The.Desk

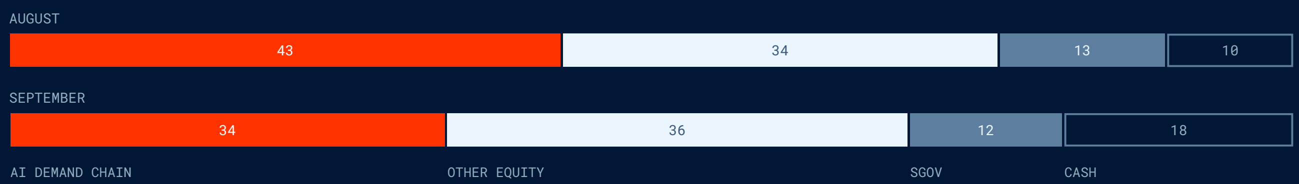
INVESTMENT THESIS · ROUND 2 · SEPTEMBER 2026

# Nothing broke. We cut anyway.

Month one cost 1.09 points against the index and not one break condition fired. This is the record of why the book was still cut: what the first month actually taught us, which August claims did not survive being measured, and where the next position comes from.

$49,691.92 MODEL NAV     13 POSITIONS     82% INVESTED     REBALANCED 2026-09-01

WHAT CHANGED: THE FACTOR, NOT THE NAMES



01 · MONTH ONE

# Down a tenth, behind by one.

Twenty-one trading days from the first rebalance. The book lost 0.10%; SPY gained 1.00%. The whole gap sits in two names.

| POSITION | RETURN | CONTRIBUTION | PERCENTILE, AUGUST | PERCENTILE, MEASURED |
|---|---|---|---|---|
| NVDA | +8.82% | +0.97pp | 45 | 1 |
| EOG | +2.24% | +0.29pp | 50 | 82 · 50 avg-margin |
| EPD | +4.04% | +0.28pp | 75 | 87 · 84 avg-margin |
| MSFT | +1.70% | +0.20pp | 25 | 18 |
| TSM | +1.84% | +0.17pp | 85 | not measurable |
| SGOV | -0.01% | -0.00pp | — | — |
| VRT | -2.95% | -0.15pp | 85 | 6 · 82 avg-margin |
| HUBB | -5.56% | -0.28pp | 75 | 19 |
| GOOGL | -9.62% | -0.58pp | 87 | 1 |
| ETN | -11.20% | -1.01pp | 85 | 91 · 38 avg-margin |

Adjusted close, 2026-08-03 to 2026-09-02. Contribution is the position's dollar change over the opening NAV of $49,955.00.

ETN alone cost more than the entire gap to the index. Add GOOGL and the book would otherwise have beaten SPY. Everything else did roughly what it was bought to do.

Not one break condition fired. The trading floor logged 37 events on 26 August across 36 model calls costing three cents, and every sweep of the tape came back `nothing actionable`. By the letter of the mandate there was no reason to touch anything.

02 · THE CORRECTION

# The ruler changed, not the market.

Look again at the last two columns above. Those are not price moves. They are the same question answered with better data.

August answered question five - what is priced in - by reconstructing each company's valuation history from four or five annual points, and said so at the time: *indicative*. Since 27 August the book runs on a measured pipeline instead: 750 to 840 days of split-adjusted price history against point-in-time trailing earnings, sourced from SEC XBRL filings with the filing date each figure was first reported on.

The results move a long way. NVDA reads the 1st percentile of its own history rather than the 45th, GOOGL the 1st rather than the 87th, VRT the 6th rather than the 85th. In the other direction

EOG reads 82 rather than 50, and EPD 87 rather than 75. **The August book believed the AI names were the expensive part and energy the calm part. Measured, it is the other way round.**

> **A correction to the August thesis.** That document said Eaton's backlog was up 103%. That figure covers Electrical Global and includes backlog acquired with Boyd Thermal; organically it is **+54%**. The number was reported here as evidence and it overstated the case. The corrected figure is used throughout this round.

03 · MACRO, RECORDED BEFORE THE NAMES

# Low, and it is about the price of money.

The verdict moves from neutral to low, which sets the cash band at 10-20%. This is not a view on AI demand. NVIDIA confirmed that on 26 August.

| WHAT | AUGUST | NOW | SOURCE |
|---|---|---|---|
| Fed, next meeting | hiking bias | 57-61% priced for a hike | CME FedWatch 29 Aug · Kalshi 2 Sep |
| Inflation, policy measure | core CPI 2.6%, falling | PCE 4.1% annualised, 6m | Warsh, Jackson Hole 28 Aug |
| Payrolls | cooling | -23k in July | BLS 7 Aug |
| 10-year | 4.63% | 4.75% | FRED DGS10, 31 Aug |
| 30-year | — | 5.25%, peak 5.31% | FRED DGS30, 31 Aug |
| High yield spread | richest decile | 2.65, 20bp tighter | FRED, 1 Sep |
| Brent | ~$91 | $96.02 | FRED, 1 Sep |

The 30-year at 5.25% has been exceeded on eleven trading days since 2007; the high in that window is 5.35%, on 12 June 2007.

