

Molten Ventures

FY22 results

Readying the ship for choppy waters

Molten had a very strong FY22 (net growth in fair value of 37%), delivering a solid series of cash exits (realisations/gross portfolio value of 13%). Despite this, Molten's shares trade at 0.44x FY22 NAV per share of 937p, which seems an unjustifiably deep discount given its 26% y-o-y NAV/share growth and five-year NAV/share CAGR of 22%. Moreover, Molten has a broad-based portfolio, weighted towards more robust B2B business models. Molten's quoted holdings represented 4% of FY22 fair value and, allowing for share price falls to 8 June 2022, adjusted NAV/share still stands at c 925p. In our opinion, Molten does not warrant a discount of over 50%, given that the core portfolio is well-funded (80% funded to exit or with 24 months' runway) and that recent funding rounds (Aiven, [CoachHub](#), Thought Machine) have delivered substantial valuation uplifts.

Period end	Plc cash* (£m)	Gross portfolio value (£m)	NAV (£m)	NAV/share (p)	P/NAV (x)
09/20	34.1	702.4	714.7	600	0.69
03/21	160.7	983.8	1,033.1	743	0.55
09/21	156.2	1,350.2	1,357.4	887	0.46
03/22	78.1	1,531.5	1,433.8	937	0.44

Note: *Includes restricted cash but not funds held on behalf of EIS/VCT investors.

Pausing for breath after a record FY22

In FY22, Molten delivered 56% growth in gross portfolio value, with a net uplift of 37%. Net assets increased by 39% to £1.43bn, with net asset value (NAV) per share rising 26% to 937p as at 31 March 2022 (FY21: 743p). As at 31 March 2022, Molten Ventures held plc cash of £78m, with £35m of undrawn revolving credit facility, making £113m of undrawn liquidity. Post period-end, Molten invested a further £74m, leaving liquidity as at 13 June 2022 below £39m (ignoring 10 weeks of net operating costs). With investment slowing in FY23, we expect management to extend Molten's debt facilities, with any realisations supplementing liquidity.

Hatches battened down, steady as she goes

Management remains cautious on the outlook, seeing little sign of the environment improving substantially in CY22. As such, management chose not to provide any guidance on portfolio fair value growth for FY23. After having already committed £74m of investment in H123 (against targeted annual deployment in the region of £150m), management expects the rate of investment to slow, not least because much of the portfolio is well-funded, with realisations in line with the 10% target. Management confirmed that plans for the growth fund remain on track for FY23, as well as plans to syndicate investment in the group's fund-of-funds strategy.

Valuation: Market-leading growth at a deep discount

With a 26% rise in NAV/share in FY22 and a five-year NAV/share CAGR FY17–22 of 22%, Molten has demonstrated that it warrants a premium rating as a market-leading European VC. It trades at only 0.44x FY22 NAV. Granted the outlook is uncertain, but few vehicles offer such an attractive entry point into the European technology sector. Molten's mature portfolio is diversified across technology sub-sectors and by stage of investment, with a proven track record of growth and value realisation. Its portfolio companies are funded to weather the breaking storm.

Listed venture capital

22 June 2022

Price 411p
Market cap £629m

Net cash (£m) at 31 March 2022	48.0
Shares in issue	153.0m
Free float	93%
Code	GROW
Primary exchange	LSE
Secondary exchange	Euronext Dublin

Share price performance



Business description

Molten Ventures (formerly Draper Esprit) is a London-based venture capital firm that invests in the European technology sector. It has a portfolio of c 70 investee companies and includes a range of funds (seed, EIS and VCT) within the group, as well as its flagship balance sheet VC fund.

Next events

AGM	July 2022
Interim results	November 2022

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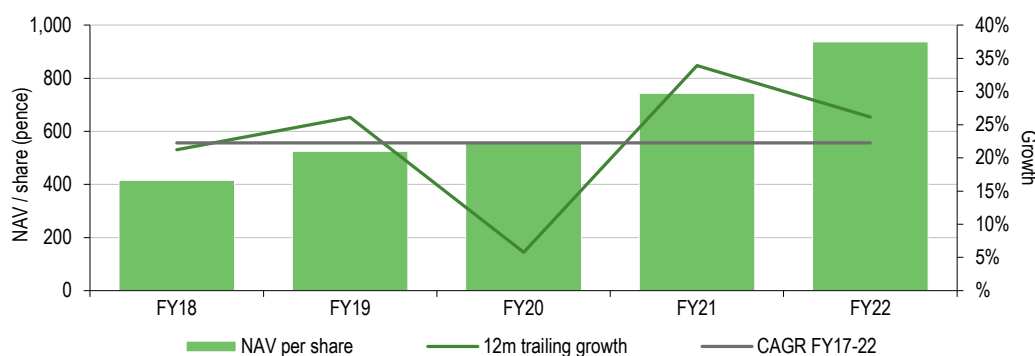
Molten Ventures is a research client of Edison Investment Research Limited

