DYNAMIC TREE ASSET MANAGEMENT

MARKET REVIEW & OUTLOOK Q4 2019

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A STRONG FINISH IN 2019 FOR OUR DT 15

The DT Top 15 had a strong finish in 2019. The performance in the fourth quarter was +9.58% in USD terms bringing its YTD performance to 37.16%.

With this result, we have beaten the MSCI World and major indices.

2019 was a great year for equity investors. The stunning performance seen in 2019 benefited from a low starting point, following a poor 2018 overall and a particularly bad fourth quarter. The three- and five-year compound annual returns even out these immense year-to-year swings, however, providing a better indication of recent performance that is more relevant for long-term investors. Although the multi-year returns are robust, they are much closer to historical averages.

All major worldwide equity indices ended the year up sharply. The gains in 2019 came on the heels of a catastrophic final quarter of 2018, when many believed that the world economy would fall into a recession and that global equity markets would continue to drift lower for an extended period of time. None of that happened, however. In fact, the reverse is true. The first four months of 2019 brought a strong rebound, as central banks indicated that rather than raise interest rates, they would provide even more stimulus to try to keep the economic expansion intact. After the very strong equity performance in Q1 2019, global equities mainly traded sideways from the end of April until the end of September, with some bumps in the road, as market participants weathered the ups and downs in the trade war saga between the US and China, and the continuing deterioration in the global economic environment.

Last but not least, global equities posted very strong gains once more in the fourth quarter, as trade uncertainty lessened following the announcement of a so-called 'Phase One' trade deal between the United States and China. Under the accord, the two countries have agreed on the terms of a deal that reduces some US tariffs on Chinese goods while boosting Chinese purchases of American farm, energy and manufactured goods, as well as addressing some US complaints about intellectual property practices. China's Vice Premier, Liu He, who is heading his country's negotiation team in the US/China trade talks, is expected to sign the Phase One deal in Washington during the week of January 13, 2020. In addition, the US did not impose tariffs on European Union auto exports, which also helped to support equities. How long the trade peace will last remains to be seen, but market participants were already happy with the fact that the worst-case scenario for trade had, at least for now, been averted.

What also helped equities during the quarter was the interest rate cut by the US Federal Reserve, which reduced its benchmark fund rate by 25 basis points to a range of 1.50% to 1.75%. The Fed indicated that it may pause rate cuts for now, stating that "the current stance of monetary policy is appropriate". In Q3, the US economy did better than many had initially expected, with GDP growth for Q3 coming in at +2.10% on an annualized basis (Q4 growth has yet to be released), and the employment report for November showing non-farm payrolls having surged by a stunning 266,000, well above expectations. The US unemployment rate dropped to 3.50%, its lowest level since 1969. Those developments helped restore market confidence that a recession is not imminent, leading markets higher.

During the fourth quarter, there were also some changes at two key central banks. Most notably, Christine Lagarde, the widely admired former managing director of the International Monetary Fund, took over from Mario Draghi at the European Central Bank (ECB). For the time being, we do not anticipate much of a change in her policy in comparison to that of Mario Draghi, unless there is a significant change in the current macroeconomic outlook. Signs that the European economy is stabilizing will give her the time needed to evaluate the situation and draw the right conclusions. Meanwhile, at the Bank of England, Andrew Bailey was announced as the successor of Mark Carney.

After a quiet holiday season, the new year literally began with a blast: on January 3, 2020, Donald Trump ordered a precision drone strike near the Baghdad International Airport to terminate Qasem Soleimani, the powerful commander of Iran's elite Quds Force who was supposedly plotting imminent and sinister attacks on Americans diplomats and military personnel. The mission was successful and Soleimani was killed, together with nine others. In its subsequent statement the Pentagon said, "At the direction of the president, the US military has taken decisive defensive action to protect US personnel abroad by killing Qassem Soleimani."

The market reacted vehemently to the Iran story: oil prices shot up for fear of future supply disruptions as a result of the conflict, gold rose as investors fled to safety, and global equity markets tumbled for fear that the crisis could escalate further.

