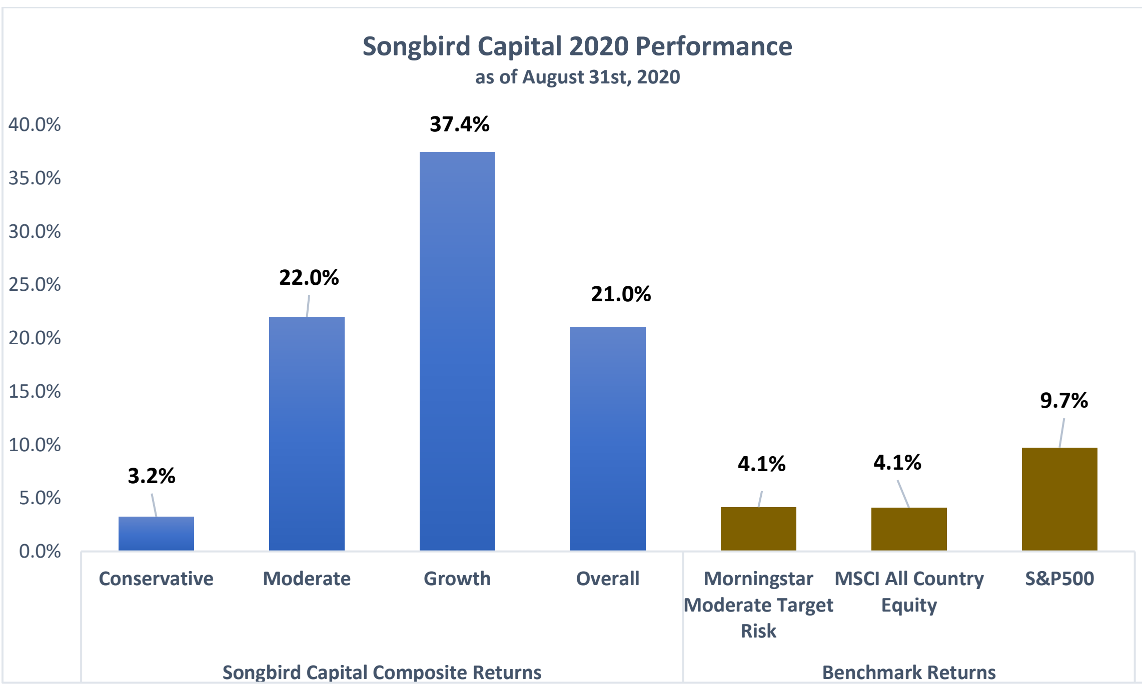
Songbird Capital Research

2020 Mid-Year Market Commentary

Portfolio Performance Review

Songbird Capital's aggregate composite returned ***21%*** net of all fees in the first eight months in 2020. In comparison, S&P 500 and Morningstar Moderate returned ***9.7%*** and ***4.1%*** gross in the same period. Songbird growth composite had the strongest performance returning ***37.4%***, followed by moderate composite up ***22%*** and conservative composite up ***3.2%***. These are the continuations of strong 2019 performances with Songbird Aggregate, Growth, Moderate and Conservative up ***24.1%, 32%***, ***23.6%*** and ***19.5%*** respectively.



Data Sources: Schwab & Co, Morningstar Office and Songbird Capital. The Songbird aggregate return and sub-category returns are based upon SMAs managed by Songbird Capital net of all fees. The performance of individual constituent in Songbird Aggregate and Subcategories may be higher or lower than the returns of the composites they are included. All benchmark indices are calculated as gross returns. Disclaimer: Past performance is not indicative of future returns.

Four major themes in Songbird portfolios sustained the portfolios during the market initial drawdown, and then delivered strong rebound since the market troughed in late March. The decisions to proactively rebalancing the portfolios and to harvest tax losses at the end of March, while repositioning in high conviction investments and themes led to the strong rebound in Songbird moderate and growth portfolio. Conservative portfolios are more value and fixed income oriented, and less actively managed, producing less robust returns than moderate and growth portfolios.

One of the hallmarks of the recovery is huge divergence of returns among sectors, styles, and regions. This provides a fertile ground for active portfolio management.

