

Financial overview

The Bikuben Foundation's financial strategy is the cornerstone of our grant-making. It ensures maximal return on our investments within the chosen risk profile. In 2019, we witnessed the true strength of the strategy, as we realised our highest return to date.

The Bikuben Foundation is increasingly emphasising a long-term perspective in grant-making as well as investing. Our strategy of continuous investment is based on the principles of quality and resilience.

Even though our strategy is biased towards long-term investments, we also embrace liquidity and volatility risks in the pursuit of higher yields. We are able to do this because our grant strategy does not need to accommodate sudden or unanticipated payments; it is based on stable payments over time. On the other hand, it is a strategy that requires a substantial amount of capital. To accommodate this, we opt for asset categories that can be expected to produce high, moderately stable returns. Naturally, we also aim to ensure that our funds are managed in a professional, reliable and cost-efficient manner.

We invest in listed and unlisted shares and bonds, property, industrial producers, private equity funds and private debt funds, and have only a few derivative financial instruments.

We place a high priority on generating positive real returns in order to secure sufficient funds for the foundation's philanthropic focus areas.

LONG-TERM INVESTMENT APPROACH

We have a long-term investment approach; we do not overreact to short-term market fluctuations. To limit risk, our investments are diversified geographically and across industries. In recent years, disruption and political stability have moved further to the forefront of our considerations. We make our investments based on financial, macroeconomic and statistical analyses of long-term developments in individual regions and industries. This is supplemented by studies of how well various types of investments perform.

The bulk of our investments are in northern Europe, the economically developed parts of central and southern Europe and the United States. Investments in OECD countries, emerging markets, the BRIC countries and Asia account for only a fraction of our portfolio. Denmark is not a major investment area for the foundation.

DYNAMIC INVESTMENT APPROACH

Our investment approach is formed primarily by macroeconomic considerations and an international outlook. We are part of our community; this affords the opportunities that provide us with our livelihoods, but it also defines our limitations. To the extent possible, we seek to adapt our investments to economic conditions. In recent years, we have redrawn our investment profile in response to the persistent restrained inflation, modest growth and low interest rates that have reduced the attractiveness of the government bond market, the mortgage market and related investments.

Consequently, we transitioned to bonds with various forms of built-in credit, and we replaced fixed-rate with variable-rate bonds. Private debt, one of the new asset categories, is playing an increasingly visible role in our investments.

This strategy is not without risk; however, the alternative could have been near-zero or even negative returns. The strategic emphasis on funds has proven robust during times of economic expansion, as well as decline. This, too, should be viewed in light of the substantial real returns we need in order to realise the goals of the Bikuben Foundation.

Despite the upheavals many countries are experiencing right now, market conditions in large parts of Europe, the United States and the Far East have remained fairly favourable. However, trade wars,

Brexit and a general aversion to globalisation are also part of the picture. Many companies in the areas in which we invest have posted decent earnings. Some of the increases in share prices, particularly those of listed firms, cannot be justified based solely on their profitability.

In recent years, many economies have had low or even negative interest rates, and there is little expectation that the situation will change significantly in the coming years. The Bikuben Foundation's investment strategy has taken this into account: we have lowered exposure to bonds and, consequently, increased our exposure to private markets.

INVESTMENT PARTNERS

We make some investments ourselves, some in co-operation with banks, stockbrokers, private-market houses and some via larger investment managers. In selecting partners, we aim for long-term relationships, and we prioritise a strong track record, a stable organisation and a capacity for innovation in a changing world. We devote considerable time to the selection of partners and to our on-going dialogue with them. As a relatively small investor, the Bikuben Foundation needs to be nimble to secure a share of the attractive investments in large foreign houses. We do this through a combination of relationship-management and thorough statistical analyses and methodologies.

HIGHER REAL RETURNS

Since 2004, private equity funds have constituted an important investment area. The Bikuben Foundation is currently involved in seventeen funds. Our investment portfolio also includes private debt funds. We pursue this investment activity to be able to invest in unlisted small and medium-sized enterprises that show good growth and earnings. This complements our stock holdings, which is primarily made up of shares in blue-chip firms. These shares typically experience greater fluctuations in price and have a cycle that is slightly out of phase with private equity firms.

