



**Building a  
People's Business  
in Asset Management**

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**Growing Prosperity has Potential**

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**What does President Xi think?**

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**INVESTMENT REPORT Q3 2021**





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# Global Equities – Expectations

**By Managing Director and Portfolio Manager, Bo Knudsen**

C WorldWide Asset Management Fondsmæglerelskab A/S.

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## Is a correction looming?

Global stock markets have risen approximately USD 90% in an almost linear fashion since the stock market bottom in March 2020, when investors began to look past the Covid-19 pandemic. This has triggered a discussion as to whether a stock market correction is overdue.

If one looks back at history, we have experienced a correction of plus 10% more or less every second year. Putting this into context, over the past 10 years, with generally rising stock markets, we have seen a correction of 10% or more in 2011, 2012, 2013, 2015, 2016, 2018 and 2020.

A correction may therefore be looming, especially considering that the US Federal Reserve is likely to initiate a gradual decrease of their asset purchases i.e. ‘tapering’ soon. Previous attempts to decrease quantitative easing have historically caused market volatility.

As we have described in previous outlook articles, real interest rates are currently in negative territory. Negative real interest rates - all other things being equal – push up the valuation of equities, i.e. rising P/E multiples. This is equivalent to doing math with fractions - when you start dividing by a number close to zero, the result suddenly becomes very large. Conversely, this situation also means higher sensitivity to changes, which is a reason to expect more market volatility going forward.



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As longer-term investors, we tend to deemphasize analyzing and predicting short-term stock markets developments. This is a discipline where only a few are successful, and we believe as an investor it is more profitable to focus on the long-term outlook and gaining long-term, sustainable knowledge to understand the secular trends and factors which influence these dynamics.

We have a positive, longer-term equity market outlook as interest rates should remain low despite the current inflation spike caused by the ‘stop and go’ effect from the lockdowns. Rising inflation does not necessarily lead to a bear market. Share prices typically fall when investors fear a recession which can occur if central banks tighten too much. Fundamentally strong companies that have pricing power can benefit from modest inflation thereby managing rising raw material and production costs.



**We have a positive, longer-term equity market outlook as interest rates should remain low despite the current inflation spike caused by the ‘stop and go’ effect from the lockdowns.**

As shown in Figure 1, consumers’ net worth has risen sharply over the last 10 years and in particular over the last 18 months. This has been driven by both the rising equity and housing markets. Today, real estate is the most important asset for consumers, and given the high level of government debt, central banks have no room to push interest rates much higher. This provides a floor under equity prices, although this is not the primary goal of central banks. In the period ahead, central banks will try to tighten monetary policy and are likely to accept moderate swings in the stock markets of perhaps 10-15%. Since larger fluctuations risk hurting consumer confidence, we foresee a cautious and very measured policy path, when implementing a monetary tightening strategy.

**Figure 1: The welfare effect**



Below we describe a world turned upside-down, where the direction of the financial economy primarily dictates the path of our real-world economy.

## Two different worlds

To understand why ample liquidity and negative real interest rates are not a transitory phenomenon, it is necessary to understand that over the past 30 years the real or physical world has been reduced to a fraction of the financial world. The financial economy is at least 5 times larger than the world economy, while global debt is 3.5-4 times larger. In the US, total debt outstanding including long-term health and pension obligations, is 6 times greater than the world economy. This can be compared to typical debt levels of 1-1.5 times during the period 1950-80. As debt has grown, our ability to cope with higher interest rates and increased volatility in the financial markets has declined. Each year, debt corresponding to about 65% of global GDP needs to be refinanced, and if that were to happen at higher interest rates, it would instantly hit the real economy negatively. Central banks are caught in a trap, built by themselves by repeatedly addressing bumps in the economy with more money injections and lower interest rates, while never reversing these stimuli subsequently.



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Liquidity is the oxygen on which the financial economy thrives, and the need for ever-increasing asset prices requires more liquidity. Otherwise, rising volatility and falling asset prices in the financial economy risk threatening the stability of the real economy. This explains why central banks cannot normalise policy. The answer to the central banks' actions is therefore less anchored around the developments of the real economy. Their hands are tied by the "superstructure" they have created over the past 30 years through aggressive accommodative monetary policies.

Consumers have become dependent on high and rising asset prices. If house prices fall markedly, the economy will enter into recession. If the stock market falls, consumer confidence will fall, and if the fall is significant enough, the economy will likewise go into recession. It is a world turned upside-down. The population – especially younger people – have understood that ownership of assets, including home-ownership, is paramount to achieving long-term financial security and well-being. Just having a salary is no longer enough, as salaries are linked to the real economy, which is becoming less and less important compared to the financial world. At the same time, property prices in the western world are rising at an explosive rate spurred by low financing costs. This drives further 'financialisation' of our economies and makes it even less likely that the central banks can reverse monetary policy.

