Quarterly Commentary

ValueInvest Global

Q1 2024

ValueInvest DANMARK

This is a marketing communication. Please refer to the Prospectus and the KIIDs when making any final investment decision. All sources Bloomberg unless otherwise stated.

Market Review

The stock market rally that began midway through last year continued into 2024 as investors seemingly ignored geopolitical issues that included wars in the Middle East and Ukraine, the ongoing trade dispute between the US and China, and the global embrace of protectionist policies. Instead, investors found support in resilient economic data, the increased likelihood of a soft-landing, robust earnings reports, and the anticipation of interest rate cuts. The commercialization of artificial intelligence (AI) technology also propelled market gains. NVIDIA Corp. stood out as the company beat fourth-quarter earnings expectations.

Against this backdrop, the benchmark MSCI World Index posted a strong return in the first quarter, gaining 11.4% (net). Benefiting from the lure of AI, information technology (IT) again dominated performance, contributing almost one-third of the benchmark's return. Other top-performing sectors included communication services and financials. Conversely, defensive sectors such as consumer staples and utilities lagged, failing to keep pace with the market's gain.

Within the Fund

For the first quarter of 2024, ValueInvest Danmark Global (the "Fund") underperformed the benchmark, the MSCI World Index (net).

The Strategy used is designed to deliver an asymmetric return profile, emphasizing low downside risk while capturing most of the upside potential. Staying fully invested over a full market cycle and compounding solid long-term returns is critical to this approach. The Strategy's defensive tilt detracted from its relative performance in the first quarter. Additionally, challenges in stock selection within the consumer discretionary, consumer staples, and healthcare sectors also detracted from relative performance. Even though the Strategy did not match market returns, it still generated a decent overall return. We remain dedicated to improving the Strategy's ability to capture gains during market upswings and believe that the portfolio changes over the past 15 months have achieved this without sacrificing downside protection.

Detractors and Contributors

Among the largest detractors from return in the first quarter included Nestlé SA and Amadeus IT Group SA.

Shares of Swiss food behemoth Nestlé declined as the company's organic growth of 7.2% came in at the low end of its full-year guidance. Further, the company issued a moderate 2024 outlook with organic growth slowing to around 4%. As inflation and pricing are tailing off, Nestlé is prioritizing growth led by volume and mix, which means that the company will need to invest more in advertising and marketing. However, management reiterated the margin target of 17.5% to 18.5% by 2025. We think that long-term growth is underpinned by Nestlé's strong presence in attractive categories such as Coffee, PetCare, and Nutrition and Health Science. PetCare particularly continued to shine and was the single largest contributor to growth in 2023, posting an impressive organic growth rate of 12.1%.

The Spanish travel technology company Amadeus IT Group demonstrated healthy growth across all business segments in 2023, but its shares nevertheless fell in the first quarter of 2024. With the post-pandemic recovery, operational leverage is kicking in with earnings before interest, taxes, depreciation, and amortization (EBITDA) growing at a rate of 29.8%. In contrast, Amadeus' competitor Sabre Corp. is struggling to gain traction, and earnings before interest and taxes (EBIT) are still down 82% compared to 2019 (whereas Amadeus is almost back to its level in 2019). We expect strong growth to continue despite the current costs associated with migrating to the cloud, which will save costs in the long term. Amadeus is leveraging its strong balance sheet and has made two acquisitions – Vision-Box (a biometric solution for airports) and Voxel (electronic invoice and business-to-business payments) – expanding into adjacent areas complementary to its existing customers and getting a more significant share of the travel value chain. The investment case is on track.

The largest contributors to return in the first quarter included SAP SE and Novo Nordisk A/S

The German multinational enterprise resource planning (ERP) software company SAP continued to deliver and report solid 2023 results while increasing its 2025 target. The company's ongoing business transformation from lumpy software license sales to recurring subscriptions has been well executed, and SAP is successfully shifting existing and new customers into its cloud offering. The total cloud backlog grew by 39% in 2023, and this is the key driver of future sales and margin expansion. In addition, SAP is developing AI applications to run on top of its clients' data. This may be a massive opportunity for SAP as we believe that customers are willing to pay premium prices for analytics that can help them improve working-capital management and supply-chain resilience.

