Full year letter: Partners Fund
MSA Capital GmbH, Dr Mathias Saggau

Bonn, January 2025

Dear Partners,

The share price of the Partners Fund stood at €221.67 as of December 30, 2024. The fund's value increased by +4.77 % [1], inclusive of all costs. During the same period, the DAX achieved a performance of +18.85%.

Year	Partners Fund (1)	DAX (2)	Delta (1–2)
2015 (9 months)	+ 1.48 %	− 10.22 %	+ 11.70 %
2016	+ 16.27 %	+ 6.87 %	+ 9.40 %
2017	+ 20.24 %	+ 12.51 %	+ 7.73 %
2018	+ 0.76 %	− 18.26 %	+ 19.02 %
2019	+ 3.67 %	+ 25.48 %	− 21.81 %
2020	+ 30.47 %	+ 3.54 %	+ 26.93 %
2021	+ 38.21 %	+ 15.79 %	+ 22.42 %
2022	− 33.35 %	− 12.35 %	− 21.00 %
2023	+ 19.61 %	+ 20.31 %	− 0.70 %
2024	+ 4.77 %	+ 18.85 %	− 14.08 %

per annum	+ 8.58 %	+ 5.36 %	+ 3.22 %
total	+ 123.21 %	+ 66.38 %	+ 56.83 %

It is often said that good things come in threes. Unfortunately, 2024 marked the third consecutive year of underperformance relative to the broad indices – a development that is far from encouraging.

This development warrants a thorough analysis, as the fund's performance over a one- or even three-year horizon offers only an incomplete view of the broader picture. The price weakness observed in 2024 cannot be attributed to specific individual stocks but rather reflects a broader cause. Of the sixteen stocks held in the fund at the end of the year, only three achieved a positive share price performance, while the remaining thirteen recorded moderate to substantial price losses in 2024.[2] Smaller companies, in particular, experienced a significant price correction.

Against this backdrop and considering that the Partners Fund is now much more heavily invested in smaller and, above all, European companies compared to previous years, achieving an overall positive

[1] Since the 2018 annual report, the performance calculation for the Partners Fund has been presented using the so-called BVI method. Variations between the percentage return and the change in the fund's share price are attributable to tax-related payments.
2 It should be noted here that individual "*winners*" (System1 plc, Interactive Brokers) which experienced positive price developments, were sold in the course of 2024 and exchanged for more attractively valued alternatives (which usually saw price-drops over the year).

performance is nevertheless remarkable. In 2024, it was all too easy to suffer significant losses with a portfolio of European small caps. Across numerous industries and sectors outside the broad indices, a veritable bloodbath unfolded with, at times, severe price losses.

The Partners Fund is approaching its 10th anniversary – a significant milestone that allows for a meaningful and comprehensive evaluation. In my assessment, this review is likely to present a mixed picture as the ten-year mark approaches at the end of March 2025.

I am not entirely satisfied with the results so far, particularly considering that an investor could have achieved better returns with significantly less effort over the same period by investing in a broad index. For example, an investment in an MSCI World ETF would have yielded around +160%, while an S&P 500 ETF in euros would have achieved a return of around +240%. ETFs tracking other indices performed comparatively poorly during this period, such as the MDAX with roughly +25%, or European small caps with around +15%.

A significant portion of this development can be explained by changes in valuations, particularly for the largest U.S. stocks. The long-term total return of a stock is determined by a combination of earnings and their growth, the market's valuation of those earnings (commonly referred to as the "*multiple*"), and the dividends a company pays to its shareholders. As an investor, I focus exclusively on companies' earnings and dividends, while deliberately avoiding overly extreme valuations nor trying to predict them.

The Partners Fund shares have delivered satisfactory operational performance over the past ten years, though the results have fallen short of my expectations. In my estimation, the fund’s sustainable earnings power has improved by just over 10% per annum during this period, despite the significant underperformance of certain investments, such as **Tucows** and **Naked Wines**. At the same time, the average valuation of the portfolio has fallen by around 20% since 2015 and is now around 11 times the sustainable profits I expect for 2025.

