Investment Policy

November 2021

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CAPITAL MANAGEMENT

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

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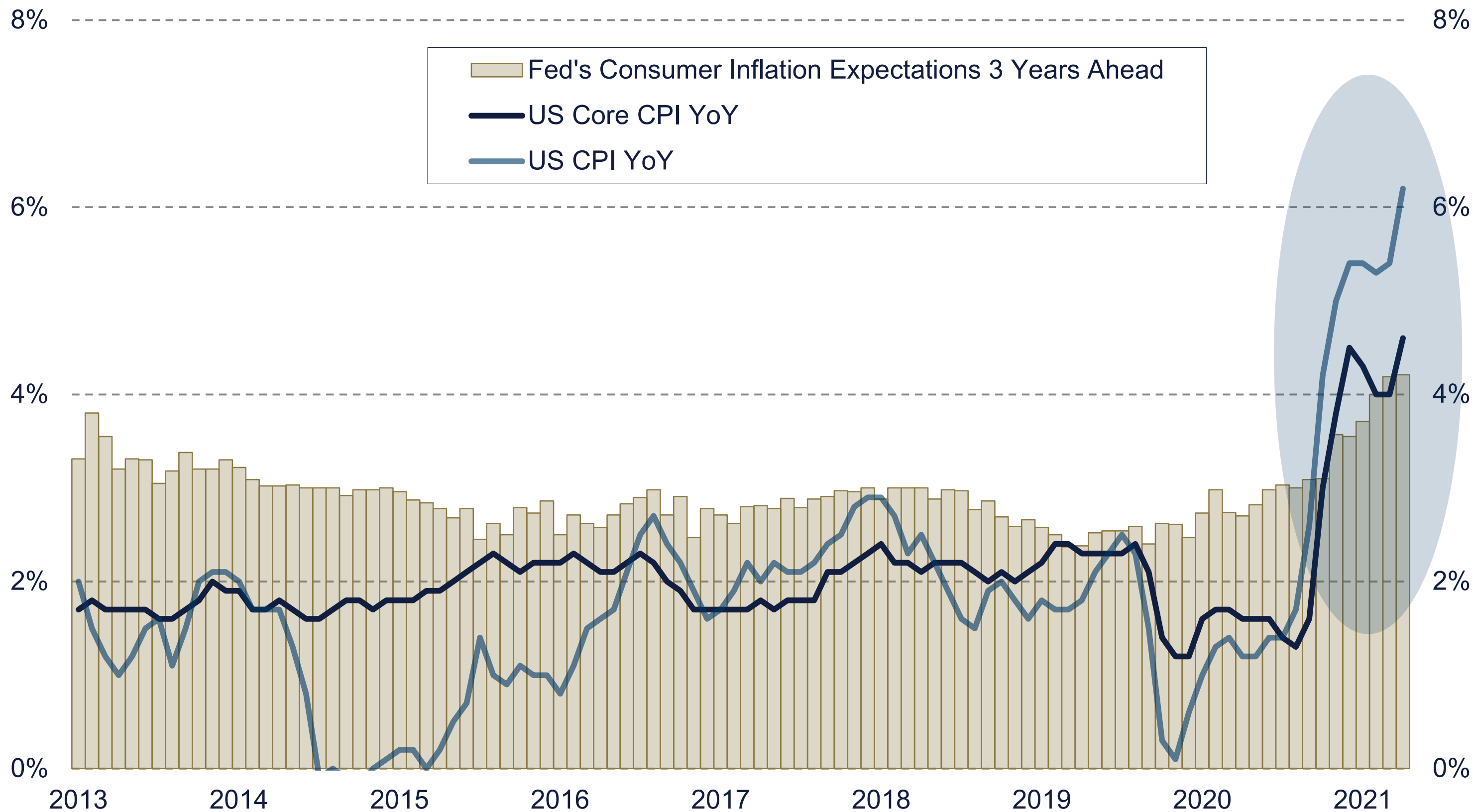
Asset Class		View	Rationale
Fixed Income	US Treasuries	+	Treasury bonds offer protection against an economic slowdown and / or increased risk aversion. With interest rates anchored at current levels, and credit spreads that have narrowed massively, we favor long-term US Treasuries
	US Credit	−	The crisis 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 of view
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
	Asia	+	We recommend investing selectively in the region; favoring high growth stocks
	Emerging Markets	−	Emerging market 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 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

+ Overweight − Underweight = Neutral

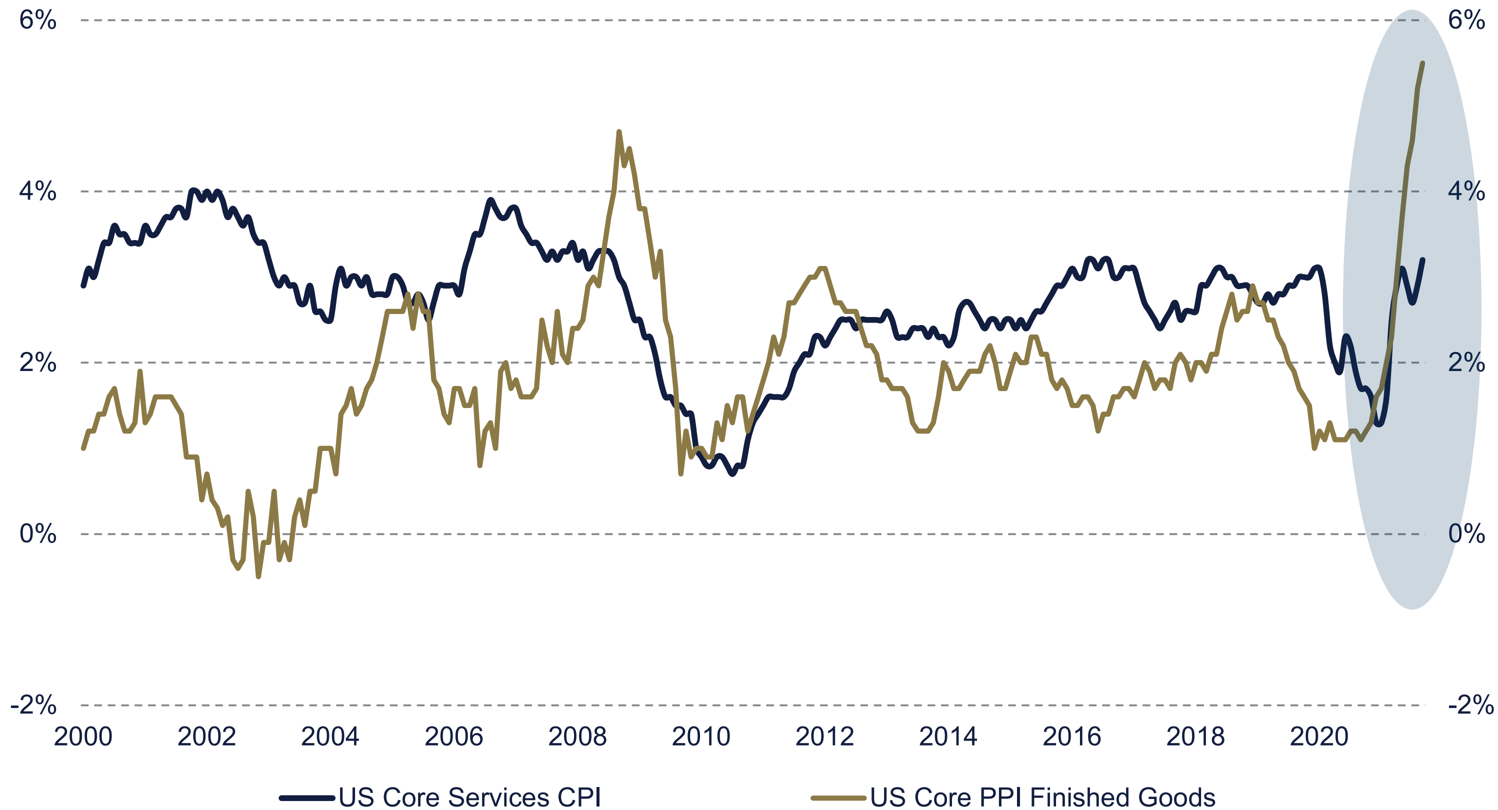
Inflation shows no signs of abating



- **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?

