



For Professionals Only*



What is “Value Investing”

November 2016

* Investing for their own account – according to MiFID definition.

Buying unpopular stocks regardless of fundamental valuation gets you nowhere...

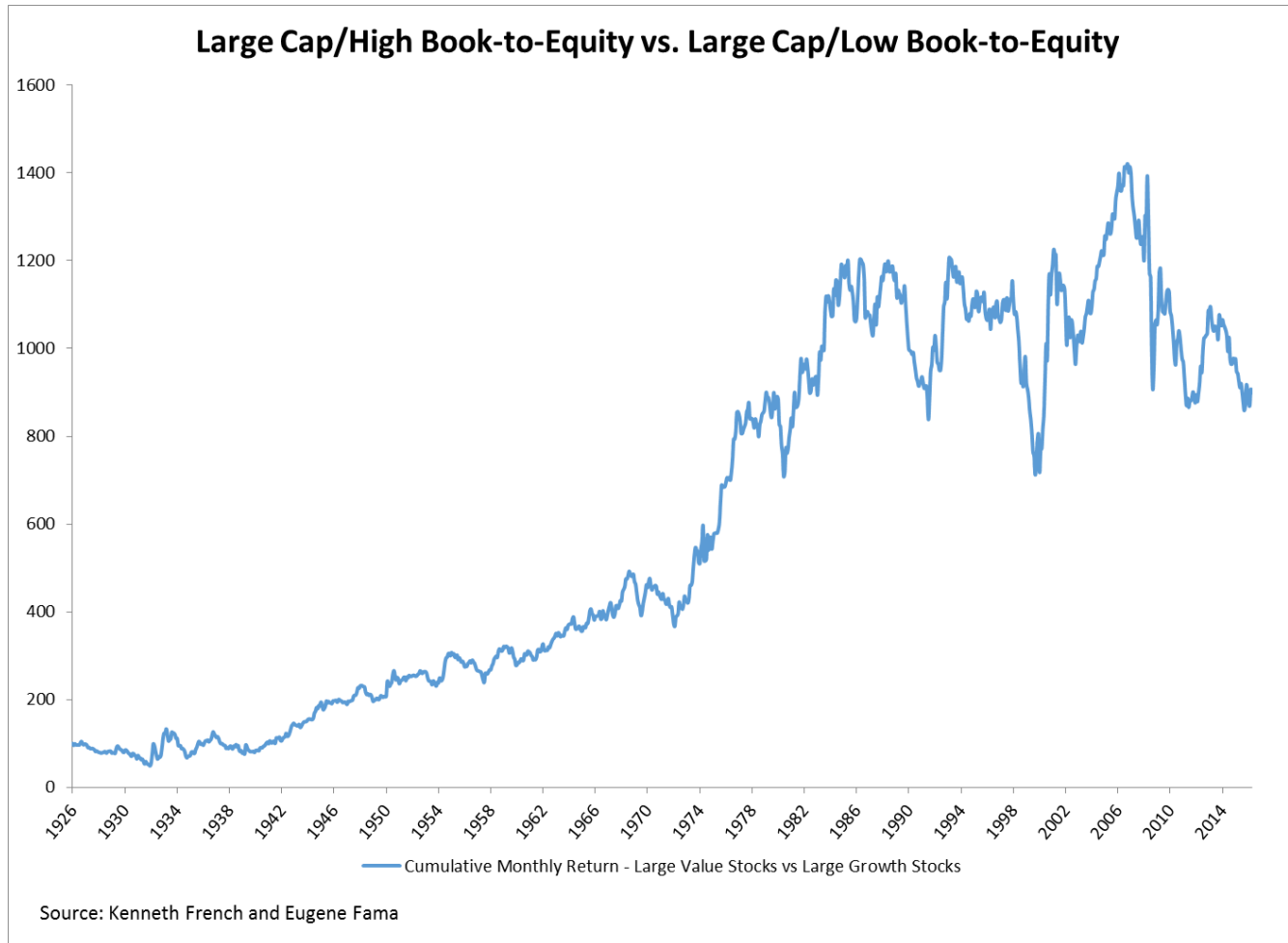
Low Alpha Stocks vs. High Alpha Stocks in the S&P 500



Source: Ned Davis Research, S&P Dow Jones Indices, Eagle Asset Management

Source: Eagle Asset Management, Inc. Date: 30.09.2016

...whereas buying stocks that are inexpensive based on fundamental valuation principles wins in the long run.



