



## Letter to Partners #28

Q2 2025

July 10<sup>th</sup>, 2025

Dear Partner,

In the second quarter of 2025, the Hertford Capital fund achieved a return of +10.40%, outperforming its reference index, which increased by +9.96%. At the end of the quarter, the fund volume stood at EUR 12.59 million.

EUR 100.00 invested at the start of the fund in mid-2018 was worth EUR 133.08 at the end of the quarter. Since inception, the overall gain is +33.08%, with a compounded annual gain of +4.17%.

Net performance figures (including distributions), after deducting all costs, for the -S-, -R- and -I- tranches:

Year	-S- Tranche	-R- Tranche	-I- Tranche	MSCI Europe S&M Cap
2018	-2.87%*	-2.49%**	-	-17.22%*
2019	+10.36%	+9.40%	+8.31%***	+30.59%
2020	+22.29%	+20.88%	+21.31%	+5.82%
2021	+35.31%	+34.24%	+34.84%	+24.20%
2022	-38.26%	-38.72%	-38.48%	-22.83%
2023	+0.80%	+0.09%	+0.50%	+11.30%
2024	+6.79%	+6.00%	+6.48%	+5.32%
2025 H1	+12.89%	+12.46%	+12.70%	+11.21%
<b>Since inception</b>	<b>+33.08%</b>	<b>+26.56%</b>	<b>+31.45%</b>	<b>+42.90%*</b>
<b>Annualized return</b>	<b>+4.17%</b>	<b>+3.52%</b>	<b>+4.30%</b>	<b>+5.23%*</b>

\* Since the -S- tranche was launched on July 2<sup>nd</sup>, 2018 until the end of 2018 (approx. 6 months). \*\* Since the -R- tranche was launched on September 7<sup>th</sup>, 2018 until the end of 2018 (approx. 4 months). \*\*\* Since the -I- tranche was launched on January 2<sup>nd</sup>, 2019 until the end of 2019. Note: Due to the different starting times and fee structures, there may be deviations in the performance of the individual tranches. Past performance is not an indicator of future performance.

All data according to BVI method, costs at fund level are taken into account. Sources: HANSAINVEST; MSCI.  
Reference index: **MSCI Europe Small & Micro Cap index**; net-return (EUR).

The -S- tranche is closed to new investors. Existing investors can order additional fund units with a minimum investment of EUR 10,000. The -R- tranche can be invested in without a minimum investment amount. In the -I- tranche, the minimum investment amount for new investors is EUR 200,000. Existing investors in the -I- tranche can order additional fund shares without a minimum amount. You can find the respective tranche using the following **ISINs** as well as the links below for further information:

**[-S- Tranche: DE000A2JF8Z7](#)**

**[-R- Tranche: DE000A2JQHQ2](#)**

**[-I- Tranche: DE000A2N8119](#)**

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### **Fortnox AB: A Thesis Validated**

In the last [Letter to Partners](#), I outlined my conviction in Fortnox AB - a Swedish leader in enterprise resource planning (ERP) software with monopoly-like economics. Shortly after I initiated the position, private equity firm EQT and the company's Chairman proposed a take-private transaction. The deal has now closed at SEK 89.75 per share. I paid SEK 64.80 per share and received a dividend of SEK 0.25, resulting in a return of +38.89%.

While it's gratifying to see this thesis validated so quickly, the real story lies in what the transaction signals: private markets are increasingly recognizing the long-term compounding power of mission-critical Software-as-a-Service (SaaS) businesses with embedded workflows and robust data access. Fortnox's ability to expand into adjacent financial services beyond accounting, drive progressively higher margins, and innovate relentlessly made it a natural target. I wouldn't be surprised if, within a few years, the company returns to public markets at a multiple of its current size and scope.

### **Rewriting the Rule Book**

In a series of [recent interviews](#) and [public appearances](#), [Robert F. Smith](#), founder of software focused private equity firm [Vista Equity Partners](#), has articulated a bold new thesis: the traditional Rule of 40 - where leading software companies are expected to achieve a combined growth rate and operating margin of 40% - is no longer sufficient in the age of AI. Instead, he suggests we may be entering an era of the Rule of 60 to 70 or even 80.

He is convinced that, Agentic AI is not just a tool - it's a multiplier. It allows software companies to scale faster, serve customers better, and operate leaner than ever before. Through Vista's partnership with Microsoft, Smith is embedding AI agents across 100% of the portfolio companies to delight customers, reduce costs and speed up growth. He argues that the future of enterprise software will be shaped by companies' ability to control both the workflow and the data - a principle that aligns closely with my investment framework.

### **Sidetrade SA: Agentic AI as a Strategic Inflection Point**

Sidetrade SA has taken a decisive step forward in enterprise finance with the launch of the world's first autonomous AI Cash Collection Agent. This isn't incremental innovation - it's a structural shift in how working capital is managed. The agent, Aimie, operates live and independently, orchestrating the full Order-to-Cash (O2C) cycle: initiating outbound calls, engaging with debtors, qualifying outcomes, escalating risks, and continuously learning from real-time interactions.

What makes this launch particularly compelling is the scale and depth of Sidetrade's data advantage. Aimie is trained on trillions of dollars in payment experiences across millions of buyers, powered by Sidetrade's proprietary data lake - the largest real-time behavioural database in the O2C space. This enables precision decision-making and adaptive outreach strategies that go far beyond traditional rule-based automation.

Thereby, Sidetrade is positioning itself as a category leader in intelligent cash flow management. Early adopters are already reporting meaningful reductions in DSO and improved consistency in execution - two metrics that directly impact liquidity and margin. Moreover, the agentic model allows enterprises to redeploy finance teams from repetitive tasks to strategic initiatives, unlocking both cost efficiencies and human capital leverage.

