CONREN
FONDS

CONREN Study
on listed family businesses
in Europe

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CONREN

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a. "Family businesses are better investments" - on the initial study in January 2020

Patrick Picenoni is a founding partner and managing director of the Altrafin Group and a fund manager of CONREN Fonds. He has a family business background. As a portfolio manager of liquid assets, he has spent almost 20 years working for clients including, in particular, entrepreneurs, advisors to business families and family offices as well as foundations established by entrepreneurs.

As managing director of the Salmuth'schen Family Investment Office, **Andreas Lesniewicz** helped to set up CONREN in 2004. He is fund manager of CONREN -Generations Family Business Equity. He has a family business background. Andreas Lesniewicz has been supporting business families in their investments and operational matters for more than 15 years.

CONREN FONDS

CONREN is known for its long-term absolute return approach. This active and independent investment approach is theme-based and top-down. This enables CONREN to offer a strategy to minimise long-term loss risks and facilitate capital appreciation in any environment.

The CONREN Generations Family Business Equity fund combines this market and portfolio expertise with the strengths of family businesses, including their long-term focus and crisis resilience known as "Enkelsicherheit" in German, meaning "securing the estate for future generations".

CONREN started out as a family investment office. This means that the CONREN team* has been investing large family estates with a focus on long-term risk adjusted returns for many years. As a result, **this family business mindset is deeply rooted in our DNA**. This is reflected not only in our investment approach but also in our view of the world and how markets work – as well as in what drives us every day. Most of the team at CONREN are family business entrepreneurs themselves.

We therefore take a great interest in t**he different ways that family business owners run their businesses** and manage their assets. This led us to ask **what precise influencing factors enable companies and portfolios to come out on top in the stock market in the long term** and whether family businesses perform demonstratively better.

To answer these questions, we conducted a large-scale study to a**nalyse around 900 listed family businesses in Europe along with their key figures and share price performance over the last 14 years.** The results were astonishing, even for us. **In more than 80 percent of cases, family businesses sometimes significantly outperformed other manager-led companies (or non-family businesses) in terms of share price performance – regardless of the country, sector, market cap, the applicable phase of the economic cycle or the prevailing market phase.** We now know, rather than simply assuming, that family businesses are better investments.

We engaged in this research not out of intellectual curiosity but to learn something we can use as investors. Therefore, scientific and methodological parameters were not our primary concerns. **Among other things, our practical questions included: How can we as investors participate in the success of business families? How can we make optimal use of their strategic advantages? How do we find family businesses that consistently play to their strengths? How do we avoid the typical risks associated with family businesses? And last but not least, how can we create suitable portfolios most effectively? The findings of this study are being applied to our portfolio management on a daily basis when investing in family businesses.** This is backed by a rule-based investment process with discretionary fine-tuning and macro overlay. In these portfolios, we invest in companies with anchor investors who have been and will continue to be involved with the company as supporters and caretakers for many years – without the usual conflicts of interest. We co-invest with these business families over a long-term investment horizon.

The significance of harmonising our interests with those of the relevant business families – the day-to-day caretakers of family businesses – should not be underestimated. In the vast majority of cases, **these family business entrepreneurs are working for the good of future generations and are thus aware of and experienced in handling crises. They are a particularly important anchor for us in these times of uncertainty. What could be more sustainable and "fit for future generations" in the truest sense of the phrase?** In German the word "Enkelfähigkeit" summarises their long-term focus and crisis resilience meaning „securing the estate for future generations".

*The CONREN team consists of the fund initiator CONREN Research GmbH, the fund managers at Altrafin Advisory AG and an entrepreneurial family as the cornerstone investor.

Disclaimer: Past performance is not an indicator of future performance. Future performance is neither explicitly nor implicitly guaranteed nor promised.

1. Foreword

a. "Family businesses are better investments" - on the initial study in January 2020

"Being family business entrepreneurs ourselves, we invest in listed family businesses with and for our family business entrepreneur clients. This makes us more sustainable investors and better family business entrepreneurs."

Andreas Lesniewicz
CONREN Investment Team

"As family business entrepreneurs, we think in generations. When investing in other family businesses, we know that they, like us, consider the long-term viability of their businesses for future generations to be the highest priority. This makes it easier to persevere even in difficult market phases."

Freiherr Johannes von Salmuth
CONREN Cornerstone Investor

"When it comes to our macroeconomic focus, the investment process and, above all, building a portfolio that takes diversification and risk management factors into account, we have combined our proven experience as asset managers with insights from family businesses. That was important for us in creating portfolios that are stable in all market phases."

Patrick Picenoni (Altrafin Advisory AG)
Fund manager, CONREN Generations Family Business Equity

1. Foreword

b. "Family businesses have significantly exceeded expectations during the COVID-19 crisis so far." - on the study update in September 2021

Our January 2020 study on listed family businesses in Europe, covering the period from January 2009 to the end of November 2019, not only provided the basis for the CONREN Generations Family Business Equity fund. It also led to a great deal of greatly appreciated dialogue about investing in the stocks of family businesses with both family business entrepreneurs and other investors. What makes family businesses different? What can investors learn from them? How can investors benefit from their advantages?

Summer 2021 was the right time for us to begin updating the study. The COVID-19 crisis has now been going on for more than a year. It caused a market panic last February/March that finally brought to an end the cycle that began after the Great Financial Crisis of 2008/09. This panic was followed by a rebound and then, after rapidly-developed COVID-19 vaccines were confirmed to be highly effective, a continuation of the early bull market from November 2020 onwards – a market phase we are calling "hope": As always in this part of the cycle stock prices began to recover well before company earnings did. Based on the hope that better times and higher profits would soon arrive, equity prices rose, resulting in disproportionately high valuations (as profits were still falling in many places).

That is plenty of interesting material for an update of this study within just 19 months. The two key questions are: "Did stocks of family businesses still prove to be better investments throughout this longer period?" (see Chapter 8.a.), and has the assumption we publicised in recent months: "European family businesses emerged stronger from the 2008/2009 financial crisis. There is plenty of evidence to suggest that the same will be true this time" (see Chapter 9.b.) – been confirmed? The answer to both is a resounding "Yes"! **Stocks of European family businesses were able to extend their lead even further compared to their benchmark indices. They have performed better in the COVID-19 crisis so far: losing less at the height of the panic and outperforming the market in both the immediate rebound and the post-vaccine rally. In our opinion, their recovery outlook is often more positive too.**

Other questions include:

- How did stocks of family businesses perform during the previous complete cycle after the Great Financial Crisis (March 2009 – March 2020)? (see Chapter 9.a.)
- How have stocks or family businesses performed so far during the current COVID-19 cycle (April 2020 – June 2021)? (see Chapter 9.b.)

The COVID-19 crisis poses a major challenge for all of us, and of course this includes family businesses in Europe. It has proven to be a real accelerator when it comes to future themes, prompting many megatrends of recent years to gather pace. For example, we previously only used videoconferencing occasionally until several lockdowns taught us to use it extensively. Our lifestyles and ways of working are changing faster than before. The COVID-19 crisis will accelerate many trends and be a catalyst for change – and family businesses fare particularly well in the face of change and constant improvement, as this is the only way for a business to remain successful over several generations. At present, the main challenges facing family businesses are digitalisation, the shortage of skilled workers and human resources management in general. Other challenges include supply chain problems, the partly extreme shifts in demand patterns, increasing regulation and state intervention as well as the transition towards more sustainability and a greener world.

1. Foreword

b. "Family businesses have significantly exceeded expectations during the COVID-19 crisis so far." - on the study update in September 2021

Family businesses are crisis-resistant because they are tenacious, battle-hardened and generally alert to crisis situations. We have seen during this crisis how advantageous it can be for business leaders to have already led their companies through other crises succesfully. They know what needs to be done and can therefore act quicker and more decisively. Family business entrepreneurs concentrate on what matters most. They live for their company. Their own reputation and fortune is at stake, particularly during a crisis. There is also the matter of **the "family business ecosystem" that has been cultivated over many years. During the current crisis, family businesses are once again benefiting from having strong roots, including lasting relationships with investors, employees, customers and suppliers.** Knowing and being able to trust one another makes a big difference in times of crisis. **As an anchor of certainty in times of change, stocks of family businesses are the ultimate long-term and sustainable real asset.**

The crisis resilience of stocks in the CONREN universe of family businesses in Europe is evident throughout the period assessed in this study. Particularly in the longer term, their capacity to recover more strongly after market crises leads to their outperformance over the entire investment cycle. **According to our study, the crisis resilience of family businesses is particularly apparent when the stock markets return to normality and a steady growth trajectory. This is the time when you can see who has emerged more strongly and turned the crisis to their advantage. This is when the quality of family businesses proves itself to the market. After the Great Financial Crisis of 2008/2009, the majority of outperformance came during a later phase of the cycle** – not during the "hope" phase but in the "steady-state growth" and "euphoria" phases. These phases are still to come during the current market cycle. This means that "Enkelfähigkeit" („the overarching objective to secure the estate for future generations") is good during a crisis but even better in the upturn after the crisis.

What can the COVID-19 crisis teach us about investing in stocks of family businesses? First, we must adopt the long-term mindset of these businesses and refrain from taking action for the sake of it. **We must give family businesses the time they need to exploit opportunities and overcome challenges. As a result, what we need is a triad of long-term thinking between fund investors, fund managers and family business entrepreneurs. Disciplined implementation and patience are the keys to investment success.**

2. Introduction to the CONREN study

The subject of our study is listed family businesses in Europe with a market capitalisation of more than 200 million euros. As of the end of June 2021, the universe included a total of 955 companies from 34 countries, with a combined market capitalisation of around 5.1 trillion euros, a mean market capitalisation of 5.3 billion euros and a median market capitalisation of 850 million euros. For the purpose of comparison, the broad European STOXX Europe 600 equity index has a market capitalisation of 13.3 trillion euros (mean value: 22.2 billion euros). Overall, there are around 4,200 listed companies in Europe (with a market capitalisation of over 200 million euros); of these, around 3,800 are located in Western Europe.

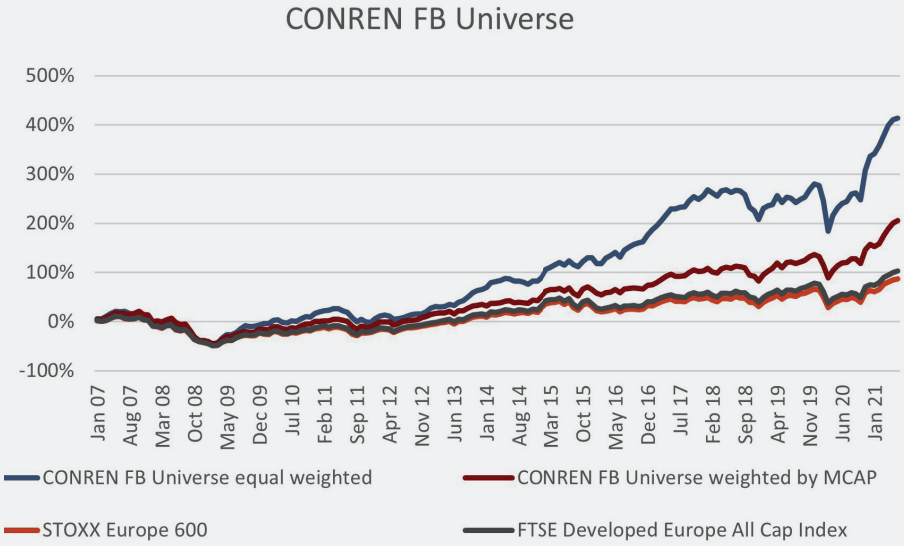
France, Germany, Switzerland, Sweden and the Netherlands have the most comprehensive landscape of listed family businesses by market capitalisation, representing approximately 70 percent of the universe's entire market capitalisation. With 146 companies, Germany leads the way in Europe based on the number of companies. The German economy is characterised by medium-sized family businesses. At the same time the stock market is not popular either with German investors as an investment or with German companies as a source of funding. Traditionally, German companies have financed themselves with debt, primarily from banks. By contrast, the United Kingdom, which makes up 20 percent of the market capitalisation of the STOXX Europe 600 equity index, only has 66 family businesses – making up just 3 percent of the CONREN universe by market capitalisation. This could be linked to the country's corporate finance culture (the United Kingdom has a significantly greater affinity for equity capital and the financial markets), sector distribution or the many companies that use the British capital markets without having major activities in the country. The British have a clear affinity for the stock market. They have a shareholder ratio (shareholders and investment fund unit holders aged 14 or over relative to the overall population) of almost 25 percent – in Germany this shareholder ratio is well below 10 percent. Total market capitalisation relative to gross domestic product in the United Kingdom is approximately 100 percent, while in Germany it is only slightly above 50 percent.

In terms of sectors, the dominant industries by market capitalisation in the CONREN universe are Consumer Durables & Apparel (an area in which the French are particularly strong), Pharmaceuticals, Biotechnology & Life Sciences, Food, Beverage & Tobacco, Capital Goods (Swedish and German companies are strongly represented here and are producing machinery for the global upturn, not least for production facilities in Asia) and Automobiles & Components (Germany leads the way here, although major changes are expected in light of electromobility, climate protection, digitalisation and self-driving vehicles). These five sectors represent around half of the universe's entire market capitalisation.

The European CONREN family universe consisting of 955 companies generated a total return of 414 percent during the period under review in this study (January 1st, 2007 to June 30th, 2021) when applying equal weighting to the individual companies. When weighting according to the market capitalisation of the individual companies, the universe generated a total return of 205 percent. By contrast, the broad European STOXX Europe 600 equity index only generated a total return of 87 percent over the same period, while the comparable FTSE Developed Europe All Cap Index generated a 103 percent total return. As a result, the universe of companies examined in this study significantly outperformed the comparable indices over the selected period of time. This equates to an annualised total return outperformance of around 5 percent: 5.52 percent vs. the STOXX Europe 600 (net return) and 4.99 percent vs. the FTSE Developed Europe All Cap.

2. Introduction to the CONREN study

Impressive outperformance



The CONREN family business universe beats the broad European equity index STOXX Europe 600 clearly over the observation period. The analysis is based on monthly returns from January 1, 2007 to June 30, 2021. This period covers the run-up to the Great 2008/2009 Financial Crisis as well as the crisis itself and the entire subsequent cycle until March 2020 as well as the COVID-19 pandemic.

When weighting according to the market capitalisation of the individual companies, the universe generated a total return of 205.3 percent. By contrast, the broad European STOXX Europe 600 equity index (net return) only generated a total return of 87.3 percent over the same period, while the comparable FTSE Developed Europe All Cap Index generated a 102.6 percent total return. This equates to an annualised total return outperformance of around 5 percent: 5.52 percent vs. the STOXX Europe 600 (net return) and 4.99 percent vs. the FTSE Developed Europe All Cap.

