
 HAYDEN CAPITAL

QUARTERLY LETTER

2026 | Vol.1

May 28, 2026

Dear Partners and Friends,

It's been a challenging few months for the portfolio. The market is wrestling with two concerns simultaneously: potential AI disruption to incumbent business models, and slowing global growth driven by the Iran War and resulting spike in energy prices.

Time Period	Hayden (Net) ¹	S&P 500 (SPXTR)	MSCI World (ACWI)
Q1 2026	(28.3%)	(4.3%)	(2.2%)
2026 YTD	(28.3%)	(4.3%)	(2.2%)
Annualized Return	11.2%	12.7%	9.8%
Since Inception	234.5%	291.1%	191.0%

As a result, businesses seen as either digitally exposed or economically sensitive are being heavily punished. Internet and fintech businesses – which are the majority of our portfolio – happen to sit squarely in both camps, leading to our recent under-performance.

That said, while drawdowns are never pleasant, they're a normal part of the investment journey (see below). In fact, our portfolio seems to experience 20 – 30% declines at some point in almost every calendar year, typically when external shocks negatively impact market sentiment². It's to be expected for a concentrated, tech-heavy portfolio like ours. And we've also lived through enough of these episodes to recognize them for what they are – temporary. Historically, the portfolio recovers once the macro clouds disperse.

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While our corner of the market has been sold, capital has been rotating aggressively in the opposite direction – into anything tied to the AI infrastructure buildout.

¹ Hayden Capital returns are calculated net of actual fees directly deducted from client accounts, for the period from inception (November 13, 2014) to December 31, 2020. Starting on January 1, 2021, reported performance is reflective of a representative account, managed in accordance with Hayden's strategy with no client specific investment guidelines or limitations, made no subsequent investments or redemptions, and remains invested. The representative account paid a management fee of 1.5% and incentive fees of 0%. Clients who elect the performance fee option for their accounts may pay higher fees and therefore realize lower net returns, during years of strong investment performance. Individual returns may vary based on timing of investment and your specific fee schedule. Performance results are net of expenses, management fee and incentive fees. Past performance is not indicative of future results. Hayden Capital launched on November 13, 2014. Performance for both Hayden Capital and the indexes reflects performance beginning on this date.

² This has been a consistent pattern even outside of our more challenging periods like 2022 — for example, we've navigated drawdowns of -33% in 2018 (Rising Rates, US-China Trade Tensions), -28% in 2020 (COVID), -18% in 2023 (China Market Jitters), -19% in 2024 (Yen Carry Trade Unwind), and -31% in 2025 (U.S. Tariff Shock).

Even a war hasn't been enough to stop the nearly *trillion dollars* in *annual* spending being funneled from the mega cap technology companies to the “picks & shovels” semiconductor and hardware makers around the world.

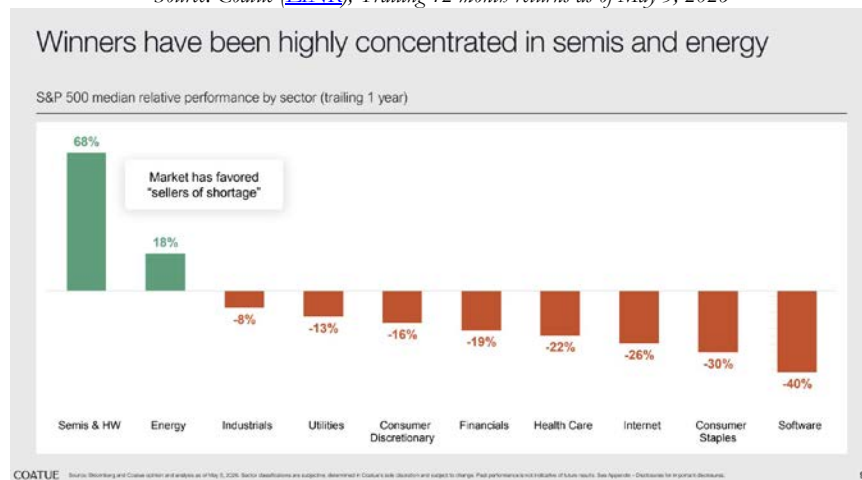
This has turned once commoditized chip makers into coveted “bottlenecks” in the AI-trade. Semiconductors (SOXX) are up +76% YTD and continue to propel the majority of the market's gains year-to-date³. The memory companies (like Micron and SK Hynix), have been the poster children of the move, going parabolic with +100% moves in the last few weeks alone (and over +700% in the past year).

To be fair, earnings have grown tremendously, as these companies push through price increases and margin expansion to meet insatiable demand. But has the industry really transformed from a notoriously cyclical industry into a secular grower with pricing power⁴? Has TSMC's restraint in building new capacity really prevented us from a bubble this time? And will end-user demand ramp quick enough to justify all of this infrastructure once its built?

I honestly don't know... but with some stocks going vertical and given how high expectations have already climbed, I think it's just too hard a game for us to play right now. It would have been different if we'd invested two or three years ago, and the bar was lower, but alas I wasn't smart enough (hindsight is brutal...).

The AI Trade Is Dominating Market Returns

Source: Coatue ([LINK](#)); Trailing 12 month returns as of May 5, 2026



What I do know, is it feels like we're starting to see speculative behavior creep into certain pockets of the market. Just the other day, an enthusiastic parent at my kid's school – who works in the entertainment industry – talked (or more accurately, bragged) about how memory names were up +10% that morning, and asked my thoughts on them. Sandisk's stock price is now small-talk at preschool drop-off, and that worries me.