For comparison, an S&P 500 ETF in euros delivered an exceptionally good return of approximately 13% p.a. The companies’ earnings included in the index contributed roughly 9% p.a. and contributions of approximately 1.5% p.a. from dividends and currency fluctuations. Over the same period, the valuation of the S&P 500 has increased significantly, rising from approximately 19 times earnings a decade ago to around 25 times earnings today. The average valuation, therefore, rose by around 30% and thus contributed around 2.5% p.a. to the total return.

In my opinion, it is unlikely – although not impossible – that the tailwind of steadily rising valuations will continue over the next ten years, allowing indices to continue to deliver annual returns of more than +10% per annum. This is particularly doubtful given the largest and most heavily weighted companies in the indices are currently trading multiples significantly above market average. Examples include **Tesla** and **NVIDIA**, whose current valuations, based on today's earnings, appear exceptionally high.

I have always emphasised that lean periods are an inherent part of investing. For Partners Fund we are currently in one of these phases, but I am highly confident that better times lie ahead. The portfolio is exceptionally well-positioned and cheap today. Various challenges at the individual company level are being actively addressed, and the valuations of many excellent companies, particularly in Europe, are historically low. While it is true that especially Europe faces structural challenges, the tendency "*to throw the baby out with the bathwater*" often leads to indiscriminate undervaluation. Not all companies are destined to be permanent, structural losers.

The companies in the Partners Fund

As of December 30, 2024, the fund was invested in 16 companies. As is customary, I list the ten largest positions in alphabetical order below:

- Associated British Foods
- CHAPTERS Group AG
- DCC
- Ferguson
- Fuchs SE
- Lanxess
- Midwich Group
- Moltiply Group
- Tucows
- United Internet

These ten companies account for around three-quarters of the fund's total assets. The largest of these companies has a market capitalisation of around 30 billion euros, the smallest around 40 million euros. Most of the higher-weighted positions (**CHAPTERS Group, DCC, Ferguson, Moltiply Group, Tucows**) have been an integral part of the fund for many years.

The core investment principles of the TGV Partners Fund remain unchanged and will not change in the foreseeable future. When recommending potential investments, I remain committed to the following criteria:

1. Does the company have a reasonable business model?
2. Does the company have a lasting competitive advantage?
3. Does the management act rationally, with integrity, and does it consider the shareholders to be partners?
4. Can we purchase the company's stocks at a reasonable price?

Changes in the Top 10

Due to price declines in 2024, **Naked Wines** shares have dropped out of the top 10 holdings, though they remain part of the portfolio. In contrast, **Lanxess** shares have regained their position among the top 10.

FILA Holdings shares, however, were not part of the portfolio at the end of 2024, despite being introduced as a new investment in the first half of the year. This situation arose as an unforeseen consequence of technical difficulties encountered during the transfer of the funds to the new home, Monega.

The challenge stemmed from the unique operational constraints of the Korean depository, which made it impossible to reliably ensure the transfer of these shares to the new fund. To facilitate a smooth transition by year-end, we opted for a pragmatic solution: temporarily selling the FILA Holdings shares.

Now that the switch has been successfully completed, there are plans to add the shares back to the portfolio.

Fuchs SE

The dynamics of European small caps and the impact of liquidity and index inclusion on individual stocks can be effectively illustrated by examining the case of **Fuchs SE**, based in Mannheim.

Listed on the MDAX, Fuchs SE is a quintessential German "hidden champion", likely unfamiliar to many partners. As a family-run business, Fuchs prides itself on being the world’s largest independent lubricant manufacturer. For nearly 100 years, the company has been producing and exporting tailor-made products, generating annual revenues of approximately €3.5 billion with impressive profitability.

Lubricating oils are by no means limited to use as gear oil in motor vehicles or commercial vehicles. Numerous applications require regular lubrication or corrosion protection through oil and lubricants. Whether ensuring the smooth rotation of wind turbines, cooling and lubrication during metal cutting, or battery cooling in electric vehicles, Fuchs products are integral to thousands of applications worldwide.

Between 2004 and 2014, Fuchs SE experienced a golden era. The company and its shares performed exceptionally well, becoming a flagship of the MDAX. During this period, revenue nearly doubled and profit tripled. The share price soared from around €2 to €30.

