Investmentaktiengesellschaft für langfristige Investoren TGV

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Dear Investors

We are enclosing the shareholder letter for our Teilgesellschaftsvermögen "Partners Fund" for the year 2023 written by our sub-advisor MSA Capital GmbH.

Yours sincerely

Investmentaktiengesellschaft für langfristige Investoren TGV

Vorstand: Jens Große-Allermann, Waldemar Lokotsch, Ewald Stephan
Aufsichtsrat: Dr. Alexander Erdland (Vors.), Wolfgang Fritz Driese (stv. Vors.), Alexander Pichler (stv. Vors.)
Eingetragen im Handelsregister Bonn HRB 16143
Investmentvermögen mit veränderlichem Gesellschaftskapital

Investmentaktiengesellschaft für langfristige Investoren TGV
Sub-funds Partners Fund
FY 2023: Report of the sub-advisor – MSA Capital GmbH, Dr Mathias Saggau

Bonn, January 2024

Dear investors,

The share price of the sub-fund (TGV) Partners Fund was 211.57 euros as of December 29, 2023. The change in the value for 2023, including all costs, was +19.61%[1]. The DAX achieved a performance of +20.31% over the same period.

Year	TGV Partners Fund (1)	DAX (2)	Difference 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 %

per annum	+ 9.02 %	+ 3.92 %	+ 5.10 %
total	+ 113.04 %	+ 39.99 %	+ 73.05 %

2023 was once again a rather crazy year in the capital markets. Probably a little less crazy by the standards of previous years, but still "rather crazy". And what a difference just a few weeks can make: Had this report been written at the end of October, the performance of the TGV Partners Fund would have been negative and with a significant underperformance compared to the overall market. However, 2023 ended on a conciliatory note due to the rapid and strong recovery in the last two months.

The past 12 months have been unusual in many ways. Particularly striking was the strong disparity between the valuation of large tech companies on the one hand and the "*rest*", especially smaller companies, on the other. This gap was greater than ever until November 2023. Market participants speak of "*narrow market depth*," meaning that only a few large heavyweights dominate the performance of an index. Typically, this phenomenon underscores the uncertainty in the economy in general.

[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.

This trend was particularly evident in the USA. The largest companies in the index contributed a disproportionately large share to the positive overall development. The stocks of the so-called “Magnificent 7”[2], as dubbed by the press, were responsible for roughly two third of the overall increase. Without them, the S&P 500 would have achieved only a narrow double-digit gain instead of an increase of 26,4 %.

For active fund managers and investors operating outside the indices, this “narrow *market depth*” posed an enormous challenge. The fewer large companies are represented in the portfolio, and the smaller the proportion of the few strong areas, the higher the probability of performing worse than the index. The TGV Partners Fund also had several companies with some drastically negative share price developments in the past calendar year (**Tucows, Naked Wines, Intred, Lanxess, Just Eat Takeaway**). Given this situation, the overall result this year could have been considerably worse than it turned out to be.

The companies in the TGV Partners Fund

Of the 14 companies that TGV was invested in as of December 29, 2023, I am listing the ten largest positions here, as usual, in alphabetical order:

- Associated British Foods
- DCC
- Gruppo MutuiOnline
- Software Circle (previously Grafenia)
- Tucows
- Chapters Group AG
- Ferguson
- Naked Wines
- System1
- United Internet

These ten companies represent around 85% of the fund’s assets. The largest company in which TGV has a stake currently has a market capitalization of around 35 billion euros, the smallest of around 40 million euros. Four of the five largest positions (**Chapters Group, Tucows, Ferguson, Software Circle, Gruppo MutuiOnline**) have been integral parts of the TGV for over five years.

The central 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?

[2] Apple, Alphabet, Amazon, Meta, Microsoft, Nvidia and Tesla.

Changes in the Top 10

Due to price losses in 2023, **Lanxess** and **Intred** have dropped out of the Top 10. The shares of both companies remain part of the portfolio. **United Internet** shares have been added, and the **Software Circle** (formerly **Grafenia**) shares have reclimbed into the top 10.

Software Circle

The shares of **Software Circle** have been part of the portfolio since the summer of 2018.[3] Since the initial purchase, a lot has flowed under the bridge, and the company has not developed nearly as well operationally as I had hoped at the time. Until the fall of this year, it was, therefore, a less than successful investment in terms of share price appreciation.

Originating from the printing business, Grafenia had built up a second pillar in the software services sector with its subsidiary "Nettl". Despite much effort, blood, sweat and tears, the team was unable to stabilize the original printing business. To paraphrase Warren Buffett: *"When a management with a reputation for brilliance tackles a business with a reputation for bad economics, it is the reputation of the business that usually remains intact."*

In 2020, the coronavirus pandemic occurred, accompanied by a crisis for printed products. In 2021, Grafenia decided to fundamentally change its strategy and acquire inexpensive, smaller software companies with highly recurring sales and earnings. In 2022, the print business segment ("*Works Manchester*") was finally sold, marking the farewell to the old core business.

