



Ennå Her, Children at the Beach, Skagen, 1910. The painting is manipulated and belongs to The Art Museums of Skagen.

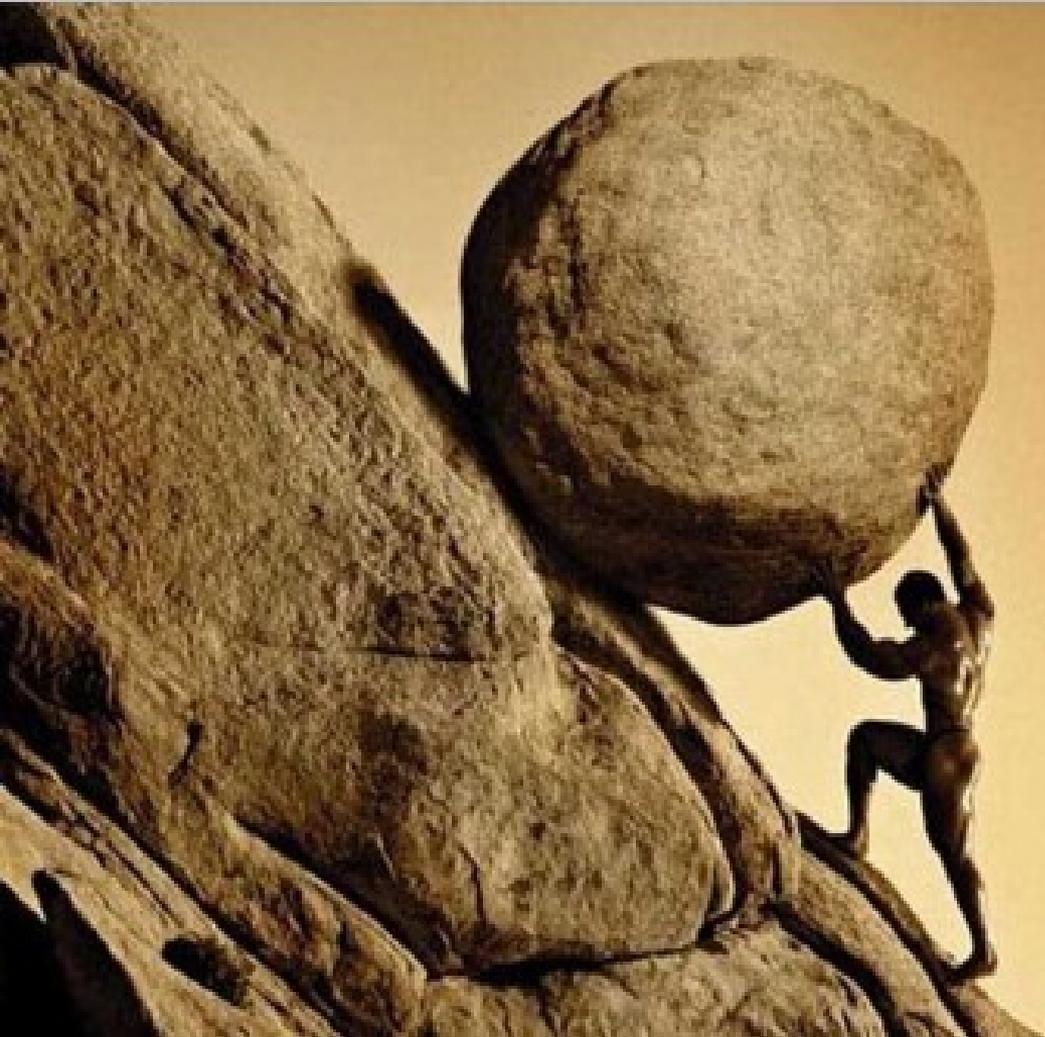
**SKAGEN Global**

# Opportunities in Global Markets

*January 2020*

The art of common sense

# Sisyphus



Source: [blog.usejournal.com](http://blog.usejournal.com)

**Let's review the past 10 years**

**2010 – 2019**

# 2010. Greece debt crisis



Source: fearlessprediction.blogspot.com

# 2011. US loses AAA credit-rating

## S&P downgrades U.S. debt

AUGUST 6, 2011 / 2:09 PM / CBS/AP



Credit rating agency Standard & Poor's says it has downgraded the United States' credit rating for the first time in the history of the ratings.

The credit rating agency says that it is cutting the country's top AAA rating by one notch to AA-plus. The credit agency said late Friday that it is making the move because the deficit reduction plan passed by Congress on Tuesday did not go far enough to stabilize the

Source: CBS News

# 2012. Eurozone breakup crisis

“ Within our mandate, the ECB is ready to do **whatever it takes** to preserve the euro. And believe me, it will be enough.”

July 2012

**Mario Draghi**  
President of the ECB



Source: positivemoney.edu

# 2013. The Fragile Five



# 2014. Oil price collapse



Source: priceofoil.org

# 2015. China stock market crash

## How the China Stock Market Crashed 40% in 15 Days

By Ong Kai Kiat on July 10, 2015



SHARE



TWEET

0 COMMENTS



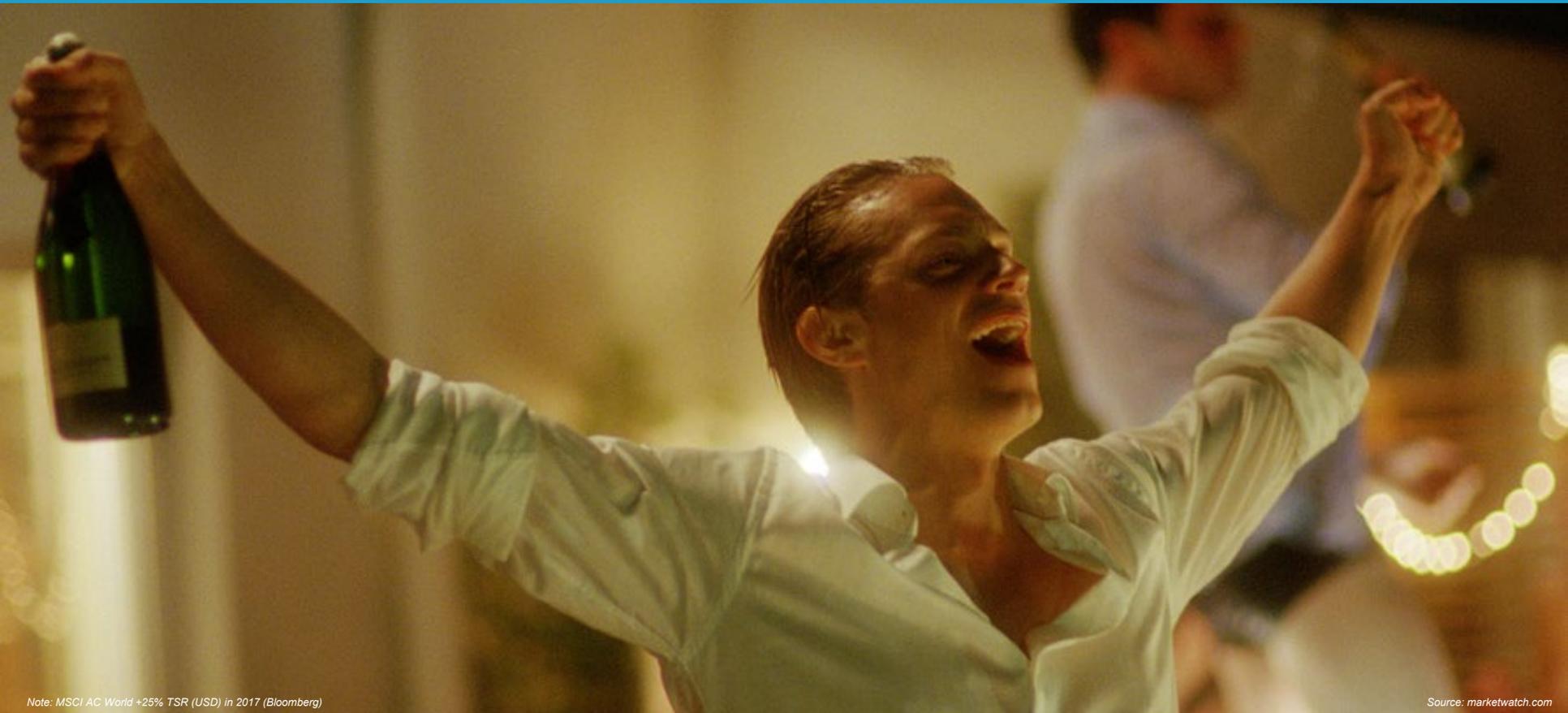
Source: fifthperson.com

# 2016. Donald Trump elected



Source: cnn.com

# 2017. Euphoria



*Note: MSCI AC World +25% TSR (USD) in 2017 (Bloomberg)*

*Source: marketwatch.com*

# 2018. Nasdaq falls 20% in Q4

BUSINESS NEWS

DECEMBER 21, 2018 / 10:21 PM / A YEAR AGO

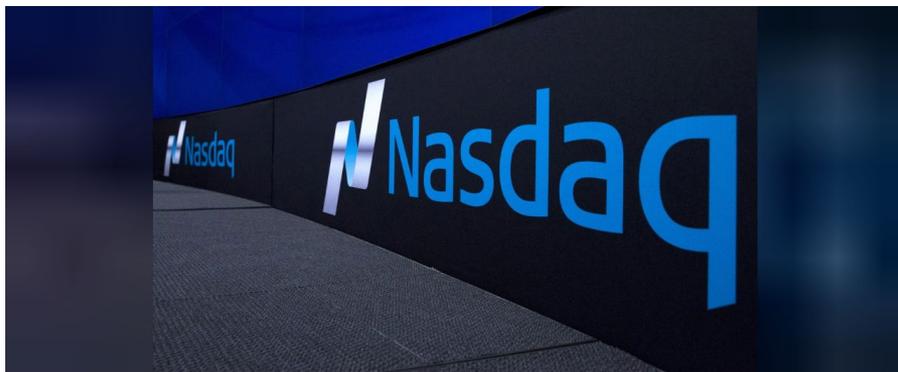
## Nasdaq in bear market, first of the three major U.S. indexes

Caroline Valetkevitch

4 MIN READ



NEW YORK (Reuters) - The Nasdaq Composite Index [.IXIC](#) confirmed on Friday it is in a bear market for the first time since 2008, underscoring fears that the longest bull run in history for U.S. stocks could soon be over.



