Investmentaktiengesellschaft für langfristige Investoren TGV

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Dear investors

We are enclosing the shareholder letter for our Teilgesellschaftsvermögen "Truffle" for the year 2015 written by our sub-advisor JMX Capital GmbH.

Yours sincerely

Investmentaktiengesellschaft für langfristige Investoren TGV

Annual Report 2015 of the Sub-Advisor

Dear Investors,

The first nine months of TGV Truffle are behind us and I would like to take this opportunity to give you an update. As described in the "Owners' Manual", I plan to run a marathon and to be the subadvisor for TGV Truffle for many years. The first few months are not much more than an extended view of the launch. It has remained below my expectations and I believe it is therefore particularly important to communicate openly and to explain details in this annual report.

Measuring and weighing

As in the interim report, in the following you will find the most important portfolio and performance figures of TGV Truffle in a tabular overview:

NAV as of 12/31/2015 in EUR	87.52
Number of investments	9
Weighting biggest investment	17.2%
Weight of the Top 5 investments	70.9%
Weighting cash / cash on deposit	0.1%

Alphabetical Listing of the Top 5 Investments:
Alphabet (formerly known as "Google")
Leucadia
Microsoft
National-Oilwell Varco
Rolls-Royce

Period	TGV Truffle	Berkshire (in EUR)	*(Difference)*	6% p.a. Benchmark	*(Difference)*
since 04/01/2015	-12.48 %	-10.0 %	*(-2.48 %)*	4.50%	*(-16.98%)*

An important part of my work is the establishment and maintenance of a list of companies for observation, which are theoretically suited for an investment - if the price of the company should fall far below its value. The vast majority of companies I analyse day after day never make it on this list, mostly because I do not think I understand the business well enough.

I use a large portion of my working hours to understand the companies on the watch list better and to expand the list. In doing so, I also drop companies from the watch list on a regular basis (e.g. just recently the beer company SAB Miller, which was purchased by another company on the watch list, Anheuser-Busch InBev). The objective is to buy excellent companies for TGV Truffle. Occasionally, I have to revise my assessment and a company is deleted from the watch list because it no longer meets my

requirements on the sustainability of competitive advantage, or I no longer trust the people involved after a management change.
The portfolio of TGV Truffle is made up by the sub-group of companies on the watch list, which have the best risk-return-ratio from today's perspective. By implication, this means that the long-term performance of TGV Truffle will depend primarily on two factors: 1) how good is the selection of the entire watch list and 2) how much talent am I going to prove in recommending companies from the watch list with the best risk-return-ratio for TGV Truffle?

In order to constantly assess these two factors for success, I analyse the performance of the companies on the watch list annually. In 2015, two interesting things came to light. First, the list as a whole had a very positive price performance: a purchase of all 47 companies currently on the list would have brought a performance of 8.8% over the period 04/01/2015 to 12/31/2015. Secondly, there was a strong correlation between the performance of the shares during the 12 months prior to 04/01/2015 and the performance after 04/01/2015: What had risen before continued to rise and what had fallen, continued to fall!

The best ratio between opportunity and risk is often to be found where the greatest upheavals have occurred shortly before. It remains to be expected that TGV Truffle is going to build a position in a new stock, if its previous performance was poor. This is logical, because in the end, smart investors want to invest in companies when they are cheap and not after the price has already risen! Since the entire portfolio was structured from scratch on 04/01/2015, there are many companies in TGV Truffle, whose prices had fallen prior to 04/01/2015.

For each company, one can ask how much an informed and rational buyer would pay for the entire company. Such a buyer would look at the revenues and profits, consider the customer base and the competitive situation and devise scenarios for the future development. If circumstances and the market outlook of a company changes over time, the buyer would also adjust the rational assessment of the company’s fair value. However, the change in this fair value happens gradually because companies and competitive situations do rarely change overnight.

The general picture of the stock market on the other hand is more like a casino. Loudly screaming traders try to predict prices and everybody is betting for prices to rise or fall respectively. However, a stock is not merely a piece of paper which is pushed back and forth, but rather represents a share in a company. Just as a private company this company has a value that a rational and informed observer can assess. Once the company is listed on the stock market, however, a price at which buyers and sellers can trade the shares is determined every second. This price *may* correspond with the value of the company but it does not necessarily *have to*.

