

Qualivian Investment Partners Q2 2025 Investment Letter

September 2025



If you understand the math behind compounding, you realize the most important question is not “How can I get the highest returns?”

It’s “What are the best returns I can sustain for the longest period of time?”

— Morgan Housel

Overview

Qualivian Investment Partners is an **investment partnership focused on long-only public equities**. We own a concentrated portfolio of 15–25 understandable, high quality companies with **wide moats**, long **reinvestment runways**, and **outstanding capital allocation**. Since we expect them to **compound capital at a mid-teens rate**, we hold them for an extended period. **We are seeking investors who are aligned with our long-term investment time horizon**. We **do not short securities**. We **do not use leverage**. We **do not use derivatives**. We are **not macro investors**. We believe that only a relatively small number of exceptional companies are worth investing in over the long term.

Our Formula

Long-Term Orientation + Long-Term Investors + Focused Portfolio + Quality Compounders = Maximizing Chance for Outperformance

We want to ensure our investors understand our investment approach so they can make an informed decision. We encourage those who align with our long-term horizon and philosophy to contact Aamer Khan (aamer.khan@qualivian.com) at 617-970-9583 or Cyril Malak (cyril.malak@qualivian.com) at 917-742-2039.

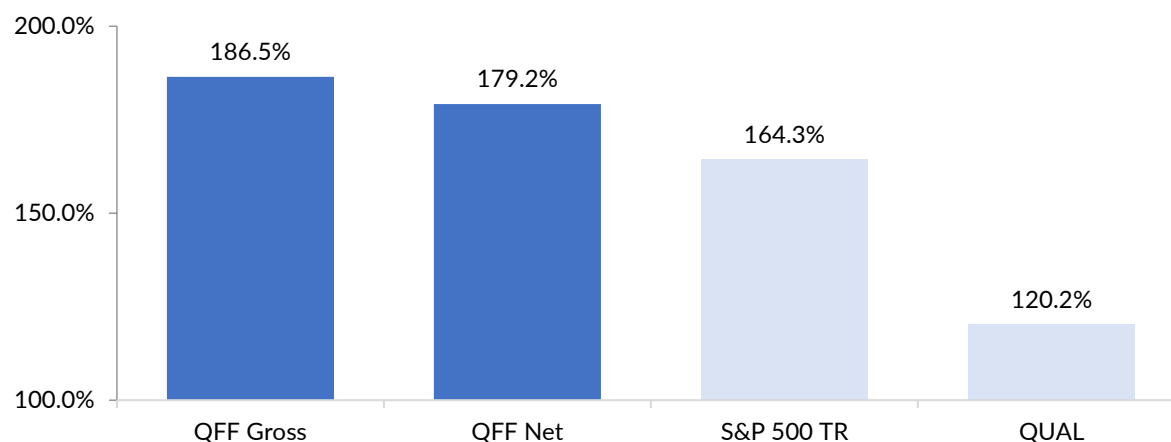
Investment Criteria

We select businesses based on the following criteria:

- Possess a durable, understandable, and sustainable competitive advantage.
- Operate in industries with stable structures and rational competition.
- Sell essential products with predictable demand, pricing power, and high recurring revenue.
- Have high and sustainable returns on invested capital often combined with high margins and low capital intensity.
- Have high free cash flow generation and low levels of debt.
- Possess investment opportunities to reinvest capital at high returns.
- Have management that has a history of value-creating capital allocation.

QFF Performance Since Inception¹ Through Mar. 31, 2025

Qualivian Focus Fund (QFF) SMA ITD Performance



SMA Performance

From inception through June 30, 2025, we have outperformed the iShares MSCI USA Quality Factor ETF (QUAL) and the S&P 500 on both a gross and net basis. Specifically, our gross and net outperformance was **66.2%** and **59.0%** against QUAL, and **22.1%** and **14.9%** against the S&P 500, respectively.

Furthermore, in 2024, we outperformed QUAL by 6.0% and 5.6% on a gross and net basis. Similarly, we outperformed the S&P 500 by 2.0% and 1.6% on a gross and net basis.

