Investmentaktiengesellschaft für langfristige Investoren TGV

Investmentaktiengesellschaft für langfristige Investoren TGV
Rüngsdorfer Str. 2 e · 53173 Bonn · Germany

Investmentaktiengesellschaft für langfristige Investoren TGV
Rüngsdorfer Straße 2e
53173 Bonn
Germany

Telefon: +49/228/368840
Telefax: +49/228/365875

E-Mail: info@langfrist.de

Dear investors

Attached, you will find the semi-annual report for the year 2020 provided by our sub-advisor JMX Capital GmbH for the sub-fund „Truffle“.

Yours sincerely

Investmentaktiengesellschaft für langfristige Investoren TGV

Semi-Annual Report 2020 of the Sub-Advisor

Dear investors,

A little over five years have passed since the inception of the TGV Truffle. Time flies when you're having fun.

The discovery of underrated companies (the proverbial "truffle search"), the dialogues with management teams, the exchange with other investors, the constant questioning of one's own hypotheses, and the inner struggle with one's own fallible emotions ... nothing is more demanding, and I do not want to miss any of it. The variety of impressions and activities in my profession is a blessing, and I hope to continue working in this setting for many decades to come.

I was aware of all this, and it was the major reason to open my little shop five years ago and turn the sign on the door to "open". What I didn't appreciate at the time and can't overestimate now, five years and a little more life experience later: there are almost only nice people coming to my shop!

The management teams in the companies represented in the portfolio of the TGV Truffle are deliberately chosen for this. The value of a good management team can hardly be overestimated. Criteria such as honesty, empathy, and passion are of paramount importance. I see these people as my clients because the best leaders in the world can choose their investors. My role is to give advice when asked and to support when it is necessary. This creates strengthening, mutual trust, and alignment of interests. Which, in some cases, has led to friendships.

The other visitors to my shop are you, the investors in the TGV Truffle. Partly consciously – through the chosen structure and my way of communicating – partly through luck, a group comes together in the TGV Truffle of which I am very proud. I have the impression that a large part of you understand very well what I am doing or what I'm deliberately not doing, and many of you are proactively involved. This is completely atypical compared to traditional funds, but I enjoy the close connection between you as investors and my work. Equally unusual is that TGV Truffle did not record a single outflow in the first five years. Many of my colleagues are getting outflows after a poor weekly performance – which dramatically complicates the investment process. Without your patience and long-term perspective, dear investors, my work would not be possible, and it is a pleasure to advise TGV Truffle. My goal is to make your confidence in my work your best investment.

Rather than as a "visitor" of my shop, the Investmentaktiengesellschaft für langfristige Investoren TGV is the best partner for the sustainable development of the TGV Truffle. Five years ago, Norman Rentrop and Jens Große-Allermann were crazy enough to facilitate a 25-year-old investment nerd's start on the financial market. Since then, I have been trying to do more good than harm and to support the idea and culture of the Investmentaktiengesellschaft. To my knowledge, the structure there is unique in this shape and form, but ideal for the work of investors such as Rob Vinall, Mathias Saggau, myself, and a growing circle of other excellent sub-advisors. I am deeply grateful for the trust that Norman Rentrop and Jens Große-Allermann had in me then and still have in me now.

As explained in the 2019 Annual Report under "sense and nonsense of stock market prices", the capital market may sometimes call erratic prices for companies: The stock market has not exactly excelled with balance and poise over the past six months. Nevertheless, after five years, the first reasonably meaningful period has been reached to assess an investor's performance in a somewhat more structured way. In the following paragraph, I am putting my work of the last five years on the proverbial truffle scale.

