Investmentaktiengesellschaft für langfristige Investoren TGV

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Dear Investors

We are enclosing the shareholder letter for our Teilgesellschaftsvermögen "Compound Interest" for the first half of 2020 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

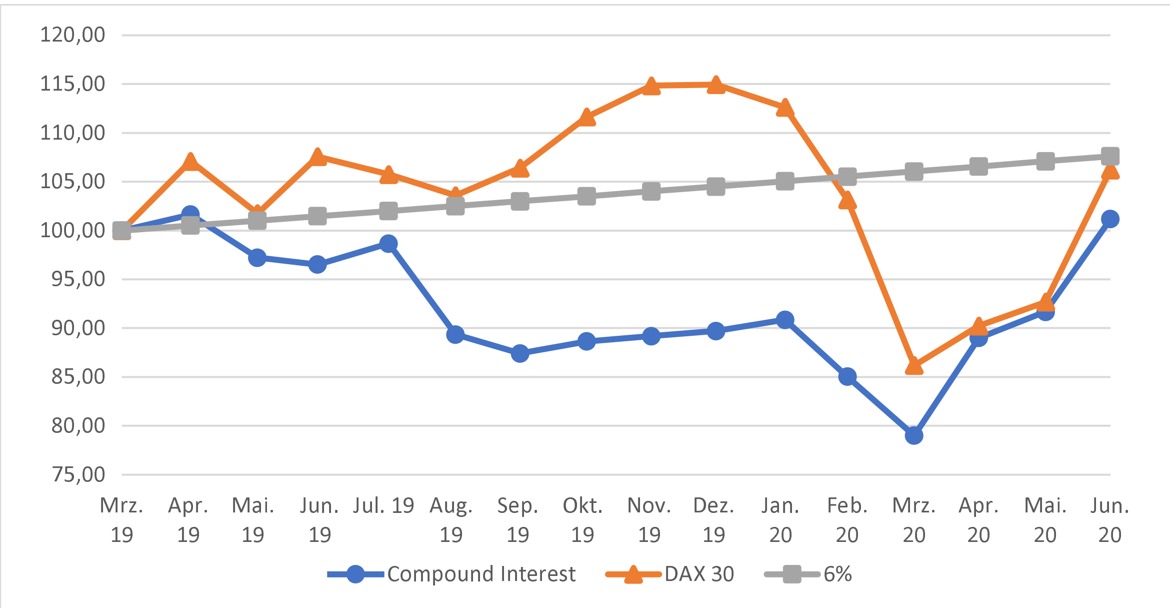
Semi-annual report 2020 of the sub-advisor LMN Capital GmbH

Dear fellow investors/compounders,

I am happy to provide you with the investor letter for the sub-fund (TGV) Compound Interest as of June 30, 2020.

2020 has been very positive so far in terms of the price development of the fund share. It quoted at 101.17 euros on the reporting date, i.e. 12.8% above the price at the beginning of the year. To a large extent, this also applies to the operational development of the companies in which the TGV is invested. After reviewing the portfolio development, I will go into more detail about the obvious negative and the less obvious positive effects and changes caused by the pandemic. I will also describe some of the insights I have gained so far.

Overview of the portfolio development



The chart above compares the development of 100 euros invested in the TGV at the closing prices on March 29, 2019, with the development of a corresponding investment in the DAX and a secure, annual interest rate of 6%. You will find an updated version of this chart in every letter so you can compare the performance of the TGV at a glance. Why did I choose these two benchmarks for comparison? A large part of the investors in the TGV today and will most likely in the future come from Germany. The German benchmark index DAX is the simplest and most obvious investment alternative for most of these investors. The second benchmark is a secure investment with an interest rate of 6% p.a., representing the trigger above which a performance fee incurs in the TGV.

As you can see in the previous chart, the portfolio performed slightly worse than the market. If you invested 100 euros at the launch the TGV on March 29, 2019, you would have 101.17 euros as of June 30, 2020. If you had invested the same amount in the DAX, 100 euros would have become 106.21 euros on the reporting date. Accordingly, an investment in the Dax has developed 5% better than one in the TGV. The annualised return of the TGV is 0.9%. This annualised return is not meaningful due to the short period. Nevertheless, it is important for me to list it in every letter, as it is the most important parameter for evaluating the TGV over a period of at least five years.

Portfolio overview as of June 30, 2020:

Assets in the TGV / Net Asset Value	8.804.451,78 euros
Cash assets as% of assets	5,4%
Number of companies	10

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

- Alphabet
- Amaysim
- Amazon
- Interactive Brokers
- Mediqon
- Naked Wines (formerly Majestic Wine)
- Pulse Seismic
- Rolls Royce
- Schibsted
- Tucows

Every coin has two sides

2020 has been a very turbulent year so far, and our lives will likely continue to be unpredictable until a vaccine is readily available. The gigantic upheavals in life, in the economy, and on the stock market caused by the Covid-19 pandemic are a difficult and challenging time for all of us, both privately and professionally.

