Dear Investors

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

Yours sincerely

Investmentaktiengesellschaft für langfristige Investoren TGV
Dear fellow investors,

The performance of the TGV Intrinsic in the first six months of 2021 after all fees was + 10.2%. As a result, the NAV as of June 30, 2021, was € 150.67. The DAX achieved a return of + 13.2% in the first half of 2021. Since its launch on March 29, 2019, the TGV Intrinsic has achieved an annualised performance after all fees of + 19.9%. During the same period, the DAX rose by an average of + 14.1% per year. The annual return becomes important after a period of five years at the earliest.

The half-year report 2021 of the TGV Intrinsic first provides an overview of the portfolio structure and performance. Then I would like to use the example of Brad Gilbert, one of the most successful tennis players of the 80s and 90s, to point out several similarities between tennis and investing and explain why a good result in the present is not necessarily an indicator of good results in the future. Finally, I will present two new investments the TGV Intrinsic has made – Frontier Digital Ventures (FDV) and VEF – and explain the conditions under which an investment in a publicly listed investment vehicle makes sense for the TGV Intrinsic.

Portfolio structure and performance overview as of June 30, 2021

<table>
<thead>
<tr>
<th>Portfolio structure</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>NAV per share as of June 30, 2021</td>
<td>150.67€</td>
</tr>
<tr>
<td>Number of investments</td>
<td>11</td>
</tr>
<tr>
<td>Weighting largest investment</td>
<td>15.0%</td>
</tr>
<tr>
<td>Weighting five largest investments</td>
<td>61.8%</td>
</tr>
<tr>
<td>Weighting cash</td>
<td>-0.83%¹</td>
</tr>
</tbody>
</table>

Alphabetical listing of the five largest investments of the TGV Intrinsic

Fomento Económico Mexicano (FEMSA)
Frontier Digital Ventures
MercadoLibre
Microsoft
VEF

¹ TGV Intrinsic has a positive cash balance. the negative balance results from cost deferrals.
### Performance overview

<table>
<thead>
<tr>
<th>Period</th>
<th>TGV Intrinsic (1)</th>
<th>Dax (2)</th>
<th>Delta(^2) (1)-(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019 (9 months)</td>
<td>9.2%</td>
<td>15.0%</td>
<td>-5.8%</td>
</tr>
<tr>
<td>2020</td>
<td>25.2%</td>
<td>3.6%</td>
<td>21.7%</td>
</tr>
<tr>
<td>2021 (6 months)</td>
<td>10.2%</td>
<td>13.2%</td>
<td>-3.0%</td>
</tr>
<tr>
<td>Since inception</td>
<td>50.7%</td>
<td>34.8%</td>
<td>15.9%</td>
</tr>
<tr>
<td>Since inception p.a.</td>
<td>19.9%</td>
<td>14.1%</td>
<td>5.8%</td>
</tr>
</tbody>
</table>

There have been two changes within the five largest portfolio positions. On the one hand, the Dutch navigation specialist TomTom is no longer part of the top five positions. Since the share price of TomTom has developed worse than the overall portfolio, the company’s weighting within the portfolio of the TGV Intrinsic has dropped without the TGV actively selling shares. Due to the COVID-19 pandemic, the investment thesis has shifted somewhat into the future and is subject to greater uncertainty. In my opinion, the company’s existing core business is still significantly undervalued, which is why I did not give a sell recommendation for the current position.

The second change concerns the American railway supplier Westinghouse Air Brake Technologies (Wabtec). Wabtec took over the railway division from General Electric (GE) in 2019. As part of this, Rafael Santana – who had come over from GE – became the new CEO of Wabtec. The previous CEO, Ray Betler\(^3\), is one of the best corporate leaders I know, and I particularly appreciated the decentralised corporate culture he embodied. The operating figures have developed nicely since 2019 under Rafael Santana. However, from conversations with current and former employees of Wabtec, it is becoming increasingly clear to me that the GE culture, which is designed to achieve short-term corporate goals, is establishing itself within the company. This culture is not necessarily bad – but it is a culture that does not fit the long-term orientation of the TGV Intrinsic.

