



INVESTMENT REPORT

FIRST QUARTER 2020

**C WORLDWIDE GLOBAL EQUITIES
EX. TOBACCO**

FOR WHOLESALE INVESTORS ONLY



BNP PARIBAS
ASSET MANAGEMENT



Global Equities – Expectations

By Managing Director and Portfolio Manager, Bo Knudsen

C WorldWide Asset Management Fondsmæglerselskab A/S.

The COVID-19 crisis has turned previous economic forecasts on their head. Previously, we were concerned about a minor economic slow-down, but now the question is how deep the recession will be and how long it will last. We already know that the contraction will be very sharp, with some predictions even calling for a decline of appx. 20% in economic activity in the US in the second quarter. In other words, the economic outlook for the second half of 2020 and for 2021 is very uncertain.

Equity markets have taken a dive with the MSCI World Index falling by more than 20% from its mid-February peak, although it rebounded slightly towards the end of the first quarter, closing around 10% down end of first quarter. In a historical context, these are dramatic moves. Over the past 80 years, equity markets have dropped by more than 20% in 17 economic downturns. However, this sudden decline has already surpassed two-thirds of these declines in terms of size. This could indicate that the current downturn bottomed in mid-March, although it is still a little too early to say with full conviction.

Who is controlling who?

The essential question for the equity markets is “who is controlling who”? Is the virus controlling us, or have we taken control? At present, we are not in control. Central banks have launched extraordinary relief packages, but while they can print money, they cannot make test equipment or vaccines. As a result, we believe that equity markets will not stabilise and move in a positive direction before we regain control – and we can see the light at the end of the tunnel.



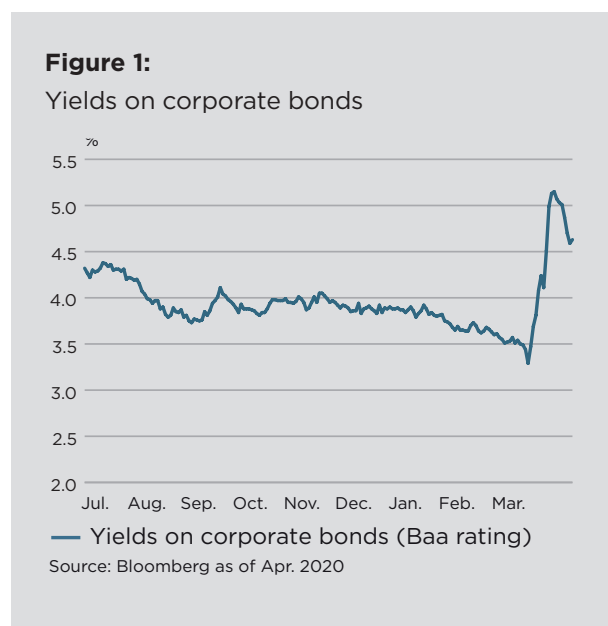
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For Wholesale Investors only.

As we are not in control, fear arises and our time horizon as individuals and investors shortens dramatically. Since the last financial crisis, borrowing has increased, and central banks' purchase programmes have suppressed volatility in capital markets, both in equity and fixed income markets. Over the period, leveraged investments and borrowing were rewarded and created the illusion of a 'free lunch'. However, the actual risk was blurred by low volatility, and today many hedge funds and other leveraged players are faced with the truth that the risk models, they were using, were not accurate. Since the COVID-19 crisis, volatility has surged, credit markets have frozen, yields have gone up and credit spreads have widened. See figure 1, which shows the yields on corporate bonds with a Baa rating (lowest investment grade rating).



or three months, its full-year earnings will be eliminated. Many of the hardest hit sectors, such as the retail trade and the restaurant business, have operating margins of less than 10%. Hence, it is no wonder that the share prices of such businesses have plunged.

This is the reason why politicians and central banks are now bringing-out the heavy artillery. Globally, they have launched fiscal stimulus representing about 10-20% of GDP, but the actual impact is even greater as the relief packages have been launched over a very short period of time. Central banks have implemented new tools, and the US Federal Reserve is now offering relief to the frozen credit markets by acting as a bank through special vehicles and offering loans to distressed businesses. These initiatives have also caused interest rates and credit spreads to fall again.

Inflation or deflation?

Studies of the consequences of previous pandemics (e.g. "Longer-run economic consequences of pandemics" by Jordà, Singh and Taylor, March 2020) show that interest rates and real interest rates typically remain at very low levels after a pandemic. Part of the explanation is an increased savings ratio driven by prudence in light of growing uncertainty about the future as well as an ample supply of capital. Others may argue that the termination of fiscal discipline will inevitably have inflationary effects.

Time is a crucial factor, if you are a debtor

The situation has affected indebted companies – especially those that rely on short-term financing. When companies' normal liquidity management tools are suspended, indebted companies come under severe pressure. Consequently, equity investors have reduced their holdings in these companies drastically.

Under normal circumstances, debt is rarely a problem, but in times of crisis it may be life-threatening. If a company with an operating margin of 20% loses its revenue for two



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We believe that we are now facing a long period of low interest rates. Strong deflationary trends are already in force as a result of the digitalisation of our society, while increasing savings ratios also have an anti-inflationary effect. The potential inflationary effect of the large fiscal and monetary stimulus packages will most likely just offset these trends. Furthermore, in light of the high debt levels and our social dependence on high asset prices, e.g. in the housing market, we cannot tolerate high interest rates. That will be the task of the central banks. The outcome will be a nationalisation of debt, and the price to be paid comes in form of more state intervention in the corporate sector. We describe this in more detail in our White Paper entitled “Longer-term Thematic Consequences of COVID-19” which is also included in this quarterly report.