The permanent questioning of one’s own decisions is going against the human psyche. In psychology, there is the expression of confirmation error. After a decision, a decision maker is constantly looking for arguments that confirm his own assessment. Admitting a mistake is hard and gets even harder the more public and the more one has committed oneself to an opinion. Psychologically seen it is tempting, to lean back when prices rise and to assume that the companies in the portfolio are doing well. Rising prices provide daily (possibly misleading) cognitive confirmation that the decision once taken was correct.

This peace is rudely interrupted as soon as the prices of companies within the portfolio come under massive pressure. When the capital market tells you every day that you are wrong, you will inevitably begin to challenge your decisions. Insofar phases of poor market performance may well improve the quality of decisions. Bob Marley’s saying is appropriate here: "Some people feel the rain - others just get wet."

Through the rain – the impact of the oil prices on the performance of TGV Truffle in 2015

The decline in oil prices certainly had the biggest impact on the price performance of TGV Truffle in 2015. Two holdings (National-Oilwell Varco and NOW) are direct suppliers for the oil industry. In the case of Rolls-Royce and Aggreko, the oil industry plays an important role for sub-segments of the business. At the time of the launch of TGV Truffle in April 2015, the price for one barrel of crude oil was about USD 50 and that after having fallen more than 50% since the end of 2014. New investments in the oil fields had already plummeted and the prices of virtually every company that had anything to do with oil had already dropped massively. With further declines in oil prices (and therefore falling prices of shares from the oil sector) TGV Truffle has successively built the positions in National Oilwell Varco and NOW[1]. Oil prices continued to fall, the prices of both oil suppliers continued to fall, TGV Truffle kept buying... and oil prices continued to fall. Further. And further!

In January 2016, the price of oil now stands at around USD 30, and while this may indeed be a reason to rejoice at the gas station, it makes investors in the oil sector more than a little nervous. However, rationally seen a continuation of the low prices may turn out to be quite desirable for our portfolio holdings National-Oilwell Varco and NOW. This may sound counterintuitive, but it can be explained with a simple logic: the medium term financial performance of both companies depends on the quantity produced and not on the price. I cannot predict what will happen in regards to the oil price. What I can predict however is that the world will continue to use oil and that in order to produce oil, suppliers of production equipment *will* be needed.

National-Oilwell Varco and NOW are such suppliers. You need to drill a drill into an oil well? National-Oilwell Varco will build the drill and NOW brings it to the site. Both companies make money off drilling for oil and maintaining production. As the oil price falls, immediately the number of drilling projects decreases and initially both companies make less money. One must know, however, that a majority of the equipment at, in and around the borehole is subject to massive forces and therefore is subject to wear and tear. The oil producer has to counteract this wear and tear because otherwise, the functionality of the wellbore is at risk. This spare part demand is quite stable and is dependent on the number of fields that are in operation or the amount of oil produced. Unless you expect a substantial decline in oil production (which I do not consider plausible), even at low oil prices, significant parts of the revenues of National-Oilwell Varco and NOW are stable. In the conference calls on the quarterly figures, the management of both companies keep mentioning that in the oil fields equipment is "cannibalized", i.e. spare parts are taken from decommissioned rigs and put to use in producing rigs. However, the oil producers cannot keep playing this game forever. Sooner or later they have to invest into replacement parts. Furthermore, at halfway constant production volume the need for new drilling will arise as oil fields dry up after some time. Without new exploration, one day there simply won't be enough oil.

