DYNAMIC TREE ASSET MANAGEMENT

MARKET REVIEW & OUTLOOK Q1 2020

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A CHALLENGING QUARTER FOR OUR DT TOP 15

The DT Top 15 had a challenging first quarter, dropping by 17.01% in USD terms.

However, it outperformed the broad market once again.

2019 was an extraordinary year for equity investors. In stark contrast, however, the first quarter of this year has been dismal. The longest bull market in recent history came to an abrupt end, triggered by the long-underestimated Corona virus. While we all knew that we were in the later stages of the economic cycle, no one could have anticipated at the beginning of this year that a large portion of the global economy would be abruptly halted as a result of the COVID-19 pandemic.

At the onset, the debate centered around whether there will be a recession in 2020. As the crisis dragged on and intensified, it soon became clear that a recession would be unavoidable under the circumstances. The discussion then moved to how deep and long the coming recession would actually be. Markets reacted to this new reality mercilessly, falling by one of the greatest magnitudes ever seen in history over such a short period of time. The month of March marked the culmination of the ferocious selling frenzy, with the S&P500 dropping by 12.5%.

It is quite obvious that the hit to the global economy caused by the pandemic will be massive, even though traditional economic data showing the true extent will only be released over time. Meanwhile, a few examples are enough to suggest the potential extent of the hit, starting with car sales falling by 80% in China in February. In the US, the number of individuals applying for unemployment benefits skyrocketed to over three million in March, a drastic increase from somewhere in the 200,000 range in February. There are countless other examples. Suffice it to say, we are not dealing with a normal recession here, but rather a sudden shock that is unprecedented among developed economies since the end of the Second World War.

The US equity market fell dramatically during the first quarter of 2020, as COVID-19 began to spread around the globe. Confirmed cases in the US skyrocketed from 150 to over 100,000 between March 4 and March 27, and it became more and more clear how bad the damage to the overall US economy was going to be. Initial unemployment claims shot up to over three million in the last week of March, and economic indicators suggest even more will follow. To combat the immediate effects of the crisis, a substantial fiscal stimulus package was announced in the US, amounting to about 10% of the country's GDP. Among other things, the package will include some much needed relief for businesses. The arrangement also includes government backing for credit to be provided by the Federal Reserve to large investment grade companies, designed to ensure that such companies do not go bankrupt for lack of liquidity. For the first time since the global financial crisis of 2008, the Federal

Reserve cut interest rates twice in March, and announced unlimited quantitative easing.

Eurozone equities fell sharply in Q1 2020 as a result of the spread of COVID-19, with Italy and Spain becoming some of the most severely affected countries worldwide. Several European countries implemented lockdowns, severely restricting the movement of people, and shutting down large parts of their respective economies in an effort to contain the spread of the virus. Growth in the Eurozone, which was already weak during the final quarter of 2019, at only 0.10%, is going to be hit hard. Early indicators point to just how much economic activity has collapsed. The flash Markit composite Purchasing Managers' Index (PMI) for March fell to a record low of 31.4, compared to 51.6 in February. The PMI is an index of the prevailing direction of economic trends in the manufacturing and service sectors. It summarizes whether market conditions, as viewed by purchasing managers, are expanding, staying the same, or contracting. The purpose of the PMI is to provide information about current and future business conditions to company decision makers, analysts, and investors. An index reading below 50 indicates economic contraction. From the March reading of 31.4, one can easily surmise how bad the damage to the Eurozone economy actually is. Against this backdrop, it was no surprise that the European Central Bank announced its 750 billion euro Pandemic Emergency Purchase Programme (PEPP) on March 19. Together with the 120 billion euro package already announced on March 12, the two packages amount to a staggering 7.30% of the total GDP of the Eurozone. The programme is available to all jurisdictions and will remain in place until the COVID-19 crisis is deemed to be over. Furthermore, governments across Europe have announced emergency spending packages to help businesses and households most affected by the crisis.

Stock Markets

All major equity markets fell sharply during the quarter. Markets panicked due to uncertainty over the duration of the virus threat and the extent of further containment measures. Such uncertainty was compounded by fears that monetary policy measures had already reached their limits, with almost all central banks at the zero-lower bound.

