Dear Investors

We are enclosing the shareholder letter for our Teilgesellschaftsvermögen “Partners Fund” for the year 2016 written by our sub-advisor MSA Capital GmbH.

Yours sincerely

Investmentaktiengesellschaft für langfristige Investoren TGV
Dear Investors,

As of December 30, 2016, the share price of the sub-fund (TGV) Partners Fund was EUR 117.67. For the calendar year 2016, the TGV thus shows a change in NAV of +15.95 %, including all costs. Over the same period, the DAX achieved a performance of +6.87 %.

For an investor who has invested in the DAX in March 2015 instead of the TGV Partners Fund, the DAX would have had to increase by +22.64% as of 31 December 2016 in order to match the TGV’s performance. As a result, the TGV Partners Fund has outperformed the broad indices as of the record date.

<table>
<thead>
<tr>
<th>Year</th>
<th>TGV Partners Fund</th>
<th>DAX</th>
<th>Difference Δ</th>
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<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>+15,95 %</td>
<td>+6,87 %</td>
<td>+9,08 %</td>
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<table>
<thead>
<tr>
<th></th>
<th>per annum</th>
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<tbody>
<tr>
<td></td>
<td>+9,74 %</td>
<td>−2,33 %</td>
<td></td>
</tr>
<tr>
<td></td>
<td>total</td>
<td>+17,67 %</td>
<td>−4,05 %</td>
</tr>
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Even if the outperformance appears to be impressive, I still believe that an assessment of the performance is not meaningful since it does not represent a relevant benchmark for the evaluation of an investment manager for a period of under two years. The abilities of an investor can only be seen in multi-year results that include periods of both rising and falling markets.

However, it is likely that the outperformance in the future is not going to be as high as in the two preceding calendar years that often. It is to be expected that phases of underperformance will occur since periodic sharp fluctuations in performance are unavoidable. I am not trying to anticipate and even minimize those effects.

„He who does not own shares when they decline does not own them when they go up either.“

(André Kostolany)

This quote describes a good part of the performance in 2016 because the TGV Partners Fund was invested in 2015 when the shares fell, but it was also invested in 2016 when the prices rose again. While the acute crisis in the oil and gas industry in 2015 had an adverse impact of around -10% on the TGV, this development was reversed in 2016.

Without the relative share of the oil and gas companies in the TGV having changed significantly, and without any real brightening of the situation in the industry, all of these stocks have risen sharply in 2016. TGS Nopec, Distribution NOW, and National-Oilwell Varco have recovered from their lowest prices in February 2016, with price gains between +50% and +80% by the end of the year. In total, the investments in this sector are now profitable, so that a contribution to the performance of the entire TGV of around + 10% for the calendar year 2016 can be attributed to these three companies.
The acquisition and the associated sale of **Energy Assets**, as described in the Interim Report 2016, resulted in a profit contribution of slightly more than +2% with regard to the total assets of the TGV Partners Fund.

Another driver of the performance was the sharp rally of some companies after the election victory of the Republican presidential candidate, Donald Trump, in November 2016. Subsequently, in anticipation of a higher inflation and potential infrastructure measures in the US, some companies experienced price leaps of more than 20% in just a few days (**Leucadia** and **Fastenal**).

The price development of foreign currencies (essentially US dollar and British pound) had little effect on the performance of the TGV. Since the inception in late March 2015, the US dollar has become somewhat stronger against the euro while the pound has lost a lot against the euro. Both effects have been measured in euros.

**The companies in the TGV Partners Fund**

Below are 10 of the 16 companies in which the TGV was invested in as of December 30, 2016:

- Alphabet (Google)
- Fastenal
- Leucadia
- National-Oilwell Varco
- TGS Nopec
- Distribution NOW
- Gruppo MutuiOnline
- Microsoft
- Rolls Royce
- Tucows

These 10 companies account for approximately 80% of the fund’s assets. The largest company the TGV is currently invested in has a market capitalization of more than 500 billion dollars, the smallest of less than 10 million euros.

The core investment principles of the TGV Partners Fund have not changed and will not change in the future. In my recommendation of 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**

There have only been a few changes compared to last year. After a good price performance, **Microsoft** is now in the top 10 again. **Admiral Group** is no longer in the top 10 after a price development which was below average but remains an integral part of the portfolio.

The freed-up resources from the sale of **Energy Assets** have been invested, among others, in shares of the Canadian company **Tucows** in late summer.

I do not perceive the few major changes within the TGV Partners Fund as inaction, but take it as a very positive sign. On the one hand, not-so-active trading helps to keep the often underestimated transaction costs low. On the other hand, it shows that most investments of the TGV Partners Fund have been developing as expected and no sales were necessary.
Tucows

After an excellent performance since the purchase in the late summer 2016, the position in Tucows is now one of the largest portfolio items. The company meets all the requirements of the TGV Partners Fund for a potential investment, and with CEO Elliot Noss, it has a business leader who does not only outperform in terms of operational and strategic decisions, but also when it comes to the subtleties of capital allocation. In addition, Elliot is substantially invested in Tucows. An excellent combination, that rarely occurs in such a pronounced manner.

