Investment Policy

June 2025

BOREAL
CAPITAL MANAGEMENT

Our market view in a nutshell – June 2025

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- **Quiet, Despite Uncertainty**

  Uncertainty around trade policy persists, as negotiations continue and temporary moratoriums approach expiration. Yet markets have quickly rebounded to pre–Liberation Day levels, suggesting that investors anticipate a sufficient number of trade agreements with key partners to avoid a broader conflict. While there is a solid rationale for expecting compromise over confrontation, the risk of negotiations breaking down remains a meaningful tail risk.

- **Back to Goldilocks?**

  The economy continues to display impressive resilience—echoing the pattern seen over the past couple of years, when it withstood high interest rates and inflation shocks without falling into recession. The labor market is cooling gradually, yet job creation remains healthy. Inflation has surprised on the downside for three consecutive months, while consumption remains stable and confidence indicators are rebounding.

- **Time for the Fed to Act**

  Although hard data remains strong, business surveys point to contraction in both manufacturing and services—patterns historically seen before recessions. With inflation easing, the case for rate cuts strengthens. Real rates remain highly restrictive, making monetary easing increasingly justified.

- **Next Chapter: Fiscal Policy & Tax Reform**

  Once trade issues are settled, attention will shift to fiscal policy. The Administration is preparing the “One Big Beautiful Bill”—a sweeping GOP proposal that combines TCJA tax cut extensions with sharp federal spending cuts. The plan could significantly widen the deficit, raising concerns over Treasury supply and long-term fiscal sustainability, which may pressure long-end yields.

- **A Bull Market’s Next Leg?**

  Despite macroeconomic and geopolitical uncertainty, micro-level fundamentals remain solid. Corporate profits continue to grow, and innovation—especially around AI—is accelerating. In this context, the recent underperformance of U.S. equities may prove temporary, particularly if the Fed follows other central banks in cutting rates.

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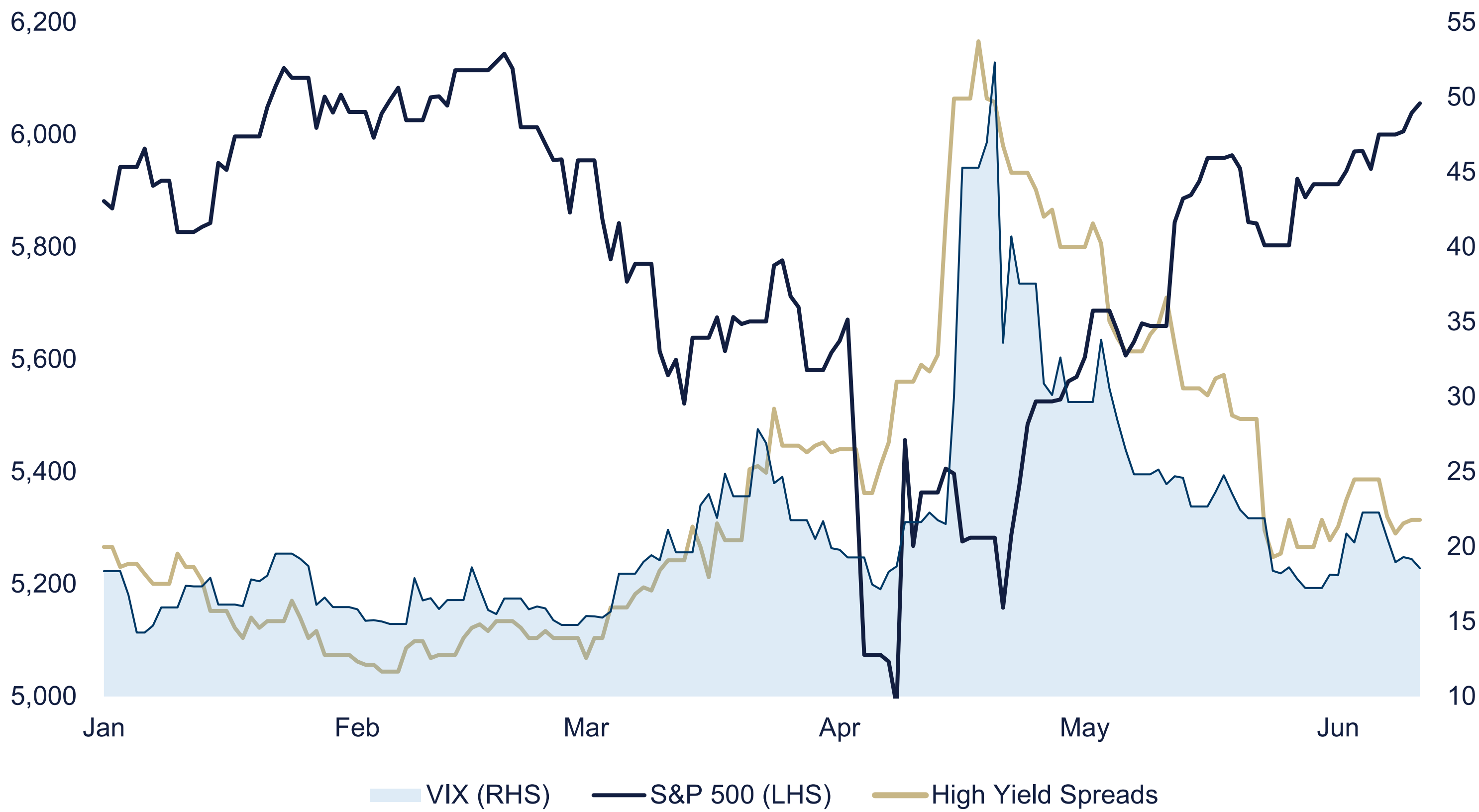
Asset Class		View	Rationale
Fixed Income	US Investment Grade	+	Treasury bonds offer protection against an economic slowdown and / or increased risk aversion. We favor short to medium maturities
	US Credit	+	Interest rate cuts, controlled inflation, and resilient consumption have reduced the likelihood of a recession. While credit spreads have narrowed, investment-grade bonds remain attractive, as the default rate is expected to stay low
	EU Investment Grade	+	The economy is showing greater signs of weakness, and inflation has fallen faster within the target range, providing the ECB with ample room for cutting rates. We prefer government bonds and high-quality corporates
	European Credit	=	Prospects for European credit have improved since it is expected that the ECB will follow the Fed in lowering rates. However, the European economy remains more vulnerable to a downturn
	Emerging Markets	=	The prospect of a weaker dollar spurred by the Fed's interest rate cuts has marginally enhanced the appeal of emerging market debt
Equities	US	+	Valuations have kept worsening since stock prices have been rising faster than earnings. With interest rates expected to remain higher for longer, we renew our preference for stocks that can reliably grow their earnings.
	Europe	=	The European economy is showing an unexpected resilience despite the slump in manufacturing. With the core economies barely growing and the risk that tariffs pose to the important export sector, we see less upside
	Asia	=	We recommend investing selectively in the region. Despite low valuations, China remains an area of concern
	Emerging Markets	–	Emerging market stocks tend to be more cyclical, and there are fewer high-quality stocks. The risk of tariffs and a stronger US dollar diminish their appeal in the short term
	Sectors & Themes	+	To complement our core allocation, we favor Healthcare and companies that pay sustainable dividends
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	=	Commodity prices have been driven up by (and not caused by) inflation, as well as the war in Ukraine. We do not expect these levels to be sustainable in the long term
	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