Following the extraordinary fiscal and monetary policy initiatives in the wake of the Covid-19 induced recession, fiscal stimulus in the US and Europe is expected to decline by approx. USD 2,500-3,000 billion over the coming two years. At the same time, the FED and ECB are expected to begin reducing bond purchases. The combined tightening of fiscal

and monetary policy can have a significant impact. Central banks want to defend their credibility and restock some dry powder for a potential new downturn. However, we believe the tightening policies will be cautious and moderate given the low appetite for potentially adverse effects on housing and equity markets.



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Today, parts of the real economy are on fire, while other parts are stagnating in the aftermath of Covid-19, high indebtedness or technological disruption. This has created bottlenecks in supply chains and inflationary trends in economies. Rising asset prices cause increased inequality as the growing financial economy primarily benefits the wealthy. However, it is a complex issue as the rise in global welfare has also moved 600 million people out of extreme poverty. Governments will probably address inequality through various forms of tax reforms and social transfers rather than a reversal of monetary policy. It is the countries that are most indebted that have the most to lose, if interest rates move higher.

In an environment of sustained low interest rates, housing and growth stocks will likely retain high valuations although with increasing volatility, especially in an environment where central banks once again try to "normalise" monetary policy – albeit without success. What was previously considered a "neutral monetary policy stance" is no longer the relevant benchmark for judging the action of central banks.

# Building a People's Business in Asset Management

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**By Bo Knudsen,**

Managing Director and Portfolio Manager, C WorldWide Asset Management

## Key Takeaways

- In this paper, you get insights of how to build a long-term business, a Cathedral in a people's business like Asset Management.

The key challenge is that your company's key asset – the people – can walk out the door at any time. Some might try to build an organisation, where the system is more important than the people. Unsurprisingly, you get exactly what you aim for – a company that loses people. The only way to mitigate the risk of losing people is to embrace the people risk.

It's up to the founders and the first generations of key people – to possess the mindset for building for the long-term. Ingraining that mindset in the decision-making and the philosophy of the company defines culture and makes it possible. Strong culture brings life to the Cathedral.

The active, people-driven asset manager takes the risk of running such an organisation. The clients can then exploit the alpha opportunity of active management in a low-risk way – keeping the flexibility of being able to hire and fire the active manager, while leaving the complexities of managing the operation to the active people-driven manager.

## Building a Cathedral instead of a shelter

Building a successful and sustainable franchise – a Cathedral – in a people's business is challenged by the inherent fact that your company's key asset – the people – can walk out the door at any time. So how to best address this critical issue? Many, especially large organisations, try to prioritise the system over people. However, unsurprisingly you get what you aim for – a company that loses people. The best way to face the challenge is to embrace the people factor even more.

When striving to build a people's business in asset management – the Cathedral – you need to build environments, where people thrive. We need people, because it is people, who build the Cathedral. A Cathedral is only appealing because of the values and the stories that are linked to it. It is not the bricks and mortar, the architecture or the overall physical features that create a Cathedral. It is the WHY you are coming to the Cathedral and the life that people bring to the Cathedral that creates the attraction.

We live in a complex world that is shaped by the rapid digitalisation transforming our societies and business models in significant ways. The irreversible and positive trend towards ESG implementation in capital management reinforces the need of a hands-on, long-term approach. Understanding the materiality of sustainability issues affecting companies matters. A shorter-term investor only needs a shelter and won't bother building the Cathedral as it is much easier to put up a temporary shelter. However, we believe there is a strong need for Cathedrals in Asset Management, offering longer-term, lasting environments for sustainable capital management with a more predictable outcome.

