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"The most contrarian thing of all is not to oppose the crowd but to think for yourself."-Peter Thiel

8th of July 2025

Dear Clients and Friends,

Our stocks generated good performance in the second quarter. With macroeconomic and geopolitical uncertainty high, our companies' strong management and resilient business models are key assets. We are encouraged by the innovation and execution across our portfolio, positioning our holdings to successfully navigate short-term uncertainty and generate long-term earnings growth.

MARKET REVIEW

Markets swung wildly in the second quarter. In April, investor worries about tariffs and trade wars dominated investor sentiment. In May and June, hopes of trade deals and lower interest rates spurred a strong recovery. For the quarter, the S&P 500 rose 6.2%, while the Russell 2000 declined 1.8%.

As we often note, we do not try to predict the near-term direction of the stock market or the economy. As Warren Buffett once said, "forecasts tell you a great deal about the forecaster; they tell you nothing about the future." Experience has taught us that our time is best spent identifying and owning resilient, durable companies with the business models and balance sheets necessary to thrive in a variety of economic scenarios.

We believe that our philosophy of investing in businesses with management who own stock in their companies, and think like business owners, serves us well in the current environment. Managers with ownership have a particular mindset that makes them well suited to the prevailing conditions. They focus on maintaining profitability, without compromising on long-term growth investments. They obsessively focus on customer satisfaction and are uncompromising on product quality, even if it would benefit short-term performance. Lastly, they prioritize a strong balance sheet and carefully watch costs to maintain flexibility and financial strength amidst volatile capital markets. The ownership mentality aligns our interest with management, underscoring our confidence in our portfolio.

PORTFOLIO REVIEW

Across our holdings, the companies continued to demonstrate strong business momentum:

CHARLES SCHWAB (SCHW) - $92

Schwab's new management continues to build on Schwab's scale and trusted brand name in financial service to improve profitability. In Q1 2025, revenue was up 18% year-over-year, and earnings per share grew 41%. Schwab grew its asset base, with total client assets increasing 9% to reach $9.9 trillion. Schwab's growing suite of services appeals to a wide base of retail and institutional clients, positioning the company to grow assets under management and profitability for many years. By 2026, we believe that Schwab could earn $5.20/per share and be valued at $120/share.

DISNEY (DIS) - $122

Disney grew revenue 7%, and earnings per share 20%, in the second fiscal quarter, furthering a trend of improving financial performance. Of note, the domestic theme park and experiences segment grew operating income 13% to $1.8B, demonstrating the resilient demand for Disney vacations. In May, Disney announced the planned opening of its seventh global theme park in Abu Dhabi in the United Arab Emirates, allowing Disney to reach an estimated 500m people in the region. Disney remains well positioned to achieve its projected double digit EPS growth in 2027 and 2028. We believe that Disney's widening competitive moat, supported by its unique combination of irreplaceable intellectual property and global theme parks, should drive multiple expansion. By 2028, we believe that Disney could earn $7/share and be valued at $175/share.

SPOTIFY (SPOT) - $722

Spotify built on its global lead in streaming audio entertainment, while also exhibiting healthy profit growth. Spotify finished Q1 2025 with 678m monthly active users, up from 615m in Q1 2024. Operating income totaled 501m euro, up from 168m last year, demonstrating the potential to grow profitability with increasing scale. A recent survey by the investment bank, Evercore ISI, revealed that Spotify is widening its lead as the preferred music app among customers in the US and UK, two valuable markets. Spotify is the rare business with leadership in an immense and growing end market, dramatically improving economics, and a service that customers love. With its expanding user base, improving margins, and strong customer loyalty, we believe Spotify is well positioned to compound earnings and deepen its competitive advantage for many years to come.

CVS HEALTH (CVS) - $67

CVS's new management team demonstrated good progress improving performance in its health insurance business, a key driver of earnings growth. In Q1, CVS's health insurance segment's operating income increased by $1.3B to $1.9B, driven by member growth and better cost management. With earnings per share still well below prior-year levels, we see meaningful room for profitability growth. At ~10x estimated 2026 earnings of $6.84/share, we believe that the shares remain inexpensive.

POST HOLDINGS (POST) - $107

Post, a diversified consumer packaged foods company that owns iconic household brands such as Bob Evans, Fruity Pebbles, and Peter Pan peanut butter, raised its operating earnings guidance for fiscal year 2025 to $1.45B, which is noteworthy given the difficult backdrop for consumer goods companies. Post is also aggressively repurchasing its own stock, buying back ~5% of the shares outstanding through the first six months of the year. We believe that Post's management is buying back stock because they see value in their shares. The combination of operating earnings growth and share repurchases can produce sustained earnings per share growth for the foreseeable future. Post remains cheap at ~10x projected 2025 free cash flow.

NEW POSITIONS

PVH CORP (PVH) - $74

PVH is an apparel and accessories company that owns two iconic fashion brands, Tommy Hilfiger and Calvin Klein. Calvin is known for its classic minimalist aesthetic and is particularly strong in jeans and underwear. Tommy's sensibility is American prep; the brand is strong in denim and outerwear. Tommy Hilfiger was founded in 1985, and Calvin Klein was founded in 1968, underscoring the staying power of each brand. In 2024, PVH generated $8B in sales and $770m in operating profit.

PVH's stock has been under pressure in 2025 due to concerns surrounding higher sourcing costs for apparel companies with Asian supply chains, and overall worries about consumer discretionary spending. Investor fears have resulted in PVH trading at ~6.7x E2025 earnings of $10.80/share, a valuation that reflects a meaningful discount to peers and to the overall market. We believe that this is an attractive price for a well-managed, profitable branded consumer company.

We feel that PVH has the management team and business model to successfully navigate near-term challenges related to supply chains and tariffs. CEO Stefan Larson is a seasoned retail operator with experience at H&M, Ralph Lauren, and Old Navy. Mr. Larson is regarded as a skilled supply chain manager, and he has assembled a strong team over the last two years. Perhaps as a testament to his confidence in the business, Mr. Larson recently personally bought $1m in stock in the open market.

Consensus earnings estimates project that PVH will earn $12/share in 2026. We believe that PVH should trade at least 10x earnings given the proven history of profitability, durability of the brands, and quality of the management team, resulting in a stock price of $120. If PVH was valued like best-in-class peers, the stock could be worth between $140 and $160/share.

CENTENE (CNC) - $33

Centene is a health insurance provider that administers government sponsored health insurance plans. Centene has a proven history of profitability and deep experience in a complex and dynamic industry. Health insurance companies have had a challenging 2025 as an uncertain regulatory environment has made it difficult for investors to project performance. Centene has had a particularly challenging 2025 as unfavorable short-term business trends caused a very large downward revision in earnings. At the current price, the stock trades at approximately 5.5x our estimate of normalized earnings of $6/share.

We believe that Centene has the scale, experience, and people necessary to navigate the acute short-term challenges and regulatory uncertainty. Centene employs nearly 50,000 people, generates close to $160B in revenue, and operates on 1.5-2% net profit margins. This scale and efficiency create high barriers to entry, giving Centene a defensible position in the complex health insurance market.

Centene's earnings are temporarily depressed, and we believe will recover in 2026 and 2027 as management takes corrective pricing action and continues to manage costs. By 2027, we believe that Centene could earn 7-$8/share and be valued at 70-$80/share.

We remain focused on identifying great businesses with aligned management teams and enduring competitive advantages, and we thank you for your continued trust in our long-term approach.

Sincerely,

Ben Weiss, JD
Chief Investment Officer

Tom Eidelman, CFA
President

DISCLOSURES