Portfolio Highlights

Portfolio Changes in Q2 2025

We sold our position in S&P Global (SPGI) and initiated a new position in AutoZone (AZO).

We originally bought SPGI because, along with Moody's Corp., it was one of two market leaders in the credit ratings space in the US. It similarly had an oligopolistic position in the provision of equity market indices (alongside MSCI and Russell), owning the most recognized equity index brands with the S&P and Dow Jones franchise market positions. Both these core businesses play a crucial role in the functioning of the US and global capital markets.

However, it was their \$44bn acquisition of IHS Markit, which had data and research services for Oil and Gas, Financial Services, Health Care, Automotive, and other verticals which was a problem. The \$44 billion acquisition of IHS Markit was the largest in SPGI's history. After a year of assessing the acquisition's underwhelming growth and returns, we decided to exit our position and redeploy the capital into AutoZone (AZO).

AutoZone is an oligopolist in the simple and understandable aftermarket automotive parts industry with high barriers to entry, predictable high free cash flow-generation, forecastable long-term growth, and operating in an industry characterized by rational competition. It has a consistent operating history of double-digit EPS growth with high returns on capital and a management team that is focused on maximizing shareholder value. When we bought

¹ Qualivian Focus Fund inception date is December 14, 2017.

AutoZone, the stock had a reasonable valuation, trading at a significant discount to the S&P 500.

Top and Bottom Contributors for Q2 2025

Q2 2025 saw a reversal in the market's Q1 2025 sell-off, which was broad-based at first but then concentrated in the Technology space, sparked by DeepSeek's announcement that it had developed a Generative AI ("Gen AI") Large Language Model (LLM) at a fraction of the cost spent by the large US Gen AI players to develop their models. The VIX rose to 29.5 on March 10, a steady rise from the mid-teens earlier in Q1 2025.

The market was also concerned by the potential stagflationary pressures from the impending Trump tariff policy (which was officially announced on April 2, 2025, as "Liberation Day"), resulting in a 14.6% sell-off in the S&P Consumer Discretionary sector in Q1.

In Q2 2025, markets reversed and rotated into Consumer Discretionary, Technology, and Communication Services sectors and out of more defensive sectors. As a result, our **top 3 contributors** in the quarter were Meta Platforms (META), Microsoft (MSFT), and Amazon (AMZN).

META's Q2 revenue, operating income and EPS grew 21.6%, 37.7%, and 38.4% respectively vs. same period last year, with operating margins expanding by 500bps on the back of accelerating revenue growth and better cost controls, despite higher infrastructure costs. Ad Impressions were up 11% with average price per ad increasing 9% in the quarter due to improved ad targeting and ROI metrics.

MSFT's fiscal Q4 2025 revenue, operating income and EPS grew 18%, 23%, and 24% year-on-year, respectively. Operating margins expanded by an impressive 180 bps in the quarter. Highlights from the quarter included strong double-digit topline growth across most of MSFT's segments with call outs for Intelligent Cloud growing 26% in the quarter, and Azure growth within that segment accelerating to 39% growth as MSFT was able to bring additional data center/server capacity online to meet market demand. Furthermore, MSFT management returned \$9.4 billion to shareholders through dividends and share repurchases.

AMZN's Q2 revenue, operating income, and EPS grew 13%, 31%, and 39% respectively, with North American eCommerce sales growing 11%, International eCommerce sales growing an impressive 16%, and AWS 17.5% in the quarter. AWS growth disappointed some market observers, especially when compared to the accelerating growth trends that MSFT's Azure and Google's Cloud businesses reported in the same quarter.

We remain positive on all 3 names going forward as they continue to have oligopolistic positions, have high returns on capital, and benefit from optionality (artificial intelligence, autonomous driving, etc.).

Our **bottom 3 contributors** in the quarter were Arthur J. Gallagher (AJG), Copart (CPRT), and Berkshire Hathaway (BRK.B).

AJG and BRK.B reversed their outperformance from Q1 2025, in part due to the reversal away from defensive sectors. In the case of AJG and BRK.B, this was also due to a slowdown in the P&C pricing cycle. P&C pricing growth slowed down from high single digits/low double digits over the past 3–4 years to mid-single digits in the most recent two quarters in 2025. AJG is the leading P&C insurance brokerage in the middle market, and BRK.B has substantial exposure to P&C insurance.

