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Dear Partner,

SVN Capital Fund's portfolio declined 10.3% net in the first half of 2026.

The last several years have been unusually macro-heavy:

- 2020: COVID-defined;
- 2021: supply-chain disruptions and reopening inflation;
- 2022: the war in Ukraine;
- 2023: the impact of inflation and interest rates;
- 2024: higher-for-longer rates, elections, and geopolitical tension;
- 2025: tariffs took center stage; and
- 2026: the Iran war.

This war in the Middle East brought to mind an essay E.B. White wrote in 1956, in which he beseeched the readers to think beyond the crisis of the moment.

> *…It is time men allowed their imagination to infect their intellect, time we all rushed headlong into the wilder regions of thought where the earth again revolves around the sun instead of around the ~~Suez~~ Strait of Hormuz [edit is mine], regions where no individual and no group can blithely assume the right to sow the sky with seeds of mischief, and where the sovereign nation at last begins to function as the true friend and guardian of sovereign man.*

In his time, that crisis was the Suez Canal. In ours, it is the Strait of Hormuz. White's larger point still resonates: now, as then, markets, commentators, and investors become consumed by the latest geopolitical flashpoint. The essay also made me wonder, "What if the news broke only once every 70 years?" Surely, triumph would *Trump* turmoil.

Some of these events do matter, and I do not dismiss them. However, my job is to own durable businesses that can survive difficult periods, adapt to changing conditions, and continue compounding value long after the crisis has faded from the headlines; not to get distracted and reconstruct the portfolio around each new crisis. I believe we own several such businesses, and I'll discuss a few of them in this letter.

With that off my chest, let me tell you what I would like to cover in this letter:

- the equity yield curve;
- the portfolio and performance highlights, with a deeper look at KKR; and
- India—out of favor, not out of form.

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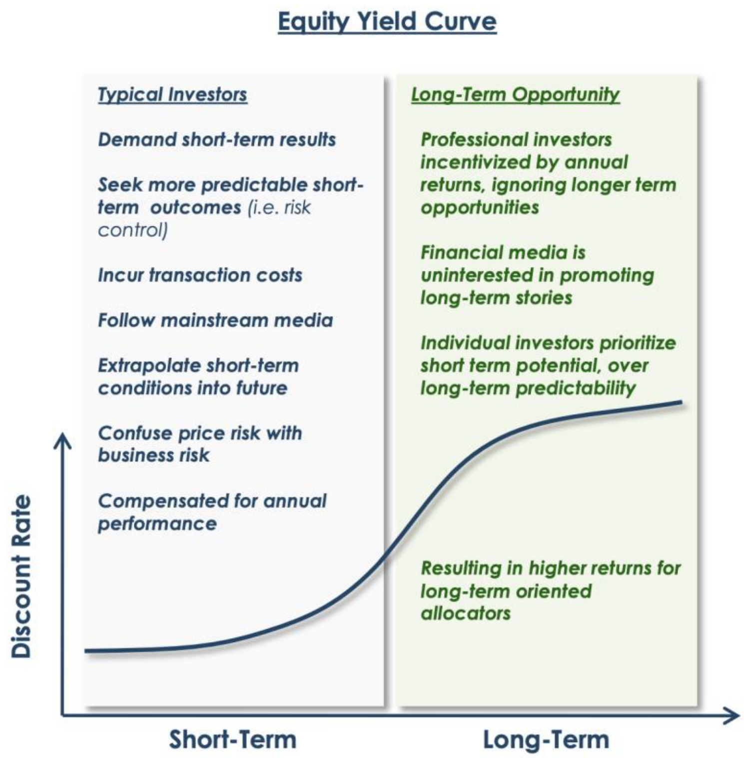
The equity yield curve: In early April 2026 came the shocking news that Murray Stahl, founder of Horizon Kinetics and one of the preeminent thinkers in the investment business, had passed away at 72. He was a prolific writer. In his encomium, Jim Grant likened him to the 18th-century British statesman Edmund Burke. High praise, and deservedly so.

As the usual funerary custom of smothering grief into greenery concluded, I recollected how and when I encountered Murray and some of his thought-provoking writings. It was in the mid-2000s, as an enthusiastic equity analyst, a postulant reading one of his many newsletters, that the phrase "*the equity yield curve*" first intrigued me. I was familiar with the bond yield curve but had not heard of its equity counterpart.

