ASILO
Asset Management

Portfolio Managers' Quarterly Letter Q1 / 2025

INTRODUCTION

The strategy of Asilo Argo is focused on identifying individual companies that have the potential for exceptionally strong and long-lasting growth — so-called "superstar companies". Although we follow macroeconomic developments, we do not make investment decisions directly on the basis of these phenomena; instead, we concentrate on long-term analysis. We are, however, currently living through rare times.

The portfolio managers' Q1 / 2025 quarterly letter discusses the current economic and geopolitical inflection point as well as the rapid development of artificial intelligence from an investment perspective. Although our long-term focus remains on disruptive growth and superstar companies, we acknowledge that Donald Trump's recent tariff policy and the related uncertainty are affecting the investment environment.

The portfolio companies that produce digital services are less exposed to the usual fluctuations in production costs. In this letter we emphasise Jevons' Paradox and the significance of Moore's Law: as the cost of compute power falls, usage grows, which supports the long-term demand for AI infrastructure. New scaling laws born in the field of AI and the Model Context Protocol (MCP) are pushing development forward in leaps. The portfolio managers of Asilo Argo believe that AI will change the market ever faster, which reinforces the core of the investment strategy: a focus on fundamental technological transitions, not on momentary waves.

> *We do indeed notice quite well how the surface of the Atlantic is storming, but the core of our work is not to watch the waves visible on the surface, but to observe — beneath the surface — the Gulf Stream that flows regardless of the direction of the wind. We ask: are the central drivers still in force, and are our portfolio companies still in the middle of the Gulf Stream?*

Ernst Grönblom, Henri Blomster. Asilo Asset Management Oy

ANATOMY OF THE TIMES

It increasingly appears self-evident that Trump's election as President of the United States was a historic turning point in world politics. This is visible both in security policy and in economic policy. The tariffs imposed by Trump on 2 April 2025 were only the latest twist in this drama. Many wonder what Trump is aiming at? Some believe that Trump's decisions lack any common thread at all. This is a theme on which one could surely write several doctoral theses, but this letter is not the right forum to go deep into the details.

Our understanding of the situation is that the end of the Cold War launched a new era of globalisation. One of the consequences of globalisation was the migration of Western industrial jobs to countries with cheap labour, such as China. This has provided Western consumers with inexpensive consumer goods, and it has strengthened the profitability and share-price performance of many Western companies. One of the downsides of the phenomenon, however, is the decline of industrial jobs in the West. The United States has suffered more than average from this phenomenon, partly because the dollar's position as the global reserve currency has worsened the chronic US trade deficit.[1] The United States is a gigantic market to which both American and international companies wish to sell their products. By raising tariffs Trump aims to encourage companies to move a larger share of their production to the United States, which according to him would boost domestic employment and strengthen the economy. Trump has promised to bring industrial jobs back, even at the risk that the economy and stock prices suffer.

