

Winter Semester 2023 Semester Report



Pegasus Value Fund

ESB Capital

Fund Structure



Pegasus Value Fund

Value Investing à la Buffett

Benchmark: MSCI World



Millennium ESG Fund

Sustainable returns with ESG investing

Benchmark: MSCI ESG



DAX Performance*

Only German companies – can you beat the DAX-40?

Benchmark: DAX-40



No Limit Fund

Investing without any limitations

Benchmark: MSCI World

*New Fund this Semester

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Foreword

Dear reader,

Reflecting on this semester, it's evident that the year has been one of exceptional challenges for our ESB Capital Student Funds. The landscape was marked by high volatility, geopolitical unrest in Ukraine and Israel, rising interest rates, and the ongoing economic recovery post-COVID-19.

Navigating these turbulent waters required strategic prowess and adaptability. Despite the complexities, our funds exhibited resilience and intelligence in managing our portfolios amidst global uncertainties.

As the head of the ESB Capital, I commend our team's dedication and expertise. I extend sincere appreciation to the managers and analysts who put in the work and were committed to outperform the market.

I would also like to extend an invitation to the reader to apply for a position at ESB Capital as manager or analyst to use their knowledge, build a network of motivated students and gain experience in the financial markets.

While the challenges were significant, they offered valuable lessons. These experiences will fortify our strategies and guide us as we continue our pursuit of growth and success in the ever-evolving financial landscape.

Sincerely,

A handwritten signature in black ink, reading 'Clemens Röger' in a cursive script.

Clemens Röger - Head of ESB Capital

Mission Statement

“Our mission is to achieve maximal returns by pursuing an active investment management approach based on traditional as well as modern value investing concepts. We conduct thorough research on companies that trade at a generous discount to current and future enterprise value with the intent of becoming long-term shareholders of the respective business. Our analysis covers not only the quantitative financial situation of the company, but also the qualitative characteristics like management competency and moat strength. “

