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 2021 written by our sub-advisor MSA Capital GmbH.

Yours sincerely

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Sub-funds Partners Fund
FY-2021: Report of the sub-advisor – MSA Capital GmbH, Dr Mathias Saggau

Bonn, January 2022

Dear Investors,

The share price of the Teilgesellschaftsvermögen (TGV) Partners Fund was EUR 265.40 on December 30, 2021. The change in the value for 2021, including all costs, was + 38.21 %.[1] The DAX achieved a performance of + 15.79 % in 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 %

per annum	+ 15.66 %	+ 4.28 %	+ 11.38 %
total	+ 167.24 %	+ 32.75 %	+ 134.49 %

The price development of the broader indices as well as the TGV Partners Fund conveyed a deceptive, if not a distorted, picture in 2021. The most frequently used indices, such as the S&P 500 or the MSCI World, but also the German DAX rose by double digits this year and, above all, without major fluctuations. A cosy year on the stock market.

Under the surface, however, it was seething, and there were big differences in the course developments. Many of the stocks that were highly praised at the beginning of last year fell sharply, and price drops of 50 % or more were not uncommon.

However, what was particularly striking was the development and influence of the largest behemoth with the highest weightings in the indices. The five largest companies in the S&P 500 (**Apple, Microsoft, Alphabet, Amazon and Tesla**) now have a weighting of almost a quarter of the entire index and have a substantial influence on it through their stock price development. The prices of these heavyweights also rose sharply in 2021 – calculated in euros, by an average of around + 50 % - and thus had a considerable influence on this positive development. If this trend were to reverse, this would, of course, have an equally strong impact on the broad indices.

[1] Since the Annual Report 2018, the performance calculation for the TGV Partners Fund has been based on the so-called BVI method. The differences in the percentage return and the change in NAV can be explained by tax-related payments.

But this also explains why, for example, the DAX and many other indices have performed worse than the S&P 500 or the MSCI World in recent years. It was difficult to keep up without the strong pull of the big tech companies.

The TGV Partners Fund had none of the above stocks in its portfolio last year. Nevertheless, the performance spread within the portfolio has rarely ever been this huge. Given the circumstances, a healthy mix and especially the excellent price development of few individual stocks ensured the overall good annual result for 2021. While the prices of the stocks of **MEDIQON Group** (+ 238%), **System1** (+ 125%) and **Groupe SFPI** (+ 100 %) developed fantastically, some companies like **Just Eat Takeaway** (-47%), **TGS** (-36%) or **Computer Modeling Group** (-13%) suffered heavy losses this year.

Even if the stark price jumps might make you want to believe it: it is by no means the case that the selection of stocks for the TGV Partners Fund is primarily aimed at particularly great opportunities. The main focus is on the risk taken. During stock selection and composition of the portfolio, the assessment and limitation, as well as the avoidance of risks of permanent loss of capital, are among the central focal points of company analysis and portfolio construction. True to the motto: *there are daring investors, and there are old investors, but there are few daring old investors.*

In this respect, it is more of an accident that the price performance within the TGV Partners Fund was *this* positive this year. In my opinion, the portfolio should rather behave in such a way that it is less affected than the market as a whole in the event of general price drops, while it should also rise less sharply with generally rising prices. On average, the companies in the portfolio have no net debt, often crisis-resistant business models, and thus should be more defensive. But the result of the last 24 months was different. While the portfolio fell at roughly the same rate as the market as a whole during the Corona crisis in February and March 2020, it has risen significantly more than the recovering prices of the market as a whole since then.

So much for my own ability to forecast stock prices.

The TGV Partners Fund will have to undergo this litmus test frequently and again in the future. The stock market will inevitably go through tough times and turbulent phases. This is when we will see whether the portfolio will be hit less severely than the overall market.

