SUMZERO

MANAGER Q&A

BUILDING AN ESG FRAMEWORK AROUND "QUIET INNOVATORS"

KB KEE, H.E.R.O. INNOVATORS

OCTOBER 2020

AVERY PAGAN, SUMZERO: *KB, thanks very much for joining us today! I'm excited to dig into the finer points of your ESG-centric investing framework but first off, I like to kick off these conversations with a bit of background. Tell us a bit about yourself and your career thus far on the buyside.*

KB KEE, H.E.R.O. INNOVATORS: Thank you very much, Avery, truly appreciative of the opportunity to share with you and the SumZero community about our H.E.R.O. investment framework. H.E.R.O. stands for "Honorable. Exponential. Resilient. Organization." - exceptional innovators and focused market leaders in their respective fields with unique, scalable, recurring-revenue and high-profitability business models delivering innovative products and services indispensable to our well-being in daily life and run by high-integrity, honorable and far-sighted entrepreneurs with a higher Purpose in solving high-value problems for their customers and society.

My decade-plus career - in the buyside from a boutique hedge fund to Korea's largest mutual fund firm to H.E.R.O. - has been assisted by two mentors whom I am very grateful for their valuable guidance and kind encouragement.

My first mentor is Mr. TAN Seng Hock, who is the founder of a Singapore-based boutique investment management firm specializing in Asian small- and mid-cap stocks using the tenets of fundamentals-based value investing, GARP-style. I started out my buyside career here in December 2001 as an intern analyst and then senior fund manager and head of research. I learnt a lot from Hock's philosophy of "Lion Entrepreneurs vs Hyena Businessman". Both Lion and Hyena possess survival skills to win in the stern strife of actual life, though Hyenas are short-term thinkers with an opportunistic mentality. The most important difference between a businessman and an entrepreneur is that a Hyena businessman can always make money for himself in opportunistic arbitrage dealings ("doing this can make money") but does not really care about the products or services or the customers he is serving, while a Lion Entrepreneur focuses on building an idea larger than himself or herself to serve others with a greater Purpose. The best way to preserve and grow capital in the long run is to identify honest, hardworking and farsighted Lion Entrepreneurs in whom to invest.

Another superhero is Professor LEONG Kwong Sin ("KS"), and he is the kindest and wisest teacher ever, like karate master Mr. Miyagi and Jedi Master Yoda of Star Wars. Prof KS Leong taught me the language of business – accounting - at the Singapore Management University where he was one of the key founding members who helped started and built the university, where the School of Accountancy is now ranked first in Asia and third in the world for Archival Research (All Topics), and second in the world for Archival Research in Financial Accounting. Above all, Prof Leong inspires his students to be critical thinkers and become a better person through his unique Socratic-style of teaching.

Later, I was fortunate to have the opportunity to teach at my alma mater for several years as a full-time faculty member at the School of Accountancy, where I pioneered the 15-week course and module on Detecting Accounting Fraud in Asia. I remained grateful to be invited by Singapore's top financial regulator, the Monetary Authority of Singapore (MAS), to present to their top management team about implementing a world's first fact-based forward-looking fraud detection framework to bring about benefits for the capital markets in Singapore and for the public and investment community.

As a fund manager and educator in the Asian capital jungles since 2002, I have witnessed a number of investors and friends who invest their hard-earned money in companies with financial numbers that look good, have lots of cash in the balance sheet that's audited by the Big Four, and have attractively cheap valuations, only to find them unravel into accounting frauds, in which financial numbers were propped up artificially to lure in more funds from investors, and the studiously assessed asset and cash had already been "tunneled out" or expropriated. This issue is compounded as western-based fraud detection tools and techniques have not been adapted to the Asian context to avoid these traps. It is disheartening to witness many fraud perpetrators go away scot-free and live a life of super luxury, on these unsuspecting minority investors' hard-earned money.

In response, I went on to develop a proprietary system to detect accounting fraud in Asia. This is now embedded in Step 1 of the four-step H.E.R.O. framework in the often-overlooked 'G' in ESG to eliminate the downside risks from accounting tunneling fraud and misgovernance which escape detection by western-based forensic tools. For instance, prevalent across Asian companies, previously Big-4 audited "cash" in the balance sheet are often misclassified "cash equivalents" disguised from improper short-term related party loans employed by the insiders to expropriate or tunnel out cash from the company after initially propping up financial numbers artificially to create false positive signals to lure in funds.

In this journey that's full of trials and tribulations, there have been also several kind and supportive heroes whom I would like to express my heartfelt thanks: John Mihaljevic, founder and chairman of MOI Global, and his brother Oliver; Dr. Hendrik Leber, founder and managing partner of ACATIS Investment Group; Professor Dr. Hermann Simon, founder of global strategy consulting firm Simon-Kucher & Partners; Mr. Hemant Amin, founder, CEO & CIO of single family office Asiamin Capital; François Badelon, founder and president of Amiral Gestion; and Mr. Benjamin Ng, founder & CIO of Whitefield Capital; Value Investing 3.0 supporters Mr. KC Ong and Michael Roukounakis; my business partner Keith Wong; as well as our institutional investor client whom we provide our research and consultancy.

SZ: *Did you always feel the need to orient your investing strategy more closely with social impact, even before the ESG landscape began to mature?*

KB: Our investment philosophy and strategy in H.E.R.O. is operationalized into a systematic 4-step investment process powered by sustainability & ESG principles to identify the winners, to distinguish between the true innovators and the swarming imitators, between the devoted missionaries forging a greater Purpose and the mercenaries. The central focus of our impact investing is on innovators who contribute to the UN SDG Goal 9: Industry, Innovation, and Infrastructure — "Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation".

Indeed, even before the ESG landscape became to mature, I have always been fascinated since my high school days when I picked up Robert Hagstrom's book The Warren Buffett Way by why and how even under the most difficult of conditions and environment, there exists a selected group of under-the-radar quiet innovators who remain resilient and continue to compound value across market cycles. Commerce is not merely about the measurement of the weight of profits collected in multiple clever transactions to build measurable wealth, fame and power, but rather it should be defined by the immeasurable integrity and virtue. Only in the endeavor to perform first for customers, and serve them with the highest possible integrity and character, can commerce find its foundation for durable business success and create society's abundance.

As inspired by my early investment career mentor, I have been trained since 2001 to identify what these H.E.R.O. Innovators have in common – they witnessed first-hand the problems that beset people who were underserved and wanted to build a business to provide useful products and services. They want to build and scale their businesses so that they can give more. Only when we have the desire to give, then can we want to persevere in building something meaningful. This urge to build in order to give is their True North to scale the business and they work obsessively to realize this vision.

Our H.E.R.O. is a fanatic with PQ (Purpose Quotient), remaining unwavering in her commitment to an idea larger than oneself in service of others, and OQ (Obsession Quotient), the focus, intensity, conscientiousness and discipline towards her craftsmanship. Not only do the H.E.R.O. innovators generate high profitability at the inflection point of their exponential growth trajectory, more importantly, they are governed by a greater purpose in their pursuit to contribute to the welfare of people and guided by an inner compass in choosing and focusing on what they are willing to struggle for and what pains they are willing to endure, in continuing to do their quiet inner innovation work, persevering day in and day out.

This ESG investment philosophy and approach is not for everyone. It's only for those who care about the kind of person you want to become through the work you build and invest in to serve our loved ones and the people we care deeply for and to be grounded in values. We aim to grow our clients' wealth by participating in the long-term growth journey of these H.E.R.O. Innovators while making a difference in the world.

SZ: *Bringing us into present day, you employ a unique set of heuristics to define your investable universe of equities. What does the H.E.R.O. framework entail and how did you conceive of this approach?*

KB: The H.E.R.O. investment strategies distinguish from those of other tech- and innovation-themed funds with its strategic focus on "quiet innovators" which present structurally mispriced opportunities and avoid overcrowded mis-opportunities that stem from the human tendencies to equate flashy popularity with excellence and have an active ratio of over 95% (vs the MSCI World Index).

