

Hoofddorp, the Netherlands, 6th of December 2025



Dear Investor,

The ARAR Fund had a minor hiccup the last two months, depreciating **1.5% since our last investor letter and breaking our streak of monthly outperformances. In dollar terms, we are still up 27.5% year-to-date: better than all our benchmarks.**

While some of our investment cases are working out great, including two takeovers within our portfolio—Kiwetinohk and Brighthouse Financial—our investments in Chinese lending providers have declined after new regulations from the CCP. We knew this was a risk and in this case it did transpire, causing a return to the initial value of our investment.

In this newsletter we will dive into what happened. We will give a short update on our macro assessment, and we finally found room to shed some light on 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%		13.9%
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%		8.5%
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%		6.9%
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%		10.3%

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PERFORMANCE IN DETAIL

Five themes worth discussing, four positive and one negative: takeovers, shipping, tech, earnings and China reform.

We continue to experience a high percentage of our portfolio being taken over. Since the start of our fund, five of our holdings have now been acquired by other companies. Kiwetinohk joined Earthstone Energy as another energy company we held that was acquired. Cygnet Energy bid after the stock had already run up when CEO of Kiwetinohk announced they were investigating strategic alternatives to unlock shareholder value. Brighthouse Financial similarly put itself up for sale, and is now in the process of being sold for 70.00 per share. While Brighthouse's shareprice was struggling a bit and the acquisition leads to a modest 33% return, Kiwetinohk has been a clear homerun giving us a 120% return within 3 years. Both are a testament to the fact that our valuations tend to track well with those of industry experts.

Shipping went up as well. Our three remaining names all benefited from healthy freight rates in their respective markets. However, Imperial Petroleum gave up their gains after they unexpectedly issued 9.5 million new shares (+19 million warrants). This echoed a time when its rather infamous CEO, Harry Vafias, issued vast amounts of shares and destroyed shareholder value. This latest action, however, is a bit different in that the shares have been issued close to the spot price of the shares instead of far below market prices. But ever since Vafias acquired almost 80% of the company through stocks and warrants, his earlier 'strategy' of shareholder exploitation doesn't make much sense anymore. Rather, our current view is that this is a more mundane continuation of Vafias's fleet expansion ambitions, and not a return to the level of shenanigans we have seen in the past.

On the other end of the spectrum lie SK Hynix and Ferrotec, perhaps the only tech stocks based on current earnings. Given how depressed value stocks are relative to growth, it is rather a miracle we manage to still own two tech names in our basket: Both have benefitted from the further rise in AI, going up 22% and 50%, respectively.

Earnings gave us a mixed bag: Regarding BasicFit I continue to be excited about the quarterly earnings it has released this year: Membership growth seems to point to a higher plateau for the 'terminal' number of members of a matured club. Given almost all the costs per club are fixed, shifting the terminal number of members even a little bit can do a lot for valuations. A couple of days after, BasicFit declined on the news they had acquired the German franchise-based fitness chain called CleverFit, declining 20% even though the acquisition was quite small relative to BasicFit's market cap. As my followers on Twitter know, I am far more upbeat and believe this is a very strategic acquisition that helps BasicFit on a number of roadblocks: BasicFit has promised for years they would add a franchise model to their existing corporate-owned buildout approach and now they have acquired the expertise to do so, limiting execution risk going forward. Meanwhile, the 400 gyms from CleverFit give BasicFit immediate critical mass to make national branding in Germany worthwhile, while CleverGym's clubs scattered among Central and Eastern Europe provide immediate steppingstones for further expansion. All of this provides exceptional optionality and will enable them to allocate their resources there where the prospects are greatest. BasicFit has rebound and is now sitting at year-highs after a large investment fund has taken a >5% position.

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In the wake of OneWater's earnings I was optimistic, too. Ever the contrarian, markets didn't agree with me here either as OneWater went down further. I stand by my belief its earnings and conference call are clearly indicating the sector has turned the page: Year-on-year quarterly results have improved, inventory overhang has been replaced by deficits, and sales from autumn boat shows are indicating the trough is past us. I am looking forward to improved earnings in the next twelve months and believe they will significantly overshoot their own guidance. It seems I am in good company as their C-suite privately bought shares in a depressed market.

