



SEMI-ANNUAL UPDATE

SECOND HALF 2024

H2 2024 Results

During the second half of 2024, the Saga Portfolio (“the Portfolio”) increased 52.2% net of fees. This compares to the overall increase for the S&P 500 Index, including dividends, of 8.4%.

The cumulative return since inception on January 1, 2017, for the Saga Portfolio is 259.2% net of fees compared to the S&P 500 Index of 201.8%. The annualized return since inception for the Saga Portfolio is 17.3% net of fees compared to the S&P 500’s 14.8%. Please check your individual statement as specific account returns may vary depending on the timing of any contributions throughout the period.

Performance			
	Saga Portfolio (gross)	Saga Portfolio (net) ⁽¹⁾	S&P 500 Index ⁽²⁾
2017	16.0%	14.3%	21.8%
2018	2.1%	0.6%	-4.4%
2019	65.6%	63.2%	31.5%
2020	123.8%	120.5%	18.4%
2021	-9.6%	-10.9%	28.7%
2022	-84.7%	-84.9%	-18.1%
2023	209.2%	204.6%	26.3%
H1'24	40.4%	39.4%	15.3%
H2'24	53.4%	52.2%	8.4%
2024	115.4%	112.2%	25.0%
Cumulative	305.0%	259.2%	201.8%
Annualized	19.1%	17.3%	14.8%

(1) Saga Portfolio serves as a model for client accounts. Net returns assume 1.5% management fee.

(2) S&P 500 performance includes dividends. Please see disclaimer at the end of this letter regarding comparison to indices.

The Questionable Benefits of Frequent Updates and Interpretation of Results

This marks the 20th Saga Portfolio investor letter. When I began writing these letters in 2018, the goal was simple: to explain how I think about investing and share what we own and why we own it. If someone else were managing my money, that is what I would want to know.

Frequent updates, however, can become a distraction. They naturally shift attention toward recent stock-price movements rather than the underlying drivers of long-term business value. That is understandable. The goal of investing is to grow wealth, and stock prices provide the most immediate and visible measure of progress. But short-term price movements are unpredictable and rarely tell us much about how a company’s long-term value has changed.

A well-developed investment thesis should be hard to vary, even though it must remain open to criticism and revision as new facts emerge. A strong business and the central explanation for owning it typically do not change materially from one quarter to the next.

The Saga Portfolio invests with an owner's mindset, which naturally leads to low portfolio turnover. The best investments are generally left to compound for many years, provided the business remains attractive and no more compelling opportunity is available.

Given that approach, and because prior letters have already covered the Portfolio's philosophy in detail, I think one annual review of our core holdings is not only sufficient but preferable. Going forward, I plan to write an annual investor letter after our core portfolio companies report their full-year results.

Writing less frequently raises an important question: over what period should investment results be judged?

One-year portfolio returns are heavily influenced by randomness and market sentiment. Five years begins to provide a more meaningful basis for evaluation, although even that period may not be conclusive if it begins or ends during an unusual market environment. But if the Portfolio has not outperformed over ten years, and there is no better explanation than that the market has remained perpetually wrong, then allocating long-term capital to a low-cost S&P 500 index fund would likely be the better choice.

There is also a paradox in long-term investing. Although we ultimately expect our stocks to appreciate, long-term owners who continue adding capital should prefer lower share prices in the near term, provided the underlying value of the businesses has not declined. It is similar to homeownership: rising home prices may increase your reported net worth, but lower prices are preferable if you plan to buy another home.

The same is true of stocks. When the investment thesis remains intact, lower prices allow us to acquire a larger ownership interest for the same amount of capital. How an investor reacts to a falling stock price often reveals whether they are thinking like a business owner or merely hoping to sell the shares to someone else at a higher price.

Beating the market over long periods is difficult, especially when managing other people's money. Few stocks create most of the market's long-term gains, and identifying them while they remain undervalued is inherently challenging. Many of the best opportunities initially appear controversial, some will be highly volatile, and a few will inevitably disappoint. A concentrated portfolio makes those realities more visible, which is why an aligned and patient investor base is so important.

In this letter, I examine the challenge of investing in publicly traded companies through the lens of a concept discussed in the previous investor letter: the growth of knowledge. That idea continues to shape how I evaluate businesses and manage the Saga Portfolio.

The appendix includes updates on Carvana, Roku, Trupanion, The Trade Desk, our newest investment in Wise PLC, and a postmortem on Redfin following its announced sale to Rocket Companies. Future annual letters will primarily focus on company developments and portfolio changes, while broader investing topics will generally be shared separately throughout the year.

Business Fragility and the Resilience of Knowledge

Businesses are remarkably fragile. Most new businesses do not survive a decade, and even companies with once-dominant positions can eventually be displaced. There is no law of nature that requires a business to fail, so why do so many disappear, and what does that mean for investors?

Resilience is the ability of a system to maintain itself despite changes in its environment. Complex systems such as living organisms, cities, and businesses cannot be adequately explained by the fundamental laws of physics alone. Those laws permit such systems to exist, but they do not contain their designs or explain how they preserve themselves. That additional explanation is *knowledge*.

In *The Science of Can and Can't*, Chiara Marletto describes how resilience can emerge through constructors, systems that cause reliable transformations while retaining the ability to do so again. A car factory, for example, repeatedly transforms steel, plastic, rubber, and other materials into vehicles. The raw materials alone cannot explain that transformation. It depends on knowledge embodied in the vehicle's design, the factory, its employees, and the processes coordinating their work.

Knowledge can act as an abstract constructor because the same knowledge can be instantiated in different physical forms, including DNA, brains, computers, books, tools, and institutions. Knowledge is information that solves a problem and is preserved through mechanisms that allow it to be applied, copied, tested, and corrected. Once embedded in a suitable system, knowledge can help preserve both itself and the system that contains it.

Genetic knowledge, for example, can survive across generations because organisms reproduce and repair themselves. Businesses similarly embed knowledge in their products, processes, relationships, and strategies. Rust-resistant coatings, quality-control procedures, supply chains, customer-feedback systems, and capital-allocation practices all contain knowledge about how to solve particular problems. Without that knowledge, the physical assets of a business would be far less valuable.

Two fundamentally different processes have created the knowledge we observe in nature and civilization:

- 1) Biological evolution, which occurs through genetic variation and natural selection
- 2) Human thought, which involves deliberate problem-solving through conjecture and criticism

Natural selection creates knowledge without foresight. Variations arise, and those better adapted to their environment are more likely to survive and reproduce. The process is powerful, but it is slow and limited to changes that can emerge through successive genetic variations.

People can create explanatory knowledge much faster. We can identify problems, propose possible solutions, criticize our ideas, and improve them. We cannot create knowledge according to a formula, and our ideas are always fallible, but there is no known limit to progress beyond what the laws of physics forbid. Problems that once appeared insoluble, from powered flight to infectious disease, became solvable after people created the necessary knowledge.

A corporation coordinates people, knowledge, and capital to solve problems at scale. The wealth it creates does not come from resources alone, but from knowing how to transform those resources into something more valuable. The same steel, rubber, labor, and capital can produce either a valuable automobile or an expensive pile of unusable parts. The difference is knowledge.

But if knowledge can be resilient and businesses are built on knowledge, why do so many companies fail?

The answer lies in two related challenges.

1) Knowledge Can Be Copied

Knowledge is difficult to create, but some forms of it can spread quickly once discovered. A profitable innovation attracts attention, and competitors attempt to copy it, improve upon it, or find another way to solve the same customer problem. Over time, that process can erode excess returns.

Not all business knowledge is easy to copy. Competitors may be able to observe a product without understanding the accumulated know-how, culture, relationships, incentives, and processes that made it successful. They may copy the visible features while failing to reproduce the system underlying them.

Companies can make replication more difficult through patents, copyrights, trade secrets, regulatory protections, economies of scale, network effects, switching costs, brands, or superior distribution. They can also reinvest their accumulated knowledge to stay ahead. But no competitive advantage is automatically permanent. Its durability depends on how difficult the underlying knowledge is to reproduce and whether the company continues to improve it.

Microsoft Windows provides a useful example. Its dominant position in personal computers has endured because of scale, switching costs, developer support, compatibility, and the network surrounding the operating system. Yet Microsoft's expertise and advantages in PCs did not automatically transfer to smartphones, where Apple's iOS and Alphabet's Android became dominant.

The lesson is that knowledge and competitive advantages are often specific to the problems and environments in which they developed. Success in one domain does not guarantee success in another, even when a company has substantial resources, talented employees, and strong motivation.

2) The Creation of New Knowledge

A company cannot remain resilient simply by protecting what it already knows. The environment around it continues to change as customers develop new preferences, competitors create better solutions, and new technologies alter what is possible.

A stable environment can protect an incumbent for a long time. But when new knowledge changes an industry, assets and practices that once created an advantage can become liabilities.