The years from 2014 to 2024, however, tell a different story. While revenue doubled once again over this decade, profit increased by only about 60%. Combined with a simultaneous decline in valuation, the common stocks are now trading at the same level as they were ten years ago – a lost decade for shareholders.

The explanation lies in the development of valuation. Between 2004 and 2014, the stock's valuation expanded considerably as profits rose, only to then contract sharply in subsequent years as profit growth slowed.

This serves as a striking reminder of what can happen when valuations normalise over an extended period. Today, the common stocks trade at approximately 11 to 12 times the expected earnings for 2025, compared to 20 times earnings in 2014. While the 2014 valuation was not entirely excessive, the current valuation represents, in my view, an exceptionally attractive level for a company of this calibre.

A distinctive feature of Fuchs SE is the existence of both common and preferred stocks. In most companies, common shares carry voting rights and are, therefore, often traded at a premium compared to non-voting preferred shares. A notable example is **Volkswagen**, where the common shares rose significantly more than the preferred shares during the takeover battle with Porsche in 2008, thanks to their voting rights.

In the case of Fuchs SE, the Fuchs family controls the majority of the common shares, while only the non-voting preferred shares are listed on the MDAX. For external minority shareholders, however, there is no material difference between holding common or preferred shares, aside from the preferred shares' inclusion in the index. Interestingly, due to their lower liquidity, the common shares trade at a discount of approximately 25% compared to the preferred shares.

Operational development vs. price development

CHAPTERS Group AG

The Partners Fund has been invested in **Chapters Group AG** since its inception in 2015. I have served as a member of the company's supervisory board since 2018. As this letter is not addressed equally to all shareholders of the company, it is not the appropriate forum for an in-depth report on the organisation. Therefore, I would like to refer you to the company's 2023 annual report and shareholder letter, as well as the forthcoming 2024 annual report, which will be published in spring 2025.

DCC

Another example of the impact of current valuations on European stock markets is DCC. Partners Fund invested in DCC during the first half of 2020 and has held this position for four and a half years.[3] DCC is a decentralised holding company with a strong focus on acquisitions, operating across various business segments. Its primary activities include the distribution of liquefied gas and oil, as well as medical and technology products. In the latter sector, DCC competes, for instance, with the British **Midwich Group**, which is also part of the portfolio.

At the time of its initial introduction in 2020, the assessment was as follows:

"Driven by the corona crisis and the oil price crash, DCC's share price dropped sharply in March this year, at times even disproportionately to the overall market. This is even though the oil price has practically no influence on the actual business, and the business model itself is very stable and extremely resistant to the economic cycle. An excellent opportunity to finally recommend buying DCC for the TGV Partners Fund."

In the years since, DCC has continued to perform consistently well operationally. The company has cumulatively invested more than £1.5 billion in strategic acquisitions and increased earnings per share by approximately 50% over the past four years. While I already considered the valuation attractive at the time of purchase, it has become even more compelling due to the nearly stagnant share price development since the initial investment. Today, the valuation is significantly below 10 times my expected earnings for the upcoming fiscal year—a remarkably low figure for a highly stable and not very capital-intensive business.

The sluggish performance of DCC's share price (similar to Fuchs SE, DCC's share price has remained unchanged over the past decade) has ultimately led the company to announce sweeping changes. In November 2024, it was revealed that DCC plans to restructure by divesting its *DCC Technology* and *DCC Healthcare* divisions. In my estimation, this move will generate approximately £2 billion in free funds – a significant amount given the company's market capitalisation of around £5 billion. These funds are earmarked for reinvestment in acquisitions within the core business of DCC *Energy* and for share buybacks.

Nevertheless, this announcement came as a surprise to many market participants, myself included. Breaking up the entire company and changing a structure that has grown and proven successful over decades is a drastic step that requires considerable boldness. Especially given that most observers have attributed the company's low valuation to its DCC *Energy* segment. In recent years, anything associated with oil and gas has faced considerable headwinds in the equity markets.

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[3] A comprehensive overview of DCC's business model and history was provided in the 2020 semi-annual report.

The decision to focus on this segment, which promises the highest returns in the future, demonstrates that the management and board are committed to "*doing the right thing*"—even when it entails significant and painful changes.

