

LUXOR
—
INVESTIMENTOS

Investors Letter

May 2025



Portfolio Manager Update

Dear Partners,

Market downturns have a way of stirring deep emotion – uncertainty, doubt, and the instinct to act. But as we've seen time and again, these moments are not new. They are part of the natural rhythm of investing, just as contraction and recovery are part of any healthy system.

Warren Buffett and Charlie Munger taught us that true investment success is not built in the moments when markets are exuberant – but rather in the quiet discipline we uphold when they are not. Great long-term returns come not from reacting, but from remaining committed to the fundamentals, grounded in value, and anchored in patience.

In times like these, we return to the principles that have guided us from the beginning. We focus on quality businesses, strong balance sheets, and enduring competitive advantages. We trust that compounding is a force that works silently but powerfully over time, especially when we resist the urge to interrupt it.

This year, we made an important change in our portfolio construction – one that fully respects and preserves our investment philosophy of building a long-term holding company of outstanding businesses. We remain deeply committed to direct stock selection and investing with conviction in the companies we understand well. In addition, we've expanded our ecosystem by allocating capital to select world-class funds – namely TCI and IP – as well as the S&P 500 ETF.

These are not departures from our approach; they are intelligent complements. Each provides exposure to some of the best businesses in the world, while allowing us to maintain focus and concentration in the areas where we hold the deepest insight. Together, they strengthen the foundation of the portfolio and reinforce our long-term orientation.

In our own work, we often speak of healing, stabilization, and wholeness – not only in the context of human health, but also in how businesses and markets evolve. Volatility, in our view, is not risk. It is movement. It is the natural ebb and flow of markets as they digest change, recalibrate expectations, and reprice opportunity. We do not fear it – we welcome it. It is precisely in these moments that disciplined investors are given the chance to plant seeds under temporary clouds. We are prepared, patient, and ready to act when prices disconnect from long-term business value.

We are using this time to deepen our research, reinforce our convictions, and position the fund with even greater clarity for the years ahead. This is the kind of market that, while uncomfortable in the present, often lays the groundwork for the most meaningful gains over time.

Thank you for your continued trust and partnership. We do not take it lightly. In moments like these, our commitment to long-term thinking, rational discipline, and emotional composure becomes our greatest edge.



Portfolio Update

Our investment approach is guided by clear principles that help us consistently identify and select outstanding businesses. We believe that investing in great companies – ones with strong advantages in their markets, outstanding management team, and the potential for steady, long-term growth – is key to achieving excellent results.

| Luxor Stocks | Q4-2024 | Q1-2025 | Q2-2025 | S&P 500 |
|---------------------|----------------|----------------|----------------|--------------------|
| ROIC | 36.2% | 40.9% | 39.7% | 11.2% |
| ROE | 42.2% | 46.3% | 43.0% | 17.6% |
| Gross Margin | 57.6% | 58.1% | 57.5% | 33.9% |
| EBIT Margin | 27.7% | 28.0% | 27.9% | 13.9% |
| Net Margin | 22.2% | 23.0% | 22.7% | 12.7% |
| FCF Conversion | 62.7% | 76.1% | 75.0% | 70.4% |
| Revenue L5Y CAGR | 12.3% | 18.8% | 19.4% | 6.4% |
| EPS L5Y CAGR | 25.7% | 23.2% | 22.8% | 7.6% |
| Net Debt / EBITDA | 0.3x | 0.4x | 0.4x | 1.5x |
| P/E | 25.8x | 20.7x | 20.2x | 21.7x |

The table above highlights the quality of our portfolio, which combines direct investments in exceptional businesses with exposure to the S&P 500 index. Our selected companies demonstrate high profitability, strong growth in sales and earnings, and outstanding financial health, all while maintaining lower debt levels. By blending ownership of individual high-quality businesses with the broad strength of the S&P 500, we achieve a powerful combination of excellent economics, resilience, and long-term value creation.

Microsoft and Amazon, core investments of ours, are prime examples of the kind of company we choose to partner with. They are innovative, adaptable to change, run by exceptional people, and strategically positioned to continue growing profitably. By investing in such companies, we can better navigate uncertain times, aiming to protect and steadily grow the value of our investments over the long term.

Our disciplined approach gives us confidence that our collection of businesses will continue delivering superior, long-term results, consistently outperforming the broader market over long periods of time while protecting and growing our capital.