Newspapers illustrate this clearly. For decades, the leading newspaper in a city benefited from economies of scale, local distribution, advertiser relationships, and a strong network between readers and businesses. Printing presses and delivery systems helped create a formidable local advantage.

The internet changed the underlying problem. Information could suddenly be distributed globally at almost no marginal cost, while platforms such as Google and Facebook created more efficient ways for advertisers to reach customers. The newspaper companies still possessed valuable knowledge, brands, and resources, but much of what had made them dominant was tied to the old environment.

Businesses persist by continuing to solve problems better than the available alternatives. Competitive advantages may provide time and resources, but they do not eliminate the need to create new knowledge.

Henry Ford revolutionized automobile manufacturing with the moving assembly line. Process improvements and vertical integration allowed Ford to produce the Model T at a cost competitors initially struggled to match. But Ford became too committed to the system that had created its original success. General Motors adopted many of Ford's production techniques while also offering greater variety and introducing more flexible manufacturing. As customer preferences changed, GM surpassed Ford as the industry leader.

Ford's original knowledge did not become false. Efficient mass production remained valuable. The error was treating a successful solution to one problem as though it were the final solution to every future version of that problem.

The fragility of businesses is not a flaw in the market. It is a consequence of the fact that knowledge is fallible and progress continues. A company can have a long record of success, strong cash flows, and a dominant position today, yet become fragile if it clings to outdated practices, prioritizes short-term results over long-term value creation, suppresses criticism, or fails to take promising new technologies and competitors seriously.

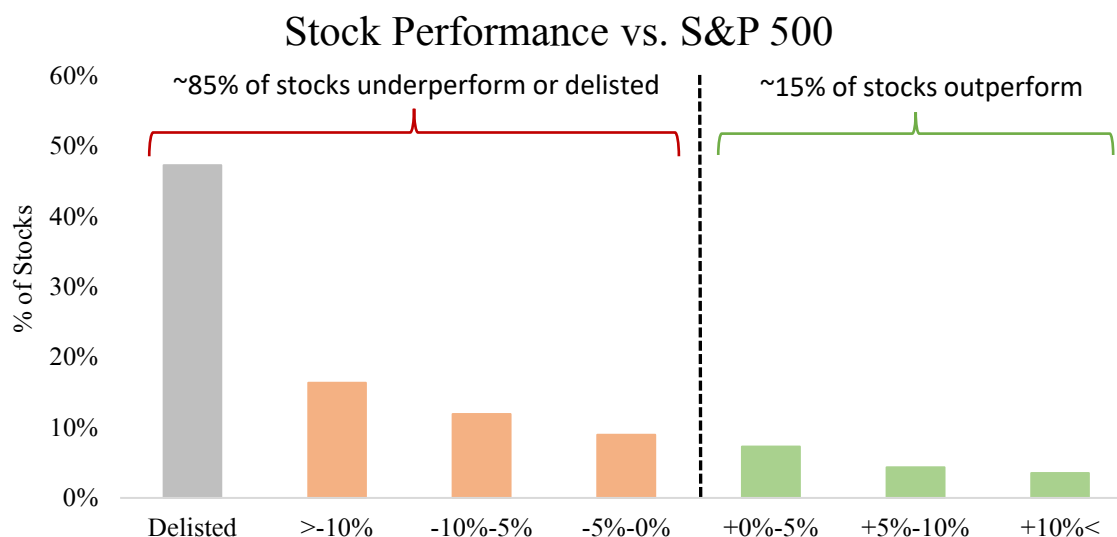
For investors, the relevant question is not simply whether a company has a strong position today. It is whether the knowledge underlying that position is difficult to reproduce and whether the company can continue improving it.

True resilience comes from error-correcting mechanisms that allow a company to recognize mistakes, learn, adapt, and create better solutions. Those mechanisms may include open debate, customer feedback, experimentation, decentralized decision-making, thoughtful incentives, and a willingness to replace formerly successful ideas when better ones emerge.

A durable company does more than defend the knowledge it already possesses. It preserves the ability to create new knowledge as circumstances change. Ultimately, resilience is not about avoiding problems, but about being best equipped to solve them when they inevitably arise.

The Challenge of Investing

While building a resilient business is hard, investing presents a different challenge. The average half-life of a publicly traded stock is ~10 years, meaning half of all companies listed in 2014 had disappeared from the market by 2024, often due to acquisitions or declining performance. Since 1980, over any given 10-year rolling period, around 85% of publicly traded stocks were either delisted or underperformed the S&P 500. Only about 15% managed to outperform.



Note: The black dotted line represents the S&P 500's performance. Orange and green columns represent relative under/outperformance relative to the S&P 500 over rolling 10-year periods. Data consists of publicly traded stocks since 1980.

Source: Factset, Saga Partners

Why do most stocks underperform?

The primary reason many stocks underperform while only a few outperform, lies in how the market tends to value businesses. The job of the market is to evaluate opportunities and allocate resources efficiently. When it accurately assesses a business's prospects, the stock price reflects its fair value, and is likely to generate average, market-like returns over its remaining life. This efficiency is beneficial for society because it directs capital to where it can be used most productively, to businesses solving problems people want most.

The challenge with assessing a business's prospects is that the future depends on the creation of new knowledge, which is inherently unpredictable. If we knew the future knowledge that was to be created, then we would already have it available today. Therefore, it is impossible to know exactly what a company will earn in the future. Given this unpredictability, investors often rely on rules of thumb to value a company, the most common one being valuing companies based on recent financial results.

The problem with heuristics is that they are non-explanatory or are based on shallow explanations. Traditional valuation metrics extrapolate from recent results, assuming the past is a reliable predictor of the future. The philosopher Bertrand Russell illustrated the flaw in this kind of inductive reasoning with the story of a chicken: fed each morning, it comes to expect it will always be fed until one day, it's slaughtered. The chicken's theory seemed to be supported right up until the day it didn't. Similarly, while rules of thumb can be useful in certain contexts, they often rely on weak explanations rather than a deep understanding of a company's long-term drivers of value.

Relying too heavily on past performance often overlooks the risk posed by future knowledge. New innovations

or shifts can render existing business models obsolete. This is one reason companies are frequently overvalued just before they are disrupted. If their initial valuations failed to anticipate the decline, they are likely to underperform the market. Even when investors recognize a company's troubles—say, a struggling newspaper—and price the stock at a low multiple of recent earnings, it can still be overvalued if future prospects are worse than anticipated.

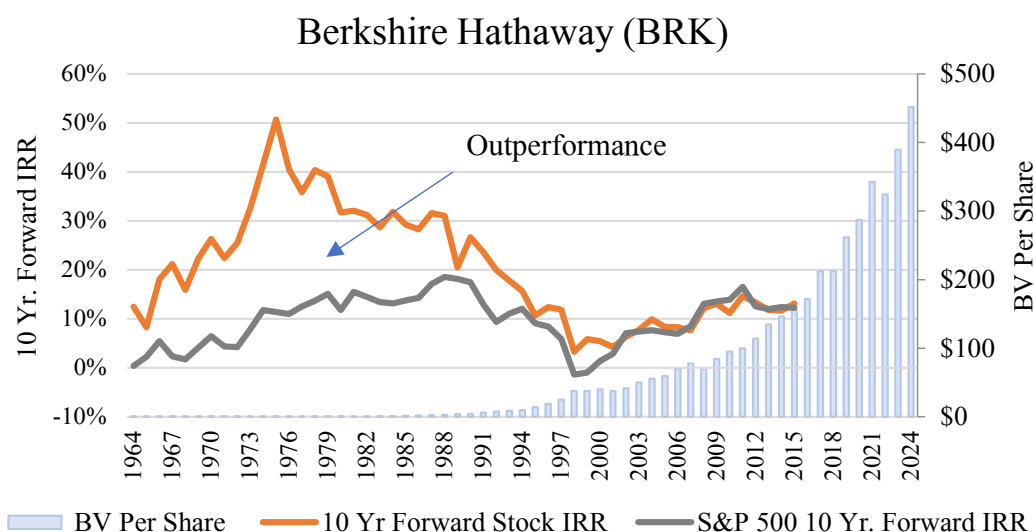
On the other hand, resilient companies that continue to innovate and solve increasingly more problems often defy traditional valuation metrics. A stock trading at a high earnings multiple might seem expensive by conventional standards, but if the business has a long runway to scale a solution that is hard for others to replicate, it may in fact be undervalued.

Case Studies in Market Mispricing (Berkshire Hathaway, Walmart, Amazon)

The charts below show how each company's stock performed relative to the S&P 500 over any 10-year forward period in its history, with the 10-year forward internal rate of return (IRR) shown on the left axis. This reflects whether the stock outperformed or underperformed the S&P 500 when held for the subsequent decade. On the right axis, a key financial metric is included to provide a comparison of the company's fundamental performance over time.

What stands out is that many of the best-performing stocks historically outperformed during periods when traditional valuation metrics failed to capture their full long-term potential and then stopped outperforming once current results more accurately reflected future performance, often as reinvestment opportunities diminished and growth slowed.