In the short run, the market is a voting machine – and rotations of this magnitude can weigh on stock prices as capital gets pulled from other corners of technology and funneled into

³ As of May 24, 2026. Up +63% since April 1, 2026.

⁴ A former executive and advisor to Samsung Electronics is already warning that memory prices will fall in 2H 2027 ([LINK](#)).

semiconductors and hardware. Most notably, software, internet, and fintech stocks have been the “piggy bank” funding this trade.

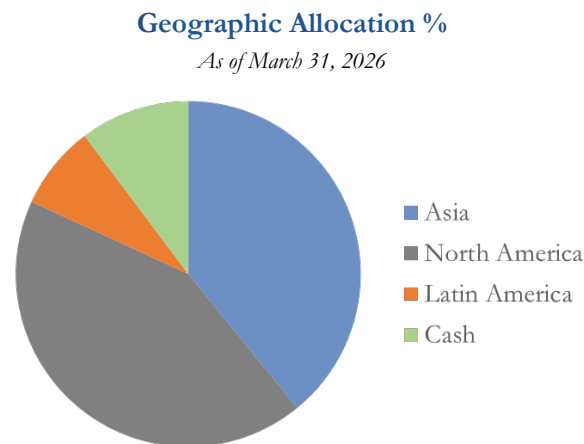
But will all the value generated by AI (which is indeed a real, transformative technology) really get captured solely by the equipment makers, as the market is currently implying?

Rather, history tells us that most of the technological value creation typically gets captured by users and applications of the technology – precisely the sectors getting sold off today. I shared some initial thoughts on this in our [Q3](#) and [Q4 2025](#) letters, and would encourage those interested to revisit them.

Markets are an expectations game. Our excess returns have historically come from situations where we had high confidence future earnings would be materially higher than what the market was pricing in. I can't confidently say that about AI infrastructure today. This isn't to say we're calling for an imminent crash – these stocks can continue to go up – it's just that it's too hard for us to make the call.

For us, there are just easier areas for us to spend our time on, where we have an edge versus market expectations. Time will tell...

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Our portfolio is down -28.3% during the first quarter. This compares to the S&P 500's -4.3% and MSCI World's -2.2%. Since inception, we've generated +11.2% annualized after fees, versus the S&P 500's +12.7% and MSCI World's +9.8%.

Geographically, ~39% of our portfolio is invested in Asia, ~43% in North America, ~8% in Latin America, and the rest in cash.

Drawdowns

Drawdowns have been one of the most recurring themes in our letters – not because I enjoy writing about them, but because surviving them with the strategy intact is one of the crucial structural edges available to us as long-duration investors. And this is quarter is a good reminder of that.

Four years ago, I told our partners that “we tend to have 30%+ drawdowns as a regular occurrence,” and to mentally prepare for “-50% drawdowns or more during their investment period. Given our concentrated portfolio and the early-stage nature of our businesses, it isn’t a warning – it’s a promise” ([LINK](#)).

In that letter I also posed the thought experiment: would you prefer a steady +14.9% annually for ten years, or a -40% year followed by nine years of +23.5%? The cumulative returns are identical, but the emotional journeys aren’t. We can’t pick which path we get – that’s up to the market gods. All we can do is structure ourselves to survive the second one while keeping our wits about us.

On that note, Michael Mauboussin wrote a piece last year called “[Drawdowns and Recoveries](#)” that’s worth flagging. Looking at ~6,500 U.S. stocks from 1985-2024, he found the median maximum drawdown was -85% and took 2.5 years to recover.

This isn’t cherry picked data – it’s the underlying distribution for your average stock during those forty years. It just reinforces what we already know: public markets investing is volatile, and sometimes prices move a lot year-to-year. The more concentrated the portfolio (as Hayden’s is), the more exposed the investor is to this single-stock volatility.

Base Rates for Drawdowns and Recoveries

Source: Morgan Stanley - Counterpoint Global ([LINK](#)); From 1985 – 2024

Max Drawdown	Max Drawdown Duration, Average (Years)	Peak Recovery from Max Drawdown As a Percent of Par, Median	Percent That Get Back to Par	Time Back to Par, Average (Years)	Count
95-100%	6.7	16%	16%	8.0	1,842
90-95%	4.3	65%	37%	5.8	830
85-90%	3.7	78%	42%	4.6	678
80-85%	3.2	100%	49%	4.2	584
75-80%	3.1	122%	54%	3.8	501
70-75%	2.5	131%	62%	3.4	456
65-70%	2.3	134%	67%	3.2	394
60-65%	1.9	149%	67%	2.5	325
55-60%	1.7	147%	74%	2.2	276
50-55%	1.4	150%	77%	2.0	241
0-50%	1.0	146%	80%	1.5	455

Source: Counterpoint Global and FactSet.

Note: Par=Prior high (starting point of max drawdown); Reflects intraday prices; Companies listed on New York Stock Exchange, NASDAQ, and NYSE American that continued trading following their max drawdowns and had a market capitalization of 1 million (2024 U.S. dollars) at end of any month.

Additionally, the most fascinating finding in the paper comes from Wes Gray’s “Even God Would Get Fired” thought experiment, which Mauboussin elaborates on.

