

Inflection Five™ Portfolio

A carefully curated basket of compelling growth stocks,
each at the point of meaningful growth inflection.



January 6, 2023

validusgrowth.com

Strategic Inflection:

*“A time in the life of a business
when the fundamentals are
about to change.”*

– Andy Grove

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HOLDINGS:

The Inflection Five Portfolio

Finding meaningful points of inflection is about the deep research we do to identify signals that indicate a mismatch in valuation of a company and its fundamentals. These signals are not necessarily visible to the naked eye and are a product of our dogged consistency in process and purpose.

“The future is already here--it is just not very evenly distributed.”

-- William Ford Gibson

HOLDINGS	
ABNB	Airbnb Inc
CRWD	CrowdStrike Inc
NVDA	NVIDIA Corp
SNOW	Snowflake Inc
TSLA	Tesla Inc

Instead of indexing, own a carefully curated basket of compelling securities at the point of inflection.

The Inflection Five is a “best ideas” portfolio of equally weighted companies poised to inflect the growth curve. See key analytics below and a detailed writeup of each company in the appendix of this document.



Below are some key analytics. Each company has gone through our investment validation process, and a detailed write-up of each portfolio holding is in the appendix of this document.

TKR	Name	Price		% from ATH	Market Cap (\$ millions)	RSI	BETA	Forward Price / Sales		% Change	Estimated LT Earnings Growth		Net Cash (a) (\$ millions)
		(12/31/22)	(12/31/21)					(Current)	(12/31/21)		(Current)	(12/31/21)	
ABNB	Airbnb Inc	\$ 85.50		-61%	55,778	44	1.50	6.1	14.4	-58%	76%	n/a	7,266
CRWD	CrowdStrike Holdings Inc	\$ 105.29		-68%	22,428	28	1.44	8.1	23.5	-65%	41%	n/a	1,697
NVDA	NVIDIA Corp	\$ 146.14		-58%	360,931	40	1.81	13.3	23.2	-43%	18%	n/a	1,239
SNOW	Snowflake Inc	\$ 143.54		-71%	40,104	33	1.70	14.8	51.5	-71%	30%	n/a	3,688
TSLA	Tesla Inc	\$ 123.18		-73%	352,910	28	1.50	3.4	14.6	-77%	20%	n/a	15,233
	<i>Average</i>				166,430	35	1.59	9.1	25.4	-63%	37%		
SPX	S&P 500 Index	\$ 3,871.98				69	--	2.2	2.8	-24%	--	--	--
CCMP	Nasdaq Composite Index	\$10,988.15				61	--	2.7	4.1	-35%	--	--	--

Source: Bloomberg

(a) As of most recent reporting period.

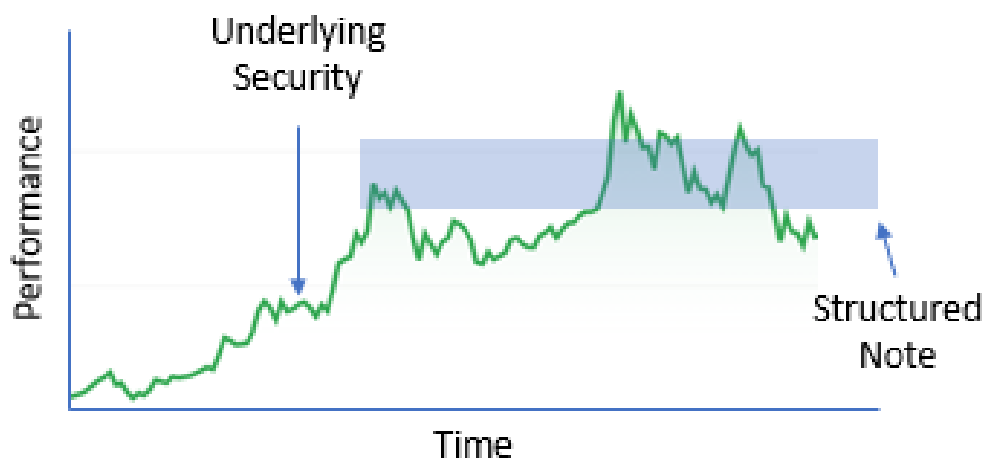
Financial information as of 12/31/22 unless otherwise indicated.