Source: [www.reuters.com](http://www.reuters.com)

# 2019. Recession fears

The Washington Post  
*Democracy Dies in Darkness*

Business

## Stocks losses deepen as a key recession warning surfaces

Dow falls more than 800 points amidst recession fear



The Dow plunged more than 800 points as investors feared a recession following poor economic data from Germany and China. (Reuters)

By **Damian Paletta**, **Thomas Heath** and **Taylor Telford**

August 15, 2019 at 12:36 a.m. GMT+2

Source: washingtonpost.com

# Global equities 10-yr total return

# Navigating the next 10 years



Source: [ajanh.net](http://ajanh.net)

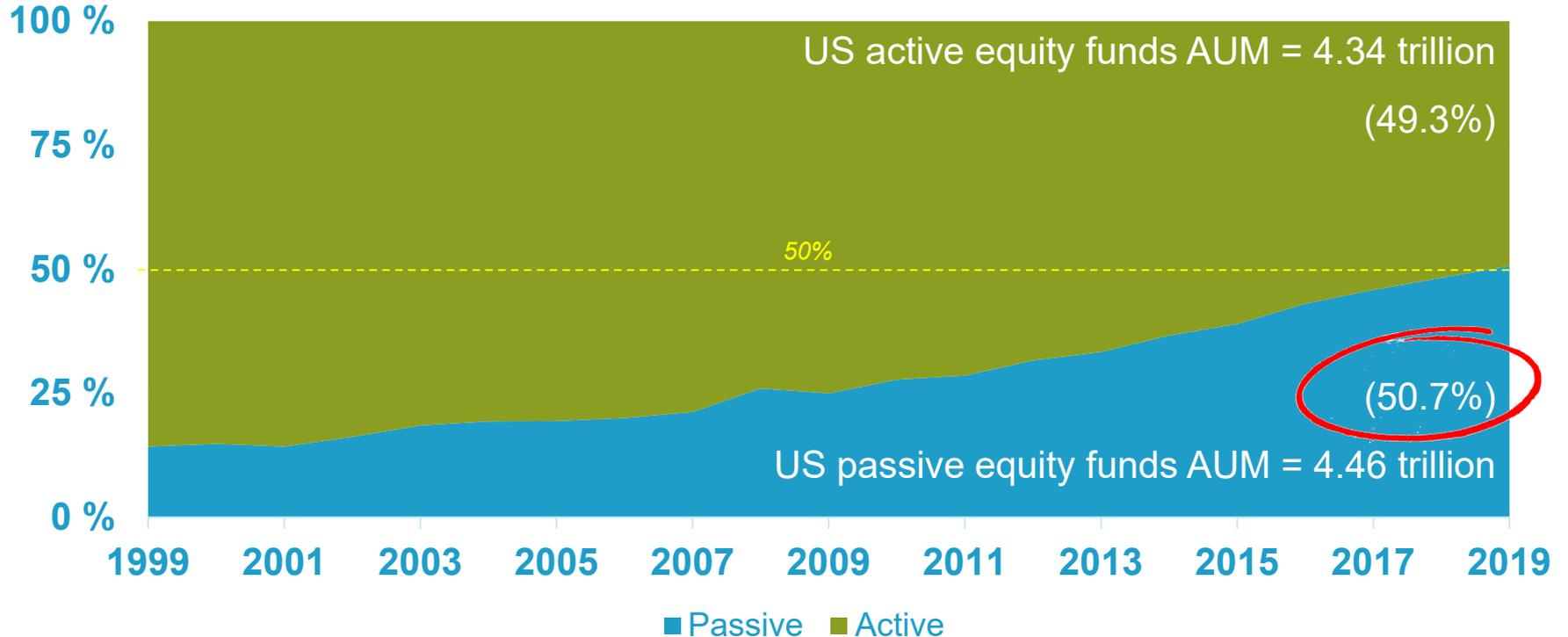
# Opportunity for active investors

1. **Intangible assets**
2. **Index mis-classifications**
3. **ESG transitions**

Areas where active managers can thrive among passive competitors

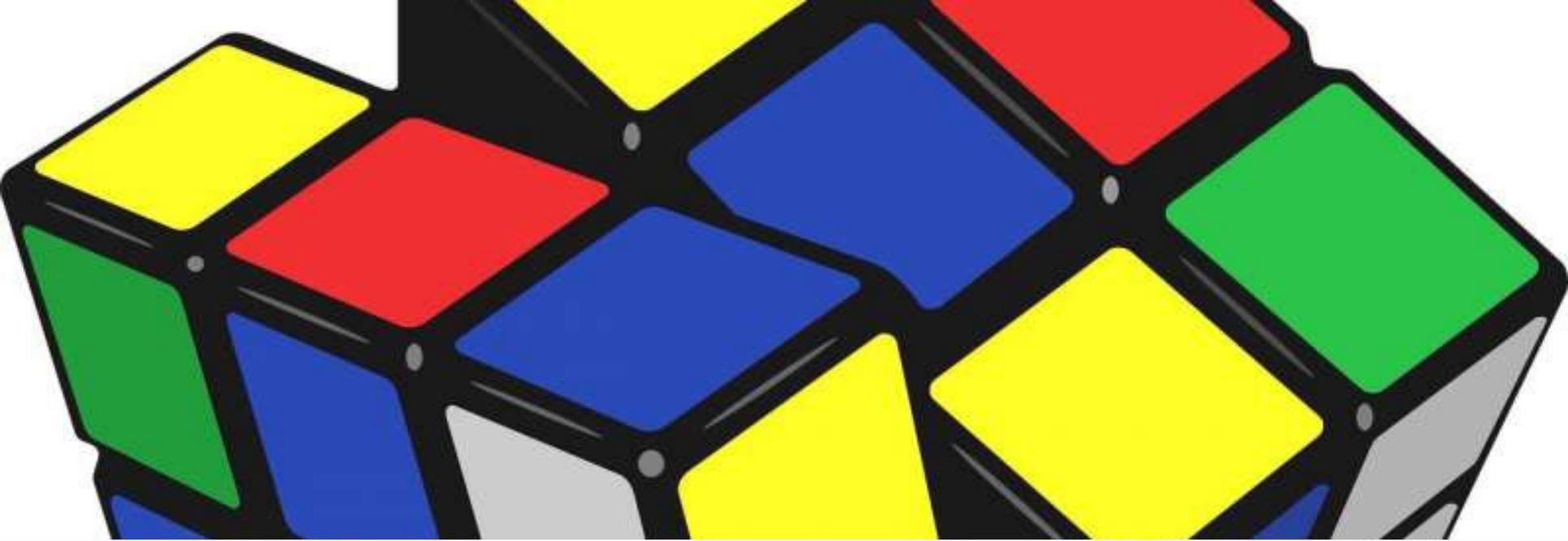
# Passive larger than active (US)

## US Equity Fund Assets: % in Active vs. Passive\*



\* SKAGEN best estimate from Morningstar graphs

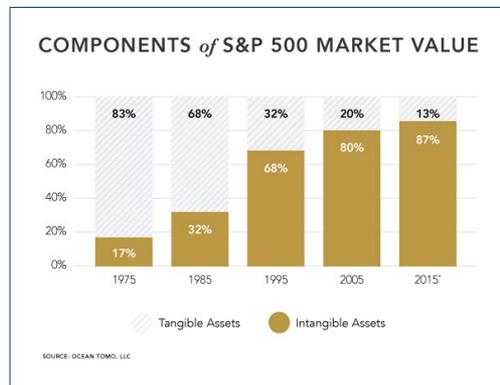
Source: Morningstar as at 31 Oct 2019, SKAGEN



