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 2023 written by our sub-advisor MSA Capital GmbH.

Yours sincerely

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Teilgesellschaftsvermögen Partners Fund
H1-2023: Report of the Subadvisor - MSA Capital GmbH, Dr Mathias Saggau

Bonn, July 2023

Dear investors,

The share price of the Teilgesellschaftsvermögen (TGV) Partners Fund as of June 30, 2023, was EUR 183.16. The change in value for the first half of 2023 was + 3.55%, including all costs. The DAX achieved a performance of + 15.98% 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 (6 months)	+ 3,55 %	+ 15,98 %	- 12,43 %

per annum	+ 7,70 %	+3,70 %	+ 4,00 %
total	+ 84,43 %	+ 34,95 %	+ 49,48 %

After a bad year in 2022, in contrast to the broad stock indices, the first half of 2023 saw only an minor recovery in the prices of the companies in the TGV Partners Fund. I am dissatisfied with the development of the share price of the sub-fund, but in my opinion, the situation for some companies has changed significantly for the better, as I will explain in the course of this letter. Hopefully, sooner or later, this will bear the expected fruits.

Significant Changes

Probably the biggest change in this half-year concerns the largest position of the TGV Partners Fund (Chapters Group AG, formerly MEDIQON Group) and the type of cooperation between Jan-Hendrik Mohr and me. The latter resulted in my additionally assuming the advisory role for the **Truffle sub-fund**, in addition to that for the **Partners Fund**, from February 1, 2023. Against this background, I will also be authoring the reports for the TGV Truffle in the future.

First things first: Nothing will change for investors in the TGV Partners Fund. Both funds are subject to the same strategy and philosophy. I remain true to my previous strategy and expect that the portfolio of the TGV Truffle will gradually and over time align with that of the TGV Partners Fund. I assume that the reports of both funds will be identical in terms of content in the future, and at this point, I believe it makes sense to explain my investment philosophy again for the new partners.

A glance at the path we have taken so far will help you better assess the current situation: [1] Jan-Hendrik Mohr and I have known each other for over twelve years, ever since we attended the Berkshire Hathaway Annual General Meeting together. Our meeting kicked off an intensive exchange that continues to this day. Before the funds we advised were spun off, we both worked as analysts for the Investmentaktiengesellschaft für langfristige Investoren TGV in Bonn for several years and regularly visited numerous companies together.

Both TGVs were launched on the same day and regularly had considerable overlaps due to our close cooperation. And even if there were always differences in the portfolios, it is remarkable that the performance of the two funds has developed almost identically eight years later.

The switch to another role is now taking place because the circumstances have changed: From now on, Jan will focus on his role as CEO at Chapters Group AG. The shares of Chapters Group have been included in both TGVs since inception and are now among the largest investments of each of the two funds after an incredibly strong operational performance.

With Jan's contribution, the company has developed rapidly. Today, with 30 subsidiaries and hundreds of employees in the group, it is many times more complex than just a few years ago. To do justice to this fact and continue to drive future growth, he will focus his full attention on the challenges at Chapters Group.

As a result, Jan continues to directly influence the long-term investment success of both TGVs. Since I have been a member of the company's Supervisory Board since 2018, our cooperation will continue to be close.

Investment philosophy

I do not consider a TGV merely an anonymous construct that fluctuates in value daily or seeks to generate profit by constantly buying and selling shares. Instead, I see it as a collection of select company stocks I intend to own long-term. Over time, I hope you will see yourself as a real owner of these companies and not just as an external, even anonymous investor in a fund.

In my role as a so-called "sub-advisor", I regard you as a partner in spirit and strive to keep your capital invested to the best of my knowledge and belief and to grow it. I have invested most of my assets in the TGV Partners Fund. This ensures that I invest your wealth as if it were my own. The fund's poor performance has also affected me over the past 18 months.

I do not believe in a market that is always efficient and rational. Most large investors and investment trusts are subject to various institutional constraints, regulations, and behaviours that make it impossible for them to invest rationally and long-term oriented. No one can foresee how share prices will develop in the short or medium term. Over the long term, however, I believe stocks will perform economically in line with the success or failure of their underlying companies.

