

2026 SECOND QUARTER INVESTOR LETTER

July 27, 2026

Investors spent a good chunk of the second quarter believing that a truce with Iran was just around the corner. A formal memorandum of understanding signed in mid-June established a 60-day negotiation period to formalize permanent resolutions regarding regional security, shipping access in the Strait of Hormuz, and economic sanctions. Oil prices fell and the broader market rallied, led by (surprise, surprise) continued enthusiasm over artificial intelligence and the data centers and microchips that enable its buildup. The above news was (thankfully) interrupted by spirited World Cup matchups, including strong national support for the US men's team. BAM joked with its contacts across the "pond" that Europeans' second greatest fear was the US eventually winning the World Cup (the first was realized in November 2024). BAM boldly predicted that the US could legitimately win the championship sometime in the next 20 years. This prediction has not aged well following Belgium's dismantling of the US squad in the round of 16. Nevertheless, we stick with our call as soccer's popularity is undoubtedly on the rise despite the heavy financial incentives for youth to participate in American football, basketball, and baseball. Time will tell.

Iran: Current Situation Directionally Rhymes with Past...And Quick Resolution Seems Unlikely

Returning briefly to the darker headlines, Iran war violence has restarted as we write this letter. The Strait of Hormuz is effectively closed and bombings of Iran and Iran retaliations are occurring on a near daily basis. We had a chance to read David Crist's outstanding book [The Twilight War: The Secret History of America's Thirty-Year Conflict with Iran](#) in which Crist argues that the US has really been at varying stages of war with Iran since the fall of the last Shah in 1979. Had this book come out ~12 years later, we imagine it would have gained far more notoriety. We were struck by the similarities of the current challenges (mining the Strait of Hormuz, difficulty of US providing naval escorts to tankers, and the fanaticism of the Islamic revolutionaries) with those during the 1980s. At the start of the current Iran campaign, the administration initially said regime change was a stated goal. Years ago, during cold war exercises, it was estimated that a ground force of 500,000-600,000 might be necessary to subdue Iran and it seems unlikely this estimate has gone down. There is zero political support for ground troop deployment, let alone a deployment of this size. While regime change chatter has ceased, it is less clear what an exit strategy looks like. Perhaps continued tit-for-tat bombing followed by some face-saving deal is the most likely scenario, albeit one in which there would be questions about how permanently the Strait remains open. Such a scenario would likely be unwelcome for inflation readings, which have continued to sit well above the Federal Reserve's 2% target for ~5 years.

The above concerns do not appear to be priced into broader US market prices as the S&P 500 continues to trade near all-time high valuation levels.

S&P 500 Shiller P/E (CAPE) Ratio, 1881–Present¹



Excitement over AI spending seems to have trumped geopolitical and valuation concerns. There is little doubt that the sheer magnitude of spending on various flavors of AI infrastructure (perhaps \$700-\$800 billion of AI related capital expenditures in 2026) continues to juice large parts of the global economy as well as broader market returns. The question is whether this spending generates sufficient (whatever that means) returns. We are uncertain if anyone knows the true answer here (and certainly not us) but we suspect even minor disappointments here could drive substantial downside.

We will not repeat our broken record that we see fewer pockets of value, and most are outside the US, or are involved with some special situation or simply reside in truly hated sectors (think true horror of horrors...US telecom) ...well, actually, we just did. The cheap foreign multiples continue to attract strategic and private equity bids and, depressingly considering our experience with low-ball offers for PTSB and CAB Payments, it looks like another of our holdings (DCC) could be sold for levels far below intrinsic value. We will not dwell on PTSB or Compass Diversified Holdings (CODI) in this letter, having written on both at length in prior letters (with more to say in future ones). Briefly, we sold a good portion of our PTSB position during the second quarter, but separate accounts retain solid exposure heading into a contested July 30 shareholder vote. We remain no fans of a deal that hands BAWAG Group AG (Bawag) a bank on the cheap – we estimate it is ~30-35% EPS accretive to Bawag over time – but note the asymmetry: if the deal breaks, Bawag’s shares likely fall further than PTSB’s. Separately, we have added to CODI, where we continue to believe an orderly liquidation is the best path to value and remain in regular dialogue with the company.

