

Investmentaktiengesellschaft für langfristige Investoren TGV

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Dear Investors

We are enclosing the shareholder letter for our Teilgesellschaftsvermögen “Compound Interest” for the year 2019 written by our sub-advisor LMN Capital 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**

Sub-fund Compound Interest

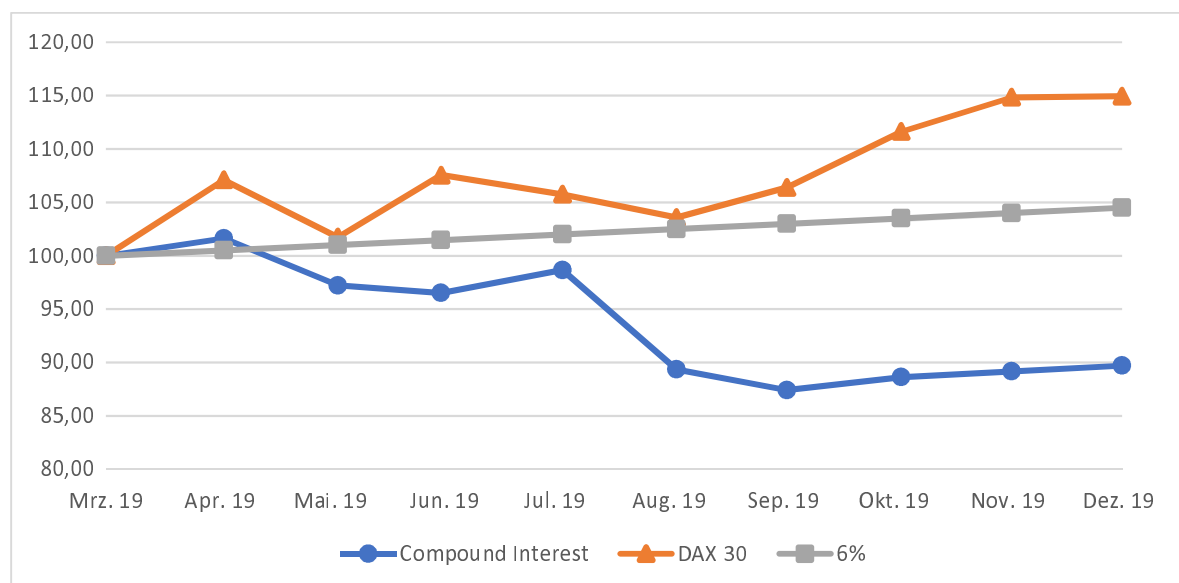
Annual report 2019 of the Sub-advisor LMN Capital GmbH

Dear Co-investors/Compounders,

I am delighted to provide you with the Investor's Letter for the Sub-Funds (TGV) Compound Interest as of December 30, 2019.

Unfortunately, 2019 was anything but gratifying with regard to the price development of the fund. As of the reporting date, it quoted at EUR 89.71. However, if you take a look at the operational development of the portfolio companies, 2019 was positive, and the intrinsic value of all portfolio companies has increased. After the presentation of the 2019 fund performance, I will give you a brief operational overview of all the positions of the TGV.

Overview of the development of the portfolio



The chart above compares the development of EUR 100 invested in the TGV at closing prices on March 29, 2019, with the development of a corresponding investment in the DAX and a safe annual interest rate of 6%. You will find this graphic updated in each letter in order to be able to compare the performance of the TGV at a glance. Why did I choose these two benchmarks? Today, a majority of the investors in the TGV are from Germany,

and it will likely stay this way. The German benchmark index DAX is the most straightforward and most obvious investment alternative for most of these investors. The second benchmark is a safe investment with an interest rate of 6% p.a. and represents the limit above which a performance fee is charged in the TGV.

As you can see in the chart above, the portfolio developed significantly worse than the market. If you invested EUR 100 in the TGV on March 29, 2019, your investment would be worth EUR 89.71 as of December 30, 2019. Had you invested the same amount in the DAX, EUR 100 would have turned into EUR 114.94 on the reporting date. Accordingly, an investment in the Dax developed 28.1% better than one in the TGV. Annualized, the return on the TGV is - 13.38%. This annualized return is not meaningful due to the short reporting period. It is still important to me to mention it in every letter, as it is the most critical parameter to evaluate the TGV over a long period of at least 5 years.

On to the portfolio overview as of December 30, 2019, the last trading day in 2019.

