Otodus
GLOBAL

Letter to Partners — July 2026

Dear Partners,

It has been 4 years since the Fund began operations. How have we done? We have compounded at a rate of 19.15% per year and 101.53% since inception. Net of fees, of course.

Have we done well? Absolutely. Compounding at 19.15% per year means that capital multiplies by a factor of ~5.8 every decade, and by 191 times in a 30-year period. That is our mission and how we feel we will add most value to our Partners in the Fund.

Can we do better? Yes. Our largest lessons have come from errors of omission – opportunities we understood well enough to act on but let pass – and those lessons have made us sharper. Our experience since inception means that we now feel more confident investing when our analysis shows we are right; even if, and especially when, the market disagrees with us.

Our Investment Process

Reasoning from first principles means we evaluate every stock as if it were a bond. The stock's "coupon" is its normalized net earnings, whether paid out by the company or retained. The hard part is judging three things: (1) whether those earnings will grow or shrink; (2) whether they are sustainable; and (3) the credit risk of the enterprise itself.

Every now and then the market offers an A-rated company paying a 20% coupon while an equivalently rated bond pays 4%. It is rare, but it happens. Our job is to be competent enough to spot these opportunities, honest enough to evaluate them, and brave enough to buy and hold at the discounted price. That is what generates outsized returns over time.

AI, and the Lack Thereof, in Our Portfolio

According to Morgan Stanley and J.P. Morgan, "AI's grip on the S&P is total: roughly 75% of the index's return, 80% of its profits, and 90% of its capital expenditures since 2022 are attributable to AI-related stocks."[1] Is this sustainable? We doubt it. But the claim deserves more rigor than a slogan, so let us walk through the numbers.

Start with the sheer size of the spending. The four largest hyperscalers — Amazon, Microsoft, Alphabet, and Meta — have guided to roughly $725 billion of capital expenditure in 2026, up 77% from about $410 billion in 2025.[2] Add Oracle, the GPU "neoclouds," China's platforms, and sovereign programs, and total AI-related capex this year approaches $1 trillion — the first trillion-dollar year of compute spending in history.[3] Goldman Sachs' baseline model has this growing to $1.6 trillion per year by 2031, some $7.6 trillion cumulatively.[4]

Now consider Nvidia, the prime collector of these dollars, valued at roughly $5.1 trillion. Over the last twelve months the company earned about $160 billion of net income on $253 billion of revenue — a 63% net margin — putting the stock at roughly 32 times trailing earnings. That is not, on its face, a bubble multiple; Cisco changed hands at more than 100 times earnings in March 2000. The danger here is not the P. It is the E.

Treat the stock as a bond, as our process demands, and ask what coupon the price requires. For Nvidia to trade at a sober 15 times *normalized* earnings, it must earn roughly $340 billion per year — sustainably. At its extraordinary, arguably peak-of-cycle margins, that means capturing and keeping some $550 billion of annual revenue, indefinitely, against customers who are all designing their own chips to escape it. Put differently: the trillion-dollar capex year of 2026 must turn out to be the floor, not the peak.

Might it? Perhaps — we hold our skepticism with humility, and skeptics of great capex booms are usually early. But note what must hold for the floor thesis to work. The buildout is increasingly funded with debt: the hyperscalers raised over $100 billion in

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[1] "AI's grip on the S&P is total" — Morgan Stanley and J.P. Morgan research, as reported in Fortune, October 7, 2025: https://fortune.com/2025/10/07/ai-bubble-cisco-moment-dotcom-crash-nvidia-jensen-huang-top-analyst/

[2] Combined calendar-2026 capital expenditure guidance of Alphabet, Amazon, Microsoft, and Meta, as compiled by the Financial Times from Q1 2026 earnings reports.

[3] Bottom-up estimate: ~$725bn Big Four + ~$50bn Oracle + ~$13bn Apple + ~$60bn neoclouds + ~$80bn China + ~$60bn sovereign programs + ~$48bn other ≈ $1.04 trillion. See "The AI Capex Map," The Business Engineer, May 2026. TrendForce separately estimates ~$830bn for the top nine cloud service providers alone.