FY22 results: Strongly placed after a record year

With hindsight, CY21 was the top of the technology cycle, with a raft of initial public offerings, special purpose acquisition companies and realisation events across the technology sector. More experienced venture capitalists (VCs) took advantage of this market enthusiasm to exit momentum-driven investments, to ensure their remaining portfolio was well-funded and to raise additional capital at the parent level to allow them to continue to fund their portfolios through a potential downturn.

Molten delivered 56% growth in gross portfolio value (GPV), which rose to £1.53bn (31 March 2021: £0.98bn), with a net fair value uplift of 37%. Net assets increased by 39% to £1.43bn (31 March 2021: £1.03bn), with NAV per share rising 26% to 937p as at 31 March 2022 (FY21: 743p). Net portfolio value rose to 92% of GPV (FY21: 88%), within management's 10% range, as external carry normalised after higher levels of pay-out in FY20 and FY21.

Exhibit 1: Molten's five-year NAV per share CAGR breaks 22%



Source: Edison Investment Research

Income principally comprised £329.4m of investment gains (FY21: £276.3m), together with fee income from management fees and directors' fees of £21.8m (FY21: £12.5m). FY22 G&A costs rose to £19.5m (FY21: £13.8m) with the growth of Molten's team and investment in supporting infrastructure. This is expected to be a one-off step-change in cost base and cost growth is expected to slow substantially in FY23. Net operating costs fell to £4.7m, or 0.3% of NAV, comfortably below management's target of 1% of NAV, comprising gross costs of £24.2m (less exceptional costs of £2.4m relating to Molten's move to the Main Market), net of management fees. In FY23, with the launch of the growth fund and a potential syndication of the fund-of-funds strategy, net costs are expected to fall further and/or even move towards a net contribution to profitability.

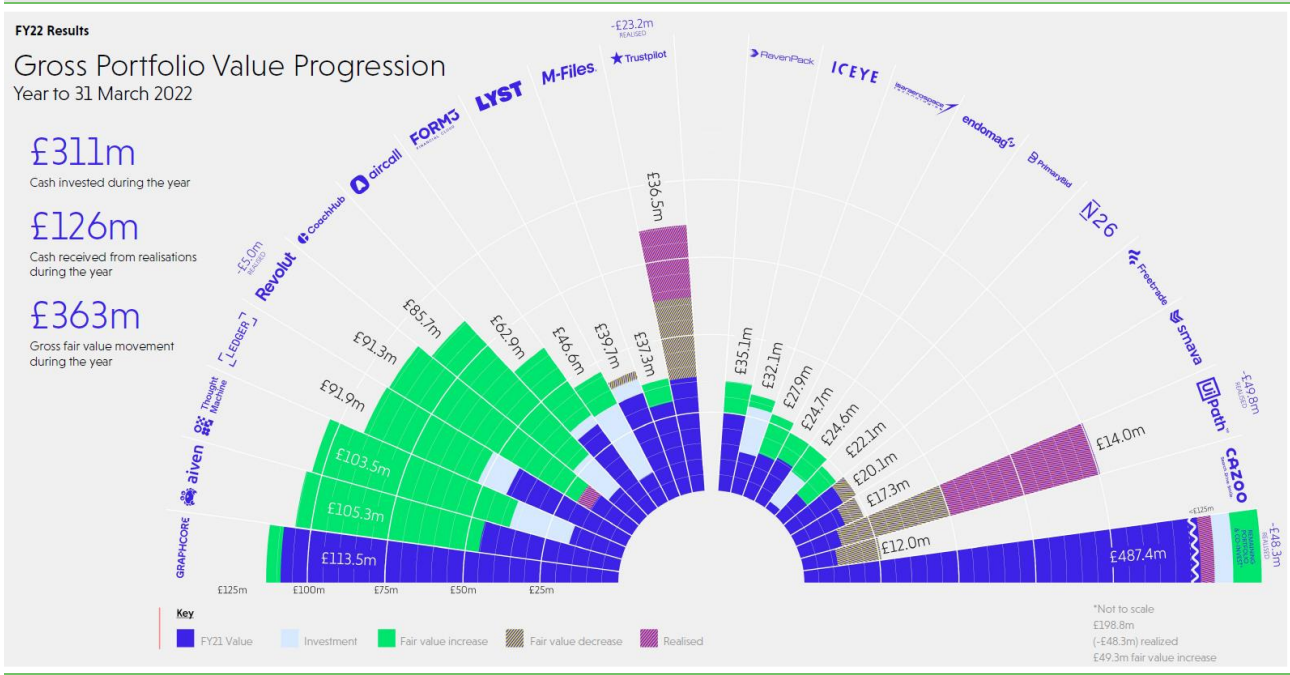
As at 31 March 2022, Molten Ventures held plc cash of £78m (including £2.3m of restricted cash) (31 March 2021: £161m), with £35m of undrawn revolving credit facility, making £113m of undrawn liquidity. Post period-end, Molten invested a further £74m in new and existing opportunities, leaving liquidity as at 13 June 2022 of c £39m (ignoring 10 weeks of net operating costs). In FY23, in what is likely to be a slower year for investment than FY22, we expect management to extend its debt facilities further to supplement liquidity, as well as benefiting from any additional realisations.

