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Rising Bond Yields are not "Breaking News"

New Treatment Options for Alzheimer's and Dementia

Riding the Green Wave in Emerging Markets

INVESTMENT REPORT Q1 2021

BNP PARIBAS
ASSET MANAGEMENT

Global Equities – Expectations

By Managing Director and Portfolio Manager, Bo Knudsen
C WorldWide Asset Management Fondsmaeglerselskab A/S.

> "If bond yields continue to rise rapidly, we expect the Fed to act either via stepped-up asset purchases of T-bills or a more verbal strategy to try to contain further increases in long bond yields.

Rising Bond Yields are not "Breaking News"

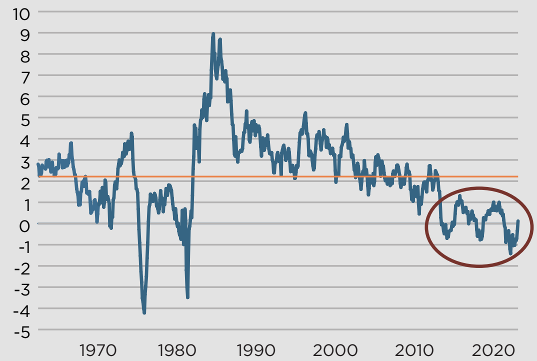
The term "Breaking News" is widely used these days. It is also often used when commenting on equity markets, where both minor short-term developments and significant news can be elevated to "breaking". Investment success is linked to being able to distinguish between noise and lasting knowledge. It is the information that relates to the long-term that is key. The outlook and fundamental value of a stock is determined by the future development of the company throughout its lifetime and not just the company's earnings in a specific year.

While the Covid-19 pandemic is still affecting our society and economy, stock markets have moved onward. In many ways in a state, where most news is not "breaking" and seriously deterring a robust stock market, where the underlying trend is positive for many parts of the economy, and where companies that have been under pressure during the lockdowns should see an improvement as economies re-open.

The US 10-Year bond yield has risen from 0.5% since the late summer of 2020 to approx. 1.6% now. In isolation, this is a sharp increase but in reality it is just a return to the level prior to the Covid-19 outbreak. Also, this development is a reminder that when bond yields are close to zero, government bonds are no longer so-called "risk-free" investments as long duration bonds, especially in the US have fallen markedly during this period.

Rising bond yields have also affected the stock market but for a long-term investor this is not “breaking news”; it is more a normalisation of bond yields, including the level of real rates. As can be seen from Figure 1, real rates in the US fell in 2020 due to the coronavirus pandemic to around -1%.

Figure 1: 10-year Real Yields in the US



Source: Bloomberg as of Feb. 2021

With the prospect of a relatively strong cyclical recovery in 2021 and some transitory higher inflation, it is no surprise that bond investors are demanding a higher interest rate, while also testing the Fed’s willingness to control long-term rates. If bond yields continue to rise rapidly, we expect the Fed to act either via stepped-up asset purchases of T-bills or a more verbal strategy to try to contain further increases in long bond yields. US long bond yields will continue to be anchored by short rates and similarly for the low long rates in Europe and Japan. The pace of adjustment could be a worry as the Fed has a key responsibility to secure financial stability. Indicators of financial stability are strong highlighted by High Yield credit spreads being at record lows. If and when the Fed acts to secure low rates that would be a positive for equities, in particular for growth stocks, which have lagged cyclical stocks in 2021 year-to-date during the period of increased bond yields.

An important anchor regarding the investment outlook in the coming years is the future level of real rates. Will real rates return to the historical average (since the 1960s) of approx. 2% (cf. Figure 1) or is the new normal minus 1% to plus 1% - the level of real rates during the last 10 years since the Great Financial Crisis. We see the future level of real rates around zero percent principally due to the very high debt levels globally, especially within the public sector. Governments and financial markets have become addicted to low rates and it is up to central banks and politicians to secure real interest rates close to zero percent. In addition, the green energy transformation, which requires investments of historic dimensions, increases the need for low interest rates. This transformation will occur much slower than demanded, if real rates were to rise significantly.