Berkshire Hathaway's historical performance illustrates this concept well. Book value per share compounded at ~20% over six decades. However, most of the stock's outperformance occurred from the 1960s to the 1980s, with returns aligning more closely to the S&P 500 after the year 2000, when its growth slowed.



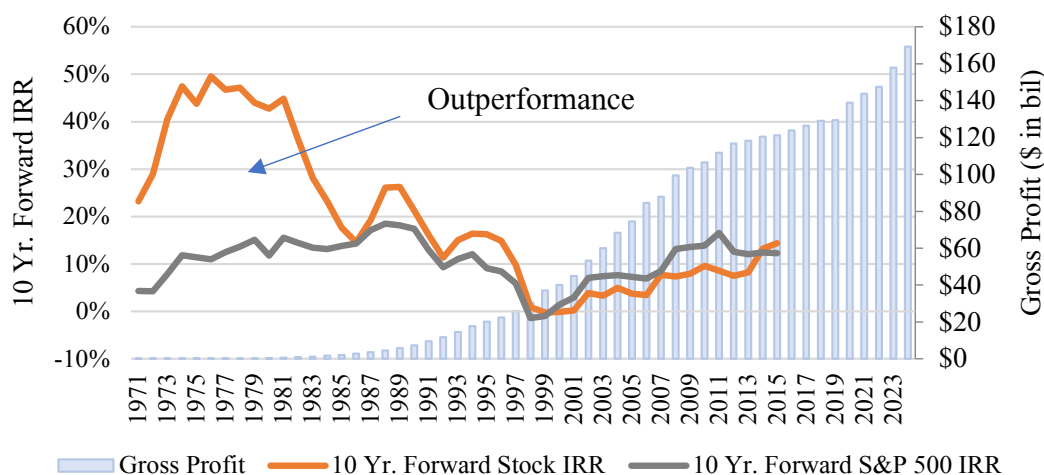
Note: When the orange line is above the grey line, the company's stock outperformed the market over the subsequent 10-year period. When the grey line is above the orange line, the company's stock underperformed the market over the subsequent 10-year period.

Source: Factset, Saga Partners

Walmart became one of the most successful retailers in history by developing a superior discount retailing model

built on operational efficiency and supply chain innovation. Yet in its earlier years, the market remained skeptical of its low-margin, high-volume approach. Throughout the 1970s and 1980s, Walmart's stock was consistently undervalued as traditional metrics failed to capture the scale and durability of its advantage. It wasn't until the late 1990s, when reinvestment opportunities waned and growth slowed that valuation metrics began to align more closely with its intrinsic value. From then on, the stock largely tracked the broader market.

Walmart (WMT)

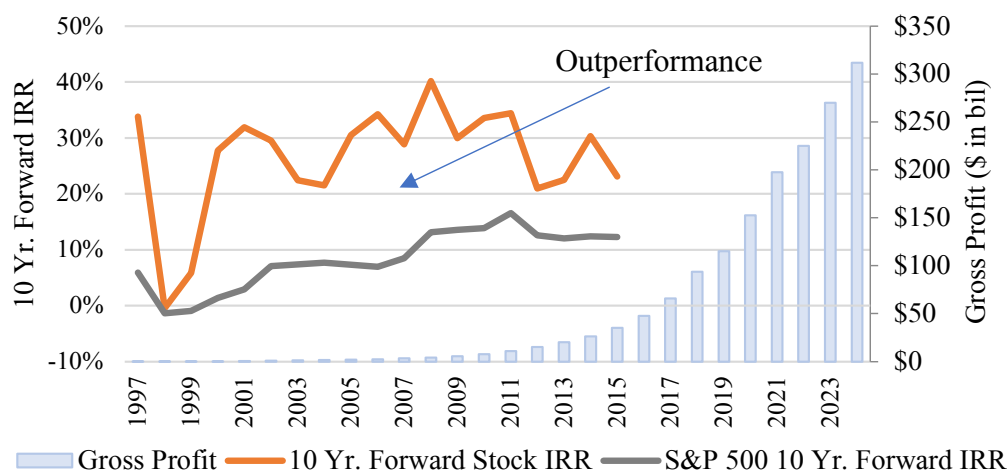


Note: When the orange line is above the grey line, the company's stock outperformed the market over the subsequent 10-year period. When the grey line is above the orange line, the company's stock underperformed the market over the subsequent 10-year period.

Source: Factset, Saga Partners

Amazon, the more recent retail (and now data center) giant, presents another compelling example. It discovered an improved retail concept with e-commerce and then scaled that service across the country. Traditional valuation metrics based on recent financial performance consistently underestimated its potential. As a result, Amazon had one of the highest returning stocks over the last 30 years.

Amazon (AMZN)

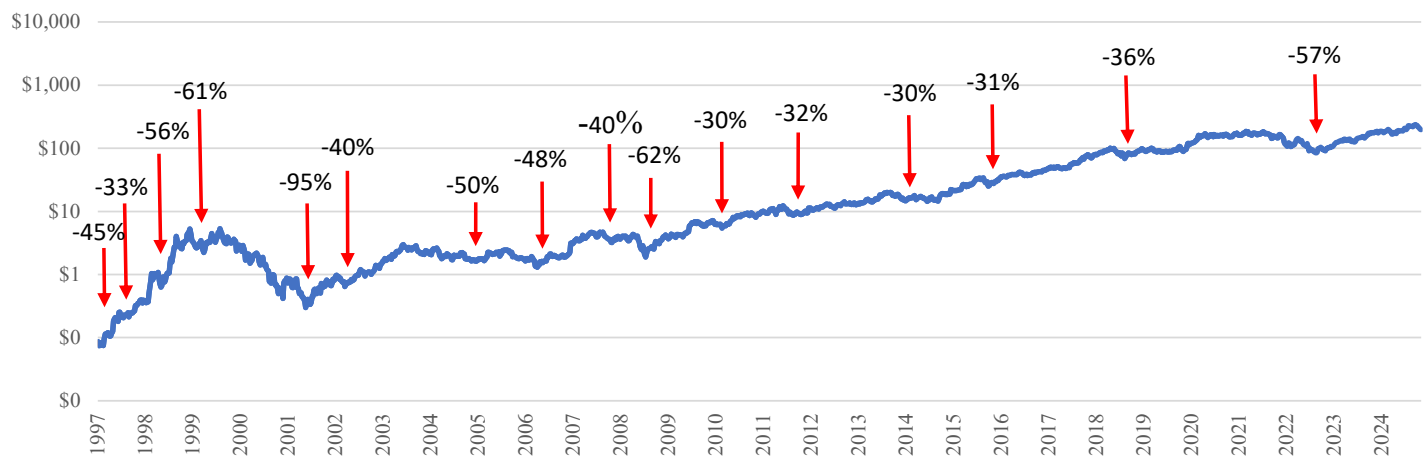


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Source: Factset, Saga Partners

It is also worth noting that despite their exceptional long-term returns, these stocks often endured significant volatility and steep drawdowns. Amazon, for instance, experienced regular declines of more than 50%, including a staggering 95% drop during its early years.

Amazon Stock Drawdowns



Source: Factset, Saga Partners

Exceptional long-term returns are rarely smooth; they are often littered with periods of intense market skepticism and steep declines. However, in many cases, these companies were still undervalued even before any major price drawdowns. Investors who were able to hold onto their shares throughout the volatility were rewarded with attractive long-term returns. Trying to trade in and out of a stock of a company that one thinks is significantly undervalued based on guessing short-term stock price movements is more likely to hurt rather than help results. Sam Walton expressed a similar sentiment in his autobiography *Made in America*, “I believe the folks who have done the best with Wal-Mart stock are those who have studied the company, who have understood our strengths and our management approach, and who, like me, have just decided to invest with us for the long run.”

Conclusion

Many investors seek a universal magic formula or pattern to identify undervalued stocks. However, there is no single heuristic whether based on valuation multiples, margins, capital intensity, or growth rates that reliably predict long-term outperformance. The top-performing stocks of one decade had no greater probability of outperforming in the next.

That’s because rational investing isn’t about blindly applying heuristics or extrapolating past data. It’s not about deterministic cause-and-effect relationships. It’s about developing a good explanatory framework. One that begins with understanding the problems people are trying to solve, the range of solutions available, and how a company fits into that landscape. It involves studying how a business creates value, its resilience, competitive advantages, scalability, and why the market might be misjudging it. While predictions may be a byproduct of deep understanding, without a good explanatory framework, expectations about the future are meaningless.

More often than not, this process results in no actionable investment ideas because a compelling explanation fails to emerge. The investing process is about generating potential ideas and then trying to disprove them. The few ideas that can survive that scrutiny are the ones worth investing in. Yet, even when a strong case for undervaluation exists, success is never guaranteed. Better explanations guide better decision-making, but certainty about the future is never attainable because it will always be inherently unpredictable.

