Investmentaktiengesellschaft für langfristige Investoren TGV

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Rüngsdorfer Str. 2 e · 53173 Bonn · Germany

Investmentaktiengesellschaft für langfristige Investoren TGV
Rüngsdorfer Straße 2e
53173 Bonn
Germany

Telefon: +49/228/368840
Telefax: +49/228/365875

E-Mail: info@langfrist.de

Dear Investors

We are enclosing the shareholder letter for our Teilgesellschaftsvermögen “Intrinsic” for the first half of 2022 written by our sub-advisor CL Capital GmbH.

Yours sincerely

Investmentaktiengesellschaft für langfristige Investoren TGV

Sub-fund Intrinsic
Semi-annual report 2022 of the subadvisor CL Capital GmbH

Dear fellow investors,

The performance of the TGV intrinsic in the first half of 2022 was -37.5% after all fees. The NAV as of June 30, 2022, was thus €106.34. The DAX achieved a return of -19.5% in the first half of 2022. Since the launch of the TGV Intrinsic on March 29, 2019, the fund has achieved an annualised performance after all fees of +1.9%. During the same period, the DAX rose by an average of +3.2% per year. The annual rate of return becomes important after a period of five years at the earliest.

The TGV Intrinsic half-year report for 2022 first provides an overview of the portfolio structure and performance. Then I would like to elaborate on a concept that, at least in theory, is not complicated: being well prepared. It is crucial for surviving in extreme situations. Cyclists who want to master the toughest race in the world, the Tour de France, have to lay the foundations in intensive preparation. The companies the TGV Intrinsic is invested in have already prepared themselves for future challenges in good times. Based on this preparation, companies should be able to weather extreme situations and even use such situations to increase their intrinsic value in the long term.

Portfolio structure and performance overview as of June 30, 2022

<u>Portfolio structure</u>

NAV per share as of June 30, 2022	106,34€
Number of investments	10
Weighting largest investment	20,5%
Weighting five largest investments	68,7%
Weighting cash	-1,7%[1]

<u>Alphabetical listing of the five largest investments of the TGV Intrinsic</u>
Fomento Económico Mexicano (FEMSA)
Frontier Digital Ventures
MercadoLibre
Spotify
VEF

[1] TGV Intrinsic has a positive cash balance. The negative balance results from a sales transaction that had not yet been settled on the key date.

Performance overview

Period	TGV Intrinsic (1)	Dax (2)	Delta[2] (1)-(2)
2019 (9 months)	9,2%	15,0%	-5,8%
2020	25,2%	3,6%	21,7%
2021	24,5%	15,8%	8,7%
2022 (6 months)	-37,5%	-19,5%	-18,0%
Since inception	6,3%	10,9%	-4,6%
Since inception p.a.	1,9%	3,2%	-1,3%

There was one change within the five largest portfolio positions in the first half of 2022. Microsoft is no longer among the top 5 positions, but with a share of almost 10% of the overall portfolio, it is still a significant investment in TGV Intrinsic. The Swedish music streaming provider Spotify is the newcomer to the top five positions. I explained the Spotify investment thesis in detail in my previous letter. At its investors' day in early June, Spotify shared a lot of information that supports my investment thesis. I have used the depressed share price to recommend further purchases of the stock. Almost without exception, the companies in the TGV Intrinsic reported very good operational developments in the first half of the year. Most companies achieved increasing sales, which, in most cases, were accompanied by increasing profits. Due to the significantly worse mood in the capital markets, the share prices, especially of the five largest portfolio positions, have fallen sharply despite this positive operational development. As already mentioned in previous letters, I attach little importance to short-term price fluctuations of the TGV intrinsic. They are often driven by emotional assessments unrelated to the intrinsic value of a company.