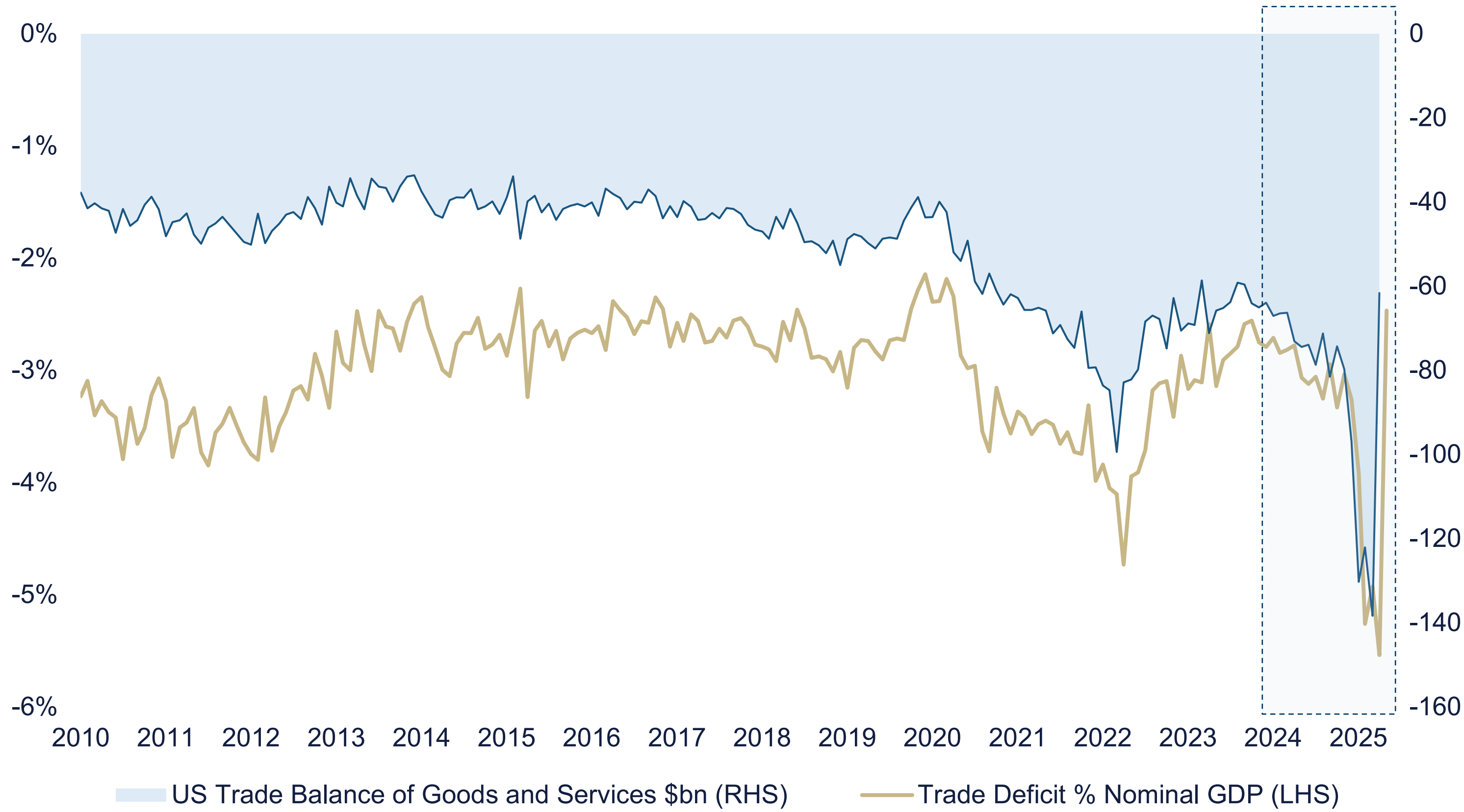
Fast-forward to normality



- **Financial conditions have broadly normalized**, with equity indices, volatility levels, and credit spreads returning to levels seen before Liberation Day—suggesting markets are pricing in resolution rather than escalation.
- **Another episode more of panic and quick recovery**, showing markets tend to overreact. But investors should avoid assuming every correction will be this short-lived—recent years have been the exception, not the rule.

Source: Bloomberg

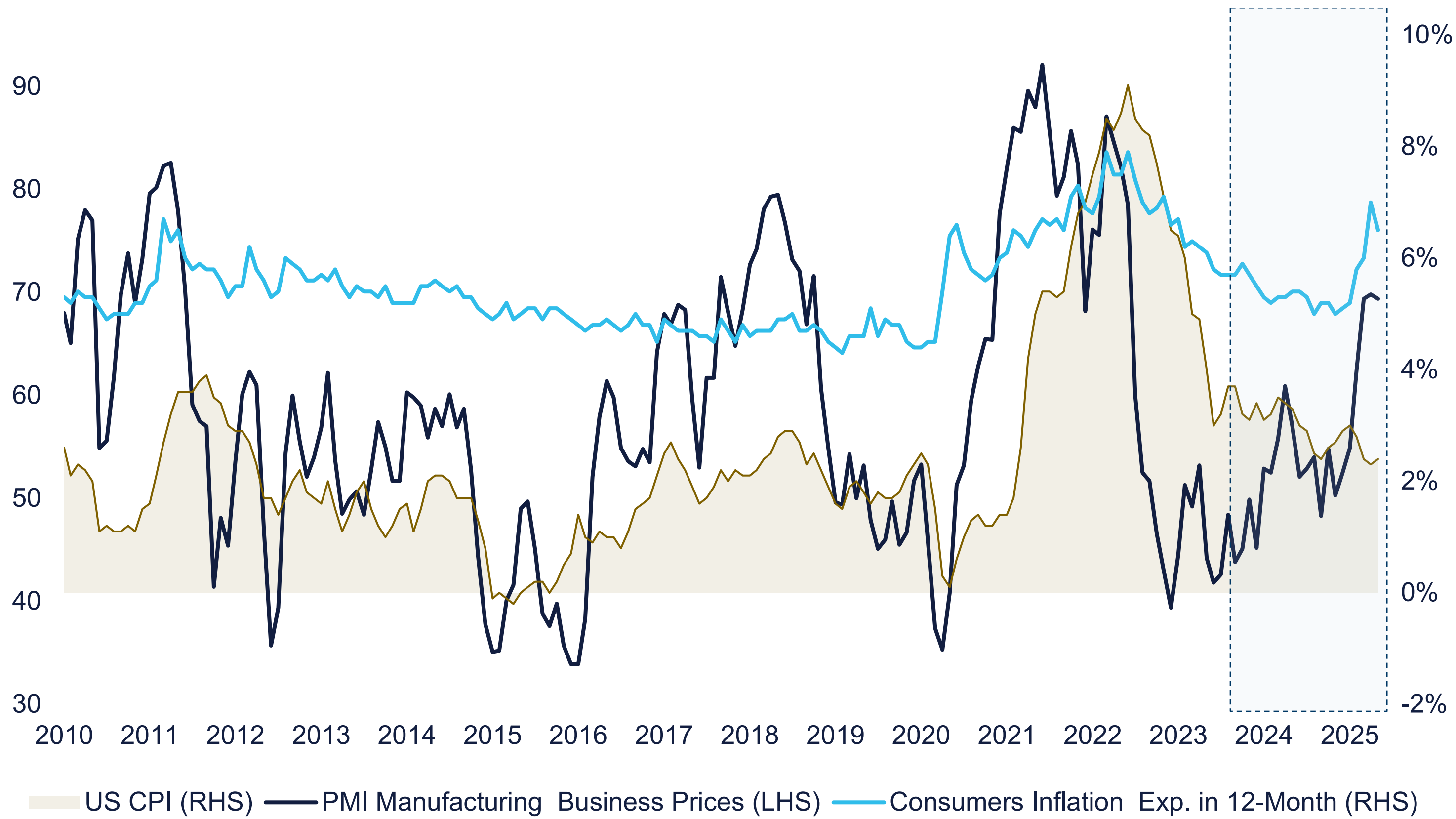
Trade tensions linger



- **Trade uncertainty remains high**, with only the UK deal finalized; while talks with China have progressed, negotiations with the EU are stalled, fueling frustration in Washington.
- **Global supply chain risks persist**, as expiring moratoriums and lingering trade tensions increase the potential for disruption over time.

