

Together. **Adventure.** Growth.

The little *purple one*

Many great ideas start with a gripe

Great business ideas are often born out of customers' pain points. When Tobi Lütke wanted to sell snowboards online he was frustrated by the e-commerce software available, which was clunky and expensive. He wrote his own, and that software became Shopify. Zoom came about because Eric Yuan was frustrated by having to take a 10-hour train ride just to have a face-to-face conversation with his girlfriend.

This quarter, we would like to share the story of one such pain point, and the idea it sparked that grew into an incredible company. We are so excited about it that you will now find it among the top 10 holdings of the Granate FR Balanced Fund and the Granate FR Flexible Fund.

Five months to open a bank account

It was 2012, and a smart young Colombian-born Stanford student named David Vélez was working part time for the US-based venture capital firm Sequoia. Brazil was emerging as an exciting market, and his job was to help Sequoia find interesting Brazilian startups to invest in. His search turned up mostly copy-cat companies pitching themselves as the 'Uber of Brazil' or the 'Groupon of Brazil'. Original, investable ideas were in short supply. After two fruitless years, Sequoia abandoned the Brazilian treasure hunt, though not entirely in vain. They had unearthed a gem in Vélez himself and offered him a well-paid job at Sequoia in California. They were, however, to be disappointed again, because he turned it down. Somewhere in those two years, Vélez had realised that he wanted to be the founder rather than the funder. His passion for Latin America meant he wanted to try his hand on the continent he loved, so he chose unemployment and the search for an idea over country clubs and cocktails.

In his early days in Brazil, Vélez needed to open a bank account, which should have been a simple task. Instead, he was struck by how painfully cumbersome the process was: hours in a bank branch filling out paper forms, followed by more than five months of waiting before the account was finally opened. At the time, a handful of large banks dominated the Brazilian banking system. They were slow-moving technology laggards that charged high fees and cared little about the customer experience. Vélez realised that customers were being poorly served by the incumbents, and that many Brazilians remained financially excluded as a result. At the same time, data and smartphone access were expanding in Brazil, opening the door for technological change. Here was the pain point, and with it the idea for Nubank: "a new bank that was fully digital, that would put the consumer front and centre."

A banker, a coder and a dreamer

With the backing of Sequoia, Vélez founded Nubank in 2013 alongside two superb cofounders who brought the local banking experience and tech expertise he needed. The first was Cristina Junqueira, who had spent her early career in the credit card division of Itaú Unibanco, one of the largest banks in Brazil. She had been working on technology projects within Itaú, pushing to improve things, but had grown frustrated with the bank's bureaucracy and resistance to change. That willingness to challenge the status quo, coupled with her credit experience, made her a natural fit at Nubank. The second was Edward Wible, an unlikely young hire from a private equity background, who took charge of Nubank's technology stack. Vélez describes Ed as a 'human learning machine', someone who thought completely differently about how technology should be built.

Lean machines and loyal fans

Two core features of Nubank's initial approach have been key to its success. The first was being digitally native and tech led. Nubank allowed customers to sign up and do all their banking from their phones, which was completely novel in Brazil at the time. Being a fully digital bank built on world-class technology gave Nubank a structurally lower cost base than the incumbents and the ability to move much faster. It also allowed them to get to know customers quickly and build robust credit models. It is extremely hard for an incumbent bank, with its big offices, branch networks, and clunky old systems, to compete with a nimble challenger whose costs are structurally so much lower. We have seen this model work elsewhere, at Interactive Brokers (also in the top 10 of the Granate FR Balanced Fund and Granate FR Flexible Fund), which offers global trading at by far the lowest rates in the market while remaining extremely profitable, thanks to a highly automated and efficient business.

