BELVOIR
CAPITAL AG

October 2020

Strategy Update
Q4 2020

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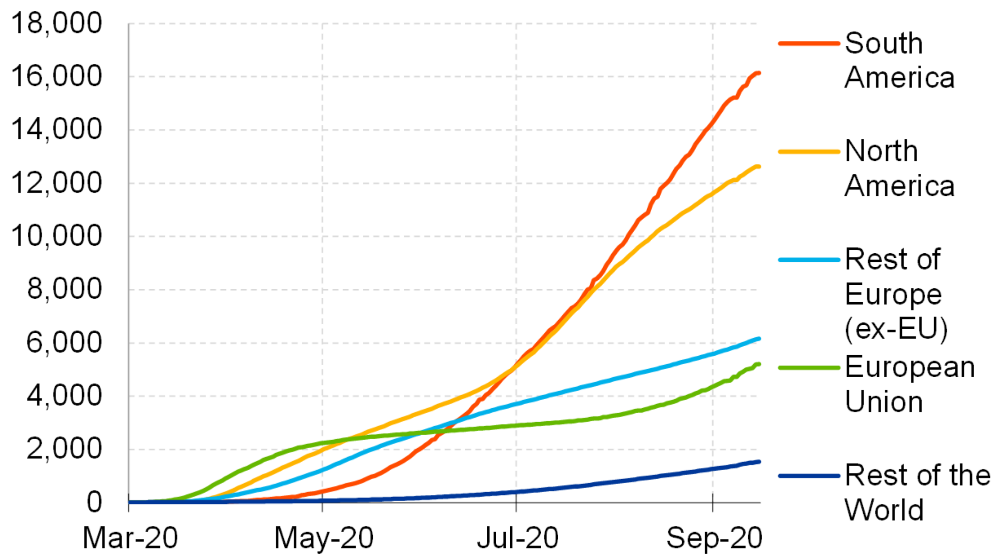
October 28, 2020

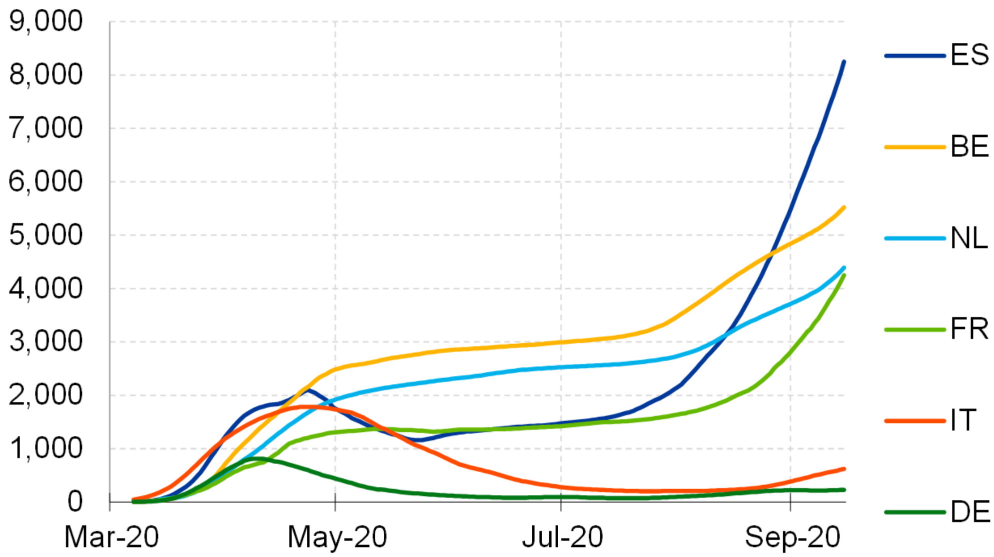
Rising Case Numbers Fuel Uncertainty in the Capital Markets - SAP, Victim of the Corona Crisis?

Dear customers, business partners and friends of our company:

In our strategy update as of September 30, 2020, we pointed out the disruptive factors that we believe will shape the fourth quarter on the capital markets. In addition to the U.S. presidential election and the negotiations between the European Union and the United Kingdom, we have defined the second wave of the pandemic that is rolling over Europe as the biggest disruptive factor. This wave has now swept over us faster than we had expected. The daily increase in case numbers in Europe and the USA leads to governments taking new measures almost daily. This increases the probability of possible (partial) lockdown measures. This inevitably leads to more uncertainty on the capital markets.



Covid19 infections worldwide per million inhabitants (Source: ECB Research, 18.09.2020)



Covid19 infections in selected EU countries per million inhabitants (Source: ECB Research, 18.09.2020)

In our scenario, we assume that the aforementioned disruptive factors will reach the interest of capital market participants in several phases over the next few weeks. However, we should not allow this to concern us.

The implications this can have on the stock markets are shown by the performance of the German Share Index (DAX), especially last Monday, but also generally by the indices in recent weeks. The German stock market barometer lost around 3.31% or 415.93 points compared with the closing price on Friday. This was triggered by the historically large price drop of the DAX heavyweight SAP. The Walldorf-based company presented its figures for the third quarter, which were slightly lower than expected, before the stock exchange opened. But what then drove the market participants to drop the shares of the German software company was the company's medium-term outlook. In it, the 40-year-old CEO, Christian Klein, stated that the cloud business had not been promoted enough in the past and that the company now wanted to invest more in the low-margin cloud business at the expense of the high operating margins (33% in the ERP business). In other words: a strong price correction with long-term consequences for the business. This example of a drastic drop in the share price of the most valuable German company clearly shows how hard it can hit companies when the trend is recognized too late and the path has to be corrected dramatically. SAP showed how nervous the markets are and how thin the ice of the recent months' share price upswing was.

In these times it makes little sense to track the daily market movements of your asset allocation. Therefore, we recommend to stay calm during the forthcoming events in the next few days and weeks.

During the first wave of the pandemic in spring, we already took a long-term strategic position. Today, we are continuing to adopt this approach. This means that we assess the markets over a horizon of six to twelve months and align our target allocation accordingly. With this approach, we continue to recognize every correction as a possible entry point for strategic positioning. We did not foresee that the recovery of the stock market storm would lead to new all-time highs just a few months later. But what we could see was a favorable buying opportunity for the next months or years.

Our conclusion for the quarterly report is clear: the disruptive factors described above will possibly trigger stronger corrections in the capital market in due course. These should then be used consistently to increase the exposure to equities and other "riskier investments".

We remain as usual at your disposal for more detailed discussions.

Your Belvoir Team

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