Team



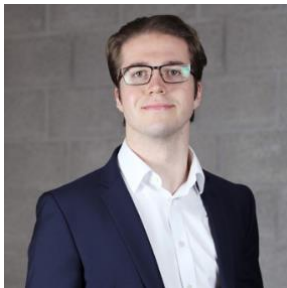
Lars Barcena R.
Portfolio Manager



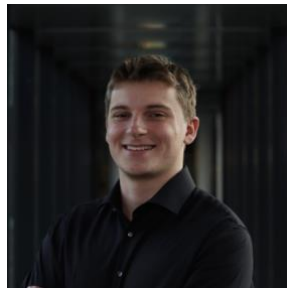
Víctor Laso Malagón
Junior Analyst



Simon Oswald
Junior Analyst



Joshua Kron
Junior Analyst

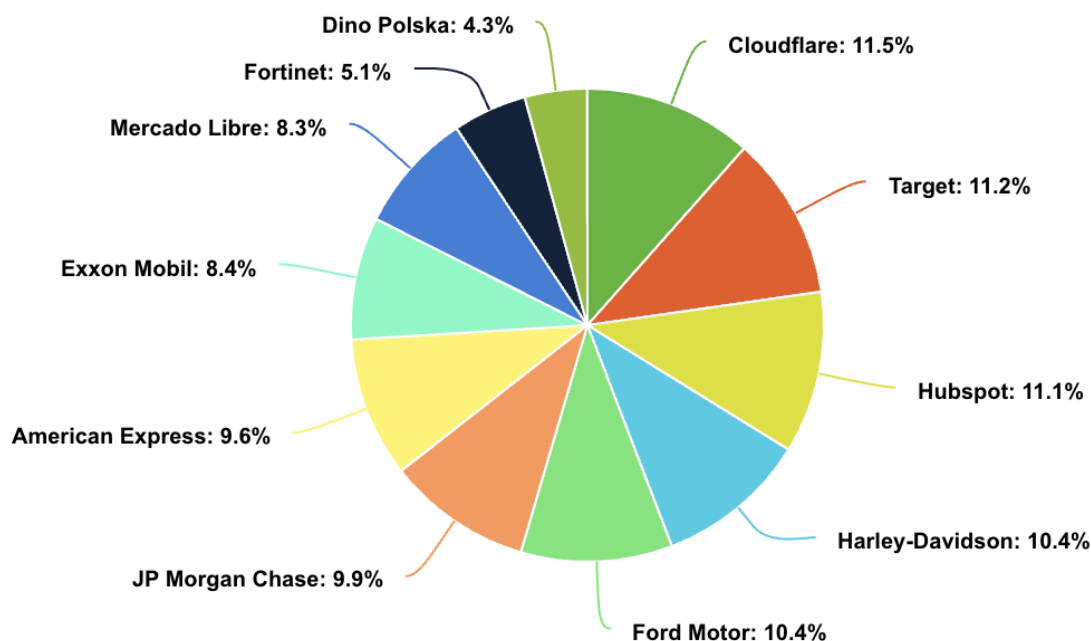


Leonard Krause
Junior Analyst



Philipp Ischner
Junior Analyst

Performance & Holdings



€1,11M

AUM

5

Analysts

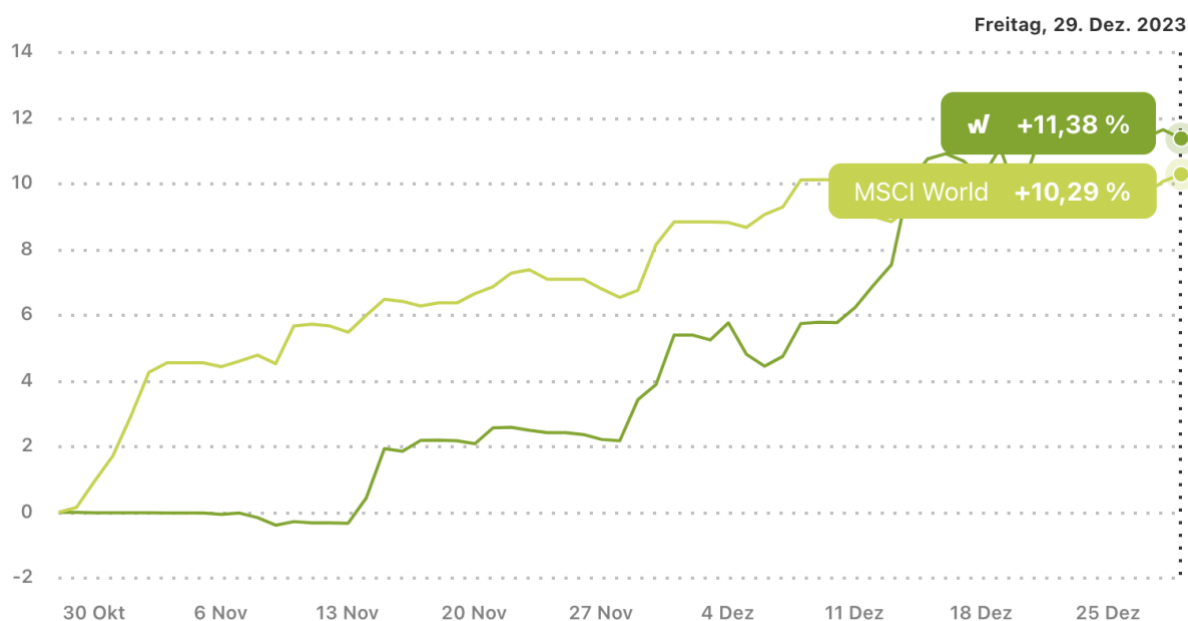
35

Analyses

1.09%

Outperformance

Performance



Source: Wikifolio

Highlights

Ford Motors

Ford Motors is an international Automobile manufacturer, which has expanded its production onto the international stage, establishing itself as one of the industry's leading brands. Despite this, Ford has encountered challenges stemming from the Ukraine War, resulting in the inflation of essential resources crucial for production. With a net income of 6.16 billion USD and an EBIT of 7.23 billion USD, Ford has a healthy financial history with revenue growing steadily throughout the past few years. However recent setbacks in the Electro automobile sector as well as a surge of strikes, have prompted Ford to reevaluate its managers with a noticeable impact on profits. In the past few months Ford has faced a large amount of turbulence, which has led to an increase in its debt. Although various financial ratios indicate a positive growth possibility, the pivotal factor lies in how Ford will overcome the current obstacles it faces.