Picture the perfect portfolio – the actual top 50 stocks by next-five-year return, market-cap weighted, and rebalanced every five years. Built with flawless foresight. And yet, it still drew

down -76% peak-to-trough, with five separate -30%+ drawdowns along the way. Even the best performing portfolios face large bumps along the way.

And on a single-stock basis, among the 20 best-performing U.S. stocks from 1985 - 2024, the median maximum drawdown was -72%, lasting 2.9 years from peak to trough, with 4.3 years to return to par. The magnitude and pattern isn't much different from the "average" company. Amgen, Apple, Williams-Sonoma, Aflac – every one of them put their shareholders through pain at some point.

What separates a "hall-of-fame" stock from an "average" one isn't the depth of the drawdowns. It's that "hall-of-fame" stocks compound faster *between* drawdowns, and when the drawdowns do come, they aren't signals of underlying business impairment – which is why these stocks eventually recover. "Average" stocks, by contrast, never fully claw their way back.

The key is telling the difference between the ones on their way to permanent impairment, and those that ultimately recover. Only then, can investors have the confidence to hold them through these price swings.

On this topic, Mauboussin offers six qualitative questions for distinguishing the stocks that will recover from the ones that won't:

1. Are the fundamental issues cyclical or secular? Cyclical drawdowns reflect ebbs and flows in demand; secular drawdowns reflect a permanent change in the customer's relationship with the product.
2. Does the basic unit of analysis still create value – the customer cohort, the per-store economics, the lifetime value math?
3. How lumpy are the investments? Businesses that have to deploy large upfront sums before generating sales are more fragile in drawdowns than businesses that scale incrementally.
4. Is there sufficient financial strength – net income to assets, cash holdings, leverage?
5. Is there access to capital if needed? A solvent business can still fail if it has a liquidity mismatch.
6. Is management clear-eyed about the challenges, or are they denying what the market is telling them?

The implication is one we've been consistently writing about in these letters over the years, and it's worth repeating: drawdowns are not a signal that something is broken. They are just the toll you must pay for investing in the public markets.

If we want to own the kind of compounders that can produce above-average returns over decades, we have to be willing to own them through drawdowns that will cause short-term discomfort.

We can't avoid them. But what we can do, is develop the analytical capacity to tell a cyclical drawdown from a terminal one *in the moment*, when you can't see how it ends yet. That's a

valuable part of the job. To do the work & communicate openly with our partners, so we can have confidence to see the journey to the end, despite the bumps along the way.

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So if drawdowns are a normal part of markets – where’s the opportunity today? I truly think outside of 2022, I think this is the best window in years to be an active tech investor.

Dispersion across sub-sectors is massive, and we’re seeing large sell-offs in some of the highest quality internet platforms – those with sustainable revenue growth, pricing power, and industry leading margins – now trading down -50% from their highs.

The chart below – which I first shared last quarter – captures the pain in the sector best. Every company shown is a growing technology platform with strong profits and a leadership position in its field. And yet their stocks have been hit hard. Three months on, some have stabilized while others have kept sliding. It's been a tricky stretch.

Stock Performance of Major Internet Companies

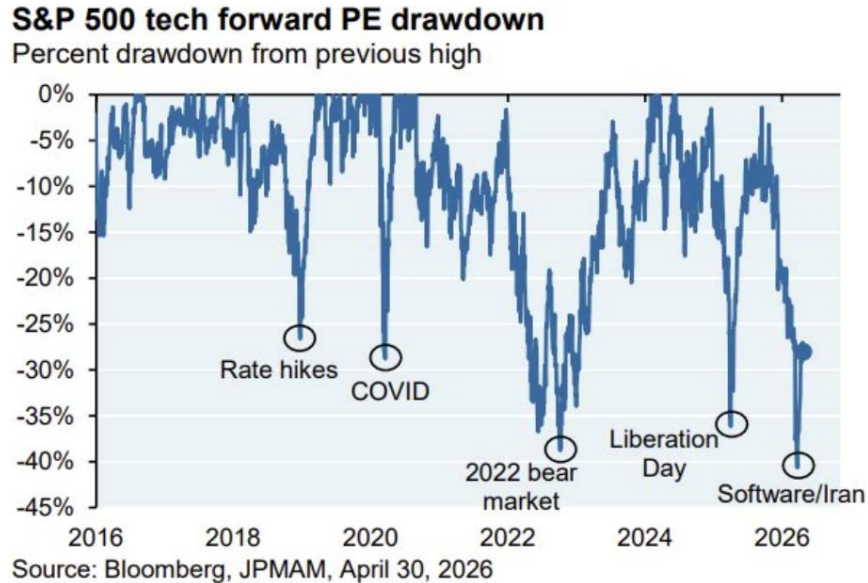
Spotify, Doordash, Uber, Netflix, Coupang, Mercado Libre, ServiceNow; October 1, 2025 – May 13, 2026



Crucially, very little of this reflects fundamental impairment to these businesses in the near-term. The decline is almost entirely multiple compression – the amount the market is willing to pay for these companies’ future earnings streams has dropped. Astonishingly, tech valuations fell farther than both their 2022 lows and last year’s “Liberation Day” lows.

