Investmentaktiengesellschaft für langfristige Investoren TGV

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Rüngsdorfer Str. 2 e · 53173 Bonn

Investmentaktiengesellschaft für langfristige Investoren TGV
Rüngsdorfer Straße 2e
53173 Bonn

Telefon: 0228/368840
Telefax: 0228/365875

E-Mail: info@langfrist.de

Dear Investors

We are enclosing the shareholder letter for our Teilgesellschaftsvermögen "Rubicon Stockpicker Fund" for the year 2018 written by our sub-advisor Rubicon Equities GmbH.

Yours sincerely

Investmentaktiengesellschaft für langfristige Investoren TGV

Vorstand: Jens Große-Allermann, Waldemar Lokotsch
Aufsichtsrat: Dr. Maximilian Zimmerer (Vors.), Wolfgang Fritz Driese (stv. Vors.), Alexander Pichler (stv. Vors.)
Eingetragen im Handelsregister Bonn HRB 16143
Investmentvermögen mit veränderlichem Gesellschaftskapital

2018 Annual Report of the Sub-Advisors

Dear co-investors,

The TGV Rubicon Stockpicker Fund is currently fully invested in eight companies. The cash position as of 28/12/2018 was 0.7%.

List of the top 5 investments:

Rank	Name	ISIN	Weight
1	InVision AG	DE0005859698	26,5%
2	Gruppo MutuiOnline	IT0004195308	16,8%
3	Eurotech	IT0003895668	15,5%
4	Amaysim Australia LTD	AU000000AYS5	13,7%
5	La Française de l'Energie	FR0013030152	10,6%

NAV on 28/12/2018	**103,81**
Number of Investments	8
Weight of biggest Investment	26,5%
Weight of top 5 Investments	83,1%
Weight of Cash	0,7%

Performance overview

Since its launch end of October 2016 up until end 2018 the fund returned 4.1%. The German Large Cap Index (Dax 30) lost 1.0% over the same period.

	TGV Rubicon Stockpicker	Dax	Delta
2016 (2 months)	4,4%	7,7%	-3,3%
2017	1,1%	12,5%	-11,4%
2018	-1,4%	-18,3%	16,8%
total	4,1%	-1,0%	5,1%
per annum	1,9%	-0,5%	2,3%

For 2018 the TGV shows a slightly negative performance of -1.4% compared to -18.3% for the Dax.[1]

The strong decline of the Dax reflects the rapid deterioration of the market sentiment compared to 2017. The decline is even more pronounced if you consider the positive evolution up until mid-2018. Besides, the Dax as a benchmark reflects the performance of the biggest and most liquid companies. In our preferred segment of small and midcap companies, the stock market plunge was even more violent with at times -50% or more.

You will find many commentators trying to explain the backlash with concerns about the economic cycle, high political uncertainty or the beginning normalization of central bank policies. We do not wish to contribute to these comments. We are no macroeconomists.

[1] Performance calculated according to "BVI-method". The difference in percentages and changes in NAV are due to yearly disbursements from the fund related to taxes.

Our objective is to position the TGV for the long term with the most attractive risk-return profile in any given market environment.

Having said this, it was highly interesting to observe the impact of the backlash on our industry. We were struck how quickly select small cap funds had to face material outflows (i.e., investors pulling out their money). These outflows in turn intensified the stock market plunge. The management of in- and outflows can be tricky for fund managers. In good times it can force managers to invest money despite only semi-attractive investment opportunities. In bad times it can force managers to liquidate even the most attractive assets. This can be particularly painful in the small and midcap segment where even small sell orders can lead to a downward price spiral due to the segment's low liquidity.

For us, it confirms once again the importance of a stable and long-term oriented investor base. The TGV Rubicon Stockpicker fund has (so far) just a small investor base. But its investors are exactly what we were looking for in the first place – stable, long-term oriented and with an entrepreneurial spirit. There is nothing more important to us, since we can focus our attention on identifying attractive long-term investment opportunities without being concerned by the assets' liquidity or short-term views of 'Mister Market.' We are absolutely privileged in this respect, and wish to thank the investors once again for their trust placed in us! In fact, the TGV aims leveraging more turbulent market times to take a relevant participation in exciting companies at low prices with a highly attractive risk-return profile.

