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Letter to Partners #15

Q1 2022 *(01/01/2022 - 03/31/2022)*

April 16th, 2022

Dear Partner,

In the first quarter of 2022, **our fund returned -15.6%**. At the end of the quarter, the fund volume was almost unchanged at EUR 30.1 million. Since the beginning of the year, the fund has received EUR 4.2 million in net inflows.

EUR 100.00 invested at the start of the fund in mid-2018 was worth EUR 149.63 at the end of the quarter. The **overall gain since inception is +49.6%** and the **compounded annual gain is +11.3%** (compared to +28.1% or +6.8% p.a. for our reference index).

Net performance figures (including distributions), 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	+22.3%	+20.9%	+21.3%	+5.8%
2021	+35.3%	+34.2%	+34.8%	+24.2%
2022 YTD	-15.6%	-15.8%	-15.7%	-9.8%
Since inception	**+49.6%**	**+45.7%**	**+49.3%**	**+28.1%***
Annualized return	**+11.3%**	**+11.1%**	**+13.1%**	**+6.8%***

* 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 7th, 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. Past performance is not an indicator of future performance.
All data according to BVI method, costs at fund level are taken into account. Source: HANSAINVEST.
Note: MSCI Europe Small & Micro Cap index; net-return (EUR).

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 **ISINs** as well as the links below for further information:

-S- Tranche: DE000A2JF8Z7 **-R- Tranche: DE000A2JQHQ2** **-I- Tranche: DE000A2N8119**

Portfolio
The Russian invasion of Ukraine has changed many things in a short time. Of course, the human tragedy is in the foreground. The images and news are terrible. Our thoughts are with the people in Ukraine and with the many refugees. We hope that the situation in their country will improve very soon.

Similar to the beginning of the Corona pandemic, the panic in the stock markets was initially severe. From an investor's point of view, we think it is important in such situations to first keep calm. Of course, the situation is challenging. We have given a lot of thought to the possible effects and have also made a few changes in the portfolio to date.

Most of the adjustments so far have been relatively small, except for **Ferronordic**. Among our portfolio companies, this company is undoubtedly the most directly and strongly affected by the recent developments. It is a Swedish-based company, but it generates more than 70% of its revenues in Russia as the (exclusive) distributor for Volvo's construction and mining equipment. Despite what we see as very attractive investment characteristics - high profitability, high growth rates, structural reasons for further growth (Russian infrastructure has a lot of potential for improvement), led by founders with a high stake and a very low valuation - we have always kept the size of the position below 5% of the total fund in the past quarters due to the Russia exposure.

Already in January, we discussed internally the increased risk of an invasion by Russia in Ukraine. In the following weeks, we made the first sales. However, we could not imagine that the situation would develop in this way. On February 24th, the morning of the invasion, we sold our last shares at approximately SEK 140 per share. Shortly afterward, the company published the official news that it would no longer be allowed to import Volvo machines to Russia (for the time being) due to the sanctions.

Besides Ferronordic, the direct exposure of our companies to Russia and Ukraine is very low. The share of revenue is not higher than a low single-digit percentage for any company. However, there are considerable indirect effects, especially the increased energy prices as well as higher costs of some raw materials - directly because a large share was imported from Russia or indirectly due to the increased energy prices (e.g., steel) - which have a significant impact on the cost base of many companies.

When able, companies respond with price increases. Against the backdrop of higher inflation at present, this hurts final demand. People must spend more money on petrol, heating and, in some cases, food, and have less money for discretionary purchases. In addition, consumers (and businesses) are unsettled because of the war and uncertainty about the future. Consumer confidence is at all-time lows - near Corona lows.

Due to this situation, we have been very cautious in adding cyclical companies or those in manufacturing sectors. In the meantime, however, the valuations of some individual stocks in our portfolio are already taking on very negative scenarios in our view, and we believe that the opportunities outweigh the major challenges.

