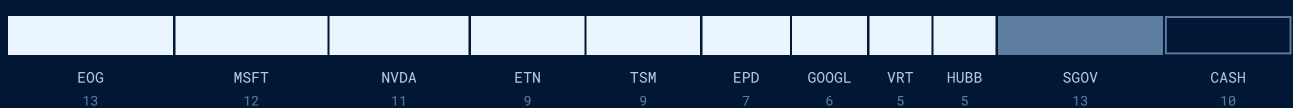
INVESTMENT THESIS · ROUND 1 · AUGUST 2026

How this book was built.

The full record of the August 2026 rebalance: the mandate, the macro view dated before any name was picked, the decision behind every position, and the condition - worst case and best case - on which each one leaves the book.

$50,000 MODEL NAV   10 POSITIONS   90% INVESTED   REBALANCED 2026-08-03

THE BOOK AT ENTRY



01 · MANDATE

Fifty thousand, long only.

The rules were fixed before the first name was looked at. Everything in this document happens inside them.

CAPITAL	$50,000 - fictional, USD. A model portfolio, not money.
DIRECTION	Long only. Buying, never shorting.
POSITIONS	10 to 15, each between 3% and 15% of NAV.
SECTOR CAP	Maximum 35% per GICS sector.
CASH	0% to 20%, band set by the macro verdict.
INSTRUMENTS	Stocks and ETFs from round 1; long options (buying only, max 5% of NAV combined) from round 6.
CADENCE	Rebalanced on the first trading day of each month; mid-month only when an event breaks a thesis.
COSTS	10 basis points on turned-over weight at every rebalance - the first one included.
PUBLICATION	Every position gets a full equity brief within 10 trading days.

Why long only: shorting adds borrow costs, squeeze risk and half a risk department. Why bought options only, later: the maximum loss is the premium, so the bookkeeping stays one line. The mandate is deliberately boring so the decisions don't have to be.

02 · PROCESS

Macro before names.

Every round runs the same sequence, in the same order, with the macro view written down and dated before a single ticker is considered.

The sequence: a macro verdict sets risk appetite and the cash band, and names the themes the wind is behind. Each theme is then expressed as narrowly as it deserves - individual names when the theme is priced heterogeneously, a broad ETF only when selection adds nothing. Every candidate is put through the same six questions. An adversarial reviewer attacks the draft book before anything is published. Only then is the allocation set, the costs booked and the round written up - rejected names included.

#	QUESTION	MEASURE	FAILS AT
1	Does it actually earn money?	Operating cash flow ÷ net income, 3-year average	Below 0.8
2	Getting better or worse?	Operating-margin and ROIC trend over 3 years	Declining without explanation
3	Can it fall over?	Net debt ÷ EBITDA; interest cover	Above 3.5×, or cover below 3×
4	Does it grow on its own power?	Revenue growth vs growth in shares outstanding	Dilution above 2% a year
5	What is priced in?	Current multiple vs its own 4-year history	Above the 80th percentile
6	What makes me wrong?	One falsifiable break condition	Absent

Cyclical sectors are additionally judged on the multiple over their average historical margin - a low P/E on peak earnings is not cheap. Uniform rule since this round: any name above the 80th percentile of its own valuation history is capped at medium conviction, whatever the reason. Conviction sets the weight band: high 10–15%, medium 6–9%, exploratory 3–5%.

03 · MACRO – RECORDED BEFORE THE NAMES

Neutral, fully aware.

The Fed is hawkish: funds at 3.50–3.75%, a fifth straight pause but with three dissenters voting to hike, and the June dots - the first under chair Warsh - showing one to two hikes and no cuts. The 10-year sits at 4.63%. Growth is cooling (Q2 +1.5% annualized, June payrolls +57k, participation at its lowest since 2021) while core CPI falls to 2.6%; headline holds at 3.5% on energy, with Brent near $91 on a Middle East premium. QT has ended and high-yield spreads sit at 284bp - their richest decile ever, priced for perfection. The S&P set a record at 7,737 on August 4 after a −4% June, and breadth is strong: 57% of names beat the index.

The verdict is **neutral**: stay invested on momentum and breadth, but do not add risk aggressively against a hiking-bias Fed and credit priced for perfection. Cash goes to 10% - the top of the neutral band - with a further 13% in short-duration bills.

PLAYING

- AI infrastructure - hyperscaler capex keeps rising
- AI monetization - the demand side of the same wave
- Energy and energy infrastructure - $91 Brent, flare-up risk
- Electrification / capex - business investment +8.4%
- Short-duration bills - 2y at 4.20%, above funds, with hike risk

AVOIDING

- REITs - a 4.63% 10-year plus a hawkish Fed is valuation and refinancing pressure
- Consumer cyclicals / leisure - −61k jobs, real income squeezed by energy

04 · THEMES

Narrow beats broad.

