DYNAMIC TREE ASSET MANAGEMENT

MARKET REVIEW & OUTLOOK Q3 2020

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A GOOD THIRD QUARTER FOR OUR DT 15

In Q3 2020, the DT Top 15 strategy was up by 14.73% in USD terms bringing its YTD performance to 15.45%.

Global equity markets put in a solid, albeit not spectacular, performance in Q3 2020. After a very strong August, markets corrected sharply up until September 24, at which point they turned upwards again. We are currently in a stimulus tantrum, meaning that markets have been pricing in more stimulus. Even though the Fed has made it clear that interest rates are going to remain low for quite some time, that was not enough to keep the markets going. In the past, statements like that from the Fed would have kept the markets in the green, but right now there is much more focus on creating further stimulus.

The worst of the recession caused by the Covid-19 pandemic is now over and the initial recovery has been surprisingly strong. Nevertheless, economic indicators such as the purchasing managers' indices (PMIs) confirm our expectations of a V-shaped recovery taking hold. The abrupt standstill in the service sector, caused by the political responses put in place to stop the virus from spreading, led the initial global economic downturn, after which manufacturing followed.

According to a highly watched and important economic report, the monthly US Non-farm Payrolls report, the number of people employed in the US increased by 1.4 million in August, in line with consensus expectations, while the unemployment rate fell more than expected to 8.4%. Increases continued to be seen in the hardest hit sectors – leisure and hospitality, retail, education and healthcare – but a quarter of gains came from government, boosted by 238,000 temporary 2020 census workers. The US economy has now regained 48% of the 22.1 million jobs lost between February and April. Although the latest jobs report demonstrates solid progress in a gradual recovery, the pace of progress is likely to slow.

The US Federal Open Market Committee (FOMC) has maintained the federal funds target rate at a range of 0.00%–0.25%. The Committee will also maintain its current pace of asset purchases of USD 80 billion per month. In addition, it has further clarified the conditions for adjusting policy rates relating to its new average inflation targeting framework: 1) inflation would need to run moderately above 2% for a period of time to compensate for periods of low inflation, and 2) longer-term inflation expectations would need to remain anchored at 2%. This means allowing inflation to run above 2% to make up for past shortfalls, leaving rates close to zero for even longer than expected. Lower rates for longer should benefit equity markets in the future.

In summary, the road to a full economic recovery, i.e. to pre-crisis levels, will be bumpy, and we expect considerable divergence between sectors and regions, which will be exacerbated by limited fiscal and monetary policy room. Setbacks in overcoming the pandemic due to regional growth discrepancies should not endanger the overall improvement to the cyclical economic backdrop, however. After the post-breakout learning curve, there seems to have been little necessity or political willingness to retighten containment measures, partly due to the costs, but also to a lack of public acceptance. We expect this trend to continue, as governments around the globe will think twice about whether they can afford additional lockdowns, given the severe economic consequences they entail.

As soon as a vaccine has been approved, investors will have a better picture of how quickly things will transition to a more normal world. In the interim, however, we will likely continue to undergo a period of volatility, particularly if no US fiscal stimulus is passed before the election, the Federal Reserve refrains from introducing new policy measures, and rising viral infection rates continue to dent consumer and business confidence. The risks associated with ongoing geopolitical issues like US-China relations, and upcoming events such as the US presidential election and Brexit, will also contribute to higher volatility.

U.S. Election

With just a few weeks left until the November 3rd US presidential election, campaigning is gaining traction, as are the anticipated skirmishes. The first presidential debate was an utter chaos and did not instil much trust in either of the candidates. Betting odds for the presidential election are currently predicting a clear Biden victory. We do not think that a Biden victory would have a major impact on equity markets as this appears to be largely priced in. However, it will remain to be seen if the eventual outcome will be deemed fair and accepted or lead to a chaotic post-election phase, which could cause high volatility around the globe.

Stock Markets

Mega-cap tech stocks like Microsoft and Amazon have rallied by an average of 40% so far this year and the tech-heavy Nasdaq 100 index is up 28.70% year-to-date, outperforming the S&P500 by over 25% year-to-date.

It is also worth pointing out that US markets have clearly outperformed European markets by a wide margin, both during Q3 2020 and for 2020 year-to-date. This can partly be explained by the abundance of large tech stocks in the US, as well as by the unprecedented stimulus in the US. We believe there is a good chance that Europe will catch up and ultimately outperform US markets in the near future. Our accounts are well positioned to take advantage of such a development.