The H.E.R.O. framework started with rethinking a few questions. Question No. 1: Can the megacap tech elephants still dance? Or is this the better question: Is there an alternative and better way to capture long-term investment returns created by disruptive forces and innovation without chasing the highly popular megacap tech stocks, or falling for the "Next-Big-Thing" trap in overpaying for "growth", or investing in the fads, me-too imitators, or even in seemingly cutting-edge technologies without the ability to monetize and generate recurring revenue with a sustainable and scalable business model? How can we distinguish between the true innovators and the swarming imitators?

Question No. 2: What if the "non-disruptive" group of reasonably decent quality companies with seemingly "cheap" valuations, a fertile hunting ground of value investors, all need to have their longer-term profitability and balance sheet asset value to be "reset" by deducting a substantial amount of deferred innovation-related expenses and investments every year, given that they are persistently behind the innovation cycle against the disruptors, just to stay "relevant" to survive and compete? Let's say this invisible expense and deferred liability in the balance sheet that need to be charged amount to 20 to 30% of the revenue (likely more!), its inexactitude is hidden; its wildness lurks and lies in wait. Would you still think that they are still "cheap" in valuation?

Consider the case of Kmart vs Walmart in 2000s and now traditional brick-and-mortar retailers vs Amazon. It is easy to forget that Kmart spent US$2 billion in 2000/01 in IT and uses the same supplier as Walmart – IBM. The tangible assets and investments are there in the balance sheet and valuations are "cheap". Yet Kmart failed to replicate to compound value the way it did for Walmart. The key word to garner sustainable valuation is "relevancy".

We now live in an exponential world where disruption is accelerating and value investing has evolved. The paradigm shift to avoid the cheap-gets-cheaper "value traps", to keep staying curious & humble, and to keep learning & adapting, has never been more critical for value investors. We believe there is a structural break in data in the market's multi-year appraisal (as opposed to "mean reversion" in valuation over a time period of 2-5 years) on the type of business models, the "exponential innovators", that can survive, compete and thrive in this challenging exponential world we now live in. Tech-focused innovators with non-linear exponential growth potential are the most relevant multi-year investment trend and opportunity.

H.E.R.O. stands for "Honorable. Exponential. Resilient. Organization.", a four-step investment methodology and framework to identify and invest in the structural growth winners in an exponential world:

H: Honorable, High-Integrity, Solves High-Value Problems
Step 1: Eliminate Accounting Fraud & Misgovernance Risks

H.E.R.O. Innovators are honorable and have high-integrity in the way they conduct both their business and life in solving high-value problems for their target customers and society with a powerful Purpose Quotient (PQ), committing with focus to a purpose larger than oneself to serve others.

- Treatment of minority shareholders in corporate governance matters, shareholder structure and business group structure
- Purpose Quotient (PQ), focus and sense of urgency to build something with a purpose and commit to an idea larger than themselves to serve others
- Discipline and prudent stewardship in handling growth, capital allocation, power and wealth
- Hunger level – whether they are hungry with a sense of purpose to innovate and create new categories of growth, or have become contented, conservative or complacent e.g. % of sales contribution from new products or services

E: Exponential
Step 2: Eliminate Cheap-Gets-Cheaper Value Traps who are vulnerable to disruption) in the business model quality

H.E.R.O. Innovators have exponential-like unique, scalable business model quality in its capacity & capabilities to generate and support structural growth. The proprietary "CATAPULT" framework of 4 exponential competitive edges is used to augment the Morningstar Economic Moat qualitative framework in business model quality analysis.

- Curiosity Exponential Edge: Does the company create curiosity and discovery amongst the users and customers for its products and services?
- Circumspection Exponential Edge: Does the company deliver or enable circumspection with insights, intelligence, tools and analytics to help the customers think better and make better decisions?
- Community Exponential Edge: Does the company build a community where members can connect and interact repeatedly with one another to forge long-term relationship Vs transactions-based exchange?
- Compellingness-Craftsmanship Exponential Edge: Does the company create and deliver products, services or solutions with compellingness and craftsmanship? Process IP, intangible know-how & system and mastery to bring about comfort, convenience, "pain-killing" mission-critical solutions to customers.

[**Economic Moat**: Coined by Warren Buffett in using the analogy of a defensive moat around the castle to depict the barrier-to-entries and competitive advantages of a company, and popularized by Morningstar, it is noteworthy that stocks are categorized into "moats" [(1) Network Effects, (2) Switching Costs, (3) Intangible Assets, (4) Efficient Scale, (5) Cost Advantage] after they are formed and more "obvious". This informs us less about the leading indicators and messy process, where the bulk of the value creation happens, that leads to the moat categorization.

CATAPULT: The catapult is used as an analogy to illustrate the attack-oriented sustainable competitive advantages of disruptive innovators overpowering the moats of legacy business models. CATAPULT is a framework going beyond economic moat to analyze business model quality with systematic observations and leading-indicator questions to ask in portfolio companies. Do you observe the CATAPULT in action in your portfolio companies? Is there an Exponential Edge in your portfolio companies? Can you identify which of the 4Cs in Exponential Edges that they command?]

R: Resilient

Step 3: Eliminate Businesses Who Are Not Resilient in Recessions or Economic Downturns

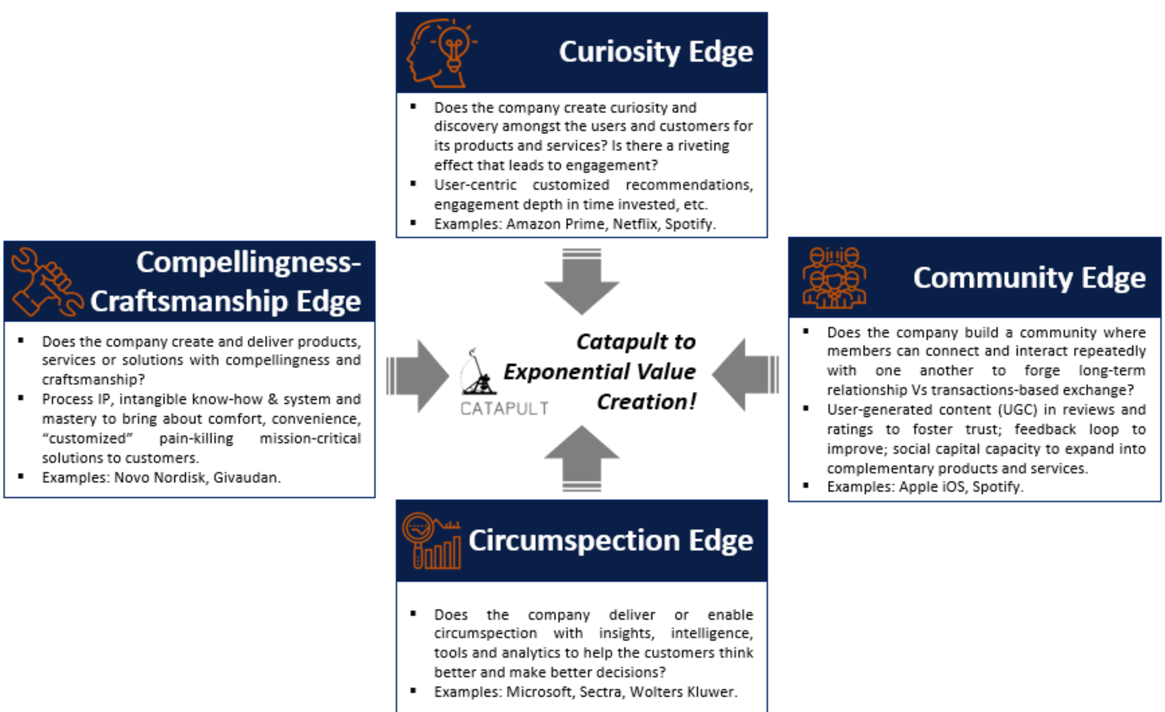
H.E.R.O Innovators have financial and business model resiliency to create, expand and service their total addressable market, including recurring revenue streams and balance sheet strength to maintain or grow profitability, pricing power and market positions through up/downturns in the economy.

