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Dear Partner,

SVN Capital Fund's portfolio returned +6.26% net in the first half of 2025. Your return will be different depending on when you invested.

Here is what I would like to cover in this letter:

- the three Ts that are the bane of investing;
- the portfolio and performance highlights; and
- Triveni Turbine, one of our holdings in India.

The three Ts that are the bane of investing: In early April, the pugilistic president of the US announced "Liberation Day," and unleashed a torrent of tariffs on various countries, sending the stock market, the bond market, and the dollar down in Wile E. Coyote style. First, the market froze in terror, like a gerbil transfixed by the stare of a cobra. Then it promptly cratered (the S&P fell just under 20% from its high, and the NASDAQ dropped 23%), primarily because the earnings visibility for most of the businesses disappeared. When such visibility becomes clouded, the market can fall as far and as much as investor hysteria will propel it. And it did.

A few days later, my wife and I attended a wedding in which the father of the bride introduced me to a few of his friends as an investment manager. I could tell that the heightened uncertainty in the market had raised their anxiety levels, and they wanted to pepper me with questions. I offered to meet them for an early breakfast the following day. My wife, who is not cursed with my optimism about such life forces as portfolio concentration and compounding, decided to stay back.

Questions ranged from political to social to moral issues, and even to the éminence grise of Elon Musk. When certain decisions are presented to us as faits accomplis, it is only natural to have questions around such issues. Unfortunately, those are areas outside my

province, and so, I pleaded nolo contendere to such macro matters. Soon, we pivoted to market-related topics.

The leitmotif of the breakfast meeting was “what to do now?” In the post-Liberation-Day context, it looked like the three Ts that are the bane of investing were: **T**ump, **T**ariffs, and **T**rade Barriers (my original three Ts were: Turnover, Transaction Cost, and Taxes). While tariffs and trade barriers can be considered another form of tax that may increase the cost of doing business, figuring out their impact on companies would be the equivalent of a Churchillian riddle wrapped in a mystery inside an enigma.

Let me explain it with an example from one of our portfolio companies, **Copart, Inc. (CPRT)**, the largest salvage yard company in the United States. Through the company's auction platform, it handles ~3.5 million dinged and damaged vehicles per year, with customers spread across 180 countries. Earlier in the year, in the FQ2 2025 earnings call, CEO Jeff Liaw addressed the impact of tariffs, and here are some highlights from the call:

- it's largely neutral to our business;
- the effects of tariffs are largely inflationary; inbound tariffs in isolation would increase the cost of repair parts for vehicles which, all else equal, would increase the total loss frequency and drive increased volume to CPRT;
- it will also lead to reducing total loss frequency and suppressing volume to CPRT;
- but again, it will increase the selling prices for the vehicles, driving total loss frequency up and improving our unit economics;
- if the story stopped there, I'd characterize the effect of tariffs as being modestly positive to CPRT; however, the great unknown is whether it can precipitate retaliatory tariffs from the same countries.

A number of our portfolio companies similarly have such offsetting forces at work. As Jeff Liaw articulated, quantifying the impact of tariffs and counter-tariffs is downright Delphic.

So, what to do now? My response is “divine inaction,” a phrase I picked up reading the book *Team of Rivals on Lincoln* by Doris Kearns Goodwin. Lincoln's sense of “divine inaction” influenced his leadership style. He was willing to wait, to deliberate, and to act with restraint, believing that not every moment called for forceful intervention, **and that sometimes the wisest course was to allow events to unfold, trusting in a larger moral order.**

Inaction bordering on willful slothfulness has been a long-cherished weapon in my arsenal; four of the top six names have been in the portfolio for more than four years, and two others have been in the portfolio for more than two years. One of the triggers for me to make any portfolio-level changes would be a decline in a company's competitive strength, thereby impacting its long-term cash flow generating capacity. Of course, it's

early in the three Ts' turbulence. However, I am on the lookout for any discernible impact. Additionally, three of our companies (**Bajaj Finance** in India, **Dino Polska** in Poland, and **Kinsale Capital** in the US) conduct 100% of their respective businesses within their countries' borders, with no immediate tangible impact.

As of this writing, the markets have recovered some of the earlier losses. However, I do not want to provoke providence by proclaiming all danger averted.

