KATHMANDU CAPITAL

February 10, 2024

Dear Partners,

In the fourth quarter of 2023, the fund achieved a return of -6.65% gross of fees and -6.65% net of fees. This compares to 11.20% for the Standard & Poor's 500 Index and 11.03% 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 TR*)
2023				
3rd Quarter	7.56%	6.46%	-3.79%	-3.64%
4th Quarter	-6.65%	-6.65%	11.20%	11.03%
Since Inception	0.41%	-0.62%	6.99%	7.36%

*Data provided by NAV Consulting, TR = total return index

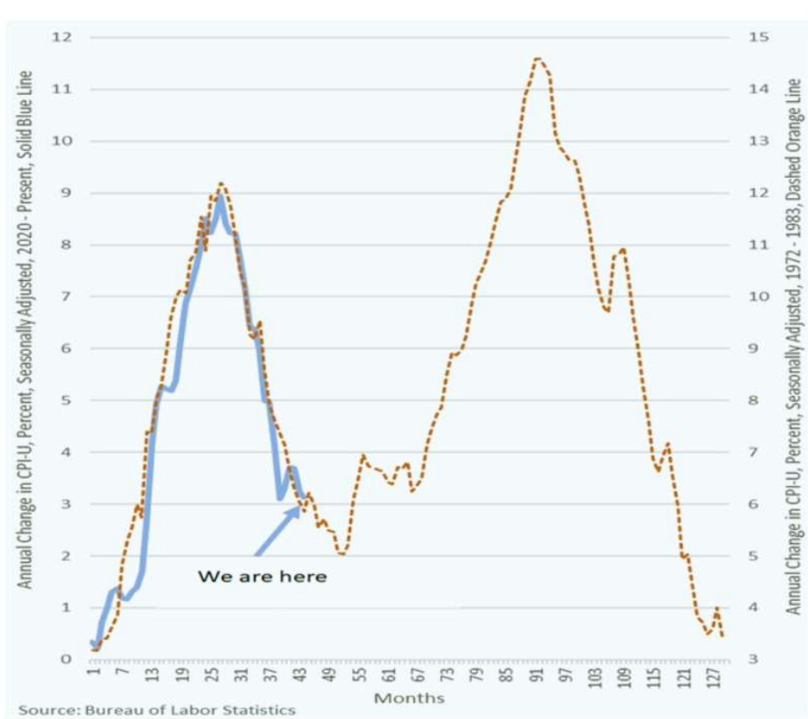
In the past quarter, our portfolio experienced some turbulence, primarily due to a significant selloff in the oil and gas sector, which represents more than 50% of our portfolio. This selloff was driven by concerns over the rise in U.S. shale production, OPEC's ability to cut production, and macro overhangs. We believe the selloff is short-term in nature, largely exaggerated by speculative traders and algorithms capitalizing on trading momentum and headline worries. Instead of attempting to time the market cycle and fixating on the headlines, we remain focused on our long-term investment thesis. Our commitment is based on a secular supply-driven shortage and an attractive upside/downside payoff. We are confident that the market will eventually align with our perspective over the long haul.

Market Commentary

Navigating the economic and market landscape is like charting a course through uncharted waters, presenting a significant challenge even to the most astute economists. Acknowledging the complexity of forecasting future economic and market trends, we opt to focus on the big picture—the current state of the economy, high-probability events, and their potential implications—while avoiding making specific predictions.

Currently, we are closely monitoring the Federal Reserve's intention to lower interest rates. While the exact timing remains uncertain, this potential move—whether driven by Chairman Powell's political maneuvering or as a genuine attempt to bolster a weakening economy—suggests two likely scenarios at play.

On one hand, equity prices may continue its record-breaking performance, propelled by a lower discount rate that amplifies the current positive market sentiment. As depicted in the chart below, if history does rhyme, lower interest rates could lead to another inflationary cycle that benefits our oil & gas positions. On the other side, if the rate cut is intended to stabilize a potentially wavering economy, companies possessing a strong economic moat and those capable of outgrowing the economic downturn—especially those trading at a discount or fair value—are poised to thrive and outperform the broader market.



While our investment strategy primarily focuses on selecting individual stocks based on company-specific merits, we are dedicated to positioning the portfolio for any macroeconomic developments. We find the current market conditions to be ripe with opportunities for our investment strategy. The stark valuation difference between emerging market equities and their U.S. counterparts, with the former trading at a 50-year low relative to the latter by approximately one standard deviation, is particularly compelling. Moreover, small-cap stocks are significantly undervalued compared to large-caps, with their forward price-to-earnings (P/E) ratios about 30% lower. This discrepancy highlights an attractive opportunity in the international small-cap market, perfectly aligning with our investment philosophy.

Portfolio Update

At the end of the fourth quarter, our portfolio consists of the same five holdings as the prior quarter and a 14% cash position. Since then, we have fully deployed our cash, mainly to increase our bets in oil and gas basket.

In alignment with our market commentary, our focus for the upcoming quarters will delve into detailed analysis of the following sectors: uranium, propelled by an anticipated inflationary climate and secular growth in the nuclear energy transition; technology, with a goal to pinpoint high quality compounders and those likely to outgrow an economic slump; defense, due to its non-cyclical nature and a surge in defense spending worldwide; and consumer staples, recognized for their stability, robust brand equity, and pricing power, serving as a safeguard should the market decline. Furthermore, we intend to explore investment opportunities within the Japanese market and select companies in emerging markets, reaffirming our commitment to invest with a global approach. We will continue to strive to construct a portfolio that not only embodies our investment philosophy but also stands apart from any other investment portfolio.

