Dear Investors

We are enclosing the shareholder letter for our Teilgesellschaftsvermögen “Partners Fund” for the year 2022 written by our sub-advisor MSA Capital GmbH.

Yours sincerely

Investmentaktiengesellschaft für langfristige Investoren TGV
Dear investors,

The share price of the Teilgesellschaftsvermögen (TGV) Partners Fund was EUR 176.88 as of December 30, 2022. The change in value for 2022, including all costs, was −33.35%. In the same period, the DAX performance was −12.35%.

<table>
<thead>
<tr>
<th>Year</th>
<th>TGV Partners Fund (1)</th>
<th>DAX (2)</th>
<th>Difference Δ (1-2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015 (9 months)</td>
<td>+ 1.48 %</td>
<td>−10.22 %</td>
<td>+ 11.70 %</td>
</tr>
<tr>
<td>2016</td>
<td>+ 16.27 %</td>
<td>+ 6.87 %</td>
<td>+ 9.40 %</td>
</tr>
<tr>
<td>2017</td>
<td>+ 20.24 %</td>
<td>+ 12.51 %</td>
<td>+ 7.73 %</td>
</tr>
<tr>
<td>2018</td>
<td>+ 0.76 %</td>
<td>−18.26 %</td>
<td>+ 19.02 %</td>
</tr>
<tr>
<td>2019</td>
<td>+ 3.67 %</td>
<td>+ 25.48 %</td>
<td>− 21.81 %</td>
</tr>
<tr>
<td>2020</td>
<td>+ 30.47 %</td>
<td>+ 3.54 %</td>
<td>+ 26.93 %</td>
</tr>
<tr>
<td>2021</td>
<td>+ 38.21 %</td>
<td>+ 15.79 %</td>
<td>+ 22.42 %</td>
</tr>
<tr>
<td>2022</td>
<td>− 33.35 %</td>
<td>− 12.35 %</td>
<td>− 21.00 %</td>
</tr>
</tbody>
</table>

per annum | + 7.73 %               | +1.97 % | + 5.76 %         |

| total     | + 78.11 %              | +16.36 % | + 61.75 %         |

After two exceptionally good years in 2020 and 2021, 2022 was an *annus horribilis*, a terrible year, for the TGV Partners Fund. In a year in which even once many stocks considered to be particularly stable suffered significant declines (*Facebook* −64%, *Amazon* −50%, *Alphabet* −39%, *Microsoft* −29%, *Apple* −27%), heavy losses were the norm, especially in the second tier and among smaller companies. In the TGV Partners Fund, the high concentration on few companies and the poor performance of individual shares strongly impacted the overall result.

Numerous companies in the TGV Partners Fund had to take extreme hits this year: *Naked Wines* −80%, *System1* −65%, *Tucows* −60%, *Just Eat Takeaway* −58%, *Gruppo MutuiOnline* −41%. Almost all of the companies in the portfolio faced strong headwinds in various ways, as well as some operational or communication missteps. But the important news is: In my opinion, none of the companies in the TGV has suffered permanent or irreparable damage. On this, I will elaborate in the report on the operating results and the outlook for the individual companies.

Just as I have referred to individual years of outperformance as meaningless in the past, I consider this phase of severe underperformance meaningless as well. Such painful phases cannot be prevented with the chosen strategy of long-term investments in individual companies via stocks. From time to time, periods of sometimes severe price losses are part of “being invested in good companies over the long run”, and they will continue to occur in the future. I recommend the portfolio composition exclusively with the perspective of a multi-year investment; This is also how I am measuring my success.
I am optimistic about the future of the TGV Partners Fund: Of course, like almost all companies, the companies in the portfolio are currently struggling with high inflation, supply shortages, consumer restraint and sharply rising interest rates. But numerous of our companies are using the current crisis to invest vigorously and proactively. This is positive and usually comes from a position of strength. Good companies will emerge stronger from crises. A fact that will be reflected in stock prices over time.

