KATHMANDU CAPITAL

April 5, 2024

Dear Partners,

In the first quarter of 2024, the fund achieved a return of 21.42% gross of fees and 17.80% net of fees. This compares to 10.09% for the Standard & Poor's 500 Index and 8.20% for our MSCI ACWI benchmark. Since inception, we have realized a return of 21.91% gross of fees and 17.07% net of fees, versus 17.78% for the Standard & Poor's 500 Index and 15.66% 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 (Inception)	7.56%	6.46%	-3.79%	-3.64%
4th Quarter	-6.65%	-6.65%	11.20%	11.03%
2024				
1st Quarter	21.42%	17.80%	10.09%	8.20%
Since Inception	**21.91%**	**17.07%**	**17.78%**	**15.66%**

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

In the quarter, our returns were driven primarily by a resurgence in oil prices as the market observed a continued decrease in crude oil inventories, accompanied by persistently strong demand. Our thesis remains firm that secular supply shortages will continue to support strong oil prices. Consequently, we anticipate oil and gas companies will sustain robust free cash flows, engage in share repurchases, and elevate dividend payouts, thereby delivering substantial returns to shareholders. We believe the market will eventually agree with us, as oil and gas remains one of the most undervalued sectors in the market.

Market Commentary

The market continues to chase higher highs, propelled by 4Q23 GDP growth that surpassed modest baseline expectations. Chairman Powell's affirmation of the Fed's intention to introduce three rate cuts within the year further fuels market optimism, although we believe the reiteration offers nothing more than resonating existing market expectations. Concurrently, excitement around AI-related developments remains unabated, with category valuations reaching unprecedented highs. This trend is amplified by the momentum from passive investing and quant trading, which seem to completely ignore fundamentals and traditional valuation metrics, to the detriment of active managers, particularly those focusing on value.

While AI is poised to significantly impact our daily lives and a soft-landing seems to be a possibility in the land of sight, current valuations appear to lean towards the more optimistic side as the animal spirit soars.

Reflecting on Herbert Stein's adage, "If something cannot go on forever, it will stop," we remain cognizant of the inevitability that all bull markets will eventually recede.

In this context, we emphasize our continued focus on uncovering undervalued opportunities among small to mid-cap companies bypassed by passive indexes and quants due to their size and illiquidity. Many of these firms, generating robust cash flows and offering generous share buybacks while trading at low price-to-earnings ratios—and those demonstrating a sustained ability to compound at a healthy rate with reasonable valuations—offer compelling long-term value as the broader market gravitates away from fundamental and intrinsic value considerations. The absence of institutional investors in the small-, mid-cap space particularly in emerging markets—which accommodate 85% of the global population and a substantial share of the world's GDP, yet constitute less than 12% of global stock market capitalization—presents a unique opportunity for our investment strategy. We believe through in-depth research, extensive channel checks, and a long-term investment horizon will continue to provide us with an edge over investors in this arena, which consists mainly of retail investors. Our goal is to capitalize on the discrepancy between market value and underlying intrinsic value, steadfast in our belief that these values will eventually converge over time.

Although it reflects only a few quarters of performance results, we hope our performance stands as an indicator that, even in today's environment, generating satisfactory returns and even alpha does not necessitate overweighting in large-cap tech stocks, provided investors maintain a focus on value and patience arbitrage. We remain committed to construct a portfolio that stands apart from any other, echoing Howard Marks' insight, "being different is absolutely essential if you want a chance at being superior."

Portfolio Update

At the end of the first quarter, our portfolio remains fully invested in the same five positions we held in the prior quarter as we continue to search for new additions to our list of excellent businesses.

Below is the quarterly update on our current holdings:

Deep Value Gems

NagaCorp (3918.HK)

NagaCorp's share price has experienced a notable rebound, driven by quarterly results that not only indicate a continued business recovery but also alleviate concerns regarding the July 2024 debt repayment. Despite these positive indicators, the market's expectations for the company remain tepid, as highlighted by NagaCorp's decade low P/E, forward P/E ratio, and P/B ratios. Such skepticism is not without basis. Historically, NagaCorp's gross gaming revenue (GGR) depended significantly on VIP referrals from junkets, a model that has been adversely affected by the Chinese government's crackdown on junket operators and the Southeast Asia "scamdemic."

