



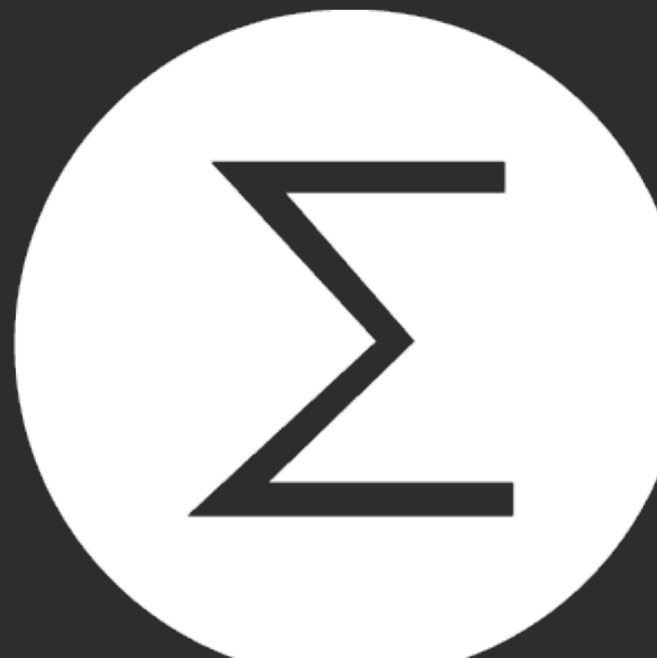
SUMZERO

MANAGER Q&A

BUILDING AN ESG FRAMEWORK  
AROUND “QUIET INNOVATORS”

KB KEE, H.E.R.O. INNOVATORS

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# ABOUT THE MANAGER

**Koon Boon (“KB”) Kee** is the founder and CEO of HERO and the creator & thought leader of the investment & business management philosophy and framework H.E.R.O.

KB is an internationally featured investor rooted in the principles of value investing for over a decade as a fund manager and analyst in the Asian capital markets who started his career at a boutique hedge fund in Singapore where he was with the firm since 2002 and was also part of the core investment committee in significantly outperforming the index in the 10-year-plus-old flagship Asian equity fund.

He was also the portfolio manager for Asia-Pacific equities at Korea’s largest mutual fund company, and the Chief Investment Officer & CEO of a Singapore Registered Fund Management Company (RFMC) where he is responsible for listed Asian equity investments. KB had taught accounting at the Singapore Management University (SMU) as a full-time faculty member and also pioneered the 15-week course on Detecting Accounting Fraud in Asia as an official module at SMU.

KB remains grateful to be invited by Singapore’s financial regulator Monetary Authority of Singapore (MAS) to present to their top management team about implementing a world’s first fact-based forward-looking fraud detection framework to bring about benefits for the capital markets in Singapore and for the public and investment community.

# ABOUT H.E.R.O. INNOVATORS

**HERO Investment Management** is an independent investment research organization, and the creator & thought leader of the investment & business management philosophy and framework H.E.R.O., which stands for “Honorable. Exponential. Resilient. Organization.”

The H.E.R.O. framework, methodology and strategy are powering equity portfolio asset for our institutional client. H.E.R.O. is operationalized into a systematic 4-step investment process and investment framework powered by sustainability & ESG principles, with in-depth research, ratings and analysis to identify and invest in global structural growth innovators, especially ferreting out exceptional, under-the-radar, resilient market leaders who are governed by a greater purpose larger than oneself in their pursuit to contribute to the welfare of people and in solving high-value problems for their target customers and society.



**AVERY PAGAN, SUMZERO:** *KB, thanks very much for joining us today! I'm excited to dig into the finer points of your ESG-centric investing framework but first off, I like to kick off these conversations with a bit of background. Tell us a bit about yourself and your career thus far on the buy-side.*

**KB KEE, H.E.R.O. INNOVATORS:** Thank you very much, Avery, truly appreciative of the opportunity to share with you and the SumZero community about our H.E.R.O. investment framework.

My decade-plus career on the buy-side - from a boutique hedge fund to Korea's largest mutual fund firm to H.E.R.O. - has been assisted by two mentors to whom I am very grateful for their valuable guidance and kind encouragement.