Two readings changed the verdict. Core CPI still reads 2.5%, but on the measure policy actually follows, PCE is running 4.1% annualised over six months with 54% of the basket above 3%. And payrolls turned negative while growth stayed at 1.5%. That combination is not cooling; it is stagflationary, and it is why the market now prices a hike rather than a cut.

Brent at $96 looks like a contradiction until you date it. Over three months crude is *down* 5.67. Almost the entire move happened in two sessions, including +4.6% on 1 September on a fresh US-Iran confrontation, with Hormuz transits falling from 23 on 26 August to between five and ten a day. That is a war premium, not a level. The durable move is in the product: the diesel crack is $105 against $31 in January, distillate inventory sits 14% below its five-year average at the lowest August reading since 1951, and refineries are running at 98%.

PLAYING

- Distillate and refined energy
- Memory pricing power
- Gold as uncorrelated volatility
- Short-duration bills
- Regulated grid — watchlist only

AVOIDING

- Unregulated power producers
- REITs and bond proxies
- Consumer cyclicals and leisure

> **The risk that actually matters here.** Not AI demand, which was just confirmed, but the channel financing it. Meta's data centre vehicle with BlackRock drew $20bn of orders on a $12.5bn deal and priced at 7.50%; its predecessor priced at 5.60% last year and now trades at 7.10%. Moody's counts $1.2 trillion of data centre leases across the six largest hyperscalers, of which $820bn is not fully on balance sheet, while their outstanding debt has doubled to $460bn since the end of 2024. S&P Global Ratings expects all six to run negative free operating cash flow through 2027. A book with 43% in the AI chain was, in effect, a long-duration credit position wearing equity clothes.

04 · THE BOOK

# Thirteen positions, thirty percent defensive.

Ten names carried over, three added, none sold outright. The AI demand chain falls from 43% to 34%; cash and bills rise from 23% to 30%.

| POSITION | WEIGHT | WAS | CONVICTION | SECTOR | THEME |
|---|---|---|---|---|---|
| EOG | 13% | 13% | high | Energy | energy |
| MSFT | 10% | 12% | high | Information Technology | AI monetization |
| SGOV | 12% | 13% | defensive | T-bills | short-duration bills |
| NVDA | 7% | 11% | medium | Information Technology | AI infrastructure |
| TSM | 6% | 9% | medium | Information Technology | AI infrastructure |
| ETN | 6% | 9% | medium | Industrials | electrification |
| GOOGL | 5% | 6% | medium | Communication Services | AI monetization |
| HUBB | 5% | 5% | exploratory | Industrials | electrification / grid |
| VLO | 4% | — | exploratory | Energy | distillate crack |
| EPD | 4% | 7% | exploratory | Energy | energy infrastructure |
| GLDM | 4% | — | exploratory | Physical gold | gold |
| VRT | 3% | 5% | exploratory | Industrials | AI infrastructure (physical) |
| MU | 3% | — | exploratory | Information Technology | memory |
| **Cash** | **18%** | **10%** | | | |

Weights plus cash total 100% exactly. Sectors: IT 26%, Energy 21%, Industrials 14%, Communication Services 5% — all inside the 35% cap. Turnover 30.6%, cost $15.21 at 10 basis points. NAV after the rebalance $49,691.92.

05 · THE ADVERSARIAL REVIEW

# The first draft of this book was worse.

Every round is attacked before it is published. This month the attack landed, and the book above is the second attempt.

The first draft did what the macro verdict seemed to ask for: fifteen positions, cash at 15%, five new names, 60% of the book turned over. It passed every mandate check. The reviewer ignored the checks and measured the two books instead, over the same 168 trading days.

| NORMALISED ON INVESTED CAPITAL | VOLATILITY | BETA VS SPY | BETA VS NVDA |
|---|---|---|---|
| August book | 16.31% | 0.903 | 0.301 |
| First draft — rejected | 18.21% | 1.005 | 0.321 |
| Published book | 15.13% | 0.797 | 0.253 |

Daily returns, 2 January to 2 September 2026, weights renormalised to the invested portion so the comparison measures composition rather than the cash balance.

**The first draft made the book riskier while claiming to make it safer.** Composition volatility rose from 16.31% to 18.21% and market beta went through 1.0. The only reason the headline numbers looked calmer was the extra cash sitting behind them. A draft that turned over 60% of the book, at a cost, to end up more exposed than it started is not a round. It is a reshuffle with a story attached.

Three specific findings survived into this document.

