Poised for growth

Dear fellow investors,

We've seen largely quite positive results from reporting season in stark contrast to dire headlines coming out of finance news. SolarEdge reported strong demand (52% growth year on year (YoY)) with early signs of declining prices of raw materials. Adyen, a bellwether of global merchant volumes in the developed world, saw strong growth in-line with previous years (37% YoY) as did dLocal, which processes merchant payments in emerging markets (71% YoY). Every company in our portfolio grew revenues >25% over last year. The biggest fear regarding the economic outlook has proven so far to be fear itself with two of our holdings, Upstart (now sold) and Doximity (revenue up 25% YoY) affected by a contraction in investment out of concern of an impending economic downturn.

In this newsletter:

- We're seeing opportunities
- Global embrace of renewables accelerates with urgency
- Sale of Upstart
- Q2 company updates

We're seeing opportunities

A small number of quality opportunities have recently presented themselves with the market downturn providing some attractive valuations for companies we have been watching for some time. Over the past 6 years we have maintained a highly concentrated portfolio of between 7-9 stocks. This has typically been due to a lack of high quality opportunities at fair prices. We would see benefit in operating the portfolio in the 10 to 12 stock range as this would greatly reduce volatility. However, diversification can't come at the expense of quality which would have the exact opposite of the intended effect.

Global political will embraces renewables

Growing demand backed by strengthened political will for clean energy presents strong tailwinds for approximately 35% of our portfolio. For example, the US's Inflation Reduction Act of 2022, passed in August, aims to install 950 million solar panels by 2030 and is replete with incentives for facilitating renewable energy adoption[1] . This act is said to be delivering the largest investment in climate action in U.S. history which will benefit our holding in SolarEdge. Similarly, India, a market where SolarEdge is seeing strong momentum for its products, has set an ambitious target to achieve capacity of 175 GW's of renewable energy by the end of 2022, which expands to 500 GW by 2030[2]. This is the world's largest expansion plan in renewable energy. Furthermore, high fossil fuel prices in the wake of the Russia-Ukraine war has further emphasised the need for energy resilience and sped up renewable energy uptake worldwide, particularly in Europe.[3] SolarEdge and Alfen have been benefiting from this opportunity as evidenced by 52% YoY and 78% YoY growth in revenues respectively.

Sale of Upstart

A dramatic change in management strategy leaves the future of the company unknowable. This means we cannot analyse the company to a point where we can place a high probability on the outcomes of the new direction. For this reason we have exited our position. See more below.

For performance of the portfolio please click here.

I'm also pleased to report that Blue Oceans Capital was named amongst RIAA's Responsible Investment Leaders of 2022.

[1] The White House (2022). BY THE NUMBERS: The Inflation Reduction Act - The White House. [online] https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/15/by-the-numbers-the-inflation-reduction-act/ [Accessed 29 Aug. 2022].

[2] Investindia.gov.in. (2019). Invest India. [online] Available at: https://www.investindia.gov.in/sector/renewable-energy [Accessed 29 Aug. 2022].

[3] Unctad.org. (2022). Global impact of war in Ukraine: Energy crisis | UNCTAD. [online] Available at: https://unctad.org/webflyer/global-impact-war-ukraine-energy-crisis#:~:text=Disruptions%20to%20the%20global%20energy,poverty%3B%20and%20increasing%20social%20unrest. [Accessed 29 Aug. 2022].

Company Updates

Note:

1. **The following list is in order of portfolio weightings.**
2. **Two of our core investment tenets are growth rates in revenue and return on invested capital (ROIC*). Statistics for both of these and other core financials are listed in the snapshot at the beginning of each company.**

*We calculate ROIC as cash flow from operations divided by average invested capital over the last financial year.

SolarEdge

Snapshot

- Revenue up 52% year on year
- ROIC: 6.12%
- Cash on hand: $895.8 million including Current Marketable Securities
- Long-term debt: $622.9 million (Convertible Senior Notes)
- Political will embraces renewables with urgent demand out of Europe and the US passing the Inflation Reduction act which targets massive renewables expansion.
- Temporary margin suppression resulting from Shanghai lockdown and EUR vs USD erosion.
- Demand greater than supply however significant manufacturing capacity coming online in this half of the year.
- Currently looking for opportunities to deploy large cash reserves.

SolarEdge pushes the frontiers of global energy sustainability through its production of solar energy systems for use in residential and commercial applications, as well as non-solar products in North America, Europe and other international markets. The Company's solar energy products include photovoltaic inverters, a Web portal for module-level monitoring and fault detection, battery back-up and solar based EV chargers. The non-solar segment comprises e-mobility and energy storage.

SolarEdge wins because of its industry leading technology coupled with a reputation for being reliable.

Substantial gains in revenue

SolarEdge reached new heights in the second quarter of FY22 with revenues of $727.8 million. Revenue was up 52% year-on-year from $480.1 million and up 11% quarter-on-quarter from $655.1 million in the prior quarter. This included record revenues of $687.6 million from the solar segment and $40.2 million from their non-solar businesses, most of which came from their e-Mobility division (see chart 1 below). US and Europe represented 45% and 47% of solar revenues respectively in the June quarter which has exposed the company to negative foreign exchange (FX) effects during the period as described further below.

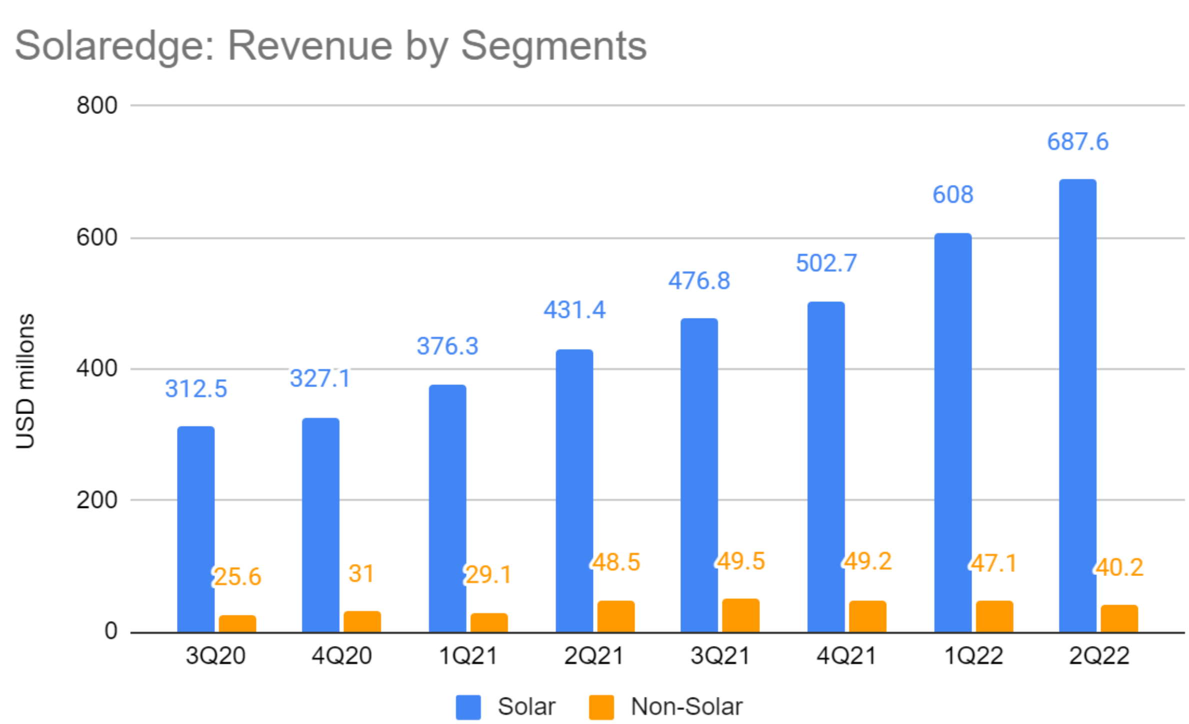

Chart 1. SolarEdge's quarterly revenue by segments from Q3 FY20 to Q2 FY22[4]

SolarEdge shipped 5.2 million power optimisers this quarter, down from 5.7 million last quarter and 228 thousand inverters up from 211 thousand inverters last quarter (see charts 2 & 3 below). The lower numbers were mainly due to the extended Covid 19 lockdown in Shanghai which impacted a supplier's backend manufacturing facility of a set of components and halted production for three weeks. The hold up also impacted their opening inventory for the third quarter necessitating expedited shipments to enable customer installations to take place as scheduled. These expensive air shipments subsequently impacted gross margins.

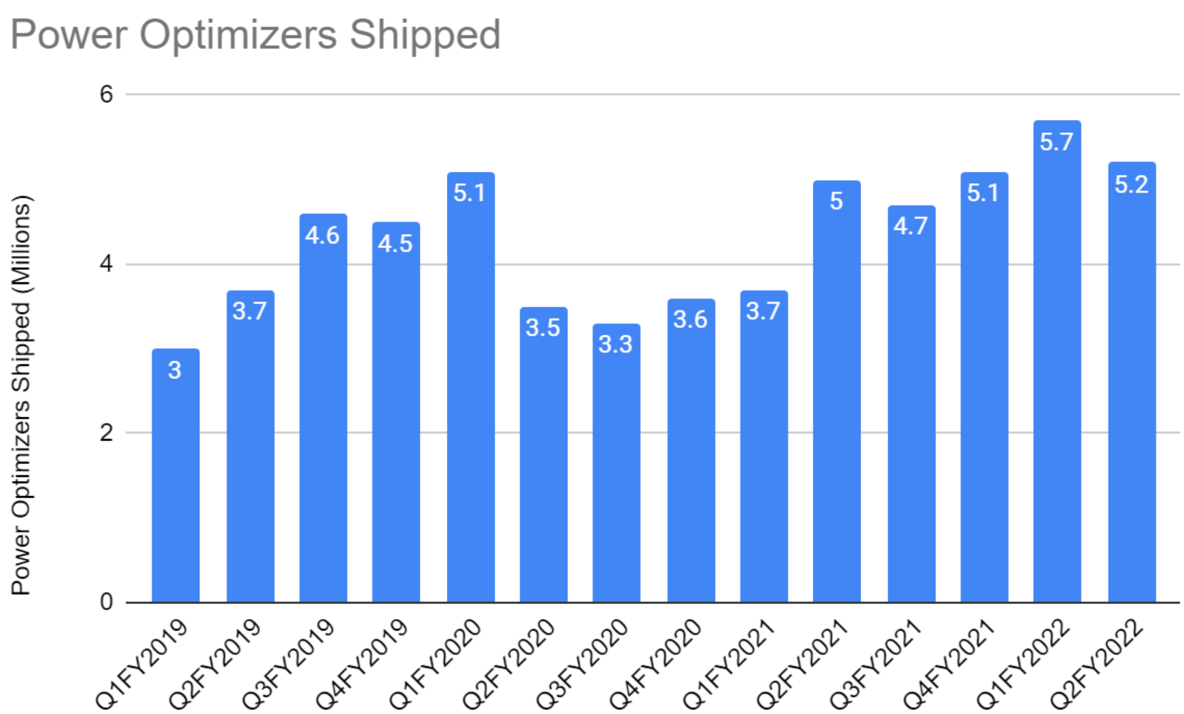

Chart 2. SolarEdge power optimizers shipments from Q1 FY19 to Q2 FY22.[5]

[4] SolarEdge quarterly reports
[5] SolarEdge Quarterly reports

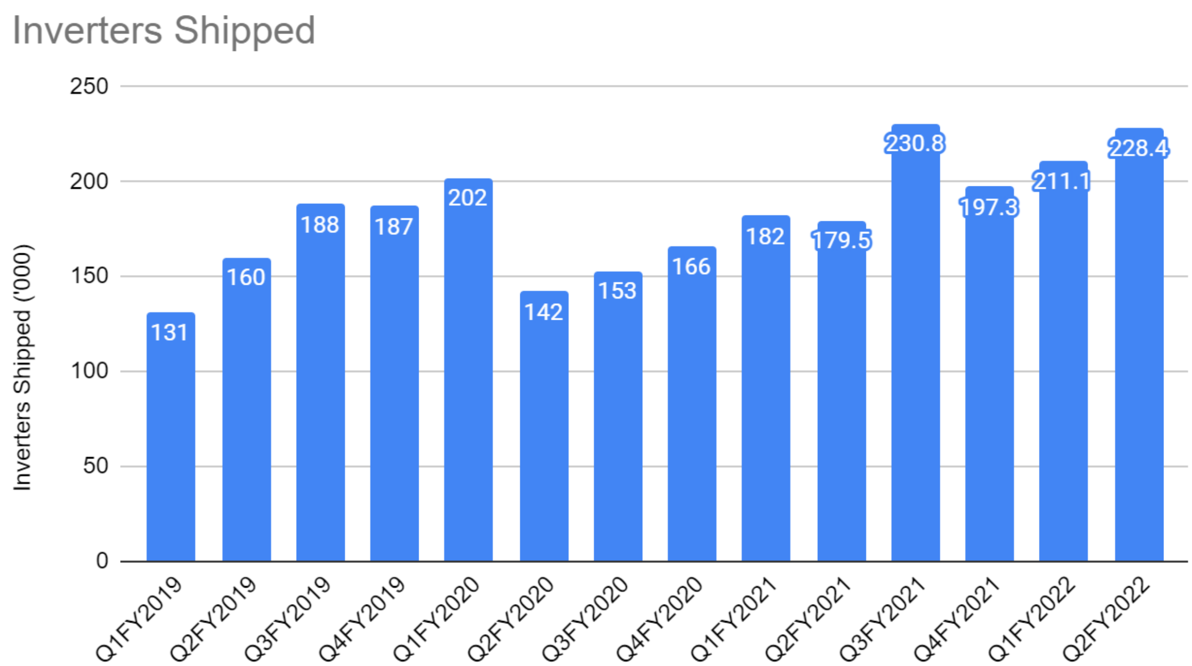

Chart 3. SolarEdge Inverters shipments from Q1 FY19 to Q2 FY22.[6]