This approach leads to a simple strategy: invest in the most compelling opportunities as if we had to own them for their remaining life. It shifts the focus from guessing short-term stock price movements to understanding the core drivers of long-term value creation. As a result, the Saga Portfolio often owns companies that might appear unconventional or even controversial at first glance, and may experience greater volatility (2022, anyone?). But over time, I expect these businesses, as a group, to compound value faster than the broader market.

As always, it is a privilege to manage your capital. The success of the Saga Portfolio depends on an investor base that is aligned and committed to the long-term, a mindset that is essential for navigating the market's inevitable ups and downs.

Please don't hesitate to reach out if you have any questions or comments.

Sincerely,

Joe Frankenfield

Appendix

Carvana

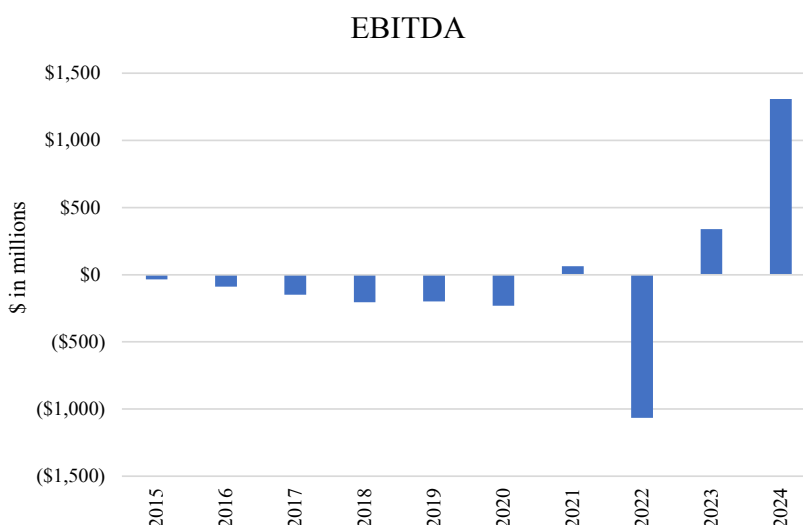
Carvana continues to demonstrate a rare combination of attractive qualities: a superior customer value proposition versus traditional dealerships, a complex and difficult to replicate infrastructure, industry-leading unit economics, and minimal risk of technological obsolescence. While the stock has recovered from its 2022 lows, the company still trades at a substantial discount to what I think is its long-term intrinsic value.

A key part of the original thesis was that Carvana has a structurally lower cost model, at scale. In the early years, the company was building out logistics and reconditioning infrastructure ahead of demand, which led to operating losses and skepticism about ultimate profitability. But detailed market-level cohort analysis offered visibility into its strong underlying margin potential.

By 2021, Carvana reached positive EBITDA, even as growth was prioritized over efficiency. Then 2022 provided a live stress-test of its model. A combination of logistical challenges from Omicron, affordability challenges driven by new vehicle shortages and rate hikes depressed demand, and the debt-funded acquisition of ADESA created a perfect storm raising serious concerns surrounding liquidity.

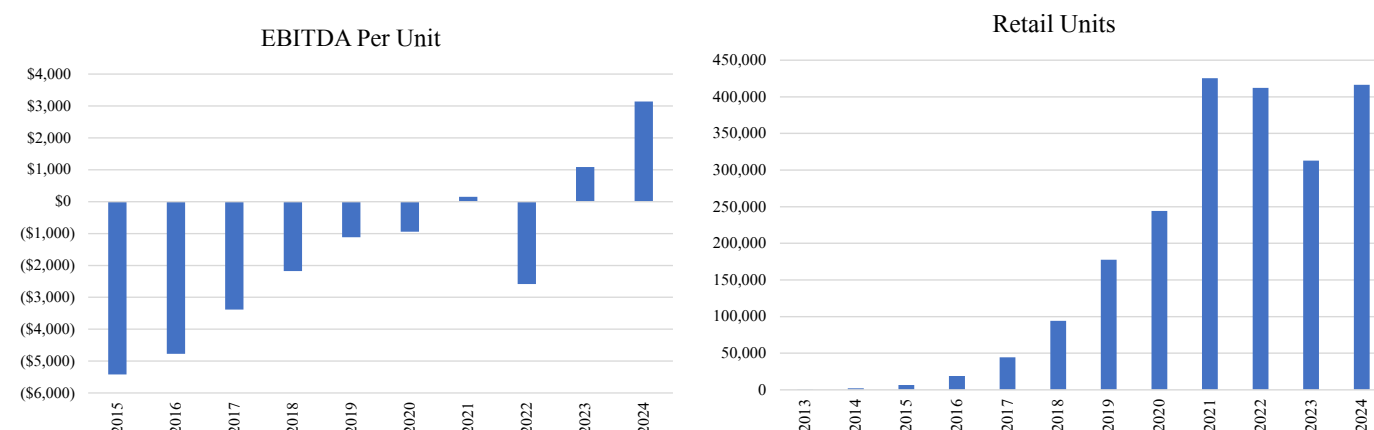
In response, management shifted focus from growth to efficiency, cutting \$1 billion in annualized SG&A costs. Gross profit per unit rebounded in 2023 and reached new highs in 2024 while maintaining high Net Promoter Scores, a testament to strong customer satisfaction.

In 2024, Carvana sold roughly the same number of retail units as in 2022, but with ~\$900 million less in operating costs. Gross profit per unit reached \$6,900, up from \$3,000 in 2022 and \$4,500 in 2021, resulting in \$1.4 billion in EBITDA.



Source: Company filings, Saga Partners

EBITDA per unit reached an industry-leading \$3,300. Retail unit volume grew by 33% year-over-year (50% in Q4 alone), all while utilizing just one-third of existing reconditioning capacity, suggesting even further fixed cost leverage.



Source: Company filings, Saga Partners

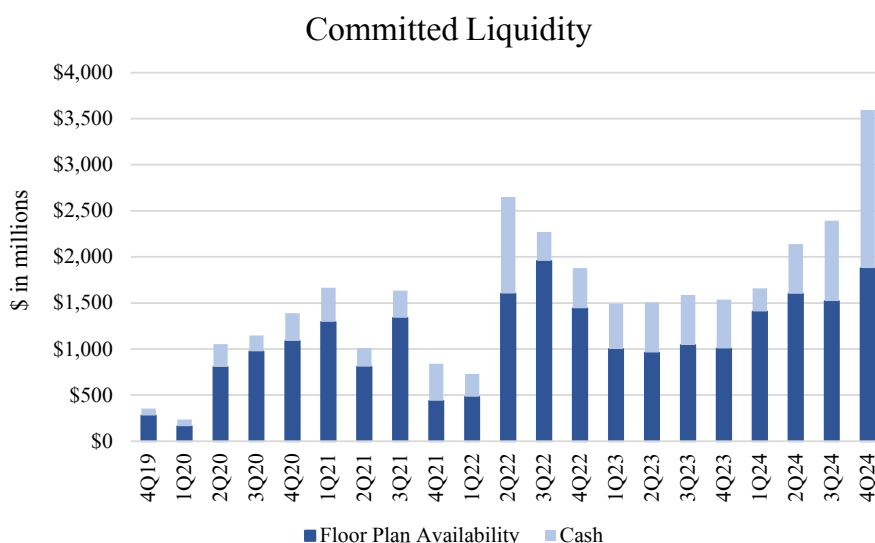
From 2012 to 2021, Carvana showed it could scale rapidly. In 2023, it showed it could be profitable without growth. Then in 2024, it demonstrated it can do both, achieving industry-leading margins while growing fast.

Still, some investors may question: is Carvana's business inherently fragile? Could another macro shock send the company back into distress?

No business is immune to macro shocks, but 2022 was an unusually extreme environment. Historically, the used car market is relatively stable even during recessions. Today, Carvana is far better positioned to handle downturns. Prior to 2022, the company was essentially building the plane while flying it. Since then, its infrastructure and systems have matured, resulting in operational efficiencies that are now showing up in the numbers. Its margins per unit are double that of any other used car dealer, meaning Carvana can sell a similar car as CarMax and earn twice as much profit while providing a superior customer experience. This cost advantage not only drives better economics in good times but also insulates the business relative to peers during more challenging environments.

The balance sheet has also strengthened meaningfully. At the end of 2024, Carvana held \$3.6 billion in committed liquidity, which includes \$1.7 billion in cash and an essentially untapped \$1.9 billion floor plan facility. This compares to \$5.5 billion in total debt, resulting in net debt of \$3.8 billion, or 2.7x its 2024 EBITDA. Carvana's two largest debt maturities are not until 2030 and 2031.

Crucially, management is committed to deleveraging. Although liquidity never fell below \$1.4 billion, even at the depths of the 2022-2023 downturn, the challenging experience reinforced the importance of maintaining ample financial flexibility and never potentially needing to rely on external capital in times of stress.



