Managing director's letter

Dear fellow shareholder,

As is traditional, in our annual investor letter, we look back on 2018, key actions and learnings, as well as our outlook for 2019 and current thinking and positioning. In summary, while 2018 was a transition year in terms of our net asset value (NAV) evolution, following the strong growth delivered through 2016–17, the ground work and positioning for a very exciting 2019 for VEF were firmly laid. The recent exit from TCS Group Holding PLC ("Tinkoff Bank") was a key milestone and puts us in as strong a capital position as we have ever been, but with much more experience and options through which to deploy this capital in a shareholder value accretive way. Within the portfolio, Creditas and iyzico stepped up as VEF size portfolio standout names, while it is always a joy to see a new portfolio company, Konfio, hit the ground running in 2018.

Reflecting on 2018

From a top-down perspective, 2018 was a very different year to 2017 as we moved from a uniformly positive macro, political and markets tailwind into one of the most volatile years, on all fronts, in recent history. For VEF and its portfolio companies this mainly manifested itself through periodic confidence-sapping election windows and weaker/volatile local currencies across the board.

With just three fairly benign macro years behind the company (although a much longer cycle hardened careers at team level before this), it was great to see how our portfolio companies reacted, or to be clear, didn't react, to the top down noise. We always work off the thesis that we are investing in structural growth stories, which are not immune to the short-term macro, but should grow through the cycle as individuals and companies continuously shift their financial services custom to fintech. When we look at our portfolio companies' key metrics growth ranging from 50–200% YoY in 2018, and north of that in some of the earlier stage cases, our portfolio has shown much macro resilience to date.

Furthermore, 2018 was a year where we only made one new investment. This follows five investments in 2017 and three in 2016. Effectively, we continue to raise the investment bar in line with a growing risk environment. Our investment into Konfio, a Mexican SME lender, in mid-2018 was the only one that hit that high bar, and their delivery and performance since investing has only confirmed our confidence in that decision. We also spent a lot of time and fresh capital supporting our current portfolio companies (TransferGo, JUMO, REVO, Magnetis, Finja and FinanZero) to make sure they are in a strong capital place to both manage through any local headwinds, but also have the capital in place to further drive their growth.

From an investment perspective, what has tended to work best for us to date is focused single-country plays with exceptionally strong leadership teams. Effectively a focused team of professionals, in a single scale market, coming to the office every day executing along one specific line of business. Within this, we would point to portfolio standouts of Creditas and iyzico, but also Magnetis and Nibo, and more recently Konfio.

Finally, we continued to sell down our position in Tinkoff Bank in 2018 and completed the exit in Q1 2019. This is our first portfolio exit, a clear milestone for the company. We entered into Tinkoff Bank at USD 2.98 a share, a USD 19 mln holding. Over the course of our exit of the position we have taken USD 108 mln (average exit price USD 17) off the table, plus an additional USD 9 mln in dividends. An IRR of 65% and 6.1x cash on cash returns. First big exit for VEF, done. Tinkoff, we salute you.

2018 performance review

Following back to back bumper years of near 40–50% growth in our NAV YoY in 2016 and 2017, in line with broader markets, our NAV broadly tracked sideways in 2018, rising 1.4% YoY to end the year at USD 201.5 mln. NAV per share in SEK did rise nicely 12.4% YoY, with currency being the clear differentiating factor.

David
Nangle

Over the year, Tinkoff Bank was the main driver of NAV in both directions (up for 9M18 and off in Q4) as its share price went from USD 19 on January 1, 2018, peaking at USD 23.8 in March before ending the year at USD 15.4. Within the majority private portfolio, iyzico was a clear positive force as Turkey's leading payments company continues to go from strength to strength and its valuation mark in tandem with these trends. Creditas, the other size holding in our portfolio at YE18 also delivered a very impressive first year as a VEF portfolio company and we have high hopes for the company as we look into 2019.

Guiabolso weighed on proceedings through Q4 and FY18 as their NAV reduction over the period partly reflects longer-term nature of its revised strategy. In general, for those positions valued by mark to model, local currency weighed on all through 2018 while comparison listed company multiples were generally a positive force in 1H18 before weighing into 2H18.

Outlook for 2019

Given our deliberate cash build-up through 2H18, we enter 2019 in a very strong position, as this is a great window for the long-term structural investor, like VEF, to be liquid. Effectively we enter 2019 in the strongest position we have ever been in, with capital in the bank, a strong portfolio, a healthy pipeline and the tailwind of our first value accretive exit.

We spend a lot of time internally on the concept of capital allocation and we are always looking to put our investment dollars to work in the most value supportive way, with three clear options of new investments, investing harder into current portfolio companies and/or returning capital to shareholders.

On the pipeline front, with the global economy and markets starting to show signs of struggle, these are market conditions that should see a continued pricing power shift to the buyer. It is the kind of environment where we will continue to be very selective with transactions, but are very much readied for opportunities as they arise. Pipeline is not the issue, and hasn't been for some time, it is the right deals at the right time and price we crave and only look to do.

We continue to analyse our current portfolio holdings and always look to put more capital to work in the names we like best in the most opportunistic way. In that regard, in 2019, as we did through 2018, we expect to be active sporadically within our own portfolio names as the situations arise or as we create them.

There is always a balance in these things and it is a function of clear capital allocation with the constant goal of creating value for shareholders. We weigh up current portfolio and pipeline needs, coupled with logical buffers for the business, but buybacks are very much on our mind, effectively placing a strategic layer over simple capital allocation maths. As in 2018, we will continue to buy back our own stock to cover the company's obligations under the outstanding long-term incentive programs, as recently announced.

Concluding remarks

We start 2019 with a strong portfolio, a strong cash cushion/firepower and feeling as well placed in the EM Fintech ecosystem as we ever have. With our first exit behind us, the theory of value creation in the EM fintech space via our vehicle has become a realised reality and we remain confident of this trend continuing. Confident that our actions and NAV will be reflected in our share price, we continue to actively engage the market to drive that sooner as opposed to later. We re-iterate that 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. Hence we are ready to react and act in any environment with these supporting mindsets.