PORTFOLIO MANAGERS' ASSESSMENT OF THE SITUATION

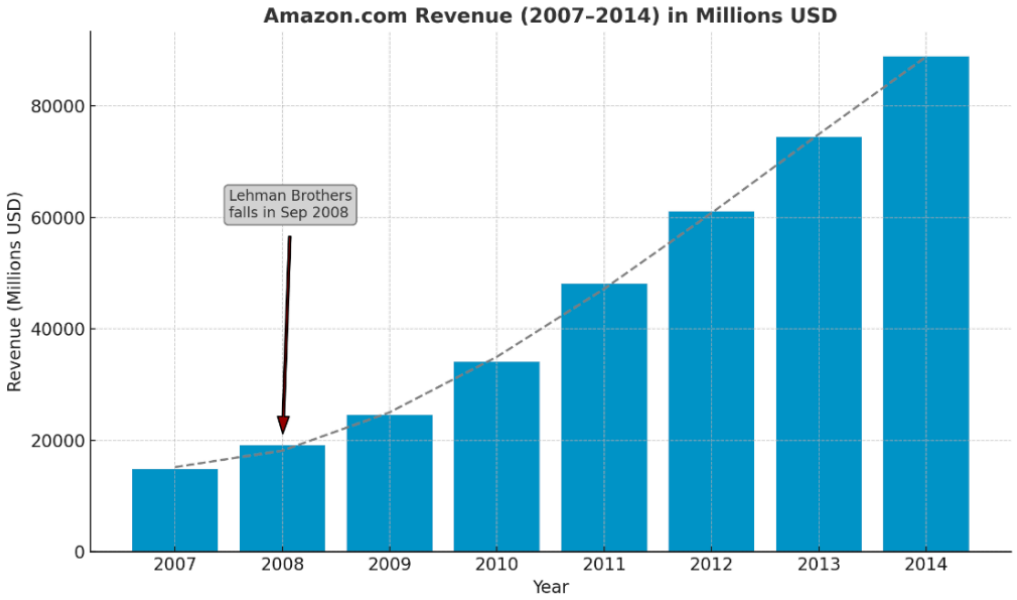
How does this affect Asilo Argo's investments? The answer depends on many factors, such as whether the situation leads to an actual trade war or whether it returns to so-called "normal". Some analysts believe that Trump's tariff policy is largely a bluff, with which he aims to force other countries into bilateral negotiations and through them into mutual dismantling of trade restrictions. Time will tell.

At this stage, however, we can note the following: our portfolio companies are high growth-expectation companies, and for this reason their valuation levels are above average. Consequently their share prices also fall more than average when uncertainty or pessimism in the markets increases. On the other hand, the majority of our portfolio companies produce entirely or mainly digital services (as opposed to physical, industrial products), which means that they are less vulnerable to rising prices of physical production inputs (raw materials, components, etc.). It is also worth noting that semiconductors were left outside the tariffs published on 2 April 2025, at least for the time being.

Macroeconomic uncertainty may therefore be temporarily reflected in the pricing of shares, but from the perspective of the core of Asilo Argo's investment strategy, the most important decision criteria lie elsewhere. The reason for this is above all the nature of growth. The growth that can be found on the Helsinki stock exchange is in fact often primarily cyclical, that is, it follows the general business cycle, so that the revenue and earnings of companies collapse as general economic growth weakens. Asilo Argo's investment targets, on the other hand, mainly benefit from disruptive growth.

[1] This phenomenon is called the "Triffin dilemma" and refers to the conflict that arises when the world's reserve currency (for example the US dollar) is at the same time the national currency of a single country. In order for the world to have enough dollars, the US has to run a current-account deficit, but this weakens trust in the dollar in the long run.

Disruptive growth does not rely so much on general economic growth but is based on the fact that the company's product or service does something at least ten times better or more efficiently than previous solutions. In such a situation, growth is driven more by society's and the market's transition to new ways of operating, so that the impact of general economic growth becomes surprisingly small. An indication of this is, for example, the fact that the growth of Facebook and Amazon continued strongly even during the financial crisis, and the crisis was barely visible in their growth figures.



Source: Asilo Asset Management

This does not, however, mean that general sentiment would not affect the price paid for shares, nor does it mean that there would be no cyclical component at all in the Asilo Argo portfolio. In principle, of course, one should sell shares at high prices, ride out the decline in a cash position, and buy the cheapened shares back at the bottom. In practice this would mean that one would have to be able to time both the sell decision enabled by sentiment and the buy decision correctly, and we do not believe that this is possible — at least we do not believe that it would work in our hands.

