

Hoofddorp, the Netherlands, 9th of October 2026



Dear Investor,

The ARAR Fund showed resilience with a record month in August and a less impressive September consolidation month. 11% in August and -3.1% in September compounds to 7.5%, well ahead of our benchmarks. With 15.3% we remain on track for another good year. While the world is in the midst of two very dangerous undercurrents, we remain committed to positions that take these threats seriously. We believe we are relatively well positioned for a flight away from the US Dollar and disappointments in margins/profits in the field of AI.

In this Investor Letter we delve deep into why we finally reduced our position in Jackson Financial substantially, and why being invested in Korea is a great idea even if you are skeptical towards future profits in AI.

2025	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Full Year
ARAR Fund*	3.3%	-1.9%	-2.3%	-7.2%	10.7%	3.6%	2.6%	4.5%	2.4%	-0.8%	-0.7%	2.1%	16.3%
MSCI World ACWI ETF**	4.2%	-2.3%	-7.4%	-4.0%	6.1%	1.2%	4.3%	0.2%	2.8%	4.4%	-0.5%	0.4%	9.0%
MSCI Equal Weight EUR	3.9%	0.3%	-5.7%	-2.2%	4.4%	-0.4%	3.3%	0.6%	0.2%	2.1%	0.6%	1.1%	8.2%
AEX Total Return	4.9%	0.3%	-2.5%	-1.8%	5.8%	-1.0%	-1.1%	0.0%	5.1%	3.1%	-2.6%	0.8%	11.2%

2026	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	Full Year
ARAR Fund*	9.3%	2.7%	-11.4%	6.6%	8.8%	-0.9%	-6.3%	11.0%	-3.1%				15.3%
MSCI World ACWI ETF**	1.2%	1.7%	-5.3%	8.7%	5.9%	1.1%	-1.1%	2.3%	1.5%				16.3%
MSCI Equal Weight EUR	1.5%	4.3%	-5.2%	4.5%	4.2%	1.6%	0.9%	1.7%	-1.7%				11.9%
AEX Total Return	5.3%	2.7%	-6.4%	6.2%	2.8%	4.4%	1.8%	1.2%	0.9%				19.9%

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PERFORMANCE IN DETAIL

Jackson Financial: good earnings, but danger brewing

Jackson continued to perform in line with expectations, but is facing a dangerous headwind that was thoroughly exposed in a 34-page [short-report by QVT](#). The gist is that three events have collided that make Jackson Financial more fragile than it seems. In 2024 Jackson shuffled assets and obligations using a newly created Brooke Re, which would act as a reinsurer for Jackson, but in a sense has similarities to a Special Purpose Vehicle. It was created to stabilize statutory capital, allowing Jackson to free up capital and buy back shares that were terribly undervalued. It also resulted in moving something called a 'MRB asset (or liability)' to Brooke Re. This is an asset based on changes in the fair value of *future* economic benefits (using actuarial assumptions approved by regulators). One should always watch out with assets whose valuation is based on assumptions for the future (to some extent, it's more art than science). So as Jackson has continued to report a larger share of its balance sheet covered by this, that increased fragility of its valuation.

Booking assets should be a positive thing of course, but the problem is that the risks underlying those expected future profits are usually hedged away in real-time. Those hedges can create immediate cash losses, while the offsetting expected future gains remain non-cash and are reflected in the aforementioned MRB asset. As it happened, rising future profit expectations *were* hedged away, creating a cash loss against an *assumed* future gain (booked as the MRB asset) (1). On top of this, it seems Jackson/Brooke Re has misjudged policyholder behavior (and therefore future gains) 15 quarters straight, leading to QVT's belief the value of the MRB asset on which Brooke Re's apparent capital strength depends, could be significantly too optimistic (2). Lastly, an unresolved question is how an estimated 6.5 bn *non-cash model-based longer termed paper asset* is expected to cover shorter term cash requirements. Surely this mismatch has some repercussions on Jackson's credit rating and ability to borrow (3).