Similarly depressed is the market for Chinese lending intermediaries. Two forces have conspired against the sector: a softening of the Chinese economy, and the materialization of a hard 24% lending rate cap, taking down Jiayin and the other stocks in the sector. While it was tough to pinpoint what percentage of Jiayin loans would be affected, we guesstimated this would be a big deal that would likely slice Jiayin's profits in half. In November the more conservative peers started reporting higher delinquencies and when it was Jiayin's turn, it confirmed what was feared: profits are set to be plummet to 40% of what it was in Q3. Sales, meanwhile, are set to decline around 35%.

While it is tempting to take this as the new baseline, there are some caveats. In the short term, the new regulations have not only reduced the number of practically eligible lenders, they have also made the more prime-focused lenders wary. Before, they were comfortable that their borrowers could always 'climb up' the interest rate ladder to paper over old debts with new debt, becoming less and less creditworthy each time before defaulting to sub-prime lenders. But with the new legislation borrowers will default as soon as they become unattractive at a 24% interest rate, which is much sooner and will mean people will much more often jump from prime straight to default. Henceforth, the new legislation has had a profound impact on *all* lenders. Right now it seems the prime targeting lenders are seeing the biggest jump in defaults.

Because of this dynamic all intermediaries have curbed their lending and wait for the default wave to be over before committing again. In the longer term, we consider the reduced number of originations a *floor* rather than the new normal amount of originations. We expect Jiayin's volume of originations to go back to a higher level even before considering possible adjustments.

Pivots, meanwhile, are to be expected. Competition such as FinVolution, Lexinfintech and Qifu Tech had all completed very successful pivots away from Jiayin's former hunting grounds towards more prime lending. I view chances of Jiayin successfully pulling off a similar move as rather high. The secular growth trend of lending has to be weighed against the risk of further restrictions. And lastly, Jiayin and many of its Chinese peers are seeing over 100% revenue growth in their emerging markets ventures. It is entirely possible that in the long term these companies eventually leave the Chinese market and thrive exceptionally overseas (just as PAX Global, one of our holdings, has done).

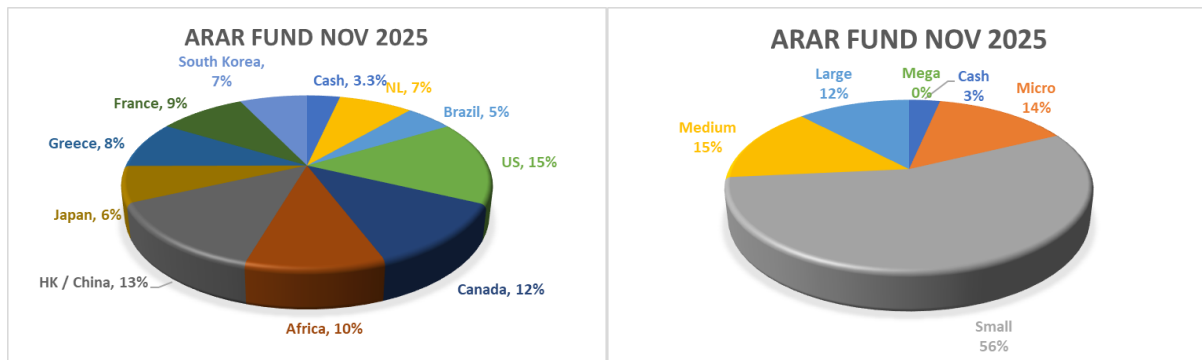
If we conservatively extrapolate Jiayin's Q4 earnings guidance, then Jiayin is trading at a very attractive 4.8 P/E. That is not better than many of our other holdings, but it isn't much worse either. This low multiple gives us an attractive valuation floor that enables us to hold and benefit from any of the positive developments that we believe will eventually transpire.

And we are not alone in our view on current valuations: at least one CEO decided to privately buy a significant percentage of his company, while multiple competitors have decided to accelerate their buybacks.