1. **Gold is not the airbag.** Measured against NVIDIA, GLDM carries a beta of 0.232, higher than MSFT's 0.217, and it fell on both the ten worst NVDA days and the ten worst SPY days. The position stays, at 4%, but it is described here as uncorrelated volatility and nothing more. The instrument that actually rose on all three stress tests is EOG, at a beta of -0.189, which is why it was left at full weight rather than halved to fund the others.
2. **NVIDIA has joined the risk it is exposed to.** Cash conversion of 0.78× sits below our own 0.80 reject threshold, driven by receivables going from $38.5bn to $63.1bn and inventory from $21.4bn to $31.6bn in six months. Reading the filing rather than the summary turned up the rest: $25bn of senior unsecured notes issued in June 2026, total notes up from $8.5bn to $33.5bn, a $25bn commercial paper programme, and $366bn of commitments with $120bn falling due inside twelve months. Conviction cut from high to medium, weight from 11% to 7%.
3. **Every AI break condition measured demand.** All six of them, while the stated risk was financing. Demand triggers also sat impossibly far away: TSM's condition needed revenue growth below 15% while the company was printing +44.7%. Both faults are fixed in the conditions published with each position, and a financing trigger now sits over the whole cluster.

# Every decision, and both ways out.

For each position: why it is in the book, the worst-case exit (the pre-committed break condition, verbatim from the published snapshot) and the best-case exit (the sell plan if the thesis works).

## EOG 13% · HIGH · ENERGY · ENERGY · OPENED 2026-08-03

**The decision.** The measured shock absorber of this book, not a label: beta of -0.189 against NVDA and the only position that rose on all three stress tests (+2.07% on the ten worst TLT days, +1.13% on the ten worst SPY days). Cash conversion 1.77x, net debt 0.22x EBITDA, 3.2% of shares retired a year. Trailing valuation reads 82nd percentile, but energy is cyclical and the governing measure is the multiple on the average margin: 50th percentile. The three-year margin trend of -9.7pp is the base year sitting at the oil peak, not deterioration. Held at full weight with one honest caveat: the negative beta is a property of the current war-premium regime and reverses if Hormuz reopens.

CLOSES - WORST CASE

A quarter shows all-in FCF breakeven above $55 WTI, or net debt/EBITDA above 1.0x, or the 5% oil growth guidance is dropped while Brent is above $75.

CLOSES - BEST CASE

The edge at entry is a mid-range multiple on the measure that governs a cyclical. If the war premium holds and the market re-rates EOG toward the top decile of its own average-margin history without a structural cost improvement underneath, the valuation rule caps conviction first and trims the weight after. There is a second, quieter exit: if Hormuz reopens and the negative beta that earns this position its full weight disappears, the shock-absorber argument goes with it and the position is sized on the barrel alone.

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## MSFT 10% · HIGH · INFORMATION TECHNOLOGY · AI MONETIZATION · OPENED 2026-08-03

**The decision.** Cash conversion 1.35x, operating margin up 5.0pp over three years to 46.8%, net debt 0.10x, dilution -0.1%, and 18th percentile trailing, 23rd on the average margin. One question does not come back clean, and August's claim that this position cleared all six without a single breach was wrong: return on invested capital has fallen from 32.0% to 26.6% over the same three years. That is the capex programme arriving in the denominator rather than a business deteriorating - invested capital is growing faster than operating profit while the data centres are built - but it is a real decline and it belongs in the record. It also carries the lowest AI-factor loading of the AI names at 0.217 against NVDA, which is why the cut to the AI chain came from elsewhere.

CLOSES - WORST CASE

Azure growth below 30% y/y in any quarter, or FY free cash flow below $60bn, or quarterly capex above $40bn without concurrent backlog growth, or either cluster rule.

CLOSES - BEST CASE

This is the position with the least to apologise for, so the exit is a valuation exit rather than a thesis exit. If the multiple returns to the top quartile of its own history while Azure growth normalises toward the twenties, the reason for holding a full 10% is gone even though nothing has broken. Trim to the medium band and let the cheaper expression of the same theme take the weight.

## NVDA 7% · MEDIUM · INFORMATION TECHNOLOGY · AI INFRASTRUCTURE · OPENED 2026-08-03

**The decision.** Demand is confirmed and the balance sheet is the new question. FQ2 revenue $96.2bn (+106%) with guidance of $108bn against $104.2bn consensus, and the stock sits at the 1st percentile of its own valuation history. But cash conversion is 0.78x against our own reject threshold of 0.80: receivables went $38.5bn to $63.1bn and inventory $21.4bn to $31.6bn in six months. And in June 2026 the company issued $25bn of senior unsecured notes for general corporate purposes, taking total notes from $8.5bn to $33.5bn, alongside a $25bn commercial paper programme; commitments total $366bn with $120bn falling inside twelve months. Our own macro view names the financing channel as the main risk, and our largest position is now part of it. Conviction cut from high to medium and the weight from 11% to 7% for exactly that reason.

CLOSES - WORST CASE

Cash conversion below 0.8x in two consecutive quarters, or commitments falling due within twelve months above $150bn, or a new debt issue above $10bn; or two consecutive quarters of declining data centre revenue q/q; or Rubin shipments not started before the end of October 2026; or either cluster rule.

CLOSES - BEST CASE

Two different good outcomes, two different exits. If cash conversion recovers above 1.0 as the receivables and inventory build converts, the balance-sheet objection dissolves and conviction can go back to high. If instead the price re-rates toward the upper half of its own history while conversion stays below 0.8, the position is sold into that strength: paying a normal multiple for earnings that are not yet cash is the trade this round explicitly refused.