Equity Markets are pricing-in Real Rates of around zero percent

In general, equity markets have not been affected by mildly higher inflation and rising interest rates. This is partly due to higher economic growth and the corresponding improved outlook for corporate earnings. For 2021, earnings growth in Europe and the US is currently estimated at around 25% (though some of this is due to a normalisation of earnings compared to the declines in 2020). However, and perhaps most importantly, investors have not discounted negative real rates in the pricing of equities. A real rate of -1% will produce a theoretical market P/E multiple of up to 30x using a model with an equity risk premium of 4.5%. (A model, we previously described in our article “Expectations” in Q2 2020). US equities (as measured by the S&P 500) currently trade at a P/E of approx. 22x which is a fair valuation, when real rates as now are close to zero percent. We foresee real rates staying around zero, which should be supportive for equity markets going forward.

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Low interest rates have the side effect of spurring speculation. SPACs (special purpose acquisition company), for example, accounted for a significant share of all new IPOs in the US. But not all that is new is worth investing in, and since a SPAC is a vehicle that first raises capital and then afterwards – typically within a 2-year period – starts to invest, you as an investor do not know what you are buying. These investments go against our core principles of understanding the underlying business model. Indicators of intense speculation like this will create news and drama but will probably not be "breaking" for the investment outlook of the fundamentally strong companies.

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One risk factor is higher than expected inflation rates, although this is not our main scenario. As described in previous articles, central banks' current and primary policy tool is the purchase of bonds via the capital markets, whereby the stimulus to a large extent occurs via the capital markets. The current fiscal relief and stimulus packages are more directly aimed at consumers and could potentially be inflationary. However, they are also intended to mitigate the large drop in consumption and not to accelerate consumer spending. The structural forces of low inflation will continue to prevail and analysis of history shows that pandemics have a long-run deflationary impact as consumers become more cautious and increase savings ratios. Finally, as our world increasingly becomes more and more virtual, there are fewer capacity constraints compared to our old production-driven world.

The "Biden" Approach to China could be "Breaking News"

In many ways, free and sustainable global trade benefits everyone as productivity increases through division of labour, which at the same time keeps inflation under control. Here, the relationship between China and the US plays a key role. Ex-President Trump clearly crystallised the latent conflict between the two countries with tariffs and sanctions against China. Today, the lingering question is which direction will President Biden choose?

Fundamental theories formulated by the economist, David Ricardo, advocate that trade conducted on fair business terms is an advantage for all countries. Global free trade increases productivity, curbs inflation and increases prosperity. The US and China are in an unavoidable strategic quest for global leadership but it should be in the long-term interest of the US to ensure a workable trade relationship with China, rather than engaging in a 'cold war' style confrontation.

So far, President Biden has retained Trump's policies toward China, but he has also engaged a National Security Council team to evaluate the future strategy. Given the already strong economic ties between the two countries, an outright cold war is not rational. Economic analysis indicates that the trade relationship between the two countries, despite the accusations against China of unfair market practices, has been and continues to be in the interest of the US, despite the complexity of the issue. American companies and consumers have benefited from access to cheap production in China which has reduced costs for US companies, while permitting them to increase production and margins and, at the same time, raise wages for American employees. By the same token, US consumers have benefited from lower consumer prices. Finally, China has been the most important growth market for US export companies, which over the past 20 years have increased exports to China more than

5x. In 2020 alone, US companies increased exports to China by 17%, while exports to the rest of the world fell by 15%.

While the impact of the current US sanctions on China is limited, China has responded by thinking strategically with the aim of prioritising self-sufficiency in critical areas like production and technology. At the same time, China has granted improved access for US companies to the Chinese market, thereby gradually increasing the US's dependence on China. Having said that, political considerations can ultimately outweigh rational economic arguments, and the tensions around the Taiwan conflict are intense and a pivotal long-term issue.

> **Biden's latest suggestion of a minimum global corporate tax rate is also a positive idea towards a more sustainable and global level-playing field.**

For domestic policy reasons, President Biden needs to signal a tough stance towards China. However, we believe his more cooperative approach and seeking international alliances opens the door for a more rational approach, where the US will choose to compete with China rather than fight China. Democrats should also be able to build broad support for their domestic economic agenda to increase competitiveness vis-à-vis China. If the US chooses this path, it will mean increased infrastructure investments, encourage additional investments in manufacturing and support for increased R&D spending. Biden's latest suggestion of a minimum global corporate tax rate is also a positive idea towards a more sustainable and global level-playing field. All in all, these are potentially positive initiatives that could benefit domestic growth in the US and provide a much-needed tailwind for an improved global "Ricardian"-growth outlook through free trade.