FY22 realisations of £126m were materially lower than FY21 (£206m), but this was still the second highest year of exits on record, with realisations representing 13% of GPV, comfortably within management's 10–15% target range. FY22 saw record investments of £311m, 42% of which went towards follow-on rounds for existing portfolio companies, with 36% into new primary investments.

The remainder was split between Earlybird, fund-of-funds investments and special purpose vehicle co-investments with seed fund managers.

Portfolio update

Exhibit 2: Positive progress spread across the portfolio

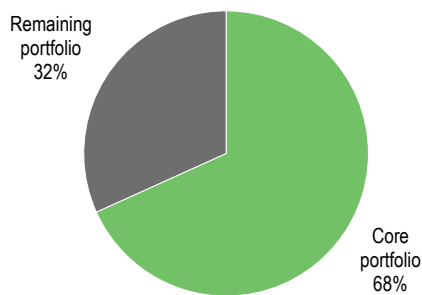


Source: Molten Ventures

Molten’s core portfolio increased from 17 companies in FY21 to 21 in FY22. New entrants to the 21-strong core portfolio included: CoachHub, Form3, ICEYE, N26, Isar Aerospace and PrimaryBid. Perkbox dropped below the threshold for inclusion and Molten exited its investment in SportPursuit. The total portfolio comprised 69 companies, with the core portfolio representing 68% of GPV.

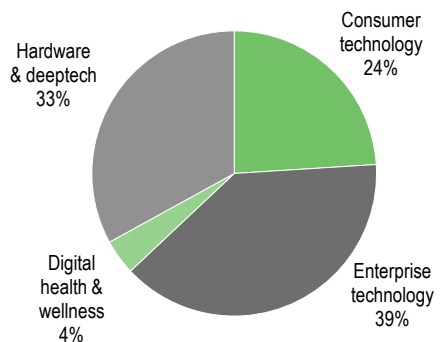
Molten’s portfolio continued to perform strongly during the year, with average revenue growth in the core portfolio above 66% during CY21. The largest contributors to the FY22 unrealised fair value gains were Revolut (£76m), Thought Machine (£65m), Aiven (£60m) and CoachHub (£59m).

Exhibit 3: The core represents 68% of GPV



Source: Molten Ventures, FY22

Exhibit 4: Value weighted towards B2B



Source: Molten Ventures, FY22

Molten invests across four principal sectors: consumer technology; enterprise technology; hardware & deeptech; and digital health & wellness. It is worth noting that consumer technology represents only 24% of the value of Molten’s direct holdings in FY22, with digital health & wellness another 4%.

This means that the more resilient B2B model is the group's dominant business model. Molten's quoted holdings (Cazoo, Trustpilot and UiPath) represented only 4% of FY22 fair value and, allowing for the share price falls to 8 June 2022, adjusted NAV per share stands at c 925p. The core portfolio is well-funded, with over 80% of portfolio companies either funded to exit or with over 24 months cash runway on budgeted projections. Management maintains that tier one assets continue to attract investment interest despite the challenging market environment. This is confirmed by the recent rounds for Aiven (May 2022), Thought Machine (March 2022) and most recently CoachHub (June 2022), which have all delivered substantial valuation uplifts. However, latest [dealroom](#) data suggest that European VC activity is slowing, with US and Asian investors starting to pull back from the market.

