3Q 2020 roadmap update

Going into the final lap of 2020

2021 looks decent for gradual normalization towards 2022

NORDIC INVESTMENT PARTNERS

The value of the future has increased

Going into 2020 the main thesis was that the stock market bull would continue to run most of the time. The 30% decline in 1Q 2020 severely challenged that view. However 6 months later the fact is the bull has kept running most of the time.

This is despite economic activity being 5-10% lower than a year ago and corporate earnings estimates for 2020 being 25% lower than in the start of the year.

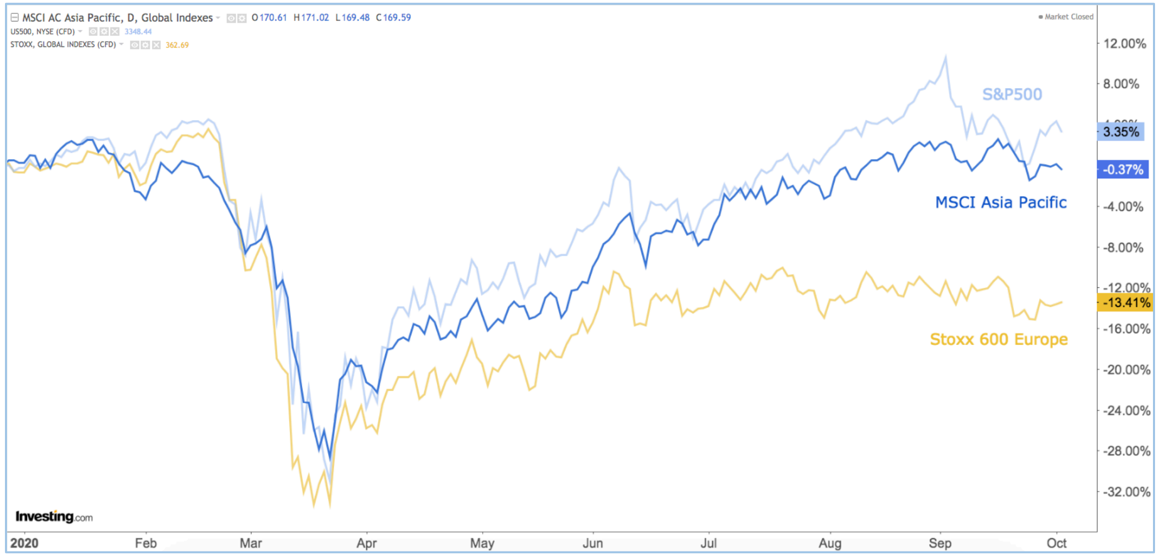
A box of 20 apples does not become worthless just because there's one or two bad apples. 2020 has proven that this is the case for stocks and with the support from lower interest rates the value of future earnings have risen in 2020.

Low interest rates can take us much further on that journey as growth assets increase significantly in value with lower rates.

The catch or main risk is obviously higher interest rates or a severe multi-year earnings recession. But that scenario does not look very likely at this point in time.

PS: there's plenty of commentary on Covid-19 in general media so no point commenting specifically on that subject and its impact on financial markets

Major regional stock markets in 2020



The future earnings growth and discounting rates for S&P500

EPS growth rate

NPV for S&P500 (Discounting rate)	2%	3%	4%	5%	6%	7%
3%	3321	3596	3901	4243	4625	5023
4%	2996	3233	3497	3791	4119	4486
5%	2714	2919	3147	3402	3685	4000
6%	2469	2647	2845	3065	3310	3582

Based on consensus EPS 2020-22 and then forward growth rates to 2040. No terminal value

Make your own choice of your thoughts of the future.

The average of the sample is 3.526 and hence close to year high of 3.588

Darlings tend to run for several years

Global digital titans have dominated stock market performance over the past 10 years.

