MINOTAUR QUARTERLY — JUNE 2024

In our quarterly, we will provide more focused commentary to give you insights into how we think about the world and investing, our theories and the principles behind them. We will also provide some insight into the unique ways we are using software and technology in our investment process. We want to give investors comfort and confidence in our abilities whilst also being interesting, so to that end, any feedback on what you want to see in the quarterly would be welcome.

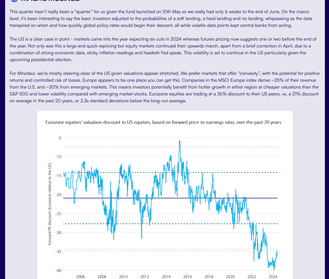
In this quarterly we give our thoughts on the macro, talk about our proprietary software Taurient and then discuss two of our key stock picks which illustrate the diversity and breadth of the fund but also showcase how deep we go. Enjoy!

MACRO MUSINGS

This quarter hasn't really been a "quarter" for us given the fund launched on 30th May so we really had only 6 weeks to the end of June. On the macro level, it's been interesting to say the least. Investors adjusted to the probabilities of a soft landing, a hard landing and no landing, whipsawing as the data transpired on when and how quickly global policy rates would begin their descent, all while volatile data points kept central banks from acting.

The US is a clear case in point – markets came into the year expecting six cuts in 2024 whereas futures pricing now suggests one or two before the end of the year. Not only was this a large and quick repricing but equities remained comfortably pre towards march, apart from a brief correction in April, due to a combination of strong economic data, sticky inflation readings and hawkish Fed speak. This volatility is set to continue in the US particularly given the upcoming presidential election.

For Minotaur, we're mostly steering clear of the US given valuations appear stretched. We prefer markets that offer "convexity", with the potential for positive returns and controlled risk of losses. Europe appears to be one place you can get this. Companies in the MSCI Europe index derive ~25% of their revenue from the U.S., and ~50% from overseas markets. This means companies can benefit from a weaker Euro, which can help to offset a major weak spot in valuations from the S&P 500 and lower volatility compared with emerging market stocks. Eurozone equities are trading at a 36% discount to their US peers, vs. a 21% discount on average in the past 20 years, or 2.3x standard deviations below the long-run average.



A country that we continue to highlight as a land of opportunity is Japan. The resurgent Japanese stock market saw the Nikkei 225 Index finally surpass its 1989 peak this year. A pick-up in Japanese inflation has allowed companies to lift prices, boosting revenue and earnings, while strategic reforms look to be offset by a greater consumer propensity to spend. Increased government spending and export growth also underpin the case for Japanese equities. We remain big fans of the region seeing positive earnings revisions, continuing corporate governance reforms and capital discipline.

On thematics, AI, energy and decarbonisation, and healthcare continue to dominate and what's fascinating is how these themes intersect and overlap. Companies are still focused on using AI for operational efficiencies rather than driving top-line. A Morgan Stanley survey of CIOs found that AI remains a top priority but adoption is still early days with 26% of CIOs expecting first projects to enter production after 2025. The cost of AI adoption has led to a focus on energy - semiconductors were seen as the key bottleneck six months ago but energy and electrical components have since emerged as critical bottlenecks too. Utilities and alternative power companies are benefitting from the AI theme as a result of increased demand. A third of data centre power by 2035 with a growing need for transmission, energy storage and renewables. AI applications in healthcare are expected to drive company performance through R&D productivity, innovation and the use of Minotaur Ideas Generator in the investment process.

Two of our top five positions are discussed later and can demonstrate how these macro and thematic perspectives dovetail. At a high level, Italian subsea cable operator, Prysmian, reflects our constructive view on Europe and decarbonisation while Japanese V-tuber company, COVER corp, is a Minotaur case study in finding unique opportunities in Japan. Despite the top-down underpinnings, both stocks offer idiosyncratic opportunities which also speaks to why they are core holdings.

HOW OUR TECHNOLOGY CAPABILITY SETS US APART

Software and technology is at the heart of everything we do here at Minotaur. Traditional funds management has been run pretty much the same way for 2-3 decades whilst the pace of technological change is accelerating. Artificial Intelligence (AI) and Large Language Models (LLMs) are making it possible for quants to create powerful natural language processing models and for Minotaur Ideas Generator to process more information than traditional fund manager usually implements but we supercharge them by making them software that's resulting in better and more efficient investment outcomes. In our view, using GenerativeAI in your process is analogous to moving from a typewriter to a laptop with a print and paper shredder.

We use this tech at every step - from helping us interrogate theses for bias generation, to helping triage ideas to asking our portfolio construction by being more thoughtful about how adding a company might impact our exposure to certain risk parameters.

