

Investment Policy

April 2020

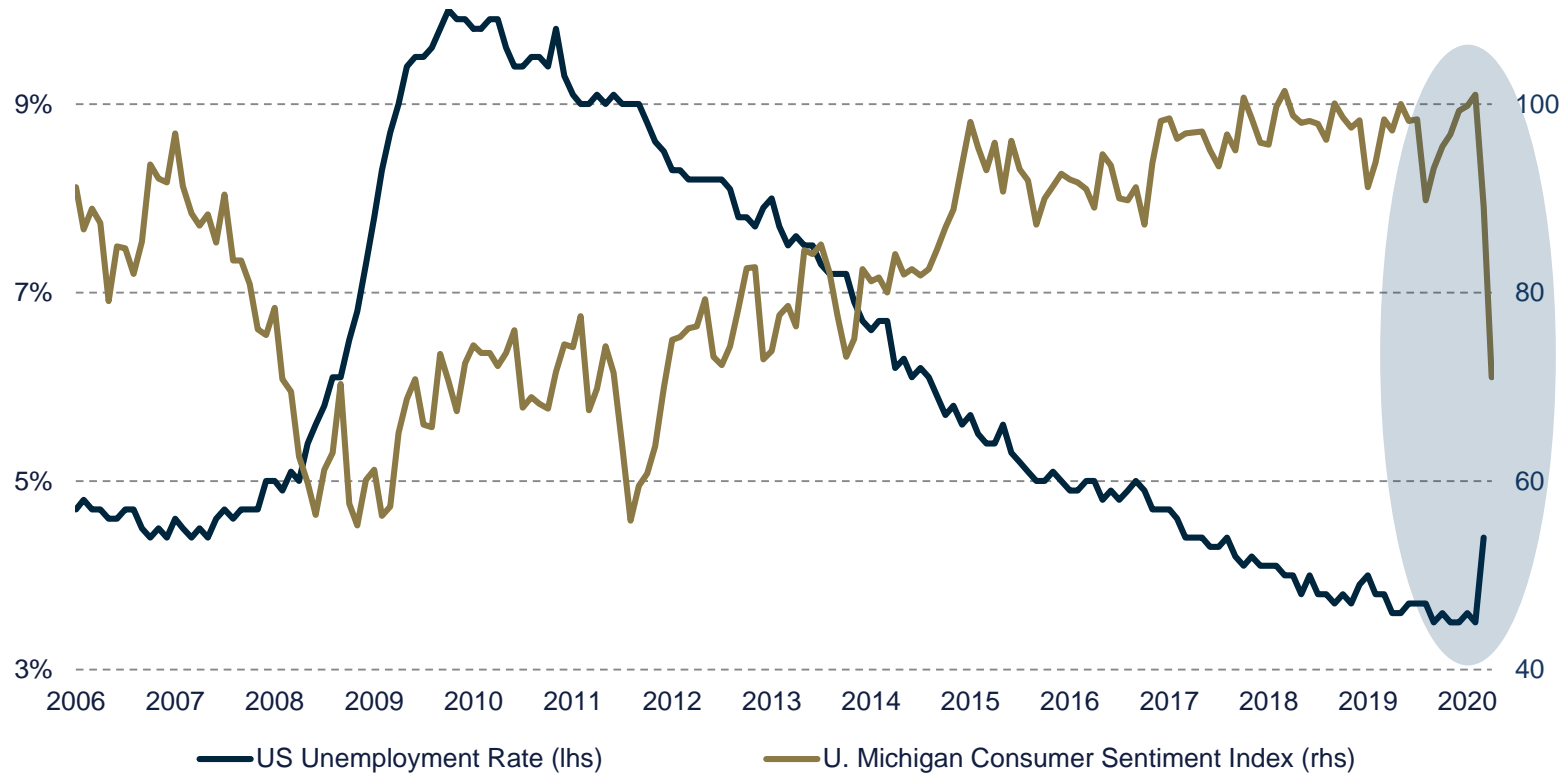
Our market view in a nutshell – April 2020

- The set of fiscal and monetary support measures announced during the last month are of an unprecedented magnitude, which has contributed greatly to calming the markets. However, **two major uncertainties remain**: (1) The **duration and intensity of the health crisis** and (2) The **sufficiency and effectiveness of the myriad of fiscal and monetary stimuli**
- The **interaction between these two unknowns will determine the form that the economic recovery will take**. If the measures are enough to provide a bridge loan to those parts of the economy that need it, and the virus is relatively contained by the summer, we can witness a **"V" shaped recovery**. If, on the contrary, the pandemic spreads more than expected and government support falls short, the economy may fall into a **prolonged "U" depression**. Finally, an intermediate scenario would be a **"W" shape**, which would occur if the outbreaks recur, albeit with decreasing intensity, until a vaccine is ready
- The shape that the **economic recovery** takes will affect the one that the **financial markets** follow, but both **do not necessarily go in tandem**. Given that each crisis is unique, the past is of relatively little help to us, but it is inevitable to compare with similar corrections in the past. The **temporary nature of the crisis**, which is our baseline scenario, and **reasonable stock valuations when the crisis hit**, would speak of a **relatively rapid recovery in stock markets**
- As for **credit markets**, once the **uncertainty about which companies will survive the crisis dissipates**, we expect **liquidity to improve and credit spreads to narrow**. However, we do not expect pre-crisis levels to be reached, as **from now on investors will favor companies with strong balance sheets**
- One of the few **common denominators in all crises** is that, ultimately, **high-quality assets always recover**. Therefore, we are taking advantage of the opportunity offered by the recent market rebound to reorganize our portfolios. It is in times of crisis when **investment discipline** is most important, which sometimes **involves realizing losses in order to improve quality and diversification within portfolios**

Boreal Investment Policy

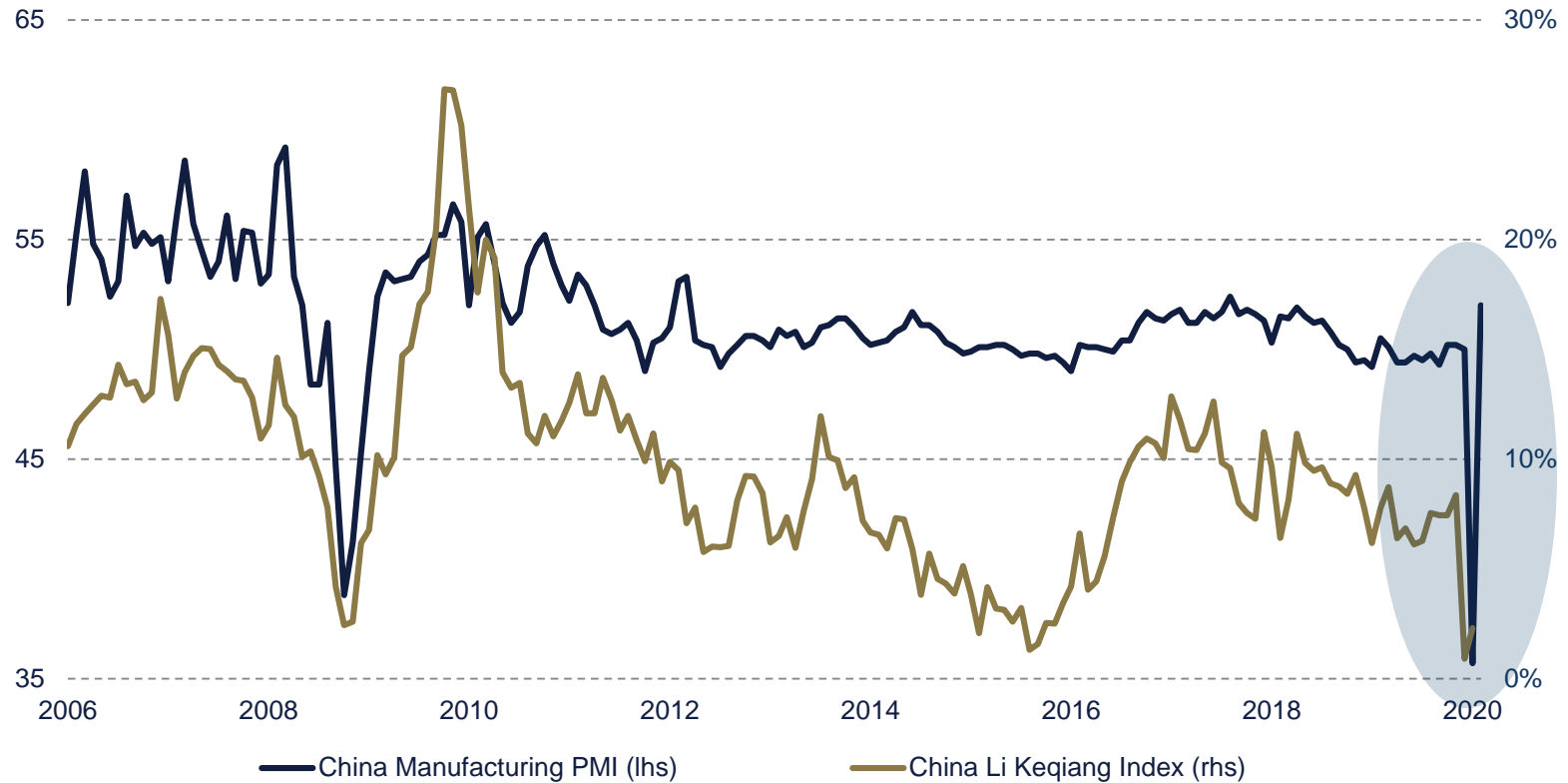
	Asset Class	View	Rationale
Fixed Income	US Treasuries	=	Treasuries offer protection from a slowdown in growth, but we believe that current long-term yields are unattractive, preferring shorter maturities
	US Credit	=	Although the incoming economic recession will undoubtedly increase the number of defaults, both corporate debt and High Yield offer attractive spreads right now
	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 the sharp sell-off, valuations have improved. We have therefore increased our exposure to US equities, mostly through quality and growth oriented companies.
	Europe	=	From a relative valuation perspective, we like European stocks as they trade at lower multiples, and we expect profits to pick up as economic activity accelerates
	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 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

