Aitken Investment Management

Global High Conviction Fund

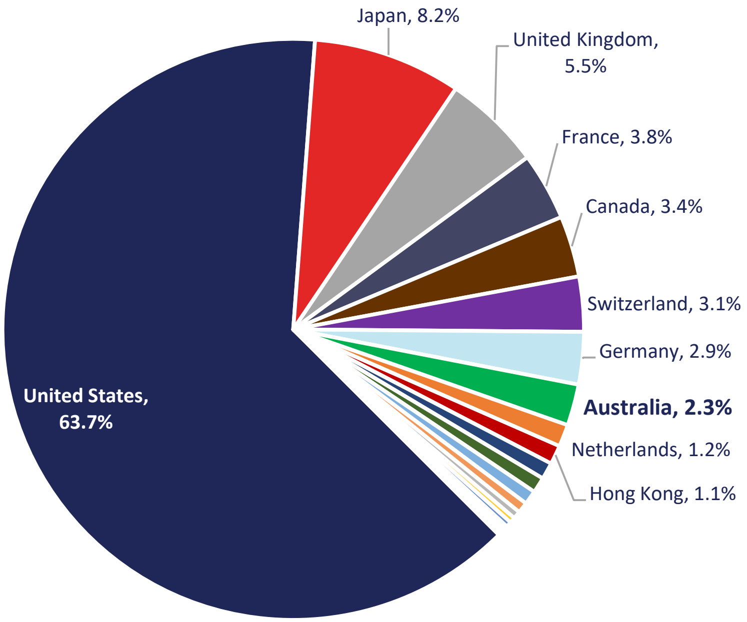
AITKEN INVESTMENT MANAGEMENT

Who Are We?

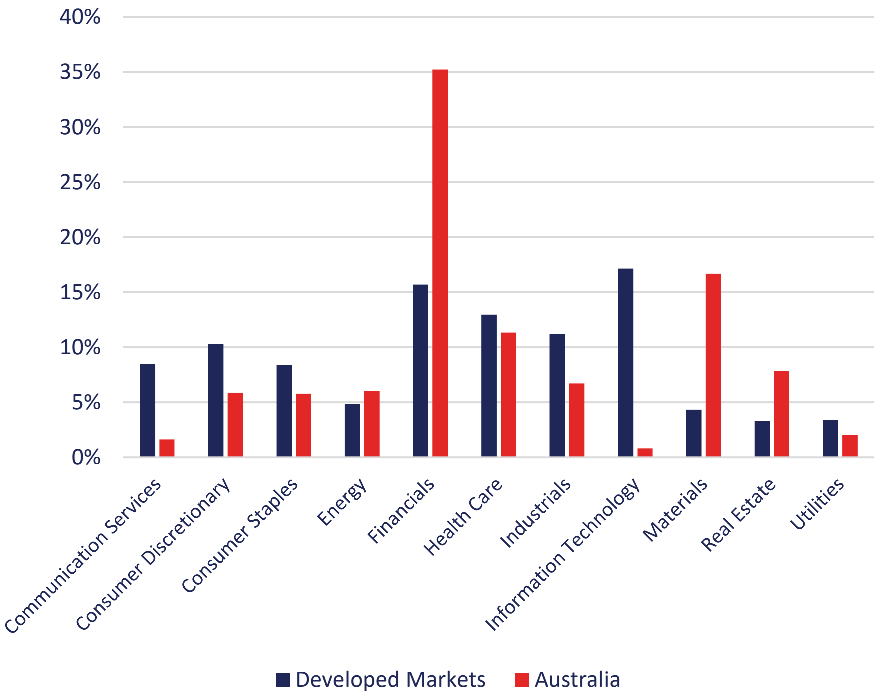
- A portfolio built to capture long-term secular trends by investing in high quality businesses that can compound in value
- Bottom-up, fundamental-driven, concentrated, long only, unhedged

Why global?

Developed Markets: Countries by Market Cap



Developed Markets vs. Australia : Sectors



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What Do We Believe?

Over the long term, value is created and captured by businesses that:

Grow revenues at a rate **exceeding nominal GDP**

*Invest in businesses experiencing **structural tailwinds***

Generate **excess returns on capital sustainably**

*Excess returns on capital underpinned by a **moat** or **competitive advantage:** a **high-quality business***

Reinvest **excess returns** at rates of return that **beat inflation**

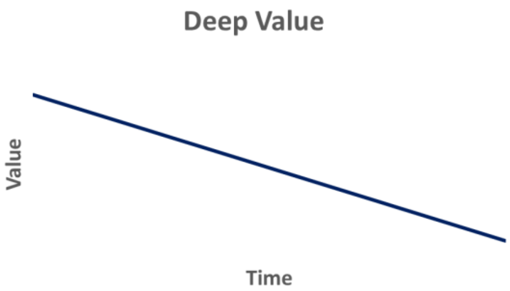
***Growing the business** or **widening the moat** to grow value over the long term*

We call these businesses **compounders**

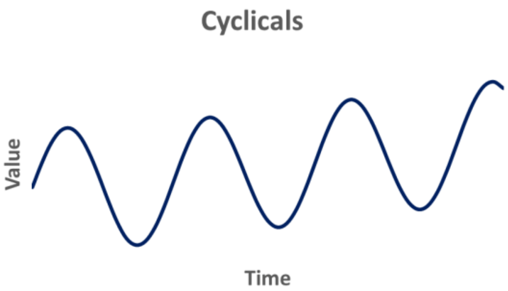
*We seek to identify and invest for the **long term***

It Pays to Own Compounders

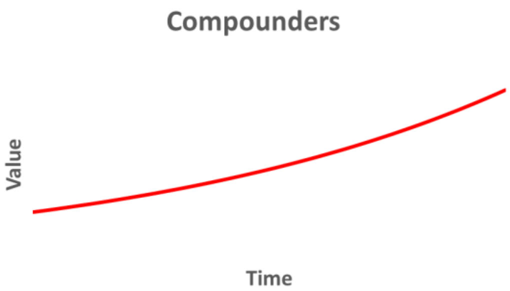
Value creation is a function of interest rate expectations