CPRT, the leading auto salvage online auction company, reported its fiscal Q3 2025 quarter with an underwhelming 7.5% topline growth, while EPS grew 7.7%. This was especially underwhelming given its main competitor IAA's stronger relative growth, sparking some discussion of whether CPRT was beginning to lose share to IAA, now part of the deeper pocketed Ritchie Brothers. We are placing CPRT on review, as it has underperformed the broader markets over the past year.

The Curse of Information Overload

Investing is an inherently uncertain enterprise. The future is an indistinct blur seen through a squint. Investors work with incomplete information but crave certainty. Uncertainty is uncomfortable. One way to alleviate this discomfort is to continue gathering more information beyond a base level.

This is especially relevant in investing, where most investors are dealing with a firehose of information. How do they determine when to stop gathering more information and make a decision? Continuing to gather information could lead to false confidence in the quality of the decision.

In a world of information overload, it is worth looking at a relevant behavioral experiment.

The Slovic Experiment

In 1974 a psychologist named Paul Slovic gathered 8 horse racing handicappers (who made a full-time living from betting on horse racing) to see how well they could predict the outcome of 40 horse races conducted over four rounds, with 10 races per round.²

Because there were 10 horses in each race, each handicapper's bet could be expected to be right 10% of the time through random guessing alone.

Each handicapper was given a list of 88 variables to choose from. These variables were items like past racing record, weight carried in last race, how long since the horse last raced, the jockey's record, etc.

The handicappers were asked to predict the finishing order (first, second, third, fourth, fifth) and their level of confidence (0%–100%) in the outcome.

In round one, each handicapper was allowed to select any 5 variables (out of the 88 total) to make their predictions. In this round they turned out to be 17% accurate. This was much better than the 10% rate achieved via random guessing. Their confidence in their pick was 19%. This closely tracked their success rate of 17%.

In round two they were allowed to select any 10 variables. Their accuracy was again 17% but their confidence level was 24%.

In round three they were allowed to select any 20 variables. Their accuracy was again 17% but their confidence level was 27%.

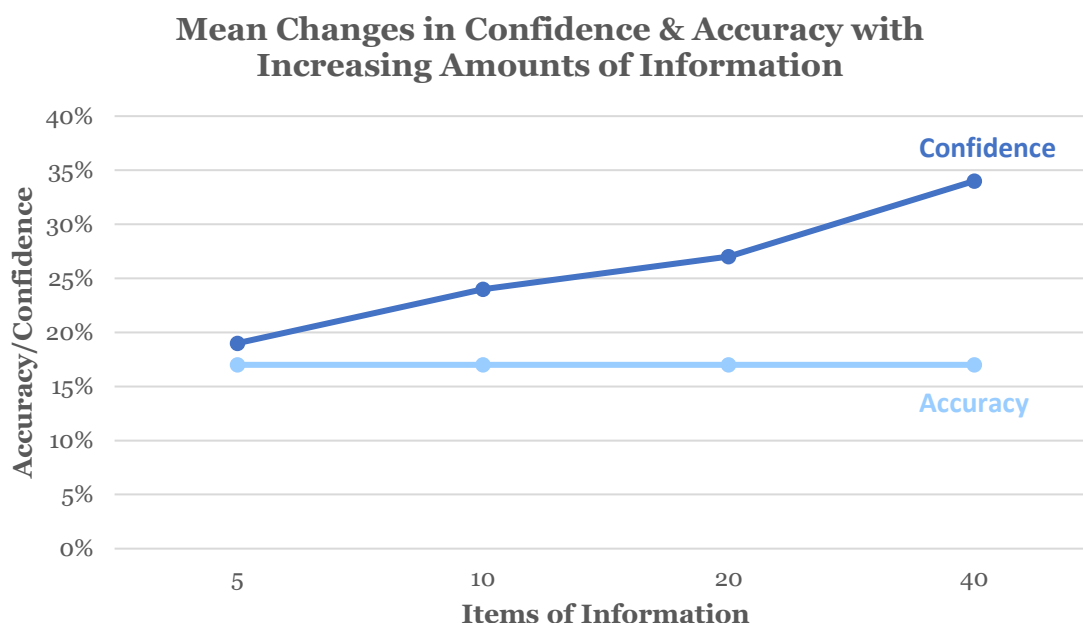
In round 4 they were allowed to select any 40 variables. Again, their accuracy remained at 17%. At the same time, their confidence nearly doubled, to 34%.

