Investmentaktiengesellschaft für langfristige Investoren TGV

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Dear Investors

We are enclosing the shareholder letter for our Teilgesellschaftsvermögen "Partners Fund" concerning the first half of 2015 written by our sub-advisor MSA Capital.

Yours sincerely

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Teilgesellschaftsvermögen Partners Fund
H1-2015: Memo – MSA Capital, Dr. Mathias Saggau

Bonn, July 2015

Dear Investors,

the net asset value of the Teilgesellschaftsvermögen (TGV) Partners Fund was 96.29 Euros as of June 30, 2015. In the first three months since its inception, the return of the TGV was (– 3.71 %). The DAX would have generated a negative return of (– 8.53 %).

A statement or analysis of the performance during this period of time does not really make sense, since a period of only three months is not conclusive for the assessment of the fund's performance. What can be said, however, is that although most equity markets are still near their peaks, I have found enough promising investments to fill the portfolio.

The companies in the TGV Partners Fund:

Since the TGV Partners Fund is invested around 90%, I would like to take this letter as an opportunity to introduce exemplarily three investments in detail, to explain to you what type of company we are looking for and how we are invested. I give you the information I would deem to be important if I was the investor and will from now on give you biannual reports about the current situation of the TGV.

Of the 16 companies the TGV Partners Fund is invested in, I would like to list the top ten positions in alphabetical order:

- Admiral Group
- Amazon
- Distribution NOW
- Dolby Laboratories
- Google
- Leucadia
- Microsoft
- National Oilwell Varco
- TGS Nopec
- Verisign

These ten holdings represent approximately 70 % of our assets. The largest company in which we are invested currently has a market capitalization of USD 360 billion, the smallest company of less than EUR 10 million. The TGV Partners Fund has no preferences as to the size of companies, countries, currencies or industries. I believe in the organization of potential investments exclusively to the four 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?

All investments have in common that they are remarkable companies whose long-term outlook I consider to be bright and which were acquired at a fair price, compared to the intrinsic value I assumed them to have.

Almost all companies have outstandingly excellent business models, and I do see huge moats around their businesses. Thanks to their advantages, consequently, most of the companies yield extraordinary high returns on their invested capital. Furthermore those companies often have little or no debt. While this may not play a major role in times of low interest and overwhelming liquidity – but it ensures that the companies are not easily thrown off course in the next possible crisis whenever it might occur.

All companies are led by a management, which I consider to be upright and honest. Many of the managers have developed their companies beautifully in the past and hopefully will continue to do so in the long run. Many of our enterprises are also still led by their founders and have strong owners and principal shareholders. They have shown that they take minority shareholders seriously and consider us to be partners.

Companies in the oil and gas business

Approximately a quarter of the portfolio, spread across four companies is subject to the current crisis in oil and gas business. I have been tracking several companies in this field intensively for many years.

Thanks to new production methods, especially by horizontal drilling in deeper rock, the so-called fracking, in recent years a downright oil rush has ensued in the US. Soon more and more companies produced additional oil and gas and flooded the market with supply. The price of these two commodities has behaved as in the text book: it suddenly crashed dramatically and within a short time the price per barrel oil was cut in half from 100 USD to 50 USD and subsequently led to a serious crisis in the oil and gas industry with no end in sight yet.

Times of crisis and great pessimism can hold an abundance of great chances for prepared long-term investors. When looking for companies I focus on select companies covering an important and permanent need in the value chain, have strong competitive advantages, have little or no debts and are led by a proven long-term and conservative-thinking management. All companies we are holding in this field have an excellent financial flexibility to take advantage of the current crisis. They will likely emerge stronger from it. I consider none of the companies to be at principal risk even if the crisis should last several years.

Another part of the portfolio is invested in so-called "mega caps", companies with a market capitalization of billions of dollars. There is a widespread belief that inefficiencies prevail especially in small and illiquid companies and an outperformance is more likely in small companies. It is true with certainty that large companies are more in the focus of the markets, more analysts are watching them and there are more shareholders invested in these companies. But it does not necessarily mean that large companies must be poorer investments or small businesses are always preferable per se.

