NORDIC INVESTMENT PARTNERS

June 2021 update

Have stocks run too far and too fast?

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BLOX in Copenhagen center where Nordic Value was held in 2019

1H 2021 performance update

The most recent investor survey's shows that institutional investors are positioned towards permanent growth, transitory inflation and peaceful central bank behaviour. That's the consensus view and should always be challenged.

Below the surface investors shifted positions several times in first half of 2021. Banks, automotive and tech provided 20% returns in first half and with the main move in 1Q 2021.

2Q 2021 was more subdued for the 1Q 2021 winners as investors shifted to defensive sectors like healthcare, food and beverages. A clear sign of ' I want to be in the market, but I'll reduce the earnings and volatility risk'

The significant economic reduction of economic activity caused by Covid-19 will likely have central bankers continue with the easy money policy until the economy rolls by itself in late 2022 or 2023

That means cash and bonds will in most cases provide negative returns after inflation, which leaves investors with equities as the only liquid investable alternative.

A steady upward grind with rotation in leadership

MSCI World ACWI in € and including dividends rose 16% in first half of 2021. That's a very strong move and in line with the upped level of Roadmap 2021 which is going for 10-15% return ref the illustration below.

The upward move in 1H 2021 has exceeded many oberservers forecasts, so the question is if markets have run ahead of themselves? It's happened before in periods of accommodative monetary policy like Y2K in late 1999s and what afterwards became the IT Bubble

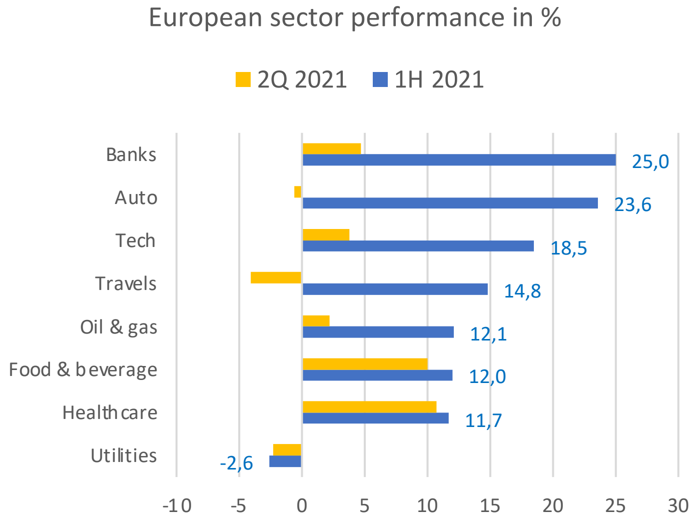
It's not difficult to image the 2021 version continuing upward, but it would be comforting with a short correction to clear out the frothiest parts of the stock market

The sector rotations in 1H 2021 implies investors started out the year with 'opening up' stocks and as the weeks and months rolled in investors shifted towards more defensive sectors.

The important signal is that flows into stock markets continued at record highs

In terms of regional moves US continued in the lead of 17% after a strong 2Q 2021, while Asia and Emerging Markets lagged with a return of 'only' 7-9% in EUR.

Europe overall market was up 13%



Source: own design

Big picture update

Roadmap for 2021 suggested stocks would provide a 15% return for the year and the main risk being higher interest rates.

Status after the first 6 months is a solid return of 16% for overall markets. There's only few signs of fatigue, but as mentioned a pause would be healthy.

If history can be used as a guideline then we're close to a period of consolidation and pause. There's nothing wrong with that as markets historically continue to march on after the pause.

Check the three previous episodes to get a sense of how these things have worked in the past.