Historically, periods of increased tensions tend to be rather short-lived, with more lasting effects confined to local markets and assets that are directly impacted by the tensions. We believe the same will also be true this time. After the initial media attention, things will eventually calm down and market focus will switch back to economic issues. If, contrary to our beliefs, the situation worsens and oil supplies are disrupted due to an escalating conflict, there could be broader economic and financial market impacts due to a sharp rise in crude oil prices. This, in turn, could also trigger further market turbulences. Nevertheless, there are currently ample global oil supplies and unless a full-fledged war breaks out, oil prices should not rise much further.

Stock Markets

As evidenced by the Nasdaq100 Index, the technology sector was the best industry in both Q4 2019 and 2019 overall, rising 13.65% and 37.96% during those periods, respectively. Such returns are reminiscent of the great tech days of the late 1990s. Although times have changed, we believe technology will continue to do well in the years to come, owing to the increasingly important role it plays in the world in which we live.

The Swiss Market Index (SMI) gained approximately 26% in 2019 (30% including dividends), outperforming most European markets. Given the very defensive nature of the SMI, the strong outperformance of the SMI

"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.

came as somewhat of a surprise. Contrary to what could have been expected, the defensive large-cap food and healthcare stocks were the main drivers of the Swiss equity index. The strong performance of the defensive high-quality stocks have to be seen in the context of globally falling bond yields and looming growth concerns, however. Falling bond yields are a reflection of growth concerns and increase the attractiveness of defensive high -quality stocks, which offer a relatively safe and attractive dividend yield and stable earnings growth.

Stock market performance around the globe was unanimously positive in Q4 2019, as well as in 2019 overall. The following table shows the performance of selected markets:

World Indices	Price Change Q4 2019 (%)	Price Change 2019 (%)
S&P 500	+9.88	+28.88
NASDAQ 100	+13.65	+37.96
TSX Composite	+3.74	+19.13
Euro STOXX 50	+6.08	+23.30
Swiss Market Index	+6.70	+25.41
German DAX	+8.03	+25.23
Japanese Nikkei 225	+8.09	+13.87
MSCI World Index	+9.76	+28.40

Source: Reuters (in local currency terms)

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. Established at the end of April 2013, our DT Top 15 now has a six-and-a-half-year track record, with a total gross return of 117.63%, or 12.35% on an annualized basis.

The top five performing stocks within our DT Top 15 strategy in 2019 were: 1) Zalando, advancing by 97%; 2) Microsoft, advancing by 55%; 3) Citigroup, advancing by 53%; 4) Sony, advancing by 41%; and 5) Sonova, advancing by 40%. The five stocks with the worst performance during the year were: 1) Royal Dutch Shell, dropping 0.18% (including its very attractive dividend, however, Royal Dutch Shell would have been well in positive territory); 2) Merck, advancing by 15%; 3) Roche, advancing by 18% (only bought in April of 2019, for 2019 overall, Roche was up 26%; 4) Salesforce, advancing by 19%; and 5) ABB, advancing by 27%.

Below is an overview of some of our current holdings:

During the quarter, we sold Samsung Electronics and purchased Alibaba instead. We sold Samsung at around USD 1,196 per share. After falling into the USD 850 range in late 2018, the stock recovered significantly (approximately +40%) over the course of 2019. Nevertheless, we decided to dispose of Samsung as we see more upside in Alibaba going forward.

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 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. We believe that Alibaba has significant upside potential in the time to come. Alibaba is the world's largest online commerce company by gross merchandise value and significantly benefits from economies of scale. The anticipated rise in per-capita-income among the Chinese middle class, which will likely enhance consumer appetite, further supports Alibaba's growth prospects. In addition, the total share of online shopping to total consumption in China is still low, representing immense growth potential. Alibaba's diverse revenue streams, strong brand, and its very good understanding of the Chinese market, collectively make for a very interesting investment opportunity.

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.

