

# J&T ARCH INVESTMENTS SICAV, a.s.

J&T ARCH INVESTMENTS SUB-FUND

Fund for qualified investors

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Activities of the J&T ARCH INVESTMENTS fund  
in the second quarter of 2024

# FOREWORD

Dear investors,

By means of our regular quarterly letter, allow me to update you concerning the results and activities of J&T ARCH INVESTMENTS (J&T ARCH or the Fund) in the second quarter of 2024.

The second quarter was relatively uneventful in terms of new investment activity and portfolio development. Therefore, it is certainly worth mentioning that, following the decision of the Fund's general meeting in June, on 16 August 2024 the first ever dividend payment was made to shareholders of the newly issued dividend classes of investment shares that were issued last year in April. The payout ratio was 80% of the total appreciation for the period from 1 April to 31 December 2023.

The main factor affecting the portfolio's appreciation in the second quarter was, as usual, given its size, the revaluation of our largest investment, the J&T ALLIANCE fund, whose most important asset is an indirect investment in a 44% stake in the Energy and Industrial Holding (EPH) group. Also contributing to growth in the portfolio's value were the equity position in MONETA Money Bank ("Moneta") and, to a lesser extent, revaluation of the investment in the J&T PROPERTY OPPORTUNITIES fund.

For the second quarter of 2024, the crown-denominated growth class appreciated by 3.18% to CZK 1.6213 per share. The euro-denominated growth class appreciated by 2.77%<sup>1</sup> to close the second quarter at EUR 1.4660 per share. Over the past 12 months, the announced appreciation for the crown-denominated growth share class was 17.01%, and it was 14.28% for the euro-denominated growth share class.

Following the announcement of a dividend of CZK 100.48 per share (the ex-dividend date was 28 June), the value of the crown-denominated dividend class fell to CZK 1,113.80 at the end of the second quarter. After taking into account the dividend, the class brought its holders appreciation of 3.18% for the period. The euro-denominated class then announced payment of a sharing in profit of EUR 3.55 per share, closing the quarter at EUR 55.25. For the second quarter, it delivered a return of 2.78% to its shareholders. Over the past 12 months, the total appreciation of the dividend classes of investment shares (again after taking into account the dividends paid) has been practically the same as that of the growth classes (i.e., 17.02% for the crown-denominated class and 14.34% for the euro-denominated class).

Primary subscriptions of new investment shares in the second quarter totaled CZK 10.4 billion (approximately EUR 414 million), and, after taking this into account, the Fund's assets as of 30 June 2024 reached CZK 78.7 billion (EUR 3.15 billion).