Tech Multiple Compression

Forward P/E Ratio Drawdowns



The fear isn't about near-term earnings. Rather, its anxiety that AI will disrupt these business models over the long-run – i.e. questions around their "terminal values." That's a much harder fear to dispel, and one only time can answer.

But as investors, our job is to evaluate the current price against market expectations. With valuation multiples down ~40% in a matter of months, the bar has been meaningfully lowered for these companies to outperform from here.

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While the market has no appetite for anything non-AI-related – we're finding the best opportunities in these over-looked places. Our research continues to draw us back to the internet sector, where I see an attractive setup for long-term investors. As mentioned, many names are down by half – abandoned, as the market rotates into AI infrastructure – and are even trading at valuation multiples below where they bottomed in 2022.

Yet the best internet companies will ultimately be the *users* of AI, the channel through which AI delivers value to everyday consumers.

Many quality internet businesses now trade at ~10 - 12x P/E on a 3-year forward basis – Sea Ltd, DoorDash, Nubank, Mercado Libre, and Uber among them⁵. These are valuations typically applied to cyclical, slow-growing business – not category leaders, growing +20 - 50% y/y. Regardless of what happens to earnings beyond three years, as long as near-term estimates hold, I think it's difficult to lose money from these levels.

⁵ For reference, the S&P 500 currently trades at ~21x.

Historically these companies have commanded ~25x P/Es or higher, given their superior business models. If they can prove out their earnings growth over next few years, we could see 2 - 3x re-ratings in their stock prices.

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For everything I've written about AI infrastructure being too hard to call, don't get me wrong – AI is a significant technology that will transform how businesses operate.

As mentioned previously, it's simply I think the better bet is on the application & users of AI. All the capex flowing into infrastructure eventually needs customers actually using that compute. And I think the opportunity is in businesses on the leading edge of applying AI to improve their economics and unlock new avenues of growth.

At a high level, I don't subscribe to the idea that OpenAI or Anthropic will eventually replace all incumbent software or internet platforms.

In fact, we're already seeing evidence of this. ChatGPT canceled its instant checkout / commerce initiative a few months ago, for example ([LINK](#)). Consumers showed a demonstrable preference for completing checkout inside of incumbent shopping platforms – as their saved payment information, loyalty points, and delivery preferences were all embedded there.

Conversion rates were low, as were getting merchants to sign up. I think it's one of the clearest signals just how durable the ecommerce business model is, how hard it is to change consumer habits, and why the primary use-case of AI will likely live inside existing platforms.

So if that's the case, what will separate the winners? As with most digital business models, scale is likely their biggest advantage. The forward-looking incumbents will lean into their biggest asset – large proprietary datasets – to know their customers better and, critically, to predict behavior: when to re-engage them, how to underwrite their loans, where to target them, how to convert them.

That's what we're looking for. Companies that can use this new technology, and leveraging their data advantages, to enhance existing products and pull further away from slower-to-adopt competitors.

That's always been our specialty – not investing in new technology itself, but investing behind the businesses *using* new technology to deliver on existing needs more efficiently. We'd rather own the application of new technology than the infrastructure beneath it. Besides, history has shown that is where most of the value accrues as technological cycles unfold⁶.

⁶ Please see our Q3 2025 letter, for commentary on past tech cycles ([LINK](#)).

PORTFOLIO REVIEW

Sea Ltd (SE): Since our last letter, shares in Sea Limited have dipped another -20%. Which is puzzling, as the business has only proven itself stronger since then.

The company generated ~\$4.5BN in Free Cash Flow last year, up from \$1.7BN in 2023 (+160%). That's a 10% FCF yield at today's prices. Earnings are projected to grow another +150% over the next three years. And GMV growth has accelerated in recent quarters (from +21% y/y in Q1 2025 to +30% y/y in Q1 2026) – exceeding both Wall Street's expectations and the company's own guidance.

Despite all of this, shares are inexplicably trading at the lowest valuation multiples we've seen since late 2023.

