DUNAS PATRIMÓNIO

Fund Update

SUMMARY

Latest market developments following the Covid-19 pandemic and portfolio positioning.

DUNAS CAPITAL

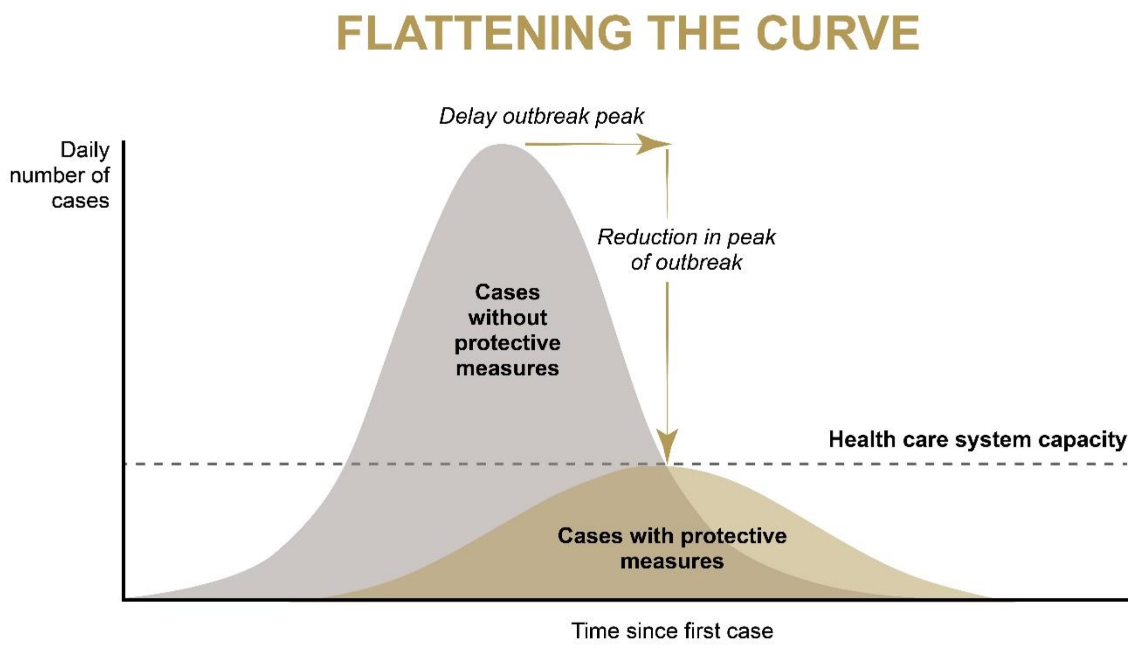
Dear Fundholders,

We write to you as we go through a uniquely difficult period in recent history. The pandemic outbreak of the COVID-19 virus will be a very challenging moment for all, but will be, unfortunately, a tragic one for some.

As has been the case, for thousands of years, we´ll see the other side. The depth of the wounds will depend on the actions taken by the political authorities and, ultimately, by all of us. There are good signs! A general adoption of a "flattening the curve" approach, that seems to be working, could give science the much-needed time. In most of the affected countries, governments have taken hard measures, companies have put in place remote-working schemes and shutdowns, the majority of the population understands and supports it and is voluntarily complying with the health organizations guidelines.

We are seeing some encouraging numbers from China (thought they can be not very reliable), Korea and even from Italy where we could see some tentative signs of peak new cases.

For medical science, economic and reputational rewards for success are huge and the resources involved probably unseen.



Source: CDC

The economy will also feel the pain. In the short-term, GDP will collapse, unemployment and bankruptcies will rise, especially amongst small enterprises and particularly affected sectors. However, much depends on the length of the crisis and on the political system and financial authorities' ability to act. Here again, there are good news. Governments, all over the world, have announced massive fiscal plans to support their economies and Central Banks are taking aggressive and helpful monetary and regulatory measures as well.

