European Small Cap Equities

Investor letter 2022

BANKINVEST

Agenda

Performance comments

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European small caps valuation

Portfolio characteristics

Performance and market comments for 2022 (I)

A year marked by a significant European small cap sell-off

- **Fund return -35,6%, performance -13.1%**
- **Small caps underperformed large caps by 12.4%-points**
- 2022 turned out to be the worst year for European small caps relative to large caps at least the last 25 years. The total return of the MSCI Europe Small Cap Index was -22.5%. This compares to comparatively smaller losses of -9.9% for Stoxx 600 index.
- But 12 months in financial markets does not tell the full story. **Small caps look good on a longer investment horizon**
- Looking across what might be considered a more normal investment timescale, small caps have been impressive. Despite this year's losses, on a 10-year view European smaller companies have had a total return of 138%, compared to the Stoxx 600 at 114%, corresponding to a cumulative annal growth rate at 9,1% vs 7.9%. On a 20-year view, the numbers are even more impressive at 599% for small caps vs. 322% for the large companies with an annual growth rate at 10.2% vs 7.5%. For long term investors not investing in smalls caps, the missed opportunity should be considered as an opportunity cost.
- Given how attractive and well documented the small cap effect is, investing in small caps can be described as a paradox for many investors. We often see is investors trying to time their entry point into small caps on the fear the segment will underperform large-caps during a market sell-off.
- It is certainly extremely difficult it is to time the market; this creates its own problem as small caps typically outperform large caps over the longer term, and the periods where that outperformance is greatest are during recoveries from market lows.
- It is worth remembering, that the market discounting mechanism anticipate the future, and it is usually well ahead of earnings estimates.

Performance and market comments for 2022 (II)

Market comments

- Due to higher and more persistent inflationary pressures across Europe interest rates have increased more and at a significantly higher pace than initially expected. This has had repercussions across sectors and the real economy – hence consumers have experienced their real purchasing power diminishing for the first time in years whereas banks have been able to increase margins significantly due to historically high deposit levels. On the other end of the spectrum real estate companies have been negatively hit by higher financing costs and falling property prices. These are just a few examples to illustrate the effects of a significantly changed environment than what has been the norm for several years post the GFC. A reasonable expectation is that consequences will continue to emerge in the years to come as the economy has been pulled out of equilibrium and needs to settle in on new assumptions and realities.
- In the beginning of 2022 logistics problems and continued lockdowns were high on the agenda. Both themes have largely been solved at the time of writing. On logistics the “new problem” is that inventories are overfilled due to extraordinary ordering activity in 2021. This is deflationary and has the potential to create problems for companies in sectors close to the end customer like retail and fashion.
- On a macro level the expectation in the beginning of 2022 was that growth would be lower than what was expected earlier in 2021 – however the positive trends were expected to continue for longer. The former expectation was correct whereas the latter had to be altered significantly due to the war in Ukraine and the related effects like increasing energy prices. Thus, the current expectation is that the UK and Europe will be in recession in 2023. As we look into 2023 there are several known unknowns that will determine the outcome and as always unfortunately those things that can be forecasted matter the least whereas the unexpected matter the most

Performance and market comments for 2022 (III)

The MSCI Europe Small Cap Index posted a double-digit negative return of 22.5% driven by valuation multiple compression

Portfolio comments

- Earnings estimates in Europe have risen 15% measured on STOXX 600 in 2022 while valuations have declined by 20-30% (STOXX 600 and MSCI Europe Small Cap, respectively) as estimates have risen while stock prices have fallen.
- The negative equity returns were driven by substantial valuation multiple compression. At the beginning of 2022, the market priced in a modest outlook and valued the MSCI Europe Small cap index at 17.5x forward earnings while the BankInvest European Small Cap portfolio was valued at 22.3x. The fund return of -35.6% was driven by 42.2% multiple compression, while the EPS contribution was a positive 7.9%. The current valuation for 2023 is 12.6x for the portfolio while the index is at 12.2x. The trailing ROE is 17.3% vs. the benchmark's 12.0% with lower financial leverage (debt/equity) of 73% vs. 137% for the index. The portfolio consists of companies which have a demonstrated a track record of compounding shareholder value and holds substantially higher quality vs. the market. The portfolio is valued attractively – both on an absolute basis as well as relative to the market. Thus, we are optimistic about the future return potential.

Performance and market comments for 2022 (IV)

Performance comments

- The portfolio has had a negative effect from security selection explaining 87% of excess return coupled with low capital allocation to winners. Excess return from the top 10 contributors was +4.7% vs -10.8% from the bottom 10 detractors.
- Hit rate of 30% - percentage of the number of positive contributors.
- The primary detracting sectors were the two largest allocations; Industrials (31% allocation) and IT (18% allocation) with contributions of -4.4% and -4.5%, respectively. The Energy sector (2.5% allocation) and utility sector (4.1% allocation) were the primary positive contributors with +0.7% and +0.3%, respectively. The biggest underweight was in Real Estate (-9.0% exposure) which contributed with +1.1%.
- Five stocks contributed to performance by more than 0,5%. The Greek refiner and energy company Motor Oil had a total return of +71% and contributed with +1.0%. We bought Motor Oil in 2021 as a value investment when refining margins where cyclically depressed after Covid-19. Refining margins had been recovering to normal levels until the Ukraine war in Ukraine. Due to the war global trade flows changed and created a deficit for certain products. This created a very profitable environment for Motor Oil. With a diesel ban from Russia coming into effect in February 2023, this will further benefit Motor Oil. The Danish Bank Ringkjøbing Landbobank contributed with +0,7%. The bank, which is one of the best run European banks with a long-term ROE of 15-18%, benefitted from increasing rates and strong operations. In 2021 the fund initiated two upstream oil investments in Aker-BP and Lundin Petroleum "Örron Energy". The positions contributed with a combined +1.0%. We have sold the positions as both stocks reached our assessment of fair value under a normalised oil price scenario. The Swedish express air freight forwarder Jetpak contributed with +0,6%. The company benefits from its network effect and asset-light model with a flexible cost structure, which enables it to pass on inflation directly to customers. Coupled with a low valuation the investment proposition is attractive. The stock was flat during 2022 with earnings up by 33% and now trade at a bargain price of 10% FCF yield.