Tucows – pronounced “two cows” – is a Canadian company, which is among the largest registrars of Internet domain names worldwide. A domain name registrar is an organization or commercial entity that manages the reservation of Internet domain names on behalf of customers. During the registration of an Internet domain, a lot of inconvenient detail work and queries occur. There are now hundreds of millions of domains with endings such as " .com", " .net", or " .de". Therefore, in the early years of the Internet, some companies have moved to offer this service as a specialized provider. Tucows has a fantastic track record in terms of customer volume, satisfaction, and cost structure.

In the past, Tucows was enthusiastic when it came to testing and introducing business models close to its own business, but also in terminating them in the event of non-success.

In 2012, Tucows had begun to extend the in-house standards of customer service and simplicity to other areas as well and launched a mobile phone service under the brand "Ting". Only recently Tucows has added particularly fast Internet connections via fibre optics to its product range in several cities in the US.

In Germany as a brand, Ting is similar to Simyo, and Tucows as a holding could be compared with United Internet. With its "no frills" range, which is characterized by simplicity, low costs, and a short contract term, since its inception in 2012, Ting Mobile has now around 250,000 devices/their users under contract. A tiny drop in an ocean, which is estimated at over 400 million devices, but fantastic success for a relatively small company, which is now as valuable to the company as the old core business with the service around the registration and handling of Internet domains. More satisfied customers will hopefully follow.

Given that Ting is negligibly small compared to the overall market in the US, the chances are good that Ting has found a profitable niche. Hopefully, it can be expanded while the original business continues to generate stable earnings to fund future growth.
Sell, but when?

Asking the questions when and under what circumstances stocks are worth buying, there is much more unity among value investors than when it comes to the question of when (and if) they should be sold again.

Given the historically low holding period of stocks, I am convinced that far too many investments are sold way too quickly. If the shares of a company are not worth buying with the goal of holding them for five years, they should not even be held for five minutes. However, if shares are worth to be held for five years or longer, they should indeed be held that long. This is, however, much easier said than done.

Typically, I recommend selling a position if one of the four criteria listed above has been violated after the purchase. This can happen because certain facts change, but also when I see in retrospect that I was mistaken in the original analysis. Both cases will most likely occur in the future. In the case of criteria 1-3, this is generally easier to detect than with criterion 4.

Criterion 4, the attractive price, is mainly influenced by the fact that the prices change almost daily and the valuation of shares fluctuates considerably even after a short period of time. A company, which yesterday seemed to be extremely favourable, can now be only moderately cheap, or even expensive. Making the right decision in regards to a company you know well is a very difficult one to make. Maybe even because you know it well.

In many cases, for a company with truly fantastic competitive advantages, good growth rates, and a truly excellent management, the realization of a large part of its intrinsic value lies in the future. Moreover, before this backdrop, a price that seems extremely expensive today can still be attractive. Amazon is an excellent example for that matter.

Since the purchase in early April 2015, the shares of Amazon more than doubled in value in a short time, without the inner value increasing by the same margin. In my opinion, the intrinsic value of Amazon has grown significantly in the same period of time, but it has by no means doubled. Consequently, today the gap between price and intrinsic value is considerably smaller and the expected future rate of return is correspondingly lower than at the time of purchase. These facts are completely independent from the quality of the company and its management, both of which are extremely good.

As I am looking for the best possible rational choice of investment decisions and the best available alternatives at any given point in time, and since after this fantastic price increase of the Amazon stock, many alternatives seemed much more favourable, it was with a very heavy heart that I have recommended the sale of the position in Amazon in the course of the year 2016.

Only the future will show whether this was not a serious misjudgment. Perhaps, despite a very long-term perspective, I have severely underestimated the real value of Amazon and the many qualities and options that the company possesses.

For comparison purposes, it would have been a colossal mistake to sell IBM in 1935, only 20 years after the IPO in 1915, or Coca-Cola in 1939, only two decades after the IPO in 1919, despite high valuation or miserable operating results and price performance.
The enduring durability of the healthy growth of both companies would have made the companies a reasonable investment at almost any point in time, and some seemingly cheap alternatives would have turned out to be a bad deal.

Since I consider myself a value investor in the sense of Graham & Doddsville, I have dubbed this particular case of selling for the price as a potential "Grahamian mistake". Since the apparently high valuation of a company is the only criterion for the decision to sell, and criteria 1-3 are still intact, it is often the case that the companies sold still develop exceptionally for years or decades to come. It would have been better to keep the stock without heeding to today's valuation and Benjamin Graham.

