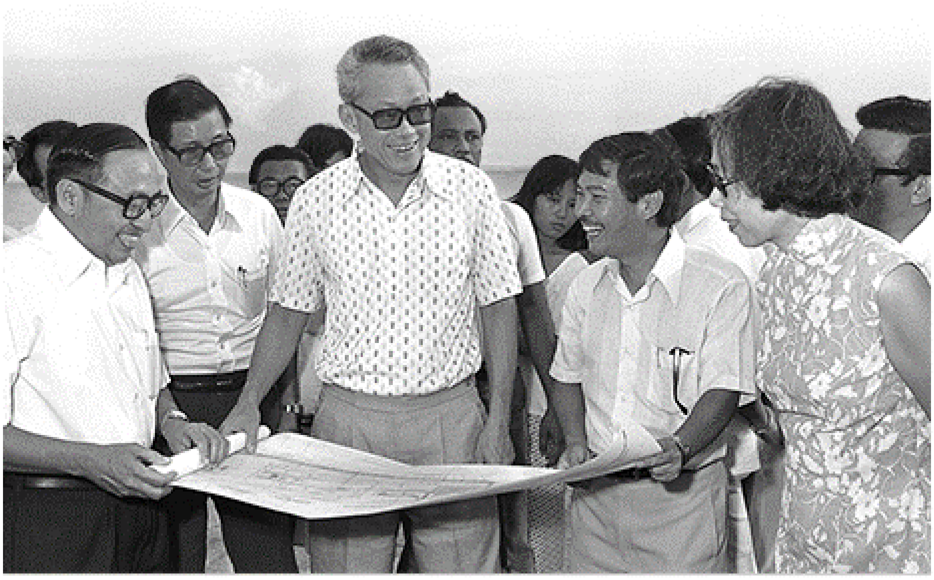
This article by Koon Boon Kee is excerpted from a publication of the Singapore-based Hidden Champions Fund.

If Singapore’s Changi Airport Group (CAG) is ever listed, it will be one of our top positions in the Hidden Champions Fund. CAG is the archetypal Hidden Champion with the winning characteristic of a “perennial compounder”, in similar ways to our top position ASX-listed SeaLink Travel which we will elaborate later about its transformation in business model in its latest corporate development in developing a new Townsville Strand ferry terminal hub with potential new recurring retail concession and rental income opportunity.



Mr and Mrs Lee at the site of the new Changi Airport in 1979.

As our international gateway where more than 100 airlines connect Singapore to more than 300 cities across the world, Changi Airport gives all visitors an excellent introduction to the way Singapore works and Singapore’s reputation for excellence. But the non-linear success and growth was not an easy nor obvious path to undertake.

In 1975, then-Prime Minister Lee Kuan Yew had the Long View and made the critical decision to move from Paya Lebar to Changi, a site that was five times larger. This was despite the Cabinet’s decision for the go-ahead in 1972 to expand Paya Lebar Airport based on a British expert’s report that it would cost less and that there was not enough time to get Changi built up to meet increasing traffic needs. It was the single biggest public project at that time and the tough call meant writing off some S$800 million that had already been invested in Paya Lebar airport, a commitment of S$1.5 billion, six intense years, incredible foresight and the commitment of the entire nation to make it happen. But Mr. Lee himself described it as “one of the best S$1.5 billion investments we ever made”. Mr. Lee, Howe Yoon Chong, Sim Kee Boon, Teh Cheang Wan and Woon Wah Siang had the grand vision that the tangible infrastructure must have the intangible quality to engender the network effect and multiply in value. *From airport management software to the texture of trolley handles, Sim insisted every aspect of customer experience must keep up with its impressive infrastructure. The quality of toilets – at night – was even under his radar. He was quoted saying that the first and last point of exposure to an airport is the toilet. It gives you an impression of the country.*

As a result of the vision and attention to details, CAG was able to reap multi-fold gains from the infrastructural asset with multiple recurring income streams in airport concession and rental income, airport services and security services, generating over S$2 billion in sales and S$900 million in EBIT from S$8.5 billion in total assets (10.5% ROA) and S$6.6 million in total equity (13.6% ROE). Today, airport concession and rental income contributed over half on the back of strong retail sales which grew to reach a record high of more than S$2.3 billion as passengers are spoilt for choices by the 360 retail and services outlets and 140 dining outlets spread over 76,000 square metres of retail space. This placed Changi Airport as one of the top three airports in the world for concession sales. Because of CAG, Singapore serves over 100 world-class aerospace companies and commands over 6% of the global maintenance, repair and overhaul (MRO) industry market and about one quarter of the Asian market. The success of Changi Airport, SIA, the MRO and air cargo sectors and their spin-offs have all contributed significantly to Singapore's economic growth.

