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Letter to Partners #25

Q3 2024 *(07/01/2024 - 09/30/2024)*

October 13th, 2024

Dear Partner,

In the third quarter of 2024, **our fund returned +1.29%**. At the end of the quarter, the fund volume stood at EUR 14.2 million.

EUR 100.00 invested at the start of the fund in mid-2018 was worth EUR 117.04 at the end of the quarter. The **overall gain since inception is +17.04%** and the **compounded annual gain is +2.55%** (compared to +33.12% or +4.68% p.a. for our reference index).

Net performance figures (including distributions), after deducting all costs, for 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 YTD	+6.02%	+5.43%	+5.79%	+9.10%
Since inception	**+17.04%**	**+11.93%**	**+15.88%**	**+33.12%***
Annualized return	**+2.55%**	**+1.88%**	**+2.60%**	**+4.68%***

* 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**

The third quarter of 2024 started strong for the fund. Early on, one of our portfolio companies, **Stemmer Imaging AG** (Stemmer), received a takeover offer from a U.S. private equity firm at a significant premium. Stemmer is a leading global system house delivering image processing technology, a crucial component in driving long-term trends like industrial automation. Given the high likelihood of the deal closing, we chose to exit our position, securing a satisfactory return after a relatively short holding period. Private equity buyers are rarely known for charity, so when they start bidding up assets, it’s a sign that they too see value where others might be overlooking it. The growing number of acquisitions of smaller European companies tells us that private investors are also waking up to the undervaluations present in some smaller European companies.

Another example of such opportunity is **Crayon Group Holding ASA** (Crayon), a Norwegian software and IT services company we invested in earlier this year. Crayon serves as a key reseller of Microsoft's products, benefiting from major long-term trends like Cloud computing and AI. Leveraging its strong relationship with Microsoft, Crayon was among the first to introduce Microsoft Copilot to its clients. At the time, the sentiment around this structurally sound company was overly pessimistic — just the way we like it.

Since then, Crayon has shown impressive progress, with management improving cash flow, working capital, and continuing to grow even in a tough macro environment. In September, it was reported that U.S. private equity firm Apax Partners and Swiss competitor SoftwareOne were closing in on Crayon, reaffirming our confidence. It’s a reminder that value in contrarian situations is sometimes revealed through external validation, but patient investors are positioned to benefit when this happens.

We used the capital from the Stemmer exit to reinvest in **JOST Werke SE** (JOST), an on- and off-highway component manufacturer. You may remember this company from our previous case study in LtP #5. The automotive sector is clouded with uncertainties, but JOST isn’t burdened with the structural issues that many OEMs and auto suppliers face. JOST is experiencing a slowdown in its end markets but its ability to perform very resiliently in challenging environments, coupled with an attractive valuation and solid long-term growth potential, again made it a compelling addition to the portfolio.

Next to the general market environment in our universe, the performance in the quarter was burdened by a negative surprise. **STO SE & Co. KGaA** (STO), a manufacturer of insulation systems, underperformed as its half-year results missed expectations. Management significantly reduced its full-year outlook and withdrew mid-term guidance. The magnitude of these cuts came unexpectedly, especially since peers reported much better results. After discussions with STO’s management, we made the decision to reduce our position.

Similarly, **Mortgage Advice Bureau (Holdings) plc** (MAB), a leading UK mortgage and related insurance broker, saw its share price decline from recent peaks after the Financial Conduct Authority (FCA) announced an investigation into the UK pure protection market. Operationally, however, the company is performing in line with our expectations. Having consulted management and industry experts, we do not foresee any major impact from the investigation. In fact, we took advantage of this overreaction by the market rather aggressively and meaningfully increased our position, which has already started to pay off as the shares rebounded strongly post-results.

The Property Franchise Group plc (TPFG), the leading property franchising business in the UK, which is also under the FCA's scope, is less exposed. While TPFG generates about a third of its revenues from financial services, these activities are primarily as representatives of MAB. Here too, we do not expect a significant impact. TPFG delivered strong quarterly results in September and made good progress integrating its recently acquired businesses. As with MAB, we added to our position, seizing the opportunity created by short-term market mispricing.

By far, the most rewarding development this quarter was **The Gym Group plc** (GYM). Although we had anticipated gains earlier in the year, it’s encouraging to see investor sentiment finally turning positive. The new management team is delivering results in line with expectations, and there are ample opportunities to invest capital into new gym openings at attractive returns. Membership growth has been strong as the company continues to recover from post-Covid lows, and even modest membership increases significantly improve profitability since new revenues come with minimal additional costs.

These operational improvements are laying the foundation for long-term value creation, and we remain confident that this business will continue to grow stronger. Gaining more members now will support the results going forward. The full impact on a yearly basis will only be seen next year. At the same time, the cost side is improving steadily. As the lowest-cost gym provider in the UK, GYM offers great value for money to currently stretched consumers. The company is even able to very meaningfully increase prices in the currently weak

consumer environment. We continue to hold this position and expect further positive news to emerge in the coming quarters.

We also reviewed our position in **Bijou Brigitte modische Accessoires AG**. Since our initial case study, several key elements of our thesis have shifted. Recent results were weaker than expected, online competitors are gaining market share, and the company did not execute on its growth investment plans. Given these changes, the risk/reward profile became less attractive, and we chose to exit our position. It's critical to reassess investments periodically and remain disciplined in maintaining the long-term health of the portfolio.

Now, addressing a broader question: when will the portfolio's undervaluation be fully reflected in our results? The truth is, we can never be sure exactly when the market will recognize value, and that uncertainty is often where opportunity lies. Recently, we heard from a broker that small-cap fund managers have experienced outflows from insurance clients who decided to reduce their small-cap exposure after gains in their S&P 500 holdings. This kind of technical factor can delay market recognition, but in the long run, intrinsic value will always assert itself.

It's worth reminding ourselves of an important principle: the focus should be on "what" we are investing in, not "when" the market will reward us. We don't control the timing of the market, but we can control the quality of the businesses we own. By aligning ourselves with great companies and proven management teams, time works in our favour, compounding value over the years. The goal is not to chase short-term gains, but to ensure we are co-owners in businesses that are steadily building value.

Our strategy remains clear: be patient, think like long-term owners, and let the businesses we own do the work overtime. In closing, let's stay focused on these principles, not the short-term fluctuations of the market.

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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