

August 31, 2026

Dear Oxwater Partners Investors,

In the first half of the year, AI-disruption fears and elevated energy prices led to sell-offs in a wide range of software and consumer-discretionary stocks. Since then, this trend has generally reversed, with certain of the fund's holdings once again trading at pre-sell-off prices.

Volatility is, of course, inherent to public markets and unavoidable. As long-term investors, our goal is to use it to our advantage. Thus, we reallocated a portion of the fund's capital in order to gain more exposure to select companies of great quality that were available at discounted valuations. Specifically, we augmented our pre-existing position in Toast and established a new position in Uber, which we explain in detail later in the letter.

The Nature of AI

Capital markets are a microcosm of evolutionary biology – a phenomenon shaped by endless cycles played out on a global scale: organisms develop traits that define their niche within a highly interconnected ecosystem and either flourish or perish. However, such outcomes are always dependent upon the prevailing environment, and these conditions are never static. When the environment shifts, so does the value of certain attributes. If the surface of the Earth were to fill with water, an organism's sprinting ability would become useless, while gills would confer outsized benefits. Artificial intelligence has heralded an environmental shift, and previous business models, such as software-as-a-service, must now adapt or face extinction.

These new super-predators, forged through decades of anthropogenic mutations, are equipped with an array of incredible traits: agentic (executing complex processing tasks), multimodal (comprehensive interpretation across file types), generative (creating high-fidelity content), large language (enhanced communicative and analytical functionality), and deep-learning (using advanced neural networks to identify complex patterns).

These capabilities are revolutionizing productivity, enabling the rapid completion of tasks that previously required significant time and domain expertise, such as programmatic coding or building complex financial models. Our own investment research capabilities have been enhanced with the use of large language models, which are capable of extracting and synthesizing high-fidelity fundamental data at rapid speeds.

Equipped with such powerful tools, many large enterprises are in a position to cull their workforce. Klarna's CEO recently shared that "its AI assistant was performing the work of 700 employees, reducing the average resolution time from 11 minutes to just two," and, as a result, "12 months ago, we would have been [at] about 5,000 active positions within the company, and

we are now down to about 3,800.” Although headcount reduction will likely continue in areas primed for smarter automation (e.g., insurance-claims processing), the greater labor market impact may be realized through attrition. Where will these individuals work? Will new industries and specialized positions arise? Is formal education irrelevant? Will universal basic income supported by AI taxation become a realistic possibility? These ex-ante scenarios seem vital for consideration, but, like most macroeconomic questions, currently remain too complex and opaque for anything but speculation.

The unique aspect of this particular situation is that individual entrepreneurs have access to the same technology as Fortune 500 companies, which means innovations will likely proliferate and yield a wave of new products, services, and solutions – all of which threaten the competitive advantages and margins secured by incumbents over the preceding decades.

As a consequence, we have developed a prism through which we view prospective investments, based on the fundamental risks posed by artificial intelligence:

1. Demand

Enterprise customers require fewer software subscriptions as AI enables them to operate with smaller teams.

2. Obsolescence

Products and services become disintermediated by LLMs capable of performing the same functions directly.

3. Oversupply

Incumbents and startups use AI to rapidly build and deploy new products, increasing supply and eroding pricing power.

4. Margins

AI integrations introduce variable inference costs that compress software margins as customer usage scales.

Therefore, of companies exposed to AI-disruption risk, we believe the best-insulated are those with large network effects, direct involvement with physical systems and hardware, complex processes that are mission-critical, or a protected “system-of-record” status (i.e., centralized control of accurate, confidential, verifiable data).

Focusing on Concentration

While the fund already employed a concentrated approach, with a targeted number of holdings between five and ten, it is our belief that further concentration is warranted. The method by

which we invest benefits from heightened exposure, due to the rarity with which high-value opportunities develop. With the conclusion of the fund's first three years of operation, we have adjusted our targeted number of holdings to between four and six, exclusive to our highest-conviction positions.

The concept of risk in capital markets has always been of great interest to us. Contrary to financial theory, which depends on measurable inputs and therefore conflates risk with price volatility (see "beta") – we define investment risk explicitly as the potential for permanent loss of capital. Realized losses arise for two reasons: you are wrong about a company's ability to generate future earnings (quality), or you pay too much relative to those future earnings (price). Therefore, we believe the best way to mitigate risk is to build a portfolio around high-value positions. This should not be confused with the popularized notion of "value investing." Instead, we ascribe value to a prospective investment based on our perception of the interplay between the quality of the underlying business and the price we are paying for its future earnings.

