RNS Number : 7827H
Chrysalis Investments Limited
08 May 2025

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8 May 2025

Chrysalis Investments Limited ("Chrysalis" or the "Company")

Capital Allocation Policy Update

The Company is now over twelve months into the three-year plan approved by shareholders at the AGM in March 2024, which included the adoption of the Capital Allocation Policy ("CAP"), supported by 97% of voting shareholders. This outcome followed a wide and thorough consultation by the Board, ensuring that the CAP and its associated measures reflected shareholder priorities and formed the foundation of the Company's business plan.

These measures were predicated on a conservative liquidity plan for the portfolio. Encouragingly, liquidity receipts over the first year of the three-year strategy have been substantial. At the time of the 2024 AGM, the Company anticipated the potential for a realisation in Graphcore, which was successfully completed, but had predicted capital returns would most likely be funded by realisations from the later-stage holdings. In the event, the Investment Adviser was able to deliver liquidity for the Company from the sales of Featurespace and InfoSum to trade buyers, which occurred at valuations materially above their respective carrying values prior to the publication of the CAP details. The exits of Graphcore, Featurespace and InfoSum have contributed to gross cash receipts of approximately £175 million to date (up to £185 million in likely aggregate proceeds).

While market volatility, particularly stemming from the introduction of "Liberation Day" tariffs in the US, resulted in the pausing of Klarna's IPO, the Board is encouraged by Klarna's continued operational performance and commitment to pursuing a listing. If market conditions stabilise and an IPO proceeds at, or above, carrying value, this could generate £125 million (being the Company's current carrying value) or more in marketable securities or cash for the Company.

With improved liquidity visibility, the Board has reviewed the business plan and, where appropriate, will propose amendments to the CAP for consideration at the 2026 AGM. In the meantime, it is worth reflecting on progress against the goals the Board set when introducing the CAP.

Capital Returns

The Board commenced a share buyback programme on 26 September 2024, as soon as it was feasible to do so. This was supported by proceeds from the Graphcore disposal and a Barclays debt facility that addressed the £50 million "buffer" requirement. At the time the CAP was adopted, the capital return target of up to £100 million represented more than 20% of the Company's market capitalisation.

As of May 2025, approximately £57 million has been returned to shareholders through buybacks. At the current pace, the Company is on track to meet the full £100 million target by September 2025 - achieving in 18 months what was initially expected to be achieved in 36 months. Thereafter, the Company has committed under the CAP to continue to return at least 25% of net realised gains on the Company's investments, with such gains being measured as net realised gains against historical cost price (and not NAV).

As a result of the Investment Adviser successfully arranging for the Company to exit a number of earlier-stage holdings to fund the buybacks to date, rather than the later-stage, larger assets, the portfolio is in a stronger position than initially forecast, with a higher weighting in mature, break-even or profitable companies.

Discount Management

The Board is pleased to note that since the 2024 AGM, the Company's share price has risen by approximately 11%, outperforming both the FTSE 250 (by nearly 9%) and many of its peers. While it is difficult to isolate the precise impact of the buyback programme, this relative performance - against a volatile macroeconomic backdrop - is encouraging.

Despite the Company's discount to NAV being lower than its immediate peer group's average, the Board acknowledges that the current discount to NAV of approaching 40% remains wider than what shareholders would consider appropriate; it continues to target a materially narrower discount over time.

Recent exits have also underscored the conservatism in the Company's carrying values. The disposals of Graphcore, Featurespace, and InfoSum generated £185 million in aggregate proceeds, approximately 112% above the assets' combined lowest carrying values from 2023 to exit.

In addition, the Company's top five holdings, which now represent approximately 81% of NAV, are all at least break-even and generally later-stage. Taken together with the recent realisations, this reinforces the Board's view that the current discount materially undervalues the portfolio.

Reinvestment

At the December 2024 NAV update, the Board confirmed that no new investments would be made until:

1. The £100 million capital return had been completed; and
2. There had been a sustained narrowing in the share price discount.

At that time, the Board guided that no new investments were likely before 2026. This guidance has now been strengthened: no new investments will be made ahead of the 2026 AGM. Furthermore, any proposal to recommence investment thereafter will be subject to shareholder approval at that AGM. Follow-on investments will only be made prior to the 2026 AGM if required to protect, or enhance, the value of existing holdings.

Shareholder Consultation

As part of its ongoing shareholder engagement, the Board - alongside its advisers and the Investment Adviser - has held discussions with a wide cross-section of shareholders over recent months, covering approximately 50% of the share register.

Asset Value Investors (AVI), the Company's largest shareholder (as the manager of a number of underlying funds), recently wrote to the Board requesting that a continuation vote be proposed at the 2026 AGM. The letter was co-signed by a group of other shareholders, with the signatories collectively representing approximately 27% of the Company's shares at the time.

The Board believes that the appropriate timing for the next continuation vote remains the 2027 AGM, as stated in the Company's articles, but in light of the shareholder letter will put forward an ordinary resolution to the 2026 AGM (see below) to seek shareholders' reaffirmation of the current CAP, or, where appropriate, propose amendments to the CAP, pending the continuation vote in 2027.

