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6 July 2021

## Investor Letter 17

Dear Investors,

Starting with the next quarterly letter, we will communicate with a new look and feel. More on this change later in Section 4.

Q2 2021 marks another good quarter for the fund. The NAV rose by +5.9% in the quarter and +12.8% YTD. The MSCI Europe Small Cap rose in the preceding quarter by +5.3% and +10.3% YTD. The current market environment could be categorised as highly synchronised with low attention spans; by ‘high synchronisation’ we mean that investors seem to pay attention and react to only a very limited number of events. These include rising raw material prices, the interest rate policies of central banks, and Elon Musk’s tweets. This in combination with a short attention span leads to fast and intense price movements, which always creates interesting opportunities for more patient investors.

On June 16, Fed chief Jerome Powell requested that the word “tapering” be banned from future rate discussions. The availability of liquidity remains elevated and the technology sector – among others – welcomes the easy monetary policy. Emblematic of this is the investment tempo in the venture capital space: After having raised a \$3.75 billion fund in 2020, Tiger Global stunned by quickly closing on another \$6.7 billion in 2021. Tiger and other new VC investors are gaining a reputation for outbidding the field. Tiger can deliver a term sheet within 48 hours, a remarkable speed for diligence and capital deployment. It seems that Softbank’s model has an imitator.

One of the most essential management skills remains signaling to investors that liquidity can be deployed in a large addressable market. As a traditional value investor, one is inclined to classify this dynamic as bubble-like. We are embracing this reality. Felix recently published a couple of articles on tactics and strategies in this liquidity environment: Company-level dynamics on May 27 in "[Liquidity wars](#)". Central bank level dynamics and conclusions for the broader capital market environment on June 16 in "[Who's paying for this prosperity?](#)".

## Section 1: Performance Q2 2021

The quarterly performance was **+5.9%** versus **+5.3%** for the MSCI Europe Small Cap index.

### Portfolio updates

In the previous quarter, two portfolio companies engaged in meaningful, value-enhancing M&A transactions.

**Craneware plc** (market cap £ 720 mil.) Exactly one year ago we announced the fund's new position in this Scottish provider of hospital software. The company focusses on the cost and sales analytics of the internal processes of hospitals. Craneware is therefore deeply ingrained in its customers' operating systems. It manages the so-called chargemaster file, a ledger for all available hospital services. Craneware's main market is the USA; it serves 2,000 of the 6,000 hospitals in America. We last spoke with CEO Keith Neilson in March and discussed Craneware's current strategic situation. Just a few months later, the company announced its major acquisition of Florida-based Sentry Data Systems. Sentry is the US-market leader providing SaaS support for 340B systems: government programs that subsidise the cost of medications for disadvantaged citizens. We see the strategic fit as high. The business model of Sentry enjoys high barriers to entry. The purchase price of \$ 400 mil. brings Craneware additional sales of \$ 90 mil. and \$ 23 mil. EBITDA (2020e). Post-integration, the combined business could achieve total sales of \$ 200 mil., EBITDA of \$ 60 mil. and EBIT of \$ 50 mil. in two years.

**Polski Bank Komorek Macierzystych SA (PBKM)** (market cap € 180 mil.) Based in Poland, PBKM is Europe's leading umbilical cord blood bank. Sold to consumers via a subscription-based model, the core service stores a newborn baby's stem cells for use later in a variety of potentially life-saving therapies combatting potential illnesses such as ALS and leukaemia. The fund initiated its position in PBKM in 2018 after meeting the senior management team. Practically in parallel, activist investor AOC acquired a meaningful stake in PBKM and holds 62% today. AOC also holds 37% in German competitor Vita34 AG. At the end of May, PBKM agreed to merge into Vita34. The fund will receive 1.3 Vita34 shares per PBKM share. The transaction is to be closed in October. The enlarged Vita34, now the undisputed European market leader, will continue to be listed in Frankfurt. Year-to-date, PBKM shares have gained 23%, more than double the MSCI Europe Small Cap Index's growth of 10%.