Structured Notes & Risk:

Designed to be Offered within a Structured Note to Mitigate Different Levels of Risk to Principle.

The selection of the Inflection Five Portfolio is unconstrained from any consideration of risk. Therefore, this equally weighted portfolio is specifically curated to be coupled with a risk mitigation strategy like a structured note wrapper--based on an investor's investment objective and risk tolerance.

Structured notes are not direct investments. They are debt products that utilize institutional hedging strategies, whose returns are linked to the performance of one or more underlying securities or indices. These notes can be structured with terms that meet a specific risk tolerance as well as income and growth needs for a defined period.



As with any investment, investors should work with a knowledgeable financial advisor to understand how the inherent risks of investing in structured notes can lead to a loss of principle.

Distributors like Insperex work with leading banks where our research models, like the Inflection Five Portfolio, may serve as the underlying investment within different structures designed to achieve specified income targets and predetermined upside and downside market exposure.

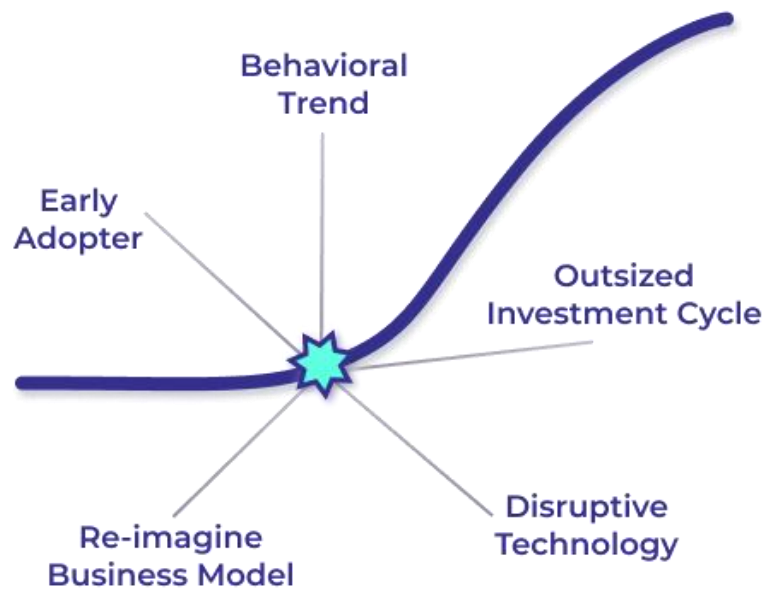
Insperex



Validus is a research provider to Insperex and is not affiliated in any other way. Nor is Validus affiliated to any other banks represented above. Any specific terms related to different structured note offerings will be provided by Insperex and not by Validus.

The Five Points of Inflection

Based on math, an inflection point is where the direction of a curve changes. To us, finding meaningful points of inflection is about identifying action taken by a company or other entities; or an event that impacts future growth. It is the thing that changes the way we think and act. With this definition in mind, we have identified the following five points of growth inflection as an initial stage of our investment validation process that guides our selection:



1. **Behavioral Trend** – Opportunities hiding in plain sight. Insider trading. Peter Lynch’s idea of investing in what you are experiencing in day-to-day life.
2. **Disruptive Technology** – EV, Gig-economy, etc. Easy to see and imagine huge opportunities (TAM). Harder to succeed. Lots of execution risk. Lots of investment risk.
3. **Early Adopter** – Let someone else innovate, you follow once the kinks are worked out. Apple and Goldman Sachs are great at this. Applying proven strategies to meet an obvious need. Execution is straightforward if you follow the template.
4. **Reimagined Business Model** – “...-as-a-service” transformation. Initially applied to software, now applies to everything from gaming to fashion. Jettisoning ancillary businesses, doubling down on best opportunities.
5. **Outsized Investment Cycle** – How significant must the opportunity be for management to sacrifice near-term results for future revenue and earnings acceleration? Courage, brilliance, or desperation?

