ACATIS GANÉ Value Event Fonds (WKN A0X754)

Investment Report February 2020 **Aschaffenburg, 5th March 2020**

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

Not long ago, the mood was one of celebration. Then came sheer panic and we witnessed one of the most rapid reversals in sentiment on the stock markets of all time.

"No one can tell you when these will happen. The light can at any time go from green to red without pausing at yellow. When major declines occur, however, they offer extraordinary opportunities to those who are not handicapped." (Warren Buffett, 2018)

If we were always 100% invested, we would not only have to absorb even greater price declines, but we would also be deprived of the opportunity of taking advantage of low purchase prices resulting from broad-based sell-offs.

"When times are really tough, everything is correlated." (Bruce Berkowitz, 2009)

As a result, to achieve our fund's objective of delivering equity-like returns with reduced volatility, we are fully invested only when we find a large number of compelling opportunities. Other than that, we exercise patience. We can see just how high the opportunity costs of a lack of liquidity can be if we take the example of Investor A, who is 100% invested in the market and loses exactly 30% in a crash. Investor A must then generate a 43% return in order to restore the portfolio to its original level. Investor B, on the other hand, is only 70% invested and, with identical, market-neutral security selection, also loses 30%. The remaining 30% is held as liquidity with a penalty interest rate of -0.6%, which is assumed to be reinvested at the market trough. If the stock market actually rises by 43%, Investor B has a 13% financial advantage over Investor A. This means that Investor A would have to have 1.13 times the initial capital of Investor B in order to have the same amount of assets in the end. To be able to achieve this while being fully invested as compared to being 70% invested during the upward trend, stock market prices would have to have increased by 61% in the period prior to the fall in prices (x = 1.61).

$$100\% \cdot x = 1.13 \cdot [70\% \cdot x + 30\% \cdot 0.994]$$

The example is only a model. We have neither a market-neutral portfolio nor the predictive power to deploy liquidity at precisely the bottom of the market. However, the more severe a crash is and the more often such events occur, the greater the probability that Investor B will gain a material advantage over Investor A. This is why we maintain liquidity, sometimes in abundance. And we use it counter-cyclically. We are willing to do the same in this crash as well. This is because the historically large yield advantage of equities over fixed-income investments, the abundance of liquidity available in the markets, the prospect of further economic stimulus programmes and an even more expansive monetary policy in response to the global economy, which has been badly hit by the coronavirus pandemic in the short term, all speak in favour of such an approach.

Sincerely yours

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