Source: CONREN Research GmbH, Altrafin Advisory AG, Bloomberg (August 2021)

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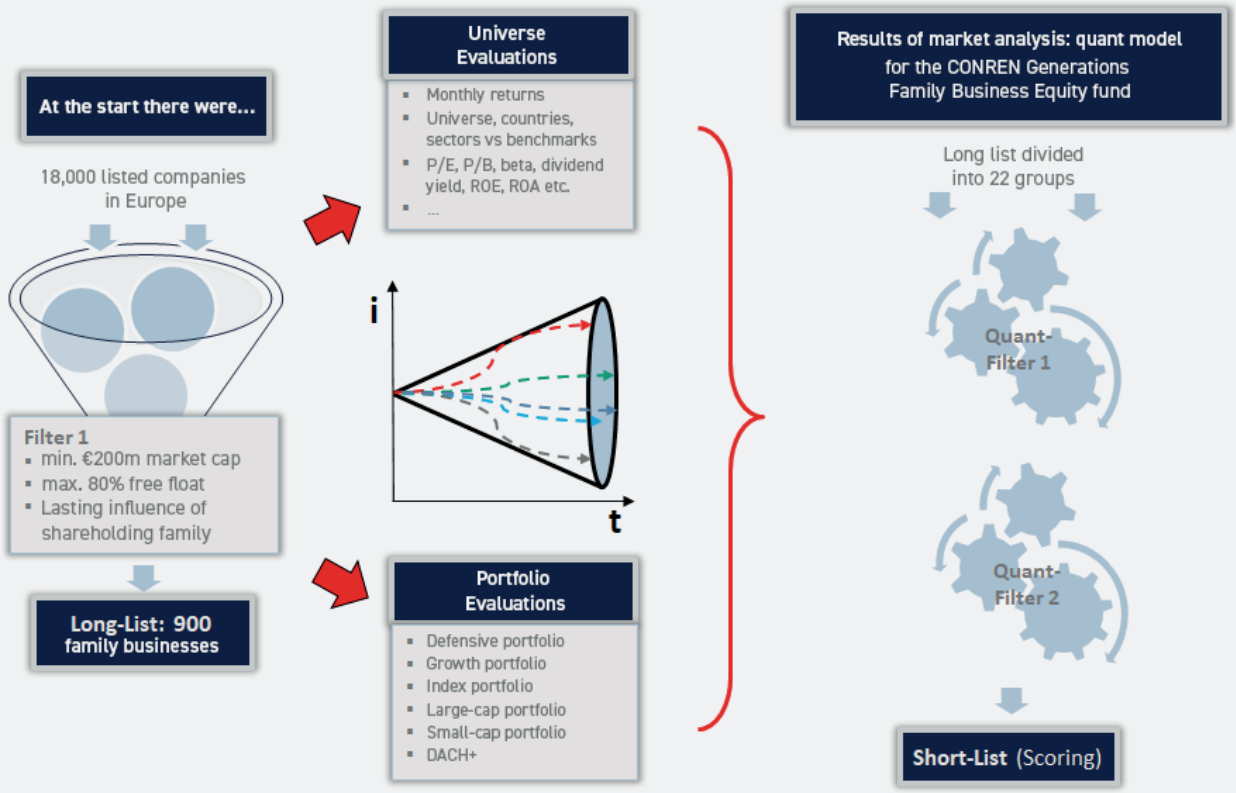
2. Introduction to the CONREN study

Market analysis



The findings of this study are being applied to our portfolio management on a daily basis when investing in publicly traded family businesses. In our view a rule-based investment process with discretionary fine-tuning and macro overlay is the best way to invest in a portfolio of listed family businesses and participate in their success.

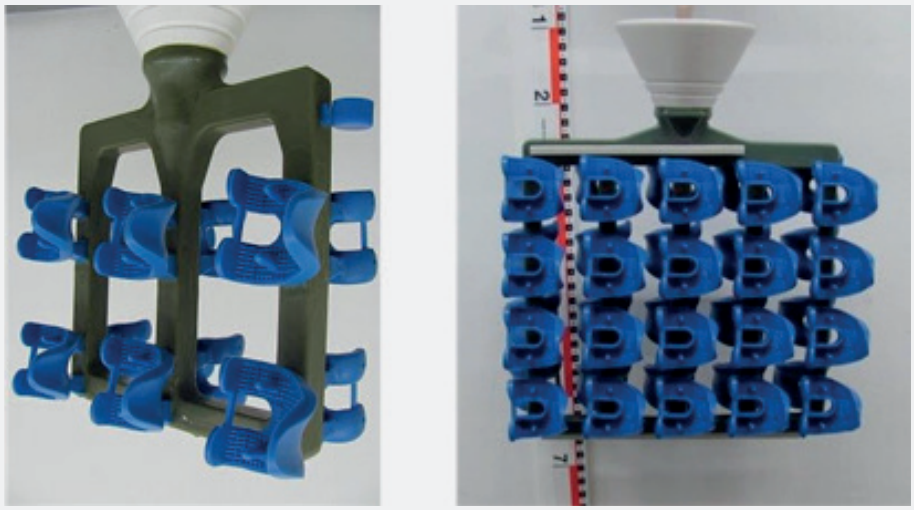
What makes family businesses special? Why are they better investments? The key to the strength of family businesses is the family's role as supporters and caretakers who have been and will continue to be involved with the company for many years – and the concentration of power and ability to make rapid, unbureaucratic decisions that this brings. Nonetheless, the family's involvement also poses a particular risk, as it can become a weakness if family conflicts are transferred into the company or if the individuals making the decisions are not doing a good job.

Source: CONREN Research GmbH, Altrafin Advisory AG, Bloomberg (August 2021)

3. What makes family businesses special?

One of the main differences versus competitors is the long-term strategic orientation of family businesses. As entrepreneurs, we know that patience is often rewarded. Any manager primarily fixated on quarterly results is clearly in an inferior position in this regard. In this context family businesses are "owner-operated and not manager-driven". In areas such as medical technology, for example, project horizons of seven, ten or even more years are regularly required to recoup investments. This long term thinking is impossible for most "employed" managers – particularly private equity funds with a limited holding period. As investors in family businesses, we therefore need to give business families time to solve problems and to exploit opportunities.

„Compound interest effect" of many small operational improvements



They often do an excellent job of this as they are masters at making permanent improvements and acting decisively. They know that implementation is the key to success. Over a prolonged period, many tiny improvements blossom into significant competitive and margin advantages – similar to the compound interest effect in the financial world. A small variation in the shift schedule here; a minor change to the process workflow there. The individual steps are often anything but complicated, however with time and accumulation they bring significant benefits. Take an example from the field of medical technology: stack moulds for knee replacement parts (see picture above). Over the years, more and more elements have gradually been attached to these moulds, even though this was not an easy task from a casting perspective. Once implemented, the transition seems simple, yet it also delivers massive savings.

Source: LINK

3. What makes family businesses special?

Typical strengths of family businesses are:

- Long-term strategy not focused on quarterly results
- Constantly working on improvements (including some very small ones)
- Innovative, driven by products and R&D
- Capability to act: fast, unbureaucratic decision-making processes enable decisions to be made promptly
- It is often their name on the products or above the door – this gives family businesses a sense of obligation towards their customers, employees and society (often their local community)
- Owner-operated instead of manager-driven
- More disciplined cost and capital management
- Stable leadership (fewer changes in management)
- Strong corporate culture and employee identification with the company
- They are known for their balance sheet strength – after all, they are working for future generations
- Crisis resilience and strength – the company is their life's work and thus much more than just another line on a CV
- Thinking and acting independently and flexibly
- Entrepreneurs know their market and their customers – they have often grown up with the company. They have a feel for doing business in their industry.

4. How can we quantify these strengths?

This requires the consideration of many qualitative factors. Using a checklist can help with this. However, there are also possibilities for quantifying the positive characteristics of family businesses:

- **Balance sheet strength:** Debt ratio, leverage, cash ratio...
- **Market leadership:** Margin relative to the relevant industry
- **Crisis resilience:** Development of profitability throughout the cycle
- **Innovation/R&D focus:** Share of R&D expenditure, number of patent applications
- **International focus / export ratio:** Headquarters vs Europe, USA, EM
- **Continuity:** Number of changes in management
- **More disciplined cost and capital management:** ROE, ROIC...
- **Growth momentum:** Sales growth, earnings growth

5. Risk management: what are the particular weaknesses and risks of family businesses?

Just as family businesses have special strengths, they also carry specific risks. Although the significant influence of fewer people / one family is generally a positive factor, it can also lead to weakness.

Typical risks of family businesses are:

- Strong centralisation of power
- Risk of family conflicts
- Nepotism
- Traditional thinking
- Succession

Many ESG systems (ESG stands for sustainable corporate management in the areas of Environment, Social and Governance) see the concentration of power within a family as negative and high-risk from a corporate governance perspective. Examples of the corresponding ESG data points are “Does the largest shareholder have the right of veto or hold so-called ‘golden shares’?” or “Is the CEO a member of the board?”.

However, in this context it is important to once again highlight the fact that family business entrepreneurs are generally eager to make decisions that benefit future generations. These are long-term decisions and sustainable decisions. As a result, sustainability is virtually “built in” to family businesses.

6. Methodology of our study

a. Definition: what are family businesses?

The literature provides many different ways to define family businesses, and there are even more ways to subdivide them: Which generation? How many family members? Is the family involved in management or "only" on the Supervisory Board, etc.? How many shares does the family still hold?

In our experience, what matters most is that there are anchor investors that have been and will continue to be involved with the company as supporters and caretakers for many years without the usual conflicts of interest. Hence, for the purposes of this study, family businesses are defined as follows: listed companies that have been and will continue to be significantly influenced by the owner family or families for many years.

b. Scope and approach

As a first step, we generated a long list using the following stock filters:

- Western and Eastern Europe
- Market capitalisation of at least 200 million euros
- Maximum free float of 80 percent

We then analysed the ownership structure and family shareholdings in various databases and checked the history, leadership and control of each company on its website.

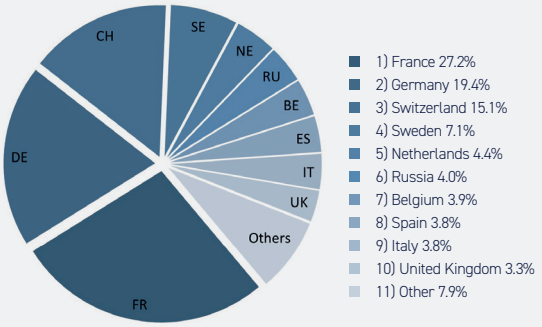
This resulted in a list of family businesses (955 companies). We assigned characteristics to this list such as home country, sector or market capitalisation as well as key figures (P/E, P/B, beta, dividend yield, ROE, ROA, etc.).

We also calculated total monthly returns during the period under review in this study (1 January 2007 – 30 June 2021) – for individual stocks, our universe, benchmark indices, countries and sectors.

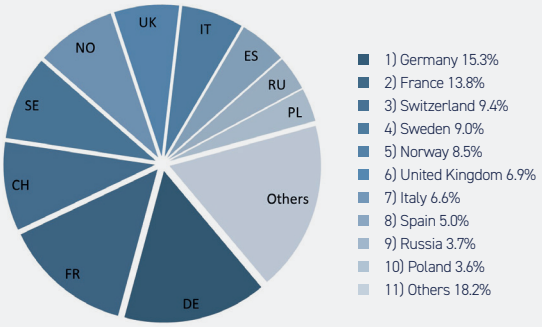
7. The CONREN universe of listed European family businesses

a. Structure

Country distribution by Market Capitalization

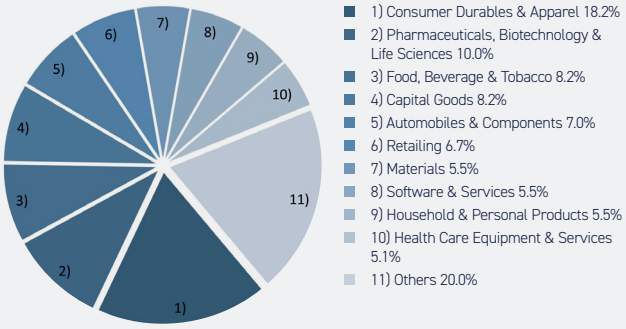


Country distribution by Number of Companys

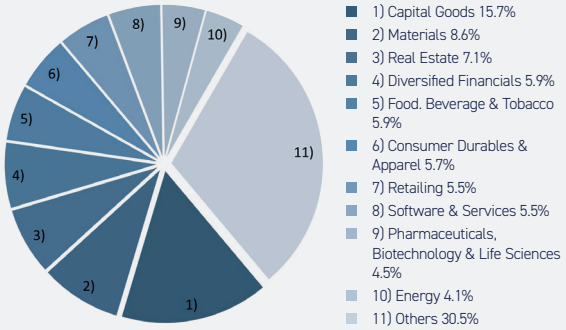


The countries with the most comprehensive landscape of listed family businesses by market capitalisation are France (27 percent vs. STOXX Europe 600 at 20 percent), Germany (19 percent vs. STOXX Europe 600 at 15 percent), Switzerland (15 percent vs. STOXX Europe 600 at 12 percent), Sweden (7 percent vs. STOXX Europe 600 at 6 percent), the Netherlands (4 percent vs. STOXX Europe 600 at 7 percent), Russia (4 percent vs. STOXX Europe 600 at 0 percent), Belgium (4 percent vs. STOXX Europe 600 at 2 percent), Spain (4 percent vs. STOXX Europe 600 at 4 percent), Italy (4 percent vs. STOXX Europe 600 at 4 percent)... by contrast, the United Kingdom has a very limited number of listed family businesses (3 percent vs. STOXX Europe 600 at 20 percent).

Sector distribution by Market Capitalization



Sector distribution by Number of Companys

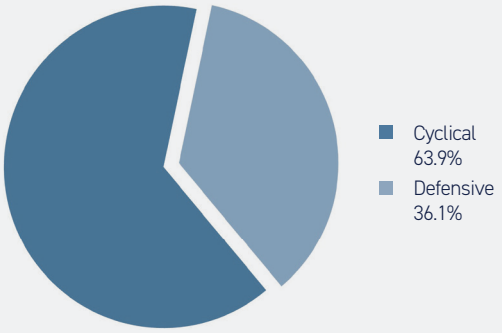


The sectors with the most comprehensive landscape of listed family businesses by market capitalisation are Consumer Durables & Apparel (18 percent vs. STOXX Europe 600 at 8 percent), Pharmaceuticals, Biotechnology & Life Sciences (10 percent vs. STOXX Europe 600 at 10 percent), Food, Beverage & Tobacco (8 percent vs. STOXX Europe 600 at 7 percent), Capital Goods (8 percent vs. STOXX Europe 600 at 11 percent) and Automobiles & Components (7 percent vs. STOXX Europe 600 at 3 percent).

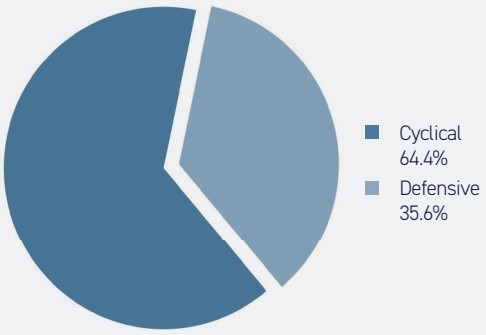
Source: CONREN Research GmbH, Altrafin Advisory AG, Bloomberg (August 2021)

7. The CONREN universe of listed European family businesses

Cyclicality of the CONREN FB Universe

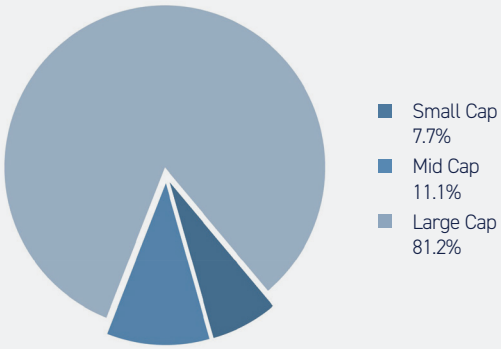


Cyclicality of the EuroStoxx 600

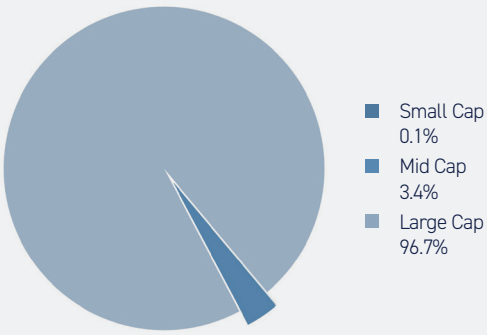


The CONREN universe of family businesses in Europe is 64 percent cyclical vs 36 percent defensive – almost identical to the broad European equity index STOXX Europe 600 (64 percent vs 36 percent).

