



## Norsk Institutt for Styremedlemmer

24<sup>th</sup> September 2019

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If you are permitted to receive further information it is available in the Funds' prospectuses.

Further information on the AKO Global UCITS Fund can also be found in the Key Investor Information Document ("KIID") which is available from AKO Capital LLP in English, French, Norwegian, Italian and Spanish.

# Introduction to AKO Capital



**Founded in 2005**



**Long-term quality focused with strong emphasis on methodology/process**

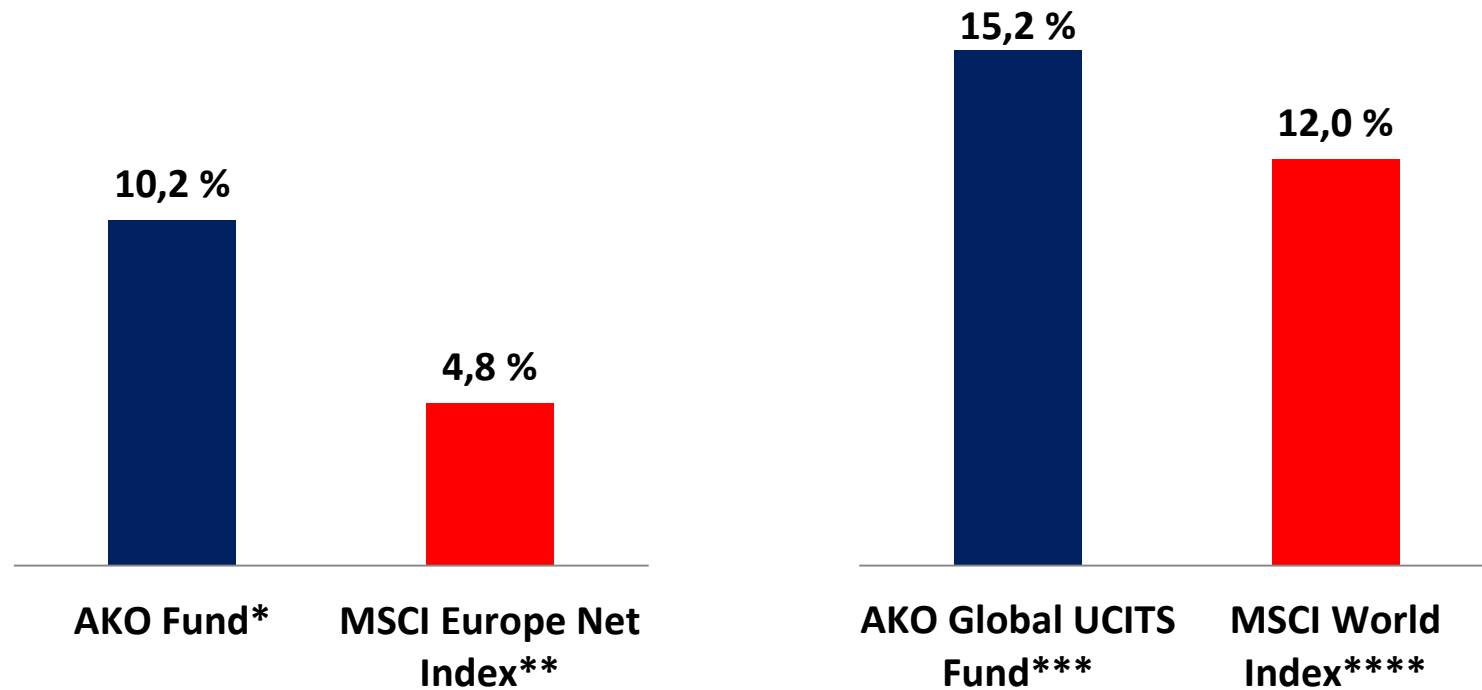


**USD 17bn AuM across European and Global funds**



**Nominated best «European Equity Fund over \$500m» in 2009, 2010, 2012, 2014, 2016, 2017 and 2018**

# Annualized returns since inception



\* A2 Class from 01 October 2005 to August 31<sup>st</sup> 2019

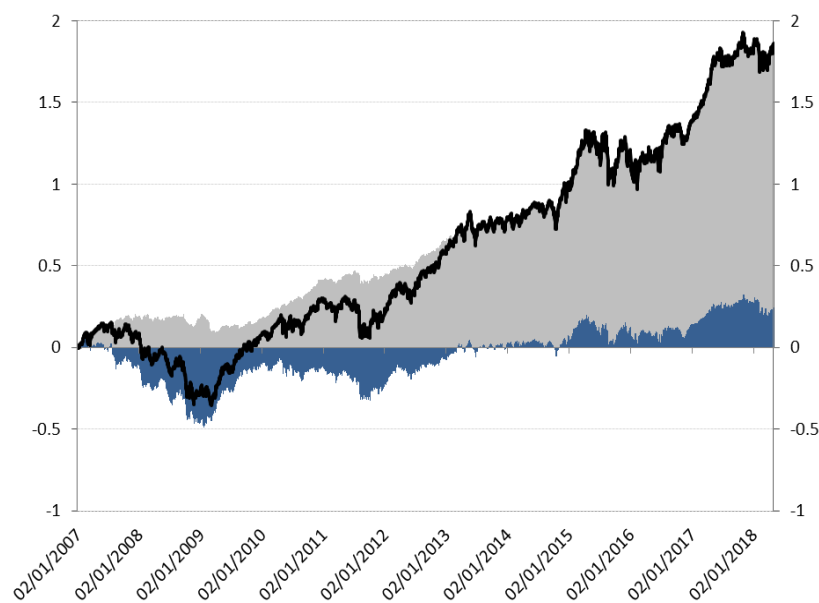
\*\* MSCI Europe (Local Currency ) Net Index

\*\*\* AF Class from 01 March 2016 to August 31<sup>st</sup> 2019

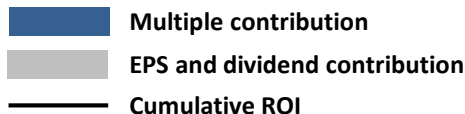
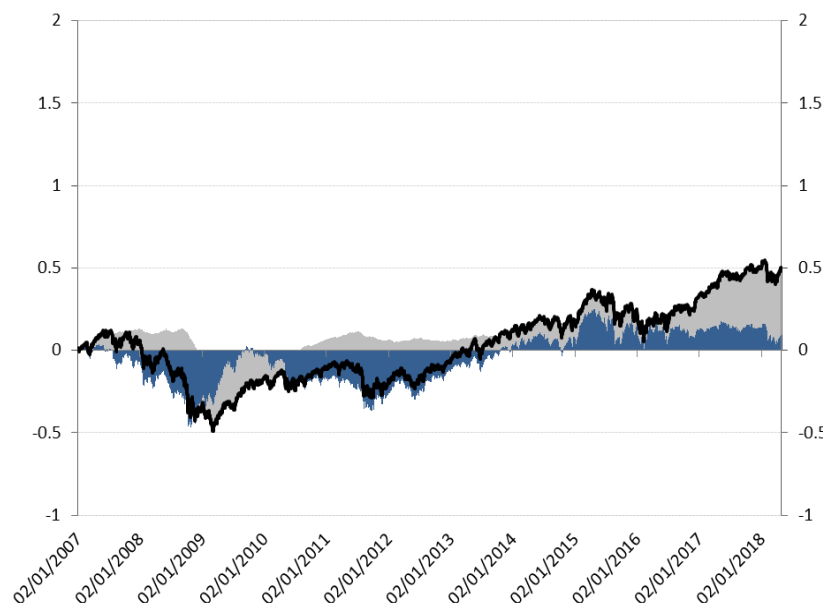
\*\*\*\* MSCI World (Local Currency ) Net Index

