This is the first memo on AWC's investor strategy since we started eight years ago.

We have many times presented parts of our investment strategy to AWAS, but never as a memo or with a comprehensive investment philosophy. Rather than writing several memos with different themes and risk repeating ourselves in presentations, we have compiled our most important principles here into one memo. When you see the length of it, you will be glad to learn that this is also AWC's last memo on investment strategy. Our aim is for it to be a living document, updated occasionally, that one can refer to for a granular understanding of AWC. When a family member or a new board member asks what AWC is, this document will hopefully be helpful.

On its surface, our investment strategy is simple: We are value investors. This means we aim to either (i) acquire long-term holdings in good companies or (ii) purchase assets at a discount with the intention of realizing the undervaluation at a defined trigger point. We are not the first to think of this strategy and we do not claim to be the world's smartest investors. However, we believe in our ability to execute effectively[1] by (i) taking a long-term perspective (ii) avoiding competition and (iii) focusing on a deal's situation as much as the company's fundamentals. If you are reading this memo for the first time, we hope you take with you the ideas from this paragraph, if nothing else.

The rest of this memo is an exploration of the above strategy, starting with a one-page summary of its core principles – what we call our investing DNA – and followed by a long-form description of each principle. You will notice this is not meant as a mandate with strict investment criteria, although it will be relatively clear what we are looking for and what we wish to avoid. Rather it provides insight into what we aim to do and how we choose to go about it, and carves out a proven path for us to follow to best leverage our position and capabilities in a world full of competition.

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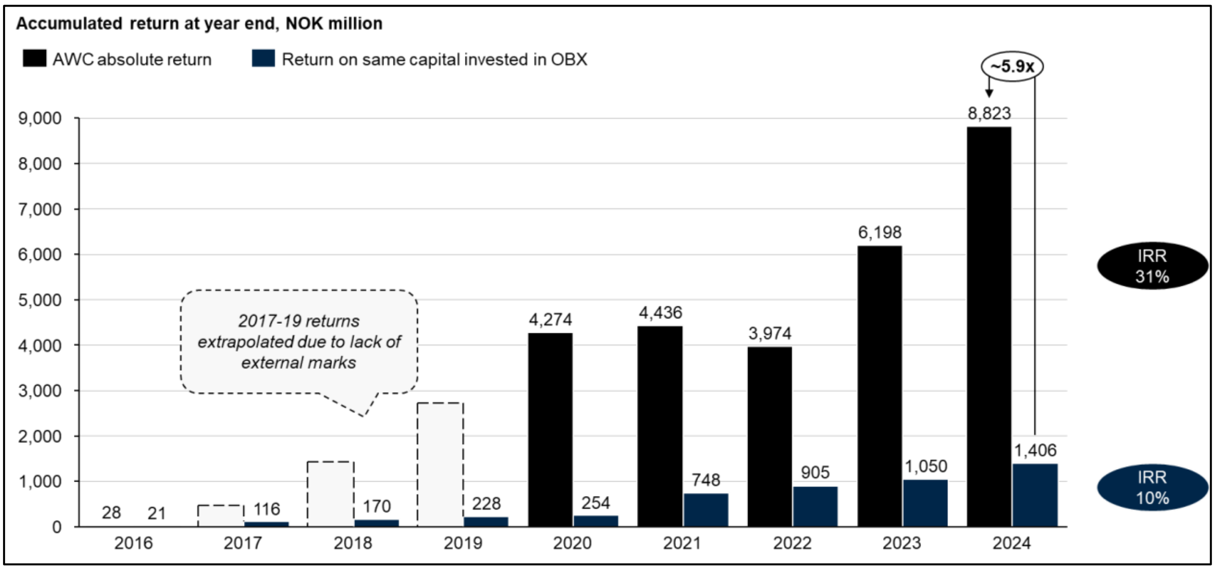
1 Sidebar on effective execution

As you will read about later in the memo, we like to evaluate our investment decisions based on the quality of the decision over the outcome. However, decision-making quality is difficult to judge objectively and show succinctly. As a real-world heuristic, we use AWC's actual returns since inception, which have been ~6x the return of the same capital invested in OBX (Oslo stock index). Both the AWC returns and that of OBX are here shown after tax, but without cost. It is thus a comparison of raw investment returns after tax.

This is far from the be-all and end-all of our strategy. However, it is starting to be a large enough sample size that it enhances our confidence in both the strategy itself and our ability to execute effectively.



Note: Both sets of return figures in the graph above are calculated before costs

The investment DNA of AWC

AWC's core principles provide guidance on what we do and how we do it across the full investment chain:

What we do

- **Find a catalyst or a moat.** All investments will either be categorized as Compounders or Catalysts. Compounder investments are long-term holdings in quality companies, defined as companies with high return on capital, growth and with a sustainable competitive advantage (also known as a moat). Catalyst investments are assets purchased at a discount with a defined trigger to realize the undervaluation (defined at the point of purchase).

Where we look

- **Avoid competition and leverage advantages.** AWC has certain competitive advantages of which the greatest are permanent capital and flexibility. Both the search strategy, the investment process and the management of the investments should be designed to exploit these advantages to the fullest. Where we compete and the edge we have, is more important than how good we are at competing. The most attractive opportunities will be found in smaller niches.

How we analyse opportunities

- **Know what we don't know.** Many markets are highly efficient and AWC has no ability or edge in predicting those. Acknowledging that many markets are "unknowns" and random in nature allows us to focus where we have edge. Our active investments will therefore always be the result of deep fundamental research specific to individual companies and/or opportunities. These will be independent of general market conditions and macroeconomic indicators which we can neither control nor predict.

- **Get on the right side of the trade.** All of AWC's investments require a definable margin of safety and an understanding of the opposing view. This means the investment team is able to convincingly calculate that the odds are stacked in our favour while simultaneously explaining why such a good deal exists. Only by doing both can we ensure we are on the right side of the trade.

How we evaluate

- **Focus on the decision, not the outcome.** The quality of investment decisions and processes are often obscured by small sample sizes, long feedback loops and hindsight bias. Poor investment decisions sometimes have good outcomes and good investment decisions sometimes have poor outcomes. AWC will avoid drawing the wrong lessons and have the greatest chances of long-term success by fostering a culture of intellectual honesty and thinking of investment results as probability distributions.

How we manage

- **Centralize strategic decisions. Decentralize everything else.** A decentralized decision model, where decisions are made by the ones closest and with the most knowledge about the issue, is believed to produce the best long-term results. A decentralized decision model will reduce delays and bureaucracy and will increase empowerment which in turn will attract the best people - our most important long-term asset.

- **Optimize for long-term risks.** AWC has an advantage in being able to optimize to reduce long-term over short-term risks. AWC should maintain a moderately diversified portfolio and optimize for long-term risk adjusted return. Short term volatility is not the same as risk. Avoiding all individual risks is not an objective. Controlling the overall long-term portfolio risk is.

What we do | Find a catalyst or a moat

"Time is an ally of the superior company, the enemy of the mediocre"

- Philip Fisher

At its essence, AWC's investment strategy is only about two things: Finding Compounders and finding Catalysts. Compounders are quality companies characterized by high returns on capital, robust growth and sustainable competitive advantages allowing capital to compound for extended periods. In contrast, Catalyst investments are assets we acquire at a discount with the primary aim being the realization of this undervaluation.

