Nordic Investment Partners

Second quarter 2019 update

Key investment view towards 2030

- Fiscal and monetary stimulus since 2008 have created ever larger imbalances such as government debts. This will probably continue even as it gets beyond sustainable in some countries
- Global economic growth has been declining since 1960s from 6% 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 having 2-3 times faster growth than Developed Markets
- There's nothing wrong with 1-2% GDP growth, but many investors have been accustomed to 8% annual return, while the realistic forward return is more likely to be below 5% and achieved with 3% earnings growth and 2% dividend. Annual swings are likely to remain in the 15-20% interval, so it's not going to be boring no matter what
- 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
- In a investment world on those conditions Advice Capital Vision Fund and I focus on identifying companies and business clusters with unique structural growth 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.

'Be patient – multibaggers takes time'

Trillions on the sidelines

Global stock markets rose 4% in June 2019. For the year stocks are up 16%

June was the best June since 1950s. At least when you look at the index level.

A few observations:

Economic pace

Trade war and late cycle economics have had its impact on corporate appetite for new capex and consumer behavior. The economic pace continues to decelerate and several countries are now approaching recession according to PMI's

Corporate earnings

The 1Q 2019 season showed 4% sales growth and 2% lower earnings.
2Q and 3Q 2019 will be more of the same and only when we get into 2020 the earnings estimates are getting more positive. Is that realistic given the economic pace is slowing down?

Market movers

2019 has been a very good investment year and have exceeded my roadmap due to a rapid decline in bond yields. More than 12 trillion $ of bonds are now providing you negative return for what you could call 'return free risk'.
Stock indicies have been lifted by relatively few stocks. In US only 10 stocks have made 1/3 of the upward move; Amazon, Apple, Microsoft, Facebook, Visa, Mastercard, Cisco, Disney and P&G
The winner takes it all works very well in global financial markets

Investor positioning

The performance covers a continued exodus out of active funds, inflow into passive index funds, selling of cyclical sectors and buying of stable sectors
The institutional investor surveys shows the lowest appetite for stocks in 20 years and an unusual high level of cash on the sideline. And there's more on the sidelines in the form of private equity dry capital and corporate stock buy backs worth combined more than 3 trillion $

Investor appetite is mainly for large caps

Over the last 12 months the US market is the best global market. Looking at the undercurrents its clear investor appetite is focused on large caps. In periods of increased investor appetite its transportation and small caps that outperform, so interesting to see those two categories not following pace. Keep an eye open for moves as it could be a sign of the economic pace in 2020-22

12 month performance

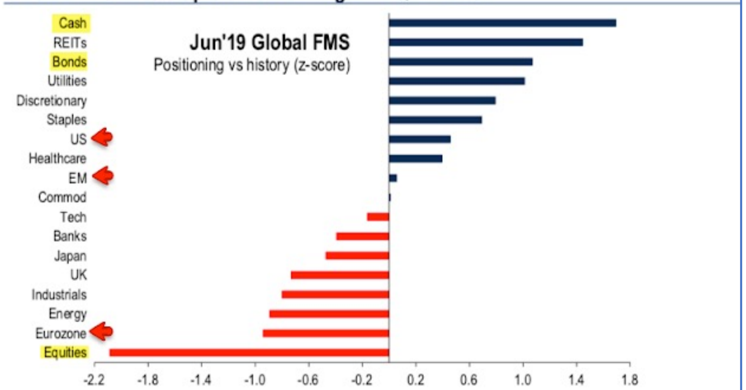
Investor positioning

BoAML survey, the monthly investor sentiment indicator made since 1990s, show institutional investors being very cautious. Cash levels and appetite for stable earners are on level with early 2009 (after most of the financial crisis damage was done).