My first mentor was Mr. Tan Seng Hock, who is the founder of a Singapore-based boutique investment management firm specializing in Asian small- and mid-cap stocks using the tenets of fundamentals-based value investing, GARP-style. I started out my buy-side career here in December 2001 as an intern analyst and then senior fund manager and head of research.

Another superhero is Professor LEONG Kwong Sin ("KS"), and he is the kindest and wisest teacher ever, like karate master Mr. Miyagi and Jedi Master Yoda of Star Wars. Prof KS Leong taught me the language of business - accounting - at the Singapore Management University where he was one of the key founding members who helped started and built the university, where the School of Accountancy is now ranked first in Asia and third in the world for Archival Research (All Topics), and second in the world for Archival Research in Financial Accounting. Above all, Prof Leong inspires his students to be critical thinkers and become a better person through his unique Socratic-style of teaching.

Later, I was fortunate to have the opportunity to teach at my alma mater for several years as a full-time faculty member at the School of Accountancy, where I pioneered the 15-week course and module on Detecting Accounting Fraud in Asia. I remained grateful to be invited by Singapore's top financial regulator, the Monetary Authority of Singapore (MAS), to present to their top management team about implementing a world's first fact-based forward-looking fraud detection framework to bring about benefits for the capital markets in Singapore and for the public and investment community. In this journey that's full of trials and tribulations, there have been also several kind and supportive heroes whom I would like to express my heartfelt thanks: John Mihaljevic, founder and chairman of MOI (Manual of Ideas) Global, and his brother Oliver; Dr. Hendrik Leber, founder and managing partner of ACATIS Investment Group; Professor Dr. Hermann Simon, founder of global strategy consulting firm Simon-Kucher & Partners; Mr. Hemant Amin, founder, CEO & CIO of Asiamin

Capital single family office; François Badelon, founder and president of Amiral Gestion; and Mr. Benjamin Ng, founder, MD & CIO of Whitefield Capital, Value Investing 3.0 supporters Mr. KC Ong and Michael Roukounakis; my business partner Keith Wong; as well as our institutional investor client.

**SZ:** *Did you always feel the need to orient your investing strategy more closely with social impact, even before the ESG landscape began to mature?*

**KB:** Indeed, even before the ESG landscape became to mature, I have always been fascinated since my high school days when I picked up Robert Hagstrom's book *The Warren Buffett Way* by why and how even under the most difficult of conditions and environment, there exists a selected group of under-the-radar quiet innovators who remain resilient and continue to compound value across market cycles. Commerce is not merely about the measurement of the weight of profits collected in multiple clever transactions to build measurable wealth, fame and power, but rather it should be defined by the immeasurable integrity and virtue. Only in the endeavor to perform first for customers, and serve them with the highest possible integrity and character, can commerce find its foundation for durable business success and create society's abundance.

As inspired by my early investment career mentor, I have been trained since 2001 to identify what these H.E.R.O. Innovators have in common – they witness first-hand the problems that beset people who were underserved and wanted to build a business to provide useful products and services. They want to build and scale their businesses so that they can give

more. Only when we have the desire to give, then can we want to persevere in building something meaningful. This urge to build in order to give is their True North to scale the business and they work obsessively to realize this vision.

**“Even under the most difficult of conditions, there exists a selected group of under-the-radar quiet innovators who remain resilient and continue to compound value across market cycles.”**

Our ESG investment philosophy and approach is not for everyone. It's only for those who care about the kind of person you want to become through the work you build and invest in to serve our loved ones and the people we care deeply for and to be grounded in values. We aim to grow our clients' wealth by participating in the long-term growth journey of these H.E.R.O. Innovators while making a difference in the world.

**SZ:** *In your opinion, what is the most misunderstood element of ESG investing and why do you think some investors shy away from strategies that market themselves this way?*

**KB:** ESG investing has evolved from the rudimentary negative-screening to an emphasis on positive ESG criteria in that responsible companies that “do good”

should “do well”. Critics of ESG investing have lambasted proponents as clever fund marketers merely “sounding good” but are actually: (1) hiding behind the heavy tilt towards Big Tech with concentration in the same popular names, including and especially in mega-cap tech firms facing regulatory backlash for ESG shortcomings in privacy practices, and spreading of hate, violence, propaganda, and misinformation. The overcrowding in Big Tech is especially pertinent in a trading environment where funds pursue similar strategy resulting in correlated performance and destructive destabilizing price impact in deleveraging situations; as well as (2) succumbing to greenwashing, where firms claim to be addressing ESG issues without evidence to back it up. And there have been revelations following the scandals of Wirecard and fast-fashion retailer Boohoo who had positive ESG ratings and were widely held by prominent ESG-focused funds.

