



MONTHLY INVESTMENT COMMENTARY

Winter's Chill

FROM THE PORTFOLIO MANAGER

The AI Moment and Your Portfolio

The last few months have been challenging for a few of the software companies that have played an important role in the portfolio for the past several years. Technological advancement involves disruption of incumbent players by newer, more efficient solutions. The AI Moment we are living in is accelerating the pace of change. We embrace and depend on that phenomenon. It is an advantage for active management of the portfolio.

While I try to avoid using wonky tradecraft and calling out individual companies in these monthly updates, I am diving in with both feet here because it speaks directly to the performance of your portfolio. The agent of change in the software industry is a private company with technology that is demonstrably good at writing computer code — heretofore the domain of very smart engineers. You may have heard it referred to as “Vibe Coding.”

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PORTFOLIO POSITIONING

Holding Through the Rough Patch

Software stocks have been under pressure for the past three months as market participants have questioned the viability of their cash flows in a world where anyone can effectively write their own programs instead of paying for the use of someone else’s proprietary code. I do not think that is a near-term reality, but I acknowledge it is a legitimate longer-term concern that could affect the terminal value of the valuation.



It is my belief that the near-term result is a reduction in the expense of creating and maintaining software because the AI technology makes engineers more efficient, lowering costs and increasing profits. The effects appear to cancel each other out. This is why we have held on through the current rough patch in the sector and are looking to the current quarter for signs this trend is abating.

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