Investmentaktiengesellschaft für langfristige Investoren TGV
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Dear Investors,

Attached, you will find the semi-annual report for the year 2017 provided by our sub-advisor JMX Capital GmbH for the sub-fund „Truffle“.

Kind regards,

Investmentaktiengesellschaft für langfristige Investoren TGV

Semi-Annual Report 2017 of the Sub-Advisor

Dear Investors,

The performance in the first six months of 2017 was satisfactory and reflects the encouraging operational developments of the TGV Truffle investments. A rising price does not have to make a stock more expensive, as long as the value of the firm goes up in line with its quotation on the stock exchange. Regarding valuation, there were positive surprises (for example, a very sensible acquisition by Tucows), as well as the expected arrival of projected developments (such as Rolls-Royce's continued successful transformation). In fact, despite the good price performance in the recent past, the investments within TGV Truffle still seem attractively valued.

Measuring and Weighing

Analogous to prior reports, please find the most important portfolio and performance data about TGV Truffle in the following table:

NAV as of 06/30/2017 in EUR	114.36
Total number of investments	10
Weighting largest investments	23.5%
Weighting of the top 5 investments	76.9%
Weighting cash / fixed deposit	0.1%

Alphabetical Listing of Top 5 Investments:

Alphabet

Amaysim

Microsoft

Rolls-Royce

Tucows

Period	TGV Truffle	Berkshire (in EUR)	*(Difference)*[1]	6% p.a. Benchmark	*(Difference)*[1]
Since 04/01/2015	+14.4%	+10.0%	*(+4.3%)*	+14.0%	*(+0.4%)*
In 2016	+18.1%	+27.5%	*(-9.4%)*	+6.0%	*(+12.1%)*
In 2017	+10.7%	-4.1%	*(+14.7%)*	+2.9%	*(+7.7%)*

Portfolio Changes

TGV Truffle sold the position in National-Oilwell Varco (NOV) in the past six months. The reason for my recommendation was my changed assessment of the company's business model. The oil and gas industry is currently undergoing significant technological upheavals, such as the increased importance of fracking. The implications on offshore technologies is subject to various uncertainties. The more I focused on the situation, the more unclear became the consequences for NOV (which happens to be a leader in offshore technologies). My evaluation of the management or corporate culture has not changed – I am just not convinced to be able to assess the end markets anymore.

At the same time, the direction of the development of the oil and gas distribution firm Now Inc. (DNOW) is becoming increasingly apparent. The management team is outstanding and I am increasingly convinced that we face a situation where the right people meet the right tasks at the right time. DNOW is consolidating smaller players in its industry and thereby achieves scale benefits in distribution and sourcing. This goes along with the current crisis in the oil and gas sector that helps DNOW's quest to consolidate their industry as acquisition multiples are depressed.

Therefore, it was a clear recommendation to reduce NOV in favour of DNOW and thus to concentrate the investment in the oil and gas sector on the best idea.

Time

If you look at the performance of Warren Buffett's Berkshire Hathaway it is striking that only about 20 investment decisions account for the greatest part of the outstanding performance over the last 50 years. In hindsight, it is comparatively insignificant, how much value Buffett has added besides these great decisions. The vast value creation happened when Buffett was prepared to act on rare and large opportunities.

[1] Small differences can occur due to rounding.

The long-term and concentrated strategy of TGV Truffle will be subject to similar logic. A very small number of my research recommendations will be crucial for the long-term performance of TGV Truffle. To that end, it makes a lot of sense to prepare for these future situations and to acquire a repertoire of abilities, knowledge, and decision-making tools. Such a situation can, for example, be the significant fluctuation of the price of a company on my watchlist, which subsequently needs to trigger a sensible recommendation for TGV Truffle.

Of course, building such a repertoire takes time. Time that could also be spent on other activities. In the course of the day, a conflict of objectives ensues from the use of time which is *beneficial in the short term* or *beneficial in the long term*.

The overwhelming part of working time in the financial industry is spent focussing on *short-term benefits*. Many market participants are concerned of whether or not the profit expectations of the analysts will be exceeded by a company. Even more brain capacity is concerned with what exactly interest rate decisions could entail "for the markets". I do not want to deny that these considerations can even be valuable in individual cases. The problem is that this research, which is useful in the short term, has a very short period of validity. A successful investor has called this "information with short shelf-life". In order for an investor to benefit from short-term useful information, this information must constantly be updated, since most short-term information can – the clue is in the name – only be used for a short period.

