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WAHDY CAPITAL

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Dear Investor:

Wahdy Capital generated a consolidated return of 5.5% in December, net of fees and expenses, compared to 4.4% for the S&P 500 and matching 5.5% for the Nasdaq 100. Since inception (12/31/2022), our net return was 153.6%, versus 24.2% for the S&P 500 and 55.1% for the Nasdaq 100.

The Long/Short strategy generated a 6.9% return in December, and 57.2% in returns since the official August 30, 2023 start date. Nearly all our returns in December came from positions in our long and macro books. Short positions did not fare well, especially after the dovish mid-December Fed meeting, which led us to incrementally degross and end December at 120.4% gross, with a net exposure of 40.1%. Despite this, we outperformed our benchmark for the month and year.

Between aggressive central bank rate hikes and a global goods bullwhip effect, it's clear that the legacy of the Covid shock has been macro volatility. Markets experienced whiplash on many fronts in 2023, as the pace of monetary policy in prior year led many to position for a recession in 2023. While we started the year on team "soft landing", the banking crisis in March made us shift our view based upon what we thought would happen to credit markets. Credit conditions did soften since then, but growth and labor data remained robust through the rest of the year, with real GDP growth of 2.4% and the unemployment rate at 3.7%, both surprising to the upside. Simultaneously, easing supply chains allowed inflation to moderate faster than expected, resulting in the Fed shifting from a hawkish to dovish stance.

So, with employment data holding up and the Fed being biased towards cuts, the macro environment is favorable, and we expect tailwinds to accelerate into 2024.

Generative AI ("GenAI") is transforming our coverage universe of internet, software, and semiconductor companies.

Reeling from the aftermath of depressed stock prices in 2022, software and internet companies in our coverage began the year with increased scrutiny and focus on improving margins. Mark Zuckerburg famously called it the "year of efficiency" as part of his promise to scale back on spending plans. Across the software ecosystem companies began to report slower sales cycles as budget and cloud consumption decreased. Starting in Q2 earnings season, however, companies began to provide guidance on generative AI products and saw greater visibility as sales cycles stabilized. With consumption trends in hyperscale and software usage picking up into Q3, the long-term thesis of digital transformation is intact.

The semiconductor outlook also began the year bleak, as an impending China export-ban, supply glut, and slowing consumer electronic end market drove prices lower. NVDAs Q1 earnings changed everything, heralding the rise of GPU-retooled data centers with a massive TAM that would likely boost NVDAs sales by ~4x within two years. The new gold rush sparked rallies in Ai-exposed semis, though the initial wave of orders was not enough to firmly offset the headwinds from consumer (smartphone) and industrial demand. By Q3, however, a rebound in memory began and semiconductors seem on track for an upcycle in 2024.

Q4 Earnings Season – Idio volatility ahead

We are optimistic about Q4 earnings, as recent management commentary suggests an improving environment for budgets and IT spend in 2024. However, given the rebound in stock prices through 2023, we think companies are coming into the year with a higher hurdle for sales growth and margins. Our own work has led us to prefer *best-of-breed* companies, where we see firms offering innovation on top of existing leadership growing customers and contracts at a faster clip and winning share versus lower-cost or convenience value propositions. In semis, we continue to maintain a short bias in companies with large industrial and automotive end market exposure, despite a painful December. Meanwhile, the renaissance in custom ASICs will boost more than just IDMs and foundries—EDAs and component vendors with large datacenter and consumer end markets will benefit too.

Sector Outlook Highlights

- Cloud spending is anticipated to increase, with public cloud budgets growing by 3-4% year-over-year. Consumption trends are expected to normalize, based upon management commentary, and seems to be happening given feedback we have received from partner surveys.
- Cybersecurity may not have seen a boost in budgets for Q4 2023, though CISO survey's suggest robust demand in endpoint and identity security, with broader normalization expected later in 2024.
- Unified Communications as a Service (UCaaS), IT Service Management (ITSM), customer service, and license-based software are highly exposed to GenAi-enabled chatbots, which are quickly becoming the norm. These chatbots will reduce the number of queries sent to human agents, reducing the footprint of contact centers.
- The general environment of improving bookings and broad-based margin growth should support multiples. Sales growth estimates for software are 15-17% in 2024.
- Prolonged sales cycles, weak small and medium business (SMB) performance, and constrained corporate budgets will place a ceiling on growth. We are preparing for a relatively quick re-alignment of market share within verticals based upon successful GenAi product launches that we are tracking this year.
- The performance of foundries and Integrated Device Manufacturers (IDMs) will depend on their market mix, with consumer, memory, and data center demand increasing, while automotive and industrial demand may decrease.
- Electronic Design Automation (EDA) and semiconductor equipment sectors are expected to benefit from continued demand in China and the trend towards custom chips as Original Equipment Manufacturers (OEMs) tailor silicon for specific workflows.

