



KAPITALFORENINGEN BLUE STRAIT CAPITAL

DEAR FELLOW INVESTOR,

Nielsen Capital Management Fondsmæglerselskab A/S (NCMF) is a financial undertaking offering specialised investment advice to a number of investment associations, foundations, limited liability companies and other affluent investors in and outside Denmark. NCMF is registered with the Danish Financial Supervisory Authority as an investment service company authorised to provide portfolio management and advisory services.

The volume of assets managed by NCMF only grows based on the word-of-mouth principle and is not marketed traditionally. NCMF currently manages more than DKK 3.4 billion across seven mandates. NCMF is research and analysis-based and pursues a return-oriented objective for NCMF's customers. As a consequence, NCMF does not have a basis for existence if NCMF fails to generate satisfactory long-term absolute returns concurrently with a higher return for its customers than the general equity markets.

INVESTMENT PHILOSOPHY

NCMF invests on the basis of the Value Investing investment philosophy. The objective is to maximise the investor's long-term average return on equity per year with due consideration of a low risk of permanent loss of capital.

NCMF's mandates with concentrated investments each have very few investments and not more than 10. This is called concentrated investing or high-conviction investing. These mandates have all exhibited a significant additional return compared to the general equity markets. When combining Value Investing with concentrated investing – Concentrated Value Investing – the results may be extraordinarily positive, provided that the strategy is pursued with a clearly defined investment philosophy and a disciplined investment process. At the same time, the effect of an investment failing to meet the expectations will also have a considerable impact on performance.

Low interest-rate levels and highly valued equity markets following marked increases over the past 8 years have made it more difficult to identify opportunities that can generate a satisfactory return. Over the next 10 years, the return on bonds, equities and alternative forms of investment will be significantly lower than the historical average and probably not above 5% p.a. for equities. In a world with lower market returns, the investment type Concentrated Value Investing with high conviction in the individual investments plays an important part in achieving a higher long-term return.

CAPITAL ASSOCIATION

NCMF has established a capital association called Kapitalforeningen Blue Strait Capital (KBSC), which will primarily invest according to Concentrated Value Investing. The capital association may hold liquid positions of up to 50% at times and be fully invested in up to 10 public limited companies at other times, but typically around five companies.

KBSC's preferred investment strategy will be a form of 'silent partner' in listed companies, possibly with owner-managers with a history of financial success and a track record of high morale and high integrity. For instance, when skilled owner-managers combined with a company with certain characteristics are available at the right price, this may result in exceptional long-term returns on investment. These characteristics include:

- A high return on invested capital
- The possibility of the company being able to reinvest with a high return on invested capital
- A high free cash flow
- A strong and durable business model
- Specific competitive advantages
- A competent and shareholder-oriented management

Ordinary companies trading at a very large discount to their business value can also be useful investments when accompanied by a catalyst of sorts – an event or



characteristic that makes it likely that the difference between market value and intrinsic business value will diminish over a reasonable period of time. In such situations, it is possible to ignore less than perfect management or an average return on the invested capital in the short term. This can often be companies whose market values have been driven down by negative press or individual problems. This will also include special situations, to a limited extent.

NCMF is willing to wait extraordinarily long for the right company rather than exposing the investment capital to precipitate action provoked by cash “burning in the pocket”. Discipline is an important concept of the investment process, both in terms of holding cash when NCMF is unable to identify interesting investments with the right characteristics and in terms of investing in the right companies at the right prices whenever possible.

The investment icon Lou Simpson was investment manager at Berkshire Hathaway that owns GEICO, an automotive insurance provider. In GEICO’s 1988 annual report, Lou Simpson stated the following:

”In equity investing, when you don’t have any really good ideas (i.e. excellent companies at very attractive prices) doing nothing – or selling – is the best course of action”.

REPORTING

As the investments in KBSC will be few and very long-term, reporting will only be made once a year in the form of the NCMF investor report. The net asset value will be calculated daily, and the units can be traded at Nasdaq OMX through the investor’s own bank.

COSTS

Today’s world is characterised by a prolonged period of central banks injecting very large amounts of liquidity into the money markets. This has had the positive effect that the world’s economies avoided depression or a very steep recession after the financial crisis in 2008

and 2009. Subsequently, it has also had the effect that interest rates are historically low, with some government bonds having displayed a negative effective yield for maturities up to 10 years. Similarly, the equity markets are valued very highly measured by sundry key figures.

NCMF expects the return on international equities and their Danish counterparts not to exceed 5% p.a. over the next 10 years. The capital association will operate with a fixed management fee, including costs of administration, custody, etc., but excluding costs of trading of 0.75% and a performance fee of 20% of the return that exceeds 5% with ‘High Watermark.’

HISTORY

The precursor of KBSC, the limited-liability company Blue Strait Capital ApS, was being conceived at the end of 2006 and established in June 2007 as a company which would eventually make concentrated high conviction investments based on the value investing philosophy. With images of the then bull market etched into our minds and the ensuing lack of investment options, NCMF expected that the company might be holding cash positions for a prolonged number of years. The equity market, which was very optimistic in 2006, re-discovered the concept of risk and nervousness crept into the markets. The financial crisis in the USA spread to Europe. The value of the sub-prime segment in the US housing sector was devalued. The equity markets declined drastically in 2008 and early 2009 in what later became known as the Great Financial Crisis.

This crisis heralded the beginning of a number of excellent investments for the limited liability company Blue Strait Capital ApS whose return in its period of existence until 31 August 2017 amounted to an accumulated return before fees of 285.32% or 14.09% p.a. against the MSCI World Index that exhibited an accumulated return of 71.1% or 5.43% p.a. The rate of turnover was very low in this period.

KBSC has been established with BankInvest as the management company and Ringkjøbing Landbobank as the depositary. The prospectus for KBSC is enclosed.