- Financial Resiliency: Healthy Return on Equity (ROE), Return on Asset (ROA) & operating cashflow, Strong balance sheet with low gearing or net-cash, Pricing power with healthy working capital dynamics
- Business Model Resiliency: Resilient recurring revenue streams, Proprietary/ Unique offerings and solutions, Capabilities in design knowhow, manufacture of mission-critical and innovative products in multiple applications, Attractive position in the value chain/ ecosystem without being dependent on suppliers or customers, Not constrained by sticky super-variable cost overheads in scaling up e.g. "SG&A (Selling, General & Admin) Expenses as % of Sales" declining even as sales increase?

BEYOND ECONOMIC MOAT: CATAPULT ANALYSIS OF BUSINESS MODEL QUALITY WITH THE EXPONENTIAL EDGE OF 4Cs

Step 2: Exponential Capacity In Structural Growth & Business Model Quality to Eliminate Cheap-Gets-Cheaper Value Traps

H.E.R.O.
Honorable. Exponential. Resilient. Organization.
Invest in the Quiet Innovation Quest to Purpose



O: Organization

Step 4: Eliminate Organizational & Management Risks

H.E.R.O. Innovators build an enduring corporate culture of distinctive values, decentralization, trust and collaboration to foster innovations and to last the distance in producing enduring and perennial success to grow stronger with each passing day. Many businesses fail the acid test: Remove the founder and the business is not worth much. H.E.R.O. Innovators understand deeply that the Organization needs to be larger than any single leader in order for the firm to last the distance and find enduring and perennial success that grow stronger with each passing day.

- Corporate culture of decentralization, trust and cooperation to foster innovative experimentations.
- Treatment of human capital in the organization e.g. Employee & Management turnover, Growth in salary/ employee vs Growth in profit/ employee

In essence, our acid test of a H.E.R.O. is this: Would you be proud, fulfilled and happy if your children were to work in the company that you invest in?

SZ: *Beyond positive screening for social and environmental innovation, you have also developed a uniquely sensitive system for corporate governance - the often-overlooked 'G' in ESG. Can you explain your proprietary accounting fraud system and where traditional accounting forensics often fall short?*

KB: Accounting information can be used to inform – or to deceive. It is heartbreaking to watch investors being hurt when they step into accounting fraud and misgovernance pitfalls that are prevalent in the capital jungles. While the principles of value investing – to buy undervalued assets at a margin of safety – appears simple, its complexity lurks beneath in the actual practice.

For instance, screening for high net cash, or high net current asset, as a percentage of market value of the company might be the first step for many "Graham-style net-net value investors" to determine the attractiveness in valuation of certain stocks, so that the "asset liquidation value" acts as the floor to protect downside risk against further price declines, thus providing a "margin of safety" and call-option-like returns as mean-reversion works to realize returns over time for the patient value investor.

However, prevalent across Asian companies, previously Big-4 audited "cash" in the balance sheet are often misclassified "cash equivalents" disguised from improper short-term related party loans employed by the insiders to expropriate or tunnel out cash from the company after initially propping up financial numbers artificially to create false positive signals to lure in funds. They then unravel into accounting tunneling fraud with shocking "missing cash" when the previous studiously assessed cash or asset value had already been "tunneled out" or expropriated in money-go-round tunneling opportunities, usually via unusual related-party transactions which are often undisclosed.

The four categories of commonly-used tunneling methods used by actual insiders, manipulators and syndicates to expropriate corporate assets include: (1) Money-go-round intercorporate loans, guarantees, other receivables and investments, (2) Capex irregularities, (3) Deals potion, (4) Consolidation craftiness e.g. opportunistic shifting of operating expenses and debt liabilities into unconsolidated entities in which the listco has effective economic control and power to artificially inflate its own profit and balance sheet asset value.

H.E.R.O. applies a proprietary forward-looking fact-based accounting fraud detection system in eliminating the downside risks from accounting tunneling fraud and misgovernance which escape detection by western-based forensic tools. This fact-based forward-looking fraud detection system combines accounting data, especially footnotes, with a wide array of contextual information - including unusual related-party transactions; money-go-round off balance-sheet activities; governance, wider business group structure, consolidation accounting and ownership analysis; textual and linguistic analysis; analysis of event-based "catalysts" (information-based manipulation) and sensitive market announcements (action-based manipulation in prices and volume) - to provide fresh insights in equity valuation to inform our decision making in investments.

In essence, it's about unveiling whether what's lurking beneath the deceptively attractive financial ratios and valuation metrics is a hideous Picture of Dorian Gray with all the sins hidden.

SZ: *Who coined the concept of the "Innovation Stack" and how do you identify Innovation Stack companies in your research process? I'd love for you to walk us through a few examples. Tell us about how it fits into the H.E.R.O. framework, and how it has performed in the portfolio so far.*

KB: The "Innovation Stack" is coined by Jim McKelvey, co-founder of Square, who illuminated that it's one of the most powerful assets a company can possess. We cited his concept in our weekly newsletter that can also be found on our website www.heroinnovator.com. In his fascinating book "The Innovation Stack: Building an Unbeatable Business One Crazy Idea at a Time", McKelvey shares inspiring stories of Square's early days and reveals a pattern of ground-breaking strategies that was the key to success of Square and other world-changing companies. McKelvey calls the business model secret the Innovation Stack, a cascade of interlocking solutions that creates a massive advantage and value creation - business model strategies that have also forged the enduring and exponential growth trajectory of our quiet H.E.R.O. innovators.

Perhaps the most important factor in identifying and investing in Innovation Stack companies at an earlier or tipping point stage in their long-term growth trajectory path is McKelvey's insight about "squaring up" for the underserved. In McKelvey's own words, "Squaring up can spark a series of interlocking inventions called an Innovation Stack, one of the most powerful assets a company can possess. Building an Innovation Stack all begins by choosing to solve a problem that nobody has solved before. Squaring up, righting a wrong, or solving an unsolved problem forces you to be creative even if you don't want to be. That's OK. Oysters don't choose to make pearls."

There's a tendency for us to think that to be a disruptive innovator or to do anything grand, you have to have a special gift, be someone called for. We think ultimately what really matters is the resolve — to want to do it, bring the future forward by throwing yourself into it, to give your life to that which you consider important. Similarly, Innovation Stacking H.E.R.O. are ordinary people who champion extraordinary ideas that improve the world around us and move the world forward with their indispensable innovations. When we become curious about the dissatisfying defaults in our world, that awareness and emotional inner experience give us the impetus, courage and settled resolve to contemplate how we can change them when the odds are against us, overcoming the adversities, terrifying trials and crushing setbacks along the way. Innovation Stacking H.E.R.O. often consider themselves insurgents, waging war on behalf of an underserved customer, or creating an entirely new industry altogether. Innovation Stacking H.E.R.O. possess a clear sense of mission and focus in solving real-world problems with a greater purpose, which is one of the great and most undervalued secrets of enduring business success.

Consider the H.E.R.O. PQ story of **West Pharmaceutical Services (WST)**, which is up over 112% from its cost of US$129 per share since it was invested in March 2020 when the H.E.R.O. research methodology was provided and applied in March 2020.

West is the global #1 leader in components and devices (stoppers, seals, vials, syringes, cartridge components, injectors) for liquid injectable drug containers, including more than 70% global market share in stoppers, and in particular biologics, a segment growing faster than the drug industry and which it continues to gain market share. Over 112 million components and devices are manufactured at its 25 plants around the world every day, or 41 billion every year.

