2022 Annual Letter

Klampenborg, February 2023

Dear Co-Investor,

After many years with low and declining interest rates, 2022 marked a paradigm shift, as global central banks began raising interest rates to combat historically high inflation. This happened against a backdrop of war and geopolitical unrest, with skyrocketing energy prices (especially in Europe), historically low consumer confidence, and the COVID-19 pandemic going into its final innings in China. Fears of a looming recession burgeoned among consumers and investors—a cocktail that led to a year with higher-than-usual asset price volatility and substantial price declines across most asset classes.

For 15 years, we have carefully built inflation and increasing interest rate preparedness into our portfolio. As we elaborated on at length in our half-year letter, the significant pricing power, high margins, high return on invested capital, and low-to-no debt that characterizes our companies positions them convincingly for a period of high inflation and rising interest rates. In this letter, we look at the operational performance of our companies versus the MSCI AC World Index since the global financial crisis in 2007–2009 and can reassuringly confirm our co-investors that our companies' consistent and remarkable historical operational outperformance has been the strongest during more challenging times and economic setbacks. When the going gets tough, the tough get going, and we remain convinced our companies will emerge from this tough period as relative winners, with strengthened market positions and accelerated value creation.

At BLS Capital, we are valuation-founded, long-term, bottom-up investors. Our investable universe, from which we carefully select our companies, counts around 175 companies that match our investment philosophy and meet our rigorous investment criteria. This implies these companies are facing extended prospects of stable and predictable double-digit earnings growth, with a high conversion of earnings to free cash flows. Thanks to their stable and predictable long-term earnings growth trajectories, these companies' intrinsic values are predictably growing, and in times of elevated stock market volatility, we are thus offered more opportunities to rebalance and reposition our portfolio as short-term share price movements disconnect from long-term earnings growth trajectories. Later in this letter, we describe how we identify opportunities from what we call "time horizon arbitrage" and give examples of how this has shaped our selection of companies in 2022 as well as in previous years.

During 2022, we maintained our significant exposure to the long-term growth of the Chinese middle class and their buying power. Towards the end of the year, many COVID-19 restrictions were finally eased in China, and a plan to reopen borders for international travel was established. Our companies with operations in China have coped well during the challenging COVID-19 operating environment by managing costs prudently and continuing to invest for future growth. Later in this letter, we reconfirm the robust and even strengthened positioning of our companies, which, together with substantial accumulated spending power by Chinese households, bodes well for the earnings recovery awaiting our companies once a normalization happens.

Entering 2023, we feel confidently reassured in our investment strategy. With the current portfolio Return on Invested Capital standing at 45.8 percent, we remain confident in the high quality of our companies and their ongoing ability to compound earnings and free cash flows over the long haul by a long-term annual average of around ten percent. We firmly believe that our portfolio is strongly positioned to continue generating attractive long-term operational performance, and at a 4.8 percent free cash flow yield, its valuation is below its historical average and sitting at an appealing long-term level for us and our co-investors. We look to 2023 and the future with confident optimism.

Returns

Our philosophy is, and always will be, to remain within our areas of competence and very selectively identify companies with robust, well-proven, and enduring business models, attractive medium- to long-term outlooks for growing value creation, capable management teams, resilient balance sheets, and significant free cash flow generation. We believe that identifying such companies, buying when valuations are attractive, and remaining long-term co-owners is a recipe for sustainable value creation and compounding capital appreciation.

While historical returns are no guarantee of future returns, the end of a calendar year has become the industry standard for measuring realized capital development. During 2022, our global composite realized a gross return in US dollars of -5.0 percent (-5.9 percent net of fees), while the MSCI AC World Index returned -18.4 percent, both including reinvested dividends. As we have an absolute return focus, we will never be satisfied with negative absolute returns. Still, we do find some comfort in protecting our co-investors' capital more than an index fund would have done.

Since inception, our strategy has returned 514.1 percent in US dollars gross of fees (437.0 percent net of fees), equivalent to an annualized return of 13.6 percent (12.5 percent net of fees). On the other hand, the MSCI AC World Index has returned 163.7 percent (7.0 percent annualized) over the same period, demonstrating that our strategy has fulfilled its aim of achieving competitive and attractive long-term absolute returns above the most relevant equity index.

Our primary consideration in terms of risk is a permanent loss of capital in our portfolio companies stemming from lower levels of free cash flow generation. We monitor this risk on an ongoing and daily basis through our reading, analysis, and conversations with our companies, peers, and potential investments. We are confident in handling the potential risks in our companies.

Returns across the spectrum

2022 was tough on asset values, as increasing interest rates and heightened inflation took their toll on the value of cash flows. All publicly traded asset classes experienced negative price developments.

Within equities, the performances of the S&P 500 and the MSCI AC World indices were decidedly impacted by the substantial outperformance of large capitalization companies in the previous years. As measured by the S&P 500, mega-capitalization names drove the 2022 decline for US equities, as the market cap-weighted index declined by 19 percent, whereas the equal-weighted S&P 500 declined a "mere" 13 percent. On a global basis, the decline of market capitalization and equal-weighted indices were basically similar.

Energy was the only sector to showcase positive returns, with an increase of 33 percent in US dollars through 2022. We retain our lack of exposure to this sector, as we have not been able to identify any

Energy companies that meet our strict investment criteria on quality and compounding value creation.

All other sectors experienced declines, with Communication Services (-36 percent), Consumer Discretionary (-32 percent), and Information Technology (-31 percent) experiencing the greatest declines for the year.

Value was the strongest factor, with a single-digit decline, whereas the other "classic" factors of Growth, Quality, and Momentum all declined by around 20 percent or more. More speculative assets saw formidable declines, such as that of more than 60 percent for MEME stocks (Solactive Roundhill's index). High dividend yield companies also experienced smaller declines, most likely correlated to the performance of both Value and Energy.

Among the larger regional indices, all regions saw double-digit declines, whereas the performance on a national basis was much more disparate. Remarkably, Europe saw the smallest decline, despite what could be seen as the most concerning economic backdrop.

Our portfolio construction is all bottom-up, but if taking a top-down view, our sector exposures worked against our performance in 2022. The lack of Energy and Utilities, and our very limited exposure to Materials meant no help from these relatively strong sectors, although our lower relative exposure to Information Technology, lack of Communication Services, and higher exposure to Financials did help somewhat.

What did contribute meaningfully, however, was our careful selection of companies. Our stock selection drove all our return outperformance versus MSCI AC World during 2022, and stock selection has also been the primary explanatory factor behind the strategy's returns since inception.

Portfolio status

As in previous years, we use the turn of the year to evaluate and provide a brief status on our portfolio and the key financial metrics we monitor to assess its quality, balance sheet strength, and current valuation. Our key ratios for this have remained unchanged, and the table below provides an update as per the end of 2022 on all these, as well as comparable figures from previous years.

Our ratio for measuring quality is return on invested capital, or RoIC, which represents the ratio of a company's annual post-tax operating earnings to the capital invested in its operations. The higher the figure, the more earnings the company creates per dollar invested, and this is thus highly correlated to cash generation. Return on Invested Capital is our primary quality investment yardstick and has been a central metric in our investment process since we founded BLS Capital. At the end of 2022, the portfolio's Return on Invested Capital stood at just below 46 percent, in line with its historical level.

The balance sheets of our companies remain rock solid, with limited to no debt. The world's largest brewer, Anheuser-Busch InBev, contributes around half of our portfolio's 0.5 times net debt to earnings before interest, tax, depreciation, and amortization (net debt/EBITDA) and this is the main reason why this figure exceeds zero. We remain comfortable with Anheuser-Busch InBev's debt level, as its debt remains long in duration, with average maturities of 16 years, a fixed rate for 96 percent of the debt, and no covenants and no maturities within the coming five years. Management is focused on deleveraging the balance sheet to around two times earnings before interest, tax, depreciation, and amortization, and during 2022, Anheuser-Busch Inbev utilized the increasing interest rates to reduce its debt by 3.5 billion US dollars by buying back its own bonds before maturity at sub-par prices.

Free cash flow yield remains our primary valuation yardstick for assessing how attractively valued our portfolio is. Its valuation remains attractive, supporting its ongoing strong risk-adjusted return potential. The increasing free cash flow yield should be seen in the light of the portfolio's slight negative absolute return, the continued growth in our companies' free cash flow generation, and portfolio weight rebalancing.

BLS Global Equities	2018	2019	2020	2021	2022
RoIC	44.0 %	49.3 %	45.6 %	43.1 %	45.8 %
Net Debt / EBITDA	0.1 x	0.2 x	0.7 x	0.5 x	0.5 x
Free Cash Flow Yield	5.1 %	4.5 %	4.3 %	4.3 %	4.8 %

Source: BLS Capital's calculations, annual financial statements, and FactSet.
RoIC is an abbreviation for Return on Invested Capital.
Net Debt / EBITDA is defined as a company's outstanding debt less cash in relation to the current year's earnings before interest, tax, depreciation, and amortization.
Free Cash Flow Yield is defined as the expected free cash flows in relation to a company's market value.

