f3x capital

Investor Letter 19
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INTRO

A lot happened globally in the last quarter of 2021, both politically and economically. Germany is now run by a unique coalition which has the chance to unleash a lot of pent-up progress. Russia is flexing its muscles in front of Ukraine so that the Schröder pipeline will have less trouble going live. With the FED having reconsidered that inflation is not purely transitory after all, the US is expected to experience up to three key interest rate hikes in 2022. In this course, we have recently seen sharp corrections in growth and technology stocks. The ARK Innovation ETF, for example, corrected by 25% over 2021.

In general, the stock indices in both the US and Germany do not feel as representative of the markets as they should. In the S&P500, MAMAA (Meta, Amazon, Microsoft, Apple, Alphabet) stocks account for about 25% of the index, which is thus driven by their strong performance. This is not solely due to the economic situation of the companies but also for market technical reasons. In the craze for ETFs and theme funds, the same core components end up in portfolios over and over again, regardless of the content promise. In the "US Vegan Climate ETF", for example, the top 10 positions include NVIDIA, Alphabet and Tesla. It is almost as if the big tech stocks were something like a "store of value" for ETFs – like gold and government bonds for mixed funds. But regulations are slowly catching up to the big players – in Europe for some time already, but more recently in the US. Apple's 30% "tax" in the App Store was softened in the wake of the "Apple vs. Epic" ruling. Thus, the biggest risk for global investors is at the same time holding MAMAA & Co. (anti-trust), as well as not holding MAMAA & Co. (underperformance).

As of January 1, 2022, the fund was renamed from "CCA European Opportunities UI" to "f3x euroflex". We are now happy to operate under the new and more elegant name. Unfortunately, renaming a fund takes a little longer than renaming a normal GmbH. Therefore, it may take a while until all banks, brokers and online portals have "processed" the change.

In the past quarter, the fund corrected by 6.9%, which was mainly caused by two positions that are still quite new or under development. By contrast, the MSCI Europe Small Cap Index rose by 2.3% in the final quarter of 2021. For the year as a whole, the fund generated a return of +4.5% after all costs. This was weaker in 2021 than the MSCI Europe Small Cap Index, which ended the year at 12.5%. The underperformance of 2021 mainly arose in the last quarter of 2021 and does not allow for any substantive conclusions to be drawn due to the short time period. It was also noticeable that the index gained another 6.6% from December 20th to December 30th, which is most likely due to "window dressing" and "benchmark hugging", from which a fund with such a high "active share" as the f3x euroflex does not benefit.

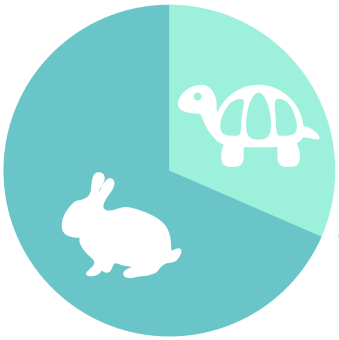
The operating potential in our portfolio companies is enormous and we are optimistic about the coming months and the year 2022.

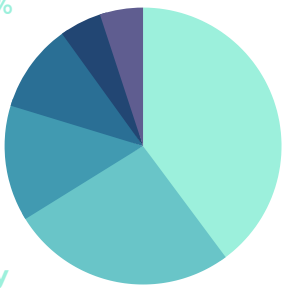
Performance all share classes since inception

Year	2017	2018	2019	2020	2021
S-Class	5.7%	-22.0%	23.9%	16.1%	4.4%
R-Class	5.0%	-22.6%	23.6%	14.9%	3.4%
I-Class	-	-18.0%	24.0%	15.5%	3.7%