Measuring and Weighing

As always, please find the most important portfolio and performance data of TGV Truffle in the following table:

Portfolio Facts	
NAV as of 06/30/2020 in EUR	127.30
Total number of investments	15
Weighting largest investment	21.8%
Weighting Top-5 investments	63.4%
Weighting cash / fixed deposit	8.8%

Alphabetical Listing of Top-5 Investments:
Amaysim
Associated British Foods
MEDIQON Group
Naked Wines
Tucows

Period	TGV Truffle	Berkshire[1]	*(Difference)*[2]	6% p.a. Benchmark	*(Difference)*[2]
2015[3]	-12.5%	-10.0%	*(-2.5%)*	+4.5%	*(-17.0%)*
2016	+18.1%	+27.5%	*(-9.4%)*	+6.0%	*(+12.1%)*
2017	+17.0%	+6.9%	*(+10.1%)*	+6.0%	*(+11.0%)*
2018	-1.9%	+7.5%	*(-9.4%)*	+6.0%	*(-7.9%)*
2019	+1.3%	+13.6%	*(-12.2%)*	+6.0%	*(-4.7%)*
In 2020	+5.8%	-21.4%	*(+27.2%)*	+3.0%	*(+2.8%)*
Since inception[4]	+27.4%	+17.7%	*(+9.7%)*	+35.8%	*(-8.4%)*

[1] in EUR
[2] Differences due to rounding.
[3] 03/31/2015 to 12/31/2015
[4] Since 03/31/2015

At the launch of the TGV Truffle, I set two benchmarks for performance after costs: (i) to be better than 6% p.a. and (ii) to be better than the price of Berkshire Hathaway share in EUR.

Since its inception, the TGV has performed better than Berkshire Hathaway but has yielded less than 6% per year.

The goal must be to exceed both hurdles in the medium term significantly.

It is interesting from a philosophical point of view when you can assess the performance in the life of an investor in a meaningful way. Especially in a concentrated portfolio such as TGV Truffle, changes in the prices of individual stocks lead to partly erratic effects on the overall performance. As recently as January, I wrote:

> *"In 2019, some companies experienced some downright absurd distortions of price and value. The most extreme examples are amaysim, Naked Wines, and System1. The current prices of these companies are many times lower than the earnings potential of the companies would suggest or what could be achieved in a sales process."*

Since then, the stock of amaysim has fallen another 30% and has more than doubled from this level. Naked Wines is also trading roughly at twice the level recorded in January. System1, on the other hand, has halved since January. The bottom line that's easy to guess: The actual entrepreneurial development of all these companies was much less dramatic.

However, five years is also a sufficiently long period to consider various decisions in a portfolio and to assess their quality. Especially since a lot has happened in the last five years:

- Great Britain decided to leave the EU.
- Psychopaths were elected to the highest offices in the world.
- Oil has had a negative price for the first time.
- A virus paralysed the world to an unprecedented degree.
- On the German stock market, a fraud case was celebrated for years and then went bankrupt within days.
- Banks in Europe charge their customers "deposit fees" instead of paying interest on savings.
- At the same time, central banks have been pouring record liquidity into the global economy for years.
- While depression-like conditions prevail in some areas of the world economy (e.g. retail, European banks, or the commodities sector), other sectors keep celebrating (software companies, especially in the US, sometimes note bizarrely high valuations reminiscent of a speculative bubble).

A fellow investor of mine aptly wrote in his last investor letter: *"What a time to be in business!"*.

A look at some global indices, i.e. compilations of shares based in certain regions, helps the assessment:

Indices[5] April 2015 to Juni 2020	
Nasdaq 100 Index	+134.0%
MSCI Emerging Markets Index	+6.5%
DAX30 Index	+2.9%

The Nasdaq 100 represents the 100 largest technology companies in the United States, MSCI Emerging Markets is a large list of companies in countries such as China, India, Russia, Brazil, and Thailand, and the DAX30 lists the 30 largest listed companies in Germany. Had you invested in a DAX30 index fund five years ago – and I am sure some readers have done so – you would have made virtually *no money* after costs, including all dividends. By contrast, if you bought an index fund on the Nasdaq, you would have *more than twice as much capital* as five years ago.

As a German-based consultant to the TGV Truffle, I could now boast of having delivered a significantly better performance than the DAX30 for the past five years. But this is nonsense because I can recommend stocks from all over the world for purchase. So it is appropriate to ask why TGV Truffle was not consistently invested in Nasdaq 100 shares!