Exhibit 5: Investment portfolio summary

	£m	Fair value of investments	Investments	Realisations	Change in fair value	Total change in fair value	Fair value of investments	Proportion of GPV	Cumulative share of GPV
		31 Mar 2021	FY22	FY22	FY22	FY22	31 Mar 2022	%	%
1	Graphcore	108.8	-	-	4.7	4%	113.5	7.4%	7%
2	Aiven	45.5	-	-	59.8	131%	105.3	6.9%	14%
3	Thought Machine	18.4	20.0	-	65.1	354%	103.5	6.8%	21%
4	Ledger	41.8	10.0	-	40.1	96%	91.9	6.0%	27%
5	Revolut	20.4	-	(5.0)	75.9	372%	91.3	6.0%	33%
6	CoachHub	12.4	14.7	-	58.6	473%	85.7	5.6%	39%
7	Aircall	32.8	3.6	-	26.5	81%	62.9	4.1%	43%
8	Form3	10.2	25.0	-	11.4	112%	46.6	3.0%	46%
9	Lyst	35.1	7.2	-	(2.6)	(7)%	39.7	2.6%	48%
10	M-Files	29.7	-	-	7.6	26%	37.3	2.4%	51%
11	Trustpilot	85.5	-	(23.2)	(25.8)	(30)%	36.5	2.4%	53%
12	Ravenpack	29.9	-	-	5.2	17%	35.1	2.3%	55%
13	ICEYE	13.1	15.0	-	4.0	31%	32.1	2.1%	58%
14	Isar Aerospace	14.8	-	-	13.1	89%	27.9	1.8%	59%
15	Endomag	15.7	-	-	9.0	57%	24.7	1.6%	61%
16	PrimaryBid	2.3	11.9	-	10.4	452%	24.6	1.6%	63%
17	N26	10.0	-	-	12.1	121%	22.1	1.4%	64%
18	Freetrade	20.0	5.0	-	(4.9)	(25)%	20.1	1.3%	65%
19	Smava	23.8	-	-	(6.5)	(27)%	17.3	1.1%	66%
20	UiPath	100.3	-	(49.8)	(36.5)	(36)%	14.0	0.9%	67%
21	Cazoo	25.7	-	-	(13.7)	(53)%	12.0	0.8%	68%
	Core portfolio	696.2	112.4	(78.0)	313.5	45%	1,044.1	68%	68%
	Remaining portfolio	285	198.8	(48.3)	50.1	18%	485.6	32%	100%
	Total	981.2	311.2	(126.3)	363.6	37%	1,529.7	99.9%	
	Co-investment	2.6	-	-	(0.8)		1.8	0.1%	
	Gross portfolio value	983.8	311.2	(126.3)	362.8		1,531.5	100.0%	

Source: Molten Ventures

Fund-of-funds strategy, sectors and thematic

As highlighted in Exhibit 4, Molten invests in Series A+ funding rounds across four principal sectors: consumer technology; enterprise technology; hardware & deeptech; and digital health & wellness. However, within these broad categories, management continually tries to identify specific future investment themes. These include:

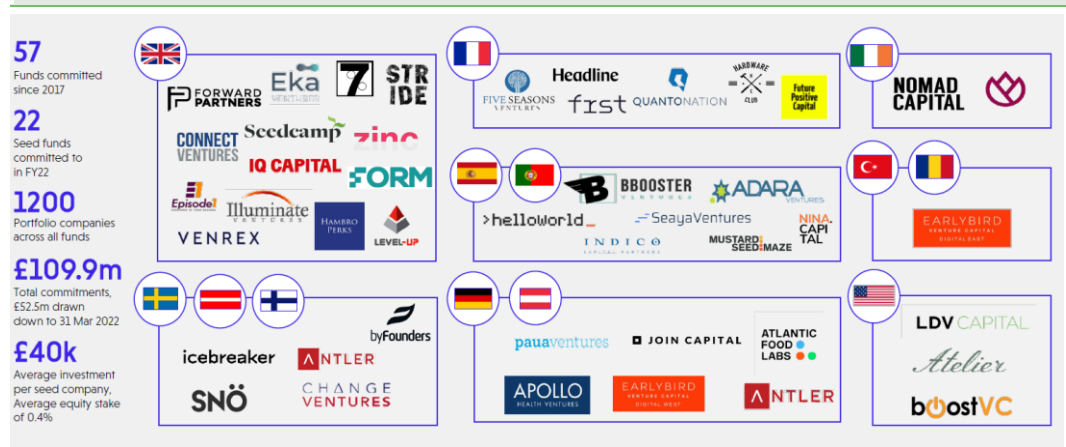
- Artificial intelligence/machine learning,
- Climate technology,
- Cloud-native technology,
- Fintech,
- Low code/no code, and
- Marketplaces.

