Investment Policy

September 2021

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Our market view in a nutshell – September 2021

- All economic **indicators continue to indicate that economic growth has peaked**, although the spread of the **Delta variant** over the summer complicates the analysis. On the other hand, **inflation remains high, although it appears to have plateaued** and could soon begin to abate once base effects start to wear off
- **Logistic bottlenecks,** some degree of **speculative behavior in commodity markets,** and **skills and jobs mismatches** in the labor force blur the picture. However, our base case remains that price increases are primarily a **matter of supply-side constraints, rather than excess aggregate demand**
- The recent **decline in consumer confidence** is the most telling indicator that **the economy is not overheating**. However, this weakness will probably not translate into a recession anytime soon, as the amount of **fiscal support will continue to be huge**. The only nascent **macroeconomic risks** at this time stem from **China**, as well as from the **energy crisis that is brewing in Europe**, developments that investors should watch closely
- Bond markets are assessing the possible paths that both the economy and inflation could follow, as well as their potential impact on the Fed's reaction function. Despite the macroeconomic uncertainty, in the long term, the **market seems to indicate that the interest rates will remain low for many years**
- Against this backdrop, **equity valuations remain attractive**, further supported by **robust growth in corporate earnings**. However, complacency must be avoided, as companies may soon face headwinds such as **higher taxes and rising labor and production costs**. We continue to see a **"K-shaped" economic recovery**, with growing divergence in corporate performance. Therefore, being selective will remain key

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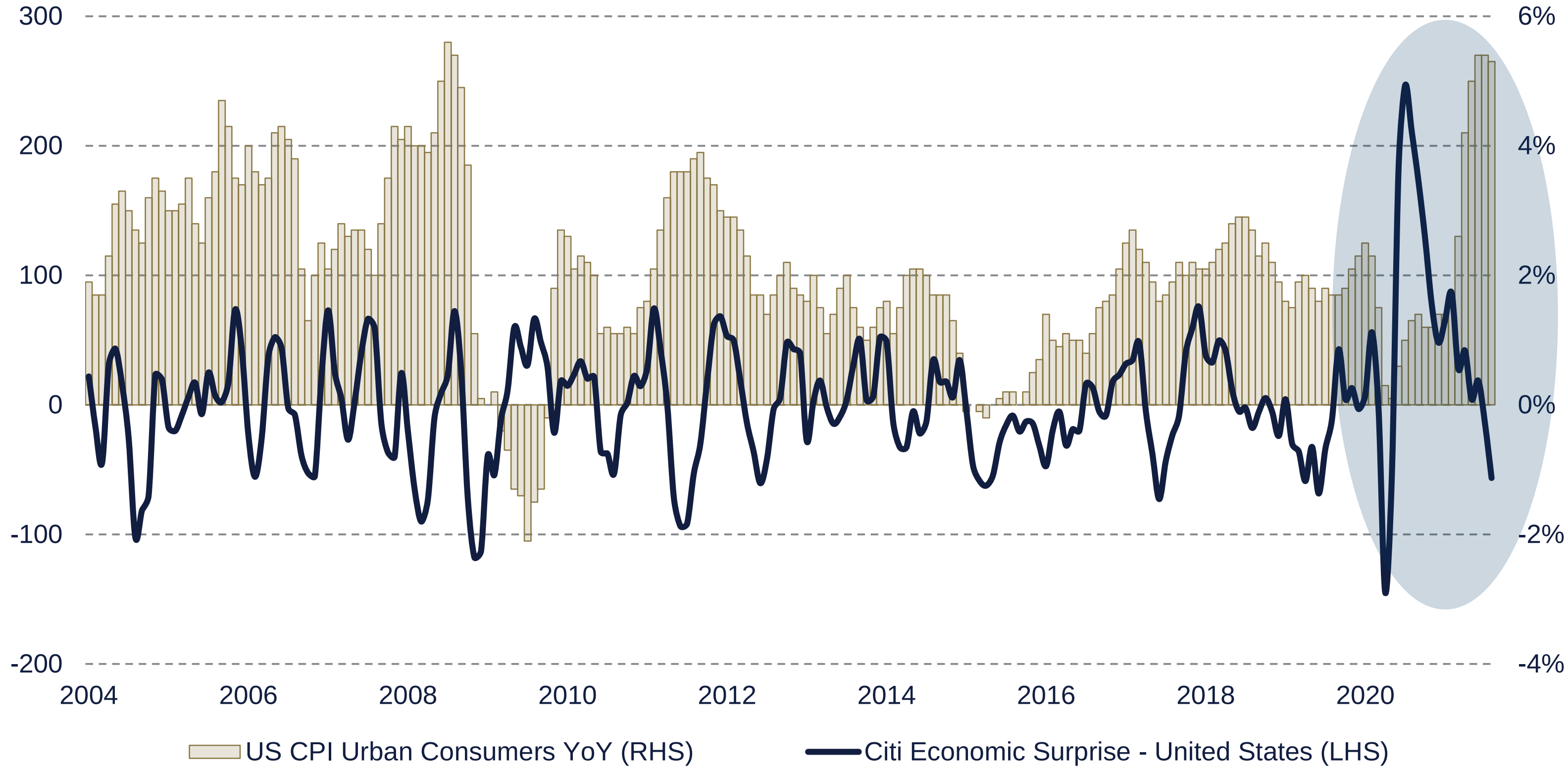
Asset Class		View	Rationale
Fixed Income	US Treasuries	+	Treasury bonds offer protection against an economic slowdown and / or increased risk aversion. With interest rates anchored at current levels, and credit spreads that have narrowed massively, we favor long-term US Treasuries
	US Credit	–	The crisis 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	–	A weaker dollar should help emerging markets. We recommend to allocate to Chinese government bonds in Renminbis
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