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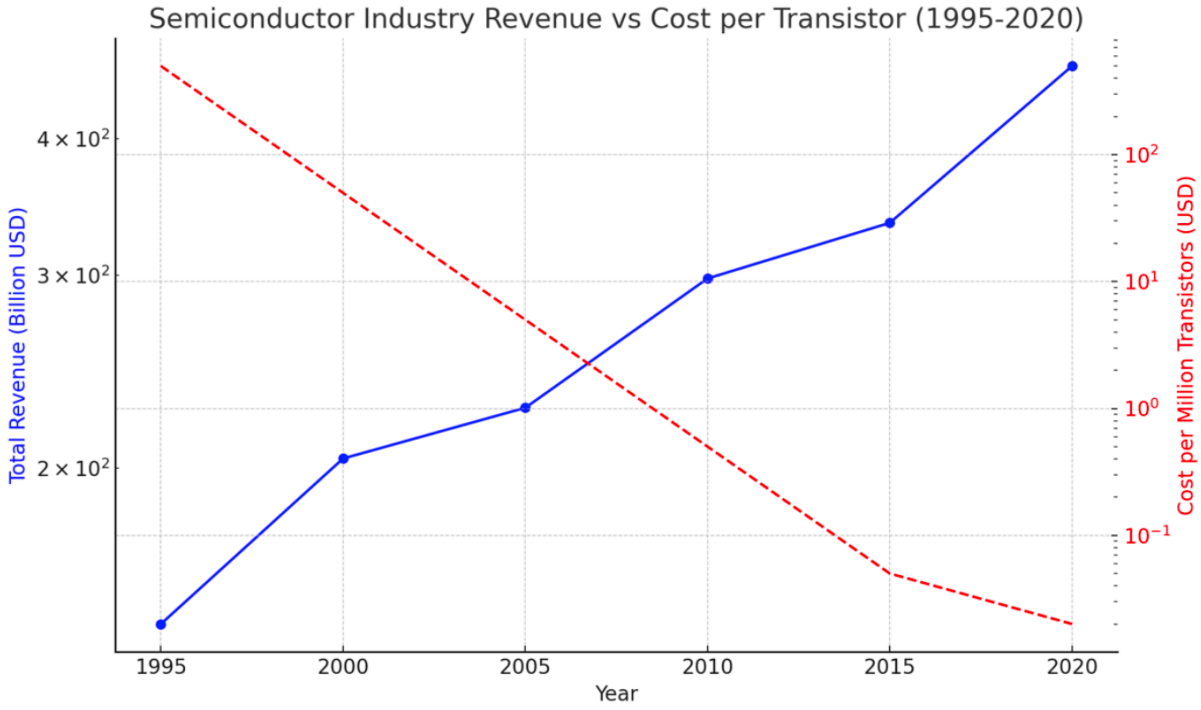
Speaking of the currents beneath the waves, we thought we would this time open up Jevons' Paradox a little more. According to Jevons' Paradox, a fall in the price of petrol means a higher, not a lower, revenue obtained from petrol. One cornerstone of our investment philosophy is triangulation, the examination of a matter from several different angles. The situation now at hand offers an opportunity to explain why we aim to act in this way.

Finance offers several different models and metrics suited to short-term examination, such as the payback period of an investment, the internal rate of return, the return on invested capital, and so on. Every model has its own limitations, and if AI were cellulose then yes, we would have reason to be worried that a new model is being published in China at an ever lower price. If, for example, producing pulp cost 50 cents/kg in Finland and it turned out that the production cost in China is 2 cents/kg, then there would be reason to be worried. What then would be the value of factories in Finland, and is there any demand at all for the products (or new pulp factories!) of a Finnish pulp producer, when there are clearly no preconditions for competing on a global scale?

Now, however, we are talking about artificial intelligence and semiconductors, not about cellulose. Next we shall begin to unpack how exactly this matter should be thought about.

First, it is good to know about Jevons' Paradox that its effect is large. The image below is an approximation, partly because of the availability of data related to semiconductors and the details of the calculation, such as the effect of so-called yield on the end result. Nevertheless, and especially when the logarithmic scale is taken into account, it is clear that over a slightly longer time horizon this is not about percentages and not about tens of percentages. It is about, on the one hand, a massive decline in cost and, on the other, massive growth of the industry.