The Swiss Market Index (SMI) gained approximately 26% in 2019 (30% including dividends), outperforming most European markets. Given the very defensive nature of the Swiss equity market, the strong outperformance of the SMI in 2019 came as somewhat of a surprise. During the first quarter of 2020, the Swiss Market Index once again outperformed its peers (-12.30%), in some cases significantly. The reason for this outperformance is not difficult to explain. The SMI is home to some very defensive high-quality stocks, such as Nestlé, Roche, and Novartis, to name only a few, and their high weight in the Index protected it from falling more significantly.

Stock market performance around the globe was unanimously negative in Q1 2020. The following table shows the performance of selected markets:

World Indices	Price Change Q1 2020 (%)
S&P 500	-20.00%
NASDAQ 100	-10.53%
TSX Composite	-21.60%
Euro STOXX 50	-19.70%
SMI Swiss Market Index	-12.30%
German DAX	-25.01%
Japanese Nikkei 225	-20.03%
MSCI World Index	-20.93%

Source: Refinitiv (in local currency terms)

"Building wealth is a process of managing risk, not ignoring it."
Jon Duncan

International diversification helps to spread and diminish risks globally while exposing the portfolio to additional opportunities.

DT Top 15

In 2019, our DT Top 15 strategy was up by approximately 37%, beating its benchmark, the MSCI Total Return Index, by about 8%, and the S&P500 by the same amount. In Q1 2020, our strategy outperformed the broad market once again. With its performance of -17.01%, it beat out the MSCI World by about 4%, the S&P500 by about 3%, and the German DAX by 8%. As a result, we are very satisfied with our mix of defensive and growth companies.

The top 3 performing stocks within our DT Top 15 strategy in Q1 2020 were: 1) Roche, advancing by 0.75%; 2) Microsoft, unchanged; and 3) Nestle, falling by 4.40%. The three stocks with the worst performance during the quarter were: 1) Citigroup, dropping 47%; 2) Royal Dutch Shell, falling by 38.75%; and 3) AXA, falling by 38.60%.

Below is an overview of some of our current holdings:

Alibaba – Alibaba is a holding company that provides the technology infrastructure and marketing reach to help merchants, brands and other businesses to leverage the power of new technology to engage with users, and allow customers to operate. The Company operates four business segments. Its Core Commerce segment comprises China retail, China wholesale, International retail, International wholesale, Cainiao logistics services, and local consumer services through Taobao Marketplace and Tmall. Its Cloud Computing segment provides a complete suite of cloud services, including database, storage, network virtualization services, big data analytics, etc. Its Digital Media and Entertainment segment offers consumer services beyond its core business operations. Finally, its Innovation Initiatives and Others segment is intended to generate innovations and deliver new services and products.

We added Alibaba to our DT Top 15 in late December 2019 at approximately USD 214 per share. It closed 2019 at USD 212.10 and, as of March 31, 2020, was trading at USD 195 (-8% YTD) – a very good performance under the current circumstances. Management did highlight that the Corona virus outbreak would bring short-term disruptions, particularly on the logistics side. Such disruptions should not derail Alibaba's core competitive advantages, however, Its dominance in e-commerce, strong cash flow generation, and large cash balances allow Alibaba to utilize multiple strategies to defend its leading market position. Its cloud business has delivered significant sales growth, as is evident from the latest results (increasing 62% year on year). In addition, despite its absolute dominance in the industry, it has continued to invest heavily in technology to achieve optimum efficiency.

We believe that Alibaba will be in a very strong position in the post-Corona world. We are happy with this investment, and will continue to hang on to it for the time being.

Microsoft – Microsoft develops, manufactures, licenses, sells and supports software products. The company offers operating system software, server application software, business and consumer applications software, software development tools, Internet and intranet software, and mobile software. Microsoft also develops video game consoles, digital music entertainment devices and personal computer input hardware.