Accordingly, I recommended the sale of all Wabtec shares despite the decent operational development. Wabtec is a good example of a distinction between “process” and “result”. In the long run, the right process typically leads to a good result and the wrong process to a bad one. In the short term, however, even a wrong process can lead to a good result. Considered by itself, Wabtec’s financial development since 2019 (result) is not sufficient to make an investment recommendation for the future. Changes in the corporate culture (process) often only become noticeable in the financial figures after several years and are therefore a more meaningful indicator of the long-term operational development than the short-term historical business.

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\(^2\) Rounding differences are possible

\(^3\) Good video about Ray Betler’s career, which says a lot about his leadership style: [https://www.youtube.com/watch?v=xJz0vEtBF4&t=1s](https://www.youtube.com/watch?v=xJz0vEtBF4&t=1s)
development. Accordingly, my discussions with current and former Wabtec employees about changes in the corporate culture are the crucial reason for the sell recommendation, as I assume that the GE culture will lead to worse operating results in the long term.

The distinction between process and result also plays a significant role in many other areas outside of investing. For example, good tennis players concentrate on analysing and improving their own game rather than just optimising short-term results. Promising young players are brought together with players from older age groups to get used to a higher level immediately (process) – even if this means that they win fewer titles as juniors as a result (result). A good example of the focus on the right process is Brad Gilbert, one of the most successful tennis players of the 80s and 90s.

**A good result in the present is not an indicator of good results in the future – but a good process is**

> "I don’t think about the numbers, I just think about the journey, the process of getting better (...) But if you put some undue number and time frame on something, it’s going to make you more conscious of it and then that’s going to become the focus." – Brad Gilbert

During his active career, Brad Gilbert was one of the most unpopular tennis players due to his unattractive playing style. Gilbert analysed his own strengths and weaknesses early on and based his training program on the results of this analysis (process). His analysis made it clear that his talent was weaker than that of many other players in the world elite. On the other hand, he realised that his preparation for tennis matches and his behaviour on the court were often superior to that of other players (process). This awareness and the focus on his strengths made Gilbert one of the top five players in the world for quite some time (result). Gilbert’s quote also applies to companies: If companies place too much emphasis on achieving short-term financial results, their focus on improving and developing their products (process) will suffer. And that is exactly what, in turn, has negative long-term effects on the attainability of financial results. In other words: A company’s profit should never be the goal; it is the result of a good process.

For the TGV Intrinsic company analysis is the process and long-term fund performance is the result. As an important part of my analysing process, all long-term positions of the TGV Intrinsic must meet four basic criteria for a purchase recommendation. They are led by (1) intrinsically motivated entrepreneurs who (2) build a business model in structurally growing markets that (3) should have a stronger market position in 10 years than it does today, and (4) in which a stake at today’s price promises attractive long-term returns. I believe these fundamental criteria are an important filter for achieving successful fund performance over time. In his book, the tennis tactic classic “Winning Ugly”, Brad Gilbert describes how he keeps bringing himself into positions on the tennis court from which he can play strokes that suit his strengths. I try to achieve the same using the four fundamental criteria when investing: Even if some companies within the portfolio of the TGV Intrinsic appear very different at first glance, figuratively speaking, I am always looking for similar positions of strength on my “playing field” (the global investment universe) to select companies as Brad Gilbert used to do on the tennis court in the old days. This also applies to two new positions at the TGV – the publicly listed investment vehicles Frontier Digital Ventures and VEF.

