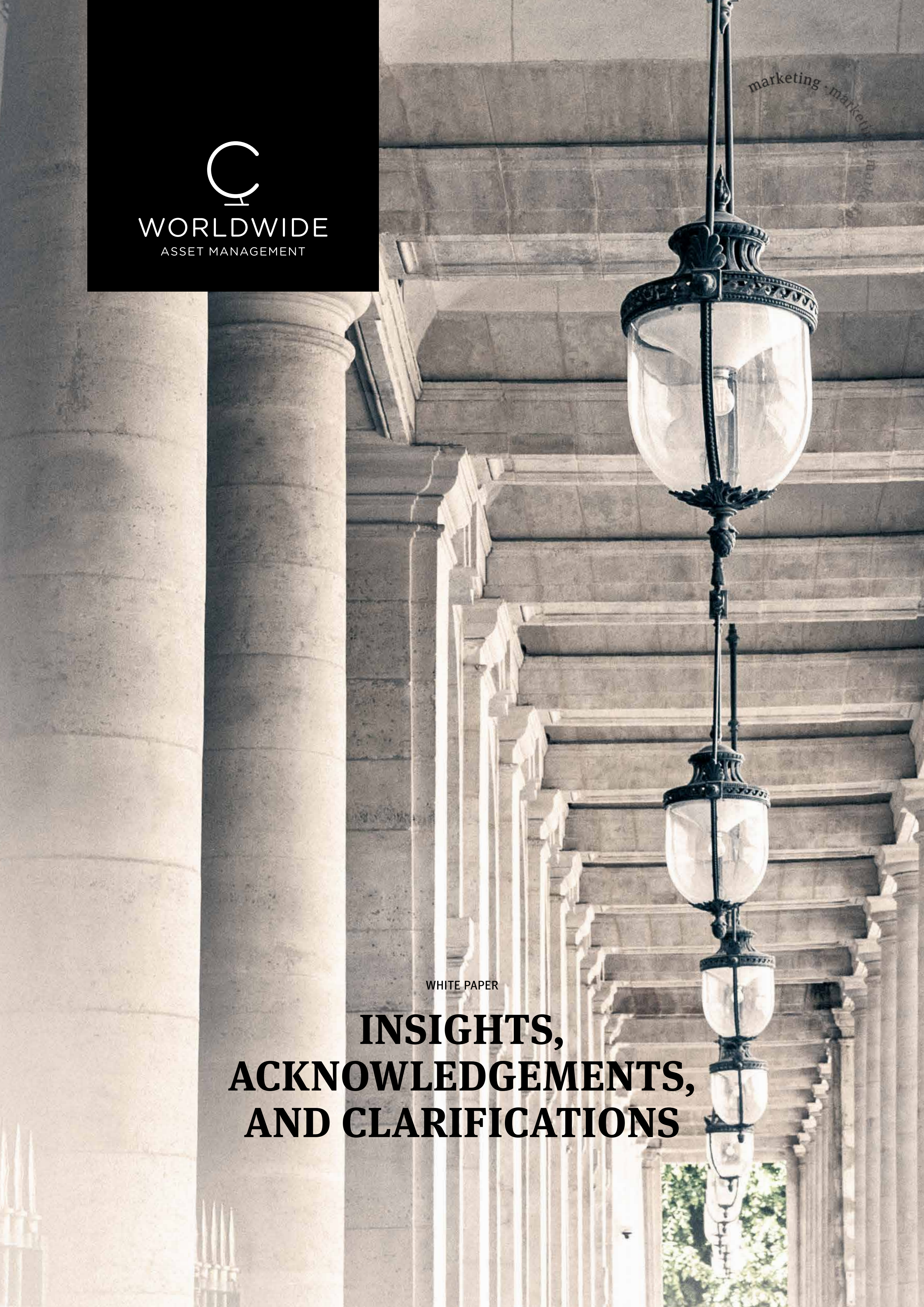


WORLDWIDE
ASSET MANAGEMENT

WHITE PAPER

INSIGHTS, ACKNOWLEDGEMENTS, AND CLARIFICATIONS

Insights, Acknowledgements and Clarifications

Bo Knudsen
Managing Director and Portfolio Manager
C WorldWide Asset Management

This paper addresses five key questions that we are typically asked by professionals assesing our investment approach – our objective seeks to provide what could be considered the wrong answers for what we consider to be the right reasons.

