TRANSACTION RATIONALES

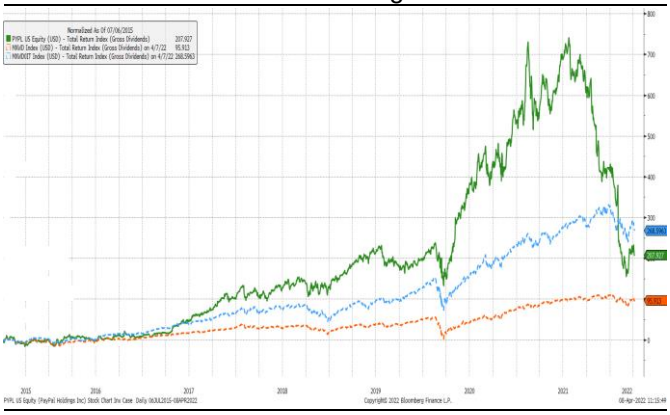
Purchases / Increases

PayPal: Buying an initial position

We take advantage of the recent drop of Paypal from USD 310 to 113 to establish a small initial position.

PayPal is the world's largest open digital payments platform. The company is a unique player within the payments space, connecting 34 million merchants to 426 million consumers across over 200 markets. Having information on both sides of the transaction gives PayPal not only a meaningful edge in combating fraud but also highly valuable insights into consumer's buying habits that are valuable to its merchants.

Chart since spin-off from Ebay: Paypal vs. the MSCI World and the Sector: Returning to earth



Source: Bloomberg — Data range: 06.07.2015 – 07.04..2022
Total return in USD — Note: past performance is not a reliable indicator of future results

Because of that and because PayPal is the most accepted digital wallet amongst large retailers in the US and Europe, the company is a prime beneficiary of the accelerated growth in e-commerce. But not only that. PayPal has evolved more and more into a financial services company in recent years. Today, PayPal has the biggest user base, highest customer awareness and most comprehensive set of features within the e-wallet industry.

Since it's spin-off from Ebay in 2015, PayPal stock steadily outperformed the IT-sector and the key players in credit cards, Visa and Mastercard, due to its stronger growth. After the Covid-outbreak, though, the stock was caught in investor euphoria regarding e-commerce, lifting PayPal and its valuation into new spheres, that then turned out to be unsustainable. After the euphoria in the stock has evaporated, valuation has now reached the low end of the range since the spin-off, even though the business has become a lot stronger.

Paypal is now valued at roughly a market multiple despite the solid high teens growth that we expect Paypal to generate. As a result, we view this quality stock as significantly undervalued. Therefore, we buy an initial position, with a view to add more on any weakness.

CVS Health: Add to the existing position

We add more to our initial positions in CVS Health. The stock has corrected slightly (~5%) since our initial investment in March, further increasing the already large upside. Therefore, we take advantage of the dip to bring the position closer to the target size.

We finance the purchase with of the cash generated by the sales of portfolio holdings that had rather strechted valuations, such as Fastenal and Markel, thereby further increasing the portfolio's margin of safety.

5-year chart: CVS Health vs. the MSCI World and the Sector: Regaining its footing

Source: Bloomberg — Data range: 10.04.2017– 07.04.2022
Total return in USD — Note: past performance is not a reliable indicator of future results

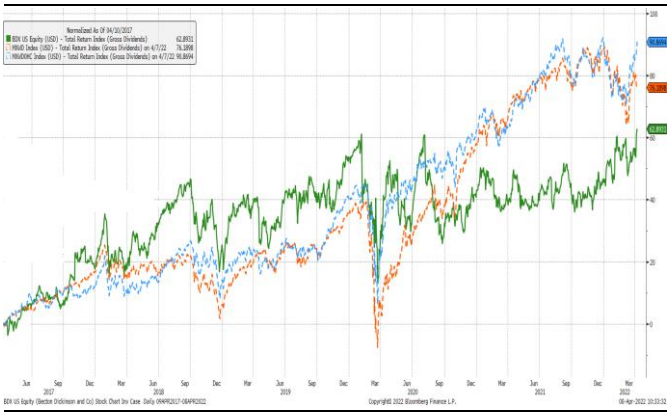
Becton Dickinson: Add to the existing position

After an extended period of consolidation the stock has started to outperform again, as investor have come to appreciate the steady growth of the business as well as the low valuation.