At the launch of TGV Truffle, I wrote an "Owner's Manual", in which I made explicit my values and expectations. I meant then, and still believe today, that the principles set out there (chapter "Investment style") are timeless and will lead to high long-term success, implemented cleanly. A key part of JMX Capital's investment style is to buy very good companies when they are cheap and sell when they have become expensive. The truffle covered with foliage is to be sniffed out and then sold to the Michelin-starred restaurant. In recent years, however, a bidding contest between the star chefs for the best truffles occured, in which the TGV Truffle in the truest sense of the word no longer holds any share.

For years, Microsoft (in the portfolio from 2015 to 2018) was a completely underrated truffle, which became increasingly popular. In mid-2018, the decision was made to sell the stock at around USD 100 – a price that I thought was quite ambitious at the time. Since then, the stock has doubled again. Although the company has indeed performed better operationally than I thought it would, the doubling within two years implies a drastic improvement of future figures. Today, the company is trading at 42 times the profit of 2019 – a lot has to go well for investors to make money based on this price in the long term.

[5] Performance of the ETFs IE00B53SZB19, IE00BKM4GZ66 und IE00B5BMR087 in EUR, including dividends.

This opinion has to take a lot of criticism at the moment. The argument is that it is worth paying high prices for top-quality companies. I share this assessment *in principle,* but I think a look into the past is important for the purpose of context. A good example is Coca-Cola in 1998. At that time, the stock reached a record high – with a very similar narrative to what US software companies are described today ("highest quality", "great corporate culture", "still years of growth ahead") – and came up with very ambitious valuation metrics. It took 13 years (including dividends) to reach this peak again in 2011. And we are talking about a company that developed well operationally and therefore fulfilled the set expectations. Looking back at 2007 – at the time, commodity stocks were the "safe bet with a crystal-clear future" and represented the world's highest-rated companies – is even more sobering. The price of the world's best-managed major oil company, Exxon Mobil, still is below its 2007 level – dividends included. Again, 13 years have passed, but the high expectations of that time have not been fulfilled at all. The visit to the Michelin-starred restaurant ended with an upset stomach!

In this respect, I mourn the performance of the Nasdaq 100 only to a limited extent: To benefit from it, I would have had to act contrary to my principles. Especially since an investment like in Microsoft from 2015 to 2018 led to a doubling of the invested capital for TGV Truffle within three years and was a complete success – I only recommended leaving the party earlier than others!

However, the question remains what grade I should give myself for the advice I gave the TGV Truffle over the past five years.

For me, it makes the most sense to take a close look at the quality of my process (instead of the outcome). In the Owner's Manual, I talked about maintaining a watchlist of excellent companies, the most favourable ones of which are recommended for the portfolio of TGV Truffle. For me, "favourable" means that there is a high discrepancy between the stock market price and my estimate of the justified value. In analysing this "justified value", I focus on what should be paid for the future development of the company based on various scenarios and with the expectation of a reasonable return for the entire company. To me, "adequate return" for an investment in stocks is in the current inflation environment approx. 10% per year in euros[6]. Since the world is, of course, uncertain, I try to recommend stocks below the fair value to buy. The difference between price and value then serves as a safety margin against the uncertainties of entrepreneurship. Should these uncertainties lead to positive surprises or should my estimates of future results be inherently conservative (which I aim to do and believe in implementing),

[6] In the long term, academically, an excess return of around 6% p.a. from shares over government bonds can be demonstrated. The long-term government bond yield is around 0.5% p.a. above inflation and 2% p.a. is the European Central Bank's current inflation target. Given the annual costs in the TGV Truffle of around 1.5% p.a., a share has to gross 6% + 0.5% + 2% + 1.5% = 10% per year in order to be considered as an investment.

then the safety margin should not be used as a buffer upon purchase but should be a source of returns of over 10% per year.

