



ELEVATION CAPITAL
GLOBAL SHARES FUND

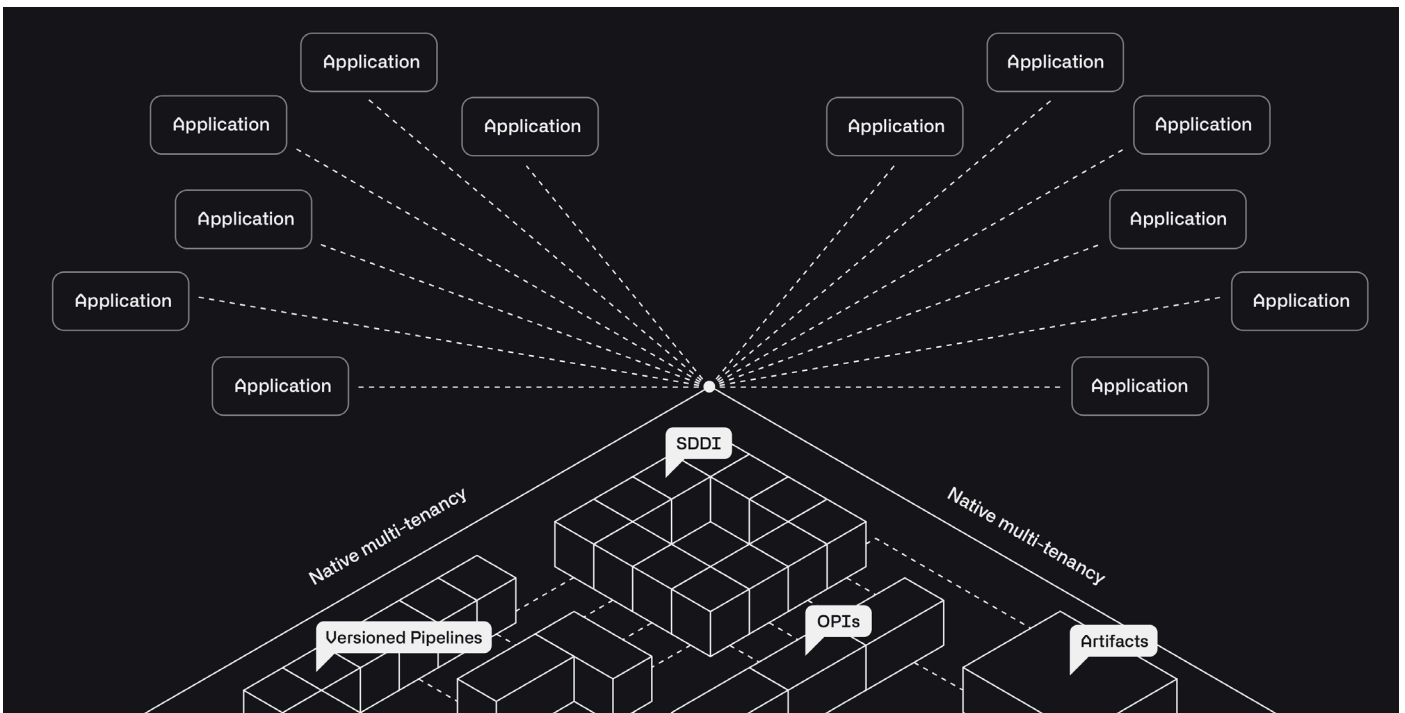


Palantir

"During the gold rush it's a good time to be in the pick and shovel business"
- Mark Twain

Palantir is a company that renders large strands of data accessible and understandable. They infamously have established links to the intelligence industry, stemming from a 2004 investment by the CIA's venture capital fund. Since then, their links to the 'Deep State' have expanded exponentially, embedding their software within the US Army, UK Royal Navy, UK Government, US Customs and Border Protection Agency, alongside many others. Yet Palantir's commercial applications are just as valuable, they have recent partnerships with IBM, Airbus and Amazon.

Palantir has a certain mystique that comes from an obsession with secrecy, a charismatic leadership team, CEO Alex Karp and Chairman Peter Thiel, and the nature of the software they create. Yet what they do is quite simple: they take every single strand of data from disparate sources and render it more understandable. The amount of data generated in the world has expanded exponentially, as storage has become exponentially cheaper, per Moore's law. Take photos, in 2020, 7.4 trillion photographs were stored in the world. In 2022, it's estimated to be 9.3 trillion. This is orders of magnitude more than the number of photographs in the world throughout the entire 20th Century. Now consider the growth of data stored and produced as a whole. In 2021 the global data-sphere was 79 zettabytes, or 79 trillion gigabytes, an impossible figure to comprehend.





A brief history of Palantir

- 2003** Peter Thiel, starts Palantir intending to apply software from PayPal's fraud recognition systems "to reduce terrorism while preserving civil liberties" The start-up is named after the "seeing stone" in Tolkien's legendarium.
- 2005** Palantir announces first funding round.
- 2010** The United States government makes up 70% of Palantir's business, while the rest is dominated by private financial institutions. US troops use Palantir to identify IED's and inform other troops of potential danger zones.
- 2011** Palantir is named technology pioneer by the World Economic Forum.
- 2014** Palantir is named one of the world's 10 most valuable startups, with an estimated worth of US\$9.3 billion.
- 2017** German multinational chemical and pharmaceutical company Merck partners with Palantir, with the purpose of using its software to analyse the reams of pharmaceutical, life sciences and chemical data it collects to help develop and deliver products more rapidly.
- 2018** Government success leads to contracts with the private sector, including BP, Airbus and Fiat Chrysler's North American factories.
- 2019** Palantir beats out EY, Accenture, Microsoft and Deloitte for a \$111 Million Pentagon deal.
- 2020** Palantir IPO's at US\$10 a share on the NYSE.
- 2021** Palantir is awarded an US\$800m contract with the US Army, in addition to multiple renewals and smaller contracts.
- 2022** US commercial customer count increases +250% year-over-year, from 34 customers in 2021 to 119 customers in 2022.





