Edwards Wealth Management AG
Switzerland

BOREAL
CAPITAL MANAGEMENT

Investment Policy

November 2021

Our market view in a nutshell – November 2021

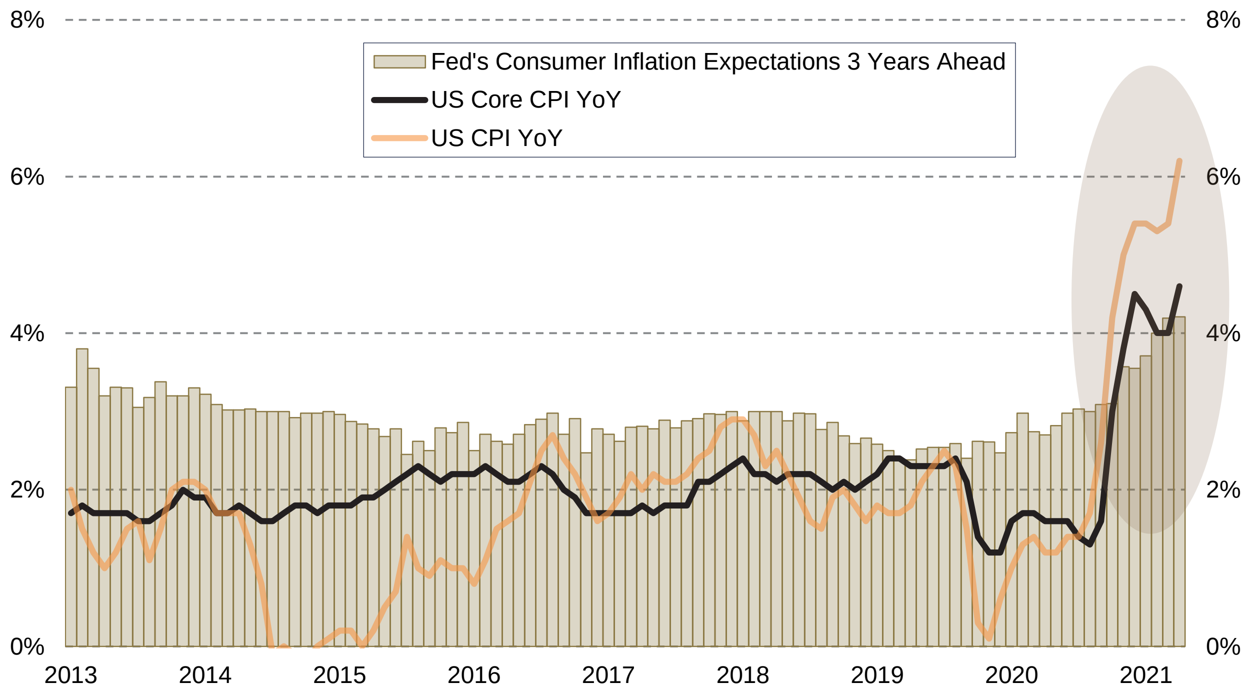
- **Labor shortages and supply chain bottlenecks continue to push inflation higher**. Price increases affect mainly manufactured products, and not so much the service sector. However, we are beginning to see **upward pressure on wages**, and this means that inflation expectations run the risk of becoming less well anchored
- **Consumer confidence surveys tell us very clearly that prices are increasing due to insufficient supply, not excess demand**. This time it is not about an overheating economy running on excessive leverage, but rather that the global economy is having to recover from an unprecedented halt in activity
- **The longer these imbalances last, the greater the risk that they could end up destabilizing the economy**. In the first place, because **price hikes can take a toll on consumption**, especially in durable goods. Second, there is a risk that, in order to cope with supply shortages, **companies react accumulating larger inventories**; what can be a drag on the economy later on
- To the above risks, we must add that **the Fed**, despite being aware that the causes of inflation come from the supply side, **may be compelled to raise interest rates**; especially if the Fed perceives that inflation expectations are getting out of control. Gauging which course of action to take is tremendously difficult, as **there is a risk of tightening too early, but also a risk of being forced to tighten aggressively later**
- Despite having witnessed the strongest and fastest economic recovery on record, **the current business cycle may not be as durable as the two previous ones**. With massive levels of fiscal and monetary stimulus, investors can rest assured that a recession is not imminent. However, financial markets always discount the future, and **the time to start reducing risks in portfolios may be approaching**. Meanwhile, staying highly selective and **focused on quality assets** seems to us the most sensible course of action

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	–	Emerging debt is currently unattractive from a risk-return point if view
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 stocks tend to be more cyclical, and there are fewer quality stocks
	Sectors & Themes	+	We favor Biotechnology and Fintech
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