If, for the calculation of the NAV of TGV Truffle, I were to not apply the prices of the shares at the respective reporting date, but the fair value of the companies according to my estimates, you get the price a share of TGV Truffle *should* be worth. I deliberately do not want to publish this figure to avoid raising false expectations or misleading you. Nevertheless, it is enlightening to compare this fair value per share as of June 30, 2015, with the fair value per share as of June 30, 2020. In full appreciation that these are only rough estimates: With the same methodology, the fair value per share has increased by around 9% per year in this five-year period. This figure is, of course, already after deduction of about 1.5% annual costs. Moreover, inflation in Europe from 2015 to 2020 was more at 1.5% per year, and government bonds earned 0.5% per year *less* than inflation (rather than historically *more* than inflation). Thus, the increase in value was 9% - 1.5% + 0.5% + 1.5% = 9.5% per year compared to 6% per year in the model assumptions. That is reasonably satisfactory. However, I would like to see a clearer margin in the medium term between the development of fair value and the general expectation of returns for equities, especially because of the blurred assessment and the partly very concentrated portfolio. In school grades, the performance would probably be a 3+, and that's not enough for me.

However, this calculation illustrates two things in particular.

First, it shows how extremely well American technology stocks have performed over the past five years compared to long-term stock market return expectations. The above 134% performance of the Nasdaq 100 over 5 ¼ years corresponds to a 17.6% return per year, or 16.6%[7] access stock return compared to a 6% long-term average. It would be surprising if this trajectory were to continue.

Secondly, it is clear how important it is to buy with a safety margin. I have often discussed Microsoft and Rolls-Royce together in my letters, as both companies are subject to similar transformation dynamics. I would recommend both companies to purchase again, although the results – both operationally and in the prices – were completely different. When I look at old financial models for Microsoft, the company has managed to meet my best-case estimate. Rolls-Royce, on the other hand, has suffered two unlikely, if plausible, setbacks with serious technical problems in an engine program and the cessation of air traffic caused by the Covid19 pandemic. As an investor, you need stocks like Microsoft in your portfolio to compensate for occasional cases like Rolls-Royce. The art is to make assumptions conservatively enough that the positive event paths surprise a little more than hoped for, and the negative event paths are less terrifying than expected.

[7] 17.6% + 0.5% negative Bond yield - 1.5% inflation = 16.6% share over-return

Portfolio changes

The first half of the year was characterised by much higher portfolio turnover than usual. This triggers uneasy feelings for me – as I aim to be a real long-term investor. However, the upheavals of the capital markets in March created exceptionally good opportunities, which could only be used in a short time frame.

A good example is DCC, an Irish holding company that operates in various distribution businesses. The business model is extremely robust and not affected by Covid19 in particular. I have known the company since 2011, and I am well acquainted with the people involved as well as the business itself. DCC has long been a candidate on my watchlist. In mid-March, the stock plummeted, and I was able to recommend that a position be built quickly. The decision had to be made within minutes, as suddenly a share block was offered for sale at a low price. I took the chance, having waited for this opportunity for years. Since then, the share price has doubled, underscoring the absurdity of the valuation at the time. Such price swings in the case of solid billion-dollar companies like DCC are the opportunities I'm waiting for the TGV Truffle.

In January, I addressed the takeover of Cincinnati Bell, and that just when the annual report was published in January, another bid for the company became public. Subsequently, Cincinnati Bell's key shareholders were able to make it clear to management and bidders that a takeover of the company was only possible at a higher valuation. There was a bidding contest, and eventually, the bid at USD 15.50 per share won – a nice improvement over the initial offer of USD 10.50! The TGV Truffle sold the position and the price achieved is satisfactory. At the same time, the sale resulted in an inflow of liquidity in the TGV at the ideal time, which was reinvested in purchases such as that of DCC.