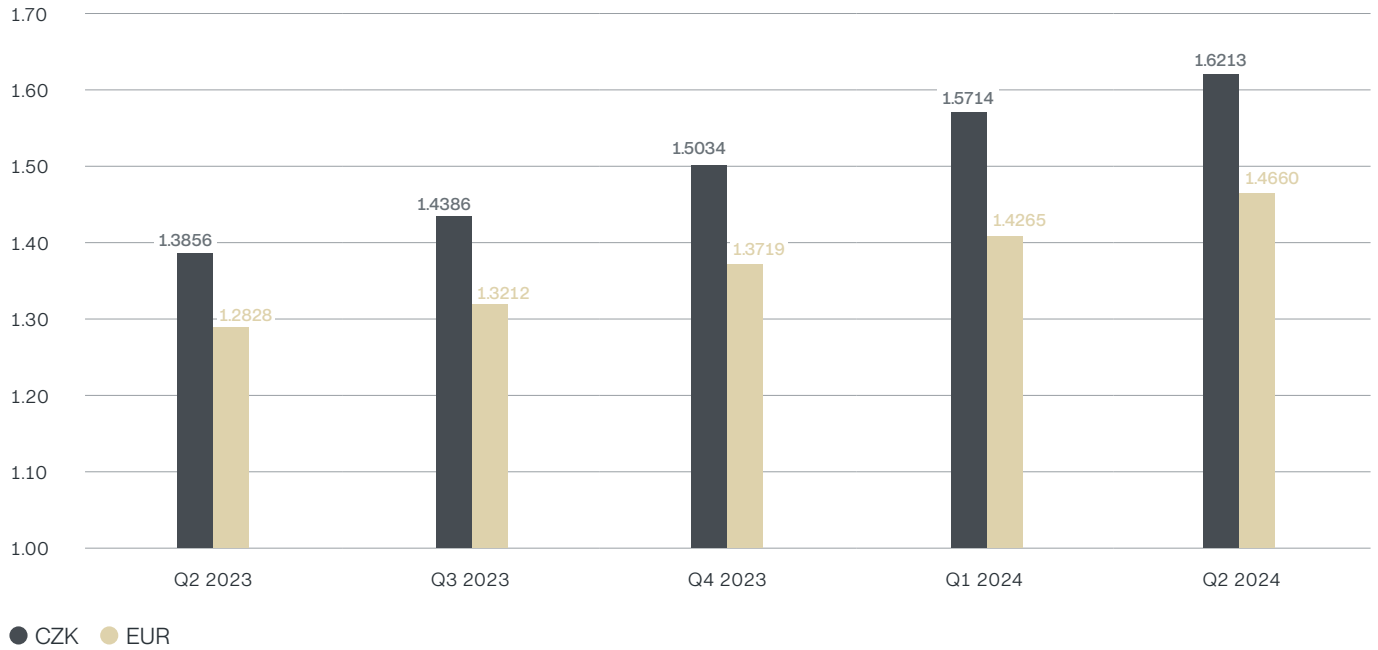
Prague, 25 September 2024

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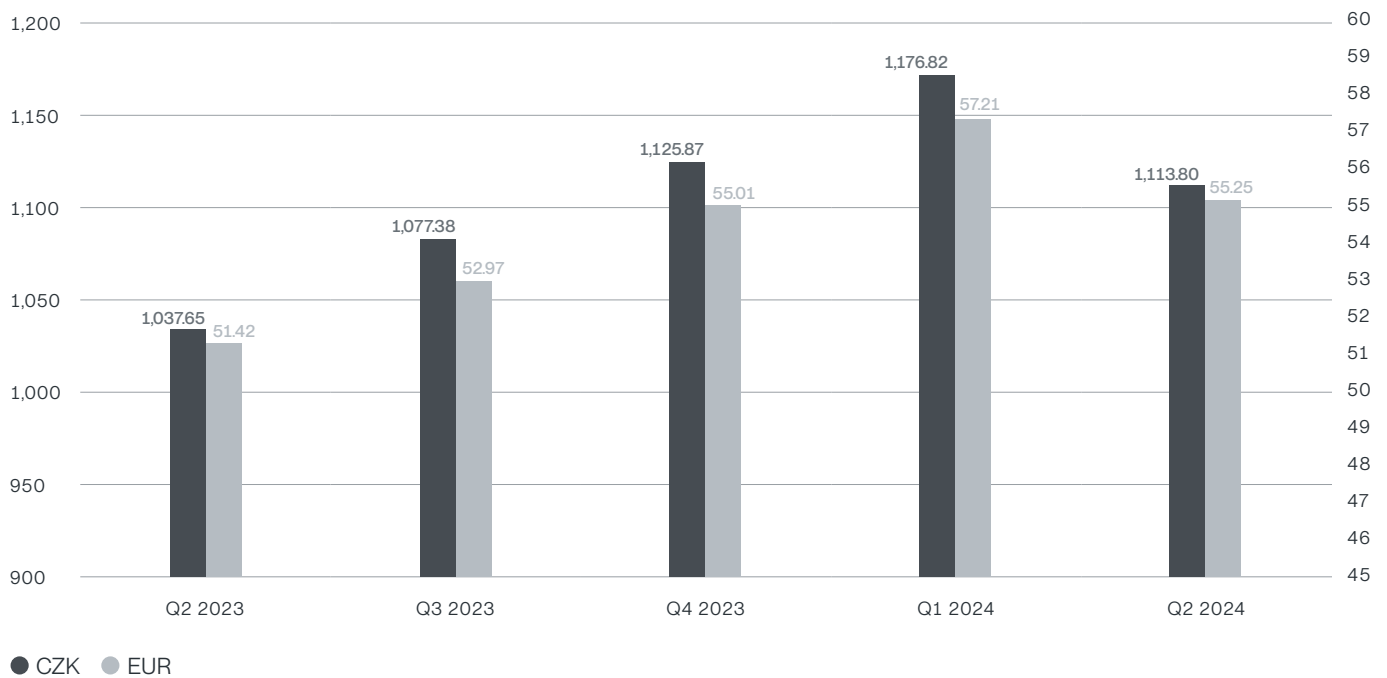
<sup>1</sup> The difference in appreciation between the crown-denominated and euro-denominated investment share classes is due to the persistent difference between interest rates denominated in Czech crowns and in euro and the corresponding returns of hedging derivative contracts, which are closed always at the beginning of the quarter. Small percentage differences in valuation between the euro growth and euro dividend classes are due to rounding.

