TRANSACTION RATIONALES

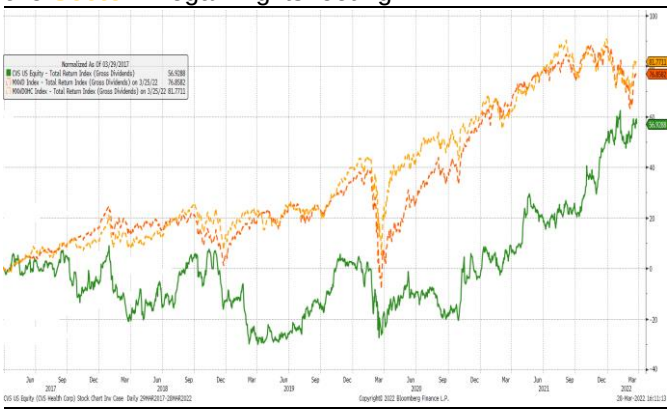
Purchases / Increases

CVS Health: Buy an initial position

Following its acquisition of Aetna in late 2018, CVS Health has transformed itself into an integrated health service and a medical data provider since. It now combines the largest pharmacy benefit manager, the 2nd largest retail pharmacy chain with a managed-care business (or health insurance business) with 24 million medical members.

The company's integrated model is unique in the marketplace and should enable the company to drive overall healthcare costs lower through data/analytics, more effective patient engagement and shifting care to lower cost sites such as its CVS primary care clinics.

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



Source: Bloomberg — Data range: 29.3.2017– 28.03..2022
Total return in USD — Note: past performance is not a reliable indicator of future results

We believe that CVS has laid the ground for high single digit/low double digit growth in cash flows, driven by mid-single digit revenue growth from its core businesses, some moderate margin improvements from cost efficiencies, 1-2% additional growth from Care Delivery & Health Services plus another 1-2% from share buy backs.

From a valuation standpoint, while shares have rebounded from trough levels of the 2018-2020 period, valuation not only remains below the average OEPS-multiple of the past ten years, it also shows at a sizeable discount to the market. While the regulatory risk warrants a discount, the stock looks significantly undervalued, particularly when considering the above average cash flow growth that we expect and the fairly high visibility that the business offers.

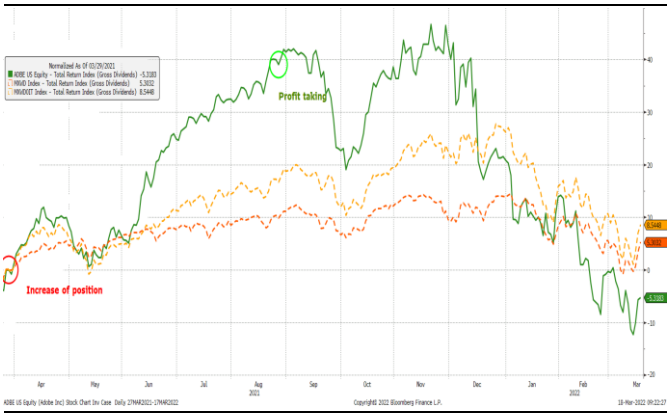
Therefore, we buy an initial position with view to increase it as the growth case becomes more visible.

Adobe: Increase, buy back portion sold in August 2021

We are adding back the portion of Adobe-stock that we sold in August 2021 (green circle). Since our partial profit taking in August, the stock is down 33%, thereby underperforming the world market by 28%.

Because of that correction and thanks to continued growth in earnings, the discount to fair value has risen to 52% from 16% when we took partial profits in August 2021. After another period of underperformance Adobe has once again, according to our valuation model, built-up a sizable undervaluation. Said undervaluation is even larger than when we increased the position back in March 2021 (red cricle).

Chart since March 2021: Adobe vs. the MSCI World and the Sector



Source: Bloomberg — Data range: 27.3.2021– 17.03..2022
Total return in USD — Note: past performance is not a reliable indicator of future results

The underlying business continues to perform as expected and the Analyst Day of December 2021 largely confirmed the long-term outlook as well as our confidence in our Investment Case.

The large upside potential and the exceptionally strong business make Adobe a highly attractive investment at current prices. We therefore increase the allocation of Adobe-stock significantly, turning it into one of the top holdings again.

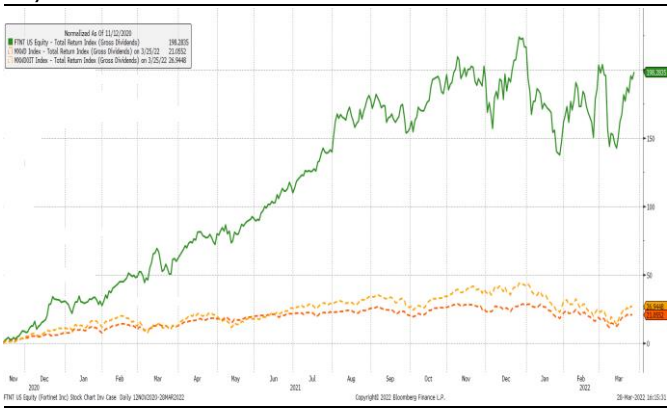
Sells / Reductions

Fortinet: We take partial profit and reduce the position

Since we initiated resp. increased the Fortinet-positions, the stock almost trippled and the Price/Owner's Earnings ratio (for next year) rose from 18x to almost 45x. As a result, the large scale discount that Fortinet had at that point has disappeared and the shares have reached fair value. Therefore, we take partial profit and reduce the position.

However, the company has clearly strengthened its market position in the last 18 months and continues to gain market share, not only in its core business, Small & Midsized Businesses, but also increasingly with larger corporations as they are increasingly recongizing the advantages of Fortinet's integrated approach to security and the cost/performance benefits of its equipment.

Chart since initiating/increasing the position Nov. 12, 2020: Fortinet vs. the MSCI World and the Sector



Source: Bloomberg — Data range: 12.11.2020– 25.03..2022

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

As we expect continued strong growth from rising demand for cyber security in general and market share gains in particular, we maintain part of the position.

Fastenal: We take partial profit and reduce the position

Fastenal has risen 25% since we re-entered the name back in January 2021, thereby outperforming the market and the sector by more than 18% since. Due to this strong performence, the margin of safety resp. the discount to fair value has been reduced to 4%.

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 more than 30x 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 propose to take partial profit and park the sales proceeds in cash with a view to take advantage of more compelling investment opportunities that the current phase of market volatilities might create.

With kind regards,

Emerald Wealth Partners AG, Investment Office

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