit markets, with the strongest companies recovering and the weakest lagging behind • Credit spreads widen as the market remains highly volatile and corporate defaults rise • Wide dispersion between sovereign bonds and currencies due to "flight-to-quality" • A relatively strong USD as the US economy turns the corner faster than other developed economies. Wide dispersion within Emerging Markets, as countries exit the pandemic at different speeds
Probability	20% (+10)	60%	20% (-10%)

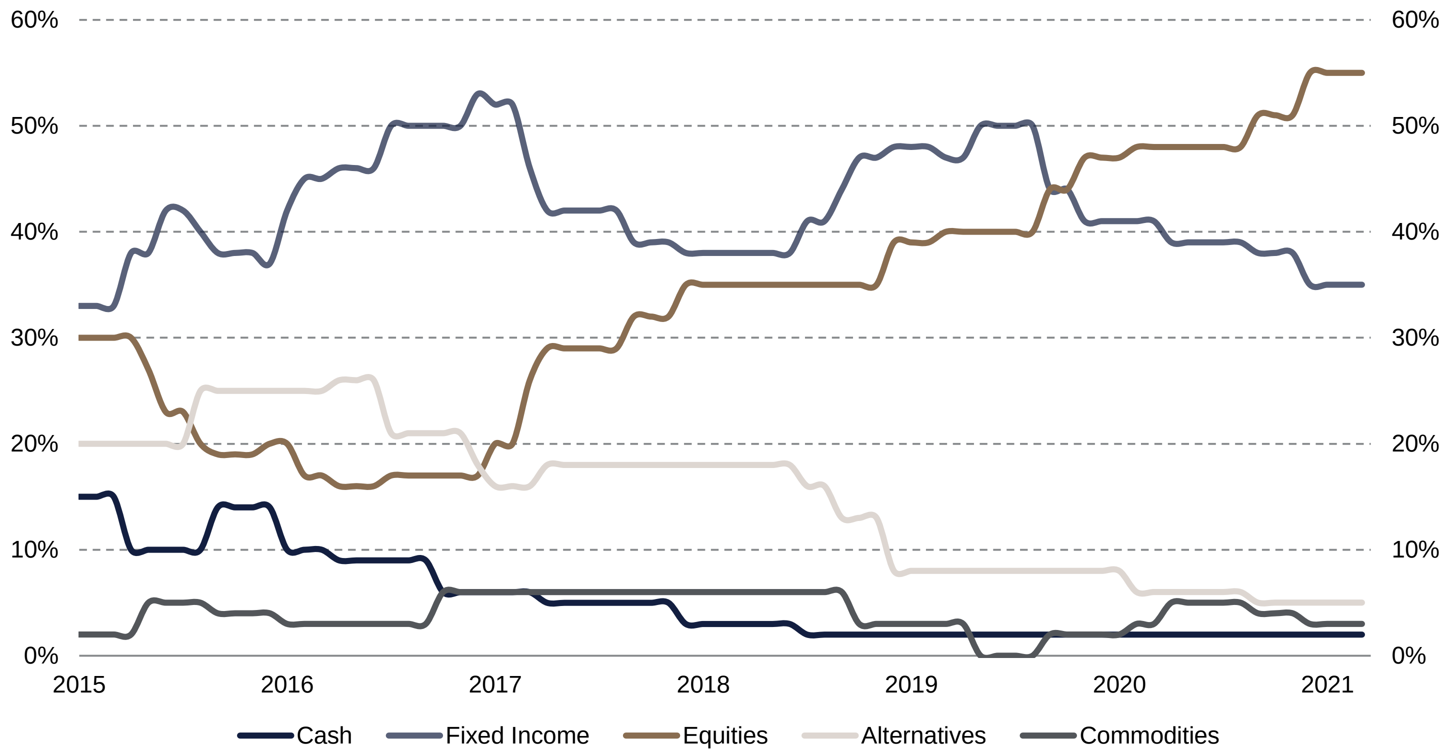
Short-term catalyzers

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