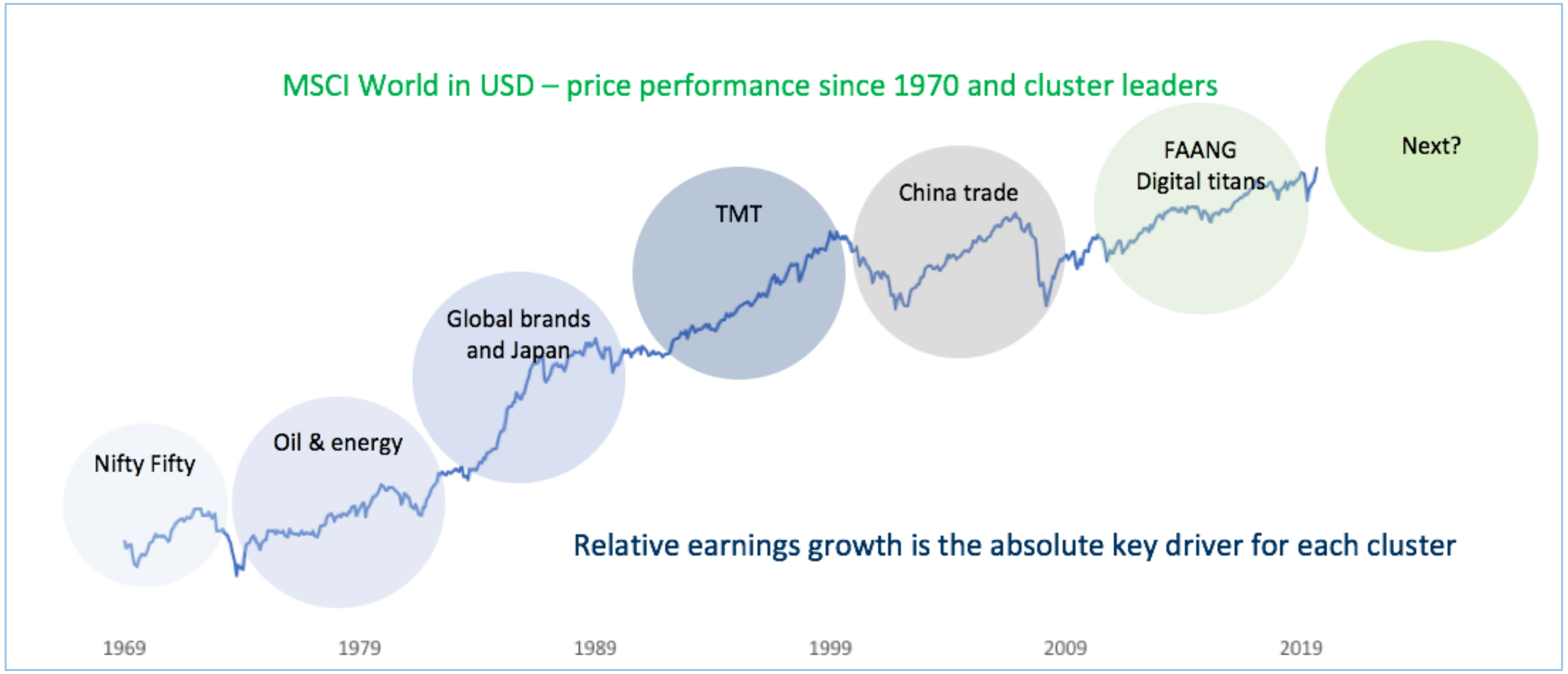
History shows that that kind of leadership lasts for around 10 years, so which cluster of companies will take leadership in 2020s?

The answer will obviously come as we get closer to 2030. Instead of waiting let's do some qualified guesswork for which clusters it might be.

The historical leadership clusters have seen higher earnings growth and better productivity as the key single driver. Some are by luck (oil-crisis in 1970's provided for windfall profits in the energy sector), while others came out of innovation (TMT bull run in 1990s was driven by higher PC penetration and internet)

The innovation over the last 10 years has been enormous and yet it is mostly not even close to harvesting yet. The 2020s could be the first harvest decade of innovation and will lead to higher productivity and earnings growth for the adapters of innovation.

Stock market darlings over time



Markets already imply who will be the winners

2020 has given a significant boost to growth companies such as Zoom Video and Tesla.

