VALUE-HOLDINGS
Capital Partners AG

FUND REPORT
4th Quarter 2022

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1. Stock market development

For investors, 2022 was not a good year. Negative signs dominated across all asset classes. The German stock index DAX lost 12.4 % in the past year and closed at 13,924 points. A good 4th quarter improved the negative annual balance somewhat, because at the low for the year at the end of September the DAX had fallen by almost 24 % in the meantime. With the decline of around 12 %, German blue chips still fared relatively well compared to small and mid caps. The MDAX suffered a decline of 28.5 %, the SDAX was down 27.4 %.

European shares were also in the red last year. Measured by the EuroStoxx 50, they lost -11.7 %, only slightly less than the DAX. However, the price declines on the stock markets were not limited to equities. Supposedly "safe havens" such as bonds and precious metals also declined. A 10-year Bund for example, lost 20 % in value due to the rise in interest rates. The loss of the Bund in one year is roughly equivalent to the interest it had earned over the past 15 years!

The reasons for investors' reluctance were obvious last year: the war in Ukraine, the question of energy security, disrupted supply chains with a lack of material availability, soaring inflation and decisive interest rate steps by central banks to curb price increases. The central banks have also recently made it clear that fighting inflation is currently the primary goal, even if this could lead the economy into a recession.

This dichotomy is currently reflected in the inverse interest rate structure. The central banks have raised short-term interest rates to fight inflation. However, long-term interest rates are lower because the financial markets expect at least a mild recession. In this case, the central banks, according to market expectations, would have to lower interest rates again, which would be good for the stock markets. But there are also positive signals again from the economy itself: the disruption of supply chains is easing, the high order backlogs can gradually be worked off again. There is also relief on the cost side: logistics costs are falling again, the price for container transports from Asia to Europe has more than halved since the highs in autumn last year. And the price of gas is currently cheaper than before the outbreak of the war in Ukraine. But there are also factors that call for caution: Consumer sentiment is in the basement. Sooner or later, this is likely to be reflected in companies' order books. And with the prospect of subdued economic development in 2023, forecasts for corporate profits are unlikely to be euphoric.

Nevertheless, we assume that the bear market on the stock markets is already well advanced. We do not know whether share prices in September have already reached their lowest level in the downward trend that has dominated since the end of 2021. However, we are convinced that it will be worthwhile to invest anti-cyclically in excellent companies with a good market position in the current economic downturn. In any case, the price declines have made the valuations of many companies even more attractive. And experience shows that the stock markets usually find their bottom before earnings reach the bottom.

2. Value-Holdings Deutschland Fund

After the lowest prices of the year at the end of September, the Value-Holdings Deutschland Fund benefited from the recovery on the stock markets in the 4th quarter. The price of a fund unit increased 13.0 % to € 3,731.56 in the last three months of the past year. The decline since the beginning of the year has thus been reduced to 15.1 %. The fund's performance is thus slightly below the DAX, but significantly better compared to German small and mid caps, which performed very weakly in 2022. We had taken advantage of the fall in share prices and the associated decline in valuations for small caps last year to increase or acquire some of these positions. As a result, the fund's investment focus was on small and mid caps with a share of 82 %, while

only 18 % was invested in large caps. Although we are naturally not satisfied with a negative annual performance, we are nevertheless pleased with the award from "€URO" magazine, which named the Value-Holdings Deutschland Fund the best equity fund of 2022 in the Germany/Small Caps sector. Our fund is also at the top with a positive performance of 10.8 % over a two-year period, while all other comparison funds show a negative performance.

The weak stock market performance of the past year is naturally also reflected in the individual stocks, where the losers predominated. Over the course of the year, we had to accept large price declines in q.beyond (-61 %), Bauer (-42 %) and Deutz (-38 %). We bought back q.beyond too early, having previously sold the shares completely after the price had almost doubled. The company had to recognise that despite a good positioning in the future areas of cloud, IoT and SAP service, the sale of self-developed software solutions in particular is taking longer than planned. Therefore, the turnaround expected for 2022 has to be postponed to the coming year. At Bauer, it has once again been shown that restructuring measures often take longer and consume more money than originally planned. However, with the closure of around 20 unprofitable subsidiaries now underway, it should be possible in future to ensure that the good profitability in the core markets is also reflected in good figures in the consolidated income statement. Deutz shares performed weakly, although there was no significant negative news. Demand for engines, particularly from the construction equipment industry, is notoriously cyclical. While this has deterred many investors from investing in Deutz, we believe that Deutz is trading far too cheaply in terms of average earnings power over a business cycle, which is why we have taken advantage of the depressed prices to add to the position. BMW's share price performance was encouraging, with a gain of 9 %. The shares of Ringmetall and Metro also did well and ended 2022 at about the same level as at the end of 2021.

Between October and December, we only carried out a few transactions. We have now reached our target size for our Traton position through further increases. And the only position we have newly bought is Freenet. However, this company is not new to our fund, as you may remember from our earlier reports. We had only sold Freenet at the end of April 2022 at prices above € 26 and now took the opportunity to buy the share back again at prices below € 20. Not much has changed in the company since then. We see it as further proof of Warren Buffett's statement that one should not forecast stock market prices, but use them. We also took advantage of this offer from "Mr. Market" to get in.

