Intrinsic Fund (ISIN DE000A2N68Z3)
Half-Year Report 2025 of the Subadvisors CL Capital GmbH

Dear Co-Investors,

The performance of the Intrinsic Fund in the first half of 2025 was +4.8% after all fees. The NAV, as of June 30, 2025, was €202.08. The DAX achieved a return of +20.1% in the first half of 2025.[1] Since the launch of the Intrinsic Fund on March 29, 2019, the fund has achieved an annualised performance after all fees of +11.9%. During the same period, the DAX increased by an average of +12.4% per year.

The Intrinsic Fund 2025 Half-Year Report first provides an overview of the portfolio structure and performance. I then address the question of when experts or generalists make better decisions. Experts have an advantage when a discipline is governed by clear rules and there is immediate feedback on decisions made. Generalists, on the other hand, often arrive at better decisions in unstructured fields by drawing on experiences from various domains. Investing is one such unstructured discipline, where generalists are frequently able to transfer insights from one industry to another. One example is the digital advertising channel Retail Media, whose potential first became clear to me while analyzing MercadoLibre. The insights gained from this research have since informed many of my subsequent investment decisions.

Portfolio structure and performance overview as of June 30, 2025

<u>Portfolio structure</u>

NAV as of 06/30/2025	€202.08
Number of investments	15
Weighting of the biggest investment	13.7%
Weighting of the five largest investments	59.4%
Weighting cash	0.1%

<u>Alphabetical listing of the five largest positions within the Intrinsic Fund</u>
Fomento Económico Mexicano (FEMSA)
Hostelworld
MercadoLibre
Nu Holdings (Nubank)
VEF

[1] I consider a global stock index such as the MSCI All Country World Index to be a more suitable benchmark; however, using it would involve high licensing fees.

Performance overview

Period	Intrinsic Fund (1)	Dax (2)	Delta (1)-(2)
2019 (9 Monate)	9.2%	15.0%	-5.8%
2020	25.2%	3.6%	21.6%
2021	24.5%	15.8%	8.7%
2022	-35.0%	-12.4%	-22.6%
2023	47.1%	20.3%	26.8%
2024	18.5%	18.9%	-0.4%
2025	4.8%	20.1%	-15.3%
Since inception	102.1%	107.4%	-5.3%
Since inception p.a.	11.9%	12.4%	-0.5%

In the first half of 2025, there was one change among the fund's five largest portfolio positions. For the first time, the Brazilian digital bank Nubank is among the top five holdings, while the Swedish audio streaming provider Spotify is no longer part. Spotify serves as a prime example of how significantly share prices can fluctuate in the short term, and what investment opportunities can arise as a result. The average purchase price for the Intrinsic Fund was $175, with the cheapest shares acquired in November 2022 at $73. At that point, the entire position was down by around 50%. Just under three years later, as of the reporting date, the share price stood at $767. Due to this substantial price increase and the resulting lower return expectations, I reduced the position, and Spotify now accounts for a little over 6% of the portfolio. At the same time, this year's share price decline in Nubank provided an opportunity to further increase the position at an average price of $11.3.

I remain satisfied with the operational performance of the five largest investments. FEMSA, MercadoLibre, Nubank, and the holdings of VEF are all experiencing sustainable growth - only Hostelworld reported stagnant revenues and slightly declining profits at mid-year. In June, I met with the CEO, CFO, and CTO of Hostelworld in Dublin. After several years of growth, Hostelworld is now deliberately investing in new products aimed at expanding the social network around its booking platform. My conversation with management reinforced my view that the company is currently laying the groundwork for further growth. It is also encouraging that three of the five largest positions repurchased shares in the first half of 2025. FEMSA began its buyback program back in 2024, while the Swedish investment company VEF started a few weeks ago, and Hostelworld initiated buybacks in June. In all three cases, I am convinced that these repurchases are being made at attractive valuations and will further increase intrinsic value per share.