Holding Onto “Winners” is Critical and...Exceptionally Hard

As usual we will update developments with existing portfolio companies, and we will spend time discussing two of our most troubled investments during the quarter – Charter Communications (CHTR) and Liberty Capital (GCI – formerly GCI Liberty). We will briefly note that struggles with CHTR and GCI

¹ The Shiller P/E index, also known as the Cyclically-Adjusted Price-to-Earnings (CAPE) ratio, measures the valuation of a stock market, most commonly the S&P 500 index. It is calculated by dividing the current stock price by the average of the last 10 years of inflation-adjusted earnings. At ~41x, the ratio sits near the highest level in its ~145-year history — surpassed only by the 2000 dot-com peak — and roughly 2.4x its long-run average of ~17x.

have been offset by stellar returns from Millicom (TIGO) and Garrett Motion (GTX). The appreciation has vastly increased their position weighting. While we are conscious of total sizing, we have noted in past letters that sales of “winners” have likely been the biggest drag on returns historically. There is more than a little truth to the tongue-in-cheek quip that the best way to earn 3 times your investment is to avoid selling after it doubles in value. Of course, the discipline to do so is far from easy. In addition to anchoring on past purchase prices, experiences like the current one with CHTR (which has more than round-tripped from original purchase prices) make sticking around even harder. Successful investments often involve significantly different (higher) valuations than at the time of purchase and deciding whether this expansion is justified based on changes in business quality/operating results versus price-momentum driven increases or (false) extrapolation of recent results is far from a straightforward exercise.

We think of this as a lighter, public-market cousin of the power law that governs private investing. In venture, a small handful of enormous winners pays for a long list of “zeros.” In public markets the effect is muted as our winners compound at a fraction of the rates of private markets but the concept is similar. A few larger winners (hopefully) offset our laggards, and the surest way to forfeit that arithmetic is to sell the compounders too soon. Our thinking has evolved here and is primarily driven by multiple premature sale mistakes in the past. Of course, the catch is that there could be periods of meaningful underperformance that test investors’ (and clients’) patience along the way.

TIGO and GTX operate in vastly different businesses, but our investment journey with each shares some similarities. We believe that both are good businesses. TIGO is an oligopoly of an essential service (broadband and cell phone). Meanwhile, GTX is an oligopoly provider of turbochargers to the automotive industry with a potentially valuable new product portfolio focused on industrial and electric vehicle (EV) markets. At the time of purchase, both stocks were hated and exceptionally cheap. TIGO operated in riskier Central and South American markets and had a mixed operating history (to be kind). The prior management team executed a fantastic acquisition (buyout of minority partner in Guatemala) but funded it via a rights offering at stock prices ~60% below where the deal was announced. GTX was a post-bankruptcy special situation name, and we initially bought preferred shares that ultimately were forcefully converted to common stock. As EV sales expanded across the world, there was understandable concern that GTX’s core turbocharger business was at risk and huge uncertainty arose about whether the company could ever crack the EV market. At the time of purchase TIGO traded for ~17% forward free cash flow yield (post rights offering) while GTX sported valuations only slightly higher.

We won’t detail all happenings but simply note that results exceeded expectations. Xavier Niel helped usher in multiple new TIGO executives and Board members and drove far larger than anticipated cost savings. TIGO also executed multiple new acquisitions in Uruguay, Ecuador, and (most significantly) Colombia. Free cash flow has exploded (projected to be ~\$900 million+ in 2026) and we think the company will comfortably exceed its 2026 projection. On the GTX side, the overall automotive sales environment has not been robust, but EV penetration rates have been far lower than feared. Meanwhile, GTX paid down debt and religiously purchased shares, with its total share count down nearly 45% over the past 3 years. Meanwhile, it turns out that the engineering behind spinning turbocharger blades also has industrial applications, including cooling products used in the ever-popular data centers. GTX also continues to notch design wins in the EV product space and projects ~\$1 billion in sales from industrial/EV by 2030 at or above current margins.