## Identifying the masterpiece

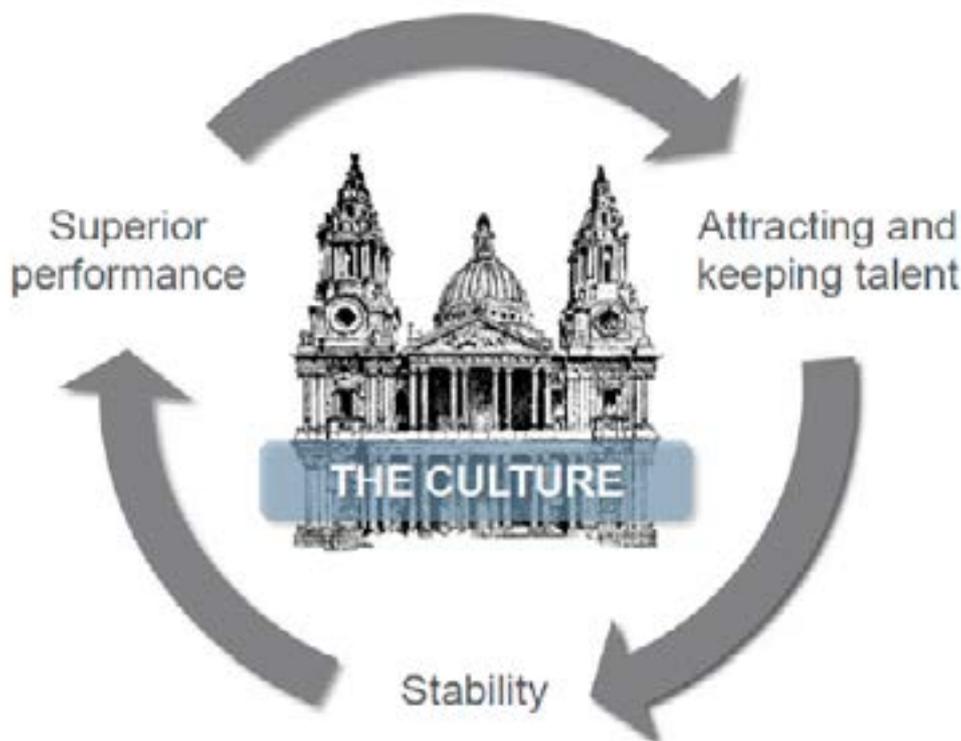
Finding the timeless masterpiece is what long-term investing is about. No need to bother about the average company. The trained eye can identify – sometimes with technology as a useful tool – that the painting (masterpiece) is an original. Likewise, the trained eye understands what makes it unique – also in the eyes of others, why they would be willing to put a higher price on it in the future. It is more the skill of the trained observer, and it can be challenging to describe in a very formalised (quantitative) way. The masterpiece in terms of an organisation and a company is one that is long-lasting and relevant for years to come. To do this, you need managements who take a sustainable long-term stakeholder’s approach to allocating capital in addressable markets that grow – while typically being exposed to strong generational trends. This results in either high cashflows that can be paid out to shareholders or a rising stock price that discounts strong prospects. It is the trained eye that is capable of under-

standing the key factor(s) that make-up a masterpiece. The world changes over time but the true masterpiece stands that test of time, even if the price fluctuates. At times, sellers are forced to liquidate providing opportunities for the long-term investor who recognise the underlying value and potential of the masterpiece.

## Is it possible to build a Cathedral in a long-term people’s business?

There is both an inherent conflict and complication in building an organisation that is meant to have a lifespan of generations, whilst being built on or around teams of key individuals. People do not live forever while other practical issues such as career duration, job mobility, and patience also play a part. The active asset management industry is facing these issues, while at the same time, clients are expected to buy into the capability and experience of key individuals in the hope and belief they will endure indefinitely.

Figure 1: The Cathedral in a people’s business



Source: C WorldWide Asset Management, February 2019 (Cathedral drawing by Flickr)

As a response to these issues, some might try to be clever and build an organisation where the system is more important than the people – to mitigate the risk of losing them. Unsurprisingly, you get exactly what you aim for – a company that loses people.

The only way to mitigate the risk of losing people is to fully take onboard that risk. For some this is unpleasant because you as an owner and CEO have to increase, and not decrease, your dependency on key people in order to succeed. Key people like the fact that the organisation is built up around them. They like the respect and sense of belonging that follows. They like the forgiveness and the benefit of doubt that is given to them in times where they do not always deliver at the highest level. That is why they stay...and eventually the organisation will receive the full, long-term benefits of having satisfied and contented people.



**We believe there is a strong need for Cathedrals offering longer-term, lasting environments for sustainable capital management with a more predictable outcome.**

## **A Cathedral transcends generations**

Word of mouth can spread fast. When you are respected as an individual and where the organisation is structured around the desires and strengths of the individual and the team – as opposed to an organisation where the risk of people dependency is reduced by emphasising the system over the needs of the individual, then people hear about this. The story around the firm of individuals who work together and support each other is one which generates its own momentum – as people take pride in and aspire to work in such an organisation. This increases the likelihood of attracting talent and with the right mindset and the right incentive structures, you can build a Cathedral in a people's business. As people stay on onboard for a long time, you build lasting knowledge in the organisation. At the same time, you lay a foundation, which if properly managed, can be passed on through generations.



**The clients can exploit the alpha opportunity of active management in a low risk way – keeping the flexibility of being able to hire and fire the active manager, while leaving the complexities of managing the operation to the active manager.**

Some might believe that people can not handle being treated too well. That there is a risk of them being spoiled – resulting in negative company dynamics. I disagree with that view. You get what you give, and people function best and are most creative when treated well. If an individual responds in an unusual or counter-productive manner, action needs to be taken. The hiring process must take this into consideration to find the right inner-driven individual that fits into and can grow in this environment.