Before my annual trip to the Berkshire Hathaway shareholders' meeting in Omaha, I spent four weeks working from New York in April. During this time, I met with the management teams of several Intrinsic Fund portfolio companies, attended a Latin America investment conference, and took part in the New York

Fintech Week. Once again, these experiences made it clear to me how valuable travel is for developing a deeper understanding of context. Conversations with people from different backgrounds, insights into business models that evolve differently across borders, and exchanges with investors who bring new perspectives - all of these help to recognize new interrelationships. Fittingly, while in New York I read the book "Range" by David Epstein. Epstein describes how important it is to connect skills, concepts, and experiences from a variety of fields, and in which situations experts or generalists tend to make better decisions.

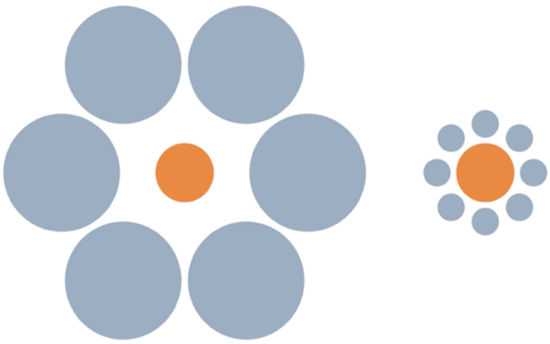
<u>Context is essential in a dynamically evolving environment</u>

A common myth claims that early specialization is the key to excellence in any discipline. The so-called "10,000-hour rule" - the idea that it takes 10,000 hours of practice to become an expert - is often cited in this context. However, specialization can also have its drawbacks. Charlie Munger is frequently credited with a quote that actually originated with Maslow:

> *„I suppose it is tempting, if the only tool you have is a hammer, to treat everything as if it were a nail"*

In his book *The Psychology of Science*, Maslow describes the dangers of excessive disciplinary fixation and how scientists, in particular, tend to cling to familiar patterns of thinking when faced with new questions, rather than embracing new methods. In his own book, Epstein differentiates between "structured" and "unstructured" learning environments. In structured environments—such as chess or golf—there are clear rules, and every decision receives immediate feedback. In these disciplines, experts have an advantage because they can learn patterns precisely and repeat them efficiently. The situation is quite different in unstructured environments such as politics, medical diagnostics, or fundamental investing: here, clear rules are lacking, and feedback on decisions may take years to materialize. In such environments, generalists are often at an advantage because they can switch between different mental models and connect insights from various disciplines. This makes it possible to place decisions in a broader context, whereas experts risk losing sight of the bigger picture. Interestingly, experiments suggest that in recent decades, our brains have increasingly developed toward a more generalist way of thinking.

Take a moment to look at the image: Which of the two orange circles appears larger?



Clearly the right circle—or is it? In fact, it isn't. In this experiment, our brains fall for what's known as the "Ebbinghaus illusion," as both circles are exactly the same size. Many of you may already be familiar with this phenomenon. What's particularly interesting, however, is what happens when you show the image to people who have never been exposed to the modern world: they immediately recognize that both orange circles are the same size. They lack the impulse to interpret the orange circles in relation to the outer circles, and therefore do not fall for the optical illusion. In a traditional, static world, context played a lesser role; specialization in a few clearly defined tasks—a “structured learning environment”—was sufficient. Only in our dynamic, multi-layered world has our brain learned to interpret situations in context, which also makes it more susceptible to such optical illusions.

Fundamental investment decisions must be made in the context of a wide range of factors—from corporate culture and the quality of the business model to capital allocation skills, reinvestment opportunities, and technological or regulatory risks. In my view, this is precisely where generalist investors have a particular strength. They can draw on a broad base of experience and identify parallels across different industries, which helps them better anticipate future developments. This became especially clear to me when analyzing the impact of the digital advertising channel, Retail Media, on the Latin American e-commerce company MercadoLibre. The significance of Retail Media extends far beyond this single investment case and plays a central role in other sectors and geographies as well. By now, I estimate that Retail Media, in a broader sense, influences around 70% of the Intrinsic Fund’s portfolio. For this reason, I would like to outline what Retail Media is and provide examples of how it shapes the development of our portfolio companies.