Source: Bloomberg

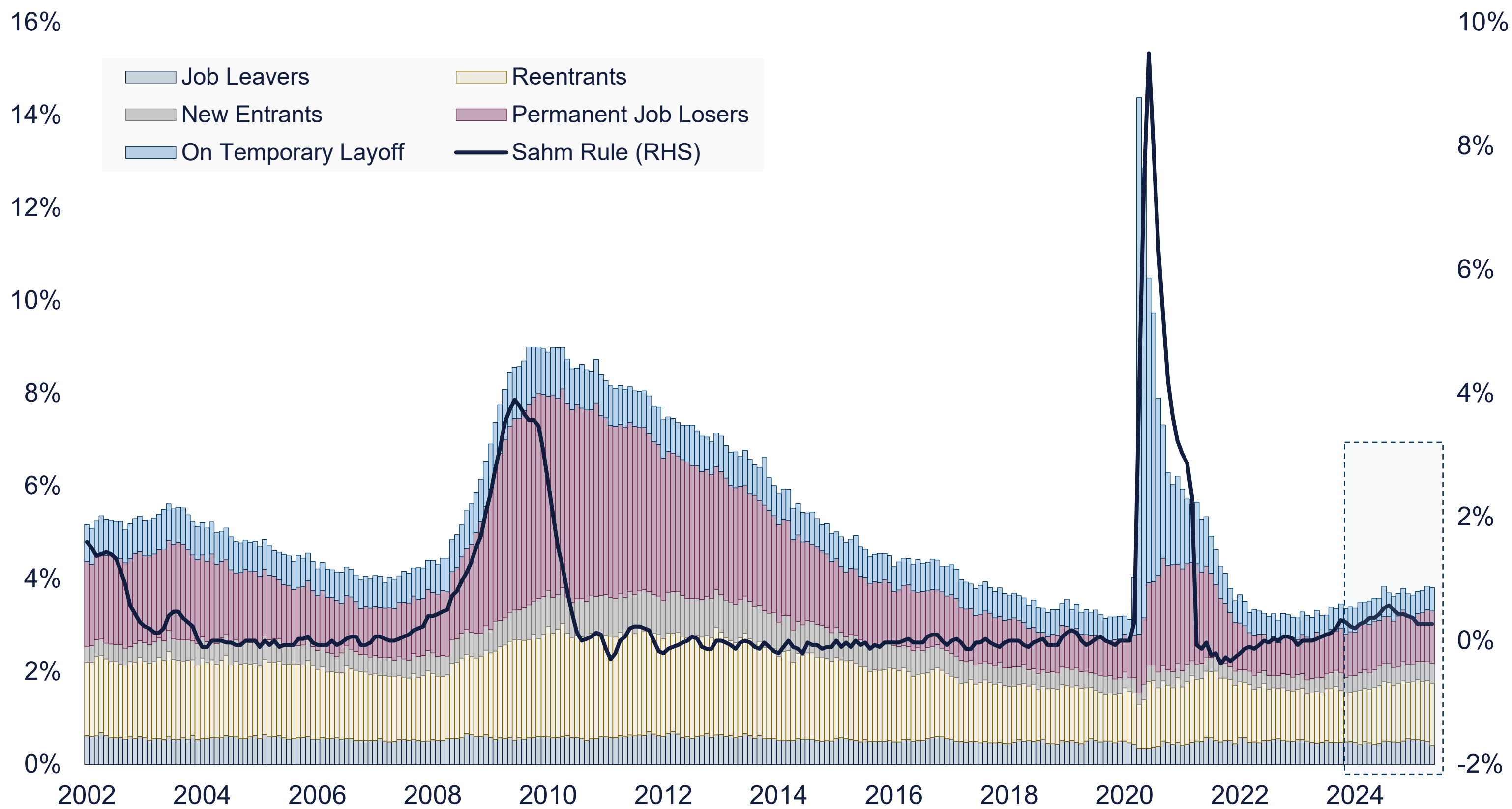
Inflation keeps cooling



- **Inflation continues to moderate**, with both headline and core CPI rising just 0.1% in May—marking the third consecutive month of better-than-expected inflation data.
- While some **consumer and business surveys have raised concerns** about inflation expectations becoming “unanchored,” these measures have historically lacked reliability and should be interpreted with caution.

Source: Bloomberg

Labor market holds firm



- **The labor market remains resilient**, with stronger-than-expected job creation in May and the unemployment rate holding at 4.2%—helping ease concerns about a potential downturn.
- **Steady employment and rising personal income** continue to support consumption, providing a key anchor amid broader macroeconomic uncertainty.

Source: Bloomberg

Business activity flashes a warning

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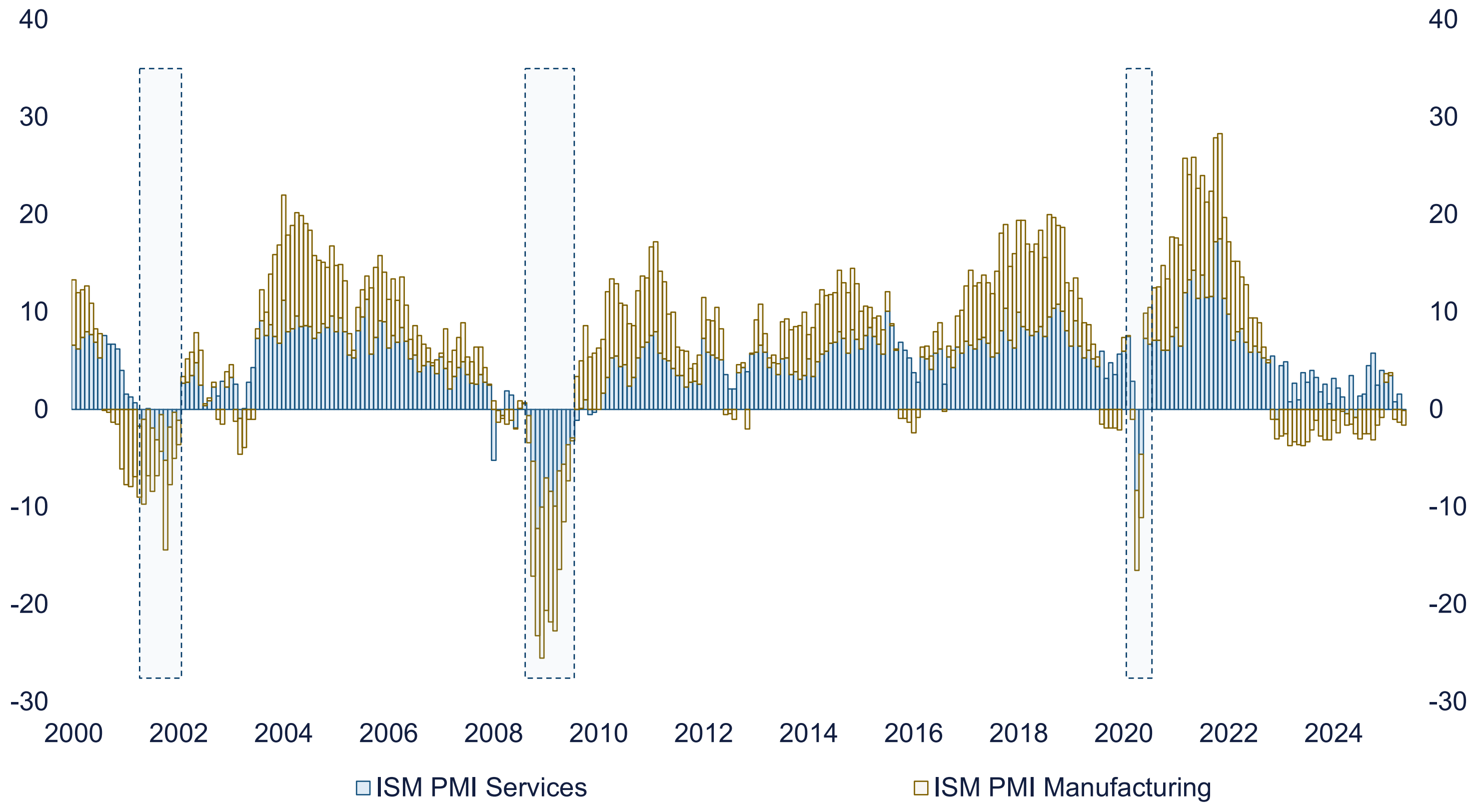
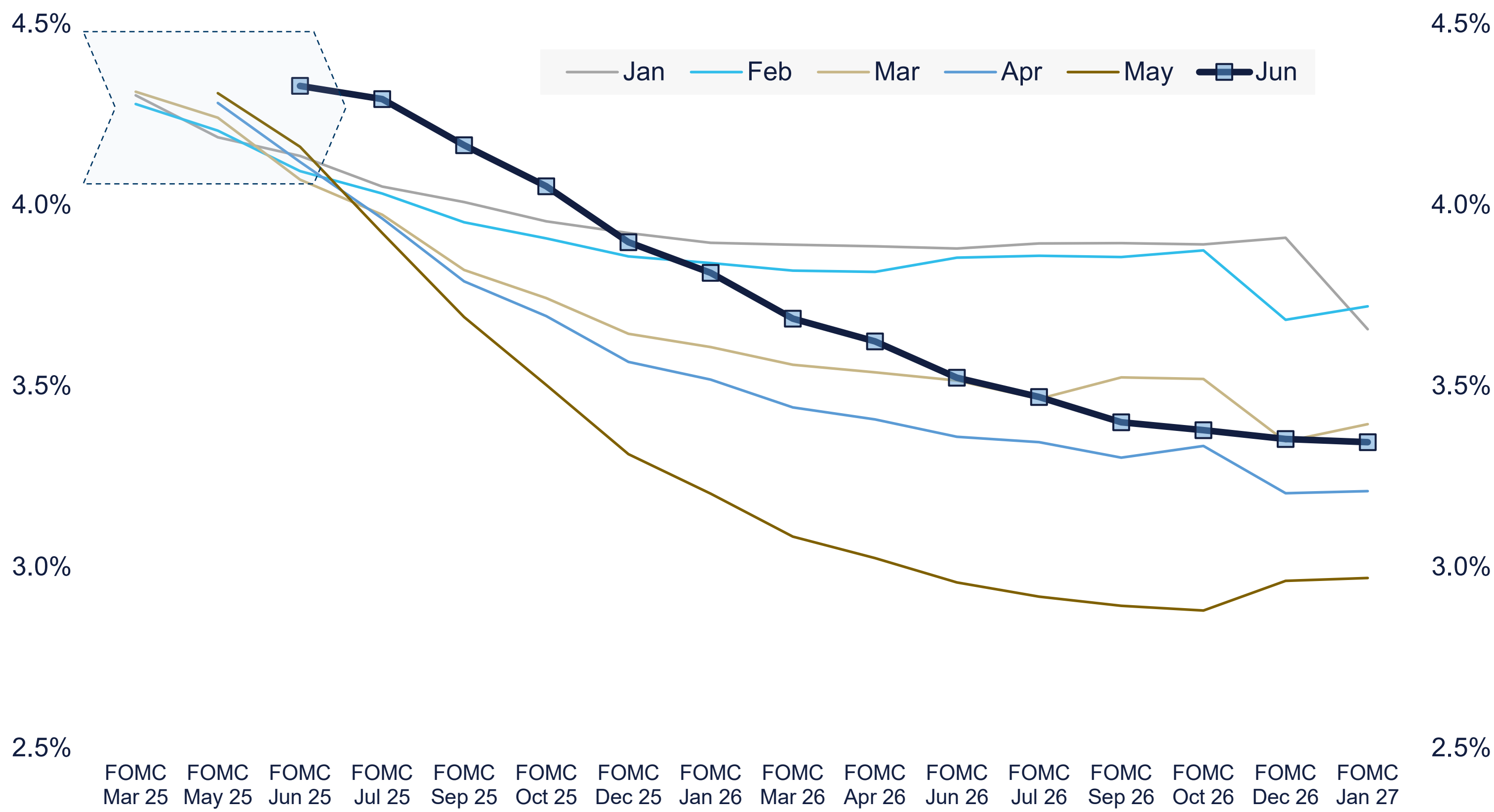


