GEHLEN
BRÄUTIGAM
CAPITAL

Gehlen Bräutigam Capital GmbH
Kurfürstendamm 11
10719 Berlin

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

Letter to Partners #17

Q3 2022 *(07/01/2022 - 09/30/2022)*

October 23rd, 2022

Dear Partner,

In the third quarter of 2022, **our fund returned -18.5%**. Thereby, the year-to-date performance amounts to -43.7%. At the end of the quarter, the fund volume stood at EUR 18.2 million. Since the beginning of the year, the fund has received EUR 2.9 million in net inflows.

EUR 100.00 invested at the start of the fund in mid-2018 was worth EUR 99.85 at the end of the quarter. The **overall gain since inception is -0.2%** and the **compounded annual gain is -0.0%** (compared to -0.8% or -0.2% 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	-2.87%*	-2.49%**	-	-17.22%*
2019	+10.36%	+9.40%	+8.31%***	+30.59%
2020	+22.29%	+20.88%	+21.31%	+5.82%
2021	+35.31%	+34.24%	+34.84%	+24.20%
2022 YTD	-43.70%	-44.03%	-43.86%	-30.17%
Since inception	**-0.15%**	**-3.11%**	**-0.54%**	**-0.80%***
Annualized return	**-0.04%**	**-0.77%**	**-0.14%**	**-0.19%***

* 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).

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**

It's always darkest before dawn

In the beginning of October, we visited co-investors in Frankfurt and met with former colleagues from the investment banking space. From the latter, the consensus was clear – we are in a "liquidity crisis". The market for equity placings and IPOs has dried up almost completely, except for a few outliers such as the Porsche IPO or larger blocks of high-quality, liquid companies.

Further, institutional investors shy away from buckets of the market that are less liquid. Simply speaking, this means that market participants allocate capital away from micro-/small-caps into large-/mega-caps. This also explains the wide spreads we see as of today between buy and sell prices for some of our companies. Further, it justifies the significant underperformance of small-caps vs. large-caps that we have seen this year-to-date across European indices.

During March 2020, as well as prior to the launch of the fund, we had come across such deeply disrupted states of the market before, and it formed a basis for our investment approach. While others shy away from our focus area, we can snap up good assets at attractive prices and then simply must wait until they re-rate. Our risk management is mainly focused on the companies we own. And we must say, we feel very good about the collection of companies we own today.

In the last months, inflation has proven to be stickier and U.S. and European central banks have thus reacted with further and larger interest rate hikes. This has certainly put further pressure on our holdings' share prices and caused additional multiple de-ratings as discount rates have increased.

If inflation gets back under control in the not-too-distant future, central banks can return to a more balanced approach and markets might see a significant re-rating to the upside. One must also not forget that real assets – such as the ownership in companies – are actually a good investment in times of higher inflation. After an initial rebasing of expectations and valuations, share prices should increase faster with higher inflation and thus provide a protection against the devaluation of money caused by inflation.

Even if it turns out worse with higher inflation for longer, we own the right companies that can protect themselves from inflationary pressures. Almost all our companies have increased prices over the recent past and keep raising prices if necessary. Therefore, we expect that the full impact of inflation will be recovered by our firms within the next 6-12 months. As the prices of many key commodities have reduced meaningfully and are again back to pre-crisis levels, several of our holdings might even see a (gross) margin tailwind next year.

Meanwhile, in Germany, where negative GDP growth is expected at least for the remainder of the year and Q1 2023[1], we are convinced that our portfolio of companies is well-positioned. The balance sheets are strong, the business models are unlikely to be disrupted in the medium- to long-run, and strong competitive positions, as well as the management teams' experience with such situations, give us comfort. As Andy Groves, the founder of Intel, once said:

"Great companies are made better by a crisis."

When we take a longer-term view, we believe that our portfolio could even multiply its value over the next years from the current starting point. Similar to the Covid-drawdown, we find the prices quoted for our companies extraordinarily attractive. Our worst-case assumptions, which factor in a *very* significant recession and no significant rebound, still result in a median margin of safety of c. 25% across all 24 positions. Our current base cases, which factor in a less severe recession in the coming year, yield an average upside of >100% or a medium-term annual IRR of >25%.