## TSM 6% · MEDIUM · INFORMATION TECHNOLOGY · AI INFRASTRUCTURE · OPENED 2026-08-03

**The decision.** Measured on its own filings this is the strongest business in the book: operating margin from 42.0% to 60.3% in three years, gross margin 67.7%, net cash of NT$2,486bn, and monthly revenue running +44.7% y/y in July against a cumulative +37.0% for the year. Capex guidance was raised twice, to $60-64bn, not cut. The statements are reported in TWD and carry no SEC XBRL, so our pipeline suppresses the multiples; the honest input is the company's own diluted EPS per ADR in USD, $13.86 TTM, which puts the ADR near 29.8x. Trimmed anyway, from 9% to 6%, purely because it belongs to the factor this round is reducing.

CLOSES - WORST CASE

Three-month rolling revenue growth below 25% y/y (a deceleration trigger; the old 15% level was never going to fire in time), or capex guidance cut below $60bn, or gross margin below 60% for two quarters, or either cluster rule.

CLOSES - BEST CASE

Trimmed for factor reasons rather than company reasons, so the best case is the one where it earns its weight back. Once the AI chain sits comfortably below 30% of the book, or once the statements become measurable in our own pipeline rather than by hand, this is the first position that goes back up. The exit proper is a margin exit: gross margin has run from 59.5% to 67.7% in four quarters, and a return toward the low sixties on a full order book would mean the pricing power that justifies the position has passed its peak.

## ETN 6% · MEDIUM · INDUSTRIALS · ELECTRIFICATION · OPENED 2026-08-03

**The decision.** August's thesis quoted a backlog up 103%. That figure was Electrical Global including acquired Boyd backlog; organically it is +54%, and this round corrects it in public. What the company actually steers on held up: segment margin 23.1%, down 80bp but still above the top of guidance, with most of the decline explained by intangible amortisation rising from $129m to $255m after Boyd and Ultra PCS. Organic revenue +14%, book-to-bill 1.3, guidance raised on 31 July. Leverage is the real change: the Boyd acquisition closed 12 March for $9.55bn net, debt went from $9.9bn to $20.6bn, quarterly interest expense from roughly $70m to $201m, and buybacks stopped. Two leverage figures matter here and they are not the same measure. On trailing twelve months, net debt is 3.30x EBITDA; on annualised second-quarter earnings it is 2.4-2.8x. The break condition below is written on the annualised quarterly basis, because the trailing figure sets three pre-Boyd quarters of earnings against a fully post-Boyd balance sheet and therefore overstates the leverage the company actually runs at. Interest cover is 12.0x trailing and roughly 6.9x annualised. Trimmed from 9% to 6% on leverage and a 92nd-percentile multiple, not on the price drop: the -11.2% in August came on 18 August with no company filing at all, a rate-driven de-rating of the whole AI-power complex.

CLOSES - WORST CASE

Net debt divided by annualised quarterly GAAP EBITDA above 3.0x in two consecutive quarters (no date clause: the old trigger deferred to Q2 2027 while the level was already passed), or segment margin below 22.0%, or organic growth below 5% in any quarter.

CLOSES - BEST CASE

The leverage taken on for Boyd is the whole question. If net debt to annualised EBITDA works back below 2.0× while segment margin holds above 23% and the buyback restarts, this returns to a medium-to-high position and the August thesis is vindicated on the corrected numbers rather than the overstated ones. If instead the multiple re-rates back above its own 90th percentile while leverage stays where it is, the position is sold into it.

## GOOGL 5% · MEDIUM · COMMUNICATION SERVICES · AI MONETIZATION · OPENED 2026-08-03

**The decision.** Down 9.6% in month one and now at the 1st percentile of its own valuation history, 69th on the average margin. The proof of AI revenue is still the strongest in the group and free cash flow is the open question, exactly as it was in August. Kept at half position rather than added to, because the instruction this month is to reduce the factor rather than to buy the cheapest expression of it.

CLOSES - WORST CASE

Cloud growth below 35% y/y, or backlog declining sequentially, or FY free cash flow below $40bn, or either cluster rule.

CLOSES - BEST CASE

Held at a half position since August pending a visible floor under free cash flow. If that floor appears - capex guidance stabilising with cloud backlog still growing - the reason for the half position is gone and the weight goes up. The sell case is the mirror: free cash flow below $40bn with capex still climbing means the monetisation thesis is funding itself out of the shareholders' half of the ledger.

## HUBB 5% · EXPLORATORY · INDUSTRIALS · ELECTRIFICATION/GRID · OPENED 2026-08-03

**The decision.** The calmest expression of electrification and the cheapest, at the 19th percentile trailing and 53rd on the average margin, with roughly 60% utility revenue and net debt at 1.42x EBITDA. Held unchanged: it neither drove the month nor broke anything, and it is the one grid name whose valuation does not depend on the AI story staying intact. One caveat belongs with these figures: Hubbell's most recent quarter in the SEC filing feed ends 31 March 2026, a quarter behind every other position in the book, so its leverage and returns are measured on older data than the rest.