Value creation needs a timely catalyst

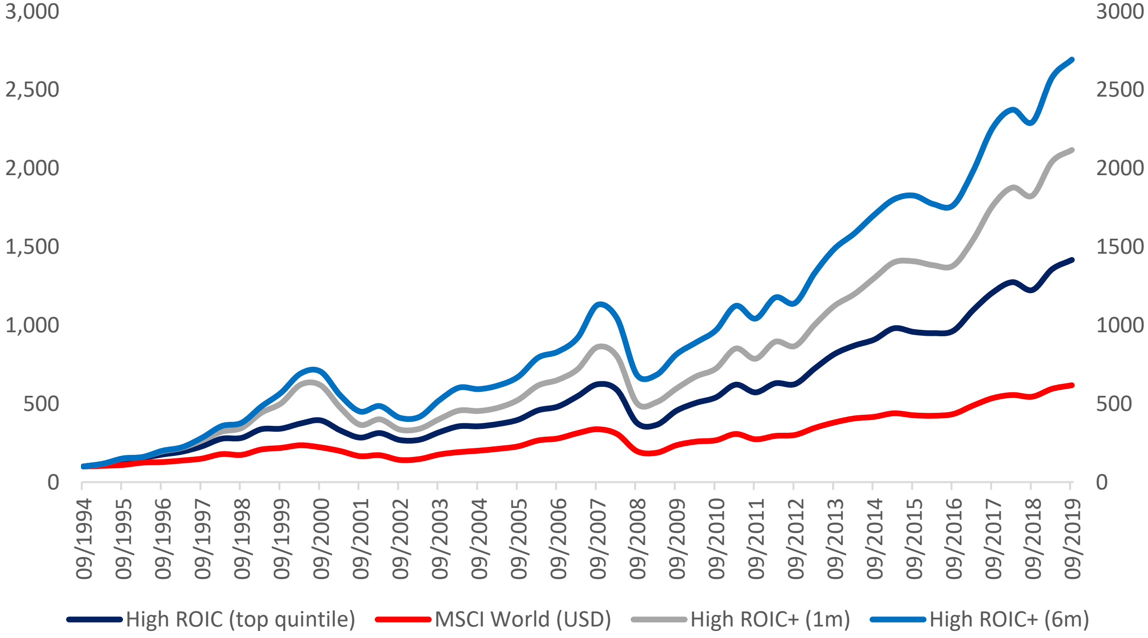


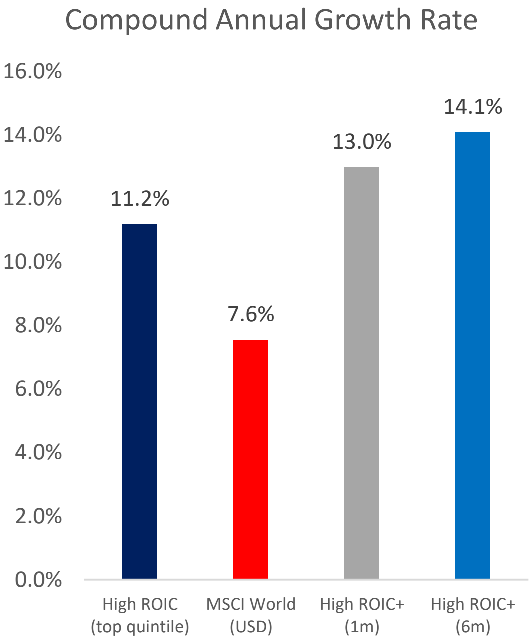
Value creation is a function of sustainably timing the cycle



Value creation is a function of a business generating & reinvesting excess returns

