
EUROPEAN SPIN-OFF & RESTRUCTURING COMPENDIUM

September 2019

Featured Companies

Unilever NV (UNA NA)
Anheuser-Busch InBev SA/NV (ABI BB)
Coca-Cola European Partners PLC (CCEP)
Koninklijke Philips NV (PHG, PHIA NA) / Signify (LIGHT NA)



*Exclusive Marketers of
The European Spin-Off &
Restructuring Report*

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Murray's Musings

THE VECTORS OF THE PAST TWENTY YEARS

The Divergence Between Income Growth and Inflation

In the past two decades, there have occurred two enormous economic vectors. The first is the growth of internet usage. According to internetworldstats.com, in December 1999, there were 248 million internet users, or 4.1% of the global population at that time. Shortly thereafter, it will be recalled that the general consensus of the investment community was that internet investing was one of the greatest financial bubbles of all time.

However, according to the same source, by June 2019, there were 4.422 billion internet users, or 57.3% of the global population. It is this trend that has propelled the growth of companies such as Apple, Facebook, Microsoft, Alphabet, and Netflix. It should be self-evident that when 57.3% of the global population becomes a user of the internet, the future growth prospects become arithmetically constrained by the declining proportion of nonusers.

The second vector is more difficult to comprehend since it involves the interplay between inflation and interest rates. The U.S. Census Bureau records that in the year 2000, the median nominal income in the U.S. (unadjusted for inflation) was \$30,775. The latest reading is \$34,489. That is a rate of growth of 2.4%. During this period, the consumer price index is reported to have risen at a 2.1% annual rate. However, a less manipulated—or perhaps constructed is a more objective term—measure of purchasing power debasement is the Federal Reserve's report of growth in M2 money supply, which expanded at 6.1% annual rate since 2000. That money supply growth figure is more closely matched by health insurance costs: in the year 2000, according to the Kaiser Family Foundation, the average annual premium for health insurance for a single covered worker in the U.S. was \$2,471, and it was \$6,896 in 2018, which was an inflation rate of 5.9%; for families, the 2018 figure was \$19,616, which was the product of a 4.2% inflation rate.

Similarly, according to the U.S. National Debt clock, the median sales price of a new home in 2000 was \$166,140 versus \$315,660 in 2019, for a rate of appreciation of 3.44%. The means by which the median household could purchase a home despite price increases in excess of income growth was made possible via a dramatic decline in interest rates. The financing cost of a house has clearly declined.

Obviously, this trend also contains inherent limitations. According to treasury.gov, the yield on a 10-year U.S. Treasury, which is used as a reference rate, was 6.45% on December 31, 1999. At this writing, the same instrument yields 1.60%.

Thus, it is reasonable to visualize that the next 20 years could be very different than the past 20 years. The six giant internet companies, which comprise over 16% of the S&P 500 index,

must confront a new user market that has been substantially penetrated and quite possibly saturated. In the world of 2%-plus inflation, the average household will need more income to purchase homes and health insurance. Also, the valuation multiple expansion possibilities for equities are obviously limited by the current low level of interest rates.

Exercises in the Implications for Corporate Profit Growth

The gap between median income growth and inflation of product prices might seem too small to be important. However, placed within the context of corporate profit margins, this differential is critical. In order to illustrate the point, let us suppose the existence of a hypothetical company with \$1 million of revenue and a 10% after-tax profit margin, or \$100,000 in profits. Costs are, by definition, \$900,000 and, for the purpose of simplicity, we will ignore taxes, or assume zero taxability. Further assume that \$300,000 of those operating costs are attributable to materials and equipment, and \$600,000 to wages for all employees. This idealized corporation would have the following income statement. It also has an unleveraged balance sheet.

Table 1: Idealized Company Income Statement

Revenues	\$1,000,000
Materials & Equipment Costs	-\$300,000
Employee Wages	<u>-\$600,000</u>
Profits	\$100,000

With these assumptions holding, suppose there is 4% inflation, which is about halfway between both the central bank policy goal for inflation and its historical CPI measure and the actual money supply growth over the period, but that wages increase by only 2.4%, since this is the actual median growth in household income in the U.S. over the past 19 years. The income statement in the next hypothetical year, in accordance with these figures, is as follows.

Table 2: Idealized Company Income Statement
(4% Inflation, 2.4% Wage Growth)

Revenues	\$1,040,000
Materials & Equipment Costs	-312,000
Employee Wages	<u>-614,400</u>
Profits	\$113,600

In this example, revenue increases to \$1,040,000 due to 4% inflation. The materials and equipment costs are also subject to 4% inflation, totaling \$312,000. However, the employee wages, which are represented by the median income, rise by 2.4% to \$614,400. Subtracting those two costs from the \$1,040,000, results in profits of \$113,600.

It will be observed that this represents a 13.60% increase in profits versus the prior year. In this circumstance, it is simply that the corporation keeps the bulk of the 4% price increase,

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since the cost of labor rises far less than 4%. Hence, these generally small numbers—and they are small numbers—have enormous profit and loss consequences.

It should be self-evident that if wages were to increase at the rate of inflation, the profits of this firm would be unchanged. It could be argued that profits would increase if there were demand growth in addition to price inflation. For example, if demand growth were to increase by 3%, then even if wages increase by 4%, the result would be a far more profitable enterprise. This is illustrated arithmetically in the table below.

Table 3: Idealized Company Income Statement
(4% Inflation, 3% Unit Growth)

Revenues	\$1,070,000
Materials & Equipment Costs	-321,000
Employee Wages	<u>-624,000</u>
Profits	\$125,000

This company, with 4% inflation and 3% unit growth, will have 7% more revenue, for a total of \$1,070,000. Materials costs would increase by the same inflationary increment of 4%, plus the company needs to buy 3% more supplies to produce more products. That works out to a materials and equipment cost of \$321,000. Employee costs advance by the 4% inflation rate. When that is subtracted, the profit actually rises to \$125,000 from \$100,000.

In this scenario, profits advance 25% vis-à-vis the prior year. However, that is only possible if the employees become 3% more productive, meaning the employees must generate 3% more product volume. In real terms, they are being paid 0% more (4% more in nominal terms, but their living costs are rising by the same 4% inflation rate), but they have become 3% more productive.

According to the U.S. Bureau of Labor Statistics, U.S. productivity increased by 1.1% over the past four quarters. If all costs advance by the rate of inflation, and the employees were to produce 1.1% more units, the idealized company's earnings would be as follows.

Table 4: Idealized Company Income Statement
(4% Inflation, 1.1% Productivity Growth)

Revenues	\$1,051,000
Materials & Equipment Costs	-315,300
Employee Wages	<u>-624,000</u>
Profits	\$111,700

The company would have \$111,700 of profits. Still not bad.

In principle, all should be well. However, in this idealized situation, the model does not account for how productivity increases are achieved. The model assumes that productivity

is free. However, it is never free. Productivity enhancement usually requires some form of capital investment. Let us now assume that our idealized company achieves a 1.1% productivity increase via the purchase of \$100,000 worth of equipment. This equipment has an estimated 10-year useful life. Thus, the profit position is now as follows.

Table 5: Idealized Company Income Statement
(4% Inflation, 1.1% Productivity Growth,
Incremental Depreciation Expense)

Revenues	\$1,051,000
Materials & Equipment Costs	-315,300
Employee Wages	-624,000
Incremental Depreciation Expense	<u>-10,000</u>
Profits	\$101,700

Revenues advance 4% for inflation and 1.1% for production increase to \$1,051,000. The materials costs increase by 4% for inflation and 1.1% for more materials because the company is manufacturing more units, for a total of \$315,300. Wages advance by the 4% inflation rate, so that the expense is \$624,000. Additionally, there is \$10,000 of incremental depreciation expense, because a machine that costs \$100,000 and lasts for 10 years will depreciate by \$10,000 per year. The profit in this example declines to \$101,700.