Performance and market comments for 2022 (V)

Performance comments

- Most of the underperformance in 2022 happened in Q1 where high-quality stocks measured on ROE performed twice as poorly as their low-quality counterparts, which is a headwind as the portfolio always has a quality bias. Performance in 2022 should be seen in context with the significant outperformance the fund experienced during the Covid-19 period in 2020 and 2021. The top-performing stocks in this period experienced a sharp mean-reversion in 2022 by a 12%-points performance gap. Despite the rebalancing we started in Nov 2021, the portfolio was skewed towards winners from Covid-19, which had become too expensive vs. other parts of the market. The portfolio has been hit by the above-normal profit these companies have had in 2020-21, where especially supply chains have dragged margins down in 2022. This has affected the portfolio in an environment where the market focused more on profitability than growth. It is our view that this headwind has – for the vast majority of companies – eased and should not be a significant factor for stock performance in 2023.
- The biggest negative contributor was the Finnish manufacturer of saunas and heaters, Harvia (-2.5%). The stock was down by -70%. We reduced the position too late after demand turned negative as a result of above-normal demand during Covid-19. Harvia has so far managed the slowdown impressively well via cost control and price increases, which is safeguarding margin during top line pressure. We expect a further slowdown in 2023 but view the stock as priced for a negative scenario at 14x 2023 earnings. Qleanair (-1,3%), DistIT (-1,2%) and GN Store Nord (-1.2%) where all down 60-70% in absolute terms, which is clearly very disappointing. All stocks are quality stocks, which have proven business models over many years and have historically created significant shareholder value. But for all of them they are facing stock-specific challenges, which we view as temporary in nature. They are trading in deep-value territory in the range of 5-11x earnings. The magnitude of the declines vs. the underlying fundamental development is likely indicative of the upside potential. The key is to identify the specific tailwinds to correct the mispricings. Cheap stocks can always get cheaper, meanwhile those with tailwinds rarely stay cheap for long. We maintain the stocks in the portfolio at reduced positions.

Performance and market comments for 2022 (VI)

Portfolio comments

- During the year we have from a bottom-up perspective initiated a new overweight in consumer staples where we found stable compounders with a proven track of creating value in inflationary environments at attractive prices. We continue with a high but lower capital allocation to Industrials (31%) and IT stocks (18%), where we identify good growth opportunities and quality at attractive prices. Real Estate (0%) are the largest underweight with no new positions established during the year.
- The capital allocation process is based on the pricing of quality (compounding characteristics), liquidity and the expected fundamental correlation to the rest of the portfolio. The capital allocation is in general overweight sectors with the best long-term compounding characteristics and underweight those where business models to a lesser degree create shareholder value over time. A smaller part of the portfolio can be allocated to special situations such as deep value, spin-offs etc., with a great deal of idiosyncratic drivers that are often associated with uncorrelated returns. Examples of this can be stocks trading at depressed levels with mean-reversion potential combined with a tailwind. The fund investments in upstream oil is an example of special situations. We expect the fund to utilize special situations in various sectors to a higher degree in the current environment.

Outlook

- The portfolio companies have overall delivered mid-single digit earnings growth and created value in 2022, although compared to the elevated expectations a year ago it has disappointed. The current outlook statements and market expectations for 2023 are still positive with expected earnings growth of 14% for the portfolio vs. 12% for the small cap market. The risk factor is high, but valuations are to a large degree pricing in a depressed outlook which bodes well for the future return potential.

2022 summary (VII)

A year marked by a significant European small cap sell-off

- Supply chain bottlenecks, the war in Ukraine and high inflationary pressures changed the environment from the post GFC-normal affecting almost all sectors of the economy.
- Negative returns were driven by a hefty valuation compression of 30% for the index and 44% for the portfolio while the earnings contribution was positive.

BankInvest European Small Cap

- Fund return -35,6%, performance -13.1%.
- 87% of the outperformance driven by stockpicking and inefficient capital allocation to winners.
- Revaluation of high ROE stocks coupled with mean-reversion of top performers from 2020-21.

Outlook

- The current outlook statements and market expectations for 2023 are still positive with expected earnings growth of 14% for the portfolio vs. 12% for the small cap market.
- The risk factor is high, but valuations are to large degree pricing in a depressed outlook which bodes well for the future return potential.

2022 YTD performance in a context (VIII)

Revaluation of low-quality stocks has had a negative effect but creates long-term opportunities

2017-2021 return (CAGR in circles)

BI EUSC	MSCI EUSC	Excess return
151.3%	68.9%	82.4%
+20.2%	+11.0%	+12.8%

- Performance driven 70-90% by stock-picking
- High capital allocation to winners
- Both in 2020 and in 2021 6 portfolio stocks gained more than 100%
- ROE twice as high as in the benchmark has driven performance
- Strong earnings seasons – "yellow flags" have been reduced
- Continuous rebalancing between value/growth and def./cyclicals

2022 YTD return

BI EUSC	MSCI EUSC	Excess return
-35.6%	-22.5%	-13.1%

- Performance driven 80% by stock-picking
- Low capital allocation to few winners
- 2020 and 2021 winners in significant reversal in 2022
- Top ROE stocks has performed twice as poorly as the bottom
- Many disappointments especially due to supply chains
- Despite rebalancing since Nov., there remained an imbalance

