



Investment Policy

November 2020



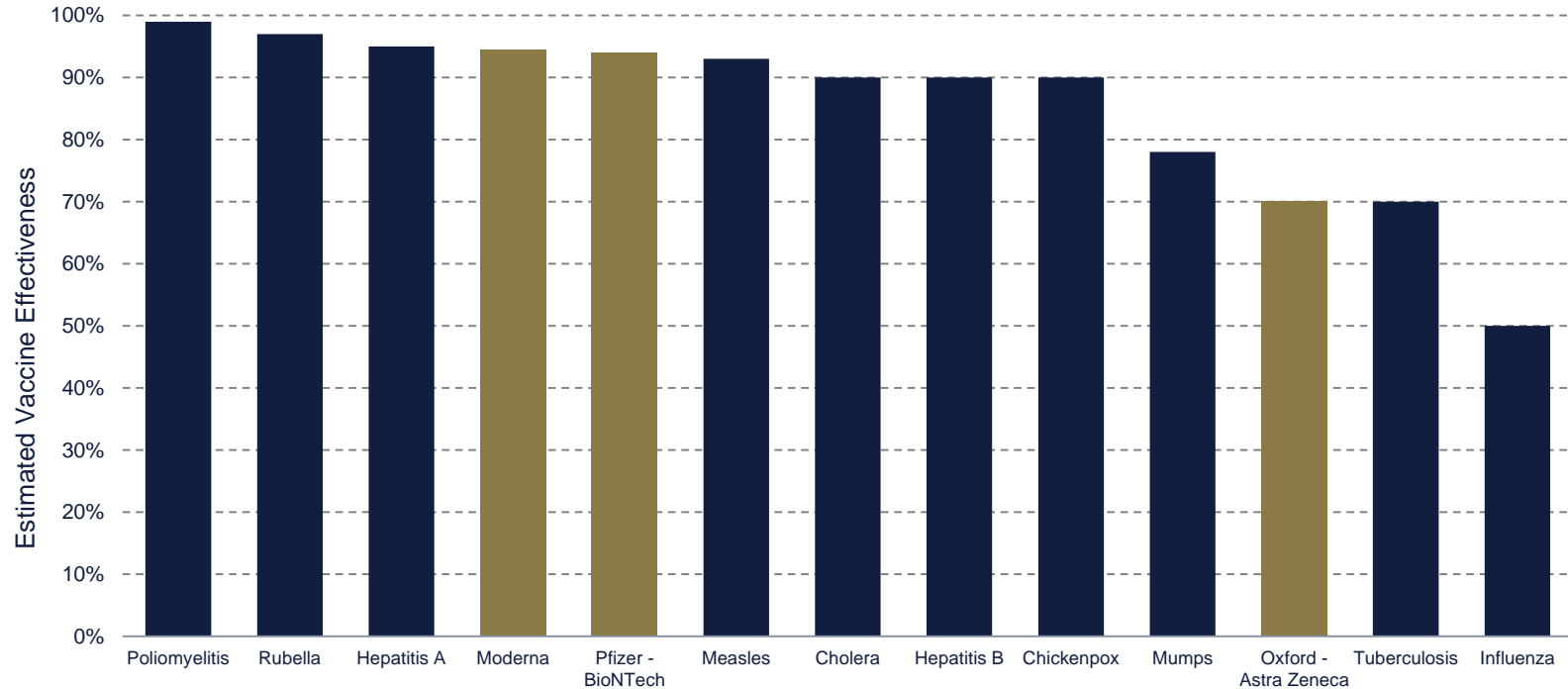
Our market view in a nutshell – November 2020

- The **pandemic continues to dominate everyday life and, with it, the economy and financial markets** 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 certain 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 continued to recover despite a surge in infections** that made necessary further restrictions. More importantly, **leading indicators continue to point to a strong recovery**, supported by **extremely benign financial conditions**. Additionally, third quarter corporate **earnings came strongly ahead of expectations**
- 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 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

Boreal Investment Policy

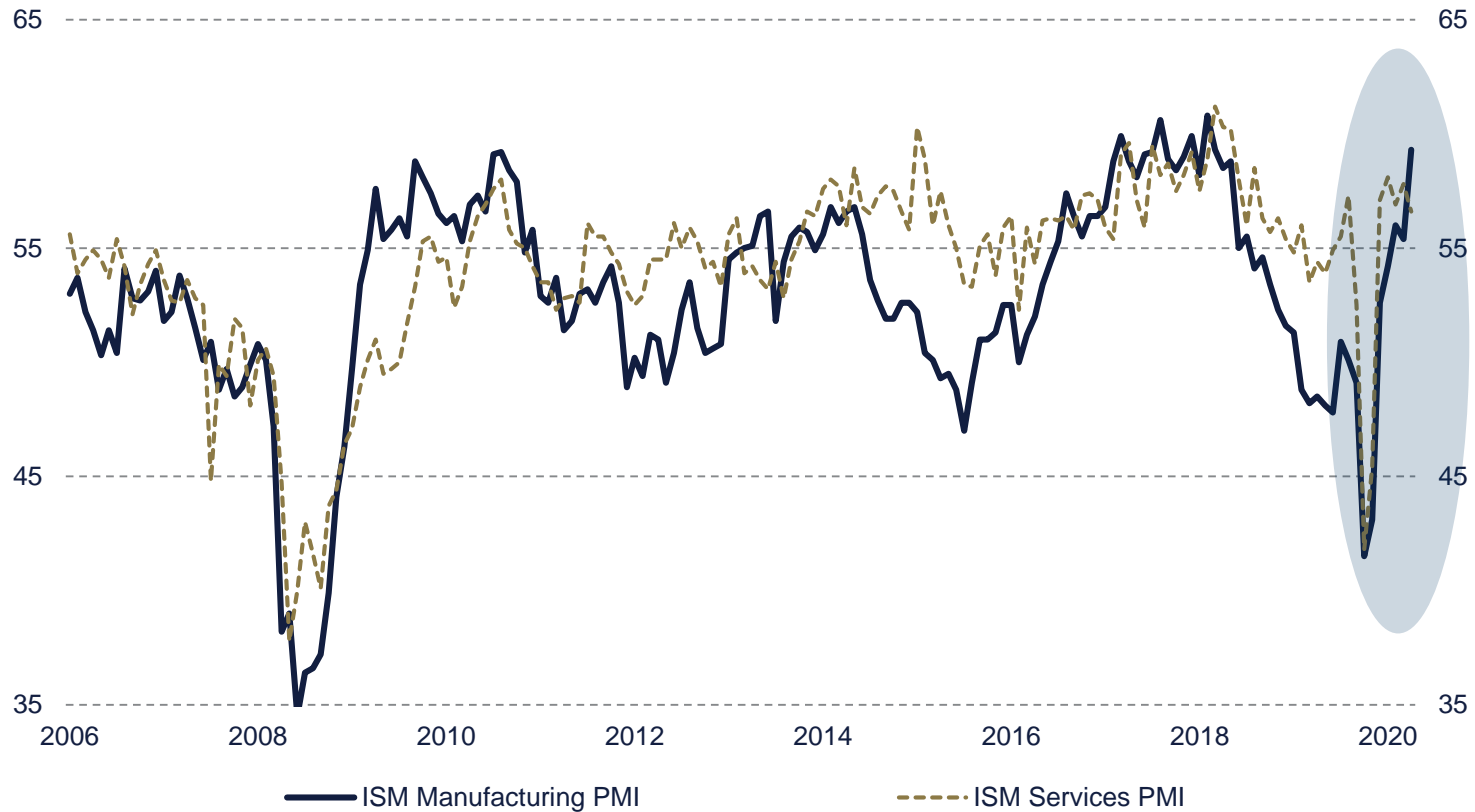
	Asset Class	View	Rationale
Fixed Income	US Treasuries		Treasuries offer protection from a slowdown in growth, but we believe that current long-term yields are unattractive, preferring shorter maturities
	US Credit		The incoming economic downturn will undoubtedly lead to an increase in the number of corporate 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 and Investment Grade
	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		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 Infrastructure, Biotechnology and Clean Energy
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

