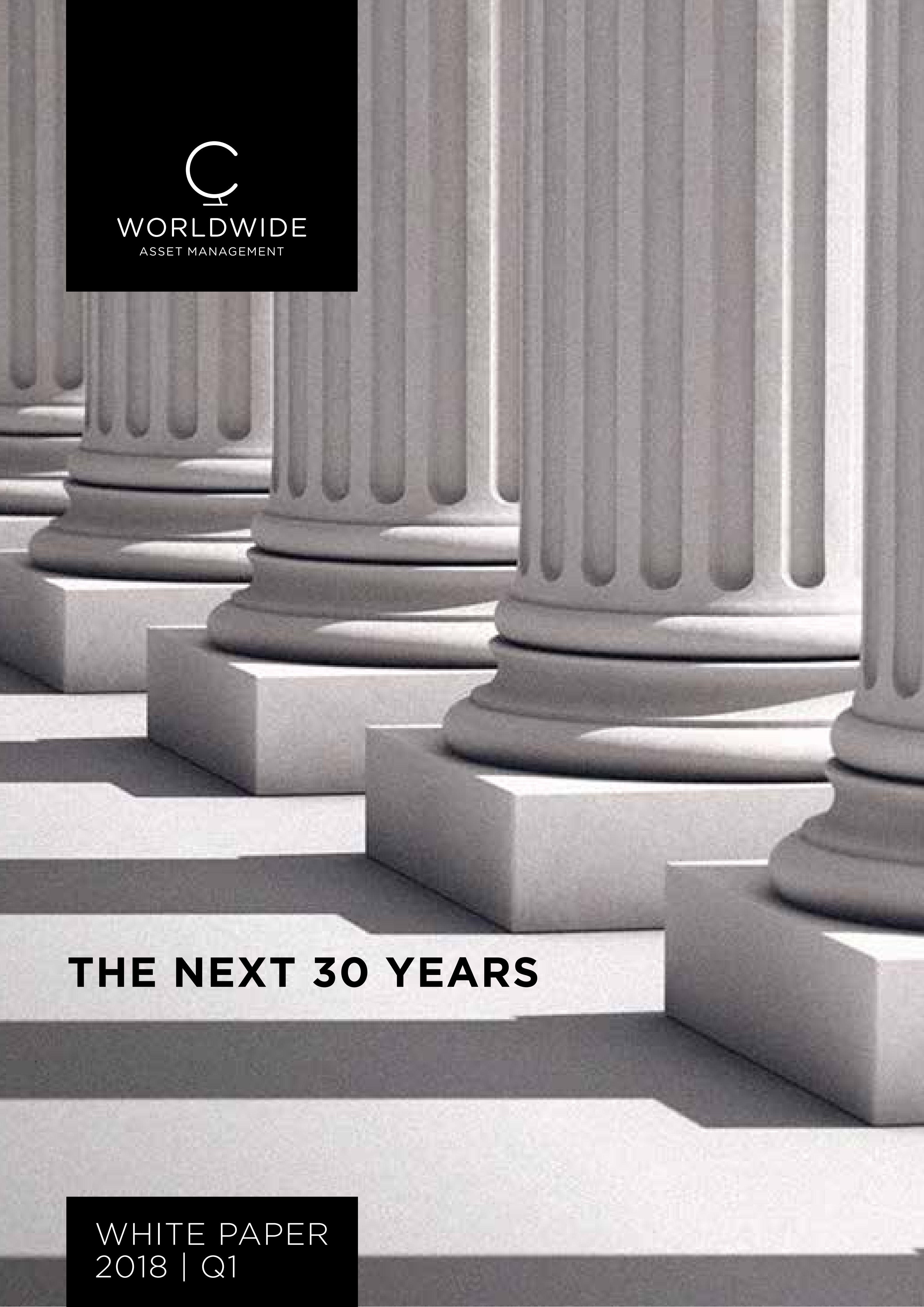

WORLDWIDE
ASSET MANAGEMENT

THE NEXT 30 YEARS

WHITE PAPER
2018 | Q1

The next 30 years

By Bo Knudsen, Managing Director and Portfolio Manager, C WorldWide Asset Management.