Stock market performance around the globe was mixed in Q3 2020 and for the year to date. The following table shows the performance of selected markets:

World Indices	Price Change Q3 2020	Price Change YTD 2020
S&P 500	+7.93%	+3.23%
NASDAQ 100	+11.08%	+28.70%
TSX Composite	+3.19%	-5.72%
Euro STOXX 50	-1.08%	-15.81%
Swiss Market Index	+0.97%	-4.79%
German DAX	+4.08%	-4.67%
Japanese Nikkei 225	+4.02%	-1.99%
MSCI World Index	+7.58%	+2.13%

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 Q3 2020, our DT Top 15 strategy was up by 14.73%. Year-to-date, the strategy is up 15.45%, beating all major equity markets by a wide margin, except for the Nasdaq. As a result, we continue to be very pleased with our mix of defensive and growth companies.

The top three performing stocks within our DT Top 15 strategy in Q3 2020 were: 1) Salesforce, advancing by 48.6% (we sold the position prior to quarter end); 2) Alibaba Group, up 36.29%; and 3) Zalando, up by 32.81%. The three stocks with the worst performance during the quarter were: 1) Royal Dutch, dropping 21.87%; 2) AXA, down 10.78%; and 3) Vinci, down 8.97%.

During the quarter, we sold our entire position in Salesforce (at around USD 280). Furthermore, we rebalanced Microsoft (sold at around USD 227) and we also rebalanced Zalando (sold at around EUR 77). On the buy side, we added spice maker McCormick (bought at around USD 207) to the portfolio.

Below is an overview of some of our current holdings:

Salesforce.com – It was no easy decision to sell Salesforce. However, in light of a sky-high valuation, we decided to take profit on one of our best investments to date. Salesforce soared a whopping 39.9% in August alone, bringing its year-to-date performance as of the end of August to 67.6%. Although we continue to believe in Salesforce's business model and also believe Salesforce will have a great future given the ever-increasing shift to digital, we came to a point where we couldn't ignore the high valuation any longer. Therefore, we sold Salesforce on September 2 (at around USD 280), virtually hours before the Nasdaq (and Salesforce stock) started its brutal correction from record levels. We had originally added Salesforce to our portfolios back in August 2016 at around USD 80.

On August 31, Salesforce was added to the prestigious Dow Jones Industrial Index, supplanting Exxon Mobil for the position. Among other things, Salesforce's inclusion in the iconic index better reflects the current state of the American economy and the direction the world is heading. Additionally, Salesforce reported blockbuster earnings for Q2 2020, with revenues up 29% year on year and an updated guidance for the second half of the year. The previous outlook calling for 17% growth for full the fiscal year 2021 has been replaced with 21% to 22% growth, or revenue of at least $20.7 billion. Given the impressive news flow on the stock of late, it should be obvious why it was a difficult decision to sell. We will continue to monitor the stock closely and may decide to invest again once valuation has come off somewhat.

Microsoft / Zalando – In addition to Salesforce, Microsoft and Zalando are two of the best performing stocks in our DT Top 15 universe. Microsoft rose 43% and Zalando rose 62% year-to-date up to the end of August. Both companies have been benefitting greatly from the Covid-19 pandemic, and we believe they will continue to perform well over the next few years given the continuing migration of consumer and business behaviour toward digital. Owing to the impressive rise in the stock prices of both companies, their individual position weight has risen to levels that we consider too high. In addition, a higher position weight always carries higher risk in the event of a correction.

Against this backdrop, we decided to rebalance the positions by selling around half of them, and executed

those transactions concurrently with the sale of Salesforce on September 2. We sold Microsoft at around USD 227 and Zalando at around EUR 77. We continue to firmly believe in these companies, and are now comfortable with the current weight of Microsoft and Zalando in our DT Top 15.

McCormick - McCormick & Company, Inc. is engaged in the manufacturing, marketing and distribution of spices, seasoning mixes, condiments and other flavourful products to the food industry, including retailers, food manufacturers and food service businesses. The Company's segments include consumer and industrial. As of November 30, 2016, it offered brands for consumers in approximately 150 countries and territories. Its brands in the Americas include McCormick, Lawry's, and Club House, as well as brands such as Gourmet Garden and Old Bay. It also markets regional and ethnic brands such as Zatarain's, Stubb's, Thai Kitchen and Simply Asia, in addition to offering sensory testing, culinary research, food safety and flavour application. The Company's sales, distribution and production facilities are located in North America, Europe and China.

We bought McCormick on September 2 at around USD 207. McCormick is in great shape mostly due to rising demand as a result of increased at-home consumption in light of the Covid-19 pandemic. In addition, McCormick continues to benefit greatly from its robust product innovations and lucrative past acquisitions. Moreover, McCormick's cost saving efforts also bode very well.