The accuracy of the predictions was the same with 5 variables as it was with 10, 20, and 40 variables.

² "Behavioral Problems Adhering to a Decision Policy", Paul Slovic, Oregon Research Institute. Paper presented at the Institute for Quantitative Research in Finance, May 1, 1973.

Increasing the number of variables did not increase accuracy but it clearly increased the confidence level of the handicappers.

Here is the chart that relates accuracy of the handicappers with their confidence level.



When we seek out more information, it's often because we are just looking for data to back up what we already believe – confirmation bias. We give confirming information more weight than it really deserves. We ignore dis-confirming information. More information can actually make us worse at decision-making if it increases our confidence level beyond what is justified by the increase in accuracy ... or lack thereof.

How do we use this insight in our investing process at Qualivian?

We focus on those stocks whose performance clearly depends on just 2 or 3 identifiable critical variables and not on those that have many (4 or more) critical variables.

Stocks dependent on many critical variables tend to have complex business models or operate in complicated environments. Complex systems have interdependencies (difficult to model) which lead to nonlinear behavior. The human mind does not deal well with systems with many moving parts and often fools itself into seeing patterns that do not exist. With this greater complexity it is uncertain whether the identified critical variables are the correct ones. To alleviate this uncertainty, investors keep on searching for other key variables and more information. As the Slovic experiment demonstrated, this may lead to overconfidence and a possible investment mistake.

For example, we would avoid investing in Bank of America (leverage, tail risks, several different businesses with different leverage points, multiple regulators, numerous points of economic sensitivity like credit and capital cycles) and prefer AutoZone (simple business model based on distribution and predictable revenue based on a stable growing end market).

According to Mark Twain:

“It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so.”

We now discuss a Quality Compounder that is on our shopping list.

Booking Holdings (BKNG)

The Elevator Pitch

BKNG is an oligopolist which is the world's largest online travel agency (OTA). The company has a competitively advantaged business as a two-sided platform with strong network effects, long growth runways, and a low risk of disruption. It has an advantaged business model that relies on:

- steady GDP+ (4%–5% per annum) travel demand growth,
- continued rise in online booking penetration,
- a dominant and growing position in the attractive and fragmented European accommodation market (hotels and alternative accommodations), and a growing dominant position in Asia,
- growth in both sides of its network (travelers and accommodation partners) due to flywheel effects, and
- a capital deployment strategy that is focused on returning excess cash to shareholders, supplementing underlying earnings growth and bolstering total returns to shareholders via dividends and share buybacks.

Description

Booking Holdings is the world's leading online travel agency (OTA) for travelers and local partners (hotels, car rental companies, airlines, etc.) in more than 220 countries and territories. The company generates revenue primarily from transaction fees for bookings made through its various platforms. It dominates the attractive European hotel and alternative accommodations market and has a growing share of the Asian market.

Investment Thesis for BKNG

1. BKNG operates in the simple and understandable travel market and is expected to grow faster than the travel sector due to continued online penetration and continued share capture:

- Travel demand has typically grown at GDP+ (4–5%) and is expected to continue growing at similar rates with the worldwide rise of the middle-class consumer.
- Furthermore, online accommodation bookings continue to gain share at the expense of traditional bricks and mortar travel agencies, constituting 67% of accommodations/rooms booked in 2023 and estimated to be 68% in 2024.
 - While this is unlikely to get to 100%, it will likely continue to rise in the foreseeable future with the rise of the middle class globally and their access to the digital economy.
- Finally, BKNG continues to gain share at the expense of competing online and offline travel agencies given its marketing spend, continuous investment in its technology platform, and its growing loyalty program which results in stickier customers who are likely to remain in its ecosystem.