Referring to the matrix on slide 2 you can only justify hyper valuation with low rates for discounting and very high earnings growth.

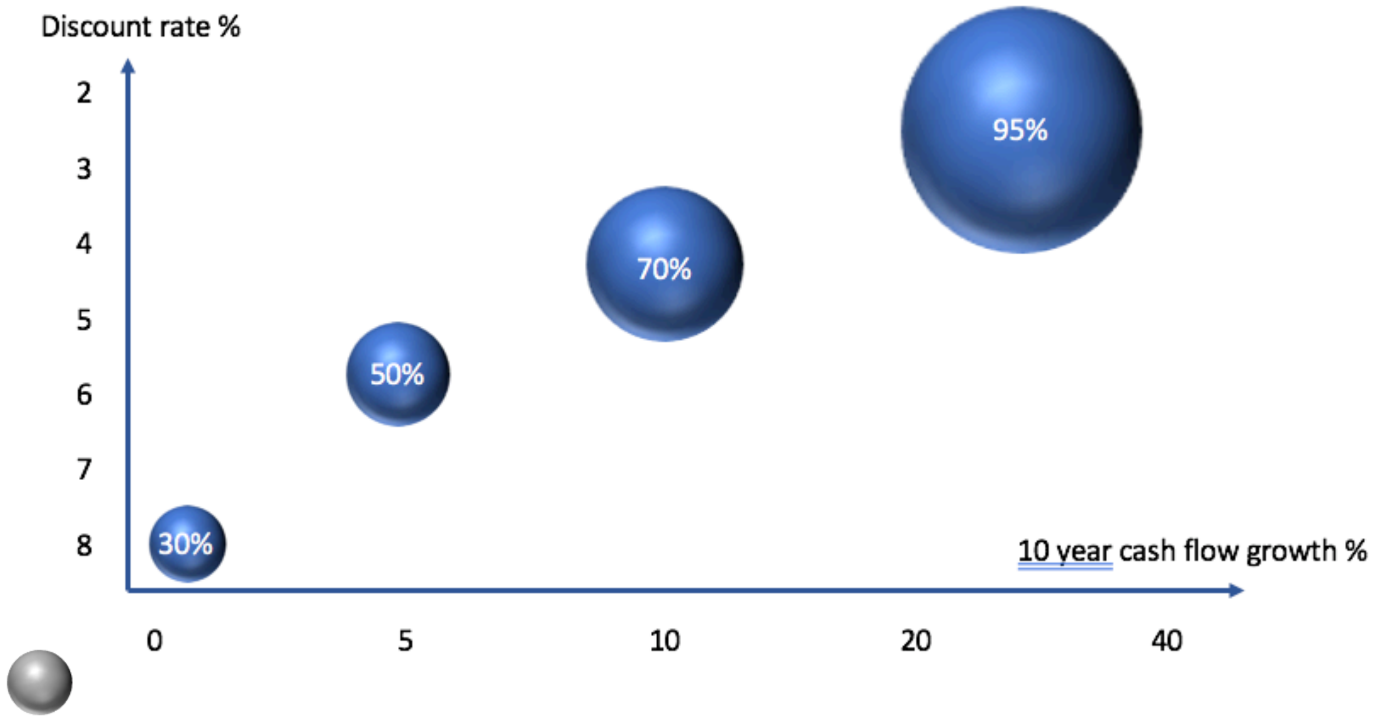
To get into the '95%' ball you use actual consensus numbers for 2020-22 and then more than 30% cash flow earnings growth discounted at low rates. There's surprisingly many companies in the category in 2020.

This is where you most likely find the business winners, but not necessarily the stock market winners of the future

In the other corner (grey ball) you have companies with a challenged business model, declining earnings and high discounting rates as investors are uncertain about their future and want their investment back within foreseeable future.

The prudent investor goes fishing in the pond with solid earnings growth and not too high valuation

Low interest rates motivates higher prices for growth assets



% indicate how much of company value depends on long term cash flow

A few ideas from AC Vision Fund

The great innovation leap

The future innovation leaders are often hyper valued companies that have already reflected the good news for the next 10 years in their stock price.

