



Asilo Argo Non-UCITS Fund Portfolio Managers' Quarterly Letter Q3 / 2026
(English translation of the original Finnish document)

Q3 2026: The Way We Operate

INTRODUCTION

On a Tuesday in late August, at a window table at a restaurant on Pohjoisesplanadi in Helsinki, an investor who has been with us for most of our strategy's eighteen years put down his fork and asked the question we have heard more than any other this year. "When did you decide to sell software?"

We said: we didn't.

The rest of the sentence took the remainder of lunch, and it is the subject of this letter. The last three letters were about where misunderstanding lives: Jevons' paradox, the whole product, the facts filed under the wrong heading. This one is about how we go looking for it: the process that decides what comes in, what stays and what leaves.

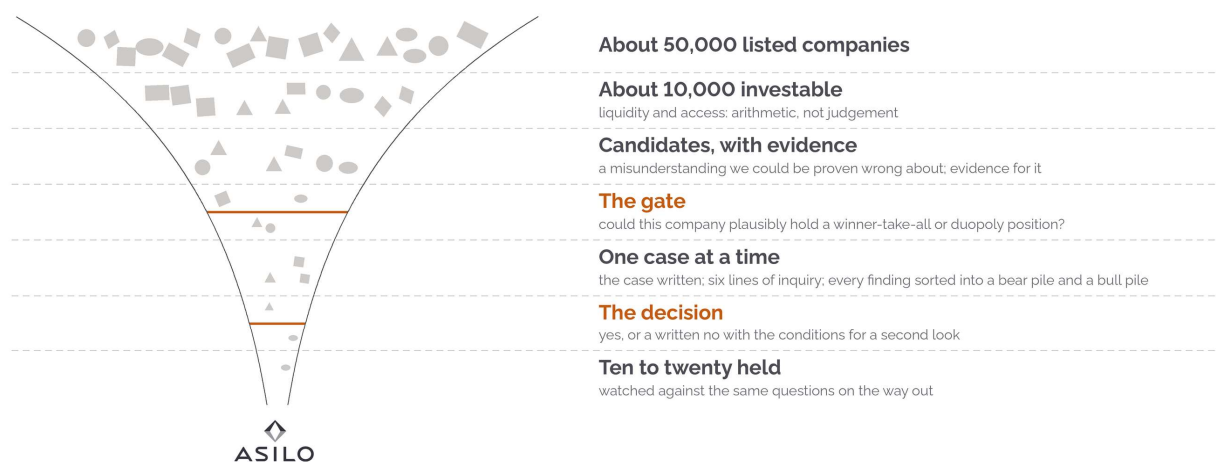
THE PROCESS

Candidates reach us from directions cultivated for years (long interviews with the people who build things, a few thinkers we have followed for a decade, what the companies we own say about other companies, our own past "no"s) and from asking of one company at a time whether it is becoming something different from what its sector label says. A name is put forward only with a misunderstanding we could be proven wrong about, and evidence for it. Today twelve names are waiting in our queue.

We work on one case at a time, chosen by one gate and then a set of pluses. The gate is absolute: could this company plausibly hold a winner-take-all, winner-take-most, or at least a duopoly position in its market? If the market shares its profits evenly, we do not care how cheap the shares are. Then the pluses: a misunderstanding that can be falsified, with a reason it should resolve now; real options; management whose quality is evidenced, not asserted; runway; a mismatch between our horizon and the market's. Cheapness is not on the list.

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The process, as a funnel



The process from fifty thousand companies to ten to twenty. The questions that decide what enters are the questions that decide what leaves.

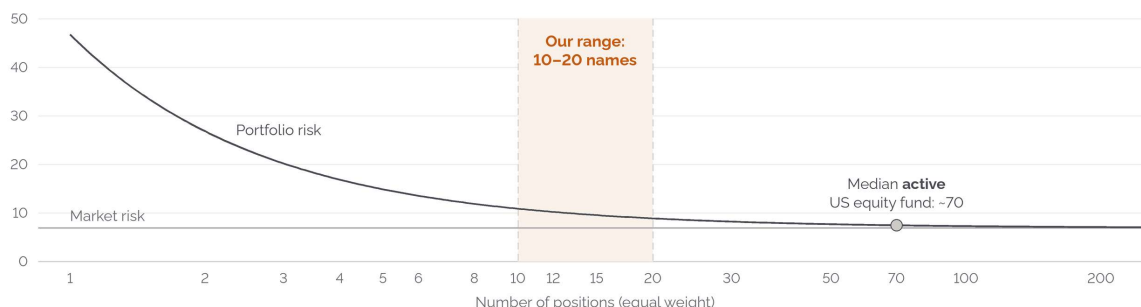
The chosen company gets its case (what the market assumes, what we believe instead, what happens if we are wrong, a little right, or very right) and the case is tested along six lines of inquiry, each to its own verdict: the moat; supply and regulation; management; accounting; expectations, whether our view survives if the consensus is simply right; and the devil's advocate, the strongest real bear case and the triggers that would tell us it is coming true. Every finding goes into a bear pile or a bull pile, and the case is rewritten with that weighing in it.

