JDP
CAPITAL MANAGEMENT

Survivor & Thriver Fund, LP

3Q 2026 Investor Letter

"The best investors are not investors at all. They're entrepreneurs who have never sold."

— Nick Sleep

Dear Partner,

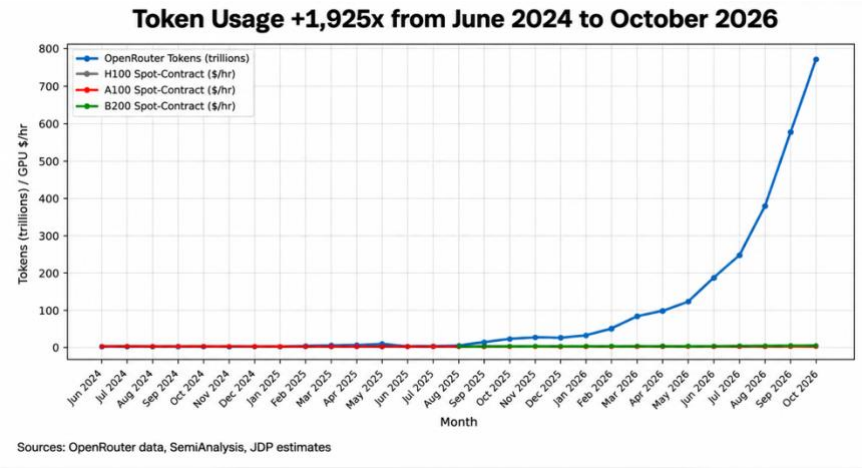
In the third quarter, the fund was -2.7% on a net basis, bringing our year-to-date return to -10.5%. This compares to the S&P 500, which was up 12.75% through September 30, assuming dividends had been immediately reinvested back into the index.

We are in a period of high market volatility as investors try to determine when and where the trillions of dollars being invested in AI will begin producing GAAP profit. The market has become increasingly uncertain as higher interest rates, declining token prices, and a weak consumer have put AI capex spending commitments into question.

Through September, the S&P 500 gained 13%, even as nearly half its constituents declined. Much of the index's performance came from companies perceived as immediate beneficiaries of AI infrastructure spending, while businesses positioned to benefit from longer-term adoption have often been overlooked despite improving fundamentals.

It's important not to confuse stock price fluctuations with deteriorating fundamentals. A company's stock can go nowhere for years while its earnings power improves.

AI usage is accelerating rapidly across sectors. We are still in the early stages of what seems like a generational investment opportunity driven by prolonged productivity growth. That said, the path to World Equilibrium will be anything but smooth.



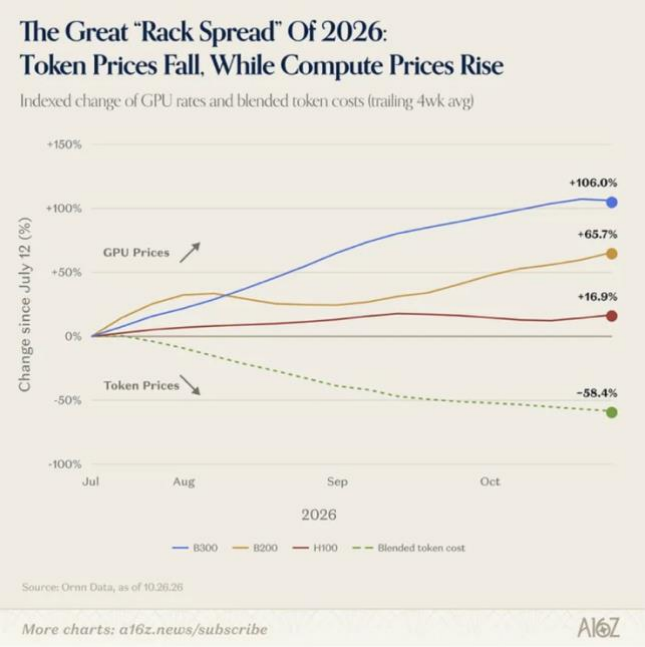
To increase our odds of outperforming the S&P 500 over the next decade in a tax-efficient way, we want to hold stocks positioned to capture a disproportionate share of the economic benefits of technological change.