The beginning of the end of the pandemic



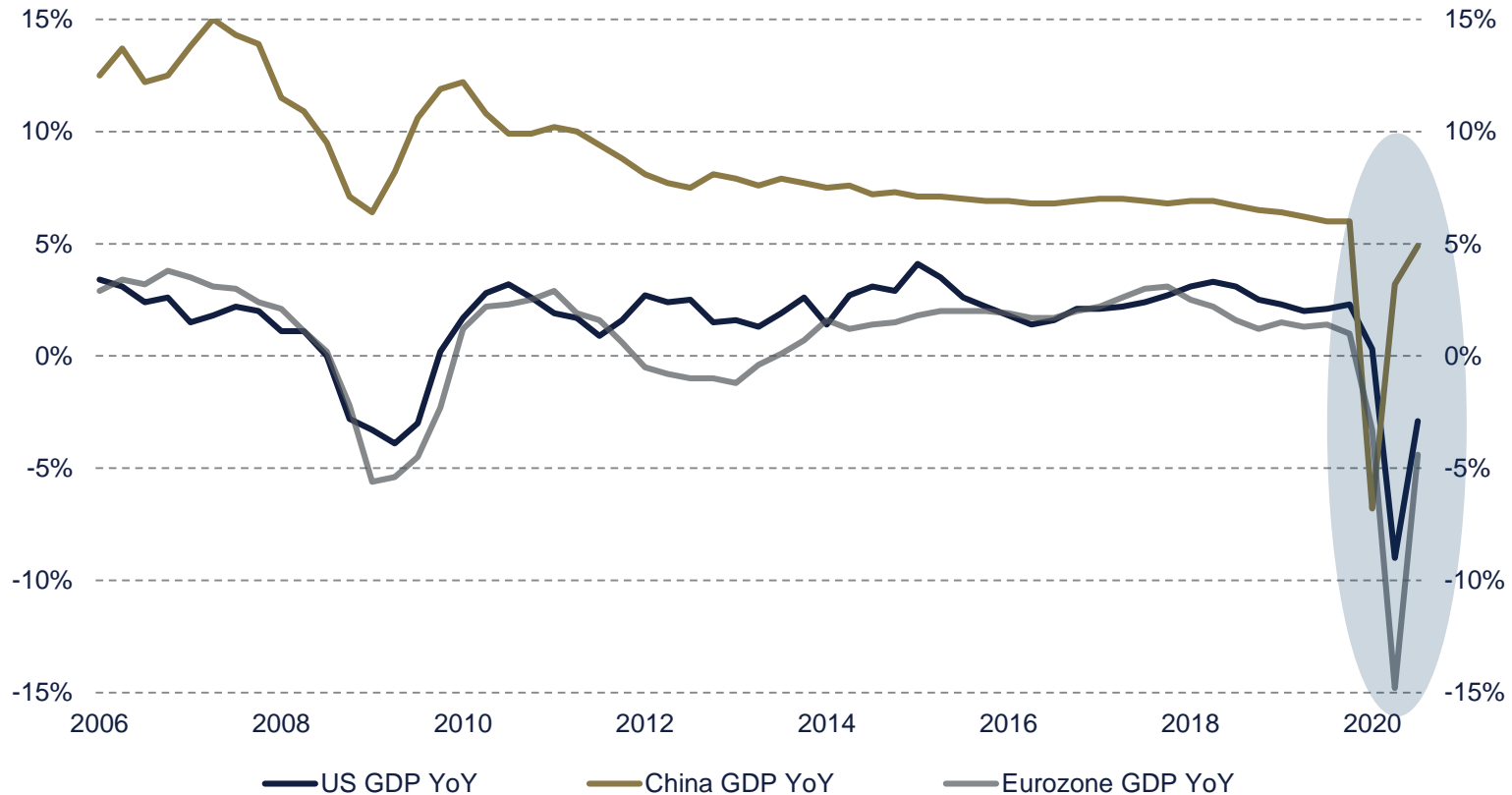
- The Covid crisis is following practically the **best possible scenario**. The virus advances but in a controlled way, and not just one, but several **vaccines have been developed in record time**, exceeding all expectations regarding their **effectiveness**
- This great achievement **marks the beginning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

The economy keeps bouncing back



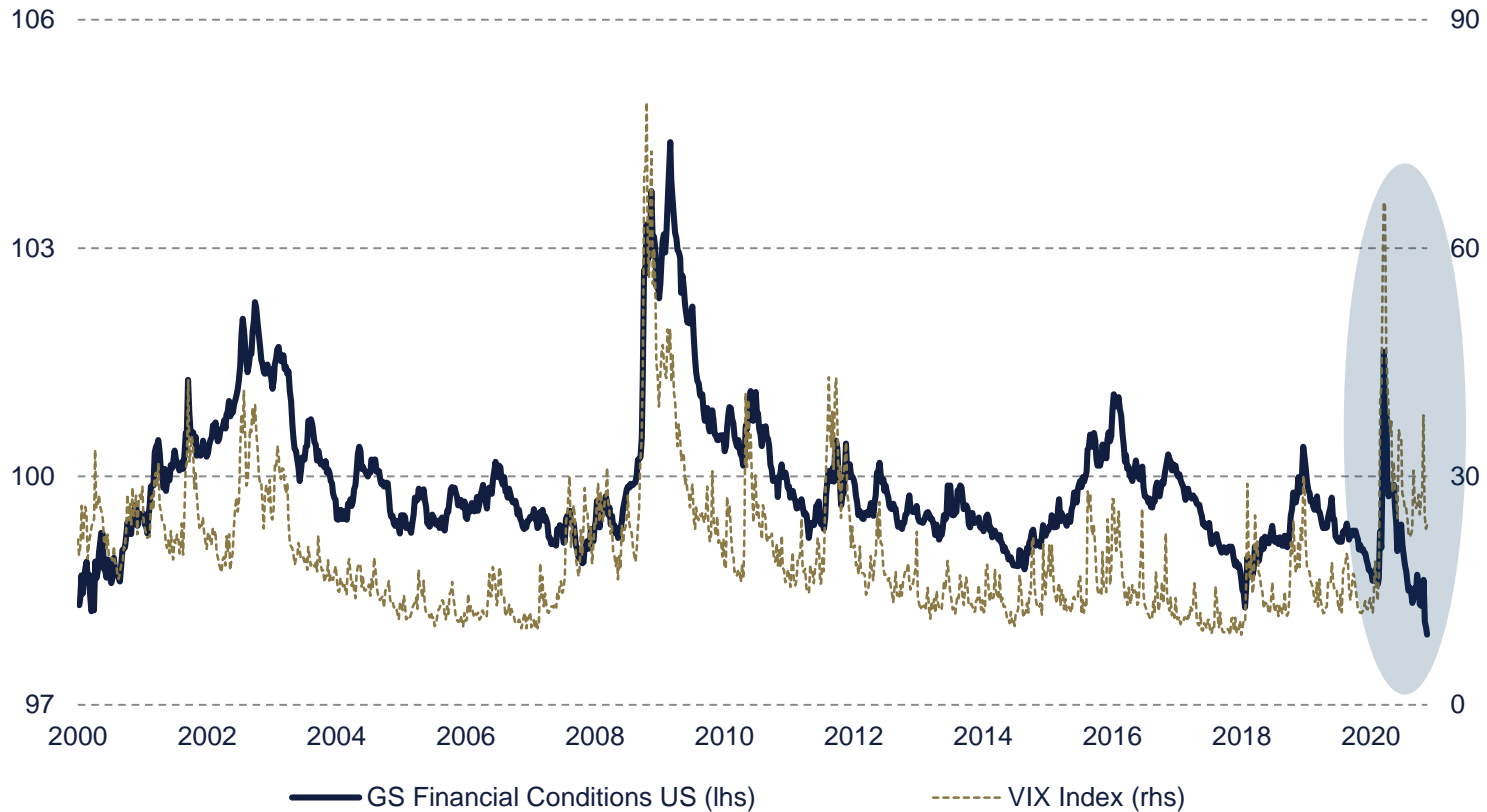
- Meanwhile, **fiscal and monetary measures continue to prevent the collapse of the economy**
- Despite increased restrictions due to the surge in infections, **leading indicators continue to point towards an acceleration** in economic activity