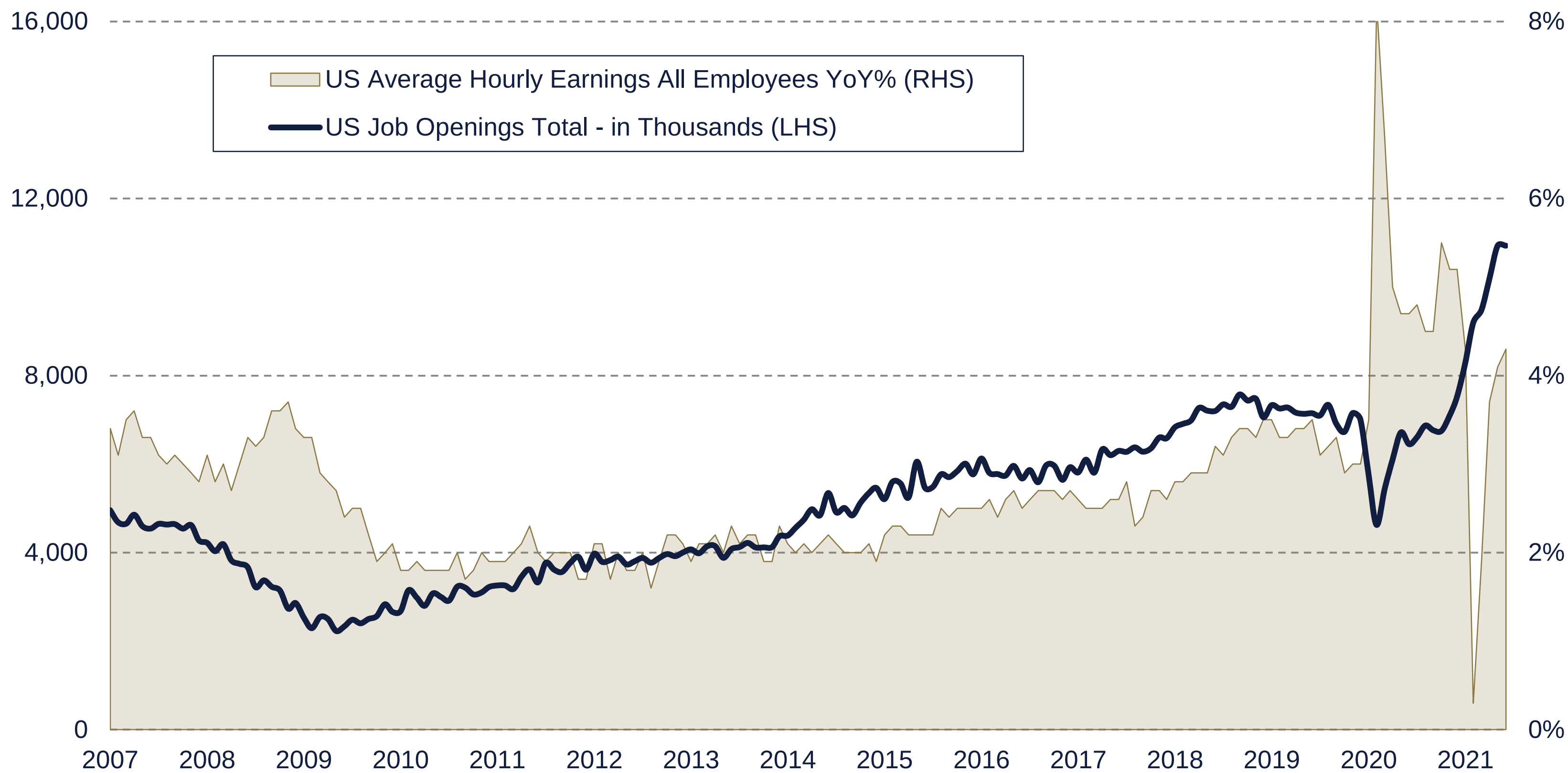
Stagflation risks increases



- **Inflation remains high**, although it appears to have **plateaued** and may soon begin to abate as **base effects dissipate**
- On the other hand, there are **no clear signs of an overheating economy**. On the contrary, we observe that **growth begins to slow down** from the peak reached in early summer

Source: Bloomberg

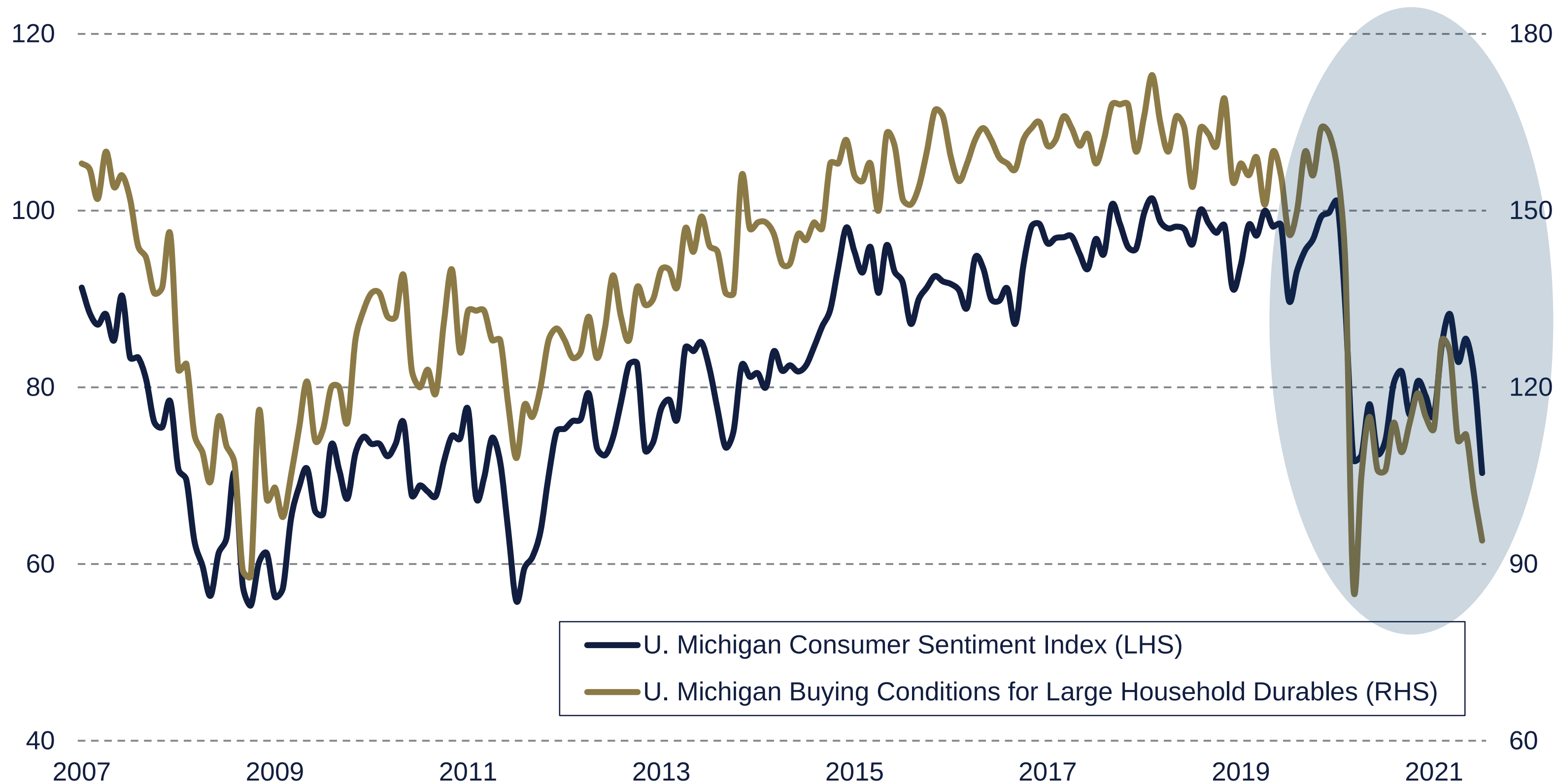
Supply-side shortages



- Prices are rising mostly due to **supply chain bottlenecks**, as the economy continues to reopen, but not due to structural shortages
- **The labor market seems to be the exception**, but here it is primarily **a skill mismatch in the workforce, not an increase in collective bargaining power**

Source: Bloomberg

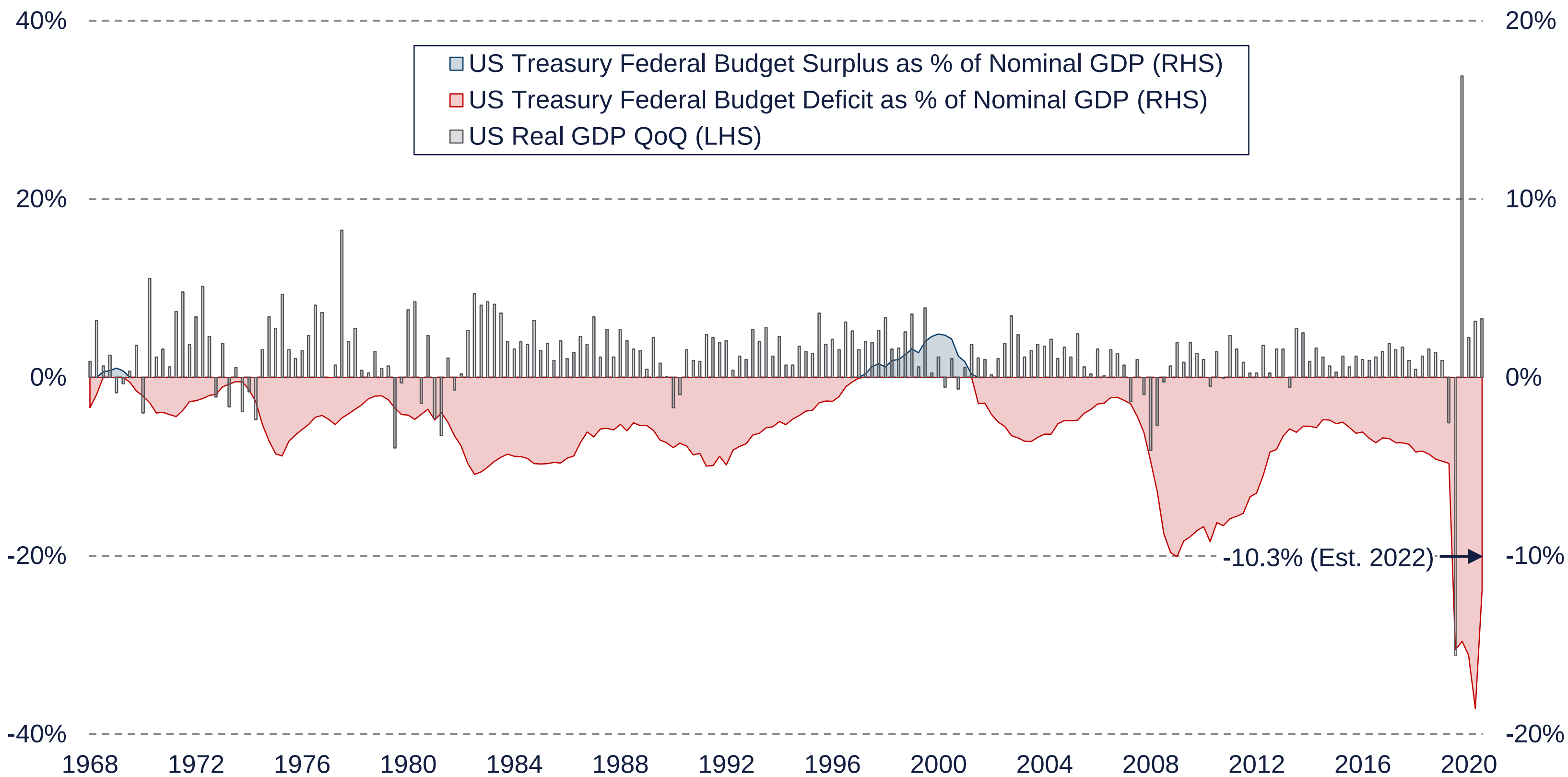
No signs of excess demand



- On the other hand, there is growing evidence that **consumers remain cautious**, **and that it is not demand that is driving higher prices**
- In fact, **rising prices for durable goods and real estate are beginning to drag on consumption**