Brace for impact



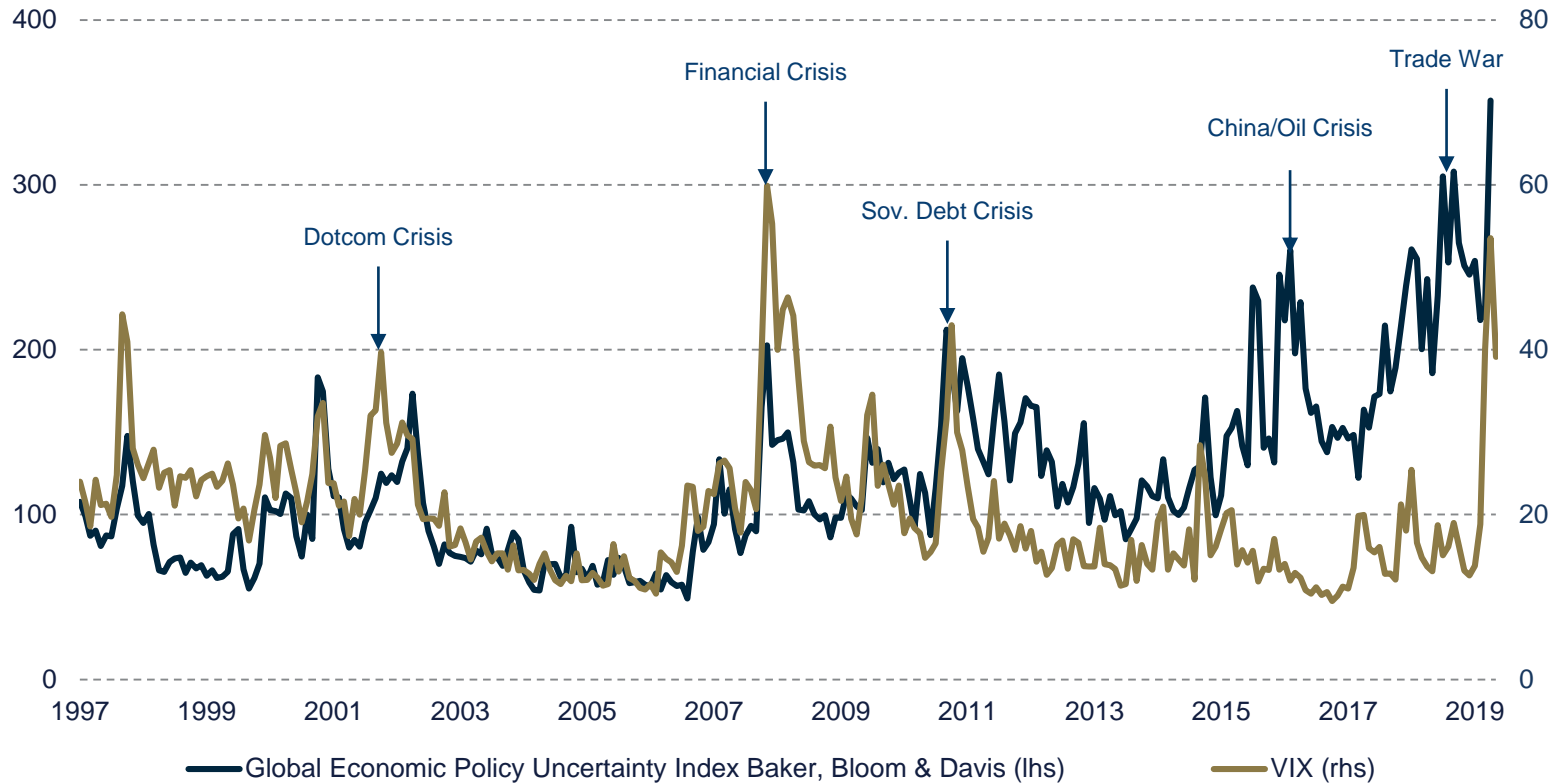
- In the coming months we are going to witness a **flood of disastrous macroeconomic data**, worse than in any other crisis in the past, including the Great Depression
- The big question is whether **unprecedented monetary and fiscal support** will make the crisis go down in history as a kind of “glitch” or whether it will instead turn into a protracted recession, or even a depression

Too good to be true?