This requires thinking carefully about competition and evolution in a future world that will look very different from today. To our detriment, I've avoided the popular AI bottleneck stocks where, in my view, the competitive landscape is changing too quickly to develop any differentiated insight.

Instead, we've held on to core positions where revenue growth, strong customer retention, scale, and highly advantaged manufacturing capabilities are being undervalued by the market. As intelligence becomes cheaper, these advantages should strengthen along with earnings power.

Core Portfolio Review (75% of AUM)

Falling token prices are expanding what businesses can economically accomplish with intelligence. For our holdings, this creates opportunities to develop new products, reach additional customers, and improve operating margins without proportionate increases in spending. Spotify, Amazon, and Tesla are positioned to benefit in different ways, with established distribution, proprietary data, and manufacturing scale providing advantages that become more valuable as intelligence gets cheaper.



Spotify

Spotify's stock was down 16% for the year as of September 30, but has recovered since. Spotify is an example of a business benefiting from the declining cost of content creation.

With an enterprise value of only $110 billion, SPOT could double as pre-tax earnings accelerate toward $10 billion over the next couple of years. This is driven by continued gross margin expansion, low-hanging opportunities in advertising, new interactive product experiences, and subscription pricing power. If the stock doubles again, we will have earned over 10x our initial investment in the stock over the last ~8.5 years.

Highlights from the recent 3Q earnings call that stood out:

- **Spotify's proprietary data advantage is strengthening.** Investments in its Large Taste Model are producing double-digit improvements in content discovery, which management expects to generate billions of additional listening hours annually. Third-party AI agents can interact with Spotify, but the company retains the taste data and personalization capabilities that drive recommendations, engagement, and retention.
- **AI is accelerating product development without a corresponding increase in headcount.** Management is seeing meaningful improvements in the number of customer-facing features shipped, not simply more code written. These productivity gains are already translating into improvements in engagement, retention, and listening hours.
- **Revenue growth with expanding profitability.** Revenue increased 16% year over year, while operating income reached €672 million and operating margins expanded to 13.5%. Management expects operating expense growth to moderate further into 2027, even as investment in new products continues.
- **Exceptional cash generation and growing shareholder returns.** Spotify generated €735 million in quarterly free cash flow and approximately €3.2 billion over the trailing twelve months. The company repurchased 2.2 million shares for $1.1 billion through October 21, demonstrating its growing capacity to return excess cash to shareholders while continuing to invest in growth.
- **The competitive moat continues to expand beyond music.** Spotify is expanding audiobooks from 22 markets to more than 180 by year-end, while introducing new podcast monetization tools, creator memberships, and AI-powered music experiences.
- **Advertising remains a significant opportunity.** Advertising revenue growth accelerated to 9% in constant currency, with automated biddable channels becoming an increasingly important part of the business. Longer term, I think AI-driven advertising, creator monetization, and agent-mediated transactions could create opportunities for Spotify to capture more transaction-based revenue.
- **The global opportunity remains substantial.** Nearly half of Sweden's population pays for Spotify, compared with less than 4% globally. Even mature markets such as Germany and the U.K. have considerably lower penetration, leaving room for continued subscriber growth alongside pricing increases and additional monetization.

Amazon

Amazon was up about 8% through September 30. Despite its $2.6 trillion market capitalization, Amazon offers the kind of upside and risk/reward opportunity typically found in small, underfollowed companies that few investors have heard of. AWS alone grew 39% to $46 billion in the quarter, and management expects growth *exceeding* 40% annually in both 2027 and 2028. At that pace, AWS could approach $360 billion in annualized revenue within two years.

A path to $10 trillion in equity value, nearly four times today's valuation, is not difficult to envision.

