UMATIYA INVESTMENT GROUP

VALUE-DRIVEN · OPPORTUNITY-FOCUSED

Letter to *Partners*

Q2 · 2026

July 7, 2026

To the Partners of the Umatiya Investment Group Funds,

For the quarter ending June 30, 2026, the Fund returned 4.20% net of expenses and fees, compared to 15.12% for the S&P 500. I will point out that much of the market's advance was concentrated among semiconductor names following strong first-quarter earnings and continued enthusiasm around artificial intelligence investment. Our portfolio has limited exposure to several of the largest beneficiaries of that surge, which accounted for much of our relative underperformance.

However, we are pleased with the fund's absolute gain. At the same time, we would remind our partners that UIG is an absolute-return partnership. Our objective is to compound capital at attractive rates over the long run, not to track an index or outperform it over a brief measurement period. A single quarter, particularly one driven by a narrow group of rapidly appreciating companies, provides inadequate insight into the long-term merits of our approach. There will naturally be periods in which our discipline and portfolio construction cause us to trail a strongly rising market. We do not view that as unusual, nor do we believe it should alter a process designed to be judged over a 3-5 year period rather than a single quarter. This multiyear timeframe is also on par with a standard business cycle and allows for the fundamentals of any business to materialize. Ultimately what matters is whether the underlying value of our businesses continue to grow and whether the prices we paid allow that growth to translate into attractive long-term returns.

The Path Less Taken

There is a saying in the investment business: if you can watch the paint dry, you'll make a great investor. I believe that applies both to the fund manager, myself, and you, our partners. The longer I do this job, the more convinced I become that investing has less to do with IQ and everything to do with temperament.

Take the infamous collapse of Long-Term Capital Management (LTCM). LTCM was founded by a legendary fixed-income trader from Saloman Brothers, and the team was led by two Nobel laureates giving them above average credibility and track record than the typical hedge fund. Their strategy was arbitrage based implementing mathematical models and massive leverage to buy undervalued securities and sell overvalued ones. Their mistake was a classic case in overconfidence and confirmation bias. The 25x leverage ratio was the cherry on top. The LTCM team suffered from intellectual arrogance. They genuinely believed their relative-value models mapped every corner of risk. In 1997, the Asian Financial Crisis and the subsequent Russian debt default triggered margin calls across the board for LTCM. When this occurred, their undeterred self-belief led them to treat the market as wrong and their models as right. Consequently, LTCM's psychological default was not to aggressively cut exposure, but to seek more capital to double down on their positions, convinced that market recovery was inevitable. By the fall of 1998, the fund had lost around $4.6 billion in a matter of months. It took the Federal Reserve persuading a room full of Wall Street banks just to keep the damage from spreading any further. What the LTCM partners learned a bit too late is the one thing temperament teaches that no amount of IQ ever will: the market can stay irrational a lot longer than you can stay solvent.

This industry runs on jargon like CAPM, factor models, and spreadsheets complex enough to project earnings down to each month, week, and perhaps even the day. I would say this is the equivalent of checking the score in the first inning and thinking you know how the game will end. Wall Street has always had an incentive to make the average individual believe investing is more complicated than it really is, when the real works simply comes down to understanding the business, the people running it, whether the price paid makes sense, and simply waiting. A complicated model looks impressive in a presentation; the discipline to do nothing rarely does. And the industry's incentives do not always reward the distinction; the fee often arrives whether the fund is up 20% or down 20%. Somewhere along the way the industry figured out that selling pays better than investing. After all who wants to wait decades to compound capital when you can sell yourself to riches today?

The harsh truth is that no finance professional, however sophisticated, can value a business with perfect accuracy. The models they build are only as dependable as the assumptions beneath them. Who knows where interest rates will be next year? Who knows whether a business will sell 10,000 units or 12,000? Nobody. But who cares?

The key is to be directionally correct. Once your valuation doesn't hinge on nailing your predictions, it doesn't matter if the business sells 2,000 units less than you thought. If you buy a business generating $200m in earnings for $500m it makes no difference if they bring in $100m or $300m one year. That margin of safety is your protection against an unknown future where left-tailed events are inevitable.

This is a long-winded way of saying that raw intellect alone did little good for the team at LTCM once confidence became certainty and excessive leverage left no room for error. Why? People in this business can rarely sit still. It's not a character flaw, it's just how they're built: they need a hard problem to chew on every day, some new task that leaves them with a sense they've earned their keep. We are not immune to this temptation either. There are stretches where we catch ourselves wanting to do "smart work", something complex enough to scratch the intellectual itch and leave us feeling productive. When that urge creeps in, I try to recognize it for what it is. I learned the hard way that picking up a book, returning to the research, or simply finding something else to do is usually better for both my peace of mind and our capital than forcing a decision just to feel productive.

Doing nothing can feel like a failure. And once you're wired to equate motion with progress, you forget the one truth about investing: it's a waiting game, and the waiting is the whole job.

