

# Financial overview

The Bikuben Foundation's financial strategy is the cornerstone of our philanthropic work. It ensures maximal return on our investments within the chosen risk profile. Even in the difficult year that 2020 was due to the pandemic, the strategy showed its robustness and strength; and despite the difficult situation we achieved a respectable result. Financial value creation rose to DKK 137.2 million, and the parent foundation's net profit was DKK 112.4 million.

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

Even though our strategy is weighted 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.

In recent years, we have abandoned the classes of bonds – especially government and mortgage bonds – that have not been yielding significant returns (or, in some cases, have even yielded a negative return). The foundation opts 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 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, such as the decline in the spring of 2020. 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 majority of our investments are in northern Europe, the economically developed parts of central and southern Europe and the US. Investments in other 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 therefore seek to adapt our investments to economic conditions. In recent years, we have redrawn our investment profile in recognition of the fact that persistent restrained inflation is a reality. Modest growth and low interest rates have reduced the attractiveness of the market for government bonds, mortgages and the like, which requires us to closely manage these types of assets.

Consequently, we transitioned to bonds with various forms associated credit elements, and we replaced fixed-rate bonds with variable-rate bonds. In recent years, the private-debt asset category has come to play an increasingly significant role in our investment profile.

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 US and the Far East have remained fairly favourable. However, trade wars, Brexit and a general aversion to globalisation are part of the picture as well. 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.

#### **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 stable, 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 if we want to secure a share of the attractive investments in large foreign houses. We cannot assume that others will take the initiative to invite us to take part in potentially lucrative investments. We must continuously manage our relationships, conduct thorough statistical analyses, and refine our methods.

#### **HIGHER REAL RETURNS**

Since 2004, private-equity funds have constituted an important investment area. The Bikuben Foundation is currently involved in twenty private-equity and private-debt funds. We pursue this investment activity to be able to invest in unlisted small and medium-sized enterprises (medium-sized in a Danish context) 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. This was a

pattern that was very clearly seen in 2020.

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 completely unattractive rates of return.

In recent years, foreign-debt funds 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. Because we are in a period in which disruption features prominently, we must also take this into account as a factor before making an investment. In addition, they must demonstrate a level of quality in their investment activity that ensures a generally good 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 emphasise heavily.

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.

## INVESTING RESPONSIBLY

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 we choose to act on our behalf have adopted, and adhere to, clear CSR policies.

Our emphasis on responsible investments is guided by UN-sanctioned principles for responsible investing, the UN Global Compact and the international conventions Denmark has acceded to. This means that, when investing, we consider the impact of our activities on human rights and workers' rights, their impact on the environment and the climate and whether they violate anti-corruption laws. We do not make investments in activities that involve arms or tobacco production.

When considering 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 these 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. As a consequence, certain investment types and potential partners will be excluded from our investment considerations.

When making new investments, the Bikuben Foundation will follow the pension funds' Tax Code of Conduct in order to ensure that we live up to the role of socially responsible actor that does not ruthlessly minimise its tax burden in order to increase profits. Profits are the result of good and

healthy investments that generate a good return. In connection with the issuance of new commitments, we will ensure that there is a clear and implementable plan for holding new investments up to ESG guidelines. Once the investment has been made, it will be reviewed annually to ensure that its ESG profile is improving. The follow-up will be qualitative and quantitative. The aim is not to invest in firms that are leaders in ESG, but to ensure that the firms we invest in improve their ESG profile when measured on parameters such as greenhouse-gas emissions, waste management and the use of recyclable materials. As an investor, the Bikuben Foundation cannot carry out this type of evaluation on its own, but we can make ESG guidelines a condition of the investments we make in funds. These conditions can primarily be set out and reviewed during the due-diligence process, as this is the decisive stage when considering whether to make an investment. Subsequently, an assessment of whether the investment funds are living up to the ex-ante conditionalities can be conducted.

## MANAGEMENT

Our assets are managed by external managers as well as in-house. The figure below outlines the distribution. In 2020, 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. In the figure below, individual elements are grouped by management form. We employ a relatively simple form that has yielded good results over the long-term.

## NEW FUNDS

As we slowly empty older funds, it is important that we make new investments in a timely fashion to prevent gaps from emerging in the portfolio. Continuous investment ensures that revenue-generating activity remains at the necessary level. In addition to the need for continuous investment, the portfolio must also be sufficient to prevent the foundation from running into liquidity problems.

In 2020, the Bikuben Foundation issued no commitments, primarily due to the pandemic.

In January 2021, we made commitments to Hamilton Lane Secondary Fund V and Triton Smaller-Mid Cap II.

