



Travelling through seven cities spanning across four countries in 12 days is a daunting itinerary but, reflecting upon a recent trip through Europe, the profound experiences gained easily outweighed any of the stress that can brew up from the challenges of catching planes and trains.

It had been five years since last stepping foot in Continental Europe, when the region was at the height of the European sovereign crisis. Shackled by the drawbacks of a single-currency bloc, periphery countries (e.g. Italy and Greece) were reeling from heavy debt loads that ballooned during and after the global financial crisis. A strong hand by the ECB and politicians ensured that the Eurozone stayed mostly intact, and the region has since dug itself out of recession. Nonetheless, there remain a number of concerns, and there always seems to be some event on the horizon that could tip the apple cart. Catalan independence is currently the flavor of the month. Simply reading the news everyday could make one quite pessimistic about the region's future prospects. That is why NGA prescribes to an old proverb, "Don't listen to what they say. Go see."

From what could be seen, Europe is alive and well. In fact, it seems to be breathing heavily from all the activity. Europe has the reputation of a slow growth area with real GDP growth hovering around 2% during the last three years and is not expected to vary from that range in the near term. Yet the continent is an aggregation of some 50 separate (albeit linked) countries, and the regions/cities visited on this trip were buzzing. *Fussgängerzone* (translated as Pedestrian Zone: streets with shops/restaurants with no through traffic) in Germany, Switzerland and France were shoulder to shoulder with young and old alike shopping, eating and creating commerce. Traffic on the German *Autobahn* was heavy but thankfully as efficient as ever. Airports were humming, and each flight was either at or near full capacity. The seaside vacation town of Marbella, a posterchild of the Spanish real estate boom and bust, provided great contrast to how times have changed. Five years ago (three years post financial crisis), there was still a skyline full of inactive cranes and abandoned projects that blocked the beautiful view of the Mediterranean landscape. That was no longer the case, with those projects now completed and looking pristine while new ones have begun. The Spanish economy is currently one of the bright spots in Europe, with growth in the 3% range despite the real risks of disruption from Catalonia.

Sandwiched in between excursions to Toulouse, France and Berlin, Germany, were company research visits in Zurich, Switzerland and Mannheim, Germany. Switzerland is one of the wealthiest countries in the world on a per capita basis and Zurich is the epicenter. Along with tourism, banking (e.g. *UBS*, *Credit Suisse*) and healthcare (e.g. *Roche*, *Novartis*) are the main lifeblood of Switzerland's economy. While we had the opportunity to meet with *Vontobel*, a 95-yr old bank with over \$20 billion of assets, the objective was to check in on two of our largest holdings in the country.

Although thousands of miles away from Florida, *Swiss Re* felt the power of Hurricane Irma; and Harvey, and Maria, and the earthquakes in Mexico and the wildfires in Northern California. It truly was apt timing to visit the 2<sup>nd</sup> largest global reinsurance company. After a relatively trivial ten years or so of natural catastrophes, the recent string of hurricanes and earthquakes to rock North America are estimated to rack up \$100 billion of insured damages for the industry. *Swiss Re's* income

statement, along with many other P&C insurers, will undoubtedly feel the pain in 2017, but the prudence and conservatism that is emblematic of the Swiss/Germanic culture should now reap its rewards for *Swiss Re*. As one of the best capitalized firms in the world with a Solvency Ratio of 262%, the insurer is in a position to take advantage of a better pricing environment (Floridians can expect their premiums to go up!) at a time when the resources of many in the industry have been weakened.

While *Swiss Re* is a global company by nature, *Swiss Prime Site* operates solely in Switzerland. The real estate owner and developer is one of the more unique REITs in our investment universe as it is more diversified with retail (operates 50% of the shops in Zurich's *Jemoli*, which is equivalent to Harrods in London) and assisted living facility operations. However, nearly 100% of net income is derived from its real estate holdings that sprawl across Switzerland. One of the prized assets is the Prime Tower in Zurich, where we met management. The tower, with its 36 floors at a height of 413 feet, stands out in a city where buildings are typically no higher than 5 stories. Even more impressive was the fact that it was fully occupied at premium rents with a waiting list of prospective tenants wanting to lease space. The building was valued at CHF 597 million at the end of 2016 versus its construction costs of an estimated CHF 380 million. *Swiss Prime* is not going to hit the ball out of the park on every project it develops, but it owns another 185 properties in desirable locations that should continue to benefit from a stable economy. Furthermore, with Switzerland's safe-haven status, cash flows in Swiss Francs should provide investors with an important, uncorrelated safety net in the event of a US-centric crisis.

Away from the quiet cobblestone streets of Zurich, tucked away in an industrial park in Mannheim, *Fuchs Petrolub* was busy manufacturing specialty lubricants that are sold worldwide. For a company that is valued at \$6 billion, there were no frills about their headquarters, which is what we would have expected for a chemical company with operating margins at around 18%. Established in between the two World Wars, the Fuchs family has built the German company into the number one independent supplier of lubricants in the world, through a combination of bolt-on acquisitions and, more importantly, innovation. Innovation is vital in our competitive world today and companies must face it head on: more simply put, "Innovate or Die". Automotive lubricants are roughly 45% of *Fuchs'* business (the other 55% are industrial oils/greases for machinery) and the sector is undergoing radical changes due to technology and the proliferation of electric engines. Look no further than the higher market valuation placed on *Tesla* over *Ford*. *Fuchs* will also be impacted but it is not resting on its laurels. Instead, it is collaborating with the auto OEMs to ensure that it creates even more specialized lubricants needed to run these new electric motors. *Fuchs* has successfully navigated many other technological advances (electrification of the emergency brake was a stated example) over its long history, and hopefully this time is no different.

While those companies are some of the success stories in Europe, *Air Berlin* provided a subtle reminder that there are always winners and losers in competitive markets. The 2<sup>nd</sup> largest airline operator in Germany ceased its operations on October 28<sup>th</sup> (luckily a few days after our departure), after admitting it was insolvent. It was a classic case of mismanagement exacerbated by heavy debt loads. A solid balance sheet remains one of our main investment criteria, which has helped us avoid some bad investments such as *Air Berlin*.

Europe surely has its unique issues (as do other regions), but we came away feeling quite optimistic about the region and were happy to confirm our investment thesis on important holdings. With US stock valuations at the high end of their historical range, we are more comfortable than ever reaching across the Atlantic and investing in European companies that meet our valuation criteria.