4th Letter to Investors

As of June 30, 2021

Dear investor,

In the first half of 2021 the unit value of WertArt Capital Fund increased by 16.9% after fees. Below you can find the annual performance since inception in euros and compared to the MSCI World Index[1]:

Year	WertArt Capital Fonds	MSCI World Gross TR
2019 (since inception on March 11)	-5,8%	17,3%
2020	18,0%	5,9%
2021 H1	16,9%	17,2%
Annualized Total Return	11,9%	17,4%
Total Return	30,0%	45,6%

Similar to last year, our investments in e-commerce businesses showed stellar performance including **Naked Wines**, **Westwing** and **eBay**.

A number of companies that are benefiting from the lift in COVID restrictions also performed very well. One of the beneficiaries has been **The Gym Group**, which operates 187 fitness gyms in the UK. Since the re-opening in April, new member acquisition, pricing and gym visits per member have all pointed to healthy demand. Management is now targeting an acceleration in new site openings. Due to the shift to online retail and the impact, COVID had on stationary retail stores, suitable properties are coming to market at favorable commercial terms. Therefore, I see the company in a good position to extend market share gains and meet the need of many people to get out and exercise. I expect The Gym Group to become the dominant player together with its competitor Pure Gym in the low-cost UK gym segment. More information and updates to our existing portfolio will be provided in the year-end letter.

I would now like to turn your attention to our new investments. These include Supernus Pharmaceuticals, Groupe Gorgé, Nintendo and House of Control. On the following pages, I will present to you the investment case for each one of them.

[1] The performance calculation is based on the BVI method and takes into account annual distributions.

Supernus Pharmaceuticals (3.2%[2])

Supernus recently launched a drug for the treatment of attention deficit / hyperactivity disorder, or ADHD for short. Symptoms are poor concentration, impulsive behavior and / or physical restlessness. With the right therapies, children and adults can practice the practical skills to better control their behavior. In addition, drug treatment is necessary for many patients, but at the same time, it is also controversial as the medical treatment options for children and adolescents as well as adults are currently hardly sufficient.[3]

In the USA alone, doctors write 75 million prescriptions for ADHD annually. More than 6 million patients have been diagnosed with ADHD acc. to Supernus management. Most of the prescriptions are for stimulant ADHD therapies. However, stimulants are not suitable in many situations, including the 25% to 30% of patients who do not achieve optimal symptom reduction or do not tolerate stimulants for a variety of reasons.

While there are more than 30 stimulant preparations currently available in the US, only three nonstimulants have been approved by the United States Food and Drug Administration (FDA) so far. Strattera (Atomoxetine) was introduced 15 years ago as the first nonstimulant ADHD drug ever and is the only one approved for adults. With Kapvay (Clonidine) and Intuniv (Guanfacine), there are alternatives for children and adolescences available. However, patient dissatisfaction is high with nonstimulants and all three of them come with significant safety concerns. Therefore, the need for better treatment options remains high.

Viloxazine extended-release (ER) is a novel nonstimulant that was approved in April 2021 by the FDA under the trade name Qelbree for the treatment of attention-deficit/hyperactivity disorder (ADHD) in pediatric patients 6 to 17 years of age. Viloxazine has already been approved for the treatment of depression in the 1970's in Europe. However, just recently **Supernus Pharmaceuticals** started to test the substance for the medication of ADHD. Supernus' Management claims that Qelbree provides the first nonstimulant innovation in over a decade since the introduction of Strattera. Following the trial results, Qelbree could provide a more effective and less harmful medical alternative for children with ADHD, who do not need a stimulate, cannot take a stimulate due to health conditions or where stimulants do not work. If this turns out to be the case, it will be of benefit for many patients diagnosed with ADHD.

Supernus just recently launched Qelbree in the US. The re-opening of the US economy is helping the 175 sales representatives to approach doctors to present the new medication. If Qelbree turns out to improve patients' day-to-day life significantly as indicated in the trials, the market potential for Supernus will be substantial. In addition, management expects to receive approval for treatment of

[2] Portfolio share as of June 30, 2021

[3] This was a very helpful article from Cambridge University Press:
"Attention-deficit/hyperactivity disorder (ADHD), the single most common neuropsychiatric disorder with cognitive and behavioral manifestations, often starts in childhood and usually persists into adolescence and adulthood. Rarely seen alone, ADHD is most commonly complicated by other neuropsychiatric disorders that must be factored into any intervention plan to optimally address ADHD symptoms."
https://www.cambridge.org/core/journals/cns-spectrums/article/current-and-future-nonstimulants-in-the-treatment-of-pediatric-adhd-monoamine-reuptake-inhibitors-receptor-modulators-and-multimodal-agents/FC8BB9C34B066B27E0BB1108ED315B2B#ref53

adult patients in the remainder of 2021. The adult segment represents about half of the total ADHD market in the US.