Our process involves building a repository of companies that meet our quality threshold, specifically those with 1) durable growth prospects, 2) deep competitive advantages, and 3) strong financial profiles. This is a short list, but a valuable one. Then, we watch for price dislocations, typically catalyzed by transitory headwinds or market uncertainty. Once we identify an attractive opportunity and a position has been established, our ideal holding period is at least five years – a duration that provides sufficient runway for operational objectives, compounding earnings, and outlasting market volatility. Given this process, which centers around selectivity, patience, and the willingness to endure interim volatility, holding fewer positions amplifies our ability to generate outsized returns.

As such, in the first half of 2026, we sold our remaining stake in Paramount Skydance and exited our legacy positions in Under Armour, Yeti, and Etsy, in order to reallocate the capital to Uber and Toast – two exceptional companies trading at discounted prices that, in our assessment, offered greater long-term return prospects.

Performance Attribution

Below are the contributors and detractors to the fund's gross return for the six-month period ended June 30, 2026.^{1,2}

January 1, 2026 – June 30, 2026	
Etsy, Inc.	1.2%
Under Armour, Inc.	1.1%
Uber Technologies, Inc.	0.2%
Yeti Holdings, Inc.	(0.3%)
Paramount Skydance Corporation	(0.4%)
Five Below, Inc.	(1.4%)
Toast, Inc.	(1.6%)
Dollar General Corporation	(1.8%)
PayPal Holdings, Inc.	(2.4%)
Alibaba Group Holding Limited	(5.1%)
Gross Return	(10.6%)

New Positions**Uber (UBER)**

Uber is the world's leading mobility and delivery platform, with over 200 million monthly consumers who ordered a collective 13.6 billion rides and deliveries in 2025, totaling nearly \$200 billion in gross bookings. The company benefits from powerful network effects, enormous scale, and a global footprint. Despite these attributes and a clear path to substantial earnings growth, concerns regarding the implications of autonomous vehicles (AVs) have weighed on Uber's valuation. We believe these concerns are misplaced, creating an opportunity to acquire ownership in an exceptional business at an attractive price.

Given that AVs appear to be the factor most affecting investors' assessment of Uber's terminal value, and thus the primary weight on its current market value, we will frame our thesis around the two most prevalent concerns about the company's position in an autonomous future.

Before doing so, it is worth putting Uber's direct AV exposure in context. Delivery (i.e., Uber Eats) accounts for nearly half of gross bookings and more than one-third of revenue, is growing faster than Mobility, and contributed roughly one-third of Uber's total segment operating income in the first six months of this year. As such, Delivery, which is increasingly important to Uber's consolidated profits, should not be overlooked amid the focus on its Mobility business.

Uber is also highly international, with 54% of its revenue generated outside the United States in 2025. Some of these markets, such as Brazil and India, are not conducive to high AV penetration for reasons including infrastructure challenges, street congestion, and the prevalence of low-cost, highly maneuverable two- and three-wheeled vehicles used for ridesharing. Furthermore, within the United States, 30% of Uber's Mobility bookings are attributable to its top 20 cities; the remaining 70% comes from suburbs and relatively smaller cities, which are currently among the fastest-growing subsets of its business. In contrast to urban centers, sprawling suburbs and lower-population metros present a less compelling economic case for AV operators, as lower population density results in lower utilization rates.

This is all to say that a meaningful percentage of Uber's business is unlikely to be affected by AVs, at least for a long period of time. Nevertheless, we understand the outsized effect that autonomous transport has on investor sentiment, and we believe the technology will indeed become ubiquitous where the economics, logistics, and demographics support it. The relevant question, then, is what the proliferation of AVs will mean for Uber.

1) The first concern is that AV companies will go directly to consumers, circumventing Uber and thereby disintermediating its marketplace.