West's PQ story started in Philadelphia by Herman O. West and J.R. Wike in 1923. In the early 1930s, West was approached by Josiah Lilly to develop a package that could be punctured many times and yet maintain sterility within the container and not introduce any particulate contaminants. The concept of an elastomer septum held in place by an aluminum overseal was born and used by Lilly to package the first mass-produced insulin for diabetic patient use, along with life-saving antibiotics. The novel packaging system for injectable medicines became the core products that helped West build its reputation.

Few would have known that penicillin, discovered by Dr. Alexander Fleming, was able to become a lifesaving antibiotic because of West. Because of World War II, the U.S. government soon became the largest customer for penicillin, but to deliver it at the speed and in the quantity the government required, new packaging had to be developed. West and Owens-Illinois collaborated in a joint venture, with West providing the rubber stopper for the bottle. The packaging made it possible for the troops and, later, civilians to receive the new "wonder drug."

Under the leadership of CEO Eric Green, West moved up the value chain in expanding beyond containment devices and components into delivering innovative solutions. These include: (1) Advanced delivery systems for injectable drugs and healthcare products that enhance the safe delivery of drugs through advanced reconstitution, mixing, and transfer technologies; (2) Films, coatings, and washing and sterilization processes and services to enhance the quality of packaging components; (3) Drug containment solutions; and (4) A range of integrated services to simplify and speed up the journey from molecule to market, including analytical lab services, pre-approval primary packaging support and engineering development, regulatory expertise, and after-sales technical support. All of which drove faster revenue growth and higher profit margins and return on capital.

Notably, West plays a unique super critical role in the pandemic health crisis in supporting its customers that are developing potential solutions to address COVID-19 with components for diagnostics, antiviral therapeutics and vaccines. On West's exceptionally strong role in vaccine as the global number one leader in elastomeric primary packaging for injectable medicines, CEO Eric Green shares: "The reason why we have a very strong participation rate in vaccines is that one of the characteristics that is required is the coating on the elastomer. And the FluroTec technology is a market-leading technology. So we're feeling really good in that regard. When we start thinking about the criticality or the urgency to get these materials manufactured, it gives us the ability to flex our global operations. And as we're building 40-plus billion components a year, the demand on vaccines, while it's important and it's a good size, it's not going to be too much of a challenge considering we have multiple sites that can produce these products using FluroTec's technology."

CEO Green has also strengthened the culture to foster innovation and ESG (Ethics, Social & Governance) sustainability principles, and West's leadership has been recognized by Investor's Business Daily as 2019 Best ESG Companies, Newsweek's America's Most Responsible Companies 2020. 40% of WST's C-Suite executive team comprised of women or/and US minorities. On 21 May 2020, West marked another business milestone in joining the S&P 500 index.

Another H.E.R.O. PQ story is **Simulations Plus (SLP)**, the American global leader in simulations & modeling software for drug discovery & development.

This software innovator solves the high-value problem for scientists in major pharmaceutical, biotechnology, agrochemical, cosmetics, food industry companies and regulatory agencies worldwide in rapidly predicting the properties and outcome of certain key potential drug dynamics and compound properties using machine-learning-based prediction of properties of molecules solely from their structure, thereby reducing the risk of multi-million dollar clinical trial failures, and reducing the time to market of effective new medications and scientific solutions. Regulatory agencies in the US and Europe are using and promoting the use of predictive technologies in order to streamline the drug approval process, reduce R&D costs, and potentially eliminate late stage drug failures.

The company's software tools that enable clinicians to meet clinical trial endpoints could potentially save millions of dollars, as the prediction and data mining models can provide the researcher with a better understanding of drug reactions in the human body, enabling a more informed go/no-go decision, especially if a simulation software tool detects a failure prior to Phase III testing. 19 of the top 20 pharmaceutical companies, plus numerous mid- and small-sized companies, U.S. FDA and all major regulatory agencies, uses its software modeling & simulation technology.

The inspiring PQ story started with founders Mr. and Mrs. Walter Woltosz who were also the pioneering inventors of Words+, the first integrated communication system based on a personal computer that was created in 1981, which radically transformed the way that people with disabilities and ALS (amyotrophic lateral sclerosis) could communicate and speak to their families again, including Cambridge University's Professor Sir Stephen Hawking. Mr. Woltosz had created the system in response to an urgent personal need: his wife's mother was suffering from ALS.

With his aerospace engineering background, Mr. Woltosz pioneered and managed the development of software for the simulation and automatic design optimization of a wide range of solid propellant rocket motors and missile systems, and was involved in modeling the early Space Shuttles for NASA. Mr. Woltosz went on to create the first simulation and modeling software for pharmaceutical research.

SZ: *You cite the K-shaped pandemic recovery and worsening US-China relations as value drivers for the Nordic region. Can you help us understand these dynamics and what the continued global struggle with COVID-19 might mean for Developed and Emerging Markets as a strategy?*

KB: The gap between the "haves" and "have-nots" of the global economy has been magnified by the coronavirus, with emerging markets the losers in the K-shaped recovery whose divergence looks set to continue. The EM world is weighed down by rapidly rising debt with burdensome cost of servicing debt that could lead to some financial crises or major debt restructuring. Markets with higher GDP per capita have been better placed to rebound from the March sell-off due to more advanced technology and governance that have given them greater flexibility to respond to the pandemic. They have been able to limit the impact of lockdowns and social distancing, make larger fiscal responses, and are better equipped with the resources needed to curb the outbreak, such as hospitals, test centers and quarantine facilities.

This K-shaped divergence, coupled with the ever worsening U.S.-China relationship, points towards the new world order in the post-pandemic future that marks the ascent of the quiet Nordic powerhouse region – comprising of Sweden, Denmark, Norway, Finland and Iceland with a combined GDP of over US$1.6 trillion, combined population of around 27.3 million people, and the highest regional GDP per capita in the world at over US$62,000 – where they are a Winter War kind of country: innovation happens when things are tough, not when they're easy and comfortable.

Investors should prepare and position a winning portfolio for a post-pandemic world with innovators who thrive in stormy times and transform crises and trauma into opportunities for the future. The coronavirus crisis has helped accelerate innovation and enhanced the leadership of innovators. Market positions are not redistributed during sunny and calm times, but during times of crisis. The pandemic crisis has changed the behavior of both consumers and businesses. Companies offering faster, cheaper, more productive, more cost effective, more compelling and innovative products and services are gaining significant share.

Market leadership and resilient winners in stormy market environment and in the post-pandemic future will be much less about the overcrowded popular trades in mega-cap tech and loss-making tech/biotech, as defined by FAANGT-STAMP (U.S.: Facebook, Apple, Amazon, Netflix, Google, Tesla; Asia/China: SEA, Tencent, Alibaba, Meituan-Dianping, Pinduoduo), who also do not pay any dividends (with the exception of Apple and Tencent), and will be led more by highly-profitable quiet innovators, including dividend-yielding cloud Software-as-a-Service (SaaS) companies.

Consider the case of cloud software-as-a-service (SaaS) companies. Of the 90+ cloud software companies listed in the U.S., nearly all (>95%) do not pay any dividends, with many still looped in a negative free cashflow position. One such Nordic cloud SaaS H.E.R.O. innovator is **Admicom (ADMCM:FH)**, Finland's #1 market leader in specialized cloud-based ERP and accounting software solutions for construction, building services engineering and manufacturing SME companies.

The Purpose Quotient (PQ) story started with founder Mr. Halls. After completing middle school, Mr. Halls worked for His father's electrical contracting company before starting his studies as an electrical engineer. Curiosity led Mr. Halls to the first contact in the software industry in 1979 at an electrical contracting company he founded, and went on to develop its own ERP system.