TIGO and GTX’s business momentum has not gone unnoticed, and both names are materially higher than initial purchase prices. Certainly, a fair bit of good news is priced into both names. Of course, a large, embedded capital gain does not necessarily justify a sale just as a large loss doesn’t always justify a

purchase. So easy to write -- yet amazingly difficult to execute. "Winners" will inevitably have material drawdowns and cause even the most confident investor occasional pangs of regret. And "loss aversion" is very real – investors (and clients) are bothered far more by a holding that visibly declines 50 percent on a statement versus a sale after a holding has doubled in price but then proceeds to go up 8x further (We still have Microsoft nightmares). This is the case even though the latter is far more damaging to long-term returns. While we have and will make selective sales for better risk/reward opportunities, we have (for now) concluded that both names still have considerable upside. In the case of TIGO, we think continued improvement in the vastly expanded Colombian operations should drive material improvement in total free cash flow. If one assumes that Colombian margins can expand to mid-40s levels, this, combined with modest top-line growth and relatively flat margins in other geographies, could drive free cash flow 70%+ above the company's 2026 FCF (again, take the over for 2026). TIGO certainly operates in some volatile geographies, but the diversity of its operations provides some comfort against a shock in any particular region. We believe TIGO has strong visibility on quickly deleveraging and we estimate the company's leverage could be below 2.0x by 2028. If TIGO cannot find another attractive acquisition, we suspect the company could modestly increase leverage levels to drive further capital distributions.

For GTX, visibility on industrial/EV revenue has improved and this revenue should come in at margins above current levels. The company believes it will generate ~\$1 billion in total industrial/EV revenue by 2030. If one assumes revenue at ~30% of 2030 target levels by 2028 and the company continues to repurchase shares at higher prices, it would imply that free cash flow could reach \$3.00 per share by 2028. We suspect further upside is possible. Admittedly, GTX's revenue stream is far more cyclical than TIGO and the company is susceptible to declines in new global car volumes. That said, GTX maintains a solid balance sheet (net leverage estimated at <2x by year end) and could conceivably increase debt levels over time. GTX noted at its May investor day that its 10-11x Enterprise value/EBITDA multiple considerably trails the 18-19x levels of industrial peers. Whether GTX's multiple further expands from current levels will depend on the company's EV/industrial execution as well as the overall health of the global auto market. GTX is far from bulletproof at current levels, but we have been impressed with the company's operational and capital discipline and believe there could be a considerable opportunity on the EV/industrial side of its business.

Liberty Capital: "Just when I thought I was out, they pull me back in!"

In our Q4 2024 letter, we described our unfavorable investment history with Liberty Latin America (LILAK) and explained our reasons for substantially exiting the position and reinvesting the proceeds in TIGO. In the letter, we blamed ourselves for giving LILAK's management team too much slack even though operating performance continued to contradict their rosy projections. Selling shares in a longer-term holding that has not worked is no fun, but it is part of the investment process.

In our Q3 2025 letter, we detailed our investment in GCI Liberty (later renamed Liberty Capital) and described how we felt that the company traded substantially below the value of the Alaska Cable business, which implied that investors were seemingly ascribing negative value to the prospects of deals from John Malone and company. We noted how investors would have flocked to this type of investment 10 years ago, but the underperformance of US cable and several other Liberty names had caused a severe inversion to anything cable related.

In April, GCI acquired Alaska-based fiber infrastructure provider Quintillion in a deal valued at an enterprise price of \$310 million. The acquisition combines Quintillion's 1,800 miles of existing subsea and terrestrial fiber with Liberty Capital's statewide telecommunications network. While the acquisition was

firmly within Alaska/within telecom (Liberty Capital said it was looking at deals outside both in June 2025), the strategic logic of the deal was compelling as was the purchase price (~7x run rate 2026E EBITDA assuming all synergies). We increased our position following the deal.

On May 6, 2026, GCI announced a complicated deal in which the company would acquire ~\$107 million of LILAK securities (~6% equity ownership) from Searchlight Capital Partners and was entering discussions with John Malone to swap what we viewed as very cheap GCI shares for Dr. Malone's entire LILAK stake (~7% economic interest but 27% voting interest). We did multiple takes on the press release and instantly felt Michael Corleone-esque frustration about being dragged back into LILAK. GCI's stock promptly fell ~20% as investors expressed instant disdain for (we believe) the asset itself and the multiple conflicts of interest (buying Searchlight out of a failed position at no discount, a swap of cheap GCI shares in an intra-Liberty deal with John Malone).