It Pays to Own High-Quality Businesses

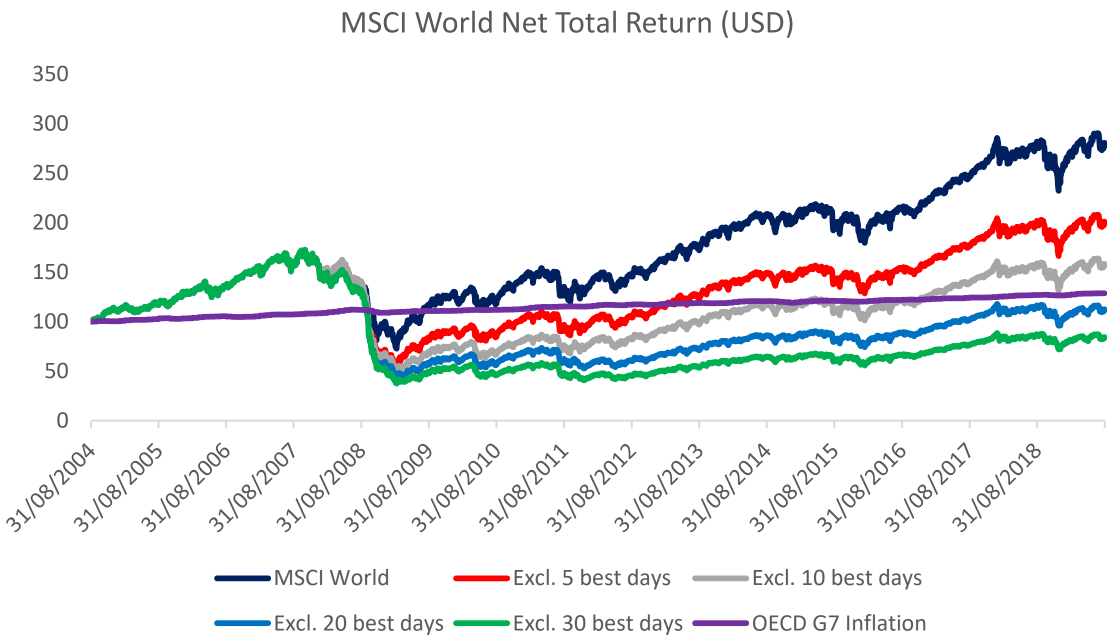


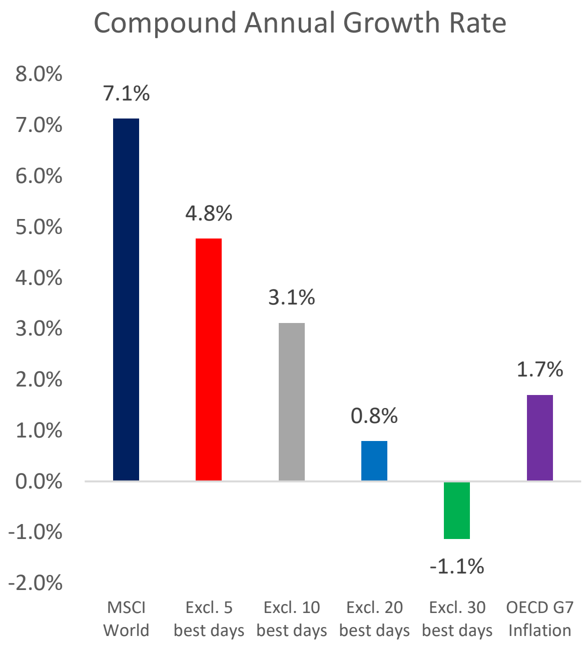


Source: Bloomberg EQS. All series based to 100 on 30 September 1994. ***All returns gross of fees.***

Parameters – High ROIC: Only DM businesses with a market cap in excess of USD10bn, top 20% by ROIC. Rebalanced monthly.
Parameters – High ROIC+ (1m): Only DM businesses with a market cap in excess of USD10bn. Top 10% by ROIC, LT Debt/Total Assets < 50%,4% or higher YoY revenue growth. Rebalanced monthly.
Parameters – High ROIC+ - (6m): Only DM businesses with a market cap in excess of USD10bn. Top 10% by ROIC, LT Debt/Total Assets < 50%,4% or higher YoY revenue growth. Rebalanced every 6 months.

It Pays To Focus On The Long Term





Source: AIM, MSCI

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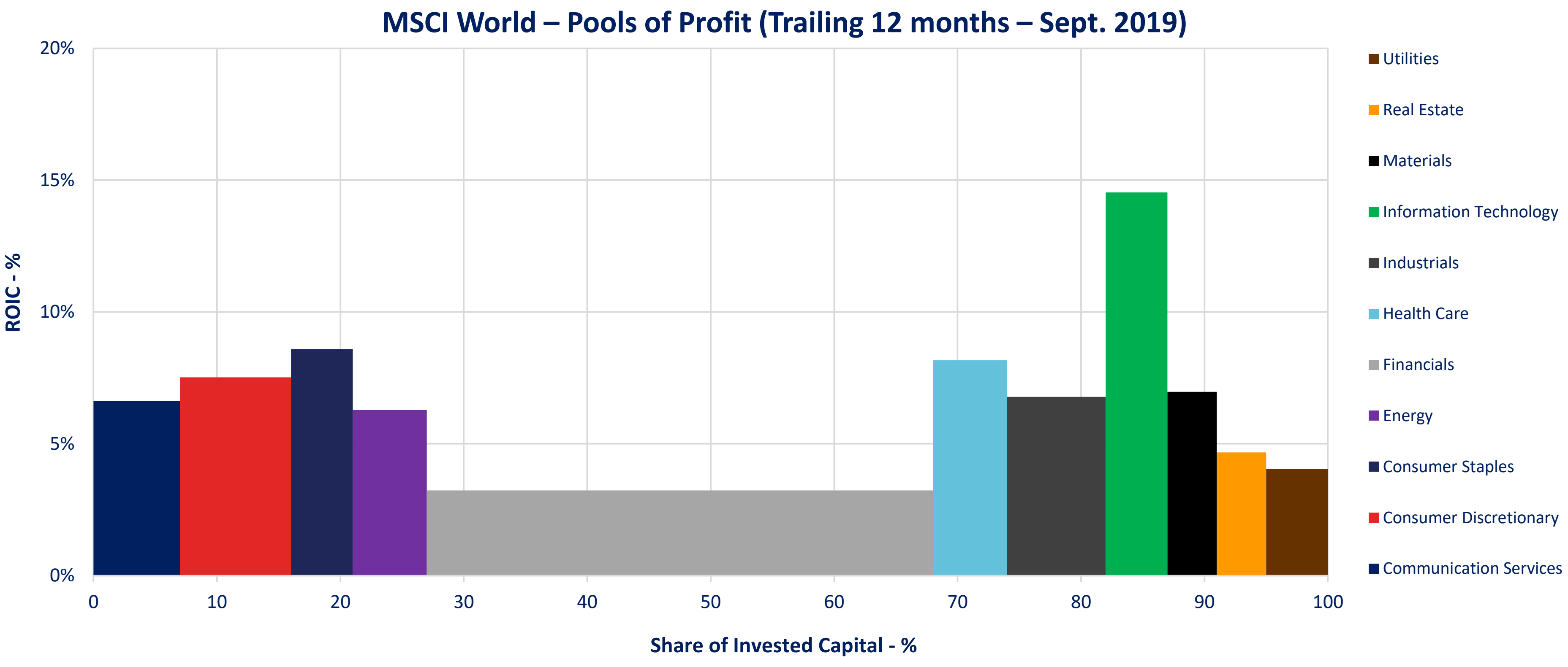
Profits and the Capital Required To Generate Them



Source: AIM, MSCI

Our Investment Process

Idea Generation

- Top-down
  - Initial Screening
  - Find Attractive Global Profit Pools
- Bottom-up
  - Secular Growth Trends

