VALUE-HOLDINGS
Capital Partners AG

FUNDS REPORT

3rd Quarter 2022

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1. Stock market development

2022 is not the year for equities. The German stock index DAX lost 23.7 % in the first nine months and closed at 12,114 points at the end of September. By definition, the stock market is in a bear market with losses of more than 20 %. This is also indicated by the development from the beginning of July to mid-August. During this recovery attempt, the DAX gained more than 10 % and rose to almost 14,000 points. However, the old high from the second quarter was not reached. And as is often the case in downtrends, prices fell to a new low for the year by the end of September after a drop of around 2,000 points. Looking at the German stock market as a whole, it is noticeable that small and mid caps have performed even weaker. This can be seen in the -36.3 % decline of the MDAX and the -35.9 % decline of the SDAX. The development of European shares, measured by the EuroStoxx 50, was similar to that of the German market. The leading European index lost 22.8 % by the end of September and thus only marginally outperformed the DAX.

The arguments for investor reluctance are the same as in the previous quarter. High inflation, to which the central banks are reacting with interest rate hikes, disrupted supply chains with a lack of material availability and rising prices, high energy costs and concerns about energy rationing in winter. But the stock market looks into the future, usually between six and nine months. Then we are in the summer of 2023. How far will the stock market fall, or has most of it already been priced in? The energy crisis should be over by then. Globally, there is no shortage of oil or gas. The task now is to replace the lost Russian supplies with other suppliers and to create the necessary infrastructure. Supplies from Norway, Belgium and the Netherlands have already increased significantly and almost compensate for the lack of Russian supplies. The commodity exchanges have already reacted to this, the price of oil has fallen by around 30 % from the highs in March and June and the price of natural gas has halved from the high at the end of August. However, the price of gas is still around three times higher than the average for 2021, which is now also affecting consumer sentiment. The amounts paid for oil, electricity and gas bills are no longer available for other consumer goods, whose prices have also risen significantly. Due to the onset of consumer restraint, a decline in demand can already be seen in some sectors, which is likely to lead the economy as a whole into recession. How long the central banks will maintain their tight interest rate policy remains to be seen.

A reluctance to buy on the equity investors side can be seen in European, but especially in German equities. The valuation of German shares as measured by the MSCI Germany compared to the MSCI Europe has fallen to its lowest level in more than 30 years. The indicator developed by Morgan Stanley consists of a combination of price-earnings ratio, price-book ratio and dividend yield. We conclude from this that German shares in particular are very attractively valued when looking beyond the horizon. The order books of many companies are still surprisingly robust; moreover, rising costs can be passed on to customers through higher prices. Even if profits are likely to fall for a few quarters in a recession, it should soon be possible to exceed the previous profit level in the next upswing. We do not know when and at what level the lowest prices on the stock markets will be reached. However, we are convinced that it will be profitable to invest in excellent companies with a good market position in the current downturn, because the stock markets will find their bottom before earnings reach the bottom.

2. Value-Holdings Deutschland Fund

The Value Holdings Deutschland Fund lost significant value in the 3rd quarter. Investors' escape from equities has meant that the prices of quality stocks have also come under pressure. As a result, the price of a fund unit fell to € 3,301.31 as of 30 September 2022. With a decline of 24.9 % since the beginning of the year, the fund has performed more or less like the DAX. In view of the weak development of small and mid caps, the fund has suffered particularly as only about 20 % of the fund volume is invested in large caps, while about 30 % is invested in mid caps and 50 % in small caps.

Due to the price decline on the stock market, the individual securities in the fund saw predominantly negative performance in the first nine months. The largest share price declines were suffered by q.beyond (-61 %), SAF-Holland (-51 %) and Deutz (-50 %). We sold q.beyond completely in spring 2021 after the price had almost doubled, but then bought it back too early after the subsequent price decline. The company is well positioned in the future areas of cloud, IoT and SAP services. However, due to ongoing Corona-related access restrictions at customers, especially in the cloud business, some projects have been postponed, so that the turnaround expected for 2022 had to be postponed. At the beginning of this year, SAF-Holland had prepared investors for a decline in profits in the 2022 financial year due to sharply increased costs for raw materials, logistics and personnel. However, due to the good business performance during the second quarter, the board was able to raise the annual forecast again in August. Investors do not seem to care, the share could hardly recover from its lows. Many market participants are apparently still sceptical about the takeover of the Swedish Haldex AB, a manufacturer of brakes for commercial vehicles. They fear recession-related falling profits, which could significantly worsen the financial ratios given the temporary increase in debt after the takeover. However, we believe that SAF-Holland and Haldex complement each other well and will become a global champion for chassis-related commercial vehicle systems. In a more favorable economic environment, this will allow the company to grow into a significantly higher level of sales and earnings. We therefore continue to take advantage of low share prices to add to our position. At Deutz there has been no significant news in the past three months either. Demand for engines, especially from the construction equipment industry, is cyclical, which is currently keeping many investors from investing in Deutz. However, we believe that the share has already been punished too much and see the depressed prices as a good opportunity to buy further.