1987 was another interesting year. Not just because of the new songs from Depeche Mode – a British band that still tours the world. More because the countries of the world came together on a very serious environmental threat – a hole in the ozone layer that grew in size with potentially devastating consequences. This was described in the Brundtland report and the world agreed and backed the Montreal Protocol on Substances that Deplete the Ozone Layer with the purpose of reducing harmful substances that since have created positive change.

Today, 30 years later, the fundamental story is the same. Fear of survival is a timeless factor of motivation and a reason to act. We are worried about our health, the environment and hence our planet, when it becomes clear that there are serious threats that could influence the quality of our daily lives. 195 countries (now 194 when Trump is pulling out) came together recently to reduce $C0_2$ emissions in the Paris Agreement to counter global warming.

Things change and yet they stay the same. In ancient times there were worries and health issues coming from indoor wood fires. Megacities around the world now struggle to give citizens the fundamental right of breathing clean air. The theme of protecting the environment and finding better energy solutions will also be relevant for the next 30 years. Certainty in an uncertain world.

It can be easier to predict long-term themes than to predict the next few months. This certainty is very helpful for the long-term fundamental investor as it is possible – via equity ownership in strategically well positioned companies – to participate and prosper from this knowledge. We think there will be companies benefitting from the need for alternative energy and energy efficiency that will multiply in size. The world's biggest problems are also the world's biggest business opportunities.

Even though deep understanding of a company's business model and competitive environment is a necessity for a successful stock picker, the devil is not always in the details. The difficult part is understanding the long-term trajectory and stay on course, when the sirens are tempting you to change and deviate away from the long-term trends due to a short-term "wind of change". It is about getting the big picture right and staying the course. That said, it is naturally crucial to understand if there is a significant change in the environment that alters the investment rationale of an equity investment and then to act on it. This is what the team at C WorldWide has worked with for 30 years – lasting investments – strategic stock picking. This White Paper describes and exemplifies how we define strategic stockpicking by describing three additional themes we have identified.

Experiences

Life is the sum of your experiences

30 years ago the world enjoyed music. 30 years from now, music will still be an important part of our daily lives and maybe Depeche Mode still tours the world in a digital version in 2047? What entertains draws our attention and we are willing to pay for it. We have chosen a rather broad term – experiences – to cover this very important area. Interesting experiences as an area where human beings are going to spend more time and money for the next decades to come. Technology is a facilitator. Technology has proven to be a tool that brings people together. The Facebook platform is a practical tool that brings people together and the fact is that Facebook becomes a convenient gateway to overall connectivity – a gateway to the internet. It is a fact that you get a chance of being recognised, confirmed and respected as a human being by being on social media. The core is the experiences and the feelings generated from it, that makes you pay with time and money spent – not the technology.

It is likely that the future will bring more spare time and even easier access to experiences. Experiences that we seek to capture and share. There are nuances in how people perceive, and we can expect more of our senses being involved in experiences going forward with the visual sense still being the most important. This leads to the following three headlines of long-term pockets of stronger growth than global GDP for the coming decades:

1. **Content**
   Traditional media, online media, gaming, live entertainment

2. **Travelling and hospitality**
   The good life – curiosity

3. Aspirational products
See me – confirm me

Urbanisation

Cities scale. At this stage, the benefits of scale for a city have no limits. Big cities like Shanghai, London and New York continue to grow even at their stages of development. Why? The rule of 15 is a reflection of the fundamental dynamics of city growth. A city of 10 million people only needs 85 pct. of the roads, pipes and wirings compared to the sum of two cities with 5 million people, thus saving 15 pct. of key infrastructure needs. The number of ideas measured in patents, in crime incidents and the wealth per individual is 15 pct. higher in the 10 million people city against patents, crime and wealth per individual in the two 5 million people cities on average. These numbers are coming out of research from the Santa Fe Institute and is a consequence of connectivity and network effects in cities. Cities will scale over the next 30 years because of these network effects and it is likely that we will see megacities having 30, 40 and 50 million populations. China is working on a long-term plan (Diamond Five Metropolitan Areas) where the Shanghai-Hangzhou-Nanjing area is interlinked and eventually houses 63 million people. If done intelligently we think that urbanisation supports overall growth in an efficient and more suitable way and that massive urbanisation is melting together with energy efficiency and is more substainable with positive effects on the overall health of our planet. Think big – think megacities.