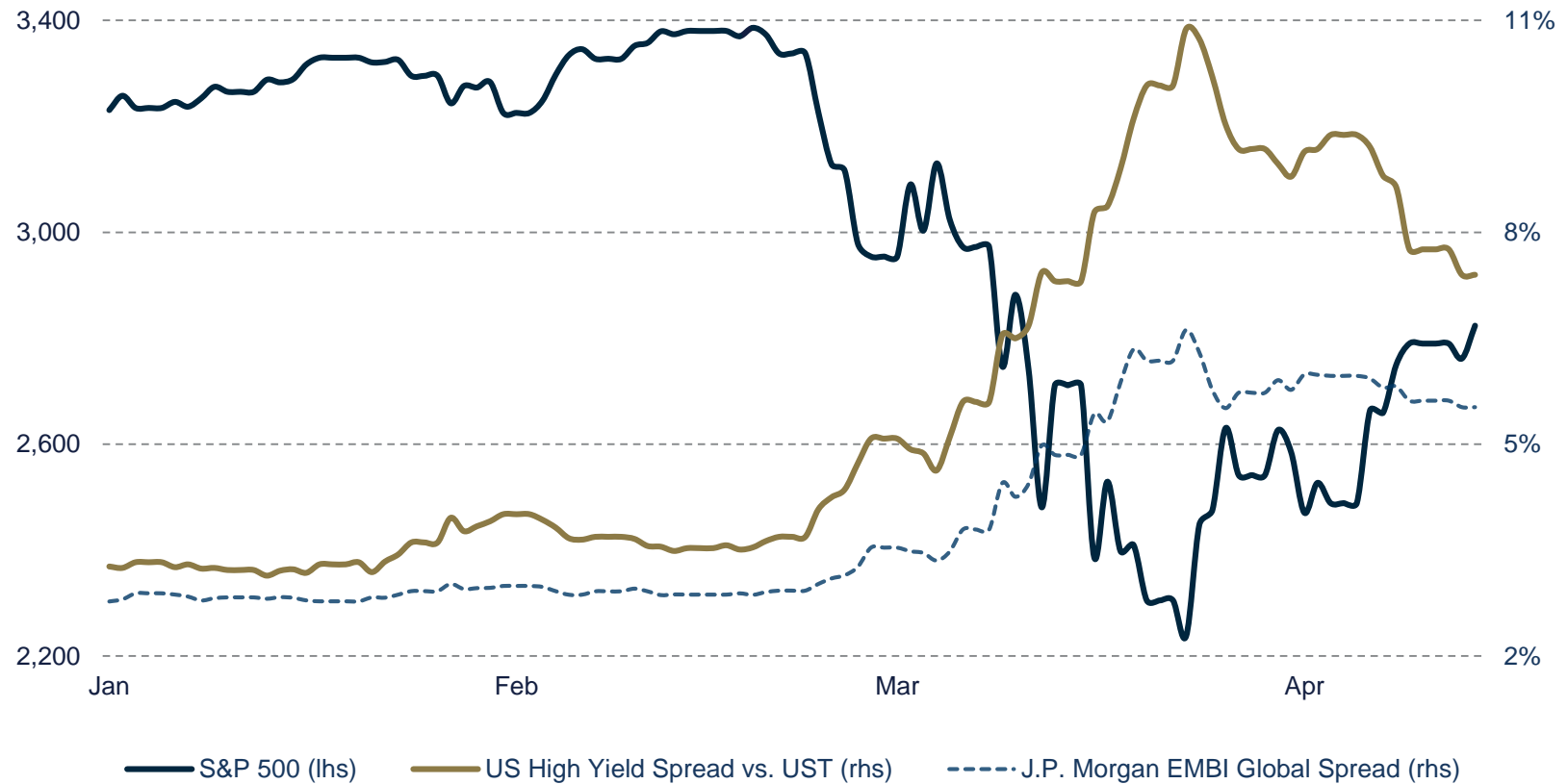
- **China's recovery points to a very sharp rebound in activity**, but after the doubts generated by its management of the crisis, the **country's credibility is at a minimum**
- In addition, the fact that the rest of the world was in "business as usual" mode during the shutdown in China, caused the economy to experience only a **supply-side shock**. However, the global contraction is also causing an unprecedented **demand-side shock**

Volatility recedes, uncertainty remains



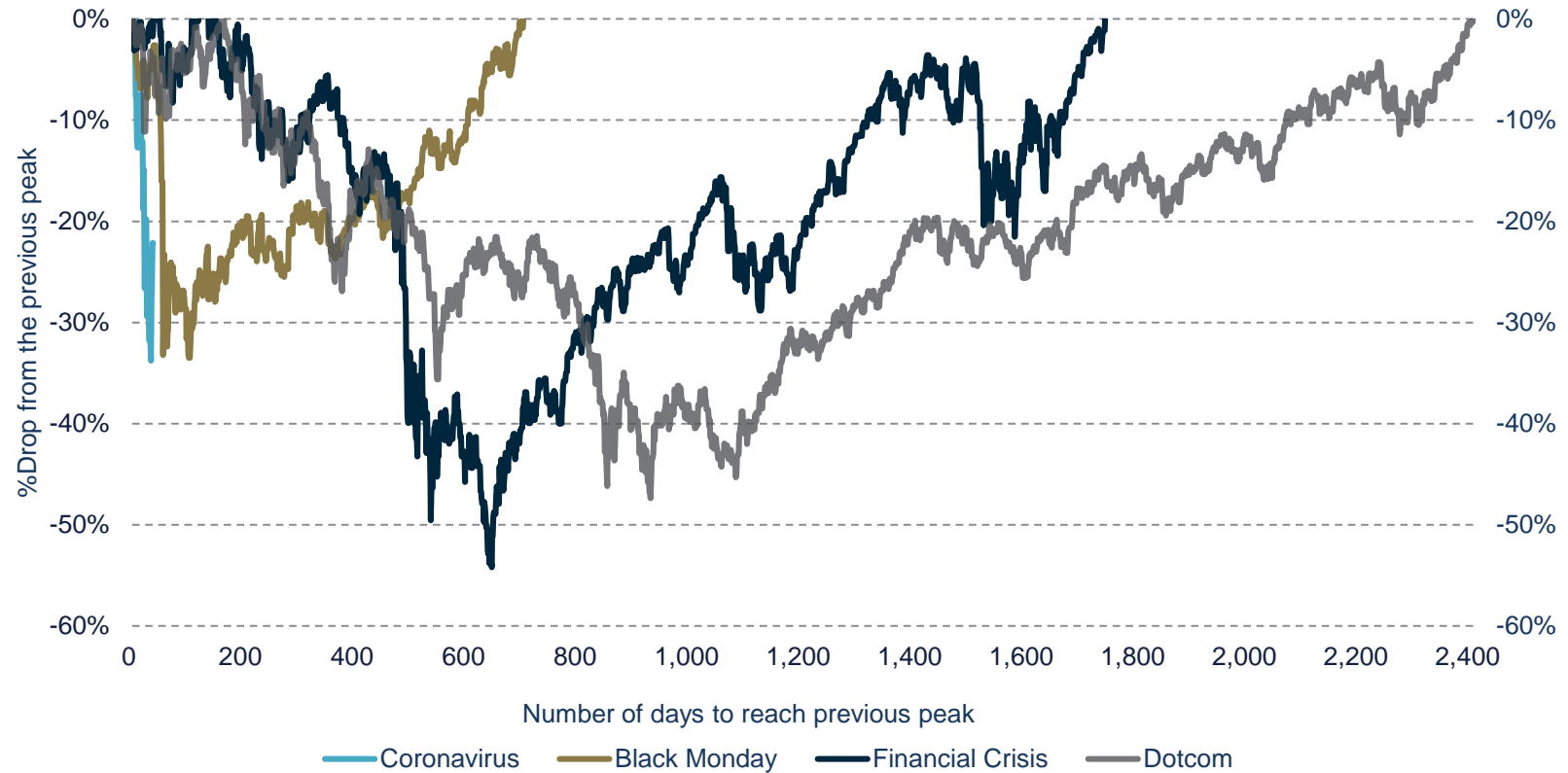
- The decisive intervention of **the Fed** has avoided a **liquidity crisis**, but it remains to be seen if **fiscal support will be sufficient to avoid a deep economic crisis**
- This is highly **dependent on the evolution of the virus** and therefore there is an **unprecedented degree of economic uncertainty**