A very interesting finding from the Cincinnati Bell Investment, however, is that the bidders (including the world's most sophisticated infrastructure investors) seem to be attaching a dramatically higher value to a fibre-optic network in the US than the share price suggested. This makes me extremely optimistic about the biggest investment of TGV Truffle, Tucows. Here, the stock market currently attaches a negative value for the fibre segment (although the operating figures look good). There will be a day when today's knowledge of professional infrastructure investors will also reach Tucows shareholders. Along the way, I'm looking forward to years of being able to recommend Tucows' stocks at way too low prices – the company itself seems to see it similarly: especially during the crisis in March, more and more own shares were bought back.

The long-standing positions of Alphabet and Rolls-Royce were sold in the first half of the year. Under different circumstances, I would recommend buying both of them again, so nothing bothers me with the companies as such.

I think Rolls-Royce is currently too difficult to assess due to the completely changed air traffic landscape caused by Covid19. Especially as the company is still in a transformation process, the crisis is now coming at the most inconvenient time and is likely to make the turnaround more uncertain. I follow the situation closely, and TGV Truffle may become a shareholder in Rolls-Royce again in the future. For this purpose, however, the company must first survive the crisis.

Alphabet, on the other hand, has been recommended for sale for valuation reasons. The TGV Truffle has been invested in Alphabet from its inception, and the position has been one of the big winners in the TGV over the years. For the assessment of Alphabet, I use a valuation logic, according to which I adjust the reported profitability for costs for growth projects. Historically, Alphabet has claimed very significant expenses in the income statement, which are actually more of an investment. For many years, the stock market underestimated the profitability of the company, which offered a wonderful opportunity. I would have liked to have remained a shareholder in Alphabet, but the price has recently come close to my fair value estimate. At the same time, I have become more sceptical about the regulatory view of the company. The monopoly law pressure is mounting, and it may well be that Alphabet should not show the full profitability at all or be subject to stricter conditions or taxes. However, should the gap between fair value and price open up more clearly in the future, I am already looking forward to recommending the purchase of the shares of this great company again.

MEDIQON

Almost since the launch of the TGV Truffle, MEDIQON Group AG (then still under the name medical columbus AG) has been an integral part of the portfolio. The business has changed considerably since then: While MEDIQON started as a software company in the German hospital market, it is now active as a holding company and manages the activities of its subsidiaries. As of March 1, 2020, the supervisory board has appointed me as an additional member of the executive board to support the founder and CEO Dirk Isenberg. At MEDIQON, I am now primarily responsible for capital allocation. Mr Isenberg has built a great team at MEDIQON, and the goal is to increase the capital of the shareholders intelligently. MEDIQON is a major investment of the TGV Truffle, and the fruits of my work as a board member will benefit the TGV to a considerable extent. If you are interested in further details, I recommend reading the annual reports in which the holding activities are discussed in great detail[8].

The Perfect Wave

Over the past five years, I have had various experiences that sharpened my view of how good and bad equity investments look and what attributes they display – often long before the results are reflected in business figures or prices. It should be said that many routes lead to Rome, and a wide variety of

[8] https://www.mediqon-group.de/wp-content/uploads/2020/05/Mediqon_Group_annual-report-2019.pdf

investors with a wide variety of strategies on the stock market have long-term success. However, it doesn't matter what *somehow* works *for others,* but what works *fairly safely for yourself.* And what I should be looking for to find a truffle is becoming ever clearer. Of course, like a surfer waiting for the "perfect wave" in shallow water, you also have to live with compromises. As with surfing, you only know afterwards whether the wave will knock you over or whether a much better wave follows right behind yours. Based on the circumstances, you have to surf great waves without anyone guaranteeing perfection. Like any surfer, as an investor, I have an idea of what perfection looks like in a share – and this idea has become ever clearer in recent years. However, a generalisation, a guide, a checklist of what the perfect wave looks like, makes little sense. Each situation is different and individual aspects can be of overriding importance. The endless wait for utmost perfection in the investment process can hold you back, and the art lies in the right compromise, as there is no Ferrari station wagon!