Source: Company filings, Saga Partners

With shares recovering, is Carvana still undervalued?

In Q4'24, Carvana's contribution margin per retail unit sold (gross profit excluding ADESA, minus variable operations and advertising expenses) was \$4,765. This figure should remain relatively stable. Management intends to share most future gains with customers through lower prices, trade-in offers, lower shipping fees, etc. that will further strengthen its customer value proposition.

Carvana is currently only utilizing 35% of its 1.3 million unit annual reconditioning capacity. As volumes increase, fixed costs should remain relatively flat. For example, in Q4'24, retail units grew 50% year-over-year while SG&A remained flat (excluding one-time costs). At full utilization, a \$4,765 contribution margin would provide over \$6 billion in profit before fixed costs. Subtracting ~\$1 billion in SG&A overhead, D&A, and stock-based compensation, and ~\$600 million in interest expense, provides \$4.6 billion in pre-tax income. Adding ~\$200 million in ADESA profits provides ~\$4.8 billion. Assuming a 25% tax rate would provide \$3.6 billion in net profits, or a price-to-earnings of 10x its current market cap. Note with refinancing or debt reduction, interest expense could decline by another \$200-300 million annually.

How fast can Carvana grow?

Growth is limited by inventory sourcing and reconditioning capacity but unlike the past, the infrastructure is already in place. Inventory levels began ramping in Q2'24, with website units growing by 7,000-8,000 per quarter. If that pace continues and inventory turnover remains steady, Carvana would sell over 600,000 units in 2025 and 900,000 in 2026, and then fully utilize existing reconditioning capacity by 2027.

Expansion beyond that is also straightforward. Existing ADESA sites can be converted to support 3 million units annually with a relatively modest ~\$1.5 billion investment. At current contribution margins, that scale could generate \$14 billion in profit before fixed costs. The numbers become even more striking when considering if/when, and to what extent, Carvana scales past 3 million units.

Regardless of the exact timeline, the path is clear: Carvana has the business model and existing infrastructure to scale far beyond current volumes. As the company grows, both its economics and customer value proposition only get better. The “perfect storm” of 2022 didn’t break Carvana, it reshaped it into a more disciplined, more resilient organization, solidifying its position as the clear leader in online used car retail.

One can debate how much of the used car market will eventually shift online and what Carvana’s share will be. But with a credible path to 1 million units, and 3 million not too far behind, even at recent high valuations, the opportunity looks highly attractive.

Roku

Roku continues to execute well in driving platform adoption, yet skepticism around its ability to monetize its platform and achieve sustained profitability remains. The investment thesis that Roku will be one of the few end-state TV operating systems (OS), a position with substantial long-term economic value and profitability seems simplistic but is worth unpacking given the market’s prevailing doubts about Roku’s long-term prospects.

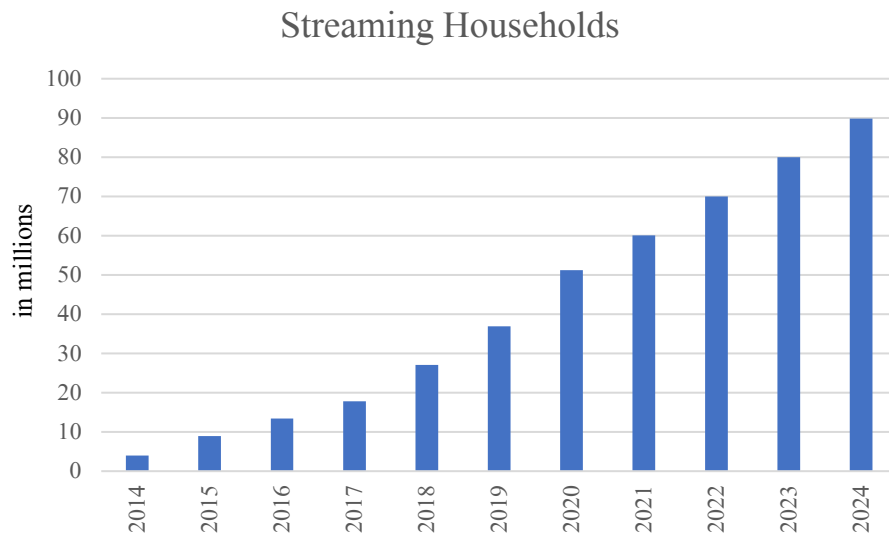
The skepticism generally centers on two key questions: 1) Can Roku effectively compete with Big Tech, and 2) Even if Roku succeeds, is owning a TV OS ultimately a good business?

1) Can Roku Compete with Big Tech?

In many respects, Roku already has. Since spinning out of Netflix in 2007, Roku has remained singularly focused on building the best TV OS and doing so with a level of execution that Big Tech players have largely failed to match.

Historically, large and powerful incumbents often struggled in new markets outside their core business. This is not for lack of resources, but because they approached them from the perspective of benefiting their core business. While Google, Amazon, and Apple are formidable in their core markets, they built their TV OS platforms as extensions of mobile or computing ecosystems which require more powerful, and therefore more expensive, hardware. Their strategies approached the TV OS market as a way to serve broader strategic goals tied to their core business rather than best optimizing for the TV use case.

Roku, by contrast, was purpose-built for television. Its lightweight operating system requires less processing power, enabling OEM partners to manufacture lower-cost, more affordable smart TVs without compromising performance. Coupled with an intuitive and seamless user interface, has led to widespread adoption. In Q4'24, Roku-powered TVs outsold the next two leading TV OS platforms in the U.S combined, and Roku surpassed 90 million streaming households—now reaching more than half of all U.S. broadband homes.



Source: Company filings, Saga Partners

The question isn't whether Roku can compete with Big Tech, it has done so successfully for nearly two decades. I think the question more subject to debate is whether Roku's large user base and market position will ultimately translate into a durable and profitable business.

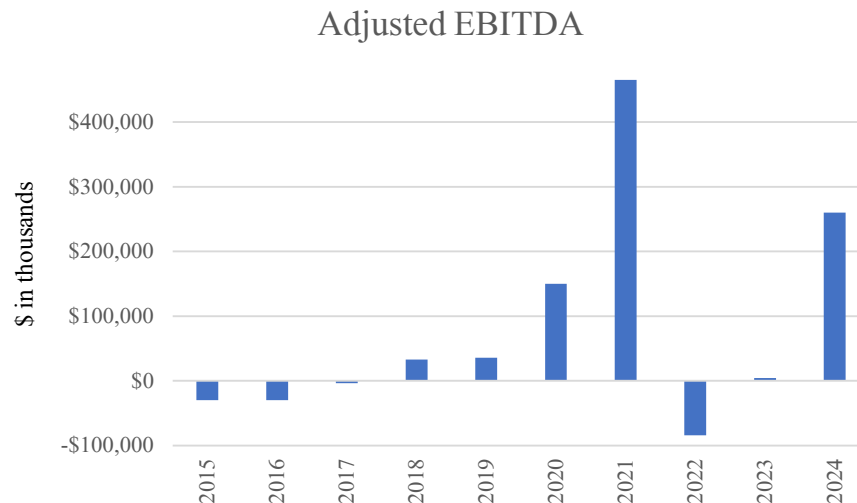
2) Is Owning a TV Operating System a Good Business?

Building an operating system is inherently difficult, not necessarily due to writing the software, but because success requires broad ecosystem adoption by multiple different parties. In the case of TV, it requires integration with hardware makers, content providers, retailers, consumers, and advertisers, all of whom are reluctant to commit to a platform unless the others are already on board, creating a classic chicken-and-egg problem.

Despite these challenges, Roku has emerged as the clear leader in the U.S. TV OS market, with its platform continuing to expand internationally. Operating systems tend to consolidate around a few end-state winners due to network effects and scale advantages. Smaller, subscale players continue to exit or consolidate. For example, Vizio, which was the fifth largest TV OS in the U.S., was acquired by Walmart last year. Comcast's X1 platform, despite having significant resources and built-in distribution, has struggled to gain meaningful traction. Meanwhile, TV OEMs like Sony, TCL, Philips, and Sharp, have increasingly moved toward licensing third-party OS platforms rather than developing and maintaining proprietary ones. Among OEMs, Samsung is perhaps the only player with the scale to viably maintain its own platform through its Tizen OS.