Source: Bloomberg

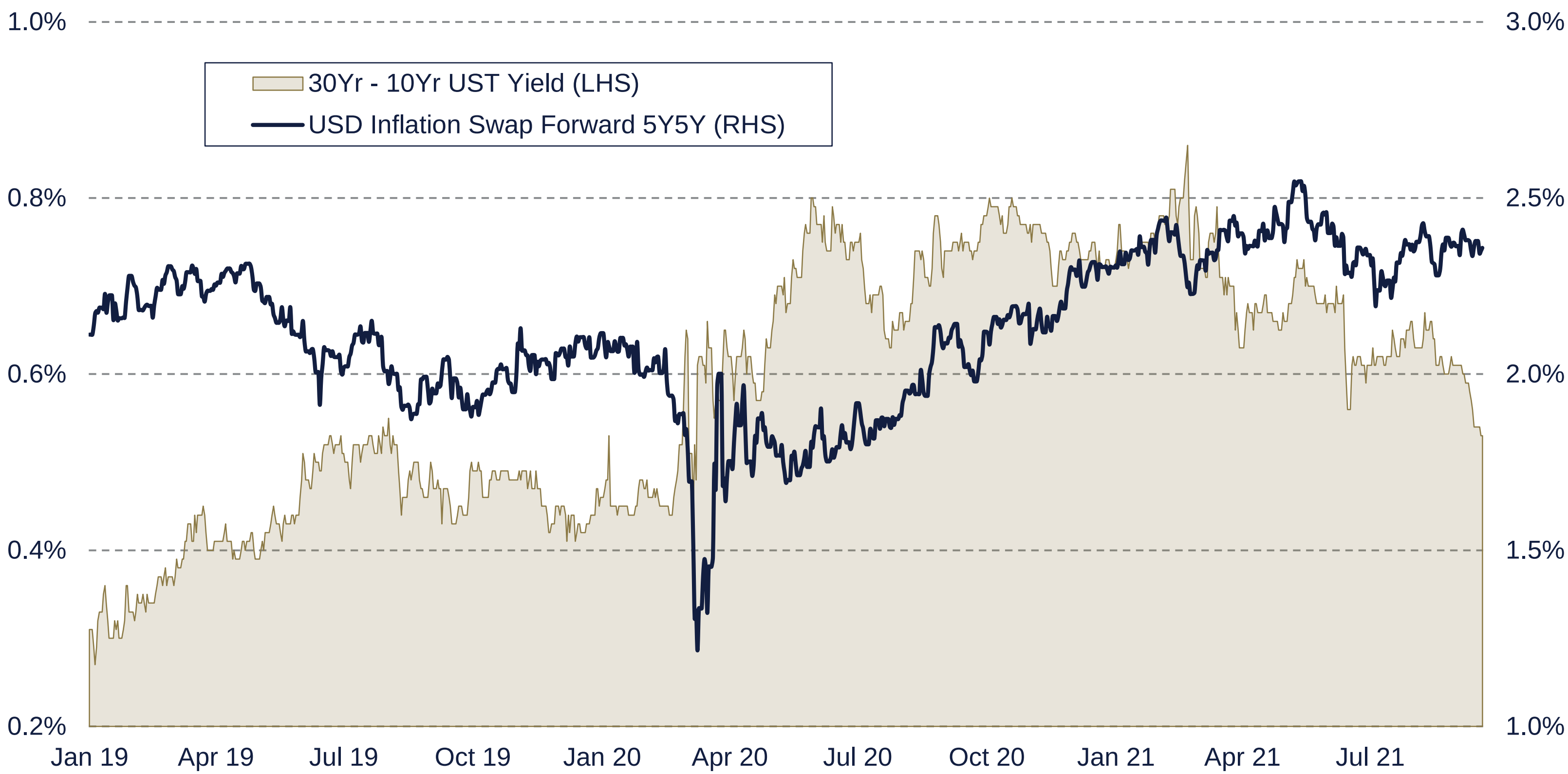
Massive fiscal support remains



- However, **fiscal support remains unprecedented**, and with this tailwind and the pandemic increasingly under control, it is **highly unlikely that the economy will fall into a recession anytime soon**
- This necessary but **unorthodox way of managing public finances** is not without significant risks, although these are likely to manifest themselves only in the medium and long term

Source: Bloomberg and Congressional Budget Office

Bond markets do not believe in sustained inflation



- Judging by the **flattening of the long end of the yield curve**, bond markets are not discounting that inflation could become a long-term problem
- An alternative reading would be that **real interest rates will continue to be weighed down by low secular economic growth**