Low interest rates will boost stable growth companies

We expect stock market fluctuations over the next couple of quarters until we have regained firm control of COVID-19. Clarification of this may include prospects of a vaccine and/or containment of the spread of the virus combined with increased herd immunity to ensure that hospital systems are not overwhelmed. This period of clarification may be shorter as equity markets usually attempt to discount future events and, with ample liquidity, we could potentially see a more positive sentiment sooner than expected.

After the clarification phase, we anticipate a period of normalisation setting the stage for a more sustained rise in equity prices as investors focus on the outlook for 2021 and 2022. The first part of this phase may lift cyclical and indebted companies, which currently are under severe pressure, both fundamentally and on the stock market. However, we do not consider a potential euphoria around these companies as a long-term investment opportunity – but rather short-term speculation.

Our flagship Global Equity strategy has fared better than the market during this turbulent quarter, because of our focus on well-capitalised growth companies driven by thematic tailwinds. This preference for quality stocks is particularly rewarded during periods of market stress. But, we also see it is as the right strategy going forward. In an environment with low interest rates and generally low capital returns, we will not see distressed businesses saved by a permanent cyclical recovery. On the other hand, the crisis will change behavioural and investment patterns. The companies thematically positioned to capitalise on these changes – in a world of generally low growth – will become even more valuable. Hence, being an active fund manager will become even more important than ever. Not all companies are equally well-positioned in these turbulent times.



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GLOBAL INSIGHTS
AND EXPERTISE
ENSURE **FOCUS** ON
WHAT'S MOST
IMPORTANT



Longer-term Thematic Consequences of COVID-19

By Morten Springborg,

Global Thematic Specialist, C WorldWide Asset Management.



Key takeaways

- It's been coming for years, but now comes monetary and fiscal fusion in the form of expanding fiscal deficits financed by central banks.
- Complex supply chains have increased the fragility of the global economy, and their fragmentation will accelerate leading to more localized supply chains.
- The world will become less optimized, less global and more regional and national – but also more robust and less fragile.
- Digitization of businesses and societies as well as the transition to the cashless society will accelerate.
- There will be a fundamental reassessment of travel and how work is organized.

We are witnessing financial market history. The 'black swan' materialized with the advent of the coronavirus (COVID-19), but the virus was the trigger and not the cause. This is not a conventional crisis; it is a crisis facing individuals, families, communities, regions and countries all over the world. It is also a demand as well as a supply shock. The risks are still not completely known, which makes short-term analysis challenging. The impact could be short-lived and modest or extended and more serious. But COVID-19 is already challenging perceptions of what a normal course of action is: school and business closures, city lockdowns – already leading to early signs of economic and financial distress. Virus eradication needs aggressive measures, which counter freedom of movement and perhaps other freedoms as well, and lead to significant short-term harm to economies and financial markets.

When choosing between alternatives in fighting the virus and its consequences, we should ask ourselves not only how to overcome the immediate threat, but also what kind of world we will inhabit once the storm passes, because COVID-19 has the power to for ever change our economic and social systems. We need to remember the wise words of Milton Friedman that nothing is so permanent as a temporary government program.

As is often the case, it is probably easier to assess the longer-term consequences. From a thematic point of view, what are the most likely significant consequences of COVID-19 once the dust settles?

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Fusion of fiscal and monetary policies

Central banks can print money, but not vaccines. Monetary policy loses its potency the closer you get to zero. Crisis management driven by central banks is not an ideal solution. It's been coming for years, but the excuse for now applying a much more active fiscal response to economic problems is present. Now comes monetary and fiscal fusion in the form of expanding fiscal deficits financed by central banks. The beginning of a form of MMT (Modern Monetary Theory also known as Magic Money Tree), helicopter money or so-called People's Quantitative Easing (PQE). One example of this will be a need to support small and medium-sized enterprises (SMEs) in travel, entertainment and other companies affected by the COVID-19 induced collapse in demand. We have already seen the first cash handouts in Hong Kong and an aggressive fiscal crisis response in the US and UK and other countries around the world.

The loss of fiscal orthodoxy, at least temporarily, is not a concern as the crisis is unprecedented and the toolbox needs replenishing. But longer-term, one can fear that politicians will not give away their newly gained powers. This opens the door to a completely different policy response which, if unconstrained, leads to a much bigger government involvement in the economy at the expense of a free capitalistic market economy.

Do bailouts and buybacks go together?

Many industries are experiencing a massive collapse in demand and are in dire need of public support. History tells us there will be strings attached. Some corporates might end-up being nationalized, having to give-up equity stakes to governments or end-up being, in effect, temporarily nationalized in all but name.

The airline industry is a case in point. As with most airlines, the US airline companies have asked for aid of USD 50 bn., which is close to the cumulative amount spent on buybacks during this cycle. As we think about this in terms of precedence – we have the example of the restrictions imposed on the financial sector post the Great Financial Crisis (GFC), whereby recipients (even those who did not need it) had restrictions imposed on them. During the GFC, US public funds were also used to bailout the auto sector. Consequent-

ly, there were significant business restrictions placed on the auto companies and they were also forced to exit certain operations such as auto insurance.

Once we transition out of this mess and society conducts the “post-game analysis”, there is a risk that companies will be required to buffer balance sheets to give them better ability to navigate future crises without being a burden on the state. This would suggest that affected industries would have limited ability to do share buybacks resulting in lower ROIC going forward, which as we know, is generally not supportive of PE multiples.