Palantir is not a data company

The success of Google (Alphabet) and Facebook (Meta) is due to their collection of data, AdSense is the poster child, but the prediction of search results, likes and dislikes, is a defining feature of the early 21st Century. You do not own your data; it belongs to Google, Facebook, and advertisers who purchase it. We suspect this is a sunset industry, as people are becoming more protective and aware of their data and as governments legislate to make the free collection of data more difficult. However, Palantir is not a data collection company. It is an infrastructure company. IT provides the software and the operating system (OS), siloing data within the organisation's own management system, much the same as your data is siloed on your hard drive.

With the monumental rise in data being produced, it is harder to understand what all that data means, and all too often the data comes from different platforms. None of this data is useful if you can't process or understand it, much like how crude oil has limited uses yet the refined version has many. Understanding data is key. Palantir deploys three systems to enable this, **Foundry, Gotham, and Apollo.**

↳ Foundry

Foundry is an interoperable data-management platform. It can connect hundreds of back-end data systems and front-end data systems seamlessly; allowing disparate data sets to be compared and analysed. It is essentially a data warehouse with analytical capabilities and machine learning. For instance, BP's oil production process utilises Foundry to analyse the process as well as to inform engineers; the NHS in the UK utilises Foundry to analyse COVID-19-related data. The interpolation is key here, previous to Foundry, back-end data and front-end data were typically warehoused separately. This is of limited use. Combining the front-end and back-end from multiple datasets is infinitely more valuable.



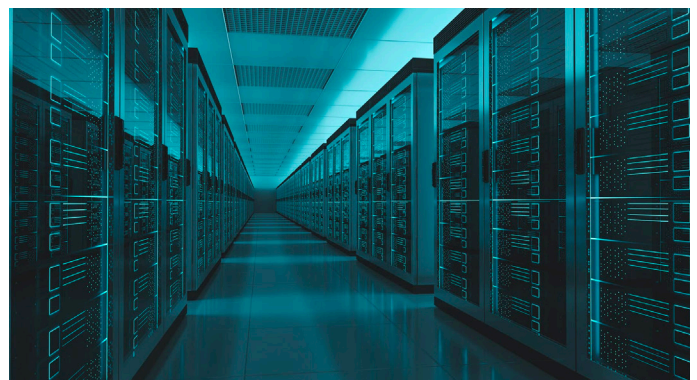
↳ Gotham

Gotham is Palantir's decision-making platform, which has its roots in Palantir's defense-industry contracts. Gotham seeks to help make decisions for mission-critical operations; it does this by processing and visualising data, as well as employing machine learning to create feedback-loops based on what the (human) data analysts do within the software. This is a crucial, if subtle, point. Palantir is not interested in creating AI-only software that works without human assistance. Palantir is interested in *annexing* humans.



↳ Apollo

Apollo is the "glue" that holds both Gotham and Apollo together, essentially a SaaS-based delivery and cloud platform, which allows transfer of data and updates from Palantir's centralised team to either Palantir-based platforms or non-Palantir platforms. It can undertake a significant number of updates, +41,000 updates per week, because Apollo removes the middleman. Within Palantir there are developers who work on updates whilst Apollo itself handles the deployment.





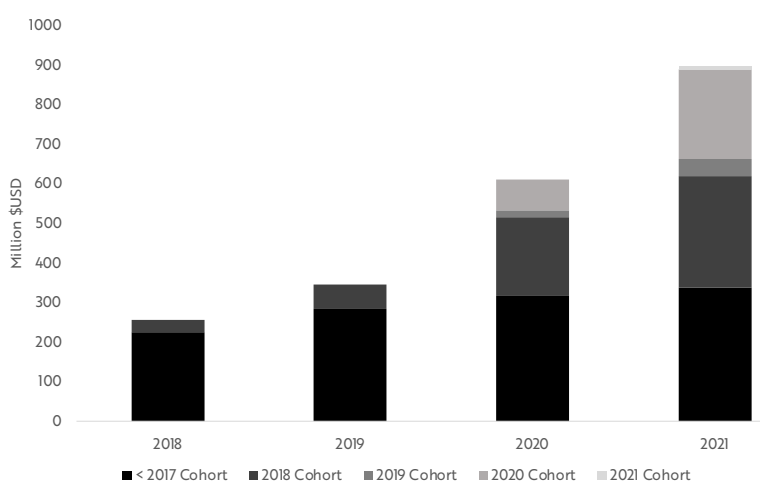
Deploying mission-critical systems

Palantir has an all-star line up of clients who elect to *stay* with them over time, while new clients continue to add to Palantir's +30% compounded annual revenue growth. Of note, is the accelerated growth of Palantir's commercial clients business, +200% growth in the past year. **The evidence is clear: clients remain with Palantir because it works, and commercial clients are starting to discover the power of Palantir's platforms.**



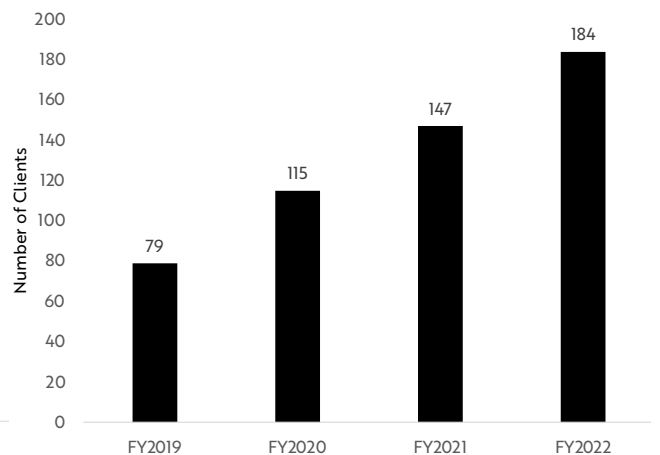
Palantir are unequivocal in that they make technology that works for people. A lot of conventional data analysis forgets this, assuming that if you input the data and output the data, the job is done. However, none of the data is any good if it doesn't do what the client wants. By deploying engineers to clients, Palantir can tailor the software to work for them, as well as observing how the clients use the software, this makes sense given the value of the contracts Palantir engages in, it also encourages stickability. CEO Alex Karp has offered up Palantir's software for free to large enterprise-level companies. The idea is classic early-stage Microsoft, embed the **technology until they can't live without it.**