After concluding the (potential) impact and risks for the companies in our portfolio, we went on the offensive and looked for opportunities. In a panicky environment - the past few weeks certainly fall into this category - opportunities arise. As a result, we have increased the shares in the discount fitness studios **Basic-Fit** and **GYM Group**. In our view, these two companies are almost entirely unaffected by the current situation, yet share prices have fallen sharply. For example, GYM Group's share price was down nearly 30%. Today, GYM Group is the third-largest position in the fund.

In our view, **Italian Wine Brands** is another good example of a company that is only marginally affected by the situation. IWB has virtually no sales in Russia or Ukraine. Wine is - at least in the countries where IWB is active – a rather basic commodity and therefore less affected by consumer sentiment. The company is exposed to the current inflation on the cost side, especially for transport and packaging. There is also a shortage of wine bottles in certain geographies, which is why IWB is unable to exploit its full top-line potential. However, IWB is already passing on some of the cost increases to its customers. At the same time, CEO Alessandro Mutinelli is thinking very long-term. Above all, he wants to defend market share and significantly increase the overall results in the medium term, even if he must accept a slightly lower margin this year to do so. Overall, however, we believe the effect should remain within reasonable bounds. We increased our position again when the price came under unjustified pressure.

As mentioned above, the current situation has a particularly negative effect on the manufacturing sector. Overall, about 1/3 of our portfolio comes from this sector. In the following, we go into more detail on a few key positions:

Villeroy & Boch's production (the firing of ceramics) is energy-intensive. However, for the next 2-3 years, the company has already hedged a significant part of its energy needs before the sharp rise in energy prices. In addition, Villeroy can pass on the increased costs through regular and currently very high price increases. In fact, the company is already generating very encouraging profits with energy prices close to the current (extremely high) levels. The very favourable valuation (~6x EV/EBIT) for a company with the quality of Villeroy more than prices in weaker demand.

SAF Holland is a truck supplier with final demand that is cyclical. The company itself is much less cyclical thanks to the very strong aftermarket business - the margin has been relatively stable in the past with significant sales declines (a pattern also seen with competitor JOST Werke). Although the demand is unbrokenly high, we expect 2023 to be more challenging. Even taking into account, we believe the valuation is far too low. For SAF, steel, among other things, is a cost factor that has risen sharply again in recent weeks. However, the company can pass on most price increases with a few months' delay.

In our view, the automotive suppliers (**Akwel** / **Sogefi**) are in difficult positions. Due to the strength of the OEMs, it is not easy for these companies to pass on price increases (promptly). Energy costs play a minor role (<0.5% of sales), but other raw materials are relevant. Short-term production stops and irregular product call-offs are also challenges. However, the valuations of the two companies are so low that we can hardly calculate a worst-case scenario that is realistic and leads to today's share price. Moreover, the current situation of the car market - it is at a cyclical low - could lead to growth in the coming years despite a very challenging environment. We are careful in our assessment but see the chances for better developments as very good.

Overall, we remain cautious, especially regarding companies directly affected by the current changes. However, we feel very comfortable with the companies in which we are invested. We are convinced that they can pass on the price increases due to their market positions (for the most part) and that they are very well positioned compared to their competitors.

The valuations of many companies - even those that are not cyclical - are close to historic lows. Even though it is still difficult to assess how the current situation and the economy will develop over the next few years, with a medium to long-term view, we see an extraordinary amount of potential for our portfolio today.

In the following section, we discuss how expert interviews help us make better investment decisions. Finally, we present our investment in Villeroy & Boch in detail.

We would like to thank you for your trust and wish you and your families a happy and relaxing Easter. Please feel free to contact us at any time with questions or comments.

Sincerely yours,

Daniel Gehlen *Marc-Lennart Bräutigam*

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Expert calls
The increased fund volume - thanks to the net inflows into the fund this year described at the beginning - and the associated higher absolute management fee enable us to invest more in research. In LtP #13, we already reported on the expansion of our team.