Source: Bloomberg

Hard to believe, but equities still remain attractive

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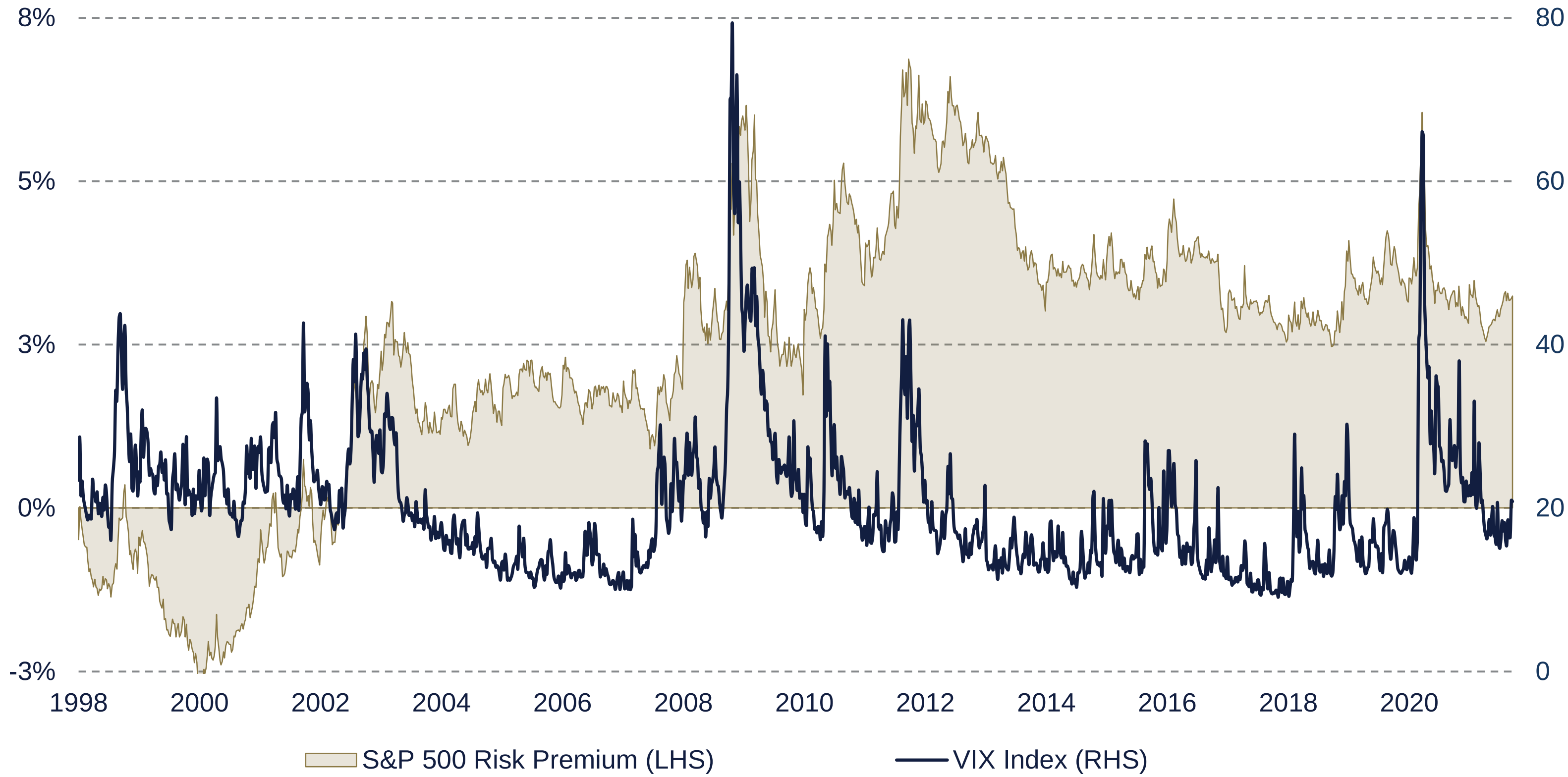
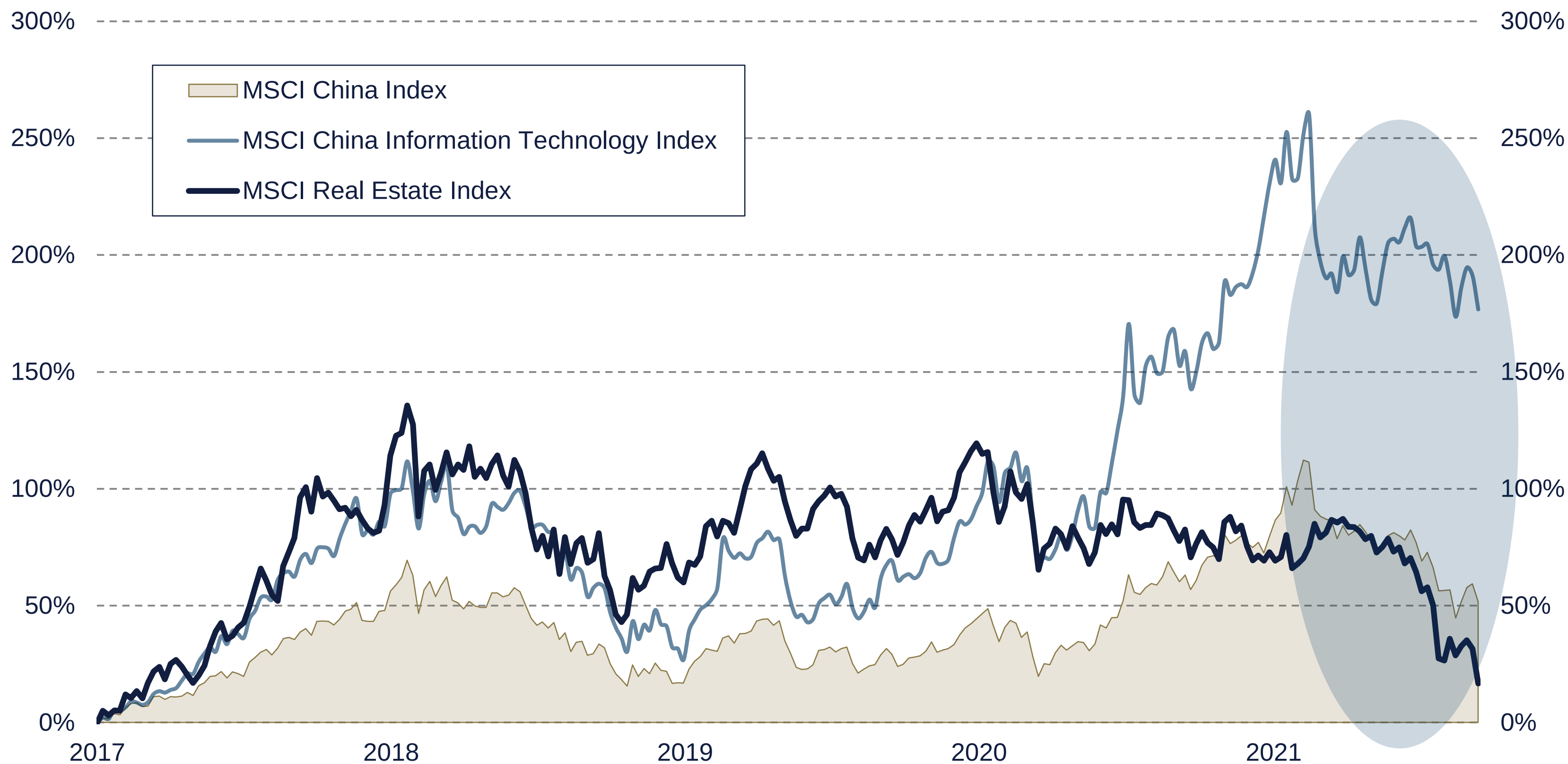


- If we look at the evolution of stock prices in relation to corporate earnings and the prevailing interest rate environment, **equities continue to be attractive**. However, discrimination will remain key in the future
- This **”valuation buffer”** is very important as **investors remain complacent, particularly in credit markets**

Source: Bloomberg

China as the main engine for growth, and potential trouble



- Recent events in China require close attention. The hasty and authoritarian way in which various **regulations** have been introduced has **severely damaged China's investment for the years to come**
- Furthermore, some of these measures threaten to derail the **local real estate market**; something that can have **ramifications on the banking sector and the economy in general**

Source: Bloomberg

A local energy crisis that can have global repercussions

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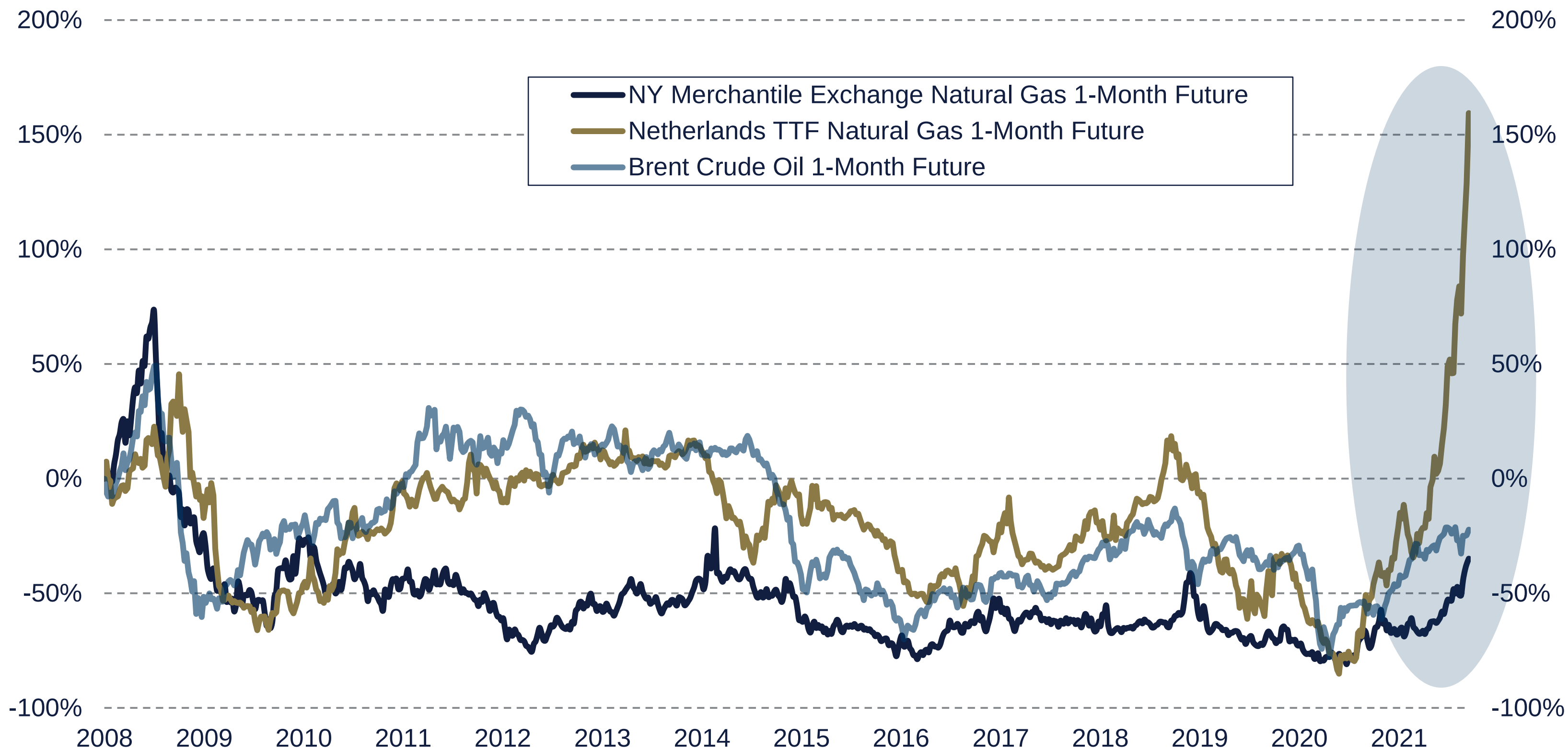


