

Intrinsic Fund (ISIN DE000A2N68Z3)
Full-Year Report 2024 of the Subadvisors CL Capital GmbH

Dear Co-Investors,

The performance of the Intrinsic Fund for 2024 was +18.5% after all fees. The NAV, as of December 30, 2024, was €192.9. The DAX achieved a return of +18.9% in 2024.¹ Since the launch of the TGV Intrinsic on March 29, 2019, the fund has achieved an annualised performance after all fees of +12.1%. During the same period, the DAX increased by an average of +10.0% per year.

The 2024 annual report of the Intrinsic Fund first provides an overview of the portfolio structure and performance. I will then explain why refraining from short-term self-optimization often leads to better long-term results. Several companies in the Intrinsic Fund's portfolio follow this strategy by keeping prices low and optimizing customer satisfaction. In doing so, they build sustainable competitive advantages and ensure long-term growth. Customers of the British payment service provider Wise saved £1.8 billion in bank fees in 2024. The company continuously passes on its efficiency gains to customers in the form of lower prices. I believe that the company will continue to gain market share from banks for many years and, in the fall of 2024, recommended buying shares.

Portfolio structure and performance overview as of December 30, 2024

Portfolio structure

NAV as of 12/30/2024	192.9€
Number of investments	12
Weighting of the biggest investment	15.0%
Weighting of the five largest investments	60.9%
Weighting cash	0.0%

Alphabetical listing of the five largest positions within the TGV Intrinsic

(in the Half-year report 2024, you will find an overview of the investment theses for these five companies)

Fomento Económico Mexicano (FEMSA)

Hostelworld

MercadoLibre

Spotify

VEF

¹ I consider a global stock index such as the MSCI All Country World Index to be a more suitable benchmark; however, mentioning it would involve high licensing fees.

Performance overview

Period	Intrinsic (1)	Dax (2)	Delta ² (1)-(2)
2019 (9 Monate)	9.2%	15.0%	-5.8%
2020	25.2%	3.6%	21.6%
2021	24.5%	15.8%	8.7%
2022	-35.0%	-12.4%	-22.6%
2023	47.1%	20.3%	26.8%
2024	18.5%	18.9%	-0.4%
Since inception	92.9%	72.7%	20.2%
Since inception p.a.	12.1%	10.0%	

The five largest portfolio positions have remained unchanged since mid-2022. In August 2024, FEMSA paved the way for the expansion of its OXXO convenience stores into the U.S. market through the acquisition of Delek for \$385 million. Following Brazil, this marks the entry into a second promising market, which could drive the opening of additional OXXO stores for decades to come. MercadoLibre and Nubank are currently reinvesting a significant portion of their profits into new products to gain further market share. The holdings of VEF, such as Credits, Konfio, and Juspay, accelerated their revenue growth in 2024 while simultaneously increasing profits. Despite these positive operational developments, Latin American stocks have declined over the past year. In contrast to the MSCI World, which once again in 2024 benefited from rising valuations of U.S. companies, both the Brazilian benchmark index IBOVESPA (-11%) and the Mexican IPC index (-14%) have recorded a significant decline in global comparison. As a result, the valuations of the mentioned companies have become even more attractive by the end of the year, which makes me optimistic about their expected development in the coming years.

In the fall, I spent five weeks in Mexico City to validate the investment theses of the previously mentioned companies. During this period, I visited numerous publicly traded companies—including our investments FEMSA, MercadoLibre, and VEF—and held discussions with their competitors as well as the Mexican banking regulator. Additionally, I met with the founders of private fintech companies such as Clip, Klar, Plata, and Uala. During the highly recommended Mexican Tech Week, I had the opportunity to engage with entrepreneurs and investors for a week through various presentations and networking events. What unites our investments is their strong focus on customer satisfaction while challenging established large banks. MercadoLibre, Nubank, and VEF's portfolio companies leverage technological advantages to maintain a more cost-efficient structure than traditional banks, passing on efficiency gains to customers through lower prices. Rather than maximizing short-term profits, they prioritize investments in product development and

² Rounding differences are possible.

customer satisfaction to secure long-term earnings growth, ultimately creating better outcomes for all stakeholders. The logic behind this principle became clear to me during my studies in a game theory lecture.