As of April 2018

## Nearly 85% driven by EPS and dividends



## Market returns – lower earnings growth and lower returns



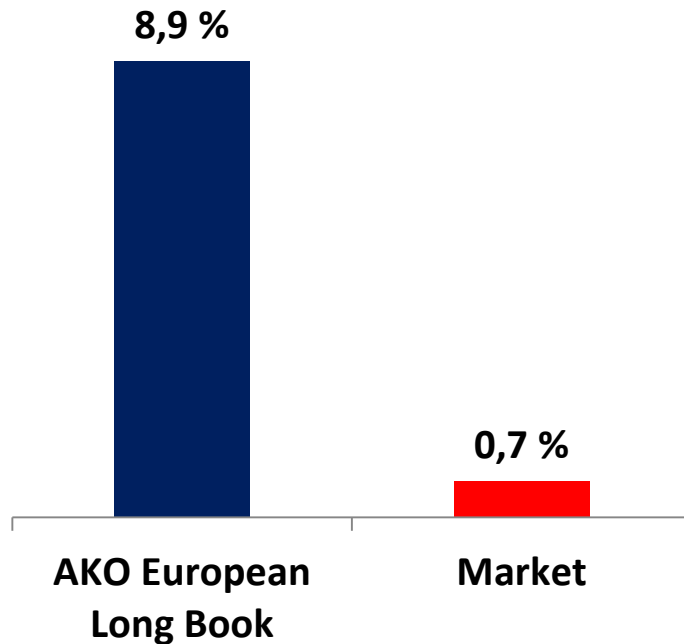
### Footnote:

- 1) Based on data from Bloomberg as of 30/04/2018 with the composition reflecting the daily AKO long book exposure. Start date is chosen based on availability of reliable P/E data.
- 2) Multiple contribution is the % change in the 12m fwd P/E multiple from the start date. The EPS growth and dividend contribution is the residual of ROI after the multiple expansion.
- 3) Market is the MSCI Europe using data from Bloomberg as of 30/04/2018.

# Important portfolio traits are

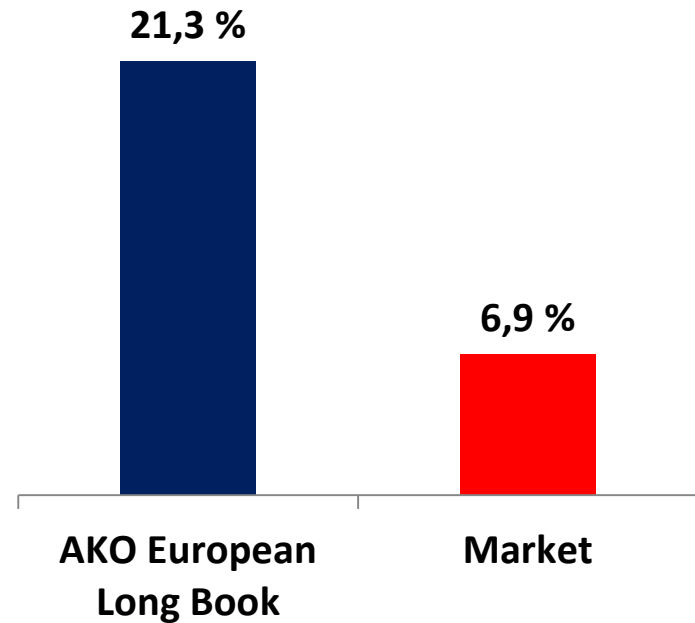
## Higher organic growth

*Underlying revenue CAGR 2007-2017*



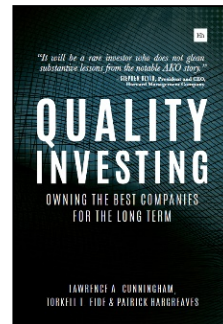
## Significantly higher return on capital

*CFROI 2017*



For revenue growth, the market is based on MSCI World (as per Bloomberg). For CFROI, the market is calculated as median. As CFROI is not meaningful for financials, neither Market nor AKO include financial positions. AKO long book is calculated as the weighted average of the long book as at 30th September 2018 for revenue growth, and as at 30th June 2018 for CFROI excluding REA which disproportionately skewed the figures as a result of its high CFROI.

- » Strong cash generation
- » High returns on capital
- » Growth opportunities
- » Supportive industry dynamics
- » Pattern-based approach to assessing corporate traits