SKAGEN Global

## Intangible Assets

# Traditional multiples obsolete?



1. Intangible assets becoming main source of value creation ("B" in P/B less relevant)



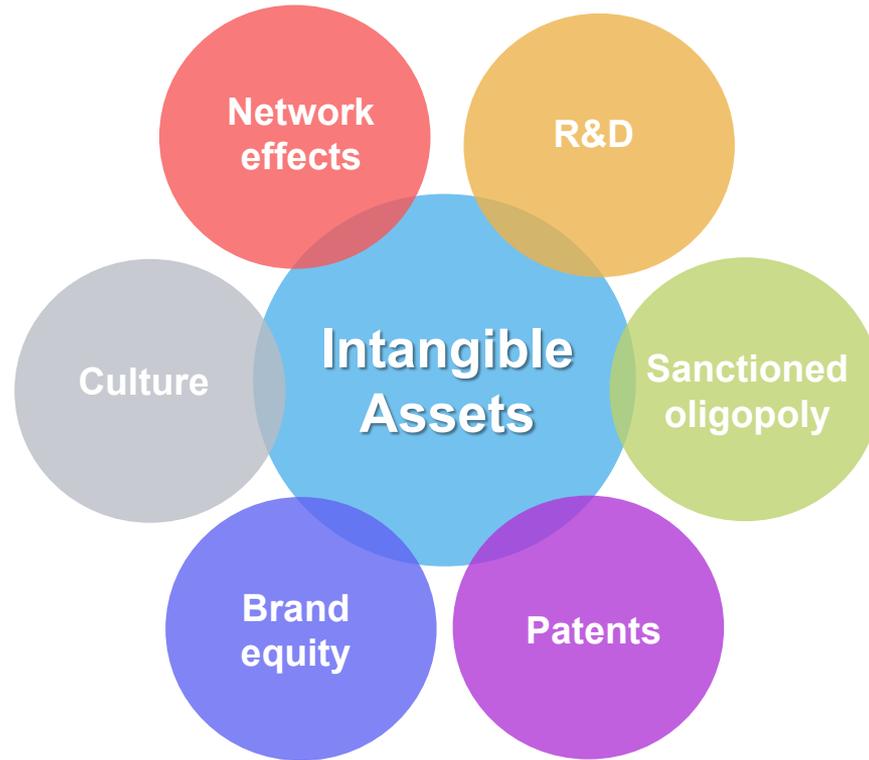
2. Capex going digital, not physical ("E" in P/E ↓)



3. Market efficiency to identify broken business models rapidly accelerating

Tomorrow's value investing will likely require more dynamic thinking

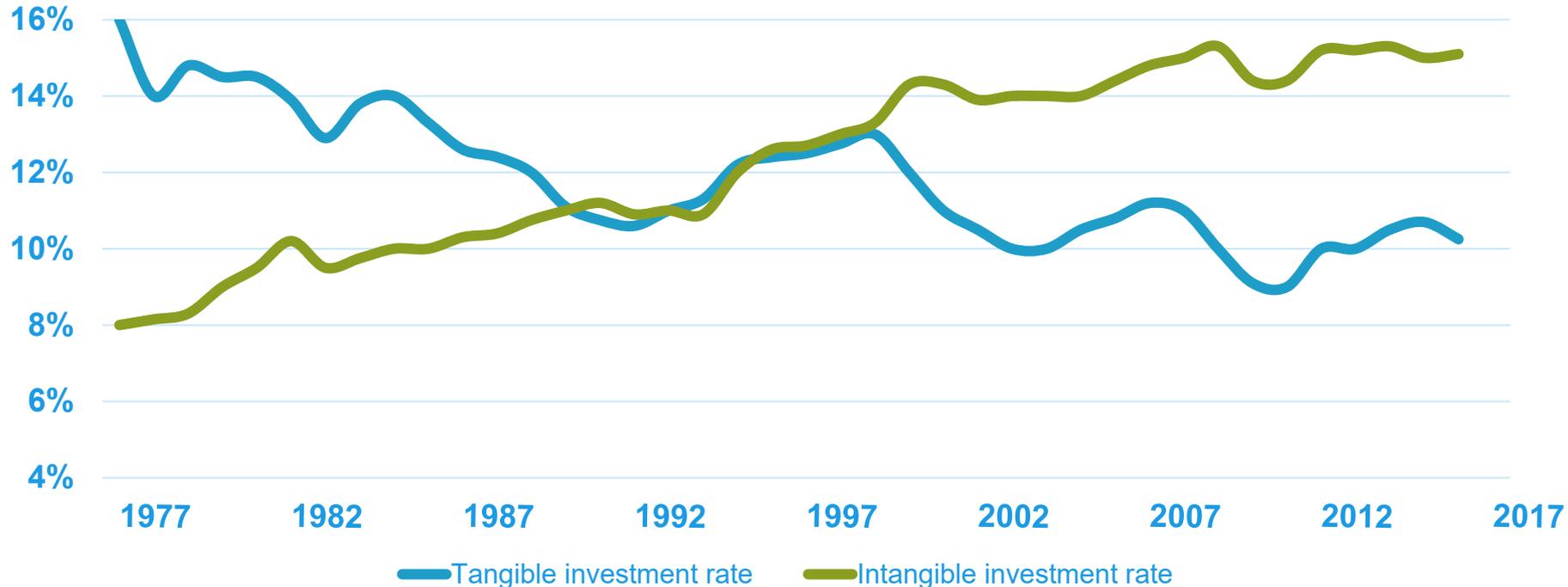
# Intangibles to shape the 2020s



# The rise of intangible assets

## Investment in Intangible Assets vs. Tangible Assets

(US private sector investments by type relative to gross value added)



Source: Carol Corrado, Charles Hulten, and Daniel Sichel, Lev & Gu (2016), Man Institute, SKAGEN

# Accounting not reflecting reality



Total R&D spend over 10 years: **\$99 bn**

Intangible assets on B/S: **\$1.5 bn\***



Total R&D spend over 20 years: **\$60+ bn**

Intangible assets on B/S: **\$3 bn\***



Edwards

Total R&D spend over 10 years: **\$3.5 bn**

Intangible assets on B/S: **\$1.5 bn\***



Unilever



Annual spend on brand building: **€7 bn**

Intangible assets on B/S: **€7 bn\***

\* = ex-goodwill for FY2018 or most recently completed accounting period

Source: Bloomberg, company 10k,  
marketingweek.com

# Case study: NIKE

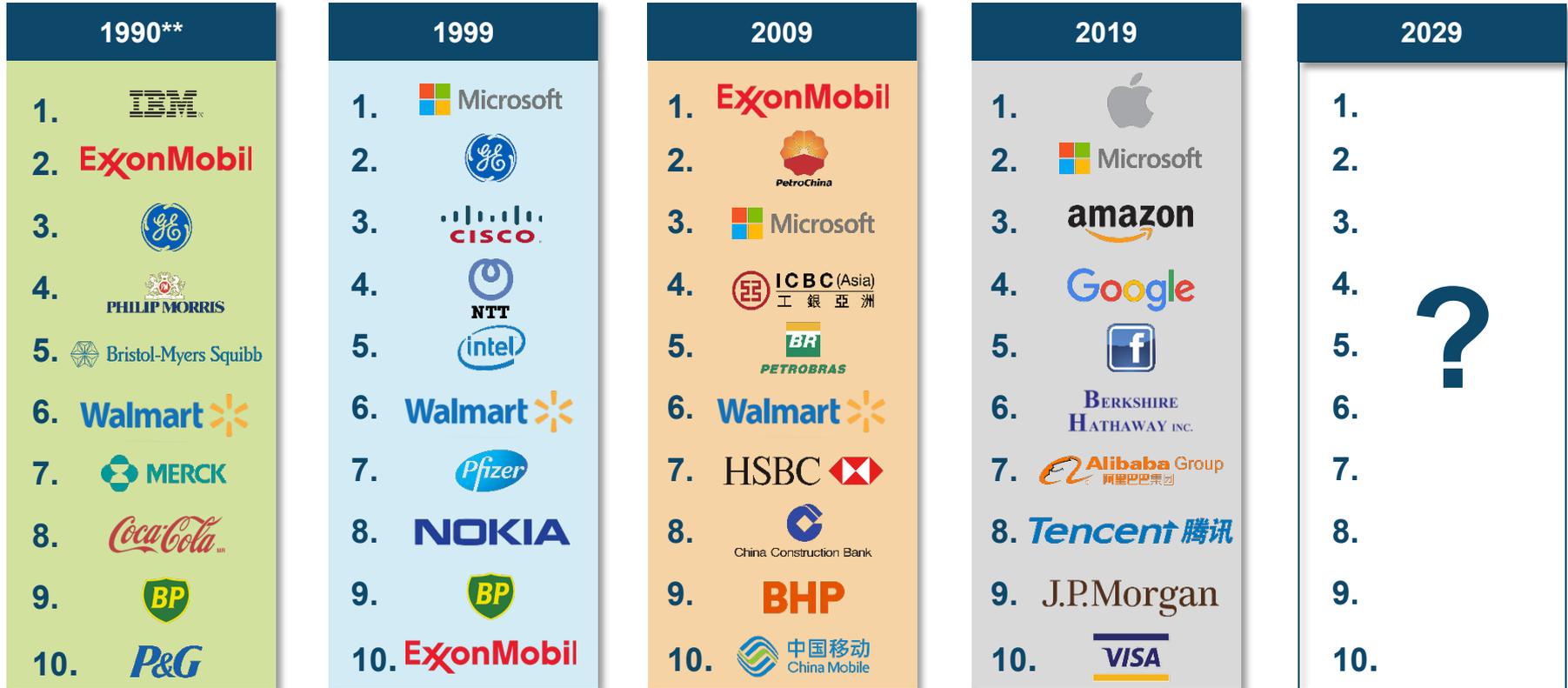


*Market cap: ~\$130 billion*

*Forward P/B: 12.8x*

(2019 H1)

