KATHMANDU CAPITAL

October 17, 2023

Dear Partners,

I am pleased to announce that during the third quarter of 2023, the fund achieved a return of 7.56% gross of fees and 6.46% net of fees. This compares to -3.27% for the Standard & Poor's 500 Index and -3.81% for our MSCI ACWI benchmark. Please refer to your individual investor statements for an accurate view of your return, as investor returns may vary by class and the timing of your investment.

Time Period	Kathmandu (Gross)	Kathmandu (Net)	S&P 500 (SPXTR)	MSCI ACWI (ACWI)
2023				
3rd Quarter	7.56%	6.46%	-3.27%	-3.81%
Since Inception	7.56%	6.46%	-3.27%	-3.81%

While our quarterly return is satisfactory compared to the benchmark, we will never let a quarter of good (*or* bad) return deter us from our mission of delivering consistent absolute and relative returns over the long run. As such, we will continue to demand both a high margin-of-safety in valuation *and* top business quality across our holdings, with eyes wide open.

Market Commentary

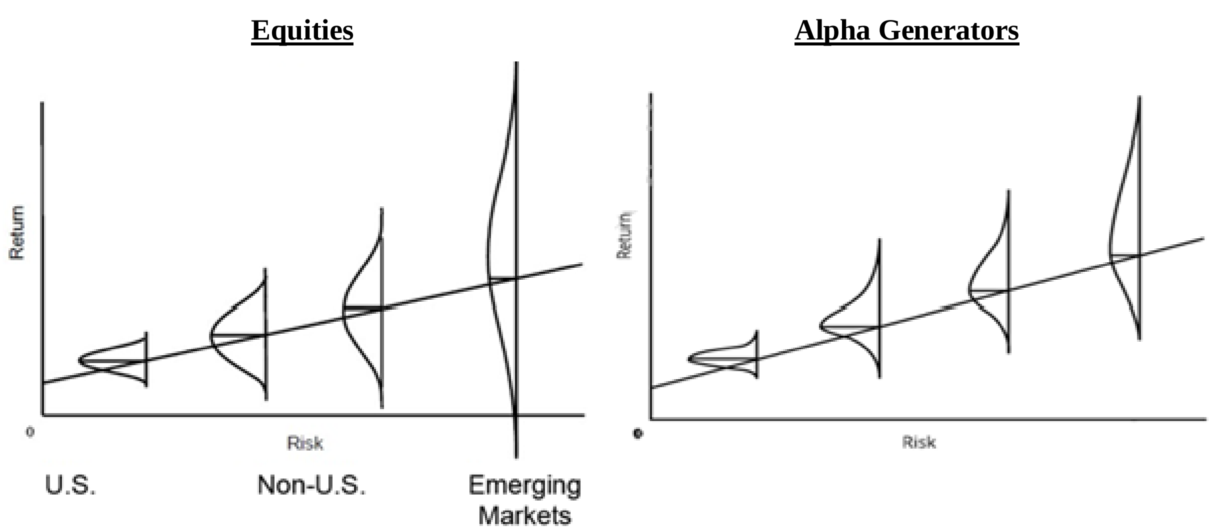
From where we sit today, neither the developed nor the emerging market looks particularly attractive. China is grappling with slower-than-expected Covid recovery, severe malinvestment, and overcapacity—especially in the real estate market—with the potential of cascading defaults affecting the domestic economy and abroad. The U.S. has its share of issues with inflation and labor strikes, while awaiting the impact of high-interest-rate to trickle down the economy. In emerging economies, investing continues to mirror a precarious house of cards. The market is fraught with systematic corruption, intricate political regimes, and subpar corporate governance. While there are occasional one-off opportunities, they appear to be few and far between. Suffice it to say, we are navigating through these markets with a healthy respect for idiosyncratic risks and remain cognizant of value traps.

We remain conservative on our investments amidst the prevailing macro uncertainty. When we do spot a game falling into our sweet spot, however, we will invest long-term *and* with conviction. For now, we will continue to leverage our global mandate to hunt for bargains across the world and stay meticulous about our selection process, concentrating our bets on a small basket of promising businesses with attractive valuations and pristine balance sheets. Additionally, we will persist in supporting our research with in-depth due diligence. Take our investment in Nagacorp (3918.HK) as an illustrative example. We have not only engaged with VIP hosts from world-class casinos and local reporters but have also conducted interviews with individuals closely associated with government officials and tele-scammers. This approach has granted us an insider's perspective on the Cambodian government's intensifying efforts to rebuild tourism confidence in the country.

Rest assured, we will diligently observe evolving market dynamics and utilize our nimble fund size to finetune our market exposures. Our aim is to seize the growth potential in emerging economies while enjoying the stability provided by the developed markets. We will keep you informed of any further updates.

