

Chrysalis Investments Limited - Assessment of Value 2023

Introduction to Chrysalis and this Assessment of Value Report

This assessment of value report seeks to review to what extent Chrysalis Investments Limited ("Chrysalis") provides fair value to its investors in terms of the cost of the product, and the benefit that can be expected to be derived from owning it, relative to the product's objectives and any limitations inherent to the product.

Chrysalis is a closed-ended investment company listed on the Premium Sector of the London Stock Exchange's Main Market. Chrysalis primarily invests in equity and equity related instruments issued by later stage private companies with long-term growth potential. Chrysalis seeks to invest in innovative and high-growth companies with the potential to transform their sectors.

The company may hold publicly traded stocks, to a maximum of 20% of gross assets, calculated at the time of investment - this limit applying to stocks that it did not previously hold as a pre-IPO investment.

Chrysalis's objective is to provide long-term capital growth to shareholders via exposure to the risk factors of a portfolio which is primarily illiquid in nature, whilst providing shareholder liquidity via its Main Market listing.

Limitations of an investment in Chrysalis include the long-term timeframe that is likely to be required to realise profits from the sale of portfolio assets, and the likelihood that during times of market volatility, market influences may increase correlation to the market and limit the portfolio diversifying benefit of its portfolio of less liquid assets. Investors who are unable to hold shares in Chrysalis for a long-term duration are at risk of not realising the benefits of the product.

This assessment of value report considers value in terms of **service quality, costs and performance**.

How value is assessed

Service Quality

This is a largely qualitative assessment of the quality of services provided by the Company's service providers, and the nature of those providers in terms of the value that they add to Chrysalis. Service providers are reviewed on an ongoing basis by the Board of Chrysalis, and this assessment of service quality captures performance of service providers over the life of the Company.

Costs

The costs incurred by Chrysalis include the ongoing service provider fees, investment due diligence and brokerage costs, costs of fulfilling regulatory and legal obligations, commissions on FX trades and debt facility costs. These are presented, calculated in accordance with the Association of Investment Companies ("AIC") ongoing charges methodology. The heading of 'costs' is split into sub-categories of '**General**', '**Economies of Scale**', '**Market Rates**' and '**Comparable Services**'. These are detailed in the relevant section.

Performance

The recommended holding period for Chrysalis is at least 5 years. Therefore, NAV performance is assessed from inception in 2018 to date. Note that NAV performance, rather than share price performance is assessed. Given the nature of Chrysalis's offering, there is no reasonable benchmark for performance (that would offer a fair comparator for risk-adjusted return), and there is a lack of peer group companies that operate a directly comparable investment approach.

Therefore, the performance of the Company is shown in absolute terms over various time frames, assessing cumulative and discrete returns, and seeking to quantify a risk adjusted return over the five year risk free rate by computing Sharpe and Sortino ratios.

Scoring

The value that we believe that Chrysalis offers for each category being assessed within this report is detailed within the findings section below.

Assessment of Value - Findings

The findings under the main headings of Service Quality, Costs and Performance are presented below.

Service Quality

Service providers to Chrysalis include the Investment Advisor, Corporate Brokers, Legal Advisors, Administrator, Depository, Asset Valuers, Public Relations, Research, Registrar, Data Services, Printer / Web Services and Board Services. Service quality is rated as good.

Many of the service providers' activities are controlled under ISEA3402 external control audits, whilst GDPR policies, business continuity, conflicts of Interest, cyber security and ESG policies are in-place to cover relevant activities.

In assessing Service Quality, the quality and timeliness of the output of each service provider has been considered over the period, alongside the processes and controls that they have in-place to either prevent operational issues which may impact Chrysalis, or indeed add value.

The service providers can be grouped by function to allow for consideration by service type.

Investment Advisory

This reviews Jupiter as Investment Advisor, and covers deal sourcing and due diligence, portfolio diversification, timeliness of exit, contribution to or positive influence exerted over portfolio companies to drive towards profitability, cash management to prevent cash drag and earn return on undeployed capital, appropriate usage of leverage, and ESG considerations regarding capital allocation.