As we wrapped up the breakfast meeting to prepare for the Indian wedding, I realized that Lincoln's prescription of patience and pedestrian pragmatism was not satisfying to a couple of the attendees, particularly in the face of the global reordering of economic might. As I was struggling to articulate something more convincing, the thought that captured my state of mind best at that time was what Barton Biggs, a successful investor of yesteryear, had written in his book *Diary of a Hedgehog*:

The sad truth is you may be right about where the market is going, but you can't possibly predict where it will go after that...sometimes twiddling your thumbs is the least malignant activity.

Portfolio and performance highlights: We currently own 10 stocks, with cash accounting for 2.3%.

Portfolio Composition						
# of Stocks	Top 6	US	India	Poland	France	Cash
10		4	4	1	1	
10	78.8%	50.8%	18.9%	15.9%	12.0%	2.3%

Ever since the Securities and Exchange Board of India gave its imprimatur in mid-2024, India has gradually become a prominent piece of the portfolio. It is more than a colorful country with mythic origins where history collides with mystery. Increasingly, it provides investment opportunities in high-quality businesses. As such, ~20% of the portfolio is invested there. In the next section, I will provide a detailed description of one of our holdings in India.

In the last paragraph of his seminal book *100 to 1 in the Stock Market*, the author Thomas Phelps says:

*In **Alice in Wonderland**, one has to run fast in order to stand still. In the stock market, the evidence suggests, one who buys right must stand still in order to run fast.*

Increasingly, our portfolio is beginning to “stand still,” Thomas Phelps style; our top six holdings have not only been in the portfolio for a long time, but they also account for ~80% of the portfolio, two of which are more than 2x our average cost.

Portfolio activity: After selling two stocks, I added two new Indian stocks to the portfolio. I will write about them after they gain meaningful weight in the portfolio. Earlier, I wrote that one of the triggers for a portfolio-level change is the decline in a company's competitive edge. Another trigger is my misdiagnosis of a company's competitive edge. The two “sell” decisions during the year fall in this category; one is a Canadian company, and the other is an Indian company.

Performance: First, the top two underperformers in 2025. In the year-end 2022 letter, I cited Peter Lynch from his book *Beating the Street*, in which he said, “Perhaps there is some poetic justice in the fact that the stocks that take you the farthest in the long run give you the most bumps and bruises along the way.” I then listed **KKR** as one that had delivered a bruise by accounting for more than four points of the portfolio's decline in 2022.

Well, KKR, a holding since the fund's inception in 2020, and Peter have made a repeat appearance in 2025. KKR, for delivering a similar wound this year, and Peter, for proving his point again. Before I provide the operational details, below is the stock trajectory of KKR over the last four years.

<u>Year</u>	<u>Stock Price Perf. %</u>
2022	-37.0%
2023	80.5%
2024	79.6%
Jun 30, 2025	-9.9%

After two strong years in 2023 and 2024, the stock was bound to take a breather. And it has. The path it took to deliver this return (-10%) in 2025 was vertiginous: down 45% from February to early April, and then up 45% from early April to June.

As the tariff-related uncertainty remained elevated, both the IPO and M&A markets shriveled. These two are essential avenues for alternative asset managers to exit their investments and return capital to the allocators, who can then reinvest in future funds. Since the capital raise, deployment, and realization are intertwined exercises, a

slowdown in one area crimps the entire process. As such, the market has punished all of the alternative asset managers en masse in 2025.

According to Hugh MacArthur, chairman of Bain & Company's global Private Equity (PE) practice:

- there are approximately 30,000 companies that are being held globally in buyout portfolios, worth about \$3.6 trillion;
- about half of those companies have been held for at least five years, which is the typical sell (IPO or M&A) time for PE funds; and
- As such, the allocators are eagerly awaiting the return of approximately \$1.8 trillion of value from the realization of about 15,000 companies.

Hugh MacArthur said, "...when we get a set of relatively stable macro conditions and the market believes in that stability, that's when we're going to see a return to robust dealmaking." In late 2024, there was a semblance of stability in the deal market, which continued to improve in early 2025, until the tariff talks heated up. So, the revival of deal markets is a question of when, not if.

At KKR (\$664 billion in AUM; dry powder of \$116 billion), capital raised (\$114 billion in the last 12 months) and capital deployed (\$101 billion) have remained healthy, while realizations were slightly lower. As the tariff turbulence abates, I expect the realizations to improve and the entire process to get back on track.