At the same time, in my opinion, we are currently experiencing an favourable valuation of the portfolio, but also in parts of the overall market. Even if some of the major indices, such as the MSCI World, the S&P500, or the DAX, on the face of it, only lost relatively little in 2022: only after the new market bubble burst in 2002/2003 and during the financial crisis in 2008/2009, did I see such numerous and significant losses in a large different number of stocks as I do today.

It is likely that the sea will remain rough for a while. It cannot be ruled out that prices will continue to fall even further. But I have a hard time imagining valuation levels for many of these stocks staying as low as they are today. Especially when investments made by the companies come to fruition and they continue to achieve the same good operative results and growth as before.

The companies in the TGV Partners Fund

Of the thirteen companies in which the TGV was invested as of December 30, 2022, I am listing the ten largest positions in alphabetical order:

- Associated British Foods
- Ferguson
- Intred
- Lanxess
- Naked Wines
- DCC
- Gruppo MutuiOnline
- Just Eat Takeaway.com
- MEDIQON Group
- Tucows

These ten companies represent around 90% of the fund’s assets. The largest company the TGV has a stake in currently has a market capitalisation of around EUR 30 billion, and the smallest around EUR 10 million. Four out of five of the largest positions (MEDIQON Group, Ferguson, Gruppo MutuiOnline, Tucows, Naked Wines) have been an integral part of the TGV for more than five years.

The central investment principles of the TGV Partners Fund have not changed and will not change in the foreseeable future. When recommending potential investments, I remain committed to the following criteria:

1. Does the company have a reasonable business model?
2. Does the company have a lasting competitive advantage?
3. Does the management act rationally, with integrity, and does it consider the shareholders to be partners?
4. Can we purchase the company’s stocks at a reasonable price?
Changes in the Top 10

Naked Wines shares are now back in the top 10 due to purchases after an heavy price drop this summer. This purchase was financed with the proceeds of the sale of shares in Interactive Brokers. The shares of System1 are no longer in the top 10 due to falling prices but are still included in the portfolio of the TGV Partners Fund. New additions are Intred S.p.A. shares, a provider of fibre optic Internet connections in northern Italy.

Operational development vs price development

Development of share prices this year did not always strictly follow the operational developments of the companies. Some companies with good or excellent operational developments still saw their stocks drop (Gruppo MutuiOnline, Ferguson). Companies with operational or communicative challenges, on the other hand, were immediately and mercilessly punished (Naked Wines, Tucows).

MEDIQON Group AG

The TGV Partners Fund has been invested in MEDIQON Group AG since it was launched in 2015. Its Stocks are TGV’s largest position today. As explained in the past, this letter is not the right forum for in-depth reporting on MEDIQON Group AG. Therefore, I would like to refer to the company’s annual report and letter to shareholders for 2021 and to the report for 2022, which will be published in spring 2023.

Ferguson

Operationally, Ferguson, which is by far the largest plumbing and waterworks distributor in the United States, has had a fantastic year in 2022. With sales growth of almost +21%, earnings per share are almost +40% higher than in the already good fiscal year 2021.

The company has all the qualities that make it an attractive investment: An impeccable operational history with a strong focus on customer benefits. Numerous significant competitive advantages, and an immaculate balance sheet. Although Ferguson is making substantial investments in its future, the cash keeps coming. They have an excellent history of value-creating acquisitions, and at the same time, the excess cash flow was enough to pay a dividend and buy back more than ten per cent of their own shares at favourable prices. With that in mind, I believe the company’s year-end valuation of the company’s shares is extraordinarily cheap at 12 times expected post-tax earnings for 2023.

The reason for this low valuation lies primarily in the sharp rise in interest rates since the beginning of 2022 and the associated consequences for the US real estate and construction industry. As a wholesaler of plumbing supplies, Ferguson is directly dependent on construction and investment activity. If less is built or renovated, fewer new and replacement parts are needed for construction projects.

