

Investmentaktiengesellschaft für langfristige Investoren TGV

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Dear Investors

We are enclosing the shareholder letter for our Teilgesellschaftsvermögen “Intrinsic” for the first half of 2019 written by our sub-advisor CL 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 Intrinsic

Semi-Annual Report 2019 of the Subadvisor CL Capital GmbH

Dear co-investors,

with this investor letter I am pleased to give you a first overview of the sub-fund (TGV) Intrinsic, which was established on March 29, 2019.

The TGV Intrinsic invests in companies managed by intrinsically motivated entrepreneurs and that are listed on the stock exchange at a price below the long-term intrinsic value of the company. I am convinced that intrinsic motivation is a critical success factor and that intrinsically motivated entrepreneurs are better, more successful managers. Through investment recommendations in such companies, the TGV Intrinsic intends to participate in the success of these companies.

What goals do I pursue with my investor letters?

With the investor letter, I intend to give a biannual overview of the development of the TGV Intrinsic. The letter is an important communication tool to provide all investors in the sub-fund with the same level of information. I plan to use the biannual investor letter to achieve two goals that I consider particularly important:

- On the one hand, I will inform you about important changes in the portfolio. These include, for example, new investments or changes in the weighting of individual positions. These changes are shown in the tables "Portfolio Structure and Performance Overview". Furthermore, I will report on individual topics separately and in more detail. Due to the long-term investment approach, serious changes in the TGV Intrinsic are likely to be rare. Nevertheless, to me, the half-yearly cycle seems to be a suitable rhythm to inform about changes.
- On the other hand, as an investor, I will continue to evolve for many decades and, as a result, changes and adjustments in my recommendations may arise. This will not necessarily happen over a few months or a few years. However, I think it is important to give insights into this personal development, so that all investors can make the best possible decision as to whether my investment recommendations today and in the future meet their expectations. Therefore, apart from portfolio

changes, I will also occasionally report on recent personal experiences in my letters.

Portfolio Structure and Performance Overview

The basic information on the TGV Intrinsic will be available here in every investor letter. I will give an overview of the portfolio structure, an alphabetical listing of the five largest investments, and the historical performance of the TGV.

Portfolio structure

NAV as of June 30, 2019	101,52€
Number of investments	9
Weighting biggest investment	15,4%
Weighting five largest investments	58,2%
Weighting cash	17,6%

Alphabetical listing of the top 5 investments:

Alphabet

Interactive Brokers

Microsoft

TomTom

Wabtec

Performance overview

Period	TGV Intrinsic (1)	Dax (2)	Delta (1)-(2)
2019 (3 months)	1,5%	7,6%	-6,1%

The NAV of the TGV Intrinsic was € 101.52 on June 18, 2019. The performance in the first three months was + 1.52%. Since the inception of the TGV Intrinsic was only recently, I do not attach much value to the performance overview for such a short period. My analyses for corporate investments are geared to forecasting operational developments over many years. If a company develops positively over a long period of time, the share price will reflect this in the future. Almost without exception, the shareholdings of the TGV Intrinsic reported excellent figures for the financial year 2018, and I am very optimistic about the future of these companies. As a benchmark, I have chosen the DAX as, in my view, it represents the passive investment alternative for a typical investor in the TGV Intrinsic.

But it is also clear that the concentrated investment strategy of the TGV Intrinsic will make individual years stand out due to high volatility. There will be years with a high positive return as well as years with a significantly negative return. Similar to Warren Buffett and Charlie Munger, I follow the strategy:

“I would much rather earn a lumpy 15% over time than a smooth 12%.”

Unlike many investors, I do not try to minimise volatility in the TGV Intrinsic through my recommendations but focus on maximising long-term returns of the portfolio. An investment in the TGV Intrinsic is only suitable for those investors who can identify with this investment strategy.

Below, I introduce a company that is exemplary for this investment style and in which the TGV Intrinsic is invested: MercadoLibre. The shareholding is based on a recurring selection criterion for my investment recommendations: Structural Growth Markets.

MercadoLibre – An investment in structural growth markets

Since travelling in Africa for the first time almost ten years ago, meeting companies and management teams, I try to explore one or more countries every year that give me a new perspective on people, cultures, and business models. In addition to my personal interest in these experiences, I have found that the learning effect of these trips is great for my work as a subadvisor for two reasons:

1. In less developed markets, I often encounter companies that are not yet on the radar of many investors. Occasionally, these companies have built a strong position in their industry and can participate in the structural growth of their markets over many years, often driven by a young population and a strong desire for greater prosperity.
2. Many of the companies based in Europe and North America have great opportunities for growth in these markets. For example, Microsoft still generates 50% of its sales in the US today, but opportunities for growth outside the US are enormous. To better assess and appreciate these opportunities, I consider it essential to set foot onto these continents and in these countries myself. This is the

only way I can get an independent picture of the local market conditions and I do not have to rely on external sources.

It is not my explicit goal to recommend companies from exotic countries. I merely want to recommend the companies that I expect the highest return from with a given risk profile at all times. Today, however, I assume that in the coming decades, I will be more likely to recommend companies that generate a large part of their income in such less-discovered markets. One such company is MercadoLibre, a combination of Amazon and PayPal in Latin America.

MercadoLibre was founded in 1999 by the Argentinian Marcos Galperin, who continues to hold nearly 10% of the shares. Galperin had the vision to democratise the trade of goods, thus making the buying and selling of a wide range of goods accessible to a larger part of the population. The company started as an online merchant in Argentina, and today operates marketplaces in almost all Latin American countries. The MercadoLibre marketplace sold \$ 12.5 billion worth of goods in 2018. More than 11 million vendors delivered goods to more than 37 million buyers in the past fiscal year. This makes MercadoLibre the largest online merchant in Latin America.