Growth (and Retention) of Palantir's Government Contracts



Source: Palantir Q4 Presentation, 2021

Commercial Customer Client Growth

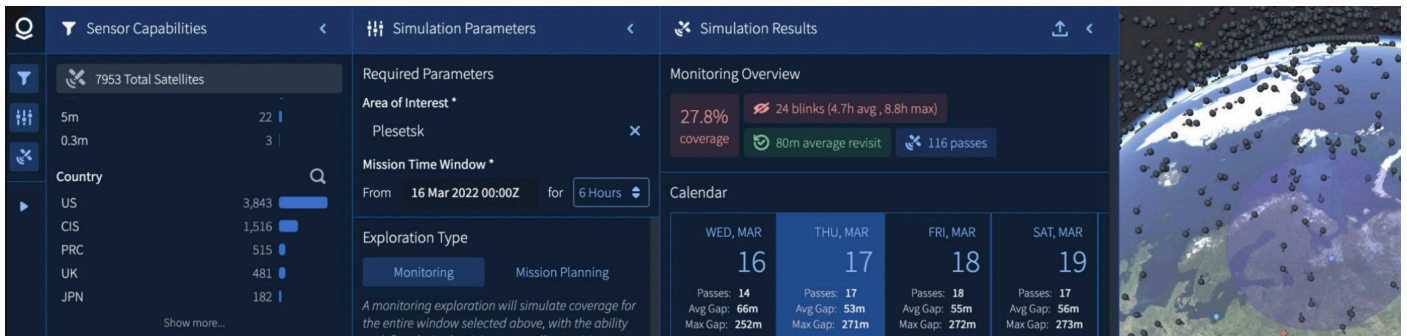


Source: Palantir Q2 Presentation, 2022



Palantir's links with the "Deep State"

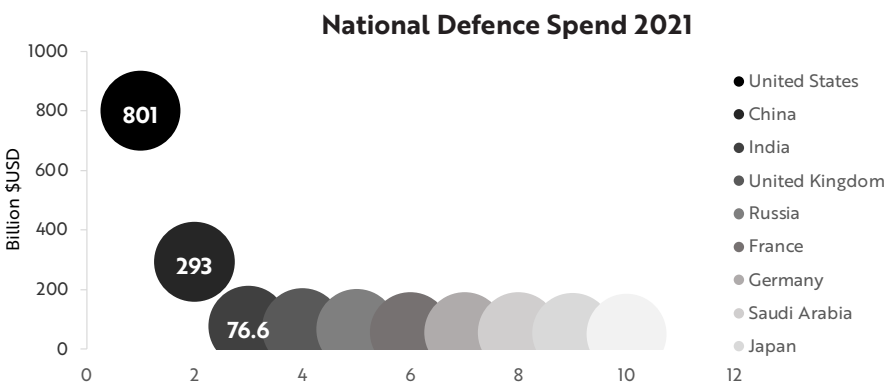
The military-industrial complex of the US is the largest in the world and their apparatus which specialises in information is intimidatingly good. To break out that old chestnut, **information is power**, and data is information. Information is only good if it's understandable. Palantir's software, was infamously rumoured to have aided in the elimination of Bin Laden. We say this only to illustrate the application of the software and how embedded it was already in the deep state apparatus in 2011, when Bin Laden was neutralised. If one considers Moore's Law and the constant and rapid progression of technology, if that's what the software was capable of in 2011, imagine what it is capable of now. In June 2021, Palantir announced a new US\$800 million contract to provide services to the US Army, whilst its earlier contract with the US Army was renewed in December for US\$116 million. This is in addition to contracts in 2021 with the US Department of Veteran Affairs (\$US90 million) and pace Systems Command (US\$43 million). More recently Palantir won a (\$US100 million) contract with the US army research lab. As we have mentioned earlier, we see continued contracts as a sign that big government and NGOs see the benefit in Palantir's platforms. It is worth mentioning that the integration of Palantir's software is a marriage of necessity rather than love. Many departments experiment with other platforms, however in the end they inevitably return to Palantir. Palantir is unique among data platforms in that they are very picky about who has their software, with an ideology strongly in defence of democracy. They will not work with the autocracies of China or Russia. In the past, this was considered an impediment to growth, yet now, during the recent Russo-Ukraine conflict and increasingly autocratic moves from China, Palantir's stance looks increasingly forward-thinking. They are not a mercenary for hire, unlike the criticisms which have been levered at other "Big Tech" players.



"Space Force's Foundry instance, called WarpCore, is now the principal source of Space Situational Awareness: knowledge about where and when satellites are in orbit."

Defence macro-stability with the scalability of software

Palantir has a sustainable advantage which make it unlike its largely consumer or enterprise orientated competitors. ~60% of Palantir's revenue comes from government spending; the bulk of this comes from defence-oriented government departments. This is a **highly predictable**, (albeit lumpy) stream of revenue as defence spending is immune to macro-economic trends; all modern nations must spend on defence. Most defence companies operate within hardware and weapons; the fact that Palantir operates in software differentiates it to its defence-industry competitors. As global conflict continues, the Russo-Ukraine conflict is one example, Palantir's technology will be more necessary than ever.



Source: Peter G Peterson Foundation



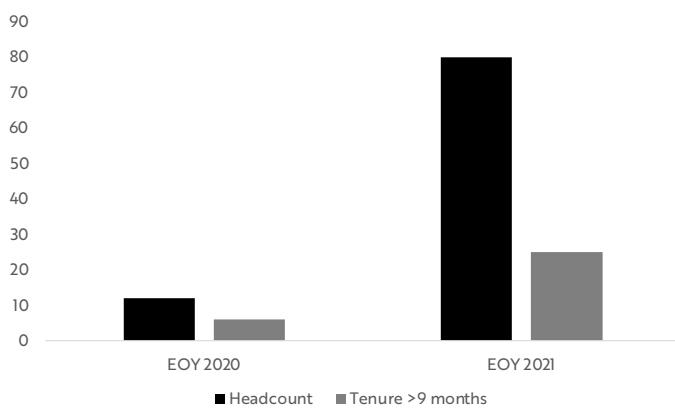
Gotham is supporting mission outcomes for Ukraine and powering refugee relief.