Development of the price for investment shares announced quarterly by the investment company over the past 12 months

Growth classes



Dividend classes



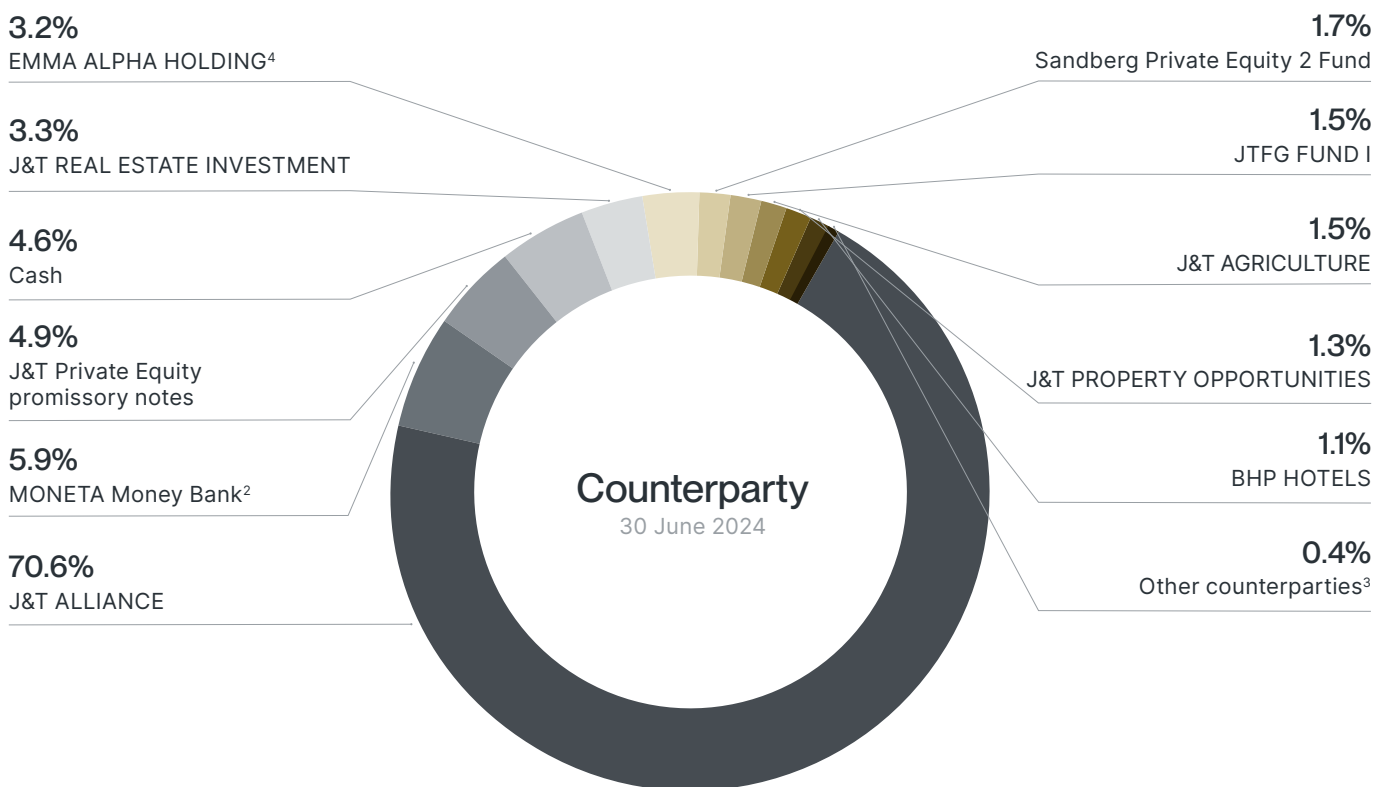
Returns are reported in gross values. An investor's returns in foreign currency may increase or decrease as a result of fluctuating exchange rates. Information on past performance is not a reliable indicator of future returns.

## Portfolio development and new investments

### Main events:

- Investment in J&T ALLIANCE fund appreciated by 2.6%, mainly due to revaluation of the 44% stake in the Energy and Industrial Holding (EPH) group.
- In May, Moneta paid out a dividend of CZK 9 per share. After an expected decline, the share price quickly returned to the level from the beginning of the quarter.
- J&T PROPERTY OPPORTUNITIES fund began construction of two more retail parks.

