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 2017 written by our sub-advisor MSA Capital GmbH.

Yours sincerely

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Sub-Fund Partners Fund
FY-2017: Memo of the sub-advisor – MSA Capital, Dr Mathias Saggau

Bonn, January 2018

Dear Investors,

As of December 31, 2017, the share price of the Sub-Fund (TGV) Partners Fund was € 141.17. Thus, in 2017, the change in the share value including all costs was + 19.97%. As a comparison, the DAX achieved a performance of + 12.51% over the same period.

Year	TGV Partners Fund (1)	DAX (2)	Delta Δ (1-2)
2015 (9 months)	+ 1,48 %	– 10,22 %	+ 11,70 %
2016	+ 15,95 %	+ 6,87 %	+ 9,08 %
2017	+ 19,97 %	+ 12,51 %	+ 7,46 %

per annum	+ 13,36 %	+ 2,82 %	+ 10,54 %
total	+ 41,17 %	+ 7,95 %	+ 33,22 %

If somebody had loaned me a magic crystal ball at the beginning of 2017 that predicted that stock markets would generally rise, devalue the US dollar, and cause major turbulence in the oil and gas sector for the fourth year in a row, I would have expected a positive return for the TGV Partners Fund but certainly a significant underperformance against the DAX. With this prognosis, I would obviously have been quite wrong.

Nevertheless, I would still assign little meaning to the hitherto achieved outperformance. Only a result after many more years, which will inevitably have to include falling prices, will show whether my recommendations for the TGV have created sustainable added value.

I would like to emphasize that the DAX is no more than a mediocre benchmark, albeit in my opinion the best we have at our disposal. The TGV Partners Fund is not explicitly seeking to beat the German stock market. The goal is rather to achieve a long-term return that is above that of all major equity indices worldwide and positive in absolute terms. The DAX represents a sufficiently diversified index that takes into account the dividends and is regularly monitored by most TGV investors due to their background.

Please allow me to explain the drivers of the price performance in 2017:

- The positive overall performance of the TGV in 2017 is largely attributable to the excellent performance of highly weighted positions. Calculated in Euros and including dividends, **Tucows gained 85 %**, **Gruppo MutuiOnline 60 %**, and **Alphabet approximately 20 %**. This performance was accompanied by excellent operational development and positive corporate news.
- Companies listed in foreign currencies, most of them in US dollars, represented around 85 % of the portfolio. The US dollar lost approximately 14 % of its value against the Euro in 2017. A significant headwind for the portfolio.

Currency fluctuations will continue to have both positive and negative impacts on the TGV Partners Fund. It is likely that, as in 2017, these fluctuations over the course of a year will have a significant impact on the performance. However, I believe that the cumulative impact of currency fluctuations, measured over a longer period of time and above all in relation to the performance of the companies themselves, will prove to be relatively insignificant.

- Oil and gas stocks, and oil service companies, in particular, had yet another very weak year, all with a negative performance. Although the oil price has recovered within the last year, the stocks of those companies were not able to shirk the negative impact of the US dollar's performance and poor operating results. The impact of those stocks on the overall performance in 2017 was around -6 % relative to the entire TGV Partners Fund.

The companies in the TGV Partners Fund

Of the twelve companies in which the TGV was invested on 12/31/2017 listed are the ten largest positions in alphabetical order:

- Admiral Group
- Alphabet (Google)
- amaysim
- Gruppo MutuiOnline
- Microsoft
- National-Oilwell Varco
- NOW
- Rolls-Royce
- TripAdvisor
- Tucows

These ten companies account for around 95 % of the fund's assets. The largest company the TGV is invested in, currently has a market capitalization of around EUR 570 billion, the smallest of less than EUR 10 million.

The core investment principles of the TGV Partners Fund have not and will not change in the future. In my recommendations for 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 been few changes within the portfolio since the last semi-annual report. Three smaller positions were sold and the proceeds invested in existing positions as well as **TripAdvisor**, a new position. Shares of **TGS-Nopec** were sold and the proceeds invested in **NOW**.

NOW stocks, which have been in the portfolio since the launch of the TGV in March 2015, have performed very poorly over the past year, experiencing a price drop of approximately 60 % in Euro terms. To increase our share in the company at (hopefully) extremely attractive prices without increasing the risk weighting of the oil and gas industry within the TGV, we sold the shares of TGS-Nopec. The portfolio share of oil and gas companies was around 14 % at the end of the year.

NOW

NOW (also commonly referred to as Distribution NOW or DNOW) is an excellent example of the type of companies I seek for the TGV Partners Fund, and why it is vital to focus on a company intensively and over a longer period of time.

My first contact with NOW was several years ago. In November 2013, National Oilwell Varco (NOV), a major oil services company in the US, announced that it would spin off part of its business. The spin-off was called NOW Inc. and listed on the stock market in early summer 2014.