# 10 largest global public firms\*



\* Measured by market cap (USD) in MSCI AC World as per November each calendar year

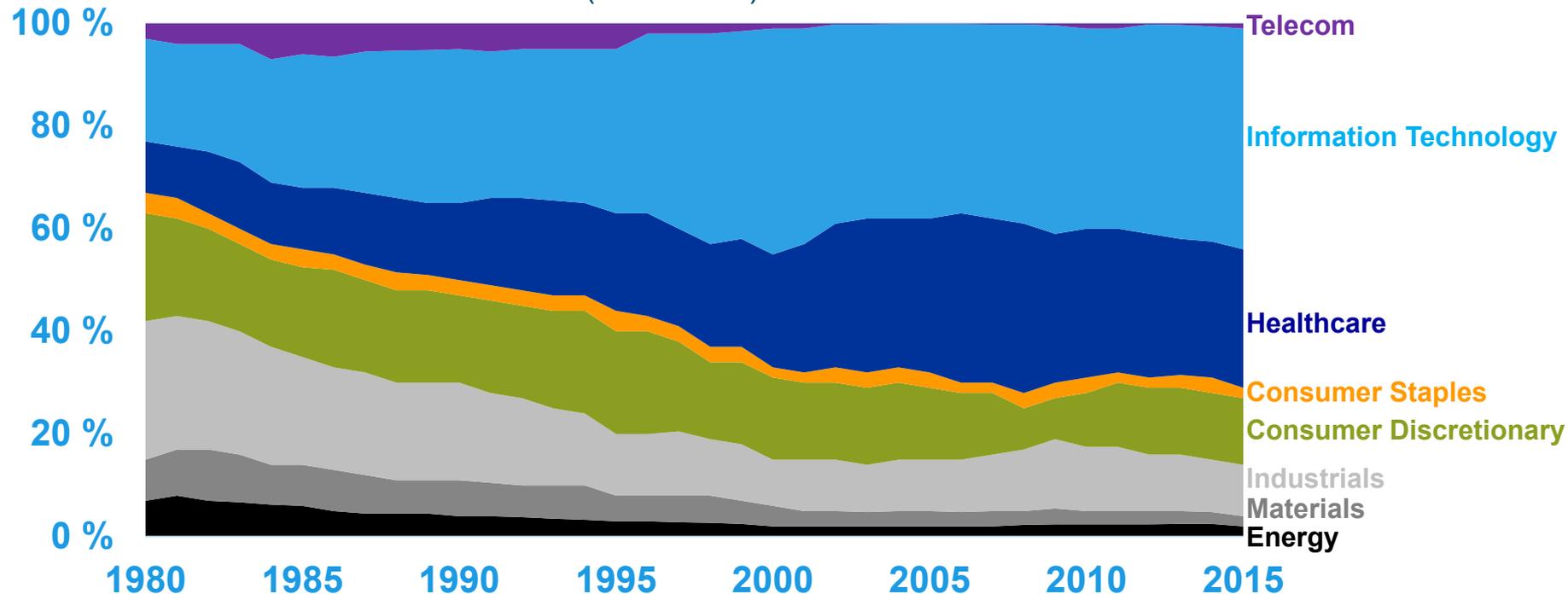
\*\* S&P 500

Source: Bloomberg

# This trend looks set to continue

## Distribution of R&D Spend by Sector in the US

(1980-2015)



Source: Credit Suisse, SKAGEN



SKAGEN Global

## Index mis-classifications

# S&P 500 index: then vs. now

1957

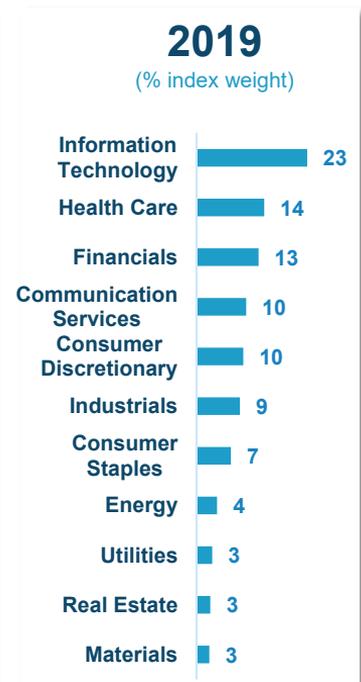
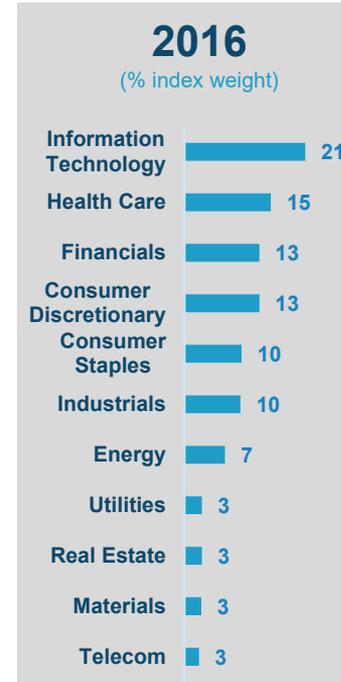
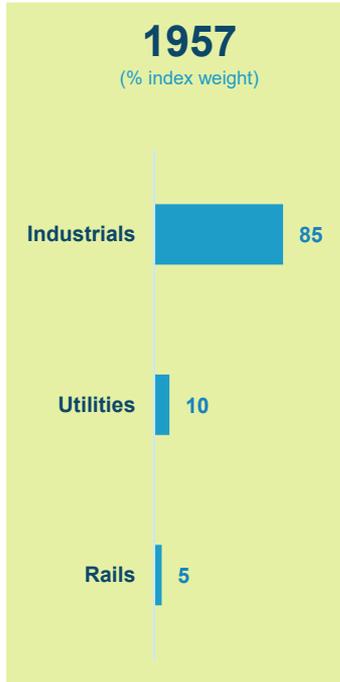
1976

2001

2016

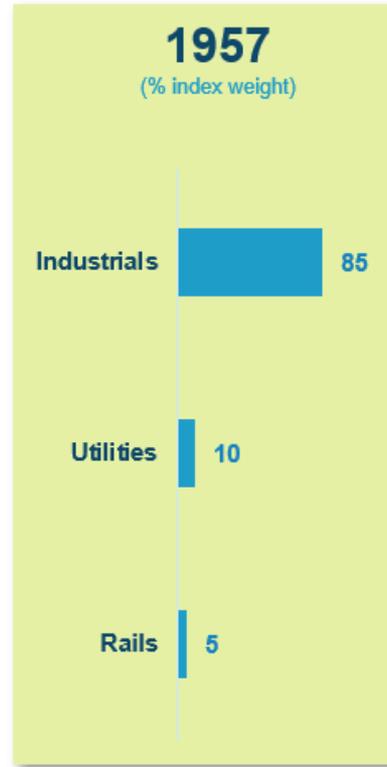
2019

# S&P 500 index: then vs. now



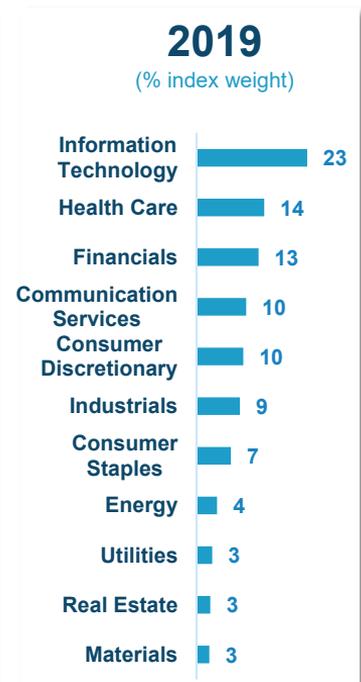
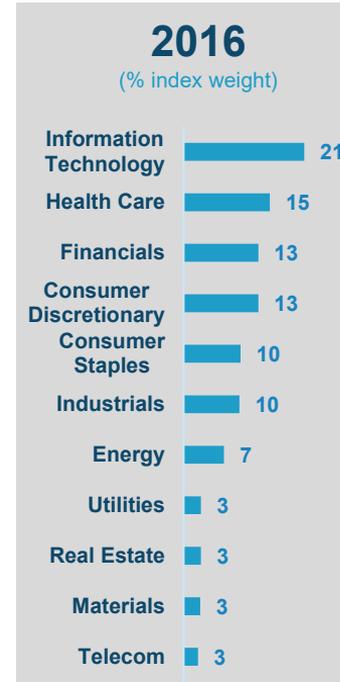
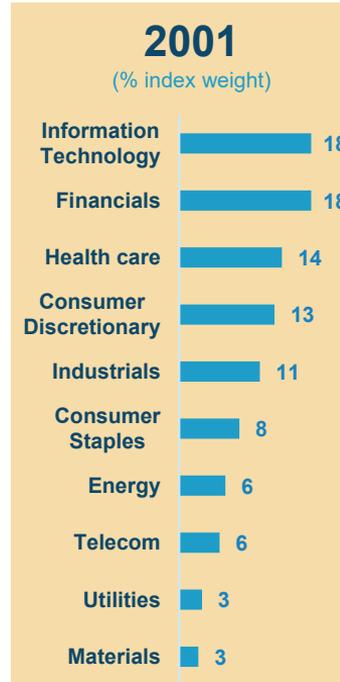
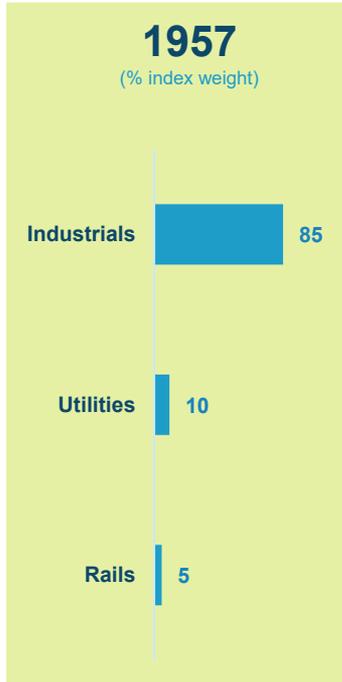
Source: Siegel "The Long Term Returns on the Original S&P 500 Firms," (with Jeremy Schwartz), Financial Analysts Journal, v. 61 (1), January/February 2006, pp. 18-31, WSJ (September 2016), Bloomberg, SKAGEN