There is some evidence that the current weak business of National-Oilwell Varco and NOW is caused by a postponement and not by a loss of investment. But is that enough for me to declare low oil prices "desirable"? I think so, because both companies use the current crisis proactively to gain market share and to buy up smaller competitors. National-Oilwell Varco goes one step further and aggressively buys back its own shares. Both companies have very strong balance sheets and can benefit from the headwinds in the sector. In the equipment industry at the moment, the main focus is to survive until the oil producers are forced to make necessary investments. Both companies have already proven many times in past crises to be the "last man standing" in the drilling equipment industry. Or to put it in the words of the current Chief Executive Officer of National-Oilwell Varco, "through crises this company has grown to become what it is today". As my colleague Mathias Saggau and I have visited the industry's largest equipment exhibition, the Offshore Technology Conference in Houston in May, we barely saw

[1] Interestingly, both firms were united as one enterprise until the end of 2014 when NOW was spun-off. National-Oilwell Varco is a producer of oilfield equipment, whereas NOW is wholesale distributor with products ranging from drills over pipes to mere gloves.

any production equipment without National-Oilwell Varco's "NOV" logo. The representative of an exhibiting company jokingly said “NOV” actually stands for “No Other Vendor”!

One thing is certain: the oil price will continue to fluctuate in the coming months and the prices of our equipment suppliers will not be able to dodge that. Looking at the longer term, however, both companies are likely to emerge stronger from the crisis, with an increase of the value per share currently ongoing.

Aggreko and Rolls-Royce

Apart from the negative impact of the decrease in oil prices the negative price performance of the portfolio companies Rolls-Royce and Aggreko stands out in particular. For both companies, the acquisition price is well above the current stock price and both companies have issued profit warnings.

Aggreko and Rolls-Royce are in a relatively similar situation. Not only are both companies from the UK, but for both the past year has been marked by three topics:

- Changes in top management
- Cyclical weakness in the sales markets, especially in the oil & gas sector
- Considerable need for restructuring with respect to cost and organizational structure

In summary, for both companies 2015 was a year of changes and 2016 is likely to produce a similar amount of internal unrest. Both companies exhibited strong growth prior to 2014; in the case of Aggreko the development was extremely fast (the company has quadrupled its revenues in the period from 2005 to 2014). The long-term growth trend of both companies is unbroken and both companies have sustainable and structural competitive advantages.

Aggreko is the largest provider of temporary power solutions. The uses are manifold and start from a single generator for supplying an event to several hundred generators when the power grid of an entire country needs to be supported. In many countries, the power grid is unstable and generating capacities in conventional power plants are lagging behind the ever increasing demand for electricity. The importance of a flexible and stable electricity grid increases all over of the world and in many cases the solutions provided by Aggreko are the fastest and most cost-effective answer for the utilities in these countries. The competitive advantage of Aggreko lies in the economies of scale in relation to its competitors. Aggreko can offer generators fleet for small local projects as well as provide an entire country with electricity. Furthermore, the fleet is globally mobile and can be deployed to wherever demand arises. Thereby Aggreko achieves a structurally higher utilization than smaller competitors, who often can only use their fleet in certain regions certain fields of application. The largest competitor is APR Energy, which was founded 12 years ago and has been at the brink of bankruptcy in 2015. APR Energy has invested much money in the expansion of its fleet, yet it was only able to compete with Aggreko in one sub-segment (large, long-running infrastructure projects). Aggreko was able to cope with a weakness in demand in this sector by shifting capacity to other sectors - APR Energy on the other hand almost succumbed to a lack of utilization of its capacities.

Much of the value of Rolls-Royce lies in future maintenance revenues from commercial aircraft turbines. The global long-haul air traffic is steadily increasing and in the long-haul sector there are only two suppliers of turbines (Rolls-Royce and GE). With the costs of developing an engine run into the billions and the product life cycle spanning decades, I see no change in the competitive situation for Rolls-Royce on the horizon and so the increase in long-haul flight traffic should clearly be noticeable in Rolls-Royce's coffers in the coming years.

Despite these long-term trends, the two companies are currently in a growth pause. In particular, the decline in oil prices led to a decline in demand and both companies have initiated far-reaching reorganization measures in order to increase profitability. Rolls-Royce is in the exceptional situation that several new turbine programs (the Trent XWB for the A350 in particular) are in the starting phase and therefore start-up losses have incurred. In the short term, this leads to the fact that the results of both companies are difficult to predict and there could be more bad news before the outlook is brightening. For many market participants, this causes a very unpopular and unwanted feeling: uncertainty. There are currently many reports on both companies that only recommend an investment once "things have cleared" or when "the light at the end of the tunnel is visible".

