# Investmentaktiengesellschaft für langfristige Investoren TGV

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Dear Investors

We are enclosing the shareholder letter for our Teilgesellschaftsvermögen "Partners Fund" for the year 2020 written by our sub-advisor MSA Capital GmbH.

Yours sincerely

Investmentaktiengesellschaft für langfristige Investoren TGV

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**Eingetragen im Handelsregister Bonn HRB 16143**
**Investmentvermögen mit veränderlichem Gesellschaftskapital**

Investmentaktiengesellschaft für langfristige Investoren TGV
Teilgesellschaftsvermögen Partners Fund
FY-2020: Report of the sub-advisor – MSA Capital GmbH, Dr Mathias Saggau

Bonn, January 2021

Dear Investors,

The share price of the sub-fund (TGV) Partners Fund ended the year at EUR 192.03 as of December 30, 2020. The change in value in 2020, including all costs, was +30.47%. The DAX achieved a performance of +3.54%[1] over the same period.

| Year | TGV Partners Fund (1) | DAX (2) | Difference Δ (1-2) |
|---|---|---|---|
| 2015 (9 months) | +1.48% | -10.22% | +11.70% |
| 2016 | +16,27% | +6.87% | +9.40% |
| 2017 | +20,24% | +12.51% | +7.73% |
| 2018 | +0,76% | -18,26% | +19,02% |
| 2019 | +3.67% | +25.48% | -21.81% |
| 2020 | +30.47% | +3.54% | +26,93% |

| | | | |
|---|---|---|---|
| per annum | +12,14% | +2,40% | +9,74% |
| Total | +93.36% | +14.65% | +78.71% |

What a crazy year!

After stock markets panicked in spring due to the outbreak of the Corona pandemic and all stock prices plunged sharply, the interventions of governments and central banks around the world led to a broad recovery. The approval of a first vaccine in the fourth quarter led to skyrocketing prices for many stocks. In some segments of the market, we can undoubtedly speak of a frothing party.

As already noted in the semi-annual letter, it is impossible to foresee short-term movements in the stock market. The fact that the year ended so positively is yet another proof. Who would have even dared to dream of such a recovery during March?

For me, many developments in the markets this year were even more inexplicable than they usually are. There are sectors with extremely overheated valuations as well as sectors with completely depressed valuations. I have rarely seen such a severe spread.

Not only fields such as "*Software as a Service*" but above all hip speciality fields such as "*Artificial-Intelligence Software as a Service*" or projects that simply offer a hot story are traded at exceptionally rich. While "eyeballs" or "clicks" on a website were what counted at the turn of the millennium, it is

[1] Since the Annual Report 2018, the performance calculation for the TGV Partners Fund has been based on the so-called BVI method. The differences in the percentage return and the change in NAV can be explained by tax-related payments.

now the “TAM” (Total Addressable Market) of a company that counts. Operating profits are negligible. When in doubt, the presence of Gaap-profits is a sign of not enough investment or rather a lack of inspiration.

The culmination of this development this year was the IPOs of several hundred so-called SPACs. [2] While in the not too distant past, SPACs were often complete disasters for investors[3] and were dismissed as a sign of complete hysteria. This year, they offered a new way to ride the biggest wave. The hottest SPACs had no sales but insane valuations.

For example, **Nikola** plans to build zero-emission hydrogen and electric trucks in the future, just as **Tesla** is already building electric cars today. The company had virtually no revenue in 2020 and has since been valued at USD 34 billion on the stock exchange. Almost three times as much as Traton, the manufacturer of MAN-, VW-, and Scania trucks, which builds several hundred thousand vehicles every year.

**Virgin Galactic** promises to take tourists to the edge of space for the bargain price of USD 250,000 per person. They have no turnover whatsoever, but almost 1,000 pre-bookings – which in the best case would mean USD 250 million in sales. The current stock market valuation is USD 5.5 billion.

Stories you certainly don’t see at the bottom of the market.

Not all SPACs will be a spectacular success. Not all software-as-a-service providers will manage to replace existing software products. What is certain, however, is that many companies are currently priced to perfection so that there is no tolerance for bad years or even mediocre operational results.