Temporary margin suppression

Consolidated GAAP Gross margin for the quarter was 25.1%, down from 27.3% in the prior quarter and 32.5% in the same quarter last year. GAAP margin for the solar segment decreased to 26.7%, down from 28.4% in the prior quarter and down from 33.9% in the corresponding quarter last year. The decline quarter-over-quarter was due to more battery revenue in their overall product mix, euro to dollar erosion, commercial sales being a higher portion of revenue than the last quarter and expedited shipments. With sales in Europe typically denominated in Euros, the devaluation of the Euro negatively impacted gross margin. The impact of the Euro devaluation (see chart 5) translated to revenue being reduced by $18 million and gross margin by 240 basis points.

[6] SolarEdge quarterly reports

Chart 4. Euro's loss of value against USD from March 1 to August 28 (WSJ Markets)

Note: SolarEdge looks for business that maximises total revenues and net income, not gross margins. This maximises earnings per share which is aligned with optimising total shareholder returns.

Strong demand for residential batteries

Sales of residential batteries, launched in October, 2021, continued to see rapid gains (see chart 5). Of batteries that were shipped this quarter, 75% were to Europe, 21% went to the United States and 4% went to the rest of the world (mostly Australia). SolarEdge batteries are currently sold in 12 countries with first shipments and installations in South Africa this quarter.

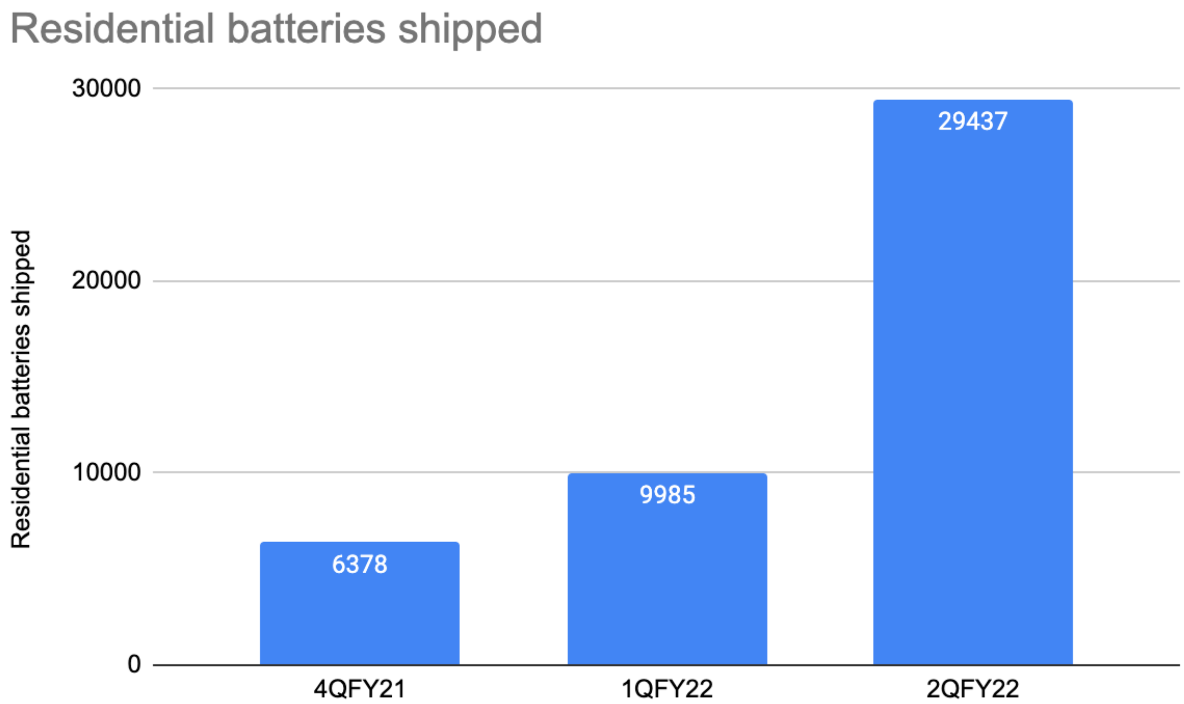

Chart 5. Growth in the number of residential batteries shipped

The company began shipments for the new three-phase SolarEdge Home battery designed for the German market and other three-phase European markets this quarter. They also ramped up production of the 11.4 kilowatt inverter released a couple of quarters ago in the U.S. and released a 10-kilowatt inverter designated for the Australian market this quarter. Demand for residential batteries in the US has been further boosted as the gap between power demand and supply continues to result in more power outages[7].

New Development in floating PV

SolarEdge recently commissioned a 13-megawatt floating system in Taiwan and began initial installation of their new power optimizer which enables connection to two high-power G-12 modules to a single optimizer significantly reducing costs per watt while ensuring full utilisation of the power generated by the modules.

[7] Marsh, R. (2022). How extreme weather could cause the US power grid to buckle. [online] CNN. Available at: https://edition.cnn.com/2022/05/31/us/power-outages-electric-grid-climate-change/index.html

Taiwan's Wushantou Dam to host 13.7 MW floating PV array using components from SolarEdge. Image: Scorta.

Demand greater than supply

The company has emphasised several times that the demand for its products is progressing at a higher rate than its ability to add capacity. There are several manufacturing capacities online in the coming quarters.

The contract manufacturing facility in Mexico for power optimisers and inverters continues to expand and by Q4 100% of the US residential US shipments will be from this facility. Shipments from Mexico will improve gross margins by reducing logistics costs and eliminating tariffs.

In its European factory, the company continues to increase its battery manufacturing capacity, but inverter and optimizer capacity will be increased in Europe in the second phase. Increasing the European battery production capacity is particularly important to meet the growing demand for residential batteries because the lithium ion cells produced in Sella-2 in Korea are shipped to the European facility for assembling SolarEdges's residential batteries.

The company's 2GWh Li-Ion cell factory in Korea called Sella-2 is expected to begin production during the second half of 2022. As discussed in the February update, the facility is planned to manufacture battery cells for SolarEdge's rapidly growing residential solar-attached batteries as well as battery cells for a variety of industries and is expected to begin operations in Q3 and ramp to 250 mWh of production by Q4.

Adyen

Snapshot

- Revenues up 37% year on year
- ROIC: 27.81%
- Cash: €5.6 billion
- Long-term debt: NIL
- Margins return to pre covid levels due to travel costs
- Unaffected by economic turmoil in Europe
- Continued innovation with new point of sale terminals and iPhone contactless payments.
- Sees significant opportunity to better serve small businesses than banks.

Adyen is a Netherlands-based omnichannel end-to-end payment processing company that provides merchants, platforms, and marketplaces multiple ways to accept payments on a single platform with embedded fraud protection and compliance services. The company creates social sustainability by enabling safer, faster, and cheaper finance for global consumers.

Adyen wins because of its ability to provide a seamless online to offline commerce experience, solving complexity for merchants like no other.

Adyen reported another strong half with processing volume increasing 60% year-on-year to €345.8 billion (chart 6). This led to a 37% increase in Net revenue to €608.5 million. EBITDA for the first half of FY22 was €356 million, up 31% year on year, and EBITDA margin was 59%.

Note: Revenue does not match processing volume growth due to Adyen's tiered pricing (Adyen rewards Merchant's bringing in more volume over time with lower prices per transaction).

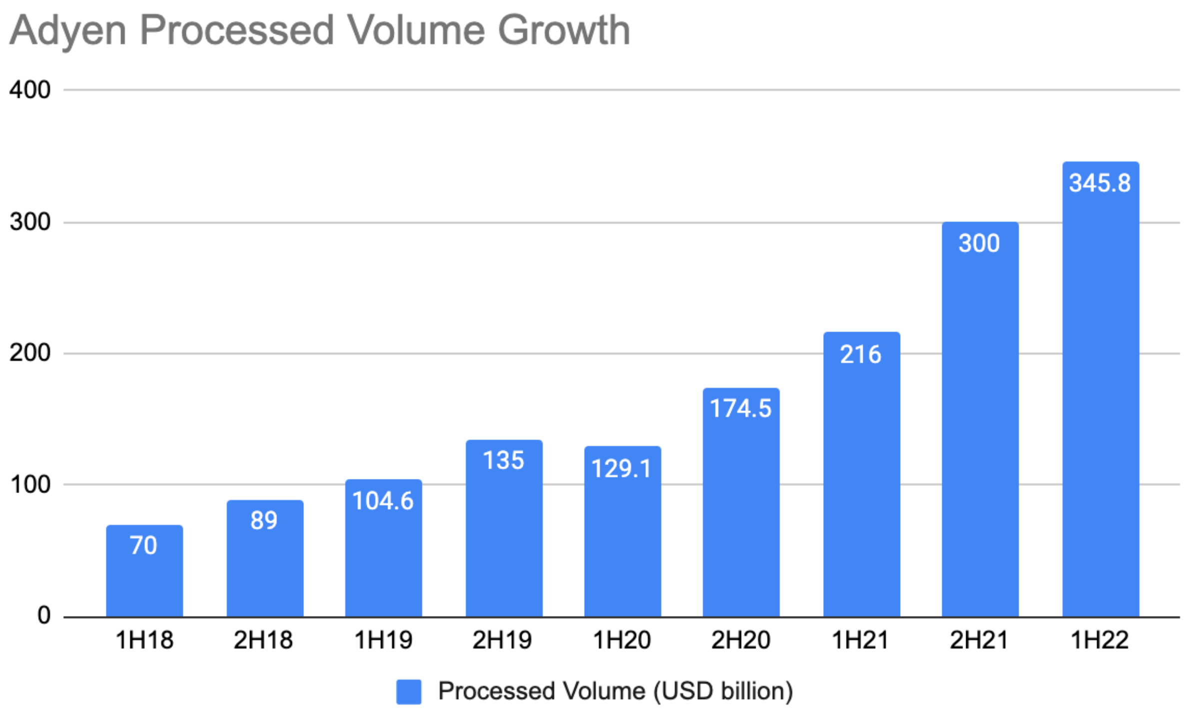

Chart 6. Adyen processed volume from 2018 to 2022.

EBITDA margin declined to 59% from 64% in H2 FY21 largely due to a return of travel costs, though is still higher than pre-Covid levels (see chart 7 below). With travel restrictions lifted, travel and event costs returned as Adyen staff met customers and colleagues in person again. Adyen's commitment of 1% to the United Nations Sustainable Development Goals further decreased its EBITDA margin.

