Investmentaktiengesellschaft für langfristige Investoren TGV

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Dear Investors

We are enclosing the shareholder letter for our Teilgesellschaftsvermögen "Rubicon Stockpicker Fund" for the year 2023 written by our sub-advisor Rubicon Equities GmbH.

Yours sincerely

Investmentaktiengesellschaft für langfristige Investoren TGV

Annual Report 2023 of the Sub-Advisor

Dear Co-Investors,

The portfolio of the TGV Rubicon Stockpicker Fund currently comprises 14 investments and was almost entirely invested as of 31/12/2023.

List of the top 5 investments

Rank	Name	ISIN	Weight
1	United Internet	DE0005089031	22,2%
2	Chapters Group	DE0006618309	14,7%
3	Hostelworld Group	GB00BYYN4225	13,2%
4	1&1	DE0005545503	11,7%
5	hGEARS	DE000A3CMGN3	6,9%

NAV as of 31/12/2023	258,04
Number of Investments	14
Weight of biggest Investment	22,2%
Weight of top 5 Investments	68,5%
Weight of Cash	1,2%

Performance Overview

Since the fund was launched in October 2016, its value has risen by in total 158.7% as of 31/12/2023.[1] The Dax has gained 57.1% in the same period.

	TGV Rubicon Stockpicker	Dax	Delta
2016 (2 months)	4,4%	7,7%	-3,3%
2017	1,1%	12,5%	-11,4%
2018	-1,4%	-18,3%	16,8%
2019	25,9%	25,5%	0,4%
2020	47,4%	3,6%	43,8%
2021	26,4%	15,8%	10,6%
2022	-24,0%	-12,4%	-11,6%
2023	39,4%	20,3%	19,1%
total	158,7%	57,1%	101,6%
per annum	14,2%	6,5%	7,7%

With an increase in value of 39.4%, the TGV recorded a very pleasing performance in the 2023 financial year. The German stock index Dax also ended the year with a strong performance of 20.3%.

1 Since the 2018 annual report, the performance of the TGV Rubicon Stockpicker Fund has been calculated using the BVI method. The differences in percentage return and NAV change can be explained by tax related payouts.

The performance drivers in the portfolio

"However, in view of the current valuation levels of many portfolio positions (United Internet AG seems to be an excellent example of this), our expectations for the next few years are clearly above average. The future will show whether we are right in our assessment."

In our last letter to investors, we were of course quite optimistic for the medium term in view of the attractive valuation levels that some portfolio companies had reached at that point. However, we would not have expected an annual performance of +39.4% until a few weeks ago. This is especially true against the backdrop of a portfolio structure focussing on Western Europe and small-cap companies. European small-caps have also struggled this year (MDax +8% / SDax +17%) and have not been able to keep up with the large American tech stocks, which showed an impressive price increase of almost 54% in the Nasdaq 100, for example. However, a mixture of good company news in combination with really favourable valuation levels then resulted in the very pleasing performance despite the segment selection.

United Internet AG / 1&1 AG

Of outstanding importance for the TGV and an extraordinary success in the 2nd half of the year was certainly the very pleasing performance of the entire United Internet AG (UI) group of companies. In our last investor letter, we reported in detail on the new acquisition. Following the half-year report, the TGV portfolio was able to significantly increase its commitment even further. As a reminder: the subsidiary 1&1 AG had decided to build its own 5G network. The uncertainties associated with this step make a traditional cash flow-based company valuation difficult for the subsidiary and thus indirectly also for the parent company UI. Investors were unsettled and the share price fell, which in turn increased the level of uncertainty. The negative spiral finally culminated in the company dropping out of important stock indices. All in all, this drove the share price of the once successful company to a 12-year low.

Limited news-flow and uncertainty are one thing. In such situations, we always ask ourselves what risks and opportunities are priced into the respective company valuation. Given the low prices, we were of the view that difficult scenarios had already been taken into account and were therefore more attracted by a potentially very attractive risk-reward profile.

As the stock became increasingly cheaper our interest grew further. While 12.2% of the portfolio had already been allocated directly to the UI share as of the half-year reporting date, we finally recommended selling the entire remaining position of Ceconomy and building UI AG into the second largest position in the TGV portfolio with a weighting of 18.6%. As a reminder, at the same time, the TGV already had a position of long-term options on UI representing 1.4% of the portfolio and a direct investment in 1&1 AG.