Since autumn 2022, four smaller software companies have been acquired, and in the second half of 2023, the foundation for further acquisition-based growth was laid through a larger capital increase. As part of this process, Grafenia was renamed "Software Circle". In my opinion, the early operational results and strategic development are promising.

This example again illustrates that some investments require a very long-term perspective: Without the subscription rights of the existing and hitherto not very successful 2018 share purchase, participation in the capital increase in 2023 would not have been possible. With the newly acquired shares and the positive price development since this autumn, Software Circle is now back in the Top 10 of the TGV Partners Fund.

Above all, however, it is wonderful to see that the extreme perseverance of those in operational roles through these genuinely challenging times seems to finally be paying off. I sincerely hope that the long dry spell will come to an end.

A big thank you is in order! Without the commitment and effective collaboration of all the people involved, most of whom I have met personally over the years, the company would not exist in its present form. Therefore, a big thank you to Gavin Cockerill, Iain Brown, Richard Lightfoot, Shira Giat, Roman Rothenberg, Matthias Riechert, Jan-Hendrik Mohr, Simon Barrell, Conrad Bona, and Peter Gunning – keep up doing the good work!

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[3] A detailed description of Grafenia's business model and history was provided in the 2018 mid-year report.

United Internet

I have been following **United Internet AG** and the development of the creator and entrepreneur behind the group, Ralph Dommermuth, for many years. In 2019, through its subsidiary 1&1, United Internet announced the expansion of a fourth and entirely new mobile network for Germany. This project is risky and expensive and was delayed beyond the originally planned timeline due to various disputes. The uncertainty regarding the final costs and the expansion schedule caused an extreme drop in share prices. Since their peak five years ago, the shares had lost around 80 % of their value in some point of 2023. Quite the déjà vu for those who think of Tucows in this context!

Even though there are, of course, risks associated with the costly network expansion by 1&1, in my opinion, the reaction of the capital market was greatly exaggerated. This was particularly the case after United Internet, unexpectedly for all observers, signed a long-term cooperation agreement with Vodafone in August 2023, resolving the uncertainty and providing United Internet with planning security for the next 15 years.

In addition, United Internet has other segments completely independent of the mobile communications business. This includes areas such as fibre optic networks, domain hosting, homepage services, and email for private customers through GMX and WEB.DE. The TGV Partners Fund took advantage of exceptionally low prices in the summer of 2023 to buy shares in United Internet. At that time, the price of the shares seemed to completely ignore all of the other business divisions mentioned and to focus exclusively on the quarrels surrounding network expansion. Since the market recovery and in the wake of the Vodafone contract, the share price has almost doubled.

At the same time, the company has good long-term prospects. With Ralph Dommermuth, a true self-made entrepreneur who built United Internet from scratch with his gift for direct sales, is at the helm. Since its founding in 1988 and IPO in 1998, United Internet has weathered several severe crises and consistently emerged stronger.

Until the turbulence of the last two years, United Internet was considered one of the great German success stories that emerged from the “New Economy” around the turn of the millennium and has persisted. Ralph Dommermuth still owns more than half of the shares today and is undoubtedly the driving force behind it. I am very confident that United Internet’s story is far from over.

Nevertheless, since the business model in the domain management and fibre optic networks sectors, coupled with the development of a mobile network, hast thematic albeit not geographical similarities with Tucows, the weighting of United Internet in the portfolio has been deliberately kept low. These overlaps have deterred me from even recommending the purchase of United Internet shares in the past.

When the price fell so dramatically in mid-2023 that the value of the company I assumed far outweighed the risk, I felt a small position was justifiable.

Operational development vs. price development

Chapters Group AG

The TGV Partners Fund has been invested in the **Chapters Group AG** since its launch in 2015. The shares are TGV's largest position today. I have been a member of the company's supervisory board since 2018. As this letter is not addressed to all of the company's shareholders equally, it cannot be the right forum for in-depth reporting on the company. Therefore, I would like to refer you to the company's annual report and letter to shareholders for 2022 and to the report for 2023, the latter of which will be released in spring 2024.

One thing is certain: the company has continued to develop both operationally and substantially in 2023, building on the positive development of previous years. Chapters Group has attracted exceptionally talented and capable individuals over time, so I am confident and looking forward to the coming years.

Ferguson and MutuiOnline

Both **Ferguson**[4] and **MutuiOnline**[5] had to contend with the consequences of the downturn triggered by the sharp rise in interest rates in their respective real estate markets and the construction industry. Despite the challenging environment, both companies have excelled operationally and maintained their sales and profits, which were more or less stable. The share prices of both companies rose significantly despite stagnant earnings.