## Examples of what we own





**Market  
Research/  
Digital Analytics**

**Forensic  
Accounting**

**Behavioural  
Analysis**

**Equity Research**

**Data science supports our research**





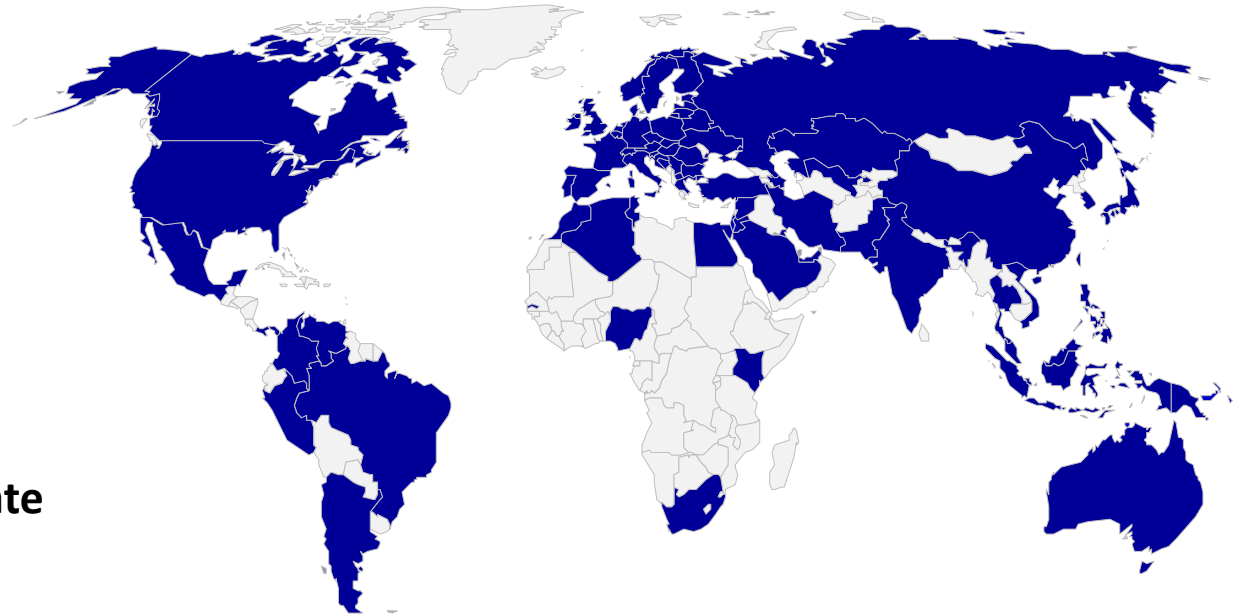
# Market research

➡ **20 person team**

➡ **18 languages**

➡ **14,000+ interviews**

➡ **Insight into corporate performance**

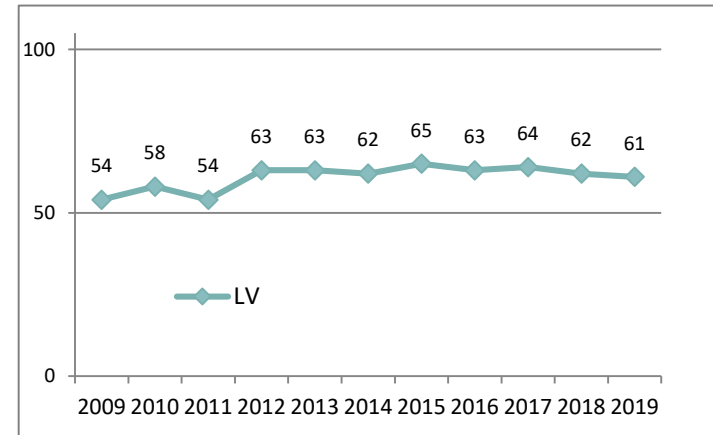


# Understanding China luxury

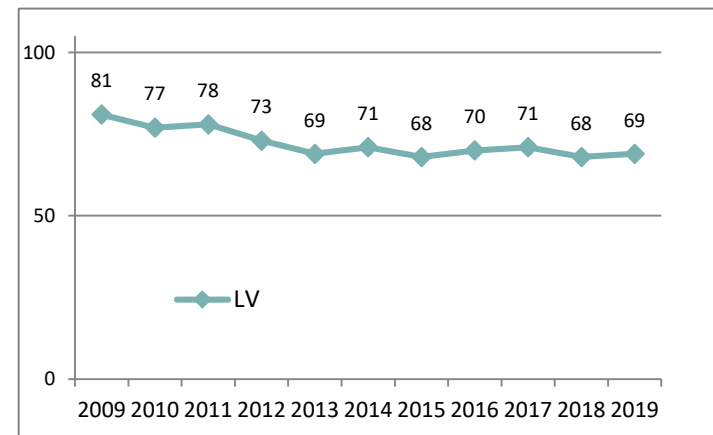
- ➡ Annual survey run for 10 years
- ➡ 700 «mass affluent» Consumers
- ➡ Covers watches, handbags, cognac and sunglasses
- ➡ Complements quarterly channel checks



**'I would still buy a LV product even if the prices were increased by 20%'**



**'I am concerned about the large number of fake LV bags in circulation, as it diminishes the value of my original one'**



# Product introduction: Geberit shower toilets



**Launched in 2013 in conjunction with product introduction**

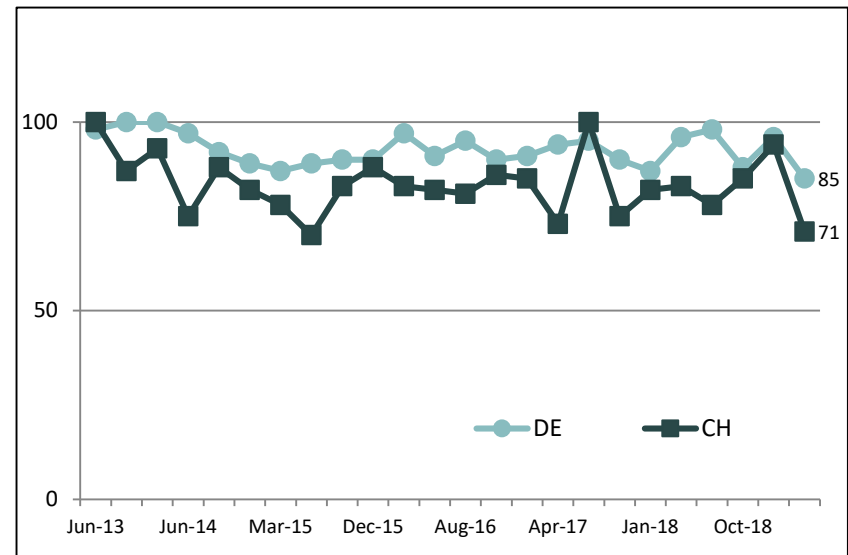


**Focus on distributors**



**Qualitative and quantitative feedback on product**

**Shower toilets sales as % of total toilet sales – expect to be higher/lower in 1 year's time\***



## Feedback from distributors what Geberit could learn from competitors

“Grohe started offering vouchers, like 100 Euro cashback or a free flush box” (Germany)

“Improve the design. Make them more minimalistic. Not all models need all of the functions” (UK)

## Using tools to understand consumer behaviour online

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Social Media Trends



Website Activity



Mobile App Performance



Audience Analysis



## Data science based work to understand company specific topics

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Used luxury car pricing/inventory  
(Ferrari)

