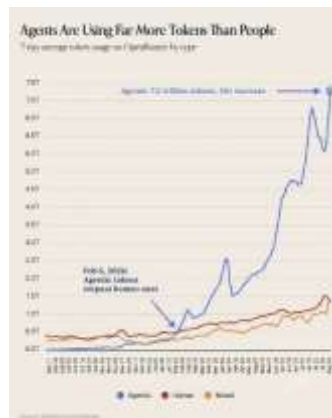


Over the past month, we've received a number of thoughtful questions from you, our investors. In this letter, we address the ones we believe matter most:

- 1) **Is AI narrative overheated and are we near the peak of the AI cycle:** Our answer is an emphatic no; we are nowhere close to the peak. The economics of AI are shifting beneath our feet, and the data increasingly supports the thesis that agentic infrastructure — not consumer chat — will be the dominant driver of token demand over the next several years. Goldman Sachs projects total token consumption will grow more than 24x by 2030, with enterprise AI agents emerging as the single largest source of that growth, eclipsing both consumer agents and traditional non-agent workloads. This is not merely a forward-looking model — real-world usage data from OpenRouter confirms the inflection is already here: agentic token consumption surpassed human token consumption for the first time on February 6, 2026, and has since surged roughly 14x, while human usage has remained comparatively flat. Critically, over 85% of that agentic token burn now comes from cached prompts rather than freshly generated content — up from 65% just months earlier — underscoring that agent workflows are structurally repetitive, re-reading context at every step of a task.



- 2) **Are the valuations close to the peak:** Skeptics will reasonably ask whether this enthusiasm is simply the market getting ahead of itself again, inflating a narrative faster than the underlying businesses can deliver. The data does not support this read. Looking at the past decade of S&P 500 performance, forward 12-month EPS estimates have risen in close step with price — both roughly tripling since 2015 — with earnings growth consistently validating, rather than lagging behind, price appreciation. Even through periods of sharp price volatility, such as the 2020 drawdown and the 2022 correction, forward earnings estimates continued to climb steadily, underscoring that this has been a fundamentally supported advance rather than a multiple-expansion story alone. This stands in sharp contrast to prior speculative episodes such as the dot-com bubble, when large-cap technology companies traded at price-to-earnings ratios exceeding 100x — in some cases nearing 700x — levels detached from any realistic earnings trajectory. Today's market, by comparison, remains well within historically reasonable valuation territory, with earnings growth continuing to underpin price levels rather than trailing far behind them.



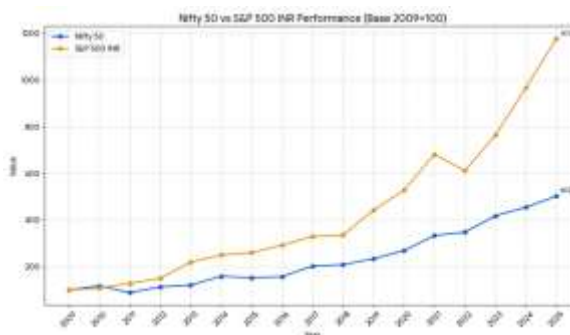
- 3) **Is the AI usage growth ROI positive for the ecosystem companies:** Google Cloud's profitability has undergone a structural transformation since the AI infrastructure buildout began in earnest in 2023, and this margin trajectory is precisely why hyperscalers continue to pour record capital into AI infrastructure rather than pulling back. EBIT margin has expanded in nearly every quarter since Q1 2023, climbing from just 2.6% to 35.6% by Q2 2026 — a roughly 14x

improvement in under three and a half years — with the pace of improvement itself accelerating: by Q2 2026, operating income had tripled year-over-year (from \$2.8B to \$8.8B), margin expanded from roughly 21% to 36% in just twelve months, and revenue surged 82% to \$24.8 billion for the quarter, the clearest possible signature of

operating leverage taking hold. This dynamic reflects Google's vertically integrated approach — controlling its own custom silicon (TPUs), models, and infrastructure stack rather than relying on third-party GPU vendors — so that as scale increases, that integration converts directly into margin rather than leaking out to external suppliers, a structural advantage hyperscalers dependent on outside chip vendors don't fully share. This matters directly for the capex debate: skeptics often frame hyperscaler AI infrastructure spending as a speculative arms race with uncertain payback, but the data argues otherwise — Google Cloud isn't burning cash to subsidize AI adoption, its margin has moved within range of established rivals like AWS while growing revenue multiples faster, and management is scaling a business that has repeatedly proven it converts AI infrastructure investment into expanding, not shrinking, margins, exactly the return-on-capital signal that justifies continued, escalating capex commitments guided at \$175–190B for 2026.

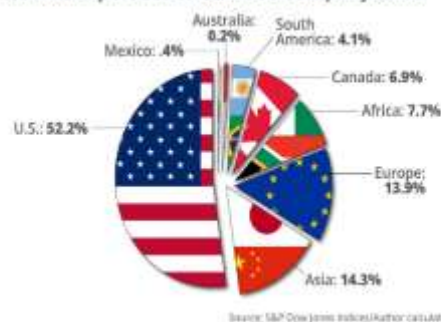


- 4) **Finally, should Investors diversify out of the NIFTY 50:** The data makes a compelling case for Indian investors to allocate a portion of their portfolios to U.S. equities alongside domestic holdings. Since 2009, the S&P 500 (measured in INR terms) has delivered a cumulative return of nearly 1,177% — more than double the Nifty 50's 502% over the same period, a gap that has widened materially since 2020. For an Indian investor, this isn't simply a story of superior U.S. equity performance; the INR-denominated return also captures the additional tailwind of rupee depreciation against the dollar over this period, meaning global allocation has historically compounded both equity returns and currency effects in the investor's favor.



Beyond the return differential, the diversification argument is equally important — and often understated. A common objection to investing in U.S. equities is that doing so simply swaps concentration in Indian markets for concentration in the U.S. economy. The data doesn't bear this out: S&P 500 companies derive only 52.2% of their sales from within the U.S., with the remaining 47.8% coming from international markets —

Estimated percent of S&P 500 company sales



14.3% from Asia, 13.9% from Europe, 7.7% from Africa, 6.9% from Canada, and further contributions from South America and elsewhere. In effect, an investor buying the S&P 500 is not making a concentrated bet on the U.S. economy alone, but gaining exposure to a globally diversified revenue base spanning every major region, generated by companies with the scale, competitive moats, and management depth to compete internationally.

For Nifty 50 investors, this creates a genuinely additive case, not merely a substitutive one. Domestic allocation captures India's structural growth story — demographics, formalization, and rising consumption — while global allocation via the S&P 500 adds exposure to sectors and business models India's market is still under-represented in (large-cap technology, global platform businesses, and diversified multinational franchises), all while reducing single-country concentration risk. The historical return data suggests investors have not had to sacrifice performance to gain this diversification — if anything, the global allocation has been the higher-returning leg of the portfolio over the past decade and a half. We continue to believe a thoughtfully sized allocation to U.S. equities is a prudent complement to core Indian holdings, not a replacement for them.

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