DYNAMIC TREE ASSET MANAGEMENT

MARKET REVIEW & OUTLOOK Q2 2021

AGENDA

A GOOD SECOND QUARTER FOR OUR DT 15

In Q2 2021, the DT Top 15 strategy was up by 6.96% in USD terms bringing its YTD performance to 9.54%.

After long and intense negotiations, politicians in the US agreed on a plan to improve the country's infrastructure. At USD 1.2 trillion, the new eight-year plan, which targets roads, railways and bridges as well as electric vehicle charging infrastructure, falls well short of President Biden's initial proposal. Furthermore, of the agreed money, roughly half will be related to existing projects, significantly slimming down its economic impact. The deal is far from done as President Biden said it depended on the passage of another, bigger spending bill. The president wants to enact another, roughly USD 6 trillion spending package that would roll in his party's priorities on climate change, education, paid leave and childcare benefits. It remains to be seen what will ultimately be passed by US congress, however.

The US economy added back jobs for a sixth straight month in June, with job growth picking up speed alongside the reopening economy. The change in non-farm payrolls (new jobs created in the US outside of farming) came in at 850,000, compared to the projected 720,000, and the unemployment rate rose slightly to 5.9% (5.8% in May). Non-farm payroll gains have been choppy over the past several months as worker supply shortages capped the pace of the recovery across numerous industries. Other economic data have underscored these challenges, with the Institute for Supply Management's June manufacturing employment index dipping into contractionary territory for the first time since November, mentions of 'shortages' more than doubling in the Federal Reserve's June Beige Book compared to January, and companies from FedEx (FDX) to Paychex (PAYX) citing difficulties in hiring. These supply constraints have also pushed up wages. Average hourly earnings increased by 3.6% year-on-year in June, up from the 1.9% registered in May, and accounting for the highest growth since March.

Inflation fears continue to plague the financial markets. Consumer prices jumped more than expected in May and June, but the surge in inflation looks to be temporary and should not push the Federal Reserve to tighten policy for now. Year-on-year, the consumer price index rose 5% in May, the highest increase since the summer of 2008 when oil prices were skyrocketing. Excluding food and energy, core CPI rose 3.8% year-on-year, the highest increase since 1992. A third of that increase was attributed to a sharp 7.3% increase in used car and truck prices.

Fed officials have described the current period of high inflation as transitory, implying that it should be short-lived. They expect several months of elevated price increases due to pent-up demand and supply chain lags. Inevitable comparisons to last year's weak levels — at a time when the economy was mostly shut down — are also a factor.

Economies in the eurozone performed strongly during the first half of 2021, despite the fact that vaccination campaigns in many EU countries lagged behind that of the US. Ending lockdowns, huge increases in bond buying by the European Central Bank, and the impending rollout of Europe's largest-ever stimulus plan should aid growth heading into the second half of 2021. However, that could mean that the eurozone's peak economic momentum may not come until later this year, unlike in other major economies such as the United States, where growth may have already peaked during the second quarter of this year, or in China where it apparently peaked during the fourth quarter of last year. This bodes well for eurozone stocks, which could deliver further gains after a strong performance during the first half of the year.

Stock Markets

Q2 2021 marked another good quarter for equities. After a sell-off in June, which was mainly triggered by fears that the Fed would start raising interest rates sooner than expected, markets resumed their upward trajectory. The fear held by some investors is that if the Fed tightens policy sooner than expected to help cool inflationary pressures, it could impede future economic growth. However, it turned out that the sell-off was temporary in nature and the focus has now shifted to the upcoming earnings season, which we believe should be positive.