Contrasting with prevailing market views, we contend that an excessive emphasis on short-term hurdles obscures the true value of NagaCorp's historical profitability and the prospects for future earnings expansions. Moreover, sell-side coverage often lacks the necessary depth to appreciate the nuances of the local market and geopolitical dynamics, as well as NagaCorp's monopoly position and cost advantage. We posit that NagaCorp is on the path to becoming a more organically driven business, particularly as it shifts the majority of its business from referral VIPs (2% gross profit margin) to the more lucrative mass (71%) and premium VIP (23%) segments—a move expected to markedly enhance profitability.

Now that the concerns over the firm's ability to repay its $472M debt obligations due in July has been largely mitigated, we expect NagaCorp to resize its Naga3 project at this stage to focus on profitability—a prudent move in our view as the company awaits tourism recovery. That said, with tourism recovery currently standing at only 73% of its 2019 levels and Chinese tourism at 29%, coupled with the anticipation of increased tourism flow from the new international airport offering more direct flights, particularly from China, we see significant long-term growth potentials and top-line surprises. Overall, we maintain a strong conviction that the market will eventually reward investors who are patient enough to wait.

Cyclical/Secular Gainers

Oil and Gas Basket (*Undisclosed*)

Our decision to increase our investments in the oil and gas sector from 50% to 60% of our total portfolio in the 4Q23 is bearing fruit, as a continuous decrease in crude oil inventories, coupled with consistently strong demand, continues to drive oil price higher. We expect the WTI crude price to stay range-bound, with $80 at the low end. This pricing environment should enable oil and gas companies to maintain strong profitability and gushing out substantial free cash flow, all while rewarding investors with generous share repurchases and dividend hikes. Given the current valuation, we continue to view the oil and gas sector as one of the most compelling investment opportunities presented by the market today.

Quality Compounders

Kaspi.KZ (KSPI.NASDAQ)

Aligned with our projections, KSPI continues to captivate investor attention as prominent underwriters and Wall Street banks initiate coverage of the company. We hold firm in our belief that management's strategic decision to delist the company's shares from the London Stock Exchange, with the aim of consolidating liquidity, will bolster its appeal by creating a liquidity profile more aligned with institutional mandates. Looking ahead, we foresee an imminent capital influx prompting a re-rating of the company's P/E multiple, elevating it from ~15x to the ~20s range. We believe such a multiple expansion is warranted for a company poised to not only sustain a 20%+ top-line growth and high teens bottom-line growth but also demonstrate considerable potential for expanding revenue streams and geographical footprint.

Special Situations

VusionGroup, formerly SES-imagotag SA (VU.EPA)

The market responded positively to VU's improved profitability and the 2024 full-year guidance, which calls for €1 billion in sales at the low end. We continue to see a strong revenue upside and significant opportunities for margin expansion as the company expands its presence in the U.S. and scales its value-added service businesses. Our optimism is underpinned by the anticipated widespread adoption of electronic shelf labels and the potential to onboard tier 1 customers, particularly in the U.S. market.

Closing

This past quarter, we were honored to share our insights on breaking into the industry and the core tenets of value investing virtually with students at National ChengChi University and Believe in Next Generation, a Taiwanese non-profit organization dedicated to providing affordable youth apartments, offering young professionals from rural areas of Taiwan an opportunity to work and thrive in big cities. It's our ongoing mission to disseminate the profound wisdom we've garnered from the luminaries of value investing to a broader audience. We have stated this before, and it bears repeating: our commitment extends beyond merely managing assets. We prioritize the well-being of our investors, our impact on the wider community, and humanity at large above all else—this commitment is the cornerstone of our ethos.

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My experience at Columbia Business School has been exceptionally enriching. The professors have provided invaluable feedback on my investment process and significantly broadened my perspective, enabling me to become not only a more well-rounded investor—which, ironically, includes receiving my high marks from a Short Selling Class as a long-only manager—but also a more efficient fund operator. I hope the fund's performance thus far serves as proof of my thesis that my academic endeavors should complement our capabilities to serve our investors, rather than acting as a distraction. We are hopeful and excited about continuing this trajectory.

Operationally, our cohorts of interns have demonstrated unwavering commitment to the fund, steadfastly contributing until the time comes to pass the baton to the next class of interns in the summer. We continually express our gratitude for the invaluable assistance provided by all our interns and eagerly anticipate a collaborative and successful journey ahead.

Sincerely,

Vincent Lo, CFA

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