The company was also the pioneer on the SaaS model, where the company faced limited competition in its target SME customer segments. The company has many partial competitors but it remains the only one to provide extensive industry-specific SaaS ERP solution in its target groups. As a pure SaaS innovator, the company does not suffer from the burden of licence based legacy software technology or business model, which is an important asset. The transition to the SaaS model is often painful and long to a software company due to requiring changes in the company's operating culture, customer and software provider processes, technology, product development and cash flows, among other things.

The company's R&D phase took as long as 6 years with a team of approximately 10 people. The company did not rush to set off to commercialise the product, but first developed it patiently with a few customer accounts to a sufficiently mature phase that facilitates strong scalability.

In 2010, Admicom's focus shifted from development to commercialisation, starting with a solution aimed at the special needs of building services SMEs, where the company quickly began to take over the market from previous generation software and solutions comprised of miscellaneous software products. Initially, the software was offered only to companies specialising in building technology, and it expanded to construction companies from 2013 onwards, and into industrial solutions in 2017. (Revenue: Construction 44%, Building Services Engineering 35%, Manufacturing 17%). The company's estimated market share is approximately 20% in building services engineering, 8% in construction and approximately 1% in manufacturing.

Admicom has over 20,000 active users of its cloud software with its unique project revenue recognition logic to boost operational efficiency by automating manual processes and complex integrations to produce real-time information and the right metrics for business management. Admicom provides an overall solution with very comprehensive features that provides the customer with all of the applications required for ERP without needing to integrate several systems or migrating data between systems. It can substitute up to dozens of customers' standalone systems. The system is also based on fully paperless administration, accounting and reporting.

These factors provide the operations of an SME with significant efficiency, which can actually completely eliminate the need for an office employees running administration, and the administrative workload of the management is significantly reduced. The system also extensively automates reporting to third parties, such as reporting to the tax authority pursuant to the construction industry obligation to provide information.

Bringing in a new software product that meets the industries' needs and is equally comprehensive would require long development work, which raises the bar of entering the segment. The bar is also set high for new foreign competitors, as in addition to a strong product, the Finnish industry specific ERP market requires a lot of localization and the market is relatively small on the global scale. In the SaaS based business model, individual markets are often "winner takes it all" markets, as the customers are continuously covered by up to date software and the threshold of replacing a continuously evolving software integrated into their own processes is high. competitors. Once the market is sufficiently strongly established, it is no longer interesting for an international competitor or developer of universal software to start investing in a product customised for an individual segment in the Finnish market.

In March 2020, the company had acquired 100% of a strategic local construction software company who is a pioneer in the development of cost accounting, scheduling, BIM and cost tracking solutions for more than 4,000 construction professionals in mostly mid- to large construction companies, thus complementing and expanding the company's market position and leadership. Functionalities included in the cloud ERP include quote calculation, production control, project management, access control, reporting, product data management, accounting, invoicing, project calculation, document management, and payroll administration. The software also features standard integrations into banking connections, reports to the authorities, e-invoicing operator, and construction supply price data interfaces. Following the acquisition, the solution also expanded into the areas of cost calculation, information modelling and scheduling.

The company is known for publishing its financial results as early as week 2 or even the first week of the period close. No Finnish listed company had previously reported its financial statements so early.

The company justified the announcement on the basis that, since it offers its customers real-time financial guidance, it must be able to set an example in this regard. Hence, the company has been able to announce the third-quarter and nine-month (Jan-Sep 2020) results on 2 Oct. The company considers the long-term commitment of the owners and the entrepreneurial motivation of the employees to be a secret to its success. Approximately 40% of the employees are shareholders in the company.

Admicom reported recently a set of resilient third quarter results and revised upwards its previously announced EBITDA target of 35–45% to 40%-47% for the current year with net sales growth for 2020 to be at least +37%, the highly-profitable and cashflow-generative SaaS innovator, with 90% of its revenue recurring.

SZ: *The Nordics also lead the way in environmental technology solutions and green infrastructure. Who are some of these companies and how will they contribute to the EU's green economic recovery?*

KB: One such ESG leader is Finland's **Vaisala (VAIAS:FH)**. Vaisala is the global #1 technology leader in weather, environmental, and industrial measurement. As our world faces pressing societal and environmental challenges, it's more important than ever to base decisions on accurate, reliable data. Climate change and severe weather events drive the need for continued replacement and enhancement of weather observation and forecasting capabilities. In industrial measurements, increasing focus on energy and operations efficiency as well as increasing regulations and requirements for high quality and security drive need for high end industrial instruments and systems.

Vaisala has the largest product portfolio based on proprietary leading technologies in environmental and industrial sensing with most accurate and reliable instruments, algorithms, and software in measurement sensors and instruments, systems, software, digital solutions and services for measuring weather, environment and industrial conditions and processes. Building on over 80 years of experience, Vaisala's comprehensive range of innovative observation and measurement products and services provide its customers with the means to influence and better understand their environment, and to enhance safety, efficiency, and decision making – enabling its customers to find answers, remove doubt and make smarter decisions, and making an impact on the lives of millions of people all around the world.

Customers all over the world and in a multitude of industries use Vaisala's measurement solutions. Everywhere from forecasting weather, to staying ahead of power outages or monitoring incubators for premature children in hospitals, to helping industrial customers from semiconductor factories, life science to high-rise buildings, HVAC to reliably measure and monitor ambient conditions and minimize energy consumption for successful operations, you can find Vaisala's premium measurement solutions in action. On 18 Aug 2020, Vaisala announced that Vaisala Digital is delivering real-time, comprehensive weather data and driving conditions from in-vehicle infotainment systems to new Hyundai Motor Company vehicles.

Renewable energy is one of the many areas Vaisala contribute to the EU's green economic recovery plan. Vaisala's measurement technologies help developers and owners to get more out of their wind power plants. With the help of reliable measurements, its customers can select the optimal site for their wind parks, for example, as well as monitor, predict, and plan operations. Vaisala's devices can also be utilized to optimize hydroelectric power plants. Vaisala's measurement solution for the biogas process optimization enables customers to generate more value from waste by decreasing production costs and increasing the efficiency of the biogas plant. Vaisala's products also support the hydrogen economy, helping optimize the performance of fuel cells.

Vaisala's PQ origins date back to 1930s when Professor Vilho Väisälä (1889-1969), Vaisala's founder and long-time managing director, invented some of the operating principles of a radiosonde. In 1931, Professor Vilho Väisälä found a fallen Russian radiosonde. He admired its idea to use radio technology to retrieve observation results but, an innovator at heart, wanted to improve it to his quality standards.

The company was established in 1936 in Finland, and the first radiosondes were manufactured in the basement of a residential building in the center of Helsinki. Väisälä finalized his famous innovation in 1936, founded Vaisala, and sold the first radiosonde pieces to Massachusetts Institute of Technology (MIT). As the Vaisala radiosonde became internationally renowned, the demand for them increased. A new global technology pioneer was born. From a modest start, the company evolved to become a world leader in many measurement fields. Today Vaisala exports 98% of its production to over 150 countries.

Curiosity, the desire to meet challenges and an extraordinary ability to innovate are at Vaisala's core, both past and present and Vaisala strives towards its mission of "Observations for a Better World.".

SZ: *Can you share your favorite case study in Japan and how it serves the broader Quiet Innovators mandate?*

KB: One uplifting story in our portfolio companies is **MonotaRO (3064:JP) モノタロウ**, Japan's largest B2B e-commerce platform in MRO (maintenance, repair & operations) items that is also majority owned by WW Grainger (GWW). On 24 September 2020, MonotaRO announced the acquisition of the e-commerce business (IndustryBuying.com) of an Indian company which will become its consolidated subsidiary, and that it aims to efficiently expand its business in India.

