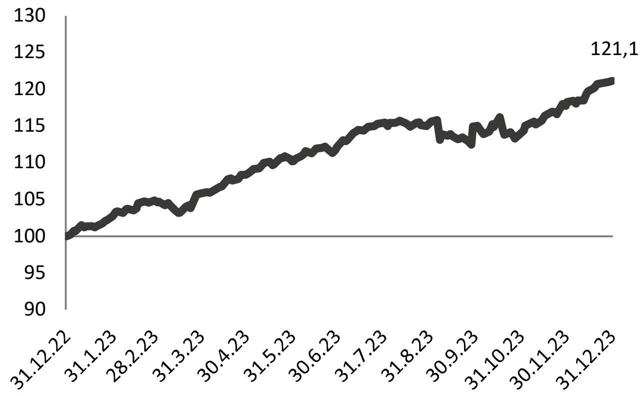
LACUNA Eastern Europe TGV

Fund Letter 2023

February 2024

Fund Performance & Characteristics – Year End 2023

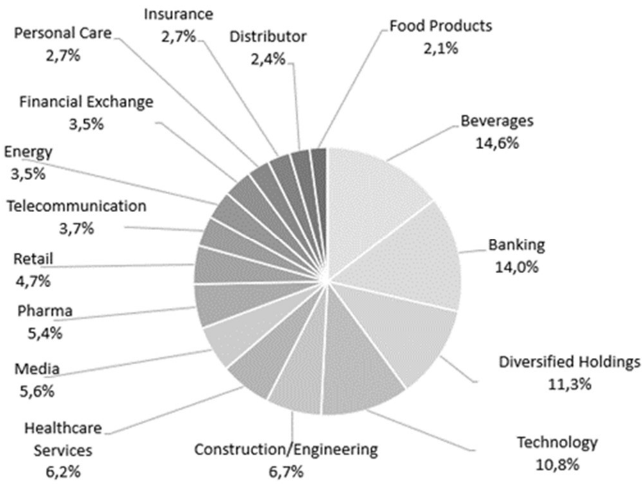
Performance – Net Return (EUR)



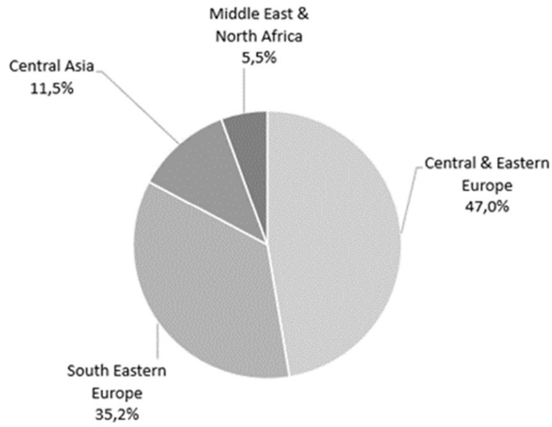
Fund Details

ISIN	DE000A3E00L3
Fund Category	AIF, § 282 KAGB
Benchmark	Benchmark-free
Fund Advisor	Lacuna Vermögen GmbH
Inception Date	01.01.2023
Qualified Investors	Professional, Semi-Professional
Total Expense Ratio	1,3%
Performance Fee	10% p.a. (High Watermark)
Exit Fee	1%, if holding period less than 3 years

Industry Allocation



Geographic Allocation



Top 10 Holdings

	% Equities
Georgia Capital	6,4%
AS Ekspress Grupp	5,6%
Krka, d. d.	5,4%
Ideal Holdings	4,9%
GEK Terna	4,6%
Asseco Poland	4,4%
Purcari Wineries	4,3%
DP Eurasia	3,8%
Anadolu Efes	3,8%
Euro Telesites	3,7%
Top 5	26,8%
Top 10	46,9%

Portfolio Statistics

	Median
Market Cap EURm	592,9
EV/EBIT NTM	7,5x
P/E NTM	8,9x
Dividend Yield (Trail.)	3,6%
5Y Avg. ROE	13,6%
+5Y Organic Growth p.a.	6,0%
Margin of Safety	49,5%
+5Y Upside to Fair Value	97,8%

Synopsis

Dear Investors and Friends,

Lacuna Eastern Europe TGV celebrated its first anniversary at the end of 2023. The fund aims to compound capital at above-average rates of return by applying a disciplined, bottom-up value investing framework to identify undervalued equity securities of publicly listed companies that are domiciled and/or have the bulk of business activity in Central and Eastern Europe, Central Asia, Middle East, or North Africa. From a pure investment performance standpoint, the results were satisfying, with the fund delivering a net return of 21.1%. Bearing in mind our aspirational return target of achieving average annual gross returns of at least 15% over rolling 5-year periods, we have so far exceeded our expectations. As we have chosen to manage the fund in a benchmark-free manner, we defer the assessment of our relative performance to investors and external observers.

At the end of 2023, around 73% of the fund's net asset value (NAV) consisted of equity investments, while the remaining portion consisted of cash. The equity portfolio comprised 32 positions, with the largest position accounting for 6.4% and the Top 10 representing 46.8%. In terms of industry and geographic exposure, the portfolio is well diversified. The Top 5 industry exposures were Beverages (15%), Banking (14%), Diversified Holdings (11%), Technology (11%), and Construction/Engineering (7%). The Top 5 country exposures were Greece (17%), Poland (16%), Austria (11%), Turkey (10%), and Slovenia (7%).

On a look-through basis, the fund unit was valued at a trailing P/E of 9.3x at year-end. The equity portfolio was valued at a P/E of 6.8x, despite exhibiting solid economic profitability with an ROE of around 13.7% and expected annual earnings growth potential of at least 6% over the medium term. We believe that the combination of a +14% earnings yield and the ability to reinvest a substantial portion of earnings on value-creating terms indicates mid-teens forward return potential on the equity portfolio level, based on fundamental return drivers.

As we enter 2024, macroeconomic conditions remain robust across most economies within our investment universe, with the potential for further incremental improvements in certain instances. Coupled with a reasonably good environment for sustained corporate earnings growth, market valuations generally remain below historical norms. As a result, we maintain an optimistic stance regarding market-level forward returns for most country equity markets within the fund's investable universe. More importantly, we maintain a high level of confidence that our portfolio of business interests will continue to perform well and generate attractive returns in the years ahead. In aggregate, our holdings remain significantly undervalued and are well-positioned to increase intrinsic value over time, given strong cash-generation capacity and the availability of sensible reinvestment opportunities. Additionally, we perceive our portfolio as being positioned relatively defensively in terms of business cycle sensitivity, offering downside protection in the event of economic outcomes that are worse than currently anticipated.

This fund letter comprises a performance review, a discussion of the most significant return drivers, a commentary on the characteristics of the portfolio, and an outlook for 2024. Being the fund's inaugural letter to shareholders, we have chosen to include brief profiles for our recent top 5 holdings and a description of our investment approach as supplementary information in the appendix.

Performance Review

Although our fund is not managed against a specific benchmark, to provide context, we will begin with introductory remarks on global equity market developments and the performance of country equity markets within our universe in 2023. Subsequently, we will delve into an analysis of the fund's performance and its key drivers.

Global Equity Markets in 2023

The year commenced amidst widespread concerns regarding an impending recession, a notion that had been circulating since 2021. Investor sentiment was subdued following the poor performance of most equity market segments in 2022, and there were fears that 2023 could be another year of lackluster returns.

Adding to the apprehension were several significant macroeconomic and geopolitical events that unfolded throughout the year. In the United States, a brief banking crisis ensued as regional banks struggled to cope with the impact of rising interest rates, resulting in some bank collapses and ultimate intervention by the Fed to prevent systemic contagion. Then, Credit Suisse blew up, essentially requiring a Swiss government-led rescue by UBS to again prevent contagion in the broader global banking system. Lastly, geopolitical risk remained elevated, with the conflict between Ukraine and Russia showing no signs of resolution, while Israel's military intervention in the Gaza Strip in response to cruel and cowardly terrorist attacks by Hamas heightened tensions in the Middle East.

Overall, given the challenging environment characterized by various economic and geopolitical uncertainties, very few people would have guessed that global equity markets end the year on a strong note. The MSCI World Index, as a well-known proxy of the global stock market, achieved a remarkable net return of 19.6% in euro terms. There was a fair share of volatility along the way, punctuated by two multi-week periods that triggered temporary pullbacks of around 10% in the case of the MSCI World. However, what remains prominent is the sharp end-of-year rally observed across most risk assets, driven by diminishing investor concerns as a view emerged that the end of the central bank rate-hiking and monetary tightening cycle would be near.

This belief was reinforced by gradually moderating inflation prints, causing growing speculation that central banks might even execute several rate cuts as soon as 2024. Consequently, a narrative evolved that a soft landing was now in reach and that a severe recession could be avoided, while interest rates would come down and feared tightening of financial conditions would fail to materialize. To a certain extent, the markets seem to have been expecting a return to a "Goldilocks" economic environment. While we refrain from making macroeconomic predictions, we observe that consensus is again leaning heavily towards a particular outcome, just like 18 months ago when market pundits screamed for recession. Such breakdowns in thought diversity generally increase the potential for considerable dislocations if the anticipated outcome fails to materialize.

When analyzing the factors behind the strong global stock market return in 2023, US equities once again came out on top. Another year of strong performance, extending the lead that the US market has gained versus the rest of the world since the aftermath of the great financial crisis of 2008/2009. Repeatedly, it was the Mega-Cap Tech juggernauts that made the difference.

These companies, commonly referred to as the "Magnificent 7" or "Mag 7" accounted for 56% of the total return of US equities in the MSCI World, while they accounted for 44% of the MSCI World's total return , as shown in the following exhibit.

The Magnificent Seven of 2023

Ticker	Company	Avg. Weight	Total Return	Contribution	NTM P/E
AAPL	Apple Inc.	4.9%	+49.0%	+2.2%	30x
MSFT	Microsoft Corporation	4.0%	+58.2%	+2.1%	33x
NVDA	NVIDIA Corporation	1.6%	+239.0%	+1.8%	25x
AMZN	Amazon.com, Inc.	2.0%	+80.9%	+1.3%	44x
GOOG	Alphabet Inc. Class A & C	2.4%	+58.6%	+1.2%	22x
META	Meta Platforms Inc. Class A	1.0%	+194.1%	+1.1%	17x
TSLA	Tesla, Inc.	1.1%	+101.7%	+0.7%	71x
	Magnificent Seven	**17.2%**	**+61.0%**	**+10.5%**	
	Rest of U.S	52.0%	+15.6%	+8.1%	
	Non – U.S.	30.8%	+16.9%	+5.2%	
	Total MSCI World	**100.0%**	**+23.8%**	**+23.8%**	

Source: FactSet

Figure 1: Illustration taken from Lyrical Asset Management, Global Value Review 2023. Returns in USD.

If we exclude the Mag 7, the returns for the MSCI World would have been only 11% in euro terms. This would have been still a very solid year for the market, but it shows the stark return contribution of only a few stocks. Mag 7 experienced a real blow-off year in 2023 and achieved a weighted average return of 61%. Except for Amazon and NVIDIA, prices outperformed fundamentals (measured by net income) in all cases. Hence, relative valuation expansion was a notable amplifier of the group's fundamental return component. The sentiment was fueled by growing investor speculation that these companies would be among the winners in the upcoming age of artificial intelligence. Whether the latter is true or not can't be answered at this stage, in our opinion. What we can say is that multiples for most of the Mag 7 have once again risen to demanding levels, implying high price-implied expectations regarding future growth and terminal margins, which raises the bar for ongoing excess return generation versus the rest of the market.

Another notable aspect is the significant weight the Mag 7 has gained in the major equity indices of the world. While they boast an undoubtedly high 17.2% share in the MSCI World, their share in the S&P 500 has even risen from 13% in 2013 to 28% in 2023, after significantly outperforming the index for more than a decade. In a recent publication, GMO suggested that the total concentration of the S&P 500 would now be equivalent to owning an equal-weighted portfolio of 59 stocks (using a Herfindahl-Hirschman Index).[1] This level of implied "portfolio concentration" would be higher than what many conventional actively managed mutual funds exhibit. Other periods characterized by similarly narrow markets and concentration of performance among a few key stocks in the S&P 500 include the Nifty-Fifty era in the early 1970s and the Dot-com bubble in 2000. Historically, these large-cap-led market cycles reached their climax when a small number of companies accounted for most of the index's performance. This factor has been observable for some time now.

[1] GMO 1Q24 Quarterly Letter, "Magnificently Concentrated".

Nevertheless, predicting the exact timing and rationale for an eventual end to Mag 7's outperformance cannot be done with any reasonable degree of confidence. Reflexivity in markets can prolong the duration of trends beyond what is reasonably conceivable. However, the only constant in the world is change, and at some point, the dominance of Mag 7 seems more likely than not to come to an end. The Nifty Fifty stocks also outpaced the market until they didn't. Everything is cyclical and "fade" will affect all companies at some point, regardless of how large, profitable, and competitively advantaged they may appear at any given time. In such an event, the high index weight of the Mag 7 in US markets could become a significant headwind for US equity returns, just as it has been a tailwind over the past decade.

