

Investmentaktiengesellschaft für langfristige Investoren TGV

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Dear investors

Attached, you will find the annual report for the year 2022 provided by our sub-advisor JMX Capital GmbH for the sub-fund „Truffle“.

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

Annual Report 2022 of the Sub-Advisor

Dear Investors,

In a nutshell, the most important thing first: I have decided to hand over the sub-advisor mandate for the TGV Truffle to Mathias Saggau as of Feb 1, 2023.

What sounds dramatic and abrupt at first results from a natural transition over the past few years. In 2020 I became a – part-time – member of the executive board of a key portfolio position of the TGV Truffle: MEDIQON Group AG. At the time, the company urgently needed support, and I was happy to roll up my sleeves. A lot has happened since then, some of it to a degree we didn't expect when it all started: the company has developed much more positively than anticipated. The share price has multiplied, and the company is now valued at EUR 250 million on the stock market. More than 20 operating companies are part of MEDIQON Group today. With this positive development of the company, the MEDIQON position weighing in the portfolio of the TGV Truffle also grew. As of today, MEDIQON Group AG is by far the most important and largest investment in the portfolio. A part-time role no longer does justice to the responsibilities associated with my management and capital allocation tasks in the company.

The TGV Truffle also needs the undivided attention of a sub-advisor focused on stock selection and portfolio management. With Mathias, we have that 100%. I have worked closely with him for more than ten years and consider him an outstanding investor. There have been regular overlaps in the portfolios of the TGV Truffle and the TGV Partners Fund (which Mathias has also been advising as a sub-advisor since April 2015). In this respect, choosing him as my successor in advising the TGV Truffle was easy for me. I will continue to increase my private investment in the TGV Truffle on March 31, 2023, and I look forward to hopefully watching Mathias work as its sub-advisor for many years to come.

My decision was made jointly and in best agreement with the founder of the Investmentaktiengesellschaft, Norman Rentrop and the board members Jens Große-Allermann and Waldemar Lokotsch. I am delighted that the TGV Truffle will continue to be run by the Investmentaktiengesellschaft für langfristige Investoren TGV and that I can keep my investment in the TGV alongside yours. At the same time, I am grateful for the years of learning. Entrepreneurial projects (MEDIQON once started as one!) have always been promoted and supported by the team in Bonn. I still remember well how, even as a very young analyst – long before the inception of the TGV Truffle – I was not only permitted but encouraged to tackle and solve really big issues for the Investmentaktiengesellschaft on my own. Of course, not everything worked perfectly, and my first tentative steps had most certainly caused some people to lose sleep on my behalf – but that's how you learn!

I appreciated that ethos at the time and adopted it for myself. Above all, I am grateful to have found a “home” to play out my investment passion. This home was and is shaped by great people whom I would like to thank from the bottom of my heart: Norman Rentrop, Dr Maximilian Zimmerer, Alexander Pichler, Wolfgang Driese, Janine Fitzenreiter, Tanja Titz, Jens Große-Allermann, Waldemar Lokotsch, Wolf Martin, and the group of sub-advisors. Thank you for 2,862 days of TGV Truffle with JMX as sub-advisor. What is more: Thank you for eight years of friendship and good advice!

Measuring and Weighing

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

Portfolio Facts		Alphabetical Listing of Top-5 Investments:			
NAV as of 30/12/2022 in EUR	186.36	Associated British Foods			
Total number of investments	19	Grafenia Bond			
Weighting largest investment	48.8%	Just Eat Takeaway			
Weighting Top-5 investments	83.1%	Tucows			
Weighting cash / fixed deposit	0.0%	MEDIQON Group			
Period	TGV Truffle ¹	Berkshire ²	(Difference) ³	6% p.a. Benchmark	(Difference) ³
2015 ⁴	-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%
2020	+27.4%	-5.9%	+33.3%	+6.0%	+21.3%
2021	+65.4%	+39.6%	+25.9%	+6.0%	+59.4%
2022	-26.5%	-9.5%	-35.9%	+6.0%	-32.5%
2023 ⁵	+5.7%	+2.0%	(+3.7%)	+0.2%	+5.4%
Since inception ⁶	+96.9%	+119.4%	-22.5%	+57.5%	+39.4%

¹ Performance after all costs.

² in EUR

³ Differences due to rounding.

⁴ 03/31/2015 to 12/31/2015

⁵ 01/01/2023 to 15/01/2023

⁶ Since 03/31/2015

From the inception of the TGV Truffle until January 15, 2023 (the last NAV determination before this letter was written), the performance (after costs and taxes) was 9.1% p.a. at TGV level. This is below the performance of our first benchmark Berkshire Hathaway (10.6% p.a.) and above the second benchmark of 6% p.a. The comparison with other investments over the same period is interesting. From April 1, 2015, to January 15, 2023, the DAX index (including reinvested dividends) achieved around 3.0% p.a., the Nasdaq-100, on the other hand, generated 13.5% p.a. (without reinvested dividends!). More than ten percentage points difference in return per year. While the Nasdaq performed particularly well during this period, the DAX did not do so badly in an international comparison. For example, anyone who invested in the Brazilian, Turkish, or Russian stock market 2,862 days ago has far fewer Euros today – or as in the case of Russia: no Euros at all⁷. Nevertheless, the 3% p.a. of the DAX was “bought” with large fluctuations. Investing in shares in Germany has been a volatile way to make little money over the past eight years.