Market caps CONREN Family Business Universe



Market caps of the EuroStoxx 600



In terms of market capitalisation, we have defined the following segments:

- "Small caps" up to 1.5 billion euros: We have identified 611 family businesses in this segment. That corresponds to 64 percent of the universe by number of companies and only 7 percent by market capitalisation (vs STOXX Europe 600 at 0 percent).
- "Mid caps" up to 5 billion euros: We have identified 184 family businesses in this segment. That corresponds to 19 percent of the universe by number of companies or 10 percent by market capitalisation (vs STOXX Europe 600 at 3 percent).
- "Large caps" from 5 billion euros: We have identified 160 family businesses in this segment. That corresponds to only 17 percent of the universe by number of companies. However, large companies make up the majority by market capitalisation – namely 83 percent. Large companies make up as much as 97 percent of the STOXX Europe 600.

Source: CONREN Research GmbH, Altrafin Advisory AG, Bloomberg (August 2021)

7. The CONREN universe of listed European family businesses

b. Key Performance Indicators

	Total Debt to Total Assets	Total Debt to Total Equity	Cash Ratio	Quick Ratio	Current Ratio	Gross Margin	Net Margin	ROC	ROE	ROA	ROIC	Revenue Growth 5Y	EPS Growth 5Y	Dividend Growth 5Y	5YAVG P/E	Price/Book
	Bilanzstärke					Profitabilität		Kapitaleffizienz				Wachstum			Bewertung	
	Total Debt to Total Assets	Total Debt to Total Equity	Cash Ratio	Quick Ratio	Current Ratio	Gross Margin	Net Margin	Return on Capital (ROC)	Return on Equity (ROE)	Return on Assets (ROA)	Return on Invested Capital (ROIC)	Revenue Growth 5Y	EPS Growth 5Y	Dividend Growth 5Y	5Y Average P/E	Price/Book
STOXX Europe 600																
Mean	27.0	133.5	0.8	1.4	1.8	48.9	16.2	10.2	8.3	4.0	11.5	6.0	5.7	4.7	36.5	4.3
Median	26.6	75.2	0.4	1.0	1.3	47.9	6.8	8.5	10.1	3.7	8.0	3.0	4.9	4.7	23.0	2.5
Weighted by Market Capitalization	**26.3**	**117.4**	**0.7**	**1.2**	**1.6**	**50.3**	**14.3**	**11.7**	**12.1**	**4.8**	**11.1**	**4.4**	**5.6**	**5.2**	**34.5**	**4.8**
CONREN FU Universum																
Mean	28.6	151.2	6.6	7.3	7.7	42.9	52.5	11.6	-0.6	2.0	25.1	6.1	4.6	6.8	72.6	3.8
Median	26.6	65.1	0.5	1.1	1.5	47.8	4.1	7.1	7.6	2.9	8.8	4.3	4.5	6.3	21.4	2.0
Weighted by Market Capitalization	**26.7**	**117.2**	**1.2**	**1.8**	**2.2**	**53.1**	**6.1**	**19.2**	**12.1**	**5.7**	**16.6**	**6.4**	**6.8**	**9.5**	**38.8**	**5.8**

These current figures must be interpreted with some caution in light of the current exceptional situation in the economy and markets due to COVID-19. This is a snapshot of the crisis. There are also some delays in data collection; the last-available data is used in each case. As of our reporting date, 30 June 2021, this generally encompasses the earnings, margins and balance sheet items reported for the first quarter of the year.

Nevertheless, this snapshot supports the thesis that companies in the CONREN family business universe generally focus more on maintaining and expanding their business and less on drastic cost saving measures throughout the crisis. This was enabled to a large extent by the robustness of the balance sheets of family firms going into the crisis.

Source: CONREN Research GmbH, Altrafin Advisory AG, Refinitiv (August 2021)

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A comparison of the key figures (weighted by market capitalisation) from 31 December 2019 (before the COVID-19 pandemic) with the figures from the reporting date of this study on 30 June 2021 shows the following:

- Strong balance sheets

Companies in both the STOXX Europe 600 and the CONREN family business universe took on more debt. It is important to note that family businesses took on considerably more debt than the companies in the STOXX Europe 600. As a result, total debt to total capital grew by 14% in the STOXX Europe 600 and by 24% in the CONREN family business universe. Companies in the STOXX Europe 600 also recorded a smaller increase in their total debt to total equity ratio compared to family businesses. Furthermore, companies in the CONREN family business universe recorded larger increases in the key liquidity indicators cash ratio, quick ratio and current ratio than companies in the STOXX Europe 600. This suggests that family businesses utilised the balance sheets strength they showed prior to the crisis for crisis management purposes.

Many companies also took out instruments such as COVID-19 assistance loans when possible during the crisis as a preventative measure. Many did this preventively to be prepared for additional COVID-19 restrictions, bottlenecks or other COVID-19-related problems.

- Profitability

Companies in both the STOXX Europe 600 and the CONREN family business universe were able to maintain their gross margin almost unchanged despite the pandemic, while net margins for both plummeted. However, this snapshot shows that the slump was in fact less dramatic for companies in the STOXX Europe 600. This suggests more rigorous cost savings programmes among non-family businesses.

- Growth and valuations

While family businesses continue to record significantly higher sales and earnings growth, the same is also true of their valuations. In addition to lower interest rates, there is undoubtedly an element of hope and fantasy in these prices in the current market phase. Valuations have risen and companies must now deliver when it comes to profitability, efficiency and so on. As a result of the time lag leading up to this publication, we now know that some companies have delivered on these high expectations already. The reporting season for the first and second quarters of 2021 was extremely successful and characterised by high growth rates, particularly for many family businesses. These are not yet fully included in the table above. In addition, family businesses in the CONREN family business universe currently have significantly greater momentum when it comes to earnings growth estimates for the next 12 months.

Lower free float must also be taken into consideration at all times when valuing family businesses.

Source: CONREN Research GmbH, Altrafin Advisory AG, Refinitiv (August 2021)

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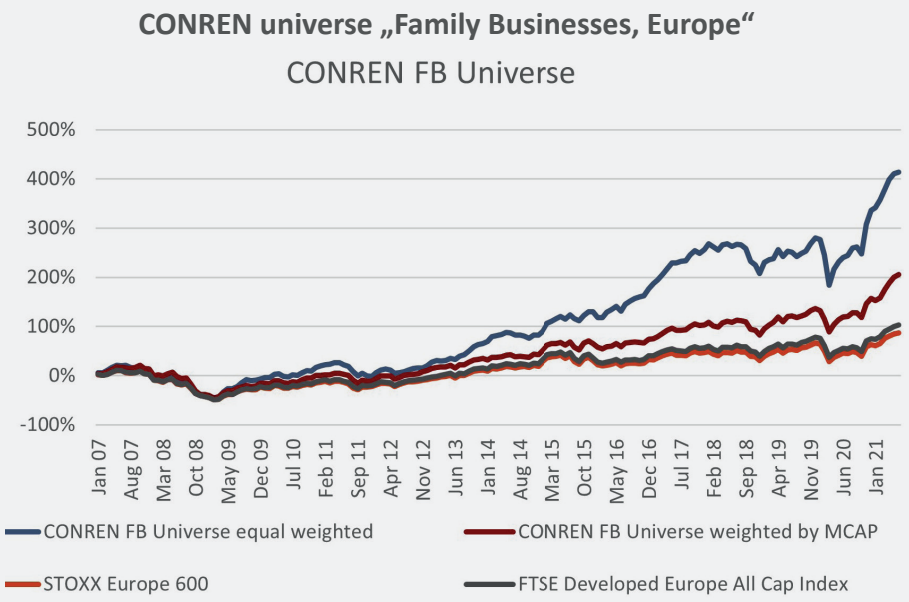
8. Performance analysis

a. CONREN universe of listed family businesses in Europe



The CONREN family business universe beats the broad European equity index STOXX Europe 600 clearly over the observation period. The analysis is based on monthly returns from 1 January 2007 to 30 June 2021. This period covers the run-up to the Great 2008/2009 Financial Crisis as well as the crisis itself and the entire subsequent cycle until March 2020 as well as the COVID-19 pandemic.

When weighting according to the market capitalisation of the individual companies, the universe generated a total return of 205.3 percent. By contrast, the broad European STOXX Europe 600 equity index (net return) only generated a total return of 87.3 percent over the same period, while the comparable FTSE Developed Europe All Cap Index generated a 102.6 percent total return. This equates to an annualised total return outperformance of around 5 percent: 5.52 percent vs. the STOXX Europe 600 (net return) and 4.99 percent vs. the FTSE Developed Europe All Cap.

b. Countries – top 5

The following is a summary of the five countries with the highest family business market capitalisations in Europe: France, Germany, Switzerland, Sweden and the Netherlands.

As there are striking differences between the figures for the family business landscape in the United Kingdom and those of most other European countries, we have also included it here.

Source: CONREN Research GmbH, Altrafin Advisory AG, Bloomberg (August 2021)

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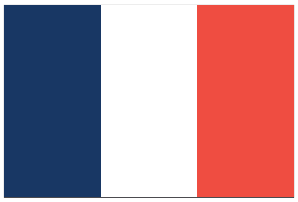
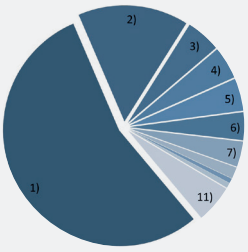
8. Performance analysis

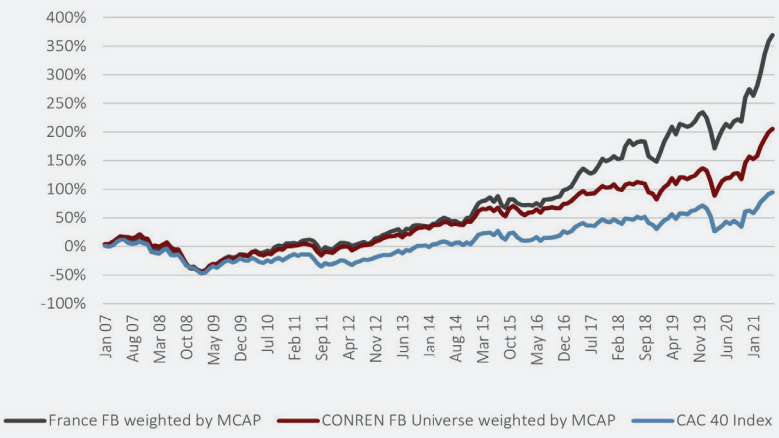


Listed family businesses in France:

With 131 listed family businesses and market capitalisation of 1,388 billion euros, France is the most significant country in the European family business universe. However, Germany is slightly ahead in terms of the number of companies (146 family businesses). The CONREN family universe for France generated a weighted total return of 369% during the period under review (vs. 205% for the entire CONREN family universe for Europe). By contrast, France's CAC 40 equity index only gained 94% over the same period – constituting a significant outperformance! France's average market capitalisation is well above the European average. This is partially due to the stars among French family businesses, including global players with strong international brands in the luxury goods industry such as LVMH (Louis Vuitton Moët Hennessy), Christian Dior, Hermes and Kering (owners of Gucci).



Population	65,311,000
Gross domestic product (GDP) (in EUR tn)	2.28
Gross domestic product per capita (in EUR)	34,040
Real GDP growth	-8.0%
Unemployment rate	7.8%
Number of family businesses in universe	131
Number of French companies/universe	13.8%
Total market capitalisation (in EUR m)	1,387,901
Market capitalisation of France/universe	27.2%
Mean market capitalisation (in EUR m)	10,595
Median market capitalisation (in EUR m)	959
Largest companies	1. LVMH 2. L'Oreal 3. Hermes 4. Christian Dior 5. Kering



Source: CONREN Research GmbH, Altrafin Advisory AG, Refinitiv, Eurostat, Bloomberg (August 2021)

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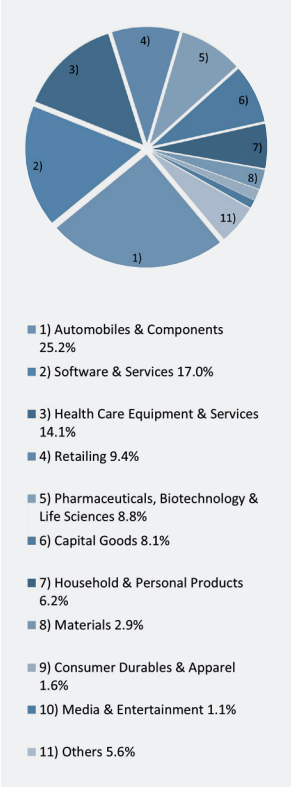
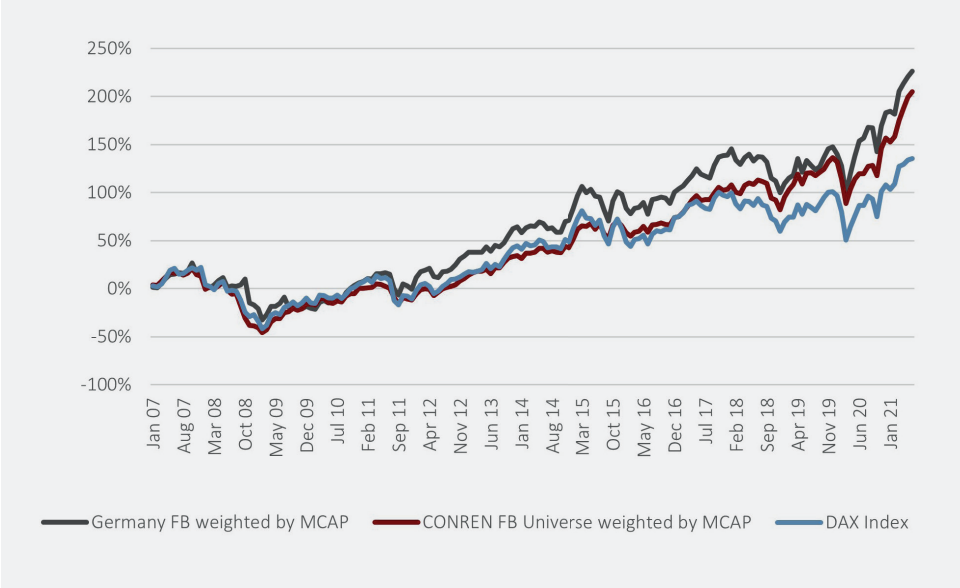
8. Performance analysis

Listed family businesses in Germany:

With 146 listed family businesses and market capitalisation of 990 billion euros, Germany is the second most significant country in the European family business universe. The CONREN family universe for Germany generated a weighted total return of 226% by market capitalisation during the period under review (vs. 205% for the entire CONREN family universe for Europe). By contrast, Germany's DAX 30 equity index only gained 135% over the same period. The German economy is known for its medium-sized company structure focusing on engineering, technology, medicine and the automotive sector. However, most German entrepreneurs are not eager to seek stock market listings.