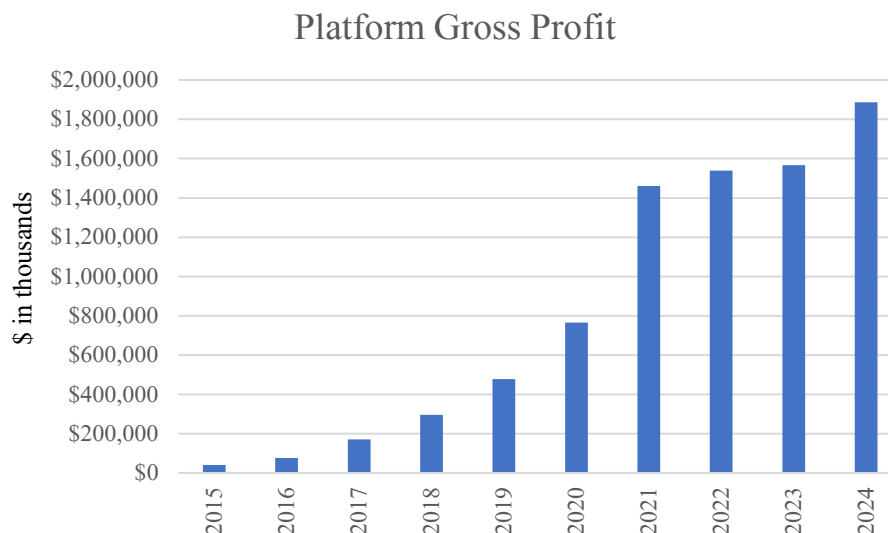
However, Roku's dominance in the TV OS space has not yet translated into consistent, sustained profitability. That is to be expected. Building and scaling an OS is costly, with monetization generally following scale. Roku has deliberately prioritized expanding its footprint and developing its platform over near-term earnings.

Roku's EBITDA fluctuations illustrate how the company can adjust its investment strategy based on market conditions. In 2021, revenue surged unexpectedly, prompting increased investment in the platform. However, as the advertising market weakened in 2022, Roku faced EBITDA losses. In response, management reduced costs in 2023, leading to a return to positive trailing-twelve month EBITDA. In 2024, Roku generated \$260 million in EBITDA and is guiding toward generating operating profits in 2025.



Source: Company filings, Saga Partners

While profitability has fluctuated, Roku has made steady progress in monetizing its platform. In 2024, the Platform segment grew gross profit by 20%, reaching \$1.9 billion.



Source: Company filings, Saga Partners

Connected TV (CTV) advertising is still in its early stages. While viewership has shifted from linear to streaming, ad budgets have been slower to follow, held back by legacy advertiser buying practices. But as streaming continues to gain share and CTV advertising infrastructure improves around targeting and measurement, ad dollars will inevitably follow the eyeballs.

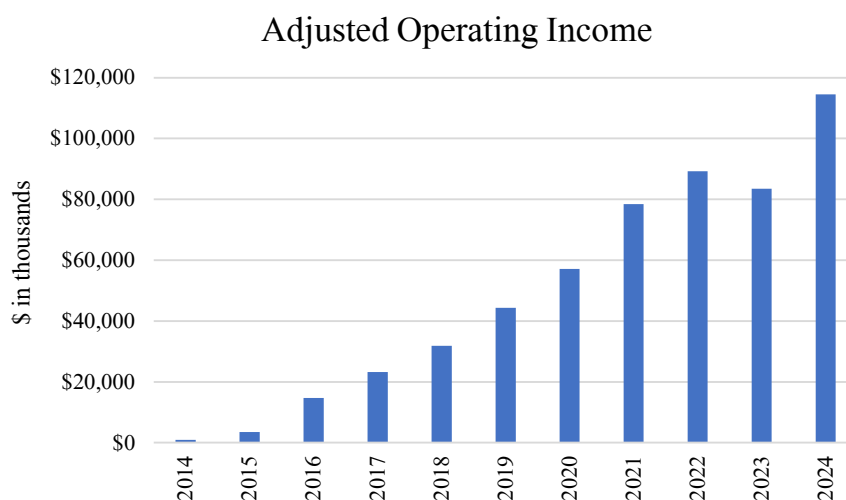
Roku represents a classic platform business, one that has secured dominant share in the world's largest TV market while still expanding globally. As a result, it is still in the earlier, more capital-intensive phase of its lifecycle, which naturally weighs on current profitability. But as the industry consolidates around a few entrenched winners, those remaining platforms are well-positioned to generate meaningful, durable profits.

Trupanion

While many companies felt an immediate impact from COVID, Trupanion experienced a more delayed impact to its operations. From 2014 through 2021, the company consistently grew adjusted operating income at a high double-digit rate, reflecting strong execution as it scaled its product to new customers.

During the pandemic, pet owners delayed veterinary visits, lowering claims costs during that time. This led Trupanion to underestimate the rebound in vet visits coming out of COVID and therefore increased claims activity. Compounding the challenge, veterinary cost inflation accelerated faster than expected in the second half of 2022. The combination of rising claims and vet inflation compressed margins for the first time since Trupanion has been a public company. The trend continued into 2023, with higher-than-expected vet inflation leading to the first year-over-year decline in adjusted operating income in the Company's history.

To address these challenges, Trupanion implemented price increases to restore margins. Since policy pricing for each pet is adjusted annually, the full impact of those adjustments takes 12-18 months to work through the customer base. As these changes took effect, margins began to recover in 2023 and then reached record levels by the end of 2024, with adjusted operating income increasing 40% year-over-year to \$114 million.



Note: Adjusted Operating income is a proxy for discretionary profit (pre-tax) Trupanion earns from existing pets before pet acquisition spend. It serves as a decent proxy for Trupanion's value creation.

Source: Company filings, Saga Partners

The auto insurance industry had a similar experience. During COVID, reduced driving led to fewer accidents and historically low claims ratios, prompting insurers to issue customer refunds. As driving habits normalized and inflation pressures drove up the cost of vehicles and repairs, claims ratios surged. In response, auto insurers implemented some of the largest premium increases in history to restore margins.

In insurance, inflation of the underlying risk often increases both the perceived value and cost of coverage, ultimately benefiting insurance providers. Reflecting this dynamic, Progressive and Allstate have seen their share prices reach all-time highs as rate increases fueled strong revenue growth and margin recovery.

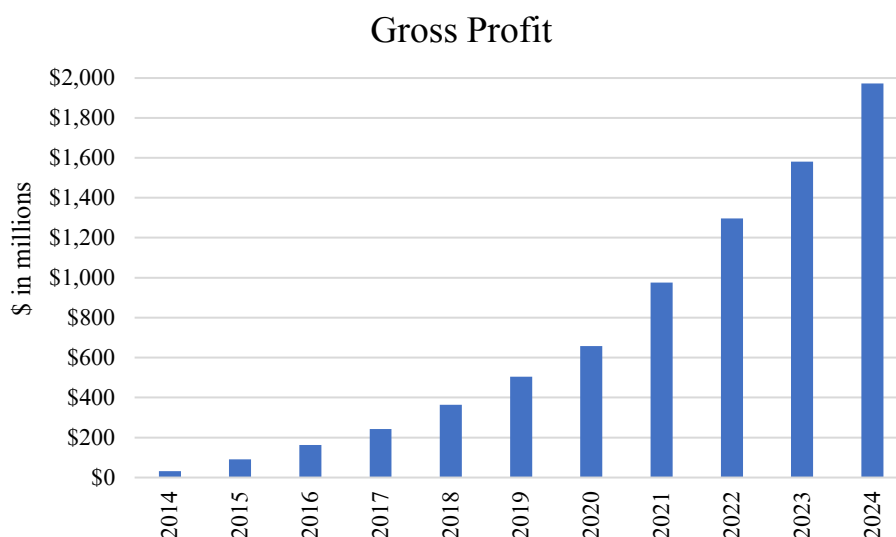
Interestingly, Trupanion's stock has not received the same credit. Despite a similar recovery in margins and revenue growth through price increases, its shares continue to trade at historically low valuation multiples. The market's caution likely stems from concerns about future growth, particularly after new pet count growth slowed to 5% in 2024. Yet, even if Trupanion's business did not grow at all, the current valuation still looks attractive.

At recent prices, shares are trading at 11x 2025 adjusted operating income guidance of \$130 million. That means, if Trupanion chose not to reinvest capital in new customer acquisition and instead simply maintained its existing business, much of the adjusted operating income would drop to the bottom line. After paying interest expense and assuming a 25% tax rate, it would provide ~\$90 million in net income, or 16x its market cap.

Of course, management doesn't plan to stand still. Margin pressure in 2023 limited available funds for investing in new pet acquisition, which naturally weighed on growth in 2024. With margins and adjusted operating income now recovering, management plans to ramp up investment in pet acquisition. Given Trupanion's strong value proposition (i.e. highest payout ratio in the industry), largely untapped market (with only 4% pet insurance penetration in the U.S. and Canada), and plans to increase pet acquisition spend, I expect pet count growth to reaccelerate over the next year. That setup makes Trupanion's current valuation all the more compelling.

The Trade Desk

Since we first became owners of The Trade Desk in 2017, the company has delivered consistently strong execution. Despite the disruption caused by the COVID pandemic and broad macroeconomic volatility, The Trade Desk has scaled a global advertising platform while maintaining disciplined operational performance. Gross profit has compounded at a 35% annual rate over this period, reaching \$2 billion in 2024.



