Memorandum

Subject:	The Paradox of Durability
From:	Ben
Date:	April 2026

"It is change, continuing change, inevitable change, that is the dominant factor in society."
Isaac Asimov

"To get what you want, you have to deserve what you want."
Charlie Munger

"Through endurance we conquer."
Sir Ernest Shackleton

The ability for a company to endure, to stand the test of time, forms the cornerstone of our investment approach. With equity investment representing a *perpetual* claim to the cashflows of a business and shortening timeframes amongst many investors, we believe durability remains a misunderstood, and mispriced, quality in business. However, there is a paradox to this approach: the future is uncertain, and most companies fail to deliver adequate returns.

The Rise and Fall of Empires

Behavioural economists often discuss recency and availability bias in decision making. Simply put, people typically overweight current information and events on the misplaced belief that things will continue as they are. This is the foundation of market bubbles which are generally formed through real developments which get extrapolated far into the future. In reality, almost everything has a cyclical component. Some cycles are short, like the supply chain disruption we've seen following tariffs. Others, like the rise and fall of empires, are measured in hundreds of years.

History can help give perspective of how quickly even the most established systems can fail. In 1715, Louis XIV, the 'Sun King', was a dominant force globally. The monarchy of France had been in place for almost a thousand years. The economy was by far the largest in Europe with a population of 21 million representing around one-fifth of all Europeans. After having been effectively gifted Spain in 1701 and the ensuing War of Succession, France's standing army of 400,000 was as large as the rest of Europe's combined. Times were good in Versailles.

Within a generation, France was bankrupt, facing hyperinflation, and on the verge of revolution. The Seven Year War (1756-63) and the funding of colonies during the American Revolution (1776) crippled the state. By 1788, half of all royal revenues were used to pay interest on costly war loans. The price of bread almost doubled in 1789 alone as hyperinflation gripped the nation. Predictably, the government responded with higher taxes and an attempt to issue paper money called *assignats* which became worthless within a few years. The people of France began to revolt against a system which was failing them and, in 1792, the monarchy was abolished. Louis XVI was beheaded shortly thereafter.

The Rise and Fall of Businesses

Less dramatic, but perhaps more relevant to us as investors, is the study of business cycles. Every few years, there is a prevalent narrative in the stock market which seems certain to continue. Today, it is the dominance of large technology companies and the emergence of Artificial Intelligence. Although there are undoubtedly real and important developments underpinning this narrative, one must remember that such cycles have happened before.

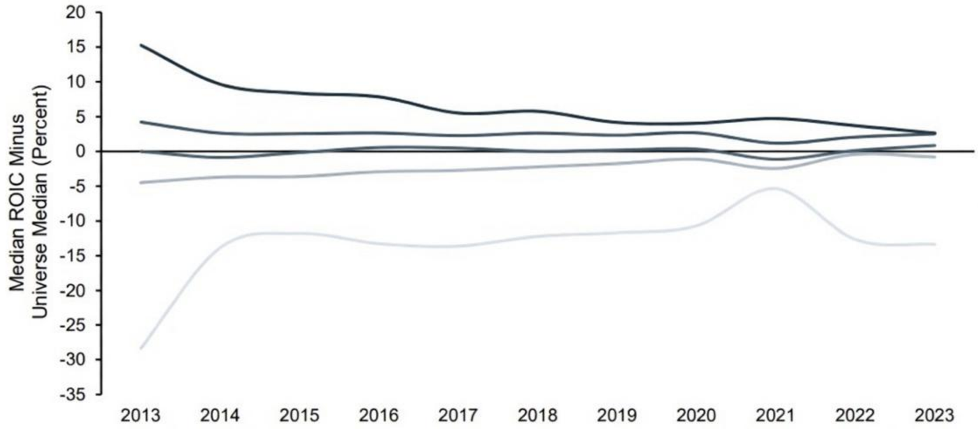
Largest Companies in the World by Decade

1980	1990	2000	2010	2020	Today
IBM	NTT	Microsoft	Exxon Mobil	Apple	NVIDIA
AT&T	Bank of Tokyo Mitsubishi	General Electric	PetroChina	Saudi Aramco	Apple
Exxon	Industrial Bank of Japan	NTT DoCoMo	Apple	Microsoft	Alphabet
Standard Oil	Sumitomo Mitsui Bank	Cisco Systems	BHP Billiton	Amazon	Microsoft
Schlumberger	Toyota	Wal-Mart	Microsoft	Alphabet	Amazon
Shell	Fuji Bank	Intel	CBC	Meta	TSMC
Mobil	Dai-Ichi Kangyo Bank	NTT	Petrobras	Alibaba	Saudi Aramco
Atlantic Richfield	IBM	Exxon Mobil	China Construction Bank	Tencent	Meta
General Electric	UFJ Bank	Lucent Technologies	Royal Dutch Shell	Berkshire Hathaway	Broadcom
Eastman Kodak	Exxon	Deutsche Telekom	Nestlé	Visa	Tesla