In our view, this return potential compensates well for the current macro risks and for a potentially higher volatility in the coming months. Moreover, we are looking at a highly attractive hunting ground for new investments and are working very hard to further upgrade the portfolio.

How to deal with this situation?

History has proven that it is more important to be in the market than to time the market. When thinking about how to best time the market – especially when facing a recession and potentially weaker company results in the next year – we would like to highlight the below chart. It displays that the (U.S.) stock market, except for one

[1] Source: Financial Times: Germany blames Putin for pushing economy towards recession, as of October 12th, 2022.

period, bottomed (long) before the economy (GDP) bottomed. A rebound usually occurred a few months prior to the economy finding its low.

EQUITIES TEND TO PRICE IN AN ECONOMIC DOWNTURN BEFORE IT IS REALISED
Equity returns from daily S&P 500 data, quarterly U.S. GDP in billions of chained 2012 dollars

Equity Market Bottom	GDP bottom	Days in between	Returns from market bottom to GDP bottom	Returns from market bottom to first GDP increase (one quarter after the bottom)
September '53	March '54	198	18.6%	29.6%
October '57	March '58	160	8.0%	15.2%
October '74	March '75	179	33.8%	52.2%
August '82	September '82	49	17.6%	37.0%
October '90	March '91	171	27.0%	25.6%
September '01	October '02	-374	-34.0%	-49.5%
March '09	June '09	113	35.9%	56.8%
March '20	June '20	99	38.6%	49.1%
	Average	**138**	**18.2%**	**27.0%**

Sources: FactSet, Bureau of Economic Analysis, Haver Analytics.

Source: J.P.Morgan Private Bank, as of June 30th, 2022.

The timing of a bottom also varies a lot. According to the above analysis, one has to be fully invested on average 138 days prior to the economy finding its bottom to capture the full upside. However, this time difference has varied between one and a half months and more than a year making timing the market impossible, *even if one knew when the economy would bottom*.

Simply waiting until the economy bottoms and headlines turn positive almost certainly means missing a very significant part of the upside. In the time between the market and GDP bottom an average return of >18% was achieved for the S&P 500. Even more significant is the performance between the market bottom and the first GDP increase which stands at a staggering 27%.

Therefore, statistically, *"playing it safe"* is very risky as significant performance can be missed out on. The discomfort of buying and holding into a troublesome period might in fact reduce risks for an equity investor as the depressed valuations provide a margin of safety which can't be found in times of more optimistic markets.

In a nutshell, we are convinced that trying to time the market perfectly is simply a waste of time. We have thought so a year ago when fundamentals looked rosy and we think so today when near-term challenges are in the front of our minds.

As you know, we steer the portfolio in a way by which we invest in good assets, led by good managers, if they are available at attractive valuations. Simply going all into cash in challenging times is not an option for us. We liked our companies at the valuations in January and like them much more at current prices, even though the macro environment has worsened significantly since then.

Portfolio

Most of our companies are managing well through the current environment, but challenges clearly remained/increased from an operational standpoint. One company received a take-over offer and we are in the process of selling it.

Sto has reported its H1 results in August. The company has slightly increased its full-year revenue guidance and kept its earnings guidance unchanged. We think that the chances are decent that Sto will reach the upper end of its targeted EBIT range. Because of the current challenges in the building sector, the next year will likely be tougher and see little growth (or even a slight sales decline). However, we still expect a robust development for the following year.

Against this background, we find it hard to believe that Sto's share price is **down nearly 50%** this year. Today, the stock trades at less than 5x 2022e EBIT on our figures. The medium-term growth prospects are fully intact. Whereas there might be more questions around the amount of new-build in the next years, we see a high likelihood that energetic renovations will increase. Overall, we expect Sto to grow revenues and improve its margin from the currently depressed level over the next years.

For us, Sto is the poster child of crazy valuations in our portfolio. Next to offering huge upside, it's hard for us to see how Sto will get into serious trouble. The company's balance sheet is laden with cash and a track record of consistent performance like Sto's, also during crisis periods, is hard to find anywhere else.