Clearly, a mere productivity increase with the existing staff is inadequate to raise profits. There must be a labor input efficiency, which can occur in two forms. One possibility is that the given firm actually needs less labor. The other possibility is that there is a decline in the real cost of labor. In other words, wage increases are less than inflation. This has been the case for roughly the past two decades, as can be readily visualized from the median income statistics published by the U.S. Census Bureau. The problem is that 2.4% per annum median income growth is simply unsustainable in a 4% or 6% inflation environment.

One of the problems with economic policy is the measurement of the rate of inflation. There is an element of subjectivity to the selection of the components of any inflation index, as well as the weights assigned to those components. In any case, as calculated by the U.S. Department of Labor, the annual inflation rate for the past 12 months ended July 2019 is 1.8%. Yet, the growth rate of the M2 money stock, seasonally adjusted as calculated by the St. Louis Federal Reserve, is 5.5%. That is the most current number available.

Some would argue that M2 growth is a much better measure of actual inflation than the consumer price index, since M2 involves objective definitional calculations. Let us say that the general public, or perhaps just the investment public, comes to conclude that the growth in money supply is a better measure of inflation than the consumer price index as calculated by the U.S. Department of Labor.

If such were the case, wage expectations and interest rate expectations would certainly change. Currently, the 10-year U.S. Treasury yields 1.60%. The last time the 10-year Treasury yielded twice that level, which is to say more than 3.2%, was on May 12, 2011; at that time, the S&P 500 index was much lower. This surely does not presuppose a high rate of interest.

The Implications for the Stock Market

If one wishes to envisage negative stock market scenarios, one need not envisage even modestly higher interest rates. One can simply imagine that the median employed individual demands a 4% wage increase as opposed to the annual 2.4% basis points that have been received since the year 2000.

It might not seem exorbitant. Nevertheless, in the context of business profitability, it is actually a very exorbitant sum. According to usdebtclock.org, the total compensation of all employed persons in the United States on an annual basis is \$11.454 trillion. Therefore, a wage increase of 4%, by definition, would be equivalent to \$458 billion. The St. Louis Federal Reserve reports that U.S. after-tax corporate profits on an annual basis are about \$1.8 trillion. Thus, a 4% wage increase equals 25.44% of corporate profits.

The persistence of only modest wage increases is essential to corporate profitability. In the fourth quarter of 1999, corporate profits after tax were \$556.26 billion. In 19 years, corporate profits more than tripled. Some of this increase is attributable to a reduction in corporate taxation. Even so, the annualized rate of growth is only 6.38%, which seems a far cry from even qualifying as robust.

One might be inclined to believe that the huge corporate tax rate decrease passed in 2017 had a large impact on U.S. corporate profits. In the fourth quarter of 2016—before the tax decrease was passed—U.S. corporate profits after tax, as calculated by the St. Louis Federal Reserve, amounted to \$1.784 trillion on an annual basis. As noted previously, the last available figure from the Federal Reserve as of the first quarter 2019 was \$1.8 trillion. Thus, constraining wage growth to a very modest limit, even to below the rate of inflation, is necessary if corporate profits are to be maintained at current levels. In other words, even given the tax decrease, corporate profits did not change. Alternately phrased, the corporate tax reduction of 2017 did not increase corporate profits; it merely served to preserve profits at prior levels.

Wages are even a concern at the most rapidly growing companies. For instance, in the case of Facebook, the Form 10-Q for the second quarter of 2019 states that the company spent \$1.3 billion on share-based compensation. This is the Black-Scholes value of the options issued during the quarter. Although the accounting treatment is certainly correct, the employees receiving the options undoubtedly make an estimate of profits that they would realize over the life of the option. In other words, if these were three-year options and the shares do not appreciate during that period, the employees would not consider that they had

been compensated to the extent of \$1.3 billion, because they would not receive any cash. The employees would surely feel that no equity compensation had been issued, although in the genuine accounting sense, it had.

Since an outside analyst can never know what the employees expect to receive from the equity, one cannot calculate the amount of cash compensation that would be desired by the employees if the option-based compensation proved to be without value viewed from the perspective of the employees. In the case of Facebook, one can only know that the accounting value of the equity compensation issued during the second quarter of 2019 equals about 50% of reported net income.

In 2018, full year equity or share-based compensation expense for the technology giants were as follows.

Table 6: Technology Giants 2018 Equity Compensation

	<u>Equity Compensation</u>
	<i>(\$ in billions)</i>
Facebook, Inc.	\$4.152
Apple Inc.	5.340
Alphabet Inc.	6.703
Amazon.com, Inc.	5.418
Microsoft, Inc.	4.652

Source: Company reports

These several-billion-dollar quantities are not an issue so long as the shares continue to appreciate. However, internet usage growth is slowing as a greater proportion of the population—now well over 50% globally—attains the ability to access the internet. According to internetworldstats.com, there were 4.313 billion users worldwide in December 2018, and by June 2019, this had expanded to 4.422 billion. This is a growth rate of 2.53% over six months. It would still be quite respectable growth if it continues for the balance of 2019. However, it will not produce the enormous growth of the past that generated tremendous option-based profits for the employees of the technology firms.

Thus, even in the technology sector, wage pressures have not been an issue insofar as the past two decades are concerned. Ultimately, compensation growth of 2.4% per annum is unsustainable in a world of 6% annual inflation. This is a very important issue for the future of corporate profits and, therefore, becomes an issue for equities as an asset class.

Industry Thoughts

THE RISE OF ROYALTY COMPANIES AS AN ASSET CLASS

The past seven years have been enormously difficult for natural resource companies. In August of 2011, gold traded at well above \$1,800 an ounce. It now trades at about \$1,500. In April 2011, silver traded at over \$48 an ounce. Silver now trades at about \$17.

Similarly, in the case of hydrocarbons, West Texas Intermediate traded at over \$107 per barrel in June 2014. It now trades for about \$54. Natural gas traded at over \$15 per million BTU in December 2005 and now is priced at, roughly, \$2.15 per million BTU, and has recently traded even lower.

Therefore, it should not be surprising that the VanEck Vectors Gold Miners ETF (GDX) trades at about one-half of its price recorded in April 2011. The SPDR S&P Oil & Gas Exploration & Production ETF (XOP) trades at 73.2% below its level of June 2014.

In a world in which control of risk is a portfolio management responsibility, natural resource firms are gradually excluded from indexes. Energy now accounts for only 4.44% of the S&P 500. Exxon and Chevron make up slightly less than half of this weighting. In practical terms, the S&P 500 no longer has exposure to gold mining: Newmont Goldcorp Corporation (NEM), the largest U.S. gold mining company, is a 13 basis point position in the S&P 500.

Enormous sums are required to engage in oil and gas extraction, as well as gold mining. Many of the firms are marginally profitable. Consequently, it is no more than reasonable that investors have come to prefer companies such as Facebook, which has a 44% operating margin, with net profit that is effectively free cash flow. It produces a 26.2% return on equity. Surely, no capital-intensive natural resource company could rival these figures.

Nevertheless, Viper Energy Partners (VNOM) produces a 69.9% operating margin. Its net profit is not only free cash flow, it is paid to its shareholders as dividends. The Viper Energy ROE, amidst historically low oil prices, is 13.28%.

This is possible because Viper is a royalty company. Such a business is not an operating company in the conventional sense of the word. The firm's capital is invested in royalties, which are really contractual revenue shares. In other words, the seller of a royalty interest agrees to pay a percentage of its revenue to the purchaser (Viper) for the life of the royalty. The price is calculated in such a manner that an acceptable ROE is earned even if commodity prices remain low. Thus, the royalty company has low operating costs, no ongoing capital commitments other than the original expenditure and, therefore, effectively holds a free call option on commodity prices if they increase.