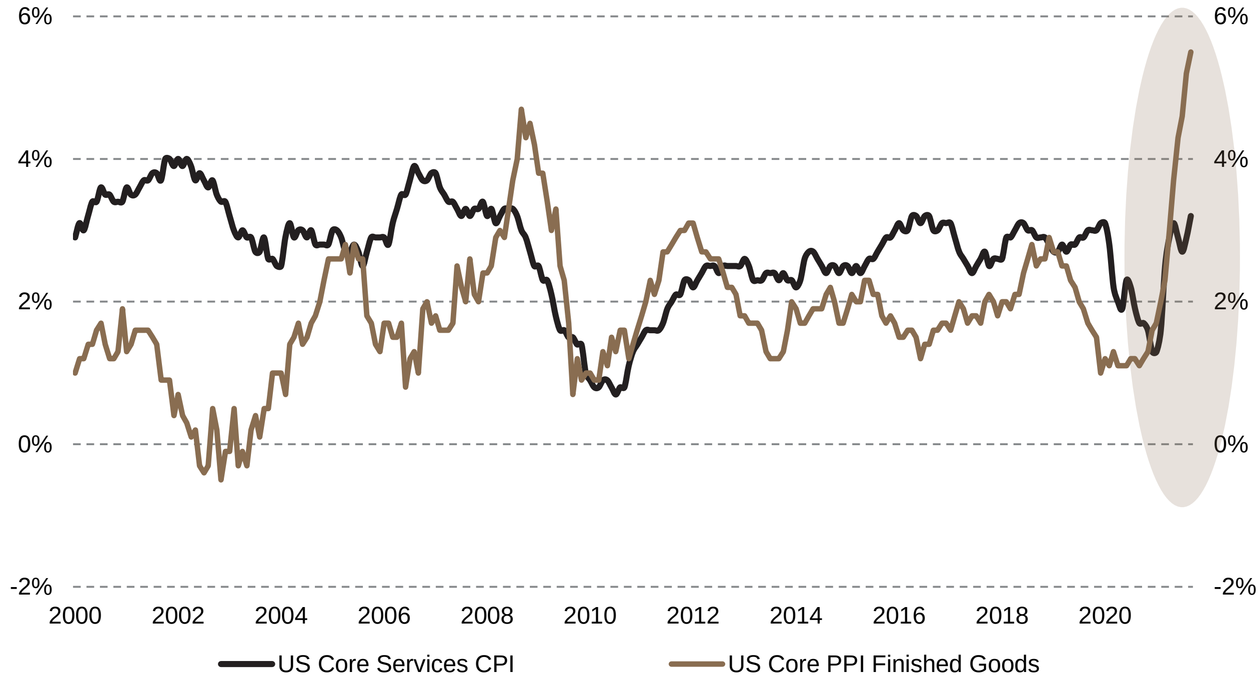
Inflation shows no signs of abating



- **Consumer prices continue to rise**, and exceed estimates. Not only is inflation increasing, but the range of goods and services affected is broadening
- Most worryingly, **inflation expectations seem to be taking hold**, thereby increasing the risk of experiencing sustained inflation

Source: Bloomberg

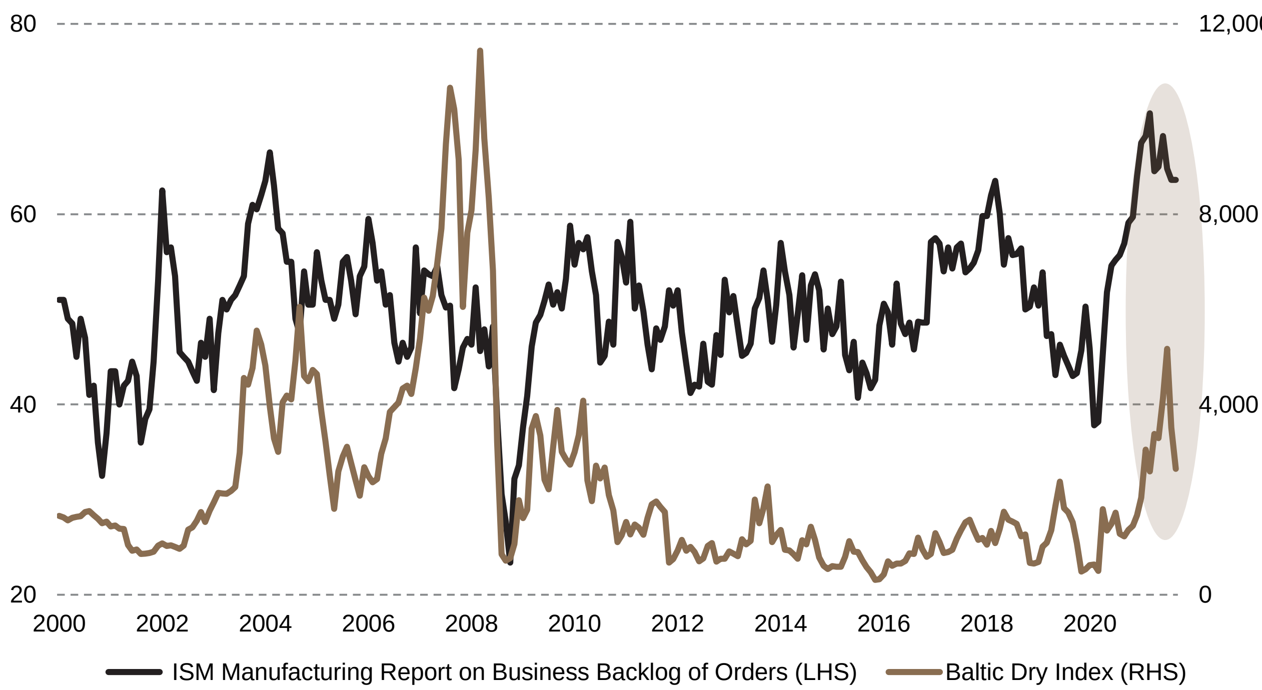
The turn of the blue-collar economy?