Another vital element is that the net returns from our private-equity investments have substantially outperformed listed shares.

With regard to bonds, we have, in recent years, made a significant shift towards securities with an associated credit element. We have done so in

order to shed the traditional portfolio of government and property bonds, due to their unattractive rates of return.

In recent years, property investments have replaced many of the poorest-performing bonds in our investment strategy.

A NOTE ABOUT PRIVATE EQUITY AND PRIVATE DEBT FUNDS

Our investments in private equity and private debt funds are long-term obligations, typically five to ten years. As a result, our policy is to select private equity and private debt funds that have convincing track records and have demonstrated a capacity for managing large funds over a long period that spans all phases of the business cycle. They must also demonstrate a level of quality in their investment activity that ensures a good, general performance, and they must live up to ESG (environmental, social and corporate governance) principles. Management experience, stability and a capacity to change are additional parameters we place a heavy emphasis on.

Through systematic and persistent monitoring, we acquire unique insights into funds and are able to evaluate them as potential new investments.

The Bikuben Foundation invests in one to four new funds every year; the number depends on the rate of return on existing investments. This lets us maintain a generally constant level of capital that needs to be tied up. It also reduces the risk of a 'vintage year', in which investments and prices develop unfavourably.

So far, the Bikuben Foundation's investment activity has been aimed at general funds, which invest primarily in medium-sized enterprises across a range of industries. We have no expertise in funds that invest in specific sectors, be they geographically concentrated, venture in nature or otherwise. To ensure the right spread, and the right risk profile, such investment activities require far greater investments than the size of the Bikuben Foundation allows.

RESPONSIBLE INVESTING

Our investment profile contains a broad mix of listed and unlisted shares, listed and unlisted bonds, private equity and private debt.

When it comes to making investments, the modest size of the foundation prevents us from pursuing direct ownership, except in the case of Enkotec A/S, which is wholly owned by the Bikuben Foundation. Instead, we invest responsibly by making sure that the managers and funds who act on our behalf have adopted, and adhere to, clear CSR policies.

Our emphasis on responsible investments is guided by the UN-sanctioned principles for responsible investing, the UN's Global Compact and the international conventions Denmark has acceded to. This means that, when investing, we take into account the impact of our activities on human rights and workers' rights, their impact on the environment and the climate, whether they violate anti-corruption laws and whether they contribute to activities linked to non-conventional weapons.

In assessing potential investments and making commitments, we assess relevant issues pertaining to the environment, the climate, social issues and good corporate governance. We require our partners to abide by the same guidelines during the entire life of the investment.

The goal of our responsible investment-strategy is to generate value for the Bikuben Foundation, based on the assumption that companies that act responsibly in the long-term and have a sustainable approach can be expected to outperform. This also means that certain investment types and potential partners will be excluded from our investment considerations.

MANAGEMENT

Our assets are managed by external managers as well as in-house. The figure below outlines the distribution. In 2019, we worked with three Danish and four foreign private equity and similar firms, two foreign private debt firms, two Danish investment firms and two Danish managers with a more conventional approach.

ASSET MANAGEMENT AND PARTNERS

The figure below shows the individual elements by management form. We use a fairly simple format that has shown good results over the years.

GLOBAL MANDATES	PRIVATE EQUITY	PRIVATE DEBT	DIRECT INVESTMENTS
Danish Capital, on-going	<p>Late Stage funds:</p> <ul style="list-style-type: none"> Amber Trust II, 2004 LD Equity 1, 2006 Triton II, 2006 Triton III, 2008 Polaris III, 2011 Axcel IV, 2011 Partners Group Direct 2012, 2014 Core Bolig IV.6, 2014 <p>Active funds:</p> <ul style="list-style-type: none"> Triton IV, 2013 Hamilton Lane Co III, 2015 Partners Group Direct 2016, 2015 Triton TSM, 2017 Triton V, 2018 Partners Group Direct 2019, 2018 Hamilton Lane Co IV, 2019 Polaris V, 2020 	<p>Active funds:</p> <ul style="list-style-type: none"> Hamilton Lane Strat. Opp. 2017, 2017 Triton Debt II, 2018 Partners Group Debt 2018, 2019 Hamilton Lane Strat. Opp. 2019, 2019 	<ul style="list-style-type: none"> Enkotec A/S, 2006 NCI A/S, 2008 Credit bonds, on-going direct acquisition
SEB Asset Management, on-going			

