Investmentaktiengesellschaft für langfristige Investoren TGV

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Dear Investors

We are enclosing the shareholder letter for our Teilgesellschaftsvermögen "Intrinsic" for the first half of 2023 written by our sub-advisor CL Capital GmbH.

Yours sincerely

Investmentaktiengesellschaft für langfristige Investoren TGV

Sub-Fund Intrinsic
Half-Year Report 2023 of the subadvisor CL Capital GmbH

Dear Co-Investors,

The performance of the TGV Intrinsic in the first half of 2023 was +23.3% after all fees. The NAV, as of June 30, 2023, was €136.46. The DAX achieved a return of +16.0% in the first half of 2023. Since the launch of the TGV Intrinsic on March 29, 2019, the fund has achieved an annualised performance after all fees of +7.6%. During the same period, the DAX increased by an average of +8.2% per year. The annual rate of return becomes important after a period of 5 years at the earliest.

The 2023 half-year report of TGV Intrinsic first provides an overview of the portfolio structure and performance. I then explain why TGV Intrinsic focuses its investments on a small number of companies. For the analysis of an investment thesis, I use many different sources of information to achieve a high success rate for my investment recommendations. These thorough examinations of investment theses require a lot of time and ultimately mean that I focus on a few investments for the TGV Intrinsic.

Portfolio structure and performance overview as of June 30, 2023

Portfolio structure

NAV as of 06/30/2023	136.46€
Number of investments	12
Weighting of the biggest investment	16.8%
Weighting of the five largest investments	67.9%
Weighting cash	-0.3%

Alphabetical listing of the five largest positions within the TGV Intrinsic

Fomento Económico Mexicano (FEMSA)
Hostelworld
MercadoLibre
Spotify
VEF

Performance overview

Period	TGV Intrinsic (1)	Dax (2)	Delta[1] (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	-35.0%	-12.4%	-22.6%
2023 (6 months)	23.3%	16.0%	7.3%
Since inception	36.5%	40.1%	-3.6%
Since inception p.a.	7.6%	8.2%	-0.7%

There was no change within the five largest portfolio positions in the first half 2023. The price development of +23.3% in the first half of 2023 and -35.0% in the full year 2022 could give the impression that the companies developed very negatively in the past year and have now recovered. This is not the case: All companies of the top 5 positions have consistently developed positively in operational terms. The enormous price fluctuations in recent years were, amongst other reasons, due to the understandable emotion-driven ups and downs of investors' sentiments caused by the corona pandemic, Russia's attack on Ukraine, and rising interest rates. Since the TGV Intrinsic typically invests in a small number of companies, the logical consequence is that the TGV is more volatile than broadly diversified indices. But why do I recommend a high concentration in individual investments when I could recommend greater diversification and, thus, lower price fluctuations?

For reasoning purposes, I would like to call on the fascinating biography "Crashing Through" by Robert Kurson.[2] It focuses on the American Mike May, who goes blind in an accident at the age of three. Despite his blindness, Mike keeps testing his limits: He secretly rides his motorcycle to school, sets a downhill speed record for the blind, works for the CIA for a while, and subsequently becomes an entrepreneur. He lives happily with his wife and two sons when a doctor suggests surgery to restore his eyesight. The operation is a success, and at 46, Mike May can see again. However, he still has trouble recognizing things. He can make out colour and movement almost perfectly but has trouble matching faces to genders or recognising objects. However, if he also touches and feels faces or objects, his image sharpens, and he recognises whether it is a woman or a man or what object he holds in his hand. In addition, he sees objects more clearly when he is in surroundings he is familiar with.

The key point to his recognition of faces and objects is that Mike has to interact with them to understand and recognise them. Robert Kurson, therefore, states not only in relation to Mike May but in general:

[1] Rounding differences are possible.
[2] I cannot do justice to the content of the book in my short description but it is one of the most impressive biographies I have read in recent years.