Why Validus?

Access: Invests in growth at every stage of a company's evolution delivered in a variety of investment strategies and structures.

Growth: Seeks long term growth by being different than the index which is measured by Active Alpha, Tracking Error and Market Capture—as an alternative to traditional growth strategies and relative returns.

Concentration: A focus on building concentrated portfolios of quality best-ideas investments with a belief that this is the surest way to reach or surpass broader market performance.

Research: Original research that seeks to identify points of inflection that lead to accelerating growth and validates potential investment opportunities through a proprietary scoring system developed over decades of investing.

Cost: As markets move through different cycles, an actively managed concentrated portfolio of individual securities has the potential to reduce costs, achieve better diversification, manage risk, by delivering non-correlated returns.

About Validus

From the sell side to the buy side, Wall Street's sphere of influence can put you on the outside looking in. This is where our legacy in investment banking is your advantage.

For traditional investors, the answer is to seek the safety of benchmark and passive strategies offered by large financial institutions. We believe this approach is not your best option. Benchmarks, by their nature, are backwards looking and large financial institutions can lack focus and agility.

The world is rapidly changing, and markets move faster than ever. Finding future growth opportunities requires a focus on the factors that lead to meaningful inflection.

Through original research, we apply the discipline required to complete dozens of successful M&A deals (in our past as an investment banker). We believe our decades of experience in both public and private markets is the difference that makes us better investment managers and makes you a better investor.

Appendix

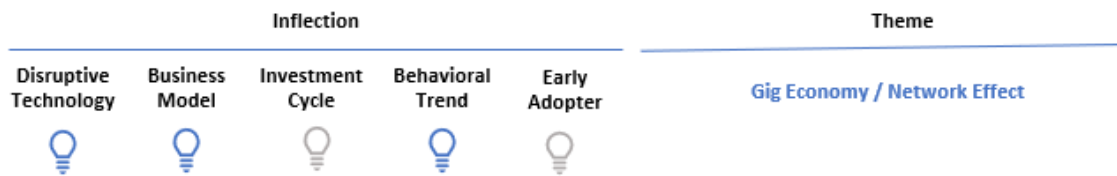
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Airbnb Inc. (TKR: ABNB)

AirBNB revolutionized travel and created its own category by connecting hosts of private residences with travelers in an efficient and straightforward way. The pandemic accelerated a series of converging trends that redefined how people live and work that vaulted AirBNB into rarified air with its name becoming synonymous with alternative accommodations. Today, along with its renewed strategic and financial discipline, the company is poised to take the next step in growing its market and solidifying its market dominance.

- AirBNB intends to break the search paradigm. By entering a name of a destination in a search bar, travelers are limiting themselves to the places they already know. Recently rolled out tools such as **I’m Flexible** and **Split Stays** and its most significant website redesign, specifically **Categories**, are all designed to point demand to where AirBNB has supply. Broadening travelers’ horizons, more widely distributing hosting opportunities and ensuring unlimited capacity all at the same time.
- Behaviors have changed. Guests are booking much longer stays and AirBNB’s broad range of destinations and accommodations are much better suited to this change in behavior than hotels. For AirBNB, long-term stays have doubled over the last two years with approximately 50% of bookings lasting a week or more and 20% of bookings lasting for 28 days or more.
- Industry’s mix shift to leisure travel over business travel directly plays to AirBNB’s renewed strengths. Leisure travelers don’t have to go anywhere – they can choose other destinations after educating themselves. Business travel is still not back to pre-pandemic levels and probably never will be.
- Unique to the industry, AirBNB has an “asset lite” model that benefits from a network effect. No need to invest capital in a rising rate environment to create additional capacity. Lower customer acquisition costs, lower fixed costs and no capacity constraints lead to better margins and copious cash flow generation.