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4 Quote from Brad Gilbert’s talk at “Talks at Google”: [https://www.youtube.com/watch?v=iHrsn-u6mM&te=465s](https://www.youtube.com/watch?v=iHrsn-u6mM&te=465s)
Frontier Digital Ventures invests in market-leading classifieds sites\textsuperscript{5} in less developed countries around the world.\textsuperscript{6} FDV was founded in 2014 by Shaun di Gregorio, who has spent almost his entire career in the field of classifieds sites, very successfully participated in establishing the Australian REA Group, and today still holds 11\% of the shares in FDV. Market-leading classifieds sites in less developed markets benefit from a variety of structural growth trends. Internet usage is often even still in these markets, fewer transactions are conducted on the Internet, and a large part of the advertising budgets is still offline. Because market-leading classifieds sites attract the greatest number of users, most offers are also advertised there, and vice versa. The large base of sellers and buyers can then be used to offer additional services and expand the market position as a market leader. The platforms FDV has invested in are still in the early stages of monetising their customers and should therefore be able to increase their sales significantly for many years to come. FDV's largest holding is Zameen.com, Pakistan's version of ImmobilienScout24, in which FDV holds 30\%. If the valuation multiple of the last financing round is applied to the 2021 sales for Zameen.com, Zameen.com represents almost half of the total company value of FDV. The remaining investments are valued at around six times their sales and are cheap in relation to their future sales and profit potential.

VEF invests its capital in financial technology companies in less developed markets, focusing on digital lending, payment processors, and other financial service providers. The company emerged in 2016 from a spin-off from VNV Global and has two “initiators”: One is Per Briltoth, who has been investing in non-listed technology companies through VNV Global since 2000 with an excellent track record. The other is Dave Nangle, who, before joining VEF, spent 15 years in research on financial technology companies and has an impressive network of entrepreneurs and investors. Together with the rest of the board, they now hold just under 18\% of the shares in VEF. The portfolio of financial technology companies benefits from various structural growth trends, particularly the financial inclusion of new segments of the population through the digitisation of financial transactions. The two largest holdings are the Brazilian company Creditas (42\% of the NAV) and Mexico's equivalent to “Square”, Konfo (19\% of the NAV). Creditas issues secured loans in Brazil on favourable terms, increases its revenues by 100\% per year, and achieves contribution margins of 50-60\%. The hurdle rate for VEF for an investment in a company is 25-30\% expected increase in value per year. After the holding's costs, which are currently below 2\%, VEF's NAV would increase by around 25\% per year. The TGV Intrinsic has built its position at prices around 5\% below today's NAV of 4.12 Swedish kroner. I am convinced that the TGV's investment will generate annual interest in the double-digit range in the future.

Both companies meet my four criteria for a purchase recommendation. Particularly in the case of younger companies such as FDV and VEF, focusing on these fundamental criteria and not on the historical results plays an important role. The information available to the public is often limited, and good results from the past are not very meaningful for the future due to the short history. There is also a nice analogy with this point in Brad Gilbert's book:

"The average player tends to go into most matches thinking the wrong way. (...) They think past results dictate future results. That kind of thinking will get you beat because it leads you to the wrong conclusions." – Brad Gilbert

\textsuperscript{5} Well-known advertising portals in Germany are, for example, ImmobilienScout24 or eBay Kleinanzeigen.

\textsuperscript{6} Sales breakdown by region: 42\% Developing Asia, 40\% Latin America, 18\% Middle East and North Africa.
Both FDV and VEF achieved historically positive results. Frontier Digital Ventures has multiplied its sales since going public in 2016, and VEF has increased NAV per share by 26% per year. However, these results do not hold much forecasting power for future developments. Rather, it will be crucial whether the analysing process of the two investment companies will also lead to good investments in the future and whether the current investments will be well supported operationally. In my research, I have become convinced that this is the case. Most recently, a trip to Pakistan to see two investments each by FDV and VEF reinforced this assessment, which I will go into in more detail in the next section. Critical readers might now ask why I recommend other investment vehicles, even though it is my own job to find interesting companies in my opinion, an investment in another investment vehicle makes sense if the investors in the TGV Intrinsic gain access to companies the TGV Intrinsic would otherwise not have. This is the case for Frontier Digital Ventures and VEF.

What makes publicly listed investment vehicles interesting for the TGV Intrinsic?

My core task as a sub-advisor is to make recommendations so that the portfolio of the TGV develops as profitably as possible in the long term. There are three considerations as to how it can make sense for the TGV Intrinsic to recommend other investment vehicles such as FDV or VEF for purchase:

a) Access to a geography that is otherwise not easily accessible to me.
b) Access to an asset class that I can hardly invest in in any other way.
c) Access to a network of entrepreneurs that is otherwise inaccessible to me, that has proprietary knowledge or generates an interesting deal flow.