However, the impact of the pandemic does not have to be all negative. In the article "How Pandemics Wreak Havoc - and Open Minds" in the New Yorker on July 20, 2020, Gianna Pomata, a retired professor at the Institute for the History of Medicine at John Hopkins University, is quoted: "The Black Death really marks the end of the Middle Ages and the beginning of something else." The *something else* is the Renaissance, the rebirth in which Europe evolved strongly philosophically, socially, scientifically, and economically.

Even though we still are in the middle of the pandemic and the resulting social and economic crisis, we already see the first radical changes. Established business models such as retail and behavioural patterns as the ones below need to be reconsidered. New ideas are inspired and implemented. An example that most people have experienced themselves is the radical change from traditional office work to working from home. Most companies and even employees could not even begin to imagine this change in January. Today I know several companies that have no plans to have all their employees in the office full-time again. And why should they? Companies can save money, and employees have more flexibility and quality time at their disposal. The secondary effects of this process change should also not be underestimated and are still difficult to assess today: Less commuting, far fewer traffic jams, less demand for office space and the greater attractiveness of remote regions with good internet connections for skilled workers are probably just a small selection of these secondary effects, yet they alone can mean lasting and big changes in our lives.

For you, as an investor in the TGV, the upheavals of the pandemic offer an excellent opportunity to examine my recommendations in a high-stress situation. Unfortunately, the ability of an investor can only be measured properly over a long, if not very long period of time: At least five, probably even ten years, are a reasonable time frame. And even then, an interested investor should not only look at the annual return of the portfolio but also carefully consider the recommendations that have led to this return.

The very positive performance of the TGV in the first half of the year was in part driven by skill and to a large extent by luck and chance. Why skill? First, all portfolio companies have excellent management teams who quickly took courageous measures to (a) protect employees, customers, and suppliers, as well as (b) contain the primary and secondary effects of the pandemic and in some cases even use them to a positive effect. Second, most portfolio companies generate recurring revenue from their customers and near-indispensable for their customers. Last but not least, almost all investments have a solid financing structure with more than sufficient liquidity.

A beautiful example is the portfolio company Naked Wines, whose business model I explained in my 2019 investor letter. The company encouraged employees to work from home very early on while ensuring that those who could not work from home were adequately protected. The company has also set up a fund to support winemakers who are not selling on Naked Wines yet. Many winemakers, especially in the upper price ranges, sell their wines primarily to restaurants and hotels. Since restaurants and hotels were closed from March, these winemakers had inventory storage and sales problems. Through this fund, Naked Wines was able to support these winemakers in their distress as a partner, buy their inventories from them and offer them to their own customers. Hopefully, Naked Wines has gained sustainable access to new winemakers that way. Beyond that, since the beginning of the crisis, the customer base has made its monthly payments more loyally than in previous years. Last but not least, with approximately GPB 50 million net cash compared to GPB 202 million in sales, Naked Wines has more than adequate liquidity on the balance sheet.

These criteria always play a very important role in the search for new investment recommendations and the evaluation of current portfolio companies, so that companies can react well to crises that always come as a surprise and possibly even emerge stronger.

At the same time, I must clearly state that the very positive performance in the first half of 2020 was also largely driven by luck. The pandemic, as an unexpected event, coincidentally hit the portfolio companies significantly less than many others. Of the current ten companies, six that are heavily weighted in the TGV have got a strong tailwind from the pandemic, two are negatively affected in the short term and two others, namely Rolls Royce and Pulse Seismic, are very negatively affected in the short term. Even if the long-term outlook of the latter companies has become weaker, both companies are attractive investments at the current price level.

The six companies with a tailwind have "digital" business models that have already had a lot of support from long-term trends. The current crisis is transforming this strong tailwind into a hopefully short, stormy gust that will push these trends, such as more online shopping, ahead by years. Some even speak of more than a decade. Again, Naked Wines is a good example: In April and May, sales to new customers increased by 256% compared to the previous year and sales to existing customers increased by 50%. At the same time, it cost less to acquire new customers, and first indications suggest that customers retention will last longer. But Naked Wines also has to struggle with negative effects: How do you make the warehouse safe for employees? Is productivity still high in the home office? Is the supply chain stable?

While the investments in the TGV have so far largely come through this crisis without major problems, it must be noted that there are very unlikely crisis scenarios in which this would not be the case: Imagine Covid-19 was not an RNA[1] code based virus but binary code based. In other words, a virus that infects computers and technology[2], that spreads just as quickly as Covid-19 or maybe even faster with the digital fibre-optic highways making said technology permanently unusable.