If there are times when governments and Monetary Authorities should step in, this is, for sure, one of them.

Unfortunately, there is neither an easy fix nor a free lunch. It will take time to properly design, implement and feel the effects of those plans and fiscal deficits will rise, social-security budgets will be strained, defaults will rise and bank balance sheets will suffer, as governments won´t be able to help everybody.

As if this was not enough, the Saudis and the Russians decided to start an oil price war. This is much less of a problem - as there will winners and losers, and no human or serious economic consequences on a global scale - but will potentially lead to future heightened geopolitical tensions at a time where international cooperation and coordination are paramount.

For financial markets the perfect storm was created. What started as a repricing of the oil industry risk, turned into chaos as the virus reached one country after the other and panic took over.

Our portfolio has been a combination of concentrated, highly liquid, G7 government bonds (longs and shorts), USD supra-national bonds (AAA rated) and a highly diversified global equity exposure (1/3 indexes, 2/3 stock picking with exposure to 90 single names, mostly large caps).

As the rush for liquidity started, credit-markets dried up entirely, on a blink, even for the most liquid assets (US Treasuries) and we witnessed gigantic moves, across the entire yield-curve, in very short periods of time. This led the FED to announce a new 700 BLN USD QE program and new liquidity measures (two 500 BLN USD repo operations per day), in order to stabilize the most important market in the world.

US TREASURY 30Y YIELD

Source: Dunas/Bloomberg

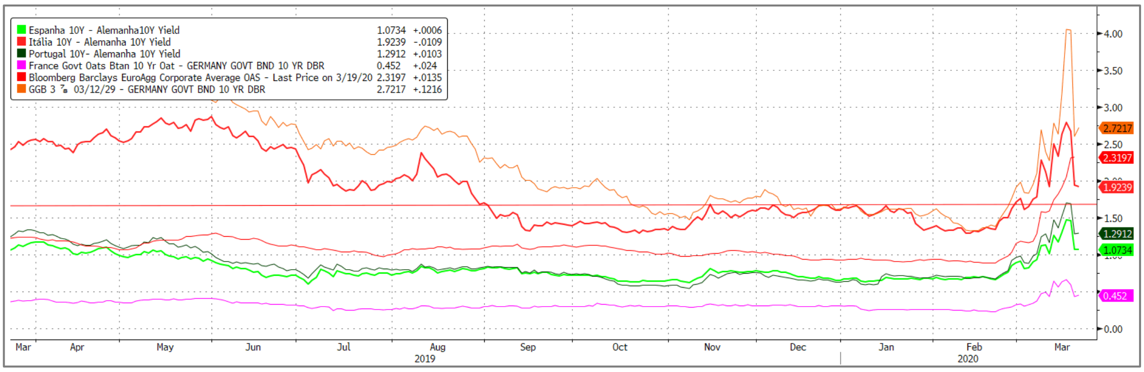
We sold our 30y UST after a very strong rally as the market priced in Fed Funds at zero. It became unclear at that time, and remains today, if it would act as a hedge or just as an added risk to the portfolio. We very recently closed our German 30y short position (much smaller, but very profitable) and tactically reduced our 10Y German short position. We think that QE programs from the ECB and the FED will neutralize, in the short term, potential rising funding costs from higher deficits.

As investors went on panic mode, European peripheral and credit spreads widened sharply, especially for Italian and HY bonds.

Italy was the poster-child for the mismanagement of the COVID-19 crisis and is paying a very high price for it, both in human lives and economic and financial terms. As a big market, we think it was also used as proxy for hedging purposes to corporate bonds or other EU Sovereign bonds.

ECB's President (Christine Lagarde) comments didn´t help, as well. The new measures announced by the ECB changed the tone. The 750 BLN EUR QE program will support FI markets and we have already seen some effects in EUR Government spreads.