Before MonotaRO entered into the business in 2000, SME customers are not treated well by conventional MRO suppliers who provide unclear prices, limited product availability, uncertain time delivery of much-needed items. Customers must spend a lot of time selecting products, comparing estimated prices, placing orders. The inspiring H.E.R.O. PQ story started when the founding team at the company wanted to solve the high-value problem by moving upstream in empowering the SMEs with search technology to serve under-served customers who are not treated well by conventional retailers and dealers. Today, the e-commerce platform leader handles over 15 million MRO items and is used by over 2.8 million cost and time-conscious loyal members making regular purchases who are mostly SMEs in the manufacturing, automobile maintenance and construction industries. Private label products contribute over 20% of sales. The company still has a large fragmented domestic total addressable market in indirect materials purchase of 5 to 10 trillion yen to keep serving and growing.

CEO Masaya Suzuki shared on the company's PQ: "Our logo is like the Momotaro in Japanese folk tale. Like Momotaro, we fight against unfair – the old distribution system. Our Purpose is to help under-served customers who are not treated well by conventional retailers and dealers." [Momotarō (桃太郎, "Peach Boy") is a popular hero of Japanese folklore and one of the most famous characters in Japan as an ideal model for young kids for his kind-heartedness, bravery, power, and care for his parents.]

CEO Suzuki added: "The essence of the Internet is 'search'. Searching is an act of finding information. Direct materials such as materials mainly dealt with by trading companies are the raw materials such as plastics used for frames and the glass of lenses, taking the manufacture of eyeglasses as an example. As mass production begins, these materials will be purchased in large quantities from a small number of suppliers. As a result, knowledge about direct materials is accumulated quickly enough, and search becomes unnecessary. On the other hand, examples of indirect materials of glasses manufacturing are glass abrasives, tools used in factories and safety supplies, stationery used in offices, and so on. Although it is indispensable for continuing the business, the purchase frequency is irregular, and annual purchase volume is limited. However, people who work in the field must spend a lot of time selecting products, comparing estimated prices, placing orders, and so on. Therefore, the thought of the utilization of the Internet. We felt that there would be a big need for a system that could enhance the search function and efficiently purchase indirect materials. And in order to realize this idea, we started the company in Osaka in October 2000."

"In the case of B2B, the business contents and requirements of each customer, or the material required depending on the work, is different, and unlike B2C, the variation of the necessary materials and their quantity amount is very large. The number of items is large in proportion to the small amount, and the suppliers are different for each product classification, so purchasing is troublesome. Also, it is cheaper for large companies who are bulk buyers, and relatively higher for small businesses. Delivery to SMEs is often postponed and takes days. We took notice here. Price is one price regardless of order size. You can order easily with net or fax, and deliver it quickly from 1 screw Normally, in order to find out the requirements, the salesman confirmed the customer's needs and made individual estimates, but if it takes time to negotiate one dollar or two dollar price for a single item, the opportunity will be gone. If it is the Internet, it can be sold more efficiently with a one stop shop."

CEO Suzuki also shared the interesting insight about how they get stronger over time, particularly in "longtail products": "As the number of customers increased, a phenomenon was born. Longtail products that we rarely sold till now can be sold little by little. If it is found that it can sell at a certain frequency, it will be prepared as inventory next time. It takes a few days for orders, but you can ship immediately if it is an inventory item. The lead time will change from 3 days later to the same day. And sales of that product will typically increase by 50% within two months. For customers, delivery is an important factor more than anything else. Because online prices are easy to compare, the 'lowest price' is likely to attract attention. However, we are not necessarily aimed at the lowest price. We will never make a profit if we aim only at the low price. It is our company's way of appealing to the sense of security that the goods will arrive the next day with abundant inventory than just a cheap price."

MonotaRO's exponential edge is in its expertise in using sophisticated data analytics to understand customer buying behaviors which help drive its growth. After a customer has identified a product for purchase, data analytics can introduce a private label or lower priced option. Eventually, repeat customers are offered complementary products based on aggregated purchase behaviors. CEO Suzuki commented: "There is a reason for continued good performance so far. Database marketing is one of the biggest factors supporting strong performance. Through data mining from the user's purchase history and browsing history and analyzing them, the analysis result is reflected in the search algorithm which enhances the search accuracy so that the product can be presented effectively from the range of over 15 million items. We are also doing effective recommendation such as 'The person who bought the item A is also likely to buy item B. Analysis results are reflected not only in search algorithms, but also in mail magazine distribution and catalog layout, customer listing to ship, increasing the purchase rate."

"We are trying to personalize the site by personalizing the behavior of each user and by incorporating it into the program. We build a one-to-one relationship with the customer so that each product desired by the customer is appropriately shown. Because our business is B2B, your first priority is a more precise time than price. You can search for what you want in a short time, you can purchase immediately, and your 'one stop' purchase arrives quickly. This allows customers to spend time on their original work. This is the reason why it is supported by over 2.8 million customers. Functional development and data analysis are extremely important for that, so I can buy things I am looking for. For our advanced one-to-one marketing, we look into Network-Detection Technologies to find customer communities that share common purchasing patterns and to detect self-forming product sets to market to those communities. We use predictive modeling to assign new customers to communities. We accelerate customer growth by promoting products that more mature customers in their respective communities have bought. For our campaign management, we report effectiveness of each campaign against control groups to allow finer and effective promotions."

SZ: *I have spent time studying China's growing food crisis due to a shortage of arable land, chemical run-off, dietary changes, and population growth. Angel Yeast represents an innovative solution to food security in China - what are the advantages of dry yeast technology and how is Angel Yeast investing in its production chain to serve global demand beyond China?*

KB: That's a really interesting insight on China's growing food crisis, Avery! **Angel Yeast (600298:CH)** 安琪酵母is China's #1 yeast producer with dominant market leadership of over 55% share with pricing power, and is the global #3 leader competing with France's Lesaffre, AB Mauri of Associated British Foods (ABF), DSM, Novozymes and DuPont's Danisco. The market share of Lesaffre and AB Mauri in China is around 20% and 11% respectively, and their production capacity and supply chain have been impacted and disrupted by the COVID-19 situation, which is worsened by their usage of fresh yeast.

Angel Yeast is also the market leader with the largest market share in at least 15 countries such as India and Brazil while achieving a brand premium with prices 5% to 15% higher than its peers. Compared with fresh yeast, Angel mainly uses dry yeast, which has the advantage of quality preservation and easy storage. The impact of the epidemic on logistics and distribution also highlighted the advantages of dry yeast products.

Yeast is the only microbiological food in the food classification system, and is almost the only natural food integrating rich high-quality protein and a complete range of B vitamins in the current nature. The yeast product is widely used in food bakery, food flavouring, brewing, microbial fermentation, bioenergy, animal nutrition, human health nutrition, cosmetics, medicine and other industries. Yeast, Yeast Extract (YE) and Yeast-Derivatives (YD) products are high-tech products requiring biotechnology, fermentation engineering and enzyme engineering capabilities.

Angel Yeast remains the only Asian player to break the America-Europe monopoly in yeast production. Yeast extract (YE) is a natural umami agent that can replace MSG, and Angel commands a 70-80% domestic market share and is also global #1 in production capacity. From the perspective of developed countries such as Japan and South Korea, YE occupies about 35% of the condiment market, while China's YE accounts for less than 5%. Angel Yeast estimates that the domestic YE market still has at least 5X room for growth. In China, yeast derivatives (YD) demand in healthcare products, animal nutrition, microbial nutrition, environmentally friendly fertilizers and other industries are still in the growth stage.

In 2019, Angel Yeast has a production capacity of 258,000 tons (+8.9% yoy) out of a global production of ~1.2 million tons and YE production capacity of 78,000 tons. In overseas markets, Angel has a production capacity of about 55,000 tons in Egypt and Russia. Egypt is the hometown of wheat. A variety of wheat-based foods have a wide demand for yeast. Russia is also a big consumer of bread. Angel Yeast announced in May 2020 that it will be building a 25,000 tons yeast production line in two phases in Yunnan with a capex investment of CNY 540 million, to be completed and put into operation before June 2022. Angel Yeast still has 12,000 tons of second-phase project under construction in Russia.