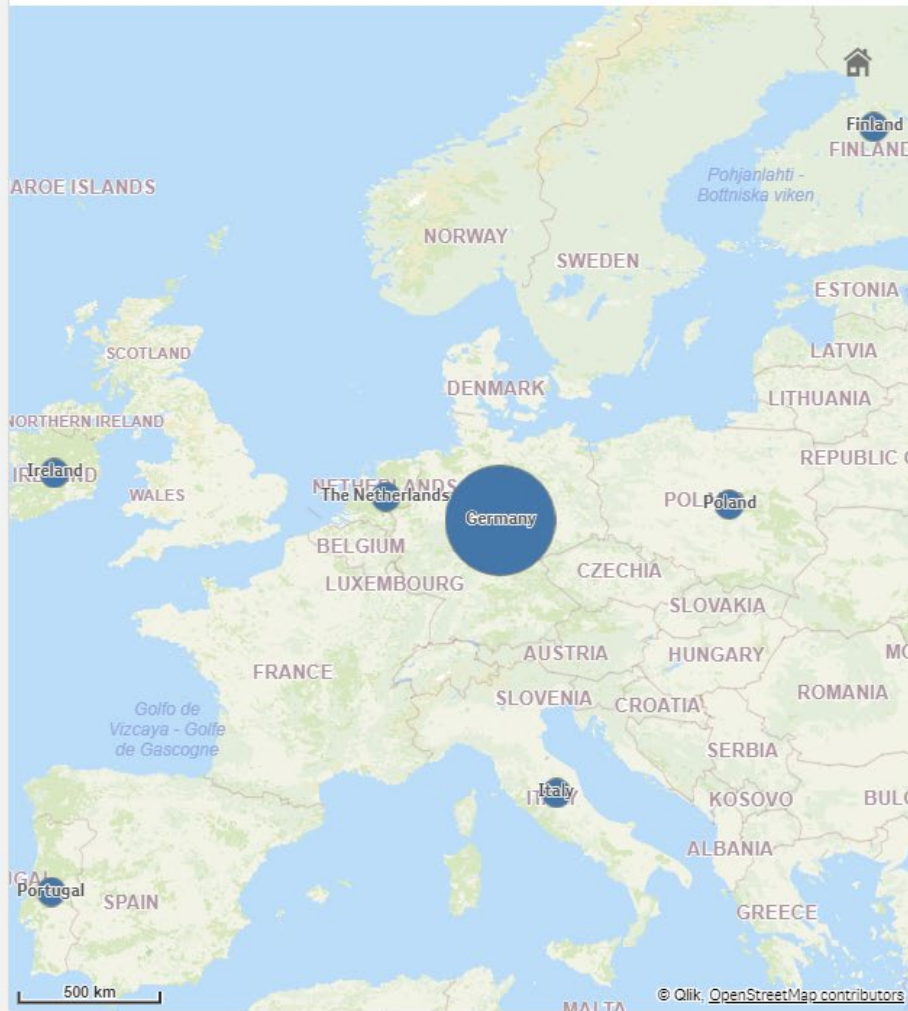
Size of partnership program  
(Zalando)

Global pricing (250 000+ price points  
per week for Zara/Inditex)

# Monitoring number of job openings at Zalando

## Zalando Jobs

### Job Locations at 09/09/2019



Jobs

788

Net Change

22  
09/09/2019  
At date

Categories

14

Most recent selected date

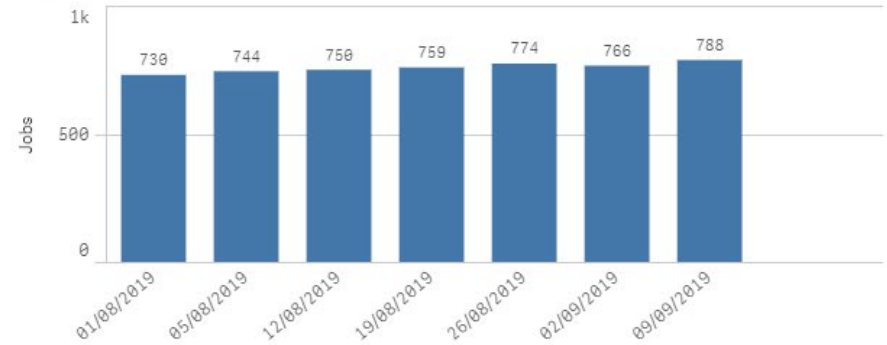
09/09/2019

Countries

7

Data Loaded  
2019-09-09 07:30:11

### Jobs by Entity



### Net Job Openings / Closures by Date



- ➔ Five forensic accountants
- ➔ Systematic review of longs
- ➔ Forensic accounting short-selling strategy in Europe
- ➔ Significant input into Global shorting



Revenue

+

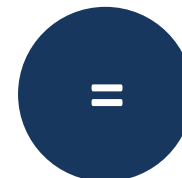


Earnings

+



Cash Flows



Forensic accounting score



**Four linguistics experts**



**Systematic scoring of company communications**



**Collaboration with academia**



**Work with outside experts to improve analyst interviewing techniques**



**Analyse earnings call transcripts,**

Identification of indicators such as:

- Attacking the questioner
- Clusters of qualifiers
- Tense shifts
- Signs of deception



**Participate in company meetings**

Instant feedback on management behaviour

# The next frontier of AKO research

 **Natural Language Processing**

 **Voice analytics for conference calls**

 **Immersion**

 **Corporate culture**



# Measuring Corporate Culture to Predict Company Performance



**Dr. Tom Reader and Dr. Alex Gillespie**  
*Psychological & Behavioural Science*



THE LONDON SCHOOL  
OF ECONOMICS AND  
POLITICAL SCIENCE ■

# Background



## What

- Use corporate culture to predict corporate success and failure
- Fundamentally change how the academic world measures culture to outside-in



## How

- Develop an outside-in methodology to analyze corporate culture at scale: *Unobtrusive Corporate Culture Analysis Tool (UCCAT)*



## Who


- Project by LSE Department of Psychological and Behavioural Sciences
- Supported by AKO Capital staff/resources
- Funded by the AKO Foundation

# What is corporate culture and why is it important to investors?

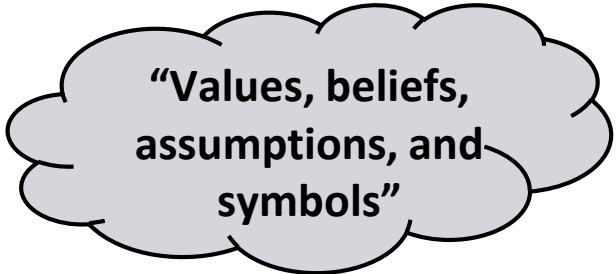
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Hard to define...


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**"The way we do things  
around here"**



**"Values, beliefs,  
assumptions, and  
symbols"**

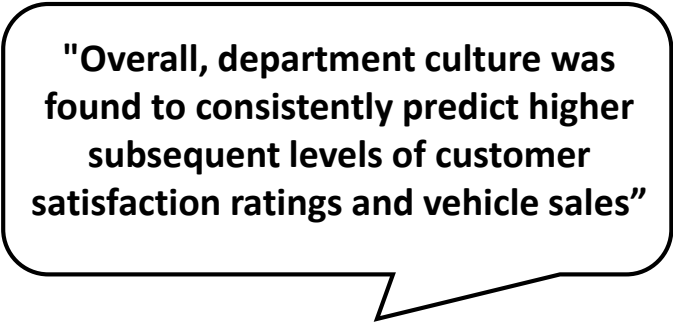


**Describes the  
'personality' of a  
company**

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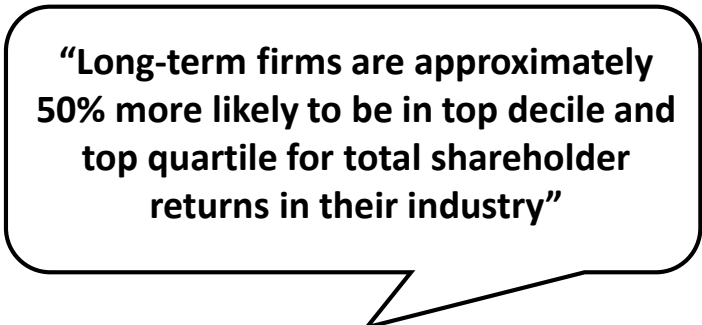
**...yet affects corporate performance**

