FUND REPORT
2nd Quarter 2023

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1. Stock market development

After a good start into the year 2023, the German DAX continued to develop positively in the second quarter. On 16 June it reached a new all-time high of 16,427 points, but was unable to maintain this either during the course of the day or until the end of the quarter. On 30 June the DAX closed at 16,148 points, which means only a moderate increase of 3.3 % for the second quarter, but in relation to the first half of the year a very pleasing development of +16.0 %. The German small caps were unable to keep pace. The SDAX rose by 12.4 % in the first six months, while the MDAX only gained 9.9 %. Measured by the EuroStoxx 50, European shares developed similarly to the DAX. After the strong rise at the beginning of the year, prices hardly increased in the second quarter. In relation to the first half of the year, the increase of the EuroStoxx 50 was also exactly 16.0 %.

Now our fears from the last fund report seem to be coming true, that there are currently few arguments that could drive prices significantly higher. On the contrary, there are several points that suggest that the stock markets could take a breather for the time being. After two quarters of negative GDP development, Germany is in recession. During the second quarter, some companies had to lower their sales and earnings expectations for this year, with partly very negative consequences for share prices. A few months ago there were still expectations that the Chinese economy would again become the locomotive for the global economy in the second half of the year, but these hopes have now evaporated. But since the issue of recession had been on the minds of investors and also companies for several quarters, there should now be no more big negative surprises. Companies have had time to reduce overproduction and adjust capacities and inventories. Investors have also had time to position themselves accordingly. As a result, the share prices of companies from cyclical industries, such as chemicals, have suffered significantly, while companies from many service sectors or even the automotive industry, which recently still had high order backlogs, are trading near their highs.

Due to the recent price declines, the valuations of many cyclical companies have already become very attractive again. Many of these companies are trading at only 50-70 % of their book value despite positive earnings figures and regular, reliable dividend payments. In these cases, even a lowering of earnings estimates should no longer have a major impact on prices. In our opinion, however, these companies are far from pricing in a reasonably normal earnings situation that could return in the following quarters. And since we believe that the earnings of many companies will bottom out in the coming quarters, good investment opportunities should arise again soon.

2. Value-Holdings Deutschland Fund

The unit price of the Value-Holdings Deutschland Fund fell slightly to € 4,062.07 in the second quarter. In the first half of the year, the performance was positive with an increase of 9.5 %. However, the fund did not match the performance of the DAX, which rose by 16 % from January to June. We attribute this to two factors. On the one hand, German small- and mid-caps underperformed the large-cap stocks included in the DAX in the past six months, as a look at the MDAX shows, which rose by only 9.9 %. On the other hand, shares from the manufacturing industry in particular, currently the investment focus of the fund, have performed weaker than the prices of companies from service-related industries. However, we believe this is a temporary development. At the latest when consumer demand picks up again and the destocking in industry comes to an end, we expect cyclical industrial stocks to catch up disproportionately.

In the second quarter, the individual stocks in the fund performed very differently. SAF-Holland and Traton each rose by 9 %. The performance in the first half of the year is now + 45 % for SAF-Holland, Traton rose by 39 % in the first six months of the year. In the case of both shareholdings, the stock market acknowledges the continued good business development. Both companies were able to decouple themselves from the negative overall economic development through company-specific developments, such as the acquisition of Haldex at SAF-Holland or the successful restructuring of the MAN and Navistar brands at Traton. In contrast, we had to accept significant share price declines for Lanxess and q.beyond. The Lanxess share lost 27 % of its value in the second quarter after a profit warning. The company suffers from the fact that customers had built up high inventories during times of supply chain problems in order to remain able to deliver. Since the problems in the supply chains have eased again, inventories are currently being reduced, i.e. Lanxess as an upstream supplier is receiving even fewer orders than would be necessary to meet the already weak demand from end customers. However, once the stocks have been cleared and consumer demand picks up again, orders are likely to increase significantly. However, this is not expected to happen this year, but only in 2024. The share price of q.beyond fell by 25 % in the second quarter. The company is now positioning itself as a pure service provider in the IT sector, especially for SME customers. The development of own software solutions for customers in the core industries, which started two years ago, will be discontinued; only application-related software will be developed in-house. The stock market reacted very negatively to this decision, since on the one hand the hoped-for, scalable software revenues are no longer available and on the other hand the depreciation of the previously capitalised development services has weighed heavily on the result.