- **The main red flag lies in forward-looking business activity surveys**. Both manufacturing and services PMIs have remained weak and volatile for over two years.
- While manufacturing softness has become somewhat normalized, **services PMIs rarely dip into contraction territory outside of recessionary periods**—making the recent readings more concerning.

Source: Bloomberg

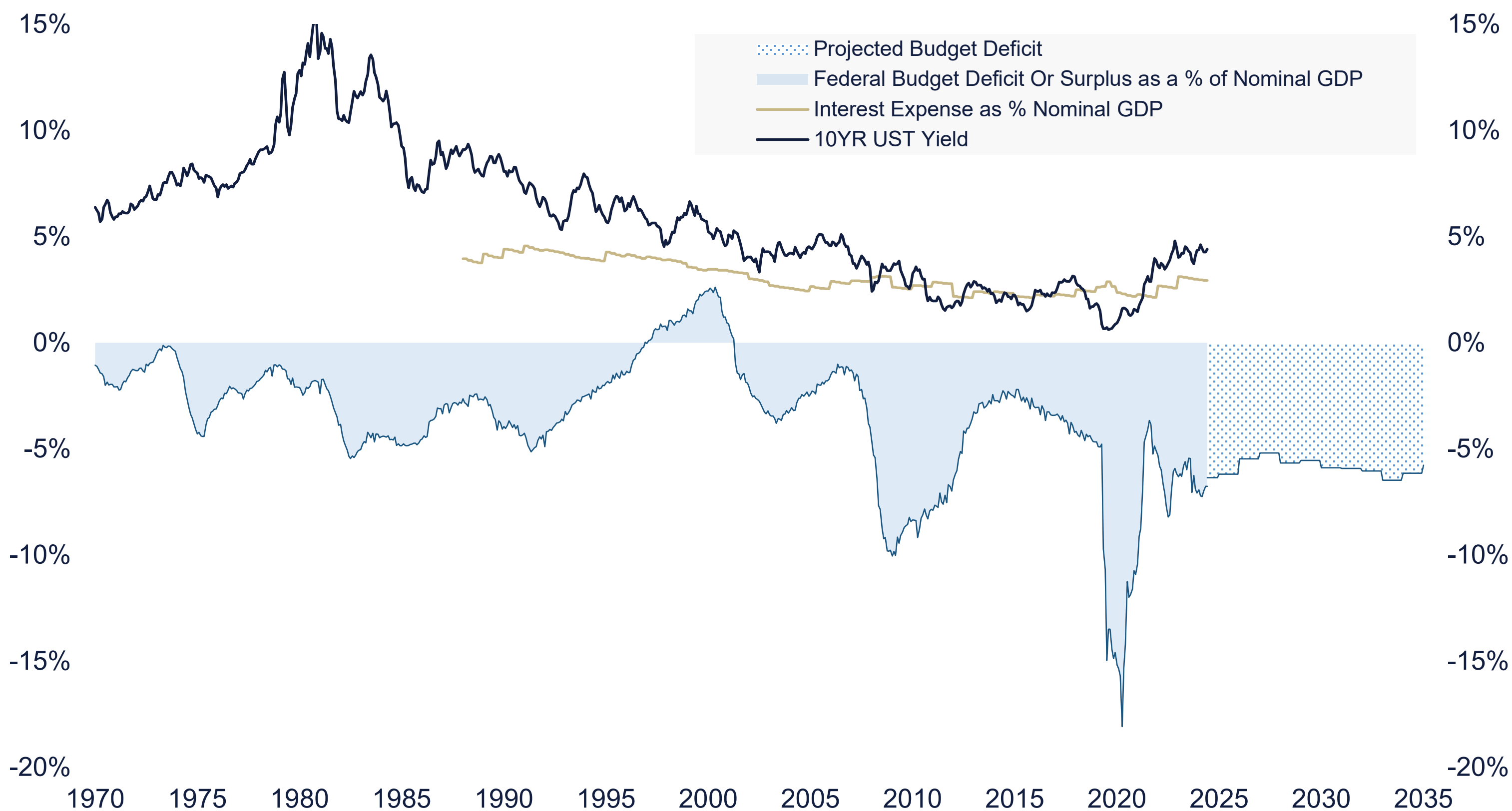
Is the Fed falling behind?



- **The Fed has delayed rate cuts since the start of the year**, citing uncertainty over how tariffs—and to a lesser extent, immigration—might affect inflation.
- However, **inflation is now within a range the Fed has historically deemed acceptable**, while **real interest rates remain high**, posing a risk of over-tightening. Given the lags in monetary policy transmission, the risk of a policy error is asymmetric: it is generally easier to cool inflation than to reignite a slowing economy.