China's recovery as a template



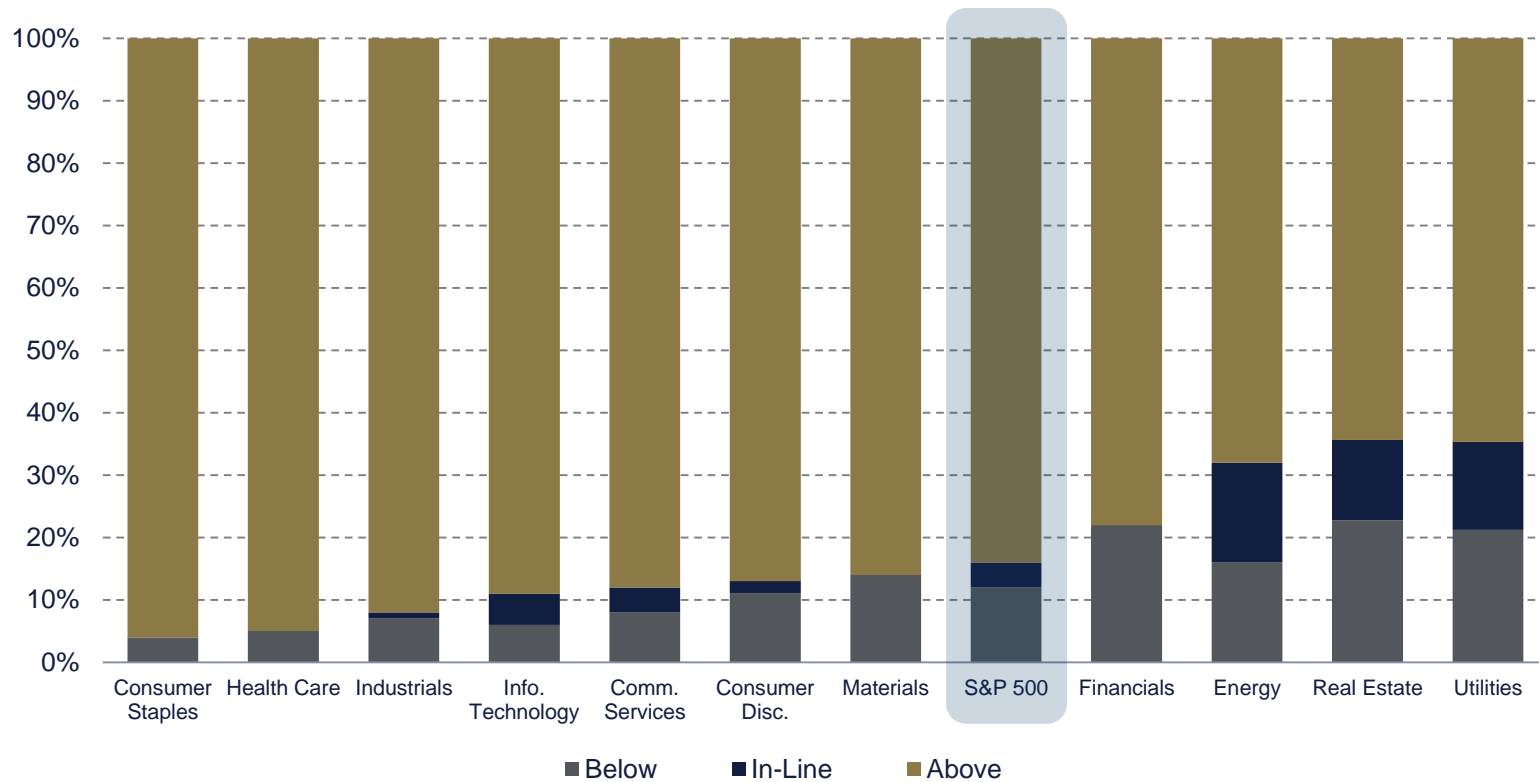
- The **Chinese economy has managed to recover practically to its pre-crisis level**, managing to grow for two consecutive quarters. This shows a way out of the crisis to the rest of the countries that were later affected by the virus
- However, neither growth in the rest of the countries was comparable 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**

Return to tranquility



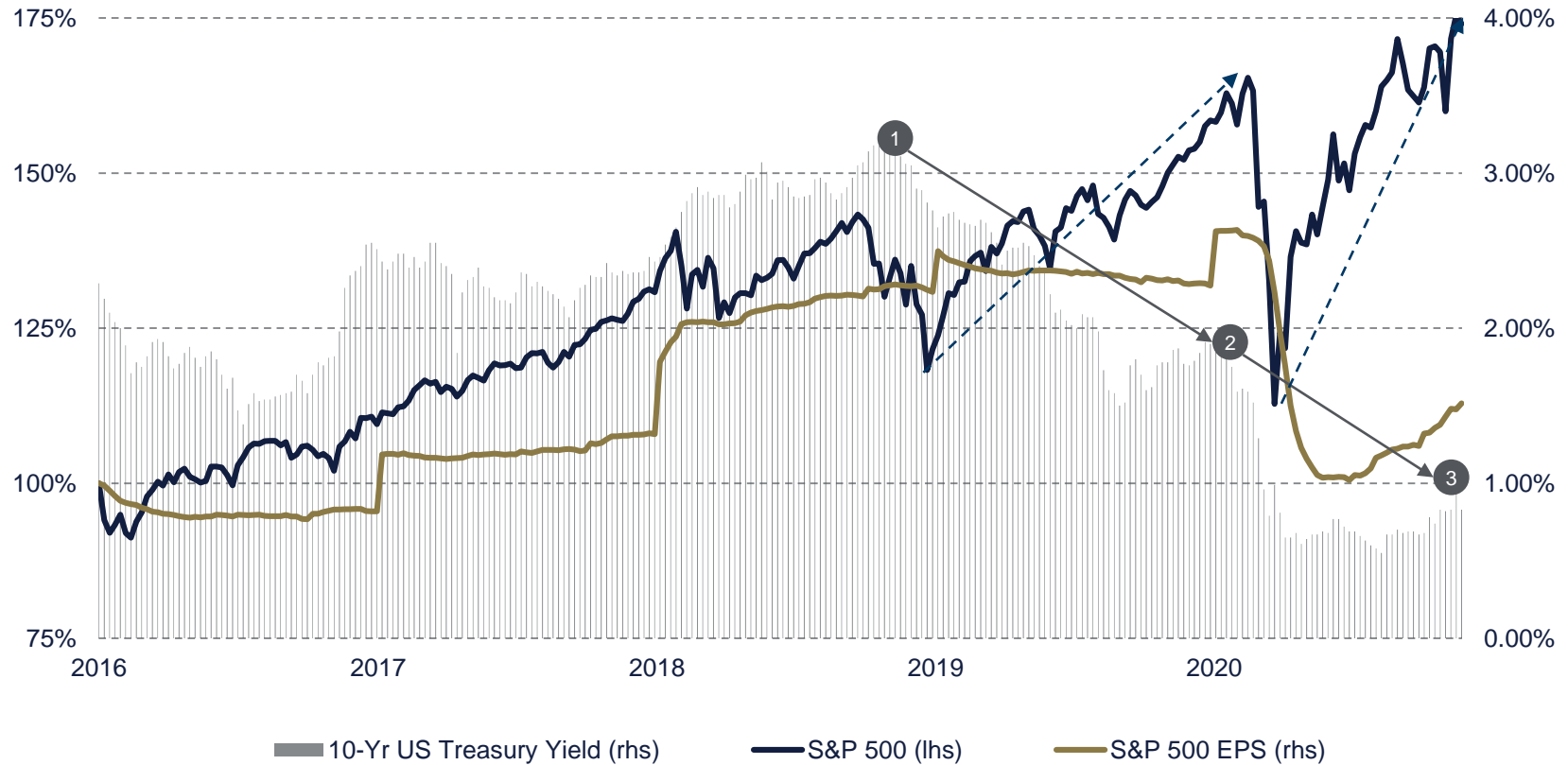
- **Financial conditions continue to facilitate both economic recovery and market recovery**
- In fact, the drop in interest rates has been so steep, and the tightening in risk premiums across all asset classes so massive, that we **currently have the most accommodative financial conditions ever experienced**