Commercial customer growth

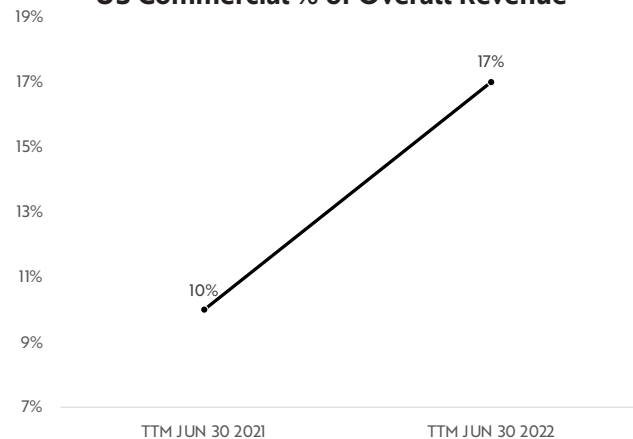
The other segment of Palantir’s business is commercial customers. In the past this was treated as secondary to Palantir’s government business, government revenue drove Palantir’s growth. In our opinion, Palantir did not focus enough on commercial growth in the past. This has been remedied in the past year as Palantir continues to hire more sales people to market their product to a wider clientele. In 2020, the sales team amounted to 12 people, or in other words, every sales employee accounted for ~US\$91 million of revenue. In Management’s opinion, Palantir’s forward deployed engineers and product spoke for itself. They have reconsidered this position as of late, and the results demonstrate the efficiency of an increased sales-force. Increasingly, commercial clients have become a more significant component of Palantir’s revenue. In terms of momentum, US commercial revenue has grown from 10% of total revenue in 2021 to 17% as of 2022. In Q2 2022 total commercial revenue growth grew +46% to US\$210 million, while US commercial revenue grew +120%, largely unaffected by the strength of the dollar. We expect commercial revenue to reflect an even greater proportion of overall revenue going forward, evidenced by out-sized commercial growth rates in the past few quarters. The common perception of Palantir’s products is that they are expensive. Yet consider this: the NHS spent £25 million to licence Palantir’s Foundry platform for two years in order to track COVID-19 data (or, £12.5 million a year, which provides an insight into Palantir’s pricing). In comparison, the UK Government’s Test and Trace programme cost £155 million and produced less discernible results. When software produces the desired outcome in high-value situations, £25 million seems a comparative bargain.

Sales Headcount



Source: Palantir Q4 Presentation, 2021

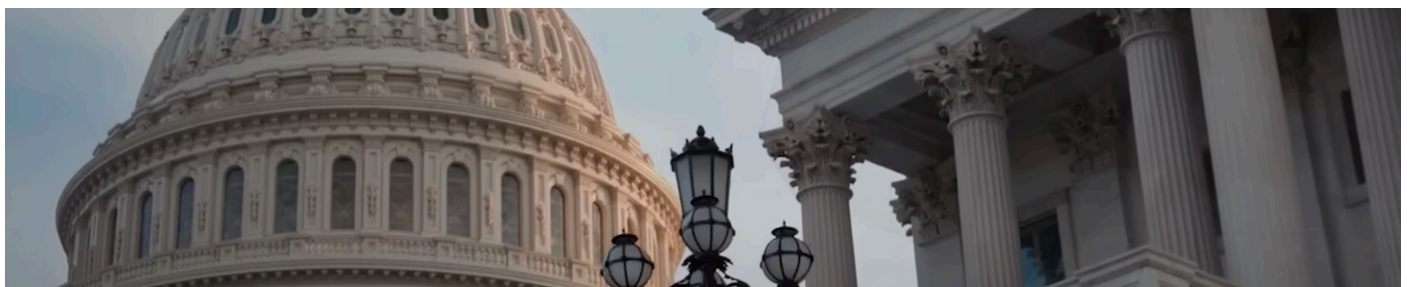
US Commercial % of Overall Revenue



Source: Palantir Q2 Presentation, 2022

Apollo, consumption based SaaS

In reality, Palantir has been building a commercial platform for years, refining it and testing it via government contract work, culminating in the implementation of the Apollo platform. Apollo allows the option of consumption based SaaS pricing, as opposed to “one size fits all” SaaS pricing. This is increasingly the area that SaaS is shifting to; the data warehousing company Snowflake only charges users for how much they use. There is significant market opportunity for Palantir via consumption-based pricing, as Apollo continues to roll out as a fundamental part of Palantir’s offering.

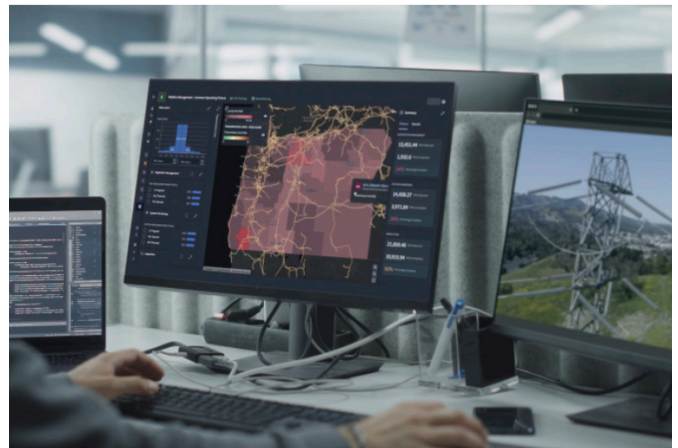


“We’ve doubled USG U.S. commercial clients from 50 to 100, 100 to 200. I believe we will double it again this year.” - Palantir CEO Alex Karp - Q1 earnings call 2022