We bought Microsoft back in March of 2017 at around USD 65. The stock never ceases to amaze us. Currently trading at USD 158 (as of January 7, 2020), the stock gained 143% and there is currently no end to the rally in sight. Microsoft enjoys a near monopoly in personal computer operating systems and office productivity software and is also experiencing continued strong momentum with its cloud offering. Back in October, Microsoft scored a major victory when it was chosen over US Defense department favourite Amazon.com, securing a milestone USD 10 billion Pentagon contract for cloud computing services, which signals a new era of growth in cloud services. The contract could have significant positive financial implications for the company over the coming years. Consequently, we continue to like Microsoft, even at the current elevated levels.

Salesforce – 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 and technology platforms for customers and developers to build and run business applications. Clients use salesforce.com to manage their customer, sales and operational data.

The stock performance of Salesforce in 2019 was a little bit disappointing (+19%). Disappointing may be the wrong word, as 19% is usually a fairly robust annual return. However, given that the Nasdaq was up 38% in 2019, double what Salesforce was up in 2019, it is still a tad disappointing. Having said that, Salesforce's performance since the beginning of November 2019 has been impressive, with a gain of approximately 24% in only 2 months! We believe the share price of Salesforce has a lot more room to run, as it has become 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, which allows 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.

We added Salesforce to our portfolio back in August 2016 at around USD 80. The stock currently trades at USD 176, a gain of 120%. On January 5, 2020, as an additional sign of confidence, RBC Capital Markets upgraded Salesforce to Top Pick, with a price target of USD 215. RBC sees significant upside potential in 2020. We concur and will remain invested for the time being.

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, having gained a staggering 97% during the course of

2019! 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 January 7, 2020, Zalando closed at around EUR 45.53, 34% higher than our purchase price. At the end of October 2019, Zalando reported its strongest quarterly sales growth in two years and more than 1 billion visits to its online portal, helped by a new loyalty scheme in Germany and rapid expansion in Spain, the Nordic countries, and the Czech Republic. We expect that the important holiday shopping season was positive for Zalando, and foresee further growth in the quarters and years to come. We are, however, cognizant of the fact that the company is not profitable yet, has a somewhat eroding balance sheet, and trades at a premium valuation. Nevertheless, we believe the company has the potential to fulfil its high expectations for the future, and is still a potential takeover target for the likes of Amazon, which could try to buy Zalando to gain quick and easy access to the European market.

Market Outlook

In summary, we believe 2020 will be another good year for equity markets. However, returns like those seen in 2019 will likely not be achieved again for some time.

In our opinion, some obvious obstacles need to be taken into account when considering the prospects for the global economy and equity markets going forward. The current economic cycle is becoming long - it is now the longest economic expansion in post-war history - warranting the question of when the expansion will come to an end. Also, central banks now have limited ammunition available to them to provide support if needed, as most of their standard measures (interest rate cuts and quantitative easing) have already been used up to a great extent.

Nevertheless, we think long-term oriented investors should not be overly pessimistic. Global economic conditions are surprisingly consistent when it comes to delivering economic growth, thanks to a combination of population growth, innovation, and productivity improvements. We anticipate that central banks will continue to support economic growth despite the fact that they have fewer measures available to them than previously. As a result, we believe the current situation could last considerably longer. Overall, we continue to think that equities will outperform cash and bonds over the long term in the current economic environment. Keeping an appropriate allocation to equities will thus be important for investors requiring long-term growth.

Returns going forward will most likely be lower in the coming decade than in the previous decade, primarily due to the fact that we started the decade at very high levels and the starting point was thus already elevated. Also, we expect geopolitical risks to remain elevated, a sample of which we have just witnessed with the killing of Qasem Soleimani, one of Iran's top military commanders, triggering a dangerous escalation in the Middle East.

The bottom line is that we expect equity outperformance, with increased volatility to come. We intend to keep the allocation to gold that we currently have in our balanced mandates, as gold presents a natural hedge against political uncertainty. In addition, muted economic growth and lower real interest rates reduce the opportunity costs associated with holding gold.

However, we cannot exclude the possibility for a severe market correction in the months to come, as we have not seen any such correction for quite some time now. Consequently, we do not intend to increase our current equity allocation for the time being.

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"The big money is not in the buying or selling. But in the waiting."

— Charlie Munger —

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