We believe this fear is an over-extrapolation from the approach taken by Waymo and Tesla and will not materialize across the broader AV landscape for multiple reasons. Waymo and Tesla are unique among AV companies due to their financial resources, brand awareness, and first-mover advantages. Autonomous vehicles are expensive, depreciating assets, which makes utilization – i.e., maximizing revenue-generating miles while minimizing empty miles and idle time – critical to earning an adequate return on invested capital. Not only must a direct-to-consumer AV operator generate enough rider demand to keep its fleet sufficiently productive, which requires significant marketing capital, but it must manage the wide variance in day-to-day demand inherent to rideshare. For instance, rider demand on Tuesday afternoon is a fraction of what it is on Saturday night. Accounting for these peaks and troughs requires maintaining a fleet large enough to adequately serve Saturday demand without leaving too many vehicles idle on Tuesday. Such load balancing is a challenge and something that Uber has optimized. Uber also solves the demand-generation problem. Its marketplace aggregates hundreds of millions of consumers and can direct that demand toward whichever supply is best positioned to serve it. From the perspective of an AV operator, the relevant calculus is not Uber's take rate versus zero; it is Uber's take rate versus the cost, complexity, and lower utilization associated with acquiring and serving demand independently. As long as the economics of distributing rides through Uber are superior to building comparable demand internally, partnering with Uber is the logical choice.

Furthermore, having a DTC presence and partnering with Uber are not mutually exclusive. An AV operator can maintain its own app while also placing excess capacity on Uber to improve

utilization. This is analogous to hotels, which allow consumers to book rooms through their own websites while also, and indeed primarily, distributing their inventory through aggregators such as Booking.com and Expedia.

All things considered, we believe most AV companies will choose to partner with demand aggregators, of which Uber is by far the largest. As of today, Uber has a number of agreements in place with AV partners – such as WeRide, Baidu, Nuro, Wayve, Pony.ai, Avride, MOIA, and Rivian – with rides currently offered in select cities around the world and plans to deploy thousands of additional vehicles collectively over the next few years (for reference, Waymo’s current fleet size is estimated at 4,000 vehicles).

Lastly, we believe autonomous-driving technology will become increasingly commoditized over time. What consumers will ultimately care about is whether a ride is safe, affordable, and available when they request it. We doubt most riders will have a preference for whether the autonomous “driver” was developed by Waymo, Wayve, Nuro, WeRide, or another provider. Such commoditization should favor Uber. If consumers increasingly view the underlying AV technology as interchangeable, value shifts toward the platform that can offer the shortest wait time, greatest availability, and best price across different suppliers. A consumer opening the Uber app would have access to a network of competing AV fleets rather than being limited to the vehicles available from a single operator. In this scenario, Uber’s value as the largest demand aggregator in global mobility is clear.

2) The second concern is that autonomous rides will have inferior economics for Uber relative to human-operated rideshare.

This concern rests on two assumptions. First, AV rides eventually become less expensive than human-operated rides as hardware costs decline. Second, AV supply will be more concentrated than Uber’s current base of millions of independent drivers, giving AV operators greater negotiating leverage and resulting in a lower take rate for Uber. While we agree with both premises, we disagree that they will necessarily result in worse economics for Uber.

Regarding the price per ride, it is not possible to know today how much less autonomous rides will ultimately cost, but based on a range of industry estimates, a one-third to one-half reduction relative to human-operated rideshare seems to be a reasonable base-case assumption. This would obviously reduce Uber’s revenue per trip. On the flip side, we believe AVs will significantly expand ridesharing’s addressable market. A sufficiently inexpensive, reliable, and convenient autonomous ride becomes increasingly competitive with public transit, driving one’s own car, trips involving paid parking, and, in some cases, car ownership itself. Having been early riders of Waymo in San Antonio (before the service was paused after one of its vehicles drove into a flooded street in late April...), we can attest to the superior experience AVs offer and the

TAM-expanding behavior they engender. As the cost of AV trips declines, demand will increase, perhaps not proportionally, but certainly directionally. The demand elasticity of rideshare has been on display this year in California, where Uber passed on insurance savings to consumers in the form of lower prices. Following these reductions, Uber has seen rides increase to the point that Los Angeles and San Francisco, two of its most mature markets (and, as an aside, two of Waymo's largest markets), are experiencing faster trip growth than the rest of the country.

