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Letter to Partners #19

Q1 2023 *(01/01/2023 - 03/31/2023)*

April 12th, 2023

Dear Partner,

In the first quarter of 2023, **our fund returned +6.10%**. Thereby, the recovery since the low point on September 30th, 2022, amounts to +16.36%. At the end of the quarter, the fund volume stood at EUR 20.7 million. The fund has received over EUR 1 million in net inflows in the first quarter.

EUR 100.00 invested at the start of the fund in mid-2018 was worth EUR 116.19 at the end of the quarter. The **overall gain since inception is +16.19%** and the **compounded annual gain is +3.21%** (compared to +15.37% or +3.05% 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	-38.26%	-38.72%	-38.48%	-22.83%
2023 Q1	+6.10 %	+5.91%	+6.02%	+5.23%
Since inception	**+16.19%**	**+12.34%**	**+15.55%**	**+15.37%***
Annualized return	**+3.21%**	**+2.58%**	**+3.46%**	**+3.05%***

* 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**

Outperformers

In January, we stumbled across the newly released *Global Outperformers* study from our colleagues at Jenga Investment Partners. The study identifies the characteristics of the top-performing global listed companies. To qualify as a "Global Outperformer" a company's stock price had to compound by at least 27% per year over a decade (31st May 2012 – 31st May 2022), which results in a share price return of at least 1,000% ("ten-bagger"). There are three major takeaways that we would like to share with you.

First, in contrast to the preconceptions we sometimes hear, Europe offers a very rich hunting ground for exceptionally well-performing stocks. In total, around 30,000 companies globally were included in the study, and only 446 (<1.5%) qualified as ten-baggers. From these 446 stocks, Europe G4 (43), The Nordic region (33) and The Rest of Europe (16) accounted for a combined 92 European ten-baggers (>20%). Very interestingly, the region came out on top of the list, ahead of the USA (60) or China (34). 20 companies emerged from Sweden alone, for example. That is one-third of the number of companies that represented the USA, while the country only has a population of 3% compared to the USA. Other examples include the UK (16), Germany (15) and France (10).

Secondly, currently avoided markets often provide compelling opportunities for successful contrarian investments. The Athens Stock Exchange had plunged by -45% between 2009 and 2012, after already declining by -45% between 2007 and 2009. Greece, which went through a tough restructuring process on the back of the European banking and solvency crisis, ranks sixth amongst its European peers. The country has produced four ten-baggers, while other much more stable countries such as Switzerland and Singapore only delivered three in total. Of course, such investments come with significant risks that must be assessed carefully, especially in highly distressed situations such as Greece. Japan was another controversial example as the stock market had suffered from a negative perception for a long time, but it produced 49 ten-baggers alone over the course of the analysis. Looking at today's opportunity set, we believe the UK and Europe could offer similar characteristics of unfavored regions that could offer compelling long-term opportunities.

Finally, the study found that smaller companies offer a vastly superior opportunity set compared to larger companies when hunting for exceptional performers. Nano, micro and small caps accounted for 97% of all ten-baggers. On the other hand, large caps delivered the lowest number, also in proportion to the number of companies:

Size caps	Market cap (2012)	Number of outperformers	% subset group	% universe
Nano caps	< $50 million	589	63.0%	46.5%
Micro caps	$50 million - $300 million	221	23.6%	26.3%
Small caps	$ 300 million to $2 billion	97	10.4%	18.9%
Mid caps	$2 billion to $ 10 billion	21	2.2%	6.2%
Large caps	> $10 billion	7	0.7%	2.1%

Source: Global Outperformers – Jenga Investment Partners LLC.

For us, it is important to highlight that our focus is not simply looking for multi-baggers. It can be a difficult strategy as simply looking for such situations can lead to more risk-taking. In our opinion, the best situations are the ones that are cheap and shunned (limited downside risk) but can also emerge as multi-baggers (significant upside). This is also one of the main conclusions of the study, but it can easily be misunderstood.

There are of course many more interesting findings in this great study. Please feel free to reach out to us in case you are interested in receiving the full study. For further reading on the topic of multi-baggers, we recommend Alta Fox's The Makings of a Multibagger study as well as Christopher W. Mayer's book 100 Baggers.

Portfolio
Since (recording) the podcast on **Basic-Fit** at the end of last year, the share price has increased by more than 50% (it's up 45% YTD). In mid-March, the company shared its full-year results and outlook for 2023. After pre-announcing the club and membership figures on 29th December, there were no big surprises. Overall, not much has changed fundamentally in our view and we see the case very much intact.