People build Cathedrals – and it is up to the founders and the first generations of key people – to possess the mindset for building for the long-term which makes the real difference. Ingraining that mindset in the decision-making and the philosophy of the firm makes it possible. This is what defines the culture.

## **The benefits of a Cathedral**

When you have succeeded in building a Cathedral in a people-centric business such as asset management, you have created an aspirational workplace that can attract and hopefully fulfil the professional ambitions of talented people. For clients of the Cathedral, they have the opportunity to outsource part or all their wealth management to an active manager who over time can show stability and consistency. Above all, you stand the chance of being able to offer the likelihood of superior returns as opposed to a passive strategy.



The active, people-driven asset manager takes the risk of running such an organisation. The clients can then exploit the alpha opportunity of active management in a low-risk way – keeping the flexibility of being able to hire and fire the active manager, while leaving the complexities of managing the operation to the active manager.

### **However, only a few can do it**

Not all organisations can execute on this. It is not without consequences and limitations to pursue the route of choosing to build a long-term people's business. I would highlight 7 factors here:

1. A key choice to make is to limit the number of people in the organisation. The Dunbar number helps describe what happens with the number of relations that you have to nurture in a people's network. Moving from 3 to 4 people in a network increases the number of specific relationships from 3 to 6 following the formula  $N(N-1)/2$ , while a team of 6 has 15 specific relations, and a team of 32 has 496 specific relationships. 150 people has been highlighted as the maximum in an organisation if people are to have a chance of knowing, relating and feeling part of a close connected community. A well-functioning organisation seeks diversity across a range of factors, leaving room for the individual – with gender diversity being a particular challenge in asset management.
2. Another key is to have a focused product range. In this way it becomes easier to identify, prioritise and understand what is important to the organisation. This requires the often inherently unpleasant skill of sometimes saying no to new business opportunities and to eventually make adjustments to the product range.
3. The ability to forgive and eventually adjust responsibilities, and to show patience is central to ensuring that you take the long-term perspective.
4. An attractive physical location and flexible working hours is part of showing the individual respect. Equally, work-place facilities such as in-house dining/coffee shop creates a natural

informal place for interaction across departments and teams.

5. An incentive system has to respect that the value creation is achieved by the employees i.e., the people in the organisation more than the providers of capital.
6. Easy access to top management in a flat organisational structure.
7. Interdependence and independence are key for a people's business as strong people with a sense of purpose need a secure environment where they can express their ideas. At the same time, key people also want to feel a sense of belonging. We all do. This is the culture you build over a long period of time.

## **Don't give up on humans**

When you have made the choices highlighted in this paper, you might stand a better chance of building a long-term, successful people's business. We live in a world where we dream about inventing the perfect "machine". Yet the human brain is often highlighted as the most complex structure in the known universe with its 85 billion nerve cells and trillions of connections magically generating conscious experience and adjusting organically. And then linking it together. Maybe that is the perfect "machine"?

But don't treat it as a machine – treat it with respect and as the living organism it is. Then you can build a Cathedral in a people's business.



# Growing Prosperity has Potential

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By C WorldWide Asset Management.

