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The U.S. has historically been a melting pot of cultures, with size and scope that doesn't lend itself easily to stereotypes. In contrast, there are countries that have very distinct and identifiable cultural personalities. This was reinforced during a recent research trip to Germany, where the collective population tends to be industrious, organized, precise, and at times overtly direct. As would be expected, those traits are also accurate descriptions of the business character of Germany, reflecting an export focused line-up that plays to their strengths in engineering and logistics, with particular excellence in autos, aerospace, and chemicals.

Before delving into the details of the due diligence visits, a discussion on Germany (even one focused on commerce) is best supported with some historical perspective. As is widely known, Germany is a country that has had to work exceedingly hard at building global trust, and overcoming the dark shadow of its World War II past. Now that 70 years have passed since that shameful period, it is perhaps more relevant to view Germany in the context of more recent significant global political events: the fall of the Berlin Wall, the reunification of East and West Germany, and the creation of the European Union with a single currency. Thinking back to 1990, it was an extremely daunting task to reunify East and West Germany. There were many fits and starts, and the happy economic and political ending that is being enjoyed today was anything but certain in those early years. With time and hard work the political leadership and population persevered and managed to integrate a much poorer East with a much richer West. Germany then regrouped, took a leadership role in shaping the new European Union, and ultimately managed to decouple itself from the Deutsche Mark. Post reunification, Germany now has a population of around 80 million people, and incorporates a land mass that is only half the size of Texas. However, its economic might is almost three times that of the Lone Star State. Despite its many critics, the country packs an impressive economic and political punch for its size, and is exceedingly successful by most every measure: educational, economic, political, and cultural.

Today, Germany is without question Europe's economic engine. With an almost natural bent for commercial enterprise, arguably no other country beyond the U.S. or Japan has as many successful multi-national businesses. *Adidas*, *Audi*, *BASF*, *Bayer*, *BOSCH*, *BMW*, *Mercedes*, *Porsche*, *SAP*, and *Siemen*s are all notable examples of Germany's prowess at building global franchises. Beyond those well recognized firms, Germany's success is also reliant on an extremely vital "mittlestand," which are mid-sized businesses that represent around 16% of their economic activity. In the July 2014 issue of <u>The Economist</u>, it was these mid-sized manufacturers which were credited as being the true back bone to the world's fourth largest economy. A reputable "mittlestand" CEO said they were quite satisfied with working feverishly and profitably behind the scenes, "selling the shovels to the gold-diggers". Germany's focus on STEM Education and the importance placed on business apprenticeship programs, also play an integral role in its recipe for economic success.

The research trip originated in Frankfurt, a city which is predominantly oriented toward banking and finance. In addition to attending a global investment conference, I had the opportunity to visit with *Dream Global Realty*, which is a real estate company that owns and leases properties in seven key German cities. From Hamburg in the north, Berlin in the east, to Munich in the south, their properties are a direct beneficiary of a low unemployment rate and the very strict commercial building standards that help to maintain occupancy rates in Germany at compellingly high levels.

The next stop was Stuttgart, the automotive capital of Germany and the world headquarters for both *Daimler* and *Porsche*. Stuttgart is a relatively small town, it has a population that is roughly the size of Detroit and it shares a similar automotive obsession. However, that is where the Detroit comparison ends. Stuttgart's finances are solid and its city leaders have worked in concert with the automotive businesses and local workers, striking a balance between a strong work ethic, profitability, fiscal prudence, and lifestyle quality. Not surprisingly, having two of the world's most successful automotive corporations headquartered in a single city has been a boon to property values, and in turn to tax revenues, allowing for impressive sports complexes, museums, and infrastructure improvements that are well in excess of what would typically be available for cities of comparable size. *Daimle*r, the parent of *Mercedes, Smart,* and *Freightliner*, was the focus of the visit to Stuttgart. Despite significant recent successes in global sales and earnings it was quite evident from our discussion that they are not resting on their laurels. In addition to new manufacturing facilities in India and China, they have also created a segregated technological think tank that is solely devoted to next generational opportunities. What also became quite obvious was the competitive nature of *Daimler's* employees. With *Porsche* headquartered just 10 miles away, and two more global automotive powerhouses, *BMW* and *Audi*, within a 125 mile radius, the daily focus on automotive and engineering excellence was palpable.

Munich was the final leg of the tour. As the capital of Bavaria, Munich is Germany's second largest tourist city, home to both *BMW* and *Allianz*, and consistently ranked as the best commercial city in Germany. The decline in the Euro's value has stimulated German exports and boosted tourism, providing a windfall to Munich. Crowds of tourists were shoulder to shoulder in Munich's town squares, coffee houses, parks, and restaurants. What the original builders, architects, and city planners of the Bavarian capital accomplished, knowingly or simply fortuitously, was to create an annuity that day after day moves cash from the wallets of tourists into the pockets of locals, making the Bavarian capital quite wealthy. I toured an aerospace manufacturing and repair facility that has a long and storied history within the jet propulsion market. In a country known for labor stability, it was notable that they were expanding plant facilities at both the Munich headquarters, primarily to satisfy logistical storage capacity from increased demand, and also in Poland, taking advantage of the lower cost of land and labor. I also met with a small but rapidly growing investment banking firm. Their leadership team is comprised of former *McKinsey* consultants who buy small, $20-$100 million, distressed businesses. Their team stream lines operations, manages the business for a period of time, and then sells out. Worth noting was the fact that all of their institutional shareholders were non-Germans, reflecting a confusing lack of understanding by the German institutional investment community, especially given the firm's success.

A final key take away is that the weaker Euro and a zero rate ECB policy have been the equivalent of throwing gas on an already stoked German economic fire. Numerous construction and revitalization programs were visible evidence of the reinvestment occurring in Germany. The strong earnings from export activity are, at least in part, wisely being harvested and put back into their infrastructure; a sort of rinse and repeat cycle that the Germans tend to do very well. Also, from a stock valuation perspective, it is our view that "arriving today" is not as opportune as six months ago, but we do not think the party will end so soon. The greater probability is that the dual tailwind of zero interest rates and a weaker currency will continue to push valuations and establish new opportunities for investors.