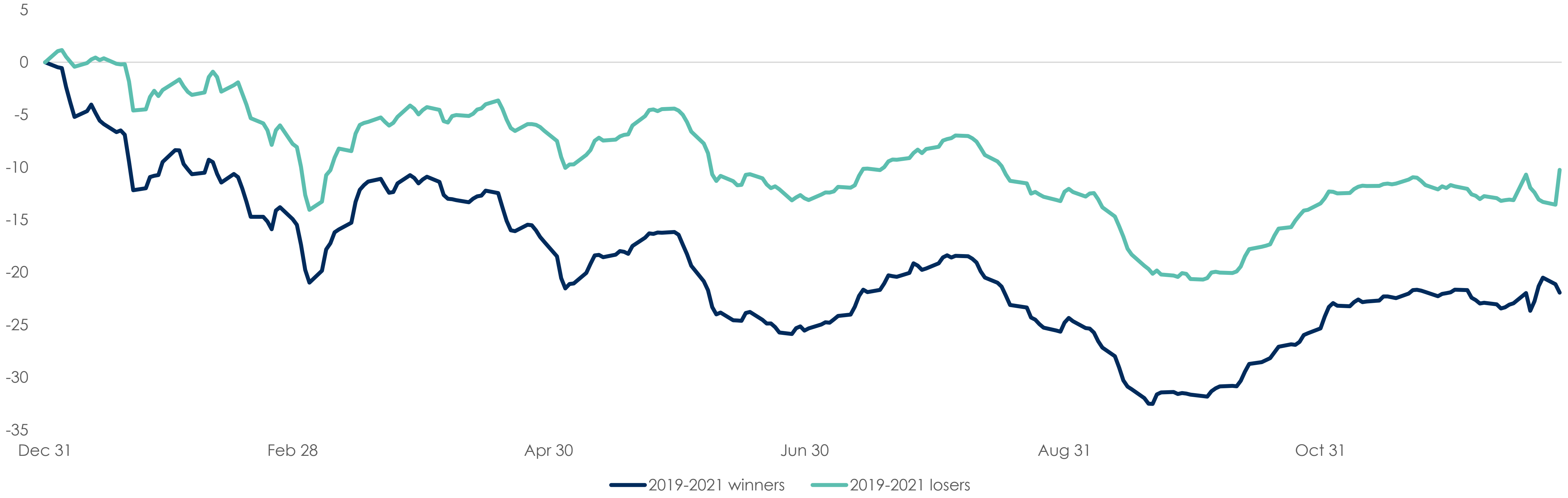
Source: BankInvest, MSCI, Bloomberg, 31.12.2022. Note: return is gross of fees.

Performance and market comments (IX)

The portfolio has struggled as the market has experienced a significant mean reversion of last 2-year losers vs. winners

Previous losers outperformed previous winners by 12%-points in 2022

2022 return by 2019-2021 excess return buckets, daily



Source: BankInvest, MSCI, Bloomberg, 31.12.2022.

Performance and market comments for 2022 (X)

Performance		
Portfolio	**Benchmark**	**Excess return**
-35.6%	-22.5%	-13.1%

Top 5 contributors (in %-points)		
Motor Oil SA	Oil & Gas	0.99
Ringkjøbing Landbobank	Banks	0.72
Jetpak AB	Air Freight & Logistics	0.55
Aker BP	Oil & Gas	0.54
Lunding Energy AB	Oil & Gas	0.46

Bottom 5 contributors (in %-points)		
Harvia Oyj	Leisure Products	-2.37
Qleanair AB	Commercial Services	-1.26
DistIT AB	Electronic Equip.	-1.18
GN Store Nord A/S	Health Care Equip.	-1.15
Nolato AB	Software	-1.13

Source: BankInvest, 31.12.2022. Notes: Return is gross of fees.

Comments and relevant news

+ **Motor Oil-Hellas**, the largest oil refinery in Greece, has operated in a very favorable refining environment in 2022 as crack spreads has widened on the back of the Russian invasion of Ukraine. Consequently, their trailing 12-month EBITDA has tripled year-over-year

+ **Ringkjøbing Landbobank**, a Danish regional bank, has had another strong year driven by lending growth, higher net interest margins, high conversion activity and lower loan losses. The shares trade slightly above its 15-year median forward price-earnings ratio

+ **Jetpak**, the market leader within express air freight services, has since its IPO in 2018 grown 10% p.a. split 50/50 between organic growth and growth from acquisitions with stable margins. The company has announced a more intensified M&A process with more acquisitions coming on-stream in 2023. The shares are still attractive at a 10% FCF yield

÷ **Harvia**, the global market leader in sauna ovens, has been hit demand-wise from the Russian invasion of Ukraine as well as have impacted by supply chain problems. However, Harvia has adapted its cost base to a post-Covid-19 environment. We reduced the position size throughout the year, but we see an attractive risk/reward profile at the current valuation

÷ **Qleanair**, a provider of clean air solutions, lowered its guidance throughout the year. Late in 2022 the board appointed a new CEO after a period of two years with flat sales and EBIT development against a long-term growth target of 10%

÷ **DistIT**, a distributor of IT products, has facd the consequences of a pessimistic consumer sentiment and cost inflation, which has led to a negative organic growth and low margins

Performance and market comments for December (XI)

Performance		
Portfolio	**Benchmark**	**Excess return**
-0.3%	-2.5%	+2.2%

Top 5 contributors (in %-points)		
Jetpak AB	Air Freight & Logistics	0.45
Ringkjøbing Landbobank	Banks	0.36
OEM International	Trading Companies	0.34
Motor Oil SA	Oil & Gas	0.32
Games Workshop Group	Leisure Products	0.17

Bottom 5 contributors (in %-points)		
Qleanair AB	Commercial Services	-0.20
Antares Vision SpA	Machinery	-0.18
ASM International NV	Semiconductor Equip.	-0.13
Digital Value SpA	IT Services	-0.10
Mensch Und Maschine	Software	-0.09

Source: BankInvest, 31.12.2022. Notes: Return is gross of fees.

