

BLS Capital

Global Equity: MSCI ACWI Benchmark

For the month of:

September

2020

Manager Performance Calculations

* Annualized returns

	Last <u>Month</u>	Last <u>3 Months</u>	Last <u>1 Year</u>	Last <u>3 Years*</u>	Last <u>5 Years*</u>
BLS	-3.61%	9.08%	10.98%	12.09%	n.a.
MSCI ACWI	-3.22%	8.13%	10.44%	7.12%	n.a.

Performance Attribution & Strategy Comments

The portfolio had a gross return of -3.61 pct. in September, whereas MSCI AC World returned -3.22 pct. resulting in an underperformance of 0.39 pct. The three largest relative contributors were Kering (8.2 pct. in USD), Adidas (6.4 pct.) and Novo Nordisk (4.3 pct.), while Galaxy Entertainment (-14.9 pct.), Intercontinental Hotels Group (-10.0 pct.) and Sands China (-12.7 pct.) were the largest relative detractors.

Our portfolio is sensitive to Covid-19 being kept under control due to our overweight in consumer companies, in particular high-end consumption, yet we expect that our high-end consumer companies will emerge strengthened on the other side of the crisis. The increased number of infections in both Europe and the US and new measures to contain this is not positive for the businesses of our consumer names in the short-term, yet we see an attractive upside potential from current valuations, when the world normalizes.

In Europe where countries had re-opened consumer spend has experienced a strong re-bounce with continued strong, even accelerated, online growth. The reporting from our companies and peers indicate that China is normalizing. We are convinced that strong market leaders in the industries we are invested in will emerge in a stronger competitive position on the other side of the pandemic due to the financial strength to invest in their businesses and new opportunities. Nike, as a peer to our holding in adidas, reported quarterly revenues on line with last year, with the strongest growth in high-margin segments – a trend that we have also seen with adidas and strengthens our conviction on the longer-term value creation potential.

The UK market and the British pound underperformed during September, as has been the case through most of 2020. Our holdings in British listed names are largely not exposed to the domestic UK market, with the exception of St. James's Place, but the political uncertainty regarding Brexit, new Covid-19 restrictions and the volatile government seems to have increased the risk-premia on UK listed companies, regardless of the exposure in the underlying business.

We have no doubt that our companies are impacted but we see no signs of longer-term impairment of their earnings-power. Due to the massive actions taken by governments and companies in the wake of the outbreak, the earnings-drop is likely to be worse than seen under the Global Financial Crisis, as revenues have disappeared within a short time-frame without the opportunity for businesses to prepare.

We have lowered the exposure to our holding with strongest share-price development, such as Mastercard Kering and Starbucks following strong share-price performance, and redeployed capital into high-quality companies with recent share-price underperformance e.g. St. James's Place and Novo Nordisk, Otis and Automatic Data Processing. We have no exposure the FAANGS or BAT.

We are comfortable with our companies' robust balance sheets and strong liquidity reserves. The built-in cash-flow based valuation support continues to be compelling, and we see our companies as being in place to capitalize when the situation normalizes. Our payment networks are reporting weekly improvement in number and value of payments, where some areas experience growth year-on-year indicating the positive impact of the re-opening.

Account Turnover

Gained:	Number of Accounts:	0	Total Market Value (\$m):
Lost:	Number of Accounts:	0	Total Market Value (\$m):
	Reason(s):		

Manager Style Summary

BLS is a "bottom-up" manager, whose process is driven by individual security selection. They invest in quality companies which have the best possibility of creating sustainable value and generating attractive risk adjusted returns to investors in the long term. Country and sector exposures are by-products of the security selection process and are unconstrained by index weights. The portfolio consists of roughly 25-30 securities at a time. It is a concentrated global equity portfolio, and as such, may experience more volatility relative to the market.

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Portfolio Guideline Compliance				September	2020	
Portfolio Guideline:	Index	BLS	Calc	Min	Max	Compliance
B3. No more than 10% of the account shall be invested in any one security @ purchase						Yes
B4. No more than 2 companies headquartered in Denmark						Yes
B5. Number of issues		25		25	30	ok
B6. Normal Regional Exposures (* benchmark +/- min/max):						
North America		34%		35%	50%	check
Japan		0%		0%	0%	ok
Europe ex UK		30%		15%	35%	ok
UK		20%		5%	13%	check
Pacific ex Japan		0%		0%	0%	ok
Emerging Markets		16%		10%	30%	ok
Non-Index Countries		0%		0%	0%	ok
Total		100%				
B7. Normal Global Portfolio Characteristics						
Capitalization (45%-75%)		85		45	75	check
Price/Book Value		7.5		5	9	ok
Price/Earnings (current)		24.0		17	23	check
Price/Cash Flow (current)		20.8		19	24	ok
Dividend Yield		2.6%		1.8%	2.8%	ok
ROE		35%		31%	37%	ok
ROIC		48%		42%	50%	ok
FCF Yield		4.8%		3.8%		ok
F2. Brokerage commissions not to exceed \$0.03/share for U.S. equities						Yes
F3. Annual turnover		58%			40%	check
The portfolio is in compliance with all other aspects of the Portfolio Guidelines					<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Manager Explanations for Deviations from Portfolio Guidelines

B6. Regional Exposures:	Exposure to the UK remains high, while US is lower than historically, due to our perception of risk-reward in our bottom-up process.
B7. Capitalization:	We have seen increasingly attractive risk-rewards in our higher market-cap holdings.
B7. Price/Earnings:	The FCF-yield is our primary valuation tool, and the P/E is thus not actively used in assessing valuation attractiveness.
F3. Annual Turnover:	The turnover was historically high in March, as we found what we perceive to be a large dislocation in valuations of high quality companies.

Organizational/Personnel Changes

There have been no changes in the team during the period.