Dear Investors,

I hope this letter finds you and your family in good health and high spirits. Arauca Capital achieved a gross return of **+12.75%** for the second half of 2023 (from July 1st to December 31st), bringing the gross yearly return for 2023 to **+30.65%.** As usual, net returns vary depending on when the capital was invested in the fund. For specific details, please check your individual statements, which were sent directly by our administrator, Bolder Group.

To avoid making this letter too long, I have included a comprehensive analysis of our portfolio company, Shelly Group, in a separate link. You can access it by clicking in section two of this letter. This analysis will give you more details about the company's business model, competitive advantages, growth prospects, and valuation. I hope you find it useful and informative.

Part 1 – General Thoughts

2023 results – Lessons from 10 years managing capital

I started 2023 with the largest allocation to safe assets. In addition, I sold several positions early in the year (for instance, XPEL, which was later re-bought), which made the 'cash' position even bigger. That huge additional portion in safe assets was allocated in short-term treasury bills. I had around 40% of NAV in treasury bills throughout the year! That is a huge amount, and despite that, Arauca managed to generate **30.65% gross positive returns**. On a risk-adjusted basis, 2023 was one of my best year.

Large allocations in the safe part of the barbell can be misinterpreted by many. For instance, it can be seen as a bearish view in the market or as an attempt to time the market. However, neither of those is correct. Large positions in essence reflect a geopolitical and macroeconomic environment more volatile than usual, where I want to be in a position that if I wake up one day and the world is in a major war, I do not have to sell anything, nor would I need to do anything in a rush in such a time. The safe part of the barbell allows me to be positioned to take advantage of volatility. However, the safe part should not be that big. The fact that it has been that large is just a coincidence that I sold some positions throughout the year, nothing else. As a reminder in 2023 I sold entirely Well Health technologies, META, TPL; I sold most of our position in XPEL, and many of the positions taken in 2023 were also monetised within the year, e.g. Opera and Super Micro. Therefore, the cash position remained elevated throughout the year.

When I look into 2023, I find an oddity: most of our returns came from positions taken within the year, rather than from our long-term holdings. The stock prices of the companies we held at the beginning of the year, besides META, did rather poorly. Our major contributors were Super Micro, Opera, and Shelly; all of them were multi-baggers for the fund within the year. That is particularly meaningful if the position was taken via options, as was the case in Super Micro (an explanation of that structure is mentioned in my previous letter).

One of the highlights of 2023 was the importance of being proactive in seeking new ideas and not becoming complacent with the "buy and hold" concept, which is often misunderstood. Some investors become lazy by assuming they are only "buy and hold" investors. However, holding a business should depend on its management execution, its reasonable valuation, the lack of better opportunities elsewhere (there are more reasons, but these are the most important). Very few companies execute well for a long time, so investors must monitor their investment hypothesis and sell when facts change, or mistakes are identified. I have been surprised by investors who believe their portfolio is ideal and no turnover is needed. This results in laziness for many investment professionals and painful surprises down the road. **Because "buy and hold" works on good businesses, we investors cannot assume all our holdings are good businesses**. That is the source of the misconception. At Arauca, I constantly evaluate our investments, sell when I must sell, and look for mispriced, hidden, or misunderstood situations, while holding the businesses that execute. Even with this hunger for having the best businesses, some mistakes are inevitable. Imagine without. This requires discipline, curiosity, hard work, and flexibility to quickly reverse course when facts change, or mistakes are identified.

My goal is to generate the best returns while managing risk in a way that preserves capital and respects the hard work that generated it. At Arauca, I am committed to being rational, independent, and flexible, following my own convictions. I thank you for your trust in me to manage your capital alongside mine.

My first 10 years as an Investor

In 2023, I celebrated the 10th anniversary of managing capital and I want to share some learnings I have had. In no particular order, I also elaborate on some, while in others I do not see the need to.

In ten years, I went from simultaneously working in Banking in London and managing the family partnership to leaving banking and along with my wife Laura pursuing the task of founding and operating a business (our Yoga Studio in Vienna) to finally jumping and taking the risk to set up a proper fund. All of this while maintaining the main task of managing the portfolio. It has been a wonderful journey and because of it, I want to share some of my main learnings with you. This is not the truth of the world, but the truth of my world today. I might change opinions in the future and to be completely free when writing, I do not follow a pattern. In some learnings I speak to "you", some to "me". I hope you forgive me for the lack of consistency, but I feel they come across better that way:

1) If you do not have experience operating a business, you will always be at a disadvantage with investors who do: The biggest investment lesson I have had was operating the yoga studio, see some of my main learning moments in my 2018 letter.