Now comes monetary and fiscal fusion in the form of expanding fiscal deficits financed by central banks.

Conversely, companies that can navigate the current tumultuous period without public support probably have robust business models that will differentiate them going forward and will not see the same restrictions on how they allocate capital in the future.

Complex supply chains have increased the fragility of the global economy

The world will become less optimized, less global and more regional and national. The more optimized a system is, the more fragile it potentially becomes. For example, Ming Dynasty porcelain is undeniably finer and more beautiful than any tin cup. But what the tin cup gives up in beauty, it makes up in resistance. The current COVID-19 disruptions are revealing and exposing the global system's fragilities.

In the aftermath of the GFC we saw the rise of the Nation State and the early innings of the decline of globalization. The fragmentation of supply chains will be accelerated by the virus and lead to regionalization and localization of

supply chains. The wartime mindset of having inventory in times of crisis has been reignited. Production networks of the last decade and today often have complex interrelationships that go back and forth across borders. An American retailer might contract with only one Chinese company, but that entity in turn might act like a general contractor, pulling in components from many sources. In 2018, for instance, more than 1,000 facilities were involved in one way or another in the production of Apple products. This is not a robust business model for the future. Business models have been optimized to perfection and because of the rise of platform business models and ever longer and more complex supply chains the world economy has become a lot more fragile over the last 20-30 years. This fragility becomes highly visible as trade wars and a black swan pandemic hit the world economy.

Furthermore, the fourth industrial revolution, with 3D printing and the growth of autonomous smart factories, together with rising wages in China, and international trade wars, is decreasing the gap in production costs between China and the West. At the same time, the ongoing tech war with the US is driving China towards more self-sufficiency in key technologies.

The psychological and practical impact of the disruption in supply chains due to COVID-19 will accelerate the reversal of this extensive trend of supply chain globalization.

Will COVID-19 reveal underlying fragility in the megacities?

As the world's population continues to grow and urbanize, the number of megacities – those with over 10 million people will continue to increase. According to the UN, there will be 43 such cities by 2030.

Scientists have taught us and Geoffrey West in his book “Scale” put forward the concept that cities, like organisms, do indeed exhibit “universal” power law scaling while also introducing the so-called rule of 15. Infrastructural measures, such as numbers of gas stations and lengths of roads and electrical cables, all scale sub linearly with city population size, manifesting economies of scale with a common exponent around 0.85 e.g. enabling a more efficient use of infrastructure. More significantly, however, cities are also characterized by super linear scaling: socioeconomic quan-

ties involving human interaction, such as wages, patents, diseases and violent crime all scale with a common exponent around 1.15. Thus, on a per capita basis, human interaction metrics (which encompass innovation and wealth creation) systematically increase with city size while, to the same degree, infrastructural metrics manifest increasing savings.

In other words, with every doubling of city size, socioeconomic quantities – the good, the bad, and the ugly – increase by approximately 15% per person with a concomitant 15% savings on all city infrastructure-related costs.



Companies will be required to buffer balance sheets to give them better ability to navigate future crises without being a burden on the state.

While much of the focus on the growing number of megacities has focused on the overall net positive effects of ever larger cities, a global pandemic event like COVID-19 also highlights the rising fragility of our economies as cities scale. At time of writing, COVID-19 has already spread within a short period of time from one megacity, namely Wuhan, to other megacities around the world, both in Asia, Europe and also the US, where New York City is the current city epicentre. Despite this we think the human race will continue to seek the wealth and the opportunities of the city and the trend towards megacities should remain intact.

The digital society

At the time of writing, although we are still in the midst of the pandemic, it seems clear that digital business models are much more capable of coping with the challenges of the COVID-19 disruption. Quarantine and self-containment



obviously have a huge effect on supply and end-demand, and COVID-19 looks like yet another nail in the coffin of traditional retail. However, digital services and products are not so susceptible to the disruption. Case in point, although sport stadiums and concert venues across the globe are closed, people still need their “bread and circuses” as was said in ancient Rome. Amazon and Netflix and similar businesses are probably taking significant market share – and mindshare in the current environment.

Furthermore, in China nowadays, banknotes and coins are considered to be virus transmitting objects. Therefore, COVID-19 will be an accelerator towards the cashless society.

Digitized economies are probably also more robust in situations like this, including highly digitalized societies like the Nordic countries, where the public sector seems to continue operating as smoothly as can be expected in these circumstances. Post this pandemic, digitization of businesses as well as societies will likely unfold at an accelerated pace due to COVID-19.

Commercial real estate is at risk of a longer-term impact as employees and employers harvest and react to the experiences learned during the COVID-19 induced lockdowns, and as traditional retail never really recovers fully after COVID-19 as mentioned above. As more and more digitized companies find that working from home can be efficient and functional, the longer-term consequences could be an added impetus to a shift down in the structural demand for commercial real estate space.

Similarly, workforces are getting used to new workplace experiences and set-ups as they adjust to the COVID-19 disruptions. For example, holding video conference calls instead of physical meetings could clearly have lasting effects on business travel and attendance at conferences as virtual meetings are both less costly and time-consuming.

The healthcare system

No matter what happens to supply chains going forward, it will not change the fact that we will continue to live in a highly connected world and that the current pandemic will



COVID-19 looks like yet another nail in the coffin of traditional retail. However, digital services and products are not so susceptible to the disruption.



not be the last. There will be consequences for the way our healthcare systems are organized, based on how they cope with the current challenges. There will probably be a tendency for further centralization of healthcare systems, because they are better capable of coordinating across geographies, as well as a need for greater investment in healthcare. The big question regarding this issue is probably how the decentralized and private US healthcare system copes with the challenge. This will be a political battlefield through the 2020s and much will depend on the COVID-19 outcome in the US.

