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 first half of 2017 written by our sub-advisor Rubicon Equities GmbH.

Yours sincerely

Investmentaktiengesellschaft für langfristige Investoren TGV

Half-year report 2017 of the sub-advisor

Dear investors,

Our first letter to the investors showed the TGV portfolio in its beginnings. Today, the TGV is nearly fully invested and we want to use this letter to explain how the portfolio was constructed, its performance to date, how the investments evolved over recent months and what can we expect for the months and years to come.

As of 30 June 2017, the TGV Rubicon Stockpicker funds is invested in 10 companies. The cash position is 6.3%.

List of the top 5 Investments:

Rank	Name	ISIN	Weight
1	Max 21 AG	DE000A0D88T9	19,7%
2	Eurotech S.P.A.	IT0003895668	15,2%
3	Gruppo MutuiOnline	IT0004195308	14,2%
4	Amaysim Australia LTD	AU000000AYS5	12,3%
5	Songa Bulk AS	NO0010778095	9,9%

NAV on 30/06/2017	**101,39**
Number of Investments	10
Weight of biggest Investment	19,7%
Weight of top 5 Investments	71,3%
Weight of Cash	6,3%

Performance overview

The performance of the TGV since October 2016 is 1.4%. To be clear: this is not satisfactory. Since the beginning of 2017 the performance is even slightly negative with -3.0%. The German main stock index (DAX) did significantly better over the same period with 15.6% and 7.4%, respectively.

	TGV Rubicon Stockpicker Fund	Dax 30	(Delta)	Benchmark 6% p.a.	(Delta)
Since 31/10/2016	1.4%	15.6%	-14.2%	4.0%	-2.6%
Since start 2017	-3.0%	7.4%	-10.4%	3.0%	-6.0%

Looking back, it would have been better to mimic the DAX. European small & midcaps, the focus of our investment advice, in many instances did even better.

Why did we not just mimic the DAX and what have we done instead? Answering this question requires a broader look at today's financial markets:

Central banks around the word created an abundance of liquidity through their different support programmes, leading to an asset price inflation where investors only see one direction – upwards. We do not want to discuss the pros and cons of the central banks' policy here. But we would like to highlight two aspects that materially impact our work.

1. Impact of liquidity

Central banks keep interest rates at record lows with some parts of the bond market even at negative rates. In this context, investors are required to search for yields outside the bond market and subsequently increase their exposure to stocks. These inflows of money into stocks in general and the small & midcap segment in particular drive stock prices to new highs. Select small & midcap managers even closed their funds for new inflows in order to keep assets under management at a reasonable level for them to invest intelligently.

2. Impact on valuations

These high inflows of money coupled with the low interest rate environment naturally lead to an expansion of valuation multiples, i.e. due to the higher demand from investors, companies are just getting more expensive. Yes, companies are also getting more health and are able to increase their profitability. But this only explains part of the stock market rally of recent years.

Besides, it is right that companies are getting more profitable. But in our analyses, we are assessing a company's profitability adjusted for cyclical ups and downs. In most cases we feel that current profitability levels are toppish, i.e. we apply a certain discount to derive our fair values. With this approach, it is difficult in the current market environment to identify attractive companies with a relevant margin of safety. We often see at best fairly priced companies (i.e. without the margin of safety that we require). And those companies subsequently continue to rise thanks to the positive momentum of the market. This is challenging. Even more so when you read every day in the press about new fantastic deals and the next all-time high in stocks.

Despite this context, we try to stick to our Investment Principles and only recommended companies for the TGV where we see a margin of safety and thus an attractive price. In our experience, this is the only way to significant outperformance over the long run and across cycles. As a result, the TGV investments can be broadly clustered into 3 categories.

1. Maritime investments

Our focus is the small & midcap segment. But we are not limited to this. We continuously look for market anomalies with attractive risk-return-profiles… wherever they may be – and in particular during times where we feel that the small & midcap segment is overpriced. We can say one thing for certain: the shipping market is certainly neither euphoric nor overpriced. Quite the opposite, many sub-segments of the shipping market are in deep crisis. The renowned shipping man Bertram Rickmers even went so far to state: "The last time that the shipping market experienced such a deep crisis was after the German-French war of 1870/71".

Such an extreme statement was probably influenced by the fact that his own company went bankrupt. But one thing is clear: valuations in this sector are historically low and liquidity is scarce… an environment where we like to look for investment opportunities.

We see great opportunities in the bulker sub-segment. We already explained in our last letter to the investors the rationale for the TGV investment in Songa Bulk. Since then the TGV actually increased its investment in the company and added a new investment in Eagle Bulk Shipping. Comparable to Songa, Eagle Bulk Shipping used the current crises to invest in new high-quality bulkers at record low prices – just the counter-cyclical approach we like!