CLOSES – WORST CASE

Utility segment organically negative, or net debt/EBITDA above 3.5x, or adjusted Utility margin below 23% in a quarter.

CLOSES – BEST CASE

The cheapest name in the electrification theme, and the only one whose valuation does not need the AI story to stay intact. If the NSI acquisition delivers one or two quarters of clean integration and the utility segment keeps growing organically, this graduates from exploratory to a medium position. It leaves the book when the discount to ETN and VRT closes without the earnings to justify it.

## VLO 4% · EXPLORATORY · ENERGY · DISTILLATE CRACK · OPENED 2026-09-01

**The decision.** This is a distillate position, not a refining one. The diesel crack is $105 against $31 at the start of January, distillate inventory sits 14% below its five-year average at the lowest August level since 1951, and refineries are running at 98%. The war spike of 1 September pushed the gasoline crack down while distillate kept climbing, which is the distinction that matters. It earns its place on measured behaviour: beta -0.177 against NVDA, and it rose on the worst SPY and TLT days. Two things must be said plainly. Our pipeline returns no revenue in any of the eight quarters and no debt in six, so the operating margin, ROIC, leverage and normalised percentile here are hand calculations on a secondary source and are not reproducible from our own data. And on that hand calculation the normalised multiple is at the 100th percentile: the low headline P/E is the peak-earnings signal, which is why this is exploratory at 4% and not a medium position at 7%.

CLOSES – WORST CASE

Adjusted refining operating income per barrel of throughput below $8.00 in two consecutive quarters (Q2 2026: $16.56). The figure appears in every quarterly earnings table.

CLOSES – BEST CASE

The position is exploratory precisely because the crack is extraordinary. The good outcome is not a higher crack but a normal one that still clears the bar: distillate inventory rebuilding toward its five-year average while refining income per barrel holds in the low teens would show the earnings are structural rather than a 1951-vintage inventory accident. The exit is the same number going the other way, and it is deliberately set at $8.00 rather than at a crack level, because the spread can normalise long before the company stops earning.

## EPD 4% · EXPLORATORY · ENERGY · ENERGY INFRASTRUCTURE · OPENED 2026-08-03

**The decision.** The only position in the book that breaches both valuation measures: 86th percentile trailing and 84th on the average margin, where for a cyclical the second one governs. The business itself is unchanged, with net leverage at 3.29x EBITDA against the partnership's own 3.0x target and our 3.5x break, interest cover 5.2x, and a distribution funded internally; it contributed +0.28pp in month one. But this was always an explicit rates position, and the 10-year moved from 4.63% to 4.75% while the 30-year touched 5.31%. Cut from 7% to 4%: the valuation says trim and the rate path says the short leg is running against us.

CLOSES - WORST CASE

Distribution coverage below 1.4x or net leverage above 3.5x in a quarterly report, or the 10-year closes a quarter above 5.25%.

CLOSES - BEST CASE

An explicit rates position, so the best case is a rates outcome. A 10-year settling back toward 4.25% widens the spread between the distribution yield and the risk-free leg, and the position goes back to a medium weight on an unchanged business. Absent that, this is a shrinking position: it already breaches both valuation measures, and further multiple expansion without distribution growth is a reason to leave rather than to celebrate.

## GLDM 4% · EXPLORATORY · PHYSICAL GOLD · GOLD · OPENED 2026-09-01

**The decision.** Held as uncorrelated volatility, and explicitly not as a hedge. We measured it: beta of 0.232 against NVDA, higher than MSFT's 0.217, and it fell on both the ten worst NVDA days and the ten worst SPY days. It only held up on the worst TLT days. Gold rose 10-13% in August depending on the basis and gold miners had their best August since at least 1994, but the metal still sits about 22% below its January high, so this is a volatile asset that happens not to move with the book, not an airbag. Physical rather than miners: no company risk, no multiple that can de-rate, 0.10% expense ratio, and a ten-year record ahead of the senior miners.

CLOSES - WORST CASE

Central bank buying below 150 tonnes in two consecutive quarterly WGC reports (Q2 2026: 288.9t), or the 10-year real yield above 2.75% together with a lower quarterly close in gold, or tracking worse than -25bp a year against the LBMA PM fix.

CLOSES - BEST CASE

There is no earnings exit for a bar of metal, which is the point and also the limitation. The position is sized to be uncorrelated rather than to be right, so the best case is boring: it does nothing while the equity book works. It leaves when the reason for holding it leaves - a Fed that has clearly stopped tightening with real yields falling and central bank demand intact removes the stagflation branch this is insuring against.

## VRT 3% · EXPLORATORY · INDUSTRIALS · AI INFRASTRUCTURE (PHYSICAL) · OPENED 2026-08-03

**The decision.** The purest physical expression of the data centre build-out, with the best cash conversion in the book at 1.94x and virtually no debt. It is also the highest factor loading per point of weight we own, at 0.833 against NVDA, which is precisely why it is cut from 5% to 3%: reducing the AI factor means cutting the names that carry the most of it per unit, not the names that are easiest to sell. Note the valuation asymmetry: 6th percentile trailing but 82nd on the average margin, so the cheapness depends on the current peak margin holding.

