

## A 'good run' spoiled

1<sup>st</sup> July 2020

Wirecard AG is a German digital payments company, prominent in the realms of mobile payments, e-commerce, digitization and financial technology. For almost a decade, the company has been considered one of the most encouraging tech firms in Europe for investors, until recently where it came to be the first member of the prestigious DAX index to file for insolvency. The collapse of Wirecard has prompted some self-analysis in Germany with regard to their regulation, and has invoked discussion internationally around a spectacle reminiscent of the Enron scandal in 2001. As recent market conditions exert further pressure on the foundations of businesses, cases around companies such as Hertz and Intu edging closer to collapse are posing concern for investors.

Wirecard has been plagued by a scandal over accounting irregularities, brought to light by a Financial Times (FT) report in March last year. This led to a set of lawsuits from Wirecard accusing the newspaper of price manipulation, eventually causing the German regulation authority to weigh-in on the company's defence. The payments company began to unravel further in January when the FT reported on a string of suspicious transactions across their subsidiaries, and it wasn't long before more serious concerns were raised over their general bookkeeping practices. Last Monday, Wirecard's CEO Markus Braun quit amidst an ongoing hunt for a missing \$2 billion of assets. Shares in the company went on to lose 90% of their value in less than a week, begging the question: can managers safely rely on the oversight of auditors and supervisory bodies to keep their client's money secure?

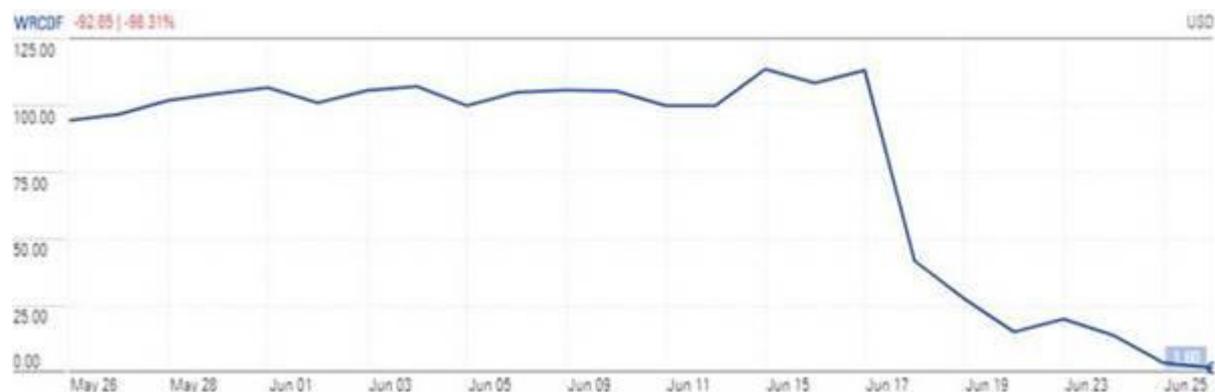


Fig 1: Morningstar

A number of distinguished funds owned significant holdings in the company, only to have sold their stake in the company amidst the allegations while losing considerable sums of money. One star fund manager, Alexander Darwall of the European Opportunities Trust and formerly of the Jupiter European Fund, stated that 'he regretted his huge bet on Wirecard', a considerable holding of over 10%.<sup>(2)</sup>

This is another example of poor oversight by auditors and investors alike, and shines a spotlight on their role in the industry. It has become clear that in addition to relying on existing corporate governance standards, competent fund analysis is paramount to ensuring secure investment proposals ring true. These cases place further emphasis on the importance of having a strong research department. Thus far, at LGT Vestra we have managed to remain clear of any of the recent scandals, and the fact that we have not been invested in any funds that have gated is testament to the thorough research that our team continues to uphold. We believe that the coronavirus will continue to provide opportunities for investors with strong fundamental research and with an emphasis on corporate governance to generate alpha.

1 - Morningstar

2 - <https://www.bloomberg.com/news/articles/2020-06-19/darwall-dumps-whole-wirecard-holding-from-his-investment-trust>

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