VALUE-HOLDINGS
Capital Partners AG

FUND REPORT
2nd Quarter 2024

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1. Stock market development

After the pleasing capital gains in the first quarter, share prices took a breather in the second quarter of 2024. The German stock index DAX reached a new all-time high of 18,869 points on 15 May. However, prices then fell back to 18,235 points by 30 June. Although the DAX fell by around 250 points in the second quarter, its performance in the first half of the year was very pleasing with an increase of 8.9 %. The performance of small and mid-caps continued to be mixed. The SDAX recorded a small gain of 2.6 % in the first six months. By contrast, the MDAX, which had already performed weakly in the first quarter, fell significantly from mid-May in particular and ended the first half of the year with a loss of -7.2 %. The picture on the European stock exchanges was the opposite. The EuroStoxx 50, which includes the highly capitalised European blue chips, recorded an outstanding performance of 12.4 % in the first quarter. It lost a large part of this in the second quarter, achieving a net gain of just 8.2 %. However, the more broadly diversified Stoxx 600, which also includes many medium-sized companies, held up better. It was virtually unchanged in the 2nd quarter and achieved a 6.8 % gain over the 6-month period.

The news situation has once again failed to provide any clear signals for the stock markets in recent months. The outcome of the European elections was probably not surprising overall and, according to current estimates, politics in Brussels are unlikely to change. However, nobody had expected new elections in France in the near future. There is now a risk that a new government, regardless of whether it comes from the left or the right, will put an end to the very business-friendly policies that have been in place to date. This would also be negative for Europe as a whole, as the domestic economy is still very subdued. We have gained some clarity on the central banks' interest rate policy. The ECB has lowered its key interest rate for the first time since 2019. Falling inflation has given the ECB this room for manoeuvre and the sluggish economy in Europe urgently needs this stimulus. Switzerland and Sweden had previously cut their interest rates. With further cuts by the ECB, there is hope that this will revitalise the European economy.

The import duties on Chinese electric cars announced by the EU could be significant for companies. However, the understandable aim of protecting the European market from cheap e-cars subsidised by the Chinese government is likely to be counterproductive: German and European manufacturers would be affected by Chinese counter-tariffs. As Europe currently supplies significantly more vehicles to China than vice versa, import tariffs would do Europe more harm than good. Apart from the automotive industry, the signals are also contradictory in other economic sectors. The construction industry remains weak, the manufacturing industry subdued. There has been encouraging growth in exports in recent months, but consumption has recently deteriorated again. It is to be feared that we still have a bumpy road ahead of us, which will demand a great deal of patience from investors before a broad and stable economic upturn sets in in Europe.

However, the current situation is not unfavourable for equity investments. Many investors are staying away from the stock market altogether due to the uncertainties described above and are therefore missing out on good opportunities. Despite the sluggish economic development, corporate earnings performance is thoroughly satisfactory. The supply chain problems have largely been overcome and companies have managed to pass on cost increases through higher sales prices. And any easing of manufacturing costs, e.g. through lower material prices, tends to increase profit margins. If we succeed in buying these good companies with stable earnings at very favourable valuation factors, this will lay the foundation for a pleasing performance of the funds in the coming upturn.

2. Value-Holdings Deutschland Fund

The Value-Holdings Deutschland Fund has remained very stable over the last three months. The price of unit fell by just 0.2 % to € 4,462.87 between April and June. This corresponds to a performance of 9.0 % since the beginning of the year. We can be very satisfied with this, as we have succeeded in slightly outperforming the DAX, although only 19 % of the portfolio is invested in large caps, while the fund's main focus at around 81 % is on small and mid caps, which have performed significantly worse than the respective indices.

The performance of individual stocks was highly varied in the second quarter. Winners and losers roughly balanced each other out. The three biggest winners were q.beyond, Bauer and Friedrich Vorwerk. Kion, Metro and BASF suffered the biggest losses. At q.beyond, the change in strategy implemented by the new management board, which provides for a concentration on the IT service business, appears to be paying off. Thanks to a slight increase in sales and a significant reduction in costs, q.beyond achieved good profitability at EBITDA level in the first quarter. q.beyond therefore believes it is well on the way to breaking even at net profit level in the medium term. The stock market has rewarded this development with a 42 % rise in the share price. Bauer reported a successful financial year 2023 in which it managed to achieve a positive annual result. As a result, Bauer's share price has risen by 18 % in the last three months. Friedrich Vorwerk continues to benefit from the major construction projects to implement the energy transition and was once again able to secure orders in the three-digit million range. Friedrich Vorwerk shares rose by 15 % on the stock exchange. After being among the winners in the first quarter, Kion share led the list of losers in the second quarter with a 20 % fall in the share price. The management confirmed the annual targets in the quarterly report. However, the order situation in the warehouse automation segment is still weak, meaning that a significant improvement will be required in the coming months in order to achieve the targets. Metro shares fell by 16 %. In this case, investors were disappointed by the weak result in Q2, which was burdened in particular by currency effects. Metro assumes that this will balance out in the further course of the year and has therefore confirmed its forecast. Finally, BASF shares fell by 15 % between April and June. However, half of the fall is due to the dividend payment, as BASF paid out of € 3.40 per share at the end of April, which corresponds to a yield of 7.6 %.

