

# **Investmentaktiengesellschaft für langfristige Investoren TGV**

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Dear Investors

We are enclosing the shareholder letter for our Teilgesellschaftsvermögen “Compound Interest” for the first half of 2021 written by our sub-advisor LMN Capital GmbH.

Yours sincerely

Investmentaktiengesellschaft für langfristige Investoren TGV

**Vorstand: Jens Große-Allermann, Waldemar Lokotsch**  
**Aufsichtsrat: Dr. Maximilian Zimmerer (Vors.), Wolfgang Fritz Driese (stv. Vors.), Alexander Pichler (stv. Vors.)**  
**Eingetragen im Handelsregister Bonn HRB 16143**  
**Investmentvermögen mit veränderlichem Gesellschaftskapital**

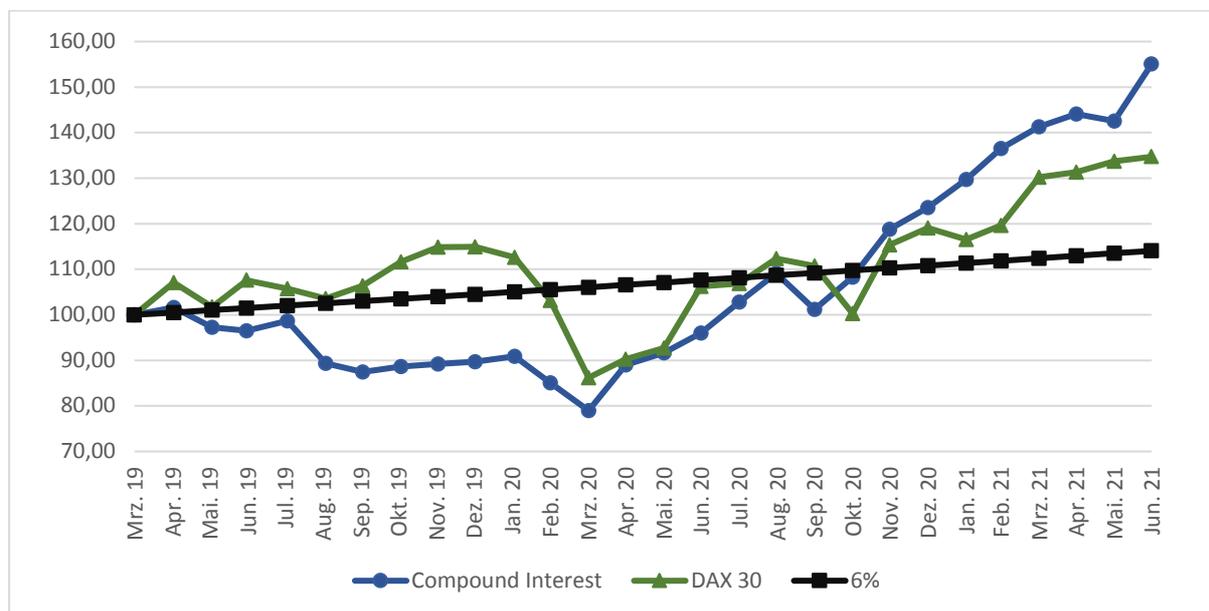
## Sub-Fund Compound Interest

### Semi-annual report 2021 of the sub-advisor LMN Capital GmbH

Dear fellow investors/compounders,

I am very pleased to provide you with the investor letter (TGV) Compound Interest as of June 30, 2021.

#### Overview of the development of the portfolio



The value of a fund unit was EUR 155.05 on the reporting date. This corresponds to a return of 25.5% since the beginning of the year.

Since the fund was launched, the annualized return of the TGV after all costs has been 21.4% per year. This annualized return is not yet meaningful due to the short period since the fund was launched. Nevertheless, it is important for me to mention it in every letter because over a period of at least five years, it is the most important parameter for assessing the investment success of the TGV.

As you can see from the previous chart, the portfolio outperformed the market. An investment in the TGV at the inception of the fund developed 15.1% better after all costs than one in the DAX.

As expected, the price development of the TGV is completely different and more volatile than the DAX or most other indices because the portfolio companies of the TGV and the companies in the DAX differ significantly. Fluctuations/volatility in a company's share price are not factors in the analysis of companies or investment recommendations for the TGV.

#### **Portfolio overview as of June 30, 2021**

Assets in the TGV/Net Asset Value	13.649.171,45 Euro
Cash in % of assets	-3,4 % <sup>1</sup>
Number of companies	9

The positions in the TGV as of June 30, 2021, are in alphabetical order:

- Alphabet
- EQS Group
- Femsa
- Interactive Brokers
- Intred
- Mediqon
- Mercadolibre
- Naked Wines
- Tucows

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<sup>1</sup> The negative cash balance occurred only on the day of June 30<sup>th</sup> because shares from a capital increase were entered in the books on that day. On 1<sup>st</sup> July there were more than enough inflows to have a positive cash balance again. This occurred for the first time since the fund was launched.