In my investment recommendations, I look for the best opportunities around the world. More distant geographies are by no means a central focus of my investment style, but previous investment letters have already made it clear that I regularly visit companies in more distant countries myself. Hence, a certain amount of access is definitely possible, and a purely geographical added value through an investment vehicle is, therefore, rather rare for me.

For example, I recently travelled to Pakistan to visit a number of companies. Shaun di Gregorio (CEO of FDV) and Dave Nangle and Henrik Stenlund (CEO and CFO of VEF) had previously established contacts to their respective investments in Pakistan. FDV is invested in Pakistan’s largest real estate and car classifieds sites (Zameen.com and Pakwheels). VEF, on the other hand, has a stake in Finja (loans to small businesses) and Abhi Finance (salary advances). The business models of the four Pakistani companies are representative of a large part of the investments that FDV and VEF make, which is why I will briefly present them in the next section. Pakistan is one of the most interesting markets for technology companies in general and financial technology companies in particular. The country has the world’s fifth-largest population with 225 million people and about 130 million mobile internet users. However, only around 20% of the adult population have a bank account, and only 2% of them have access to regulated credit offers. At the same time, only 7% of small and medium-sized businesses have access to regulated bank loans.

Zameen.com was founded in 2006 by the three brothers Zeeshan, Imran and Haider Khan. The company has established itself as the clear market leader for real estate transactions in Pakistan. The platform has 5.5 million monthly users, and Pakistani brokers estimate that 70% of all sales and rental transactions in Pakistan are initiated through Zameen.com. Zameen.com now generates only 20% of sales from the classic
classifieds business. The remaining sales are generated through transaction-based revenues when Zameen.com brokers residential units between project developers and buyers. Zameen.com often acts as the exclusive broker for these residential units, as there are no other partners with comparable knowledge of the Pakistani real estate market and potential buyers there. FDV acquired a 30% stake in the company in 2014 when Zameen.com was valued at 4 million US dollars. In the most recent assessment at the end of 2020, Zameen.com was valued at 400 million US dollars – a hundred-fold increase in the company’s value since 2014.

Pakwheels was originally founded in 2003 as a forum for automobile fans. The company is now by far the largest portal for buying and selling cars and motorcycles. The portal is so important that automobile manufacturers have already changed their models in the past if there was negative feedback from the Pakwheels Forum. There are few professional car dealers in Pakistan, and Pakwheels has a good chance of becoming the country’s leading car dealer in the years to come. Raza Saeed and Suneel Sarfaraz Munj have been running the company since 2008, when they acquired a majority stake. FDV invested US $ 3.5 million in Pakwheels in 2014, which was the largest known startup investment in Pakistan at that time and also the last financing round for the time being. However, that could change soon if Pakwheels decided to become an automobile dealer and needed additional capital to do so. Zameen.com and Pakwheels have already achieved what classifieds sites in developed countries have been trying for a long time: to build a transaction-based business model and internalise a larger part of the value chain – in contrast to a purely advertising-financed classifieds site.

Finja (short for Financial Ninjas) was founded in 2016 by Qasif Shahid, Monis Rahman, and Umer Munawar. The company operates a platform through which it grants loans to so-called karyanas (mini supermarkets). So far, a good 8,000 of the more than 1 million existing karyanas in Pakistan have been gained as customers, and the ordering process for delivering goods from distributors to karyanas has been digitised at the same time. Since all orders of goods are now processed through the Finja platform, the distributors avoid the former time-consuming on-site ordering process with pen and paper, and Finja gains important information on the creditworthiness of the individual shops and distributors at the same time. The three founders have implemented a fascinating culture in the company that encourages cooperative, entrepreneurial thinking. There are hardly any hierarchies or job titles, and many teams are supplemented by young interns to constantly question the status quo. Through the analysis of FEMSRA, I appreciate the importance of mini-supermarkets in less developed markets and the multitude of financing options that can arise from partnerships with them. I look forward with excitement to observing the future operational development of Finja.

