Investmentaktiengesellschaft für langfristige Investoren TGV

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Dear Investors

We are enclosing the shareholder letter for our Teilgesellschaftsvermögen "Rubicon Stockpicker Fund" for the year 2017 written by our sub-advisor Rubicon Equities GmbH.

Yours sincerely

Investmentaktiengesellschaft für langfristige Investoren TGV

2017 Annual Report of the Sub-Advisors

Dear co-investors,

The TGV Rubicon Stockpicker Fund is currently fully invested in ten companies. The cash position as of 29/12/2017 was 0,4%.

List of the top 5 investments:

Rank	Name	ISIN	Weight
1	Max 21 AG	DE000A0D88T9	15,1%
2	Amaysim Australia LTD	AU000000AYS5	14,9%
3	Invision AG	DE0005859698	14,6%
4	Gruppo MutuiOnline	IT0004195308	14,3%
5	Now Inc	US67011P1003	13,8%

NAV on 29/12/2017	**105,57**
Number of Investments	10
Weight of biggest Investment	15,1%
Weight of top 5 Investments	72,5%
Weight of Cash	0,4%

Side note: Songa Bulk AS + Eagle Bulk shipping Inc. 16,0%

Performance overview

Since its launch in October 2016 up until end 2017 the fund returned 5,6%. The German Large Cap Index (Dax 30) had a significantly better performance of 21.2% over the same period.

	TGV Rubicon Stockpicker Fund	Dax 30	(Delta)	Benchmark 6% p.a.	(Delta)
Since 31.10.2016	5,6%	21,2%	-15,6%	7,0%	-1,5%
2016 since start	4,4%	7,7%	-3,3%	1,0%	3,4%
H1 2017	-3,0%	7,4%	-10,4%	3,0%	-6,0%
H2 2017	4,1%	4,8%	-0,7%	3,0%	1,2%

Investors therefore would have fared better by investing broadly into the index. Similarly, European small and midcaps (our core segment) continued their rally. The relative underperformance of the TGV hurts.

In our last letter we already explained why we consciously took the decision to take out market risk, underweight the small and midcap segment, and rather focus on select niche segments. We believe the Shiller-PE-ratio is an indicator that captures our current view of financial markets well.

One of the most common valuation measures for investors is the Price-Earnings-Ratio (in short PE ratio). It indicates whether the valuation of a company is high or low in comparison to its earnings power. Usually one compares this year's earnings with today's market capitalisation. However, this view neglects the fact that earnings are cyclical. In good years earnings are relatively high and in bad years earnings are depressed. We believe that we are currently (after many years of monetary easing and strong economic growth across the globe) in an up-cycle, i.e. earnings are rather toppish and, hence, standard PE ratios look lower than they actually are.

The Shiller-PE-ratio accounts for such business cycles by using the average earnings of a company instead of this year's earnings. As a result, one compares the company's valuation with its average earnings power across a business cycle. As of today, the Shiller-PE-ratio indicates levels comparable to 1929, just before the great financial crisis, and just topped during the new economy hype.

This is a clear red flag for us. At the same time, we are conscious of the fact that the Shiller earnings estimate also includes the highly depressed earnings of the financial crisis. The current positive momentum for company earnings shows no signs of deceleration. In addition, valuations always need to be assessed in relation to the interest rate environment. Valuation levels shift in times of low or even negative interest rates – a trend that is very tangible for example in the urban real estate market. Not too long ago, investors required a return on investment of 5-6%. Today, they are satisfied with 2-3%. As a result, valuations double without any improvement in the earnings power.

To summarize the current environment: today's stock market valuations are defendable (but they are no bargains) and there is no sign of an imminent threat to the current upswing. But we are not momentum traders (currently a very successful strategy), i.e. we do not recommend an investment at defendable valuation levels, hoping to find someone else in the future who will pay an even higher price. Instead, we appreciate the risk that the current upswing might decelerate for any reason at any moment. Against this background, we search for undervalued companies with a margin of safety. And we believe we can best find these in select niche segments.

Developments of the TGV portfolio companies

1. Maritime Investments

After many difficult years, especially in the Dry Bulk segment, we start to see positive signs. Supply side growth in 2018 will be limited due to depressed new orders during recent years. With charter rates picking up, we also see an increase in new orders, but many new orders will only be delivered late 2019 or beyond. At the same time, regulation is tightening in 2020 which will penalise old vessels. Today's order book therefore also needs to cover the replacement need post 2020.

From a supply side perspective, we are hence very positive. Obviously, a new recession – especially in China – could stop the current market recovery. But given the very positive macro-economic environment we are hopeful to see strong growth in demand that will outpace supply side growth. These are great preconditions for an increase in charter rates that will directly impact the cash flows of the TGV's portfolio companies. Once the shipping market turns for fundamental supply-demand side imbalances, the swing can be material.