The yield curve in the bond market slopes up to the right to compensate for the increase in risk that either the principal will not be repaid, or the principal may be devalued by inflation. His argument was that in the equity market, the yield curve can be even steeper the further out we go, for the exact opposite reason, i.e., a decrease in risk. The primary thrust of his argument is that the short end of the curve is more crowded—intense competition from professional investors whose compensation is based on short-term performance, impatient individual investors, and the frenzied financial media's apathy towards the long term, while the long end is less so. As such, the patient long-term investor collects the higher returns. Looking back, one of the important reasons why the phrase appealed to me then, as it does now, is that he pointed out that patience is not just a feel-good amorphous virtue, but its value can be measured.

The following chart is from Horizon Kinetics's recent presentation deck.



Murray first wrote about the equity yield curve in the 1990s. Since then, the short-term focus has only worsened.

Recently, I came across a fantastic paper titled "*Generational Investing*" (which you can read **here**), by Arvind Navaratnam who runs Worldly Partners, in which he says:

> *Today it is estimated that **fundamental, long-only investors comprise just 7% of total market daily value of trading. Rules-based, high frequency, or hedge fund traders now comprise 75% of the market, with the remainder associated with transient retail trading** [emphasis is mine]. We believe the vast majority of the market is short-term, certainly not pursuing generational investing. To put it in perspective, the average holding period for a high-frequency trader can be as little as seconds to minutes. As such, there is a persistent reaction to events, headlines, and macro developments associated with rules-based trading that wouldn't impact the thesis of a fundamental investor.*

I increasingly think about our best investments in decades, not years. Owning a company for a longer period does not automatically make it safer. Some businesses deteriorate with time, and some theses prove wrong. But when a business continues to execute, reinvest at attractive rates, strengthen its competitive position, and behave in ways consistent with our original underwriting, time becomes our friend. Each passing year gives us more evidence and fewer assumptions. We get to know the management team better. We understand the economics better. We have watched the company navigate adversity. In that sense, the risk of permanent loss can decline the longer we remain invested, provided the business itself is becoming more valuable and our understanding of it is becoming more complete.

I have a stack of Murray Stahl's old writings in my office and flip through them every once in a while. If posterity is the toughest of proving grounds for a writer, I believe Murray Stahl will be remembered as an American original.

Patience is central to my approach, but patience alone is not an investment strategy. It has to be joined with selectivity, discipline, and a clear sense of what I am looking for. In that spirit, I want to restate the investment principles I try to follow:

- businesses I can understand;
- high returns on incremental capital, with opportunities to reinvest at attractive rates;
- honest, competent management teams with meaningful skin in the game; and
- reasonable valuations.

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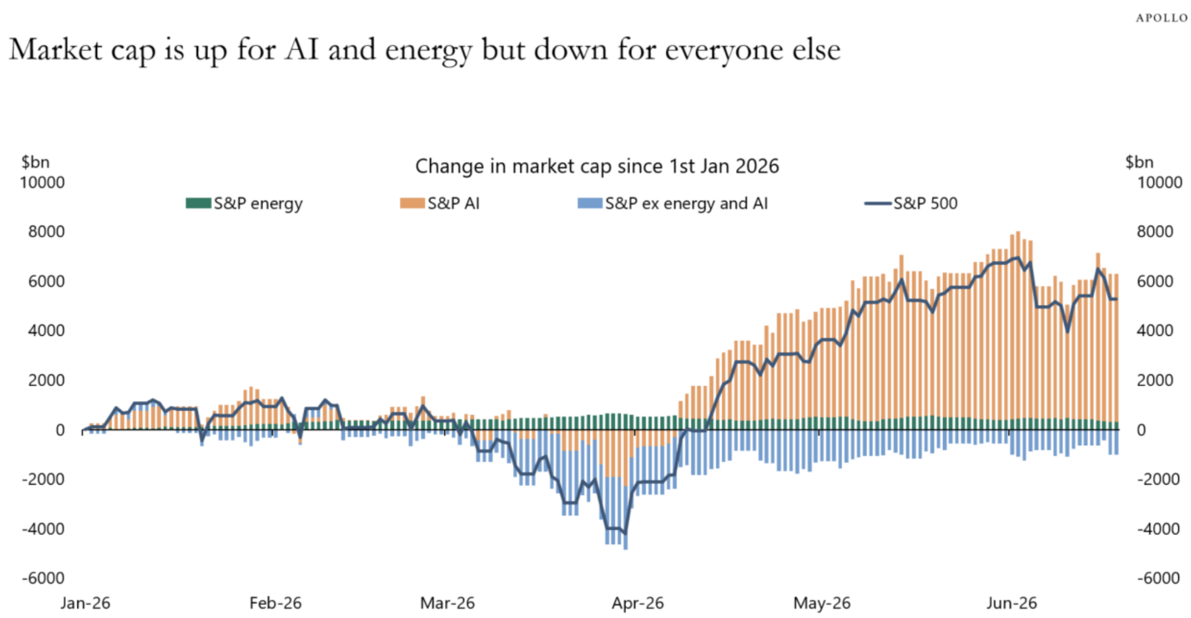
Portfolio and performance highlights: We currently own 12 stocks, with cash accounting for 8.7%.

