Hoofddorp, the Netherlands, 5th of June 2024

Dear Investor,

What an eventful last two months it has been! There was a bit of a seesaw but our fund prevailed with May's +6.6% following April's -5.4%, outperforming the MSCI World and MSCI Equal Weight, which both had negative returns. April was significantly impacted by Alphawave's reversal of prior guidance (-3% impact on our portfolio), but broad strength in the rest of the portfolio made up for it.

We are now outperforming both benchmarks we track _since inception_, after fees. Quite a feat, as we have been tilted towards smallcaps this whole time, and smallcaps have been underappreciated for the entire life of the fund (as witnessed by almost all other smallcap/value funds&indices).

On the publicity side we had quite a bit of excitement. To start with: I was asked to comment on the IPO of CVC on Euronext Amsterdam for EW-magazine (Elsevier). You can read about it here. But there was more: I made it into the top 40 'Best provider in Investment Ideas' by one of Twitter's bigger Finfluencers on the basis of me sharing my Investment Letters on Twitter (with a delay vs the fund's investors, obviously). Honored and proud, as you can imagine, as Twitter is not short on fund managers sharing their views.

Lastly, our fund's size made new all-time highs. So let me take this opportunity to thank those who joined our fund and the ones who added to their investment in the last few months: your trust and faith is truly appreciated!

In this letter I will go further into detail regarding our current portfolio and recent events. I will dive deeper into the question that I received from multiple investors, namely: Isn't the market getting a bit expensive?

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%	-	-	-	-	-	-	-	8.5%	24.0%
MSCI World ACWI ETF**	2.8%	3.7%	3.6%	-1.7%	1.0%	-	-	-	-	-	-	-	9.7%	23.8%
MSCI Equal Weight EUR	1.1%	2.4%	3.8%	-2.5%	1.5%	-	-	-	-	-	-	-	6.2%	12.9%

*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.

THESE MONTHS' PERFORMANCE IN DETAIL

On the overall market. we again saw a small there-and-back caused by macro data. People are still obsessing over the number of US rate cuts in 2024, shifting between 0 and 3 rate cuts and believing this impacts the fair valuation of stocks by fists full of percentage points. Here is my take: If they cut a lot, it'll be because the economy is not going well. If they don't cut, it's because the economy is doing fine. For a diversified portfolio this roughly balances each other out. I also don't believe in a scenario that inflation will run off and we'll see an interest rate that will be meaningfully higher than inflation. And to the extent that it does: At worst, this impacts borrowing rates for companies for maybe 1-3 years, which is nothing compared to the 30+ years typically used for calculating the fundamental value of a company.

Which is not to say nobody should look at it. I have tracked this like a hawk in multiple roles in the last decade: I know what it does for price action! But as soon as you go from a trader's time horizon to an investor's horizon, the impact fades. Let's not forget we are now talking about interest rate moves of under 1 percentage point, which might even just be postponed instead of cancelled. That is miles apart from the thunderous rate hikes in 2022 and the explosive rate cuts in 2020!

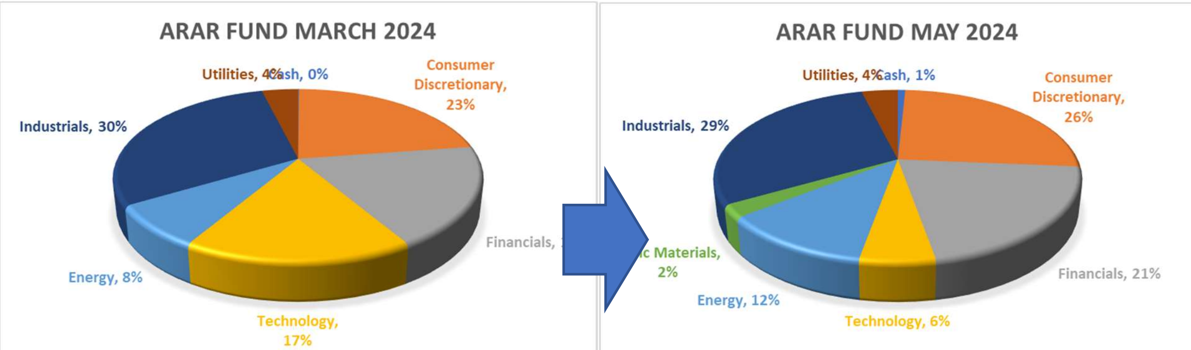
Within our portfolio the main event came from Alphawave Semi. After publishing their preliminary sales and EBITDA earnings for 2023Q4 in February (two months after quarter's end), they did something extraordinary this April (just two months later): They gave a profit warning *over their already released quarter*. It didn't stop here: Management also lowered their guidance for 2024 and 2025, indicating there would be no profit for the next 2 years. With that, they essentially binned the entire investment case, as they went from a 'high-growth, low forward P/E' company to a 'high bookings, high promises' company. In conclusion: there was no solid reason to keep the stock and we sold out after it opened 30% lower the morning after their update. This obviously hurt March's performance as it was over 10% of the portfolio. On the bright side, it again shows the resilience of our investment approach, as we sold 10% above our entry level.