The S in ESG has been easily dismissed and overlooked since it covers a wide range of topics ranging from how companies treat their employees and customers, data security, and product safety to income and racial inequality. These soft factors are less easily quantifiable unlike the E in ESG in which environmental-related data such as carbon emissions can be “measured”. However, expanding the S to include a long laundry list of criteria to tick the boxes is unlikely to prove helpful in search of the true sustainable winners.

We believe in cutting through the noise in our impact investing approach with a central focus on quiet innovators who contribute to the UN SDG Goal 9: Industry, Innovation, and Infrastructure —

“Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation”. We aim to penetrate into the deeper order that whispers beneath the surface of innovations and to stand on the firmer ground of experience hard won through hearing and distilling the essence of the stories of our H.E.R.O. in overcoming their struggles and in understanding the origin of their quiet life of purpose.

**SZ:** *Jumping off that point, you employ a unique set of heuristics to define your investable universe of equities. What does the H.E.R.O. framework entail and how did you conceive of this approach?*

**KB:** The H.E.R.O. investment strategies distinguish from those of other tech- and innovation-themed funds with its strategic focus on “quiet innovators” which present structurally mispriced opportunities and avoid overcrowded mis-opportunities that stem from the human tendencies to equate flashy popularity with excellence and have an active ratio of over 95% (vs the MSCI World Index).

H.E.R.O. stands for “Honorable. Exponential. Resilient. Organization.”, a four-step investment methodology and framework to identify and invest in the structural growth winners in an exponential world:

### **H: Honorable, High-Integrity, Solves High-Value Problems**

*Step 1: Eliminate Accounting Fraud & Misgovernance Risks*  
*H.E.R.O. Innovators are honorable and have high-integrity in the way they conduct both their business and life in*

*solving high-value problems for their target customers and society with a powerful Purpose Quotient (PQ), committing with focus to a purpose larger than oneself to serve others.*

- Treatment of minority shareholders in corporate governance matters, shareholder structure and business group structure
- Purpose Quotient (PQ), focus and sense of urgency to build something with a purpose and commit to an idea larger than themselves to serve others
- Discipline and prudent stewardship in handling growth, capital allocation, power and wealth
- Hunger level – whether they are hungry with a sense of purpose to innovate and create new categories of growth, or have become contented, conservative or complacent e.g. % of sales contribution from new products or services

## **E: Exponential**

*Step 2: Eliminate Cheap-Gets-Cheaper Value Traps who are vulnerable to disruption) in the business model quality*

H.E.R.O. Innovators have exponential-like unique, scalable business model quality in its capacity & capabilities to generate and support structural growth. The proprietary “CATAPULT” framework of 4 exponential competitive edges is used to augment the Morningstar Economic Moat qualitative framework in business model quality analysis.

- Curiosity Exponential Edge: Does the company create curiosity and discovery

amongst the users and customers for its products and services?

- Circumspection Exponential Edge: Does the company deliver or enable circumspection with insights, intelligence, tools and analytics to help the customers think better and make better decisions?
- Community Exponential Edge: Does the company build a community where members can connect and interact repeatedly with one another to forge long-term relationship Vs transactions-based exchange?
- Compellingness-Craftsmanship Exponential Edge: Does the company create and deliver products, services or solutions with compellingness and craftsmanship? Process IP, intangible know-how & system and mastery to bring about comfort, convenience, “pain-killing” mission-critical solutions to customer

## **R: Resilient**

*Step 3: Eliminate Businesses Who Are Not Resilient in Recessions or Economic Downturns*

H.E.R.O Innovators have financial and business model resiliency to create, expand and service their total addressable market, including recurring revenue streams and balance sheet strength to maintain or grow profitability, pricing power and market positions through up/downturns in the economy.