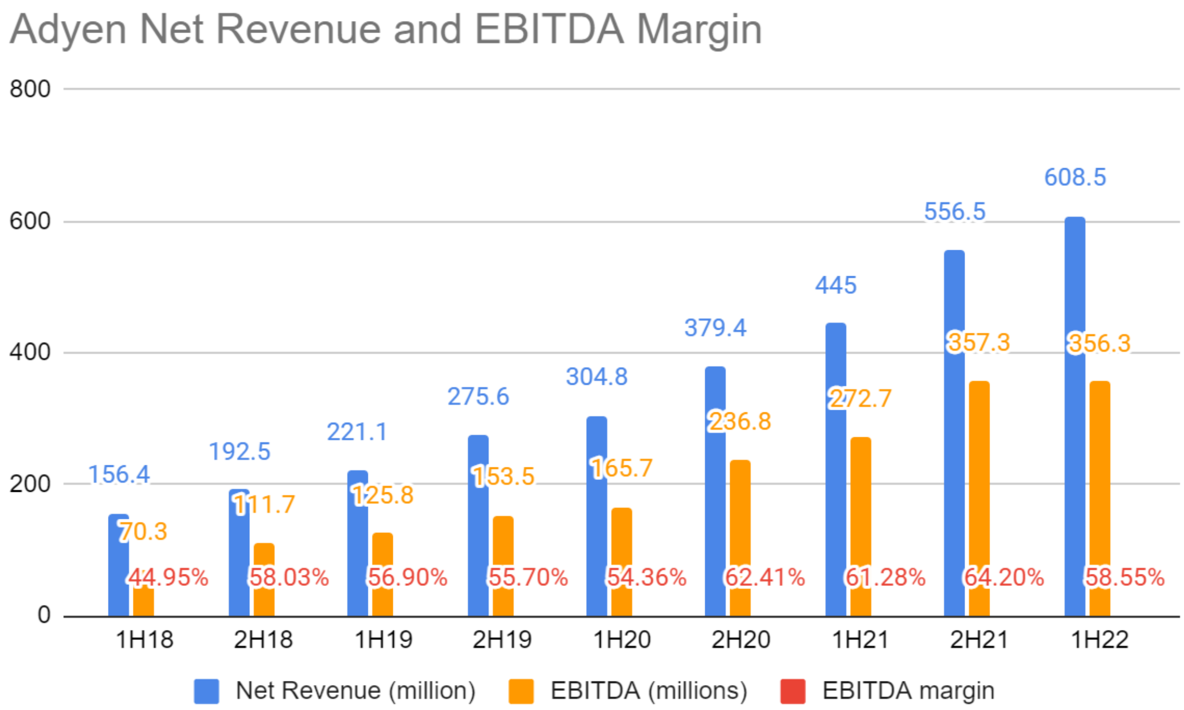

Chart 7. Adyen Net Revenue and EBITDA margin from 2018 to 2022

Unaffected by economic turmoil in Europe

Even amongst significant inflationary pressures across Europe, in which 57% of Adyen's business comes from, the company continued to perform exceptionally. Revenue continues to grow organically (see chart 7 above) with customers already on the platform contributing to over 80% of volume growth and customer churn remaining below 1%.

Continued innovation

Point-of-sale (POS) devices posted a similar growth rate as in the second half of FY21, growing at 97% to €44.9 billion and making up 13% of the total processed volumes. To further capitalise on significant traction in Unified Commerce (online to offline), Adyen continued its investment in in-store payments launching the first models of their in-house developed POS terminal range. This enables them to set the pace of innovation and facilitate end-to-end control at the point of sale further differentiating their offering. The range currently includes two portable, lightweight devices: an add-on card reader that can be attached to a smartphone or tablet, and an all-in-one Android terminal that allows for running a broader software suite on the same device enabling a wide range of mobile use cases.

Adyen's new POS terminal. Image: Fintech.

Adyen also rolled out 'Tap to Pay' on iPhone in collaboration with Apple during the first half of the year. This allows merchants to accept contactless payments on iPhones with no extra terminals or hardware required.

Significant opportunity to better serve small and medium sized businesses (SMBs)

Adyen is currently gearing up to offer an SMB banking service. SMBs have been traditionally underserved by financial institutions. With Adyen's immense capabilities in technology and banking licences they are well positioned to move into the SMB market with a banking-as-a-service model. This would offer business financing, card issuing, and bank accounts via a single integration. Adyen already has these merchants in their ecosystem through their point of sale terminals and so there is a tremendous opportunity to expand these existing relationships by offering SMB merchants a better banking service.

Paycom

Snapshot

- Revenue up 31% year on year
- ROIC: 24.08%
- Cash position: $279 million
- Long-term debt: $29 million
- Raised full year guidance to $1.354 billion to $1.356 billion or 28% year-over-year growth at the midpoint

Paycom offers cloud-based payroll and human resource management (HRM) software solutions delivered as Software-as-a-Service for big and small companies. They offer functionality and data analytics needed by businesses to manage the complete employment life cycle from recruitment to retirement and make for a seamless user experience. Their services include Payroll, Talent Acquisition, Talent Management and Time and Labour Management. Paycom pushes sustainability forward as it significantly reduces the burden of HRM freeing up capital and talent to pursue higher order problems while increasing employee satisfaction.

Paycom wins because it allows employees to process payroll themselves greatly reducing the cost and complexity of HR.

Revenue up 31% year on year

Paycom delivered strong results in the second quarter of FY22 with revenues of $317 million, up 31% from the comparable prior year period. Revenue actually sequentially decreased by $36.5 million in Q2, compared to $68.5 million increase in Q1 2022. This is due to seasonality with annual processing of payroll tax filing forms and the Affordable Care Act(ACA) forms through which health coverage is reported positively impacting the company's first-quarter revenue, whereas unscheduled payroll runs (such as bonuses) positively impact fourth-quarter revenues (see chart 8 below).

Net income for the quarter amounting to $57 million decreased 37% quarter-over-quarter, and increased 1% year on year. Recurring revenues of $311.5 million increased 31.1% from the comparable prior year period, and constituted 98.3% of total revenues.

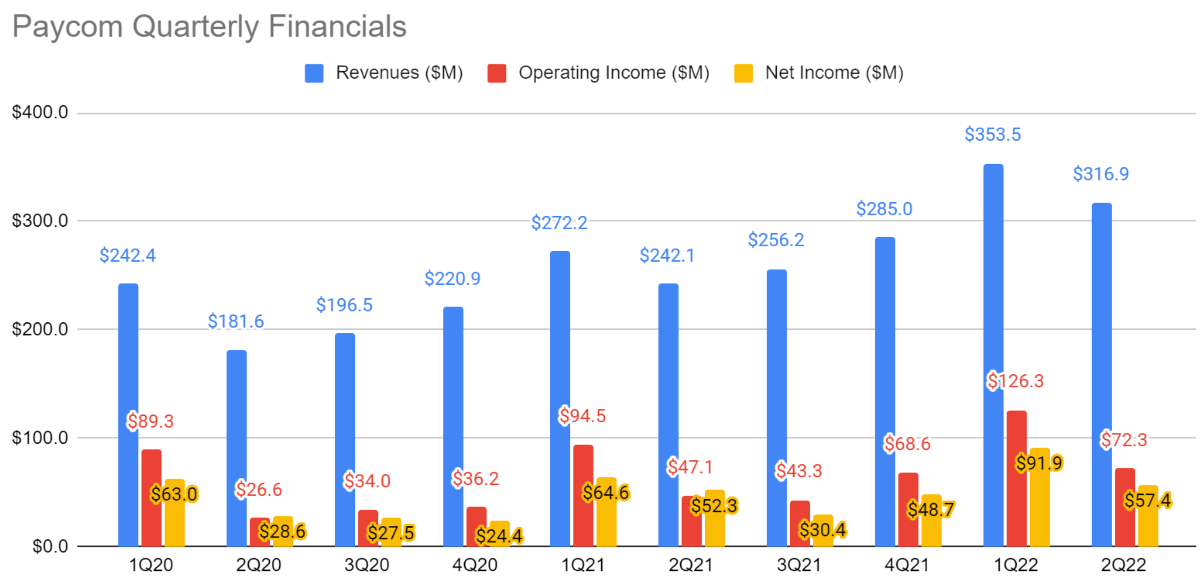

Chart 8. Quarterly Revenues, Operating Income and Net Income ($ millions)[8]

Paycom's operating margin increased from 19.5% in Q2 FY21 to 22.8% in Q2 FY22. However, net margin declined from 21.6% in Q2 FY21 to 18.1% in Q2 FY22. (see chart 9 below). The decrease in net margin was largely because the company reported USD 15.5 million in tax expenses in this quarter as compared to a tax benefit of USD 5 million in the same quarter of the previous year.

[8] Paycom Financial Exhibits (8-K reports)

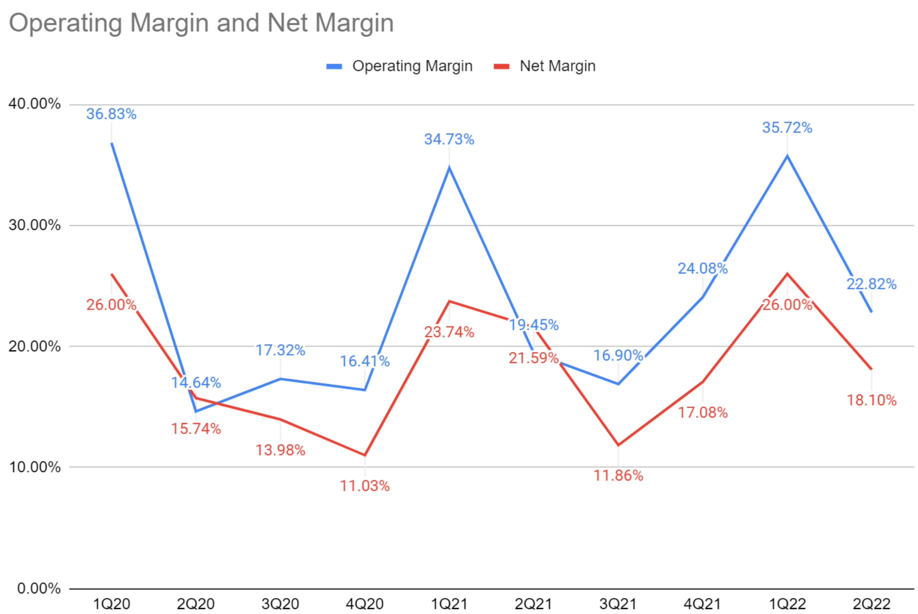

Chart 9. Quarterly Operating and Profit Margins[9]

Most of the company's revenue growth is derived from recurring revenue from new client wins while it continues to upsell to its existing clients. Paycom has only penetrated approx. 5% of its total addressable market in the United States and so has a long runway of growth to expand into.

Increase in interest income

In Q3 and Q4, the company expects to have upswings in the interest income it receives from investing client funds, due to all the federal interest rate increases up until July, these swings may be non-recurring because interest rates will not increase indefinitely, of course.

Note: Paycom holds clients funds for a short duration to be used in processing payroll and earns interest income on those amounts.

The first half has set Paycom up to deliver strong performance for the remainder of the year. They have raised their full-year guidance again to $1.354 billion to $1.356 billion or 28%

[9] Paycom Financial Exhibits (8-K reports)

year-over-year growth at the midpoint of the range from the previous full-year guidance of 26% year-over-year growth after the first quarter.

The Trade Desk

Snapshot

- Revenue growth 35% year on year.
- ROIC: 17.05%
- Cash on hand: $1.2 billion including short term investments
- Long-term debt: NIL
- Significant gains in market share
- Potential future Netflix relationship

The Trade Desk is a self-service, cloud-based platform, through which ad buyers can create, manage and optimise, in real-time, more expressive data-driven digital advertising campaigns across ad formats and channels, including display, video, audio, native and social, on a multitude of devices, such as PCs, mobile devices and connected TV. The Trade Desk pushes sustainability forward by challenging the dominance of Google and Meta to create a fairer, more transparent and protected open internet. It enables high quality free content, including journalism, by maintaining the quid pro quo of the internet, that is, viewing advertising in exchange for free content.

The Trade Desk wins because advertising can only be priced efficiently in a digitised marketplace and they have built the dominant marketplace for digital advertising inventory outside of Google and Meta (Facebook).

The Trade Desk delivered another strong quarter in Q2 2022 with robust revenue growth of 35% year-on-year. Revenue for the quarter was $377 million versus $278 million in the same quarter a year ago. The top line growth is commendable given the macroeconomic uncertainty and difficult comparison against a prior year growth rate of over 100% in Q2 of 2021. Adjusted EBITDA for the quarter was $139 million or about 37% of revenue. Operating expenses, excluding stock-based compensation, were $250 million, up 45% year-over-year (see chart 10 below).

The company reported a net loss of $19 million compared to a net profit of $47.7 million a year ago due to an increase in stock-based compensation expense from $45.2 million to $125.2 million. As of June 30 2022, the company had unrecognised stock-based compensation related to the CEO Performance Option of $530 million, which assuming no acceleration in vesting, is expected to be recognised over a weighted average period of 2.6 years. We expect this to adversely affect the company's GAAP earnings over the next few years however is dependent on stock price performance.

Note: Markets typically see through stock-based compensation adding the expense back to cash flows from operations as a non cash expense. We prefer to include this as an expense in terms of its dilutive effects weighed up against value added by the incentive. We have been reducing our overweighting as new opportunities arise. We do see exceptional financials post this CEO award.