Portfolio Update

Our portfolio currently comprises 5 holdings and a 14% cash position. We stand at ease with our concentrated bets, as numerous studies suggest that diversification could dilute investment returns, leading to 'diworsification' more often than providing benefits. As Buffett once remarked: *"you don't need 20 right decisions to get very rich. Four or five will probably do it over time."* We also remain comfortable with our cash holdings amidst macro uncertainties and the ~4% cash interest we are earning from our broker. That being said, as staunch advocates of asymmetrical return and market inefficiencies, we will actively seek opportunities to deploy our capital as they arise. You can be certain that we will stay selective in our research for high quality businesses and insist on demanding a 3:1 upside/downside payoff across our holdings at the very minimum, aligning with Howard Marks' perspective that *"investors who possess alpha have the ability to alter the shape of the distribution in the (risk & return) graphs, so that they are not symmetrical."*



Source: Howard Marks Memo. *Fewer Losers, or More Winners*. September 12, 2023.

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Institutions often categorize investors based on styles—whether it's growth versus value, small cap versus large cap, or emerging market versus developed. However, this classification has never truly resonated with me. I believe the optimal approach to investing is akin to Bruce Lee's approach to martial arts—it should 'flow like water' and be boundless. In simple terms, the core of value investing lies in acquiring a business for less than its true worth. This principle doesn't discriminate between investing in promising 'growth' companies and 'value' enterprises, small cap and large cap businesses, or emerging and developed markets. Nevertheless, I have consistently found success through certain types of investment opportunities throughout my investing journey. As such, I have classified our investments into the following categories for the sake of organization: Deep Value Gems, Cyclical/Secular Gainers, Quality Compounders, and Special Situations.

Deep Value Gems

Nagacorp (3918.HK)

Headquartered in Cambodia and listed on the Hong Kong Exchange, Nagacorp (3918.HK) operates a Vegas-style gaming and entertainment hub in the heart of Cambodia's capital, Phnom Penh. The company obtained a 70-year casino license from the government in 1995 and holds the exclusive right to run casinos within a 200-km radius of Phnom Penh until 2045.

Nagacorp operates as a highly competitive monopoly and functions as a structural low-cost provider, leading to an impressive financial performance. The company achieved an industry-leading 24% return on investment and a 30% net margin over the five years leading up to the pandemic. Nagacorp's economic moat is solidified by its CEO and majority owner's close relationship with the government and the firm's significance as one of the most successful foreign direct investments in the country. The economically aligned interest has facilitated the company in securing advantageous tax deals and extending its monopoly license at bargain prices over the years.

The Chinese government's crackdown on junket players and the slower-than-expected post-Covid Chinese tourism recovery, along with "scamdemic" in Southeast Asia, have created a compelling opportunity to invest in this undervalued, small-cap emerging market business with limited coverage. While there is no guarantee that the market would not further discount Nagacorp's stock price, especially as foreign capital continues to flee from Hong Kong, we believe the company's decade-low valuation has provided a sufficient margin of safety for our investment.

The company currently trades at a forward price-to-earnings (P/E) ratio of 6.3x. The market values the firm at $2.0B, a figure lower than the market value of its real estate, which Collier International assessed at $5.1B+ back in 2017. We firmly believe that the firm's real estate value has appreciated since then, particularly given Cambodia's continued attraction of record levels of foreign investment from China due to the 'One Belt One Road' initiative. Even under the most conservative assumptions that overlook demographic, geopolitical, and infrastructural tailwinds that could further enhance the company's value over time, we anticipate the firm's share price to easily double by 2030 following the commencement of its new casino, Naga 3.

Cyclical/Secular Gainers

Oil and Gas Basket (Undisclosed)

We currently hold a Canadian E&P company and a U.S. offshore servicing company in our oil and gas basket, which represents more than half of our portfolio. Our thesis is fairly straightforward —the most powerful commodity bull markets were built on structural supply constraints — and we are currently witnessing a structural supply shortage in the oil and gas market.

Following the Great Financial Crisis, many industry participants went bankrupt, resulting in permanent capacity loss and a widening supply-demand deficit. This, coupled with growing ESG considerations and the government's push towards green energy, has instilled significant discipline in the surviving companies, evident in reduced capital spending and a heightened focus on bolstering balance sheets. Moreover, major discoveries have been scarce in recent years, with total discoveries at multi-decade lows and major basins approaching the later half of the Hubbert Curve, despite technological advancements. Against the backdrop, OPEC production cuts and Russia sanctions have further constrained capacity, while the U.S. Strategic petroleum reserve has plummeted to a record low not seen since 1983. Meanwhile, oil demand has remained resilient around 100 million barrels per day, withstanding the threat of renewables and presenting potential surprises on the upside, especially as China's economy shows signs of recovery. Despite these factors, the oil and gas sector remain one of the most affordable sectors for investment.