## **amaysim**

In February 2021, the roller coaster ride amaysim, which I had been on since 2016, came to an end. For me, this end comes with mixed feelings. Before I get to the reasons why, allow me to give you a quick overview of amaysim:

amaysim was the largest MVNO in Australia. MVNO stands for Mobile Virtual Network Operator. This means that the company offered mobile services without owning their own cellular network or their own frequencies. A similar company in Germany is Freenet. amaysim used the network of the second largest Australian MNO, Optus, and you guessed it: MNO stands for Mobile Network Operator, i.e. the operator of a physical cellular network.

At first glance, not a particularly interesting business model, as an MVNO is almost always dependent on its MNO. However, this dependency becomes smaller as the size of an MVNO increases relative to the MNO. In other words, if the MVNO accounts for a significant share of the MNO's sales, the MNO also becomes dependent on the MVNO. The reason for this is that after the capital-intensive expansion of a network, an MNO only has very little additional costs to bring more volume, mostly data, onto its own network. Accordingly, the sales of an MVNO for an MNO are very high incremental margin income without incremental capital investment, something almost every owner is very happy to see. Of course, an MVNO creates additional competition in the market, which is why MVNOs are usually not seen with the market-leading MNO, but with number 2 or 3, as is the case with amaysim and its partner Optus.

An MVNO regularly has a cost advantage compared to the mostly long-established MNOs. In the case of amaysim, I figured out that the costs per customer per month for the MNOs were with reasonable certainty at least five times greater than those of amaysim. amaysim was able to pass this cost advantage on to its customers.

Thanks to these advantages and a well-coordinated team and a new marketing concept, amaysim has grown to over 1 million customers since it was founded in 2010. This corresponds to approximately 4% of the Australian population or 30% of the market share of the MVNOs in Australia. amaysim thus became the largest MVNO in Australia.

This size was used to negotiate better conditions with Optus. These better conditions, in turn, were passed on to the customers to continue growing.

At second glance, the business model is therefore acceptable. Usually, assessing a business model as “acceptable” is not sufficient for an investment recommendation. Why did I still recommend investing in the company?

1. The initial assessment of the team and the culture was very positive.
2. The price was very attractive, especially ...
3. ... because there was a catalyst to bridge the gap between value and price.

That catalyst was that the contract with Optus was up for renegotiation in 2022. During the last contract negotiation in 2014, amaysim had less than half the users it had in 2019. The amaysim management team wanted to use its increased relevance to Optus as leverage to either drastically improve the terms with Optus or another MNO or get a purchase offer for the entire company or its customer base.

This was the status in 2019 when I recommended the investment for the TGV. A lot has happened since then: Countless phone calls at least once a week, several meetings with the team in Europe, Australia, and the USA, new members of the supervisory board, various offers for possible mergers with other companies, or takeovers, sometimes for parts of the company. So there were many ways the company could have developed. However, only one of these possibilities can ever become a reality, and it is that amaysim sold part of its business to AGL Energy in 2020 for a very satisfactory price and the rest of the business to Optus in 2021.

The investors in the TGV earned 11.4% in roughly a year and a half – significantly less than on the rest of the TGV’s portfolio, but significantly better than it could have been.

In 2020, there were many rumours in the Australian press that amaysim was going to be sold. Of course, the team at the Investmentaktiengesellschaft worked together to get the

best possible for the investors in the TGVs. Unfortunately, our efforts were not as successful as they could have been because Optus, the amaysim's MNO, played their cards very well. As one would say in my home country: „Hätte, hätte, Fahrradkette.“ – which roughly translates to “Shoulda, coulda, woulda.”

So why was the outcome accompanied by mixed feelings?

The sad ones:

1. Because there was a very real chance of selling the company at a significantly higher price.
2. Because amaysim generated less annualized performance relative to the rest of the portfolio. This view becomes even more sobering when I look at the realized performance of amaysim per unit of lifetime invested.

The good ones:

1. Because after the sale of amaysim, the average quality of the business models in the portfolio has increased significantly.
2. Because I had allocated a disproportionately large amount of time to the amaysim position, this time is now free and can be allocated to existing positions and new ideas.
3. Because the TGV lost no money instead earned 11.4% and I learned a lot from this investment.

Over the long time that I have monitored the investment, first as an investment professional at the Investmentaktiengesellschaft and finally as a sub-advisor of the TGV, I made mistakes and learned from them. Here are the main ones:

1. Over time, the Investmentaktiengesellschaft has become amaysim's largest investor, holding over 19% of the company's shares. On the one hand, this means that you cannot sell without a significant influence on the price, and on the other hand, you have to exercise your ownership rights. We should have started to exercise these rights earlier. Furthermore, it is complex to exercise these rights over such a long distance. The time difference between Sydney and Munich is 8 hours, and you fly at least 24 hours to get there. In addition to this geographical distance and time difference, there is a distance through culture, language, and network.