Source: Eagle Asset Management, Inc. Date: 30.09.2016

What is Value Investing?

- Value investing is an investment strategy where stocks are selected that trade for less than their intrinsic values.
- Value investors seek stocks they believe the market has undervalued.
- Value investors believe the market overreacts to good and bad news, resulting in stock price movements that do not correspond with a company's long-term fundamentals.
- These temporary dislocations provide attractive opportunities for value investors to profit when the price is deflated.

Source: Eagle Asset Management, Inc. Date: 30.09.2016

Identifying Value Stocks

True value opportunities are found in stocks that are under-valued for poor reasons:

- Bad news or a bad event has been improperly estimated
- Earnings or cash flow growth is being under-estimated
- A company's management or industry is out of favor
- Investors are currently sheltering in growth oriented stocks

Source: Eagle Asset Management, Inc. Date: 30.09.2016

Virtues of Value Investing

Why do Value stocks out-perform over time?

- Investing is a mixture of Art and Science
- The Art side is driven by human behavior
- Investors assume current trends will continue into the future
- Investors over-estimate the sustainability of a competitive advantage
- Investors under-estimate the likelihood of a trend reversal

Source: Eagle Asset Management, Inc. Date: 30.09.2016

Dangers of Value Investing

What is a “Value Trap”?

- A value trap is a stock that appears to be cheap because the stock has been trading at low multiples of earnings, cash flow or book value for an extended time period.
- Stock traps attract investors who are looking for a bargain because these stocks are inexpensive.
- The “trap” springs when investors buy into the company at low prices and the stock never improves.
- Trading that occurs at low multiples of earnings, cash flow or book value for long periods of time might indicate that the company or the entire sector is in trouble, and that the stock prices may not move higher.

Source: Eagle Asset Management, Inc. Date: 30.09.2016

Avoiding Value Traps

How do you avoid a “Value Trap”?

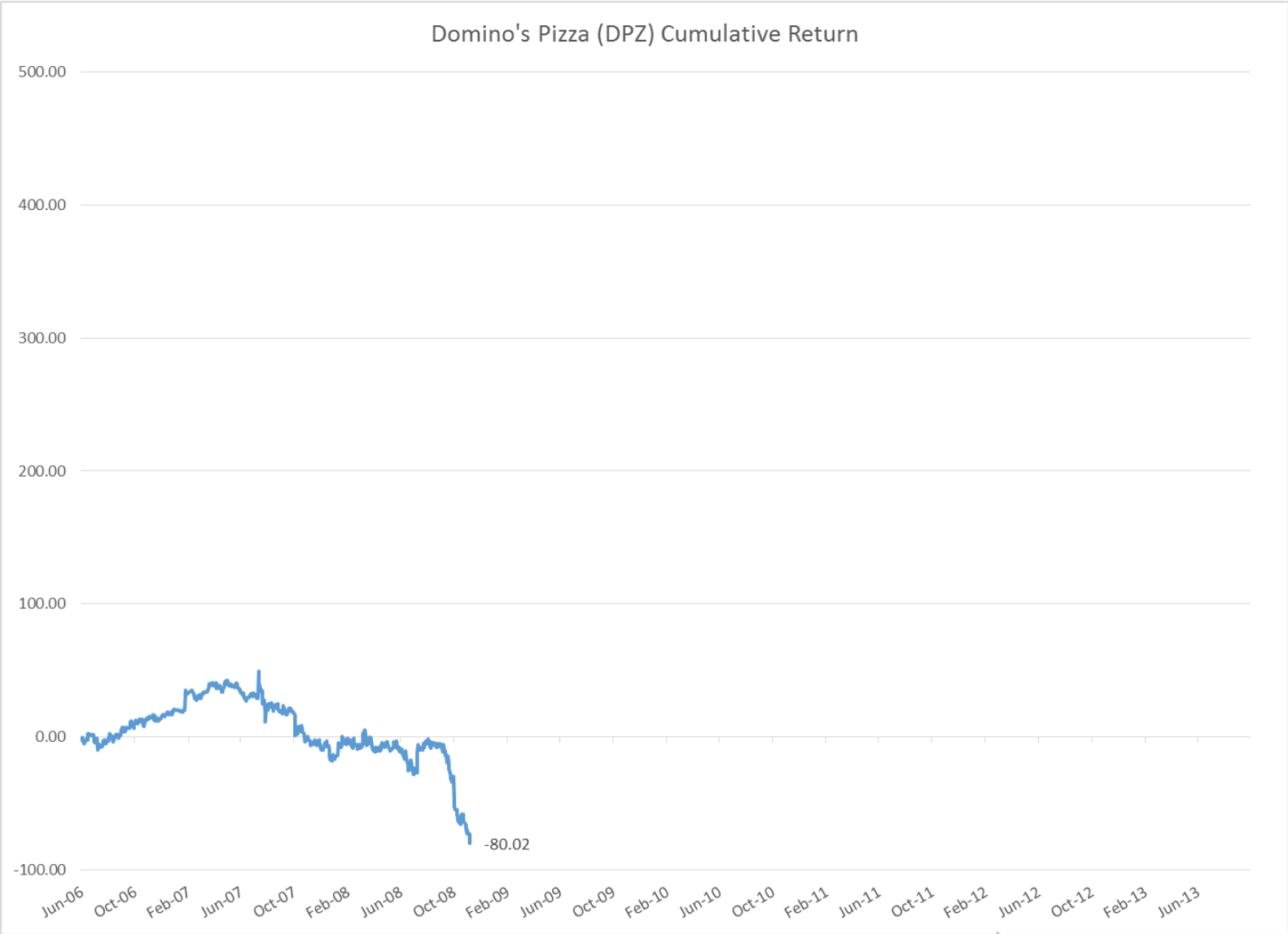
- Know your companies; steer toward high quality companies
- Invest in companies that have at least moderate growth
- Invest in companies that have low debt/leverage
- Make sure any recent negative trends are cyclical, not secular
- Don't let mistakes turn into disasters

