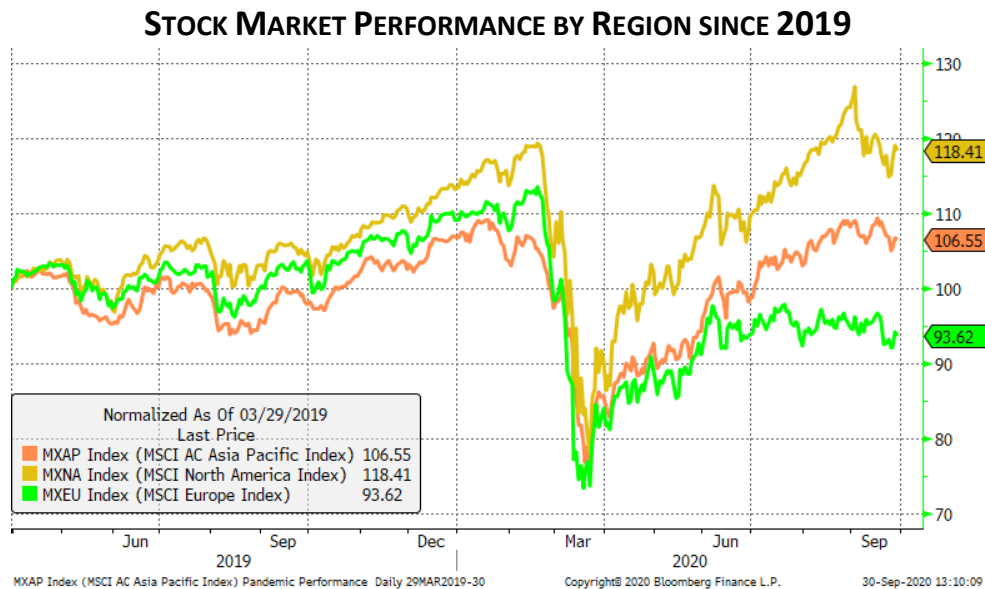


1. Economic and Market Environment

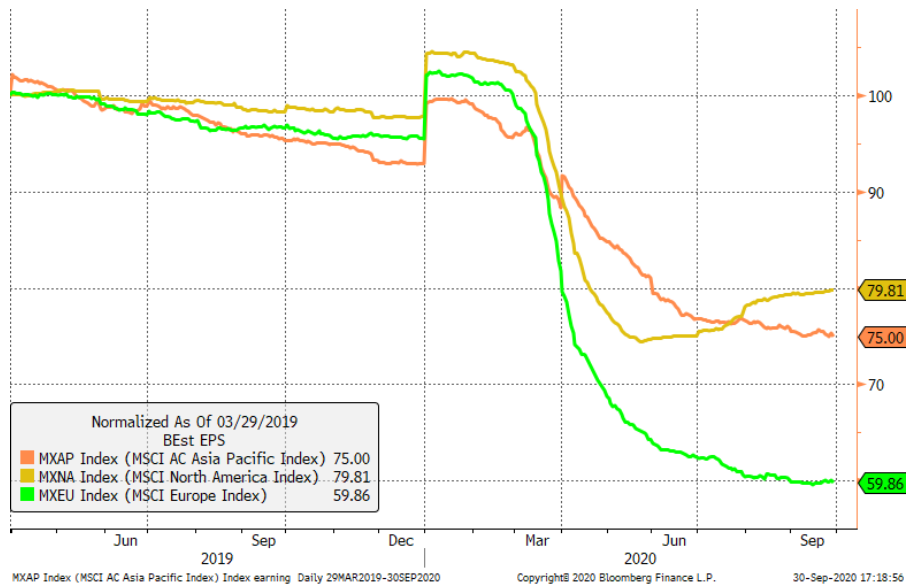
Overall, equity markets continued their positive trend in Q3, after a difficult start of the year for investors. However, as shown in the graph below, the market recovery has been uneven with the American market (in yellow) rebounding much more than Asian markets (in orange) and the European market (in green).



Source: Bloomberg

The main reason for this is the difference in earnings expectations with the American and Asian markets significantly outperforming Europe. The graph from Bloomberg below shows the expected aggregate earnings per share (“Best EPS”) for these three regions and, unfortunately, Europe (in green) is doing much worse than the rest of the world. This only reflects expectations for the next year, and is hopefully a temporary phenomenon, but it already shows that in stressed times like now, a wider geographic dispersion is positive for investors.