We hated the deal and believed the sell-off was justified. We wrote to GCI, noted that we had closely followed LILAK and explained our reservations about the asset itself and the conflicts of interest. If we or any other GCI investor wanted exposure to LILAK, we simply could have purchased these shares directly. We likely would have sold the entire GCI position but less than one week later, GCI announced that it was terminating discussions with Malone on his LILAK stake and that Malone would repurchase the Searchlight shares GCI acquired at the exact price. There are few "do overs" in the investment business but here was one.

Later in May, we participated in a call with GCI CEO Ron Duncan who, while defending the LILAK asset (we disagree), expressed regret about not anticipating how negatively GCI investors viewed intra-Liberty deals and vowed not to make the same mistake going forward. When we asked about the strength of the "on-deck" list of possible deals, Duncan essentially said they had looked at multiple deals but passed given the unrealistic valuation expectations of sellers (particularly private equity owners). Duncan noted it was far better to sit tight rather than consummate a poor transaction. Duncan, however, expressed confidence that there will be a time when private equity owners must sell, and he thought the prospects were high for GCI to acquire assets at this time.

Amazingly, GCI has kept declining even after the "redo," and shares now sit ~35% below levels on May 5. Some of the further selling likely centers around further Starlink concerns following SpaceX's massive ~\$1.75 trillion IPO. As noted in our Q3 2025 letter, Starlink is a more legitimate competitor in Alaska versus the continental US. That said, Starlink's incremental gains have occurred in more rural Alaska settings. Furthermore, GCI's heavy concentration of commercial customers provides substantial protection – we are skeptical that a hospital will willingly swap from fiber to an inferior product, especially following the Quintillion deal because GCI will have far more redundancy in its fiber offerings should one ring break during Alaska's harsh winters. We would concede that GCI has few catalysts outside consummating an attractive transaction or conceivably repurchasing its cheap shares. Cable and Liberty names remain deeply unpopular, and it is unclear when this sentiment changes (if ever). That said, we added to our position following the call with Duncan as we think the odds of another intra-Liberty deal have materially declined (we likely would sell if this soft pledge is broken), we believe that GCI's Alaska business is better insulated from fixed wireless and fiber challenges plaguing continental cable names and this competitive positioning should generate a steady stream of free cash flow. Finally, we think the Quintillion deal is positive, the LILAK experience is less likely to be repeated, and we still think that Malone has at least one more great deal left in him. GCI is, in its own way, another test of the investment discipline – a hated, cheap name where the urge to walk away is strongest at precisely the moment the odds of investment success have improved.

CHTR: Universally Hated, We've Been Very Wrong But...~50% Forward Free Cash Flow Yield Incongruous with 2030 Bonds Near Par

As noted earlier, it is incredibly difficult to hold onto winners over time, especially when one has an experience like CHTR. As we have discussed in prior letters, CHTR was once a fantastic winner for us -- really. We sold roughly half and, with the benefit of hindsight, life would be easier if we had sold the rest. What makes it hard is less arithmetic than psychology. A winner that visibly surrenders its gains inflicts far more mental anguish than the same dollar gain ever delivers in pleasure. That asymmetry – the very loss aversion we described with TIGO and GTX – is exactly what tempts investors to sell the sort of hated, mispriced name they should be holding.

To be clear, we simply misjudged the staying power of fixed wireless and fiber and their threat to CHTR's core broadband business. Satellite competition from SpaceX appears to be the newest concern hitting the entire telecom sector. With nearly unlimited capital, it is certainly possible that the company eventually becomes a bigger competitor in markets other than super-rural areas (thus far, little evidence). We have and continue to like CHTR's management team. We believe that the Cox acquisition (detailed in our Q2 2025 letter) was consummated at an attractive price and hope the deal closes shortly. Undoubtedly, CHTR paid too much for past share repurchases and leverage is too high given anemic growth or possible EBITDA declines. Complaints about CHTR's management team missing warning signs on competitors and paying too much for repurchases are completely justified. To its credit, CHTR has acknowledged that debt levels need to decline and the company is now targeting post-Cox levels at 3.5x (vs. a prior target of ~4x).

