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Zeno Investment Fund Letter

May 2026

“Therefore, nothing must be more avoided than that we, in the manner of sheep, follow the flock of those going before us, proceeding not where we ought to go, but where others are going.” – Seneca (4 BC – 65 AD)

Dear Investors,

Since we started Zeno, which was about twelve months before the release of ChatGPT, we have remained underexposed to the AI theme and all other ancillary businesses. The only exception is Amazon, which we have owned for quite a few years now and represents 9% of our fund. We have also owned other companies that got caught in the AI infrastructure rising tide, although we must admit this is not why we invested in them. This decision has clearly impacted our fund’s performance in comparison to the most followed equity benchmarks.

To be clear, we can and have identified several AI or adjacent companies that meet our high bar for business quality with real competitive advantages, compelling reinvestment opportunities, and a clear founder’s mindset. We are constructive on the impact the development of AI will have on our businesses and the world. We also recognize the risks AI represents to incumbent business models. In late 2024 and early 2025, we significantly reduced our exposure to a series of software businesses which had been strong value creators for the fund, recognizing that the facts had changed with the emergence of LLMs and agentic AI.

The logic behind our voluntary underexposure can be broken down into two separate components. One related to the businesses and the other related to human nature and market structure.

With regards to the businesses directly exposed to AI, in most cases we simply think the dispersion of outcomes is too wide. It is undeniable that the addressable market is huge. We ultimately view AI as an amazing productivity booster and value creation tool for businesses and society, and it is reasonable to expect that a part of these benefits will be captured by the companies developing or offering the technology. What we find incredibly hard to determine is (i) how large these benefits will ultimately be, (ii) how much will be captured by AI providers rather than end users, and (iii) how those profit pools will be ultimately distributed across the different parts of the value chain.

We have spent a great deal of time trying to answer these questions, but at the end of the day, we simply do not know enough to build the conviction to commit the share of capital required to replicate the market’s exposure.

We marvel at the confidence with which so many investors today claim to know how this will unfold. It’s as if we missed a memo from the future – one apparently widely distributed to everyone else – laying out clear instructions for how these questions will be resolved. It reads something like this: **Of course**, Nvidia will be the dominant training, inference chip, and rack provider. **Evidently**, no technological development will ever reduce the insatiable demand for High Bandwidth Memory. **For sure**, the nearly 100 gigawatts of new data centre capacity currently under construction will be fully deployed, in short order, at very high

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returns on capital. And **of course**, the corresponding demand for power generation and the trillions of dollars required to build out power infrastructure will materialize.

How comforting it must be to have so much conviction on something so new that one is willing to pay 30- or 40-times earnings – or, in some cases, revenues – for the equity of these businesses.

Which leads us to the second reason we are reluctant to own these names: how we weigh long-term business risk against short-term earnings momentum and relative returns. In fact, we believe that almost no one investing in the market today can confidently ascribe probabilities to the long-term outcomes we described above. We also suspect that many investors and capital allocators aren't really trying to answer those questions. Many face a set of institutional incentives which prevent them from doing so. What matters, at the end of the day, is the ability to surf the wave of the market and to get out before it crashes. As an investor we respect recently put to us: "You gotta play the game."

It is precisely this difference in views that creates a market, and we respect those who choose to play it on those terms, but we have spent thirty years building the capital base we have personally invested in this fund, and we are not about to start playing games with it. We are not in the asset gathering business, nor the performance-fee-gathering business. We care about long-term capital growth and preservation.

Greg Abel, the new CEO of Berkshire Hathaway put it in very clear terms with which we strongly agree at the AGM earlier this month:

"We must understand risks and avoid them responsibly. We need to comprehend the economic prospects and **whether the outcome will be positive in ten years' time**. There must be a vision that can currently be observed... If there is an investment opportunity we recognize, we will not reject it [but] we also need to evaluate whether the price is reasonable."

Put another way, **we look for situations where returns are underestimated and risks are overestimated**. It is our judgement today that the "AI trade" today presents as the exact opposite. This was also the case during the early 2000s internet bubble, the pre-GFC real estate boom, and the 2020-22 SaaS/fintech run-up before their respective corrections. In each of these moments, one could build a compelling case for an underlying mega-trend capable of creating extraordinary growth opportunities, and one could identify exceptional businesses exposed to them. However, you also found the kind of reckless behaviour that only takes hold when investors of all types stop entertaining the possibility that anything short of the best possible outcome might occur. It is interesting to note that in the year before all these drastic market corrections it was very common to hear how Buffett and Munger were obsolete.

Conversely, we are finding an unusually large number of situations where returns are underestimated, and risks are overestimated in a part of the world a long way from the AI trade. Most of our readers will know that our origins as investors are deeply rooted in Latin America. More specifically Brazil, where our founder spent the first 40 years of his life and

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the first 22 years of his investment career. Yet, since forming Zeno almost four years ago, we had spent very little time looking for investment opportunities in that part of the world.

This has changed since the beginning of 2025. Valuations on the continent had reached very low levels, currencies had depreciated quite significantly, lost to the fog of AI frenzy, liberation day, geopolitical tensions and local politics. There was also a clear capitulation by local investors after years of poor stock market performance and very high interest rates.

It was under this backdrop that a select group of high-quality Brazilian companies that we have known and invested in for many years started to draw our attention. We also started to spend more time on Argentina, where the changes implemented by a newly elected government reminded us of a lot of what happened in Brazil in the early 90s where we experienced the transition from hyperinflation to a more normal economic environment coupled with a liberalization of the economy. If successful, this process creates a great set up for the best companies and operators to thrive.