My goal is to generate the highest possible return over a very long period. What does "long-term" mean? The quality of investment decisions cannot be measured in days, weeks, or months. An

[1] The annual report of the TGV Truffle for the year 2022 should also be mentioned here, in which Jan looks back on his eight years with the TGV Truffle. (LINK)

investor's ability can only be assessed from multi-year results that include periods of both rising and falling prices. Therefore, when I say "long-term", I mean a period of at least five years, preferably more.

The TGV is not tied to any particular indices, geography, or sectors. The composition will, therefore, regularly deviate significantly from traditional stock indices. In my understanding, my work as a sub-advisor is successful if the return achieved is above that of the broad stock indices (e.g. DAX, MSCI World, etc.) and you, as an investor, are ultimately able to actually realize this return.

Temporary strong fluctuations, occasional underperformance, and turbulent market phases are unavoidable and normal. This can and will be painful, especially in awful years like 2019 or 2022/2023, but it is inevitable in the long run.

Companies in the TGV Partners Fund

Of the fourteen companies the TGV was invested in as of June 30, 2023, I will list the ten largest positions in alphabetical order as usual:

- Associated British Foods
- Chapters Group (previously: MEDIQON)
- DCC
- Ferguson
- Gruppo MutuiOnline
- Intred
- Lanxess
- Naked Wines
- System1 Group
- Tucows

These ten companies account for around 85% of the fund's assets. The largest company in which TGV has a stake currently has a market capitalization of around EUR 30 billion, and the smallest around EUR 10 million. Four of the five largest holdings (**Tucows, Chapters Group, Ferguson, Gruppo MutuiOnline, Naked Wines**) have been an integral part of the TGV for more than five 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, 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.

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

The shares of **Just Eat Takeaway.com** have dropped out of the top 10 due to yet another catastrophic price development of around -30% since the beginning of the year and even more in the previous year. However, they remain in the portfolio.

MEDIQON Group AG was renamed **Chapters Group AG** after the Annual General Meeting at the end of June 2023.

System1 shares have been included in the TGV Partners Fund for a number of years. These stocks are back in the top 10 due to purchases when share prices fell.[2]

Tucows: Investing in fibre optic expansion

I have explained the various challenges at Tucows several times in the past and also in the last letter of 2022.[3] The company has three businesses, the most important of which today is the deployment and joining of local fibre optic connections for high-speed Internet connectivity in smaller cities and towns across the United States.

I believe that investing in Tucows illustrates three different aspects of how the TGV Partners Fund differs from other traditional investment funds. I am going to show these aspects while explaining why I consider Tucows a good investment for the future:

1) It is an investment that requires a lot of perseverance. The fibre optic rollout is a project that will take over a decade from start to finish. The first shares were purchased in 2016 by the TGV Partners fund.

2) Investing in Tucows requires great confidence in the integrity and ability of management. Without getting to know and exchanging with the people involved over many years, the extreme fluctuations of the share price in the recent past would have been difficult to bear.

3) The Investmentaktiengesellschaft für langfristige Investoren TGV has been one of the larger shareholders in Tucows for several years and has a representative on the board of directors. The resulting stability gives the company the backing it urgently needs for its expansion.

In the 2022 annual report, I reported that Tucows had invested several hundred million US dollars in their "Ting fibre optic project" for several years. The financing for this project came from the cash flow of the domain business segment and was also covered by debt. By the end of 2022, around 100,000 of

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[2] A detailed description of the business model and the history of System1 was provided in the 2021 (LINK) annual report.

[3] A detailed description of the business model and the history of Tucows was provided in the annual reports 2016 (LINK), 2020 (LINK) and 2022 (LINK).

the 400,000 planned, self-built and owned addresses had already been developed, and Ting had just over 30,000 active customers.

I reported that Tucows missed an earlier, favourable time for comprehensive financing of the entire fibre optic project but had given itself space for further expansion through interim financing via preferred capital in late summer 2022. In perspective, this interim solution was sufficient to expand further into 2024. At the end of the year, however, there was still no final “major” and, therefore, viable solution for a full expansion of all planned networks.

In May 2023, the company hosted a “Capital Markets Day” in Toronto, where they wanted to report in detail on the plans and prospects for the next few years. Most market participants expected that the major financing solution for the expansion beyond 2024 would be announced by then.

In the weeks leading up to the Capital Markets Day, there was obviously panic in the market and enormous uncertainty about the company’s future. Generally rising interest rates, the lack of encompassing financing, and concerns about construction costs caused prices to collapse.