By dedicating ourselves exclusively to these two categories, we intentionally exclude the vast majority of market opportunities that feature average companies or situations without catalysts. Before going into the details of each category we focus on, it can be useful to illustrate the main difference between the two.

For what we call Compounders, imagine a bank account holding a deposit of one million dollars that accrues a robust 20% interest for a long period. Moreover, all interest payments can be reinvested. Obviously, this is so compelling that the price for such an account will be significantly more than the one million dollars. Our main concern if we buy is how long this fantastic interest will last.

Now, for the Catalyst investments, imagine the same account, but with a stark difference – it carries an interest rate well below the market rate. Let's say minus 5%. If the condition applied is that the capital cannot be withdrawn for a set duration, the price drops considerably to the point we would pay significantly less than the one million dollars. Our main concern if we buy is how fast we can get our capital out of the bank and profiting the difference between what we paid and the one million dollar deposit.

In this analogy, the interest earned in the bank accounts symbolizes the Return on Equity in businesses. It illustrates the key difference between Compounders and Catalyst investments. Namely, that the passage of time works to our advantage for the Compounders while for Catalyst investments, the longer we hold the investment, the worse our return will be.

Compounders

The Compounders are the holdings we love to talk about. They are the Microsoft, Coca-Cola, or in our case, Compusoft, Dips, Protector or Cambis of this world - fantastic companies that accrue capital at high rates and maintain their competitive position over time. They are a small minority in the universe of companies, though. In general, companies with high returns on capital will see their returns erode as time passes. The reason is simply that capitalism works. High profits attract competition which in turn drives the profitability down. It is not difficult to see this dynamic in practice. For Awilhelmsen a familiar example can be oil tankers or container ships. There are no real barriers to ordering a container ship or an oil tanker, so nobody will fall off their chair in shock if they learn that a lot of new ships were ordered when rates were high.

For a minority of companies, however, this does not happen. The reason some companies can maintain a high return on capital for long periods of time is that they have lasting competitive advantages (what Buffet has called a Moat) that shield them from the relentless pressures of competition, enabling them to maintain or expand their market share, pricing power, and profitability.

These competitive advantages or moats take many forms. In general, we look at the sources of competitive advantages in five main categories although there is usually a combination of several in a great company. Many small ones can often be more powerful than one very distinct one.

1. Intangible Assets Moat: This type of moat is created by companies that have valuable intangible assets such as brands, patents, trademarks, and other intellectual property. An example can be Paracet (by former Weifa) - exactly the same as Pinex, except almost everyone buys the more expensive top-of-mind Paracet. This also applies to Cambi. Even if Cambi's patents were challenged, nobody in their right mind would build a new USD 500 million water treatment plant based on an untested technology.

2. Network Effect Moat: A network effect moat is created when a company's product or service becomes more valuable as more people use it. This creates a barrier to entry for competitors who would need to convince a large number of customers to switch to their offering in order to compete effectively. An example can be Finn Eiendom having both the real estate buyers and sellers. In our own portfolio Exabel is creating a similar two-sided marketplace with alternative data buyers and sellers.

3. Cost Advantage Moat: This type of moat is created by companies that have a cost advantage over their competitors. This can be achieved through economies of scale, superior production processes, or access to cheaper raw materials. An example can be Norgesgruppen, getting cheaper purchases because of higher volumes than Rema, which in turn allows them to pay for better locations or lower prices. In our portfolio Protector has a significant cost advantage with its own IT systems and only broker distribution.

4. Switching Costs Moat: Companies that can create switching costs for their customers by making it difficult or expensive to switch to a competitor's product or service can create a moat. An example can be Sector Alarm or of course Dips where a hospital director would rather remove his own kidney than the core software in the hospital integrated to 1,500 critical systems.

5. Efficient Scale Moat: This type of moat is created when a company operates in an industry where there are economies of scale, but only a few companies can achieve the necessary scale to be profitable. A subset of this are the natural monopolies such as electricity networks of railways. Examples can be Colorline or TSMC. Compusoft and Dips are examples of investments in AWC.

The recipe for this category of investments is simple: 1) Identify great companies, defined as growing companies with a moat 2) Pass if the price is too high and 3) Maintain patience once the position is taken if the thesis is intact.

Step 1 can vary greatly in difficulty. Many times, the moat is obvious. Nobody doubts it would be tough to compete with Finn.no or Microsoft. However, moats can also be hidden in the details and only reveal themselves through deep research. One example of this is the difference between SAS and Torghatten. Both are capex heavy businesses that transport people, but while SAS has proven to be a shitty business in fierce competition, the business dynamics of Torghatten has been completely different and it has been one of the best companies on the Norwegian stock exchange in the last decades.

An example of a hidden moat from our own portfolio is our investment in Protector. It is easy to think that insurance and especially brokered insurance is a case of competing with a homogenous product where few advantages can exist. It is only after digging much deeper, speaking with the brokers, competitors and the ones being short the share (to understand the opposing view as we'll discuss later) that the market dynamics and the competitive position of Protector emerges. We will later include a full write-up on Protector in the appendix, but for now, we can say that Protector is an example of the devil being in many small details. One of the more important details is that Protector has a completely different business model than the other insurance companies in only having broker distribution. Protector aims to be the brokers' best friend and form close relationships. This is not possible if you are also competing with the brokers and secretly hope they do not get any business. Protector is also completely different from the other insurance companies in that they develop their IT systems in house. It sounds trivial, but it is a massive competitive edge in practice and virtually impossible to replicate for the incumbents. Comparing Protector to Gjensidige (which equity analysts do) is a bit like comparing Timex to Rolex. They both produce watches, but the businesses are different. One is making a tool for measuring the time while the other is making a tool for showing that you are rich (or at least had some money before you bought the watch).

Step 2 is simpler in the case of a hidden moat, where the risk of overpaying is low. However, it is more challenging for companies with more obvious moats, which one would expect to be priced in. Often that is the case, but not always. One reason moats are not always priced in, is that most participants in the market are speculators rather than investors. They are looking for multiple arbitrage, short term trends and what the stock will do in the next week without fully understanding what the company does. Equity research analysts tend to do some very simplistic PE, EV/EBIT, EV/cash EBITDA or lately even more moronic forward rule of 40 comparison, without paying much attention to the sustainability of the competitive advantage. Compared to those investors, AWC has a massive advantage with its long-term perspective and fundamental approach.

"Behind every stock there is a company. Find out what it's doing"

- Peter Lynch

Step 3 is core to realizing full value from these investments. For shorter periods of time, a moat will not make a big difference as it will be overshadowed by multiple expansion or contraction. Longer term, however, the moat makes all the difference as it is difficult for a stock to long-term deliver a return much different from the return on equity in the underlying business.

Catalysts

The other investment category within AWC is that of Catalyst investments. These are often the unsung heroes, the overlooked ugly dockings in the mix. While we do not particularly like to talk about them and they are unlikely to constitute more than a quarter of the portfolio, their ability to deliver returns is undeniable.

A Catalyst investment has three main characteristics:

- They are purchased at a discount to the underlying value.
- They have a predefined trigger to realize the undervaluation.
- They are unpopular.

The simplest example of a Catalyst investment is a bond trading at a discount. For a bond it is not difficult to find a catalyst. Either it repays at maturity, or it defaults. If it defaults, then getting the collateral and liquidating it will be the catalyst.