Top 5 Longs

- **Microsoft**: One of the biggest beneficiaries of GenAI, part of a handful of companies with visibility around sales. Given the breadth and depth of their product offering (Azure, Office, Windows) they are uniquely positioned to monetize this new technology. The company ended the year trading at 21.4x NTM EBITDA, though we think there is some upside into earnings.
- **Meta**: Ending the year at $353.96, Meta had some unique tailwinds moving into 2023 – their Reels business was beginning to gain traction and management gave a margin-centric outlook. Through the year, the company has become one of the leaders in open-source LLM technology.
- **Nvidia**: The company closed the year trading at $495.22. We think estimates continue to underprice the structural change occurring across datacenters and think the company can reach over $100b in FY2025 sales.
- **AMD**: Another big GenAi GPU winner, AMD ended the year at $147.41. Boosted by a new of set of chips and improving supply, management boosted TAM guidance during their December 6th event. While the year's close price implied 31.9x NTM EBITDA, we think a mix of an expanding TAM and greater market share gains vs. Intel make the stock attractive.
- **TSMC**: TSM ended the year at $104, trading at 8.95x NTM EBITDA. We're excited to hold the name because a pickup in the semiconductor cycle should have the biggest impact on their earnings, while margin increases from the rising share of data center chips vs. lower margin industrial and auto chips.

Top 3 Shorts

- **Open Text**: OTEX ended the year at $42.02. While the company has set out ambitious FY 2026 targets, we think headwinds to SMB and overlap with Microsoft puts those goals at risk.
- **Asana**: The collaboration software company ended 2023 at $19.01. Tying into SMB weakness is also retention headwinds that we think are at risk, suggesting a ceiling on guidance.
- **Teradyne**: TER closed the year at $108.52, trading at 20.6x NTM EBITDA. We think this stock is benefiting from a generally bullish semiconductor stance. However, with large exposures to industrial and automotive end markets, we think further weakness is in store.

Quick note on the megacap presence in our portfolio. While we normally prefer to invest downstream of larger companies, December saw a significant divergence between small-to-mid ("SMID") cap names and Mega caps, with the Russell 2000 more than doubling the Nasdaq's return. With SMID cap valuations looking frothy, we opportunistically added to our existing megacap positions, resulting in our current portfolio composition, and expect this to balance out as we move into earnings season.

Wrapping up, we were extremely excited to launch our consolidated strategy at the beginning of 2023 and officially split out our Long/Short performance at the end of August for an inception date of 08/31/2023. While we will continue managing a Long-Only strategy for existing investors, our future investor communications will primarily concentrate on the Long/Short Strategy.

We are now open to capital exclusively for the Long/Short Strategy. Please reach out to me directly at wahdy@wahdycapital.com if you are interested in learning more.

And, as part of our mission to become ***the*** eminent technology focused hedge fund, we are delighted to welcome Darren Sardoff to the Wahdy Capital team. Darren previously co-founded the $500 million TMT hedge fund Act II Capital where for nearly two decades he successfully navigated the technology sector as a portfolio manager through multiple cycles and shocks. Act II's returns over this period well exceeded those of their peer group as well as the broader HFRI. He joins us as an executive director where he will initially help us implement institutional grade risk management and portfolio reporting platforms to position us for a broader investor base. He will also be involved with portfolio strategy and join our investment committee.

In short, we're excited as ever and look forward to another year to perform. Stay tuned for our progress.

Sincerely,

Muhammad Wahdy
Portfolio Manager
Wahdy Capital