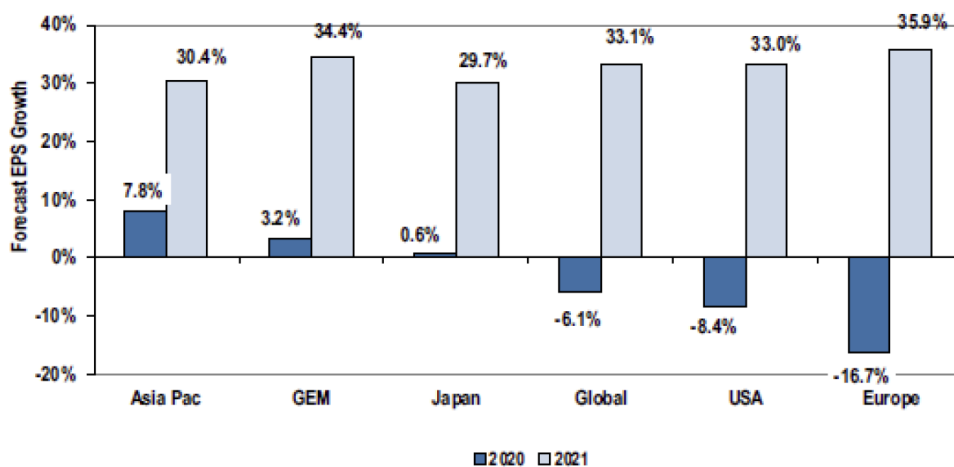
EXPECTED EARNINGS PER SHARE BY REGION



Source: Bloomberg

One positive surprise in this crisis for investors is that **companies' earnings were more resilient than expected**. The investment bank Merrill Lynch in an August study expected companies in a number of regions to continue to grow earnings in 2020 and deliver a very strong rebound in 2021. Again, this data only covers the next two years, and buying stocks is equivalent to buying multiple decades of earnings streams, so investors should not forget about the long term.

EARNINGS GROWTH EXPECTATIONS BY REGION FOR 2020 AND 2021

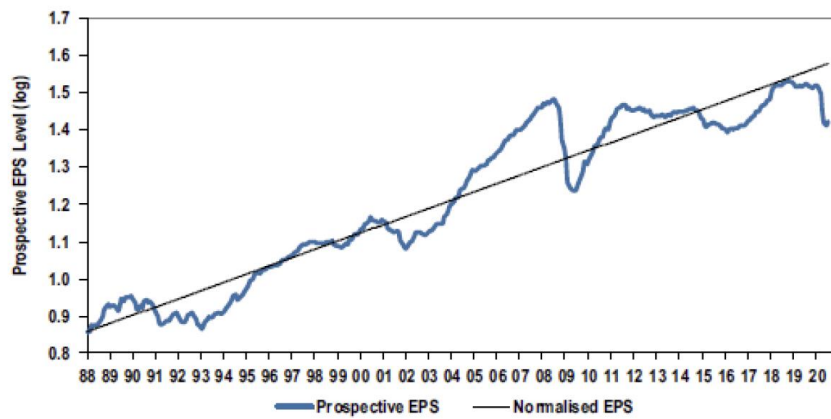


Source: BofA Global Quantitative Strategy, MSCI, IBES

Fortunately, nothing indicates that this pandemic will disrupt the long-term earnings trend of the global stock market¹. As we can see in the graph below, earnings follow a remarkable growth pattern while sometimes diverging positively or negatively for a time. The pandemic caused overall earnings to go back to 2015 levels, but they have started to rebound.