Note: Gross Profit is calculated as revenues less platform operations costs. This metric is used to show how the fundamental business has grown over time, not as a proxy for intrinsic value.

Source: Company filings, Saga Partners

While the company's long-term trajectory has been impressive, unexpectedly slower revenue growth of 22% in Q4'24, along with lower revenue guidance growth of 17% for Q1'25, led to questions of whether The Trade Desk's opportunity and competitive position were weakening.

The core of the investment thesis is that programmatic advertising transforms marketing by using data and software to precisely target audiences, measure performance with accuracy, and optimize ad spend in real time. It introduces data-driven objectivity to an industry that once depended largely on intuition and personal relationships.

The company's long-term value creation hinges on its ability to capture a growing share of global ad dollars. Two trends support this:

1. Shift to programmatic advertising over the open internet as advertisers move away from walled gardens.
2. The Trade Desk's platform will benefit as the leading independent demand-side platform (DSP) in an increasingly consolidated market.

A key distinction in the digital advertising landscape is between walled gardens and the open internet.

- Walled gardens (e.g., Alphabet, Meta, and Amazon) own both the ad inventory and the platform required to purchase it. For example, buying ad inventory on YouTube requires advertisers to use Alphabet's DV360 demand side platform (DSP). These closed ecosystems limit transparency, restrict access to third-party measurement, and constrain advertiser control over their own data.
- The open internet, by contrast, provides access to a wide range of ad inventory across the web, mobile, connected TV, and digital audio. Advertisers can access this inventory through independent DSPs like The Trade Desk, which enable them to buy across platforms while using their own data and measurement tools.

In the early days of digital advertising, walled gardens thrived due to their scale, superior identity graphs, and strong performance for specific use cases. However, their closed nature presents meaningful limitations. Walled gardens conduct auctions on their own terms, value their own inventory, and measure their own results—effectively “grading their own homework.” This lack of transparency creates a conflict of interest and makes it difficult for advertisers to independently verify campaign performance.

In contrast, the open internet spans multiple channels and devices, offering advertisers greater transparency, objective measurement, clearer pricing, and more reliable performance insights. The rise of Unified ID 2.0, an open-source identity framework led by The Trade Desk, has further enhanced advertisers' ability to target audiences, while preserving user privacy and enabling cross-platform interoperability. These advantages position the open internet to capture a growing share of digital advertising budgets.

Within programmatic advertising, DSPs serve as the control center through which advertisers manage and purchase digital media. The Trade Desk has emerged as the leading independent DSP, functioning as the backbone of the open internet. Its platform benefits from powerful network effects: advertisers want access to the broadest, most effective inventory, while publishers want exposure to the greatest demand. As more advertisers and publishers join, performance improves, reinforcing the platform's flywheel and creating a durable advantage over competitors.

As digital ad dollars continue to shift toward the open internet, The Trade Desk is uniquely positioned to benefit. Smaller walled gardens like Netflix, Spotify, and Roku have already opened their inventory to the platform, recognizing the economic upside of tapping into a broader pool of advertiser demand. Over time, even the largest walled gardens may find it in their interest to follow suit.

Yet, even if the largest walled gardens never made their ad inventory available on the open internet, the opportunity remains huge. In 2024, global advertising surpassed \$1 trillion, with ~\$740 billion allocated to digital ads. Of that, ~70% went to walled gardens like Alphabet, Meta Platforms, and Amazon, leaving ~\$200 billion in digital ad spend across the open internet. In 2024, \$12 billion in ad spend flowed through The Trade Desk's platform, providing a long runway for growth within the open internet. While growth may experience fluctuations, such as slower growth in the fourth quarter that could extend into 2025, there is a strong case for ad dollars within the open internet to continue gravitating toward the Trade Desk's platform.

Wise

In 2023, a friend and fellow investor introduced me to Wise PLC, a cross-border money transfer company he thought could be a great fit for the Saga Portfolio, and he was right. Wise's mission to make cross-border money transfers cheaper, faster, and more transparent immediately piqued my interest. The more I learned about the company, the more impressed I became. A deeper dive into the global remittance industry and the inner workings of the correspondent banking system only underscored the strength of Wise's value proposition, the durability of its competitive advantage, and the scale of its long-term opportunity. It became less a question of *if* we would invest, and more a matter of *when*. Fortunately, the Portfolio had an opportunity to initiate a position last quarter.

International money transfers have primarily been facilitated by banks. However, while local banks are primarily focused on deposit-taking and lending, cross-border payments require a global reach that most do not possess. To fill this gap, the correspondent banking system developed—a complex web of relationships in which large correspondent banks process international transfers on behalf of smaller local banks. This system connects over 11,000 financial institutions across more than 200 countries via the SWIFT messaging network.

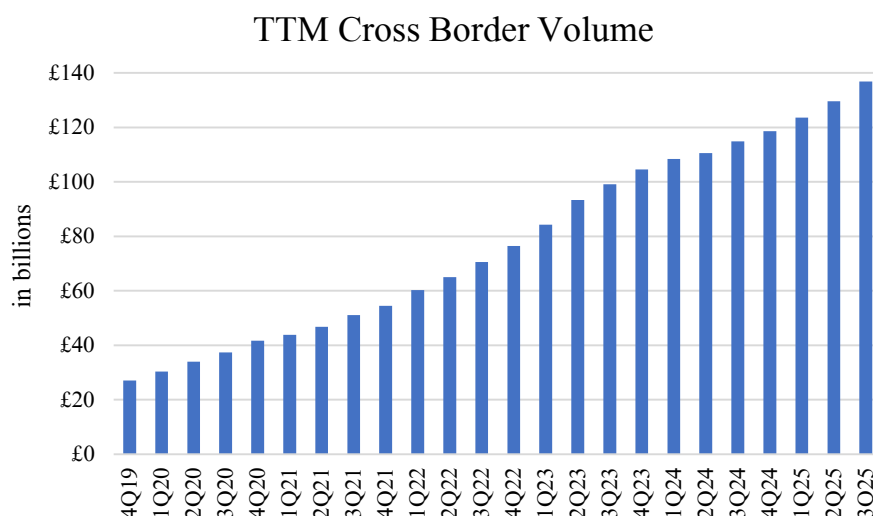
Despite its scale, the correspondent banking model is slow, opaque, and expensive. Each transaction often passes through multiple intermediaries, leading to delays, hidden foreign exchange markups, and cumulative fees that can reach 3–7%. Transfers can take anywhere from two to five days to complete. Building and maintaining a global infrastructure of this magnitude has been beyond the operational and strategic capacity of any single bank.

Wise discovered a way around this inefficient system. Rather than relying on correspondent banks, it built its own global network of local bank accounts in each country, enabling it to receive and disburse funds domestically using local liquidity pools within each country. This eliminates the need for individual cross-border transactions. Money still crosses borders, but it does so on an aggregated, rather than a transaction-by-transaction, basis, enabling cheaper, faster, and more transparent transfers.

However, even integrating with local banking partners comes with complications because Wise can't control how quickly a partner bank responds to a transfer request and it can still be expensive. Therefore, Wise has taken further steps to bypass local bank partners and integrate directly with a country's central payment system, the same "rails" used by banks themselves. By doing so, Wise gains complete control over the transfer process, delivering funds at the same speed and cost as a domestic bank.

In the UK, for example, Wise became the first non-bank to access the Faster Payments Service (FPS), eliminating ~90% of partner fees and reducing transfer times to under 20 seconds. In Hungary, connecting to the central bank cut costs by 14% and increased instant transfers from 17% to 82%. Since then, Wise has built similar integrations in Australia, Singapore, the Eurozone, and Brazil.

After 14 years of stitching together local banking relationships and direct connections to payment systems in over 160 countries, Wise processed £137 billion in calendar year 2024. This makes it the largest non-bank provider of cross-border transfer payments, and the third-largest overall, trailing only JP Morgan and Citi, the two linchpins of the traditional correspondent banking network.



Note: Wise's fiscal year ends 3/31, therefore 3Q25 is 12/31/24.

Source: Company filings, Saga Partners

These infrastructure investments are strategic. Establishing direct links to a country's central rails can take years of navigating regulatory hurdles. Wise must prove it has the operational resilience, redundancy, and financial stability to meet the same standards as incumbent banks. It's an upfront cost, but one that allows Wise to assume control of the full stack, replacing bank partners with its own infrastructure.

All of this supports Wise's mission: to make international money transfers as cheap and seamless as possible. It operates on a cost-plus model. Wise meticulously tracks its unit costs, adding a modest markup to fund operations and R&D, and targeting a 13-16% underlying income margin. As it scales payment volumes and achieves greater efficiency, Wise passes those savings back to customers in the form of lower prices. Its long-term advantage lies in being the low-cost provider, driven by its relentless investment in infrastructure and operational excellence. This creates a moving target that becomes increasingly difficult for competitors to match. Wise's service becomes better and cheaper over time. As its network expands, its value to users increases, making it harder for competitors to replicate.