It is important to note that unlike the oil royalty companies of the past, these are not self-liquidating interests. This is because the cash flow and dividends are calculated net of a depletion allowance. The cash flow is therefore higher than the operating profit and is generally used to purchase more royalty interests so that the firm becomes a perpetuity. Some examples of royalty interest companies include Kimbell Royalty Partners, LP (KRP), Dorchester Minerals, LP (DMLP), and Black Stone Minerals, LP (BSM).

The risk to investors is that underlying commodity prices might decline and, therefore, the dividend could be reduced. However, this risk is mitigated by the fact that in such scenarios, the price of other royalty interests for sale also declines, which means the purchasing power of the depletion expense rises enormously so that the company can replace more reserves than are being produced. Consequently, the royalty companies have proven to be far less volatile than a conventional natural resource company.

In the world of gold and silver mining, the royalty structure is not a new concept. Franco-Nevada Corp. (FNV) and Wheaton Precious Metals Corp. (WPM) have become important providers of capital to gold and silver miners. Both are Canadian companies and the royalty approach has been well-accepted in Canada as a means of controlling risk from an investor's perspective while still maintaining the inflation hedge characteristics of investments in natural resources.

However, even in Canada, Franco-Nevada has only a 1.28% position in the iShares MSCI Canada ETF (EWC), and Wheaton Precious Metals is an 88 basis point position. As in the case of any royalty company, the basic idea is to produce an ongoing acceptable rate of return in a disinflationary or deflationary environment. Effectively contained within the royalty is an ongoing infinite call option on the underlying commodity price.

Gradually, more of these firms are coming public. The available dividends on the petroleum-related firms are very high.

Table 7: Royalty Company Dividend Yields

<u>Ticker</u>	<u>Company</u>	<u>Dividend Yield</u>
KRP	Kimbell Royalty Partners, LP	11.07%
DMLP	Dorchester Minerals, LP	11.07%
BSM	Black Stone Minerals, LP	10.52%
VNOM	Viper Energy Partners	6.53%
FRU CN	Freehold Royalties Ltd.	9.10%

Source: Bloomberg

Eventually, when there is sufficient market capitalization to assemble a properly diversified royalty index, investors will compare it to bonds. Perhaps it is better to accept a 10% to 11% yield with upside potential than a bond with a negative rate of interest.

Facts & Figures

SPDR S&P OIL & GAS EXPLORATION & PRODUCTION ETF (XOP)

The SPDR S&P Oil & Gas Exploration & Production ETF is trading at 67% of book value according to the SPDR website. This rare happenstance is a measure of the degree to which the elimination of volatility has motivated the exodus from commodity-related equities.

U.S. EXPORTS TO CHINA

According to the U.S. Census Bureau, the following is a list of U.S. exports to China that exceed \$1 billion per year. Between 2017 and 2018, prior to the recent trade talks, U.S. exports to China declined from \$129.79 billion to \$120.1 billion. To repeat, that is prior to the imposition of any tariffs. When one reviews the individual figures, one can see why.

Table 8: U.S. Exports to China Greater than \$1 billion (2017-2018)

	<i>(in billions)</i>			<i>(in billions)</i>	
	<u>2017</u>	<u>2018</u>		<u>2017</u>	<u>2018</u>
Soybeans	\$12.230	\$3.129	Electric apparatus	\$2.317	\$2.422
Fish	1.325	1.148	Industrial engines	1.660	1.755
Crude oil	4.378	5.430	Measuring, testing, control instruments	2.765	3.128
Petroleum products	1.690	1.386	Industrial machines	5.448	6.821
Natural gas liquids	1.968	1.186	Computer accessories	1.386	1.328
Aluminum	1.368	0.881	Semiconductors	6.076	7.117
Copper	2.251	1.769	Telecommunications equip.	1.400	1.426
Non-monetary gold	0.749	1.037	Lab. testing instruments	1.826	2.042
Pulpwood	3.359	2.919	Medical equipment	3.453	3.726
Plastic materials	4.004	3.981	Civilian aircraft, engines, equipment, and parts	16.264	18.220
Chemicals - organic	2.294	2.469	Passenger cars, new & used	10.208	6.638
Chemicals - other	2.982	3.197	Vehicle parts, accessories	2.719	2.863
Other industrial supplies	2.110	2.170	Pharmaceutical preparations	2.681	3.023
Logs and lumber	3.176	2.834	Cell phones, other h'hold goods	1.824	1.462

Source: U.S. Census Bureau

Many of the exports have declined, including soybeans, fish, and even petroleum; crude oil is up, but refined petroleum products and natural gas liquids are actually down. Aluminum, copper, and pulpwood have all declined. The dollar value of passenger car exports to China in 2017 was \$10.2 billion; in 2018, it was \$6.6 billion.

These figures demonstrate how difficult it will be to arrive at a trade agreement. Viewed from the Chinese perspective, it is only natural and reasonable that as Chinese production capacity in various products increases, production should be sourced locally and, hence, the 2018 decline in U.S. vehicle exports to China of roughly 35%, for instance, is to be expected.

Similarly, viewed from the Chinese perspective, the nation began 2018 with 825 million bushels of soybeans in inventory, as reported by the U.S. Department of Agriculture. There should be no dispute about this figure since, as the Chinese correctly assert, the inventory figure is calculated by the U.S. Department of Agriculture. Hence, China is quite justified in a dramatic reduction of soybean purchases.

Viewed from the American perspective, it was intolerable that U.S. exports to China declined by 7.43%, as good faith trade negotiations had just commenced. Moreover, in 2018, U.S. imports from China totaled \$539.67 billion, which represented a 6.82% increase.

In fact, the U.S. argues that even some of the individual product categories in which exports to China have actually increased in 2018, was merely equipment for American firms moving production to China, from where they are selling the resultant production back into the United States.

The difference between what is tolerable for China and what is tolerable for the United States is so enormous that investors need to reckon with the probability that there will be no agreement and that tariffs might therefore remain in place or perhaps even increase. Many U.S. firms produce in China, so earnings for these firms in 2021, or perhaps even late 2020, become questionable. As an example, the tariffs cannot possibly be good for Apple, Amazon, or even Walmart and Target.

Featured Companies

Prelude

At the outset, there are very few European spin-offs being announced. There are even very few restructurings being pursued. It is not that restructurings are not needed, it is that valuation, as will be shown presently, is an enormous impediment to a restructuring. It is not as though there are multi-business companies for which the market values one division at a certain valuation multiple and another division at different multiple. As a consequence of negative rates in Europe, just about every business there is highly valued—even those that do not grow. Historically, a company could undergo a value-enhancing restructuring when it incorporated both a growing business and another that had no growth. The strategy would be to sell the stagnant business and reinvest the proceeds into the business that was expanding, thereby achieving a successful restructuring, as well as enhancing the valuation multiple the market would confer on the parent company. That is not easy to do now, and it might even be impossible. Nevertheless, here are some examples.

UNILEVER N.V. (UNA NA)

Unilever has a \$162 billion market capitalization, which is part of the company's problem. It is a worldwide consumer products company that owns over 400 brands, including Dove, Hellmann's, Knorr, Lipton, Lux, Ben & Jerry's, and Alberto Culver. They are enormously profitable brands and the company is exceptionally well managed.

A huge company that sells products all over the world is, obviously, very successful. However, even though that is generally considered to be good, it can also be problematic. One issue is that Unilever is experiencing product saturation. In recent years, revenue has been in marginal decline. Another issue is overcapitalization, or perhaps stated more precisely, the company deploys far more capital than is necessary for business purposes. If one were to measure Unilever in terms of total assets, its balance sheet records €60 billion of assets.

