



DIVAS EUROZONE VALUE

Monthly Report March 2021

Marketing material for professional clients



Hansueli Jost
Lead Manager
DIVAS Asset Management AG

Market environment

Despite disappointing news on the vaccination front with the messy roll-out of the European vaccination program, and incremental lock-down measures announced across the continent, Eurozone equities gradually ground higher during March, driven by continued major positive surprises from leading indicators and record inflows into global equity funds.

With the reflation trade starting to gain traction, 5-year forward inflation expectations jumped to 1.54% compared to 1.35% in February, experiencing their fastest monthly hike.

US vaccine data published by AstraZeneca in late March showed that EU efficacy worries were misplaced. The shot developed in conjunction with the University of Oxford was 76% effective in preventing COVID-19 and an independent monitoring board found no safety concerns. All those immunized were protected from severe disease and death in a study of more than 30,000 volunteers. However, news on certain blood clotting occurrences did not help confidence in the firm's vaccine.

Despite the massive hike in 5-year forward inflation expectations, the 10-year Bund yield experienced a roller-coaster ride, initially rising to -26 basis

points, before selling off to -39 basis points on vaccination and incremental lock-down concerns, to finally close down 3 basis points at -29 basis points. Continued strong positive surprises from leading indicators caused the Swiss Franc to weaken 0.9% to 1.1070.

Following the massive rally over the last 12 months, the commodity complex took a breather. Brent crude oil declined 2%, nickel dropped 14% and iron ore depreciated by 7%.

Despite incremental lock-down measures, the March Markit Eurozone Composite PMI spiked to 52.5 versus 48.8 previously. The manufacturing side is booming, evident in the Markit Germany Manufacturing PMI skyrocketing to a new all-time high of 66.6 from 60.7 previously. The March US ISM Manufacturing PMI spiked to 64.7 from 60.8 previously, while the March China Composite PMI jumped to 55.3 versus its preceding reading of 51.6.

Performance

In March, the MSCI EMU Index rose 6.59%. The fund's euro I-shares jumped 9.27%, outperforming the MSCI EMU Index (net dividends reinvested) by 268 basis points.

Performance contributors

- **Volkswagen pref.** outperformed the market by 29% on announcing an aggressive and credible capex plan for their EV transition. Based on this strategy the company would by next year already be selling more EV vehicles than Tesla. If the market were to apply multiples similar to those of Tesla and Nio Inc. to Volkswagen's battery-electric vehicle business, it would be worth some EUR195 billion. The current

market cap for Volkswagen's entire business stands at EUR140 billion, i.e., the 10 million combustion engine car production effectively comes for free.

- **ArcelorMittal** outperformed the market by 19%, as analysts tried to catch up with reality, by aggressively upping their earnings estimates.
- **HeidelbergCement** outperformed the market by 10% on announcing final Q4 results that triggered positive earnings revisions.
- **Telecom Italia** outperformed the market by 10%, as they managed to agree with unions on 1'300 additional job cuts for 2021 and enjoyed analyst recommendation upgrades.

Performance detractors

- Notwithstanding continued positive earnings revisions, **Covestro** underperformed the market by 11%, as the stock took a breather, following its stunning outperformance in the preceding 7 months.
- **Royal Dutch Shell** underperformed the market by 7%. This constituted profit-taking following its 50% outperformance over the last 5 months.
- **Aegon** underperformed the market by 4%, following the 70% outperformance seen since last September.

Positioning

In March, the fund switched TechnipFMC and AB InBev into Repsol and Sanofi. Furthermore, it reduced its position in Volkswagen pref., up 64% since purchase in May 2019 and having outperformed the market by 45%.



DIVAS EUROZONE VALUE

Monthly Report March 2021

Marketing material for professional clients

Outlook

The European Central Bank might be able to start discussions on how to unwind its unprecedented monetary stimulus later this year if countries make sufficient progress on vaccinations, according to Governing Council member Klaas Knot. "We wanted to prevent yield increases from being far ahead of the improvement in economic growth and inflation that we expect in the second part of this year," Knot said. "That's why we thought it wise to do a bit of frontloading, and to provide some counter-pressure in the coming months. But when the recovery really manifests itself as we expect, this reason will be obsolete". This combined with the fact that the Governing Council did not consider it necessary to expand the overall size of their EUR1.85 trillion emergency bond-buying program seems to be a clear indication that bond yields have ample room to rise.

5-year forward inflation expectations finally caught up to reflation reality and spiked to 1.54%. There are still two asset categories that have not yet adjusted to the new paradigm and are miles off fair value: 1) eurozone banks and 2) the 10-year Bund yield. To put this into perspective, the last time 5-year forward inflation expectations traded at current levels back in 2015, the 10-year bund yield traded at +75 basis points compared to today's -29 basis points. A very long way to go! As experienced in April 2015 such normalisation moves can unfold very

rapidly. Back then, the 10-year Bund yield, within a matter of just 3 weeks, sky-rocketed from -10 basis points to +99 basis points. Once we break above the all-important level of -20 basis points, which was the low back in February 2016 (when rates for the first time since the 1960s moved into negative territory), the USD3 trillion machine will start to aggressively buy eurozone banks.

21 years ago, the tech bubble (TMT) burst. Since hardly anyone seems to properly remember the sequence of events, and conventional wisdom dictates that value would follow in the wake of a technology bust, it is worth revisiting the details. In the TMT crash back in 2000 that lasted 7 ½ months, the index heavyweight Deutsche Telecom crashed 63% and the mid-small caps, most market players were exposed to privately and seem to painfully remember, lost 90-100%. The Value space on the other hand ratcheted up 8.8% in absolute terms and the value factor outperformed the blend benchmark by 22 percentage points over the same period. For us, having back in 2009 generated 115% alpha out of a 11.5% value factor tailwind, a comparable scenario seems to be quite feasible.