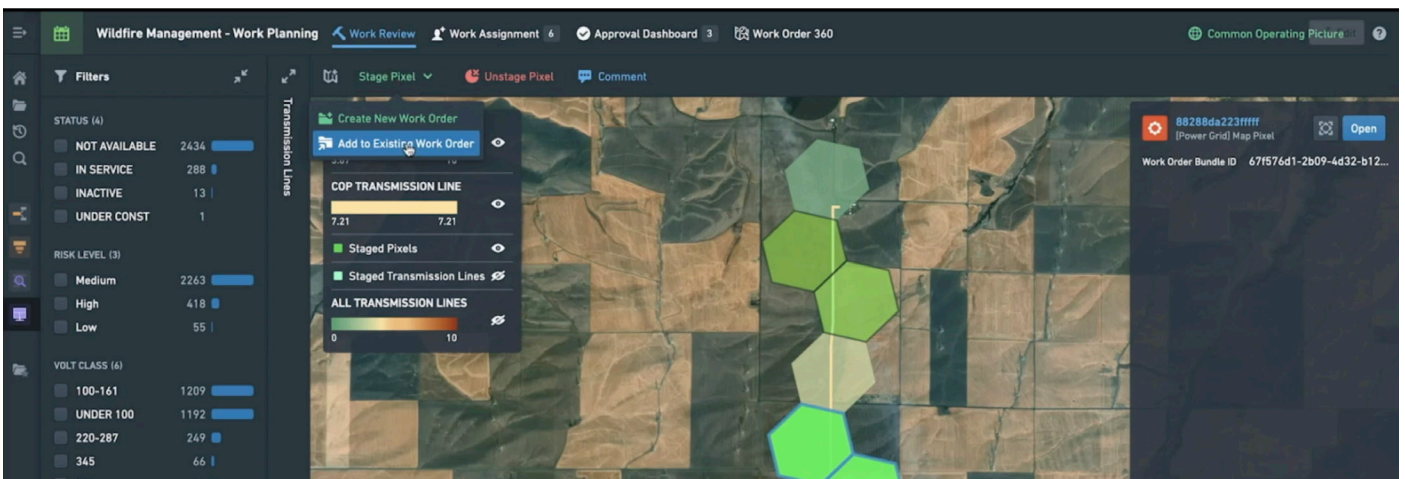
Case Study: + Foundry

Pacific Gas and Electric, (PG&E) is a major utility in California providing services to 16 million households. California faces an ever-growing seasonal risk of wildfires as climate change intensifies. This poses a serious risk for PG&E. Gas and electricity lines, as well as high-intensity areas and aging technology, are all compounding factors for serious wildfires. This has been a crucial issue for PG&E in the last decade as their grid has caused multiple fires. Palantir offered a solution, partnering with PG&E in a contract worth US\$300 million. Foundry helps PG&E predict the vulnerability and health of systems and infrastructure across PG&E’s entire grid. It does this partially by utilising AMI Smart Meter data (i.e. the actual use of power per household) as well as advanced AI modelling capabilities. Foundry essentially maps 25,000 miles of cable across California and provides PG&E prior warning to weak or vulnerable parts of their grid.



What is a digital twin?

Foundry is able to provide warnings to PG&E through the use of a digital twin. The digital twin is exactly the same as PG&E’s grid, except it exists purely in the digital realm. Digital twins are perhaps one of the most important developments in modern technology and the least talked about, they are exactly as they say; a “twin” of the real thing, which uses the enormous amount of computing power now available (thanks to AWS, Microsoft Azure, and other cloud computing providers) to replicate and model a highly complex system and assess all possible outcomes. The beauty of a digital twin is that scenarios can be modelled endlessly; the more “real world” data the digital twin receives the more accurate the predictions are. In other words, the more actual data Palantir receives about PG&E’s grid the more Foundry can learn about the grid and hence predictions will be more accurate. This is the fundamental promise of AI: the more repetitive, measurable data which is imputed, the greater the probability of being correct, for PG&E this has very serious and highly beneficial consequences. **Foundry has helped prevent further wildfires and saved lives.**





Infrastructure builds the economy

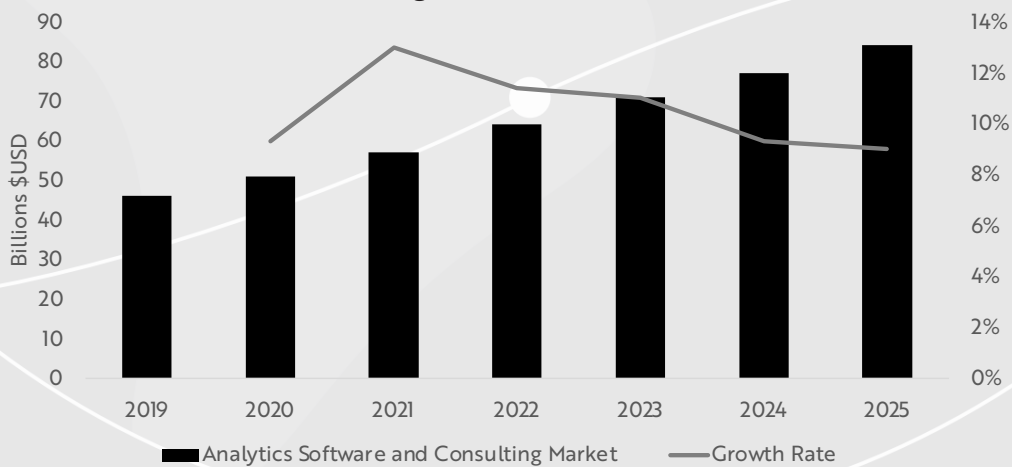
The first infrastructure company which dominated the world is perhaps the East India Company, which operated a virtual monopoly in trade between India and Europe via its fleet of ships. Its wealth was really derived from facilitating the infrastructure of modern trade; the ships were merely vessels with which to do it. The company revolutionised, and brutalised, trade, yet its soft power was largely invisible, hewn by treaties and agreements and double-entry book keeping. The second infrastructure company which dominated the world with incredible efficiency was Andrew Carnegie's steel company, later, US Steel, the first company to have a market capitalisation of US\$1 billion. Carnegie's steel built America and much of the world; it provided the infrastructure for this to happen. Steel was the driving factor in the ascendancy of mass production, skyscrapers, and world in which we still live.

