LVS ADVISORY

Investment Results	2019	2020	2021	2022	2023	2024	2025	YTD 2026	Since Inception[1]
LVS Event-Driven (net)	7.0%	13.2%	9.1%	3.8%	6.2%	7.5%	9.1%	4.0%	77.6%
LVS Levered Event-Driven (net)	-	-	-	-	-	-	-	5.7%	5.7%
LVS Growth (net)	-	61.9%	16.1%	(35.8%)	7.0%	36.7%	6.2%	1.1%	89.6%

Note: Investment performance is presented net of all fees and expenses. Investment results are as of April 30, 2026.
(1) LVS Event-Driven was incepted on January 1, 2019. LVS Growth was incepted on January 1, 2020. LVS Levered Event-Driven was incepted on January 1, 2026.

May 24, 2026

Dear Investors,

The above results are for the first four months of 2026. I am now also reporting results for the levered version of the Event-Driven strategy, which was discussed in the Q4 2025 letter. We have made the Levered Event-Driven strategy available via separately managed accounts and anticipate launching a fund in the second half of 2026.

In this letter, I will start by discussing the Event-Driven's strong downside protection witnessed during the first quarter, and then I will discuss updated thoughts on how artificial intelligence is shaping the US stock market and how the Growth portfolio is positioned to benefit.

Event-Driven Portfolio: Downside Protection Through the Cycle

The Event-Driven Portfolio was always intended to be a "don't lose money strategy". This is possible because many event-driven stocks have bond-like return profiles with predictable returns and limited downside. Furthermore, the events that drive the stocks are not correlated with the macroeconomic events that drive the overall stock market. In practice, this means that our portfolio often moves to the beat of its own rhythm.

The best way to measure the downside risk of any investment strategy is to study its max drawdown, which is defined as the difference between the high point and low point in the portfolio's net asset value (NAV) over a discrete time period. The table below shows the max drawdown for the Event-Driven Portfolio vs. the S&P 500 and the High-Yield Bond Index since 2019. What's notable is that the S&P 500 has experienced three large declines over the past 7 years, and in each case, the Event-Driven has suffered less than one-third of the downside volatility. The High-Yield Bond Index has often had less volatility than the stock market, but when the stock market has an extreme sell-off, the high-yield market tends to decline in sympathy. ***This is why I've argued that the Event-Driven strategy is superior to the High-Yield bond index – the strategy not only generates better annualized returns, but it also carries lower risk.***

Max Drawdown of Daily Returns

	S&P 500	High-Yield Bond Index	LVS Event Driven	LVS Levered Event-Driven
2019	-6.6%	-2.3%	-4.0%	-
2020	-33.8%	-22.9%	-9.4%	-
2021	-5.1%	-2.5%	-6.2%	-
2022	-24.5%	-16.5%	-2.4%	-
2023	-9.9%	-5.0%	-1.7%	-
2024	-8.5%	-2.4%	-2.6%	-
2025	-18.8%	-5.0%	-5.7%	-
2026	-8.9%	-2.5%	-0.2%	-1.5%

We have protected our downside by having a sharp focus on risk management. First, we start by constructing a diverse portfolio of 25 to 50 positions. Second, we assess how risky each position is and adjust the portfolio weighting based on the risk assessment. High-probability merger arbitrage situations can hold higher weightings than higher-risk situations with less defined outcomes. Finally, we actively monitor the holdings and rigorously pick the weeds and water the flowers.

Having managed the portfolio for over 7 years, I believe we have gotten better at risk management over time. We have scars from avoidable mistakes and are constantly improving our process.

It is also worth noting that the levered version of the strategy is tracking well. We fully expect the levered strategy to carry more volatility and downside risk but deliver higher returns. The S&P experienced a 9% decline in the first quarter, but our portfolios barely budged and managed to generate solid returns.

Growth Portfolio: Artificial Intelligence and the Stock Market

Despite a major oil shock caused by conflict in the Middle East, the dominant factor moving the stock market has been the ongoing AI boom. A few stats will quickly surface how much this theme has dominated the stock market:

- 'Artificial Intelligence stocks' accounted for roughly half of the S&P 500's returns in 2025 (source)
- So far in 2026, the two largest semiconductor ETFs (SMH, SOXX) are each up more than 50% year-to-date
- 'Artificial Intelligence stocks' now account for nearly half of the weight of the S&P 500 (source)

Is There an Artificial Intelligence Bubble?