The companies in the TGV Partners Fund

Of the fourteen companies the TGV was invested in as of December 30, 2021, I am listing the ten largest positions in alphabetical order as usual:

- Associated British Foods
- Gruppo MutuiOnline
- Just Eat Takeaway.com
- Naked Wines
- TGS
- DCC
- Interactive Brokers
- MEDIQON Group
- System1 Group Plc
- Tucows

These ten companies represent around 90% of the fund's assets. The largest company the TGV is currently invested in has a market capitalisation of around EUR 30 billion, the smallest around EUR 10 million. Four of the five largest positions (**MEDIQON Group, Tucows, Gruppo MutuiOnline,**

Associated British Foods, and Interactive Brokers) have been an integral part of the TGV for years, and in total, these companies represent more than half of the assets.

The central 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, 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

Shares of **System1** have been in the TGV Partners Fund portfolio for over three years. The excellent development and addition in the year 2020 resulted in the company now being one of the ten largest positions in the fund. At the same time, the poor performance of the **Computer Modeling Group** had the share drop out of the top 10. The company remains part of the portfolio. The shares of **Groupe SFPI** were sold after a spectacular good price development in the past few months.

Shares in the British company **Associated British Foods (ABF)**, a large British conglomerate with sales of almost 17 billion euros in various areas, have recently been added. As one of the world's largest sugar and yeast producers, the group spans many branches of business: For example, ABF is one of the largest bakeries on the UK, parent company of Twinings Tea, Ovaltine, and the clothing chain Primark.

Operational development vs price development

For many companies, the price development followed the operational development: Companies with rising prices mostly had a good operational development, companies with falling prices also were struggling with operational problems.

As explained in the past, this letter is not the right forum for in-depth reporting on **MEDIQON Group AG**. I would therefore like to refer to the company's annual report and letter to the shareholders for 2020 and the reports for 2021 that will be published in spring 2022.

Suffice it to say: the company has made impressive operational progress over the past three years. It is spectacular to see how many talented, energetic and outstanding entrepreneurs the company was able to take on board and how many positive options for the future exist and will continue to be created.

Tucows[2] significantly expanded its customer base in the promising fibre optic business. Even if the fibre optic expansion speed is lower than I had hoped, Tucows has announced that it will significantly accelerate the further expansion this year. Should the announced plans be put into practice, it would likely be excellent, and in terms of its size, a very significant investment for the company. At the same

[2] A detailed description of the business model and history of Tucows can be found in the 2016 annual report and the most recent major changes are included in the 2020 annual report.

time, the original domain registration business remains stable, and it seems that the business established as a “Mobile Service Enabler” through the partnership with DISH is developing a little better than I originally expected.

The sales and operating income of **Gruppo MutuiOnline**[3] are expected to have increased by around + 25 % in 2021 compared to the previous year, also due to the two acquisitions in November 2020. During a visit to Milan in autumn 2021, I had the opportunity to meet with the two founders, Marco Pescarmona and Alessandro Fracassi, again and, among other things, the chance to get to know Alessio Santarelli, the new managing director of the brokerage business. It is fascinating to see how MutuiOnline seems to be at the beginning of its journey, despite the great success story so far. Marco and Alessandro manage to get top-class executives on board and let the individual business areas run as separate units.

Interactive Brokers has had a very good year operationally. In the Corona year 2020, Interactive Brokers was swamped with customers like most other online brokers. Due to the lockdown from March that year, the number of customers in 2020 increased by over + 50 %. Most market observers expected this influx of customers to calm down after the lockdowns in 2020 and return to a more normal growth path. With around 1.67 million customers, Interactive Brokers now had 56 % more customers by the end of the year than the previous year, and there was little sign of a decline in customer influx even up to December 2021. Since the business model is a very fixed-cost business in the form of a software platform and every new customer is incrementally very valuable, this is fantastic news.

Most of the other companies in the TGV Partners Fund had solid operational developments within the set expectations.

Only the usual problem children in the oil and gas industry (**TGS, Computer Modeling Group**) were struggling with severe upheavals within their industry, as they had in recent years. However, they were able to assert themselves operationally in light of the very adverse circumstances.

Liquidity, illiquidity and efficient markets

Average investors have no noticeable influence on the price development of a share when buying or selling. Acquiring a stake in a company in the form of a share is just a mouse click away. However, the greater the amount of capital to be invested, the more complicated this matter is. For this reason, the issue of liquidity and illiquidity when investing in stocks is very important in practice and often underestimated by observers.