Basic-Fit's share price is a good example of the market's mood swings, which our companies (and many small caps in general) have experienced in the last year. After having regained its membership base despite difficult economic circumstances we feel comfortable with the outlook for the next years. The potential to increase prices – in stark contrast to its competition, the company hadn't done this until the beginning of this year – provides further comfort that the company can also mitigate the effects of rising costs and at least keep its strong profitability.

Contrary to Basic-Fit, **GYM Group** had a tougher time recovering its membership base in the last few years. While we understand that the consumer in the UK has been particularly challenged and that GYM struggles with its city-center gyms ("work from home"), the magnitude of the difference in the performance of the two gym chains is still somewhat puzzling to us. We haven't identified a meaningful loss of market share to the competition.

Although we are disappointed by the slower progress, we still expect GYM to gradually recover further members in the coming years from the currently low levels (only slightly above 80% of pre-Covid levels). Next to witnessing no change in the structural demand for fitness on average, the members visit the gyms more often than pre-Covid.

Any additional membership recovery would greatly improve the financial performance thanks to the operating leverage inherent in the gym business – a large part of the cost base (rents, wages for gym personnel, utilities) is fixed. As the shares are already not expensive on the currently challenged figures, the shares should re-rate meaningfully once there are any indications of a continuing recovery.

Villeroy & Boch released its financial figures for the last year and provided a surprisingly positive outlook for 2023 considering the turmoil in the construction sector. VIB forecasts a slight increase in revenues (driven by price increases) and an EBIT around the strong level of 2022, i.e., close to EUR 100m. Following the annual press conference and a discussion with the management, we even have the feeling that the EBIT outlook is conservative and includes a significant buffer for unexpectedly adverse developments. With a market cap of less than EUR 600m today (EUR 350m at the bottom of last year), the valuation remains very low for the quality and resilience of this company. In addition, the balance sheet is very strong with a large net cash balance which provides strategic flexibility for the next years.

The full-year results of **Semperit**, an Austria-based industrials company in which we built a position just before Christmas and at the beginning of 2023, came in a bit below our expectations driven by a weaker performance in all segments in the fourth quarter. Due to the cyclical downturn and inventory destocking at customers, 2023 results are expected to be weaker than the overall very good performance in 2022.

During the results call, the CFO outlined a new capital allocation framework. We were encouraged by his words on how to evaluate the financial performance of the company and new investment opportunities (based on a clear Cash Flow Return On Investment hurdle), as well as his remarks on running an efficient balance sheet. Shareholder returns are also an important part of this framework.

Already in the beginning of March, Semperit had announced that the board will suggest a base dividend of EUR 1.50 per share and an additional special dividend between EUR 2.00 and 3.50 per share for the last year which could bring the total dividend up to EUR 5.00 per share. This is very good news from a capital allocation perspective in our view and would greatly benefit all shareholders. It is also a very meaningful payout relative to our initial purchase price of below EUR 20 per share (c. 25% yield).

Koenig & Bauer released good results for the fourth quarter which support the return to profitability and the company's ability to achieve much higher profitability in the medium term. Furthermore, the company has updated its medium-term targets. The sales goal has been increased and a new medium-term EBIT margin target of 8-9% has been set. Already by 2025, the company aims to achieve an EBIT margin of 6-7%.

We have long held the view that the potential of Koenig & Bauer is much higher than what the results of the last years would indicate. Even after a >75% increase from their low point in 2022, the shares are very cheap (~4x

EBIT) if the near-term 2025 targets are met, which we think is very credible and likely. Further tangible upside comes from an increasing success in the sales of new, especially digital, printing machines.

SAF Holland held a capital markets day that outlined its new medium-term ambitions and highlighted the major synergies SAF's management aims to achieve following the acquisition of its Swedish peer Haldex. Operationally, the company is well on track. Its latest results have again underlined the potential for high margins in North America and Asia which had been underperforming regions with low profitability for several years.

In late March, we attended **HelloFresh**'s capital markets day in Berlin. A convincing presentation and additional data points on the differences in the profitability between certain business lines and regions gave us further confidence that the company can achieve very attractive financial returns. HelloFresh is investing substantially (through both the P&L and capex) into new markets and product categories. At the same time, even in the currently challenging conditions, its meal kit business is achieving double-digit EBITDA margins in more mature markets.

Many competitors are disappearing after the funding for their unprofitable businesses has dried up. This could bring additional business to HelloFresh in the next years. It should at least remove some pressure as existing customers have fewer alternatives and competition for new customers becomes less fierce. Beyond the core meal-kit category, especially the business with Ready-to-Eat meals ('Factor') is showing a very impressive trajectory and has the potential to become a very meaningful revenue and profit driver for many years to come.