Moreover, our portfolio scores high grades on ESG ratings provided by MSCI, with the portfolio ranking substantially better than the average company in the MSCI AC World Index.

Portfolio changes

The number of new names in the portfolio and the rebalancing between portfolio holdings were higher than normal during 2022, as will often be the case when volatility in the equity markets is elevated. The more we see share price developments decoupled from underlying business development and intrinsic value, the more opportunities we can find to reallocate the portfolio's capital towards companies with increasingly appealing risk-adjusted return potential. As the portfolio remains fully invested at all times, the fight for capital remains tough, as all potential additions or increased weights will be funded by lowering the exposure to other portfolio names.

At the end of December 2022, the portfolio had eight new names compared with the end of 2021, of which seven were not new to our strategy. We acquired these seven re-emerging names when periods of share price underperformance allowed us to reinvest in the companies at long-term attractive prices. Our positions in all the names added during the year were built at share prices more than 20 percent lower than they had traded at going into 2022—with some even 40 percent lower.

During the second half of 2022, we reacquired shares in the elevator company Kone and added the software and cloud provider Microsoft to our portfolio. We re-added Kone after having divested it in the second half of 2019 and bought in at prices 20 percent lower than we divested at. We found the price to be disconnected from our perception of the expected, appealing value creation thanks to the healthy growth in its predictable and stable services business, which accounts for more than 70 percent of Kone's earnings. Since our divestment, Kone has expanded its installed service base and increased its underlying cash flow generation ability.

Following their solid operational and share price performances, we divested our shares in market-leading Nordic property and casualty insurers Tryg and Sampo during the second half of 2022, as we saw an increasingly alluring risk-adjusted return potential in our remaining holdings. The share prices and operational performance of Tryg and Sampo had proven resilient during 2022, whereas the prices for alternative investment opportunities had decreased more than 30 percent during the year.

Lastly, we divested adidas. Whereas the divestments of structural long-term value creators Tryg and Sampo were purely for relative valuation reasons, the divestment of adidas was due to our misjudgment of the quality of the company and its management. We remain happy co-owners of Nike and consider the industry quite attractive, but we misjudged the quality gap between Nike and adidas when we utilized COVID-19-related share price declines to add the position in March 2020. Our ownership of adidas was a strict reminder to never compromise on quality.

Beyond these outright new and divested names, we also added meaningfully to our positions in our British financial advisor St. James's Place, the credit rating agency Moody's, and luxury group LVMH on share price weakness, financing these purchases with proceeds from our divested names and through trimming our positions in our health care company Novo Nordisk, the market leading elevator business Otis, and hotel brand franchisor Intercontinental Hotels Group given their solid share price developments.

Our most noticeable performers and detractors

Our top performers during 2022 were Novo Nordisk (23 percent in US dollars, with reinvested dividends), Asia-focused brewery Budweiser APAC (21 percent), and our US auto spare parts retailer AutoZone (18 percent).

At the other end of the performance spectrum, adidas had the lowest return (-52 percent in US dollars), the Nordic ecommerce platform Boozt (-43 percent), and St. James's Place Plc (-39 percent).

Boozt outperformed all Nordic and European peers and gained substantial market share, simultaneously improving its competitive stance. Unexplainably, at least to us, the share price development of Boozt, as the leading Nordic online department store, was significantly decoupled from its operational outperformance. Initially guiding for 20-25 percent revenue growth, Boozt had to downgrade its expectations as the historically low consumer confidence also took its toll on Boozt during the first half of the year. Under challenging circumstances, Boozt delivered quite impressive 16 percent revenue growth, as its multi-pronged Nordic Department Store strategy cemented its superiority. Nearly all categories, regions, and channels delivered healthy performances. Thanks to strong momentum in the remarkably high-margin adjacent businesses of Boozt Media Partners and Boozt Pay (together delivering gross margins surpassing 80 percent), its profitability was also best in class.

After strong Black Friday and Christmas sales, Boozt ended 2022 with record-high average order value, driven by customers shopping across categories adding more items to each basket. Return rates remained stable versus last year and well below pre-COVID-19 levels. Thanks to the strong sell-through, Boozt's inventory position is in great shape, and it thus ended the year with a strong financial position that provides ample opportunity to continue investing for further market share gains in 2023. As of year-end, Boozt had completed the planned expansion of its highly automated warehouse, which will allow the group to continue its high growth journey without further investments for some years to come. Without investments and given its ongoing high growth and increasing profitability—driven by scale and automation—free cash flow generation will accelerate and add to Boozt's already significant cash position of more than one billion Swedish kronor. We see solid potential for cash returns to shareholders in 2023 and beyond, and we thus added to our position in Boozt through the first nine months of 2022, when the share price was declining without any signs of deteriorating fundamentals.

St. James's Place enjoyed another solid operational 2022. Growing net inflows and market share gains coupled with maintained asset retention rates above 96 percent confirmed the strength and stability of the platform and its potent and substantial long-term growth prospects. While declining asset prices led to a slight overall reduction in funds under management and related fee income for the year, short-term asset price volatility is merely noise around the long-term trend of asset price appreciation. St. James's Place recurringly reports a conservatively calculated net asset value for its existing business, excluding the value of new funds attracted to the platform. This conservatively calculated net asset value remained largely constant through 2022 and, as the share price declined to levels substantially below the net asset value of St. James's Place's existing customer base, we gladly increased our exposure at bargain prices during the year. Buying more of this rock-solid and growing existing business at a substantial discount to its fundamental fair value and receiving the value of its future new funds for free was one of the fantastic opportunities for long-term value creation we took during 2022.

Normalization in China is drawing closer

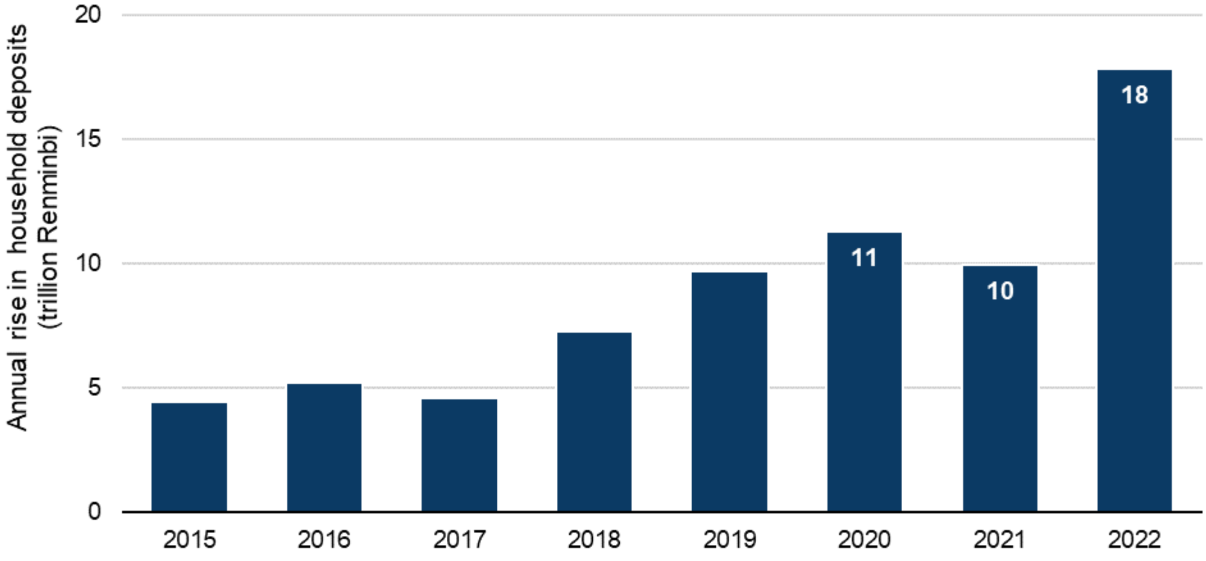
We maintained a significant operational exposure to China in 2022 through ownership in companies with high western corporate governance standards, as has been the case since the establishment of our global strategy.

Xi Jinping was, not surprisingly, re-elected General Secretary of the Chinese Communist Party in 2022, and his pursuit of "Common Prosperity" remained the over-arching political and macroeconomic backdrop in China. Our China-exposed companies are not active in politically sensitive sectors. Rather, they cater to middle-class consumers in China, including the growing number of middle-class households and expanding disposable income of the average Chinese citizen that represent the main goals of the "Common Prosperity" political program.

Through 2022, the prolonged COVID-19 restrictions continued to challenge companies operating in China and those with China-dependent supply chains. The country's strict Zero-COVID policy was upheld through most of 2022, and many large Chinese cities, including Shanghai, were in full lockdown for extended periods of time. Toward the end of 2022, many COVID-19 restrictions were eased, and a plan to reopen borders for international travel at the beginning of January 2023 was put in place. Our companies with operations in China coped well in the challenging operating environment by managing costs prudently and continuing to invest for future growth. An earnings recovery thus awaits them once normalization happens.