Population	83,155,000
Gross domestic product (GDP) (in EUR tn)	3.33
Gross domestic product per capita (in EUR)	40,120
Real GDP growth	-4.9%
Unemployment rate	5.5%
Number of family businesses in universe	146
Number of German companies/universe	15.3%
Total market capitalisation (in EUR m)	990,438
Market capitalisation of Germany/universe	19.4%
Mean market capitalisation (in EUR m)	6,784
Median market capitalisation (in EUR m)	1,077
Largest companies	1. SAP 2. VW 3. Merck 4. BMW 5. Henkel



Source: CONREN Research GmbH, Altrafin Advisory AG, Refinitiv (August 2021)

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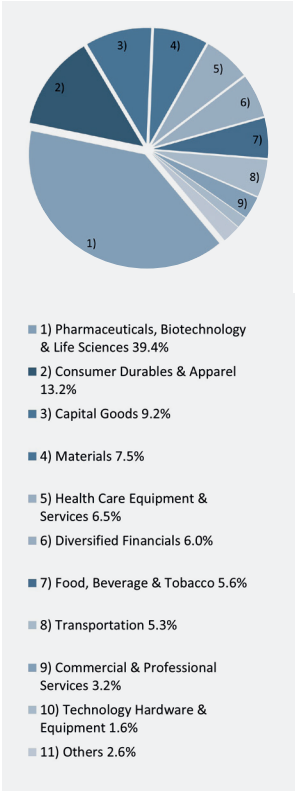
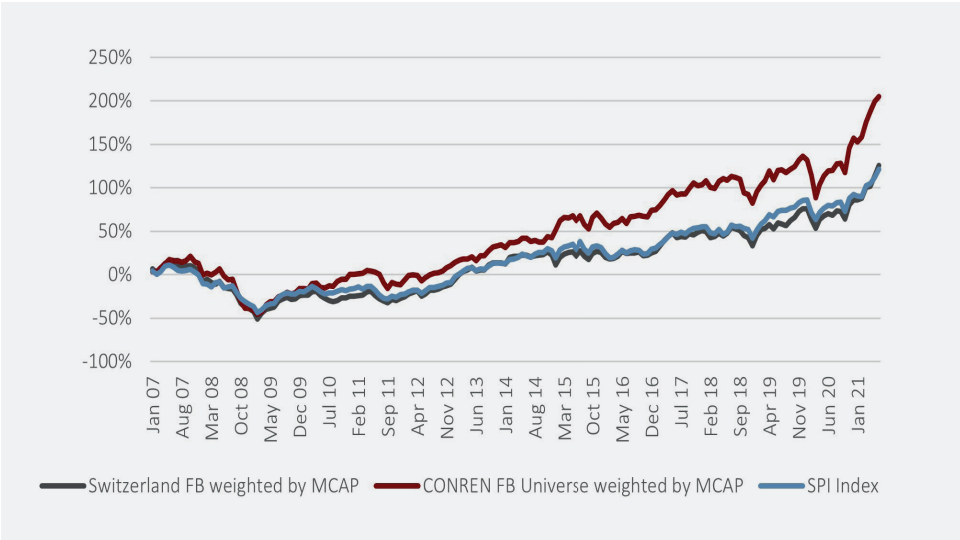
8. Performance analysis

Listed family businesses in Switzerland:

With 90 listed family businesses and market capitalisation of 770 billion euros, Switzerland is the third most significant country in the European family business universe. Switzerland is a giant when it comes to entrepreneurs and family businesses. The CONREN family universe for Switzerland generated a weighted total return of 126% during the period under review (vs. 205% for the entire CONREN family universe for Europe). At 121%, the Swiss SPI equity index performed roughly in line with this universe over the same period. The Swiss family business landscape is highly diversified. Roche dominates the pharmaceuticals sector with market capitalisation of more than 280 billion euros. Of course, Swiss companies generate most of their sales and earnings outside of Switzerland, which means the investment risk associated with the Swiss franc is usually negligible.



Population	8,655,000
Gross domestic product (GDP) (in EUR tn)	0.66
Gross domestic product per capita (in EUR)	75,890
Real GDP growth	-2.7%
Unemployment rate	2.9%
Number of family businesses in universe	90
Number of Swiss companies/universe	9.4%
Total market capitalisation (in EUR m)	770,375
Market capitalisation Switzerland/universe	15.1%
Mean market capitalisation (in EUR m)	8,560
Median market capitalisation (in EUR m)	1,740
Largest companies	1. Roche 2. Richemont 3. Kühne + Nagel 4. Partners Group 5. Holcim



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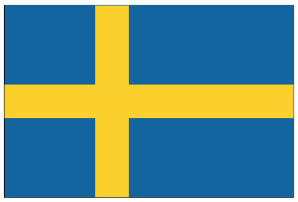
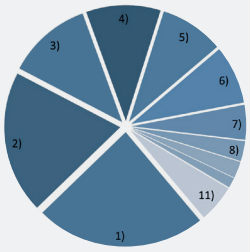
8. Performance analysis

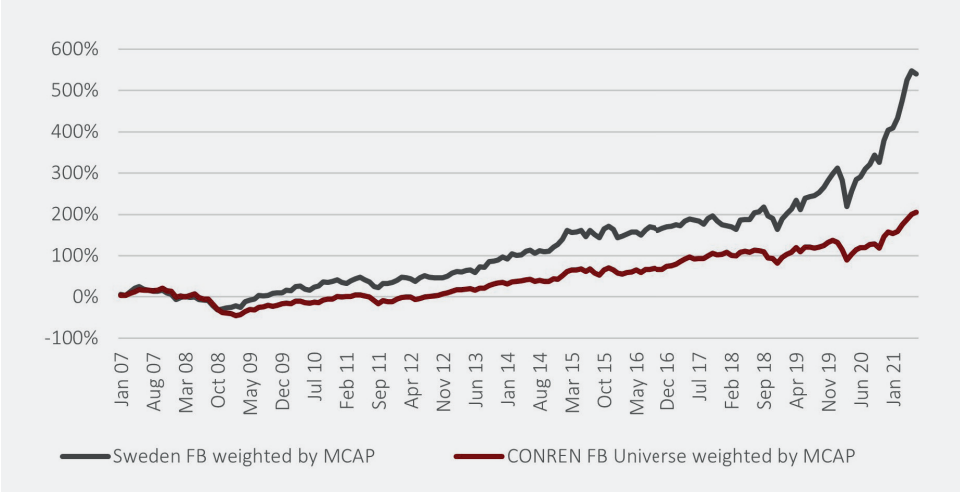


Listed family businesses in Sweden:

With 86 listed family businesses and market capitalisation of 364 billion euros, Sweden is fourth in our family business universe despite its small size. The CONREN family universe for Sweden generated a weighted total return of 540% during the period under review (vs. 205% for the entire CONREN family universe for Europe). Since this study was last published, Sweden has climbed from seventh to fourth place in the ranking of the CONREN family business universe by market capitalisation. The country's top five is made up of very different companies: a fashion house, a measurement technology and software group, an online casino developer and a heating technology company. Additionally, a private equity firm: EQT, which was founded in 1994, went public in September 2019 and recently raised more than 16 billion euros in investor funds for its ninth flagship fund in April 2021. The country's key investor is the Wallenberg family, who are omnipresent in Sweden.



Population	10,417,000
Gross domestic product (GDP) (in EUR tn)	0.47
Gross domestic product per capita (in EUR)	45,850
Real GDP growth	-2.9%
Unemployment rate	8.8%
Number of family businesses in universe	86
Number of Swedish companies/universe	9.0%
Total market capitalisation (in EUR m)	364,079
Market capitalisation of Sweden/universe	7.1%
Mean market capitalisation (in EUR m)	4,233
Median market capitalisation (in EUR m)	1,185
Largest companies	1. Hennes & Mauritz 2. Hexagon 3. EQT 4. Evolution 5. Nibe



Source: CONREN Research GmbH, Altrafin Advisory AG, Refinitiv, Eurostat, Bloomberg (August 2021)

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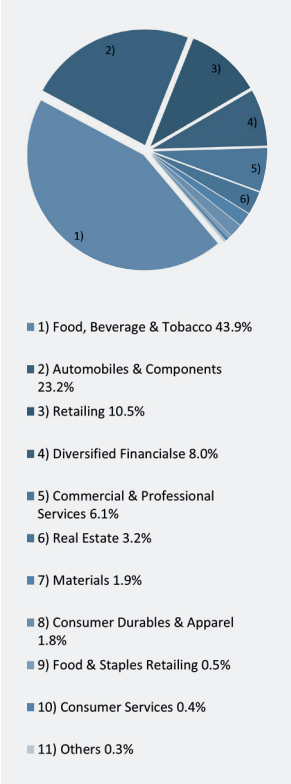
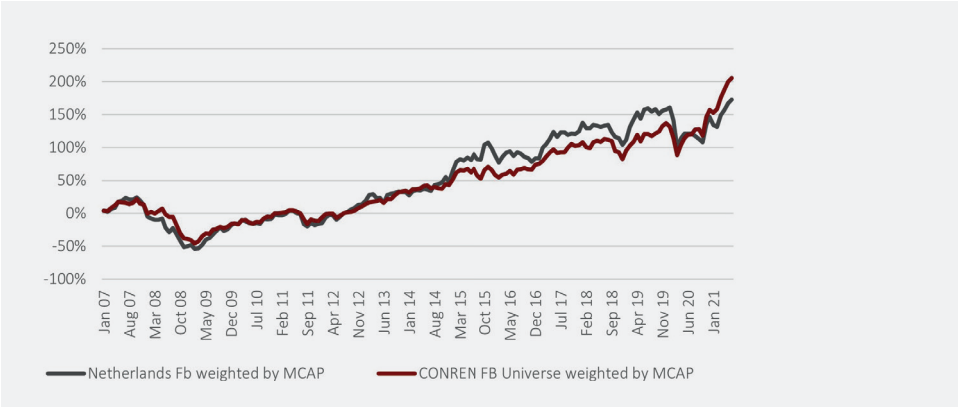
8. Performance analysis

Listed family businesses in Netherlands:

With 21 listed family businesses and market capitalisation of 225 billion euros, the Netherlands is fifth in our family business universe. The CONREN family universe for the Netherlands generated a weighted total return of 173% during the period under review (vs. 205% for the entire CONREN family universe for Europe). Since this study was last published, the Netherlands has climbed from tenth to fifth place in the ranking of the CONREN family business universe by market capitalisation. With their huge market capitalisations, global corporations Heineken (around 59 billion euros) and Stellantis (around 52 billion euros) dominate the Dutch family business landscape. However, it should be noted that international companies like to domicile their companies in the Netherlands due to the various advantages it offers, including tax related benefits. Stellantis, for example, is the result of the merger between Fiat Chrysler and Peugeot, with the Agnelli and Peugeot families as its core investors. Exor is another of the Agnelli family's industrial holding company. JDE Peet's is a global market leader in coffee and tea. The company was the result of a merger in 2019. Its core investor is the Reimann family, who are originally German and are the former owners of Reckitt Benckiser, among others.



Population	17,408,000
Gross domestic product (GDP) (in EUR tn)	0.80
Gross domestic product per capita (in EUR)	45,870
Real GDP growth	-3.8%
Unemployment rate	3.2%
Number of family businesses in universe	21
Number of Dutch companies/universe	4.4%
Total market capitalisation (in EUR m)	224,623
Market capitalisation of the Netherlands/universe	4.4%
Mean market capitalisation (in EUR m)	10,696
Median market capitalisation (in EUR m)	3,201
Largest companies	1. Heineken 2. Stellantis 3. Just Eat Takeaway 4. Exor 5. JDE Peet's



Source: CONREN Research GmbH, Altrafin Advisory AG, Refinitiv, Eurostat, Bloomberg (August 2021)

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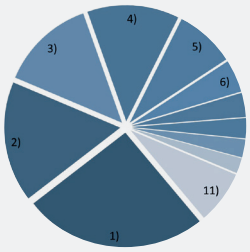
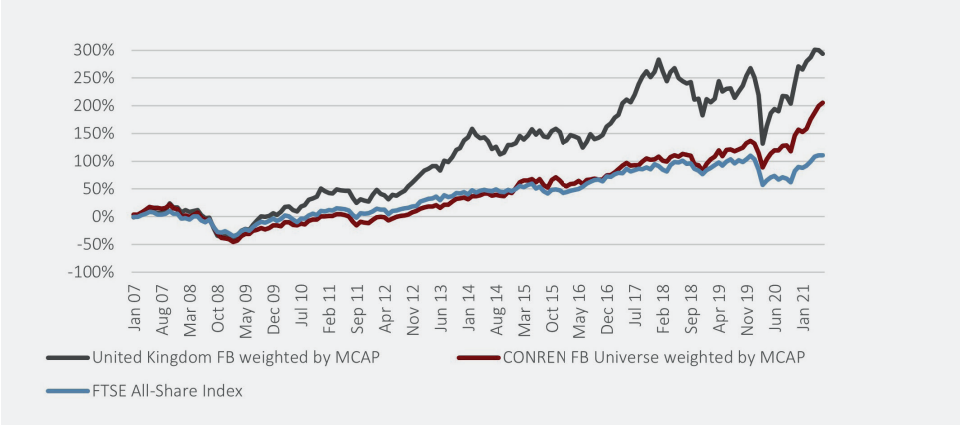
8. Performance analysis

Listed family businesses in United Kingdom:

With 66 listed family businesses and market capitalisation of 165 billion euros, the United Kingdom is tenth in our family business universe. The CONREN family universe for the United Kingdom generated a weighted total return of 294% during the period under review (vs. 205% for the entire CONREN family universe for Europe). The UK's FTSE All-Share equity index gained 111% over the same period. The retailing sector makes up around a quarter of the UK's family business universe by market capitalisation. Two of the sector's best-known representatives are included in the top 5: Associated British Foods was founded by Willard Garfield Weston in 1935 and is now headed by George Weston. JD Sports Fashion, founded in 1981, has 2,500 retail outlets and bears the initials of its founders John and David. In 2005, the company was taken over by another family business, the Pentland Group – the Group's controlling Rubin family is known for their expertise in the sector and achievements such as reviving the Reebok trainer brand in the 1980s. As expected, financial institutions Schroders and Hargreaves Lansdown are also in the country's top 5 – diversified financial services are the second-largest sector in the UK's family business universe at around 17%.



Population	67,081,000
Gross domestic product (GDP) (in EUR tn)	2.52
Gross domestic product per capita (in EUR)	37,830
Real GDP growth	-9.9%
Unemployment rate	5.4%
Number of family businesses in universe	66
Number of British companies/universe	6.9%
Total market capitalisation (in EUR m)	168,405
Market capitalisation of the United Kingdom/universe	3.3%
Mean market capitalisation (in EUR m)	2,552
Median market capitalisation (in EUR m)	922
Largest companies	1. Associated British Foods 2. CNH 3. JD Sports Fashion 4. Schroders 5. Hargreaves Lansdown



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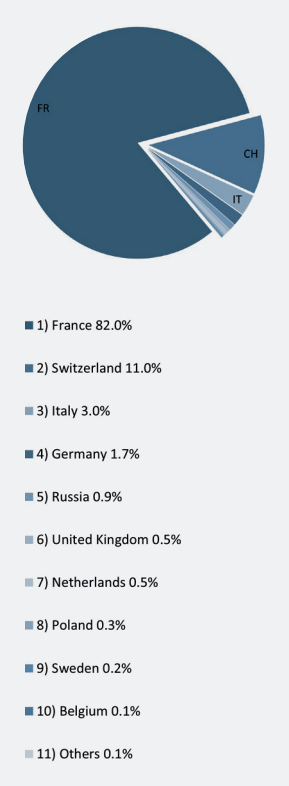
8. Performance analysis

c. Sectors – top 5

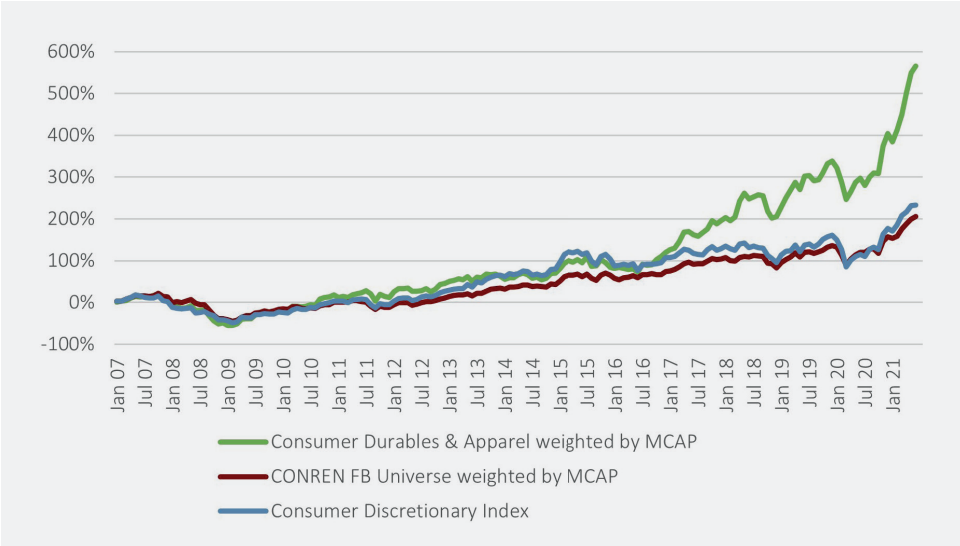
The following is a summary of the five sectors (industry groups according to GICS) with the highest family business market capitalisations in Europe: Consumer Durables & Apparel; Pharmaceuticals, Biotechnology & Life Sciences; Food, Beverage & Tobacco; Capital Goods; and Automobiles & Components.