Similar to Changi Airport Group, SeaLink Travel, Australia's largest tourism travel and transport group which captures over 1.2 million international visitors, or 15% of Australia's annual international tourist arrivals, is quietly transforming into a perennial business model with various strategic multi-year growth initiatives as part of its Long View. One of which is the new Townsville Strand ferry terminal hub to be completed by mid-2020 together with a consortium of developers to replace the aging Breakwater terminal facilities in a announcement by the Queensland government on 17 August.

The new Strand terminal will boost connections between Townsville, the Great Barrier Reef Marine Park, Magnetic and Palm Islands with city-link ferry service which could connect key CBD site, the new stadium, and transform the area into a thriving tourism precinct with potential Terminal retail opportunities for SeaLink (link one, link two). Sealink looks to explore the option of (1) Becoming an anchor tenant in the building, thereby giving others the confidence to invest in the development; (2) Acquiring/ purchase the Terminal (retail) component of the development to secure its long term position in that building; (3) Acquiring the full retail area, thereby allowing SeaLink the ability to attract the correct tenants to the retail space. The retail space of the development if acquired by SeaLink is estimated to under $10m and SeaLink would not be looking to raise capital to fund the project which will be financed internally. Traffic on the current Breakwater Terminal site includes an estimated 1 million passenger movements per annum, 120,000 car movements and 10,000 bus movements annually. As a comparison, Kangaroo Island, which SeaLink made famous as one of South Australia's most popular tourist attractions and has quasi-monopoly ferry operations, attracts 200,000 tourists annually. SeaLink is negotiating to secure a multi-year contract with the Queensland Government to operate the Strand terminal exclusively and not shared with any other marine operators.

Perennial Compounder = Long View x Innovation x Multiplicity,

where The Long View = Ecosystem Approach x Focus x Sacrifice

Perennial. Evergreen. Enduring.

In every industry – from aviation to books to movies and software – certain creations like the Changi Airport can be described as “perennial”. Works that seem to last forever. These products, services or solutions become timeless, dependable resources that have found continued success and more customers over time. In his thought-provoking book “Perennial Sellers: The Art of Making and Marketing Work That Lasts”, Ryan Holiday illuminates the brilliance of perennials in that they grow stronger with each passing day.

Perennials like Star Wars isn’t suddenly going to stop making money – in fact, the profits from the franchise are actually now *accelerating*, some *forty years* after conception. Despite getting little radio airplay, heavy metal group Iron Maiden has defied every stereotype, every trend, every bit of conventional wisdom about not just their genre of heavy metal but the music business, selling more than 85 million albums, 24 world tours and 2,000 concerts in 59 countries over the course of a four-decade-long career. They sell their own beer, they are one of the highest earning acts in the world, and they travel from sold-out stadium to sold-out stadium in a Boeing 757 piloted by the lead singer, often shuttling loyal fans and crew along for a ride.

How can perennials endure and thrive in an impatient, flustered world demanding quick success? How can we make works and build businesses that achieve longevity? Is there a common creative mindset, behaviors and decisions behind work that lasts? Is there a pattern to perennials that both entrepreneurs and value investors can learn from? So that their success can be your success.

During the investment process, many investors are led astray by shortcuts. It’s hard to see how it could be otherwise when the experts and thought leaders wily talk us with shortcuts, hacks and tricks that optimize for quick and obvious success. How to build something that last through time and crises is a lifelong fascination and a calling for us at the Hidden Champions Fund where we seek to invest in the perennial compounders that last the distance to generate sustained returns.

