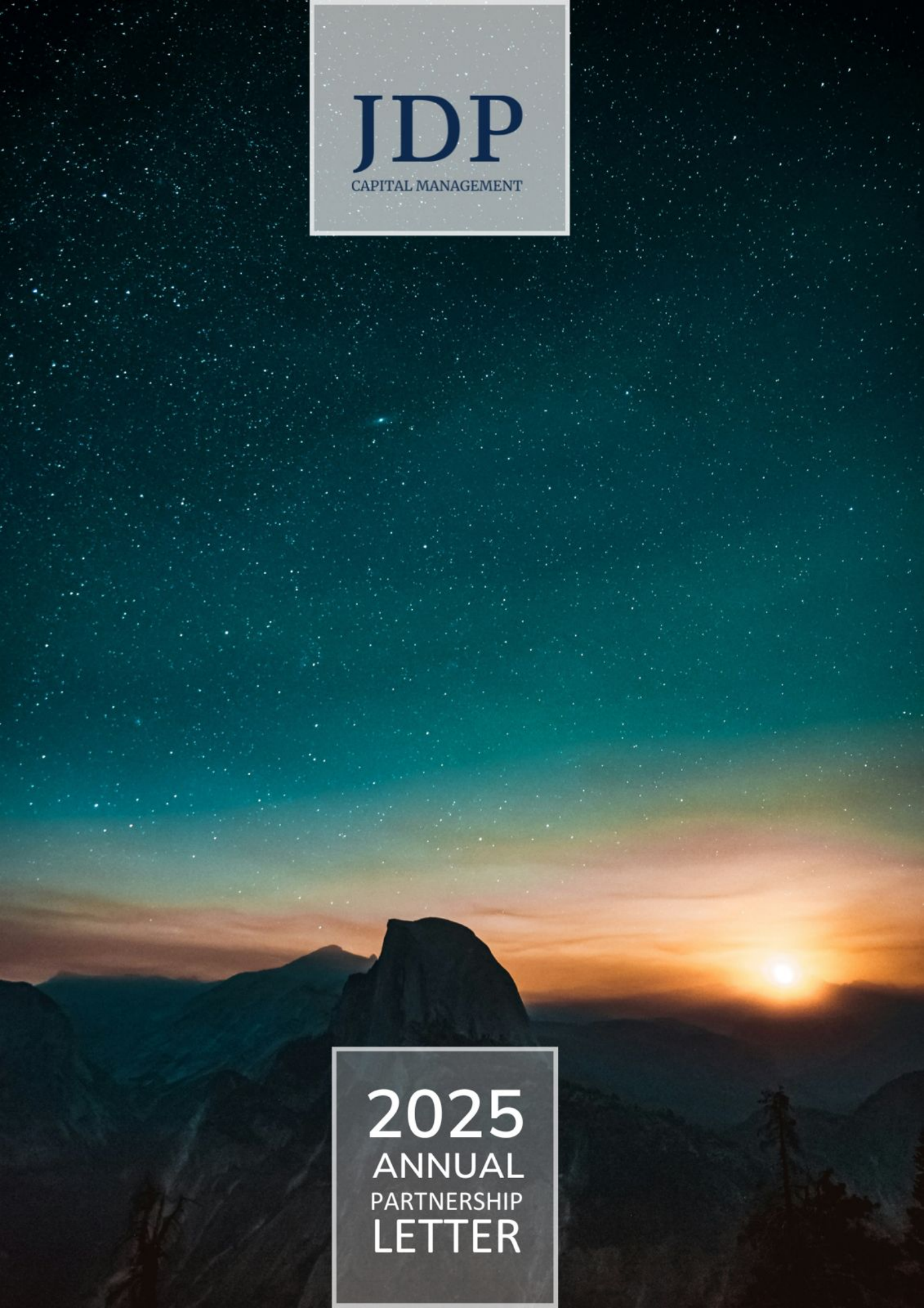
JDP
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2025
ANNUAL
PARTNERSHIP
LETTER

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Survivor & Thriver Fund, LP

2025 Annual Partnership Letter

Dear Partner,

Two thousand and twenty-five was a good, yet choppy year for our fund. In 4Q the fund was down -7.5% bringing the full year return to +21.8% net to investors. This compares to the S&P 500 which gained 3.1% in 4Q and 17.7% for the full year assuming dividends had been immediately reinvested back into the index.