With dry powder accounting for 17% of its AUM, KKR is in pole position to deploy capital should the markets wobble further. For example, KKR invested in Global Atlantic, an annuity provider, right during the COVID crisis in 2020.

In the meantime, ANI (Adjusted Net Income = total operating earnings + realized investing earnings – interest expense), one of the primary valuation metrics, continues to grow: \$4.4 billion (\$4.88/share) in the last 12 months, up 37%. Nothing has impeded KKR's plan to generate \$15.00/share in ANI before 2034.

I expect the Peter Lynch-described wound of 2025 to heal over time, as it did the last time.

CPRT, another long-term holding (~five years), is down ~25% from its recent high earlier this year—all of it following the company's announcement of FQ3 2025 results (the company's fiscal year-end is July 31). For context, we have endured even worse drawdowns in this stock in the past.

CPRT remains the dominant player in the duopoly market of auto salvage. The company has diversified into other business lines, such as whole car (from dealers) and heavy equipment (Purple Wave). However, the majority of revenue sources are North America-based salvage vehicles, fed by insurance companies, where the company acts as the eBay of dinged and damaged vehicles.

All the major drivers of the business continue to provide tailwinds for CPRT:

- *The average age of vehicles on the road is 14.5 years, an all-time high.*
- *The % cost of electronic components in a vehicle is 40% in 2025, an increase from ~16% in 2000. The % cost is expected to be more than 50% of the total vehicle by 2030; this leads to higher repair costs.*
- *The cost of labor to repair vehicles is \$85 to \$175 per hour, a steady increase over time due to labor shortages, vehicle complexity, and inflation.*

These forces are increasingly nudging insurance companies to total the damaged vehicles, then sell them to CPRT and its competitors for salvage value. The total loss ratio in the auto insurance sector is at an all-time high of 22.6%. It has increased from ~4.0% in 1980 and is expected to surpass 30% in the immediate future, indicating that more vehicles are expected to be turned over for salvage value.

So, why is the stock down so much? Before I share my reasons, below is a look at the company's financial performance over time.

	Sales Growth	EPS Growth	Cash Return on Invested Capital
2019	13.1%	42.2%	24.6%
2020	8.0%	19.1%	26.2%
2021	22.1%	32.4%	20.4%
2022	30.0%	16.5%	20.9%
2023	10.5%	13.3%	19.0%
2024	9.5%	9.4%	16.3%
FQ4 2024 ⁽¹⁾	-5.2%	-15.4%	20.1%
FQ1 2025 ⁽¹⁾	7.3%	12.1%	20.7%
FQ2 2025 ⁽¹⁾	1.4%	8.1%	5.5%
FQ3 2025 ⁽¹⁾	4.2%	5.0%	28.2%

(1) Fiscal year end is July 31

The recent sales growth trajectory raises the question of whether a quondam fast-growth business is transitioning into a stable-growth stalwart.

Another persistent question in the minds of investors is the threat of autonomous driving. In my mind, it's an issue that is widely discussed but remains largely theoretical and

distant. The adoption of advanced safety features has historically taken 40 to 50 years to reach ubiquity in the vehicle fleet, and autonomous vehicle technology is far more complex.

