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WAHDY CAPITAL

February 9, 2024

Dear Investor:

The Wahdy Capital Long/Short Strategy generated a return of 8.37% in January, net of fees and expenses, compared to 1.59% for the S&P 500 and 1.85% for the Nasdaq 100. Since inception on September 1, 2023, our net return is 68.8%, versus 7.9% for the S&P 500 and 10.9% for the Nasdaq 100.

Wahdy Capital Long/Short Equity Net Performance

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2023									12.94%	-7.55%	44.96%	6.92%
2024	8.37%											

Macro volatility a feature, not a bug, through the 1H of 2024.

Resilient economic data continues to surprise markets to the upside, with estimates of 2024 US GDP rising from 1.20% in December to 1.50% by the end of January. A strong labor market means consumer spending can persist – and as the expression goes, “[economic] expansions don’t die from old age.” However, with macro volatility being a feature of this year’s data, it’s more likely that we will get more surprises that change the regime.

Is macro really that important for a TMT focused strategy? As we like to see ourselves as somewhere between Jack Woodruff, Phillippe Laffont, and Chris Rokos – ***it’s complicated***. But, if the value of a security is the present value of the sum of future cash flows, then we think it is worth knowing what’s driving market views for both growth and cost of capital. While not for every style, the surveillance work we do in macro is part of what we think makes us unique.

In January, our Macro book contributed nearly half of our returns in January. The current environment reminds us of Q1 2023, where a rebound in economic activity led to a surge in yields, resulting in the community banking crisis. We’re less certain that the 10-year will touch 5.0% again but *do* think that economic regime switches tend to be violent.

GenAi is reshaping the technology sector in real-time.

On the earnings front, we are positioned for four major themes within our coverage universe: (1) a pickup in hyperscale consumption driven by healthy growth in traditional and GenAi workflows, (2) a weaker outlook across certain verticals within SaaS where companies stand to lose against GenAi enabled rivals or incumbents, (3) an improving and more visible outlook for datacenter GPU demand, and (4) a worsening environment for semiconductor companies with exposure to auto & industrial end markets.

Top 5 Longs

- **MSFT** – Microsoft continues to be one of our largest holdings, as it's one of the few companies with a clear roadmap to monetizing GenAi. The massive customer and employee footprint across Azure, Office, Windows, and gaming -- along with CEO Satya Nadella's willingness to move fast -- is the right recipe for positive self-disruption. This compares to the relative caution of competitors, like Sundar Pichai at Alphabet, where deep intellectual property in GenAi is being obfuscated by internal divisions, echoing the challenges Microsoft had under Steve Ballmer in the 2000s. MSFT ended January trading on 22.3x 2024 EBITDA and we think the company can realize above 20x as Azure reaccelerates. But we're even more optimistic about the upside potential of Office Copilot, which we think can lift sales by over 10% incrementally over the next two years.
- **AMD** – We are long AMD as it continues to gain market share against Intel in nearly every CPU end market. It's on a journey to even greater heights as it builds out the most capable NVDA-competitor for data center GPUs. We really like what Dr. Lisa Su presented in their December Investor Day, and while we expect some near-term choppiness – semiconductors are *just* coming out of their supply glut – we think AMD can continue to win share in CPUs. Furthermore, the rollout of MI300X will speed up the pace of adoption for datacenter GenAi workflows, which will accelerate growth in the industry. AMD ended January trading on 37.7x 2024 EBITDA.
- **DOCN** – We see DigitalOcean an enabler of SMB and app development as a mini-hyperscaler. With broad consumption trends and IT capex improving into 2024, we think the company's exposure to startups and SMB will drive a reaccelerate of consumption into the new year. Our own work has shown two near-term tailwinds: a pickup in customer adoption that is broadening, and an increase in startups which should bolster developer activity. With expectations reset after a tough 2023, a new CEO announced mid-month, and trading at the end of January at 12.9x 2024 EBITDA, we think the stock is attractive.
- **SHOP** – Shopify, led by Tobi Lutke and team, continues to win in e-commerce. We believe in their vision of being a multi-channel platform for all types of retailers to sell, market, and manage their business. Shopify has created a new paradigm where instead of having to choose between e-commerce or brick & mortar, businesses can meet their customers wherever they are. The company ended January on 11.6x 2024 Sales, which we think is justified given their growth and operating excellence. We're particularly interested in their growth into payments, and see that as a driver for further TAM expansion.
- **MDB** – MongoDB really began as a NoSQL/JSON database provider and has grown into a key pillar of GenAi applications thanks to its ability to handle unstructured data. We're really excited about Vector Search and how developers are using MongoDB to improve performance and quality of LLMs, all while reducing compute cost. This technology, we think, will help accelerate the adoption of GenAi tools into all sorts of workflows and copilots. We're excited to see how companies utilize vector search technology to expand the use-case of GenAi, and see that as a significant source of growth. MongoDB ended January trading at 13.9x 2024 Sales.

