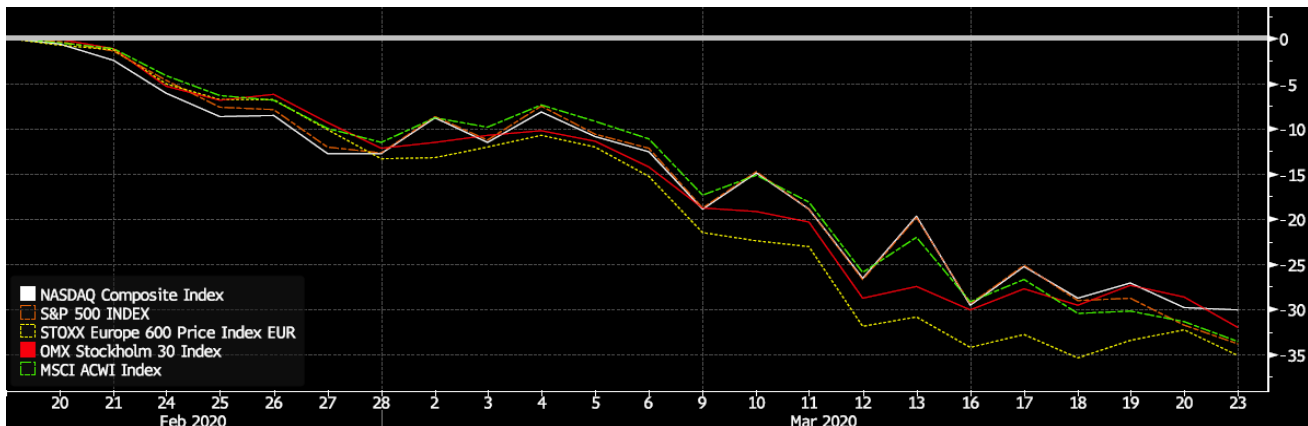
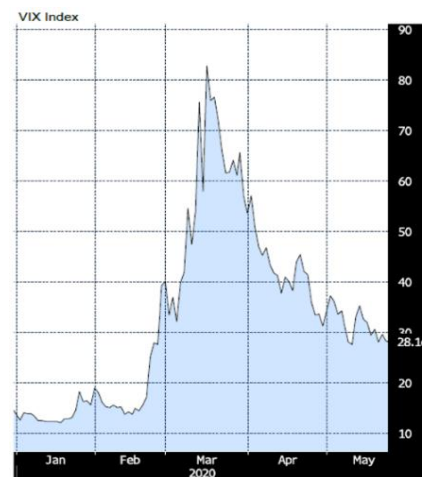


Annual letter 2020 – Kuypenstierna & Skog S.A.

We are putting a difficult year behind us with major movements in the financial markets as a result of Covid-19. A pandemic that has caused great suffering, resulted in massive monetary and fiscal measures and is likely to lead to new patterns of behaviour. Investor focus has also been on the US presidential election, investments in sustainability and the dominant position of the tech companies, amongst others.

Following a start of rising stock markets, uncertainty increased in mid-January when news of the Covid-19 outbreak in China began to spread. Volatility started picking up to completely explode in February and March while stock markets fell sharply, once again showing that markets like good news, may take bad news but hate uncertainty. In the usual stock market panic, most companies, sectors and geographic regions collapsed driven by large index sales and worried investors. Massive support measures were put in place both from central banks, which said that they were prepared to do "whatever it takes", and from governments around the world to help businesses and individuals to cope with the difficult economic situation.

We chose to reallocate our portfolios without reducing the equity part. We invested in companies we felt had fallen too much and cut back on investments in companies we thought would have a hard time going forward under these new conditions.



In April, the financial markets recovered sharply. Hopes of a reduced contamination rate of Covid-19, a reopening of societies and massive stimulus packages impacted the markets positively. Total stimulus had now, by far, exceeded the levels we saw during the financial crisis. The rise was led by the technology sector, but also sectors that lost the most during spring outperformed.