NOW is a traditional wholesale and distribution business. Simply put, a distributor connects a large number of customers with a large number of suppliers. NOW's scope of supply focuses on products required for drilling and operating an oil field. As a rule, the economic function of a distributor is that of a middleman who minimizes transaction costs (for example search-, information- or storage costs) for the parties involved. A distributor bundles warehousing, ensuring high availability and short delivery times. There is a large number of companies that assume this economic function in different industries and countries; and very often there are outstanding companies amongst them.

NOW, for example, stores and delivers hundreds of thousands of different parts from thousands of suppliers to hundreds of customers in all sectors of the oil industry. The traded product spectrum ranges from pipe, valves and fittings, to drilling equipment or pumps. It mainly includes parts that are necessary or worn during the drilling and production of oil and gas.

For example, if the mud pump fails or filters need to be replaced, you cannot simply drive to the nearest Home Depot or log on to Amazon to get those very specialized parts that are critical for the entire operation. At the same time, it is not profitable for the producers of these parts to set up their own sales department and supply hundreds of customers directly.

A particularity of this spin-off was that many members of NOV’s senior management switched to the new and much smaller subsidiary NOW. For example, NOV's former CEO and driving force, Pete Miller, became the new chairman, and long-time treasurer of NOV, Daniel Molinaro, became NOW's new CFO. You do not see that too often!

During a visit to several companies in the oil and gas sector in Calgary, Canada in the spring of 2014, a few weeks before the spin-off, I inquired with NOV, whether I could visit the subsidiary of NOW in Canada. On this occasion, I became acquainted with then Managing Director Scott Hauck. What was meant to be a short visit to put a face to the name turned into a long conversation about the proper culture within companies in general and distributors in particular. Scott was the perfect contact person to help me understand the history of NOW. After his college graduation in the early 1980s, he joined National Supply, a predecessor of NOV, and spent his entire professional career with NOW's predecessor companies. Scott is an industry veteran who has seen everything that moves the business. I was deeply impressed

After this conversation, I started following NOW very closely. I have had several opportunities to visit the company in Houston, Texas and meet CEO Robert Workman and various members of the management team. All in all, I perceive the team as an extraordinary and positive mix of strong characters.

Peter Kiewit, a legendary Omaha, Nebraska entrepreneur, is said to have been looking for potential recruits for just three things: intelligence, energy, and integrity. Intelligence and energy can often be detected very quickly; time is needed to assess a person's integrity. Actions often speak louder than words.

Anyone who has seen Robert in action realizes after a few seconds that he is certainly not lacking energy and intelligence. Starting out as a driver of a delivery truck with “a broomstick in his hand” he worked his way up and knows the business inside out. His integrity is beyond doubt to me: After several years in a particularly difficult market, I have gained the confidence that Robert and his team consider us shareholders as partners, treating us fairly, and acting for our best interest.

After the spin-off, the goal was to expand the business through acquisitions. Therefore, the crisis of the industry looked like a happy coincidence at first. NOW went into the crisis free of debt with a capital surplus. An excellent premise to acquire companies, to give the business the right structure and emerge from the crisis even stronger than before. And indeed: Since the spin-off, numerous companies have been taken over and the business expanded into the direction of a systems integrator.

Now the crisis is lasting significantly longer and is much deeper than expected by most market participants. By nature, the business has a large share of fixed costs (branches and warehouses) and relatively low gross profit margins. Since the beginning of the crisis, sales have dropped by around 50 %. Profitability is currently out of the question. Without knowing the actors, looking only at the past figures and through the rear-view mirror, it has been a bad business in a cyclical industry and a miserable investment. This may be one of the reasons why the stock price has come under such massive pressure.

Given that only two companies (MRC and NOW) share a large part of the overall market and NOW as a distributor plays an economically indispensable role, it is hard for me to think that the business won’t be profitable in the long. Even if NOW were just a mediocre company with such a business model, very healthy returns on capital should be achievable.

If we additionally take into account the reasonable strategic orientation, the successful acquisitions, and a high level of confidence in the persons involved, I can hardly understand why the stocks are currently traded with a small premium on the book value (a large part of which is easy to liquidate working capital). Against this backdrop, I recommended that we increase our position in NOW following the sharp decline in prices towards the end of 2017.

The benefit – or risk – of visiting companies

Among investors, there are diverging opinions whether company visits and meetings with the management are advisable. The voices opposed to a meeting on-site primarily state that those meetings cause all kinds of cognitive biases that can negatively influence a rational and logical decision needed for proper investing. CEOs are too often good salesmen or -women who are very talented when it comes to buttering up investors.

And indeed, a long journey may make the value of lessons learned seem higher than it possibly is. An impressive personality can easily outshine a negative aspect. Companies we have known for a long time and have spent a significant amount of time analyzing are valued differently than companies we are not invested in. All these effects are undeniable. However, awareness of these effects helps only little to defuse them.