- These factors ought to allow BKNG to sustainably grow Gross Booking Volumes and Revenues in the high-single-digits (HSD) for the foreseeable future.
- 2. BKNG has a durable and growing competitive advantage versus its main and smaller rivals.**
- BKNG is a “platform company” that has a double-sided network with critical mass on both sides and a self-reinforcing positive flywheel effect:
 - **Attracting Supply (Accommodations):** the volume of travelers on Booking.com makes it an indispensable distribution channel for independent hoteliers and other property owners who would be unable to access a global audience on their own:
 - Furthermore, BKNG’s platform provides them with tools to manage their listings, monitor revenue, and gain insights from guest feedback.
 - **Attracting Demand (Travelers):** As more properties join the platform, the selection/variety of accommodations increases, making BKNG the go-to platform for travelers seeking the widest selection of options and prices, reinforcing the value proposition for new and existing property partners.
 - **Lowering Customer Acquisition Costs (CAC):** The network effect’s key benefit is the ability to acquire and retain customers more efficiently. As the brand becomes more recognizable/trusted, a growing number of customers come to BKNG directly, through its app or website, rather than through paid search (Google paid search represented \$3bn of BKNG’s \$7bn marketing spend in 2024):
 - This higher direct-booking mix (mid 50% as of 2024 up from low 50% in 2019) reduces marketing spend as a percentage of gross bookings (4.4% in 2024 down from 5.15% in 2019).
 - **Cross-Selling/Ecosystem Lock-in (“Connected Trip” Strategy):** Once a customer makes a hotel booking, BKNG can seamlessly offer flights, car rentals, and other services. This not only increases the lifetime value of the customer but also makes the ecosystem stickier, which is further reinforced via BKNG’s Genius loyalty program:
 - Genius loyalty program offers rewards such as pricing discounts, free upgrades, and priority customer service support to travelers, and enables suppliers who participate in the program to generate incremental demand, increasing customer lock-in.
 - BKNG’s scale has allowed it to gain share at the expense of both its direct rivals (Expedia and Airbnb) and smaller regional players:
 - Geographic Dominance:
 - BKNG is the dominant force globally, particularly in the attractive and fragmented European and Asian markets. It’s the market leader in Europe, with some estimates putting market share around 35–40%.
 - EXPE is the market leader in the less attractive US region, with an estimated share of 60–75% of gross bookings, where large hotel chains (with greater negotiating leverage and competing websites of their own) dominate, translating into lower profitability for EXPE.

- Accommodation Listings:
 - BKNG has the largest and most diverse inventory, with over 28 million listings, (traditional hotels and over 6.6 million alternative accommodations). This makes its platform a true “one-stop shop” for any type of lodging.
 - ABNB's inventory is focused almost exclusively on alternative accommodations, with approximately 7.7 million listings, reducing its attractiveness for travelers looking for widest selection.
 - EXPE has a much less impressive 3 million accommodation listings across its various brands (Expedia, Hotels.com, Vrbo, etc.), reducing the attractiveness of its network.
- Marketing Spend and Strategy:
 - BKNG is the highest spender in absolute terms, but its marketing efficiency is a key strength. In 2024, BKNG spent \$7.3 billion on marketing (31% of revenues). Its scale allows it to generate better cost per click than competitors in paid search. Furthermore, its pivot in recent years to focus more on direct brand marketing to drive more consumers to its properties also improves its marketing efficiency.

3. BKNG's capital deployment has amplified its superior financial performance over the past 10-years which we believe is sustainable going forward:

- BKNG has compounded revenues at 10.8% per annum over the past 10 years, despite the 50%+ drop in revenues in 2020 due to COVID:
 - Management have set long-term forward targets of 8% growth per annum in Gross Bookings and Revenues which we believe is eminently reasonable/achievable given further penetration of online travel demand and the company's history of gaining share against its direct and smaller rivals.
- The company has compounded adjusted net income at 10.1% while delivering 15% EPS growth over the same period on the back of share buybacks:
 - Management has reduced diluted share count by approximately 36% over the past 10-years.
- Management have set mid-teens EPS growth as their target for the foreseeable future:
 - Given projected 7–9% topline growth going forward and a fixed cost base that accounts for a little over a third of operating costs, we believe the company can deliver low teens net income growth given the embedded operating leverage.
 - We see the bridge to mid-teens EPS growth coming from share buybacks.

