GEHLEN
BRÄUTIGAM
CAPITAL

Gehlen Bräutigam Capital GmbH
Kurfuerstendamm 11
10719 Berlin

+49 30 42141851
info@gbcvalue.com
www.gbcvalue.com

Letter to Partners #9

Q3 2020 *(07/01/2020 - 09/30/2020)*

October 27th, 2020

Dear Partner,

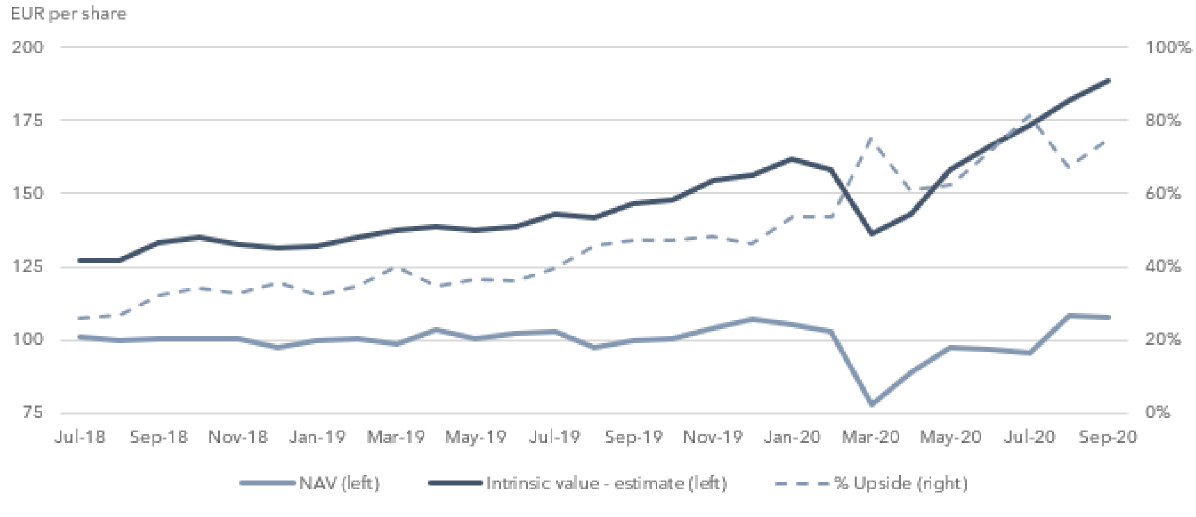
After a strong recovery in the second quarter (+24%), the price of our fund shares increased by more than 11% in the third quarter. **As a result, the fund's NAV is now positive again compared to the beginning of the year. Who would have thought that in March?**

Despite this strong recovery, we believe that today's portfolio is exceptionally attractive and the **outlook from here is very positive**.

In our last Letter to Partners, we estimated the fair value of the portfolio at over €170 per share. Today we see the value even higher. In this Letter, we would like to present our calculations and assessments in more detail.

In the long term, of course, it all depends on the development of the fund price. In the short term, however, we see the development of the intrinsic value as much more meaningful. It is not subject to the emotions of the market. Don't get us wrong, we love these emotions. They allow us to acquire shares in good companies at low prices from time to time. However, in the short term they can distort the picture of the value of your shares.

In the chart below you can see the development of the intrinsic value determined by us in comparison to the development of the current price of a unit (NAV) since the fund was launched.



It turns out that the price development of the fund shares is currently very far behind our estimate of the intrinsic portfolio value. The dashed blue line shows the upside to the intrinsic value of the portfolio, which from our point of view has increased significantly since it was launched.

As you know, we are not fans of timing the market. This year has largely shown how difficult or impossible it is to predict short-term movements in the stock market. Very few would have bet on such a severe setback in March, or on such a strong recovery since then. We therefore like to leave the view into the crystal ball to others.

However, we think that it makes perfect sense to buy more shares if the difference between the current price and the value, and the expected return, is greater. This is how we act in the fund for the individual investments. **From our point of view, the upside today is almost as high as it was at the end of March. However, it can be argued that the risks are lower**.