In 2022, Chinese households accumulated an additional 17.8 trillion Renminbi (2.6 trillion US dollars) in bank deposits, corresponding to more than the accumulated rise in deposits in the pre-pandemic years of 2018 and 2019. The strict COVID-19 lockdowns made it more difficult for Chinese consumers to spend their money, and the general lingering uncertainty regarding the global economic outlook and geopolitical stability turned consumers increasingly cautious about their spending habits, instead prompting them to increase their savings. As the reopening of China progresses, we expect to see a release of pent-up demand leading Chinese consumers to increasingly dip into their savings and up their consumption, just as we have seen in many western countries after COVID-19 leveled off. This will benefit our portfolio companies catering to the Chinese consumer.

Annual rise in Chinese households' deposits



Source: People's Bank of China

The impact of stringent COVID-19 restrictions in China reached unprecedented levels in 2022. Many cities went into full or partial lockdowns for several weeks or even months at a time, including the mega-cities of Shanghai, Shenzhen, and Guangzhou. At its worst, 1,500 of our China focused quick service restaurant Yum China's restaurants were temporarily closed, and another 1,500 offered only takeaway and delivery, corresponding to nearly 25 percent of its 12,400 restaurants. When Shanghai was in full lockdown, more than 90 percent of Yum China's restaurants in the city were temporarily closed, and the restaurants that stayed open only operated with limited capacity. Impressively, Yum China still managed to deliver close to 50 percent of its normal Shanghai sales.

Undeterred by the short-term challenges, Yum China remained confident in the long-term prospects of its business and continued investing for growth, opening new restaurants and improving its operations. This was possible thanks to Yum China's conservative balance sheet, with four billion US dollars in net cash and positive cash flow generation during the pandemic-affected years. For 2022, Yum China expected to open 1,000–1,200 new restaurants, corresponding to a new restaurant opening every eighth hour or around a nine percent increase in its restaurant base. On average, new KFC restaurants opened by Yum China pay back their establishment costs in two years. Yum China has impressively maintained this outstanding payback period despite the challenging operating environment. It did so through a continued focus on opening smaller-format stores with a higher emphasis on delivery, negotiating attractive rental terms, and continuing to improve the efficiency of its operations through automation. Yum China's management team continues to see substantial opportunities for opening new restaurants with healthy unit economics and aims to expand its restaurant base as well as invest in digitalization, automation, and supply chain infrastructure.

In response to the severe lockdowns, Yum China quickly took measures to take advantage of the unprecedented headwinds. In the short term, it utilized its cost flexibility and adjusted advertising and promotional activities, temporarily postponed store remodeling, shortened operating hours, and redirected supply chains around locked-down areas to preserve cash. Proactively, it negotiated rent relief, made leases increasingly sales dependent, thus sharing risk with landlords, and simplified menus to boost productivity, all of which are initiatives that should improve Yum China's profitability and even further lower the operational risk after the pandemic.

Yum China focused on growing its loyalty membership clubs at KFC and Pizza Hut, which stood at 240 million members in 2019 and represented 52 percent of system sales in the restaurant chains. Today, the membership clubs boast 400 million members, accounting for 62 percent of system sales. A massive 160 million new members joined in less than three years, corresponding to almost 20 percent annual growth. These astronomical figures are best-in-class globally and hold significant potential for Yum China to boost sales growth further after the pandemic.

Supportive demographic trends bode well for our companies

Our excitement about China extends beyond the post-COVID-19 earnings recovery. Looking further ahead, our companies with exposure to China will continue to benefit from the expansion of the Chinese middle class, annual disposable income growth, and urbanization.

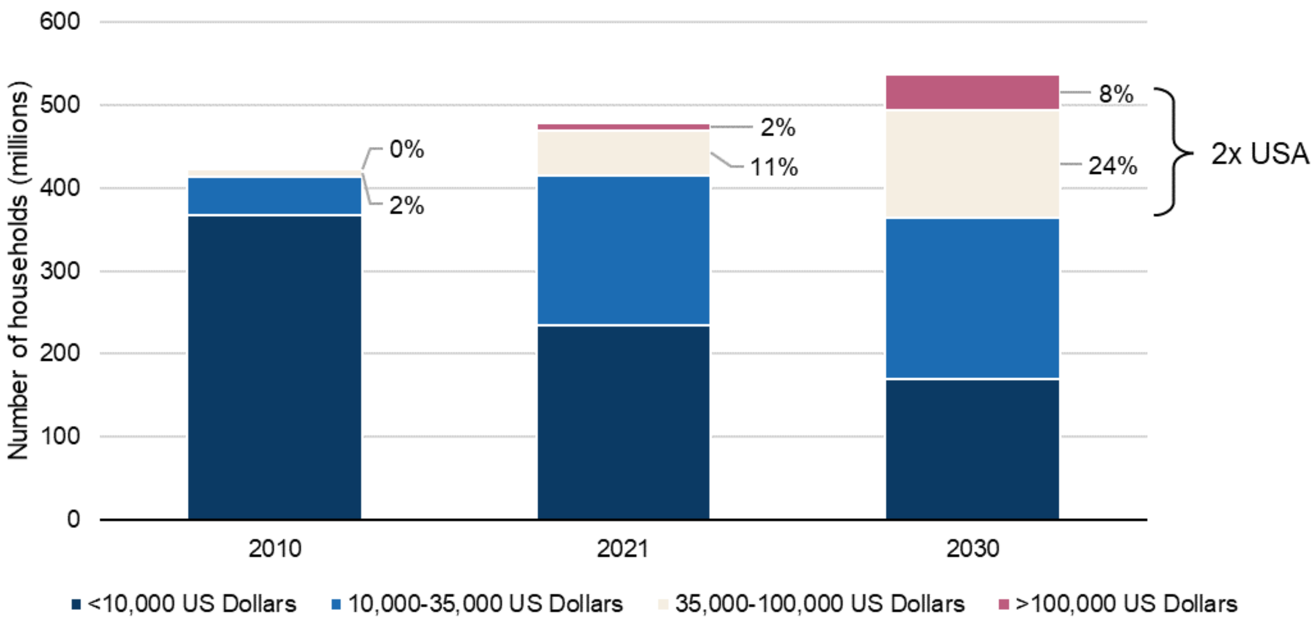
In 2010, just two percent of Chinese households had an annual disposable income of 35,000–100,000 US dollars, which is Budweiser APAC's definition of households that can afford premium beers. By 2021, this share had grown to 11 percent, and it is expected to grow to 24 percent in 2030.

This implies the number of Chinese households that can afford premium beers grew by more than 18 percent per year from 2010 to 2021, and that they are expected to grow more than ten percent per year from 2021 to 2030. Put differently, the number of households that can afford premium beers and many other consumer goods that cater to the Chinese middle class is expected in 2030 to be 2.5 times the number today and 15 times the number of such households in 2010.

The number of households with an annual disposable income above 100,000 US dollars—which Budweiser APAC categorizes as being able to afford super-premium beers—is expected to grow even faster, at more than 18 percent annually from 2021 to 2030, or 4.5 times the number of households in 2021 and astoundingly 21 times the number in 2010.

To put this into perspective, the number of households with disposable income above 35,000 US dollars will be twice as large as the total number of households in the US in 2030. This is an extremely powerful demographic tailwind for Budweiser APAC and our other portfolio companies with exposure to the Chinese middle class.

Number of households in China by annual disposable income



Source: Nielsen, Euromonitor, and World Economic Forum

Budweiser APAC is the largest brewery in Asia and the fourth-largest brewery in the world in terms of operating income before depreciation and amortization. Premium and super-premium beers constitute around 65 percent of its revenues, having increased in recent years, and the group expects this to increase further in the coming years. Budweiser APAC was separately listed in 2019. The world's largest brewery, Anheuser-Busch InBev, still owns 87 percent of Budweiser APAC, and supports it with access to some of the world's most popular beer brands, including Budweiser, Corona, Stella Artois, and Hoegaarden. The Budweiser brand is the most recognized and well-known premium beer in China, and with the Budweiser APAC portfolio commanding around 55 percent market share in premium and super-premium beers, Budweiser APAC is the best-positioned company in China to benefit from the rapidly growing middle class and an increasing disposable income that allows more people to afford premium and super-premium beers. Today, premium and super-premium beers only account for 18 percent of the Chinese market in terms of volumes sold, versus 25 percent in South Korea and around 40 percent in western markets such as the US and Australia.

Premium and super-premium beers signal wealth and status in China. For this reason, they are more often consumed in restaurants or nightlife venues, where friends, family, and those passing by can actually notice a beer's brand. COVID-19 lockdowns significantly disrupted the nightlife channel in recent years, but we are confident that nightlife in China will fully reopen and return to normal. We expect to see an earnings recovery for Budweiser APAC once this occurs.

