

# RF Capital Management LLC

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Dear Investors,

In the second half of 2023, RF Capital returned +22.54%<sup>1</sup> net of all fees. In comparison, the S&P 500, Russell 2000, and MSCI ACWI generated returns of +7.18%, +8.16%, and +7.10%, respectively, over the same period.

For FY2023, RF Capital returned +56.07%<sup>1</sup> net of all fees. Please check your individual statements for your exact returns.

As a reminder to investors who joined us towards the end of the year, your results varied from the above returns due to the price action and valuations of our current holdings. (We only initiated positions in our highest conviction ideas and only bought at the right prices.) Similarly, investors who made partial redemptions and contributions throughout the year also saw different returns.

Over several quarters, portfolio holdings for all investors should be roughly the same. We invest in the same companies with the same position sizes in mind for all investors. The only issue that would make portfolio composition different is the timing of inflows and outflows.

At the end of 2023, our portfolio had 17 holdings. Zengame and Sprouts accounted for 39.09% of the portfolio. The next two largest positions were 3.06% and 2.10% - making the top 4 holdings 44.25% of the portfolio. The remaining 13 holdings combined for just 5.65% of the overall portfolio.

In other words, the sub-2% positions were essentially negligible. They are tracking positions that we are looking to do more work on. Otherwise, we exit at some point – especially when capital is needed for a new position. The companies also could have been illiquid or the price moved against us. Sometimes, we just aren't able to establish a full 10%+ position.

Additionally, we ended the year with a 50.11% cash position – which is deceptive. The high cash balance was due to the influx of new capital in H2. We hope to put the cash to work this year provided that companies on our research board are available at the right prices.

In this letter, we will discuss our firm's performance and provide some brief commentary on our portfolio. Next, we will provide an operational update and our market outlook for the rest of the year.

## OUR PERFORMANCE

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<sup>1</sup> RF Capital returns are calculated on a composite basis. Individual returns may vary based on the timing of investment and the fee schedule. Past performance is not indicative of future results.

As of October 27, 2023, RF Capital completed its sixth full year of operation since inception. Here's our performance<sup>2</sup> over the past few years:

	<b>1 YEAR (FY23)<sup>2</sup></b>	<b>3 YEAR<sup>2</sup></b>	<b>5 YEAR<sup>2</sup></b>
RF Capital	+56.07%	+30.11%	+20.53%
S&P 500	+24.23%	+8.49%	+13.92%
Russell 2000	+16.88%	+1.83%	+10.11%
MSCI ACWI	+22.30%	+6.02%	+11.88%

Overall, RF Capital's performance has been quite satisfactory. We have beaten the major market indices by a wide margin in all time periods as shown in the table above.

However, our focus is on generating strong absolute returns over the long term. Major market index returns aren't on our minds. We only provide the numbers as context for the effectiveness of our investment strategy. We don't have a benchmark.

The outperformance has been even better in recent years due to improvements we've made to our investment philosophy and process since inception. We've also learned from our mistakes as well as the types of investments that work in this current market environment.

We believe that our investment process and strategy is conducive to potential outsized returns going forward. (Remember that our first 50%+ year was in 2021 where we returned 54.30% net of all fees.) And we've been fortunate to have another 50%+ year again in 2023.

While we are ecstatic about the 56.07% return, investors should realize that such outsized returns are not the norm every single year. Some years will be down, some will be breakeven, and others will provide modest gains.

Over the long term, we would be quite pleased to generate a 15% return, net of all fees, over full market cycles and rolling 5-year periods. So far, we have done just that and more for our investors since inception.

## **ZENGAME TECHNOLOGY (2660.HK) AND SPROUTS FARMERS MARKET (SFM)**

As we have written about these two companies extensively, we'll keep it brief. These two companies remain our top 2 holdings and contributed to 50.48% of the 56.07% FY23 return. Both companies are performing according to our expectations and we continue to hold for the long term.

Please see the interview referenced below for our latest thoughts on both companies.

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<sup>2</sup> Returns are calculated on an annualized basis, net of all fees.

## **NEW UNDISCLOSED POSITION**

We identified a new company to add to our portfolio in January 2024. Because we are still in the process of conducting research and building a position, we will most likely provide insight on the company in our next investor letter.

Currently, this company is a 5% position at cost – making it our third largest holding. We target a 10% position size or better at the moment. However, it has proven difficult due to trading illiquidity.

Regardless, we are excited about this new holding. It's been quite some time since we've identified a high-quality growth company available at a deep value price that meets all of our criteria.

The company is also right up our wheelhouse. The setup reminds us of Zengame – a tiny, foreign company that has hypergrowth prospects, a strong balance sheet with lots of cash and minimal debt, minimal institutional ownership, where the largest shareholders are the management team, and a single-digit P/E.

We look forward to writing more about this company soon.

## **OPERATIONAL UPDATE**

In December 2023, we had the pleasure of conducting an interview on Capital Employed with Jon Kingston. There, we covered a wide range of topics - from our background and investment process to our favorite ideas.

The interview can be found [here](#) in case you missed it when published.

Also, the fund is currently open to new investors. We would greatly appreciate it if you could refer any friends or acquaintances that may be interested in investing.

The minimum is \$500,000. However, we are willing to waive the minimum investment size provided that they are the right fit and are willing to increase their account value to the minimum over time.

## **OUTLOOK**

From a bottom-up perspective, now is the time to be on offense for us. We have identified several undervalued markets globally and have been actively researching companies that fit our criteria. It could be busier than usual for us this year in terms of research volume. Sometimes there are an unusually large number of rocks that need to be turned over in a given year. Volume is the key to finding new core holdings, and we are fully committed to putting in the reps.

On the other hand, the world is out of balance on a macro level. That is no secret. The headlines that dominate the news cycle these days are on our minds as well – the geopolitical situation, the

election year, the US economy and interest rates, China's economy, etc. If we were macro, top-down investors, we would probably be cautious going forward.

However, we are attracted to dislocations, low valuations, and chaos in general. For that reason, we anticipate increased activity on the research front at RF Capital as well as a potential increase in trading activity as well. We hope to find a handful of ideas this year that will drive our portfolio's returns for the next 3 to 5 years.

As always, thank you for your support, continued interest, and referrals. Please email me at [roger.fan@rfcapitalmanagement.com](mailto:roger.fan@rfcapitalmanagement.com) if you have any questions, concerns, or comments.

Best regards,

**Roger Fan**

Chief Investment Officer

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RF Capital is committed to communicating with our investment partners as candidly as possible because we believe our investors benefit from understanding our investment philosophy, investment process, stock selection methodology and investor temperament. Our views and opinions include “forward-looking statements” which may or may not be accurate over the long term. You should not place undue reliance on forward-looking statements, which are current as of the date of this report. We disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. While we believe we have a reasonable basis for our appraisals and we have confidence in our opinions, actual results may differ materially from those we anticipate.

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