JDP
CAPITAL MANAGEMENT

Survivor & Thriver Fund, LP

3Q 2025 Investor Letter

"Great stocks evolve but most investors don't"
—Ian Cassel

The Survivor & Thriver Fund was up 12.8% in 3Q and 31.8% as of September 30, 2025, net to investors. The S&P 500 gained 8.1% in 3Q and was up 14.8% for the same period including dividends. Individual partner performance may vary based on subscription timing.

Overview and Outlook

Our goal is to generate outstanding tax-friendly returns over reasonable periods of time without leverage. Outperformance will come in bursts, as will our drawdowns, because the business progress we underwrite is not linear.

We seek investments where fundamental research, differentiated insight, and long-term thinking provide an outsized advantage. Our biggest winners have come from unique businesses with advantages like market leadership, product-obsessed management, and secular tailwinds that compound faster than GAAP earnings. Our biggest mistakes have come from trading stocks where the perceived advantage was mostly low valuation or diversification.

The speed and magnitude of technological change is creating a rich environment for patient capital. The falling costs of compute and inference are beginning to unlock possibilities for smaller companies to compete in areas once reserved for the largest incumbents.

Token costs (cost to access AI models) have fallen in some cases by 90% in the last year, despite usage going up 3,800% in 2025 alone[1]. The exponential part of the growth curve in AI adoption is still in front of us. We are working on several ideas in delivery, robotics, and brokerage, where smaller businesses are taking market share at a pace that would have been unthinkable several years ago.

<u>Portfolio Update</u>

Since December 30, 2022 the fund has delivered a 166% net return or 42.7% annualized, more than double the S&P 500. We are on pace for all LPs to be back above high water marks.

Our performance in 3Q was driven by our China basket and Tesla, offset by Spotify and Caesars Entertainment which declined. Spotify was up over 70% in first half of 2025 and is now taking a breather ahead of earnings. Founder Daniel Ek announced he will be stepping down as CEO in 2026 to become Executive Chairman. Daniel's two right-hand lieutenants, Gustav Soderström (product and tech) and Alex Norström (strategy and growth), will become co-CEOs.

[1] https://ramp.com/velocity/ai-is-getting-cheaper

As Spotify approaches 1 billion users the business is at a very different stage today than the earlier years when Daniel and Martin Lorentzon were still scaling. Similar to when Reed Hastings handed over the CEO job of Netflix to Ted Sarandos and Greg Peters in early 2023, Gustav and Alex will preserve Daniel's vision while doubling down on the responsibilities required for the company's next growth phase. Spotify remains a top position.

China's double tailwind

In our 2Q 2025 Letter we profiled a new investment in the Chinese battery manufacturer CATL. CATL, Alibaba, and Tencent have rallied 93%, 110%, and 57% this year after several years of being untouchable by western investors. Even after the recent run-up, these businesses are attractive based on growing earnings power, similar to US big tech a decade ago.

As of 3Q the Chinese CSI 300 index or the largest 300 Chinese stocks was up over 20%. The Hang Seng Tech index (30 largest Chinese tech companies) was up 25% in the same period.

One of the tailwinds driving renewed investor interest in Chinese tech has been a growing willingness by management to shift away from the sprawling everything-conglomerate model and re-focus on the core business. This improves returns on capital and unlocks free cash flow for buybacks, and to compete with the west for AI dominance.

Alibaba (BABA) for example has undertaken a broad restructuring and divestiture program aimed at focusing on profitability, simplifying operations, and refining its financial reporting structure. Earlier this year, BABA sold legacy retail and investment holdings such as its supermarket chain and department stores. These disposals were part of a plan to shed low-return brick-and-mortar assets that had collectively depressed margins and absorbed capital over the past decade. The company also sold equity stakes in Bilibili, Xpeng, and Baozun to reallocate funds to cloud computing and AI.

In parallel with asset sales and the consolidation of business units, BABA introduced a new investor reporting structure that separates the business into six units: Cloud, Taobao/Tmall, International Digital Commerce, Cainiao, Local Services, and Digital Entertainment. In September, management announced a $50+ billion investment in AI model training, chip infrastructure, and compute capacity over three years. The reporting restructuring will help investors better monitor BABA's core businesses and incremental returns from the announced investments.