The 5 questions are:

Question 1:
Do you have a repeatable process?

Question 2:
Has your process changed over time?

Question 3:
What are your alpha objectives?

Question 4:
What is your tracking error?
Please tell us about your risk controls.

Question 5:
What is your edge?

Investing is frequently idiosyncratic and always a nuanced when done well, activity. Wisely, the professionals who assess, hire, and monitor equity managers, assemble outlines of questions and criteria to understand the A-to-Z details behind the creation of the portfolio each manager delivers. Over the three-plus decades, we have presented our approach, the collective depth and perspective of these questions have increased multi-fold. We frequently leave meetings with prospects and consultants wishing we could bring them with us. Some questions are contextual in that the manager's responses should logically align with each other. Yet, many questions are perpetual industry conventions.

They are relatively black and white in terms of what are considered correct and incorrect responses. Our professional ecosystem has codified some specific expectations that allow a manager to pass or fail the "worthy candidate" litmus test. The challenge in our view is that many of these questions are framed by one specific lens, sometimes with an academic or a quantitative mindset and cannot be uniformly applied in assessing all managers.

This paper addresses five questions that fit the description above – our objective seeks to provide what could be considered the wrong answers for what we consider to be the right reasons.

Question 1:
Do you have a repeatable process?

We would say 'yes,' although we have never fully understood what the question entails in the context of a qualitatively driven active stock picking approach.

We have a group of foundational tenets, that drive how we think and invest:

- Perpetually emphasize having passionate team members who work hard and collaborate synergistically
- Seek to own quality businesses. Defining quality as prospective durability of growth in cash flows & earnings
- Emphasize sustainability of growth over magnitude
- Invest with conviction. Our global port–folios represent a constant competition for capital – one in one out in a 'maximum 30 best stocks in the world' framework
- Integrate trend and theme insights into stock selection
- Be discriminating with inputs. Prioritize lasting knowledge over noise
- Fully embrace the passage of time/time horizon as a key enabler to compounding
- Effectively diversify macro and micro exposures while understanding that the primary risk control is understanding the individual companies

One of our primary strengths is the recognition that all companies are different. **We do not think of an investment process in a "conveyer belt" context.** What constitutes sustainability of growth for one business does not translate to sustainability for all firms. The halo effect is overrated. Business opportunities and risks are distinctive to each business. The qualitative research approach we embrace is far more about being creative and adaptive than formulaic and repeatable. History rhymes but doesn't repeat. Investment success for us is linked to being term long-term and forward looking.

"Another dimension we have become increasingly aware of is the importance of waiting for the fundamentals to play out rather than investing driven by the need for instant gratification. Instant gratification should be found elsewhere."

Question 2: Has your process changed over time?

Answering 'No' is the obvious answer. We recognize that prospective clients look to past results as indicators of the future and that changes, depending on their magnitude, can invalidate the credibility of past results. We also know that our portfolios are generally used as a role player within the mosaic of equity managers and that we are expected to deliver the role we were hired for.

Yet, at the same time, it is difficult for us to imagine any activity that remains perpetually static is the preferred mindset. We are not referring to a portfolio that makes a dramatic shift – e.g., metal benders to biotech. Similarly, the tenets identified in the prior question have been with us since day one and for more than 30 years. However, we believe changes defined as "upgrades or improvements" are essential for a manager to excel and that these changes are sparked from two different sources:

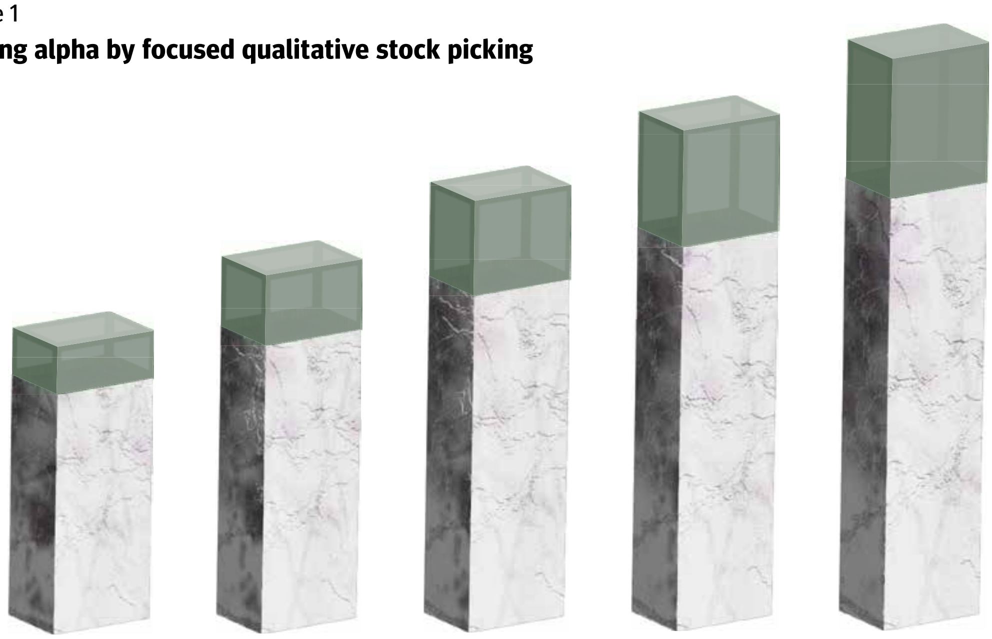
1. **True secular changes in business, the markets, and market participants**

Two secular-driven examples are:

a. In the 90s, we experienced opportunities that could be labelled valuation arbitrage – finding a Swedish software company trading at single-digit multiples, that basically did the same as a US software company trading in the 20s. We were one of the few truly global managers back then, and with the increase in the number of global managers, we seldom see these opportunities in the 2020s. Other opportunities have arisen, but low-risk valuation arbitrage has more or less disappeared.
b. As our global society has increasingly recognized the importance of moving to a more sustainable economy, over the past decade, we have increasingly integrated ESG criteria deeper into our research process to seize favorable thematic opportunities and tosidestep reciprocal risks.

Figure 1

Adding alpha by focused qualitative stock picking



Source: C WorldWide as of August 2022

2. **Studying past mistakes and reaching conclusions on how we can be better. Nothing beats learning from experience, making it very relevant to study and learn from experiences.**

Two examples here are:

a. One learning from history is to be extra careful in owning companies with high levels of government ownership and involvement. This is more relevant than ever. We consider the risk of government intervention across sectors and companies to be much higher than normal and captured in our investment theme Big Government.
b. Another dimension we have become increasingly aware of is the importance of waiting for the fundamentals to play out rather than investing driven by the need for instant gratification. It often takes a long time for fundamentals to shine through in the stock market. Instant gratification should be found elsewhere.

Question 3: What are your alpha objectives?

Our common response is to state a percentage statistic. **Our true belief is that our portfolio alpha is an expected coincidence.** Managers vary in how important their benchmark is in portfolio construction. For us, the benchmark is irrelevant – nothing more than a reference point for us to communicate potential relative return outcomes to clients.

Our holdings are owned based on a deep understanding of each company's right to win and their ability and durability when it comes to compounding cash flows. Multiple expansion is seldom key to our investment case. Still, we are focused on understanding the underlying reasons for relative multiples to hold for the long term.

We absolutely believe our approach and execution will result in performance that exceeds passive alternatives accumulated and measured over most time horizons. It is our reason for being.

Yet we recognize that this "business-like" approach to investing can and will periodically deviate from market leadership. One of our strengths relies on the discipline to remain calm, patient and resolute when the markets are rewarding market segments that are not within our core/investable universe.

"We absolutely believe our approach and execution will result in performance that exceeds passive alternatives accumulated and measured over most time horizons."

Question 4: What is your tracking error? Please tell us about your risk controls.

We are wholly placed in the camp of "defining risk as the probability of a permanent loss of capital." Sometimes, inquirers are most comforted by quantifiable metrics. Our risk controls are much more qualitatively derived. Tracking error is purely a residual of portfolio construction rather than reverse engineering to a target.

