Hoofddorp, the Netherlands, 5th of February 2025

Dear Investor,

After this year's New Year's Letter, I thought I had written enough to wrap things up. Unfortunately, the world seems to disagree as history has taken another turn. In this newsletter I will dive deeper into the meaning of DeepSeek's big entrance, while I will also share my thoughts on Trump's latest tariff announcements and partial retraction (Mexico & Canada except oil 25%, Canadian oil 10%, and an additional 10% on China).

Regarding our fund's performance, January led to a 3.3% advancement following a 2% decline in December, trailing the indices somewhat. Many of our stocks went up over 10%, but the Mag-7's big advances in December created a tough mark to beat.

2024	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Full Year	Cum
ARAR Fund*	-1.6%	4.6%	4.6%	-5.4%	6.6%	-1.6%	-0.5%	-2.0%	-3.5%	0.5%	0.8%	-2.0%	-0.1%	14.1%
MSCI World ACWI ETF**	2.8%	3.7%	3.6%	-1.7%	1.0%	5.0%	0.2%	-0.1%	1.4%	0.9%	6.6%	-1.0%	24.5%	40.5%
MSCI Equal Weight EUR	1.1%	2.4%	3.8%	-2.5%	1.5%	-0.6%	3.4%	0.2%	2.4%	-1.5%	6.5%	-2.3%	14.8%	22.1%
AEX Total Return	4.0%	4.0%	4.0%	0.2%	3.6%	2.3%	-0.3%	1.0%	-1.5%	-3.9%	1.2%	-0.4%	14.7%	22.9%

2024	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Full Year	Cum
ARAR Fund*	3.3%												3.3%	18.0%
MSCI World ACWI ETF**	3.9%												3.9%	46.0%
MSCI Equal Weight EUR	4.2%												4.2%	27.2%
AEX Total Return	4.9%												4.9%	28.9%

*This shows the performance *after all fees and costs* for the A-Class of the ARAR Fund, which is (still) available to new investors.
**This is the Euro denominated MSCI ACWI ETF (IUSQ), which follows a market cap weighted index consisting of ~80% Developed Market and 20% Emerging Markets Stocks. We believe this represents the most prudent and most likely alternative to investing in the ARAR Fund.

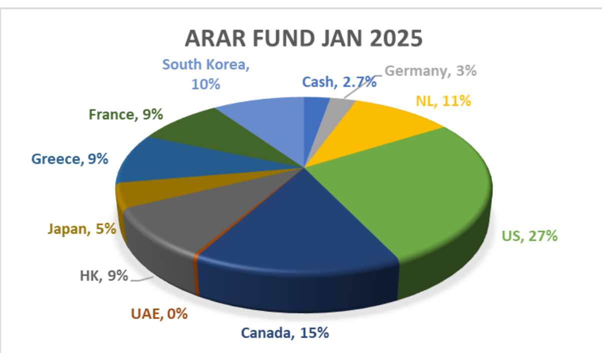
PERFORMANCE IN DETAIL

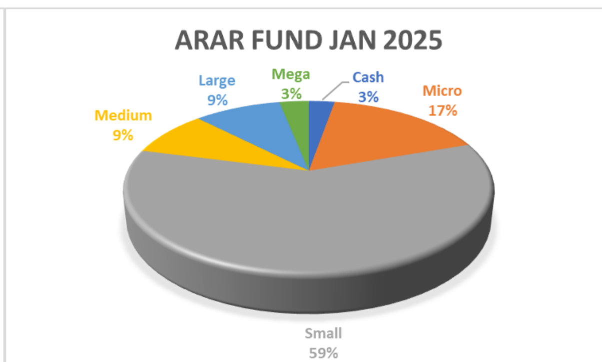
Five stocks advanced over 10%: Jackson Financial, Basic-Fit, Jiayin Group, Deutsche Rohstoff, and Orezone. This two-month Mag-5 performance was matched by the Mag-7 that went up around 9%, in spite of the significant headlines from DeepSeek.

Our fallen angel Payfare was taken over in December by Finserv at a 100% premium to their prior close. This was of course well below the valuation before DoorDash unexpectedly ended their partnership back in November, but we are happy we kept the position after the initial drawdown.