Numerous stocks in the construction industry, as well as construction suppliers, were badly hit last year. At their fall 2022 lows, Ferguson’s shares were down around 45% year-to-date but had recovered somewhat by December.

---

1 A detailed description of Ferguson’s business model and history was provided in the 2022 semi-annual report.
In my opinion, concerns about real estate and construction in general, and Ferguson in particular, were and are rather overblown: On the one hand, the repair and renovation business has proven extraordinarily stable even in times of severe recessions such as 1991/1992 or 2008/2009. On the other hand, Ferguson does a non-negligible share of the business with industrial and municipal water supply as well as climate technology, which are developing independently of traditional construction and ensure further stability of the business.

Going forward, I believe the situation for Ferguson is positive: The average age of the real estate portfolio and general infrastructure in the US is higher than ever before, implying that updates and renovations will be necessary in the foreseeable future. From this point of view, ‘need for renovation’ means a rusty rosy outlook for companies specialising in the required parts. Over time, the owner has no choice but to renovate or rebuild. In this respect, it is a very stable business that should remain profitable even in a recession in the US.

**Gruppo MutuiOnline**

As Italy’s largest price comparison website for mortgage rates and insurance and one of the largest outsourcing service providers for banks and insurance companies in Italy, **Gruppo MutuiOnline** (MOL) has also been affected by sharply rising interest rates. MOL shares dropped by 50% in the course of the year until the third quarter and only recovered marginally by the end of the year.

I still remember my first trip to the then-headquarters of MOL in Milan in the autumn of 2011. As a result of the euro crisis in the summer of 2011, interest rates in Italy skyrocketed, as they are currently doing, and new real estate financing and refinancing had practically come to a grinding halt.

The founders, Marco and Alessandro, painted a serious but by no means hopeless picture of the situation. They matter-of-factly explained their operational challenges and plans to further expand the business in insurance and other price comparison websites. At the same time, they saw falling prices for advertising as an opportunity to invest more in it.

In the following twelve months, sales in the area of mortgage loan brokerage actually suffered severely. However, the company always remained profitable and gained a permanent foothold in the insurance comparison market through cheaply purchased TV commercials.

At the time, the crisis also left its mark on Gruppo MutuiOnline shares. They lost half their value, and between mid-2011 and the summer of 2012, dropped to around EUR 3.00. Today, ten years and another 50% price drop later, the share price is around 26 euros. Whether purchased for 6 euros or 3 euros: Gruppo MutuiOnline has proven to be an excellent investment.

In fact, the situation at MOL today is completely different. Those prudent investments have paid off, and the company is now generating more than five times the turnover and over three times the income compared to 2011. While it was almost exclusively dependent on the Italian mortgage market ten years ago, today the business is much broader.

Nevertheless, Marco and Alessandro have continued to invest in crises and thus lay the foundation for further growth: At the end of August 2022, MOL announced that it would take over the Spanish price comparison website Rastreator.com and the French counterpart LeLynx.fr. With a transaction volume of EUR 150 million, these takeovers are by far the largest acquisitions in the company’s history and are, therefore, a big chunk to swallow.

---

2 A detailed description of Gruppo MutuiOnline’s business model and history can be found in the 2015 annual report.
In October, however, another acquisition followed in the business process outsourcing area with a transaction volume of around EUR 90 million. And last but not least, MOL bought back almost a million shares over the course of the year when prices were falling, investing around EUR 25 million.

Of course, all these investments are not without risk: On the one hand, for the first time in its history, Gruppo MutuiOnline is venturing into two other European countries. Historically, price comparison websites have been local businesses that have very rarely managed to gain a foothold in other countries organically. The acquisition of market-leading companies in Spain and France is, therefore, the only logical way to internationalise MOL’s business. However, it will take a few years before we can judge whether our ingenious Italians can apply their operational recipes for success in France and Spain.