Refraining from short-term self-optimization usually leads to more positive long-term results

I grew up in an environment where people generally did not optimize for short-term self-interest. They understood that this behaviour leads to more stable relationships and better outcomes for all parties in the long run. This intuition was later scientifically confirmed during my studies. Game theory often examines behaviour through so-called ultimatum games and their variations. In the ultimatum game³, one person (the proposer) decides how to divide a sum of money between himself and a second person (the responder). The second person can either accept or reject the offer - if they reject it, both walk away with nothing. From a purely rational perspective, the responder should accept any amount greater than zero. However, in practice, offers perceived as unfair - typically less than 20-30%⁴ - are often rejected. This means that those who optimize too aggressively for themselves risk ending up empty-handed.

A variation of this game is the trust game. Here, the amount allocated by the proposer is tripled, and the responder then decides how much to return. Rationally, the responder should keep the entire amount, which would discourage the proposer from giving anything in the first place. However, in practice, a different pattern emerges: the proposer usually passes on 40-60% of the initial amount, and the responder returns 40-50% of the tripled sum. When playing repeatedly, both players benefit from foregoing short-term gains. This principle is reflected in the operational strategy of the new portfolio position Wise. The company deliberately forgoes short-term profit maximization and continuously acquires new customers due to its low fees. The resulting growth leads to operational efficiencies, which are passed on to users in the form of price reductions. As a result, in 2024, Wise saved its customers £1.8 billion in fees while generating £1.2 billion in revenue and £350 million in profit.

Wise is revolutionizing cross-border money transfers

In 2008, the Estonian Kristo Käärman transfers £10,000 from the UK to Estonia to pay off his mortgage there. A few days later, he can hardly believe his eyes: somewhere along the way, £500 seem to have disappeared. When his bank fails to provide a satisfactory explanation, he investigates on his own and discovers that his money has simply found a new owner—his bank. In addition to a transaction fee, the bank applies a hidden markup of about 5% on the actual exchange rate, resulting in extra costs of £500. Shortly afterward, Kristo meets fellow Estonian Taavet Hinrikus at a party in London. Taavet also lives in London but receives his salary in euros and has to exchange it into British pounds at similarly high fees. The two quickly strike a deal: Kristo transfers his excess pounds in London to Taavet, and Taavet will send the equivalent amount in euros to Kristo's account in Estonia. This way, they can move their liquidity into another currency without actually crossing currency borders and avoid the hefty exchange rate fees charged by banks. This concept remains at the core of Wise's business model today.

Over the following months, more and more friends join their exchange system. Due to the increasing demand, Kristo - who had studied mathematics and computer science - and Taavet - who was the first employee at Skype - develop a test product for transactions within the GBP/EUR currency corridor. When they launch in 2011, a tech journalist from TechCrunch, who is a friend of theirs, writes an article about

³ The original study "An experimental analysis of ultimatum bargaining" was published in 1982 by Güth, Schmittberger & Schwarze.

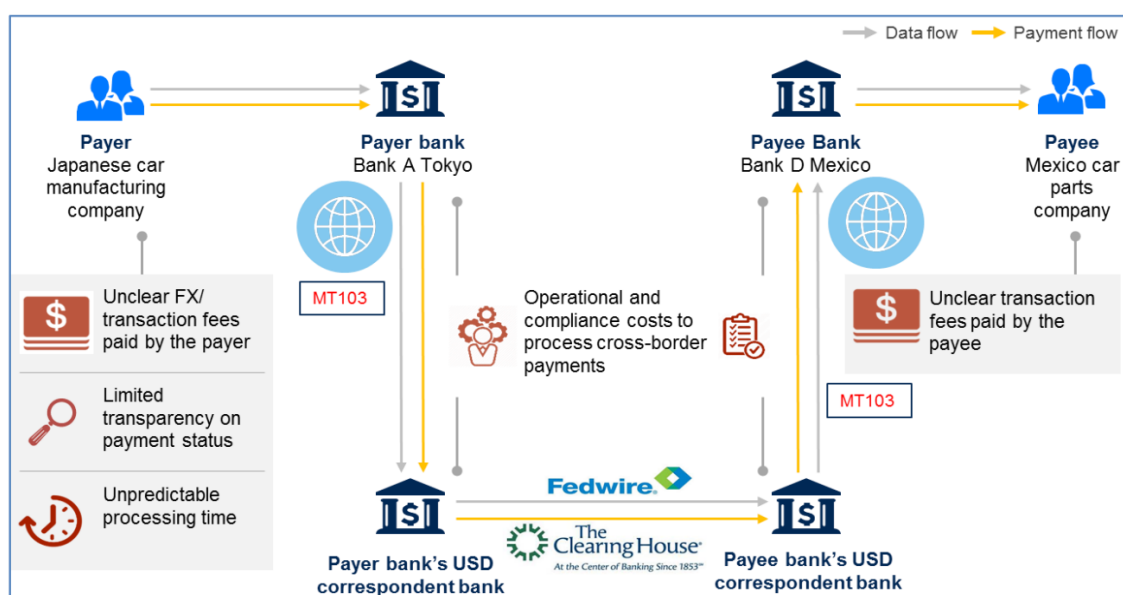
⁴ The amounts vary slightly depending on the experimental design, cultural context, or the absolute amount involved.