The Gym Group announced important changes to its corporate governance. Penny Hughes retired from the board and founder, shareholder and prior CEO John Treharne signed as Chairman of the board. This further aligns our interests with the company. Good progress was made operationally, and the company is trading in line with expectations. The outlook remains potentially challenging due to the cost-of-living crisis in the UK, which is more than reflected in the share price. Until today, neither GYM nor its European peers **Basic-Fit** and SATS (Scandinavian peer) face any issues regarding member churn and feel confident due to the resilience and low-price points of their offering.

Muehlhan received a take-over offer from U.S. private equity firm One Equity Partners for a large part of their operations. The sales price of ~EUR 60m plus the payback of an EUR 8m shareholder loan is unfortunately significantly below our estimate of the fair value of the company, in particular considering the successful development of the strongly growing wind servicing division. Although we have hoped for more, Muehlhan was still an okay investment for us where the purchase price roughly covers our initial investment at cost. On top, we have received dividends of EUR 0.87 dividend per share. This results in a return of c. 25%. We find solace in the fact that this transaction frees up a significant part of our portfolio and that we can invest the proceeds in a very rich opportunity set.

France based automotive supplier **Akwel** grew revenues 5% like-for-like and outperformed its global reference market in H1 2022. Unfortunately, the company was too slow to react with price increases and experienced lower than expected margins. Management told us that they are confident to recover from these effects over the coming year and confirmed its top-line guidance for the current year.

French sim racing and flight sim equipment manufacturer **Guillemot** kept on executing excellently. Management reported very impressive growth and margins for the first half of this year and the company continued to generate significant cash as it had done last year. Business has progressed well and should leave the company in a very comfortable balance sheet situation by the end of the year. Trading on a mid-single digit FCF multiple makes the stock look cheap despite the potential headwinds, and extremely cheap if the company can execute on their growth plans and expectations in the next year. Management has indicated that share buy-backs are on the table but wants to wait for the results of the Black Friday and Christmas sales.

Catana recently released their full year sales results and latest order book details, which are impressive on a standalone basis although there have been some delays that pushed deliveries to next year causing a miss on this year's final sales numbers. To put the company's impressive growth in perspective, which now includes 45% growth this year (FY21/22 ending August 31st), they have grown revenue at a 28% CAGR since 2017 and expect to grow another 40%+ in FY22/23 and 25% in FY23/24. As for the valuation, the company trades at less than 6.0x this year's (FY21/22) expected EBIT or ~3.5x next year's (FY22/23) estimated EBIT.

We have discussed **Villeroy & Boch** in our LtP #15 as a company whose production requires significant amounts of natural gas and which might be hurt by lower ability of customers to purchase its products. In light of that, it's remarkable that the company has increased its guidance for the full year to the top end of the range (despite usually being quite conservative in their forecasts) during the last quarter.

Against a market cap of ~EUR 400m, the company has more than EUR 200m net cash (excl. a EUR 130m pension deficit) and expects to generate EUR 100m EBIT this year. Incl. the pension deficit, the shares trade at ~3.5x EBIT. Even considering that the next years might be significantly worse, it's hard to imagine how this valuation isn't significantly too low for a company with Villeroy's quality and positioning.

Italian Wine Brands' first half results came in below our expectations as they have faced some extraordinary challenges impacting both revenue and profitability. Nearly half of the decline in sales were due to a complete lack of specialty glass availability, which has normalized in the past few months fortunately. The EBITDA margin compressed by 2% as a result of higher bulk wine costs (1% impact), higher glass, packaging, and transportation prices (0.6% impact), and higher utilities (0.3% impact).

The company has only been able to pass on 50% of the costs in the first half of the year but is making progress in expanding this figure through the second half. The good news is that the company states demand is still strong (which they couldn't entirely supply in the first half), and excluding sales lost from the glass shortage, first half sales were up 5% from 2020 and 18% (5.6% CAGR) from 2019.

Naked Wines' shares experienced further unexpected selling pressure after its latest announcements in the third quarter. The CFO Shawn Tabak departed, also after a severe mistake regarding a newly installed credit facility which included a covenant that triggered potential going concern issues. Shortly after, the prior CFO took on the role again. Initially we were happy to see an analyst of one of the large investors in the company – Punch Card Capital – join the board. Unfortunately, after only c. two weeks, he decided to step down again. This in combination with another unfortunate announcement regarding the covenant situation sent the shares tumbling. More recently, the founder of Naked joined the board as an advisor, which we view as a positive.