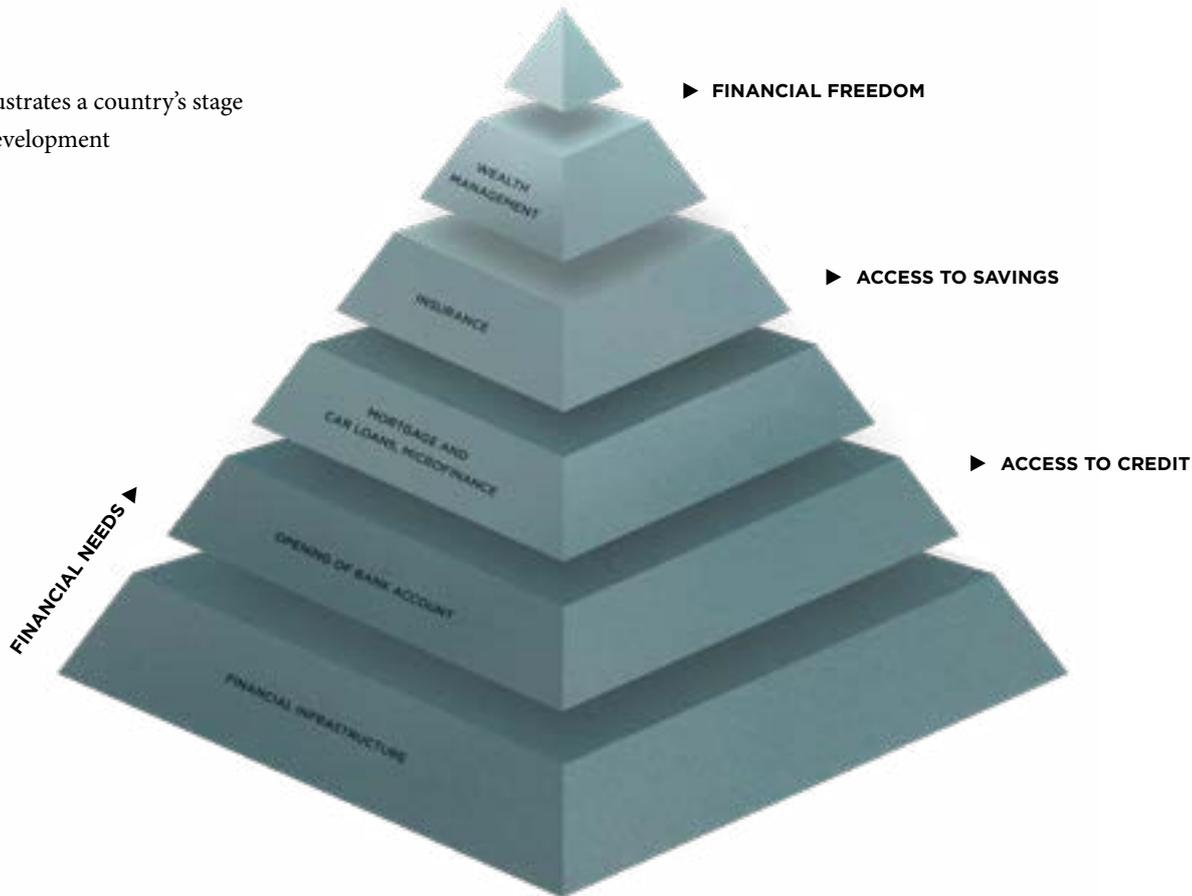
We live in a world of constant change – a world where prosperity is growing and developing at different speeds. Long-term investors who understand the potential and dynamics of this development can take advantage of a host of exciting investment opportunities within the theme of financial inclusion.

The essential point is to understand the journey of development of a given country and what the citizens of the individual countries or regions will demand. The stage of development is a key parameter within financial inclusion when we

seek out growth segments. Likewise, it is interesting to understand the underlying digital transformation that enables the development of financial services for a growing population group. Today, we see technology companies that have historically focused on e-commerce, for instance, make use of their technological infrastructure and data – including data about sales and customers' payment patterns, etc. – to increasingly offer financial services to companies and consumers who currently do not have satisfactory access to the services provided by traditional banks. One example is TCS Group.



This figure illustrates a country's stage of financial development



The concept of financial inclusion can help clarify a country's stage of financial development. The figure illustrates consumers' financial needs like in Maslow's traditional hierarchy of needs. The precondition for satisfying basic needs is the presence of a financial infrastructure. That in place, opening a bank account is the first need stated at the bottom level of the hierarchy. When this need has been satisfied and the consumer has obtained greater financial leeway, the need for "mortgage and consumer loans" (microfinance) will grow. After this level, the need for safety and security will arise and thus – in financial terms – the need for insurance and savings products. Then follows a growing need for "insurance and wealth management" and, lastly, at the top of the hierarchy the consumer achieves so-called "financial freedom".

**Extraordinary growth in some emerging market economies**

In the western world, the economies are typically located at the top level of the hierarchy, focused on financial security, wealth management and prosperity. In our global strategy, California-based First Republic Bank, which is focused on private banking and wealth clients, is one example of a bank that has successfully specialised in this segment as the bank's focus on individually tailored services generates high customer loyalty. In emerging markets, the growth stories within financial inclusion occur mainly at the three lowest levels. A large part of the population still does not have a bank account. For example, about 50% of the population in Latin America is outside the official banking sector, and in the Philippines, this share is 80%. Further, there is a huge need for credit among consumers as well as businesses – especially Micro-, Small and Medium-sized Enterprises (MSMEs), who have historically not been served satisfactorily by traditional banks.

These MSMEs represent an attractive growth opportunity as they make up a large part of the economy. In Indonesia, for example, MSMEs account for 60% of GDP and 97% of the labour force. As the financial resources of the Indonesian population grow, we can use our experience from comparable markets – India, for example, which, in our assessment, is some 10-15 years ahead of Indonesia. On that basis, we are focusing on the expansion and consolidation of the mortgage market, where we expect to see significant growth over the next 10-20 years. The ratio of mortgage loans to GDP in Indonesia is only 2% (the corresponding figure in India is 10%), and at the same time the country has a very young population, with 42% of its 261 million people aged below 25. In Indonesia, we have exposure to this theme through Bank Central Asia, which is the leading mortgage lender in Indonesia.