The COVID-19 operating environment has not deterred Budweiser APAC from investing in its operations in the form of digitalization, supply chain and sustainability, and production facilities. In particular, the large scaling up of the innovative B2B distribution application, BEES, in 2022 positions Budweiser APAC well compared to less digital industry peers. While practically no revenues went through the BEES application in 2021, around 25 percent of revenues were digitized and channeled through BEES in October 2022. The digitalization of ordering and distribution provides Budweiser APAC with deep insights into consumer preferences, the effectiveness of promotional activities, and a better oversight of its supply chain and distribution.

Premium and super-premium beers sell at markedly higher prices than mainstream beers but are not correspondingly costly to produce. In fact, the gross profits from selling premium or super-premium beers in China are 6–12.5 times higher than for mainstream beers. Putting the growing number of households that can afford premium and super-premium beers together with increasing profitability stemming from the mix shift towards premium and super-premium beers, the result is a highly appealing medium- to long-term opportunity that Budweiser APAC is best positioned to take advantage of.

The coffee chain Starbucks, which is again part of our portfolio, is another beneficiary of this demographic trend. China is its second-largest market (nine percent of revenues) after the US (72 percent), and it expects the Chinese market to be the largest contributor to future growth. Pre-COVID-19, Starbucks China had substantially higher margins than Starbucks US. Starbucks currently operates more than 6,000 stores in China and plans to expand this by 50 percent to 9,000 stores by 2025, corresponding to a new store opening every ninth hour. The unit economics for Starbucks in China are even better than the already impressive unit economics at Yum China, as new stores take less than two years to pay back their establishment costs, which makes it attractive for Starbucks to invest heavily in unit expansion.

Tea is the preferred hot beverage in China, but its citizens are increasingly consuming coffee. In 2019, the number of cups of coffee consumed per capita in China was around ten, and it is expected to reach around 14 cups by 2025, a 40 percent increase in six years. These numbers are still low compared with South Korea, where the average citizen consumes around 350 cups per year, or the US, where the average citizen consumes some 390 cups per year.

Urbanization is another strong trend that bodes well for Starbucks. From 2020 to 2030, the share of people residing in cities is expected to grow from 64 percent to 75 percent of the population. This corresponds to around 160 million people—or more than 1.5 percent of the population each year—relocating from rural areas to cities over those ten years. As people do so, they tend to find higher-paying jobs and become increasingly clustered in smaller geographical areas, while over the longer term, increased urbanization supports better access to education for both those relocating to the cities and also their children and children’s children. The urbanization trend should thus support the growing middle class in China.

The increasing preference for coffee coupled with the growing Chinese middle class, urbanization, and disposable income are ardent trends supporting Starbucks’s growth prospects in China. Starbucks expects the addressable market for specialty coffee in China to grow at a 23 percent annual rate from 2022 to 2025, and its management team has a stated ambition of doubling revenues and quadrupling operating income in China over the same period. We have been pleased to see Starbucks investing in long-term growth during the challenging operating environment, and—as is also the case for our other companies with operational exposure to China—we expect to see a post-COVID-19 earnings recovery and a strong demographic tailwind for many years to come.

In addition to Yum China, Budweiser APAC, and Starbucks, many other of our companies have exposure to China and benefit from the growth in the Chinese middle class and increased disposable income. Our fashion companies LVMH and Kering, our sports apparel company Nike, and our beauty company Estée Lauder all look to China for vibrant growth and profitability, and our elevator companies, Otis and Kone, and our hotel group IHG benefit from the economic development and increased urbanization in the country.

While the strict COVID-19 restrictions in China persisted for longer than we had anticipated, the outlook of a return to normal excites us. Our companies, with large exposure to China have coped well, despite being dealt a difficult hand since early 2020, and their undeterred investments in long-term growth coupled with supportive demographic trends paint an encouraging picture of the years ahead. Our optimistic view on China remains unchanged, and with the approaching normalization of the country's operating environment—perhaps even this year—we look to the future with increased short-term and unchanged long-term optimism.

The virtues of *real* returns

The speed and magnitude of interest rate increases, both nominal and real, were arguably the most significant contributor to declining asset values across the different asset classes last year.

Warren Buffett said, "Interest rates are to asset prices what gravity is to the apple. When interest rates are low, there is a low gravitational pull on asset prices." Isaac Newton presented his thoughts on gravity with the publication of *Principia* in 1686. It is up for discussion whether he "discovered" gravity, but he is generally ascribed as having done so, with the well-known story of an apple hitting him on the head. Gravity as a concept is generally understood and accepted, and at BLS, we appreciate financial gravity, as it helps to keep the financial markets' feet on the ground.

Since the 1980s, interest rates have been in a general declining trend. The decreasing and low interest rates observed over the past decades have impacted investing across all asset classes. For investors relying on fixed-income instruments, such as government bonds, as a low-risk/low-yield investment alternative, many government bonds have not been a compelling or viable enough investment alternative for years. As central banks created an abundance of liquidity through quantitative easing and by the lowering of deposit rates, investors had to turn their attention elsewhere to fulfil their return aspirations. Also, as lower interest rates reduced the cost of lending, this led to increased risk-willingness in the hunt for returns, which pushed up asset prices at the riskier end of the spectrum.

In recent years, the monetary experiment with negative interest rates in Europe and Japan disregarded all economic sense and the principle of the time value of money. A dollar in ten years should, by all economic theory—and according to most people's common sense—be worth less than a dollar today, not the other way around. Ultra-low, and in some cases negative, interest rates (as showcased by more than 18 trillion US dollars of debt having negative yields worldwide in December 2020 and at one point negative yields on all maturities of German government bonds the same year), diverted focus away from what really matters: the ongoing economic value creation of companies and risk. In the wicked world of ultra-low or even negative interest rates, market valuations of distant and uncertain cash flows inflated, while the virtues of companies with proven abilities to create robust and growing cash flows now and in the future were less appreciated.

And then, taking off in late 2021 and accelerating during 2022, nominal interest rates shot up to levels materially above zero as central bank rate hikes and historically high inflation rates transformed the financial market scene. Now, the interest rate experiment is over, the traditional rules of finance have been reinstated, and the traditional virtues of value and value creation are back in vogue.

This means that the intrinsic fair values of uncertain and distant future cash flows unable to compensate for increasing inflation and increasing real interest rates have deflated. It also means that the intrinsic fair values of current and growing future cash flows from companies with pricing power that enables them to increase their selling prices at or above inflation without losing sales volume are standing tall. And finally, the return of a "cost of debt above zero" means companies with too much debt find themselves in a financial straitjacket, while those with robust cash flows and conservative balance sheets have retained their strategic and operational freedom.

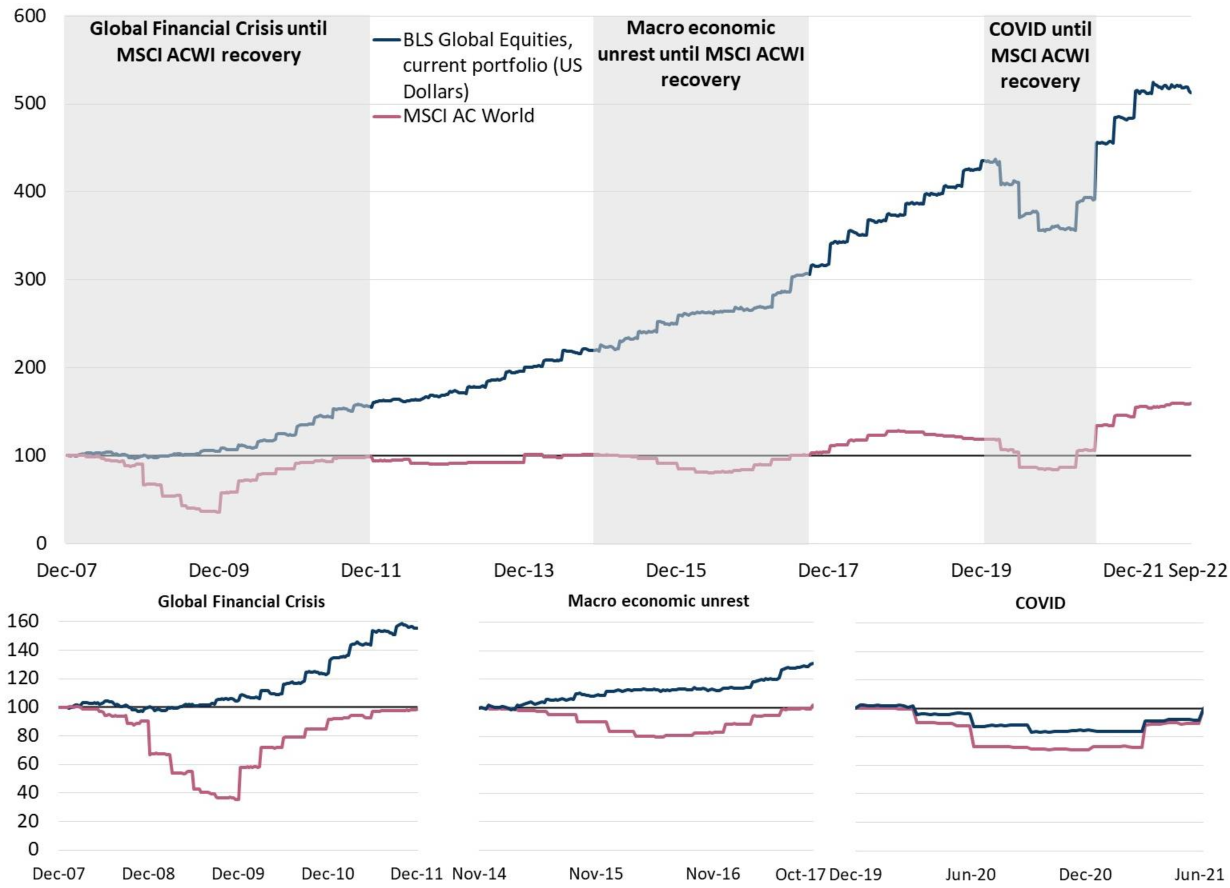
At BLS Capital, pricing power, flexible and low costs bases, and conservative balance sheets with low debt and interest payments have always been the traits we emphasize in our company selection process. In our Half-Year Letter from 2022, we laid out several concrete examples of how these virtues manifest themselves in our portfolio. Regardless of the interest rate and inflation environment, these virtues protect our companies' earnings power and allow them to grow their free cash flows at long-term, steady, and predictable rates that exceed the economy's nominal growth rate while also maintaining their long-term strategic investments to drive future growth without having to discuss debt levels and covenants with debt holders. These virtues are always essential value creators—and in times of increasing real interest rates and historically high inflation rates they are even more valuable in ensuring the continued long-term generation of attractive, risk-adjusted, *real* returns for us and our co-investors.