their service.⁵ Only minutes after the article is published, the first customer transfers £2,000 to be exchanged into euros (back then, the company was still called "TransferWise," a name that was rebranded to "Wise" in 2021). Fourteen years later, Wise serves 15 million customers annually, with deposits exceeding £16 billion and an annual transaction volume of £140 billion. This makes Wise, after JPMorgan and Citibank, likely the third-largest payment service provider for cross-border money transfers worldwide. Wise's success is built on bypassing the outdated correspondent banking system, which is slow, expensive, and opaque.

The Correspondent Banking System: An Infrastructure from medieval times

In the Middle Ages, payments were physically transported in gold and silver—a cumbersome and risky process that became increasingly impractical as international trade expanded. As early as the 14th century, banks began opening accounts for one another across national borders (so-called "Nostro"—my account with you—and "Vostro"—your account with me—accounts). These structures allowed customers to process international payments through their banks without money having to physically cross borders. This marked the beginning of the correspondent banking system, which today includes about 10,000 banks. To standardize payment messaging worldwide, the SWIFT network (Society for Worldwide Interbank Financial Telecommunication) was established in 1973, and its standards remain the foundation for international bank transfers to this day.

The following diagram⁶ illustrates the often complex process of a cross-border payment: A Japanese company wants to transfer money to a Mexican supplier. Since the Japanese company's bank has no direct relationship with a Mexican bank, the payment is first sent to an American partner bank. However, this partner bank also lacks a direct connection with the Mexican supplier's bank. Instead, it has a relationship with another American bank, which, in turn, has a business connection with the supplier's bank. In total, four banks are involved, making the transaction time-consuming and subject to fees at each stage. The result: Cross-border transfers typically cost between 3-6% of the transferred amount, take several days, and are difficult to track transparently.



⁵ <https://techcrunch.com/2011/01/24/transferwise-wants-to-be-the-skype-of-currency-exchange/>.

⁶ From the Swift Working Paper „The Future of Correspondent Banking Cross Border Payments” - https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3261168.

People with limited financial means and small businesses, in particular, suffer from the inefficiencies of the correspondent banking system. Regulators also criticize the existing system, as anti-money laundering (AML) and "Know Your Customer" (KYC) requirements are difficult to enforce due to its lack of transparency and the larger number of parties involved. As a result, more and more banks are withdrawing from the system, further exacerbating its inefficiency. Wise offers a low-cost, fast, and transparent alternative to the correspondent banking system. While banks charge fees of 3-6%, a transfer via Wise costs only 0.6% on average. 65% of transactions are completed instantly, and 95% within 24 hours, with Wise providing full transparency on fees. This is reflected in a Net Promoter Score (NPS) of 65, an exceptionally high value for the industry. The underlying infrastructure is based on the mechanism initially developed by Kristo and Taavet.

Wise continuously holds £200–300 million in local accounts with partner banks across 160 countries. With its network of 15 million annual customers, Wise can match money transfers without funds actually crossing borders. Costs arise primarily from liquidity needs that exceed Wise's existing local reserves, requiring the company to forecast liquidity demand and transfer funds accordingly. To reduce these transfer costs, Wise is increasingly integrating into local central banking systems, minimizing reliance on partner banks. Additional costs arise from hedging currency risks. Combined, these two cost factors recently accounted for just 0.2% of the transaction volume, far lower than the costs associated with the correspondent banking system. With its direct integrations into central banking systems, local bank accounts, and a global customer network, Wise has built an unparalleled infrastructure. However, despite its rapid growth, Wise still only holds a single-digit percentage share of the global cross-border payments market.