For the aforementioned reasons, we are a long-term bull on the oil and gas industry. Taking into account operating leverage and the $60 breakeven price for most oil producers, we believe that E&P and offshore servicers are well-positioned to benefit from this supply-demand dynamic, more so than a sole bet on oil prices. At the time we initiated our positions, we estimated that each of our holdings would present a 100%+ upside, with reserve value and robust balance sheet serving as downside protections. We are confident that the supply demand imbalance and fundamental factors will eventually materialize, allowing our holdings to fully realize their upside potential. However, we remain mindful of the cyclical nature of the business and the challenges associated with maintaining a long-term position in commodities. We will keep you informed of any changes to our thesis.

Quality Compounders

Kaspi.KZ (KSPI.IL)

Kaspi is a Kazakhstan-based tech titan listed on the London Stock Exchange. The company operates a super app that encompasses payments, a third-party marketplace, and fintech, reigning as the unequivocal leader in each category in Kazakhstan, with no close substitutes or competitors. Like most successful flywheel businesses, Kaspi is a highly profitable (44% net margin) cash flow gusher (9.4% FCF yield) with a net cash balance sheet.

Kaspi's economic moat is formidable. Its super app has created a powerful flywheel and network effect as more consumers attract more merchants, and vice versa. For instance, the company leverages customer data from the marketplace to make more informed lending decisions to merchants, thereby improving the delinquency rate. Its marketplace utilizes proprietary data from fintech and payments to track customer buying patterns and deploy precise targeted ads, stimulating purchases. Additionally, its payment system is seamlessly integrated into the marketplace, simplifying transactions for consumers. To illustrate the company's dominance, it stands as one of the few enterprises globally that could displace Visa and Mastercard as a country's primary payment platform. It's also an app that is deeply embedded into users' lives. Consumers can fulfill all their essential needs, including obtaining their PCR results, receiving pensions, registering their cars, and paying taxes and state duties through the app. Consequently, the company maintains a near 100% consumer and merchant retention rate, coupled with a near 90 net promoter score, outclassing companies like Google and other world-class enterprises.

The company also possesses substantial room for growth. The user overlap across its services stands at a mere 38%, leaving ample space for cross-selling. Given the company's existing technology infrastructure, replicating the model and expanding into adjacent services and other regions of Central Asia—where digital adoption is still in its infancy and the population is young and growing—would be relatively easy. We hold a strong belief in the company's ability to execute successful expansion and maintain a >30% growth rate for the foreseeable future, given the management team's impeccable track record of execution. The entire management team, which comprised of all Harvard graduates, orchestrated a remarkable transformation in 2008. They strategically divested 95% of the commercial banking businesses and redirected their focus to the remaining 5% retail banking businesses, recognizing retail is a tech-driven game where companies can breed a lasting competitive edge. This calculated long-term vision proved pivotal. Within just 11 years, the company secured commanding market shares of 41% in e-commerce, 35% in payments, and 31% in consumer finance. Importantly, the company seemed to have figured out the winning formula. When the company introduced its POS system in 2020, it secured over 51% of the market share in just a year. The same trend was observed in its P2P business; the company initially held a mere 2% market share in the space, but twelve months later, it dominated with a 66% market share. We believe the management team is highly incentivized to continue its flawless execution, as the team and its private equity backer, which also funded Yandex, the Google of Russia, have a combined ~80% interest in the company.

Despite being one of the most impressive flywheel businesses I've encountered in my investing career and ranking as a top company on the London Stock Exchange in terms of net income, revenue growth, and net profit margin, Kaspi currently trades at a modest 8.5x forward earnings multiple. We believe the undervaluation is attributed to its classification as an emerging market business, a factor that often deters institutional investors. Moreover, concerns revolving around the ongoing Russia-Ukraine conflict have further widened this value disconnection. Contrary to the market, our extensive research has unveiled a promising outlook. Kazakhstan's Prime Minister has adeptly seized on the opportunity to position the country as a viable replacement for Russia, actively working to transform Kazakhstan into the central corridor of trade between Europe and China. Notably, trade has picked up in Kazakhstan since the conflict's onset, with China trade alone up by 22% in the first half of 2023. Additionally, Kazakhstani companies like Air Astana have announced ambitious plans to expand their fleet by almost 50% by 2025 due to their confidence in the country's growth trajectory. We believe once the disconnection reconciles, along with a potential U.S. uplisting, Kaspi's share price could appreciate 100%+ over the next 2-3 years.

Special Situations

SES-imagotag SA (SESL.EPA)

Listed on the Paris Stock Exchange, SES imagotag stands as the undisputed global market leader for electronic shelf labels (ESL) and complementary cloud-based software solutions (VAS), with minimal analyst coverage. This distinguished French company serves approximately half of the top 250 global retailers, offering retailers up to 20% in cost savings on labels and augmenting operational efficiencies.