To us, the report corroded an investment case that was already somewhat losing its appeal: As Jackson has also run up over 250% since we bought (~450% since I personally bought before starting the fund), our conclusion is that it has run its course and while it was still attractively priced when disregarding the above, it is now too close to 'reasonably priced'. As a stock that was nearly 10% of the ARAR portfolio and had run up 30% in the months before the QVT report, we took [the stock being down only 5% after the QVT report release] as a window to drastically reduce our position to only a token leftover: We expect the report to cap the potential of the stock for the next year and the changed sentiment to cause the stock to go down further in the medium term, while we only see limited upside (relative to our alternatives) if all issues are resolved.

Auxly Cannabis

Auxly was our biggest winner last two months. Reporting healthy margins and 18% y-o-y growth, they provided more proof they are a legitimate growth-at-a-low-multiple stock that is well worth the investment. As a result, Auxly went up almost 40% in the last two months alone, with significant earnings revisions from analysts. The stock has risen almost 100% since we put up the position, affecting our math.

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Serabi Gold

Goldminers produced fairly predictable earnings, but Serabi Gold did have a nasty surprise: Permit delays for their Coringa mine become so substantial they could cause a production interruption in Q4. While Serabi claims there is no indication the granting is under threat, seeing is believing.

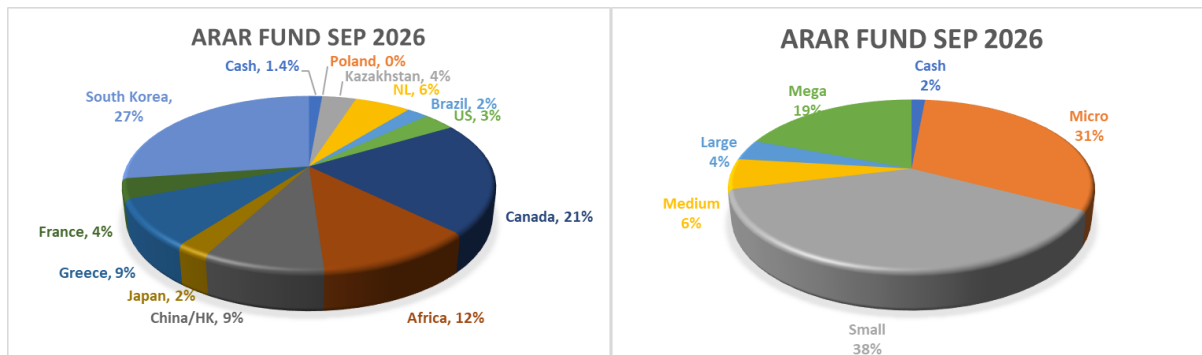
Chinese Fintech

An almost complete revenue collapse at Jiayin and X Financial (approximately -60% y-o-y) now indicates their valuation now solely rests on the undervaluation of their balance sheet: Trading at less than 0.2x book value and little reason to stay in the game, liquidation now seems the most reasonable path. That implies significant opportunity at these prices remains, but the investment case has deteriorated throughout the year and has taken the sector with it.

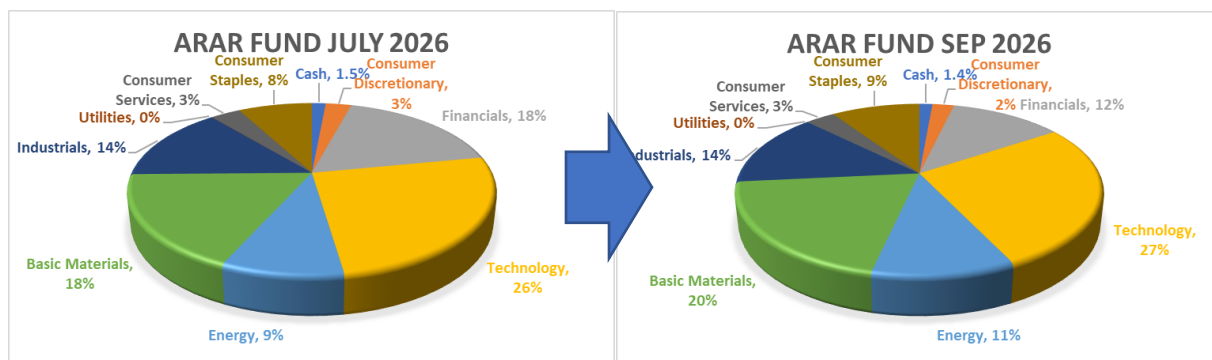
Westbridge Renewable Energy

Westbridge, creator and seller of energy projects, reached a favorable agreement to sell one of their biggest projects, Red Willow. Though valuation was well below projects sold back in 2023, it nonetheless proved once again their balance sheet is far more valuable than the market gives them credit for.