Nevertheless, one attribute of a possible perfect investment has become even clearer to me in recent years: the interests of the people involved in the companies must be as congruent as possible with the interests of the investors of the TGV Truffle. "Interest" does not necessarily have to be monetary – people run companies for a variety of reasons – but if not everyone is in the same boat, the journey toward long-term outstanding performance becomes *much harder.* This was already clear to me at the launch of the TGV Truffle (at least in theory). However, some experiences have to be lived through to truly understand the lesson. Every entrepreneur will say "in the end, it depends on the people" – in a world full of flashing stock prices, analyses of financial statements and competitive dynamics, this is easy to forget. At the same time, I am convinced that the trend towards ETFs, in particular, tends to make the inefficiencies, which are difficult to analyse, greater. Many of the competitors of the TGV Truffle rely solely on statistical series or are even completely passive investors who only act on a rule-based basis. These investors – who now make up a large part of the capital market – do not take the time to talk face to face and consider the context. However, this is often where the greatest inefficiencies lie.

I look forward to the next five years of TGV Truffle with a lot of hope, as I am very sure of the interests, skills, incentives, and motivations of the people involved in the most important "truffles".

Reading recommendation

In spring, I was finally able to tackle a book on my reading list that had been there for years: "Technological Revolutions and Financial Capital" by Carlota Perez. The author looks at various historical innovative bursts (advent of railways, invention of the Internet, etc.) and correlates them to the role of the capital market. It is fascinating to see how events sometimes repeat themselves in an absurdly similar way. Reading this book puts your role as an investor into perspective and relativises contemporary commentators who often interpret today as "unprecedented."

Outlook

Due to the corona crisis, the Investmentaktiengesellschaft für langfristige Investoren TGV, unfortunately, had to postpone the investor meeting originally planned for June to September 5, 2020. Since we do not want to contribute to any danger from Covid19, the event will be held virtually. You will, of course, be given the opportunity to ask questions. An invitation to the event was already sent out.

Until then, I wish you and your families all the best. Stay safe! I look forward to working with you over the next five years and hopefully for a long time to come!

Sincerely

Jan Mohr

Owners' Manual – JMX Capital

In 1983, Warren Buffett and Charlie Munger formulated "owner-oriented principles" that aim at explaining to shareholders of Berkshire Hathaway what to expect when investing in the stock. Spelling principles out clearly, in the way Buffett and Munger did, has two key benefits. Firstly, it is an effective way to explain my approach of advising TGV Truffle and sets expectations of what can (and cannot) be achieved. Secondly, the act of writing down a plan and publicly committing to it creates a strong psychological tailwind to follow the delineated course of action. Therefore, I will pursue the same approach as my role models and lay out my principles as transparently as I can.

My principles of running TGV Truffle are the following:

1. Price I pay – Value I get.

   Since first reading a biography on Warren Buffett at age 11, I strongly believe in the virtues of value investing. I believe that every security has an intrinsic value and that its price will, over time, converge to that intrinsic value. Successful investing requires good judgment about the intrinsic value of a security and purchasing it at a price considerably below its value. This notion implies that financial markets are not always efficient. Benjamin Graham introduced the character of "Mr. Market": this gentleman suffers from a bipolar disorder and calls out security prices all day. On a good day, the future looks bright and security prices reflect optimism in the world. However, bad days work in reverse and poor Mr. Market sees nothing but doom. Luckily, Mr. Market is a forgiving fellow and he does not mind if investors ignore him from time to time. Even more so, investors can take advantage of him and buy when he is depressed and sell when he pops the champagne. <u>I focus my work on understanding the intrinsic value of securities and take action when there is a disparity between value and price.</u>