In view of the expected high optionality with apparently controllable downside, the TGV had thus positioned itself significantly at the side of the entrepreneur Ralph Dommermuth and was ultimately able to benefit from precisely this expected optionality. In August, to the complete surprise of the vast majority of market participants, 1&1 AG concluded an exclusive national roaming partnership with Vodafone for a total of 18 years. A broad analysis of all the implications would certainly go beyond the scope of this brief summary. Overall, however, the company gained significantly in terms of predictability, stability and credibility among analysts and significantly improved its strategic position with regard to further options for network development. This was later accompanied by positive regulatory indications and good corporate figures for the entire group. Against this backdrop, United Internet AG was able to record a share price increase of around 70% within just a few months. 1&1 AG benefited even slightly more as of the reporting date. A really nice development!

Did we see this deal with Vodafone coming? Of course not! In this case, we had rather hoped for an improved deal with the old partner (Telefonica Deutschland) – maybe helped by a regulatory intervention. But that doesn't really bother us. In any case, as has been outlined several times, we see our role in this case more in the identification of an attractive risk-reward profile. Positive surprises should be as likely as possible and lead to a share price increase as they were not expected by the investor community. Ideally, the negative events are already expected by the stock market, i.e. they are already priced into the share price and have already largely lost their fear factor as a result. Due to the nature of the stock market, one should be cautious about stock market successes. Can we really be sure that the occurrence of a positive event was also the most likely event ex-ante? In any case, ex-post the decision to give the UI Group a high weighting seems to be the right one, and we think that – in this case – we have succeeded in identifying an attractive risk-reward profile.

Chapters Group AG

The performance of the Chapters Group in the 2nd half of the year is also certainly worth highlighting, having contributed nicely to the overall portfolio performance. As in the previous year, the signs continued to point to growth in 2023. In November, the company was able to round off its pleasing operating performance with another successful capital increase. A further EUR 29 million was raised at a placement price of EUR 17.61. If the company is able to invest these funds in a value-creating manner through its M&A strategy, the relevant valuation ratios would again improve significantly.

Recovery of selected small-caps

Especially in the final weeks of the 2023 financial year, the TGV portfolio was also able to benefit from a broader upswing in select small caps. It is with some gratitude that we look back on fortunate timing. After the strong rise in the share price of United Internet and in combination with exceptionally favourable valuations in select small caps, we felt that a slightly more diversified approach was advisable. For example, in the range of EUR 20 per share, the entire option position on United Internet was sold at a handsome profit by the TGV. Thanks to similar considerations regarding Chapters Group and other minor adjustments, hGears, Naked Wines, Tucows, On the Beach, Ionos and a small position in MBB found their way into the portfolio. All of these new positions contributed to the overall performance.

Transactions in the portfolio

hGears AG

The most important new acquisition is certainly hGears AG from Schramberg in Baden-Württemberg. The company is a global manufacturer of high-precision transmission parts and similar components with locations in Germany, Italy and China. Under the leadership of a medium-sized private equity company, the entire machine park has been extensively modernized in recent years and the entire company has focused in particular on the production of transmission parts for the e-bike industry.

This strategic shift proved to be the right one, and hGears was able to benefit from the impressive growth of the e-bike industry, especially in the corona years 2020/21. Of course, the stock market also liked this and enabled the company to have a brilliant initial public offering (IPO) in May 2021. The company was placed at a market valuation of approximately EUR 270 million and raised direct IPO proceeds of more than EUR 60 million.

As in many industries, however, the "corona boom" was soon followed by a "corona hangover". This is also the case with e-bikes. Weak consumer demand and overflowing warehouses are currently being processed and are causing serious problems throughout the supply chain. A second important segment of the company faces similar challenges. Here, hGears supplies transmission parts for garden tools. This segment, too, is faced with the "corona effect".

All in all, hGears is currently suffering greatly from poor capacity utilization and had to issue profit warnings. Mister Market reacted accordingly. Within 2 years, the stock lost more than 90% of its value and the market capitalization fell to EUR 25 million in December 2023.