PORTFOLIO COMPOSITION



The current portfolio consists of 28 stocks (of which six below 1%) and a 1% cash position. We adjusted thirteen of our positions, entering one new name.



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Biggest move is obviously substantially selling out of Jackson Financial. In its place our new name is a very different company/sector but it too falls in the 'Financials' bucket.

TOP 5 HOLDINGS:

Holding:	%	Adj P/25E	P/26E**	EV/adj EBITDA	Exp Rev Growth**
SK Hynix* (South Korea)	18.3%	22.3	4.7	18.0	>>200%
Auxly Cannabis (Canada)	9.4%	10.0	7.5	10.7	15%
Thor Explorations (Africa)	9.2%	4.3	2.9	3.5	100%
Gravity (South Korea)	8.9%	10.0	9.0	-1.0	10%
Deutsche Rohstoff (US/DE)	8.4%	13.5	1.9	2.9	60%

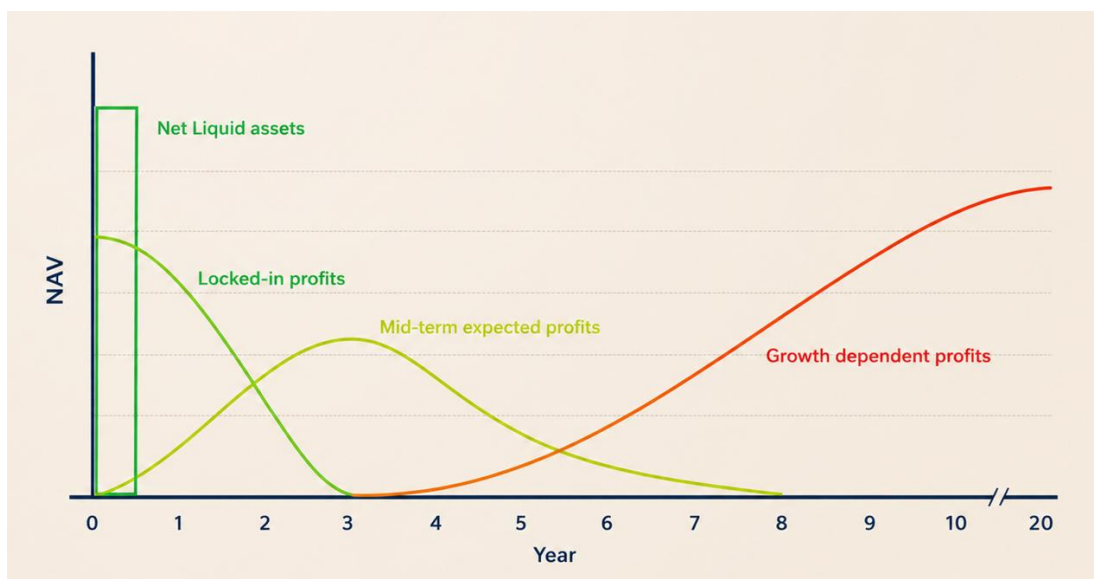
*Including adjacent entity stakes

**Based on MarketScreener consensus analyst or proprietary estimates

COMPANY IN FOCUS: SK Inc prefs

We have frequently visited and even revisited our SK Hynix investment case. As shown in our positioning, we remain extremely bullish on the revaluation prospects of the stock: The company operates in an extremely high growth sector, playing a pivotal role in the supply chain, having a significant technological lead on the competition, with an already attractive P/E multiple and clear visibility towards an extremely solid future balance sheet.

Conceptually, I view valuation on four pillars: 1) the initial balance sheet ex assets needed to operate, 2) the (almost) entirely predictable incoming earnings, 3) the reasonable earnings in the handful of years after that, and 4) the longer-term prospects. SK Hynix is fairly unique in that it ticks all four boxes: a net-debt balance sheet with a substantial cash surplus, a clear view on at least seven amazing quarters, a fallback to leading edge HBM4 and HBM3E shortage that will probably last until 2030, making products that are at the epicenter of future growth for the next decade(s).