CLOSES - WORST CASE

Book-to-bill below 1.0 for two consecutive quarters, or backlog declining sequentially for two quarters, or adjusted operating margin below 18%, or either cluster rule.

CLOSES - BEST CASE

Cut to 3% because it carries the most AI factor per point of weight in the book, not because anything went wrong: cash conversion is the best here at 1.94×. If the AI chain comes down further elsewhere, this is where the risk budget would be spent again. The valuation asymmetry sets the exit: at the 6th percentile trailing but the 82nd on the average margin, the cheapness depends entirely on the current peak margin holding, so a book-to-bill below 1.0 for two quarters ends it.

## MU 3% · EXPLORATORY · INFORMATION TECHNOLOGY · MEMORY (PRICE SETTER) · OPENED 2026-09-01

**The decision.** The one position that gains from a cost the book already pays elsewhere: NVIDIA named memory pricing as the reason its gross margin peaked and guided down to 71-72%, and that cost is Micron's revenue. DRAM contract prices rose 93-98% in Q1 and 58-63% in Q2, and the company reports net cash of $20.3bn with ROIC around 63% and revenue growth of 70.6%. Three objections stand on the record. It breaks question five on the average margin at the 93rd percentile. At 3% it carries more AI-factor beta (+0.028) than MSFT does at 10% (+0.022). And our own macro conclusion this month says not to add to the AI chain before the 16 September FOMC, which this position contradicts. It is held at an exploratory 3% for those reasons, not despite them.

CLOSES - WORST CASE

TrendForce DRAM contract prices negative q/q (a deceleration trigger: the series has already gone from +93-98% to +58-63% to +13-18% without any level trigger moving), or two consecutive quarters guiding gross margin below 70%, or a revenue midpoint below the preceding quarter.

CLOSES - BEST CASE

The clean outcome is the one where the long-term supply agreements do what they are written to do: contracted minimum-price revenue holding gross margin above 70% through a falling spot cycle would prove the position is a pricing-power story rather than a commodity bet, and would justify a medium weight. The exit is deliberately a deceleration trigger, because the memory cycle has never once given a level warning in time - contract prices have already gone from +93-98% to +58-63% to +13-18% while every level condition stayed silent.

## SGOV 12% · DEFENSIVE · T-BILLS · SHORT-DURATION BILLS · OPENED 2026-08-03

**The decision.** Zero to three month T-bills at roughly 3.9%. With cash at 18% this is the second half of a defensive sleeve that now stands at 30% of the book, the widest it has been, because the macro verdict moved from neutral to low. Cash in this model earns nothing; this does.

CLOSES - WORST CASE

A Fed cutting cycle underway (two cuts) with the 2-year below 3.25%: reconsider toward duration or equities.

CLOSES - BEST CASE

Not a position with a thesis so much as the other half of a decision. It grows when the macro verdict says low and shrinks when it says high, and the exit is written into the break condition: a genuine cutting cycle with the two-year below 3.25% makes bills the wrong place to sit, and the money moves to duration or back into equities.

07 · THE NAMES THAT DIDN'T MAKE IT

# Four themes researched, three bought.

Rejections are published for the same reason the break conditions are: a thesis is only worth something if the alternative it beat is on the record.

| NAME | THEME | WHY NOT |
|---|---|---|
| PPL | Regulated grid | Fails question three twice - net debt/EBITDA 5.03×, interest coverage 2.61× - and holds 51% of a gas generation joint venture with Blackstone Infrastructure, financed through the private credit channel this round is avoiding. |
| AEP | Regulated grid | The 69 GW of demand that carried the case is "signed load agreements", a term the company does not define, not take-or-pay contracts. The Texas half has been frozen since 3 August by a regulatory audit. |
| EXC | Regulated grid | Clears the tests, but the grid theme rests on auction and interconnection figures that no one has verified from a primary source. The theme waits; see the watchlist. |
| RGLD | Gold royalty | Share count up 9.0% a year against a 2% threshold. One acquisition explains it, but August's round rejected AVGO at 4.8% and the rule is applied the same way twice. |
| STX | Storage | Dilution 3.4% and a normalised multiple at the 89th percentile. The most painful rejection of the round: it was the least spot-price dependent name in the theme. |
| NEM · AEM | Gold miners | NEM on dilution of 10.3% and all-in cost up 58% year on year. AEM is the better company but trades at 12.3× normalised against its own 10.1× ceiling. |
| LRCX | Memory equipment | Clean on questions one to four, then breaks question five on both measures at the 87th and 88th percentile. Memory is also only about 29% of revenue. |
| INSW | Tanker shipping | Forward P/E of 16.0 against 6.5 trailing: the consensus is already modelling a 60% earnings decline. Buying it is buying $96 Brent in freight form. |
| SLB · HAL · BKR | Oilfield services | The group fails on the same logic that makes the theme work: the conflict driving the crack is destroying their largest profit pool. SLB's Middle East revenue fell 13% sequentially, citing the regional conflict. |