In the following, we will go through recent changes in the TGV portfolio and explain the rationale for our investment recommendations. We hope this will give you a clear perspective on the current positioning of the portfolio and its future potential.

Changes to the TGV portfolio

Sale: Now Inc. / Sidetrade SA

One obvious portfolio change is the material reduction of Now Inc. Since the TGV's investment, the US oil and gas market showed slowly but steady improvements quarter after quarter, and Now's stock price appreciated accordingly.

Now Inc. is a great company and we are still far below our initial target price. But thanks to the described market backlash, we suddenly had much more attractive opportunities in our core segment of European small caps. We therefore recommended a reallocation of the funds into highly attractive risk-return profiles within the European small cap universe.

The same holds true for our recommendation to sell Sidetrade SA. Its share price was relatively stable, whilst many other good companies were slashed by half, and suddenly represented from our perspective an attractive opportunity. We therefore took the difficult decision to recommend an exit of Sidetrade SA.

Buy: La Française de l'Energie SA

A majority of these funds have been invested into the French small cap La Française de l'Energie. We identified the company in early 2018 and recommended a first small buy at around €18 per share. The rationale for this first buy recommendation was as follows.

The company's subsidiary Gazonor in Northern France operates a rather predictable business. It leverages the gas that continues to be released by abandoned coal mines. This activity is called coal mine methane (CMM).

Over the last 30 years, Gazonor focused merely on capturing the gas in one site and injecting it into the distribution network. But there are many abandoned mines in this area with chimneys/funnels on the surface that continue to release gas into the atmosphere. The new management believes that this is ecologically unsustainable, and can actually be used to generate additional business. Indeed, in recent years the management team invested a lot in (potentially welfare-enhancing) lobbying activities targeted at sensitizing the political establishment to the ongoing and unnecessary pollution. As a result, Gazonor started to put generators on the funnels and transform the released gas into electricity. Thanks to its green approach, this electricity can be sold with a 15-year ensured green feed-in tariff. As of today, the company is systematically assessing funnels in the area in an attempt to identify the most suitable ones for such generators. They currently have six generators with 9 MW/h up and running, and already ordered four additional generators.

Gazonor's current turnover is distorted by extraordinary maintenance and equipment replacement. If we adjust the revenue potential for these, and add a conservative ramp-up of new generators, this justifies in our view already a material part of its market capitalization at the date of the TGV's first investment.

That means that we were able to enter La Français' second business at only a small extra cost. And this small extra cost for Lorraine attracted our attention as we believe that the Lorraine business represents some very attractive upside potential.

The company has extensive exploration licenses for coal bed methane (CBM) in Lorraine. CBM focuses on extracting gas from coal seams without using any chemicals. As of current estimates, the CBM reserves could represent several years of French gas consumption, and are right in our backyard. The extraction methodology is new in France but common in, for instance, Australia and the US. The company can leverage historical drilling data from 600 holes (data inherited from Charbonnage de France), and has itself invested around €40m in drilling and validating the extraction potential.

At the time of our first recommendation, this constituted a nice upside potential at a low cost on top of the more predictable northern business – but we continued to be hesitant as the Lorraine option still has relevant exploration risk that is difficult to assess for us. Nevertheless, we decided to recommend a small position based on our increasing confidence in the company's management team. Thanks to several meetings and calls, we have started to appreciate the highly entrepreneurial spirit of the team and its more and more apparent capital-allocation capabilities.

Then, thanks to the above market backlash, the stock price fell around 50% within a few months in the absence of any changes to the company's fundamentals. At the new price, we did not only get the Lorraine business for free, even Gazonor was priced at a discount to its intrinsic value – at least from our point of view. Based on this much more attractive risk-return profile, we recommended a significant increase of the position, and it is now one of the TGV's core positions. Gazonor will likely provide a solid return on the invested funds, and on top we participate in the Lorraine CBM activity at no additional cost. Since the TGV's investment, two main developments took place that comfort us in our analyses: i) The company issued an update to its certified 2P resources, which represents a net present value discounted at 10% of €161m. To put this into perspective, we should compare this to the market capitalization for the entire company (Gazonor + Lorraine) that dropped to around €45m. ii) The management also took the opportunity of the low market price and bought stocks amounting to €1.6m.

