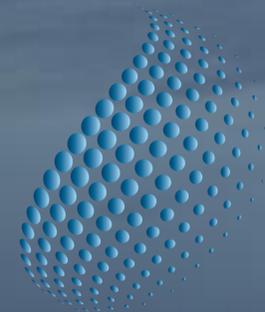


Trust based business models

By Oddbjørn Dybvad



REQ CAPITAL

INVESTING WITH INSIGHT

The cornerstone of our investment philosophy incorporates "capital allocation", "decentralization" and "people". We believe that finding outstanding capital allocators who decentralize their business and act like true owners, is essential to achieving exceptional long-term returns as investors.

Decentralization is an organizational structure which is based on the belief that top management does not have all the right answers about how the underlying divisions and subsidiaries should deal with customers, suppliers, and competitors. Management therefore delegates a lot of responsibility. With responsibility comes the power of increased motivation, knowledge sharing, and better customer relations since decision makers are close to customers. Basically, it is a philosophy of using the carrot, rather than the stick. Our companies operate without the anchor of bureaucracy. Our decentralized business units have inherently very lean corporate headquarters.

A complex undertaking

Our experience as investors shows that there are some unique business models that are based on an exceptional level of trust - and decentralization is at the core of these strategies. These decentralized business models, where management is willing and able to grant a significant level of autonomy to the underlying subsidiaries, creates strong shareholder returns over decades. We invest in many of these decentralized business models because we strongly believe that these companies enjoy entrepreneurial energy from which we, as shareholders, greatly benefit from.

Practicing simplicity in the corporate world in terms of organization is actually a very complex undertaking. Our investment philosophy is based on the belief that a decentralized - non-bureaucratic - and independent governance model is the best tool to foster entrepreneurship and performance. It is the belief that individuals can direct the fortunes of the business and should be entrusted and given responsibility for decision making.



The decentralized business models we invest in represent independence, accountability and rapid decision making. At the heart of decentralization is that entrepreneurship should be actively nurtured and protected.

Does cooperation pay off?

We believe the simple answer is "Yes!" In the famous book, "The evolution of cooperation" by Robert Axelrod, the author examines the long-term rational approach to solving situations where two parties' benefit from cooperation in the long run, but where the short-term rational approach is to maximize their own gain. We know this from business school as "The Prisoner's Dilemma."

The main conclusion of the book is that a so-called "tit for tat" strategy is very beneficial in all kinds of relationships. The book gives a rather optimistic view of cooperation. The point is that you always start with a friendly invitation and hope that the other party will respond in the same way. What does this have to do with business and ultimately investments?

Trust in decentralized business models

In a business context, "tit-for-tat" means that the head office provides a lot of autonomy and trust from the very beginning and helps the subsidiary companies to develop. In turn, the subsidiary companies sense this freedom from above and respond by cooperating and ultimately making business decisions that benefit headquarters, themselves, and ultimately shareholders. When this long-term, two-way cooperation develops in these decentralized business models, all parties benefit – not at least shareholders.

In decentralized business models, authority is delegated to individuals. One good example of a decentralized business model is the Swedish holding company Lifco.



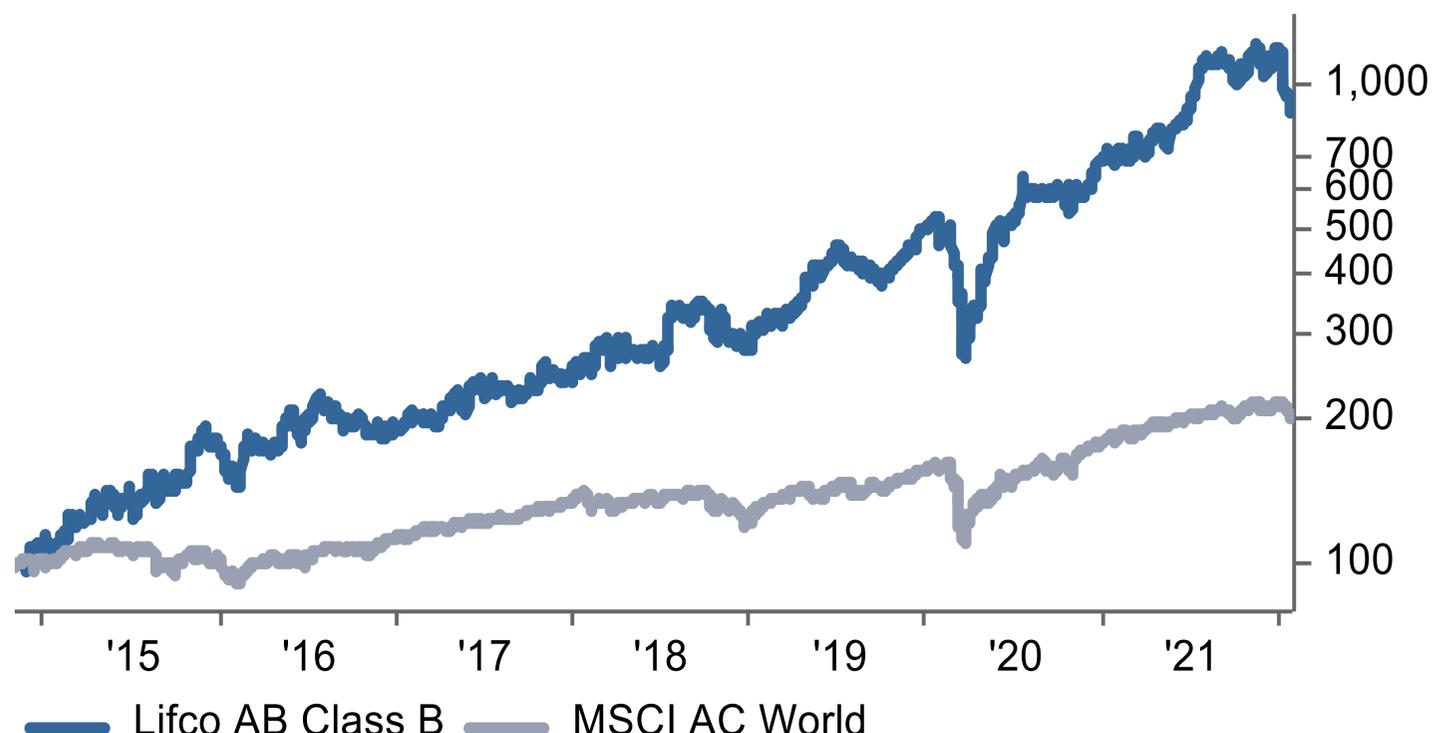
REQ CAPITAL
INVESTING WITH INSIGHT

It has embraced a decentralized approach since 1998 through 175 different portfolio companies. Even though Lifco has only been listed since 2014 it is a model of trust that works also from a shareholder perspective.

Lifco AB Class B

Indexed Performance

(Indexed to 100)



To say that the concept of decentralization works quite well is an understatement when you look at the results of our portfolio companies. The head office does not micromanage companies that are acquired. However, the acquired companies are offered support and assistance in their development and growth. The trust-based relationship from the head office is the epitome of the decentralized operating model.

Sum up

The powerful concept of decentralization is of great benefit to us as investors. It is an investment concept that stands the test of time. We have invested in many decentralized models that will continue to create strong shareholder value in the years to come.



REQ CAPITAL
INVESTING WITH INSIGHT