Comments and relevant news

+ **Jetpak**, the market leader within express air freight services, increased revenues organically by 12% in Q3 with an EBITA margin of 10%. Both figures were better than expected

+ **Ringkjøbing Landbobank**, a Danish regional bank, raised its full-year guidance due to higher net interest margins, high conversion activity and lower loan losses

+ **Motor Oil-Hellas**, the largest oil refinery in Greece, tripled EBITDA and EPS relative to Q3 the year before, driven by high refining margins. The stock is still cheap, among other things because there is uncertainty about the EU's windfall tax of European oil companies

+ **Games Workshop**, the company behind fantasy miniatures such as Warhammer 40K and Warhammer universes, signed a deal with Amazon in which Amazon acquired the TV and film rights to produce content related to the very popular Warhammer 40K universe. It is a major milestone for Games Workshop's licensing business

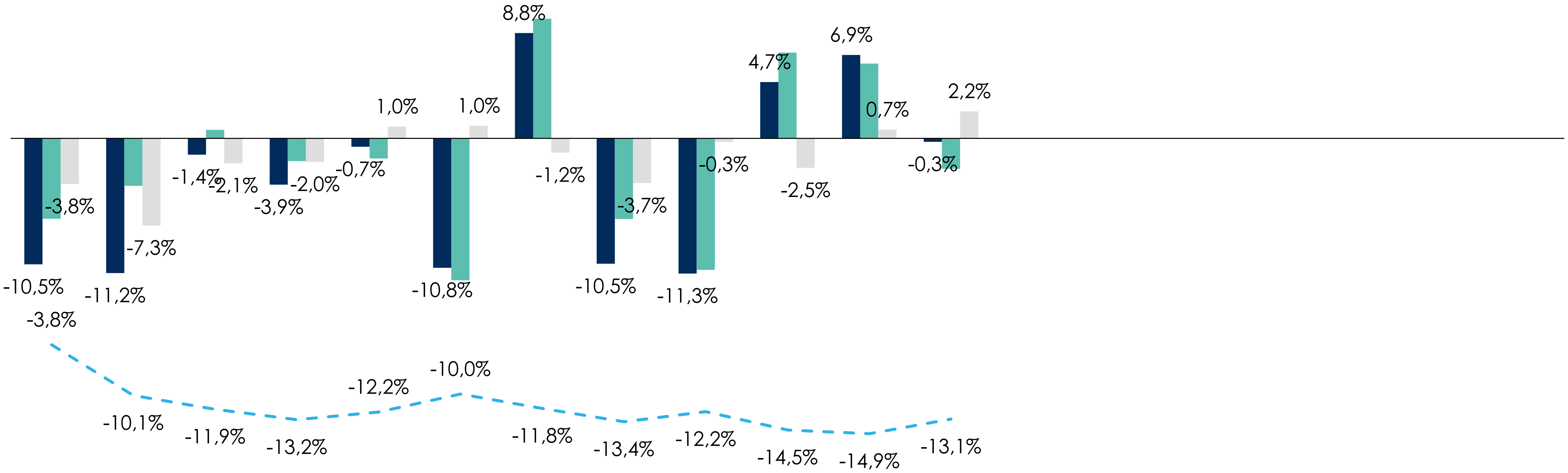
÷ **Qleanair**, a clean air solutions, appointed a new CEO on 28 November after a period of two years with flat sales and EBIT development against a long-term growth target of 10%

÷ **Antares Vision**, a leading provider of traceability solutions for the pharmaceutical industry, delivered figures for Q3 that were in line with expectations and confirmed the full-year guidance, which implies Q4 to contribute 40% of the year's total sales vs. 33% in 2021

÷ **ASM International**, a leading supplier of machines for semiconductor film deposition on silicon wafers, lowered its forecast from 40% to 20% for how much of a negative effect US restrictions on technology supplies to China will have for Q4

Performance

Return in 2022



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2022	2021	2020	2019	2018[1)]	2017	Cum.
Portfolio	-10,5%	-11,2%	-1,4%	-3,9%	-0,7%	-10,8%	8,8%	-10,5%	-11,3%	4,7%	6,9%	-0,3%	-35,6%	28,2%	28,4%	37,7%	-12,4%	26,3%	61,9%
Benchmark	-6,7%	-4,0%	0,7%	-1,9%	-1,7%	-11,8%	10,0%	-6,7%	-11,0%	7,2%	6,2%	-2,5%	-22,5%	23,7%	4,2%	31,6%	-15,4%	19,2%	31,3%
Excess return	-3,8%	-7,3%	-2,1%	-2,0%	1,0%	1,0%	-1,2%	-3,7%	-0,3%	-2,5%	0,7%	2,2%	-13,1%	4,5%	24,3%	6,1%	3,0%	7,1%	30,5%
Cum. return	-3,8%	-10,1%	-11,9%	-13,2%	-12,2%	-10,0%	-11,8%	-13,4%	-12,2%	-14,5%	-14,9%	-13,1%							

Portfolio Benchmark Excess return Cum. return

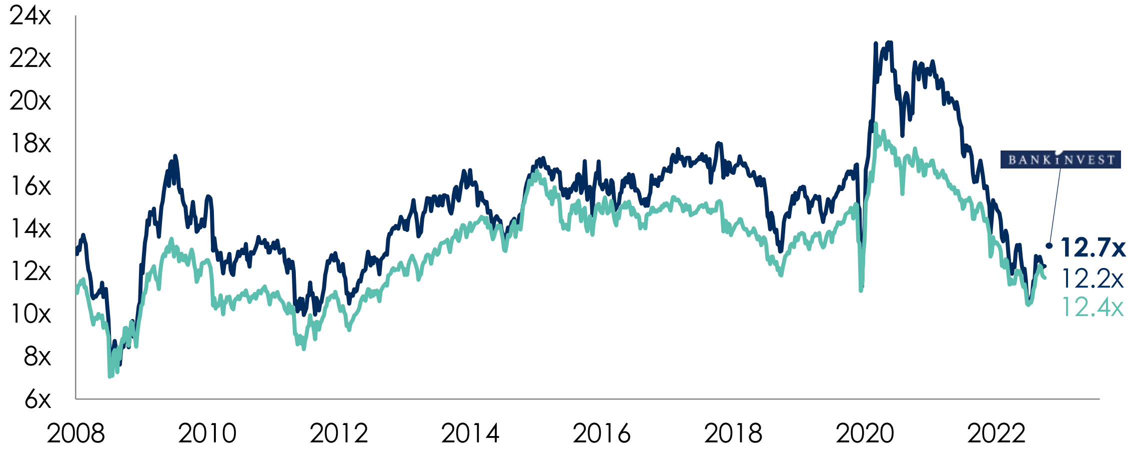
Source: BankInvest & SEB, 31.12.2022. Notes: Gross return before fees. 1) Responsibility for the SEB fund until 30.11.2018, where YTD 2018 return and excess return was respectively -7.5% and +1.9%.