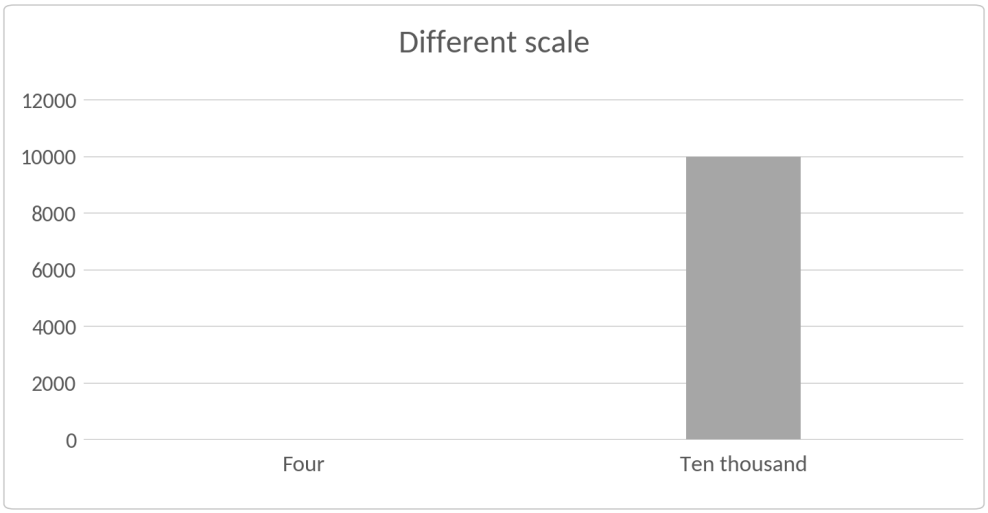


Source: Asilo Asset Management

The real thinking error arises from the fact that when the starting point is an entirely mechanical car that has no chips at all, and where the performance and cost of chips is in an entirely different class than today, then it is quite challenging to grasp intuitively, through Model-T Ford data, the situation of the present day. That is, the situation in which the door handle alone contains two chips, or the whole in which approximately 5,000 chips are packed into the entire car.

The significance of Moore's Law[2] has therefore been large, and from this we move on to the next point, namely scale, or more precisely the fact that scale is not the same everywhere. If we are talking, for example, about Nike's top-level running shoes, then a four percent improvement in speed is a lot. It is enough to cause a stir in running circles and for records to be set in marathons. But in semiconductors, let alone in artificial intelligence, four percent is nothing at all. With regard to scale it is worth noting that we have lived most of our lives in the era of Moore's Law. It is the baseline pace by which a person perceives their surroundings intuitively — that is, automatically, without thinking about it.

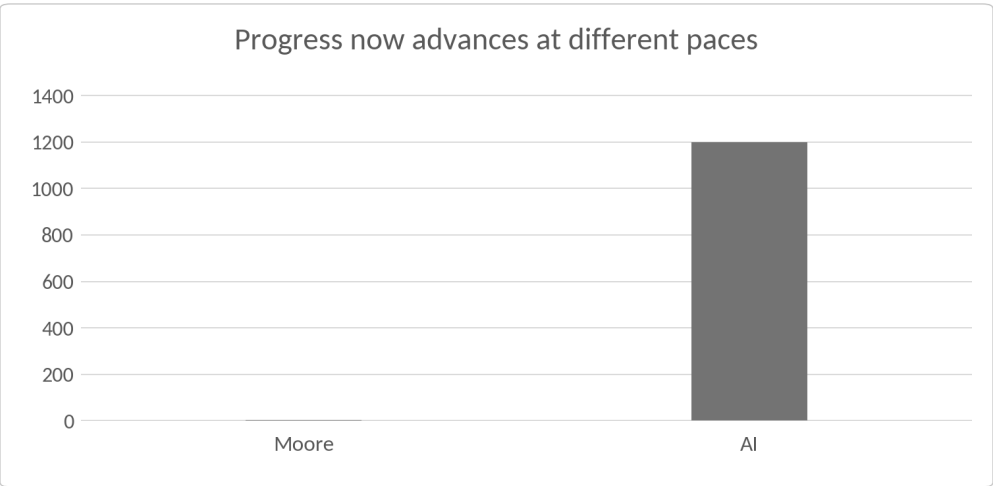
In this transition it is essential to note that the scale of AI differs from the scale of Moore's Law. If the Chinese DeepSeek model is 27 times more efficient compared with something, then it sounds like a really large and very significant amount. But what are the orders of magnitude through which the matter should be grasped? The GPT-2 model from 2019 used 10,000 times less compute than the GPT-4 model from 2023. The pace of Moore's Law is two times in two years, and two times two is four. The difference is massive.