- **Europe is being engulfed in a full-blown electricity crisis**, due to the sudden increase in **natural gas prices** and, to a lesser extent, the increase in the **prices of CO2 emission rights**
- If the shortage continues, we may see a **slowdown in the European economy**, or governments will have to redouble fiscal support. This can be a short-term **catalyst in favor of the US dollar**

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-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	30%	55%	15%

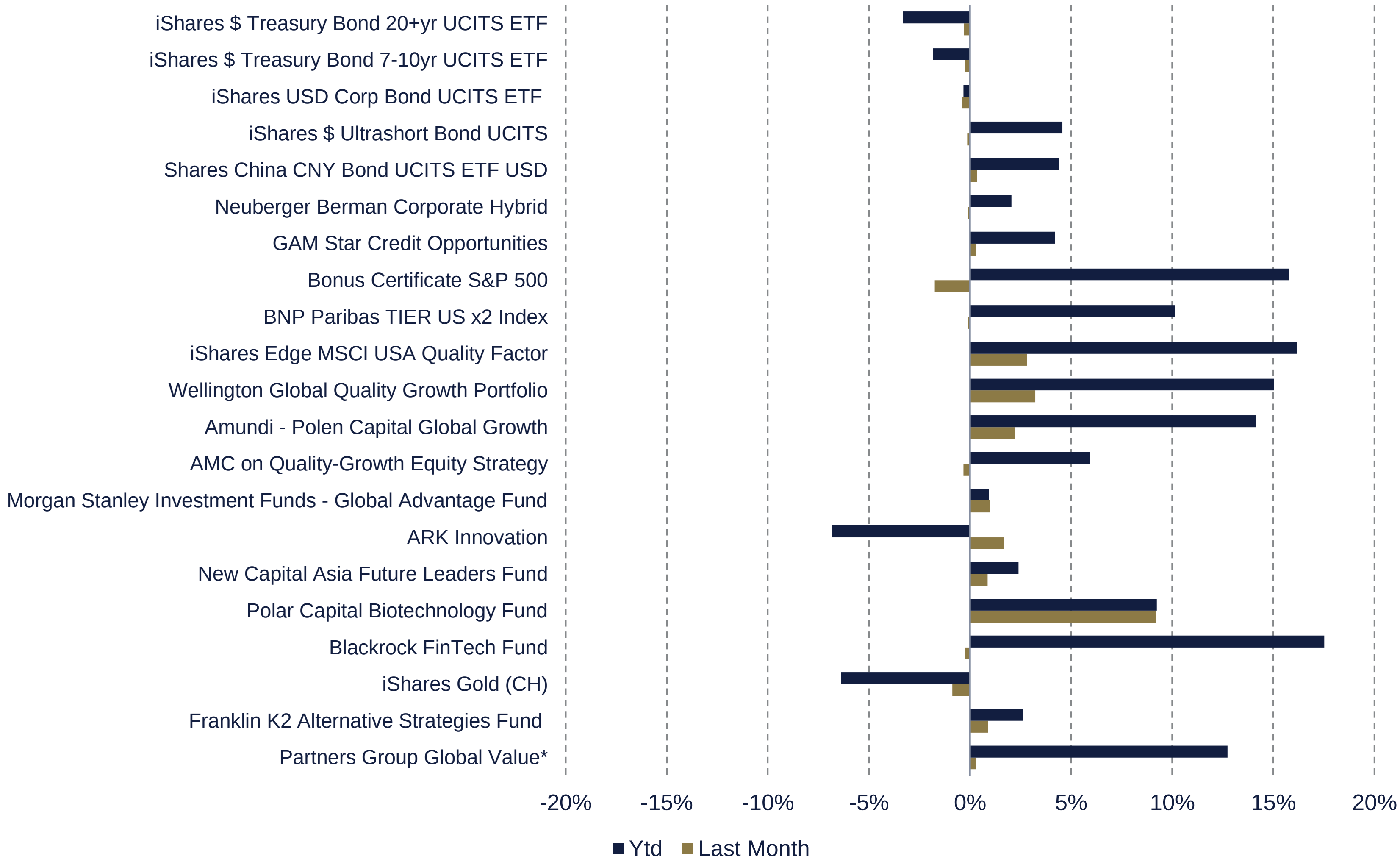
Short-term catalyzers

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)

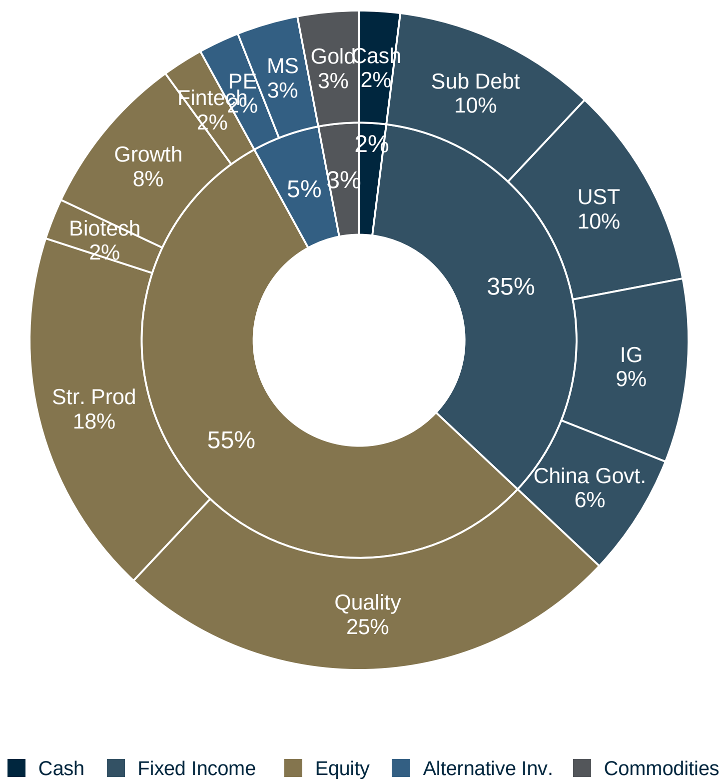
Model portfolio evolution



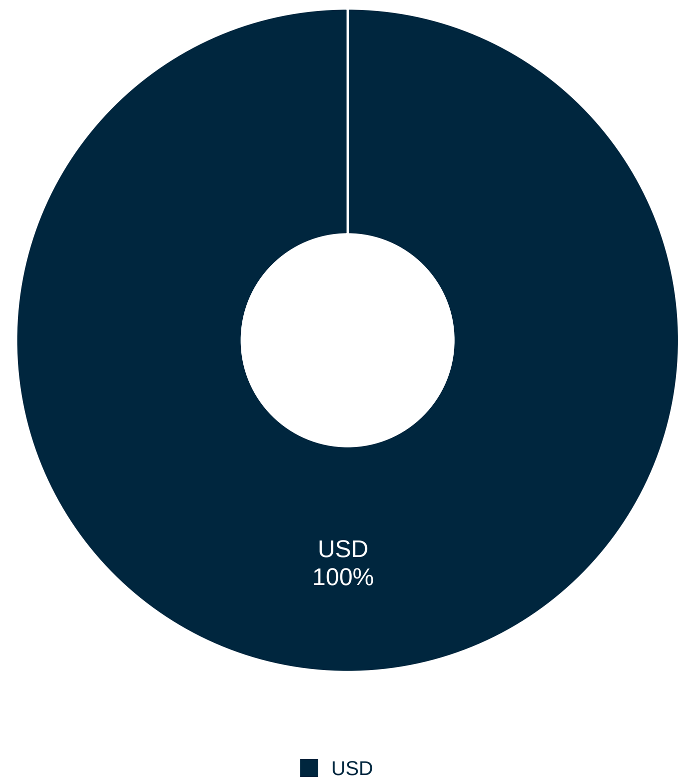
Source: Bloomberg, as of September 21, 2021
* Fund publishes monthly NAV with a 1 month of delay