The six lines can improve a case, but they cannot stop it. Once begun, a case is finished in full, and a "no" is a decision taken by the two of us at the end, with the whole case and its strongest bear reading on the table at once. A case that can be killed early dies of its weakest first impression, and Amazon in 2008, like Nvidia in 2018, made a poor one. A "no" is written up with the conditions for a second look; we have eight on file. They are not failures of the process. They are the process.

WHY FOURTEEN, AND NOT SEVENTY

The process only makes sense at a certain size. We hold ten to twenty companies; our sweet spot is twelve to sixteen; today there are fourteen. The median actively managed US equity fund holds about seventy positions. The difference is arithmetic. The first part is what diversification actually does. The risk of a single stock is mostly noise that has nothing to do with the market, and that noise cancels quickly: the risk falls steeply from one position to five, bends by ten, and by about twenty equal-sized positions lies almost on the market's own line. Beyond twenty the gain is a rounding error, and from a risk-management point of view there is no rational reason to go there.

Portfolio size and variance (%)



Source: Elton and Gruber, "Risk Reduction and Portfolio Size: An Analytical Solution", *The Journal of Business*, 1977. Median holding count for active US equity funds from industry data.

The second is what diversification costs, which the majority never counts. One hidden cost is portfolio quality dilution: rank your ideas from best to worst and the thirtieth is, by definition, worse than the twenty-ninth. Consequently, every added name lowers the total quality of the portfolio. Diversification also dilutes returns: let one holding in a ten-name portfolio return plus 200 % while the rest of the holdings stand still and the total portfolio is up 20 %; in a hundred-name portfolio it is up only 2 %.

The other cost is manager resource dilution, and it rests on an admission the industry dislikes: we are only human. Attention is a scarce resource, and active investing spends it to find something scarcer: an idea the market has not yet had. Give a manager a year's working hours, a hundred holdings and the turnover of the average fund (its whole portfolio replaced every twelve months) and the hours divide as in the table. Whatever is done in three hours, no one can call it in-depth analysis with a straight face. Two equally talented managers; only one of them has a fighting chance to do what he is paid to do; create alpha. The dirty secret is of course that the seventy-name fund is, more often than not, a closet index: marketed and priced as an active strategy, but structurally predestined to deliver index returns, less the (hefty) fee. If fourteen names are too few for your sleep, diversify across managers, not inside them.

Hours per company per year	100 holdings, 100% turnover	10 holdings, 20% turnover
Watching what is owned	5	52
Screening a new candidate	¼	13
Analysing a new case in depth	2.6	131

Effective hours per company per year for two managers with the same 1,600 working hours, split equally between watching, screening and analysing. Hypothetical.

HOW SOFTWARE LOST ITS PLACE

With fourteen holdings, a new name can usually only come in if an old one goes out. So whenever a case reaches the end of the process, we put it next to what we already own and ask the same questions of both: which one do we want to hold for the next five years? That comparison is the whole mechanism. There is no sector view in it, only a holding, a candidate, and a decision.