Abhi Financial, of which VEF owns a 15% share, awards salary advances to employees of partner companies on favourable terms. A large number of people in Pakistan, but also in many other less developed countries, are unable to get by on last month’s salary. The result is that they often have to take advantage of overdrafts or short-term loans that charge interest rates in excess of 100% per year. With Abhi’s salary advance, they can greatly reduce these costs and get more sustainable funding. Abhi is a very young company and is currently part of the Y Combinator program from which, for example, Airbnb emerged. For the NAV of VEF, Abhi still plays a subordinate role today. I hope that by using these four examples, I was able to illustrate the added value of FDV and VEF for the TGV Intrinsic: access to an asset class that I can hardly invest in in any other way.
Through FDV and VEF, the TGV Intrinsic participates in value developments in early company phases.

The trip to Pakistan showed me once again how much FDV and VEF correspond to my investment philosophy. All four Pakistani companies are run by impressive, intrinsically motivated entrepreneurs and serve a structural growth market. I would be a happy investor in each of the individual companies, even without FDV or VEF. Both companies invest long-term capital in young, unlisted companies. The TGV Intrinsic, on the other hand, is focused on listed companies and has neither the resources nor the network to even become aware of interesting companies at such early stages or to conduct private transactions. In these transactions, however, more and more entrepreneurial value is created, mainly due to faster growth and later IPOs than in the past.

In recent years, two trends have been identified among young, successful companies: firstly, this type of company often grows much faster than before, and secondly, they only go public at a later point in their life cycle. Faster growth is possible because companies with digital products have hardly any incremental costs for each additional unit sold and, thanks to the Internet, can address large customer segments more quickly than traditional industrial companies. For example, it took IBM 79 years to reach 1 billion US dollars in sales. Microsoft took only 15 years to generate the first billion US dollars in sales. Spotify had already reached 1 billion in sales after eight years in business, and Alphabet achieved this goal after only five years.

And finally, successful companies only go public at a later date (measured by the company’s value). One of the reasons is that the opportunities for private financing have increased in recent years, even for large companies. Therefore, particularly promising companies are no longer dependent on financing via the stock market. In addition, when a company is publicly listed, the regulatory requirements for companies increase dramatically, which means that the expenses for lawyers and compliance departments required represent a major financial burden. The short-term orientation of many investors on the stock market has also resulted in many negative factors for young companies. Sharp fluctuations in the share price lead to uncertainty among employees, and spreading rumours from short-sellers can also lead to a negative atmosphere in companies. That is why an increasingly important part of business value creation takes place before an IPO. Even if those later IPOs continue to create promising investment opportunities, I believe that with a position in the right investment vehicle, the TGV Intrinsic can also participate in the created value before an IPO.

**Bottom line**

Frontier Digital Ventures and VEF are two relatively young companies that attach great importance to the right process for selecting investments and supporting these companies into the next phase of growth. Brad Gilbert’s career shows what results can be achieved over the long term, focusing on the process rather than on short-term results. Although he was already very successful as one of the top five tennis players worldwide, he only made his real breakthrough later as a coach. While Gilbert was still playing himself, he began to train Andre Agassi. With Gilbert as a coach, Agassi won six of his eight Grand Slam titles, his Olympic gold medal, and was number one in the world rankings several times. Then Brad Gilbert trained the American Andy Roddick. Under Gilbert, Roddick won his only Grand Slam, three of his five Master Series titles, and was also number one in the world rankings in 2003. I am convinced that the greatest successes of FDV and VEF, despite the already good results, also still lie in the future.
Finally, I would like to thank you for your great participation in the investors’ meeting in May, which again was held digitally this year. The entire team at Investmentaktiengesellschaft für langfristige Investoren TGV, and I hope that the event was informative for you. Should you have any questions, please feel free to contact me at clemens.lotz@clcapital.de.

I wish you all a successful second half of 2021 and please stay healthy.

Clemens Lotz