¹ No guarantee of result or performance

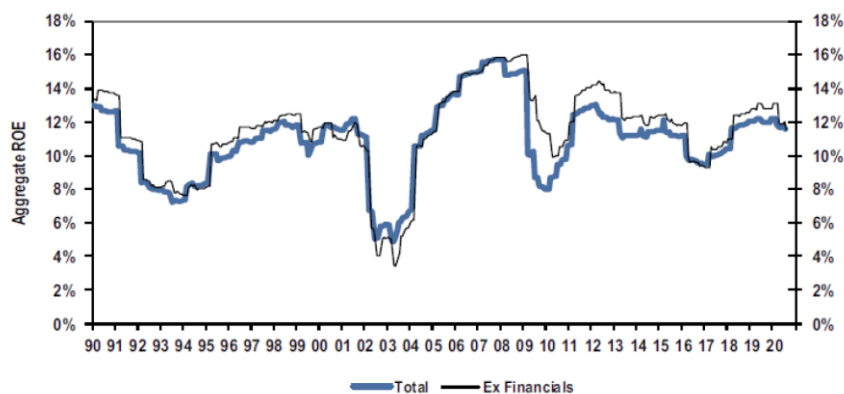
LONG TERM EARNINGS GROWTH PER SHARE



Source: BofA Global Quantitative Strategy, MSCI, IBES

The main driver for companies' earnings growth is their return on equity (ROE) which has fluctuated between 4% and 14% since the 1990s and stayed around 10% most of that time. A 10% ROE should enable a Company to grow its earnings at 10% p.a. if nothing is distributed as dividends. This also means that at constant valuation and return on equity, global stock investing could deliver up to a 10% nominal return p.a.¹.

LONG TERM RETURN ON EQUITY OF LISTED COMPANIES

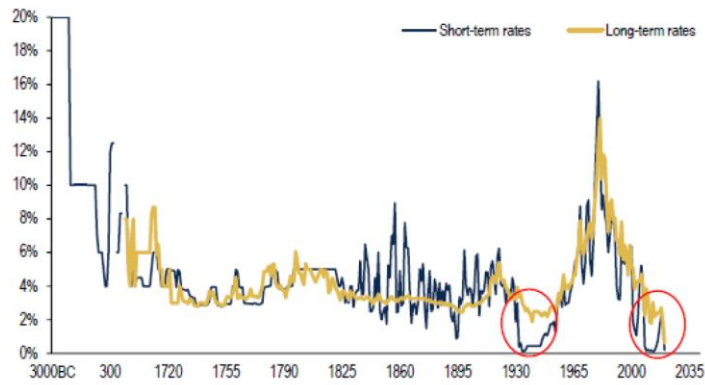


Source: BofA Global Quantitative Strategy, MSCI, IBES

At TreeTop, we stress the **importance of investing globally and not just in European markets. Missing a few winning companies is likely to result in much lower returns.** Large cap indexes in Europe are dominated by companies with traditional business models, such as large banks and insurers, aeronautics and car manufacturers. Goldman Sachs, in a recent analysis of US listed companies, observed that second quarter earnings at the height of the pandemic 'only' declined 34% for the S&P500 but collapsed 97% for the Russel 2000, an index mostly made of smaller American companies. The five largest companies by market capitalisation (Apple, Microsoft, Amazon, Google and Facebook) generated a whopping 16% of the total index earnings in the second quarter. Missing these companies over the last decade meant missing a significant chunk of returns. In China, like in the United States, technology firms and healthcare companies have done a lot better than the rest of the market. A lot of the best performing Chinese firms, like the e-commerce trio JD.com, Alibaba and Pinduoduo are also listed on the Nasdaq boosting the American index even more.

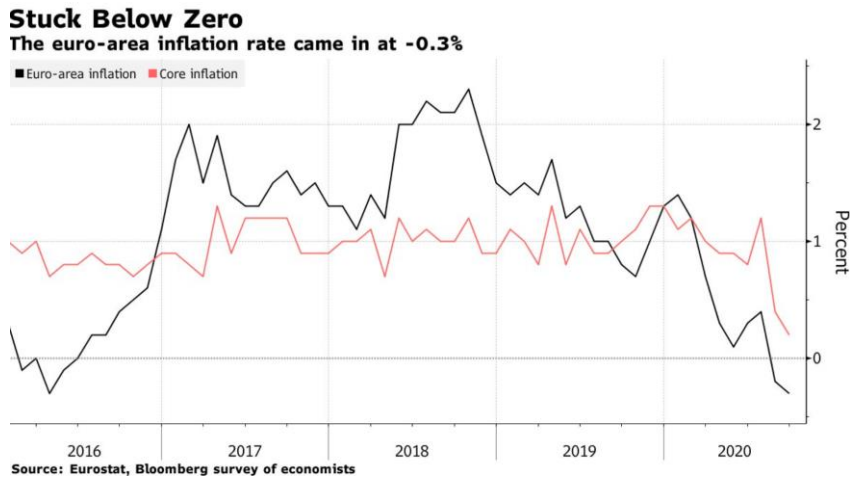
Beyond earnings growth, the other important variable for stock market performance is valuation. At TreeTop, we think that the coordinated action of the world central banks to keep interest rates very low should support equity valuation levels. Stocks with growing yields, thanks to share buybacks, dividends and earnings growth¹ are a better alternative than fixed income instruments and deposits generating no yield. We also think that the current low interest rate policies are not likely to change in the foreseeable future as highly indebted governments in Japan, Europe and North America cannot afford to pay much higher interest rates on their debt.

