

FS ASSOCIATES

2020

PERFORMANCE REPORT 2020



FS ASSOCIATES
STUDENT INITIATIVE OF
FRANKFURT SCHOOL

REPORT BY QUIRIN ZUNDL, JUAN MARTIN ALEAGA,
VITALIJ VYCEROV & LUKAS STOFFEL



DEAR LADIES AND GENTLEMEN,

At FS Associates we hope that you and your families are healthy and safe. In 2020 we have seen much. Many of the things that happened in 2020 will hopefully not repeat themselves in the foreseeable future. However, not all was negative. 2020 brought solidarity and reminded us of what really matters in life. Digitization advanced at unprecedented pace. Carbon emissions worldwide decreased by a forecasted 7% yoy, even though it can be questioned whether this is lasting. Healthcare workers, the fire brigade, policemen and -women, grocery workers, volunteers and many more finally got the praise they deserve. Finally, towards the end of the year, Joe Biden was elected president and shortly after, several highly effective Covid-19 vaccines were developed and approved. While it is personal, political preference whether one supports Trump or Biden, and we leave that to the reader, the vaccine news is undoubtedly wonderful as it can be assumed that the vaccines will end the pandemic.



QUIRIN ZUNDL

MANAGING DIRECTOR

OPERATIONS REPORT

From an operational perspective, 2020 was a challenge for us. We were used to meeting in person at university to discuss tasks and work progress, business strategy and the exposures of our portfolios. With the beginning of the pandemic and the first lockdown, our way of working together as a team was no longer possible. We shifted our meetings mainly to online, with few exceptions in September, and worked mainly from home. Up to now, we were able to adapt well and our operations, such as writing reports and managing the portfolio, were close to unaffected.

The largest disruption to our operation in 2020 was a change in client conditions by our broker. We trade on demo accounts with virtual funds provided by the broker. They are the trading tool of choice for us because they simulate the real market environment in which we can build a track record. We were allowed to use

this tool free of charge, however in summer 2020 the broker changed the conditions: From then on, any demo account without a real-money account opened by the account holder would be deleted within 30 days. We were unfortunately not informed about this step and therefore lost our performance track from October 2019 to September 2020. With +12% in March and a successful rotation into long in April, we were up roughly 20% at the maximum run-up. Due to the Wirecard fraud and subsequent crash we lost roughly the entire profits in that disastrous trade. Our Managing Director reacted to the condition changes and organized a way for FS Associates to continue to use the demo accounts. However, with the track record lost, we had to start again at 0% return in September 2020, which we did. This time, no such technical problem will occur.





LONG PORTFOLIO

FS Associates is exposed long with a total of ca. EUR 100k of initial portfolio value in gold and silver corporations (First Majestic Silver, Pan American Silver, Wheaton Precious Metals, Endeavour Silver, Mag Silver, Silvercorp, Polymetal International, Polyus). We hold on to this basket of companies as a major strategic position. Our expectation for Gold and particularly Silver are significantly rising prices over the coming months and quarters. After all, the pace at which central banks are printing money is faster than ever and the demand for Silver will arguably increase due to the expected green deal and further increases in electrification and digitization. Concluding, we feel very comfortable with these positions and up to now the exposure has been very profitable.

A further, more speculative strategic long position is Biontech. We hold ca. EUR 50k in Biontech and have published an investment report about the motives behind this exposure. Up to now, the position is slightly loss-making, however for now we have no reason to sell and will monitor closely. Biontech was financed with cash from the liquidated positions in SAP and Pepsi, which were trading positions. Both SAP and Pepsi remain on the watchlist.

We also hold EUR 15,5k in Nvidia which is to be understood in the context of a pair trade against

Intel. We believe that Nvidia will outperform Intel in the foreseeable future due to technological leadership.

Finally, we hold a small trading position of Fielmann shares which was bought in the EUR 60 area and currently trades at EUR 68. We will monitor closely as the price reaches the technical resistance at EUR 70-72. However, all in all, we are positive about Fielmann's digital strategy and family business nature. Our Managing Director holds real-money Fielmann shares.