Uneven recovery across asset classes



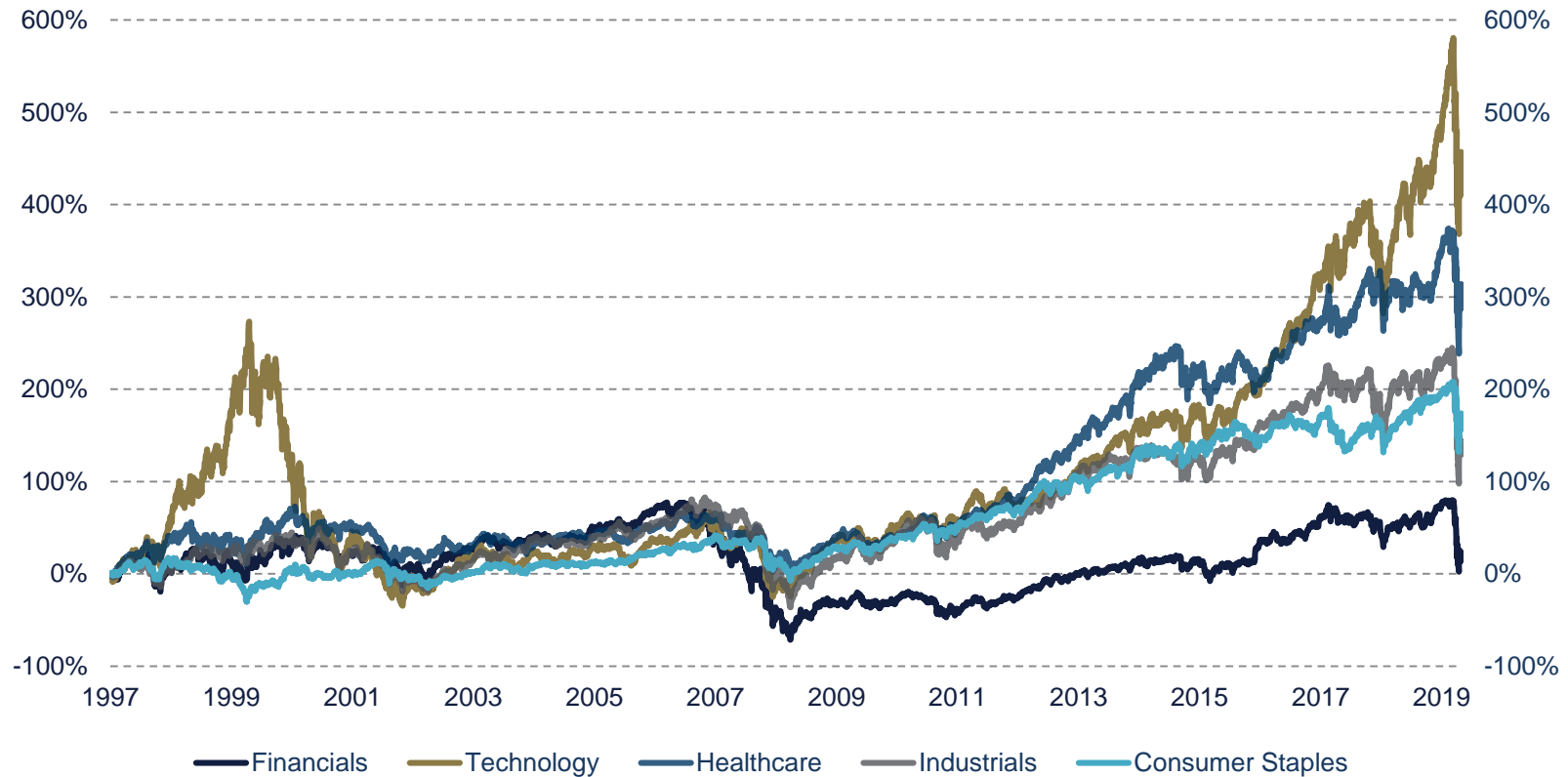
- Whilst **equity markets have recovered half of the losses** from its peak, **credit markets have improved more slowly**, particularly Emerging Markets
- In addition to the general worsening of credit spreads, the **liquidity of bonds has been seriously affected, with very large bid/ask spreads** in individual bonds causing large paper losses in our client portfolios

Every crisis is new



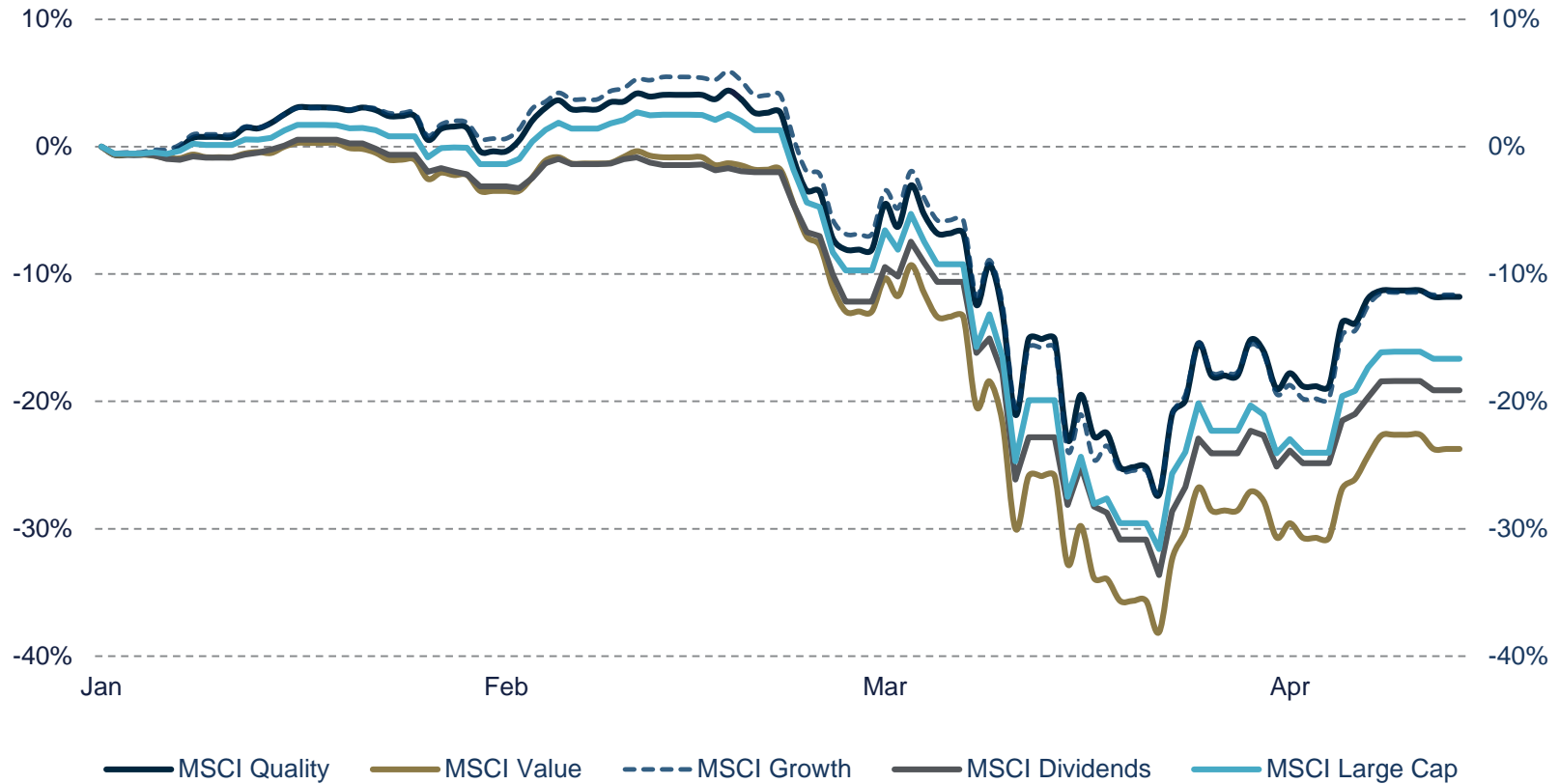
- **Each crisis is unique.** Sometimes it is the market that causes the recession (Dotcom), sometimes the market and the economy fall in tandem (2008), sometimes the market crashes for no apparent reason (Black Monday)
- It is difficult to compare the current crisis with any other in the past, but **a good guess is that the recovery will be something between that of "Black Monday" and the financial crisis.** Contrary to the Dotcom crisis, valuations were not inflated when the crisis hit, and the adjustment will be faster

And affects sector performance differently



- **Every crisis creates winners and losers**, and affects each sector differently
- The market always recovers eventually, but it is important not to be caught up in the wrong companies. **Investment discipline – diversification and, at times, realizing losses – is paramount after crisis**