Every decade the narrative, and leadership, changed. From peak oil, to Japan's dominance, the internet, or the rise of China. In all cases, significant developments led to a crowding of capital in certain areas which, in turn, caused overvaluation and poor subsequent shareholder returns.

Overvaluation is only part of the equation though. The profitability and growth of companies typically tends towards the average as competition and capital enters attractive markets. Even the most impenetrable 'moat' is eventually breached.

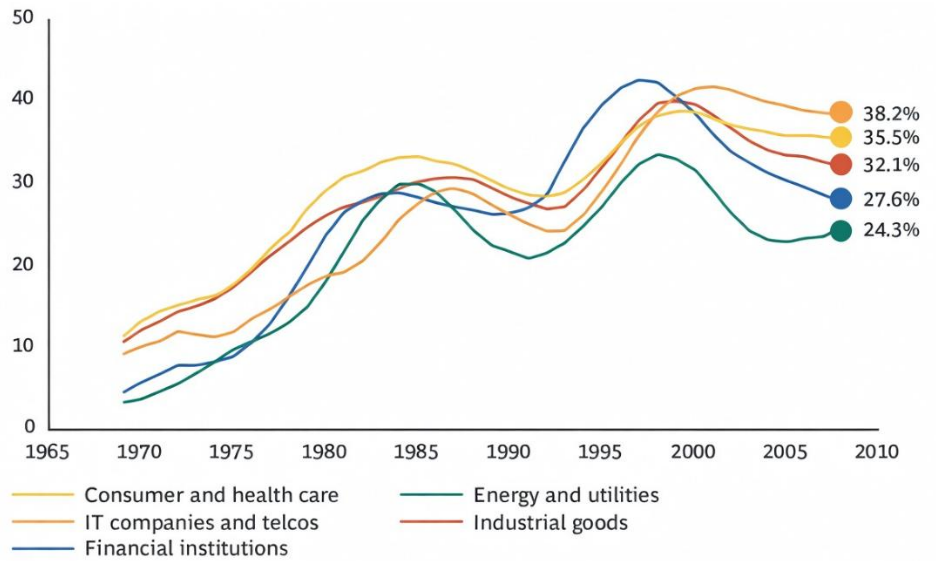
Regression Toward the Mean by Quintile for U.S. Companies, 2013-2023



Source: Michael J. Mauboussin and Dan Callahan, "Measuring the Moat: Assessing the Magnitude and Sustainability of Value Creation," Counterpoint Global Insights, Morgan Stanley, October 15, 2024.

This dynamic of creative destruction and competition is at the core of the capitalist system. In many ways, one could argue that companies which defy the gravitational pull of fading returns on capital represent a failure of the system. To us, the forces of competition and disruption appear as strong as ever. This is demonstrated by the failure rate of businesses, which has broadly trended higher over the past decades.

Average five-year exit risk (%)



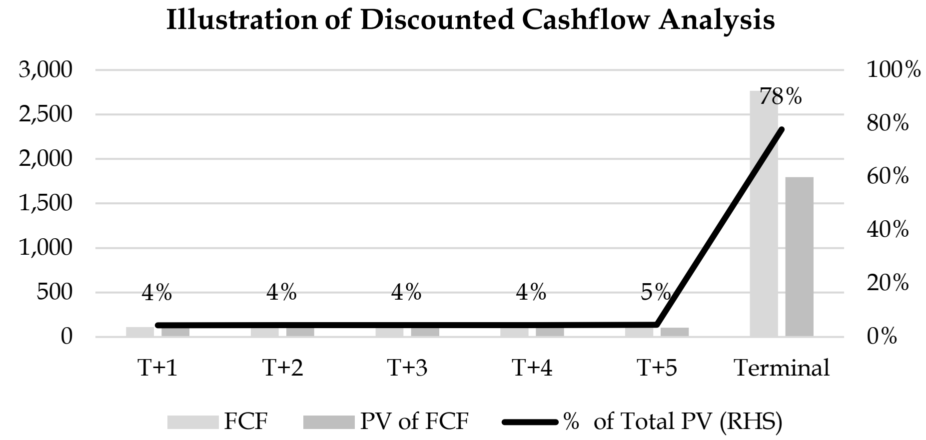
Source: Martin Reeves and Lisanne Pueschel, "Die Another Day: What Leaders Can Do About the Shrinking Life Expectancy of Corporations," BCG Perspectives, The Boston Consulting Group, December 2015.

