DYNAMIC TREE ASSET MANAGEMENT

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MARKET REVIEW & OUTLOOK Q2 2020

AGENDA

Review	1-2
Stock Markets	2
DT Top 15 Performance Stock Picks	3-4
Outlook	4-5
Contact Us	5
Disclaimer	6

A GOOD SECOND QUARTER FOR OUR DT 15

The DT Top 15 had a good performance in the second quarter, advancing by +4.78% in USD terms bringing its YTD performance to 21.26%.

With this result, we have beaten all major equity markets by a wide margin, except for the NASDAQ.

It has indeed been an extraordinary first six months of the year. Had someone told me at the beginning of the year what was to come in 2020, I would have laughed out loud and disregarded it as utter nonsense.

The upswing in equities and credit since the end of March is no less astounding than the cataclysmic drop that occurred before that. The sharp rally came on the back of enormous amounts of central bank and government stimulus and as economies around the globe slowly started to reopen. Central banks around the world made it clear they are willing to use all their available ammunition to keep government and corporate borrowing costs low in an effort to soften the blow from the impact of the COVID-19 pandemic. By providing almost unlimited support, central banks were able to avoid a liquidity crunch, which was perceived as a real threat back in March when financial systems first began showing signs of significant stress. It appears as if global central banks will continue their policy of providing liquidity support if and when needed. Such unprecedented support has kept economies alive and saved many companies from financial ruin, but it did not prevent some weaker companies from going bankrupt, such as car rental company Hertz, and Chesapeake Energy, to name just two. The pandemic is still far from over, and no vaccine has yet been approved. While the rate of new infections has fallen to low levels in certain parts of the world such as Europe and China, in other parts of the world such as the US, India and much of Latin America, the number of new infections is rising at alarming rates. Nevertheless, the S&P 500 Index and other global equity indices appear to be pricing in a V-shaped economic recovery, as weekly claims for unemployment insurance in the US slowed substantially and retail sales rebounded strongly in April and May. The S&P 500 rallied 25% in Q2, bringing its year-to-date loss to 4%.

Eurozone equities were also up sharply in Q2, with the Euro STOXX 50 Index up 12% and the German DAX even up by about 29%. These gains also came as a result of substantial central bank intervention and the market relief generated as many countries loosened their lockdowns in April and May.

The eurozone economy shrank by 3.6% in the first quarter of 2020 compared to Q4 2019, as lockdowns were introduced in March. Contrary to what had been expected, surveys of economic activity sharply improved later during the quarter. The flash eurozone composite purchasing managers' index for June rose to 47.5, compared to 31.9 in May and 13.6 in April, with 50 marking the level that separates expansion from contraction.

In China, things are also looking much brighter. The Caixin Services PMI, a non-official gauge of China's service-sector exercise, surged to 58.4 in June, its highest level in a decade, as the easing of virus-control measures drove customer demand. The robust rebound in the Caixin Services PMI was consistent with other data reported earlier last week. The official non-manufacturing PMI launched last Tuesday jumped to a seven-month high in June, while the official manufacturing PMI reached a three-month high.

Stock Markets

All major equity markets rallied sharply during the quarter as many economies opened up. Once again, the US Technology Index NASDAQ shone during the second quarter, rallying 16.30%, far surpassing all other major markets. It was heavily driven by the stunning performance of companies such as Microsoft, Apple, and Amazon, to name just a few. Many companies even benefitted from the lockdown as a result of the trend toward working from home and the increase in online shopping.

The German DAX index also put in a strong performance at +29%, on the back of a disastrous first quarter during which it fell dramatically. Given its conservative nature, the Swiss Market Index did not rise as much during Q2, increasing by 9.56%. However, the Swiss Market is still one of the best performers so far in 2020 thanks to its defensive heavyweights like Nestlé, Roche, Novartis, etc. As has often been the case in times of crisis, the Swiss Franc was also strong against most currencies, underpinning its status as a safe-haven currency, despite the fact that holding large amounts of Swiss Francs is generally penalized with negative interest of 0.75% p.a. by most banks. That almost tax-like rate does not seem to deter investors from fleeing to the Swiss Franc in times of crisis, however.