Post close of the quarter, management provided an operational and strategic update. The recent speculation around a potential capital increase among investors seems to be off the table, as the company managed to strengthen its balance sheet situation. We feel relieved about the fact that the covenant situation should no longer trigger any going concern issues as the terms of the credit facility were successfully renegotiated. Going forward Naked wants to deliver on its new profitability targets, which appears to be the right thing to do in the current environment.

Based on the company's guidance and our estimates the shares trade on less than 3x 2024e EBIT. This also shows that the market has now priced out even the last growth ambitions.

During the quarter we entered a small position in **3U Holding AG** after it received a take-over offer for its software asset weclapp SE by private equity firm KKR. The deal was closed end of September and resulted in an inflow of c. EUR 150m. Today, 3U's entire market cap stands at around EUR 140m. Prior to this deal we had (loosely) followed 3U for a few years and therefore felt comfortable investing at short notice. The sum-of the-parts of the net cash and remaining assets greatly exceeds the current valuation, even taking taxes and a considerable holding company discount into account. Next year, the company will distribute a meaningful amount of the proceeds from the weclapp sale as a dividend which could trigger a rerating.

Solar A/S – Profiting from the energy transition

The long-term trend of obtaining and consuming energy in a more efficient and sustainable way is being accelerated by the Ukrainian crisis and subsequent European energy crisis as governments, businesses, and households see the necessity for self-sufficiency and increased efficiency. Demand for heat pumps, solar panels, and EV charging stations (to name a few) is strongly increasing because of this shift. Solar A/S, a market-leading wholesaler of electrical and industrial products based in Denmark, has already been able to benefit from this trend in recent years, as the company focused on the "Climate & Energy" category long before the crisis.

Although the company is benefiting from current tailwinds which are expected to continue for years to come, there is still the acknowledgement (and potential market overreaction) that there will be some type of negative impact from a recession. Fortunately for Solar, they are historically free cash flow positive through the cycle, they have very little b2c business (Solar is selling to electricians and plumbers as opposed to direct sales to the end consumer), and they have limited new build ("project") exposure of around 15%. Additionally, the company ended 2021 with net cash.

The management team also expects that any lost business as a result of delayed projects will be made up by a backlog for installers and technicians that still hasn't caught up since the COVID crisis. The reduced project business would also result in more capacity being used for climate products. Finally, because the company is late cyclical, they are able to prepare for a weaker project business as they typically have six months of visibility in this area, although the company claims that they have yet to see any softness.

Furthermore, Solar can easily pass on price increases from suppliers and has even benefited from the current inflationary environment. This makes sense as product availability and delivery reliability are far more important for their customers (installers) who pass the price on to the end-consumer in what is typically a non-discretionary purchase.

An ongoing successful turnaround

Beyond the current trends which includes a mix of long- and short-term tailwinds and potential short-term headwinds, the company is an interesting investment case because Solar is years into a strategic turnaround that has shown good results and has further improvements left.

From 2005-2014 Solar unsuccessfully pushed into new markets including Germany, Austria, and Belgium. Following this failed strategy, the (next) CEO from 2014-2017 divested Germany and Austria while advancing Solar's digital capabilities, but still failed to expand profitability significantly.