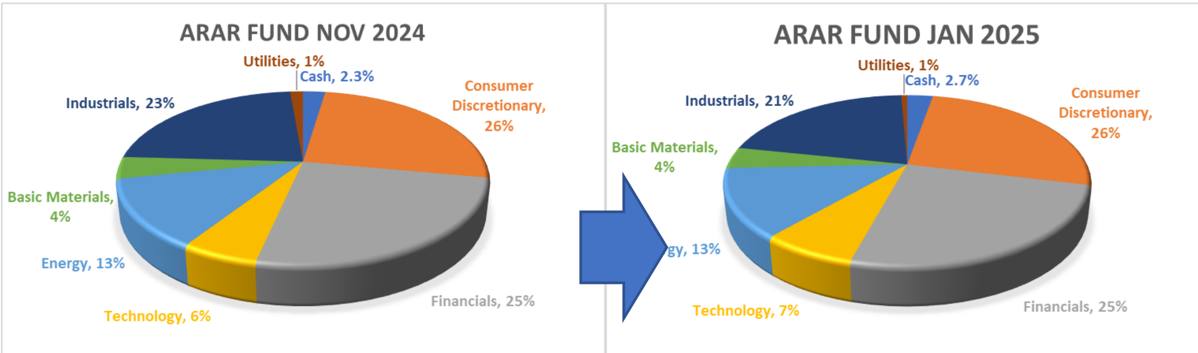
Shipping companies failed to participate in the moves up, while OK Wind slid 40% without any new headlines. Investors seem to have lost all hope. While we understand the sentiment, the current valuation suggests the market completely discounts even the possibility of business stabilization. Our position was already very minor but with these moves even such a position can make itself felt.

PORTFOLIO COMPOSITION





The current portfolio consists of 22 stocks and a near 2.7% cash portion caused by liquidating our Payfare position. We are in the process of entering one new position (nr. 22). We tactically increased our position in OneWater ahead of earnings. In line with what we flagged in our December newsletter, the company surprised on the positive side: It went up 15% after earnings and is now well over 20% higher than our latest entry.



Although we've adjusted several positions our sector composition looks similar, as we have taken profits in stocks that have doubled while buying shares in some names that lost over 40%. While we try to stay away from a 'sell the winners buy the losers' strategy, very large market moves in combination with stable valuations impact the opportunity we see in these stocks and eventually compel us to act.

TOP 5 HOLDINGS:

Holding:	%	Adj P/E12M	P/E25**	EV/adj EBITDA	Exp Rev Growth**
Jackson Financial (US)	16.9%	5.7	5.2	5.1	5%
BasicFit (NL)	10.6%	56.0	17.5	9.3	17%
Gravity Inc (South Korea)	8.7%	7.6	6.6	1.3	-20%
Stellantis / Peugeot Invest (FR)*	8.3%	6.9	5.3	1.7	-15%
Kiwetinohk Energy (Canada)	7.5%	11.0	3.8	4.4	38%

*As we consider Peugeot Invest as an efficient bet on Stellantis, we give the multiples for Stellantis here.
**Based on Refinitiv consensus analyst or proprietary estimates