When the going gets tough, the tough get going

On average, our companies are around 100 years old, and during their lifetimes, there have been few, if any, years when short-term-focused investors have had nothing to worry about. The list of wars, recessions, pandemics, asset bubbles, and other concerns is long, and the media produced on these topics has always been vast.

In terms of potential concerns for short-term-focused investors, 2022 was an eventful year. Geopolitical tensions and war, high inflation, elevated interest rates, low consumer confidence, and a global pandemic still taking its toll in many parts of the world were among the topics in the spotlight. We acknowledge these events have wrought significant hardship for the people involved, but as gloomy as this list might seem and as substantial as the short-term impact on market sentiment might be, there is almost nothing on that list our companies have not endured before. Based on their leading positions in concentrated industries with pricing power, high margins, lofty returns on invested capital, stable and predictably growing free cash flows, and balance sheets with low-to-no debt, our companies have proven themselves capable of performing well across economic cycles. The resilience they have showcased over the past century stands as testament to the fundamental strength of their business models, which have only grown stronger over time and which we are confident will prevail over the long term.

Earnings per share development of current BLS Global Equities Portfolio



Source: BLS Capital, Bloomberg, and FactSet
Note: "BLS Global Equities" is our current portfolio and does not reflect historical holdings. MSCI ACWI is the MSCI All Countries World Index.

We established our global strategy in the economically challenging times of September 2008, and the chart above illustrates the trailing 12 months' earnings per share of our current portfolio versus the MSCI AC World Index from the beginning of 2008 to the third quarter of 2022. This period covers two recessions and other temporary investor concerns, such as the global financial crisis in 2008/09, the downturn in global earnings in 2015–2016, the COVID-19 pandemic, and the current inflationary and recessionary concerns. The data series are indexed to 100 at the start of the period to exemplify the relative difference in earnings per share development between our portfolio and the MSCI AC World Index, and in the three smaller graphs below, we zoom in on the relative performance in the periods marked with gray.

During the global financial crisis, our portfolio showed convincing resilience and saw almost no earnings per share decline, while the MSCI AC World Index's earnings per share declined by 67 percent. Through the 2015–2016 market decline in the wake of macroeconomic unrest (sometimes referred to as "the overlooked mini-recession"), our portfolio's earnings per share continued to grow, while the earnings per share of the MSCI AC World Index declined by more than 20 percent.

During the COVID-19 pandemic, the earnings per share of the MSCI AC World Index declined by 29 percent from peak to trough, while the earnings per share for our portfolio was down only 19 percent. In total, since the beginning of 2008, our current portfolio of companies has compounded earnings per share at a rate of 12 percent per year versus just three percent per year for the MSCI AC World Index.

The long-term operational outperformance and the operational outperformance during these highlighted and particularly challenging periods is no coincidence. Instead, it is well founded in our companies' resilient business models to do well regardless of the macroeconomic backdrop, and we thus consider it highly repeatable.

LVMH, our luxury brand group, is an example of a company that continues to outperform operationally even during tough times. Its largest segment, Fashion & Leather Goods, grew its revenues more than 75 percent in the first three quarters of 2022 versus the same period in 2019, before the COVID-19 pandemic.

Visa, our global payments network, continues to perform operationally thanks to its dominant business model. During its 2020 fiscal year, when the COVID-19 pandemic closed borders and consumer spending plunged, the group's revenues were only down five percent versus 2019. In Visa's 2022 fiscal year, revenues were nearly 28 percent higher than in 2019.

Experian, our information services company, is a prime example of a company that is able—thanks to its strong, broad-based, data-driven, and scalable business model combined with its leading position in a regionally consolidated industry—to outperform in most, if not all, economic conditions. While its credit scoring business has some cyclical elements, its operations in decision-making tools, fraud detection, customer referrals, and consumer services are all-weather businesses and even offer some counter-cyclical elements. As a highly cash-generative company, Experian can continue its long-term investments in growth and efficiency improvements across the economic cycles and fine-tune the annual investment levels to ensure its operating margins steadily increase.

Operational outperformance allows our companies to keep compounding their cash flows even during testing times. Our companies' structural underlying growth, relative competitive advantages, and formidable balance sheets provide them with strategic and financial freedom to operate and execute for the long term and drive operational outperformance resilient to nearly all economic conditions. They use their growing cash flows to create additional value by investing in their business, paying down debt, or increasing payouts to shareholders. Meanwhile, their resilient business models, long-term focus, and operational execution through short-term challenges propel their relative outperformance and accelerating long-term value creation.

We are not macro-economists and do not know nor spend time contemplating what short-term concerns our companies may face. We are long-term investors in resilient, well-proven, high-quality companies, and we trust that our careful selection of market-leading companies with robust business models and predictably growing free cash flows will continue to outperform their competition, as they have done in the past. And when times are tougher, their outperformance should accelerate and benefit their long-term value creation even more. When the going gets tough, the tough get going.

When the going gets tough, the tough get stronger

Our companies have increased their strength relative to their competitors through tougher times, as last seen during the pandemic, but this was also the case in the global financial crisis in 2008/09 and prior to that as well. Having existed for around 100 years on average, they have battled the economic ups and downs, and while attractive industries have provided a strong tailwind of structural growth drivers, this alone is not enough without long-term-minded management teams and the general use of conservative balance sheets. It is not a lack of profits that causes defaults; it is a lack of liquidity. Heavily indebted balance sheets can become a hindrance in tougher times, when the ability to service debt becomes more challenging, and can potentially force companies to forgo attractive strategic investment opportunities because of a lack of financial or managerial resources.

Most of our companies are market leaders, and most lead in consolidated industries with few competitors. The OECD defines an oligopoly as characterized by a small number of companies that realize they are interdependent in their pricing and output policies and that is small enough to give each company some market power.

Two routes to consolidation

Market consolidation can principally occur via two routes: the acquisition of competitors or the winning of market share organically. In less consolidated industries, a combination of the two is the most likely scenario. The more consolidated an industry, the more consolidation will generally happen through organic market share gains, as anti-trust regulators are less likely to approve acquisitions.

As our companies most often operate in highly consolidated industries, we typically see and clearly prefer much more of the organic development of smaller players losing ground to the largest players. This is due to scale economies in matters such as investments in technology, branding or marketing and distribution, for example, which allows the market leaders to gain further advantage than they already gain from having a leading brand and winning presence.

This fits well with our preference for organic revenue growth, as this comes with fewer related risks to the returns on capital, the acquisition price paid, and the integration risk.

Stronger through harder times

In a structurally growing and well-established industry with few actors, the largest entities gain from economies of scale, where the cost of incremental business is sufficiently less than the incremental revenues—and the marginal profit rate thus increases. In industries with economies of scale, size matters, and it often constitutes a concrete entry barrier that protects the profit pool of the incumbent players. Pricing power through differentiated brands, products, services, and economies of scale is often a strong contributor to attractive Return on Invested Capital.

Large players with industry-leading profitability have better reinvestment opportunities to drive demand through increased marketing investments or to launch new initiatives that drive even more scale. This helps differentiate our companies even more during the tougher times of less easy access to capital, elevated interest rates, and higher perceived economic uncertainties.