Why Durability?

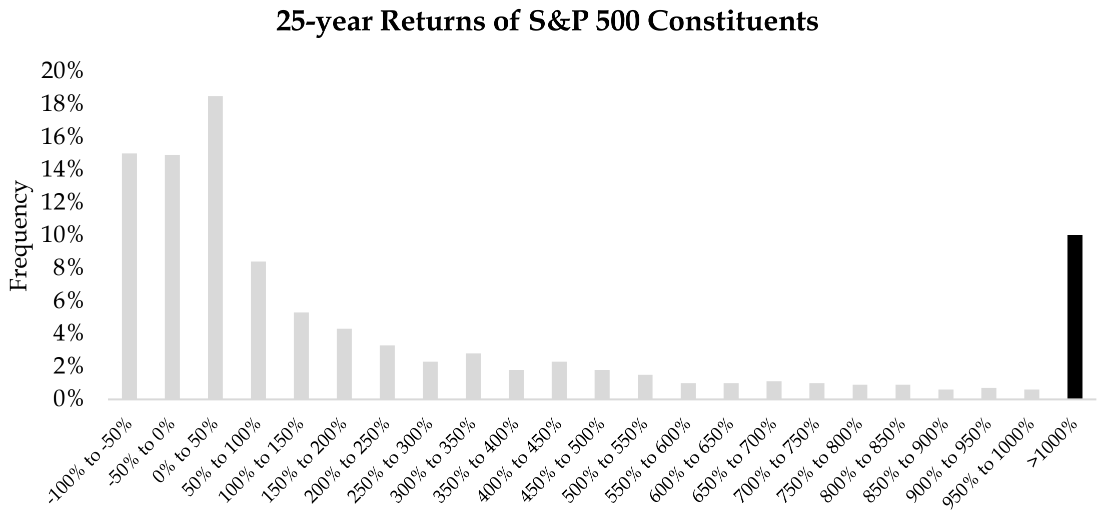
Given how hard it is to identify businesses which can both survive and thrive over the long-term, one can reasonably question why Ramesh and I focus our attention here? Afterall, there are other approaches (for example passive investment or short-term trading) which do not require one to form an opinion on whether a company can last over decades.

The first reason is to do with the fundamental nature of equity investment. Although volatility tempts some people to treat the market like a casino, stocks represent part ownership of business. That is, a claim to a proportion of the cashflow and assets of a business over its life. This is not just a folksy Buffett-ism, it is a legal claim which can be enforced by shareholders through their voting rights or to claim assets in the event of liquidation.

An illustrative example can demonstrate how much of the value of a business is embedded over the long term. Assuming a terminal growth rate of 3% and a 9% cost of capital, over three quarters of the value of a business is in cashflows more than five years away.



The second reason we focus on durability is because companies which endure overwhelmingly drive market returns. Professor Henrik Bessembinder of Arizona State University studied the distribution of market returns over time and found that an extreme form of 'power law' existed.



Source: Anu Ganti, "Skewing Success," S&P Dow Jones Indices, September 30, 2025.

Over long timeframes a small number of companies are responsible for the bulk of market returns with almost half of companies underperforming treasury bills in the United States. To have a chance of outperforming, therefore, we think it makes sense to try and be exposed to these extreme winners whilst avoiding the large swath of businesses which either fail or fade into mediocrity. The common factor to this dual objective is durability.

Companies which fail are not, by definition, durable. Equally, those which have delivered the best returns have typically done so through consistent compounding of good returns rather than parabolic growth which tends not to sustain. Bessembinder's 100-year study of the best individual stock returns illustrates this nicely with Altria (Tobacco), Kansas City Southern (Rail) and Vulcan (Aggregates), topping the list. Hardly the most 'glamourous' companies but certainly enduring.