Assets in the TGV / Net Asset Value	EUR 7,799,235
Cash in % of assets	5,7%
Number of investments	9

The positions in the TGV as of December 30, 2019, in alphabetical order:

- Alphabet
- amaysim
- Amazon
- Interactive Brokers
- Mercadolibre
- Naked Wines (formerly Majestic Wine)
- Rolls-Royce
- Scout24
- Tucows

Due to the poor development of the TGV in 2019, I would like to reiterate the following two points from the semi-annual report from summer 2019:

- The TGV has developed significantly differently from the DAX and is much more susceptible to price fluctuations/volatile than the DAX due to its high concentration in the best investment opportunities. It is very likely that this volatility will continue in the future and may even increase. As a sub-advisor, I always prefer a more volatile investment with high return prospects and little risk of capital loss over an investment with little volatility and lower return prospects.
- I have invested a large part of my private liquid assets in the TGV. Despite the negative price development of individual investments of the TGV and the entire portfolio, I sleep very well. This is because each of the investments is currently developing well operationally, and future prospects are positive. For me, dropping prices without changes in the strategic or operational expectations are an early summer sale.

Overview of the portfolio

“Games are won by players who focus on the playing field, not by those whose eyes are glued to the scoreboard.” Warren Buffet

One of the goals I pursue with my reports is to provide you with the information that I would like to have if I were in your place. I would like to know which companies the TGV is invested in and why. Therefore, unlike the announcement in the last report that I would only write about one company or topic, I will write about all companies the TGV is invested in this time. In the future, I will stick to my original plan again. In order not to make this report too long, the explanations about the individual companies in alphabetical order will be short and concise. Please do not hesitate to contact me personally, should you require further elaborations on the individual portfolio companies.

Let us now look at the teams of the TGV:

Alphabet

Alphabet may not be a household name to everyone, unlike the holding company's largest and by far the most important subsidiary: Google. Many of Google's products, such as

Search, Youtube, Android with the Play Store, Maps, Mail, Apps with Google Drive, Chrome, and Photos almost certainly have a place in your daily life as well. I, for one, use six of these products every day. Each of the products mentioned has more than 1 billion active users.

The core hypothesis behind the investment in Alphabet is that these services bring a high and ever-growing added value to an increasing number of users. Google currently generates an average of almost USD 20 in revenue per service per user per year. Much of Alphabet's sales today come from Search. Even assuming that only Search is responsible for sales, the company generated approximately USD 81 per user per year. A study by the US Federal Reserve shows that an American user would have to be paid a multiple of USD 81 for him/her to go without using Search for a year. Therefore, the sales per user have the potential to rise until this marginal benefit is achieved and this with high margins. I am happy to be invested in Alphabet through the TGV on the journey there.

There was a lot of news about the company in 2019; however, they often do not contain any information relevant in the long run. In my view, the most important developments in 2019 were:

- Larry Page and Sergey Brin stepped down from their operational roles as expected and moved to the Supervisory Board. They finally gave the helm to Sundar Pichai. Sundar is responsible for the successes of Chrome and Google Drive. He has been CEO of Google since 2015 and has now also become CEO of Alphabet. The founders remain on the Supervisory Board, are the largest shareholders, and have invested a substantial proportion of their assets in the company.
- In 2019, Alphabet invested more money than ever in share buybacks, fortunately at attractive prices. Unfortunately, the company still sits on an approximately 120-billion-dollar mountain of – currently – largely unproductive capital.

amaysim

amaysim is the company the TGV allocated the most capital in in 2019. Unfortunately, shortly after the position was established, the price more than halved. The drop from the end of July compared to the end of August from EUR 98.66 per TGV share to EUR 89.35 per share is owed to this price development.

The company was established in 2010 by the founders of Simyo in Australia and is now managed by co-founder Peter O'Connell as CEO and an excellent team of second-generation managers. amaysim purchases data and airtime from Optus, one of the three largest mobile network operators in Australia, at wholesale terms, bundles them under the brands amaysim and vaya and sells these bundles to consumers in Australia. The company has over 700,000 mobile customers. The second pillar is an energy reseller named Click in Australia. The latter buys electricity and gas on the wholesale market, bundles them and sells the energy products to consumers.

The core hypothesis behind the investment in amaysim is that the company can attract new customers more cheaply and then serve them better and more cheaply than the big competitors in the market. This should allow the company to continue to grow for a long time with high returns on capital employed. Due to its growing market share, it can enforce better conditions with the mobile network operators and thus further improve its products, as it occurred in June through renegotiations with Optus.

Amazon

Similar to Alphabet, I assume that almost every Compounder is an Amazon (Prime) customer and orders products from Amazon several times a month in the online shop or on the marketplace. Maybe you also use the subscription to watch content via a Fire Stick, the Prime Video App, or listen to Amazon Music. You may also be using the virtual assistant Alexa, which can be found on the well-known Echo devices and increasingly even on third-party hardware. If you are not an Amazon (Prime) customer, give it a try and let me know if the service convinces you or, more importantly, if it does not.