With that in mind, you naturally have to ask yourself if my experience with NOW may amount to "too much past" and "sunk costs"? It is hard for me to refute those arguments. I try to counter these cognitive biases through an exchange with like-minded and above all critical investor colleague and a willingness to crush my best ideas of yesterdays.

On the other hand, I see that on-site visits give a much deeper insight into a business than investing from an armchair could ever allow. On the one hand, the business model and the ever-present practical catches become clearer during a visit. You do not only learn something about the company itself, but also about suppliers, customers, or competitors. And even more importantly: companies are led by people. Understanding which person or group is calling the shots and which goal is pursued are, in my opinion, existential questions every investor should ask.

At a time when many investors are changing their stocks more often than their underwear, an effect that significantly extends holding time, applied to high-quality companies cannot be all wrong. I am even sure that holding good companies for a longer period of time is systematically underestimated.

Without the knowledge of the history, the understanding of the business model, and the individuals involved, I probably would not have the necessary confidence to recommend a further increase of our position of NOW shares after the significant price drop.

Operational development vs. price development

All in all, most of the companies in the TGV Partners Fund have undergone a positive operational as well as strategical development over the past year. I expect that our companies will have significantly increased their respective operating revenues on a year-on-year basis after presenting the full results for the 2017 fiscal year. These operational increases, broken down to a share in the TGV Partners Fund, are the primary driver for the future development of the TGV. In the long term, they will go hand in hand with the price performance of the TGV Partners Funds.

What happened in the most important companies in the TGV Partners Fund?

In 2017, **Tucows** contributed most to the performance of the TGV Partners Funds. Operationally, Tucows was also a bearer of very positive news. Even with the price performance being as spectacular as it is, the operating results are in no way inferior.

Operationally, the acquisition of eNom as described in the semi-annual letter was most likely an excellent bargain. As expected, the domain business is stagnating, but it generates very stable cash flows. The mobile business is growing profitably, and the number of users is expected to increase by around 15% in 2017.

Furthermore, it is becoming increasingly clear that Ting Fiber, the high-speed fiber optic internet access service in selected US cities, is well received. If Ting manages to supply the selected cities swiftly and comprehensively, there is a unique chance of gaining a lasting foothold in other US cities as well. Even if Ting did not win a tender in Burlington, Vermont at the end of last year, it is likely that more cities will follow.

As if all that were not already enough, the US tax reform will have a positive impact on the value of the company. This is mainly due to lower corporate tax rates and a preferential treatment of investments in fiber optic networks.

Amaysim can also look back on a very eventful year in 2017. In the past fiscal year, the company increased the number of users by 11 % and made important strategic decisions. With the acquisition of Click Energy in May 2017 and the start of the NBN business in the summer, new business areas were opened up beyond mobile services. The declared objective of Amaysim is to offer its customers simple services and "fair" conditions ("amazingly simple"). Even if Amaysim should only scratch this goal and be able to transfer its strengths to the other businesses, we can look forward to the near future.

For **Gruppo MutuiOnline**, 2017 was far less spectacular than the stock price increase of 60 % might make you believe. In the first nine months, the company increased sales by around 14 % and the operating result by approximately 19 %. The lending and insurance brokerage business grew slightly but suffered from the decline in remortgaging after two solid years. Only a small part of this is structural while a large part is attributable to the conditions of the Italian market. The second pillar of the business, the outsourcing segment, grew again and achieved a profit that was higher than that of the segment of brokerage websites for the second year in a row.

I am extremely confident that for Alessandro, Marco, and the team, the best is yet to come, and that Gruppo MutuiOnline will be far better off in a few years than it is today. Therefore, in my opinion, the current price is still cheap, despite the extraordinary price increase in 2017.

2018 and beyond

As in previous years, the companies the TGV is invested in, are, in my view, of above-average quality. They have structurally sound growth opportunities and excellent management teams to maximize their potential.

Inevitably, there will also be times with falling prices, possibly even sharply falling prices, in the coming years. It would be negligent to believe that the current low-interest party on the capital markets will go on forever. Predicting a crisis or aligning the portfolio to one out of fear would, in my opinion, be foolish. The best hedge is that the quality of the companies in the TGV, along with an overall attractive valuation, should lead to satisfactory results over time.

Most of the companies in the TGV Partners Fund have no debt, some a moderate debt. Calculated on the basis of a single fund share, the companies in the TGV Partners Fund are virtually debt-free. Ideal conditions to brave every storm.

Investor meeting

The Investmentaktiengesellschaft für langfristige Investoren will hold its annual investor meeting on Saturday, June 16, 2018, in Bonn-Bad Godesberg.

As a partner in the TGV, you will receive an invitation shortly. If you have not been able to attend yet, I would like to encourage you to come to Bad Godesberg. It is worth it! It is an excellent opportunity to get to know the other partners and colleagues in the Investmentaktiengesellschaft für langfristige Investoren TGV.

With this in mind, I wish you a happy spring and thank you for your continued confidence.

Mathias Saggau