

Dear Shareholder,

Equity markets continued in May the rally that started in mid-March. This recovery is linked to the gradual lifting of containment measures around the world and hopes for a rapid economic recovery, which has been halted by the pandemic. Indeed, the latest macroeconomic publications indicate a gradual return to normal. The industrial PMI in the euro area is up to 39.5 after reaching a low of 32.5 in April. Moreover, the growing feeling that central banks will maintain an accommodating monetary policy for the long term is an upward trend for financial assets. This justifies a rerating of equities in order to adapt to a perpetually low interest rate environment.

According to analysts' forecasts, European companies' 2021 earnings should reach 90% of 2019 earnings, the last pre-crisis baseline. The 2021 PER of the Euro STOXX is therefore close to 15.5x, for a risk premium of 7%.

The equity asset class therefore still has potential in the medium to long term but is likely to remain volatile. Investors looking for returns do not have such liquid alternatives. However, the China-U.S. relationship, the upcoming U.S. elections or European disagreements could occasionally cause some tension.

The Digital funds continued to rise and outperformed their benchmark indices. Our "Covid Stars" (Hellofresh, Evolution Gaming, Diasorin, Shop Apotheke, Stillfront) led the performance. Industrial stocks recovered strongly, unlike Proxy bonds (Real Estate, Utilities, Food), which seem to be running out of steam. We note a positive effect of our smoothing tool applied at the end of April. The introduction of value stocks (representing 12.5% of assets) helped to mitigate the impact of the violent reversion to mean observed on 26 and 27 May (rebound in cyclicals and financials, profit-taking on healthcare and defensive stocks). The monthly performance of **Digital Stars Europe Acc** was +6%, compared with +3% for the MSCI Europe NR. **Digital Stars Europe Ex-UK Acc** ended May at +7.3% against +4.1% for the MSCI Europe ex UK NR. **Digital Stars Eurozone Acc** achieved +6.2% against +4.7% for the MSCI EMU NR.

The rebalancings carried out in May were defensive, and mainly selected stocks in the healthcare, internet distribution and electronics sectors. Overall, we remain overweight in technology, consumer discretionary and real estate, which is, however, declining; and underweight in energy, commodities and food. The weighting of UK stocks in Digital Stars Europe is stable at 23.2%. Sweden remains the second largest weight at 16.3%, ahead of Switzerland with 12.2%.

In May, **Digital Stars Europe Smaller Companies Acc** continued to benefit from the rebound of small caps and ended the month at +8.8%, significantly outperforming the MSCI Europe Small Cap NR (+5.2%). The fund's sector allocation played in its favour: IT and consumer discretionary, two overweight sectors, posted among the best performances of the month. Industrials were not outdone in terms of contribution. The application of the Circuit Breaker mechanism in mid-May had no significant impact on the fund's performance so far.

The latest monthly portfolio review was coupled with the Circuit Breaker. This mechanism, which is designed to reverse current market trends and thus go against the normal momentum model, has seen the exit of a number of "Covid Stars" and the entry of more "Value" or cyclical profiles. The weight of healthcare and utilities has been reduced in favour of stocks in finance, energy and automotive equipment. Italian and Swedish stocks have given way to British and French stocks.

The portfolio is still overweight in IT and utilities and is now underweight in healthcare. The UK is still underweight, but represents the portfolio's largest geographical weighting (23.1%), ahead of Sweden (significantly overweight), Switzerland and Germany.

Digital Stars US Equities Acc USD ended May up +8.5%, clearly outperforming both the S&P 500 NR (+4.7%) and the Russell 2000 NR (+6.5%). The fund's largest sectors led the performance, with IT, consumer discretionary and healthcare. Conversely, the fund did not benefit from the good performance of the media sector, which is under-represented in the fund.

The latest portfolio review reinforced food (again), as well as communication services, and reduced the weight of healthcare.

The portfolio remains overweight in consumer discretionary and financials and underweight in communication services (media) and industrials.

29/05/2020	YTD	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	Since Inception	Inception Date
Digital Stars Europe	-7.6%	31.4%	-19.5%	23.7%	0.7%	24.7%	3.5%	36.0%	22.7%	-16.0%	32.6%	37.0%	-48.3%	1.8%	36.6%	495.6%	13/11/1998
MSCI Europe NR	-15.4%	26.0%	-10.6%	10.2%	2.6%	8.2%	6.8%	19.8%	17.3%	-8.1%	11.1%	31.6%	-43.6%	2.7%	19.6%	126.8%	Monthly Factsheet
MSCI Europe Small Cap NR	-16.7%	31.4%	-15.9%	19.0%	0.9%	23.5%	6.5%	33.4%	27.0%	-17.5%	29.9%	59.5%	-51.9%	-7.5%	29.9%	424.0%	
Digital Stars Europe Ex-UK	-4.8%	30.1%	-17.2%	25.0%	5.0%	24.7%	3.6%	37.1%	22.4%	-21.4%	32.3%	36.1%	-42.2%	9.7%	n.s.	207.7%	30/06/2006
MSCI Europe ex UK NR	-12.5%	27.1%	-10.9%	11.4%	2.4%	10.7%	6.4%	22.1%	19.4%	-12.4%	8.6%	28.4%	-42.7%	5.2%	n.s.	65.3%	Monthly Factsheet
MSCI Europe ex UK Small Cap NR	-12.0%	28.5%	-15.8%	20.3%	5.5%	25.0%	5.9%	33.5%	22.8%	-21.9%	26.6%	55.9%	-50.8%	-2.0%	n.s.	128.2%	
Digital Stars Eurozone	-5.7%	30.5%	n.s.	--	--	--	--	--	--	--	--	--	--	--	--	-0.5%	01/10/2018
MSCI EMU NR	-16.5%	25.5%	n.s.	--	--	--	--	--	--	--	--	--	--	--	--	-8.8%	Monthly Factsheet
MSCI EMU Small Cap NR	-15.8%	28.2%	n.s.	--	--	--	--	--	--	--	--	--	--	--	--	-9.8%	
Digital Stars Europe Smaller Companies	-7.9%	29.7%	-21.2%	32.6%	n.s.	--	--	--	--	--	--	--	--	--	--	26.1%	16/12/2016
MSCI Europe Small Cap NR	-16.7%	31.4%	-15.9%	19.0%	n.s.	--	--	--	--	--	--	--	--	--	--	11.2%	Monthly Factsheet
Digital Stars US Equities	-10.6%	28.9%	-13.2%	n.s.	--	--	--	--	--	--	--	--	--	--	--	3.5%	16/10/2017
S&P 500 NR	-5.2%	30.7%	-4.9%	n.s.	--	--	--	--	--	--	--	--	--	--	--	23.5%	Monthly Factsheet
Russell 2000 NR	-16.1%	25.0%	-11.4%	n.s.	--	--	--	--	--	--	--	--	--	--	--	-4.8%	

Our readers can access the monthly report for each sub fund, by clicking on the link “Monthly Factsheet” above.

Your sales and marketing contact and the portfolio management team can be contacted, should you require more information about Digital Funds or our stock market Outlook.

If you would like to unsubscribe from this monthly report, please email info@chahinecapital.com

Best Regards,

The Asset Management Team