2) Having labels of any kind will make you less flexible, they make you worse at investing: I evolved from an idealistic value investor to an investor without labels, this has given me freedom of mind. During my initial years I was in a value investor echo chamber that was preventing me from growing quicker.

3) No matter how smart you are, if you do not behave you will not succeed at investing, and behaviour is something that cannot be taught, each person needs to develop a set of heuristics to counter his/her biological impulses.

4) Choose your investment heroes based on their original insights, not their popularity: Many famous investors are just good at marketing. Learn from investors who have proven results and clear explanations and are original, do not follow copycats. E.G. Reading the same books about Buffett won't make you smarter, read from Buffett instead.

5) Removing cliches, such as "I am a contrarian" cannot have benefited me more at investing.

6) Macro factors are important to be aware of, but their importance should not lead you to make predictions about them: For example, an environment with 5.5% interest rates is different from one with 0% interest rates. This may allow for some changes in the portfolio, but one should never try to position the portfolio based on predictions about macro variables.

7) Despite the advice to avoid focusing on short-term news, people will always crave macro narratives. The most popular accounts often feature macro analysis and predictions. It can be challenging to avoid being influenced by short-termism in a world dominated by social media, but maintaining discipline and avoiding such distractions is key. Read the facts, read history, read how things work, follow the news, but avoid being exposed to predictions on them that might alter your rationality.

8) When facts start being contrarian to your investment hypothesis, recalibrate what you think you know, never double down in your initial view.

9) Never ever lose the hunger of finding the next hidden amazing company, not after a huge loss, not after a huge gain, never ever.

10) People are the most important factor in investing, whether it is the management teams of the companies you invest in or the people you interact with. You will definitely be influenced by the people you interact with the most, so choosing them wisely is key. This includes who you follow on social media, where you read from, but mostly it will be the people you speak with often.

11) Identifying when you are wrong early on is more or equally as important as your winners: The compound effect of avoiding significant losses is enormous, even if it is less visible.

12) Not all opinions carry equal weight: It is important to learn to identify the areas in which people are truly experts or excel, and not to assume that because someone is skilled in one area, they are equally skilled in another. As such, do not follow advice blindly without first evaluating the source and their competence in the subject matter.

13) Embrace change within yourself and do not have rigid views about yourself or your investment style: We all evolve; our version of ourselves today is different from ten years ago. We learn what we are good at and what we are bad at, and what beliefs we sometimes held that need to be discarded. Embrace who you are and who you are becoming. Nothing is static, not the universe, the earth, living species, nor should your investment style be.

Part 2 - Portfolio Update

IDT all into place – Shelly Group – XPEL re-entry – Mistakes and new positions

IDT (update)

We have owned IDT since mid-2021 and consider it one of the core holdings of our fund. IDT faced a serious legal threat that could have jeopardized its financial position and prospects. To protect our downside, we bought some put options in case the lawsuit went against IDT. Luckily, and to our delight, the court dismissed all claims against IDT in a recent ruling. This is a huge relief and a major boost for IDT, which can use without worries the 160 million USD in cash it holds in the balance sheet to pursue growth opportunities and return money to shareholders. I cannot overstate the importance of this court decision.

NRS, IDT's crown jewel, continues to impress me with its performance and potential. As a reminder NRS provides point-of-sale terminals to independent retailers, enabling them to offer various services and products to their customers. NRS is on track to generate nearly 100 million USD in annual recurring revenue in the next 12 months and grew its terminal count by 31% in the last year. What is even more remarkable is that NRS had 5.5 million USD in operating income in the latest quarter, a rare feat in this industry. While this result has some seasonality due to the advertising spend, it shows that NRS is the only company in the sector that is profitable with such high growth, in fact it has the highest growth.

Another remarkable segment of IDT is Net2Phone, again as a reminder, net2phone is an IDT subsidiary that offers cloud-based telephony services to businesses. net2phone is a pioneer and leader in the voice-over-Internet protocol (VoIP) market, and has been growing rapidly in recent years, currently around 20%. As of the last quarter Net2Phone reported positive EBITDA and is almost cash flow positive.

I am very pleased with IDT's progress and prospects, and I see the market has not fully appreciated its value and potential. NRS competitor PAR trades at almost 4 times EV/Sales, and it is not profitable and with lower growth than NRS. NRS when spun out should command a meaningful premium to it. IDT has a market cap of 790 million USD at the time of writing, with 160 million USD of Net cash in its balance sheet. NRS at 6 times sales should be 600 million USD at least. Pretty much all other IDT businesses would be valuated at zero, I like the odds of this investment to work out.