The bread and butter business of a typical analyst of a major bank is to give exact estimates of the profits of companies in the next quarter or year. In case of Aggreko and Rolls-Royce, this is currently impossible to achieve with precision. But whether Aggreko or Rolls-Royce is a good investment today depends largely on the free cash-flow the company can achieve over the next 10 to 20 years. In the case of Rolls-Royce in particular, the amount and timing of this income can be estimated fairly well, as in the turbine segment, much of the sales depend directly on the aircraft's hours of operation. Due to the airline's current re-equipping cycle, there is a high transparency about at what point in the future which aircraft will be in service and what turbines these aircraft are going to be operated with.

A long-term investor, such as TGV Truffle, can focus on the inherent value of the company and does not need a precise estimate of the next quarter's profit. On the contrary: I consider situations of short-term uncertainty / unpredictability along with the unlikelihood of permanent loss of capital as ideal conditions for truffle hunting. Aggreko and Rolls-Royce currently represent this perfectly.

Of course, I am not blind to changes in the business model and should there be a significant change in my assessment of the value, I will not dogmatically stick to my initial decision. In many cases, however, things are not as bad as the capital market depicts them – an interesting constellation.

A separate heading for one particular stock: Leucadia

The average acquisition price for our Leucadia position amounted to approximately USD 23. By the end of the year the stock closed at USD 17. Therefore, the stock was one of the main influencers on the price performance of TGV Truffle in 2015. In my view, this justifies a separate heading for the company because there have in fact been very few new findings about the company in the last nine months. This clearly shows that a weak price development does not necessarily have to be a sign of poor business performance.

Leucadia is a holding company, which holds the largest stake the investment bank Jefferies. It holds a portfolio of various other investments, which are usually purchased in complicated exceptional situations by Leucadia management – typically when no other buyers can act. In January 2015 for example, a distressed online bank has been recapitalised by Leucadia virtually overnight after the sudden devaluation of the Swiss franc. Only few investors are capable of carrying out such transactions and I deem the team at Leucadia qualified to systematically invest capital in times of crisis. From 1978 to 2012, Leucadia was run by Ian Cummings and Joseph Steinberg. During that time, book value per share compounded at roughly 20% per year. Both gentleman have built tremendous credibility in the investment community, especially by communicating their actions in crisp and clear annual letters. Richard Handler (CEO of Leucadia's largest investment Jefferies) was named as their successor in 2012. Handler has been with Jefferies for 27 years and lead the firm through the financial crisis. His actions and words stand out for their integrity and long-term thinking in comparison to many other investment bankers.

Many investors stay away from Leucadia precisely because of the large Jefferies investment. Investment banks have (mostly for good reasons) a questionable reputation and the core assets of the firm leave through the front door every night[2]. Nonetheless, there a several examples throughout history in which investment banks have created value for clients over decades. The British concept of a "merchant bank", financing entrepreneurs and taking risks alongside clients, is rare these days. Reason is the excessive regulation of large financial institutions and the lacking scale of small boutique firms. On the contrary, Jefferies is small enough to enjoy light regulatory scrutiny while being sufficiently large to offer enough product lines in enough markets. Additional appeal lies in the combination of Jefferies as the originating team and Leucadia's long-term capital base. Unlike most other competitors, Jefferies can opportunistically invest alongside clients and act as a partner, rather than a mere counterparty.

On the stock market, Leucadia currently trades roughly for liquidation value. Going-concern profitability or (likely) value creation by management find no reflection in the stock price. Of course, there is the risk that I have assessed the situation completely wrong, but according to my judgment especially one thing has happened in the recent months: Leucadia's stock got cheaper. Looking at the short-term performance, you could consider this a negative, but as long as my estimation of the company's intrinsic value is correct, the opportunity for us has grown.

Alphabet and Microsoft

Two large investments of TGV Truffle (Alphabet[3] and Microsoft), have shown substantial stock price increases in 2015. The companies' development was hardly surprising since they continued a path that started in recent years, which the capital market only now starts to slowly take notice of. Both companies have:

- A market position in their respective markets that is almost impossible to replicate
- Structural growth trends in demand
- A capable and honest management
- Latent revenue potential through new products or pricing power
- Very good reinvestment possibilities of free cash-flows

These factors are enough reason for TGV Truffle to remain invested even after the stock prices have increased. An essential part of the good performance of both stocks in 2015 has been realized in only a few trading days (usually after the quarterly results). It is amazing how much capital market participants can be surprised by supposedly well-known companies.