Both companies have comparatively low break-even points thanks to the record low prices they paid for their ships and a low leverage. In case the current downside pressure continues, they will survive whilst competitors continue to drop out of the market. When rates improve eventually (and they will), these two companies will be able to generate significant free cash flows and consequently see their valuations increase.

When are the rates going to improve? To be honest, we don't know. Nobody does. In the reporting period both companies had a slightly negative contribution to the overall performance. But this can actually be a good thing over the long run. The longer the crisis goes, the more bulker supply will decrease (limited new orders and increased scrapping of older vessels) – a good starting base for the next cyclical high.

2. Small & midcaps with attractive optionality

The TGV has invested in several European small & midcaps (our core segment) that are not yet profitable. All these companies have one thing in common: they have a great upside potential thanks to innovation and technology. Judging from the current tech hype from Silicon Valley, investors generally seem comfortable (again) not to value companies based on their current profitability but on their expected future profits. Companies like Tesla or

Delivery Hero are currently good examples for this hype. These companies are generally covered by countless analysts and investor expectations are backed by many industry studies.

Investors, however, often struggle to evaluate an innovation when it comes from a small & midcap company. There is often no independent and knowledgeable analyst capable to properly assess the technology. Investors have to work through different industries, technologies and business models on their own. Such a small & midcap quickly gets into the "too complex pile" if it is not yet profitable and without a stable set of data to analyse. We have to keep in mind that small & midcap investors are frequently "allrounders" without any specific industry expertise. This is not comparable to the very distinct and highly specialized world of Venture Capital.

We like to operate in such an environment. We enjoy analysing new business models and working through innovative technologies. We have the ambition to better understand these situations than the average small & midcap investor and to identify those companies where the future potential of an innovation is not yet (fully) priced. Historically, we have had some success with this approach and we continue to see these opportunities even in today's more challenging market environment.

However, these kinds of investments are not without risks. Technological innovations in small companies are highly volatile. A delayed project or contract can become a serious problem. A relevant contract or a new partnership can lead to a breakthrough. The optionality we have identified can therefore become worthless and, hence, remove our margin of safety. On the other side, if successful, the increase in value can be a multiple of the initial investment. We are looking for asymmetrical risk-return-profiles where we see high upside potential with limited downside risk.

We have already explained in our last letter the rationale behind the two biggest TGV-investments of in this category. How did these companies evolve over the last 6 months?

Max21 AG

The TGV increased its investment in MAX21 since the beginning of the year. As of 30/06/2017, Max21 represents 20% of the portfolio. We continue to be 100% convinced by the management and we are very happy to see how the company becomes more professional every day. KeyIdentity GmbH has built an attractive sales pipeline for its multi-factor authentication solution. After winning the "Bundesamt für Sicherheit in der Informationstechnik (BSI)" in 2016, the company announced on 04/07 a contract with an additional German Blue-Chip company as well as a distribution agreement with Arrow Electronics. Arrow is a value-added distributor with globally 18,700 employees. The ambition is that Arrow pushes the distribution of KeyIdentity's security solution "Made in Germany" far beyond the German-speaking markets. Both announcements are a great success. But it requires more client wins to realise the potential we see… current sales levels are not (yet) sufficient.

The second subsidiary Binect GmbH continues to sell the so called Binect Cubes as initially planned. Unfortunately, actual usage of the Cubes is picking up slower than expected. We will have to adjust our fair value assessment accordingly. At the same time, the Enterprise business, i.e. individual solutions for larger companies, is progressing better than expected. We will have to see over the next months which of the two evolutions will prevail.

All in all, we are still very comfortable with the initial TGV-Investment-Case.

Eurotech

Eurotech continues to be a very important investment for the TGV with a weight of 15% as of 30/06 and we continue to see a great long-term potential for their Internet-of-Things (IOT) business. We feel comfortable with the progress in the area of IOT. The company sees a growing and maturing sales pipeline. In general, the technology is first tested in a so-called sand box followed by a proof-of-concept. If successful, the solution is piloted in the operational environment and then implemented in a first product category. Over time, IOT gets fully integrated into the company's production and processes, e.g. as predictive maintenance for at first one and later all product categories. A new design win should therefore lead over time to a significant increase in recurring revenues.

We are also very happy to see that Eurotech positions itself increasingly as the Partner-of-Choice for Red Hat. Both companies are increasingly present together at industry fairs, organise joint workshops and win industry awards. They continue to combine their proprietary software solutions into one high performing technology stack.

