ENTREPRENEURIAL INVESTMENT PARTNERSHIP

"Over my [32 year] career,
markets have gotten somewhat less efficient."

Clive Asness, AQR Capital Management

19th of October, 2024

Dear partners and supporters,

This is the Q3 2024 update of the Entrepreneurial Investment Partnership SICAV-RAIF (EIP). As of the reporting date of 30th September 2024, the capital under management amounts to EUR 34.1 million at a net asset value of EUR 8,329.71 per founding partner share, and therefore a +3.9% increase compared to the last quarter and year-to-date return of -3.8%. The largest detractor during the quarter was United Internet (EUR -0.4m/-1.3%), while Alibaba (EUR +0.7m/+2.0%) led the risers.

Let's briefly revisit the four pillars of the EIP investment philosophy for new readers:

- Industries with a long runway of growth and high and predictable returns on capital.
- Good management teams that have skin-in-the-game, good capital allocation track records, and the ability to lead people to do their best work.
- The stock price should imply a valuation significantly below what an educated private equity investor would pay for the whole company.
- The portfolio companies will differ in the quality of these aspects.

EIP is looking through thousands of listed companies every year to find the best meeting these criteria. After investing, they remain in the portfolio until more attractive opportunities arise. For an overview of how the companies fit the philosophy, you can access this portfolio overview (`link`). As of the reporting date, the portfolio is composed as follows:

Company	as % NAV
Aareal Bank AG Namens-Aktien o.N.	16.9%
United Internet AG Namens-Aktien o.N.	15.8%
ABOUT YOU Holding SE Inhaber-Aktien o.N.	12.4%
Modern Times Group MTG AB Namn-Aktier B SK 2,5	9.3%
Rocket Internet SE Inhaber-Aktien o.N.	8.6%
Haier Smart Home Co. Ltd. Registered Shares D YC 1	6.7%
BioNTech SE Nam.-Akt.(sp.ADRs)1/o.N.	5.8%
Ocado Group PLC Registered Shares LS -,02	5.8%
Alibaba Group Holding Ltd. Registered Shares o.N.	5.7%
Articore Group Ltd. Registered Shares o.N.	1.5%
Cash in EUR	11.5%

You will find more info in the prior updates on `www.entrepreneurial-investment.com` via the partner login and the password "p4rtn3r!". With that aside, let me give you an update on the portfolio.

Greatview Aseptic Packaging: All shares sold at -11% loss

As indicated in the Q2 update (`link`), EIP has sold all shares of Greatview Aseptic Packaging (a Tetra-Pak manufacturer) leading to a realized loss of 11% (including dividends) over c. 3 years (or -4.1% IRR) - a result significantly below expectations at the time of investment in 2021. You can find a post mortem analysis in the Q2 update. During the quarter, the founder and CEO announced that he would acquire shares himself to match the voting rights of the unfriendly acquirer as a last resort to protect against a loss of control. There is a chance the acquirer gains control one way or another and as such the sale is sensible.

Software AG - Received EUR 4.1m cash as first squeeze-out compensation

As expected, shares of Software AG were squeezed out for proceeds of EUR 34.19 per share for total proceeds of EUR 4.1m. This resembles a difference of c. EUR 220k (or -0.7% of NAV) compared to the Q2 reporting date, when they were accounted at EUR 36.00 per share in the NAV. As presented in detail in 2023 Update (`link`), EIP should be compensated multiple times for this difference during the trial, while the partnership will not incur any additional costs for the trial. As described, the resulting squeeze-out rights will be accounted at zero according to industry practice. As such, the worst outcome would be to not receive any compensation once the trial ends.

On the investment side, EIP acquired shares in About You, BioNTech and Rocket Internet. The c. EUR 4m cash balance (12% of NAV) will be reinvested as opportunities arise.