There is a famous saying in the markets: "Be greedy when others are fearful and be fearful when others are greedy" - Warren Buffet. Last March we quoted this because the "others" were fearful. However, currently we quote Buffet for the opposite reason. We think that the rally is quite exhausted and in desperate need of consolidation. As always, we have no idea when, why and how much it will correct downwards. However, when it does, we currently hold EUR 78k to be greedy again when the others are fearful.

In total, our long portfolio is up €4.844,00 (+1,94%) since inception, as of 31 December 2020.



SHORT PORTFOLIO

FS Associates has gradually opened a number of strategic short positions. Until now, this has not been a very successful strategy, as the market is continuing to rally and our shorts are also negatively affected by this. Our flagship short position is Ceconomy. We published an extensive report about the reasons for this position. In the meantime, we sold short 20k shares worth, at time of sale, ca. EUR 100k. In the meantime, the position is nearly 20% loss-making. Nevertheless, our investment case remains unchanged and we will hold on to our exposure.

A further strategic short is Delivery Hero. We are short 457 shares worth ca. EUR 50k at time of sale. This is a valuation short and a sector short against food delivery. We think that the hype surrounding this industry is exaggerated and that the companies will fail to deliver profits for the foreseeable future due to their commodity product which only differentiates itself by price. We expect an ongoing price war and margin pressures. Additionally, the supposed “tech” nature of the business is deceiving.

After all, it is the horribly paid men and women who deliver the food on bicycles and scooters who are the backbone of this industry. Nevertheless, the short is also loss-making and we find ourselves in an unfortunate short squeeze.

Our third strategic short is also trying to squeeze us. Gamestop is a bricks and mortar retailer of video games and consoles. The stock has risen with the launches of the PS3, the PS4, and currently the PS5. In the case of the PS3 and PS4 the price increase was ultimately sold off and we believe this will also happen this time due to the legacy nature of the business. We are short 4k shares at an average price of USD 15.

We are also short Intel against Nvidia, as discussed above.

The open short positions are heavily loss-making in the EUR -40k area. However, gold future trading as part of our gold long strategy have compensated for ca. EUR 20k of these losses.

In total, our short portfolio is down €17.976,82 (-7,19%) since inception, as of 31 December 2020.

LONG-SHORT VIEW

In total our long-short portfolio is currently loss-making. We are net short: 200k short, 100k metals and 80k long, resulting in 20k-120k short, depending on the assumption regarding metals. However, as they currently behave like long exposure, a moderate net short exposure of EUR 20k seems likely.

We find the current market environment difficult to navigate: On the one hand we are in an intact bull market and the rally is climbing to ever dizzy heights. On the other hand, valuations are largely stretched to an extent where we cannot feel comfortable with going long and, at the same time, are being punished for going short.

The coronavirus seems solved in a matter of months with multiple vaccines being approved and mass vaccinations organized. Financial stimulus has been as large in 2020 as in no year in the history of the stock market before. Central banks are pouring liquidity into the markets at unprecedented pace. Many big corporations, particularly in the tech sector, have benefitted from the increased necessity of speeding up digitization. To sum up, it is no surprise that markets are at all-time high levels. However, it might be the case that these developments which support asset prices are priced in.

Right now, in our view, risks dominate. We are confronted with a president of the United States of America who is determined to cling on to office with all means imaginable. Considering that Trump is at risk of facing prosecution in various cases and consequently at risk of jail time for a number of offenses after he loses his legal immunity as president, his behaviour is rational. Particularly

considering the detail that he is at risk of facing trial in New York City, where his popularity is arguably low due to his catastrophic Corona handling which hit the city in a tragic way, it can be assumed that the judges would not have significant mercy. Consequently, we expect further political turbulence in the USA until 20 January 2021.

Another risk for the markets is that central banks might decide to reduce QE and increase interest rates as soon as the economic activity and arguably inflation picks up again after Covid-19. This is difficult to quantify or predict, however we believe this risk to be prevalent.