Consumer Durables & Apparel

With 54 listed family businesses and market capitalisation of 925 billion euros, Consumer Durables & Apparel takes top spot in our family business universe. The CONREN family universe for Consumer Durables & Apparel generated a weighted total return of 566% during the period under review (vs. 205% for the entire CONREN family universe for Europe). France's global players clearly dominate this sector both in Europe and worldwide. Switzerland also has a major presence in this area with world-class watchmakers Richemont and Swatch.



Number of family businesses in universe	54
Total market capitalisation (in EUR m)	925,440
Market capitalisation of sector/universe	18.2%
Mean market capitalisation (in EUR m)	17,138
Median market capitalisation (in EUR m)	551
Largest companies	1. LVMH 2. Hermes 3. Christian Dior 4. Kering 5. EssilorLuxottica



Source: CONREN Research GmbH, Altrafin Advisory AG, Bloomberg (August 2021)

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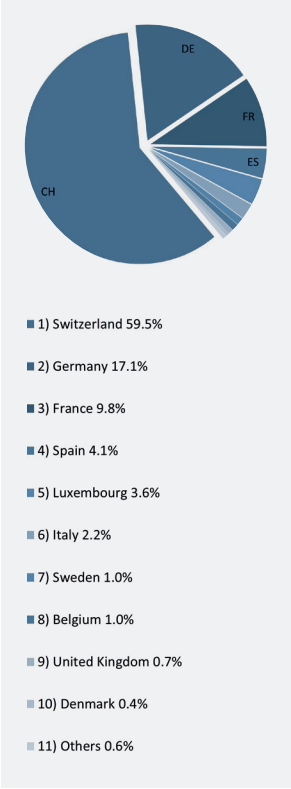
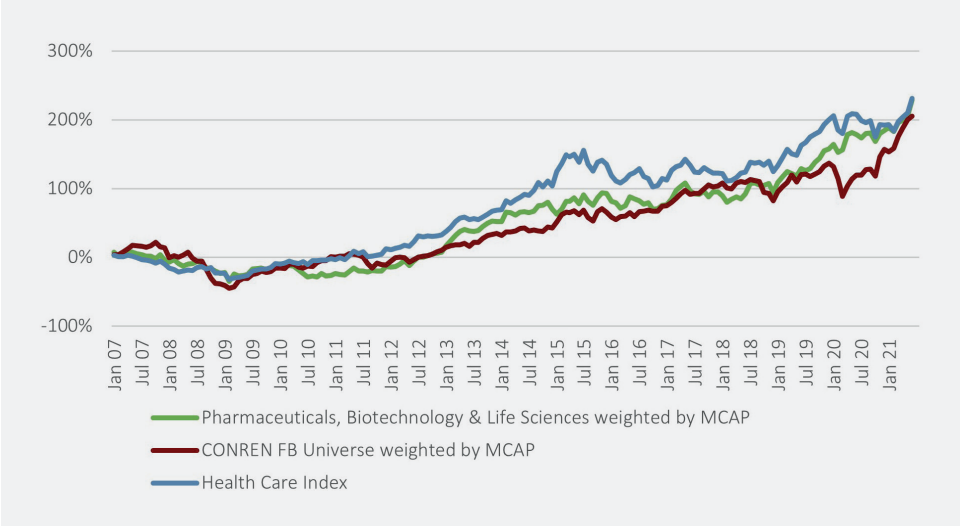
8. Performance analysis

Pharmaceuticals, Biotechnology & Life Sciences

With 43 listed family businesses and market capitalisation of 369 billion euros, Pharmaceuticals, Biotechnology & Life Sciences is second in our family business universe. The CONREN family universe for Pharmaceuticals, Biotechnology & Life Sciences generated a weighted total return of 229% during the period under review (vs. 205% for the entire CONREN family universe for Europe). Roche dominates with market capitalisation of more than 280 billion euros.



Number of family businesses in universe	43
Total market capitalisation (in EUR m)	509,973
Market capitalisation of sector/universe	10.0%
Mean market capitalisation (in EUR m)	11,860
Median market capitalisation (in EUR m)	1,392
Largest companies	1. Roche 2. Merck 3. Sartorius 4. Eurofins Scientific 5. Grifols



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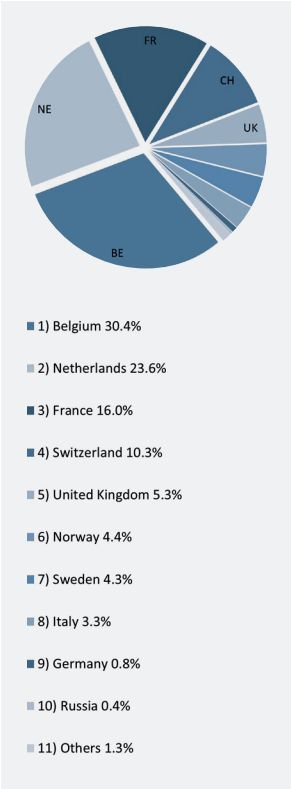
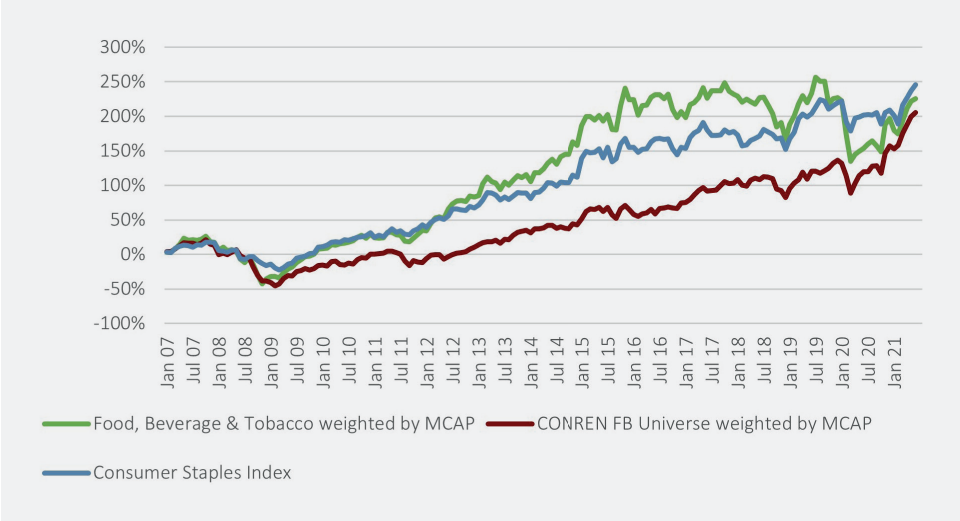
8. Performance analysis

Food, Beverage & Tobacco

With 56 listed family businesses and market capitalisation of 419 billion euros, Food, Beverage & Tobacco is third in our family business universe. The CONREN family universe for Food, Beverage & Tobacco generated a weighted total return of 225% during the period under review (vs. 205% for the entire CONREN family universe for Europe). Beer and other alcohol producers are the leading players in this sector.



Number of family businesses in universe	56
Total market capitalisation (in EUR m)	418,935
Market capitalisation of sector/universe	8.2%
Mean market capitalisation (in EUR m)	7,481
Median market capitalisation (in EUR m)	750
Largest companies	1. AB InBev 2. Heineken 3. Pernod Ricard 4. Associated British Food 5. JDE Peet's



Source: CONREN Research GmbH, Altrafin Advisory AG, Bloomberg (August 2021)

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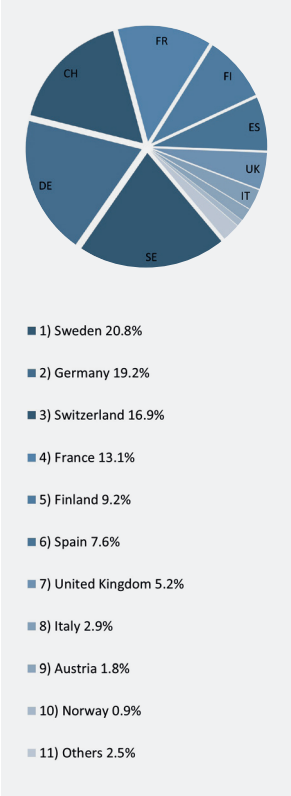
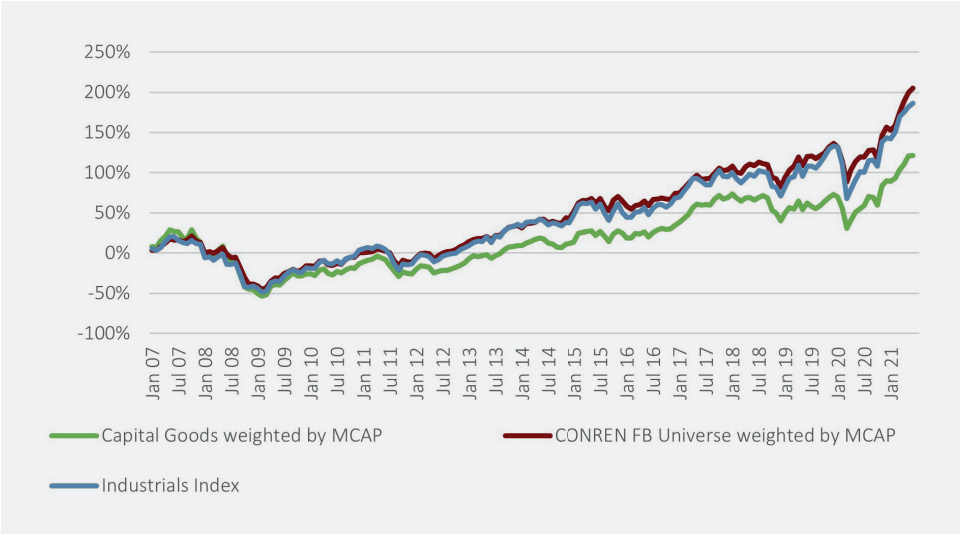
8. Performance analysis

Capital Goods

With 150 listed family businesses and market capitalisation of 418 billion euros, Capital Goods are fourth in our family business universe. The CONREN family universe for Capital Goods generated a weighted total return of 122% during the period under review (vs. 205% for the entire CONREN family universe for Europe). As expected, this sector is considerably more fragmented than the universe's other top sectors. There are fewer global consumer brands here compared with sectors such as the automotive industry or fashion. The sector's current champions are elevator manufacturers Kone (Finland) and Schindler (Switzerland), which benefit from societal trends such as urbanisation, the ageing population, rising purchasing power among the world's middle class and, last but not least, the construction boom in Asia in recent years. Elevators also require many years of maintenance after their construction making cashflows more predictable.



Number of family businesses in universe	150
Total market capitalisation (in EUR m)	418,408
Market capitalisation of sector/universe	8.2%
Mean market capitalisation (in EUR m)	775
Median market capitalisation (in EUR m)	2,789
Largest companies	1. Kone 2. Schindler 3. CNH 4. Ferrovial 5. Nibe



Source: CONREN Research GmbH, Altrafin Advisory AG, Bloomberg (August 2021)

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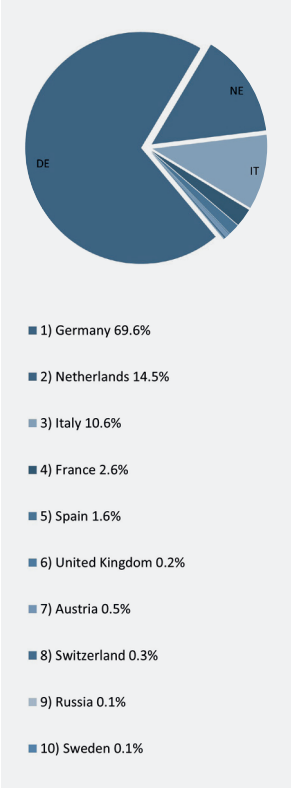
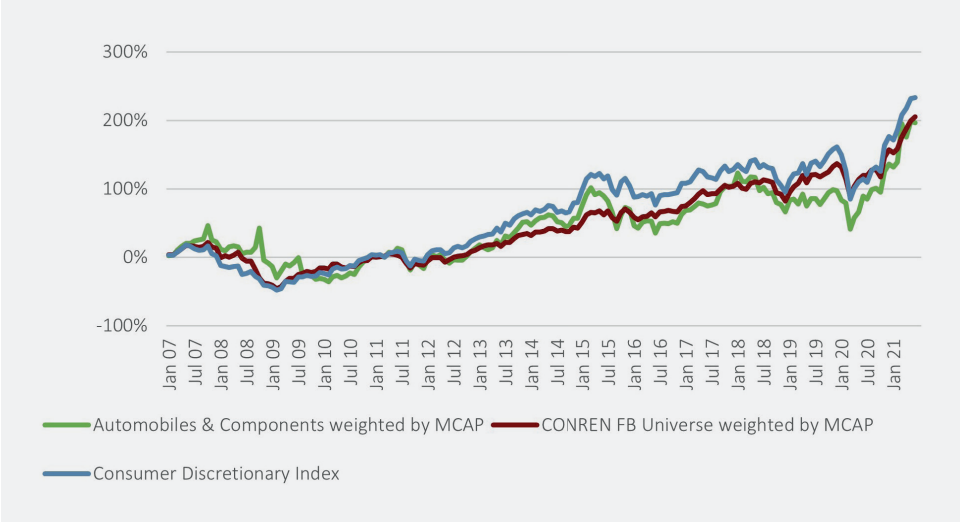
8. Performance analysis

Automobiles & Components

With 30 listed family businesses and market capitalisation of 358 billion euros, Automobiles & Components occupies fifth place in our family business universe. The CONREN family universe for Automobiles & Components generated a weighted total return of 197% during the period under review (vs. 205% for the entire CONREN family universe for Europe). Once the undisputed pride of Germany, the automotive industry now finds itself in a state of flux due to electromobility, the fight against climate change, and self-driving vehicles. Under Elon Musk's leadership, innovative electric car maker Tesla reached a market capitalisation of around 700 billion euros in October 2021, compared to VW's 120 billion euros and BMW's 55 billion euros.



Number of family businesses in universe	30
Total market capitalisation (in EUR m)	358,474
Market capitalisation of sector/universe	7.0%
Mean market capitalisation (in EUR m)	11,949
Median market capitalisation (in EUR m)	1,260
Largest companies	1. VW 2. BMW 3. Stellantis 4. Ferrari 5. Porsche



Source: CONREN Research GmbH, Altrafin Advisory AG, Bloomberg (August 2021)

Disclaimer: Past performance is not an indicator of future performance. Future performance is neither explicitly nor implicitly guaranteed nor promised.