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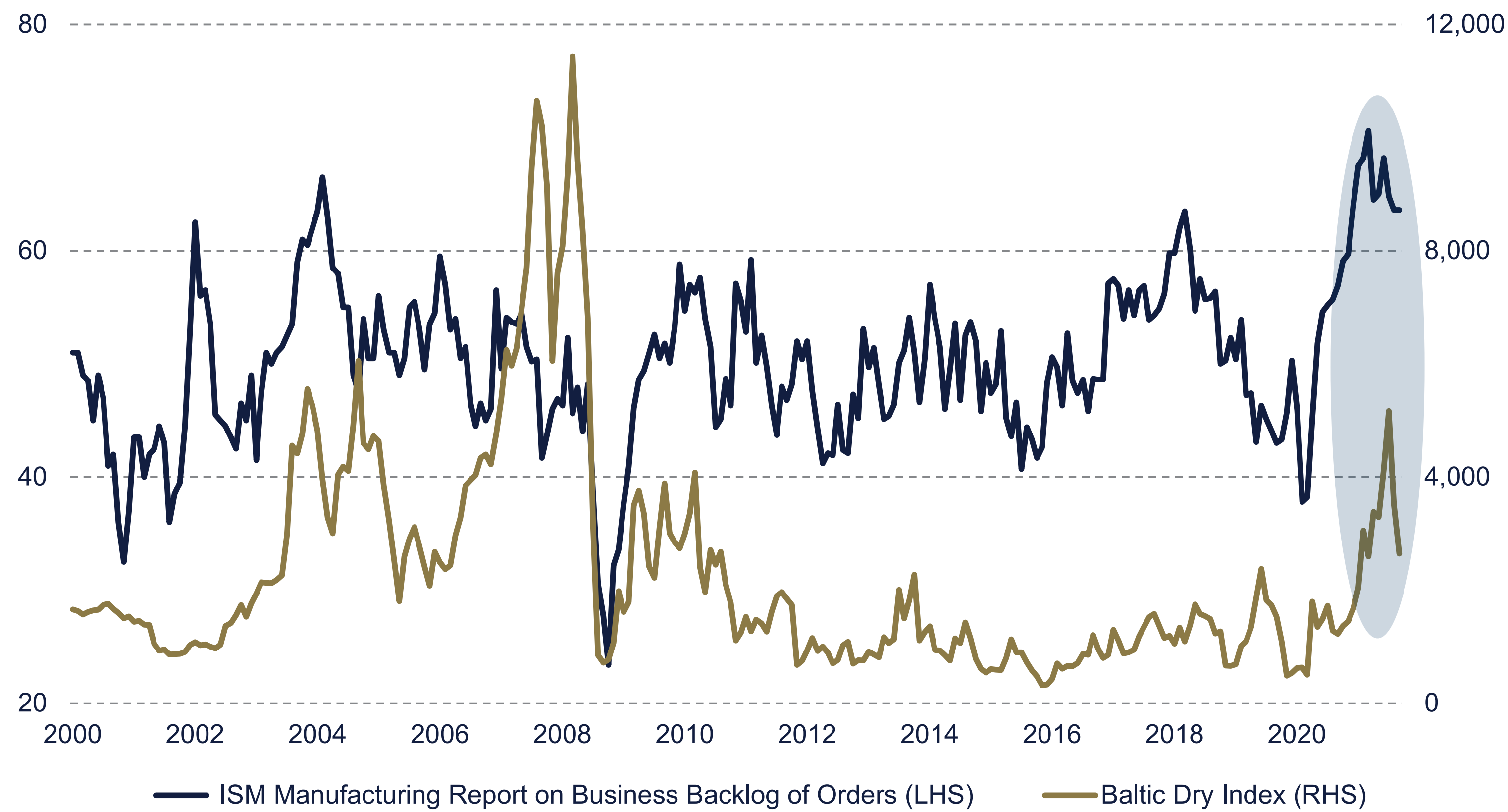
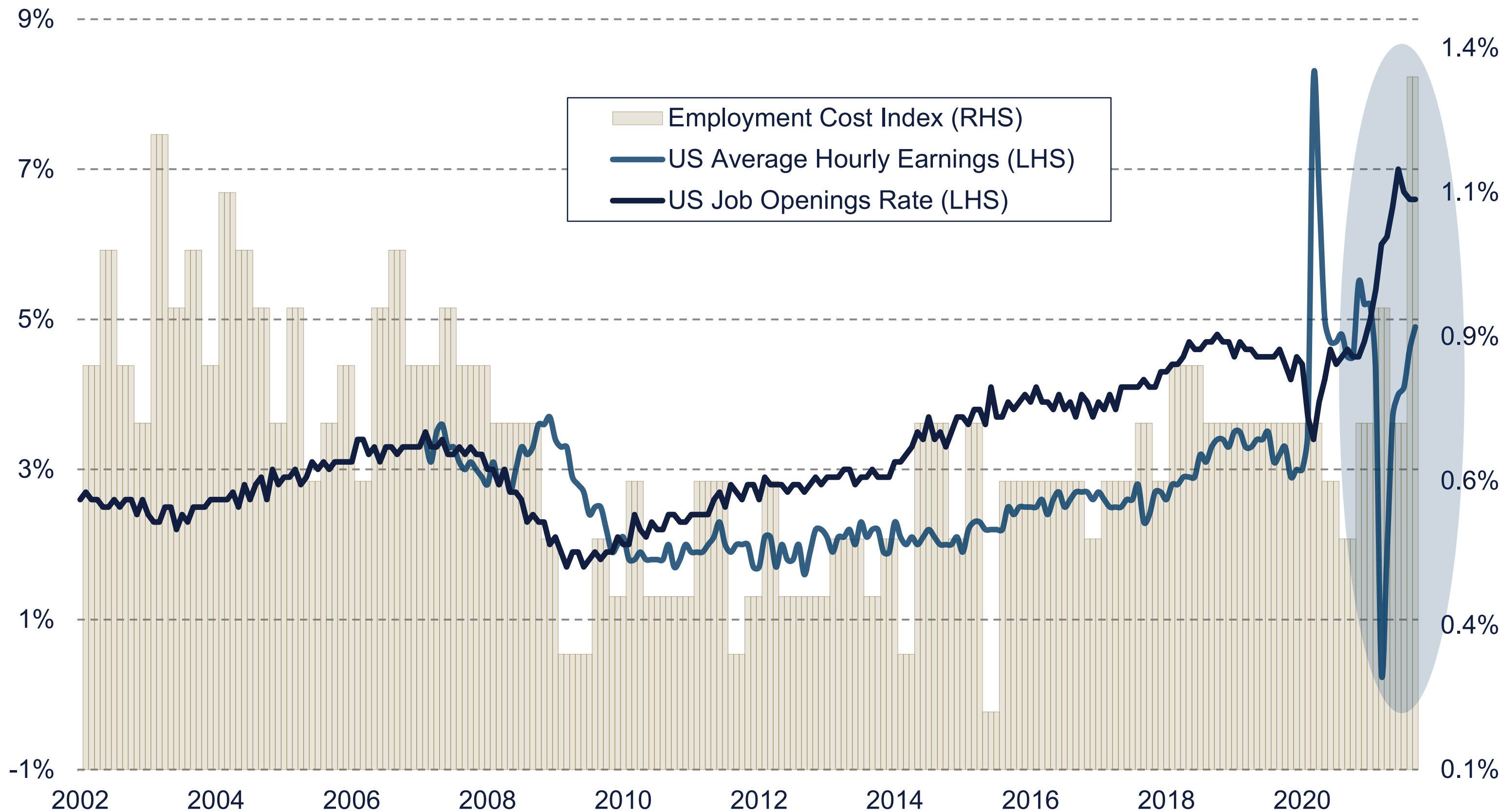


- Although the time lags to increase capacity in some industries can be substantial, **supply-side shortages should be addressable by the market itself**
- We may be **beginning to witness the tipping point** in the global supply chain bottlenecks

Source: Bloomberg

Job shortages 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”