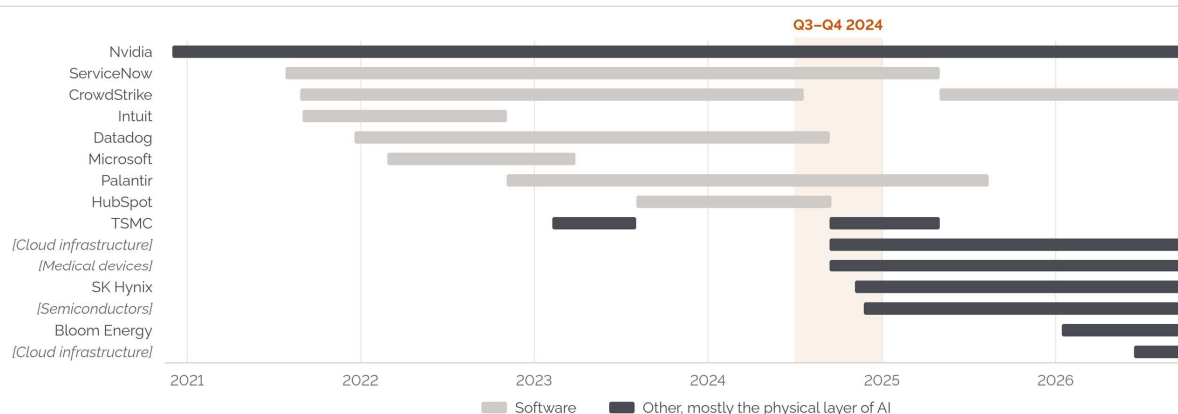
Look at the figure below the way our investor at lunch had: in 2021 a core of software, by 2025 a portfolio built on the physical layer of AI. It is natural to assume someone decided it. Nobody did. Datadog won the comparison for nearly three years; in the summer of 2024 a case on SK Hynix reached the end of the process, and the line that decided it was expectations. Datadog's price assumed the cloud spend it measured would stay its own to capture; ours said it was moving to a layer Datadog did not own. SK Hynix's market valuation, in turn, rested mostly on the assumption that memory was a commodity priced quarters ahead; ours said the memory beside every accelerator had become a bottleneck for years. Datadog left on 13 September 2024 and SK Hynix took its place that autumn. The same week proves there was never a sector call: HubSpot, which sells seats (the unit the agentic era prices down), left on the 16th; Oracle, by then a landlord of contracted compute, had entered on the 13th. If we had been selling software, we would not have bought Oracle.

What we were buying was the physical layer. Where demand for it stands, three readings:

	Latest reading	Earlier	Source
US households paying for an AI subscription	2.3 % (Apr 2026) \$31 a month per subscriber (May 2026)	near zero (Jan 2023) \$21 (May 2024)	Card data from the US bank PNC, via a16z
US businesses using AI in any function	20 % (May 2026) 37 % of firms with 250+ employees	—	Census Bureau
US employees using AI at work	52 % at least occasionally, 15 % daily (May 2026)	21 % / 4 % (May 2023)	Gallup

Adoption readings, latest available at the time of writing. The Census Bureau changed its question in late 2025, so no earlier comparison is given.

What left, and what came in, 2021–2026



Holding periods from the fund's holdings record; selected names, not the full portfolio. Current holdings outside the five largest are shown by industry, in brackets. Software names in grey; Nvidia held since the fund's launch. CrowdStrike was sold in July 2024 and returned to the portfolio in May 2025, the day ServiceNow left.

So, in hindsight, it turned out to be a theme. In the moment, it was never one — one name, one comparison, at a time. It is also why we refuse to accept the sector or style boxes we are often put in: "Growth", "Technology", "US", "Large-cap", and now: "AI". Each label describes what the portfolio happens to contain at a certain point in time; none describes what we do. The most

narrow category we accept is a "thematic strategy focusing on superstar companies in winner-take-all markets", and no narrower box fits, because the winner in such a market is one company and we must hold at least ten. Confine us to one industry and we would be forced to buy the companies we expect the likely winner to beat. What are we selling next? We honestly don't know.

WHY SPACEX DID NOT QUALIFY

The process is easiest to see when it says no on a name everyone has an opinion about. Many readers now own SpaceX whether they chose to or not; the index bought it for them. We looked, carefully: a full case (the launch cost curve from the Shuttle's fifty-four thousand dollars a kilogram to a Starship target below two hundred, Starlink, compute from orbit) and an entry plan for the lock-up windows. Then we asked the questions in order, as we had with Datadog and SK Hynix.

The gate it passed easily; launch is as close to winner-take-all as any market, and SpaceX is the winner. The question it failed was the first of the pluses: is there a misunderstanding here that is ours to find? The majority understands SpaceX's dominance perfectly, and it is priced, generously. What the market cannot price (orbital compute at scale, a fab in space, Mars) is not misunderstood; it is unknown, to us as much as to anyone. A decade-out option nobody can read is uncertainty, not misunderstanding. So the answer was no — not a bear case, and we may be wrong. The "no" is on file with its conditions, Starship's real cost per kilogram and the growth of its compute contracts; if either moves as the bull case needs, the name comes back.

OUR JOB

Our job, as we wrote in Q2, is to find the facts the market has filed under the wrong heading. This quarter we have shown how the filing is checked: questions in a fixed order, gates that cannot be talked round, a "no" written down and kept. Instincts are what the majority has. A process is what it takes to be different on purpose.

Thank you for your trust,

Ernst Grönblom & Henri Blomster