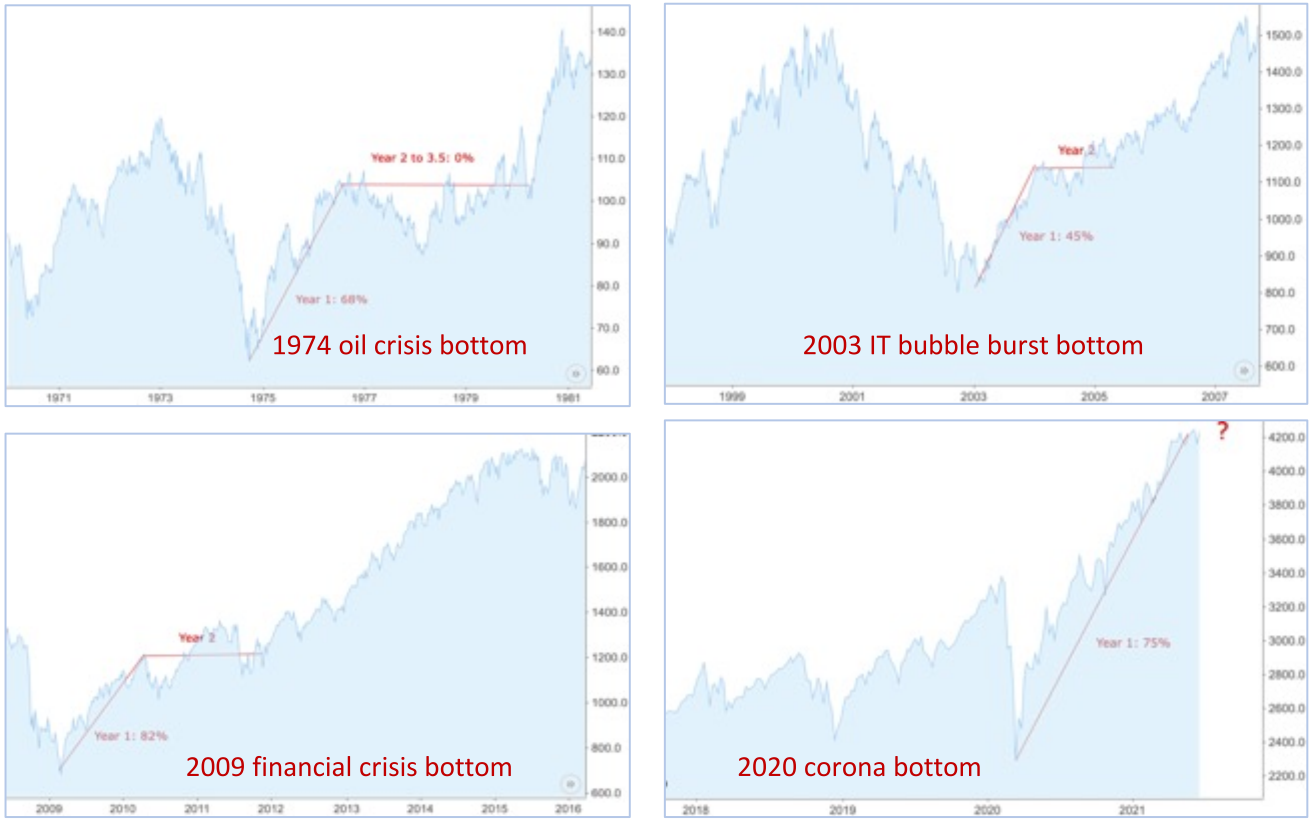
Late 2022 will likely be period where we are more or less back to normal after the pandemic and 2023-24 will then be the normal pace of economic activity. As mentioned many times before the economic pace in 2020s is most likely 3-4% nominal GDP growth, which translates into 5-6% annual returns for stock markets in the long run.

That is below what investors have been accustomed to over the past 40 years.

Year 2 after a bottom and strong rebound is on average a muted year

No-one knows the direction of markets in 2022-25, however there's a few indications of direction that are useful. Earnings are expected to continue upward, economic activity will be moderate to brisk, inflation is expected to be above normal in 2021 and then start to move back to the more normal 1-2% pace. The roadmap conditions are consequently for decent returns in the mid-single digits.
History shows that after strong rebound years (a few based on S&P 500 shown below) the second year is 'take a break year'.
Time will show if the current episode repeat some of the historical patterns.