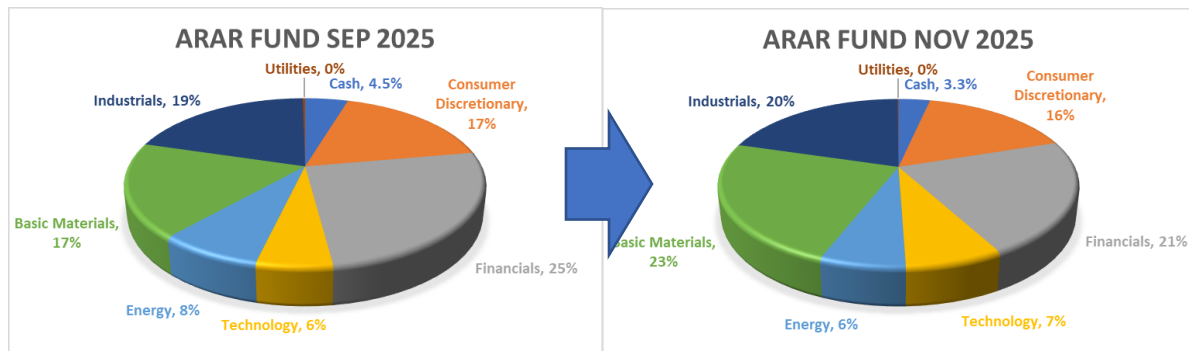
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PORTFOLIO COMPOSITION



The current portfolio consists of 25 stocks (of which 2 negligible) and a 3.3% cash position. We have entered two new positions and exited one position (Deutsche Rohstoff AG). We are weighing our options and choose to remain flexible.



TOP 5 HOLDINGS:

Holding:	%	Adj P/E12M	P/E25**	EV/adj EBITDA	Exp Rev Growth**
Jackson Financial (US)	12.9%	4.4	4.4	5.5	5%
Thor Exploration (Africa)	9.8%	5.1	3.3	2.2	100%
Stellantis / Peugeot Invest (FR)*	8.5%	-	-	1.5	-3%
BasicFit (NL)	7.0%	50.0	47.0	7.4	16%
Gravity Inc (South Korea)	6.7%	5.0	5.0	-1.0	8%

*As we consider Peugeot Invest as an efficient bet on Stellantis, we give the multiples for Stellantis here.

**Based on Refinitiv consensus analyst or proprietary estimates

COMPANIES IN FOCUS: GOLDMINERS

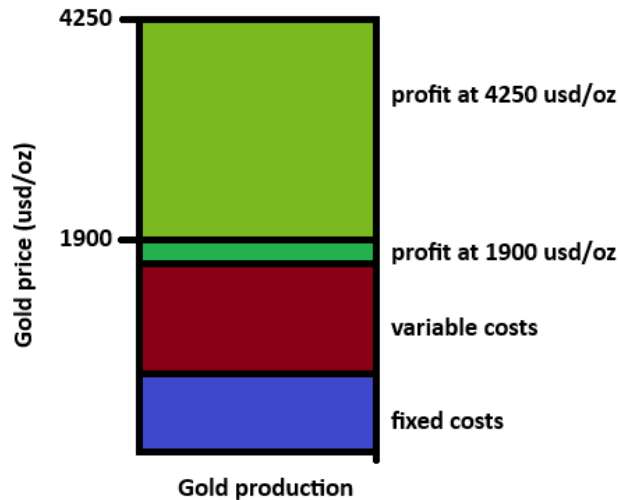
As stated in earlier Investor Letters, we have expanded our position in goldminers. After exiting Orezone at +100%, it may seem surprising we have entered several new goldminer positions even after the goldminer index has gone up over 80% this year. Aren't we supposed to buy cheap stocks at a discount? In this 'Company in focus' I will try to explain our reasoning.

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A vital aspect of the gold mining industry is that while gold often shows signs of mild cyclical, it is not nearly as cyclical as consumption goods such as oil and microchips. This is because production can't be ramped up as easily and thus high prices do not lead to eventual overproduction. Henceforth, we expect profits to stabilize at a higher base, rather than succumb to eventual oversupply. Because of this, it is a fair assumption to calculate the revenue of goldminers based on gold's spot price. And given that these revenues have exploded, this is where things get interesting.

