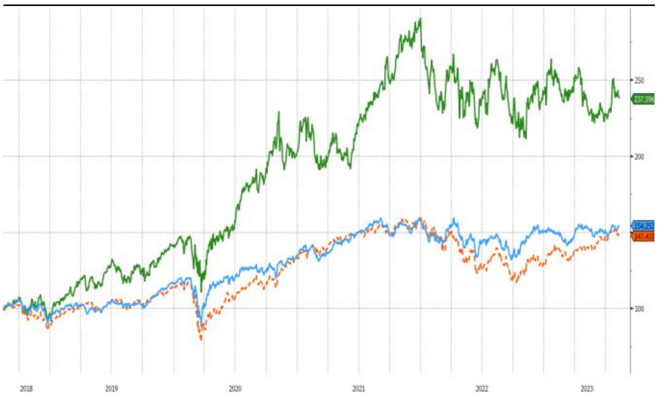
TRANSACTION RATIONALES

Purchases

Thermo Fisher – Add to this best-in-class compounder is at a discount

Thermo Fisher Scientific ("TMO") is the one of its kind in the life science & laboratory industry. TMO's tools and reagents are used in laboratories to perform analyses of materials, compounds and life science ingredients in scientific, research and development, as well as testing and quality control environments. In addition, TMO provides a wide array of mission critical ingredients for research and production of pharmaceutical products and it runs a clinical research organization (CRO) for the Biotech/Pharma industry. TMO holds the no. 1 or 2 position in almost every market segment and it has by far the largest sales force in the industry.

5-year chart: Thermo Fisher vs. the Bloomberg World Index and the Sector



Source: Bloomberg
Total return in USD
Data range 14.08.2018 – 14.08.2023
Note: past performance is not a reliable indicator of future results

While parts of the industries TMO serves are currently going through a phase of adjustments after the boost they received from Covid, thanks to its diversified revenues streams and the strong market position it holds, TMO is likely to be a net beneficiary of that process as their customers are likely to further concentrate more business with them. In addition, as an acquirer, Thermo Fisher might see more attractive acquisition targets come their way. The recent underperformance of the sector and Thermo Fisher allows us to add to positions in the growth-oriented strategies at discounts not seen in a long time.

Sales

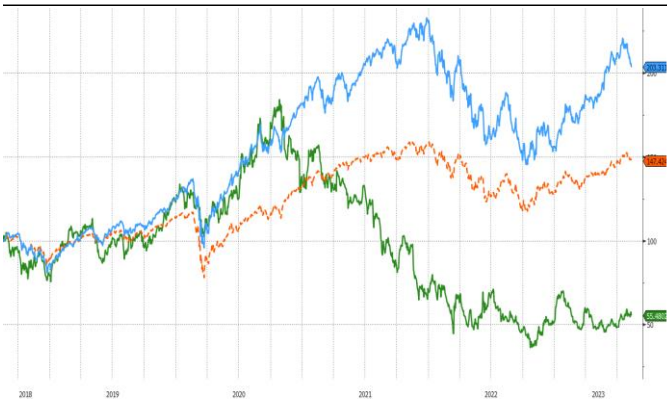
Alibaba: Prisoner of a structurally deteriorating operating and political environment

We are selling the remaining positions in Alibaba as the shadow banking system and the real estate markets seems to be slipping ever deeper into crisis and the political and long-term economic outlook for China looks bleak.

Alibaba's shares remain cheaply valued and recent quarterly results were decent, but the combination of lackluster e-commerce industry growth and cautious political and long-term economic outlook leaves little to hope for mid- to long-term.

Considering the uncertain political and economic outlook in combination with facing a fiercely competitive e-commerce industry, we prefer to invest in investment cases that are clearer, and less dependent on the aforementioned macro- and political considerations.

5-year chart: Alibaba vs. the Bloomberg World Index and the Sector



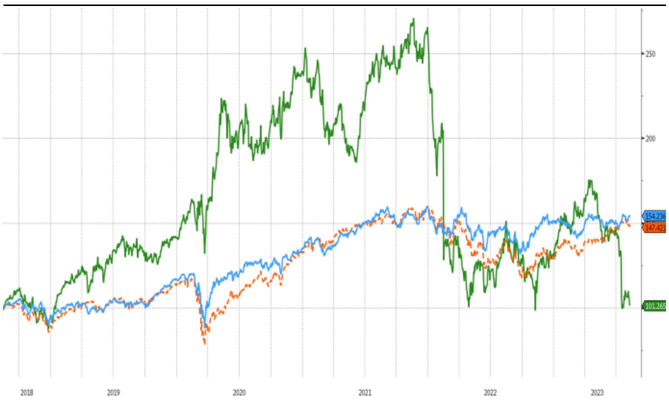
Source: Bloomberg
Total return in USD
Data range 14.08.2018 – 14.08.2023
Note: past performance is not a reliable indicator of future results

Masimo: Strategic vision and capital allocation is no longer clear

After issuing a profit warning and guidance cut in July, Management held their quarterly earnings call on August 8. After having significantly revised down revenue guidance for the core health care business (by -10%) as well as for the newly acquired consumer business in July, management offered little additional insights at the call.