So far, we have conducted numerous interviews with the managers of our portfolio companies and are generally in regular exchange with them. In addition, we always seek to talk to as many other stakeholders as possible, such as (former) employees, customers or competitors. We are convinced that such "expert" interviews can give us an advantage, especially in the small- & micro-cap space where we are active.

In the past, we have mainly used our networks for this purpose. For example, we had talked intensively with several contacts from the automotive industry before we made our investments in Akwel and Le Bélier. Of course, independent research quickly reaches a limit, especially when looking for people with special experience around a small company.

Encouraged by our positive experiences and with the ambition to always know a little more than the other market participants, we intensively explored the possibilities offered by the expert platform Tegus.

For such interviews, Tegus has a large database of existing candidates. In addition, a specialised team searches for new potential candidates based on our requirements and wishes. This allows us to get to the best experts with a small (time) investment to learn more about a company.

Furthermore, every interview conducted by investors through Tegus is stored as a transcript on the platform and made available to all Tegus clients. Through this valuable database, we can often quickly create a comprehensive picture of a company. The information goes far beyond what is published in the annual report or reported by management - both in breadth and depth and often in its objectivity.

For cost reasons, expert interviews are more accessible to large hedge funds or private equity firms - sometimes individual interviews cost over EUR 1,000 per hour. The Tegus model allows investors to conduct interviews for significantly lower costs than comparable platforms. Tegus is mainly financed by the remuneration for access to the database of all interviews.

So far, we like the culture and interaction with Tegus very much. Compared to other providers, the company is still relatively young and has very dynamic growth plans in Europe. Due to aligned interests - Tegus wants to grow its database in Europe as quickly as possible and we want to learn as much as possible about our target companies - we were able to agree on an attractive deal. Since then, we have conducted numerous interviews on existing, former and potential new portfolio positions. After twelve months, we see that the platform adds a lot of value to our investment process.

Sto - a practical example
In the case of Sto, we wanted to gain a better overview of the dynamics within the company. We perceive the manufacturer of thermal insulation systems as a rather innovative medium-sized company, where there is naturally also room for improvement in efficiency (which the company itself communicates).

60% of the thermal insulation Sto sells is based on the insulating material polystyrene. As there is negative news about polystyrene in the press from time to time - recently a building fire in Essen (Germany) was reported in which the insulation material (polystyrene & rock wool) was an issue - we wanted to get a better picture of how easily Sto could change its production processes from polystyrene to other insulation materials. Even though we consider the risk to be low over the next few years, it was important to us - especially given the size of the position in our portfolio - to get confirmation from an "outsider".

Due to the excellent research work of the Tegus team, we were able to speak with a former board member of Sto after only a short time. He had left the company in 2019. In addition to a deeper insight into the company - which largely confirmed our perception from the outside - he was also able to provide many arguments regarding the polystyrene discussion. For example, like us, he sees little risk that attitudes towards polystyrene will deteriorate significantly in the next few years. The core argument: more insulation is urgently needed, and polystyrene is the most cost-effective alternative. Should the environment nevertheless develop differently, Sto could relatively easily switch even more to insulation systems based on other insulation materials. According to the Executive Board, about 30% of the insulation systems sold today are already based on mineral wool.

Conclusion: In the medium term, Sto's investment case has actually improved in our view. The trend towards thermal insulation should be stronger as energy prices rise (it is more economical to install). Politicians will also have a greater interest in reducing the energy consumption of buildings and thus the dependence on Russian oil and gas (and that of other countries). Sto is not particularly energy-intensive for a manufacturing company, yet the increased prices will naturally lead to higher costs. Sto passes these on via price increases, but there is usually a delay in doing so. We expect a slightly weaker margin this year. Nevertheless, our assessment of the share has improved due to the even stronger medium-term drivers. Sto remains one of our largest positions.