From the end of 2022 to April 2023, the price halved again to below USD 17 per share. And that after it was over USD 80 in 2021. This represents a -80% price drop, which is normally considered a spectre of bankruptcy. Given that Tucows has been one of the larger holdings in the TGV Partners Fund for years, this is a massive blow to the overall reported performance.

To illustrate how significant this impact on the TGV still is today: Suppose the TGV Partners Fund had exchanged its entire position in Tucows for a passive equity investment in 2018, for example an ETF on the MSCI World, the entire fund performance at price development in the first half of 2023 would have been around 25-30% (or almost + 4-5% p.a.) better than it actually was by April 2023. This is an enormous negative impact, which, on the one hand, highlights the risks of concentrated investing and, on the other hand, underscores Tucows’ extremely poor share price performance.

So was an investment at the time obviously a mistake?

Today, after a slight recovery to a price of USD 27, to me, Tucows is valued as if the fibre optics business had no value. Because for the domains business alone, I am estimating an intrinsic value of about USD 30 per share. This includes the debt that Tucows took on to expand the fibre optics division at the holding level.

At the same time, however, I do not doubt that the fibre business is of great value. Tucows has invested little more than USD 25 per share in the expansion of fibre optic connections over the past few years. To this day, I am convinced that the actual value of these investments far exceeds the associated costs. This value will continue to increase if the networks are expanded and finalized as planned.

Therefore, it was crucial that a comprehensive, structured financing solution was finally announced shortly before the Capital Markets Day in May: This financing solution means that Ting can use already connected households and subscribers as collateral at the subsidiary level. Suppose additional households are connected due to the subsequent construction progress. In that case, they can also be used as collateral, and further funds required for the construction can be accessed. With an interest rate of slightly above 8% p.a., this financing is not exactly cheap at first glance. In light of a significantly increased general interest level for longer-term corporate loans of currently more than 5% p.a. in the

USA and the extraordinary total loan amount and acceptability as collateral, which includes a significant part of the construction costs per connection, it is an excellent structure to finance further expansion.

Within the scope of the Capital Market Day, a final picture of the expansion and the final costs planned was also provided for the first time, a statement about *“how it will look like when it’s finished”.*

This plan envisages that Tucows’ networks will have around 400,000 to 500,000 owned addresses and just as many partner addresses over the next five to seven years. Partner addresses are owned and built by municipalities or public utilities with Ting’s help in the planning process. These networks are leased to Ting long-term and also operated by Ting. If at least half of all connected households use the offer later in time and as planned, this would mean more than 400,000 users who get their Internet connection through Ting.

According to Tucow’s CEO Elliot Noss, this project will result in a total investment volume of around USD 1.5 billion in just a few years, of which just over USD 300 million has been invested to date. A gigantic project, without question. The above-mentioned structured financing is an important component here and will account for the lion’s share of the further investments required.

A point of criticism from many observers is that the costs per connection planned by the company cannot be derived from the publicly reported figures. In fact, these total cost assumptions are difficult to verify, and it is virtually impossible to extract these numbers from public reporting because there are numerous different networks, all at different stages of construction, and each with high start-up costs. This would only be possible with comprehensive and transparent data access as part of a comprehensive due diligence process.

In this case, we are obviously and without question talking about an investment that is subject to numerous assumptions and imponderables. Without confidence that Elliot and his team are “doing the right thing” and that the projected costs are well planned, Tucows is difficult, if not impossible, to invest in. The project is too big, the path too unpredictable, and the goal too far in the future.

This leads to what I consider a significant risk, which would have become relevant for many other companies at the latest after the price fell again in March 2023: How do you ensure that you really get where you want to go without being thrown off the train on the way there? “*Knowing what it will look like when it’s done*” is good, <u>but getting there is all that matters</u>.

Many other companies would have called for the management team to be removed by spring at the latest. Some shareholders have certainly toyed with dismantling the company to quickly ease the share price situation. In many other situations, a lowball offer from a private equity company would certainly have meant the end of the journey to fibre optic land.

Here I draw a lot of confidence from the combination of the people involved, the value of the business model “fibre” and “domains”, and the shareholder structure. I am confident that our fibre odyssey will have a happy end. Furthermore, I have no doubt that Elliot and his team consider and treat their shareholders as partners and will find a way to close the extreme gap between the current share price and what I believe to be intrinsic value.