Valuation

- BKNG is currently trading at 22.5X NTM P/E (in line with its 10-year historical range) and 1.02X NTM relative P/E to the S&P 500, a slight discount to its historical range. We believe a market multiple is attractive for a company projected to grow earnings at a mid-teens rate.
- Its FCF yield (5.0% on FY2025 estimates) plus our forecast FCF growth in low teens suggest an expected return of mid- to high-teens over the coming years.

Ending Thoughts

We look forward to sharing our thoughts on our investment approach and to keeping you abreast of our performance and changes to the portfolio. If you would like additional information about Qualivian, please refer to Appendix 4 for links to prior Investor Letters, our investor presentation, and an interview that Aamer did with Insider Monkey. In the meantime, if you have any questions, please feel free to reach out to us at the links below.

With best wishes,

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Appendix 1: Quarterly Performance Tables

Performance for Qualivian Focus Fund with SMA Terms

	A	B	C	D	Difference with QUAL		Difference with S&P 500 Index	
	QFF Gross Returns ⁽¹⁾	QFF Net Returns ⁽²⁾	QUAL ⁽³⁾	S&P 500 TR Index ⁽⁴⁾	A-C Gross	B-C Net	A-D Gross	B-D Net
Dec. 2017 ⁽⁵⁾	-2.8%	-2.8%	-0.1%	0.5%	-2.7%	-2.7%	-3.3%	-3.3%
Q1 2018	5.6%	5.5%	-0.2%	-0.8%	5.8%	5.7%	6.3%	6.2%
Q2 2018	4.4%	4.3%	0.9%	3.4%	3.5%	3.4%	0.9%	0.8%
Q3 2018	5.8%	5.7%	8.3%	7.7%	-2.5%	-2.6%	-2.0%	-2.0%
Q4 2018	-14.5%	-14.6%	-15.1%	-13.5%	0.5%	0.5%	-1.0%	-1.1%
2018	-0.4%	-0.7%	-7.4%	-4.4%	7.0%	6.7%	4.0%	3.7%
Q1 2019	17.8%	17.7%	15.4%	13.6%	2.5%	2.4%	4.2%	4.1%
Q2 2019	5.5%	5.4%	3.3%	4.3%	2.2%	2.1%	1.2%	1.1%
Q3 2019	2.5%	2.4%	1.0%	1.7%	1.5%	1.4%	0.8%	0.7%
Q4 2019	10.6%	10.6%	9.3%	9.1%	1.3%	1.2%	1.6%	1.5%
2019	40.9%	40.4%	31.6%	31.5%	9.3%	8.9%	9.4%	9.0%
Q1 2020	-14.7%	-14.7%	-19.8%	-19.6%	5.1%	5.0%	4.9%	4.9%
Q2 2020	30.3%	30.2%	18.4%	20.5%	12.0%	11.9%	9.8%	9.7%
Q3 2020	9.4%	9.3%	8.2%	8.9%	1.2%	1.1%	0.5%	0.4%
Q4 2020	7.7%	7.6%	12.0%	12.1%	-4.3%	-4.4%	-4.4%	-4.5%
2020	31.0%	30.6%	15.1%	18.4%	16.0%	15.5%	12.6%	12.2%
Q1 2021	2.6%	2.5%	4.8%	6.2%	-2.2%	-2.3%	-3.6%	-3.7%
Q2 2021	12.6%	12.5%	9.1%	8.5%	3.5%	3.4%	4.1%	4.0%
Q3 2021	-1.1%	-1.2%	-0.9%	0.6%	-0.3%	-0.3%	-1.7%	-1.8%
Q4 2021	4.5%	4.5%	10.5%	11.0%	-6.0%	-6.0%	-6.5%	-6.6%
2021	19.4%	19.0%	25.3%	28.7%	-5.8%	-6.2%	-9.3%	-9.7%
Q1 2022	-10.8%	-10.9%	-7.5%	-4.6%	-3.3%	-3.4%	-6.2%	-6.3%
Q2 2022	-17.5%	-17.6%	-17.0%	-16.1%	-0.5%	-0.6%	-1.4%	-1.5%
Q3 2022	-4.7%	-4.8%	-7.0%	-4.9%	2.3%	2.2%	0.2%	0.1%
Q4 2022	6.5%	6.4%	9.6%	7.6%	-3.1%	-3.2%	-1.1%	-1.1%
2022	-25.4%	-25.6%	-21.7%	-18.1%	-3.7%	-3.9%	-7.3%	-7.2%
Q1 2023	8.6%	8.5%	8.9%	7.5%	-0.3%	-0.4%	1.1%	1.0%
Q2 2023	12.0%	11.9%	8.7%	8.7%	3.3%	3.2%	3.3%	3.2%
Q3 2023	-1.5%	-1.6%	-2.3%	-3.3%	0.8%	0.7%	1.8%	1.7%
Q4 2023	10.8%	10.8%	11.6%	11.7%	-0.8%	-0.9%	-0.8%	-0.9%
2023	32.7%	32.3%	29.1%	26.3%	3.6%	3.2%	6.5%	6.0%
Q1 2024	12.6%	12.5%	11.7%	10.6%	0.9%	0.8%	2.0%	1.9%
Q2 2024	2.6%	2.5%	4.3%	4.3%	-1.3%	-1.4%	-1.6%	-1.7%
Q3 2024	6.3%	6.2%	5.0%	5.9%	1.3%	1.2%	0.5%	0.4%
Q4 2024	3.4%	3.3%	-0.7%	2.4%	4.0%	4.0%	1.0%	0.9%
2024	27.0%	26.6%	21.0%	25.0%	6.0%	5.6%	2.0%	1.6%
Q1 2025	1.3%	1.2%	-4.0%	-3.9%	5.3%	5.2%	5.2%	5.1%
Q2 2025	5.4%	5.3%	7.0%	10.5%	-1.6%	-1.7%	-5.2%	-5.3%
TTD ⁽⁶⁾	186.5%	179.2%	120.2%	164.3%	66.2%	59.0%	22.1%	14.9%