## Composition of the Fund's portfolio

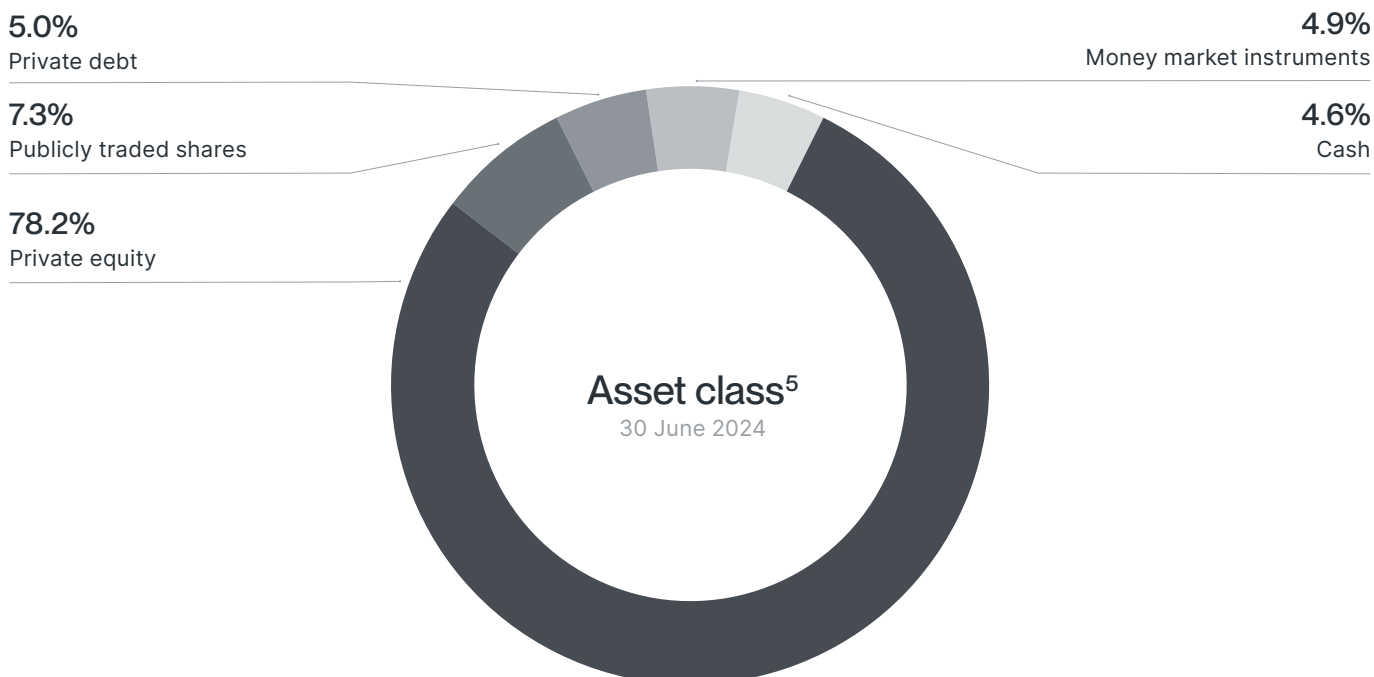
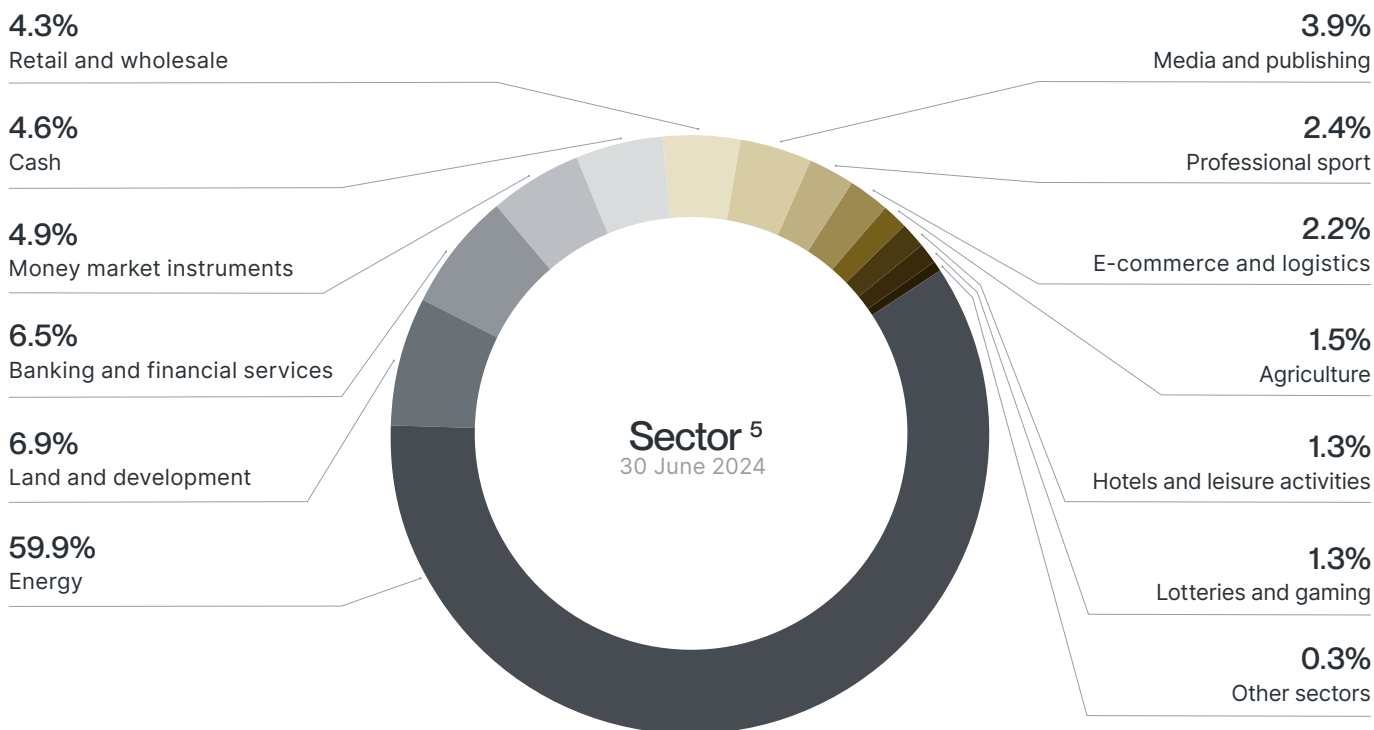