European small caps valuation

Small caps trade below the historical premium to large caps

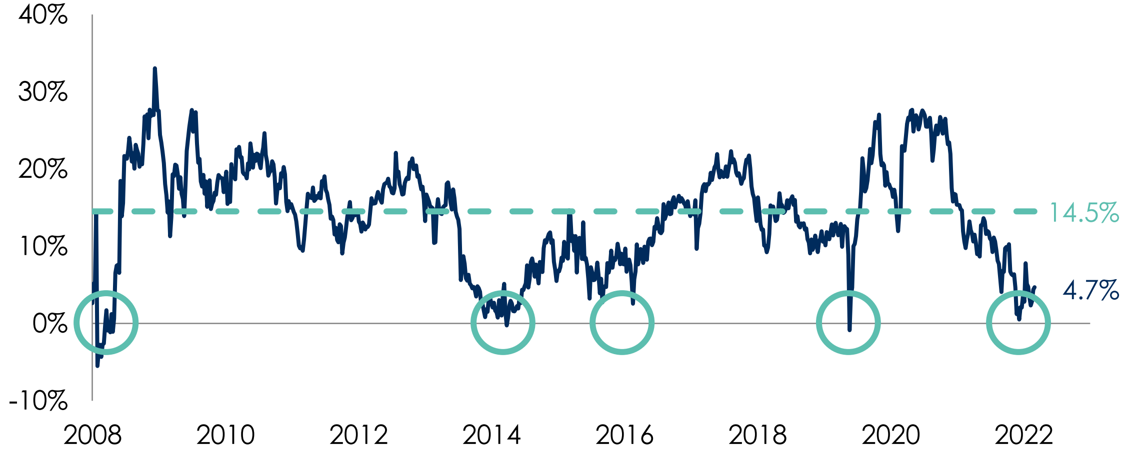
Valuation for small and large caps

12-month forward P/E



Small cap premium

Based on small and large cap 12-month forward P/E



- The MSCI European Small Cap Index trades 25% its 10-year median down more than 40% from the peak in 2021

Source: BankInvest, MSCI, Bloomberg, 31.12.2022. Note: 1) For STOXX 600.

Performance

Results for the current strategy and team

2017	2018	2019	2020	2021	2022
+26.3% +7.1%*	-12.4% +3.0%*	+37.7% +6.1%	+28.4% +24.3%	+28.2% +4.5%	-35.6% -13.1%
• Performance driven 80% by stock selection • Overweight in industrials reduced throughout the year due to excessive valuation. Overweight in IT started	• Performance driven 75% by stock selection • Balanced portfolio approach and disciplined capital allocation defended the portfolio against significant changes in the market sentiment in H2	• Performance driven 2/3 by stock selection • A low portfolio valuation of 12x 12-month forward P/E at the start of the year priced in high uncertainty • Capital allocation to IT stocks- where we continue to see strong fundamentals – was 25%, which contributed 3.1%-points to performance	• Performance driven by 2/3 stock selection • Broad-based stockpicking coupled with high capital allocation to winners contributed to the outperformance • Biggest contribution from IT (8%), Industrials (6%) and consumer disc. (4%)	• Performance driven by 90% stock selection • Estimate revisions have risen faster than prices providing support for stocks • Biggest contribution to performance from the two largest sector weights in IT (3%) and Industrials (2%) • IT overweight reduced from Nov	• Performance driven by 90% stock selection • Significant mean reversion of last 2-year (return) winners vs. losers • Staples overweight initiated

Return | Performance

*Source: BankInvest & SEB, 31.12.2022. Notes: Gross return before fees. * Responsibility for the SEB fund until 30.11.2018, where YTD 2018 return and excess return was respectively -7.5% and +1.9%.*

Performance attribution for 2022

Stock-picking contributed 90% of the excess return

Portfolio Contribution	Return
Portfolio Return	-35.6
Benchmark Return	-22.5
Active Return	-13.1

Allocation & Selection Effects	Effect
Allocation	-1.7
Selection	-11.4
Total	-13.1

Top 10 Positions	Weight
Ringkjøbing Landbobank A/S	4.2
Rubis SCA	3.8
Hexpol AB	3.7
Jetpak AB	3.8
Recordati SpA	3.5
Royal Unibrew A/S	2.6
Digital Value SpA	2.8
Antares Vision SpA	2.8
OEM International AB	2.6
Ariston Holding NV	2.5
Total	32.2

Top 10 Contributors	Attribution
Motor Oil SA	1.0
Ringkjøbing Landbobank	0.7
Jetpak AB	0.6
Aker BP	0.5
Lunding Energy AB	0.5
Hexpol AB	0.4
Rubis SCA	0.3
Siili Solutions Oyj	0.3
Ariston Holding Nv	0.3
Bahnhof AB	0.3
Total	4.7

Bottom 10 Contributors	Attribution
Harvia Oyj	-2.4
Qleanair AB	-1.3
DistIT AB	-1.2
GN Store Nord A/S	-1.2
Nolato AB	-1.1
Cint Group AB	-1.1
XP Power Ltd	-0.8
Hilton Food Group Plc	-0.7
Crayon Group Holding	-0.6
Leaddesk Oyj	-0.6
Total	-10.8

Sectors	Attribution
Real Estate	1.0
Energy	0.7
Utilities	0.3
Communication Services	0.1
Materials	-0.3
Consumer Discretionary	-1.2
Financials	-1.3
Consumer Staples	-1.4
Health Care	-2.1
Industrials	-4.4
Information Technology	-4.5
Total	-13.1