17

core positions



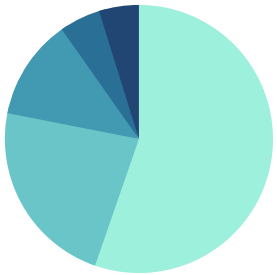


2.0

Ø market cap in €bn

16.6%

Ø sales CAGR 2020-2023



Top 10 Positions

Company	Weight	Business
Modern Times Group MTG AB	7.5%	E-Sports leaugue and mobile gaming dev
SLM Solutions Group AG	7.5%	Manufacturer of 3D printers
Veganz Group AG	6.0%	Vegan food
Vita 34 AG	5.7%	Cord blood bank
ADVA Optical Networking SE	5.5%	Networking infrastructure equipment
M1 Kliniken AG	5.4%	Clinic chain for astethtic procedures
Vossloh AG	4.8%	Railway components
Moonpig Group plc	4.7%	Greeting card e-commerce
Fabasoft AG	4.7%	Public administration software
Naked Wines plc	4.7%	DTC wine club in UK and USA

PERFORMANCE DRIVERS

2021 Q4
in basis points to NAV

TOP CONTRIBUTORS

Moonpig	+94
ADVA	+66
M1 Kliniken	+25
Bitcoin Group	+20
Veganz	+19

TOP DETRACTORS

THG	-206
undisclosed	-202
init	-129
MTG	-106
ASOS	-69

REPORTING & EVENTS OF PORTFOLIO COMPANIES

PBKM / Vita34

In Investor Letter 17 of July 6, 2021, we already referred to the upcoming combination of the two most important cord blood banks in Europe. On December 7, the fund finally received 1.3 Vita34 AG shares per PBKM share. This creates a pan-European biotechnology company with a market capitalization of EUR 240 million. We expect further exciting news from our Vita34 investment over the year 2022, regarding strategic positioning, board appointments and M&A.

Modern Times Group (MTG)

Right at the beginning of the past quarter, MTG announced that the capital markets day planned for December 7, 2021 will be postponed to the first quarter of 2022 without giving any reasons. It looks like a strategic realignment, which in turn seems like an attempt to make the capital market aware of the large conglomerate discount on the "sum-of-the-parts" valuation.

Vossloh

In its report on the third quarter of 2021, Vossloh communicated the small but significant detail that one of its milling machines for track maintenance was used for the first time on an American Class 1 freight railroad. For Vossloh, this could be an important step in opening up the American market. There are only five Class 1 operators in the US - an oligopoly situation. Should Vossloh perform well, it is likely that competitors of the first Class 1 customer will also want to "upgrade" to Vossloh's high service quality. Incidentally, Berkshire Hathaway is the owner of the largest Class 1 company called BNSF.
50% of Vossloh is theoretically up for disposition via Heinz Hermann-Thiele's heirs.

EXITS

In the past quarter, we sold one position completely.

JDC Group

We are saying goodbye to the software platform for insurance and financial brokers. After building an initial position in 2018 and increasing to about 2% of the fund in the Corona crash, the stock somewhat outgrew itself in 2021. Projected revenue growth of 10-15% is not unattractive but is set against a sharply higher valuation. Having reaped a return of just under 160% in 2021, the stock now trades at around 7 times gross profit for 2022. Gross profit is the relevant metric, as the majority of revenue tends to be "external revenue". For comparison, SaaS companies in the healthcare industry in Germany currently trade in the 4-5x revenue range, have already reached a higher level of scale and profitability and are growing only slightly weaker between 7-10%. With the sale of the position, we realize a "3x trade" that contributed a total of 417 BP to the fund performance.

ENTRIES

This quarter we are introducing two new core positions.

#1 Veganz Group

Perhaps the most exciting vegan food brand from Germany went public on November 10, 2021. We have known the company as a customer since 2014 and have been closely following its business development ever since. Accordingly, we received a high allocation in the IPO. After the company had become known mainly with its vegan-only supermarkets, founder and CEO Jan Bredack decided to focus exclusively on the branded products business. The assortment of about 120 products, ranging from veganized "Yogurette" clones to vegan tuna, can be found in ALDI, LIDL and Rewe stores. All retailers are discovering the topic of plant-based nutrition. Veganz has built up a strong brand in the "scene" and is using it to intelligently move into the mainstream.