With cities getting bigger and smarter, there are opportunities for companies exposed to:

1. Cities growing higher, wider and more intelligent
Soft and hard infrastructure (elevators), public transportation, design/planning

2. Creation of social connectivity
Connecting in the urban jungle on/off line (the 21st century cafe), activities, the neighbourhood platform

3. Solving problems of higher levels of crime, stress and waste in cities
Security, surveillance, recycling, going green

India

The pattern of the growth of India over the next 30 years will replicate what happened in China over the last 30 years. Despite the fundamental political and cultural differences between India and China, there are very important similarities. Strong leadership in both countries share the goal of broader prosperity and progress. Societies evolve in an environment of trust to institutions, and corruption is a key structural obstacle for growth in a nation. Both countries try to reduce the levels of corruption. Both countries use technology to increase efficiency and improve governance structures. There is a hunger for a better life in these two vast countries with a strong entrepreneurial spirit.

> **It can be easier to predict long-term themes than to predict the next few months. This certainty is very helpful for the long-term fundamental investor.**

Most people would agree that corruption at the highest levels in India has reduced dramatically since Modi took over with hard working, tech conscious politicians driving growth forward. Three specific initiatives are creating a very solid foundation for more growth and less corruption in India going forward: 1. Biometric banking and financial inclusion, 2. Housing for all, 3. Simpler online based tax system (General Sales Tax).

Two-thirds of the population in India is under 35 years old and the average age of the first home buyer is 38 years according to the housing finance company HDFC. Financial penetration is low. Meeting a group of female microfinance borrowers in Delhi reminds you about the good and important role about banking; greasing the wheels of growth and giving entrepreneurs the means to realise their dream of opening up a business. The financial inclusion project is an important foundation for growth in India. Urbanisation there will continue and move a further 100 million people (32 pct. to 40 pct. urbanisation rate) to the cities over the next 15 years. The number of people in the working population continues to grow and this number will surpass the working population in China within the next 10 years. India's Gross Domestic Product (GDP) is 1/5 the size of China's and at level with the GDP of France today, having a population that is more than 20 times bigger. That will change. India will become the third largest economy in the world again, joining the top three with China and the United States as the biggest economies in the world over the next decades. This is not reflected in the market indices today. HDFC has a similar market cap. to Nordea, who serves a market with 100 pct. morgage penetration and a population of 25 mil. in the Nordic versus India's 9 pct. morgage penetration and 1.2 bn. people. Benchmarking to the future rather than the past should guide investors to a markedly higher exposure to India.

Strategic stockpicking – lasting investments

A list of companies that have been around for centuries are dominated by businesses exposed to timeless products and services that are still highly relevant today. The fascinating list is dominated by hotels, breweries and restaurants with mostly Japanese and European companies. Sean's Bar near River Shannon in Ireland is one unlisted example – probably dating back to year 900 A.D according to Guinness World Book of Records. Companies providing us with products and services for our basic consumption needs are lasting investments and a relevant hunting ground for strategic stockpicking. A number of the big market cap companies of our time cater to our basic needs and were established in the late 19th century. Companies like Johnson & Johnson, Nestle, Proctor & Gamble, Anheuser Busch and Coca Cola are more than 120 years old and still strategically well positioned, even if we would not own the full list.

Benchmarking to the future rather than the past should guide investors to a markedly higher exposure to India.

Increased access to information and cross border trade combined with accelerated technology shifts described in a number of our publications have led to a more competitive environment across most sectors. The so-called Technology sector dominates the top of the market indicies today. We think you have to be very selective here, again depending on the strategic positioning of the individual company, the thematic long- term picture and the actual nature of the product or the service that the company provides. Both Microsoft and SAP have turned 40 and it has been rewarding to be following them for a decade or more despite the technological changes impacting them.