S&P 500 performance is selected periods



Source: own design

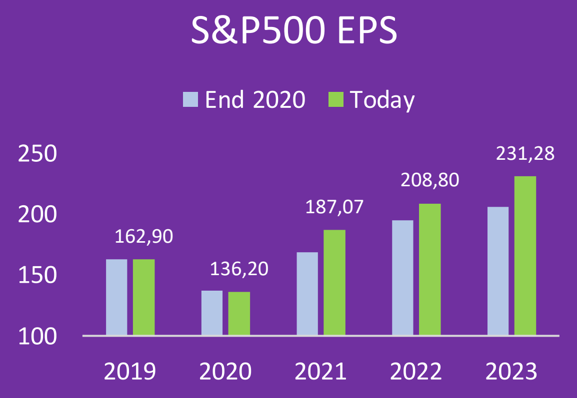
Earnings and valuation

Going into 2021 earnings expectations was for 23% growth in USA and 22% in Europe.

By end of June 2021 performance expectations have been raised to 39% in USA and 36% in Europe. That is a massive upward move and not seen for decades

The economic pace is expected to continue into 2022 which bodes for 2022 earnings to grow 12-13% on top of the 2021 performance

Below is S&P 500 EPS consensus EPS and change since beginning of 2021



Decomposing performance. Upside surprise in the making?

Stocks are up 16% in 2021 and in record territory. While things might have run a bit ahead of itself there's a lot of moving parts that drive actual performance.

In the updated charts to the right is the annual performance decomposed into the main explanation factors for total shareholder return for a given year;

1. earnings growth,
2. dividend yield
3. change in valuation

In the charts it's consensus EPS and dividend data and change in P/E multiple 2021 since beginning of the year.

Earnings for 2021 are estimates and not facts. Barring external shocks, actual performance tend to land 5% below consensus estimates. Dividend are less fluctuating, which leaves valuation which in turn is tied up to the risk-free rate like the US 10- year bond yield

The significant estimate upgrades for 2021 suggest 2021 could well be one of the best years on record. It's far from certain but it shouldn't be a surprise if it happens. And if it happens there guaranteed to be even more bubble talk in financial media.

Interest rates will probably move a bit higher in 2022 or 2023 and that can be factored in via a valuation contraction of 10%. It could be 20% or even 30%, so pick your own best guess and you have the return profile to work on

All forward earnigns growth rates are based on Refinitiv consensus

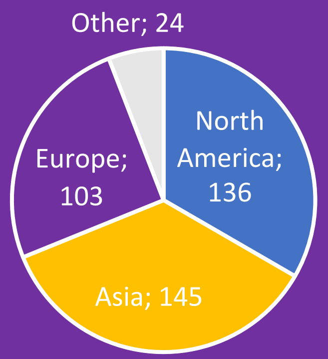
Source: own design

The power of compounding

Total global net assets was 431 trillion $ by end 2020, up 6.7% per year from 2015.

The 431 trillion $ comes from 250 trillion $ in stocks, bonds and cash, 235 trillion $ in hard assets such real estate, gold and consumer durables and less 53 trillion $ in mortgage, loans and credit card debts

The biggest regional pools of net assets in trillion $ are:



Source: Boston Consulting Group Wealth Report 2021

According to BCG, Asia will compound with 5.7% towards 2025, North America with 4.4% and Europe with 3.0%

Roll it forward 2-3 generations at same speeds and Asia will completely dominate this world in terms of economic power

Wealth creation and the impact on compounded interest can not be repeated often enough

Børsen newspaper digital version include the same-day edition 80 years earlier. The other day I came across a house for sale on Strandvejen in Charlottenlund in 1941 and listed for 45.000 DKK

A nice neighborhood and view to Øresund would in 2021 be selling for at least 25-30 million DKK.

From 45.000 DKK to 27.5 million DKK over 80 years equals 8.3% annual return and clearly illustrates the power of compounding.

Villaer sælges

Strandvejs-Villa i Charlottenlund.

Villaen, Strandvej 247 F, tilhørende et Dødsbo, er til Salg. Villaen der er højt beliggende med pragtfuld Udsigt over Øresund, bestaar af 2 fulde Etager, hver indeholdende 4 Værelser med Køkken, Centralvarme m. m. Desuden en Kamin og 2 Kakkelovne. Smuk Have med Garage, Lysthus m. m. Areal 906 m². Ejendomsskyld 45.000 Kr.
Anvises af Landsretssagfører A. T. Brøstrup, Nørregade Nr. 6 Ctr. 1540.

