Managing director’s letter

Dear fellow shareholder,

To commence, I would like to wish our many varied stakeholders all the best during these volatile uncertain times. As you can imagine, this year’s management letter, its tone and bias, has seen many iterations over the past month, in what remains a fast-evolving environment.

To begin on a positive note, 2019 was a landmark year for our company and one where we achieved many new milestones, two significant value accretive exits, benchmark investment rounds in our top two portfolio companies, our NAV reaching USD 250 mln and market cap going through USD 225 mln in Q4, all with a gradual increase in the average daily volume in our share throughout the year. In short, we couldn’t have scripted 2019 to be much better. That said, VEF, like the companies we invest in, is a long-term investment project and we are more proud of what we have achieved over the five years since inception, than in any one banner year, like 2019. 2018, a more difficult time for the markets we operate in, was a year when we arguably learned so much more about the durability of our portfolio as well as adding Konfío as an investment, which has delivered real value through 2019. While 2020 has had an extremely volatile and unpredictable start, we remain calm and well positioned to weather this storm and for medium term value creation. So, with that in mind, we begin 2020 post an exceptionally successful 2019, facing an environment that presents challenges today and no doubt opportunities tomorrow, with all the welcome burden of expectation to deliver another five years like those just past.

2019: A benchmark year for the firm

2019 was a stellar year for VEF and we have a lot to be proud of:

- **Portfolio Exits:** Tinkoff Bank: 6.1x CoC return and 65% IRR and iyzico: 3.1x CoC return and 63% IRR.
- **Benchmark investment rounds:** Creditas and Konfío raised USD 231 mln and USD 100 mln respectively, leaving both exceptionally well capitalised to win in their respective spaces.
- **Value Creation:** NAV in USD up 24% / Share price in SEK up 68% through the year.

Tinkoff and iyzico exits

2019 was exit year for VEF, with two high profile exits and a clear validation of the value creation investment case for fintech across emerging markets.

Tinkoff Bank – In 1Q19, we concluded our exit from Tinkoff Bank, Russia’s leading digital bank. This followed a gradual sell-down of its original 3.5% holding, which began in 2017. From an initial investment of USD 19 mln in mid-2015, the exit yielded USD 117 mln including USD 9 mln of dividends over the period. VEF’s stake in Tinkoff Bank achieved an IRR of 65% and 6.1x CoC. Tinkoff is clearly an investment that is in our DNA and close to our hearts, having been very early stage investors through our previous investment company Vostok Nafta.

iyzico – In 2Q19, the sale of iyzico to Naspers Group for USD 165 mln was announced. From a total VEF investment of USD 11 mln, the exit resulted in gross proceeds of USD 34 mln to VEF, an investment IRR of 63% and a CoC return of 3.1x at the time of closing. Since our initial investment, iyzico has been one of our cornerstone holdings, a strong driver of our NAV growth and a company that set the investment bar against which we measure all potential investments.

It is with mixed emotions that we part ways with both iyzico and Tinkoff. Once again, we would like to thank the founding and management teams of both for welcoming us into their cap tables and allowing us to be a small part of their hugely successful stories to date. We wish them all the best in their continued ventures ahead.

Fresh Investment, welcoming Xerpa to the VEF family

Similar to 2018, we made just one new investment in 2019, following five investments in 2017 and three in 2016. That new investment was into Xerpa, a Brazilian payroll-on-demand provider. Our investment into Xerpa, where we led their USD 13 mln Series B round with an investment of USD 8.5 mln, in mid-2019, was the only one that hit our high bar, and their delivery and performance since investing has only confirmed our confidence in that decision. Xerpa's salary-on-demand product, Xerpay, allows employees to access their already earned wages, instantly and at any time. Brazil has long suffered from some of the highest interest rates globally, poor financial inclusion and 60% of workers struggle to make their paycheck last the month. We are very excited by this latest investment, and its fit for the Brazilian scale market opportunity was just too obvious for us to ignore.

We also invested fresh capital supporting our current portfolio companies, notably and in size with Creditas (USD 23.5 mln) and Konfío (USD 12.5 mln), but also with Nibo and FinanZero. One of our core investment principals remains "if an investment is working, then we back it harder".

Creditas and Konfío – Two holdings defining our current portfolio

While it is great to harp on about former glories, we are fully aware that it's the future that counts. In that regard, Creditas and Konfío have stepped up as VEF size portfolio champions, accounting for nearly 50% of the company's NAV as at YE19. Both have exceptionally strong founders and management teams, very clear focused strategies, are number one in their respective spaces and are based in scale opportunity markets. Both have also raised significant amounts of capital throughout 2019, which puts them in a great position to continue to scale through 2020 and beyond.