Most of our companies operate in industries that have become well consolidated through the last century for many of the above reasons, and thus their incremental market share gains are less. However, some of our companies do operate in less consolidated industries, and we saw them able to capture, and subsequently retain, significantly larger than normal market share gains during the pandemic.

One example of this is auto spare parts retailer AutoZone, which gained three percentage points in market share through the pandemic by delivering products when others were unable to. These market share gains have lingered. Gains of this size would usually take several years to capture, but AutoZone achieved this through effective execution without material use of capital.

Less is more

In many ways, we would prefer to invest in unregulated value-creating monopolies, since being the sole provider of a service or product often establishes pricing power, stability, and predictability in demand (as the monopoly provider in an industry of long-term structural growth). Assuming this is an industry without large capital requirements, this creates the opportunity for attractive Return on Invested Capital substantially above the cost of capital.

For good reasons, however, monopolies are regulated by competition authorities that have long focused on the negative externalities of strong monopolies, i.e., pricing too high, deprioritizing innovation, and thus negatively impacting customers in the long term. Notorious cases include Rockefeller's Standard Oil or the anti-trust case against Microsoft in the late 1990s.

Highly consolidated industries with structural growth drivers provide many of the same benefits as monopolies. Good examples of this are our rating agencies Moody's and S&P Global, whose combined market share is around 80–85 percent, Mastercard and Visa together constitute a duopoly on card-based international consumer payments and Microsoft, even after the anti-trust cases, remains dominant in operating systems and business software solutions. The less mature but faster-growing cloud services industry is more of an oligopoly but remains highly concentrated.

Consolidated markets and structurally growing and profitable industries allow management teams to focus on long-term profit maximization rather than competing for small incremental market share gains at the cost of the total industry profit pool, such as through price cuts to grab market shares from competitors. Price cuts will only lead to market share gains if customers or consumers do not see any product differentiation, as price and accessibility thus become the differentiating factors.

The opposite of this would be fragmented industries with undifferentiated commodity products. In such industries, prices tend to move towards the cost of production, meaning many suppliers and thus low margins and low returns on capital. This is often the case in industries where players race to be the largest by competing for volume to achieve some level of profitability. One example is container freight, where the low price per product relative to production costs means volume is the only way to grow. With undifferentiated products, customer loyalty tends to be low, and price becomes the key differentiating factor in their product selection. Such markets tend to move towards fewer players, but this type of market consolidation without pricing power does not appeal to us.

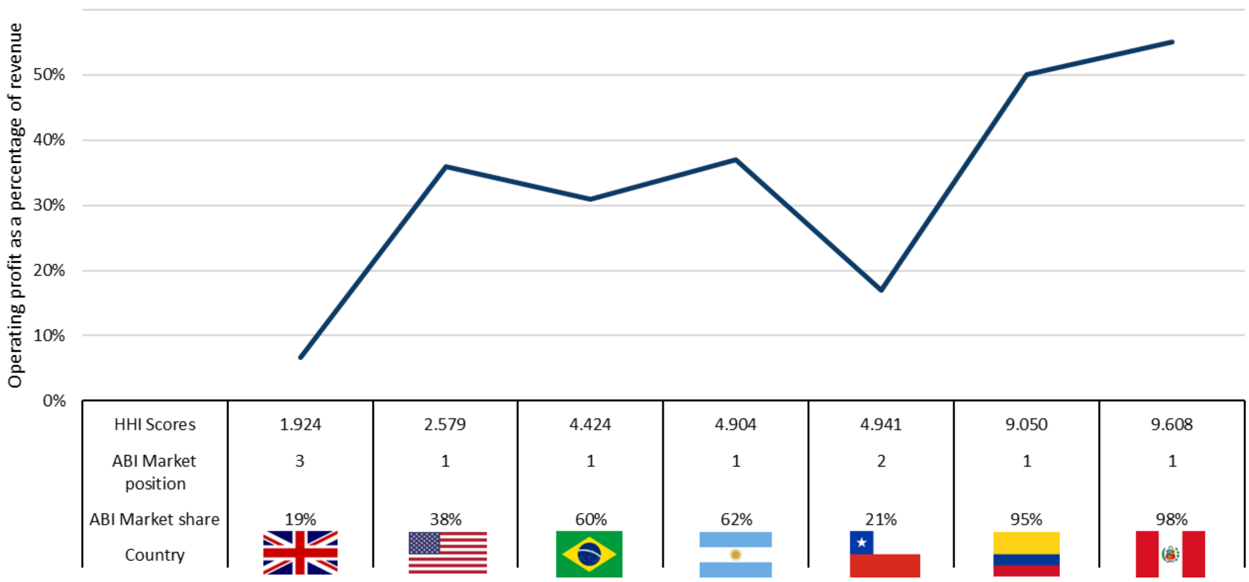
How to measure consolidation

One way to assess industry consolidation is using the Herfindahl-Hirschman Index (HHI), commonly used by competition authorities to assess the potential impact of acquisitions on market dynamics in a given industry. The HHI measures industry consolidation based on market shares, including how they are split. An industry of ten evenly sized players will thus have a lower HHI than an industry of ten players with different market shares. Many of our companies are in industries with less than five competitors and most often with a distinctive difference in market share between the market leader and the few remaining competitors.

The HHI squares the market share of all competitors in a market and sums these up. The competition authorities have a scale that defines an industry's degree of concentration based on the resulting value. A true monopoly with only one company would thus have an HHI of 10,000 (100 percent market share squared). In comparison, an industry with ten equally sized competitors would have an HHI value of 1,000 (ten times ten percent market shares squared) and an industry with one company holding 55 percent of the market and nine companies each holding five percent would have an HHI value of 3,250 (55 squared plus nine times five squared). A score of less than 1,500 indicates a competitive market, 1,500–2,500 represents a moderately concentrated market, and above 2,500 implies a high market concentration.

A high HHI is thus a positive indication for potentially less irrational competitive dynamics in a given market. HHI scores of more than 2,500 should indicate more attractive economics and returns on capital, and we thus look for this as part of our company and industry analysis. This can be difficult as we, as outsiders, do not have access to the appropriate figures on both market shares and profitability by market. However, some industries provide more market-by-market data and can thus provide an example to illustrate the correlation between HHI scores and profitability.

Anheuser-Busch InBev—market concentration and profitability



Source: Sanford C. Bernstein and company reports. ABI is an abbreviation of Anheuser-Busch InBev

The chart above shows multiple markets in the Americas (representing more than half of the group's operating profit) for Anheuser-Busch InBev ranked in terms of 1) HHI score (with the lower HHIs on the left), 2) market position (with Anheuser-Busch InBev as the market leader or number two in all these markets), and 3) the operating profit as a percentage of revenue of the individual markets. As illustrated, there is a strong relationship between the HHI score and operating profitability. The sole outlier on the graph is the market in which ABI is not the market leader. We include the UK to showcase a less consolidated market relative to the Americas, while the UK is "moderately concentrated" based on the scale used by the competition authorities.

The beer industry is not a particularly global business, despite the largest brewers being present across continents. It is highly national, or even regional, in terms of brand and style preferences. It is characterized by differentiated products with high consumer loyalty and structural growth in the upper price tiers for premium beer globally.

Economies of scale in production, marketing, and distribution are strong, so being the market leader is positive for both brand strength and profitability. Anheuser-Busch InBev, the clear market leader in most regional markets and with the largest profit pools of the global brewing industry, is by far the most profitable player, reporting operating margins of 26 percent compared with less than 17 percent for other brewers like Heineken and Carlsberg.

Avoiding the short-term noise trap…

There are a lot of "easy-to-achieve returns." Regardless of the market environment, average investment returns are easily achieved: just buy a market index fund. It is also easy to get returns that differ from the average: just deviate. If you put your money in a savings account, you will get a guaranteed return (now back in positive territory in nominal terms) for a certain period, and if you buy T-bills, the return will not be negative in nominal terms, albeit very low. However, if you are looking for returns that are *consistently better than the average over longer periods of time* (which you probably are, since you are reading this), such returns are more difficult to achieve.

To beat the average, you must invest both *differently* and also *better* than the average. Since our generic programming tells us to follow the herd, it requires courage and stamina to be contrarian and deviate from the consensus—especially over longer periods. And since noise, uncertainty, and information overload constantly threaten to pull rational, straight thinking astray, contrarianism must be accompanied by raw investment skills, discipline, and focus to beat the average.

In 2020 and 2021, which posed short-term challenges for our portfolio, the pandemic and its derived impact on global mobility and trade elevated short-term noise and uncertainty to levels far above the historical norm. And then, in a turbulent 2022, unexpected and major events, information overload, and irrational herd behavior remained plentiful. Just as the sirens tried to lure Odysseus, many so-called investment experts enticed the herd to act in response to soaring energy prices, volatile commodity prices, high inflation, increasing interest rates, challenged supply chains, COVID-19 lockdowns, the war in Ukraine, a looming recession, and so on and so on. As most asset classes saw significant drawdowns, fear crept in, and underscored the commonly felt urge to "do something" to "at least try to weather the storm." Following their herd, many decided to run for the exit and flee from the perceived danger.