An investment that keeps on giving, supported by a constant flow of positive news, is the leading diabetes-care company Novo Nordisk. In line with its guidance, Novo delivered strong growth in fiscal year 2023 driven by the company's glucagon-like peptide-1 (GLP-1) and obesity franchise. To date, investors have reacted to GLP-1 as the "wonder drug" of our time, one that can not only treat diabetes and obesity, but can also help in reducing the risk of heart attacks, preventing deterioration of chronic kidney disease, and much more. Demand for GLP-1 drugs is high and the only constraint to growth is production capacity, giving Novo an excellent opportunity to deploy capital at high returns. At Novo's Capital Markets Day in March, the company impressed investors, who pushed the stock to a new all-time high. The excitement was fueled by promising results from a phase I trial of amycretin, a new oral medication for weight loss that enabled obese participants to shed 13% of their body weight in just 12 weeks, potentially outperforming Wegovy in efficacy.

Active Changes

The investment manager continuously monitors all of the Fund's investments, ensuring that they remain consistent with our investment case. If and when investments no longer fulfil our quality or valuation criteria, we exit our position.

That was the case with French telecom operator Orange SA, which we sold in the first quarter. We thought that the current dividend payout was priced in and had reservations about management's approach to capital allocation decisions, leaving us with more questions than answers. In our view, Orange has the ability to and should return more cash to its owners.

We added the Danish logistics company DSV A/S to the Fund in late March. The company had been on our watchlist for a while because we believe it is an excellent business with industry-leading profitability and a strong record of creating shareholder value through organic investments. It is a consolidator in a fragmented market with a history of extracting substantial operational efficiencies. DSV is the third-largest player in the logistics industry but still only commands a market share of about 4%, leaving significant opportunities for roll-up acquisitions. DSV's asset-light structure makes it unique in the logistics industry and gives it a high degree of earnings resilience due to its flexible cost structure. All excess cash flow is distributed to its owners. We have acquired what we believe to be a best-in-class operator yielding an attractive free cash flow of 6% to 7%.

Outlook

Two engines propel equity returns: fundamental business return and valuation return. The former is underpinned by a company's growth trajectory and its ability to generate cash flow that compounds over time. In contrast, valuation return is influenced by shifts in the valuation multiple as investors adjust to underlying financial performance. This aspect tends to be more of a one-off, lacking the longer-term compounding characteristics inherent in fundamental business returns.

Other things being equal, higher valuation multiples compress future returns. Since the end of 2018, global stock

markets have exhibited very strong returns. This is not breaking news, but perhaps less understood is that expanding valuation multiples have generated about $4 out of every $10 in gains made from investing in the MSCI World (USD) and MSCI USA (USD) indices. We think valuation multiples have reached peak levels with further growth unlikely.

Against this backdrop, we are very comfortable with the positioning of the portfolio, which consists of businesses that we believe will deliver solid business fundamental returns. Our holdings have good opportunities for making profitable reinvestments, they have strong balance sheets, and they are currently attractively valued, in contrast with the global market. The Strategy has no investments in the highly cyclical parts of the market and is 100% invested in risk categories A, B, and C, the most earnings-resilient categories.

Inflation has affected the portfolio companies in different ways, and we have learned a few things over the last three years. We sold some companies where the pricing power was weaker than anticipated even though the market position was solid. In other cases, we own businesses where inflation is contractually passed through, and we own some that benefit from higher inflation. The speed of absorbing inflation depends a lot on where in the value chain a business sits. That's particularly relevant in the consumer staples sector, where some manufacturers have a delay in passing on input-cost inflation to their customers. There are exceptions like food retailer Koninklijke Ahold Delhaize NV. The company has experienced little impact from inflation because it leveraged its portfolio of private label offerings, which typically have a lower price point.

We believe that the Fund's investments in food- and household-products manufacturers will see profit margins expand and share prices rise as pricing delays are resolved. The three global food and household products manufacturers Nestle, Danone SA, and Unilever PLC have all reported improving gross margins, so we think that we have reached a turning point with better days ahead, rewarding our patience.

Unless otherwise stated, sources are Bloomberg.

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[1] Performance is calculated net of fees and expenses. Unless otherwise indicated, source of data is Bloomberg, MIME S.A. The MSCI World Index is a free float-adjusted market capitalisation weighted index designed to measure equity market performance of developed markets. The MSCI World Index consists of 23 developed market country indices. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged, and one cannot invest directly in an index. The benchmark is a Performance Comparator, and the Fund may bear little resemblance to its benchmark. The performance quoted represents past performance and does not predict future returns.

Rolling 12-month performanc	31/03/2023 31/03/2024	31/03/2022 31/03/2023	31/03/2021 31/03/2022	31/03/2020 31/03/2021	31/03/2019 31/03/2020
ValueInvest Global A	4.69	7.22	2.94	18.73	-5.52
MSCI World	25.84	-4.94	16.73	44.31	-8.87
Excess Return	-21.15	12.16	-13.78	-25.58	3.35

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