However, on Page 26 of the Unilever 2018 annual report, there is an extraordinary set of tables that detail the returns on the assets deployed for each of its three divisions. According to the report, the Beauty and Personal Care division achieved a return on assets of 154%. Foods and Refreshment produced a 69% ROA, and Home Care, which is mostly cleaning products, achieved a 123% ROA. As calculated by Unilever, the overall corporate return on assets was 102%.

Obviously, these operating segment returns far exceed what Unilever as an enterprise reports using generally accepted accounting principles. The key factor in the calculation is the average assets for the divisions in question. Even though Unilever itself deploys €60 billion

in assets, Beauty and Personal Care, according to the company, only needed €2.17 billion of assets. Foods and Refreshment only required €3.8 billion of assets, and Home Care, €799 million. Thus, collectively, the three divisions employ only about €6.8 billion of assets. The difference between the balance sheet capital deployed in an accounting sense and the actual operating capital deployed as calculated by Unilever is due to two primary factors. First, there is €9.4 billion of goodwill on the Unilever balance sheet resulting from its historical acquisitions, and which the company excludes, quite properly, from its actual operating segment calculations, since it is specifying the amount of assets needed to run each business. Second, there is €20.781 billion of net debt that Unilever also excludes in these calculations because that represents the debt that Unilever needed to fund the acquisitions, net of cash that is on the balance sheet.

Theoretically, what can one do to restructure the company? The debt exists. The goodwill is required by generally accepted accounting principles. One could create a royalty company to isolate the revenue from one or more divisions in much the same manner as in the case of energy companies or gold firms like Franco-Nevada and Wheaton Precious Metals. This might seem rather far-fetched in that it is not a structure that has been previously deployed in a conventional large scale consumer products business. However, the returns of the Unilever businesses are indeed extraordinary, but they are now trapped within the corpus of an overcapitalized company that has no revenue growth. Within the current context, there is no way to restructure Unilever, even via a spin-off, because even if no debt were allocated to the spin-off company, the debt would become a heavier burden on the remaining divisions. That is why it is so difficult to undertake a restructuring.

ANHEUSER-BUSCH INBEV SA/NV (ABI BB)

The same situation is present in Anheuser-Busch InBev. It is similar in size to Unilever, with a \$159 billion market capitalization. It is an enormous company, manufacturing over 500 different beer brands in more than 100 countries. The idea was that if the firm could assemble a portfolio of this breadth and scope, there would be economies of scale in running the business, as well as a certain amount of pricing flexibility due to the fact that those 500-plus beer brands account for a 28% share of the worldwide beer market.

The company is very profitable, with a 42% EBITDA margin, so there is truth in that logic. Nevertheless, the success is problematic in that the market share is now so high that organic growth is, at best, 1% to 2% per annum. Ultimately, there comes a saturation point for the worldwide consumption of beer. That is simply the limitation of scale, which afflicts every company that builds high margin efficiency via economies of scale. In time, every such firm saturates its market, and it is arguable that Anheuser-Busch InBev has reached that point.

From an investor's perspective, since the company cannot grow in any significant manner, the profit prospects are limited insofar as the stock is concerned. Yet, all the customary risks of lower margins resulting from intensified competition or increases of raw material cost continue to exist.

In order to illustrate how serious the problem of scale can be, one need only view the Anheuser-Busch InBev Latin America operations. The company separates its operations geographically. Even though the InBev portion of the company does a lot of business in Latin America, this segment is divided into three regions: Latin America West, Latin America North, and Latin America South. Of these three areas, Latin America North experienced a 3.5% volume decrease in 2018. Similarly, in Latin America South, total volume was down 1%. However, Latin America West experienced a 4.5% volume increase. In 2018, worldwide volume, measured in hectoliters, increased by 0.3%. There is no regional division in Anheuser-Busch InBev that is experiencing meaningful volume growth. It just does not exist.

Essentially, the company has, more or less, saturated its own marketplace. The equity shareholders of Anheuser-Busch InBev earned \$4.368 billion in 2018. One can argue that it is depressed by a variety of factors, but that is the net income figure. In relation to the company's market capitalization of almost \$160 billion, this is a frightfully expensive stock. Consequently, there is little to accomplish with an aggressive share repurchase program. In fact, goodwill and intangibles exceed shareholders' equity by more than 2x. If one does not consider goodwill to be a real asset, then it is already, in practical terms, a publicly traded leveraged buyout.

However, there are significant gross margin differences between the regional exposures, so that the company might conceivably benefit greatly from the sale of less profitable regions and return the cash to the shareholders through some form of return of capital transaction. The table below provides the gross margins of each division.

Table 9: Anheuser-Busch InBev Divisional Gross Margins

<u>Region</u>	<u>2018 Gross Margins</u>
North America	62.67%
Latin America West	72.78%
Latin America North	62.12%
Latin America South	62.98%
EMEA	58.42%
Asia Pacific	58.29%

Source: Company reports

The highest gross margin operating segment is Latin America West, at 72.78%. The two weakest areas are Asia Pacific, with a 58.29% gross margin, and Europe, Middle East, Africa (EMEA), at 58.42%.

A sale of the two weakest divisions would collectively account for \$6 billion of EBITDA. What if the company could secure a 15x EBITDA multiple on their sale, or possibly more, given how expensive the stock is? That would translate to \$90 billion, or 56.6% of the Anheuser-Busch InBev market capitalization. The company would still retain \$16 billion of EBITDA. It would not be sensible to repay any debt since these borrowings are at such low interest rates.

In any case, the payout or return of capital, ignoring any taxes that might be avoided in the right type of restructuring, would dramatically reduce the market capitalization to \$69 billion and make it easier to establish a more reasonable base from which to grow the company thereafter. But it is extraordinarily difficult to undertake these transactions when a company is this expensive. We will see that in the next company, Coca-Cola European Partners PLC.

COCA-COLA EUROPEAN PARTNERS PLC (CCEP)

Coca-Cola European Partners, with a \$25.2 billion market capitalization (€22.7 billion), is the largest independent Coca-Cola bottler in the world, based on revenues. It operates across 13 countries within Western Europe. It sells 14.2 billion liters of beverages per year. The company produces €1.5 billion of revenue annually and that, in turn, generates €1.1 billion of free cash flow. Only 63% of production is devoted to Coca-Cola, with approximately 7% to bottled water, and the balance to coffee, tea, and fruit juices.

Roughly 63% of the volume occurs in Spain, Portugal, Germany, and the U.K. The issue with the company, as with many European consumer-related businesses, is that of market saturation. In 2018, the volume, as measured in cases, declined by 0.5% versus the prior year.

In the past year, the company paid €13 million in dividends and repurchased €502 million worth of stock. The balance sheet holds about €5.5 billion of debt against €6.5 billion of equity.

Essentially, Coca-Cola European Partners repurchases shares at 20x free cash flow and provides shareholders with a 2% dividend yield. If all its free cash flow were paid as a dividend, the shares would yield, at the recent price, 4.85%, which would be a very high yield in relation to current European interest rates. The shares are too expensive for share repurchases to have a positive impact on its net asset value. Therefore, an easy form of restructuring or, more narrowly stated, mechanism for revaluation for the firm would be to just raise the dividend.

KONINKLIJKE PHILIPS NV (PHG, PHIA NA) / SIGNIFY (LIGHT NA)

The following is an actual spin-off that shows how difficult it is to restructure these companies.

Koninklijke Philips has a €37.7 billion market capitalization. It spun off a company a year ago, called Signify, which was formerly Philips Lighting. It now has a market capitalization of €3.2 billion.

