

## Accountability with KCR: Our Views on Tech Since Our Founding

The research published in this newsletter is organized and authored by a group of fund managers and researchers who have over 90 years of combined experience and have worked together for over 14 years. As long-time readers know, our sister company, L2 Asset Management, runs a collection of long-only as well as long/short products. After a brutal 2018, 2019, and 2020, that represented the most speculative and hence worst stretch of performance in our collective careers, the “payback” from 2021 to today has been remarkable.

Our market neutral products – one that is long and short nearly identical amounts<sup>i</sup> - has put up annualized returns of 10%<sup>ii</sup> per year vs. the S&P 500 at nearly 14% since the end of 2020. And it has done this despite having near-zero correlation to the popular long-only benchmark.<sup>iii</sup> After a stretch of abnormally bad returns we have been enjoying a period of strong returns.

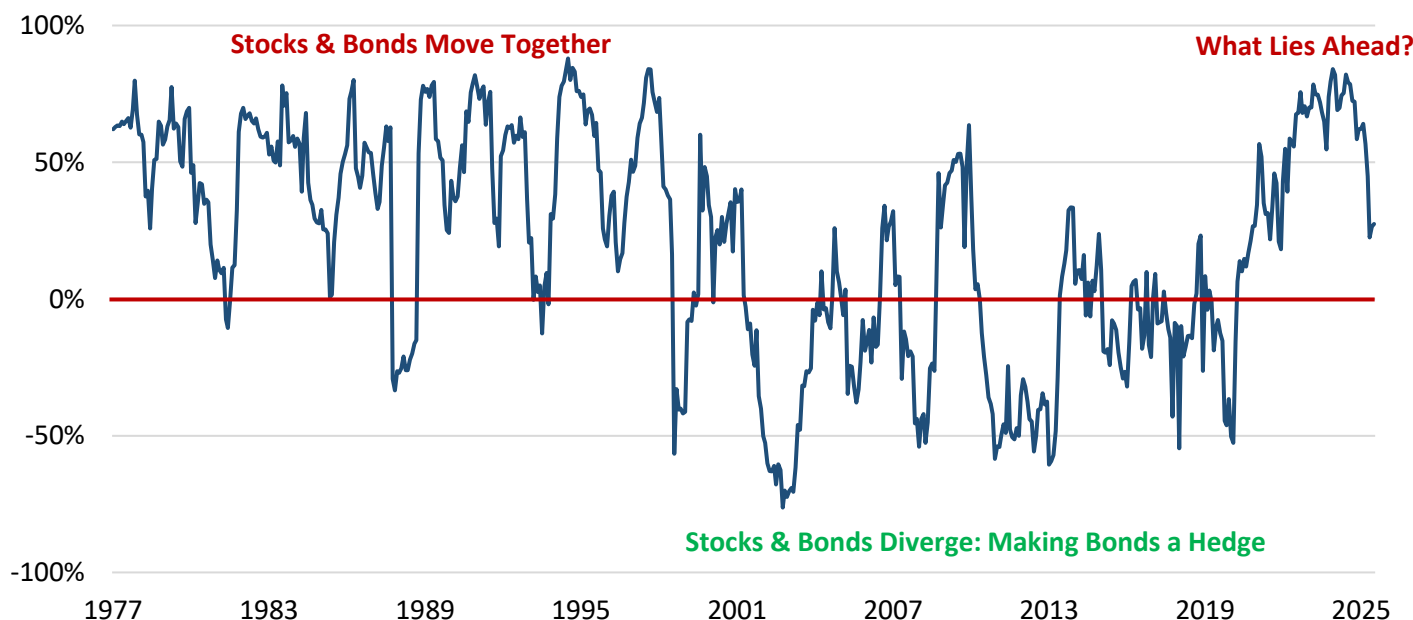
There is a great deal to suggest that long/short portfolios – which nearly went extinct by 2020 – may become a critical component for diversifying and protecting investors’ wealth in the years to come. In 2020 and 2021 the KCR team published a blizzard of research highlighting the ludicrous state of “60% equities and 40% bonds.” Our point was that bonds offered tremendous risk and no reward, an issue we dubbed the [duration crisis](#).<sup>iv</sup>

With fixed income yields approaching zero, there was **no rational reason** to believe bonds were a good bet. By the end of 2021, if you lent the US government money for a decade, the most you could make was 1.5%, nominal. At the time, these bonds offered investors a **negative** real yield of -5.5% as CPI was running at 7%.

