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Letter to Partners #24

Q2 2024 *(04/01/2024 - 06/30/2024)*

July 10th, 2024

Dear Partner,

In the second quarter of 2024, **our fund returned +6.20%**. At the end of the quarter, the fund volume stood at EUR 15.8 million.

EUR 100.00 invested at the start of the fund in mid-2018 was worth EUR 115.55 at the end of the quarter. The **overall gain since inception is +15.55%** and the **compounded annual gain is +2.44%** (compared to +28.11% or +4.22% 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	+0.80%	+0.09%	+0.50%	+11.30%
2024 H1	+4.68%	+4.28%	+4.52%	+5.00%
Since inception	**+15.55%**	**+10.71%**	**+14.49%**	**+28.11%***
Annualized return	**+2.44%**	**+1.77%**	**+2.49%**	**+4.22%***

* 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**

Portfolio

The fund had a decent second quarter, significantly outperforming its benchmark. Our performance peaked at approximately +9.5% but ended at +6.2%, compared to +1.9% for our benchmark, due to the news surrounding the elections in France. Notably, we had no direct exposure to French-listed stocks during the quarter. The key contributing stocks from our portfolio this quarter were **The Property Franchise Group** (TPFG) and **Crayon**, with performance contributions (not share price performance) of 2.8 and 2.0ppts, respectively.

In our view, the portfolio remains dramatically undervalued, presenting a buying opportunity. We anticipate significant earnings growth potential for our holdings over the coming years. The underlying economics of our businesses continue to improve, and management teams have ample opportunities to allocate capital at highly attractive rates. We see good progress through organic growth investments, share buy-back programs, and attractive M&A deals:

In April, **Sto** published its FY2023 results and its outlook. For FY2024, Sto expects a mid-single digit increase in revenues and a stronger increase in its EBIT. This is miles away from the sharp decline which investors have been afraid of in the last 18-24 months. We expect structural growth over the next years due to multiple factors such as an increase in new build projects as well as growing demand for energy-efficient refurbishments, alongside increasing margins. The company is currently valued at only 6x EBIT which we continue to find very attractive.

The Italian fixed income focussed asset manager **Anima**, which also has a strongly growing alternatives franchise, has reported positive Q1 results in May. Good news came in particular from higher performance fees given that most managed funds are now near or above their high watermarks and that, thanks to a higher interest-rate environment, (expected) returns are higher than they have been in the last years. Besides that, the company is buying back shares, pays a healthy dividend and scouts for M&A targets to allocate excess capital.

Crayon, the software reselling company from Norway, continues to report significant contract-wins confirming its growth trajectory. **SAF-Holland** continues its strong execution and increased its EBIT margin guidance for the full-year in June already. Despite exceptionally challenging on-farm conditions in the UK, **Origin Enterprises** confirmed its full-year guidance with the release of its Q3 results. Currently, the shares trade at a PE of only 6.5-7x, which the company continues to take advantage of via share buybacks.

Petershill Partners has announced and executed a tender offer in which it bought back c. 38m shares for USD 100m (at GBP 2.14 per share). This represents ~3.4% of the outstanding shares. In our view, the positive signal that Petershill is willing to return significant cash to shareholders and is considering its own low valuation when allocating capital even overweighs the direct benefit of buying back shares for a very attractive price, in particular given the large ownership of funds advised by Goldman Sachs.

Towards the end of the second quarter, our top position, **TPFG**, made another outstanding acquisition. It acquired The Guild of Property Professionals and Fine & Country for around GBP 20m. The total consideration represents less than 6x adjusted EBITDA, which we view as a bargain price, especially considering the target's high-margin (FY23 EBITDA margin: 28%) and recurring business model with c. 73% of the acquired businesses' revenues from recurring memberships and licenses.