Between April and June we were able to close various investments very successfully. Hochtief almost reached its fair value already in April and we decided to sell the position at a very pleasing profit even before the dividends were paid out. BMW's preference shares also rose above their fair value of € 100 in the second quarter. Contrary to earlier fears of many market participants who did not expect a rosy future for the German automotive industry in view of challenges such as e-mobility and autonomous driving, our investment was rewarded with a very pleasing profit. In addition, we were able to collect very respectable dividends during the holding period of the BMW shares. And finally, our investment in Heidelberg Materials, which was also not without controversy due to the high CO2 emissions of the cement industry, paid off. By holding on to this position, we have recognised the company's efforts to take a leading role in the change to a more sustainable cement production. Since Heidelberg Materials has so far mastered the balancing act between a high investment requirement for the conversion of production methods to reduce CO2 emissions and the resulting threat of pressure on margins, the share has risen by a pleasing 40 % this year. After the fair value was reached, we consistently sold the entire position. We did not make any new investments in the second quarter. We slightly increased the weightings of some stocks, especially Friedrich Vorwerk SE, which we had bought for the first time towards the end of the first quarter.

The cash ratio of the fund has increased significantly due to the sales made with comparatively low purchases. It now stands at 28 % as of 30 June 2023. After the recent volatile to slightly declining stock market development, we have good opportunities to take advantage of favourable opportunities for additional or new purchases in the event of further declining prices.

3. Value-Holdings Dividenden Fund

The Value Holdings Dividend Fund celebrated its 15th anniversary on 30 June 2023. Initially launched as a pure European fund, the value strategy was expanded to include a dividend strategy at the beginning of 2020. On the one hand, this includes an even stronger focus on companies with above-average, reliable dividend payments. On the other hand, investors benefit from higher distributions of the fund with an annual target yield of 3 %. Morningstar recently rewarded this strategy expansion with an overall rating of a maximum of 5 stars. The annual performance over the last three years is quite respectable at +16.5 %. Since the fund was launched 15 years ago, the annual return has only been +3.2 %. However, it should be noted that the very first six months of the fund fell into the financial crisis of 2008. This was followed by the euro crisis in 2011, Brexit in 2016, the trade war between China and the USA in 2018, the Corona pandemic in 2020 and finally the Ukraine war in 2022, just to name a few of the burdens over the 15-year period.

In the second quarter, the Value Holdings Dividend Fund performed similarly to the European markets (EuroStoxx 50: +1.9 %; Stoxx 600: +0.9 %) with a plus of 1.5 %. For the first half of the year, the performance including the 3 % distribution in April was +12.3 %.

Nevertheless, a look at the individual performance in the first six months shows very different developments in some cases. Of the portfolio positions, some holdings were able to achieve significantly disproportionate growth. These include SAF-Holland (+45 %), Traton (+39 %), Kion (+38 %), Quadient (+37 %) and Deutz (+33 %). With the exception of Quadient, whose dividend will be paid in the third quarter, the fund were able to collect also high payments from the companies listed. In addition, the positions Hochtief (+52 %) and Heidelberg Materials (+38 %) rose disproportionately until the respective time of sale. In contrast, the following stocks lost double-digit ground: SMT Scharf and BIC (-16 % and -14 % respectively). Taking into account the respective dividend payments, EMAK, K+S, Orsero, Schaeffler, SES and Keller recorded negative single-digit performance.

Similar to the Value-Holdings Deutschland Fund, the dividend fund successively sold its entire holdings in Takkt, Hochtief and Heidelberg Materials in the past quarter after reaching the respective fair value. We invested the freed-up money primarily in existing positions where the size of the portfolio was still rather small or where the interim price performance encouraged additional purchases. This concerned K+S, Schaeffler, Alzchem, Keller, RHI Magnesita and SES. We took a completely new respectively renewed stake in Hornbach Holding. The Value Holdings Dividend Fund was invested in this stock, known primarily for its DIY activities, until the end of 2021. Our selling prices at the time were twice as high as our new investment. Cost inflation and bad weather at the beginning of the important home improvement and gardening season recently caused headwinds in the operating business, which led to declining earnings. Nevertheless, we consider the share price decline to be exaggerated and are pleased that we were able to participate in this solidly managed company again.

The cash ratio of the fund increased from 7 % to 11 % quarter-on-quarter as a result of the transactions explained, despite the annual distribution of the fund of around 3 % in April.

We have a number of stocks on our buy list that we intend to buy if the price weakens. In view of the current economic conditions, we can imagine that we will have one or two opportunities in the coming months to acquire stocks with a sufficiently large safety margin.