In last year's annual letter I talked about the acceleration of technological change that I saw happening in sectors and companies I follow. What a difference a year makes.

Conversations about using LLMs for everything from tax advice to holiday planning now feel commonplace. New agents are emerging that are increasingly capable across a wide range of tasks, from coding to managing personal stuff. Teenagers discuss viral songs that were not created by a human, or the new short video series on TikTok produced by a single creator. People remark on how nice high-speed Starlink internet is on a flight, and how cool it was to experience a driverless taxi for the first time.

I am fully aligned with the view that many tasks currently performed by humans will increasingly be handled by hardware controlled by a software "brain" that learns and improves on its own. As this happens, use cases for products can expand beyond narrow, sector-specific verticals like "ride-sharing" or "warehouse" into broader categories such as "transportation" or "industrial."

Throughout history, major technological shifts have created a bigger economic pie. The invention of the cotton gin replaced human jobs initially, but allowed daily cotton production to go up by 10x. This rapidly transformed the US economy as cotton become the dominant cash crop by the mid-19th century. Prior to the cotton gin, the invention of the printing press revolutionized the European economy by cutting book and newspaper costs by over 75%. Cities with printing presses in the 15th century grew 60% faster than similar non-printing cities for the next 100 years.[1] Until AI, the mother of all modern economic transformation had been the internet, with its contribution to GDP exceeding the largest pre-internet sectors like agriculture and energy.[2]

Much like prior technological step-changes, AI is driving the next major leap in economic productivity. The result will be that the way we use products and interact with the world will evolve, as it has for centuries. We no longer travel by horse-drawn buggy because the automobile enables us to go farther, faster, and at lower cost.

The stock market narrative has rapidly shifted from fears of an "AI bubble" to "AI destruction." Rather than focusing on the growth AI can unlock, the market is panic-selling most things tech. Today's sell-off is reminiscent of the "DeepSeek Moment" a year ago, after the release of the Chinese open-source LLM DeepSeek led to sharp declines.

[1] Boston University: INFORMATION TECHNOLOGY AND ECONOMIC CHANGE: THE IMPACT OF THE PRINTING PRESS
[2] McKinsey: The impact of the internet on economic growth and prosperity

While we do not own any enterprise software stocks but the correction has also spread wider, such as to our high free-cash-flow generative consumer tech names. I am actively sifting through the dislocation for new ideas. We are not looking for collapsed stocks hoping for a bounce. Instead, we want to own companies with similar characteristics to what we own today, and with business models positioned to get stronger as AI tools improve.

As token prices continue to decline and new chip designs enable lightning-fast, low-power inference, monetization models [of everything] are likely to shift to consumption-based. For the right businesses this will unlock TAM that was previously out of reach.

For example, smaller consumer platforms such as Spotify will be able to build Facebook-like recommendation engines, powered by new inference-as-a-service offerings that were cost prohibitive even a year ago. More effective recommendation engines should enable more effective performance-based advertising and support a higher take rate on product-driven transactions. In many categories there will be meaningful winners that the market is currently overlooking.

Overview and Outlook

The "N.O. Shaped" Economy

The bull market that began in October 2022 and has resulted in three consecutive years of double-digit gains even as headlines and sentiment were largely bearish. Also known as the "most hated V-shaped recovery" the S&P 500 did well in 2025 (again) despite widespread skepticism, soft economic data, and a constant drumbeat of recession calls.

2025 was one of the most volatile years since COVID. After a big initial rally in January and February, the S&P 500 fell 18.9% to its low on 8 April, followed by a sharp rally. In October, the S&P fell over 10% from its late summer peak before recovering into year end. I expect a similar pattern in 2026. Investors who just stayed invested last year probably did much better those who tried to time the market.

The "real economy" has been losing momentum since the Fed started the most aggressive interest rate hike in history in 2022 while technology businesses have largely been able to continue growing. In the 3Q letter I referenced the economist Jim Paulsen's work on market pessimism. More recently Jim put out more excellent work on his framing of the last 3 years, calling this period the "N.O. shaped" economy, where N stands for **New-era** and O stands for **Old-era**.