- Financial Resiliency: Healthy Return on Equity (ROE), Return on Asset (ROA) & operating cashflow, Strong balance sheet with low gearing or net-cash,

Pricing power with healthy working capital dynamics

- Business Model Resiliency: Resilient recurring revenue streams, Proprietary/ Unique offerings and solutions, Capabilities in design knowhow, manufacture of mission-critical and innovative products in multiple applications, Attractive position in the value chain/ ecosystem without being dependent on suppliers or customers, Not constrained by sticky super-variable cost overheads in scaling up e.g. “SG&A (Selling, General & Admin) Expenses as % of Sales” declining even as sales increase?

## O: Organization

### *Step 4: Eliminate Organizational & Management Risks*

H.E.R.O. Innovators build an enduring corporate culture of distinctive values, decentralization, trust and collaboration to foster innovations and to last the distance in producing enduring and perennial success to grow stronger with each passing day. Many businesses fail the acid test: Remove the founder and the business is not worth much. H.E.R.O. Innovators understand deeply that the Organization needs to be larger than any single leader in order for the firm to last the distance and find enduring and perennial success that grow stronger with each passing day.

- Corporate culture of decentralization, trust and cooperation to foster innovative experimentations.
- Treatment of human capital in the organization e.g. Employee & Management turnover, Growth in

salary/ employee vs Growth in profit/ employee

In essence, our acid test of a H.E.R.O. is this: Would you be proud, fulfilled and happy if your children were to work in the company that you invest in?

**SZ:** *Beyond positive screening for social and environmental innovation, you have also developed a uniquely sensitive system for corporate governance - the often-overlooked 'G' in ESG. Can you explain your proprietary accounting fraud system and where traditional accounting forensics often fall short?*

**KB:** Accounting information can be used to inform – or to deceive. It is heartbreaking to watch investors being hurt when they step into accounting fraud and misgovernance pitfalls that are prevalent in the capital jungles. While the principles of value investing – to buy undervalued assets at a margin of safety – appears simple, its complexity lurks beneath in the actual practice.

## “Accounting information can be used to inform - or to deceive.”

For instance, screening for high net cash, or high net current asset, as a percentage of market value of the company might be the first step for many “Graham-style net-net value investors” to determine the attractiveness in valuation of certain stocks, so that the “asset liquidation value” acts as the floor to protect downside risk against further price declines, thus providing a “margin of safety” and call-option-like returns as

mean-reversion works to realize returns over time for the patient value investor.

However, prevalent across Asian companies, previously Big-4 audited “cash” in the balance sheet are often misclassified “cash equivalents” disguised from improper short-term related party loans employed by the insiders to expropriate or tunnel out cash from the company after initially propping up financial numbers artificially to create false positive signals to lure in funds. They then unravel into accounting tunneling fraud with shocking “missing cash” when the previous studiously assessed cash or asset value had already been “tunneled out” or expropriated in money-go-round tunneling opportunities, usually via unusual related-party transactions which are often undisclosed.

## “H.E.R.O. applies a forward-looking fact-based accounting fraud detection system in eliminating downside risks...which escape detection by western-based forensic tools.”

The four categories of commonly-used tunneling methods used by actual insiders, manipulators and syndicates to expropriate corporate assets include: (1) Money-go-round intercorporate loans, guarantees, other receivables and investments, (2) Capex irregularities, (3) Deals potion, (4) Consolidation craftiness

e.g. opportunistic shifting of operating expenses and debt liabilities into unconsolidated entities in which the listco has effective economic control and power to artificially inflate its own profit and balance sheet asset value.

H.E.R.O. applies a proprietary forward-looking fact-based accounting fraud detection system in eliminating the downside risks from accounting tunneling fraud and misgovernance which escape detection by western-based forensic tools. This fact-based forward-looking fraud detection system combines accounting data, especially footnotes, with a wide array of contextual information - including unusual related-party transactions; money-go-round off balance-sheet activities; governance, wider business group structure, consolidation accounting and ownership analysis; textual and linguistic analysis; analysis of event-based “catalysts” (information-based manipulation) and sensitive market announcements (action-based manipulation in prices and volume) - to provide fresh insights in equity valuation to inform our decision making in investments.