			Portfolio Composition						
# of Stocks	Top 6	US	India	France	Poland	Japan	Sweden	Canada	Cash
12		4	3	1	1	1	1	1	
12	64.4%	44.0%	23.3%	9.5%	5.0%	4.5%	3.3%	1.7%	8.7%

The first half of 2026 offered no shortage of reasons to act. At least three forces drove the swings: the AI-related drawdown and the recurring fear of a private credit-led meltdown, both carried over from 2025, now joined by the war in the Middle East. Beneath the surface, the market has narrowed to a sliver. By Apollo Global's math, as of mid-June, if you strip out AI and energy, the US market's entire gain for the year disappeared; the rest of the index, taken together, was worth less than where it started the year. Following is a chart from Apollo which highlights the narrowness.



Note: S&P AI is a representative basket of companies with exposure to artificial intelligence technologies and includes 84 companies. These include firms involved in the development and enablement of AI across areas such as semiconductors, software, internet platforms and IT infrastructure. The basket is applied consistently across the full sample period. Sources: Bloomberg, Apollo Chief Economist

The mirror image of that narrowness is where our portfolio resides. Quality stocks—high returns on capital, high reinvestment rate, low debt, and high insider ownership—just suffered one of their worst relative stretches on record. Historically, quality has delivered its best returns after rare stretches of underperformance like this one. I am content to wait in that neighborhood.

Pessimism is a wonderful sales technique in such a charged environment, and collapse always sells better than patience. Against that backdrop, my own dampening force was simply an unwillingness to move in sympathy with the market. This inactivity was not for lack of trying. I evaluated more than 40 companies in the first half of 2026, and research took me to Richmond, VA, several cities in India, Stockholm, Sweden, and Toronto, Canada. From all that effort, only one name survived, and I'll write about it once it has earned a reasonable weight in the portfolio. While the discipline of doing little does not yet show up in the portfolio returns, it spared us the more permanent damage: selling into the trough or chasing the peak.

Aside from KKR, which I discuss in detail below, the detractors in the first half were Hermès, Dino Polska, and Copart—three names I remain content to own. At Dino, Polish food deflation has arrived faster than wage costs have cooled, pinching margins in a way that is uncomfortable and, I believe, temporary; the store rollout and the per-store economics are intact. At Hermès, the stock fell with luxury generally as tourist spending softened, but nothing about the franchise changed; the waiting lists, particularly for its handbags, are not getting shorter.

At Copart, CEO Jeff Liaw stepped down on June 29, and the stock fell on the news. In a special call a week later, Jay Adair, a founding member and the company's CEO and then co-CEO from 2010 to 2024, said the handover was a decision he and Liaw made together, and that he has returned as sole CEO for at least the next decade. For a company that says little between quarters, the call itself was the message. The stock has also been dogged over the last year by a story that Copart is losing insurance volume to IAA, the other half of the salvage auction duopoly. He addressed the share-loss narrative directly: the lost volume traces to a single account, the franchise is intact, and the total loss frequency is still grinding higher. The company sits on $4.2 billion of cash and no debt after $1.6 billion of buybacks. I remain vigilant, and I have real confidence in Jay at the helm.

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<u>KKR (YTD: -28%)</u>: It was responsible for roughly half of the portfolio's drawdown in the first half; the stock is down about a quarter on the year and about a third since January 2025. Since I have written about KKR in the past, I will not repeat the whole thesis again, but the headlines and the drawdown over the last 12 months have been pronounced enough that I want to treat it more fully than usual.

KKR is one of the world's largest alternative asset managers, operates three businesses under one roof, and the corner of it the market suddenly feared is a fraction of the whole. Let me explain why the decline has not changed my mind.

<u>The scare</u>: The word that kept coming to mind through the first half was "*canard*." There was genuine distress in the financing of a handful of businesses, and some lenders took real losses. But the conclusion the market reached from it, that private credit is the subprime of our age, that the alternative managers are sitting on the fuse, and that 2008 is about to return, ran well ahead of the evidence. Two things lit it.

- First, two companies failed in the autumn of 2025: Tricolor, a Texas subprime auto lender, and First Brands, an auto-parts roll-up. Both turned out to be frauds, with invoices inflated and the same collateral pledged to several lenders at once, and JPMorgan's CEO Jamie Dimon supplied the line that did the rest of the work: "When you see one cockroach, there are usually more." Two failures became the first symptom of a "systemic disease."