In a recent interview Jim explains New-era as large-scale technology, AI, software, and intellectual property heavy businesses that operate on structural innovation cycles that allow them to grow even when traditional cyclical drivers are soft. Old-era are sectors like manufacturing, traditional retail, construction, industrials, and services are still governed by interest rates, bank credit, inventory cycles, and consumer income growth.

The reason so many investors have been left out of the narrow bull market has been a disconnect between broad economic data and the companies that largely live outside these economic hurdles.

- The aggressive Fed tightening cycle that began in 2022 was historically unique in that an entire bull market unfolded under tightening rather than easing where tech growth masked the pain in Old-era businesses.

- High interest rates and a record-length yield-curve inversion choked off credit-dependent sectors but had limited impact on the most profitable New-era businesses, which [were] less reliant on bank financing and could self-fund growth from cash flows.

Going into 2026, real US GDP growth is now closer to 1.8–2.0% after backing out tariff front-running and unemployment is rising. Old-era areas of the market are starting to move higher betting on a combination of pent-up growth, lower interest rates, tax incentives, conservatively financed public companies, and that the US will avoid a recession. I am in the camp that interest rates will come down over the next year or so, possibly by a lot, especially as AI continues to put deflationary pressure on the labor market.

My guess is that 2026 could be a good year for the recovery of many of the cyclical stocks that have been left behind over the last 3 years. Although there might be a mean-reversion trade to be had, we will focus on stocks that could be structural winners and not just a trade.

Investing in Survivor & Thriver businesses vs trading

The concept of the "Survivor & Thriver business" serves as both the North Star for our investment process, a strategy, and a reminder that there are very few companies that can survive and thrive long enough to beat the market over long stretches of time. True Survivor & Thriver businesses are rare but their power-law impact on an investment lifetime is well understood.

When we look back in 10 or 20 years from now at the cohort of Survivor & Thriver stocks that beat the market, it is likely that the drivers of those returns were obvious all along. This is also true for stocks that might be flying high today but ultimately will not be sustained winners.

Even the most bullish Google investors back in 2004 probably could not have imagined the company's revenue would grow from $3.2 billion to over $450 billion in 22 years.[3] Looking back at Google sell-side reports from the mid 2000s, the buy and sell recommendations were always focused GAAP financial metrics such as the P/E ratio. But what mattered for over a 22 year period was not a financial ratio or interest rates, but the durability of the platform's monetization power built on top of possibly the world's largest privately-owned data treasure trove.

The moats that power Survivor & Thriver businesses are not always intuitive or obvious. The cigarette maker Altria Group (formally Philip Morris) holds the record for the highest returning stock of all time. Including dividends Altria has returned ~265,000,000% since 1925 and ~12,800% since Google's IPO alone. It turns out that certain cigarette brands have tremendous pricing power that, so far, has outrun enormous headwinds such as declining number of smokers, endless tax hikes and highly restrictive advertising.

The challenge to picking tomorrow's winners

The challenge to picking tomorrow's winners is that technology is compressing corporate lifespans faster every year. It is more common to see new companies scale fast, with much less capital and fewer employees than was possible even five years ago. Societal norms and lifestyle patterns are also changing faster. Past safe-haven sectors like healthcare, alcohol, transportation and utilities are facing major business model changes that will result in the future looking a lot different than the past. Btw, major change doesn't mean doom and gloom and there will winners in all sectors.

[3] SEC filings, JDP estimate of 2026 revenue

My point is that with so much rapid change, identifying tomorrow's winners is not as easy as running a screen on historical earnings. When the past is less of a reference for the future, identifying durability is more qualitative, subjective and difficult because it often goes against consensus.

Since the future is so uncertain we look for businesses with moats that are protecting market position in a market that is growing. We want leadership that can evolve quickly when others can't. We also want secular tailwinds and structural advantages that will be more important in tomorrow's economy. In our case this could mean owning a large global platform where customer behavioral data is used to enhance products, deepen customer relationships and drive pricing power.

Lastly, we need to feel good about the price we pay relative to the business's opportunity set over a reasonable time horizon. Every stock in our portfolio was purchased at a time when the market was distracted by economic uncertainty or a business or sector transition that overshadowed underlying earnings power.

