September 20, 2025

Dear Partners,

Last quarter I wrote to you about how "An agonizing decision over whether to buy a great software company at 7x sales becomes a relatively easy one at 4-5x sales." Recently, two software companies we've tracked for years and owned in the past, Monday.com and GitLab, fell from >11x NTM sales at peak earlier in the year to 7x then 5x sales, and at 5x we bought positions in both, as well as added to our existing position in Braze, which traded as low as 3x. Sometimes it's best not to overcomplicate things. We are watching AI developments closely, have greatly benefited from AI tools to accelerate our own research process, and are keen to avoid AI losers; but here, contrary to market narrative, we simply don't think that these are AI losers, and the AI bear cases we've heard seem wrong or wildly far-fetched.

The strategic position of GitLab for example (to an acquirer or standalone) seems in fact to be steadily increasing, as more code is created in tools like Cursor and Claude Code, which will then need to be managed, deployed, and secured via a DevOps platform like GitLab (which has only one relevant competitor, GitHub, already owned by Microsoft). Once an organization's code and software development process are in GitLab, the switching costs are enormous, especially relative to the quite low cost of $350 (Premium) or $1,200 (Ultimate, which has valuable security and compliance features) per engineer per year. GitLab would be an amazing acquisition for a large model provider like Anthropic or Google, cementing their control over the software development process at large enterprises and making their code generation tool (which by itself faces intense competition and risk of commoditization) far more grounded in total surface area used by developers and sticky.

Slack

As usual, we are guided in our idea selection by looking for companies with amazing products. Our steadfast belief is that amazing products are hard to create, hard to copy, and will steadily gain share over time, often to an extent underappreciated by the market. Investing in amazing products also forms the core of our conviction in terminal value, which is of course where the bulk of equity value lies (sometimes forgotten by a market that seems to focus so much on near-term earnings revisions).

We like the concept of *slack*, of businesses that aren't over-optimized to maximize every available profit dollar today; we want to invest in companies that are over-investing in customer support, over-investing in R&D, under-pricing relative to what they could charge, over-capitalizing themselves relative to the debt they could theoretically take on. (Though of course we draw a distinction between companies being intentional about over-investment vs. simply being inefficient due to poor management, the latter of which we strenuously avoid.) In addition to this just being the right thing to do for customers, we like that this deferred gratification gives us a big element of safety. These are all levers that could be slowly pulled in the future alongside the steady share gain that comes from over-investment, vs. manifesting and getting a multiple on maximum earnings today that could suddenly be rug-pulled if bad news hits.

We encounter and evaluate a constant stream of ideas, almost all of which we pass on; but looking back at the ideas we did invest in, I've found that what tends to get us to pull the trigger on deciding to do further research is *unusually good customer reviews*, often a reflection of intentional slack, paired with an unusually low multiple.

Flywire, another new position, is a good example of this. Flywire contracts with universities to allow their international students to pay tuition easily, in whatever currency they'd like. This sounds at first glance like a simple, commodity business that should have a lot of competition. But the reality is quite different, and Flywire's superior product for universities and students has resulted in huge market share for international student payments (if you search your alma mater plus "Flywire", chances are you will find a university portal directing international students to pay through Flywire). Our conversations with Flywire's university customers are universally positive, and in fact not just positive but effusive. University customers praise Flywire's high-quality customer support and willingness to solve problems (vs. unresponsive legacy vendors), large time savings for university staff (coming from multiple sources including fewer student inquiries about whether payments went through, automated back-end reconciliation with finance/ERP systems, automated payment reminders, etc.), lower pricing for and near-zero complaints from students, etc. Flywire also has one of our favorite business model characteristics, where the person selecting the product is a different person from the one paying for it (10+ years ago we were making big bets on Google and Mastercard using this logic); Flywire is picked by the university and is free to the university, whereas the student pays the fee through embedded FX pricing (higher than Wise, but still very reasonable for the service it provides).

Flywire's stock price has been hit hard by uncoordinated but simultaneous student visa restrictions in Canada, the US, Australia, and to an extent the UK, which allowed us to enter at a low multiple. Being the child of international students to the US and a relative to family members embarking on their own international study journeys, I have a deep appreciation for the enduring desire to study abroad even in the face of obstacles, which increases as developing countries grow richer and can be fairly agnostic to international study country, shifting from countries with tighter restrictions to those with looser ones. This should in turn drive sustained growth for Flywire revenues – from student volume, tuition-driven price increases, as well as cross-selling new products (in the UK for example, Flywire is showing remarkable early traction in leveraging its trusted position in international payments to also take over the same university's domestic payments).

Doing customer calls reminds me of Tolstoy's famous quote about how "All happy families are alike; each unhappy family is unhappy in its own way." The way happy customers talk about great products is remarkably similar across different businesses and even industries. As mentioned earlier, happy customers are also a reflection of the existence of slack in a business. We're looking for businesses and business models strong enough, sticky enough such that almost all customers would stay even if they meaningfully raised prices and cut customer support and R&D; and yet they choose not to, choosing instead to reinvest and drive further growth and competitive differentiation.

Conclusion

This is a shorter letter than usual because we are still deep in idea research mode, with an exciting active pipeline. Even amid a strong market rally and exuberant financial conditions, there are certain companies and sectors that are crashing to well below April 8th lows, and some of them fit our philosophy well and warrant further research.

As always, I am immensely grateful for the opportunity to manage our capital and am hard at work trying to compound it at the highest rate that I can.

Yours,
Tim Liu

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