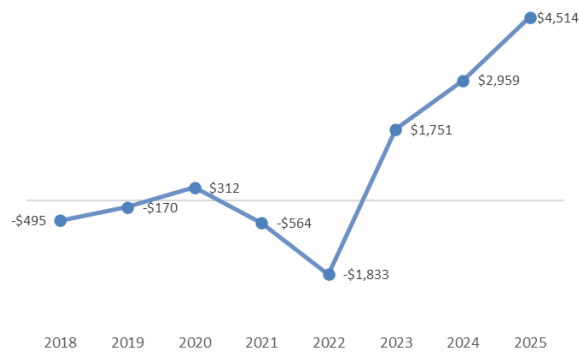
Sea Ltd – Enterprise Value /Sales

Note: Using EV/S as the company was unprofitable in 2023



Free Cash Flow

2018 – 2025



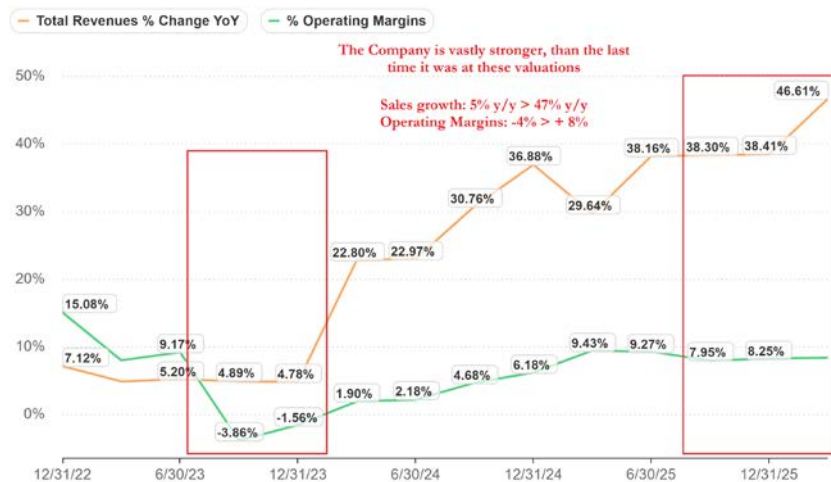
Notably, the last time shares traded at these levels, they bottomed near ~\$35 and then proceeded to rebound 5.7x to ~\$200 over the following 1.5 years. Now, we're not predicting the same outcome this time around, but the set-up looks remarkably similar – and the company is in a much stronger position today than it was then.

Back in late 2023, the worries centered on TikTok Shop competition, and whether Shopee could realistically return to growth while generating profits at the same time. Growth had slowed to just ~5% y/y, and after a brief period of positive margins, the business also went back to negative -16% EBITDA margins, as they invested to reignite growth.

The reinvestment concerns rhyme with today's, but the underlying business is in a fundamentally different place. Revenues are now growing +47% y/y (not 5%), and the company remains solidly profitable at ~8% operating margins – even while reinvesting heavily into its logistics network and the Shopee VIP program (more on that below).

SE 2023 vs 2026 Are Basically Different Companies

Revenue Growth Y/Y; Operating Margins



So what is the market actually worried about now? As I mentioned in our letter last quarter: *“it seems the short-term pessimism hinges on two points: 1) rising fear of TikTok Shop competition in Southeast Asia, and 2) Shopee reinvesting more heavily into logistics / entering a re-investment cycle – which investors fear will cap near-term margins at roughly ~0.7% of GMV this year, versus prior Street expectations of ~1.2%.”* ([LINK](#)).

The fear is that this reinvestment is defensive in nature – necessary spend just to hold its market position against TikTok Shop – and that a structurally higher level of spend will be required to maintain its lead going forward.

In that piece, we also outlined why we think the market has it wrong. This quarter's results, in my view, reinforced that thesis and put a meaningful dent in the bear narrative.

First off, I think Tiktok Shop taking share from Shopee has largely been disproven. Shopee accelerated GMV growth to +30% y/y – or double the growth of the overall ecommerce market. Additionally, alternative data providers are showing Tiktok Shop decelerating to ~40% y/y in Q1 2026 – still impressive, but not nearly the +100% y/y we saw early last year.

On the second point around negative earnings revisions, that's still a valid market concern. But this is only a problem for a market that's becoming increasingly short-term oriented. For longer-term investors, we think by forgoing some profits today, it will build a much stronger (and larger) business tomorrow.

To best illustrate the main question the market's grappling with, I've laid out three illustrative scenarios below.

1. "Prior Market Expectations": in this scenario, the company continues on a linear monetization path, gradually increasing its margins from 1.2% of GMV to 2% of GMV over five years. However because it fails to reinvest in its ecosystem, the company's top-line growth slows over time. This is what the market expected, before the sell-off.
2. "Defensive Spend": This is the scenario the market is fearing. It's afraid that all of this additional reinvestment will only help the company "tread water" in the face of competition from TikTok Shop. While growth is maintained at 20% y/y, the much lower margin means that it takes five years, just for the company to return to its pre-competition profits. And because there's on-going competition, the company lacks the power to increase margins over time.
3. "Reinvestment Scenario": Profits and margins take a short-term hit, but growth accelerates to 30% y/y. A portion of profits are continually reinvested into the business, allowing the business to maintain 30% y/y growth rates. While margins slowly converge to those of "Prior Market Expectations", it still remains below by the end of year 5, while absolute profits are materially higher.

The Market Is Figuring Out Which Scenario We're Actually In

Illustrative example - not actual estimates⁷

Reinvestment Cycles					
Prior Market Expectations					
GMV	100	120	142	164	187
x EBITDA as % of GMV	1.2%	1.4%	1.6%	1.8%	2.0%
= EBITDA	\$ 1.20	\$ 1.68	\$ 2.27	\$ 2.96	\$ 3.75
<i>memo: Growth Y/Y - GMV</i>		20.0%	18.0%	16.0%	14.0%
<i>memo: Growth Y/Y - EBITDA</i>		40.0%	34.9%	30.5%	26.7%
Defensive Spend Scenario					
GMV	100	120	144	173	207
x EBITDA as % of GMV	0.6%	0.6%	0.6%	0.6%	0.6%
= EBITDA	\$ 0.60	\$ 0.72	\$ 0.86	\$ 1.04	\$ 1.24
<i>memo: Growth Y/Y - GMV</i>		20.0%	20.0%	20.0%	20.0%
<i>memo: Growth Y/Y - EBITDA</i>		20.0%	20.0%	20.0%	20.0%
Reinvestment Scenario					
GMV	100	130	169	220	286
x EBITDA as % of GMV	0.6%	0.9%	1.2%	1.5%	1.8%
= EBITDA	\$ 0.60	\$ 1.17	\$ 2.03	\$ 3.30	\$ 5.14
<i>memo: Growth Y/Y - GMV</i>		30.0%	30.0%	30.0%	30.0%
<i>memo: Growth Y/Y - EBITDA</i>		95.0%	73.3%	62.5%	56.0%

⁷ I use EBITDA as a % of GMV, as Shopee has consistently guided to this as a long-term metric. They reiterated on the last earnings call their belief in achieving 2-3% EBITDA as a % of GMV, over time.