The second half of the 20th Century was dominated by man-made data transfer. Telephones, television, early computers, faxes, automated stock tickers. The infrastructure for much of physical data transfer was put in place by AT&T, or rather, The Bell Telephone Company. Until Bell was broken up in 1982 it owned an almost total monopoly on telephone and data infrastructure. Very few pieces of data were transferred without going through something Bell-owned first. The fourth, perhaps smaller infrastructure revolution occurred with the mainstream acceptance of Microsoft Windows. There's a subtle shift here, the infrastructure that powers operating systems and software isn't visible, ironically returning to the invisible-infrastructure of the East India Company.

The fifth is software which empowers large organisations and governments to parse data accurately. When Windows was released in 1985, nobody could have dreamed how much data would be processed 36 years later. Microsoft's Windows and Apple's OSX have performed admirably over the last two decades, yet legacy operating systems are simply not built to process the vast amounts of data being produced today. This is not to say they *can't*, many "over-the-top" applications can process and analyse data within a Windows or OSX environment. However, this is fundamentally not as efficient or secure as working within Palantir's platforms; the advantage of a sole-solution is lost. The fifth revolution, in other words, is **large-scale data operating systems**. Palantir is well-positioned to capitalise on this.

How valuable is providing the invisible wires and the invisible steel? Well, Microsoft is worth US\$2.09 Trillion¹. Palantir is 19 years old, hardly a spring chicken and has a market capitalisation of US\$20 billion². It has extensive experience in its field, and in what works and what doesn't work. As the field of data continues to expand exponentially, and there continues to be a need for it, then those invisible beams of steel are worth an increasingly vast amount of money.

The value of Palantir's infrastructure, TAM (Total Addressable Market) of just the government sector



Source: Deutsche bank

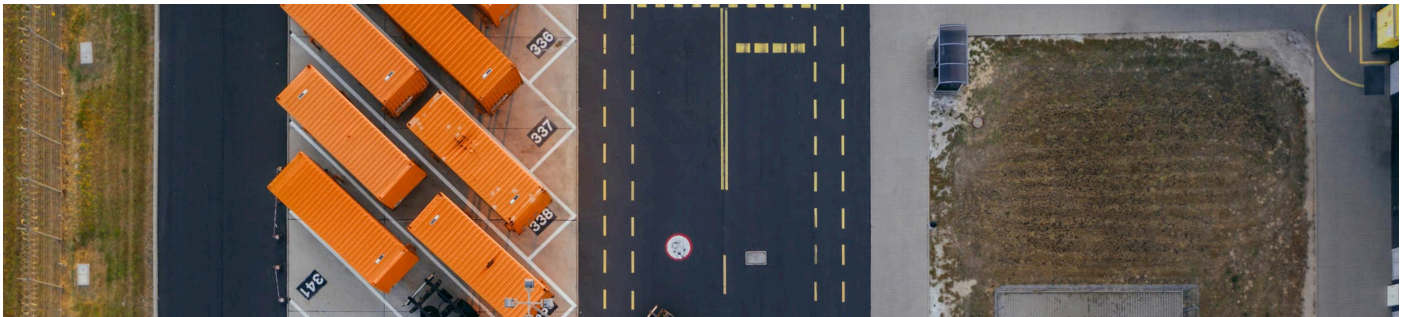
¹ As at 8 August 2022

² As at 8 August 2022



Addressing concerns

There are two factors which are currently of concern with regard to Palantir. The first is share count dilution. Palantir incentivises employees via options and the issuance of new shares. We much prefer it when a company reduces its share count, as Meta (another holding in the Elevation Capital Global Shares Fund) has been doing aggressively. Yet share count expansion is typical with an expanding company and occurs as employees redeem warrants and options. Karp has signalled that dilution will slow down as the company generates more revenue; as of Q4 2021 the company had issued an additional 2.5% in stock; significantly less than it had in the past. In Q1 2022, Palantir awarded its employees US\$150m in stock based compensation, and US\$194m in Q2 2022. Here we think it is important to point out our favourite psychological conditioner, the power of incentivisation. There are few other conditioners as powerful. To incentivise a highly skilled workforce via shares in the future value of the business is sound management in our books, when the fortunes of the company and its employees are closely intertwined good things tend to happen. (We note, of course, the power of incentivisation with Amazon, Google and Meta; but also consider Costco and Starbucks, all firms that award a partial ownership interest to their employees. You'd be hard pressed to find better performing companies over the past decade or two). The second factor that poses a risk is "execution risk". Palantir has a large and lucrative total addressable market. Can it execute? Palantir has been around for 19 years and it is yet to turn a profit. However, Palantir has been able to meaningfully grow its commercial business and increase its Net Dollar Retention rates for its government clients, and its commercial arm has a long runway of high growth ahead. Management is forecasting profitability by 2025, bolstered by high geopolitical tensions.



Net Dollar Retention (NDR)

A metric of how effectively Palantir's platform is performing is Net Dollar Retention (NDR). The "king" of NDR is Adobe, they sign you up to a Creative Cloud Plan and then *upsell you*, whether its through extra cloud services or additional software. Their NDR rate is around ~100-110% per year. A business which has a declining NDR rate is cause for concern (in software this is referred to as "churn", you need to have more new dollars coming in than you have flowing out). Palantir's NDR rate was 124% in Q1, and 119% in Q2, this is exceptional. Palantir adds +19% of value to its existing contracts signalling how strong Palantir's "moat" can become.