Today the global market for international transactions today amounts to approximately \$190 trillion. Of this, around \$150 trillion consist of interbank payments, a low-margin sector that Wise is unlikely to target in the near future. Of the remaining \$40 trillion, 80% is made up of large corporate transactions, where companies typically receive favorable rates from their banks. The relevant market for Wise lies in cross-border transfers by consumers and small businesses, who often face high bank fees. In the consumer segment, I estimate the addressable market at \$1.5 trillion, half of which comes from remittances sent by individuals living outside their home country. The other half is divided among various use cases, including payments for goods or services while traveling, online purchases in foreign currencies, international tuition fees, or investing in foreign accounts. Wise currently holds an 8% market share in this segment.

Small businesses transfer around \$10 trillion internationally each year. A significant portion of this consists of purchases of physical goods from foreign suppliers, while services, such as hiring freelancers for IT services, account for roughly 20% of the market. While Wise continues to expand its addressable market, I see this 20% segment as particularly relevant, where Wise currently holds only a 2% market share. In summary, this would imply an addressable market of \$3-4 trillion. My estimate aligns with a 2012 presentation by Kristo,⁷ in which he estimated the addressable market at €3 trillion. Since then, Wise's expanded product offerings have likely increased its market potential, which is why Wise today estimates its addressable market at around \$10 trillion. Even under my more conservative assumption, Wise has strong potential to continue gaining market share for a long time. A key success factor in this will be the consistent company culture that Wise has built since its founding.

⁷ Market size assumption from 0:20: <https://www.youtube.com/watch?v=FakuvHs44ew>.

Wise's corporate culture as a countermodel to the values of many large banks

Kristo and Taavet were so disappointed with the behaviour of their banks that they deliberately built a contrasting corporate culture. While large banks often try to maximize short-term profit per customer through high fees, Wise does the opposite: long-term customer satisfaction through a (1) low-cost, (2) fast, and (3) transparent service. Every business decision is aimed at lowering prices for customers. As early as in 2013, Kristo compared the fees saved with the number of Porsche sports cars that bankers could no longer afford because of it. In 2015, when Wise reached a valuation of over one billion US dollars for the first time, he was asked by CNBC about the significance of this milestone. His response: *"There is a different number that we hold very high and that we are really proud of: We are proud of saving 200 million US dollars in bank fees for our customers."*⁸ Kristo, who today holds 18% of the shares and 49% of the voting rights, receives in alignment with this philosophy only a salary of 200,000 pounds and is foregoing any bonuses or stock allocations.

Another core aspect of Wise's corporate culture is the decentralized organizational structure of over 5,500 employees, which enables high development speed. Wise consists of cross-functional teams that operate autonomously within their areas of responsibility. Goals are aligned with the top management on a quarterly basis, after which teams have full resources and decision-making authority to decide, for example, on new products or market expansions. Wise also sets itself apart in a third way: while banks often hide fees in the fine print, Wise transparently shows transaction fees to its customers and does not apply any markup to the official exchange rate. In a marketing campaign in 2016, Wise employees in London protested almost naked against hidden fees under the slogan "Nothing to hide."⁹ Another remarkable move was the redesign of financial reporting last year.

Due to rising interest rates, Wise generates significant revenue from customer deposits, with 80% intended to be returned to customers in the long run. However, due to regulatory constraints, this is currently only partially possible, leading to a sharp short-term increase in profits from interest income. As a result, Wise has been adjusting its reported earnings since last year to more accurately reflect its operational performance. While companies often use adjustments to make their results appear more favourable, Wise takes the opposite approach: its adjustment lowers the reported profit—a rare example of increasing transparency in financial reporting. However, the corporate culture also presents challenges: the strict focus on costs means that Wise invests little in marketing, even though this could accelerate its growth. Additionally, the high autonomy of the development teams sometimes results in top management decisions not being implemented immediately if teams have different priorities. Nevertheless, in my view, the positive aspects of Wise's corporate culture outweigh the challenges by far.

Another competitive advantage lies in its shareholder structure. Thanks to its early success, Wise was able to select its investors strategically—even turning down an offer from Andreessen Horowitz, as it would have required relocating to Silicon Valley.¹⁰ While publicly traded large banks often face shareholder criticism for lowering prices to improve customer satisfaction, most Wise investors support this strategy. The continuous price reductions create a cycle of market share gains, efficiency improvements, and further

⁸ Starting at 01:05: https://www.youtube.com/watch?v=l_zsFNxRBLk.

⁹ Post with video on the marketing stunt: <https://wise.com/gb/blog/last-week-we-got-naked-in-the-city-of-london-heres-the-video>.