# S&P 500 index: then vs. now



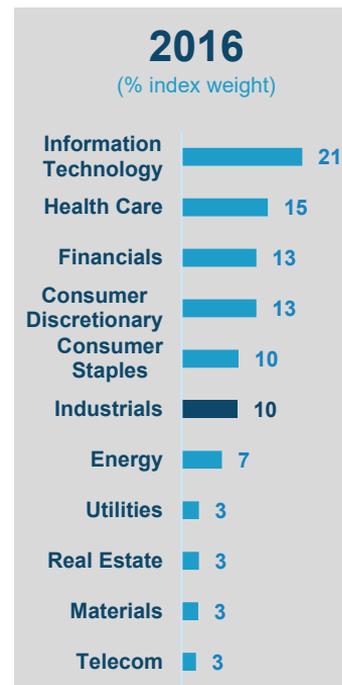
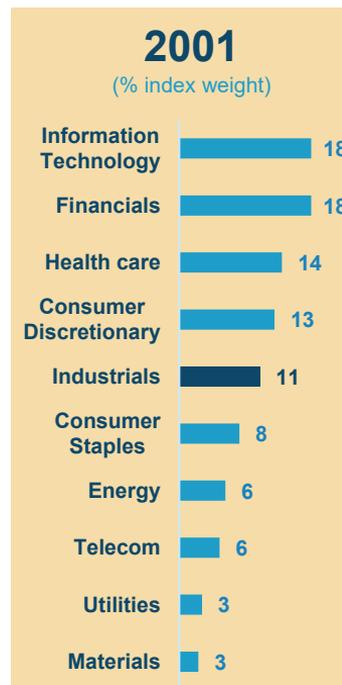
Source: Siegel "The Long Term Returns on the Original S&P 500 Firms," (with Jeremy Schwartz), *Financial Analysts Journal*, v. 61 (1), January/February 2006. pp. 18-31, *WSJ* (September 2016), Bloomberg, SKAGEN

# S&P 500 index: then vs. now



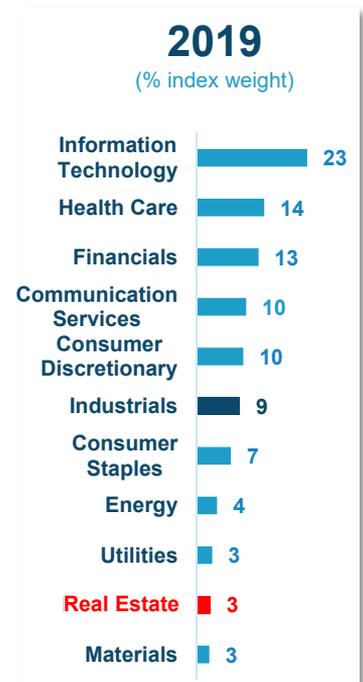
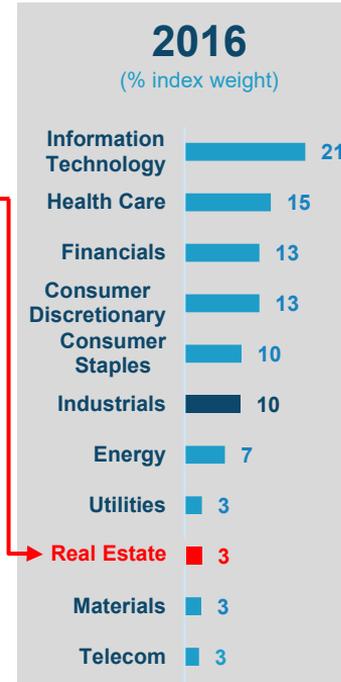
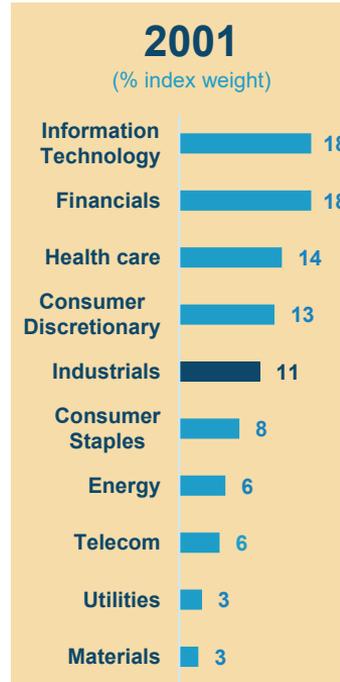
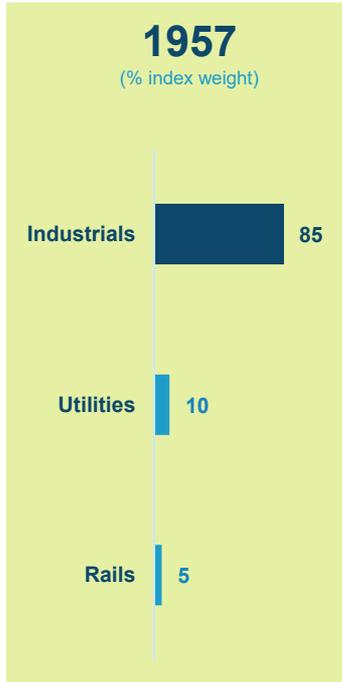
Source: Siegel "The Long Term Returns on the Original S&P 500 Firms," (with Jeremy Schwartz), Financial Analysts Journal, v. 61 (1), January/February 2006, pp. 18-31, WSJ (September 2016), Bloomberg, SKAGEN

# S&P 500 index: then vs. now



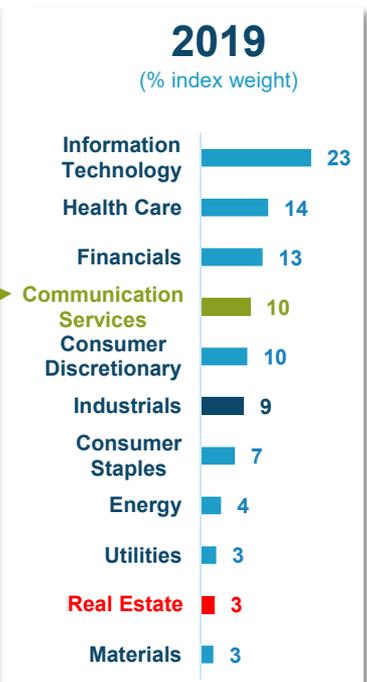
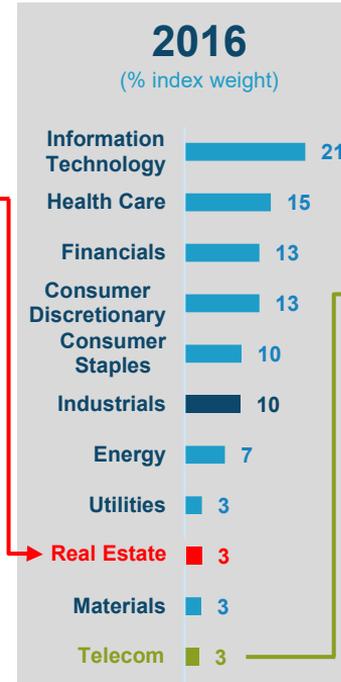
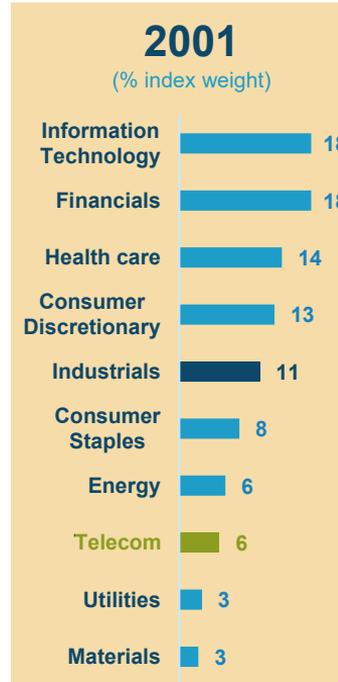
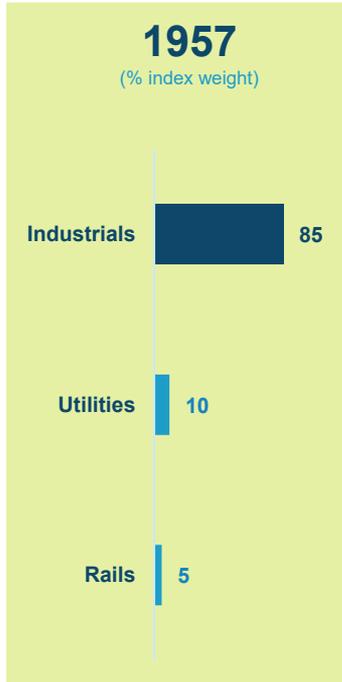
Source: Siegel "The Long Term Returns on the Original S&P 500 Firms," (with Jeremy Schwartz), Financial Analysts Journal, v. 61 (1), January/February 2006, pp. 18-31, WSJ (September 2016), Bloomberg, SKAGEN