- **Inflation remains largely confined to manufactured goods** and so far has not affected the service sector in a significant manner
- This is a clear **indication that inflation is directly related to logistical bottlenecks**, and not a spike in demand caused by the large amount of savings accumulated during the pandemic

Source: Bloomberg

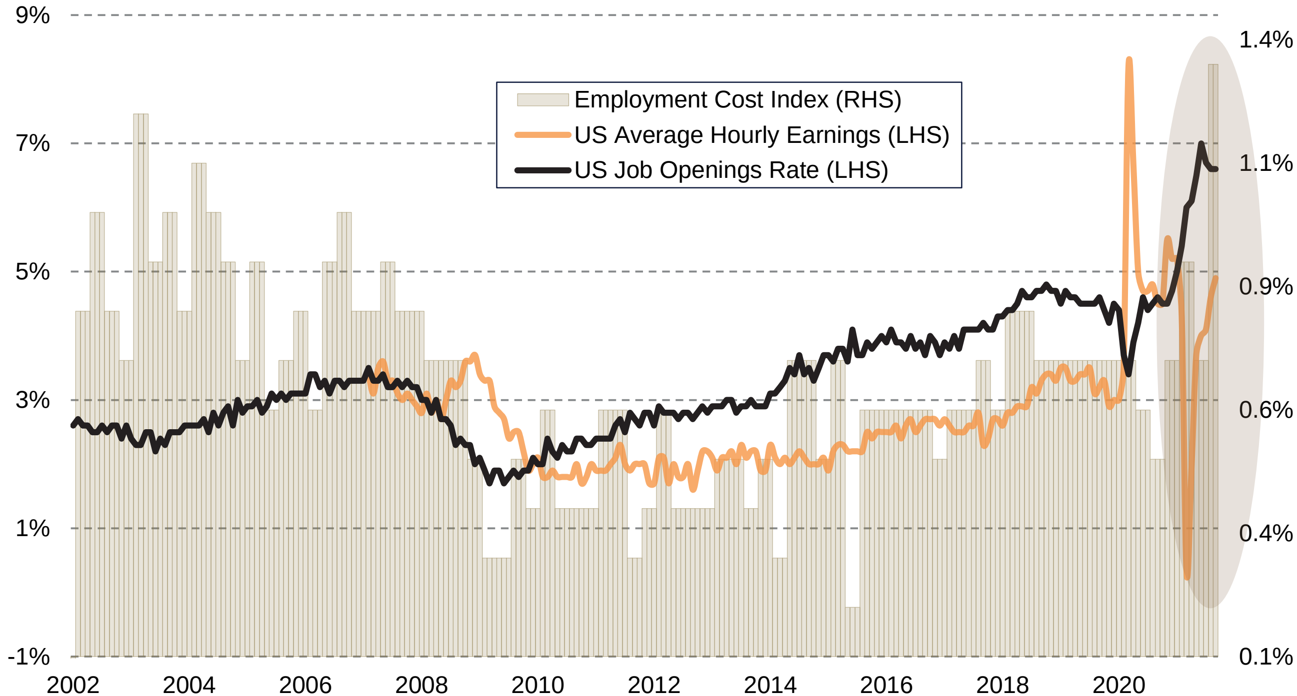
Peak bottleneck?



- Although the time lags to increase capacity in some industries can be substantial, **supply-side shortages should be addressable by the market itself**
- We may be **beginning to witness the tipping point** in the global supply chain bottlenecks