Stacking the Odds in Our Favour

There is a paradox to durability as an investment philosophy. Time is an intrinsic part of equity investment and a crucial element of superior returns. But, finding businesses which can endure is difficult. For Ramesh and me, this understanding has helped form our philosophy in a few important ways. Firstly, we value businesses based on a conservative estimate of free cashflow *today*. The lack of explicit forecasting helps us avoid the trap of overconfidence in an unknowable future. Equally important is the type of company we look to invest in. Accepting that we are undertaking a difficult task of looking for durable businesses, we narrow our investible universe significantly to improve our odds of success.

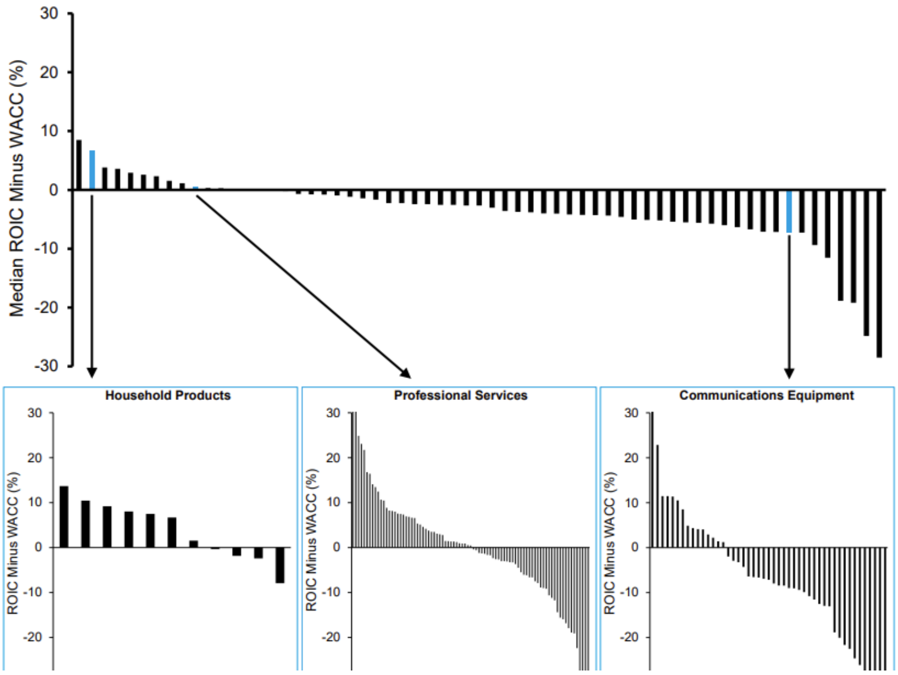
There are a some relatively 'easy' wins which form our initial filter.

- *Avoid excessive debt*. Financial leverage amplifies equity returns. This is beneficial when times are good but removes 'slack' should the inevitable hiccup arise. Just as the French monarchy collapsed under the weight of war debt, companies such as Enron, General Electric or Lehman have failed, at least in part, because of leverage. Even if bankruptcy is avoided, debt can force a company going through temporary troubles to permanently dilute shareholders just as their cost of capital is highest. Take for example Carnival, the largest cruise ship operator in the world. During COVID-19, the company was forced to issue a significant amount of equity increasing shares outstanding from 426million to 932million. This decision, one tranche of which was issued when the shares were at $8 per share relative to today's $28 and a peak of $68, has permanently impaired the value of the business for existing shareholders even as profits have surpassed pre-pandemic levels.

- *Emphasise businesses and industries which have endured*. Named after a deli in New York where comedians gathered for decades, the *Lindy Effect* suggests that the longer something has historically lasted, the more likely it is to persist. We avoid faddish products such as apparel or certain categories of beverage in favour of businesses and industries which sell products which have stood the test of time and where returns are, if not high on an absolute basis, generally stable. The average life of a company in your portfolio is 89 years.

  Even though it is tempting to generalise based on traditionally defined industry classifications, we would argue that shorthand assessments such as 'consumer staples are durable' or 'we only invest in monopolies and oligopolies' are too restrictive. The following analysis illustrates why.

Return on Capital for U.S. Industries, 2023



Source: Michael J. Mauboussin and Dan Callahan, "Measuring the Moat: Assessing the Magnitude and Sustainability of Value Creation," Counterpoint Global Insights, Morgan Stanley, October 15, 2024.

Certain industries have historically had better returns than others, but what is most striking is the dispersion *within* sectors. There is evidence that a significant portion of individual companies in all industries have high, and persistent, returns on capital. This suggests filtering should be done at the company rather than industry level.