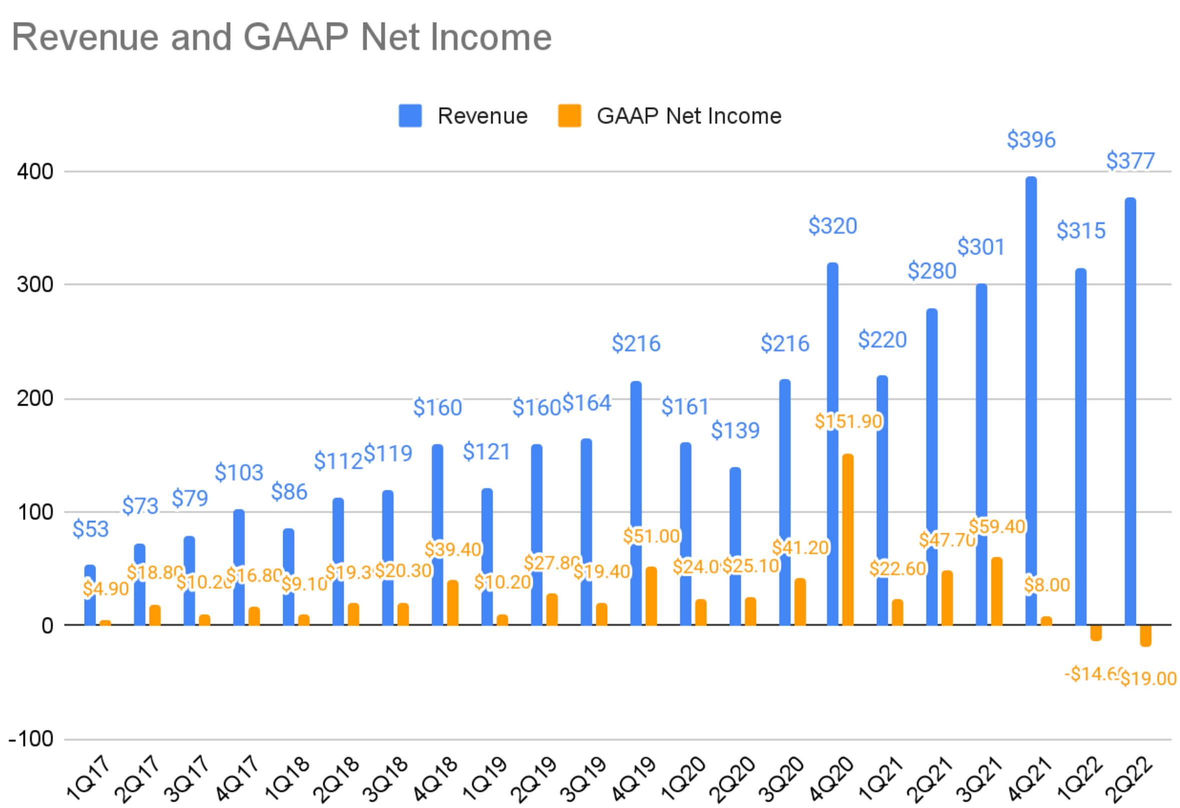

Chart 10. The Trade Desk's quarterly revenue and GAAP net income from 1Q2017 to 2Q2022.[10]

[10] Trade Desk quarterly reports.

Significant gains in market share

The Trade Desk continued to gain market share as advertisers continued to seek efficiency and measurable results in their ad spend, particularly in Connected Television (CTV). They have gained more market share in the first half of 2022 and particularly the second quarter of 2022 than any period in their history. Digital advertising's shift towards data-driven buying and measurable results continued unabated this quarter. Video, which includes CTV, contributed a low 40s percentage share to The Trade Desk's business and is growing rapidly as a percentage of their mix. Also, CTV spend in Europe, again, doubled year over year.

Potential in future Netflix relationship

In the May newsletter, we highlighted Netflix's decision to make advertisements a part of their future. Netflix has since partnered with Microsoft, who The Trade Desk has a great partnership with, on the supply side of digital advertising. Netflix opting not to choose Google is a strong indication of the big players recognising the opportunity the open internet presents vis-a-vis the walled gardens. Microsoft recently bought Xandr (formerly known as AppNexus) one of the oldest and largest advertising Sell-side Platforms (SSPs) in a deal put together by The Trade Desk's CEO Jeff Green. Jeff's strong relationship with Netflix's leadership coupled with The Trade Desk's already well-established leadership in programmatic advertising puts it in a better position to gauge and align with Netflix's advertising plans and to be a likely partner in the future.

Alfen

Snapshot

- Revenue growth 78% year on year
- ROIC: 24%
- Cash on hand: €35.36 million
- Long-term debt: €5.30 million
- Major opportunity coming out of the European energy crisis
- EV Charging growth more than triples
- Raised guidance to €410 million to €470 million from the previous €350 million to €420 million

Alfen provides high quality and smart end-to-end energy solutions operating at the core of the sustainable energy transition. Their business lines span Electric Vehicles (EV) charge points, smart grids, and energy storage with a variety of in-house developed and integrated solutions available to their clients across multiple countries in Europe. The group also offers management and maintenance services for each of its business lines by means of separate contracts.

Alfen wins because its long history in European energy markets has made for strong industry partnerships and high return on assets that it leverages into the fastest growing segments and geographies of renewable energy today.

Alfen's stellar performance continued into the second quarter with the company reporting a strong increase in revenue for the first half of FY22 growing 78% year-on-year to €205.5 million. Adjusted EBITDA grew much faster at 120%, increasing from €16.9 million to €37.3 million (see chart 11 below).

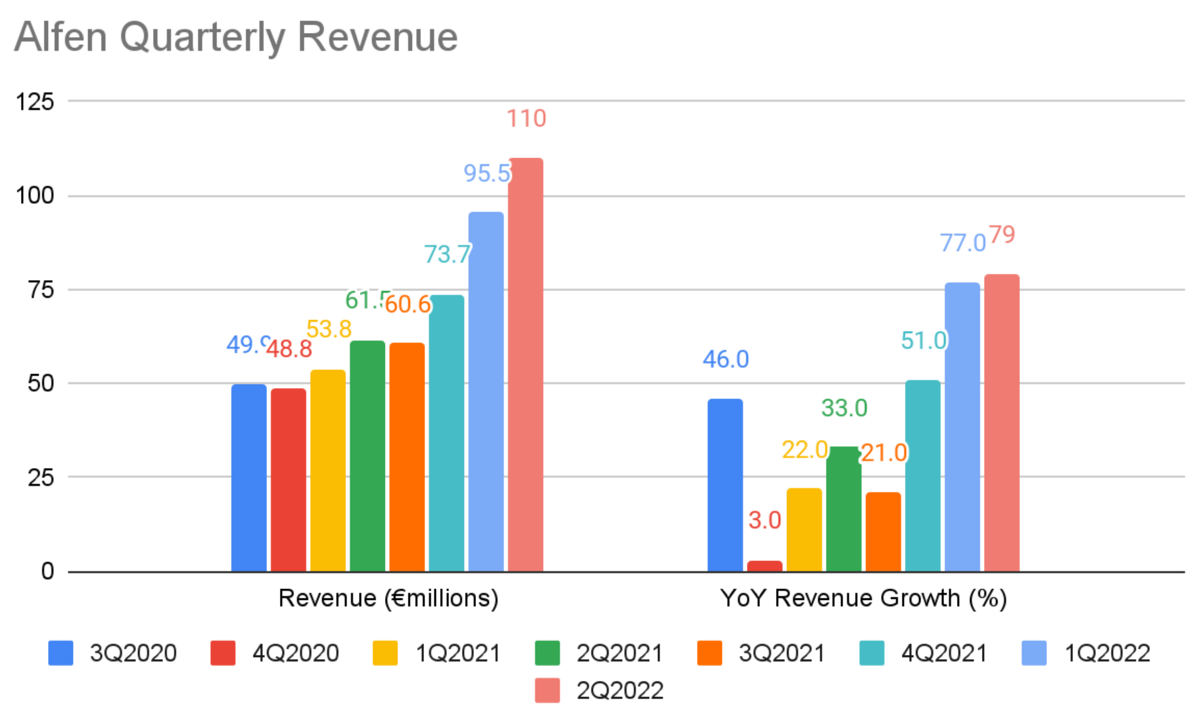

Chart 11. Alfen Quarterly Sales. Source: Factset.

EV Charging growth more than triples

Revenue from EV charging more than tripled in 1H 2022 to €125.0 compared with €41.3 million in the first half of FY21, driven by new client wins and international expansion. (See chart 13 below). More than 69% of this revenue now comes from outside the Netherlands.

Alfen witnessed a surge in projects at retail locations and workplaces after COVID measures were relaxed. Commercial successes in the first half include building further on Alfen's partnership with E-On Drive resulting in several new projects in Central and Eastern Europe, a project for a large online supermarket in the Czech Republic, and winning a multi-supplier framework agreement until 2024 to supply charging equipment to Stromentz Hamburg. In H1 2022, the company produced nearly 149,600 charge points, an increase of 221% from the same period last year.

The company advised that growth in subsequent periods will not be as elevated as this half and growth rates could be similar to previous years. Alfen's HY (half year) year on year growth rates in the past 7 periods have ranged from the lowest 21% in the half year ended December 2020 to the highest 78.2% in the half year ended June 2022 (see chart 12 below).

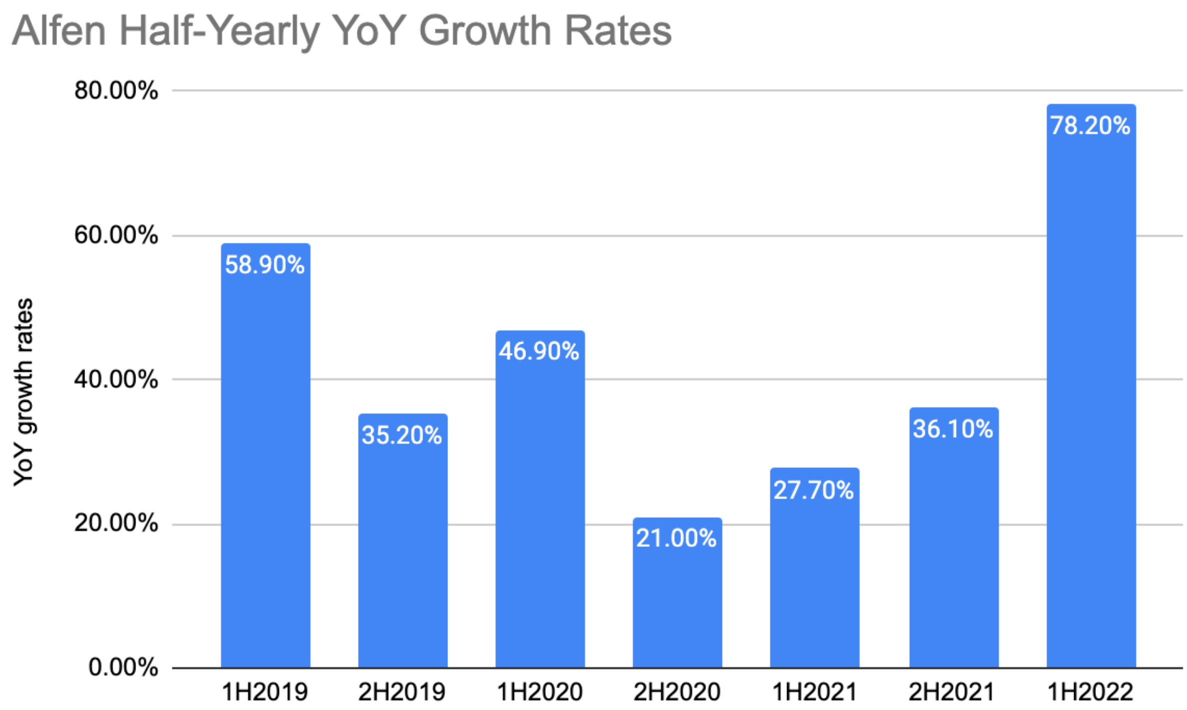

Chart 12. Alfen's half-yearly growth rates. Source: Factset.

The Smart grid solutions contributed €71.1 million towards revenues, up 14% compared with €62.5 million in the first half last financial year. The private networks businesses did not show as much growth in the first half of 2022 with supply chain restrictions delaying project execution. In 1H 2022, Alfen produced approximately 1,615 substations, the same as in 1H 2021.

Revenue in the Energy Storage Systems business line decreased 18% from €11.5 million in the first half of FY21 to €9.4 million this half. Alfen has reported that the pipeline of qualified leads and order intake continue to develop in a healthy manner, but the permitting process or grid connections has delayed projects. Energy storage revenue will be backloaded (recognised) towards the second half of 2022.