2. Preference for Volatility

   It might take time for any difference between price and value to narrow. Indeed, the gap might first become bigger before it closes eventually. Most fluctuations on security markets are noise and have very little to do with the underlying economic or business-specific developments. Whenever I judge my success in any given investment, I focus on whether the operating business of a firm meets or exceeds my expectations. I do not focus on the short-term fluctuations in the stock price. Especially in great businesses, a delayed recognition of undervaluation by Mr. Market can be a very good thing: It allows prudent investors to buy increasing amounts of an exceedingly undervalued firm. Think about a sling-shot that is pulled back: the longer you pull, the harder the snap-back. The same logic applies to volatility in stock prices. While many investors are concerned about movements in the stock price, I view them as opportunities. What gets me excited are times when Mr. Market loses sight of the underlying business of a firm. Hence, contrary to mainstream finance postulations, investors in TGV Truffle should have a preference for volatility. I strongly disagree with the notion that volatility equals risk. Anyone who can withstand swings in prices (and only people who can should invest in securities) should focus on the long-term risk of losing capital rather than short-term volatility. <u>I will do everything I can to minimize long-term permanent losses of our capital but I will do nothing to smooth short-term performance variance.</u>

3. “First Person Singular” Style of Accountability.

   I find it amusing how investment professionals often refer to their decisions in the first person plural – “we have a position in stock XYZ” – while they actually mean “I have a position in stock XYZ”. This nuance can easily be disregarded as trivial but I find it highly significant. In TGV Truffle, there is no investment committee, there is no team and no shared responsibility for investment mistakes. I am the one making an investment recommendation, and it is me who is eventually responsible for the outcome. Indeed, this means that you as an investor are making a bold bet on my capital allocation skills. More than anything, an investment into TGV Truffle is a bet on Jan-Hendrik Mohr. I have no intention to build an investment team and certainly not a marketing team. However, this means that I have little time for investor dialogue. I will communicate with you in annual investor letters and will happily answer all your questions at the annual investor meeting of the Investmentaktiengesellschaft für langfristige Investoren TGV (InvAG) in Bonn. InvAG acts as the regulated manager of TGV Truffle and implements my investment advice – after careful consideration – in the portfolio. The team in Bonn is also freeing me of most administrative and regulatory work and will be ready to take over control in case I get run over by a truck. Indeed, this set-up is a dream-come-true for me as it is very lean and frees me from many administrative burdens. It is also highly beneficial for investors as it puts operational risk management into experienced and able hands. My lean “first person singular” approach also implies that I have no plans of investing into a façade like fancy offices or an elaborate webpage. If you need extensive dialogue, an impressive looking investment team and a portfolio advisor who is a regular guest on TV, an investment in TGV Truffle is not right for you.

4. Reputation is everything: It takes 20 Years to Build and 5 Minutes to lose.

   The investment industry is full of conflicts of interest: misaligned incentives and criminal or immoral actions are sometimes very close to perfectly fine conducts. I run my investment process in a way that it can act as a role model not only for compliance with the law but also for trustworthiness and reliability as a business partner. I have no interest whatsoever in gaining unfair advantages or in risking my reputation.

5. All-in.

   My dream has always been to run my own investment firm and I have no exit plan. All my private security investments will be invested in TGV Truffle. You entrust me with hard-earned money, so in return you can expect my full attention and commitment to compound the capital in TGV Truffle. My goal is not to advise the largest investment fund but rather to achieve the best long-term track record while minimizing the risk of permanent loss of capital.

6. This is a marathon, not a sprint.

   When running a marathon, you only tend to optimize two factors only: a) the likelihood of finishing and b) the total time needed to finish. What does not matter is the time you run during certain intervals of the marathon. Given my life expectancy, I have up until around 2075 to practice investing (as long as I stay mentally capable and willing to do so – which has not been a problem for many value investors in the past). As an analogy to a marathon, I will make sure to a) finish, i.e. not incur permanent loss of capital and b) optimize my investors’ overall return over long periods of time. Anything shorter than five years is most likely not enough to judge my investment track record. Whenever you evaluate my investment performance, bear in mind that I am running a marathon and not a sprint.