Signify was the part of Philips NV that made light bulbs and continues to do so. The spin-off occurred because Signify was viewed as a low-margin commodity-type business. However, due to the need to reduce the global carbon footprint, light bulbs are in the process of becoming rather high technology products. This is not merely in terms of energy efficiency, but also in terms of so-called smart attributes, such as automatic changes in illumination and the use of lighting in specialized medical and research applications, and even agriculture.

Since the spin-off, Signify's net income has declined by 7.2% on a 4.4% sales decline, as the company exits the low technology commodity-like products within its own portfolio. The company, one could say, is gradually and deliberately shrinking itself, which is why it has not been well received by the market. At the same time, though, it is moving towards far more profitable LED-based products that now represent 71% of revenue. The EBITDA margin in the past year, despite the revenue decline, is now 10.1% as opposed to 9.6%. The shares trade at about 10.45x free cash flow. The balance sheet holds over €2 billion of shareholders' equity against €89 million of net debt.

Signify currently generates a 12.79% ROE and has reasonable prospects of success. But even in this company, the quality of the spin-off is far below those of the past. It has the problem of reinventing itself as a higher technology company. The outcome is not clear even though, as far as one can tell, the company is at least achieving some initial degree of success.

Post-Musings

AN INTERESTING NUMBER

(GOVERNMENT SPENDING VS. U.S. EMPLOYEE COMPENSATION)

The national debt clock reports that in the United States, the totality of federal, state, and local spending equals \$7.553 trillion. Although this is only 35.41% of GDP, it represents 65.94% of the compensation of all employees in the U.S., from the most affluent to the least affluent. The ability of governments to influence the economy without resorting to creating money or taxing is rapidly disappearing.

Q: What was the last statistic given? \$7 trillion?

A: \$7.5 trillion if you take spending of all kinds—state, federal, and local. The wages of everybody together total \$11 trillion and change. Of the \$7.5 trillion, not all of it comes from taxation. Some of it comes from borrowing. They are not taking \$7.5 trillion from individuals. They cannot; it would be unsustainable, so the spending is growing very rapidly.

Q: Since adding debt becomes unsustainable at some point, are they just printing up more money?

A: Well, no. To add debt, you have to create the money to enable third parties to buy the debt. That can be created through the central bank or it can be created through individual banks. Lately, it is being created through individual banks. Don't forget, private banks create money. When you take out a loan at a bank, or if you get a Visa Card with a \$5,000 line of credit and you use it, they do not actually reach into the vault and pull out \$5,000. They just credit your Visa account \$5,000, which you are now able to spend. In that way, they basically created money. As long as a bank has reserves in excess of the reserve requirement, they are able to create money, and that has been happening. The money supply as of late has been growing at 5.5% a year and that is highly inflationary.

As a nation, the United States has over \$74 trillion of debt. That is not exclusively debt that is owed by the nation; it can be anything from a Treasury bond to a car loan. Collectively, that is the money that is owed. When you talk about the country having \$21 trillion of GDP, that's true, but it is before deducting the debt service expense. Since the interest on \$74 trillion of debt is about \$3.2 trillion, as a practical matter, there is only \$18 trillion of GDP available to people, if you want to think about that as if it were national income.

The interest expense is rising faster than the GDP. Eventually, you get to the point where, in order to service the interest, you have to curtail other forms of spending, which would be very problematic. And the trouble with that is it is not merely the United States that is

engaged in this practice. To a greater or lesser extent, every nation in the world is following the same policy. Historically, when people talked about asset classes, like asset classes in different currencies or asset classes in different national indexes, it could well have been that Great Britain followed a money creation policy, but Germany and Switzerland didn't. Or Japan would follow one policy and India would follow a different policy. That made for the differing correlations by geography that could be used, in a portfolio allocation sense, to reduce overall price risk. But now they all follow almost the identical policy, which is why all the stock markets are correlated.

In the search for diversification, diversifying globally no longer gets you anything. It is a serious error in judgment. To use the historical data as if those past patterns will continue in the future without examining the current circumstances, and to just assume that the past and the current environments are the same when they are really quite different is, in my opinion, an error of monumental proportions.

From the Readers

ALICO (ALCO)

Q: Regarding Alico, we were wondering if you had heard anything regarding the timing to gain the necessary permits from Florida.

A: Yes; it is likely to be weeks away, or maybe days.

Q: Is there a source you can point to?

A: The best source is company itself. The company says that the permits may be days away, because they believe they have every permit they need except for one, which I think is a state permit. And they are waiting. Entry into the water business would be a transformative event for this company, if it happened.

They have a lot more water than they need for watering the orange groves, but the State of Florida needs the water, so they are in the process of making a deal. However, to make a deal, they need a variety of environmental approvals—quite a lot of them, and it has taken roughly three years to obtain them. They have all except one, and my understanding from the company is that approval of the final permit is imminent.

EUROPEAN SPIN-OFF & RESTRUCTURING COMPENDIUM

WEALTH INDEX (Ticker: RCH Index)

As of June 30, 2019

<u>Annualized Total Return</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>	<u>Since Incep. 1991 - Jun '19</u>
Wealth Index	-3.54%	11.49%	5.68%	11.62%	15.47%	10.56%	8.07%	12.29%
S&P 500	10.42%	14.19%	10.71%	13.9%	14.70%	8.75%	5.90%	10.23%
S&P 500 Eq. Wgt.	8.18%	12.41%	9.14%	13.94%	15.56%	9.77%	8.48%	11.98%
Russell 3000	8.98%	14.02%	10.19%	13.79%	14.67%	8.88%	6.30%	10.40%
Russell 2000	-3.31%	12.30%	7.06%	11.63%	13.45%	8.15%	7.77%	10.58%
Excess Return vs. S&P 500	-13.96%	-2.70%	-5.03%	-2.36%	0.77%	1.81%	2.17%	2.05%
Excess Return vs. S&P 500 Eq. Wgt.	-11.72%	-0.92%	-3.46%	-2.32%	-0.09%	0.79%	-0.61%	0.31%
Excess Return vs. Russell 3000	-12.53%	-2.58%	-4.51%	-2.17%	0.81%	1.68%	1.77%	1.89%
Excess Return vs. Russell 2000	-0.23%	-0.81%	-1.38%	-0.01%	2.03%	2.40%	0.30%	1.70%

*Note: Calculated Using Total Returns

<u>Risk Adjusted Return</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>	<u>Since Incep. 1991 - Jun '19</u>
Wealth Index	(0.15)	0.73	0.37	0.82	0.94	0.56	0.38	0.61
S&P 500	0.55	1.16	0.89	1.26	1.16	0.63	0.40	0.72
S&P 500 Eq. Wgt.	0.40	0.95	0.72	1.19	1.11	0.61	0.52	0.76
Russell 3000	0.46	1.12	0.83	1.22	1.11	0.62	0.42	0.72
Russell 2000	(0.13)	0.72	0.42	0.76	0.77	0.44	0.40	0.57

*Note: Calculated As Annualized Total Return Divided By Annualized Total Return Volatility (Uses Monthly Total Returns)

<u>Information Ratio</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>	<u>Since Incep. 1991 - Jun '19</u>
Wealth Index vs. S&P 500	(2.11)	(0.37)	(0.73)	(0.37)	0.11	0.22	0.21	0.21
Wealth Index vs. S&P 500 Eq. Wgt.	(2.57)	(0.18)	(0.69)	(0.50)	(0.02)	0.14	(0.06)	0.03
Wealth Index vs. Russell 3000	(2.22)	(0.40)	(0.76)	(0.39)	0.13	0.22	0.19	0.21
Wealth Index vs. Russell 2000	(0.05)	(0.15)	(0.24)	(0.00)	0.33	0.35	0.03	0.17

*Note: Calculated As Annualized Excess Total Return Divided By Annualized Excess Total Return Volatility (Uses Monthly Excess Total Returns)