Fundamental Analysis

- Quantitative Review
- Qualitative Analysis
- Forecast & Valuation
- Ongoing Monitoring
  - Travel
  - Conferences

Portfolio Construction

- 15 – 25 stocks
- Sensible stock, sector and regional limits
- FX unhedged

Portfolio Construction Framework

Cyclical Growth

- 0% - 30%
- *Example:*
- *LVMH*

Secular Growth

- 50% - 70%
- *Example:*
- *MasterCard*

Defensive Growth

- 20% - 40%
- *Example:*
- *Estee Lauder*

Future Compounder

- 0% - 10%
- *Example:*
- *Netflix*

- **Concentrated:** 15 – 25 stocks
  - Maximum single stock position: 7.5%
  - Minimum single stock position: 2.5%
- **Cash:** 0% - 10%
- **Currency:** unhedged
- **Sector limits**
  - 25% maximum per GICS sector classification
- **Regional limits**
  - 15% maximum, excluding the USA
  - USA: often the listing venue, not the source of economic risk
  - Off-benchmark regions capped at 10%
- **Minimum market cap**
  - USD10bn or equivalent
- **Liquidity**
  - Minimum USD50mn or equivalent average daily value over 30 days

Looking to 2020: A Framework for Assessing Economic Risk

	Specific Risk	Generic Risk
Structural Conditions	• Financial system	• Slowing global & US growth
Cyclical Conditions	• Asset/investment/ spending bubbles? • Policy error?	• Late cycle?
	Internal to the make-up of the economy: asset bubbles, strength of the financial system, policy settings	*Ability of the economy to withstand an external shock*

Possible External Shocks

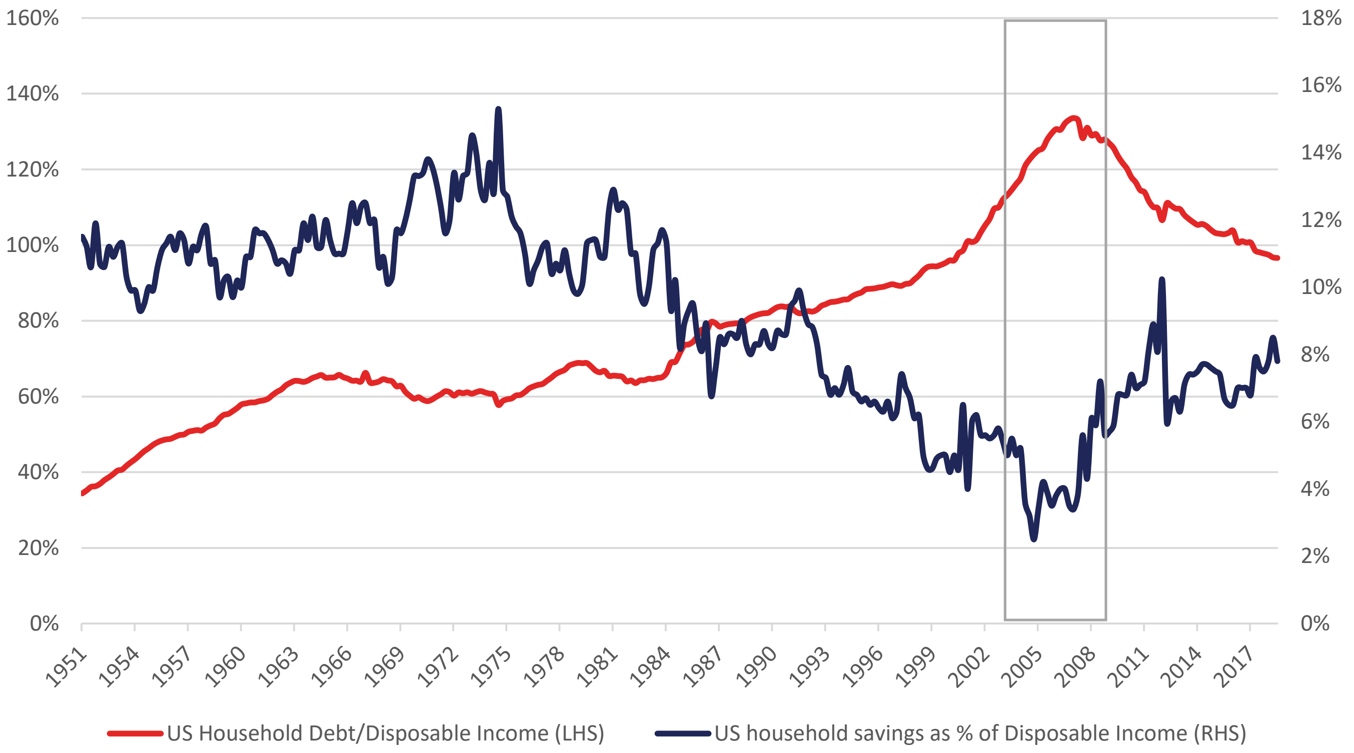
- **Trade war escalation**
- **Confidence**
- Corporate credit

Source: Framework by Bernstein

Looking to 2020: A ‘Muddle-Through’ is our Base Case

- **Cautiously constructive, but expect volatility**
- Global growth to remain positive, though continuing to slow from 2017 to 2019 levels
  - Slowing in 1H20, modestly accelerating in 2H20
- Equity returns likely in the mid-to-high single digit range, given starting valuations are elevated
- A low growth, low inflation world likely means low rates for longer
  - Given this combination of factors, we still prefer companies that can generate internal growth, but are vigilant about the margin of safety
- Main risks we see:
  - trade war escalation
  - collapse in consumer confidence (fueled by a pullback in business investment)
  - policy uncertainty (elections, fiscal & monetary)
- A left-field risk: sustained pick-up in inflation
  - Difficult to see where it comes from, but would materially change the outlook
  - Fiscal stimulus? Those who are willing, cannot afford to; those who can afford are unwilling.