Source: Bloomberg

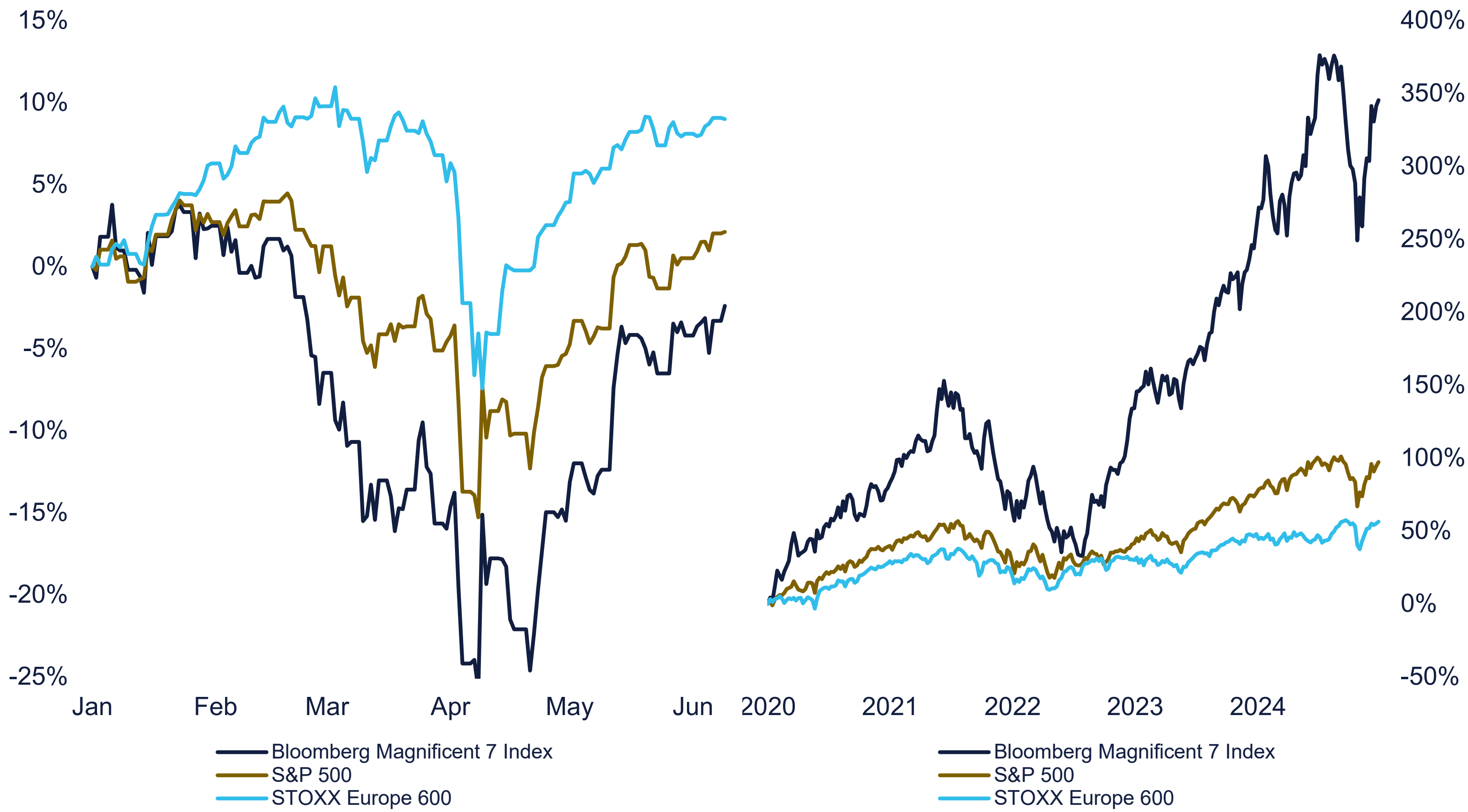
Fiscal policy in the spotlight



- **Fiscal policy is set to take center stage**, with the Administration advancing the "One Big Beautiful Bill"—a comprehensive GOP package extending TCJA tax cuts while implementing deep federal spending reductions.
- **The proposal could significantly widen the deficit**, triggering concerns over increased Treasury issuance and long-term fiscal sustainability—potentially pushing long-end yields higher due to supply pressures.

Source: Bloomberg

In growth we trust



- **Micro fundamentals remain supportive**, with solid corporate earnings and accelerating innovation—particularly in AI—providing long-term momentum despite ongoing macro and geopolitical uncertainty.
- **U.S. relative underperformance may prove short-lived**, especially if the Fed starts cutting rates. **Growth stocks, in particular, stand to benefit** from lower discount rates, potentially driving the next leg of the bull market.

Source: Bloomberg

Investment scenarios

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	Scenario 1 Monetary policy mistake	Scenario 2 Outgrowing the problems	Scenario 3 Economic policy mistake
Drivers	• Inflation remains persistently high, driven by a seemingly strong labor market and resilient housing prices. Tariffs and immigration restrictions further exacerbate price pressures. • The Fed overestimates the economy's strength, keeping rates too high for too long or even raising them further, pushing the economy close to recession. It later reverses course with aggressive monetary easing.	• Pro-growth policies, resilient consumption, and corporate dynamism extend the economic cycle. • Inflation normalizes further, prompting the Fed to ease gradually toward a neutral stance. • Robust economic growth narrows the fiscal deficit, while the yield curve steepens slightly, credit spreads stay tight, and corporate earnings grow steadily.	• Tax cuts are not fully offset by new tariffs and decreased government spending, leading to a significant widening of the fiscal deficit. • Tariffs imposed on key trading partners (such as Europe and China) trigger retaliatory measures, negatively impacting global economic growth. • Debt sustainability concerns pressure long-term rates, steepening the yield curve.
Market impact	• Equities decline, but the “Fed Put” limits the extent of the correction as lower interest rates support valuations. • Credit underperforms as spreads widen from historic lows. • Sovereign debt rallies on "flight to quality" and falling rates. Commodity prices drop. • The US dollar depreciates if the Fed cuts rates ahead of others or if the slowdown is U.S.-centric; otherwise, "flight to quality" supports the US dollar.	• Equities gain support from earnings growth and the “Fed Put,” even with high valuation multiples. • Credit performs well as default rates stay low and spreads remain stable. • High-quality and sovereign debt deliver solid returns, with potential upside if long-term rates fall. • Commodity prices rise on economic strength. The USD stays strong, driven by growth and real interest rate differentials.	• Equity markets sell off on valuation and growth concerns. • Credit spreads widen sharply as the prospect of corporate defaults looms. • Turmoil in the Treasury market may force the Fed to intervene, putting the US dollar’s role as a reserve currency at risk. • With US Treasuries in question, the 'flight to quality' will take a new form, with safe-haven currencies like the Swiss Franc and Yen, as well as gold, appreciating.
Probability	25%	40%	35%

Short-term catalyzers

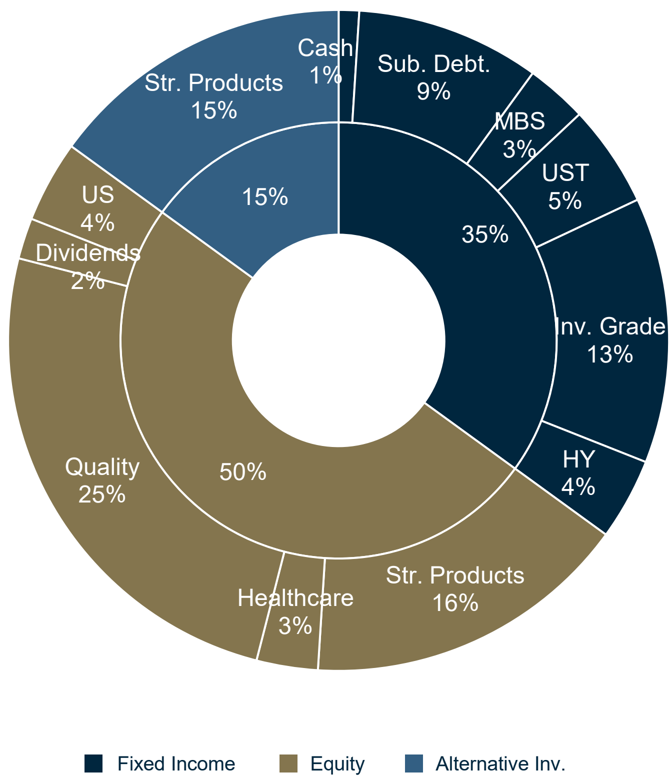
AI-driven productivity boost, De-escalation in Ukraine/Middle East conflicts drives down energy prices, Further slowdown in core inflation

Other risks

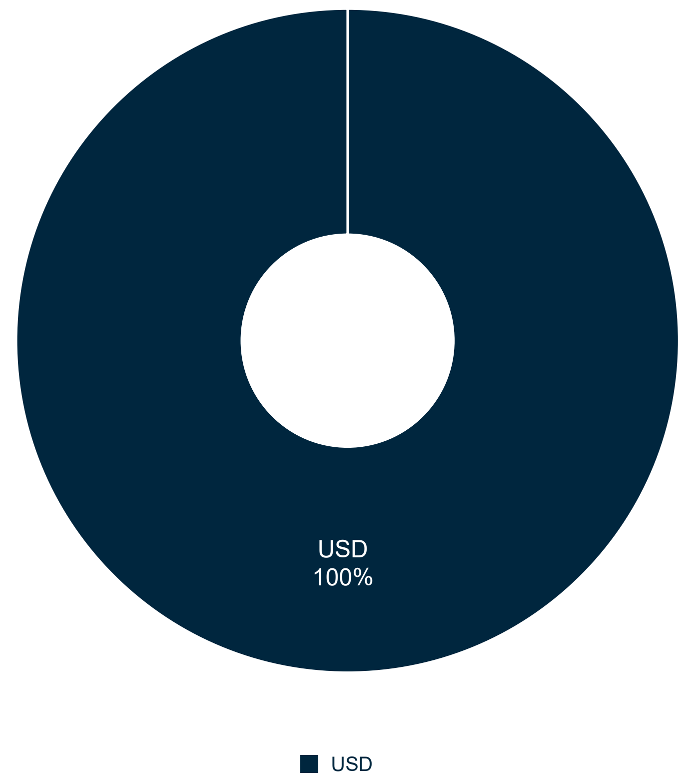
Crypto bubble, Cybersecurity, Debt ceiling, (Geo)Political risks, China/Europe slowdown, Housing market correction