¹⁰ They invested in a later round and accepted to leave the headquarter in Europe.

price cuts, widening the gap between Wise and traditional banks. Additionally, Wise is building another structural competitive advantage through direct integrations into central banking systems.

Solving complex problems leads to sustainable competitive advantages

“Do something that most people think is hard. When you tell someone what you’re starting, their reaction should be, “Are you sure you want to do that? That’s too hard.”...If you try something easy, there will be five other companies doing the same thing two months later.” – David Velez, Founder Nubank

Several companies in the Intrinsic Fund have created sustainable competitive advantages by solving complex problems. Spotify convinced major music labels to allow their content to be offered for free. In 2014 Nubank launched with a credit card as its first product. Wise is painstakingly integrating into global central banking systems. When entering a new market, Wise first opens an account with a local partner bank to hold liquidity for its customers and process payments on their behalf. Over time, Wise acquires local licenses, for example, to enable larger transfers. The company now holds about 65 such licenses worldwide. Once a market reaches a certain volume, Wise seeks direct integration into the local central banking system to further reduce costs and transfer times.

Through these integrations, transaction costs in the UK have been reduced from 0.7% to below 0.1%. The savings are not always as high in other markets, but they bring Wise closer to its goal of making international transfers completely free. Additionally, central bank integrations allow for near-instant processing of many transactions, improving customer satisfaction. A few years ago, Kristo explained how the “NPS 11” concept is designed to create a “wow” effect for customers. The Net Promoter Score (NPS) scale typically goes up to 10 in customer surveys—but Wise asks what it would take to reach an 11. Transaction speed is a key factor, and the six central bank integrations are a major step toward that goal.¹¹ I believe Wise is developing an expertise in that field that very few companies possess. Competitors must decide whether to embark on the same arduous path or opt for a simpler solution. The good news is: this alternative exists—in the form of the Wise Platform product. Through APIs, Wise makes its infrastructure available to other banks as well.

The next step in the growth phase: Opening up Wise's infrastructure

“Everybody understands that we are going to end up becoming an API business at Wise. In a 5 to 10 year period the majority of our customers won’t be using our apps, they will be coming from banks (...) There is a very fun part around how the consumer business and the B2B business work with each other. No bank would ever integrate Wise, would ever use our infrastructure, if our consumer business didn’t exist. Our consumer business sets the expectations in the market of: It’s gonna be cheap, it’s gonna be easy to use. Our consumer business has taken something like 10-20% of some of the major banks in the UK’s volume” – Nilan Peiris, Chief Product Officer Wise

Wise is currently structured into three business segments: personal customers, businesses, and the platform business. While the latter currently accounts for only a single-digit percentage of Wise’s annual

¹¹ There are Integrations with the Central Banks of Australia, Europe, Hungary, Philippines, Singapore and UK– Integrations into the systems of Brazil and Japan are currently works on.

payment volume of £140 billion, it could become the company's key growth driver. It is possible that, in ten years, people will say that Wise's original products were merely the opening act for its platform business. Through these services, Wise has gradually taken the most profitable customers away from banks and, in doing so, built an infrastructure that is difficult to replicate. Since banks typically cannot compete with Wise's pricing due to the inefficiencies of the correspondent banking system—and since international transfers are often not part of their core business—partnering with Wise appears to be the logical response, following the principle: "If you can't beat them, join them."

As previously mentioned, Wise's infrastructure costs are only 0.2%. In a bank partnership, Wise also eliminates its own KYC costs, allowing it to offer banks even better rates than its B2C customers. Even if the bank charges the same fees as Wise's B2C pricing, it still has a profitable margin. And it is allowed to charge higher prices, as long as fees are transparently communicated. Today, over 90 banking partners are already connected to Wise's infrastructure. Initially, fintech companies such as Google Wallet, Monzo, N26, and most recently Nubank adopted Wise's services. However, more and more established banks have now joined, including Indonesia's largest bank, Bank Mandiri, and one of South Korea's largest banks, Shinhan Bank. The pace of new partnerships accelerated further at the end of 2024. First, Standard Chartered became a client, and shortly after, Morgan Stanley followed as a partner. The quality of these banking partners reinforces my conviction that Wise will continue to grow in this segment.