Note that under both scenarios #2 and #3, near-term earnings are halved relative to prior expectations. In a market dominated by short-term thinking, that kind of revision usually drives an equal stock price decline of 50% - and often deeper, since investors not only mark down the earnings base but also assign a lower multiple to those earnings, reflecting greater uncertainty about the forward trajectory (i.e., multiple compression on top of the EPS cut).

But the question is, what happens afterwards?

I think the market is trying to determine which scenario Sea is undergoing at the moment. If it's the defensive scenario, then it's truly a permanent impairment to valuations.

While if it's the reinvestment scenario, then the stock price should recover over time, as it becomes apparent that these reinvestment dollars will create 1) a more durable business (as growth remains elevated, instead of decelerating), and 2) a more profitable business (by year 5, GMV is +53% higher and EBITDA is +37% higher than the original scenario).

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As previously mentioned, we haven't seen any evidence of erosion in market position. And combined with management's own commentary, I strongly believe Shopee is currently undergoing the "Reinvestment Scenario".

If so, as investors, how do we know this reinvestment spend is a good use of capital? What's the benefit of all this, and is it strengthening the business' moat?

The two areas the company is spending more on is the new Shopee VIP program, and improving its logistics network (i.e. fulfillment centers & faster shipping). The key benefit of Shopee VIP is free shipping with no minimum spend, and daily discount vouchers that encourage users to shop more frequently.

Both Shopee VIP and the logistics investments are related to each other, as:

Shopee VIP offers free shipping and daily vouchers > which encourages its members to shop more frequently > which increases the number of packages shipped > which lowers logistics costs per package as order density increases > which justifies investing in fulfillment centers, and faster delivery > which encourages more people to sign up for Shopee VIP.

We've studied (and used to own) Amazon for a long time, and all of this sounds remarkably similar to Amazon Prime's early days. Fulfilled by Amazon was also built concurrently with Amazon Prime, as Prime's free and quick shipping promise necessitated holding inventory on behalf of sellers.

*"We created Fulfillment by Amazon because it is good for Amazon.com customers, and therefore, great for our third-party sellers," said Joe Walowski, Product Manager, Fulfillment by Amazon. **"With membership in Amazon Prime growing every day, more and more Amazon.com customers want a great deal on shipping and to receive their orders quickly. Fulfillment by Amazon makes it possible for sellers to offer Amazon.com customers this convenience."***

– Amazon Launches "Fulfilled by Amazon"; 2006 Press Release ([LINK](#))

Importantly, these investments are working. Shopee VIP started a year ago, and has already gained 10 million members. By comparison, it took Amazon 7 years after launching to amass the same amount.

Similar to Amazon Prime, Shopee VIP members spend 30% more per month, and order 3x more frequently⁸. By offering free shipping with no minimum spend, and also daily vouchers that expire the same day, it encourages much more frequent engagement. Consumer habits are sticky, so positioning the Shopee app as the default place to shop is valuable and increases the switching cost / discourages shoppers from buying from other companies (i.e Tiktok Shop).

The craziest statistic, is that 20% of total Shopee GMV is now generated by Shopee VIP members. Given there are only 10 million members out of 418 million annual buyers, that implies 2.4% of buyers are driving 20% of all sales – and these VIP members buy 10x more than non-members!

Growth of Shopee VIP

Source: Company data; Hayden estimates

Shopee VIP					
	1Q25	2Q25	3Q25	4Q25	1Q26
Number of VIP Members	1.5	2.0	3.5	7.0	10.0
/ Total Active Buyers	360			400	418
= VIP, as % of Total Users	0.4%			1.8%	2.4%
memo: Growth Q/Q - VIP Members		33.3%	75.0%	100.0%	42.9%
memo: Growth Y/Y - Monthly Active Buyers	15.0%			15.0%	16.0%
VIP GMV	470,782	706,173	2,576,000	4,404,000	7,460,000
/ Total GMV	28,600,000	29,800,000	32,200,000	36,700,000	37,300,000
= VIP, as % of Total GMV	1.6%	2.4%	8.0%	12.0%	20.0%
memo: Growth Q/Q - VIP GMV		50.0%	264.8%	71.0%	69.4%
memo: GMV per VIP Member (Quarterly)	\$ 314	\$ 353	\$ 736	\$ 629	\$ 746
memo: GMV per Non-VIP Member (Quarterly)	\$ 78			\$ 82	\$ 73

Interestingly, Amazon's own Prime and Fulfilled by Amazon investments in 2005 & 2006, offer an uncanny analog to Shopee's own investments – just 20 years apart⁹.

Amazon Prime launched in 2005, Shopee VIP in 2025. Amazon started FBA in 2006, and Shopee is rapidly growing its FBS footprint in 2026. Both companies' stock prices were volatile during this period, as the market was unsure of the payoff from these investments.

Amazon's margins peaked in 2004 at 6.4%, and then subsequently cut in half during the investment cycle. During this time, the stock similarly declined -58%, only to rebound +290% once the Amazon Prime + Fulfilled by Amazon flywheel kicked in, in 2007¹⁰.