**JDC Group AG** (market cap € 190 mil.): With the company's roots in insurance and financial product sales, JDC always had close ties to linked advisers and insurance reps. When the company was faced with the complexity of managing countless different insurance products, it developed a software to manage and track them all. From this necessity sprung a new business unit, JDC Advisortech. Now that software platform is being successfully marketed to third party insurance brokers such as savings bank union „Provinzial“ as well as new app platforms like „Finanzguru“. As JDC has mastered initial challenges of scalability, strong scale benefits are now playing out. As sales increased 10-15% p.a., EBITDA grew by 20-30% p.a. For 2021, JDC is forecast to generate sales of € 140 mil. and EBITDA of € 7 mil. Management sees a huge market potential for its bespoke software. CCA initiated a monitoring position in August 2018 and later increased it to >2% during the corona-crash. Since then, the JDC stock price has doubled, and the fund's allocation has grown proportionately.

## Section 2: Portfolio positions

The current top 10 positions in the fund are...

Firm	Weighting	Business
SLM Solutions Group AG	10.1%	Manufacturer of 3D printers
Modern Times Group Mtg AB	7.7%	Operator of e-sports league (ESL) and mobile gaming dev. studios
McBride plc	7.4%	Private label household cleaning products
M1 Kliniken AG	7.0%	Private clinic chain providing beauty procedures
Naked Wines plc	5.4%	Online wine club in the UK and USA
PBKM SA	5.2%	Polish umbilical cord blood bank
CareTech Holdings PLC	5.0%	UK's leading private provider of adult care services
Amadeus FiRe AG	4.9%	Job training, recruiting, and staffing agency
Zooplus AG	4.5%	Online pet supply retailer
init innovation in traffic systems SE	4.4%	Software & ticketing for public transportation providers

Important new positions in the fund are...

Firm	Weighting	Sector	Country
JDC Group AG	4.3%	Financial services	Germany
Fabasoft AG	4.1%	Software	Austria

**JDC Group AG** (market cap € 190 mil.) see above.

**Fabasoft AG** (market cap € 450 mil.) We first mentioned Fabasoft in our sixth quarterly letter in October 2018 when the fund initiated a small position in the company. Fabasoft offers a dozen digital solutions for administrative processes and documentation requirements. For the fiscal year ending 31 March 2022, € 60 mil. in sales at a 25% EBIT margin are expected. The customer base consists mainly of government agencies, especially in Germany and Austria, where the company is based. In November 2017, Fabasoft won a leading role in „Projekt e-Akte Bund“ the digitisation of German government agencies. Since then, the company has expanded its software offerings to include new private sector customer groups, expanding the addressable market size. Fabasoft is a master of the trojan horse strategy: sell a new customer one solution, and then cross-sell all the others. Currently, the trojan horse is „Fabasoft Approve“, a tool to streamline technical documental and approval processes. Also notable is the company's top-up in its shareholding of high-growth subsidiary Mindbreeze from 76% to 86%. Assuming continuation of its torrid growth trajectory, Mindbreeze could be sold or separately listed for an EV/sales multiple 15-20x (compared to c. 7x EV/sales at group level).

Exits ...

In the current quarter we closed two core positions

**Intertrust N.V.** (market cap € 1.4 billion) CCA held this position nearly since the launch of the fund. For nearly four years, CCA benefitted from >4% dividend yields generated by the strong