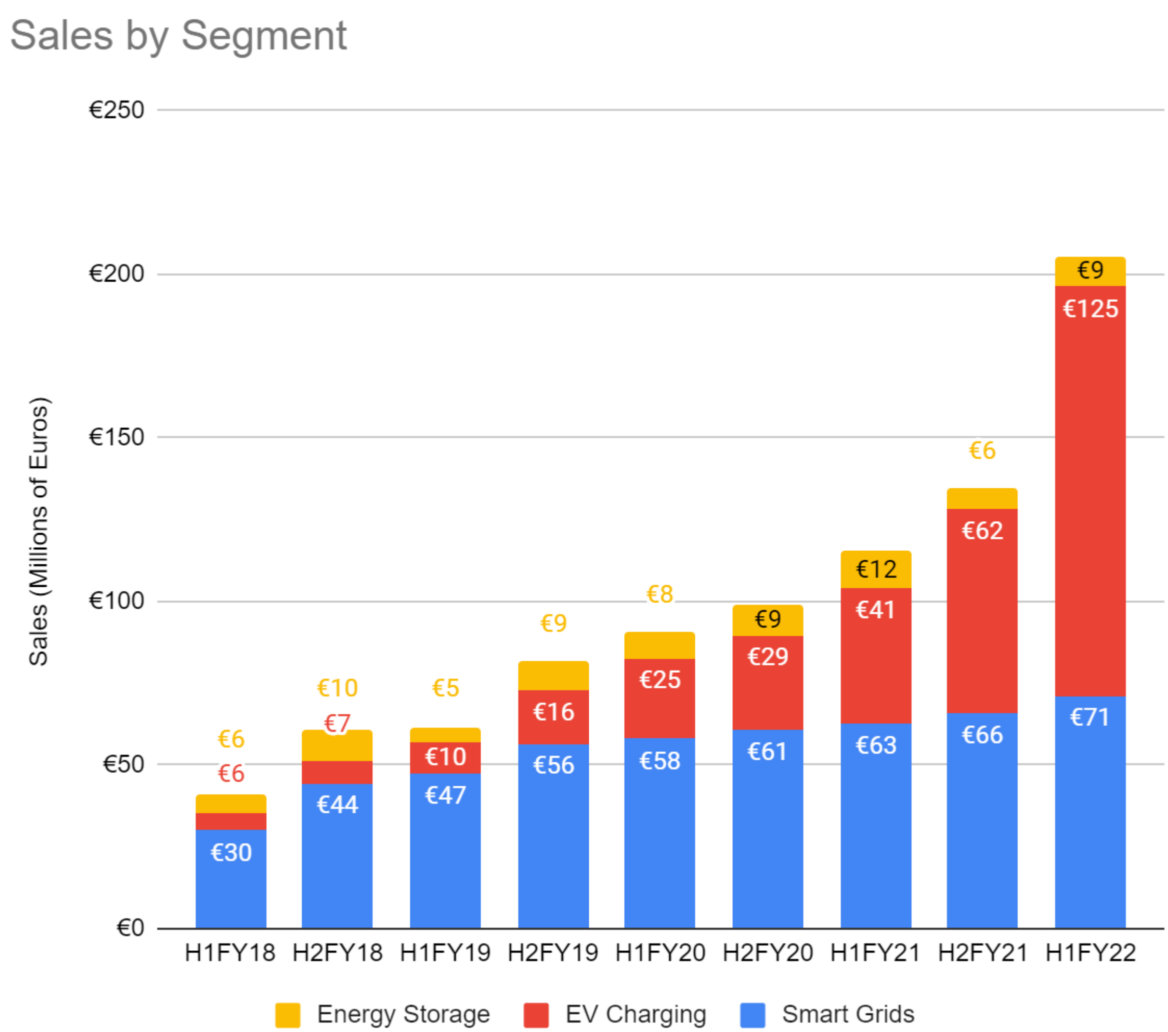

Chart 13. Alfen's sales by segment

Gross margins decreased slightly to 35.3% in the first half of 2022 from 36.4% in the same period last year (see chart 14). The decline was driven by 130% increase in costs of more expensive outsourced work and other external costs stemming from measures taken by the management to secure supplies.

Adjusted EBITDA was 18.1% of revenue at €37.3 million, an increase of 120% compared to €16.9 million and 14.7% of revenue in 1H 2021. The margin was attributed to their operational leverage strategy (see chart 14 below).

Adjusted net profit grew 172% to €25.3m, up from €9.3m in the first half last year.

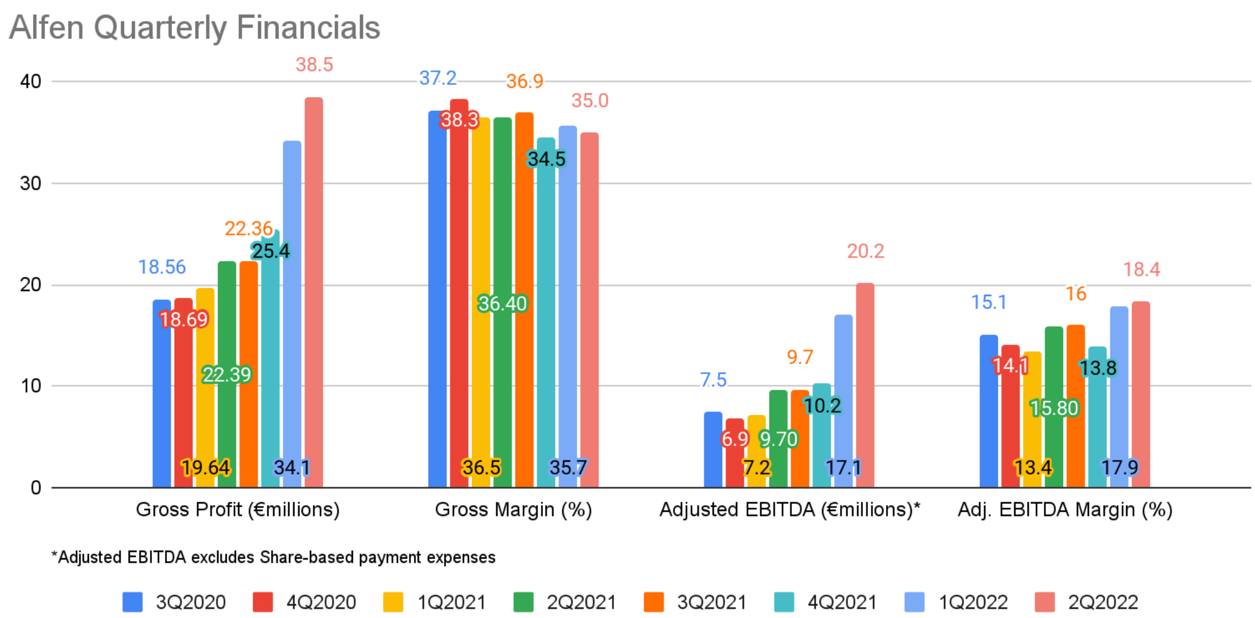

Chart 14. Alfen's quarterly gross margins and adjusted EBITDA margins.

Alfen so far has been able to successfully mitigate the global supply chain pressures that are expected to persist throughout FY2023 by adopting several measures like making strategic downpayments to secure components, and by leveraging Alfen's growing scale and market leadership to secure and prioritise high volume orders.

On the back of a strong first half, Alfen has raised its guidance to €410 million to €470 million from the previous €350 million to €420 million.

Doximity

Snapshot

- Revenue up 25% year on year
- ROIC: 12.5%
- Cash on hand: $ 110.1 million
- Long-term debt: NIL
- Strong covid pull-forward in digital advertising has made for difficult year on year comparisons.
- Upsell rate has declined amongst temporary industry-wide pull back in investment and full-year revenue guidance has subsequently been revised downward by 6%.

Doximity is a digital platform pushing sustainability forward by allowing medical professionals to communicate and share confidential information with patients and colleagues – all while being HIPAA-compliant, staying up-to-date with the latest medical news and research, earning CME credits and managing their careers. Doximity is free for its members. The company makes revenue by selling marketing solutions to pharmaceutical companies, and hiring solutions and telehealth solutions to health care providers.

Doximity wins because it offers a far higher return on marketing investment for pharmaceutical companies through digital interactions than in-person meetings and because of the value it adds to health care providers.

Doximity's revenue increased 25% year-over-year to $90.6 million from $72.7 in the prior corresponding period (see chart 15 below). Net income of 22.4 million was up 109% from 10.7m last year. However, net income margin reduced to 25% from 36% a year ago. This was a result of Q1 margins last year being unusually high due to revenue growth of 100% year-over-year in that quarter from Covid lockdown demands on digital interactions and reduced investment from clients in upsell products further explained below.

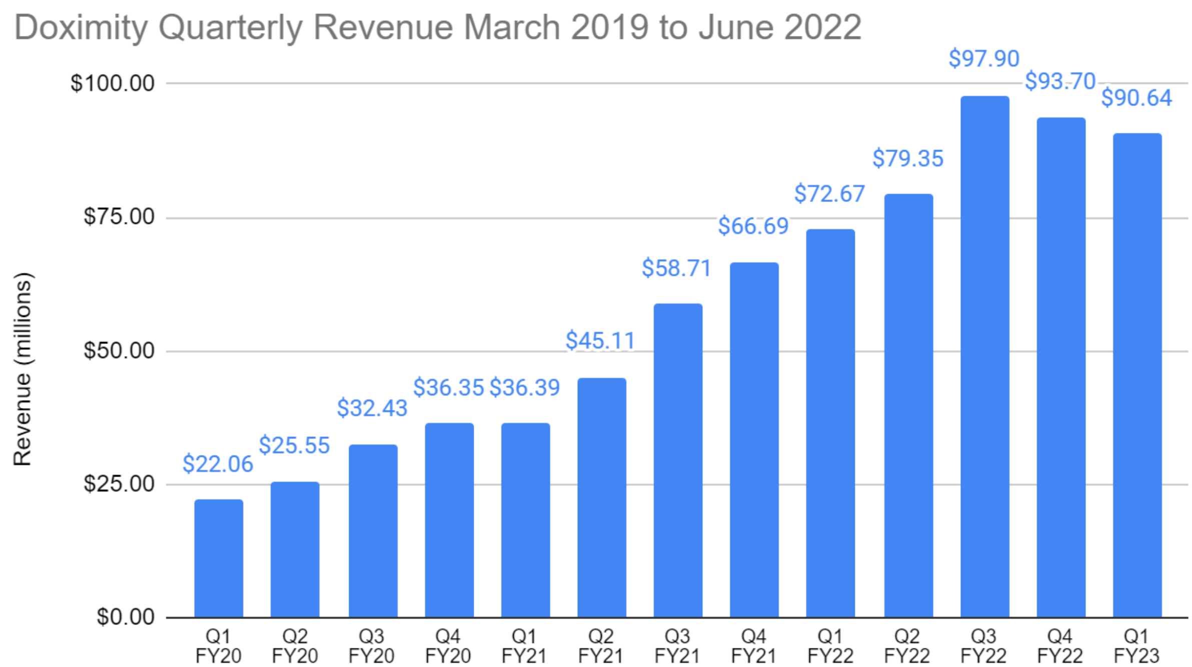

Chart 15. Doximity quarterly revenue[11]

The company also reported operating cash flow and free cash flow of $44.8 million and $42.6 million compared to $42.6 million and $33.2 million in the same quarter prior year.

Growth was led by existing customers with a Net Retention Rate (NRR) of 139% in Q1 on a trailing 12-month basis, down from 167% in the same quarter last year and 157% in the previous quarter. NRR, like revenue, has been impacted by a slowed upsell rate amongst the company's pharmaceutical clients (see chart 16 below). Net Retention Rate for their top 20 clients was 145%.