This performance since 2015 falls short of the goals I set: of course, with the TGV Truffle, I particularly wanted to be better than my long-time investment idol. However, with a little over 9% p.a., I don't have to hide either. Rather, the delivered performance requires being put into context. As has been stated many times, I think a long-term return on shares of approximately 8.5% p.a. is plausible. Thus, the TGV over the short observation period of eight years is within the expectations of what an investment in shares should achieve. But also not any more – which makes me cautious looking at my performance bottom line.

In general, the year 2022 called for restraint: after years of strong upward movement, the global stock markets fell quite sharply. The TGV Truffle was also affected: the share value development was -26.5% in 2022. This performance is, of course, disappointing, but it should also be seen in the context of last year's +65.4%. These two annual observations make it clear what fluctuations an investment in the stock market can be subject to. As always, it is important not to let these fluctuations drive you crazy but to analyse the underlying causes. In particular, the shares in the TGV, which recorded very good price developments in 2021, were affected by price declines in 2022. A striking example of the 2022 price correction is Naked Wines, which saw a 90% drop from the 2021 high to the 2022 low. Indeed, Naked Wines' corporate performance has clearly fallen short of expectations, and, in particular, far too much has been invested in inventory. Management has reacted (albeit too late), and the strategy is now geared towards profitable growth. In the stock market, however, prices often reflect a continuation of more recent developments – both good and bad – so the highs are always a little more euphoric and the lows a little more pessimistic than reality. A very good fiscal year 2021 was followed by a massive

⁷ So much for chasing after investment myths like BRIC (Brazil, Russia, China, India)!

setback in 2022 – in my opinion, however, this setback simply led to better valuations for many of the shares held in the TGV Truffle.

In all performance analyses, the relative currency developments compared to the euro play a major role – which is often neglected by equity investors. So I find it curious that the EUR/USD exchange rate at the time of the inception of the TGV 2015 was almost at the same level as it is today. At the same time, the EUR/USD exchange rate was sometimes 10% worse or 15% better than today over the period under review. Depending on the observation period, the relative performance of the TGV Truffle compared to Berkshire Hathaway also diverged quite greatly.

If we talk about currencies, we should not omit inflation either. This is perhaps the most notable aspect of the past eight years. Many of the world’s central banks have printed money in the crassest manner in recent years. Some speak of the “greatest monetary policy experiment of all time”. It’s true: the European Central Bank’s balance sheet has tripled since 2015. However, except for the last few months, inflation has remained fairly low since 2015, and the TGV Truffle performance of 9% p.a. has resulted in “real” returns. In other words: a euro invested in the TGV Truffle in 2015 buys significantly more truffles today than in 2015.

Another way to consider past performance is to break down each stock’s earnings contribution. The initial phase of the TGV was supported by strong returns over the years, particularly in the shares of Microsoft and Alphabet (formerly Google). Everything was right here for years: sales and margins expanded at the same time. Excess cash was invested in share buybacks at attractive prices. The capital market gave profits a significantly higher multiple every year, and valuations rose. Such a price multiplication over the years could very much dominate a fund’s return. The same applies to the return on an index – Microsoft and Google were very important drivers behind the well-documented good performance of the Nasdaq index in recent years.

Since 2015, we have had a number of successes with relatively short holding periods in the TGV Truffle (e.g. Tripadvisor, Mincon, Aareal Bank, Scout24, or Zooplus). On the other hand, there were investments the TGV Truffle held for a very short time which had pronounced negative earnings contributions (e.g. Aggreko, Distribution Now or NOV). Of course, this part of the balance sheet is also important and can yield systematic returns for high turnover strategies (which TGV Truffle never pursued). One of my insights, however, is that exceptional long-term investment results often happen when the probability of an extremely good result is maximised, and then the opportunity is also created to keep a “slam dunk” for a long time.

The other (dark) side of this coin is that the big bets have to work out.

I wrote about this in the 2018 annual report:

“A word of caution: many of the best investors have kept their portfolios focused on the very best of ideas. For example, 90% of Berkshire Hathaway's outperformance under the management of Warren Buffett can be traced back to ten decisions within the last 50 years. Unfortunately, quite a number of colleagues, who at some point made a big bet, are buried in the cemetery of the failed investors. Humility is mandatory here.