In addition to these consumer-oriented services, Amazon is the pioneer and most significant player in the cloud computing sector. Many companies outsource their IT systems away from their own data centres towards cloud providers such as Amazon. Furthermore, the company is building an excellent logistics infrastructure that not only supports its own eCommerce services but can also be used by third parties.

The core hypothesis behind the investment of the TGV in Amazon is that the company has a very entrepreneurial culture with a long-term orientation, and with this culture, it is the dominant player in the continuously growing eCommerce and cloud market and likely to

stay in the core markets of North America and Western Europe. Amazon is probably *the* company most other companies respect. If you can invest in such a company at a reasonable price, you should.

Interactive Brokers

The next investment of the TGV is Interactive Brokers, a functional and affordable online broker from the USA. The company was founded by Thomas Peterffy in 1977 under the name T.P. & Co. Thomas Peterffy has continuously developed the company through various business models close to the stock market. At the end of December 2019, Interactive Brokers had 689,900 customers with USD 174 billion assets under management.

In 2019, Thomas Peterffy retired to the role of Chairman of the Supervisory Board. He is currently 75 years old. Nevertheless, as far as I know, he comes to the office every week and is the company's voice when it comes to the capital market. His successor Milan Galik has been with Interactive Brokers since 1990 and is also an IT developer. The goal of the two men is to create the largest broker in the world.

The core hypothesis behind the investment of the TGV in Interactive Brokers is that Interactive Brokers, as a company founded by programmers, automates everything and can thus grow as with the best product in the market, from both a price and a quality perspective. At the same time, the company has an impressive EBIT margin of 63%.

If you find a cheaper or better broker than Interactive Brokers, please let me know.

Mercadolibre

Mercadolibre is the leading eCommerce marketplace in 18 South American countries. The company was founded in 1999 by Marcos Galperin, who is still the CEO and holds 8% of the company. In addition to the classic marketplace, Mercadolibre has set up an online payment solution and a logistics platform. Mercadolibre has over 300 million registered users across its platforms.

The core hypothesis for the investment of the TGV in Mercadolibre is that the company has built a definite competitive advantage in Latin America through the marketplace, payment, and logistics ecosystem, which should allow the company to grow for a very, very long time.

Its competition usually only has access to one of these three segments, making it more challenging to compete with Mercadolibre.

Naked Wines

Naked Wines offers an online wine club in the United Kingdom, Australia, and the United States. The company was founded in 2008 by Rowan Gormley. Rowan is still a large shareholder but surprisingly withdrew from operations last year. His successor Nick Devlin has built up the US business very well.

The core hypothesis for this investment by the TGV is that the Naked Wines product is very different from the competition and is being further developed by an entrepreneurial team. This happens on several levels:

1. Naked Wines customers pay a monthly fee. For this fee, you can buy wine from the company. The wines are produced exclusively for Naked Wines by selected winemakers and can only be purchased there. The wines are rated by the customers. Based on these evaluations, customers can be given suitable recommendations for individual price/taste profiles.
2. New winemakers often lack the capital to start their own business. Because supplies have to be financed in advance – for white wine for one year and for red wine for at least two years. These are at least mid-six-figure amounts for inventories only. And it is not clear whether the wine produced will attract enough buyers. Naked Wines helps young but also experienced winemaker talents with these problems by buying a fixed amount of wine at prices negotiated in advance. Naked Wines also supports the winemakers by financing the supplies through the subscription proceeds.
3. Customers can buy more than wine from Naked Wines. As so-called *Angels*, you can influence which winemakers are supported to start on the platform. This makes the customers an emotional part of the winemaker's founding story.
4. In the United States, the company can currently also take advantage of an arbitrage opportunity: Unlike most wine dealers, Naked Wines does not have to go through the three-tier system dating back to prohibition times but can send wine directly to the customer. This allows Naked Wines to offer the same wine quality at around a

third of the price customary in the market. The USA is currently the largest market for Naked Wines and also the one with the greatest potential.

The company previously operated under the name Majestic Wine. Majestic Wine was a traditional wine trader in Great Britain, comparable to Jacques Weindepot in Germany. This business sold for a good price in 2019. Therefore, Naked Wine is now a rapidly growing online wine trade with an excellent liquidity situation.