For a Catalyst investment to be compelling for AWC, it's not sufficient to simply buy at a discount and identify a catalyst. The anticipated returns must also sufficiently compensate for the associated risks. The reason we can get an asset with sufficiently attractive returns is if the asset is unpopular or if other investors are prevented from buying. This can happen for many reasons:

- Illiquidity. Not all investors have it in their mandate buy illiquid positions – especially if there is uncertainty around when the liquidity will come. In AWC we do not need to know exactly when the liquidity will come as long as we can build in a sufficient cushion in our calculations to still achieve a satisfactory return. An example can be a bond in default or the side pockets we bought in liquidating fund structures following the financial crisis. The structures were inherently self-liquidating, but it was difficult to say exactly how long it would take.

- Cyclicality. Most investors are cyclical. A sector or an asset class that is a darling one day can become uninvestable at any price the next after the air has gone out of the bubble. As in the example above, after a liquidity crunch, the absolute last investors want are illiquid positions. Thus, to really succeed with Catalyst investments one needs a contrarian mind and to have the internal backing to execute it.

- Low quality or esoteric assets. Quite often low quality and esoteric assets can be very attractive because investors can conflate a company or asset's quality with its risk. One cannot talk about an asset’s risk separate from the price. The actual risk depends on the price paid relative to the quality. Even the best company can be risky if overvalued, while a low-quality asset can be low risk if it's priced accordingly. In essence, risk is not inherent in the asset itself, but is determined by the price at which it is acquired. Because of this bias, the odds we have gotten on esoteric Catalyst investments have been exceptionally good. Instinctively they appear far riskier than investing in great companies, but out of the 250+ investments we have done in the past 15+ years, more than 97% have been profitable and the biggest loss on a single investment has been 30%. That is a lot better than what we have managed with the perceived safer Compounders.

- Negative stigma of owning an asset. Whenever there are negative stigmas involved one will usually see attractive opportunities. An example can be the recent fire sale of coal assets by oil companies in their effort to window dress their portfolios. From a strictly financial viewpoint, disregarding all social and moral reservations (For the avoidance of doubt, which we will not do), those were attractive purchasing opportunities. As a side note, one can discuss how much big oil saved the environment by selling their dirty assets to someone that cared even less about the environment.

- A fear of looking stupid. A reason investors might not buy an asset could be a fear of looking incredibly stupid if the investment should go sour. It is akin to “Nobody ever got fired for buying IBM”. An example can be purchasing Madoff claims (buying a claim in the estate of the Madoff fraud) as we have done prior to joining AWC. We thought it would be a good investment also for AWC and made a presentation to the AWAS board on the opportunity. That was a big mistake as it then became a very prominent investment. Even though the board was quite positive to the opportunity, we did not have the courage to execute it. We did think it was attractive, but the risk of being wrong and becoming the muppet that lost money of Madoff after the fraud was well known was not very appealing. Our cowardness turned out costly as the Madoff trades did about 4x. In the same way, one would not look very smart if one had invested in a bankrupt neodymium mine in California and lost it all. This is the reason we do not like to talk about or draw attention to the Catalyst investments.

> It is a bit counter intuitive, but the stupider we fear we will look if the investment goes the wrong way, often the better odds we are getting. Applying a second level thinking framework, as we discuss in a later chapter, it is not difficult to see why. Nobody likes to look incredibly stupid.

"In investing, what is comfortable is rarely profitable"

- Burton G. Malkiel

We have no problem seeing why the Catalyst investments aren't popular. Beyond the mentioned reasons above, they are a real hassle. The most attractive opportunities tend to be small and challenging to execute. Additionally, managing their accounting is quite burdensome. For a smaller portfolio, rolling up the sleeves and doing the work to both research and settle a transaction may be justifiable since each investment significantly impacts the portfolio's return. However, as the portfolio grows from returns and additional capital being allocated, this is increasingly less the case.

So why do we even want these burdensome investments in the mandate? We have asked ourselves the question many times and think it boils down to two things. The first is that we think special sits and catalyst investing is the purest form of "investing craftmanship" where link between the efforts put in and the results are the closest. A Catalysts investment thesis is usually a lot more quantitative than that of a Compounder and while we will maximum will do a dozen Compounders, we can do hundreds of uncorrelated Catalyst investments. For those reasons, we have no doubt that correctly executed Catalyst investments provide a better risk-return than Compounders.

The challenge is of course that they liquidate. We want them to liquidate so we capture the discount, but that also creates the problem that we need to reinvest the capital. Even if we do well, the capital invested in this category will unlikely exceed 25% of the total capital invested as they quickly reach a point whereas much comes back as we find new opportunities. The exception is if the bottom falls out of the market. Then there will be few private Compounders for sale while the market will be flooded with cheap Catalyst opportunities. At that time, it will be too late to start looking at Catalyst investing if we haven't already. The main reason for having Catalyst investments in the mandate is thus an option to exploit these opportunities should they become abundant. Therefore, to manage expectations, do not expect a steady flow of opportunities, but rather rare busts of these Catalyst transactions.

Where we look | Avoid competition and leverage advantages

The world is full of self-proclaimed value investors, often on the hunt for the same types of Compounders we aim to identify. In order to gain an edge over the competition, we optimize our search strategy to focus on niches with less competition. A flexible mandate with permanent capital is our greatest advantage in identifying such niches. The flexible mandate allows us to look in every nook and cranny of the market. Coupled with permanent capital, we are liberated from the constraints of timing and liquidity. Being free of these restrictions and distractions enables us to concentrate solely on making good long-term investments. In short, we look where others do not because we can. Here's how.

Others look for large assets with liquidity or narrow exit window. We don't. AKA the timing advantage

Our permanent capital affords us flexibility in entry and exit of our positions. This allows us to look at smaller, less liquid positions, and to be patient in a company realizing its long-term value creation plan.

- Size: We have heard it many times before: "We are one of the largest PE/Hedge funds in the world and have access to the deepest talent pools, biggest and best deals bla bla". It is simply not true. It is in the smaller and less frequently traded parts of the market where the most attractive opportunities are. AWC and Awilhelmsen are large private investment companies in Norway which makes us less nimble, but we are small compared to PE, hedge funds or mutual funds. More important than the absolute amount of capital, however, is the amount of new investments one is required to make in any given period. With a stable capital base from Awilhelmsen, AWC does not need to churn the portfolio to accommodate the liquidity needs of many underlying investors. The Catalyst investments will churn, but the Compounders we can keep for many years. A private equity fund will normally spend a lot of time looking for a great company, just to start thinking about how to sell it the day after it is bought. For listed companies, unlike mutual funds, we do not need to worry about being able to sell the position in a certain number of days with average daily volume or optimize for drawdowns or redemptions at the worst possible time. In fact, microcaps, as both Protector and Pareto Bank were, are sufficiently large for AWC as we can also build the positions over time.

- Long-term value creation: Having an investor with a long-term approach is also a significant advantage for the companies AWC are invested in. Cambi spent over ten years from starting the sales process on the project in Washington DC, before the contract was signed. This was the first contract in the US that has opened up a massive market for Cambi. Ten years with costs and no income is not an easy investment for a PE fund to make when they plan to sell the company in five or seven years. The same for Dips, who now has spent close to the same number of years developing Arena. If the companies had been listed, we do not envy the CEO that would have to get up on stage forty quarterly presentations in a row and say that the contract or completion is just around the corner. We tell companies this when we meet them: AWC and Awilhelmsen are investors with a long-term mindset. This opens up a world of companies which might otherwise be sceptical to external capital and allows us to realize the full value in our investments.