Boreal Balanced Portfolio USD

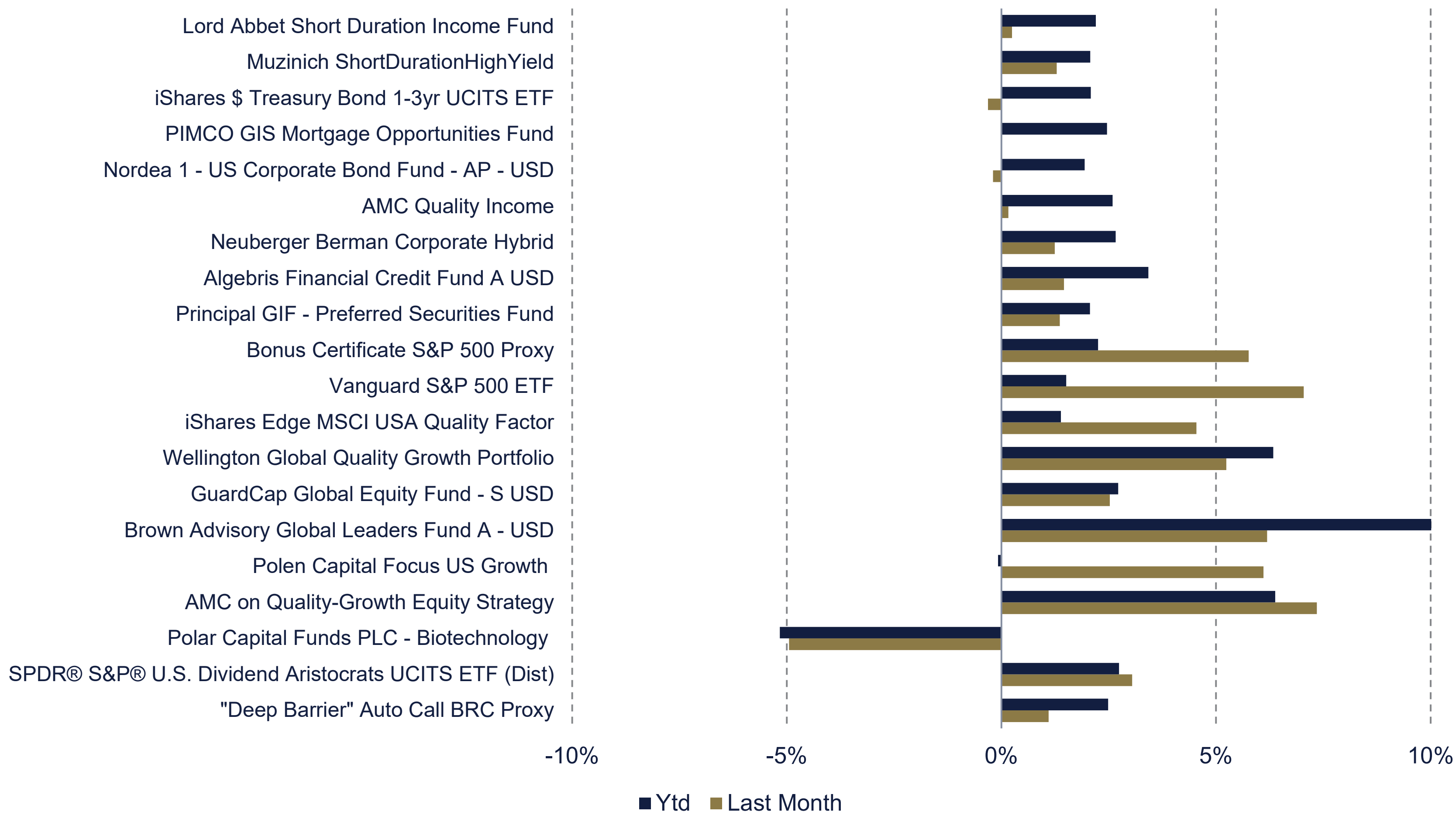
Asset Allocation



Currency Allocation



Model portfolio evolution



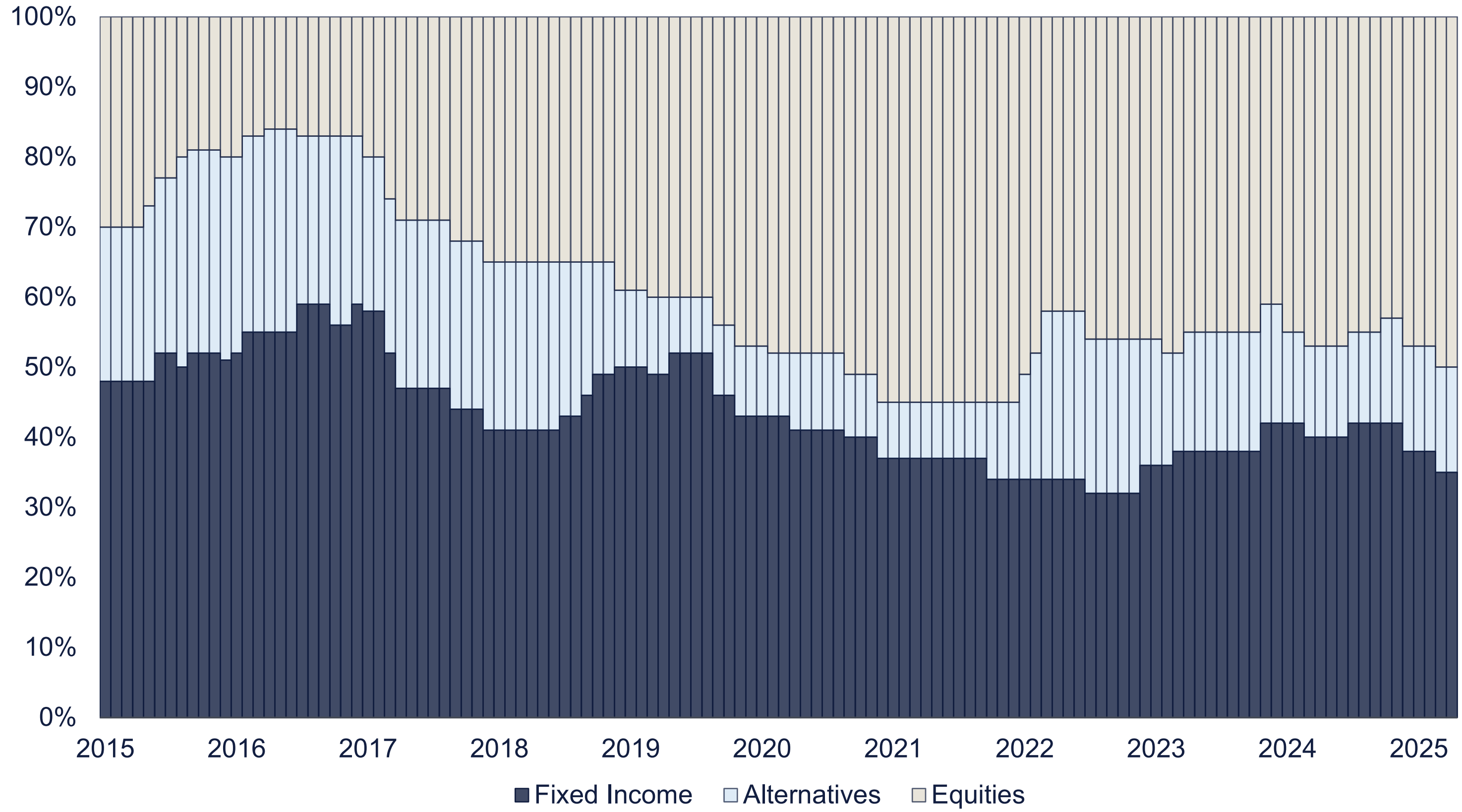
Source: Bloomberg, as of June 5, 2025
* Fund publishes monthly NAV with a 1 month of delay