<sup>2</sup> The Fund's investment in Moneta Money Bank is held through the wholly owned subsidiary MYTHESSA HOLDINGS LTD.

<sup>3</sup> Other counterparties include Sandberg Private Equity 1 Fund and Sandberg Investment Fund II.

<sup>4</sup> Investment in the form of indirect equity participation through MEF HOLDINGS LIMITED.

## Composition of the Fund's portfolio



<sup>5</sup> The graph reflects the so-called "look-through" principle down to the level of the underlying assets.

## Investment in the J&T ALLIANCE fund appreciated by 2.6%, mainly due to revaluation of the 44% stake in the EPH group

The performance of J&T ALLIANCE's portfolio<sup>6</sup> was (and is) fundamentally affected by the indirect investment into a 44% stake in the Energy and Industrial Holding ("EPH") group. Other investments had a mutually offsetting, but slightly negative contribution in the second quarter, mainly due to negative revaluation of the stake in the EP Energy Transition ("EPETr") group. This resulted in a quarterly appreciation of 2.6%. For the first half of 2024, the investor shares<sup>7</sup> held by the Fund have therefore appreciated by 6.6% and their half-yearly appreciation is 1.2% points below their maximum appreciation.

At EPH level, the appreciation was mainly generated by operating cash flow generation in all of the group's major divisions. On the other hand, the movement in market factors affecting the discount rates used in the valuation model had a slightly negative effect (there was an increase in the cost of debt). These appeared also in almost all parts of the group. The only exception was the valuation of Eustream, where, thanks to positive regulatory changes (see below), we proceeded to partially dissolve one of the previously applied additional risk premiums. We also made a slight negative adjustment to our full-year free cash generation expectations compared to our assumptions from the previous quarter, and delay in full commissioning of two of the three new-build gas resources reported in our last letter also had a negative impact. In summary, the current market situation is less favorable than we had anticipated at the start of the year.

In September, the EP Infrastructure ("EPIF") subholding published its financial results for the first half of 2024. For this period, EPIF reported adjusted consolidated EBITDA<sup>8</sup> of EUR 722 million, an increase of EUR 130 million (+22%) year on year. The gas transportation segment contributed especially to the significant half-year increase in profitability, mainly due to the absence of one-off risk mitigation measures that adversely affected the previous year's results. The positive effect was also due to higher volumes of natural gas transported and booked under short-term contracts, which led to an 18% increase in total transported volumes. On the other hand, the heating segment had a slightly negative effect, realizing lower revenues from both electricity and heat sales due to lower spreads (the difference between the price of CO<sub>2</sub> allowances and the price of electricity) and a warmer winter. The gas and electricity distribution segment and the gas storage segment developed rather steadily. EPIF group's proportionate net debt further declined to a very conservative 2.6x during the first half of the year, despite EPIF's paying a dividend of EUR 300 million to its shareholders in June. The published results thus confirm to some extent a normalization trend in the European energy market.

As positive as are the presented results, the evolution of the regulatory framework is even more significant from a perspective of long-term value creation, given the regulated nature of much of the EPIF group's business. These impacts were discussed together with and in the context of the group's half-year results. There were important positive developments in all regulated segments.

In the gas transportation segment, transportation tariffs were increased by the regulator from 2025 to reflect lower physical gas flows. In case of a negative scenario, where the contract for the transportation of Russian gas through Ukrainian territory, which expires at the end of 2024, is not extended, the key role is played by increase of the tariff for flows directed to the domestic Slovak market. This move could help underpin cash flow even in an absence of Russian gas, reducing Russian risk and improving the company's credit profile.

For the gas and electricity distribution segment, the regulatory WACC has been increased for 2025 to reflect the current higher cost of capital compared to previous periods. Through this mechanism, distribution system operators can partially pass on these increased costs to consumers by increasing distribution fees.