Supernus already has an established central nervous drug portfolio generating around USD 500 m in revenues annually. While revenues from the existing drug portfolio will decline due to a patent expiration of one medication in 2023, Qelbree and additional near time product launches should more than compensate for the patent expiration. Assuming that Qelbree can at least win a comparable market share like currently available nonstimulants, Qelbree should reach another USD 500 m in annual sales over the coming years. With a market cap of USD 1.4 bn and USD 400 m in net cash available, Supernus is attractively priced.

Groupe Gorgé (2,9%)

I have been following the development at Groupe Gorgé since the launch of our Fund. Over the last years, management has streamlined the business units and the order book has shown its strongest growth for more than a decade. Then in 2020, management made a decisive move that gained my full attention.

In 2020, Groupe Gorgé took the opportunity to buy out the minorities in its subsidiary ECA. ECA has fortified its competitive position in drones and robotics for the defence and industrial sectors over the last decade. Fort the last ten years, ECA was focused on new product development while revenue and earnings stayed flat. Since 2019 however, ECA has received more than half a billion euros (or roughly 5 times historic annual sales) in orders from the Belgian and Dutch navies. [4] ECA will equip their vessels with underwater mine destroying drone technology. It is likely that ECA will receive further orders from other navies over the coming years. Drone technology in general is at the brink of becoming useful for many different purposes and ECA is well positioned to capitalize on this development.

Raphaël Gorgé who followed his his father as CEO in 2004 leads Groupe Gorgé[5]. His decision to fully merge with ECA comes at a time when the efforts of the past will likely bear fruit in the coming years.

Another important business decision of the CEO was to enter additive manufacturing / 3D printing in 2013. Since then, Groupe Gorgé has constantly acquired technologies and services in this field and integrated these acquisitions into a listed entity called Prodways[6]. Today, Prodways provides turnkey 3D solutions including software (mostly licensed from Dassault Systèmes' 3DExperience), machines, materials (mostly plastics) and manufacturing. While I do not expect their technology to be as advanced relative to competition as in the case of ECA discussed above, Prodways provides our investment with optionality. For instance, Prodways has developed a good position for instance in dental clear aligners, custom earmolds and is working together with large companies like Essilor and Straumann. Moreover, the delivery of 3D printing materials and service manufacturing might lead to a recurring revenue stream at attractive profit margins. At the same time, the overall market potential for 3D technology remains high and current global supply shortages might further accelerate the implementation of local additive manufacturing installations.

In addition to drone/robotics and additive manufacturing, Groupe Gorgé offers safety doors for nuclear facilities and fire sprinkler systems for industrial facilities. Profitability has been subdued and

[4] https://www.defensenews.com/global/europe/2019/05/22/naval-group-led-team-gets-2-billion-mine-hunter-contract-for-belgian-dutch-navies/

[5] The Gorgé family controls the company through majority voting rights and has a 44% economic interest in Groupe Gorgé.

[6] Groupe Gorgé owns 54% of Prodways share capital.

revenues stagnated over the years. For the investment to play out, these business activities do not need to perform spectacularly. Still, I expect management to enhance profit margins of these segments and eventually dispose all or part of these activities over the coming years.

So why are we invested in Groupe Gorgé? Through Groupe Gorgé, we can fully participate in ECA's future earnings potential. While ECA's revenues fluctuated around EUR 100 m over the last decade, with the help of recent contract signings, I expect ECA's revenues to double until 2023. ECA has been generating EBITDA margins from 15% to 20% and I expect these margins to remain stable over the coming years. Based on these assumptions, we can buy ECA for 8 to 10 times enterprise value-to-EBITDA. Prodways, nuclear doors and the fire sprinkler activities are not included in this calculation. We therefore get a good business at a reasonable price (ECA) and receive optionality from Prodways reaching a tiping point where their 3D technologies meet higher demand. Moreover, many of the restructuring efforts in the nuclear door and fire sprinklers segments are completed and I expect these segments to sequentially improve profitability over the coming years.

Nintendo

Nintendo offers video game entertainment for the whole family with its timeless characters like Super Mario and Luigi. At the same time, Nintendo can also inspire experienced gamers with titles such as "The Legend of Zelda: Breath of the Wild" (published in 2017 and sold 22 million times so far). In addition, Nintendo has been very successful in developing the appropriate hardware to distribute its content. Nintendo's current hardware, the Switch, is now in its fifth year of its life cycle.

Since the introduction of the Switch in 2017, Nintendo has sold more than 80 million units and has since achieved around 600 million software sales for the Switch. The sale of software units has become more and more profitable for Nintendo due to the digitalization of video game sales. Therefore, Nintendo can cut out the retailers to access end consumers directly through its online store (Nintendo eShop). Digital distribution also makes it easier for video game developers to access the distribution platforms directly. Customers can search for games in the Nintendo eShop and access an ever-growing library of third-party games. The more players use the Switch, the more attractive it is for third-party developers to offer their games on Nintendo's distribution platform, which in turn makes the Switch more exciting for potential customers.