To really bring this to light, we do the following:

- **Idea generation**: We feed in ~5,000 news articles a day to LLMs and have engineered proprietary prompts that we use for these LLMs to deliver us a list of stock ideas and a small paragraph as to why they're interesting. Our universe is global and we look at companies with a market cap of between ~$1,000m and ~$20bn (~£1,000 listed companies in the world and even 10,000 if you limit it to billion-dollar plus market caps. This screens the global equity universe for us. We call these "Idea Screens".
- **Idea triage**: We have also coded our software to come up with an idea score for the stock which is based on how much it would contribute to the diversification and lowering of risk in our portfolio. This gives us a score between 0 and 100 which we use to rank the stocks in these idea tunnels, leading us solve the prioritisation problem faced by fund managers. Because we are properly scanning the whole world for ideas we think we can find the 10x'ers in the world that will contribute to a meaningfully diversified portfolio.
- **Snapshot**: Our software generates an automated ~2,000 word report on any given stock detailing what the company does, its revenue and earnings drivers, what makes it interesting, the bull and the bear case and its capacity to double in 3 years or 10x in 10 years. We do this through a series of prompts interrogating specific data sources that we feed into the LLMs. This cuts down the amount of time we might have otherwise wasted looking at stocks that won't generate the sort of returns we desire.
- **Portfolio construction**: Our system shows us in real-time what our portfolio looks like, incorporating or exiting any given stock would do to our portfolio in terms of our risk metrics holistically and potential drawdowns and factor exposures, e.g. We can increase our top holding from say 5% to 10% and see how that impacts our portfolio parameters. Most of our software is proprietary and written in-house.

We are able to do this because of the uniqueness of our fund managers. Thomas is, as far as we know, the only fundamental fund manager in Australia with strong capability to code and develop software. He has built our proprietary software system since the company was founded in November last year. Armina has seen firsthand how the founders of Australia's most innovative companies think and operate, having worked for one of the Australian founders. Thomas and Armina also have a depth of networks in the start-up and technology space, across both entrepreneurs and investors, that is unrivalled by other fund managers.

This distinct capability also means we can iterate as the technology develops. Each quarter we hope to tell you about how we are innovating our own processes. This quarter, we've optimised our AI infrastructure by transitioning to more advanced language models. For our large-scale analyses, we switched from GPT-4 to GPT-4o, tapping into its cost and speed efficiencies. Leveraging its 128k context window, we've cut GPT-3.5 to GPT-4o-mini, achieving a 70% cost reduction while improving output quality. These advancements enhance our ability to efficiently source ideas and conduct preliminary research, supporting our core fundamental analysis. We are still dabbling with other companies which, when surveyed, have reported:

- A 55% productivity increase for developers using AI coding tools;
- A 14% average increase in productivity for users using AI assistants;
- A 40% decrease in time taken; and
- An 18% increase in output quality for knowledge workers.

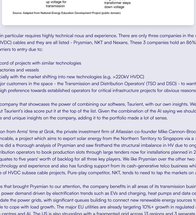
In fact, we believe our productivity gain is higher because of a smaller, more focused team with the ability to implement straightaway. The use of software contributes to a ~5x efficiency gain per FTE for Minotaur Capital.

It's not just AI but tech more broadly. This quarter we have made the following improvements by adding the below capabilities to our software, Taurient:

- An area where we can explore thematics and not just single stocks
- The ability to find IR websites and automatically identify financially relevant documents
- The ability to scrape subscribers for YouTube channels relevant to our stock holdings
- The ability to search our base of news articles that we are collecting every day from RSS feeds and scrapers for news that's specific to a certain topic or sub-topic for a stock or geography
- Risk version of the major equations in our software

PRYSMIAN: AN OVERLOOKED WAY TO PLAY THE ENERGY TRANSITION

It is well established that the world must undergo an energy transition particularly given the pace of technological development. There is a lot of talk about energy sources but less focus traditionally on how we transport energy. Cables facilities underground transmission of energy from one place to another. They are the highways of energy and investors don't seem to naturally think about them as beneficiaries of the energy transition theme. Prysmian does the whole end-to-end transmission of electricity from the point of generation to transmission (high voltage) to distribution (medium voltage) to end users (low voltage).



The high voltage (HV) space in particular requires highly technical nous and experience. There are only three companies in the world that can do subsea high voltage direct current (HVDC) cables and they are all listed - Prysmian, NKT and Nexans. These 3 companies hold an 86% combined share of the HV market and there are high barriers to entry due to:

- The need for a track record of projects with similar technologies
- High capex related to fixed costs and vessels
- Technology risk - especially with the market shifting into new technologies (e.g. >220kV HVDC)
- Risk aversion of the major customers in the space - Transmission System Operators (TSO and DSO) - to wanting to work with new players. They have a high preference towards established operators for critical infrastructure projects for obvious reasons.