Tucows

In recent quarters, **Tucows** has also undergone a number of significant and painful changes. As previously detailed, for many years, Tucows has invested all available resources into the development of local fibre optic networks in smaller cities and towns across the United States.[4]

Since our last report in the summer of 2023, the situation has changed fundamentally. Initially, Tucows sought a co-investor for its fibre business, "*ting*." However, when it became clear that there were no serious offers for a minority stake, the company initiated a comprehensive process to sell the entire business. In October 2024, following the announcement of a sweeping restructuring plan – including the layoff of approximately 40% of the workforce – it became apparent that this process had also been unsuccessful.

The outcome of this second process, namely that there is currently no buyer for "*ting*," can only be described as a "*pants down moment*" of truth. Admittedly, the current environment for acquisitions in the fibre optic sector is far from favourable. The general conditions are challenging, and "*ting*" is an unconventional project.

Nonetheless, the hard reality remains: the value of this business segment for shareholders today is close to zero. In objective terms, several hundred million U.S. dollars have been lost – a fact that has cost you, as a partner in the fund, a significant amount of money. This calculation does not even account for the opportunity costs incurred. As such, the question posed in the mid-year report of 2023 – "*Was the investment an obvious mistake at the time*?" – must now, unfortunately, be answered with a definitive "yes.".

In the 2023 half-year report, I wrote: "*Knowing what it should look like when it's finished is good, but getting there is the only thing that counts."* Today, it is evident that "*ting*" will no longer get there on its own and that no partner has been found to carry the project to completion. That is a painful realisation.

I have spent considerable time reflecting on the nature of "mistakes made" along the way. My conclusion is that Tucows has not made one major single wrong decision, but rather a chain of numerous smaller missteps along the way.

A critical issue was the decision to invest in a previously untested business model. While this in itself is not problematic, as entrepreneurial investments inherently carry risks, the construction of fibre optic networks was far outside Tucows' historically developed core competencies. This endeavour involved too many "known unknowns" and "unknown unknowns," compounded by a project scope that spiralled out of control. Over time, the scale of the project became so vast that a course correction was no longer feasible. Another significant issue was the decision to commit to the construction of numerous cities without first securing and finalising comprehensive financing.

However, not all hope is lost. Part of the investment hypothesis was – and still is – that Tucows possesses several valuable and completely separate business segments. The original "*Domains*" business and the software division "*Wavelo*" remain intact. Even "*ting*" retains a certain optional value.

[4] A detailed description of Tucows' business model and history has been provided in previous years, most notably in the 2023 semi-annual report.

A key hypothesis is that even a potential bankruptcy of the fibre optic division (though thus far ruled out by all parties) would not materially affect the operational viability of the rest of the company.

With a share price of $16, Tucows stock is trading at a significant discount to the value I estimate for the "*Domains*" segment alone, with no value attributed to the fibre optic business or to "*Wavelo*." The critical factor now is that Tucows' management and board draw the right conclusions and address the challenges decisively. I am encouraged by the steps currently being taken and remain confident that Tucows will, in the future, make a meaningful contribution to the value of the Partners Fund.

For both Tucows itself and the Partners Fund investment, it is worth remembering that capital does not have to be recovered in the same way it was lost.

Investor Meeting

The transition of the various sub-fund assets from the “Investmentaktiengesellschaft für langfristige Investoren TGV” in Bonn marks the beginning of a new chapter. The advisors of the "*sonstige Teilgesellschaftsvermögen*", have decided to collaborate more closely to create synergies, pool expertise, and grow together. This increased cooperation not only serves to professionalise our approach but also to establish structures that safeguard your interests, ensuring that we remain operational even in unexpected situations, such as the “hit by a bus” scenario.

A key element of this collaboration is maintaining our tradition of regular meetings with our valued partners. The Godesburg in Bonn-Bad Godesberg remains our trusted venue – a place that symbolises continuity, dialogue, and partnership. It is with great pleasure that we invite you to our annual investor meeting on **May 24, 2025**.

As a partner in the fund, you will receive a personal invitation with further details in spring.

As in previous years, we warmly encourage you to take the time to join us in Bad Godesberg for meaningful exchange and connection. With this in mind, I wish you a delightful spring and thank you for your continued trust and confidence.

Warm regards from Bonn,

Yours sincerely,

Mathias Saggau

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