Many people are legitimately concerned about possible extreme situations in the coming months. Russia's war of aggression in Ukraine, the resulting problems in the supply chains for gas and food, and persistently high inflation rates are keeping people and the capital markets busy. These concerns are negatively impacting the short-term market valuations of companies. If some of the feared scenarios come true, many companies will also be affected operationally. Companies should, therefore, prepare early for potentially extreme situations to have the capacity to react if they occur. Similar to athletes who lay the foundations in a training camp before the start of a challenging season, the investments of the TGV have prepared for dire straits in good times.

Short-term uncertainties or price fluctuations of the TGV Intrinsic hardly play a role for me in day-to-day business life, although most of my assets are invested in the TGV Intrinsic. The short-term market price is

[2] Rounding differences are possible.

often influenced by positive or negative emotions and, in my opinion, periodically does not reflect a company's intrinsic value. The decisive factor for the long-term valuation of a company is its operational development. The structural trends that form the basis for the operative development of the TGV Intrinsic companies remain unchanged despite current uncertainties: In ten years, consumers will buy more products and services online than today. They will consume more of their financial products digitally, and companies will process more data in the cloud in ten years than they do today. Since these structural trends and, therefore, also the investment theses are intact, the temporary uncertainty and the sharp drop in the price of the TGV Intrinsic do not worry me.

At the same time, it is clear to me that the daily fluctuations in the stock markets represent a psychological burden for many investors since they can always trace the short-term success or failure of their investment. That's why I would have wished for more positive emotions at the beginning of their investment, especially for newer investors in the TGV Intrinsic. While I don't attach much importance to fluctuations in stock prices, today's market also teaches humility. Because only if two theses are true, the short-term market price has no long-term significance. Firstly, I must not be forced to recommend selling shares on short notice; secondly, the company's intrinsic value must be higher than the current market price. As long as the investors in TGV Intrinsic do not sell their shares, there is no pressure for me to sell shares in companies. Despite the negative price development of the TGV Intrinsic in the first half of 2022, my assessment that a group of long-term investors has come together in this TGV has been confirmed. Instead of making panicked calls, several investors have increased their investment in the TGV Intrinsic. This counter-cyclical behaviour is rare and exactly what I look for in companies. To have a positive long-term operational development, a company must be able to withstand extreme situations that occur regularly. The same applies to cyclists: in order to win a race, you first have to finish it.

How insufficient preparation led to wrong decisions in an extreme situation

> "*Almost every racing cyclist has a good phase in the three weeks of the Tour de France. But that alone is not enough. Decisive are the stages where you feel weak. That applies to me as well as to all other cyclists.*" – Jan Ullrich[3]

For a cyclist to survive situations such as bad weather, a slump in performance or illness during a race, extensive physical and mental preparation is required. The three-week "Tour de France" is the highlight of every cycling season and demands great efforts from the participants. Through intensive physical preparation, a cyclist ensures that he is fit enough to complete the tour. Mental preparation, in turn, helps to anticipate potential negative racing scenarios and plan a response to such situations. In the 90s and early 2000s, few sporting events fascinated me as much as the duels between Jan Ullrich and his adversaries Richard Virenque, Marco Pantani, or Lance Armstrong.[4] The duel between Ullrich and Pantani in 1998 is a good example of what can happen if you find yourself in an extreme situation and are ill-prepared.

[3] An interesting documentary on the ups and downs of Jan Ullrichs' career called "Being Jan Ullrich" can be found online at the ARD Mediathek.

[4] Today it is known that a major part of the cyclists was doped. Unfortunately, the Tour de France has a long history of fraudulent behavior - starting with cyclists that took the train in the beginning of the 20th century, then consuming hard drugs, up to the doping of today. Still, I think that some of the learnings are valid today.