Disruptive Technology

As competitors in the travel industry fight the previous wars – such as weaning themselves from paid lead generation and enhancing their loyalty plans -- AirBNB is on to the next battle, namely creating its own demand in an extremely cost-effective manner. New features and services – I’m Flexible, Split Stays, Categories, AirCover -- extend use cases for guests while encouraging new users to engage with the service. Most travel searches are focused on 100 of the top cities in the world, while AirBNB customers booked over 100,000 different locations in the last year. AirBNB doesn’t have a loyalty plan because it doesn’t need one. Most of its new guests are sourced through its direct marketing efforts and word-of-mouth referrals. The largest % of new hosts come from its pool of guests that have utilized AirBNB’s services as a customer.

Business Model

The crisis proved that AirBNB’s model can scale up very quickly to take advantage of opportunities created by changing behaviors. Even today, the unexpected massive rebound in travel has created shortages around the world that cannot be met by the traditional hotel industry at any price. AirBNB has no supply constraints -- it’s never been “sold out” resulting in lost revenue. Unlimited supply means ABNB should grow much faster than an industry that’s already expected to grow 10% annually through 2026.



Airbnb Inc. (TKR: ABNB)

Business Model (continued)

AirBNB's "asset lite" model creates a great deal of operating leverage for the business. Like many technology platforms, it has very low fixed costs and no large capital outlays to create or maintain capacity. Further, AirBNB does not rely on paid leads (like hotels). Rather it utilizes organic channels and leverages its direct brand recognition resulting in much lower cost of customer acquisition, leading to a steeper profit trajectory than previously anticipated pre-COVID.

Further, the business benefits from a "network effect". Guests become repeat users and host themselves. AirBNB finds more ways to attract hosts to the platform. And as the network gets bigger, their competitive advantage grows. As the COVID crisis demonstrated, the business model has some recession resistant features as well. During a downturn, more people need to monetize their homes (need supplemental income), which boosts host supply, reducing prices as travelers become more budget conscious.

This all results in better margins than the rest of the industry – approximately 30% EBITDA margins expected in 2022. And as the network effect has taken hold, massive free cash flows -- \$1.2 billion generated in Q122 vs. \$0.5 billion in Q121. Increasingly, the company has demonstrated greater financial and strategic discipline – focusing on profitable growth over market share at any cost, prioritizing perishable opportunities, and exiting business that are not performing. For example, in May 2022, AirBNB announced it would be leaving China -- the stock was hit hard as a result with many bemoaning the lost revenue opportunity. Looking more closely, we see the kind of discipline that suggest greater maturity and focus. China was a money loser and cash hog. The market is fragmented and characterized by heightened competition and price wars. Finally, the uncertainty created by China's zero-COVID policy made the business almost impossible to manage. However, AirBNB will still focus on serving the Chinese consumer – as they travel abroad, directly playing to their competitive advantage.

Behavioral Trends

COVID changed everything in the travel industry. Many of the current travel trends including staycations (excursions close to home), workcations (combining work and vacation), bleisure travel (business travelers extending trip duration for leisure activities) and digital nomadism (work remotely from anywhere) are a direct response to the COVID experience. AirBNB has benefitted from these trends and is poised for accelerated growth as:

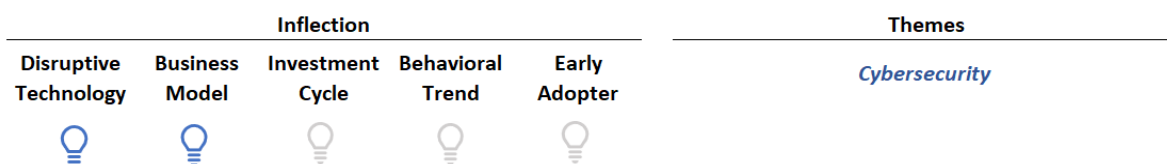
- Guests book longer stays. Hotels not so great for long stays – that's why we have homes.
- Leisure travel dominates. As business travel has morphed into new formats, it is now a tailwind for AirBNB and headwind for rest of industry. For hotels, business travel is still expected to be 23% below pre-pandemic levels in 2Q22.
- Guests diversify their destinations – Q122, top ten cities represented 8% of AirBNB's revenue, down from 12% two years ago.
- Cities / countries compete to attract remote workers. Redistribution of where people travel and live. More countries changing their visa and tax rules; roughly 36 countries currently offer some sort of digital nomad visa scheme