*SZ: I'd love for you to walk us through an example of a H.E.R.O. Innovator, how it fits into the framework, and how it has performed in the portfolio so far.*

**KB:** Consider the H.E.R.O. PQ story of **West Pharmaceutical Services (WST)**, which is up over 112% from its cost of US\$129 per share since it was invested in March 2020 in the separate managed accounts (SMAs) of our institutional investor client equity portfolio, and it has also produced positive absolute returns



since it was invested in the retail mutual fund from its inception on 28 August 2020 with global markets tumbling in the same corresponding period.

West is the global #1 leader in components and devices (stoppers, seals, vials, syringes, cartridge components, injectors) for liquid injectable drug containers, including more than 70% global market share in stoppers, and in particular biologics, a segment growing faster than the drug industry and which it continues to gain market share. Over 112 million components and devices are manufactured at its 25 plants around the world every day, or 41 billion every year.

West's PQ story started in Philadelphia by Herman O. West and J.R. Wike in 1923. In the early 1930s, West was approached by Josiah Lilly to develop a package that could be punctured many times and yet maintain sterility within the container and not introduce any particulate contaminants. The concept of an elastomer septum held in place by an aluminum overseal was born and used by Lilly to package the first mass-produced insulin for diabetic patient use, along with life-saving antibiotics. The novel packaging system for injectable medicines became the core products that helped West build its reputation.

Few would have known that penicillin, discovered by Dr. Alexander Fleming, was able to become a lifesaving antibiotic because of West. Because of World War II, the U.S. government soon became the largest customer for penicillin, but to deliver it at the speed and in the quantity the government required, new packaging had to be developed. West and Owens-Illinois collaborated in a joint venture, with West providing the rubber stopper

for the bottle. The packaging made it possible for the troops and, later, civilians to receive the new "wonder drug."

Under the leadership of CEO Eric Green, West moved up the value chain in expanding beyond containment devices and components into delivering innovative solutions. These include: (1) Advanced delivery systems for injectable drugs and healthcare products that enhance the safe delivery of drugs through advanced reconstitution, mixing, and transfer technologies; (2) Films, coatings, and washing and sterilization processes and services to enhance the quality of packaging components; (3) Drug containment solutions; and (4) A range of integrated services to simplify and speed up the journey from molecule to market, including analytical lab services, pre-approval primary packaging support and engineering development, regulatory expertise, and after-sales technical support. All of which drove faster revenue growth and higher profit margins and return on capital.

Notably, West plays a uniquely critical role in the pandemic health crisis in supporting its customers that are developing potential solutions to address COVID-19 with components for diagnostics, antiviral therapeutics and vaccines. On West's role as the global number one leader in elastomeric primary packaging for injectable medicines, CEO Eric Green shares: "The reason why we have a very strong participation rate in vaccines is that one of the characteristics that is required is the coating on the elastomer. And the FluroTec technology is a market-leading technology. So we're feeling really good in that regard. When we start thinking about the criticality or

the urgency to get these materials manufactured, it gives us the ability to flex our global operations. And as we're building 40-plus billion components a year, the demand on vaccines, while it's important and it's a good size, it's not going to be too much of a challenge considering we have multiple sites that can produce these products using FluroTec's technology."

CEO Green has also strengthened the culture to foster innovation and ESG (Ethics, Social & Governance) sustainability principles, and West's leadership has been recognized by Investor's Business Daily as 2019 Best ESG Companies, Newsweek's America's Most Responsible Companies 2020. 40% of WST's C-Suite executive team comprised of women or/and US minorities. On 21 May 2020, West marked another business milestone in joining the S&P 500 index.

**SZ:** *You cite the K-shaped pandemic recovery and worsening US-China relations as value drivers for the Nordic region. Can you help us understand these dynamics and what the continued global struggle with COVID-19 might mean for Developed and Emerging Markets as a strategy?*

**KB:** The gap between the "haves" and "have-nots" of the global economy has been magnified by the coronavirus, with emerging markets the losers in the K-shaped recovery whose divergence looks set to continue. The EM world is weighed down by rapidly rising debt with burdensome cost of servicing debt that could lead to some financial crises or major debt restructuring. Markets with higher GDP per capita have been better placed to rebound from the March sell-off

due to more advanced technology and governance that have given them greater flexibility to respond to the pandemic. They have been able to limit the impact of lockdowns and social distancing, make larger fiscal responses, and are better equipped with the resources needed to curb the outbreak, such as hospitals, test centers and quarantine facilities.