[4] Goldman Sachs Global Institute, "Tracking Trillions: The Assumptions Shaping the Scale of the AI Build-Out," 2026. Baseline model: $765bn of AI capex in 2026 rising to $1.6tn annually by 2031, ~$7.6tn cumulative across compute, data centers, and power.

bonds in 2025 alone, with more than a trillion projected to follow, while free cash flow at the buyers compresses toward zero.[5] And the demand underwriting it is astonishingly concentrated: of the roughly $2.1 trillion revenue backlog sitting at the four largest U.S. clouds, about half comes from just two counterparties — OpenAI and Anthropic — both of which burn cash at a prodigious rate.[6] Enterprises with deeply negative free cash flow, some valued near or above a trillion dollars in private markets, are committing to buy compute by the hundreds of billions. Coupons paid out of borrowed money, promised by customers who do not yet earn their keep, do not meet our definition of sustainable earnings.

So, we make no forecast of when, or even whether, this ends badly. We simply observe that at these prices the market is no longer asking *whether* the AI buildout succeeds; it is assuming that it succeeds, persists, and accelerates — all three, simultaneously, for years. That is not a bet we need to make. There are other fish in the sea, and we own them at prices that assume far less.

One fish we let swim past deserves mention. In June, SpaceX — which, having absorbed xAI and X, is now as much an AI company as a rocket company — came public at roughly $1.75 trillion, nearly one hundred times trailing revenue, in the largest offering in history.[7] The bull case leaned on a comforting fact: operating cash flow is positive — $6.8 billion last year, flattered by Starlink subscriptions billed up front. That framing simply ignores the $20.7 billion of capital expenditure sitting one line below, and we find the omission extraordinary. In a business of building rockets, replacing satellites that deorbit within five years, and now stacking GPUs that depreciate faster still, capex is not a detail below the line; it may be the most important line item in the entire financial statement. Run our bond test and the coupon is negative: $14 billion of free cash outflow in 2025 and another $9 billion in the first quarter of 2026 alone, the gap bridged with fresh debt and equity. With Nvidia the debate is at least about the durability of the E; here there is no E to debate. That the shares have since slipped below the offer price proves nothing in five weeks of trading — the arithmetic was available in the prospectus.

We hold it to be self-evident that if something cannot go on forever, it won't. When others conduct their affairs with less prudence, we must conduct our affairs with more; and

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[5]Hyperscalers raised ~$108bn of debt in 2025, with projections of well over $1tn of issuance over the coming years; capital intensity has reached 45–57% of revenue. CreditSights; IEEE ComSoc, December 2025.

[6]The four largest U.S. cloud providers hold roughly $2.1tn of revenue backlog, of which approximately half is attributable to commitments from OpenAI and Anthropic. The Information, May 2026.

[7] SpaceX Form S-1 (May 2026) and Q1 2026 results: operating cash flow of $6.8bn against capital expenditure of $20.7bn in 2025; $1.0bn against $10.1bn in Q1 2026. The offering priced June 12, 2026 at $135 per share, a ~$1.75tn valuation, raising $85.7bn including the overallotment — the largest IPO in history. Company filings; CNBC, June–July 2026.

when others are this greedy, it is probably time to be fearful. We admire the engineering, applaud SpaceX's achievements, but pass on the stock.

AI Inside Otodus

None of this makes us Luddites. We have already incorporated AI into our due diligence process. It does not substitute for our investment judgment, but it does help us scan texts and documents to spot what we might otherwise miss. We can run agents through years of annual reports, earnings calls, and filings across dozens of companies we would never have the hours to cover — surfacing value traps, buried balance-sheet items, and threads worth pulling. It augments our productivity. We do not, however, trust it blindly. Our own research, reading, and critical thinking remain the definitive steps in the process.

Which begs the question: will AI replace us at what we do? We have tried, unsuccessfully, to build an AI investment agent capable of replacing us. Our failure may be due to (1) our own lack of technical ability; (2) it simply being too early; or (3) AI being unable to replace what we do. We believe the third is most likely. Large language models are, at bottom, magnificent consensus machines: they interpolate from everything that has been written, and everything that has been written is, almost by definition, already in the price. Our returns come from the two things a consensus machine cannot supply — a variant view held with genuine conviction, and the temperament to sit still, sometimes for years, while the market disagrees with us. AI can sharpen the analysis. It cannot take the pain.

Housekeeping

The Partnership has grown by a factor of 76 since June 2022. As our Partnership continues to grow, so does our commitment to keeping you informed. Beginning with this letter, our Portfolio Manager's letter will be published quarterly, providing a more frequent and structured update on our performance, portfolio, and outlook.

In addition to these quarterly letters, our Investor Relations team will remain in regular contact throughout the year and will always be available to answer your questions or discuss any aspect of the Partnership.

As always, we are deeply grateful for your trust and partnership.

Sincerely,

Lucas Koelle

Founder & Portfolio Manager

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