- Second, and more serious, the market decided that artificial intelligence (AI) would hollow out software and the white-collar service economy, and the alternative managers happen to own a great deal of both.

Interestingly, private credit barely touched either company. Tricolor borrowed from banks; JPMorgan alone wrote off $170 million on it. First Brands borrowed more widely: from banks, from big loan funds, and, less visibly, from lenders who advance cash against invoices and inventory. A few private credit funds held small pieces of the debt, but the first losses landed on banks and the invoice lenders. The two failures were charged to private credit's account though it had made almost none of the loans, and an industry built to be the opposite of 2008 was convicted of repeating it.

The crisis of 2008 was a plumbing failure: banks borrowed overnight, primarily deposits, to hold assets they could not sell, and when every lender asked for its money back at once, the structure “ran.” Private credit inverts that design. The money is locked up for years, the loans are senior in priority and float with rates, and there is no overnight funding to withdraw and no depositor to panic. When one of these loans goes bad, the loss lands on patient capital that has agreed, by contract, not to run. A bad loan here is just a loss for whoever made it. What turned 2008 into a catastrophe was the run, and a run is the one thing this structure cannot produce.

That said, the structure is not airtight. The newer "evergreen" funds marketed to wealthy individuals do permit periodic withdrawals, generally capped near 5% of the fund each quarter, and this year, those caps were tested across the industry. Blackstone, BlackRock, Blue Owl, and Partners Group, among others, saw redemption requests run past the limit; some “gated” the excess, and some, like Blackstone, put their own capital in to meet it. But a gate is the safety valve working. It is the very mechanism that stops a stampede from forcing assets to be sold into a falling market. Most of the money heading for the exit belonged to individuals rather than institutions, and these illiquid vehicles are a minority of the industry's capital, smaller still at KKR. And while individuals were redeeming, institutions were committing. In April 2026, in the teeth of the panic, KKR closed its newest North America buyout fund at roughly $23 billion, the largest such fund ever raised for the region by any firm, and its own largest in any strategy.

It also helps to be precise about the words, because there is a lot of confusion in the financial press. "Private credit" is an enormous tent, estimated to be ~$40 trillion, and much of it is investment grade (see Appendix I, source: Appollo Global): aviation finance, infrastructure debt, equipment and inventory finance, loans secured by hard assets, even music royalties. "Direct lending," non-investment grade senior loans to private-equity-owned companies, estimated to be ~$2.0 trillion, is one pole inside that tent, and it is the primary pole the scare talk is actually about. The conflation matters most when you size it.

Of KKR's roughly $760 billion under management, direct lending is about $39 billion, which is approximately five cents on the dollar. A large share of it is done through business-development companies, the most visible being the publicly listed FS KKR Capital, or FSK. FSK has had real trouble. Its non-accruals run above the industry average, its net asset value has slipped for several quarters, and this year it absorbed a ratings downgrade and cut its dividend.

It is worth being precise about what that costs KKR, though. KKR does not own FSK's loans; it advises the fund through a joint venture and earns a fee for doing so. The damage therefore runs to KKR's reputation and to its fee income, not to its own credit book or its capital, and even the fee hit is modest. It is a genuine blemish, but a contained one. FSK and KKR's other retail credit vehicles are a low-single-digit slice of assets, and the non-traded fund that draws the most lurid headlines is around four-tenths of one percent.

The business: So, what do we actually own? Three businesses under one roof. The first and largest is asset management, the fee engine, now spread in roughly equal thirds across private equity, real assets, and credit, running more than 35 distinct strategies. The second is Global Atlantic, a wholly owned retirement-and-life insurer that hands the firm a large, permanent pool of capital to invest. The third is Strategic Holdings: equity stakes KKR keeps in its own best portfolio companies, small today by design, and meant to grow over the years ahead.

Step back from the segments, and the pattern that matters most to a long-term owner is this: KKR keeps taking share. Over the past decade its assets have grown roughly sixfold, while the alternative asset management industry as a whole grew about threefold. It grew twice as fast as an industry that was itself booming. I expect the next ten years and more to bring more of the same, and the reason is the brand. In a business where allocators gravitate toward the firms with the longest records and the least career risk in recommending them, a 50-year name with a top-tier track record is itself a moat, and it gets wider with every fund raised.

Below is what the three earned over the last 12 months, and what management expects of them.