Villeroy & Boch - a traditional company is being polished up

Villeroy & Boch has a long tradition of over 250 years and comprises two divisions today. In the Bathroom & Wellness segment, the company produces and sells toilets, showers, bathtubs and bathroom furniture and accessories of all kinds. In the Dining & Lifestyle segment, Villeroy sells high-quality tableware, glassware and cutlery collections as well as accessories both in its shops and increasingly online. Villeroy generates 30% of its sales in Germany and over 75% in Europe. In addition, Asia - and China in particular - is a potential growth market.

We analysed Villeroy before the fund was launched and have been observing the company since then, i.e., for more than four years now. In addition to the very favourable valuation in recent years, we have always liked the strong and very sustainable positioning. Villeroy is undisputedly a premium brand. Even if, in our view, the brand has not always been put in the best light by the company (especially in the 2000s), it has never taken a hit, which underlines its value.

In addition to the strong brand, the two- or three-tier distribution in the bathroom & wellness sector - i.e., sales via craftsmen, architects, interior designers and specialist planners - is a major barrier to entry. It also leads to pricing power, which means that the end customer does not always compare prices directly.

Why are we interested in the share today? A closer look at the historical figures reveals that profitability has risen continuously over the last decade - especially since 2012. Last year, however, it took another leap. The EBIT margin has risen from ~6% to ~9.5%. Of course, it is reasonable to assume that this is related to tailwinds (including cocooning) by Corona.

However, like management, we are convinced that the improvements are structural and sustainable. The reasons that make us confident:

- In 2021, Villeroy & Boch has generated ~13% more revenue than in 2019. In the same period, however, the number of employees has fallen by more than 10%. Personnel efficiency, measured as turnover/employee, has therefore increased significantly;
- Gross margin has increased from ~40-42% in the last few years to ~44% despite significant cost increases due to energy and logistics prices as well as raw materials and packaging materials;
- The company invested EUR 23m more in marketing last year than in the previous year and still generated a significantly higher margin;
- Some (unlisted) competitors have also been able to achieve significantly higher margins in recent years. Compared to many of these, we see Villeroy as a better-positioned company. This also underlines that higher profitability should be possible and sustainable;
- For next year, management expects a higher margin compared to 2021. We see this as further confirmation that the improvements are structural, especially as Villeroy's forecasts are usually conservative.

At a margin level of ~10%, Villeroy's returns on capital are 20-25%. This is an excellent value for a manufacturing company.

In addition to increased profitability, we are particularly impressed by Villeroy's marketing activities in recent years. Especially for a traditional company, it is impressive how Villeroy presents and positions its products and brand today. At the last analyst conference in February, the management described in great detail (as it did last year) how it is approaching customers via social media.

We also see this as a key driver of the recent very strong growth. In the past (excluding 2021), Villeroy has been able to increase its sales at rates of 2-4% per year - i.e., slightly above general economic growth. Based on the new strength of the brand and marketing, we see the possibility that the next few years will be characterised by much faster growth.

Last year, Villeroy was able to increase sales by a record 18%, thanks of course to the Corona tailwind. We by no means expect such rates to be achievable in the medium term. However, we see the possibility of the company growing at 5%+ per year - even starting from the higher base from 2021.

As already briefly indicated at the beginning of this letter, Villeroy is a company that is (indirectly) affected by the current situation. Villeroy has only a small direct exposure to Russia - its sales in Russia are low (~2%). There is also no production in Russia or Ukraine. There is only a small sales office in Ukraine with five employees. Production facilities are located in Western Europe - Germany (Mettlach), France, Sweden and Benelux - as well as in Hungary and Romania. In addition, Villeroy operates a large plant in Thailand.