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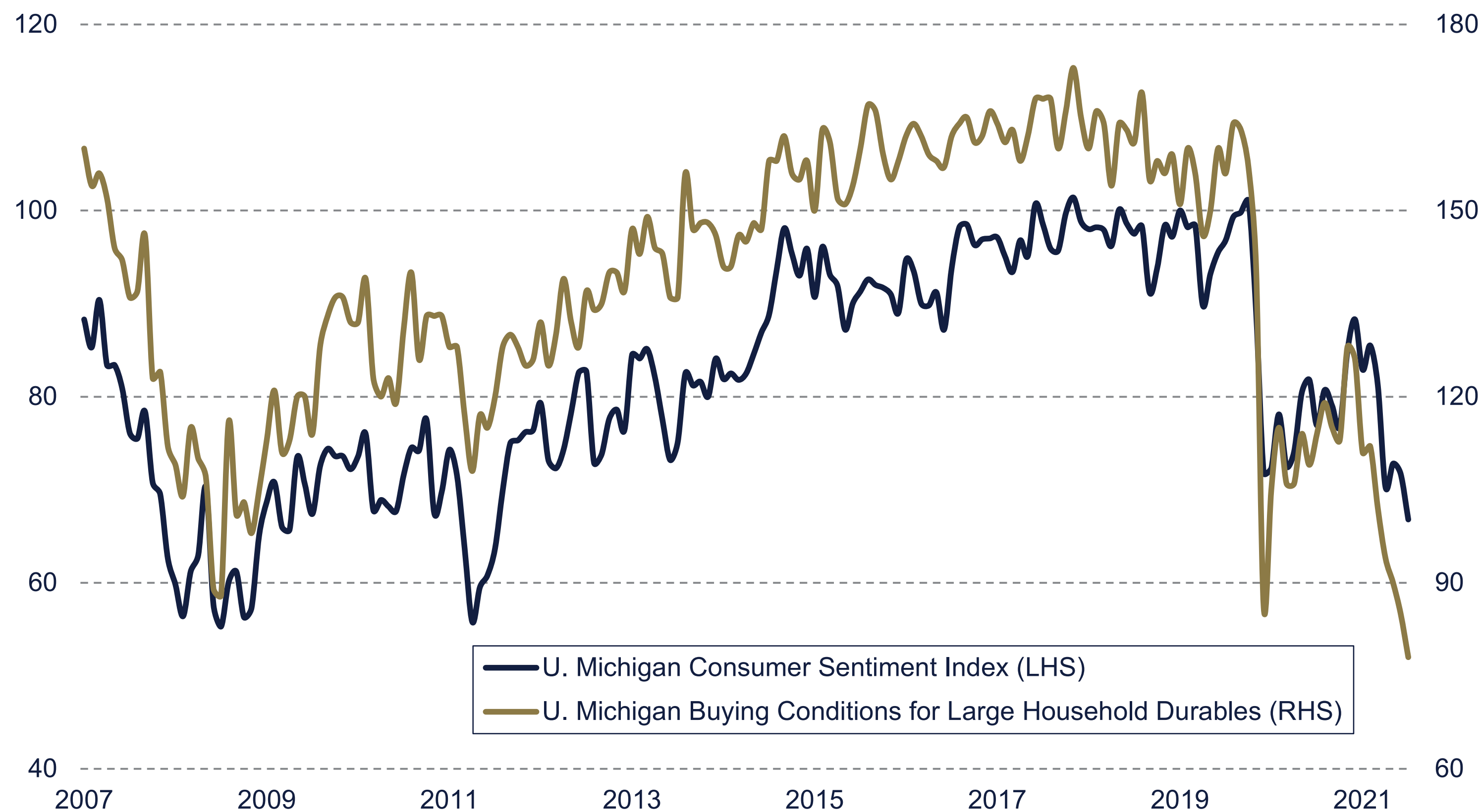
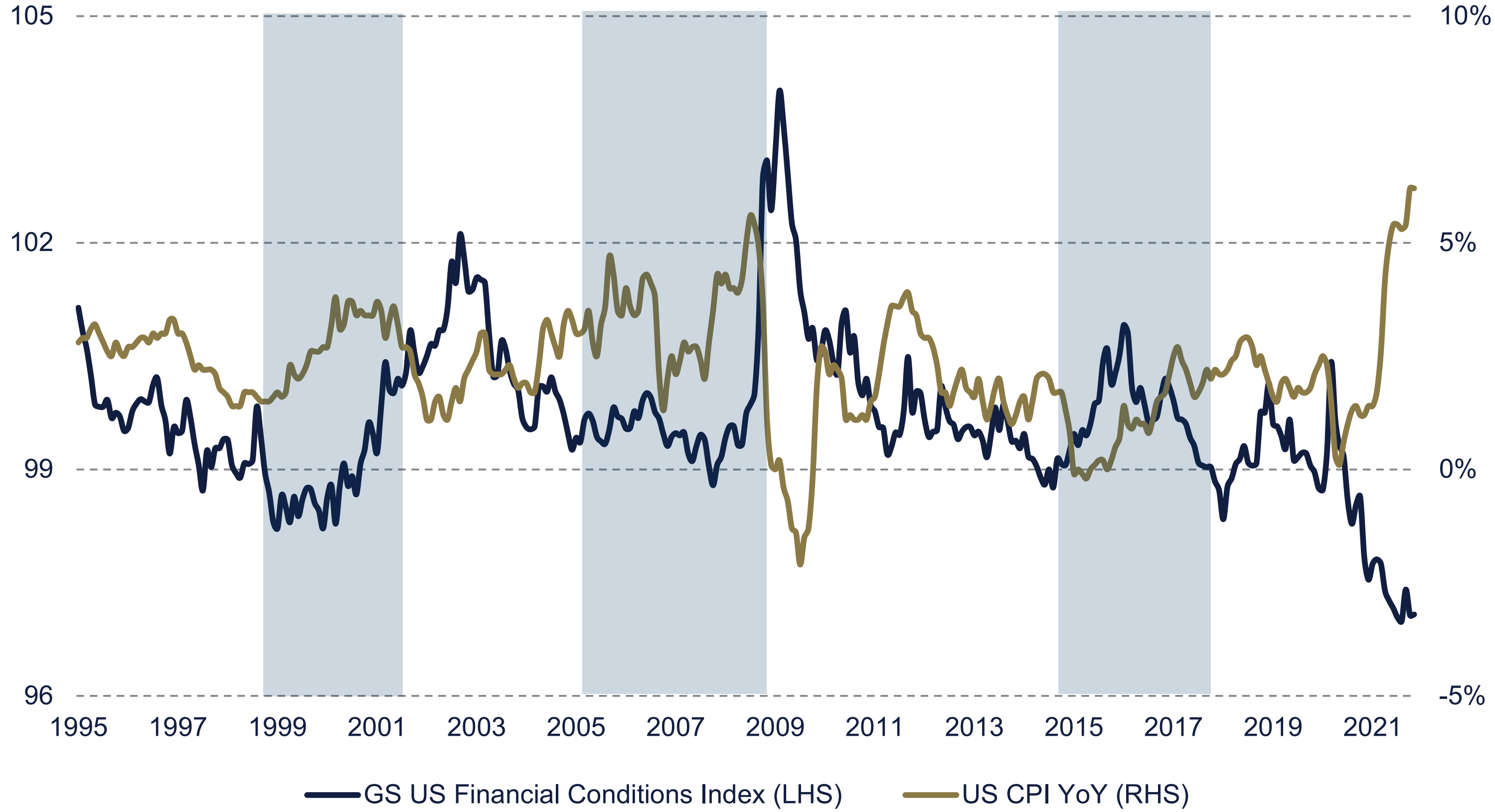


- **Prices cannot continue to rise unless there is plenty of marginal demand**, or runaway money supply
- Wage increases have so far been much more modest than the rate at which the prices of some consumer goods have risen, and may soon **begin to take a toll on consumption**