Certain other themes have emerged through this recent engagement, which have highlighted the range of differing views among the shareholders. These include preferences and/or proposals that:

1. No new investments be made under any circumstances;
2. All net realisation proceeds be returned at NAV;
3. The investment management agreement be amended to align remuneration more closely with a realisation-led strategy;
4. A dual-share-class structure be considered to accommodate diverging investor priorities; and
5. New directors be appointed, one of whom to be appointed as chairman, to more directly reflect views of some shareholders.

The Board, its advisers, and the Investment Adviser have engaged extensively with AVI and other signatories, and more informally with a broad range of other shareholders on these themes. It is clear that there is a diversity of views on:

- How best to return capital (buybacks vs tenders vs redemptions);
- Whether and when to recommence investment activity; and
- The feasibility and merits of structural solutions, including dual share classes.

The Board has therefore decided that a more formal consultation will most fairly collate the views of as many shareholders as possible to create a balanced assessment of the merits of these themes.

Given the success of the 2023/24 consultation process, which resulted in the current CAP being approved, the Board has asked Rothschild & Co. to conduct a further formal consultation that will start as soon as practically possible. In 2023, Rothschild spoke to around 70% of the shareholder base, and the Board is again seeking wide participation to ensure it has a representative view when evaluating options. Findings will be shared in Q4 2025.

Whatever the outcome, the Board believes that the success of the realisation programme means that a proposal for the Company's future CAP must be put forward in advance of asking shareholders to consider the 2027 continuation vote.

2026 AGM

On the basis of the Company's current liquidity profile, ongoing discount to NAV and recent discussions with shareholders, the Board considers it prudent and in the interests of shareholders to propose a resolution at the 2026 AGM (to be held no later than June 2026) for reaffirmation of the existing CAP.

The Board highlights that its commitment to propose this 2026 vote does not affect the ongoing buyback, or the Board's commitment not to make further new investments before the 2026 AGM. The current CAP that will be the subject of the resolution includes the proposed use of capital realised from the portfolio from time to time.

Should the vote at the 2026 AGM on the CAP not be approved:

1. the Board will continue to direct the Investment Adviser not to source any new investments. Follow-on investments will only be made if required to protect, or enhance, the value of existing holdings. Capital in the Company over and above what is required to protect or enhance the value of existing holdings, and is in excess of the existing £100m share buyback programme, will be distributed to shareholders through mechanisms appropriate for distributions at a price based on prevailing NAV;
2. under such a policy, the Board intends that the default option for each asset would be to maintain the original exit plan as currently envisaged. The secondary market or other routes to liquidity will only be used if the value on offer is judged to provide an acceptable alternative when adjusted for time. The disposal programme will therefore be conducted in an orderly fashion and the Board would endeavour to ensure that the Company will not at any point be a forced seller; and
3. the Board would, in consultation with shareholders, continue to explore, well in advance of the formal 2027 continuation vote, the Company's options including a dual share class structure allowing those shareholders wishing to participate in new investments to do so.

The 2026 vote on the CAP will not affect the articles of the Company or change the requirement to hold a continuation vote at the AGM in 2027.

Board Composition

The Board thanks shareholders for their strong support at the March 2025 AGM, where all directors were re-elected with more than 90% of votes cast in favour.

The Board continues to be committed to high standards of independent governance and believes that 2026 offers a natural opportunity to review its composition in line with best practice. Shareholders have expressed support for periodic refreshment, particularly as part of ensuring that the Board continues to bring the right mix of skills, perspectives, and experience to guide the Company through the next phase of its strategy. We would welcome continued engagement on how the Board intends to approach succession planning in this context, to ensure it remains well positioned to oversee the Company's strategy and growth.

As part of its process, Rothschild will consult shareholders on preferences for changes to Board composition and size. Given the range of views on reinvestment, capital returns, and structure, the Board believes that broad-based input will be essential to ensuring it remains representative, effective, and aligned with the Company's evolving needs.

Conclusion - Confidence in Our Strategy and Commitment

The Board would like to thank shareholders for their continued engagement and support. Over the past year, the Company has executed against a clear, shareholder-backed plan: generating liquidity, returning capital, and making meaningful efforts to address the discount.

Chrysalis was founded to give public market investors access to the value creation typically reserved for private markets, by backing high-growth, disruptive businesses at scale. That mission remains as relevant today as at launch. While it recognises differing views on pace and direction, the Board remains confident that the current strategy, grounded in disciplined execution and continued shareholder consultation, offers the best path to long-term value creation and looks forward to maintaining open dialogue and delivering further results in the year ahead.

-ENDS-

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LEI: 213800F9SQ753JQHSW24

A copy of this announcement will be available on the Company's website at https://www.chrysalisinvestments.co.uk

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The Company is an alternative investment fund ("AIF") for the purposes of the AIFM Directive and as such is required to have an investment manager who is duly authorised to undertake the role of an alternative investment fund manager ("AIFM"). The AIFM appointed is G10 Capital Limited (part of the IQEQ Group).

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