Historically, the conclusion of comparable large-cap-led market cycles has often marked inflection points in terms of stock market leadership. A change in market regimen was typically associated with a pivot to market leadership by styles/themes that went through a considerable stretch of underperformance in the prior cycle. Remembering Wayne Gretzky's advice to "Skate to where the puck is going to be, not where it has been", investors with a flexible mandate should probably try to be ahead of the curve and look for tomorrow's winners rather than yesterday's. As the following exhibit suggests, small-cap equities could be once again at this juncture, after having trailed the broader indices for many years and trading at historically attractive relative valuation levels versus large-caps. Other equity categories that appear poised to benefit from a shift to a new market regimen are international equities (excluding the US) and emerging markets. These segments didn't receive much love in the recent cycle and seem to offer comparatively good value based on statistical entry valuations.

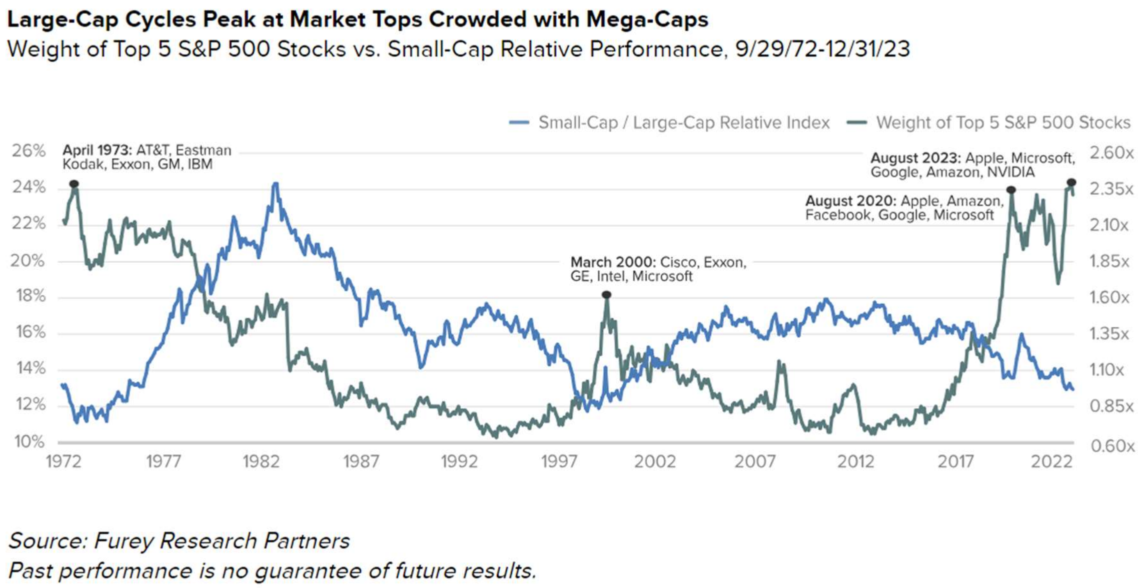


Figure 2: Illustration from Royce Investment Partners, Annual Letter 2023.

Eastern European Markets in 2023 - Back with a Vengeance!

Most country markets in our investable universe have entered 2023 on the back of a multi-year period of lackluster returns. As the chart below shows, many of these equity markets generated annualized 5-year total returns in the mid-single digits or lower between 2017 and 2022. These at first glance poor-looking returns were mainly a result of significant relative valuation compression over many years. Consequently, realized returns lagged far behind the largely solid contribution from fundamental return factors (yield and earnings growth).

In short, these stock markets became cheaper and cheaper over many years. As a result, the major equity indices of the region traded at P/E ratios between 6-8x and displayed significant discounts to historical valuation norms when our fund was launched.

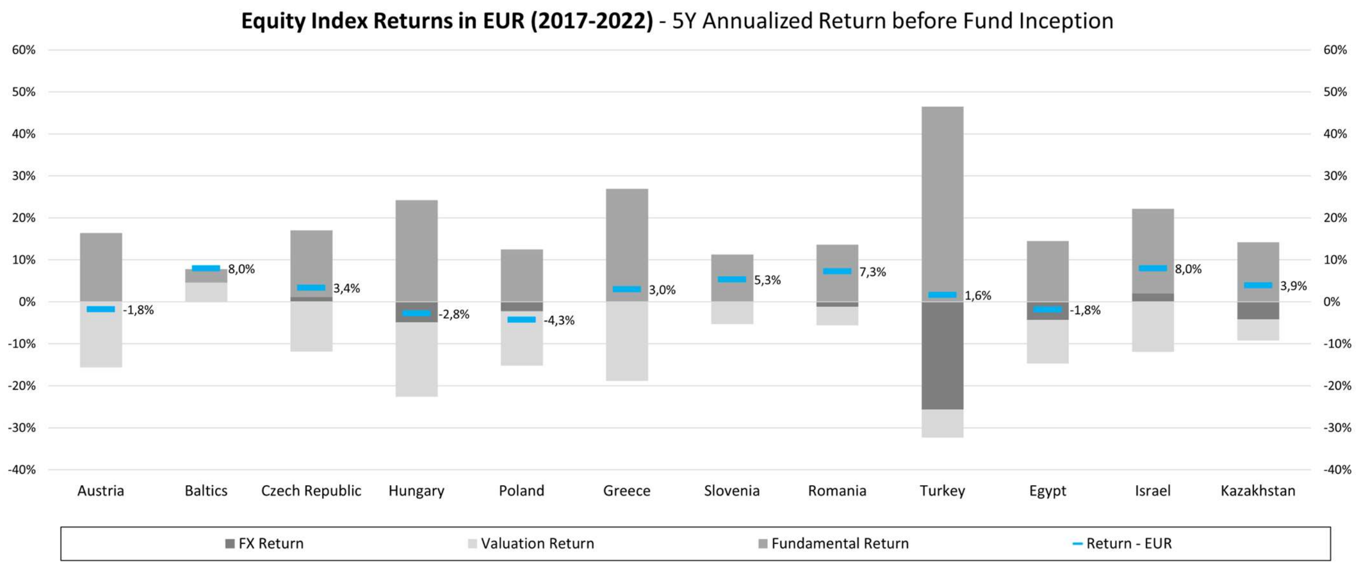


Figure 3: Illustration by Lacuna. Return Decomposition based on data from Bloomberg. Indices used are from local exchange operators. Valuation change refers to the change in P/E ratio, fundamental return represents earnings growth and dividends, and FX return reflects the difference between total return in EUR and the local currency.

The year 2023 has marked a turning point with most markets in the investable universe delivering strong returns. Particularly within Central and Southeastern Europe, some of the world's top-performing markets emerged.

Among the positive performers in 2023, Poland (48% Total Return), Hungary (44% Total Return), Greece (40% Total Return), and Romania (29% Total Return) stood out, as depicted in the following exhibit.

Turkey was the only market posting a negative return for the year, driven by continued local currency depreciation and further relative valuation compression from already undemanding levels.

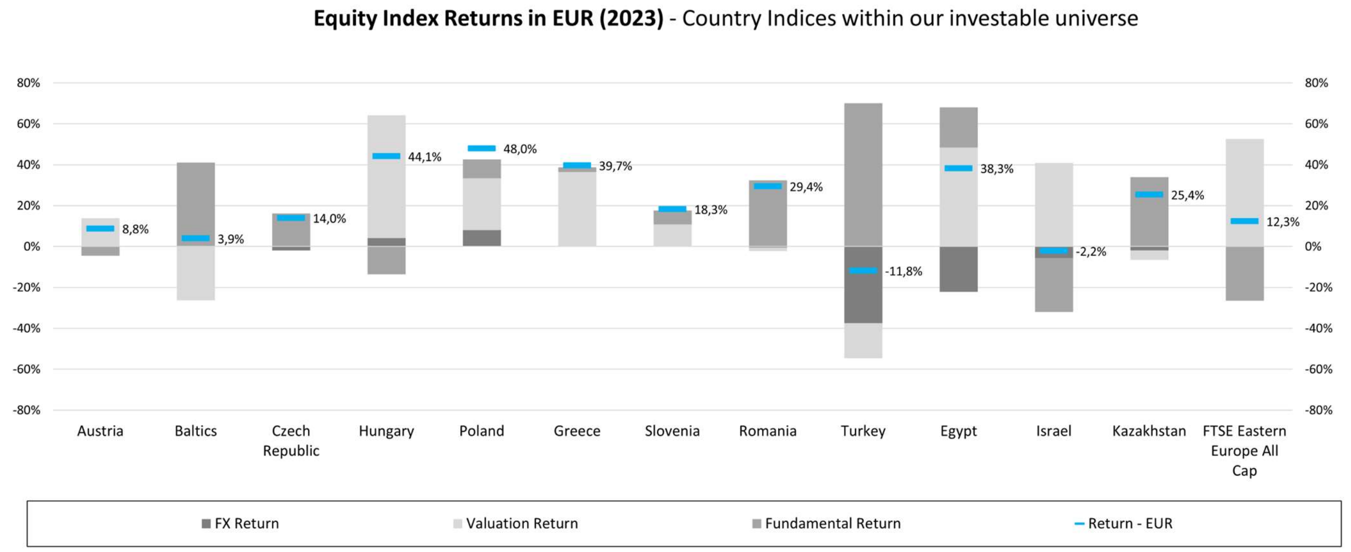


Figure 4: Illustration by Lacuna. Return Decomposition based on data from Bloomberg. Indices used are from local exchange operators. Valuation change refers to the change in P/E ratio, fundamental return represents earnings growth and dividends, and FX return reflects the difference between total return in EUR and the local currency.

Looking at the return-driving factors for the region's leading equity markets, it is clear that - except for the Romanian market - the increase in relative valuations was a main contributor. This resurgence in investor confidence has been predominantly fueled by favorable developments in macroeconomic and political factors, prompting some investors to reenter and acquire equities at historically depressed valuation levels. However, it is important to recognize that multiple expansion is not a sustainable source of equity returns. Going forward, we should expect a moderation in the returns of country markets that have experienced the strongest increase in relative valuation in 2023.

A review of regional composite indices for Eastern Europe reveals significant variation in reported returns, stemming from divergent index construction methodologies that result in large differences in country allocations. For instance, the MSCI EM Eastern Europe ex-Russia Index yielded a return of 42%, while the Stoxx Eastern Europe Total Market Index achieved a return of 19.7% (Net Return in EUR). We see the latter as the most appropriate index proxy for our investable universe, with the return disparity to the MSCI EM Eastern Europe ex Russia primarily attributable to a +30% allocation to Turkey, which significantly underperformed the rest of the universe.

We anticipate that both the relative and absolute performance for most country equity markets within our universe should remain satisfactory to strong over a medium-term horizon. This expectation is based on the observation that market valuations in many cases still sit well below historic norms, offering the potential to act as a tailwind for the fundamental return components of future dividends and earnings growth. At the same time, the macroeconomic backdrop appears sound, with GDP growth reaccelerating, providing a solid basis for continued earnings growth over the medium term.

As visible in the following exhibit, all markets except for Egypt and Kazakhstan remain at discounts to their respective 5-year averages. Compared to other segments of the global equity market, most country markets within our universe remain very cheap or modestly valued in relative terms.

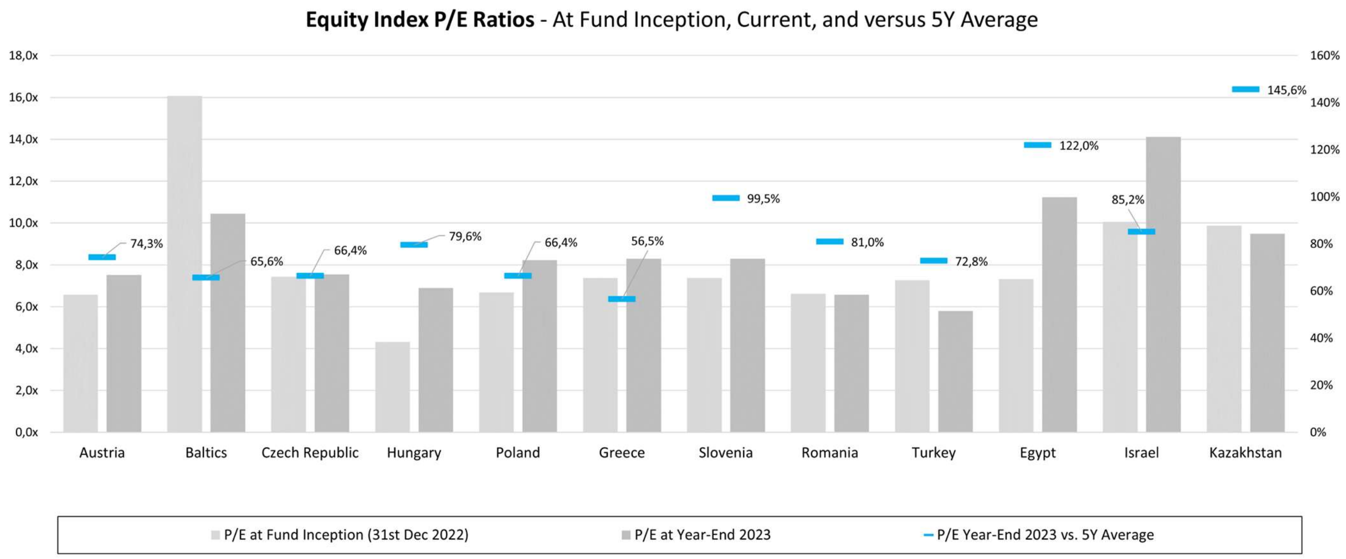


Figure 5: Illustration by Lacuna. Data from Bloomberg. Indices used are from local exchange operators.