Other segments of the market, on the other hand, are priced despite or likely because of historically low interest rates – as if there was no tomorrow: Banking, Retail, Energy, Commodities, and Emerging Markets. There are enough areas where shareholders could have lost a lot of money in recent years and where hope has long since been lost.

How does this help you in your role as an investor in the TGV Partners Fund?

It is as evident as seldom this year that a one-off and periodically deferred annual result cannot be put in relation to the underlying risk actually taken. Even more than in other years, the wildest speculators could have had an excellent performance in 2020, while cautious investors easily could end this year just breaking even.

With all these crazy developments, I stuck to a simple recipe: buy good companies with excellent management at a fair price and not let myself get irritated by the ups and downs of the stock market.

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[2] Since the Annual Report 2018, the performance calculation for the TGV Partners Fund has been based on the so-called BVI method. The differences in the percentage return and the change in NAV can be explained by tax-related payments.

[3] SPAC: Special-purpose acquisition Company. A SPAC is a shell company that first collects capital in order to then take over a company in a second step and thus bring it on the stock market. This construct has numerous advantages, such as less regulation or an overall faster stock market listing. But it is also a sign of a red hot IPO market in which new companies cannot go public quickly enough.

There is no way this recipe will provide the same good results every year as it did in 2020, and there will and must be years with mediocre or negative results as in 2019. All in all, this is how the probability of a satisfactory long-term result is the greatest. And I believe this is what counts.

**The companies in the TGV Partners Fund**

Of the fifteen companies in which the TGV had invested as of 30.12.2020, I list at this point, as usual, the ten largest positions in alphabetical order:

- Amaysim
- DCC
- Gruppo MutuiOnline
- MEDIQON Group
- TGS-NOPEC
- Computer Modelling Group
- Groupe SFPI
- Interactive Brokers
- Naked Wines
- Tucows

These ten companies represent around 85% of the fund's assets. The largest company, in which the TGV has a stake, currently has a market capitalisation of around EUR 20 billion, the smallest of around EUR 10 million.

The central investment principles of the TGV Partners Fund have not changed and will not change in the 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*

2020 was an – in parts – eventful year for the portfolio. In other ways, however, it was not. Around three quarters of the portfolio have been largely unchanged over the last years. If you were only to look at the five largest positions (**Gruppo MutuiOnline, Tucows, Amaysim, Naked Wines,** and **Interactive Brokers**), they have been a constant part of the portfolio in recent years.

Nevertheless, there was a situation with **Grenke AG** in the second half of the year that, for a short time, shook up the portfolio considerably. To create liquidity for the purchase of **Grenke AG** bonds, shares in **Alphabet**, **Interactive Brokers,** and **DCC** have been sold completely. After the situation normalised towards the end of the year, shares in **Interactive Brokers** and **DCC** were bought back by TGV Partners Fund.

**Groupe SFPI** is probably known to most German investors via its largest subsidiary, DOM Sicherheitstechnik, located in Brühl near Cologne. Almost every German will know the DOM logo, and many will have a DOM key on their keychain. The first shares of **SFPI** were bought in 2019. During the Corona crisis and in the summer of 2020, the TGV Partners Fund purchased more shares, so that **Groupe SFPI** is one of the ten largest positions in the sub-fund after a sharp price increase since November 2020.

***Grenke AG***

This year the TGV Partners Fund was able to benefit from past experience. Many years ago, I have read the books of André Kostolany, a famous gambler on the stock market. One of Kostolany's best-known and most successful speculations was to buy seemingly worthless Russian bonds from the time of the tsars after the collapse of the Soviet Union. These papers, many older than Kostolany himself, had not been serviced by the Soviet Union for many decades and were practically worthless. They traded for pennies at flea markets. When Russia wanted to issue new bonds after the fall of the Iron Curtain in 1996, various investors demanded a settlement of these old tsarist bonds. A compensation was agreed upon. For Kostolany, this arrangement meant an astronomical profit on the bonds he bought for a song.