At first glance, it seems strange that we are seeing the intrinsic value of the portfolio higher today than it was at the beginning of the year. At least all of the challenges related to the coronavirus did not exist back then.

In fact, we see the value of the investments that we held at the beginning of March, on average, slightly lower today than at that time. However, they also include direct corona profiters (Gamesys), or companies that could benefit from government subsidies (e.g. Sto through the European Green Deal). Finally, many companies were able to report pleasing quarterly figures despite the immense challenges (e.g. Akwel, Sto, Ferronordic, Volex).

However, the majority of the increase in value we anticipate has resulted from our actions. In our first letter to partners in April of this year, we wrote: *"The current environment is one of the best that has existed for the individual selection of stocks in recent decades"*. We are of the opinion that we have been able to take advantage of a number of opportunities since then.

We are particularly interested in business models which promise us an attractive return over the next 5 to 10 years with a manageable risk of a permanent loss of capital. Looking at the portfolio, we are convinced that, for example with Basic-Fit and The Gym Group, we have found two companies that can count among the long-term beneficiaries although they are going through rough times these days.

At this point, we would like to make two remarks on the calculations of intrinsic values, which naturally include estimates from our side. In our opinion, we have made conservative assumptions for the development of companies that assume a significantly weaker economic environment in the next few years. We have also applied an average discount factor of over 8%, which is certainly exceptionally high in today's negative interest rate environment. Overall, from our point of view, there is therefore a large **buffer even in the event of negative market developments**.

In addition, there are other aspects that make us very confident that our estimate of the intrinsic value is valid and rather too low than too high.

Our investments are characterized by a **low risk of disruption**. Even if the short-term challenges are sometimes high, our view is that **we don't own any structural losers**. We are even convinced that most companies will **emerge stronger from the crisis** thanks to their leading market positions and can gain market share to a large extent (Basic Fit, Akwel, Sto).

Our companies are run by **great managers** with the **right incentives**. Most companies have an **owner, often the founder**. We find this point to be extremely important in difficult (but also in good) times. It aligns their interests with ours and allows managers to lead the company with a long-term view and to take advantage of the opportunities that are currently emerging.

Last but not least, our investments are **very well positioned financially**. We expect that no company will get into financial difficulties, even if there is a pro-longed and challenging (lock-down) period. On the other hand, this comfortable situation also allows the companies to use the available resources in the current circumstances to create value.

We often hear the question: but what happens if the market never aligns with us and valuations stay low forever? We don't see a problem in that. Our investments generate cash flows. These are either distributed to the shareholders or internally reinvested in order to increase future profits (or cash flows). Since we are convinced of the ability of the managers of our companies, we hope that they will find plenty of ways to invest the money internally rather than distribute it.

In fact, this is where we see the **great advantage of our long-term approach**. The majority of fund managers are focused on short-term performance. They are also buying stocks that have become very expensive in the hopes that they will continue to rise in the short term. This often goes well, but from time to time it also ends in disaster. Our long-term approach, on the other hand, allows us not to focus on short-term price increases, but on long-term returns.

> *"If everything you do needs to work on a three-year time horizon, then you're competing against a lot of people. But if you're willing to invest on a seven-year time horizon, you're now competing against a fraction of those people… Just by lengthening the time horizon, you can engage in endeavors that you could never otherwise pursue." – Jeff Bezos*

In the stock market, you rarely meet investors with a *three-year horizon*. For many, twelve months is already "long term". Institutional investors, in particular, are often measured monthly or sometimes even weekly.

We therefore keep our opinion that today is still an **exceptionally good time** to invest in our fund. We are very pleased that we were able to welcome **new investors** in the last few weeks and that **existing investors are taking the opportunity to increase their involvement with us**.

In the following section, you will find a case study of an investment that we made in the second quarter of this year. In the last Letter we presented Basic-Fit, which has been severely affected by the pandemic in the short term but could benefit from the current situation in the long term (less competition, greater health awareness). In this Letter we introduce you to a new investment, this time a possible direct beneficiary of the changed circumstances. Read below how the wine producer Italian Wine Brands fared and why it is not affected (or, on the contrary, is benefiting) from the current difficulties in the industry.