Government TTM Revenue Per Customer

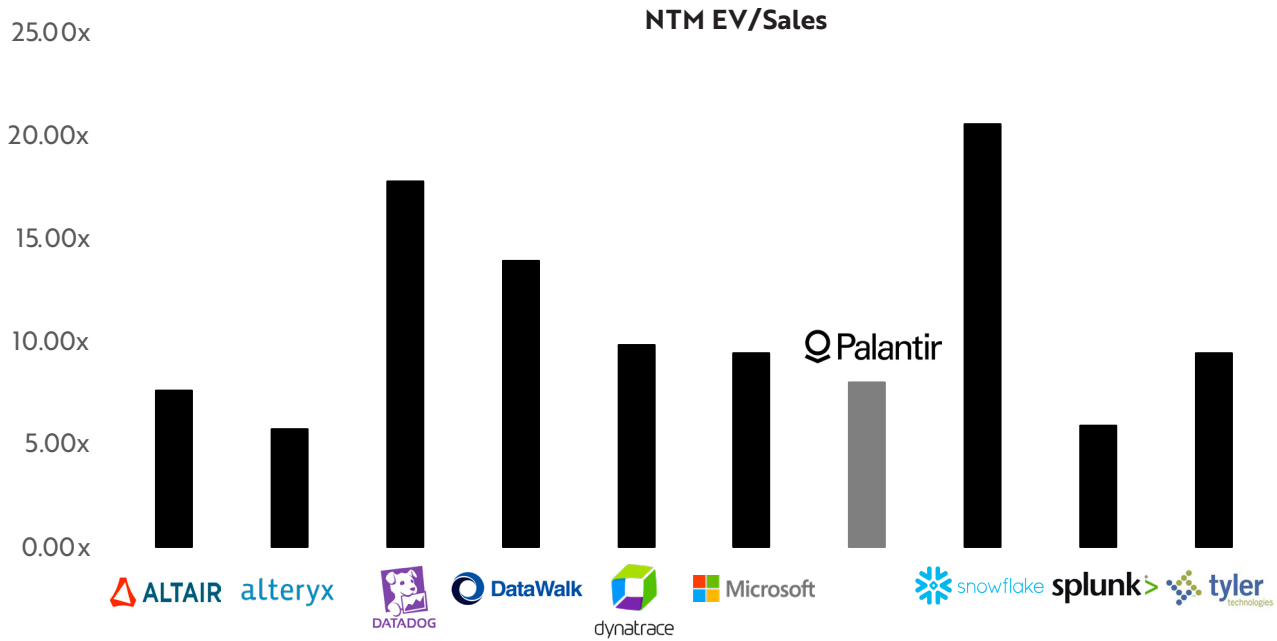


Source: Palantir Q2 Presentation, 2022



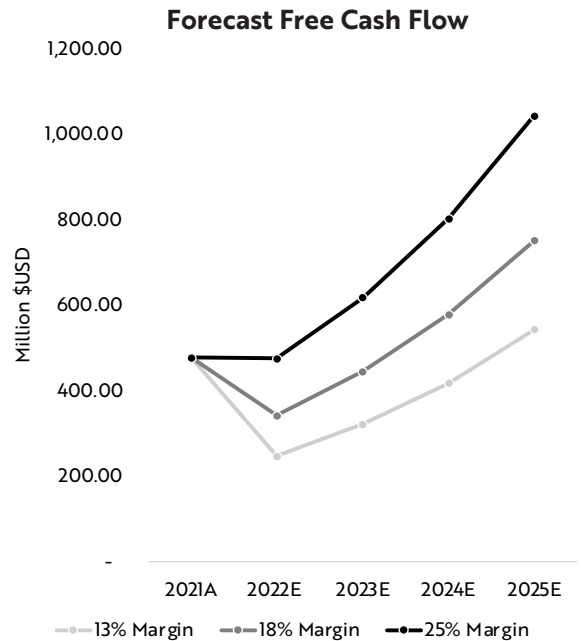
Does Palantir offer value?

In the chart below we can see how Palantir compares to other high growth enterprise software companies on an EV/Sales basis.



We have not attempted to derive a precise intrinsic value for Palantir, such efforts are challenging, due to the uncertainty on the size and timing of future contracts. Rather we have projected Palantir's adjusted Free Cash Flow (FCF) out until 2025 based on +30% Revenue CAGR (the growth rate provided by management's current guidance). In their Q2 earnings call Palantir surprised markets announcing +26% revenue CAGR and provided guidance for \$USD1.92 Billion in Revenue for 2022. The strength of the US Dollar and the inconsistent revenue streams from large government contracts were cited by management as key reasons for this under performance. We believe these recent developments do not effect Palantir's long term equity story and are focused on the +120% increase in US commercial revenue and a +250% increase in US commercial customer count.

We have projected out adjusted FCF at conservative margins of 13%, 18% (our long term base case) and 25%, based on management's lowered guidance as of Q2 2022. We consider Palantir's strong margins to be testament to management's focus and the differentiation of Palantir's product offering. Even if Palantir still operates with a significantly lower FCF margin (13%), by 2025, its adjusted FCF looks set to be in the vicinity of +US\$543 million. Whilst we can compare the company to a data management system, (Snowflake) or to an analytics system (Splunk) what Palantir does is quite unique. It is an operating system. As Apple has learnt with its incredibly lucrative App Store and supermarket owners have known forever, you don't want to own the apps, you want to own the store/platform.