During the financial crisis of 2008/09, I hadn't fully heeded the lesson that bonds can be very lucrative investments. At that time, I invested in a certain company's stock. Let's call it "fallen angel". Both stocks and bonds in the company had suffered sharp losses of 80% to 90% compared to the previous years. In my opinion, the company was viable, and the shares cheap. Since the bonds only had limited potential for repayment compared to the shares, I opted for the higher and unlimited potential of the shares – a big mistake. When the situation eased, bonds rallied in a matter of weeks. The shares, on the other hand, only achieved the same result years later.

At that time, I was not aware that bonds regularly recover their price losses much faster than stocks typically do in the event of a recovery from a crisis or stressful situation. While the stocks of the "fallen angel" recovered reasonably after the financial crisis, the situation with bonds was spectacular. When the situation eased, and the market was convinced that it would survive, the bonds quickly moved towards nominal value. A mistake that I wouldn't make again.

At the time of the financial crisis, I was looking at Grenkeleasing AG for the first time, as it was called before it changed its name to **Grenke AG** in 2016. Grenke aroused particular interest because the founder, CEO, and largest shareholder Wolfgang Grenke kept buying shares throughout 2008 and even committed to buying a very large number of shares if prices continued to fall. A very strong signal.

In the period that followed, I kept close track of the company, later visited the company several times at its headquarters in Baden-Baden, and got to know many of the people involved personally.

**Grenke AG** is a financial service provider that specialises in so-called small-ticket IT leasing. Grenke finances IT needs for small and medium-sized companies in over 20 countries. The company has specialised in processing and automatically evaluating small loans – which are typically unprofitable for large banks. Today Grenke has around a million customer contracts with an average size of around 8,500 euros per contract. A contract typically contains several photocopiers, laptops, desktop computers, or other IT equipment, with an average duration of four years.

In September 2020, a report by the "Viceroy Research Group", among other things, accused **Grenke AG** of falsifying the balance sheet and aiding and abetting money laundering. It purported that the reported liquid funds of **Grenke AG** of around one billion euros did not exist.

One should know that such so-called "short reports" are not uncommon in the capital market. The authors of these reports also bet that the stocks of the accused company will plummet in the wake of this publication. One might cynically think “an excellent business model” because, typically, the risk for the initiators is low. If there is a panic, you earn quick money; if the report is met with no interest, not much happens.

Often these “short reports” actually uncover fraudulent wheelings and dealings and target actually dubious companies. For example, there have been regular accusations of this type against **Wirecard,** rightly so. But often enough mud is thrown to create panic and falling prices. In this regard, the short report on **Grenke AG** was a masterpiece in timing. In the summer of 2020, the financial services provider **Wirecard**, once loved by the market, imploded within a short period of time. Fraud on a massive scale was discovered. The company, which was only recently included in the DAX, was brankrupt within a few weeks.

As with most professionally made short reports, the one about **Grenke AG** was a well-crafted paper of 64 pages. Like most of these reports, it contained a grain of truth, lots of accusations, lots of noise, all interlaced with complicated details.

For many companies, such a short report has no existential impact on the actual operational business. At **Grenke AG**, however, it was different. As a financial intermediary, Grenke refinances the leased goods from various sources of funding. Grenke has numerous bonds outstanding with different maturities. If these financing sources dry up permanently due to a lack of trust, the core business will inevitably be damaged.

Also, and above all, accelerated by the debacle at Wirecard, the publication of the short report led to a panic reaction and severe upheavals in stock and bond prices. Grenke AG shares, which were listed at 100 euros before the Corona crisis in spring 2020, plummeted to around 25 euros. At the same time, in an obvious panic, Grenke’s bonds fell to around 65% of their nominal value regardless of their maturity. In the first few days of this exceptional situation, the TGV Partners Fund built up a larger position in various **Grenke AG** bonds. In retrospect, it turned out to be perfect timing.

Even if various aspects of the report, especially in corporate governance, are up for debate, and business with small and medium-sized customers was also affected by the aftermath of the Corona crisis, it was an opportunity as it seldom presents itself.

I was very lucky to have known the people who work at Grenke for years and followed the business for a decade. A Wirecard-style fraud did not fit the picture. In my opinion, the problems that undoubtedly existed were more a sign of a patriarchally managed medium-sized German company than those of extensive fraud.