Since then we have been digging deep, applying our usual framework to identify good businesses from first principles that, for reasons largely irrelevant to a long-term investor, could be bought at very cheap valuations. Collectively these companies now represent 28% of the fund.

The largest of these is Localiza, a 7.3% position at quarter-end, the leading car rental business in Brazil with almost 700 thousand cars owned and rented for a total of 170 million days, spread across a continent, which need to be served, cleaned, and repaired at the lowest cost possible. The business model is totally different and significantly more attractive than the global rental operators like Avis or Hertz. Due to its scale, Localiza is able to generate significant buying power by purchasing its fleet directly from OEMs in Brazil. Furthermore, the company is vertically integrated with its own network of owned and operated dealerships, handling most of its 300 thousand car sales per year. Lastly, managing the utilisation and pricing of the fleet to optimise profit per vehicle across such a complex network and large geographic area comes with significant economies of scale and scope. All this combined has given Localiza a structural cost of ownership advantage which has widened over time, making the company incredibly difficult to compete with.

As a result Localiza has over the last fifteen years delivered a median unlevered ROIC of 15% and median ROE of 22%. Between 2012 and 2025, earnings-per-share grew north of 10% per year, while returning on average 38% of earnings back to shareholders. We bought Localiza at less than nine-times earnings that we believe can grow double-digits at solid incremental returns. It is founder led, owns 80%+ of the profit pool of the industry and provides an excellent service to its customers for whom ownership of a car is too expensive and inefficient.

Another company that has quickly become a top four position is Vista Energy. Vista owns tier one assets in the oil window of Argentina's rapidly developing but still largely untapped Vaca Muerta shale formation, with break-evens comparable to the most productive North American shale acreage, but at a stage of maturity similar to the Permian in the early 2010s.

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Our investors might be quite reasonably wondering why we feel more comfortable appraising the range of outcomes for an Argentinian upstream oil company in the midst of an energy crisis than an AI infrastructure company. Even in a world where the situation in the Middle East normalizes and we return to sixty-or-seventy-dollar oil, we think Vista can double production over the next five years at more than 20% marginal returns on capital, while simultaneously returning at least half of its market cap back to shareholders. It has been quite some time since we have come across such attractive IRR math on such undemanding assumptions.

Like Localiza, Vista is run by a group of real owners. After unlocking the shale opportunity and turning around the production trajectory of Argentina's state oil company as CEO of a renationalised YPF, Miguel Galuccio and his team of co-founders decided to leave their steady, well-paid executive roles to raise \$700 million to form Vista as a vehicle to acquire unconventional concessions on the continent. Energy is a cyclical industry littered with examples of capital misallocation. Importantly Vista's founders, both from their track record and our interactions with them, appear to us to be good appraisers of risk and laser-focused on long-term shareholder returns.

In a downside scenario, we feel our investor's capital is well protected not only by the founders we have entrusted it to, but by the healthy balance sheet, free-cash-flow breakeven of \$40s per barrel, and the exceedingly low valuation at 15% recurring free-cash-flow yield.¹ We are not naïve to the risks that come with investing in Argentina, though Vista's transition from a supplier to domestic refineries to an exporter has mitigated some of these. Meanwhile we are encouraged by the growing cross-partisan support for Vaca Muerta as exports from the formation begin to play an increasingly significant role in the country's economic turnaround.

Finally, at the end of last year, we began accumulating shares in Patria Investments, a position which represented 5.2% of the fund at quarter end. Patria is a founder-led, diversified alternatives asset manager focused on Latin America. The company has grown fee-earning assets from \$8 billion at IPO in 2021 to almost \$50 billion today through a combination of organic growth and M&A. In the process it has also evolved from primarily a private equity and infrastructure business into a range of verticals including real estate, credit, and Global Private Market Solutions (GPMS). The vehicle structure has evolved in parallel from predominantly drawdown funds to a mix that also includes permanent capital vehicles and separately managed accounts (SMAs). This is a very good business model with high switching costs and strong barriers to entry formed by years of relationship building with investors and significant economies of scale.

We believe the market is failing to appreciate the scale of Patria's transformation and the quality of the underlying business. The real estate franchise is case in point. Patria is the #1 REIT manager in Brazil. This scale supports higher margins, and the size of the funds makes them centres of liquidity, positioning Patria for continued growth in a product that is highly attractive to Brazilian investors. Patria is also well placed in infrastructure thanks to its expertise and relationships, alongside strong demand for new infrastructure projects. The

¹ Assumes \$70s per barrel mid-cycle Brent. Based on maintenance capex (i.e. on the basis Vista drills enough wells to sustain production).

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credit business is similarly attractive with very different characteristics from the US private credit market in terms of economics and maturity.

While the market focuses on issues in certain private equity vintages, we see a company that can pay out a large portion of its profits (the current dividend yield is around 6%) while growing earnings-per-share at a double-digit rate for many years to come. In addition, there is meaningful optionality from the monetisation of carry which gives the business an unappreciated convexity.

To conclude, these decisions, to own more companies in Latin America, and to under-allocate to the AI trade are two sides of the same coin. They are not explicitly thematic or top-down country/sector allocation decisions. Instead, they are a reflection of where, after doing the unglamorous, bottom-up heavy-lifting of turning over rocks, we see a more obviously favourable disconnect between price and value which we can actually wrap our arms around.

Thank you as always for your attention and your trust.

Zeno Equity Partners

London, 22nd May 2026

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