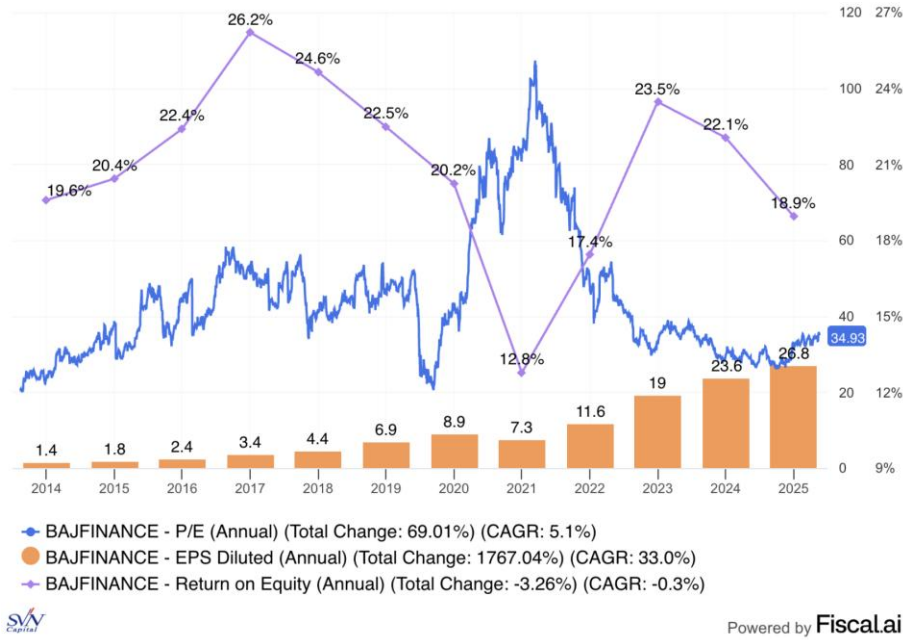
The more probable cause of the stock price decline is the evident slowdown in topline growth, combined with the rumor of losing a large insurance company customer to its competitor, IAA, which is now owned by Ritchie Bros. (RBA). Approximately 77% of all the vehicles in North America (~324 million) are insured by the top 10 insurance companies, many of which have a contract with both CPRT and IAA. As such, when a large insurance company leans in favor of one over the other, the fear of possibly losing several million salvage vehicles tends to move the stock price. Some insurance companies make such decisions based on their need to hedge their exposure, while others base them on customer service.

CEO Jeff Liaw, in the FQ3 2024 earnings call, said:

Our growth is the result of our commitment to customer service and our auction liquidity. With each additional vehicle we earn the right to sell, we increase the attractiveness of our auction platform to the world's automotive buyers, drawing still more members to our auctions and the benefits of all of our sellers, new and old.

The owner-operators (insiders own more than 8.0% of the shares) run the business conservatively—the balance sheet has net cash of \$4.3 billion. Historically, CPRT has reinvested nearly all of its free cash flow in acquiring land (it owns ~19,000 acres of land) and developing its technology. I remain confident in the management's ability to exhibit its opportunistic streak.

Now, the top two strong performers. First is **Bajaj Finance**, a specialty finance company in India. I wrote about this in the year-end 2024 letter just a few months ago, which you can read [here](#). Not much to report, except that the stock price (+35.0% YTD) is starting to reflect the fundamentals of this high-quality lender.



Next is **Dino Polska (DNP)**, the Polish grocery chain, which is another long-term holding in the fund. After underperforming in 2024 (-15.0%), the stock price has reversed course and is up +35.0% year-to-date.

	Sales Growth	Cash Return on Invested Capital	# of New Stores
2020	32.4%	18.0%	255
2021	32.0%	26.1%	342
2022	48.2%	18.1%	341
2023	29.6%	21.9%	250
2024	14.1%	28.1%	282
Q2 2024	8.6%	23.7%	66
Q3 2024	5.0%	33.1%	69
Q4 2024	1.9%	39.9%	115
Q1 2025	-5.3%	-5.5%	58

After realizing the folly of applying the brakes to new store formation, the management team has taken its foot off the brake and is pressing on the gas pedal; store growth in the last two quarters indicates that it's on pace to open a store a day.

There are a couple of reasons why the operating performance of Q1 2025 looks a little light.

- *There were fewer open days in Q1 2025:* grocery stores in Catholic Poland were allowed to remain open only on one Sunday in Q1 2025.
- *Delayed Easter:* the week-long grocery spending for Easter (April 20, 2025) celebrations got pushed to Q2.

I expect the operating performance for the rest of the year to reflect the renewed vigor.

Triveni Turbine Limited (TTL): Before I get started, please allow me to jog your memory to the four-part investment objective I use at SVN Capital.

- Is it a business that I can understand?
- Is it a business that generates high returns on incremental capital, and does it have great reinvestment opportunities?
- Is the business run by an honest and competent management team with skin in the game?
- Is it available at a reasonable valuation?

What does the company do? TTL is a leading global manufacturer of industrial steam turbines with a capacity of up to 100 megawatts (MW). It holds a dominant market share (#2 globally, behind Siemens of Germany) in the less-than-30-MW turbines. Headquartered in Bengaluru, India, the company has a long history going back to the 1930s. It has since established itself as a trusted provider of engineered-to-order steam turbine solutions for a wide range of industries, including sugar, steel, pulp and paper, textiles, cement, and oil and gas. It has clients scattered across 80 countries.