Source: Bloomberg

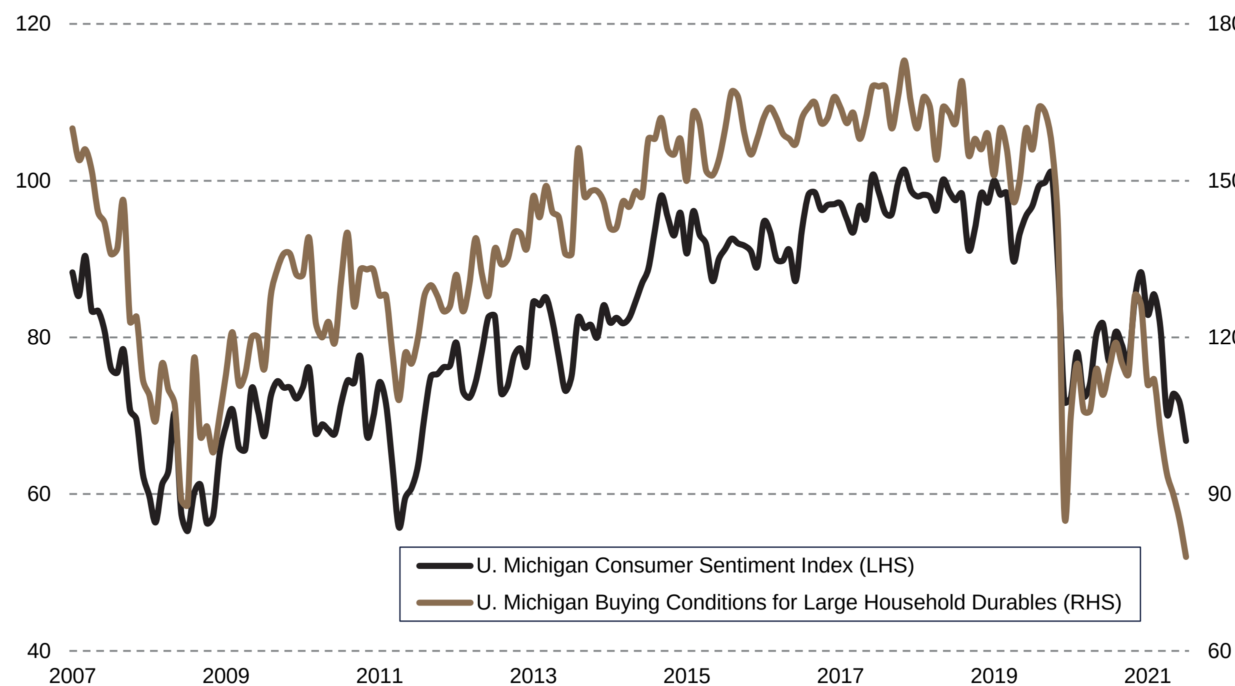
Job shortage persist



- **Job shortages are not abating**, and as the economy marches towards full employment, the **impact on wages is beginning to be clearly revealed**

Source: Bloomberg

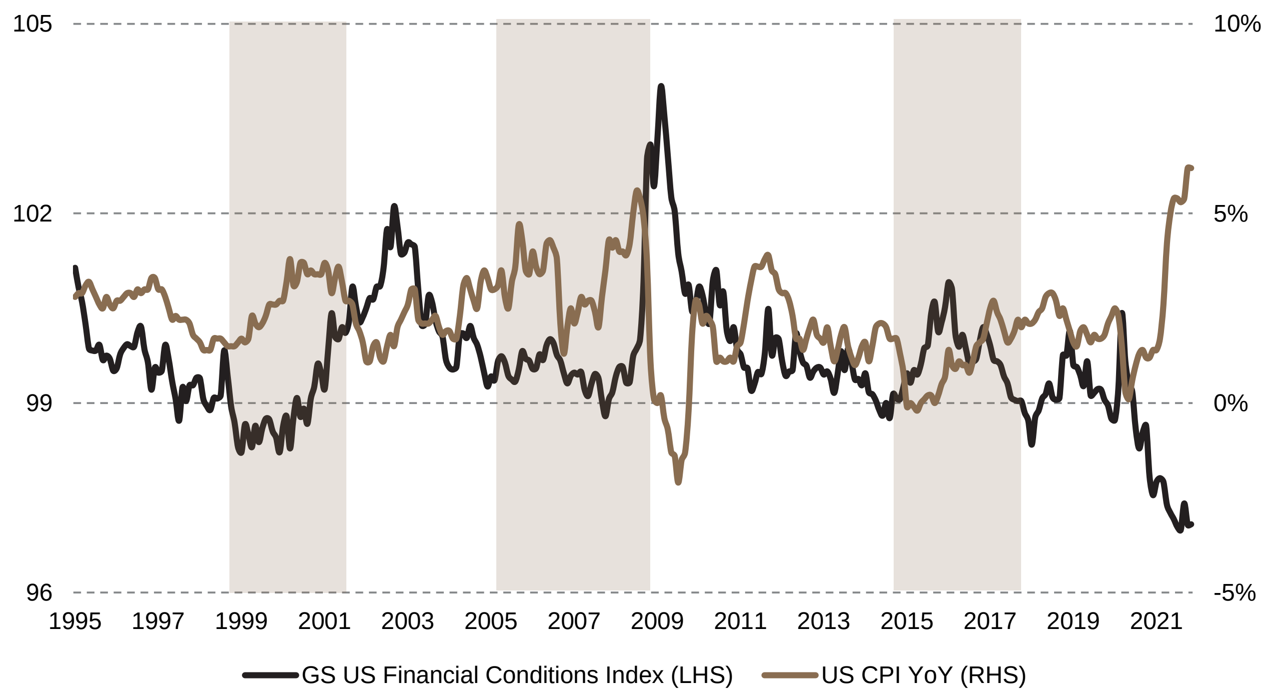
The ultimate inflation “circuit breaker”



- **Prices cannot continue to rise unless there is plenty of marginal demand**, or runaway money supply
- Wage increases have so far been much more modest than the rate at which the prices of some consumer goods have risen, and may soon **begin to take a toll on consumption**

