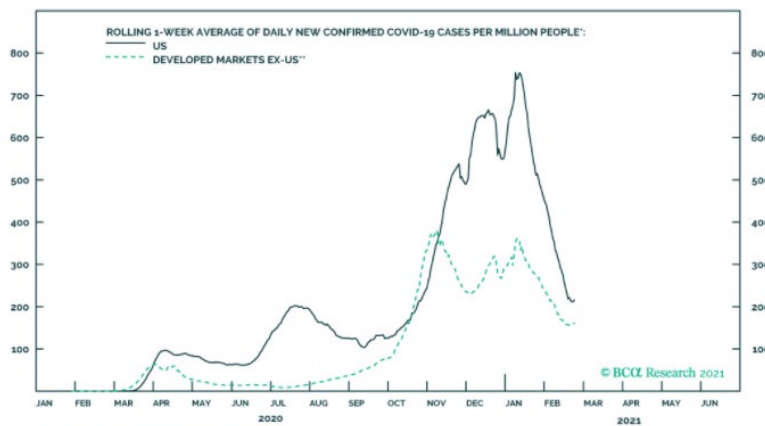


1. Economic and Market Environment

As has been the case for a year now, COVID-19 is unfortunately still with us and affecting every sphere of the economy and society. The French president has just announced a new month-long lockdown to try to control a rapidly growing third wave and the epidemic looks like a never-ending nightmare for a lot of citizens around the world. As a financier accustomed to analysing numbers and trends, I believe though that we are now seeing light at the end of the tunnel. Asia appears to have mostly controlled the epidemic, the United States and the UK are now rolling out vaccines effectively and we can hope that Europe, after a few political squabbles, will get its act together and solve its health crisis. The major reason to be optimistic is the effectiveness of the new vaccines to fight the disease, as shown by the dramatic collapse in infection rates in Israel, the UK and now the United States.

Chart I-1
The Fever Has Broken



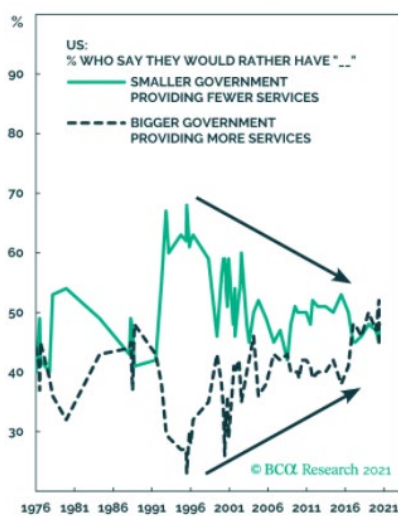
SOURCE: CSSE, JOHNS HOPKINS AND OUR WORLD IN DATA.
** INCLUDES AUSTRALIA, CANADA, FRANCE, GERMANY, ITALY, JAPAN, NETHERLANDS, SPAIN, SWEDEN, SWITZERLAND, AND THE UK.

As we are slowly moving out of the health crisis, we are now getting a clearer picture of the political, economic and financial consequences of the pandemic. In the US, COVID-19 probably cost Donald Trump the election and we are seeing a return to more centrist policies, with an increasing importance of the state. One of the first decisions of the new US president, Joe Biden is the approval of a USD1.9 trillion COVID recovery bill in March, which adds to the USD900 billion bill passed in December. The new president sees this bill only as a first step and has just announced an ambitious infrastructure plan¹ to rebuild the crumbling transport network and de-carbonize the American economy. In the country of shale oil & gas and free-wheeling capitalism, some of the measures will probably have to be watered down but the change in political direction compared to the last five years is significant. Similarly, the European Union voted

¹ <https://www.economist.com/united-states/2021/04/01/joe-biden-unveils-americas-most-ambitious-infrastructure-plan-in-generations>

through an EUR1.8 trillion recovery plan, the largest bill ever approved by the European Union². These massive fiscal programs should help relaunch economies but also mark a departure from the prevalent market orthodoxy in recent years. Since the inflation scare of the late 1970s most economic policies have favoured limited fiscal deficits and targeted low inflation. The pandemic appears to be the final ‘nail in the coffin’ for these policies in the Western World with every government now favouring loose monetary policies (low interest rates, bond buying programs by central banks) and aggressive fiscal expansion financed by government deficits. In a recent article “Requiem for Volcker and the Gipper”, the BCA explains that the US public appears to have changed its opinion about the necessity of having a small government. Most people now think that the government should take a much more pro-active approach. This trend had already started under the Trump presidency, which launched a trade war and was much less deficit-focused than previous Republican administrations. This change in political mood is reflected in the size of the stimulus post crisis. In 2009 and 2010, the Obama administration spent the equivalent of 5% of the American GDP to avert a depression. The COVID crisis, on the other hand, will cause the American administration to spend a much more significant 26% of GDP on various economic stimuli.