Moreover, the hick-ups in some products and the integration of the Bard-acquisition, those issues seem to be largely behind the company and its management. This should provide a further tailwind to the stock.

Hence, after revising the investment case and our estimates, we add to the position as Becton Dickinson offers a large margin of safety and stable business trends at the same time.

5-year chart: Becton Dickinson vs. the MSCI World and the Sector: Turning up after a long period of consolidation



Source: Bloomberg — Data range: 10.04.2017– 07.04.2022
Total return in USD — Note: past performance is not a reliable indicator of future results

Sells / Reductions

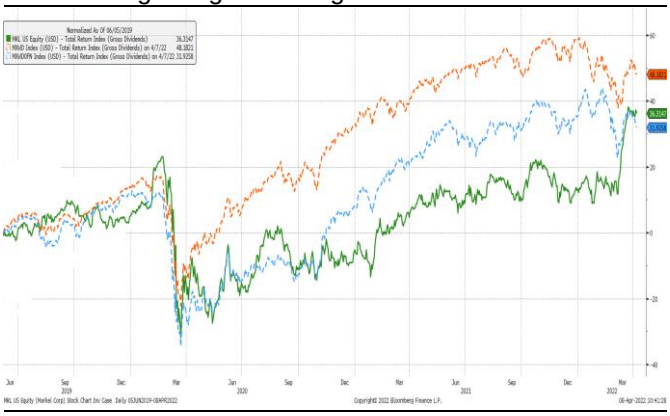
Markel: Take profit and sell the entire position

We take advantage of the recent catch-up rally in Markel to take profit and sell the entire position.

While Markel is a high-quality company with a strong balance sheet, the large equity exposure in its investment book leaves the stock vulnerable for a correction.

What's more, Markel is essentially an equity fund with and speciality-insurance business attached to it. Markel managed to beat market returns in its equity portfolio in the past handsomely, but investment results have been spotty in recent years, resulting in a market like return. In addition, the push into private equity via Markel Ventures, reduces visibility as well.

5-year chart: Markel vs. the MSCI World and the Sector: Regaining its footing



Source: Bloomberg — Data range: 05.06.2019– 07.04..2022
Total return in USD — Note: past performance is not a reliable indicator of future results

Therefore, we take the advantage of the recent surge in the stock to sell into strength. We re-allocate the sale proceeds to more defensive holdings with more relative upside such as CVS and Becton Dickinson.

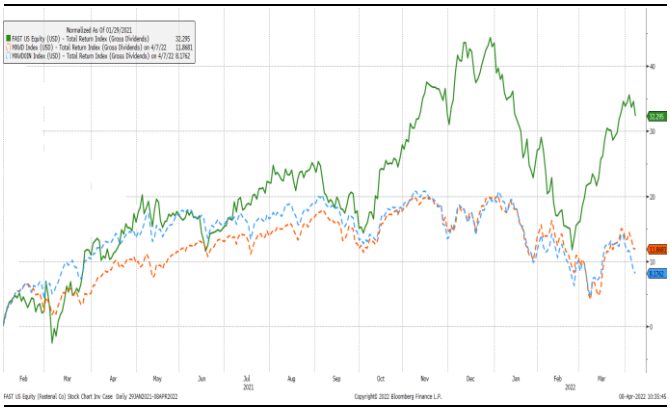
Fastenal: Sell the remaining position

Fastenal has risen further since we started to reduce our position in early March. That leaves the stock more than 32% up (vs. 11.9% for the market) since we re-entered the name back in January 2021. Due to this strong performance, we see essentially no margin of safety anymore on the stock.

While the company reported strong sales numbers for February and we continue to see high single digit growth in cash flows for at least the next 5 years, at 33x earnings, Fastenal is not cheap and the growing risk to global GDP-growth from the Ukraine situation makes the stock even more vulnerable.

Therefore, we take profit and re-allocate the sales proceeds into more compelling investment opportunities.

Chart since inception: Fastenal vs. the MSCI World and the Sector



Source: Bloomberg — Data range: 29.1.2021– 07.04..2022

Total return in USD — Note: past performance is not a reliable indicator of future results

With kind regards,

Emerald Wealth Partners AG, Investment Office

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