In my opinion, one of our main competitive advantages lies mainly in being able to take an unusually long-term perspective. While thirty years ago the average holding period of shares was on average still a number of years, it has now gone down to an average of a few months. If as an investment manager or sub advisor you are evaluated on a quarterly basis, then you probably do not dedicate much thought to the competitiveness of the companies you are invested in beyond a three year time horizon. On top of that there are passive index funds that cover an increasing share of the market without making any decisions on the quality and the development of individual enterprise. It is important to understand that I do not dare to say I am smarter than other investors - certainly not - but the opportunity alone to be able to assume a planning horizon of five years reduces the number of potential competitors drastically.

Under these circumstances, some of these large "mega caps" and "internet companies" like Google or Microsoft are very attractive in the long run because they are currently priced in accordance with the overall market, but have a structurally very different outlook than the average companies. Those positive characteristics combined with high competitive advantages, favorable valuation and the highest liquidity of their traded shares, currently make these companies very attractive.

I would now like to explain three investments in more detail:

Admiral Group PLC

Admiral is a car insurance from the United Kingdom. Founded only 20 years ago by its management team Henry Engelhardt and David Stevens who are still holding their position today, Admiral has been blowing up a lot of dust on car insurance market in the UK.

Insurance is a business, in which long-term competitive advantages are extremely rare. It requires a strong culture and organization in order to speak of an outstanding insurance. Admiral is an exceptional organization in many aspects and often acts completely different from a conventional insurance, often even against generally accepted consensus. Based in Cardiff / Wales, far away from London, where most of the British insurance companies have their head offices, Admiral has a fascinating corporate culture, a strong cost-consciousness and for many years by far the most favorable cost structure of the industry. During a recent company visit I was able to see it for myself.

This becomes evident in phenomenal expense ratios compared to the competitors and consequent an extraordinarily high profitability (UK Expense Ratio 2014 Admiral: 14.4% vs. UK market: ~25% - not just a different league, but a different world in the insurance sector!). The cost advantages achieved by Admiral are passed on to its clients, thus ensuring permanently low premiums compared to its competitors. A key driver of the historical premium growth is the increasing dissemination and use of price comparison sites on the Internet. These websites compare the lowest rates of different insurance companies and make life easier for the clients but more difficult for the insurances because everything becomes more transparent. Admiral has been advertising and operating this kind of websites in different countries and thanks to a very effective cost structure they definitely do not need to hide.

Per se insurance is a business in which it is very easy to gain market share and new customers. You just have to cut the prices of new policies enough and new clients will beat a path to your door and eventually you will win market share at the expense of your competitors. Almost certainly you will lose a lot of money in a short time with this strategy, because the risks associated with the insurance policy were not priced properly. It is much more difficult to price the risks appropriately and grow at a profitable rate. Admiral has a fantastic history in this respect - both in terms of growth as well as profitability and risk assessment.

The investment came about because the market for car insurance in the UK is in a difficult phase. The average insurance premiums have been falling for over three years and are still under pressure, while the costs of claims are growing steadily. Not an easy time to increase revenues and profits. Yet for the first time since the turn of the millennium, in 2014 Admiral was not able to report record results despite solid profits. Additionally, Admiral has been trying to gain a foothold abroad for several years now (USA, Spain, Italy, France) to roll out their proven business model. Therefore, the company is investing heavily, which in turn leads to start-up losses that diminish its current profit. But it seems that these investments begin to bear fruit: should only one of these expansion attempts be turned into a lasting success, this would be very positive for the value of our investment.

Amazon

Surely everyone knows Amazon. Most of you are likely enthusiastic, some fanatical customers. At least I have to admit that for myself.

However, I know of not too many other value driven investors who are shareholders at Amazon at the moment, although the company obviously rapidly expands, has an extremely close relationship to its customers and is run by a long-term oriented founder and entrepreneur. The most common argument against an investment in Amazon is that the company has never made a significant profit and is therefore expensive or even overvalued. I could not agree less.

It is true that Amazon does not make a profit today, but it is also true that there is a very good reason for that. Since the company was founded, it has always heavily and very systematically invested in its own future. Therefore, since its IPO Amazon includes the very first "Letter to Shareholders" from 1997 to its annual report. There founder and CEO Jeff Bezos wrote: *„We will make bold rather than timid investment decisions where we see a sufficient probability of gaining market leadership advantages. Some of these investments will pay off, others will not, and we will have learned another valuable lesson in either case".*

Based on this understanding in only a short period of time Amazon has evolved dramatically from being a classic bookstore on the internet. With the Kindle Amazon revolutionized the e-book market, it opened the website for third party suppliers (Market Place) and has started other remarkable services such as Amazon Web Services. Who would have thought that within a few years more electronic books could be sold than actual physical ones before the Kindle was introduced?