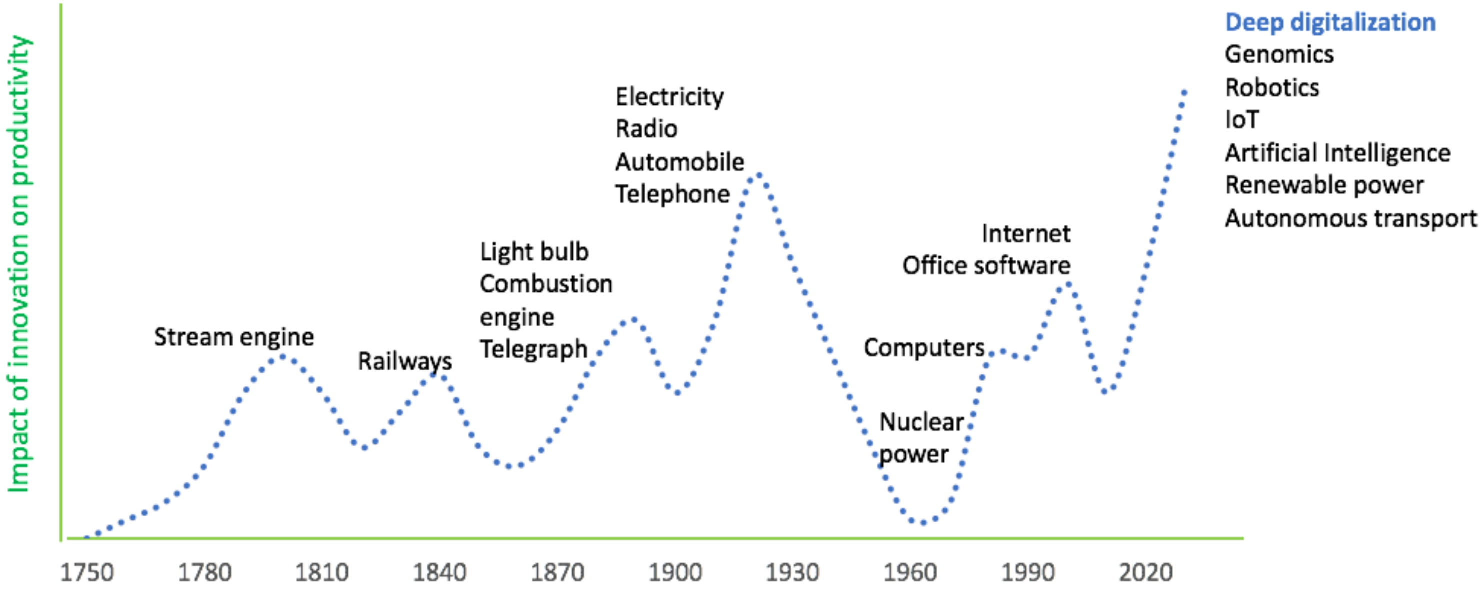
Fortunately it's far from all companies that are hyper valued.

Deep digital
The 2020s looks to be the decade where digitalization is applied into everyday life and it lifts productivity massively for the successful enablers.

The usage of deep digital understanding will gradually spread out to potentially all businesses. This in turn can improve their market position, operation costs and and increase ROIC. First movers will have most of the benefit

This is the areas AC Vision Fund focus on.