A similar negative scenario would be a massive coronal mass ejection from the sun that would hit the earth. In 1859, one such event, the Carrington Event, named after the discoverer, triggered a geomagnetic storm that would be suboptimal for satellites, power grids and electrical equipment today, to put it mildly. It could irreversibly damage the systems mentioned above or at least disable them for a long time. In 2012, such an event just missed the earth.

We were lucky! Such a mass ejection or the computer virus described could be significantly more disruptive than Covid-19 for our infrastructure, our supply chains, and our lives. In

[1] RNA is short for ribonucleic acid. Ribonucleic acid is the evolutionary predecessor of deoxyribonucleic acid (DNA).Human genes largely consist of DNA while most viruses, including Covid-19, consist of RNA.
[2] As early as 2007, scientists in Idaho showed that a cyber-attack can destroy mechanical components of the electricity network. You can find more about this under the keyword "Aurora Generator Test" if you use the Google service of the portfolio company Alphabet.

both very unlikely scenarios, the infrastructure on which our modern way of life is based would be severely damaged.

I would like to give you the following examples, as in the current situation it is difficult to imagine even more far-reaching disturbances: In my understanding, the German electricity grid would collapse very quickly without highly complex algorithms to control the flow of electricity and would take time to reactivate. Many means of transport, such as cars, trucks and trains, can hardly be started, let alone controlled, without electronics.

Both scenarios would also be extremely negative for the portfolio companies of the TGV, but they appear very unrealistic. However, I cannot say whether they are less likely or more likely than a global pandemic. This doom and gloom scenario is intended to underline one thought: crises almost always come unexpectedly, even if in hindsight, it often does not appear that way. The portfolio companies of the TGV Compound Interest have come through the crisis well so far. There is no guarantee that it will stay that way and that they will do so again in the next crisis. The next crisis could be worse for our portfolio companies than the current one.

The best insurance against these and other unlikely risks is (a) diversification of business models and (b) excellent entrepreneurs with dedicated teams who are prepared for these risks sensibly and react quickly and boldly. This insurance has proven itself in this crisis: the response of the entrepreneurs and managers of the portfolio companies was excellent. Thank you for that!

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Lessons learned in the eye of the Storm [3]

At the moment, it feels to me as if everything surrounding the pandemic triggered by Covid-19 has become much calmer. People, as well as organisations, have adapted to the changed situation as they always have. Maybe it is the beginning of the end of the pandemic, but it might just be the calm in the eye of the storm. A good time for me to look at the past few months and learn:

[3] Aus Wikipedia: Als Auge (des Sturms) bezeichnet man in der Meteorologie das nahezu windstille Zentrum eines Wirbelsturms.

1. “Sit on your hands!” With these words, Charlie Munger would like to say that a lot of activity in portfolios not only generates costs and triggers taxes but also ensures that companies are sold or bought out of short-term considerations and emotional responses. These short-term considerations and emotions were certainly very high for me in March, probably unnecessarily high. While I have mostly made recommendations for the TGV to reallocate within the portfolio companies, I have also recommended selling Mercadolibre and buying Schibsted. The idea of recommending Mercadolibre for sale was primarily driven by short-term price considerations and thus a clear mistake – completely independent of the price development. If I compare the two companies, in the long run, with a high degree of certainty, Mercadolibre is the better company with no operational or liquidity-related difficulties in the short term. My concern was that the company’s very high growth will be weakened by the effects of the pandemic and that the company’s high valuation could collapse accordingly. This concern is smaller today, but the company’s valuation has roughly doubled, making it fair or more than fair. One day the market will again offer shares in Mercadolibre at an attractive price, and I would most likely recommend buying shares again.
2. An intense amount of travel has always been an important part of finding great entrepreneurs and businesses. This is especially true in countries and industries in which I do not have a network yet. My travel activities came to a standstill at the beginning of March. The effects have so far been minor, as I can fall back on the experience and network from my previous trips, and many companies are now even easier to connect with digitally. Hence, I assume that even after the end of the pandemic, I will be travelling less.
3. In 2020, the investors in the TGV have neither written emails nor phoned nor withdrawn any money. Thank you very much for your trust in my work and myself, and for the serenity on your part. You give me the confidence to keep looking for the best long-term opportunities, regardless of volatility. The pandemic and its effects are far from over.

The annual investor meeting of the Investmentaktiengesellschaft für langfristige Investoren TGV will take place in Bonn on September 5, 2020. Due to the current situation, this year it will take place later and virtually. You are cordially invited, and I look forward to seeing you there. You should have already received a formal invitation. Please let me know if you did not.

If you would like to send me your comments, ideas, and criticism, please send me an email (laurenz@lmncapital.de). I am happy about every opportunity to learn!

I thank you for your trust and look forward to the continued partnership as investors/compounders in the TGV Compound Interest.

Stay safe and healthy. Yours,

Laurenz Nienaber