Instead, they made a lot of effort at said call to explain that the sensor sales drop in their core hospital equipment business was transient (high inventories leading to destocking, lower hospital inpatient census, premature end to flu season) and that in general the fundamentals of that business remained strong (Unrecognized Contract revenue still growing low double digit).

5-year chart: Masimo vs. the Bloomberg World Index and the Sector



Source: Bloomberg
Total return in USD
Data range 14.08.2018 – 14.08.2023
Note: past performance is not a reliable indicator of future results

While the core hospital equipment business maintains a strong competitive position, the mid-term the outlook remains blurry as the future level of sensor consumption after the covid-related disruptions is not entirely clear and management wasn't able to offer any firm indication. What's more, while the new consumer-health products (W1-watch, Storck baby-monitoring device) are now being launched, the initial uptake looks fairly slow, particularly for the W1-watch. As a result, the sales targets for 2023 & 2024 that the company offered were at the low end of our expectations. Even though we think that both products have good long-term potential, uncertainties remain, and they won't make a significant contribution to profits anytime soon. Also, the newly acquired consumer business suffered a demand setback that didn't come as a complete surprise when looking trends in the industry, but the magnitude was unexpected.

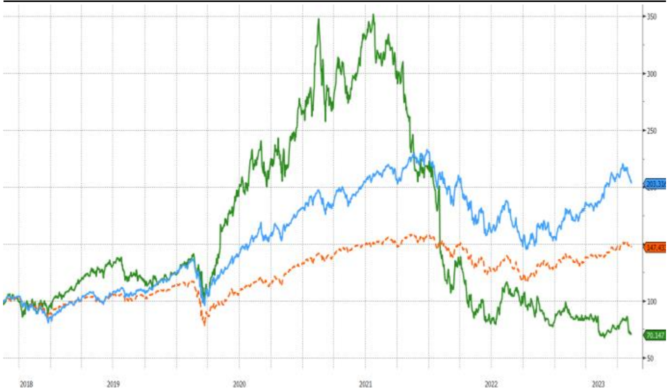
While surely some of the special factors management mentioned for the shortfall were at work, we are stunned that management seems to have been so blind-sided by so many issues at the same time, raising questions if they have enough control of their businesses. Worse, we came away from the analyst call with the impression that management doesn't seem to have a clear plan on how to deal with the multitude of challenges they are facing. But not only that. Again, the communication of management around a major corporate news event was poor and investors and the analyst community were disappointed. That comes on top of a disappointing meeting with company representatives that we had at their head office in Irvine, California, in June.

The stock has recovered some 8% from the lows after the July announcement, but, given the lack of a clear action plan from management and our significant doubts about the way forward raise serious questions about the base assumptions of the investment case. Therefore, we sell the position.

Paypal: Selling the remaining positions in the growth strategies after the latest disappointing news

Despite the recent challenges, Paypal owns an array of strong businesses in the payments and e-commerce industries that have the potential to generate solid long-term growth with the right strategy. Other than in our broader-based style neutral strategies, we kept the position in the higher risk growth strategies for those reasons and as we wanted to wait for the nomination of a new CEO and indications for the future direction of the company.

5-year chart: Paypal vs. the Bloomberg World Index and the Sector



Source: Bloomberg
Total return in USD
Data range 14.08.2018 – 14.08.2023
Note: past performance is not a reliable indicator of future results

Shortly after our last update, Paypal nominated as CEO Alex Chriss, who has spent nearly two decades at Intuit Inc. (INTU). Mr. Chriss served in a variety of roles at Intuit, most recently as the executive vice president and general manager for the company's small-business and self-employed group. While Mr. Chriss is a veteran IT-executive, his nomination will likely receive lukewarm reaction from investors given his lack of CEO and consumer finance experience, at a time when Paypal is being challenged, if not to say disrupted, just in that field. Hence, this choice for the CEO-post won't provide the long-awaited clarity of direction, particularly because the new CEO will need time to get a deep enough understanding of the diverse businesses and their challenges in order to be able to define the future strategy of the company. We are surprised and disappointed by this nomination. Worse, it adds to a series of missteps and dropping of balls at Paypal, in our view.

On the same day Bloomberg reported that activist investor Elliott Investment Management L.P. had dumped its stake in PayPal (acquired in the summer of 2022) during the second quarter 2023. At the time of investment, Paypal CEO Schulman added on PayPal's earnings call that the parties were "completely aligned in our mutual goal to maximize shareholder value and we are substantially aligned on the areas of focus for achieving our objectives." That seems to have changed and adds to our concerns about the strategic direction of the company. If the decision to exit had anything to do with the choice of the CEO we don't know. Elliott didn't immediately respond to a request for comment on why it exited the PayPal position, according to Bloomberg.

Given these latest disappointing developments, we sell the remaining positions in our growth strategies as the way forward for Paypal will remain unclear for an extended period while the challenges the company faces continue to grow. While recovery can still be achieved, it will be a long and risky process, during which visibility will be low and risk will be high. As a result, Paypal no longer offers the characteristics we are looking for in our investment cases even for our higher risk strategies. Therefore, we sell the remaining positions. We keep the sales proceeds in cash for now, waiting for investment opportunities from the current market volatilities.

With kind regards,

Emerald Wealth Partners AG, Investment Office

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