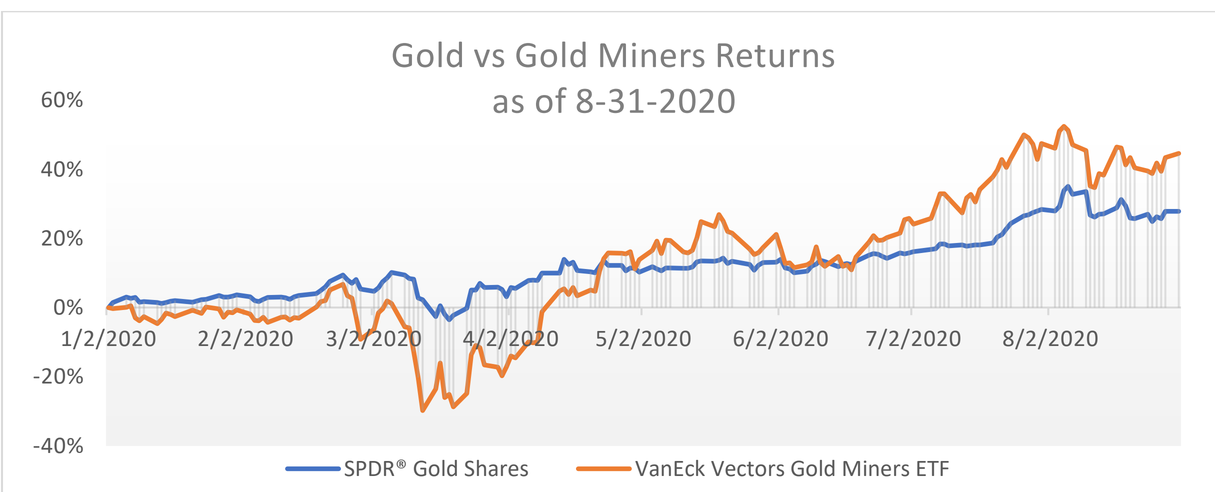
The four themes have contributed to the overall performance are US large cap growth, innovations, China led Asian growth as well as gold and gold miners. The pandemic caused shutdown of global economies, which unexpectedly accelerated the adoption of technologies that are already in place, keeping business operating and people connected. Some estimates indicate that the adoption of some technologies have shrunk to three months from originally anticipated three to five years. A case in point – cashless payment went up to 78% of the purchases at stores, while eCommerce sales grew over 70% year over year in May. Another prominent example is Zoom, a video conferencing platform, which saw its daily participants jumped from 10 million to over 200 million in three months. Its revenue is expected to double and profits triple for the year.

Our Chinese large growth stock holdings held up well during the initial lockdowns in China and rallied since the 2nd quarter as Chinese economy was leading the global recovery.

Both Gold and Gold Mining stocks contributed to the overall returns as the physical gold price moved up approaching $2000 per troy ounce from $1520 at the beginning of the year. With an average cost of gold production is around $1000 per troy ounce, gold miners' profit margins are expanded dramatically as gold price rises. The decline in US dollar further boosts the value of gold.

Investments in financials and REITs detracted the overall performance. Both sectors are under pressure as concerns of rise in default in debt and fall in rent collections as unemployment numbers soared and economies are in recession. However, asset management firms have seen a rebound as recovery of clients' assets continue.

COVID-19 has disproportional impact on real estate market as digital infrastructure like cell towers, Industrial warehouses/eCommerce logistics and data centers, as well as single and multifamily housing have fared well, while shopping centers, regional malls and hotels have suffered the most.



