



VALUE-HOLDINGS
Capital Partners AG

FUNDS REPORT

2nd Quarter 2022



1. Stock market development

The first half of 2022 was unpleasant on the stock markets. The German share index DAX lost 19.5 % to 12,784 points. After the lows of early March, there were signs of a recovery in the following weeks, with the DAX gaining around 2,000 points. In the second quarter, however, the consolidation continued and, especially in June, a weak performance caused the previously regained terrain to be lost again. The weak development of the stock markets was not limited to Germany, however, and the DAX with its high losses did not even rank last in an international comparison. Overall, the development of European shares measured by the EuroStoxx 50 was almost parallel. It fell by 19.6 % to 3,455 points in the 1st half of 2022.

Given the current stress factors, the negative development is not surprising. Stock markets like low interest rates, high liquidity, rising corporate profits and a high degree of security. But exactly the opposite was the case: high inflation rates already prompted central banks to think about interest rate hikes during the 1st quarter. In the second quarter, interest rates were raised in several countries and liquidity was withdrawn from the financial sector. The Russian invasion of Ukraine created a situation of uncertainty affecting all areas of life. From where can we obtain raw materials and energy in the future? Will there be enough gas for heating in winter? What can consumers still afford in view of high inflation? Can our industry still produce at all? Consumer sentiment is low and the business outlook of companies has been clouded. If Russia were to completely cut off gas supplies to Europe, this would not only lead to cold homes, but also to production losses in the economy. A recession would be hard to avoid.

Historically, however, periods of recession have always been good times to invest in equities. Cyclical companies from the manufacturing industry were particularly affected by the correction on the stock markets. But even in this sector there are excellent companies with good market positions and relatively stable profit margins. Such companies are already available at sell-off prices. This does not mean that prices cannot fall even further. But current prices promise a good return on invested capital in a normal stock market environment.

2. Value-Holdings Deutschland Fund

The Value-Holdings Deutschland Fund has held up relatively well in the environment described above. The price of a fund unit was € 3,787.06 on 30.06.2022. This corresponds to a decline of 13.8 % in the 1st half of the year, but is significantly better than the general market development.

Due to the decline in prices on the stock exchanges, the individual securities in the fund showed predominantly negative performance in the first half of the year. The largest price declines were suffered by SAF-Holland (-46 %) and Deutz (-44 %). SAF-Holland had prepared investors for a drop in profits in 2022 despite full order books and fully booked production capacities due to sharply increased costs for raw materials, logistics and personnel. The company also announced a takeover bid for Sweden's Haldex AB, a producer of brakes for commercial vehicles. The prospects of falling profits and increasing debt through a takeover during a looming recession was not well received. However, we believe that SAF-Holland, together with Haldex's complementary activities, has the opportunity to become a global champion in chassis-related commercial vehicle systems and thereby realise significant sales and earnings growth in a friendlier market environment. We have therefore taken advantage of the low share prices to further increase the position. At Deutz, there was no major news after the departure of the CEO. The share merely lost ground in the wake of the general market trend. At Deutz we used the depressed share prices in June to increase the position.

The winners of the second quarter include Ringmetall and SMT Scharf. Both companies were able to report very good profit development in 2021. Ringmetall subsequently raised its dividend significantly and at the same time confirmed its positive outlook for 2022 with a significant increase in revenue and continued high profit margins. SMT Scharf is benefiting from the high commodity prices due to the continued propensity to invest on the part of customers from the mining and energy sectors. SMT is also forecasting rising revenues in 2022 and again, as in 2021, an above-average margin level. In addition, SMT's major shareholder has announced its intention to sell its shares preferably to a strategic investor. This leads to takeover fantasies for the SMT share.