HF aims to generate EUR 10bn revenues and a >10% EBITDA margin in 2025. These figures should translate into more than EUR 500m free cash flow. Before the CMD, the company was valued at ~EUR 2.5bn (considering EUR 500m net cash). Even after the rally in the shares, the valuation only stands at ~EUR 3.5bn. If the company can reach its targets in the next 2.5 years, the share price should at least double again. We used weakness in HF's share price to add to our position before and immediately after the CMD (at prices below EUR 17 and 18).

In our last letter, we mentioned our new position in **Cancom**, which we have already sold in the last weeks. Overall, we have booked a c. 30% gain in only six months for a situation in which we have seen very little downside risk. This was due to a very strong balance sheet with a high cash balance, as well as a resilient and growing business. We don't usually look for quick gains like this but feel that the risk/reward has worsened below the profile of other investments due to the increase in the share price. In addition, some of the recent comments and actions around capital allocation – in particular the unwillingness to return more money to shareholders despite the very low valuation – have put us off.

In the fourth quarter, **Akwel's** sales grew by nearly 12%, bringing the full-year sales growth to 7% as the company has continued to tackle the difficult task of passing on inflationary costs through its pricing. In 2022, the company was only able to pass on 55% of costs from raw materials, components, energy, and wages, but it plans to bring this number to 80% in 2023, which should positively impact margins. Because of this delay, the company had a weak operating margin for the full year at 3.9%, albeit improving to 4.3% in the second half. Akwel now has a new finance director who is committed to improving the company's pricing strategy and returning to past margins. In the case that Akwel returns to levels of profitability closer to those in the past, the company is far too cheap. In the meantime, it is protected by a strong balance sheet with a large amount of net cash.

Full-year results from **Solar A/S** were better than expected, with sales of DKK 13.9bn vs. the latest guidance of DKK 13.7bn and an initial guidance for the year of DKK 12.8bn. The EBITDA of nearly DKK 1.2bn also exceeded the guidance. More importantly, Solar's outlook for 2023 is more positive than we thought, as we are cautiously predicting a slower construction industry. The guidance is still conservative because it is not factoring in their continued ability to pass on prices, which we know will at least happen well into the first half of this year. All signs keep pointing to underlying margin improvement and growth in strategic segments.

Since the results have been released, Solar has also announced a small, but interesting, acquisition of an industrial heat pump manufacturer. It is the same company that Solar had used for their own heat pumps installed in their new warehouse. There will be very strong revenue synergies with Solar's industrial segment considering it is one of the few companies globally that focuses on industrial heat pumps as opposed to standardized residential heat pumps.

Finally, Solar continues to effectively return cash to shareholders. Last month, we received a DKK 45 per share dividend payment (7.5% yield) and will receive up to DKK 50 per share as a supplementary dividend later in the year (8% yield), for a potential total yield of over 15%. We expect to continue to make an attractive income on

this stock and believe that the market will also reward Solar for its resilient business and shareholder-friendly management with a higher multiple in the future.

Italian Wine Brands had a much better 2nd half than 1st half, but still, 2022 was a year of many difficulties, which we already highlighted in our Letter #17. The good news is that most pricing negotiations have finished and 2023 looks to be a much better year, with a margin returning close to historical levels. Now that the company has completed several major strategic acquisitions, the focus will be on the integration along with expansion in the US, guiding for mid-single digits growth and an 11.5% EBITDA margin in the medium term.

Origin Enterprises' seasonally less important first-half results came in ahead of expectations. The first half was particularly impressive due to the ongoing success of the company's Brazilian operations, which doubled in revenue and operating profit year over year. Indications for the second half, based on customer feedback and weather are positive, but the company will no longer enjoy the tailwinds from the strong fertilizer market experienced a year ago.

KSB, our latest top position in the fund, has delivered a strong set of full-year results. The outlook, order intake and current business momentum set the company up for another year of progress toward its >8% EBIT margin target by 2025 (2022: 6.8%). On top of that, at its latest press conference, the company published new long-term goals including an EBIT margin of 10% and an order intake north of EUR 4bn. This would be very encouraging for the investment case and remains far from being priced into the share price. In fact, at the current valuation, the market still prices no improvement from the current margin level at all. Finally, we are very pleased with the increased pay-out ratio to 33% (2021: 22%) for the 2022 dividend proposal of EUR 19.76 per preferred share (5.2% yield on our average entry price). In the following update to our recently published case study, we dive deeper into the technical aspects of KSB's innovation capabilities.