At the same time, however, we also have to admit that IOT revenues are still ramping up slowly despite the current hype around IOT. There is still a long way to go from design win to mass market. We believe for example that one of Eurotech's first IOT clients, Ariston, will one day connect all its products (currently around 8M per year) through the Eurotech IOT solution. As of today, however, Ariston has only moved a few thousand products to the Eurotech technology.

We are patient investors and happy as long as we see a growing sales pipeline and more and more clients implementing the Eurotech solution. On top, a decisive move from Red Hat to accelerate its Go-To-Market for IOT could be a game changer for the company and accelerate the IOT ramp-up. But we are concerned about the legacy business of embedded computers. Sales and profitability in Q1 were disappointing. We see a risk that in the short term a further reduction in the legacy business cannot be compensated by the increase in IOT.

In short: IOT is moving in the right direction and we continue to see great potential in the long run. We have less visibility in the short and medium-term due to increased pressure on the legacy business. We have therefore recommended to slightly reduce the investment in Eurotech. If the IOT case works out as planned, we should still see a material positive impact on the overall TGV portfolio despite the slightly reduced exposure.

The TGV has also opened a small position in Sidetrade, a French technology company that we have been following for many years now. Sidetrade is a cloud provider for the effective management of the so-called "sales-to-cash" cycle. In simple terms: Sidetrade helps companies to get paid in time by their clients. Historically, Sidetrade focussed on the French market until they announced a new strategic plan a few years back with two pillars: a) expand regionally through new subsidiaries in Ireland, UK and the Netherlands and b) invest in Big Data, to leverage the vast amounts of payment-related data they manage on a daily basis.

The regional expansion is now completed and enabled Sidetrade to show double-digit growth in each of the last 10 quarters. The investment in Big Data is still early stage but we already see great potential in this area. Sidetrade is enriching its payment data with information from among others their clients' CRM systems and publicly available information. Using the right algorithms on these data opens up vast new opportunities. It enables Sidetrade for example to predict which clients are likely to churn over the coming months, which are the clients with the highest cross-sell potential and which non-clients are the best target clients. In fact, Sidetrade no longer is a niche player for credit managers but becomes a vital supplier to all management areas (Finance, Marketing, Sales).

The market for such an offering is currently being conquered. Sidetrade therefore bought 3 start-ups in recent months to complete its product offering as soon as possible.

We see huge potential in this market and we are convinced by the management and its strategy. We are excited and enthusiastic to participate through the TGV investment in this entrepreneurial endeavour.

3. Great (and undervalued) companies

Companies of the third and last category are so-called no-brainers for us, i.e. great companies that we can buy at a significant discount on their fair value. We love these companies but they are extremely difficult to find – especially in the current market environment. One such company certainly is Gruppo MutuiOnline – a company that we know for many years now and that contributed heavily to the current performance period with a share price increase of above 50%. We believe the valuation – even after the 50% increase – continues to be highly attractive.

Another company in this category is Amaysim – a telecommunications company from Australia. We are very happy with this new TGV investment and are thankful for the hint from our network.

Amaysim (the name combines "Amazingly Simple") is a very profitable mobile phone operator. Amaysim is a so called MVNO, i.e. it has no own infrastructure but a comprehensive wholesale agreement with Optus. Amaysim's key success criteria are great customer service/ experience and a state-of-the-art IT platform. The company recently made several (and in our view cheap) acquisitions and thus opened up new business areas.

Amaysim acquired Vaya, another MVNO in the low-cost segment. Shortly afterwards it announced its expansion into the broadband market. And just a few months back Amaysim announced the acquisition of Click Energy, an online distributor for energy. We believe all these moves are very smart for several reasons: a) Amaysim can bundle the different products (mobile, broadband, energy) and thus reduce churn, b) the multi-brand strategy opens up new client segments and c) Amaysim becomes less dependent from its wholesale partner Optus.

For us it is very surprising to see that as of 30/06 Amaysim was the biggest loss position of the entire TGV portfolio. This is no concern to us. This is simply the kind of volatility that you need to expect when you invest in the stock market. We are very convinced by the company's strategy and see significant upside potential in the medium run.

Conclusions

The current market environment is not easy for stockpickers looking to invest in great companies with a high margin of safety. We try to be transparent with you on how we handle this challenge.

We are excited when we look at the current TGV portfolio and we believe each investment individually has an attractive risk-return-profile. We continue to closely follow the companies and will constantly evaluate them against alternative investment options.

We look confidently into the months to come.

Lars Ahns

Lars.Ahns@Rubicon-Equities.com

Thorsten Ahns

Thorsten.Ahns@Rubicon-Equ