To illustrate, MutuiOnline experienced a decline in sales of around 70%, with a significant decline in profitability in the mortgage brokerage sector during the last interest rate shock in 2011/12. The share price fell sharply during that time. The fact that just over ten years later, the company was able to increase total sales despite a similarly strong interest rate shock and, at the same time, record almost no change in profitability is clear evidence of the excellent structures that Marco Pescarmona and Alessandro Fracassi have built over the years.

In addition, the acquisition of the comparison websites Rastreator and Lelynx in France and Spain, as described in the 2022 annual report, has developed well to date. A visit to the subsidiary Rastreator and Spanish insurance companies in Madrid, which are potential suppliers to MutuiOnline, left me with the impression that this acquisition could have significant added value for the group.

Last but not least, it is good to see how quickly MutuiOnline is repaying the debt taken on for the acquisition, thereby regaining significantly more flexibility for further acquisitions and investments.

In contrast, Ferguson had another operationally steady, almost boring year. In this case, "boring" is to be interpreted positively. In addition to several small acquisitions, Ferguson invested more in local distribution centres and bought back further shares. The company anticipates stagnant sales for the coming year due to general industry trends, which, in my opinion, is not a problem overall, considering the good results over several years.

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[4] A detailed description of Ferguson's business model and history was provided in the 2022 half-year report.
[5] A detailed description of Gruppo MutuiOnline's business model and history is included in the 2015 and the 2022 annual report.

Tucows

The situation surrounding **Tucows**[6] was explained comprehensively in the last two semi-annual and annual reports. Since then, there have been no significant new developments, so I will postpone reporting again to a later date.

"*If all the facts could be known, idiots could make the decisions*" (Tex Thornton)

Psychologically speaking, the last two years have been one of the toughest periods I have experienced in my over 20 years in the markets. Downturns and occasionally poor results are part of everyday life in the stock market and are unavoidable.

Through several bearish phases, I have learnt that I can handle falling prices well and sleep soundly at night. My confidence is based on my understanding of the respective companies, their actors, and the intrinsic value I attribute to these companies.

If you do your homework and have confidence in the long-term increase in a company's intrinsic value, you know prices will recover. A mistake with a single company is manageable as long as you avoid systematic and structural errors and have a well-diversified portfolio. In the long run, the house edge lies with patient investors as companies generate operating income and create value over time.

Over the past two years, for the first time, I have experienced a period with more significant price losses and clear underperformance compared to broader indices in the TGV Partners Fund, during which I felt responsible for others, namely you. While I had always expected such a phase, the actual occurrence was understandably not pleasant.

I was particularly concerned that you might perceive this development differently because you are naturally less involved with the companies and have no direct contact with the people involved. It is impossible for you to reach the same level of knowledge and thus develop the same kind of confidence.

I experience something similar when I look at positions in other funds. Assessing an investment process from the outside and distinguishing between good work and luck is extremely difficult. Every track record is shaped by systematic influences over time, such as the focus on different company sizes, sectors, industries, or regions. Isolating these effects and assessing whether an investor is genuinely successful and how much has been favoured by trends or chance is practically impossible. Among other things, this is why index funds are a good thing: Here, you can be sure to get a specific result tied to the index.

I, too, cannot ultimately say whether my chosen investment strategy offers genuine added value in the long term. I firmly believe it does; otherwise, I wouldn't pursue it, let alone take responsibility for others in doing so. And, of course, we strive to improve our chances in many decisions, for example, through the unusual structuring as a Teilgesellschaftsvermögen. However, the final evaluation can only be made in hindsight.

To instil the necessary confidence during periods of poor performance, I regularly share insights into the decision-making processes and the logic behind the companies the fund invests in. Overall, this approach has worked well so far. The TGV Partners Fund is now entering its tenth year, and the circle of invested partners is extremely stable.

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[6] A detailed description of Tucows' business model and history was provided in the 2016 annual report. The last major changes are described in the 2020 and 2022 annual report and the 2023 half-year report.

I am very proud of this consistency, even more so than the investment results thus far. Of course, you are directly co-responsible for this, and I thank you very much for it!

I am sure that in the future, there will be turbulent times now and then. The only important thing is that the long-term result is satisfactory. We are more than willing to be measured against that standard.

Investor meeting

The Investmentaktiengesellschaft für langfristige Investoren TGV plans to hold its annual investor meeting at Godesburg in Bonn-Bad Godesberg on Saturday, June 8, 2024. As a TGV partner, you will receive an invitation shortly.

As in previous years, I encourage you to come to Bad Godesberg. It's worthwhile! It is an excellent opportunity to meet the other partners, other TGV managers and colleagues in the Investmentaktiengesellschaft für langfristige Investoren TGV.

In this spirit, I wish you a good spring and thank you for your immense trust.

Warm regards from Bonn,

Mathias Saggau