New Treatment Options
for Alzheimer's and Dementia

By Henrik Hviid
Portfolio Manager, C WorldWide Asset Management Fondsmaeglerselskab A/S.

Alzheimer's disease was named after Alois Alzheimer, the German psychiatrist who first described the symptoms in 1906. The disease is the most common cause of dementia.

Dementia denotes a condition involving deterioration of mental faculties as a result of the disease. The term dementia comes from Latin and means "without mind". It is uncertain what causes dementia to develop, but it is most likely due to alterations in the brain. More than 200 diseases cause dementia, with Alzheimer's disease accounting for 60-70% of cases. There is currently no cure for the disease, and its progression can range from a few years to several decades until the patient dies from the disease.

The disease is caused by a build-up in the brain of two different proteins, beta-amyloid and tau. Beta-amyloid proteins accumulate between nerve cells, where they cause alterations and inflammation of the brain tissue. Tau proteins accumulate inside the nerve cells, causing damage that render the cells unable to communicate and subsequently destroying them. Alzheimer's disease thus destroys brain cells and causes the patient's brain to shrink. In the early stage of progression, the disease typically affects the areas of the temporal lobe involved in memory. Relatively quickly, other functions, including speech and motor function, also become impaired.

New, innovative Treatments may be on the Way

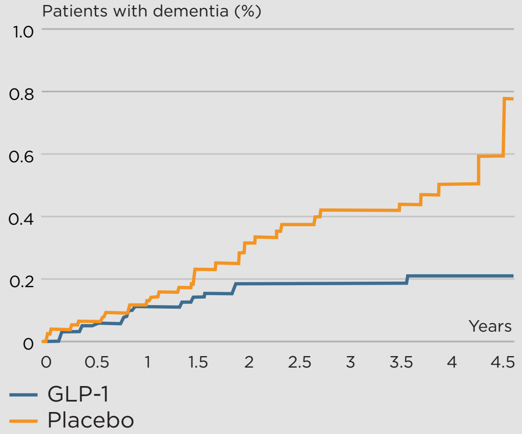
We have no drugs that can cure Alzheimer's today, but pharmaceutical companies including Eli Lilly, Biogen and Novo Nordisk are attempting to develop innovative new treatments. Eli Lilly and Biogen have developed drug-based treatments aimed at affecting and preventing the brain's production of beta-amyloid proteins, while Novo Nordisk's drug GLP-1 prevents the production of tau proteins and inflammation of nerve cells.

Eli Lilly has successfully tested the efficacy of its drug in a phase 2 trial on a narrow group of patients and is currently in dialogue with the U.S. Food and Drug Administration on the design of the pivotal phase 3 trial.

> **"More than 200 diseases cause dementia, with Alzheimer's disease accounting for 60-70% of cases. There is currently no cure.**

Novo Nordisk's GLP-1 products for the treatment of Alzheimer's disease were originally developed to treat diabetes, and over the course of the summer we expect the drug to be approved for treatment of obesity, as well. In treating diabetes patients with GLP-1, Novo Nordisk found that these patients had a significantly lower risk of Alzheimer's and dementia than patients who had not been administered GLP-1 – see figure 1 below.

Figure 1: Lower Risk for Dementia with GLP-1



Source: Novo Nordisk as of Dec. 2020

In three large trials with data from more than 15,000 patients, Novo Nordisk has demonstrated that its GLP-1 drug reduced the risk of dementia by some 50% in these patients. Novo Nordisk has also studied the use of GLP-1 via the Danish nationwide health registry and the US Truven claims database. In the Danish nationwide registry, there were 470,000 observations, and in the US database over 300,000 observations. The conclusion from the two databases is that the Danish data indicate a 25% lower risk of developing dementia after 2.5 years, while the US data indicate about 30% lower risk of dementia after 2 years.