The last of the regulatory changes presented is the approval of an operational support framework by the Czech Ministry of Industry and Trade for combined heat and power. This potentially applies to all three existing EPIF thermal power plants (i.e., Elektrárna Opatovice, United Energy, and Plzeňská teplárenská). Together with the previously approved investment support, this is a crucial step for the Czech heating industry to move away from burning brown coal. EPIF is prepared to invest approximately EUR 1.3 billion that should go toward the construction of new resources combining high-efficiency combined cycle gas-fired power plants (all enabled for burning also hydrogen), waste-to-energy plants, and biomass power plants. Their implementation should thus secure the future of the existing heating infrastructure owned by EPIF for decades to come.

<sup>6</sup> The sole asset of the J&T ALLIANCE fund is a non-controlling interest in the holding company J&T CAPITAL PARTNERS ("JTCP"). Its ambition is to combine the shares of the J&T Group and Patrik Tkáč in joint investment projects with Daniel Křetinský. As of 30 June 2024, JTCP owned 44% of the shares in EPH group, EP Energy Transition, EC Investments, EP Real Estate, and 1890s holdings; a 40% stake in Czech Media Invest; and an indirect 25% stake in Supratuc2020.

<sup>7</sup> J&T ARCH invests in so-called investor shares of the J&T ALLIANCE fund, which provide their holders with partial protection against a decline in value in exchange for waiving a portion of the return in excess of a specified threshold. This corresponds to the value of the annual EURIBOR rate as of 1 January plus a margin of 12%. The protection is provided through the fund's assets, which are attributable to the second, so-called shareholder class of investment shares, which, in exchange for the provision of partial protection, obtains the right to all returns above this limit. The principle is described in more detail in the [letter to investors for the third quarter of 2021](#).

<sup>8</sup> EBITDA = operating profit before interest, tax, depreciation and amortization.

EPH group paid out in second quarter to its shareholders a dividend of EUR 324 million. The amount collected, corresponding to 44% of the shareholding, was mostly used by JTCP group (together with the dividends paid earlier) to make a short-term investment into J&T PRIVATE EQUITY promissory notes. Most likely, this sum will be a financial source for servicing and/or repayment of bonds issued at the level of the direct shareholder of EPH and EPETr, J&T ENERGY HOLDING. Alternatively, it may also be used to finance or purchase J&T's and/or Patrik Tkáč's shares in other joint investment projects with Daniel Křetínský. At the end of the second quarter, this receivable totaled EUR 788 million.

The value of sister group EP Energy Transition ("EPETr"), which owns a 70% stake in LEAG, decreased again slightly quarter on quarter. The main reason for this is a decline in expected profitability, which mainly relates to lower spreads.

We reduced our investment in our 40% stake in the media group Czech Media Invest ("CMI") by 4.6% at the end of the quarter. The main reason was weaker performance of French media. The investment in EDITIS, France's second-largest publisher, which CMI made at the end of last year, was still retained at acquisition cost for the time being. The other parts of CMI developed as expected.

A significant quarter-on-quarter increase in value (by 9.8%) was recorded for the 44% stake in the holding company EC Investments ("ECI"). The main underlying reason behind this positive result was the successful sale of its entire shareholding in the Polish e-commerce group Allegro. The company FAST also had a positive quarter, with its operating results exceeding our expectations. Nevertheless, the overall success of the year will only be determined by the Christmas season. Other investments within ECI developed in line with our expectations.

Compared to the first quarter of 2024, we have revalued downward by 0.7% Supratuc2020, which owns and operates a network of retail stores in Catalonia and the Balearic Islands in a joint venture with the Spanish group Eroski. This was due to the continued weaker-than-expected performance of the Catalan stores at both sales and EBITDA levels.

In contrast, we revalued upward by 7.4% in the second quarter our investment in 1890s holdings, which owns stakes in the West Ham United FC and AC Sparta Prague football clubs. Both clubs in the portfolio impacted positively on the valuation. West Ham achieved excellent financial results in the 2023/24 season. Its revenues exceeded our expectations and the club also generated one of its highest-ever net profits. This was driven by better-than-expected league positioning, extraordinary insurance income, and additional bonus income linked to the performance of players sold. Sparta again triumphed in the Czech league and won the domestic cup. Both of these sporting achievements were positively reflected in the financial results, which likewise significantly exceeded our expectations. Moreover, after the end of the second quarter, Sparta qualified for the Champions League group stage for the first time in 19 years.

We made no significant change in the valuation of EP Real Estate during the second quarter.