What do steam turbines do? Steam turbines are mechanical devices that convert thermal energy from pressurized steam into rotational motion, which is then used to drive generators for electricity production or to power mechanical equipment such as pumps and compressors. They are widely used in the situations described below.

- ***Electricity generation:*** Steam turbines are the backbone of most central power stations, including those fueled by coal, natural gas, and nuclear plants, as well as in renewable energy applications such as geothermal and concentrated solar power.
- ***Industrial processes:*** Industries such as sugar, pulp and paper, textiles, chemicals, and food processing utilize steam turbines for both power and heat generation.
- ***Waste-to-energy and biomass:*** Steam turbines enable the conversion of waste heat to biomass into electricity, supporting sustainable industrial operations and reducing landfill waste.

A brief history: While the company has a long history, TTL became a standalone, publicly traded company in 2011. That's when, after recognizing the potential of the steam turbine business, the management team spun off TTL from its parent company which was an industrial conglomerate that included sugar manufacturing, turbo gearboxes, and wastewater solutions. Sales and operating earnings are up 6.5x, while the stock is up 15x since the separation.

Is it a high-quality business? It takes about nine months from start to finish to transform a Dickensian agglomeration of pipes and vats into a steam turbine. However, TTL does not initiate a project until it receives a deposit from the customer, with arrangements in place to collect funds along the way until final delivery, which transforms a capital-intensive turbine manufacturing business into a capital-light one.

Two other unique features contribute to TTL's high returns on capital. Approximately 50% of its total revenue comes from export sales, with margins that are ~1.5x to 2.5x higher than its domestic sales.

Steam turbines typically last for as long as 40 years, during which they require replacement parts and regular service. TTL provides aftermarket parts and services on its turbines and those of its competitors. Currently, approximately one-third of TTL's total sales are generated from the aftermarket business, with significant room for growth. Margins on aftermarket business are 4x to 5x higher than those on domestic sales.

Below is the financial performance over the last few years.

	Sales Growth	EPS Growth	Cash Return on Invested Capital
2020	-2.6%	23.6%	32.1%
2021	-14.1%	-15.9%	26.8%
2022	21.3%	163.7%	48.0%
2023	46.4%	-28.6%	20.2%
2024	32.6%	41.8%	24.2%
2025	21.3%	33.2%	11.1%

(1) Fiscal year end is March 31

Management team: TTL is an owner-operated business, a feature I prefer for our portfolio. All 10 of our portfolio companies are owner-operated. Management owns ~56% of the outstanding shares. While the company has a long history, its modern leadership and management have been shaped by the Sawhney family. Father Dhruv Sawhney occupies the chairman seat in both TTL and Triveni Engineering, which is the corporate residue after the separation. One son, Tarun Sawhney, is the head of Triveni Engineering, while the other son, Nikhil Sawhney, heads up TTL.

They have been good stewards of capital. All growth since the separation has been organic. The company funds all its capex needs from internal cash flow and maintains a balance sheet with net cash.

Valuation: The global steam turbine market was ~\$27 billion in 2024 and is expected to reach \$36 billion by 2033, with the sub-100 MW segment accounting for a substantial portion. Industrial applications dominate the sub-100 MW segment, driven by the need for energy efficiency and decentralized power demand. TTL has the 2nd highest market share in the sub-100 MW segment, consistently outperforming overall market growth in this category.

This vibrant growth is evident in the order book of INR 23.6 billion as of Mar 31, 2025, and a CAGR of 38% since FY 2021. At the current price, we own an owner-operated global business, growing at a robust pace, with no debt on the balance sheet at a reasonably attractive free cash flow yield. Using reasonable assumptions, I expect the stock to return more than 15% CAGR over the next five years. There is a lot more I can write about this business; since the letter is already long, I will curb my enthusiasm and report further in future letters.

As I conclude, I am reminded of the medieval quarry workers' creed, "*We who cut mere stones must always be envisioning cathedrals.*" Thank you for allowing me to be your stonecutter. I continue to remain optimistic about delivering an investment cathedral. It's a privilege to serve you.

If you are interested in learning more, please contact me or Ms. Jessica Greer (jessica@svncapital.com; 443-775-1227). Thank you.

Sincerely,

A handwritten signature in cursive script that reads "Shree". The signature is written in dark ink and is underlined with a single horizontal stroke.

Shreekanth ("Shree") Viswanathan

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