7. Style.

The investment management industry has a strong preference for classifying investors into so-called styles like "value", "growth", or "distressed debt". A deviation from a certain style – "style drift" – is generally deemed a bad thing. My style is "rational" – I will do whatever I find rational at a given point in time, regardless of how commentators might call it. I will make investment decisions whenever I feel competent enough to judge whether a security is undervalued. My investment process revolves around two steps:

1) Watch list

I spend most of my time building a watch list of admirable companies and expanding my knowledge about them. All companies on that list fulfill three criteria:

a) Straightforward and comprehensible business model
b) Able management with a reputation of acting with integrity
c) Sustainable structural competitive advantage

The valuation of the firm is not relevant for a spot on the watch list. Quite the contrary: many firms on the list are usually fairly or even ambitiously valued (they are great firms, after all!). I call this list of outstanding firms my "truffles" - hence the name of the fund: TGV Truffle.

After conducting initial research on a potential "truffle", I submit the target company to a hypothetical litmus test: would I be willing to put capital into the firm if one day the stock opened down 20 percent on no news. A firm deserves a spot on my list only if I feel comfortable answering this question in the affirmative.

In my daily work, I have to manage the trade-off between finding new potential firms for the watch list and deepening my knowledge about firms that are on the list already. The higher the number of firms on the list, the harder it is to follow each firm. However, a higher number of watch list firms also increases the chance that one firm is undervalued at a given time. Luckily, there is a knowledge-based network effect among my watch list firms. It happens quite often that a firm I know well directs me towards an exceptionally well-run competitor or supplier that possesses great pricing power. This is a great starting point for research on a new firm and it also scales my time investment well over the original firm I have on my radar already.

2) Portfolio

As a subset of my watch list, I will build a concentrated portfolio of undervalued investees in TGV Truffle. From time to time, a firm on my watch list will face a large but solvable problem. Our myopic and bipolar friend Mr. Market might then call out very attractive prices for us as long-term owners. As in any truffle search, one has to uncover the truffles amongst loads of dirt. However, I only invest my time into digging dirt when I am sure there is potential to find a large, delicious, and rare truffle. Many other investors start by digging dirt wherever they can find it and hope to find a potato somewhere in the ground. The problem with this approach is that most of the time the dirt diggers find stones. I am not in the business of separating potatoes from stones. I specifically want to find truffles. Other investors also like truffles (for obvious reasons) but rather than digging in the ground, they go to a fancy restaurant and order truffles on the menu. The problem with that approach: they pay full price for the delicious truffle. My approach is to have a clear idea of what my truffles are (the firms on my watch list) and to start digging when dirt covers one of those firms. Indeed, I look to find mispriced truffles.

However, such a mispricing of a great firms does not happen every day. Therefore, it is important to invest heavily when an opportunity presents itself, rather than spreading bets amongst many different lukewarm secondary ideas. Over time, I expect the portfolio of TGV Truffle to be quite concentrated in few investees for which the probability and magnitude of capital gain is vastly greater than the probability and magnitude of capital loss. Indeed, I do not refrain from taking very concentrated bets in a single stock if the opportunity set is right. However, in such cases the probability and magnitude of capital loss has to be very low in order for me to invest. Commonly adhered to (albeit completely arbitrary) guidelines for diversification in institutional asset management are of no importance to TGV Truffle. Nevertheless, I pay great attention to true diversification between the underlying risk factors my investees are subject to.

One fact is sure:

<u>TGV Truffle is not the typical investment product with systematic rules but rather the best collection of investment ideas at any given time.</u>

8. Fee structure and equal treatment of all investors.

The management fee of TGV Truffle is 1 percent of assets under management per year, charged in quarterly increments. Additionally, a performance fee of 10 percent above 6 percent annual performance is charged. This hurdle rate of 6 percent is compounding, i.e. performance fees only accrue after the first Euro invested compounded with at least 6 percent per year. Trading costs and some administrative expenses (such as the fees paid to our custodian) are also charged from the fund's assets. Investments and redemptions are possible on a quarterly basis. I will not pay any commission to financial advisors for recommendations of my fund. <u>Everyone (including InvAG, which provided the seed money to TGV Truffle, or myself) is subject to the same terms and conditions.</u>

Jan-Hendrik Mohr, Hamburg, April 2015