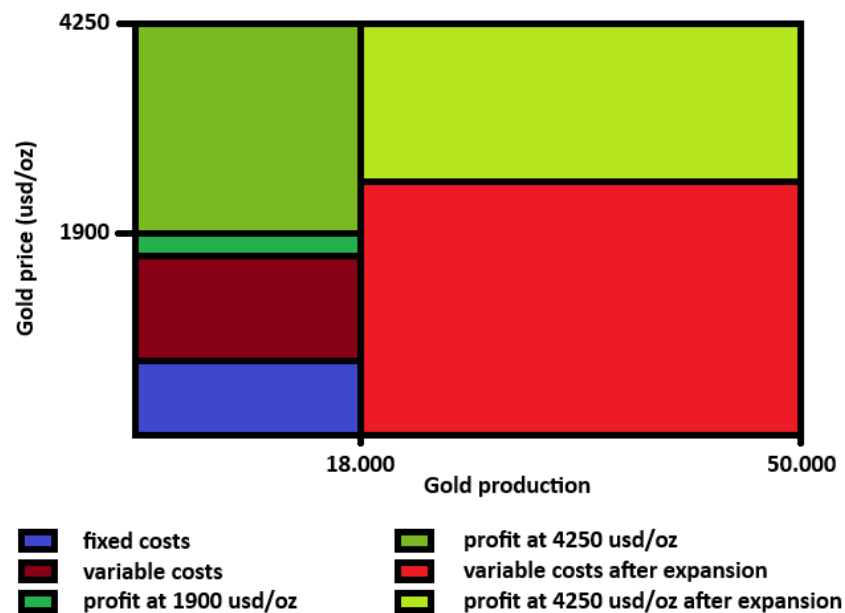
While one could lazily think goldminer's profits would double if the gold price doubles, nothing could be further from the truth. In fact, goldminers' profits are highly leveraged and will go up multiples faster than the price of gold. Take, for instance, the miners that had production costs close to revenue. Two years ago, their margins might have been close to zero or even negative. But with revenue doubling while maintaining the same cost base, profits can go up 4-, 10- or even 20-fold (without even taking loss-making miners into account). Take for instance Golconda, one of our new minor holdings. Only after gold prices reached 1,900.00 USD they started making a profit. But with gold prices at 4,250.00 USD/oz, quarterly profits are estimated to have gone up by a factor of ten:



"But wait," to paraphrase a famous TelSell commercial, "there's more!". Not only does profit scale with a high beta to the gold spot price, but production often scales along too! Very often, goldminers not only own mines that are in production, but they also own mines or permits that are not economical to put into production. Often, after establishing the costs at certain locations are too high relative to the gold price, miners simply leave these locations alone and let them sit idle on the balance sheet. But now, with gold prices doubling, these companies are revisiting their calculations and finding that these mines, *at the new gold price*, have become rather attractive to put into production. So instead of solely depending on current operations, value of these companies extends to projects not yet put into production. In case of Golconda an entire mine (Summit Gold Mine in New Mexico) that was shut in due to high costs of mining, is now being reopened. This will 2.5x their ore production. And while Golconda will likely incur (much) higher costs per ounce at these mines, it will still be highly accretive. With that, Golconda shares become even more attractive!

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Due to these mechanics, it is possible that stocks like Golconda have gone up >1000% and I consider them cheaper than ever. By our calculation, all of our goldminers trade at a 2026 P/E well below 4, even disregarding the opening of new mines/projects. Given the expansion of production at these firms, we believe their earnings power is easily sustainable and will likely double through new projects in the medium term, unless the gold price collapses.

One final note is in order though: this is a sector where risks are never far away. Especially when the price of a commodity rises significantly, mining jurisdictions often feel compelled to try to extract part of the profits *on top of earlier arrangements*. While we like to think this contrasts to the rule of law, we should remember that this is not an 'emerging markets phenomenon': Countries like the Netherlands, the UK and many others conjured up oil & gas windfall taxes too when Ukraine was invaded and gas prices went through the roof. Similarly, it is to be expected many jurisdictions will tinker with royalty percentages and other taxes to skim off a larger part of the extraordinary windfall returns this market environment has created.

GENERAL MARKET COMMENTARY

We view the recent developments in the US as very positive. While the government lockdown has eroded support for Trump further, it is the latest chapter in the Epstein drama that have shifted the balance most. A significant worry used to be that Trump, facing electoral defeat in the midterms, would try a radical power grab of sorts, using the National Guard or ICE by invoking the Insurrection Act. But support seems brittle as the resistance from Trump against the release did not sit well with his base at all. It does not look like Trump can garner unquestionable legitimacy of a coup among the MAGA movement, and that is a Good Thing.

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	Tariffs	Economic Experimentation	Attack on Balance of Power	Restructure of World Order
Previous	▶	▶	▶	▶
Developments	⇒	⇒	↑	⇒
Notes	Still bracing for impact	No big developments	Epstein really seems to divide the GOP, Trump popularity at lows	Trump is still trying to turn Russia
Currently	▶	▶	▶	▶
Focus now:	Markets up and Trump <i>not</i> hiking tariffs would be great	Watch LT treasury rates	A drowning man will clutch at a straw, but that is for the midterms	USA is more on the back foot, could strike out just to project strength

With that out of the way, we finally have time to address the other macro development that is underway: AI. We have been watching developments carefully. One might remember we exited our Alphabet position earlier this year and took a position in SK Hynix. So even a deep value investor can't escape looking into AI and its consequences. While I am convinced of the use and transformational potential of the technology, I am skeptical of the economics underlying current investment.