CrowdStrike Holdings Inc. (TKR: CRWD)

CrowdStrike is next-generation antivirus protection against all types of cyber attacks. It is a pioneer of cloud-delivered endpoint data security by being one of the first solutions to unify next-generation antivirus, endpoint detection and response (EDR), and a 24/7 threat hunting service — all delivered via a single lightweight agent.

- There is significant evidence that CrowdStrike is still in the early innings of its growth. First, on a global basis, CrowdStrike has only penetrated 35% of the Enterprise segment, 3% of the Mid-Market Corporate segment, less than 1% of the Small Business segment, and less than 1% of the Public sector segment. Second, cloud workloads are under protected.
- According to estimates from IDC and the company, 0.9% of the \$218 billion in total cloud IT spend in 2023 will be for cloud security.
- Frank Dickson of IDC suggests that an organization should spend between 5-10% of its IT budget on security – representing a 10x opportunity from here. As IT budgets expand, CRWD should be a primary beneficiary.
- Evidence points to CRWD’s ever-expanding total addressable market (“TAM”). At its IPO, CrowdStrike’s estimated TAM was \$25 billion. Today, the company sees this expanding to \$126B by 2025 with its current product roadmap and future initiatives.



According to Gartner, CRWD ranked #1 the last two years in the modern endpoint market with its market share almost doubling from 7.9% to 14.2% since CY2019. CrowdStrike was the first cloud-native, cybersecurity platform focused on stopping breaches across the enterprise.

Architecture matters – CrowdStrike’s sole platform, built in the cloud from the ground up, provides significant advantages including constant protection, continuous learning, and the ability to reuse data. Adversaries are constantly evolving in their methods, attacks are getting more sophisticated, and more vulnerabilities are being created in a remote-first world.

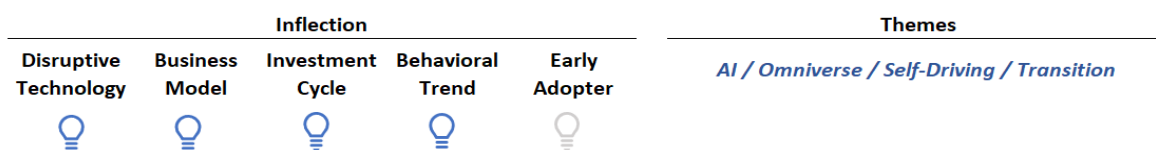
It is virtually impossible to track threats across trillions of signals per week without the benefit of artificial intelligence (“AI”) and machine learning. These processes get smarter as they consume more data. As CrowdStrike’s cloud grows, there are more endpoints/connections, more data, and more shared intelligence. This allows for more efficient training of algorithms, the sharing of threat knowledge across the system and quicker response to identified threats that first appear at endpoints -- all to the benefit of the entire ecosystem.

From the beginning, CRWD has refused to compromise on this design, forgoing on-premise business in the quest to provide a more agile solution and limit friction with its customers. So-called hybrid solutions that have developed to bring on-premise solutions into the digital age limit the speed of the development cycle and innovation – requiring two software versions to be maintained simultaneously. In contrast, CRWD’s approach is seamless, both in terms of onboarding and expansion. For new customers, CrowdStrike’s Falcon platform can be deployed immediately to solve issues without long deployment times. From there, CrowdStrike can demonstrate the platform’s breadth, functionality, and scalability to expand the use cases for the customer, often reducing security spend along the way. This creates a highly leveraged business model that continues to move into adjacencies. For instance, new “modules” are consistently added on top of the Falcon platform to deliver new features or to address new threat vectors. Currently, there are 22 modules, up from 10 at the IPO.