Source: Asilo Asset Management

The same matter can be examined from slightly different angles. The numbers change, but the basic message remains the same. With regard to costs: if in the case of Moore's Law we speak of a pace of "two times in two years", then with regard to output tokens we speak of a pace of 1,200x in three years. As a chart, the significance of three years looks like this.

[2] Moore's Law is the observation according to which the number of transistors on a semiconductor — especially on a microprocessor — integrated circuit doubles approximately every two years. This means that compute power grows rapidly while the cost per transistor falls. The law was put forward by Intel founder Gordon Moore in 1965, and it has guided the development of the electronics industry for decades.



Source: Asilo Asset Management

It is generally warned that one should not think about the world through the "this time is different" model. We are a portfolio manager that takes a genuine view, and our view is as follows: DeepSeek changes some things, but not the thing that has been reported in the news. The real news is not that DeepSeek's cost is something calculated in some way. The real news is that the pace of Moore's Law is on an entirely different scale than the pace of AI development. At the same time there are things that are still in force just as before. The significance of Jevons' Paradox has been large in the past, and its significance and mechanics will be significant also in the future. The decline in costs will lead to there being more use cases, and that will increase demand.

OTHER NEWS WORTH REPORTING

AI is exceptional as a technology in that historically forecasts have had to be corrected rather in the direction of faster than slower, of better than worse. Next we shall open up a little of the mechanics through which this historical pattern of "even faster than thought" could be possible also going forward. A central element related to AI is the scaling law — that is, bigger is better. Scale is good to keep in mind here too: it is not worth aiming to build something a little bigger than before, but a ten-times-larger AI model is clearly better in quality. This basic idea is alive and well, and DeepSeek does not change this matter in any way.

For the development of AI, problems with the size class that had been reached were starting to form. This comes via two routes. From where can data be obtained if more or less the entire internet has already been used for training the model? Secondly, considering the size class of the players, moving from a million to ten million is no problem, but the matter looks slightly different when one begins to move from a billion dollars to ten billion. The expected improvement in quality is, however, on the same level: ten times bigger is ten times bigger.

Source: Image collage / Asilo Asset Management

AI is not just a nice chatbot from which one can ask amusing questions. It is a technology that will have major impacts on society and its structures.
What is new is that data can now be created from nothing. A question is needed to which the correct answer is known. AI tries via several different routes, and the thought processes that produced the correct answer are the data that can be used for training AI.

Another piece of news is that AI can be scaled in use — that is, by using more time and compute power to form the answer, a better answer is obtained.

These new techniques bring new dimensions to growing the size of the model. They are new ways of scaling, so scaling is in its early stages. The size class is small, and when the size class is small, making a tenfold jump is not only cheaper but also faster. To summarise: the news is that

new ways of scaling have emerged in the field of AI, and this leads to the whole field advancing ever faster.

Model Context Protocol

Let us pause for a moment to think about the smartphone. More precisely, we want to ponder what the use value brought by the smartphone is composed of, and how it changes as a function of time.

The value of a smartphone does not come so much from the phone itself, but rather from the fact that it is a platform for a thousand different players. One gets a quantitative metric for the amount of value when one thinks about how much less one would use a phone that still has the same hardware but not a single application. Applications create value for the phone. Applications are, for example, the route through which one moves from point A to point B by public transport without thinking about the matter any further. The content of applications, in turn, is governed by the API economy, a jointly-agreed interface, which in practice means that one application contains the work input of several different companies. It is worthwhile for an online retailer to use, say, Klarna's API for payment transactions instead of trying to reinvent the wheel. In practice, value therefore arises from the combination of a thousand different pieces, and for this reason shared interfaces can be significant things.

An interface similar to APIs is coming to the AI field, called the Model Context Protocol, MCP — that is, a building block between the language model and APIs. AI's current potential is limited by the fact that many tasks contain several steps. A customer sends an email; in order to respond, one must check when the work is finished, then look at the calendar for time, then book a time. Chat may be of help, but in a limited way. Chat is able to answer and chat knows many things better than a human, but it is not really able to do anything that requires several consecutive steps.