Regarding take rate, Uber reportedly earns a lower percentage of AV fares than it does on human-operated rides, but take rate alone does not determine profitability. Autonomous trips reduce a number of costs associated with managing human-driver supply, including driver-related insurance, incentives, onboarding, and background checks. Indeed, of Uber's 30% average Mobility take rate, roughly one-third goes toward insurance. Thus, its average Mobility take rate excluding insurance costs is about 20%, approximately what its take rate is reported to be with Waymo in Austin and Atlanta. In other words, Uber's 20% take of an AV ride is roughly economically equivalent to its 30% take from a human-operated ride. The relevant question is therefore not whether Uber earns the same amount of revenue per AV trip, but how much contribution profit each trip delivers and how rapidly the number of trips grows.

One final point is that the eventual structure of the AV industry will likely prove significantly more fragmented than it is at present. While Waymo and Tesla are vertically integrated, most participants specialize in only one portion of the autonomous-transportation stack. The ecosystem includes vehicle manufacturers (hardware), autonomous-driving developers (software), fleet operators (maintenance), financing providers (capital), and demand aggregators (marketplaces). Over time, autonomous vehicles could become financial assets owned by an investor class ranging from entrepreneurs to private equity firms seeking to earn a return by placing vehicles into service. In such a scenario, AV supply would not consist of a handful of robotaxi companies, but rather a broad base of owners deploying autonomous vehicles onto Uber to monetize their assets, akin to those who purchase properties to list on Airbnb.

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Ultimately, for investor sentiment to materially improve, we believe Uber must demonstrate three things: that it can secure sufficient AV supply, that consumers will choose to take autonomous rides through its platform, and that those rides generate attractive economics for Uber. Proving this out will take time; in the meantime, Uber's financial profile is highly attractive, with an excellent balance sheet, more than \$10 billion of trailing-twelve-month free cash flow, and a path to 20%+ annual EPS growth over the medium term through double-digit revenue growth, continued operating-margin expansion, and share repurchases.

Position Updates**Five Below (FIVE)**

Five Below had an excellent start to FY 2026. In Q1, total revenue increased 32.5%, driven by same-store sales growth of 22.7%; comparable transactions were up 19%, reflecting outsized strength in customer traffic and engagement. GAAP operating margin expanded 680 basis points to 12%, as the increase in revenue generated significant leverage across occupancy, distribution, store, and corporate expenses.

The elevated sales results can be attributed to several key factors: Five Below's merchandise assortment resonating with its customer base; more relevant and effective social and digital marketing; an improved shopping experience resulting from better in-stock positions and simpler pricing; and higher tax refunds during the quarter. As CEO Winnie Park stated on the company's Q1 earnings call in June, Five Below has a "maniacal" focus on serving its target customers – Gen Alpha, Gen Z, and Millennial moms – and applies an "end-to-end approach, from detecting a burgeoning trend to amplifying it in social, to creating an amazing in-store experience" in order to do so.

While higher gas prices are expected to weigh on consumer demand, management raised its FY 2026 guidance in light of the strong Q1 results. Net sales are forecast to be in the range of \$5.4 to \$5.5 billion, growth of 14% at the midpoint, which includes same-store sales growth of 6% to 8%. Adjusted operating margin is expected to expand 170 basis points to 11.6%, implying earnings-per-share growth of more than 30%.

Five Below ended Q1 with 1,970 stores, compared with management's long-term estimate of more than 3,500 potential locations in the United States. The economics supporting this expansion remain highly compelling: a new store requires an average initial cash investment of approximately \$0.4 million, generates roughly \$2 million of sales in its first full year, and has historically achieved a payback period of approximately one year. This combination of strong unit economics, a substantial remaining store runway, and continued same-store sales growth should enable Five Below to compound earnings at an attractive rate for many years.

Toast (TOST)

Toast delivered robust results in the first half of 2026. Location count grew to 180,000, up 22% year-over-year; subscription services revenue plus fintech gross profit increased 27%; and operating income approximately doubled to \$262 million.

Looking ahead, two of Toast's highest priorities are expanding the capabilities of its platform through AI and broadening the markets it serves.