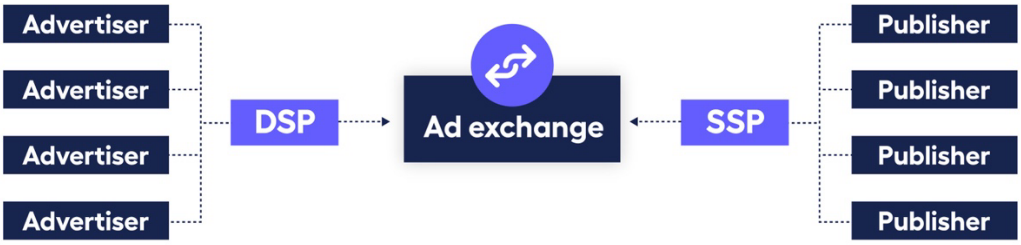
Retail Media – The Modern Makeover of In-Store Promotions

“Amazon finally reveals the size of its massive ad business” - this is the headline in February 2022, when Amazon first begins reporting its advertising revenue separately. [2] For 2021, an impressive $31 billion in advertising revenue is disclosed. With this, Retail Media firmly captures the attention of investors. Growing advertising revenues from Retail Media are often the third stage in the evolution of an e-commerce business model, which typically develops in the following steps:

1. Building a differentiated product range and customer base,
2. Heavy investments (for example, in proprietary and faster logistics) to increase customer engagement and satisfaction
3. Monetization, for example through Retail Media

Retail Media refers to advertising offerings from retailers such as Amazon, MercadoLibre, or Zalando, where brands can promote their products directly on the retailer’s platform, targeting consumers based on their shopping behavior. The basic idea of placing advertising as close as possible to the point of sale is not new - but e-commerce has taken it to a new level. While traditional brick-and-mortar retail relied mainly on in-store advertising or discount promotions, online it is primarily display ads, paid product placements, and increasingly video content that brands use to reach their target audiences.

[2] https://www.axios.com/2022/02/03/amazon-size-ad-business



[3]

This diagram illustrates how Retail Media is typically delivered. Retail platforms (publishers) like Zalando require software to efficiently manage their advertising space. This software is connected to a "Sell-Side Platform" (SSP), which acts as a marketplace for advertising inventory. Through the SSP, advertising space is made available automatically and in real-time to as many advertisers as possible. An SSP, in turn, is connected either via an "Ad Exchange" or directly to a "Demand-Side Platform" (DSP), which enables advertisers to purchase ad space automatically. Within this structure, a distinction is made between "walled gardens" and the "open web". Walled gardens like Google, YouTube, Instagram, Facebook, or Amazon control access to their vast advertising inventory and rely on their own DSPs. As a result, advertisers can only buy ad space via the DSPs of Alphabet, Meta, or Amazon, and these platforms retain a large portion of the advertising margin themselves.

In the open web, by contrast, various independent DSPs and SSPs can simultaneously bid for advertising space. For example, if Samsung's ad agency wants to run a campaign, it might place orders with several DSPs, including the largest independent DSP, The Trade Desk. The Trade Desk could then identify suitable ad placements through its business relationship with the SSP Magnite. Magnite, in turn, might be connected to Otto's websites and display the Samsung campaign there as display ads or videos. From an advertising budget of 100 euros, the DSP typically retains about 20% and forwards 80 euros. The SSP usually deducts around 10% of this, so that roughly 72 euros reach the publisher. E-commerce retailers have a significant advantage here: thanks to their detailed insights into the search and purchasing behavior of their customers, they can deliver advertising precisely to the most relevant target groups. This ensures an attractive return on ad spend. In recent years, Retail Media has thus become one of the fastest-growing segments in the digital advertising market.