CrowdStrike expects \$5+ billion in ARR (Annual Recurring Revenue) by 2026, up from \$1.7 billion currently, as it continues to innovate, ride the secular trend, expand its TAM, gain market share and increase the share of wallet from its customers.

Nvidia is well known as a hardware provider of GPUs (Graphics Processing Units) for vivid, accelerated graphics inside of video games. Over the last several years, Bitcoin miners have been voraciously snapping up its chips to run algorithms due to their higher computing power and efficiency.

- Nvidia is becoming much more than a higher-end semiconductor manufacturer. They have been developing hardware and software ecosystems for three of the most important trends in computing: Artificial Intelligence (“AI”), the Omniverse, and EV/Autonomous Driving.
- The company is squarely at the forefront of technological innovation which has created a much larger total addressable market (“TAM”) -- now over \$1 trillion according to the company – and has opened up significant recurring revenue and margin expansion opportunities.
- An accelerating future is made possible by the large installed hardware base in the enterprise, which has taken seven years to build. And as the installed base continues to expand, growth can accelerate further through product extensions and software that stitches it all together.
- Nvidia recently announced the largest wave of new products in its history at its Investor Day on April 12th, 2022.



Artificial Intelligence. Software development in a world of artificial intelligence is very different from that in the past. Data centers are now “AI factories” and the AI development workflow is unlike anything that’s been done before. This complex process requires a harmonized experience among super-fast and cost-effective processing capability, efficient hardware interconnections to programmers/users, and flexible, scalable multi-purpose software. Particular use cases are changing industries in areas like logistics, automated checkout, loss prevention, fraud detection, and delivery optimization. Nvidia has developed more AI software than anyone in the business.

Omniverse. Building and simulating virtual worlds are essential for the next generation of AI. Today, everything is built and tested in the virtual world first often using a “digital twin” – a virtual representation that serves as the real-time digital counterpart of a physical object or process (Wikipedia). Then this virtually tested design is transferred to the real world (electrons to atoms) via the use of robotics. Digital twins must be kept in sync with reality through the use of sophisticated hardware and software and can be used to simulate the future or simulate multiple scenarios. Currently, there are 150,000 warehouses and 10 million factories all implementing automation, all eventually requiring a digital twin. In short, we need many more virtual worlds. Nvidia’s open-source AI ecosystem is the largest hardware and software integration platform enabling this transformation.

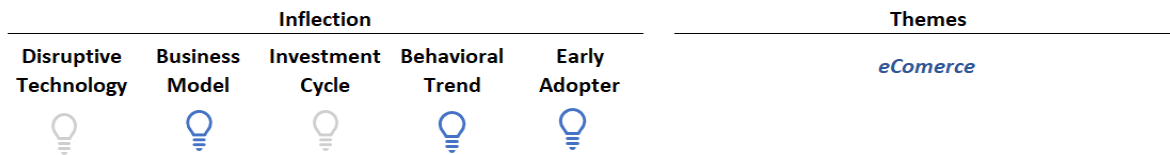
EV / Autonomous Driving. Nvidia describes autos as its biggest near-term opportunity. The move to electrification is creating software-defined vehicles that are recurring revenue software platforms for manufacturers. Tesla's autopilot service is a great example – as the experience has improved through data capture and AI, they have realized better pricing from \$5k to \$12k. The auto industry now realizes that, over time, the economics from software-defined services could be more important to their bottom lines than at the point of sale. Nvidia offers a full-stack autonomous driving platform, and its design-win pipeline has increased to \$11B, up from \$8B just a year ago. This presents a two-fold opportunity -- software scales with an installed base, while hardware scales on the sale of new vehicles. Due to the rapid adoption of EV technology, the Company expects the second half of 2022 will represent an inflection point for this segment as its installed base accelerates.