In 2021 global stock markets have a total market cap of 107 trillion $. Not much party in media when it passed the 100 trillion $ mark.

The remarkable thing is however how the compounding has worked over the last 30 years. In 1992 the global market cap was 23 trillion $ and at the bottom in March 2009 it was 26 trillion $

The annual compounding from 1992 is 5.4% and from 2009 its 12.5%

Global GDP is estimated at 94 trillion $ in 2021 and it's expected to reach 125 trillion $ by 2025

Assuming no major conflicts or natural disasters then the compounding will continue and the human wealth and innovation will hopefully make large parts of Earth into sustainable and balanced living at a level that's much higher than the current levels

The world drum beat for stock markets (S&P500 index) which is currently at 4.200, would with a 5% compound rate reach 10.000 in 2036. **And in 2071 S&P500 would reach 50.000 !!!**

As global population growth slows down and even decline in some countries the average wealth will rise significantly per capita

And there's only one Strandvejen 247F so expect the value to continue going upward for the coming generations

One more observation

US stocks have been the leaders over the past 10 years. And the leadership has varied over the decades. The current leadership is now for intangible assets like social media platforms, internet based businesses and software .

Things change over time and only 30 years ago it was banks and oil companies that was king of the hills

And going even further back it was railroad companies as the biggest companies. So much for very long term investing

Being king of the hill is enriching while it last but it's not the same as being a success for eternity

In the USA there's guessing who will be the first 10 trillion $ company and currently the bet is between Google and Microsoft. Only time will tell. And prepare for surprises on that journey.

And remember the old saying;

'how do you invest in a agile small company ?'

' just buy a big one and wait'

King of the hill companies over time

It's fascination looking at the changes in financial markets over time. The pace of growth and change in risk appetite get factored in by the stock market as the accumulated wisdom of all investors. Sometimes markets are right and sometimes they are not. The underlying businesses that drive into the king of the hill league in a sustainable manner have solid revenue growth, good profitability and good trustworthy people running the business.

Identifying and holding on to a long-term success can be rewarding beyond imagination

Who will be the biggest market cap companies in 10-20 years? Almost impossible to predict but given the exponential growth in new inventions and innovation it's likely to surprise just as Nokia was a surprise in 1999 and Tesla is in 2021. Ten years prior to being king of the hill both companies was long down the scoring tables.

1989

Rank	Company	Country	Market cap in billion $
1	Industrial Bank of Japan	Japan	104
2	Sumitomo Bank	Japan	73
3	Fuji Bank	Japan	69
4	Dai-Ichi	Japan	64
5	Exxon	USA	64
6	General Electric	USA	58
7	Tokyo Electric	Japan	56
8	IBM	USA	55
9	Toyota	Japan	53
10	AT&T	USA	50

1999

Rank	Company	Country	Market cap in billion $
1	Microsoft	USA	602
2	General Electric	USA	507
3	Cisco	USA	357
4	Wal-Mart	USA	308
5	Exxon	USA	278
6	Intel	USA	275
7	NTT	Japan	272
8	Lucent	USA	228
9	Nokia	Europe	219
10	Deutsche Telekom	Europe	216

2009

Rank	Company	Country	Market cap in billion $
1	Exxon	USA	327
2	Microsoft	USA	271
3	Wal-Mart	USA	209
4	HSBC	UK	198
5	China Construction Bk	China	193
6	Apple	USA	189
7	China Mobile	China	188
8	BP	Europe	181
9	Johnson & Johnson	USA	177
10	Nestle	Europe	176

2021

Rank	Company	Country	Market cap in billion $
1	Apple	USA	2.290
2	Microsoft	USA	2.040
3	Amazon	USA	1.730
4	Alphabet/Google	USA	1.660
5	Facebook	USA	985
6	Tencent	China	721
7	Tesla	USA	654
8	Berkshire Hataway	USA	635
9	Alibaba	China	615
10	Taiwan Semiconductor	Taiwan	550

Source: own design

One more thing

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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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