Top 3 Shorts

- **FRSH** – Freshworks is a helpdesk and live agent platform for customer success ("Cx") and IT service management ("ITSM"). Founded in India by Grish Mathrubootham, the company grew by developing competitive software while leveraging local talent to build a cost advantage vs. peers such as Zendesk and ServiceNow. While this business model allowed them to operate as a low-cost leader in Cx and ITSM, we think the shock of GenAi is disrupting their business model and will force a re-think across the entire industry. Grish and company did announce FreddyAi, a chatbot that integrates ChatGPT, but we believe the company will need to invest significantly more while fending off increased competition from rivals (ServiceNow, Zendesk, and Hubspot). FRSH ended January at 7.6x 2024 Sales.
- **TER** – Teradyne is a chip test equipment and robotics company facing headwinds from a weak end-market backdrop. We are short the stock given its exposure to auto and industrial companies, which we think will underperform as demand for vehicles and capital goods cool through the year. This contrasts to companies within the Ai and Data Center ecosystem. We believe that estimates can go lower after earnings as a rebound in key end markets takes longer than anticipated. TER ended January trading on 19.1x BF EBITDA.
- **MCHP** – Microchip is a good business that is exposed to bad industry dynamics. The company is a leader in analog products, and serves key long-term growth areas such as automotive, industrial, and IoT. Despite this, the company mismanaged the covid supply shock and we see it as one of the poster children of the bullwhip effect in semiconductors. This has resulted in excessive inventories which will take a few quarters to digest. We like it as an alpha short to balance our long-bias in semiconductors. The company ended January trading at 16.3x 2024 EBITDA.

We ended January with a cash delta dollar net exposure of 46.4%. Over the long run, our strategy aims to average within 10-40% net.

Overall, our performance was strong in January – beating our benchmarks and navigating through the start of a tricky Q4 earnings season. We expect macro to be a greater headwind in the latter part of February and expect to reduce our delta dollar net exposure from ~mid 40s to ~20% by the end of the month.

Sincerely,

Muhammad Wahdy
Portfolio Manager
Wahdy Capital

Wahdy Capital is long/short equity manager based in San Francisco, USA. We cover roughly 100 companies in software, semiconductors, and media verticals within the technology sector. Our official strategy inception date is September 1, 2023. Our incubation period was between December 31, 2022 and September 1, 2023.

Our process is deeply fundamental and primarily bottom-up with a focus on the idiosyncratic drivers of companies based upon industry dynamics, product-market fit, and the strategic operating plan of management. We let ideas drive our net positioning, and generally expect to land between low-to-mid net on average. Macro plays a role in our portfolio as we express views on the short end of the yield curve and duration. Beyond trade ideas, the research we do in macro feeds into our expectations of analyst estimate revisions and equity market multiples.

Derivatives are used in the portfolio, primarily in the macro book, or to express an incremental view on a company into or through a catalyst. Total derivative cash exposure is limited to 10% of NAV.

We monitor and manage risk across multiple dimensions as a macro and factor aware strategy. We historically reported net exposure in cash delta terms but, starting in February 2024, will report net exposure in total beta and options adjusted terms.

Our portfolio is typically concentrated between 30-50 names, where we use beta adjusted position limits to manage risk.

Our buy and sell discipline revolves around internally generated price targets. New positions require a 40% annualized expected return. We exit positions when price targets are hit. Stock positions with greater than a 10% drawdown are monitored and reevaluated but does not necessarily imply a cut. We monitor short interest, liquidity, and other factors in our aim to reduce risk.

Performance is reported net of all fees.