Fund Performance and Key Drivers

Lacuna Eastern Europe TGV achieved a 21.1% net return in 2023.

The exhibit below displays the top five and bottom five contributors. Commentary will follow in the subsequent lines.

Top 5 Contributors	% Return	% NAV	Bottom 5 Contributors	% Return	% NAV
TIM	+63,3	+3,6	Integrated Diagnostics	-24,2	-0,9
Georgia Capital	+43,2	+1,6	Ekspress Grupp	-9,4	-0,4
Hellenic Exchanges	+68,2	+1,3	Teknosa	-15,1	-0,3
Warsaw Exchange	+31,3	+1,1	Logo Yazilim	0,0	0,0
Purcari Wineries	+44,2	+1,1	The CEE Fund	+1,4	0,0
Top 5		+8,7	Bottom 5		-1,6

Note: "% Return" indicates the holding period return, including dividends, for a particular stock in 2023. "% NAV" signifies the contribution of a specific stock to the fund's NAV per share performance in 2023. Numbers are derived from internal calculations.

Top 5 Contributors

TIM was our largest holding at the inception of the fund. As Poland's leading distributor of electrotechnical components, with a rapidly expanding third-party logistics business, TIM was a textbook case in terms of the characteristics we look for in an investment. It boasted a significant undervaluation (EV/EBIT of 5.5x at purchase), demonstrated strong cash generation capacity, and good return on capital (ROTCE +30%). Additionally, it was led by a capable owner-operator who adeptly reinvested excess cash to bolster the company's earnings potential over time. Our assessment of TIM's discounted valuation was validated by others, as evidenced by Würth Group's subsidiary, FEGA+Schmitt, launching an all-share takeover offer in March 2023 at approximately 50 PLN per share. This offer came after TIM had initiated a strategic review process several months prior. While we intended to hold TIM in our portfolio for the long term, our plans changed when the company's major shareholders announced their intention to accept the offer. No one ever got broke from taking a profit and achieving a 63% total return over a 3-month holding period was a very satisfying investment outcome. We sold our entire position in April 2023.

Georgia Capital has been a cornerstone of our portfolio since inception, delivering a robust return in 2023. This performance was underpinned by impressive growth in net asset value per share (+20.4% in GBP terms), coupled with a favorable shift in relative valuation as the discount to NAV has slightly narrowed over the year. It's rare to find a collection of market-leading, rapidly expanding, profitable companies in a fast-growing frontier market economy like Georgia, managed by strong capital allocators, available at a discount to its NAV of still 58% as of year-end 2023. Recognizing the price-value dislocation, the company has been conducting buybacks for several quarters at highly accretive valuation levels. It has meanwhile become our largest holding and we expect that to continue for the foreseeable future. We anticipate that the company will be able to maintain the double-digit NAV per share growth momentum and combined with some further NAV discount narrowing, there's a credible path toward a doubling of the share price from current levels over a medium-term horizon.

Hellenic Exchanges, comparable to TIM, represents an investment case that unfolded more quickly than anticipated. As the original disparity between market price and our intrinsic value per share estimate significantly diminished between January and July 2023, we began reducing our position in May and completely exited it by July 2023. Our initial rationale for investing in Hellenic Exchanges stemmed from the view that it was a fundamentally sound business, trading at a notable discount relative to other listed financial exchange operators (with the stock valued at 12x forward P/E ex-cash at that time), despite having a reasonably good chance to meaningfully increase earnings power in case Greece and its capital market managed to rise from the ashes. With a comfortable 30% margin of safety to our intrinsic value estimate, a significantly overcapitalized balance sheet providing downside protection (with 40% of its market capitalization in net cash and securities), and an enticing amount of positive optionality on the earnings side, we felt it was a sensible bet to take. Moreover, we believed the company's earnings power was indeed credibly nearing an inflection point, with the Greek economy showing signs of sustainable recovery and the local equity market appearing poised to regain investor interest based on increased macroprudential stability as well as a discounted market valuation. As a result, we saw it as likely that equity trading volumes would resurge from historically low levels after Greek equities had been avoided by most investors since the country went through three debt bailout programs between 2010 and 2015. As a largely fixed-cost business, a recovery in trading volumes acts clearly as a kicker for the company's margin level, enhances free cash flow, and likely catalyzes some multiple expansion along the way. Shortly after initiating the position, there was a noticeable shift in market sentiment, converging with our belief in the improved prospects for the Greek economy and its equity market. As such, the stock started to energetically march higher, mostly driven by multiple expansion, which seems to have anticipated the foreseeable earnings growth acceleration in outer years. We decided to fully exit our position at approximately EUR 5.60 per share after witnessing a significant increase in the stock's forward P/E, which expanded from 19x to 30x. At this juncture, we believed that our anticipation of margin expansion and accelerated earnings growth was well reflected by price-implied expectations.

Warsaw Exchange is exemplary for an "opportunistic" investment. Establishing our position at the inception of the fund, the decision to invest was based on raw statistical cheapness combined with a fundamentally strong and cash-generative underlying business that historically remunerated investors with juicy dividends. At that time, the stock was trading at levels near the lower end of its 5- and 10-year historic relative valuation range, exhibiting an 11x forward P/E (8.1x ex-cash) and a dividend yield of +7%. A truly depressed valuation, considering that after all Warsaw Exchange was a quasi-monopoly business that enjoyed a robust balance sheet (26% of market cap in net cash) and a track record of sporadic yet low-single-digit trend growth in earnings over the prior decade. In our view, the simple combination of a high cash-on-cash yield and moderate earnings growth provided for a double-digit prospective return potential, excluding any normalization in the discounted relative valuation. As such we took a punt on this "catalyst-free" value stock, which has worked out well so far. Similarly to the example of Hellenic Exchanges, we thought the Warsaw Exchange should benefit from an eventual rediscovery of the Polish equity market, which has been another kind of "red-haired stepchild" equity market that was increasingly abandoned by investors throughout the 2010s. The negative sentiment toward the Polish market arguably reached its peak following the outbreak of the Ukraine-Russia war, when concerns arose that the conflict could escalate and spill over into neighboring countries. Lately, the strong performance of Polish equities and positive political changes towards the end of 2023 have seemingly contributed to sparking increased interest in the Polish market, albeit coming from a still low base. Especially noteworthy is the favorable election outcome, leading to a transition to a Tusk-led, pro-Western government, which has been encouraging. Anticipated structural reforms aimed at unblocking EU funds hold the potential to bolster Polish GDP growth in the coming years. Additionally, a reshuffling of management boards in state-owned entities, including the Warsaw Exchange, was initiated. Importantly, the new government has pledged to prioritize merit-based hiring, appointing qualified individuals, whereas the previous government often appointed political cronies, which weakened governance standards. The appointment of Tomasz Bardzilowski, a respected local capital market expert, as the new CEO of the Warsaw Exchange, offers potential for an improvement in the quality of management. The exchange has arguably punched below its weight for some time, and new leadership could lead to positive changes. Despite the stock's price appreciation diminishing our future return potential, leading us to trim our position in the fourth quarter of 2023, we have retained some exposure to the Warsaw Exchange. This decision is based on our belief that the fundamental underpinnings of the investment thesis have strengthened compared to the time of our original purchase. Initially, we did not anticipate any positive changes in the political landscape or the management quality at the Warsaw Exchange. However, we believe that the emergence of both factors presents the potential for positive fundamental surprises compared to our initial expectations. We will gain more clarity on whether our hunch is correct over the course of 2024. In any case, the current valuation of the stock and the future return potential justify maintaining a position and adopting a wait-and-see attitude for now.

Purcari Wineries was an investment that we initiated in April 2023 and added to our position in June 2023. We managed to acquire shares in the Moldova-based company, listed in Romania, renowned for producing premium wines and brandies for mostly Central and Eastern European markets, at prices ranging between 9.90 and 10.40 RON. We were able to become co-owners in this business at extremely attractive entry valuation levels of 7.5-8x forward P/E. This undemanding multiple capitalized depressed margin levels, even lowering the effective entry valuation. Temporarily lower margins were the consequence of input cost inflation related to expensive harvests in 2021/2022, coupled with additional non-permanent operational headwinds. However, the main driver behind Purcari stock reaching bargain levels was investors' concern regarding the proximity of most of the company's operating assets to Ukraine and the Russian-affiliated separatist region of Transnistria. Regarding the latter, there were apprehensions that Russia might initiate another conflict in the area and attempt to annex Moldovan land from Transnistria, which, like Ukraine, is not a member of NATO. However, we deemed such an outcome as quite improbable. Combined with the anticipated benefit of holding Purcari shares in a non-adverse scenario, we felt the risk-reward proposition was attractive. Nonetheless, we chose to handicap for a non-zero probability of a catastrophic outcome by limiting our exposure to a moderately sized position at cost. Since our initial purchase, Purcari's stock has appreciated by 55%, with the forward P/E normalizing to 10.3x by the end of 2023 and expectations for near-term earnings improving by a healthy 16%. Despite the significant increase in the stock price, we have maintained our entire position throughout the year because we believe that the current market capitalization of the stock still underappreciates the intrinsic value trajectory of the business. The company has significant potential to expand its highly popular and award-winning wines of the premium Chateau Purcari brand into new markets beyond its home turf in Romania and Moldova. Additionally, it can gain market share as an active consolidator through bolt-on deals when acquisition opportunities arise. The wine industry remains highly fragmented and is likely to undergo a considerable consolidation process at some point, comparable to what has been seen in other alcoholic beverage industries like beer and spirits. If Purcari can execute well on both dimensions, the company could credibly work towards its long-term goal of becoming the largest wine business in the CEE-Region.

Bottom 5 Contributors

Among the five worst-performing holdings, Teknosa, Logo Yazilim, and The CEE Fund were recent additions to our portfolio, made toward the end of 2023. Therefore, it is premature to provide commentary on the performance of these positions. The only two investments that didn’t yield positive results and subtracted from fund performance were Integrated Diagnostics and Ekspress Grupp.

Integrated Diagnostics was added to the portfolio in July 2023, with additional shares acquired in September 2023. This company represents one of two equity holdings located in the fund’s peripheral investing region of the Middle East and North Africa. Our original assessment of Integrated Diagnostics was that we were dealing with the undisputed leader in the diagnostic laboratory industry in Egypt. Based on the immaturity of the Egyptian healthcare infrastructure and the country’s demography, we foresaw a long runway for growth in demand for quality medical care. Being an already established, competitively advantaged player in an unsaturated market with structurally growing demand seemed to us like a solid foundation to grow intrinsic value over time. Due to the unit economics of the business – high margins, moderate capital intensity – Integrated Diagnostics can compound capital through reinvesting for growth while remunerating investors via capital returns along the way. Furthermore, the company has been run by a skilled owner-operator with meaningful skin in the game and has also built a presence in other growing markets in the Middle East as well as high-potential but very early-stage African markets like Nigeria and Sudan. Additionally, further market share gains from industry consolidation with single-laboratory mom-and-pop operators disappearing over time seemed likely. Reflecting these quantitative and qualitative characteristics, we felt an entry valuation of 12x forward P/E was quite compelling. Market-leading businesses with sustainable competitive advantages, strong unit economics, good management, and above-average long-term growth potential typically trade at higher multiples, even in emerging markets. However, despite our initial optimism, the stock gradually declined from the original purchase price of 0.55 USD per share. We averaged down our position, acquiring more shares at 0.40 USD, but ultimately, the stock closed the year at 0.35 USD. It seems we have been attempting to catch a "falling knife", as the stock went down 74% between early 2022 and the end of 2023. The meaningful deterioration in the company's stock price over the last two years was essentially driven by earnings deflation from supernormal profitability levels in 2021. Factors contributing to the decline included the normalization of gross margins as highly profitable Covid-test revenue phased out, the company's inability to directly pass through inflationary cost pressures that accelerated in early 2022 (such as wages), and the simultaneous depreciation of the Egyptian pound (EGP), which inflated the cost of materials procurement denominated in hard currency (such as test kits). As a result, the company's bottom line was impacted by a perfect storm, driven by both idiosyncratic factors, such as restricted repricing ability due to 60% of revenue being derived from "contracted" business with periodic repricing, and macroeconomic factors, such as Egypt's significant currency devaluation and inflation spiking. Despite the -37% stock price performance between our initial purchase and year-end 2023, resulting from multiple compression from 12x to 10.6x forward P/E and a 29% reduction of expectations for near-term earnings, we believe it is not yet time to pull the plug. Recent quarterly margin trends, the company's communicated expectations for 2024, and the fact that the owner-operator has bought shares worth more than 4 million USD via open-market transactions since December 2022 give us confidence that the worst is likely behind the company. The possibility of another EGP devaluation represents an overhang and can potentially delay the margin recovery story. However, it appears that the company itself is already budgeting for 2024 with the expectation of further EGP devaluation, which implies that they expect a profitability improvement even in case of further considerable currency depreciation. The relative valuation has converged to unreasonably low levels, the company enjoys a robust balance sheet, and it operates in a sector characterized by non-cyclical demand. Against this backdrop, we are comfortable holding onto the investment and patiently waiting for the company's profitability to return to normal levels.