The second tailwind for Chinese tech continues to be the country's relentless pursuit to control the pillars of its future economy. China has prioritized doing whatever it takes to develop its entire supply chain from commodities, to hardware and software. With government incentives in place and a cold war with the US, China's key sector champions have the financial resources, scale, and talent to continue closing the gap with western peers. The companies at the center of megatrends like EVs and battery technology, AI chips, power, and various downstream sectors should be able to grow faster than Chinese GDP for a long time.

We are working on two new Chinese consumer tech ideas and hope to discuss them in coming letters if they materialize into full positions. As of 3Q, 25% of fund assets are invested in China.

Looking forward, our portfolio could get a boost from holdings that have underperformed all year due to a weak consumer and terrible sentiment.

For example Caesars Entertainment is down over 30% this year while on pace to exit 4Q 2025 with ~$500 million of run rate EBITDA in its online gaming business alone. At a valuation of 1x equity/EBITDA and 4x EV/EBITDA, Caesars trades far below its earnings power or break up value in the absence of a major economic downturn. For those interested in the stock I would start with most recent investor deck which I find comprehensive and transparent.

The Market

It has been a strange year for markets. It is highly unusual to see fear trades like gold and silver soar higher while the S&P 500 is hitting all-time highs. There is always plenty of fear on Wall Street, but the negative sentiment today is loud. One of the primary concerns at this moment are "cracks" in the private credit market after two notable bankruptcies linked to possible fraud. We are not invested in private credit or in stocks that have loans from private credit funds. There are also concerns about AI capex over-building within the chip manufacturer and hyperscaler ecosystems.

The terms "AI bubble" and "US dollar debasement" are repeated *ad nauseam* in the media. The Consumer Confidence Index has been negative every month this year through September which hasn't happened since early COVID.[2]

We are living in an economy where high interest rates have kept a foot on the neck of economic growth, offset by technological progress and productivity evolving at a mind-blowing speed. It has been over three years since the Fed hiked interest rates at the fastest pace on record—from 0% to over 5% by 2024. A few years later, "higher for longer" is probably too much.

S&P sector earnings growth vs GDP

S&P 500 earnings concentration is a result of the index not trimming its winners like other indexes do; this also makes the index harder to beat.

S&P 500 earnings growth vs. US GDP growth (before inflation)

Green = beat GDP
Red = underperformed GDP

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025E
Nominal US GDP Growth	2,90%	3.5%	4.9%	4.4%	4.8%	0.7%	12.3%	7.8%	6.1%	4.9%	4.6%
S&P 500											
Communication Services	-5,6%	5.2%	7.4%	3.3%	7.8%	7.1%	16.3%	8.9%	18.4%	13.9%	11.8%
Information Technology	10.1%	11.4%	19.5%	21.7%	13.9%	4.4%	34.8%	7.8%	16.1%	17.8%	16.0%
Financials	3.7%	4.2%	5.3%	11.9%	6.4%	-24,0%	58.1%	-11,1%	1.8%	11.1%	10.2%
Health Care	6.5%	7.3%	8.1%	13.8%	6.5%	6.4%	12.2%	8.2%	1.5%	8.1%	7.3%
Consumer Discretionary	6.1%	9.4%	14.7%	13.4%	8.2%	-15,2%	41.7%	-2,5%	38.7%	25.9%	19.2%
Industrials	2.7%	6.3%	9.4%	12.0%	5.2%	-29,7%	54.1%	12.7%	7.3%	3.6%	13.3%
Real Estate	--	--	6.4%	10.4%	8.7%	-7,40%	30.2%	3.1%	-6,6%	5.1%	7.4%
Consumer Staples	3.2%	5.7%	6.4%	4.3%	3.2%	2.2%	8.7%	5.1%	-1,2%	7.7%	8.9%
Materials	1.8%	3.1%	8.7%	15.6%	2.3%	-15,5%	43.2%	20.3%	-7,2%	-2,20%	11.2%
Utilities	1.1%	8.2%	7.5%	11.2%	7.7%	0.4%	7.8%	5.3%	8.2%	17.1%	10.9%
Energy	15.1%	-11,3%	4.1%	18.7%	-7,3%	-3,6%	38.6%	91.4%	-31,0%	-1,8%	6.1%
Total earnings growth	-15.4%	9.3%	16.2%	20.5%	5.4%	-32.5%	110.2%	-12,7%	11.4%	9.2%	13.2%
Tech's share of S&P 500 earnings											
Communication Services	10%	10.5%	11%	12%	13%	15%	17%	19%	21%	24%	25%
Information Technology	17%	18%	19%	20%	22%	25%	26%	28%	32%	31%	30%
COMBINED	27%	28.5%	30%	32%	35%	40%	43%	47%	53%	55%	55%
Sectors beating GDP	6	8	10	9	8	5	8	6	5	8	11
Sectors underperforming GDP	5	3	1	2	3	6	3	5	6	3	0
Fed Funds Rate (lower bound)	0.25%	0.50%	1.25%	2.25%	1.50%	0%	0%	4.25%	5.25%	4.25%	4%