Rolls-Royce

Rolls-Royce Holdings Plc. (not to be confused with Rolls-Royce Motor Cars Ltd.) does not manufacture cars, but is one of the three manufacturers for engines for long-haul aircraft, i.e. those with two aisles in the cabin. Furthermore, Rolls-Royce is a manufacturer of large diesel and gas engines, e.g. for ships, emergency generators of data centres, and hospitals. What these two major and most important segments of the group have in common is that the engines produced have a very long service life and therefore have to be supplied with spare parts and serviced for a long time. For example, Rolls-Royce Power Systems still supplies spare parts for engines that were commissioned in the 1930s.

The key hypothesis behind the investment of the TGV is that Rolls-Royce has invested a lot of money into a new generation of long-haul aircraft in recent years and is now beginning to reap the rewards of this investment. The three resulting Trent 7000 engines for the current generation of the Airbus A330 neo, the Trent 1000 for the Boeing 787 and the Trent XWB for the Airbus A350 each cost several billion in research and development to market readiness and approval. These new engines will be produced at a loss at the beginning of delivery because, on the one hand, production has not settled yet and, on the other hand, the profitability of the engines is achieved in the maintenance phase.

In 2019, the company had some issues with the new Trent 7000 and Trent 1000, but they have been identified and are being resolved. This will take the next two years and will affect the company's profitability. Once these problems are solved, Rolls-Royce's profitability will increase significantly. The most important engine XWB has so far been spared from growing pains and will soon be entering adulthood – in the form of the first major overhaul after 5 years of operation.

Scout24

Scout24 operates Immobilienscout24, the leading advertising portal for real estate in Germany, as well as Autoscout24, the leading advertising portal for (used) cars in Western Europe. In 2018/19 the company welcomed new CEO Tobias Hartmann and new CFO Dr Dirk Schmelzer. Both have an excellent reputation and have made many positive moves during their tenure. Among other things, the sale of the Autoscout24 portal to a private equity consortium for EUR 2.9 billion, from my point of view an excellent valuation.

The core hypothesis for the investment of the TGV in Scout24 was that the company has a solid position in both portals and can, therefore, increase the added value for the customer in the long term. From this position, the company can increase the prices for each individual customer with margins of over 90% on the additional sales over a long period of time. Similar companies in other markets already have rates twice as high as Immobilienscout and more than eight times as high as Autoscout.

Tucows

Last but not least, Tucows. The company operates three business models: Internet domain wholesale, cellular operator without network in the United States, and provider of high-speed Internet over fibre-optic in smaller US communities. I already presented the business and the outstanding team around founder Elliot Noss in detail in the semi-annual report.

After this sprint through the portfolio, I hope that you were able to get a brief, good overview of the portfolio. All portfolio companies have an excellent management team, involved owners, good to excellent business, the potential to grow in the long term and with high returns on capital employed. The balance sheets are crisis-proof, and the risks in each individual investment are manageable. A major crisis would certainly push prices down in the short term, but would not pose an existential challenge to any of the companies. On the contrary, most of the portfolio companies are likely to benefit from a crisis because weaker companies leave the market or may become takeover candidates for the TGV portfolio companies.

In a crisis I would be happy to take advantage of the “summer sales” mentioned in the last report, that is to recommend the purchase of further shares in outstanding companies at attractive prices for the TGV.

In 2019 I was able to read many great books. Two of them left a special impression: First, the book “My Life and Work” by and about Henry Ford – a fantastic autobiography by one of the pioneers of industrialisation. I had to get used to the language a bit, but then I was thrilled to learn that Henry Ford was already using strategies for his success at the beginning of the 20th century that are still used by the best companies today: absolute focus on the customer, to deliver the best possible product/service to them, simplicity beats complexity, and promoting a corporate culture that focuses on decentralisation of decisions, entrepreneurship, and meritocracy.

The second book that I remembered vividly is “The Volunteer” by Jack Fairweather. The book is not yet available in German but should be read by as many Germans as possible. It is a biography of Withold Pilecki, a Polish resistance fighter against the German occupation of Poland at the beginning of the Second World War. Withold voluntarily went to Auschwitz concentration camp as a scout. There, he founded and led a resistance group. Against all odds, he survived the ordeal but was tragically executed in 1948 as a resistance fighter against the Russian occupation of Poland. Not even the horrors of Auschwitz could break his will to resist. The book is not an easy read, but very inspiring and food for thought.

On June 6, 2020, the annual investor meeting of the Investmentaktiengesellschaft für langfristige Investoren TGV will take place in Bonn. You are cordially invited, and I look forward to welcoming you there. A formal invitation will be sent out in a separate letter.

If you would like to send me your comments, ideas, or criticism, please send an email to laurenz@lmncapital.de. I look forward to every opportunity to learn!

Thank you for your trust, and I look forward to the further partnership as an investor/com-pounder in the TGV compound interest.

Kindest regards,

Laurenz Nienaber