# What has to happen, and which number decides.

Eight of the thirteen positions sit below their full conviction weight. Each one has a defined route up, a figure that settles it and a date on which that figure is published.

| POSITION | NOW | ROUTE UP | DECIDED BY | NEXT TEST |
|---|---|---|---|---|
| NVDA | medium 7% | Back to high conviction and a double-digit weight | Cash conversion back above 1.0× as receivables and inventory convert, with no further debt issue | 17 Nov |
| TSM | medium 6% | First position to regain weight once the AI chain is below 30% | Gross margin holding above 65% with monthly revenue above 25% on a three-month average | 15 Oct |
| ETN | medium 6% | Back to a high-conviction electrification position | Net debt below 2.0× annualised EBITDA, segment margin above 23%, buyback restarted | 3 Nov |
| GOOGL | medium 5% | Off the half position it has been on since August | A visible floor under free cash flow: capex guidance stabilising while cloud backlog still grows | 28 Oct |
| HUBB | exploratory 5% | Graduates to a medium position | One or two quarters of clean NSI integration with the utility segment organically positive | 27 Oct |
| VLO | exploratory 4% | Medium weight if the earnings prove structural | Refining income per barrel holding in the low teens while distillate inventory rebuilds toward its five-year average | 22 Oct |
| MU | exploratory 3% | Medium weight as a pricing-power position rather than a commodity bet | Gross margin above 70% held through a falling spot cycle, on contracted minimum-price revenue | 30 Sep |
| VRT | exploratory 3% | Where the risk budget goes if the AI chain falls further elsewhere | Book-to-bill above 1.0 with the operating margin holding above 18% | 21 Oct |

Earnings dates from the company calendars as of 2 September 2026; MU's is its FQ4 report. EOG, MSFT, EPD, GLDM and SGOV are already at the weight their conviction supports and are not listed.

09 · THE WATCHLIST

# Five names, and what opens the door.

Researched this round, rejected on a specific number, and kept because that number can change. Each carries the condition that would put it in the book.

## EXC REGULATED GRID · UTILITIES · RESEARCHED, NOT OPENED

The power bottleneck is real and dated: the median interconnection queue runs 61 months, and the PJM capacity auction cleared at its cap and still came up 6,623 MW short. Exelon is the cleanest way to own it — a pure regulated wires business with no merchant generation. Two things stopped it. The auction figures that carry the entire theme have not been confirmed from a primary source, and regulated utilities as a class fail our leverage test by construction, which is a mandate question rather than a company one.

OPENS IF: THE PJM FIGURES VERIFY FROM THE AUCTION REPORT ITSELF, AND A SECTOR-SPECIFIC LEVERAGE RULE IS WRITTEN INTO THE MANDATE FIRST.

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## STX NEARLINE STORAGE · INFORMATION TECHNOLOGY · REJECTED ON DILUTION

The strongest business in the memory theme by the measures that matter here: the vast majority of nearline exabytes are already allocated into calendar 2028, so it depends less on spot pricing than anything else in the complex. It failed on share count, up 3.4% a year against a 2% threshold, driven by convertible notes that have largely now converted.

OPENS IF: FY27 DILUTION COMES IN BELOW 2%, MEASURABLE AT THE JULY 2027 REPORT.

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## RGLD GOLD ROYALTY · MATERIALS · REJECTED ON DILUTION

The only gold name that passed the cyclical valuation test, at the 45th percentile on normalised margins, with an 83% EBITDA margin and no mining cost inflation to absorb. It failed the same rule as STX, at 9.0%, all of it from a single acquisition in October 2025.

OPENS IF: TRAILING SHARE GROWTH FALLS BELOW 2% WITH THE BUYBACK STILL RUNNING - FIRST MEASURABLE AT THE Q3 2027 REPORT.

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## DINO REFINING · ENERGY · SECOND CHOICE IN AN OWNED THEME

The second refiner, held back only because two of them would double the same factor. Its own catalyst is not macro: a logistics and storage spin-off announced for the next twelve to eighteen months.

OPENS IF: THE VLO POSITION VALIDATES ON ITS OWN BREAK CONDITION AND ENERGY STAYS BELOW 25% OF THE BOOK - OR REPLACES VLO IF THE SPIN-OFF COMPLETES ON BETTER TERMS.

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## LRCX SEMICONDUCTOR EQUIPMENT · INFORMATION TECHNOLOGY · REJECTED ON VALUATION

The only candidate this round with no breach at all on questions one through four: net cash, 61% ROIC, and a share count shrinking 2.4% a year. It fails purely on price, at the 87th and 88th percentile on both valuation measures.

OPENS IF: THE TRAILING MULTIPLE FALLS BACK BELOW THE 80TH PERCENTILE OF ITS OWN HISTORY WITHOUT EARNINGS DETERIORATING.

10 · THE THEMES AHEAD

# What this book is watching for.

Three things that would change the shape of the portfolio rather than the weight of one position.