COMPANY IN FOCUS: Jiayin Group

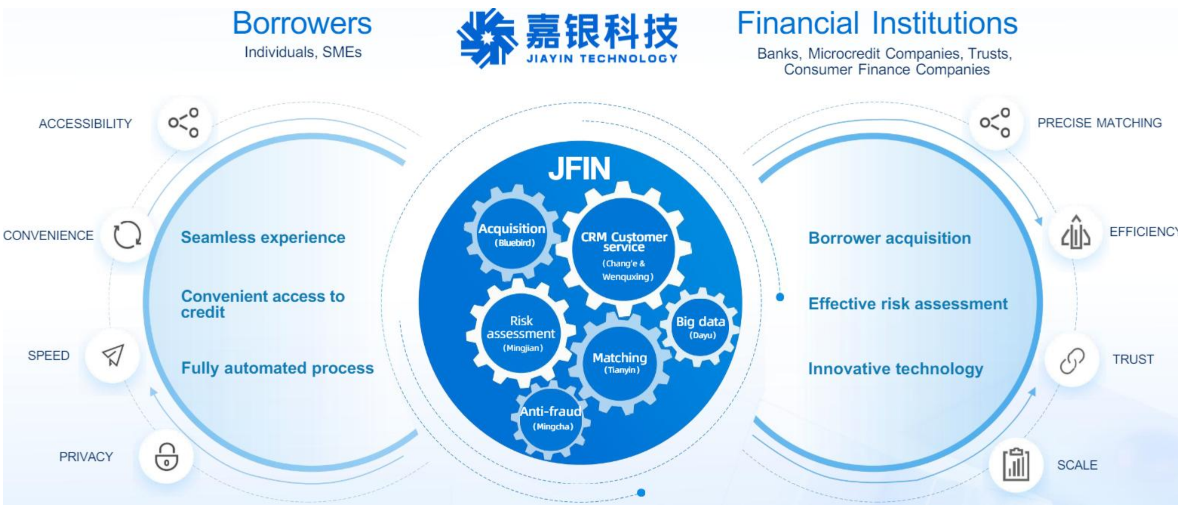
In our last Investor's Letter we briefly mentioned Jiayin Group, our new Chinese entry. Given its meteoric rise it is now a hair spread away from being a Top 5 holding, so a good time to discuss.

As readers will know, our screening focusses our attention to the cheapest stocks on earth and Jiayin Group is no different. While cheapness comes in many forms, Jiayin's cheapness comes from an EV/EBITDA multiple below 1. Its P/E of around 3 (even after going up more than 50%) is also nothing to scoff at.

So what does Jiayin do and why is it so cheap?

Jiayin Group is one of a handful of Chinese companies that can best be described as [high interest lending intermediaries], though they like to be called FinTech instead. Whereas in the USA borrowers are served through credit card debt, in China it is more common to borrow through intermediaries such as Jiayin, Lexinfintech, Lufax, Yiren Digital, Qifu, X Financial and Futu. For practically every one of these companies, the lending process goes like this:

The fintech company reaches out to potential borrowers offering a loan. The prospect agrees and gives his details (including credit score etc.). Then, the fintech company does additional checks for fraud and automatically send this out to a number of funding partners such as Chinese (state)banks, who give back a quote. Based on this the fintech company chooses a counterparty from which to source the funds and lend to the prospect. Then, the fintech company handles collection of the debt and the release of obligations. The fintech company makes money based on commissions, part of the interest being paid, or both.



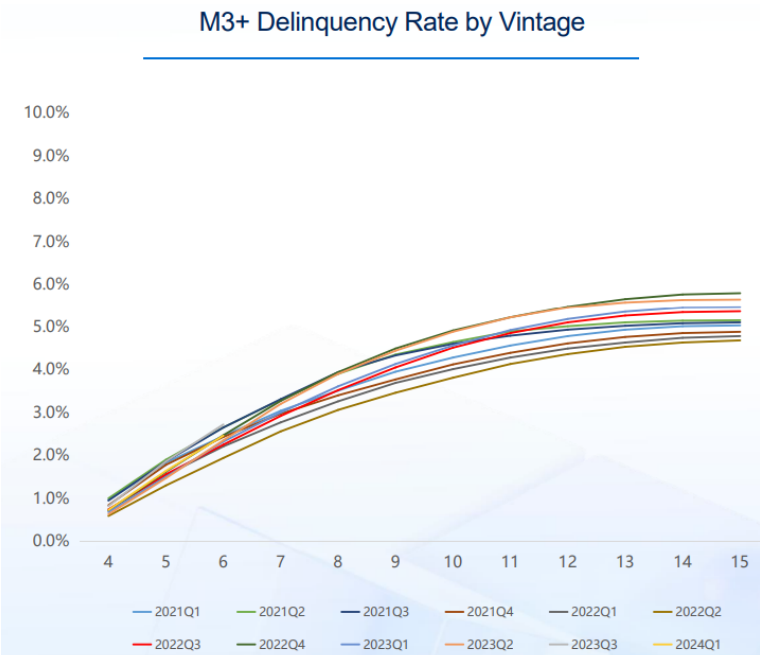
What you end up with is an industry that is very capital light relative to the amount of money they are pumping around. Now the tricky part is that because of the competitive nature of the business, these fintech companies have started guaranteeing repayment on part or all of these contracts. This comes in many shapes and forms, so in our research we had paid a significant amount of attention to this.