We are closely following the development of new treatment options. Both because the potential demand for a curative drug will be considerable, and because an effective treatment could substantially reduce patient care costs, which are set to rise in the coming decades due to demographic developments.

The authorities' evaluation of Biogen's drug will be known shortly, but there are indications that this treatment may have limited effect. The final trial results from Eli Lilly and Novo Nordisk will not be released for another three years or so, but there will be a great potential for any company that manages to crack the Alzheimer's code. A potential and a success which has so far eluded all.

Facts about Alzheimer's Disease and Dementia

1.

In 2019, the UN estimated that there are over 50 million people living with Alzheimer's or other types of dementia globally. This figure is expected to increase to about 150 million by 2050 due to a combination of a lack of effective treatments and a growing number of elderly people. (Source: WHO)

2.

Alzheimer's and other types of dementia are not only serious conditions for patients and their loved ones, they also take up an enormous amount of healthcare resources. The global cost of treating and caring for Alzheimer's patients is currently about USD 1 trillion. (Source: Patterson C. World Alzheimer Report 2018)

3.

In the USA, the annual cost of care and treatment is some USD 300 billion and is expected to rise to USD 1.1 trillion by 2050. This represents 1.3% of the US GDP, and without new treatments this percentage is set to rise to some 2.2% by 2050. (Source: The US Alzheimer's Association)

4.

At present, there is no cure for Alzheimer's, only various types of drugs that can ease the dementia process.

5.

In the past 25 years, 99.9% of all medical trials for drugs to cure Alzheimer's/dementia have been unsuccessful. At present, there are five approved types of drugs to treat Alzheimer's/dementia, none of which have any significant curative effect. No new drug has been approved since 2003. (Source: FDA)

6.

The three pharmaceutical companies Eli Lilly, Biogen and Novo Nordisk currently have drugs in phase 2 or phase 3 clinical trials. (Source: FDA)


A GOOD
INVESTMENT
REQUIRES
A GLOBAL
PERSPECTIVE

Riding the Green Wave in Emerging Markets

By Aman Kalsi

Portfolio Manager, C WorldWide Asset Management Fondsmaeglerselskab A/S.

Key insights

- The need to improve general public health in Asia creates good investment opportunities. Especially improvements related to the environment and air pollution offer multi-year growth potential.

China and India are among the world's most polluted countries. We regularly see pictures of what looks like heavy fog in the most densely populated areas. The fog is a disturbing image of the actual density of pollutants. As illustrated in figure 1 on the next page, both China and India are facing serious challenges.

China has been working to promote renewable energy sources for several years. In fact, solar and wind renewables in China saw 50% annual growth in production capacity in the period 1990-2019. China is today the world's leading producer of solar energy, but in spite of this position, renewable energy still accounts for only 15% of the country's total energy consumption. This picture will change dramatically in the coming years, however, with green energy becoming much more dominant and relevant in China, but also in the rest of the emerging markets universe.

The Green Wave across the Globe

Renewable energy is gaining ground – not only in emerging markets (EM). Across the globe, the consensus is now that global warming is a fact. The EU has announced The European Green Deal, aiming to achieve climate neutrality in 2050 by striking a balance between carbon emissions and carbon absorption from the atmosphere. Japan has set a target of becoming carbon neutral by 2050, and China has set a similar target to be reached by 2060. This will promote developments and increase the share of green energy. In figure 2 on the next page, the blue bars show the demand for fossil fuels, and the green show the demand for non-fossil fuels in the period up to 2060 in China. The orange line shows that over 50% of China's energy consumption is expected to be met by renewable energy by the late 2030s and 80% in 2060 in order to meet the objective of carbon neutrality. The required investment in development and facilities is estimated to run to USD 6-7 billion over the next 40 years – for China alone, that is – the global figure will be even higher.