Other shorter-term aspects - Chinese tourism and food safety

The most important driver of tourism and general travel in recent years has been the explosion in outbound Chinese tourists. At least in the medium-term, this will go into decline as the Chinese population will be more hesitant to travel abroad due to fear of health issues. However, domestic Chinese tourism will as a result see a boom once the pandemic is behind us, though global luxury goods spending will likely take some time to rebound.

There will be a need for renewed discussions on food safety and food culture. The SARS coronavirus (SARS-CoV) epidemic in 2003 was linked to civet cats kept for food in a Chinese food market in Guangzhou. The consensus among researchers studying the spread of COVID-19 pinpoints the likely origin to a “wet market” or live animal market, in Wuhan, China. High-quality, branded processed and frozen food bought in supermarkets will see a significant boost, while in the longer-term local markets will probably be reduced very significantly for food safety reasons. With a population of almost 1.4 bn people, a shift in food preferences in China will have global ramifications.

Summary

Whilst it is speculative to assume a virus outbreak like COVID-19 will have a lasting impact on the growth of cities, it is more likely that the described effects on economic policy choice and structure of our entrepreneurial system will play out. The reason being that the virus is reinforcing an existing trend towards more political interference in economic matters as well as less efficient but also more resilient supply chains. The trend towards more digitized societies will be reinforced by the COVID-19 outbreak leading to a further digitization of payments and an acceleration in the movement towards the cashless society. Work routines are radically being readjusted because of COVID-19 and in the longer-term will probably lead to people adjusting to more flexible and efficient work practices. Healthcare systems are being put to the test and will likely see both significant investments and an ongoing discussion whether radical change to the design of the system needs to happen based on the experiences and lessons learned of COVID-19.

The battle to eradicate the virus can be done in several ways. One way is for the governments to mass monitor populations by application of technology and punish those who break the rules. A successful application of suppressive mass surveillance would be a watershed moment for a more general application of population control and go completely

against liberal democratic principles. Modern technology can help us tremendously in this battle, but must be done by empowering a self-motivated and well-informed population with trust in its institutions to do the right thing in order to combat the virus. Otherwise, the price to our democracies will be too steep.

The virus calls for politicians to act, and since politicians are elected locally, the preferred solutions will most likely be local ones. Unfortunately, global challenges call for a global response. The world today faces many challenges of global dimensions. Besides pandemics like COVID-19, global warming and migration pressures are but a few issues, which cannot be dealt with except by acting in unison.

Like all global challenges, coronaviruses do not discriminate based on nationality or religion. They touch on our most basic human condition and human fears. Understanding the disease, slowing its spread and developing a vaccine, will require intense international cooperation. We are all in this together.



Sustainable Investments

By C WorldWide Asset Management Fondsmæglerselskab A/S

C WorldWide was founded as an active, long-term investor in 1986. All through the years, we have targeted our investments in companies with sustainable business models, strong management teams and sound and responsible business ethics. This creates the optimum basis for generating attractive long-term returns.

Before making the decision to invest in a company, we analyse the environmental, social and governance (ESG) factors affecting it.

We focus on understanding the demands and expectations faced by the company and how this affects its long-term ability to maintain a sustainable business in relation to all stakeholders for our benefit as investors – not just over the next quarter or two, but several years ahead. To that end, we monitor and analyse ESG factors in the same way as we consider other relevant factors such as company strategy, competitive environment and financial performance.

To us, shareholder engagement in the form of maintaining a dialogue with the companies we invest in and voting at their general meetings is today an inherent part of being an active, long-term investor.

Our ESG journey

Witnessing the world around us evolve and the companies we are invested in being met with new demands and expectations, we have gradually intensified our focus on ESG integration. See figure 1 overleaf:

In 2002, we launched an ethical counterpart to our global equity strategy that automatically screens out tobacco, alcohol and gambling businesses.

In 2004, we established a partnership with GES Investment Services, a leading provider of engagement services that provides company screening for violations of international conventions and norms. Through this partnership, we engage with the companies we invest in. In 2019, GES became a part of Sustainalytics (a world leader in ESG data, analysis and ratings/recommendations).

In 2012, we became a signatory to Principles for Responsible Investment (PRI). See the list to the right on page 5.

In 2016, by forming a partnership with Sustainalytics, we gained access to ESG analysis and data (research) on the companies we invest in.



In 2017, we established a partnership with Institutional Shareholder Services (ISS) that includes a systematic approach to voting at investees' general meetings.

In 2018, we joined Dansif, Swesif, Finsif and Norsif, the leading professional ESG knowledge sharing networks in the Nordic region.

In 2019, C WorldWide was rated A+, the highest rating for incorporating ESG factors into investment research and decision-making processes, by PRI.

Our ESG analysis

We incorporate ESG factors as an integral part of our investment process and of researching the companies we invest in. This responsibility, like the responsibility for other relevant financial and non-financial matters, is handled directly by the portfolio managers in charge. This process does not begin or end with the investment in a company, but is an ongoing process that is supported by dialogue and monitoring of the company in question.