The following table shows the performance of selected markets:

World Indices	**Price Change Q2 2021**	**Price Change YTD as of June 30**
S&P 500	+6.91%	+16.13%
NASDAQ 100	+9.19%	+14.65%
TSX Composite	+6.19%	+15.04%
Euro STOXX 50	+3.00%	+14.03%
Swiss Market Index	+7.42%	+11.22%
German DAX	+2.81%	+13.14%
Japanese Nikkei 225	-3.84%	+4.60%
MSCI World Index	+6.80%	+13.32%

Source: Refinitiv (in local currency terms)

DT Top 15

In Q2 2021, our DT Top 15 strategy performed very well, increasing by 6.96% and bringing its year-to-date growth to 9.54%. The stronger USD in 2021 continued to have a negative impact on performance, although the impact was less than it had been at the end of Q1. Major drivers in Q2 were the massive run up in Sonova shares after the hearing aid manufacturer posted quarterly results that beat analyst expectations, the rebound of certain growth stocks such as Microsoft and Zalando (both of which lagged behind in Q1 2021), and the overall positive sentiment regarding equities during the quarter. In addition, our decision to switch the rather defensive McCormick stock for the interest-rate-sensitive Bank of America stock paid off, as Bank of America performed much more solidly than McCormick.

The top three performing stocks within our DT Top 15 strategy in Q2 2021 were: 1) Sonova, advancing by 36.31%; 2) Zalando, up by 19.24%; and 3) Roche, up by 14.13%. The three stocks with the worst performance during the quarter were: 1) Volkswagen, dropping 12.42%; 2) Sony, down by 9.02%; and 3) AXA, down by 7.04%.

"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.

During the second quarter, we sold both Logitech (at around CHF 95) and Alibaba (at around USD 214), and bought Sika (at around CHF 276) and Disney (at around USD 176) instead.

Logitech – We sold Logitech on May 11 at around CHF 95. We had originally added Logitech to our portfolios back in mid-December 2020 at around CHF 80. Stay-at-home stocks like Logitech benefited from the trends spurred by the COVID-19 pandemic. However, as progress in vaccine distribution has led to an encouraging decline in the daily numbers of new cases, investors are now questioning how sustainable the demand for such companies' offerings will be as the pandemic slowly subsides. That uncertainty could cause stay-at-home stocks to potentially lag behind in the time to come. Consequently, we took a profit and reallocated the proceeds into a stock that is more cyclical in nature, Sika, which should benefit as the economy improves.

Alibaba – We also sold Alibaba on May 11, 2021, at a price of around USD 214. We originally added Alibaba to our portfolios back in December 2019 at around USD 213. After our purchase, Alibaba rose to over USD 300, before being thrown into the spotlight after Chinese regulators cracked down on the company, culminating in the payment of a USD 2.8 billion fine for abusing its market dominance over merchants and rivals. We feel somewhat nervous about potential further negative press for Alibaba and decided to sell the position. Although we still like their products and services, we feel uncomfortable due to regulatory and political risks. In another blow to Chinese tech companies, authorities in China clamped down on ride hailing giant Didi, which controls almost the entire market in China. Two days after its US IPO, China's cyberspace regulator said that it was reviewing the company on national security grounds. Two days after that announcement, the Chinese regulator said the firm had committed serious violations in the collection and usage of personal information. It then ordered the company's app to be removed from app stores, triggering a brutal sell-off in its shares. We subsequently reallocated the proceeds from the sale of Alibaba to Disney.

Walt Disney – Walt Disney is a diversified international entertainment and media enterprise operating through the following segments: Media Networks (ESPN and ABC), Parks, Experiences and Consumer Products, Studio Entertainment (Disneyland), and Direct-to-Consumer and International (DC&I). Its Studio Entertainment segment produces and acquires both live action and animated motion pictures, while its DC&I segment comprises both Disney's international media and its various streaming devices.

We bought shares in Disney on May 26, 2021, at a price of around USD 176. Although Walt Disney was heavily impacted by the COVID-19 crisis, the company is now clearly on the path of recovery. Disney parks in California were allowed to return to full capacity as of June 15, Disney's Shanghai Park is already back to pre-crisis visitor levels, and Disneyland Paris reopened on June 17. The company's share price should be well supported by the prospect of the reopening of its theme parks, cruise ships, content production and live sports events. Nevertheless, the stock came under a bit of pressure following its latest earnings report, which was disappointing to some investors due to the lower than expected number of new subscribers to Disney+, which came it at 104 million subscribers, as opposed to the projected 109 million

subscribers. One should bear in mind, however, that Disney+ went from 0 to 104 million subscribers in about 17 months, which is quite a good performance. Consequently, we believe Disney+ will continue to do well over time. With its proven ability to monetise its world-renowned characters and franchises across multiple platforms, Disney is well-positioned for further growth, especially now that its theme parks are operating again.