Since 2018, Wise has also been issuing debit cards, with over 11 million cards in circulation—a rapidly growing business segment. Last year, debit cards accounted for £4 billion of Wise's total cross-border payments. They generated £250 million in revenue, which suggests that the total payment volume of debit cards was around £20 billion.¹² This means that Wise customers are using their debit cards surprisingly often for local purchases, creating additional revenue potential. The increasing payment volume also strengthens Wise's resilience against potential risks. One of the biggest challenges comes from stablecoins, which facilitate easy cross-border transactions. However, the conversion costs from fiat currency to stablecoins are still so high that they do not yet represent a serious alternative to Wise's infrastructure. Additionally, governments would have to relinquish control over their currencies, a scenario I consider unlikely in the near future. Kristo already spoke about the potential impact of blockchain on Wise in 2013 and continues to emphasize that Wise will adopt any technology that enables cheaper transfers. Therefore, in the long run, stablecoins could also become part of Wise's infrastructure.

Wise's size also provides a competitive advantage against other companies. Notable competitors include Remitly, Revolut, and Western Union in remittances, Airwallex and Payoneer in business payments, and Currencycloud¹³ and Banking Circle in the platform segment. My conclusion is that no competitor has yet managed to combine Wise's scale, infrastructure, and customer-centric focus. A comparison with Western Union makes this clear: With \$100 billion in payment volume, Western Union is similar in size, but its average take rate was 3.6% in Q3—about six times higher than Wise. Starting from 5% five years ago, Western Union has reduced its fees every year. If it lowered fees by another 20% to 2.8%, the company would become unprofitable—yet still remain five times more expensive than Wise. Despite significantly lower fees, Wise delivers impressive financial metrics and has been profitable since 2017.

The main reason for this: Every product and every currency corridor is priced in a way that ensures Wise achieves a pre-tax profit margin of 13-16%. Even if Wise were to succeed in making international transfers

¹² Depending on the assumption regarding the interchange fee for cross-border and local transactions, as well as the geographical distribution of debit card users.

¹³ Was acquired by Visa in 2021.

free, this margin would still be applied. Currently, the profit margin at the group level is above this target, mainly due to the "problem" of being unable to return interest income to customers. Additionally, Wise barely needs to spend money on acquiring new customers, as 70% of Wise users still come through referrals from existing customers, which explains the low marketing expense ratio of just 3%. If you make international transfers, I can highly recommend Wise. Furthermore, many banks still do not pay interest on business accounts—so Wise might also be an interesting alternative for you on that topic. I am a very satisfied customer myself, and this letter is a great example of how Wise reaches potential new customers without high marketing expenses.

Wise is expected to generate around £1.4 billion in revenue for the full year—approximately £1 billion from the B2C business, £300 million from the B2B segment for small businesses, and a low double-digit million amount from the platform business.¹⁴ The interest income that Wise plans to retain will amount to approximately £150 million. I expect payment volume to continue increasing, though growth may slow somewhat from its current 25% per year. Price reductions should bring the average fee below 0.5%. Revenue from interchange fees on debit cards is already annualizing at £400 million and is currently growing at 40% per year. Deposits are growing at 25%, but interest income will likely grow at a slower rate, as Wise is expected to return a larger share to its customers in the future. The company has about one billion outstanding shares, a share price of approximately £11,¹⁵ and a net cash position of £1 billion. This results in a total enterprise value of £10 billion. I believe it is realistic that Wise could generate over £1 billion in profits within a few years. An exit multiple of 20 seems appropriate for a company of this quality. Including the cash flow generated by then, I expect a double-digit percentage increase in Wise's share price per year on average.

As announced in the summer of 2024, the Intrinsic Fund was transferred from the Investmentaktiengesellschaft für langfristige Investoren TGV in Bonn to Monega KAG mbH in Cologne as the capital management company and to NFS Netfonds AG in Hamburg as the liability umbrella at the end of the 2024 financial year. All key characteristics, including the investment strategy and costs, remain unchanged. Starting today, you will also be able to access this and all previous investor letters directly on my website: www.clcapital.de. The advisors of the different "sub-funds" have decided to collaborate more closely to create synergies, pool expertise, and continue developing together. A key part of this collaboration is our tradition of regular meetings with fund investors and our partners. The Godesburg in Bonn-Bad Godesberg will remain our trusted venue for these events. We are therefore pleased to invite you to our annual investors' meeting on May 24, 2025. As a fund investor, you will receive a personal invitation with further details in the spring.

I wish you a great start to the first half of the year 2025,

Clemens Lotz

¹⁴ The platform business accounts for roughly 5% of the payment volume, with a lower price point than the B2C and B2B segments.

¹⁵ The Intrinsic Fund's average entry price is £6.8.

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