Source: Eagle Asset Management, Inc. Date: 30.09.2016

Value trap example: Gannett

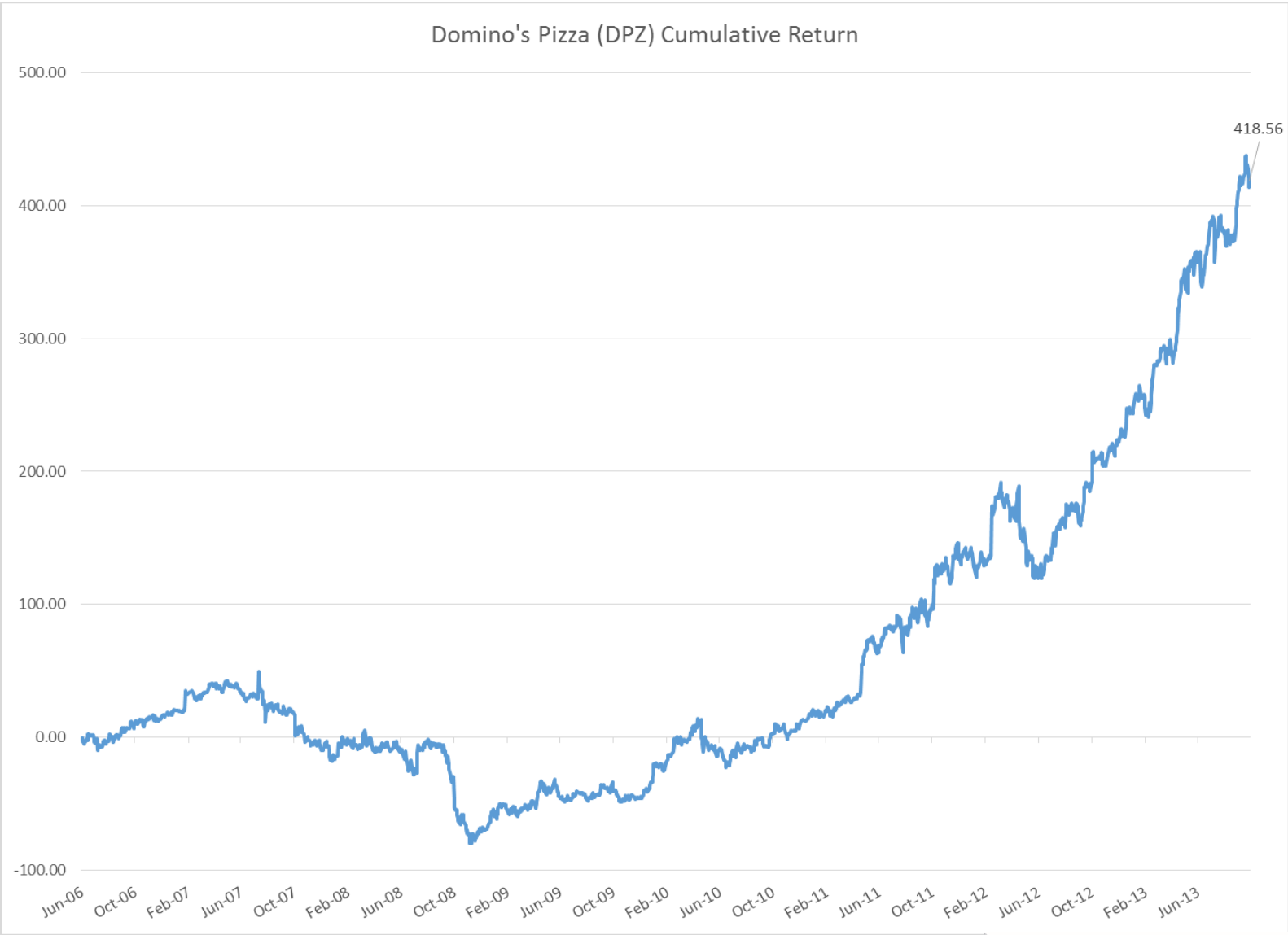
- National media company with properties such as USA Today, local and regional newspapers and affiliate television stations.
- Initially purchased in October 2005 for \$65.00
- Investment case
 - High Free Cash Flow
 - Valuation discount to the market
 - Overblown fears of the Internet
- Where we were wrong
 - Value trap – earnings expectations consistently ahead of actual results
 - Valuation discount did not “revert to the mean” – in fact it got worse
 - Fears of the Internet were actually underestimated
- Trigger Point
 - Sharp drop in price – what is the market telling us?
 - Research into the potential disruptive effects of the internet
 - Sold in September 2007 at \$45.00 for a 30% loss for clients. No confidence in our original growth thesis or contrarian Internet stance

How much can investors endure?



Source: Eagle Asset Management, Inc. Date: 30.09.2016

A lot – if you're right



Source: Eagle Asset Management, Inc. Date: 30.09.2016

Current example: Carnival Cruise Line

Start with Value:

P/E of 13.0x FY17(E) & FCF yield of 5.7%. CCL has a 1 Core Model Rank by Empirical Research.

Largest cruise company in the world carrying 47% of global cruise passengers. Operates 99 ships across 10 leading global, regional and local brands.

Carnival is currently selling near its trough relative P/E. CCL sells at a 0.8 relative multiple to the Russell 3000 vs. its 5-year average of 1.1x.

Discounted Cash Flow modeling yields a \$64 intrinsic value, while Holt indicates a \$69, yielding a 30% to 40% upside to current trading levels.

Evolutionary Catalyst:

Secular tailwind - Carnival can benefit from the on-going trend of consumers choosing to spend money on experiences rather than “stuff”, as well as geographic expansion.

While **China** is the world's largest outbound travel market, cruise travel penetration is only 0.08% versus 1.24% in Europe and 3.47% in North America.

Cruise penetration continues to increase globally.

Bottom Line:

Carnival is currently selling at a 4 point discount to the P/E of the Russell 3000. In addition, the stock is selling at a historically low P/E level on an absolute and relative basis. The Company is poised to take advantage of consumer and demographic trends.