Thus far, the Fund has generated over 26% in positive absolute returns for our clients since our inception in September 2015 and the Fund has continued to make steady progress in the month of August 2017 as the overall market gyrates and retreats because all our core portfolio stocks from Australia’s **SeaLink Travel** (ASX: SLK) (“Blue Highway and Tourism Boom”), Taiwan’s **Nyquest Technology** (GTSM: 6494) (“Supercycle in Microcontroller”) to India’s **Emmbi Industries** (NSE: EMMBI) (“India’s Water Conservation Revolution”) have continued to generate record profits in this recent earnings season, and our recent additions in new potential core portfolio stock, as depicted in our factsheet, has done well too with double-digit gains. At the Hidden Champions Fund, we expect to outperform when the market retreats as our Hidden Champions benefit from the flight-to-quality effect in which investors flee their speculative yield bets to seek shelter in companies with higher quality fundamentals and long-term growth prospects.

Picture George Lucas literally ripping out his own hair as he struggled to complete the first draft of Star Wars. Consider stories of struggling artists who give up everything – even steady meals – for their work. Think of the writer working into the night well after everyone in the house has gone to sleep because it’s the only quiet time she gets. Whether these are clichés or inspiring images, there is very real pain involved. From sacrifice comes meaning. From struggle comes purpose. If you’re to create something powerful and important, you must at the very least be driven by an equally powerful inner force. In the course of creating your work, you are going to be forced to ask yourself: What am I willing to sacrifice in order to do it? A willingness to trade off something – time, comfort, easy money, recognition – lies at the heart of every great work.

Having the Long View is critical in a time when many entrepreneurs whom we observe are running harder and harder to opportunistically chase after short-term gains just so to stand still. Taking the Long View to build a multi-year lasting wide moat means having an ecosystem approach towards building and scaling up the work with various key players in a win-win partnership, having the strategic mindset to cultivate a multiplier effect instead of thinking about merely the addition of capital in a show of might, and a willingness to sacrifice and reject short-term opportunistic gains in posturing up to look good and focus on what matters for the long-term.

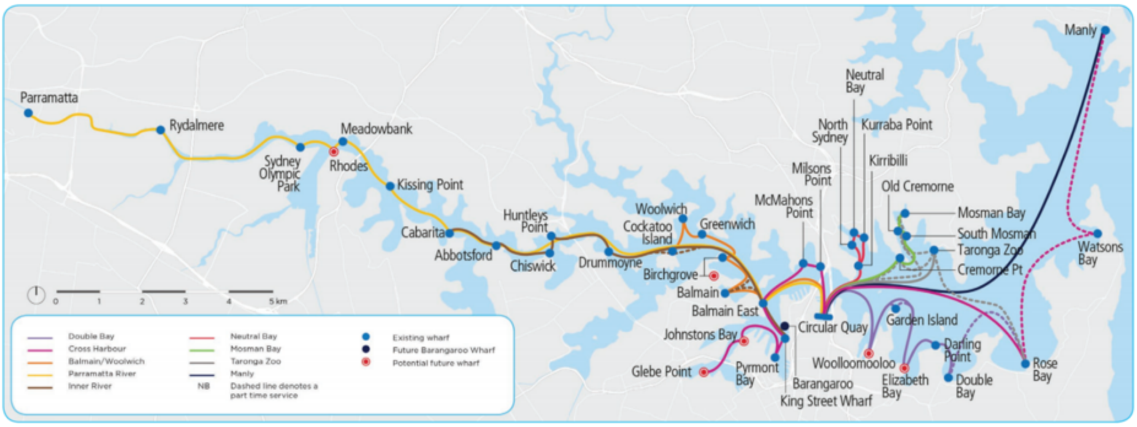
We remain impressed by the Long View of **SeaLink Travel’s** (ASX: SLK) Jeff Ellison and his team in creating an ecosystem approach in building a multi-year perennial revenue model and recurring income stream that the market underappreciates substantially. As the largest tourism travel and transport group, SeaLink captures over 1.2 million international visitors, or 15% of Australia’s annual international tourist arrivals, and with continued market share gains nationwide in NSW, Queensland, Western Australia and South Australia, beyond the Kangaroo Island which SeaLink made famous as one of South Australia’s most popular tourist attractions. Some recent strategic multi-year growth initiatives as part of SeaLink’s Long View:

Creating a “Kangaroo Island 2.0” in Queensland with the $56 million Townsville Strand ferry terminal hub to be completed by mid-2020 together with a consortium of developers to replace the aging Breakwater terminal facilities in an announcement by the Queensland government on 17 August. This latest corporate development is a transformation in the business model with potential new recurring retail concession and rental income opportunity.

