ACATIS

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11 May 2023

Update on the ACATIS Fair Value Modulor Vermögensverwaltungsfonds

(data as at 28 April 2023)

Since the beginning of 2023, the ACATIS Fair Value Modulor Vermögensverwaltungsfonds has put in a rather moderate performance that does not appear to be satisfactory at first glance. Market uncertainty has pushed down prices, although this weakness cannot be derived from the fundamental quality of the invested securities.

Markets are nervous

The current situation cannot be easily explained by examples from market history, therefore the market is unsettled. The constellation of inflation and quickly-rising interest rates on the one hand, and good economic data and labour market shortages on the other hand, presents a novel situation.

Indicators of uncertainty

1. Inflation is still high. Perceived inflation is actually higher than measured inflation.
2. Short-term interest rates are higher than long-term rates. That happens approximately every ten years and is a precursor of a recession.
3. Market movements are concentrated on just a few stocks. The so-called market reach is lost.
   In the S&P Index, 3% of stocks accounted for 97% of this year's performance. In the past, such a concentration on a few stocks was often an indicator that the boom was coming to an end.
4. In Europe, liquidity is about to be tightened as ECB programmes run out.
5. In the US, there is the risk of default if the federal government debt limit is not raised.
6. Based on our philosophy, the stress of other investors always creates investment opportunities for us. Stocks transfer from shaky hands to firm hands.

1. We have hedged against inflation risks. That makes us unique in the market (as far as we know). We will benefit if inflation continues to rise. We are expecting an inflation rate of 4%, and we make money for the fund with 50x leverage as of a rate of 2.5%. Additionally, stocks always offer good protection against inflation, because companies can increase prices and thus pass on inflation. That is not possible in the case of bonds.

2. With the two Steepener Notes, we anticipate that the yield curve will normalise. This has always happened so far. We can generate yields of 4 - 10%.

re: 3. We are fully hedged in the equity portfolio. Since the indices are dominated by a few stocks, the hedges do not have a lot of impact at the moment.

re: 4. We have increased the proportion of interest-bearing securities (e.g. by buying convertible bonds).

re: 6. With the "Wild 13", we commissioned a product that is supposed to convert the favourable valuations of 13 "boring" stocks into performance with strong leverage.

The fund's performance was weak, but we are not concerned.

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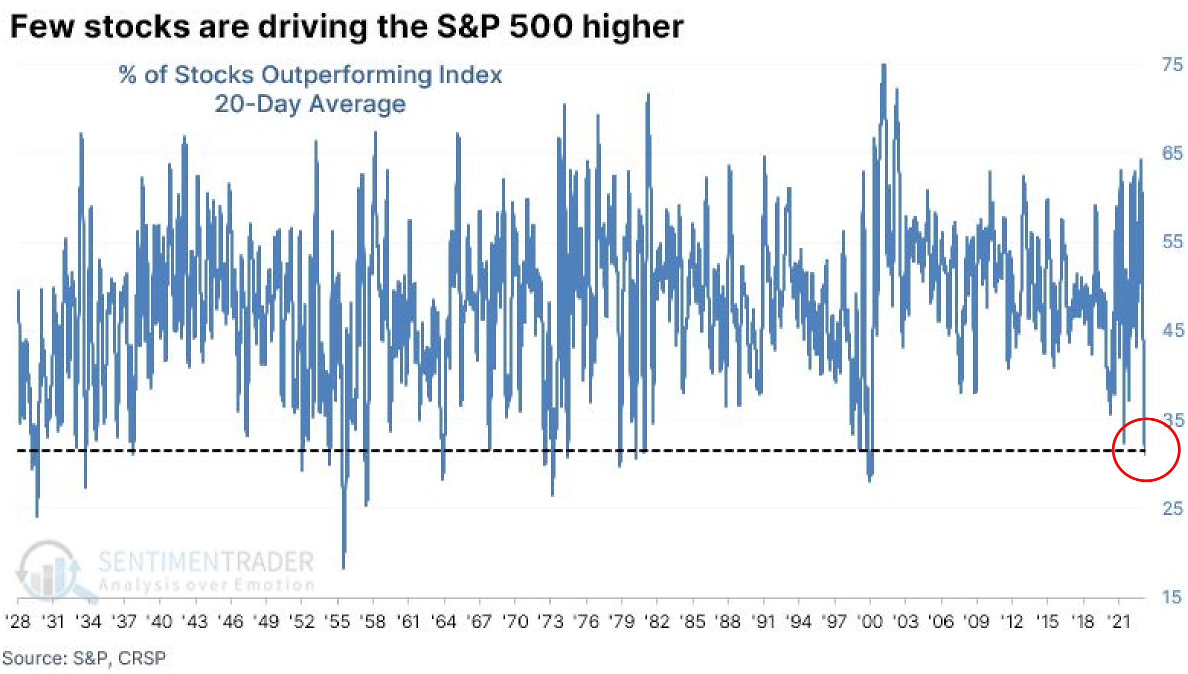
Our Article 9 sustainability approach does not allow certain investments