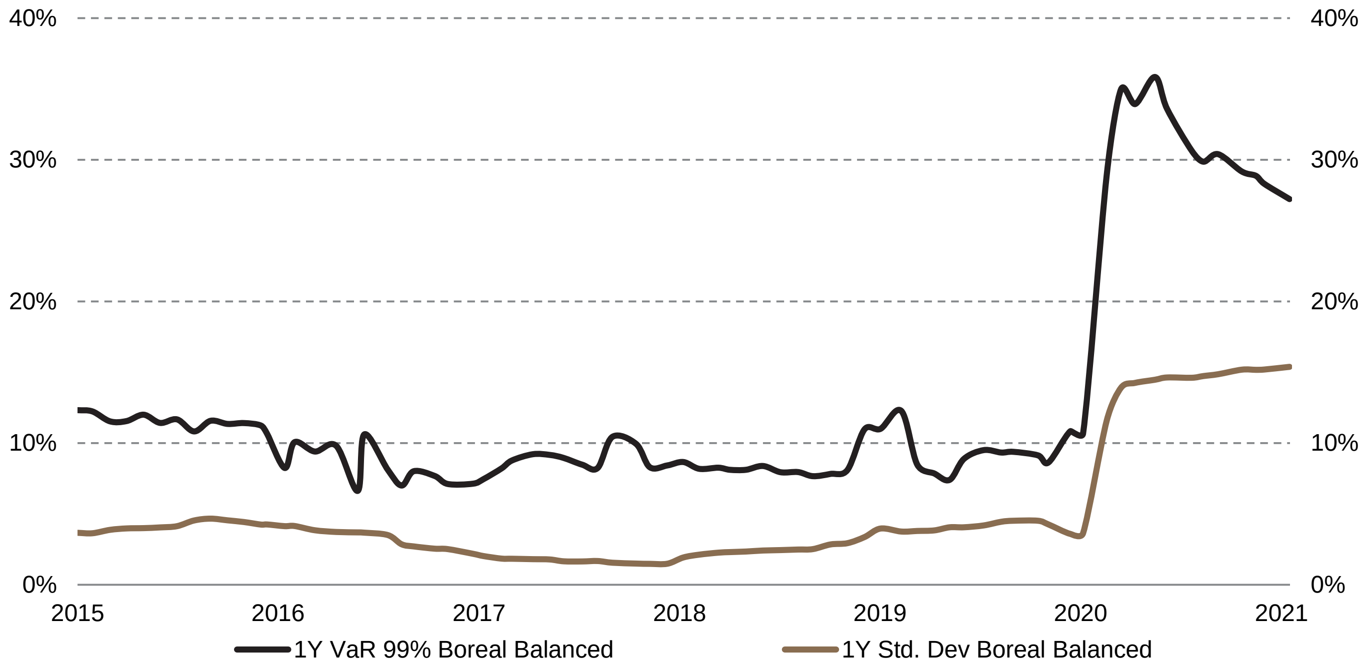
Other risks

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

EWM Model Portfolio – Asset Allocation evolution

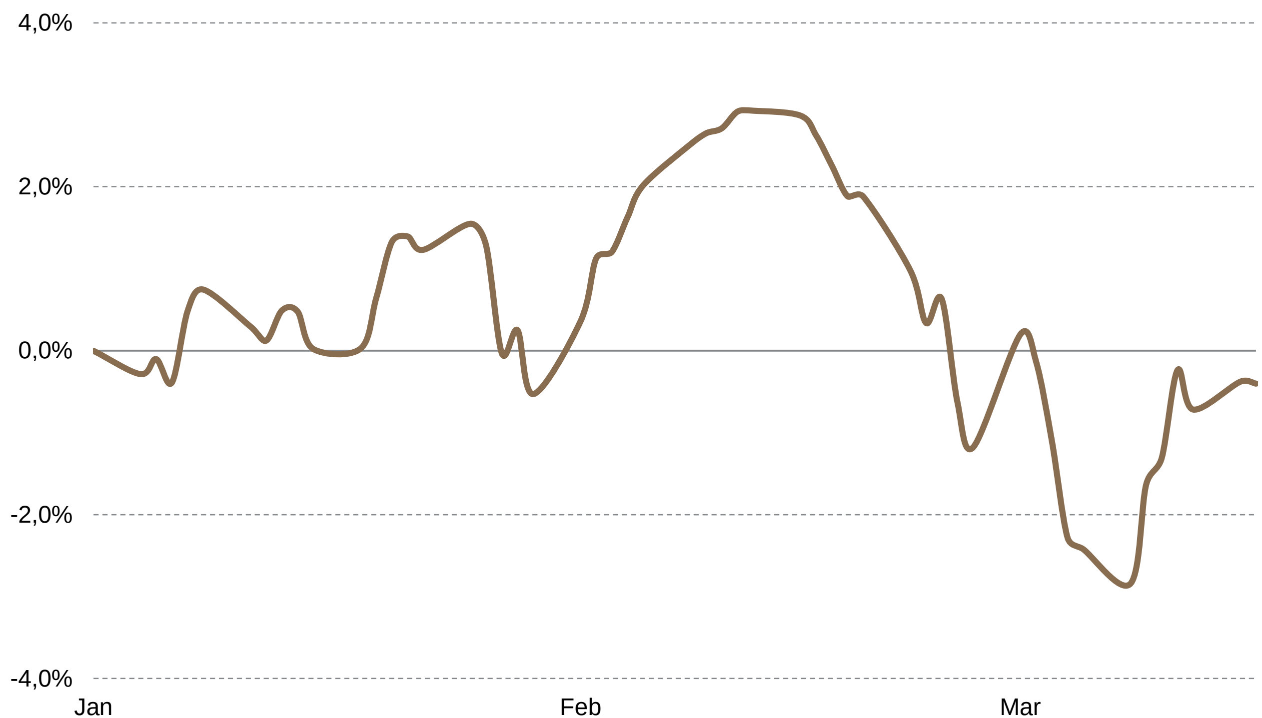


EWM Model Portfolio – VaR evolution



[1] As of March 16, 2021
Source: Bloomberg

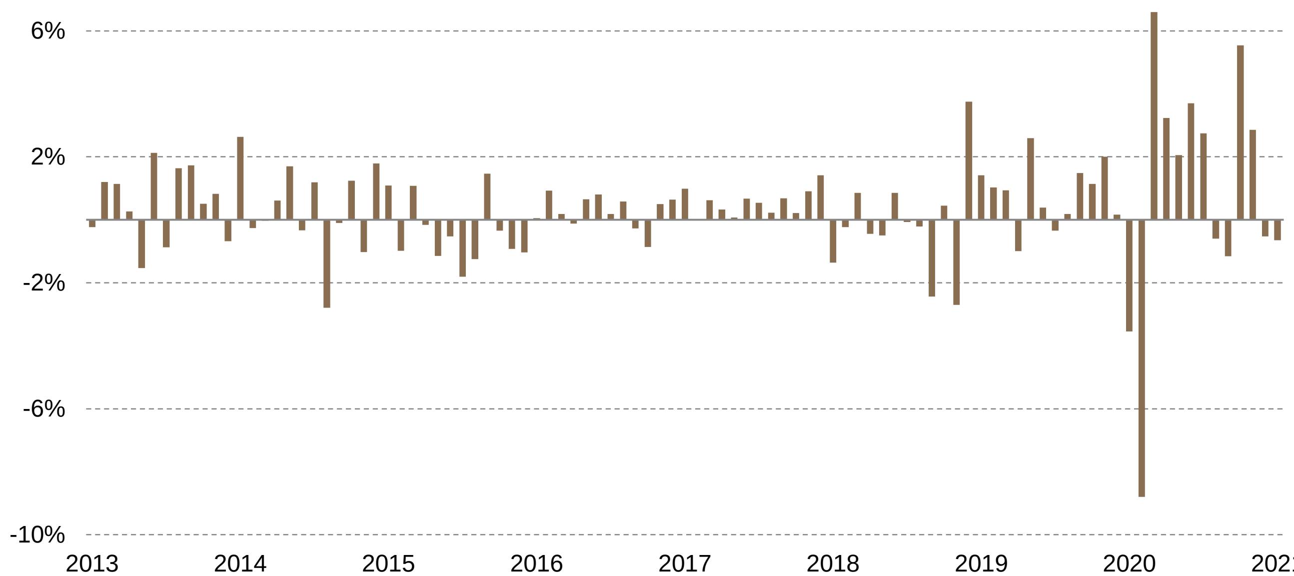
EWM Model Portfolio – Ytd performance



- **Total Return** (Ytd[1]): **-0.40%**
- **Standard Deviation** (Ytd[1]): **9.58%**
- **Downside Risk** (Ytd[1]): **6.77%**
- **Sharpe Ratio** (Ytd[1]): **-0.16**

[1] As of March 16, 2021

EWM Model Portfolio – Historical performance (1)



- **Total Return** (1 year[1]): **31.14%**
- **Total Return** (3 year[1]): **22.05%**
- **Total Return** (Since Jan 13[1]): **40.24%**

[1] As of March 16, 2021

EWM Model Portfolio – Historical performance (2)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return	9.58%	2.05%	-1.80%	1.57%	6.06%	-4.62%	14.67%	12.35%	-0.40%
Std. Deviation	3.82%	3.59%	3.67%	2.08%	1.45%	3.77%	3.78%	15.18%	9.58%
Sharpe Ratio	2.54	0.58	-0.48	0.62	3.57	-1.70	3.49	0.87	-0.16

Annualized Return: 4.62%
Annualized Std. Dev: 6.32%

[1] As of March 16, 2021

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