Sources: Morningstar Office and Songbird Capital

Economic and Market Overview

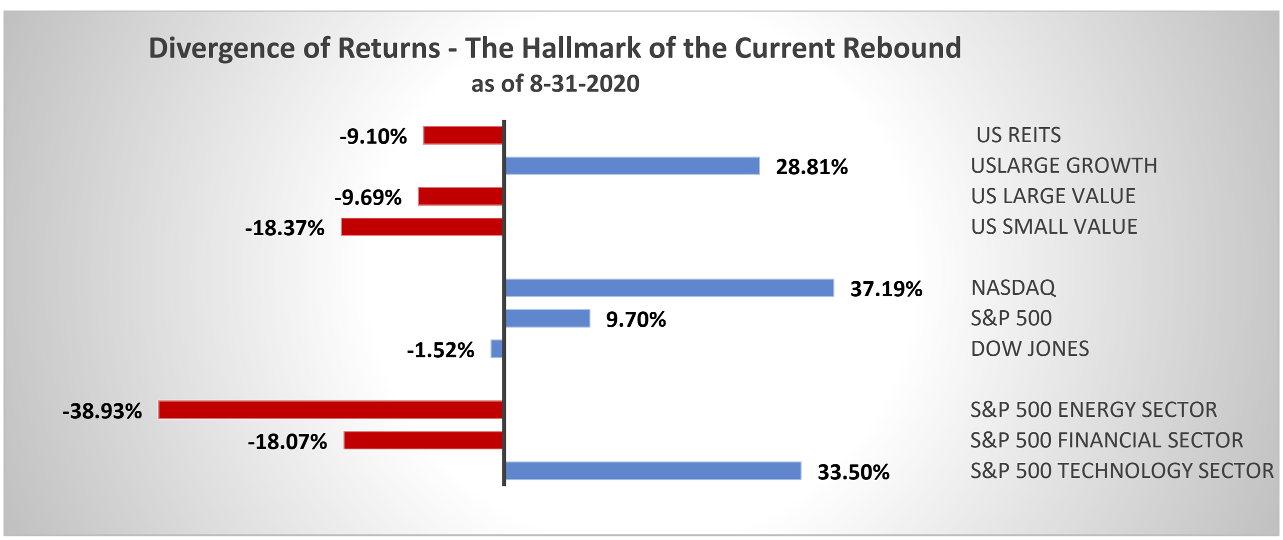
Massive fiscal and monetary policy actions from major economies around the world have supported financial market and ensured a V-shaped rebound in global stock markets since March lows. However, the recovery path remains a speculation, some pundits suggest that the swoosh shape or square root shape of recovery is more realistic as the real economy is still facing various challenges and may take years to recover.

In Barron's May issue, David Rosenberg (a well-known contrarian) pointed out:

"While wages and salaries plunged at a $680 billion annual rate, personal income soared by $1.386 trillion in the quarter, owing to $2.419 trillion in transfer payments. But the 332.6% annual rate of increase in personal income was met with 34.6% rate of decline of spending, as households boosted their savings rate to a record 25.7% from 9.5% in the first quarter."

The US national savings rate continued to rise and peaked at 33.7% in April. In a service and consumption-oriented economy, one person's saving is another person's income. Restaurants, entertainment, retail malls, travel and hospitality industries suffered the most as the result of shutdown and social distancing measures. However, the high personal savings rate could create pent-up demand once businesses normalize or restrictions are lifted. Both liquidity and pent-up demand could put a floor on the equity market in the near term.

Sector and style return may provide a glimpse of the state of real economy. The divergence of the returns become the hallmark of the current market rebound. Investment and sector selections are key to investment performance in 2020. For example, if an investor invests in large cap value or small cap value stocks this year , he/she will see the investment still down 10% or 19% respectively despite S&P 500 index which represents US equity market was up 9.7%. Even Dow Jones Industrial Average, an index made up by 30 US blue chip companies was down 1.52% as of August 31st, 2020.



Sources: Morningstar Office and Songbird Capital

Market Outlook

V shaped market rebound and "Swoosh" shaped economic recovery

As liquidity and pent-up demand have powered the market to the new highs despite US economy still in recession, we may have seen the peak level of the market for the rest of year as valuations based upon forward earnings have gone far ahead of themselves. However, given low interest rate, high savings rate and companies are adjusting themselves to adept to the new environment swiftly, I suspect that we will most likely see a sideway market with periodical spikes in volatilities for the rest of the year.

I am cautiously optimistic on the market and economy despite the uncertainties for the upcoming US presidential elections and tensions between the US and China on top of disputes between the UK and European Union. To take advantage of a volatile sideway market, Songbird has lowered the equity exposure by 10% to 15%. The key to portfolio positioning forward is to continue focusing on long-term secular growth through high quality companies, opportunistically add beaten down investments that have solid fundamentals and on the route to recovery, and diversified the portfolio to stable income investments with low volatility and less correlation to overall equity market.

As always, thank you for entrusting your capital with Songbird. Please reach out to me if you have any question.

Songbird Capital has institutional experience in portfolio and risk management and is specialized in asset allocation across multiple asset classes and strategies. We provide valuable services for investors by capturing investment opportunities while navigating risks and staying invested. ***Songbird's competitive fees in the industry always helps our clients to keep more along the way. (See Songbird fees against industry average and "Savings from fees compounded over 20 years" on our website) .***

Sincerely Yours,

Jie Hayes / Principal of Songbird Capital

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