Aitken Investment Management
Global High Conviction Fund
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

- United States, 63.7%
- Japan, 8.2%
- United Kingdom, 5.5%
- France, 3.8%
- Canada, 3.4%
- Switzerland, 3.1%
- Germany, 2.9%
- Australia, 2.3%
- Netherlands, 1.2%
- Hong Kong, 1.1%

Developed Markets vs. Australia: Sectors

- Developed Markets
- Australia
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 is a function of sustainably timing the cycle

Value creation needs a timely catalyst

Value creation is a function of a business generating & reinvesting excess returns
It Pays to Own High-Quality Businesses

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.

Source: Bloomberg EQS. All series based to 100 on 30 September 1994. All returns gross of fees.
It Pays To Focus On The Long Term

MSCI World Net Total Return (USD)

MSCI World Excl. 5 best days Excl. 10 best days
Excl. 20 best days Excl. 30 best days
OECD G7 Inflation

Compound Annual Growth Rate

Source: AIM, MSCI
Profits and the Capital Required To Generate Them

MSCI World – Pools of Profit (Trailing 12 months – Sept. 2019)

Share of Invested Capital - %

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

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

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
Looking to 2020: A Framework for Assessing Economic Risk

**Specific Risk**
- Financial system

**Generic Risk**
- Slowing global & US growth

**Structural Conditions**
- Asset/investment/spending bubbles?
- Policy error?

**Cyclical Conditions**
- Late cycle?

**Possible External Shocks**
- Trade war escalation
- Confidence
- Corporate credit

*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*

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

US Household Debt/Disposable Income (LHS) vs. US household savings as % of Disposable Income (RHS)
US banking system: much higher capital levels

Tier 1 Risk Based Capital Ratio (US Large Banks)
A combination of low inflation, low growth = low rates

OECD Inflation – persistent disinflation since the 70’s

Persistently lower growth
Positioning / Sectors

**Sector Allocation**

- **Technology**: 25.6%
- **Communication Services**: 22.3%
- **Consumer Discretionary**: 22.1%
- **Health Care**: 11.0%
- **Consumer Staples**: 9.9%
- **Cash**: 9.1%

**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%)

**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
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...

-10%  -5%  0%  5%  10%  15%  20%
05/1999  05/2001  05/2003  05/2005  05/2007  05/2009  05/2011  05/2013  05/2015  05/2017  05/2019

Sales growth - T12m - YoY (%)  Sales growth - T12m - QoQ (%)

Converted to sustained excess returns on capital...

0%  10%  20%  30%  40%  50%
05/1999  05/2001  05/2003  05/2005  05/2007  05/2009  05/2011  05/2013  05/2015  05/2017  05/2019

Return on Invested Capital - T12m (%)  Cash Flow Return on Invested Capital - T12m (%)

Underpinned by a sensible funding mix and substantial cash conversion

0%  10%  20%  30%  40%  50%  60%
05/1999  05/2001  05/2003  05/2005  05/2007  05/2009  05/2011  05/2013  05/2015  05/2017  05/2019

Total Debt/Total Assets (%) (LHS)  Net Debt/Total Assets (%) (LHS)  Cash Conversion (x) (RHS)

Translates to long term compounding

0.0  0.5  1.0  1.5  2.0  2.5
05/1999  05/2001  05/2003  05/2005  05/2007  05/2009  05/2011  05/2013  05/2015  05/2017  05/2019

Total Return (USD)  Price Return (USD)
Nike: Serving an Audience of One

Nike By You

Custom Men's Running Shoe
Nike Joyride Run Flyknit By You
Inspiration: Your Design

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Customize

Add to Bag

Aitken Investment Management
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
Disney: A Moat of Content


Fort Bourtange, Netherlands. Source: Wikimedia Commons
## Portfolio Characteristics

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<tr>
<th>Metric</th>
<th>AIM GHCF</th>
<th>MSCI World</th>
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<td>ROIC (%)</td>
<td>18.5%</td>
<td>12.1%</td>
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<td>ROE (%)</td>
<td>23.8%</td>
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<td>Gross Debt/Equity (%)</td>
<td>77.3%</td>
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<td>Net Debt/Equity (%)</td>
<td>22.6%</td>
<td>79.9%</td>
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<td>Forward P/E (x)</td>
<td>25.25</td>
<td>16.62</td>
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<td>Forward P/CFO (x)</td>
<td>20.46</td>
<td>11.13</td>
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<td>FCF Yield (%)</td>
<td>3.24%</td>
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## Returns

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<th>Calendar Year</th>
<th>AIM GHCF</th>
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<td>2015²</td>
<td>2.5%</td>
<td>-5.8%</td>
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<td>3.8%</td>
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<td>2017</td>
<td>21.5%</td>
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<td>2018</td>
<td>-23.8%</td>
<td>-10.4%</td>
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<td>2019</td>
<td>16.1%</td>
<td>27.0%</td>
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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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