Segment	Operating Earnings (LTM)	Company Target
Asset Management (Fee-Related Earnings 'FRE')	~$3.9 billion	FRE above $4.50/share by 2026
Insurance (Global Atlantic)	~$1.1 billion	Double Global Atlantic's assets again
Strategic Holdings	~$0.2 billion	$350 mill+ (2026), $700 mill+ (2028), $1.1 bill+ (2030)
Total Operating Earnings	**~$5.2 billion**	

There is also a company-specific reason the stock fell. KKR manages a figure it calls adjusted net income (ANI), which is the recurring operating earnings of the three businesses above, plus the lumpier gains realized when investments are finally sold, less interest and taxes. It has grown steadily.

Adjusted Net Income per share	$
2023	$3.42
2024	$4.70
2025	~$4.90
LTM Q1 2026	$5.10
2026 Target	$7.00+
Decade Target	$15.00+

The ANI budget for this year was more than $7.00/share; it will likely fall short, and the shortfall is because a slow market for exits pushed asset sales into 2027. The recurring layer, growing at double digits, did not falter. So, the market has pushed the stock price down for a *timing* deferral in the part of earnings that was always going to be lumpy and gave little to no credit for the compounding in the part that was not. This is the equity yield curve in action. The payday has been postponed, and the market is pricing the postponement as if it were a loss. I am happy to take the other side.

<u>*The real risk*</u>: The software worry is the one I take more seriously. For a decade, software was the favorite child of private equity, which by some estimates accounted for as much as 40% of deal flow. The belief was that subscription revenue was close to permanent and that cheap debt and ever-rising multiples would do much of the work. A good deal of the value created in that era came not from running the businesses better, but from paying more for them each year.

Two things now threaten that arithmetic at once. Higher rates have taken away the cheap debt and the rising multiples, and artificial intelligence has put a question mark over the permanence of the revenue itself. If a capable model can do for a fraction of the price what a mid-market software vendor charges for, the moat that justified the purchase price may be shallower than the deal models assumed. The danger is less a wave of defaults than a slow erosion: portfolios marked at generous multiples turning out to be worth less when they are finally sold, with the realized cash lagging the carrying values reported along the way.

How exposed is KKR to that risk? Less than the fear implies, and the exposure cuts both ways. Software is about 7% of its total AUM, a smaller share than many of its peers, and within Strategic Holdings roughly a third sits in business-services companies, the kind of outsourced, people-heavy work that AI could in time perform more cheaply. Those are real exposures, and I do not wave them away.

But the same wave that threatens those holdings is filling a much larger order book elsewhere in the firm. KKR has committed well over $40 billion to digital infrastructure, the data centers, power, and physical plumbing that AI has to run on, across several platforms. So, KKR is, on balance, a far bigger financier of the AI build-out than it is a victim of it. The net is not obvious, and that is the honest reason to keep watching this rather than calling it. It is the one ember in the story. "You can see a lot by observing," said Yogi Berra. What I observe for now is a credit book with no real deterioration beneath the headlines, a software exposure smaller than the fear, and a much larger bet on the infrastructure AI cannot do without.

<u>*The case*</u>: There is more than one way to value an alternative asset manager. However, I anchor on ANI, the figure management runs the firm by.

At the current price of low-to-mid-$90s, you are paying about 17x the past year's ANI and roughly 13x the $7 it expects to earn in a normal year. And that price counts only realized earnings; it gives no credit for KKR's embedded gains, the unrealized carried interest and balance-sheet investment gains that stood at $18.3 billion at the end of the first quarter, around $20 a share of gross value waiting to be harvested, a portion of which will be shared with employees when realized. For a business that has compounded earnings this fast, expects to reach $15 a share of ANI within a decade or less, and carries that much unrealized value, it is a forgiving price.

The people who know the business best have been buying at these prices. <u>KKR's own people are collectively its largest shareholder, owning roughly 30% of the company, so the alignment is real</u>. And as the stock fell early this year, the insiders added to it: both co-chief executives, Joseph Bae and Scott Nuttall, bought 50,000 shares apiece in the open market near $88, and two directors bought more in the $90s, over $15 million of personal money inside a single week. The firm added $500 million to its own buyback program. A buyback is the firm's money. But these purchases were theirs. That distinction is a powerful signal.

That ownership instinct runs deeper than the corner office. For 15 years, under its private equity co-head Pete Stavros, KKR has handed equity to the frontline workers of the companies it buys: roughly 200,000 of them across 85 businesses, in line to share some $14 billion of wealth they paid nothing to receive. Part of it is a belief that it is simply the right thing to do, and part of it is a performance lever, since people who own a piece of the business quit less and care more. But it is one idea running top to bottom. KKR's own people own nearly a third of the firm; the workers on the floor own a slice of the plant. <u>A culture built that way tends to compound</u>.