Source: ARAR Fund Investor Lunch September

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This is why we like SK hynix more than generic or lagging DRAM/NAND producers: the prospect of longer staying power in pricing and better odds of staying ahead in technology. Last few months reports floated around that SK hynix's HBM4's fetched lower margins than lower tech DRAM's. This will subside, and will mean SK Hynix can keep asking premium prices while the market for generic DRAM is saturating.

But what we really want to talk about is the next level of undervaluation, because behind SK Hynix sits an even larger opportunity: SK Square, SK Inc and SK Inc preferred shares. These three stocks are not production companies by themselves, they are merely holding companies/investment vehicles, much like Peugeot Invest. It is slightly more complicated though:

SK Square holds mostly SK Hynix shares, 20.5% of shares outstanding. That position is worth 150 bn USD. But the market cap of SK Square is only 82 bn USD: You get a discount of over 40%. The rationale is that you are not guaranteed that gap will ever close. It could even widen if SK Square's management starts doing shareholder unfriendly investments with the dividends they receive from SK Hynix.

But one can take it one step further and receive an even bigger discount through buying SK *Inc* shares. This is the investment vehicle of the Chey family. Chey Tae-won, as chairman of SK Group, leads negotiations with Meta and NVidia. More importantly, Chey is considered to have played a pivotal role in the turnaround of the struggling SK Hynix back in 2012. Unfortunately he was less successful in other endeavors, so you are buying into an allocator with a chequered track-record. But you are getting an amazing offer: SK Inc.'s indirect interest in SK Hynix alone represented approximately €49 billion in quoted equity value. Yet SK Inc.'s entire market capitalization was approximately €18 billion, despite also owning *substantial* other investments. These figures illustrate the size of the valuation gap before allowing for holding-company liabilities, costs and potential taxes.

And even that is not the end of this exercise. If you want the absolute best bang for your buck there's SK Inc.'s *preference shares*! These give ownership to the same SK Inc., but you (only) swap voting rights for preferential dividend terms. In some cases, that is even better. In Korea, for instance, families are incentivized to suppress that quote for their (mostly voting/non-preferential) shares, because this suppressed inheritance tax when shares are transferred from one generation to the next. Because they often own less preference shares, they have less reason to suppress the share price of these 'prefs'. Currently, though, they traded approximately 27% *below* the ordinary shares even when they provide the exact same economic participation in the same company. Combining that lower entry price with the discounts higher up the ownership chain implied a purchase price roughly 83% below the proportionate quoted value of the underlying SK Hynix interest alone!



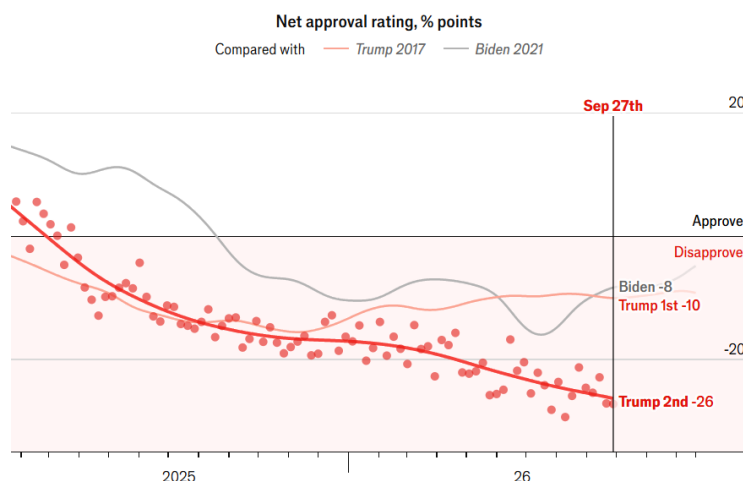


We are making the calculated bet that these discounts can easily shrink in the future. It is not crazy to believe at some point discounts could be closer to 20%-30%. That would imply an upside of over 250%-300%, based on a shrinking discount alone! And if SK Hynix moves towards *our* Fair Value, that number becomes substantially bigger!

GENERAL MARKET COMMENTARY

Midterms

Trump has continued to humiliate himself and oil remains tight. It turns out that investing in ballrooms and libraries to put your name on, while people are worried about affordability is not a good strategy to win elections. It adds up to the most likely result being the Democrats will win both the House and the Senate. This will not leave him powerless but will restrict his ability to appoint officials and reduce his control over funding and legislation. It will also allow the Democrats to investigate Trump's administration much more aggressively and impeach (but not remove) Trump.