The surge in AI stocks and increased index concentration is reminiscent of the Dot Com Bubble of the late 1990s.

Optically, there are similarities. The Nasdaq rose approximately 600% from 1995 before peaking in March 2000, driven by hot stocks like AOL and Cisco, which individually rose a few thousand percent. This time around, the semiconductor ETFs have risen by about 300% since the end of 2022. Stocks including Nvidia (+1,400%), Avago (+800%), and AMD (+475%), are up massively over the past 5 years.

However, there are significant differences between the Dot Com Bubble and the current AI mania. First, the Dot Com Bubble was fanned by hopes that the internet would one day drive revenue. By contrast, there is already real revenue and benefit stemming from AI products. Anthropic's ARR is currently around $30 billion, and the company is reported to be profitable. Bank of America estimates OpenAI's revenue to be greater than $50 billion by next year. Second, the Dot Com Bubble featured an infrastructure buildout which largely went unused; a majority of the installed internet infrastructure was unused and considered "dark fiber" by the year 2000. By contrast, today there is a severe shortage across the board for AI infrastructure, including semiconductors, datacenters, and electricity. For example, the shortage of memory chips and electricity caused by AI demand is leading to higher prices for everyone. Finally, the Dot Com Bubble was paid for by speculative capital flowing into the debt and equity markets, supported by companies with poor cash flow. By contrast, the large tech companies that are paying for the bulk of the AI infrastructure buildout have robust balance sheets and cash flows. These companies have been increasing their capex budgets over the past several quarters and are now expected to spend well over $1 trillion on AI infrastructure in 2027.

Importantly, I believe AI already has a strong return on investment for the end-user. AI has transformed the investment process at LVS Advisory over the past 2 years. Here are some of the ways we are using AI today:

- We use Fathom.ai to record our meetings and summarize the key points
- We use NotebookLM to get up to speed on new companies by summarizing large quantities of source documents
- We use Perplexity Computer to agenticly pull economic data and analyze the key points in a daily email
- We use skills developed in Claude Cowork to pull together standardized reports on various specific topics, such as detailed breakdowns of merger contracts and proxy statements
- We use Claude Code to build custom software applications. We have built powerful portfolio management tools that would cost tens of thousands of dollars to buy. We also build custom KPI tracking dashboards for most companies we are researching
- We use AlphaSense's AI tools to support fundamental research on key qualitative topics

We aren't using AI tools because they are fun toys; we are getting a lot of value from them and pay thousands of dollars per year to use them. The AI tools are not making our jobs easier; they are allowing us to get deeper into each company and cover more ground. And we are just scratching the surface.

While many people are worried about job displacement, I suspect that many companies will find that they can use the improved productivity to make their products better and will need to keep most of their employees around to leverage these tools. Companies that do not use AI tools will likely fall behind and become uncompetitive. Therefore, I find it hard to believe that AI adoption won't continue to accelerate in the immediate future.

However, the fundamental drivers and the valuation of stocks are two separate topics. We recently conducted a broad study of the semiconductor industry to gauge how expensive the semiconductor stocks are relative to their expected growth and future cash flows. We pulled historical and projected financial information from each sub-sector of the semiconductor industry and studied the key trends. The table below summarizes the financial information.

Semiconductor Industry Analysis

($ Millions)	Total Enterprise Value	2026E - 2029E Revenue CAGR	2026E - 2029E EBIT CAGR	2026E - 2029E Capex CAGR	EV / EBIT 2026E	EV / EBIT 2029E
EDA Software & IP	$445,176	18.1%	21.2%	14.3%	48.1x	27.1x
Foundry & Equipment	$3,451,338	16.9%	16.3%	10.6%	25.0x	15.9x
Analog	$502,423	11.5%	19.4%	18.7%	33.2x	19.5x
GPU, CPU, & ASIC	$9,503,900	23.8%	24.7%	18.1%	27.1x	14.0x
Memory	$1,070,543	0.9%	(6.1%)	1.7%	12.1x	14.6x
Power Semis	$102,840	10.4%	38.9%	15.8%	40.3x	15.0x
Total Industry	**$15,076,220**	**19.1%**	**19.1%**	**11.0%**	**25.0x**	**14.8x**

Source: SEC Filings, LVS Advisory estimates.

