

We invest in winners. That means we invest in strong companies that create value for their shareholders with sustainable business models, solid balance sheets and high margins. We keep the risks low and invest when our position is fuelled by a positive event. We refer to that as the combination of value and event.

Novo Nordisk A/S

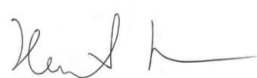
We introduced Novo Nordisk in our Investment Report of May 2014. With a market share of almost 50%, the Danish company is a leader in the insulin treatment of diabetes, a chronic metabolic disease that the American Center for Disease Control and Prevention has described as a “tsunami”. The modern lifestyle and demographic factors are the catalysts behind a public health problem that affects 415 million people worldwide. The International Diabetes Federation estimates that approximately 642 million people will suffer from the disease by the year 2040. Only 100 million diabetics currently have access to suitable supplies of medication. It provides Novo Nordisk with great growth potential for recurring and stable earnings on the basis of an insulin treatment that normally has to be administered for the rest of the person’s life.

The company’s specialisation in diabetes since its founding (in 1923) has provided Novo Nordisk with a singular position in an oligopolistic market. This market is protected by significant R&D expenditures, production-related economies of scale, sales strength and, in view of the elaborate and customized insulin treatment by a physician, patient loyalty. Novo Nordisk already has the most diversified range and most promising pipeline of biopharmaceutical products. Even after the expiry of patent protection, generic products have so far only attained secondary im-

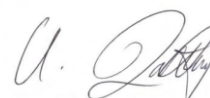
portance since they are only bio-similar but not identical to the original product.

With a gross profit margin of 85%, Novo Nordisk is extremely profitable, and is also a good capital allocator that generates a very high return on equity. The company generated earnings per share of DKK 63 during the last ten years. Of this amount, DKK 35 was retained. After-tax profits rose by DKK 12 (22% p.a.) to DKK 14 per share over the same time period. This means that retained earnings generated a high internal yield of 34%. Another contributing factor is the continued buy-back of own shares. The net volume of the last ten years alone (DKK 95 billion) generates surplus profits of DKK 8 billion a year for shareholders. And this number is expected to increase. The annual buy-back volume has been increased to 3% of outstanding shares following a 40% loss in the share price after the long-term growth forecast for the operating result was cut in half to 5% p.a. Discount commitments on the list prices, which have increased steadily in recent years, and intense competition in the various product categories are currently putting more pressure on developments in the important US market than we expected. But it also provides us with an opportunity to invest in the share as a virtually debt-free “equity bond” with a historically high initial rate of return of 7%. We expect that this rate will grow at 5-7% per year.

Sincerely yours



J. Henrik Muhle



Dr. Uwe Rathausky