Prysmian is an example of a company that showcases the power of combining our software, Taurient, with our own insights. We manually added the stock to our "Idea Triage" funnel but Taurient's idea score put it at the top of the list, giving us the confirmation of the AI saying we should prioritise work on it and us having prior, deep knowledge and unique insights on the company, adding it to the portfolio made a lot of sense.

Prysmian came to our attention from Arms' time at Grok, the private investment firm of Atlassian co-founder Mike Cannon-Brookes. One of Grok's most ambitious undertakings is Sunrise, a project which aims to deploy solar energy from the Northern Territory to Singapore via a ~4,000km HVDC subsea cable. As part of that CDI Arms did a thorough analysis of Prysmian and saw firsthand the structural imbalance in HV due to ongoing capacity shortages, forcing transmission and distribution companies to book production slots through long-term tender processes that ran as far out as 2026-27. The structural demand/supply imbalance equates to five years' worth of backlog for all three key players. We like Prysmian over the other two as our DD suggested that the company has the best technology and execution track record. Prysmian's cable laying vessels are the largest in the industry which is important given the highly capital intensive nature of HVDC subsea cable projects. Pure-play competitor, NKT, tends to need to tap the markets on a fairly regular basis.

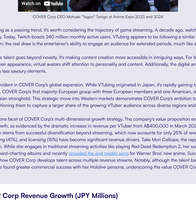
Although it was subsea cables that originally propelled Prysmian to the forefront of the HV space, the structural tailwinds from the electrification and decarbonisation of the world is creating a significant pipeline of opportunities. Prysmian's HV backlog of €14.9bn as at 2023-25. The structural demand/supply imbalance equates to five years' worth of backlog for all three key players. We like Prysmian over the other two as our DD suggested that the company has the best technology and execution track record. Prysmian's cable laying vessels are the largest in the industry which is important given the highly capital intensive nature of HVDC subsea cable projects. Pure-play competitor, NKT, tends to need to tap the markets on a fairly regular basis.

These favourable market dynamics combined with a knowledge of the skill level and acumen that was apparent in the company's high and middle levels of management piqued our interest. Financial analysis showing the strength of the company's balance sheet and FCFs, led to viewing Prysmian as a high quality stock and one where we had the Projects/High voltage business is highly undervalued within the market.

Prysmian has a medium-term EBITDA target of €2B in 2027 from ~€1.5B in 2022. Given the market dynamics, we believe the company has the potential to generate closer to €3B. This is supported by the fact that the company has historically been conservative with earnings estimates by orders of magnitude over the past decade. On a conservative EBITDA number of €2.5B assuming no step up in the stock as well as some probability weights on the bull and bear-case scenarios, we believe there is at least 30% upside on the stock with limited downside risk.

COVER CORPORATION: VIRTUAL IDOLS, REAL PROFITS

A blue-haired shark girl, a time-traveling detective, and a rapping reaper walk into a bar. This isn't the setup for a joke — it's a glimpse into the world of VTubers managed by COVER Corporation. In just five years, COVER has grown from 40 million to 4,800+ million in revenue through this innovative entertainment concept. VTubers, or Virtual YouTubers, are content creators who use digital avatars to livestream content, and COVER has become one of the most prominent agencies in this space.



Mori Calliope, the aforementioned rapping reaper, streaming Red Dead Redemption 2

To understand COVER Corp's business model, think of it as a blend of K-pop talent management and WWE character creation. Like K-pop agencies, COVER Corp (under the brand Hololive) will scout, train, and debut talent. Like a WWE's approach, each VTuber is developed with a distinct backstory, personality, and visual design, creating a diverse roster of digital entertainers. This commitment to character depth, akin to wrestling's concept of 'kayfabe', enhances each VTuber's brand appeal and marketability potential.

The economics of talent-based businesses hinge on a crucial factor: the ability to add value to the talent they represent. This principle applies across various industries, from funds management to entertainment, where organisations must demonstrate their worth to both attract and retain top performers. The decision for talent to align with an organisation is primarily based on their perception of the value that the company will be greater than the sum of its parts. When analysing talent-based businesses like COVER Corp, it's essential to scrutinise how the company enhances its talent's potential. Central to this value proposition is the management structure, whose ultimate goal should be to create a talent-based enterprise.