Source: Bloomberg

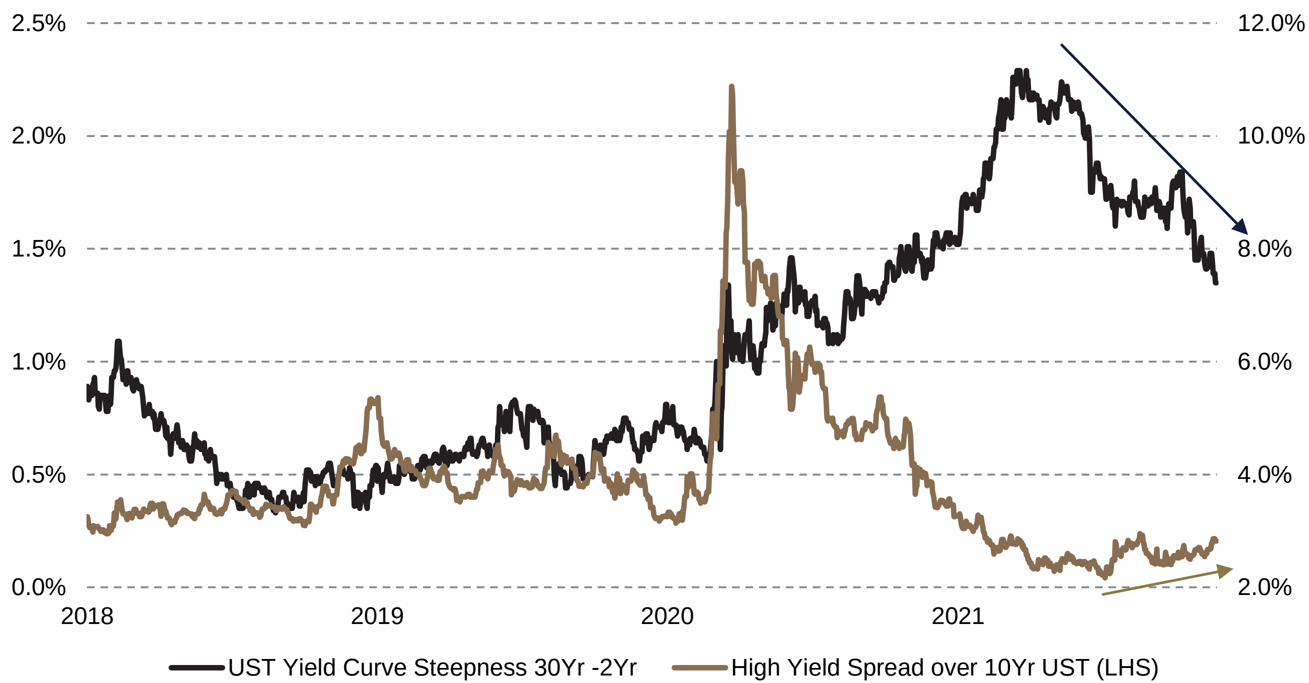
For how long the Fed remain patient?



- The **Fed faces a very complex set of choices**, as there is a risk of tightening its too soon, but also of being forced to raise rates aggressively later on
- However, **the risks are very asymmetric**, since with interest rates close to zero, a policy error cannot be easily reversed; while the Fed has the tools to control inflation

Source: Bloomberg

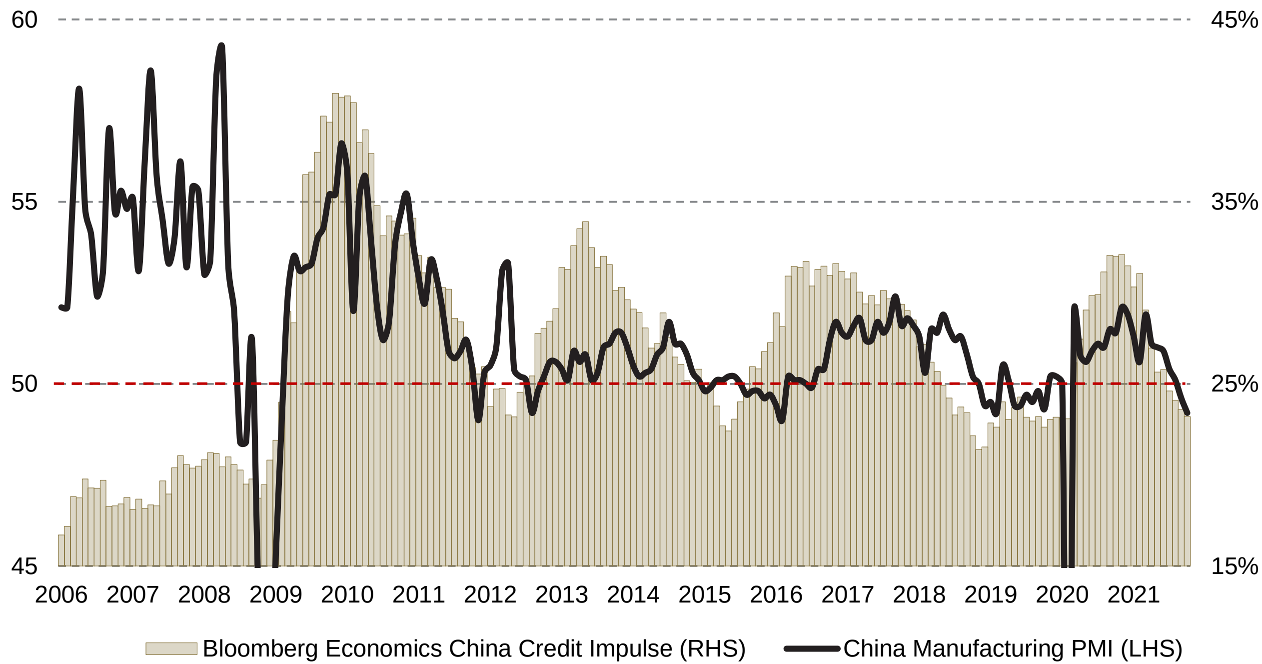
Approaching mid-cycle?