The US consumer: in a more resilient place than pre-2009



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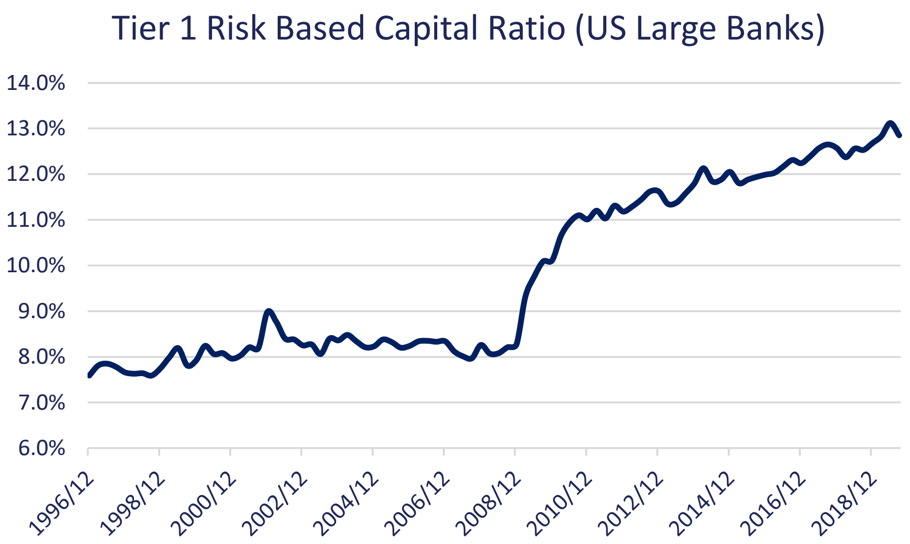
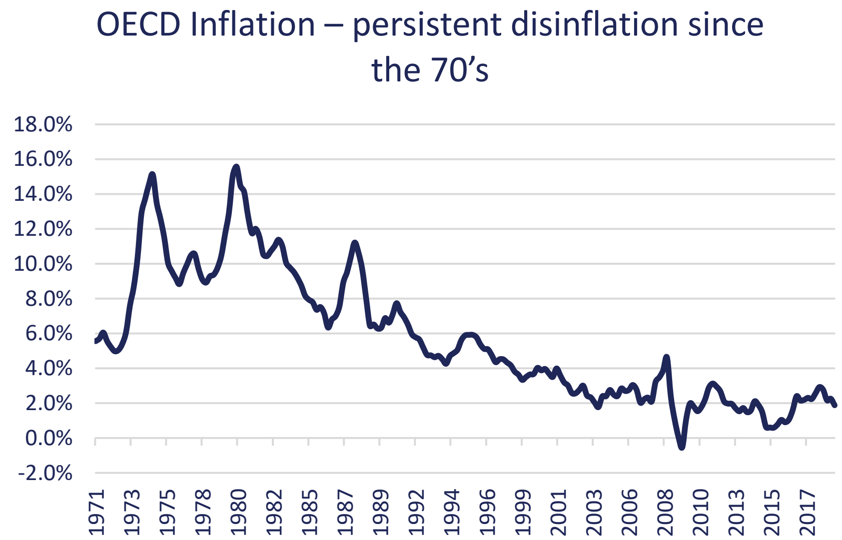
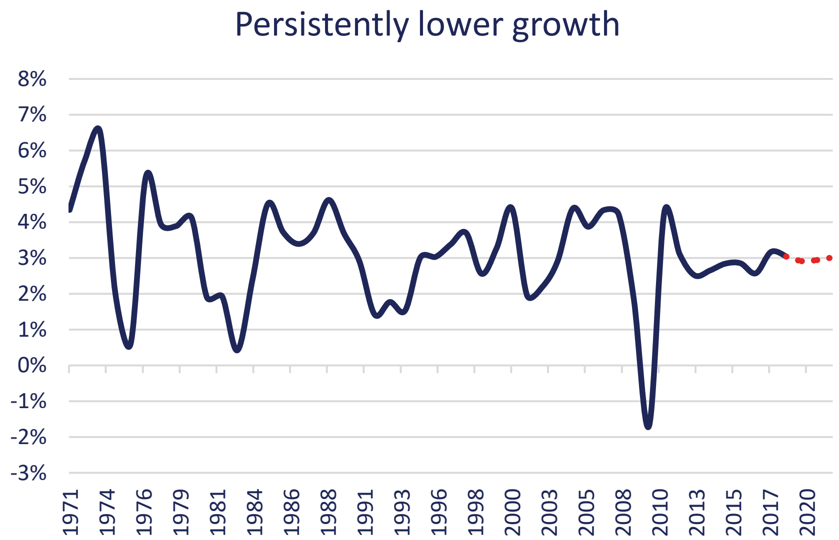
US banking system: much higher capital levels