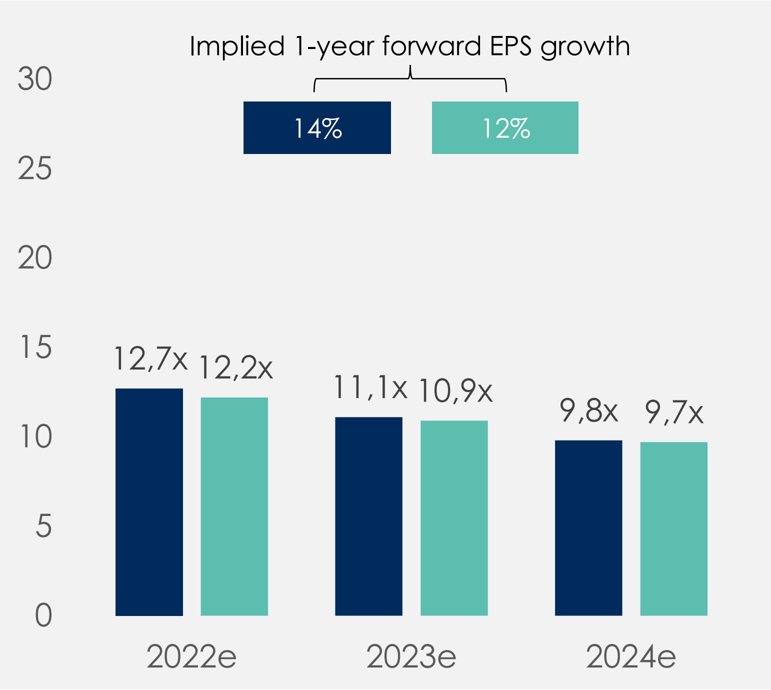
TOP 5 / bottom 5 Countries	Attribution
Greece	1.0
France	0.4
Luxembourg	0.1
Isle of Man	0.0
Gibraltar	0.0
Finland	-3.7
Sweden	-2.9
Italy	-2.6
Denmark	-1.2
Norway	-0.9
Total	-9.6

Source: BankInvest, 31.12.2022. Note: Returns are gross of fees.

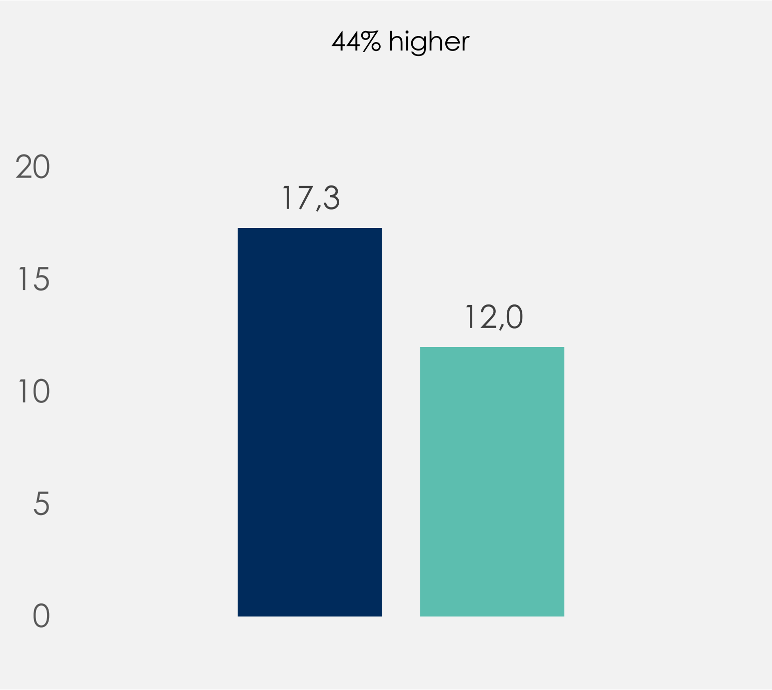
Portfolio characteristics

Higher quality and growth at similar forward valuation with lower financial leverage (risk)

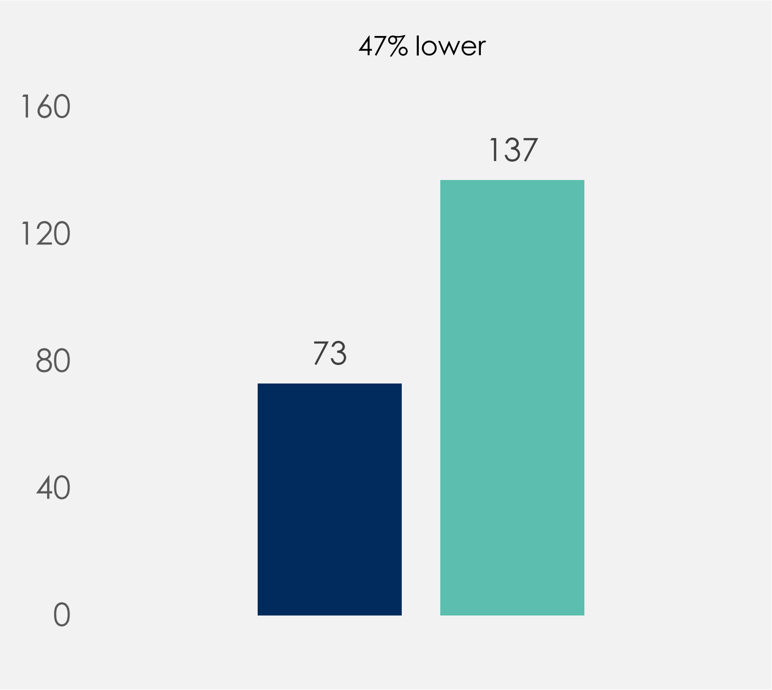
Valuation
Forward Price/Earnings[1]



Returns
LTM Return on Equity %



Financial leverage
Debt/Equity %



Portfolio   MSCI Europe Small Cap

Source: BankInvest & Bloomberg, 31.12.2022.
Notes: 1) Forward Price/Earnings is defined by using the consensus estimate of the 1-year forward earnings.