In the 2019 report, I wrote: *„Most mutual funds must live with daily in- and outflows of their mostly anonymous investors. In good times, the fund volume fills up, in bad times everyone runs out through the same door. At the TGV Partners Fund, this is different due to the structure chosen upon inception with only quarterly liquidity. A calendar year that was obviously bad in comparison to the industry would lead to substantial outflows of capital for most funds and thus to many other undesirable side effects.“*

[3] A detailed description of the business model and history of Gruppo MutuiOnline can be found in the 2015 annual report.

One of these undesirable side effects is that, on the one hand, most funds have to pay close attention to their own capital structure behaviour and, on the other hand, that the stocks to be invested in are sufficiently liquid for their investor structure. If the fund invests in too many illiquid stocks that cannot be sold quickly and there is an outflow of funds, the fund must also sell the stocks that are difficult to sell – no matter what the cost.

As a result, this leads to bad prices for the sold stocks and this, in turn, to further cash outflows and even worse results for the fund. Numerous investors have already felt this vicious cycle, and it has led to the spectacular demise of some funds in the past.

Conversely, larger, public and daily tradable funds cannot invest in illiquid stocks. For the TGV Partners Fund, this is not the case. Due to its unique structure and exceptionally stable investor base, the fund can invest a certain part of its assets in small and illiquid stocks without endangering the existence of the entire vehicle.

Having a such stable investor base is particularly useful in times of the worst crises. The stronger the external pressure for all market participants, the better the courses for those who can persevere or even react proactively. This is one of the factors in which you, as an investor, are usually unconsciously **very active**. The more support you give in tough times, the easier it will be when it matters.

There is absolutely no question that this obvious and increased illiquidity risk comes at a high price and must be compensated for by an increased expected return. But precisely through the results presented at the beginning of the three companies with relatively illiquid trading: **MEDIQON Group**, **Groupe SFPI,** and **System1**, the contribution of this strategy this year can be impressively demonstrated.

Let's take System1 as a practical example:

System1 was founded around 20 years ago by John Kearon as a market research agency, at that time under the name "Brainjuicer". In 2005, the company had 37 employees and sales of around three million British pounds sterling (GBP) and was already profitable. A year later, Brainjuicer was listed on the UK AIM stock exchange. The opening price was GBP 1.35, and the total market capitalisation was around GBP 17m.

John has a soft spot for behavioural economics and psychology. Early on, he was enthusiastic about the fact that people act anything but rational in many aspects of life and are regularly subject to cognitive distortions. This fact has also become known in science in the last few decades under behavioural economics and decision theory. In 2002, Daniel Kahneman received a Nobel Prize for his findings in this field.

Brainjuicer had set itself the task of helping advertisers in this young field with market research and built up a good reputation as an agency in recent years. Over the next ten years, sales rose by over 20% per year, and in 2015, had exceeded the threshold of GBP 25 million with steady profitability of around GBP 3 to 4 million per year. I first visited the company in 2014 and met the extremely charismatic and energetic John Kearon.

The price has also developed well in the years since the IPO. It stood at GBP 4.00 per share, resulting in a market capitalisation of around GBP 50 million. Since the business did not need capital for growth, high dividends were paid out regularly.

In 2017, the company decided to change its name to System1 Group Plc to accommodate its own business better. In an interview about the name change, John said:

> *"People think much less than we think they think. People are not rational. And you gotta stop asking rational research questions. It's a poor predictor of what happens… (...) Basically you have to embrace a System1 approach, which is Daniel Kahneman's behavioural science. Which is that we are gloriously irrational, emotional social creatures. We make decisions more with our guts than with our brains. And that's where we are specialist in. So it's time to change the actual term that's now in our industry being used as a short hand for how people really make decisions, and that's "System1"."* [4]

At that time, in the summer of 2017 the company had excellent results. The stock jumped euphorically towards the GBP 10-mark with a market capitalisation of over GBP 120m.