Toast IQ Grow, its AI-powered marketing solution, brings together the capabilities to manage much of a restaurant's marketing activity across email, SMS, and social media – from creation and execution to analysis and reporting. Given that many restaurants either lack a dedicated marketing team or struggle with marketing, the offering has been met with strong early reception. Toast IQ's principal advantage is the depth and breadth of the data housed within Toast's platform. As a restaurant's system of record, Toast has visibility into sales, labor scheduling, inventory purchases, menu changes, and numerous other aspects of day-to-day operations. Across its expansive customer base, it can also observe the characteristics that distinguish successful restaurants from unsuccessful ones. These insights provide highly valuable context for Toast's AI products. Over time, the company plans to introduce additional Toast IQ agents addressing other areas of restaurant operations, such as payroll, scheduling, accounting, and tax services. We believe Toast will prove that these products can be monetized effectively, as the return on investment that they offer – whether measured in money or time – should be compelling for customers.

Toast is also making encouraging progress in expanding beyond its core base of small and midsize restaurants. Adoption is growing across enterprise, international, and retail markets. For example, its location count in sports and entertainment venues, including stadiums and theme parks, has doubled over the past year, and the company recently signed its first gas station and convenience-store customers. Across these newer markets, Toast is applying much the same playbook that drove its success in restaurants: offering a best-in-class, unified, cloud-based POS and software platform; investing in the industry-specific functionality required by each vertical; and pairing that product specialization with a localized go-to-market strategy.

Taken together, these opportunities give Toast multiple avenues for sustained growth and, over the long term, the potential to expand its ARR to several times its current level.

Dollar General (DG)

Dollar General continues to make progress. In FY Q1, same-store sales were up 2.0%, led by 1.4% customer traffic growth, and operating margin expanded 40 basis points despite higher fuel costs. While its core customer is under pressure from higher gas prices and reduced SNAP distributions, DG has benefitted from an acceleration in trade-in across all income cohorts, particularly \$100k+ households. This is a testament to its unique strength: when economic circumstances become challenging, rather than losing customers, Dollar General gains them, due in large part to the combination of value and convenience it provides.

What is particularly resonating with new and existing customers is "Value Valley," an area of the store that consists of merchandise priced at \$1 or less. This section achieved comparable sales growth of 18% in Q1, a standout figure and a clear indication of the attractiveness of the \$1 price

point to Dollar General's customers. To augment its selection at this price, the company is adding a \$1 frozen-food section, an initiative which should resonate well with customers.

Delivery has also emerged as a meaningful top-line contributor, accounting for 70 basis points of DG's same-store sales growth in Q1. This offering, fulfilled primarily through DoorDash and Uber Eats, offers a high level of convenience, with 80% of orders delivered in under one hour. We believe this sales channel is net incremental to DG's business rather than cannibalistic, as delivery orders have higher average order values than in-store transactions, and a prominent presence on the leading delivery apps exposes Dollar General to an additional customer set, one that may not otherwise shop its stores.

For FY 2026, management's guidance calls for net sales growth of approximately 4% – the majority coming from same-store sales growth, with a 1.5% contribution from new units – and operating income growth in the high single digits. Over the medium term, we expect DG to average approximately 4% annual revenue growth and continue progressing toward a 6% operating margin, from the 5.2% recorded in 2025. Margin expansion should be supported by continued reductions in shrink and damages; growth in its high-margin advertising business, DG Media Network; and increasing non-consumable merchandise sales. After a further improvement in its leverage ratio this year, we anticipate that Dollar General will resume its share repurchase program, providing an additional tailwind to EPS growth.

PayPal (PYPL)

PayPal delivered solid results in the second quarter, with total payment volume growth of 10%, revenue growth of 5%, and transaction margin dollars up 1%, or 3% excluding the effect of interest earned on customer balances. Continued strength in Venmo, Braintree, and BNPL was partially offset by investments aimed at improving the branded checkout business, resulting in an 8% decline in operating income. For the full year, transaction margin dollars are expected to increase by approximately 1%, while operating expenses are expected to grow in the high single digits. After accounting for continued share repurchases, EPS growth should be roughly flat.

While these investments are weighing on near-term earnings, we believe they are laying the groundwork for improved branded checkout growth. PayPal is investing both to secure better placement on merchants' checkout pages and to strengthen its value proposition with consumers through improved rewards, personalization, and product experiences. The company is also investing to evolve PayPal and Venmo into broader financial services platforms, with the goal of increasing engagement and expanding the number of ways consumers use each product.