Only the future will tell whether Amazon can prove this persistence and long-term success now, 20 years after its IPO. However, should the price of the shares of Amazon become much more attractive with regard to the intrinsic value, I will recommend the shares without hesitation as a potential investment for the TGV Partners Fund, as criteria 1-3 still apply.

**Operational development vs. share price development**

In order to assess the success of a company (as well as an investment manager), price development within one year and on a single reference date is certainly not the right measure. Therefore, while it is true that prices have experienced an overall upturn this year, this fact does not necessarily imply the actual operational success or failure of the companies included in the TGV Partners Fund. Despite being central drivers of the intrinsic value, the development of profit and cash flow measured over a too short period of time can easily deceive.

All in all, the companies in the TGV Partners Fund have so far mostly developed as expected. Some companies developed better, others slightly worse, but no company was operationally seen a complete runaway. This finding is consistently positive since losses have the bad habit of invariably being caused by those risks, which have been overlooked and not adequately priced in.

*Good prices despite bad news*

Some companies have naturally widely fluctuating results as they operate in cyclical industries. For example, the profits of **TGS Nopec**, **Distribution NOW** and **National-Oilwell Varco** in the oil and gas sector have all fallen significantly since our commitment in the spring of 2015, and all three companies will end 2016 on a loss.

A circumstance which is, of course, not particularly desirable, but not surprising given the extent of the crisis in the sector. Due to the low oil price, activity in the sector has contracted at a massive scale. In 2015 and 2016, for example, the total newly discovered reserves were at the lowest level since 1947. A crisis of such magnitude only occurs once in decades.

For all three companies, however, the losses are also caused by high and plausible one-off expenses (goodwill amortization). The free cash flow (after expenses for maintenance investments) was positive for all three companies, a circumstance which, in combination with a healthy balance sheet, is a testament of a strong survivability. Despite the losses, I am pleased with the operating performance of the companies. The sharp rise in prices already anticipates a very clear recovery in the operating situation in 2017. It will take some time until we will see whether this will actually happen.
Poor prices despite good news

Even highly successful companies, whose intrinsic value increases very steadily, may from time to time incur stagnating or even shrinking profits. For example, if the acquisition of new customers, the expansion of a competitive advantage, or the start of a new business segment involve investments that have an impact on the profit and loss account.

In addition to profit and cash flow, further parameters, such as customer growth or customer characteristics (customer life cycle, average return per customer, etc.) must be applied to assess the meaningfulness of these investments in order to provide sufficient information on the success or failure of the company.

Against this yardstick, one of the largest investments of the TGV Partners Fund, Alphabet, the holding company of Google, had another particularly strong year in 2016.

In my opinion, in 2016, there were few investments in stocks that could have such a good ratio of reasonable chance at a moderate risk as the investment in Alphabet. Few companies dominate their field that much, have so much room and options for sustained further growth, invest so massively and so systematically in the future, and yet, in spite of all this, are still as profitable and appropriately valued as Alphabet.

The daily user may not realize it, but even established services such as Google Maps and YouTube are just beginning their entrepreneurial journey. The further dissemination of mobile Internet in connection with higher bandwidth of the Internet speed in the world signifies a tailwind for very many areas of the enterprise that should not be underestimated.

Although revenues and earnings were expected to grow by an excellent +20% over the last year, the company’s shares are virtually unchanged in 2016, making it a clear and significant underperformer within the S&P 500.

“The art of prophecy is very difficult, especially with respect to the future."

The 2016 has again demonstrated impressively, how difficult it is to make any kind of forecast of market developments. The reactions to Brexit and the election of Donald J. Trump are just two striking examples. Therefore, I see no value in terms of a forecast of what the markets might do in 2017, where they might be around this time next year, and I have no ambition to make a prediction here. However, I believe the TGV Partners Fund is set up well for the year 2017 and beyond, precisely because it is not dependent on such short-term predictions and market developments.

The companies the TGV is invested in are in my opinion of significantly above-average quality, have good growth opportunities, and excellent management teams. These characteristics, combined with an overall attractive valuation, should lead to satisfactory results over time.

Should the sea become rougher from time to time, our companies are well equipped. Most companies in the TGV Partners Fund have no debt; some have moderate debt. Based on a single fund share, the companies in the TGV Partners Fund are debt-free – an excellent prerequisite to master any storm.

Investor meeting:

The Investmentaktiengesellschaft für langfristige Investoren will hold their annual investor meeting on Saturday, June 10, 2017, in Bonn-Bad Godesberg.
As a partner in the TGV, you will receive an invitation shortly, as every year. If you have not been able to participate so far, I would like to encourage you to come to Bad Godesberg. It is worth it! It is an excellent opportunity to meet the other partners and the colleagues in the Investmentaktiengesellschaft für langfristige Investoren.

On that note, I wish you a healthy year 2017 and thank you for your continued trust.

Kindest regards from Bonn,

Mathias Saggau