Angel Yeast has a very strong track record in solving high-value problems for its B2B customers and winning their long-term loyalty. For instance, in 2000, Angel Yeast invented the super brewer's yeast, which effectively solved the problems of low wine production rate and high energy consumption of wine companies. This product was also exported to developed countries such as the United States. In response to the problems of frequent diseases and prominent food safety in the aquaculture industry, Angel took the lead in launching "yeast-derived feed" and improved the quality of animal products, and promoted food safety. Angel also launched microbial nutrition products such as yeast peptone, yeast extract, which shaped the competitiveness of many application fields. Around 2014, Angel Yeast encountered difficulties in sales in the Middle East. Market research found that due to the high average daily temperature, locals use cold water or ice water to make bread, which resulted in yeasts to ferment slowly. Angel developed ice-resistant yeast and soon opened the market in the Middle East. As Angel Yeast's founder Yu Xuefeng 俞学锋 shared: "To be an international brand, you cannot simply sell Chinese products, you must adapt to the local market."

With Angel's growing market leadership and dominance, most of Angel's competitors in China have lost the incentive to expand production capacity despite steady growing demand, because Angel has established a long-term cooperative relationship with its B2C customers to ensure that the future production increase are absorbed, resulting in a strong foundation of recurring cashflow, higher profitability with increasing economies of scale, and disciplined low-risk capex expansion roadmap. As the industry leader, Angel Yeast will further consolidate its market position by virtue of scale, brand, technology, and channel advantages. Industrial demand is resilient and strong, with strong stable demands from key customers such as packaged bread leader Toly Bread (603866:CH) and condiment king in soy sauce, oyster sauce and bean paste Foshan Haitian (603288:CH).

In 2018, China's per capita consumption of baked goods was 7.4kg, compared to Germany (9.3 times more), the United States (7.6 times), Japan (7 times), and Singapore (2.6 times). With the gradual westernization of the diet structure and the advancement of the urbanization rate, China's baked goods will gradually penetrate into the third and fourth tier markets, and the consumer group will gradually expand, and the demand for yeast has greater room for development. Domestic household baking demand is strong, and Angel's small package yeast revenue has increased significantly, and the ex-factory price has increased by about 20% in 2020.

During the epidemic, domestic household baking demand was strong, and small package yeast revenue increased substantially. The outbreak of COVID also led to increased demand for immune-promoting dietary supplement products worldwide. As a popular dietary supplement for boosting immune function, yeast beta-glucan has also gotten an explosive increase in demand. After the epidemic is over, yeast consumption habits are expected to be retained, and B2C revenue is expected to continue to grow rapidly. Angel is vigorously developing its online channel, which accounted for 35% of sales in FY2019, +61.6% yoy.

The H.E.R.O. PQ story of Angel Yeast started in 1986 when the company was founded by Yu Xuefeng who was 32 years old then. In the early entrepreneurial period, Angel Yeast focused on a market that foreign giants ignore: the traditional Chinese staple food in steamed buns. In a product demonstration in 1989 at the Wangfujing Department Store in Beijing, when the unique fragrance of yeast-produced steam buns permeated the entire floor, consumers, duty managers, and sales staff were conquered.

Founder Yu likens yeast to "an outstanding pastry master, an excellent winemaker, a talented foodie, a professional bio-fermentation expert, and a magical nutrition master".

For thousands of years, Chinese have used the "old flour method" to make steamed buns. "If you still use the traditional method, my thousands of steamed bun chains will not be able to do it at all!", according to Liu Huiping, the founder of Shanghai's famous brand Barbie Bun.

With the yeast fermentation method, steamed bun production is fast, simple, hygienic and standardized, and now there are large and small steamed bun shops from urban to rural areas, and It even gave birth to a large number of well-known chain brands in China, such as Shanghai Barbie, Laotaimen, Xiamen Wurun, which makes the annual output value of the entire steamed bun industry exceed CNY 300 billion, and provides employment for millions of steamed bun chefs across the country. Angel Yeast also solved the problem for dough sticks to be crisp and delicious, leading to the industrialization and revolution of many traditional Chinese staple food. Angel also introduced the "frozen pastry technology", which can realize the centralized production for bun shops, reducing labor and store costs.

SZ: *What is the most misunderstood element of ESG investing and why do you think some investors shy away from strategies that market themselves this way?*

KB: ESG investing has evolved from the rudimentary negative-screening to an emphasis on positive ESG criteria in that responsible companies that "do good" should "do well". Critics of ESG investing have lambasted proponents as clever fund marketers merely "sounding good" but are actually: (1) hiding behind the heavy tilt towards Big Tech with concentration in the same popular names, including and especially in megacap tech firms facing regulatory techlash for ESG shortcomings in privacy practices, and spreading of hate, violence, propaganda, and misinformation. The overcrowding in Big Tech is especially pertinent in a trading environment where funds pursue similar strategy resulting in correlated performance and destructive destabilizing price impact in deleveraging situations; as well as (2) succumbing to greenwashing, where firms claim to be addressing ESG issues without evidence to back it up. And there have been revelations following the scandals of Wirecard and fast-fashion retailer Boohoo who had positive ESG ratings and were widely held by prominent ESG-focused funds.

The S in ESG has been easily dismissed and overlooked since it covers a wide range of topics ranging from how companies treat their employees and customers, data security, and product safety to income and racial inequality, and these soft factors are less easily quantifiable unlike the E in ESG in which environmental-related data such as carbon emissions can be "measured". However, expanding the S to include a long laundry list of criteria to tick the boxes is unlikely to prove helpful in search of the true sustainable winners.

We believe in cutting through the noise in our impact investing approach with a central focus on quiet innovators who contribute to the UN SDG Goal 9: Industry, Innovation, and Infrastructure — "Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation". We aim to penetrate into the deeper order that whispers beneath the surface of innovations and to stand on the firmer ground of experience hard won through hearing and distilling the essence of the stories of our H.E.R.O. in overcoming their struggles and in understanding the origin of their quiet life of purpose.

The Purpose Quotient (PQ), in Step 1 of the H.E.R.O. framework to determine the Honorable, High-Integrity and far-sighted entrepreneurs with a higher Purpose in solving high-value problems for their customers and society, is the heart and soul of ESG that unites the customers, employees, investors and community together with a sense of mission towards one cohesive future where they were in a position to help something truly important live and thrive. No PQ detected in the company? It's most likely another superficial greenwashing masquerader producing ESG disclosures and reports to try to please investors to part with their capital. In essence, it's about finding the PQ, if any, and its origin story, and determining whether the heart of PQ is still beating vigorously in the organization to foster continuous innovation.

This is also what our logo stands for. Our logo, depicting the Vitruvian Man created by Leonardo da Vinci, symbolizes the innovator's quiet quest in the multidisciplinary approach in combining science, art, technology, humanities, passionate curiosity, careful observation, and imagination as the enduring recipe for infinite creativity and perennial success. The square represents science and innovation; the circle represents humanitarian service; and the triangle represents the art and practice of value investing in an innovation era and exponential world, having an eye to capture pattern and symmetry. Conjoining components of both geometric figures in the H.E.R.O. Innovator & Value 3.0 Investor is the center of the scientific square as the apex (the how), and the circle of humanitarian service as the base and foundation (the Big Why & Greater Purpose larger than oneself). The harmonious proportional relationship and equilibrium of elements ensures a stable and everlasting structure and health.

The innovators who pursue their vision have had to endure something difficult, something trying. As we walk our path to fulfil our purpose, we will inevitably have disappointments that knock us down. However difficult, being able to see what is ahead unleashes the ability to persevere and prevail.

When asked for his secret, Leonardo da Vinci would characteristically respond with the phrase he conceived and adopted as his personal motto: Sapere vedere. The phrase combines the Latin "sapere", which means knowing how, and "vedere", which means to see. Sapere vedere is knowing how to see. People with sapere vedere look forward as well as inward; they are capable of believing and seeing what others don't. Knowing how to see, is crucial to living a life of significance.