Boreal Balanced Portfolio USD

Asset Allocation



Currency Allocation



Boreal Investment Profiles

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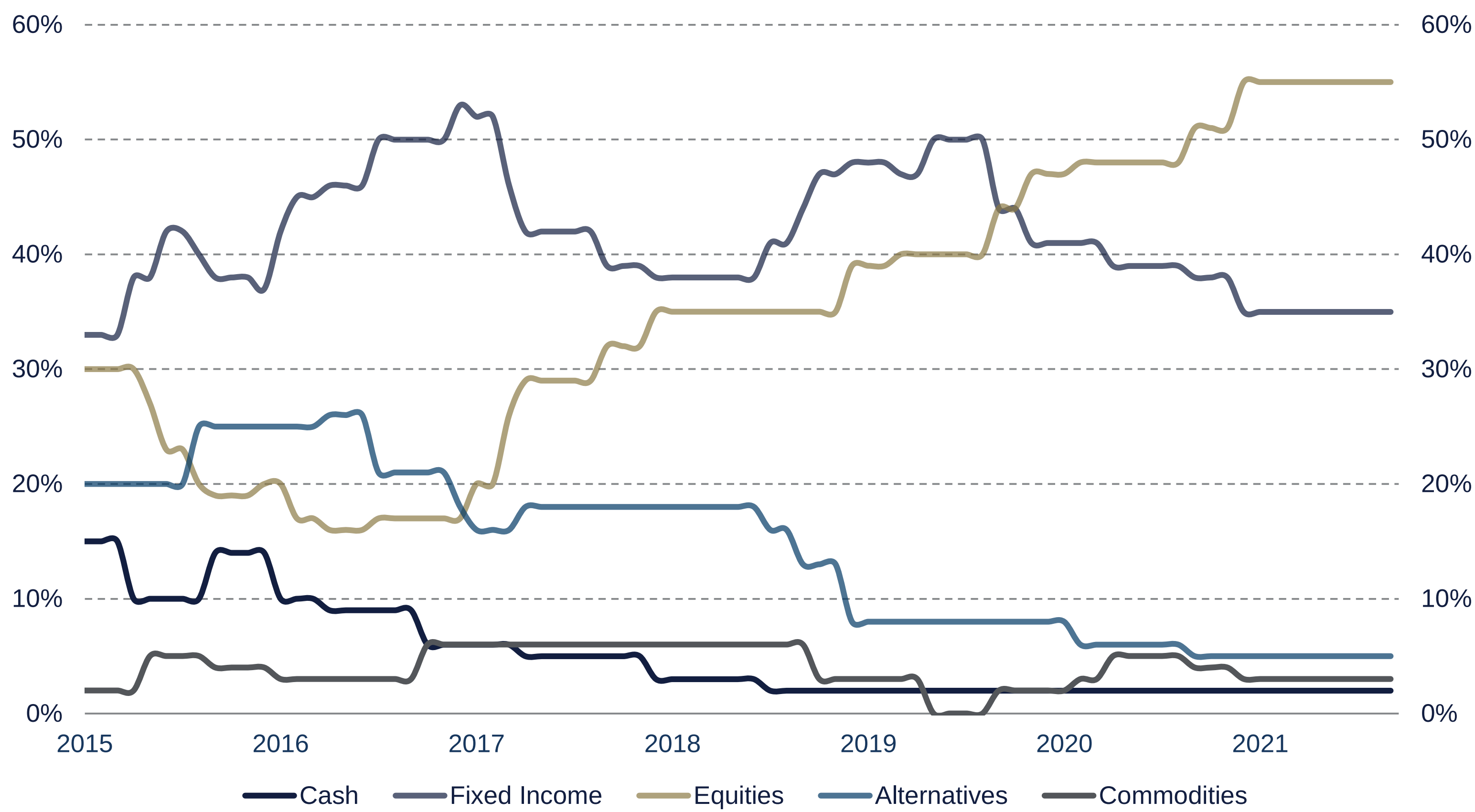
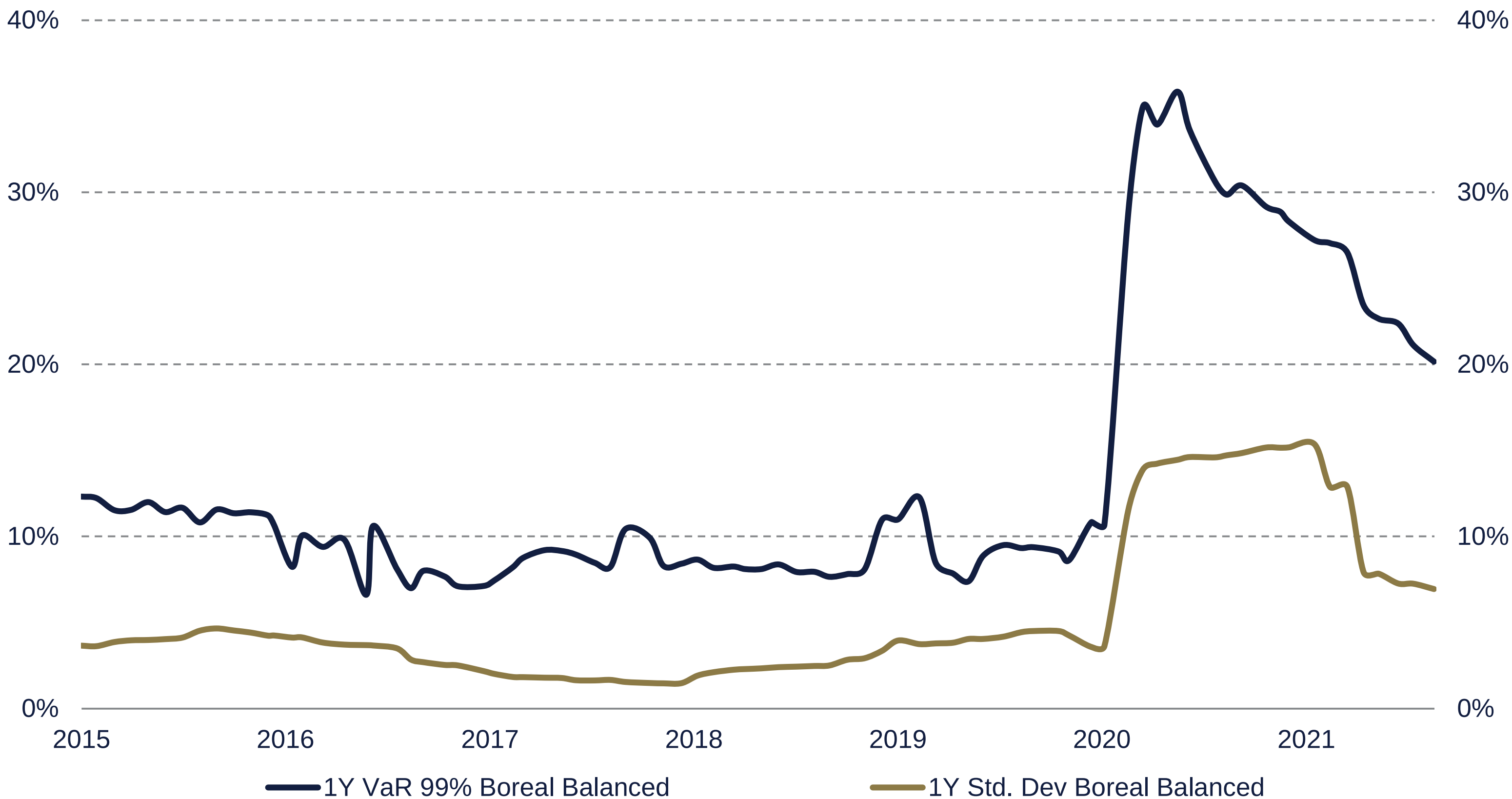
	Conservative	Balanced	Growth
Cash	▼ 5% 3%	▼ 5% 2%	▼ 5% 1%
Fixed Income	▼ 64% 57%	▼ 43% 35%	▼ 22% 14%
Equities	▼ 24% 35%	▼ 38% 55%	▼ 52% 72%
Commodities	▼ 2% 2%	▼ 4% 3%	▼ 6% 6%
Alternative Investments	▼ 5% 3%	▼ 10% 5%	▼ 15% 7%