Finally, you will find an overview of the performance since inception and the current portfolio.

Thank you very much for your trust and support. Please feel free to get in touch with any questions or comments. As always, we look forward to your feedback.

Sincerely,

Daniel Gehlen *Marc-Lennart Bräutigam*

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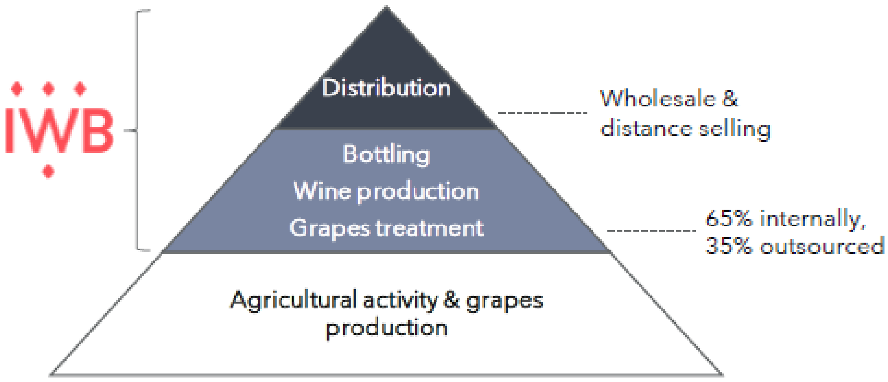
Italian Wine Brands - even during the Corona period the glass is half full (or even a little more?)
Italian Wine Brands (IWB) is an Italian wine producer that was created in 2015 through the merger of the Piedmontese direct mail order company Giordano and the Trentino wine company Provinco. The current CEO, Alessandro Mutinelli, was a major shareholder in Provinco and today still holds around 9% of the outstanding shares in the combined company. He never misses the opportunity to advertise his wines on any earnings call. His pride in successful brands and new products is easy to see.

Most recently, IWB was able to prove the quality of its wines again by receiving the "Best Italian Producer" award from the German "Berlin Wine Trophy" for the fifth time in a row. We have presented a few selected brands here:

We first took a close look at Italian Wine Brands two years ago. Since then we have continued to observe the company and have been in regular contact with management. During the lockdowns in April, we were then able to acquire shares at a very attractive price.

Since Italian Wine Brands does not sell the wines through the HoReCa (hotels, restaurants, catering) segment, the company is not one of the direct "Corona losers" compared to some other manufacturers in the industry. In fact, there were early signs that people weren't consuming so much less wine, they simply moved the wine consumption home. Due to its positioning, Italian Wine Brands is more likely to be a beneficiary of Corona. **Contrary to this observation, the stock, which we previously found too cheap, had fallen, which provided an optimal constellation for our investment.**

Focusing on the attractive parts of the industry
Italian Wine Brands specializes in bottling and selling quality wines under its own brands. However, the company has outsourced the capital-intensive grape cultivation.



The EBIT margin is typically 8-9%, and currently is even slightly higher. Profitability is therefore at a good level due to the low capital requirements. Future growth creates value!

The "right" sales channels
With an export quota of around 79%, Italian Wine Brands is strongly represented outside of Italy. The largest foreign markets are Germany, Switzerland and Austria - three countries with relatively stable economies.

Distribution takes place via two different channels: wholesale (supermarkets and discounters) and direct sales (mailing, online shop, teleselling). Well-known discounters such as ALDI, in particular, are among the customers of the wholesale segment. In addition to acquiring new customers, Italian Wine Brands can therefore also grow successfully together with its existing customers.

In recent years, Italian Wine Brands has seen small sales growth at the group level. However, it is worth taking a second look here. IWB has grown in the wholesale segment at double-digit annual rates since 2015. The low growth at group level, on the other hand, is primarily due to declines in the traditional teleselling and direct mailing areas.

Accordingly, the share of sales in the wholesale segment has increased from 37% in 2015 to now over 55%. This development should also be reflected in stronger group growth over the next few years.