Selected Portfolio Review

The biggest contributors to 2025 performance were our China basket, Spotify +29.8% and Roku +46%. Within the China basket Alibaba was +82%, Tencent +52% and CATL +32% (partial year only) in 2025. We sold Ping An for a small gain after a long hold and initiated a toehold in an unnamed Chinese broker-dealer. Tesla ended 2025 +11.3% underperforming the market and our fund. As of yearend 2025 our Tesla position is up about 136% since making the investment in mid 2024.

The biggest detractor from performance in 2025 was Caesars Entertainment which ended -30%. The equity now trades for roughly 1x EBITDA and 5x EV/EBITDA as US consumer spending power is perceived to be dying. We trimmed the position at yearend in order to realize a loss and offset a small realized capital gain in the fund from earlier in the year.

New position - Pure Storage (NYSE: PSTG)

In early January 2026 we initiated a starter position in Pure Storage (Pure). Pure is a enterprise data storage company that develops flash storage hardware and software with a market cap of about $20 billion. Pure was founded in 2009 by industry veterans Coz Colgrove and John Hayes and went public in 2015**.** The company helped pioneer modern flash-storage architectures that replace legacy disk systems, and it has expanded into software and subscription-based data services for cloud and AI workloads.

Despite a huge run in memory stocks in response to AI data center demand, enterprise storage stocks like Pure have not benefited nearly as much. PSTG's stock price has been about flat since mid 2024. The market still mostly values Pure's revenue as a commodity storage vendor. But the business is moving up the quality ladder towards infrastructure software with compounder characteristics.

<u>Enterprise storage vs. memory and the potential for a re-rating</u>

For decades enterprise storage has been treated as low-growth cyclical hardware, while DRAM and NAND suppliers captured most of the recent growth. Older hard disk drive-centric architectures with little pricing power kept the storage business more commoditized while memory (DRAM/NAND) rode secular tailwinds. As chips got smaller and cheaper to make, memory companies were able to sell more storage every time servers were upgraded. What changes now?

With a shift to AI inference workloads the storage layer becomes more important because of its constraint on GPU utilization. Storage becomes a bottleneck as models get larger and inference becomes more complex.

Huge amounts of data must be pulled from storage repeatedly at extremely fast speeds. This creates an opportunity for the storage sector (and Pure specifically) to provide software that enhances utilization and GPU productivity. Once storage affects GPU productivity it becomes more mission-critical, similar to power, networking, or memory.

PSTG vs traditional storage

Most traditional storage vendors like Dell assemble systems using standard, off-the-shelf solid-state drives that were not designed for AI workloads. These systems work well for general data storage, but they are known for small, unpredictable delays that don't matter much in normal IT environments.

Instead of relying on pre-packaged drives, Pure designs its systems to manage the underlying flash memory through its own software. This gives it tighter control over how data is delivered, resulting in more consistent performance. The result is storage that behaves predictably at large scale which is ideal for maximizing utilization of AI infrastructure.

Structural tailwinds

AI workloads are increasingly constrained not by computing power but by how much data systems can store and how quickly that data can be moved to the processors doing the work. As AI models grow larger, they require more memory and storage. This is driving a shift toward faster, high-capacity flash storage over traditional hard drives.

Pure is positioned at the center of this shift because its systems manage raw flash memory directly through its own software rather than off-the-shelf solid-state drives. Pure seems to have a structural cost and performance advantage that is difficult to replicate without legacy competitors rebuilding their products.

Evergreen//One Program and the recurring revenue model

The Evergreen business model was first launched in 2015 as a new ownership and subscription model to replace disruptive storage upgrades. Evergreen allows in-place upgrades so hardware can be refreshed while the array stays online. This way Pure prices storage as a consumption service where customers commit to a performance and capacity tier. Pure grows ARR through contracts and remaining performance obligations (RPOs) rather than one-off hardware sales.

This model is especially attractive as inference gains traction and future hardware requirements are less certain. Our thinking is that Pure's existing footprint becomes a beachhead for incremental IT and AI spend as customers roll out inference products that requires stricter latency. Evergreen is now a core driver of Pure's recurring revenue and represents about 45% of total revenue. As of 3Q, ARR reached $1.84 billion and is growing in the high-teens.[4]

[4] Pure Storage Investor Relations, SEC filings, JDP estimates

Implications to upside potential

Pure is positioned at the center of a secular shift as flash storage replaces hard drives across enterprise, hyperscale, and AI-adjacent workloads.