Chart 1: Interest rates since 3000BC



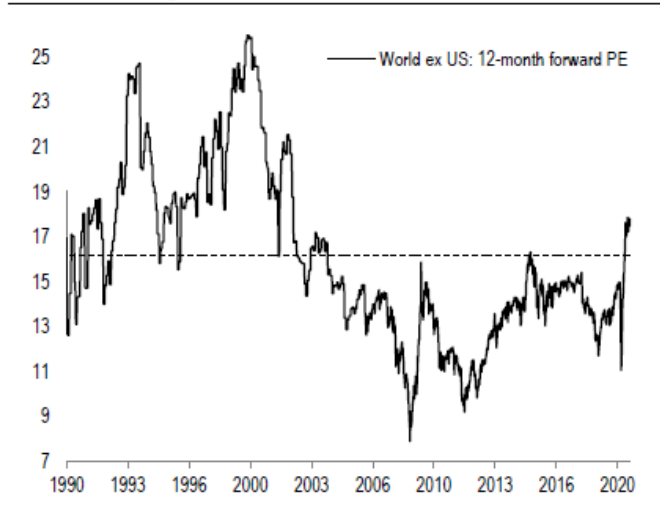
Source: BofA Global Research. Global Investment Strategy- the Longest Picture

The only caveat to low interest rates would be a significant pick-up in inflation forcing central banks to act drastically, like in the late 1970s and 1980s. We believe that in the short and medium term, the risk of rising inflation is low as it tends to follow supply shocks, like the oil embargo in the seventies. This time, the pandemic didn't affect the production of essential goods and services significantly, but mostly affected aggregate demand with people staying at home and not consuming much. Instead of price increases, most economies actually saw some price cuts with companies trying to attract consumers with better offers. Inflation could also be driven by wages increasing much faster than productivity, but this is an unlikely prospect given the high unemployment rate in the Western world and the vast pool of employees in emerging markets.



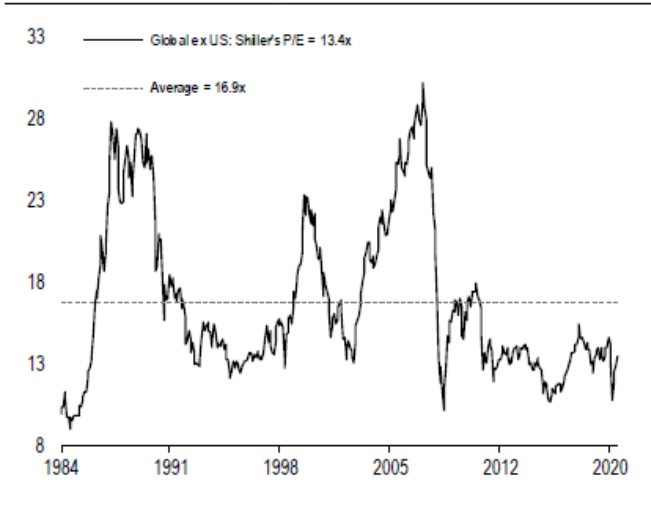
Finally, world equity markets are cheap compared to historic averages and a bargain when compared to other assets like fixed income and real estate. As we can see on the graphs below, the stock markets outside the US are trading around, or slightly below, their historic valuation multiples, depending on the metrics used.