Ekspress Grupp has been a significant holding in the fund since its inception, although its weight in the portfolio has slightly decreased due to its stock price underperforming compared to other holdings throughout the year. Without factoring in dividend distributions, Ekspress' stock returned -14% to shareholders in 2023. The company is the leading news media business in the Baltics, with a portfolio of market-leading digital media outlets. Despite successfully navigating and adapting to the challenges posed by the digital age's shift away from legacy print media, Ekspress finds itself trading at a significant discount compared to other "digital leader" media companies. This is even though a substantial portion of its revenue (83% in 2023) comes from digital sources. Its relative valuation has become particularly puzzling as its multiples have lately converged toward levels seen in legacy news media companies. We haven't identified any structural impediments to our investment thesis yet. At this point, we can only speculate about potential reasons why investors may have given up on the stock. Some arguments that come to mind could include concerns about Ekspress' reliance on cyclical advertising revenue amid a softening economic environment in Europe, geopolitical considerations regarding the Baltic region's proximity to Russia and Belarus, and short-term negative fundamental trends leading to an earnings setback in 2023. The latter was driven by higher depreciation resulting from significant investments in a digital advertising screen network, one-off costs associated with the termination of a joint venture engaged in home delivery of physical print formats, and increased net interest expense due to a repricing of variable-rate debt in line with the increase in Euribor. With most investors, both retail and institutional, being conditioned to overweigh the informative value of things like the short-term rate of change in earnings when making investing decisions, we suppose the company's earnings deterioration in the recent calendar year has been the main reason behind the poor stock price performance in 2023. Given that the headwind from rising interest rates appears to have faded since 3Q23 - the company's quarterly profit stabilized compared to the prior year and exceeded 2022 comps from 4Q23 – and that the effects of the D&A step up and the extraordinary expenses will phase out in the next financial year, we believe there's a good chance of net margin recovery in 2024, bearing we won't see a considerable slump in Baltic ad markets. In our view, the attractiveness of Ekspress' valuation has improved since the original purchase, prompting us to slightly add to the position in December 2023. Despite the stock trading at only 8x our estimate of normalized unlevered cash earnings, Ekspress has a reasonably good growth runway ahead of it and hidden asset value in the balance sheet. We believe the odds remain favorable to achieve a good investment outcome over time, particularly given the skilled management running the business and an anchor shareholder who should be motivated to see the price-value dislocation disappear.

Cautionary Note

In closing this section, it's prudent to advocate for some caution.

While years like 2023, where most of our holdings generate positive returns for the year, may seem impressive at first glance, they can foster dangerous and wrong expectations.

Over time, our batting average will inevitably decrease. As time passes, making mistakes and encountering unsatisfactory returns on some investments becomes unavoidable.

There will be various reasons for investments not working out as originally expected, ranging from misjudgments on our part to the unpredictable nature of our world, which can lead to unexpected and uncontrollable negative events that can render an original set of expectations obsolete.

However, we strive to mitigate the potential damage from inevitable negative surprises as much as possible by strictly adhering to the margin of safety principle, which represents our most effective tool for limiting the likelihood and severity of permanent capital loss.

The following quote encapsulates the essence of the issue:

"If you want to be a superior investor, number one, you have to be willing to be different. Obviously, you have to depart from the average investor, or from the crowd, in order to be a superior investor. And if you do that, you have to be willing to be wrong. Deviating from the crowd cannot be done with 100% batting [average]. Finally, you have to be willing to look wrong because even the things that you do right directionally are not going to be right timing-wise. You will look wrong, for one." – Howard Marks

Portfolio Commentary

As of year-end 2023, equity investments constituted approximately 73% of the fund's net asset value (NAV), with the remaining portion held in cash. We don't intend to maintain such an elevated cash position over time. In this case, it was mainly driven by selling activity in 4Q23 and the residual effects of our investment process. This means that, in some instances, companies that we would have been prepared to invest in did not offer an adequate margin of safety and forward return potential. In other cases, due diligence wasn't finalized for prospective investment candidates. This can lead to higher cash positions at certain times, but we prioritize investment discipline and completing thorough research before making investments.

We concluded the year with 32 stocks in our equity portfolio, slightly exceeding our target portfolio breadth, which aims to maintain no more than 30 stocks over time. The largest position accounted for 6.4% and the Top 10 represented 46.8% in aggregate. The following exhibit lists the 10 largest portfolio positions as of year-end 2023. Brief profiles for our top 5 holdings are attached in the appendix of the fund letter.

	% Equities
Georgia Capital	6,4%
AS Ekspress Grupp	5,6%
Krka, d. d.	5,4%
Ideal Holdings	4,9%
GEK Terna	4,6%
Asseco Poland	4,4%
Purcari Wineries	4,3%
DP Eurasia	3,8%
Anadolu Efes	3,8%
Euro Telesites	3,7%
Top 5	26,8%
Top 10	46,9%

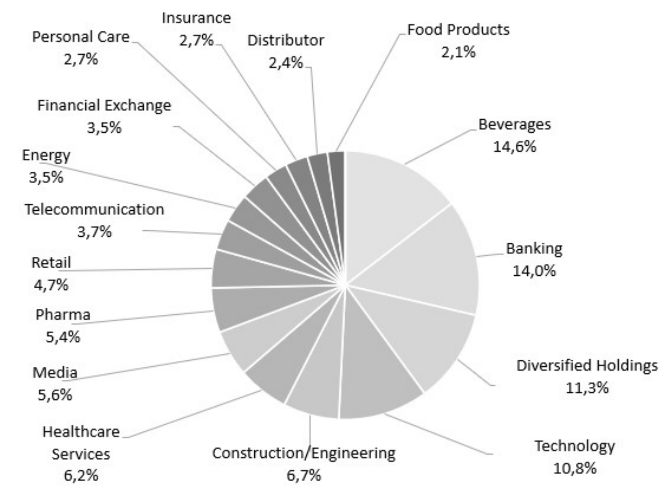
Figure 6: Data based on internal calculations.

As this was the initial year for the fund, the number of portfolio positions increased over the course of the year, with some selling activity occurring along the way. We initiated 39 new positions, while 7 positions were exited. Selling was related to receiving a takeover offer in one case (TIM in 2Q23), investment thesis playing out in five cases (Hellenic Exchanges in 3Q23; Ambra, Fondul Proprietatea, Voxel, and Kri-Kri in 4Q23), and in one case to exiting a position to fund better opportunities (Philip Morris C.R. in 4Q23).

In the long run, the level of investment activity is expected to moderate compared to 2023. Given our typical investment time horizon of around 5 years, a reasonable estimate for portfolio turnover should fall within the range of 20% to 30% in an average year. However, this figure may vary depending on the available opportunity set. Periods of high volatility typically bring about opportunities to improve the quality of the investment portfolio. In such an environment, portfolio turnover may be much higher temporarily.

The following exhibit displays the equity portfolio's industry and geographic allocation. It's essential to stress that these allocations are not driven by a top-down allocation framework but rather reflect bottom-up opportunities that we find attractive.

Industry Allocation



Geographic Allocation

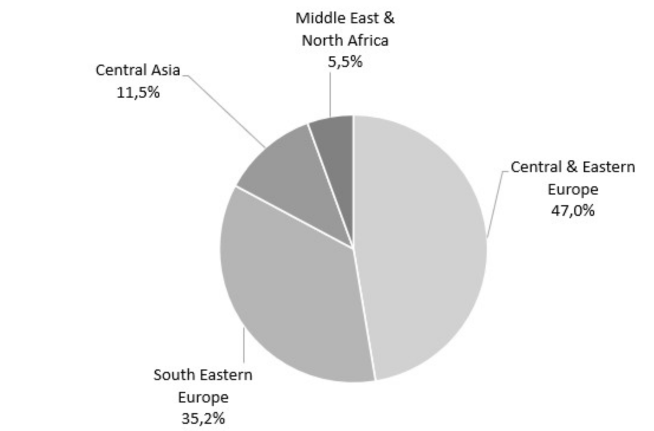


Figure 7: The numbers provided are based on internal calculations and represent the percentage allocation of the equity portfolio as of year-end 2023.

In terms of industry exposure, the fund is generally well-diversified. The key risk in terms of cyclical exposure is a 14% allocation to the banking industry. The latter runs a business model that's simply more susceptible and vulnerable in case of adverse macro scenarios, due to the inevitably high degree of leverage underpinning these businesses. We seek to mitigate this risk through a basket approach. Our bank basket consists of 6 stocks and exhibits a mean forward P/E of 4.5x, a mean ROE of 17%, and prospective dividend yields in the high-single-digits. We believe these characteristics compensate us well for accepting the undoubtedly higher risk associated with investing in banks from an equity investor's point of view.

We are unlikely to allocate more than 15% of the fund's NAV to banks at any given time, which results in a structural underweight compared to benchmarks and other active managers in our investable universe. Many of these benchmarks and active funds often carry exposures to banking of up to 30% or more. While our approach may mean missing out on potential returns when bank stocks are in a bull market, we are willing to make this trade-off in favor of higher staying power. Excessive allocations to industries like banking do not align with our emphasis on capital preservation and mitigating downside risk.

In terms of geographic allocation, Central and Eastern Europe, as well as Southeastern Europe, represent the bulk of the equity portfolio, accounting for 82% in aggregate. Central Asia (Kazakhstan and Georgia) as well as the Middle East and North Africa (Israel and Egypt) round out the portfolio. The **top five countries** by allocation were **Greece** (17%), **Poland** (16%), **Austria** (11%), **Turkey** (10%), and **Slovenia** (7%).

We complement our portfolio allocation tracking by categorizing investments into different groups based on idiosyncratic characteristics. Due to our bottom-up focus, this framework is more suitable for us than the traditional method of controlling industry or geographic allocation over time.

We use three categories: "Core," "Opportunistic," and "Special Situation." These classifications are not rigid, and portfolio holdings can transition between the buckets if justified.

Core: 66% of the Portfolio, 18 Positions

This category encompasses businesses that we view as above-average in terms of fundamental quality, with a clear pathway to compound intrinsic business value over the long run. The higher quality of these businesses is typically inversely correlated with the potential degree and frequency of mispricing relative to intrinsic value, leading us to accept a lower margin of safety of around 30%. Our goal is to allocate as much of the fund's capital as possible and justifiable from a required rate of return perspective to this investment category over time. The ability to grow intrinsic value per share at above-average rates serves as a necessary complement to purchasing assets at discounted valuations in the pursuit of generating superior investment returns in the long run.

Opportunistic: 24% of the Portfolio, 9 Positions

This category includes investments where the underlying business may have average or subpar fundamental quality or finds itself operating in an inherently cyclical industry. We consider investing in such companies when they are trading at a significant discount to our estimate of intrinsic value, typically requiring a margin of safety of at least 40%. The main risk in this category is making Type-I errors and mistakenly selecting "value traps," which we aim to mitigate by only considering investing when the prospective fundamental return (yield plus per-share earnings growth) is at least in line with long-term historical equity returns. Many of these investments are characterized by "statistical cheapness," and we think of this category as helping us remain more flexible and avoid the "man-with-a-hammer" problem.

Special Situation: 10% of the Portfolio, 5 Positions

This category includes investments where we anticipate corporate actions or changes in governance or capital allocation will act as catalysts to reverse a valuation discount and/or improve the underlying earnings power of a business. These investments typically have a time horizon of less than 5 years, reducing the portfolio's duration and serving as a return stabilizer due to a more uncorrelated nature compared to broader market dynamics.

The following exhibit depicts the financial characteristics of our portfolio. The median market capitalization implies a tilt towards SMID-Caps, and the portfolio, as per median values, represents a trinity of cheap valuation (8.9x forward P/E), solid economic profitability (13.6% ROE), and growth (6% expected organic in EUR).

Therefore, the portfolio statistics are recognizably in sync with our strategy of identifying economically sound businesses with above-average growth rates and purchasing them at below-average valuations. In theory, this should be a recipe for superior return generation in the long run. Using the median margin of safety as a proxy for the degree of the portfolio's undervaluation, the median portfolio holding offers a 98% upside to the estimated fair value, based on a 5-year forecast horizon.

Equity Portfolio Statistics	Median
Market Cap EURm	592,9
EV/EBIT NTM	7,5x
P/E NTM	8,9x
Dividend Yield (Trail.)	3,6%
5Y Avg. ROE	13,6%
+5Y Organic Growth p.a.	6,0%
Margin of Safety	49,5%
+5Y Upside to Fair Value	97,8%

Figure 8: Data from Capital IQ, Company Filings, and internal estimates.

On a look-through level (underlying pro-rata fundamentals), our equity portfolio had a P/E of 6.8x and an ROE of 13.7% at year-end 2023. If only 1/3 of earnings will be paid out as dividends and the remaining 2/3 will be reinvested at incremental ROE equivalent to the latest portfolio-level ROE, fundamental return drivers point to mid-teens forward return potential for the equity portfolio. This estimate doesn't consider relative valuation changes or cash drag effects, which will affect the translation of the equity portfolio's estimated fundamental return into the actual fund level return. Given our strategy of buying at below-average entry valuations, a change in relative valuation will likely represent upside risk over time, more than offsetting the negative effect of cash drag.

