Management report

Dear fellow shareholder,

Two words – 'focus' and 'compounding'. While 'focus' almost defines us as an investment company, 'compounders' are what we live for.

Focus has always been at the forefront of the investments we make. Indeed, a lack of focus has put us off many opportunities. We love backing super strong local teams that focus on winning a single scale segment/country – our portfolio is packed with such companies (past and present); mobile payments in India – Juspay, accounting SaaS in Brazil – Nibo, online payments in Turkey – iyzico. It is the living and breathing of a focus scale opportunity everyday, over a period of years, that delivers real success and can compound value beautifully over their life cycle with us. This compounding of value starts to become even more powerful the longer a successful journey goes and the asset compounds off an increasingly larger base – at VEF we love these super compounders, something that Tinkoff delivered in the past, a path that iyzico was comfortably on pre our 2019 exit and most exciting of all, one that Creditas is very much on today.

3Q20 NAV – New high and positive momentum

NAV continued to grow across the portfolio through the third quarter. NAV saw a 20% USD uplift QoQ, following on from the 20% QoQ NAV growth delivered in 2Q20. With a 3Q20 NAV mark of USD 268.2 mln, it has now recovered/grown to levels above our previous highs of YE19. In local currency, SEK, 3Q20 NAV/share grew 16% QoQ to SEK 3.63, given moderate SEK weakness over the quarter.

The principal drivers of NAV through 3Q20 were the more prominent names in our portfolio, Creditas and Konfio. Our position in Creditas saw an increase of 26% QoQ to USD 102 mln, principally driven by our confidence in their renewed growth trajectory post April/May self-disciplined COVID-19 slowdown. Konfio delivered a 43% percentage value increase QoQ, as we moved away from conservative forecasting and a short-term valuation approach, in line with clear recovery trends in the company's financials. We currently value both on a model basis, which have been driven higher as we got more comfortable in the impressive recovery in key data points on both through 3Q20.

At end of 3Q20, Creditas was our largest holding, at 38% of NAV, our top two holdings were 53% and top four 67%. As stated, many times before, we are very comfortable with our portfolio concentration and given the quality, diversity and strong trends driving these top four assets, we are very optimistic about the ability of the portfolio to continue to generate a lot of value from here.

While the majority of company-level data points across the portfolio feeds our confidence in NAV outlook into 4Q20 and beyond, this COVID-19 window reminded us of the many top-down factors that can throw our markets and companies off course at any moment, something I like to think we are always readied for.

New company name and increasing portfolio transparency

At a recent SGM, we formally changed our name from Vostok Emerging Finance to VEF. Partly driven by a much smaller portfolio bias towards Russia (4% as of today) versus our history, we felt it was the right time to formally move to the acronym that many know us by already, while still maintaining the proud link to our investment past.

As a listed company, focused on private fintech investing, we are constantly balancing our natural instinct for transparency, with the desire of our still young private portfolio companies to keep information confidential as they compete in their respective markets. Over recent months we have focused on addressing this issue and the information gap. We are very encouraged by the results – an increased and constant flow of information on our portfolio, as well as the welcomed market reaction to it. Our goal is always to allow investors to gain better insight into what we are building at VEF and duly be as excited as we are about what we offer – exposure to a portfolio of some of the best private fintech companies across emerging markets. Specifically, over the quarter we saw fresh research coverage on VEF by DNB Markets and expect coverage from Edison Research in the near future, to add to our current broker coverage by Pareto and Nau Securities.

For the first time, Creditas published a press release sharing details of the company's financial and general performance over the past 12 months – a sign of a maturing company. Of note, for the year to 1H20, Creditas delivered BRL 1 bln loan portfolio and revenues of BRL 260 mln. Portfolio growth was north of 2x, despite taking the foot off the gas in 2Q20 through the initial COVID-19 window. Creditas expanded its operations to Mexico and continues fresh product launches. We expect more of the same as we look into 2021 and Creditas is the most obvious IPO candidate within our portfolio as we look out over the coming years.

Investment pipeline building out nicely

Through 2Q20, we shifted our energies and investment focus to supporting current portfolio companies. Since the beginning of summer, we have been back on the front foot and are increasingly excited about the new opportunities coming down the pipes. Our priority scale markets remain Brazil, Mexico and India and within these, we are deep in opportunities which include banking as a service, secured lending and the employee benefits space. India is a market we have growing appetite for following our recent successful first investment and early journey there with Juspay – the scale of the opportunity on all fronts is a different scale to what we have invested in elsewhere.

On the frontiers side, we have focused our time and efforts on Pakistan and Egypt, as future markets for fintech value creation, where we can place early bets on the right teams coming through in a number of different segments. In both countries the new economy ecosystems have really started to take off and fintech models, as they normally do, are part of a clear second wave that are being created in support. Check sizes are generally small, but we are positioned to place the right bets for long term value creation.

We see plenty of runway and opportunities in the EM fintech theme and trade that we have dedicated our investment company too. Our cash position, including liquidity investments ended 3Q20 at USD 20.2 mln and we continue to explore all avenues for fresh investible capital inclusive of debt, equity and portfolio exits to fund any future investment needs.

Gradually then suddenly

When asked how he went bankrupt, Hemmingway said "gradually, then suddenly". Gradually, then suddenly is how we feel the fintech storyline took off in the quarter after many years of gradual build up. Key events in the quarter highlighted how, more value than ever, is being created in the space and how it is redefining banking as we know it, with some of the biggest stories continuing to come out of the emerging world:

Ant Group planned IPO – We are simply in awe of Ant and the role it has played in driving financial innovation and change in the largest of all markets. 700 mln consumers and over 80 mln merchants is hard to fathom and many of these are daily active users, something most western fintech solutions have always struggled to deliver. The economic transformation it has helped enable China deliver over the last decade, whether it is laying cheap ubiquitous payments rails with QR codes or enabling all to access credit via its big and social data scoring tools, in a country previously without real bureau data, has been immense. Most of all, we love the USD 250 bln + of value creation that the Ant Group has created that simply did not exist 10 years ago in the EM fintech space.

Tinkoff and Yandex – In 3Q20, Tinkoff (Russian digital bank and former VEF portfolio company) announced a planned merger with Yandex (internet search group) in Russia. Although it has since been shelved, to put this potential deal into perspective, it is like Google and Revolut or Chime coming together – the potential is endless. All the best tech talent, customer flow and retention and a vast and growing new economy (including finance) product suite – the future of finance is clearly in that kind of ecosystem and not in your local bank branch.

Kaspi IPO and Paystack exit to Stripe – We can't overlook these two landmark events, putting Kazakh and Nigerian fintech firmly on the map, highlighting how the trend is literally everywhere. We have a lot of respect for the founding teams of both these institutions.

Concluding remarks

Despite operating through one of the most volatile periods since our inception, on a macro level, VEF and our companies have clearly benefitted from the step-change growth in digital adoption by all. On a micro level, we have been impressed with how our portfolio of companies survived and then thrived through this period, something which has been clearly played in 2020 through our quarterly NAV performance. At VEF, we invest in fintech across the emerging world, and 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 and come out on the other side on the front foot.

November 2020,
Dave Nangle