Estimates for market size range from $65 billion by 2031 (Mordor Intelligence) to $132 billion by 2035 (Future Market Insights), up from roughly $20 billion today. Pure's own TAM framework estimates the all-flash array market will grow >20% annually for the next ~5 years (company presentations).

As AI inference and data-intensive applications scale, storage could move from a cyclical purchase to a capacity layer, structurally enlarging the lifetime spend per customer.

Starting from roughly $630 million of FY26 non-GAAP operating income, Pure has a credible path to $2+ billion of operating earnings over the next five years. This is supported by market expansion, share gains in flash, and operating leverage as recurring revenue becomes the majority of revenue. In our bull case, Pure's operating margins could settle out in the mid 30% range with returns on capital between 30% and 40%, and a debt-free balance sheet.

In this scenario the valuation would support a 30x to 40x multiple on $2 billion of GAAP operating earnings implying a $60 to $80 billion enterprise value versus $20 billion today. Although Pure might screen expensive, we think the fundamental downside case is limited because of Pure's market position and sector tailwinds.

China basket

Although Chinese indexes did well in 2025, large cap tech still remains particularly attractive. Not only are secular tailwinds so much stronger than the mainstream economy, the tech conglomerates are much more focused on maximizing margins and earnings per share than in years prior. For Alibaba and Tencent this means shedding stagnant operating divisions that had masked core earnings growth, doubling down on the core businesses and buying back stock.

Alibaba (BABA) is now our third largest position as I have let the position run. The longer term potential for BABA is much clearer to me today than when we first invested. BABA's equity valuation had fallen to about $200 billion when we invested and the stock looked deeply undervalued based on earnings and a balance sheet overstuffed with investments.

Initially I did not fully appreciate the company's leadership position in China enterprise cloud. This advantage has allowed BABA to emerge as a winner in the development of AI products like the foundational model Qwen built on top of core offerings. In 3Q26 the cloud business alone grew revenue ~34% YoY to about $5.6 billion or a ~$22 billion annual revenue run-rate.[5]

BABA's planned $53 billion investment in data centers over the next three years will allow it expand in inference and other infrastructure services, similar to the playbook of their US peers.

Comparable growth playbooks at AWS and Google Cloud have combined compute with expanding layers of managed services to drive customer lock-in and pricing power.

[5] Company investor relations, JDP research

BABA is effectively implementing the Chinese version of this strategy with Qwen models and inference-as-a-service serving as hooks that pull demand into its cloud ecosystem.

With the company's renewed focus I would argue that BABA is actually cheaper today than it was 18 months ago at half the price.

Tesla

Tesla has evolved faster than any business we have ever owned. While the bears fixate on slowing auto sales it misses what has been an extraordinary period of technological acceleration across autonomy, robotaxi development, manufacturing, batteries, and utility-scale energy storage. We invested in Tesla on the basis Elon would go all-in on building an operating system for vehicles that could re-shape transportation.

The most important change over the last 18 months has been the transformation of FSD (Full Self Driving). Tesla shifted its FSD approach from human-programmed driving rules to an end-to-end, vision based self-learning system that continuously improves from real-world experience. Instead of following pre-mapped routes like competitors, Tesla's vehicles are able to perceive, reason, and interact with the world in an open-ended way. This is made possible by a data flywheel drawn from a global fleet, exposing the system to millions of micro driving cases that grows more difficult to compete with on daily basis.

True autonomy means moving around on any street, in any city or country, without sacrificing the freedom that personal vehicles represent today. Estimating the financial opportunity for true autonomous transportation is simply: total global vehicle miles per year, multiplied by the cost to build and maintain the vehicle. This implies a multi-trillion-dollar transformation of transportation economics where the most scaled software matched with the lowest cost vehicle, captures an ever increasing share of the market as the product improves.