The new Strand terminal will boost connections between Townsville, the Great Barrier Reef Marine Park, Magnetic and Palm Islands with city-link ferry service which could connect key CBD site, the new stadium, and transform the area into a thriving tourism precinct with potential Terminal retail opportunities for SeaLink (link one, link two). Sealink looks to explore the option of (1) Becoming an anchor tenant in the building, thereby giving others the confidence to invest in the development; (2) Acquiring/ purchase the Terminal (retail) component of the development to secure its long-term position in that building; (3) Acquiring the full retail area, thereby allowing SeaLink the ability to attract the correct tenants to the retail space. The retail space of the development if acquired by SeaLink is estimated to under $10 million and SeaLink would not be looking to raise capital to fund the project which will be financed internally. Traffic on the current Breakwater Terminal site includes an estimated 1 million passenger movements per annum, 120,000 car movements and 10,000 bus movements annually. As a comparison, Kangaroo Island attracts 200,000 tourists annually. SeaLink is negotiating to secure a multi-year contract with the Queensland Government to operate the terminal exclusively and not shared with any other marine operators;

Pioneering the launch of the first-ever direct high-speed ferry transport service from Manly to Barangaroo in September 2017 as an integral part of the "Sydney Blue Highway" and NSW 20-Year Ferry Plan and transportation masterplan (link). The new ferry hub at Barangaroo to replace Darling Harbour King Street Wharf was built to be the second major terminal for the Sydney Ferries network after Circular Quay ferry terminal. Situated at the western edge of the Sydney's CBD, the recently opened ferry hub in June 2017 will relieve the capacity constraints at Circular Quay and connect customers to the western and central parts of CBD. Importantly, it will be the single largest development in Sydney's CBD over the next 20 years. Once fully occupied, Barangaroo will accommodate more than 20,000 office workers and 2,500 residents. Cultural and recreational facilities at the site are also estimated to attract around 33,000 visitors a day. Thus, besides capturing a large portion of the working crowd seeking to escape the peak-hour motorway traffic congestion of Sydney, the new Barangaroo ferry hub will serve the new commercial development at this site with plans for a significant proportion of commuters and visitors to access the site by ferry, representing exciting perennial growth for SeaLink.