8. Performance analysis

d. Market capitalisation

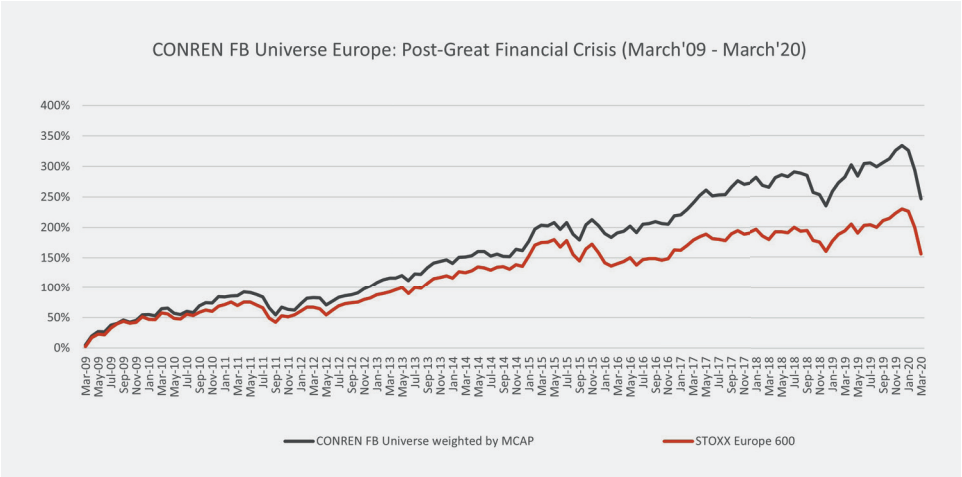
The entire CONREN universe of family businesses in Europe as well as in most countries and sectors generates a better return when the relevant universe is equally weighted rather than being weighted by market capitalisation. This implies that up-and-coming companies with a low market capitalisation (small caps) outperform companies with a high market capitalisation.

This insight must be taken into account when it comes to portfolio composition and risk management. In addition, companies with a low free float (as is often the case with listed family businesses) combined with lower market capitalisation occasionally exhibit erratic share price developments. They can become illiquid, particularly larger positions in crisis situations.

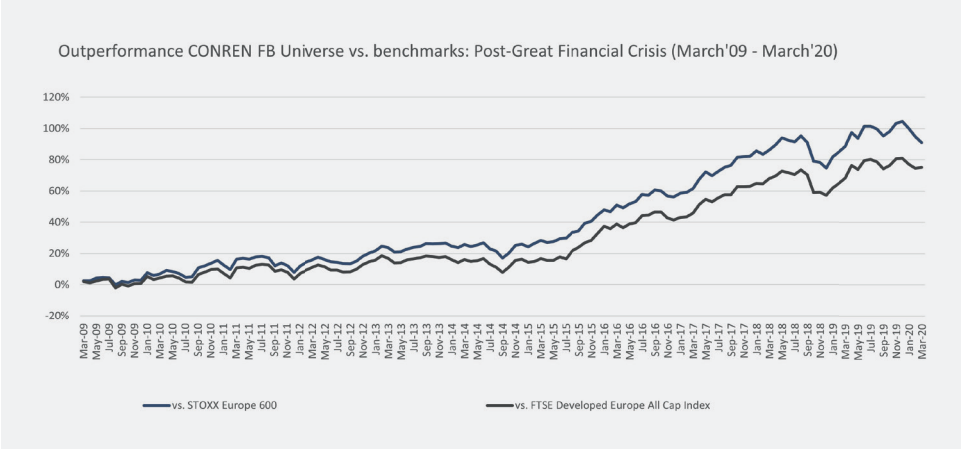
9. Cycle comparison

a. How did stocks of family businesses perform during the previous cycle after the Great Financial Crisis (March 2009 – March 2020)?

According to our definition, the last market cycle began after the Great Financial Crisis and ended with the beginning of the COVID-19 market crisis: March 2009 – March 2020. Lasting more than eleven years, this was an extremely long market cycle, characterised by new central bank policies and correspondingly low interest rates. During this cycle, which continues to shape many market players' understanding of the market to this day, stocks of family businesses significantly outperformed the overall market. When weighting according to the market capitalisation of the individual companies, the European CONREN family business universe generated a total return of 246.0 percent. By contrast, the broad European STOXX Europe 600 equity index (net return) only generated a total return of 155.0 percent over the same period, while the comparable FTSE Developed Europe All Cap Index generated a 170.8 percent total return. This equates to an annualised total return outperformance between 5 to 6 percent: 6.01 percent vs. the STOXX Europe 600 (net return) and 5.19 percent vs. the FTSE Developed Europe All Cap.



We can see in the chart below that this outperformance is particularly noticeable in the second half of the bull market in this past market cycle.

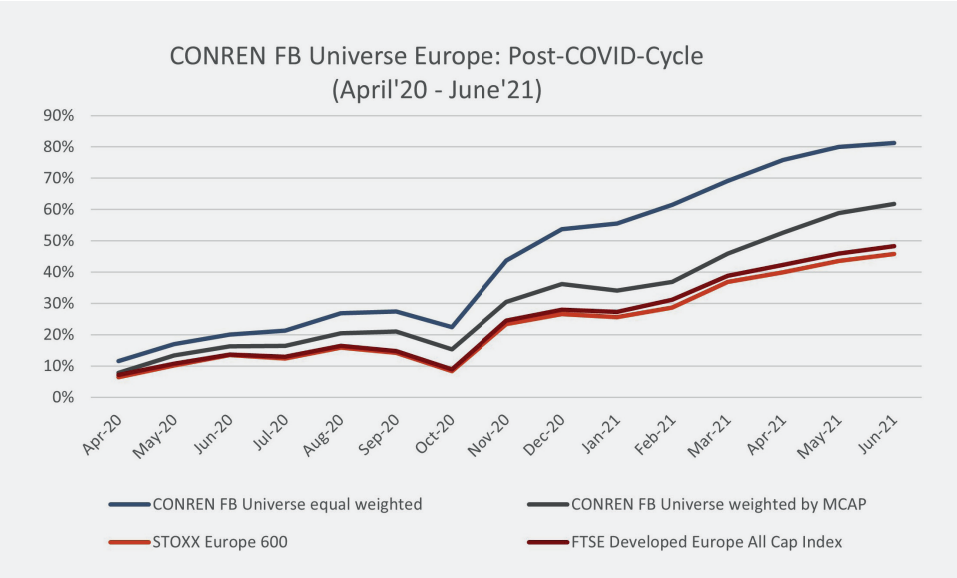


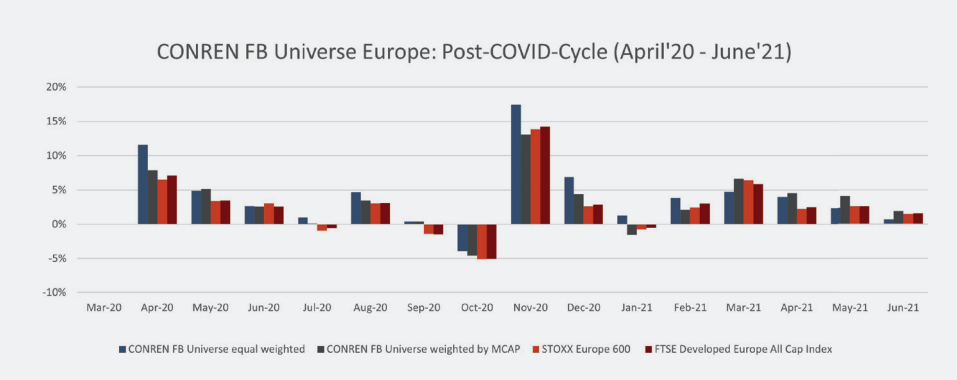
Source: CONREN Research GmbH, Altrafin Advisory AG, Bloomberg (September 2021)

9. Cycle comparison

b. How have shares in family businesses performed so far during the current COVID-19 cycle (April 2020 – June 2021)?

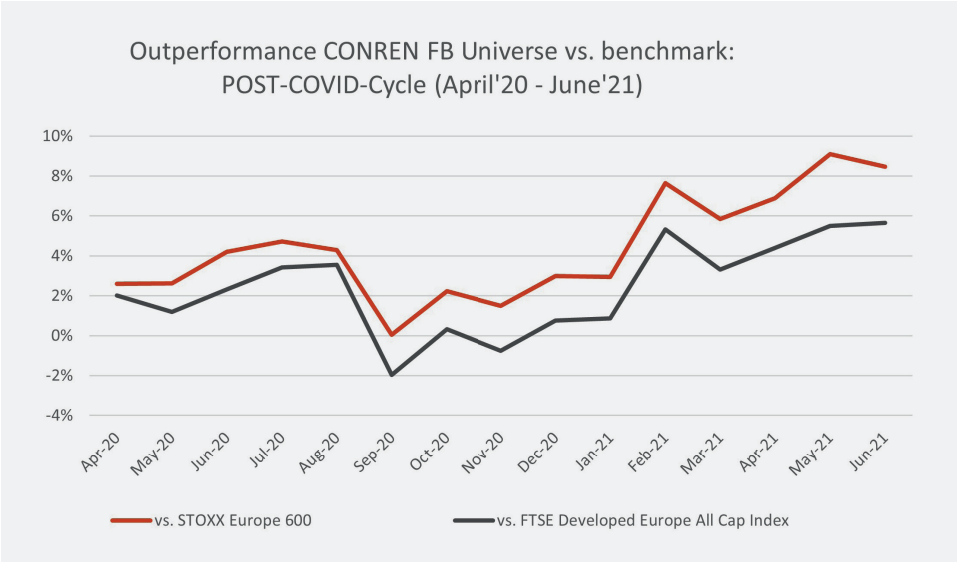
Shares in family businesses have significantly outperformed the market throughout the post-COVID-19 cycle to date. When weighting according to the market capitalisation of the individual companies, the European CONREN family business universe generated a total return of 61.8 percent between April 2020 and June 2021. By contrast, the broad European STOXX Europe 600 equity index (net return) only generated a total return of 45.8 percent over the same period, while the comparable FTSE Developed Europe All Cap Index generated a 48.3 percent total return.



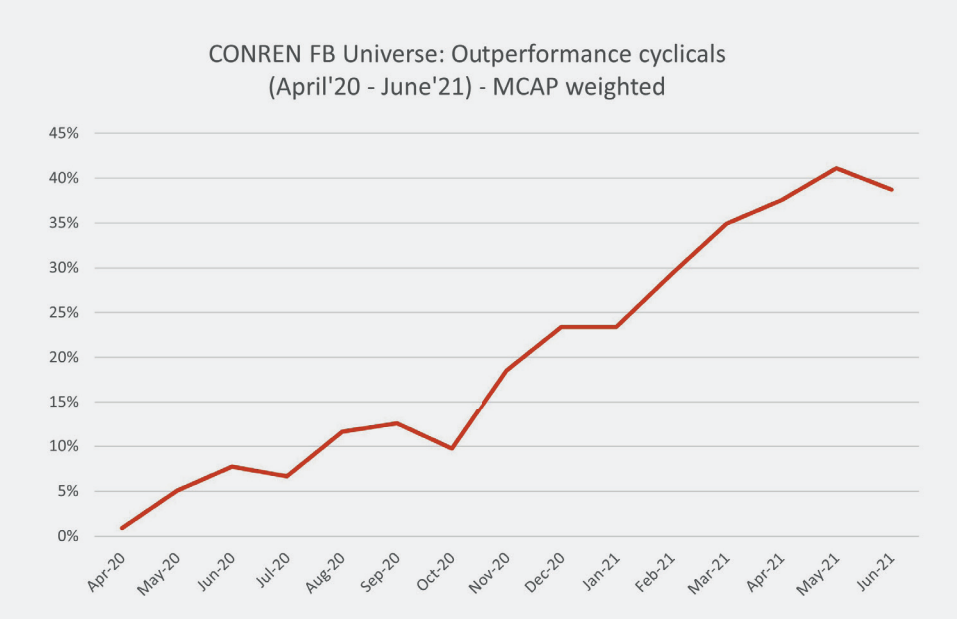


Source: CONREN Research GmbH, Altrafin Advisory AG, Bloomberg (September 2021)

9. Cycle comparison



During the current cycle, cyclical stocks in the CONREN universe of family businesses in Europe performed significantly better than defensive stocks.



Source: CONREN Research GmbH, Altrafin Advisory AG, Bloomberg (September 2021)

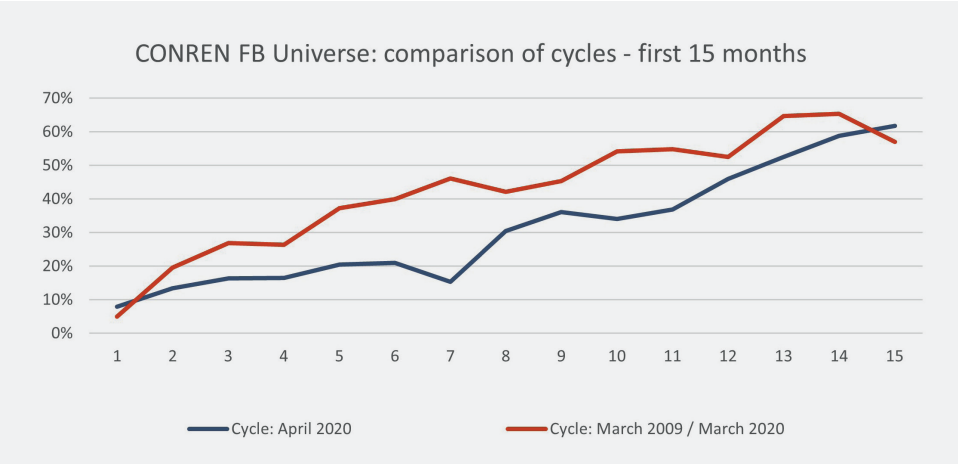
9. Cycle comparison

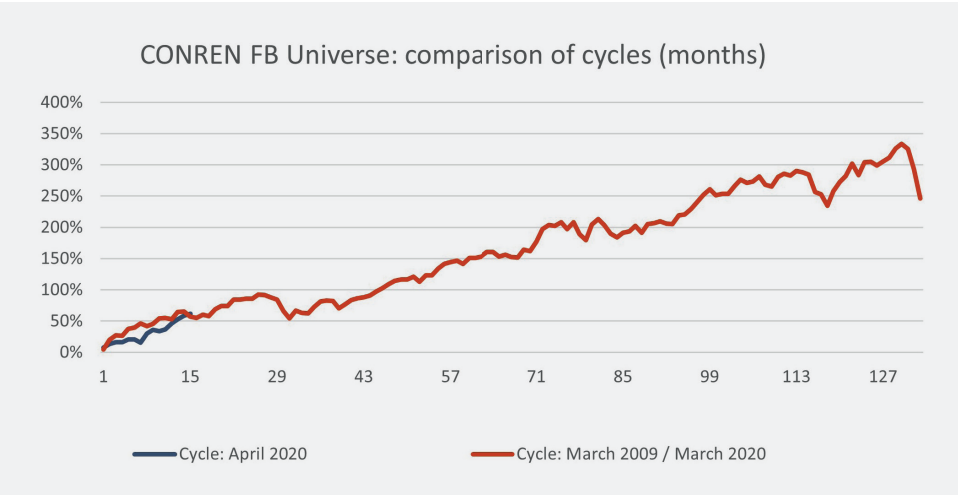
We are seeing an outperformance of family businesses stocks in all three market phases of the current cycle
(Total return weighted by market capitalisation vs. STOXX Europe 600 / FTSE Developed Europe All Cap Index):

- fewer losses at the height of the panic (January to March 2020): -20.3 percent (vs. -22.6% / -25.0%)
- performed better in the immediate rebound (April to October 2020): 15.4 percent (vs. 8.4% / 9.0%)
- performed better in the post-vaccine rebound (November 2020 to June 2021): 40.2 percent (vs. 34.5% / 36.0%)

c. How does this stock market cycle (post-COVID-19 since April 2020) compare to the cycle after the Great Financial Crisis (March 2009 – March 2020)?

