Dear shareholders, dear business friends,

in the last fiscal year our net assets per share fell by 12% (like the DAX). A good half of the decline was attributable to the Russian online bank Tinkoff, whose trading was suspended due to the Russian invasion of Ukraine. Valued at EUR 3 at the end of the year, we had invested EUR 7.5 million for EUR 17 per share. At the end of 2021, the portfolio was still worth EUR 33 million. Tinkoff's forecast net income for 2022 is EUR 4.5 per share - but currently no dividends can be paid to non-Russians.

In 2022, we achieved EUR 14 million in profit from the sale of shares and EUR 15 million in dividend income (of which EUR 5 million as a dividend in kind in shares). We invested EUR 18 million in shares and bought back 66,839 treasury shares for EUR 5.3 million. Due to the decline in prices, our share ratio fell slightly to 76% (from 78%).

We donated EUR 2.3 million to various foundations that promote education and training in Africa, including Raising the Village, Ubongo, Educate!, Smartstart and Kidogo.

The following overview shows the development of our largest positions in the past year:

		Dec 21	Dez 22	YTD Δ
Japan		30	23	-24%
Indien		75	79	6%
Berkshire		20	22	12%
Brederode		24	18	-26%
Ryman		13	7	-48%
Inv. AG TV		20	3	-87%
Summerset		21	14	-34%
TCS Group		33	1	-96%
Grupo Catalana		12	14	15%
Fairfax		20	25	26%
Core Portfolio		268	206	-23%
Other Stocks		115	118	3%
Xetra Gold		41	42	3%
Cash		55	50	-9%
Operating Companies		10	10	0%
Total Portfolio		490	426	-13%
per Share		103	90,7	-12%
Buy-backs cum (p.a.)		2,1	5,3	
DAX		15.885	13.924	-12%

Our largest single position is the Indian financial services provider IIFL Finance, which makes loans to small and medium-sized enterprises, at EUR 30m (7% of the portfolio). The default rate is only 1.3% due to the low lending rate in India (the bank can still choose the customers) and the net interest margin is 8%. The return on capital of 18% could be increased by higher debt: the equity ratio is almost 20% (Deutsche Bank has 4.5%). Many of the 3,600 credit branches are still in the start-up phase. The ratio of material costs is 42% and can still be improved. Net income has grown 19% annually over the past 10 years and the stock price is 14 times net income.

At EUR 25m, Fairfax International is the second largest single stock (6% of the portfolio). Prem Watsa, who has led the Canadian insurer for many years, compares well with Berkshire Hathaway as a value investor. The float (insurance premiums) is 2x the market cap. Thanks to the low damage ratio and SGA costs (only 96.5% in the last 5 years), the float is profitable even without investing the funds. 3.5% yield from the investment is added. Accordingly, the book value per share has grown by 10.5% in the last 5 years - together with the dividend of 1.7%, an increase of 12.2% p.a. We expect that the return will tend to increase due to the higher interest rates. There are also interesting financial investments, for example in India (including Bangalore Airport, IIFL Finance).

Other financial holdings with floats include insurers Berkshire (5% of the portfolio) and Catalana Occidente (3%). Berkshire is trading at 1.5 times book value. This grew by 8% in the last 5 years and by 9.5% in 10 years. The repurchase of own shares due to a lack of suitable buying opportunities (11% of the shares in 3 years) helped. At the insurer Catalana Occidente, almost half of the business (43%) consists of the credit insurer Atradius, the number 2 in the credit insurer oligopoly (together with Euler Hermes and Coface). The margin in the insurance business is correspondingly high. The combined ratio (sum of claims ratio and sales costs) is 90%, a leading position among insurers worldwide. Without credit insurance, many companies would only deliver with advance payment since the supplier usually cannot afford the customer's default. The importance of securing trade is also clear to the governments in Europe, which guaranteed payment defaults by customers right at the beginning of the Corona crisis.

Unfortunately, Catalana did not earn anything by investing the float, since around 90% of it is invested in fixed-income securities, in accordance with European regulations. Since the float is around four times the market capitalization, earnings per share increase disproportionately as interest rates rise. In the short term, the rise in interest rates leads to price losses for securities and a falling book value. Since the securities are usually held until the end of the term, the value is reversed later. The majority family-owned company has increased its book value by 7.5% in the last 5 years - plus the dividend of 3.2%. Over the past 10 years, book value has increased by 12% thanks to higher interest rates in the past. Despite the attractive yield, the company is valued at less than book value.

The prices of two nursing home operators Ryman Healthcare and Summerset (5% of the portfolio together) suffered heavily as investors feared that rising interest rates in New Zealand could have a negative impact on the housing market and the sale of residential accommodation. There is still no sign of a sales crisis since the waiting list for the attractive places is still long. However, it takes longer for old people to sell their residential property to acquire the entitlement to a place in a nursing home. After the death of the inmates, this will be paid back minus (up to) 20%. This float is used to finance the development of further apartments and the operator benefits from the increase in the price of the entitlement. Book value at Summerset has grown 27% annually over the past 5 years, plus it pays a 2% dividend. Despite this, Summerset is trading at just 1x book value and Ryman is trading at 0.7 times. Ryman's book value has grown 15% over the last 5 years and its dividend yield has been 4%.

If you look at our securities portfolio of EUR 323 million as a company, then the valuation corresponds to 9 times the net result - with 10.7% profit growth over the last 5 years and a return on equity of 12.6%. The 40 Dax companies are listed twice as high with an average PE of 17.6 - with 6.4% profit growth in 5 years and a return on equity of 11.4%. In addition, our companies pay an average of 3.6% in dividends, while the DAX companies pay 3%.

The example of our Turkish share Agesa shows that equities can offer good protection against inflation. Even though the lira has almost dropped two thirds in value over the past two years, we have gained value with the stock. To protect themselves from the inflation rate of over 80%, Turks buy real assets, including stocks. First, the flight of foreign investors led to a sharp fall in the share price, from which the share then recovered thanks to domestic demand. Despite earnings growth of 55% p.a. in the last 5 years, the stock is trading quite cheaply with a PE of 9.5.

What did we do wrong last year?

At its peak, Russia's Tinkoff Bank accounted for 8% of our portfolio and the stock traded at 28 times earnings thanks to high growth rates. Nevertheless, we should have sold at least some of the shares here since the allocation was clearly too high in terms of country risk.

Increasing concerns about inflation and low levels of investment in recent years have led us to believe that commodity prices will rise more sharply. We decided to invest 10% of our funds in commodity producers. However, apart from Lundin Energy, we did not find any good capital allocators. Otherwise, we only took small, risky bets, such as the world market leader for uranium Kazamtom from Kazakhstan. So, we invested too little. Only late did we start investing in ETFs from producers. In this respect, we largely missed the price increase of the commodity producers.

The worst thing about investing is the missed opportunities. Last year, this included (Transfer-)Wise and Booking. We waited for even sharper price declines and thus missed out on entering the market at attractive conditions last year.

We value openness and look forward to your comments and suggestions for improvement. We are always grateful for transaction proposals.

Kind Regards

Reimar Scholz
Chief Executive Officer