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**"Overall, department culture was  
found to consistently predict higher  
subsequent levels of customer  
satisfaction ratings and vehicle sales"**

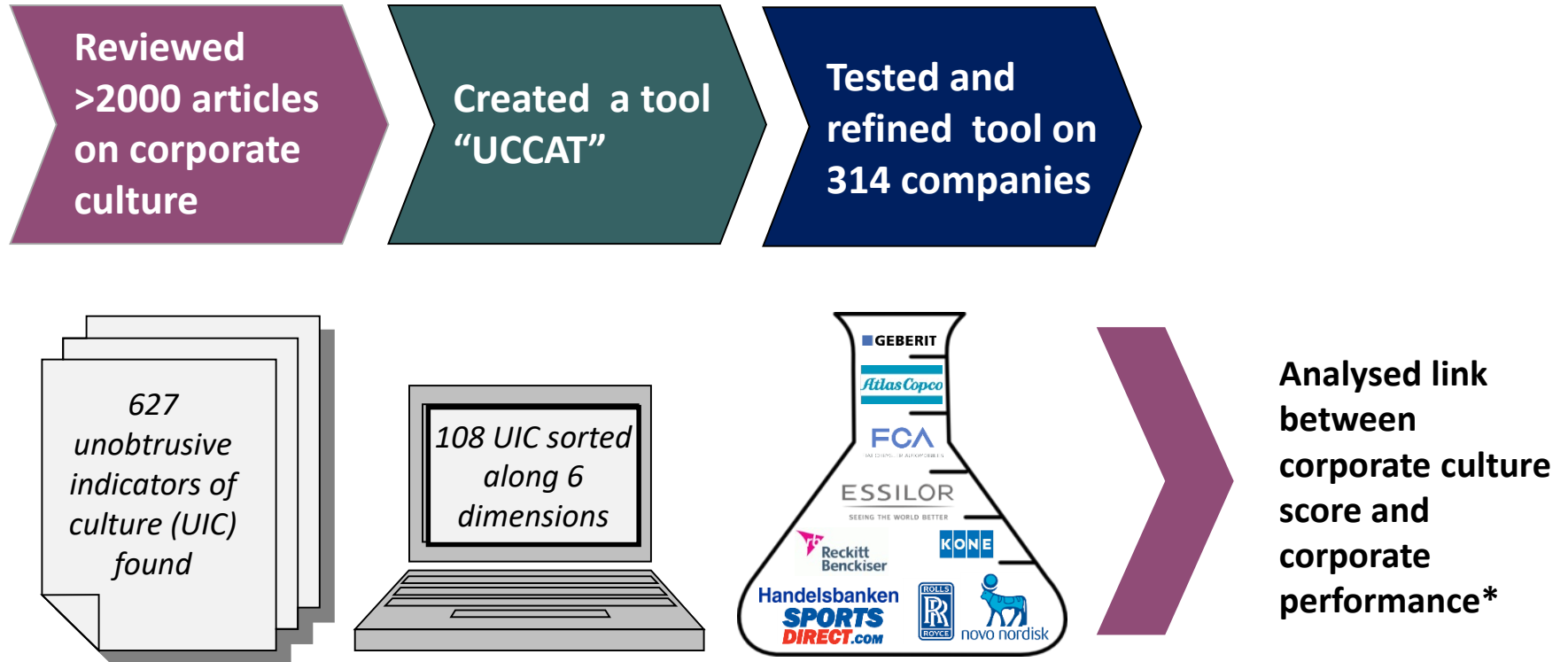
*Study of Automobile dealerships in Journal of  
Organizational Behaviour (2015)*



**"Long-term firms are approximately  
50% more likely to be in top decile and  
top quartile for total shareholder  
returns in their industry"**

*Measuring The Economic Impact of Short-Termism,  
McKinsey Global Institute (2017)*

# The creation of an evaluation tool



# Here is how it works

## Cultural dimensions of successful companies

**Adaptability**

**Customer Focus**

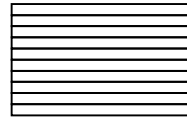
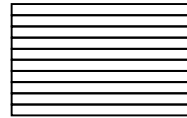
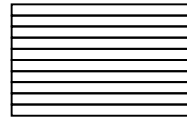
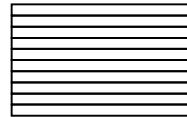
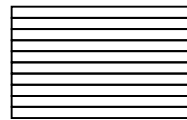
**Employee Focus**

**Governance**

**Planning**

**Transparency**

## Each one is broken down into several unobtrusive indicators of culture



Employee focused language
Employee profit-sharing
Employee representation on board
Employee satisfaction
Employee strikes
Employee training
Employee turnover
Espoused values of diversity
Rating of employee focus
Women in the workforce

