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John M. Zolidis, President

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Why Attack Our Most Successful Companies?

Last Week's Action Epitomized the Bull Market's Main Themes

Post-Covid recovery and liquidity surge continues. Last Monday, fears of the Delta variant dropped the DJIA 800 points. From Tuesday onward, investors bought shares, driving major market measures to all-time highs by Friday's close. The S&P 500 has clocked a 17%+ YTD gain, on top of a similar increase in 2020. We see four key themes at work. First, fear of Covid19 equals a buying opportunity. The world is not ending. Second, government policy remains very supportive for the economy and equity prices. Interest rates are low, Uncle Sam continues to send out checks to families, and more spending is on tap. Third, the U.S. consumer is in a strong position. A year of forced savings, home price gains and increases in the stock market have contributed to a surge in spending as the economy has reopened, helping many companies beat forecasts. Fourth, the U.S. remains very innovative and both large and small companies (more on this below) continue to develop new ideas and create value. Things can (and will) change, but based on what we see today, we remain bullish on our investments.

Big is Beautiful

Why we're not selling U.S. tech despite repeated political and media rhetoric targeting America's biggest success stories. U.S. markets comprise roughly one-half total world equity values. The U.S. (still) has the largest economy in the world but its share of global GDP is only 16%-20% depending on whom you ask. Accordingly, U.S. equities are over-represented within global equity markets.

There are several reasons for this. Among these is that global investors have confidence in the rule of law and the fair functioning of U.S. markets, which earns U.S. equities a premium. The perceived strength of the U.S. dollar is another factor. (Sorry, Dogecoin and altcoin "investors".) The historical stability of U.S. markets and strength of U.S. companies are also factors. In short, the U.S. has the largest and most developed financial system in the world, which works synergistically with the most innovative companies and has created enormous value for investors in a positive feedback loop.

If any of this is even partially true, then why is the administration (and various media pundits) so keen to attack our largest, most innovative, and biggest enterprises? Let me state this opinion: I do not believe Amazon, Apple, Facebook, Google and Microsoft are an oligopolistic cartel colluding to freeze out competition. Rather, the largest competition for each of these companies (excluding foreign companies and governments actively trying to steal their intellectual property) *is each other*.

Here's what I think criticism of these companies and their perceived market dominance is missing. The shockingly enormous success of these enterprises *indirectly funds* a huge number of smaller companies by justifying the dream of massive returns. Venture capital and private equity investors are funding all sort of moon-shot ideas (as well as more pedestrian outfits) in the hopes of getting in early on something truly great. Many billions will disappear in their errors but even when it doesn't work out, the point we want to make is that new companies get funded and salaries get paid.

From my perspective as an American living outside the U.S., it's easy to see that other countries *wish* they had the "problem" of the U.S.'s giant technology companies. *Of course* the Europeans are willing to sign up to a global minimum tax to try to recapture some of the profits of these businesses which essentially function as a

SEE DISCLOSURES ON PAGE 5

wealth transfer mechanism from non-U.S. markets to the U.S. via every digital transaction on every smartphone carried by every individual. The question is why the U.S. administration is so eager to help. In my opinion, it's a failure to understand the holistic nature of the economy and the relationship between successful private enterprise, financial markets, and funding for entrepreneurs, which in turn are the main source of future job creation.

The market has ignored anti-trust attacks, threats of increased regulation, proposed tax increases, and multiple embarrassing episodes wherein Congress has dragged the leaders of these companies to answer malformed questions about how their businesses and markets work. Ultimately, we believe these misguided efforts will not offset the attractiveness of U.S. tech's ability to continue to capitalize on the strength of their business models, product and service offerings, and ability to grow on a global basis. We believe the market has generally viewed it this way too, which explains why the stocks of these companies are all trading near all-time highs despite all the noise.

New Name in Client Portfolios: Thor Industries (THO)

