Management report

Dear fellow shareholder,

In our 1Q20 management report, we focused on defence and how well-funded and generally prepared VEF and our portfolio companies were in a world driven by the uncertainty of Covid-19. Today, three months later, our quarterly update is a much more confident and positive affair.

VEF's portfolio companies and the management teams driving them are standing strong through this window, and performance to date, has been towards the top end of a wide range of expectations we set for ourselves back in March. Our portfolio entered this period following a history of robust and prolonged growth, reaping the benefits of the expansion of the digital economy, yet aware that an inevitable stress test, in one form or another would present itself at some point. Though this stress test has not yet passed, we feel confident in the near-term delivery we see at a company level, while more positive than ever in the medium to long-term potential for the digital financial services industry.

NAV performance back on the front foot

2Q20 saw a return to positive NAV performance for our portfolio, following the 25% Covid-19-led valuation haircut we took in 1Q20. The total NAV of VEF in USD grew 20% QoQ to USD 223.2 mln, clawing back over half the 1Q20 negative swing. In local currency, SEK, NAV/share recovered 11% to SEK 3.15, given SEK strength over the quarter.

A key driver of the quarterly uplift was the performance of Creditas. The increase in the value of our position by 60% QoQ to USD 80.7 mln (a touch above their most recent funding round 12 months ago), was principally driven by our confidence in their growth trajectory as they come out of a self-disciplined Covid-19 slowdown. Elsewhere, digital payments company TransferGo and accounting SaaS play Nibo saw the largest uplifts in valuation. Like Creditas, both have delivered strong through crisis performance and we have a growing level of comfort and confidence in their projected trends into 2021 and beyond.

It is worth sharing our valuation approach in this 1H20 window – in 1Q20 we faced a lot of uncertainty in the outlook for our companies at the outset of the Covid window, and our forecasts and short term approach (2020) to valuation reflected this, across the board. In 2Q20, we are happy to move back to a 12-month rolling valuation approach for those portfolio companies where we have growing confidence and clarity on their performance and outlooks (ie. Creditas, TransferGo and Nibo). Where we have remained more cautious and short term oriented regarding valuation, is with our core balance sheet plays, including JUMO, Konfio and REVO. Fintech or not, given the current macro uncertainty, all credit related businesses need to continue to thread carefully which is reflected in our valuations.

A great response from our portfolio companies

Back in March, it was difficult to predict the short-term outlook for any company globally. However, the data points we have seen to date only increase our comfort and confidence in our portfolio. In summary, our portfolio companies broadly experienced a similar crisis timeline: Business as usual through March, when most of the developing world had yet to be impacted by the pandemic. April/May were weak months across the board, either supply driven as companies reduced all aspects of customer acquisition and product origination, or as demand waned through the eye of the storm. Early signs of recovery emerged in late May, with June/July numbers looking very similar to February/March performance.

Specifically, VEF's largest holding, Brazilian secured lender Creditas, has experienced stable asset quality to date, while funding markets have remained open to them through this window – two key factors in any stress scenario. Natural

crisis conservatism drove the company to move to cashflow positive for the months of April and May before getting back onto a growth footing in June once stress levels were managed. Creditas has performed exceptionally well through this period and our confidence levels in its ability to create significant value for VEF over time and be a significant driver of our NAV from here has only increased. Our two digital payment plays, TransferGo (cross-border remittances) and Juspay (Indian mobile payments) have been natural beneficiaries of a global spike/trend to online payments by all. These are currently the 3rd and 4th largest companies in the portfolio and represent 16% of our NAV combined. That said, we continue to be vigilant for any second or third wave impacts on our companies, as top down Covid/macro related stress remains across the board.

A benign quarter for investing, but pipeline building

Given the environment, 2Q20 was a quiet quarter for investing, with two small in-portfolio investments, Nibo and TransferGo, totalling USD 3.3 mln. As a reminder, we have closed one new investment YTD, where we invested USD 13 mln as part of a broader round in India's leading mobile payments player, Juspay. Sector-wise, Juspay is very much in the sweet spot of current digital growth trends, and at this early stage we are very encouraged as new investors in the company.

Through 2Q20, our investment focus shifted from prioritising new investments to supporting current portfolio companies. Most secured size equity funding through 2019 and early 2020 and are duly well-set for the year ahead. That said, some may opportunistically look to attract fresh capital as digital businesses potentially recover stronger than expected, coupled with a more robust market backdrop. Our cash position, including liquidity investments ended 1H20 at USD 20.6 mln.

A digital financial future, more apparent than ever

It is worth reiterating that the one certainty we can take from this volatile period is that the world is moving faster than ever towards a digital financial future. Across the globe, the digitisation of financial services, substitution of cash for plastic/mobile and shift from offline to online has seen both an acceleration and a step-change in adoption through this window. We have experienced this trend across our focus markets, segments and portfolio companies alike. The Covid-19 pandemic has provided a boost to our sector of focus, not necessarily in short-term financial results, but in the opportunity for the accelerated adoption of digital financial services and expanding addressable markets. Medium to long term, we are more convinced than ever that we are investing in exactly the right space within financial services.

Concluding remarks

VEF entered this volatile window on a strong footing, and we are very aware of maintaining that advantage as we proceed through the months ahead. We are realistic and cautious about the various recovery scenarios from here but are growing in optimism given how well our companies have performed during this period. By investing in fintech across the emerging world, we are riding one of the strongest multi-year secular growth trends in some of the world's fastest-growing markets. Pockets of volatility and headwinds are part of the journey, and we have enjoyed seeing our companies operate in the face of adversity, as it only bodes well for both them and us as investors in better times.

July 2020,
Dave Nangle