Investmentaktiengesellschaft für langfristige Investoren TGV

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Dear Investors

We are enclosing the shareholder letter for our Teilgesellschaftsvermögen “Partners Fund” for the first half of 2024 written by our sub-advisor MSA Capital GmbH.

Yours sincerely

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Sub-fund: Partners Fund
H1-2024: Report of the Subadvisor - MSA Capital GmbH, Dr Mathias Saggau

Bonn, July 2024

Dear investors,

The share price of the TGV Partners Fund was 226.13 euros as of June 28, 2024. The change in value for the first half of 2024, including all costs, was +6.88%.[1] The DAX achieved a performance of +8.86% in the same period.

Year	TGV Partners Fund (1)	DAX (2)	Δ (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 (6 months)	+ 6,88 %	+ 8,86 %	− 1,98 %
per annum	+ 9,30 %	+4,66 %	+ 4,64 %
total	+ 127,70 %	+ 52,39 %	+75,31 %

In the first half of 2024, the TGV's performance showed a slight overall gain. As is often the case, the portfolio's reported return does not fully capture the nuanced performance of individual stocks. Out of the fifteen companies in the TGV Partners Fund's portfolio, only five have demonstrated positive price performance year-to-date, while the remaining ten have experienced share price declines.

I have previously elaborated on my views on the structure and comparability with general indices. There is an ever-increasing trend towards the concentration of the largest companies within these indices, leading to higher valuations of those companies. In 2024, this trend continues with a widening gap in valuation between these mega-cap companies and the *„rest of the market*".

For instance, by mid-year, just three companies (**Apple, Microsoft, Nvidia**) in the S&P 500 accounted for around 20% of the index, up from less than 6% when the TGV Partners Fund launched in 2015. This structural phenomenon appears enduring, likely influenced by the growing popularity of exchange-traded index funds (ETFs) and quantitative, rule based investment strategies. Consequently, highly

[1] Since the 2018 annual report, the performance calculation for the TGV Partners Fund has been presented using the so-called BVI method. The differences in the percentage return and fund price change can be explained by tax-related payouts.

liquid large-cap companies dominant in the indices are increasingly sought after, pushing their valuations ever higher. At the same time, large parts of the market outside the indices are deprived of liquidity and thus the oxygen they need to flourish.

What the long-term consequences will be, I cannot predict. However, I do consider them to be a structural risk. There's no question: ETFs are a fantastic thing; but any idea that is taken too far may have larger and unintended consequences. Moreover, the lofty valuations of some of these large companies are now so ambitious that they are difficult to justify fundamentally, contrasting sharply with much of the broader market.

The implications for the TGV Partners Fund are far from clear. However, given TGV's strategy of investing well beyond the indices, we can expect continued significant deviations from index performance, for better or worse.

Nothing is as constant as change

In the first half of 2024, Norman Rentrop, the founder and owner of Investmentaktiengesellschaft für langfristige Investoren TGV (InvAG), announced at the investor meeting in Bonn that he does not intend to continue operating the Investmentaktiengesellschaft in the long run. This decision marks the end of Investmentaktiengesellschaft as the home of the TGV Partners Fund and the other eight sub-funds launched over the years.

Together with the management board of InvAG, we are diligently working to facilitate the transfer of TGVs to another capital management company (KVG) by the end of this year. Several reputable companies in Germany are potential candidates to host the sub-funds in the future. Our aim is to ensure continuity in all key aspects of the fund, including costs, investment strategy, and portfolio composition. The transfer and the new prospectus require approval from the German supervisory authority, the Federal Financial Supervisory Authority (BaFin). <u>The plan is for the management transfer to another KVG to take effect by December 31, 2024, with practically no changes for you as investors in the TGV Partners Fund.</u> However, for technical reasons, there will likely be a brief period in December 2024, during which the new subscription and redemptions will be temporarily unavailable. To accommodate this, we are planning a special subscription date in October. Interested investors are encouraged to contact us for further details.