Legacy non-bank players like Western Union and MoneyGram remain reliant on costly, brick-and-mortar networks, making them less competitive on price and scalability. A new wave of digital competitors such as Remitly, Revolut, and Currencycloud (now owned by Visa) have entered the market, each with a different approach to cross-border transfers. However, a closer look at their unit economics and strategies highlights Wise's operational discipline and relentless focus on cost efficiency as a meaningful competitive advantage.

By cutting out intermediaries and continuing to build its proprietary global infrastructure, Wise is able to consistently lower costs, improve service quality, and scale efficiently, enabling it to take share from the legacy correspondent banking system. In calendar year 2024, Wise processed £96 billion in consumer cross-border volume, roughly 5% of the £2 trillion total market. It's £34 billion in small and mid-sized business volume accounted for just 0.5% of the £14 trillion market. These figures highlight the substantial runway Wise has to grow volumes and deepen its market penetration.

What makes Wise particularly compelling is that, unlike many scale-driven companies that often defer profitability in pursuit of growth, it is already meaningfully profitable. Wise generates strong free cash flow while growing at high double-digit rates, a rare and powerful combination that makes its current valuation especially attractive.

Redfin Postmortem

Following its Q4'24 results, Redfin announced it will be acquired by Rocket Companies for \$1.75 billion (\$12.50 per share) in an all-stock transaction. Following the announcement I sold our Redfin shares. This outcome was disappointing and ultimately resulted in an overall loss during our holding period.

What went wrong?

1) Entrenched Industry Dynamics and Relative Customer Value Proposition

Redfin's mission has always been to make real estate transactions better and cheaper for customers. By leveraging its website traffic to generate leads and routing them to its agents, Redfin aimed to improve agent productivity and pass cost savings onto customers. This model stood apart from traditional brokerages and real estate portals. While Zillow and Realtor.com benefit from high commissions as lead generators, and traditional brokerages prioritize agents as their main customers, Redfin focused on reducing transaction costs for the benefit of homebuyers and sellers.

Despite offering a more cost-effective service, Redfin has struggled to achieve broader adoption. The underlying challenge stemmed from a deeply embedded system that insulated agent commissions from pricing pressure. Historically, multiple listing service (MLS) rules required sellers to pay the buyer's agent commission, making the service appear "free" to homebuyers. Additionally, because this cost is typically wrapped into a 30-year mortgage, homebuyers remained less price-sensitive even when Redfin could save them several thousand dollars.

This distorted incentive structure has made real estate notoriously difficult to disrupt. To use an analogy: it's as if Uber tried to disrupt the taxi industry in a world where every driver is required to hire an agent to market their services and, as part of that arrangement, must also pay the fees for the rider's agent, even if the rider doesn't use one.

Even though Redfin offered a similar (and in many ways better) service to traditional brokerages at a lower cost, many people simply didn't place a lot of value on the savings. The underlying thesis was that, as Redfin gained share and brand awareness, more homebuyers and sellers would recognize that they were receiving high-quality service without the premium price tag rather than simply a "discount" or lower-tier experience.

Redfin's value proposition, while real, was relatively incremental in terms of what customers truly valued. Compare this to a company like Carvana, where the difference in price, convenience, and selection compared to

traditional used car dealers is meaningfully better. Redfin's advantages were there, but they were subtler and less immediately apparent to most potential customers, which made them less compelling and slower to resonate.

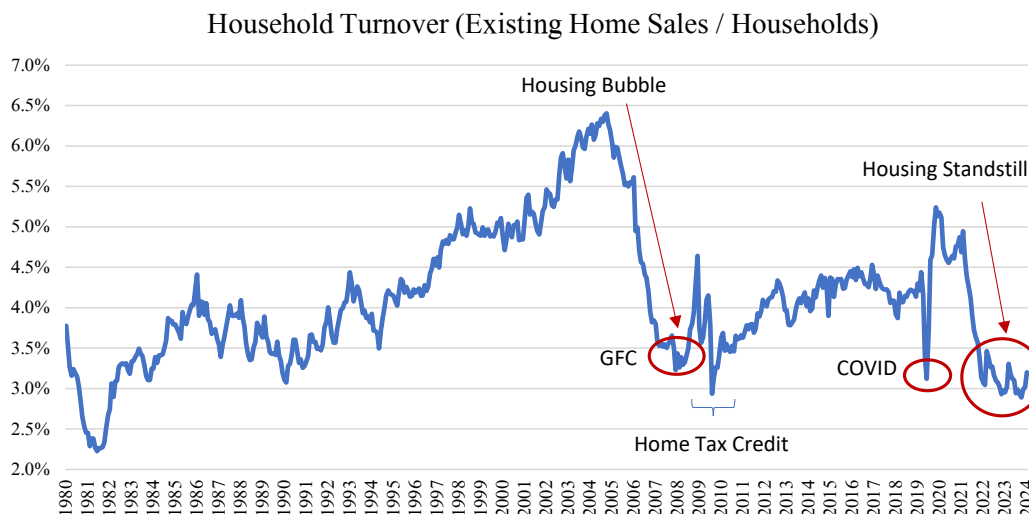
Despite these structural headwinds, Redfin grew steadily through 2021. It expanded into new markets, increased transactions and market share, and reached positive EBITDA in 2020, benefiting from strong housing demand and lower marketing spend following the pandemic. However, 2022 brought a shift...



Source: Company filings, Saga Partners

2) A Historic Housing Market Slump and High Fixed-Cost Business Model

Redfin's salaried-agent model performed relatively well during periods home sales remained fairly stable. However, the sharp rise in mortgage rates in 2022 triggered one of the worst housing downturns in decades. Homeowners, now locked into low-rate mortgages, had little incentive to move, causing household turnover to plummet to multi-decade lows.



Source: Company filings, Saga Partners

When transactions tanked, Redfin's more fixed-cost structure, which left it paying agents with little to do, became a major liability. In response, the company cut costs and implemented layoffs to curb losses, but profitability continued to be out of reach.



Source: Company filings, Saga Partners

Why did I continue to hold shares despite weak operating results?

The most challenging question was determining whether Redfin's struggles were a result of adverse industry conditions that would eventually improve or a broken business model. The housing market was enduring a historic downturn, but Redfin had executed well in the years leading up to 2022, and management had previously navigated tough periods such as the Global Financial Crisis.

The core model, leveraging online traffic to drive agent productivity, still made sense, assuming that people would eventually return to buying and selling homes. Management appeared to grasp the challenges at hand and took steps to address them. The launch of Redfin Next, a new agent compensation plan that replaced salaries with traditional commission splits while retaining Redfin's lead-generation support, seemed like a positive shift and improvement in its business model. It reduced fixed costs, making it easier and less risky to scale their agent base. Early indicators since the nationwide launch last fall have been promising, with stronger agent interest and hiring.

I thought the business would be able to navigate this downturn, but even in the case it ultimately failed, I still thought Redfin's underlying assets were undervalued. Its website attracts ~50 million monthly active visitors and that level of organic traffic alone, along with its additional business segments like Rent, Mortgage, and Title, seemed worth far more than the company's market cap since the stock's decline in 2022.

Consider these comps:

- Zillow acquired Trulia (with similar traffic and no other business segments) for \$2.7 billion in 2014.
- Costar was rumored to offer \$3 billion for Realtor.com (74 million MAUs) in 2023.
- Costar is acquiring Australia's second-largest real estate portal, with significantly less traffic than Redfin for \$1.9 billion, while also spending nearly \$1 billion in advertising annually to grow Homes.com traffic.

Compared to these valuations, Redfin's \$1.75 billion sale price seems low to say the least. I imagine Compass, with its emphasis on private listings would be very interested in owning the third largest real estate portal in the U.S. Alternatively, Redfin could have sold its rental business (which it acquired for \$600 million in 2021), to unlock liquidity and buy more time to scale Redfin Next.

I continue to think that CEO Glenn Kelman remains earnestly committed to his lifelong mission to improving the real estate transaction. However, as Redfin's liquidity options dwindled and the path forward became increasingly uncertain, he may have concluded that selling to Rocket Companies was the best way to keep the company intact. Unfortunately, this decision ultimately came at the expense of existing shareholders.

This experience will stick with me and is another reminder of how challenging it is to identify the true winners. I have closely followed Redfin and the broader real estate industry for years, and in hindsight, I overestimated the relative strength of Redfin's customer value proposition while underestimating the difficulty of disrupting deeply entrenched industry structures. Perhaps Glenn Kelman's compelling vision led me to overlook the ongoing executional challenges the company has been experiencing.

While the outcome was disappointing, and the mistake entirely mine, there was a small silver lining: the acquisition announcement gave Redfin's stock a lift just as the broader market was pulling back on tariff concerns. That created a timely opportunity to reallocate capital into portfolio holdings with stronger long-term potential. Of course, investing comes with its fair share of ups and downs, but it doesn't make losses any easier to stomach when they do occur.

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