At the same time, the Grenke bonds offered a very rare risk-opportunity ratio. At prices around 65%, the bonds yielded returns of more than 25% p.a., assuming they would be hold to maturity. In terms of capital structure, bonds are senior over equity. In my opinion, there was also only a low liquidity risk due to the extremely high congruence of maturities in terms of debt. Therefore I rated the real risk of loss of the bonds at these prices to be minimal. In my opinion, more damage was done to the equity and its shares. Without normal refinancing, Grenke would not be able to maintain its previous growth path and would have to cut back on new business. Bad but not fatal to the stocks while of no concern to the bonds. In the months since the report, bonds have recovered more quickly than the stock price. Today, it seems that almost all of the accusations have been essentially made up.

By December 2020, Grenke's bonds had recovered to such an extent that current yields became uninteresting. The profit of a little more than +40% in two months meant a performance contribution of roundabout +7% for the TGV Partners Fund in 2020. The Grenke situation also makes one of the greatest advantages of structuring the fund as an TGV obvious, namely being able to invest in a concentrated manner when it counts.

**Operational development vs price development**

Operationally, a lot has happened at the companies in the TGV Partners Fund last year. It would go completely beyond the scope of this letter to go over all the developments in detail. Nevertheless, I will briefly highlight the essential positions of the TGV Partners Fund.

**Gruppo MutuiOnline**, based in Milan in Lombardy, was one of the first companies to be hit hard by the Coronavirus due to its location. The company reacted drastically and comprehensively. [4] As soon as in mid-February, well before the lockdown in Germany, Marco, Alessandro, and their team began to flip the switch, sent all employees to their home offices, and secured liquidity for an uncertain future.

After the second quarter was subdued, especially in business process outsourcing (BPO), business remained stable for the rest of the year. The brokerage business, above all, the price comparison website trovaprezzi.it – similar to the German idealo.de – had a phenomenal year operationally. Many people used (and still use) the Internet to make purchases and compare prices in the process. The basic investment thesis that the widespread use of the Internet will also prevail in Italy has seen a strong tailwind due to the corona pandemic.

Towards the end of the year, **Gruppo MutuiOnline** announced two acquisitions. With **Gruppo Lercari,** the BPO business in the insurance sector was strengthened, and with the purchase of **Sos Tariffe,** the presence of price comparisons in the telecommunications and energy tariffs sector, similar to the German website verivox.de, was supplemented.

Shares in **Gruppo MutuiOnline** went on a spectacular rollercoaster ride. During the general market turbulence in March, they fell from around EUR 22 to a low of EUR 12.50 – only to climb to almost EUR 35 by the end of the year. A price performance of around + 75% was recorded for this year. As the largest position and with this result, the company is largely responsible for the positive result of the TGV Partners Fund.

**Tucows** has had a solid year.[5] As a reminder: In addition to the original core business, the administration and service of domain registrations, and the Ting mobile communications range, Tucows builds and operates fibre optic Internet connections in smaller, more rurual cities in the USA.

A central aspect of this portfolio position is that the stable and sparsely growing businesses of domain service and mobile communications finance the promising expansion of broadband Internet. In the

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[4] A detailed description of the business model and history of Gruppo MutuiOnline can be found in the 2015 annual report.

[5] A detailed description of the business model and history of Tucows can be found in the 2016 annual report.

meantime, a good 100 million USD has been invested in the fibre optic expansion, and a large part of the future value of Tucows lies in this area.

The coronavirus outbreak and the associated lockdowns have made the need for stable and fast Internet obvious. This is especially true for regions where fast internet service is not available. Especially where the old networks are already being used to their full capacity due to the steady and rapidly increasing growth in data volumes.

In addition to the announcement and expansion of the infrastructure in other cities, several well-known employees were acquired. The fact that high-profile employees like Jill Szuchmacher, formerly Vice President of Google Fiber, or Neil Shah, formerly Head of Design at Verizon, join a medium-sized company like Tucows speaks volumes.