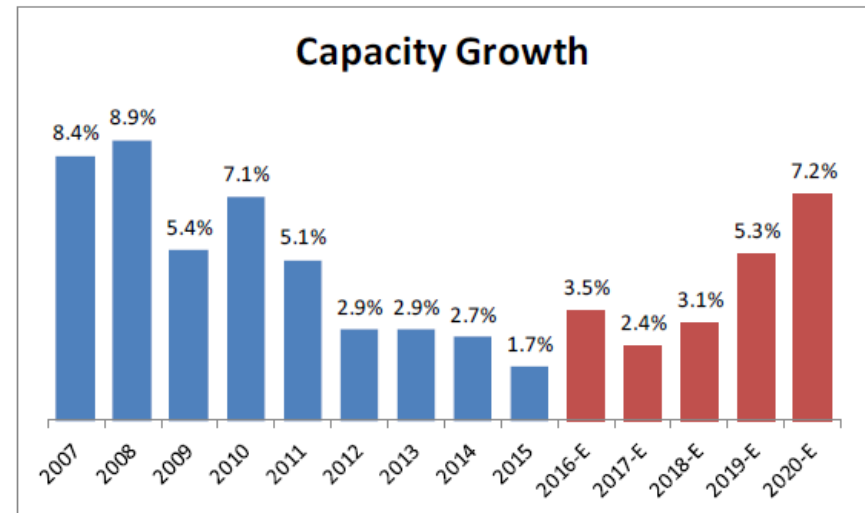
Support with Growth:

Capacity additions at Carnival are set to accelerate after several years of very modest growth (see chart below).

Carnival will grow capacity in China by 60% this year and 30% next year.

The Company has improved its Return on Invested Capital from 4.5% two years ago to 7.5% today. CCL is targeting a double digit ROIC in the next three years.

Double digit EPS growth driven by single digit revenue growth, margin expansion and stock buyback.



© Nordea Asset Management and any of its underlying entities and affiliated companies. This document is intended to provide the reader with information on Nordea's specific capabilities. **This document does not amount to an investment advice nor does it constitute a recommendation to invest in any financial product, investment structure or instrument, to enter into or unwind any transaction or to participate in any particular trading strategy.** This document is not an offer to sell, or a solicitation of an offer to buy any security. Any such offering may be made only by an Offering Memorandum, or any similar contractual arrangement. Consequently, the information contained herein will be superseded in its entirety by such Offering Memorandum or contractual arrangement in its final form. Any investment decision should therefore only be based on the final legal documentation, without limitation and if applicable, Offering Memorandum, contractual arrangement, any relevant prospectus and the latest Key Investor Information Document relating to the investment. This document contains information which has been taken from a number of sources. While the information herein is considered to be correct, no representation or warranty can be given on the ultimate accuracy or completeness of such information and investors may use further sources to form a well-informed investment decision. Prospective investors or counterparties should discuss with their professional tax, legal, accounting and other adviser(s) with regards to the potential effect of any investment that they may enter into, including the possible risks and benefits of such investment. Prospective investors or counterparties should also fully understand the potential investment and ascertain that they have made an independent assessment of the appropriateness of such potential investment, based solely on their own intentions and ambitions. Investments in derivative and foreign exchange related transactions may be subject to significant fluctuations which may affect the value of an investment. **Investments in Emerging Markets involve a higher element of risk. The value of the investment can greatly fluctuate and cannot be ensured.** Published and created by affiliated mother companies adherent to Nordea Asset Management. Nordea Investment Management AB and Nordea Investment Funds S.A., being affiliated mother companies, are duly licensed and supervised by the Financial Supervisory Authority in Sweden and Luxembourg respectively. Branches, subsidiaries and affiliated companies adherent to Nordea Asset Management, are duly licensed as well as regulated by their local financial supervisory authority in their respective country of domiciliation. Unless otherwise stated, all views expressed are those of Nordea Asset Management and any of its underlying entities, subsidiaries and affiliated companies. This document is furnished on a confidential basis and may not be reproduced or circulated without prior permission and must not be passed to private investors or any investors not covered by relevant regulation. This document contains information only intended for professional investors and eligible investors and is not intended for general publication. Nordea Asset Management (and any of its branches, subsidiaries and/or affiliated companies) does not assume any responsibility and cannot be held responsible for the information contained in this document. Similarly, Nordea Asset Management (and any of its branches, subsidiaries and/or affiliated companies) cannot be held liable for any effects caused by using any part of the information in the document. Reference to companies or other investments mentioned within this document should not be construed as a recommendation to the investor to buy or sell the same, but is included for the purpose of illustration. The level of tax benefits and liabilities will depend on individual circumstances and may be subject to change in the future.