Uncertainty calls for focus on quality



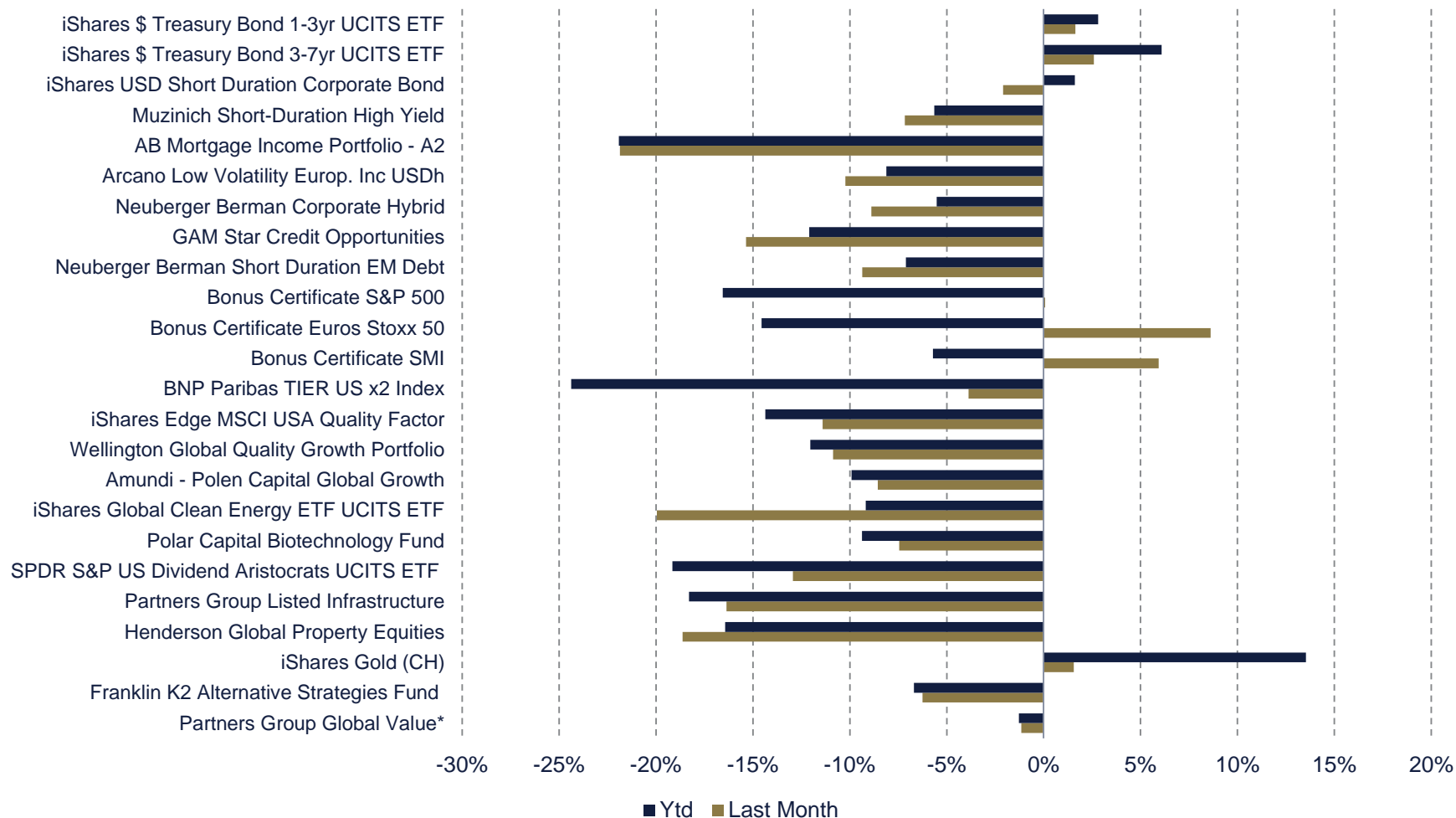
- Similarly, **not all risk factors perform equally during a recovery**. Once again, each crisis is unique, but being positioned in **quality stocks should work reasonably well, considering that their valuations were very reasonable before the crisis**

Dollar driven by liquidity, not fundamentals



- The recent **strength of the USD** has to do mainly with the **rush for liquidity** triggered by the crisis, and not the fundamentals
- As the market gradually normalizes, **we should expect some weakening in the USD, more in line with fundamentals.** However, the scope of the movement will be limited by **considerations of country risk, which will gain in importance as the level of debt increases dramatically**

Model portfolio evolution



Investment scenarios

	Scenario 1 "U" recovery	Scenario 2 "V" Recovery	Scenario 3 "W" Recovery
Drivers	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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	20%	50%	30%

Short-term catalyzers

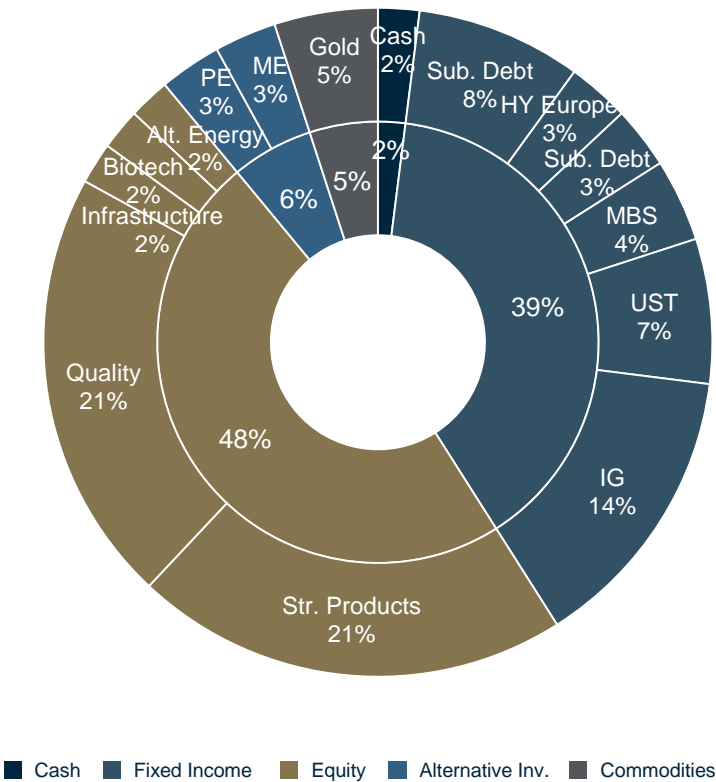
Slowdown in infections, Vaccine or treatment for the coronavirus, ramp-up in hospital infrastructure

Other risks

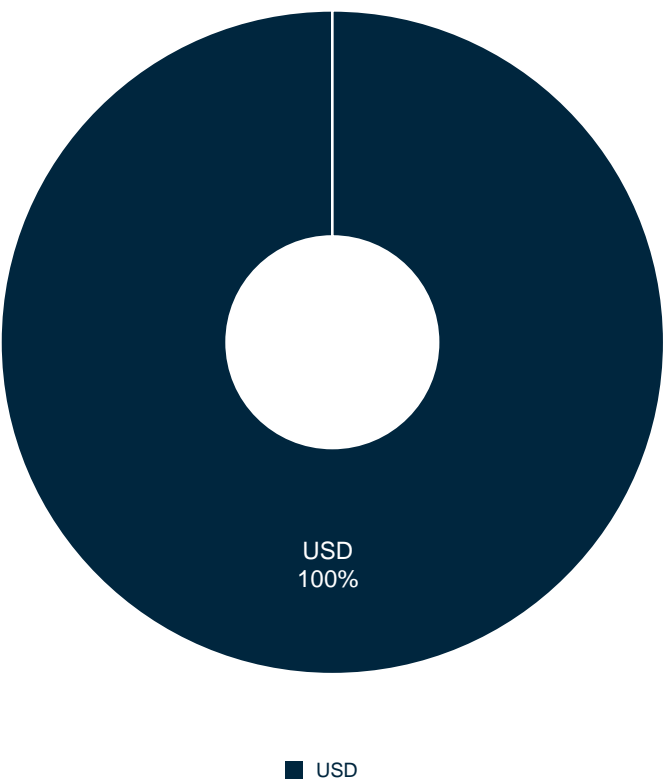
Trade war (II), Spread of populist/nationalistic parties, Brexit implementation, Iran, North Korea