Yes, there are obstacles in the investment selection process, but they only concern us temporarily. Since the start of the year, the indices have been driven by a few highly-capitalised stocks from the IT sector, primarily Microsoft, Apple, Amazon, Alphabet, Meta Platforms, Oracle, Alibaba, Tencent and Baidu. Fund manager Dr. Leber cannot invest in these stocks for sustainability reasons. The strict sustainability approach used by our Article 9 funds currently excludes these stocks, mainly because the tech titles have issues with human rights violations and social standards in the supplier chain.

To illustrate, see the graph below:



However, the fund does include other IT stocks that are doing just as well on a fundamental level but are ignored by the market. The IT sector is definitely represented in the ACATIS Fair Value Modulor Vermögensverwaltungsfonds (17.5%), but these stocks did not make such a big contribution to the development of the index, e.g. Nvidia (weighting: 3.90%, performance +83.6% ytd), Salesforce (weighting: 2.09%, performance +44.6% ytd) and TSMC (weighting: 1.50%, performance +10.0% ytd). So far this year, Nvidia has been the best performer with a contribution of 1.7%.

Temporary handicap for small/mid cap stocks

Given the uncertainty about interest rates and economic activity, investors are seeking refuge in the big names. However, the ACATIS Fair Value Modulor Vermögensverwaltungsfonds intentionally invests in the range of the entire market, with the expectation of identifying long-term growth trends. Small and mid cap stocks did not have a chance in this market environment. But that is just a snapshot: we believe (and observe) that smaller companies have much more upward potential than the big names, and we maintain our strategy of investing in the entire breadth of the market.

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No reason for concern in this portfolio - here are some stocks that have done really well this year, and which confirm the broad diversification (as at 28 April 2023)

- Nvidia +83.6% - the engine behind many of the developments in artificial intelligence
- Daldrup & Söhne +91.2% - geothermal heat from Germany
- Salesforce +44.6% - the sales system for corporations
- Schrodinger +52.7% - accelerating pharmaceutical research with molecule modelling
- Sixt Vz +32.3% - mobility from Germany
- Infineon +16.8% - electronics for the electric car
- Fresenius Medical Care +44.1% - dialysis
- Skyworks Solutions +13.0% - mobile communication
- Brookfield Renewable +18.7% - renewable energy from Canada
- Taiwan Semiconductor +10.0% - the world's leading chip manufacturer
- Nibe +15.8% - heat pumps from Sweden
- INIT AG +25,7% - control technology for public transport
- Zoetis +16.5% - global market leader in veterinary medicine

The weightings of these stocks range from 4% (Nvidia, no. 3 in the fund) to 0.5% (SIXT Vz.). Currently, there are 84 stocks in the ACATIS Fair Value Modulor Vermögensverwaltungsfonds portfolio; the largest position is the GS Inflation Linked Note with a weighting of 5%.

Performance contributions

So far this year, one stock delivered a strong positive contribution to performance (Nvidia; +1.7%), while another generated a very negative contribution (BioNTech; -1.2%). The remaining positions delivered slightly positive or negative performance contributions, which mostly cancelled each other out.

Comparison with the ACATIS Value Event fund

As an Article 8 fund, the ACATIS Value Event fund can invest in these highly-capitalised IT stocks. Microsoft, Apple, Alphabet and Amazon alone account for 18.15% of the fund, which goes a long way towards explaining the difference in performance this year.

