

## **Valora Investment Group - Inception Letter**

June 18th, 2025

### **The Why Behind Valora**

I discovered Warren Buffett around age seven. I remember picking up a simple book on his ideas at home. Something just clicked. It felt full of wisdom and grounded in common sense.

Since then, I was hooked on investing, dedicating my energy and resources to it.

Who am I? A curious person who loves learning and focused on practical decisions in a complex world. *My goal is to add as much value to the world as I can.* I won't be building rocket ships or EVs—others are far better suited. I believe my best attempt at creating meaningful impact lies in identifying, owning, and supporting a few of the world's most value-generating assets—and owning as much of them as I can.

My decision to form this Group—and to do so now—comes from deep conviction that this path will lead to the highest rate of compounded value, learnings and returns.

### **Philosophy**

#### ***As Businessowners, We Are Traders***

Most value comes from trade—someone paying for a product or service. The buyer values what they get more than the money, and the seller values the money more than what they give up.

Profits often come from removing friction. In the 1500s, Indian sellers had herbs but no way to reach UK buyers. British traders stepped in, linking both sides and removing the friction. The result: herbs for buyers, a market for sellers, and profit for the traders—all at prices each side found fair.

Are we traders? Not in the usual sense of rapidly buying and selling stocks or financial instruments. But yes—trading is part of what we do. Every time we buy or sell an asset, we're making a trade. More importantly, every asset we own is involved in some form of trading. When we buy a stock, we must understand how the company will keep solving their friction, at a price people will pay for—in order to add value. How strong, lasting, and profitable will those frictions be? And crucially, what price are we paying to become its owners?

What friction does Valora Investment Group solve? We help capitalize opportunities. In the 1500s, someone had to pay for the ship, crew, and goods—without that, nothing would have sailed. We help provide the resources so businesses can pursue their objectives and solve other frictions. By derivative the most significant frictions we resolve are those being carried out by our investments.

### Asset Sizes and Equity Vehicles

We welcome all value-adding transactions and appreciate public markets for reducing friction and democratizing access. We seek simplicity and avoid complexity unless necessary— only when it clearly adds value and we can develop deep conviction.

We evaluate each asset uniquely. Liquidity is one factor among many. Illiquidity mainly raises our conviction threshold, since changing our minds can be costly and less available. Generally, the more liquid an asset, the more efficient its market. This idea, from James Surowiecki's "*The Wisdom of Crowds*", shows that the larger the group, the more accurate its answers tend to be—even if additional members aren't experts. The crowd balances extremes and averages out reliably. In investing, that "answer" is the asset's *fair value*.

As a result, we have deep respect for large companies and major asset classes. These ecosystems can attract a vast number of participants, many of whom are fearsome competitors. Unless we have a clear edge, we prefer to focus on overlooked areas.

Smaller opportunities have advantages but also challenges. Quality, value-adding businesses are usually harder to find among small firms. Larger companies have proven strength; it's what got them to their size. Gaining conviction in smaller assets can be harder and demand more work, partly explaining their undervaluation. We embrace it.

We believe flexibility and open-mindedness are key to maximizing returns. We'll invest in large "megacaps"<sup>1</sup> or private assets if we understand the opportunity, see an edge, and expect solid returns. Still, we will mainly focus on overlooked public companies — where we think the best opportunities often are.

<sup>1</sup>A public company valued at ~\$200 billion or more.

## Approach

The business world is brutal—a game of survival where minimizing risk and maximizing reward is everything. Every investment decision should be weighed on an opportunity cost based on risk adjusted returns. To illustrate, if you have money for one toy, but there are two cool ones, you have to choose. The toy you *don't* pick is your “opportunity cost.” We try to choose the toy that’s the most fun *and* the least likely to break — that’s a “risk-adjusted return.” This is the main thing we focus on every day.

We believe the single, most important factor in any investment decision is **price**. As legendary investor Stanley Druckenmiller said, “Price is the essential determinant in every investment equation. At some price, every company is a buy; at some price, every company is a hold; and at a still higher price, every company is a sell.”

As value investors, we try to buy things for much less than what we think they’re really worth. That difference gives us a cushion — *a margin of safety*. In our career, we’ve often spotted value in three main forms:

- Growth – Assets with potential to expand and create new markets and value.
- Yield – Assets that steadily produce more than they consume.
- Treasure Chests – Large reserves of value that can be unlocked or redistributed.

Some of the strongest investments combine several of these traits. We welcome that and evaluate every case with a flexible, case-by-case approach.

### *Eos Energy*<sup>2</sup>

Eos is the largest producer of fully US-made Battery Energy Storage Systems (BESS)<sup>3</sup>, a fast growing, future trillion-dollar industry. They build 15-foot containers filled with batteries and, though still small, are the leaders in American-made BESS with strong competitive advantages.