There is also another positive development. Sales in the direct sales segment have recently stabilized after years of negative development. While the traditional teleselling business is contributing less and less to the total turnover of the segment, the **online segment** is growing strongly, most recently **by +114% in the first half of 2020** (naturally benefiting from the Corona situation).

Segment	2015	2016	2017	2018	2019	H1 2020
Wholesale	EUR 53.8m	EUR 60.3m	EUR 69.0m	EUR 77.2m	EUR 87.7m	EUR 50.6m
growth		*+12.1%*	*+11.4%*	*+11.9%*	*+13.6%*	*+35.5%*
Distance Selling	EUR 90.1m	EUR 84.0m	EUR 79.8m	EUR 72.0m	EUR 69.2m	EUR 41.4m
growth		*-6.8%*	*-5.0%*	*-9.8%*	*-3.9%*	*+27.3%*
Total	EUR 144.8m	EUR 145.9m	EUR 149.7m	EUR 149.9m	EUR 157.5m	EUR 92.2m
growth		*+0.8%*	*+2.6%*	*+0.1%*	*+5.1%*	*+31.5%*

Overall, we therefore expect significantly higher growth over the next few years than in previous years.

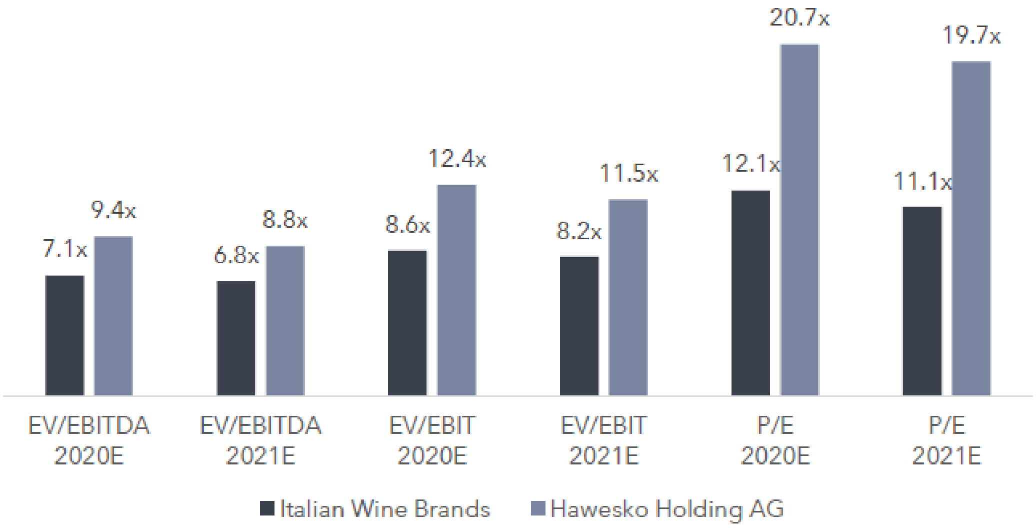
The valuation - leaves room for a (large) sip

From our point of view, the defensive character of the business model of Italian Wine Brands ("people always drink") justifies a high valuation. In our opinion, the current free cash flow yield in the high single-digit range would not do justice to the stability of the business, even if the company did not grow in the future.

The half-year figures published in September paint a different picture and have convinced us across the board. Italian Wine Brands was able to increase (organic) sales by 24% and improve profitability. Although the share price has risen by 50% since our entry in March, we see a lot more potential and have increased our position slightly again after the results.

Even without the special Corona effect, we expect stronger growth in the future than in previous years. It will be interesting to see how sustainable the shift towards home consumption and online ordering will be. At the beginning of the second half of the year, the company was able to build on the very strong development of the previous months.

In addition to the attractive standalone valuation, Italian Wine Brands is still trading at a considerable discount to comparable companies such as the German Hawesko (e.g. known from Jacques' Wein-Depot) despite higher profitability and strong operational development.



Similar transactions in the sector have also been carried out at higher valuations. At the beginning of 2020, for example, the private company Farnese Vini was taken over by Platinum Equity for a valuation of 10x EBIT, which underlines the discounted valuation of IWB.