There are a few things worth noting from the table above. While the total industry's forward valuation of 25x forward EBIT appears expensive, it doesn't scream "bubble" to me. The total industry valuation appears "fair" to "moderately over-valued" in the context of growth estimates brining the valuation down to 15x by 2029E. Also, capex budgets appear quite disciplined. One way this could end poorly is if there is an explosion in semiconductor capacity, which leads to low foundry utilization, resulting in a price crash and declining profitability. The reality appears to be the opposite, which should sustain industry over the foreseeable future.

There are many beneficiaries to the AI infrastructure investment boom other than semiconductors. The large tech companies are benefiting from increased demand for cloud computing. The power generation companies are benefiting from increased demand for electricity. Construction companies are benefiting from a step up in construction projects directly and indirectly related to data centers. Finally, a wide swath of industrial companies that sell components used by data centers is benefiting from increased demand.

The valuation multiples of these non-semiconductor companies are generally very reasonable, although their stocks will go down if demand from AI subsides.

There are some vulnerabilities to the AI infrastructure bull thesis:

1) There is significant political pushback to AI infrastructure investment in the US, which could slow down the development of datacenters and the pace of model innovation
2) Although the large tech companies are profitable, most of the newer companies, such as OpenAI, are not. If OpenAI or other big spenders in the ecosystem were to go bust, it could dent demand for AI compute
3) Macroeconomic shocks such as supply chain issues, high interest rates, or a recession could slow down the pace of AI infrastructure development or reduce end-user demand

To sum it up. AI is the dominant force in the US stock market today and will continue to drive returns for the major benchmarks. Our view is that AI is driving real productivity benefits to businesses and users, which should support continued adoption of tools. Demand for AI significantly outpaces the availability of capacity, which should support the continued buildout of infrastructure. There are pockets of high valuation among the semiconductor stocks, but valuations appear grounded in the fundamentals. There are risks that political or macroeconomic pressures could

cool the development of data centers and AI models; however, we continue to see attractive investment opportunities to invest in AI infrastructure in the public markets.

How the Growth Portfolio is Positioned

We have re-balanced our exposure to AI themes in 2026. We reduced our exposure to Power Generation and Big Tech and added to our exposure to Construction and Semiconductors. At 42%, we have a similar overall exposure to the AI theme as compared to the S&P 500, but the composition is much different. We're significantly underweight semiconductors, which represent ~18% of the S&P 500. We're also underweight big tech, which is ~20% of the S&P 500. We're significantly overweight power generation and construction.

AI Bets	Portfolio Weight
Power Generation	19%
Big Tech	13%
Construction	6%
Semconductors	4%
Sub-total	42%

Outside of the AI theme, we have a diverse portfolio of high-quality businesses with an emphasis on the financial services and entertainment industries. Our cash position is 4%.

Other Bets	Portfolio Weight
Financial Services	18%
Media & Entertainment	12%
Healthcare Services	4%
Consumer Discretionary	4%
Japan	4%
Education Services	4%
Conglomerates & Misc.	4%
Aerospace	3%
Cash	4%
Sub-total	58%

We are working on several exciting research projects and plan to share a high-conviction investment write-up soon.

Until Next Time

Our summer intern, Ambilu, onboarded this week. He is a very bright sophomore at Cornell studying computer science with a focus on artificial intelligence. Given everything discussed in this letter, his interests should align with our planned workstream this summer.

I have some planned travel where I will be meeting with portfolio companies and investors. I will be visiting New York City from June 9 to June 12, and I will be in North Carolina the week of June 22. Please send me an email if you would like to schedule a time to meet.

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Thank you for your continued support and trust in LVS Advisory.

Best regards,

Luis V. Sanchez CFA

ABOUT LVS ADVISORY

LVS Advisory is a boutique investment firm focused on providing active investment management services for individuals, families, and institutions. The LVS Event-Driven Portfolio is an absolute return strategy focused on capital preservation. The LVS Growth Portfolio is a global equity strategy focused on capital appreciation. Luis V. Sanchez CFA is the Founder and Managing Partner of LVS Advisory. Luis is a licensed Investment Adviser Representative and a CFA Charterholder. LVS Advisory is a Registered Investment Adviser based in Central Florida.

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