Boreal Investment Profiles

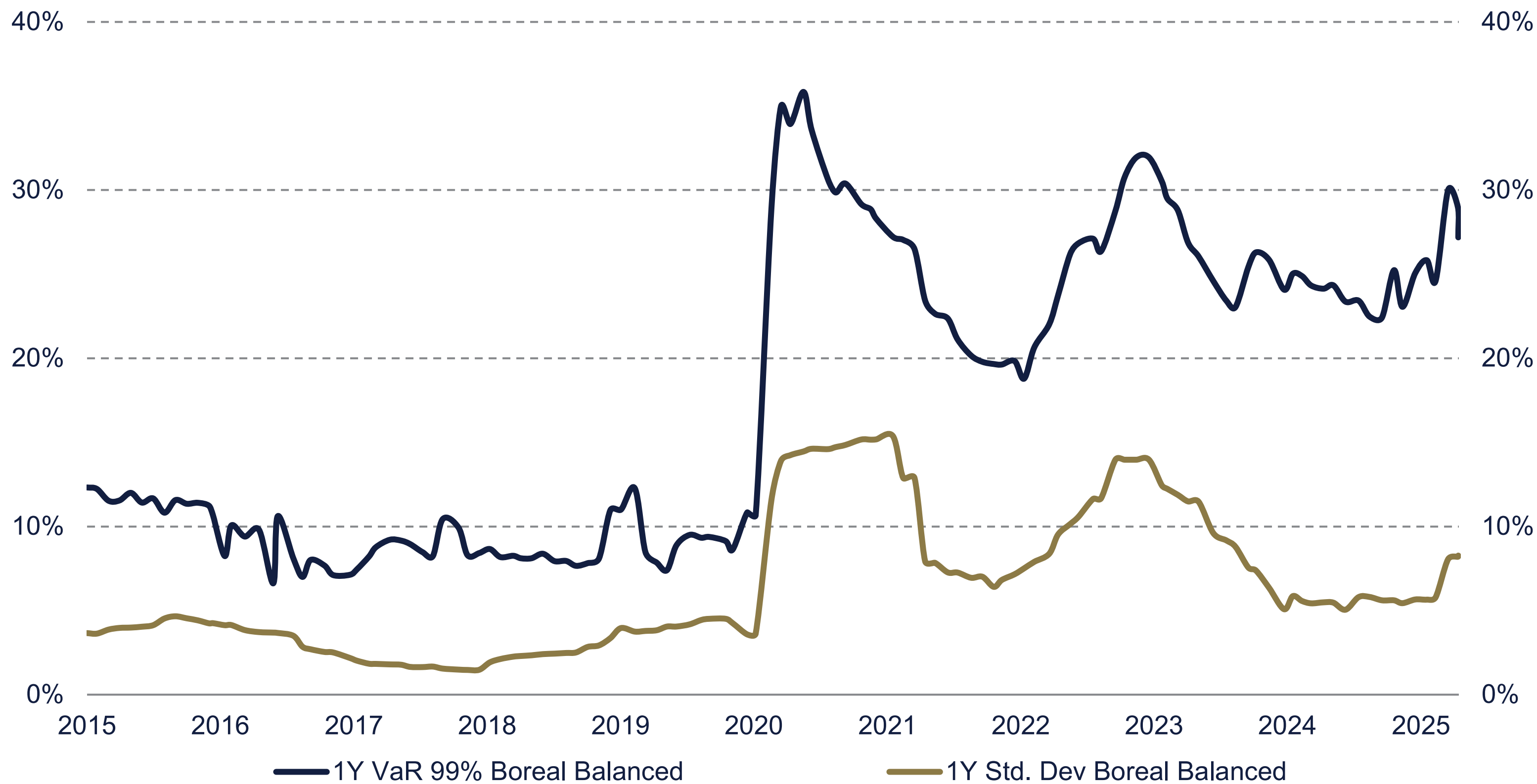
	Extra-Conservative	Conservative	Balanced	Growth
Cash & Fixed Income	82% ▼86%	60% ▼66%	35% ▼44%	12% ▼22%
Equities	10% ▼10%	30% ▼30%	50% ▼50%	70% ▼70%
Alternative Investments	8% ▼4%	10% ▼4%	15% ▼6%	18% ▼8%

▼ Strategic Asset Allocation

Boreal Balanced Portfolio – Asset Allocation evolution

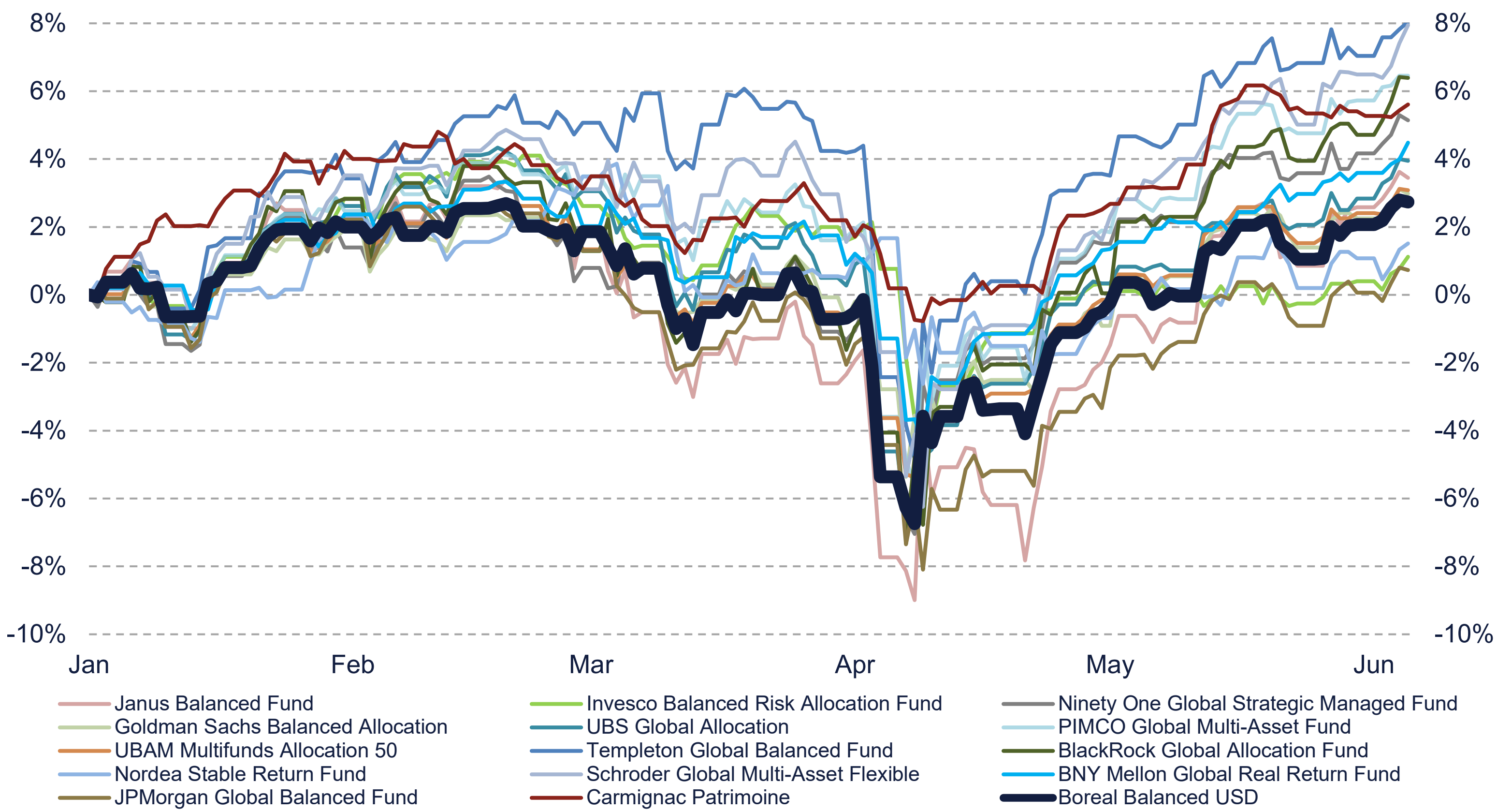


Boreal Balanced Portfolio – VaR evolution



Data as of June 5, 2025. Source: Bloomberg and Boreal Capital Management. Model portfolio performance calculated based on the net return of the individual funds that comprise it, as well as suitable proxies for structured notes. Performance is not audited, does not include management fees, does not represent actual trading and may not reflect actual performance in individual accounts. Composition and calculation details available on request.