The most well-run and best positioned tech companies as well as banks that are focused on and capable of serving Indonesian consumers and businesses stand to benefit from this growth potential. Morgan Stanley estimates the growth potential of tech companies focused on financial inclusion in Latin America can be up to a staggering 100-fold increase in revenue over the next five years. According to a report by Google, Bain and Temasek from 2019, the market for digital services in Southeast Asia is expected to quadruple by 2025. This is why we focus on these areas as well when seeking out attractive investments. Some local fintech companies in emerging markets have been very successful in promoting the take-up of digital financial services. Our Emerging Markets strategy includes investments in the three Brazilian companies Pagseguro, Mercadolivre and Magazine Luiza.

As consumer wealth in the developing economies increases, households' need for insurance increases as well. Penetration rates in Asia remain very low, typically below 5%, but demand is on the rise, especially so in China where new insurance business is growing at a rate of some 15% a year. The two insurance companies Ping An and AIA, among others, profit from this trend. Both companies are part of our global strategy. Both are well-run companies with a conservative approach to insurance product sales, which

has enabled them to increase their earnings over several economic cycles.

### **Western companies also benefit from financial inclusion**

A number of western companies also benefit from the growing demand for financial services in developing economies. The payment service Visa (which has been part of our global strategy for more than ten years) is a good example. Visa's global payment network enables consumers across the world to trade and pay using debit and credit cards on Visa's infrastructure. As prosperity grows, so does tourism activity. This in turn increases the need for international payments. With its recognised brand and a global network of banks and retailers supporting the company, Visa enables this tourism. Growth in international payments is a key growth driver for Visa, and the company earns higher margins on these services.

### **Thematic investing, a road to compounding**

Regardless of which of our strategies you invest in, we invest according to thematic principles. We seek out the most attractive growth segments across the globe. We identify growth phases in the different national economies and pick the best positioned companies, which – based on specific trends such as economic or demographic tailwinds – may be expected to be in a strong position with a viable business model and the ability to generate earnings growth over time. We call this compounding. You can obtain exposure to financial inclusion through all our strategies because we believe this is a structural investment opportunity the coming 10-20 years.



# WHAT DOES PRESIDENT XI THINK?

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**By Allan Christensen and Mogens Akselsen,**  
Portfolio Managers, C WorldWide Asset Management

The crisis in the Chinese real estate market is not solely about the real estate company China Evergrande. The key to understanding China Evergrande's fate and the consequences for the company's customers, creditors and shareholders is to understand President Xi's agenda.

For many years, there has been an implicit social contract between the Chinese people and the Communist Party, where the Communist Party ensured progress and high growth in return for the loyalty of the people. As China has grown, it has become necessary to renew the social contract as a result of difficulties in sustaining the high growth trajectory. Xi has therefore rewritten the premise with a lower economic growth outlook, but with a higher quality of growth (e.g. with a focus on the environment) and greater equality in society.

In other words, the Chinese Communist Party, led by President Xi, has expelled the Western-inspired capitalistic

path. The new direction is "Common Prosperity Capitalism", i.e. a more socialistic approach, where capitalism benefits all stakeholders. Maybe Xi took the decision seeing angry Americans storming Congress in early 2021. No matter what, the fact is, that China has changed direction since then.

President Xi's main goal is to ensure social stability in China to maintain the support of the people. Therefore, we are seeing measures to ensure a more even distribution of wealth, ensure low prices and improved living conditions for Chinese families – this also in light of the government's concern about the country's declining birth rates. The political focus is now redirecting support to the domestic sectors that make everyday life better and cheaper for the Chinese people.

Over the summer of 2021, we saw actions related to companies that have achieved extraordinarily high profits at the expense of the general population. This has affected

companies in the internet, education and healthcare sectors, where share prices have declined markedly. Costs for healthcare and education are two major expenditures for the Chinese middle class.

The third major expense is housing, where home ownership is typically also the most important asset for households. Over the past year, the Chinese government has tried to cool the real estate market, e.g. by implementing a general tightening of the credit markets. This is also in a context where corporate indebtedness in China has reached record levels. Thus, in August 2020, China introduced three strict credit and liquidity requirements (“Three red lines”) for the real estate sector, which the sector must comply with by no later than 2023. The objective is to enforce lower leverage in the real estate sector. As a result, home sales have stalled hurting highly indebted property developers like China Evergrande. It was probably never the intention to bring property developers on the brink of bankruptcy, although companies like China Evergrande never managed to adapt to the new rules and market conditions.

President Xi and the Communist Party have no interest in a collapse of the housing market, quite the contrary. Ideally, they want stable house prices and less speculation. This is key to understanding the scenarios around China Evergrande.