Boreal Balanced Portfolio USD

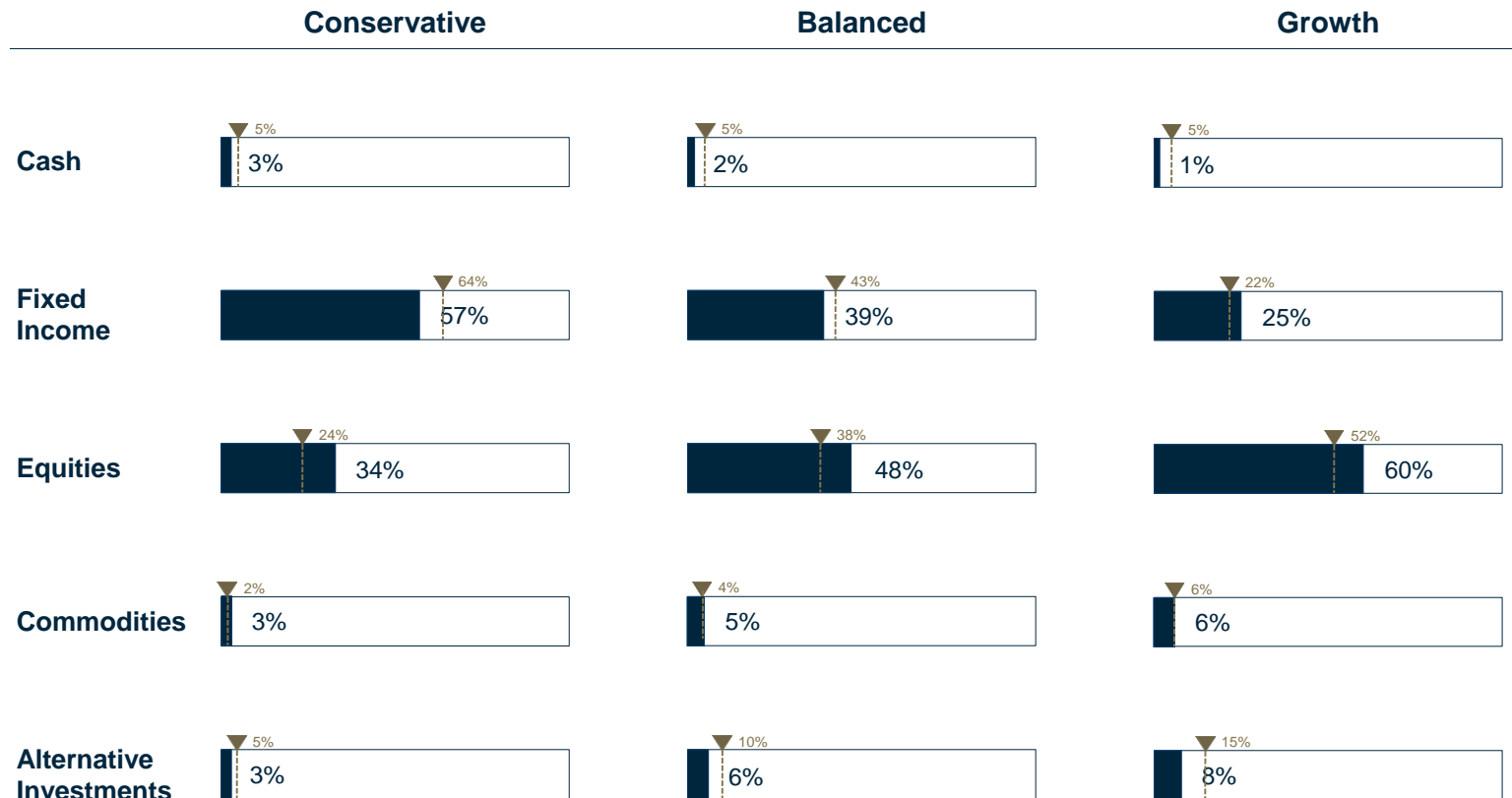
Asset Allocation



Currency Allocation

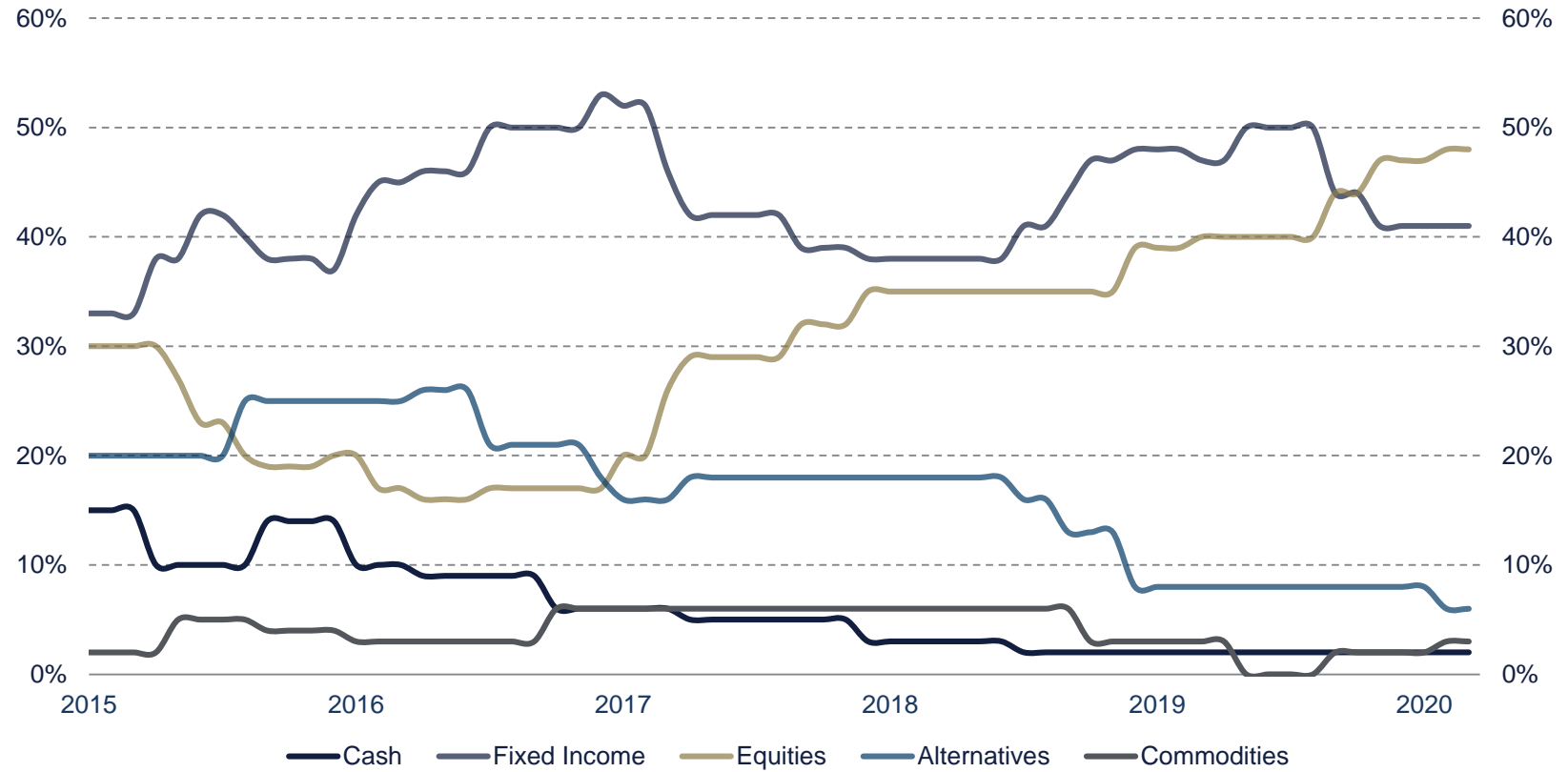


Boreal Investment Profiles

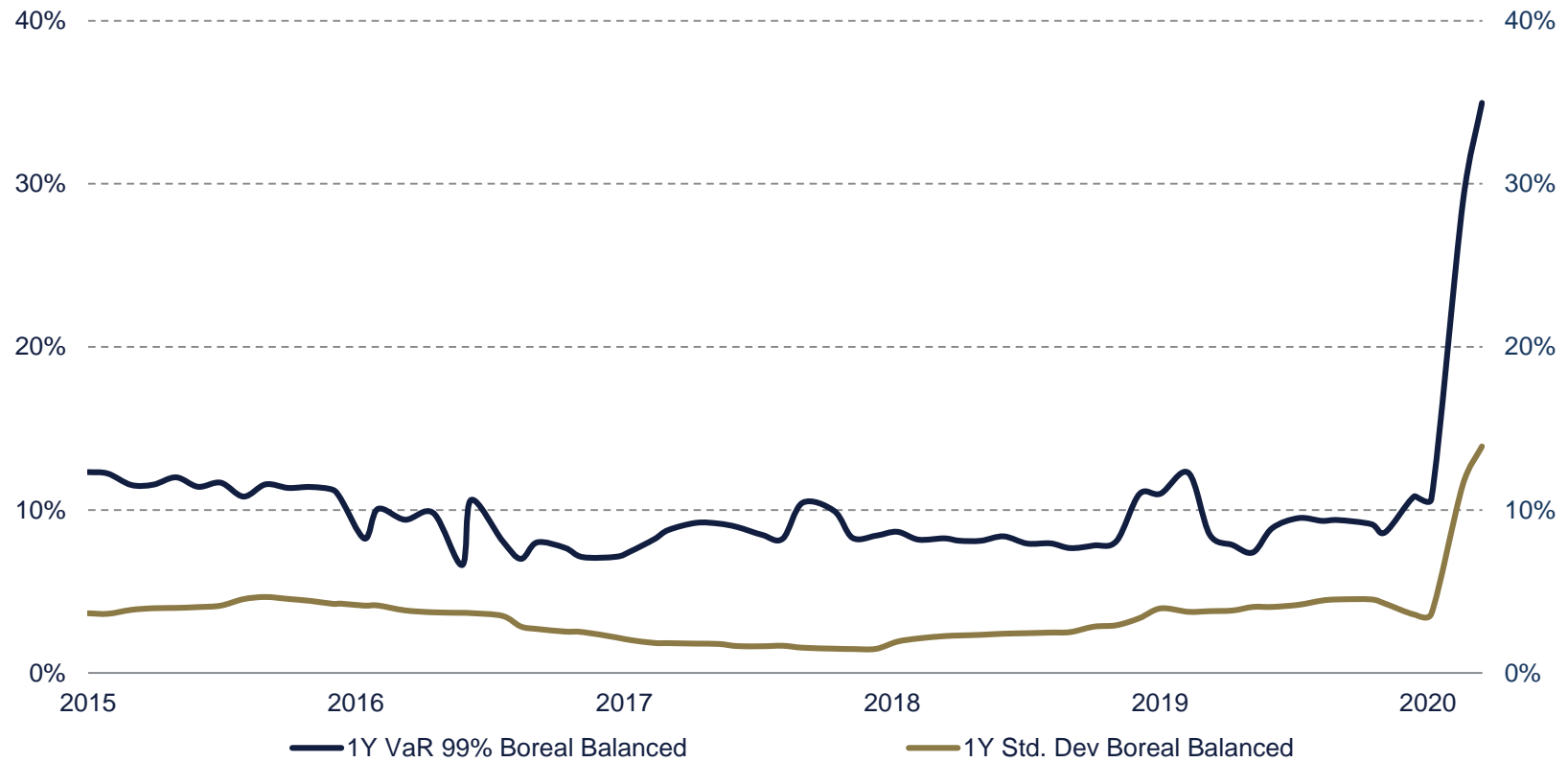


▼ Strategic Asset Allocation

Boreal Balanced Portfolio – Asset Allocation evolution