## Data is collected for each

No. of strikes in last 5 years

Managers concern for employee well-being in annual report

References to toxic workplace in employee reviews

# What it looks like: all culture indicators

## Customer Focus



## Planning



## Employee Focus



## Governance



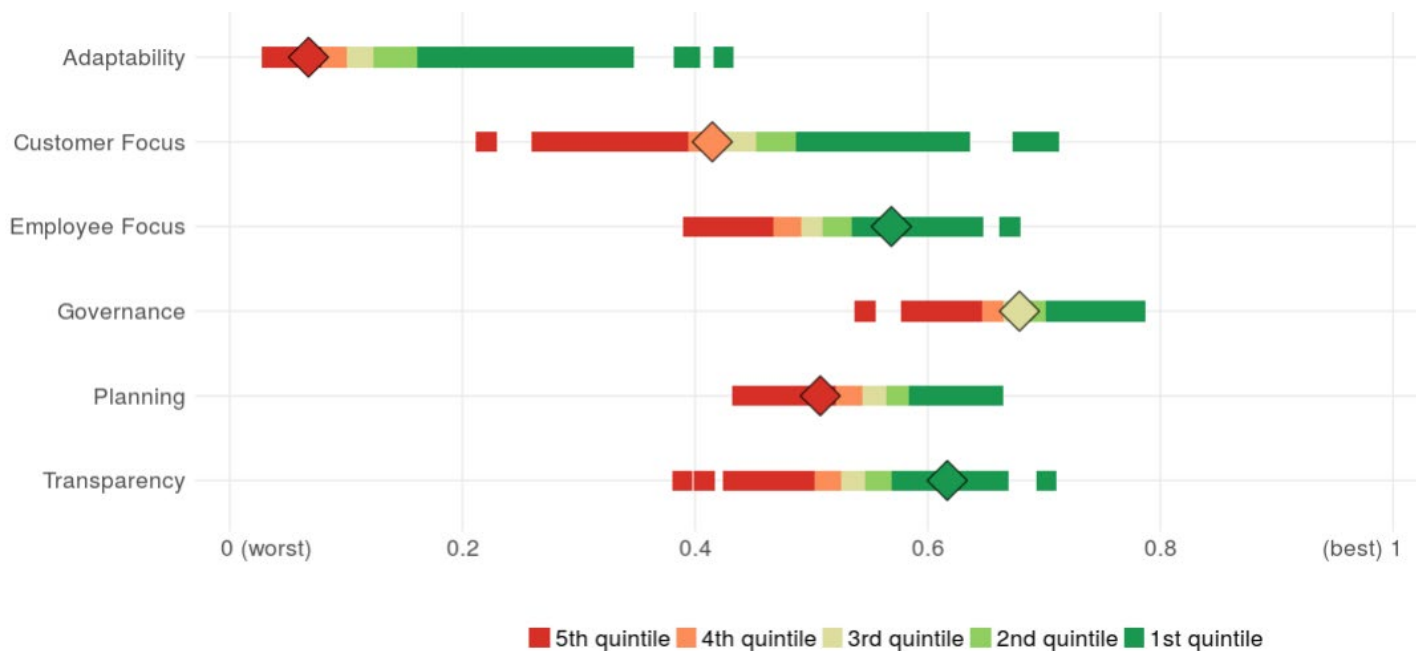
## Transparency



## Adaptability



# What it looks like: culture overview



## Best: Transparency

The transparency of a company's communications in terms of its annual report, responses to analysts' questions in earnings calls, and press releases.

The strongest scoring UICs:

Number of missing data points	1 / 431
Open to questions	106 / 343
General knowledge words	131 / 431

## Worst: Planning

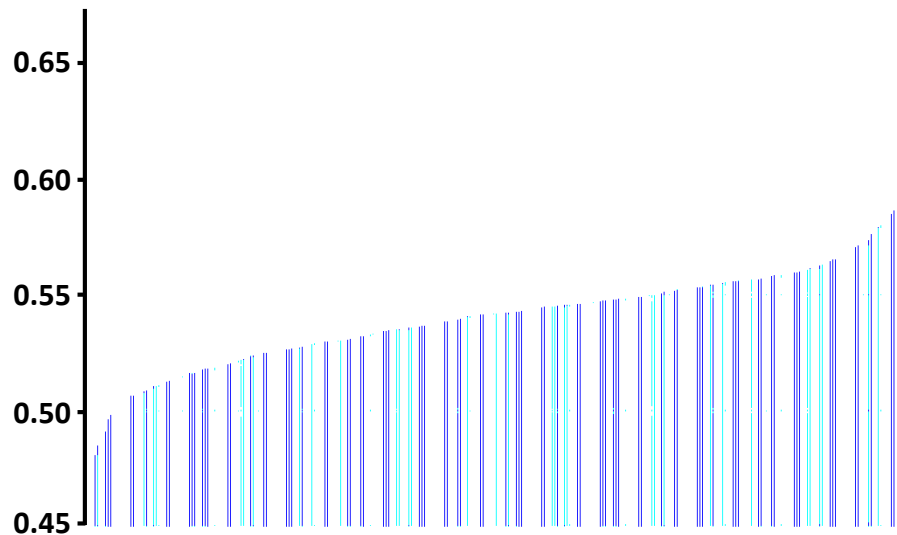
The extent and effectiveness of a company's planning surrounding their results, their responsibilities and the future

The weakest scoring UICs:

Goal orientation	283 / 331
Pragmatism in communication	218 / 431
Longterm thinking	304 / 431

# Applying the UCCAT tool to 314 European companies

MSCI Europe Index companies (n = 314) ranked  
by UCCAT score



**Mix of large- and mid-cap  
companies**



**Companies from across  
seven different sectors\***



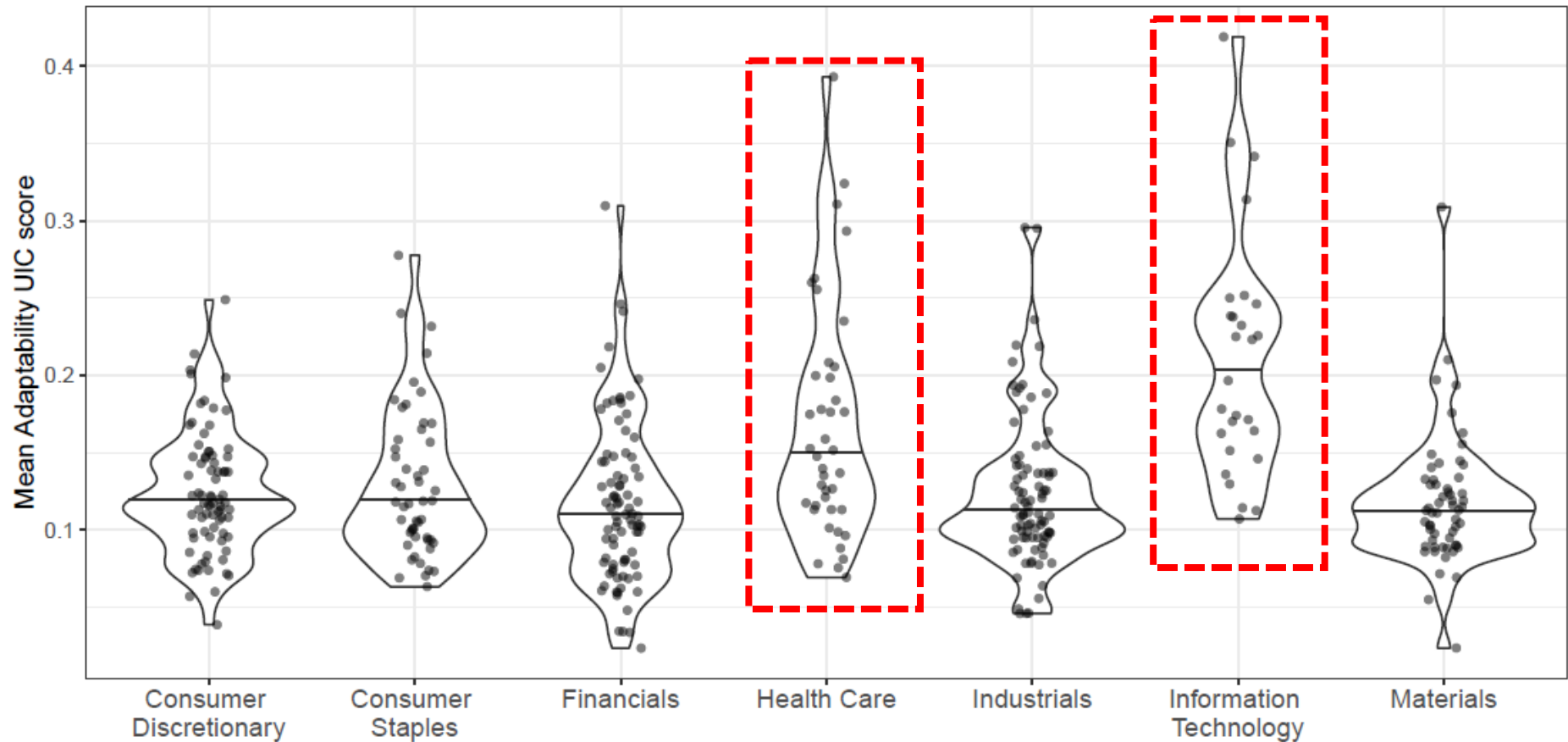
**Best company scored 0,64  
worst one scored 0,47**