Sika – Sika is an innovative manufacturer of construction materials and a provider of related services. The group's core competencies are sealing, bonding, damping, reinforcing and protecting. The company is pursuing a strategy focused on expanding its footprint in emerging markets, in part through bolt-on acquisitions. Sika is one of the largest companies in a highly fragmented market.

We bought Sika on May 17, 2021, at a price of around CHF 276. Our intent was to invest the proceeds from the sale of (stay-at-home stock) Logitech into a more cyclical stock to take advantage of the rotation into cyclicals, as they should do well with the strong recovery in the economy. Sika has a high growth rate, which it achieves through innovative products, strong sales and marketing know-how, as well as continuous expansion into new markets, both organically and through bolt-on acquisitions. Furthermore, construction markets have recovered significantly since the pandemic started and should continue to do well for the remainder of the year. Given Sika's exceptional management team, its strong balance sheet and its great acquisition track record, the company should benefit greatly from the strong economic recovery that is currently taking hold.

Sonova – Sonova provides hearing healthcare solutions. The company develops and manufactures hearing systems, such as wireless communication systems for audio applications, and cochlear implant systems. Sonova also provides solutions for hearing protection. The company is greatly benefitting from the strong volume trends generated in the hearing aid market by an aging population and emerging market growth. We bought Sonova back in April 2017 at around CHF 144.90. Sonova's share price was hit very hard during the pandemic as its revenues collapsed. However, the stock has recovered at a remarkable rate and is now trading at an all-time high (CHF 318 as of June 30, 2021), up over 49% in 2021. In early May 2021, Sonova announced its intention to buy the consumer unit of German headphone and microphone maker Sennheiser for EUR 200 million, in order to reach younger customers through the emerging segment of in-ear wearables. Sonova has traditionally specialised in devices for people with significant hearing loss, which has made the elderly its core customer demographic so far, but it now hopes to reach younger customers who already use in-ear devices to listen to music and answer phone calls. Sonova said the all-cash transaction, which should close during the second half of 2021, will give it a permanent licensing agreement for the Sennheiser brand, allowing it to expand into the broader consumer headphone segment and benefit from Sennheiser's online distribution channels, which should immediately start adding to its earnings. Despite the very strong performance seen during the first half of 2021, we continue to believe in the company's strategy, with its focus on innovative, differentiated products to increase its market share.

Market Outlook

As soon as the Fed's monetary policy tone became more hawkish in June, it triggered higher uncertainty about a potential reversal of the reflation trade. Yield curves flattened, inflation expectations declined, cyclical and value stocks weakened versus growth stocks, the commodity sector came under pressure, and the US dollar strengthened. The question now is whether this means that the trends established since November last year have come to an end? Likely not. Although the macroeconomic environment for risky assets continues to remain positive, the recent spread of the Delta variant of the COVID-19 virus has brought back fears among investors that the shift towards more cyclical stocks could come to an end. Consequently, we have positioned our portfolios in such a way so as not to be exposed too much to either growth or value stocks. We hold a prudent mix of both styles, so that we are not overexposed in case of an abrupt end to the reflation trade. In addition, we believe European equities still have further catch-up potential in comparison to US equities, given that the cyclical recovery looks to be particularly strong in Europe. Depending on how the Delta variant spreads, however, we could be facing a period of increased market volatility. Nevertheless, while the second half of the year could be bumpier for financial markets, we still expect equity markets to continue their upward path.

We continue to remain significantly underweight in Fixed Income as we believe yields have further room to rise until the end of year, in which case fixed income instruments would lose in value.

Oil:

According to Bank of America strategists, oil prices may surge to USD 100 a barrel next year as travel demand rebounds – the strongest call yet among major forecasters for a return to triple digits. They argue that global oil consumption will continue to outstrip supply in 2022 as the economic recovery following the pandemic boosts fuel consumption, while investment in new production is crimped by environmental concerns. If crude oil prices do return to triple digits, it will be the first time since 2014, before a flood of North American shale oil sent the market into a slump from which it has never fully recovered.

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"Individuals who cannot master their emotions are ill-suited to profit from the investment process"

— Benjamin Graham —

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