A final word on history. KKR has been a holding since the fund's first day, bought first in the high teens and averaged into the low $40s. In those years the stock has fallen hard five times: the COVID crash of 2020, the rate shock of 2022, the tariff fright of 2025, and twice on this private-credit scare. The first two, at their troughs, each looked like the end of the story, and each was followed in time by a new high, because the business underneath kept growing. The last three have come stacked inside eighteen months, and the stock has yet to regain its January 2025 peak. I do not know when it does; I have a reasonable idea that it will. I intend to be holding it when it does.

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<u>India Out of Favor, Our Companies in Form</u>: In the week he was sacked as manager of Manchester United, Tommy Docherty's wife also filed for divorce. His verdict on the experience—"In life when one door closes, another slams in your face"—could have been written for India. Last summer, it was tariffs: an initial 25% levy on Indian goods doubled within weeks to 50%, the additional duty explicitly tied to India's continued purchases of discounted Russian crude. No sooner had that door inched open than another slammed shut: the AI boom.

As of June 2026, AI valuation skeptics around the world appear to have been rounded up and thrown into pundit prison. Roughly $30 billion has left Indian markets over the last 12 months, much of it redirected into Taiwan, South Korea, and Japan. Thanks to the AI rush, these markets have become highly concentrated: Taiwan Semiconductor alone makes up more than 50% of the benchmark TAIEX, Samsung Electronics and SK Hynix together account for roughly half of South Korea's KOSPI, and even Japan's broader Nikkei is led by a small cluster of AI-linked names.

Global returns have narrowed entirely to semiconductors and AI infrastructure, and India is seen as one of the AI wave's biggest losers, given its reliance on white-collar service exports. The contrast is stark: South Korea's KOSPI has nearly doubled this year (roughly 90% in USD) and Taiwan's TAIEX is up more than 50% (about the same in USD). India's Sensex, by contrast, is down close to 10% (approximately -15% in USD), one of the worst-performing major markets in the world this year.

None of it has changed my view on what we own in India. If anything, the AI rush hurting the country is helping the three companies in our portfolio. Here's why, company by company.

Bajaj Finance (YTD: 4.3% in INR, -1.5% in USD): Bajaj Finance is India's largest non-bank lender, serving over 119 million customers. It is a franchise built over two decades through rigorous underwriting and continuous product expansion. The scale and discipline behind it are features that distinguish the company.

"Debt is always repaid, either by the borrower or by the lender," said Jim Grant. The quality of a lender reveals itself in how effectively it avoids the latter outcome. Bajaj Finance's recent history offers a useful illustration. When stress began building in its small business lending portfolio two years ago, the company under Managing Director Rajeev Jain did something rare: it simultaneously pulled back on new lending in that segment and voluntarily set aside reserves well above what accounting rules required. Most of its larger peers did the opposite, building comparable reserves only once the damage was already visible in the results. Bajaj absorbed that conservatism while still delivering 19–20% returns on equity, which speaks to the underlying strength of the franchise.

	2010	2015	2020	2025	2026	CAGR Since 2010
Assets ($ Mill)	443.0	3,562.0	16,171.0	45,787.0	56,041.0	35.3%
Profit After Taxes ($ Mill)	10.0	99.0	578.0	1,844.0	2,124.0	39.8%
ROE	8.00%	20.40%	20.20%	19.20%	18.10%	

Layered on top is a genuine AI transformation, which the company calls FINAI. It is pursued as a systematic reshaping of how the company onboards customers, underwrites credit, manages collections, and develops its 71,000 employees. Peak-day loan processing capacity has already expanded sixfold through AI assistance, with an ambition to run 800-plus autonomous agents across operations by the end of this fiscal year. That represents productivity optionality the financial results have not yet caught up to.

Despite being the largest non-bank lender in the country, management estimates its share of all credit extended in India, banks included, is still only ~2.5%. The company has been growing roughly twice as fast as the broader credit system, and the management has set an explicit goal of becoming one of the five or six largest financial services firms in the country within the next five to seven years.

At the current price, Bajaj Finance is trading at roughly low-20x earnings—a reasonable multiple for a business compounding earnings at a 20%-plus clip with returns on equity in the high teens.

Shilchar Technologies (YTD: 18.3% in INR, 11.7% in USD): In 2025, I started a position in this Vadodara, Gujarat-based transformer maker. Although the company sells both distribution and power transformers, its current growth is concentrated in the inverter duty transformer, which pairs with solar and wind installations to invert their DC (direct current) output into grid-ready AC (alternating current). The business splits roughly evenly between markets: 48% export, 52% domestic in FY26 and selling into more than 25 countries, led by the US, Canada, and the Middle East.