TPL (sold – yes again)

We have recently sold our stake in Texas Pacific Land Corporation (TPL), we decided to exit our position after a court ruling that changed the governance structure of TPL and increased the risk of value destruction.

We divested our stake in TPL due to a ruling that altered the voting of majority shareholders Horizon Kinetics and SV for Proposal 4. The judge ruled that the Investor Group was legally obligated to support Proposal 4, which gave the company free room to issue shares and use them as management wishes, as evidenced by their actions prior to litigation. The Investor Group argued that TPL, despite transitioning into a corporation, retained a "trust-like" structure with limited managerial powers. However, the judge's decision effectively endorsed the Company's viewpoint, erasing any remnants of TPL's "trust past" from its governance structure. This could potentially incentivize share issuances for acquisitions in the long run, which may lead to complications.

I believe that this ruling was a major setback for TPL's long-term value proposition. I think that TPL's competitive advantage and profitability were largely derived from its trust-like structure, which ensured capital discipline, low overhead, and high returns to shareholders. I fear that TPL's corporate structure with this new ruling will create incentives for management and the board to pursue growth at the expense of profitability, and to dilute existing shareholders by issuing new shares for acquisitions. I do not trust that TPL's current governance will protect the interests of shareholders, especially minority ones. Although the recent settlement agreement and the addition of two independent board members offer short-term protection for shareholders, the duration of this safeguard is uncertain.

Horizon Kinetics, a major shareholder of TPL, also filed a 13D stating that they may sell their shares in the future based on their research. This adds more uncertainty and risk to the stock. We decided to protect our capital and exit the position for now. We still think TPL is a great asset, but we are cautious about its future. We made some profits in our short-term position. For full disclosure, I remind you that we first bought TPL several years ago and sold it in 2022 at 2620 USD. We bought it again in 2023 after a 50% drop and sold it recently at a profit. In case the valuation becomes substantially cheaper, do not be surprised I buy it again despite the above.

Gaming Innovation Group (GIG)

GIG has become a smaller position for the fund organically, as the share price was mostly flat during the year, but remains a core holding. GIG has executed superbly. We are on the verge of the split of the businesses (media and platform), where a rerate should occur. Both businesses will have their shares trading in Sweden, making the logistics easier as the Norwegian listing will disappear. It is time to make a simple sum-of-the-parts valuation. GIG just acquired Kafe Rocks (which belongs to the media segment) at 3.5 times 2024 EBITDA, a very attractive multiple, especially after seeing the progress GIG has had with the previous acquisition: Ask Gamblers, which is growing at 45% in revenues and 65% in EBITDA, coming from declining growth. Management announced that in 2024 the media business will generate about 140 million EUR in revenues with an approximate 65 million EUR in EBITDA. Peers like Better Collective and Gambling.com trade around 10 times EV/EBITDA. At 10x EV/EBITDA, adjusting for debt, GIG Media alone would be trading at roughly 550 million EUR, equivalent to 47 SEK a share. The shares of the combined businesses are trading at the time of writing at 29 SEK, a large discount to the media segment alone, plus we will get the growing and profitable Platform business (the platform business should be making around 16 million EUR in EBITDA). Here again, I like our odds to realize substantial value. The split of the businesses should be finalized in the first half of 2024, so I hope in my next letter to give you a proper update on this.

Shelly Group:

Please check **this link** for our full write-up.

Please note that we first disclosed our report in August 2023 and issued the updated version at the end of December, which is the one you will read. Shelly is our largest position at the time of writing. We started buying at 11 EUR per share and our final average price is around 14.50 EUR per share. I hope you enjoy the write-up.

XPEL:

As you might recall, we had pretty much exited XPEL, as I could not justify the valuation the market assigned to the company earlier in the year. On the other hand, I left a tracker position, given that XPEL is one of a kind, it is one of the only companies that for over 6 years that I held it, it has had impeccable execution, accompanied by a flawless management team, a rare feature in the small cap world. Over the last few months, XPEL has been attacked in various fronts, two short reports. Mostly based on the decision of Tesla to inhouse offerings of paint protection firm (PPF). Tesla announced it will offer PPF in two installation services in California in two of its models. In addition, the short reports focused on the relationship of Entrotech (XPEL past major supplier) and PPG.