Source: Bloomberg

For how long can 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

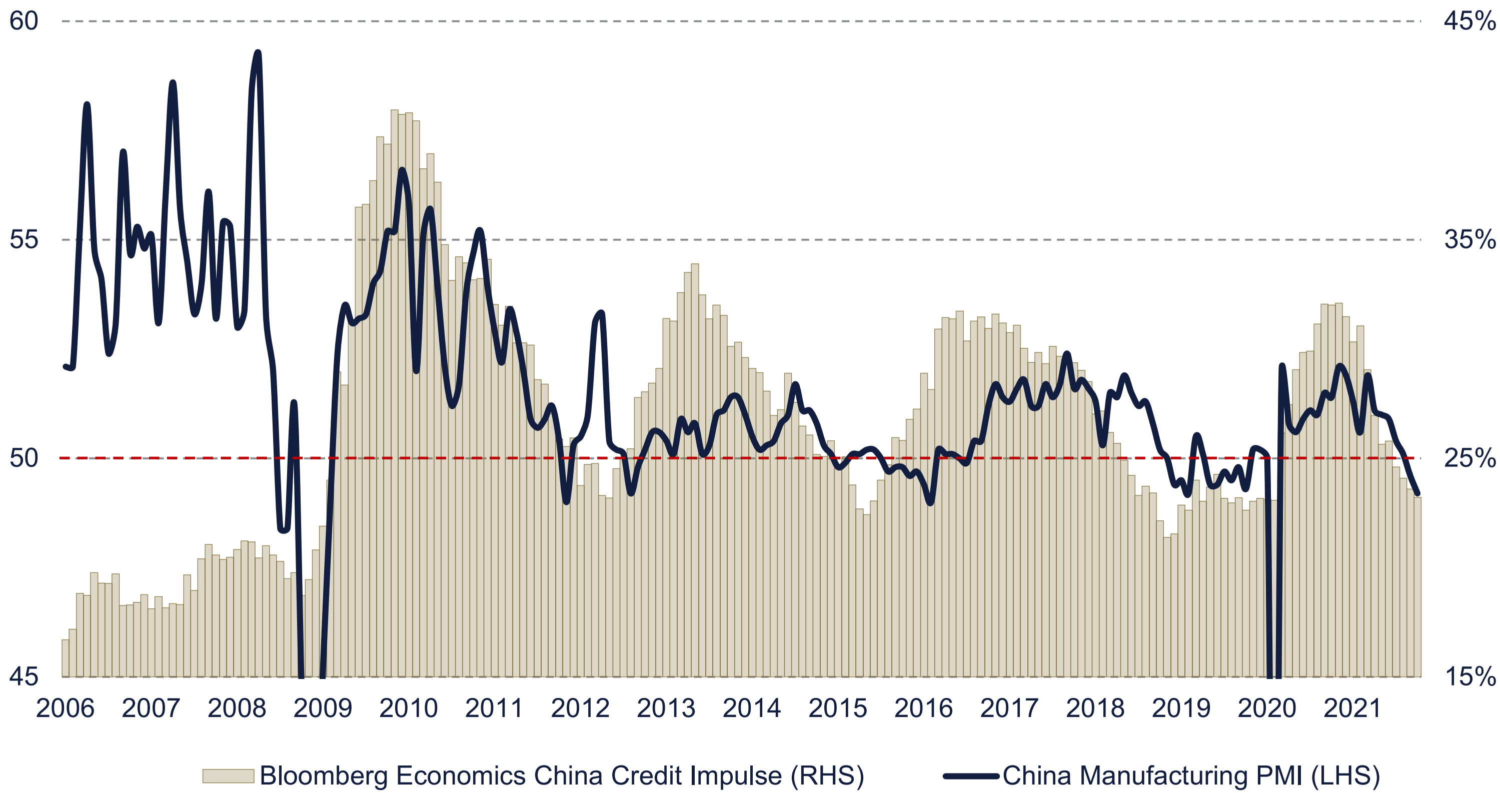
Source: Bloomberg

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

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	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-haven 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%

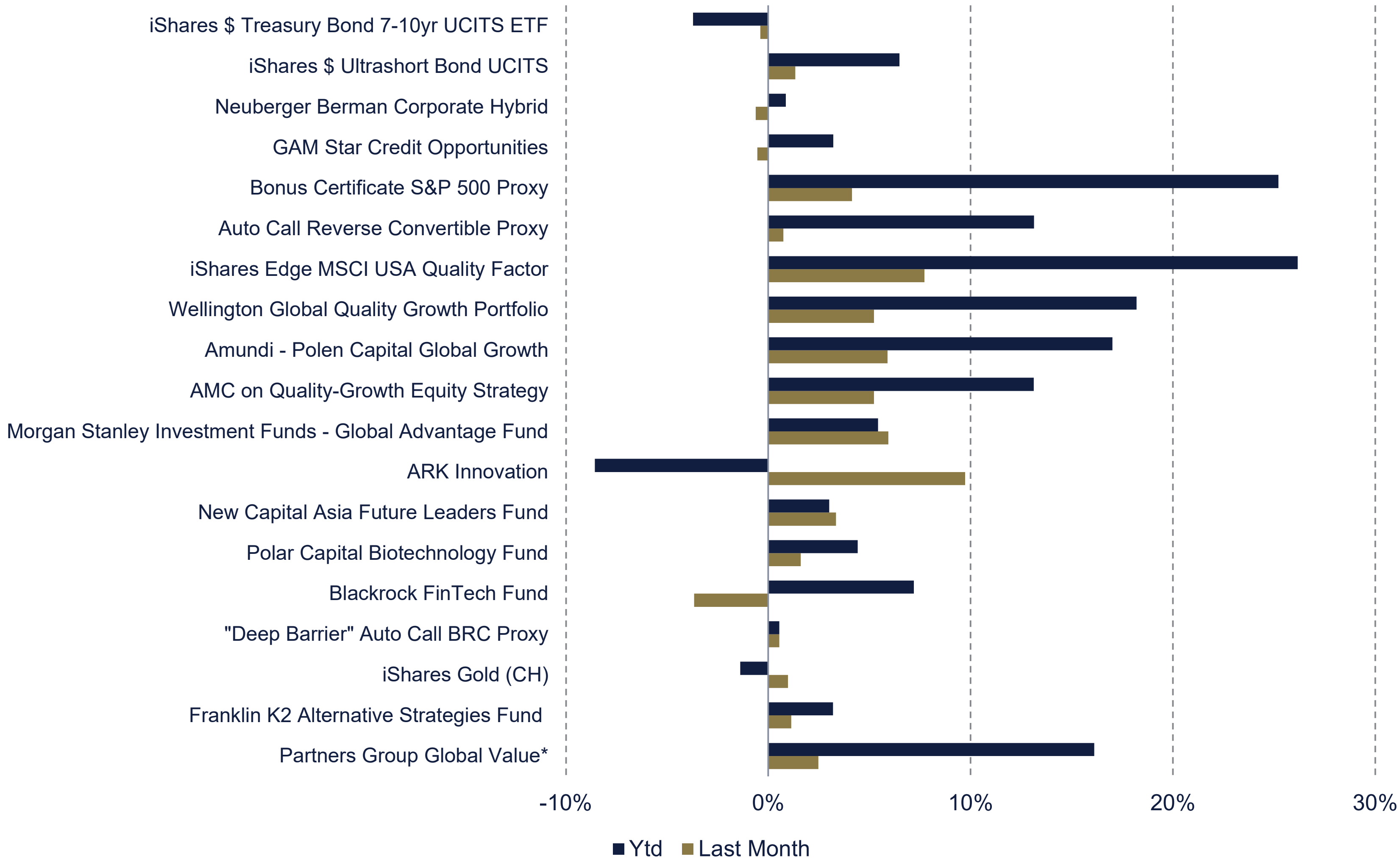
Short-term catalyzers

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

Other risks

Revamp of global taxation, Trade War (II), Spread of populist/nationalistic parties, Geopolitical (Middle East, Russia, Iran, North Korea)