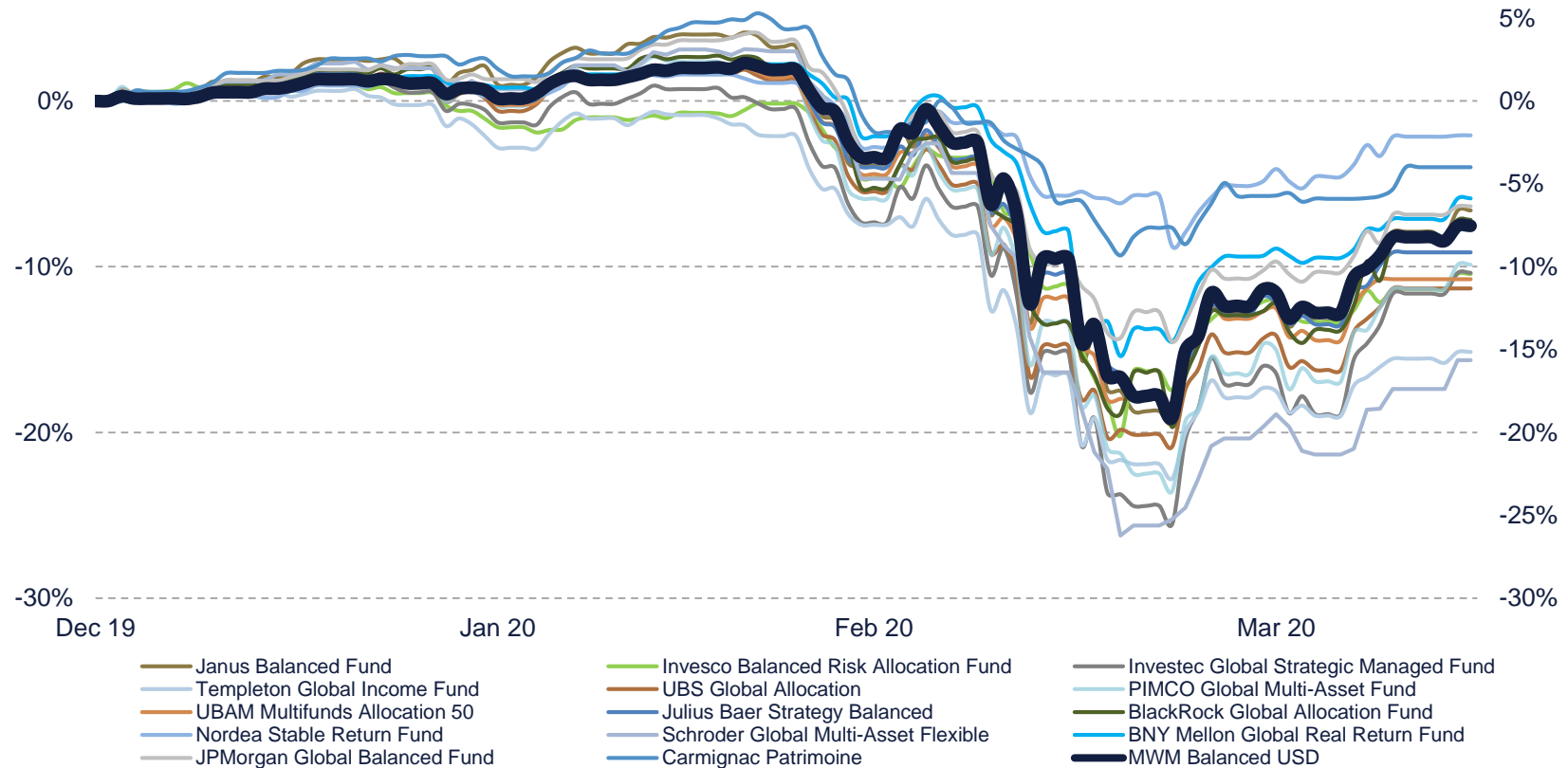


Boreal Balanced Portfolio – VaR evolution



¹ As of April 15, 2020
Source: Bloomberg

Boreal Balanced Portfolio – Peer comparison



- **Total Return (Ytd¹): 6th out of 15**
- **Standard Deviation (1 year¹): 13th out of 15**
- **Downside Risk (1 year¹): 3rd out of 15**
- **Sharp Ratio (1 year¹): n/a**