We only carried out a few transactions in the past quarter. The French software group Sidetrade S.A. submitted a takeover bid for the shares of SHS Viveon AG, a Munich-based software company specialising in data management for risk processes, particularly for banks, financial service providers and e-commerce companies. The takeover price offered of € 3.00 represents a takeover premium of around 55 % based on the share price of € 1.92 at the end of the first quarter. We considered the offer to be attractive and sold all SHS shares to Sidetrade. The fall in the share prices of many small and medium-sized companies provided us with favourable entry prices for three new investments in the second quarter. These are Hugo Boss, Wacker Neuson and Sixt, where we bought the preference shares. The business results of Wacker Neuson and Sixt are currently somewhat subdued due to the economic situation. However, we are of the opinion that the price declines for both shares are exaggerated and see high potential if the companies overcome the current weakness in earnings. Hugo Boss, on the other hand, continues to grow in terms of both sales and profits. Investors were only bothered by the fact that the growth rate slowed in the second quarter. We have largely invested our liquid funds through the new acquisitions. The cash ratio fell to around 4 % as at 30 June 2024.

3. Value-Holdings Dividenden Fund

Taking into account the 3 % distribution in April, the Value-Holdings Dividenden Fund also showed a stable performance with only a slight decline of 0.2 % in the second quarter. This results in a performance of 6.4 % to € 15.35 per unit for the first half of the year.

Despite the stable fund performance in the second quarter, the range of performance at individual company level was very broad. There was everything from significant declines to strong growth. The fund also recorded very high dividend inflows. The fund achieved the highest growth up to the complete sale of shares in Ceconomy (+76 %), which reported very pleasing half-year figures and thus more than compensated for the price losses in the first quarter. The second strongest price gains were achieved by Alzchem (+31 %), even without taking the dividend into account, which has thus gained over 90 % since the beginning of the year, including the dividend. Keller (+17 %) continued to perform very favourably, reporting a strong operating performance and thus continuing its positive share price development since the beginning of the year (+42 %). By contrast, the performance of Cliq Digital (58 %) was disappointing, as the company had to reduce its forecast for the year following a weak operating performance. This was the second setback following the suspension of the dividend in favour of a share buyback of the same amount, which had already upset many investors at the beginning of the year. Other losers in the second quarter were Carlo Gavazzi (-15 %), which reported weak annual figures and gave only a cautious outlook. The company also reduced its dividend, although its net financial position continued to rise and now accounts for around a third of the market capitalisation of this fundamentally very profitable company. Although SES (-15 %, incl. dividend) published good quarterly figures, it also announced the takeover of its competitor Intelsat at the same time. In our view, the active consolidation of the satellite industry makes perfect sense, especially as the management expects considerable synergy and positive earnings effects in the near future. However, many investors were expecting special distributions of surplus liquidity and therefore sent the share price into a dive, particularly in April.

We were also very active in portfolio management in the second quarter. In terms of acquisitions, we mainly took advantage of temporary price weaknesses to increase the size of our holdings. This related in particular to Polytec, SES, Swatch and Semperit. In addition, we again invested in Hugo Boss in line with the Value-Holdings Duetschland Fund, after the fund had already invested in the premium fashion retailer once in the past. The preference shares of car hire company Sixt were also added to the portfolio for the first time. In addition to the favourable valuation and high dividend yield, we like the comparatively solid balance sheet structure and strong margins of the family-run premium provider. Sixt's entry into the US market a few years ago is currently its biggest growth region.

The purchases (as well as the 3 % distribution) were financed by a few sales in addition to the available liquidity. We took advantage of the in some cases significant rise in share prices to adjust the position size of some highly weighted holdings. These include Alzchem, Keller and SAF-Holland. In addition, as mentioned above, we sold the entire Ceconomy holding following the strong price increase, although the fair value had not yet been fully reached. In view of the fact that the dividend payment may probably only be resumed for the 2025/26 financial year, we decided to swap the share for companies with higher dividends and more promising prospects. We have also sold our long-standing holding in wine retailer Hawesko. The dividend here has recently been reduced twice and the outlook does not promise any significant improvement in view of the restrained consumer confidence.

We also completely sold our small position in the Italian small cap Neodecortech after a dividend cancellation was announced. The remaining position in Friedrich Vorwerk was also sold after our price target was reached and the dividend yield was also below average.

The fund's liquidity ratio increased slightly from 3 % to 4 % at the end of the quarter 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.