Fund Outlook

After our first year and looking solely at the fund's return, one could argue that we were in the right place at the right time, as some of the best-performing country equity markets in 2023 were part of the fund's investable universe. We would emphasize that the seemingly impeccable timing was also aided to some extent by the beneficial, but undoubtedly fortunate, side effect of experiencing tailwinds from relative valuation changes in the key markets of our universe. In our view, it's impossible to predict how sentiment will change in the short term and thus amplify or suppress underlying fundamental returns through changing valuation multiples over short measurement periods. Thus, we can only take credit for correctly identifying that most markets in our investment universe were priced at significant discounts to historical valuation norms and were substantially underfollowed in first place. Both were prerequisites for the perceived above-average long-term market return potential and the abundance of considerable price-value gaps at individual security level when we launched the fund.

Entering 2024, the obvious question on a macro level is whether the markets in our universe can continue delivering attractive forward returns, following the predominantly strong performance in 2023. In our view, macroeconomic conditions remain robust across most economies within our investment universe, with the potential for further incremental improvements in certain instances. Recent developments in some countries with the highest allocation in our portfolio have been particularly positive. There is Poland, which has experienced a promising change in political leadership. The new government under Prime Minister Tusk is trying to resolve the disagreements with the EU that emerged under the preceding PiS-led administration, which will allow the release of significant EU funds that should provide a noticeable tailwind for the Polish economy in the coming years. Greece has regained its investment-grade status in the second half of 2023, has been amongst the fastest-growing economies in the Eurozone recently, and has significantly increased its macroprudential stability thanks to a successful restructuring of the domestic banking sector and its public finances. After a successful re-election in the last year, the Mitsotakis government can continue its path of structural reforms and liberal, business-friendly economic policymaking. Finally, there are early signs that Turkey, the literal "black sheep" in terms of fiscal and monetary policy in recent years, may be in the early innings of a return to orthodoxy. Since the return of Mehmet Simsek as finance minister and the Turkish central bank seemingly regaining "independence", monetary policy has been tightened significantly with policy rates raised to 45% to combat the still rampant inflation of +60%. If Turkey stays on this course and inflation starts to ease as expected from the second half of 2024, the Turkish stock market could be in for a period of very strong forward returns (yes, also in hard currency terms), starting today from still historically depressed valuation levels of less than 6x P/E.

Overall, we hold cautious optimism regarding the potential for continued satisfactory future returns for most equity markets in our investment universe. The economic environment remains conducive to continued corporate earnings growth, and market valuations generally remain below historical norms. However, there is always room for disappointment, and in the case of the fund's investable universe, we believe particularly two factors could create headwinds from a macroeconomic and sentiment perspective. On the one hand, a continuation of Germany's economic problems could become a serious issue for the entire Eurozone economy. In such a case, CEE economies such as the Czech Republic, Poland, or Hungary seem vulnerable due to a significant share of trade with Germany. On the other hand, there is a possibility that the situation in the war between Ukraine and Russia will continue to deteriorate and Russia may continue to gain the upper hand as growing supply problems make it difficult for the

Ukrainians to hold the line. The latter has the potential to once again spook investors when it comes to investing in Eastern European equity markets.

History suggests that forecasting specific macro or geopolitical developments with any reasonable precision is close to impossible. This is particularly true when attempting to deduce potential capital market reactions, which often defy intuition and original consensus expectations. One must rather accept that pockets of volatility, short-term corrections, and negative surprises are an inevitable part of long-term investing. Instead of trying to avoid bad outcomes, investors should rather spend much more time being prepared.

Our approach to being prepared involves ensuring that we maintain a reasonably diversified portfolio of significantly undervalued shares of resilient companies, which operate on the premise of maintaining a conservative capital structure and are led by competent as well as experienced management teams. By achieving this, we believe that our level of preparation and cushion against adverse macroeconomic developments is as robust as possible within our discipline.

Since the beginning of 2024, we have been implementing some changes in the fund's portfolio, which we believe have further increased the fundamental quality of the portfolio as well as the medium-term return potential. This was related, on the one hand, to increasing or exiting positions that were part of the portfolio as of year-end 2023 and, on the other hand, to the initiation of new positions. In line with recent actions, the cash position has declined significantly from 27% at the end of 2023 to 17% at the end of February 2024, and based on the current pipeline of ideas, we expect it to decline even further over the coming months. In terms of portfolio additions, we have established three new positions in Turkey, one new position in the Czech Republic, and a position in a holding company based in Amsterdam, which derives most of its earnings from Eastern European and Central Asian markets. Further details and thoughts on the latest portfolio activity will be provided in our next letter to investors, which will be published after the first half of 2024.

At this point, we would like to thank our investor base for the trust they have placed in us. We maintain confidence that the fund remains well-situated to deliver very satisfactory returns in most economic environments over the medium term.

In case of any questions or comments, we encourage all existing or interested qualified investors to get in touch with us.

Sincerely,

Hendrik Kreilinger, Portfolio Manager

Appendix

Top 5 Holdings – Year End 2023

Georgia Capital – 6,4% of Equity Portfolio (Year End 2023)

Georgia Capital (GCAP) is an investment holding with public and private equity investments in the country of Georgia. The company was established in May 2018 when it was spun off from the original parent company Bank of Georgia and got listed on the LSE. The rationale behind the separation was twofold. Firstly, the original investment arm, GCAP, had grown too large within the Bank of Georgia. Secondly, separating GCAP from the Bank of Georgia would enhance the company's ability and flexibility to invest in local business opportunities beyond the financial sector. As part of the demerger, GCAP received a stake in BoG, which it still holds today (19,7% in 4Q23).

GCAP's investment approach is centered around acquiring controlling stakes in companies that operate in sectors, which are expected to benefit from the ongoing growth and diversification of the Georgian economy. The investment portfolio reflects the strategy and consists of local market leaders in the following sectors with the following portfolio weightings: banks (33%), insurance (10%), healthcare (32%), renewable energy (7%), education (5%) and several other smaller companies, most of which are to be divested over time (12%).

Approximately 38% of the portfolio's value comprises listed and observable assets , such as the Bank of Georgia and the remaining stake in the Water Utility. The remaining 62% consists of unlisted assets, most of which are valued externally by a third-party independent valuation firm. The combination of externally derived valuations and recent transaction evidence, such as the sale of the Water Utility in 2022 and the sale of Hospitality Assets in 2023 at reported values or above, suggest that non-observable valuation marks for private assets are reasonable and don't inflate the NAV.

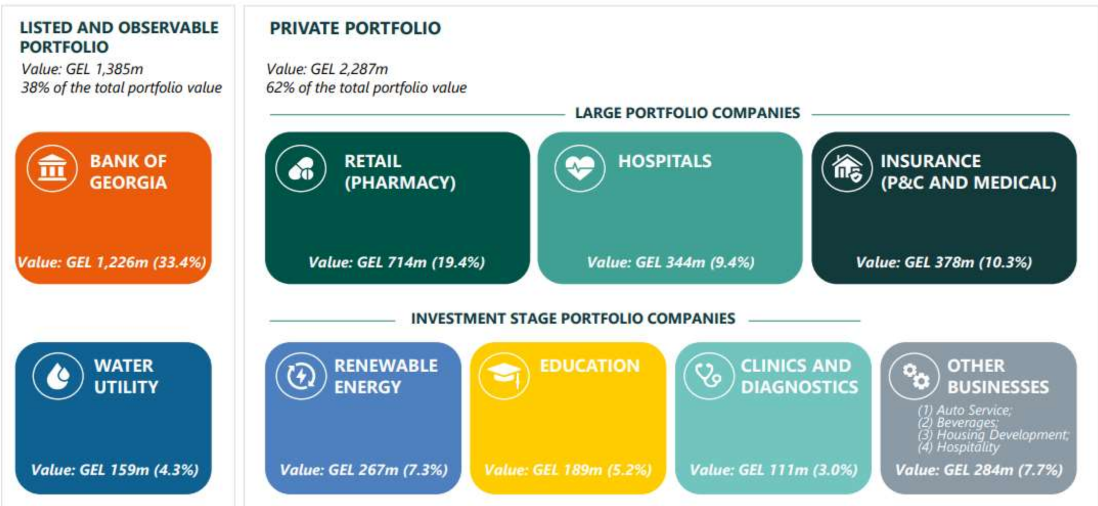


Figure 9: Georgia Capital Investor Presentation, FY23 Results.

We initiated a position in GCAP at the fund's inception at prices of around 7,30 GBP. Our view was that GCAP would enable us to gain exposure to the promising growth runway of the Georgian economy via a diversified portfolio of locally dominant quality companies, which were on sale at a significant NAV discount of 64%. A setup that is not often found on the public markets, especially when a strong management with the ability to approach capital allocation in a very thoughtful way comes on top.

Over 2023, Georgia Capital's stock appreciated by 40%, while the NAV discount remained high at 58%, supported by robust NAV per share growth of +20.4%. Alongside the still elevated valuation discount, management understands the significant opportunity to create value through ongoing open-market buyback activity, which drove a share count decline of 9% between 2021 and 2023. The only reason why the outstanding shares have not fallen faster is that the company has undertaken a significant reduction in debt at the holding level in recent years, which we have welcomed as this has strengthened the Group's resilience.

With a leverage ratio of 15.6% at the end of 2023, as measured by the company's proprietary metric Net Committed Capital Ratio (NCC), GCAP is approaching the through-the-cycle leverage target of 15%, which the company has set as the threshold for more aggressive buyback activity.

With expected dividend inflows from portfolio companies of GEL 180 million in 2024, the NCC should move into the low teens over the course of 2024, where based on management commentary we see an increasing probability for significant tender offers that have the potential to strongly boost intrinsic value per share if executed at a meaningful NAV discount. Large share buybacks have also become easier since GCAP switched to the LSE standard market, which not only reduces the cost of listing but also increases the flexibility and speed with which corporate actions can be carried out – a development that went largely unnoticed in 2023.

Well-timed buybacks at highly accretive levels will reinforce the continued growth of the aggregate earnings power of GCAP's portfolio companies. The medium-term expected real GDP growth rates for the Georgian economy are around 5% per annum, which should serve as the baseline for the growth rates of GCAP's portfolio companies. Given the nature of the assets and industry exposures, it's likely that GCAP's subsidiaries will compound earnings above the GDP growth rate for the foreseeable future.

On top of that, there's further long-term growth potential via regional expansion opportunities for some portfolio companies. While GCAP has been expanding its Retail (Pharmacy) into Armenia in recent years and sees potential to also launch its K-12 private education in adjacent geographies in the future, a recent acquisition announced by Bank of Georgia was the so far largest leap forward in terms of regional expansion. In February 2024, Bank of Georgia announced that it will acquire Ameriabank, the largest bank in Armenia, at an attractive valuation level of 0.7x P/B and 2.6x P/E. The acquisition will be immediately EPS accretive and represents a promising new growth path for the bank, offering the potential to replicate its successful model in Georgia in an immature banking market that offers higher organic growth and consolidation opportunities.

In summary, we believe that the combination of share buybacks at value-accretive prices and the fundamental performance of the GCAP portfolio should enable NAV per share growth rates in the low teens over the medium term. Coupled with a potential narrowing of the discount to NAV from still extreme levels over time, there is a credible path to doubling recent share price levels within five years. Additionally, we anticipate the possibility of further divestment activity in the near term, with the healthcare assets excluding the pharmacy business being a prime candidate. Further value realization in line with portfolio valuation marks could help to further reduce the NAV discount, pull forward anticipated returns, and provide the management with significant financial firepower to pursue the best available capital allocation opportunity.

Ekspress Grupp – 5,6% of Equity Portfolio (Year End 2023)

Ekspress is a leading media group in the Baltic region. Its history traces back to the early post-soviet years and its legacy begins with Eesti Ekspress (#4 Newspaper in Estonia), the first politically independent newspaper in Estonia. The editor-in-chief of Eesti Ekspress was Hans Luik, who became a co-owner of the business in 1991 and remains an anchor shareholder (73,2%) as well as a board member today. Today, Ekspress Grupp controls the region's most iconic internet news portals, a leading digital advertising network in the Baltics (Digital Matter), a portfolio of legacy print-format newspapers as well as magazines that are essentially in run-off (only in Estonia), online ticketing/classified platforms, and a network of digital outdoor advertising screens in Estonia and Latvia.

While the advent of the internet and the world's shift towards digital was a pain point for many legacy media outlets since the early 2000s, Ekspress is a case in point of how to embrace digitalization to not only continue remaining relevant but even grow as a news media business in today's world. The transformation was completed by divesting from the company's legacy printing services in 2021, positioning the core media business for sustainable growth and higher margins in the long run.

By 2023, digital revenue accounted for 83% of total turnover. The revenue base consists now of the following revenue streams: (Digital) Advertising (57%), Content Subscriptions (26%), Online Ticketing/Classifieds (5%), Digital Outdoor Advertising (5%), and various adjacent services (7%).