The short reports were successful in sending the shares 40% down, giving us an opportunity to rebuild our position. Though it is still not a large position for the fund, currently after adding in mid-45 USD, our holding rounds to 4% of NAV. XPEL clearly had a larger number of unsophisticated shareholders, mostly following other investors, and weak hands act fast, mostly wrong when scared. To begin with, XPEL management, which I have followed since 2016, is the only one coming from the micro-cap world that has been flawless since then for such a period. I have seen what they say, compared to what they do, and I have always been positively surprised. When Tesla made the announcement of offering PPF in its two locations, XPEL announced that the percentage of revenues coming from Tesla represents 5%. The short seller issued a report claiming that 5% cannot be true. The reasoning was that they called a certain number (146 precisely) of XPEL installers and the average percentage of revenues coming from Tesla was around 30%. Immediately, you can see how they try to fool investors who have not done the work by playing with numbers. XPEL's largest client represents 10%, XPEL's share of revenues per installer is Pareto, with a few of them driving most of the revenues. In addition, they called American installers, while the US represents 57% of XPEL's total sales. An average from a random sample, performed in a way that no one can track, is simply meaningless. In addition, you are confronting the word of a flawless management team, of which I have known for years, with a short seller known for exaggerations and flawed reports. It is not a difficult choice to make. Lastly, XPEL owns the DAP software (the actual initial business segment of the company), this software has around 80,000 patterns for cutting PPF to fit different vehicles, which means XPEL can mostly track which patterns are being used.

The last major claim by the short seller was that Entrotech's new joint venture with PPG Industries, a large automotive paint supplier, would disrupt the paint protection film industry by integrating PPF directly into paint. The short seller connected this to the fact that XPEL's termination of its exclusivity contract with Entrotech in 2022 was related to this development. In this case, the short seller took advantage of probably scared shareholders, as anyone selling on this news failed to remember that XPEL terminated the contract in 2022 because XPEL (I spoke with the company at the time) had already diversified its suppliers substantially, and given the company's growth and size, the contract needed to be updated to reflect the new reality. It was done from a position of strength for XPEL, completely opposite to what the short seller wanted to convey.

The joint venture between Entrotech and PPG is true and was announced more than six months ago. It had nothing to do with the termination of the exclusivity contract; it was just played smartly by the short seller, which benefited our fund, as the collapse in the price allowed us to reestablish our position. With regards to the partnership between Entrotech and PPG: As far as I am concerned, there is no known technology to incorporate paint protection film directly into paint. In fact, XPEL's Ryan Pape mentioned in the last earnings call that there is no such technology.

"Across all our product lines, our suppliers are very important to us, and we've developed an extended base of raw materials and converting suppliers in particular, for our paint protection film business over the years. Even as we've diversified that manufacturing using the asset-light model and outsourced manufacturing model that we've used since inception; we've had a strong and long-standing 15-year relationship with entrotech.

Earlier this year, it was announced that PPG had formed a joint venture with entrotech around coloured film products. Entrotech had developed over a period of many years. We welcome the PPF joint venture with entrotech. And there are many possible opportunities for collaboration with PPG. We're actively discussing ways in which we might do that with their senior leadership."

I have nothing else to say here, sometimes stocks fall by a change of facts, sometimes stocks fall for the appearance of a new "opinion" or "perception", in this case this change of opinion gave us the opportunity to buy XPEL again without any change of facts at a very reasonable valuation.

Mistakes

I made several mistakes during the period, as explained in my H1-2022 letter, all mistakes I make should be justified mistakes, which of course was the case in this period.

The biggest mistake I made was by not dropping everything and taking the time and analysing GAN (yes, our previous holding) again. The story of the company after our disposal in 2020 has been abysmal, dropping 95% from its highs. But in Q4 -2023 the company took several actions that pointed of a possible sale of the company. There was a motivated lender to GAN, who could benefit from acquiring the licenses. GAN CEO resigned without any sings of finding a replacement, the company had stopped making earnings calls, I can continue with all the signs. I did not research on it, I just put it in watchlist and fell asleep. Few weeks later, this motivated lender to GAN, announced a take-over with a premium of more than 100% of the last trading price. I simply cannot put opportunities in the watchlist and do nothing. I can say no after researching and be wrong, but not do nothing after having the signals. This was a powerful lesson.

With hindsight, I can say that exiting Super Micro was a mistake, but the exit itself was not. As the position was in derivatives, the unrealized gain was very substantial, and the need to monetize became real, given that volatility on the downside can wipe out those gains. However, the mistake was not converting the position into holding stock for the long run. I re-entered the position and exited again after a quick move from 230 to 300 USD. Not keeping the position was the mistake, as the company kept executing non-stop, and there was no fundamental reason to fully exit. I will only re-enter when I am completely satisfied with the valuation again.