"The single greatest edge an investor can have is a long-term orientation"
- Seth Klarman

Others look for specific opportunities in good markets. We adjust to market conditions. AKA the flexibility advantage

While other funds may have mandates specifying asset classes and significantly more capital to invest in good markets than bad markets, AWC's flexible mandate allows us to be opportunistic. Given that we are looking for bargains, we have to go where the cheapest assets are at any point in time. This means moving between asset classes and up or down in the capital structure. We originally did not have in our mandate to buy discounted minority positions, but we saw it was highly attractive and made room for it. After the financial crisis, we first invested in hybrid bank capital, then high yield bonds and later in funds in the secondary market, side pockets and ultimately litigation claims. In the AWC portfolio, there is currently no hybrid bank capital and very little high yield bonds left. These assets went from very attractive to unattractive or the opportunities have at least been too small to matter for AWC. Fortunately, we have no investment constraints that tell us we have to invest in high yield, venture, a specific industry or region.

Others look for control. We don't need it. AKA the Minority Moat advantage

The Minority Moat advantage is also a result of our permanent capital. This is a niche where AWC's competitive advantages come into full blossom and where we have seen almost no competition.

For a Private Equity fund it is not possible to buy a company without controlling the exit as they need to return capital to their investors after a fixed period of time. Even if they could control the exit, being a minority investor is not very appealing to them. If they can't control the board, how can they then tell their investors that they have sprinkled their magic PE stardust on management from the boardroom?

For companies with permanent capital like family offices, one would think that the need to control the liquidity would be less pressing, especially considering one would often get a substantial liquidity and control discount. It turns out that these illiquid minority holdings are equally unappealing to almost all of these permanent capital investors. We believe there are a couple of reasons for this:

- The first is the belief that one can improve the running of the company if one is in control. It is a bit like driving skills or active mutual funds managers - everyone believes they are above average.
- The second (a variation on the first) is what we call Private Equity worship. Private Equity is the biggest and brightest out there so we should be like them, the saying goes. To us, that is giving away a permanent capital and small size advantage for nothing in return.
- The third is the option to intervene if other investors suddenly should become crazy and force the company into value destructive activities. People passing on fantastic investment opportunities because they are worried what others might do makes us think of a guy running around town waving a machete for protection from crazy people.

Fortunately, in AWC we don't think so highly of our board of director skills. If there is an award for being a mundane board member, we'd proudly accept it with an underwhelming speech. We simply don't think the board of directors needs to be neither spectacular nor hyperactive in any way. There is one very important role the board of directors has and that is to make sure the company has a smart, driven and honest management. Apart from that, we believe a board of directors can only accelerate good management by giving support. With poor management, not the best board in the world, whatever that is, can save the company (without changing management). We'll also touch on this in a later chapter about delegating responsibilities.

By believing that management rather than the board is best to run the company we will also attract better management. When we have recruited CEOs we have made it clear that they alone should take full credit for the results the company achieves. We do not need to raise any capital and pretend the secret sauce of success lies with us. We would actually want them to claim the credit as it will make it easier for us to recruit the next great CEO.

The fundamental view that we might not be the best operators of every company, makes it mentally easier for us to buy a minority position. The companies where we consider buying minority positions are almost without exception fantastic companies that current management have built over many years.

The most important in the Minority Moat category is, as in general, to avoid competition and to not overpay. The advantage with the Minority Moats is that, for the reasons above, the moat can be in plain sight and we still have almost no competition. With great partners like Per in Cambi, Geir Olai in Trysilhus, Conrad in Acos or Jan in Compusoft, being a minority owner is not a massive cost. We're not saying we would not like to have a majority stake so we could control an exit, re-allocate capital if we found something better and not be dragged out like we were in Compusoft. We might have quite strong views on how to operate the companies we control, but those views are completely overshadowed by the importance of making a good purchase and getting in on these great companies.

We should note however that minority stakes do not preclude us from exerting significant influence on the company. An example of this is in Cambi, which started as a situation where a minority shareholder wanted to sell, while Per Lillebø, the CEO and main shareholder, definitely did not. The company had been approached by countless private equity funds that had portrayed themselves as very flexible at first, just to ask for a drag on Per and a shareholder agreement that de facto gave them control of the company later. It made absolutely no sense for Per to give up his shareholder rights so that a minority shareholder could sell to private equity. When we met Per, we had no ambitions to teach him anything about the Thermal Hydrolysis Processes or the business of selling to waste water treatment plants. Per was already a competent business owner having made several hundred millions personally before Cambi, and most importantly, he was what we in Norway call «solid wood». We said we would not demand a board seat, but we would be just a phone call away if he wanted to discuss any issue. It turns out people respond better to constructive suggestions than to demands. Without exception, we have gotten a significantly larger de facto influence by a constructive approach than we would have gotten by insisting on some special shareholder rights. In Cambi, Per insisted we should sit on the board. He also calls a couple of times a week to discuss everything from share option schemes, recruitment, pricing strategies or M&A. He listened to us when we suggested the company should add more commercial power and we recruited what is now the commercial director. He took our advice in the M&A of Grønn Vekst and also when we suggested IPOing the company in the middle of the ESG bubble to get capital for faster growth. Per has been a fantastic partner to AWC. We believe he will say we have also been a good and constructive partner to him.

"If you are not a long-term investor, I wonder what you are doing in the stock market at all, and so will you one day"

- Terry Smith

The question then really becomes what is an attractive compensation for being a minority shareholder in a company with a moat.

Often the sum of the liquidity and minority discount is close to 50%. These illiquid minority situations are created and unwound every day. If we for the purpose of example say that the average life of an illiquid minority situation is 20 years (the main shareholder wants to sell or the next generation does, there is a takeover offer etc), then we should expect a duration of 10 years on average from the time we invest (as we on average would invest at the midpoint of the 20 years). Doubling the money in 10 years gives over 7% annual return. That is in addition to what the business itself returns. Let's say a decent moaty business returns 12% a year. After 10 years one dollar invested would have grown to 3 dollars and 10 cents. If you invest with a 50% discount you'll get twice as much and would be left with 6 dollars and 20 cents when the discount is unwound. That is over 20% annualized.

In Cambi, we bought 26% of the company and the discount was probably more like 75% based on what the former CEO said industry players had indicated for the whole company. Assuming a 10 year term to unlock the minority position, we're talking almost a 15% kicker! We now know what happened with Cambi. It is listed and has an EV of NOK 2.3bn, almost 10x the NOK 250 mill EV we bought our shares for six years ago. Cambi is a fantastic business with a process that has massive both cost and environmental savings, having 98% market share in a market with very high entry barriers that is only 2% penetrated and growing fast. Still, finding this great company, hitting the "green shift" valuation paradigm and Cambi now having delivered all time high order intake, we would "just" have gotten 2.3x or a 15% IRR if we had invested in Cambi at the "full" price. That is about the same we expected just from the liquidity discount.