# S&P 500 index: then vs. now



Source: Siegel "The Long Term Returns on the Original S&P 500 Firms," (with Jeremy Schwartz), Financial Analysts Journal, v. 61 (1), January/February 2006, pp. 18-31, WSJ (September 2016), Bloomberg, SKAGEN

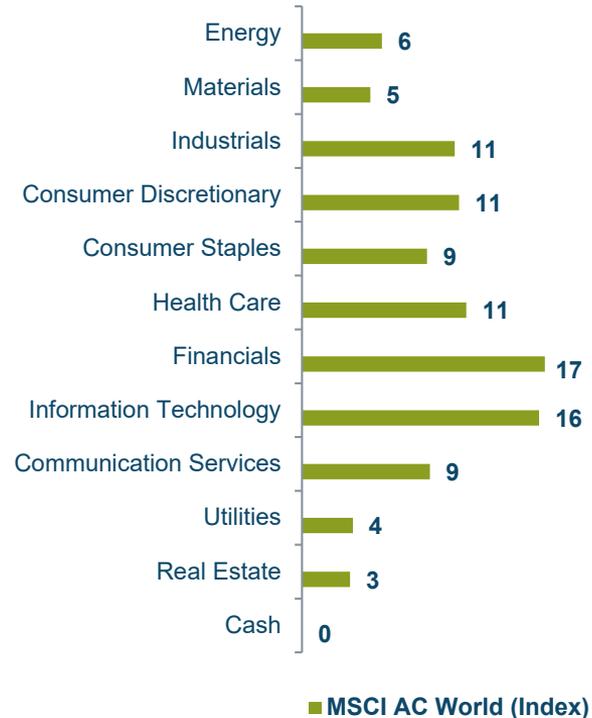
# S&P 500 index: then vs. now



Source: Siegel "The Long Term Returns on the Original S&P 500 Firms," (with Jeremy Schwartz), Financial Analysts Journal, v. 61 (1), January/February 2006, pp. 18-31, WSJ (September 2016), Bloomberg, SKAGEN

# Case study

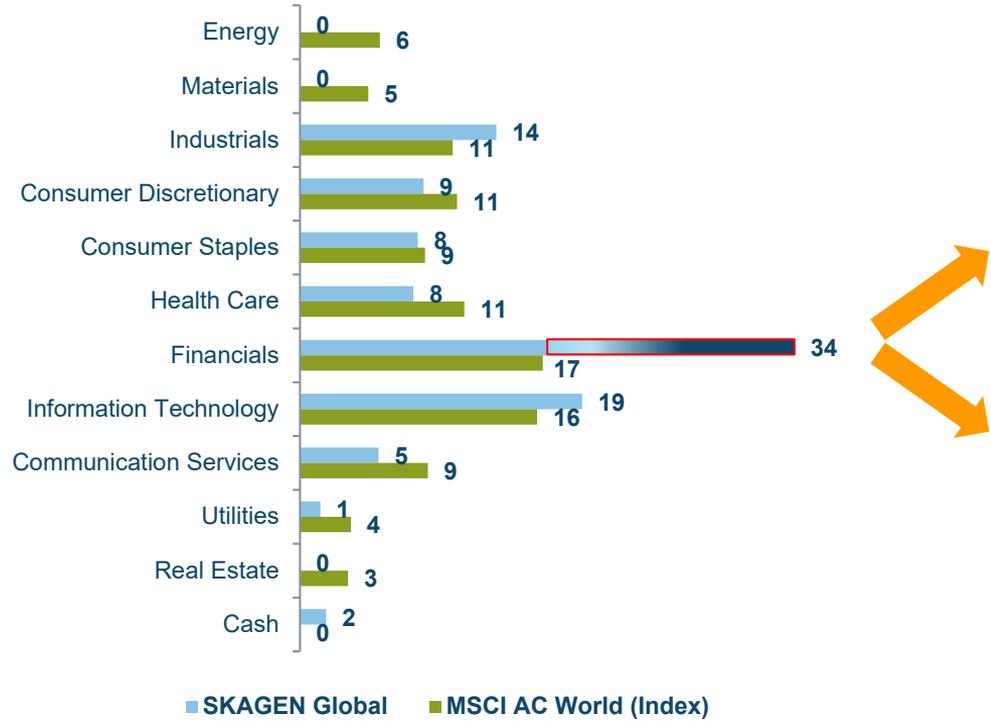
## Sector Distribution (%)



Source: SKAGEN as of 30 Sep 2019

# Case study

## Sector Distribution (%)



## Exchange Operators



## Professional Services

Insurance brokerage /  
Risk management /  
Consulting



Credit-Rating Agency

MOODY'S

Source: SKAGEN as of 30 Sep 2019



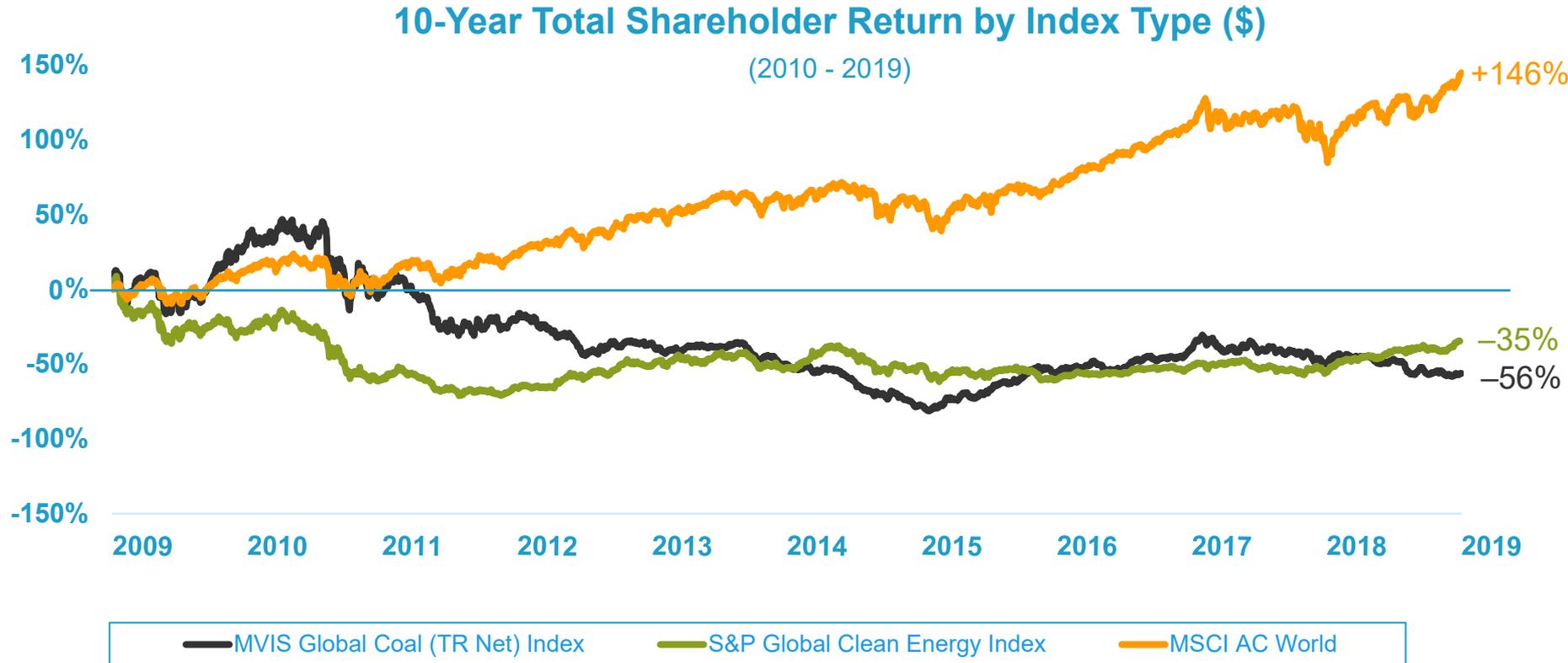
Source: <http://danielledupernet.com>

**SKAGEN Global**

## **ESG Transitions**

(ESG = Environmental, Social and Governance)