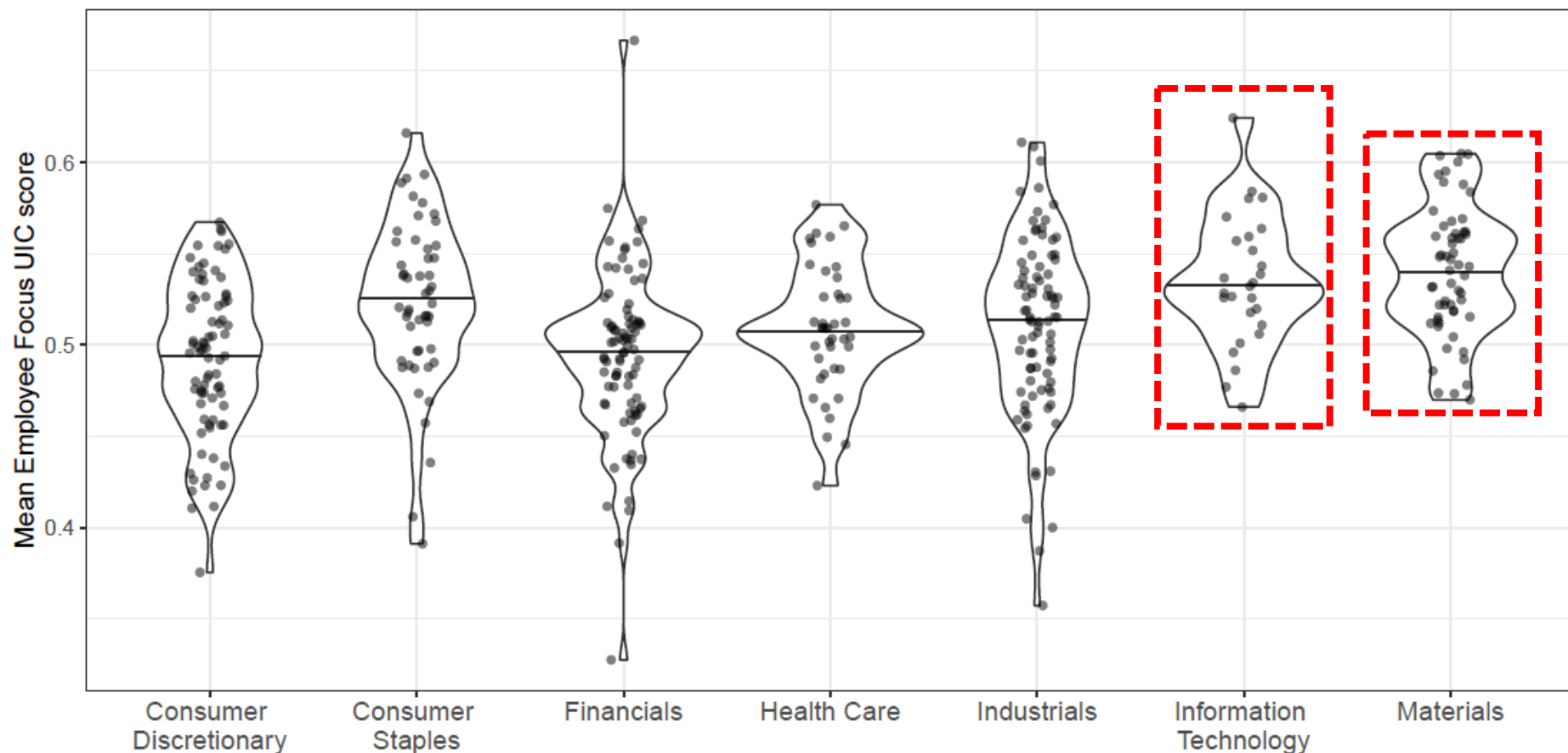
**No company consistently  
scored best across all UICS**



# Companies in sectors where innovation is key did better on Adaptability



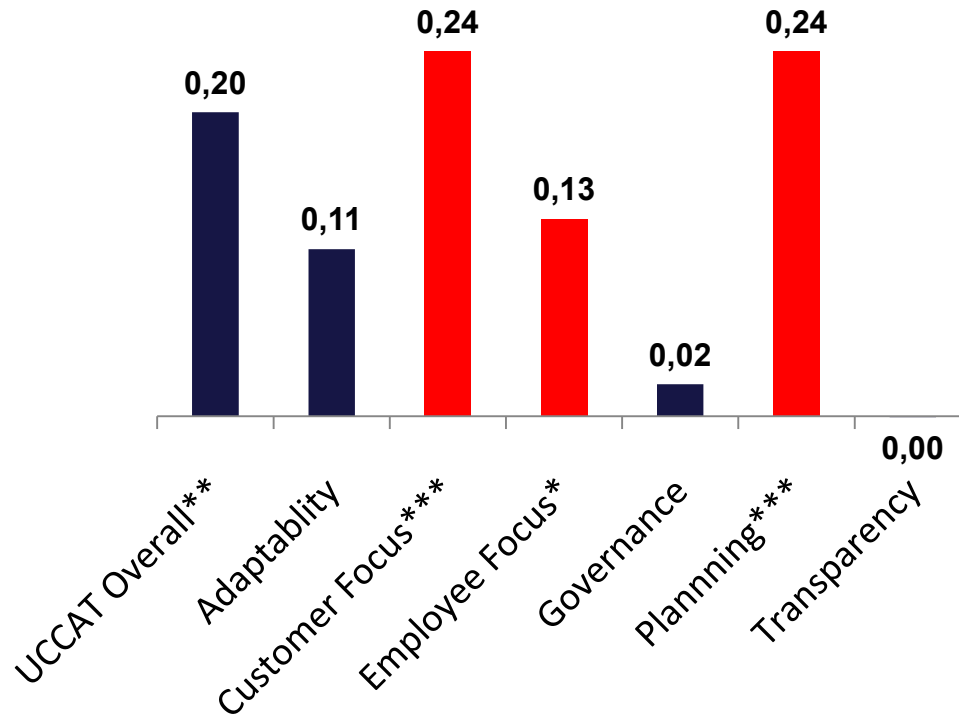
# Information Technology sectors and perhaps surprisingly Materials did best on Employee Focus