We opted to invest in Ekspress due to our belief that the company's valuation did not adequately account for its transition to a higher-quality business model and the consequential potential for future growth as well as margin expansion. Continued expansion in digital advertising and the strategic emphasis on building a substantial base of digital content subscriptions represent the most promising growth levers. Especially the latter offers the potential to create a significant and valuable recurring revenue stream, that improves the diversification of the revenue base and enhances overall revenue stability. To be successful, Ekspress must continue growing its subscriber base – a target of 340k by 2026 from its current 200k – and achieve a healthy balance between monetization and customer retention to optimize the lifetime value of its subscriber base.

So far, our general expectation of structurally increasing profit margins due to the reorganization of the business model hasn't been confirmed. Rather, we saw the opposite in the first year of our investment, as a combination of extraordinary cost items, increased depreciation related to the recent investment phase, and higher financing costs due to a repricing of the company's floating rate debt led to a decline in the company's net profit margin despite continued high sales growth. The sequential profit decline was likely a key factor in the weak share price performance in 2023. We believe the factors behind the margin setback are cyclical and we see no reason to conclude that the margin expansion story associated with the original investment case has already been broken. Last year's headwinds should subside from 2024 and we think net margins could approach high single-digit levels over the next 3 to 5 years.

Ekspress was acquired at an attractive entry valuation of around 1x EV/sales and 6.6x EV/normalized EBITDA at the inception of the fund. At that time, Ekspress' valuation was already at a significant discount compared to listed competitors, which typically trade at 9x EV/EBITDA, as well as compared to transaction multiples for media companies with a significant share of digital revenues, which average in the low-teens in terms of EV/EBITDA. Given improved valuation attractivity and forward return potential as a result of the poor share price performance in 2023 and with no structural impairments of our thesis observed, we seized the opportunity to increase our position in Ekspress in December 2023.

Krka – 5,4% of Equity Portfolio (Year End 2023)

Krka is a Slovenia-based pharmaceutical company specializing in branded generics, with a strong presence in Central and Eastern European markets. In 2022, it ranked as the 14th largest generic pharma company by sales globally. While the company has expanded internationally, with products sold in 70 markets, most of its business originates from Europe. From a revenue standpoint in 2023, Eastern Europe represents 33%, Central Europe 28%, Western Europe 21%, South-East Europe 14%, and international export markets 4%. The top five country markets are Russia (19%), Poland (10%), Germany (6%), Ukraine (4%), and Romania (4%). Although Krka's presence in Russia poses operational risks, being one of the largest pharma players in the country and a local producer mitigates some concerns regarding the Ukraine-Russia war's impact on business. A notable aspect of Krka's product portfolio is its low product concentration risk, with the top 10 products only accounting for 40% of revenue, indicating a diverse range of offerings.

Historically, Krka has sought to differentiate itself by focusing on excellence in vertical integration and investing significantly in innovation. The focus on improving vertical integration has led to greater flexibility, improved quality assurance, and less time-to-market. Recently more than 70% of Krka's portfolio was vertically integrated. In terms of product innovation, Krka targets to spend 10% of revenue on R&D over time, which will continue to grow the catalog of indications as well as therapeutic fields and aid pricing power. The combination of Krka's vertical integration, a generally competitive cost base due to state-of-the-art production sites and access to skilled yet relatively low-cost labor, focus on innovation, and the grown brand reputation as well as distribution capabilities in its key markets, positions Krka formidably in terms of competitive strength. This should allow the company to continue enjoying strong economics over time, maintaining a +20% operating margin and mid-teens return on capital. We think there will be always demand for affordable though high-quality medicine and Krka understands how to serve this demand well while further scaling up the business and being quite profitable along the way.

As shown in the chart below, the company has a strong long-term operating track record, significantly outgrowing the global pharmaceutical market (sales/net profit CAGR of 7.3%/8.6% between 2005-2023). This growth has been underpinned by effective capital allocation and strong leadership, with Krka's CEO having been with the company for over 18 years. This is rare in today's equity markets, but we believe that continuity at the top management level is paramount to long-term success. Management's focus on shareholder returns is also reflected in the tradition of generous dividend payouts and share buybacks. In the last twelve months alone, more than EUR 200 million was returned to shareholders through a combination of dividends and share buy-backs, corresponding to a shareholder return of +6%.

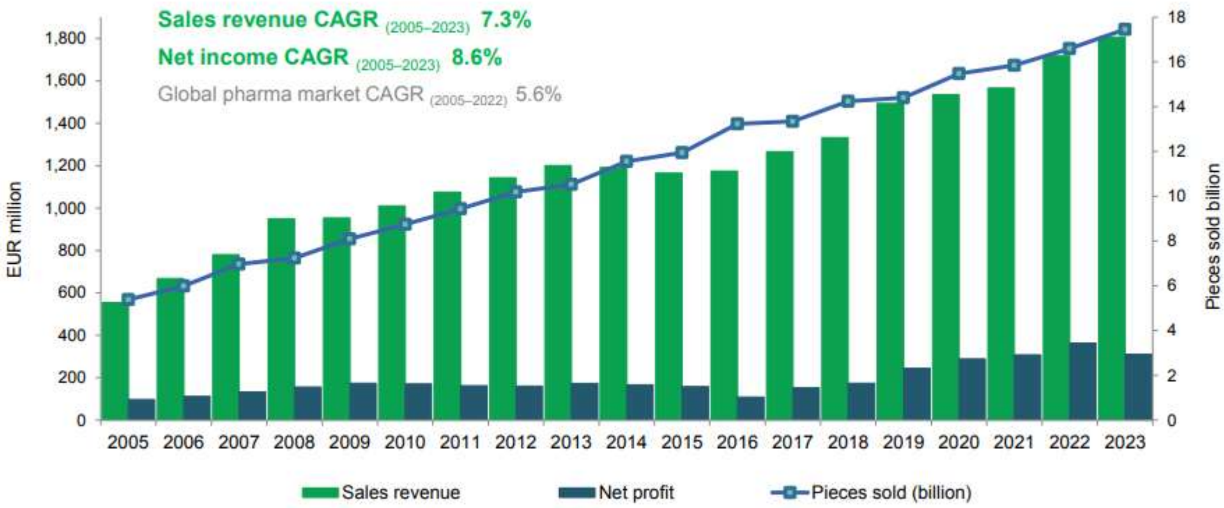


Figure 10: Krka Investor Presentation, FY23 Results Presentation.

We initiated an investment in Krka at the fund's inception, taking advantage of the undemanding valuation at the time with shares priced at 6x EV/EBITDA and 8x P/E, which represented a large discount to publicly listed peers trading at over 9x EV/EBITDA and industry transaction multiples averaging in the low teens over the past decade. Despite a 20% price appreciation in 2023 and subdued bottom-line growth (margin normalization from peak levels), the P/E ratio has only slightly converged towards peer levels, remaining at only 12x at year-end 2023. We think the recent valuation remains attractive and continues to offer above-average forward return potential in anticipation of recent, mostly volume-led, organic trend growth being sustainable over the medium term. Growth levers are a strong pipeline of upcoming product launches (170 products in the pipeline), entering new therapeutic fields/markets in the main field of small molecules, and by having a foot in the door in biosimilars, where management waits for improving cost-reward tradeoffs before more aggressively entering the field. We also see positive optionality in the robust balance sheet with 520m EUR in net cash and the recently established joint venture with the Indian player Laurus Labs, which should further improve the Group's cost competitiveness and help both partners to expand their presence in the Indian and other non-EU markets.

Ideal Holdings – 4,9% of Equity Portfolio (Year End 2023)

Ideal is an investment company focused on buyouts and growth capital investments in established, mid-sized Greek companies. It's essentially a hybrid between a PE investor and a permanent capital vehicle, which takes an active approach to portfolio management instead of an indefinite holding period.

Although Ideal has been listed on the Athens Stock Exchange since 1990, it is a relatively "young" company in its current form, having emerged from a reverse listing transaction in May 2021. In this transaction, Ideal's current Chairman, Lampros Papakonstantinou, transferred the remaining investments of his private equity fund, Virtus Southeastern Europe (including Astir & Three Cents), into the "shell" of Ideal's original listing. In exchange, Mr. Papakonstantinou received a controlling equity stake, enabling him to shape the company's future. This made it possible to combine Virtus' investment approach and experience with the advantages of a permanent capital base and access to financing via the equity market.

Ideal operates as a "generalist" investor, lacking a deliberate sector focus and embracing a no-nonsense approach to investing, where it looks for a combination of simplicity and IRR potential in the +20% range. It only considers opportunities with understandable and robust underlying business models, healthy financials, strong cash generation capacity, easily identifiable value creation levers, and available skilled management that's open to accept alignment of interest via equity ownership and capable of running the operational side of the business in a decentralized manner. Decisions regarding capital allocation and financing are made at the holding company level. The typical investment involves a 5–7-year investment horizon, Ideal looks to acquire companies in full – both public to private conversions and takeovers in the sense of succession planning are considered – and a clear path to an exit via a trade sale must be visible. Ideal's focus on the mid-market, combined with the strong reputation of its key people in the Greek business community and an extensive network of contacts, gives the company a sourcing advantage. With a target transaction size of EUR 30-100m, they are looking for opportunities in a size range that is too large for most local PE funds, while they play at the lower end of the interest spectrum for large international PE companies. The company focuses mainly on off-market transactions, with potential targets approaching the Ideal based on existing relationships or through referrals based on its network of contacts. They know that reputation is the key to good business and therefore focus on creating win-win situations for both sides of a transaction while remaining disciplined about the deal they are willing to pay.

After meeting with the management team during a research trip to Greece in May 2023, we got the impression that the mentality of value investing is embedded in the DNA of the company, which reveres the principle of the margin of safety and only does business where it believes it cannot lose money. At the same time, we appreciate that Ideal's management has meaningful skin in the game – holds a 41% stake – and a relevant track record both as an investor and as an entrepreneur. I.e., the exit proceeds for Mr. Papakonstantinou's Virtus fund indicated 17-22% IRR, and in his earlier career, he was a co-founder of the P&K group, one of the formerly largest investment houses and investment banking boutiques in Greece that was successfully and in hindsight at the right time sold to National Bank of Greece in 2007.

When we initially analyzed the company, it operated two segments focused on the Industrial and IT sectors. However, Ideal expanded its operations by acquiring a specialty retail business in June 2023, adding a third operating segment. The current operating segments of Ideal, along with specialized companies within these segments, are illustrated in the following exhibit, and we will provide further commentary on these segments in the subsequent passages.

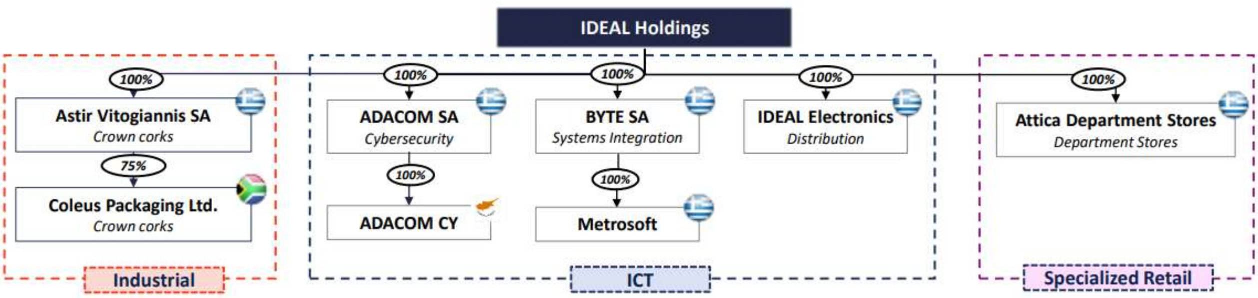


Figure 11: Ideal Investor Presentation, January 2024.

1) Industrial Segment

FY23 Financials: Revenue 75,2m EUR, EBITDA 19,9m EUR, EBT 16,3m EUR

In 2023, the industrial segment represented 20% of Ideal's pro forma revenue and 43% of its pro forma EBT. The segment encompasses Ideal's 100% ownership of Greece-based Astir Vitogiannis, a crown corks manufacturing company, and Astir's 75% stake in South Africa-based Coleus Packaging (since 2022), formerly SABMiller's in-house crown corks producer.

The acquisition of Coleus has transformed Ideal's crown corks business into a global platform and enhanced regional sales exposure to markets with higher volume growth potential. While they have more than 600 customers, sales volume is skewed towards large multinationals. From an end-product standpoint, Beer represents +80% of volume, with soft drinks accounting for the remainder. In terms of competitive positioning, Ideal's crown-cork operations rank as a mid-sized market player representing around 3-4% of global production volume, selling into over 60 countries. Customers are typically quite loyal and Astir benefits from long-standing relationships with the world's top beer and beverage brands, i.e. Heineken, Coca-Cola, Anheuser-Busch InBev, Carlsberg, Asahi, etc. The crown cork industry is moderately fragmented and likely to see further consolidation, with some of the key players like Pelliconi, Finn-Korki, and Crown Holdings (publicly listed) focused on grabbing more market share. While being an industrial business on the surface, the business exhibits solid earnings stability based on the advantage of a cost-plus pricing model, which mitigates input cost fluctuations, and due to supplying a "C-Component" to the producer of an ultimate end-product with non-cyclical end-market demand. From an economic standpoint, the segment enjoys solid profitability with high-teens pre-tax margins and sits on meaningful unutilized capacity, having only utilized 63% of the 20bn crown cork annual production capacity. As such, cash flow margins are already high, and return on capital is at respectable mid-teens levels.