- With current massive levels of fiscal and monetary stimulus, **investors can rest assured that a recession is not imminent**. However, the current business cycle may turn out not to be as durable as the previous ones
- A flattening yield curve and rising – though still at vey low levels – corporate spreads are **early signs of the cycle beginning to mature**

Source: Bloomberg

China slowdowns, but nobody seems to care



- **China continues to slow down**, but as with inflation, the market is considering it a **transitory phenomenon**; caused in this case by power outages, Covid restrictions and supply-chain problems
- However, **China may become the center of attention once the market focus shifts away from inflation** and focuses on the sustainability of growth, especially after the withdrawal of stimulus

Source: Bloomberg

Investment scenarios

	Scenario 1 Interest rate shock	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	35%	45%	20%

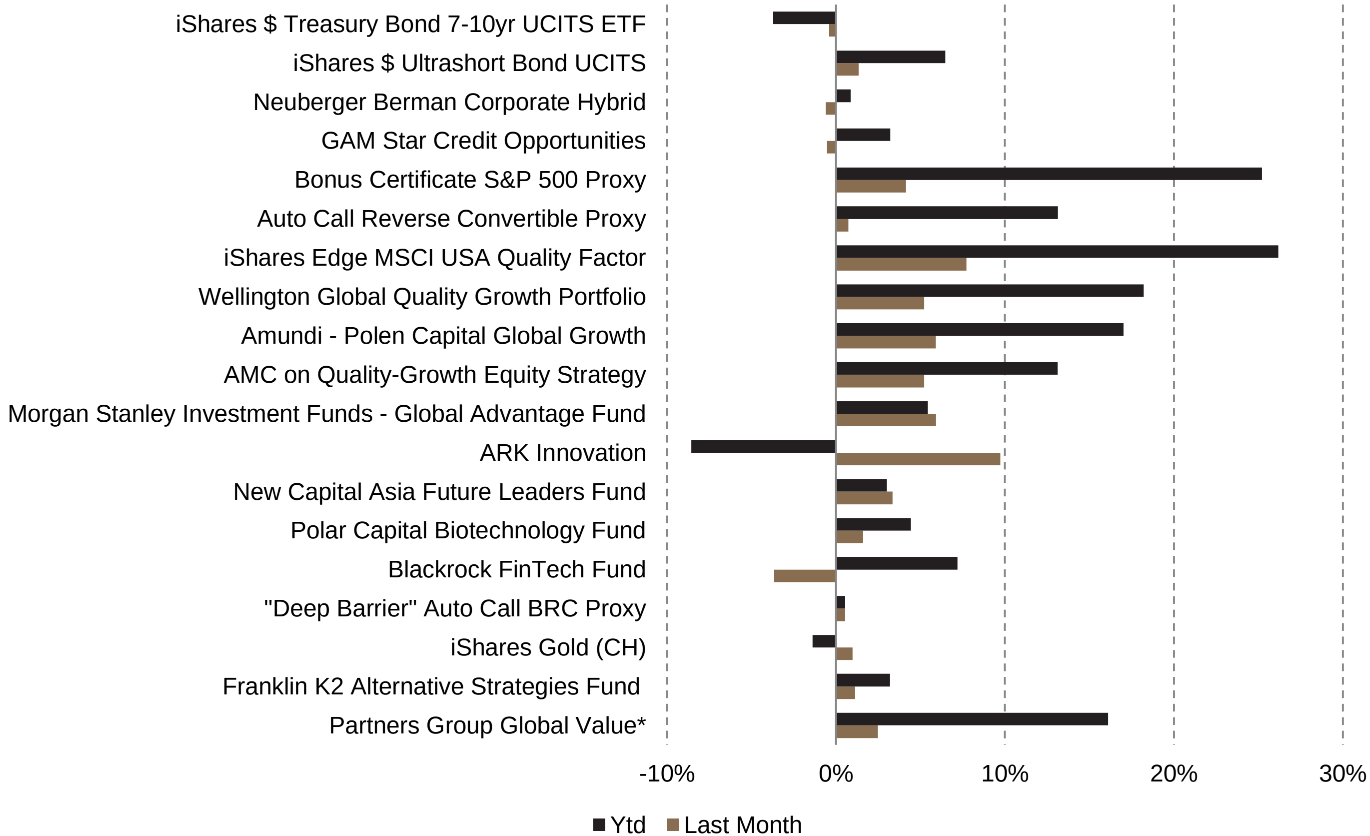
Short-term catalyzers

Acceleration in vaccinations or treatment for the coronavirus, normalization of activity