### **Social stability is the key**

At present, we do not know the future of China Evergrande, which is the second largest real estate developer in China. The company’s liabilities correspond to approx. 2% of China’s GDP, and the share price has fallen more than 85% this year. A bankruptcy is quite likely, and shareholders have more-or-less already been wiped out. Here it is important to understand that Xi’s concern is not - what can be perceived as - the more speculative shareholders.

The recent developments have parallels to the US investment bank Lehman Brothers in 2008. President Xi does not want to be supportive of ‘moral hazard’, in line with the new political direction “Common Prosperity Capitalism”. ‘Moral hazard’ was also one of the reasons why the US in the end

did not offer support to Lehman Brothers. However, the ensuing social consequences of an uncontrolled meltdown of China Evergrande is unacceptable for Xi, as this will have serious consequences for the credit and housing market. Therefore, we are convinced of a political rescue package, where shareholders will suffer huge losses and creditors must accept a significant write-down, while the almost 2 million homebuyers, who have prepaid installments to China Evergrande will be rescued.



**Therefore, we are convinced that there will be a political rescue package, where shareholders will suffer huge losses and creditors must accept a significant write-down, while the almost 2 million homebuyers will be rescued.**

The bankruptcy of Lehman Brothers caused a freezing of the interbank market as financial institutions suddenly feared the counterparty risk. The current challenge in China is that real estate financing is at risk of freezing. Thus, the problem is not the banking sector per se. China Evergrande’s total debt is just 0.6% of the assets in the banking sector, while the total debt for all developers is obviously larger. An important difference compared to Western countries is that the Chinese state controls the big banks. It provides far greater opportunities to support and secure liquidity and long-term financing opportunities for the real estate sector in the wake of a bankruptcy of China Evergrande.

President Xi's key focus is the interest of the population. Therefore, he will do whatever it takes to support the housing market. The Communist Party has both the motive and tools to ensure long-term stability. However, it is a risk whether the government can execute in a timely manner, although we take comfort in China's previous experience in handling similar cleanups with precedents such as Anbang Insurance and later China Huarong Asset Mgmt. Both companies had outstanding debt in the billions.



**President Xi's key focus is the interest of the population. Therefore, he will do whatever it takes to support the housing market.**

### **International contagion**

The possible effects of contagion can be divided into three categories: 1) the direct economic effects, 2) the direct financial effects, and 3) indirect portfolio effects.

Regarding the economic effects, a possible weakening of the Renminbi may cause a negative spillover weakening the competitiveness of other Asian countries. Regarding

financial risks, a potential solution where domestic creditors are offered better terms compared to the international creditors could have a negative effect on international capital flows to China and the other emerging market countries. The indirect portfolio effects are more complicated, but could occur, if portfolio investors decide to lower portfolio risk by selling other related assets. We will get more insights in to the potential contagion in the coming weeks, as we see a discrimination between domestic and foreign creditors as the biggest risk.

### **New investment themes in China**

We have no direct exposures to China Evergrande, although our Asian strategy has approx. 2% exposure to other property developers, where the share prices have been negatively affected and therefore fallen in sympathy. Our Emerging Markets strategy has not had any exposure.

So far this year, the Asian equity markets have performed significantly worse than the US and Europe, but we believe that the secular investment themes in Asia remain intact. Moreover, China's new policy direction changes our investment focus towards companies in domestic sectors, where strategy and business models are aligned with President Xi's objective of "Common Prosperity Capitalism".



## C WorldWide Global Equities ex. Tobacco

### **Quarterly comment**

The third quarter began with falling rates and optimism as the world economy started to reopen but ended with investor pessimism and waning markets. The Chinese government clamped down on the domestic Internet giants and the property company China Evergrande moved closer to defaulting. Bond yields rose at the end of the quarter sending predominantly longer duration assets such as technology shares lower.

In the quarter, the strategy returned 7.3%, outperforming the MSCI AC World Index, which returned 2.8%. HDFC, Sony and Hoya were among the top contributors. HDFC, the largest position in the strategy, benefitted as the number of Covid-19 cases in India continued to decline after a peak in late spring. Vivendi listed its Universal Music Group (UMG), which provides an interesting valuation benchmark for Sony Music. Using similar multiples as the listed peers, Sony Music could be valued close to USD 50bn, or around 40% of Sony's market cap. Hoya which produces mask blanks for the new Extreme Ultra-Violet machines sold by ASML to semiconductor plants surged higher as the semiconductor shortage became even more acute.

Among the detractors from performance Ping An, Samsung and AIA all fell as Asian shares, in particular financials, declined on renewed fears of a Chinese slowdown induced by supply shortages and potential weakness in the housing sector due to the problems of the highly leveraged property developer China Evergrande. The Chinese insurance sector is also undergoing a transition from large numbers of insurance agents to a more modern and streamlined digital distribution model. In the longer term, the need for insurance is still relevant as insurance penetration in Asia is much lower compared to western countries.