Most of Nvidia’s software platforms are open-source. Yet many customers have requested, and Nvidia is now providing, technical guidance to allow them to maximize the benefits of the overall platform. Another example is Nvidia’s GeForce Now service – a monthly subscription to receive Nvidia’s latest gaming GPUs as they become available. This pivot to software, service, and subscriptions will super-charge margins that have already expanded considerably. Last fiscal year, Nvidia’s margins expanded by 120 bps against a backdrop of supply chain issues, and since FY2018, by 1,000 bps from 37.2% to 47.2%.

Snowflake Inc. (TKR: SNOW)

Snowflake provides a common architecture for companies in all industries to migrate, manage and benefit from housing data in the cloud – the core infrastructure of a digital economy – regardless of the underlying source of that data.

- Snowflake is one of the fastest-growing software companies in history with an achievable roadmap to \$10 billion in revenue by 2029 (fully 5x 2022 expected revenue according to Bloomberg).
- In a technology-driven global economy, data is the new oil-fueling intelligent decision-making that extends growth, enhances productivity, and generates a higher return on spend in almost every expense category.
- The (1) massive shift in workload to the cloud, (2) growing data volumes and (3) data-driven decision-making provide significant tailwinds to a \$90 billion market opportunity that is rapidly increasing. Snowflake is at the epicenter of transforming data into value.



We are in the midst of a transforming world – a world where everything is smarter driven by data from hyper-connected machines. This requires a single platform, cross-cloud in nature. All companies, regardless of focus, are “retooling” to prepare for this reality. Legacy on-premise data solutions are expensive to maintain and “silo” data in a way that makes it difficult to access and utilize for decision-making. Data needs to be in the cloud and homogenized to be acted upon, especially for AI algorithms. This plays directly into Snowflake’s capabilities.

Interestingly, Snowflake is not a typical SAAS (software-as-a-service) provider. Snowflake utilizes a unique revenue model based upon data consumption (today, 93% of revenue is on this basis). The company recently moved from charging in hourly increments to selling compute time by the second. This creates a significant flywheel effect -- over time, a more efficient dataset and easily accessible architecture leads to processes being run more frequently, increasing consumption, and unlocking further use cases. Snowflake’s industry-leading net revenue retention rate of 178% in the most recent quarter demonstrates this point. But how can retention be higher than 100% -for Snowflake almost double the revenue a year after the inception of the relationship? The key to this outcome is the flywheel described above.

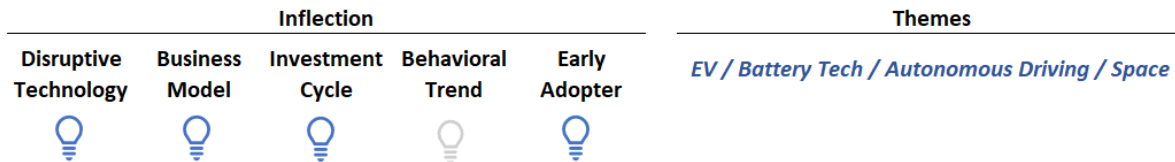
Further opportunities lie in a centralized marketplace for Snowflake’s customers (Snowflake Data Marketplace) that provides a safe environment to share data, algorithms, and business logic creating a new revenue stream for data creators and platform users. Today, these transactions happen outside of the platform. Snowflake’s newest innovation -- a “try before you buy” model -- allows users to validate partial datasets before purchasing the entire database. Further, venture capital firms are increasingly funding companies whose applications are built natively on Snowflake’s Cloud. These additional use cases for customers create a sticky relationship leading to a durable competitive advantage.

Finally, the security and governance features of Snowflake’s design needed to underscore the data sovereignty requirements crucial to coming changes globally to data security. Snowflake’s architecture and control features allow for the classification of data into what can be shared while anonymizing the viewing in a compliant manner.