The volatile share price development in the first half of 2022 gave us the opportunity to sell some positions at a gratifying profit and, on the other hand, to increase positions or buy companies that were trading significantly below their intrinsic value with a high margin of safety when prices were falling. We completely sold K+S, Gescor, Daimler Truck, Ceconomy, Eurokai and Takkt. We doubled the weighting of the positions we bought in the first quarter, Traton and Lanxess. We used the falling share prices in June to make smaller additions to BASF, Hochtief, q. beyond, SAF-Holland, Deutz and HeidelbergCement. And we invested for the first time in three companies that we have been following closely for a long time. These are KION, the global No. 2 in fork lift trucks and supply chain solutions, Siltronic, the No. 3 of the world's leading wafer manufacturers, and Siemens Healthineers, a leading international provider of healthcare solutions. The fund's cash ratio declined slightly to 18 % as of 30 June due to the transactions described above. We expect the equity markets to remain volatile in the coming months, offering us good opportunities to buy first-class companies with a high margin of safety.

We would like to take this opportunity to inform you that the Value-Holdings Deutschland Fund celebrated its 20th anniversary on 15 May 2022. Fund founders Dominik Fassel, Markus Wenner and Georg Geiger, who were also the fund's seed capital investors, are pleased with the fund's consistently good performance over this long period of time. During this time, the Value-Holdings Deutschland Fund has increased the value of a unit by 293 %, which corresponds to a return of 7.03 % p.a. This extraordinary performance was reached despite the stock market crash of 2002/03, the financial crisis of 2008/09, the Corona pandemic since 2020 and the Ukraine war. During this period, the DAX gained 152 %, which corresponds to an annual return of 4.70 %. Due to its above-average performance, our fund has received a large number of awards in recent years and has repeatedly occupied top positions in rankings. We summarised a selection of these in a chart at the end of the fund report. We hope that we will also be able to report on the successful development of the fund in the next 20 years and would be pleased if you continue to remain invested with us.

3. Value-Holdings Dividenden Fund

The Value-Holdings Dividend Fund was also unable to fully escape the difficult capital market environment in the last three months. At quarterly level, the fund price fell by 5.4 % to € 13.13. For the entire first half of the year, the fund showed a decline of only 10.7 % and thus clearly outperformed the overall market. This takes into account the distribution of € 0.46 per fund unit in April. Based on the year-end price in 2021, this results in the annual distribution yield of 3 % that we are aiming for.

The number of holdings in the portfolio increased by one to 37 in the quarter under review. The fund made a complete sale of Daimler Truck in order to invest the freed-up funds in the promising Traton, in which there was already a small initial position in the portfolio. On the one hand, the share price of Traton (i.a. MAN, Scania) had developed significantly worse than that of Daimler Truck until then. On the other hand, the share price potential of Traton was (and still is) considerably higher. In our opinion, a swap of the position therefore made sense, even if the fair value of Daimler Truck has not yet been reached.

Dr. Hönle and Lenzing were added to the portfolio for the first time. Lenzing is a well-known investment of the fund. We were last invested in the Austrian manufacturer of wood-based cellulose fibres for textile and non-textile applications until mid-2019. Viscose and special fibres such as Modal or Tencel are superior to cotton and synthetic fibres from an ecological point of view, which is an increasingly important issue, especially in the textile industry. In addition, the expansion projects in Thailand and Brazil, which are on budget and on schedule, will further consolidate Lenzing's leading position, above all in specialties. The Hönle Group is divided into three business segments: Adhesives, Equipment & Systems and Glass & Lamps. The adhesives segment comprises industrial adhesives for a broad range of applications in electronics, medical technology, optics and the automotive sector, among others. The equipment and systems are used for drying paints and varnishes, curing adhesives and plastics, surface disinfection and sunlight simulation. A new addition to the Equipment & Systems segment is the Air Disinfection segment. The Glass & Lamps segment includes quartz glass tubes and rods for the semiconductor, glass fibre and lamp industries. The lamps are used in the disinfection of water, air and surfaces and in the drying of coatings and adhesives. The share price had quartered from its 2018 high and was at an attractive level with sufficient margin of safety at the time of purchase in mid-May. In the past, the group has regularly generated double-digit EBIT margins and, with the exception of the crisis year 2008/09, has always paid dividends in the last 20 years.