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> **Especially improvements related to the environment and air pollution offer multi-year growth potential.**

Figure 1: Air Pollution (PM2.5) in China and India

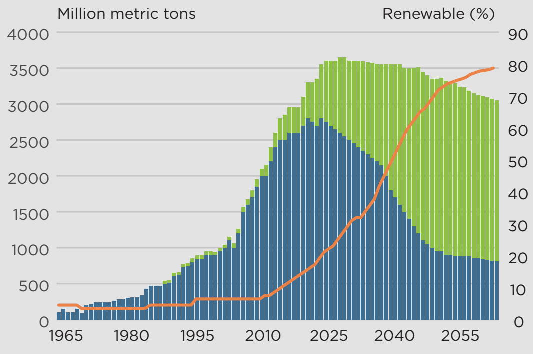
Good
Fair
Moderate
Unhealthy for sensitive groups
Unhealthy
Very Unhealthy
Hazardous

Source: Aqicn.org as of Feb. 2021

There is no doubt that the Chinese government has set an ambitious, long-term goal of carbon neutrality, but we actually believe it is a realistic goal as China has previously demonstrated its ability to meet long-term objectives. Pursuing the green energy ambitions also makes good political sense, as there are more jobs in renewable energy than in the coal industry in China.

Moreover, the world's ten largest producers of basic solar cells are Chinese, together holding a global market share of 90%. As 80% of China's demand for oil is met by imported oil, increased focus on renewable energy will also reduce China's dependence on energy imports.

Figure 2: China's Demand for Renewables will grow significantly



Fossil Fuel Demand
Non-Fossil Fuel Demand
Development - Renewable Energy (rhs) (% of total energy consumption)

Source: IEA, BP, Bernstein estimates (2020+) and analysis, Sep. 2020

Growth Potential in EM Energy Sector

In conclusion, we see attractive investment opportunities in renewable energy. We believe the long-term winners will be companies that can develop and produce renewable energy sources, but also specifically subcontracting companies with capabilities to develop the technology behind the green transition. We are therefore excited about the multi-year, structural growth potential presented by the green energy transformation, and we have an increased focus on these investments, certainly in relation to companies in the Western worlds, but also in EM and in Asia in particular.

How is Air Pollution measured?

In this context, air pollution is measured based on PM2.5, which is a measure of particulate matter in the air. The particles are formed as a result of emissions and chemical reactions in the atmosphere. PM2.5 refers to particles that have a diameter of less than 2.5 micrometres, which is about 33 times thinner than a human hair, and they therefore remain suspended in the air for longer compared to larger and heavier particles. A level below 35 on the PM scale is considered a "healthy" and generally harmless environment, so the situation in both China and India is critical as illustrated in figure 1 with only a few figures below 35.

C WorldWide Global Equities ex. Tobacco

Quarterly comment

The first quarter of 2021 saw vaccine and lockdown related news switching between positive and negative, while bond yields rose strongly especially in the US anticipating a rather robust economic rebound following the reopening of the economies. Global equity strategies had the largest quarterly inflows since 2006. At the end of March, President Biden, unveiled his eight-year USD 2.3 trillion infrastructure plan (following the USD 1.9 trillion pandemic-relief bill signed earlier in the month), labelled as the most extensive government investment plan since the space program of the 1960s.

In the quarter, the strategy's return was 3.2%, trailing the MSCI AC World Index, which returned 5.9%. The underperformance largely stemmed from the sharp rise in cyclical sectors, like energy and banks rising more than 20%. These are sectors where the strategy has low exposure given the strategy of investing in companies with structural and thematic tailwinds. Unsurprisingly the quarter's top performers are all geared towards an improving economy, with Alphabet, ASML and Home Depot claiming the top spots. Alphabet was helped by a strong performance in its YouTube business and stronger than expected sales in its core search business at the end of last year. Investors are now anticipating a bounce back in travel, a top three category for Google searches. ASML gained as TSMC and Samsung raised their guidance for capital expenditures while Intel announced that it was planning a comeback into outsourced manufacturing of other companies' chips. The largest detractors from performance were stocks trading at high multiples like Keyence, Hoya and Amazon, and to a lesser degree consumer staples like Coca-Cola and Unilever.

Investment strategy and portfolio changes

In the quarter, we bought Fiserv and sold Coca-Cola. Coca-Cola has struggled with consumers switching to healthier alternatives and has grown at a quarter of the rate of the average S&P500 company despite trading at a premium. Fiserv is supported by two key tailwinds, the digitalisation of banking and of payments. Fiserv's traditional business is supplying core processing software to US banks. Following the acquisition of First Data, the company now also offers Merchant Acceptance services for online and traditional retailers. Finally, Fiserv operates the third largest debit network in the US. The company expects to grow earnings per share around 15% per year.