Microsoft

Microsoft embodies all the characteristics of an exceptional business run by great people that we want to hold for extended periods of time. Under the leadership of Satya Nadella – a great CEO we deeply admire –, the company has consistently shown a remarkable ability to reinvent itself, reinforcing its mission to empower people and organizations to achieve more has never been more important.

In 2024 total shareholder return – including stock price appreciation and dividends – was 13%, matching its earnings per share (EPS) growth in the year. The results were very much in-line with what we expect the company to deliver over the long-term: revenue grew 15% YoY – with 3 to 4 points of contribution from the Activision acquisition, one of the largest gaming companies globally –, while operating income (EBIT) grew 17% YoY and EPS grew 13% YoY.

| Calendar Year (in USD mns) | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | CAGR (2014-24) |
|----------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|---------|----------|-------------------|
| Net Revenue | 93,456 | 88,084 | 88,899 | 102,273 | 118,459 | 134,249 | 153,284 | 184,903 | 204,094 | 227,583 | 261,802 | 10.9% |
| % YoY | 12.0% | -5.7% | 0.9% | 15.0% | 15.8% | 13.3% | 14.2% | 20.6% | 10.4% | 11.5% | 15.0% | - |
| Gross Margin | 65.7% | 64.0% | 62.4% | 64.9% | 65.1% | 67.7% | 68.4% | 68.8% | 68.2% | 69.7% | 69.4% | 37 bps |
| EBIT Margin | 29.0% | 22.0% | 31.2% | 30.4% | 32.8% | 36.7% | 39.2% | 42.5% | 41.2% | 44.2% | 45.0% | 160 bps |
| EPS ¹ | 2.62 | 1.53 | 2.45 | 1.87 | 4.54 | 5.97 | 6.90 | 9.60 | 9.33 | 11.52 | 13.03 | 17.4% |
| % YoY | -6.7% | -41.7% | 60.3% | -23.6% | 142.2% | 31.6% | 15.5% | 39.2% | -2.8% | 23.5% | 13.1% | - |
| ROIC ² | 75.9% | 57.9% | 90.7% | 43.4% | 88.5% | 91.4% | 84.5% | 84.5% | 56.6% | 42.1% | 35.7% | (402 bps) |
| ROE ¹ | 23.4% | 13.9% | 25.8% | 18.8% | 39.3% | 43.8% | 42.7% | 49.1% | 39.3% | 39.2% | 34.3% | 109 bps |
| Net Debt | (61,941) | (58,211) | (37,811) | (53,520) | (54,493) | (64,645) | (71,445) | (72,111) | (51,392) | (6,798) | (26,585) | -8.1% |
| P/E (LTM) | 17.6x | 36.0x | 25.2x | 45.7x | 22.3x | 26.2x | 32.0x | 34.8x | 25.6x | 32.5x | 32.2x | - |

¹. Adjusted for Amortization and loss from OpenAI

². Excludes cash & equivalents

Every business today seeks to leverage AI to boost efficiency, differentiate itself, and redefine value chains. Microsoft is and most likely will continue to be one of the leading cloud computing providers that sells access to the fundamental platform and services that companies use and create on top, while also selling its own version of products globally. We believe this strategy expands the total addressable market (TAM) and strengthens its competitive advantages.

Productivity & Business Process:

The Productivity and Business Processes segment includes products and services that help businesses manage day-to-day tasks and internal communication more efficiently. It includes products like Office, Dynamics and LinkedIn, and is 43% of total revenues and 55% of total EBIT. Revenues grew 14% YoY in 2024 and the growth strategy shifted from increasing the subscriber base to increasing revenue per user. Microsoft is now upselling its more than 400 million users to higher-value bundles (like Microsoft 365 E5) and additional services such as security and Copilot, a strategy that helps retain customers longer, reduces their likelihood of switching to competitors, and allows it to charge customers more as their productivity increases further. Unlike in the past, business problems will increasingly be solved through AI automation tools such as Agents and Copilots, rather than by new apps and software, and companies will build on and use Microsoft's products and services.