Aareal Bank - Ongoing litigation will defer or cancel squeeze-out

There is no news regarding the action of annulment of the annual general meeting by one of the minority investors. It is said that the plaintiff has discovered an error in the squeeze-out document that could require the annual general meeting to be repeated. I don't believe the main shareholder would be interested in conducting the squeeze-out again now that the true valuation of its software company Aareon cannot be hidden via an artificially low appraisal. As stated before, EIP would welcome the annulment of the annual general meeting and be more than pleased to remain a shareholder of the bank.

BioNTech - Right direction, lower than expected cash generation

As the investment in BioNTech from early 2022 (`link`) nears its 3-year anniversary, EIP has recently bought more shares, and the company is about half way into commercializing its first cancer therapies, it is time for a halftime report. Let's first revisit the main points of the investment hypothesis:

- COVID will still be present: I had it until a week ago and I am still recovering...
- There will be c. EUR 30 billion net cash in 2024: Wrong, the figure is EUR 18 billion. This is mainly due to lower than expected revenues in 2022 and 2023 due lower vaccination rates, a low price agreement with the European Union, and market share losses in the US due to a shortage of syringes.
- The company should remain profitable: The firm was marginally profitable in 2023. R&D costs are increasing as the company went from c. 3.000 employees in 2021 to over 6.000 in 2023. As the first research programs have reached the expensive phase 3, losses are expected in 2024, while the flu-COVID combi shot in 2025 could lead to revenue growth.
- Pandemic preparedness programs could be rolled out further: Wrong, Germany is the only country having secured vaccine capacity for a potential next pandemic.
- It would be unlikely that the company would trade near net cash value: Wrong, it briefly did so in August this year, when EIP bought more shares.
- "New" vaccines based on old protein technology would not get much traction: Correct. Despite doubling revenues in 2022, Novavax has never been profitable in a shrinking COVID vaccine market. As such, the company had to cut 25% of workforce in 2023 and take a USD 500 million investment from Sanofi. This week, their COVID-flu combi vaccine trial was halted due to side effects in its phase 2 trial.

Similar to the median return of the venture capital industry, the biotech industry is usually not appealing to EIP due to its high risk with a low median return. Meanwhile, BioNTech remains attractively priced at its enterprise value of c. EUR 7 billion[1]. Most important is the c. EUR 3 billion COVID vaccine revenue which largely reflects profits from the profit-sharing agreement with Pfizer. Assuming approximately EUR 500 million in related costs, the COVID vaccine franchise can currently be purchased at c. 3-4x earnings. In addition, you pay face value for the cash on balance sheet and get the pipeline with c. 30 assets for free that has cost the company c. EUR 5 billion and over a decade of development time[2]. Being far from knowledgeable, I can only say the recent phase 2 results of certain assets make experts excited and there should be several products coming to market from a purely statistical perspective.

BioNTech has acquired AI company Instadeep for up to EUR 500 million

Value investors usually do not follow the latest and hottest trends, e.g., AI, because the high valuations imply that everything what can go right needs to go right to not lose capital - that is not the EIP philosophy. As an example, it seems that investors who invested USD 6 billion in OpenAI at a USD 160 billion valuation are taking quite a bet on a company with c. USD 3 billion in revenue. It is especially puzzling as the software continues to struggle with basic

[1]EUR 25 billion market cap at c. EUR 18 billion net cash.

[2]Though this includes some costs for the development of the COVID vaccine.

logic puzzles and high costs for training new models that must pay off each time a new model is developed. Consider me skeptical how this should turn out to be a good investment given the valuation.

BioNTech has acquired AI company Instadeep in the second half of 2023 that I want to briefly mention as it has shown the latest innovations the team of c. 400 people is working on (`link`). Instadeep is building software to understand the interplay of protein structures, DNA sequences, and other dependent variables. This is important for the development of patient-specific drug candidates - a key aspect for BioNTech's cancer research. As these calculations are computational heavy, the company has installed its own supercomputer running 224 Nvidia H100 GPUs and 86.000 CPUs that directly puts it into the top 100 supercomputers and top 20 H100 GPU clusters worldwide. BioNTech has worked together with Instadeep for years now and seems convinced this will support its research. If AI is to become a breakthrough technology for the biotech industry during the next decade - as some people are predicting - BioNTech might do extraordinarily well.