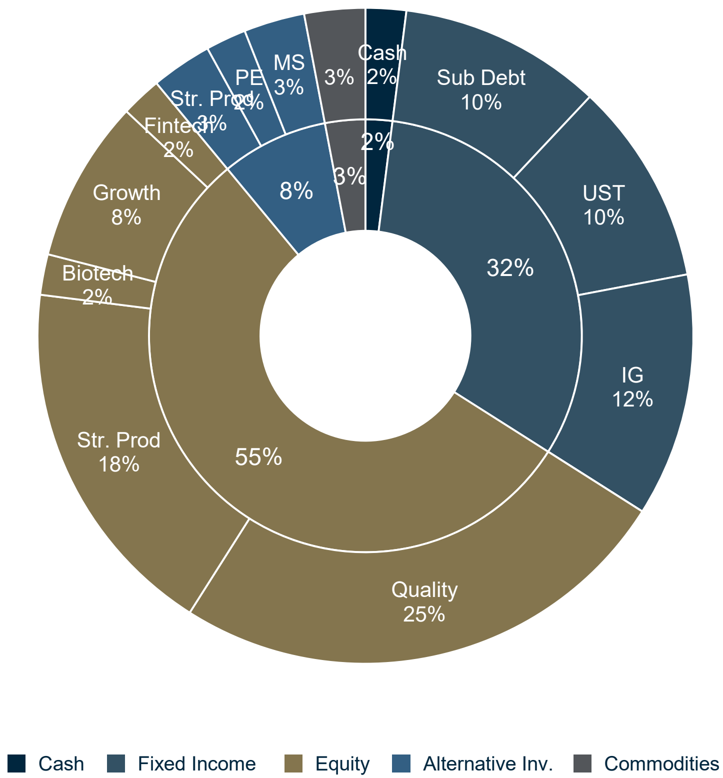
Model portfolio evolution



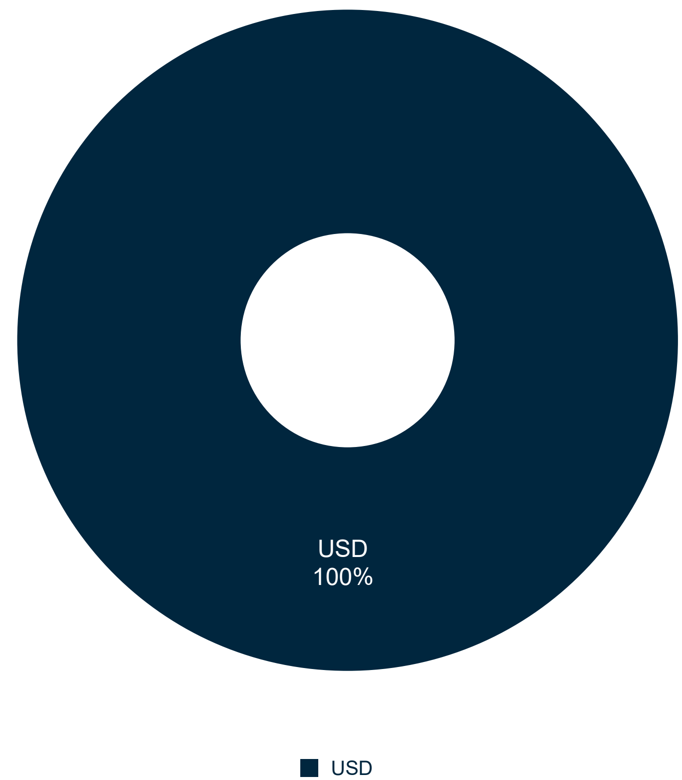
Source: Bloomberg, as of November 18, 2021
* Fund publishes monthly NAV with a 1 month of delay