In contrast, a different kind of information comes with *long-term benefits* (reading a book about decision psychology, impressions from a management meeting, visiting a trade fair to understand an industry, etc.). The advantage of spending time on this form of information gathering is that it builds a knowledge base. I can tap that knowledge base to improve judgement on investment decisions in the future. To keep one's cool in an economic crisis, or to identify one extraordinary team in hundreds of management meetings requires practice and preparation – and ultimately determines the long-term investment success.

The great advantage of long-term useful knowledge is the value of experience. Experience means that a brain can process incremental information into judgment better, because that information is perceived in the context of similar, already known information. Herein lies the core of the competitive advantage I have over many other investors: a really long investment horizon and hence the ability to benefit from experience. This is, because I started investing early in life and now advise TGV Truffle, a structure that is optimized for longevity. Therefore, I should look for research areas in which experience improves performance. For me, for example, the evaluation of management teams is a field in which I can build up advanced knowledge and understanding over a long period of time. Therefore, I increasingly seek out companies run by outstanding capital allocators as research projects for the watchlist. Through the research, I will establish a network and a wealth of experience for future management analyses. Indeed, the information I gather that way might not add value at one discreet point in time but it hones my skills. Such skills can be applied multiple times over many years. Furthermore, most management talents only stand out after several contacts and years of observation – in this light, a research period of several years is indispensable for adequate management assessment[2].

If you want to optimise the results over decades instead of months, this also changes the type of companies you want to allocate research time to. In particular, it makes little sense to research small, slow-growing enterprises. As a potential investment, these companies become unattractive quickly. This is because the compound interest effect (especially when it comes to outperformance) causes the capital base of long-term investors to rise rapidly. Ironically, as a result, the best-performing small cap investors cannot operate efficiently in this segment after a very short time and have to shift their focus towards larger companies. Their acquired knowledge base on small businesses is thus steadily losing its value. Investors who have always dealt with larger companies or strongly growing companies gain a knowledge advantage over time.

Book Recommendation

A few weeks ago, I devoured "Scale" by Geoffrey West[3] in two days. West is a professor at the Santa Fe Institute (SFI), an interdisciplinary institute in the desert of New Mexico. I have been following the SFI for several years, because the scientists working there in all disciplines regularly produce very stimulating reflections. In his latest book, West explains the fundamental principles growth is based on. What actually limits growth? Why are there maximum and minimum sizes in mammals? Why do many companies die after a short time, but why are there almost no examples of dying cities? "Scale" is in my opinion not only incredibly relevant for the understanding of many spheres of life, but also very amusing.

[2] At the same time, the ever-expanding use of passive investment strategies (such as ETFs) entails that only an ever-decreasing number of market participant practices the so important qualitative assessment of the management. Knowledge in the field thus gains in relative importance.

[3] West, Geoffrey: "Scale: The Universal Laws of Growth, Innovation, Sustainability, and the Pace of Life in Organisms, Cities, Economies and Companies.", Penguin, 2017.

Outlook

In September, I will spend several weeks in India and analyse companies there. For five years, I have been following some Indian companies more intensively and have visited them several times. Why India? Even though India is rarely at the top of the list of global economic figures, India's growth in these figures is impressive. This has a very concrete impact on Western companies. Take Microsoft as an example: the number of office users is growing worldwide in the high single-digit percentage range. The main driver behind this growth is the increasing number of office jobs worldwide, with a substantial portion of these additional jobs being created in India. In India, for example, the population of working age is growing by 12 million people per year. The business language is English, and the accounting and legal system is very similar to the one in England. The country has built up a competence in the field of IT outsourcing, many employees have excellent IT knowledge, and the engineering education at the top universities of the country takes place on world class level. Of course, India is still worlds away from everything going smoothly and the country still needs to overcome various problems. Nevertheless, it is likely that a significant portion of global GDP growth will come from India in the next 20 years. Indeed, due to my long investment horizon, it seems indispensable to understand the growth of India. This can only be achieved through company visits and conversations with people in the country. I will report on my impressions in the annual report 2017. If you want to go a step further, come visit me in autumn![4]

In this spirit, I wish you a great time and thank you for the continued trust.

Kind regards,

Jan-Hendrik Mohr

JMX Capital GmbH

[4] Choose the safest, most comfortable and most environmentally friendly way to travel: Lufthansa flies daily from Munich to Mumbai and Delhi with the new A350. Let the gentle hum of the Rolls-Royce engines be music to your ears!