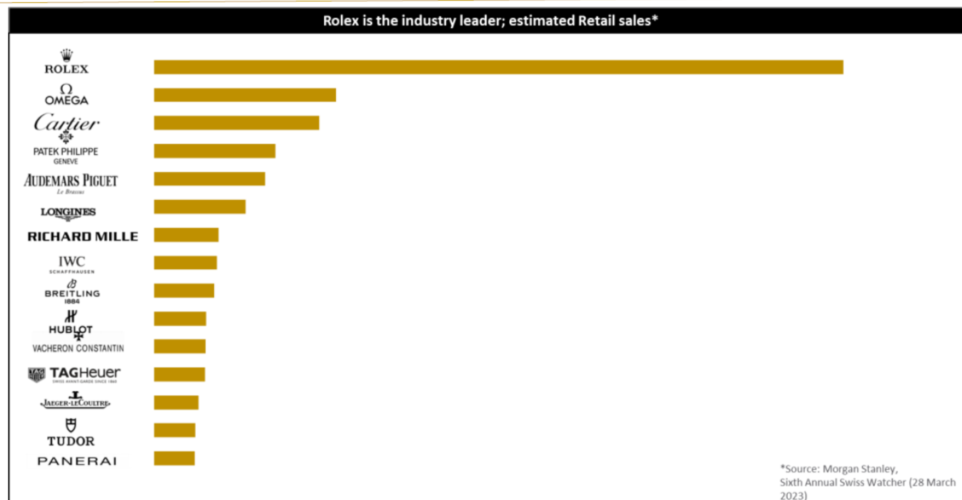
TPFG is an ideal example of a stock that quickly transitioned from the micro- to the small-cap universe. When we initially invested in August 2023, the shares were very illiquid and therefore challenging to accumulate, with a market capitalization of approximately GBP 100m. Following its recent strategic merger with Belvoir and the latest acquisition described above, TPFG trades at a market cap of almost GBP 300m, making it accessible to a much broader audience of investors and thereby enabling a higher valuation multiple.

The incoming UK Labour government may provide a boost to UK residential real estate stocks, potentially benefiting our holdings in TPFG and **Mortgage Advice Bureau**. The goal to build 1.5 million new homes over the next five years and to ease planning restrictions is a positive indicator, though it will take time to assess progress. With our latest investment, introduced on the following pages, we now have substantial exposure to UK-listed stocks (c. 30% of the portfolio, excluding International Workplace Group and Petershill Partners whose businesses are mainly focused on regions outside of the UK) and feel confident, also given the anticipated stability the new government promises.

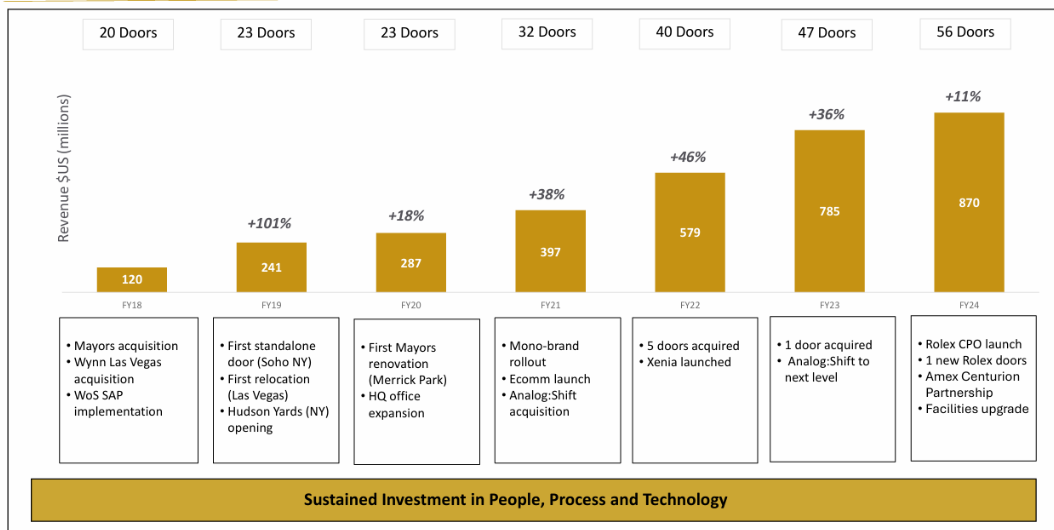
Watches of Switzerland Group plc

Unlike many other watch brands, Rolex is not owned by a publicly traded company; instead, it operates as a private entity. The Hans Wilsdorf Foundation, named after Rolex founder Hans Wilsdorf, holds ownership and control of the Rolex brand. This distinctive ownership structure enables Rolex to maintain independence and prioritize long-term strategies. Prior to acquiring Bucherer AG, a Swiss luxury watch and jewellery retailer, Rolex operated only one retail store in Geneva, focusing exclusively on watch making.