Boreal Balanced Portfolio USD

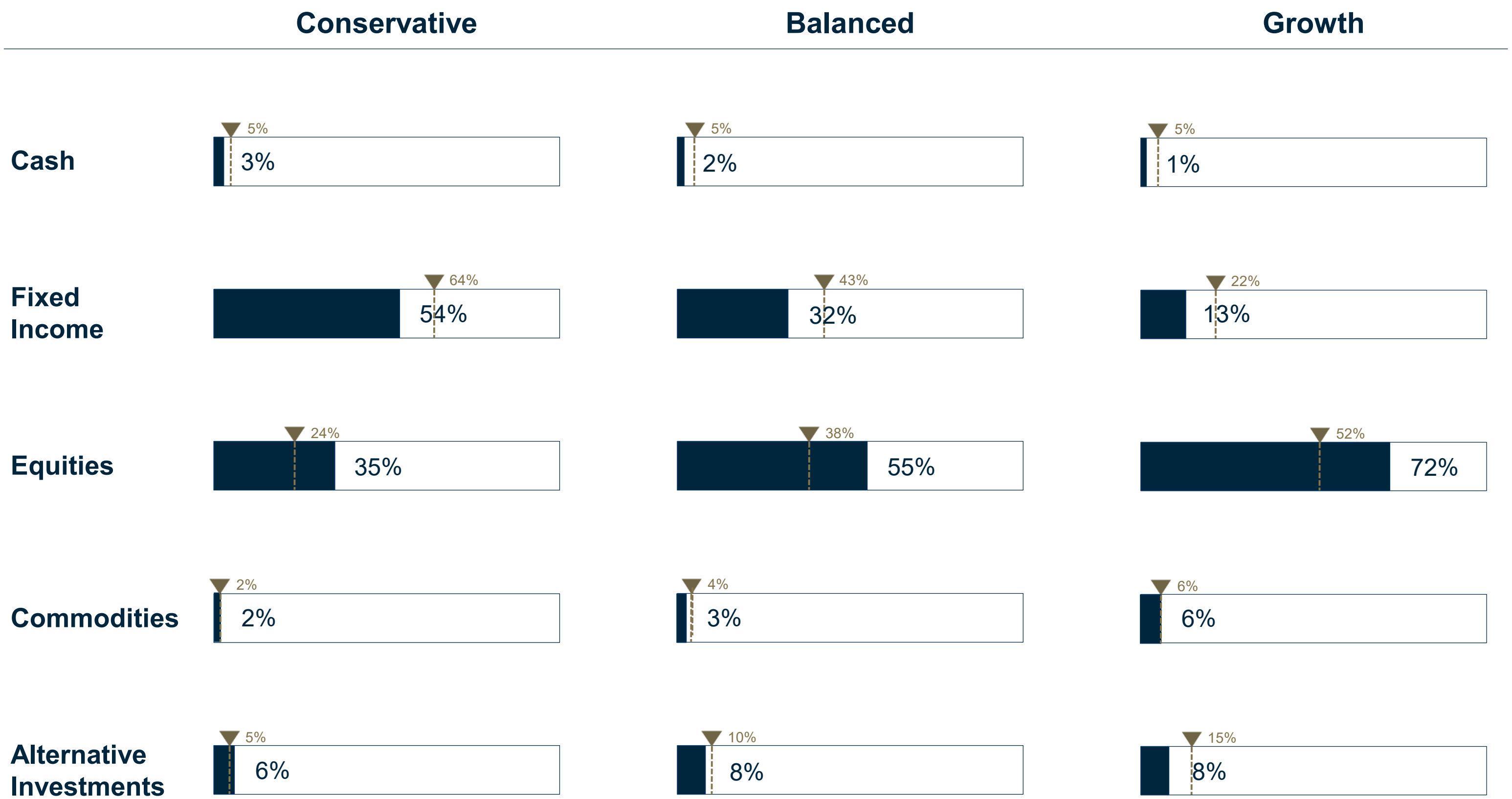
Asset Allocation



Currency Allocation

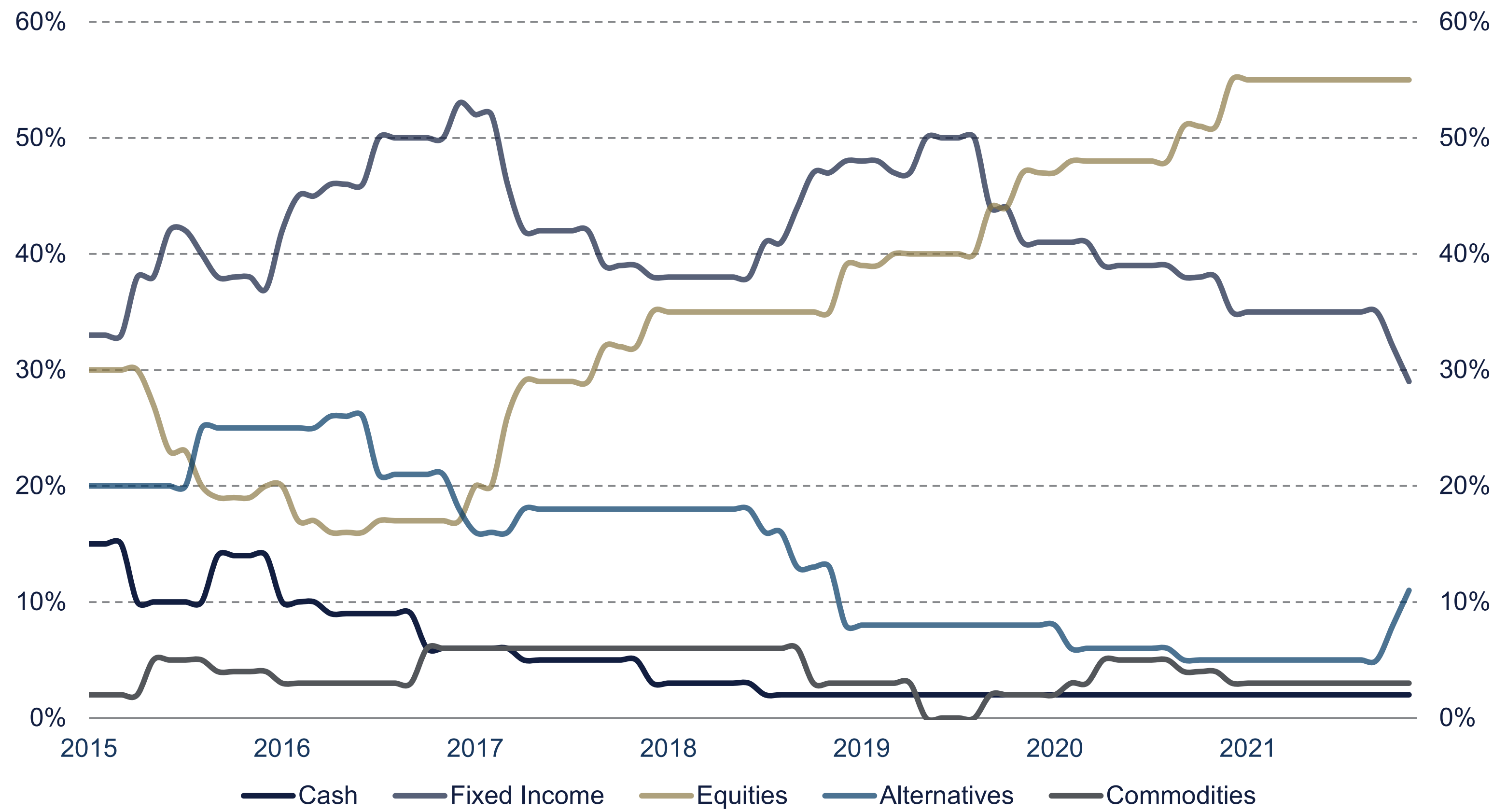


Boreal Investment Profiles

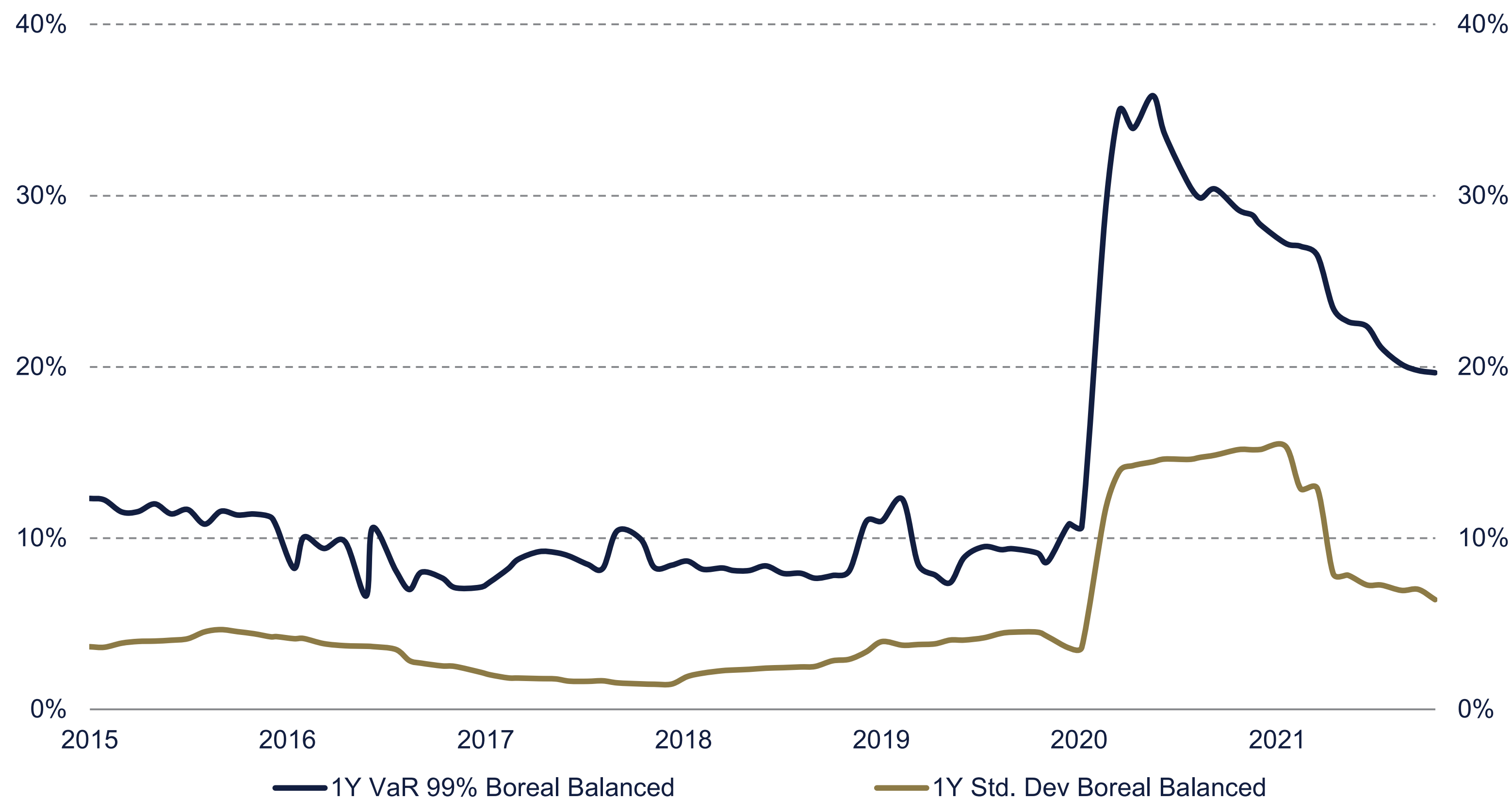


Strategic Asset Allocation

Boreal Balanced Portfolio – Asset Allocation evolution

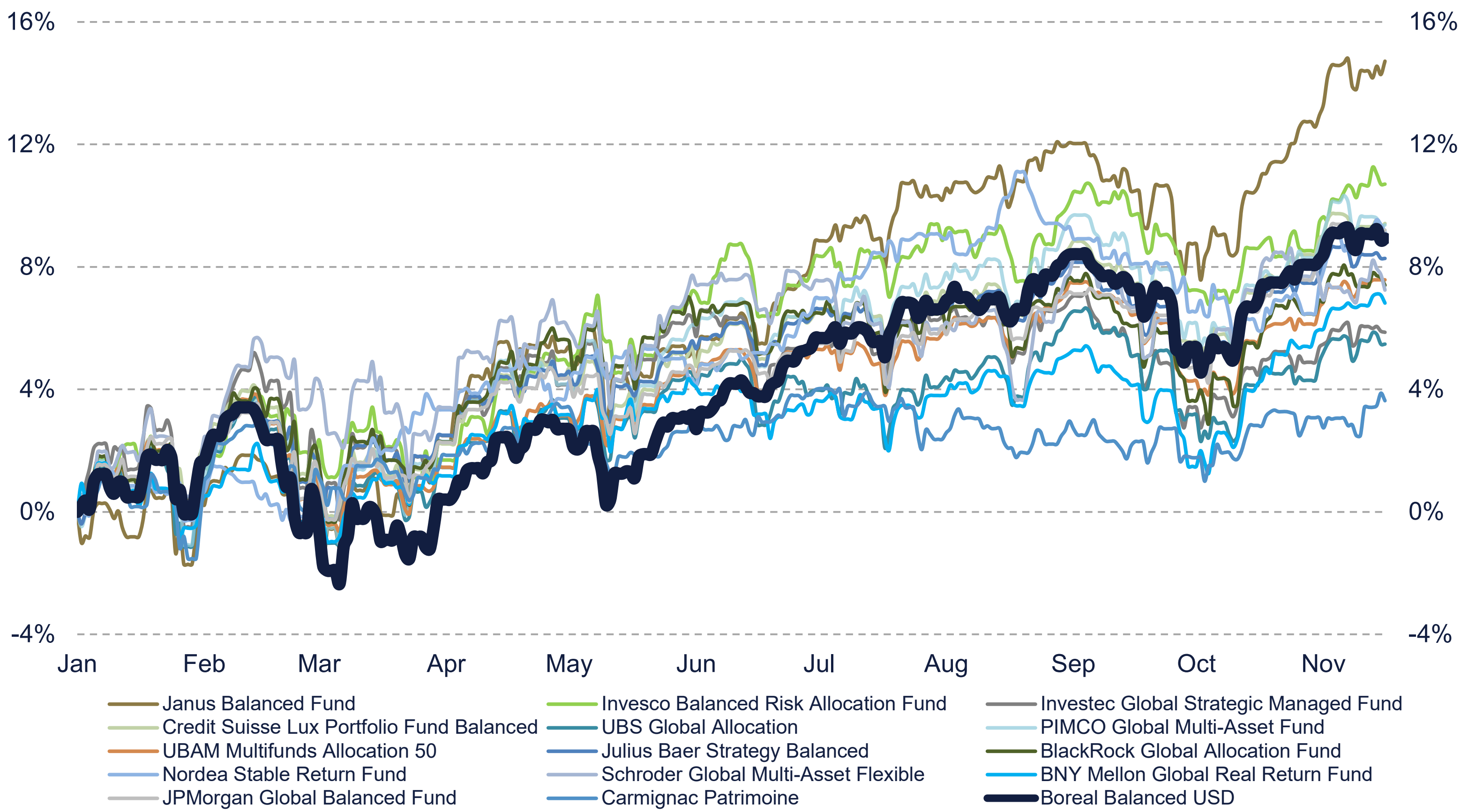


Boreal Balanced Portfolio – VaR evolution



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

Boreal Balanced Portfolio – Peer comparison (YTD)