Figure 52: World ex US 12m fwd P/E is only slightly above its historical average



Source: Refinitiv, Credit Suisse research

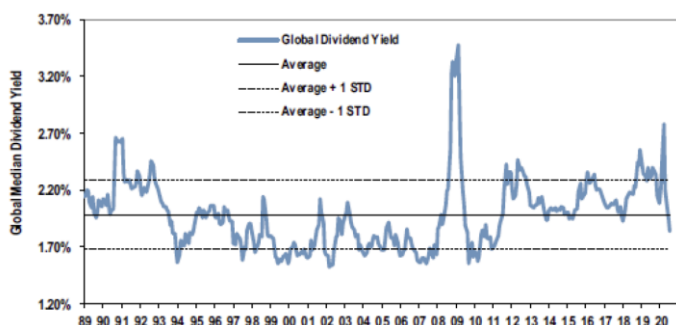
Figure 53: Outside of the US, the Shiller P/E is quite low relative to historical averages



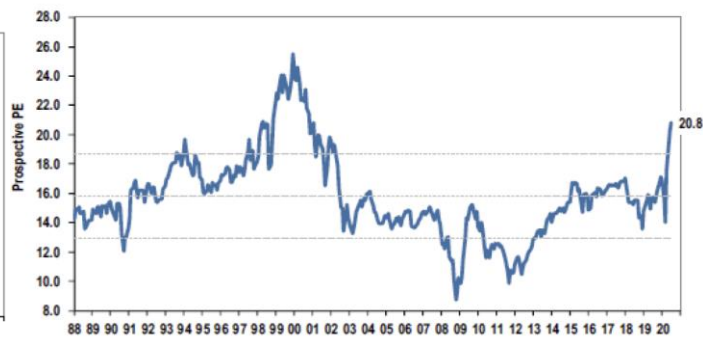
Source: Refinitiv, Credit Suisse research

The overall world equity market is slightly more expensive on a price-earnings ratio, but still much lower than in 2000 despite much lower yields for bonds and cash. The dividend yield is in-line with the historical average and compares very favourably to the yield of most other financial assets.

GLOBAL DIVIDEND YIELD



GLOBAL PROSPECTIVE PE



Source: BofA Global Quantitative Strategy, MSCI, IBES

In conclusion, a lot of companies have resisted the pandemic better than some alarming headlines have implied. The situation is not all rosy though with some industries and regions suffering heavily, and a few companies benefitting handsomely. The recent crisis confirms our core belief at TreeTop that global index investing in stocks is a good way to capture these winning businesses. When investing with active managers, it is important to remember that 'beating the market' can only be done at the expense of everyone else. It is similar to competitive sports and only the best players will make a good living out of it. At TreeTop, we think that we have some very competitive 'athletes', which can be a good complement to global index investing.

2. Our convictions

After a strong rebound during the second quarter, most of our core investments had more muted performance over the last three months as businesses are adapting to a new world with restrictions. Our largest contributors to performance so far this year were **HORIZON THERAPEUTICS**, **SHANDONG WEIGAO** and **MAN WAH HOLDINGS** and the most significant disruptors were **INDIABULLS HOUSING FINANCE** and **FUFENG**. Other investments delivered slightly positive or negative results and tended to cancel each other out.

On the negative side, a number of companies could not escape all the ramifications of the pandemic. **INDIABULLS HOUSING FINANCE** started the year well after an aggressive re-organization following the two year crisis in the housing finance market in India. Unfortunately, the pandemic put a brake on the recovery as India was one of the worst affected countries in the world on the economic and the health front. Management worked tirelessly to adjust the company's balance sheet and managed to raise capital selling part of their investment in a British fintech at a very good valuation. They also raised equity from existing shareholders, which should help them pass through the storm. We have a relatively small position compared to the past as risks remain high, but we think that the long-term prospects for **INDIABULLS HOUSING FINANCE** and the track-record of management still remain highly compelling.

FUFENG, a long-term holding, is taking more time than we hoped to deliver the expected results. The Company has done an excellent job in consolidating the industry in amino acids and build a low-cost production base. However, it has not been able yet to deliver consistent high margins due to pricing fluctuations in its end products. The pandemic didn't help as it heavily affected restaurants, which are a large buyer of MSG (a very popular food additive in Asian cuisine), **FUFENG**'s key product. There are positive signs though with the Company continuously delivering decent earnings and cashflows. A third competitor, Eppen is also in a difficult position and will very likely need refinancing. We think the last leg of industry consolidation is imminent and should lead to a strong rerating of the stock.