On the other hand, both acquisitions were financed with very cheap debt. Historically, MOL has had little or no debt. Due to this fact, the company has always been very flexible and, above all, crisis resistant. With total debt now equivalent to just over three years of earnings, there is less flexibility for further investment. This is an unusual situation for the company, especially in this crisis.

However, I have always found Marco and Alessandro exceedingly diligent and prudent. Against this backdrop and in light of the much broader positioning of the business than ten years ago, I feel very comfortable underwriting the newly acquired risk. This is particularly true because the crisis was already in full swing when the final decision on both acquisitions was made, share prices had already fallen, and the decision was therefore made and weighed against the background of a severely deteriorating economy.

If business remains reasonably stable, MOL’s shares are trading today at roughly 12 times the economic earnings after tax I expect for 2023. For a company with this history and these characteristics, this is an extremely favourable value.

**Tucows**

*Tucows*³ has had an extraordinarily complicated and difficult year. The company has three business units, the most important of which today is the development and connection of local fibre optics for high-speed Internet connection in smaller cities and towns in the United States.

When the TGV Partners Fund first acquired shares in Tucows in the summer of 2016, the company had only just started installing fibre optic infrastructure under its own brand, “ting,” and had hardly any customers in this field. Building a fibre optic network is time-consuming, expensive, and associated with start-up costs. However, once you have established the connection and acquired customers, you can count on stable earnings and a very long customer relationship.

In recent years, Tucows has used the earnings from its other businesses to build “ting internet”. For some time, it has been apparent that Tucows considers the opportunity in this area to be unique and very large. Over time, the expansion plans grew bigger and bigger. The starting position seemed excellent. In 2018/2019, for example, I reckoned with a network of around 100,000 connections in the final state. Today, the number of planned households that are finally to be connected to their own network has risen to over 400,000.

To date, 100,000 households have already been connected, and little more than 30,000 households are active subscribers of “ting”. In turn, this expansion has cost more than $200 million in fixed

---

³ A detailed description of the business model and history of Tucows was included in the 2016 annual report. The most recent major changes are described in the 2020 annual report.
investments and over $40 million in start-up losses. It was financed from the earnings of the other business areas and by taking on debt.

Due to the widespread expansion of fibre optic connections in the USA at the moment, there are numerous comparables from private and listed companies in this area. In the last two years, a connection has been valued at around USD 10,000 per individual subscriber in various transactions. A good portion of homes that are already connected will become paying fibre optic customers over time. Therefore, even connected home connections without an existing subscription are valued at USD 3,000 to USD 5,000 per connection.

In this respect, it is not difficult to see that the high investments of around USD 2,500 per connected household are anything but wasted. On the contrary: They carry a high intrinsic value that, in my opinion, far exceeds the investments made so far.

The year 2022 became complicated above all by the skyrocketing inflation and the suddenly gloomy financing conditions. Inflation is reflected directly in increased construction costs. However, this is the smaller problem: The situation surrounding the financing of the further expansion of the fibre optic networks is much more important.

Tucows wants to significantly accelerate the expansion of fibre optic networks in the near future and has already set up comprehensive structures for this. While stable, earnings from the other businesses are nowhere near enough to support an acceleration from within. This problem was foreseeable and should have been addressed and resolved much earlier, especially before presenting other partnerships and expansion projects to the public.

Negligence was followed by bad luck: the sharp rise in interest rates and the Ukraine war significantly worsened all financing conditions for debt and equity. Additional capital for expansion has become much more expensive and scarcer than it has been in previous quarters.

In August 2022, Tucows presented a partnership with the private equity partner “Generate Capital”, adding an additional USD 200 million to be invested in the fibre optic expansion business. This capital will last a while and drive the expansion of connections into 2024. However, it is not a final viable solution for all plans or to reach full expansion. Against this backdrop and given the market uncertainty, Tucows shares fell 60% in 2022.