KSB SE & Co. KGaA – Pump Me Up (update)
We are encouraged by the fact that we have received quite a bit of feedback from our co-investors, other investors and fund managers, as well as the (financial) press on our KSB case study, which we published in the first quarter of this year. Some co-investors asked for more granularity on the technical side of the products and the innovation capabilities of KSB. Therefore, we cover this aspect below.

It is important to understand that KSB is very much an engineering-driven company with a proven track record of excellence and German engineering heritage and culture. Broadly, KSB offers its broad customer base a portfolio of "Customized standard" & "Engineered" pumps. Standard pumps are available with different options for customization. Engineered pumps are used for more complex and highly demanding applications, e.g., in the Mining or Energy space.

On the top end of the engineering spectrum, KSB has successfully developed a reactor coolant pump as a first-mover product in this space. According to KSB's senior management, these pumps are certified for modern nuclear power plants with the highest safety requirements. Such a pump is regarded as highly complex, weighs many tons, and one unit is priced in the high double-digit EUR million range. KSB has already received its first orders for supplying a Chinese nuclear power station and expects more orders in the future.

Displayed above is a KSB reactor coolant pump. Source: KSB SE & Co. KGaA, as of March 2023.

As part of our due diligence process, we held multiple conversations with industry experts and former senior managers from competitors, which all underlined KSB's innovation capabilities, strong engineering culture and capable management team. This gave us further confidence in the case over the last few weeks and months while we were conducting this analysis.

To provide you with a few examples, one former board member of a European competitor mentioned to us that the products are "very good" and that he has a "high level of confidence in the management team [, which he knows personally]". A former North America President at a competitor thinks of KSB as an "extremely good company, as the product is top-notch". He further added that "KSB delivers very good quality and engineering-driven products" and KSB is "strong in the wastewater, industrial and mining space" in North America.

Besides all the positives, we have identified room for improvement in the pro-activeness of the sales and marketing aspect of the business as well as the aftermarket network. From our understanding, both topics are currently being addressed by management.

We would also like to note that this is a highly competitive space and KSB must stay at the forefront of innovation. As of today, we are not too concerned by this, but we will, besides a few other things, keep monitoring the

company's R&D spending over the coming years and put that into perspective with the competition. From our financial analysis and recent conversations with senior management, we rest assured that there is no intention to cut investments in that area.

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

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Marketing information.

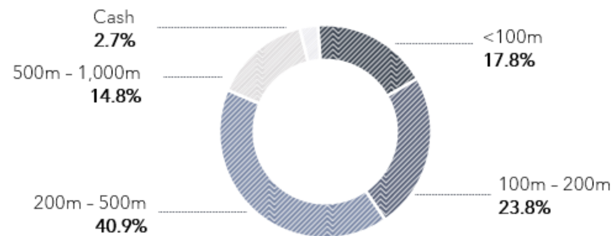
Portfolio overview – as of March 31st, 2023

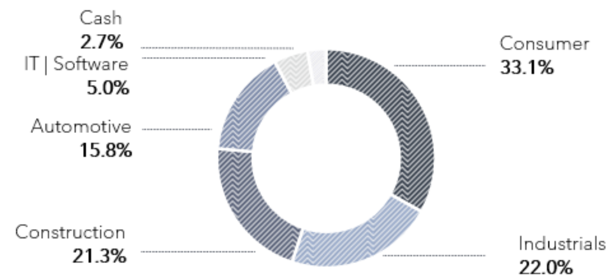
Top 10 positions with respective weightings:

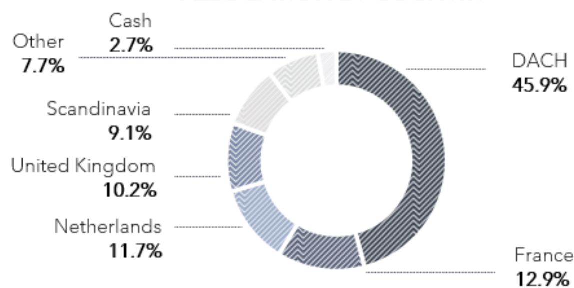
1	Sto	9.5%	6	Villeroy & Boch	4.9%
2	KSB	8.6%	7	Kamux	4.8%
3	Basic-Fit	7.0%	8	CTAC	4.6%
4	Akwel	5.9%	9	Koenig & Bauer	4.6%
5	The Gym Group	5.4%	10	Catana	4.6%

Source: Gehlen Bräutigam Capital; HANSAINVEST.

Allocation:







Source: Gehlen Bräutigam Capital; HANSAINVEST.

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