Although everyone is familiar with both firms' products (I am writing this letter in Word and it will be sent through Gmail), the economic potential of the respective customer base seems underappreciated. This can be illustrated by two examples.

YouTube:

Google bought YouTube in 2006 for USD 1.65bn. 10 years later, YouTube is the world leading internet page for uploading and viewing video content. I use YouTube several times a day for all kinds of content and do not even consider alternatives when searching for a video. Interestingly, the consumption of children and teenagers is even more vast. To them, "YouTube-Celebrity" has become a perfectly acceptable vocation and YouTube is progressively substituting TV as the leading passive entertainment medium.

[2] Unless, like the author of this text, you once spent time as a summer intern during a M&A deal. In that case, cut the last sentence.
[3] Google was renamed to „Alphabet" to account for the fact that the group has added many more activities outside of search over time (e.g. self-driving cars).

YouTube enjoys very strong network economics, making it a highly attractive asset of Alphabet. Imagine you produced a compilation of videos portraying dogs taking a bath[4] - only YouTube would give you the audience of more than 80m viewers. On the other hand, dog-bathing-pundits likely visit the one page on the internet that holds the most videos of their beloved genre: YouTube. Result is a virtuous circle of supply and demand that is hard to break by market entrants.

The financials of Alphabet currently do not show the economics of the aforementioned. While YouTube does advertise, the ads are not well targeted yet and de facto all revenues earned are reinvested into building the platform. Currently, I estimate little profit contribution of YouTube to Alphabet. Both Netflix and Spotify have demonstrated to generate c. USD 10 per month per user in revenue through subscriptions and advertising. Both platforms are generally comparable to the YouTube offering. If YouTube managed to extract similar economics from only 10% of the user base, the current revenue potential would be c. USD 12bn. It's not unusual for platform businesses to run at 30% margins (some earn well in excess of that). 30% margins would imply USD 3.6bn latent earnings potential of YouTube that is currently not reflected in Alphabet's financials – and YouTube is only one of seven apps within Alphabet that is used by more than 1bn users.

Office 365:

Few software products are as ubiquitous as Microsoft's Office suite. Letters get written in Word, calculation are made in Excel and presentations are held in PowerPoint. However, the sustainability of the competitive advantage is not only caused by users' habits and familiarity. More so, Office also enjoys remarkable network economics. As a company, I select the office software that allows for quick on-boarding of new employees. In many job profiles, "proficiency in MS Office" is demanded. A worker has no incentive to get educated in any other software as most employers use MS Office. Result is a network of supply and demand that is hard to break, even by the strongest of market entrants (Google Docs has been losing ground after some initial traction).

The new version Office 365 is cloud-based, i.e. computing processes do not run at the individual computer but rather in a datacentre that is accessed over the internet. This has numerous advantages for the customer, as the software is always up to date and enterprises especially can reduce on-premise computing resources, such as server rooms. Moreover, Microsoft did change the pricing model for Office after the switch to a cloud-based deployment. Office used to be bought in perpetual licenses (costing around USD 150 per user) which got renewed every four to six years, mostly when the user bought a new computer. Therefore, Microsoft earned between USD 25-50 per Office user per year. On the other hand, Office 365 brings in roughly USD 100 per user per year through its subscription model. Functionality is higher and Microsoft does incur higher costs to serve users but there is still a substantial net benefit in contribution per user. Office 365 has gotten great traction especially among corporate customers and is growing quickly. Given that Microsoft is in the midst of the transformation to Office 365, some accounting effects currently quite literally cloud the latent earnings potential of Office 365. At the risk of overusing metaphors here: the clouds should fade over the next quarters and make the underlying truffle in the Microsoft product portfolio obvious.