2. In 2018, the major wireless operators in Australia started a price war. Optus even indirectly through amaysim. This price war was by no means rational, but the result was pretty clear, even back then: Less margin for amaysim. I underestimated how long this price war would last, as it is still going on. To quote John Maynard Keynes: “The [...] market can remain irrational longer than you can remain solvent.” The context was different for him, but at some point, the essence of the quote would also have applied to amaysim. In 2017, amaysim bought click energy. While the acquisition ensured that amaysim remained solvent in the cell phone price war, the business also brought many risks with it, some of which materialized.
3. The hypothesis that amaysim could monetize its customer base much better, depended on a few key players; however, they did not behave as it would have been obviously rational.
4. Initially, I assumed that management had the same goal as all amaysim shareholders. Unfortunately, some of the management had a different goal or took a different path by leaving or selling shares.

My own list is a lot longer because it goes into many details, some of them technical, but these are the four most important reasons.

The acceptable result of this long-term process and the many opportunities to learn can be attributed to many parties. A big thank you goes to

- Jens Große-Allermann, Norman Rentrop and the rest of the team for always calm and level-headed support
- the amaysim team
- and many others for contacts, commitment, ideas, and questions.

Besides amaysim, there were a few other portfolio changes:

- Rolls Royce was sold completely in 2021. The company no longer has an owner, and the culture is worse than expected. At the same time, due to the corona pandemic, the company is facing a long restructuring process.
- Pulse Seismic was sold completely in 2021. The investment paid off very well. The risk-reward ratio had changed accordingly. At the same time, the oil and gas industry is becoming less and less interesting.

- EQS Group AG (EQS) became part of the portfolio at the end of 2020. The company is a SaaS company that is the market leader in its segments and maintains very long customer relationships. The company's software range is made available exclusively as diverse cloud products. EQS is led by an excellent team around the founder, major shareholder, and CEO Achim Weick. Many of the company's employees are also shareholders. I have been monitoring EQS since 2014 and have been on the company's supervisory board since 2018. The company made three acquisitions in the past seven months, which significantly enhance its products offering.
- Intred became part of the portfolio in 2021, and I have been monitoring the company since it went public in 2018. The company invests in fibre optics in Northern Italy with high returns on equity, no debt, and with founder Daniele Peli as CEO and largest shareholder. I already presented Intred to you at the investors' day of the Investmentaktiengesellschaft. At the end of June 2021, I got the chance to visit Intred for the first time on-site since the beginning of the corona pandemic. This visit further confirmed my assessment.
- Femsa is also new to the portfolio. The company is a long-term investor in distribution businesses in Latin America. Among other things, the company is the owner of Oxxo, the largest convenience store chain in Latin America, the largest shareholder in the largest Coca-Cola bottler in the world, a major shareholder in Heineken, the owner of large pharmacy chains in Latin America and other businesses. Femsa is still controlled by the founding family. Cascade, an investment vehicle owned by Bill Gates, is the largest outside shareholder. The head of this vehicle, Michael Larson, and a partner from Charlie Munger's law firm are on Femsa's board of directors. The company is managed decentrally. The incentive system for its employees from top to bottom is based on the economic value added concept.

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*“Time is the enemy of the poor business and the friend of the great business. If you have a business that’s earning 20%-25% on equity, time is your friend. But time is your enemy if your money is in a low return business.”*

Warren Buffet

I largely try to avoid quotes from Warren Buffet, as his beautiful words of wisdom are sadly overused. However, the above quote goes very well with the acquisitions in the portfolio: They generate high returns on equity and have the potential to do so for a long time to come. So time is beneficial for the owners of these businesses like the investors in the TGV. Overall, time was beneficial for the portfolio of the TGV, even before the changes, but now even more.

In late summer, I will spend a month in Nairobi, Kenya, to understand the local market and broaden my horizon. If you know someone I should meet there, feel free to introduce us.

As always, if you would like to send me your comments, ideas and criticism, please send me an email ([laurenz@lmncapital.de](mailto:laurenz@lmncapital.de)). I am happy to take every opportunity to learn!

Thank you for your trust, and I look forward to the continued partnership as an investor/compounder in the TGV compound interest.

Stay healthy!

Laurenz Nienaber

## Addendum

### Explanation of the graphic on page 1

The graphic on page 1 compares the development of 100 euros invested in the TGV at the closing prices on March 29, 2019, with the development of corresponding investment in the DAX and a secure, annual interest rate of 6%. Why did I choose these two benchmarks for comparison? Most of the investors in the TGV today are from Germany, and it is very likely that they will also come from there in the future. The German share index DAX is the simplest and most obvious investment alternative for most of these investors. The second benchmark is a safe investment with an interest rate of 6% p.a. This represents the limit above which a performance fee is incurred in the TGV.

### Tabular comparison on an annual basis of TGV, DAX, and Hurdle rate

	TGV Com- pound Interest	DAX	6 % p.a. fixed interest	$\Delta$ Dax	$\Delta$ 6%
2019 (9 months)	-10.30%	14.90%	4.50%	-25.20%	14.80%
2020	37.70%	3.50%	6.00%	34.20%	31.70%
2021 (6 months)	25.50%	13.20%	3.00%	12.30%	22.50%
In total	55.10%	34.70%	14.10%	20.30%	41.00%
<b>Compound inter- est</b>	<b>21.40%</b>	<b>14.10%</b>	<b>6.00%</b>	<b>7.30%</b>	<b>15.40%</b>