A combination of low inflation, low growth = low rates





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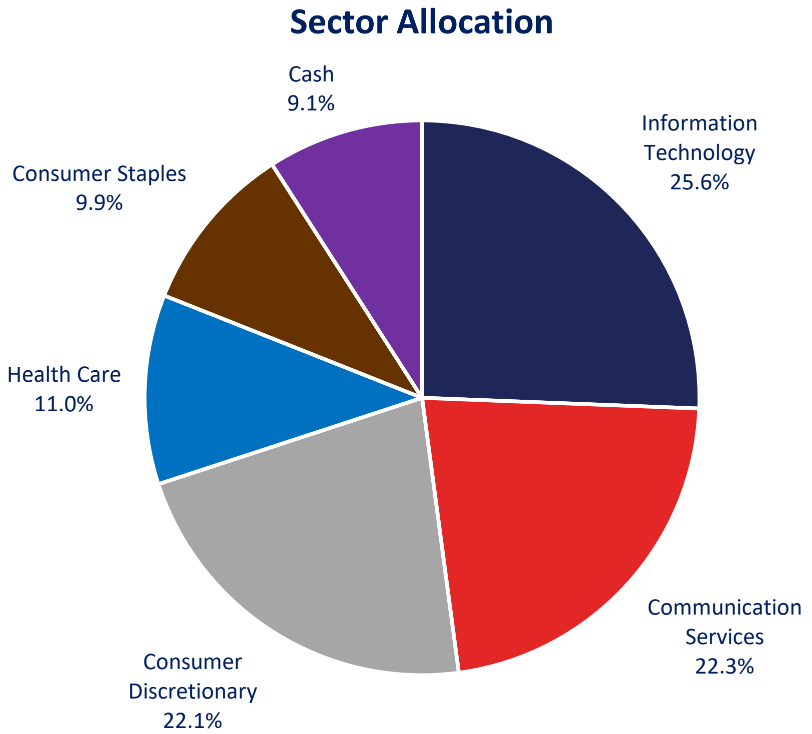
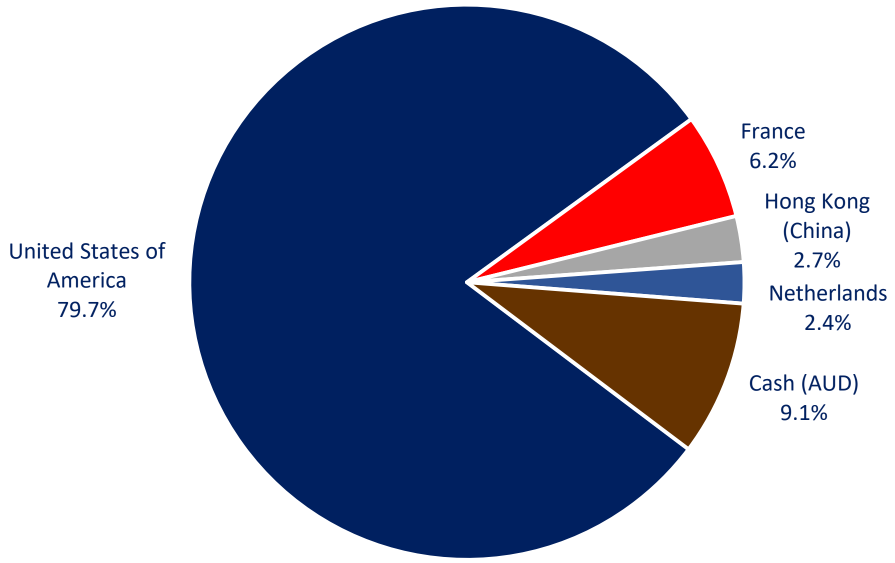
Positioning / Sectors



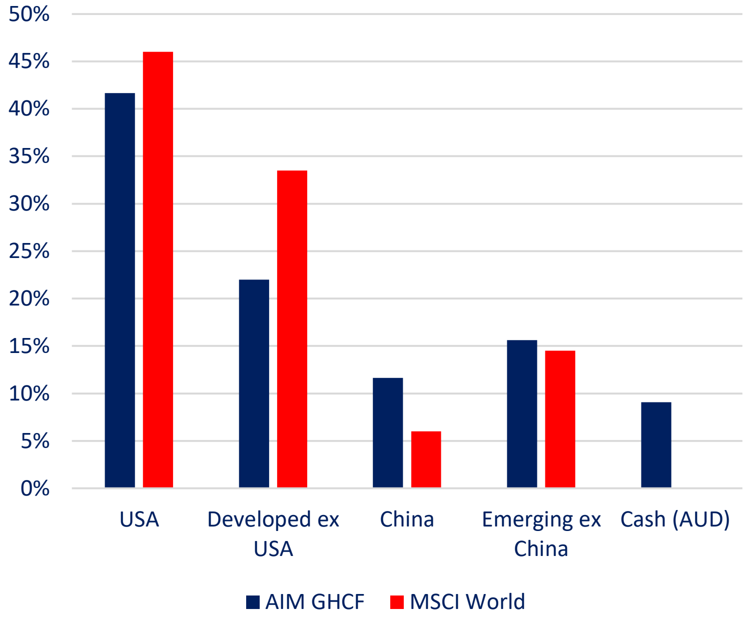
- **Top 10 holdings**
  - Microsoft (7.5%)
  - Facebook (6.3%)
  - LVMH (6.2%)
  - Estee Lauder (5.3%)
  - MasterCard (5.2%)
  - Visa (5.1%)
  - Amazon (5.1%)
  - Alphabet (4.9%)
  - Coca-Cola (4.6%)
  - The Walt Disney Company (4.2%)
    - Nike (4.2%)
- **Allocation by internal classification**
  - 51.4% in Secular Growth *(56.5% of equity)*
    - Of which 8.1% in 'Future Compounders'
  - 21.0% in Defensive Growth *(23.1% of equity)*
  - 18.5% in Cyclical Growth *(20.4% of equity)*
  - 9.1% in Cash

Positioning / Regional

Regional Allocation (by listing)



Regional Allocation (by source of revenue)



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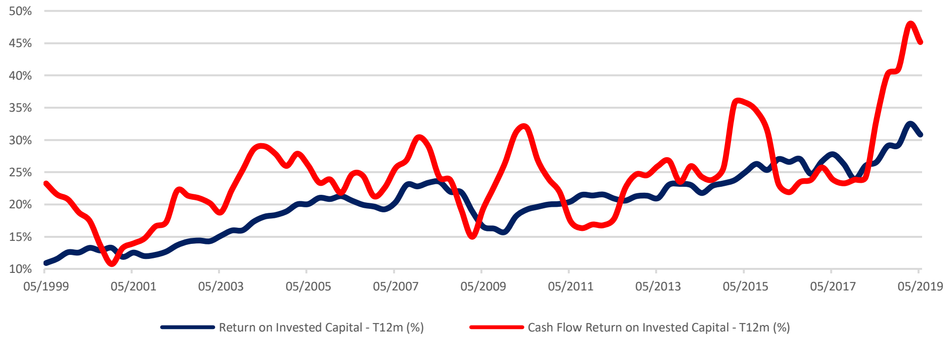
Nike: A Compounder Capturing Several Structural Consumer Trends