The company currently holds a commanding position in an oligopoly industry with a 50% market share, while the rest of its top competitors collectively hold a 30% market share. We believe the company's market leadership is sustainable because, unlike its competitors, SESL offers significantly more digitally enhanced solutions, and the technological edge is poised to expand as it continues to leverage its robust cash flow profile to commit industry-leading capex on solution innovations. Importantly, SELS's products are mission critical but constitute only a small fraction of retailers' total operating cost, making the business extremely sticky.

SESL also has a long runway for growth. Globally, the penetration rate of ESL stands at a mere 7%, and just 1% among U.S. retailers. We believe the penetration is on the cusp of an inflection. The company recently secured a nationwide contract with Walmart, a company renowned for investing in cost-saving programs, even during economic downturns, granting the SESL another degree of recession resilience on top of its net debt negative balance sheet. We anticipate that the success of this pivot program will entice more U.S. retailers to embrace the ESL technology, positioning the company well for >30% annual growth in the years to come. We also foresee this, coupled with margin accretion opportunities from the burgeoning VAS segment, would result in a 100%+ share upside over the next four to five years.

We initiated our position after the publication of a 60-page short report by Gotham City Research on June 22, accusing the company of fraudulent accounting practices. This report triggered a 60% selloff of the company's shares. We took advantage of the situation believing that the impact of this report would be short-lived as the central argument of the report, which revolves around the double counting of revenue through related party transactions, lacks substantiation. The company has successfully demonstrated in its response to the short report that the transactions between the two entities hold legitimate industrial ground and do not impact the consolidated financials. Furthermore, the company's external auditors, KPMG and Deloitte, have released certificates confirming the legitimacy of these intra-company transactions. At 0.28x forward price/earnings-to-growth, we believe this selloff has presented an exceptional opportunity for us to snap up shares of this high-quality, underfollowed market leader in an underpenetrated industry at a bargain price.

Closing

Twenty years ago, I was merely a young child accompanying my mother to the local stock brokerage in Taiwan, where I would dream of a future on Wall Street. Over the years, my journey led me to prestigious institutions worldwide, including McKinsey & Company, a renowned long-only deep value hedge fund, First Pacific Advisors, and eventually to the front office of a Wall Street investment bank, and later to a real estate billionaire's family office.

What most people do not know is that this journey also entailed significant challenges, including career gaps, over 1,000 rejections, and a point where I had to McDonald's dollar menu every day to keep my dream alive. During a period of unemployment and defeat, I embarked on a solo journey to Kathmandu, Nepal, and sought solace within the walls of a temple. It was there that I contemplated whether to persevere in pursuing my dream – a pivotal moment that transformed my dream into something much greater than merely breaking into Wall Street. It became a vision larger than myself and marked the birth of Kathmandu Capital.

In the serene presence of Buddha, I made a solemn vow: to someday establish a hedge fund that prioritizes the interests of shareholders. While to many, being a stock picker may seem like just a job, a career, or a pathway to wealth, for me, it has always been different. It's a dream, a cause I yearned to dedicate my life to, firmly believing that I would utilize every ounce of my capability to fulfill my fiduciary duty and assist my investors in reaching their financial goals. This is why we embraced the Buffett partnership fee structure and put money where our mouth is by investing the vast majority of my net worth alongside our investors. This dream is also what granted me the strength to endure all the hardships and get to where I am today. Now, every day feels like a tap dance to work.

Needless to say, Kathmandu Capital wouldn't have come to fruition without the invaluable help of many individuals. There are numerous people I wish to express my deepest gratitude to: our dedicated intern team – Eason, Gianna, Ras, Sean, and Pierre; our fund advisor, Emmy Sobieski, whose mentorship and friendship guided me through countless challenges; and the families who entrusted me with their capital. To those deserving of even greater appreciation, you know who you are. I am eternally grateful to have all of you in my life.

Bill Gates once said, "*Most people overestimate what they can do in one year and underestimate what they can do in ten years*." Who would have thought that a kid from Taiwan, who didn't speak a word of English when he arrived in the U.S., would one day become a hedge fund manager? For all of you out there, never, EVER give up on your dream. Looking back, it was this unconventional, unwavering journey that built my contrarian thinking and shaped who I am today. As Ben Graham stated: "*intelligence is a trait more of the character than of the brain.*" It is something that cannot be taught or gifted but experienced and internalized. You are your greatest asset. Dream big, work hard, and stay patient. Most importantly, enjoy the journey, and you will make all your wishes a reality.

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We will be in Asia in November, mainly to meet with our investors and conduct further due diligence on our investments. Please feel free to reach out to us at vlo@kathmandupartners.com as we are always delighted to meet both old friends and the new.

Sincerely,

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