The global advertising market amounts to about one trillion US dollars per year, with around 70% now attributable to digital. The remaining 30% of the traditional advertising market is still dominated by TV (linear and streaming), accounting for about 60% - that is, roughly $150–200 billion per year. In the digital segment, with a volume of $700 billion, advertising in social media and search engines dominates, each generating about $200 billion. Retail Media follows directly behind, now generating around $130 billion in annual ad revenue. With advertising revenue of $56 billion in 2024, Amazon contributes nearly 40% to the global Retail Media market. While the overall digital advertising market is expected to grow by 8% in 2025 and the traditional channel is projected to shrink by 3%, Retail Media is set to grow by over 12% - making it the most dynamic advertising channel. So what exactly makes Retail Media so attractive for many digital retailers?

[3] https://adjoe.io/glossary/supply-side-platform-ssp/

The answer is simple: EBIT margins in Retail Media often exceed 60%. I am convinced that well-positioned e-commerce retailers can continue to grow in this segment for many years to come. First, e-commerce penetration—which today typically ranges from just 10% to 30%, depending on the country—could, in the long term, rise to over 50%. This structural market growth will lead to a greater number of e-commerce customers who can be targeted with Retail Media offerings. Second, the gradual phasing out of third-party cookies increases the value of retailers' own customer data - such as purchase history or search behavior. Another attractive aspect for advertisers is that e-commerce platforms allow them to reach end customers directly at the digital point of sale, just before a purchase decision is made. And third, Retail Media is interesting because the effectiveness of ad budgets can be measured precisely. The well-known saying from the advertising industry - "Half the money I spend on advertising is wasted; the trouble is I don't know which half" - does not apply here. I originally analyzed the impact of Retail Media on MercadoLibre's financials, but this analysis now extends to many other portfolio companies in the Intrinsic Fund as well as companies on my watchlist. Applying the insights gained to related business models allows me to identify structural opportunities at an early stage. In the next section, I would like to illustrate the significance of Retail Media with three examples from the Intrinsic portfolio.

How Retail Media impacts the investments of the Intrinsic Fund

<u>MercadoLibre</u>

Even in my early conversations with MercadoLibre, one statistic impressed me: Internet users in Latin America spent almost as much time on Google and the Meta platforms as on all relevant e-commerce sites combined - yet around 90% of digital ad spending flowed to Alphabet and Meta. At that time, MercadoLibre's management already articulated the ambition to become the third-largest digital advertising platform in Latin America in the long term. To put the scale of Retail Media revenues in context, it is typically compared to the gross merchandise value (GMV) processed on the platform. At Amazon, the $56 billion in ad revenue generated in 2024 was estimated to be over 6% of GMV. MercadoLibre reported explicit figures for its ad business for the first time in Q4 2021, when it had just surpassed 1% of GMV and generated annual revenues of $200–250 million. Since then, revenues have roughly quadrupled, reaching around $1 billion in 2024, or 2% of GMV.

Already this figure suggests that MercadoLibre still has significant potential for further growth in advertising. Like Amazon, MercadoLibre has built its own DSP and is generating correspondingly attractive margins. In addition, the company is increasingly entering into advertising partnerships beyond its own platform, with external partners such as Disney, to offer advertisers a more comprehensive suite of solutions. I believe it is realistic for MercadoLibre to increase the share of ad revenue relative to GMV to as much as 5% in the coming years. This would represent an additional profit potential of about $2 billion, meaning this segment alone could double MercadoLibre's profits.

<u>FEMSA</u>

FEMSA is an example of how Retail Media can unfold across several business segments within a company. The OXXO convenience stores have long benefited from traditional retail media, as suppliers pay OXXO for so-called trade promotions such as prominent shelf placements or promotional displays. Recently, FEMSA has expanded its offering, installing digital screens in more than 3,300 OXXO stores, allowing brands to directly target customers. FEMSA is also testing new Retail Media formats, such as in-store audio advertising and additional advertising space at the checkout. In a podcast, FEMSA's Head of Retail Media explains how advertising can now be delivered more precisely based on weather or customer data.[4] The results so far are promising: brands using these Retail Media solutions see average incremental sales growth of 8%. The ecosystem is further enhanced by the financial app Spin, with nearly 10 million active users, and the loyalty program Premia, with around 27 million active participants. The transactional data generated enables FEMSA to offer increasingly precise targeting for brand partners and lays the foundation for further advertising revenue growth across the entire product portfolio.