In case of Jiayin, income streams come in three forms:

- loan facilitation services: interfacing between borrowers and funding partners
- guarantee services: the same as above, but providing guarantees to funding partners (lower margin, shows higher revenue), and
- loan origination services: providing direct lending to borrowers (higher margin, shows lowering volume)

When you delve deep enough into the documents the conclusion is that Jiayin continuously accepts losses from these guarantees and the amounts are very similar to the numbers you'd expect lenders to take. So one should definitely treat Jiayin more like a levered bank and not like a tech stock or service provider.

The reason we are willing to accept the riskiness of this business is manyfold: 1) After assuming additional drawdowns in 2024 because of economic deterioration, there is still quite a bit of cushion. 2) the founder-CEO has most of his wealth tied up in the company, giving the highest incentive to err towards prudency. When one combines this with their aggressive share-buyback programs and high dividend, this gives reason to believe they are extremely confident in the future of the business 3) the company is almost 14 years old and company management has already endured ups & downs. We have seen them adjusting their lending standards which hurt profitability in 2024 which was unnecessary in hindsight, but this has proven their prudence and is showing up in the delinquency rates of later vintages:



On a secular level, there is ample reason to believe this market will continue to grow. As the quality of their risk assessments will improve through a growth in market data and continuously improving data analytics, the industry will become more efficient and their product will become more attractive to borrowers and lenders.

All the while this is an industry that is benefitting exceptionally from current AI developments in two ways: 1) the LLM's allow novel ways to assess creditworthiness by analyzing sourcing and sales conversations, and 2) A lot of Jiayin's business involves client facing communication with sales, administration and loan collection all involving call centers. Jiayin boasted they have made over 800.000 sales robocalls this year. Imagine what happens as the quality of these calls improve and they are able to expand this to admin and loan collection calls!

For those considering investing in Jiayin Group (we don't give investment advice, do your own due diligence, read our disclaimer), be aware that Jiayin uses the infamous VIE-structure, which allows foreigners to invest in Chinese companies. Legally speaking, you'll be investing in an entity that has a contract that gives it all control and rights to all economic benefits of the Chinese company in which the actual money is made. This is the go-to construction for all Chinese companies that want to be listed in the USA (such as Alibaba, Baidu, JD.com, etc.). While this structure has proven to be functioning exactly as it was meant, there's obviously risk that these structures can become victim of politically motivated changes by the Chinese government. With the stroke of a pen the PRC can wipe out foreign ownership for hundreds of billions of dollars at any time they see fit. However, because of the size of the VIE-based market cap, and because this would antagonize not only the USA but *all* foreign investors, I really consider this a nuclear option. It would be the end of foreign investment and would be at the very end of the financial escalation ladder. Unfortunately, technically China could make small legal indents that could impact valuation of these entities.

But at the moment those worries seem far away: after the valuation of the sector hit rock bottom in 2023, some of these stocks are bouncing back in spectacular ways: For instance, Lexinfintech went up 300% last year but is still only halfway on their way back to 2021 levels, while Futu is up 100% and is already trading at 23x earnings. And Jiayin? It's doing fine, going up 80% since we took the position. But if its peers are any indication, Jiayin's rise is still in its infancy!

GENERAL MARKET COMMENTARY

It's only been a month into 2025 and the script has already been turned on its head: DeepSeek has seriously altered the future of AI investment and use cases, while we now know that Trump is serious about the use of tariffs (or is he?). And what to think of Musk essentially obtaining the keys to the palace?