Portfolio exposures

Capital allocation is a result of a ”bottom-up” process

The portfolio’s largest over- and under weights are in IT and real estate, respectively

Sector	Portfolio	Benchmark	+/-
Information Technology	18.4%	8.8%	9.6%
Consumer Staples	12.6%	4.8%	7.9%
Industrials	30.7%	27.4%	3.3%
Communication Services	4.6%	4.1%	0.5%
Utilities	4.1%	3.7%	0.4%
Energy	2.5%	2.5%	0.0%
Health Care	6.4%	7.1%	-0.7%
Consumer Discretionary	7.0%	8.9%	-1.9%
Materials	5.7%	7.6%	-1.9%
Financials	7.9%	16.3%	-8.3%
Real Estate	0.0%	8.9%	-8.9%

Source: BankInvest & Bloomberg, 31.12.2022. Note: Sector allocations are adjusted for cash.

Top 10 positions

Balanced portfolio, concentrated positions

Company	Description	Investment case	%	Country
Ringkjøbing Landbobank A/S	Private-banking focused regional bank	Driving growth and margins through a mix shift to the lower end of the private banking market. This segment represents a large addressable market for the bank	4.2%	Denmark
Rubis SCA	Energy storage & logistics	Leading provider of liquefied petroleum gas for both retail and commercial customers in France, Caribbean and Africa. Distribution includes a network of gas stations	3.8%	France
Hexpol AB	Polymer compounding	Global leader in polymer compounding used in a long range of applications in the auto industry, general industry, construction as well as green energy areas	3.7%	Sweden
Jetpak AB	Express delivery	Asset-light provider of express delivery via air and roads using its proprietary software platform connecting transport partners	3.8%	Sweden
Recordati SpA	Pharmaceuticals	Strong track record of scaling products in Europe and a unqiue product portfolio of treatments of rare diseases with low idiosyncratic risks	3.5%	Italy
Royal Unibrew A/S	Beverages	Multi-beverage brand company with best-in-class organic growth, track record of creating value through acquisitions and profitability	2.6%	Denmark
Digital Value SpA	Cloud services	Cloud service provider with a significant penetration potential in Italy	2.8%	Italy
Antares Vision SpA	Inspection systems	Market leader track-and-trace inspection systems to the life science, food and cosmetics industries, where traceability requirements are especially high	2.8%	Italy
OEM International AB	Trading company	Outstanding track record of capital allocation	2.6%	Sweden
Ariston Holding NV	Heat pumps	Leader in the structural growth market energy-efficient heating solutions	2.5%	Italy
			32.2%	

Source: BankInvest & Bloomberg, 31.12.2022.

Portfolio activity

	1Q 2022	2Q 2022	3Q 2022	4Q 2022
New positions	GN Store Nord Royal Unibrew Aalberts Delonghi AAK	Metso Outotec Ariston A. G. Barr Britvic Hilton Food Group Krones Bekaert Alcadon	AutoStore Better Collective	Beazley Diploma ASM International ISS Rheinmetall
Sold positions	Seco Basler JOST Werke House of Control Dermapharm Addtech	Optomed Mercell Lagercrantz GVS Tracsis Bouvet Reply Wavestone	Interpump Revenio Alimak Aker BP Scanfill Medistim	Cint

Balanced portfolio comprising defensive and cyclical stocks as well as quality and value stocks

Source: BankInvest, 31.12.2022.

Investment cases

Margin normalisation and recession-proof

Case type: Special situation – self-help story

Profile

Market cap: EUR 3.8bn (Dec 2022)
Norm. FCF yield: 9%
P/E FY FY24e: 12x
Norm. ROIC: 12%

Description

ISS is a leading facility management company that provides integrated solutions across areas such as catering, cleaning and security services

Investment case

1 Return to long-term profitability due to combination of Covid-19 rebound…

- ISS is experiencing a recovery after activity was hit during the work-from-home period. EBIT and cash flows were negative for only the 3rd time in the company's 123-year history. Before 2017, the EBIT margin was stable around 5% in most years

2 … and no more unprofitable contracts

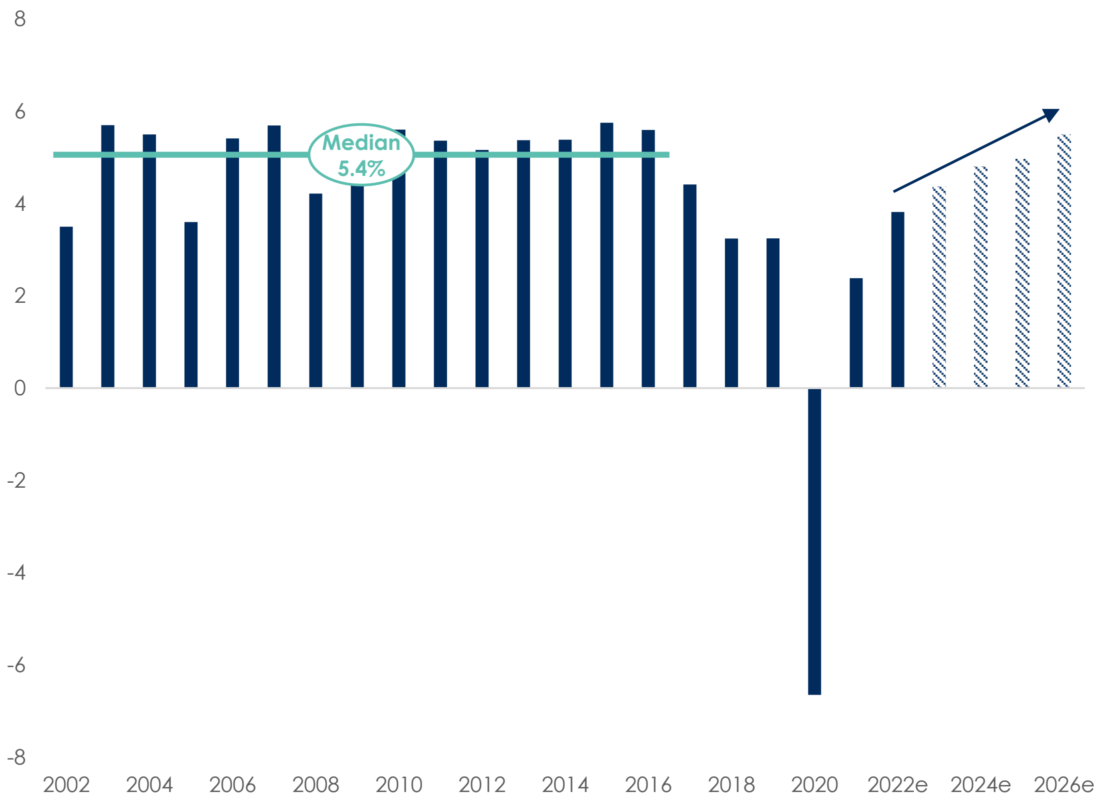
- Several unprofitable contracts that were entered into with poor risk management pushed the margin below average since 2017. The new CEO has risk management as the main focus – the old contracts have been renegotiated or terminated