Opportunity costs

TGV Truffle, our relative benchmark Berkshire Hathaway, and almost all global stock indices have suffered significant price declines since 01/04/2015. This raises the question whether, after years of rising stock markets, a higher weighting of cash and a slower build-up of investments would have made more sense. The stock market often tempts investors to make assumptions about short-term share price performance. My concept is to use the mood swings of the market for the benefit of the portfolio. It is

[4] https://www.youtube.com/watch?v=V4LnorVVxfw

not my goal to predict those mood swings. It is therefore logical that the amount of cash held in TGV Truffle is a residual of available investment ideas. Many ideas = low cash quota, few ideas = high cash quota.

Every available investment is evaluated based on opportunity cost. For every investment opportunity in TGV Truffle the question is asked: “What has to be sold in order to make the new investment?” In this comparison, cash does poorly because it currently yields no return. Furthermore, our nine investments in TGV Truffle ensure intellectual discipline in the assessment of each new investment, because it is also owed to the initially discussed confirmation bias that a decision for a superficially researched investment is made all too quickly.

The human psyche is longing for clarity and approves of mental shortcuts. In particular, investment ideas presented by third parties often sound reasonable. “Why not just buy, it sounds pretty plausible, and a 1% position does not hurt anyone!” the urge for approval squeals in the head of the portfolio manager. On the stock market it is now easy to make an investment by simply pressing a button and within seconds you are a shareholder of a company. However, solid investing for me is based mainly on solid research. In my opinion you can easily put a stop to the intellectual short circuit by consistently asking yourself: “Is idea XYZ worth so much that I am prepared to sell part of my current portfolio for it?” Many of the investment ideas considered initially sound extremely interesting – until I realize that TGV Truffle would have to sell e.g. Alphabet shares in order to buy it. Very, very many ideas lose their lustre, when you compare them with Alphabet!

Good partners

There are two recurring patterns in the careers of almost all outstanding fund managers over the past 50 years. Firstly, even the best investor sooner or later has periods of temporarily poor performance. Secondly, after periods of good performance the fund managers typically receive substantial inflows and after periods of poor performance they suffer substantial outflows. The result is that in many cases the actually achieved average performance for investors in successful funds massively diverges from the performance per fund unit. A sad extreme example of this phenomenon is the Fidelity Magellan Fund, managed by Peter Lunch from 1977-1990. In these 13 years, Lynch was able to record a completely outstanding annual performance of 29% - yet the average investor invested in the Fidelity Magellan Fund has lost money in the same period.

It is remarkable that the current investor base of TGV Truffle has made an investment decision based on quantitative factors (there simply is no five-year track record yet). Therefore, I would like to thank you for the confidence in my work as a sub-advisor and the Investmentaktiengesellschaft für langfristige Investoren TGV as portfolio manager. Should TGV Truffle become bigger and it becomes apparent that after a period of (hopefully!) good performance there is a capital inflow: rest assured that your interests as the “investors of the first hour" will always remain protected.

In fact, I find a result as the one of Fidelity Magellan – a good performance yet the average investor still loses money – not desirable. I believe that I will be able to avoid this, with the investor base of TGV Truffle growing sustainably and me taking the time to get to know each individual investor. In the end, I aim for a hopefully long-term partnership in which I constantly benefit from the exchange with TGV Truffle investors.

Outlook

The Truffle TGV currently holds an adequately diversified portfolio of outstanding companies. I am convinced that the quality and prospects of those companies is currently being underestimated in the capital market. For the coming years, I am confident and I am happy to follow these companies on their journey and to keep you up to date with my sub-advisor reports.

On June 11, 2016, the annual investor meeting of the Investmentaktiengesellschaft für langfristige Investoren TGV will take place in Bonn. You are cordially invited to attend and will receive a formal invitation in the mail soon. As in recent years, everyone is encouraged to bring their family and especially their children to Bonn. Buffett bought his first shares when he was only eight years old. I bought my first stock at the mature age of 12. Give your children the chance to outdo that and break Buffett's record[5]!

I look forward to meeting you in June, and to your questions in particular. Feel free to drill us with questions, the days are longer in June!

Until then, best regards and thank you again for your faith in me

Yours

Jan-Hendrik Mohr
JMX Capital GmbH

[5] For the remote case that this is not convincing enough: the Haribo factory outlet happens to be based in Bonn.