Stocks in the CONREN universe of listed family businesses in Europe performed in a very similar manner during the first 15 months of both cycles:

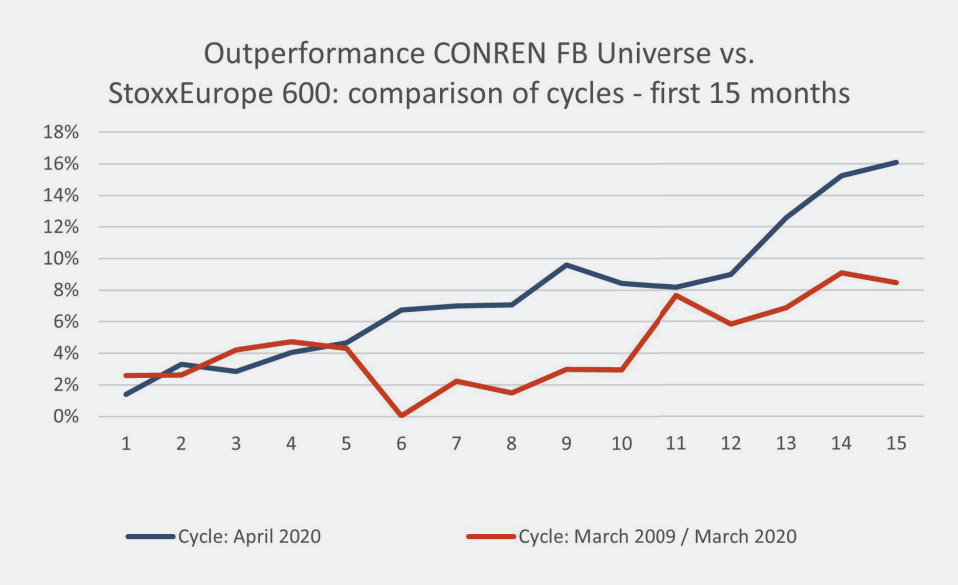




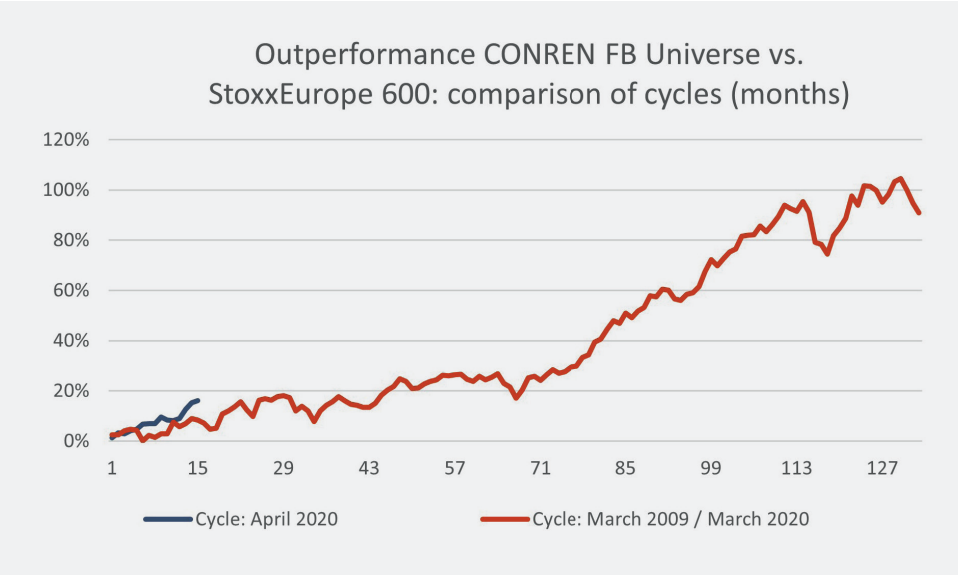
Source: CONREN Research GmbH, Altrafin Advisory AG, Bloomberg (September 2021)

9. Cycle comparison

However, their outperformance compared to the STOXX Europe 600 benchmark index has been considerably more pronounced throughout the current cycle.



After the Great Financial Crisis of 2008/2009, the majority of outperformance only came during a later phase of the cycle – not during the "hope" stage but in the "steady-state growth" and "euphoria" phases. See also Chapter 9.a.



Source: CONREN Research GmbH, Altrafin Advisory AG, Bloomberg (September 2021)

10. Stocks of family businesses and stock market crises

a. How do stocks of family businesses benefit investors during stock market crises?

Our study has shown that stocks of family businesses can significantly outperform the market in the longer term, i.e. beyond the cycle. However, these stocks do not necessarily demonstrate their crisis resilience through smaller drawdowns during or shortly after a stock market crisis, but rather in the long-term. The stock market acknowledges the quality of a business in the long term.

In our original study, we highlighted eight market phases: six "down markets" (which generally last for a shorter time) and two "up markets" (which generally last longer). We see the universe outperforming in five of the six "down markets" – although it only clearly outperforms in one instance. It is a different story in both "up markets", with the universe delivering significant outperformance in both cases. This means that family businesses do not necessarily demonstrate their crisis resilience through smaller drawdowns in the eye of a stock market crisis. It is important for us as investors to be aware of this and incorporate it into our investment process. There is no doubt that a portfolio focusing on small and/or medium-sized companies in particular can lose even more than the market as a whole during a market crises.

The crisis resilience of the CONREN universe becomes evident in the longer term, namely as a result of its capacity to recover more quickly after market crises and based on its outperformance over the entire investment cycle. This means that a long-term focus and disciplined implementation are the keys to investment success with a portfolio of family businesses. First, we must adopt the long-term mindset of family businesses and refrain from taking action for the sake of it. We must give family businesses the time they need to exploit opportunities and solve problems. As a result, what we need is a triad of long-term thinking between fund investors, fund managers and family business entrepreneurs.

The COVID-19 crisis is a good example. It poses challenges for companies on a scale that nobody could have reasonably anticipated. During this crisis, investors are looking for investments that can weather the storm and disproportionately exploit opportunities arising from the crisis in the long term, even if further headwinds are likely. Confidence in management and the business model are particularly important in these times, not least due to the lack of planning certainty and less reliable key financial figures. It is also beneficial if companies anticipate the possibility of a crisis and prepare for it by strengthening their financial position, for example.

At this point, we would like to repeat the words of the CONREN – Generations Family Business Equity fund's cornerstone investor, Freiherr Johannes von Salmuth:

"As family business entrepreneurs, we think in generations. When investing in other family businesses, we know that they, like us, consider the long-term viability of their businesses for future generations to be the highest priority. This makes it easier to persevere even in difficult market phases. This was emphatically confirmed and really paid off during the COVID-19 crisis."

10. Stocks of family businesses and stock market crises

b. What can we expect from family businesses and their stocks during the crises?

It is vitally important for investors to have realistic expectations: What (excess) returns can we expect in each scenario? Where exactly will these returns come from (higher sales, lower costs, multiple expansion, individual stock selection…)? How should my investment behave in each market phase? Which risks need to be taken into account?

To simplify matters, for example, a stock market crisis can be divided into five phases: build-up, displacement, panic, technical rebound and finally normalisation.

The quality and long-term prospects of a company are crucial from a long-term perspective. However, markets are often self-absorbed, particularly during a crisis, which means the quality factor is frequently long overlooked.

The current coronavirus crisis unfolded in record time. As it is an exogenous shock, the first phase of the crisis was limited. While the market was in a late stage of the cycle before the escalation of COVID-19 (with features such as higher valuations, high leverage, sentiment-driven markets and faltering momentum), it was not at the euphoria phase typically observed prior to stock market crises.

Family businesses are crisis-resistant because they are tenacious, battle-hardened and alert to crisis situations. We have seen during this crisis how advantageous it can be if business leaders have already led their companies successfully through other crises. They know what needs to be done much more quickly. Family business entrepreneurs concentrate on what matters and live for their company. Their own money and reputation is at stake, particularly during a crisis. The aims of many family business entrepreneurs can be summed up by the German term *'Enkelfähigkeit'*. In German the word "Enkelfähigkeit" summarises the overachring objective of many family businesses to „secure the estate for future generations". Therefore, family businesses make sustainable, long-term decisions. Investments are focused on passing on the company to the next generation in a better state than it was in when they inherited it from the previous generation. Family business entrepreneurs know that they or their children, rather than the next manager, will have to face the consequences of crisis situations themselves. As a result, they tend to go into crisis situations with stronger balance sheets and sufficient liquidity, which generally leaves them free to concentrate on their operating business, even during a crisis.

Source: CONREN Research GmbH, Altrafin Advisory AG (September 2021)

10. Stocks of family businesses and stock market crises

What sets family-led companies apart from other businesses? The attributes that define a family are the very same values that differentiate family businesses. A family business entrepreneur ensures that soft factors are taken into account alongside their business goals. The 'family business ecosystem' cultivated over many years benefits from having strong and stable roots, including lasting relationships with investors, employees, customers and suppliers. Knowing and being able to trust one another makes a big difference in times of crisis. Family businesses often have long-serving, pragmatic employees with enough experience and scope to respond to crises. A fitting quote on this is attributed to Peter Drucker: "Culture eats strategy for breakfast." This neatly encapsulates everything that family businesses stand for.

The first cases of COVID-19 in Europe were identified in the second phase of the crisis. At this point, nobody was willing to seriously believe that the bull market might start to crumble. The third phase of the crisis dominated the markets at times during March as panic sparked a chain reaction and brought the markets to a standstill. Share prices during this phase should not be taken too seriously, as they no longer adequately reflect the future expectations of market players. Even anchors of certainty such as gold and family businesses drift away from fundamentals at this stage. There is no doubt that a portfolio focusing on medium-sized companies in particular can initially lose even more than the market as a whole during market crises.

The panic phase was followed by a market rebound driven partly by technical forces and partly by the hope that the virus would soon be defeated. November brought confirmation that the urgently developed vaccines proved effective. This was followed by a rally that continued until the end of the period under review in this study update (June 2021) aside from a brief interruption in January and February 2021 (primarily driven by fears of higher inflation and interest rates).

Based on data after the Great Financial Crisis of 2008/2009, our study demonstrates that the crisis resilience of family businesses is particularly apparent when the stock market returns to normality – that is, in phase five. At this point, it becomes apparent that quality will finally prevail and a higher degree of planning certainty is resumed. The wheat is separated from the chaff as the economic outlook and actual figures improve and share prices gradually follow suit. The delta variant in particular prolonged this exceptional situation for both companies and consumers, repeatedly extending the 'hope' phase for market players. As a result, we have not yet fully made the shift to a phase of steady-state growth.

The COVID-19 crisis had and continues to have a rapid, deep and historic impact. At the same time, the shock is exogenous and is temporary in many respects. The aim now is to focus on innovation, speed and flexibility and not be blindly guided by past crises and the steps taken to address them – such as stockpiling liquidity, cancelling all investments, scaling back production, reducing inventories, laying off employees, deferring supplier payments and putting off customers. A long-term focus is a crucial advantage in this crisis. The ability to make decisions quickly cannot be beaten. A strong balance sheet, high levels of liquidity and loyal, trusted (core) investors are worth their weight in gold. They enable business leaders to concentrate on what matters.

10. Stocks of family businesses and stock market crises

We have seen some fantastic examples of crisis management within family businesses. For example, they secured their supply chains extremely quickly and adapted their shift schedules and processes to the extraordinary coronavirus circumstances. They quickly ensured the fulfilment of their deliveries and services and upheld their communication with customers and partners. They cut any unessential costs that were not immediately required. Their focus was on their customers and their employees. They also adjusted offered products and services geared towards the new reality.

c. How does the COVID-19 crisis compare to other stock market crises for European equities?

During the period under review, we defined six equity market crises based on monthly returns:

Year	Period	Description	Duration	Loss amount			Months until break-even		
				FB	STOXX	FB better?	FB	STOXX	FB better?
2008/2009	**Nov'07 - Feb'09**	**Major financial crisis**	**17 months**	**-55%**	**-54%**	**X**	**53**	**57**	**VVV**
2008/2009	Jun'08 - Feb'09	Major financial crisis	9 months	-49%	-45%	XXX	45	47	V
2010	**Apr'10 - Jun'10**	**Euro crisis**	**3 months**	**-6%**	**-6%**	**-**	**3**	**3**	**-**
2011	**May'11 - Sep'11**	**2011 sell-off**	**5 months**	**-20%**	**-19%**	**X**	**14**	**13**	**X**
2015/2016	**Jun'15 - Feb'16**	**China crisis**	**9 months**	**-8%**	**-16%**	**VVV**	**10**	**14**	**VVV**
2015	Jun'15 - Sep'15	China crisis	4 months	-9%	-13%	VV	15	19	VVV
2015/2016	Dec'15 - Feb'16	China crisis	3 months	-10%	-16%	VVV	13	16	VV
2018	**Aug'18 - Dec'18**	**Crypto crash**	**5 months**	**-14%**	**-13%**	**X**	**4**	**4**	**-**
2020	**Jan'20 - Mar'20**	**COVID-19 pandemic**	**3 months**	**-20%**	**-23%**	**VV**	**8**	**12**	**VVV**

In four of the six crises, the CONREN universe of family businesses in Europe lost precisely as much as the benchmark index on a capital-weighted basis. The universe only outperformed the benchmark during the China crisis in 2015/2016 and the market panic triggered by the COVID-19 pandemic. When it came to recovering these losses, the shares in the CONREN universe of family businesses in Europe only recovered more slowly than the benchmark on one occasion, after the 2011 sell-off.

Stocks of family businesses performed particularly well during the COVID-19 pandemic, losing less (-20% instead of -23%) and recovering these losses more quickly (within eight months instead of 12).

Source: CONREN Research GmbH, Altrafin Advisory AG, Bloomberg (September 2021)

11. Learning curve: what lessons can we learn for investing in family businesses?

First and foremost, we as investors, must adopt the long-term mindset of family businesses, refrain from taking action for the sake of it and act prudently. We must give family business entrepreneurs the time needed to exploit opportunities and solve problems. As entrepreneurs, we know that patience is often rewarded. Disciplined implementation is once again the key to success, particularly in this portfolio.