As a result of the two purchases, the cash ratio of the fund has fallen to 11 % as of 31 December 2022. With an investment ratio of just under 90 %, we have thus laid a good foundation to profit from rising share prices again. Should new favourable opportunities for additional or new purchases arise in a persistently volatile stock market development, we still have sufficient liquid funds available for this.

3. Value-Holdings Dividenden Fund

After a weak third quarter due to market conditions, the Value Holdings Dividend Fund was also able to make significant gains again in the final quarter, with October and November being particularly responsible for this. The traditional year-end rally in 2022 therefore already took place before December. In total, the fund price increased by +15.0 % to € 13.00 from the end of September to the end of December. For the year as a whole, the decline was thus reduced to -11.6 %. This is slightly better than the performance of the large indices such as DAX or EuroStoxx 50 and significantly better than the development of the smallcap or technology indices. The reported performance of the fund takes into account the distribution in April, which corresponds to our annual target distribution yield of 3 % based on the year-end price in 2021. We are also planning a similar

amount for 2022. Calculated on the last year-end price of € 13.00, this would correspond to a distribution of € 0.39.

In response to the positive market dynamics, some stocks were able to make significant gains in the final quarter. The front-runner is Ceconomy (+55 %), which was, however, one of the weakest stocks in the previous year. In addition, SAF-Holland and Takkt (+ 43 % each) as well as Schaeffler (+ 38 %), Cliq Digital (+37 %) and Kion (+35 %) rose disproportionately strongly. The fund suffered a slightly negative performance from only four stocks. In the case of Quadient (-3 %) and Lenzing (-2 %), company-specific news was responsible for the weak share price performance. It should be noted that Orsero (-9 %) and BIC (-1 %) had clearly outperformed the market so far in 2022. Despite the declining performance in the fourth quarter, both stocks, with a plus of +35 % (BIC) and +12 % (Orsero), are among the holdings with a positive full-year performance from the positions existing on 31 December 2022. K+S (+21 %) and Carlo Gavazzi (+14 %) continue to be particularly noteworthy here, as do RHI (+32 %), Kion (+27 %) and Siltronic (14 %), which were only acquired in the course of the year. The fund's weakest performance for the year was in the aforementioned Ceconomy (-51 %). In addition, EMAK (-45 %), Servizi Italia (-43 %), Polytec (-33 %) and Semperit (-32 %) were disproportionately weak.

The number of investments in the portfolio fell by one net position to 38 in the quarter under review. The following transactions were implemented in the last three months: We sold Eutelsat completely after the company announced the suspension of the dividend payment in connection with the OneWeb merger as part of a strategy update for three years instead of the previously communicated two years. In addition, the remaining partial position in Francotyp-Postalia was sold after the recent pleasing share price performance. In principle, we still saw further share price potential here, especially since we were able to validate the operational improvements in our last management meeting. However, we had been counting on a timely resumption of dividend payments for the 2022 financial year, which we do not believe will materialise yet. Furthermore, after temporarily increasing our stake in the existing Dr. Hönle investment, we sold the entire position in December after the company announced that it would not be able to pay a dividend for the past financial year. Despite significantly improved earnings prospects for the new financial year 2022/23, we also analysed a risk of a further dividend shortfall. In addition, the fund disposed of around half of its existing BIC holding in October. Until then, the share price had performed extremely well over the course of the year, rising by around +40 %, so that the position size steadily increased in a simultaneously weak capital market environment. Therefore, we had already made partial sales in the third quarter. We invested the freed-up funds in equally attractive business models that promise the fund attractive dividend income already in the coming year.

We invested again in a well-known company, which had been one of the fund's largest positions for about 8 years since the beginning of 2009 and was even the top 1 investment in some cases. The Austrian RHI, which has been operating under the name RHI Magnesita N.V. since the merger with the Brazilian Magnesita, is the leading global supplier of refractory products, systems and services used in industrial high-temperature processes with a market share of about 15 %. The products are consumables, some of which have a short life time, and are essential for the production process of steel, copper, cement, glass or aluminium. With the Swiss company HBM Healthcare, we have also added a rather untypical stock to the portfolio. HBM is itself an investment company that invests in various sectors of the healthcare industry and holds an international portfolio of promising companies in the fields of human medicine, biotechnology, medical technology and diagnostics, as well as related areas. The portfolio is balanced between listed and unlisted companies, including individual private equity funds. There is also a broad diversification between therapeutic applications, stage of clinical development and regional distribution. The company has a clearly formulated dividend policy, which provides for a dividend yield in a range between 3 % and 5 %. The share price has fallen

by almost 50 % from its interim high in 2021 and is currently trading around 20 % below the reported net asset value as at 31.12.2022. We decided to invest in HBM primarily in view of its dividend strength and management's track record over the past 20 years, as well as the diversification potential for the portfolio. In addition, we further expanded our existing holdings in Siltronic, K+S, Quadient and Traton at low prices.

Following the transactions described and pleasing inflows at the end of the year, the liquidity ratio is around 11 % as at 31 December 2022 (31 December 2021: 2 %).

The valuation of the companies, based on a normalised environment, is currently extremely favourable. Even taking into account slight recessionary trends, we see considerable potential for many of our investments to reach fair value - in some cases share prices would have to more than double. We therefore remain patient and will not let ourselves be driven crazy.