Buy: InVision AG

Besides La Française de l'Energie we recommended to increase the position of InVision AG. InVision had already the highest weight in the H1 reporting, but here again thanks to the stock price decline we saw all of a sudden an – in our view – unbeatable risk-return profile.

The extreme weight of InVision in the TGV portfolio might seem unconventional at first glance to say the least. Especially since we would not recommend a rebalancing of the position in case of a stock price increase just for the sake of rebalancing. The weight could therefore even increase much further. But looking at the investment principles that we shared back in 2016, the high weight is very consistent with the investment strategy of the TGV Rubicon Stockpicker fund.

There is a reason the TGV is called Rubicon Stockpicker fund.[2] We like the idea that a good long-term strategy, a thorough analysis, and a tip of entrepreneurial courage can lead to extraordinary results. One of the TGV's objectives is to partner up with outstanding companies that have the potential for material value creation.

Having said this, we are not in the Venture Capital business. On the contrary, we are Value Investors, i.e., we like opportunities only if they come with limited risk. Great opportunities can be found everywhere but it only becomes interesting if the risk-return profile is right and if the "worst case scenario" is digestible.

In the last two letters we described at length InVision's upside potential thanks to, among others, its unique company culture and a state-of-the-art IT architecture.[3]

Today, we want to concentrate on the downside scenario. What happens if InVision does not start to grow? That is where the current valuation becomes so attractive to us.

Based on the year-end stock price, InVision is valued just short of €39m. InVision has practically no debt and owns the company's headquarter in Düsseldorf (Germany). The value of the building alone can be estimated at around €15m.

Obviously, a theoretical sale of the building would lead to taxes on capital gains, and operating costs would increase for a new rent. But we can say that the market currently values the operating business of InVision at around €25m.

The business generates revenues of around €13m with more than 90% of recurring revenues from the Workforce Management business unit. These recurring revenues are generally highly stable, and can be supported with limited operating expenditures.

Looking at the 2017 annual report, we see profitability of close to zero. Digging a bit deeper, you will find that the company invested €7.49m in R&D – with no accruing, i.e., 100% P&L impact. This could hint at the earnings potential in the highly unlikely event of a controlled run-off.

This is obviously just a thought experiment since the management and the entire company are 200% growth oriented! Still, we know the management team as being highly rational. In any case, even in the unlikely event that the cloud strategy will not succeed, we see significant value within the company that would limit the downside.

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[2] Italian river that was famously crossed by Caesar in 49 BC. It started an armed conflict after which he dominated the Roman Empire.

[3] For example the usage of containers on AWS orchestrated by Kubernetes. The agile setup and DevOps approach enable multiple software releases per day.

Conclusion

To be perfectly honest, we are not unhappy with the recent market plunge. Yes, the TGV portfolio was also affected and lost several points of performance. But it enabled the TGV to take significant participations in exciting companies at low prices. A highly attractive positioning that we would not have deemed feasible only 12 months back. We will continue to closely monitor the positions and to further improve the risk-return profile. At current market prices, we start to see more and more attractive investment options. Whilst being optimistic for the longer term, we are aware of the current economic and political risks. The market environment could deteriorate further and lead to a dangerous downward spiral. However, we do feel that our portfolio companies are well positioned to weather even further headwinds.

The Investmentaktiengesellschaft für langfristige Investoren TGV will hold its annual meeting on Saturday, June 29, 2019, in Bonn-Bad Godesberg. As an investor in the TGV, you will receive an invitation shortly. We would be very happy to see you there again in person.

Thank you very much for the trust you place in us!

Lars Ahns

Lars.Ahns@Rubicon-Equities.com

Thorsten Ahns

Thorsten.Ahns@Rubicon-Equities.com