The public takeover bidding process for International Distribution Services ("IDS"), the parent company of Royal Mail and logistics company GLS, by EP UK BidCo Ltd, about which we reported in our last letter, is so far proceeding as planned. A binding buyout offer at a price of 360 pence per share (net of planned dividends) was expected to be made at the end of June. Preparations are currently underway and the various conditions precedent to the transaction are being progressed. Subject to satisfaction of the conditions precedent, the transaction will be completed provided that the offer is accepted by at least 75% of all shareholders (with EP UK BidCo Ltd having already contractually secured the transfer of approximately 27% of the IDS shares owned by VESA Equity Investment S.à r.l.). The previously stated timeline with a possible settlement during the first quarter of 2025 also remains valid.

As usual, we have invested part of the funds raised from primary issue of investment shares in the amount of EUR 305.5 million through the investment share class to increase our position in J&T ALLIANCE.

## **In May, Moneta paid a dividend of CZK 9 per share; after an expected decline, the share price quickly returned to the level from the beginning of the quarter**

As we reported in our last letter, Moneta's April general meeting approved management's proposal to pay a dividend of CZK 9 per share for 2023. All proceeds received as dividend, an amount slightly in excess of CZK 510 million, were used by MYTHESSA HOLDINGS LIMITED, through which we hold our share position, to redeem a portion of the financing drawn against the shares. At the end of the second quarter, this totaled roughly EUR 50 million, which is 21.3% of the position's value.

As expected, Moneta's share price fell after the last day upon which the stock was eligible to trade with dividend (29 April 2024). During May and June, however, the price headed back upward relatively quickly, closing the quarter at CZK 102.2 per share. This is almost identical to the price at the end of the first quarter. Thanks to the dividend collected and, in particular, the leverage effect, the Fund's position appreciated by 13.6% in the second quarter.

At the end of July, Moneta published results showing a 9.1% year-on-year increase in half-year profit to CZK 2.7 billion. Meanwhile, management expects full-year profit for 2024 to be at a level similar to that of a year earlier (i.e., CZK 5.2 billion). Net fee income continues to be a major contributor to profit, growing 16.7% year on year, mainly due to higher commissions from the distribution of third-party products. During the results presentation, management also confirmed the medium-term plan presented previously. Since the end of the second quarter, the share price has continued to rise significantly and the stock currently is trading at around CZK 110.

## **J&T PROPERTY OPPORTUNITIES fund has started construction of two more retail parks**

After successfully completing and opening the first three shopping centers in Humpolec, Lipník nad Bečvou, and Bytča in Slovakia, the construction of two more shopping centers started in April. The current plan anticipates the opening of a shopping center in Úpice by the end of this year, while the shopping center in Bystřice pod Hostýnem should welcome its first customers during the first quarter of next year. Construction of the currently last planned center in Uničov should also start at that time. This project received a valid building permit during the second quarter. Beyond the original intentions, there is also an expansion of the already opened shopping center in Lipník nad Bečvou planned for next year. The fund delivered 6.0% appreciation for the second quarter, which was largely a one-off positive impact from obtaining the building permit in Uničov.

## **Mixed results of the individual investment funds of JTFG FUND I<sup>9</sup> led to depreciation of the portfolio by 0.5%.**

The best result within the JTFG FUND I portfolio was achieved during the second quarter by the equity position in ČEZ. After a price drop in the first quarter, the stock closed the second quarter at CZK 880. After taking into account the dividend paid of CZK 52 per share, it appreciated by 10.4% in the second quarter. The results published in August showed that the ČEZ group continued to perform well from an operational point of view. Moreover, management raised its full-year EBITDA outlook. However, net profit was again significantly impacted by the windfall tax, which also drained the vast majority of the improved full-year earnings expectations. Unfortunately, the Minister of Finance's August U-turn on retaining the windfall tax as well as uncertainties surrounding the completion and financing model for new nuclear power plants continue to sideline the company's fundamentals. The shares are currently trading at around CZK 860.

Undoubtedly positive news is that online supermarket Rohlík Group ("Rohlík") raised additional capital of EUR 160 million in June through a combination of financing and a new D1 investment round. Although the investment round was priced at a higher valuation than is our current valuation, we have conservatively kept that unchanged for the time being. The main reason leading us to do so is that the main part of the investment did not primarily come from a new investor. Indeed, the D1 investment round was largely led by the European Bank for Reconstruction and Development, one of the existing shareholders. The new capital is expected to go primarily into expansion in the German market, where Rohlík has an ambition to deliver in 15 cities by 2030 under its Knuspr.de brand (into which it has already fully integrated its previously acquired competitor Bringmeister).

Conversely, after several positive quarters, the Petrus Fund reported an 8.3% decline in value for the second quarter. This development thus only confirms what we have repeatedly mentioned in the past, namely that the value of the Petrus fund's investment shares is very volatile, not least because of the rather highly concentrated nature of the portfolio.

As we mentioned in our last letter, JTFG FUND I sold its stake in the Consilium Education Group at the end of March. In June, based upon a decision by the general meeting, it then paid out the proceeds of the sale as a dividend to its shareholders. In the case of J&T ARCH, the amount was approximately CZK 78 million.