Chart II-7
“Limited Government” Falling Out Of Fashion



The other major consequence of the COVID crisis is the increasing pre-eminence of Asia, particularly China. While the growth rate slowed in China in 2020, the country still witnessed positive growth and appears to be on track to deliver similar growth in 2021 as in 2019. Interestingly, this was achieved mainly without aggressive monetary and fiscal expansion, unlike in the Western World. As a result, bond rates are much more ‘normal’ with Chinese government bonds yielding 3%, nearly double its American equivalent and infinitively more than European government yields. Despite its strong economy and relatively sound financial system, Chinese equities still make up less than 10% of global indexes. At TreeTop, we think more than ever that it is important to look beyond our European shores for investments. China is now the largest economy in the world at purchasing power parity, and we continue to find a number of very interesting businesses trading at reasonable valuations.

For investors, the aggressive monetary policies of Western governments will have short- and long-term consequences. Over the last twelve months, we have seen an aggressive rebound in asset prices from fixed income to real estate and equity. In Belgium, real estate prices increased 5.7% in 2020³ despite a 6.4% contraction of the GDP. US real estate had one of the largest increases in value in recent years⁴ and similar observations can be made in a number of European countries⁵. We have never proclaimed to be real estate experts but given the number of economic

² https://ec.europa.eu/info/strategy/recovery-plan-europe_en

³ <https://www.lesoir.be/347130/article/2021-01-05/barometre-immobilier-le-prix-moyen-des-maisons-en-belgique-augmente-de-57-en#:~:text=En%202020%2C%20le%20prix%20moyen,en%20moyenne%20pour%20une%20maison>

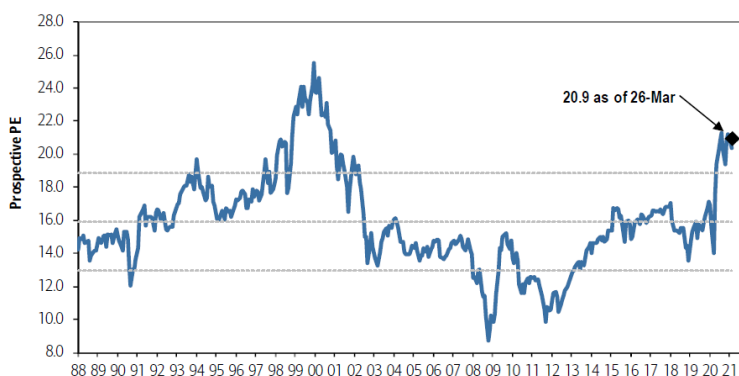
⁴ <https://www.forbes.com/sites/brendarichardson/2021/01/26/housing-market-gains-more-value-in-2020-than-in-any-year-since-2005/?sh=25b102754fe0>

⁵ <https://www.economist.com/finance-and-economics/2021/04/03/house-prices-in-the-rich-world-are-booming>

challenges faced by Western countries and stagnant wages, we wonder if such an increase in value is sustainable. The bond market appears to be even more problematic. For government bonds, we cannot really call it a ‘market’ anymore as central banks will do anything in their power to keep the yield close to zero. Compared to the crisis in 2009, central banks and governments have also been much more active in supporting corporates, making sure most companies could continue to borrow at very low rates. The upside of these policies is that it has supported economic activity, at least in the short term. The downside is that companies with unsustainable business models will not be restructured, thereby limiting capital and labour re-allocation. For investors in corporate bonds, the support of central banks has provided short term relief, but we doubt that the current yield offered by some highly indebted companies provides enough cushion for the risks. Similarly, global equity markets have re-rated significantly since March last year as we can see on the graph below.

Chart 80: Global Prospective PE

World PE (12m fwd) is currently above the long-term average



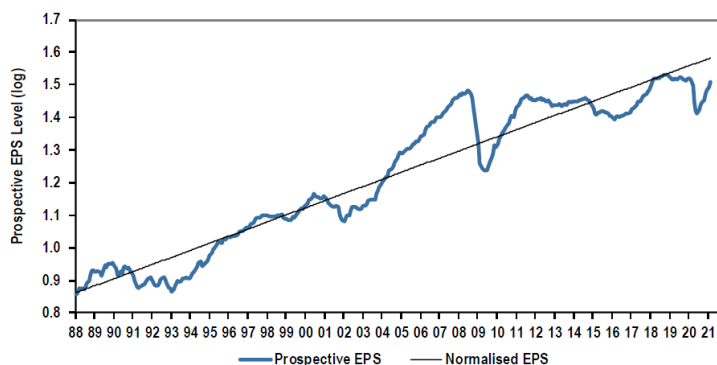
Source : BofA Global Quantitative Strategy, MSCI, IBES

BofA GLOBAL RESEARCH

21x forward PE for the global equity market, while high compared to recent valuation multiples, has to be put into perspective with extremely low bond yields (10-year US treasuries trading at 1.7% compared to more than 6% in 2000) and still depressed earnings levels due to the pandemic. The investment bank Merrill Lynch computes global prospective earnings per share (EPS) and as we can see on the graph below, EPS hasn’t increased much since 2007 and now clearly sits below its long-term trend line.