¹ As of April 15, 2020
Source: Bloomberg

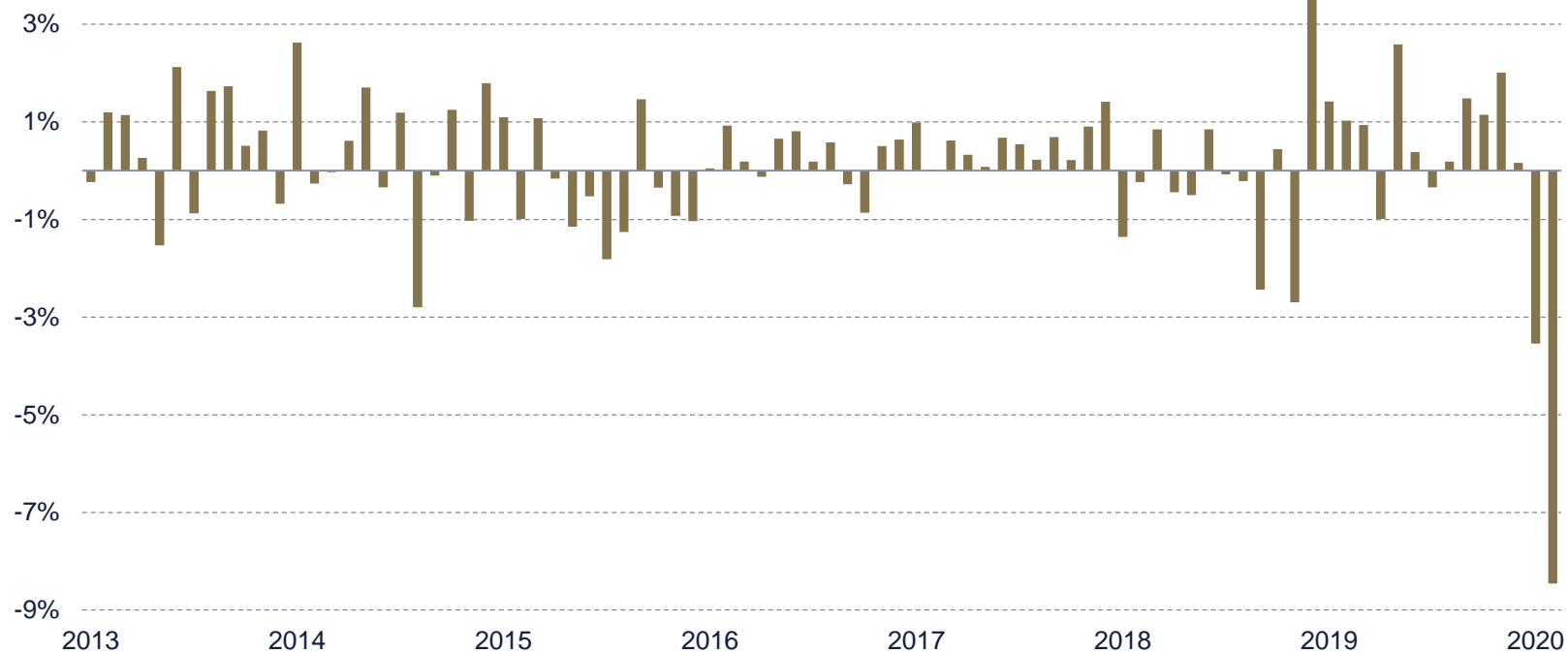
Boreal Balanced Portfolio – Ytd performance



- **Total Return (Ytd¹): -7.19%**
- **Standard Deviation (Ytd¹): 25.42%**
- **Downside Risk (Ytd¹): 15.03%**
- **Sharpe Ratio (Ytd¹): n/a**

¹ As of April 15, 2020

Boreal Balanced Portfolio – Historical performance (1)



- **Total Return (1 year¹): -0.77%**
- **Total Return (3 year¹): 5.53%**
- **Total Return (Since Jan 13¹): 20.57%**

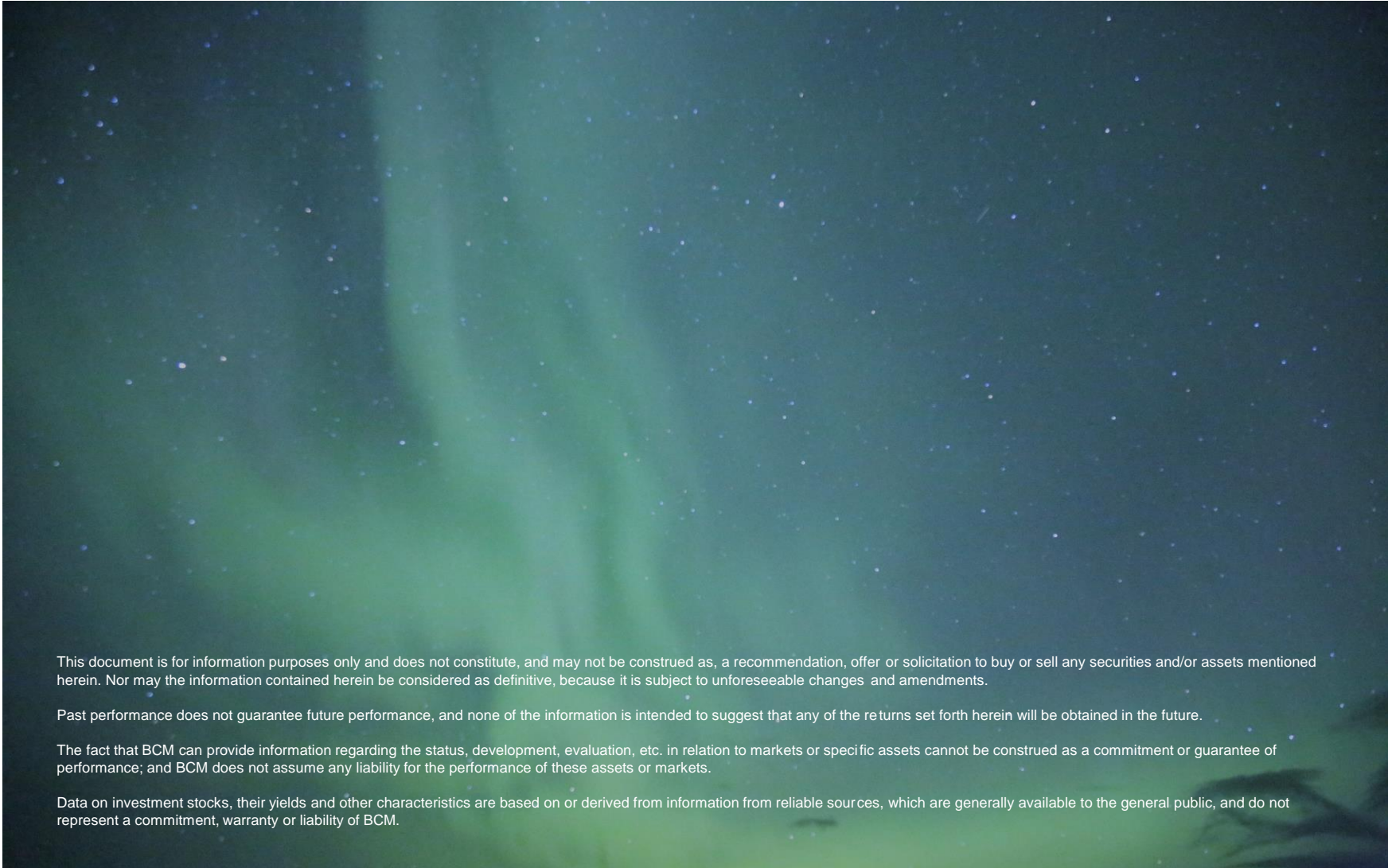
¹ As of April 15, 2020

Boreal Balanced 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%	-7.19%
Std. Deviation	3.82%	3.59%	3.67%	2.08%	1.45%	3.77%	3.78%	25.42%
Sharpe Ratio	2.54	0.58	-0.48	0.62	3.57	-1.70	3.49	-0.84

Annual Return: 2.54%
Annual Std. Dev: 5.98%

The background of the slide is a photograph of the Aurora Borealis (Northern Lights) in a dark, starry night sky. The aurora appears as a vibrant green, ethereal glow that flows vertically down the left side of the frame, with numerous small, bright stars scattered across the deep blue and black background.

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