First, Eos offers the lowest-cost solution using a first-principles approach. Their zinc-based batteries are cheaper, made from earth-abundant materials, and easier to operate. Their product improves on existing options and meets a clear market demand.

<sup>2</sup>We first invested in Eos in early 2023. They represent our largest holding and main source of past investment returns. <sup>3</sup>By “fully US-made BESS,” we mean battery systems manufactured entirely in the United States, from the cell level up through the fully integrated storage unit.

Second, scale matters. Most companies fail transitioning from prototype to commercial production. Eos crossed this “Valley of Death” and is now the top fully US-based producer of grid-scale batteries. Over 95% of BESS today comes from China or similar sources. But U.S. buyers are shifting to domestic supply, a trend sped up by recent tariffs. Eos made that move early, in 2017, and now leads the fully domestic segment.

Our conviction in the industry keeps growing. U.S. energy demand is rising fast—expected to grow over 50% by 2050—driven largely by electrification, AI and data centers. Eos is at the heart of this inflection point, led by a world-class team that keeps exceeding our expectations with sharp execution and relentlessness.

Eos expects revenue to grow from \$15 million in 2024 to over \$150 million in 2025, and over \$500 million in 2026. The US energy storage market is expected to need 75GWh by 2026, over \$15 billion in battery equipment. Capturing under 3% of this market seems conservative, given their position as the largest fully U.S.-based manufacturer and accelerating growth plans.

We believe their current market price significantly undervalues future earnings.

### *Burford Capital<sup>4</sup>*

We’ve owned Burford since 2021. They’re the undisputed leader in litigation finance. To put simply, they fund legal cases that are too expensive for plaintiffs, in exchange for a cut of the winnings. It’s a growing industry, and Burford has proven itself to be world-class at solving this friction, with strong demand for their service.

Historically, they delivered an internal rate of return of 26% on cases they funded, showing extreme competence. They were able to 1. Deploy billions of dollars into legal cases. 2. Do so in a way that is able to bring back almost double in less than three years. 3. Do it repeatedly. On top of that, their stake in a nearly concluded case against Argentina could be worth more than the entire company today.

Burford looks undervalued based on its core engine: a proven ability to fund legal claims profitably, repeatedly and a solid portfolio of active cases. Add an extra asset likely worth more than its entire market cap, and we see a wide margin of safety and strong compounding potential.

<sup>4</sup>Burford was our first ever public equity investment, back in early 2021.

### *Treasure Chests*

These investments can be very attractive when understood well—but they’re rare, often small, and can require high effort for modest returns. This makes them tough to scale. However, we believe they can prove to be excellent risk/reward investments, especially while our capital base is small and scale isn’t a problem.

In 2024, with two partners, we bought a prime real estate property for nearly half its value—due to a distressed seller with personal and financial issues. Another past investment was buying an energy project developer with \$400 million in assets and \$100 million in debt, trading for just \$60 million.

Treasure chest investments raise two key questions: Is the value real? And how can it be unlocked? In the real estate deal, we developed and split the property to unlock value. In the energy developer, the Chairman (33% owner) offered to take the company private for \$100 million. This turned out to be a case of high effort with limited returns. The value was unlocked fast, but perhaps other approaches might have better served common shareholders. Conviction on both fronts is rare, but we stay alert—and cautious—for such opportunities.

### **Final Remarks**

I’m thrilled with our portfolio, which I believe trades under 33 cents on the dollar. It’s important to be clear: we are long-term owners of assets in this Group. Whether bonds, real estate, or companies, we aim to hold until maturity. For companies, maturity can mean forever. While price and fundamental changes might lead us to sell for better opportunities, every new investment is made with the same long-term mindset—comfortable holding through to maturity.

All of our current investments are in public equities, companies. We analyze companies with a minimum five-year outlook.<sup>5</sup> It’s vital that every partner shares this long-term mindset. The journey will bring ups, downs, and unexpected noise<sup>6</sup>. Large drawdowns **should** be expected, as markets **will** behave irrationally at times. This vehicle is being formed to support long-terminism. We are buying real assets—real companies—whose actual worth, their *fair value*, doesn’t fluctuate like their stock prices.

I’m encouraged by the opportunities ahead and believe that with the right long-term capital and partners, strong compounded returns will follow. It’s both an honor and a

<sup>5</sup> An asset that trades at 33% fair value (current portfolio) and it takes 5 years to be fully valued, should yield an annual return above 24%.

<sup>6</sup>Irrelevant inputs that distort decision-making.

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responsibility to manage your hard-earned money. I promise that every investment decision will be weighed on an opportunity cost based on risk adjusted returns - and will be treated **exactly** as if it were our own money<sup>7</sup>.

I am thrilled to embark on this endeavor with you — hopefully a multi-decade journey.

With gratitude,

Lucas Sacerdote

<sup>7</sup> We've committed all our personal capital to the Group and intend to make every investment through Valora. To-date, we remain the largest investor.

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