Other risks

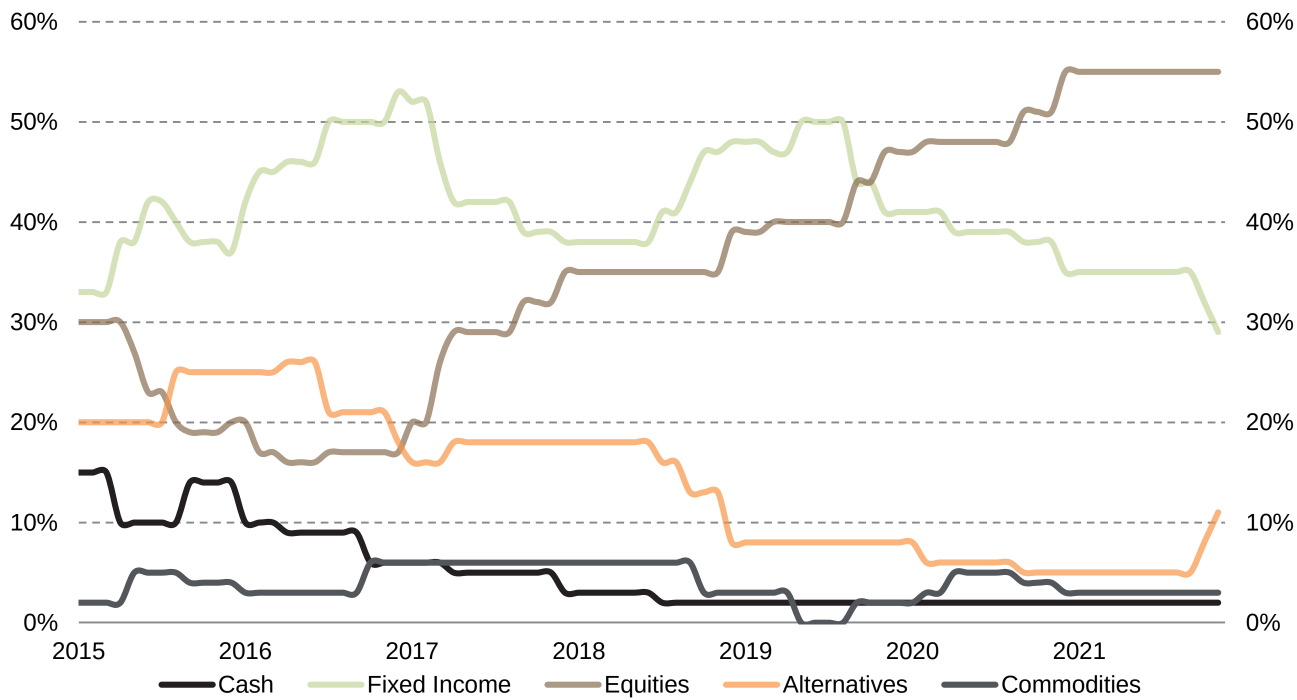
Revamp of global taxation, Trade war (II), Spread of populist political parties, Geopolitical (Middle East, Russia, Iran, North Korea)

Model portfolio evolution

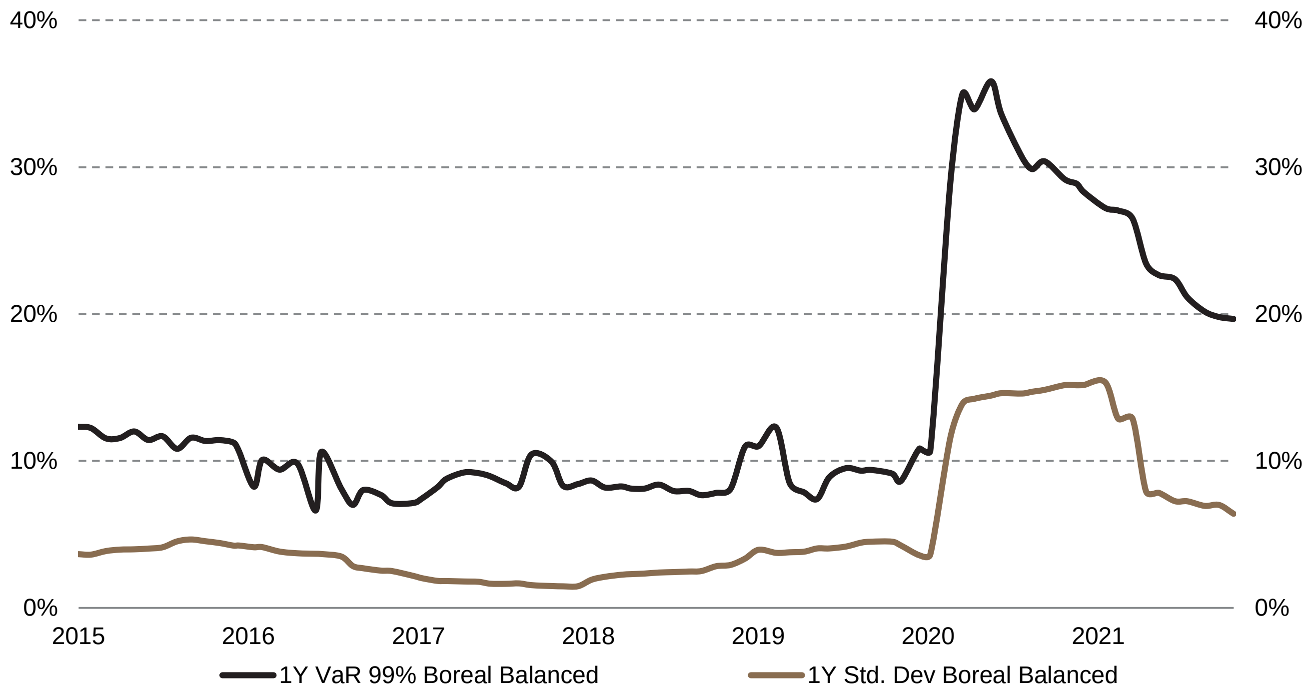


Source: Bloomberg, as of November 18, 2021
* Fund publishes monthly NAV with a 1 month of delay