Finally, as discussed before, valuations are extremely stretched as investors pour money into practically any risky asset class they can find. The most recent example is the hype in SPAC IPOs and IPOs of companies at multi-billion-dollar valuation which have, up to now, only generated multi-billion-dollar operating losses. As soon as investors wake up and start caring about the realistic business opportunities of companies and their cash flows and balance sheets, this boom could end abruptly similar to the phase we saw at the beginning of the millennium.

Overall, we are down €13.132,82 (-2,63%) in the long-short portfolio, as of 31 December 2020. For 2021 we are determined to manage a turnaround and will focus on further market exaggerations to achieve this goal.

QUIRIN ZUNDL
MANAGING DIRECTOR

VITALIJ VYCEROV
INVESTMENT MANAGER

LUKAS STOFFEL
MANAGING DIRECTOR



PERSONAL REMARKS:

Personally, as the Managing Director and founder of FS Associates, I want to emphasize how proud I am of what FS Associates has achieved in 2020. We faced significant adversity, both in the causa Wirecard and in our operations problematic with the portfolio. Nevertheless, we are stronger than ever. FS Associates and in particular Vitalij Vyverov, who served as investment manager for large parts of 2020, has developed sophisticated valuation methods to analyse the intrinsic valuation of companies. Together with our fundamental and technical analysis expertise, this gives us the opportunity to search and find attractive investments which we can put to work in our long-short portfolio. Additionally, we learned from the Wirecard debacle and will adhere to our new approach which requires more extensive due diligence and open-minded news analysis. Please refer to our post-mortem analysis of Wirecard for the details. After close to 18 months of navigating the markets with all the excitement and setbacks this endeavour brings with it, FS Associates has provided me personally, and I believe I can also speak for the entire team, with invaluable experience and a strong sense of pride for what we have learned together during the ongoing process of getting better.

A hand holding a pen over a document with a blue overlay on the left side.

From an operational perspective, FS Associates has continued to grow and simultaneously maintained its efficiency. We value excellence, not size, and are focused to always keep this in mind while growing in size. We are organized in an Investment, a HR and a PR department. The PR department is supported by the Research department which produces research to a broad range of financial news and information. Jana Kalthoff joined the PR department in September and is responsible, together with the team, for our public appearance, be it our website or the social media appearance. The main change we made on the PR side in 2020 is that we understood that Instagram requires more playful and entertaining information whereas our LinkedIn channel is where we address people with a more academic or financial industry background who are interested in what we do and how we view the markets. JP Hellmich will leave the PR department and assume an advisory role in order to concentrate more on his current Corporate Finance internship at Accuracy. We thank him for his time and commitment at FS Associates and for his engagement as part of the founding team back in summer 2019. What a journey it was!

The HR department has grown as we recruited Aida Vafaei as new HR Associate to support Sophie Knospe who is also part of the founding team and in the final stages of her Bachelor studies. Over the course of three application rounds we have continuously improved the process and now pride ourselves in having a

challenging and thought-out application processes which enables us to properly identify the personal and technical fit of applicants.

In the Investment department, Joy He and Marco Solleder joined us in September. Due to their excellent work and commitment, they will serve as Portfolio Managers in the coming semesters. We will recruit further Investment Associates to meet the growing demand for coverage and research. Vitalij Vycerov, who has committed significant time and efforts to contribute to the progress of FS Associates will leave Frankfurt School in the beginning of 2021 after completing his Bachelor studies and head for an internship at Rothschild. We thank him and wish all the best for his future. It was a true pleasure to work with him and we hope that he will stay with us in an advising role.

I personally am heading for my last semester at Frankfurt School and have therefore appointed Lukas Stoffel as Managing Director who will lead FS Associates as soon as I am no longer a student at Frankfurt School. Lukas is with Associates since the very beginning and helped build the risk department before it merged into the investment department. I am very confident that with the transition phase he will be very well prepared to lead FS Associates into a bright future.

Quirin Zundl
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MANAGING DIRECTOR