**"The new world order in the post-pandemic future... marks the ascent of the quiet Nordic powerhouse region."**

This K-shaped divergence, coupled with the ever worsening U.S.-China relationship, points towards the new world order in the post-pandemic future that marks the ascent of the quiet Nordic powerhouse region – comprising of Sweden, Denmark, Norway, Finland and Iceland with a combined GDP of over US\$1.6 trillion, combined population of around 27.3 million people, and the highest regional GDP per capita in the world at over US\$62,000 – where they are a Winter War kind of country: innovation happens when things are tough, not when they're easy and comfortable

**SZ:** *The Nordics also lead the way in environmental technology solutions and green infrastructure. Who are some of these companies and how will they contribute to the EU's green economic recovery?*

**KB:** One such ESG leader is Finland's **Vaisala (VAIAS:FH)**, which has produced positive absolute returns since it was invested in the retail mutual fund from its inception on 28 August 2020 with global markets tumbling in the same corresponding period. Vaisala is the global #1 technology leader in weather, environmental, and industrial measurement. As our world faces pressing societal and environmental challenges, it's more important than ever to base decisions on accurate, reliable data. Climate change and severe weather events drive the need for continued replacement and enhancement of weather observation and forecasting capabilities. In industrial measurements, increasing focus on energy and operations efficiency as well as increasing regulations and requirements for high quality and security drive need for high end industrial instruments and systems.

**“Climate change and severe weather events drive the need for continued replacement and enhancement of weather observation and forecasting capabilities.”**

Vaisala has the largest product portfolio based on proprietary leading technologies in environmental and industrial sensing with most accurate and reliable instruments, algorithms, and software in measurement sensors and instruments, systems, software, digital solutions and services for measuring

weather, environment and industrial conditions and processes. Building on over 80 years of experience, Vaisala's comprehensive range of innovative observation and measurement products and services provide its customers with the means to influence and better understand their environment, and to enhance safety, efficiency, and decision making – enabling its customers to find answers, remove doubt and make smarter decisions, and making an impact on the lives of millions of people all around the world. Customers all over the world and in a multitude of industries use Vaisala's measurement solutions. Everywhere from forecasting weather, to staying ahead of power outages or monitoring incubators for premature children in hospitals, to helping industrial customers from semiconductor factories, life science to high-rise buildings, HVAC to reliably measure and monitor ambient conditions and minimize energy consumption for successful operations, you can find Vaisala's premium measurement solutions in action. On 18 Aug 2020, Vaisala announced that Vaisala Digital is delivering real-time, comprehensive weather data and driving conditions from in-vehicle infotainment systems to new Hyundai Motor Company vehicles.

Renewable energy is one of the many areas Vaisala contribute to the EU's green economic recovery plan. Vaisala's measurement technologies help developers and owners to get more out of their wind power plants. With the help of reliable measurements, its customers can select the optimal site for their wind parks, for example, as well as monitor, predict, and plan operations. Vaisala's devices can also be utilized to optimize hydroelectric power plants. Vaisala's measurement solution for the biogas

process optimization enables customers to generate more value from waste by decreasing production costs and increasing the efficiency of the biogas plant. Vaisala's products also support the hydrogen economy, helping optimize the performance of fuel cells.

Vaisala's PQ origins date back to 1930s when Professor Vilho Väisälä (1889-1969), Vaisala's founder and long-time managing director, invented some of the operating principles of a radiosonde. In 1931, Professor Vilho Väisälä found a fallen Russian radiosonde. He admired its idea to use radio technology to retrieve observation results but, an innovator at heart, wanted to improve it to his quality standards. The company was established in 1936 in Finland, and the first radiosondes were manufactured in the basement of a residential building in the center of Helsinki. Väisälä finalized his famous innovation in 1936, founded Vaisala, and sold the first radiosonde pieces to Massachusetts Institute of Technology (MIT). As the Vaisala radiosonde became internationally renowned, the demand for them increased. A new global technology pioneer was born. From a modest start, the company evolved to become a world leader in many measurement fields. Today Vaisala exports 98% of its production to over 150 countries. Curiosity, the desire to meet challenges and an extraordinary ability to innovate are at Vaisala's core, both past and present and Vaisala strives towards its mission of "Observations for a Better World."