All of this has led to attractive economics. Snowflake is meaningfully cash flow positive, generating \$102 million of adjusted free cash flow in the fourth quarter of 2021. In Q4 alone, they signed \$1.4 billion in contract value, more than the company’s total revenue from 2021. Further, Remaining Performance Obligations (“RPOs”) – a measure of deferred revenue pipeline – grew to \$2.6 million in Q4, up 47% sequentially and roughly double the year-ago fourth quarter. The company enjoys expanding margins – 1100 bps of product margin expansion is expected between FY2020 and FY2022 to above 70%.

Tesla’s mission is to accelerate the world’s transition to sustainable energy, and that is exactly what it is doing. From the start Tesla reimagined the ways a car company does business -- no dealer network; very little advertising spend; writing their own software code; and vertical integration. The company continues to be one step ahead of the competition by pushing the envelope in multiple areas including:

- Battery technology – its battery packs are much more efficient and have longer range and life.
- Energy storage – Powerwalls and Powerpacks, etc.
- Autonomous driving – more miles driven utilizing their system than anyone else.



Everyone knows Tesla. Historically, it may be the poster child for growth through technological disruption and innovation.

So, why own Tesla now? The most interesting catalyst is somewhat speculative – the eventual merger with SpaceX -- Elon Musk’s “other business” that is still in private hands. To put it simply, such a transaction would change the trajectory of the stock once again. There is no analogous publicly traded opportunity comparable to a public SpaceX. We speculate that even if SpaceX were to go public independently, Tesla would move higher.

It can also be argued that Tesla is a credible and effective early adopter, both in terms of seeing the long-term trend in EVs and building out its own charging network that emboldened other independent companies to aggressively build out their own. Tesla wasn’t the first electric auto manufacturer -- electric vehicles were being produced in the early 1900s. However, reimagining the manufacturing process from the ground up without the baggage of legacy combustion platforms that have slowed the electrification of the larger auto companies has been a distinct advantage. As a result, it is said that Tesla can produce one car every 45 seconds at its new plants. This has significantly enhanced efficiency and increased margins at scale.

Elon Musk recently suggested over Twitter that Tesla may have to get into the mining and refining of lithium to ensure supplies of critical materials for its batteries. Some would say -- just another distraction. Tesla’s successful vertical integration of battery technology at its Reno Gigafactory and its recent experience navigating supply chain issues better than any other automaker suggests that this kind of forward-thinking is crucial in a resource-constrained world. By retaining control of software development, Tesla was able to rewrite the software so they could replace chips in short supply with those that were more widely available.

Tesla is just coming out of a heavy investment cycle, spending massively to build new, more efficient plants closer to its end markets and to invest in new technology. Its CAPEX spending in 2021 was 2x its spending in 2020 and 5x its spending in 2019. On March 23rd, Tesla opened a Gigafactory in Germany, followed quickly by another opening in Austin, TX on April 8, 2022, that is by some accounts the largest factory in the world by volume. Rumor has it that two additional plants will be announced soon. And Tesla has an aggressive roadmap that includes Cybertruck, the Tesla semi, a new Roadster, and even a RoboTaxi.

Important Disclosures

Past performance may not be indicative of future results and the performance. Investing in the stock market involves gains and losses and may not be suitable for all investors. Different types of investments and/or investment strategies involve varying levels of risk, including loss of principal, and there can be no assurance that any specific investment or strategy will be suitable or profitable for a client's or prospective client's portfolio. Accordingly, no client or prospective client should assume that the above portfolios (or any component thereof) serve as the receipt of, or a substitute for personalized advice from Validus, or from any other investment professional. The potential for profit is accompanied by the potential for loss.

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Validus offers separate account management, investment management services to institutional clients, including public and private pension plans, endowments and foundations, independent RIA's, and high net worth individuals. Validus also provides model portfolio strategies, in a sub-advisor capacity to certain investment advisory programs, including Unified Managed Account (UMA) programs.

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