The COVID-19 crisis has compelled governments around the world to impose lockdowns in order to contain the spread of the virus. The lockdowns have been weighing on corporate earnings and disrupting supply chains, with no

immediate respite in sight. Nevertheless, due to ongoing digital transformation and evolving IT and networking infrastructure, the majority of companies are now asking employees to work from home. The stay-at-home and work -from-home wave has led to a spike in relevant software demand, particularly for enterprise communication, workspace management, etc.

Microsoft is well-positioned to benefit from the widespread adoption of the Azure cloud platform and its Office 365 applications, which it recently rebranded as Microsoft 365, with added capabilities.

Moreover, the surge in the number of individuals working from home as a result of the Corona virus is driving the use of Microsoft Teams, which now has more than 44 million daily active users, giving Microsoft a competitive edge over Slack and Zoom. In Italy, for example, the company witnessed a 775% increase in its Microsoft Teams user base. In addition, the company is also witnessing a big spike in the number of Skype users owing to the work-from -home wave, increasing by 70% to around 40 million daily users of late.

We already liked Microsoft when we bought it back in March 2017 at USD 65. Since then, it closed 2019 at USD 157.70 and, as of March 31, 2020, it stood at USD 157.71, being one of the rare stocks that put in a positive performance during Q1 2020. Although Microsoft was trading at around USD 190 in February, it has still done amazingly well under the current circumstances. We like the stock even more today and continue to believe in the story. Microsoft has a very strong balance sheet, and is well positioned to benefit from new trends in the post-Corona world.

Salesforce.com – salesforce.com is a pure-play provider of cloud services and offers software on demand. The company supplies customer relationship management services to businesses worldwide, as well as technology platforms for customers and developers to build and run business applications. Clients use salesforce.com to manage their customer, sales and operational data.

Salesforce held up pretty well during the downturn in Q1 2020, falling by only around 11%. Being the trusted vendor for large enterprises in their digital transformation and modernization journey, Salesforce enjoys high recurring revenues and already serves more than 60% of the Fortune 500 companies, allowing for strong cross-selling opportunities for its growing product portfolio in new verticals. Furthermore, salesforce.com has defensive and stable cash flows supported by a largely installed customer base. Salesforce's acquisitions in recent years have enabled it to expand from its roots in customer relationship management software into marketing, e-commerce and application development. It is a leader in software-as-a-service. We believe Salesforce is well positioned as companies increase spending on digital transformation projects, particularly once the world slowly begins to normalize after the Corona crisis. More companies are likely to aim for a competitive advantage with business analytics tools that scrub client data. Furthermore, one technology that Salesforce hopes will drive more revenue in the future is artificial intelligence. The enterprise software maker introduced its 'Einstein' AI software cloud platform in September 2016. The first Einstein AI software tools helped salespeople predict which deals are most likely to close based on a company's historical lead and account data.

We continue to believe in the Salesforce story and will stick with the company, as we believe it will emerge even stronger in the post-Corona world.

Royal Dutch Shell - Royal Dutch Shell is one of the globally leading independent oil and gas companies that engages in the exploration, production and refining of petroleum. Through its subsidiaries, the company performs activities related to oil and natural gas, chemicals, power generation and renewable resources, as well as engaging in other businesses. It operates through both the upstream and downstream segments in Europe, Asia, Oceania, Africa, and the US.

Given the perfect storm – the drastic drop in demand for oil as a result of the COVID-19 crisis, combined with the loss of OPEC price support – Royal Dutch Shell's stock price was hit hard during the first quarter of 2020, dropping by 38.75% (by comparison, WTI Oil was down by about 65% during the same period).

To its own benefit, Royal Dutch Shell (RDS) had already repositioned itself to a lower-for-longer oil price environment beginning in 2015, by reducing its operating

expenses and capital expenditure. It is now in a position to receive cash flow from investments made during the first half of the last decade, as well as and from the acquisition of BG Group. However, extremely low oil and gas prices, and weak refining and chemical margins, are weighing on RDS' cash flow generation. Nevertheless, the company has many options to protect its strong balance sheet. The first step will be to stop share buybacks, followed by capex reductions, divestments, the re-introduction of a stock dividend, and a dividend cut.