Wealth Index Batting Average

	<u>Roll 1 Year</u>	<u>Roll 3 Year</u>	<u>Roll 5 Year</u>
vs. S&P 500	54.38%	57.98%	60.76%
vs. S&P 500 Eq. Wgt.	54.38%	51.79%	51.59%
vs. Russell 3000	56.50%	57.98%	65.37%
vs. Russell 2000	56.19%	61.56%	69.26%

*Note: Calculated Using Total Returns

<u>Annualized Volatility</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>	<u>Since Incep. 1991 - Jun '19</u>
Wealth Index	23.75%	15.46%	15.33%	14.20%	16.38%	18.74%	21.40%	20.01%
S&P 500	18.99%	12.19%	12.03%	11.07%	12.73%	13.84%	14.62%	14.17%
S&P 500 Eq. Wgt.	20.60%	13.07%	12.69%	11.74%	14.05%	16.10%	16.60%	15.67%
Russell 3000	19.66%	12.53%	12.33%	11.34%	13.16%	14.33%	14.99%	14.43%
Russell 2000	24.91%	17.11%	16.63%	15.31%	17.46%	18.71%	19.54%	18.58%

*Note: Calculated Using Total Returns

<u>Annualized Tracking Error</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>	<u>Since Incep. 1991 - Jun '19</u>
vs. S&P 500	6.61%	7.19%	6.85%	6.45%	6.91%	8.33%	10.36%	9.78%
vs. S&P 500 Eq. Wgt.	4.56%	5.14%	4.99%	4.68%	4.94%	5.50%	6.46%	8.79%
vs. Russell 3000	5.65%	6.31%	5.95%	5.57%	6.06%	7.46%	9.56%	8.96%
vs. Russell 2000	4.31%	5.04%	5.70%	5.34%	6.07%	6.85%	10.72%	9.89%

*Note: Calculated Using Total Returns

<u>Wealth Index Beta</u>	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>	<u>15 Years</u>	<u>20 Years</u>	<u>Since Incep. 1991 - Jun '19</u>
vs. S&P 500	1.22	1.15	1.15	1.15	1.18	1.24	1.32	1.26
vs. S&P 500 Eq. Wgt.	1.14	1.14	1.15	1.15	1.12	1.12	1.17	1.16
vs. Russell 3000	1.19	1.15	1.16	1.16	1.17	1.22	1.32	1.27
vs. Russell 2000	0.94	0.88	0.87	0.87	0.88	0.93	0.95	0.94

*Note: Calculated Using Total Returns

<u>Calendar Year Total Returns</u>	<u>Wealth Index</u>	<u>S&P 500</u>	<u>S&P 500 Eq. Wgt.</u>	<u>Russell 3000</u>	<u>Russell 2000</u>	<u>ER v. SP500</u>	<u>ER v. SP500 EW</u>	<u>ER v. R3000</u>	<u>ER v. R2000</u>
1991	44.25%	30.47%	35.51%	33.68%	46.04%	13.78%	8.73%	10.57%	-1.80%
1992	20.20%	7.62%	15.63%	9.59%	18.41%	12.58%	4.56%	10.61%	1.79%
1993	3.38%	10.08%	15.12%	10.88%	18.88%	-6.70%	-11.75%	-7.50%	-15.50%
1994	0.33%	1.32%	0.95%	0.19%	-1.82%	-0.99%	-0.62%	0.14%	2.15%
1995	31.31%	37.58%	32.03%	36.80%	28.45%	-6.27%	-0.72%	-5.49%	2.86%
1996	23.09%	22.96%	19.02%	21.82%	16.49%	0.13%	4.06%	1.27%	6.59%
1997	27.31%	33.36%	29.05%	31.78%	22.26%	-6.06%	-1.74%	-4.48%	4.94%
1998	24.95%	28.58%	12.19%	24.14%	-2.55%	-3.63%	12.76%	0.81%	27.49%
1999	44.68%	21.04%	12.03%	20.90%	21.26%	23.64%	32.66%	23.78%	23.43%
2000	-19.16%	-9.10%	9.64%	-7.46%	-3.02%	-10.06%	-28.80%	-11.70%	-16.14%
2001	-10.80%	-11.89%	-0.99%	-11.46%	2.49%	1.08%	-10.41%	0.65%	-13.29%
2002	-15.49%	-22.10%	-18.18%	-21.54%	-20.48%	6.61%	2.69%	6.05%	4.99%
2003	45.41%	28.68%	40.97%	31.06%	47.25%	16.72%	4.44%	14.35%	-1.85%
2004	17.97%	10.88%	16.95%	11.95%	18.33%	7.09%	1.02%	6.02%	-0.36%
2005	3.30%	4.91%	8.06%	6.12%	4.55%	-1.61%	-4.76%	-2.82%	-1.25%
2006	22.61%	15.79%	15.80%	15.71%	18.37%	6.81%	6.81%	6.89%	4.24%
2007	1.73%	5.49%	1.53%	5.14%	-1.57%	-3.76%	0.20%	-3.41%	3.30%
2008	-43.67%	-37.00%	-39.72%	-37.31%	-33.79%	-6.68%	-3.95%	-6.37%	-9.89%
2009	72.80%	26.46%	46.31%	28.34%	27.17%	46.33%	26.49%	44.46%	45.62%
2010	31.51%	15.06%	21.91%	16.93%	26.85%	16.45%	9.40%	14.58%	4.65%
2011	5.11%	2.11%	-0.11%	1.03%	-4.18%	3.00%	5.22%	4.09%	9.29%
2012	13.53%	16.00%	17.65%	16.42%	16.35%	-2.48%	-4.13%	-2.89%	-2.82%
2013	41.08%	32.39%	36.16%	33.55%	38.82%	8.69%	4.92%	7.53%	2.25%
2014	7.06%	13.49%	14.49%	12.56%	4.89%	-6.63%	-7.43%	-5.50%	2.17%
2015	-6.87%	1.38%	-2.20%	0.48%	-4.41%	-8.26%	-4.67%	-7.35%	-2.46%
2016	16.85%	11.96%	14.80%	12.74%	21.21%	4.89%	2.05%	4.12%	-4.45%
2017	19.44%	21.83%	18.90%	21.13%	14.65%	-2.39%	0.54%	-1.69%	4.80%
2018	-13.80%	-4.38%	-7.64%	-5.24%	-11.01%	-9.42%	-6.16%	-8.56%	-2.79%
2019 YTD	16.72%	18.54%	19.19%	18.71%	16.98%	-1.82%	-2.47%	-2.00%	-0.27%

*Note: Calculated Using Total Returns

Source: Horizon Kinetics LLC, International Securities Exchange, Bloomberg

See important disclosures for additional information.

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EUROPEAN SPIN-OFF & RESTRUCTURING REPORT COMPENDIUM

Index Constituent Changes: 1. Nuveen Investments Inc (JNC US) was delisted from the US Security Exchange effective 11/14/2007 and has been removed from the index. 2. Alliance Financial Corp (ALNC US) was delisted from US Security Exchange effective 03/11/2013 and has been removed from the index. The divisor has been adjusted accordingly for each of these changes. 3. Fortress Investment Group (FIG US) was delisted from US Security Exchange effective 12/27/2017 and has been removed from the index.