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
- The surprises have been positive 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)**

The bullish case for equities



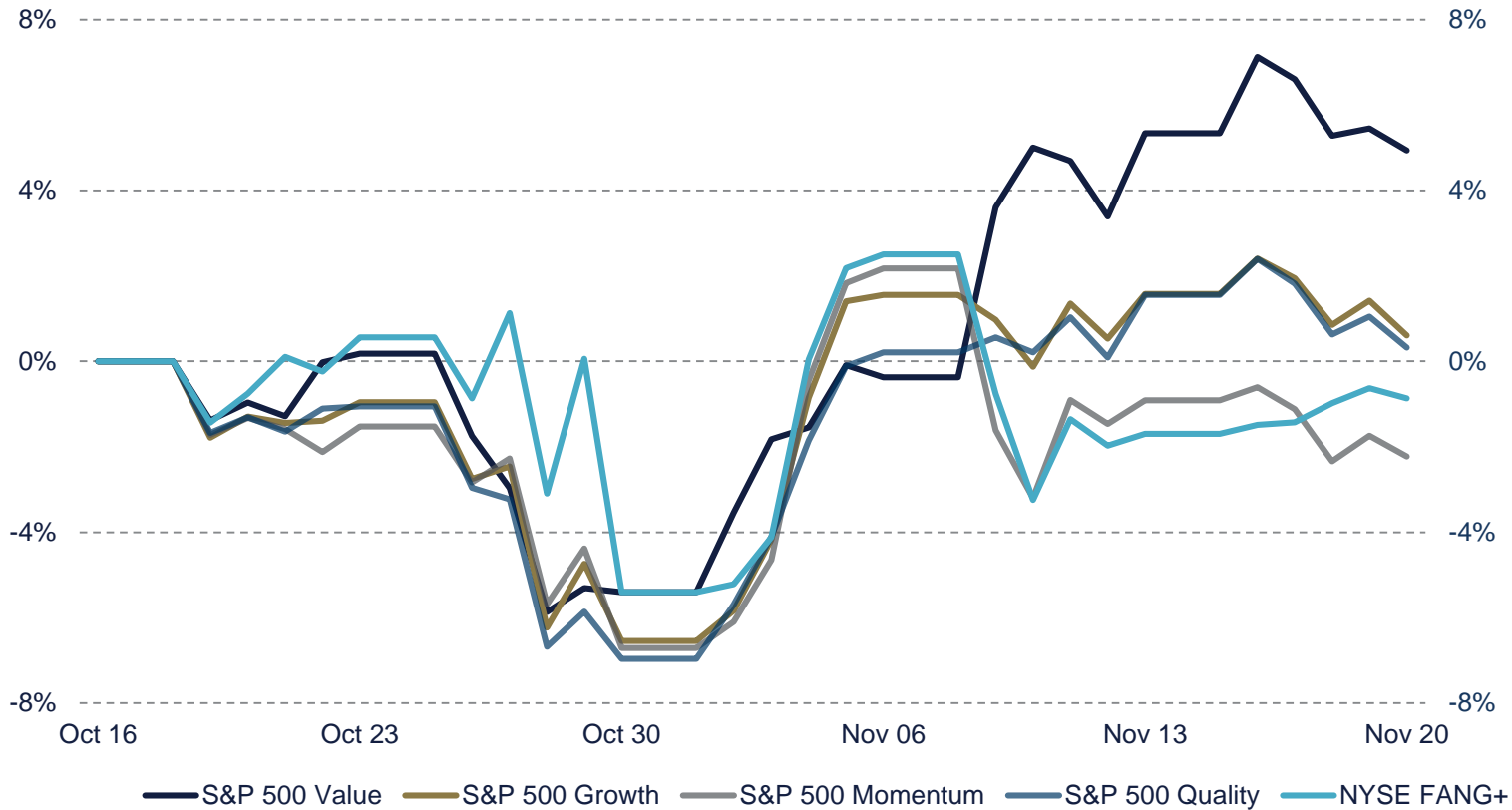
- Against this backdrop of favorable financial conditions and improvement in corporate earnings, equity markets are reaching all-time highs. Looking ahead, **we still see room for further multiple expansion**, as the impact of the dramatic drop in interest rates has not been fully priced in by markets
- 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)