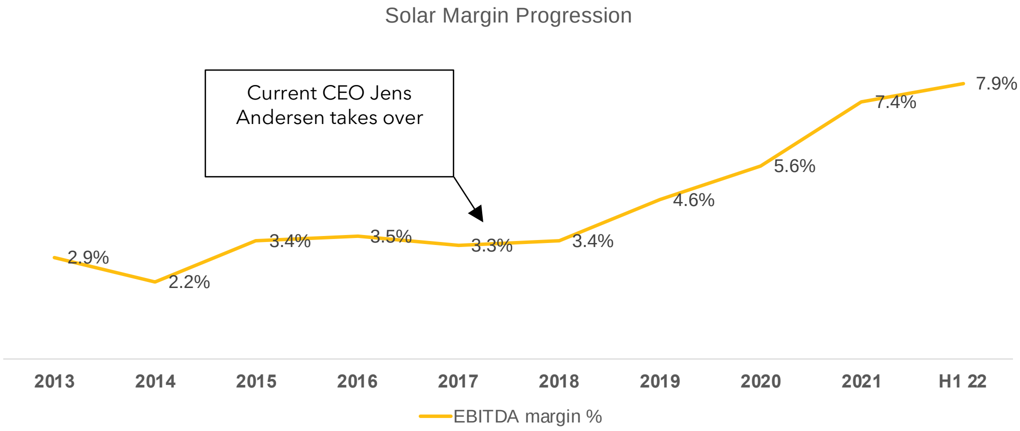
Since the current CEO Jens Andersen took the role in 2017, he has divested the final weak geography, Belgium, and has successfully begun numerous profitability initiatives across product strategy, customer segments, and efficiency and digitization investments.

A continued push for margin expansion

Regarding strategic profitability initiatives for Solar's product portfolio, Solar is focusing on higher margin "Climate & Energy" products and significantly higher margin "Concept" products, which are items sold under their own brand. Conversely, the company is aggressively eliminating products from their portfolio which are low margin, including energy-inefficient products such as gas boilers.

Another margin driver will be the changing of segment mix as the company increases its sales in the Industry and Trade segments, in which it offers value-added services such as supply chain and inventory management in addition to its standard offering. These segments have historically been nearly twice as profitable (in % of sales) as Solar's traditional business segment, Installation.

Finally, as Solar continues to push the digital penetration the margin will improve as there are less personnel costs required and sales increase (one peer claims the order values are 2.5x higher online vs. in store or via phone). From our available data, Solar has the highest digital penetration among peers at over 65% of sales. Digital leadership is an advantage when it comes to the competitive environment, allowing for better customer support as well as increased stickiness.



Source: Solar A/S, as of September 30th, 2022.

When factoring in all of these margin expansion drivers it is easy to see how Solar's margin improvement has been so impressive and that more margin expansion can be expected. We think the current strategic period target of >6.5% EBITDA margin (through 2023) will be updated in the next strategic period and Solar can get to an even more elevated 'new normal'. With the strong continued cash flow we expect management to continue to make small margin accretive acquisitions while returning excess capital to shareholders, which have recently come in the form of extraordinary dividends on top of a target payout ratio of 35%.

An attractive valuation for a high ROIC business with tailwinds
Based on this year's targets, which have been confirmed as recently as August, Solar trades at 4.5x FY22 EBIT. When taking into account one-off pricing benefits (some of which will continue into next year), the company still trades at just under 6.0x EBIT. We find this very cheap given the above-mentioned expected margin drivers, growth drivers, and positive levers in a potential recession. This is also a nice price to pay for a company that targets an after-tax ROIC of 20%. The current CEO seems to agree as he has purchased a sizable amount of shares as recently as September.

We would like to thank you for your continued trust. As always, please feel free to contact us at any time with questions or comments.

Sincerely yours,

Daniel Gehlen *Marc-Lennart Bräutigam*

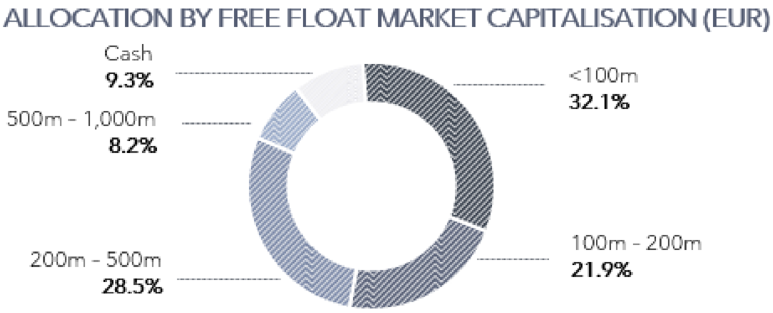
Portfolio overview – as of September 30th, 2022