At the same time, we need to focus on the strengths of family businesses in our selection and portfolio structuring process. Our risk management must also take the specific weaknesses and risks of family businesses into account. We summarise these strengths in our internal qualitative CONREN Family Business Strength Score and aggregate the risks in our CONREN Family Business Risk Score.

a. Focus on the specific strengths of family businesses

Strengths of family businesses	Score (1-10)
Long-term view and not focussed on quarterly results	8
Innovative power/R&D driven	10
Capacity to act: fast, unbureaucratic decisions	9
Owner-operated not managerdriven	10
Disciplined cost and capital management	9
Stable leadership (little changes of management)	9
Leadership/control through the family	10
Balance sheet strength	9
Strong corporate culture/employee identification	8
Crisis-resistant	6
Growth dynamic	8
Internal financing power	9
TOTAL	**105**
	of 120

Source: CONREN Research GmbH, Altrafin Advisory AG, Bloomberg (September 2021)

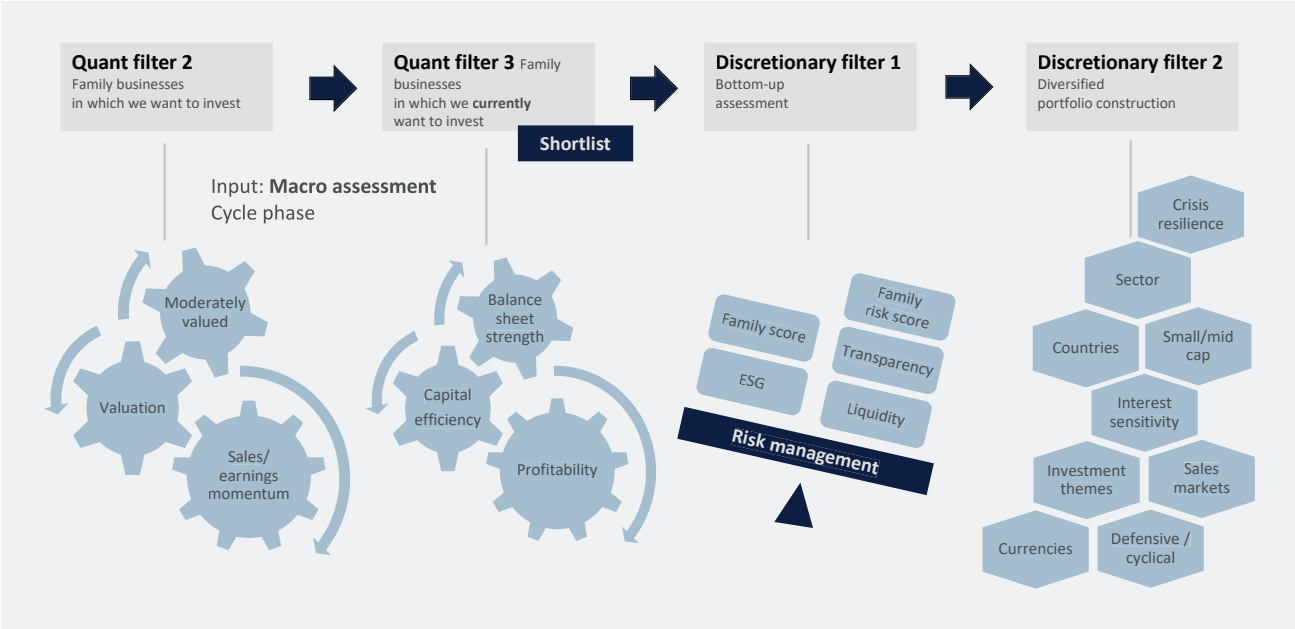
11. Learning curve: what lessons can we learn for investing in family businesses?

b. Focus on the specific risks of family businesses

Specific risks of family businesses	Score (1-10)
Sustainability of the business model (5 – 10 year view):	
- Country	6
- Sector	8
- Strategy	10
- Products	10
- Size of Company	8
Management structures sufficient for growth	10
Valuations relativ to sector/size (exclude overvaluation)	9
Sucession planning of the family in place?	10
No major family conflict (exclusion criteria)	9
Sufficient transparency:	
Analyst-coverage	5
Information policies	6
TOTAL	**91**
	of 110

As illustrated below, an investment process derived from the findings of this study would look like this:

c. From the long list of investable family businesses to a portfolio



Source: CONREN Research GmbH, Altrafin Advisory AG, Bloomberg (September 2021)

12. What can we as investors learn from family business entrepreneurs?

Long-term thinking that extends beyond the economic cycle, current trends and short-term figures is something that we, too, as investors should learn from family businesses. From constantly seeking out something new or hectic toing and froing to fixating on current performance or the last month's returns, all of these habits are real return killers for private investors too.

We need the courage and independence to think about processes in a long-term way. Although this might sound obvious, it is by no means simple. In order to achieve long-term success, we sometimes need to demonstrate considerable discipline in implementation, wait and see, and at times be prepared to spend quite a while swimming against the tide. Only the composure that comes from fundamental principles, market expertise and a long-term outlook can open up the possibility of exploiting even any short-term opportunities that may arise.

Truly active investing without consideration for reporting dates or benchmarks is highly suitable for business families. No entrepreneur would allow themselves to be restricted by such artificial lines or parameters. Business families focus on long-term opportunities and long-term increase in purchasing power. This means that short-term market noise does not unsettle them so much; in any event, key volatility indicators are of little significance for investment strategies with a long-term focus.

Active risk management – combined with capital preservation and crisis resilience – plays a crucial role. All of this can be summed up by the German term 'Enkelfähigkeit', which means 'securing the estate for future generations'. As most family business entrepreneurs think in generations, they see the companies and family assets that they manage first and foremost as loaned items to be preserved and enhanced for their descendants.

The management of cycles, transitions and rifts plays a significant role for family business entrepreneurs with a multi-generational mindset. Generally exercising caution yet choosing the right moments to be bold gives family businesses the best opportunities to not just survive but thrive in the face of change. However, passively swimming with the market and having blind faith in tried-and-trusted methods can be dangerous and even destroy livelihoods.

12. What can we as investors learn from family business entrepreneurs?

The core investor of CONREN Fonds is a business family that is now in the fifth generation of commercial success. Many of the family's guiding entrepreneurial ideas and principles have been incorporated into the basic concept behind CONREN Fonds:

- Courage to maintain a long-term outlook
- Clear decision-making and control channels
- Hire the best possible team and take an industrious approach to analysis and implementation
- Concentrate on what matters
- Take controlled risks to secure and increase purchasing power long-term
- Thinking and acting independently and flexibly… own world view of economies and markets, own processes, clear market opinion.

We incorporated many of our family's entrepreneurial principles into the basic concept behind CONREN Fonds.

Johannes Freiherr von Salmuth - CONREN Cornerstone Investor

13. As professional investors with a background as family business entrepreneurs, what can we offer private investors?

We are often asked this question. It is not always easy to sum up in just a few sentences what we have learned over several decades. Nevertheless, we have put together the following seven principles that we would like to impart to every investor as they set out on their journey:

1. Focus on the future instead of worrying about the short term
2. Find solutions for all liquid assets instead of letting only parts of them work for you
3. Set realistic targets instead of fostering illusory expectations
4. Diversify rather than gamble
5. Stay calm and humble in the market rather than being rushed and reckless
6. Define processes rather than shooting from the hip
7. Find your own solution and your own team – for peace of mind, tenacity, consistency and lasting success

14. CONREN's background

- CONREN was conceived in 2005 out of the family investment office of the Salmuth business family in Germany – which has now been active in various industries for five generations.
- The family's entrepreneurial investment principles are applied in the same way to both CONREN Fonds and its shareholdings in different companies: a long-term outlook, clear decision-making and control channels, the best possible team, a focus on what matters, a controlled approach to risk, and thinking and acting independently and flexibly.
- Today, the CONREN Fonds' fund manager is the Altrafin Group, an independent, owner-operated asset management company headquartered in Zurich. Born from the Beisheim Holding family investment office, Altrafin's founding partners Patrick Picenoni and Alessandro Rizzi now invest more than 2.5 billion euros on behalf of business families, family offices and foundations in Germany, England, Israel and Switzerland.

CONREN's name combines the "plentiful harvest" of Consus – the Roman god of the successfully gathered harvest and sound advice – with the service quality of the Lares, the benevolent household spirits that accompanied Roman families across generations.

Andreas Lesniewicz –
Fund manager, CONREN - Generations Family Business Equity

Study authors

Our sincere thanks go to our working student Jakob Offenbächer, who made a significant contribution to this study.

Many thanks!

Patrick Picenoni (Altrafin Advisory AG)

Fund Manager, CONREN Fonds

Patrick Picenoni is a founding partner and managing director of the Altrafin Group. He has a family business background. As a portfolio manager of liquid assets, he has spent almost twenty years working for clients including, in particular, entrepreneurs, advisors to business-owning families and family offices as well as foundations established by entrepreneurs.

Patrick Picenoni holds a Masters in Business Administration from the University of St. Gallen (lic. oec. HSG). After completing his studies, he worked as an investment advisor and portfolio manager for Morgan Stanley in New York, London and Zurich. Before founding Altrafin in 2001, Mr Picenoni was the senior investment manager at the family investment office of Beisheim Holding GmbH in Baar.

Andreas Lesniewicz (Altrafin Advisory AG)

Fund Manager, CONREN - Generations Family Business Equity

As managing director of the Salmuth'schen Family Investment Office, Andreas Lesniewicz helped to set up CONREN in 2004. He has a family business background. Andreas Lesniewicz has been advising business families in investment and operational matters for more than fifteen years.

He studied business management with commercial law at the University of Bamberg in Germany, combined with residencies at Harvard University, Cambridge and Columbia University, New York. His study specialisations were finance and auditing. After completing his studies, he worked as a management consultant in corporate finance in Frankfurt am Main.

Oliver von Aesch, CFA

Quant Model & Trading

Oliver von Aesch has been an Investment Analyst and Portfolio Manager at Altrafin since August 2014. He focuses on equity and fixed income investment research from a top-down macro perspective. He has over ten years of experience in the finance industry.
During the several years he previously spent at UBS AG, he was primarily responsible for complex asset reporting solutions for wealthy private clients and institutional clients.
Oliver von Aesch received a Bachelor's degree in business administration specialising in banking and finance from the University of Applied Sciences in Business Administration Zurich (HWZ). Oliver von Aesch is a CFA Charterholder.

Laura Prina Cerai, CFA

Fund Manager, CONREN - Generations Family Business Equity, Head of Equity Research

Laura Prina Cerai has been working as an Equity Analyst and Co-Portfolio Manager for Altrafin since 2015. She has more than fifteen years of experience in the investment industry and previously worked as a Senior Investment Advisor & Portfolio Manager for Rothschild Bank in Zurich and as an Equity Analyst at Financier de L'Echiquier Asset Management in Paris and Salt Lake City (Utah, USA). She has a Master's degree in International Business from the Rotterdam School of Management (2006) and a Bachelor's degree in Economics & Finance from Bocconi University in Milan (2004). Laura Prina Cerai is a CFA Charterholder.

Glossary of terms, abbreviations

Shareholder ratio

The shareholder ratio indicates the proportion of shareholders (shareholders and investment fund unit holders aged 14 or older) within the overall population.

Beta

In finance, and within capital market theory in particular, the beta factor is a key figure based on the capital asset pricing model (CAPM) for the systematic risk (also known as market risk) assumed with an investment or financing. In simple terms, beta is an indicator that shows how much a stock fluctuates compared to the market. If the beta factor is 1, the stock fluctuates in line with the average. A beta of less than 1 indicates a stock with lower volatility than the market. A beta greater than 1 means the stock experiences above-average fluctuations.

Gross domestic product ("GDP")

Gross domestic product is the total monetary value of all finished goods and services produced within a country's borders in a year after deducting intermediate consumption.

Cash ratio

The cash ratio is a key liquidity indicator that shows the ratio of a company's total cash and cash equivalents to its current liabilities. The metric calculates a company's ability to repay its short-term debt with cash and easily marketable securities.

CEO ("Chief Executive Officer")

In many Anglophone countries, the Chief Executive Officer is the executive member of the Management Board (cf. managing director), the chair of the Management Board or general manager (cf. president or chair of the Executive Board) of a company or, generally speaking, its managing director with sole authorisation to sign on behalf of the company. The term 'CEO' is used irrespective of the size and legal form of the company.

CONREN universe of listed European family businesses

The CONREN universe of listed European family businesses was created as part of this study. It consists of listed companies in Western and Eastern Europe with market capitalisation of at least 200 million euros and a maximum free float of 80 percent that we classify as family businesses in accordance with our own in-house definition.

Corporate Governance

Corporate governance is the legal and factual regulatory framework for the management and supervision of a company for the benefit of all relevant stakeholders. The company-specific corporate governance system consists of all relevant laws, guidelines, codes, letters of intent, mission statements and customary corporate management and monitoring practices.

Current ratio

The current ratio is a key liquidity indicator that measures whether a company has sufficient resources to meet its short-term obligations. It compares a company's current assets to its current liabilities.

Dividend yield

The dividend yield is one of the indicators traditionally used to assess a stock. It describes the dividend in relation to the current price.

Source: www.wikipedia.com, CONREN Research GmbH

Glossary of terms, abbreviations

ESG systems

ESG stands for sustainable corporate governance in the areas of Environment, Social and Governance. ESG systems thus assess these three key factors for measuring a company's sustainability and social impact.

Family businesses

For the purposes of this study, family businesses are defined as follows: listed companies that have been and will continue to be significantly influenced by the owner family or families for many years.

R&D ("Research and Development")

Research and development can include applied and/or fundamental research or engineering development.

Free float

Free float (also known as 'public float') represents the proportion of shares in a stock corporation that is available for trading on the stock exchange.

Debt ratio

The debt ratio is a financial ratio that expresses the ratio of a company's total debt to total assets in percentage terms.

FTSE Developed Europe All Cap Index

The FTSE Developed Europe All Cap Index is a market-capitalisation weighted index representing the performance of large, mid and small-cap companies in developed European markets, including the United Kingdom.

Golden shares

Holders of golden shares have rights in a company that far exceed those of other shareholders. These powers – which were mostly created when large state-owned enterprises were privatised – are normally held by the public sector. In view of the different types of golden shares, this term is a catch phrase rather than a legal concept.

Gross margin

Gross margin is the difference between sales and the cost of goods sold divided by sales. It is expressed in percentage terms.

Market capitalisation

Market capitalisation is the product of the market price of a company's shares and the number of those shares in circulation. Any shares held in the company's own portfolio are not taken into consideration when calculating market capitalisation.

Member of the Board (of Directors)

A Board of Directors is a group of individuals who jointly oversee the activities of an organisation. This can be either a profit-seeking enterprise, a not-for-profit organisation or a government body.

Net margin

The net margin, profit margin or net profit margin is a measure of profitability. It is calculated by expressing net profit as a percentage of sales.

Source: www.wikipedia.com, CONREN Research GmbH

Glossary of terms, abbreviations

Price-to-book ratio

The price-to-book (P/B) ratio is an asset-oriented ratio used to assess a stock corporation's market valuation. It is expressed by dividing the company's share price by its book value per share.

Quick ratio

The quick ratio is a key liquidity indicator. It measures a company's ability to use its short-term and most liquid assets to meet its short-term obligations. It is defined as the ratio between quickly available or liquid assets and current liabilities.

Real GDP growth

Real GDP growth describes GDP growth after inflation.

Return on assets ("ROA")

Return on assets is an indicator of how profitable a company is relative to its total assets. It shows how effectively a company turns its assets into profit. It is calculated by dividing a company's net income (operating result after tax) by average total assets.

Return on capital ("ROC")

Return on capital is an indicator of how profitable a company is relative to invested capital. It shows how effectively a company turns capital into profit.

It is calculated by dividing a company's net income (operating result after tax) by the average book value of invested capital.

Return on equity ("ROE")

Return on equity is an indicator of how profitable a company is relative to its equity. It shows how effectively a company uses its equity capital to generate profit.

It is calculated by dividing a company's net income (operating result after tax) by average equity capital.

Headquarters

According to German law, the registered office of a legal entity is situated in the municipality determined by law, statutes or other legislation or from which the company in question is managed.

STOXX Europe 600

The STOXX Europe 600 or STOXX 600 is an equity index of the 600 largest companies in Europe. It is compiled by STOXX Limited, a Swiss subsidiary of Deutsche Börse AG.

Total return performance

The total return performance of an investment portfolio takes into account not only the capital appreciation of a portfolio but also the income generated by the portfolio. This income generally consists of interest, dividend and securities lending fees. This is in contrast to price return, which only takes into account the capital gains from an investment.

Source: www.wikipedia.com, CONREN Research GmbH

Glossary of terms, abbreviations

Debt-to-equity ratio

The debt-to-equity ratio (also known as gearing or leverage) of a borrower is a financial ratio indicating the relationship between balance sheet debt and equity. It provides insight into a borrower's financing structure. A rising debt-to-equity ratio is accompanied by an increase in credit risk for creditors.

Interest coverage ratio

For companies, the interest coverage ratio shows the ratio of a borrower's interest expenses to its cash flow or annual net profit.

5Y AVG P/E ("five-year average price/earnings")

The price-to-earnings (P/E) ratio is frequently used to assess a stock corporation's stock market valuation. It measures a company's share price relative to its actual or expected earnings per share for a reference period.

Source: www.wikipedia.com, CONREN Research GmbH

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This is not a sales prospectus in the sense of the law, but an advertising presentation that serves to provide individual information. Investments may only be made on the basis of the current sales prospectus, the key investor information, the management regulations or the articles of association as well as the respective annual and semi-annual reports of the respective fund, in which investment objectives, fees, opportunities, risks and other important fund issues are described in detail. Please read the sales prospectus, the key investor information, the management regulations or the articles of association and the respective annual and semi-annual reports carefully and consult your legal and / or tax advisor before investing. The investment involves risks that can lead to a loss or even a total loss of the invested capital. Information on opportunities and risks can be found in the sales prospectus.

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Disclaimer

CONREN offers a strategy that has been proven in the management of family estates with a long-term focus: active and independent asset management based on a theme-based, top-down approach.

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