I have been following MercadoLibre's corporate development since 2014. The first time I personally met with the management was in Buenos Aires in 2015, and immediately I had the feeling that I had found a special company. For a long time, the conversation focused on how the right employees can be attracted, motivated, and further developed. Of course, we also talked about the many possibilities that come with the company's business model. Nevertheless, this focus on the development of the organisation stayed in my mind, and it is crucial for the past and future success of the company.

Initiating network effects

When asked to answer the question why MercadoLibre has become the leading online merchant in Latin America instead of its competitors, I find that I am convinced that this development is based on a combination of luck, an impressive entrepreneurial team, and serious tenacity in the implementation of the corporate strategy.

Luck, because the company secured important funding just before the burst of the dotcom bubble and the 2001 Argentinian debt default. This allowed investments in the platform to enthruse an ever-growing number of sellers and buyers. This, in turn, led to an increase

in the number of transactions and therefore also to an increase in revenues for MercadoLibre, which were reinvested in the platform to attract additional sellers and buyers: the network effect of the marketplace was set into motion.

Network effects are among the highest entry barriers for competitors to build and leverage business. As market leader, MercadoLibre has been able to permanently focus on strengthening the network effects of the marketplace and eliminating points of conflict in transaction processing between buyer and seller. The most important point of conflict between seller and buyer in the past were the payment arrangements. To simplify this process, MercadoLibre launched its own payment service "MercadoPago" in 2004 (comparable to PayPal). MercadoPago provides a secure way to pay for goods and simplified the coordination between buyers and sellers in terms of payment. Today, over 90% of the value of goods sold on MercadoLibre is paid for with MercadoPago, which equates to a payment volume of 11 billion US dollars.

Apart from that, logistics costs in many Latin American countries pose a major hurdle for buyers and sellers. The investments required to set up one's own logistics system are high, delivery times in Latin America are relatively long, and service is rather mediocre. With the founding of MercadoEnvios in 2013, MercadoLibre took over an ever more extensive control over the logistics of goods in several steps. Today, MercadoEnvios operates its own logistics centres, takes over the first mile from the seller or organises the last mile to the end customer with selected partners. In 2018, at least part of the logistics was taken over by MercadoEnvios for 66% of the goods sold through the marketplace. Thanks to the sizeable investments in a proprietary payment system and the continuous expansion of its own logistics, MercadoLibre has massively expanded its marketplace and the network effect that has been set in motion over the past two decades. The value of these investments is reflected in the growth in the number of transactions amounting to 28% per annum over the past decade.

Building an ecosystem

Although I have dealt extensively with MercadoLibre since my initial meeting in 2015, I have long wondered what a clear signal for an investment recommendation would look like. I did not receive this signal until my last company visit to Brazil at the end of 2018. There, I realised with what speed MercadoLibre is building an almost complete ecosystem, not just around the marketplace but also in the area of payment services. After the marketplace served the purpose of democratising trade, MercadoPago set itself the

goal of democratising access to money. Even today, nearly half of the Latin American population has insufficient access to banking services. MercadoPago offers its customers a digital wallet for even easier digital transactions. Furthermore, MercadoPago has started to equip brick-and-mortar retailers with mobile credit card readers and has given loans to vendors and consumers through MercadoCrédito. MercadoCrédito can deduce the creditworthiness of the customers very precisely from their payment histories on the platform. A good \$ 7 billion of the total \$ 18 billion in payment volume processed through MercadoPago is now generated outside the marketplace, and despite its size, MercadoPago continues to grow at a rate of over 50% (!) a year.

The value of this ecosystem lies in the ever-growing economy of scale. MercadoLibre has more touchpoints with its customers than its competitors, be it specialised online retailers, payment service providers, or logistics companies. At each of these points of contact, MercadoLibre can monetise the customer relationship. This has two advantages: First, MercadoLibre can distribute its costs in customer acquisition to more services than its competitors. As a result, the costs for new customers per product are lower than for competitors. Second, MercadoLibre can freely decide which areas of a customer relationship to monetise and which not. For example, MercadoLibre may offer MercadoPago payment service to new brick-and-mortar retailers for free but would require a marketplace transaction fee for this merchant's online product sales. A specialised payment provider does not have this flexibility. As a result, MercadoLibre has created a flexible and cost-effective customer acquisition engine that only very few companies have.

In summary, the large number of business opportunities combined with the operational excellence shown in its history gives me the confidence that MercadoLibre will continue to grow profitably at an above-average rate for many years to come. In the first quarter of 2019, MercadoLibre increased sales by 48%, making MercadoLibre the growth leader in the TGV Intrinsic portfolio. At the same time, one of the biggest risks of my recommendation lies in the multitude of opportunities. Due to the current growth rate and the large number of projects, the company has to manage its resources with sound judgement. It is subject to the constantly colliding priorities of opposing allocation strategies: the further expansion of the ecosystem across the different business areas and thus a diversification of resources – but also the focused investment in individual projects to successfully compete against mostly specialised competitors.

To be successful in this trade-off it requires many highly qualified employees in all parts of the company. At this point, I come full circle to my first company visit four years ago. During my last company visit in Sao Paulo in 2018, I met one of the first employees of MercadoLibre, who has been instrumental for the success of the last 20 years. As in previous years, it became clear that there is still a high focus on finding and developing good employees. At its core, the team around Marcos Galperin has remained the same since the creation of the business in 1999. Gradually, new skills were added as needed. I have a great deal of confidence that this team is just the way to continue to make the most of the multitude of opportunities available.

Coming to the end of this letter, I would like to thank you for your confidence in my work and wish everyone a healthy and prosperous second half of the year.

Kindest regards,

Clemens Lotz