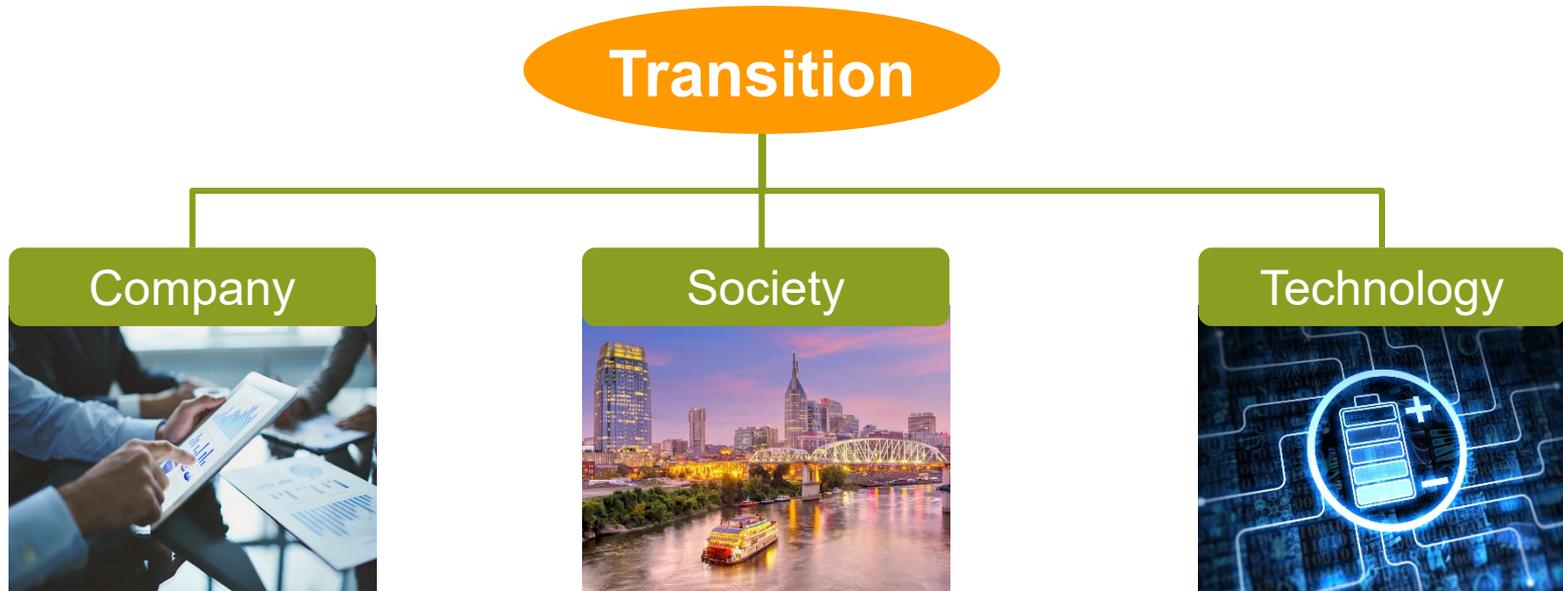
# Themes can be deceptive



Source: Bloomberg, SKAGEN

# A pragmatic view of "transition"

SKAGEN Global's view on "ESG transition"



**3-pillar strategy for identifying ESG transition stories**

Source: marketwatch.com, SGS, electrochem.org.

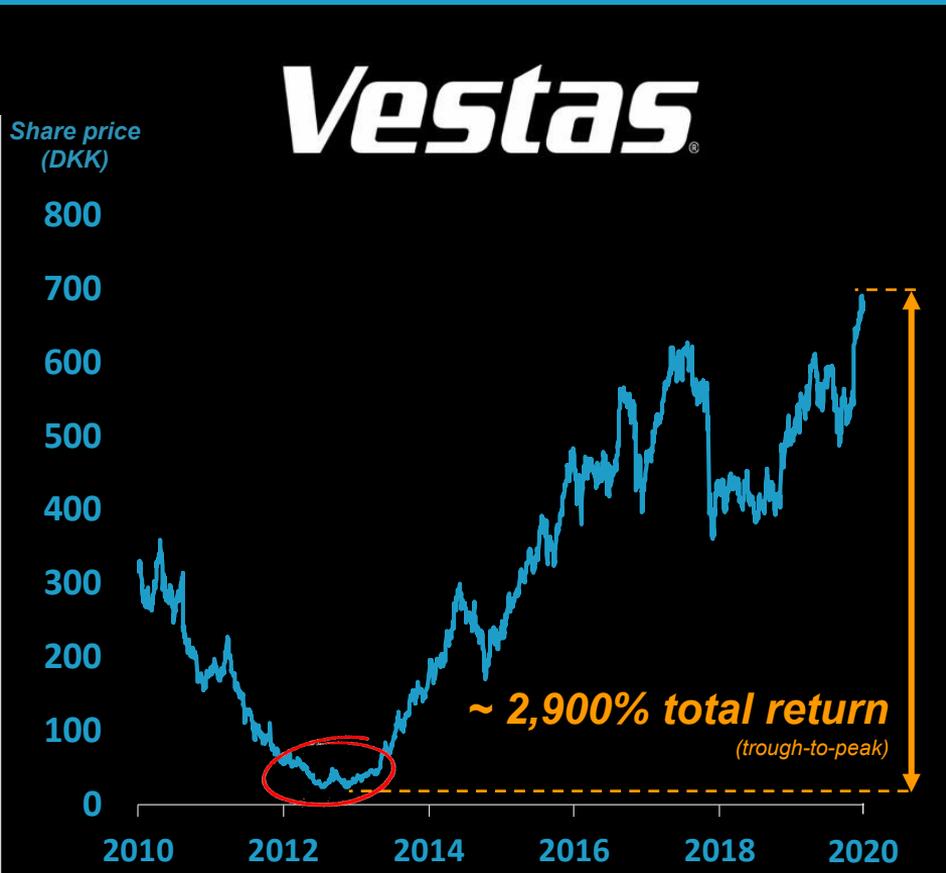
# We look for rare combinations



**"Lollapalooza effect"**  
(outcome far bigger than sum of the parts)

Source: SKAGEN Global

# Case study



Source: Bloomberg

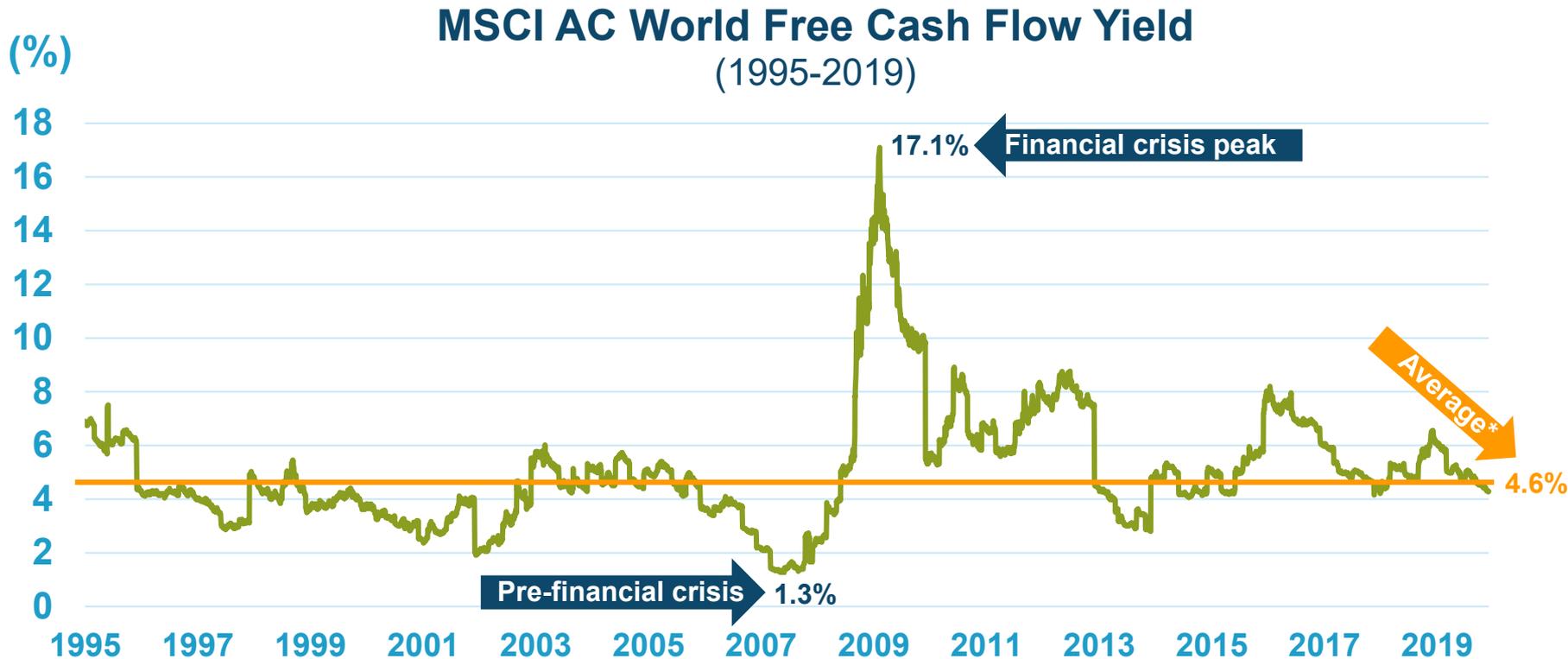


Source: 24creative.com

**SKAGEN Global**

## **Why we remain long-term optimists**

# Valuation looks reasonable



\*1995-2019 median value  
Source: Bloomberg, SKAGEN

# What return can be expected?



Source: von.gov.ng

# We prefer the FCFY metric

$$\text{Price}_0 = \frac{\text{FCF}_1}{r - g} +$$

$\text{FCF}_1$  = distributable cash flow  
return =  $r$  = required return + growth in FCF  
 $g$  = expected constant growth rate in FCF

