VALUE-HOLDINGS
Capital Partners AG

FUND REPORT
1st Quarter 2023

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1. Stock market development

The German share index DAX has made a good start to the year 2023. It closed at 15,629 points at the end of March, which corresponds to a quarterly increase of 12.3 %. The mid and small caps on the German stock exchanges also made pleasing gains. With an increase of 10.1 % for the MDAX and 10.3 % for the SDAX, they were almost able to keep up with the large blue chips. European shares, as measured by the EuroStoxx 50, also posted double-digit gains of 13.7 %.

The good development comes as a surprise. Neither has the Ukraine war ended, nor has inflation returned to an acceptable level and the central banks have sent no signs of an end to interest rate hikes. This was compounded at the beginning of March by the insolvency of the Silicon Valley Bank in the USA, which triggered a tremor on the international financial markets and even caused trouble for the Swiss Credit Suisse. Ultimately, it is thanks to the rigorous actions of central banks and regulators that a new financial crisis was prevented.

Currently, the DAX is only about 600 points away from its record high of 16,290 points. It is possible that this mark can indeed be reached soon, as the statistically best time of year for equities has just begun. However, it remains unclear what arguments can be put forward for equities that would justify a rise beyond this. The sharp rise in bond yields means that dividend stocks no longer have no alternative. Even if central banks slow down the pace of interest rate hikes, hopes of rate cuts in the near future seem unrealistic as core inflation remains stubbornly high. However, high interest rates over a longer period of time will also show their effects on the real economy and corporate profits. Already in 2022, 26 of the 32 DAX companies outside the financial sector have limited or reduced their net investments to lower debt levels, according to a Handelsblatt report. Lower corporate investments and restrained consumer spending could therefore lead to subdued economic development in 2023. Forecasts for corporate profits are likely to prove too optimistic in this case.

Therefore, we are convinced that careful selection of companies is particularly important when investing in the stock market this year. An investment in excellent companies with a stable business model, good market position and low debt can perform well even in a subdued economic environment. The stock market is also currently showing an extremely divided development. While some companies are trading close to their highs, the share prices of other high-quality companies, especially from cyclical sectors, are in some cases still 50 % to 80 % below their historical highs. Due to the price declines, the valuations of these companies have already become very attractive again. And if experience confirms that prices bottom out before earnings do, good investment opportunities should open up in the coming quarters.

2. Value-Holdings Deutschland Fund

The Value-Holdings Deutschland Fund performed positively in the 1st quarter in the wake of the rise on the stock markets. The price of a unit rose by 10.3 % to € 4,114.90 from January to the end of March. The increase is on a par with the price gains of the German small and mid caps included in the MDAX and SDAX, which form the investment focus of the fund with a share of around 85 %. Although the fund's performance is slightly below the DAX, blue chips are rather lightly weighted with a total share of around 15 % in the fund.

The good stock market performance of the first quarter is also reflected in the individual stock development, most of which showed pleasing price gains. Deutz, Hochtief, Kion and SAF-Holland recorded the largest price increases in this period. In the case of Deutz, the 48 % rise in the share price was due to the good results in 2022 and a pleasing forecast for 2023. The company is making progress with its efficiency program and thus looks forward to significant margin increases. The 46 % rise in Hochtief's share price is also based on the good earnings report for 2022, but above all on the significant dividend increase, which was above investors' expectations. In addition, the high order backlog gives justified hope for a continued good business performance in 2023. Kion's share price gained 33 % in the first quarter without any significant news from the company. We see the share price increase primarily as a recovery after the exaggerated share price decline in the previous year. SAF-Holland, on the other hand, which also rose by 33 %, was able to convince not only with the good results of the past financial year but also with a pleasing forecast for 2023, which now also includes the acquisition of Haldex made last year. Among the companies with share price declines, Ringmetall (-15 %) and Metro (-13 %) stand out. Ringmetall has issued a cautious forecast after a record 2022 result, taking into account the currently depressed business performance of its main customer sector, the chemical industry. At Metro, concerns about the important Russian business weighed on the share price, although the reported results and also the planning for the current year were positive.