In August 2020, Tucows announced in an unusual deal that they would change the structure of their own mobile communications business, Ting. Ting has announced that it will transfer its customers to the US provider DISH. At the same time, Tucows will take on a role in the mobile communications sector similar to that in the domain business: processing, servicing, and managing customers. Tucows calls this software-based business "*Mobile Service Enabler*", and DISH is the first customer.

I consider this strategic shift to be an exciting development, especially in light of the fact that Tucows comes from the business of processing and handling customer contracts and that, after initial successes in recent years, the Ting mobile communications business seemed rather slow and stagnated. Especially since the mobile communications business in the USA, in general, will most likely be subject to a dramatic change. After the merger of Sprint and T-Mobile, there were only three providers (AT&T, Verizon and T-Mobile) left until DISH announced that it would build a completely new fourth mobile network based on so-called Open-RAN technology. An extremely ambitious project.

An interesting strategic situation for Tucows. It is uncertain whether DISH's very grand ambitions are achievable or just plain insane. Should DISH be successful, Tucows, as a technology partner, would benefit directly from DISH's customer growth. A much stronger position than running its own small MVNO service.

Should the implementation of a fourth network fail due to the enormous costs or operational challenges, it would not mean a total loss thanks to how the deal with DISH was set up. Tucows will receive the cash flow generated by the transferred Ting customers from DISH in the coming years. In the event of failure, this means a controlled run-off of the customer base that has been built up so far. In a best-case scenario, however, it is an option to participate in the potential success of DISH.

In the case of **Amaysim,** I wrote in the last annual letter in January 2020 that it was too early to make a final assessment of whether the investment was a catastrophic error. A lot has happened in the past twelve months. In August 2020, it was announced that the energy business would be sold. In November, the announcement of the sale of the rest of the mobile communications business followed.

A sales process is very sensitive from a regulatory and legal point of view. Therefore, I will not comment on the company until the process is complete. Of course, I will probably be able to give you a complete retrospective of the Amaysim investment in the next semi-annual report.

**Naked Wines** had a spectacularly good year operationally and was one of the most obvious and spectacular crisis winners.[6]

In the 2018 Annual Report, I wrote: "*It will be exciting to see if and in what dimension Naked Wines will "crack" its own markets and whether the business model can be successfully established in the long term. Especially the US, a huge market in which wine is on average much more expensive for consumers than in Germany or Great Britain, is a crucial factor. Especially there, the Naked Wines model comes in handy. Better wine at lower prices – that should work everywhere – but especially where the prices and the number of middlemen are particularly high*."

When the first lockdowns began in March, the wine trade exploded in most countries around the world. Many people, confined to their sofa at home, indulged in a bottle of wine or two. In contrast to beer or spirits, the consumption of which is regularly linked to restaurants or bars, wine consumption has shifted towards the home. This was when many customers began to deplete their supplies and needed to replenish them regularly – a home run for Naked Wines.

The number of active users, referred to as "Mature Angels" by the company, grew by +37% in the first half of the year, ending in September 2020. Sales grew by +80%. In the USA, in particular, the market with the greatest potential for Naked Wines, the company was phenomenally successful. In the slowly opening market for wine sent directly to the consumer, Naked Wines almost doubled its market share to around 20%. Figuratively speaking, Naked Wines shipped one in five bottles of wine purchased over the Internet in the United States. A gigantic feat!

The exciting question is whether it is a one-off effect or whether the customers who have been generated by the crisis will continue to use Naked Wines. Should the latter be the case – and customers were to continue to enjoy the products and how Naked Wines sells wine over the Internet, the company would have a huge market and would be in an extremely good position to serve it.

The wine trade via the Internet was one of the few businesses that had not been developed by e-commerce until the Corona crisis hit. Naked Wines may have broken the Gordian Knot and successfully cracked online sales by their very own way of buying wine. With this in mind, I am very excited to see how the company will develop over the next few years.

The price performance of the Naked Wines shares was almost + 190% in 2020. While the position was still relatively small at the beginning of the year, the price development has made it grow to one of the five largest positions in the fund.

**Interactive Brokers**, like Naked Wines, had a spectacular year marked by the Corona crisis. In addition to the positive sides, however, they also experienced the dark sides of the crisis.