Recently, the International Energy Agency (IEA) released its Global Energy Review 2026. It found that solar met more than 25% of the growth in global energy demand in 2025, the first time on record that a modern renewable source contributed the largest share of that growth. Annual global renewable capacity additions hit a record 800 gigawatts (GW), three-quarters of it solar. That particular report looks backward, but IEA's companion Electricity 2026 forecast says the trend keeps going: renewable output is forecast to grow by about 1,000 TWh annually through 2030, with solar alone accounting for over 600 TWh of that, an 8% annual growth rate, with solar generation expected to overtake wind and nuclear by 2026. Closer to home, India's renewable capacity additions rose almost 60% in 2025, the fastest growth among major markets. This is the direct tailwind behind Shilchar's order book.

Anticipating this, the company announced almost doubling its current 7,500 MVA capacity (manufacturing capability up to 132 kV class) to 14,000 MVA, while also raising the ceiling to 160 MVA/220 kV class. Let me pause for a quick aside on what these units mean: kV is like the diameter of a pipe (how much pressure it can withstand), while MVA is the flow rate (how much can move through it); you need both to match the application.

The expansion is funded entirely out of internal cash (~INR 1.2 billion / $12.6M), with commissioning targeted for April 2027. Like every other holding in the portfolio, this is a founder-led, family-controlled business. Alay Shah, son of founder Jitendra Shah, has run it since 1991, with the next generation already active and the family holding more than half the equity.

Shilchar Technologies	Sales Growth	EPS Growth	Cash Return on Capital Invested
2021	62.8%	268.7%	13.3%
2022	53.4%	154.3%	-10.3%
2023	55.9%	207.1%	27.0%
2024	41.8%	113.1%	31.1%
2025	56.2%	59.8%	6.0%
2026	3.8%	7.7%	34.1%

Sales growth slowed sharply in 2026 driven by US tariff timing and the Middle East conflict disrupting logistics. More importantly, it is not due to any softening demand. The management team expects ~25-30% growth off FY26's base, at 90-95% utilization of the existing 7,500 MVA capacity.

The balance sheet has been debt-free since FY23, with a growing net cash position, and the valuation remains reasonable for the quality on offer: around 5% free cash flow yield.

Triveni Turbine (YTD: 26.1% in INR, 19.1% in USD): The company primarily makes under-100-megawatt (MW) industrial steam turbines, and it is one of the two largest players in the world in that power category. A steam turbine takes heat, makes it spin a shaft, and the shaft makes electricity or drives a pump. Triveni's turbines turn up in all sorts of places: sugar mills burning bagasse, cement and steel plants recovering waste heat that would otherwise vanish up a chimney, biomass and waste-to-energy plants, geothermal wells, and the captive power systems of refineries and chemical plants. The common thread is that someone, somewhere, has heat they'd rather not waste and a need for reliable, decentralized power. It is a need that is rapidly increasing as the world both industrializes and tries to decarbonize at the same time.

The business has two axes worth keeping in view. The first is geographic: exports now contribute 58% of revenue, up from 48% a year ago, as Triveni pushes into Southeast Asia, Europe, Africa, and increasingly the Americas. At home, demand from steel, cement, paper, and process cogeneration keeps a steady floor under the business.

The second axis is product versus aftermarket. Product is the new turbine sale; aftermarket is the higher-margin annuity of servicing, spares, and refurbishing turbines—both Triveni's own and other manufacturers'. Aftermarket order booking grew 41% this year and now accounts for 38% of total bookings. Over time, the aftermarket is the part of the business that turns a one-time sale into a multi-decade relationship.

Triveni runs an asset-light operation: it designs high-value engineering rather than owning capital-hungry plants, and its manufacturing footprint is modest relative to the revenue it supports. Better still, the customer funds the balance sheet. Turbines are built to order, with advances taken up front and milestone payments collected through the build. Since the people buying the turbines are financing their construction, working capital is structurally negative on the company's balance sheet. The result is a business that throws off cash and earns very high returns on the capital it employs.

The first wave of AI data center power ran on gas turbines in simple-cycle. But a gas turbine alone wastes roughly half its energy as exhaust heat, and a *combined-cycle* plant captures that exhaust to spin a small steam turbine, lifting efficiency from ~35% to ~50%. As hyperscalers shift from "get power online now" to "get power online efficiently," that bolt-on turbine becomes the opportunity, which sits squarely in Triveni's sub-100-MW wheelhouse, where the giants are less interested.

Meanwhile, its US inquiry book has gone from 1–2% of the total to north of 15%, with data center demand now well over half the US pipeline. While it is the more recent exciting development, the management team cautioned the listeners on the recent earnings call: permitting is slow, conversion timing is uncertain, and none of it is in the order book yet.