## **Other portfolio investments**

We have kept our valuation for the March investment in the form of an indirect equity participation in 8.1% of EMMA ALPHA HOLDING ("EMMA"), the main investment platform of Jiří Šmejč's EMMA Capital group, at the acquisition price of EUR 100 million for the time being. As we mentioned in our last letter, the group successfully completed in May the IPO of Premier Energy, one of its largest investments.

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<sup>9</sup> The JTFG Fund I portfolio consists of a 3.94% (or 3.62% after taking into account full exercise of the management option program) stake in the online supermarket Rohlík Group, some 860,000 ČEZ shares, and an investment in the Petrus Advisers Special Situations Fund ("Petrus"). J&T ARCH holds 40% of the investment shares.



Then in June, together with CVC Capital Partners, the fund with which it co-owns the Packeta group, EMMA invested in a stake in FoxPost, a Hungarian company which, like Packeta, focuses on last-mile logistics through its own network of self-service boxes. The group's other material investments developed in line with our expectations.

Due to lower sales achieved compared to our expectations, we have slightly adjusted our projections for this and subsequent years in our valuation model for the Terno retail chain.<sup>10</sup> Nevertheless, we persist in expecting the company's overall sales and profitability to continue growing, both organically and through the positive effects of the KON-RAD acquisition completed last year. The aforementioned in combination with other effects has led to a positive revaluation of our investment by 0.5%.

Our investment in the BHP HOTELS SICAV fund, which indirectly owns a 45% stake in The Westminster London, Curio Collection by Hilton, appreciated by 3% in the second quarter. The hotel's operating results slightly exceeded the business plan and the positive appreciation was partly driven by movement in the euro/pound exchange rate.

Our credit exposures, be they the EUR 41 million mezzanine loan granted through the J&T AGRICULTURE fund<sup>11</sup> to the J&T Agriculture and Ecology group or the EUR 100 million loan granted to J&T REAL ESTATE INVESTMENT PLC, appreciated at the accruing interest rates, which means 2.6% and 2.0%, respectively. In both cases, negotiations are still ongoing as to terms of a possible capital injection.

## Issuing an institutional share class

Due to ongoing discussions with several large investors, the Fund has proceeded to issue an institutional class of investment shares. In view of the volumes under discussion (in excess of CZK 100 million), its rules allow for better reflecting both the needs of the Fund and the needs of the investors concerned. The first subscription of this class (CZK I) took place at the end of June. That class is not admitted to trading on a stock exchange and, compared to the existing growth and dividend classes, it is subject to different fees and generally involves different rules when requesting to redeem shares in the Fund.

## Events occurring after the close of the quarter

In July, the Fund, through the JTFG FUND II structure, invested about EUR 51 million in subscribing to 2.7 million newly issued shares of Tatry Mountain Resorts ("TMR"). This makes it the second-largest shareholder, with an indirect stake of 20.6%. Its largest shareholder, Chairman and CEO Igor Rattaj, remained the main shareholder after the subscription. From the Fund's point of view, this is another step in implementing its proclaimed strategy, which is primarily based on investments in the long-standing partnerships that the J&T Group has built over its history. TMR is the largest player in the tourism industry in Central and Eastern Europe. The group owns and/or operates mountain resorts, theme parks, hotels, and other complementary assets in Slovakia, Poland, the Czech Republic, and Austria. TMR plans to use the newly raised capital of EUR 120 million to strengthen its capital structure.

A second, significantly smaller investment made after the end of the second quarter was purchase of J&T OPPORTUNITY equity fund in the amount of EUR 5 million. In addition to the placement of free capital, our motivation at the time was to take advantage of the relatively rapid decline in the stock markets at the beginning of August.

We thank you for your continuing trust.



**Adam Tomis**

Investment Director, J&T Finance Group

Member of the Investment Committee of J&T ARCH INVESTMENTS

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<sup>10</sup> Our investment is made through the Sandberg Private Equity 2 Fund whose sole asset is the 100% stake in Terno real estate.

<sup>11</sup> J&T AGRICULTURE provided the J&T Agriculture and Ecology group with financing for the acquisition of Spearhead Czech and Spearhead Slovakia.

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In case of providing the service of subscribing to and placing investment instruments, the Bank may receive from the Fund remuneration for activities directed to subscription of investment instruments. The amount of the regular remuneration is determined as a percentage of the total volume of investments made into these investment instruments that is intermediated by the Bank and one-off remuneration consisting in an initial fee paid by the Investor. For intermediating the subscription of investment instruments, the Bank may then pay its contractual partners (intermediaries) a commission on the volume of investments intermediated up to the amount of the Bank's remuneration. General information on incentives in relation to the Bank's provision of investment services is published on the Bank's website.