Money Manager Index

From Aug 1983 to August 2019

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr. End	Annualized return		
														Index	Yearly return	(since inception)
1983								1.00	0.81	0.76	0.87	0.75	1983	0.75	(60.5)%	(50.2)%
1984	0.75	0.71	0.70	0.66	0.67	0.67	0.61	0.83	0.79	0.76	0.67	0.65	1984	0.65	(13.5)%	(26.5)%
1985	0.92	0.93	0.99	0.95	1.20	1.30	1.32	1.38	1.28	1.50	1.86	2.02	1985	2.02	211.8%	33.7%
1986	2.46	2.78	2.47	2.31	2.36	2.33	2.03	2.23	1.98	2.37	2.34	2.34	1986	2.34	15.9%	28.2%
1987	3.21	3.27	3.16	2.55	2.37	2.30	2.39	2.47	2.22	1.56	1.44	1.52	1987	1.52	(35.0)%	9.9%
1988	1.80	1.87	1.78	1.79	1.69	1.94	1.92	1.96	2.01	1.97	1.95	2.07	1988	2.07	36.0%	14.3%
1989	2.42	2.37	2.54	2.63	2.64	2.64	2.93	3.12	3.07	3.05	3.23	3.26	1989	3.26	57.8%	20.2%
1990	3.12	3.15	3.53	3.06	3.47	3.45	3.30	2.70	2.68	2.40	2.52	3.02	1990	3.02	(7.3)%	16.1%
1991	3.08	3.49	3.70	3.68	3.71	3.61	3.86	4.05	4.07	4.69	4.47	5.72	1991	5.72	89.4%	23.0%
1992	5.76	5.61	5.30	5.12	4.98	4.99	5.93	6.06	6.19	6.56	7.25	7.36	1992	7.36	28.6%	23.6%
1993	8.06	8.04	8.20	7.94	8.15	8.57	9.05	10.00	9.99	9.31	8.97	8.90	1993	8.90	21.0%	23.4%
1994	9.52	8.73	8.05	7.85	7.81	7.53	7.66	8.31	8.15	8.52	7.88	7.95	1994	7.95	(10.6)%	19.9%
1995	7.74	8.38	8.72	8.77	9.20	9.35	9.93	10.78	11.22	10.53	10.89	10.40	1995	10.40	30.8%	20.8%
1996	11.12	11.50	11.33	11.62	11.86	12.53	11.91	12.36	13.32	14.03	14.42	15.02	1996	15.02	44.4%	22.4%
1997	16.04	16.81	15.32	17.27	18.42	20.29	22.28	21.39	25.31	24.95	24.95	25.50	1997	25.50	69.8%	25.2%
1998	25.67	29.00	29.89	30.60	28.90	30.44	27.67	21.33	21.74	25.16	27.27	25.41	1998	25.41	(0.4)%	23.3%
1999	26.00	23.71	23.92	26.77	28.94	29.74	28.78	26.74	25.89	27.73	28.54	30.55	1999	30.55	20.2%	23.2%
2000	31.07	31.19	36.01	35.60	35.20	40.32	43.58	45.75	45.62	48.69	44.05	49.84	2000	49.84	63.1%	25.2%
2001	50.23	46.41	44.27	46.96	48.90	49.98	50.67	49.70	46.47	44.81	48.04	51.91	2001	51.91	4.2%	23.9%
2002	53.62	53.74	55.11	52.52	52.83	50.48	42.58	44.92	41.54	42.66	45.78	43.17	2002	43.17	(16.8)%	21.4%
2003	42.72	41.18	42.36	45.98	49.02	50.71	53.47	53.97	53.46	56.12	55.83	58.49	2003	58.49	35.5%	22.1%
2004	64.38	65.08	64.63	61.68	60.86	62.30	58.71	64.08	65.73	68.86	73.53	78.16	2004	78.16	33.6%	22.6%
2005	76.46	77.94	74.06	72.83	77.02	80.25	83.59	83.07	86.03	89.19	96.58	97.35	2005	97.35	24.6%	22.7%
2006	107.62	111.44	110.75	111.88	101.89	100.61	100.62	104.98	114.61	116.64	113.78	118.05	2006	118.05	21.3%	22.6%
2007	125.73	123.77	122.62	127.58	133.57	134.68	126.61	124.07	133.57	148.09	135.13	135.56	2007	135.56	14.8%	22.3%
2008	127.53	115.76	115.94	121.58	130.51	115.68	119.94	120.55	109.69	72.70	62.95	67.91	2008	67.91	(49.9)%	18.1%
2009	57.51	51.76	65.63	79.49	85.67	90.79	99.97	101.69	107.32	107.36	110.94	115.01	2009	115.01	69.4%	19.7%
2010	106.84	110.32	118.13	114.91	100.18	88.17	97.65	89.64	103.59	108.29	108.64	119.58	2010	119.58	4.0%	19.1%
2011	122.80	128.28	127.94	127.97	126.06	121.03	115.49	104.25	91.32	102.44	103.79	103.98	2011	103.98	(13.1)%	17.8%
2012	109.46	120.12	125.37	121.64	108.44	114.12	113.56	118.33	123.18	127.91	131.76	135.00	2012	135.00	29.8%	18.1%
2013	151.20	155.13	165.52	166.55	174.89	164.20	179.01	168.47	176.12	192.14	197.16	208.44	2013	208.44	54.4%	19.2%
2014	194.17	196.87	203.88	196.24	195.40	206.41	194.00	207.06	201.07	205.28	212.28	215.25	2014	215.25	3.3%	18.6%
2015	203.96	217.70	215.97	218.17	217.01	211.12	203.85	184.77	175.53	195.50	198.54	181.68	2015	181.68	(15.6)%	17.4%
2016	165.64	164.85	183.47	190.06	194.22	177.37	187.78	190.19	185.87	173.66	194.88	199.52	2016	199.52	9.8%	17.2%
2017	196.14	209.63	205.70	207.52	210.37	221.66	230.87	225.39	239.74	245.52	261.47	264.79	2017	264.79	32.7%	17.6%
2018	278.34	266.70	266.44	253.48	256.42	243.56	250.69	238.98	234.72	209.04	213.62	194.43	2018	194.43	(26.6)%	16.0%
2019	203.57	219.59	213.65	234.81	206.43	229.48	229.27	210.59					2019	210.59	8.3%	16.0%

S.No.	Ticker	Name	Amount Invested	Shares Purchased	Date of Investment	Current Index Value
1	AMG US Equity	Affiliated Manager	\$22,947	1,377	11/30/1997	\$ 105,945
2	BLK US Equity	BlackRock	\$23,205	1,658	9/30/1999	\$ 700,399
3	WDR US Equity	Waddell & Reed	\$27,513	1,587	3/31/1998	\$ 25,666
4	EV US Equity	Eaton Vance	\$2,641	3,998	1/31/1986	\$ 172,411
5	TROW US Equity	T. Rowe Price	\$2,423	2,014	4/30/1986	\$ 222,772
6	BEN US Equity	Franklin resources	\$908	1,263	4/30/1985	\$ 99,585
7	LM US Equity	Legg Mason	\$1,000	462	8/31/1983	\$ 17,004
8	FII US Equity	Federated Inv	\$26,381	2,206	5/31/1998	\$ 71,278
9	PZN US Equity	Pzena Investment Management	\$122,426	6,317	10/31/2007	\$ 51,358

EUROPEAN SPIN-OFF & RESTRUCTURING REPORT COMPENDIUM

Index Constituent Changes: 1. New Star Asset Management (NSAM LN) was delisted from the London Security Exchange effective 03/10/2009 and has been removed from the index. 2. Australia Wealth Management (AUW AU) was delisted from Australian Security Exchange effective 05/18/2009 and has been removed from the index. 3. Bluebay Asset Management/UNI (BBAY LN) was delisted from the London Security Exchange effective 12/20/2010 and has been removed from the index. 4. Everest Financial Group Limited (EFG AU) was delisted from the Australian Security Exchange effective 7/19/2011 and has been removed from the index. 5. RAB Capital Plc (RAB LN) was delisted from the London Security Exchange effective 9/2/2011 and has been removed from the index. 6. Invista Real Estate (INRE LN) was delisted effective 8/13/2012 and has been removed from the index. 7. F&C Asset Management Plc (FCAM LN) was delisted effective 5/8/2014 and has been removed from the index. 8. Charlemaigne Capital Ltd (CCAP LN) was delisted effective 12/14/2016 and has been removed from the index. The divisor has been adjusted accordingly for each of these changes. 9. Henderson Group Plc (HGG LN) was delisted from London Security Exchange effective 5/30/2017 and has been removed from the Index. 10. Aberdeen Asset Management Plc (ADN LN) was delisted from London Stock Exchange effective 8/14/2017 and has been removed from the Index.