And Purpose is an all-important ingredient for sapere vedere. Once we know our Purpose, we become pathfinders. Knowing what we want to do dictates where we go and where we put our focus. Our path is the way we travel. Our vision is where we travel. Our Purpose is why we travel. Da Vinci said, "May your work be in keeping with your Purpose." The philosophy places the emphasis on ongoing and enduring contribution.

SZ: *Reports on the rise of impact investing often refer to the generational wealth transfer - $21T changing hands over the next 25 years - as a key catalyst. Why do you believe this generation of asset owners care more deeply about purpose-driven investment?*

KB: The happily-retired former CEO of the multi-billion family office of Tetra Pak, Mr. Beat Burkhardt, once shared with me in a meaningful conversation that we have had about why next-generation asset owners should care deeply about purpose-driven investment. I had earlier conversed with Mr. Burkhardt about how I was using the case of Tetra Pak to illustrate management accounting concepts in long-term capital allocation to my students when I was teaching accounting at the Singapore Management University (SMU). I commented that it is truly inspiring that the Rausing family had to support the company during ten years of red ink as they revolutionized packaging. Then, once Tetra became profitable, they ploughed back all their profits back into the business. The scale and constancy of these investments signal the commitment to discourage imitators and make it tough for competitors to catch them off-guard.

Mr. Burkhardt shared with me that Ruben Rausing, the Swedish industrialist and founder of the multinational F&B packaging giant, had his PQ infused into his life's mission when he had seen self-service stores in New York where he was studying at the beginning of the 1920s, unheard of in Europe at the time, and realized that pre-packaging was part of the future in food retailing as a more hygienic and practical way of distributing staple groceries. At the time, these were sold over the counter in cumbersome glass bottles or impractical paper wraps in his home country and most European countries.

Ruben Rausing was deeply affected in witnessing plenty of food and beverage spoilages quickly after a few days, and it was a period when social hygiene and malnutrition afflicted the nation after the mortality peak caused by the Spanish Influenza pandemic of 1918-1920, and he was emotionally charged and determined to find a solution to improve the lives and nutritional health of the people. The idea of constructing a tetrahedron-shaped package out of a tube of paper came up in 1944. The rest of the 1940s were spent developing viable packaging materials and solving the technical problems of filling, sealing, and distribution. The new packaging system was not an immediate success and the company had difficulties throughout the 1950s. Tetra Pak's commercial break-through did not arrive until the mid-60s with the development of Aseptic technology.

Tetra Pak's H.E.R.O. PQ story embodies the best of patient sacrifice and stable capital for longer-term profound purpose-driven investments in business and people, with relentless pursuit of excellence in perfecting its offering, institutionalizing its craftsmanship and codifying the knowledge to pass from one generation to another.

Reuben Rausing is an inspiring H.E.R.O. for next-generation asset owners.

SZ: *Lastly, what lies ahead for the H.E.R.O.? Are there specific growth milestones you are striving for in 2020 and beyond?*

KB: The H.E.R.O. framework, research methodology and selected companies are currently provided to our clients. We envision the business model of H.E.R.O. akin to **Givaudan (GIVN:SW)**, **Barry Callebaut (BARN:SW)**, and **MIPS (MIPS:SS)**; they are the quiet innovators and brand behind the brands.

Givaudan is global #1 leader behind perfumes and flavors of the highest quality for over 125 years, innovating and inspiring trends in scent and taste. Dior, Saint Laurent, and Prada turned to Givaudan to create J'adore, Opium, Infusion d'iris, and more. Since the very first Magnum ice cream back in 1989, Barry Callebaut & Magnum's owner Unilever have been crafting unique chocolate creations together, and Barry Callebaut is the world's leading manufacturer and recipe co-owner/owner of high-quality chocolate and cocoa products for brands such as Magnum and many more. MIPS is the pioneering inventor and #1 global leader specializing in helmet-based rotational motion protection safety and brain protection system (BPS). Like "Intel Inside", the over 14.2 million helmets that are equipped with MIPS BPS always display the yellow MIPS logo on the outside of the helmets according to the MIPS licensing agreement that stipulates a very visible and consistent branding.

H.E.R.O. is the unique fragrance & flavor and protection technology for institutional investors, family offices, business & asset owners who want to grow your wealth by participating in the long-term growth journey of these H.E.R.O. Innovators while making a difference in the world. We aim to expand the H.E.R.O. framework and methodology to design, develop and implement fund products and bespoke investment solutions with distinctive investment strategies in consultation with our clients' needs and aspirations. Some of these unique equities strategies that we have in our mid- to longer-term pipeline include: Global MedTech H.E.R.O., Global SaaS H.E.R.O., Global PropertyTech H.E.R.O., and the Global Pathfinders Growth H.E.R.O. We seek and welcome business partners and investors to connect with us and collaborate to grow together.

ABOUT THE MANAGER

Koon Boon ("KB") Kee is the founder and CEO of HERO and the creator & thought leader of the investment & business management philosophy and framework H.E.R.O.

KB is an internationally featured investor rooted in the principles of value investing for over a decade as a fund manager and analyst in the Asian capital markets who started his career at a boutique hedge fund in Singapore where he was with the firm since 2002 and was also part of the core investment committee in significantly outperforming the index in the 10-year-plus-old flagship Asian equity fund.

He was also the portfolio manager for Asia-Pacific equities at Korea's largest mutual fund company, and the Chief Investment Officer & CEO of a Singapore Registered Fund Management Company (RFMC) where he is responsible for listed Asian equity investments. KB had taught accounting at the Singapore Management University (SMU) as a full-time faculty member and also pioneered the 15-week course on Detecting Accounting Fraud in Asia as an official module at SMU.

KB remains grateful to be invited by Singapore's financial regulator Monetary Authority of Singapore (MAS) to present to their top management team about implementing a world's first fact-based forward-looking fraud detection framework to bring about benefits for the capital markets in Singapore and for the public and investment community.

ABOUT H.E.R.O. INNOVATORS

HERO Investment Management is an independent investment research organization, and the creator & thought leader of the investment & business management philosophy and framework H.E.R.O., which stands for "Honorable. Exponential. Resilient. Organization."

The H.E.R.O. framework, methodology and strategy are powering equity portfolio asset for our institutional client. H.E.R.O. is operationalized into a systematic 4-step investment process and investment framework powered by sustainability & ESG principles, with in-depth research, ratings and analysis to identify and invest in global structural growth innovators, especially ferreting out exceptional, under-the-radar, resilient market leaders who are governed by a greater purpose larger than oneself in their pursuit to contribute to the welfare of people and in solving high-value problems for their target customers and society.

ABOUT SUMZERO

SumZero is the world's largest community of investment professionals working with the industry's most prominent hedge funds, mutual funds and private equity funds. With more than 16,000 pre-screened professionals collaborating on a fully transparent platform, SumZero provides direct access to thousands of proprietary investment reports every year and fosters on-going communication within the network.

The research on SumZero cuts through the noise that pervades the industry and provides its community with in-depth, actionable investment research and data. SumZero offers several ancillary services in support of our research platform. These services include capital introduction, buy-side career placement, media placement and more.

ABOUT CAP INTRO

SumZero Cap Intro is a passive, reverse-solicitation platform that connects eligible funds with pre-qualified institutional LPs for the mutual purpose of capital allocation. Cap Intro is available on an opt-in basis to all hedge funds, private equity funds, and other asset managers that are actively fundraising.

Using Cap Intro, fund managers leverage direct exposure to a community of more than 700 pre-vetted allocators by presenting their strategy and performance via a self-curated fund profile. In turn, allocators use these profiles to discover, screen, and initiate direct conversations with funds. Since 2014, Cap Intro has catalyzed hundreds of inbound inquiries to funds from accredited institutional investors.