As we discussed in our 2025 annual letter in February, we believed PayPal was "significantly undervalued by any measure" and that management had multiple avenues to deliver shareholder value substantially above the company's then-current market price. In July, Stripe and private

equity firm Advent International made a joint acquisition offer for PayPal at \$60.50 per share, which PayPal's board (rightly, in our view) determined was too low at only ~9x 2026E operating income. While subsequent negotiations did not result in a transaction, we believe the fact that an acquisition offer was made is indicative of the latent value embedded in PayPal.

Alibaba (BABA)

Alibaba continues to execute on its two primary growth initiatives: AI + Cloud and quick commerce. In Q2, Alibaba E-Commerce Group – which includes all of Alibaba's e-commerce businesses, including Taobao, Tmall, Taobao Instant Commerce, AliExpress, and others – delivered 4% revenue growth. This top-line result was muted due to a slowdown in China's consumer spending environment, as well as a merchant incentive program that Alibaba introduced, which is treated as a contra-revenue item and resulted in customer management revenue for the China E-commerce business declining 7%, compared with 1% growth on a like-for-like basis. Quick commerce continues to scale rapidly, posting 45% year-over-year revenue growth while improving unit economics. Despite the substantial losses associated with quick commerce, Alibaba E-Commerce Group delivered effectively flat Adjusted EBITA, suggesting a return to earnings growth as quick commerce continues to narrow its losses and, eventually, turns profitable.

AI Cloud and Compute Services – which consists of Alibaba Cloud and T-Head, its fabless semiconductor subsidiary – recorded 45% revenue growth and 133% Adjusted EBITA growth. Strong customer demand, combined with Alibaba's leading position in China's AI cloud market, is producing accelerating revenue growth across Alibaba Cloud's offerings. Alibaba has integrated Qwen – its flagship consumer-facing AI application – into its e-commerce ecosystem, with 250 million users having used Qwen's agentic features while shopping. It also released QwenWork, its AI agent for the workplace. Qwen remains early in its monetization journey, but it is already driving incremental Alibaba Cloud consumption as developers and enterprises deploy Qwen models through Alibaba's Model-as-a-Service platform, fueling various sources of cloud revenue, such as inference, computing, and storage.

Alibaba is essentially a tale of two businesses: a dominant, highly cash-generative e-commerce enterprise growing at a modest pace, and a market-leading full-stack AI and cloud computing business growing at a rapid rate. Management estimates that AI and Cloud external revenue will reach \$100 billion in five years, relative to a base of approximately \$20 billion at the end of FY 2026, equating to a 38% compound annual growth rate. We believe that over the next five to ten years, the majority of Alibaba's value will be derived from its AI and Cloud businesses. These businesses remain relatively early in their development and currently require substantial investments in data centers, GPUs, and model development. As revenue continues to grow and produce increasingly meaningful profits, we believe investors will recognize the earnings power

and quality of Alibaba's AI and Cloud franchise, supporting a materially higher valuation for the company.

Exited Positions

In the first half of 2026, we sold our remaining stake in Paramount Skydance, in addition to exiting our positions in Under Armour, Yeti, and Etsy. We exited these positions in order to reallocate the capital to Uber and Toast, two investments that we felt offered greater long-term prospects and were trading at discounted prices not reflective of such prospects.

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Charles Leeper	Hank Leeper
Managing Partner	Managing Partner

Endnotes

1. The contribution or detraction ascribed to each position is inclusive of dividend payments made by the respective issuer during the period of measurement. Values may not sum due to rounding.
2. Gross return reflects the performance of Oxwater Partners LP (the “Fund”) before the deduction of management fees, administrative expenses, and performance fees.

Disclosures

Past performance is not necessarily indicative of future results. All investments involve risk, including the loss of principal. This document does not constitute a recommendation, or an offer to sell, or the solicitation of an offer to buy, any security or investment product.

Forward-Looking Statements

This report contains forward-looking statements, which reflect Oxwater Capital Management’s views. Forward-looking statements are predictive and may be identified by reference to words such as “believe,” “estimate,” “may,” “will,” “predict,” “should,” “can,” or expressions of a similar nature. Actual events or results may differ materially from those expressed in forward-looking statements. Neither Oxwater Capital Management nor any of its affiliates undertakes any obligation to update any forward-looking statement.