Imagine a collections department of 40 people. With Aimie, much of the repetitive, manual work is automated - freeing teams to focus on strategic, high-impact tasks. The result? Lower costs, higher margins, and a more human finance function - ironically, powered by AI.

Sidetrade's long-term investment in domain-specific AI models (dating back to 2015) and its unified enterprise platform and data lake give it a defensible moat as well as a first mover advantage. With Aimie now capable of making thousands of outbound calls daily in multiple languages, the company is well-positioned to further scale across Europe and North America.

### **Why This Matters for Hertford Capital**

This shift is particularly relevant for the fund's holdings in enterprise software and classifieds platforms. If agentic AI can drive both growth and margin expansion, then the intrinsic value of these businesses is materially higher than current market prices suggest.

Simply imagine how future cash flows and multiples could accelerate if the market begins to price in both margin expansion - from the 20-30% range to 40-50% or higher - and AI-driven top-line acceleration through enhanced sales and marketing efficiency.

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To illustrate, consider a software company generating EUR 100 million in annual recurring revenue, growing at 15% per year with a 25% operating margin. Over five years, this business would generate approximately EUR 194 million in cumulative operating profit.

Now imagine that same company, powered by agentic AI, increases its growth rate to 25% and expands its margin to 45%. In this scenario, cumulative operating profit over five years would exceed EUR 462 million - more than 2.3x the original case.

This is the kind of compounding the market has yet to fully price in. It's also why I believe the shift from a Rule of 40 to a Rule of 70 framework could redefine valuation paradigms across the software landscape - just as we've seen in hardware and infrastructure with companies like Nvidia.

Agentic AI is expected to transform the cost structure of software businesses. Sales, marketing, admin, and customer support - traditionally labour-intensive departments - can now scale faster with far fewer people. AI agents can qualify leads, personalize outreach, handle support tickets, and even assist in onboarding. This reduces SG&A as a percentage of revenue, allowing operating leverage to kick in earlier.

Let me give a concrete example. Suppose the same company spends EUR 40 million annually on SG&A, with 60% of that allocated to staff across sales, marketing, admin, and support. If agentic AI enables a 40% reduction in headcount across these functions, SG&A could drop by approximately EUR 10 million annually. Over five years, that's nearly EUR 50 million in cumulative savings - directly boosting free cash flow.

On the development side, agentic AI also reduces capex and R&D. AI-assisted coding, testing, and documentation can cut development timelines dramatically. If the company spends EUR 10 million annually on product development, and AI reduces that by 40%, that's another EUR 20 million in cumulative savings.

These shifts don't just lift margins - they rewrite the economics of software. Companies become leaner, faster, and more defensible. And yet, the market still isn't pricing this in. It feels like owning Nvidia before the breakout.

This is precisely where I'm positioning the Hertford Capital fund: in companies that own the enterprise workflows, control the data, and are embedding agentic AI into their core operations as well as applications. I believe these businesses will be the next compounding engines - and the market has yet to fully catch up.

Smith goes further in his thesis and describes the following pattern:

- Phase 1: Hardware - Nvidia and other chipmakers captured the early AI wave.
- Phase 2: Infrastructure - Data centres and cloud providers scaled to meet demand.
- Phase 3: Enterprise Software - The next winners will be those who own the workflows and the data.

Phase 3 is where the portfolio is concentrated. Companies like Sidetrade SA, Planisware SA, ATOSS Software SE, SmartCraft ASA, done.ai Group AB, and Profile Systems & Software SA are embedding AI into their mission-critical enterprise software applications. They control the data, the user interface, and the customer relationship. That's where durable value will be created.

On the classifieds side, platforms like Hemnet Group AB, Baltic Classifieds Group plc, Vend Marketplaces ASA, and Alma Media Oyj are increasingly leveraging AI to improve operations, personalize listings, optimize ad yield, and improve user engagement. These are not just online classifieds businesses - they are data-rich ecosystems with monopoly-like access to intent and monetizable data.

### **The Long-Term View**

As of today, I have high conviction that the companies in the Hertford Capital fund are not only winners today but will also dominate their respective niches in the future. These transformations won't happen overnight, and I will continue to monitor their progress closely. I'm excited to see this thesis play out over the next decade - and I look forward to the value creation it will deliver for us. Until then, let's be patient.

Sincerely,

Marc  
*Founder & Managing Director, Hertford Capital GmbH*

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## Portfolio Overview

As of July 10<sup>th</sup>, 2025, the fund is allocated across 22 positions. The portfolio reflects our conviction in capital-light, high-ROCE businesses with durable moats and pricing power.

### By Sector

- Software: 30.75%
- Financials (Mortgage & Real Estate Franchise Platforms): 21.87%
- Classifieds: 17.83%
- Industrials: 12.07%
- Critical Infrastructure: 4.28%
- Luxury Goods Retail: 2.45%
- Cash: 10.74%

### By Geography

- United Kingdom: 19.55%
- Germany: 18.07%
- Italy: 8.92%
- France: 8.59%
- Greece: 7.50%
- Norway: 6.99%
- Sweden: 5.29%
- Finland: 2.52%
- Cash: 10.74%

Source: Hertford Capital GmbH.

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<https://www.hansainvest.com/deutsch/fondswelt/fondsdetails.html?fondsId=720>

The information will be made available to you in German. A summary of your investor rights in German can be found in digital form on the following website:

<https://www.hansainvest.de/unternehmen/compliance/zusammenfassung-der-anlegerrechte>.

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<https://www.hansainvest.de/unternehmen/compliance/zusammenfassung-der-anlegerrechte>.

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