Stock market performance around the globe was unanimously positive in Q2 2020. The following table shows the performance of selected markets:

World Indices	Price Change Q2 2020	Price Change YTD 2020
S&P 500	+25.5%	-4.04%
NASDAQ 100	+35.67%	+16.30%
TSX Composite	+20.49%	-9.07%
Euro STOXX 50	+12.20%	-12.17%
Swiss Market Index	+9.56%	-6.11%
German DAX	+28.98%	-8.03%
Japanese Nikkei 225	+17.82%	-5.78%
MSCI World Index	+24.33%	-5.48%

Source: Refinitiv (in local currency terms)

DT Top 15

In Q2, 2020, our DT Top 15 strategy was up by 21.26%. Year-to-date (as at June 30), our DT Top 15 strategy is up 0.63% (as at July 8 +5.08%), beating all major equity markets by a wide margin, except for the NASDAQ. Consequently, we continue to be very satisfied with our mix of defensive and growth companies.

The top three performing stocks within our DT Top 15 strategy in Q2 2020 were: 1) Zalando, advancing by 83.8%; 2) Salesforce, up 39.7%; and 3) Microsoft, up by 33.8%; The three stocks with the worst performance during the quarter were: 1) Royal Dutch, dropping 12% 2) Roche Holdings, rising by 3%; and 3) Nestlé, rising by 5%. Roche and Nestlé were top performers in Q1, so it is no surprise they did not rise as much in Q2, given their defensive nature.

During the quarter, we sold Citigroup (at around USD 51) and ABB (at around CHF 19.75), and replaced them with Garmin (at around USD 90.85) and Geberit (at around CHF 470) instead.

"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.

Below is an overview of some of our current holdings:

Garmin – Garmin Ltd. and its subsidiaries offer global positioning system (GPS) navigation and wireless devices and applications. The Company markets its products to consumers around the world in five different segments, providing a range of automotive navigation products, as well as products and applications designed for the mobile GPS market. Its products include outdoor handhelds, wearable devices, golf devices, and dog tracking and other pet training/obedience devices. Garmin also offers a range of products designed for use in fitness and activity tracking. Its aviation business segment is a provider of solutions to aircraft manufacturers, existing aircraft owners and operators, as well as military and government customers, and serves a range of aircraft, including transport aircraft, business aviation, general aviation, experimental/light sport aircraft, helicopters, optionally piloted vehicles, and unmanned aerial vehicles.

We bought Garmin as a replacement for Citigroup on June 2, 2020, at around USD 90.75 (as of June 30, 2020, the stock was trading at USD 97.22). We felt Citigroup was too risky for the moment given the chance for a renewed, COVID-19 induced market sell-off, during which financials could be hit hard again. Garmin, on the other hand, should be more defensive in nature and consequently offers great long-term value. Even if the COVID-19 pandemic is a thing of the past, it will likely introduce permanent lifestyle changes and Garmin is well-positioned to capitalize on such changes with its focus on health, sporting and wellness GPS and tracking devices. Also, the trend toward indoor cycling is gaining in momentum (and is a trend we believe will continue for the foreseeable future), and one in which Garmin should play an important role. The Company has a rock-solid balance sheet and investors could expect either further investments into existing business lines or even increased dividends over time. The dividend yield is currently around 2.5%, which we find attractive. Only recently, Garmin acquired a privately held company, Firstbeat Analytics, a physiological analytics company. It provides software that interprets various data collected from sensors in the health, wellness, fitness and performance markets. The company's software facilitates the monitoring of stress, sleep and respiration rates, among other things, for smartwatch manufacturers. That latest acquisition, focused on personal health monitoring, will help Garmin to further expand its market share in the fitness sector. We believe Garmin will continue to expand its product offering by acquiring additional companies that fit its profile. We like the story and are optimistic about Garmin's future.

Geberit – Geberit AG is the European market leader in sanitary systems and piping solutions, and also has a global presence. Following the acquisition of Sanitec, a leading producer and supplier of bathroom ceramics in Europe, Geberit has expanded its product portfolio from behind-the-wall bathroom products and piping systems to front-of-the-wall bathroom products.

We bought Geberit as a replacement for ABB on June 2, 2020, at around CHF 470 (as of June 30, 2020, the stock was trading at CHF 474.20). Geberit is a best-in-class company and offers an attractive business model with high entry barriers (its key customers are plumbers who have to provide multi-year warranties on their work), strong pricing power, and very healthy margins, resulting in attractive free cash generation, and supported by a strong balance sheet. In light of the current economic situation,

we prefer Geberit over ABB, and expect Geberit will be more resilient should further downside occur. We also appreciate the current dividend yield of around 2.5%.