The next couple of slides provides two such examples

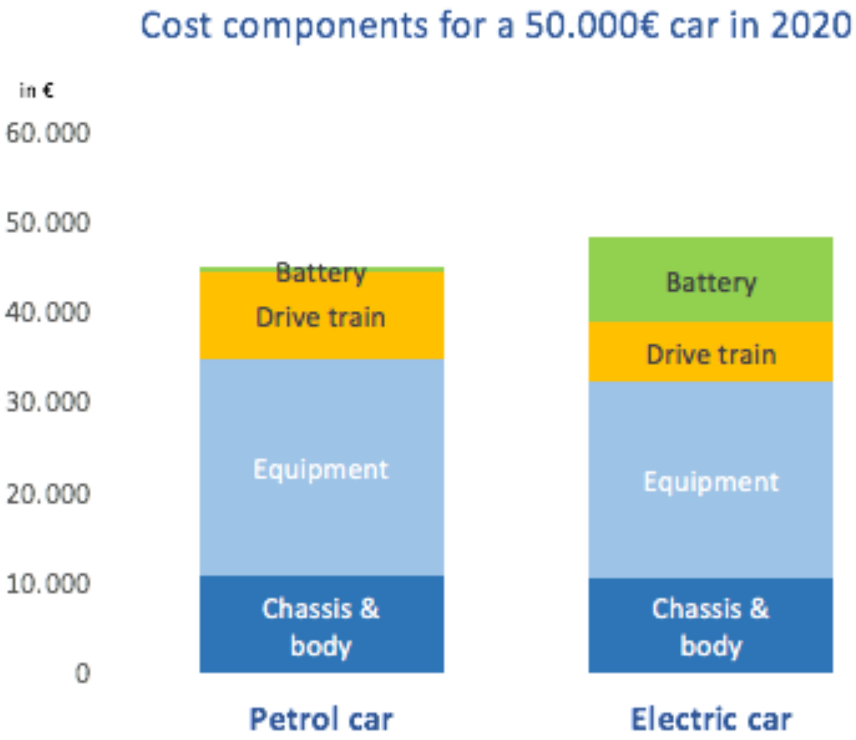


Own design inspired by history charts, books, findings on web and future surveys

Cars going electric and more features for same price

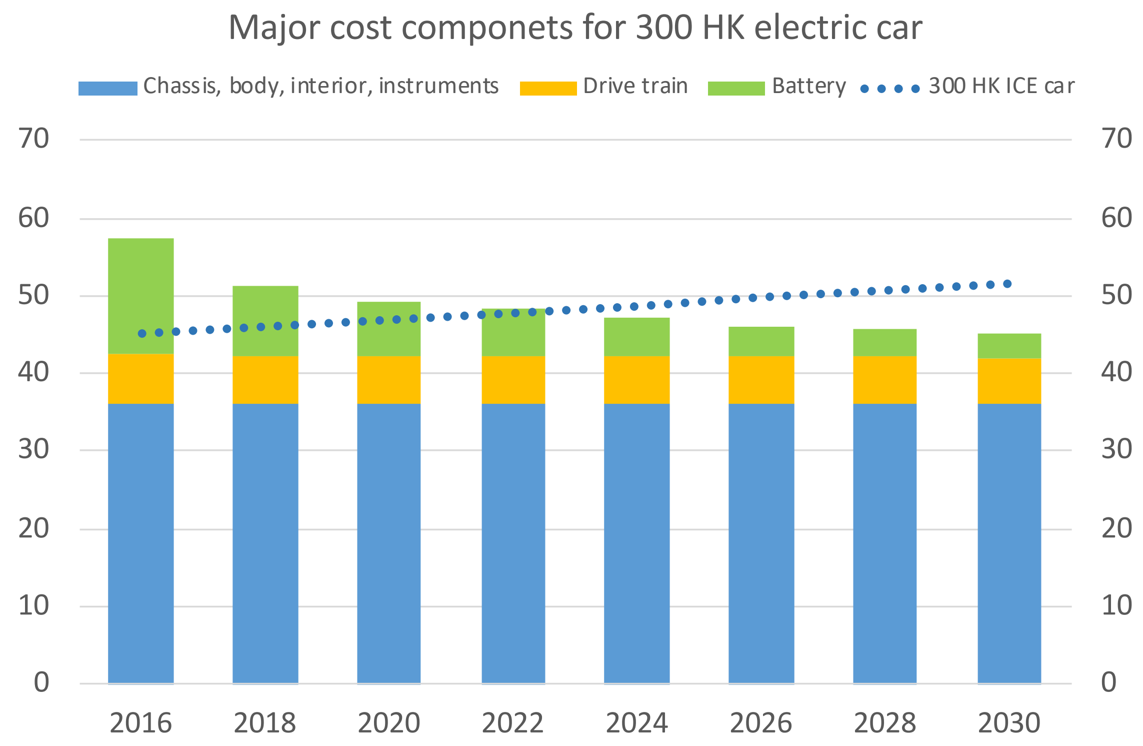
55.000 €
338 km range
71 kWh
313 hk

57.000 €
800 km range
381 hk

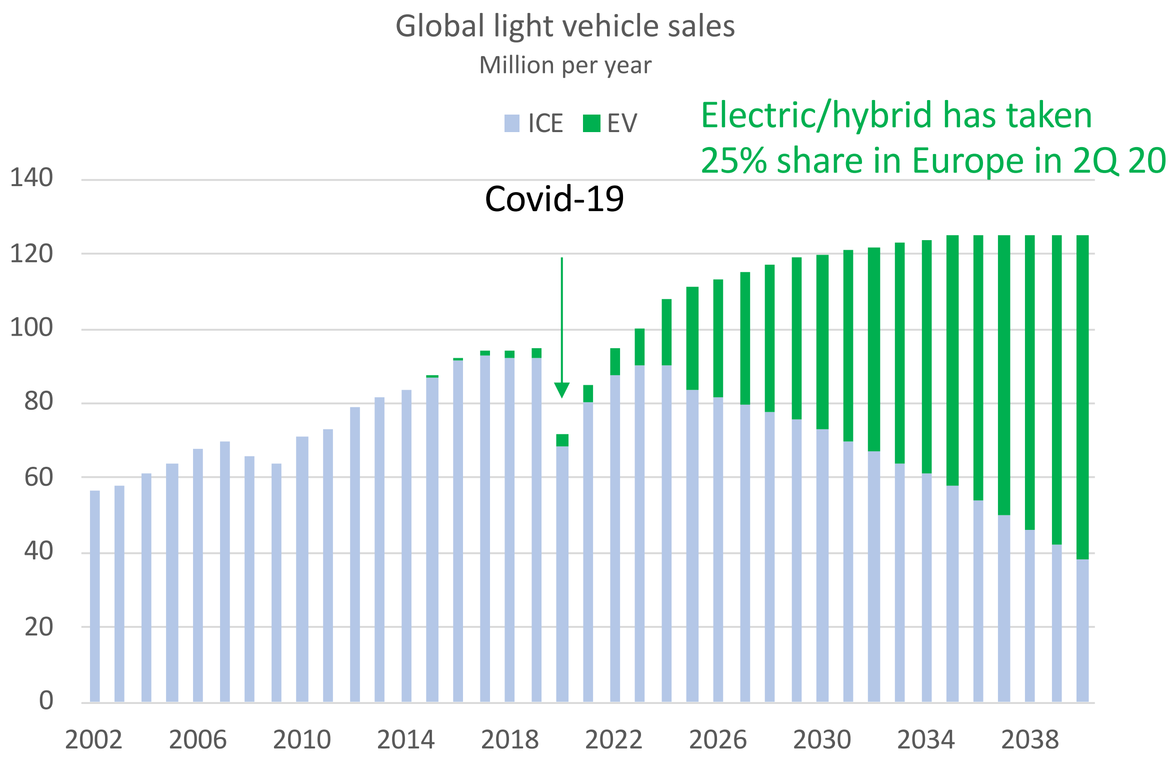


Source: mobile.de, McKinsey and Münich Institute of Automotive Technology

We’re standing just in front of a major shift towards electric cars



Source: mobile.de, McKinsey and Münich Institute of Automotive Technology



Source: Ballie Gifford, ACEA and KPMG

Genomics

In 2019 the global market for cancer treatment drugs was 145 billion USD. And it is expected to grow to 310 billion USD by 2026. That is just the cost of the drugs and on top comes hospitalization, lost income for the patient etc.