Analyst: Leonard Krause

Harley-Davidson

Harley-Davidson, a resilient force in the motorcycle industry, has successfully rebounded post-COVID with a robust Earnings Before Interest and Taxes (EBIT) recovery. Beyond motorcycles, the company strategically diversifies into accessories, merchandise, and experiences, evolving into a global lifestyle and technology brand. The H-D membership program and the Harley Davidson app, featuring social elements, emphasise this transition, fostering a community among motorcycle enthusiasts. Harley-Davidson positions itself as a dynamic player within the motorcycle industry, demonstrated by its tactical shift towards a more technology-oriented enterprise. Various financial metrics indicate substantial growth potential, reinforcing the company's positive trajectory. The blend of tradition and innovation, coupled with strong adaptability, supported by robust financial indicators, solidifies its position as an attractive option for those seeking sustainable investment opportunities.

Analyst: Simon Oswald

Target

Target is an over hundred-year-old company dealing with the ownership of retail stores. The company distributes an assortment of general goods and food. The main categories are clothing, accessories, beauty, food and beverages. The company operates over 1.900 supermarkets across the US in various sizes. In 2023 Target planned to invest up to \$5billion for an expansion of operations network of stores, supply chain, digital offerings and guest specific services. The retailer also has plans to advance its efficiency efforts after a growth period in the past. For the past year the company faced a decrease in Revenue, Free Cash Flow and Net Income but was now able to bounce back with slightly increased figures. The upside potential is reflected in the increase of the stock of 23,8% and an increase in the dividend yield to 3,17% during the holding period. We expect the company to keep up the momentum in the next Financial Release in February.

Analyst: Philipp Ischner

ExxonMobil

Exxon Mobil has outlined a robust plan for 2024 and the following years, targeting significant financial and operational milestones. The company aims to complete \$17.5 billion in share repurchases in 2023, with a projected increase to \$20 billion annually through 2025, post the completion of the Pioneer merger. They have set an annual project spending target between \$22 billion and \$27 billion through 2027, suggesting a continuation of aggressive investment strategies. Their corporate plan anticipates a doubling of earnings potential from 2019 to 2027, with the company on track to add approximately \$14 billion in earnings and cash flow growth over the next four years. These capital investments are expected to yield an average return of around 30%, with over 90% of the capital expenditure (capex) projected to be paid back in less time. Production forecasts are also on the rise, with Exxon Mobil aiming to produce 3.8 million oil-equivalent barrels per day in 2024, an increase from the 3.7 million barrels per day in the current year. This production boost is expected to continue, reaching about 4.2 million barrels per day by 2027, driven by growth in the Permian Basin and Guyana. Additionally, the company plans to expand its share buyback program, which is a sign of confidence in their financial stability and commitment to returning value to shareholders. Overall, Exxon Mobil's strategy for 2024 and beyond includes ambitious production targets, substantial financial returns, and increased shareholder returns, all while making significant investments in projects that will likely also include efforts towards reducing emissions.