With Nintendo Switch Online, Nintendo launched a subscription service in 2018. Subscribers pay USD 20 per year for additional services. Comparable to Amazon Prime, users pay a relatively low membership fee in order to receive an incentive to use the service. As of September last year, Nintendo Switch Online had more than 26 million paying subscribers, which is a healthy subscriber rate of more than 30% (based on the Switch's cumulative sales). Management has emphasized in the past how important this service is and that additional premium services will be added in order to make the offer more attractive for subscribers and to encourage regular use of the subscription service.

After the first Switch came on the market in 2017, Nintendo added an improved version and a cheaper version (Switch Light) to the range in 2019. In October 2021, Nintendo will launch an OLED model that essentially has a better screen[7].

In the coming years, Nintendo should be able to show higher earnings stability than in the past. Similar to the development of smart phones, the switch could establish itself as a closed system on the games

[7] https://www.nintendo.de/Nintendo-Switch-Familie/Nintendo-Switch-OLED-Modell-/Nintendo-Switch-OLED-Modell--2000984.html

market. Nintendo would then no longer have to introduce a completely new hardware and software system every few years, but could continuously develop the hardware and software.

In addition to the regular hardware updates, releases of further game hits should keep the fan base happy and increase it. Customer loyalty should also be strengthened through the ever-growing digital content library from third-party developers and additional services at Nintendo Switch Online. In addition, the Switch is hardly present in many countries. For example, China could grow into an important sales market for the Switch, if the authorities approve the distribution of further Nintendo games in the near future. In my opinion, the chances of this are good, as both the Switch console and many games (e.g. Mario Kart) are better suited for social interaction than the widespread mobile phone games. After all, China has issued a series of regulations in recent years to limit the addictive behavior of young players. Together with sales partner Tencent, Nintendo is already trying to position the Switch as a family-friendly product. [8]

Nintendo shares do not yet reflect the expected stability of earnings. Investors seem more likely to believe that the Switch cycle is ending. If, however, it turns out that the console cycle has changed due to the fact that sales will soon be completely digitized, the Nintendo share is about to re-rate.

House of Control

Norwegian House of Control (HoC) develops and sells software as a service (SaaS) solutions. The main solution is Complete Control, a contract management software that is complementary to ERP systems. Complete Control has several modules and add-ons, including compliance with IFRS 16 (Financial Leases) requirements, HR management, digital signature and price index adjustments. The user value is derived from cutting costs, saving time and reducing business risk / dependency on key personnel.

After its IPO in 2020, HoC has started to acquire additional products, development capacity and geographical footprint. With a broader product offering, a sales team covering the Nordics and parts of central Europe together with a stronger in house developer base, management plans to increase annual recurring revenue by 30% over the coming years and to reach a 40% EBITDA margin level in 2025. Currently, shares are trading for less than 5 times (adjusted for cash) my estimate of year end 2021 annual recurring revenue, which implies a lower growth rate and provides significant upside potential in case management meets the targeted growth rate.

Dispositions during the first half

We have replaced Groupe Bruxelles with our new stake in Groupe Gorgé. While Groupe Bruxelles will probably continue to trade at a discount to the intrinsic value of its holdings, I see Groupe Gorgé's management being more willing to close the valuation gap. I also see higher profit dynamics at Groupe Gorgé in the years to come.

I had reported in previous letters that Datalogic should benefit from its strong position in the growing areas of factory automation and data acquisition. The company has a long history and extensive expertise in lasers and scanners. Constant product innovation is vital for Datalogic as its products are exposed to constant price pressure and strong competition. In the field of minicomputers, Datalogic competes with, for example, the much larger Zebra Technologies. The valuation of the company has been attractive over the past few years despite the positive future prospects and a solvent capital

[8] Nintendo Switch launch video for China
https://www.youtube.com/watch?v=GP8_1kGfU54

structure. Throughout this year, Datalogic's market price has anticipated much of the expected recovery in demand and future growth. Therefore, I recommended selling the position.

After the attack from a short seller in September 2020, **Grenke** was under enormous pressure to regain its reputation as a solid financial leasing company. Almost all of the points made by the short seller turned out to be vastly exaggerated or simply untrue. Nevertheless, Grenke's communication to investors often missed the necessary transparency and clarity. During the auditing process, a number of deficits in risk management were uncovered and let to changes in the executive team. Recently, the CEO announced to step down as well. Over time, I got more and more the impression that there might be disagreements in the executive team as the pressure from the outside increased. I see Grenke now in a transition period, where a cultural shift is ongoing from an owner dominated relatively flexible corporation to a rule based relatively cautious institution. I underestimated how complex this transition would be. Therefore, I decided that for the moment the Fund should allocate capital to more promising opportunities.

The Fund also sold its relatively small holding in **Kirkland Lake Gold** given that future production is going to decline and newer projects are less profitable leading to a potentially lower cash flow stream in the future.

Take care and I am happy to answer your questions.

Kind regards,

Benedikt Olesch, CFA

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