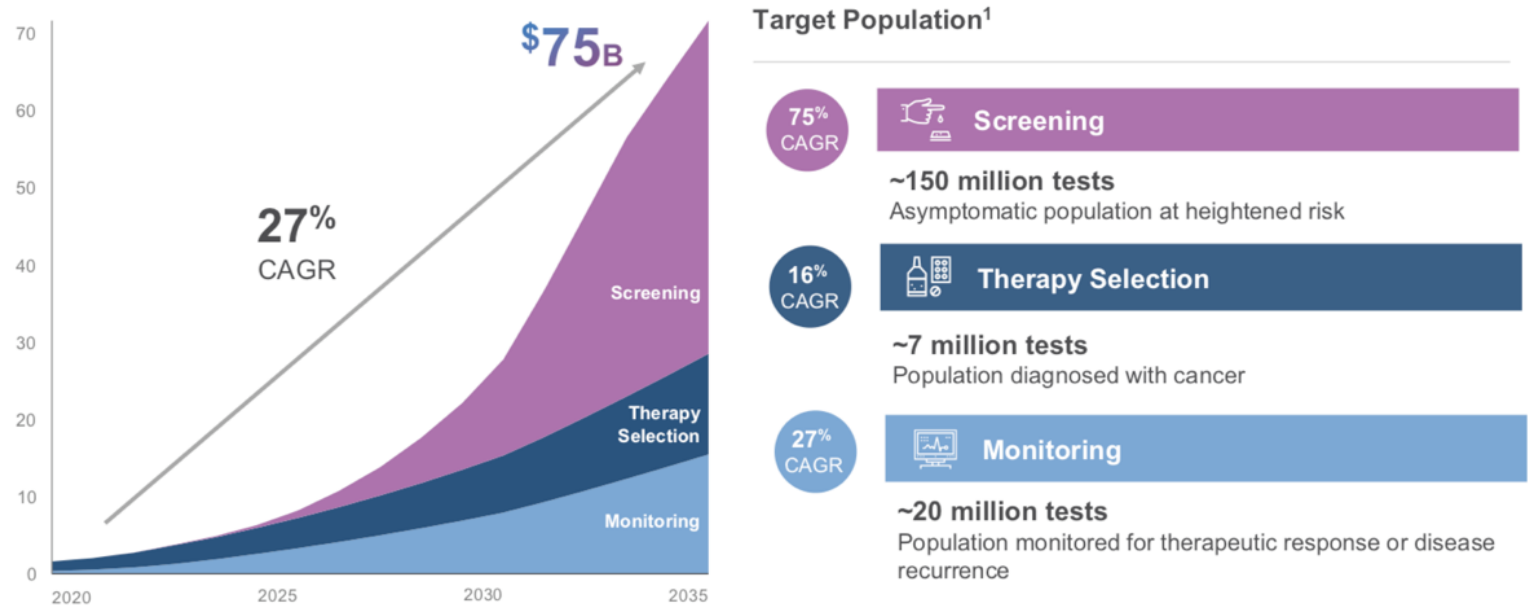
A 25-year old have annual healthcare costs of 1.000€, a 50-year old is at 2.000€ and an 75-year old is at 7.000€.

With an significant increase of elderly people the cost burden is unsustainable. To reduce the cost burden early detection and treatment is a way forward. We didn't have the science to do it in the past, but genomics is moving fast into the space and during 2020s DNA screening for disease detection will become part of our lives.

Deep digital
Analysing DNA data is complex and requires ultrafast computer processing. Hence the genomics structural growth hold wider perspectives for software and semiconductors too

Enjoy the ride

Next generation DNA sequenced oncology detection to take of in 2020s



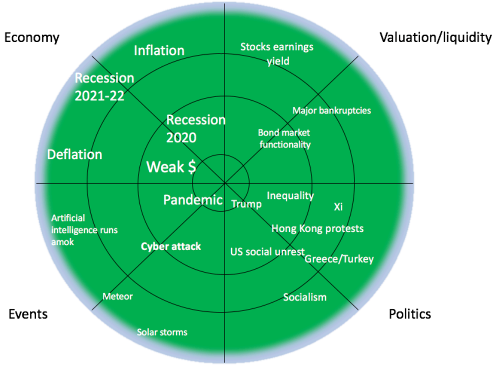
9 [1]**Source:** Illumina Internal Analysis; Survey Data; Expert Interviews; Secondary Market Research (OECD, Decision Resources Group, GlobalData, IARC, United Nations)