Chart 63: Global Prospective EPS and Trend EPS

Global EPS forecasts have improved but remain below the long-term trend



Source : BofA Global Quantitative Strategy, MSCI, IBES

BofA GLOBAL RESEARCH

Given the aggressive stimulus and the eventual end of the lockdowns, we think that a strong earnings rebound is possible making global equities interesting for investors, and certainly much more rewarding than other financial assets.

2. Our convictions

Just one year after the bottom of the pandemic, I am delighted to write that all our investment strategies have rebounded very strongly. In particular, my strategy focused on growth companies at reasonable valuations delivered very good returns driven by a variety of stocks, ranging from Chinese apparel e-commerce to innovative pharmaceutical businesses. The first few months of the year saw a continuation of this trend with our five biggest contributors to performance being **NORWEGIAN FINANS HOLDING**, a leading consumer fintech in the Nordic countries, **UNITED RENTALS**, the largest equipment rental company in the United States, **UPLL**, a leading pesticide and herbicide producer from India, **ALLIANCE DATA SYSTEMS**, a consumer finance company in the United States and **VIPSHOP HOLDING**, a leading online apparel discounter in China. Other investments, which did very well last year, like **HORIZON PHARMACEUTICALS**, an American drug developer targeting rare diseases, **ZEBRA TECHNOLOGY**, the leading producer of barcode equipment, and **ZOOPLUS**, the largest online pet food & toy retailer in Europe, continued to deliver excellent results over the last three months.

Some of these investments highlight that a good stock does not necessarily go up in a straight line and sometimes requires nerves of steel to hold onto them. When we initiated a position in **VIPSHOP HOLDING** a few years ago, our thesis was that the Company was a dominant player in online apparel retail in China and had significant room to grow, which was not reflected in its stock price. Our thesis turned out to be correct and today's earnings are even better than what we hoped for back then, but the path to get there was closer to hell than paradise. The Company first faced an aggressive sell-down following its core business slowdown, which saw the stock go from HKD15/share to a bit more than HKD4/share, and this despite a large investment of one of the most respected Internet companies in China, Tencent, at around HKD12/share. We traded around the stock but still had to bear heavy losses before a successful turnaround 18 months ago started to reverse the negative stock trend. The pandemic turbo-charged **VIPSHOP HOLDING'S** turnaround and stock to finally yield the excellent results we have all been waiting for. Similar observations can be made about **UPLL**, **ZOOPLUS** and the equipment rental companies **AHSTEAD** and **UNITED RENTALS**. These companies all had and have exciting growth potential but ended up for some time in the stock penalty box as a result of a weakening macro, disappointing short-term results, market irrationality or a combination of these & other factors.

ASSTEAD and **UNITED RENTALS** are excellent case studies and saw their stocks nosedive twice since we bought them a few years ago as the market fretted that a macro-economic slowdown would decimate their earnings. It reflects in some way the short term nature of a lot of investors as one year of bad earnings does not really affect the long term value of a company. The irony is that over the years, these companies have built counter-cyclical business models allowing them to generate more stable earnings in a downturn than a lot of supposedly 'stable' businesses. The last few quarters proved the management teams right, as both companies continued to generate significant earnings and cashflows allowing them to continue the consolidation of the equipment rental sector in the US.

The pandemic heavily affected most financial companies, like **INDIABULLS HOUSING FINANCE**, **NORWEGIAN FINANS** and **ALLIANCE DATA SYSTEMS** as investors became overly cautious about lending risks. Some of their concerns were certainly valid initially but income support by most governments for their populations ended up voiding some of the risks. At the peak of the sell-down last March, these stocks traded on low single-digit price-to-earnings multiples, with a lot of investors questioning their ability to survive. Twelve months down the road, we are happy to say that the stocks have rebounded, the businesses are doing well, and management teams have plans for the businesses to thrive. **NORWEGIAN FINANS** even got a take-over offer in recent weeks though we happily supported management's refusal. The offer looked like an opportunistic bid to buy a leading consumer lending fintech at a heavy discount. We feel that much more value can be generated either as standalone business or with a better partner.

Not all our investments have delivered as we hoped so far. Our large position in **FUFENG**, the largest amino acid producer in China, has been disappointing over the past year, as demand for food additives was affected by the pandemic as restaurants were under heavy pressure. At the same time, the corn price, its major input, fluctuated widely in China affecting the Company's margins. One of the more positive elements of this difficult environment is that it reduced competitive pressure as much smaller companies decided to leave the business. We think that every day we are getting closer to the end of the price war, which should lead to a significant re-rating of the stock.

We continue to strongly believe in our strategy, which is mostly composed of growing medium sized businesses run by entrepreneurs in Asia, Europe and the US. As the market emphasis is moving away from American technology stocks to a broader range of companies with a value angle, we think that we are well positioned for the future. Despite the re-rating of a number of our investments, most our stocks trade at reasonable multiples compared to history and should deliver good returns to investors⁶. Our team remains available for any questions you might have and we are grateful for your trust, especially in these unusual times.

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Data & Information as of 31st March 2021

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⁶ *No guarantee of result or performance*