Close to 10x money multiple or ~45% unleveraged IRR as in Cambi should not be the expectation, but the unwinding of discounts, with some patience, should. The discounts in Minority Moat investments have so far unwound significantly faster than expected. We have in the last six years presented some examples of potential investments in the Minority Moat strategy: Dips, Helgeland Invest, Acos, Cambi, Compusoft, Jackon, Finn.no Eiendom and Hafslund. These have all, even the ones we did not invest in, had their liquidity discounts unwound in the period (Acos is just about to as it has been sold to Visma).

A less obvious, but also very important advantage of investing in minority positions is the positive selection we get in the companies that come for sale. To be on the right side of the trade, buying from controlling shareholders or founders is in itself not a good thing. They know more about the company than we do, so it is at least important to understand the real reason why they are selling and the incentives as we discussed. If you do not like the prospect of the company it is natural to want to sell the entire company and dress it up as much as you can before doing so. When a minority shareholder is selling, however, the majority shareholder has little incentive to dress up the company. Furthermore, one knows that the majority shareholder does not want to sell. Not even at a price significantly higher than what we would be paying (as he would not sell with a discount). Now we are moving to the statistical right side of the trade.

How we analyse opportunities | Know what you don’t know

"There are known knowns. These are things we know that we know. There are known unknowns. That is to say, there are things that we know we don't know. But there are also unknown unknowns. There are things we don't know we don't know"

- Donald Rumsfeld

We enter the vast universe of investments with two base assumptions: (i) many markets are efficient (ii) we cannot predict the direction of these efficient markets.

The direction of the overall markets, interest rates and the oil price are examples of markets we have absolutely no advantage or ability to predict. Admittedly, we have often predicted the direction of all three to ourselves. When we have been right, we have taken it as confirmation of our amazing ability to understand a very complex macro environment and when we have been wrong, there has been no shortage of excuses. The thesis was correct, but some unpredictable event occurred. And besides, it wasn't even a market position. It was a hedge.

Being honest with ourselves, we know that we cannot tell the direction of interest rates, oil or gold prices when markets are operating normally. Realizing that directions of efficient markets are mostly unknowns has freed up a lot of time from looking at the Bloomberg screen for US non-farming payroll updates, crude inventories or inflation forecasts. It is quite liberating to answer, "I have absolutely no idea" when asked where one thinks the general market or the Swiss Francs are heading.

"Learn to say "I don't know." If used when appropriate, it will be often"

- still Donald Rumsfeld

There are two caveats to this. The first is that the broad market trends upwards long-term, although this can be masked by short-term volatility. The second is that crashes in the broad market will lead to a recovery back to the long-term trendline. We know this will happen, but we do not know when, or how low the bottom will be. The consequence of this is that the default investment should be a broad (low cost) equity index rather than cash when we cannot find better investment opportunities.

“Vi har ikke hatt noen aksjeboble. Aksjer begynner å bli billige, og det kommer trolig en oppkjøpsbølge snart, mener sjeføkonom Jan Andreassen i Landsbanki”

- Headline DN 18.01.08 right before the market fell 60% and Landsbanki went out of business

The benefit of using an index as the default allocation is that we are getting the average of everyone else while we are waiting for a better opportunity. Actually, we would do better than the average as we would not be paying high fees, trading commissions or be picked off by the high frequency funds as the active mutual fund managers are. It is quite extraordinary that while waiting for better investment opportunities, we have a default option that will outperform 90-95% of the professional mutual funds over even quite short time frames.

"Don't just do something, sit there"

- Jack Bogle, Vanguard

The most common argument against being fully invested is that you won't have all your dry powder to buy at the bottom of the market. Well, good luck with that. Remember, buying right at the bottom is just half the job. You also need to sell at the top.

Even if it had worked in theory, in practice you will find that sitting on cash for long periods of time is seriously difficult. If everyone around you is collecting 6% in credit carry you might be fine the first year. Already in the second year the lagging starts to hurt. The third year, if not sooner, even the most patient board will start to ask questions. Maybe the capital is allocated to the one putting the money to use. It sure is better than nothing and default rates have never been so low.

Worst of all, after a while you start doubting yourself. When Pareto calls with an unsecured bond to a potential rig project in Dubai, you might view the 10% as the right yield and also as a way to catch up. They already have a Norwegian engineer and a PowerPoint presentation.

"Far more money has been lost by investors trying to anticipate corrections, than lost in the corrections themselves"

- Peter Lynch

Complex macro analysis is not the only thing we find too difficult. In fact, most things we know little about. When it comes to our circle of competence, we very much take comfort in Buffett when he says that it is not important how big the circle is. The important thing is staying inside the circle.

So how do we make investment decisions when we don't know where markets are headed short-term? We do so by conducting deep fundamental research specific to individual companies and opportunities. We build expertise in niche markets by understanding the main risks and drivers. We distinguish between the risks and drivers that can be analysed and the inherent unknowns, focus on the top ones, and form a reasonable opinion of where the business will be in five years through quantitative and qualitative analysis. We favour simplicity over complexity and value efficiency over 100% completeness. We do enough research to convincingly demonstrate that we are on the right side of the trade.

How we analyse opportunities | Get on the right side of the trade

"In the end, the house always wins"
- Gamblers anonymous

Prior to making any investment in AWC, the investment team must be able to answer two fundamental questions:

1. Is there a definable margin of safety?
2. What is the opposing view?

The definable margin of safety is our degree of certainty that the odds are in our favour. Note that this is unrelated to the degree to which the odds are in our favour. To illustrate, imagine the investment team walking into a casino to pick a game to play. We would rather pick the game where we are 100% certain that we win 51% of the time over the game where we are 80% certain that we win 80% of the time.

Convincingly defining a margin of safety is the result of research on the company or asset's fundamentals. In practice, the margin of safety comes in two different types: (i) absolute margin of safety and (ii) relative margin of safety.

The absolute margin of safety is where we have defined a hard downside protection, often in the form of seniority in the capital structure. Our purchase of Cegal bonds is an example of this. The bonds traded at a 25% YTM and were the only financial debt in the company. The company itself, hosting IT services for oil companies, was worth a lot more than the bond principal, let alone the discounted price.

The relative margin of safety is more akin to an arbitrage situation and occurs when we believe an asset is priced correctly and can be purchased with a discount. This could be an easy to price asset trapped in an illiquid structure. Helgeland Invest is an example of this. (Unfortunately, we got too greedy on this investment to close it). The company owned 20% of Vigner Olaisen which in turn owned 52% of Nova Sea. They thus owned over 10% of Nova Sea, the 6th largest Salmon farmer in Norway on a look-through basis. They also owned 49% of Mo Industripark. For us the exercise was simply to price Nova Sea (easy as part of it was owned by Mowi so priced by analysts all the time) and Mo Industripark. Basically, a real estate gem in Mo i Rana. The investment for us was not about predicting the salmon price or the real estate market in Mo i Rana ten years in the future. The investment was evaluating whether the discount we were getting (paying half price for Nova Sea and getting Mo Industripark for free or buying Mo Industripark and getting the Nova Sea stake for free) was sufficient given how long it would take to realize the values.

Just as important as defining a margin of safety, is understanding the opposing view. One should never forget that someone is taking the other side of the trade. That a company is trading at low valuation multiples is something everyone can see. It is only when you understand what the ones selling and pushing down the price are thinking that you know what you are betting against. In poker one says that if you do not know who the fish is, then it is probably you. In AWC we say that if you do not understand the opposing view, then you are probably on the wrong side of the trade.