The only winner in the third quarter was Hochtief. The share had come under pressure in the preceding months as the major Italian shareholder Atlantia (Benetton family) put its stake of around 16 % up for sale. After the Spanish majority shareholder ACS reported in September that it had bought Atlantia's stake, the share price recovered significantly. As Hochtief is mainly active in the infrastructure business in America and in the commodities sector in Australia, a recession in Europe should hit the company less hard than, in particular, construction companies in Germany that specialise in residential construction.

We used the price declines on the stock market, especially from mid-August to the end of September, to increase some of our positions at favourable prices. We have increased by half our position in Siltronic, which was still small at mid-year. We made small acquisitions in the chemicals stocks BASF, Evonik and Lanxess, which have recently come under pressure, as well as in HeidelbergCement, KION, Deutz and Traton. The only position we have built up completely new is Takkt. This is a company well known in our portfolio. We sold all shares of Takkt in May at a price of just under € 16. Now "Mr. Market" made us an offer to buy back the shares at prices below € 10, which we could not refuse. The company's management probably also believes that the share is undervalued at this level. Takkt decided at the beginning of October to buy back up to 3 % of the capital for a maximum amount of € 25 million. Furthermore, we sold our entire Henkel position last quarter.

The share had remained surprisingly stable during the recent price declines, although the outlook for the company had clouded over significantly. Due to the limited upside potential, we sold.

As a result of the transactions described, the fund's cash ratio has fallen to 15 % as of 30.09.2022. We expect the equity markets to remain volatile in the coming months. Even if the economy is heading for a recession, there should be good opportunities to buy companies with a robust business model with a high margin of safety. We intend to use the fund's cash position for this purpose. This lays the foundation for future increases in the value of the fund.

3. Value-Holdings Dividenden Fund

The number of portfolio holdings increased by two to 39 in the quarter under review. Dr. Hönle, which was only added to the portfolio in the course of the second quarter, was further increased at the beginning of July. A few weeks later, we were able to sell the entire holding again with a performance of over 25 %. At the end of August, the market then gave us the opportunity to build up another initial position in this stock after the price had dropped significantly within a short period of time. Admittedly, this is not a common approach in our portfolio management. In view of the current volatile markets, we are nevertheless pleased with this successful transaction.

In addition, the Value-Holdings Dividenden Fund invested in Siltronic and Kion for the first time. Both stocks are also included in the Value Holdings Deutschland Fund, where we began to build up the respective positions in the second quarter. We financed the purchases in particular by reducing our largest position, BIC, which has once again become significantly larger in terms of weighting due to its very pleasing performance this year (+39 %). We also sold a small part of our holding in the Italian fruit and vegetable trader Orsero, which, like BIC, has recorded a double-digit share price increase of +27 % so far in 2022. As of 30.09.2022, the stock is still the second largest position. After the significant price losses of the overall market, we also sold the rest of our small market hedge at the end of September in order to create liquidity for further promising long-term investments.

After the transactions described, the liquidity ratio at the end of the quarter is slightly above 2 % (31.12.2021: 2 %).

Apart from the aforementioned BIC and Orsero, there are only a few stocks that have been able to show a positive performance so far in 2022, given the broad weakness of the market. These include, for example, the shares of K+S (+46 %), which benefited from significantly higher potash prices, but whose share price had already been significantly higher during the course of the year. In the case of the majority of the investments, the fund had to cope with price declines, in some cases considerable, in the clear double-digit range. These include Ceconomy, Deutz, EMAK, Fresenius, SAF-Holland, Semperit and Servizi Italia.

We are convinced that the investments in our portfolio will master the coming difficult months and quarters well. Even if we have to cope with declining profits at one or the other company, we expect that our investments will emerge stronger from the crisis. The valuation of the companies, based on a normalised environment, is currently extremely favourable. The potential for many investments to reach fair value is enormous - in some cases share prices would have to more than double. We are patient and will not let ourselves be driven crazy.