ACATIS GANÉ Value Event Fonds UI (WKN A0X754)

Investment Report June 2012 **Aschaffenburg, 5th July 2012**

We invest in winners. That means we invest in strong companies that create value for their shareholders with sustainable business models, solid balance sheets and high margins. We keep the risks low and invest when our position is fuelled by a positive event. We refer to that as the combination of value and event.

The value of liquidity

Most institutional investors' flexibility is limited by the fact that they must be fully invested all of the time. Their portfolios are the result of a search for relative attractiveness. On the other hand, investors such as us, who expect an absolute expected rate of return of 10% p.a. for stocks and 6% p.a. for longer-term debt securities will only invest when investments meet the required criteria. We are only fully invested when there are numerous opportunities that are too good to turn down. Otherwise we will hold a variable amount of liquidity and will wait patiently until we can use it. This distinguishes us from top-down investors who hold liquidity for timing reasons. They use it to form their assessment regarding future market developments.

The opportunity costs of non-available liquidity can be considerable, because a highly-volatile market offers attractive buy or sell opportunities. People with liquidity can take advantage of stock market meltdowns as occurred in 2011. On the other hand, those who are fully invested are not only forced to cope with higher discounts on their portfolios; they are also robbed of an opportunity to exploit low share prices for buying opportunities. The mathematical disadvantage becomes obvious when Investor A is invested 100% in the market and loses exactly 30% during the crash of 2011. After that, he must generate a return of 43% to achieve his starting level of 100%. Investor B, on the other hand, is only invested 80% in the market and also loses 30%, assuming an equivalent and market-neutral selection of securities. He holds the remaining 20% in liquidity without interest, which he presumably reinvests when the market hits bottom. If the market now actually rises by 43%, Investor B has an 8.6% pecuniary advantage over Investor A. Thus Investor A would have to have 1.086 times the capital of Investor B at the beginning to end up with the same amount of assets at the end. To achieve this 1.086-fold advantage with a 100% degree of investment as compared to an 80% degree of investment during a stock market boom, the stock market must rise by 66% in the time before the crash. This amount rises to 74% if Investor B is able to generate a return of 5% on liquidity with short-term investments.

$$100\% \cdot x = 1.086 \cdot \left(80\% \cdot x + 20\% \cdot 1.05\right)$$

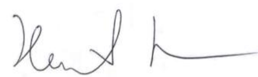
$$x = 1.086 \cdot 0.8x + 0.21 \cdot 1.086$$

$$x \cdot \left(1 - 1.086 \cdot 0.8\right) = 0.21 \cdot 1.086$$

$$x = \frac{0,.1 \cdot 1.086}{1 - 1.086 \cdot 0.8} = 1.74$$

This example is based on assumptions that cannot be fully implemented in reality. But it is nevertheless included to help our investors understand why we sometimes decide to hold liquidity: Just as during the 2011 crash, we want to be in a position to take advantage of investment opportunities on the capital market that meet our rate of return criteria.

Sincerely yours



J. Henrik Muhle Dr. Uwe Rathausky

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