Molten's thesis-driven investment approach has remained constant, despite a continually evolving view of likely winners. The group's investment methodology is to identify sectors and future themes

of interest, in which management thinks Molten will have relative advantage. The investment team then sets about identifying companies with these themes that are capable of becoming future market leaders. Even at an early-stage, companies will need to be delivering revenue traction as proof of the model. Molten’s fund-of-funds model is an integral part of the process and delivers insight, specific sector expertise and ultimately a filtered pipeline of investment opportunities that allows the investment team to develop a relationship with potential investee companies ahead of a potential future funding round.

Molten continued to invest in the fund-of-funds strategy, investing in a further 22 seed funds over the course of FY22, with a total commitment to the strategy of £110m as at 31 March 2022, of which £52.5m had been drawn by year end. This strategy delivers visibility on a macro-portfolio of 1,200 companies, in each of which Molten has an average indirect look-through stake of 0.4%. So far as we are aware, no other VC offers a similar fund strategy at such scale.

Exhibit 6: Molten’s fund-of-funds strategy covering 57 funds is a key differentiator



Source: Molten Ventures

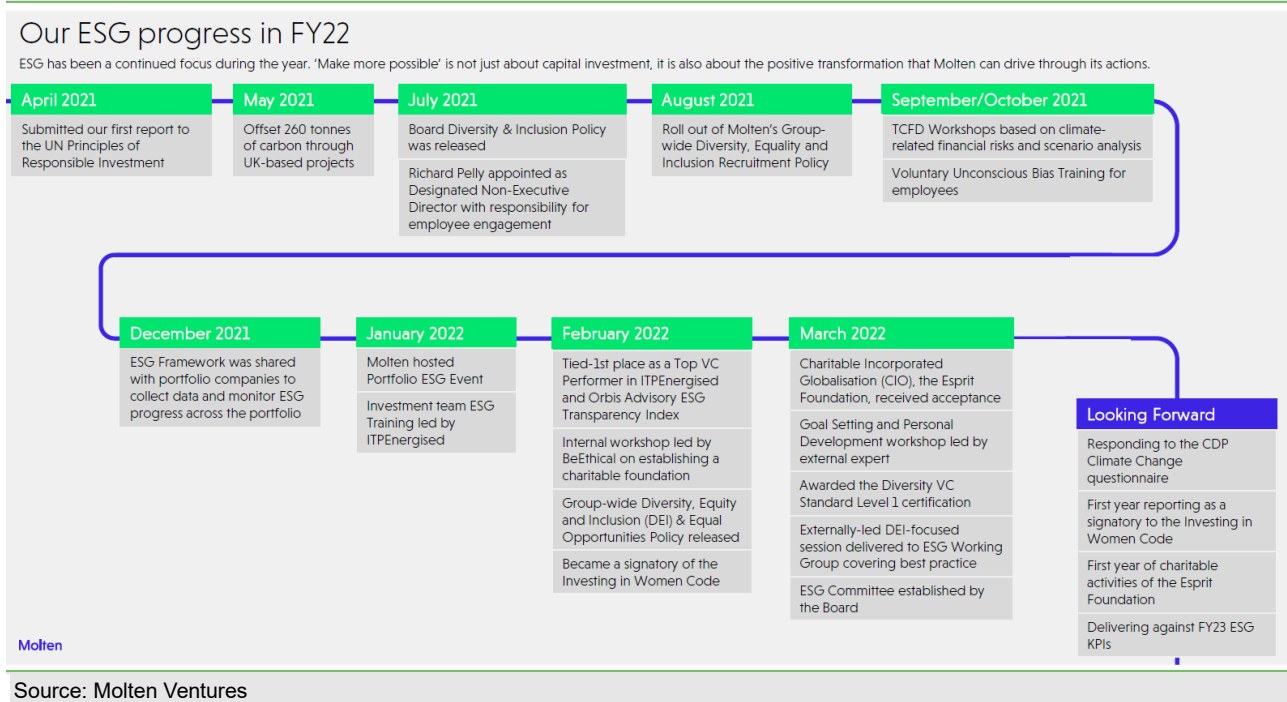
This strategy gives Molten visibility across Europe, without the need for offices, infrastructure and staffing across the breadth of the continent. Within the broader European marketplace, the group’s core geographies include the UK, DACH (Germany, Austria and Switzerland), the Nordics, France, Ireland and Spain.