We wouldn't be surprised if sooner or later a private equity investor tries to take over Italian Wine Brands. The stable, predictable cash flows, as well as the possibility of taking on and integrating other players, offer an interesting investment opportunity for many investors, especially in times when they are having increasing difficulty in finding suitable targets. Due to the significant participation of the management board and some other committed shareholders, we expect an attractive premium at the current price in the event of a takeover.

All three tranches of our fund are currently open for investment:
The -S- tranche is closed to new investors. Existing investors can order additional fund units with a minimum investment of EUR 10,000. The -R- tranche can be invested in without a minimum investment amount. In the -I- tranche, the minimum investment amount for new investors is EUR 200,000. Existing investors in the -I- tranche can order additional fund shares without a minimum amount.
You can find the respective tranche using the following **security identification numbers**:

-S- Tranche: A2JF8Z **-R- Tranche: A2JQHQ** **-I- Tranche: A2N811**

Net performance figures (including distribution), after deducting all costs, the -S-, -R- and -I- tranches:

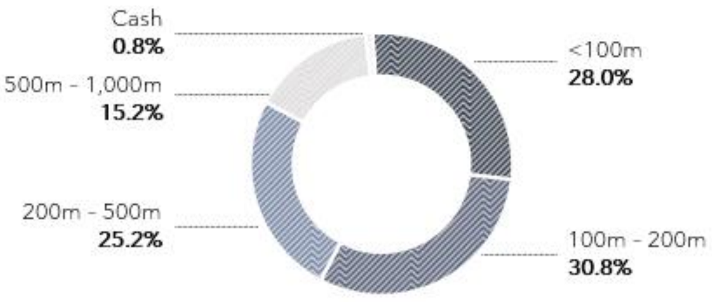
	-S- Tranche	-R- Tranche	-I- Tranche	MSCI Europe S&M Cap
2018	-2.9%*	-2.5%**	-	-17.2%*
2019	+10.3%	+9.2%	+8.3%***	+30.6%
2020 9M	+1.1%	+0.2%	+0.3%	-9.7%
Since inception	**+8.3%**	**+6.9%**	**+8.7%**	**-2.4%***

* Since the -S- tranche was launched on July 2nd, 2018 until the end of 2018 (approx. 6 months). ** Since the -R- tranche was launched on September 7, 2018 until the end of 2018 (approx. 4 months). *** Since the -I- tranche was launched on January 2nd, 2019 until the end of 2019.
Note: Due to the different starting times and fee structures, there may be deviations in the performance of the individual tranches..

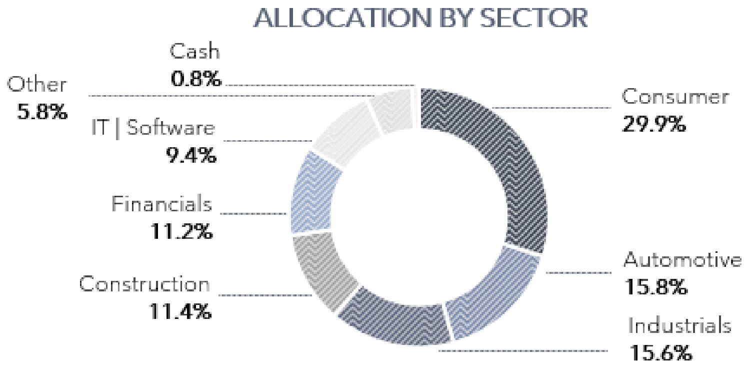
Top 10 positions with respective weightings as of September 30th, 2020:

1	Akwel	9.6%	6	The Gym Group	5.3%
2	Sto	8.0%	7	Italian Wine Brands	5.2%
3	Basic-Fit	6.8%	8	CIR	4.5%
4	Ferronordic	6.3%	9	Serviceware	4.3%
5	Gamesys	6.2%	10	SAF Holland	4.0%

Allocation based on free float market capitalization (EUR) as of September 30th, 2020:



Allocation according to country and sector as of September 30th, 2020:



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