Amazon has two enormous opportunities: selling intelligence through AWS and using it to improve the economics of its existing businesses. Its low cost of capital, global distribution network, enterprise relationships, and infrastructure scale provide advantages few competitors can replicate. As intelligence becomes cheaper, AWS can serve a growing market while Amazon's retail and logistics operations benefit from greater automation and lower operating costs.

Highlights from the recent 3Q earnings call that stood out:

- **AWS is accelerating despite its enormous size.** Revenue grew 39% to $46 billion in the quarter, and management expects growth exceeding 40% annually in both 2027 and 2028. At that pace, AWS could approach $360 billion in annualized revenue within two years.
- **Demand for intelligence continues to exceed supply.** AWS backlog reached $578 billion, more than doubling year over year. New computing capacity is being consumed almost as quickly as Amazon can deploy it.
- **Amazon has a structural advantage in selling intelligence.** Its low cost of capital, existing enterprise relationships, custom silicon, and massive scale allow it to invest at levels few competitors can match. Growing demand for intelligence also generates additional demand for AWS storage, networking, and traditional computing services.
- **AWS is already generating exceptional profitability.** Quarterly operating income increased 55% to $17.8 billion, with margins approaching 39%, demonstrating the earnings power of the business even as infrastructure investment accelerates.
- **Robotics could fundamentally improve retail economics.** Amazon has deployed more than one million robots across its fulfillment network, yet automation remains in its early stages. As intelligence becomes cheaper, robotics should continue reducing fulfillment costs while improving delivery speed.
- **Amazon's distribution network becomes more valuable as intelligence gets cheaper.** Intelligence can dramatically improve product development, logistics, and customer service, but competitors cannot easily replicate Amazon's physical infrastructure, customer relationships, or global reach.
- **Retail operating leverage is accelerating.** Consolidated operating margins reached 13.9%, while management expects fulfillment costs per unit to decline for the fourth consecutive year. Advertising and other higher-margin services provide additional opportunities for earnings growth.

Tesla

Tesla shares are down roughly 12% year to date despite extraordinary progress across the business. Even at its $1.5 trillion valuation, there are multiple paths to multiply our capital. While a Tesla/SpaceX merger appears increasingly likely, Tesla's competitive advantages stand firmly on their own.

For example, replacing Uber's estimated 20 billion annual passenger miles in North America would theoretically require only 200,000 to 300,000 Tesla Robotaxis. Against Tesla's existing manufacturing scale, the vehicle production requirement is manageable. The larger opportunity is capturing a share of the approximately 3.3 trillion miles Americans drive annually.

Tesla's advantage lies in its ability to combine battery technology, proprietary computing hardware, billions of miles of driving data, and low-cost manufacturing into a vertically integrated platform that few non-Chinese competitors can replicate at scale.

The biggest risks to Tesla stock today, in my view, are Elon's personal security, the regulatory challenges of scaling Robotaxi across the United States, enormous capex needs, and SpaceX merger terms turning out to be less attractive than we'd like.

Bears have spent years warning about looming competition in Full Self-Driving (FSD), yet there is still no comparable consumer product I can try on the street that can navigate unfamiliar roads across

different cities without being geofenced or restricted to a specific area, even with a driver supervising the system.

While FSD still requires driver supervision, its ability to generalize across different environments, combined with Tesla's manufacturing scale, creates a competitive advantage that becomes more difficult to replicate with every software improvement and every additional mile driven.

Highlights from the recent 3Q earnings call that stood out:

- **Robotaxi deployment is accelerating.** As of November 1, Tesla reportedly had 1,244 vehicles registered with the Texas DMV, up from almost nothing in June, putting its registered fleet just 15 vehicles behind Waymo's 1,259. Tesla has expanded its registered fleet in less than five months to a scale that took competitors years to establish. While registrations do not necessarily represent vehicles actively carrying paying passengers, the speed of the manufacturing and deployment ramp is remarkable. Tesla also reported that cumulative unsupervised Robotaxi miles increased eightfold during the third quarter.
- **Solving the final 10% of autonomous driving is far more difficult than the first 90%.** During the 3Q earnings call, Ashok Elluswamy explained that reaching the first 90% of autonomous driving capability is relatively easy compared with solving the enormous number of rare situations encountered in real-world driving. The challenge is not simply getting a vehicle to drive itself, but achieving the reliability necessary to operate millions of miles without causing injuries. This helps explain why Tesla has been slow in expanding Robotaxi.
- **Vehicle demand is now exceeding production.** During the third-quarter earnings call, Elon explained that Tesla is producing and delivering as many vehicles as possible, with FSD becoming the primary driver of demand. The company ended the quarter with its largest passenger-vehicle backlog in four years, while more than 75% of North American deliveries included a paid FSD sign-up. Active paid FSD users reached 1.74 million, up 67% year over year. Tesla manufactured 464,391 vehicles during the quarter and is targeting annual production of approximately five million vehicles by 2030.
- **Tesla's data advantage is compounding.** By October 2026, Tesla had already accumulated more than 13 billion FSD miles during the year, compared with approximately 4.25 billion in all of 2025 and 2.25 billion in 2024. Assuming FSD mileage continues growing at the same pace, annual FSD miles could exceed **one trillion** globally by 2030. Sustaining that growth would require a substantial fleet expansion, which might not happen by then, but the growth in FSD miles driven is impressive.
- **Energy storage is becoming another substantial growth business.** Tesla deployed 13.7 GWh of energy storage during the quarter and 36 GWh during the first nine months of 2026. On the 3Q call Elon indicated that Megapack production for 2027 is nearly sold out, with demand increasingly driven by AI data centers and the need to expand usable power capacity without waiting years for new generation and transmission infrastructure. Tesla has now started production at its Texas Megafactory, which has planned annual capacity of 50 GWh, adding to existing manufacturing capacity in California and Shanghai. Management also expects gross margins to improve as production scales.
- **Terafab represents another layer of vertical integration.** Tesla is developing its own semiconductor manufacturing capability to reduce dependence on external suppliers of the computing hardware required for autonomous vehicles and Optimus. Terafab will be co-owned with SpaceX. During the 3Q call, Elon indicated that equipment commissioning at the Austin research fab should begin in the first half of 2027, with initial test chips targeted for May or June and meaningful production potentially beginning in late 2028. The project could ultimately require more than $100 billion in capital investment.

China Basket

Our China Basket consists of Alibaba, Tencent, and CATL, which collectively declined more than 25% through September 30.

Chinese equities remain deeply out of favor, weighed down by weak domestic demand, property market challenges, geopolitical tensions, and concerns about returns on rising AI infrastructure spending. CATL faces additional pressure from excess manufacturing capacity and intensifying EV price competition. These concerns have left several of China's most entrenched businesses trading at substantial discounts to their American peers.

The five largest public technology companies in China: Tencent, Alibaba, PDD, Xiaomi, and NetEase have a combined market capitalization of just over $1 trillion, one-fifth of NVIDIA's market cap.

Within this group are businesses with near-monopolistic market positions, entrenched distribution networks that would be virtually impossible to replicate today, the lowest costs of capital in China, and unmatched reach across the country's consumer and enterprise markets. Several also have dominant positions throughout Southeast Asia.

As in the U.S., AI capex is accelerating in China. Combined capital spending by ByteDance, Alibaba, Tencent, and Baidu increased from approximately $50 billion in 2025 to over $100 billion in 2026. Alibaba, Tencent, and Baidu alone invested approximately $20 billion in the second quarter of 2026, more than double the prior year (SemiAnalysis).

Given the opportunities in the U.S., we are not currently adding to our China Basket, but I continue to believe the upside is worth the wait.

Closing Thoughts

The world is entering what could become the most significant productivity boom in generations, driven by the rapidly declining cost of intelligence and its adoption across virtually every industry.

Businesses are producing more with less, expanding into new markets with less headcount, and developing products that were not possible before. This trend is not slowing down. But along the way there will be disruption, failed investments, and periods of extreme doubt.

Thank you for your patience and trust. My family and I are fully invested alongside your capital.

Sincerely,

Jeremy Deal