COVER Corp exemplifies this principle through CEO Motoaki "Nagoo" Tanigo, a critical factor in the company's meteoric rise. In an industry where executives often become lightning rods for controversy, Nagoo has become a beloved figure among both talent and fans. His leadership style, which prioritises respect for creators and balances corporate interests with artistic freedom, has resulted in exceptional talent retention and growth. At the recent Anime Expo in Los Angeles, Nagoo's appearance sparked fan frenzy typically reserved for the talent themselves — a stark contrast to how executives in traditional media companies are often perceived.

This leadership approach is driving COVER Corp's ability to attract and rapidly grow new talent. The recent launch of COVER Corp's new HoloJune group provides a compelling example. One performer saw her YouTube subscriber count grow from 12,000 under a different agency to 240,000 under Hololive in just a few days. This significant audience growth demonstrates COVER Corp's ability to scale and promote digital talent effectively. As a result, COVER Corp has become highly attractive to aspiring VTubers, fielding thousands of applications from independent creators each year.

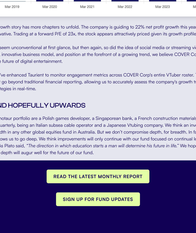
COVER Corp CEO Motoaki "Nagoo" Tanigo at Anime Expo 2023 and 2024

While some may view VTubing as a passing trend, it's worth considering the trajectory of game streaming. A decade ago, watching others play video games online seemed niche to many. Today, Twitch boasts 240 million monthly active users. VTubing appears to be following a similar path to wider acceptance. The avatar is simply a medium; the real draw is the entertainer's ability to engage an audience for extended periods, much like any successful streamer.

The appeal of VTubing for the talent goes beyond novelty. It's making content creation more accessible in intriguing ways. For female streamers who often face unwarranted focus on their appearance, virtual avatars shift attention to personality and content. Additionally, the digital anonymity offers protection against some of the internet's less savoury elements.

This growing acceptance is evident in COVER Corp's global expansion. While VTubing originated in Japan, it's rapidly gaining traction worldwide. The recent launch of HoloLustre, COVER Corp's first majority-European group with three European members and one American, showcases their commitment to expanding beyond their Asian stronghold. This strategic move into Western markets demonstrates COVER Corp's ambition to become a truly global entertainment company, positioning them to capture a larger share of the growing VTuber audience across diverse regions and cultures.

This global expansion is just one facet of COVER Corp's multifaceted growth strategy. The company's value proposition extends far beyond initial talent acquisition and audience growth, as evidenced by the dramatic increase in revenue per VTuber from A$400,000 in March 2020 to A$3.5 million in March 2024. This impressive growth stems from successful diversification beyond streaming, which now accounts for only 25% of revenue, down from 40%. Concerts (19%), merchandising (40%), and licensing (15%) have become significant revenue drivers. Take Mori Calliope, the rapping reaper VTuber, as an example of this diversification. While she engages in traditional streaming activities like playing Red Dead Redemption 2, her success extends far beyond that. Mori has achieved billboard-charting albums and recently provided the end credits song for Warner Bros' new anime, Suicide Squad Isekai. These accomplishments showcase how COVER Corp develops talent across multiple revenue streams. Notably, although the talent behind Mori also performs in concerts, they have created greater commercial success with her Hololive persona, underscoring the value COVER Corp can add to its VTubers' careers.



We believe COVER Corp's growth story has more chapters to unfold. The company is guiding to 22% net profit growth this year (to March 2025), but we believe this will prove conservative. Trading at a forward P/E of 22x, the stock appears attractively priced given its growth profile and market position.

The world of VTubing might seem unconventional at first glance, but then again, so did the idea of social media or streaming video games not too long ago. With its strong management, innovative business model, and position at the forefront of a growing trend, we believe COVER Corp represents a compelling investment opportunity in the future of digital entertainment.

To bolster our conviction, we've enhanced Taurient to monitor engagement metrics across COVER Corp's entire VTuber roster. This capability provides us with data-driven insights that go beyond traditional financial reporting, allowing us to accurately assess the company's growth trajectory and the success of their talent development strategies in real-time.

ONWARDS AND HOPEFULLY UPWARDS

The top 5 holdings of the Minotaur portfolio are a Polish game developer, a Singaporean bank, a French construction materials company and the two stocks we dived into in this quarterly, being an Italian subsea cable operator and a Japanese VTubing company. We think an investor would be hard pressed to see the same level of breadth in any other global equities fund in Australia. But we don't compromise depth, for breadth. In fact, the increase in our efficiency driven by AI still allows us to go deep. We think improvements will only continue with our fund focused on continual learning and adaptation through AI and technology. As Plato said, *"The direction in which education starts a man will determine his future in life."* We hope that this aim for continual improvement in breadth and depth will augur well for the future of our fund.

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