The survey is normally a good indicator in the shorter term, but looking 2-3 years ahead its often an contrarian indicator. Now, its very difficult to say how the world will look in 2022-24, but assuming a modest recession in Europe and USA and rapid reaction from policy makers and central bankers, then 2022-24 could be a new expansion period

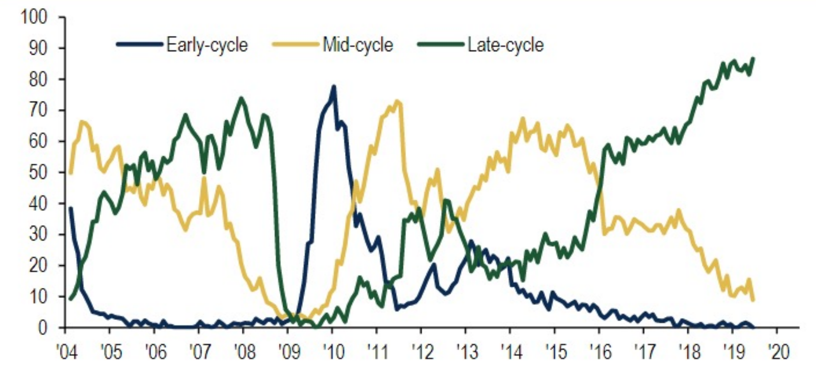
So all the capital in preservation mode is likely to increase the beta or risk appetite, which would bode well for assets that are currently disliked.

Exhibit 8: FMS investors positioned for low growth & low rates



Source: BofA Merrill Lynch Global Fund Manager Survey

Exhibit 5: Record number of FMS investors say global economy is late cycle



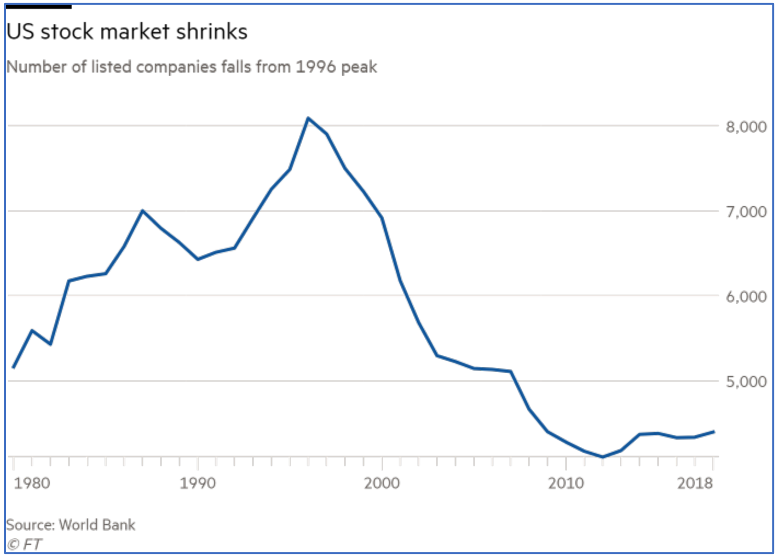
Source: BofA Merrill Lynch Global Fund Manager Survey

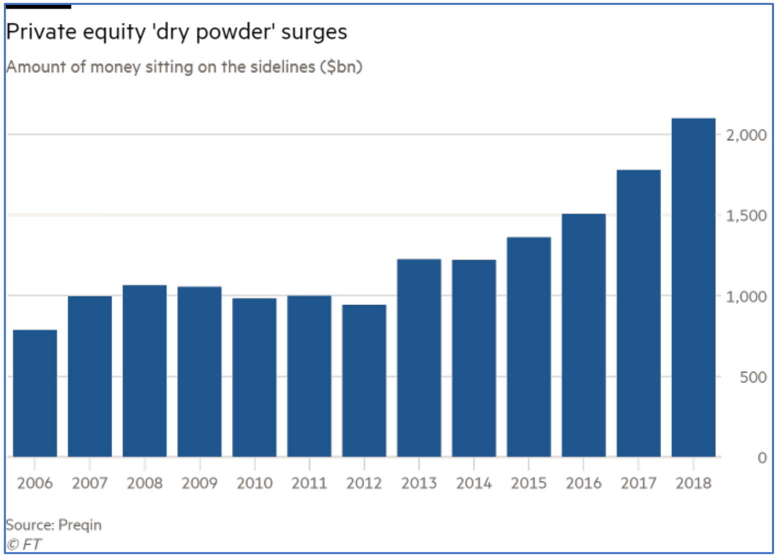
Fewer stocks and more money

In 2019 there's a clear trend of institutional investors leaving active managed funds and putting the capital at work in passive funds or other strategies that are close to index.