[11] Doximity Quarterly reports

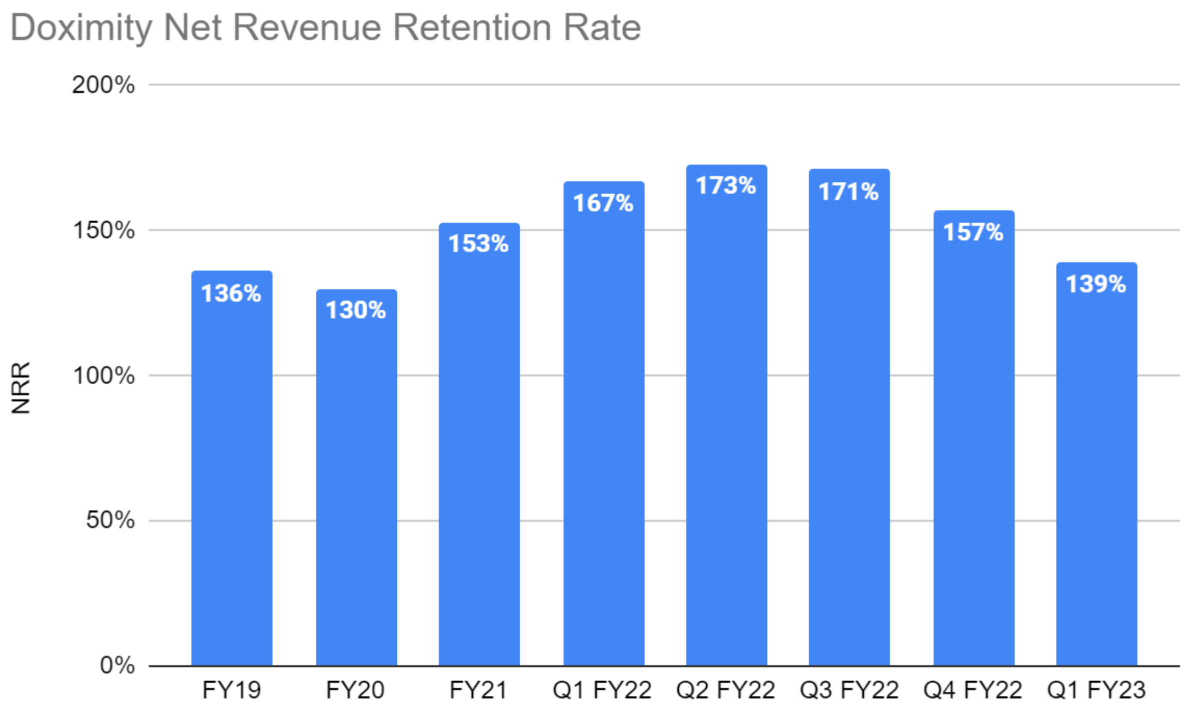

Chart 16. Doximity Net Revenue Retention Rate.[12]

Downward revision for revenue guidance

While Doximity revenues exceeded their guidance for the first quarter of FY23, their full-year revenue guidance was revised downwards by 6% from $454 million and growth of 32% at the midpoint of the range to $428 million and growth of 25% at the midpoint of the range (chart 17). Adjusted EBITDA is now expected to be between $178.0 million and $186.0 million with the guidance for adjusted EBITDA margin remaining the same at 43%. For the second quarter, Doximity expects revenue in the range of $99.5 million to $100.5 million.

[12] Data from Doximity Reports. Net revenue retention rate is calculated by taking the trailing twelve months (TTM) subscription-based revenue from the customers that had revenue in the prior TTM period and dividing that by the total subscription-based revenue for the prior TTM period.

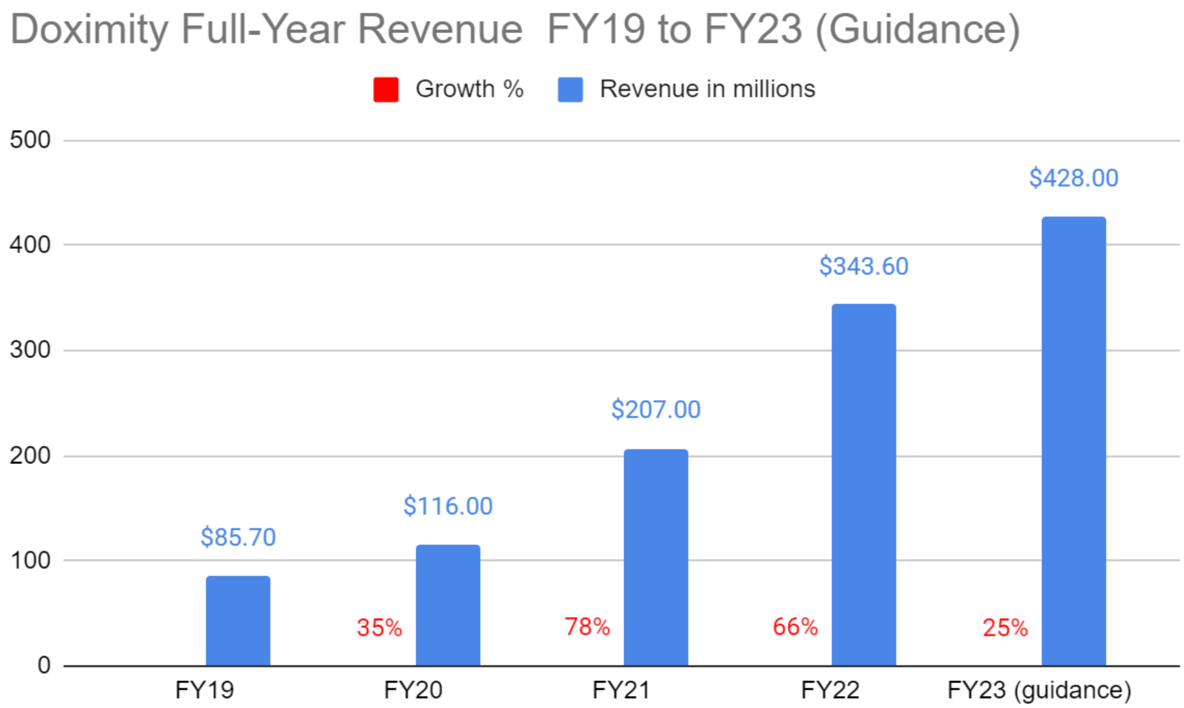

Chart 17. Doximity full-year revenue growth, including FY23 guidance[13]

The downward revision to the guidance was attributed to the slow down in historically stable upsell rate among their pharmaceutical clients which accounts for more than 10% of their annual revenue.

The current fear of recession is putting short-term pressure on the pharma sector that has subsequently reduced ad spending on prescription drugs across the industry by 2%[14]. Pharmaceuticals represent the largest portions of Doximity's marketing revenue. Additionally, as mentioned in the May newsletter, the resumption of in-person pharma marketing continues to normalise the company's growth[15]. Although digital ad budgets in pharma and healthcare are expected to continue growing over the next few years, reaching nearly $20 billion in 2024, the

[13] Data from Factset and Doximity Q4 2022 results brief.
[14] Fierce Pharma. (2022). Pharma ad spending [online] Available at: https://www.fiercepharma.com/marketing/pharma-ad-spending-just-1-year-slow-move-away-tv-and-digital-continues
[15] "Pharma's new marketing mix brings closer collaboration with sales reps". Www.Fiercepharma.Com, 2022, https://www.fiercepharma.com/marketing/pharmas-new-marketing-mix-brings-closer-collaboration-sales-reps. Accessed 2 Sep 2022.

pace of growth seen in the pandemic affected 2020 and 2021 has slowed down (see chart 18 below) as we would expect it to.

Continued platform success

Doximity hit a new all-time high of 360,000 unique healthcare professionals who use Doximity Dialer on a rolling quarterly basis with one third of all US physicians subscribed to the paid Dialer enterprise service. Growth continues with the signing on of one of the largest hospital groups in the United States during the quarter.

Most importantly, the company's median return based on 25 client return on investment studies in the quarter continues to return $10 of revenue to $1 of investment (10:1) as compared to 2.1 to 1 for one-on-one physicians visits[16].

The pullback on upsells by pharma companies is likely to be temporary as Doximity continues to deliver superior ROI for its clients.

High research costs and persistent downward pressure on prices have been motivating pharma companies to utilise their ad-spend budget more judiciously. For example, the US's Inflation Reduction Act, by giving the federal government the power to renegotiate prices covered under medicare, is set to put significant pressure on drug companies to cut their costs and increase their operational efficiency.

Doximity's customers, who spent 17% of their pre-pandemic budgets digitally, are now spending around 25% to 30%, and are expected to spend close to 50% in the next 5 to 10 years.

Doximity has been able to consistently deliver superior ROI for its pharma clients, and despite the short-term pressure on revenues, the company's value proposition for pharmaceutical clients remains intact and is even more relevant in the current environment as pharma seeks to cut costs and improve efficiency.

[16] Wittink, D., General, G. and Clark, M. (2002). Analysis of ROI for Pharmaceutical Promotion (ARPP). [online] Available at: http://kurse.fh-regensburg.de/kurs_20/kursdateien/2010Analysis_of_ROI.pdf.

dLocal

Snapshot

- Revenue growth 71% year on year
- ROIC: 20.8%
- Strong growth in Asia and Africa
- Well diversified across clients and client industries
- Significant new opportunities to expand into

dLocal is a financial technology company that connects people in emerging markets with global digital services even if they don't have a bank account and with their own currency. It takes care of all foreign exchange transfers, local compliance and chargebacks, allowing Global merchants and marketplaces to access regions in emerging markets that were previously out of reach. dLocal pushes sustainability forward because access to digital services is associated with significant reductions in poverty and food insecurity arising from its ability to advance education, gender equality, and access to economic opportunities [17] [18] [19].

dLocal wins because their solution solves immense complexity of digital transfers in emerging markets and allows access to services previously unavailable.

The company reported revenue growth of 71.6% year-over-year to $101.2 million (see chart 19 below) in the second quarter.

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[17] (2021) The impact of merchant and mobile payments on financial inclusion in Asia-Pacific. Journal of Payments Strategy & Systems. Vol 15.
[18] Empowering Women in the Digital Age. G-20 Insights. Retrieved from: https://www.g20-insights.org/wp-content/uploads/2017/07/ Empowering-Women-in-the-Digital-Age.pdf
[19] Ecommerce Development: Experience from China. The World Bank.

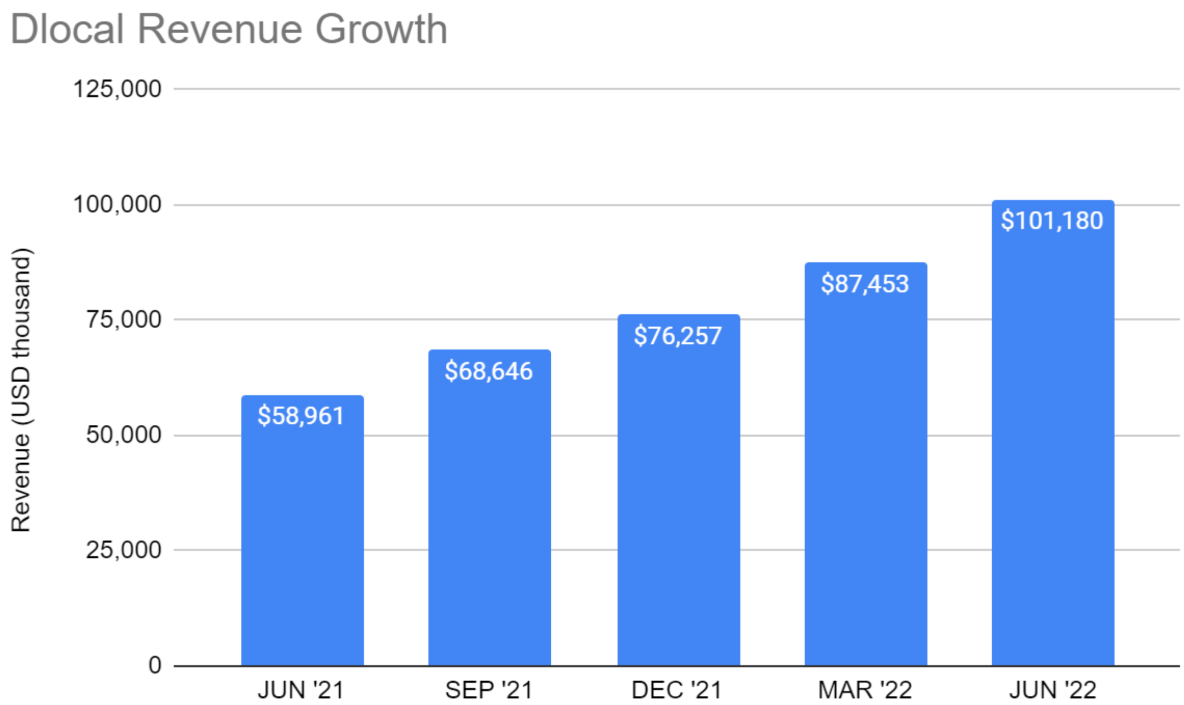

Chart 19. dLocal revenue growth[20]

Strong growth, particularly in Africa and Asia

Revenues grew strongly in Latin America at 63.3% year over year and exceptionally in Africa and Asia which leapt 155% year over year and 38% quarter over quarter. Africa and Asia hold some of the fastest growing economies globally according to Harvard Growth Lab[21]. Total payment volume reached $2.4 billion in Q2, up 67% Y/Y (see chart 20 below).

"Years back, we would only discuss one country, Latin America, then the whole of Latin America. And now we are discussing the whole emerging market strategy." Seba Kanovich -- ***Chief Executive Officer***

[20] Dlocal quarterly reports

[21] "Harvard Growth Lab Projects Fastest-Growing Economies To 2030". *Harvard Gazette*, 2022, https://news.harvard.edu/gazette/story/newsplus/harvard-growth-lab-projects-fastest-growing-economies-to-2030/#:~:text=China%2C%20Vietnam%2C%20Uganda%2C%20Indonesia,the%20Atlas%20of%20Economic%20Complexity. Accessed 31 Aug 2022.