The team advising Chrysalis are part of Jupiter's award winning small and mid-cap desk. Jupiter has a significant presence in the UK market having been established for thirty five years and with £51.4Bn of assets under management. Jupiter is a constituent member of the FTSE 250 index of companies.

Jupiter's values and practices are aligned with the UN Global Compact and the UK Stewardship code, and Jupiter has been scored as A+ for strategy and governance via assessment by PRI.

The Investment advisory team have built a diversified portfolio of innovative technology companies, partnering with them to provide the flexible capital and support to enable their success. Risk has been managed via diversification across a number of companies and sectors in the technology space. Since inception, the team have invested into growth stage companies, some of which have already gone on to IPO, with others currently moving towards a liquidity event.

Cash management activities have ensured efficient usage of capital, with both additional fund raises and leverage deployed during the period.

£860m of capital was incrementally raised over the first four years of Chrysalis' life, which aligned to capital requirements of the portfolio companies held, helping to drive their growth, and to enable investment into new target companies.

Whilst the Investment Advisor has focussed on building a portfolio of growth stocks, which are in several cases now beginning to mature towards possible IPOs or exit events, there have already been some successful asset realisations, with sales of two positions crystallising at two and three times original cost respectively. As at the last financial year end, 67% of the portfolio was funded to profitability, or expected to be funded to profitability in the near future.

The Board and Investment Advisor have ensured that ESG objectives have been incorporated into Chrysalis's activities, with a dedicated ESG director having been appointed within the investment team, support from Jupiter's Stewardship and data science teams and an ESG policy, and sustainability and responsible investment oversight structures being in-place.

The information flow from the Investment Advisor is considered to be good, with quarterly fund fact sheets providing ongoing updates to investors on key metrics and portfolio exposures.

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Assessment of Value - Findings (continued)

Operations

This section broadly covers those services that deal with the running of Chrysalis as a company, from accounting and asset safe-keeping to legal, secretarial, board servicing, brokerage and corporate and regulatory reporting. It also includes third party asset valuation, and the committee established during 2022 to recommend pricing to the Board of Chrysalis.

Again, the assessment is largely qualitative, with considerations of performance and the infrastructure and controls in-place with the service providers influencing the assessment.

Many of the operational service providers' processes are subject to external audit, with controls embedded within their operations ranging from system accesses to data protection and cyber security. These service providers are considered to add value to Chrysalis by way of preventing, for example, reporting errors, cyber incidents and regulatory issues.

The independent valuation committee, who have been appointed to oversee the valuation process and recommend asset valuations on a quarterly basis to the Board add expertise and transparency to a crucial element of Chrysalis's operational processes.

All operational functions currently in-place are considered to work effectively and add value to Chrysalis.

Investor Relations and Reporting

Chrysalis seeks to ensure that investors have ready access to key information. This includes maintaining a website that provides copies of key documents, publishing a quarterly factsheet that updates investors on activity at portfolio level and a breakdown of portfolio exposure. It also includes, per regulatory and listing requirements, publishing interim and annual financial statements and releasing relevant information via the Regulatory News Service. A capital markets day was held in 2022 in order to further engage with investors.

No issues have been identified in terms of Investor Relations and Reporting.

Costs

General

Chrysalis incurs operating costs that include a management fee of 0.5% per annum, a performance based fee, tiered administration fees with some fixed elements, and a NAV based depositary fee. Other fixed and variable costs include Directors' fees, audit fees, legal & professional fees, costs associated with listing and other sundry expenses.

A summary of total costs as a percentage of NAV ("Ongoing Charges") is shown below.

Year	% Ongoing Charges	% Total Costs (Incl. Performance Fee)
2022	0.81	0.81
2021	0.76	10.70
2020	0.71	8.15
2019	0.64	0.64

The ongoing charges figure, computed in accordance with the AIC Ongoing Charges methodology demonstrates how ongoing costs are controlled, proportional and competitive when compared to other listed investment companies. These costs are also favourable when compared with the cost of accessing similar investments via a private structure.