- **Total Return** (Ytd[1]): **7th out of 15**
- **Standard Deviation** (1 year[1]): **3th out of 15**
- **Downside Risk** (1 year[1]): **5th out of 15**
- **Sharpe Ratio** (1 year[1]): **9th out of 15**

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

Boreal Balanced Portfolio – Peer comparison (2)

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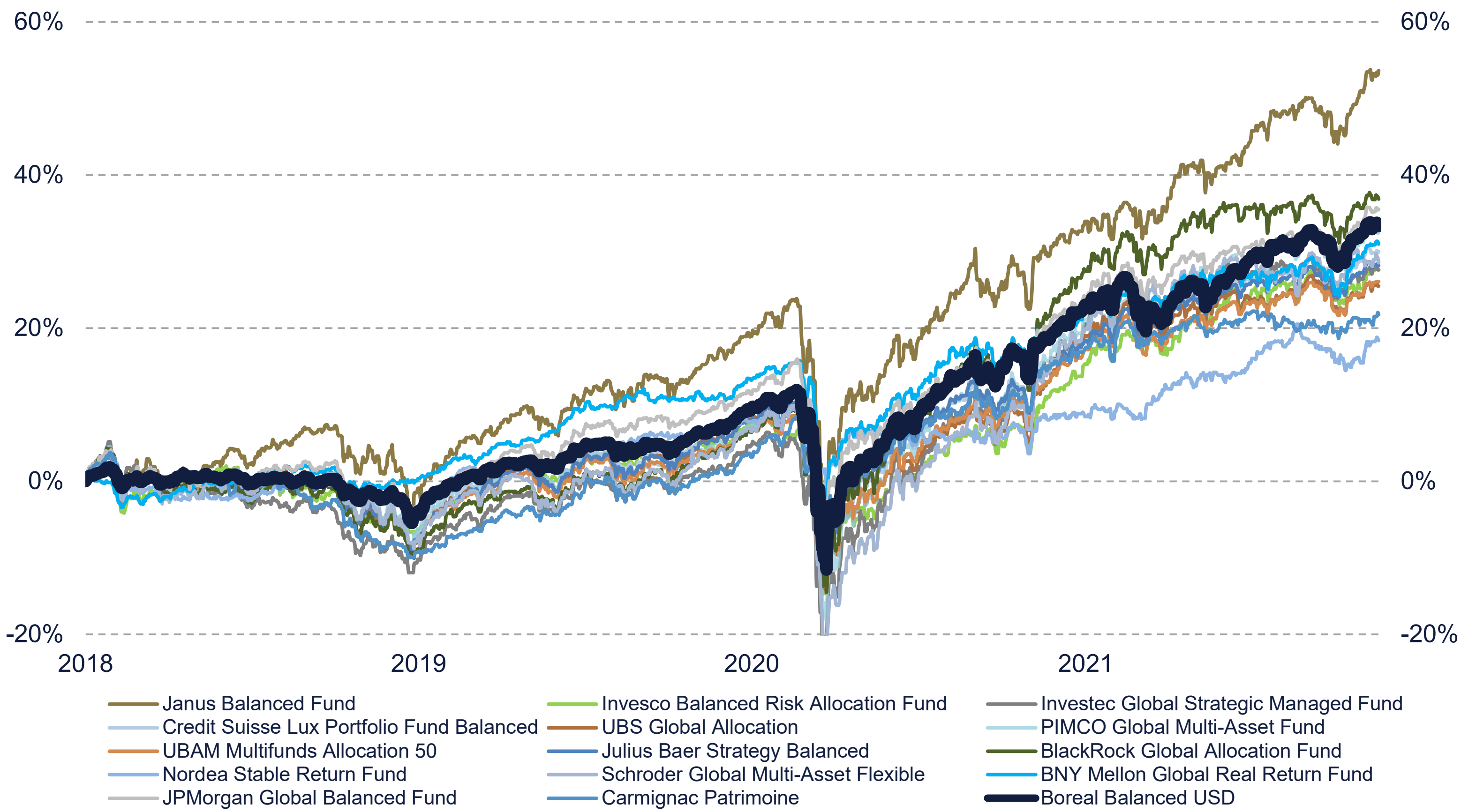


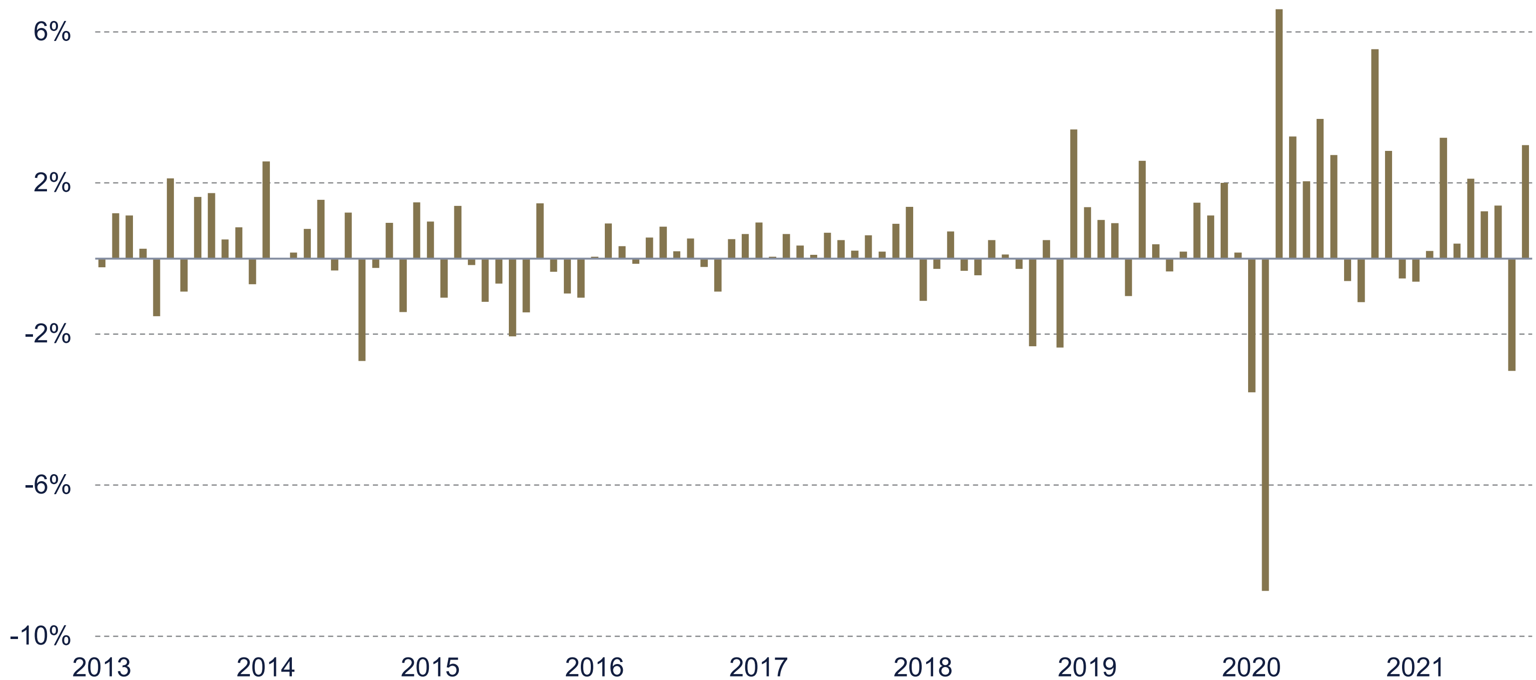
[1] As of November 18, 2021
Source: Bloomberg