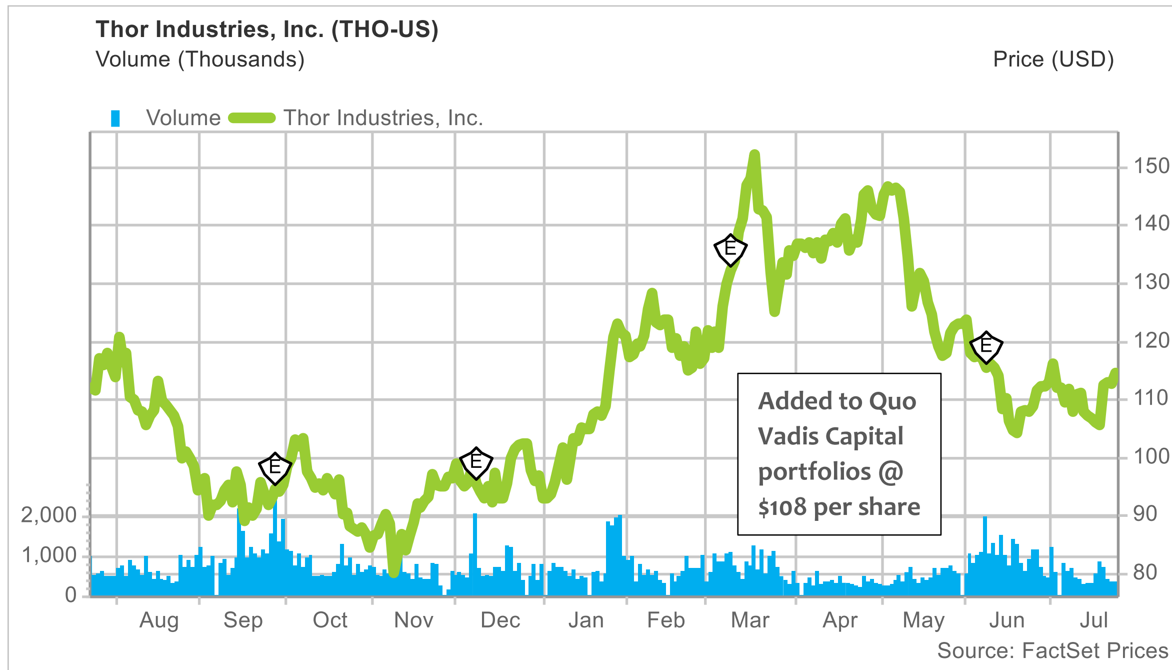
Thor Industries is the largest U.S. maker of motor homes aka recreational vehicles (RVs). Thor Industries produces RVs under 16 brands, among them Thor Motor Coaches and Airstream. The company generated about $8B in revenues in its most recent fiscal year and its current market value is $6.4B. THO, and other companies in the industry, were initially hurt by the pandemic as both manufacturing facilities and dealerships were forced to close temporarily. Subsequently, however, demand for RVs surged, as consumers looked for a safer and socially-distant travel alternative to hotels and airplanes. Revenues in the most recent reported quarter (ended April 2021) were 38% above two years ago (pre-pandemic levels). THO also reported a backlog of orders of $14B, a record, and enough to cover the next year and a half of deliveries.

The market, as far as we can tell, believes this demand is temporary. Following a 50% increase in revenues in the current fiscal year, analysts are modeling growth decelerating to 8% and then to 3% in each of the next two years, respectively. The stock's price-to-earnings (P/E) ratio is around 10.5x compared to a historical average of 12.6x. Shares are currently trading about 25% below a recent 52-week high.

On the contrary, we believe demand is likely to be sustained at higher levels. Many consumer behaviors and priorities changed during the pandemic. Some of these are clearly temporary, like the fear of eating at restaurants or going to the movies. Others are more durable. When we consider which trends are likely to persist, we ask whether the trend's underpinnings were already in place prior to the pandemic. Consider the shift in spending to e-commerce. This dramatically increased during stay-at-home lockdowns, but we wouldn't expect this share shift to reverse in a post-vaccine world. Regarding mobile homes/ RVs, we believe the use-case for this product has been permanently augmented by work-from-home/ work-from-anywhere. Additionally, consumer interest in "experiences", which was already growing among jaded millennials, has been further enhanced by realization that life is (sometimes) short. Two financial factors are also at work. First, the rise of the sharing economy (Airbnb) has created a possibility for financing these purchases that didn't exist in the past. Secondly, with housing prices up more that 20% YOY, mobile homes/ RVs can be an alternative for those priced out of the non-mobile home market. Lastly, we note that the recently-passed Great American Outdoors Act provides $600M to refurbish parks and camping grounds used by RVs.

If we are right, and these factors persist in contributing to demand for THO's products, sales and earnings expectations will move higher. Valuation (P/Es) should also expand to reflect a more optimistic view. Together, higher earnings and a higher multiple should contribute to significant appreciation for the shares.

Figure 1: Thor Industries (THO) one-year chart. Shares are trading 25% below a 52-week high.



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Yours,

John Zolidis
President & Founder
Quo Vadis Capital, Inc.
John.zolidis@quovadiscapital.com
www.quovadiscapital.com

Mr. Zolidis started his career in finance in 1996 following degree studies in Philosophy at Kenyon College and the University of Oxford. He has followed U.S. consumer companies as a senior analyst since 1999, mostly on the sell-side, writing research for institutional investor clients. He also managed money in a buy-side role at a long-short equity fund over 2013-2014. He was named in the Wall Street Journal's Best on the Street list in 2005. Mr. Zolidis founded Quo Vadis Capital, Inc., a Registered Investment Advisor (RIA) and research consultancy, in 2017 and works from New York and Paris, France.

We have our vaccine and our passport is hot. I have to confess I was not so much "restez chez moi" during Covid. By playing either my U.S. nationality or French Residency, I was able to travel when others were not. One flight I took to the U.S. had over 200 empty seats. No worries about social distancing. Sit wherever you like! Anyway, thankfully, the worst of the restrictions are finished and others can now join me on the planes. In June and July I was lucky to take not one but two trips to Greece, first to the island of Corfu and then to visit friends in the village of Kardamyli in the Peloponnese. We are spending the balance of July in various parts of France. Then in August a big event is planned as we will all travel to New Orleans to install my oldest daughter for her

first year of college at Tulane University. I've been twice to NOLA, each time for a bachelor party. This visit promises to have a different tone. Enjoy your Summer!

A door in the ancient village of Kardamyli: Mentioned by Homer in the Iliad, Kardamyli was one of seven cities promised to Achilles as compensation for returning to fight in the Trojan War. We asked around but only one old dude would claim to be a descendant of Achilles. He also thought he owned the place.

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