Another heavy hitter that had a remarkable stock move was OneWater. One of their main peers gave a serious profit warning in March, prior to the April release of OneWater. OneWater moved on the news, but when they released in April, they kept the earnings guidance they had given earlier. The market reacted accordingly and retraced the loss from March. There is quite a bit of interesting gossip, which I will likely discuss in the next letter.

Three other companies worth mentioning with noticeably good earnings included Jackson Financial, Alphabet (Google) and Payfare. While they all moved up on their respective releases, the reactions seem a bit muted and I suspect some profit-taking in the case of Jackson Financial and Alphabet. Most noticeably, Jackson showed tremendous strength in their customer acquisition, making it a company not only with an extremely low P/E, but also growing. Is that enough to make it go up after a +100% price rise? It should be!

PORTFOLIO COMPOSITION

The current portfolio consists of 19 stocks and a 0.8% cash portion. Since our last Investor Letter we have entered into three new positions. We have exited two positions, of which Alphawave was the big one. In one position we made an intra-month roundtrip. Interestingly, it involved a similar story to Alphawave, where initial earnings were quickly followed up with a complete reversal. We remain tilted towards small caps and energy/industrials.



With the exit of Alphawave our technology exposure has shrunk. It has been dispersed a bit between the other sectors and a new entrance in Basic Materials.

TOP 5 HOLDINGS:

Holding:	%	Adj P/E	Fwd P/E**	EV/adj EBITDA	Exp Rev Growth**
Jackson Financial (US)	15.1%	2.0	4.3	5.1	5%
Stellantis / Peugeot Invest (FR)*	11.2%	3.4	4.1	1.45	0.5%
OneWater Marine Inc (US)	9.3%	5.0	7.6	6.4	1%
BasicFit (NL)	8.2%	53.0	24.0	10.6	19%
Gravity Inc (South Korea)	8.1%	4.8	6.5	1.5	-10%

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

COMPANY IN FOCUS: Gravity Co Ltd

Gravity is new in our top 5, so why not put it into the limelight a bit?

Imagine a company in an enormous growth industry, growing their earnings threefold in five years and still trading at a P/E under 5 (five). That's Gravity Co.

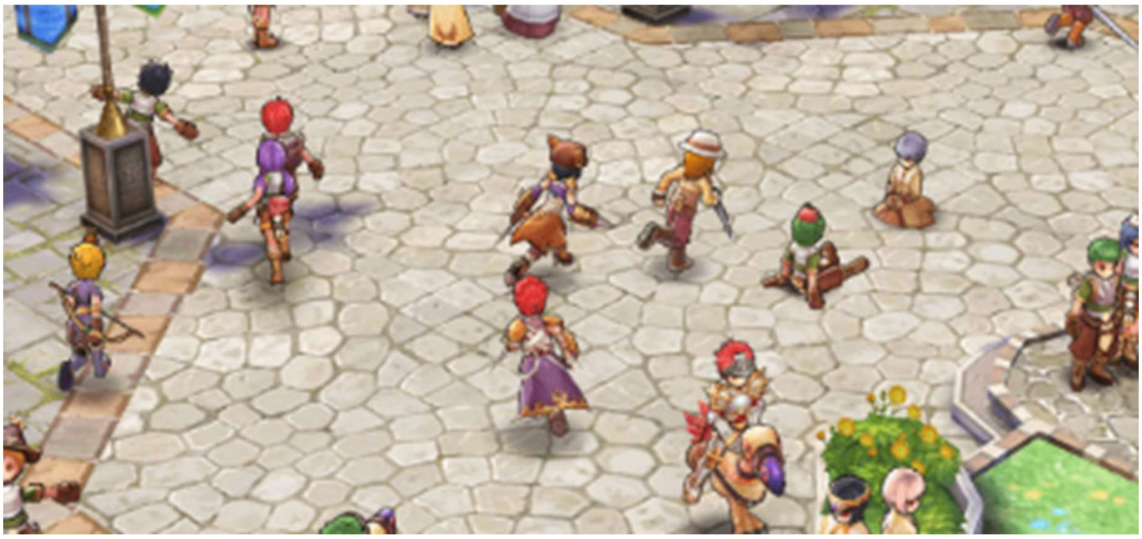
Gravity is a bit of an awkward company: it develops, distributes, and publishes online games, mostly based on Ragnarok, a fantasy ecosystem based very loosely around Scandinavian folklore, that has distinct graphics and characters that, to the untrained eye, look like a mix between Zelda, Pokemon and Manga. I have probably now offended quite a few people, but I will let you judge for yourself:

The Ragnarok world was created in Korean comic form in 1998 but quickly picked up by Gravity, who released their first and most successful game based on the franchise in 2002, an MMORPG (Massive Multiplayer Online Role-Playing Game, akin to 'World Of Warcraft' and 'Diablo') called 'Ragnarok Online'. Owning its Intellectual Property, Gravity continued releasing a string of Ragnarok games, on basically all platforms: PC, consoles and mobile phones. It is mobile where most of the money is made nowadays. As with most financially successful games in this day and age, Gravity makes most of its money through in-game purchases, and it is not uncommon for players to spend hundreds or thousands of dollars to get special items and/or to progress faster. While Ragnarok was biggest in Taiwan, Korea and Japan, Gravity profited this year from major releases in the Philippines, Indonesia and Thailand. Six months ago Gravity also obtained a license for China, which is yet to really pay off.

One might wonder why they haven't had as much success in the West. Surely a franchise that can mesmerize thousands of players into spending hundreds of dollars for a decade or more must have a place in the USA and Europe? Well, it does seem there are cultural differences. And upon trying one of their games out, I quickly discovered their English translator is not up to par. The positive inclined analyst would suggest that ChatGPT will fix this.

Apart from the Ragnarok MMORPG's in various forms, they are now trying to expand the franchise with a Golf game, among others. At the same time, they are working on several other games that try to bank on their signature aesthetics.

In short, Gravity is profitable and growing, and really does seem to have numerous vectors to continue this growth. Their IP provides a great moat and monopoly towards a certain fanbase.



However, one could consider Gravity a one-hit wonder. If the Ragnarok franchise fails, so will Gravity. Companies depending on a single product generally trade at a discount. One might remember Candy Crush' creator King Gaming from Sweden a decade ago. After their IPO they traded at a disappointing

P/E of around 9 for years (at a time when other stocks were fairly expensive due to low interest rates). Eventually it was taken over at quite a low multiple by Activision Blizzard. If one looks hard enough, you find there are actually quite a few companies with similar dynamics listed. They are almost all trading at a discount to one's expectation.

Which brings us back to the multiples Gravity is trading at. While a P/E of 5 is low and it is nice that Gravity is a growing company in a growth industry, after reading my introduction you might feel like it needs a little more to be a clear bargain. So here's why I love this investment: Gravity is not just a stock with 20% earnings yield, it also has a (net) cash position that will soon be larger than the market cap of the entire company! So technically, *if* they were to decide to pay out all their cash as dividend, you would get your money back, and then be left with a money-printing machine for free. Which begs the question: why are they not doing anything with their cash?

And that's where it becomes interesting. Because the reason why Gravity is cheap, in my view, has got to be because investors think the company will a) never part with any of its cash, or b) it's a fraud. Let's consider both options:

In the first situation, it would continue to live on, invest into new ventures, increase pay to management, etc.. Until one day the company is no longer making money and it eats up their cash position trying to reinvent itself, ending in failure and disgust. I consider this a bit of reasoning-towards-the-current-valuation, rather than looking at it level-headed. It certainly happens occasionally, but (as you might expect) I don't think that's what is most likely the future for Gravity. There are several reasons. First of all, Gravity has not been sitting on this pile of cash forever. It has been built up in the last 4 years, after the launch of their second successful game: 'Ragnarok: Eternal Love'. Given such infrequent success, it's not weird that they didn't immediately start handing out cash. Second: Gravity is 60% owned by GungHo Online Entertainment. They are substantially leaning on Gravity for profits, they have a bit of cash themselves and are buying back their own stock. Given their influence over Gravity, and Gravity's bargain valuation, it is reasonable that at some point GungHo wants to get a hold of the whole company, or (substantial parts of) that cash pile. This would have to be either a bid on the company, or forcing Gravity into substantial dividends. I don't really see a third way in this (though I do see risks in the ways GungHo might force a good price to acquire Gravity).