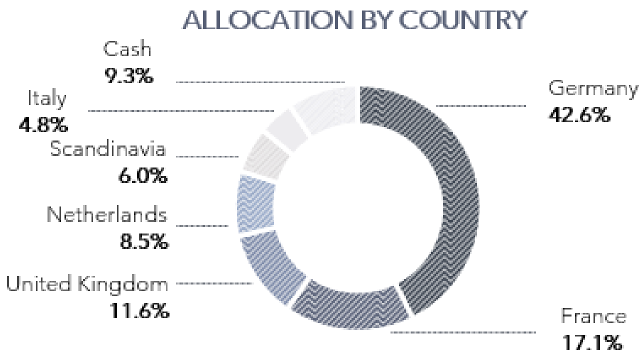
Top 10 positions with respective weightings:

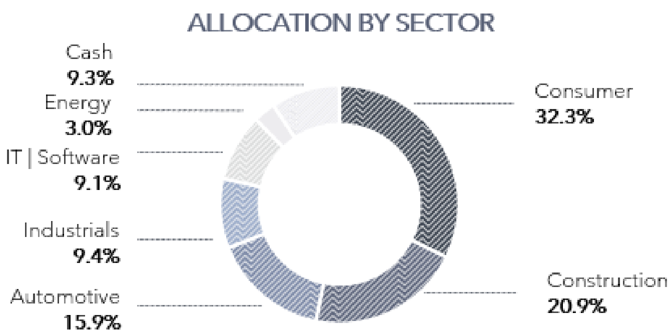
1	Sto	10.0%	6	CTAC	4.7%
2	The Gym Group	7.3%	7	Catana	4.5%
3	Akwel	7.2%	8	Traumhaus	4.2%
4	Muehlhan	6.8%	9	Kamux	4.0%
5	Guillemot	5.5%	10	SAF Holland	3.9%

Source: Gehlen Bräutigam Capital; HANSAINVEST.

Allocation:







Source: Gehlen Bräutigam Capital; HANSAINVEST.

Disclaimer/Imprint

This document is a customer information ("CI") within the meaning of the German Securities Trading Act, the "CI" is addressed to natural persons and legal entities with their habitual residence or registered office in Germany and is used exclusively for information purposes.

This "CI" cannot replace an individual investment- and investor-friendly advice and does not justify a contract or any other obligation or represents any kind of contractual offer. Furthermore, the contents do not constitute investment advice, an individual investment recommendation, an invitation to subscribe for securities or a declaration of intent or a request to conclude a contract for a transaction in financial instruments. Also, it was not written with the intention of providing legal or tax advice. The tax treatment of transactions depends on the personal circumstances of the respective customer and may be subject to future changes. The individual circumstances of the recipient (including the economic and financial situation) were not taken into account in the preparation of the "CI".

An investment in mentioned financial instruments / investment strategy / financial service involves certain product specific risks - e.g. Market or industry risks and risk in currency, default, liquidity, interest rate and credit - and is not suitable for all investors. Therefore, potential prospects should make an investment decision only after a detailed investment advisory session by a registered investment advisor and after consulting all available sources of information. For further information, please refer to the "Key Investor Information" and the securities prospectus: https://www.hansainvest.com/deutsch/fondswelt/fondsuebersicht/

Past performance is not a reliable indicator of future performance. Recommendations and forecasts are non-binding value judgments about future events and may therefore prove to be inaccurate with respect to the future development of a product. The listed information refers exclusively to the time of the creation of this "CI", a guarantee for timeliness and continued correctness cannot be accepted.

The above content reflects only the opinions of the author, a change of opinion is possible at any time, without it being published. The present "AI" is protected by copyright, any duplication and commercial use are not permitted. Date: October, 23rd 2022.

Editor: *Gehlen Bräutigam Capital GmbH, Kurfuerstendamm 11, 10719 Berlin* acts as a tied agent (section 3 (2) German Wertpapierinstitutsgesetz (WpIG) on behalf, in the name, for account and under the liability of the responsible legal entity BN & Partners Capital AG, Steinstrasse 33, 50374 Erftstadt. BN & Partners Capital AG has a corresponding license (section 3 (2) WpIG) from the German Federal Financial Supervisory Authority (BaFin) for the provision of investment advice in accordance with section 2 (2) No. 4 WpIG and the investment brokerage to section 2 (2) No. 4 WpIG.