

Capital



Alphabet

2025 Annual Letter

CapitalAlphabet, LLC

CapitalAlphabet.com

In the short run, the market is a voting machine but in the long run, it is a weighing machine.

- Benjamin Graham

If 2023 was the year of 'Goldilocks' and 2024 was dominated by the 'Magnificent Seven', 2025 was the year the weighing machine finally asserted itself.

In 2025, the S&P 500 Index (SPY) marched upward with a 17.72% gain. But as the market narrative cycles through its usual seasons—shifting from the winter of recession anxiety to the overheated summer of a 'New Era' mindset—we kept our heads down. We side-stepped the crypto volatility and speculative frenzies entirely, preferring the boring work of bean counting. In a market where perfection is priced in for the popular few, we found safety in our concentrated basket of the unloved. It is easy to buy what is popular and comfortable; it is much harder to buy what is hated and cheap. This year, that discomfort paid its dividend.

We do not attempt to predict the voting patterns of the market; instead, we focus entirely on the weighing mechanism: the durable, intrinsic value of the businesses we own.

My primary goal as portfolio manager remains unchanged: to achieve a long-term performance record that consistently exceeds comparable indexes. Without superior performance, there is no reason for these funds (SMAs) to exist. However, this outperformance shouldn't be expected to be constant. I would consider a year in which we decline by 15%, while the average declines by 30%, a far superior result compared to a year when both the average and our portfolio rise by 20%.

Over a period of time, there are going to be good and bad years; there is nothing to be gained by getting enthused or depressed about the sequence in which they occur. The above dose of philosophy is being dispensed and will be repeated every year as I want to make sure our new partners understand my objectives, my measure of attainment of these objectives, and some of my known limitations.

2025 Performance

For the calendar year 2025, CapitalAlphabet achieved a net gain of 25.83%, compared to a 17.72% gain for the S&P 500 Index.

Since our inception in June 2022, we have been fortunate to compound capital at a rate significantly higher than the general market. However, I want to reiterate that a CAGR of over 30% is distinctly abnormal. While we strive for excellence, partners should not extrapolate these returns into perpetuity. Mean reversion is a powerful force in finance.

2025 Annual Letter

CapitalAlphabet Performance vs. the S&P 500

Year	Portfolio Gain	S&P 500 Gain
2022*	29.91%	-6.69%
2023	28.88%	26.19%
2024	26.57%	24.89%
2025	25.83%	17.72%
Cumulative Return	166.65%	73.11%
Compounded Annual Gain(CAGR)	31.8%	16.6%
100k invested at start will be	\$266,650	\$173,110

*CapitalAlphabet started in June 2022

Note: These represent CapitalAlphabet's time-weighted net results (after expenses, but before management fees for some clients). Client net results depend on their specific fee agreements.

Invested Companies

As is our tradition, I will start with the bad news, as good news can wait.

The "Work-outs" (Oil & Gas)

Our strategy involves a mix of "Generals" (undervalued high-quality businesses) and "Work-outs" (situations dependent on corporate events). Approximately 20% of our portfolio remained allocated to the Oil & Gas sector in 2025. To be blunt, this allocation was a drag on our performance this year.

While the broader market surged, energy commodities faced headwinds from global macro uncertainty. However, the investment thesis for our holdings here remains intact. These companies are generating substantial free cash flow, aggressively paying down debt, and reducing share counts. We view this sector as a "coiled spring." The disconnect between the intrinsic value of these reserves and their current market price is stark. We are content to wait. If the market continues to ignore them, the companies will simply buy back all their own stock. Hopefully, next year we will see the realization of value we expect.

The Top Performers

Our outperformance this year was driven by "Generals" that the market finally began to appreciate. It is satisfying to see the "weighing machine" validate our patience

Company Name	Attribution
Bank of America	8.24%
Naspers	6.94%
BABA	4.57%

2025 Annual Letter

Bank of America (BAC): Long-term partners know this has been a high-conviction holding. After years of being undervalued relative to its book value and earnings power, 2025 saw the market recognize the quality of its franchise and the benefit of a normalizing rate environment.

Naspers (NPSNY) & Alibaba (BABA): Our international bets have begun to pay off. For several years, these stocks were "hanging in there," unloved and ignored due to fear surrounding China. However, we purchased these assets at valuations that provided a massive margin of safety. Naspers continues to trade at a baffling discount to the value of its underlying assets (primarily Tencent), and management's aggressive buybacks are accreting value per share every day. Similarly, Alibaba emerged as a top performer this year. The market's extreme pessimism is thawing, and we are finally reaping the rewards of buying when others were selling.

Looking Ahead

The fourth quarter brought some volatility, dipping our portfolio slightly from its highs. However, this fluctuation served as an attractive entry point for new capital. **Thanks to the kind words and referrals from our existing clients,** we have expanded our footprint and are delighted to welcome new partners from California and New Jersey. Thank you for trusting us with your capital and your reputation; we do not take that vote of confidence lightly.

This brings me to a suggestion for all our partners: volatility is the admission fee for superior returns. Rather than fearing the red days, I encourage you to check your accounts during periods of market weakness. If you have surplus capital, those are the moments to add to your account, allowing us to deploy capital when assets are on sale.

Regarding our portfolio construction, we are currently in a "hold" mode regarding US Technology. We are finding far more fertile hunting grounds internationally. We have begun accumulating positions in several international companies that fit our criteria: high return on capital, substantial moats, and priced at a significant discount to their underlying value providing good margin of safety. We are still building these positions and will discuss them in greater detail in next year's letter.

Our North Star

We'll continue to track our annual performance against the S&P 500 as a benchmark, but our true focus remains maximizing long-term portfolio value. This approach encourages prudence—avoiding market fads or simply indexing to collect fees.

My commitment to long-term thinking will be our north star. As I have stated in previous years, all my retirement savings are invested in this fund. I intend to maintain these positions for decades, until IRA distributions begin. This directly aligns my incentives with those of our investors—we're truly 'eating our own cooking'.

Cordially,

Venu G. Vallabhaneni