Economies of scale

The impact of ongoing charges as a percentage of NAV has remained fairly consistent over the life of Chrysalis to date. Whilst some fees are pegged to NAV size, others are fixed and have proportionally less impact as NAV increases. Naturally, however, as more capital is raised and available for deployment, costs of investment due diligence increase for a company such as Chrysalis where due diligence costs are naturally higher than for a portfolio of listed equity.

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Assessment of Value - Findings (continued)

Comparable Market rates & services

Reviewing the ongoing charges as quoted within Chrysalis's financial statements and determined per AIC methodology shows that Chrysalis is competitive when compared against other listed investment companies.

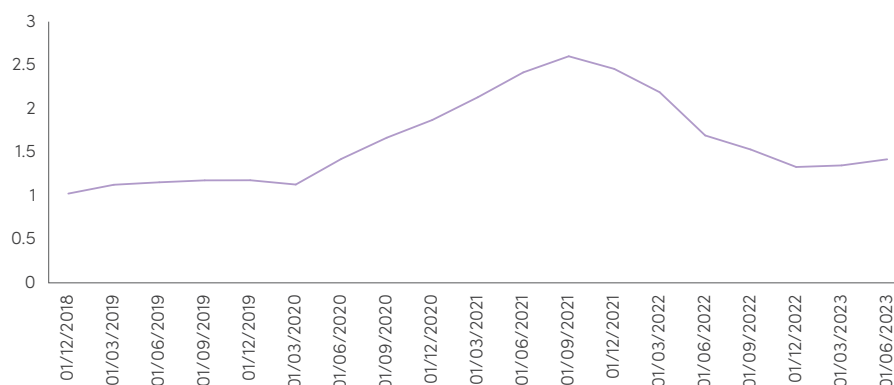
The category is rated as moderate overall due to the impact of performance fees crystallised during 2020 and 2021.

Performance

As previously noted, there is no natural benchmark for Chrysalis and absolute performance is presented below from inception to date, given the long-term recommended holding period of shares in the Company.

NAV per share performance from inception is graphed below.

NAV Per Share – Inception to date



Performance analysis over various time frames is tabulated below.

Cumulative Performance	%	Discrete performance	%
Since Inception	38.5	12 months to 30/06/23	-16.3
3 Years	-0.3	12 months to 30/06/22	-30.1
1 Year	-16.3	12 months to 30/06/21	70.4
3 Months	5.3	12 months to 30/06/20	23.5

In order to consider risk adjusted return (the return over the risk-free rate, relative to NAV volatility) to allow for a comparison of Chrysalis against other stocks on a risk-adjusted basis, the Sharpe ratio has been determined over the near five year period from inception to date.

Over the same period, the Sortino ratio has been calculated, which considers that only price volatility below the mean return is undesirable, and adjusts the Sharpe Ratio accordingly.

Both of these ratios suggest that Chrysalis has achieved good risk-adjusted performance inception to date. This category is rated is good.

5Y Sharpe Ratio	3.38
5Y Sortino Ratio	4.98

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Conclusion

Chrysalis Investments Limited has been a pioneer of providing public access to innovative private equity investments set to transform their sectors. Chrysalis has enabled investors to gain exposure to these illiquid, growth stage private companies within their portfolios, and access risk premiums that allow for diversification of exposure away from traditional listed equity investments. Chrysalis has packaged this access within a London main market listed product, which brings with it the enhanced levels of governance and regulation that are a requirement of such a listing – adding a layer of investor protection that would be lacking with an unlisted Limited Partnership that would traditionally be used to access these types of investments. Further, via its listing, Chrysalis has removed the barriers for entry (high minimum investments) usually associated with private equity, helping to democratise access to this asset class.

Chrysalis is serviced by high calibre service providers, who provide quality services at reasonable market rates, and contribute to investor protection via the controls and governance embedded within their organisations. Combined with the work performed by the Investment Advisor in sourcing a portfolio of assets, some of which have already been realised, with others progressing towards liquidity events, Chrysalis is assessed to offer good value to investors who wish to diversify their portfolios via access to its target assets over the long term.