Each theme was expressed as narrowly as its pricing deserved. The broad ETF was always considered - and four times out of five, refused.

THEME	EXPRESSION	WHY NOT THE ETF
AI infrastructure	NVDA · TSM · VRT	SMH would put ~8–10% into rejected AVGO plus non-AI semis
AI monetization	MSFT · GOOGL	Only names that prove AI revenue, not promise it
Energy / energy infra	EOG · EPD	XLE is ~40% XOM+CVX - both rejected on a war-premium multiple
Electrification / capex	ETN · HUBB	The theme is priced heterogeneously (22× vs 35× EBITDA); selection pays
Short-duration bills	SGOV	Broad on purpose: a bills ETF is the theme

Nine individual names and one ETF - well over half the invested weight in single names, as the mandate requires.

05 · THE BOOK

Ten positions, one call.

#	TICKER	WEIGHT	CONVICTION	SECTOR	THEME
1	EOG	13%	high	Energy	energy
2	MSFT	12%	high	Information Technology	AI monetization
3	NVDA	11%	high	Information Technology	AI infrastructure
4	ETN	9%	medium	Industrials	electrification
5	TSM	9%	medium	Information Technology	AI infrastructure
6	EPD	7%	medium	Energy	energy infrastructure
7	GOOGL	6%	medium	Communication Services	AI monetization
8	VRT	5%	exploratory	Industrials	AI infrastructure (physical)
9	HUBB	5%	exploratory	Industrials	electrification / grid
10	SGOV	13%	defensive	T-bills	short-duration bills
	CASH	10%		model construct, earns nothing	
	TOTAL	100%			

Mandate checks, counted out: 10 positions (10–15 ✓) · every position 3–15% ✓ · sectors IT 32%, Industrials 19%, Energy 20%, Communication 6% - all under 35% ✓ · individual names 77 of 90 invested points ✓. Costs this round: 10bp × 0.90 turned-over weight × $50,000 = $45.00.

06 · SELL DISCIPLINE

Three doors out.

Every position in this book can only leave through one of three doors - and all three were defined before entry.

The break - worst case. Every position carries a pre-committed, falsifiable break condition, written down at entry and checked weekly. If it trips, the position closes at the next action point; a cluster event (any top-4 hyperscaler capex cut) forces a reassessment of the whole AI cluster within 48 hours. Worst case is defined before the money moves, never rationalized after.

The price - best case. A thesis that plays out gets sold, not admired. The uniform valuation rule caps any name above the 80th percentile of its own history at medium conviction, which forces trims into strength; the full exit comes when the edge that justified entry is priced in. The best-case scenarios below describe, per position, what "priced in" looks like.

The bench - displacement. The book is re-underwritten every month. Each position competes against every rejected name each round; a better risk-reward displaces a weaker holding even when nothing broke. Nothing in this book has tenure.

07 · THE POSITIONS

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. Chosen over XOM, CVX and SLB as the lowest-cost barrel: an all-in FCF breakeven below $50 WTI, so it earns comfortably even at $75 Brent. The best cash conversion in the book (1.77), ROIC recovering from a 16% trough to 19.8%, net debt around 0.3× EBITDA, and a buyback retiring 3% of the shares a year. It trades near the 50th percentile of its own valuation - normalized at $75 Brent included - the only large energy name that does. High conviction, and explicitly a standalone thesis: the adversarial review struck the "hedge" label, because nothing here rises in an AI unwind.

CLOSES - WORST CASE

A quarter shows all-in FCF breakeven above $55 WTI, or net debt/EBITDA above 1.0×, or the 5% oil growth guidance is dropped while Brent is above $75. Checked weekly; a breach closes the position at the next round, or intra-month if the thesis is dead on arrival.

CLOSES - BEST CASE

The entry edge is the mid-range multiple. If the crude premium persists and the market re-rates EOG toward the top decile of its own history without a structural cost improvement underneath, the valuation rule first caps conviction and trims the weight; the full exit comes when the normalized multiple reaches the territory where XOM and CVX were rejected this round. Paying a peak multiple for cyclical earnings is the exact trade this book refused at entry - it will not make it on the way out.