10Y SPREADS VS GERMANY



Source: Dunas/Bloomberg

Italian Government bonds had a horrible time and they made a serious negative contribution to the funds's performance but their latest recovery was furious as well. We didn't expect to see Italy back to the 300 bps spread, but we continue to think that these are incredibly cheap levels, especially on a relative basis, and we will maintain our position. Lower levels of household debt and a critical role in the EU project are underappreciated points, in our view.

We closed our short position in 10y French debt as we wanted to reduce our gross exposure and saw better risk-reward elsewhere. We still don´t own any other European Country´s Government debt.

We had almost no credit as we have been negative on this asset class for a long time. We still see IG bonds as an unappealing asset class, on a relative basis. We think that HY bonds present an interesting entry point, at last.

5Y EUR CDS´S

Source: Dunas/Bloomberg

For corporate bonds the market basically closed, as there were no buyers. Credit ETFs kept trading, but at daily records discount to NAV, as bond prices have yet to reach real market levels.

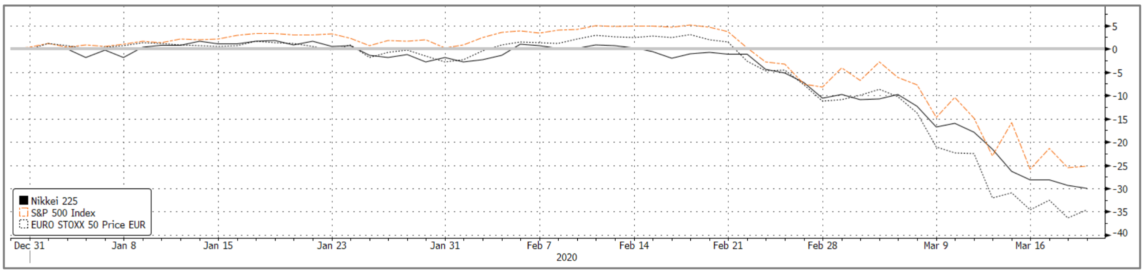
CORPORATE HY ETF EUR – DISCOUNT TO NAV

Source: Dunas/Bloomberg

We finally have some exposure to the HY market, adding a EUR HY corporate debt ETF at current levels yields close to 10%, which we consider good levels on a risk-adjusted basis.

Equity markets stayed relatively liquid and suffered disproportionally as investors rushed for liquidity and sold what they could and not what they wanted (or needed).

EQUITY INDICES YTD



Source: Dunas/Bloomberg

We think that equity markets are, probably, pricing in the worst-case scenario and are extremely cheap on an absolute basis and the cheapest they´ve ever been on a relative basis and we will maintain the maximum allocation.

We will face demand destruction in some sectors, but we will have demand postponement as well (pent-up demand). We will have an earnings depression this year and some companies will go out of business. Some will suffer much less. Others will be relatively unscathed. Businesses will adapt.

Governments will intervene in some business as they support the economy and they will be subject to lobbying and public opinion pressure, creating more uncertainty. Governments will probably support strategic companies and the ones with large payrolls. We could see an increase in productivity from the new remote-working models that are being used. Some companies will regain some pricing power. Medical science could surprise us. Interest rates will stay low. Low oil prices are positive for our portfolio.

Markets are discounting mechanisms and are discounting a terrible outcome.

We are long-term investors and we don't believe that timing the markets in the short-term is a viable strategy for the long run. To call a bottom is risky and almost impossible. The markets could go lower from here, even if we have very low valuations and despite trading at very oversold levels in an environment of totally depressed sentiment. But they could bounce violently and suddenly.

We believe that our model of very liquid assets and much diversified company and sector exposure will continue to be a strength going forward.

We don´t know when this health crisis will be over, but it will. It could be sooner rather than later.

For those who, in these emotional times stay the course, we see tremendous upside on a 1 to 3 years' time horizon.

Please be assured of our commitment to you as we face this volatile and challenging situation together.

If you require further information and disclosure, then please do not hesitate to contact us.

Thank you for your support.

Best regards,

Pedro Fernandes, CIO

Lisbon, 23rd of March 2020