"So what? What's the opposing view?"
- someone in AWC doing their job

Understanding incentives as part of the opposing view is also critically important in AWC. When explaining an investment, most investors will focus on the quality of the asset. This could be the growth rate, the cash conversion, the churn, the quality of the management etc or all of the above. Those are important factors, but compared to other investors we are much more interested in the circumstances creating the opportunity. Why are we so lucky to get this opportunity? What are the incentive structures for all the stakeholders in the deal? What value are we bringing to the seller, to management, to co-investors? Basically, why are we getting paid to do this deal?

To understand the opposing view, we aspire to think second-level, beyond the obvious or superficial when evaluating areas to look for opportunities. First-level thinking is the initial evaluation of a situation or investment opportunity based on readily available information and commonly held beliefs. Second-level thinking involves going deeper and thinking more critically and creatively about a situation. It involves considering how others will react to the same information you have, what the potential consequences of an action may be, and other factors that are not immediately apparent. An example of second level thinking can be what we did in the secondary market for hedge fund side pockets and litigation claims in the years following the financial crisis. A situation arose where a lot of investors had redeemed from hedge funds and were left with either a fund in liquidation, side pockets, litigation claims or various illiquid assets that were distributed in specie. These were in general not the most sophisticated investors. Now they had lost 50% of their "safe" investment, gotten back 40% and were left with 10% of the most illiquid stuff that they knew nothing about. A first level thinking process would be to stay far away as these were the rest of the rest of assets where people have lost a lot of money, that were difficult to transact, difficult to get information about, complex to analyse and a real pain to do the accounting on. A second level thinking process would be that since there is so much complexity and hassle, there will not be many buyers. It is too big for most individual investors and institutional investors will not touch it with a 10-foot pole. Forced sellers + no competition = opportunity.

"Ikke bare løp etter ballen, les spillet!"
- Coach Gjøvik-Lyn, G14

Our aspiration to understand the opposing view through second-level thinking starts with our search strategy, and provides us guidance on where to focus and whole segments to avoid. It is important to remember that the investments AWC ultimately ends up making are a subset of the investments we have evaluated. There are not enough hours in the day or days in the week to look at all opportunities, so having a good search strategy is paramount. Doing research on the most discussed stocks on Hegnar online will not get us there. If John Fredriksen is selling a VLCC we should not drop whatever we are holding to analyse if there might be an opportunity.

One example of a segment we filter out in our search strategy is IPOs. Apart from spending a few thousand francs when France Telecom went public in 1997, we have never bought shares in an IPO. In terms of a search process that will put us on the right side of the trade, an IPO has pretty much everything we do not want. First, it does not seem likely that out of all the listed equities to choose from, the one being listed, that everyone is paying close attention to, is the hidden jewel. The sponsor who is probably the most knowledgeable about the company also decides when to put it on the market, so they will likely think the timing is in their favour. They normally must also believe they will get more doing an IPO than what PE or industry players will pay. Then there is the limited time you have to analyse the company. In Protector we literally spent years. In an IPO we are talking about a few days available at most. If you manage to get comfortable and find it cheap, it will probably be so obvious that others will too, and you will be scaled down to just get a fraction of the shares you asked for. If you on the other hand should make a mistake and subscribe in a dog, you can be pretty sure the broker, who earns 30x what he does in a regular trade, will shove every last share you asked for down your throat.

Another segment we actively sidestep is the Private Equity minefield of sales processes unless the seller is a zombie fund (a PE fund in wind-down far below the hurdle return). Buying from PE is like «winning» a bidding war on a used car recently spruced up with a paint job and a brimming tank. Sure, there are some vegans at steakhouses and good purchases have been done, but don't come crying if the engine is held together by duct tape and aggressively-adjusted EBITDA.

Luckily, as discussed earlier, not all markets are operating efficiently or with the odds against us. Obscure and small asset classes, uneven information, negative stigma of owning the asset, liquidity constraints, forced sellers or limited buyers are some reasons why assets are priced inefficiently. The best investments we have found are often where sellers need to sell and other potential buyers can't, won't or sometimes even don't bother to buy. Those are situations with limited competition and where we understand the situation and the incentives of the stakeholders - putting us on the right side of the trade.

How we evaluate post-mortem | Focus on the decision, not the outcome

Not primarily judging an investment by the result, but rather distinguishing the quality of the investment decision from how good the outcome is, is a core tenet in AWC. Great investments sometimes have poor outcomes and some of the worst investments can turn out great (Lottery tickets will always be poor investments. Winning after the fact does not change that). In investing we need to think in terms of probabilities, not outcomes.

The distinction between investment and outcome may sound counterintuitive, but can be illustrated by the investment we did in Cevian in 2008. Cevian was a Swedish long-only activist fund and 80% the portfolio was disclosed and consisted of a diversified basket of large cap highly liquid European names like TeliaSonera, Munich Re, Volvo, Stora Enso, Metso etc. When investors subscribed to Cevian, they originally signed up for a 2-year hard lock-up before monthly liquidity. This was in the middle of the financial crisis and one investor, who had one year left of the lockup, needed liquidity. We had the opportunity to purchase the shares with just over 20% discount with a forward NAV date and one year lock-up remaining. Here is how we evaluated the opportunity prior to execution:

- Find a catalyst or moat: Cevian met the requirements of a catalyst investment. We were purchasing at a discount, our trigger point was to sell when the discount to NAV was realized after the end of the lockup period, and it was an asset nobody wanted due to market conditions.
- Know what we don't know: We calculated that Cevian had a 95% correlation to the Eurostoxx 350. Instead of attempting to form a view on every stock in the portfolio, we resorted to our long-term beliefs that the broad market trends upwards and that a recovery would come (although the timing would be unknown).
- Get on the right side of the trade: Cevian demonstrated a relative margin of safety with its 20% discount. The opposing view was clear – it was a forced seller who needed liquidity.

So what was the result? The market continued to fall more than 20% after the purchase, eroding the discount completely and taking the trade into the red. Then it bounced back. When we redeemed the investment one year after the purchase, the gain was 87%. This 87% could very easily be split into 25% margin of safety (from 80 to 100) or investment case return, and 62% good old-fashioned luck or Beta as we call it.

And the final verdict? Investing in Cevian at a discount was a good investment and will continue to be in the future regardless of short-term market direction. We should try to do more of those when the opportunity arises. Just don't expect an 87% return every time – luck will not always be on our side.

It can be difficult and counterintuitive to make the distinction between the investment decision and the outcome for multiple reasons:

- People struggle to think in terms of probabilities. The future has many possible outcomes. However, when the future becomes the past, all previous possible outcomes collapse into a single outcome. The tendency of the human mind when presented with hindsight is to disregard the outcomes that did not manifest and develop a simple, concrete story in which the actual outcome was an inevitability by discounting the role of luck and placing an outsized emphasis on talent (or vice versa in the case of a poor outcome). This is explored in detail by Nobel Prize winner Daniel Kahneman in his book Thinking, Fast and Slow.
- Investing can have extremely long feedback loops. Especially if there are few and highly correlated bets, it can be very difficult to know if the returns are luck or skill. Take long interest rates - they have fallen almost continuously for 20 years. You are not a better investor the more leverage you have had in real estate in that period - you are just less risk averse. The same for private equity. An argument can be made that the business model of putting on a lot

of leverage, cutting capex and selling the company five years later has not been tested in an environment with rising interest rates. When the tide goes out someone might be caught swimming naked as Buffett says.