At this point, I would like to extend my deepest gratitude to Mr Rentrop, Jens Große-Allermann, and the whole team behind the Investmentaktiengesellschaft für langfristige Investoren TGV: Together, we have created something truly remarkable, and it is with regret that this era is coming to a close.

After several years of training as an employee of InvAG, about ten years ago, they gave me the decisive boost for my current entrepreneurial activity with the decision to launch the TGV Partners Fund. They also fostered a unique ecosystem centred on "*long-term and sensible investing*" bringing together exceptional individuals. This achievement is truly extraordinary in Germany, and I am immensely grateful for the experience and opportunities you have provided. Thank you for everything!

In the spirit of embracing change as an opportunity for renewal, the advisors of the "*sonstige Teilgesellschaftsvermögen*"[2] have decided to forge closer ties moving forward. This decision stems from our mutual respect and longstanding collaboration, characterised by vibrant exchanges, shared research, insights, and valuable contacts. Our goal is to deepen this cooperation in the future. Moreover, this reorientation presents an opportunity for enhanced professionalisation. By presenting a unified external presence and organising joint events such as the annual investor meeting at the Godesburg, we believe we can provide collective benefits to all involved.

While preserving the unique identity of each TGV remains paramount, the exact details of these changes are still evolving. Rest assured, we will keep you informed of any developments as they arise.

Companies in the TGV Partners Fund

Of the fifteen companies in which the TGV was invested as of June 28, 2024, I list here, as usual, the ten largest positions in alphabetical order:

- Associated British Foods
- Chapters Group AG
- DCC
- Ferguson
- FILA Holding
- Midwich Group
- Moltiply Group (previously MutuiOnline)
- Naked Wines
- Tucows
- United Internet

These ten companies represent around 80% of the fund's assets. The largest company in which the TGV holds a stake currently has a market capitalisation of around 30 billion euros, the smallest of around 60 million euros. Most of the positions have been an integral part of the TGV for many years.

The key investment principles of the TGV Partners Fund have not changed 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 and with integrity, and does it consider the shareholders to be partners?
4. Can we purchase the company's stocks at a reasonable price?

   When recommending stocks to buy within the TGV, I focus on identifying excellent companies and try to buy them at an attractive price. The goal is not to acquire mediocre companies at excellent prices.

When it comes to shares, it is often the case that two or three of the above questions can be answered with "yes". On the other hand, it is rather seldom the case that all four questions can be answered with a confident "yes". When considering the extent to which each factor is met, I proceed methodically and diligently. Of course, many aspects are subject to my subjective conclusions or estimates. I will never knowingly invest in dishonest or incompetent management.

[2] Laurenz Nienaber of TGV Compound Interest, Dr. Martin Possienke and Christoph Schäfers of TGV Falkenstein Fonds, Clemens Lotz of TGV Intrinsic and Lars and Thorsten Ahns vom TGV Rubicon Stockpicker Fund.

The portfolio is focused on a small number of companies so that their development can be followed with the necessary attention and intensity. For this reason, too, the portfolio is much more concentrated than those of conventional investment funds.

Changes in the Top 10

In the spring of 2024, **Gruppo MutuiOnline** was renamed **Moltiply Group** following a general meeting.

Software Circle shares were exchanged for shares of **Chapters Group AG** within the scope of an exchange offer.

System1 shares had been a longstanding holding in the TGV Partners Fund until May of this year when the fund sold its whole position amid a larger reallocation of shares among various stakeholders. This investment in System1 vividly illustrates the extreme price volatility and illiquidity often found in smaller companies.

The TGV Partners Fund initially acquired System 1 shares in 2018 at slightly over two Pounds per share. During the COVID-19 pandemic in 2020, prices plummeted by over than 50% to around 90 Pence, only to rebound to around four Pounds per share during the subsequent recovery in 2022. In the crisis year of 2023, the prices again fell sharply by nearly three-quarters to around one Pound per share before surging to over five pounds just one year later. What a rollercoaster!