Cities will scale over the next 30 years because of these network effects and it is likely that we will see megacities having 30, 40 and 50 million populations.

The car sector has faced big changes over the last 100 years and the next 30 years are probably going to be even more dramatic. It is hard to identify who the winner will be in this capex intensive industry and at this stage, where a fundamental shift to electrification takes place, the strategic stock picking risk is high. We are therefore not investing in car manufacturing at this point in time.

Aside from the obvious fact that dividends are the direct cash flow for the stock investor, we also know from experience and academic studies that dividends have a disciplinary effect on how the cash flow is being reinvested in the company – the capital allocation dimension.

Dividends are an important part and a long-term driver for returns in stocks. Aside from the obvious fact that dividends are the direct cash flow for the stock investor, we also know from experience and academic studies that dividends have a disciplinary effect on how the cash flow is being reinvested in the company – the capital allocation dimension. Having a bias towards disciplined capital allocators really matters for a truly long-term investor. Sustainability and growth in dividends are more important than a high dividend. Some sectors and companies need to have a high dividend to be able to attract capital. The high dividend can be an illusion if the company does not generate the underlying returns on capital and growth that creates the cash for the cash dividend. Investing in growth could also mean participating in companies that do not pay a dividend because the long-term business opportunity needs capital in order to build a strong strategic position. Investing in growth in a more aggressive way could also involve investing in smaller companies to get maximum exposure. In the earlier part of the evolution of the theme there might only be smaller companies. Equally, at a later stage in the life of a theme, there could be a strong smaller contender that would be interesting to get exposure to. The risk is typically higher in the smaller and mid cap segment and hence this must be taken into overall consideration.

In a world that thinks more short-term we represent another direction thinking long-term as we are interested in finding companies that grow markedly and sustainably bigger over time. We think that it is important to give us as portfolio managers room to express the full potential.

If a company wants to have a long life, it needs to behave and be a good and responsible citizen. The last few years have institutionalised this with the concept of SRI (Socially Responsible Investment) and ESG (Environmental, Social, Governance) and we support that. The world is more precise about this area now than ever before, supporting overall thematic developments. We think it is important to take the strategic view on ESG issues. When engaging with companies we think it makes most sense with disciplined follow-up on ESG issues and focus on understanding and eventually debating the strategic plans for the company instead of putting pressure on management to live up to short-term earnings numbers on a quarterly basis. We believe in strategic ESG. We believe the right management team is more aligned and makes better decisions in a strategic environment.

There are themes and also stocks that last for decades. We have worked along these lines for 30 years building up expertise as truly long-term investors. In a world that thinks more short-term, we represent another direction thinking long-term as we are interested in finding companies that grow markedly and sustainably bigger over time. We think that it is important to give us as portfolio managers room to express the full potential. Short-term benchmarking and performance measurement can act as a serious constraint for strong risk-adjusted return generation. Benchmarking to what the world is going to look like in the long-term changes your mindset and has direct portfolio construction consequences. It zooms you in on what is essential. And it is simpler to make decisions compared to if you have to optimise both short-term and long-term at the same time.

Einstein expressed that 'we must learn to differentiate clearly the fundamentally important, that which is really basic, from what is dispensable, and to turn aside from everything else, from the multitude of things, which clutter up the mind and divert it from the essential'.

In its purest form this is strategic investments. Whether your investment horizon is 3-5 years, 10 years or even 30 years, we believe you will benefit from taking a generational perspective. Thinking about the universe of themes and stocks for the next generations to come. Even though the sirens tempt to short-term thinking, we strive to stay on course for the benefit of the long-term investor.

C WORLDWIDE ASSET MANAGEMENT FONDSMAEGLERSELSKAB A/S

Dampfaergevej 26 · DK-2100 Copenhagen

Tel: +45 35 46 35 00 · Fax: +45 35 46 36 00 · VAT 78 42 05 10

cworldwide.com