I know colleagues who speak with great admiration about high-concentration funds, considering their fund managers particularly "brave" or "hands-on". In my eyes, however, this "bravery" is dangerous and not my goal at all. There are no awards for the most daring investors or the most dramatic way to achieve a performance. Concentration or diversification in the TGV Truffle are always the result of the available opportunities and circumstances, and never an end in itself. Of course, it is the dream of every investor to make a big bet on the perfect opportunity and then be rewarded, but you have to make sure that you stay in the game so you can take advantage of this opportunity.”

In this respect, my future focus on MEDIQON has both offensive and defensive components: Offensive because the best opportunities can only be pursued with focus. Defensive because full attention is also required. Defensive also because there is a risk of losing sight of the non-MEDIQON part. Offensive because with Mathias Saggau, this part will be supervised by an outstanding investor.

Portfolio

The non-MEDIQON part of the portfolio has changed rather little for many months. Most positions (Tucows, JustEat Takeaway.com, Associated British Foods, Lanxess, and Naked Wines) are “old friends” and, at the same time, investments in the TGV Partners Fund. Without exception, the investment hypotheses behind the investment recommendations are laid out for years. Above all: Mathias Saggau knows these stocks very well and has written about some of them in his investor letters (e.g. recently in the 2022 annual report of the TGV Partners Fund, which is definitely worth reading). Now, no one knows what the future holds, but the valuation levels of these core holdings and the operational prospects of the business models behind the stocks in the TGV Truffle remain attractive to me. It feels like a good time to hand over such a portfolio responsibly.

Tipps & Tricks

I won't be out of this world in the future either, and my activities as an investor can be tracked very transparently through annual reports, letters to shareholders, and MEDIQON's disclosure requirements. In the context of my final TGV Truffle investor letter, I still believe it is appropriate to share some generalisable insights about investing.

I consider eight years to be a relatively short time in investing, but it was enough to teach me humility above all else. It's wild to think about what has happened in recent years and, in particular, how things have gone much differently than anticipated.

So I would advise any investor at the beginning of their career not to get too carried away by the "concentration dogma" of value investing. Position sizes over 20% are, first and foremost, one thing: a risk. Especially if you don't have much experience. Rather, it seems wise to me today to build the framework so that the probability increases that a previously small investment can become really big over time. This involves, by definition, starting out diversified and having a plan of what to do if a stock actually makes up 10%, 20%, or 50% of a portfolio. As one of my most valued German investor colleagues says: *"You only have to get rich once."*

Another point is simplicity: One should approach complex investment hypotheses with great scepticism. The best ideas usually jump at you. The original Microsoft investment idea in 2014/2015 was downright banal. Today I look at the TGV holding of Lanxess (described in the semi-annual report 2022) and think to myself: You can explain that to everyone. Historically, the TGV Truffle was regularly invested in much more complex situations – and regularly with little success: Rolls-Royce and amaysim come to mind immediately. I remain sceptical: If the success of a stock idea depends on too many factors that have to come together simultaneously, this success becomes very unlikely.

Lastly, I've often gotten caught up in hypotheses about what "could" or "should" happen in a business situation for it to be a success. Tucows is a great example: In terms of investment, you could have spared yourself the last five years as a shareholder. Ultimately, management successfully laid the foundation for the company's fibre optic expansion project. So far, it hasn't had much influence on the stock price. In fact, often, it does not do any harm to wait for facts to materialise on the stock market. The best ideas are those where the facts have long since occurred, but their existence has been obscured by other factors. The important thing is that the truffle is already a truffle: wonderful and delicate, just covered in leaves and dirt. It does not suffice that there might be truffle-potential somewhere.

Book recommendation

"Totentanz" by Jutta Hoffritz is a quasi-biographical work about very different personalities in the year 1923. Inflation is burgeoning, the Ruhr Crisis is seething, and people are partying the nights away in Berlin. A number of prominent people from contemporary history are in the thick of it: Hugo Stinnes, Käthe Kollwitz, and others. Getting a vivid picture of the individual decision-making situations of these people in the context of their time, you learn a lot about German history and what life is like when inflation suddenly hits a thousand per cent – a day.

Outlook

I would like to thank you again for many years of great cooperation. Thank you for your continued confidence!

I am very grateful to Mathias Saggau for advising the TGV Truffle as a sub-advisor in the future. Whatever the future holds, I cannot think of a better investor than Mathias for my shares in the TGV Truffle. And I cannot think of a better portfolio than today's to grow our capital through thick and thin. Perhaps in the coming eight years, we will have the chance to finally overtake the 92-year-old best-in-class in this discipline!

I also hope to see you on Saturday, May 20 at the investor meeting of the Investmentaktiengesellschaft für langfristige Investoren TGV at the Godesburg in Bonn-Bad Godesberg. This year, I'll leave my tie at home – but I'll bring my own questions!

With this in mind, kindest regards from Hamburg, and again, from the bottom of my heart, thank you for your confidence in the first eight years of the TGV Truffle!

Sincerely,

Jan-Hendrik Mohr