After winning the Tour de France in 1997, Jan Ullrich was the favourite for an overall victory in 1998. Up to the 15th stage, Ullrich rides in the yellow jersey of the leader in the overall classification. Nevertheless, after the end of the tour, he would be more than three minutes behind the winner Marco Pantani. Jan Ullrich's inadequate preparation is particularly noticeable during the difficult 15th mountain stage. Ullrich had celebrated his 1997 victory extensively. He appeared on numerous television shows, gained weight, and did not do enough race kilometres during the 1998 preparation. When Pantani attacks during the penultimate climb on this 15th stage in 1998, Jan Ullrich is unable to keep up with him. Ullrich has a comfortable lead defending the yellow jersey even if he was a little behind – but he makes several serious mistakes, overwhelmed by the situation.

It is cold and raining. Arriving at the top of the penultimate mountain, Pantani immediately puts on a jacket for the descent. When the already exhausted Ullrich gets there, he doesn't take a jacket. A teammate wants to give him gloves, but he refuses those, too. On the descent, he cools down and also has bike troubles. Before the final climb, his teammate Udo Bölts offers him a sugary drink. He also rejects that, so his energy stores are not replenished.[5] Shortly after that, he suffers what is known as a "bonk," i.e. a dizzy spell. He can hardly ride on and crosses the finish line almost nine minutes after Pantani. Last year's success had had a negative impact on his preparation and made him vulnerable in extreme situations – one of the reasons why he made wrong decisions under pressure. The same applies to companies: during phases of success, they often make the biggest mistakes. Without early preparation for extreme situations, companies can be limited in their ability to react and take wrong decisions.

Instead of bad weather or debilitating illness, companies have to deal with recessions, shortages of capital or supply bottlenecks, for example. With every investment recommendation, I ask myself whether there are risks for the company that could lead to a permanent loss of capital. The actual risk of an investment lies precisely in such a permanent loss of capital – not in a short-term fluctuation of the stock price. Three causes can result in a permanent loss of capital of an investment:

1. Capital structure with excessive leverage
2. Operational risks
3. Purchase price too high from excessive valuation

Just as being slightly overweight at crucial moments can mean that a cyclist is unable to keep pace, too much debt can mean for a company that it has fewer courses of action in an extreme situation – or, in worst cases, it can no longer make its interest payments and thus has to drop out of the "race". In the same way, existential risks in operations or an excessively high valuation paid for the investment can lead to a permanent loss of capital.

Just as Jan Ullrich took his preparations less seriously after his Tour de France success in 1997, many companies also neglect to prepare for bad times during successful phases. The "procyclical" temptation is understandable: their principal bank grants cheap loans, the investment banker presents exciting takeover targets and the financial means for a new company headquarters in an expensive inner-city location are available. Once again, long-term thinking plays a crucial role. A founder and long-term owner will typically[6]

[5] Cyclists burn up to 10.000 calories on a single stage. Therefore, it is important to have a continuous food supply.

[6] There are business models that can withstand higher debt levels and who are equally managed by long-term thinking entrepreneurs, for example in the cement industry or with cable operators.

choose a conservative capital structure with sufficient cash resources to ensure that his company will still exist 30 years from now. This is in contrast to companies run by an outside manager who will have left and joined another company in five years. I am convinced that all companies in the TGV Intrinsic are managed by entrepreneurs who think long-term and are intrinsically motivated. As a result, the companies are in excellent "physical condition," have a solid capital structure, and should be able to withstand extreme situations unscathed.

Examples of anti-cyclical preparation for possibly extreme situations

In almost all companies of the TGV Intrinsic, the founder or founding family is still on board as one of the largest shareholders. With its investment, the TGV Intrinsic is, figuratively speaking, in the same boat as the people who see the company as their life's work and do everything to ensure that the company will be successful in the long term. From my point of view, this is the decisive factor in ensuring that companies prepare for difficult times, especially during successful phases. The outcome is a conservative capital structure with low debt and high cash levels. The resulting resilience allows companies to survive extreme situations and seize opportunities that might arise. Two good examples are Frontier Digital Ventures (FDV) and VEF.[7]