McCormick focuses on product launches to boost revenue prospects. In February 2019, McCormick entered into a partnership with IBM to boost artificial intelligence capabilities surrounding new product development. Additionally, the company is on track to augment robust marketing support for its products. Management is well aligned with consumer demand for flavourful healthy eating, and has encouraged the development of a range of natural and organic offerings. In connection with this, the company's Flavour Real platform offers organic, non-GMO, and gluten free products.

Furthermore, McCormick is focused on saving costs and enhancing productivity through its ongoing Comprehensive Continuous Improvement (CCI) program, which it began in 2009. Cost savings generated through the CCI program have boosted the Company's gross margin, which expanded 230 basis points to 41.4% in its fiscal second quarter.

We believe McCormick is very well positioned in the current environment where consumers prefer the safety of their own kitchens over the risks associated with visiting a restaurant. This trend could continue for quite some time until people feel safe enough to eat out again. Consequently, McCormick is a great addition to our DT Top 15 with its mix of defensive and growth stocks.

Market Outlook

We think that a victory on the part of Joe Biden would not have a major impact on equity markets, nor on the earnings forecast for the S&P500 for 2021. The biggest single impact for equities may result from a partial reversal of the 2018 tax reform. According to some analysts, this could take off up to 10% of S&P 500 earnings for 2021. However, this would be offset to a great extent by the positive impact of increased infrastructure spending, a rise in the minimum wage, and an overall boost in consumer spending.

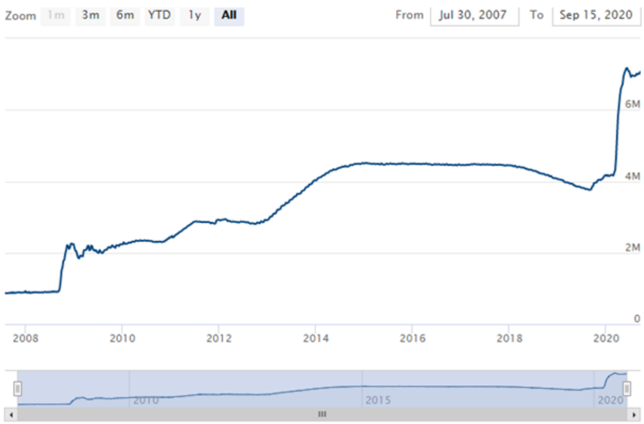
We see the current correction in global equity markets as healthy and necessary to support further gains going forward. We still feel bullish over the longer term. Interest rates will likely remain low for a long time to come, and fiscal and monetary stimulus will help support the stock market. Being long-term investors, we are constantly on the lookout for buying opportunities in names we like.

Gold:

In our Review & Outlook for Q2 2020, we predicted that gold is on the cusp of a major breakout. And break out it did, shooting up to as high as USD 2,089 before a major correction set in. In the last few weeks, gold has been trending down on the back of a stronger USD due to the return of global risk aversion, which provoked a flight to safety.

Gold has always been considered an inflationary hedge, and in this particular instance higher inflation may likely result from the massive, continuing accumulation of the Fed balance sheet. Currently, the Federal Reserve has been purchasing treasuries, mortgage backed securities and corporate bonds to the tune of USD 120 billion each month. Prior to the pandemic, the Fed was able to reduce its massive USD 4.5 trillion in assets to approximately USD 3.7 trillion.

The Fed's balance sheet has now swelled to approximately USD 7 trillion (see chart below). Just as with any other firm, securities that the Fed purchases are considered assets and therefore are represented on the Fed's balance sheet. As a result, this is the most reflective guide of the state of quantitative easing and, by extension, the degree to which the Fed has deemed it necessary to intervene in the economy.



Source: www.federalreserve.gov

The above chart shows the accumulation of assets by the US Federal Reserve from 2008 up until September 2020. It clearly shows that the Fed is willing to do whatever is necessary to stabilize the current economic contraction and to foster economic growth. The net result of this action will almost certainly be continued US dollar weakness, which in and of itself is creating bullish tailwinds that will likely take gold to higher prices going forward.

We believe the same goes for silver, which we purchased during the quarter. In our estimation, both commodities are on a major upward trajectory, which should propel them to higher prices in the near future. In the case of silver, we also believe that the gold/silver ratio could drop significantly, which would likely mean a significant outperformance of silver vs. gold.

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"Successful investing is about managing risk, not avoiding it."

— Benjamin Graham —

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