Source: *The Economist*

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These are big incentives for Trump to disrupt the elections or try to nullify the results. Fortunately, I reckon his current approval ratings will weaken the appetite for this among the people he would depend on for such an endeavor. It is one thing to push a coin standing on its side to heads instead of tails, but it's quite another thing to pick up a coin and flip it upside down in the face of the entire nation.

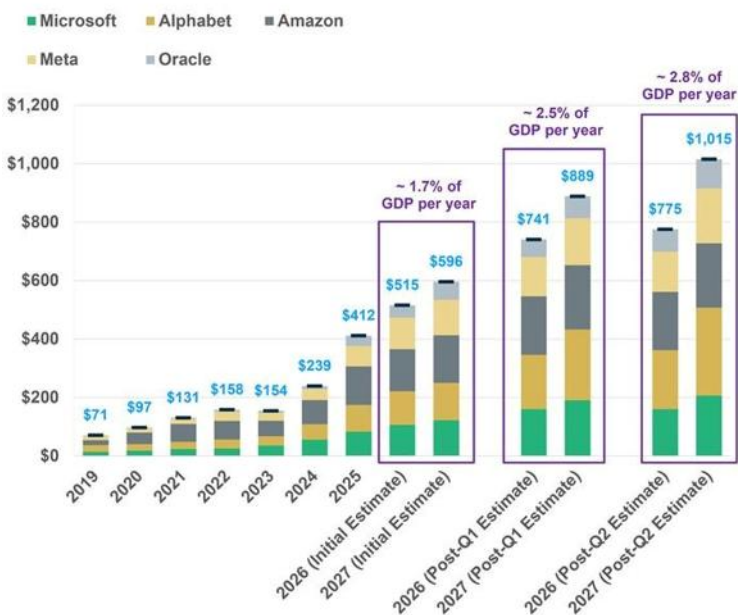
AI: Where's the money?

A substantial issue in investing/macro right now is whether the AI boom will go further, peter out, or go bust. I have previously pointed out that companies like Amazon, Microsoft and Alphabet have businesses providing gargantuan profits, that should keep their trillion-dollar market caps intact even in a bust later on. Much less certain are the prospects of OpenAI, Anthropic and SpaceX. While adoption is going through the roof, questions remain around margins: Is AI like e-mail, or is it like a Bloomberg Terminal?

Rather than trying to solve this question, these companies are expanding under the assumption that the economics will follow the quality of the product. How long can this rat race of ever-greater capex continue?

AI-related capex spending was already huge, and now companies are telling us its going to be even bigger

Big Tech Capital Expenditures (Billions of USD)



Data source: Carson Investment Research, Bloomberg 07/30/2026

Initial estimates are from the end of 2025

@sonusvarghese



It is a pivotal question: 'Winning' the race, it seems, depends on how long you can keep expanding capex. But more importantly, the prospects of some of the world's largest companies, NVidia, Oracle, Amazon, SK Hynix, Samsung, Micron and TSMC seem to depend on how long this capex boom will last.

In our view, people underestimate how long this capex boom can continue. This is because the sources to pay for this expansion are vast and various. Contrary to the dotcom boom that depended on small