Zalando - With its high brand recognition, Zalando is the leading company in the fast-growing European online fashion retail market. It has a strong balance sheet and enjoys solid top-line growth backed by the overall growth of the online industry, but it is also still likely to gain in market share. The company, like many of its competitors, is barely profitable as management is prioritising growth over profitability, which in our view is the right strategy.
Zalando was the best performing stock among the DT Top 15 in Q2 2020, gaining a staggering 84%! Although we had previously owned the stock and sold it at a profit, we bought it again at around EUR 34 back in September 2018. On June 30, 2020, Zalando closed at EUR 62.78, hitting another all-time high of over EUR 66 in the days thereafter. Recent gains came on the back of Zalando's announcement that it expects a big increase in second-quarter sales and operating profit as Coronavirus lockdowns accelerate a shift to e-commerce. Zalando expects to significantly beat market expectations with second-quarter revenue growth of 16% and adjusted operating profit of EUR 104 million. Zalando further added that it had been helped by its strategy of becoming a marketplace for brands, offering them marketing and logistics services, rather than just selling stock on its website. Analysts at Bernstein have said that the growth rate of online fashion looks set to triple this year to account for 23% of European sales in 2020, levels not expected before 2024 prior to the pandemic, adding that the market share of European sales could hit 37% by 2030. Although the stock has already had such a phenomenal run, we continue to like the story, even more so now, in a world that is moving increasingly toward e-commerce.

Prime Cyber Security - We have held a cyber ETF, the ETFMG Prime Cyber Security ETF (ticker: HACK) in most portfolios since back in 2016. It is a portfolio of companies that provides cyber security solutions including hardware, software and services, giving investors exposure to companies that are poised to benefit from the booming demand in cyber security products and services. The ETF has done very well since then, and although the sector is very volatile, we think it still has great potential for long-term growth. The recent surge in data volumes coupled with increasing headlines about cyber-attacks underpin our outlook for the sector. Such attacks are happening more and more often and the results are ever more damaging to the victims. A cyber breach can take place from any country at any point in time, making such threats all the more menacing. As the world moves more and more toward working from home and becomes increasingly digitized, cyber security is and will remain a major concern for everyone. As this sector matures, it will have a transformative impact on how users interact with digital devices, paving the way for a spectacular growth story for the companies that stand to benefit most.

Source: Refinitiv

Market Outlook

After the incredible performance seen in the markets during the second quarter, the new question is: what is next? Many companies have stopped issuing quarterly guidance, making it difficult to know what to expect on the corporate earnings front going forward. We do see encouraging signs from certain important economic indicators such as the US labour market and retail sales, however. Nevertheless, it remains to be seen whether the current rally will continue and whether a V-shaped recovery will take hold, or whether the true awakening is yet to come. One thing is certain: some trends are here to stay, such as the growing trends toward working from home and e-commerce. Those sectors, in our opinion, will do very well over the next few years. On the other hand, some sectors will lose out due to COVID-19, such as retails stores, cruise ships, and airlines. We believe it will be a long time before air and cruise ship passenger numbers return to pre-crisis levels.

Currently, there are three main topics on investors' minds: 1) COVID-19 and a potential second wave of infections; 2) the upcoming US elections scheduled for November this year; and 3) the Federal Reserve (Fed). The question now is which of the three will be the dominant force for risky assets over the remainder of 2020. At first glance, one could presume that the most significant factor will be COVID-19 and the fear of a second wave hitting with full force, as media headlines constantly seek to remind us. However, we believe the true dominant force will be the actions of the Fed, which will likely be with us for some time. The Fed has made it clear that it will do whatever is necessary to help soften the blow to the economy created by COVID-19. It is likely those actions will keep markets going over the medium term. As for COVID-19 and the US elections, we expect they will weigh on investors' minds from time to time and create some volatility – no more, no less. What will likely continue to drive the market, however, is the Fed with its ultra loose monetary policies.

Gold – As the price of gold increased significantly over the last few months, our allocation as a percentage of total portfolio values also rose. Gold is slowly approaching the USD 1,800 level, a significant long-term barrier. The markets have already attempted to go beyond that amount, but without success. We believe it is only a matter of time before gold goes beyond the USD 1,800 level, however, continuing on its way to all-time highs of around USD 1,900. The current economic environment is very beneficial for gold, with real interest rates at rock bottom, government deficits ballooning, and the outlook for the economy all but certain. True gold enthusiasts anticipate much higher prices going forward, as they see the world staring into an economic abyss. Although we are not in that camp, we still like gold as an addition to a well diversified portfolio. As a result, we do not intend to rebalance our higher allocation to gold, but will stick with it for the time being.

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"A lot of people with high IQs are terrible investors because they've got terrible temperaments.
You need to keep raw, irrational emotion under control."

— Charlie Munger —

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