GLOBALE MANDATES	PRIVATE EQUITY / DEBT LATE STAGE FUNDS	PRIVATE EQUITY / DEBT ACTIVE FUNDS	DIRECT INVESTMENTS
Danske Capital, on-going	Amber Trust II, 2004 LD Equity 1, 2006	Hamilton Lane Co III, 2015	Enkotec A/S, 2006
SEB Asset Management, on-going	Triton II, 2006 Triton III, 2009 Polaris III, 2011 Axcel IV, 2011 Triton IV, 2013 Partners Group Direct 2012, 2014 Core Bolig IV.6, 2014	Partners Group Direct 2016, 2015  Triton Smaller-Mid Cap Fund I, 2017  Hamilton Lane Strat. Opp. 2017, 2017  Triton V, 2019  Partners Group Direct 2019, 2019  Hamilton Lane Co IV, 2019  Triton Debt II, 2019  Partners Group Debt 2018, 2019  Hamilton Lane Strat. Opp. 2019, 2019  Polaris V, 2020  Hamilton Lane Secondary Fund V (from January 2021)  Triton Smaller-Mid Cap Fund II, (from January 2021)	NCI A/S, 2008 (share 18,2 %)  Credit bonds, on-going direct acquisition via Accunia

#### FINANCIAL-VALUE CREATION IN 2020

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 2020 result is thus not necessarily due to investments made in 2020; rather they are highly indicative of long-term investment decisions.

In 2020, the Bikuben Foundation earned DKK 137.2 million on its investments. This is a return of 8.1% and compares with DKK 232.4 million and 14.2% in the banner year of 2019. This result includes listed securities, private equity, private debt, Enkotec A/S (in which the Bikuben Foundation has a 100% stake) as well as the sale of our Otto Mønstedes Gade premises (which resulted in a profit of DKK 47.2 million).

Despite a volatile investment climate and the disruptive effect of the pandemic, the level of financial-value creation in 2020 was more than acceptable and it is poised towards the future.

#### DEVELOPING FOUNDATION MANAGEMENT: 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 that are associated with interest rates at or close to zero and a somewhat lower growth outlook, means that the Bikuben Foundation now uses a management tool that considers the current state of the economy and our projections for how it will shape up in the future. We integrate this management tool into the foundation's grant-making and other obligations.

At present, 27% of the Bikuben Foundation's investment assets are listed securities and 73% 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

ASSET	RESULT
Listed	DKK 13.2 m
Enkotec A/S	DKK 27.8 m
Private Equity m.v.	DKK 49.1 m
Otto Mønstedes Gade	DKK 47.2 m
<b>Total</b>	<b>DKK 137,3m</b>

ASSET	SHARE OF RESULT
Listed	15 %
Enkotec A/S	31 %
Private Equity m.v.	54 %
<b>Total</b>	<b>100 %</b>

ASSET	SHARE OF VALUE
Listed	27 %
Enkotec A/S	15 %
Private Equity m.v.	59 %
<b>Total</b>	<b>100 %</b>

ASSET	VALUE
Listed	DKK 453 m
Enkotec A/S	DKK 244 m
Private Equity m.v.	DKK 983 m
<b>Total</b>	<b>DKK 1,679 m</b>

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 SHEETS AND ASSETS**

This section details the parent foundation's finances.

In 2020, the foundation achieved a result of DKK 112.4 million, compared with DKK 201.5 million the previous year. Of these earnings, DKK 82.3 million went to furthering the foundation's goals, compared with 117.2 million the previous year. The parent foundation's earnings amounted to DKK 31.4 million, compared with a deficit of DKK 15.7 million in 2019. The improvement is the result of the sale of property and 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. The performance in 2020 also reflects costs incurred the previous two years in connection with the purchase and installation of a new IT system.

In 2020, the foundation had an average of twenty-six full-time employees. In connection with some grant-making, employees are 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, Svaninge Bjerger (including the associated 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 an average of fourteen full-time positions in 2020. All told, the net number of full-time employees in 2020 (measured in terms of full-time equivalents) was twelve. 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 2020, the foundation had a balance sheet totalling DKK 1,953.4 million, com-

pared with DKK 1,927.8 million the previous year. Equity capital was DKK 1,504 million, compared with 1,474.9 million the previous year. Of the parent foundation's assets, DKK 1,392.3 million are fixed financial assets, while DKK 358.5 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 91.2 million. Equity capital was DKK 47.6 million. The result in 2020 was DKK 27.5 million, compared with DKK 40.7 million in 2018. It had an average of fifty-three employees.

The Bikuben Foundation has owned Høbbet A/S since 2013. Høbbet A/S 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 Svaninge Bjerger natural area. 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 57.1 million. Equity capital was DKK 33.2 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 2020 was DKK 44.9 million. The balance sheet total was DKK 560.7 million, compared with DKK 464.7 million the previous year.

In 2019, we established SKITSE ApS. SKITSE, meaning "sketch" in Danish, is a store that sells artists' sketches to document the creative process that ends with a finished artwork. In January 2021, SKITSE's activities were transferred to the Bikuben Foundation.

### **GRANTS IN 2020**

A total of DKK 82.3 million in grants was made in 2020. As of 31 December 2020, DKK 150 million had been set aside for future grant-making. The same amount was set aside in 2019.