We can avoid these fallacies by being very clear upfront on why we are investing in an asset. When we invested in Protector it was because we believed they would grow in the UK and that this together with what we saw as sustainable competitive advantages were not priced in. We should not change the strategy or kick our leg for the losses Protector took when Grenfell Tower happened as it was just bad luck. If anything, it showed that the reinsurance and internal procedures worked in the worst fire event in the UK since the Second World War. At the same time, we should not pounce our chest or think that we know anything about investing in mines because of the windfall profit we got in Mountain Pass. Our base case was nowhere near the result. It was an event that was always a possibility, but in the tail of the probability distribution - basically luck.

More than fixating on specific investments that didn’t pan out or went awry, the most important is cultivating a culture that can recognize the difference. Our long-term ambition is to create a world leading investment environment in AWC. We will never succeed if we do not encourage the right decisions independent of outcome. Without making the distinction one will never learn and praising results regardless of the risks taken, will lead to excessive risk taking.

We will therefore try our absolute best to be intellectually honest. Yet, as we are the ones writing the investment memos, we will most likely incorrectly label some favourable outcomes as good investments and some terrible investments as bad luck. Highlighting this upfront we hope will at least help us stay honest. Still, feel free to be sceptical of the ex-post rationalizations in the memos on each individual investment. Also, look for opportunities to say both "That was a great investment, it was a shame X happened. We should do more of those" and "It doesn’t matter if you made 100% return, that is still a pretty bad investment". There will be ample opportunities for both.

How we manage AWC | Centralize strategic decisions. Decentralize everything else

"The most innovative companies tend to push decisions as far down in the organization as possible, giving people at all levels the opportunity to move fast, utilize their creativity, apply their intellect, and assume responsibility"

- Jim Collins

The title in this chapter is the 9th principle of the Scaled Agile Framework, a set of organization and workflow patterns intended to guide enterprises in scaling lean and agile practices. It captures how we believe organizations should be run efficiently. Not only the subsidiaries of AWC, but also AWC and our investment processes.

Let's start with an example. TietoEvry and Visma are both making enterprise software in a lot of similar areas. Organizationally, however, the two companies could not be more different. Hyperbolically we say that in TietoEvery, with a very hierarchical and centralized model, one cannot buy a paperclip in a subsidiary without the head office in Finland signing off first. In Visma on the other hand, they practice a partly decentralized model where two subsidiaries might compete fiercely without even knowing they are both owned by Visma. The results are striking. Visma has been highly successful in their acquisition strategy and the targets have flourished. TietoEvery on the other hand have been terrible in acquiring companies. Most of the few great companies they have bought, have had their company culture suffocated by an endless amount of bureaucracy. Needless to say, AWC wants to be more like Visma than TietoEvry. In fact, with our principle above, and with the benefit of being small, we take it much further than Visma.

The main reason for the historical centralized structure is to have control. It is natural to think that to mitigate risks, a top-down culture with several decision layers will give better control. As we also discuss below in the chapter on risks, this control comes at a very high cost:

- **Responsiveness and speed**. The pace of decision-making will invariably impact the speed of an organization. In Aidn and Kvikna we have prioritized speed over centrally decided synergies after failing with the synergistic plan first. It is annoying to make the module for electronic prescription in two different companies, but it is actually faster to do it twice than to coordinate dependencies in companies with different use cases, technologies and company cultures. In investing, speed can be crucial - you want to be fist and assertive when a good deal comes by. If you are not first, then you might want to consider being last. Being a buyer in the middle is the worst. The good deals are gone and you still have people chasing the bad ones, so you are not the buyer of last resort. With each transaction small and the transactions done sequentially where one always can review one before the next is done, the risk for AWC long term is not that we make a bad investment decision. The biggest risk is that we are slow and always miss the good ones. The risk of commission must be weighed against that of omission.
- **Decision quality.** Decentralized decisions are made by individuals directly immersed in the problem's context. Decision quality doesn't necessarily improve with higher escalation; in fact, elevating it too much can degrade the decision's quality. This is especially true in technical areas or if the decision process requires deep research and second level thinking as often is the case in investing.

- **Employee motivation.** The biggest long-term risk for AWC, as we discuss below, is attracting, motivating and retaining the right people. By delegating decisions to the right level, we will foster an empowering, non-bureaucratic culture and retain or increase employee motivation and sense of ownership. Our ambition is that the people that join AWC are the absolute best among their peers. They are inherently motivated to work for AWC and thrive on greater responsibility and challenges.
- **Innovation.** If one always provides directions, then people will stop taking the initiative or thinking critically. Self-directed workers will come up with the best solutions as they have the better understanding and context of their work. Innovation must travel upwards.

Protector and Aidn are probably the best run companies in our portfolio. Both companies practice maximum decentralization. For Protector you will see the book “From Good to Great” by Jim Collins (behind the quote at the start of the chapter) at almost every desk if you walk through their offices. As a side point to decentralization, the other main point in the book is that Good is the enemy of Great. Protector practices this to the fullest where everyone in the organization takes responsibility and looks for ways to improve. It is truly impressive and can only be achieved in an organization where people are self-driven and not just waiting around for the next instruction.

Dips was initially a quite centralized organization. When we acquired other companies in the healthcare space, we therefore built Kernel so the new companies would not be affected by Dips’ centralized culture. For the Kernel organization we were very specific that they could only be a couple of people facilitating the contact between the companies in the group. Had we let the headcount in Kernel grow, they would have had more time to demand business reviews, reporting and everything else from the portfolio companies. Before we know it, we could have become TietoEvry with people resigning in frustration over not being able to do great work.

Aidn is the only company we have built completely from scratch and where we could set out the direction for the culture from the start (Kvikna is just starting). The company has now grown to over 80 people and so far massively over delivered by being a full year ahead schedule. We are not aware of any major software projects that have achieved that. The software is already running with live patient data and the Minister of Health is unveiling their demo at Rikshospitalet next week. It might sound like we should take a great deal of the credit for the success Aidn or other companies like Deepinsight has had, but unfortunately we cannot. We can take credit for finding great people to lead the projects and giving them support to carry out a long-term strategic plan. We have also been smart enough to not interfere with technology choices, team organization or even the features in the solution. If we had, we are sure it would have had a negative impact and more importantly, we would not have been able to recruit people obsessed with making a great company and willing to run very fast for many years to achieve it.

How we manage AWC | Optimize for long-term risks

In the investment world, the instinct to protect against imminent threats is understandable. After all, managing risk is foundational. However, it's essential to discern between strategies that provide short-term comfort and those that ensure long-term resilience. Often, the former can unknowingly compromise the latter. This is often a paradoxical relationship between short-term risk mitigation and its potential long-term ramifications is especially important for investors like Awilhelmsen and AWC with a generational perspective. We have below included some examples of the many time period trade-offs we meet. Rest assured, we will always take the long view - playing to Awilhelmsen's strengths.

Cash vs. Equity On the surface, holding cash shields a portfolio from short-term market downturns, preserving purchasing power in immediate challenging times. However, when viewed from a multi-decade perspective, this strategy can severely lag behind equity indices, leading to massive relative losses in purchasing power over time. Often holding cash is not just a risk mitigation, it is also a tactical allocation by people who believe they can time the market. It is to avoid this risk we have dedicated so much space earlier in this letter to Knowing what we do not know. We need to be firm we do not know. Otherwise we might think that we do and run the risk of massive long-term underperformance by jumping out of the market and never managing to get back in.

