Management report

Dear fellow shareholder,

First and foremost, I would like to wish you and your families all the best in these volatile and uncertain times. Naturally, the focus of this quarter's management letter is the current Covid-19 led crisis and how VEF is positioned and how we are reacting to all as it unfolds.

2020 has quickly evolved into the most challenging operating environment for VEF and its portfolio companies since inception, and indeed the most volatile period since the global financial crisis of 2008-09. That said, having been in emerging markets for 20 years, there is little that can faze us or causes us to panic. Even in a crisis as dramatic as this, there is a playbook for VEF and our portfolio companies, as one prepares for the worst, stays open and flexible to constant change, and is then well-positioned for any upside from there. My Father-in-law, back in 2008, told me that the first time you look at a crisis is the best it is ever going to look, and this one has been no different, as events have unfolded at a rapid negative pace since early Q1. We are paranoid by nature, have an excellent and experienced board and from mid-February have been discussing and debating our evolving strategy to position for the current volatility and take our opportunities when the time comes.

To begin on a positive footing, as long-term structural investors, this crisis is medium to long term positive for our investment thesis. What is becoming very clear from this crisis is a global acceleration towards all things digital. The pace of change that the financial services sector has seen over the last 10 years has been the fastest pace in history and was a founding basis for VEF. As a result of Covid-19, we expect these forces of change to accelerate from here. There will be a major (versus gradual, but permanent) shift to digital channels for financial services – there is simply no going back. Now, more than ever, people don't want to queue in bank branches and don't want to touch paper money, especially when digital is a clear better option. A broader sway of society is set to embrace digital finance like never before. This is one of the most exciting things, even at this early stage of the crisis that all our companies are realising. It is a high prize and one we know we have to fight to be best positioned to benefit from as soon as the dust settles.

As a company, our business continuity has not missed a beat, as we have always worked "remote" given the extent we travel for our mandate. Our team has been empowered from the start to be based and work where they are most comfortable as we go through this. Professionalism and delivery have been ever-present.

Our core geographies (Latam, South Asia, Africa) and sector of focus (financial services) did not feel the brunt of the first wave of the spread of the virus, which has provided us and our portfolio companies with a window to consolidate and prepare for what is coming. Furthermore, our Brazil-heavy portfolio has already lived/grown through the 2015–16 recession with back-to-back years of 3%+ GDP contraction, while Russia and Russian companies are born crisis-ready.

We are in constant dialogue with the founders, management teams and boards of our companies, who are acutely aware of, and reacting real-time to all, locking down capital and adjusting growth and cost spend to extend runway through to better times. The vast majority of our portfolio secured size equity funding through 2019 and early 2020, and we expect to close the one remaining funding gap soon. The main impact on our portfolio companies from here will be macro driven, with the depth and duration of the downturn, both globally and locally key to the extent of the pain trade from here. We are aware of the value that is saved and created in these times and are more focused than ever to try and make the difference in helping our companies in this window.

> "You never let a serious crisis go to waste."
> *Rahm Emanuel*

There are so many take aways from these words, but we are working with our companies to make sure they use this crisis


David Nangle

to make changes they didn't think were possible before, and evolve business strategies so that they emerge stronger more sustainable companies on the way out of this crisis then they entered. At VEF also, we see this crisis as yet another opportunity for us to re-engineer everything we do, improve all and make sure we are one of the winners from this.

Global financial markets have been quick to reflect the value-destructive forces unleashed by Covid-19 with some of our focus currencies (BRL, RUB & MXN) off 25–30% versus the USD and MSCI EM index off 35%, from their January peaks (as at end of 1Q20). Our portfolio valuation is clearly not immune to these forces. We have looked to deliver a true and fair picture of our portfolio valuation at this time, trying to reflect the very real near-term negatives while not losing track of the long-term growth story. Five of our portfolio companies continue to be valued with a mark to model approach, while for the remainder, we have moved from a last round valuation approach to a calibration methodology, working off their last round valuation and factoring in currency, business forecast and multiples moves since that point in time. The method we used is based on IPEV (International Private Equity and Venture Capital) guidelines and is the preferred methodology for reflecting broad changes in the market (as the current crisis) for valuations based on the last round price. Using the calibration methodology, changes in the valuation of our portfolio companies takes into account and reflects changes in the market and changes in the respective portfolio companies risk profile and performance from here.

At this stage each of our portfolio companies has laid out a post Covid-19 world set of forecasts for 2020, with conservatism and flexibility built in. We feel comfortable that the 25% fall in our portfolio USD NAV is a fair reflection of where we sit today, mirrors currency moves, derating peer group multiples and the Covid-19 risk adjusted company forecast, but continue to track macro and micro forces from here.

Our investment focus for 2020 has swiftly shifted from prioritising new investments to supporting current portfolio companies. Pipeline continues to be built, and phase two of this crisis could present stress-level opportunities. Entering 2Q20 with nearly USD 25 mln of capital, we have the capacity to weather this crisis and benefit when the time and opportunities arise.

We did close one new investment in the period – at the end of 1Q20, we announced a USD 13 mln investment into Juspay, one of India's leading payment companies. VEF led a broader Series B investment round of USD 21.6 mln and was joined by our partners Wellington Management and Accel. India has one of the most advanced and complex electronic payment infrastructures globally, which has resulted in friction and challenges unique to India, which Juspay has been solving for some of India's largest merchants and banks. The public payment infrastructure in India is unlike any we have encountered globally and is fast becoming a benchmark for other emerging countries. As is typical at VEF, we have been tracking the team and progress for a long time before making this, our first investment into India. We see vast growth potential in the business driven by the first principle innovation that is part of Juspay's DNA and the general digitalisation of the Indian economy. Juspay has had more than 200 mln downloads of its SDK and facilitates more than USD 10 bln of annualised payment volume for some of India's largest merchants including Amazon, Flipkart, Uber, Swiggy, Ola and Cred.

To conclude, we are paranoid, but calm, preparing for the worst, but happy to be surprised on the upside as we go. VEF and its portfolio companies entered this crisis on a strong footing but are very aware of maintaining that advantage as we proceed through it. We are growing in optimism regarding the step change digital financial services will receive as a result of this crisis and thus are confident in the medium to long-term valuation creation story at VEF beyond any short term volatility. As many opportunities as challenges tend to raise their heads in times like this. Our thoughts and actions will continue to evolve, and we aim to communicate to all our stakeholders on a regular basis as we go.