MSFT 12% · HIGH · INFORMATION TECHNOLOGY · AI MONETIZATION · OPENED 2026-08-03

The decision. The only hyperscaler below its own historical multiple (27× against a ~32× average, around the 25th percentile) with proven AI revenue: Azure +43%, an FY26 run-rate above $100bn and a $678bn backlog. The $116bn capex surge is contractually pre-sold, so the FCF dip is already in the multiple. Cash conversion 1.35, ROIC ~28% and stable-high, net debt 0.26×, share count shrinking. The break condition was sharpened by the adversarial review: the original AND-construction was unfalsifiable and became an OR-list plus a hard FCF floor.

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 the cluster rule (top-4 hyperscaler capex growth below +20% y/y).

CLOSES - BEST CASE

The thesis is a re-rating to its own average while AI revenue compounds. The position trims as the multiple crosses ~32× with Azure decelerating, is capped at medium above the 80th percentile of its own history, and closes fully when the market prices the backlog as already delivered - a peak percentile on normalizing growth is the signal to hand it back.

NVDA 11% · HIGH · INFORMATION TECHNOLOGY · AI INFRASTRUCTURE · OPENED 2026-08-03

The decision. The dominant position in AI compute: +85% revenue growth, net cash, and the only large AI name below its own historical multiple average - 33.6× trailing, roughly 45× normalized against its own mean. A trillion dollars of Blackwell and Rubin visibility. Sized down from 13% to 11% by the adversarial review's factor ruling, which cut the AI demand chain from ~55% to 43% of the book.

CLOSES - WORST CASE

Two consecutive quarters of declining data-center revenue q/q, or top-4 hyperscaler capex guidance shrinking y/y, or Rubin shipments not started before the end of October 2026, or the cluster rule (top-4 capex growth below +20% y/y).

CLOSES - BEST CASE

Rubin delivers and the multiple stretches back above its own normalized mean while hyperscaler capex growth decelerates toward the +20% cluster threshold - in that world the position steps down ahead of the trigger, not after it. The full exit is the peak decile of its own normalized valuation on peak-cycle earnings: a low trailing P/E on peak profits is the same trap that rejected Micron, applied to our own book.

ETN 9% · MEDIUM · INDUSTRIALS · ELECTRIFICATION · OPENED 2026-08-03

The decision. Grid-to-chip after the Boyd acquisition: backlog +103%, margins and ROIC rising, and diversified enough to absorb an AI pause. It was drafted at high conviction and 12%; the uniform valuation rule - introduced this round after the adversarial review - capped it at medium, because 33× forward sits above the 80th percentile of its own history, and the factor ruling took the weight to 9%. Boyd leaves net debt at 3.10× EBITDA, which the break condition puts on a clock.

CLOSES - WORST CASE

Backlog growth y/y negative or organic growth below 5% in any quarter, or net debt/EBITDA above 3.0× after Q2 2027, or a cluster-rule reassessment.

CLOSES - BEST CASE

Earnings catch up with the multiple: Boyd integrates and the backlog converts to revenue. The position can only be upgraded above medium if its own valuation percentile falls back below the 80th while the fundamentals hold. It closes fully when backlog growth normalizes to single digits with the multiple still above 30× forward - at that point the market has paid for the decade in advance, and the book takes the payment.

TSM 9% · MEDIUM · INFORMATION TECHNOLOGY · AI INFRASTRUCTURE · OPENED 2026-08-03

The decision. The toll road for every AI chip: an industry shift toward custom ASICs does not touch it - the same logic that kept AVGO and ANET out of the book. The revenue outlook was raised to above 40%, gross margin is a record 67.7%, and the balance sheet is net cash. It sits above the 80th percentile of its own band with the outlook raise as the reason - hence medium, not high, under the uniform rule. Taiwan risk is named, unhedgeable in a long-only book, and accepted at this size. Judged on normalized margins, per the cyclical rule.

CLOSES - WORST CASE

Two months of y/y revenue growth below 15%, or capex guidance ($60–64bn) cut, or gross margin below 60% for two quarters, or the cluster rule (top-4 capex growth below +20% y/y).

CLOSES - BEST CASE

The 40%-plus year gets delivered and priced. The position trims into strength while above the 80th percentile of its own history, and closes fully when growth normalizes toward trend with the multiple still pricing the boom year - measured on average margins, not on the peak quarter the market will be celebrating at the time.

EPD 7% · MEDIUM · ENERGY · ENERGY INFRASTRUCTURE · OPENED 2026-08-03

The decision. A midstream toll road that holds up at $75 Brent: record EBITDA, leverage exactly on its 3.0× target, 97% fixed-rate debt and a 5.9% distribution funded internally. Entered above its own valuation range (13.1× against an 11.0× average), so medium conviction. Explicitly a rates position: the yield spread over the 10-year is thin, which makes the 10-year the real short leg of the trade - and the break condition names it.

