Management report

Dear fellow shareholder,

Our last two shareholder letters have focused on the macro/political movements of the emerging world, which after a stable, almost benign, period since VEF's inception in 2015, exploded into life in 2018 with a heavy election cycle, sharp currency movements and a general rise in risk profile. While none of that changed in Q3 2018, in this letter we refocus on the micro, our portfolio companies and how they have been affected by it all. Ahead of that, we revisit the global fintech investment opportunity, which continues to be proven out by a number of ground-breaking deals over the past few months.

Three years into our journey, we are more convinced than ever by the value creation structural trend that is fintech. Fintech has moved well beyond thesis stage, with landmark exits and capital raising across both the developed and emerging world through 2018, cementing the value that has been created in the space. We would highlight the USD 8.3 bln IPO of Adyen, global online payments company that currently trades at a multiple to revenues (not earnings) north of 30x, as well as the USD 2 bln price tag that Paypal paid for iZettle of Sweden in the offline payments space. In the emerging world, it was notable to see Warren Buffet and Berkshire Hathaway make their first foray into the space with a USD 350 mln investment in PayTM, India's leading fintech play, while the recent USD 200 mln injection by Tencent into NuBank, valued one of Brazil's leading fintech plays at c. USD 4 bln. Value is clearly being created and realised in fintech across both developed and emerging markets. On this front, within our portfolio the highest profile event was JUMO's announcement of a USD 52 mln funding round, led by Goldman Sachs, in which we participated. This is one of the biggest private company equity raises ever in the African start-up space, big day for JUMO and the continent's growing new economy ecosystem. We also continue our gradual sale of Tinkoff Bank, which has benefitted from the aforementioned trends. We have now taken USD 63 mln off the table and still have USD 49 mln in the position, from what was initially a USD 19 mln investment, an IRR of 70% on our exited position to date.

In Q3 2018, total USD NAV of VEF fell 7% QoQ to USD 205 mln, while rising 10% YoY. NAV per share fell 7% QoQ to SEK 2.79, up 22% YoY. Q3 2018 was the first quarter since inception, where we reported a QoQ fall in our NAV and NAV per share.

As of Q2 2018, iyzico and REVO moved to a "mark to model" valuation approach, while this quarter we added Guiabolso and Nibo to that list. If there is a new benchmark investment round for any of these companies we will revert back to that as the key valuation point.

The main drivers of our NAV change through Q3 and explanation behind them are as follows:

> *Tinkoff Bank* – Q3 saw the share price in Tinkoff fall 11% QoQ to USD 18.50. As Tinkoff is still c. 25% of VEF NAV, it had a decent impact on our overall NAV QoQ move.

> *Guiabolso* – In Q3 2018 we reduced the value we mark our holding in Guiabolso from USD 30 mln to USD 20 mln, a c. 35% reduction. Over the 12 months since we invested into Guiabolso, the business has altered its strategy from part marketplace and part balance sheet lender to a pure marketplace financial hub model, relying fully on partners for product and revenue share for their growing client base. This change in strategy has affected revenue streams and financial targets of the company in near term. We have therefore changed the valuation model to take into account this change in strategy. Coupled with the USD/BRL 30% move over the year, our new valuation model has resulted in the mark down of our position.

- *Nibo* – we upped our valuation mark on Nibo by 15%, our Brazil accounting Saas holding, which moved to mark-to-model this quarter after a strong first year post investment and growth and outlook more than negating local currency trends.
- *iyzico* – ended the quarter broadly similar to Q2 2018 with the increase in multiple of peer valuation comps more than offsetting the weakness in the local currency QoQ. Payments companies are very much an “in vogue” sector for investors and growing peer and M&A multiples in the space reflect that – i.e. PayPal’s recent purchase of iZettle and the recent IPO of Adyen.

While all this information can be found throughout our Q3 2018 financial report, given the evolution of our company and holding valuations through this quarter, we felt it was apt to provide investors with some summarised colour at this juncture.

Finally, it is worth noting that during the quarter the team touched ground in Brazil, Mexico, Russia, Turkey, Nigeria and Pakistan, busy quarter but also a reflection of a much deeper team bench at VEF than ever before. Travel and being on the ground in various ecosystems with our companies, our VC partners and all aspects of the broader fintech ecosystems is key for understanding all, staying close to our investments as well as building valuable investment pipeline for the future. We are on the board of 11 out of 12 portfolio companies and are physically at or on board calls with them four times a year. This is besides monthly KPIs we get from each company (many times accompanied by an update monthly call) and trips in country and meetings at conferences. We are in contact with our companies every week, sometimes more than once. Furthermore, we continue to build pipeline as we go. We stay close to companies we really like and meet them regularly and keep track of performance. We have 3–4 names that we are particularly focused on right now. When they need capital, if the terms are right, we are ready to strike. Our best investments tend to evolve and happen naturally over time.

I would like to close off my comments by thanking my supportive board and team at VEF for all their on-going efforts. To fellow shareholders, we appreciate your on-going support. Delivering shareholder value through a focused approached to increasing our NAV per share and reducing traded discount to market value remain our core focus. We take a long-term view on our company, investments and indeed life, which is necessary when investing in the space that we do.

November 2018,
David Nangle