One of these services is Microsoft's Copilot which, although bringing only marginal improvements in productivity so far, is getting a lot of traction and demand from enterprises such as Novartis, one of the world's largest pharmaceutical companies, expanding its use of Copilot to 40,000 seats throughout 2024. We expect productivity gains to inflect positively with time and execution, and the visibility of usage patterns that the cloud delivery model provides is an important asset for this strategy. Microsoft is constantly iterating, testing and adapting its products to meet evolving customer needs in a new technological context. We're happy with the traction so far.

Intelligent Cloud:

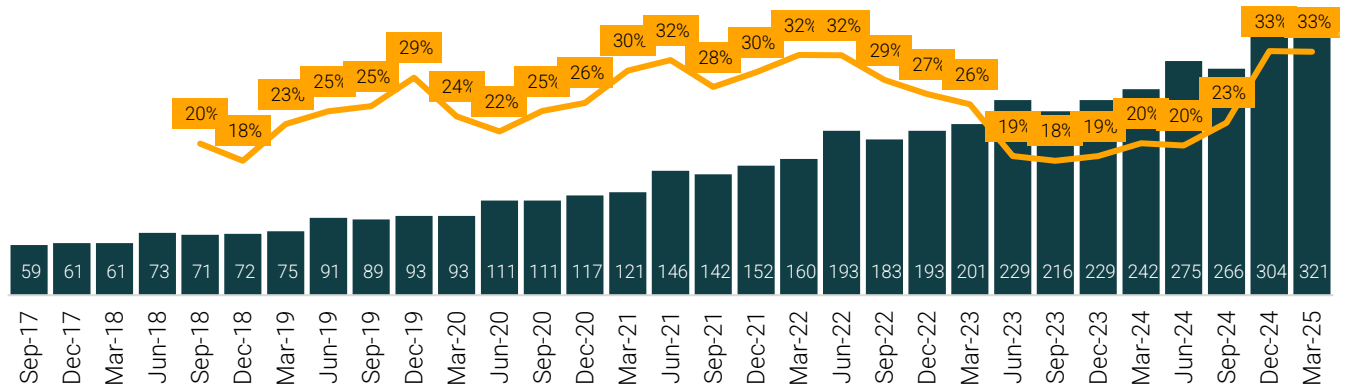
Here, Microsoft provides cloud computing services and platforms, enabling companies to store data and run complex applications remotely and securely. It is mainly formed of the server business and Azure, and includes Compute, Storage, AI/ML, Database, Nuance, GitHub, Azure Virtual Desktop, Visual Studio and Server products like SQL server, Windows Server, and more. It represents 37% of total revenues and 35% of total EBIT. Last year, revenues grew 20% YoY with strong contribution from Azure, which grew 33% YoY. This is the highest growing segment driven by secular shift of on-premises workloads to the cloud – around 85% of worldwide workloads are still on-premises, according to Andy Jassy, Amazon's CEO – and expansion of the TAM by building new services that address new customer needs. AI is a real catalyst for this migration and it's also growing fast: AI services contributed 12 points in growth (2/3 of the total) and annualized AI-related revenues surpassed \$13 billion in the quarter that ended in December 2024.

Demand for Microsoft's Cloud Services outpaced their ability to expand compute capacity, constraining Azure's growth throughout the year. Management is confident that growth will accelerate as more capacity comes online in 2025 and we're encouraged by the strong acceleration in backlog orders – contracts already signed but not yet delivered – by the end of last year.

One critical strategic decision from Microsoft was to prioritize inference – running AI models to generate answers or predictions – over training, positioning Azure to an even bigger market. The requirement for greater computational power to generate more accurate and elaborate answers increases considerably with the greater complexity and autonomy of these models. We expect the growth in usage by users and businesses to accelerate further as the technology becomes cheaper: as evidenced in the most recent earnings call, Azure processed 100 trillion tokens in the quarter and half of them were processed in March of 2025 alone. That means 75 trillion words processed in the quarter and 37.5 trillion in March doing a back-of-the-envelope calculation – we think this is just the beginning.



Value of Cloud Contracts signed but not yet delivered in \$B (left axis) and YoY Growth (right axis)



More Personal Computing:

This segment involves consumer-facing products like Windows software, gaming and online advertising. They are 20% of total revenues and 11% of total EBIT. Revenues grew 8% YoY with a saturated Windows business that faced sturdy growth during the pandemic and has been growing less recently. Gaming strategy evolved with the acquisition of Activision, shifting the focus toward platform and content monetization rather than hardware sales. That's notable when we see successful first party games being sold on other platforms and we're encouraged by the recent Muse model developed by the company. This segment holds lower strategic significance for our investment and it presents an intriguing option if Microsoft succeeds in redefining gaming, but we remain cautious about its potential scale and realism.