Between January and March we made only a few transactions. We sold Siemens Healthineers outright at a pleasing profit, having previously received a dividend payment with a yield of just less than 2 %. Siemens Healthineers had not yet reached fair value, but we decided to sell it due to the high valuation of the company in order to use the freed-up liquidity to increase other, much more favourably valued positions. The acquisitions were Bauer AG, in which we participated in the capital increase, Hornbach and Kion. In addition, the fund invested in Friedrich Vorwerk Group SE for the first time. Vorwerk, a provider of energy infrastructure for electricity, gas and hydrogen applications, had gone public in March 2021 via IPO at a price of € 45 per share in the wake of the boom in hydrogen shares. After an initial rise to € 53, the share fell to below € 10 with the end of the hydrogen boom on the stock exchange and after some disappointing news from the company. At this level, the share was also interesting for our fund, as we were able to invest with a margin of safety of more than 30 %.

The cash ratio of the fund is 9 % as of 31 March 2023. With an investment ratio of over 90 %, we are thus benefiting from the current good stock market performance and also have the opportunity to take advantage of favourable opportunities for additional or new purchases due to the cash ratio.

3. Value-Holdings Dividenden Fund

The Value-Holdings Dividenden Fund also benefited from the generally positive market sentiment in the first quarter and rose by 10.7 % to € 14.39 per share.

In view of the overall positive development, it is not surprising that the majority of the fund's holdings also posted a positive performance in the first months of the new year. A number of stocks posted disproportionately high gains, i.e. more than 30 %. These include Ceconomy (+35 %) as well as Deutz (+48 %), Hochtief (+46 %), Kion and SAF-Holland (+33 % each), which are also in the Value-Holdings Deutschland Fund. On the downside, Keller (-14 %), SMT Scharf and BIC (both -9 %) lost the most, although in our opinion the reporting on the 2022 financial year and/or the outlook for all the companies mentioned did not really disappoint.

While we were still very cautious in portfolio management in the first two months of the year, we were much more active in March. In addition to the complete sale of our Lenzing position, we also disposed of the remaining stake in Eurokai in order to invest the free funds in more promising stocks. In addition to the good long-term prospects, we had invested in Lenzing primarily because of the new dividend policy established in the previous year. However, in view of the downturn in the end markets in the second half of 2022, we expected the new dividend policy announced only last summer to be suspended and therefore sold our investment at a prices that was still good. The temporary suspension of the existing dividend policy then took place a few days after our sale with a corresponding share price reaction. In the medium term, however, we can imagine investing in this fundamentally promising stock again.

We took advantage of weaker prices in two stocks to increase our position again. Both SES and Polytec were bought well below the price levels at which we had already partially sold in the past. We also invested for the first time in the two German small caps Friedrich Vorwerk and Alzchem. Vorwerk, as a beneficiary of the European energy transition, was involved, for example, in the construction of part of the connecting pipeline for the LNG terminal in Wilhelmshaven last year. Alzchem is a vertically integrated manufacturer of various chemical products based on the NCN chain. These are products with a typical nitrogen-carbon nitrogen bond that have applications in a wide range of industries. The company has a leading market position in selected niche markets, including the markets for feed additives and food supplements, but also in pharmaceuticals and fine chemicals or in the steel industry. The strategic growth focus and the emphasis of research and development are on the Specialty Chemicals business segment in contrast to the energy-intensive Basics & Intermediates segment, where standard products are increasingly manufactured. Passing on the sharp rise in electricity costs will remain a major challenge in 2023. In the 2022 financial year, however, one could see that the company managed this very passably. With a dividend yield of over 5 % and a P/E ratio in the clear single digits, we consider the stock to be very promising.

The liquidity ratio of the fund has been reduced from 9 % to 7 % as a result of the transactions described above. As before, we will use the remaining liquidity prudently to increase existing investments or to build up new, promising positions. In addition, the annual distribution of the fund in the amount of about 3 % took place in the middle of April.

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