Boreal Balanced 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

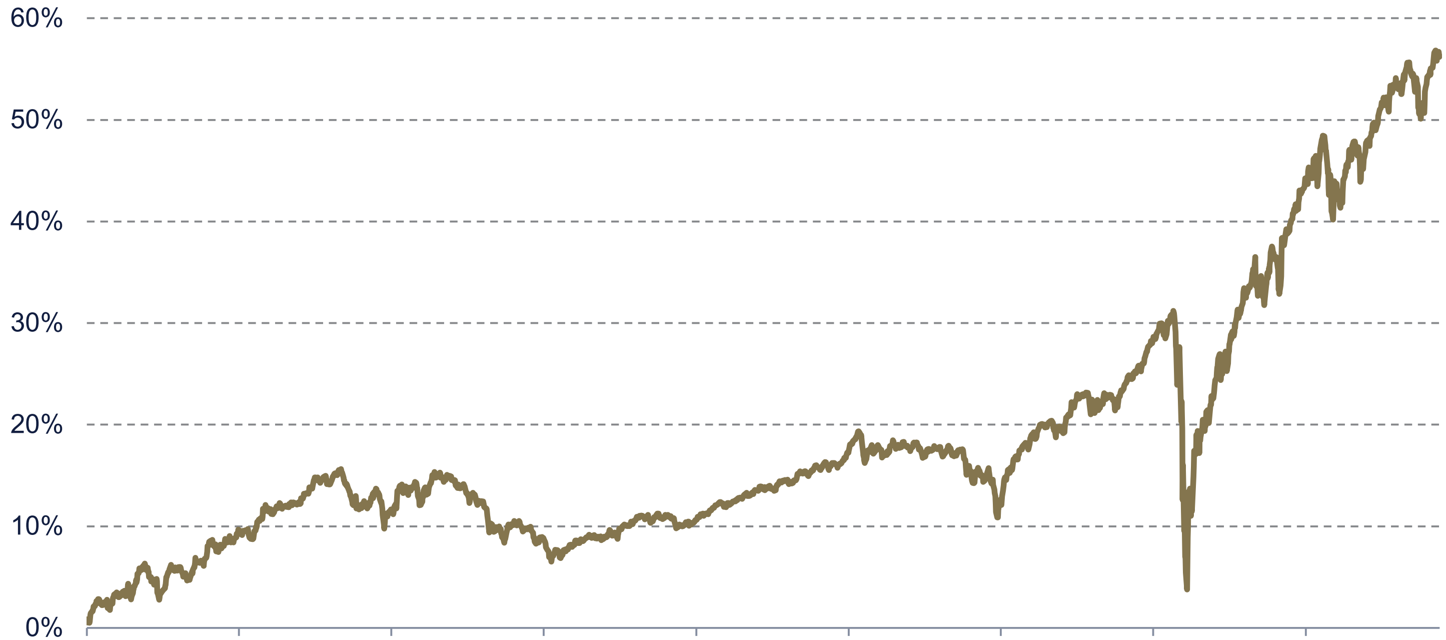
Boreal Balanced Portfolio – Historical performance (1)



- **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

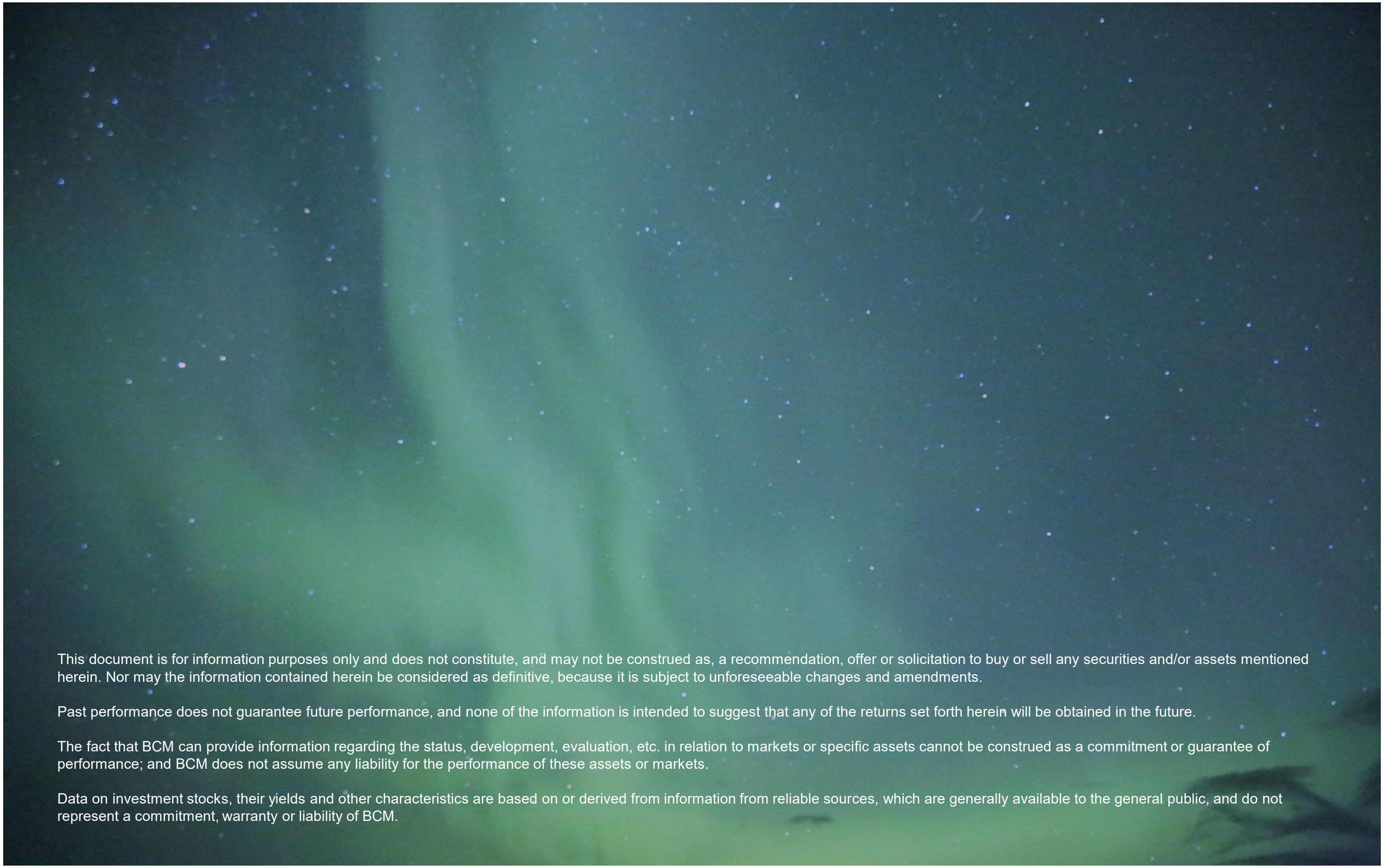
Boreal Balanced Portfolio – Historical performance (2)



	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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