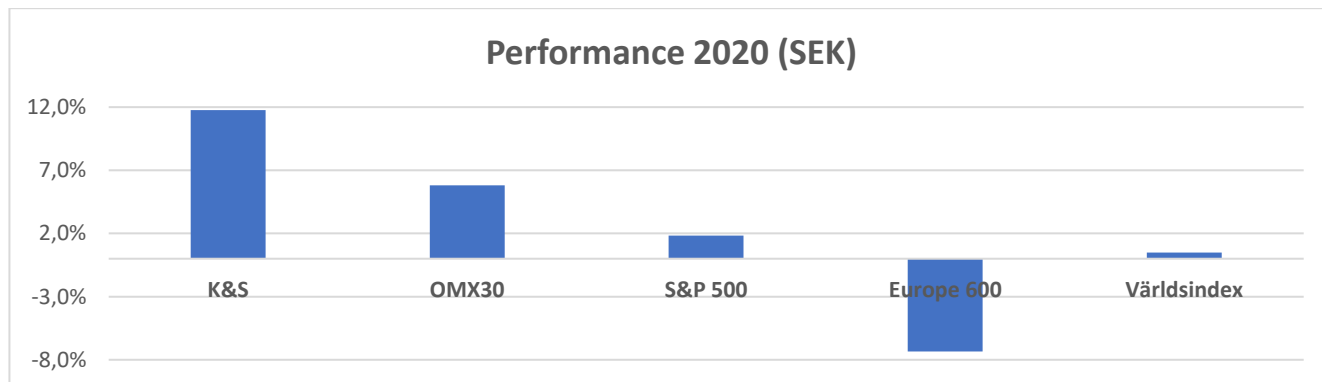
A harsher tone between the US and China, when China introduced a security law in Hong Kong, created some uncertainty and the price of oil fell freely and was even quoted at negative prices. However, TINA, There Is No Alternative to equities, and FOMO, Fear Of Missing Out, overcame the concerns.

In September and October, markets fell in both the US and Europe. It was worth noting that indices had developed very differently during the year, with the Nasdaq Index being among those that developed best with an increase of just under 30%, while European stock exchanges were at the bottom. Industrial and tourist dependent countries such as Italy and Spain were down between 20-30% and the index of the 600 largest European banks, reached its lowest quote since the surveys started in 1987.

In November, markets once again recovered sharply – the Stockholm Stock Exchange's broad index showed its best November month since 2002 and the Dow Jones in the US its best since 1987. The positive trend continued for the rest of the year, supported by a combination of positive vaccine news, the US election and continued stimulus.

At the end of December, the EU and the UK avoided a hard Brexit by finally agreeing a trade deal.

Despite a difficult and eventful year, our portfolios generated positive returns of 10-15% depending on the level of risk. Our own fund, Kuylenstierna & Skog Equities, completed 2020 with an annual, positive performance of 11.8%.



2021 – Vaccines, sustainability, digitalisation, indebtedness...

Covid-19 will be in focus well into 2021 – vaccination, possible mutations, continued bankruptcies and attention on the level of unemployment, but also on how our behaviour changes. Perhaps business travel will decline permanently while e-commerce continues to grow as many of us have adopted the digital world. This leads to new conditions – for example, when we are all hostages of digitalisation, there will be a high demand on cybersecurity.

In 2020, broad inflation has continued to shine with its absence despite massive, economic support measures. Instead, we have seen a form of asset inflation where equities, real estate and other real assets have increased in value. It has benefited certain groups while the part of the population without assets, has become relatively poorer and perhaps even lost their employment – a development that could lead to an increased segregation and unrest in society.

Other topics that we are likely to encounter in 2021 are ever increasing government debts, sustainable investments, value companies vs. growth companies, and a continued discussion of the size and influence of tech giants and their responsibility for what is published. Should they only follow laws or should they also decide what is moral, ethical and tasteful?

Kuylenstierna & Skog 2021

During 2021 we will strive to provide our clients with the best return and offer the best service possible as well as focusing on transparency, flexibility and building client relationships. Finally, we look forward to finally seeing you again after far too long.

Kuylenstierna & Skog S.A.

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