Figure 1:



Source: C WorldWide, Q1 2020

We focus on understanding and considering all circumstances that may involve a significant risk or opportunity for a company, making allowance for specific sectors and regional conditions. At the same time, we systematically monitor our investments with a view to avoiding companies that carry on business in defiance of well-established international norms and conventions and guidelines for the environment, human rights and business ethics. We aim to balance the factors that are relevant to the company in question, which ultimately enables us to perform a qualified analysis and assessment of a company's long-term risks and opportunities.



Good ESG begins with the G

A solid ESG profile begins with corporate governance and a long-term horizon. If a company has a responsible management team whose decisions are aimed at creating long-term value, it will also, other things being equal, have a more proactive approach to meeting the demands and expectations of its various stakeholders. This helps underpin the company's business model, which ultimately benefits us as investors.

Dialogue rather than exclusion

We consider dialogue with our investees as an important consideration and part of our responsibility as active investors. Being in close contact with our portfolio companies helps us to understand the company, its long-term strategy and its competitive and market position. It also provides a platform for inducing portfolio companies to make ESG-related change.

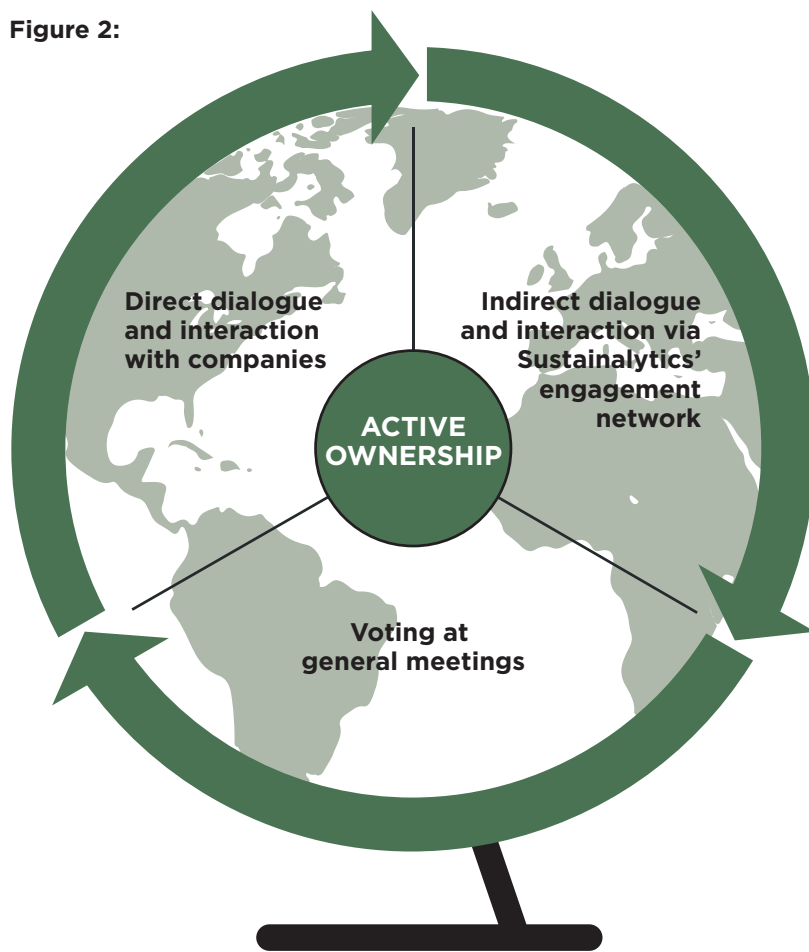


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As a first step, we exert our influence by engaging with a company rather than excluding it from our portfolios. This is a process conducted at, for example, dedicated ESG meetings with company representatives. We consider this an important part of our shareholder involvement as it helps raise awareness of any inappropriate conduct on the part of the company and thus helps incorporate ESG into the company's management and strategy. In some cases, a company may refuse for an extended period of time to engage with us or fail to show willingness to improve on relevant ESG issues. This may ultimately cause us to divest the share.

Besides attending meetings and engaging directly with portfolio companies, we work with other investors via the Sustainalytics engagement network, through which Sustainalytics interacts with companies on behalf of us and other investors. Through this partnership, we have access to thoroughly tested processes and highly qualified specialists who monitor and follow up on companies regarding issues such as human rights, labour rights and environmental matters. The partnership provides us and other investors with more clout in relation to the companies and a chance to discuss specific and new ESG matters which gives us a greater say as minority shareholders. This fosters a dialogue that is both holistic and strategic. Our overall shareholder engagement process is shown in figure 2 on the next page.

Figure 2:



Source: C WorldWide, Q1 2020

Investing in a more responsible world

In September 2015, 193 UN member states adopted 17 Sustainable Development Goals (SDGs) aimed at making the world more prosperous, more inclusive, more sustainable and more resilient. See figure 3 overleaf. The commitment to work towards a more sustainable world puts pressure on companies to act more responsibly and assume greater social responsibility. At the same time, policy-makers, consumers and legislators are increasingly encouraging companies to develop more sustainable products and services.

When meeting with the companies we invest in, we use the SDGs as a tool to promote a constructive dialogue on priorities, opportunities and risks in relation to the development of sustainable and lasting business models. We believe that investing in sustainable companies is instrumental in driving higher, long-term risk-adjusted returns.