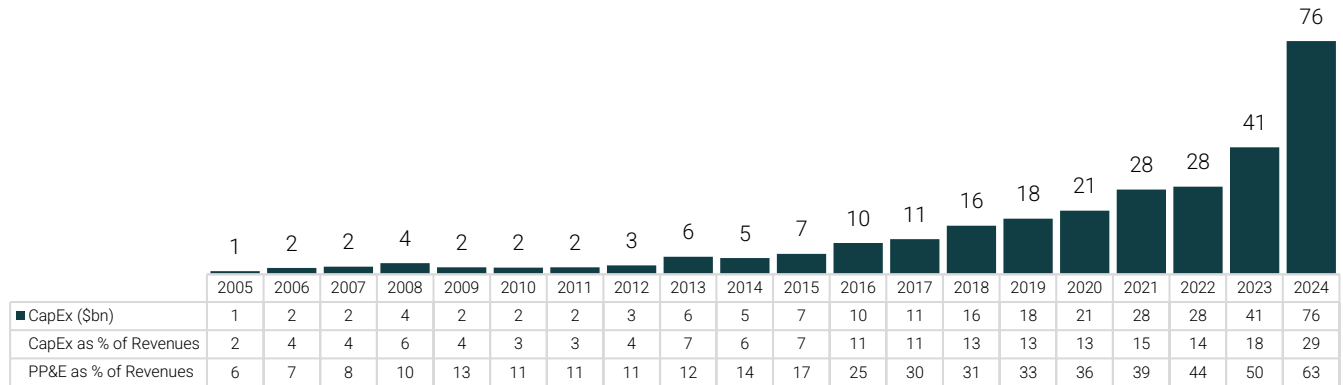
Capital Investments and Valuation

Microsoft remains among the highest quality businesses in our portfolio today with strong cash generation and healthy leverage ratios even through an intense investment cycle. It is fully financing its innovations and capacity that'll enable clients to advance their own innovation with no need to raise debt or offer new shares in the market. We see the current cycle of investments as a correct and necessary decision by the company to grow and create more value, and we are optimistic that this capital investment will translate into new revenue streams with high margins in the coming years – comments made by Amy Hood (CFO) that the return they're getting from the AI investments is at least similar to the traditional cloud CapEx only reinforces this belief. For fiscal year 2025 ending in June of this year they expect to spend \$85 billion including finance leases, and for 2026 we expect they'll spend even more.



Capital Intensity

■ CapEx (\$bn)



We closely monitor the inherent execution risks of managing and monetizing datacenter buildouts at this scale, and the constant evolution of the competitive environment, with new AI technologies and announcements made by competitors at incredible speeds. The past year was one with hits and some execution misses, but overall, we are optimistic and invested in the company's mission and execution. We think management is highly capable with a strong culture that we admire – it's notable to see a tech company stay relevant for 50 years.

As we write this letter, the S&P 500 index drops -5% in the year and Microsoft is up +1%. At current levels, we find an internal rate of return (IRR) – a measure used to estimate potential profitability – of 16.0% per year with EPS growth expectation of 15% per year and a multiple of 26 times the expected earnings for the next twelve months. We think this is a fair multiple for Microsoft given the growth runway and quality of the business, so our return is mostly dependent on their ability to execute on this massive TAM delivering mid-high teens EPS growth for a long time. We believe the market's concerns about Azure's growth, capacity constraints, and adjustments to the datacenter portfolio rollout will be short-lived, and Microsoft Cloud revenues will deliver faster revenue growth than the market is expecting right now.

Microsoft is one of the best businesses in the world run by exceptional people with proven execution and a shareholder-oriented mindset. It's a valuable part of our portfolio of outstanding businesses and we're confident they will continue to empower every individual and organization to achieve more – including us.



Amazon

Amazon – Earth’s most customer-centric company – also exemplifies the type of exceptional business we aim to hold for the long term, led by outstanding leaders who consistently reinforce its enduring competitive advantages. Under the strategic guidance of Andy Jassy, the company continues to balance operational discipline with entrepreneurial agility, reinforcing its mission of relentless customer obsession, efficiency, and innovation. Founder Jeff Bezos remains actively involved, particularly in strategic initiatives like artificial intelligence within AWS, underscoring the strength of Amazon’s leadership and vision.