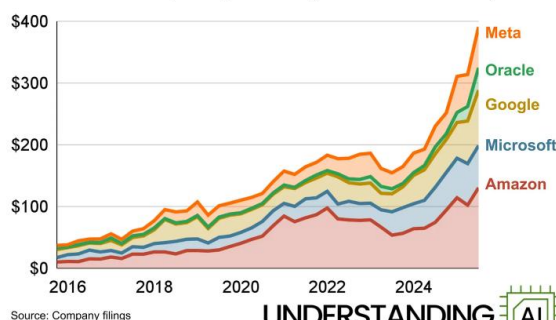
As a heavy user seeing the current road of travel, I am thoroughly convinced AI will be a determining factor in the coming decades. Use cases are everywhere and new ones seem to pop up on a daily basis. And in just one year I have experienced at what pace it is improving: picture creation that did not look all that great is now near perfect; 'analysis' from AI that used to be useless now saves me weeks, and the list goes on... In short, one can easily compare AI's impact to the invention of the pc, the computer mouse, the spreadsheet and perhaps even the internet.

It is also impressive how much time and intellectual labor it saves. It is not difficult to envision AI taking over most of the work of lawyers, notaries, analysts, developers, graphic designers, and copywriters. Not difficult at all. Taken together this leads to two consumption paths for AI in my view: 1) **retail** who will use it creatively and constantly, mostly as a replacement to google and for creativity. And 2) **corporations** that need the best of the best and will use it to replace large amounts of (junior) employees.

To identify how much can be made from AI, we will have to identify how big these categories are and what they should be willing to pay. This will give us a TAM (Total Addressable Market) that should at least give a number exceeding the AI CAPEX of 400 bn USD per year that we are seeing right now.

The dramatic rise in tech investment

Annualized capital expenditures (billions of 2025 dollars)



UNDERSTANDING AI

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On the retail side we can go two ways: either AI will remain free and revenue will be ad sales dependent just like Alphabet, or AI will manage to be more subscription based. I don't expect AI can easily weave in ads into their answers, but they might include them at sidebars or something. Perhaps AI can totally replace google search ads and maybe add 50% extra ad spend. To me this is a hopelessly overextension of the bull case, but let's run with it. Since Alphabet has 200 bn usd annual search-ad revenue, **perhaps AI can find 300 bn usd ad revenue a year**. On the other side we have subscriptions. Here I think there's a bit of an issue, because I am not sure retail is willing to pay much more than 10 USD per month for AI when there will almost surely always be a no-too-bad alternative available. As impressed as I am about what AI can now do, I am also seeing that none of the parties seem to be able to permanently set themselves apart. If that continues, we'll have perhaps ten AI vendor that each offer AI indistinguishable from one another. This screams 'commoditization' and will strip margins. What makes it even worse is that so much of spending is capex spending. In a really competitive market and a bit of oversupply, that can lead to pricing that equals variable costs (such as energy), but doesn't make whole on upfront investments (the buildout of databases). Let's assume 25% of *all people* between 25 and 65 in the USA and Europe are willing to pay 10 USD per month, then that gets you to **a mere 22 bn USD revenue per year**.

Between AI stealing all revenue from Google and the 22 bn from subscriptions, we are still short quite a bit. Will our corporate segment make the AI providers (Alphabet, Meta, Amazon, Microsoft, etc.) whole? To answer this question, a good shortcut would be to assume there are three types of corporate clients: those who are replacing mundane tasks and are as price sensitive as retail, and corporates that consider it vital to have the absolute best tools available. In my professional life there has always been one software(?) company that was able to charge absolute top dollar to their users and that was Bloomberg. They were (and still are) able to charge between 25,000 and 30,000 per year, per user. In the absolute most bullish scenario, AI providers would be able to charge this number to every lawyer, notary, and banker. By my calculations that would create annual revenue of **around 100 bn USD**. But while that is possible, I do not consider it reasonable. Just think of it: how many of these licenses/subscriptions are extremely valuable to professionals, but cannot be monetized in the way Bloomberg does? For instance, a banker's actual most valuable tool remains Excel, but you do not see Microsoft charging an annual fee of 25,000 for Office. This is because people will switch (to Lotus123, GoogleSheets, OpenOffice or open source). So, unless the AI provider is able to create a *unique* value proposition, I don't see the Bloomberg price tag as achievable for LLM's. More likely, we will see specialized data collectors creating dedicated agents using proprietary data. For this use case LLM's are interchangeable and even open-source ones might suffice (there's even evidence startups are currently favoring Chinese open-source models over the state-of-the-art LLM's from the USA). While these specialized data collectors may be able to charge top dollar, I expect these revenues will not substantially flow to the LLM providers.