Railways, Dot-Coms, and AI

I believe the current dealmaking environment warrants a discussion. Year-to-date IPO markets have surged, driven heavily by artificial intelligence, aerospace, and large-cap mega-deals. Through the end of June, global corporate mergers hit roughly $3.2 trillion (45% increase year-over-year). SpaceX's record-breaking $75 billion listing has become the centerpiece of that resurgence, while the market now looks towards potential offerings from Anthropic and OpenAI.

The enthusiasm brings me to two earlier periods of irrational exuberance: Britain's Railway Mania of the 1840s and the TMT bubble of the late 90s-early 2000s.

The Railway Mania grew out of a transformative technological shift. Railroads did not just improve transportation; they reorganized commerce, connected distant markets, and even changed society's relationship with time, as railway operators replaced inconsistent local clocks with standardized "railway time" to coordinate a national network. Railroads became a focal point of the Industrial Revolution further spurring economic growth.

Because the underlying technology was so revolutionary, investors assumed almost any railway project would succeed, and new companies formed rapidly. Newspapers hyped the stocks of railway companies and people everywhere poured in money, often without asking whether a given route made economic sense. Low interest rates, easy credit, rising share prices, and a permissive approval process fed the boom, and promoters inflated traffic forecasts while lowballing construction costs. Shareholders typically paid only a small deposit up front and owed the rest through later capital calls, which let them commit to far more than they could actually afford. The whole thing came apart once interest rates rose, credit dried up, construction costs climbed, and companies started demanding the remaining payments: forced selling followed, railway stocks sank, and many proposed lines got abandoned. Britain ended up with a much larger railway network that fueled real economic growth for decades afterward. The lesson from this was clear: investors can correctly spot a revolutionary technology and still overpay for it, finance weak companies, and expect the transformation to arrive faster and more profitably than it ever does.

160 years later, the dot-com bubble ran on a growth number that never actually existed: a claim about internet traffic doubling every hundred days that carriers, regulators, and the press all repeated as if it were factual. Believing it, telecom companies borrowed hundreds of billions and buried fiber optic cable across the country well before there was any demand to use it. That demand never showed up on schedule, and when the bust hit in the early 2000s, the consequences were brutal: WorldCom's collapse became the largest bankruptcy in US history at the time, the industry lost more than $2 trillion in market value, and most of the fiber just laid sat untouched for years, waiting on broadband and smartphones to catch up to it. FCC Chairman Michael Powell named the mechanism that made the crash so severe: carriers who already knew demand couldn't support what they'd built kept racing each other for market share anyway, touching off what he called "hypercompetition" and "vicious price wars" that dropped revenue across the board.

That same instinct resurfaced recently in an interview with Mark Zuckerberg where he said: "The pricing from some of the other labs is very extreme and has very high margins. We think that there's a real ability to be able to offer frontier or very high-level intelligence at a much more affordable cost." Although different infrastructure and different decade, it's the same math that broke telecom pricing about 25 years ago. Then again, maybe this time it’s different.

With the debt raises and equity offerings it is quite obvious that the hyperscalers and AI companies are starved for capital and once they deplete internal liquidity their only option is to source externally. To justify all this spending, hype is needed. This has also led to creative schemes such as circular financing, revenue-sharing, subsidized subscriptions, etc. This consequently creates what I would more appropriately classify, as synthetic demand to get investors to open their wallets.

It would be imprudent to map out all the different verticals LLMs will replace, enhance, or wipe out entirely, because nobody, not even the labs building these models, can say with confidence what the world looks like in five years. Markets are pricing in a level of certainty about outcomes that the technology itself hasn't earned yet. You can believe AI is revolutionary and still think the multiples being slapped on that belief have gotten ahead of themselves.

Here's what this means for the fund: we're watching, not acting. We don't pretend to know what any of this looks like next year or even next week.

What we do know is what people can't do without. Consumers will still need data services and drivers will keep needing insurance whether or not the price of frontier intelligence gets cut in half twice more from here. That's why we're happy owners of names like Veon and Root: boring, essential businesses that we think are worth considerably more in five to ten years than the market is pricing them today.

Root: The Future of Car Insurance

Back in April we started purchasing shares in Root, a telematics-based auto insurer. This is the first time we have dabbled in the P&C space, and the decision could not have been clearer.

Most auto insurers are still pricing risk how they used to 50 years ago. Age, zip code, credit score, and marital status tell you something about the kind of person a driver is on paper, however, they tell you almost nothing about the driving behavior of an individual. Root prices off the driving instead. It measures hard braking, speeding, phone use behind the wheel, and builds the policy around that. Plenty of large insurers now offer some version of this, including Progressive's Snapshot and Allstate's Drivewise. The difference is that Root built its underwriting around behavior from the start. Most large insurers added telematics on top of a pricing model that was still fundamentally about demographics, not behavior. The company has said its loss ratio improved by more than 20 points once that behavioral data was fully built into pricing. And as with any insurance operation, the better the pricing the better the combined—the percentage of each premium dollar consumed by claims and operating expenses.