The Optimus opportunity is now much clearer to me than it was when we first invested into Tesla. Optimus can be thought of as the same autonomy stack as in self-driving vehicles but in a different form factor. But the market for general purpose robots is much larger than transportation. Today's robotics market is constrained because machines are built for narrow, pre-defined tasks in controlled environments. A self-learning humanoid robot breaks that constraint. Once a robot can generalize using vision, the addressable market shifts from niche automation to broad, general-purpose physical labor (from stocking grocery shelves to deep-water welding). In effect, the addressable market becomes most blue-collar jobs.

Together, FSD and Optimus represent a robotics operating system and platform for real-world AI. Although our Tesla position has more than doubled since we invested less than two years ago, the company's opportunity set is more tangible and better understood than when we invested.

Spotify

It was a rollercoaster year for Spotify's stock but a smooth year for growth. After initially rocketing up over 60% in the first half of the year as a "safe haven", SPOT ended the year up 29.8%. The stock is now in a ~35% drawdown from the 2025 high out of fears that the recent premium plan price hike could stifle growth. We do not try and trade around bullish and bearish sentiment because it would not be fair to our taxable LPs (myself included) to generate tax liabilities simply to massage monthly returns.

Although 4Q'25 earnings are not out yet, the company estimates it will end 2025 with 745 million users, up by 100 million over 2024.

Since we've owned the stock, Spotify has added over 530 million users. Operating income has gone from near-breakeven, to what we think will be north of US$3.5 billion in 2026.

Gross margin, operating income and free cash flow continue to grow faster than revenue with gains operating leverage across the platform.

By our estimates, 2025 operating earnings grew by ~56% and free cash flow was up about 26%. This was driven by subscriber growth, price increases for the premium tier and increased use of the two-sided marketplace.

The hand that feeds the music industry

In 2025 Spotify paid out about $11 billion to the recorded music industry. With the global recorded music market estimated to have generated roughly $30 billion, Spotify represented around 36% of total industry revenue and about 50% of *all* streaming revenue generated for the music industry.[6]

Spotify is the music industry's consumer engagement layer and outsourced technology partner. In return, Spotify collects and owns personal behavioral data that it uses to analyze patterns across users as shared preferences for mood, styles and listening contexts. This understanding allows the system to predict what users might like and build personalized music, podcast and audiobook playlists. Beyond user behavior, Spotify extracts characteristics from the audio itself and applies language models to lyrics, descriptions, and spoken content in podcasts. This allows the platform to recommend new content with little prior listening history.

Although Spotify is always experimenting with new verticals beyond music, podcasts, audiobooks, the biggest opportunity might be to leverage its relationship with ~750 million people to build a leading digital ad business. I have written before that Spotify has tried and failed to meaningfully grow its advertising business in the past. But my channel checks indicate that the company has made excellent progress in working through various bottlenecks.

Spotify's advertising opportunity is compelling because it starts from a low base of roughly US$2 billion or ~10% of revenue today. The ability to target ads based on real-time context and engagement creates ad inventory that is highly targetable. As mentioned earlier, access to cheaper inference and then partnering with larger ad distributors like Amazon, should allow the company to move from just a low margin click-based revenue model towards a take-rate option for some advertisers, that captures a percentage of the revenue generated on the platform.

This opportunity is far from priced into the stock and should be an important driver of management's bigger goals. Unlike Netflix, Spotify does not need to invest in owned-content, meaning incremental advertising revenue will translate into higher returns on equity, supporting a terminal multiple more similar to a standalone YouTube.

[6] Music Business Worldwide, Spotify, JDP research

Closing thoughts

The market narrative has quickly moved from "AI bubble" fears to "AI destruction" fears. AI will undoubtedly mean permanent impairment for businesses that cannot evolve, but it will also provide a powerful tailwind for those that can.

Similar to investing at the dawn of the printing press, the cotton gin, or the internet when the potential impact of these technologies was highly controversial, I believe we are entering what will be remembered as an extraordinary era for investing. As my friend Chris Begg of East Coast Management wrote in his last letter, *"What makes this work difficult, and what makes it interesting, is that these opportunities rarely appear under blue skies. They appear under clouds."* Today's clouds around AI are why our opportunity ahead may be so compelling.

As a final note, I want to say thank you for your patience and trust. My family and I are fully invested alongside your capital.

Sincerely,

Jeremy Deal