Some of our best performers this year are in the healthcare sector in the US and in China. **HORIZON THERAPEUTICS** and **SHANDONG WEIGAO** both delivered good results and outstanding stock performance driven by the successful launch of a new drug for **HORIZON THERAPEUTICS** and industry growth for **SHANDONG WEIGAO**. **HORIZON THERAPEUTICS** is the poster child of a successful pharmaceutical investment. The Company was set up in 2008 by an entrepreneur with the idea to build a portfolio of drugs treating rare diseases, which drove exponential growth to an expected USD2bn of revenue and over USD600mn in net income this year. This outstanding success-story was mainly based on two key drugs, Krystexxa used in the treatment of severe, treatment-refractory chronic gout and Teprotumumab ('Tepezza') treating 'TED-eye' disease, which can in unfortunate cases lead to blindness. **HORIZON THERAPEUTICS** bought these two drugs, which had limited markets, found new end uses and marketed them very successfully. In recent weeks, we have reduced our position as the stock re-rated but we still keep a sizeable investment as growth prospects remain significant and the stock trades on a reasonable 18x forward PE. Another successful investment has been **SHANDONG WEIGAO**, a leading medical Company in China selling drips (similar to Baxter), syringes and other medical consumables with a growing orthopaedic division. We bought a position at the beginning of the year and have already sold most of it as our three year upside target materialized in less than six months, and the Chinese government started to consider more aggressive price cuts in medical supplies. We might later re-invest in the bond or the stock if valuation becomes more palatable and the long-term growth prospects for the medical industry in China remain excellent.

Other more recent investments include **PACIRA BIOSCIENCES**, **LIVANOVA** and **AKAMAI**. **PACIRA BIOSCIENCES** is a pioneer in delayed release anaesthetics used in surgery. Anaesthetics and pain relief drugs have transformed modern medicine over the last fifty years, but most of them still belong to two camps - localized anaesthetics and mild pain relief, and general anaesthetics and more potent pain relief - like opioids. The first family of drugs have the advantage of being easy to administer and are generally very safe for the patient, but are mostly limited to local surgeries and only work for a short period of time (like the injection you have when you go to the dentist). The second family is a lot more powerful but have to be very carefully administered and can be highly addictive and deadly if over dosed. Since its founding, **PACIRA BIOSCIENCES** has worked on anaesthetics from the first group, made them more potent by changing the delivery method and expended their uses to more sophisticated surgeries. The Company launched its first product in 2011, is now profit making and is looking to grow its business meaningfully in new geographies and

address new surgical needs. Interestingly, the stock is reasonably valued providing decent downside protection with significant upside potential.

LIVANOVA is a global medical technology company with a number of leading devices used in cardiac surgery and the treatment of epilepsy. The company has seen revenues decline over the last 18 months thanks to the timing of product lifecycles relative to competition, changes in distribution agreements and a reduction in elective procedures as a result of COVID-19. However, growth should accelerate from 2021 driven by pent up demand for procedures and new product launches. Earnings should grow faster than revenue thanks to operating leverage. Longer term, pipeline devices currently being trialled to treat depression, heart failure and sleep apnoea offer significant upside to earnings and valuation.

AKAMAI is a leading content delivery network ("CDN") provider. The company's distributed global network of over 200,000 servers and content delivery algorithms optimise the routing of internet traffic to minimise the distance travelled by data and reduce latency to the edge (end user). These network and traffic monitoring capabilities also provide a unique platform for security "at the edge", which allows threats to be detected and stopped before significant travel within a given network. We expect the company's CDN business to maintain a low level of growth but, more importantly, generate significant cash to reinvest into the security business, which can continue to grow at over 20% a year driven by share gains in a rapidly growing market. We believe the sustainability of this growth is currently underestimated by the market.

As these examples highlight, we continue to find exciting opportunities at reasonable valuation. Good entrepreneurs and managers are flexible and opportunistic people and are generally good at creating value even in difficult environments. At TreeTop, we continue to believe that investing with them is the best way to protect and grow your wealth over the long term¹.

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Data & Information as of 30th September 2020

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