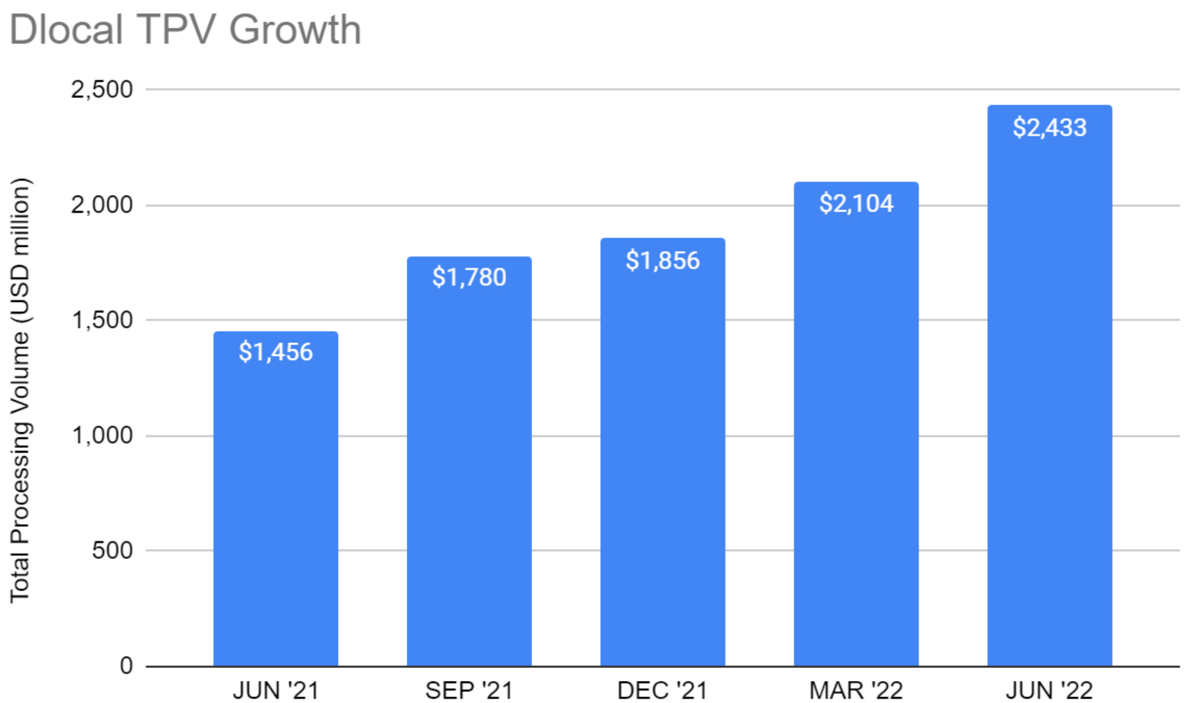

Chart 20. dLocal TPV growth[22]. Source: dLocal Quarterly Reports.

Gross margin declined to 49.1% from 57.3% a year ago as the company continues to trade a higher dollar amount for a lower take rate in line with its core strategy (moving to higher volume at reduced margin).

The company's net revenue retention rate (NRR) was 157% as compared to 196% in the same quarter of FY21 (see chart 21 below).

[22] Dlocal quarterly reports

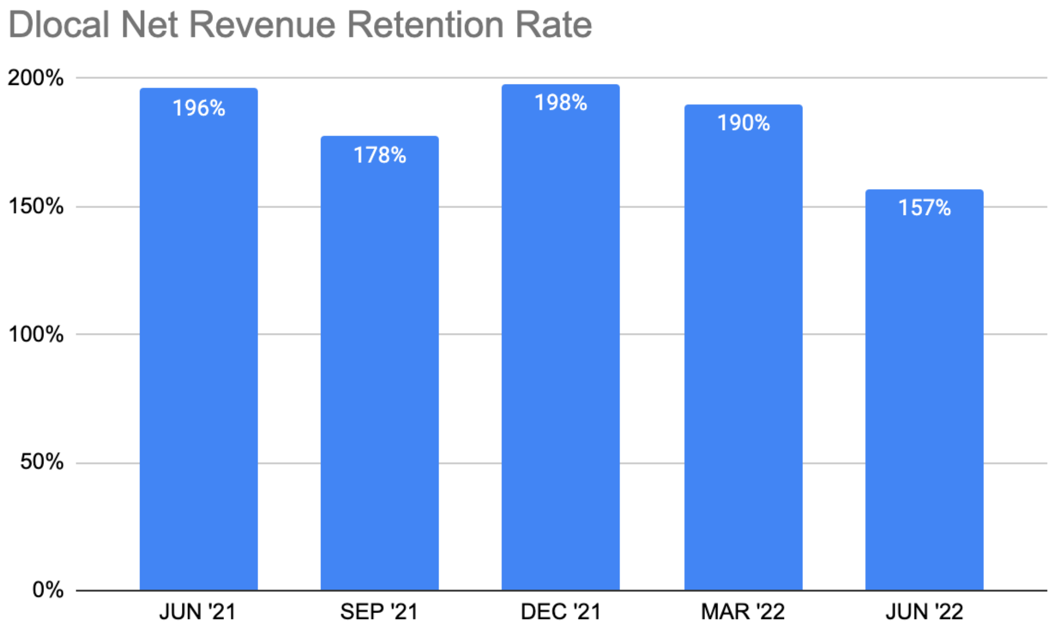

Chart 21. dLocal Net Revenue Retention Rate[23]. Source: dLocal Quarterly Reports.

A decline in NRR is not a negative signal, rather it signifies a natural progression of dLocal from earlier periods of extreme growth that came off a low base. dLocal continues to emphasise that the NRR for FY22 will remain quite healthy at above 150%.

Well diversified across geographies and industries

dLocal has merchants across more than 10 different verticals and no single vertical accounts for more than 20% of the total processed volume (TPV). During the six months ended June 30, the Group operated with more than 590 merchants whose customers are based in 37 countries in LATAM, Asia and Africa.

[23] Dlocal quarterly reports

LATAM	Asia	Africa
Argentina	Bangladesh	Cameroon
Bolivia	China	Egypt
Brazil	India	Ghana
Chile	Indonesia	Ivory Coast
Colombia	Malaysia	Kenya
Costa Rica	Pakistan	Morocco
Dominican Republic	Philippines	Nigeria
Ecuador	Thailand	Rwanda
El Salvador	Turkey	Senegal
Guatemala	Vietnam	South Africa
Mexico		Tanzania
Panama		Uganda
Paraguay		
Peru		
Uruguay		

Chart 22. Countries where the customers of Dlocal's merchants are based[24]

Diversification across geographies and industries allows the business to be resilient and navigate through a challenging and uncertain global macro economic environment.

Strong cash position

The company continues to strengthen its cash position. As of June 30, 2022, dLocal had $270 million of cash on hand and $104 million of free cash flow. This strong position provides dlocal continued flexibility to pursue its long-term growth strategy.

[24] Dlocal's website

Digital companies, having matured in developed regions, are now strategically targeting emerging economies to maintain high growth rates[25] and people in those regions are seeking their services[26].

dLocal is excelling at meeting the requirements of merchants expanding into emerging economies and with significant adjacent markets to move into, such as local to local payments, its future looks compelling.

Nu Holdings

Snapshot

- Revenue up 244% year on year
- ROIC: 3%
- Cash on hand: $3,701 million
- Long-term debt: $471 million
- Average revenue per user increased from $4 to $7.80 per month with the most mature cohorts reaching over $20.
- Entry into Mexico showing strong growth.

Nu is a digital bank based in Brazil that offers a variety of financial products in Latin American markets. Nu is regarded as the largest neobank in the world in terms of number of customers. By giving consumers and small and medium enterprises (SMEs) easy access to better financial products, Nu is empowering millions and making a positive impact in their lives[27].

[25] The new digital economy. How it will transform business. (2011). Retrieved 31 August 2022, from https://www.pwc.com/cl/es/publicaciones/assets/the-new-digital-economy.pdf
[26] Technology will save emerging markets from sluggish growth. (2021). Retrieved 31 August 2022, from https://www.ft.com/content/2356928b-d909-4a1d-b108-7b60983e3d22

[27] "How digital finance could boost growth in emerging economies". Www.Mckinsey.Com, 2022, https://www.mckinsey.com/featured-insights/employment-and-growth/how-digital-finance-could-boost-growth-in-emerging-economies. Accessed 3 Sep 2022.

Nu Holdings wins because it offers far lower interest rates on its credit products, a far simpler account set up process and much greater user experience than incumbent banks across Latin America.

In its latest quarter ended June 2022, total quarterly revenue reached a record high of $1157.5 million increasing 244% YoY. The company's number of customers increased from 3 million in 2017 to nearly 65.3 million in the quarter ended June 2022 .

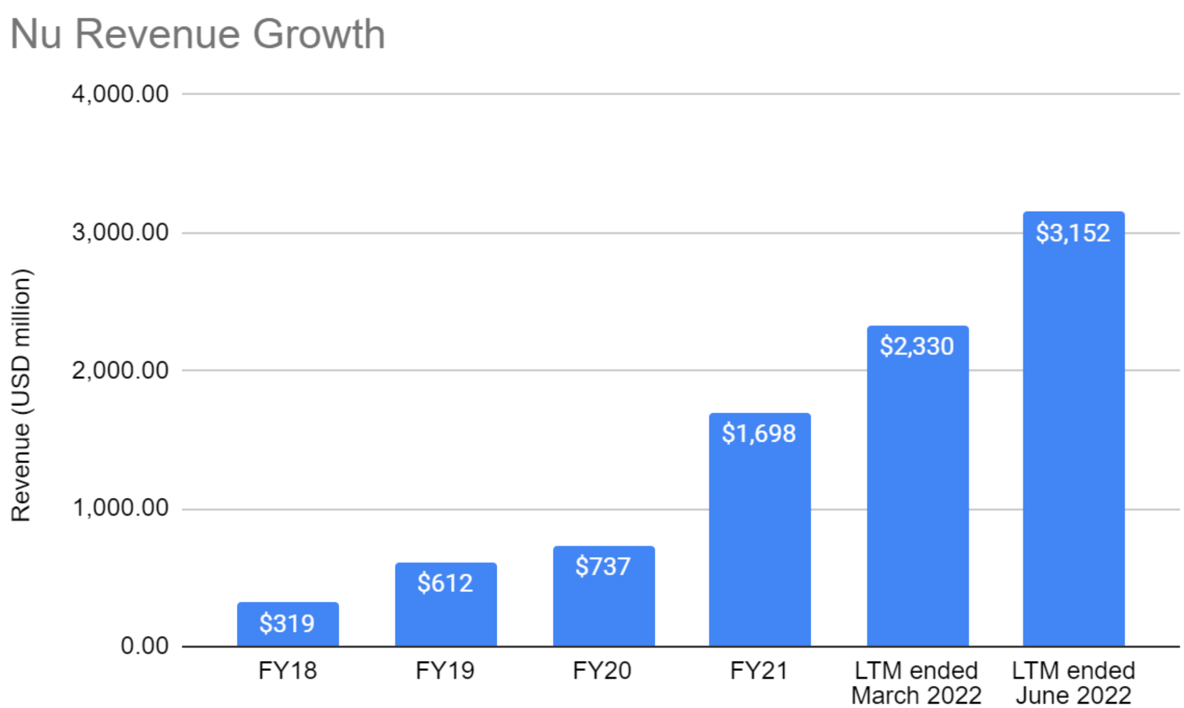

Chart 23. Nu Holdings revenue growth[28]. Source: Nu Holdings Annual Reports & Factset.

Nu has been able to consistently grow both the number of active customers as well as average revenue per active customer (ARPAC) translating into exceptionally high revenue growth. In this quarter, the company's monthly ARPAC, driven by upsell, increased customer engagement levels and new products, rose to $7.80, up from $6.70 a quarter earlier and $4 from a year earlier. New cohorts are following the same trajectory as mature cohorts at an even higher rate

[28] Nu Holdings annual and quarterly reports

(see chart 24 below) that will translate into much greater revenue in the short to mid term, especially given exceptional growth rates on new client wins in Mexico.