A word of caution regarding credit markets



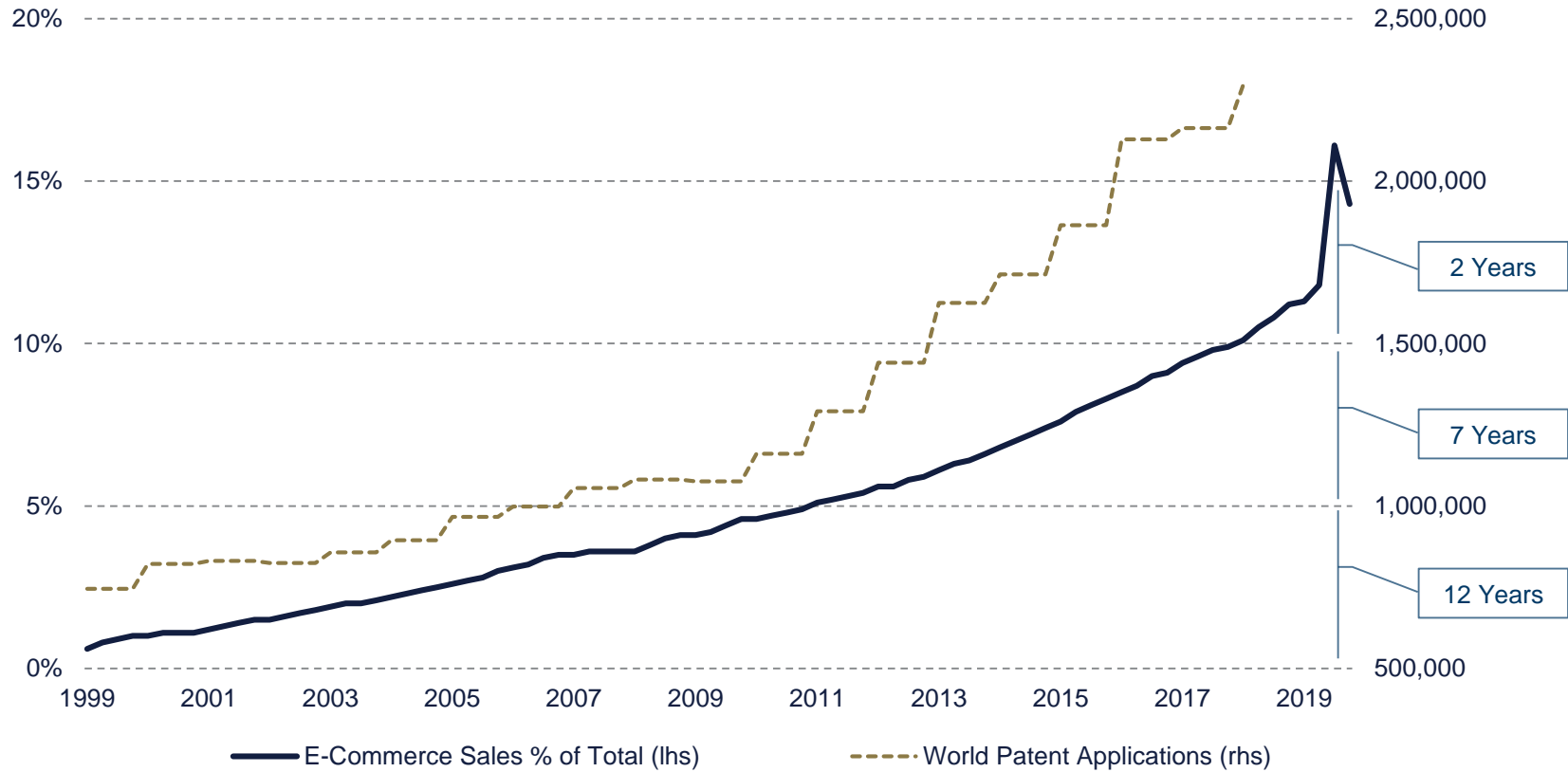
- The search for yield is causing not only an increase in equity valuations, but also a **sharp tightening in credit spreads**
- Unlike equities, where we still see upside potential, **credit spreads are close to their historical floor**, leaving little room for future appreciation

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**

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**

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 Se consiguen evitar nuevos confinamientos estrictos y la actividad económica continúa, con medidas de control de intensidad variable 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	10%	60% (+10%)	30% (-10%)

