GANÉ Value Event Fund (WKN A3D05P)

Investment Report August 2024 **Aschaffenburg, 5th September 2024**

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

On the stock exchange, a temporary spike of volatility is possible at any time. On the 5th of August 2024 the Nasdaq lost more than 5%, or 900 points with the opening of trading, thereby falling 16% from the historical high it had reached only a few weeks earlier. Such sudden market corrections are not announced in advance.

„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).

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

A rally of this kind is rather unusual, and the example above is only a financial model. We are not running a market-neutral portfolio and we do not have the visionary ability to use liquidity at the bottom of the stock market. However, the stronger a bear market is and the more often such an event occurs, the more likely it is that investor B will gain a financial advantage over investor A. For this reason, we are holding liquidity from bank balances and money market substitute bonds, sometimes in abundance. And we prefer to use liquidity countercyclically – as shown in the in the European sovereign debt crisis in 2011 and the COVID-19 pandemic in 2020. We also did not remain idle during the 'small market panic' of the 5th of August 2024. We increased the equity ratio from 57% to 63% during the month.

Sincerely yours

J. Henrik Muhle Dr. Uwe Rathausky

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