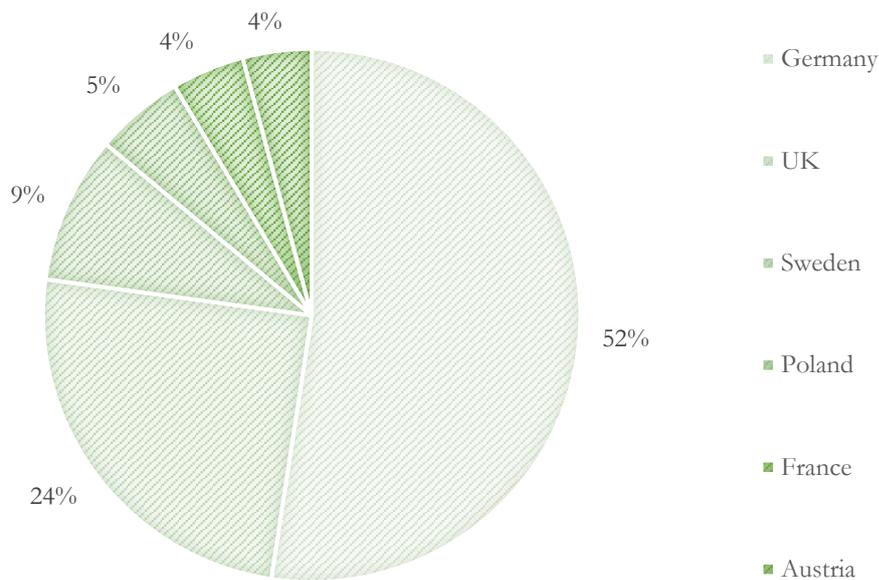
free cash flow generation of this provider of essential administrative services for funds and corporates. However, the nascent initiative of the American government to implement a global minimum corporate income tax rate potentially presents a new challenge to one important aspect of this sector's business model: helping global customers minimise taxation. As a matter of prudent risk management, we closed the position.

**Frequentis AG** (market cap € 350 mil.) In mid-2019, the fund took a pre-IPO stake in this Austrian provider of digital communication hardware and software for civilian and defence aviation as well as security and safety organisations such as police and fire departments around the world. However, Frequentis also works for the US drone program of the US Navy. In compliance with our commitment to the UN Principles for Responsible Investing (UNPRI), which CCA signed last year, the fund shall have no further touchpoints with military drones.

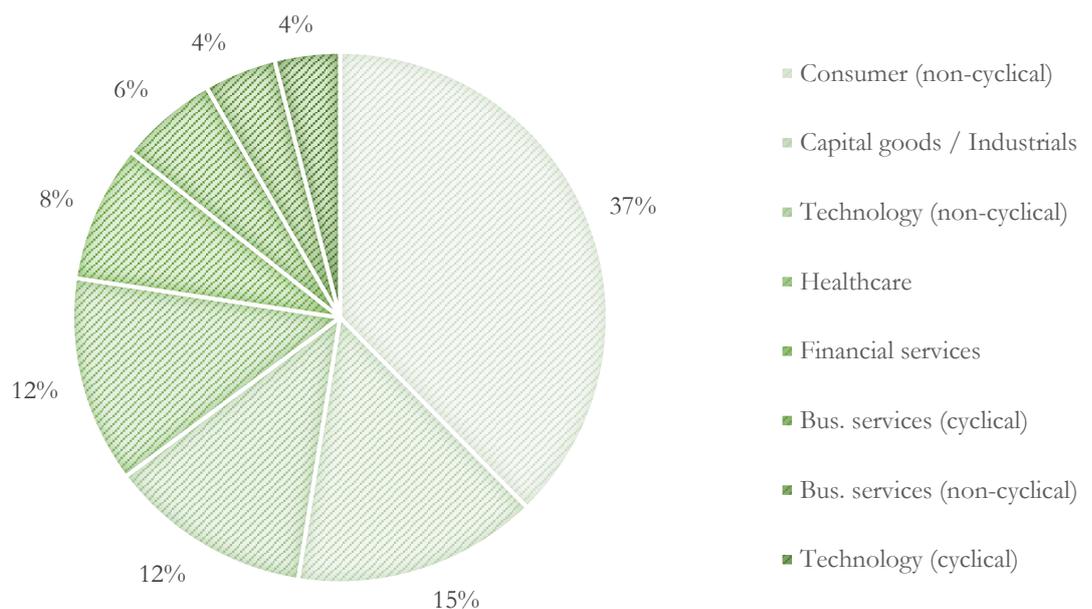
### Section 3: Portfolio Snapshot

The portfolio currently consists of 17 core positions plus 7 sub-core positions with a lower weighting, as these are either in the process of being built up or reduced. Driven by performance only one position is in the microcap area (< € 150 million), 15 in the lower small cap area (€ 150 million - € 1 billion), six in the larger small cap area (€ 1 - 5 billion) and two in the mid cap area (> € 5 billion).