# Some UCCAT dimensions are good indicators of corporate performance

## Correlation between Return on Capital Employed and UCCAT dimensions

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→ Company focus on customer leads to better performance

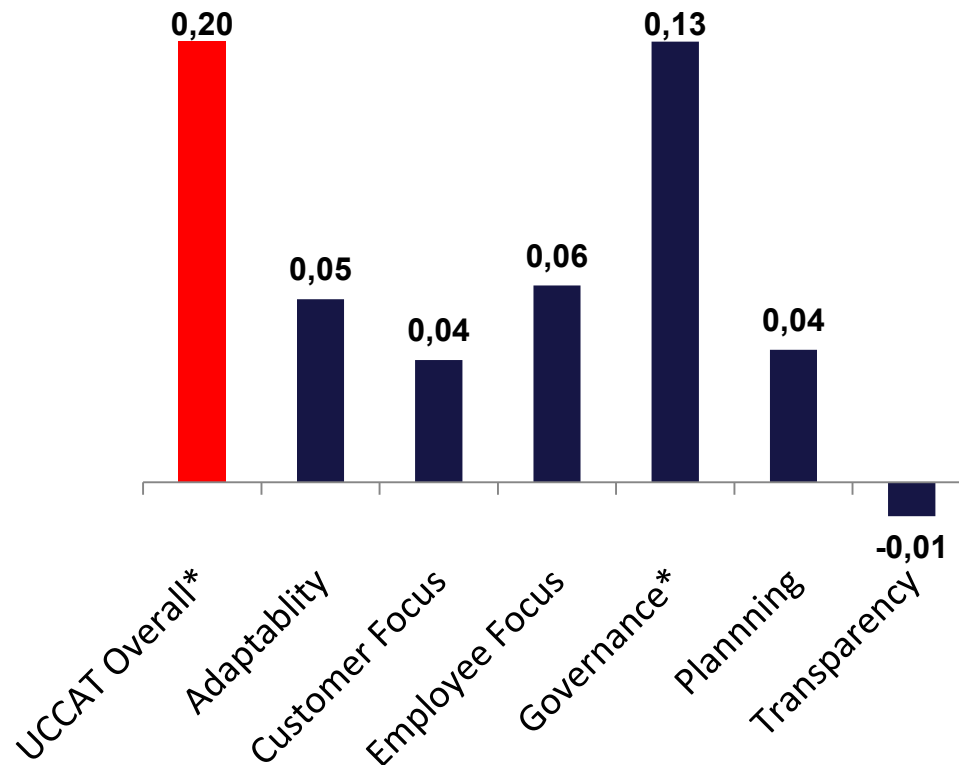
→ Companies that can plan and deliver over time do better

→ A culture of employee focus matters to performance

# There is some link between UCCAT dimensions and TSR

## Correlation between Total Shareholder Returns (TSR) and UCCAT dimensions

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Early indication that corporate culture matters to shareholders



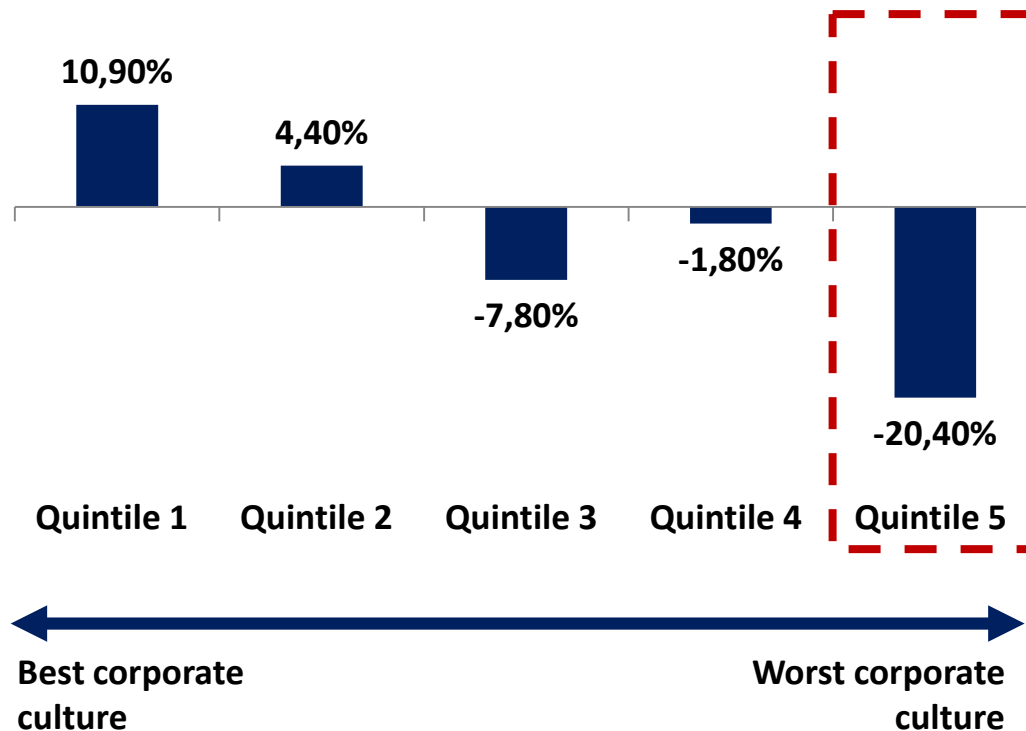
Still a number of questions to be answered in the future



# How AKO Capital is using the UCCAT tool in its research

## Poorest corporate culture deliver weakest returns

*Average 3 year performace relative to market\**



**Tool for avoiding bad investments**



**Is culture constant over time?**

\*returns 314 sample companies relative to MSCI Europe Net Index

Source: AKO Capital research

## *What*

## *How*



**Difference in risk perception**

*Calibrate message*



**Faster decision making**

*Focus on pattern recognition*



**Act on the right information**

*Documentation of trading reasons*



**Capturing trends in datapoints**

*«Boiling frog catcher»*



**Group think**

*Devil's advocate*



**Intrinsic motivation**

*AKO Foundation*

**AKO Foundation**

## What is the AKO Foundation

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- Established in 2013
- Focus on Education, Art and 'local projects'
- Funded with profits from AKO Capital, total funding now £150m

## Why important to AKO Capital

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- Build intrinsic motivation, purpose and pride in organisation
- Delegation of responsibility to analysts: more holistic life, breeds humility
- 'How you give back' part of partners' year-end review



**Thank you**



# Disclaimer

## Basis of preparation

### AKO Fund and AKO Global UCITS Fund Returns

Returns are calculated net of accrued management and performance fees.

The MSCI indices presented are the net indices presented in local currency.

Returns are calculated from official monthly Net Asset Values produced by the funds' administrator, Citco Fund Services (Ireland) Ltd. Index values are sourced from MSCI. All other information is derived from the records of AKO Capital LLP.

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