**The financing channel is the one to watch, and it is not in the index.** High yield spreads at 2.65 read as calm, but the AI credit risk does not sit in the high yield index - it sits in special purpose vehicles and lease obligations outside it. The warning will not be an earnings miss; it will be wider concessions on new issues and worse aftermarket behaviour. That is why a financing trigger now sits over the whole cluster, and it is the single condition most likely to fire first.

**Power becomes the bottleneck around 2027.** The constraint moves from memory supply to electricity: a 61-month median interconnection queue, a capacity auction clearing at its cap and still short, and Microsoft naming power availability as a risk factor. The book owns the picks — ETN, HUBB, VRT — but not yet the rate base, because the regulated utilities fail a leverage test written for industrials. Resolving that is a mandate decision for a future round, not something to wave through in a footnote.

**The memory cycle is already decelerating while the price is accelerating.** DRAM contract prices rose 93-98% in the first quarter, 58-63% in the second, and 13-18% in the third. The theme is bought — but at 3%, on a deceleration trigger rather than a level, because this cycle has never given a level warning in time.

And one thing this book does *not* claim to know: whether 16 September brings a hike. The position is not a bet on the outcome. Cash at 18% and bills at 12% is what a 57-61% probability of a tightening move, on top of a 30-year yield at levels seen on eleven days in nineteen years, costs in foregone equity exposure. If the Fed holds and the long end settles, that sleeve is the first thing to shrink.

11 · FACTOR COUNT & CLUSTER RULES

# The factor, not the sector.

34% AI demand chain, full — against 43% in August

NVDA 7 + MSFT 10 + TSM 6 + GOOGL 5 + VRT 3 + MU 3. Adding the AI-linked portion of ETN and HUBB brings it to roughly 38%, against 47-48% in August. Soft cap 50%. Measured rather than counted, the book's beta to NVIDIA falls from 0.271 to 0.208.

1. **Financing trigger.** New-issue spreads on data centre SPV or hyperscaler paper widen 100bp against 1 September 2026, or a top-four hyperscaler funds data centre capacity off balance sheet above 7%: cut the AI cluster by one third. This is the condition the August book did not have, when all six AI break conditions measured demand while the stated risk was financing.
2. Combined top-four hyperscaler capex guidance growth falls below +20% year on year: halve the AI cluster (NVDA, MSFT, TSM, GOOGL, VRT, MU).

3. Any top-four capex guidance cut, including by our own positions MSFT or GOOGL: reassess the entire AI cluster within 48 hours.
4. AI demand chain, full: soft cap at 50% of the portfolio.

# How the numbers are kept honest.

Including the ones that were wrong.

The NAV is computed to the cent: every rebalance priced on adjusted close, 10 basis points charged on turned-over weight, benchmarked against SPY from the same $50,000 start, with prices drawn only from the project's own cache. What changed since August is question five. Valuation percentiles are no longer reconstructed from a handful of annual points but measured over 750 to 840 days of split-adjusted history against point-in-time trailing earnings, dated to when each figure was *first* reported rather than last mentioned. That correction alone moves ETN from the 85th percentile to the 92nd and NVDA from the 45th to the 1st.

**What was wrong this round, and what is still uncertain.**

1. The August thesis published Eaton's backlog as up 103%. Organically it is +54%; the rest came with the Boyd acquisition. Corrected here.
2. The macro research first reported the 30-year Treasury at 5.34% and "the highest since 2007". Re-measured from the Federal Reserve series: 5.25% on 31 August, with a monthly peak of 5.31% on 17 August. The level has been exceeded on eleven trading days since 2007. The direction stood; the figure and the phrase did not.
3. The same research reported gold up 8.1% in August. It rose between 10% and 13.3% depending on the basis, and the omission that mattered more was that gold still sits about 22% below its January high.
4. The probability of a September hike appears in three versions across our sources — 57-61%, 68% and roughly 72%. The lowest, from CME FedWatch and Kalshi, is the one used.
5. Valero reports no revenue figure in any of the eight quarters our pipeline retrieves, and no debt figure in six of them. Its operating margin, ROIC, leverage and normalised percentile are therefore hand calculations on a secondary source and are not reproducible from our own data. The position is sized as exploratory partly for that reason.
6. Eaton has not tagged an operating income subtotal in its filings since 2019, because its income statement does not contain one. The margin series used here was derived two independent ways that agree exactly. Its debt tag also excludes $2.1bn of commercial paper; total debt is $20.6bn.
7. TSMC files in Taiwan dollars with no quarterly XBRL, so our pipeline suppresses its multiples rather than guessing at a currency. Net cash is NT$2,486bn. Any dollar figure for it here is a conversion, not a reported number, and the valuation uses the company's own diluted earnings per ADR in dollars.
8. The interconnection queue and capacity auction figures behind the grid theme have not been verified from primary sources. That is why no utility was bought.

This document records the September 2026 round as decided on 1 September 2026 and is superseded by the next monthly round. The portfolio is fictional — $50,000 of model capital, no real money - and nothing here is investment advice.