- **Changing Consumer Preferences**
  - Healthier lifestyles, particularly for younger and more affluent consumers
  - Athleisure as a dress code
- **Manufacturing Innovation**
  - Improved sourcing, materials innovation, focus on reducing wastage
  - Supply chain flexibility
- **Building a Direct-to-Consumer Business**
  - Leveraging digital platforms to build a community of fitness enthusiasts
  - Using data to better predict demand
  - Owning the distribution uplifts margins
- **Strengthening and Growing a Global Brand**
  - Enabled by themes identified above
  - Global reach, local differentiation
  - Serving an increasingly segmented audience better

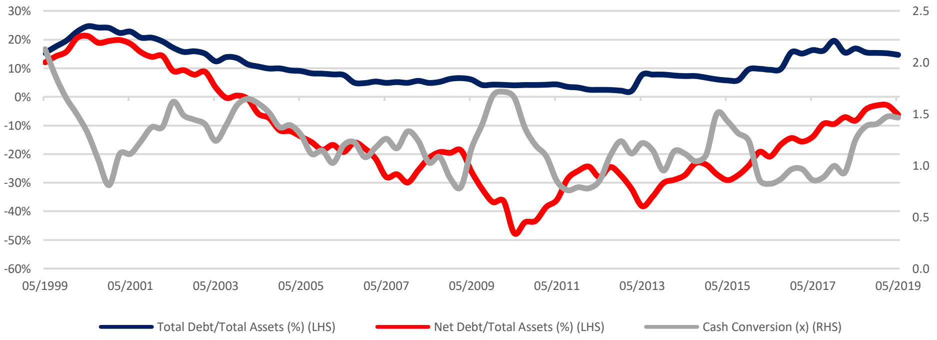
Nike: Our Investment Thesis In Charts

A long term history of revenue growth...

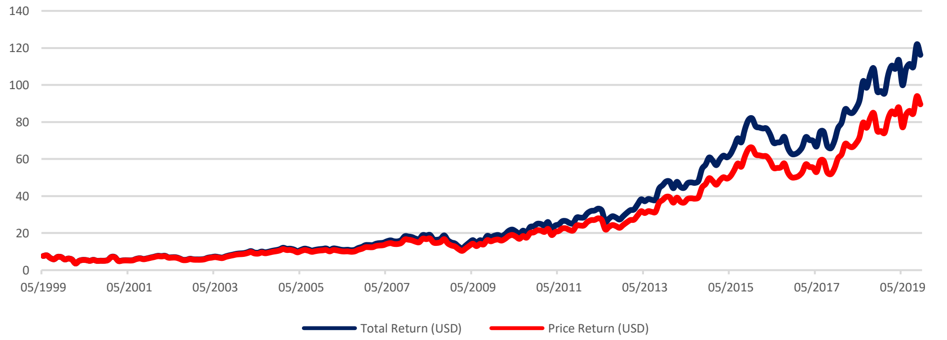
Converted to sustained excess returns on capital...



Underpinned by a sensible funding mix and substantial cash conversion



Translates to long term compounding



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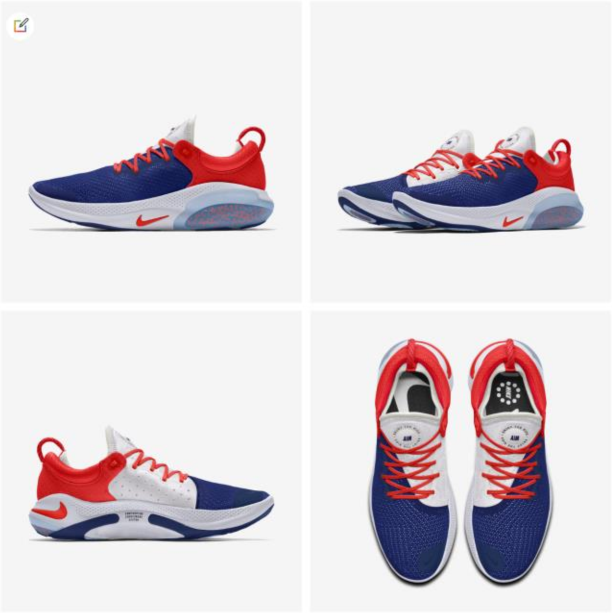
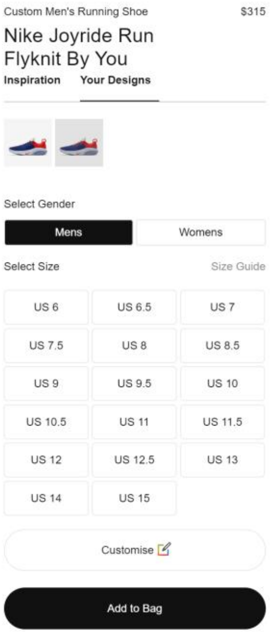
Nike: Serving an Audience of One