⁽¹⁾ Gross returns for SMA product exclude fund management expenses capped at 50bps annually for our commingled vehicle, Qualivian Focus Fund. These expenses typically include fund administration, audit, and similar expenses are not incurred in an SMA product.

⁽²⁾ Represents gross performance less a flat annual management fee of 35bps.

⁽³⁾ QUAL is the iShares MSCI USA Quality ETF.

⁽⁴⁾ S&P 500 Total Return Index which includes reinvested dividends.

⁽⁵⁾ Dec. 2017 period represents Dec. 14 (fund launch) through Dec. 31, 2017.

⁽⁶⁾ TTD = Inception-to-date and represents the time period from Dec. 14, 2017 through Jun. 30, 2025.

In January of 2024, we introduced a Separately Managed Account (SMA) product that replicates our core pooled vehicle product (Qualivian Focus Fund – QFF) for interested investors. The key difference is that the SMA product will not incur the typical fund management expenses, such as fund administration, tax filing and audit fees, which we cap at 50 bps in QFF. Furthermore, the SMA product will incur a lower management fee of 35 bps annually, as compared to the tiered management fee in QFF (75 bps for the first \$20 million, 65 bps for the next \$20 million, and 50 bps for anything above).

Appendix 2: Links to Additional Information

Investor Presentation	QIP Focus Fund Final June 2025 – SMA
Insider Monkey Interview	https://www.insidermonkey.com/blog/exclusive-interview-with-aamer-khan-of-qualivian-investment-partners-886994/
Last 4 Investor Letters	QIP Q1 2025 Final.PDF QIP Q4 2024 Final.PDF QIP Q3 2024 Final.PDF QIP Q2 2024 Final.PDF

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