To start off: I believe the implications of the DeepSeek news simply cannot be overstated. To recapitulate: DeepSeek is a China-based LLM developer that came out with their 'V3' model. As the model was only comparable with regards to the quality of outputs, it loomed in the shadows. That was until it became clear what they had changed under the hood. By segmenting the LLM, DeepSeek was able to improve the cost of training the model and the cost of using it. While the claim of only needing 6 million USD should be disregarded completely, it is clear that the new architecture did allow DeepSeek to train the model using far fewer and slightly older Nvidia chips. This makes building LLM's much cheaper. Moreover, the end-result is so efficient that you can download the model and use it on a high-end PC at home. And because it is open source, it means the competitive landscape has been reset and it is almost a level playing field again!

- Here's a list of conclusions we can draw from this:
  ChatGPT, Claude and Gemini are not far ahead. The idea that there is a widening moat because it would require many billions in investment to keep up has been broken. With that, the likelihood of an oligopoly in AI is diminishing and the threat of it being commoditized has risen.

- The cost of using LLM's has gone down a *lot* through this innovation. With that the number of possible use cases have exploded. This means that the demand for lower tech chips might grow a lot in the future. While I was skeptical of demand for LLM's on the 'edge' (i.e.: away from datacenters), these developments change all that and will accelerate the introduction of robots and autonomous vehicles.

- The US is trying to consolidate its dominance in the world by winning the AI war. Theory is that whoever wins in AI will rule the world. And to win the AI war, the USA curbs the export of the best chips and ASML machines. But now it seems that not having the latest Nvidia chips is *not* an insurmountable constraint. This has enormous consequences in geopolitics as it weakens the hand of the US against China substantially.

- It gives Europe a perspective that they can still be part of the race.

- There's a whole 2nd order investing theme going on surrounding the increased need for datacenters and the extreme amount of energy that will be consumed by them. It is argued that this requires huge investments in electrification and (nuclear) power plants, uranium etc.. Stocks from traditionally defensive sectors like Vistra and Siemens Energy have gone parabolic on this idea. That thesis is now under threat.

However, last few days we received the CAPEX guidance from Alphabet and Amazon, and both stated they are increasing investment substantially (to CAPEXes of 75 an up to 100 billion, respectively). This either means a) they think they are still ahead (based on yet-to-be-released models), b) they just haven't had time to adjust to a reality you don't need to spend this amount to stay in the race or c) they think they can't afford to cut any corners in this winner-takes-all rat race. One to watch.

And then there's the tariff story. While it is difficult to invest without a view on this, it's equally difficult to know what the future will bring. Yes, Trump has fired the first salvo, but it is unclear how serious he is about it: the speed at which he postponed the tariffs against Mexico and Canada while not getting anything substantial in return leaves us wondering what is going on. Does he really want to extort his neighbors, possibly face massive retaliation and wreck free trade, or was it all just bluff and did he do it just for the theater? Can he be tamed indefinitely with shows of subordinance and shallow goodwill gestures? I'm not convinced of either and we will have to see. Unfortunately, I do think it is hollowing out the relationships between the USA and their allies. Whatever will happen in the future, allies will think twice before fully relying on the USA for technology and defense.

Lastly, the stories around Elon's actions since Trump's inauguration are quite disconcerting. While his fascist salute (and absent apology) has mostly symbolic impact, his direct access to the Treasury and databases of the government is the truly scary part. The fact he seems (seemed?) to have free reign and doesn't seem to answer to Congress does not bode well either. For Trump's part, the aggressive actions taken against January 6 prosecutors and DEI civil servants feel eerie and revanchist, and not reconciliatory at all. It is clear that Trump is not trying to be a President for all the people and will take whatever space he is given. In my last Trump preview I articulated why democracy would be under threat in the USA in the next four years. Events of the past two weeks have intensified these concerns.

With so much uncertainty it is currently daunting to focus on the long term. Even big changes in macro usually keep our stocks very attractive in the long run. Should we sell on bad news even though the opportunity remains? Or should we ride out whatever storm hits our portfolio, sucking up short term stock declines to be invested when the tide turns? This uncertainty may explain why people continue to shift to passive investing in large-cap stocks. But does that make sense when tariffs are most hurtful to the largest companies with the most complicated supply chains and the most international customer base? And does it make sense when we have entered an era where tariffs are more and more pinpointed towards specific company names, like Google, Tesla, ASML, BYD, Apple, Huawei and all the other name companies that have been targeted by policy makers? As always, time will tell.

Best Regards,

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