Nike By You



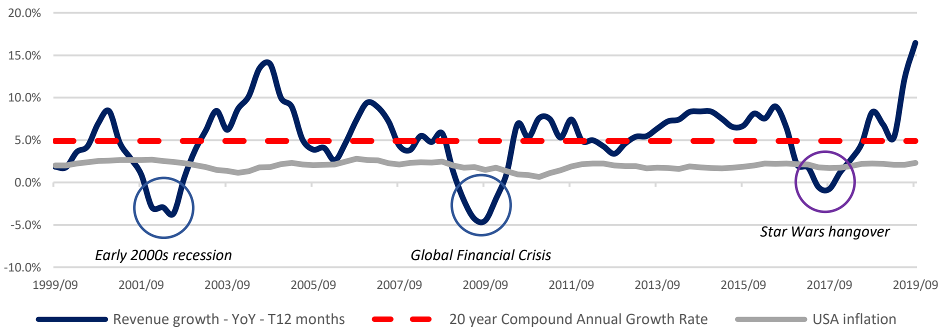


Disney: Exclusive & Differentiated Content with Pricing Power

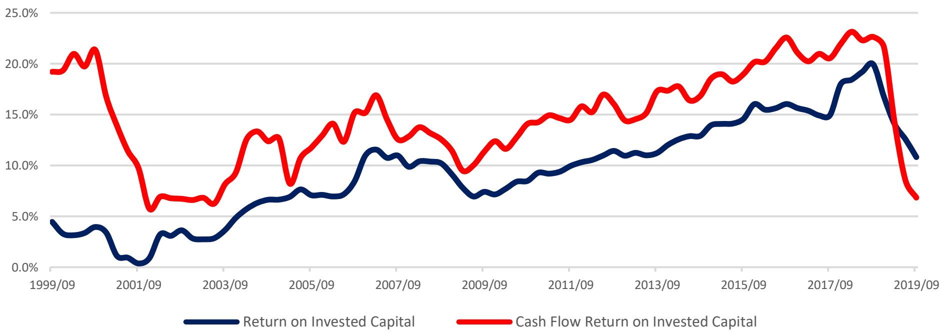
- **A World-class IP Generation Engine**
  - Content originates in the Studios, but is then monetized throughout the business
- **A Collection of Truly Differentiated Assets**
  - High-quality content
  - Theme parks, resorts
  - Long term sports broadcast rights – the ultimate live content
- **Globally Known Brand with Substantial Reach**
  - Cross-generational appeal: kids love it, parents *trust* it
  - Addresses all four quadrants of the viewership audience
- **Addressing the Innovator's Dilemma**
  - Disney+ is about securing the future *and* building a much more direct relationship than ever before with the Disney consumer
  - Managing the future of the traditional media networks through optionality with ESPN+ and Hulu (though at a cost for the latter)

Disney: Our Investment Thesis in Charts

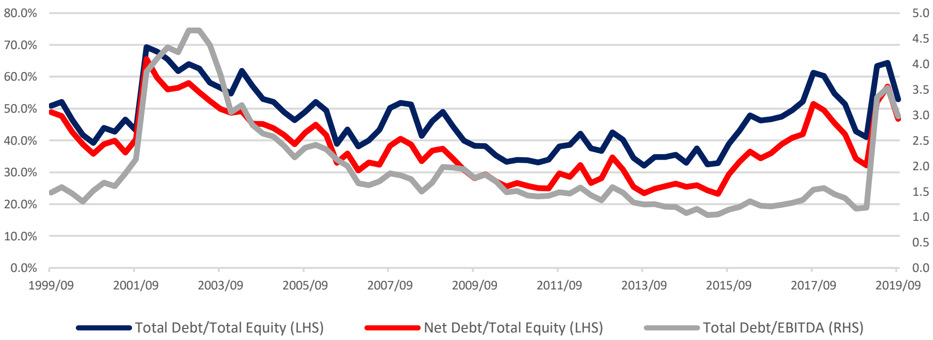
Revenue growth underpinned by pricing power and smart acquisitions…



Driving a substantial increase in returns on invested capital since 2003…



Done with sensible amounts of leverage



Source: The Walt Disney Company

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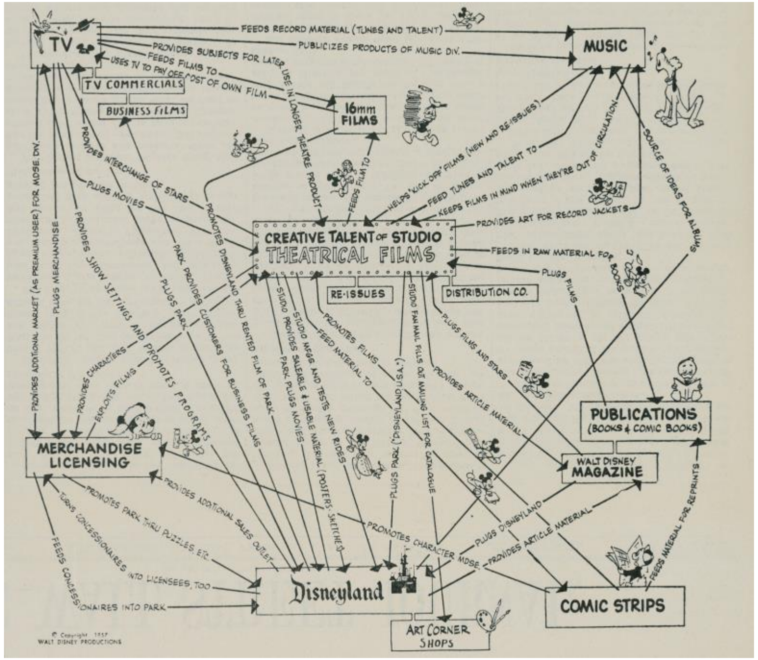
Disney: A Moat of Content



Source: Harvard Business Review, The Walt Disney Company

Fort Bourtange, Netherlands. Source: Wikimedia Commons

Portfolio Characteristics

Metric	AIM GHCF	MSCI World
ROIC (%)	18.5%	12.1%
ROE (%)	23.8%	11.9%
Gross Debt/Equity (%)	77.3%	147.0%
Net Debt/Equity (%)	22.6%	79.9%
Forward P/E (x)	25.25	16.62
Forward P/CFO (x)	20.46	11.13
FCF Yield (%)	3.24%	4.33%

Returns

Calendar Year	AIM GHCF	Benchmark[1]
2015[2]	2.5%	-5.8%
2016	3.8%	5.3%
2017	21.5%	20.1%
2018	-23.8%	-10.4%
2019	16.1%	27.0%

1: Benchmark changed from MSCI World (USD) to MSCI World Net Total Return (AUD) on 30 June 2019
2: Inception – July 2015
3: Calendar year to date (29 Nov 2019)

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