C WORLDWIDE GLOBAL EQUITIES EX. TOBACCO COMPOSITE

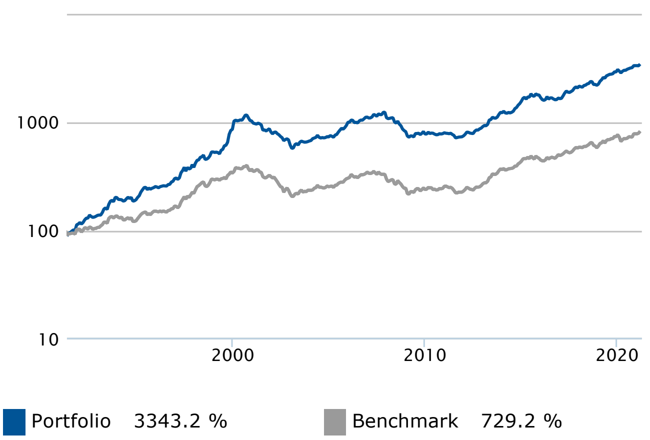
GROSS OF FEES IN AUD AS OF 31 MAR 2021

INVESTMENT PHILOSOPHY

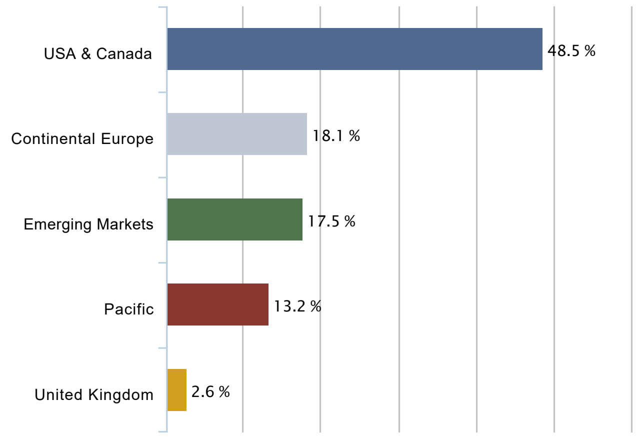
Strategy	C WorldWide Global Equities Ex Tobacco Composite
Launch Date	31 May 1991
Benchmark	MSCI All Country World incl. net dividends

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



GEOGRAPHIC DIVERSIFICATION



RETURN & RISK

	Q1	YTD	1 Y	3 Y	5 Y	10 Y	Lifetime
Portfolio (%)	3.2	3.2	20.5	17.7	16.6	15.8	12.6
Benchmark (%)	5.9	5.9	24.2	12.3	13.4	12.5	7.3
Relative performance (%)	-2.8	-2.8	-3.7	5.4	3.2	3.3	5.2

	3 Y	5 Y	10 Y	Lifetime
Std. dev. portfolio (%)	9.3	9.7	10.4	13.7
Std. dev. benchmark (%)	11.7	10.4	10.1	12.1
Beta	0.7	0.8	0.9	1.0

Periods longer than 1 year are shown annualized

TOP 10 HOLDINGS

	Share in %
HDFC	6.9%
Visa	6.1%
Alphabet	5.6%
Microsoft	4.9%
Amazon.com	4.8%
The Home Depot	4.7%
Thermo Fisher Scientific	4.6%
Sony Group	4.4%
TSMC	3.6%
Siemens	3.5%

CONTRIBUTION

Top 5	Contribution	Return
Alphabet	1.0	19.6
ASML	0.7	26.8
The Home Depot	0.7	16.9
Siemens	0.6	18.4
Atlas Copco	0.4	20.5

Bottom 5	Contribution	Return
Keyence	-0.6	-17.8
Hoya	-0.5	-13.4
Amazon.com	-0.2	-3.7
Bank Central Asia	-0.2	-10.0
Coca-Cola	-0.2	-*

*Bought or sold during the quarter

All figures are based on past performance. Past performance is not a reliable indicator of future performance. The return may increase or decrease as a result of currency fluctuations. The figures are based on a composite. 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.

For Wholesale Investors only.

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