Decision-making layers Introducing layers of approval, such as investment committee sign-offs for each transaction in an investment firm or board in an operating business, may seem like a prudent risk filter. Yet, these layers can hinder agility. Delays might mean missing great business or investment opportunities that are swiftly grabbed by more agile competitors. Even with the swiftest decisions from the boards or investment committees, the investment team will spend a substantial part of their time at the most critical moments making internal presentation material rather than trying to get more information. Moreover, long term, such a structure can demotivate top talent, dissuading them from joining or making them consider leaving due to a lack of empowerment. Just as we discussed in the chapter about centralizing strategic decisions and decentralizing everything else, we would rather trust a great manager than tightly control a mediocre one. That said, there are differences in types of decisions. Not all decisions should be decentralized such as risk limits or investment/operating strategy. Frequent, business as usual decisions or decisions that are time critical, however, should be decentralized. Centralizing those decisions would introduce the risk of lost competitiveness long term.

Reputation's Fragility: The allure of a deal that offers immediate gains, even at the cost of co-investors or ethical considerations, can be tempting. Short-term benefits might accrue, but the long-term reputational costs can be devastating. Owners of high-quality businesses, when given a choice, will gravitate towards firms with impeccable reputations if they need a co-investor. When we meet a new company, we bring a list with the contact details to all the CEOs and all the major co-investors in the companies AWC have invested. We then encourage the company to call to ask how AWC are both as a majority and minority investor. Nobody ever calls, but it signals that at least we ourselves believe we have acted with integrity. Having a good reputation also extends far beyond just doing good deals directly. It will help us in recruiting and retaining the best employees and it is aligned with the goals of Awilhelmsen.

Employee Investment Restrictions: Restricting what employees can invest in and avoiding co-investments might seem like a way to ensure focus and avoid conflicts of interest and hassle in general. Yet, by doing so, we would not be able to attract those employees that have had substantial success investing their own capital. For them the cost of reduced investment opportunities would be too great. Over time, this can culminate in a team that hasn't tasted success outside of regular compensations or put their own capital on the line in active management. In AWC we would much rather share a great deal, than have a mediocre one to ourselves. (We are the first ones to recognise that this might sound self-serving, but while there's an undeniable aspect of personal interest here, we are genuinely convinced there's no conflict between this self-interest and what is best for AWC in the long run as more employees join). In Aidn the employees own 10% of the company and all employees are shareholders (they have all paid for their shares). For some employees it is merely symbolic, but for the key people we recruited first, it was essential that they could invest and model it as if they had founded a startup.

ESG Considerations: In the race to demonstrate profitability or achieve short-term targets, neglecting Environmental, Social, and Governance (ESG) factors can be tempting. However, businesses that ignore these considerations might face regulatory backlash, consumer boycotts, or social stigmas in the future, endangering their long-term viability not to mention that it would be against the wishes of the Wilhelmsen family. It might seem that since we are less vocal about our ESG efforts in AWC, we do not prioritize it. That is not the case. We are, however, allergic to greenwashing and taking credit for ESG effects that are an unintentional byproduct of the primary goal. Take a company making aluminium parts for petrol driven cars. If their entire capacity is bought by a solar panel producer, does that mean the aluminium parts maker is now a champion of the green shift? Or consider the act of tearing down a functional building to erect a supposedly "greener" one. In total, it has an environmentally negative impact, but satisfies the tenants' need for saying they are in an energy efficient building. In AWC we are thinking long term and we believe there will soon be a shift from mere optics to true, impactful ESG actions. When that happens, we do not want to be caught as hypocrites or with empty buckets of green paint. Instead, we want to be recognized for the intentional and impactful work we have done in companies like Cambi.

Moderate Diversification: When optimizing for long-term risks, the degree of diversification is an important decision. High diversification will reduce short-term volatility, but comes at a cost: diminished long-term returns. The logic is twofold: firstly, it restrains our ability to allocate meaningfully to our highest conviction ideas; secondly, we do not have a vast array of equally compelling opportunities. Yet, the opposite extreme – being under-diversified – leaves us vulnerable to idiosyncratic events and being wrong in our convictions. The balance we aim for at AWC is moderate diversification. It's a strategy that ensures that even if we face unforeseen challenges or misjudgements, our overall portfolio remains resilient.

As discussed, AWC's perspective on risk is deeply rooted in long-term thinking. This should also apply to how we spend our time thinking about risks more broadly. Very often we talk about the risk of investing in a particular asset. Longer term, the investment strategy will be much more important and a bigger risk than any individual investment. (That is partly why we have written this memo). It doesn't help if you are very good at evaluating the risk in every investment if your search strategy is to get ideas from Formuesforvaltning. Very long term, the people we recruit will be even more important and represent the absolute biggest risk in an investment organization. It doesn't help if you have a fantastic investment strategy (such as this one) and a portfolio of great long-term assets, if it is run by incompetent managers. The interpretation of the investment strategy will change and those great long-term assets will be sold before you know it.

Appendix I: Investment checklist

Investment checklist	Check
If Compounder: Is the Return on Equity sufficient long-term?	
If Compounder: Is there a sustainable competitive advantage (moat)?	
If Compounder: Is the company growing sustainably, and will this continue?	
If Compounder: Are we overpaying for a moat that everyone can see?	
If Catalyst: Is there a significant discount to the underlying value?	
If Catalyst: Have we identified a catalyst? Have we considered the return sensitivity if we are wrong about the catalyst?	
If Catalyst: Is the investment unpopular? Do we understand why?	
Is there competition for the investment? If yes, do we have a competitive advantage over other bidders?	
Do we understand the business (top risk and drivers), and can we reasonably say where it will be in five years?	
Have we read the annual reports of all competitors?	
Have we performed a Scuttlebutt process – talked to employees, former employees, customers, and competitors – and triangulated data?	
Have we considered how we would outcompete the business as a competitor?	
Is the investment thesis driven or influenced by a macro view?	
Have we considered our level of certainty of being on the right side of the trade?	
If the price falls with no new information, would we honestly buy more?	
Have we defined a margin of safety, either absolute or relative?	
If the investment fails, can we defend being on the right side?	
Do we understand the incentives creating the situation? Are they in our favour?	
Do we understand the opposing view, and can we show that it is wrong?	
Have we performed and written a pre-mortem?	
If the investment fails, would we still be able to defend being on the right side?	
Does the person(s) closest to the deal have the strongest conviction?	
Would the investment jeopardize the integrity of AWC or Awilhelmsen?	
Does the addition of the investment to our portfolio allow us to maintain moderate diversification?	
From an ESG perspective, would we still be proud to own the company 10 years from now?	

Biases to think about:	
Are we driven by FOMO?	
Is it a hyped sector where we are influenced by groupthink?	
Are we subject to an anchoring bias to the seller's or other buyers' price expectation or to a price we have already paid?	
Are we subject to the sunk cost fallacy if already invested?	
Are we subject to the halo effect?	
Are we subject to loss aversion?	
Are we subject to confirmation bias? Have we sought out disproving facts?	
Are we subject to self-interest bias?	
Are we subject to the endowment effect?	
Are we subject to disaster neglect bias?	