KP7

January 31, 2025
Letter #16

Dear Investors:

KP7 was down 5.8% in the fourth quarter of 2024 after all fees and expenses. The S&P 500 was up 2.4%, including dividends. For the year, KP7 finished +8.9% and the S&P 500 was up 25.0%.

We were pleased but far from satisfied with our 2024 performance. Not owning NVIDIA (up 171% in 2024), Meta (up 66%), and Tesla (up 62%) hurt our relative performance. The so-called Magnificent Seven now represent over 30% of the S&P 500. Our long-term value-oriented approach to investing will sometimes lead to years like we had in 2024. It will help us, however, avoid the catastrophic effect of a major drop in the Magnificent Seven. NVIDIA, for instance, lost nearly $600 billion of market capitalization in a single day earlier this week. We believe NVIDIA and several other of the mega-cap companies are vulnerable at the moment as they trade at record valuations. Our disciplined investment style has us finding opportunities elsewhere. It keeps us grounded and will serve us well in the long-term.

We believe we added more value to the portfolio in 2024 than our net returns might suggest. One of our largest positions - a gold development company with multiple high-grade deposits in a safe jurisdiction - added materially to its underlying value in the fourth quarter of last year yet its stock price declined by over 50%. We doubled our position. The decline in price was the biggest driver of our fourth quarter negative performance yet we added substantial value to the portfolio at an incredibly low price.

The value we added with that gold development company will show up in performance in the months and years ahead as the market recognizes the company's potential. The company, in our view, has a very real shot of generating free cash flow equal to 100% of its current market capitalization within the next three or four years. We'll make the tradeoff between short-term returns and long-term value every chance we get.

While we aren't exposed to the Magnificent Seven, our portfolio complements and pairs nicely with investments that are. Our portfolio provides diversification and uncorrelated returns relative to the broader market indices while offering daily pricing and liquidity.

The year 2025 will be a transformational year for KP7. We are in the planning stages of a few changes with respect to our organization and also with the way we communicate with investors.

We plan to enhance the way we describe and communicate our research process. Our research process is foundational at KP7. Investments come and go over time, but the seven key principles of our research process will not change. Our research process is our core competitive advantage; it is the way we add value. It is systematic. It is quantitative. We want you, our investors, to know the process behind how we allocate your capital.

The KP7 organization is also set to expand. I will continue, as always, to make all investment decisions in your portfolios. I believe strongly in single-point accountability. I'm your single point. That is the way it has been. That is the way it will continue to be.

That said, the organization in 2025 will evolve from being essentially "just Kent" to being a team of people implementing our strategy. The team will be focused and elite.

I am expanding the team for two very specific reasons. First, some members of the expanded team will handle some of the noninvestment related activities of running the firm. This will allow me to stay focused on investment research. Investment research is what I love. The expanded team will allow me to do more of it.

The expanded team will also be involved in the investment research process itself. It will not only increase the number of eyes on each of our investments, but will allow me to base investment decisions on a range of different opinions, not just my own. I believe an expanded research team will make our research process both scalable and best-in-class.

Stay tuned. I think you'll like what you see.

We work every day to gain and keep your trust. All the best to you and your families,

Kent