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Think differently where it counts. Otherwise. 'Doe maar gewoon'.

Dear Client,

As this year ends, and there is a lot of collective global anxiety about what the next one will hold, I wanted to write about change. But not for the sake of it.

Fundamentally, SAIL was established because we thought there was an opportunity to capture Value by taking a systems thinking approach to change, and financing those that can lead change within existing industries. By Value I mean positive change that we and our clients (investors) want.

Our vision as an investment firm is to help transition industries and countries to more sustainable growth by supporting change – small tweaks and big disruptions. But first, we need to see the world for what it is. We need to be empathetic to understand why things are like they are today. We should be curious in understanding 'the now' and why we face challenges to being sustainable (i.e. maintaining your business for the long term, especially the very long-term). You need an open, pragmatic, and entrepreneurial mind to plot a transition. Sometimes that means disruption of an industry, but it can also just mean seeing Value in the adjacent possibility, i.e. a small degree shift in your operations to open up long-term Value by embedding a more sustainable path for your growth.

At SAIL, we see the opportunity to fund industry transitions around the world by: 1) understanding, from a systems perspective, where the levers are and how to push or pull them; and then 2) finding the partners, the entrepreneurs, and the management teams, that can be first movers in their sub-industry. Therein lies a mispricing opportunity and we can generate real Value. Herein lies an alpha opportunity.

To tackle deforestation (a material contributor to global CO_2 emissions) we need to be financing the right markets to address it. This means the beef food systems in Brazil, palm oil supply chains in Indonesia, and cocoa in West Africa. When investors cite the reputation risks of these sectors as a reason to not invest, I ask myself what thinking framework they are using. At a systemic level, the production of beef and palm oil (incidentally the most efficient oil by some margin) is unlikely to slow its growth projections leading beyond 2050. Furthermore, unlike fossil fuel, these commodities *can* be climate neutral, even climate positive. You need to change the business model, not the commodity.

At SAIL, we can produce Value in the form of outsized ESG impact because we are in those markets that need transition. If you move a situation from minus 5 to plus 5 you produce a larger impact than if you take something from zero to plus 5. That is just at a project level. But when we talk about systems, that example of minus 5 to plus 5 has a much larger ripple effect if it is structured in a significant global industry and not in a niche product in which the 'impact' is based on unscalable, advantageous pricing etc. So, our Systems approach to markets gives us a major opportunity on the ESG Value side, but to generate sustainable alpha we need to pick the right counterparts. It is as simple as that, and time will tell if we can do so consistently.

There are different approaches to investing in origin markets like we do. An obvious approach, and one that does make sense, is building a highly diversified portfolio, across a variety of countries, sectors, and currencies. These markets tend to be more volatile and ultimately the country risk is significantly higher than Organization for Economic Cooperation and Development (OECD) countries. The argument therefore that you cannot really tell when a coup might happen (or hyperinflation, or civil war) so it is best to use diversify to mitigate that risk. Furthermore, on average Emerging Markets (which are often the origin markets as well) do tend to grow faster than developed ones, so if you are well diversified and across those markets you should, in theory, be able to achieve a decent risk-adjusted return for having some exposure there. I see value in such an approach, and you can access that exposure in the market (indexes, well diversified funds (e.g. large microfinance ones)

SAIL takes a different approach. More intentional on a specific theme 'market transition' (towards more sustainable growth), and focused on finding the right investees, and then looking to remove downside country risk through structuring, but keeping exposure to upside country fundamentals (wage competitiveness, market growth potential, optimally priced available resources (e.g. land).

To succeed we need to do a couple of things well. Firstly, origination strategy is central. Finding the right partners in opaque markets is a huge USP to get right. We take a systemic 'macro' approach to analyse where we want to be doing what (systems approach to transitioning industries) and then we find the right people within that space to back. Ultimately, you need to back the right entrepreneur or management team and that is important, but as Warren Buffet always says a company with a clear strategic economic moat but bad management is still infinitely better than great management of a company in a dying industry.

SAIL is building its team, and in 2024 we are going to ramp this up significantly, so that we can use our USP process to find those opportunities that will deliver transition alpha. This makes me particularly excited for the new year. Despite a sober outlook on geopolitics, economics, and elections (40 globally in 2024!) the year holds much value if you are looking for it in the right places. For the rest, '"doe maar gewoon"[1] and add some lightness to the world.

Yours sincerely,

Johnny Brom

Founder and Chief Investment Officer