Creditas provides loans to Brazilian consumers secured against collateral, originally their home and auto, but more recently payroll. Sergio Furio and team are playing into the scale USD 500 bln consumer lending market that is Brazil but offering a product that is incrementally cheaper than the triple-digit credit card and overdraft rates that exist in the market today. As Creditas scaled its loan book and revenues nearly 3x in 2019, it also made its first acquisition in Creditoo (payroll) and expanded into Mexico. The outlook for 2020 is for more of the same on the growth front, and Creditas is the type of company that could be in a position to IPO in the medium term if current trends continue.

Konfío delivers unsecured loans to Mexico's vast under banked small business market. David Arana and team are playing into a USD 16 bln opportunity of underserved small business credit (IMF forecasts) and saw their loan book and revenues grow c. 3x YoY through 2019. Working with partners like PayPal for customer acquisition, Scotia Bank and Goldman Sachs for balance sheet funding, Konfío has some very strong partners in play to help it continue to scale on this path. 2020 is expected to be a year of more of the same, with the broader longer-term vision to evolve into Mexico's leading digital bank for small businesses. We have included an excellent interview with CEO and co-founder David Arana in this year's Annual Report which I recommend you read.

2020: Fresh challenges, battle hardened and ready

2020 has quickly evolved into one of the most challenging operating environments for VEF as a company since inception and indeed the most volatile period since the global financial crisis in 2008-09. Having been in emerging markets for nearly 20 years, there is very little that can faze us or causes us to panic. While I hear the word unprecedented way

David
Nangle

too often right now, in many ways (and in the words of Ray Dalio), this is "another one of those". There is a playbook for VEF and our portfolio companies, and one prepares for the worst and then is well positioned for any upside from there. We are paranoid by nature, have an excellent and experienced board and from mid-February we have been discussing and debating our evolving strategy to ride the current volatility and opportunistically thrive as we go.

In our favour, our geographies (predominantly Latam) and sector of focus (financial services) have not felt the brunt of the first wave of the spread of the virus, which has provided us time to consolidate and prepare. We are fully expecting the virus to spread and for clear negative macro and funding market impacts across the globe to impact upon our portfolio's performance. So far, we have been on several calls with our portfolio companies, who are acutely aware and real time reacting to all, locking down capital, adjusting growth and cost spend to extend runway through to better times. Furthermore, our Brazil heavy portfolio, have already lived/grown through the 2015–16 Brazil recession with back to back years of 3%+ GDP contraction, while Russian companies are born crisis ready. As many opportunities, as challenges tend to raise their heads in windows like this.

While still early days in this crisis, global markets have been quick to reflect the value destructive forces unleashed by the virus. Our portfolio is not immune to these negative trends. We continue to stress test all our portfolio companies, their financial outlooks and fair value in this window and will reflect the impact in our 1Q20 report.

At VEF, our investment focus for 2020 has moved quickly from prioritising new investments to supporting current portfolio companies. Pipeline continues to be built, and phase two of this crisis could see stress level opportunities to invest our valuable capital in great assets. We are in a strong capital position to see this through, and as always, we look to buyback our own shares through any market distortions.

ESG, the way of the future

Through 2019, Environmental, Social and Governance (ESG) has continued to grow in importance globally and specifically for the investment community. That affects both us as a private company investor and an invested-in listed entity. While we have much to be proud of on this front, we have some clear gaps in how we document and communicate all. It is worth highlighting, many of the companies that we invest in and sit on the boards of, are pioneers in financial inclusion for the un- and underbanked. Others are driving down the price of financial services to the markets/segments of focus. We are capitalists at heart and maintain an overriding drive to deliver shareholder value. That said, with financial services, we have always taken the view that if it's not ethical it's not scalable and hence it's a bad investment. Inherently, ESG and creating long term shareholder value have always gone together. I recommend reading the ESG section of this year's Annual Report, written by VEF independent Board Member, Milena Ivanova.

Concluding remarks

With a benchmark 2019 behind us, we enter 2020 confident, while always humble, and as well-placed as ever to create value in emerging markets fintech over the long term. 2020, presents fresh challenges for VEF and its portfolio companies, but we are well placed to manage through and take our opportunities as they arise. From day one we have maintained an over-arching focus on three key themes; 1) Investments (invest well or die), 2) Investors (love your investors) and 3) Building a business for the long term. We re-iterate that delivering shareholder value through a focused approach to increasing our NAV per share and reducing traded discount to market value remains our core focus, and the events of the 2019 period show real traction on this front. We take a long-term view on our company, investments and indeed life, which is necessary when investing in the space that we do.