> *„The lesson in all this is clear: interaction with the world and its objects is critical to building the knowledge necessary for useful vision".*

Just as passive watching does not lead to proficiency in any sports, analysing investment theses means I need intensive interaction with the companies to understand how they and the associated industries will develop in the coming years. Only by interacting with the companies and all their stakeholders does the picture become clearer for me, as it did for Mike May. And even after a buy recommendation, I continuously analyse whether the investment thesis remains intact. These analyses take a lot of time; for that however, I strive to have a high success rate in my investment recommendations. Therefore, the concentration within the TGV Intrinsic on a small number of investments is the result of the time-consuming research before and after an investment recommendation and not a goal set from the start.

Time allocation precedes capital allocation.

For investors, but also beyond investing, there is above all one limiting factor: time. I'm 35 years old and have an average life expectancy of about 85. This means, for example, that I still have about 50 longer trips ahead of me. However, considering that my way of travelling with family and in old age will probably change, I only have about 10 major trips in the style I have practiced up to this point. Such a calculation helps to make one aware of time constraints and allocate one's time sensibly. I think similarly about investments: I can't use the time I need to analyse potential new investments to track existing investments. In recent years, the time for my research has been divided roughly equally between existing and new investments. With 220 productive days a year (after deducting vacation time) and after my work on the supervisory board and some administrative tasks, there are around 200 days a year for company analyses.

If I now use 100 days for existing investments, that means 10 days per investment per year for 10 investments[3]. During this time, I read the quarterly and annual reports, visit and talk to the companies, current and former employees, competitors, suppliers or customers – usually several times a year, and attend trade fairs and conferences in the respective industry. If the TGV Intrinsic were invested in 20 companies instead of 10, I would only have 5 days per company for the annual analysis. In my opinion, that would not be enough to achieve the research quality I am aiming for. The focus of my investment recommendations for the TGV Intrinsic portfolio is therefore the result of my time management. I need the intensive research and the many interactions with the companies to build up in-depth knowledge of the respective investments. Only by investing a lot of time can I acquire sound knowledge and sharpen my view of an investment thesis as described above.

In contrast, I could build up superficial knowledge quite quickly – but I believe that this would have a negative impact on the expected return on the TGV Intrinsic. My picture of the investment thesis would be too fuzzy to give accurate buy recommendations. Charlie Munger tells the following anecdote to illustrate the difference between real and superficial knowledge. The excerpt is from his 2007 speech to graduate students at the University of Southern California:[4]:

> *"I frequently tell the story of Max Planck, when he won the Nobel Prize and went around Germany giving lectures on quantum mechanics. The chauffeur gradually memorised the lecture and said:*

[3] The TGV Intrinsic is currently invested in 12 companies, with two investment theses relating to several companies.
[4] https://www.youtube.com/watch?v=5U0TE4oqj24&t=1680s

"Would you mind, Professor Planck, because it's so boring to stay in our routine. Would you mind if I gave the lecture this time and you just sat in front in my chauffeur's hat?" Planck said, "Sure!" And the chauffeur got up and gave this long lecture on quantum mechanics. After which a physics professor stood up in the rear and asked a perfectly ghastly question. The chauffeur said, "Well, I'm surprised that in an advanced city like Munich I get such an elementary question. I'm going to ask my chauffeur to reply!"
Well, the reason I tell that story is not entirely to celebrate the quick-wittedness of the protagonist. In this world, we have two kinds of knowledge: one is Planck knowledge, the people who really know. They have paid the dues; they have the aptitude. And then we got Chauffeur knowledge. They have learned to prattle the talk, and they have a big head of hair, and they have fine temper and the voice; they really make one hell of an impression. But in the end, they've got Chauffeur knowledge."[5]

This story is Munger's example of the difference between real and superficially acquired knowledge. Real knowledge takes time, whereas "chauffeur knowledge" can be acquired quickly. However, "chauffeur knowledge" is not bad per se. Many of my investment ideas arise from superficial theses, which I then refute or confirm. When I started investing, I found myself in a similar situation as Mike May, who had trouble matching faces to genders. I saw a variety of business models but didn't have any pattern recognition to form an initial opinion. Mike devised patterns for faces over time: when he saw long hair, he knew the odds he was seeing a woman were increased. When there was a beard, the probability increased that it was a man, etc. In the same way, over the years, I have devised patterns that I can use to make an initial assessment of whether a company has an interesting business model and whether a more in-depth analysis makes sense.

