ACATIS Value Event Fonds (former ACATIS GANÉ Value Event Fonds) (WKN A0X754)

Investment Report May 2023 **Aschaffenburg, 5th June 2023**

We invest in winners. This 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

Central banks have raised key interest rates sharply in the fight against inflation. The yield on one-year US government bonds now stands at 5.2%. For one-year German government bonds, it is 3.2%. Cash depositors are happy about this even though it is not enough to preserve capital in real terms, but it is a heavy burden on the economy and on financial stability. At the same time, positive sentiment is currently driving the stock market. But don't be fooled: Temporary downward volatility may occur at any 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 in downward phases, but we would also be deprived of the opportunity of taking advantage of low purchase prices. As a result, to achieve our balanced 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 market downturn. 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 positive interest rate of 3%, which is assumed to be reinvested at the market trough. If the stock market actually rises by 43%, Investor B has a 14% financial advantage over Investor A. This means that Investor A would have to have 1.14 times the initial capital of Investor B in order to have the same amount of assets in the end. In order 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 74% in the period prior to the fall in prices (x = 1.74).

$$100\% \cdot x = 1.14 \cdot [70\% \cdot x + 30\% \cdot 1.03]$$

This type of rally is rather unusual. The example above 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 downturn 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 like using it counter-cyclically. In recent weeks, we have taken advantage of the positive stock market sentiment to once again increase our liquidity position.

Sincerely yours

J. Henrik Muhle Dr. Uwe Rathausky

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