Note: Formula assumes constant growth in free cash flow and no change in absolute FCF yield over the time period

# Range of annualized returns (base case)

SKAGEN Global's medium-term view

$$\text{FCF yield} + \text{growth in FCF} = \text{return}$$

Note: Formula assumes constant growth in free cash flow and no change in absolute FCF yield over the time period | Figures are approximate based on MSCI AC World data in Bloomberg between 1995-2019 unless otherwise noted | Figures for illustrative purpose only, not investment advice

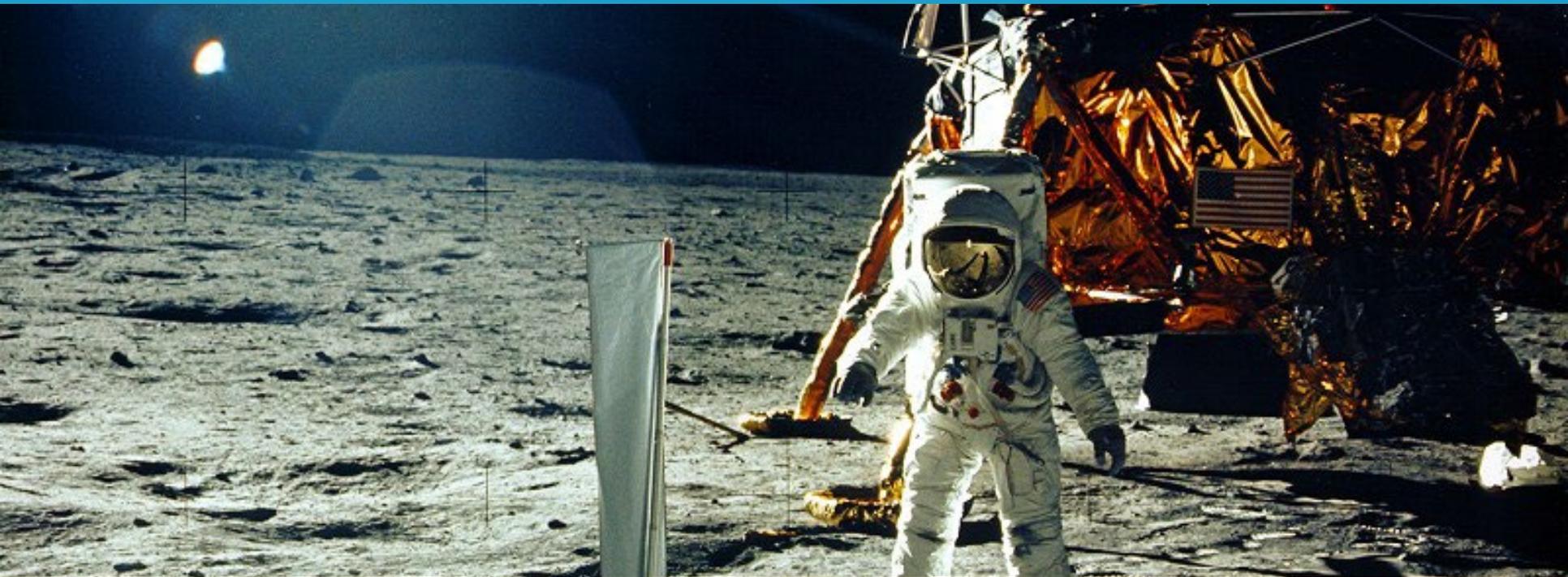


**“In my opinion, all previous advances in the various lines of invention will appear totally insignificant when compared with those which the present century will witness. I almost wish that I might live my life over again to see the wonders which are at the threshold”**

– Charles H. Duell,  
Commissioner of the US Patent Office 1898-1901

Source: [patentlyo.com](https://patentlyo.com), [wikipedia.org](https://wikipedia.org)

# Great achievements to continue



The moon landing 50 years ago (1969)

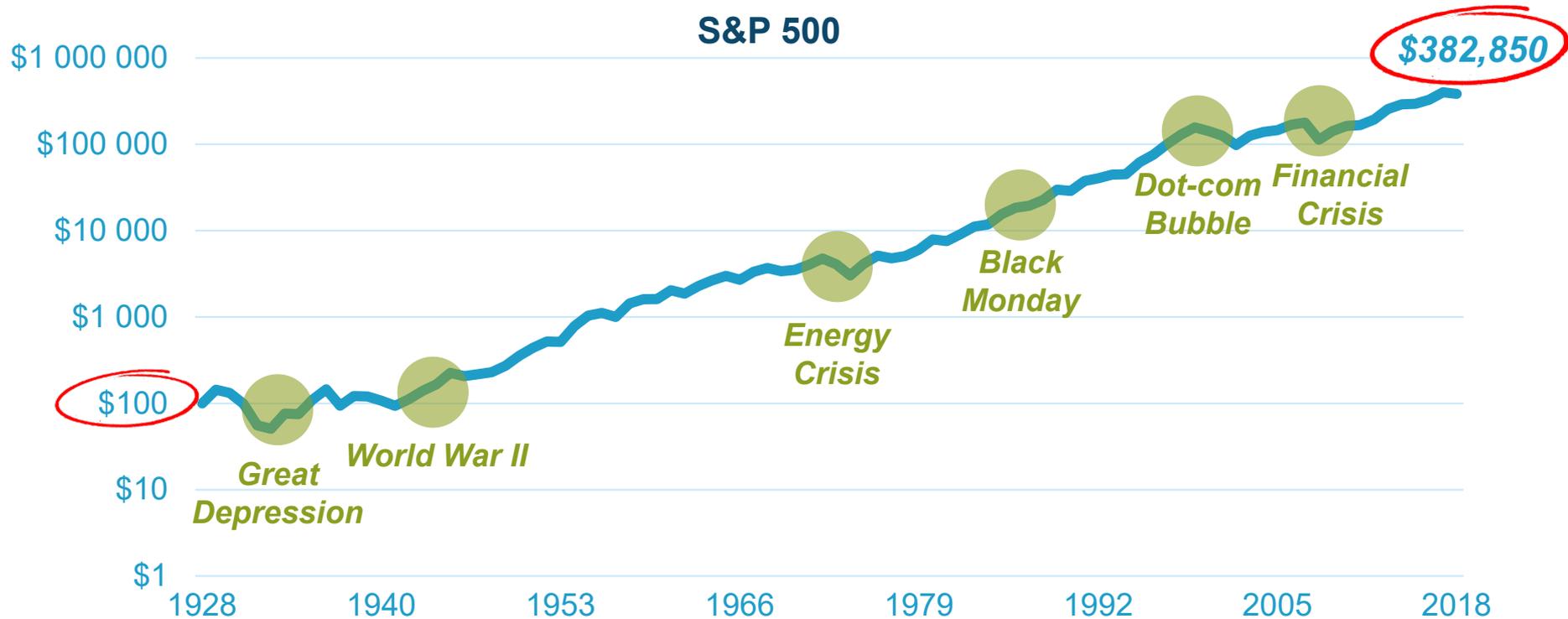
Source: NASA

# ...into the next decade



- **Digitization**
- **Gene therapy**
- **Robotics**
- **Renewables**
- **Artificial intelligence**
- **Blockchain**
- ...

# The power of compounding



**Nominal value of \$100 invested in 1928 in S&P 500 turned into \$382,850 by 2018\***

\* Historical data on S&P 500, including treatment of dividends, may differ by data provider for time series dating back to 1928. Dividends included in the graph above.

Source: NYU Stern School of Business

# Thank you

The Norwegian fund management company SKAGEN Funds (SKAGEN AS) is part of the Storebrand Group. Storebrand Asset Management AS acquired SKAGEN AS in 2017, and owns 100% of the company. Storebrand Asset Management AS is 100% owned by Storebrand ASA.

SKAGEN seeks to the best of its ability to ensure that all information given in this presentation is correct, however, makes reservations regarding possible errors and omissions. Statements in the presentation reflect the portfolio managers' view at a given time, and this viewpoint may be changed without notice. This presentation should not be perceived as an offer or recommendation to buy or sell financial instruments. SKAGEN AS does not assume responsibility for direct or indirect loss or expenses incurred through the use or understanding of this presentation. Employees of SKAGEN AS may be owners of securities issued by companies that are either referred to in this article or are part of a fund's portfolio.

Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skill, the fund's risk profile and management fees. The return may become negative as a result of negative price developments. You can find more detailed information in the funds' Key Investor Information Documents (KIID) and prospectuses on [www.skagenfunds.com](http://www.skagenfunds.com).