At the same time, the Investmentaktiengesellschaft für langfristige Investoren TGV is represented by Marlene Carl on the supervisory board. Marlene, the Chief Financial Officer of Chapters Group AG, has pursued her professional career in financing fibre optic projects and, thanks to her no-nonsense character, is undoubtedly an extraordinary asset for all long-term-oriented shareholders.

Naked Wines:

Another major change has occurred at Naked Wines.[4] After the company had survived a catastrophic year 2022 with a share price development of -80%, there are early signs that the situation is stabilizing operationally.

I wrote in the 2022 annual report: „*In October 2022, Naked Wines presented a new business plan for the coming two years. The sights are set significantly lower than before. The key points are less investment in customer acquisition, a depletion of the bloated inventories, and a reduction of fixed costs. The goal is to achieve sustainable profitability. I see a very real chance that these key points are attainable.“*

With the business figures published in July 2023, the company was able to demonstrate that it could begin to pull off these points as announced. Naked Wines was operationally profitable in the fiscal year, which ended March 30, 2023, and capital tied up in wine storage started to be released, as expected.

In the course of the poor operational development and the inadequate communication of the last year, it became obvious to me that an ownership role was missing on the Naked Wines board of directors.

Finally, in April of this year, we were able to announce on behalf of the Investmentaktiengesellschaft für langfristige Investoren TGV that we would welcome Jack Pailing, Managing Director of Colebrooke Partners, as a member of the Supervisory Board and support his selection as the shareholder nominee.

Jack, a long-time shareholder himself with his investment vehicle, was introduced to me through a mutual friend who is also a shareholder of Naked Wines. I quickly grew fond of him in several face-to-face meetings and conversations. He possesses intelligence, energy, and integrity. And even though, despite his wealth of experience, he has no previous supervisory board experience, he will make up for this shortcoming with keen common sense and will undoubtedly represent the voice of all shareholders well.

Finally, a bit of luck was also involved: at the same time as the announcement of Jack Pailing's nomination, it was also announced that the founder of Naked Wines, Rowan Gormley, who resigned at the end of 2019, will return to the Supervisory Board in the role of Chairman. Rowan, who was initially one of the key reasons we were interested in investing, is a fantastic addition to overcoming the challenges that lie ahead for Naked Wines.

It's about nothing less than the crucial question "*Which path will Naked Wines take in the future"?* As soon as the two-year business plan from October 2022 has been implemented, the company must actively decide in which direction it wants to go. Should expensive investments in faster growth and

[4] Descriptions of the business model of "Majestic Wine" and the transformation to today's "Naked Wines" are included in the reports for the financial year 2018 (LINK), the half-year report 2019 (LINK), and the annual report 2022 (LINK).

further expansion within the US be prioritized? Or should the emphasis be placed on profitability with a likely much lower growth rate?

The nominations of Rowan and Jack are essential and of great importance for answering these crucial questions. Where previously, there were disagreements between different shareholders and within the company, we can now be confident of having an experienced captain in Rowan and a competent shareholder representative in Jack. I am confident that the newly formed Board will find a rational and sensible response to the challenges ahead.

This, in turn, also makes the work for the operational team around Nick Devlin and James Crawford easier, as hopefully, there will be a clear direction again in the future. Many of the issues that kept management from its actual tasks in the past quarters will then probably be in the past.

Outlook

I hope I was able to show you that some things have clearly changed for the better in two of the portfolio companies that had suffered particularly sharp price drops. And there are also positive changes at other companies in the TGV Partners Fund, which would take too long to elaborate on here. So far, however, none of these points are reflected in the prices.

As a shareholder, I have rarely experienced a wider spread between the “intrinsic value” I assumed and the actual share prices. Of course, this is no guarantee that the situation will recover quickly. It is also possible that I was wrong – even in several of my assessments of the companies or the people involved. Only time will tell, and I will report candidly about it. Of course, I will correct mistakes should they become obvious to me.

These substantive developments will take time to translate into better operational results. There is no way to force better prices in the short term. As outlined above in the investment philosophy, I take a long-term approach and am very confident that, over time, we will reap the rewards of these changes.

I appreciate your faith in me.

With kind regards from Bonn, yours

Mathias Saggau