3 A recession scenario is not bad for ISS

- Historically, recessions have led to more outsourcing due to cost focus. By 2022, the initial effects of mandatory return-to-office programs are a faster return than previously expected. Contracts have built-in inflation clauses

Normalisation to long-term profitability

EBIT margin (%)



Source: BankInvest, company reports, Bloomberg, 31.12.2022. Profile figures are at time of purchase.

Investment cases

Leading defense company with tailwinds from rising defense budgets

Case type: Special situation – strong market backdrop

Profile

RHEINMETALL

Market cap: EUR 8.7bn (Dec 2022)
Norm. FCF yield: 8%
P/E FY FY24e: 12x
Norm. ROIC: 15%

Description

Rheinmetall is a leading supplier of military vehicles, weapons and ammunition. In addition, the company supplies the automotive industry, but this division is to be divested

Investment case

1 Long-term compounder…

- The company has increased its EBITDA in the Defense division by 10% p.a. with an avg. ROIC of 15%. Few large unprofitable contracts with overspecifications have historically been a major issue. These are gone and all contracts now contain inflation clauses

2 … with defense back on the agenda…

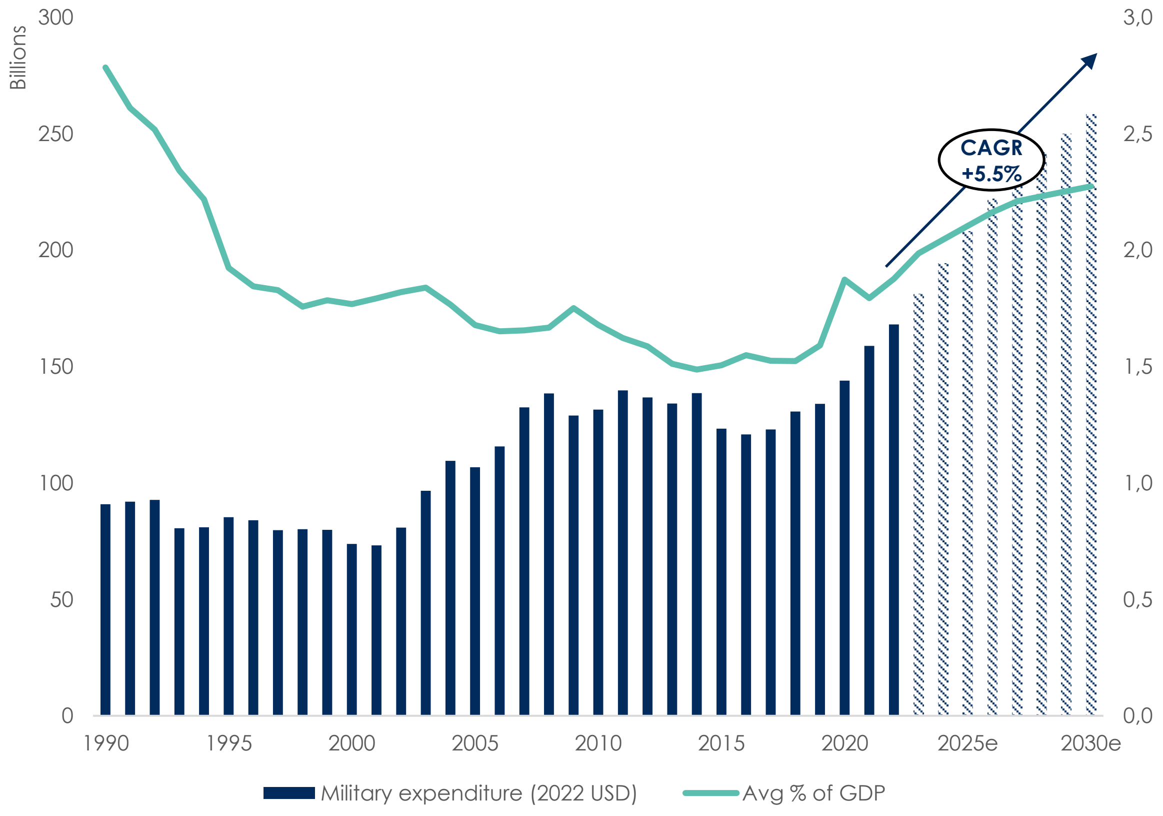
- Russia's invasion of Ukraine has put defense back on the top of the agenda in most countries. Six NATO countries increased their defense budgets to over 2% of GDP by 2022 in addition to Germany, which announced a EUR 100bn special defense fund

3 … and fundamental momentum from acquisition

- Recently, the company acquired the Spanish ammunition manufacturer EXPAL, improving Rheinmetall's strategic position and production capacity in a tight market

RHM's core markets are expected to grow as they approach NATO commitments

Military expenditure and budgets for Australia, Germany, United Kingdom and Hungary, 1990-2030e



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