At BLS Capital, we acknowledge the financial markets were volatile in 2022 and that information- and event-driven noise levels were high. We also recognize that the short term has always been volatile and unpredictable, and it is likely to remain so. Inflation and interest rates will fluctuate, recessions will come and go, pandemics will emerge (albeit hopefully not for the next century) and be defeated, and, sadly, wars will start and end. As saddening as this is, we feel reasonably certain about it, but we have no particular advantage in predicting when any of this will happen. Hopefully, later rather than sooner, but we cannot know.

For someone with a macroeconomic, geopolitical, market-psychology crystal ball, the short-term and well-timed reallocation of investments between geographies, sectors, and investment styles represents an opportunity for superior investment returns. We do not have such a crystal ball, and consequently, we did not spend our time during 2022…

… repositioning our portfolios to reflect the current macroeconomic environment,

…speculating vis-à-vis the geopolitical development and its timing, or

…adjusting our portfolios to popular trends as reflected in benchmarks and sector performances.

…sticking to valuation-based stock picking…

Instead, we devoted our time last year to more familiar activities: based on our investment philosophy and process, we analyzed and followed the companies in our investable universe and spent the year ensuring our portfolios still consisted of attractively priced stocks in carefully selected, high-quality companies that met our investment criteria. In other words, in our ongoing pursuit of "different and better" long-term returns, we continued the disciplined, bottom-up stock-picking activities that we have practiced since we founded BLS Capital in 2008 and incepted the strategy in September 2008.

At BLS Capital, we pick stocks along two fundamental dimensions.

First, we are long-term investors, and it remains our passion and purpose to be co-owners of market-leading companies in concentrated industries with durable pricing power, high margins, admirable returns on invested capital, stable and predictably growing free cash flows, low to no debt, and proven management teams with disciplined capital allocation track records. As we have elaborated on in previous investor letters, the earnings growth that a company can consistently deliver over longer periods is the basic driver of the returns we as investors will get from investing in it. Our investable universe counts 175 companies that meet our business model criteria, implying that they are facing decades-long prospects of double-digit earnings growth with near-100-percent conversion of earnings to free cash flows. Our investable universe is the gross pool from which we pick our stocks.

Second, as we search the pool for companies to pick, we follow a disciplined valuation process to ensure only the most attractively priced stocks from the pool make it into our portfolio. This part of the picking process amplifies our return prospects, as the stable, predictable nature of our companies' cash flows allows us to rebalance our picks to ensure the long-term return prospects from the fundamental earnings and cash flow growth is supplemented with upside from the occasional stock market mispricings.

…and time horizon arbitrage

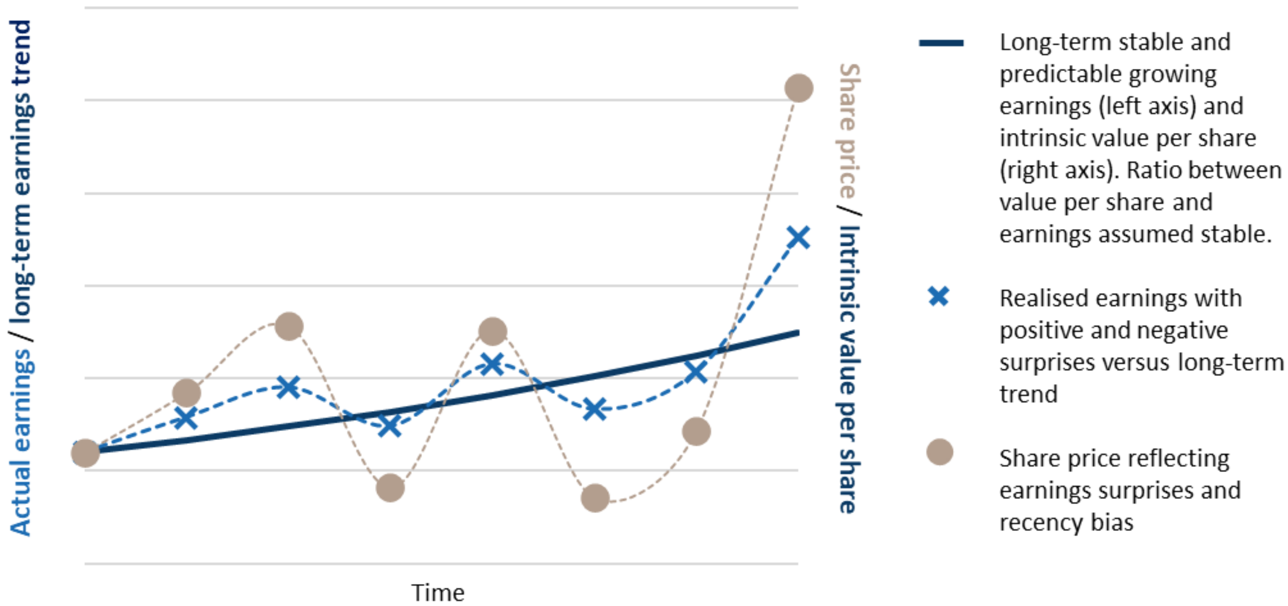
While short-term changes in market sentiment and cyclical macro events leave our investment philosophy and investable universe unchanged, they will influence the amount and the attractiveness of the price-based stock-picking opportunities available.

Despite the long-term stable and predictable operating profit and free cash flow growth characteristics, the near-term operating profits and cash flows in our investable universe will, from time to time, be noticeably impacted by significant macro events, such as global supply chain disruptions, major market lockdowns due to COVID-19, or historically high inflation impacting revenues and costs with timing differences.

Due to the psychological phenomena called "recency bias," short-term experiences tend to be overly extrapolated into long-term expectations. When short-term profits disappoint, the stock market's knee jerk reaction is to downgrade expectations for future profits as well—even if the short-term disappointment is the result of short-term passing events, such as a major Chinese city going into lockdown. As short-term profit growth expectations are downgraded, the price the stock market is willing to pay for one dollar of profit falls, too. An overly reduced price tag on an overly reduced mid- to long-term profit expectation means the share price undershoots the fundamental valuation impact of the short-term profit shortfall (and vice versa for positive profit surprises). As the share prices for the companies in our investable universe move further away from their long-term fundamental fair values, this creates more and increasingly appealing stock-picking opportunities for us.

As we remain convinced that real and lasting value creation happens over the long term, we welcome when the stock market's short-term focus makes our long-term focus contrarian and allows us to benefit from what we consider opportunities of "time horizon arbitrage."

An illustrative example of time horizon arbitrage



Source: BLS Capital

With more and bigger macro fluctuations leading to higher market price volatility than usual, 2022 was richer in time horizon arbitrage opportunities than normal. Consequently, eight high-quality companies with stable and predictable long-term growing cash flows were added to our portfolio after their stock prices became sufficiently attractive for us versus their intrinsic values. This is somewhat above our normal 3–5 new additions per year, but as always, we are excited about the long-term return prospects of our portfolio companies and are delighted with the additions the volatile 2022 stock prices allowed us to make. All added positions were built on stock prices that were 20–45 percent below their year-end 2021 stock market price tags.

During the second half of 2022, we reacquired shares in elevator company Kone, as previously mentioned. We were able to purchase the shares at around 20 percent lower share prices than we had divested them at during the second half of 2019, because COVID-19-related restrictions in China had a clear negative impact on the short-term development in selling and delivering new units. Without changes to the longer-term structural need for elevators in an increasingly urbanizing world, this effect should be temporary. Furthermore, we believe the value of Kone is to be found in its service business, which represents around 70 percent of group earnings, and is the primary driver of free cash flow generation, which is growing at a stable rate thanks to retention rates above 90 percent. Moreover, maintenance is required by regulation, uncoupling it from the macroeconomic environment. The pricing for service contracts is also adjusted by CPI in many regions and is often subject to annual renegotiation where unregulated, protecting cash flows and ensuring that growth rates are real. Kone's maintenance revenue growth has continued throughout 2022, and we expect it to benefit from higher inflation, while the number of units in its service portfolio should continue to grow by around five percent annually. We appreciate this opportunity to utilize short-term worries around the Chinese new equipment market to once again become co-owners of Kone at long-term attractive prices.

In February, Experian joined our portfolio for the first time, and over the course of the spring, our long-term investment approach gave us further opportunities to add to this position. Around the turn of last year, increasing concerns about a global growth slowdown resulted in broad-based and significant share price declines for high-growth companies, with little visible attention paid to the differences in quality between the underlying businesses. In early February, Experian's largest competitor, US-based Equifax, reported a significant slowdown in its US mortgage lending business, pushing fears of negative cyclical impacts even higher and Experian's share price even lower. Mortgage lending accounts for around three percent of our Experian's revenues (versus around 20–25 percent of peer Equifax's), and while its credit-scoring business has some cyclical elements, Experian's revenues from decision-making tools, fraud detection, customer referrals, and consumer services are economic-cycle-robust and even offer counter-cyclical elements. Experian's revenues have grown organically through all previous economic setbacks, and while some short-term cyclical impact can be expected, this will hardly affect the value of Experian's long-term business. Being highly cash-generative, Experian can continue its long-term investments in growth and efficiency improvements across the economic cycles and fine-tune the annual investment levels to ensure its operating margins steadily increase.