The second feature is customer centricity. In their own words, "We want our customers to love us fanatically." You can see it in their product offering, user-friendly technology, low fees, and focus on excellent customer service. Not only did this create the traction needed to lure customers away from the incumbent banks, but it also brought over 30 million unbanked Brazilians into the financial system. That loyalty proved its worth a few years into the journey, when Nubank faced a potentially damaging regulatory change to credit card settlement times. Customers who had experienced the novelty of being treated well by a financial services company took to social media and successfully persuaded the regulator to halt the change. It is not often you see customers go to bat for their bank.

How a little purple card grew up

Nubank launched in 2014 with its first product, a credit card that charged no annual fees and competitive interest rates. It was also purple, earning it the nickname Roxinho, meaning 'little purple one'. This was a simple but important choice. The card caught people's eye and got them talking, driving referrals without Nubank needing to offer incentives. That word-of-mouth growth was core to its success, as it meant it spent very little to acquire new customers. Rewards programmes followed in 2017. From 2018, the bank began offering a no-fee digital account (NuConta) paying 100% of the Brazilian Interbank rate on balances, a much better deal than anything else available at the time. From there, it added debit cards, personal loans, and a range of life insurance and investment products. By the time Nubank listed in December 2021, it had already grown to over 50 million customers. Today, it has 118 million customers in Brazil alone, predominantly in the mass market sector, with growing inroads among higher-income earners.

Why the best chapters may still be ahead

While Vélez's achievement is extraordinary, you may be wondering why Nubank shares make a good investment at this stage of its journey. We have three main reasons. Firstly, Vélez and Junqueira remain at the helm, are still young (Vélez is only 45), and together own 20% of the business. This creates meaningful alignment between management and shareholders. You will see this pattern of insider ownership repeated across many of the names in our portfolio – Capitec, Interactive Brokers, OUTsurance, and Tencent among them – because we believe that when management think like owners, they make better long-term decisions. They invest sensibly for the future rather than chasing short-term performance metrics.

Secondly, while it banks a large share of Brazil's population, Nubank's share of the overall profit pool remains small. Average revenue per customer continues to grow nicely as it adopts new products, and there is plenty of room left in areas like insurance, savings, and cellular products. It is also steadily growing the share of customers who choose Nubank as their primary bank, particularly among higher-income earners. We have watched this platform model play out locally at Capitec, which described itself on its most recent earnings call as *'a technology company with a banking licence'*. One can think of Nubank in much the same way. Many attractive profit pools in financial services remain ripe for the picking by a low-cost, nimble challenger, and Nubank now has a massive customer base to offer them to. Like Capitec, it is also gradually moving into business banking for SMEs.

Thirdly, there is the opportunity to repeat the Nubank playbook outside Brazil. Nubank launched in Mexico with credit cards in 2020 and began offering savings products in 2023. Having secured a banking licence, it began operating as a full bank this year, which lets it take deposits and so access cheaper funding to



grow. With 16 million customers, it is already the largest digital bank in Mexico, and revenue there is growing much faster than it did in the early days in Brazil, thanks to a brand that is now widely known. Mexico is underbanked and still a cash-heavy economy, which presents an opportunity for the same wave of digitisation and financial inclusion we saw in Brazil. Nubank is also gaining traction in Colombia; fittingly, Véléz's country of birth. It recently launched in the USA, where it has secured a banking licence, offering a high-yield savings account, a no-fee credit card, and fast, fee-free domestic and international transfers. Every country comes with its own nuances and risks, but there are many markets with the same pain points, and a low-cost, tech-forward, customer-centric bank is well placed to solve them.

The little purple one, all grown up

Nubank clears our investment hurdles: a highly capable and aligned management team, sound governance (albeit with a controlling stake), a healthy balance sheet, and a long runway to keep compounding for years to come. Over the past 12 months, profits grew by more than 50% year on year, yet the shares trade well below what we believe is a reasonable valuation for a company growing like this. It is for these reasons that it sits comfortably alongside the other high-quality businesses in our top 10. Not bad for an idea born out of a stack of paper forms and five months of waiting for a bank account. It remains a joy to find, get to know, and invest in businesses like this on your behalf.



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