FINANCIAL VALUE CREATION IN 2019

Our financial value creation is a result of the ideas and strategies that we have employed in recent years. It has been important for us to take a long-term approach that is disciplined and agile enough to respond to the opportunities that emerge in the market. The solid 2019 result is thus not necessarily the result of investments made in 2019; rather they are highly indicative of long-term investment decisions.

The Bikuben Foundation achieved a total investment result of DKK 232.4 million in 2019. This is a return of 14.2%, and compares with DKK 89.2 million and 5.5% in 2018. This result includes listed securities, private equity, private debt and Enkotec A/S, in which the Bikuben Foundation has a 100% stake.

Despite a volatile investment climate in 2019, the level of financial value creation was the highest to date.

DEVELOPMENT OF FOUNDATION

ACTIVITIES: INTEGRATING ASSET MANAGEMENT AND GRANT-MAKING

According to the Bikuben Foundation's statutes, one of our primary objectives is: *"to carry out financial activities through investments in shares or other participating interests and convertible debentures in commercial enterprises of every description."*

The foundation, then, is obliged to manage its financial operations to the best of its ability.

The growing pressure to make larger, long-term grants, combined with the financial realities associated with interest rates at or close to zero and a somewhat lower growth outlook, have led the Bikuben Foundation to develop a new management tool that considers the current state of the economy and our projections for how it will shape in the future. We integrate this management tool with the foundation's grant-making obligations.

ASSET	RESULT
Listed	DKK 84.0m
Enkotec A/S	DKK 40.7m
Private Equity etc.	DKK 107.7m
Total	DKK 232.4m

ASSET	SHARE OF RESULT
Listed	36 %
Enkotec A/S	18 %
Private Equity etc.	46 %
Total	100 %

ASSET	SHARE OF VALUE
Listed	31 %
Enkotec A/S	19 %
Private Equity etc.	50 %
Total	100 %

ASSET	VALUE
Listed	DKK 515m
Enkotec A/S	DKK 309m
Private Equity etc.	DKK 835m
Total	DKK 1,659m

At present, 30% of the Bikuben Foundation's investment assets are listed securities and 70% are unlisted securities, of which private equity, private debt and Enkotec A/S are the most important. The unlisted securities are long-term investments of between five and twelve years, or, in some cases, longer. The return on investment, however, is 3-5% above the market for listed securities. The management of this large amount of future revenue and commitments must be seen in the light of our grant-making, which commits us to disbursement schedules that, in the case of some grants, can extend over several years. It has thus been necessary to develop a model for managing a multidimensional space in which time is one of the main dimensions, given that the foundation must at all times be able to live up to its grant-making commitments and other obligations.

The models that regulators use in their oversight of banks and other financial institutions were a vital source of inspiration for the Bikuben Foundation as we built up our own management tool. The management tool will be taken into use after the board of directors approves the investment framework.

COSTS, BALANCE SHEET AND ASSETS

In 2019, the foundation achieved a corporate result of DKK 206.2 million, compared to DKK 75.6 million the previous year. Of these earnings, DKK 117.2 million went to furthering the foundation's goals, compared to DKK 73 million the previous year.

The costs of the parent foundation amounted to DKK 15.7 million, compared to DKK 17.7 million the previous year. The reduction comes after the foundation, in 2019, successfully rolled out the IT system acquired in 2018, and began to reap the benefits of improved resource management in connection with the foundation's grant-making. As a result, the foundation is now better equipped to allocate costs across grant areas. Moreover, purchasing and installing the new IT system led to higher costs in 2018; these costs have been less extensive in 2019. On the other hand, 2019 saw considerable costs associated with the merger of Kollegiefonden Bikuben and Bikubenfonden. These costs are expected to have been one-off.