MCP enables the use of tools, and the present state of development is illuminated by Manus AI. By combining building blocks, a structure is achieved in which one "AI manager" assigns its subordinates to do this and that — be it web search, the writing and running of code, or the use of APIs. In practice, a single prompt: "plan a week's trip to Japan" spits out an interactive guide, i.e. a web page where everything is then planned, including budgeting, hotels, sights, schedules, the necessary maps, dining suggestions and a key Japanese vocabulary. Tailor-made.

Of course AI has been able to write code before. **Manus AI differs in that the code is not the end result.** Manus AI writes the code and runs it as part of its problem-solving process — that is, the code itself is not even what is being sought. To summarise, the MCP interface enables the combination of a thousand different products, and that is what will create value, just as the applications of the smartphone bring added value to the phone.

We warmly recommend watching the short video found behind the link below (4 m 17 s):
https://www.youtube.com/watch?v=K27diMbCsuw (Introducing Manus: The General AI Agent)

How does this news concern the investor?

What then do these AI trends mean for Asilo Argo, which has invested in AI infrastructure? Reasoning models[3] and MCP will in practice mean that the need for compute power will grow, and grow a lot.

[3] In AI and machine learning, a reasoning model refers to a model designed to reason, draw conclusions and solve problems logically — not merely to remember or repeat learned information.

It is good to remember that already today compute power is the bottleneck on the inference side (the use of a ready model). Even without significant changes, we were in a situation where the number of GPUs did not really suffice to serve demand. Those who have seriously used the most cutting-edge AI models have repeatedly had to read about how high demand leads to the customer being able to be served only to a limited extent. This goes to the point that CEOs have publicly had to explain that the basic problem is that building infrastructure takes time. This is therefore the situation normally, not only when new models are being released, as is the case now.

Source: x.com

And now that the starting situation has been communicated, let us think about what reasoning models mean from the perspective of the need for compute power. Reasoning models work in such a way that one begins to solve the problem via several different routes and then selects the chain that led to the correct answer. The correct answer can be sought through the fact that several different approaches lead to the same conclusion, but reasoning models work best when the answer can be verified, as in crossword puzzles.

"If in a crossword a word related to water is asked, a person can look for it from fish or from boats. In the case of AI, however, the scale is an order of magnitude larger: when the AI model named o3 was set to solve the most challenging tasks, the candidate lines of reasoning were on the order of a thousand — that is, quite a lot more than two. From the logic: "I try 1,000 different ways and choose one, and as a result I show only the outcome produced by that one way", it can be seen that compared with answering directly, considerably more resources are consumed.

MCP, in turn, will mean that the context lengthens. Both the question and the answer will lengthen and become more complex when one is talking about a task that requires many steps rather than about a single question. As regards the question, the matter is of less significance, because AI is able to read a hundred pages at once and at the same time. With regard to the answer, however, the situation is different, because in the big picture AI still responds one word at a time. Somewhat as a person thinks how to continue text taking into account what they have already said, AI, when thinking about the next word, takes into account all the necessary things and, from the KV memory[4], what it has already said. Then the new word is added to the KV memory and the process is started again. Because of this mechanic, as the answer lengthens linearly, the amount of memory required grows exponentially, and that means in practice ever greater demand, for example, for SK Hynix — found in Asilo Argo's portfolio — which manufactures High-Bandwidth Memory, i.e. HBM memory.

[4] KV memory (key–value cache) refers to the store of key and value tensors that a transformer model retains for the tokens it has already processed, so they do not have to be recomputed for each new token. As the generated answer lengthens, this cache grows, which increases the memory required.