Finally, for non-specialized professional use-cases I suspect prices will align more with Adobe, Windows, Office and Matlab. These are closer to 100-1000 USD per year, not 25.000! I suspect another category of users, developers, will probably fall into the 100-1000 category as well. With 20 million developers in Western Europe and 4 million bankers/lawyers/notaries, that gets us to an eventual likely annual revenue of between 24 bn usd and 125 bn USD.



In a table (in bn USD annual revenue):

Revenue TAM	bear case	bull case
Retail:	22	300*
Professionals:		
-developers	2	20
-bankers/lawyers/etc	4	100
TOTAL	28	420*

*of which 200 bn USD is cannibalized directly from Google ads

Current *annual* hyperscaler capex is around 400 bn and it is substantially invested in chips & processors. that are expected to become obsolete within 3-5 years. In contrast to a toll road, these datacenters will churn and need constant replacement. All of this is happening when actual AI revenue is only a fraction of the above calculated potential. And to top it all off, we have not even incorporated energy consumption and other *variable* costs! Variable costs for AI usage are, in contrast to the use of other software, not insignificant at all! The energy bill of OpenAI (the company behind ChatGPT) dwarfs its revenue, for instance. Currently, all AI providers lose money on every subscription even *before* accounting for capex and fixed costs.

We have seen many businesses lose money for half a decade before making money (Amazon, Facebook, YouTube, etc.), but this is different: The depreciating nature of the industry's investments and the high variable costs, together with the size of investments relative to the world's economy, make it impossible to even imagine a business case that would warrant the kind of investments we are seeing now.

Once the datacenters that now sit on their balance sheets are written down (and require more spending), Meta, Alphabet, Amazon, and Microsoft will incur losses on them that will wipe out most of their profits for a handful of years. Inevitably, I believe this will make executives decide to reduce spending and stall Nvidia's growth trajectory. For AI-only companies such as OpenAI it is even worse: There currently are simply too many models able to trail, and the existing moats are not wide enough. While that is bad for all AI providers, for a company that has no positive cash flow such as OpenAI that might well prove to be lethal.

However, is this reason to panic? In my opinion: No. The reason is that in contrast to the dotcom era, the large exchange listed AI providers already have established businesses that are wildly profitable. Amazon, Alphabet and Meta are all trading at a P/E of around 30 without making any profit from AI, meaning that without AI, they are only overpriced by roughly 20%-30% (they're still growth companies!). Just as when Mark Zuckerberg ventured into the Metaverse and discovered it was not his best decision, so too can these behemoths decide to change course on AI. When they do, what remains is still earning hundreds of billions of dollars annually.

Hardware providers such as Nvidia, Oracle and Broadcom could face a bit more stress since they are priced as if even more hardware investment is on the horizon: they are trading at P/E's well above 40, even though I don't see room for much growth in CAPEX budgets. As an indication: We already see off-balance arrangements and equity-for-chips deals, reminiscent of the dotcom era. All of this is indicative

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that the money to invest more is simply not there. If the AI 'bubble' implodes, the first thing that will happen is major capex *cuts*, meaning margins and volume will drop, rather than grow as is now being priced in. That should have profound impact on valuation, perhaps causing a decline of 40%-50% in these and other hardware stocks. However, computer hardware only represents 10% of the S&P500, so a local crash does not necessarily mean the end of the world.

Taken together, I do not see AI-realism causing a dotcom-sized crash. We might see a severe local hiccup and a not-insignificant underperformance of passive investing in 2026, but it is not something we have not seen before. It *does* mean I expect 2026 to be another year in which our stocks can flourish relative to major benchmarks!

Our mandate is to achieve just that, and this will remain our focus!

Best Regards,

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www.ararfund.com

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