2. Small & midcaps with attractive optionality

In this sub-segment of the TGV portfolio, we are – despite the great potential we still see there – below our expectations. We therefore recommended select corrective measures:

Eurotech
As mentioned in our last letter, we see a deterioration of the risk-return profile of Eurotech. We consequently recommended a reduction of the TGV position. As of the end 2017, Eurotech represents close to 6% of the portfolio. We feel comfortable with the reduced weighting, especially since the legacy business experienced a tangible recovery over recent months and we are still convinced by the potential of the Internet of things (IOT) business. We will continue to stay close to the company and will recommend further adjustments if required.

Max21
The concerns we started to express after H1 2017 were confirmed in H2 2017. The sale of the Binect Cubes went according to plan but customers struggle to implement the solution. In particular, users in small businesses are reluctant to change processes and use the full potential of this new technology. As a result, too many sold Cubes never hit the mail volumes they were supposed to achieve.

The company reacted quickly and shifted its focus to the enterprise business, i.e. a more sophisticated solution for businesses with high mail volumes. Those companies have a clear strategy to become digital and once the solution is sold its implementation is a priority for the entire organisation. This strategic shift seems to work well: in its Q3 report the company refers to a strong sales pipeline. Break-even is expected in early 2018.

Regarding KeyIdentity, the sales cycles for blue chip customers continue to be very long and the company subsequently also adjusted its sales approach. On top key accounts, KeyIdentity wants to focus even more on the German "Mittelstand". Cyber Security in general and Multifactor-Authentication in particular have strong momentum. The company needs to find a way to quickly transform this momentum into recurring revenues. KeyIdentity aims to break even in H2 2018.

The two topics of digitalisation and cyber security are currently very hot. The Max21 Management Team is excellent, and we are eager to even further support the growth ambition of this great company. We therefore decided to accept the proposal for Lars Ahns to enter the board of directors. We are convinced that the opportunity to participate in shaping the company‵s future largely outweighs the constraints related to being a member of the board.

3. Great (and undervalued) companies

There is limited news on this third category of companies. Gruppo MutuiOnline and Amaysim show a continuous improvement and a pleasing and highly profitable growth. It is great for us to describe a company's evolution in such a short manner.

As mentioned before, great (and undervalued) companies are our preferred category – even though they are rather rare. Our objective over the last six months was to focus even further on the concrete aspects of what makes companies these companies truly great, i.e. a management of high integrity, a sustainable business model, a strong competitive position, and good capital allocation.

New investments

We believe that the two new TGV investments check all the boxes and we are more than happy to explain them in more detail below:

Now Inc.

Our colleagues Mathias Saggau and Jan Mohr pointed us toward this investment opportunity early on. Now Inc. is a US distributor for the oil and gas industry with a strong market position and a very solid balance sheet.

After the slump of the oil price in 2014 the entire industry had to face a period of low or no investment. This had a strong impact on all relevant players but for Now Inc. it led to a decrease in sales of about 50%. Given the high fixed costs of the business the impact on the bottom line was devastating. Just like with the maritime investments, this is a contrarian strategy that we believe will yield attractive returns.

We specifically chose to recommend an investment in Now Inc. rather than other oil and gas companies because we believe Now Inc. is a truly great company. At the beginning of the oil price crisis they had a very solid balance sheet and a highly competitive position. The management used the crisis to further strengthen its positioning by several targeted acquisitions. The company is run by good capital allocators, an aspect that cannot be overestimated in the long run. Now Inc. is positioning itself more and more as a value-added service provider and one-stop shop.

Obviously, there is a high dependency on the oil price. But the company is already break even today and continues to have a strong balance sheet despite the acquisitions. We are happy to wait for oil and gas investments to pick up again. If on the back of continued underinvestment, the oil price increases even further and investments kick in again, Now Inc. will experience a strong upside.

InVision AG

We are extremely happy to see Invision AG as one of the TGV's biggest portfolio positions since December 2017. We have known Invision for many years now but were initially reluctant to recommend a larger investment because of its high valuation.

InVision is a provider of Workforce Management Solutions for call centers. Its algorithms optimize the workforce shift schedule based on the forecasted number of calls. This leads to lower costs for the call center, better availability, and improved service quality for end-customers – as well as more flexibility for employees.

Additionally, Invision has an e-learning platform for advanced training courses for call center employees covering everything from customer communication and regulatory topics to company-specific subjects.

Invision completed an aggressive transformation over recent years whereby it developed a state of the art cloud platform and implemented a truly agile company culture. This transformation resulted into a very cost efficient and highly scalable product offering. In addition, Invision became one of the most sought-after workplaces especially for the IT development community. This is a competitive advantage that cannot be overstated.

Over recent quarters the company failed to live up to the high growth expectations. We see this as a merely temporary issue in sales execution and there is no reason to revise our positive view of the company's potential. We are therefore more than happy that the

TGV was able to acquire a relevant stake of this great company at around a third of its historical high.

We believe the transformation has been completed and this highly innovative company has great potential that will lead to a significant value creation over the mid- and long-term. We are extremely happy to accompany the company on this journey.

Conclusion

We are not satisfied with the current performance. At the same time, our investment horizon is not one year. We aim at a significant outperformance over the entire economic cycle.

With this objective in mind, we see the TGV portfolio as highly attractive. Each individual company has a strong potential at a very reasonable valuation. We look confidently into the months and years to come.

Thank you for the trust you place in us!

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