The primary driver for future topline growth is expected to be the volume growth rate in glass bottle sales, which should increase by 3-4% in the medium term. Given the significant exposure to emerging markets with higher per capita growth rates following the acquisition of Coleus, the segment could deliver sales growth above the forecasted global market growth over time.

In addition, we see margin expansion potential from improved operational efficiency at Coleus, which was run as a cost center under SABMiller and had 30-40% lower EBITDA margins compared to Astir at the time of acquisition.

The interplay of moderate topline growth and some margin expansion will likely allow for at least mid-single-digit growth rates in segment earnings over time.

2) IT Segment

FY23 Financials: Revenue 96,1m EUR, EBITDA 12,4m EUR, EBT 9,2m EUR

In 2023, the IT segment represented 25% of Ideal's pro forma revenue and 24% of its pro forma EBT. This segment is mostly driven by the two subsidiaries Byte and Adacom.

Byte was acquired in 2022, has been on the Greek market for more than 40 years, and is among the largest System Integrators and Trust Service Providers in Greece. In Systems Integration, it's among the top 5 players in Greece, whereas it's the market leader in Trust Services with a market share of around

60%. Adacom, acquired in 2021, is a leading player in the cybersecurity services market in Greece and Cyprus, commanding a market share of around 14% in Greece. Specializing in cybersecurity services, Adacom offers both traditional integration and service-based deployment through its Security Operations Center (SOC). Additionally, Adacom ranks as the second-largest Trust Service Provider in Greece, boasting two highly secure data centers certified by both the EU and NATO. In terms of revenue composition, Ideal's IT segment derives approximately 50% of its revenue from recurring sources, which primarily include Trust Services and Cybersecurity. The remaining 50% of revenue comes from mostly one-off project revenue related to the design and integration of large-scale fixed solutions. These solutions are typically installed on-premise and tend to be hardware-heavy. The capabilities of Byte and Adacom are generally quite complementary, allowing the IT segment to cover a significant portion of the IT services value chain.

As such, the segment is well-positioned to benefit from the anticipated robust growth in the Greek IT sector in the coming years. Elevated future growth is the result of both the Greek public and private sectors trying to catch up on the considerable technology debt that was created during a stretch of IT underinvestment during Greece's economic hardship in the 2010s. With the economy showing signs of continued improvement and corporate profitability on the rise in recent years, a multi-year cycle of elevated IT spending seems likely. Moreover, the availability of substantial EU funding earmarked for digital transformation projects - totaling 3bn EUR and primarily directed towards public sector initiatives - is expected to further bolster IT expenditure. Byte and Adacom's proven track record in project delivery, particularly for public sector clients, should prove to be an advantage in securing major projects in the public sector.

Given the projected growth rate of 10-15% per annum for the Greek IT services market over the next 3-5 years, we anticipate that Ideal's IT segment should manage to grow revenue at least in line with the overall market. Assuming no margin expansion, the revenue growth trajectory should translate into low-teens annual earnings growth in the foreseeable future. Additionally, the current secured pipeline of future projects exceeding 100 million EUR provides a solid foundation for near-term visibility and growth.

3) Specialty Retail Segment

FY23 Financials: Revenue 213,1m EUR, EBITDA 39,1m EUR, EBT 16,7m EUR

In 2023, the Specialty Retail segment represented 55% of Ideal's pro forma revenue and 33% of its pro forma EBT. This segment was created through the acquisition of Attica Department Stores (ADS) in June 2023. Ideal acquired ADS for an equity value of 100m EUR, financing approximately one-third with Ideal shares and two-thirds with debt. The valuation of the transaction was reasonable at 10x 2022 earnings.

ADS holds a distinguished position as the foremost Greek fashion retailer, renowned for its operation of four highly popular department stores that are strategically located in prime areas of Athens and Thessaloniki. This key sales channel is complemented by several smaller shops and an evolving e-commerce channel that's supposed to play a greater role in further enhancing store productivity going forward.

With a total sales area of around 69,000 square meters, ADS serves more than 5 million customers annually and holds an 8% share of the Greek apparel market. The strategic placement of its stores, coupled with its longstanding presence in the Greek market, has significantly contributed to the development of considerable top-of-mind awareness and brand equity among affluent Greek

consumers. Notably, ADS plays a vital role in the Greek fashion retail ecosystem, acting as the **exclusive domestic partner for numerous global designer brands and luxury cosmetics**. Furthermore, its supplier relationships enable the operation of a **consignment business model, with 65% of inventory contracted via a right-to-return** agreement. This effectively **reduces inventory risk and working capital intensity**, which **benefits the stability of the company's gross margin and the underlying return on capital**.

Going forward, ADS is expected to achieve annual earnings growth rates of approximately 6-7% over the medium term. On the one hand, this would be driven by idiosyncratic measures aimed at boosting the topline, such as expanding sales area and enhancing sales per square meter on the back of improved product assortment as well as a growing e-Commerce sales share. On the other hand, sustained growth in the discretionary spending capacity of Greek consumers, supported by continued positive macroeconomic trends in Greece's economy, is expected to provide a macro tailwind. Regarding the latter, **the state of Greece's retail sales cycle differs significantly from many parts of the world**. Overall retail turnover only rebounded to 2011 levels in 2022, following a decline of over 20% during years of economic crisis. Specifically, retail turnover through the department store channel remains approximately 40% below 2011 levels, despite showing signs of sustained recovery from the low point experienced during the pandemic in 2020.

In summary, we believe that Ideal possesses a portfolio of fundamentally solid underlying assets with a clear trajectory toward increasing earnings power at appealing rates over the medium term. With confidence in the quality of management and their adeptness in capital allocation, we wouldn't be surprised if our expectations for intrinsic value per share growth were surpassed. This could result from finding smart ways to augment organic growth with inorganic opportunities and the willingness to opportunistically buy back shares.

Our fund acquired shares in Ideal in May 2023 at a P/E ratio of 8.3x. At the time, we thought the company was flying under the radar and we think it still doesn't get much attention. **Between our purchase and the end of 2023, Ideal's share price rose by around 30%**, primarily due to organic and inorganic growth in the overall earnings power of the operating units. T**he strong fundamental performance has meant that the relative valuation levels remain undemanding** despite the price increase with a **forward P/E of 9**x at the end of 2023.

GEK Terna – 4,6% of Equity Portfolio (Year End 2023)

GEK Terna (GEK) operates as a **vertically integrated infrastructure platform in Greece**, focusing on the development and operation of infrastructure assets in the areas of (road) transport and energy.

Over the past 25 years, GEK has endeavored to diversify the company's revenue base and develop new business areas to reduce its dependence on the legacy business in complex, large-scale construction projects. This began in 1997 with the establishment of Terna Energy as an independent branch focusing on renewable energy. This was followed by the entry into the conventional energy sector with the commissioning of the open cycle gas turbine (OCGT) Heron I in 2004. Finally, Terna became an infrastructure concession operator in 2007-2008 with the start of construction of the Nea, Kentriki, and Olympia Odos highways. Over time, GEK continued to invest in these new business areas, with the result that the **non-construction business most recently accounted for 63% of sales and 77% of operating profit** (TTM as at 3Q23).

The group's current **portfolio includes interests in a variety of landmark assets critical to Greece's daily life and economy**. These assets include the largest motorway network with a length of over 1600 km (including the contribution from recently acquired concessions from 2024), an economic interest in the largest domestic renewable energy platform with an installed capacity of around 1.2 in operation as well as further 1 GW under construction (via a 37% stake in the listed company Terna Energy), and lastly a conventional energy generation and electricity supply/trading division, which is Greece's second-largest independent power producer. To illustrate the highly strategic nature of the Group's assets, **it operates 70% of the total length of the Greek motorway network, approximately 25% of installed wind power capacity in Greece, and 8% of conventional power generation capacity**. The following exhibit shows the geographic distribution of the transportation and energy infrastructure assets operated by GEK.

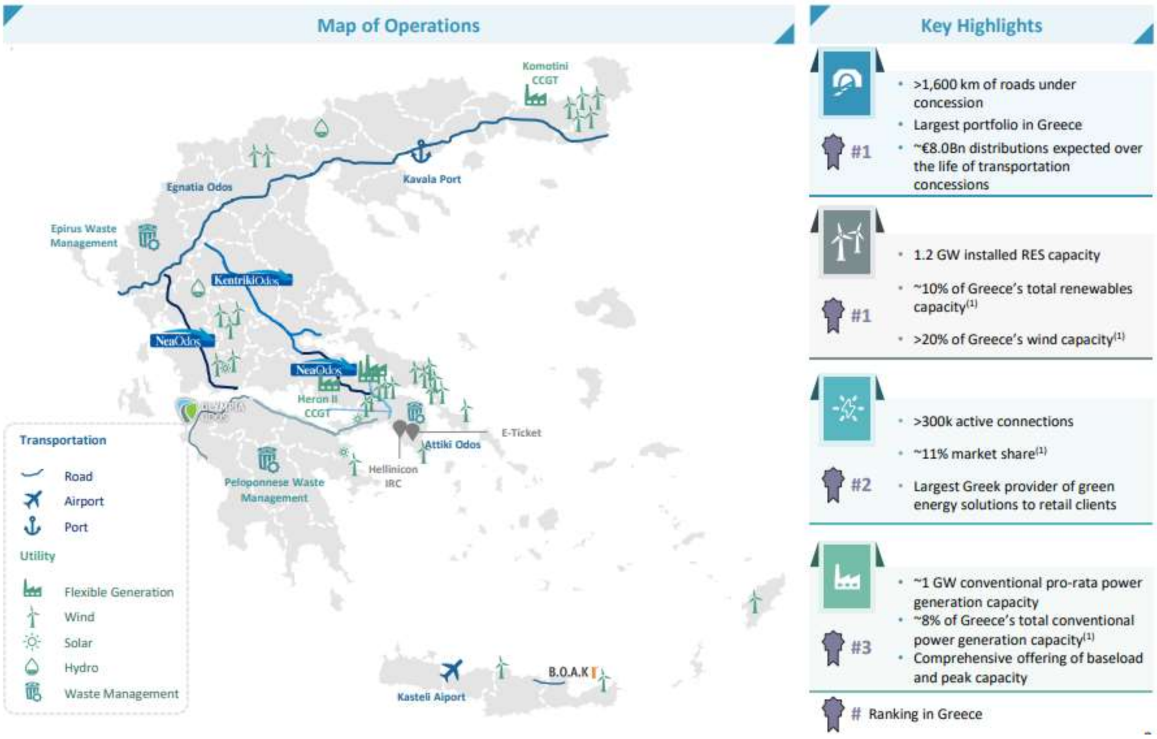


Figure 12: GEK Terna Investor Presentation, December 2023.

The group's **most valuable parts are the long-lived infrastructure concessions portfolio** (most concessions expire after 2044) **and the renewable energy platform**. Both businesses are characterized by **highly visible** (100% of energy sales under favorable PPAs, >15 years PPA life) and **recurring revenue streams**. As per 9M23, these two divisions accounted for 55% of the Group's normalized EBITDA, showing that they **have become the main determinants of the company's profitability**.

In recent years, GEK has invested significantly in its concession portfolio and acquired two new major motorway concessions, Egnatia (75% stake) and Attiki Odos (100% stake), more than doubling the original motorway portfolio in terms of length. At the same time, the company acquired significant, albeit non-controlling, stakes in the new Kasteli Airport on Crete (33%), which is currently under construction, and in the Hellinikon Integrated Resort Casino (49%), a JV with Hard Rock International with construction commencing in December 2023.

With the individual new concessions starting to contribute to Group earnings at different points between 2024 and 2027 and considering the ongoing expansion of installed capacity at Terna Energy, GEK expects to double its EBITDA to over 1bn EUR between 2023 and 2028/2029.

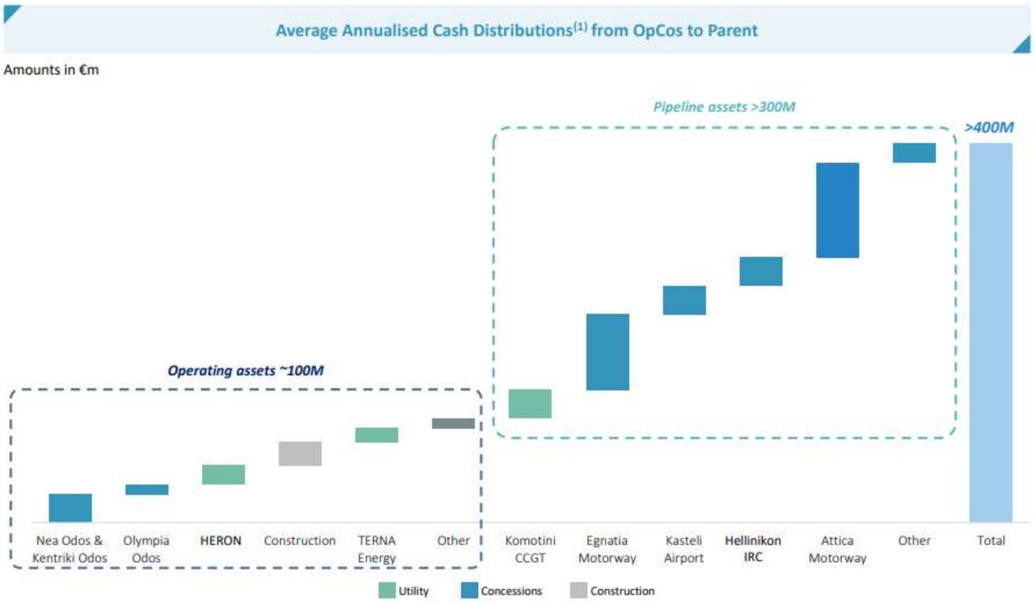


Figure 13: GEK Terna Investor Presentation, December 2023.