Molten is continually looking to identify new themes and geographies from which to deliver competitive advantage. Climate technology is a recent theme that Molten has been backing and management believes that it offers great potential over the next few years. Additionally, management has identified Eastern Europe as a region where the group is keen to establish a stronger foothold, seeing the realignment of investors and teams in the region as creating an attractive emerging technology ecosystem that Molten would be keen to support.

Continuing progress with ESG and sustainability

In its [FY22 annual report and accounts](#), management sets out Molten's detailed ESG strategy (pages 48--71), including the successful achievement of its targets for FY22.

Exhibit 7: Molten's ESG achievements in FY22



For FY23, Molten has proposed the following as its core targets:

- **Overarching goals:**

- Develop and formalise Molten's corporate purpose to align with the group's ESG policy
- Track and report on the ESG metrics used to evaluate potential investments
- Deliver two portfolio engagement events focused on ESG-related risks and opportunities

- **Environmental:**

- Implement a climate strategy defining greenhouse gas (GHG) reduction targets, key performance indicators (KPIs) and roadmap to net-zero
- Engage with the management teams of at least 50% of direct primary investments to establish their Scope 1 and 2 GHG emissions and assist with GHG reduction plans
- Increase accuracy of Scope 3 measurements based on the [SECR](#) and [TCFD](#) frameworks
- Undertake Molten's first [CDP](#) climate change disclosure

- **Social:**

- Develop, track and report on the group's diversity and inclusion recruitment policy
- Support 80%+ of investees to implement parental and health & wellbeing policies
- Establish, track and report portfolio progress across core diversity and inclusion targets

- **Governance:**

- Develop and publish a group human rights policy
- Support 80%+ of direct portfolio companies to implement (i) Cyber Security, (ii) Anti-Bribery and Anti-Corruption, (iii) Whistleblowing, and (iv) Anti-Harassment policies

Further detail can be found in Molten's [FY22 annual report and accounts](#).

Outlook: Caution in the face of the downturn

Management remains cautious in terms of outlook, seeing little sign of a marked improvement in the funding environment in CY22. As a result of this uncertainty, management chose not to provide guidance for portfolio fair value growth in FY23, although the group's guidance for 20% annual fair value growth across the cycle and annual cash realisations at 10% of GPV still stand.

In tandem with its cautious outlook, and having already committed £73.7m in investment in H123, management expects the rate of investment to slow for the remainder of the year, with annual deployment in FY23 in the region of £150m and realisations in line with management's 10% target. The core portfolio is already well funded, with 80% of the core portfolio either funded to exit or else for 24 months.

Molten offers a broad-based portfolio of leading technology companies, weighted towards the more resilient B2B business model. The core portfolio continues to deliver impressive revenue growth, having delivered 66% revenue growth in CY21, with 77% growth budgeted by Molten for CY22.

In FY23, management is looking to increase fee income (potentially achieving a profit contribution net of costs) by building fee-earning third-party funds under management. As well as the EIS and VCT businesses, this would also include the growth fund and a potential syndication of the fund-of-funds strategy. Although there was no detailed update, plans 'remain on track' for the launch of the growth fund in FY23. Management also made passing reference to syndicating the fund-of-funds programme (details of which are as yet unclear), with Molten having already committed capital to double the size of the fund-of-funds proposition over the next three years.

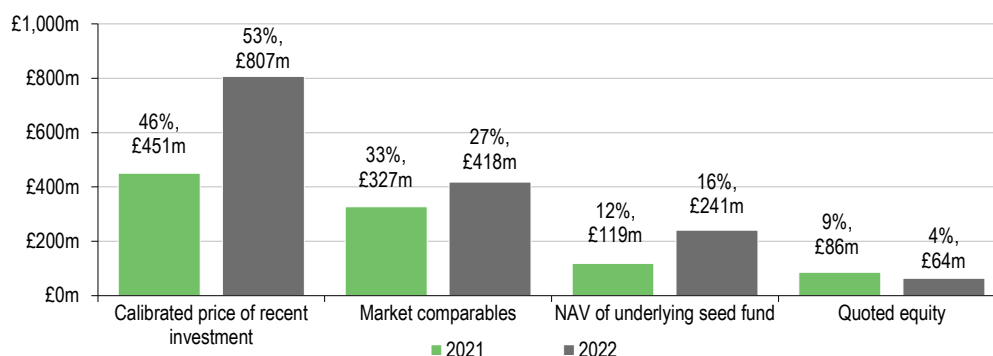
Conservative approach to portfolio valuations

Investors should take significant comfort from the fact that, following a record year for fund-raising in FY22, over 80% of Molten's core portfolio is either fully funded to exit or has over 24 months of cash runway based on its budgeted projections. In addition, 77% of Molten's portfolio fair value is based on assets in which Molten holds preference shares, offering protection to Molten in the case of down-rounds.