Analyst: Víctor Laso Malagón

Cloudflare

Cloudflare is a world-leading American IT provider. Its business is based on CDN services (content delivery networks), cloud cybersecurity and domain registration services. The CDN solution is the key product of Cloudflare, as its network ensures a fast loading time for websites. Due to an increasing number of IT security threats and the need for a solution, Cloudflare was historically able to increase its market share in the CDN sector to around 80% as of 2022. Even in the face of emerging advanced threats, the company continues to ensure safety and performance for their customers and was able to mitigate the largest HTTP DDoS attack on record in February 2023. To ensure market dominance in the future, Cloudflare's network grew to 300 cities and connected 12,000 networks all over the world. This growth trend is expected to continue due to the emergence of AI and is already reflected in the company's revenue growth of ~ 35% as of Q3 2023. This growth and the high gross margin of 76.7% in a difficult macroeconomic environment build the foundation for our investment hypothesis of Cloudflare. While the company also posted a \$23.5 million GAAP net loss from operations for the third quarter of 2023, this can be attributed to the issuance of employee stock-based compensation. As the Free and Operating Cash flow remained at \$102.41 million and \$247.09 million, respectively, and the \$1.28 billion of debt is well covered by \$1.57 billion in cash, the company remains financially stable. We chose to invest in Cloudflare in CW 46 of 2023 after the stock fell around 70% from its all-time high in November 2021. This investment was backed by our trust in the resilient key financials, the change in market mentality and the expected announcements of interest rates in the USA. As the market turned, our position grew 23.8% until the end of 2023. Our confidence in Cloudflare remains strong and we are expecting the company to continue its success story.

Analyst: Joshua Kron

Learnings & Forward Guidance

The markets recorded an excellent performance towards the end of the year. Major Indices such as the S&P 500 and the NASDAQ rose by 27% & 48% respectively on a one-year basis. In particular, the last quarter in which we set up our fund was the best quarter of the year. Looking at this performance, it may seem like it was a brilliant year for all companies, but that is not the case. The upward trend in the markets was mainly driven by the so-called “Magnificent Seven” and of course the buzzword of the year “Artificial Intelligence” or AI. Sectors such as oil had a rather difficult year, influenced by the ongoing wars in Ukraine and Israel. Although the markets had an impressive rally this year, the general perception seems to be that the likelihood of a recession in the next year has increased. Interest rates are at a 15-year high, and there is no telling whether the economy will survive this without any major complications. But these are factors which we as Investors cannot influence and over which we have no control. That is why we concentrate on the only thing we can influence namely the stocks we select. My methodology has always been a pure equity approach with businesses which tend to have a competitive edge to be bought at a fair or undervalued price. Since we had to relaunch the fund at the end of October, we decided to aim for a portfolio of about 10-20 positions. This doesn’t give us a broad diversification, but it helps us to focus on the companies we own and pick only the best companies rather than complementary companies to balance out the risk. All of the fund members, myself included, were new in the ESB Capital community and many had never analyzed a stock before while others already interned in the field. This experience gap prompted me to introduce a “fail and fail fast” approach, where everyone had to do their own research and presentations, even if they were not good at first. This led to rapid improvement from week to week and helped us to find a common ground for all analysts. The valuation aspect continues to be a difficult topic to communicate, if not the most difficult of all fund strategies, as it has so many nuances.

We have an eventful year ahead with continued geopolitical tensions, high interest rates and cooling economies around the world. Markets are still trading at relatively high multiples so it will be interesting to see if they will shrink and open up new opportunities for us to deploy capital. I would like to congratulate all the analysts not only on the outperformance of the fund versus its benchmark, but also on the excellent work that each of them has done this semester. I think everyone has gained at least some valuable insights and further sparked their interest in investing. I also would like to thank everyone at ESB Capital for this opportunity and for their confidence in our new team. A special thanks goes to Clemens Röger, who helped me with the induction and always was helpful and motivating.

Kind regards,

Lars Barcena Regenscheit (Portfolio Manager)

Contact

If you are interested in learning more about the ESB Capital Student Fund, you can find out more on our website www.esb-investmentclub.de/student-fund/.

Additionally, feel free to contact us via esbcapital@esb-investmentclub.de.

“Our mission is to go beyond the theoretical financial concepts of the classroom and create a community of students that share a strong passion for investment management and are dedicated to apply their knowledge in our virtual funds”

Disclaimer: Not Financial Advice.