Over the past several years, we have gradually intensified our efforts and focus on incorporating ESG issues and on responsible investment. We will continue this work in the years ahead. Our investment decisions are based on an overall view of a company's business model, finances, management, strategy, ESG issues and other company-specific factors. Put crudely, unaddressed ESG risks will sooner

Principles for Responsible Investment (PRI)

As a signatory to PRI, we are under an obligation to report on our responsible investment work. The report describes how we align our efforts with the PRI's six principles:

1. We incorporate ESG factors into our investment research and decision-making process.
2. We are active investors and incorporate ESG factors into our investment policy.
3. We identify ESG issues in the companies we invest in.
4. We promote acceptance and implementation of the principles in the financial sector.
5. We collaborate wherever possible to enhance our efficiency in implementing the principles.
6. We report on our activities and progress in implementing the principles.



Example: Voting

In 2019, we voted at the general meetings of 193 companies across our portfolios. In 91% of the cases, we voted in favour of the recommendations of the company’s management. This is consistent with our focus on selecting companies with strong management teams and sustainable business models. Due to this approach, we are likely to agree with management in most cases. When we vote against management’s recommendations, it is often on issues such as better rights for minority shareholders, greater transparency of and extended reporting on environmental issues or remuneration of management.

or later have financial implications for a company. As such, there is no real difference between ESG risks and other, more traditional business risks.

Our long-term, thematic approach has proven its worth over more than three decades. In a world that is behaving more and more myopically, developing long-term, lasting business models is more important than ever.

At the same time, we are looking to identify the drivers that will help future generations balance returns and social responsibility.

Find more information

Our shareholder engagement and investment policies are available on our website, cworldwide.com. These policies describe our approach to voting, conflicts of interest, incorporation of social responsibility into investment processes, etc. While the rules on shareholder engagement under the EU Shareholder Rights Directive only apply to equity investments in listed European companies, we, as global equity investors, aim to observe them across all of our strategies.

Figure 3:



Source: UN, The Global Goals For Sustainable Development, globalgoals.org, February, 2020



Example: Dialogue on building a more sustainable supply chain

We have followed the food company Nestlé closely since 1990. Nestlé has and remains exposed to several significant ESG factors and risks. At the same time, the company has taken the lead in a number of areas in terms of building a process that can address ESG challenges as they arise. In our research of the company and in meeting with its management, we have focused on understanding the company's efforts towards building a more sustainable supply chain, which includes ensuring that raw materials used do not contribute to deforestation or disintegration of essential ecosystems and biodiversity. For instance, many convenience goods include palm oil, and as this production often entails rain forest deforestation, we have engaged with Nestlé on its use of satellites in monitoring these plantations. We also discussed the company's efforts to combat child labour in the production of cocoa beans in Ghana and the Ivory Coast.

Example: Dialogue on management remuneration and environmental goals

Danish bioscience company, Chr. Hansen was named the world's most sustainable corporation by Corporate Knights in 2019. At a meeting with the company, we discussed remuneration, among other subjects. We believe that incorporating ESG factors into management remuneration is an obvious choice, but the company has still to implement this. We also discussed the company's targets for recycling, carbon emissions and the development of new products supporting the company's obligations under the UN Sustainable Development Goals – such as bacteria for reducing the sugar content in foods.



Put crudely, unaddressed ESG risks will sooner or later have financial implications for a company. As such, there is no real difference between ESG risks and other, more traditional business risks.



Turbulence and Investment Principles

Af Bo Knudsen, Managing Director and Portfolio Manager,
and

Morten Springborg, Global Thematic Specialist,
C WorldWide Asset Management Fondsmæglerselskab A/S

When times get tough, it is essential to head back to the core –the core being sustainable long-term growth. That is the way to create attractive, long-term equity returns – compounding. Conversely, simple and short-term targets for equity value generally represent a risky shortcut.

Speculation vs. investment

Uncertainty is poison for the equity markets, and these days we are seeing a lot of uncertainty and market impact driven by coronavirus. The uncertainty is caused not only by the extent of this epidemic, but also by short- and long-term reaction patterns to the situation. We have

no empirical data from a directly comparable event, but the outbreaks of SARS in 2003, of H1N1 in 2009 and other major diseases in the past 20 years had only short-term market impacts. At the present time, we do not know what the dynamic effects of this global pandemic will be.

Financial markets tend to have a short perspective that rarely extends beyond 12 months, especially during a crisis. A broad group of market participants is driving – whether consciously or unconsciously – this short-termism, this speculative approach. This is a very tempting discipline, yet rarely a profitable one. For most investors, frequently trading in and out of the market is a losing strategy in the long term. The risk of selling only to miss the next upturn and lose the compounding effect long term is substantial.



We spend most of our time working out “what companies to own” for the long term, and less on “what to pay for them”.

We discussed this issue in our Insight ‘Global Equities - Buy, Sell or Hold?’ from November 2018. Back then, we measured how much an investor in the US equity market would have gained by being continuously invested over the last 50 years (equal to approximately 10,000 trading days) compared with the return if he had not been invested on the best days in the market. The answer was that if you were not in the market on the 10 best trading days during the period, the massive positive return would have been cut in half and you would miss out on the entire return if you were not in the market on the 75 best trading days (which is less than 1 % of all trading days). The impact of missing out on the compounding effect is massive. Speculation is an uncertain discipline, and we would recommend taking an investment perspective instead.

How to identify sustainable growth?