Exhibit 8 summarises the proportion of Molten's portfolio valued by reference to:

- Recent funding rounds (53% by fair value):
 - Discounts were applied to 52% of the fair value of investments, with discounts ranging from 15–89% and a weighted average discount of 25%.
 - 50% of rounds were completed in 2022.
 - 25% were completed post 31 March 2022.
- Multiples analysis (27% by fair value):
 - Revenue multiples range from 0.9–13.8x, with a weighted average multiple of 7.8x.

The remaining holdings are valued at NAV (for fund investments as part of the fund-of-funds strategy) (16% by fair value), or at market for directly quoted companies (only 4% of portfolio value as at 31 March 2022 and 3% as at 8 June 2022).

Exhibit 8: Basis for portfolio company valuations


Source: Molten Ventures

Valuation: A sector under stress

Valuations of the direct technology investors are typically struck relative to NAV, with the shares trading at either a premium (rarely) or discount (more usually) to the latest reported NAV per share. Although this is investors' principal valuation approach, management teams see a net asset-based valuation as a conservative methodology, as most companies (prudently) carry assets on the balance sheet at a discount to fair value, with the majority of assets recognising a gain on disposal.

Asset values are only reported semi-annually, or quarterly at most, meaning that due to the reporting time lag, portfolio company valuations are historical even before they are announced. Valuations for fast-growing private company portfolios, such as the 77% prospective revenue growth for Molten's core portfolio, are therefore struck relative to a prudent view of NAV per share (initial discount), based on a historical NAV (further discount). As can be seen in Molten's track record (set out in [A core tech holding through the cycle](#)), investors should take comfort from the fact that valuations are prudent and realistic, even in a downturn.

Exhibit 9: Valuations for the direct tech investment companies

	Price	Currency	Market cap (m)	Last NAV reported (m)	Net cash/(debt) (m)	NAV per share	NAV premium/discount (%)
Molten Ventures	411.4	GBp	629	1,434	48	937	0.44
3i Group	1069	GBp	10,385	11,967	(709)	1,235	0.87
Augmentum Fintech	95	GBp	170	267	44	142	0.67
Eurazeo	62	EUR	4,904	7,900	(306)	99	0.63
Forward Partners	47	GBp	62	102	31	104	0.45
HgCapital Trust	355	GBp	1,623	2,006	(57)	441	0.81
IP Group	72	GBp	744	1,436	270	139	0.52
Mercia Asset Management	29.3	GBp	129	186	52	42.4	0.69
Oakley Capital Investments	368	GBp	654	1,020	180	571	0.64
Seraphim Space Inv Trust	65	GBp	156	250	62	104	0.63
TMT Investments	4.19	USD	132	283	19	9.00	0.47
VNV Global	26	SEK	2,940	10,925	(142)	95.10	0.27
Peer group mean							0.64
Peer group median							0.64

Source: Company accounts, Refinitiv. Note: Priced on 22 June 2022.

Despite Molten's impressive track record (26% rise in NAV/share in FY22, five-year NAV/share CAGR FY17–22 of 22%) (Exhibit 1), its shares trade at 0.44x FY22 NAV, a discount to the broader sector, trading on an average 0.64x NAV.