*Factset, JDP estimates as of September 2025

[2] https://www.conference-board.org/

Earnings concentration has fanned the narrative that the economy is being held up by AI capex spending and is otherwise in terrible shape. A breakdown by sector helps us see that earnings growth is not yet as dire as bears suggest, but growth is slowing.

A few observations about the above chart:

- Nominal GDP growth has averaged over 5% annually since the Fed started hiking rates in 2022. So far in 2025, all 11 S&P 500 sectors are estimated to beat GDP growth.

- Most S&P 500 sectors are growing earnings faster than GDP and with returns on capital that are only improving. Valuation aside (~17x EV/EBIT is not crazy), my sense is that lower interest rates could unlock a wave of earnings growth, especially for lagging sectors.

- Durable growth is more valuable than rate-sensitive growth. The growth rate in the Communication Services and Information Technology sectors has been remarkable since the Fed started raising rates. These two sectors are comprised of about 41 stocks such as Visa, ServiceNow, Meta, AT&T, Live Nation, and Nvidia. The best businesses in this group earn 100%+ returns on incremental invested capital, generate enormous free cash flow, have little to no debt, and are leveraged to the most powerful economic mega trends. The combined earnings of the Communication Services and Information Technology sectors have averaged over 50% of total earnings since the Fed's tightening cycle started in 2022, compared to 21% a decade ago.

- The biggest risk for long-term investors has been not owning stocks that outgrow broader economic weakness. Durable growth should be expensive relative to the average business because it is rare.

- The worst-performing sectors, Energy and Real Estate, are highly sensitive to interest rates and cyclical factors. Financials, Healthcare, and Consumer Discretionary together have proven to be more resilient than many might have expected.

Closing remarks—Jim Paulson's observations on extreme pessimism

With list of fears so well memorized by investors, I wanted to share an insight on pessimism from the economist and investment strategist Jim Paulson. In his most recent research note titled Economic News is Turning Bleak… Which is often GOOD for stocks Paulson says "Economic sentiment is now worse than 81% of the time since 1980. Provided no recession, sentiment this low is often associated with stellar stock returns."

Jim Paulson's research note summarized by Perplexity:

The San Francisco Fed's Daily News Economic Sentiment Index (DNSI) can sometimes act as an inverse signal between sentiment and stock performance. The DNSI is a real-time gauge of U.S. economic sentiment derived from text analysis of major newspaper articles, and it is one of the few reliable indicators still updating during the recent government data blackout.

Over the past year, the DNSI has deteriorated sharply—from a strong +0.025 reading last July into the lowest quintile historically at -0.1375. This places sentiment weaker than 81% of all readings since 1980. Historically, such low sentiment readings have coincided with recessions about 43% of the time. The decline reflects deepening pessimism tied to tariff risks, ongoing weak macro data, and a Federal Reserve perceived as slow to pivot toward easing. Analysts observe that broad negative news tone often leads to expectations of forthcoming monetary accommodation.

The historical linkage between DSNI troughs and equity outperformance is striking: when DSNI was in its lowest quartile, the S&P 500's forward one-month annualized return averaged roughly 15% versus just 7.7% in high-sentiment periods. The study further highlights that "new-era" sectors—semiconductors, software, and tech hardware—typically outperform during these pessimistic phases, while defensive groups such as telecom, banks, energy, and utilities lag. In short, while the DNSI's record of anticipating recession warrants caution, its current extreme pessimism has historically coincided with favorable forward equity returns, particularly within growth and cyclically sensitive industries.

In closing, I am excited about what we own and why we own it. There is a growing opportunity for smaller companies to scale much faster and with less capital than in the past. Lower capital requirements (including human capital) could mean we see a growing number of success stories decoupled from traditional economic cycles. As investors this is exciting because our opportunity set is becoming wider and deeper.

Thank you for your continued trust and partnership.

Sincerely,

Jeremy Deal