Q4 2024

Investment Objective:
The investment objective of the Fund is to generate long-term returns through investment in a portfolio of global companies whose share prices stand at a significant discount to estimated underlying net asset value.

MANAGER'S COMMENT

Introduction:

For the first 12 months of the vehicle's life, we are limited by regulations from directly discussing performance.

Therefore, for the time being we intend to give you some insight into how we think about companies, opportunities that are arising in our universe and our more general outlook for the strategy.

In previous letters we have discussed the fund's two largest holdings, News Corp (8.6% weight) and D'ieteren (7.1%). This quarter our attention turns to the fund's third largest holding, Chrysalis Investments.

Chrysalis Investments (5.8% weight):

Chrysalis Investments ("Chrysalis") is a London-listed closed-ended fund which owns a concentrated portfolio of late-stage, technology-driven private companies.

The company came to market at 100p per share in 2018 with a remit to invest in late-stage private companies as a "crossover" investor. An excess of VC money drove underlying valuations higher, and the shares peaked at 277p in 2021 – then trading at an +23% premium to its reported NAV.

We started building a stake in April 2024 at the inception of the fund's life, after the NAV and share price had corrected by -42% and -72%, respectively.

At this point we felt the company had a number of key attractions: **1)** abnormally wide -46% discount to a heavily written-down NAV; **2)** Chrysalis' top five largest holdings accounting for 69% of NAV were all mature, and (mostly) performing strongly; **3)** multiple credible prospects for liquidity events, which our analysis indicated could lead to significant uplifts on carrying value; and **4)** a new capital allocation policy, in which £100m of buybacks (24% of the then prevailing market cap) would be undertaken once a cash reserve of £50m from exits was hit.

Two successful exits in recent months has generated sufficient cash levels to surpass the £50m reserve and kickstart the buyback program. Graphcore was sold to Softbank for c.£44m (a +25% premium to carrying value) and Featurespace to Visa for £89m (a +21% premium to carrying value).

Elsewhere in the Chrysalis portfolio, we continue to see credible prospects for liquidity events in names such as Starling Bank (30% of NAV) and Klarna (14% of NAV).

Starling Bank is a cloud-native, UK challenger bank built on a proprietary digital platform known as Engine. Being built from the ground-up, as a digital-first business, Starling not only benefits from significant cost advantages versus the incumbent UK banks but is also able to develop and launch new products far quicker as a result.

As an example, Starling's banking platform is accessed solely via an app, meaning its annual running cost per customer is only around £40, whereas traditional banks have annual customer costs of around £250 due to their legacy tech stack and brick-and-mortar bank branches. This drives up both Starling's margins and its return on tangible equity, which stands at c. 30% vs. peers at c.10%, and affords it a premium valuation. We remain confident in Starling's ability to deliver meaningful levels of profitability despite its relatively low loan-to-deposit ratio and its conservative balance sheet.

Klarna is a global-leading payments provider and a company with which many readers will likely be familiar. Klarna's core products are **1)** Buy-Now-Pay-Later (BNPL), which gives consumers the ability to pay for purchases, on an interest-free basis, over an extended period; **2)** Pay in 30 days, in which the customer pays no interest if they pay in full within that time period; and **3)** Financing – consumers can choose the term of their loan and pay the interest accordingly.

Klarna's aim is to offer consumers a limited range of standardised financing products which emphasise short-duration and low-amount transactions, in return charging its merchant network a variable commission of up to 6% of GMV (dependent on size of item), at an average rate of 2.1%. This commission income represents 85% of Klarna's total revenues.

MANAGER'S COMMENT

The low value nature of these consumer loans means that the average order size is only $100, the average outstanding balance per Klarna user is only $150 (vs. $6,500 for credit card users), 99% of all balances are repaid on time, and Klarna's average loan book duration is only c. 40 days, giving the company greater control over its credit risk.

Klarna is anticipated to IPO in H1 2025, at a speculated valuation range of $15bn- $20bn. At these figures, a full exit from Klarna would realise between 20-27% of Chrysalis' current market cap. Chrysalis' carrying value for Klarna is supported by private trades in the secondary market.

Chrysalis' other largest portfolio holdings are Smart Pension (15% of NAV), a UK Pension Master Trust and technology platform; and The Brandtech Group (10% of NAV), a US-based marketing technology group.

The prospect for further realisations of large holdings, such as Klarna or Starling, and the still wide -27% discount to NAV makes for a compelling investment case.

Today, Chrysalis is a 5.8% position. AVI, across our funds, is the largest shareholder owning over 14% of the shares.

Outlook:

In 2024 the S&P 500 achieved back-to-back returns of >20% for the first time since 1997/98. There is considerable chatter about "US exceptionalism" amongst investors and strategists. The extent to which such exceptional US equity returns can continue is one of the key questions investors are asking as the new year begins.

Away from the US madding crowd, both economic and equity market performance is less ebullient. In particular the overlooked and under-researched areas of the market we specialise in remain deeply undervalued, as indicated by the 39% portfolio weighted average discount.

Across the portfolio there are numerous corporate catalysts – including our own activism – to unlock value. Our track record suggests these are the key ingredients for delivering attractive long-term returns and such we are optimistic about prospective performance.

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The share price can be found in *AGSS - Asset Value Investors*

Further information may be found on the following websites:
https://www.assetvalueinvestors.com/agss
www.assetvalueinvestors.com