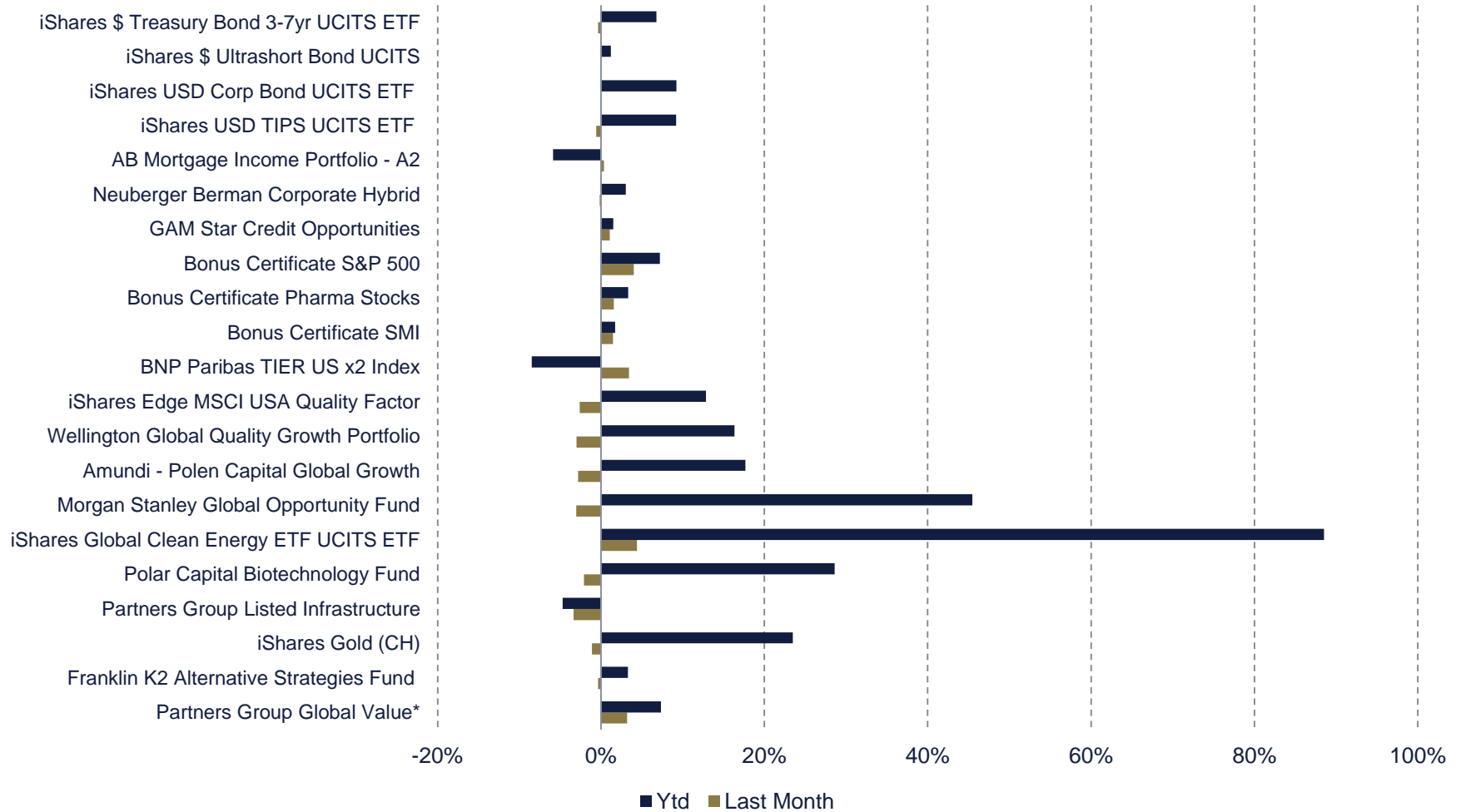
Short-term catalyzers

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

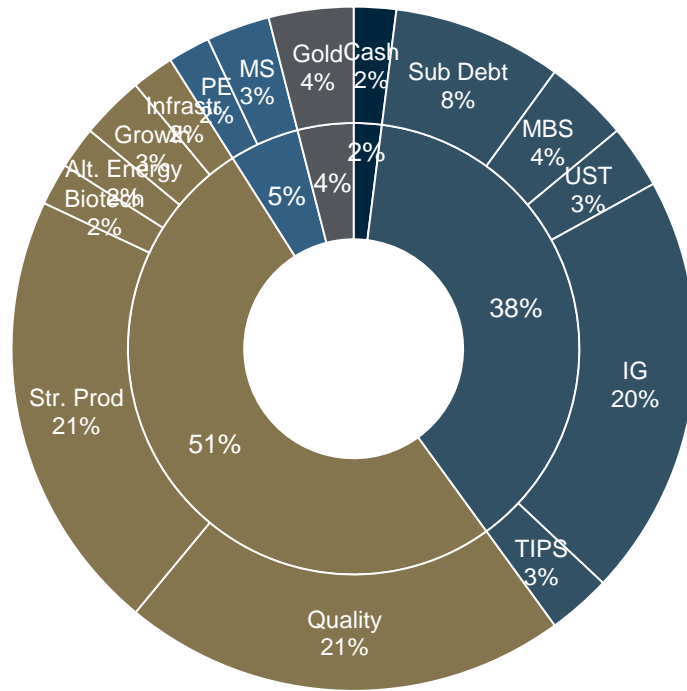
Model portfolio evolution



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

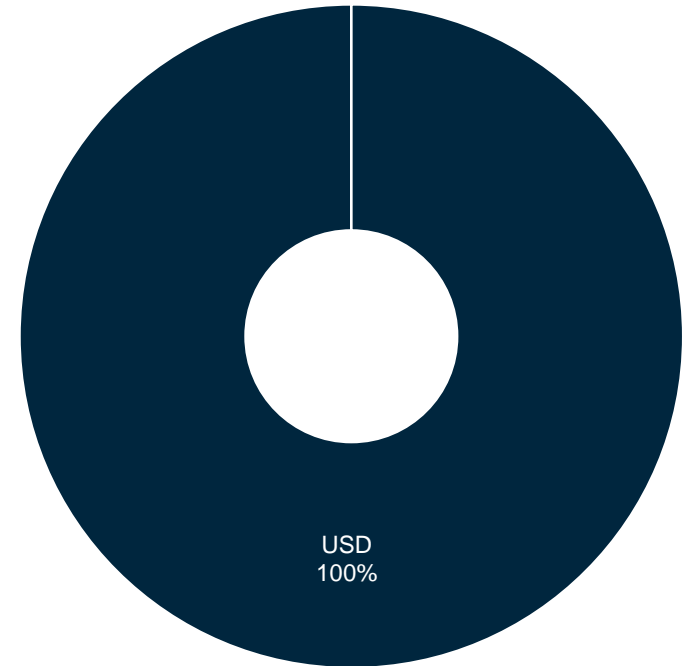
Boreal Balanced Portfolio USD

Asset Allocation



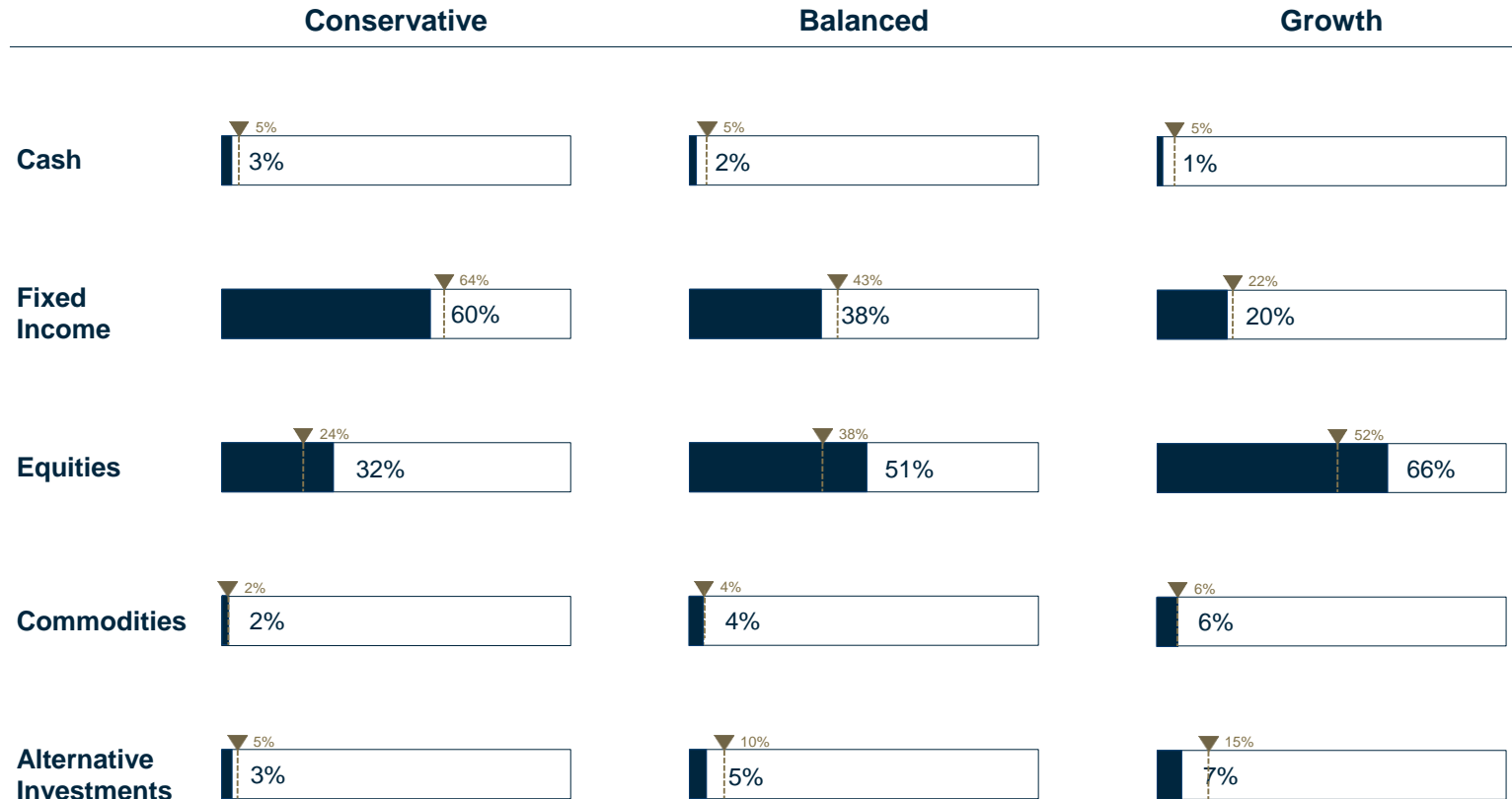
■ Cash
 ■ Fixed Income
 ■ Equity
 ■ Alternative Inv.
 ■ Commodities