The big question is whether Royal Dutch Shell will cut its dividend (the current dividend yield is at about 11%), something it has not done since World War II. The answer to that question lies primarily in how long the company thinks oil prices will be depressed. If they believe the low oil price environment is temporary, they may not cut the dividend. If, however, they believe the oil price environment will be depressed for the next several years, they may have to cut the dividend.

We prefer to remain optimistic, and believe oil prices will stabilize and even rise again over the medium term. Royal Dutch, with its strong balance sheet and a well-diversified portfolio across the oil and gas value chain, will be well positioned to benefit from improving conditions in the oil market going forward. Consequently, despite the magnitude of the drop seen in Q1 2020, we are not giving in to panic and will hold on to the position for the time being.

Market Outlook

The global spread of the Corona virus has rocked financial markets in a way few have seen before. Some investors have really only ever experienced a bull market, as we have been living in one for quite some time now. We believe that the depth and duration of the current recession will predominantly depend on the extent to which governments fill in the gaps in their current fiscal responses, comforted by the support of central banks, to ensure that unemployment does not increase even higher and thus that the bankruptcies of otherwise solid businesses are prevented. So far, we have seen encouraging signs that governments and central banks are taking the right steps to soften the blow to their respective economies. Further measures are still required, however.

Volatility never feels good, particularly the kind of volatility witnessed on certain crazy days during the first quarter of 2020, when daily market moves matched, if not surpassed, the scale of those seen during the global financial crisis of 2008. Nevertheless, we do not believe the current crisis is a repetition of the one seen in 2008. The economic shock we are currently witnessing is not being caused by a crisis taking place in the core of the financial system that is then spreading to the rest of the economy. Instead, the economy seems to be on much stronger footing this time around, and the financial system more robust. In fact, certain policy measures put in place since 2008 have actually helped to strengthen the financial system.

So what should we do now? Decades of stock market history tell us "this too shall pass." That wisdom, coupled with our own experience, suggest that the most prudent action for long-term investors is to stay the course, and to prepare for the opportunities that may arise as markets emerge from the turmoil. And that is exactly what we will do. We are currently looking at some promising companies that stand to benefit from the structural changes that will undoubtedly occur in the post-Corona world.

A history of ills and recovery
S&P 500 declines and year-after returns, 1987-2020

S&P 500's largest drops	Black Monday 08/25/87 - 12/4/87	Gulf War 07/16/90 - 10/11/90	Asia Monetary Crisis 07/17/98 - 08/31/98	Tech Bubble 03/27/00 - 10/9/02	Financial Crisis 10/09/07 - 03/09/09	U.S. Credit Downgrade 03/10/11 - 10/03/11	Trade War 10/3/18 - 12/24/18	Global COVID-19 Outbreak 02/19/20 - to date
Decline	-33.5%	-19.9%	-19.3%	-49.0%	-56.8%	-19.0%	-19.6%	-29.4%
Next 12 months	+21.4%	+29.1%	+37.9%	+33.7%	+68.6%	+32.0%	+37.1%	?

Source: BlackRock and Morningstar, March 2020. Returns are principal only and do not include dividends.

The equity markets that have been hit the hardest should also be those to benefit the most from the eventual market rebound. Eurozone equities fall squarely into this category, as they are attractively valued and the zone's high weighting to cyclical stock should help it outperform during the inevitable market recovery.

We continue to like gold, as it has done what it is supposed to in a crisis – protect portfolios. With interest rates close to zero, unprecedented amounts of new money being printed by global central banks, and, last but not least, its status as a safe haven, gold prices should rise further in the weeks and months to come.

Markets have recovered significantly during the first half of April. It remains to be seen whether the recent market rally will have substance in the short term. It also still remains to be seen what the true economic impact of the Corona pandemic will be, and that truth will only be revealed bit by bit in the months and years to come. As always, we will watch the situation very carefully, and will act when and as appropriate.

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"In the 20th century, the United States endured two world wars and other traumatic and expensive military conflicts, the Depression, a dozen or so recessions and financial panics, oil shocks, a flu epidemic, and the resignation of a disgraced president. Yet the Dow rose from 66 to 11,497."

— Warren Buffett —

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