In 2007, Amazon Prime was ~6% of its user base, and percent of products available on FBA was under 20%. Comparatively, ~15% of products are already on Fulfilled by Shopee, and the company plans to double that by the end of this year. At the current rate, Shopee VIP may reach

⁸ Q2 2025 earnings call. Amazon Prime members spend ~2.3x as much per year vs. non-members, and order 1.8x more frequently.

⁹ Both companies also went through a painful stock correction in 2000-2001 / 2022, had to decelerate growth to get to profitability, and then re-embarked on growth initiatives after the companies were on more solid footing. I described this episode in our Q1 2022 letter ([LINK](#)).

¹⁰ Decline from October 2003 to August 2006.

6% user penetration next year too. By all measures, it seems that Shopee is ahead of Amazon's original schedule.

	Amazon	Shopee
Starting Margin	2004: 6.4% operating margin (pre-Prime)	2025 Q1: 7.5% EBITDA margin (pre-Shopee VIP scaling)
Margin Compression	-280bp over 2005-2006 (Prime + FBA investment)	~-300bp over 2025-2026 (VIP + FBS investment)
Profitability Impact	Declined -12% in absolute dollars (2004-2006)	Guided flat in absolute dollars (2026 vs. 2025)
Revenue Growth	+23% in 2005, +26% in 2006 while op. income fell	+36% in 2025, +35% expected in 2026, while EBITDA flat
Inflection	2007: Margin rebounds to 4.4%, revenue accelerates to +39%	To Be Seen

Amazon's Investment Cycle

From 2004 - 2007



Based on this research, I remain very confident about our Sea Ltd investment. The company is showing increasing evidence that these new investments are working – and an inflection in the financials may come sooner than the market expects.

If we look at the big picture, there has never been a situation in the world, where ecommerce penetration declines as a country grows richer. There's a strong correlation between GDP per capita, and ecommerce adoption. The fact is, as consumers grow richer, they 1) have greater access to the internet, and 2) value time savings and convenience more.

So as standards of living increase, the only question is – who will capture that growing pie? With Lazada shrinking, and Tiktok Shop growth moderating – it's increasingly obvious to us it will be Shopee.

Unity (U): Unity is our one of our newer investments, and one we've been adding to in the recent drawdown. Unity is one of the two dominant 3D content-creation engines in the world – its engine powers roughly ~70% of mobile games globally, and a meaningful share of console and PC titles as well.

When a developer chooses Unity to build a game, they typically stay on that engine for the life of the title, and for any subsequent sequels. Switching means re-tooling an entire team, asset pipeline, and codebase – which is why Unity's installed base has historically been so sticky, despite years of operational chaos.

Its product is mission-critical, deeply embedded in a customer's workflow, with high switching costs. Despite this, Unity today trades at one of its lowest valuations since IPO. Why?

The short answer is that Unity has been one of the most poorly run companies of the last decade. The 2022 ironSource merger was botched. The 2023 runtime fee announcement (charging developers per game install) created a developer revolt and forced the CEO out. Key engineering talent left for competitors. The ad business hemorrhaged share to AppLovin – and was in fact one of the key theses for our Applovin investment (see our Applovin write-up in our Q2 2024 letter; [LINK](#)).

In other words, a great business that's been buried under years of self-inflicted wounds, where the market has given up on the company and stopped paying attention.

I've been studying Unity on and off for years. But three things finally pushed it from the watch list into the portfolio.

The first is new leadership.

Matt Bromberg took over as CEO in May 2024, and his track record is exactly what Unity needs.

Bromberg joined Zynga as COO in August 2016, at a time when ZNGA traded at around ~\$2.50 per share and the mobile gaming sentiment was at its lows. Over the next five years, he rebuilt the company's monetization infrastructure, data systems, and live-ops capabilities from the ground up. By the time he left in late 2021, Zynga had been transformed into one of the more profitable mobile gaming operators – and was acquired by Take-Two for ~\$9.86 per share a few months later (~4x his entry).

What's notable, is that he did exactly the kind of work at Zynga that Unity needs done now. He built the data + ad + monetization stack of a leading mobile gaming company, from scratch. That's what Unity has historically lacked, despite owning the underlying engine that generates all the data in the first place.

The second is Vector – and the data advantage underneath it.

Unity's most important strategic initiative is Vector, the company's next-generation ad targeting platform. Vector replaces the legacy Unity Ads and ironSource bidding stacks with a unified AI ad model, and is ramping from \$0 to a \$1BN run-rate less than two years after launching.

Why does this matter? It's because of what Vector can see, that competitors structurally can't.

Unity's engine sits inside ~70% of mobile games. This means Unity can observe – at the engine level, in real time – exactly what's happening inside the game. Frame rates. Session length. In-app purchases. Progression depth. Where users churn. How long they take to load a level. These are first-party, deterministic signals unique to Unity.

Now compare that to AppLovin, which is the current best-in-class performance ad platform in mobile gaming. AppLovin sees what happens at the advertising layer – bids, clicks, installs, and whatever post-install events the developer chooses to pass back. Those are good signals, but it's not the same as watching the user actually play the game.

It's the difference between watching someone shop in a store (seeing what they pick up, do they come back to the store, do they buy the same item again, what other products do they compare it against), versus watching what they buy and how they actually use it *after they get home*. Both are valuable. But one is materially richer data than the other.