The very close relationship between Amazon and its customers – many visit the website several times a week –makes it possible at a low cost for Amazon to test various products and ideas and make them simultaneously available to hundreds of millions of customers. Many of these initiatives (Amazon Web Services, Prime Instant Video, or Amazon Publishing) will very likely rock the boat of existing markets and some have fantastic economic characteristics that are of high value for us if proven successful. Today, however, they account for heavy losses and are not considered enough in the assessment of value. Furthermore with Jeff Bezos we have an entrepreneur at the helm, who has shown that he understands this value very well and can exploit its value.

TGS Nopec

TGS Nopec produces digital maps for the oil and gas industry. This data provides information on the nature of deeper rock, and are essential in the exploration and production of oil fields.

The idea of using seismographs to map the subsurface was developed in Germany in the 1920s: a sound signal is shot into the ground and the sound waves reflected by different layers of rock provide information about the property of the subsurface. In the oil and gas industry this seismic data will be used in virtually any drilling operation to increase the strike rate while drilling. With the development of drilling at sea special vessels have been developed to prepare those maps at sea ("offshore"). Given that offshore drilling can easily cost 100 million USD per borehole, it is understandable that oil companies use as much data to increase their chances of finding hydrocarbons.

Until the eighties there were only a few companies which produced such seismic maps exclusively upon request for major oil companies. Even today this type of mapping makes up the main part of the market for seismic solutions. Under contract the data recorded belongs to the oil company and cannot be reused or viewed by a third party.

A few years later two companies – TGS in the US and Nopec in Norway – independently had the idea that it is economically more favorable to map a larger area at a time and then split cost among a number of parties and later even make the data available for others to purchase. The so-called multi-client system was born, in which the ownership of the data remains with the collecting company and can be resold later. Following a merger between TGS and Nopec in 1998 "TGS Nopec" was listed on the Oslo Stock Exchange.

Since there were enough companies which chartered the highly specialized ships and the necessary equipment for contract missions, TGS Nopec was able to avoid the capital-intensive purchase of own ships and chartered them as needed only. A fantastic find! With this little capital-intensive and highly variable model the company distinguished itself from all the existing competitors and focused exclusively on providing the best data material for the customer.

The basis for the utilization of global specialized fleet and the demand for seismic data are closely linked to the oil price. At high prices, the utilization is excellent and the ships a blessing, with falling oil prices, the ships are a curse. The industry has a long history of economic shipwrecks and total losses.

And still no market participant wants to get rid of their fleet and abandon an uneconomic business. Sunk costs – in the truest sense of the word. I estimate that in the last fifteen years the capital invested in the industry has generated no significant economic return. Not to mention a free cash flow, since regularly all excess capital was invested in the construction of new, better and above all larger vessels. This situation was catastrophic for the shareholders of the other companies, as they had issued shares in times of crisis in order to raise new capital and the old owners were regularly wiped out.

With TGS Nopec things are different: since it does not have to worry about the utilization of vessels it does not own it can solely focus on improving its own database. The combination of the exclusive concentration of multi-client data (with excellent economic characteristics) and the philosophy of working very diligently and without debt in this very cyclical industry has proven extremely profitable in the past and returns on invested capital have been extraordinarily high even without leverage. Furthermore the company's management understands to utilize the benefits of a highly variable cost base and has demonstrated through several economic cycles, that one of the most important skills in investing is the ability to say "no". Because unlike its competitors even in bad times TGS Nopec can afford to say "no" and maintain discipline.

In all those years I have been tracking the company, whenever I have met CEO Robert Hobbs or COO Kristian Johansen, I was always delighted by their farsightedness and focus and the high quality of the business model.

I hope that based on these examples I was able to show to you what type of business model I prefer in advising the TGV Partners Fund. If you have any questions about the letter or the TGV Partners Funds in general, please feel free to contact me any time.

As a partner in the TGV Partners Funds, you can also contribute to our performance: the better I know and understand our company, the better decisions I will be able to make. Therefore, I appreciate expert knowledge. So if you know an experts in relation with our ten named holdings I would love to get in touch with him or her.

With kindest regards from Bonn,

Mathias Saggau