Despite these challenges, the investment in System1 has delivered impressive results for us: over time, the TGV Partners Fund was able to achieve a capital and time-weighted return (IRR) of approximately 24% p.a., significantly outperforming the portfolio average. This outcome is remarkable, especially considering the substantial price declines and associated uncertainties along the way. It underscores the importance of (at the time painful) opportunistic purchases made at low points in 2020 and 2023, which significantly bolstered the overall performance.

Midwich Group

In my ongoing evaluation of companies in the portfolio, I frequently explore competitors, suppliers, or customers, and sometimes, I happen across companies that are interesting investment candidates, as in the case of **Midwich Group**, which initially caught my attention through its association with the existing **DCC** position.[3] In the "*DCC Technology*" segment, DCC operates in the market under the brand **Exertis** and competes directly in that space.

Midwich, founded in 1979 in Diss, Great Britain, has had a storied history. Originally founded as a dealer for computer parts and printers, the company became a subsidiary of the German builder's merchant Raab-Karcher in the early 1990s and was later taken over by a large US electronics distributor. In 2001, the then-management bought out the company.

The current CEO, Stephen Fenby, joined in 2004 and is still the driving force behind the company today. In 2010, another management buyout took place under the leadership of Stephen Fenby. Over the

[3] A detailed description of DCC's business model and history was provided in the report for the first half of 2020 (LINK).

past 20 years, Stephen has had a decisive influence on the company. Despite the IPO, he is still the company's largest shareholder. He and parts of the management control around a quarter of all shares.

While Midwich had a turnover of around 120 million GBP in 2004, with a large proportion of printers, printer accessories, and TV screens, the business was fundamentally restructured in the following years. Sales were increased to 370 million GBP through numerous acquisitions leading up to the IPO in 2016. Today, eight years after the IPO, the company has continued to grow both organically and through acquisitions and has a turnover of around 1.3 billion GBP. It has established itself as one of the larger top dogs in the industry and has been able to increase its operating profit almost tenfold over the past ten years.

As an AV (audio and video) distributor, Midwich specialises in the distribution of products such as displays, projectors, speakers, cameras, LCD walls, and a wide range of other audio-visual equipment from various manufacturers. These products are sold and rented to specialist dealers or installation companies. In a world where the number of screens and digital players is constantly increasing, the need for advice on feasibility and possibilities is also growing.

Midwich's scale has become a distinct advantage. The company operates multiple showrooms where integrators can test various products with their clients. The greater the selection and number of manufacturers, the better the outcomes. I witnessed this firsthand during my visit to the '*Innovation House*' in Bracknell near London, where project developers and customers regularly seek ideas and inspiration from Midwich specialists.

The COVID-19 pandemic, in particular, had a significant impact on Midwich's business. While live events, concerts, and trade fairs—major markets for display technology and loudspeakers—came to a halt, there was a surge in demand for conference, telephone, and transmission technology. Additionally, the global supply chain disruptions from 2021 onwards presented challenges. Despite these hurdles, the company remained profitable throughout those times.

Although the business has performed excellently in recent years, the share price has remained sluggish. The share price is roughly at the same level as in 2017 and close to the low point of the Corona crisis. However, the key difference is that Midwich now generates three times the sales and twice the profit compared to that period. Today, the shares are valued at less than ten times the sustainable profit and free cash flow and are, therefore, in my opinion, significantly too cheap.

The combination of factors such as being an owner-managed, customer-centric company with excellent structural earnings growth and today's low valuation is a rare find. This is why I have been recommending buying shares in the Midwich Group for the TGV Partners Fund in recent months.

FILA Holdings

FILA is likely known to most investors in the TGV Partners Fund as an Italian clothing brand, particularly renowned in the tennis world during the 'golden years' of the 1980s. However, this does not fully capture the current nature of the company and, above all, the background of this investment.