Post-ATT (Apple's privacy changes in 2021), this gap actually widened. Competitors lost access to the IDFA that helped it triangulate user identity across apps, and has been rebuilding via fingerprinting and inference. Unity's first-party signal, on the other hand, doesn't depend on the IDFA – it's generated on-device, with the developer's consent built in.

The question has always been whether Unity could actually productize this advantage. Under prior management, the answer was obviously no. We watched as prior management botched the ironSource integration, developer trust was destroyed by the runtime fee debacle, and engineering talent left.

But under Bromberg, the early evidence suggests this is finally changing. Vector is quickly ramping to ~\$1BN in run-rate revenue by year end, the Create segment is re-accelerating, and free cash flow is growing ~+40% y/y. These are early innings, but the direction of travel is unmistakable.

And importantly – I don't think Unity needs to "beat" AppLovin to make this investment work. In a mobile gaming user-acquisition market where AppLovin captures somewhere around ~25 - 30% of spend today, Unity simply needs to stop ceding share, and gradually re-take a few hundred basis points. That bar feels very achievable, given the data advantage that already exists and is finally being put to use.

The third is a cheap valuation.

At today's price, Unity trades at approximately ~4x EV / Revenue and ~20x normalized P/E, on a business that's quickly ramping up its Free Cash Flow generation as Vector scales. This is below where comparable engine, ad-tech, and platform businesses trade – and well below where Unity itself has traded at any point in its post-IPO history.

If our thesis plays out – Vector continues to ramp, Create returns to consistent double-digit growth (i.e. gaming engine subscription revenues), and FCF margins continue expanding toward ~30% – I believe the stock can compound at a 25% or better annualized rate over the next 3 - 5 years. Multiple expansion (which we don't really need to underwrite, but think is likely) would provide an additional kicker.

The company is currently trading at a ~\$10BN valuation, with Bromberg guiding Vector to reach \$1BN revenue run-rate by year end. Ad networks are extremely high margin businesses (it's just an algorithm, after all). Applovin for context, makes 70% Free Cash Flow margins. I don't expect Unity to be nearly as efficient – but 50% Vector margins are achievable.

With Vector growing ~+57% y/y this year and expected to maintain ~41% cagr over the next few years, the business should easily hit \$1BN free cash flow in a couple years. At that point, today's price implies a ~10x forward FCF multiple, and even lower if Unity China gets sold for \$1BN (as rumored; [LINK](#)) and the cash is returned to shareholders¹¹. I think Unity can trade at double the current price, if this scenario plays out.

CONCLUSION

I want to thank our interns for all their hard work this semester – we had more help on AI research tooling and fundamental research than in any prior semester.

Denys Pavlov and Andrew Chang, both at USC, led the charge on the AI tooling front. Over the last few months, we have built out portfolio and risk monitoring tools – both of which are already having a direct impact on our process. We've also been using AI to build web-scraping and alternative data tracking tools tied to our investments. For example, we now have automated scrapers running on our internet platforms and scheduled pulls from various government databases to triangulate loan quality across our fintech holdings.

Separately, Frank He helped with research across Asian internet companies – spanning payments, e-wallets, ecommerce, and brokerages. I wish him well as he continues his MBA at Wharton, and spends the summer at Capital Group in Singapore.

Finally, I had the privilege of mentoring UCLA's Value Investing team for a second year – and for a second consecutive year, they took 1st place at the Himalaya Capital investment pitch

¹¹ Unity China contributes minimal profits. A sale would bring the EV to \$9BN.

competition ([LINK](#)). This time with a presentation on Mercado Libre, the leading ecommerce platform in Latin America. Congrats team!

**

In terms of travel, I'll be in mainland China for all of June, with trips to Singapore and Hong Kong in between. I'd love to meet up if you're in town, and would like to chat about investing or Hayden over lunch or coffee.

I also did a podcast interview with Drew Cohen a few weeks ago. We had a wide-ranging conversation covering Hayden's investment philosophy, how we think about finding "emerging compounders," our larger positions like Sea Limited and AppLovin, and more. Drew is a great interviewer, and for those interested in how we think about investing, I'd encourage you to give it a listen ([LINK](#)).

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Lastly, thank you to our partners for continuing to allow us to operate this way – and for sticking with us through the uncomfortable parts of the journey.

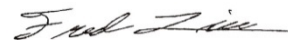
As discussed above, drawdowns are the toll we pay. There's no avoiding them, and no clever positioning that makes them go away. Mauboussin's research showed that even the perfect portfolio – the one built with flawless foresight – still drew down -76% along the way. The media loves to cite Amazon's -95% decline in 2000 – 2002, but they forget the numerous drawdowns that came after. Including the -58% decline during the launch of Prime and FBA – the very investments that would later define the company.

What separates the businesses that recover from the ones that don't, isn't whether the drawdown happens. It's what's the business looks like once it's over.

That's where our focus should be. Not on the quarterly print or day-to-day price action – but on whether our underlying businesses are getting stronger. By every measure I look at, they are. Sea Limited is putting up record GMV growth and inflecting margins. Unity is finally productizing the data advantage it's owned for a decade.

The market hasn't recognized it yet. But it will – it always does.

Sincerely,



Fred Liu, CFA

Managing Partner

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