The innovation spearhead of Veganz is Jan Bredack himself. He likes food and knows which tastes, flavors and textures he has been missing since he started eating vegan. He tries to color these white spots with Veganz. No market research department of a consumer goods company can compete with such entrepreneurial heart and soul.

The company already succeeded in concluding first licensing agreements for products. In the course of the IPO at € 87 per share, the company raised EUR 48 million and now stands at a market capitalization of EUR 110 million.

Bredack himself holds 18% and has signed a lock-up of three years (!!!) after the IPO, which is far above the norm. In 2022, analysts expect Veganz to generate sales of EUR 40 million with an operating loss (EBIT) of EUR 4 million.

Sector

Consumer

Country

Germany

Market cap

EUR 110m

Weight

6.0%

Style

Growth

Sales LTM

EUR 30m

Sales CAGR 2020 - '23

37%

#2 Moonpig

In the past quarter, we built a position in this quite niche company. Moonpig (ticker: MOON) specializes in gifting and was founded in 2000 by a Brit named Nick Jenkins. The company name is Jenkins' nickname from his school days. The Moonpig app can be used to create greeting cards that are physically sent to the recipient from the company's in-house print shop. A total of 33,000 designs are available with numerous personalization options. Moonpig is the clear market leader in England and the Netherlands when it comes to digital postcards, with market shares of 60% and 65% respectively. The average Moonpig user gives away 24 greeting cards per year, only three of which are sent via Moonpig. The level of digitalization of greeting cards is still extremely low, at 10% in England. So Moonpig won the game before it even started.

Behind the app is a powerful database that, with every greeting card sent, gets better at suggesting to its users when might be a good time to send their mother a card and – here is the clue – flowers. In addition to sending cards, Moonpig thus offers the so-called "Gift Attach" function. So, through partners, Moonpig can deliver not only cards, but also flowers, bottles of wine and more. The gift market is non-trivial. After several years of e-commerce transformation by now, there is yet to emerge an address to fall back on when you don't have any ideas of what to gift. Moonpig is a hot candidate for this. Sales for fiscal year 2021/2022 will be GBP 285 million, about 65% higher than in the pre-corona year 2019/2020, and the company is targeting growth rates around 15% in the medium term. The company generates an EBIT margin of just under 20%, which is to be maintained in the medium term. f3x enters at a valuation of 18x EBITDA or 23x EBIT based on calendar year 2022.

Today, Moonpig is led by a former Rocket Internet employee named Nickyl Raithatha, who has given an outstanding spirit to the company with top scores in employee satisfaction and women in leadership positions. So, in addition to financial performance, the company is doing a lot right on a social level. The only question that remains: Why has Reddit not discovered this ticker yet?

Sector

Consumer

Country

UK

Market cap

GBP 1.3 bn

Weight

4.7%

Style

Growth

Sales LTM

GBP 354m

Sales CAGR 2020 - '23

-1.0%

OUTRO

In the current situation of inflation and interest rate hikes, capital market strategists are once again discussing the issues of value vs. growth, cyclical vs. technological, old economy vs. new economy. This can be argued about on a quarterly and annual level. But if you take a step back and look at the big patterns, the picture becomes a little clearer.

First of all, we limit ourselves to the term old economy as a proxy for companies involved in the value chain of physical products of all kinds. Actually, these have been in a latent struggle for survival since the Fordism crisis in the 1970s and 1980s. Roughly summarized, the Fordism crisis represents a slowdown in growth for companies in mass production. After most people in the global North had a washing machine, it became difficult for the capitalist system to show the growth rates necessary for survival. To increase profits, solutions such as rationalization of labor, just-in-time production, and joint ventures emerged. To increase sales, a higher individualization of products was used to skim off higher willingness to pay, or planned obsolescence was introduced ("You need a new phone every 2 years").