Finally, I lost some money in two special situations. They were small losses, but it reflected a wrong understanding on my side of the situation. This is an area where I need to improve, as there are substantial opportunities.

New Positions and final comments:

Arauca started to acquire shares in two micro-cap companies that I am extremely excited about, given that we are still buying shares and the names are completely under the radar, I am keeping the names for now, but you will hear about them later in the year.

Lastly, Arauca Capital last year established a full position in Vistry Group. I will elaborate probably in the future, but here I see a company that was trading at an incredibly low valuation, with exceptional management, a change of business model from traditional home building to partnerships, where the returns on investment capital will be substantially higher and should be reflected in the non-distant future in the financials. Vistry is also buying back shares, an amount almost one third of its market cap (at the time of writing). The market has yet to catch-up with what is going on in Vistry.

Part 3

Arauca Capital is evolving – Gratitude

In 2023, we achieved a major milestone; we created the first Arauca presentation. I want to express my deep gratitude to Ricardo for his invaluable contribution. We also launched **our website**, which was made possible by the amazing work of my wife, Laura. With Ricardo's guidance, I realized the importance of being more visible, so that people can discover who we are and what we are doing at Arauca. At the end of the year, Ricardo and I had the opportunity to participate **in this podcast** of the University of Los Andes in Colombia. If you speak Spanish, I highly recommend you listen to it. I also made my debut on a **Twitter (X) space** with my friend Andy in English, where I had a wonderful time discussing ideas and our background with other successful investors. Have a listen if you can.

One thing that I enjoy the most is finding companies, reading, speaking with other investors and management teams. I have not been very keen on being more public. However, that worked well when we were a partnership, with low costs to run it. Now that we are a proper fund, I need to ensure that Arauca reaches critical mass and for that I need to be more proactive in sharing our story. I would also appreciate if you could help me spread the word about our fund. I am very excited about how we have endured the last five years, five years that challenged me with Covid, inflation, two wars, and many personal changes like getting married, having our first baby, changing countries, setting up the fund, selling the yoga studio. It has been a total adventure.

For this adventure, the support of people has been paramount. I want to thank for supporting me and our business: first of all, my wife Laura and my daughter Graciela, who are my pillars of strength and inspiration; Ricardo Gonzalez, who took a long shot working with me and who has supported me on all fronts; my investors, without whom this is not possible; I want to specially thank this time my godfather, who I deeply admire, who has taken a role of sharing our story without precedent; and finally, thanks to all my investor friends who challenge me and make me better. To you dear investor, I am working extremely hard in trying to compound our capital, without any rush, but restless discipline.

I hope you are as excited as I am about the future of Arauca. Thank you for your trust and support.

Yours truly,

Jean Philippe

Jean Philippe Tissot

Founder of Arauca Capital

Jean Philippe Tissot full track record

	Year	**Gross Returns**
Partnership	2014	*+12.47%*
Partnership	2015	*-8.32%*
Partnership	2016	*+63.42%*
Partnership	2017	*+12.62%*
Partnership	2018	*+0.81%*
Partnership	2019	*+43.14%*
Partnership	2020	*+84.21%*
Partnership	*2021 H1	*+16.11%*
Arauca Capital	**2021 H2	*-11.42%*
Arauca Capital	**2022	*-19.54%*
Arauca Capital	**2023	*+30.65%*
	CAGR	***18.32%***

** Arauca Capital was launched in July 2021*
*** Gross returns do not include management fee*

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At the time of writing this letter, this investment fund falls outside the supervision of the Dutch Financial Markets regulator, or AFM (Autoriteit Financiële Markten).

Therefore, the fund manager is registered with the AFM as an AIFMD "light regime" or "de minimis regime" (not supervised) manager. The registration number of this Fund is **50026641**, and the updated registry of "light regime" managers can be obtained on the AFM website: https://www.afm.nl/en/professionals/registers/vergunningenregisters/beleggingsinstellingen

Light regime managers such as Arauca Capital B.V. have no license, and no prospectus is required for this activity.

Prospective investors should review the Information Memorandum, including the risk factors section, before deciding to invest.

In addition, prospective investors should rely only on the Information Memorandum when deciding to invest, although certain descriptions contained herein may be more detailed than those contained in the Information Memorandum. Past performance is no guarantee, nor does it indicate future performance. Subscriptions may only be made on the terms of the Information Memorandum and subject to completion of a Subscription Form and the approval of the Fund Manager. This document is not intended as an offer or solicitation with respect to the purchase or sale of any security. This document is not intended for distribution to or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. This document is not intended for distribution in the United States of America. Opinions expressed herein correspond only to those of the Fund Manager and are subject to change without notice.

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