Spotify

Even though Spotify is not a retailer, my experience in the Retail Media space has helped me better assess the company's future financial development. In my annual investor letter for 2021, I wrote:

" With the development of the so-called "Two-sided Marketplace", Spotify has developed a platform that helps labels with the targeted marketing of their artists. For example, Spotify offers tools to labels to draw attention to individual songs or artists through pop-ups in the app and increase awareness. If a promoted song is then played, Spotify pays a lower license fee to the labels. Statistics show that such investments in the targeted marketing of songs or artists are worthwhile for music labels."

This principle is very similar to the mechanisms of Retail Media. Spotify is increasingly leveraging its extensive "user transaction history" (i.e. streamed songs) to offer music labels targeted marketing opportunities for their songs. For streams generated through such campaigns, Spotify pays lower royalties to the labels. This is one of the reasons why the gross margin in the Premium segment has risen from 28% in 2022 to 33% now. The insight that monetizing direct end-customer access creates structural revenue potential thus applies not only to retail companies but also to digital platforms like Spotify. I also expect additional momentum for the advertising business from last year's comprehensive partnership announcement with the DSP "The Trade Desk."

These companies, as examples, should continue to benefit from Retail Media offerings in the years to come. However, Retail Media can also negatively impact a business model. Three points seem particularly noteworthy to me:

1. Deterioration of the customer experience
2. Diminished focus on the core business
3. Inadequate handling of personal data privacy

On the first point, Amazon is often cited as a negative example. Today, it's frequently difficult to tell which listings are sponsored, and customers increasingly have to search to find relevant results. If the user experience deteriorates significantly, customers will turn to competitor platforms. The second point concerns the risk that a retailer, by focusing too heavily on advertising revenue, may lose sight of its core competency - a differentiated product selection. A sustainable advertising business can only succeed if the platform remains relevant for customers. What's particularly critical is that a decline in assortment or service quality may not be immediately reflected in the numbers, as profitable ad revenues can mask underlying weaknesses in the core business. For the third point, the case of the American retailer Target serves as a cautionary tale. Target analyzed its customer data so thoroughly that the company sometimes identified pregnancies before the customers themselves did. This led to unsettling targeted advertising, and

[4] Retail Media Moguls: FEMSAs Retail Media Revolution: Latin Americas's Bold New Network – with Juan Restrepo.

after intense criticism, Target revised its marketing strategy. It is therefore essential to ensure that data is sufficiently anonymized and that ethical boundaries are respected.

These risks are also relevant for the companies in which the Intrinsic Fund is invested. As things stand today, however, I see no signs that these companies are pursuing an overly aggressive expansion in Retail Media. MercadoLibre continues to focus on customer satisfaction and a high conversion rate, rather than maximizing advertising revenues in the short term. The management team has repeatedly demonstrated a commitment to the long-term development of the business over short-term financial optimization, which has been confirmed in numerous conversations with former employees. FEMSA is still in the early stages of its Retail Media activities. Here too, the founding families have consistently prioritized long-term value creation over short-term margin optimization for decades. Already today, FEMSA has introduced a quality score to measure the relevance of advertising for customers. Accordingly, I believe they will also strike the right balance in the area of Retail Media. In Spotify's case, my analysis and conversations with former employees have confirmed that the company's data-driven culture puts user engagement at the center. "Ad offerings" from labels are only displayed when they are relevant to the listener. Overall, I am therefore confident that Retail Media will have predominantly positive effects for the companies in the Intrinsic Fund portfolio.

