The Golden Rule

There is an old saying that he who has the gold makes the rules. Four of our largest holdings are Microsoft, Google, Amazon, and Meta, and together they possess more earnings power than perhaps any group of companies in history. They have the gold, and they have made a decision that we believe will define the next decade of returns: **they are investing it in the future.**

For the month of June, the Fund declined approximately 2.3%, though we remain up on the year. This came despite a month in which our core technology holdings experienced significant pullbacks:

- **Microsoft:** −17.2%
- **Amazon:** −11.9%
- **Meta:** −10.9%
- **Apple:** −7.3%
- **Alphabet:** −6.1%

Our diversification into Berkshire Hathaway (+5.4%), JPMorgan (+9.4%), Visa (+5.1%), and Mastercard (+4.0%), combined with contributions from companies from the visualizer, absorbed the impact exactly as designed.

To appreciate the current opportunity, consider how far these stocks have fallen from their all-time highs and the multiples at which they are now valued:

Company	Decline from ATH	Forward / Current-Year Multiple
Microsoft	31.2%	19.1x forward earnings (below the S&P 500)
Meta	28.7%	13.8x forward earnings
Nvidia	14.1%	18.7x current-year / 13.9x next-year earnings
Amazon	13.4%	20.0x forward earnings
Alphabet	11.2%	22.4x forward earnings

The valuations bear dwelling on. Meta - which, after Nvidia, has arguably monetized AI more effectively than any public company - trades at just **13.8x** forward earnings. And Nvidia, the company building the infrastructure for the most transformative technology shift in a generation, trades at only

18.7x current-year earnings and **13.9x** next. These are not speculative companies that missed expectations; they are the most profitable businesses on earth, and every one of them reported phenomenal earnings just weeks ago. **Nothing changed about these businesses; the only thing that changed is the *price.*** And the prices they now trade at are, in our view, extraordinarily cheap. **These are businesses growing earnings considerably faster than the broader market, now available at or below the market multiple.**

The market's frustration, as we understand it, centers on capital expenditure. Microsoft, Google, Amazon, and Meta make up roughly 40% of our portfolio, and they are collectively investing hundreds of billions of dollars in data centers, GPUs, and AI infrastructure. Make no mistake: this spending has compressed free cash flow in the near term, and these companies are not generating much of it this year. **They have made a deliberate decision to trade today's gold for tomorrow's infrastructure.**

We applaud this decision, and we understand why the market has recoiled. Microsoft in particular has been caught in two crosscurrents at once: the fear surrounding hyperscaler capital spending and a broader investor flight from software multiples. We understand the mechanics of the selloff perfectly well, but we do not accept its verdict. **To wipe trillions of dollars from these companies' combined market capitalization is to conclude that something has gone wrong, and *nothing* has.** They did not lose a customer, they did not miss an earnings estimate, and they are funding this build overwhelmingly from their own cash flow rather than by mortgaging their future. Alphabet's modest equity raise, immaterial against its market value, is the lone exception. They chose to invest their own profits in their own future, which is the very definition of prudent capital allocation. ***He who has the gold makes the rules, and these companies have the gold.***

There is also an irony that we believe is worth noting. The S&P 500 is up this year, and that performance is almost entirely attributable to the semiconductor sector—the companies on the receiving end of the hyperscalers' investment. Wherever the gold has flowed, stocks have risen dramatically, with semiconductor names appreciating 100% to 1,000% in some cases and the SOX index serving as essentially the sole driver of the market's gains. We have been fortunate to own Micron, Lam Research, and TSMC, and have reduced those positions over the first half of the year. But the irony is hard to miss, as the market is celebrating the recipients of the gold while punishing the companies generating it. It is punishing them for one reason: they are trading today's gold for a future earnings stream the market has yet to believe in. We are comfortable with that trade, because these companies are no longer sitting on their gold; they are spending it on the future, even as they continue to generate more of it with every quarter that passes.

Perhaps the most striking illustration of this disconnect is SpaceX, which recently began trading with a $2 trillion market capitalization, valued primarily on the thesis that orbital data centers will be a meaningful business three to six years from now. We wish them well, but consider the contrast: data centers in space, years away from generating revenue, are celebrated with a $2 trillion valuation, while data centers on the ground, built by the most profitable companies in history and already processing the world's compute workloads, are somehow held responsible for destroying trillions in market value. **The market is assigning more value to the promise of orbital infrastructure than to the reality of terrestrial infrastructure.** We believe that disconnect will resolve itself.

We have written previously about the difference between GAAP and cash accounting as it applies to these businesses. To reiterate: under current rules, the capex being deployed today can be written off for tax purposes in just three years. When the spend slows—which the companies control entirely—free cash flow will lap GAAP earnings on the upside while the accumulated depreciation shields tax obligations for years. **This is not speculation; it is *arithmetic.***

Morgan Stanley's lead strategist this week called for a rotation from semiconductor stocks into the hyperscalers, noting that capex expectations may begin to soften. We agree with that view, and we believe the market is beginning to recognize what we have seen for some time: **these companies have not destroyed value, they have invested it.**

All that glitters is not gold. The market is paying up for what glitters today—the promise of data centers in orbit and the semiconductor names that have already run—while it overlooks the real gold taking shape on the ground. **We are convinced that those terrestrial data centers will prove to be among the most valuable assets of the coming decade, and we intend to own the companies building them.**

We remain fully invested and genuinely optimistic about the second half of the year, because the setup is, in our view, as attractive as anything we have seen: profitable monopolies, compressed valuations, the cash flow inflection ahead of them, and a market that has already priced in the fear. We do not know when the market will re-rate these businesses, but we know that earnings and free cash flow determine share prices over time, and the trajectory of both is firmly in our favor.

As always, thank you for your continued trust and patience. We remain fully invested alongside you and look forward to next month's communication.

Sincerely,

Steven Tuchner
Founder & CIO

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