### **Investment strategy and portfolio changes**

Even though inflation and bond yields rose in the quarter, we believe that secular deflationary forces will keep bond yields and real rates low. The current rise in inflation is partly due to imbalances in supply chains following the 'stop 'n go' effect induced by the lockdowns. Strong companies that have pricing power can benefit from modest inflation thereby managing rising raw material and production costs, whereas companies that are price takers are hurting, when energy and commodity prices spike. The portfolio has a focus on companies with a strong market position and a long-duration business model. No portfolio changes were made in the quarter.

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

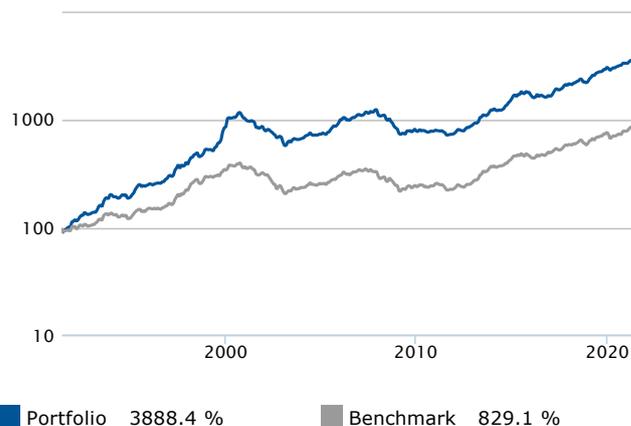
GROSS OF FEES IN AUD AS OF 30 SEPTEMBER 2021

## INVESTMENT PHILOSOPHY

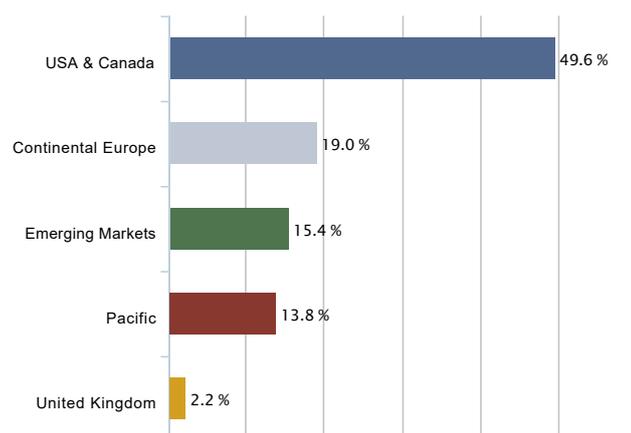
<b>Name</b>	<b>C WorldWide Global Equities Ex Tobacco</b>
Launch date	31 May 1991
Benchmark	MSCI All Country World incl. net dividends
Read more	<a href="http://www.cworldwide.com">www.cworldwide.com</a>

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 25-35 high conviction global large cap stock picks that ensure a sufficiently high-risk diversification. There are no geographic or sector restrictions in the strategy. This fact sheet has been prepared by C WorldWide Asset Management Fondsmæglerselskab A/S and is for information purposes only.

## INVESTMENT RETURNS



## GEOGRAPHIC DIVERSIFICATION



## RETURN & RISK

	Q3	YTD	1 Y	3 Y	5 Y	10 Y	Lifetime
Portfolio (%)	7.3	19.5	25.5	18.9	19.4	18.6	12.9
Benchmark (%)	2.8	18.7	26.4	12.6	14.5	15.3	7.6
Relative performance (%)	4.5	0.8	-0.9	6.3	4.9	3.3	5.3

	3 Y	5 Y	10 Y	Lifetime
Std. dev. p.a. portfolio (%)	10.0	9.4	10.3	13.6
Std. dev. benchmark (%)	12.0	10.3	9.9	12.0
Beta	0.7	0.8	0.9	1.0

Periods longer than 1 year are shown annualized

## TOP 10 HOLDINGS

	Share in %
HDFC	6.8%
Alphabet	6.7%
Visa	5.9%
Microsoft	5.3%
Thermo Fisher	5.3%
Amazon.com	4.7%
The Home Depot	4.6%
Novo Nordisk	4.4%
Sony Group	4.3%
ASML	3.6%

## CONTRIBUTION (3 MONTHS ROLLING)

Top/Bottom 5	Contribution (%)	Return (%)
▲ HDFC	1.0	15.8
▲ Thermo Fisher Scientific	0.8	17.8
▲ Novo Nordisk	0.8	20.5
▲ Sony Group	0.7	19.3
▲ Hoya	0.7	22.9
▼ Ping An Insurance	-0.5	-26.1
▼ Samsung Electronics	-0.3	-9.2
▼ AIA Group	-0.1	-3.0
▼ Unilever	-0.1	-3.2
▼ Visa	0.0	-0.9

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.  
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**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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