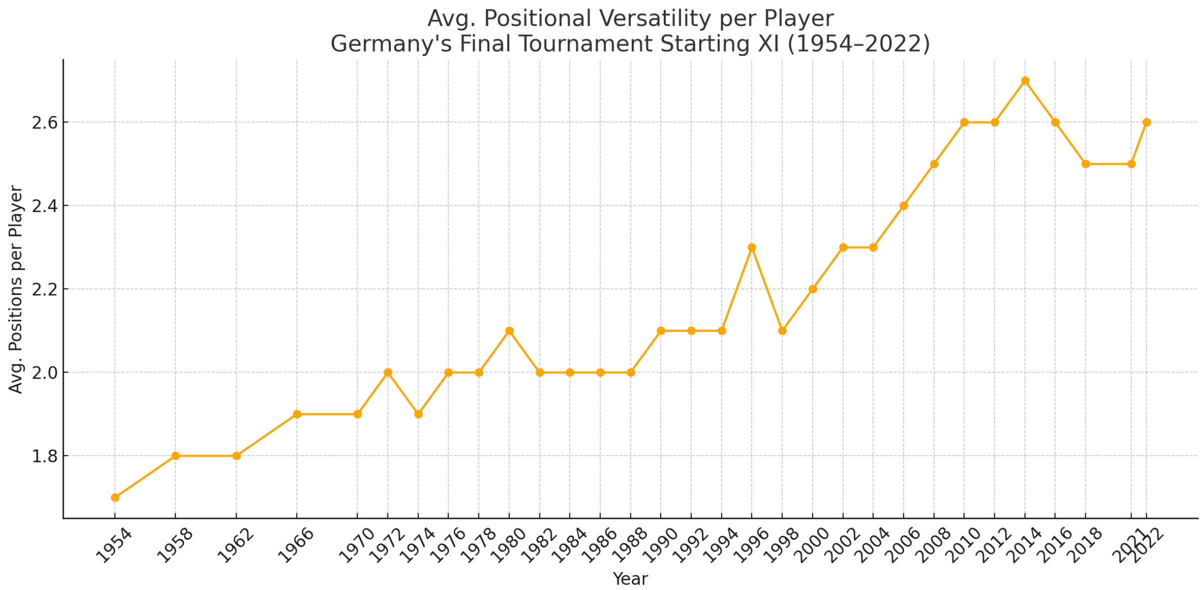
Regardless of the current investments, a wide range of other companies will benefit from the rise of Retail Media - or more broadly, "Commerce Media." Travel providers such as airlines will be able to display personalized advertising directly on screens, banks will be able to monetize their rich data through their own apps, and in the automotive sector, a fierce competition is already underway for control of the infotainment system and the associated future advertising revenues. Especially in such dynamic markets, it is crucial to transfer insights from one industry to new dynamic markets - an ability in which generalists may once again have an advantage. To conclude, I would like to share an example from football that illustrates the benefits of generalists even in dynamic sports.