International Money Manager Index

From Nov 1986 to August 2019

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Yr. End	Index	Yearly return	Annualized return (since inception)
1986											1.00	1.02	1986	1.02	10.0%	10.0%
1987	1.25	1.37	1.48	1.48	1.37	1.33	1.39	1.40	1.33	0.81	0.76	0.73	1987	0.73	(27.7)%	(23.3)%
1988	0.75	0.92	1.02	0.95	0.80	0.89	0.88	0.82	0.86	0.88	0.89	0.93	1988	0.93	26.4%	(3.4)%
1989	1.03	1.02	1.06	1.17	1.19	1.18	1.25	1.16	1.17	1.20	1.21	1.28	1989	1.28	37.8%	8.1%
1990	1.24	1.24	1.18	1.19	1.22	1.24	1.26	1.26	1.23	1.24	1.25	1.33	1990	1.33	3.7%	7.0%
1991	1.34	1.52	1.56	1.58	1.57	1.47	1.52	1.64	1.81	1.89	1.94	1.92	1991	1.92	44.8%	13.5%
1992	2.01	1.93	1.88	2.14	2.19	2.13	2.08	1.99	1.95	1.77	1.76	1.96	1992	1.96	1.9%	11.5%
1993	1.98	2.03	2.20	2.39	2.42	2.45	2.54	3.05	3.01	3.07	3.01	3.30	1993	3.30	68.7%	18.1%
1994	3.72	3.39	3.17	3.04	2.99	2.89	3.01	3.14	3.13	3.19	3.15	3.15	1994	3.15	(4.7)%	15.1%
1995	3.07	3.12	3.28	3.41	3.56	3.59	3.87	3.76	3.76	3.77	3.70	3.73	1995	3.73	18.6%	15.4%
1996	3.76	3.85	3.70	3.79	3.96	3.90	3.75	3.96	4.16	4.47	4.90	4.86	1996	4.86	30.3%	16.8%
1997	5.11	5.37	4.99	4.96	5.43	5.94	6.57	6.32	7.45	7.24	6.80	7.19	1997	7.19	47.9%	19.3%
1998	7.12	8.05	8.78	9.25	8.95	8.74	8.91	6.67	6.08	7.01	7.51	7.71	1998	7.71	7.3%	18.3%
1999	7.99	8.21	8.68	9.07	8.71	8.61	8.63	8.43	8.47	8.79	9.80	10.79	1999	10.79	39.9%	19.8%
2000	11.23	12.27	13.95	13.50	13.73	15.39	15.85	16.82	17.07	16.31	14.43	16.76	2000	14.43	33.8%	20.7%
2001	17.42	15.88	13.46	15.14	15.84	15.15	14.21	13.61	10.77	11.43	13.90	14.12	2001	14.12	(2.2)%	19.1%
2002	14.74	13.78	15.09	15.11	16.38	14.14	12.92	12.10	11.23	11.06	11.33	10.50	2002	10.50	(25.6)%	15.7%
2003	10.18	9.52	9.69	10.62	12.17	13.04	13.98	15.38	16.67	17.88	18.16	18.07	2003	18.07	72.1%	18.4%
2004	20.00	22.41	29.98	35.46	26.68	30.80	25.37	25.20	23.67	23.34	27.56	31.48	2004	31.48	74.2%	20.9%
2005	32.19	32.57	31.88	27.79	27.36	29.05	30.38	31.49	33.39	32.24	32.95	37.18	2005	37.18	18.1%	20.8%
2006	41.01	40.97	43.69	46.45	42.39	41.58	40.60	43.32	43.55	43.70	44.58	49.38	2006	49.38	32.8%	21.3%
2007	50.95	51.18	53.59	56.09	58.16	56.37	53.90	48.65	50.96	57.03	48.21	45.75	2007	45.75	(7.3)%	19.8%
2008	38.71	39.71	38.59	40.18	39.25	35.10	34.59	33.33	26.09	18.72	14.50	15.79	2008	15.79	(65.5)%	13.3%
2009	14.62	13.24	14.96	19.63	22.82	23.73	26.14	27.05	28.41	28.53	28.69	29.83	2009	29.83	89.0%	15.8%
2010	28.50	27.58	29.90	29.58	25.53	24.72	27.82	26.74	30.36	33.68	31.85	34.52	2010	34.52	15.7%	15.8%
2011	34.91	36.17	36.51	39.63	37.86	35.31	35.83	32.76	29.28	32.04	31.23	30.59	2011	30.59	(11.4)%	14.56%
2012	32.12	34.36	35.67	35.08	31.03	32.92	32.66	34.17	36.33	37.28	38.11	40.73	2012	40.73	33.1%	15.22%
2013	43.61	42.58	44.42	49.29	50.40	47.75	50.58	49.32	52.49	55.65	55.41	58.88	2013	58.88	44.6%	16.19%
2014	55.35	58.98	61.86	59.92	59.05	59.89	57.84	58.64	55.47	54.37	55.77	54.31	2014	54.31	(7.8)%	15.24%
2015	52.77	58.87	58.99	62.11	62.25	60.43	60.71	56.91	55.46	60.65	60.93	59.48	2015	59.48	9.5%	15.04%
2016	55.01	53.65	59.90	61.89	61.45	55.81	58.56	58.48	60.83	60.64	58.86	59.91	2016	59.91	0.7%	14.53%
2017	63.15	64.71	65.79	71.50	74.59	75.64	80.02	78.81	81.32	81.68	83.28	84.08	2017	84.08	40.3%	15.28%
2018	94.34	87.65	87.29	86.78	83.38	82.63	84.75	85.31	85.67	76.31	72.64	66.46	2018	66.46	(20.9)%	13.94%
2019	74.78	79.39	81.00	86.52	82.17	91.43	91.77	89.72					2019	89.72	35.0%	14.68%

S.No.	Ticker	Name	Initial Amount Invested	Shares Purchased	Date of Investment	Current Index Value
1	IGM CN Equity	IGM Financial Inc	\$1,000	73	31/11/1986	\$ 1,987
2	IVZ US Equity	Invesco Plc (Previously Amvescap)	\$1,357	1,153	1/31/1991	\$ 9,226
3	SDR LN Equity	Schroders Plc	\$1,208	505	3/31/1991	\$ 17,003
4	RAT LN Equity	Rathbone Brothers Plc	\$1,208	736	3/31/1991	\$ 19,979
5	CIX CN Equity	CI Financial Corp.	\$2,585	3,224	6/30/1994	\$ 46,290
6	EMG LN Equity	Man Group Plc	\$2,862	6,344	10/31/1994	\$ 9,931
7	AGF/B CN Equity	AGF Management Ltd-CI B	\$3,343	1,346	1/31/1996	\$ 5,671
8	8739 JP Equity	Sparx Group Co Ltd	\$11,762	108	12/31/2001	\$ 24,085
9	AZM IM Equity	Azimut Holding Spa	\$21,908	4,977	7/31/2004	\$ 87,836
10	PGHN SW Equity	Partners Group-Reg	\$36,848	578	3/31/2006	\$ 469,101
11	ASHM LN Equity	Ashmore Group Plc.	\$36,688	9,873	10/31/2006	\$ 54,250