Exhibit 10: Financial summary

Year end 31 March	£m	FY18	FY19	FY20	FY21	FY22
INCOME STATEMENT						
Change in unrealised gains on investments		IFRS 66.6	IFRS 114.7	IFRS 40.8	IFRS 276.3	IFRS 329.4
Fee income		7.2	6.1	11.3	12.5	21.8
Revenue		73.8	120.8	52.0	288.8	351.2
Cost of Sales		-	-	-	-	-
Gross Profit		73.8	120.8	52.0	288.8	351.2
Operating costs		(5.9)	(7.9)	(10.3)	(14.5)	(20.2)
Investment and acquisition costs		(0.4)	(0.2)	(0.2)	(0.3)	(0.2)
Normalised operating profit		67.4	112.7	41.4	274.1	330.7
Amortisation of acquired intangibles		-	-	-	-	-
Exceptionals		(0.2)	(0.0)	-	0.1	(2.4)
Share-based payments		(4.9)	(3.1)	(1.0)	(1.5)	(3.7)
Reported operating profit		62.3	109.5	40.5	272.6	324.6
Net Interest		0.1	0.1	(1.3)	(1.8)	0.4
One-off items (incl FX)		(1.5)	1.5	1.2	(3.3)	-
Profit Before Tax (norm)		66.0	114.3	41.4	268.9	331.1
Profit Before Tax (reported)		60.9	111.2	40.4	267.4	325.0
Reported tax		0.0	0.0	(0.0)	(0.0)	(24.3)
Profit After Tax (norm)		66.0	114.3	41.4	268.9	331.1
Profit After Tax (reported)		60.9	111.2	40.4	267.4	300.7
Minority interests		(3.1)	(0.6)	(0.7)	-	-
Discontinued operations		-	-	-	-	-
Net income (normalised)		62.9	113.7	40.7	268.9	331.1
Net income (reported)		57.8	110.6	39.7	267.4	300.7
Basic average number of shares outstanding (m)		65	96	118	129	150
EPS - basic normalised (p)		96.7	118.4	34.5	208.7	220.6
EPS - diluted normalised (p)		96.0	113.6	33.6	207.3	218.0
EPS - basic reported (p)		88.9	115.1	33.6	207.5	200.3
Dividend (p)		-	-	-	-	-
Revenue growth (%)		97	64	(57)	455	22
Normalised Operating Margin		91	93	80	95	94
BALANCE SHEET						
Fixed Assets		242.6	572.7	669.4	879.4	1,424.0
Intangible Assets		10.2	10.1	10.0	10.9	10.8
Tangible Assets		0.2	0.2	1.8	1.4	0.8
Investments		231.9	562.1	657.3	867.1	1,410.8
Investments in Associates		0.3	0.3	0.3	-	-
Deferred tax		-	-	-	-	1.6
Current Assets		61.5	51.5	41.9	164.4	80.9
Stocks		-	-	-	-	-
Debtors		4.8	1.1	7.7	3.7	2.8
Cash & equivalents		56.6	50.4	32.3	158.4	75.8
Restricted cash		-	-	1.9	2.3	2.3
Current Liabilities		(2.9)	(5.0)	(5.4)	(10.0)	(14.7)
Creditors		(2.9)	(5.0)	(5.0)	(9.6)	(14.3)
Tax and social security		-	-	-	-	-
Lease liabilities		-	-	(0.4)	(0.3)	(0.4)
Short term borrowings		-	-	-	-	-
Other (incl deferred consideration)		-	-	-	-	-
Long Term Liabilities		(0.7)	(0.6)	(46.2)	(0.6)	(56.4)
Long term borrowings		-	-	(44.6)	0.4	(30.0)
Lease liabilities		-	-	(1.0)	(0.7)	-
Other long-term liabilities		(0.7)	(0.6)	(0.6)	(0.4)	(26.4)
Net Assets		300.5	618.6	659.6	1,033.1	1,433.8
Minority interests		2.8	0.2	-	-	-
Shareholders' equity		297.7	618.3	659.6	1,033.1	1,433.8
NAV per share (p)		416	524	555	743	937
CASH FLOW						
Op Cash Flow before WC and tax		67.6	112.8	42.0	274.7	331.5
Revaluation of investments held at fair value through P&L		(66.6)	(114.7)	(40.8)	(264.4)	(294.8)
Working capital		(62.2)	(212.9)	(61.8)	70.2	(214.3)
Exceptional & other		(0.1)	0.2	(0.0)	(9.9)	(34.2)
Tax		(0.1)	(0.0)	(0.0)	(0.0)	(0.4)
Net operating cash flow		(61.5)	(214.7)	(60.6)	70.6	(212.2)
Capex		(0.2)	(0.1)	(0.4)	(0.1)	(0.1)
Acquisitions/disposals		-	-	-	(0.7)	-
Equity financing		95.1	207.5	0.3	107.6	107.5
Dividends		-	-	-	-	-
Other		(0.0)	-	-	-	-
Net Cash Flow		(0.2)	(0.1)	(0.4)	(0.1)	(0.1)
Opening net debt/(cash)		(24.9)	(56.6)	(50.4)	12.4	(158.8)
FX		(1.5)	1.3	1.2	(3.3)	1.6
Other non-cash movements		(0.1)	(0.3)	(3.3)	(2.8)	(9.9)
Closing net debt/(cash)		(56.6)	(50.4)	12.4	(158.8)	(45.8)
Closing net debt/ (cash) (inc restricted cash)		(56.6)	(50.4)	10.5	(161.1)	(48.0)

Source: Company accounts, Edison Investment Research

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