We then took a close look at the company. Of course, the current business situation is challenging, and the figures are not pretty. However, due to the very solid balance sheet, we consider the probability of existential problems in our analysis to be rather low. On the other hand, a recovery of the customer demand seems much more likely. Especially since the new CEO made an excellent impression on us. In our base-case scenario, we see a significantly higher company valuation over the next 2-3 years. Against this background, we recommended establishing a reportable stock position in the TGV.

Naked Wines

The new investment in Naked Wines is also decidedly anti-cyclical. Here, too, the "corona cycle" described above had a major impact. As an online-based business model, Naked Wines benefited fully from being able to acquire customers much more easily during the lockdowns. This was extremely positive during corona and temporarily boosted the share price considerably. Unfortunately, on the other hand, this market phase also led management to make some dangerous wrong assumptions and bad decisions.

On the one hand, the quality of the newly acquired customers was much poorer than usual. With hindsight, customer loyalty was not even remotely comparable to older cohorts. A significant increase in customer loss was met relatively quickly with a significant increase in customer acquisition costs as the corona restrictions normalized.

Unfortunately, at the same time, the company had prepared for high growth and had accordingly invested aggressively in inventory and purchase obligations from winegrowers.

Mister Market didn't like this explosive situation at all either! From its peak, the share price fell temporarily by more than 95%.

We definitely respect the challenging situation. The management team has to navigate through a challenging environment and has limited room for manoeuvre on the liquidity side. On the plus side, however, we see a relatively loyal customer base of old existing customers and, based on this, an attractive and profitable company core. In view of the company’s currently very favourable valuation, the opportunities seemed to outweigh the risks here as well, and we recommended the establishment of a smaller shareholding.

Developments in the portfolio

Agfa-Gevaert / InVision AG

We currently look at Agfa-Gevaert with a little less enthusiasm. Structural market changes in China are likely to have had a lasting impact on an important source of earnings and overshadowed operational successes elsewhere. Of course, we continue to see potential in the various parts of the conglomerate. There should be attractive values here, whether cleverly worked out or combined. However, tangible successes are not around the corner.

By far the biggest disappointment, however, is clearly InVision AG. For many years, we have accompanied the company in its difficult and lengthy cloud transformation. This was not an easy time for us as investors either. The share price knew only one direction: down. And we often had to defend the TGV investment or the company’s management against criticism.

As a “thank you" to the accompanying shareholders, the management has now initiated a delisting process in December 2023. Specifically, it is offering to buy out all remaining shareholders at rock bottom prices. This offer is accompanied emphatically by the announcement that numerous transparency obligations will be waived in the future and that the remaining shareholders will then only have a very limited insight into the company's ongoing business activities. Hmmm...

At this point, we prefer not to comment on the chosen approach of the acting bodies. It is what it is and we will calmly weigh up the different options we see for the TGV investment before issuing a recommendation.

With hindsight, however, we obviously made a serious mistake in the assessment of the company’s management.

Hostelworld Group

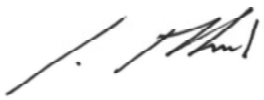
Fortunately, the news from the portfolio companies is on the whole mostly positive. This is also the case with the Hostelworld Group. Shortly after the reporting date, the company published a trading update on its 2023 financial year. With revenue growth of 32% to EUR 93.7 million, the company is on a solid growth path. With an adjusted EBITDA of EUR 18.3 million, the upper end of the earnings guidance was also slightly exceeded.

Summary

With a performance of 39.4%, we can look back on a successful year 2023 for the TGV portfolio. However, we do not feel like we are operating in an expensive "bull market" in any way. Quite the opposite. The existing portfolio seems very attractive to us and the European small and mid-cap universe as a whole is full of opportunities. Against this background, we are looking forward to another exciting stock market year and full of confidence to the future.

We would like to take the opportunity to invite you to this year's Investor Day of the 'Investmentaktiengesellschaft für langfristige Investoren TGV'. The meeting is scheduled for Saturday, June 8 at Godesburg Castle in Bonn. As an investor in the TGV Rubicon Stockpicker Fund, you will also receive a formal invitation shortly. We would be very happy to see you there in person.

Thank you for your trust!



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