CLOSES - WORST CASE

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

CLOSES - BEST CASE

The rates leg pays: long yields fall and the units re-rate. The position closes when the distribution-yield spread over the 10-year no longer compensates for the energy-volume risk and the K-1 complexity - at that point the toll road is fully priced, and the capital rotates back toward equities or duration, alongside the bills.

GOOGL 6% · MEDIUM · COMMUNICATION SERVICES · AI MONETIZATION · OPENED 2026-08-03

The decision. The strongest AI revenue proof in the group - Cloud +82%, a $514bn backlog - but at a peak multiple (85–90th percentile) with falling free cash flow as capex guidance rises further into 2027. So: a half position until the FCF floor is visible. The adversarial review cut it from 8% to 6%, struck an escape clause from the break condition, and bound it into the cluster rule - a capex cut by our own position triggers the same 48-hour reassessment as anyone else's.

CLOSES - WORST CASE

Cloud growth below 35% y/y, or backlog declining sequentially, or FY free cash flow below $40bn, or the cluster rule (top-4 capex growth below +20% y/y).

CLOSES - BEST CASE

Two stages. First the add: an FCF floor confirmed over the coming quarters upgrades the half position to full weight. Then the exit: when Cloud growth normalizes with the multiple still in its top decile, the valuation rule keeps conviction capped and the position is sold into the confirmation - the market rarely pays twice for the same proof.

VRT 5% · EXPLORATORY · INDUSTRIALS · AI INFRASTRUCTURE (PHYSICAL) · OPENED 2026-08-03

The decision. The purest picks-and-shovels on the data-center buildout: power and cooling, virtually debt-free (0.05×), and the best cash conversion in the book at 2.07. But it trades around twice its own historical EV/EBITDA, carries a beta near 2 and lumpy revenue - so it enters at the smallest tier. The adversarial review found the analyst files disagreeing on its numbers; everything was reconciled on Q2 2026 figures and the percentiles are labeled indicative.

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 the cluster rule. Vertiv has since stopped reporting book-to-bill, so this condition gets a testable proxy - built on figures the company is committed to publishing - at the September round.

CLOSES - BEST CASE

Exploratory positions must earn promotion or leave. An upgrade requires the gap to its own valuation history to close materially while orders keep growing. Otherwise the position is recycled into strength the moment order momentum inflects - at twice its own average multiple, deceleration is the sell signal, not the dip that follows it.

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

The decision. Grid components with roughly 60% utility revenue: the calmest expression of electrification (beta 0.9) and the most reasonable valuation in the group (~75th percentile, 24.7× forward). Exploratory until the NSI acquisition shows one or two quarters of integration proof - the deal put net debt at 3.28× EBITDA, which the break condition watches.

CLOSES - WORST CASE

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

CLOSES - BEST CASE

Integration proof upgrades it toward medium at a monthly round. The full exit comes when the grid-spend cycle matures: utility organic growth back to low single digits with the multiple above its own 80th percentile. The calm name gets sold calmly - on cycle, not on headlines.

SGOV 13% · DEFENSIVE · T-BILLS · SHORT-DURATION BILLS · OPENED 2026-08-03

The decision. Zero-to-three-month T-bills at roughly 4.2%: the short-duration theme from the macro view, expressed broadly on purpose. Cash earns nothing in this model; this does. It was sized up by the adversarial review's ruling that the book must follow the neutral verdict - beta was skimmed off the equity sleeve and parked here. Together with the 10% cash it is the entire defense of a book that owns nothing that rises in an AI unwind.

CLOSES - WORST CASE

There is no practical failure mode in 0–3 month bills; the risk is opportunity cost, and the yield resetting lower as the Fed moves.

CLOSES - BEST CASE

Its break condition is its exit: a Fed cutting cycle underway (two cuts) with the 2-year below 3.25% sends this capital back to work - toward duration or toward equities. SGOV never closes on failure; it closes on redeployment.

08 · THE REJECTS

Thirteen names that didn't make it.

A portfolio is defined as much by what it refused. Every rejection, with its reason, published in the round it happened.