Active managers in European stocks have seen 8% outflow of AuM, so if it continues at same absolute pace, then investors have taken all their money out in just 12 years. Who will then determine the fair price of a company? Index funds are not designed to do that job, so its down to individual investors, disciplined stock buy backs, corporate M&A and probably most important the private equity sphere.
The latter has more than 2 trillion $ of 'dry powder' , but as they are designed to generate double digit returns its difficult to find investment objects when interest rates are zero and all good assets are priced for below 5% return.

At some point the ketchup bottle effect could happen via a ultra large PE deal to consolidate a large industry such as automotive, retail or raw materials. PE have traditionally avoided cyclicals due to usage of high levels of debt





Sector positioning /selected sectors

Sector performances (price in local currency) 30/06/2019

		1 month	2019	2018-21 EPS CAGR	P/E19	PEG ratio
US	**Auto**	11,0%	6,5%	5%	7,2	144
	Banks	5,6%	15,5%	4%	10,9	273
	Food/beverage	3,5%	13,6%	5%	18,9	378
	Healthcare	5,9%	7,9%	8%	16,1	201
	Oil/gas	7,1%	10,5%	10%	18,2	182
	Retail (incl Amazon)	5,4%	20,6%	11%	18,2	165
	Tech	6,0%	24,0%	9%	17,5	194
	Semiconductors	10,9%	26,3%	9%	15,8	176
	S&P500	5,5%	17,4%	11%	16,5	150
EU	**Auto**	4,6%	11,0%	5%	6,7	134
	Banks	0,2%	4,5%	1%	8,6	860
	Food/beverage	2,2%	25,3%	7%	19,4	277
	Healthcare	4,9%	15,5%	6%	16,2	270
	Oil/gas	3,0%	8,5%	9%	11,7	130
	Retail	2,1%	14,3%	4%	15,8	395
	Tech	5,4%	24,6%	12%	21,0	175
	Telecom	0,8%	-1,8%	4%	13,6	340
	Stoxx 600	3,5%	14,0%	6%	13,8	230

Based on consensus

Cyclical sectors is US rebounded in June and measured on YTD the preference has been for larger cap growers and stable earners

The growth/valuation PEG ratio measure suggest US is a better place to invest than Europe

Following the comments on previous pages please stay tuned for sector move signals and corporate guidance to get a better picture of how rest of 2019 will perform

US growth rate is boosted by the tax reduction in 2018. Underlying earnings growth is estimated at 6%

AdviceCapital Vision Fund

Advice Capital Vision Fund was launched in November 2018 and is part of Advice Capital, an investment fund boutique founded in 2009 in Copenhagen.

Ole Søeberg, founder of Nordic Investment Partners, is board member and advisor for Advice Capital Vision Fund. The fund is an Alternative Investment Fund (alternativ investeringsforening) as defined and regulated by Finanstilsynet in Denmark. The minimum investment is 100.000 €

The fund strategy is long only, absolute return and focus on structural growth. The fee model is 0.00% fixed fee, 20% performance fee, high-water mark and a entry/exit fee applies.

The investment philosophy is based on the belief that financial markets are not efficient in valueing financial assets. The fund selection criteria is growth at an reasonable price (GARP). Companies in the investment portfolio are characterized by a strong franchise with growth, good profitability, a solid financial position as well as good stewardship and discipline in operational and financial matters

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