But these "growth hacks" were insufficient from a macroeconomic perspective. The financial industry rushed to the rescue. It sat on top of the real economy, multiplied it virtually with investment products and derivatives of all kinds, and at the same time became more powerful and more profitable than the struggling real economy. This process is called financialization, and it is an essential precursor of digitization. This also makes it increasingly clear that money is not just compensation for muscle power or performance in general but rather a kind of score board for relative power relationships. Warren Buffet would agree.

In the early 2000s, digitization slowly crept up on the financial industry and sat on top of both the financial and real economies. Marc Andreessen published his essay "Why Software Is Eating the World" in the Wall Street Journal on August 20, 2011. Software and digital solutions are beginning to penetrate every sector of the economy, carving out a significant position of power through information sovereignty and recommendation algorithms. The pinnacle of digital business models to date is represented by platforms or marketplaces that employ four different control mechanism to effectively subjugate all users of the platform (information control, price control, performance control, access control). These developments enabled a level of privatization that neo-liberalism had not thought of. In neo-liberalism, freedom of contract and free trade are sacred goods and at the same time in need of protection. This protection is to be ensured by the state through competition control. But the free market is now also being consumed by digital companies.

The Apple App Store and Google Play Store are completely privatized markets with a corresponding position of power for the owners. Many companies are trying to build up such a marketplace, but not even Amazon has really succeeded with its "Marketplace" – too many specialized competitors offer alternative options. In addition to the power effects of partial or complete market ownership, digital companies also have the advantage that many of their products can be reproduced virtually infinitely. Software and associated upgrades are much easier to sell than washing machines. This makes digital capitalism, after financial capitalism, the next savior of the latent and still subliminally present growth crisis of post-Fordism. Those who can make money with theoretically infinitely scalable products will push their way up the monetary points system – the scoreboard for relative power relations.

OUTRO

This also provides a framework for most cases in the discussion of value vs. growth, cyclical vs. technology, old economy vs. new economy. Whoever has the information sovereignty and thus the recommendation algorithms in hand is in the economically better situation in the long term. In general, this applies more to growth, technology and the new economy. Still another insight can be derived from this little chronicle of modern capitalism: Now that it has become mainstream to privatize the free market – cf. also the emerging thematic funds for "marketplace companies" – there must surely be a new opportunity for aspiring entrepreneurs to rise to a relatively higher position of power. Ultimately, privatization of the free market can only be followed by privatization of the state.

Enter: Web3, Metaverse and Crypto. In the virtual 3D world "Decentraland" there is a land register on the basis of which land can be acquired. Theoretically, "Decentraland" can also levy taxes. On the one hand, this sounds like a real privatized state but, on the other hand, it is also unnecessary science fiction. But in how many innovations has the measure of practical added value already been meaningless for economic success? Boeing wants to build its next aircraft in the "Metaverse" and Adidas has been experimenting with digital shoes for some time now and is forging ahead with NFTs. The "Metaverse" represents another attempt to solve the growth crisis of post-Fordism in a sustainable way.

At f3x, we are convinced of one thing: Planned obsolescence is not a solution and thus we remain skeptical of the regularly recurring call to invest in cyclical companies when the next batch of physical products needs to be pushed off to consumers.

In order to meet our ethical ambitions in the investment arena, we have decided to establish a monitoring committee with the working title "Ethics Council". We plan to review the f3x portfolio on a quarterly basis. The trio will also provide thematic impetus for shareholder engagement at portfolio companies. We will be sending out a separate message on this shortly, in which we will introduce the committee.

We have moved "between the years". That means we are writing this Investor Letter from our new office. Our new postal address is:

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We are now in a real haven of creativity in the "Danzig am Platz" building complex. In March, if the virus plays along, we will hopefully be able to hold a small office warming. We will send out a separate message about this as well.

The start of the new year feels good at f3x.

LATEST BLOG POSTS AND PRESS

Press: Article about f3x in Fonds Analyst (LINK) **2 Nov 2021**

f3x memo: Wenn ESG ohne Ethik stattfindet - Beispiel Pflegeheime (LINK) **20 Dec 2021**