In the case of individual holdings that were not yet highly weighted, we took advantage of significantly lower prices to increase the position. As in the Value-Holdings Deutschland Fund, this concerned Hochtief and SAF-Holland as well as EMAK among the foreign stocks. In the case of EMAK, we were able to buy back the shares we sold almost exactly one year ago, at a price of more than 25 % lower.

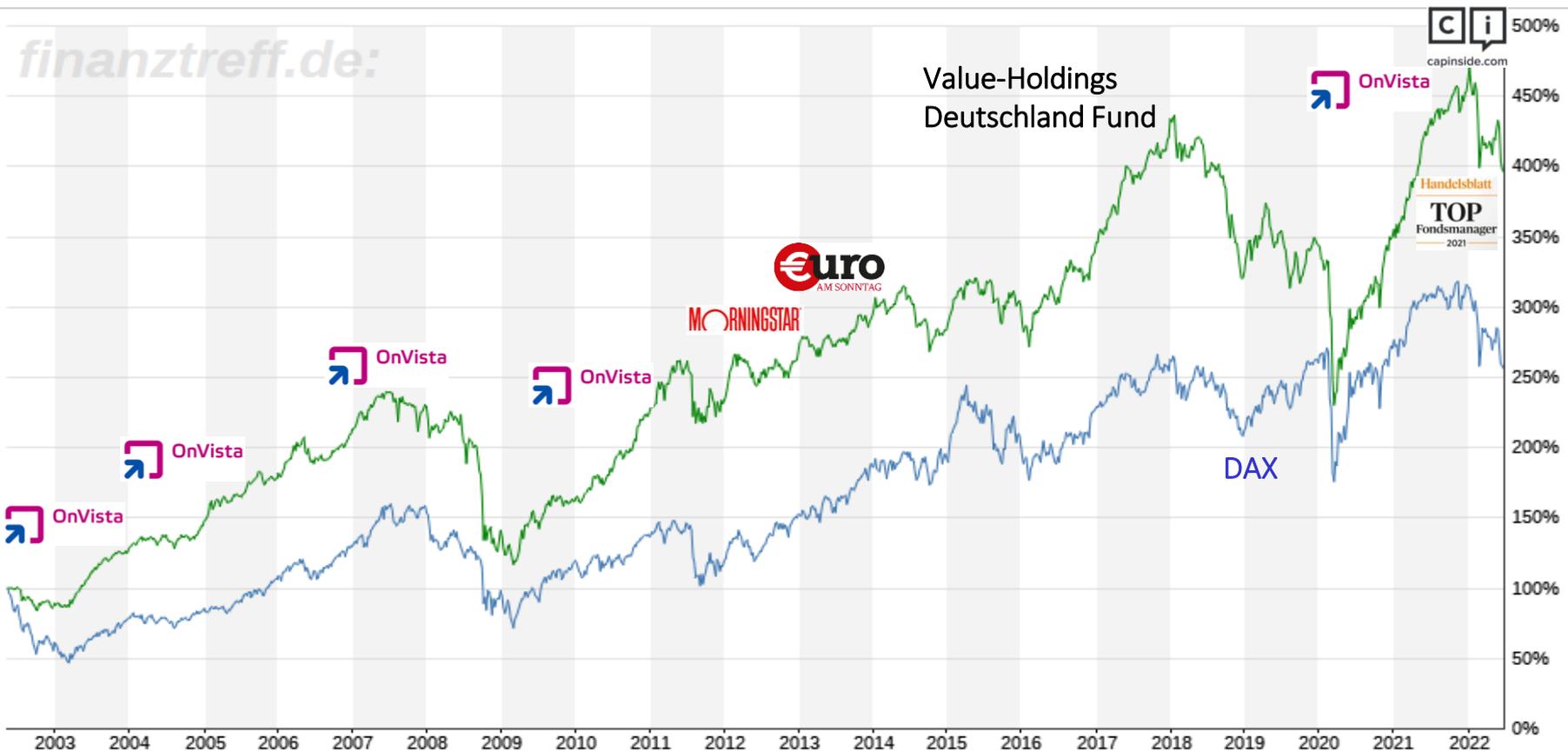
The purchases were financed by reducing highly weighted holdings whose price potential was also only below average. As with the Value-Holdings Deutschland Fund, this concerned Freenet and Takkt as well as the Luxembourg-based SES. Furthermore, we have successively disposed a large part of our holding in K+S as the share price has risen significantly in the meantime. We currently hold only a small stake, as the earnings momentum should remain high with potash prices remaining elevated and we can thus participate in the rising substance as soon as this is reflected in the share price. After the significant price losses of the overall market, we also reduced our small market hedge by about two-thirds in mid-June in order to create liquidity for further investments with long-term prospects.