Sydney's Ferry Future *(modernizing Sydney's ferries along the blue highway)*

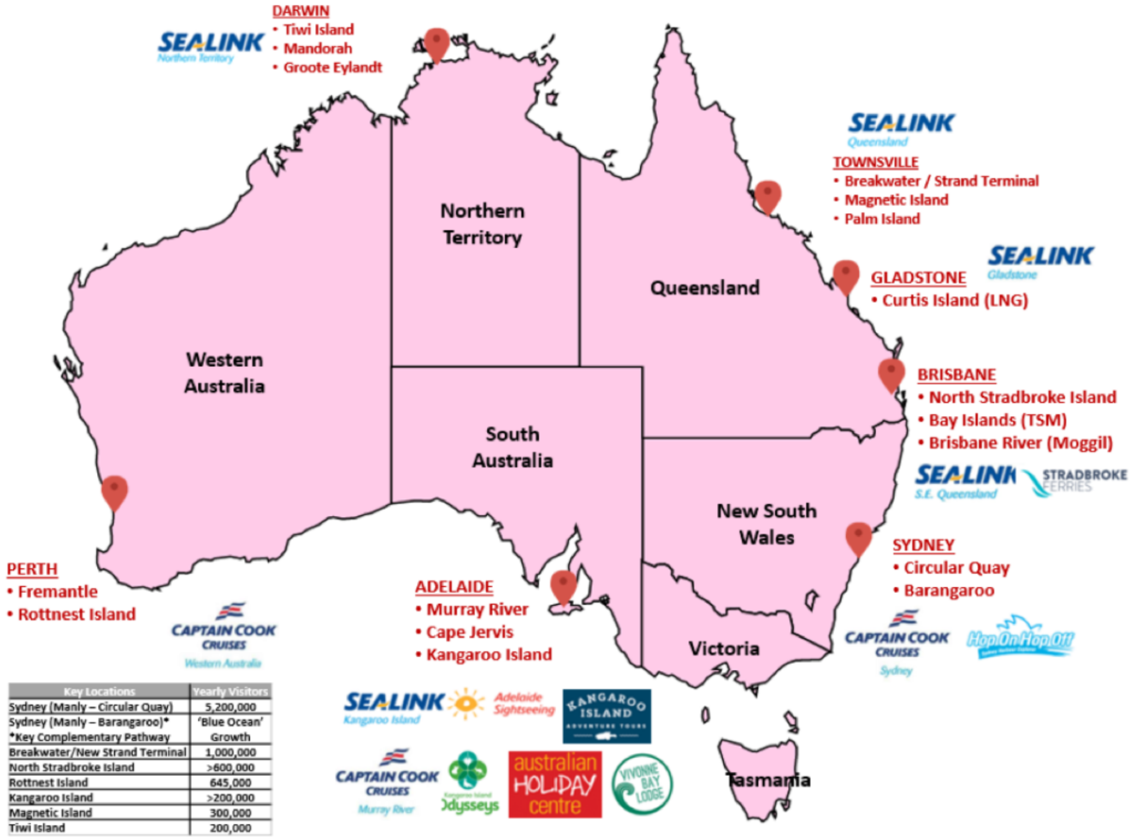


With over 5.2 million Manly/Sydney ferry trips per annum, Sydney Ferries currently provides 36 return services on a weekday on this route. Back of the envelope suggests that if SeaLink could capture a modest 1,000 passengers/day for a return fare of approximately A$15, it would generate additional revenue of A$5.5 million. If 20% of the passenger volume from the Manly/Sydney route is captured by the Manly/Barangaroo path, or 2,800-3,000 passengers/day, SeaLink could generate over A$15 million in additional revenue. With Manly and Darling Harbour having the top 3 highest patronage by line, this route dominates a very critical path in Sydney's Blue Highway as the government invests in more frequent ferries to service growing areas such as Rhodes and Meadowbank. We expect Sealink to gain a material share of these passengers over time given there is currently no water access to Barangaroo from Manly.

Routes	Locations	2016-17 Sydney Ferries patronage by line
F1	Manly	5,202,409
F2	Taronga Zoo	1,314,245
F3	Parramatta	3,145,391
F4	Darling Harbor	2,033,675
F5	Neutral Bay	589,689
F6	Mosman Bay	895,836
F7	Eastern Suburbs	1,546,364

Launching of the Rottnest Island service in Western Australia in November 2017 (LINK). With over 550,000 visitors to that island annually and increasing due to its high-profile wine industry and pristine surf beaches, Rottnest Island is one of the jewels in the crown of Western Australia. Operating between Freemantle and the main jetty on the island, the service will be coordinated to tie in with SeaLink's Swan River operations, providing a seamless transfer between the two renowned tourist destinations. While SeaLink is the third ferry operator on Rottnest Island, they fill an existing growing supply gap for ferry services during peak periods. SeaLink is also planning a new tourism offering for North Stradbroke Island for its Western Australia business, commencing late calendar 2017. Like Rottnest, North Stradbroke Island attracts over 600,000 visitors yearly.

On 16th August, Sealink released record sales and profits for FY2017, with sales rising by 13.5% from $177.5m to $201.4m, EBITDA increasing 12.1% to a record of $49.4m and EBIT rose by 6.3% to a record $37.5m. The company also announced a 6.7% increase in final cash dividend of 8 cents per share, a decent 3.5% dividend yield, to be paid on 16 October 2017 which we look forward to reinvest in the compounding growth of Hidden Champions in our portfolio. As commented by the management, "Overall 2018 has started ahead of with expectations. We are excited about the outlook for further organic tourism and transport growth opportunities throughout Australia, which the Company is very well-placed to identify and execute through economies of scale, well-proven fleet management and deployment capability, a very strong international and domestic sales and marketing infrastructure, and a strong continuing focus on controlling costs." SeaLink continues to trade at an attractive EV/EBIT 12.6x, EV/EBITDA 9.6x while generating an ROE of 25.4% and ROA 15.7% with a multi-year lasting wide moat.



Key Locations	Yearly Visitors
Sydney (Manly – Circular Quay)	5,200,000
Sydney (Manly – Barangaroo)* *Key Complementary Pathway	‘Blue Ocean’ Growth
Breakwater/New Strand Terminal	1,000,000
North Stradbroke Island	>600,000
Rottnest Island	645,000
Kangaroo Island	>200,000
Magnetic Island	300,000
Tiwi Island	200,000