So, in summary, CHTR's business positioning is undoubtedly weaker, its deal with Cox still hasn't closed, and the company has drastically overpaid for past repurchases. Why on God's green earth would we hold onto the position and purchase additional shares? Quite simply because 1) there is a large core group of subscribers who are unlikely to switch and there is little evidence the business is getting worse (albeit little evidence it is getting better) 2) CHTR has strong visibility on capital expenditure reductions and therefore massive free cash flow expansion 3) the debt tenor is so long (weighted-average maturity of ~11.7 years, with ~95% of the debt maturing after 2026 and nearly 80% after 2031) that even if the business is permanently impaired, it is possible for the equity to have significant upside.

CHTR's 2026 Q1 print was a small case study in the volatility we are underwriting. The release looked largely unchanged to us – not better, but roughly where we expected – yet because broadband losses came in a touch worse than consensus, a stock we figured might wobble 5-8% instead fell ~25%. We saw nothing in the quarter to justify a move of that size, which is precisely the price-value gap that keeps us in the name. As we were finalizing this letter, the Q2 print landed to a similarly mixed reaction – soft on subscribers, but accompanied by several forward positives we lay out below.

On the quarter itself (reported July 24): it was objectively soft. Broadband losses accelerated to 172,000 (from ~120,000 in the first quarter), driven by weak gross additions and the normalization of aggressive first-quarter retention offers rather than by elevated churn, which was roughly flat. Management also trimmed its full-year standalone EBITDA guide to a decline of ~1%. But the call carried real offsets:

- The Cox deal is now expected to close in mid-to-late August, with synergies that management expects to grow toward ~\$1 billion and an implied Cox purchase price down to ~\$27 billion (~5x EBITDA).

- The company lowered its leverage target to a flat 3.5x and launched a \$20 billion debt exchange to accelerate deleveraging.
- CHTR paused buybacks until the fourth quarter to prioritize that deleveraging.

Tellingly, the CFO framed the value gap in the company's own terms – substituting 2028 capital expenditures into current free cash flow, she pegged the stock at roughly 2x free cash flow or a ~50% free cash flow yield. We have mixed feelings about pausing repurchases at a low (they bought at ~\$210 earlier this year and are stopping near \$130), but the setup into the back half – deal close, falling leverage, buybacks resuming in the fourth quarter, and EBITDA that could beat the ~1% decline guide – is compelling for a name this hated.

Perhaps said slightly differently, the whole debate collapses to a single tension: CHTR's bonds trade near par – the credit market sees little risk of default – while the equity trades at a forward free-cash-flow yield approaching 50%. Both cannot be right, and we think it is the equity that is mispriced. If consensus numbers are even directionally correct, it is not hard to envision 2-4x upside from current prices (~\$130). Assuming the Cox deal closes, the pro-forma free cash flow math largely speaks for itself:

Pro-forma (post-Cox)	2027E	2028E
Free cash flow	~\$8.5B	~\$10.8B
FCF / share	~\$52	~\$76
Net leverage	~3.7x	~3.4x
Price / FCF (at ~\$130)	~2.5x	~1.7x

Management has now chosen the deleveraging route – pausing buybacks to drive net leverage toward its new 3.5x target – while signaling that repurchases resume in the fourth quarter and continue thereafter. Either way, the point holds: a business that is merely stable, not growing, throws off an equity that compounds. Retire debt and the credit de-risks and the multiple can re-rate; resume retiring stock at today's price and per-share value compounds directly. By 2029, on our model, net leverage falls below ~3.3x and free cash flow per share compounds toward ~\$95 as buybacks resume. In a sentence, that analysis is why we continue to hold and add.

The natural question is what happens if the consensus EBITDA is materially wrong? We started running scenarios that we didn't believe – what happens if prices AND subscribers decline by 5% *annually* each over the next several years? It is not pretty as buybacks would certainly be stopped and leverage would climb toward ~4.5x. But, even in this scenario, it is harder to see a credit event. It should also be noted that this massive increase in losses would presumably occur when cable had a better product post DOCSIS upgrades.

In its annual Broadband review,² Morgan Stanley surveys customers and asks about broadband preferences. The survey certainly was not a glowing report from cable's perspective as customer satisfaction rates with FWA remain high and do not suggest a sudden change to the current competitive environment. That said, the survey also did not point to a more pronounced deterioration for cable. Cable's "very satisfied" cohort rose 4% to 46% (albeit below FTTH and FWA) while nearly half of cable

² Online survey among ~3,000 consumers 18+ year old in the U.S. Total sample is representative of the U.S. general population in terms of age, gender, and region.

customers admitted they had never switched providers. Obviously, all of this could change but it is harder to conclude there is evidence of a material increase in losses from current levels.