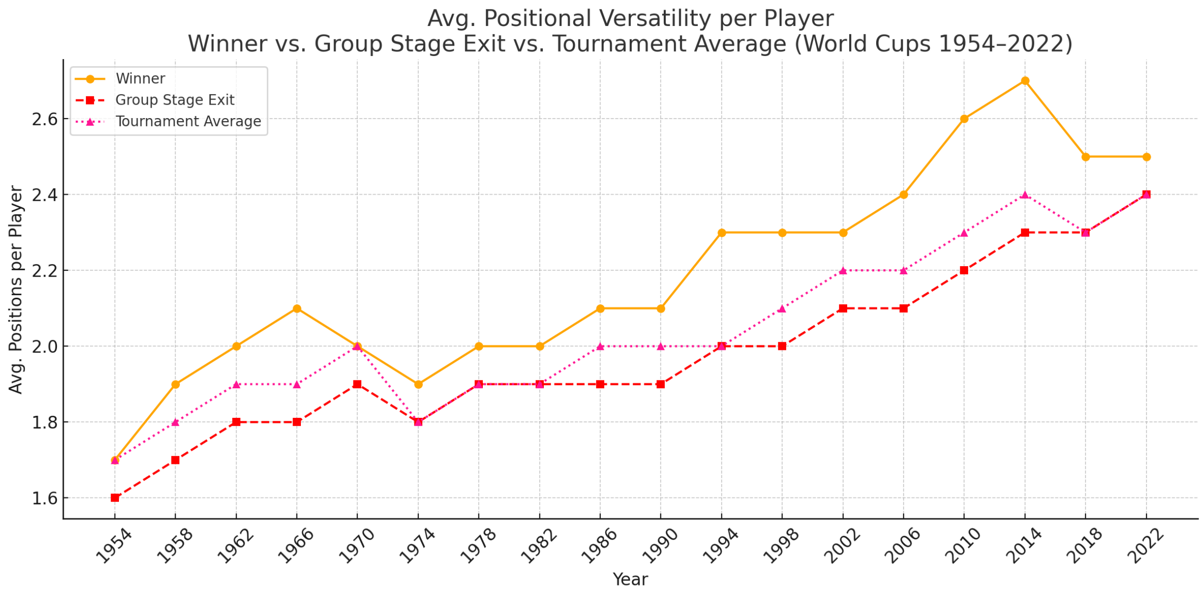
World Cup Title 2014: A Victory for the Generalists

June 20, 2000, marked a bitter day for German football. Germany lost 0-3 to Portugal, with Sérgio Conceição scoring all three goals. As reigning European champions, Germany exited the tournament without a fight. The national team appeared static and was clearly outmatched by the more dynamic styles of their opponents. Yet this disappointment was followed by a remarkable structural renewal of German football. First, a nationwide network of youth training centers was established, laying the foundation for early talent identification and targeted development. Second, the training philosophy underwent a fundamental transformation. Technical skills became increasingly important and, above all, early specialization in specific positions was deliberately postponed. Young players were trained in a more holistic manner for longer, learning to operate flexibly in various positions. This allowed defensive players to become more involved in attacking play, while offensive players learned defensive skills early on.

The happy ending came just fourteen years later. In 2014, midfielder Mario Götze crowned the German team World Champions by scoring a true striker's goal in extra time - a title that also symbolically represents the triumph of the generalists. To illustrate this development, I had ChatGPT create a graphic showing the average number of positions a player occupied over their entire professional career. The first graphic displays this average for the players in the last German starting line-up at past European and

World Championships. The second graphic compares the average positional versatility of winning teams and all teams eliminated early in World Cups—each set against the tournament average for all teams.





What's particularly striking is how clearly the first chart illustrates the increase in positional versatility after Germany's exit from the 2000 European Championship. From 1954 to 2000, positional versatility had risen from 1.7 to 2.2. In the mere fourteen years leading up to the World Cup title in 2014, it increased again from 2.2 to 2.7. I am convinced that this deliberate, more generalist approach to player development played an important role in securing the 2014 World Cup. The second chart reveals two things: First, the World Cup-winning team almost always possesses greater positional flexibility than the tournament average. Second, there is a clear upward trend in the generalist training of players over the years. Of course, this number will never reach eleven, since deep expertise in certain positions remains essential. This parallels the role of the generalist investor: new industries always offer valuable learning opportunities, but lasting success also requires in-depth knowledge of specific sectors.

I have also gained quite some experience in fund administration over the past twelve months. The first half-year with our new KVG, Monega, as well as the liability umbrella NFS Netfonds, has gone very smoothly, and I look forward to our continued collaboration. As previously announced, Laurenz Nienaber, Dr. Martin Possienke, Dr. Mathias Saggau, and I have joined forces with the Long-Term Group to build a lasting network and ensure a high degree of stability for our investors. You can find more information on our shared website: **www.longterm.group**.

If you have any questions about the Intrinsic Fund, you can always contact me by email at clemens.lotz@clcapital.de.

I wish you all a pleasant and successful second half of 2025.

Clemens Lotz

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