Like most other online brokers, Interactive Brokers was almost run over by customers. While customer growth has regularly been around 15% to 20% p.a. in recent years, the increase in new customers this year accelerated to over 50%. Over 380 thousand customers switched to the Interactive Brokers platform this year. Even if these customers are on average less professional and less profitable than the existing customers due to a generally lower trading frequency, this is an excellent result. Once

[6] A detailed description of the business model and history of Naked Wines (then Majestic Wines) is included in the 2018 annual report.

customers have gotten used to a broker and are satisfied with the service, the willingness to switch is low. Customers remain loyal to a provider for a very long time.

The downside of the crisis has become clear in two respects: On the one hand, the interventions of the central banks lowered interest rates sharply worldwide and flooded the market with liquidity. A good portion of the income of Interactive Brokers comes from interest payments the company earns on customers' deposited cash. Unlike the competition, Interactive Brokers passes most of the accrued interest on to the customers but keeps a fraction of the income. With more than USD 200 billion in equity held by customers on the platform, this is a significant income stream. If interest rates fall sharply, the interest income of customers as well as the company falls. An effect that has cost Interactive Brokers many hundreds of millions of dollars in revenue in 2020. However, this is also an effect that would normalise again once interest rates were to increase again.

On the other hand – and this is more serious –, Interactive Brokers had to report a bitter and extraordinary loss due to a system error in the wake of the negative oil price in March 2020.

Extraordinary, unprecedented events are part of the agenda on the capital market with a certain regularity: From Herstatt-Bank in 1974 to Long Term Capital Management in 1998 to Knight Capital Group in 2012 to FXCM in 2015. The list of market makers, brokers, and trading companies that have gone under is long. All these disasters have in common that they were the victims of a singular extraordinary event paired with excessive leverage.

I was and am very much aware of this risk at Interactive Brokers. It is one of the obvious risks and can never be completely avoided in this business, just as many different risks that threaten the continued existence of any company cannot be prevented. They can be mitigated but never completely eliminated. In the field of brokerage, these risks can only be mitigated by a very diverse customer base, an excessive focus on strict and conservative risk management systems, and low leverage in connection with a lot of excess equity.

Interactive Brokers has a cushion of around USD 8.5 billion in equity, an extremely diverse customer base, and a history of excellent risk management that limits customers regularly and sensibly when using their leverage.

The situation is that during the oil crash in March 2020, a mundane software bug led to a high loss of around USD 100 million. The requirements for collateral when trading oil futures were incorrectly implemented in the software. Put simply, the software did not expect that the oil price could turn negative, and so did not close out the customers' positions when the price did turn negative. A 100-million-Dollar bug that could have been avoided.

Still, I believe Interactive Brokers is a good investment for the TGV Partners Fund. The company has a fantastic business model with high cost advantages over all competitors, excellent management, and a strong owner and founder. At the same time, given the economic outlook, it is moderately valued.

**Stay healthy – an end of crisis is in sight!**

A good year for TGV Partners fund is certainly gratifying. But this is not the only reason to be positive. Even though there are news of a new strain of virus, intensifying lockdowns in several countries and things look dire on a short term basis, outlook is promising.

Around this time last year it was not clear how bad the pandemy would run, how deadly the virus would be and whether science would find an antidote in time. It could have been far worse.

Thanks to the endeavour and collaboration by a lot of people we will come out of the crisis with only an black eye. Who would have thought that mankind would be able to come up with several vaccines within twelve months and to put it into mass production?

Of cause there will be challenging times ahead of us. But I am always optimistic that the world will be a better place in the future and that we as mankind will find solutions to most of the current big problems. I wish you and your families a healthy 2021 and look forward on meeting eachother – best in person – when the Corona-Saga is behind us.

**Investor meeting**

The Investmentaktiengesellschaft für langfristige Investoren TGV will hold its annual investor meeting this year on May 22, 2021, in Bonn-Bad Godesberg. As a partner in the TGV, you will shortly receive an invitation.

Due to the corona situation, it is impossible to assess whether an in-person event can take place this year. But we will inform you early enough, and above all, focus on your and our health.

Greetings from Bonn! Sincerely,

Mathias Saggau