To stress test the above assumptions, we had a call with a family office where we have overlapped on investments in the past. Beneficially for us, the investment professionals at the office had far better credit backgrounds. Before the call, we separately had each of our Claude “analysts” run various forward projections and then we had the machines moderate the conclusions between the two models prepared separately. This controlled “Claude vs. Claude” discussion was a bit amusing to behold – with the machine most angry about our downside case that was judged completely unrealistic (we agree). The credit guys made several good points, but perhaps the most basic was the most relevant: “2030 bonds trading near par value do not mesh with a forward free cash flow yield of ~50% - one has to be wrong.” Not surprisingly, the credit guys thought CHTR should stop buybacks and pay down debt while we believe that some capital allocated to repurchases is too accretive to abandon. The family office also pointed out that ~30% of CHTR’s float is sold short and noted that a large chunk of that short interest might be factor related (telecom names with high debt levels) and many of those who short the name were not necessarily doing detailed work on the name.

So, if the name is one of the cheapest we have ever seen, why not put the majority of the portfolio into the name? Well, in short, we have been wrong and it is possible we could continue to be wrong. Balancing confidence versus overconfidence is another of the tricky aspects of investing and we must be conscious of total position sizing. Furthermore, if our basic premise is correct, purchases 20-50% above current levels could still prove to be strong investments 3-5 years from now. Certainly, awaiting further confirmation that the business is stabilizing could prevent us from throwing good money after bad and this could be worth the price of higher prices for any future purchases.

DCC: Private Equity Pounces...Take-under Feels Likely

We wanted to quickly touch on DCC plc (DCC), a name we described in detail in prior letters, given the recent headlines. In April of this year, KKR and Energy Capital Partners (ECP) approached DCC about a take-private transaction. The initial offer was rejected but a subsequent offer was made in July, and the Board has indicated that it is inclined to support the bid at this level. Several shareholders (including the Company’s founder) have said they will not support the bid unless the price is raised further. At the time of this writing, the deadline for a firm acquisition has been postponed a couple of different times and there could be a fight over the price. In our opinion, a bid of £65.25 per share is highly attractive...for KKR and ECP. Our own LBO model suggests IRRs above 20% and these could be much higher if one assumes multiple accretion upon exit (which is highly plausible). DCC’s business throws off an enormous amount of cash and therefore can handle higher leverage levels, which can quickly be reduced to allow for dividend recapitalizations and/or to fund acquisitions.

The dilemma that activists fighting the deal have is two-fold. DCC’s existing management team has implemented a ridiculously high dividend and simultaneously pushes back against any effort to increase its leverage. In order for a publicly traded DCC to unlock comparable LBO value, leverage would likely have to be increased and dividends reduced, with the latter allowing more aggressive acquisitions and/or repurchases of undervalued DCC shares. As we noted in our Q1 letter, DCC’s CFO showed zero inclination to raise debt levels, even one turn to fund repurchases of statistically cheap shares. Given DCC’s reinvestment opportunities and the lowly value of its existing shares, a dividend reduction would seem to be a rational capital allocation pivot.

Of course, such a cut would undoubtedly send shares lower, and few existing shareholders would welcome this. We have no intention of selling our DCC position and hope shareholder pressure can at least increase the takeout price. That said, a “take-under” unfortunately appears more likely than a capital transformation unless there is a change in the management team. We would welcome discussing any of the above with other existing DCC investors.

We will spare you the fully reprised broken record, though its substance holds: broad US markets remain expensive, and what value we find still sits mostly in special situations and outside the US. But the through-line of this quarter is less about the macro than about temperament. The same discipline that keeps us in TIGO and GTX after enormous runs is what keeps us in CHTR and GCI after painful declines – and in real time it is genuinely hard to know which category a given name will ultimately join. We are willing to be wrong now and again in exchange for not selling our winners too early, because this business rewards the handful you get right far more than it punishes the ones you get wrong. Many of our largest positions today were, not long ago, names most investors wanted nothing to do with; we suspect a few of our most hated holdings will read the same way in hindsight. We are content to be patient – and occasionally uncomfortable – while that plays out.

Thank you for your continued support.

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