▼ Strategic Asset Allocation

Boreal Balanced Portfolio – Asset Allocation evolution

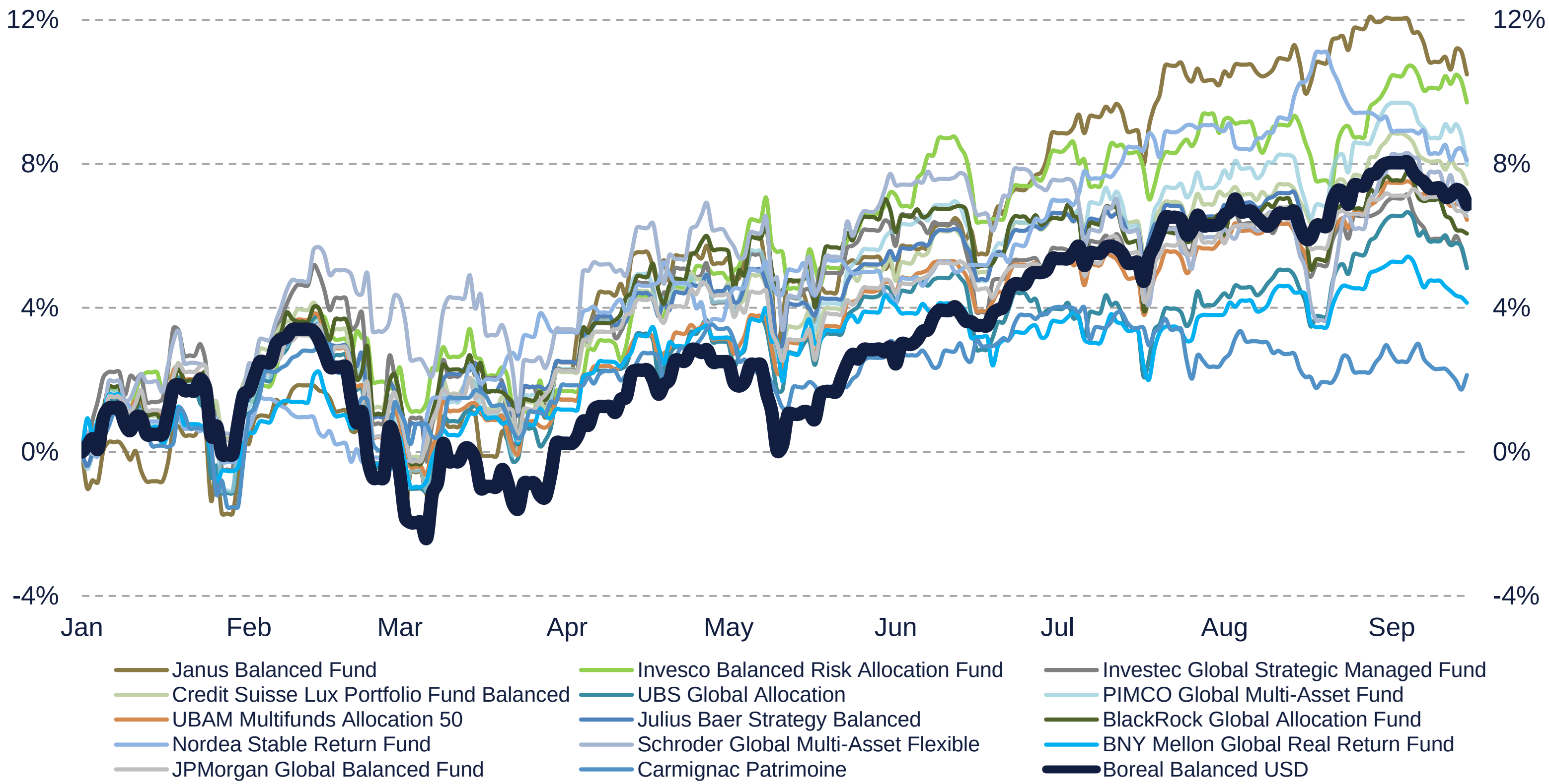


Boreal Balanced Portfolio – VaR evolution



[1] As of September 17, 2021
Source: Bloomberg

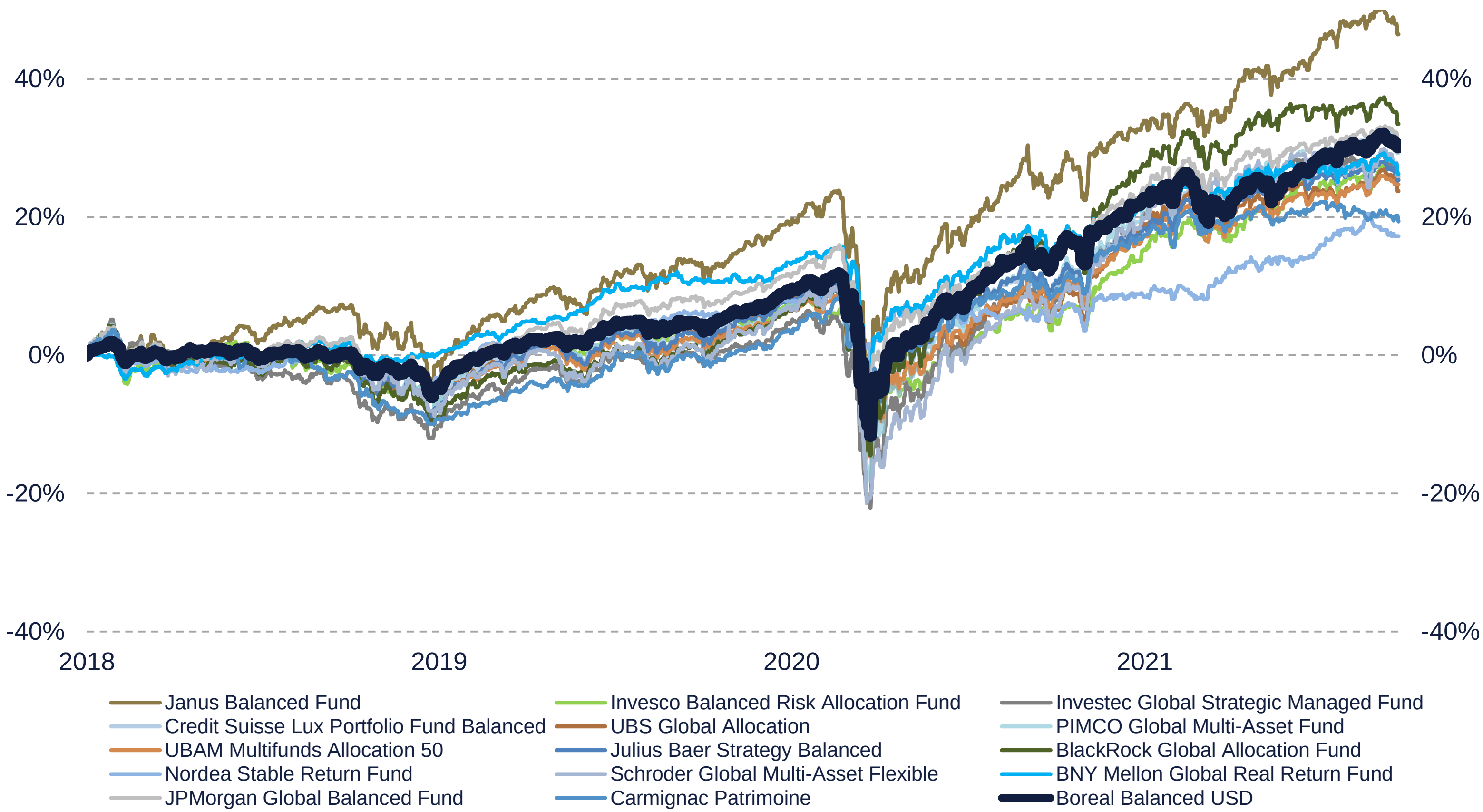
Boreal Balanced Portfolio – Peer comparison (YTD)



- **Total Return** (Ytd[1]): **6th out of 15**
- **Standard Deviation** (1 year[1]): **4th out of 15**
- **Downside Risk** (1 year[1]): **3th out of 15**
- **Sharpe Ratio** (1 year[1]): **1st out of 15**