For example, the Tourbillon strategy owns a few insurance companies (Admiral, Progressive, and Geico - through Berkshire Hathaway) which have delivered some of the most consistent operating results we have seen across any industry through disciplined underwriting and superior execution. These businesses are all quite similar, providing low-cost automotive insurance to individuals through a mainly direct sales approach. It is a business model we have observed is both enduring and successful over multiple cycles and one we describe as 'low-cost financials'. We have observed a few of these industry niche's, six to be precise, which we believe captures a lot of the nuance missed in traditional sector classifications.

- *Outlier Managers*. We prefer management who have skin in the game. Around two-thirds of the portfolio is invested in companies where management have a significant ownership which aligns their interests with shareholders rather than stock option plans where the payoff is asymmetric (no downside, only shades of upside) and generally associated to targets set to flatter, rather than test, management. In our view the conventional approach of stock options encourages risk taking and short-termism, not the recipe for a durable business. Instead, we prefer companies which are managed such that they have the capacity to suffer, which never compromise on the quality of the product or service they offer, and which remain well invested for future growth regardless of the current context.

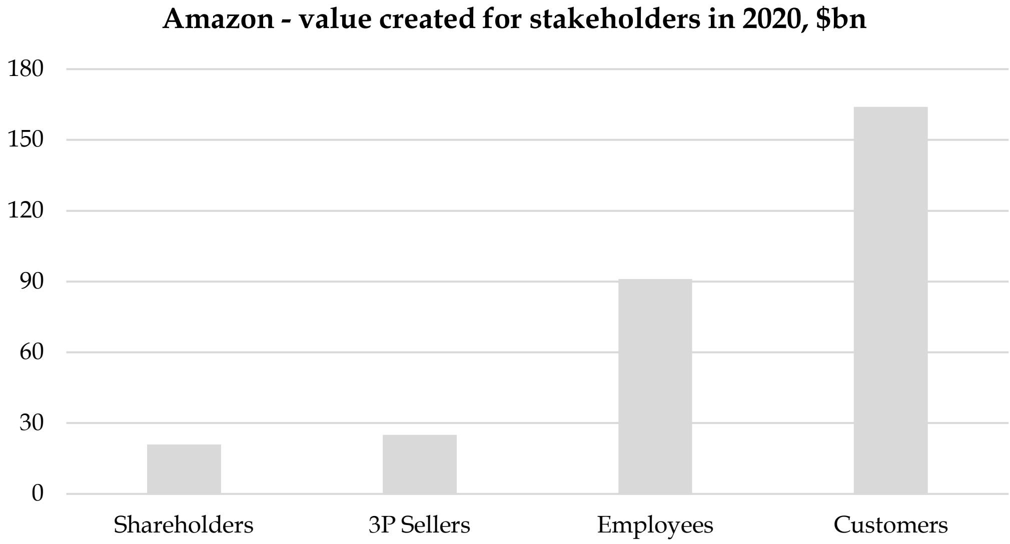
  One example of a company which we think demonstrates this ethos would be Nintendo. Even though CEO Furukawa does not own a particularly large amount of stock, the culture of the business means they look after their employees and focus on the quality of their games first and foremost. Currently, the gaming industry is going through a soft patch. Competitors have responded by corporate actions and layoffs. Electronic Arts have embarked on a debt-funded management buyout whereas Activision have made around 25% of their developers redundant since their acquisition by Microsoft in Q4 2023. In contrast, Nintendo added 6.3% to their headcount last year with an average tenure of 14 years, well above the industry average.

A First-Principles Approach

Although conservative financing, thoughtful stewardship and focus on industry niche's narrows our investible universe significantly, our main analytical filter is one of customer centricity.

At the heart of our '*fulcrum asset*' and '*symbiotic loop*' mental models is the idea that for a company to thrive and survive it must offer a product or service which is superior to the competition in the eyes of the customer. It's a simple idea but easy to forget when myriad other factors can also impact a businesses' results over shorter timeframes. But true customer value is incredibly powerful. It can manifest in pricing flexibility, consistent market share gains, improved employee retention, cross-selling opportunities. In a word, durability.

Jeff Bezos, learning from Walmart's Sam Walton and Costco's Sol Price, understood this. To this day, the objective of Amazon is to be 'the most customer centric company on Earth'. In his last letter to shareholders in 2020, Bezos calculated the amount of value Amazon creates for its stakeholders relative to the amount it retains for shareholders in profit.



Source: Amazon Letter to Shareholders, 2020.

The difference between the $21bn of earnings for shareholders and the $301bn of value created forms the 'moat', and untapped opportunity, for Amazon. It's a formidable advantage which should allow the business to endure.