Nevertheless, one can hardly draw conclusions about a person's character based on the recognition of facial patterns, and similarly, I cannot usually form an opinion for an investment recommendation based on an initial assessment of a company. In addition, sources only have added value if they have carefully addressed the matter – but not if they only have superficially acquired knowledge. Another problem is that external sources may be subject to different incentive structures. Banks often write good research on companies and industries. However, the goal is often to recommend themselves for their profitable investment banking business through a favourable depiction of a company. Whether the operational development and the share price really turn out as the bank forecasts is secondary for this purpose and limits the value of these studies for investors.

Overall, this means that "chauffeur knowledge" can be a starting point for an investment recommendation but never the goal. I only reach the goal when I do the work necessary to understand a business model and form a well-founded opinion of the development of a company. Over the past 12 months, part of this work has also been to continuously question the investment theses concerning the companies whose share prices have fallen sharply. To do this, I invested a lot of time in analysing the markets I was familiar with and also travelled to new markets to look at similar industries and their developments in other ecosystems. This led to trips within Europe and also to company visits in Brazil, Japan, Mexico, the USA, Canada, and Vietnam. I concluded that the investment theses are intact, and the sharp drop in prices over the past year was rather an opportunity to buy recommendations at low valuations than a signal of negative operational developments.

[5] In reality it was probably not Max Planck but Albert Einstein who experienced this story.

What are the effects of this on the portfolio?

The goal of my time management is a high success rate for investment recommendations. Irrespective of the long-term accuracy or inaccuracy of the assessment of investment theses, stock prices tend to fluctuate sharply in the short term. Part of the value I can add to the long-term price performance of the TGV Intrinsic is that I use overly negative market views of TGV Intrinsic investments to recommend further purchases. This only works if I invest a lot of time in analysing the investment theses and have a high degree of confidence in my assessment of the development of the core hypotheses – in other words, what Munger called “Planck knowledge”. Last year, when many investments within the TGV Intrinsic had plummeted, I recommended increasing the positions in a number of companies. It is still too early to judge whether these recommendations will generate added value for the portfolio in the long term or not – but I am convinced that my recommendations of the past year have laid an important foundation for the price development in the coming years. In the following, I would like to give you a little more transparency so you can assess whether you consider my capital allocation recommendations positive or negative for you.

Especially with MercadoLibre, Spotify, and VEF, I used the dropped prices for recommendations to increase investments in the past year. I recommended increasing the MercadoLibre position by about 25% at an average price of $810. For Spotify, I recommended a 140% increase in the position at an average price of around USD 125; in VEF, I recommended an increase of 50% at an average price of around SEK 3.15. I believe my buy recommendations for all three companies were based on favourable company valuations. At around SEK 2.7, VEF is still trading below the average purchase price of the increased position of SEK 3.15. The last reported NAV (which I think is conservative) is around SEK 5. As a result, VEF is now trading at a significant discount of a good 45% to its intrinsic value. The companies in which VEF invests are doing very well, and this year, I have recommended purchasing additional shares at even lower prices. As always, these decisions should only be evaluated over a period of several years – you now have the transparency to actually be able to do this.

Bottom line

I realise that most readers are more interested in new investment recommendations than in my general reflections on the portfolio management of the TGV Intrinsic. However, since I aim to recommend as few changes to the TGV Intrinsic portfolio as possible, I cannot report on new investments in all investor letters. At the same time, I believe it is just as important for you as an investor to understand how I feel about portfolio management in general, so I hope you still find this letter interesting. If you have any questions about individual positions of the TGV Intrinsic, you can contact me at any time by email at clemens.lotz@clcapital.de.

Finally, I would like to thank you for the large attendance at the investor meeting in May. The team of the Investmentaktiengesellschaft für langfristige Investoren TGV, and I hope the event was informative for you.

I wish you all a happy and successful second half of 2023!

Clemens Lotz

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