Currency Allocation



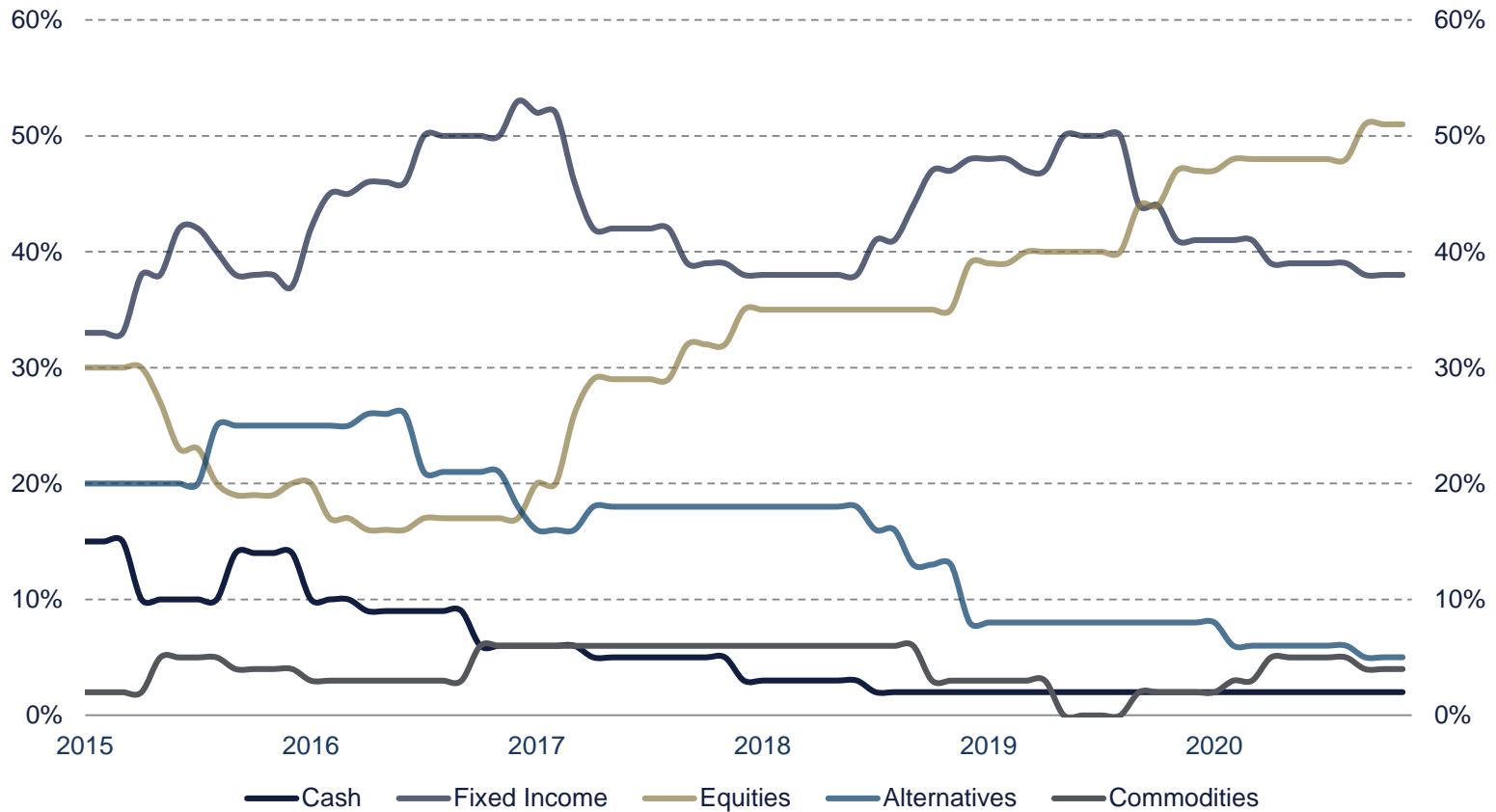
■ USD

Boreal Investment Profiles

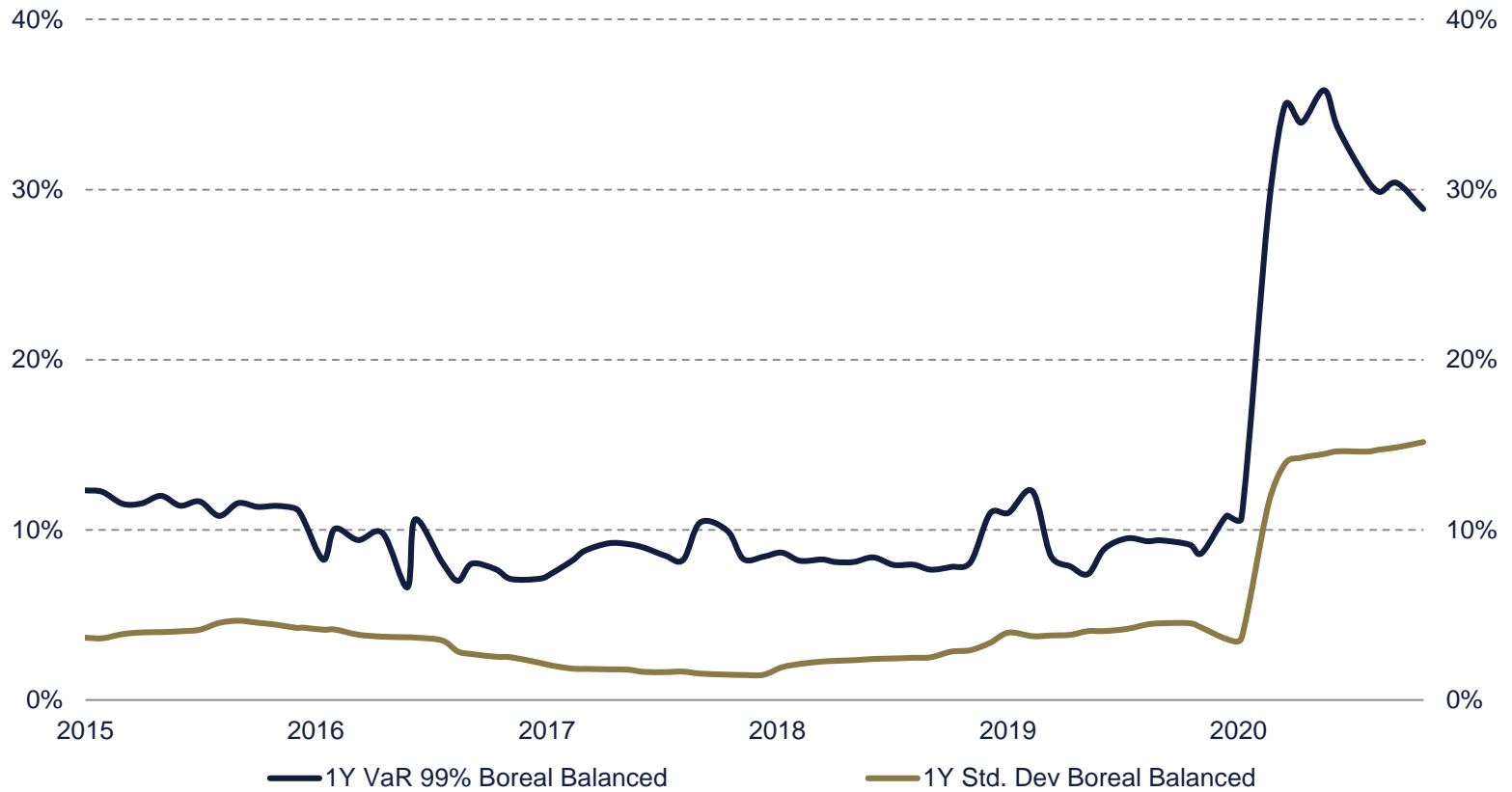


▼ Strategic Asset Allocation

Boreal Balanced Portfolio – Asset Allocation evolution

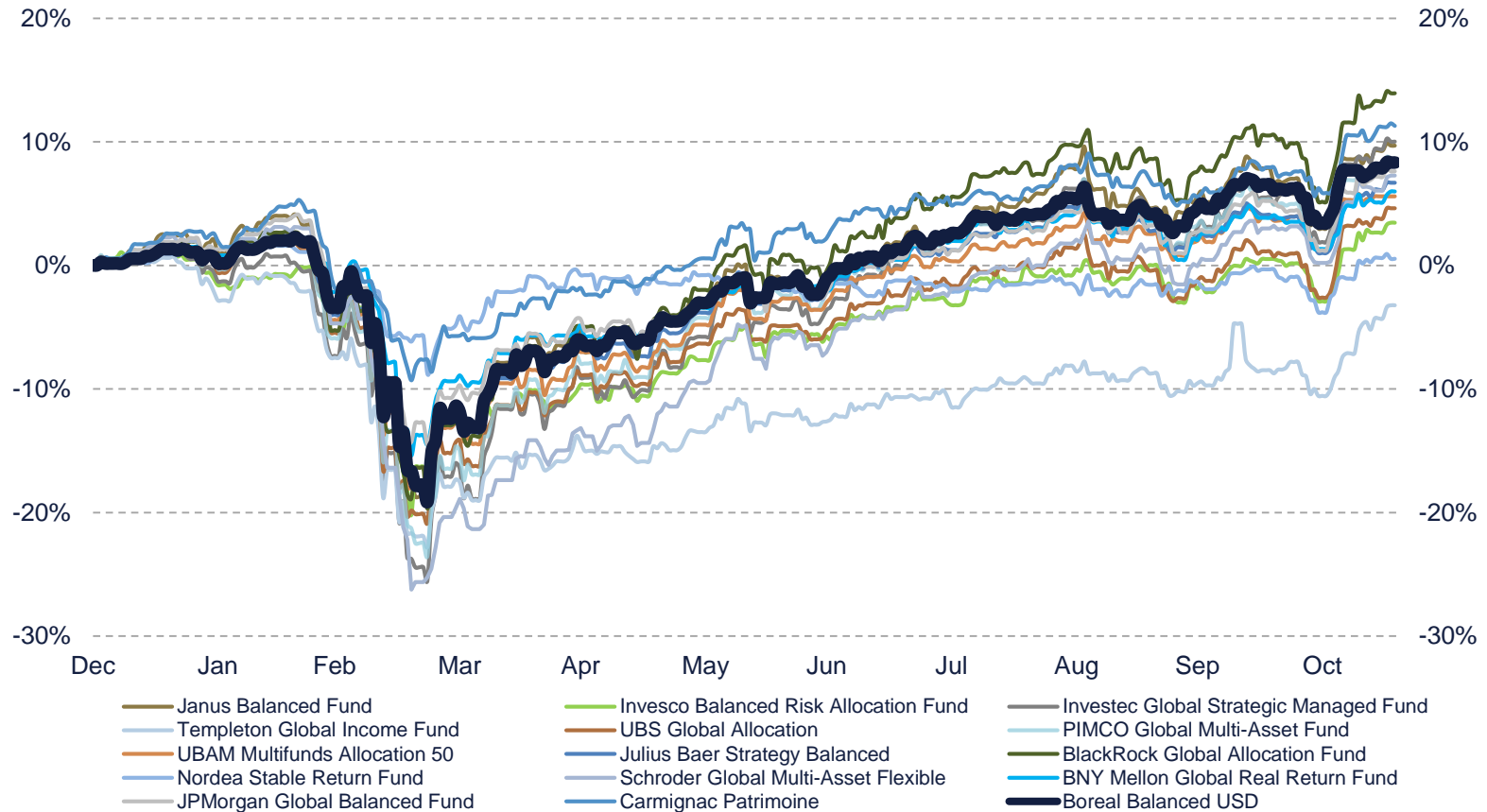


Boreal Balanced Portfolio – VaR evolution



¹ As of November 18, 2020
Source: Bloomberg

Boreal Balanced Portfolio – Peer comparison



- **Total Return (Ytd¹): 6th out of 15**
- **Standard Deviation (1 year¹): 11th out of 15**
- **Downside Risk (1 year¹): 3th out of 15**
- **Sharp Ratio (1 year¹): 2th out of 15**

¹ As of November 18, 2020
Source: Bloomberg