The short-term market overreaction to events we deem to have little, if any, impact on the long-term value of Experian's business thus allowed us to be time-horizon-contrarian and add the world's leading information services provider to our portfolio.

As in any other year, our 2022 stock picking left us looking far different from most others, and our portfolio's resemblance to World, Value, Growth, Quality, or other indices remained relatively low. "Active share" is a measure for just how different a portfolio is compared to a given index, with an active share of 100 percent illustrating a portfolio with nothing in common with the index and an active share of 0 percent meaning the portfolio is a perfect mimic of the given index. Our global portfolio's active share versus the MSCI AC World Index is high at 93, albeit down from 96 after we purchased shares in Microsoft when its valuation finally came within our range. Our disciplined adherence to our investment philosophy makes us stand out from the crowd.

We expect to remain different

Since we established in 2008, we have followed our investment philosophy and process diligently and without deviation. By being markedly different in our investment decisions, we have enabled ourselves to deliver returns markedly different to the market average.

At BLS, we have held on to the high-quality companies we have picked over the years. The average time since we bought our first shares in the current portfolio companies in BLS Global Equities is eight years. Five of our longest-held investments are in health care company Novo Nordisk, credit rating agency Moody's, luxury goods company LVMH, auto spare parts company AutoZone, and payment network Mastercard. We first bought shares in these companies in February 2009, May 2009, December 2010, May 2011, and December 2011, respectively. Since then, they have generated returns of 1,576 percent, 964 percent, 534 percent, 791 percent, and 924 percent, respectively, when including reinvested dividends.

Return and earnings growth since first investment

BLS Global Equities	Avg. annual EPS-growth	Years with declining earnings	Avg. annual return	Avg. annual market return	Difference
Novo Nordisk	12.6%	None	22.4%	10.2%	12.2%
Moody's	11.5%	2009, 2022	18.9%	9.4%	9.5%
Moody’s to 2021	15.8%	2009	23.7%	11.9%	11.8%
LVMH	20.1%	2015, 2020	16.5%	7.4%	9.1%
AutoZone	18.7%	None	20.7%	7.2%	13.5%
Mastercard	18.3%	2020	23.4%	9.0%	14.4%

Source: BLS Capital, Bloomberg, and annual reports
Note: All returns and earnings in US Dollars. Moody’s to 2021 is based on calculations from the date of first investment until December 31, 2021

This is testament to the return potential through investing in market leading companies in concentrated industries with pricing power, high margins, great returns on invested capital, stable and predictably growing free cash flows, low to no debt, and proven management track records when the shares can be acquired at attractive prices

Looking ahead, we remain excited about the risk-adjusted return prospects of the attractively valued stocks in high-quality companies in the portfolio. We will remain disciplined as we continue to follow our long-term investment philosophy and principles. As dedicated bottom-up stock pickers, we welcome future periods of high share price volatility and short-term noise as implied opportunities to gladly exploit and add to our expected long-term risk-adjusted returns. We will likely remain markedly different from the average investor in the investments we make, as this allows for returns different to the average.

Optimistic about the future

For the first time since 1999, strategists polled by Bloomberg on average now expect the stock market to decline over the coming year. Despite market concerns about high inflation and interest rates, considerable geopolitical unrest, historically low consumer confidence, and potentially a looming recession, we remain confident and optimistic about the future.

Our investment philosophy has not changed since we started BLS Capital in 2008, and we remain long-term co-owners of strong, profitable, well-managed, and predictably growing market leaders. Our portfolio comprises high-quality companies that have been in business for around 100 years on average and have been tried and tested under virtually all economic conditions. Their operational performance during 2022 confirms their resilience and operational strength, while their continued investments in long-term growth opportunities highlight the steady focus of these well-proven, skilled management teams on protecting and driving future value creation.

China was the last major region in the world to end its COVID-19-related restrictions during 2022. At the end of the year, however, the central government took steps to re-open the country, suggesting that a normalization is approaching. Our companies with exposure to China are strongly positioned to benefit from this, as they have strengthened their profitability and Chinese market positions again during 2022.

Pricing power, growth, cost control, strong margins, market-leading positions, capital-light business models, low debt, sound capital allocation, and competent management will always be in vogue at BLS Capital. With the current portfolio Return on Invested Capital standing at 45.8 percent, we remain confident in the high quality of our companies and their continued ability to increase earnings and free cash flows for the long haul at a long-term annual average of around ten percent. We firmly believe our portfolio is strongly positioned to continue generating appealing long-term operational performance, and at a 4.8 percent free cash flow yield, its valuation is below the historical average and attractive for us and our co-investors in the long term. We look to the future with confident optimism.

On behalf of BLS Capital

Anders Lund
Partner and portfolio manager

Peter Bundgaard
Partner and portfolio manager

This document is legally privileged and confidential and must not be read, reproduced, retained, re-used, distributed or published to others than the intended recipients without a written prior permission by BLS Capital Fondsmaeglerselskab A/S ("BLS Capital"). Nothing contained in this material constitutes investment advice nor is it to be relied on in an investment decision. No representation is made that the estimates, data or information herein is complete or updated and the information can be subject to change without notice. The information has been compiled and provided by BLS Capital. BLS Capital does not assume responsibility for the information displayed in the material or the conclusions drawn here from and BLS Capital cannot in any way be held liable for any effects, losses, costs or the like caused by using any part of the information. Any references to past performances are merely information provided to the benefit of others and it cannot be considered to indicate or guarantee any future results. Investing in financial markets involves a substantial degree of risk. There can be no assurance that the investment objectives described herein will be achieved. Investment losses may occur and investors could lose some or all of their investment. Any offer to sell or solicitation to buy interests in the fund will be made only by means of a confidential private offering memorandum delivered by an employee or agent of the fund.

Comments, opinions and projections made by BLS Capital are based on our views at the time of publication and are subject to change at any time. BLS Capital does not represent that any opinion or projection will be realized. Positions discussed in this letter do not represent all the positions held, purchased, or sold during the period discussed.

All performance and return information is gross of fees and in USD unless indicated otherwise. Gross return results do not reflect the deduction of investment advisory fees. Gross performance results include the deduction of certain expenses including transaction expenses. Performance results reflect the return for the Composite accounts taken as a whole unless indicated otherwise. An investor's actual return will be reduced by the advisory fees and other expenses. Performance results noted as "Net" reflect the total return for the Composite and include the deduction of transaction expenses and deduction of a representative management fee of 95 bps. Performance returns include the reinvestment of all dividends, interest, and capital gains. Our fees are fully disclosed in our Part 2A of Form ADV and may be updated from time to time. Part 2A of Form ADV will be provided to Investors upon request. An investor's return may vary from these returns based on the actual management fee and incentive arrangement as outlined in each investor's agreement, as well as the timing of capital transactions and other expenses. Fund investors should refer to their individual account statements for performance information. Fund investors should refer to the annual fund audits for full disclosure and description of fees realized in a particular period. The Fund's financial statements for years 2015-2021 have been audited. YTD returns for 2022 are unaudited and subject to change. The annual return for the Market/Index returns are provided to show an example of alternate return potential during the relevant time periods; however, indices may possess different investment attributes that may make comparisons difficult such as volatility, liquidity, market capitalization, and security types. The statistical data regarding the indices has been obtained from Bloomberg and the returns are calculated assuming all dividends are reinvested. The indices are not subject to any of the fees or expenses to which the portfolios are subject. This report assumes the reader has sophisticated knowledge of investing and the markets. If you require more information about the information presented, including the portfolio characteristics and risk statistics, please contact us.

The calculation of any particular investment's contribution to performance is the percentage of gross return on the portfolio for the period by the return on such investment for the period (without deduction of management fees or other expenses).

BLS Global Equities LLC (the "Fund") has an inception date of February 27, 2015. The Fund follows an all cap global portfolio strategy (the "Strategy") that has been managed by BLS and the Portfolio Managers since September 30, 2008, the inception date of BLS Invest Global Equities. Historical information about the Strategy is included for informational purposes.

ESG ratings are provided by MSCI ESG Rating service. MSCI ESG Ratings aim to measure a company's management of financially relevant ESG risks and opportunities. MSCI uses a rules-based methodology to identify industry leaders and laggards according to their exposure to ESG risks and how well they manage those risks relative to peers. ESG risks and opportunities can vary by industry and company. MSCI ESG Ratings model identifies the ESG risks that are most material to a GICS® sub-industry or sector. MSCI ESG Ratings range from leader (AAA, AA), average (A, BBB, BB) to laggard (B, CCC).