However, energy prices play an important role, as firing ceramics is an energy-intensive process that requires natural gas. At its recent AGM, Villeroy said that its expenditure on natural gas last year was EUR 12m. Of course, this is a significant amount. However, the costs ultimately amount to "only" 3% of sales. A look at the recently published sustainability report shows that Villeroy consumed 450 GWh of natural gas in 2021. This would mean that the average price was ~EUR 25/MWh. A tripling of gas prices would therefore mean an additional expenditure of 6% of sales.

We assume that Villeroy will increase prices by almost 10% this year, at least for some of its products. These increases are in addition to the increases from last year. Overall, we are very confident that Villeroy will be able to offset the cost increases with these increases. This is the great advantage of a company with pricing power, especially in an inflationary environment.

Incidentally, in the short term (for the next 2-3 years), Villeroy has secured the majority of its energy requirements and will therefore not feel the effects of higher energy prices more strongly on the cost side until next year at the earliest. The general supply risk still exists, of course. If Villeroy does not receive any gas at all, the company will not be able to produce.

In addition to the risk of rising energy prices, a weaker economic environment can also influence demand for Villeroy's products. During the financial crisis - which hit the property sector particularly hard - sales fell by ~15%. This is a comparatively small decline and gives us confidence even in the event of poor economic development in the coming years.

As always, what counts in the end is the price we pay against the backdrop of the risks. Last year, Villeroy generated EBIT of ~EUR 90m. The market capitalisation at the current share price is ~EUR 575m. Villeroy has a strong balance sheet with ~EUR 320m cash and financial liabilities of EUR 110m - net cash is, therefore, ~EUR 210m. There is also a pension liability of EUR 175m. In total, this results in an enterprise value of EUR 540m (575 - 210 + 175). Villeroy is therefore currently valued at approximately 6 times last year's EBIT. Without the growth investments (capacity expansions) planned for next year, Villeroy would be trading on a double-digit free cash flow yield.

For this year, Villeroy is planning to grow sales by 5-6%. This will mainly come from price increases. In addition, as described above, the company is targeting a further increase in the margin, so that the operating result should rise by 5-10%.

In our view, the current valuation is much too low. Due to the described strength of the brand in the premium segment - which is primarily reflected in Villeroy's ability to generate high returns on capital and raise prices - and the stability of the business, the share deserves a much higher valuation.

Competitor Geberit trades at ~20x EBIT. There are certainly some characteristics that make Geberit look more attractive. However, the two companies are fundamentally not too different. In our view, the size of the valuation difference illustrates the undervaluation of Villeroy.

As described above, Villeroy has a very strong balance sheet. Management would prefer to invest the money in acquisitions of other companies. We would prefer to see Villeroy pay a higher dividend. Even better, in our view, would be a share buyback - especially at the currently very low valuation, management will have difficulties finding a similarly good company at a comparable price. However, as all shares with voting rights are in the hands of families (descendants) of the company founders and we thus cannot influence these decisions.

Finally, Villeroy still has some hidden reserves outside the operating business. In particular, there are opportunities in the development and marketing of real estate that is no longer required for operational purposes. In 2019, a property in Luxembourg has already been sold for over EUR 100m (!), except for the castle area. Villeroy is working on the modification of the existing land use plan and the preparation of a development plan for the entire site. The decision to draw up the development plan has now been taken by the relevant bodies in Luxembourg. If the approval procedure is successfully completed (planned for the end of this year), further earnings potential can be expected. We estimate this to be at least EUR 25 - 30m.

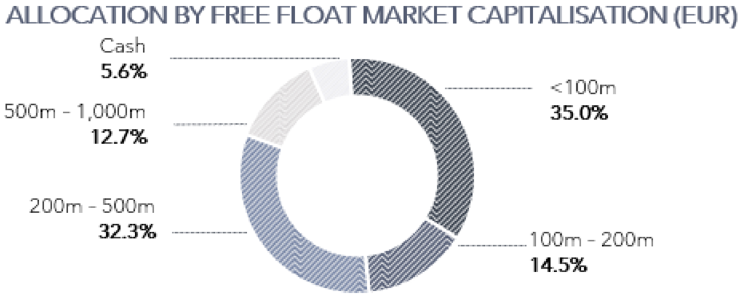
Portfolio overview – as of March 31st, 2022