**SZ:** *Let's touch on your Angel Yeast case study in China. I have spent time studying China's growing food crisis due to a shortage of arable land, chemical run-off, dietary changes, and population growth.*

*Angel Yeast represents an innovative solution to food security in the region - what are the advantages of dry yeast technology and how is Angel Yeast investing in its production chain to serve global demand beyond China?*

**KB:** That's a really interesting insight on China's growing food crisis, Avery. **Angel Yeast (600298:CH) 安琪酵母** is China's #1 yeast producer with dominant market leadership of over 55% share with pricing power, and is the global #3 leader competing with France's Lesaffre, AB Mauri of Associated British Foods (ABF), DSM, Novozymes and DuPont's Danisco. The market share of Lesaffre and AB Mauri in China is around 20% and 11% respectively, and their production capacity and supply chain have been impacted and disrupted by the COVID-19 situation, which is worsened by their usage of fresh yeast. Angel Yeast is also the market leader with the largest market share in at least 15 countries such as India and Brazil while achieving a brand premium with prices 5% to 15% higher than its peers. Compared with fresh yeast, Angel mainly uses dry yeast, which has the advantage of quality preservation and easy storage. The impact of the epidemic on logistics and distribution also highlighted the advantages of dry yeast products.

Yeast is the only microbiological food in the food classification system, and is almost the only natural food integrating rich high-quality protein and a complete range of B vitamins in the current nature. The yeast product is widely used in food bakery, food flavouring, brewing, microbial fermentation, bioenergy, animal nutrition, human health nutrition, cosmetics, medicine and other industries.

Yeast, Yeast Extract (YE) and Yeast-Derivatives (YD) products are high-tech products requiring biotechnology, fermentation engineering and enzyme engineering capabilities. Angel Yeast remains the only Asian player to break the America-Europe monopoly in yeast production. Yeast extract (YE) is a natural umami agent that can replace MSG, and Angel commands a 70-80% domestic market share and is also global #1 in production capacity. From the perspective of developed countries such as Japan and South Korea, YE occupies about 35% of the condiment market, while China's YE accounts for less than 5%. Angel Yeast estimates that the domestic YE market still has at least 5X room for growth. In China, yeast derivatives (YD) demand in healthcare products, animal nutrition, microbial nutrition, environmentally friendly fertilizers and other industries are still in the growth stage.

In 2019, Angel Yeast has a production capacity of 258,000 tons (+8.9% YoY) out of a global production of ~1.2 million tons and YE production capacity of 78,000 tons. In overseas markets, Angel has a production capacity of about 55,000 tons in Egypt and Russia. Egypt is the hometown of wheat. A variety of wheat-based foods have a wide demand for yeast. Russia is also a big consumer of bread. Angel Yeast announced in May 2020 that it will be building a 25,000 tons yeast production line in two phases in Yunnan with a capex investment of CNY 540 million, to be completed and put into operation before June 2022. Angel Yeast still has 12,000 tons of second-phase project under construction in Russia.

Angel Yeast has a very strong track record in solving high-value problems for

its B2B customers and winning their long-term loyalty. For instance, in 2000, Angel Yeast invented the super brewer's yeast, which effectively solved the problems of low wine production rate and high energy consumption of wine companies.

This product was also exported to developed countries such as the United States. In response to the problems of frequent diseases and prominent food safety in the aquaculture industry, Angel took the lead in launching "yeast-derived feed" and improved the quality of animal products, and promoted food safety.