EWM Model Portfolio – Asset Allocation evolution



EWM Model Portfolio – VaR evolution



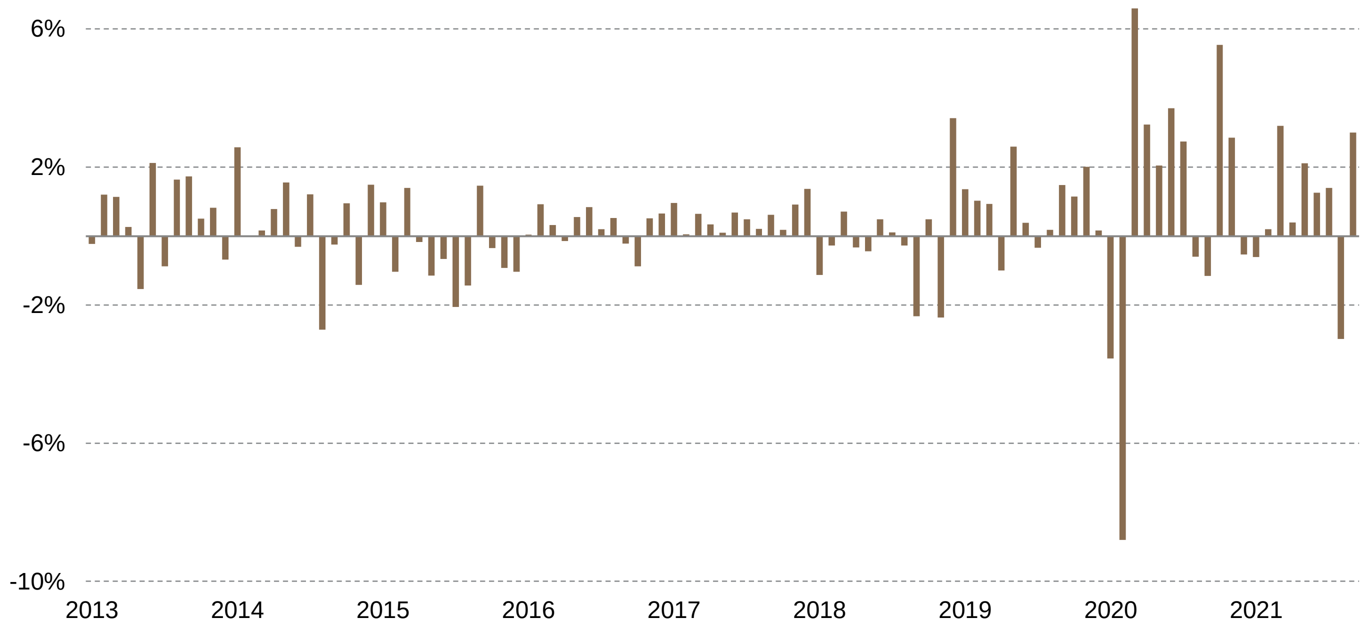
[1] As of November 18, 2021
Source: Bloomberg

EWM Model Portfolio – Ytd performance

- **Total Return** (Ytd[1]): **8.33%**
- **Standard Deviation** (Ytd[1]): **6.71%**
- **Downside Risk** (Ytd[1]): **4.93%**
- **Sharpe Ratio** (Ytd[1]): **1.45**

[1] As of November 18, 2021

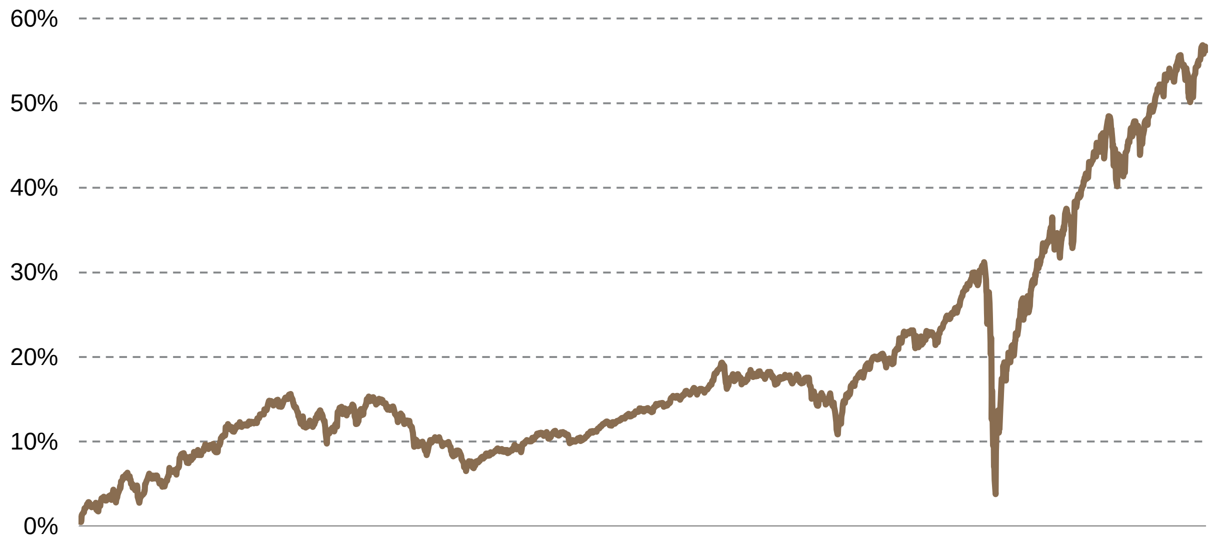
EWM Model Portfolio – Historical performance (1)



- **Total Return** (1 year[1]): **12.57%**
- **Total Return** (3 year[1]): **32.65%**
- **Total Return** (Since Jan 13[1]): **56.25%**

[1] As of November 18, 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%	6.40%
Std. Deviation	3.82%	3.59%	3.67%	2.08%	1.45%	3.77%	3.78%	15.18%	6.96%
Sharpe Ratio	2.54	0.58	-0.48	0.62	3.57	-1.70	3.49	0.87	1.20

Annualized Return: 5.15%
Annualized Std. Dev: 6.21%

[1] As of November 18, 2021

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