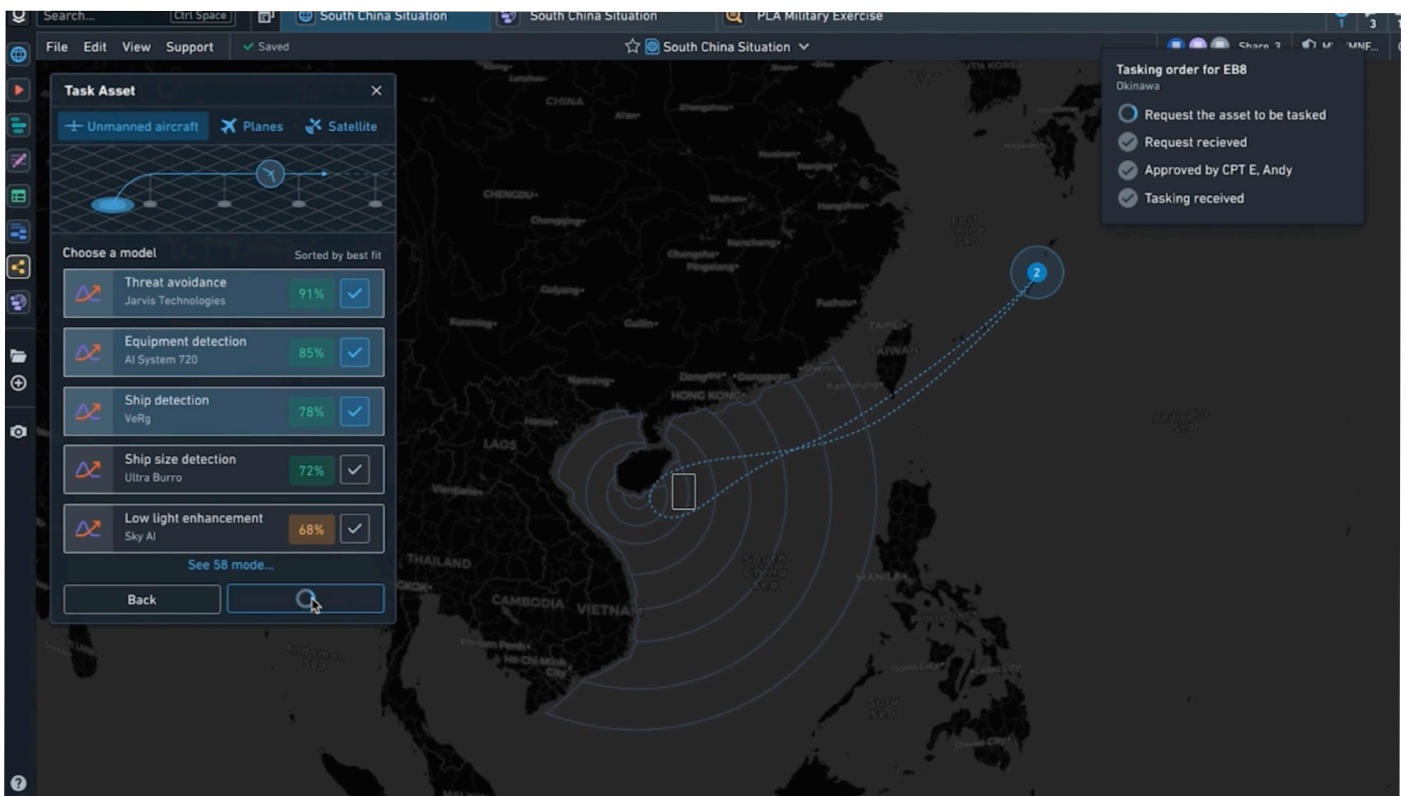
Conclusion

Palantir is the operating system of governments and large enterprise.

An investment in Palantir represents an investment in a company that is doing what Oracle did in the '90s and what Microsoft did in consumer operating systems. **It is singular.** It is the only system of its kind that incorporates both data processing, data warehousing and data visualisation, it combines all strands of the modern data "puzzle".

Based on our current valuation framework, we consider the current price of Palantir (~US\$9.55 per share) to represent an opportune entry point into a one-of-a-kind company that looks set to continue a "spider-like" expansion into how the modern world processes data.

Recent conflict in the Ukraine highlights the need for mission-critical operating systems that are secure and reliable. We take the view that the global peace is an incredibly fragile thing. As geopolitical tensions rise and both governments and organisations require increasingly sophisticated data to operate in an ever-changing world, Palantir is set to be right by their side, "clipping the ticket" on ever-growing datasets.



This summary report was written in March - August 2022.
Any data not referenced was sourced from Palantir annual reports and conference calls.

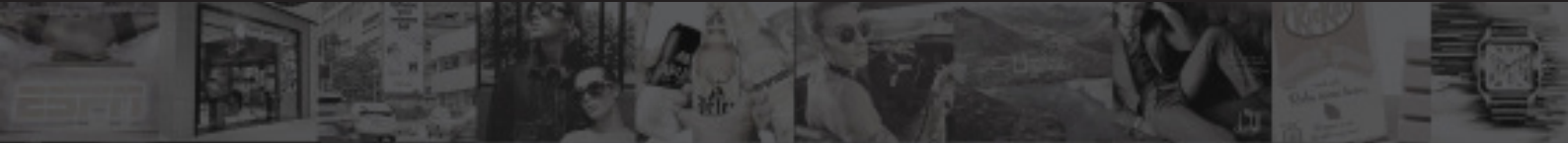
DISCLAIMER

Elevation Capital Management Limited is a Registered Financial Service Provider in New Zealand in accordance with the Financial Service Providers (Registration and Disputes Resolution) Act 2008 -- FSP # 9601. Elevation Capital Management Limited is licensed under the Financial Markets Conduct Act 2013 as a manager of registered schemes. Elevation Capital Management Limited does not provide personalised investment advisory services to the public. Nothing herein should be construed as a general advertisement of investment advisory services or a solicitation of prospective clients for investment advisory services. The information herein is intended solely to provide certain background information about Elevation Capital's investments on behalf of the Fund/s or Separate Accounts it manages or advises on. Elevation Capital Management Limited, its directors, employees and agents believe that the information herein is correct at the time of compilation; however, they do not warrant the accuracy of the information. Save for any statutory liability which cannot be excluded, Elevation Capital Management Limited further disclaims all responsibility or liability for any loss or damage which may be suffered by any person relying on any information or any opinions, conclusions or recommendations contained herein whether that loss or damage is caused by any fault or negligence on the part of Elevation Capital Management Limited, or otherwise.

Past performance is not an indication of future results.



ELEVATION CAPITAL
GLOBAL SHARES FUND



Independent Thinking *Disciplined Investing*

[In-de-pend-ent Think-ing] ind ə'pendənt THiNkiNG verb

Is essential to long-term investment success. We are often contrarian and do not pay attention to index compositions when making investment decisions. We believe that when you're several thousand miles away from Wall Street in a different nation, it's easier to be independent and buy the things that other people are selling, and sell the things that other people are buying.

[Dis-ci-plined In-vest-ing] disciplinəd inves'ting verb

The market presents opportunities every day, but disciplined investing is as much about the opportunities you do not take. We also believe that cash is sometimes the most attractive investment.



MORNINGSTAR INTERNATIONAL
EQUITIES CATEGORY FUND MANAGER OF
THE YEAR 2017, NEW ZEALAND



NOMINEE - FUNDSOURCE INTERNATIONAL
EQUITY SECTOR FUND MANAGER OF THE
YEAR 2013, NEW ZEALAND



NOMINEE - MORNINGSTAR INTERNATIONAL
EQUITIES CATEGORY FUND MANAGER OF
THE YEAR 2012, NEW ZEALAND



NOMINEE - FUNDSOURCE INTERNATIONAL
EQUITY SECTOR FUND MANAGER OF THE
YEAR 2012, NEW ZEALAND