In our December 2020 monthly, we indicated that value stocks would ultimately start to display momentum sensitivities. Since the machine's definition of momentum has neither to do with fundamentals nor sectors, but

is simply a collection of the 100 best performing stocks over the last 100 days, certain cyclical companies have mutated to become momentum stocks. ArcelorMittal, up fourfold over the last 12 months, is probably the most prominent of this newly emerging group.

Since the value factor is the only factor negatively correlated to the momentum factor, only the value space offers a hedge against rising interest rates and a diversification for momentum portfolios.

NAV: EUR 117.48

ISIN I shares: LU1975716835

Valor I shares: 47229643



DIVAS EUROZONE VALUE

Monthly Report March 2021

Marketing material for professional clients

Currency Risk – Non-Base Currency Share Class: Non-based currency share classes may or may not be hedged to the base currency of the Fund. Changes in exchange rates will have an impact on the value of shares in the Fund which are not denominated in the base currency. Where hedging strategies are employed, they may not be fully effective.

Equity: Investments in equities may be subject to significant fluctuations in value.

Capital at risk: All financial investments involve an element of risk. Therefore, the value of the investment and the income thereof will vary and the initial investment amount cannot be guaranteed.

Important legal Information

This material is communicated by DIVAS Asset Management AG. This material is only to be communicated to institutional clients, investment professionals or market counterparties (e.g., banks). It has been solely prepared for informational purposes and does not constitute or form part of, and should not be construed as, an offer, invitation or inducement to purchase or subscribe for any securities or services. No part of this material, nor the fact of its distribution, should form the basis of, or be relied on in connection with, any contract or commitment of investment decision whatsoever. The information contained herein is preliminary, limited in nature and subject to completion and amendment. No representations or warranty, either express or implied, is given or made by any person in relation to the fairness, accuracy, completeness or reliability of the information or any opinions contained herein and no reliance whatsoever should be placed on such information or opinions.

There is no guarantee of trading performance and past performance is not necessarily a guide to future results. In particular the results and graphs above may contain hypothetical performance results. Hypothetical performance results are based on various assumptions and may have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown; in fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular trading program. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk of actual trading. For example, the ability to withstand losses or to adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of hypothetical performance results and all of which can adversely affect trading results. Hypothetical performance results are shown for illustrative purposes only and are not to be relied upon for making investment decisions. Clients must base their decisions on their own understanding of the strategy, the service or product and market views.

DIVAS Asset Management AG may act as a hedging advisor. Any hedging activities carry substantial risks. Hedging can involve short-selling of asset classes with unlimited downside risks in certain cases. Prospective clients hedging their portfolio might miss significant upside in the assets they hedge. Furthermore, there is always a bias between the assets being hedged, and the results of the hedging strategy (it is not possible to obtain a continuous hedge with a fix correlation of -1 over time). This bias typically increases in situation of market dislocations, as the assets being hedged are typically less liquid than the instruments used for the purpose of hedging these, and the losses of the assets being hedged become higher than the gains of the hedging strategy on the back of an increase in the liquidity premium.

This material is confidential and intended solely for the information of the person to whom it has been delivered and may not be distributed in any jurisdiction where such distribution would constitute a violation of applicable law or regulations. DIVAS Asset Management AG specifically prohibits the redistribution, reproduction or transmittal in whole or in part, to third parties.

If you are a US citizen or resident, or represent a trust which is subject to taxation under US Internal Revenue Service requirements, or represent a partnership or corporation organized under the laws of the United States of America or any state, territory or possession thereof ("US Persons") you are prohibited by law from buying investments other than those authorized for sale by the SEC. This document shall not be distributed to restricted Persons.

This material is prepared by DIVAS Asset Management AG, or an affiliate thereof, for informational purposes. No representation or warranty is made that any indicative performance or return indicated will be achieved in the future. This material has been prepared by DIVAS Asset Management AG, none of the management company, the registrar and transfer agent, the central administration or the custodian of the Fund has independently verified any information contained herein and no party makes any representation or warranty as to the accuracy, completeness, or reliability of such information.

DIVAS Asset Management AG, 2021

Divas Asset Management UG (haftungsbeschränkt), represented by Mr. Hans Ulrich Jost ("Agent") is a tied agent within the meaning of Article 29 (3) of Directive 2014/65/EU ("MiFID II") as implemented in the respective national jurisdictions, of ACOLIN Europe AG ("ACOLIN") and registered in the Tied Agent Registry of the German Federal Financial Supervisory Authority (BaFin). The Agent is entitled to engage exclusively in the reception and transmission of orders within the meaning of Annex I A (1) MiFID II in relation to one or more financial instruments. The Agent acts only on behalf and for the account of ACOLIN. The financial services performed by the Agent are exclusively in relation to the Evolt Dynamic Beta Fund and the DIVAS Eurozone Value Fund, sub-funds to the White Fleet IV Fund.

The information contained therein is intended only for informational purposes and does not constitute an offer for the purchase or sale of financial instruments. All information is provided without guarantee and is subject to change. The information contained herein does further not constitute Investment, legal, tax or any other form of advice. No investment decision should be made without obtaining qualified financial advice. This email is intended exclusively for professional clients within the meaning of Annex II MiFID II.

The information provided in this email may not be copied or forwarded without the express consent of ACOLIN. The information may not be made available to US citizens or persons residing in the USA.

This email may contain confidential and/or legally privileged information. If you are not the correct addressee, or you have received this email in error, please inform the sender immediately and delete this email.

DIVAS Asset Management UG, 2021