Investment Review / Portfolio Review continued

Contributors continued

03. Chrysalis Investments

Closed-ended Fund

% of net assets[1]
8.3%

Discount
-29%

% of investee company
15.4%

Total return on position FY25 (local)[2]
28.6%

Total return on position FY25 (GBP)
28.6%

Contribution (GBP)[3]
208bps

ROI since date of initial purchase[4]
48.6%

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Chrysalis was the third largest contributor to NAV in FY25, adding +208bps.

Over the period, Chrysalis' shares generated a total return on the position of +29% for AGT, driven by a +17% appreciation in the NAV and a tightening of the discount from -36% to -29%.

Readers of our newsletters will recall that AVI first initiated the position in Chrysalis in January 2024, with an investment case predicated on the following four factors.

Firstly, Chrysalis traded at an abnormally wide 48% discount to a heavily written-down NAV, which we felt provided some downside protection to the lofty valuations seen in the private tech space in 2021. Chrysalis' portfolio had also become increasingly concentrated with its top five holdings, accounting for 69% of NAV, all being mature companies and (mostly) performing strongly. We felt that there were multiple credible prospects for liquidity events offering significant potential for carrying value uplifts.

And, finally, a new capital allocation policy had been agreed upon by shareholders, promising £100m of buybacks (24% of the prevailing market cap), which would be triggered once cash reserves from exits reached £50m.

It is therefore pleasing for us that Chrysalis' contribution has been driven by the very factors which first attracted us to the company.

Firstly, two exits in quick succession meant that Chrysalis hit the £50m cash buffer threshold, commencing its £100m buyback programme. This started on 30 September 2024, with the company spending c. £83m over the financial year, to purchase some 83m of its own shares, at a weighted average discount of -35%. Secondly, the NAV/share return of +17% over FY25 has been led by (1) a +49% write-up in the valuation of Starling Bank, driven by the strong fundamentals underpinning the business, and (2) a +14% markup in Klarna, which listed on 10 September 2025 on the New York Stock Exchange.

Following the company's write-up over the course of 2025, Starling Bank now represents 44% of Chrysalis' NAV.

From AVI's research on the company, including meeting with current management and ex-employees, it is our belief that Starling Bank boasts the characteristics of a best-in-class, digital-first neobank, but with the added optionality of a tangible SaaS† offering through the Engine Platform. Starling's banking operations were built from the ground-up as a digital-first business. This not only drives significant cost advantages compared to incumbent UK high-street banks, but it has enabled Starling to develop and launch new products far more quickly as a result. Being digital-first, Starling's customer acquisition cost is only £40 versus £250 for traditional banks – with their numerous high-street branches to pay for – and the customer payback period is only 2.5 months. This low-cost operational model also generates far superior returns, boasting a ROTE†† of c. 45% (assuming NAV net of excess capital) versus UK peers at 17%. Starling's banking business is also the perfect case study for the company's SaaS offering, the Engine platform being built on the exact architecture that Engine offers to new potential clients –100% API††† uptime, zero customer downtime, and the industry-leading Net Promoter Score. We believe that the Engine platform represents a compelling growth opportunity, with management targeting c. £100m in ARR†††† within two years. Admittedly, Engine has just two clients to date, Salt Bank in Romania and AMP Bank in Australia, which contributed just c. £9m in fee revenue in FY25. However, Starling management recently disclosed that they have signed a "Globally Systematic Financial Institution" for a deal potentially worth £50m ARR, with an additional five deals still "in discovery".

At the current carrying value, AVI estimates Chrysalis' position in Starling Bank to be worth £3.3bn, or c. 3.2x trailing book value. This compares to 1x for the UK incumbent banks. Although this is a premium multiple, we believe that Starling's exceptional unit economics and growth potential more than justify it. Should we see Engine formally announce new major clients, we believe there could be significant further upside.

Elsewhere, we remain excited by Chrysalis' position in recently listed Klarna (13% of NAV), and believe that the market continues to undervalue the company relative to its primary peer, Affirm. This is despite Klarna being the number one global player in Buy-Now-Pay-Later financing, leveraging its fixed-term bank deposit-driven funding model to extend its short duration loan-book to consumers.

Chrysalis closed the period at a -29% discount to its NAV. We continue to engage with the board on the company's future strategy, AGT owning over 12% of the company.

1 For definitions, see Glossary on pages 110 to 114.
2 Weighted returns adjusted for buys and sells over the year.
3 Figure is an estimate by the managers and sum of contributions will not equal quoted total return over the financial year.
4 Figure quoted in GBP terms. Refer to Glossary on pages 110 to 114 for further details.
† Software as a Service.
†† Return on tangible equity. For definition, see Glossary on pages 110 to 114.
††† For definition, see Glossary on pages 110 to 114.
†††† Annual Recurring Revenue. For definition, see Glossary on pages 110 to 114.