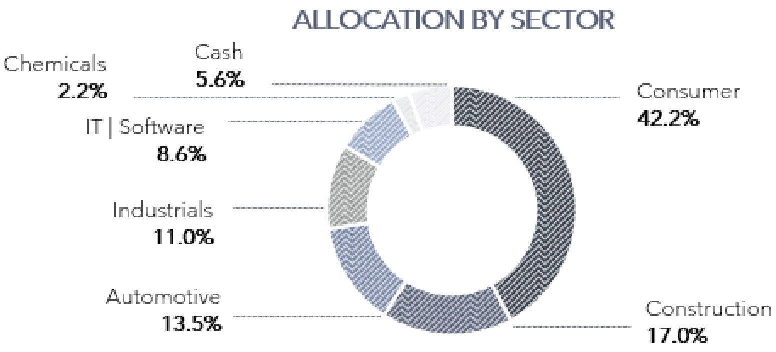
Top 10 positions with respective weightings:

1	Muehlhan	8.1%	6	Villeroy & Boch	5.0%
2	Sto	8.0%	7	Basic-Fit	4.7%
3	The Gym Group	7.4%	8	home24	4.6%
4	Guillemot	6.6%	9	Catana	4.6%
5	Akwel	6.6%	10	Naked Wines	4.5%

Source: Gehlen Bräutigam Capital; HANSAINVEST.

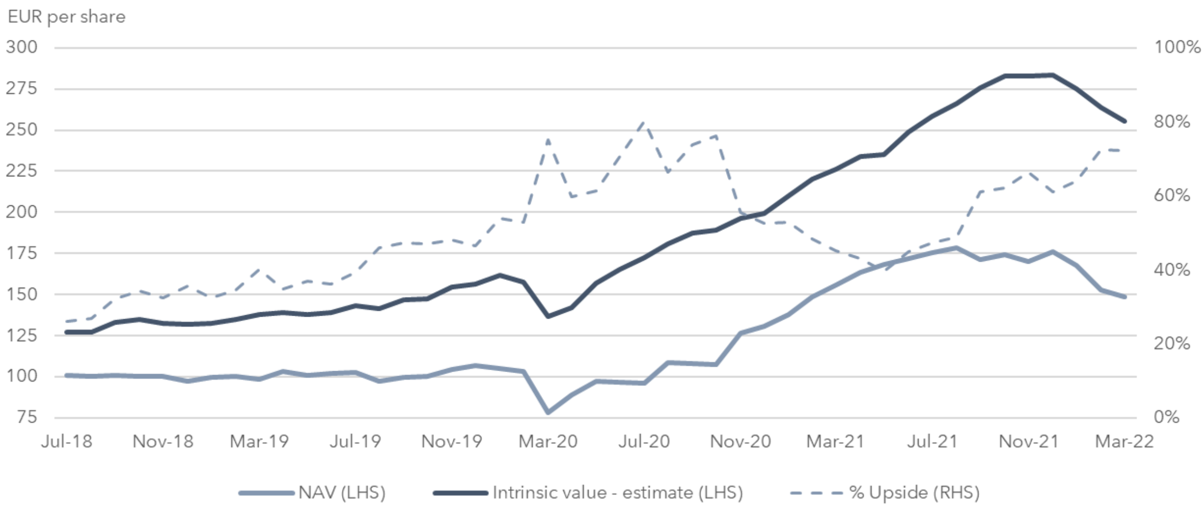
Allocation:





Source: Gehlen Bräutigam Capital; HANSAINVEST.

Development of the intrinsic value estimated by us in comparison to the development of the current price of a unit (NAV) since inception:



Source: Gehlen Bräutigam Capital; HANSAINVEST.

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