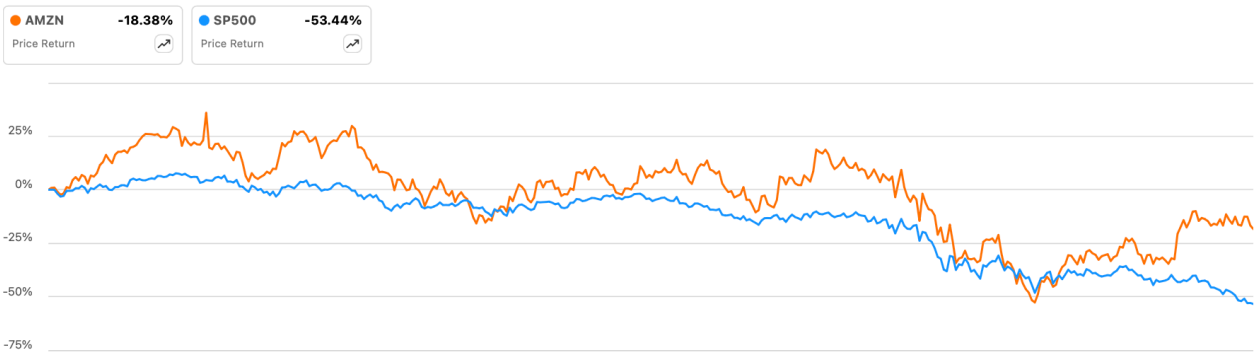
FINALLY

In conclusion, the following can be noted: Asilo Argo's strategy specifically aims to identify companies leading their industry or category. Often they have some fundamental structural advantage relative to their competitors. This may be, for example, advanced technology or a revolutionary business model. This also means that they are in a fundamental sense more viable than their competitors. They are often more profitable, less indebted and less capital-intensive than their competitors.

Why is this relevant right now? Because it is unfortunately entirely possible that Trump's tariffs trigger a trade war, which in turn may cause a recession. In a recession all companies suffer, but Asilo Argo's portfolio companies endure bumps much better than their competitors, and they also come out of a recession in better shape than their competitors. In evolutionary biology there is a concept called the "bottleneck phenomenon". This refers to a surprising event that violently wipes out a large share of organisms or species. To laymen the most familiar bottleneck event was surely the meteor that once killed the majority of the dinosaurs and thereby cleared space for mammals. The bottleneck phenomenon also occurs in the economy. A practical example: during the great financial crisis (2007–2009) consumers reduced spending and all retailers suffered from a fall in sales. Online retailers, however, had structural advantages relative to brick-and-mortar shops (among other things, lower capital intensity) which made successful price competition possible. The largest and finest of the online retailers, Amazon.com, came out stronger than before from the same crisis that killed or crippled a large share of its brick-and-mortar competitors.

Although Amazon's share also fell along with other shares, its recovery was faster and stronger than that of ordinary shares. Below is a summary in three images of how Amazon's share behaved relative to the markets (the S&P 500 index).

Image 1: (Screenshot, Seeking Alpha)



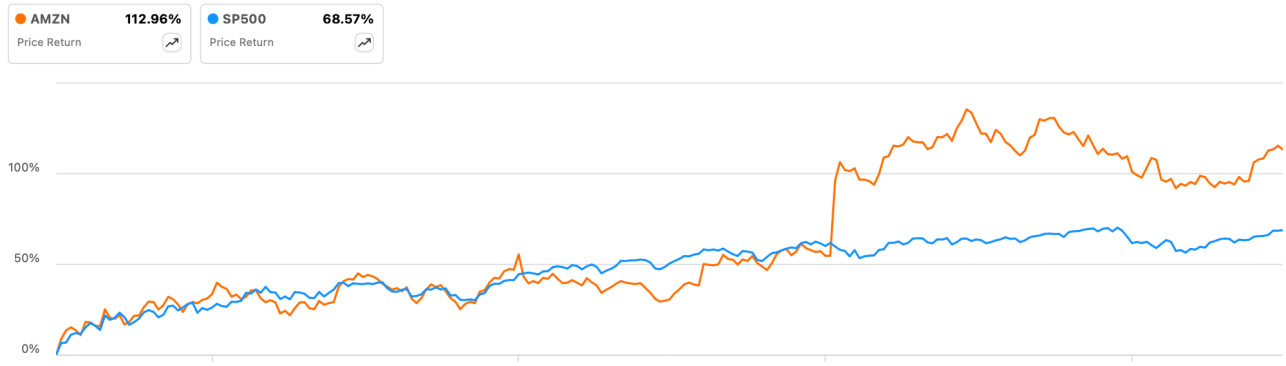
Source: Seeking Alpha

Above: 9 August 2007 (start of the financial crisis, BNP Paribas closes three funds) – 9 March 2009 (bottom of the stock markets)