The best investments are compounders that grow over time. We prefer sustainable long-term growth over the magnitude of growth. We spend most of our time working out “what companies to own” for the long term, and less on “what to pay for them”. Our margin of safety when investing in a given company has to do with whether the company’s long-term competitive advantages will stay strong and get stronger over the coming three to ten years. By focusing on the business model and the earnings potential over such a long horizon, we can improve the probability of identifying the winners of the future while also protecting the value of our investment over time. There is a herd of analysts following the world’s largest companies and trying to find the ‘correct’ price, but most of them follow those companies on a short-term perspective. 35 research houses follow Visa, one of the world’s largest companies, and give their 2020

earnings estimates through for example financial news and data providers like Bloomberg. The number of analysts drop to just a couple when it comes to 2022 or 2023 earnings. This difference illustrates the short-term orientation of the market. This creates opportunities for the strategic investor, and it creates an opportunity for C WorldWide’s perspective and investment approach.

What about pricing?

High growth stocks naturally trade at a forward PE premium, creating a dilemma for classic value-conscious investors. Historical research shows that if high growth stocks deliver on their expected growth rates, their high PE multiples will drop to a more attractive level within a few years. This suggests that a high current PE valuation should not be a major concern as long as the company delivers on growth expectations.

Our first priority, therefore, is identifying the right companies and observe the long-term dynamics in and around the company. Valuation is a critical input in our decision-making process, but it is rarely if ever our starting point. In fact, valuation typically does not come in until all other aspects of a company have been analysed. We base our investment research on a dynamic analysis of the company’s strategic position rather than focusing on a potential discount to its net asset value. Understanding the strength and longevity of the business model has much greater potential. We do this by focusing on opportunities and on identifying the winners of the future run by managements who understand that corporate responsibility and sustainable business models go hand in hand.

Many of our successful investments had a high PE multiple when we bought them. However, this is an optical illusion that underestimates the compounding effect of companies able to grow their earnings year after year. One example is Alphabet (Google), which has regularly traded at high PE multiples. Nevertheless, this has been a high-return investment.

The magic of time

We believe that financial markets often underestimate the importance of time. The compounding ef-

fect is underestimated. However, growth only has value if a company has a competitive advantage that enables it to generate excess returns on its incremental investments – and the longer this period is sustainable, the better. The more attractive the investment opportunities available to a company, the better.



We believe that financial markets often underestimate the importance of time. It is the sustainability of growth, not the magnitude, that matters.

According to economic theory, competitive forces will ultimately eliminate a company's competitive advantage, but in practice we see a number of companies demonstrating the ability to maintain/extend their advantages over time. This applies particularly in today's digital society where networking effects strengthen the power of dominant companies. Albert Einstein is quoted as saying that the strongest power in the universe is compound interest. Earnings performance is

a long-term driver of stock prices, and the Holy Grail of investing is to identify those compounders that over time can continue to surprise on the upside. We believe that a long-term focus on compounding is the best and least risky way to beat the market. This has been our approach for three decades, and we believe it is the right strategy going forward.

How to ride the waves of the current turbulence?

When short-term concerns dominate, it is important to stay true to your long-term investment strategy. In the current coronavirus situation, it is relevant of course to spend time to get to understand any lasting, long-term consequences that this tragic epidemic may have from an investment perspective. We will also consider whether certain stocks that are attractive for the long-term might be exposed to short-term selling pressure not relevant in a long-term perspective. We continually monitor and compare such potential investment candidates with companies already in our portfolio. Basically, we believe there are very few unique companies that qualify for a long-term investment. That is why over 30 years we have held on to the principle of having few stocks in our portfolio and to continually consider new candidates against the stocks we already hold. This is also our approach in the current situation – as it is in both good and not so good times – in order to consistently have the portfolio of stocks that is best able to deliver the best return/risk ratio and sustainable growth for the benefit of our clients.



A GOOD
INVESTMENT
REQUIRES
**A GLOBAL
PERSPECTIVE**



C WorldWide Global Equities ex. Tobacco

Quarterly comment

In the first quarter, we witnessed the most dramatic change in sentiment in global financial markets for many years. This happened after the markets realized that the COVID-19 virus could not be contained and turned into a global pandemic. Governments are responding with draconian lockdowns and borders are being closed. Central banks have responded with almost limitless liquidity to prevent a systemic crisis and governments have begun to provide fiscal support to their populations and to corporations. The stimulus should work, but for markets to calm down, we will have to wait for signs that the spread of the virus is slowing and that the authorities have regained control. We continue to maintain our focus on unique growth companies with good cashflows and strong balance sheets – which we believe is not only crucial for long-term investing but also of paramount importance in the current environment. In the quarter, the strategy fell 1.8%, while the MSCI AC World Index declined by 9.7%. The main reason for the better relative returns can be attributed to good stock-picking and a general focus on companies with strong balance sheets. Companies with high debt levels have fallen significantly as credit markets have frozen and credit spreads have widened. E-commerce & cloud computing giant Amazon has performed well in this environment, as have structural growth names like Novo Nordisk, Visa, MSCI and Keyence. The Indian mortgage bank HDFC performed negatively due to weaker economic growth in India as did oil company Shell and also Siemens which are both sensitive to economic weakness.

Investment strategy and strategy changes

The strategy remains unchanged with a balanced structure of companies in different parts of the growth spectrum. After this crisis has passed, we believe the world will be saddled with even more debt and we foresee interest rates remaining very low for years to come. In this environment, companies with sustainable growth characteristics will become even more favourable. Overall, we define risk as the risk of a permanent loss of capital. This is the main reason we focus on growth companies that in normal times are capable of growing earnings in the range of 5-20%. We thereby avoid the riskier companies in the ultra-high growth area and avoid the value segment that typically sees very tough times in economic downturns. We focus on investing in leading companies with strong balance sheets and high returns on capital employed – which creates staying power in situations like the current downturn. There were no changes to the strategy, but we are closely monitoring the volatility with the potential view of picking-up new investment opportunities at attractive prices.