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I continue to remain patient and invest with a long-time horizon. Please reach out to me or Ms. Jessica Greer (jessica@svncapital.com; 443-775-1227) with any questions. In the meantime, thank you for giving me the privilege of serving you.

Sincerely,

Shree

Shreekkanth ("Shree") Viswanathan

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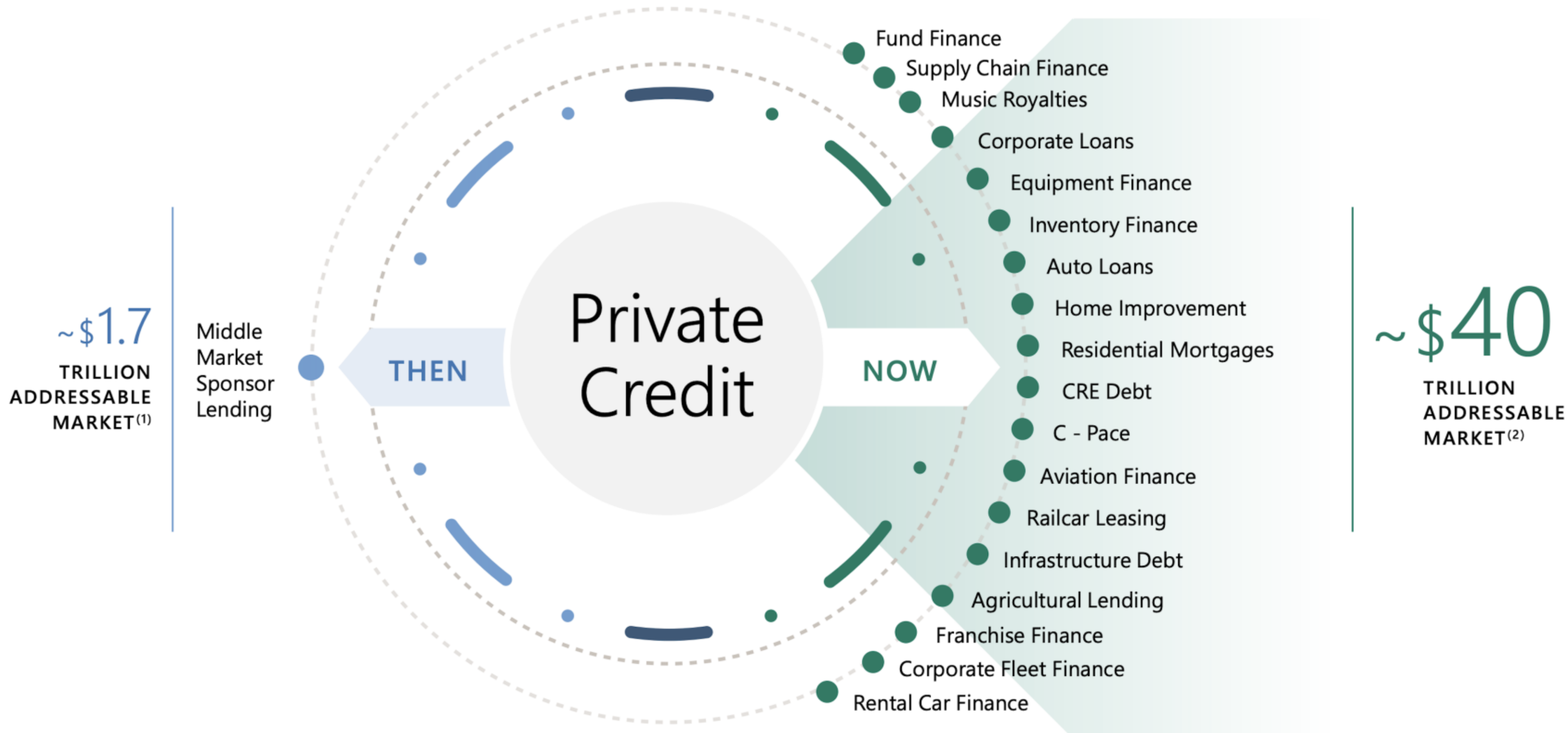
The definition of private credit



(1) Source: Preqin Global Private Debt Report, January 2024. (2) Fixed-income replacement market based on Apollo Analyst estimates. Sources: Federal Reserve Board, S&P LCD, BofA, Preqin, SIFMA, Haver Analytics, Bloomberg. Represents the views and opinions of Apollo Analysts. Not an exhaustive list. Subject to change at any time without notice. For discussion purposes only.

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