Shaun di Gregorio founded FDV in 2014 and today holds around 10% of the shares as the second largest shareholder. FDV invests in classifieds portals in Latin America, Africa, and Asia and now manages many of these companies operationally. As of mid-2022, FDV has a net cash position of AUD 31 million (almost 10% of market capitalisation). FDV will use part of this cash for the acquisitions of additional shares in the Latin American classifieds portals Infocasas and Encuentra24. But even after these two transactions, FDV will still have a conservative capital structure. The consolidated subsidiaries are already making profits, although they are still at the beginning of their monetisation. To what extent has FDV acted anti-cyclically? FDV is expanding its business model from the classic membership and advertising revenues of the classifieds portals to a transaction-based business model. Some company subsidiaries are already remunerated directly in connection with a completed real estate or automobile transaction. The real estate and automotive transaction market is significantly larger than pure advertising and should ensure growth for FDV for many years to come.

In recent years, and especially in 2021, capital markets have often rewarded transaction-based business models with very high valuations in financing rounds. In many cases, these business models were set up by companies that were new to the real estate and automotive markets and acquired the sales at high losses. Since FDV owns the leading advertising portals in its markets and thus already generates many transactions leads from its core business, it could have grown much faster in this segment. With faster, unprofitable growth, FDV could have achieved a significantly higher valuation some time ago. However, this would have gone against the corporate philosophy FDV has adhered to since it was founded: the goal is to grow quickly while at the same time focusing on at least breaking even.[8] With increasing size, the companies then become more and more profitable, as apparent, for example, from the largest holding, the Pakistani real estate portal

[7] I introduced the investment thesis for both companies in detail in my semi-annual investors' letter of 2021.
[8] In the past, FDV has used extreme situations such as the COVID crisis to buy cheap market-leading advertising portals that were neglected in larger corporations and were therefore unprofitable. Within a short period of time, these companies were reorganized and are now seeing rising profit margins.

Zameen. Zameen now achieves an EBITDA margin of around 20% and generates most of its sales directly from real estate transactions.

FDV focuses on further developing company holdings and increasing its sales – albeit with a positive contribution to earnings from the products and services sold. At the same time, FDV does not deviate from its business philosophy just to optimise its own company valuation on the capital market in the short term. In addition, the company delegates a great deal of decision-making authority to the individual subsidiaries. If the management of one company requires additional financial resources, it must precisely justify the intended use of the funds. This strengthens the focus on continuously running the companies in a profitable manner. Another indication of FDV's forward-looking strategy is the capital increase in 2021. It took advantage of the positive mood in the capital markets and thus ensured the financing of future growth on favourable financial terms.

Similarly, anti-cyclically, VEF and its investments used the good mood on the capital market in 2021 and at the beginning of 2022 and thus prepared for extreme situations. The company issued a bond at just the right time and reported total cash on hand of $64 million at the end of Q2. VEF, which invests in early-stage fintech companies in emerging markets, now has the freedom to fund its own investments or invest in new ventures. Many of VEF's existing holdings have collected fresh capital over the past year – i.e. in good times – and have sufficient liquidity in the current difficult times. VEF's three largest holdings – Creditas, Konfio, and Juspay – account for almost 70% of the portfolio. All three have raised capital in the past 12 months and are solidly funded. The forward-looking and conservative approach also includes the fact that VEF has significantly written down the valuations of its investments, even though some of the financing rounds have only just taken place at a higher valuation. This gives me the confidence that VEF's accounting is rather a bit too conservative than too aggressive.

As the examples of FDV and VEF show very clearly, the large investments of the TGV Intrinsic all have a conservative capital structure and sufficient cash resources. The companies have prepared early for difficult times and have not encumbered themselves with procyclical debt like many other companies. This is the result of the companies' long-term actions, which is why they should be able to withstand the possibly extreme situations. From this starting position, there are, in turn, opportunities to sustainably increase the long-term value of the company during extreme situations. Just like a cyclist who realises during a steep climb that he has the fittest body, the investments of the TGV Intrinsic can switch to attack mode at these moments.