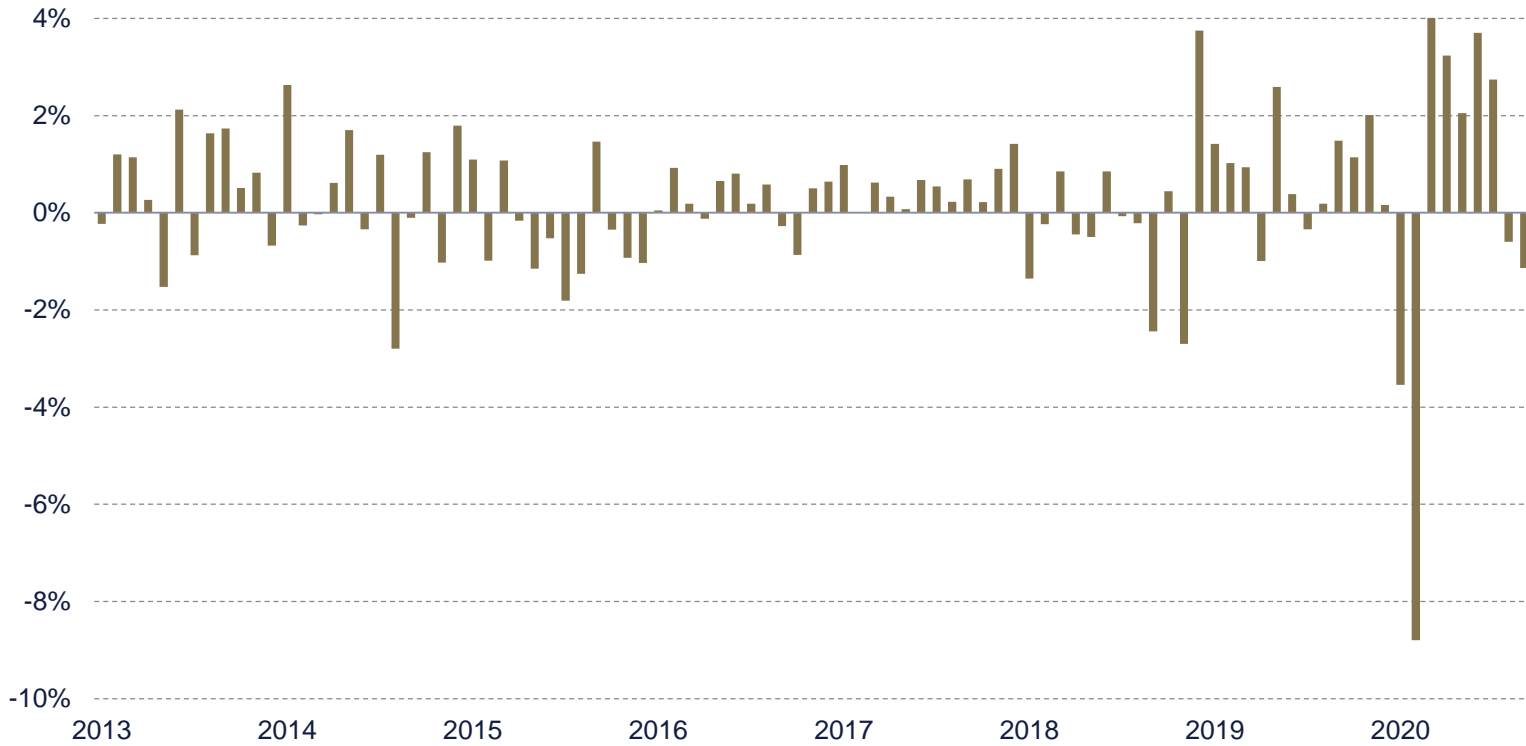
Boreal Balanced Portfolio – Ytd performance



- **Total Return (Ytd¹): 8.28%**
- **Standard Deviation (Ytd¹): 16.12%**
- **Downside Risk (Ytd¹): 12.66%**
- **Sharpe Ratio (Ytd¹): 0.65**

¹ As of November 18, 2020

Boreal Balanced Portfolio – Historical performance (1)



- **Total Return (1 year¹): 11.04%**
- **Total Return (3 year¹): 19.75%**
- **Total Return (Since Jan 13¹): 30.76%**

¹ As of November 18, 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%	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%

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