Although we are concentrated, and our guardrails are not formed in alignment with benchmark exposures, they are a crucial enforcer of humility. We regard "effective diversification," in terms of macro and micro exposures, as a key aspect of our approach. While this practice inhibits our ability to be top decile in our peer group in quarters or over 12-month periods, it also minimizes our appearance in the bottom quartile.

The accuracy of our company research and subsequent conclusions regarding each investment premise is also a primary means of controlling risk. These incorporate some basic beliefs and well-earned lessons, including:

1. **We recognize that a security's price is a central component of its risk and return potential. Yet, we look to find quality first and focus on avoiding over-paying secondly. A DCF is a fairly blunt instrument in our view, and the universe of businesses is filled with value traps. We believe it is easier to control risk by diligently assessing the future of a business than by pinpointing today's valuation.**

2. **A moat is not enough. The size of a moat can be less important than the trajectory of that moat. And the presence of a brand as a moat (e.g., respected car brands like BMW and Mercedes Benz) is not necessarily sufficient. We want the moat to be sustainable and strengthening.**

3. **A high current market share in the commodity space with government-owned competition provides no guarantee for high returns on capital.**

“We are wholly placed in the camp of ‘defining risk as the probability of a permanent loss of capital’.”

While our volatility stats are usually marketlike, other risk metrics such as downside capture and the time it takes to recover from drawdown indicate a defensive bias. More importantly to us, yet less obvious for some audiences to embrace, is the notion of lower conceptual risk. As we see it, the better we understand a business, and can project its future, the more we feel like being part of the company’s journey to becoming bigger over time. We prefer a strong balance sheet as it gives flexibility and strength in times of trouble. A weak balance sheet increases the risk of a company being run for short-term cash maximization by bondholders in such periods, potentially sacrificing strategic opportunities. These companies tend to have a lower cost of capital and lower default risk and are often priced with a more realistic lens.

90%

ask us about our edge

Our aversion toward aggressive growth stocks is conscious. It’s not that we overtly seek to be contrarians by not owning certain current market favorites. It’s because these companies don’t meet our probability threshold. Businesses at the far end of the growth spectrum face the highest levels of competition, and many are vulnerable to technological obsolescence and too much short-term attention and hype.

Question 5: What is your edge?

This is a great question asked by 90% of our clients and prospects, as it should be. Speaking highly about our capabilities is not necessarily something we enjoy. Still, we believe it makes a difference to be born as a global stock picker boutique and never wawered from that. The

North is our home, and limited depth in local Scandinavian stock markets drove us into having a true global generalist approach from day 1 – true global hunters for opportunity. Our philosophy of Constant Competition for Capital is particular. And the C WorldWide people-centric culture that has been built over more than three decades is a reflection of these permanent factors.

The combination is the edge.

Finally,
Our obligation to serve with what we have learned and can contribute with is a driving force for us. It is a driving force for us to have the ambition of building a one hundred-year Asset Manager.

We are approaching the first forty years in existence and sincerely hope this paper helps clarify our approach by addressing a handful of the classic questions in our industry.

Please read more about compounders and our mindset of being on a constant search for these companies in our White Paper The Anatomy of a Compounder.

Sincere thanks for your time and interest.

On behalf of the team at C WorldWide
Bo Knudsen

Disclaimers

Active Investments

C WorldWide Asset Management Fondsmaeglerselskab A/S is a focused asset manager. Our objective is to deliver consistent, long term capital growth for clients through active investments in listed equities on global stock exchanges.

Our clients are primarily institutional investors and external distribution channels. Our product range includes discretionary asset management services and commingled fund products.

The combination of a unique investment philosophy based on careful stock picking and long-term global trends coupled with a stable team of experienced portfolio managers, has since 1986 resulted in world-class investment performance.

Please find more of our White Papers on cworldwide.com

C WORLDWIDE ASSET MANAGEMENT FONDSMAEGLERSELSKAB A/S

Dampfaergevej 26 · DK-2100 Copenhagen
Tel: +45 35 46 35 00 · VAT 78 42 05 10 · cworldwide.com · info@cworldwide.com
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