Chasing the yellow jersey – Creditas

> *„We build business to thrive over 10 years, 20 years, 50 years. I have no f****** idea what's going to happen tomorrow … change is so fast that you need to be a master in adaption"* – Sergio Furio, CEO of Creditas

In contrast to the 1998 Tour de France, Jan Ullrich had completed intensive preparation in 1997. Since December 1996, he had cycled 15,000 miles and had put 61 racing days behind him. As he wrote in his autobiography, never again in his career was he able to achieve such a level of preparation. On the 15th stage of the 1997 Tour de France, over 252.5 kilometres, five steep climbs and a mountain finish in Acalis (Andorra), he was able to put the intensive preparation to use. Jan Ullrich attacks shortly after the beginning of the final climb. None of the competitors around Marco Pantani and Richard Virenque are able to keep up with him. On this day, Jan Ullrich wins the overall leader's jersey and defends it until the final stage to Paris. In the same way, companies in the TGV Intrinsic will try to use the good preparation described above to put some distance between themselves and less well-prepared competitors.

Although there are no operational problems in many companies yet, the financing situation has already deteriorated significantly, especially for many younger companies. As illustrated earlier, VEF is a good example of a company that has proactively prepared for worse times through funding rounds over the past year. VEF's largest holding, Creditas, has now shown that it is already using the more difficult times to achieve its operational goals at an accelerated pace. While less prepared companies still need time to secure financing, Creditas has landed a small coup. A recent round of financing - at the same valuation as the beginning of the year - was used to buy the Brazilian subsidiary of the European private bank Andbank.[9] Why is this of great strategic importance for Creditas?

For a company that grants loans, the refinancing of these loans is a decisive success factor. Creditas already has a competitive advantage over many other financial service providers in Brazil. To ensure similar incentives, lenders typically require lending companies to lend some of the capital themselves. Creditas has proven in the past that they give the capital to creditworthy borrowers, which is why Creditas' lenders hardly ever ask for their participation. As a result, Creditas can grow with very little capital employed. The second important point of refinancing is the interest payments that Creditas has to make for the capital of the loans or the returns that the lenders demand.

The lower these interest rates are, the cheaper Creditas can offer its customers the loans. By taking over the Brazilian part of the private bank Andbank, Creditas can now use their deposits for lending. Customer deposits are almost always the cheapest financing option for a financial service provider, and Creditas, therefore, has lower financing costs than before. Above all, the company has another option for financing the loans, which increases its flexibility in difficult times. Thanks to its good preparation – in the form of forward-looking financing – Creditas can already switch to attack mode, while many competitors still have to ensure they can even finish the race. I hope that other TGV Intrinsic companies will adopt a similar approach.

Conclusion

Jan Ullrich was superior to his opponents most of the time at the 1997 Tour de France due to his intensive preparation. But he, too, had to survive several phases of weakness. On a mountain stage, second-placed Richard Virenque was already a minute and a half ahead of Ullrich. And on one of the last stages, Ullrich got sick and had stomach issues on top of that. His teammate Udo Bölts shouted at him the now famous "Quäl dich, du Sau" (struggle through it, you ***) and together, they managed to defend the yellow jersey. There is a lot to suggest that preparation made all the difference between Jan Ullrich's positive reaction during his illness in 1997 and his inadequate reaction in 1998. In the same way, over longer periods, no company will experience only good times. Therefore, preparing for bad times is of great importance. From my point of view, the companies in the TGV are in a very good shape and will be able to master extreme situations. That

[9] Related to this financing round Andbank decided to invest into Creditas.

is why I am calm and confident about the operational development of the companies in the coming months and years.

Finally, I would like to thank you for the large number of participants at the investors' meeting in May, which took place in Bad Godesberg. The team of the Investmentaktiengesellschaft für langfristige Investoren TGV and I hope that the event was informative for you. If you have any questions, please contact me at any time at clemens.lotz@clcapital.de.

I wish you all a successful second half of 2022, and stay safe!

Clemens Lotz

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