In 2024, Amazon generated a total shareholder return of 44%, driven by robust execution and a remarkable 90% increase in earnings per share. This impressive financial performance reflects significant underlying improvements in efficiency and scale. Revenue grew by 11% to \$638 billion, while operating margins expanded notably, reaching a historic high of 11%. We see this margin expansion as structural, reflecting consistent operational improvements rather than cyclical or temporary factors.

Retail

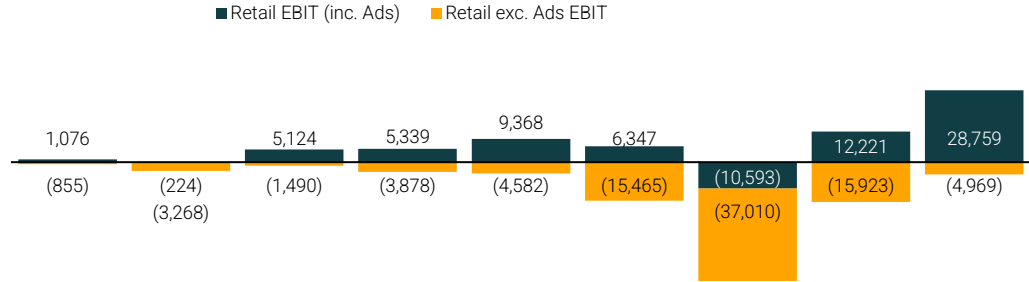
Amazon’s retail platform transcends traditional e-commerce by creating a powerful network effect that continuously attracts millions of users seeking competitive prices, expansive product selection, and reliable, rapid delivery. This effect deepens customer and seller engagement, enhancing platform value and enabling monetization through additional highly profitable streams like digital advertising. Advertising revenues surpassed \$50 billion in 2024, increasing 20% year-over-year with margins exceeding 60% in our estimates, showcasing the high potential of this complementary segment.

Operationally, the business has successfully leveraged its integrated logistics network, consistently driving down delivery costs per product and lowering its overall cost to serve. This operational efficiency directly translates into expanding margins, reinforcing a sustainable competitive advantage in a fiercely competitive North American market. Additionally, earning power is somewhat obscured by many strategic investments, which are currently expensed and depress near-term results but represent significant future profit potential, suggesting substantial room for operating income growth.

We acknowledge that the retail business might face near-term challenges depending where and when the tariffs will land, but we’re optimistic that – like in the past – Amazon will not waste a downturn and use that as an opportunity to build on its strengths and gain market share. We monitor very closely the developments in this space.



Retail Margins



| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|-------------------------------|-------|---------|---------|---------|---------|----------|----------|----------|---------|
| ■ Retail exc. Ads EBIT | (855) | (3,268) | (1,490) | (3,878) | (4,582) | (15,465) | (37,010) | (15,923) | (4,969) |
| ■ Retail EBIT (inc. Ads) | 1,076 | (224) | 5,124 | 5,339 | 9,368 | 6,347 | (10,593) | 12,221 | 28,759 |
| Retail EBIT (inc. Ads) Margin | 0.9% | -0.1% | 2.5% | 2.2% | 2.7% | 1.6% | -2.4% | 2.5% | 5.4% |

AWS

Amazon Web Services (AWS) stands as the clear leader in global cloud computing, a critical and highly profitable business segment benefiting from accelerating digitalization and increased adoption of artificial intelligence. The business grew 18% in 2024, surpassing \$100 billion in annual revenue and delivering an operating margin of 37%.