If you underwrite the great value of fibre optic connections in the future, the stability of the old core business and the ability and willingness of Tucows to solve these temporary problems, in my opinion, Tucows shares are valued extremely cheaply.

Naked Wines

Naked Wines\(^4\) shares have had a disastrous 2022 with a price performance of -80%. Typically, you only see such price performance when something goes horribly wrong, and usually when a company is permanently impaired.

And something did go wrong indeed. In my estimation, however, not nearly as wrong as the price development would suggest. Taking a closer look at the operative business, an irksome but by no means catastrophic picture becomes apparent. The operational performance alone would not have caused such damage. It was rather caused by the fact that there were several communication blunders. Rarely have I had to follow such a roller coaster ride of emotions up close.

---

\(^4\) A detailed description of the business model of “Majestic Wine” and the transformation to today’s “Naked Wines” are included in the reports for the financial year 2018, the first half of 2019, and 2022.
Contrary to my assessment last year, the Corona pandemic was, in fact, by no means a blessing for Naked Wines. Rather, it turned out to be an evil curse. What is absolutely staggering, however, is that the operational business behaved almost exactly as one could have expected knowing the future external circumstances:

On the one hand, it was not foreseeable that in 2020 and 2021, there would be a one-off rush for wine shipped online due to a pandemic. In anticipation of a sustained sharp increase in the number of users, Naked Wines invested heavily in the fixed personnel costs necessary for further growth and a greatly increased inventory for the 2022 Christmas season.

On the other hand, in recent months, it has become unexpectedly clear to practically all online retailers that the massive temporary inflow of customers during the corona pandemic was much less sustainable than originally thought. The investments in customer acquisition, especially in 2021, turned out to be of poorer quality than the historical cohorts. Nevertheless, fixed costs and increased inventory remained with the company. This essentially led to the turbulence experienced.

In October 2022, Naked Wines presented a new business plan for the coming two years. The sights are set significantly lower than before. The key points are less investment in customer acquisition, a depletion of the bloated inventories, and a reduction of fixed costs. The goal is to achieve sustainable profitability. I see a very real chance that these key points are attainable.

The market capitalisation was around GBP 50 Million at the early October low and less than GBP 100 Million at year end. In my opinion, given the facts at hand, this is a good example of how extreme valuations in the market can be at times. Above all, it also shows how great the mistrust in the company’s management and the business model was and still is.

Naked Wines had net cash on hand of around GBP 20 million as of September 30 2022. At the same time, the wine inventory was around GBP 210 million. These two assets were offset by advance payments, the so-called “angel funds”, from customers of around GBP 80 million. Offsetting these numbers results in a value of around GBP 150 million, while equity was around GBP 130 million.

Translated, this means: If the company were to sell its entire inventory, even taking into account a certain discount and return the deposits of all customers, it would probably free up more capital today than what the shares are valued in the stock market at the low point in early October 2022.

Of course, this calculation is purely a thought experiment. It also starkly contrasts the company’s statement that it intends to generate a positive operating income of GBP 15 million to GBP 20 million in the next fiscal year. And why would you want to liquidate a business with approximately a million active and quite happy customers?

Of course, that doesn’t mean the Naked Wines stock will be a good investment from here on out, either. But it indicates that the valuations of the shares in the TGV Partners Fund are considered low overall and in the long run.

Investor Meeting

The Investmentaktiengesellschaft für langfristige Investoren TGV plans to hold its annual investor meeting in Bonn-Bad Godesberg on May 20, 2023. As a TGV partner, you will receive an invitation shortly.
If you haven’t been able to participate yet, I would like to encourage you to come to Bad Godesberg. It’s worth it! It is an excellent opportunity to get to know the other partners and colleagues in the Investmentaktiengesellschaft für langfristige Investoren TGV.

With this in mind, I wish you a wonderful spring and thank you for your continued trust.

Kind regards from Bonn!

Sincerely yours,

Mathias Saggau