As shown in the prior exhibit, the company expects its operating assets to deliver more than EUR 400 million in annual cash distributions to the parent company in the medium term. Adjusted for our estimate of future debt service at holding level and taxes, this should result in a free cash flow potential of over 250m EUR in 5 years, which compares to a market capitalization of just over EUR 1.2bn at the end of 2023.

This leads to the question of why the market doesn't seem to assign much value to GEK's medium-term earnings growth trajectory. We think there are three reasons.

Firstly, patience is required. An investor would have to wait about 5 years for the distributable cash flow to rise to a level equivalent to +20% of the current market capitalization. Most investors don't have such a long-time horizon and abstain from committing multiple years to a single investment. Second, GEK's financials and capital structure are not straightforward due to the different nature of its assets and the fact that Terna Energy's financials are fully consolidated even though it does not hold a controlling interest. Thirdly, the purchase prices for the Attiki and Egnatia concessions will come due in 2024, which will lead to a significant temporary increase in leverage. We think Net Debt/EBITDA could peak at 8-9x at the end of 2024, which is indeed scary. To us, the latter seems to be the key reason why many investors remain on the sidelines and take a wait-and-see approach.

How do we think about these three concerns? We are fine taking a longer-term view, we think that the complexity issue will likely be resolved through corporate actions over time, and the temporary increase in debt is unlikely to bring GEK to its knees. Taking a closer look, the expected increase in leverage is less of an existential threat to equity holders than it seems at first glance. The financing has been already secured, most of the new debt comes in the form of non-recourse project financing and the interest rate risk is hedged both by swaps and by clauses in the concession agreements. With earnings contributions from recent growth investments set to increase starting in 2025, leverage is expected to decline. Achieving a Net Debt/EBITDA ratio of less than 4x within the next 5 years seems feasible, which would represent an acceptable level of indebtedness for a company essentially operating as a pure-play infrastructure business from an earnings perspective at that point. Additionally, GEK is asset-rich and could readily raise significant amounts of cash by selling minority stakes in several concessions if the company itself starts feeling uncomfortable about the debt burden.

All in all, we believe the setup offers a favorable risk/return profile over a +5-year time horizon, which led us to establish a position in GEK at a price level of around EUR 12 per share in May 2023. **While there's undoubtedly execution and financial risk related to the development of the company's concession pipeline, we think that the margin of safety level at the time of our purchase compensates us well for accepting these risks**. Even excluding any contribution of recent growth investments, we estimate that the business in its current shape is worth more than 22 EUR per share (sum-of-the-parts approach), implying a +45% margin of safety compared to our purchase price. In addition, **we find it reassuring that GEK is run by an experienced owner-operator with a strong capital allocation track record and a 34% stake in the company**. Mr. Peristeris knows what the company is worth and has a **significant financial incentive to execute**. Hence, **we wouldn't rule out portfolio simplification as a near-term catalyst, considering recent rumors that GEK might be in discussions with interested parties regarding the divestment of its conventional energy assets and/or its remaining stake in the renewable energy unit**. Terna Energy, being the largest wind power producer in Greece and possessing a portfolio of strategically advantageous locations with long-term PPAs, is a prime asset in its field. In 2022, there was interest from private equity infrastructure funds in acquiring Terna Energy, but the deal fell through due to changing financing conditions. We believe it is unlikely that GEK would consider a deal that values Terna Energy at less than 2.5bn EUR, implying a value of its stake in the company of over 900m EUR. This valuation is in line with the previously rumored non-binding offer from a private equity firm.

Investment Approach

Philosophy

Our objective is to compound capital at superior rates of return over the long run by rigorously applying intrinsic value investing principles. For us, capital preservation is as important as return potential, which is reflected in the disciplined adherence to the margin of safety concept. In our view, the only sensible way as an equity investor to protect against unexpected negative outcomes is to require a significant discount to a reasonable estimate of a company's fundamental value across a continuum of outcomes that could reasonably be expected at the time of investment. Through this line of thinking, we sharpen our focus on optimizing for risk-adjusted returns while targeting an aspirational return goal of at least 15% annualized gross returns (in EUR) over rolling 5-year periods.

While we are conscious of the significance and informative value of entry valuations, we refrain from engaging in style box thinking or looking at the world from the perspective of the value-growth dichotomy. Instead, we adopt the perspective of astute businesspeople when making investment decisions. In this context, we seek to invest in undervalued businesses with robust cash-generation capabilities, comprehensible business models, and adequate competitive strength. Naturally, we prefer companies that exhibit these fundamental characteristics and can reinvest internally generated excess cash at incremental rates of return that increase underlying intrinsic business value over time, ideally at a rate that is at least in line with the long-term historical growth in aggregate stock market earnings.

Conventional wisdom suggests that there are two primary avenues to outperform the market. Either by acquiring a cash flow stream at a significant discount to its present value or by paying the typical market valuation for a cash flow stream that grows faster than the market and what consensus anticipates. We try to identify investment opportunities at the crossroads of the two approaches, seeking to acquire ownership interests in businesses that demonstrate above-average earnings growth potential while being available for purchase at below-average entry valuations. In this case, the value investor's search for “bargains” manifests in purchasing shares of businesses with growing cash flows without paying up for the underlying growth.

Implementation

We aim to attain our investment goals by discretionary construction of a portfolio of equity securities from issuers located and/or primarily operating in Central and Eastern European, Central Asian, Middle Eastern, and North African markets.[2]

Independent, bottom-up fundamental research is used to identify and invest in what we believe are the most attractive risk-adjusted return opportunities. The decision to select this particular equity market universe was based on three key reasons, which suggested to us that underlying market characteristics provide a good fit for our investment approach:

[2] As per year-end 2023, our investable universe was composed of the following country equity markets:
Austria, Bulgaria, Croatia, Cyprus, Czech Republic, Egypt, Estonia, Georgia, Greece, Hungary, Israel, Kazakhstan, Lithuania, Poland, Romania, Serbia, Slovenia, Turkey, Ukraine.

1) <u>Cheap & Out-of-Favor:</u>

When the fund was launched, the investable universe was trading at remarkably low valuations. In aggregate terms around 7x forward P/E. Depressed starting valuations were the consequence of most equity markets in the universe experiencing lackluster returns for much of the 2010s period, despite reasonable development of underlying fundamentals. This prolonged period of underperformance created a vicious cycle characterized by net outflows, declining liquidity, and multi-year relative valuation compression. In the period leading up to the inception of our fund, many of the individual country equity markets were trading at their historic valuation lows.

2) <u>Underappreciated economic development:</u>

Most of the economies in our universe, especially the core Eastern Europe part of it, have been amongst the fastest-growing economic regions in the 2010s period. The economic cluster of economies in our universe has a significant population of more than 230 million people and a GDP/capita level that has catch-up potential, with further convergence towards developed market levels likely in the long term. At the same time, the debt levels of the countries in this universe are relatively low compared to most developed countries and they have developed increasing fiscal discipline following the 2008/2009 financial crisis, which has contributed to greater economic resilience.

3) <u>Prevailing conditions for increased market inefficiency:</u>

For many investors, the equity markets within our investable universe have taken a back seat due to excessive relative underperformance since the 2008/2009 financial crisis. Reduced investor interest has led to a reduction in equity research coverage by investment banks. We believe these factors have created a market environment characterized by less competition among investors and a higher prevalence of market inefficiencies. As a result, price-value discrepancies may likely occur more frequently and be more pronounced. At the inception of our fund, more than 77% of the universe was covered by fewer than four analysts and 50% was covered by fewer than two. In addition, we recognized that our smaller fund size would give us greater flexibility and a competitive advantage over most other professional investors in the space. These investors often limit themselves to larger, more liquid listed companies, which tend to be lower growth and lower quality and often do not meet our investment criteria.

Our investment approach is grounded in an intrinsic value investing framework that views "value" as multifaceted, with growth being a crucial component. While we may identify compelling value across various forms and scenarios, our overarching principle is to acquire shares of publicly listed businesses at a significant discount to a conservative estimate of underlying intrinsic business value. This is reflected in our minimum requirement of a 5-year forward return potential of 15% per annum (in EUR) and a minimum margin of safety of around 30% at purchase.

The anatomy of a target investment is defined along 4 dimensions, which are defined to naturally counteract the "four horsemen" of permanent capital loss – 1) Valuation Risk, 2) Business/Earnings Risk, 3) Financial Risk, and 4) Agency Risk. Our textbook investment is characterized by the following characteristics:

1) Significant undervaluation versus a conservative estimate of business value.
2) Sound, time-tested business model with a clear value proposition and low obsolescence risk.

3) Appropriate financial strength through a conservative balance sheet that enhances antifragility.
4) Management with aligned interests, preferably through financially meaningful stock ownership.

Achieving excellence across all four dimensions simultaneously is unrealistic, leading to inevitable trade-offs. The essence is that the individual parts of the portfolio are complementary, allowing the portfolio to score well on all 4 dimensions. Adhering to one of our main principles of "winning by not losing," dimensions 2) and 3) naturally assume relatively greater importance over the others at the portfolio level.

As a cornerstone of our portfolio composition, we aim to acquire ownership interests in good businesses that are capable of compounding intrinsic value at attractive rates over time. To avoid succumbing to the "man with a hammer syndrome," the first investment category will be complemented with special situation type investments and (deep) value stocks. These three investment categories also form the foundation of a bucketing scheme that we utilize to monitor portfolio allocation over time. These buckets are termed “Core”, “Opportunistic”, and “Special Situations”. This method of tracking portfolio allocation differs from the usual top-down approaches and emphasizes the fact that our portfolio design is driven by bottom-up stock selection.

In terms of portfolio construction, we are also embracing some guiding principles:

1) Fish where the fish are:

In practice, this means that we mainly operate in the small and mid-cap space as there is less competition, less analyst coverage, and a greater chance that we will come across little noticed or misunderstood opportunities. In addition, we like to get involved in markets or sectors that appear controversial at any given time, regardless of the market capitalization of the opportunity. Areas that are out of favor usually provide a promising backdrop to identify significant price-value dislocations.

2) Thoughtful contrarianism:

If we own the same things as others, we cannot achieve above-average results in the long term. We try to stand out from the crowd when the potential benefits in terms of expected return seem compelling. In such situations, we are prepared to choose an above-average investment horizon of up to 5 years or more. We believe that longer-term thinking gives us a behavioral advantage because in an increasingly short-term oriented world, fewer and fewer investors are operating with a time horizon of more than 24 months.

3) Avoid dumb mistakes:

We agree with Benjamin Graham that the preservation of capital should be the top priority. We therefore limit our exposure to situations where there is a significant risk of suffering a serious permanent loss of capital in a not unlikely event. These situations are usually associated with excessive debt, doubtful corporate insiders, or unstable and/or structurally declining companies.

4) Concentrate, but not excessively:

Empirical research shows that a portfolio of around 25 unrelated stocks is sufficient to achieve most diversification benefits. In addition, the manager's alpha decreases on average once the portfolio breadth exceeds 30 stocks. Although we aim for a more concentrated portfolio compared to many of our peers, we will not reduce the portfolio breadth below 20 stocks. At the upper end, we see 30 stocks as a reasonable limit. This decision is influenced by the fact that we are mainly active in emerging markets, where less stable economic and political structures can increase the likelihood and severity of the impact of unexpected negative developments. Therefore, we believe that an appropriate level of diversification is critical to enhance our ability to stay in the game. After all, "if you want to finish first, you have to finish first".

Implementing these principles will result in a portfolio that typically holds no more than 30 stocks and exhibits a below-average turnover profile.

In terms of position sizing, any holding may qualify for a small, medium, and large position, which correlates with target position weights of 2%, 4%, and 6% respectively. The size of the positions is determined using a ranking methodology that considers the undervaluation/return potential, the fundamental quality of the underlying business model, the operational capabilities and capital allocation skill of the management, and the degree of alignment of incentives between insiders and minority shareholders. As far as the maximum position size is concerned, an upper limit of 10% applies. To avoid unnecessary trading costs, we allow some natural drift around the target weight (up to 50% deviation) and control rebalancing requirements on a semi-annual level. The fund's cash position is a residual of bottom-up investment activity.

In terms of selling process, we will exit a position when one of the following 3 triggers occurs:

1) The stock price closes the gap to our estimate of intrinsic value.
2) Fundamental developments and/or other new information lead to the conclusion that the investment thesis has been compromised, resulting in an unfavorable change to the original intrinsic value estimate.
3) Better investment opportunities arise and the liquidation of an existing position finances the initiation of a new, more promising portfolio holding.