Past performance is not a reliable indicator of future performance. There is no guarantee that the investment objective will be achieved.

For Wholesale Investors only.

C WORLDWIDE GLOBAL EQUITIES EX. TOBACCO COMPOSITE

GROSS OF FEES IN AUD AS OF 31 MAR 2020

INVESTMENT PHILOSOPHY

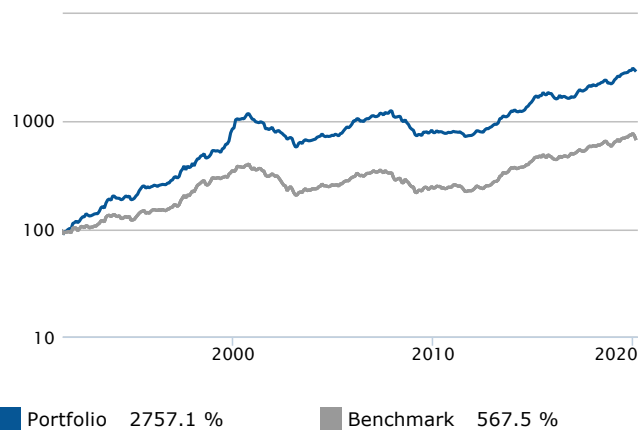
Strategy C WorldWide Global Equities Ex Tobacco Composite

Launch Date 31 May 1991

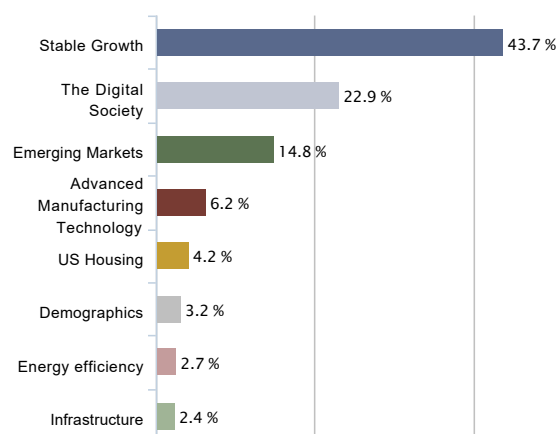
Benchmark MSCI All Country World incl. net dividends

The strategy aims to achieve long-term capital growth exceeding the return of the market with a moderate risk profile as measured by standard deviation. The portfolio consists of 25 to 30 high conviction global large cap stock picks that ensure a sufficiently high-risk diversification. There are no geographic or sector restrictions in the strategy.

INVESTMENT RETURNS



THEMATIC EXPOSURE



RETURN & RISK

	Q1 YTD	1 Y	3 Y	5 Y	10 Y	Lifetime
Portfolio (%)	-1.8	-1.8	15.5	17.6	10.9	12.3
Benchmark (%)	-9.7	-9.7	3.0	9.2	7.5	10.3
Relative performance (%)	7.9	7.9	12.5	8.4	3.4	3.1

	3 Y	5 Y	10 Y	Lifetime
Std. dev. portfolio (%)	10.4	11.5	10.5	13.9
Std. dev. benchmark (%)	11.5	11.1	10.1	12.2
Beta	0.8	0.9	0.9	1.0

Periods longer than 1 year are shown annualized

TOP 10 HOLDINGS

Company	Share in %
Visa	7.7%
HDFC	5.6%
Amazon.com	5.0%
Microsoft	4.8%
AIA Group	4.8%
Alphabet	4.7%
Thermo Fisher Scientific	4.2%
The Home Depot	4.2%
Keyence	4.1%
Sony	3.7%

CONTRIBUTION

Company	Contribution	Return
Amazon.com	0.9	21.1
Microsoft	0.6	15.2
Novo Nordisk	0.5	20.3
MSCI	0.4	28.8
NextEra Energy	0.3	14.8

Company	Contribution	Return
HDFC	-2.0	-26.6
Royal Dutch Shell	-0.9	-28.6
Siemens	-0.6	-22.9
First Republic Bank	-0.4	-19.4
Bank Central Asia	-0.4	-19.2

All figures are based on past performance. Past performance is not a reliable indicator of future performance. The currency is AUD. The return may increase or decrease as a result of currency fluctuations. The figures are based on a GIPS composite and the full GIPS report is available upon request. The figures are gross of investment management fee and performance fee, if any. Other fees, incurred by the investor, such as custodian fee and transaction costs, are not included.

Past performance is not a reliable indicator of future performance. There is no guarantee that the investment objective will be achieved.

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BNP PARIBAS ASSET MANAGEMENT AUSTRALIA LIMITED

60 Castlereagh Street, Sydney NSW 2000

Tel: 1800 267 726 (Australia) or +61 2 9619 6041 · Fax: +612 9006 9051 · Email: AMAU.ClientService@bnpparibas.com

www.bnpparibas-am.com.au

Remarks to performance: All figures are based on past performance. Past performance is not a reliable indicator of future performance.

The currency is AUD. The return may increase or decrease as a result of currency fluctuations.

The gross figures are gross of investment management fee and performance fee, if any.

Other fees, incurred by the investor, such as custodian fee and transaction costs, are not included in the gross figures. The net figures are based on the actual performance including costs of all portfolios.

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C WORLDWIDE ASSET MANAGEMENT FONDSMAEGLERSELSKAB A/S

Dampfaergevej 26 · DK-2100 Copenhagen · Tel: +45 35 46 35 00 · cworldwide.com · info@cworldwide.com