Boreal Balanced Portfolio – Peer comparison (1)



- **Total Return** (YTD): **12th**
- **Standard Deviation** (YTD): **6th**
- **Downside Risk** (YTD): **6th**
- **Sharpe Ratio** (YTD): **12th**
- **Sortino Ratio** (YTD): **9th**

Data as of June 5, 2025. Source: Bloomberg and Boreal Capital Management. Model portfolio performance calculated based on the net return of the individual funds that comprise it, as well as suitable proxies for structured notes. Performance is not audited, does not include management fees, does not represent actual trading and may not reflect actual performance in individual accounts. Composition and calculation details available on request.

Boreal Balanced Portfolio – Peer comparison (2)

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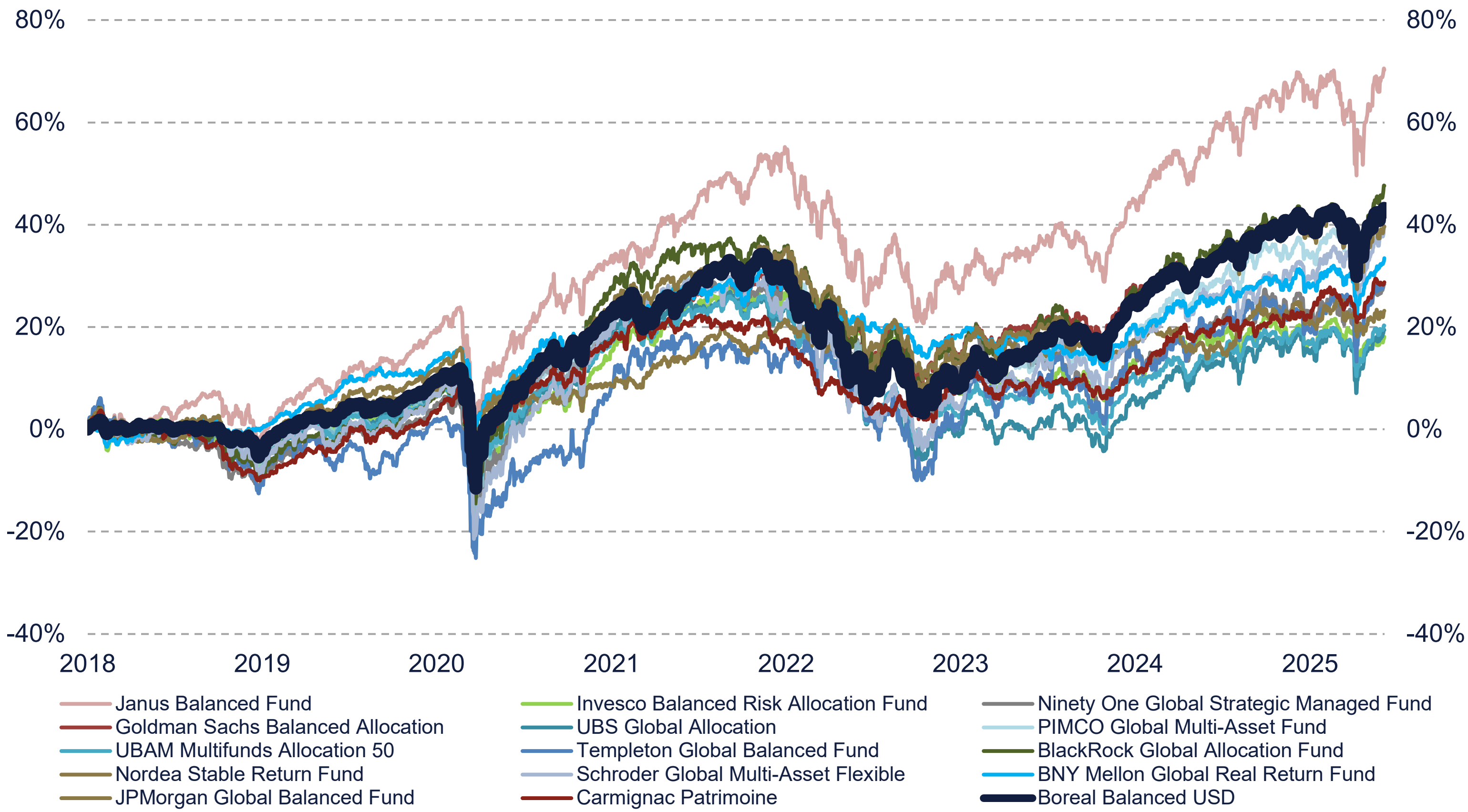

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Boreal Balanced Portfolio – Ytd performance

- **Total Return** (YTD): **2.73%**
- **Standard Deviation** (YTD): **10.85%**
- **Downside Risk** (YTD): **7.93%**
- **Sharpe Ratio** (YTD): **0.26**
- **Sortino Ratio** (YTD): **0.36**

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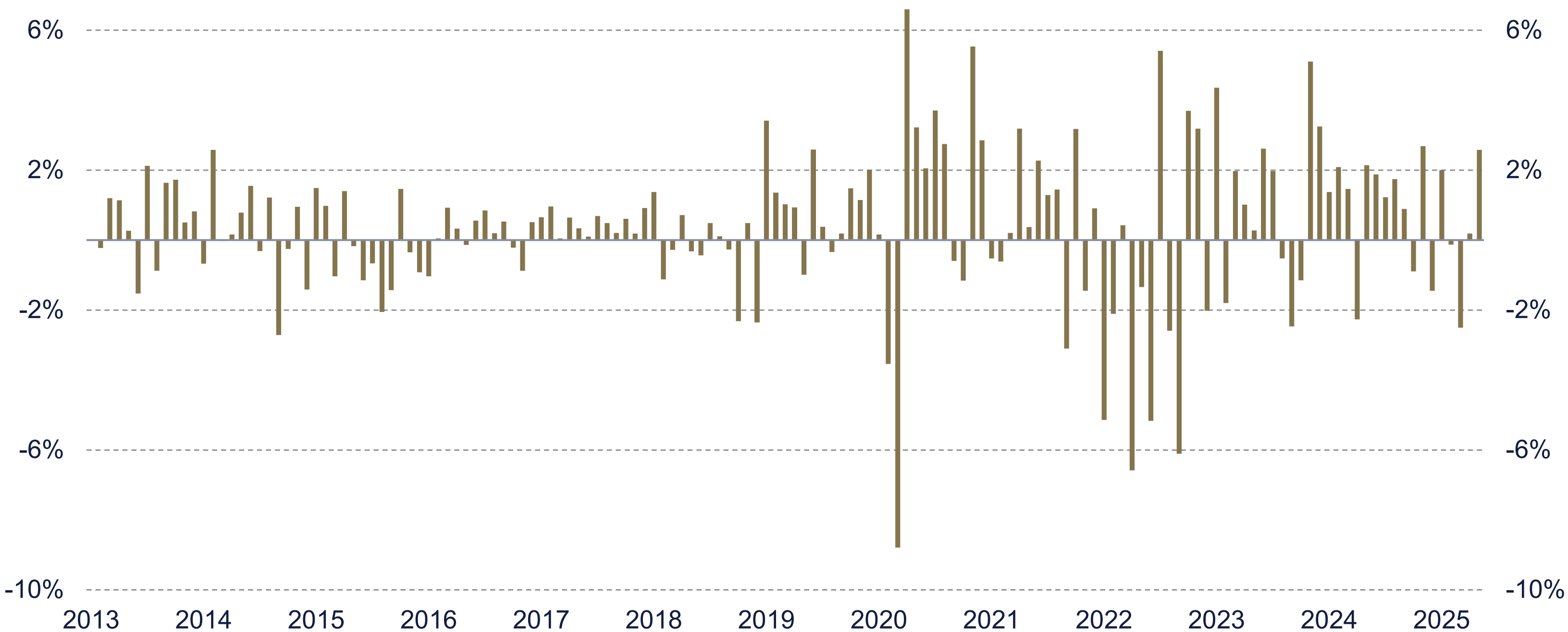
Boreal Balanced Portfolio – Historical performance (1)



- **Total Return** (1 year): **8.05%**
- **Total Return** (3 year): **26.32%**
- **Total Return** (Since Jan 13): **67.71%**

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Boreal Balanced Portfolio – Historical performance (2)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Return	9.58%	2.05%	-1.80%	1.57%	6.06%	-4.62%	14.67%	12.35%	7.19%	-17.63%	15.26%	13.57%	2.73%
Std. Deviation	3.82%	3.59%	3.67%	2.08%	1.45%	3.77%	3.78%	15.18%	7.18%	13.64%	6.36%	5.44%	10.85%
Sharpe Ratio	2.54	0.58	-0.72	0.61	3.57	-1.71	3.49	0.87	1.03	-1.38	1.65	1.71	0.26

Annualized Return: 4.25%
Annualized Std. Dev: 7.14%

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