"You are the Customer" - Günther Fielmann

We believe your portfolio companies share a similar ethos. One example would be the eyewear retailer Fielmann Group, a 6.5% investment. Founded in 1972, the company has pioneered the low-cost retail model in glasses in Germany and has since expanded into continental Europe and the US. The company is still 73% owned and managed by the family and has one of the strongest customer orientations we know of.

Unlike many low-price retailers which operate on thin margins to return value to customers, Fielmann's 23.8% EBITDA margin does not immediately suggest a large customer surplus. But the company can offer exceptional value differently through vertical integration and density. Fielmann produces 65% of their frames and 25% of their lenses in-house. Their low prices have also led to significantly better sales density than peers. 55% of all eyeglasses in Germany are sold by Fielmann even though they only have 6% of the number of stores. The economics for stakeholders are exceptional.

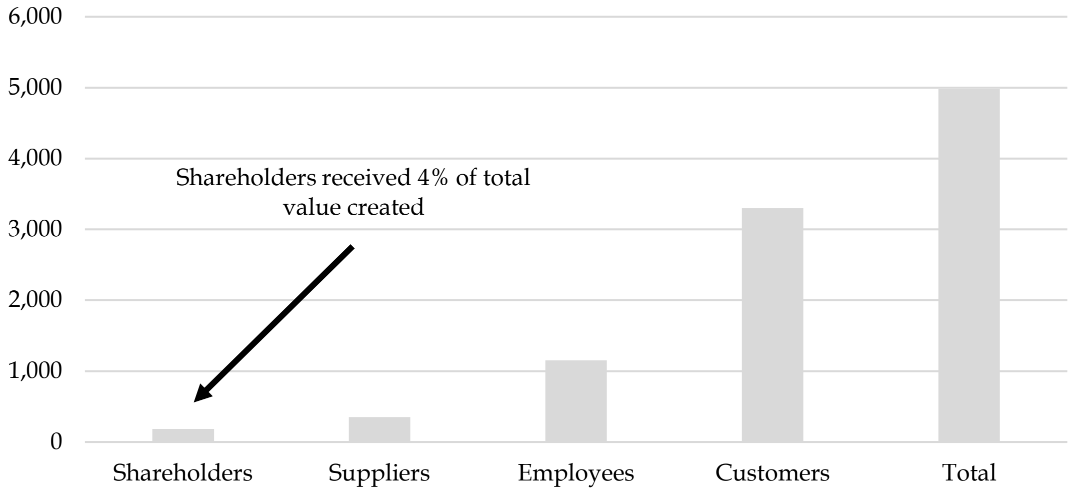
Shareholders earned €182.5mn in net profits over the last twelve months on revenues of €2.4bn. As mentioned, this is an unusually high margin for such a 'symbiotic' retailer and has led to healthy shareholder returns for almost 30 years since listing of c.10% per annum.

The company employs around 24,000 people globally with a mix of opticians, retail staff, audiology, and administrators. Training and career development is an intrinsic part of the business model given the technical nature of many employee's jobs and the company spends over €20mn a year here. All in staff cost is around €1.15bn.

As a vertically integrated retailer, the company shares less of its economics with suppliers such as Essilor Luxottica or Zeiss. That is part of the counter-positioning which allows Fielmann to offer a superior product to the customer. That said, we estimate the company spends around €350mn with its key suppliers.

Customer value is where Fielmann really shines. With 55% volume share but 23% value share, Fielmann glasses are materially cheaper than most of their competitors. They serve around 30million customers a year which implies an average selling price of €80 per transaction. The market average, however, is around €190. That is €110 saving per person and €3.3bn saved for customers.

Fielmann - value created for stakeholders in LTM Sep 2025, €mn



Source: Tourbillon Estimates.

Conclusion

At a 1998 Wesco meeting Charlie Munger said, *'Why should it be easy to get rich? In a competitive world, shouldn't an easy way to get rich be impossible?'*. That is the reality of investment, there is no panacea. Change, often unexpected and dramatic, is a constant and we as investors need to try and manage that to the best our ability. Although it isn't easy, we believe that a focus on identifying durable businesses, those which can buck the trends of competition and disruption, improves our odds of long-term investment success. Our philosophical orientation is put into practice through stringent filters: Avoid leverage, trust management, focus on businesses we understand and have staying power and, crucially, ensure they create value for the customer. Simple, but not easy.

As always, thank you for your trust.

Ben Beneche

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