Market efficiency - Mr. Asness sees markets as less efficient than three decades ago

The headline quote is from a recent article of Mr. Asness, an accredited hedge fund manager and financial market researcher (`link`). Instead of the consensus view that markets have become more efficient over the last decades, he cites three factors for the contrary I will recite briefly in my own words.

If index funds represent increasingly larger shares of the markets and are not thinking about valuation, but instead buying what increases in market value and selling what decreases in market value, the result is a higher magnitude deviation from the fair value of the underlying securities in both directions. Secondly, the last decade of zero interest rates has led to massive distortions in capital allocation that have not yet adjusted. And thirdly, social media and the rapid flow of information has led to self-reinforcing overshooting of extremes instead of a rational incorporation of new information moving security prices towards their fair value.

As such, there will be more extreme deviations from the fair value of securities that will last longer, but in the end offers highly attractive investment opportunities. I hope he is right.

As always, please contact me with any questions.

Thank you for your trust.

Tim Jeck

Disclaimer

This document is a customer / marketing information ("CI") within the meaning of the German Securities Trading Act, the "CI" is addressed to natural persons and legal entities with their habitual residence or registered office in Germany and is used exclusively for informational purposes and therefore considered a "non-mandatory investor information". This "CI" cannot replace an individual investment- and investor-friendly advice and does not justify a contract or any other obligation or represent any kind of contractual offer. Furthermore, the contents do not constitute investment advice, an individual investment recommendation, an invitation to subscribe for securities or a declaration of intent or a request to conclude a contract for a transaction in financial instruments. Also, it was not written with the intention of providing legal or tax advice. The tax treatment of future transactions as well as the fund performance depends on the personal circumstances of the respective customer and may be subject to future changes. The individual circumstances of the recipient (including the economic and financial situation) were not taken into account in the preparation of the "CI". An investment in mentioned financial instruments / investment strategy / financial service involves certain product specific risks - e.g., Market or industry risks and risk in currency, default, liquidity, interest rate and credit - and is not suitable for all investors. Therefore, potential prospects should make an investment decision only after a detailed investment advisory session by a registered investment advisor and after consulting all available sources of information. For further information and as sole basis for a potential fund purchase, please refer to the "Key Investor Information" and the prospectus (available in German language) from Hauck & Aufhäuser Fund Services S.A. The management company (AIFM) may decide to suspend the arrangements it has made for the marketing and distribution of the funds in accordance with Article 93a of Directive 2009/65/EC and Article 32a of Directive 2011/61/EU. Past performance is not a reliable indicator of future performance. Recommendations and forecasts are non-binding value judgments about future events and may therefore prove to be inaccurate with respect to the future performance development of a product. Investment funds are subject to price fluctuations, which can lead to losses of the investment – up to the total loss. The listed information refers exclusively to the time of the creation of this "CI", a guarantee for timeliness and continued correctness cannot be given. The above content reflects only the opinions of the author, a change of opinion is possible at any time, without it being published. The present "CI" is protected by copyright, any duplication and commercial use are not permitted. For the date of publication see the first page of the document. EIP Entrepreneurial Investment GmbH, Pienzenauestraße 2, 81679 München acts as a tied agent (section 3 (2) German Wertpapierinstitutsgesetz (WpIG)) on behalf of, in the name of, for account and under the liability of the responsible legal entity NFS Netfonds Financial Service GmbH (NFS). NFS has a corresponding license (section 15 WpIG) from the German Federal Financial Supervisory Authority (BaFin) for the provision of investment advice in accordance with section 2 (2) no. 4 WpIG and investment brokerage according to section 2 (2) no. 3 WpIG.