The other reason Gravity is trading at such a discount is fear of fraud. When companies are piling up so much cash on paper, sometimes the money isn't there to begin with. I have little fear in that regard. The IP is real, the games are real, the people complaining about spending too much money on magic boots etc., it all seems real. That being said, for an opportunity that seems too good to be true, I want to delve deeper, which I did, and nothing popped up really (#famouslastwords. But this contrast with *many* other cases, I would like to add). At the very least it makes me confident that there are very few other participants that know more than me.

So there you have it: an extremely attractively priced company, that is just one dividend away from convincing everyone it is not a wolf in sheep's clothing.

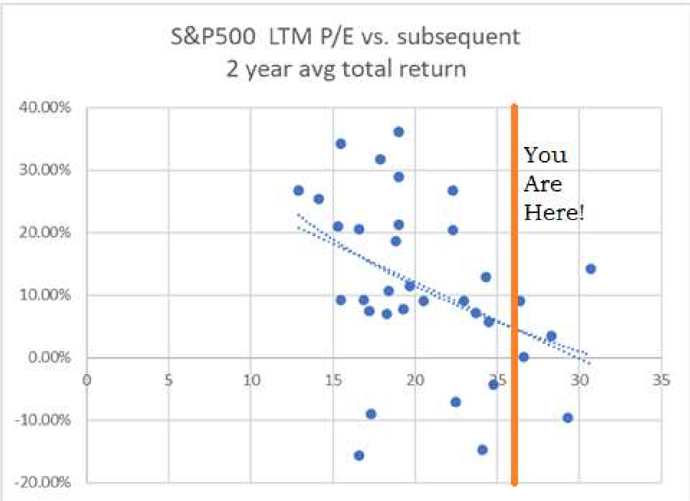
GENERAL MARKET COMMENTARY

With the market going higher and higher, I am receiving more and more inquiries about the question: Aren't stocks getting a bit too expensive? Nowadays, my question tends to be the same every time: "When I look at the S&P500, I understand the sentiment: stocks are getting more expensive and are definitely not cheap when we look at the overall multiples we are seeing in the USA. But when I look at the portfolio of the ARAR Fund, I can safely say the stocks *we* hold are as attractively priced as the ones we started with 15 months ago."

Let me dive in to the first part of that statement. Right now, the S&P500 is trading at a P/E of 25.5, while the 35-year average for the S&P 500 is around 20. This would indicate the S&P500 is overpriced by >20%. (Un)fortunately, life is not that simple: historically, high P/E's can indicate exuberance, but much more often it means markets have their reasons and are projecting growth. Remember Amazon and Facebook trading at a P/E of 40 for ages? If seemed expensive, but as they grew, it turned out they had been cheap the whole time. That dynamic is what I am talking about. While expectations are for earnings to grow 10% this year, I still don't think that warrants such a high multiple. Nvidia might help a bit, but I don't think it will help to the extent that a P/E > 25 for the S&P500 is fair.

Moreover, (long term) interest rates are currently in *restrictive* territory, with 30-year more than 2% above inflation expectations in the US. That is something we haven't seen for more than a decade, and it should lower what one considers a 'fair' P/E. If a P/E of 20 would be fair under normal circumstances, under current circumstances it should be significantly lower. Probably closer to 17 by my estimates.

So, do we need to get out of stocks? Not so fast! While higher multiples correlate with lower returns, a P/E of 25 in the S&P500 still doesn't point to negative returns expectations:



At current P/E, our terribly-simplistic-yet-insightful-regression suggests returns should be slightly below 5% on average in the next two years. That is roughly equal to what you'd get from a USD savings account. That sounds like a bad deal because it looks like you're not really getting compensated for taking risk. Advising against stocks is always a bad idea, but I will say it is a weird moment to be excited about the S&P500's prospects, unless you are very confident in your views around the economic benefits of AI and the counterbalancing risks of hybrid warfare from Russia and/or escalation in the Taiwan Straight.

With that out of the way, I would like to shift focus to the second part of my aforementioned response: *"… But when I look at the portfolio <u>of the ARAR Fund</u>, I can safely say the stocks we hold are as amazingly cheap as the ones we started with 15 months ago."*: We continue to find bargains that we would love to hold for a couple of years: *our corner of the market is cheap*. Even including the growth-stocks such as Alphabet and BasicFit that we are holding, the weighted average forward P/E of our combined portfolio is only a measly 4.8 at the moment! That is less than a fifth of the multiple where the S&P500 is priced! So dare one wonder: Why should I buy into an index at stretched valuations, when I have the option to invest in a basket of companies that promise a nearly 20% earnings yield without dependence of market sentiment, handpicked by yours truly?

Best Regards,

Joost van der Mandele
Director Pendelhaven Asset Management B.V.
www.ararfund.com