The American entrepreneur John Wanamaker is reported to have once said: *"Half of the expenditure in marketing is wasted; The only problem is, I don't know which half."* On the other hand, John Kearon's vision was to develop an automated system that would measure and improve the emotional effectiveness of advertising in a standardised manner. The wasted half of marketing costs was to be addressed. For this purpose, Brainjuicer/System1 had long established a methodology to measure the effectiveness of advertising. In 2017, work began on converting this method into a more automated, software-based product.

An advert can now be uploaded to the System1 website "Test your Ad", and its effectiveness can be measured in a highly automated manner within 24 hours. And all this at an unrivalled low price compared to conventional market research. For this purpose, a panel of test persons watches the advert. At the same time, emotional data points such as joy, anger or eye position are recorded using facial recognition. Ultimately, the clip receives a rating on a 5-star scale, and the advertiser has the means to improve his advertising.[5]

However, the construction of this new product cost a lot of development effort and derailed the result in 2018 and 2019. At the same time, the software solution had teething problems and was only slowly accepted by customers at the beginning. The well-engineered solution is now beginning to bear fruit after many years of work, and the first crucial successes were seen in 2021.

However, the market punished the reduced profitability with a severe price drop. The stock, which had jumped from GBP 3.50 to around GBP 10 in a short period from February 2016 to summer 2017, dropped from GBP 10 back to around GBP 3 over the next nine months.

At that time, the mutual fund of a major shareholder of System1 Group Plc was liquidated, and a large block of these illiquid shares had to change hands within a short time. This may also have been one of the accelerating reasons for the price drop.

In my opinion, it was a fantastic opportunity for the TGV Partners Fund. I had known the business and the driving force behind the company for many years. The price of the shares had come under

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[4] Interview with John Kearon: https://tinyurl.com/2p8ns29h

[5] An introductory video for the "Test your Ad" product: https://tinyurl.com/4h6pwvk3

enormous pressure from external factors, and the valuation was cheap, in my opinion. And so, in the late summer of 2018, I recommended buying the shares of System1 despite their illiquidity.

Market capitalisation at that point was around GBP 30m. The company had around GBP 6m in cash and pre-tax profit, adjusted for extraordinary expenses of around GBP 4m to 5m annually. On top of that, you got the chance that the new product could work out for free.

2019 was quiet. Then came 2020, the Corona year.

System1's shares plummeted to around GBP 0.88 due to the market turmoil. The position in the TGV Partners Fund had been deeply in the red since the purchase. At this point, the market capitalisation was just GBP 11m. The company still had around 6 million net cash and announced that it would buy back shares as things improved. So the implied enterprise value at that time was around GBP 5m.

As it turned out later, the company would end 2020 with GBP 3m in pre-tax income despite the pandemic. In the depths of the crisis, the company's shares could be bought for less than twice the pre-tax profit. According to conventional textbooks, a situation that should actually no longer exist these days.

In the summer of 2020, the TGV Partners Fund bought more shares in System1. However, due to the high level of illiquidity of the shares, we could buy significantly fewer shares at these low prices than intended.

To date, the shares of System1 have rallied and are currently around GBP 4, more than four times what they were worth 18 months ago. Nevertheless, in my opinion, they are still not valued particularly expensive. The company's latest data shows that sales with the new "Test your Ad" product are increasing sharply. The chance that this new product will work is becoming increasingly apparent.

Investor meeting

The Investmentaktiengesellschaft für langfristige Investoren TGV plans to hold its annual investor meeting in person on May 21, 2022, in Bonn-Bad Godesberg after two years of hosting it exclusively online. As a partner in the TGV, you will receive an invitation shortly.

Due to the ongoing Pandemic, it is unfortunately still possible that the in-person event might have to be cancelled on short notice. In this case it would be switched to an online event. A hybrid event is not foreseen.

However, we will inform you as early as possible and focus primarily on your and our health. If you have not yet been able to participate, I would like to encourage you to come to Bad Godesberg. It's worth it! It is an excellent opportunity to get to know the other partners and colleagues in the Investmentaktiengesellschaft für langfristige Investoren TGV.

With this in mind, I wish you a great spring and thank you for the trust you have placed in us.

Kindest regards from Bonn

Mathias Saggau