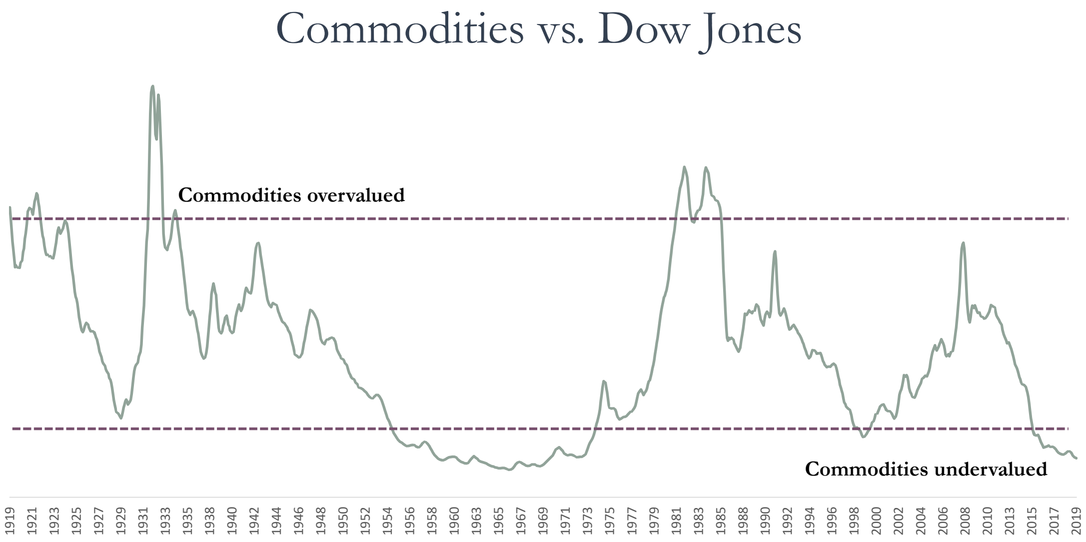
Risks and alternative scenario's

One have to be open minded for unexpected changes to the roadmap and way forward. In order not to be unprepared a risk-radar is a useful tool.

Pandemic was a small blip on the radar going into 2020 and has turned out as a major disrupter. Same could occur with cyber attacks or events shutting down the communication and power systems.

Alternative scenario's include a revival of the commodity space. In 2020 China has increased building activity and a re-run of the China driven commodity boom in 2000s have to be monitored. If India and Southeast Asia embark on a similar journey as China we could well be the lowly valued and non-ESG compliant companies taking a leadership role.
So far it's low probability





Source: Goehring & Rozencwajg

Key investment view towards 2030

Economic pace in 2010s have been highly dependent on fiscal and monetary stimulus provided in the aftermath of the 2008 crisis. The stimulus have however created imbalances such as government debts. This will probably continue even as it gets beyond sustainable in some countries

Global economic growth has been declining from 6% in 1960s to around 3% in late 2010s. Productivity and population growth points towards lower economic growth in the coming decades. The underlying growth in global affluence will however continue and with Emerging Markets in lead as those economies grow double the speed of developed markets

There's nothing wrong with modest GDP growth, but many investors have been accustomed to 8% annual earnings growth, while the realistic forward growth is more likely to be around 4-5%. Dividends of 2% comes on top. Annual swings are likely to remain in the 15-20% interval, so the occasional declines will continue

In an investment world on those conditions Advice Capital Vision Fund focus on identifying companies and business clusters with unique multi-year structural growth drivers and then invest in these when growth/profitability/valuation triangulation justifies it. The investment focus in Advice Capital Vision Fund is on identifying, holding and harvesting multibaggers based on these principles. Good stewardship and ESG applies to the companies invested in.

The traditional business and inventory cycle still applies, so from period to period growth and inflation will change. In a world with evermore data and analytics the efficiency of eco systems will likely reduce the magnitude of economic swings as end-to-end value chains reduce slack and inefficiency. Risks of financial mis-allocation of capital is the same

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