Note: The banking system in Mexico resembles closely that of Brazil where NuBank has been so successful (Brazil's population is 214m of which 29% are NuBank clients. Mexico has a population of 126m and NuBank is growing at a faster pace here than its initial expansion in Brazil).[29]

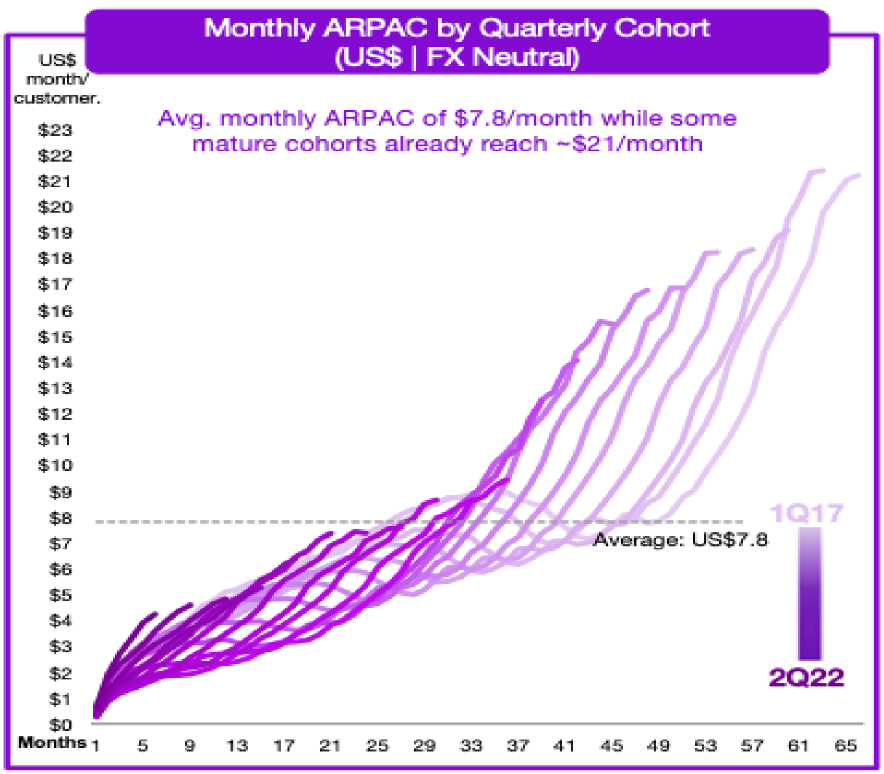

Chart 24. Monthly ARPAC by quarterly cohort in 2Q22. Source:Nu Holdings Q2 Presentation.

[29] Bautzer, T. (2022). Buffett-backed Nubank growing faster than expected in Mexico, CEO says. [online] Reuters. Available at: https://www.reuters.com/technology/buffett-backed-nubank-growing-faster-than-expected-mexico-ceo-2022-07-18/

On average, costs per client remained flat YoY at 80 cents per month. As of June 2022, the company has USD 3701 million in cash and cash equivalents as compared to USD 470.8 million in long term debt.

Product portfolio continues to expand

Nu continues to launch and expand new products. For example, insurance, launched last year, reached over 700,000 active policies. The direct-to-consumer investment platform, NuInvest, reached over 5 million active customers and the Nucripto product reached 1 million customers in this quarter, only 3 weeks after its launch.

Temporary pressures on gross margins

Nubank saw both YoY declines in gross margins and sequential decline on the previous quarter. Both of these are temporary effects and both occurred for different reasons.

Year on year gross margin decline

Nubank's gross margin in Q2 declined to 31.41% from 33.52% in the previous quarter and from 49.5% in the same quarter of the previous year. The year on year decline was mostly on account of two factors. Firstly, credit loss allowance expense increased from 24.6% of the total revenue in 2Q21 to 29.24% of the total revenue in 2Q22. This is attributed to greater upfront loan loss provisions due to a higher credit growth rate. Simply put, an accelerated growth rate in onboarding new clients made for a higher loan loss provision as this provision has to be allocated for when the client relationship begins. Secondly, interest expense on customer deposits increased from 14.62% to 31.35% of the total revenue YoY(see chart 25 below).

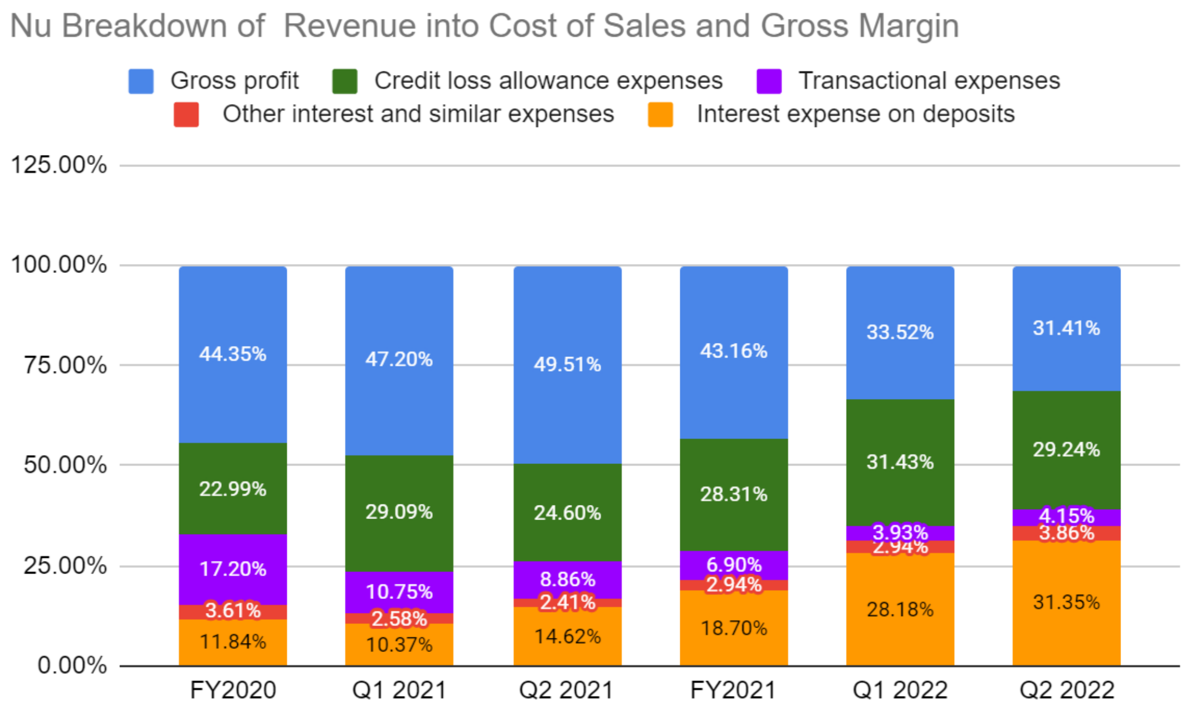

Chart 25. Nu breakdown of revenue into ' cost of sales as a percentage of revenue' and gross margin.[30]

Quarter on quarter gross margin decline

The sequential decline in the quarterly gross margins, however, was mainly on account of interest expense on deposits that increased from 28.18% to 31.35% of the total revenue.

Pull back in loan originations

The company pulled back on loan originations over concerns surrounding rising interest rates and the ability of borrowers to make repayments given the higher cost of living. The personal loans component of the interest earning portfolio actually declined sequentially (see chart 26 below).

[30] Nu Holdings annual and quarterly reports

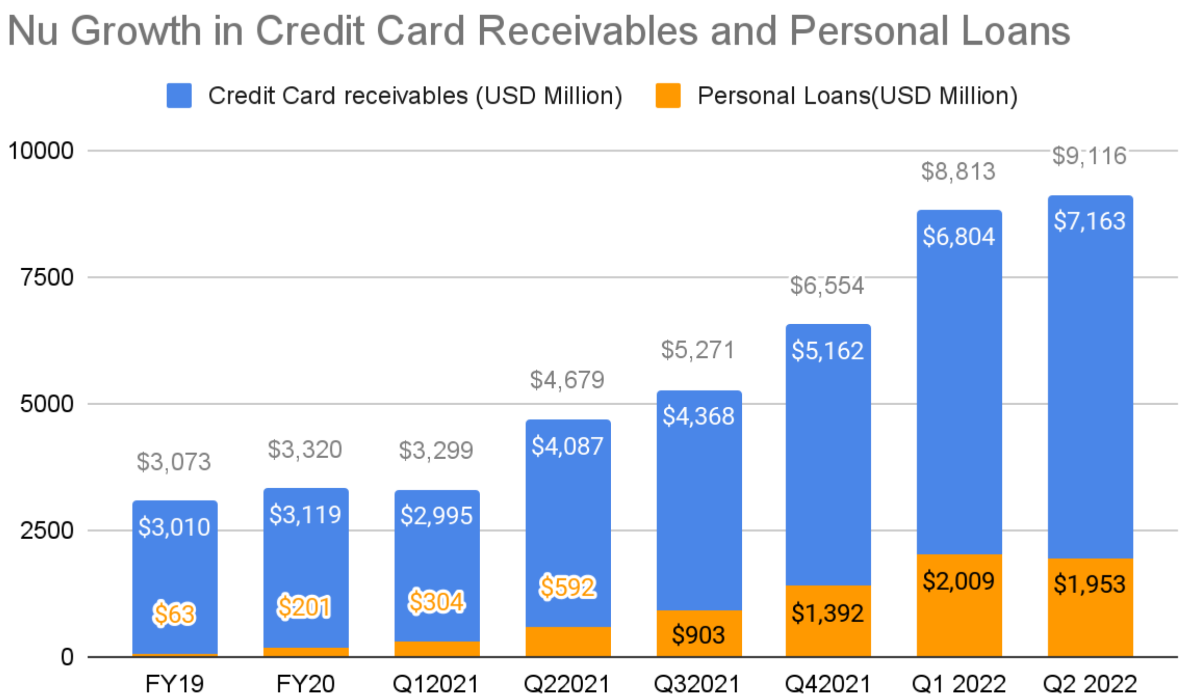

Chart 26. Nu's credit portfolio (credit card receivables and personal loans) growth.[31]

Nu's personal loan product is exclusively a cross-sell product offered selectively to the lowest risk credit card customers.

Note: Nubank reports results in USD. On an FX neutral basis, in the June quarter Nu's total credit portfolio grew 16.5% QoQ and personal loans grew 15% QoQ .

Nu's opportunity

While Brazil's economic downturn on the one hand has motivated Nu to take a cautious approach in originating loans, it also presents a great opportunity for Nu to gain market share on the other. Nu has more than sufficient retail deposits to maintain and grow their loan portfolio unlike other competitor banks, such as Neon, that rely on more expensive institutional funding[32].

[31] Nu Holdings annual and quarterly reports

[32] Globenewswire (2022). Neon raises US$ 80 Million in its First Credit Card Investment Fund (FIDC) to Expand the Access of its Products to More Customers. [online] GlobeNewswire News Room. Available at: https://www.globenewswire.com/news-release/2022/07/21/2483738/0/en/Neon-raises-US-80-Million-in-its-First-Credit-Card-Investment-Fund-FIDC-to-Expand-the-Access-of-its-Products-to-More-Customers.html

Furthermore, Nubank's default rate is much lower than the industry average owing to its advanced AI. Taken together, these factors have enabled Nu to charge lower interest rates and make its products even more competitive in the riskier environment. Even with cautionary lower approval rates, Nu may still be able to grow its credit portfolio as more and more Brazilian consumers struggling with a rising cost of living apply for cheaper loans with Nubank.

Upstart

A dramatic change in management strategy leaves the future of the company unknowable. This means we cannot analyse the company to a point where we can place a high probability on its future. For this reason we have exited our position in Upstart.

The company has been dependent on institutional investors who have abruptly become too hesitant to fund Upstart-powered loans in the current rate environment amidst the fear of a recession. The company doesn't expect these investors to return any time soon as it has guided a dramatic drop to $170 million in Q3 representing an year on year decline of 24% and two quarters of consecutive sequential decline. The company has also withdrawn their full year guidance entirely.

In order to overcome these funding constraints the company has said that it is evaluating opportunities to bring in committed funding from partners who will invest consistently through cycles, and leverage its own balance sheet as a transitional bridge. While this could be a viable strategy there has been no information as to whether the company will be able to secure funding or how long it could take and the $790 million of unrestricted cash on the balance sheet will not be enough to bridge the gap in the meantime. This represents a radical change in management strategy given they pledged not to do this only last quarter.

We see no pathway into a credit stream for Upstart where they can continue their current growth rate and a significant possibility that they will only be able to continue lending to a small portion of their previous volumes.

The uncertain macro economic environment coupled with the inability of the company to demonstrate a clear roadmap and timeline to secure funds during these tough times has made it impossible to attribute meaningful future growth rates to the business for the purpose of its valuation.

That's not to say that we have completely written off Upstart. Its AI model continues to outperform traditional FICO scores and there are huge auto loans and mortgage opportunities ahead. However, due to a lack of clear visibility into its viability in the short term, we have decided to keep Upstart on our watchlist only for the time being.

Thank you for entrusting your capital with us.

Kind Regards,

Will Simpson - Portfolio Manager

indication of future performance. Any investment decision in connection with the Strategy should only be made based on the information contained in the relevant Information Memorandum.