In 2019, the foundation had an average full-time staff of 27. In connection with some grant-ma-

king, the foundation's employees were actively involved in developing and running the projects, and thus the associated labour costs are included in these grants. Employees working to further the foundation's goals in the social area and the arts, Svanninge Bjerger (a part of the Nature, the Key to a Good Life initiative) and to operate our halls of residence (which promote the goals of our Young People on the Edge initiative) accounted for 15 full-time positions on average in 2019. The net number of full-time employees (measured in terms of full-time equivalents) was 12.

The foundation's strategy calls for it to be administered in such a way that it obtains the greatest possible value for the resources used.

The income described above derives from the returns on investment and profits generated by Enkotec A/S.

As of 31 December 2019, the foundation had a corporate-level balance sheet totalling DKK 2,038.9 million, compared to DKK 1,928.2 million the previous year. Equity capital was DKK 1,541.7 million, compared to DKK 1,456.4 million the previous year.

Of the parent foundation's assets, DKK 1,404.6 million are fixed financial assets, while DKK 434.8 million are fixed material assets. The fixed financial assets are the basis of the foundation's future earning potential.

SUBSIDIARIES AND PROPERTIES

The Bikuben Foundation is the sole owner of Enkotec A/S, which is headquartered in Skanderborg, Denmark, and develops and manufactures high-quality machines for making precision nails for the construction industry worldwide. It is a world leader in its field.

Enkotec A/S has a balance sheet total of DKK 95.8 million and equity of DKK 63.1 million. The result in 2019 was DKK 40.7 million, compared to DKK 45.7 million in 2018.

Since 2013, the Bikuben Foundation has owned Høbbet A/S, which has two primary areas of activity: farming and operation of a research station that includes office space and living quarters. Høbbet Farm comprises 110 hectares and is located

adjacent to the foundation's nature area, Svanninge Bjerge. The research station opened in 2016 and is leased to the University of Southern Denmark on long-term, market-competitive conditions. The university uses the facility for biological research, management conferences and other purposes.

Høbbet A/S has a balance sheet totalling DKK 62.8 million and an equity of DKK 34.4 million.

BIFI A/S is a wholly owned subsidiary established in 2017 to manage all the foundation's investments in foreign private-equity houses. The result for 2019 was DKK 73.6 million. The balance sheet total was DKK 464.4 million, compared to DKK 325.7 million the previous year.

Since 2013, the foundation has owned the property at no. 3-5, Otto Mønsted's Gade, Copenhagen V, which serves as the foundation's headquarters. About two-thirds of the building is leased to other foundations and organisations.

In 2019, we established SKITSE ApS as part of our initiatives to support the arts. SKITSE, meaning 'sketch' in Danish, is a store that sells artists' sketches as a way to document the creative process that ends with a finished work.

GRANTS IN 2019

Grant distributions totalled DKK 119.2 million in 2019. By the end of 2019, a sum of DKK 150 million

had been set aside for future grants. The same amount was set aside in 2018.

NOTEWORTHY EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

In the period after the balance-sheet date, Covid-19 became a noteworthy event as it spread deeply into all societies and economies. This will have a decisive impact on our 2020 result and in the years to come.

At the time of writing (late March 2020) the pandemic has culminated in Asia but not in Europe or America.

Covid-19 will leave an unmistakable mark on the world's population and economies. We have already seen a major downturn in the economy. The crucial factor of a recovery is the length of time societies will have to be shut down. There are many indications that the situation will result in a rather long shutdown, and this will mean a decline in economic activity compared with 2019 levels. We will experience a situation in which many companies, including some that have received financial assistance, will be forced to shut down. In addition, consumers will likely become significantly more pessimistic than they were before the emergence of Covid-19. However, given the uncertainty about how long the situation will last, it is currently not possible to provide reliable economic projections.