At the end of the 1980s, the enterprising South Korean Yoon Soo (Gene) Yoon convinced FILA to move its shoe production to South Korea. Following some success, Gene Yoon was tasked by FILA with building FILA's business in South Korea. In the following years, Gene Yoon's efforts proved extremely successful, making Korea one of FILA's strongest markets and Gene Yoon the highest-paid employee in the company.

While business in Korea flourished, FILA's parent company almost faced bankruptcy in 2003. In response, Gene Yoon first organised a management buyout of the Korean business in 2005, followed by a management buyout of the entire FILA group in 2007 – a major deal valued at an estimated USD 400 million at the time. This buyout made Gene Yoon one of the largest shareholders. **FILA Holdings** was subsequently listed on the South Korean stock exchange after the financial crisis in 2010.

Even after the IPO, Gene Yoon remained actively involved in expanding the company: In 2010, the US conglomerate **Fortune Brands** announced its intention to focus on a few core areas and divest most of its business segments. In 2011, FILA Holdings, in partnership with Korean Mirae Asset Private Equity, acquired the golf ball, golf club, and golf clothing businesses from Fortune Brands in a carve-out transaction worth approximately USD 1.2 billion. This acquisition included well-known golf brands such as **Titleist**, **FootJoy**, and **Scotty Cameron**. Titleist is unquestionably the crown jewel of the company. Its brand and market position make it indisputably the best golf ball business on the planet. And as often as balls are lost, one can certainly speak of a business model with recurring revenues.

Following a revitalisation, the company was listed on the stock exchange in 2016 as Acushnet Holdings. Named after the birthplace of Titleist in Massachusetts, Acushnet is now developing independently and is still listed on the stock exchange in the USA. FILA Holdings owns 53% of the shares and thus just over half of the company, which is valued at around USD 4 billion. This substantial holding worth USD 2 billion is a significant value for FILA shareholders.

In the years following its IPO in 2010, the FILA brand has seen significant growth in Asia, especially in China. For example, FILA is now one of the largest Western brands in China, following Nike and Adidas. Gene Yoon has successfully expanded FILA's presence in Asia through strategic partnerships and licensing agreements. In recent years, the company has regularly achieved sales exceeding USD 1 billion and has had excellent profitability, at times surpassing USD 200 million per year. 2023 was a clear exception, with a small operating loss due to a restructuring of the company's stores in the USA.

Despite this growth, the share price of FILA Holdings, listed in Seoul, does not reflect the company's achievements. With a market capitalisation of around USD 1.7 billion (after currency conversion), FILA Holdings is trading at a discount to the value of its stake in Acushnet alone, which is valued at USD 2 billion. This undervaluation does not account for FILA's operating income, suggesting that the holding company is being significantly undervalued.

This situation is not uncommon for holding companies and is often referred to as a "holding discount" or "value trap", implying a permanent destruction of value. However, both Acushnet and FILA Holdings have been actively conducting share buybacks, which is a positive move considering the substantial discount to intrinsic value. Additionally, the Yoon family has taken advantage of the low prices of FILA Holding and increased its stake in the company from 20% in December 2021 to around 36% in 2024.

Unlike many other Korean companies, FILA Holdings provides appropriate English-language reporting and engages with its shareholders transparently and collaboratively, and the company headquarters in Seoul is open to visitors. All this reinforces my confidence in Gene Yoon's ability to execute valuecreating, complex, and large financial transactions throughout his career. His ability to maintain partnerships across different cultural areas assures me that we, as shareholders of FILA Holdings, are in good hands.

Given this context, I recommended the purchase of shares of FILA Holding by the TGV Partners Fund.

For golfers among you, this naturally means that losing each Titleist ball in the future should hurt a little less, and that purchasing new clubs or shoes can be justified in terms of the fund's performance.

Thank you for your great trust!

With kind regards from Bonn, sincerely,

Mathias Saggau