**“In response to the problems of frequent diseases and prominent food safety in the aquaculture industry, Angel took the lead in launching “yeast-derived feed” and improved the quality of animal products, and promoted food safety.”**

Angel also launched microbial nutrition products such as yeast peptone, yeast extract, which shaped the competitiveness of many application fields. Around 2014, Angel Yeast encountered difficulties in sales in the Middle East. Market research found that due to the high average daily temperature, locals use cold water or ice water to make bread, which resulted in

yeasts to ferment slowly. Angel developed ice-resistant yeast and soon opened the market in the Middle East. As Angel Yeast's founder Yu Xuefeng 俞学锋 shared: "To be an international brand, you cannot simply sell Chinese products, you must adapt to the local market."

During the epidemic, domestic household baking demand was strong, and small package yeast revenue increased substantially. The outbreak of COVID also led to increased demand for immune-promoting dietary supplement products worldwide. As a popular dietary supplement for boosting immune function, yeast beta-glucan has also gotten an explosive increase in demand. After the epidemic is over, yeast consumption habits are expected to be retained, and B2C revenue is expected to continue to grow rapidly. Angel is vigorously developing its online channel, which accounted for 35% of sales in FY2019, +61.6% YoY.

**SZ:** *Lastly, what lies ahead for H.E.R.O. Innovators? Are there specific growth milestones you are striving for in 2020 and beyond?*

**KB:** The H.E.R.O. framework and methodology is currently powering the equity portfolio asset in SMAs for our institutional client who has also backed the recently launched retail mutual fund focusing on dividend-yielding global innovators. We envision the business model of H.E.R.O. akin to **Givaudan (GIVN:SW)**, **Barry Callebaut (BARN:SW)**, and **MIPS (MIPS:SS)**; they are the quiet innovators and brand behind the brands.

Givaudan is global #1 leader behind perfumes and flavors of the highest

quality for over 125 years, innovating and inspiring trends in scent and taste. Dior, Saint Laurent, and Prada turned to Givaudan to create J'adore, Opium, Infusion d'iris, and more. Since the very first Magnum ice cream back in 1989, Barry Callebaut & Magnum's owner Unilever have been crafting unique chocolate creations together, and Barry Callebaut is the world's leading manufacturer and recipe co-owner/owner of high-quality chocolate and cocoa products for brands such as Magnum and many more. MIPS is the pioneering inventor and #1 global leader specializing in helmet-based rotational motion protection safety and brain protection system (BPS). Like "Intel Inside", the over 14.2 million helmets that are equipped with MIPS BPS always display the yellow MIPS logo on the outside of the helmets according to the MIPS licensing agreement that stipulates a very visible and consistent branding.

H.E.R.O. is the unique fragrance & flavor and protection system for institutional investors, family offices, business & asset owners who want to grow your wealth by participating in the long-term growth journey of these H.E.R.O. Innovators while making a difference in the world. We aim to expand the H.E.R.O. framework and methodology to design, develop and implement fund products and bespoke investment solutions with distinctive investment strategies for our clients' needs and aspirations. Some of these unique equities strategies that we have in our mid- to longer-term pipeline include: Global MedTech H.E.R.O., Global SaaS H.E.R.O., Global PropertyTech H.E.R.O., and the Global Pathfinders Growth H.E.R.O. We seek and welcome business partners and investors to connect with us and collaborate to grow together.



## ABOUT SUMZERO

SumZero is the world's largest community of investment professionals working with the industry's most prominent hedge funds, mutual funds and private equity funds. With more than 16,000 pre-screened professionals collaborating on a fully transparent platform, SumZero provides direct access to thousands of proprietary investment reports every year and fosters on-going communication within the network.

The research on SumZero cuts through the noise that pervades the industry and provides its community with in-depth, actionable investment research and data. SumZero offers several ancillary services in support of our research platform. These services include capital introduction, buy-side career placement, media placement and more.

## ABOUT CAP INTRO

SumZero Cap Intro is a passive, reverse-solicitation platform that connects eligible funds with pre-qualified institutional LPs for the mutual purpose of capital allocation. Cap Intro is available on an opt-in basis to all hedge funds, private equity funds, and other asset managers that are actively fundraising.

Using Cap Intro, fund managers leverage direct exposure to a community of more than 700 pre-vetted allocators by presenting their strategy and performance via a self-curated fund profile. In turn, allocators use these profiles to discover, screen, and initiate direct conversations with funds. Since 2014, Cap Intro has catalyzed hundreds of inbound inquiries to funds from accredited institutional investors.