Our geographic exposure continues to center around Germany and the UK. The funds released from Intertrust and Frequentis have been reallocated to German core positions. We are currently analyzing a few opportunities in more exotic European countries.



Consumer business models and non-cyclical companies continue to dominate the portfolio.



## Section 4: a metamorphosis - Conduction becomes f3x

The past one and a half years changed the world. CCA is changing as well. In short:

Conduction Capital Advisers (CCA) will become f3x capital (f3x).

f3x brings a new mission statement:

“We invest in good companies – timeless, transparent, human”

**Good companies:** the focus is on quality investing. In a time when increasingly more companies attract excessive capital by creating a marketing buzz, f3x positions its focus on business models of high quality. Hallmarks of quality include high gross margins and stability of demand. Good companies are also recognisable in their minimisation of negative externalities to people and the environment.

**Timeless:** Jezz Bezos said that it is better to focus on the needs of customers – which do not change – than to hunt for the next trend. f3x follows this strategy to (1) benefit from long-term compounding effects of business models and (2) to minimise transaction costs. This does not mean that we only invest in toothpaste makers! Modern technologies like 3D printing also satisfy humanity’s sustainability requirement to use resources in a more targeted way.

**Transparent:** f3x is open. (1) All quarterly letters will now be available on our public website ([www.f3x.capital](http://www.f3x.capital)). Furthermore, we will post other documents that shed a deeper light into the f3x investment strategy. Numerous blog posts that were previously only published via Honeytrees and LinkedIn will also be made available on the f3x website (note: the German version of the website offers more content). (2) The fund is highly concentrated (<20 core positions), in order to remain easily understandable and explainable. (3) We will communicate our views regularly and directly with the management of our investee companies.

**Human:** the personal ethics of portfolio management will be reflected in the composition of the fund. We do not use or value any standardised ratings. The final investment decisions are always made by a human, although computers and quantitative methods will increasingly ease our workload.

What’s new:

1. **Generational handover:** Alex Nieberding, co-founder of CCA, stepped down from operations on June 30<sup>th</sup>, 2021 and Felix became the sole manager. We thank Alex for his contributions in building up the company to what it is today. His deep reservoir of experience was essential, especially for the value-orientation of CCA’s investment strategy. His investment philosophies will live on at f3x.
2. Since April, our former intern David Kefeli has joined as a part-time analyst. David is currently studying business & economics at the Goethe University in Frankfurt and is getting a 1,0 GPA. Welcome aboard, David! We are currently on the lookout for a female working student to improve our workplace diversity. Please send recommendations and applications to: [felix@f3x.capital](mailto:felix@f3x.capital).
3. **Investment style:** some of you may have noticed that the amount of technology-oriented companies in the portfolio has increased over the preceding quarters. We have become more comfortable to pay higher multiples when entering positions. Quality has its price.

Structural profit potential, which can be derived from unit economics or the prevailing supply-demand-system, is becoming more important.

4. The name of the fund: “CCA European Opportunities UI” is currently in the process of being renamed. Once BaFin approves the new name, we will send out a separate notification. This is simply a name change that will automatically occur in your account. There are no tax implications or other complications. However, this change may take a while to move through the highly bureaucratic fund management sector.
5. The I-Class (DE000A2H7NR7) of the fund is now accessible with a minimum first investment size of €10,000 (previously this was €200,000).
6. Corporate design: our creative friends at [digifant GmbH](#) developed a new corporate image and website for f3x. Check it out at [www.f3x.capital](http://www.f3x.capital).
7. We will be publishing increasingly more content on our [LinkedIn company page](#). Follow us.

What remains the same:

1. Private equity DNA. We still evaluate opportunities as if we were buying the entire business, not just a handful of shares.
2. A focus on small and medium-sized European companies.
3. The fund vehicles with the ISINs: DE000A2DMV16 (S-Class), DE000A2H7NR7 (I-Class), and DE000A2DMV08 (R-Class)

The mailing address and telephone contact details remain unchanged. Emails to the old Conduction Capital domains will still be received. For your convenience, here are the new contact details:

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We are ready for the next level.

#f3x

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