Looking at the performance of the fund's individual securities, it is not surprising in view of the overall mixed situation on the capital markets that the majority of the fund's positions achieved a negative price performance in the first half of 2022. Nevertheless, around one third of the 37 holdings in the portfolio as of 30.06.2022, also recorded a positive performance. By far the largest increase was achieved by the shares of K+S (+53 %), which benefited from significantly higher potash prices. In the meantime, the share price of K+S even more than doubled, but then fell back significantly as the discussion about the security of gas supply in Germany intensified. The second best performer is the provider of entertainment/streaming products Cliq Digital (+30 % since purchases), which the fund had only acquired in the course of the first quarter. The highly weighted SES (+27 %), BIC (+15 %) and Freenet (+8.5 %) continued to perform well, each including dividend payments. The list of negative price developments, conversely, is longer, unfortunately also with higher swings, without company-specific news necessarily being responsible for this. Above all, industrial stocks should be mentioned here, which are affected by rising input costs, fears of recession and uncertainty about the further effects of the Ukraine war (keyword: gas supply). The fund had to cope with price declines of more than 30 % (incl. dividends) in the following holdings: SAF-Holland (-46 %), EMAK (-40 %), Servizi Italia (-34 %), Semperit, and Hochtief (both -32 %). After the transactions described above, the liquidity ratio at the end of the quarter was only 1 % (31.12.2021: 2 %).

Risk note: Past performance is no guarantee of future returns. The value of the fund units may fluctuate and is not guaranteed. Due to their investment policy, the funds may deviate from the general performance of the equity markets in which the funds are invested. Legally binding information can be found exclusively in the prospectuses with integrated investment regulations and the current annual and semi-annual reports of the funds, which are available free of charge from the fund management company and the custodian bank. This quarterly report is therefore for information purposes only and does not constitute investment advice, any other recommendation or explicitly any offer to purchase fund units, securities or other financial products.

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20 years Value-Holdings Deutschland Fund



- *) OnVista 16.05.2003: VHDF one year after launch No.1 among 101 funds with investment focus "German equities"
- *) OnVista 31.12.2004: VHDF third best equity fund among 109 funds with investment focus "German equities" in 2004
- *) OnVista 31.12.2007: VHDF best equity fund among 124 funds with investment focus "German equities" in 2007
- *) OnVista 31.12.2010: VHDF best equity fund among 102 funds with investment focus "German equities" in 2010
- *) Morningstar: VHDF best German small and mid-cap fund in 2012
- *) Euro am Sonntag: VHDF in 2013 best equity fund for German small caps over a period of 3 years
- *) Handelsblatt 04.11.2021: Georg Geiger selected as VHDF manager among "The most reputed Fund Managers 2021"
- *) OnVista 31.12.2021: VHDF third best equity fund among 136 funds with investment focus "German equities" in 2021
- *) CapInside 25.02.2022: VHDF best equity fund among 105 funds in the peer group "Equity Funds All Cap Germany"