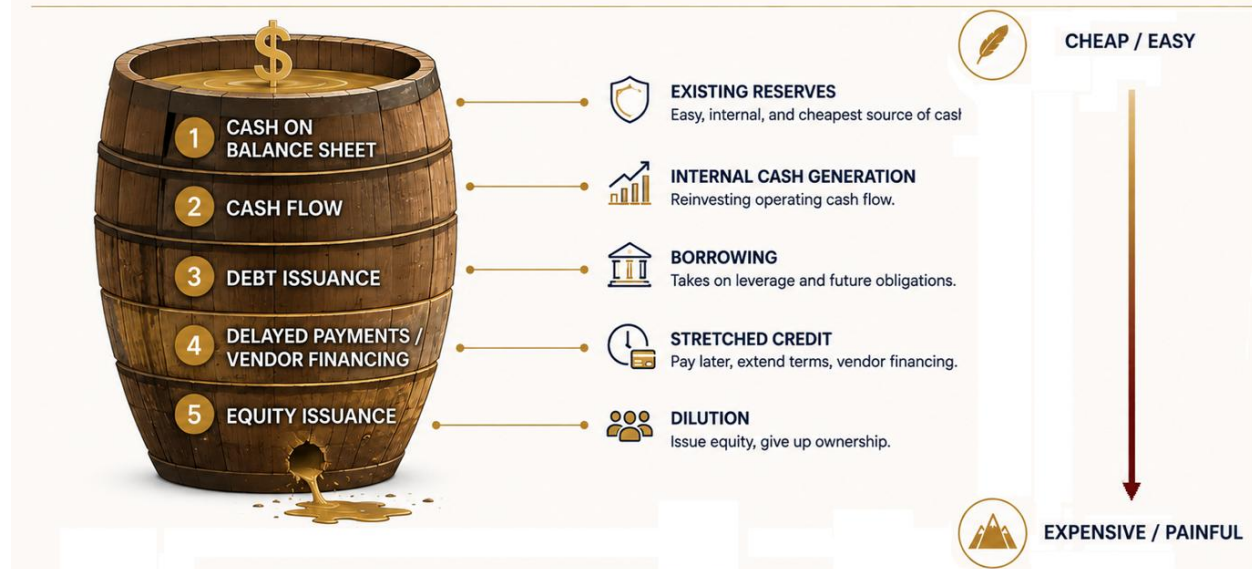
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companies going all-in, the current boom has the financial backing of 40% of the S&P500. These companies not only have vast cashflows that they can throw at the AI build-out, but they are also mostly debt free (on a debt/market cap basis). Cash availability is definitely not endless, but the options are vast. Let's take a look:

CASH DEPLETION: SCRAPING THE BOTTOM OF THE BARREL

Each step gets harder, costlier and more damaging

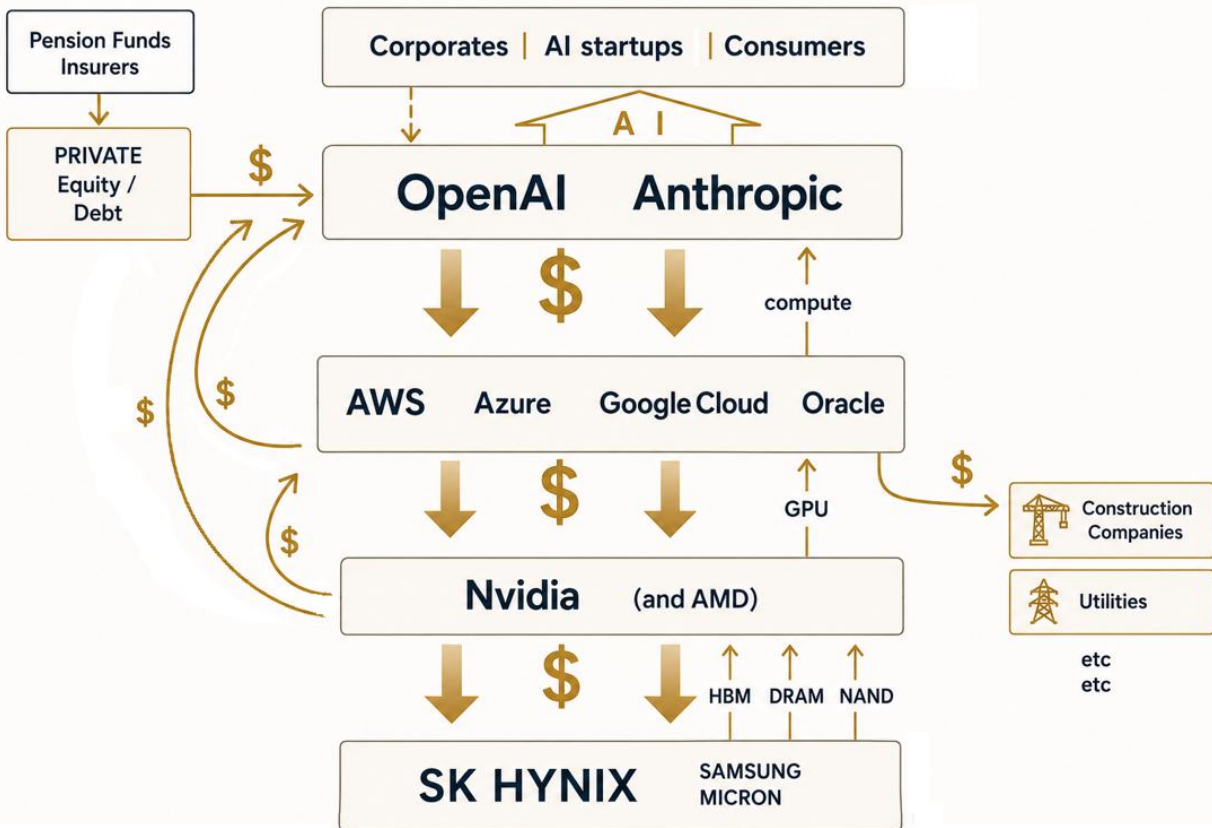


Source: ARAR Fund Investor Lunch September

The above depicts sources of cash that can be used for more capex spending. Initially, companies such as Alphabet and Microsoft were able to manage their spending by merely depleting their excess cash reserves (1). Those have been spent. Currently, internal cash generation (2) provides the most cash for investment, especially for the likes of Meta, Alphabet and Amazon. Oracle is less fortunate, having far lower cash flows to draw on. They seem to finance their expansion mostly through debt issuance (3). But Microsoft and Alphabet, too, are using their AA+ status to draw cheap credit. At negative operating earnings, OpenAI and Anthropic do not have that luxury. Fortunately for them, investment (from Oracle, Alphabet, Meta and Amazon) comes way before their bill is due. And even then, various options of vendor financing (4) are already employed to defer payment: Merely leasing the datacenters keeps immediate bills low. But that alone is not enough. How will they ever pay for these leases and make the investment from the hyperscalers worthwhile? This is where we near the weak point of the sector's boom. But prospects of repaying through operating cashflows are slim and clouded in mystery.

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Source: ARAR Fund Investor Lunch September

So why do I believe this boom will go well into the 2030s? It is a combination of being pot-committed (the entire sector cannot change course) and creative financing. As bills from Anthropic and OpenAI will start coming due, these AI companies still have a multitude of options available to them. At trillion-dollar valuations, OpenAI, SpaceX and Anthropic can issue stock (5) to pay for much of this. But of course, their valuations will crack under such weight. So at least initially I suspect these companies will choose convertible bonds and such, that could dilute shareholders, but less obviously. There is also a strong case to be made that the receiving end of all the AI investment (SK, NVidia, etc.) will at some point prop up capex capabilities through 'equity in lieu of payment' / 'shares for services' arrangements. I fully expect companies such as NVidia and Meta, but perhaps even companies like Samsung and SK Hynix, to contribute to the sustainment of the exorbitant capex boom by becoming shareholders in their end-users. As time rolls on and capital dries up, this might mean cash-rich hardware providers take huge stakes in these AI companies, to the detriment of current investors. This will give these companies at least another 3-5 years *beyond* 2029/2030 to completely dwarf human capabilities and complete their journey towards monstrous cashflows. It is precisely this scenario that gives me more comfort that the capex boom will last a few years longer than common math suggests.

But does this not put too much faith in Anthropic and OpenAI staying ahead of open source and other threats that could commoditize the business? Yes and no. In our view, a commoditization of AI will lower margins dramatically, but make compute more affordable and expand usage. More compute will require

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more datacenters, which will require more chips. In such a case there will be victims, surely, but demand at the hardware side will remain. And given the current direction of travel I believe AI will become more affordable, not less, even if Anthropic/OpenAI's current negative margin 'subsidies' subside.

People always remember the audacious predictions: Nouriel Roubini made a career out of prognosticating pending doom correctly once while being wrong for more than a decade, while Nassim Taleb made a career out of emphasizing the tail ends of the bell curve. However, predicting well often means being rather dull: "it's going to continue, it's going to work out OK, the amount of fireworks will disappoint." And with that I want to conclude: It is going to be fine. Stocks will neither triple nor go to zero, you will not be unemployed for the rest of your life, robots will not destroy earth before 2030, climate change will hurt but not spell economic catastrophe, Trump will lose and just be boring & bitter about it.

Best Regards,

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