- Amazon.com: -18%
- S&P 500: -53%

(Note: on 20 November 2008 Amazon's share had dived more sharply than the markets (52% vs. 48%), but its recovery began before the recovery of the markets.)

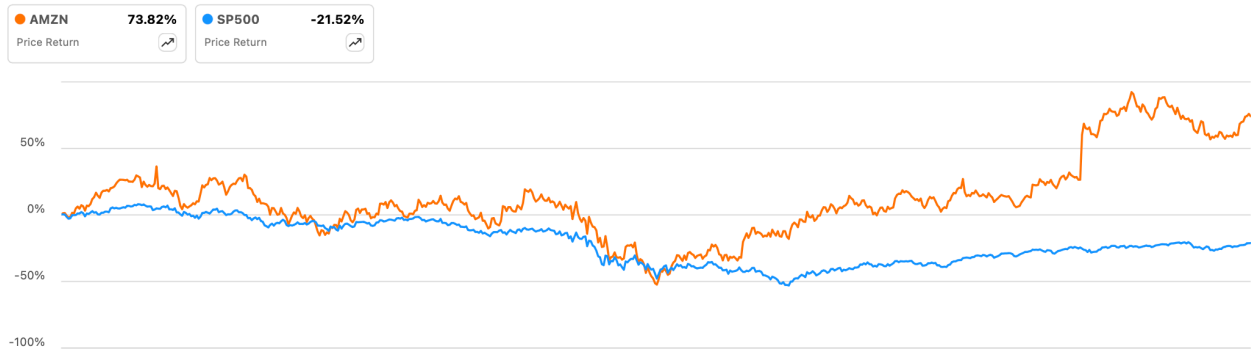
Image 2: (Screenshot, Seeking Alpha)



Above: **9 March 2009** (bottom of the stock markets) – **9 March 2010** (12 months from the bottom)

- Amazon.com: +113%
- S&P 500: +69%

Image 3 (Screenshot, Seeking Alpha)



Above: **9 August 2007 – 9 March 2010** (the whole chain of events from beginning to end)

- Amazon.com: +74%
- S&P 500: -22%

The philosopher Friedrich Nietzsche stated: "What does not kill, strengthens." The thought fits surprisingly well with superstar companies that encounter bottlenecks.

SUMMARY

To summarise, the changes taking place in the AI field mean, on the one hand, that development is advancing ever faster. Combined with a pace of price decline far exceeding Moore's Law, this will significantly increase demand. On the other hand, the changes in the direction of reasoning models and the tools used by AI are extremely good news for companies developing AI infrastructure. We could of course have summarised the entire text in the quote from Nvidia's CEO Jensen Huang on 18 March 2025:

> *"The scaling law of AI is more resilient, and in fact, hyper-accelerated, and the amount of computation we need at this point, as a result of agentic AI and reasoning, is easily 100x more than we thought we'd need at this time last year."*

…but we wanted to open up a little why we think Huang's words are based on an understanding of the AI field, and why in our view this is not any kind of "let us talk the share price up"-type hype. And why we consider it very possible that Jensen Huang will in the future, once again, tell us that he was wrong and that the assessment was, after all, too conservative.

The coming year will be challenging in the sense that the winds of politics will create general uncertainty, and uncertainty is a problem from the perspective of general sentiment. On the other hand and at this moment, when we look at our portfolio in the big picture — those currents there beneath the waves — those currents are not disappearing anywhere; on the contrary, they are even more powerful than before. And that is, for us — long-term-focused portfolio managers — and for Asilo Argo's investors, good news.

Portfolio Managers of the Asilo Argo special investment fund

Ernst Grönblom *Henri Blomster*