GS Inflation Linked Note

GS Inflation Linked Note 2022-2027: (weighting: 4.93%, performance +1.2% ytd).
As of an inflation rate of 2.5%, we are at break-even (after costs) and we profit from higher inflation rates with a leverage of 50. Currently, the market expects that inflation rates will come down considerably, although Dr. Leber still anticipates that inflation will stabilise at 4% in the medium term.

Hedging: Buy on 3 March 2023

The bear put spread for the S&P 500 Index 15 December 2023 delivered a marginally negative performance contribution of -0.2%, while the same spread for EUROSTOXX 50 15 December 2023 generated -0.1%, for a total of -0.3%. The reason being that the long puts gave up more and had a higher weighting than the short puts, which are doing very well but were not able to make up for the losses of the long puts. At this time, the short puts are hedged, hence the equity portion of the portfolio is fully protected.

Steepener Notes

Market turbulences with anomalies are a good time to pick out the winners. Accordingly, fund manager Dr. Leber added two Steepener Notes to the ACATIS Fair Value Modulor Vermögensverwaltungsfonds at the end of February and the beginning of March 2023, in order to profit from a normalising yield curve.

Explanation: The two issuing banks (National Bank of Canada, Raiffeisenlandesbank Oberösterreich) each launched a Steepener Note certificate with a term of eight years. The yield spread of the Eurobond (20 years minus 2 years) is bought for this certificate. Because of the inverse yield curve, the spread is negative at the moment. A coupon of 4% is guaranteed in the first two years. Since we expect the yield curve to normalise again as of the third year, a coupon equal to the yield spread 20 years minus 2 years with a leverage of 5.5 / 6.7 is paid as of that time, up to a maximum of 10% per annum.

BioNTech ADRs: (weighting: 3.28%, performance -26.5% ytd).
The "COVID-19 vaccination hype" phase is over, and the market has lost interest in BioNTech. In terms of investor perception, BioNTech had always received less attention than its 50% partner Pfizer, and now it has completely disappeared from view.
However, the company actually boasts a very promising product pipeline in both segments, e.g. both for vaccines and cancer treatments. In the vaccine segment, new vaccines are being developed against malaria, HIV, herpes and shingles. In the cancer segment, BioNTech has three innovative technology platforms, i.e. standardised immunotherapy, use of the body's own cancer antigens, and personalised cancer therapies. "The latest news about BioNTech's successes regarding pancreatic cancer confirm our positive assessment. Even if just one or two medications hit the market, that would be a huge success!" (Comment by Dr. Leber on 9 May 2023).

Valuation: Projecting the Q1 2023 results over the entire year of 2023, BioNTech will generate sales revenues of approximately USD 5 billion and profits of approximately USD 2 billion. Liquidity is approximately USD 20 billion. In the market, the company is currently valued at USD 26 billion, which corresponds to a 2023 P/E ratio of 13x. If we remove liquidity, the technology would be valued at USD 6 billion, with a profit of 2 billion - a P/E ratio of 3x.
Conclusion: According to Dr. Leber, BioNTech is still "one of the world's best biotech firms" (cited in Fonds und Fakten: ACATIS Aktien Global - Buffett 2.0 - eine Bilanz, from 09.05.2023), and it is also very competitively priced.

New investments in Q1 2023
- Convertible bonds - they have fallen out of fashion and out of the price corridor. This means that they have become extremely attractive, as they are currently generating yields of up to 10%.
- 3.950% Grenke bond from 9 July 2025 - a special offer from a broker, spontaneously purchased at a good price with a yield of approximately 7%.
- Steepener Note - because the yield curve will normalise again - probably between 4% and 10%.
  Yield for eight years - as described above.
- Befesa - formerly Berzelius Umweltservice. Removes the slag that is left over from the production of green steel in electric blast furnaces. Dozens of new locations around the world are planned, since they are more environmentally friendly than conventional blast furnaces.
- Alk-Abello - global market leader in the fight against allergies. Especially well-suited for children.
- X-Fab - performance electronics for the electric car.
- Hedging - manual hedging started again at the beginning of March 2023 and is now in full running mode.

Through investments in different asset classes, broad diversification, participation in innovative and long-term profitable issues, along with opportunity-oriented weightings, fund manager Dr. Leber strives to generate stable value growth.