[1] As of September 17, 2021
Source: Bloomberg

Boreal Balanced Portfolio – Peer comparison (2)



[1] As of September 17, 2021

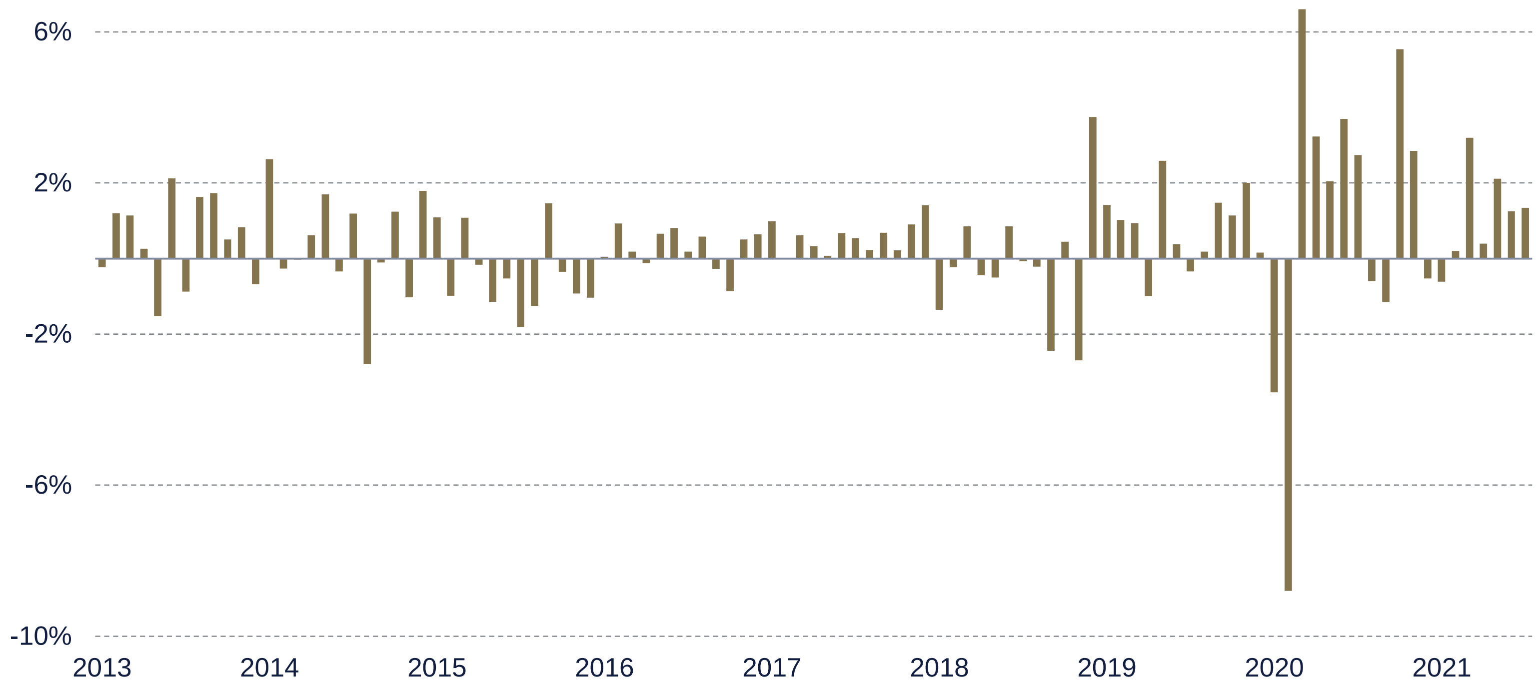
Source: Bloomberg

Boreal Balanced Portfolio – Ytd performance

- **Total Return** (Ytd[1]): **6.70%**
- **Standard Deviation** (Ytd[1]): **6.78%**
- **Downside Risk** (Ytd[1]): **4.90%**
- **Sharpe Ratio** (Ytd[1]): **1.44**

[1] As of September 17, 2021

Boreal Balanced Portfolio – Historical performance (1)



- **Total Return** (1 year[1]): **14.79%**
- **Total Return** (3 year[1]): **31.54%**
- **Total Return** (Since Jan 13[1]): **55.21%**

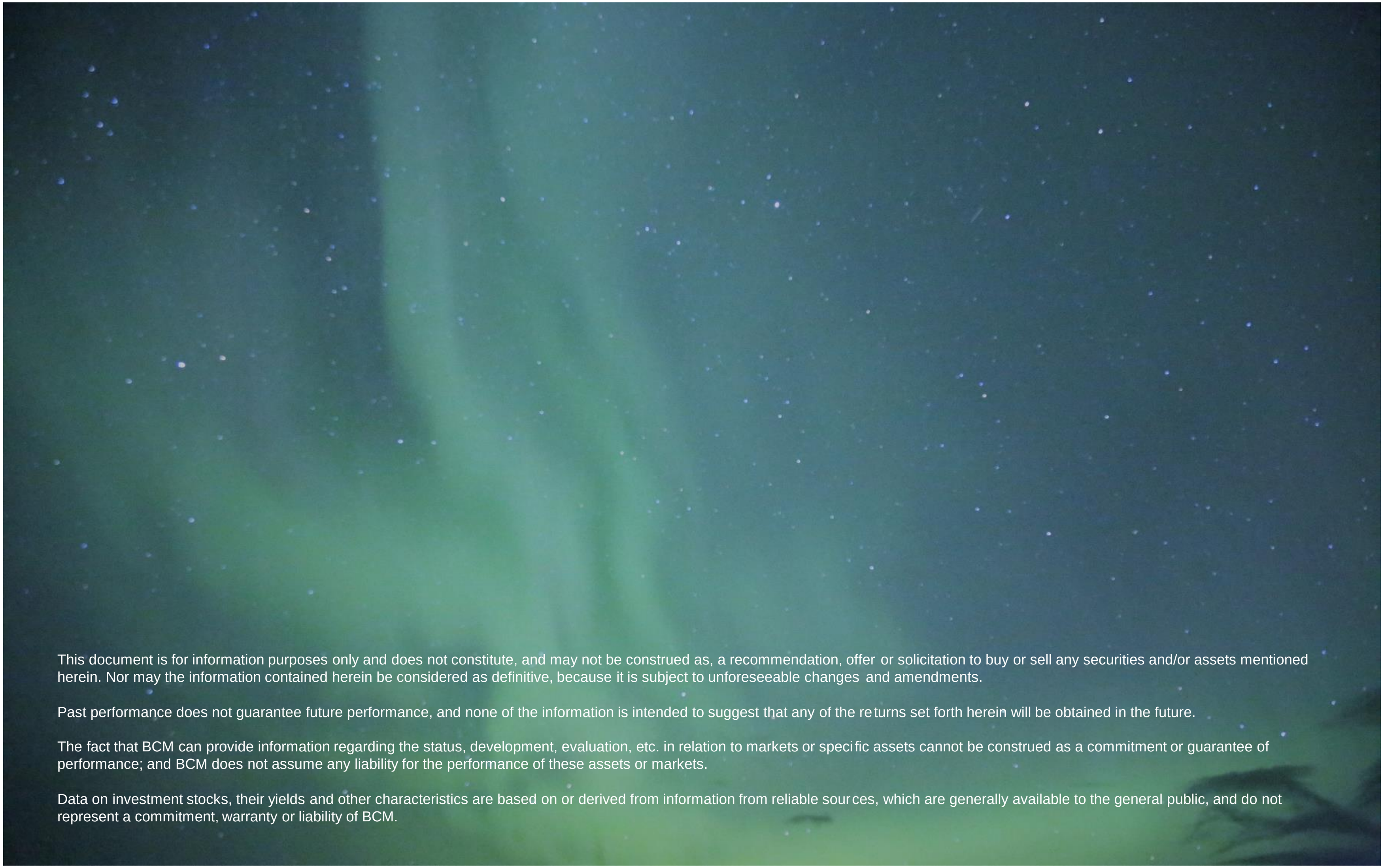
[1] As of September 17, 2021

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%	6.70%
Std. Deviation	3.82%	3.59%	3.67%	2.08%	1.45%	3.77%	3.78%	15.18%	6.78%
Sharpe Ratio	2.54	0.58	-0.48	0.62	3.57	-1.70	3.49	0.87	1.44

Annualized Return: 5.17%
Annualized Std. Dev: 6.25%

[1] As of September 17, 2021



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