What we like most isn't the technology, it's the moat, and the moat isn't really about the sensors. Any insurer can bolt a telematics feature onto what it already has. What's hard to copy is repricing an entire existing book of business around real driving behavior without upsetting the large share of customers who are currently being overcharged under the old system. Root never had that old system to begin with. Starting small and starting clean turned out to be the advantage, which isn't usually how the story goes in insurance.

We think Root earns something about $200 million a few years out, against roughly $500 million of enterprise value today, call it two and a half times normalized earnings. This is a business growing its policy count at relatively lower acquisition costs, due to partnerships like Carvana, Toyota, and Hyundai that put Root in front of customers at the exact moment they need insurance.

We are not ignoring what could go wrong. Combined ratios remain sensitive to used-car prices and repair costs, both of which are largely outside Root's control. Furthermore, California won't let Root price on telematics at all, which caps the business in one of the largest states in the country. Autonomous driving is a real long-term question nobody has answered yet, Root included. In the future where there are less drivers on the road and driving is fully autonomous, liability shifts from humans to the OEM behind the vehicle and the tech. However, we own the position anyway, because the price we paid doesn't require those questions to break our way. It just requires Root to maintain their loss ratios through disciplined underwriting and acquire customers cheaply with their OEM partnership.

The Present Portfolio

With our purchase in Root, we are at 12 names in the portfolio and as we approach our desired position sizing in these names, we will gradually touch base on most of these holdings in our upcoming letters. Applying our classification model mentioned in prior letters that puts us at 52% of assets in generally undervalued business, 26% for long-term compounders, and 17% for special situations. The remaining 5% we hold in cash, a stark difference from Q1 where we held 20% of our portfolio in cash. In addition to our new position in Root, we have added to a few of our established holdings as we believe they are still undervalued despite double digit appreciation.

It is not a surprise that majority of our portfolio, the 69% split between generally undervalued names and special situations, is invested in businesses we do not currently intend on holding for longer than 3 years. Opportunities in finding the ideal compounder are infrequent and each idea we examine we ask ourselves whether the business can generate high returns on invested capital and whether it possesses a durable moat—such as a low-cost structure, as with Geico; a powerful global brand, as with Coca-Cola; high switching costs as with Apple. We also prefer businesses with little to no leverage, since debt is usually what turns a bad cycle into a permanent loss instead of a temporary one.

It is critical you understand the difference between undervalued businesses and undervalued quality businesses, what we like to call our compounders. Undervalued alone isn't enough. We want businesses that are undervalued and stable enough to hold up when the cycle turns against us, not just cheap enough to look good on paper.

Veon and Root are the clearest examples of that combination in the portfolio right now, essential services which are hard to switch away from, priced well below what we think they're worth. Contrast that with Caesars. We also think Caesars is undervalued, but its growth is tied to the health of the consumer. When wages soften and job openings dry up, discretionary spending goes first and delinquencies climb right behind it. These types of businesses can do very well once the cycle turns in their favor. They can also get hurt badly if it doesn't.

This distinction is why ideally, we want roughly 60%, if not more, of the portfolio in high-quality undervalued businesses, where time works in our favor regardless of what the economy does next. We hope to cap the more purely opportunistic, cycle-dependent positions, and the overall special situations category at under 20%, expanding that category only when we believe a cyclical upswing is close or when a business is proving out its own transition toward something more durable.

Guy Spier framed this same shift in his prior letters: a move away from binary outcomes, where the range of results is wide and the downside is real, toward durable, time-friendly compounders, where the range runs from decent to superb and the odds of capital loss are low. That is precisely the direction we aim to steer the ship. Moving from 26% to 60% in compounders is no small voyage, but until we get there, I'll keep turning over rocks.

Closing

I'd like to reemphasize my role as your fellow partner in the fund and as well as your manager. We will continue to look for no-brainer opportunities. The major advantage one has investing in the stock market is the ability to patiently wait for the right pitch. Unlike almost any other game, there is no penalty for letting the shot clock run out. It certainly helps to have a supportive investor base who shares our long-term vision.

In the current investing landscape, it is easy for investors to get distracted from their primary objective: buying high-quality businesses for less than they are worth. It is difficult to ignore the vagaries of the market, particularly when seemingly every headline begins with artificial intelligence, SpaceX, or a geopolitical event carrying broader implications. At times like these, I'm reminded of Warren Buffett's observation: "Games are won by players who focus on the playing field—not by those whose eyes are glued to the scoreboard." We cannot control market sentiment, interest rates, geopolitical events, or which theme captures investors' attention next. What we can control is the price we pay, the quality of the businesses we own, and the discipline with which we allocate your capital. We will continue to wait patiently, act decisively when the odds are in our favor, and avoid swinging simply because the crowd has grown restless.

As always, I remain grateful for your trust, patience, and continued partnership.

Sincerely.

Samit Umatiya

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