NAME	REJECTED BECAUSE
AVGO	Fails on dilution (+4.8% a year) and hard on valuation (26× P/S vs its own 10–12×) while the CEO did not raise the AI outlook - the guidance risk of this round.
AMD	The largest Broadcom-style guidance risk in the group; MI400 success already priced.
MU	A low P/E on peak HBM earnings: exactly the cyclical trap question 5 exists for.
ANET	Broadcom's own ASIC networking cannibalizes the niche.
CoreWeave et al.	Fails questions 1, 3 and 4 at once.
XOM	19.6× against its own 12.8×, ~19× normalized - the hedge premium is already paid.
CVX	Normalized at $75 Brent ~21× vs its own ~13× - the 12.2× forward leans on a war premium.
SLB	Margin and ROIC declining without a turn; ChampionX dilution without growth.
PWR	Passes everything except question 5: 78× vs its own 50×; a record backlog fully priced. On the watchlist below 30× forward.
GEV	Valuation more extreme than PWR, on a younger margin turnaround.
ROK / EMR	Automation lags electrification in this cycle.
MOD	Roughly half the revenue is classic-cyclical and pollutes the theme.
TT	Passed the numbers, struck by the adversarial review: a third serving of data-center thermal next to ETN-Boyd and VRT, on the thinnest margin of safety.

09 · THE ADVERSARIAL REVIEW

Ten attacks, three critical.

Before publication, an adversarial reviewer attacked the draft book. Every attack and its ruling is part of the record - the book below is what survived.

1. **AI factor concentration at ~55%.** Accepted. NVDA cut 13→11, GOOGL 8→6, ETN 12→9, TT struck. The full AI demand chain now stands at 43%, ~47–48% including the AI share of ETN and HUBB.
2. **Level triggers instead of deceleration triggers.** Accepted. New cluster rule: combined top-4 hyperscaler capex guidance growth below +20% y/y halves the AI cluster; any single top-4 capex cut - including by our own MSFT or GOOGL - forces a full cluster reassessment within 48 hours.
3. **A neutral verdict steering a risk-on book.** Accepted: the book follows the verdict. 13% went into bills and beta was skimmed off.

4. **Sector caps blind to cross-sector factors.** Accepted with publication: a factor count now sits next to the sector count, with a soft cap of 50% on the AI demand chain this round.
5. **MSFT break condition unfalsifiable.** Accepted: the AND-construction became an OR-list, plus a hard FCF floor.
6. **GOOGL escape clause.** Accepted: the clause was struck, the cross-position rule added, and the weight cut from 8 to 6.
7. **The "with a reason" loophole in the valuation rule.** Accepted: uniform rule - above the 80th percentile of its own history is capped at medium conviction, whatever the reason.
8. **Energy is not a hedge against an AI unwind.** Accepted as a label: EOG is a standalone thesis, EPD a rates position. Explicit note: this book holds no position that rises in an AI unwind; the defense is cash plus bills (23%) and the cluster tripwires.
9. **Three servings of one niche (ETN / TT / VRT).** Accepted: TT struck from the book.
10. **VRT data inconsistency across files.** Accepted: reconciled on Q2 2026 figures, one break-condition set, percentiles labeled indicative.

10 · RISK

The factor, not the sector.

Sector counts flatter this book: no GICS sector exceeds 32%. The honest number is the factor count. The full AI demand chain - NVDA, MSFT, TSM, GOOGL, VRT - is 43% of NAV; including the AI-driven share of ETN and HUBB's load growth it reaches roughly 47–48%, against a soft cap of 50%. That concentration is deliberate: it is the macro call. What guards it is not diversification but tripwires:

43% AI demand chain (full) · ~47–48% including partial exposures · soft cap 50%

1. Combined top-4 hyperscaler capex guidance growth falls below +20% y/y: halve the AI cluster (NVDA, MSFT, TSM, GOOGL, VRT).
2. Any top-4 capex guidance cut, including by our own positions MSFT or GOOGL: reassess the entire AI cluster within 48 hours.
3. AI demand chain (full) soft cap at 50% of the portfolio.

And the admission that matters most, on the record: this book holds no position that rises in an AI unwind. The defense is 23% in cash and bills, break conditions checked weekly, and the cluster rules above. Energy is here on its own merits, not as an airbag.

11 · METHODOLOGY & SMALL PRINT

How the numbers are kept honest.

The NAV is computed to the cent from a hand-verifiable ledger: every rebalance is priced on adjusted close (dividends implicit), costs of 10 basis points are charged on turned-over weight, and the arithmetic is reproducible by hand from the published worksheet. The benchmark is SPY, frictionless, from the same $50,000 start. Prices enter the NAV exclusively from the project's own price cache - never typed in, never estimated.

Data quality, this round: fundamentals were cross-checked against stockanalysis.com and Q2/FY26 press releases (as of August 6, 2026) after API day-limits were hit; valuation percentiles are reconstructed on four to five annual points and labeled indicative throughout.

This document records the August 2026 round as decided on August 3, 2026 and is superseded by the next monthly round. The portfolio is fictional - $50,000 of model capital, no real money, and nothing in this document is investment advice.