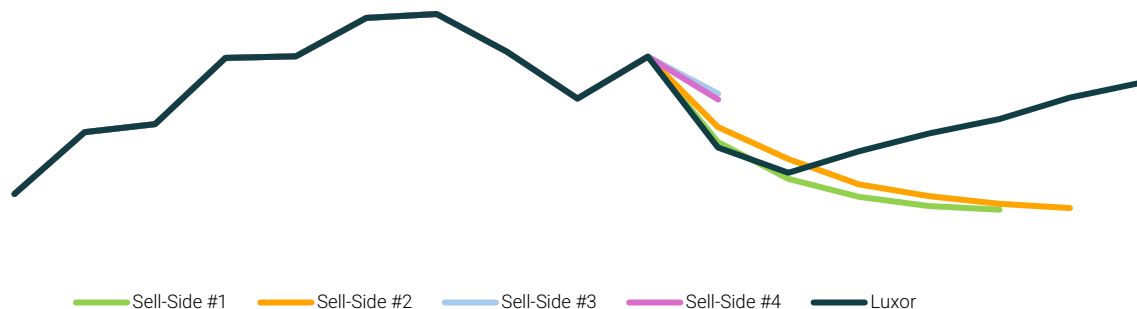
AWS boasts formidable competitive advantages, including substantial customer switching costs, immense economies of scale due to its unmatched global data center infrastructure, and technological innovations like serverless computing with AWS Lambda, highly scalable storage solutions such as Amazon S3, and robust database services including Amazon Aurora and DynamoDB. In addition, the company strategically verticalized its infrastructure by developing proprietary hardware solutions, such as Graviton 3 chips, which offer up to 40% more performance per dollar compared to traditional CPUs, further reinforcing its competitive advantage. All these services make life easier for customers by allowing them to create innovative and cost-effective solutions with these tools, and as their own business and complexity increases, the more difficult it becomes to switch suppliers. Even so, AWS enters multi-year contracts that deliver predictable revenues and further deepen customer relationships, strengthening long-term retention.

When ChatGPT launched in 2022, Amazon was perceived by the market as a laggard in the AI race, given the head start of Microsoft-OpenAI and Google. Over the past 18 months, however, AWS has responded with founder's mindset and urgency, rolling out a robust portfolio that – judging by last year's conference "re:Invent" – has closed the execution gap. It aims to be primarily a neutral platform: hosting leading third-party models (Anthropic, Cohere, Stability) while developing its own models (Bedrock, Titan, Q). This layered architecture – underlying infrastructure, foundation models, and managed services – enables value capture across the entire AI stack without concentrating risk in any single model. The fast rollout of Bedrock, Trainium 2 chips, and generative-agent services showcases the company's agility in meeting market demands and closing any competitive gap.



Another highly cash-generating business in our portfolio, Amazon finances substantial infrastructure expansions – \$77 billion in capital expenditures in 2024, projected to exceed \$100 billion in 2025 – without the need to increase its debt. We believe the market is underestimating the economics from new AI-oriented data centers and investments, which, in our view, will further strengthen AWS’ competitive position and sustain high returns on invested capital. While optimistic, we closely monitor the risks that follow such rapid expansion.

ROIC - AWS (estimates from 2025 to 2031)



| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
|--------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Sell-Side #1 | 25% | 33% | 34% | 43% | 43% | 49% | 49% | 44% | 38% | 43% | 32% | 27% | 25% | 23% | 23% | | |
| Sell-Side #2 | 25% | 33% | 34% | 43% | 43% | 49% | 49% | 44% | 38% | 43% | 34% | 30% | 26% | 25% | 24% | 23% | |
| Sell-Side #3 | 25% | 33% | 34% | 43% | 43% | 49% | 49% | 44% | 38% | 43% | 38% | | | | | | |
| Sell-Side #4 | 25% | 33% | 34% | 43% | 43% | 49% | 49% | 44% | 38% | 43% | 38% | | | | | | |
| Luxor | 25% | 33% | 34% | 43% | 43% | 49% | 49% | 44% | 38% | 43% | 31% | 28% | 31% | 33% | 35% | 38% | 40% |

Valuation

Amazon currently trades at 27 times estimated earnings for the next twelve months, an attractive valuation given the high profile of earnings growth. In the retail business, further improvements in logistics efficiency and growth in advertising revenues will allow operating profits to grow close to 15% per year, and in AWS we expect even faster growth – 20% per year – given the larger addressable market and AI catalyzing growth while the company still delivers increases in margins. This will allow EPS to grow close to 20% per year over the next 5 years, resulting in an expected return of 21% per year.

Amazon continues to represent a cornerstone investment in our portfolio, aligning seamlessly with our philosophy of partnering with extraordinary businesses led by exceptional leaders. We remain confident in Amazon’s long-term potential to sustainably compound value and deliver significant returns.