With its perpetual founding spirit, Rolex and the Hans Wilsdorf Foundation are dedicated to promoting and supporting charitable projects in fields such as environment, science and arts. Over the past few decades, Rolex has evolved from a renowned watch manufacturer to a dominant market leader. Through continuous innovation, high-quality standards, and clever brand management, Rolex has steadily increased its market share and strengthened its position in the global luxury watch segment.



The closest proxy to owning Rolex via the stock market is **Watches of Switzerland Group plc** (WOSG). Following its consolidation of the UK watch retail and jewellery market under Apollo's private equity ownership, the company went public in 2019 with Barclays, our former employer, leading the deal. The primary goal was to further consolidate the US market, building from a small base. Since its IPO, Watches of Switzerland has significantly flourished in the US market, highlighting the strong track record of its management team.



WOSG has established itself as a leader in the luxury watch retail sector in the UK with approximately 40% market share and is mirroring this success in the US. Renowned for its extensive network of multi-brand and mono-brand stores, as well as online websites, WOSG enhances brand exclusivity while prioritizing exceptional customer service and the luxury retail experience. This includes personalized services, high standards in store design, and operations that cater to the discerning tastes of luxury watch buyers.

Industry insiders consider WOSG well-positioned to further consolidate the fragmented US luxury watch retail market, emphasizing its pivotal role as a strategic partner to Rolex. Currently holding an 11-12% market share in the US Rolex segment, WOSG aims to expand this to 25% in the long term. Its strong relationships with key watch brands like Rolex, Patek Philippe, and Audemars Piguet are critical for securing sought-after model allocations, driving sales, and maintaining a competitive advantage.

The Bucherer deal announcement posed uncertainties on Rolex retailers and negatively impacted WOSG's share price. As only Rolex authorized dealers can sell Rolex watches, these dealers rely heavily on their relationship with Rolex and must meet stringent customer service standards set by the brand. Allocating more store licenses and sought-after Rolex models to Bucherer at the expense of other dealers could be seen as a straightforward move, albeit one limited to initial considerations regarding WOSG.

A subsequent profit warning, caused by an unexpected shift from less precious metal to more steel watch allocations, further unsettled investors. After thorough due diligence and consulting with industry experts, we believe the concerns are unfounded and the market misinterprets the situation. In fact, evidence suggests that Rolex retailers were collectively allocated less higher value watches and we are convinced that Bucherer is expected to receive no preferred allocations of store licenses or watches over WOSG.

The Rolex/WOSG relationship is stronger than ever. After reviewing WOSG's "Long Range Plan" and discussing with company management, it's evident that WOSG is poised for substantial growth with Rolex. This includes expanding into further prestigious locations such as opening the largest global mono-brand Rolex store on Old Bond Street in London. The newly launched Rolex Certified Pre-Owned program in which WOSG is a key enabler has also shown very promising early results.

As the largest global Rolex dealer, we believe Rolex is vested in WOSG's success, reducing the risk of competitive harm and potentially encouraging Rolex to consider acquisition rather than adversarial action against WOSG. The prospect of a scenario where, for instance, LVMH gains control over the largest Rolex distribution network in the UK and US could be daunting for Rolex. This concern is heightened by the fact that WOSG lacks a strategic shareholder.

In FY24, WOSG reported a solid free cash flow of GBP 118m, excluding GBP 78m of expansionary capex and GBP 47m for acquisitions. This demonstrates the company's robust cash generation capability, even under challenging market conditions. The capital expenditure plans include GBP 300-350 million for existing stores

and GBP 350-500 million for new stores and acquisitions (FY24 – FY28). These investments are expected to yield high returns, short pay-back times and support significant double-digit earnings per share growth.

Today, WOSG presents a compelling investment opportunity due to its strong market position, strategic brand relationships, and significant growth potential. The company's business model, focused on high-margin products and exceptional customer experiences, is supported by substantial high-yielding capital investments aimed at long-term EPS growth. Despite potential macroeconomic sensitivities, the high-quality, and strong cash generation of WOSG's business positions it for significant upside over the medium- to long-term.

The primary concern affecting our investment case is the significant risk associated with its key supplier, Rolex. Therefore, it is imperative for management to uphold its exceptionally strong and uniquely personal relationship with Rolex's management. Considering these factors, along with Rolex's deeply conservative and trust-based culture, we find ourselves willing to accept this risk.

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

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