Below is a quarterly update on our current holdings:

Deep Value Gems

Nagacorp (3918.HK)

The company continues to encounter significant headwinds due to the Southeast Asia "scamdemic" and a slower-than-expected Chinese tourism recovery. The unexpected passing of Founder and majority shareholder Dr. Chen Lip Keong has further complicated matters, leading to market selloffs and broker downgrades amid uncertainties over succession and future government relationships. Diving deeper into the issues, we view the selloffs is an overactions and short-term in nature. Our on-the-ground due diligence reveals that the Chinese government's enhanced efforts to combat scams in Cambodia, including deploying undercover forces for extensive background screens on local Chinese workers, are starting to make strides in restoring the nation's appeal for tourism. Furthermore, our discussions with investor relations just before Dr. Chen's passing indicate that the succession plan is consistent with previously established arrangements. Importantly, recent conversations with political insiders have reassured us that the company's government relations remain strong. With that in mind, we remain convinced that Nagacorp's strong economic moat and compelling valuation constitute an attractive risk/reward opportunity. We will continue to closely monitor the situation, as negative sentiment surrounding China-related businesses and Hong Kong-listed stocks increases the complexity of the opportunity.

Cyclical/Secular Gainers

Oil and Gas Basket (*Undisclosed*)

As highlighted in our opening remarks, our perspective on the oil and gas sector remains unchanged. We believe that the extended period of underinvestment in capital expenditures and secular supply shortage, combined with the sector's compelling valuations, positions oil and gas as one of the most attractive sectors for investment. Against this backdrop, the ongoing geopolitical tensions in the Middle East are likely to persist, acting as a short-term catalyst that continues to drive oil prices higher. While we await the narrowing of the current disparity between historically low U.S. commodity prices and equity prices, we remain cognizant of the sector's cyclical and speculative nature. Accordingly, we will closely monitor developments within the sector and stand prepared to adjust our investment thesis in response to changing market conditions.

Quality Compounders

Kaspi.KZ (KSPI.IL)

As expected, Kaspi completed its U.S. uplisting and debuted at $92.5, marginally above its IPO price of $92. The resonance of this uplisting fell short of our expectations. We believe this muted response arises from a misalignment in investor perceptions, where the economic prospects of Kazakhstan are falsely associated with the ongoing geopolitical tensions in the region. The misperception overlooks the country's strong economic backbone, underpinned by its rich oil and uranium reserves, alongside its emergence as a pivotal trade corridor between Asia and Europe, catalyzing by the regional conflicts. We anticipate a shift in perceptions as its heavyweight underwriters Morgan Stanley, J.P. Morgan, and Citi ramp up their coverage of the company. We remain confident that Kaspi's execution excellence and powerful flywheel business will eventually garner interest from U.S. investors, especially at the current valuation of ~12x P/E.

Special Situations

SES-imagotag SA (SESL.EPA)

SESL is rapidly expanding its U.S. presence and value-added service offerings. The company achieved remarkable triple-digit sales growth in the Americas and APAC in the fourth quarter, despite fulfilling less than 10% of their initial contract with Walmart, signaling a strong broad market adoption. With the majority of Walmart's contract yet to be realized, we forecast that SESL will achieve a >30% revenue CAGR in the upcoming years. This growth is expected to be accompanied by substantial opportunities for margin expansion, driven by economies of scale and an increase in higher margin, recurring value-added revenue.

Closing

We begin our closing memo with a heartfelt tribute to Charlie Munger, a legend whose influence transcends the confines of investing to touch the very core of humanity. His contributions embody deep life principles and virtues of character. His teachings have instilled in us the essence of perseverance, reinforcing that success is achieved through relentless effort and deserving merit His legacy is enduring and vast, offering an endless source of inspiration and serving as a beacon for all of us and the generations to come.

Though Mr. Munger has left us, and some claim value investing may fade into obsolescence, the foundational values he championed will live forever. "My sword I leave to him who can wear it," a declaration from Mr. Munger, resonates deeply with our core ethos at Kathmandu Capital. We are dedicated to preserving the invaluable teachings of this value investing luminary and compounding his profound impact, not just within the realm of investing, but also across humanity. Let us unwaveringly honor his memory by living up to his ideals and ensuring they are passed on to those who follow in his footsteps.

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In that fashion, following in the footsteps of the great minds of value investing, I have committed to pursuing an MBA at Columbia Business School. This decision did not come lightly as juggling between school and managing Kathmandu will be demanding. Yet, the contrarian in me once again guided me to the unconventional route and bet on myself to rise to the challenge. Rather than viewing the MBA program and fund management as mutually exclusive, I see them as ideal complements that will make me a better steward of capital and practitioner of value investing, benefiting our investors in the long run. I am grateful for all the support we receive from our investors regarding my decision. In return, I pledge to continue safeguard your investments wholeheartedly and remain dedicated to managing your capital for as long as I am alive.

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We extend a warm welcome to our new cohort of student and professional interns joining the fund. Among them are distinguished students from leading universities in Asia—Aaron, Kenny, and Ryan—master students from Columbia University—Albert, Aria, and Joey—along with the ophthalmologist, Dr. Lin. Over the next six months, they will embark on a journey to enhance their investment acumen with us. They will immerse themselves in the complexities of formulating investment ideas, conducting rigorous research across various countries, industries, and companies. Their focus will include honing the art of building precise valuation models to strengthen their investment theses. Concurrently, our seasoned professional interns, Pierre, Gianna, and Eason, will remain steadfast in their commitment to provide unwavering support for our research endeavors. We express our gratitude for the invaluable assistance of all our interns and look forward to a collaborative and successful experience ahead.

Sincerely,

Vincent Lo, CFA

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