We took it a step further and highlighted that despite the generally accepted view that bonds were negatively correlated with stocks – and hence provided a hedge – that **historically** the data showed the two asset classes were actually **positively correlated**.

The chart below shows that the correlation between bonds and stocks spiked back to levels last seen prior to the dot.com crash. When the line is above zero, it means stocks and bonds are moving together. Contrarily, when the line is below zero, stocks and bond returns are diverging, ie work as a hedged investment. What lies ahead is anyone’s guess.

### Stock & Bond Correlations



Source: Kailash Capital Research, LLC; Data from 2/28/1976 - 7/31/2025

### Why does this matter to technology investing today?

[KCR's model portfolios](#) operate without sector or tracking error constraints. This, in turn, creates an amplified version of the views we often express in our asset management products.<sup>v</sup>

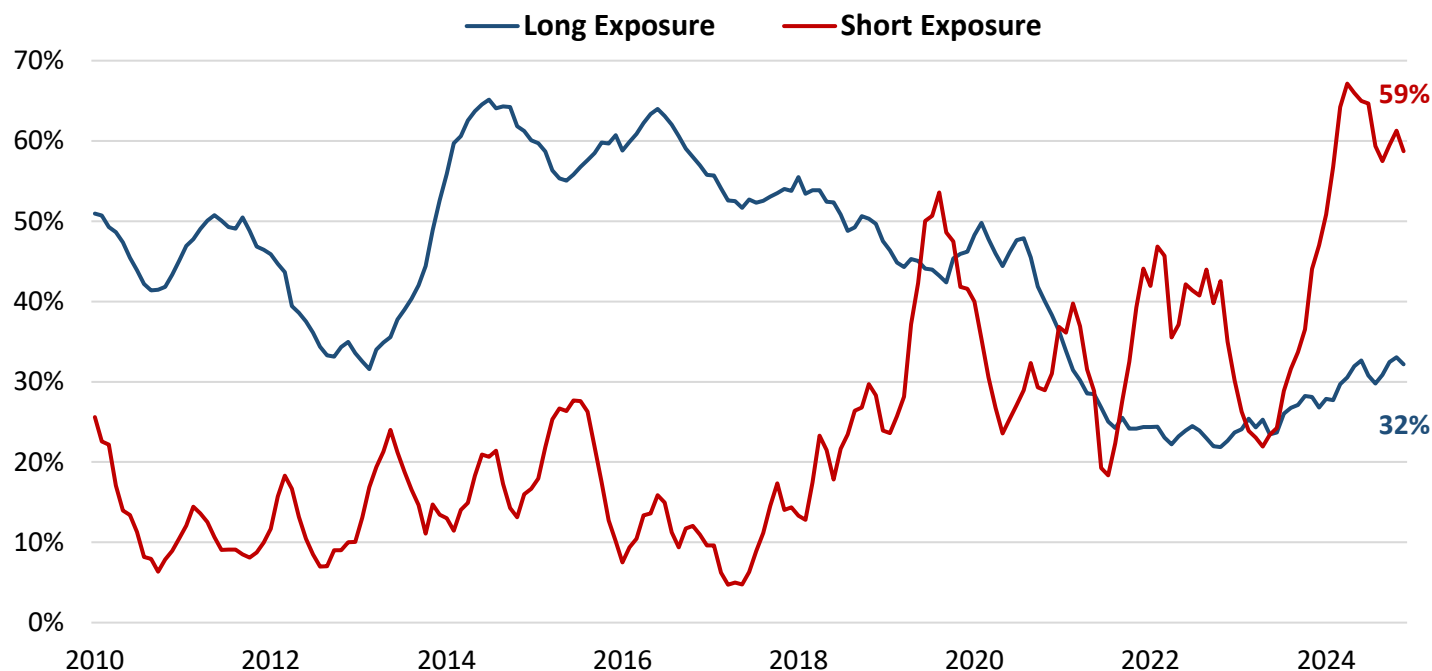
Since our firm's founding in 2010, technology has been a powerhouse sector on the long side for **all** our products.

### How times have changed.

The chart below shows the hypothetical exposure of a **100% long/100% short** market neutral book using KCR's Large Cap model portfolios.

The **navy blue line** below shows our long exposure in the technology sector was **above 50%** between 2014 and 2019 but has since collapsed to a far more modest **32%**.

### Technology Exposure in KCR Large Cap Portfolio



Source: Kailash Capital Research, LLC; Data from 1/31/2010 - 7/31/2025

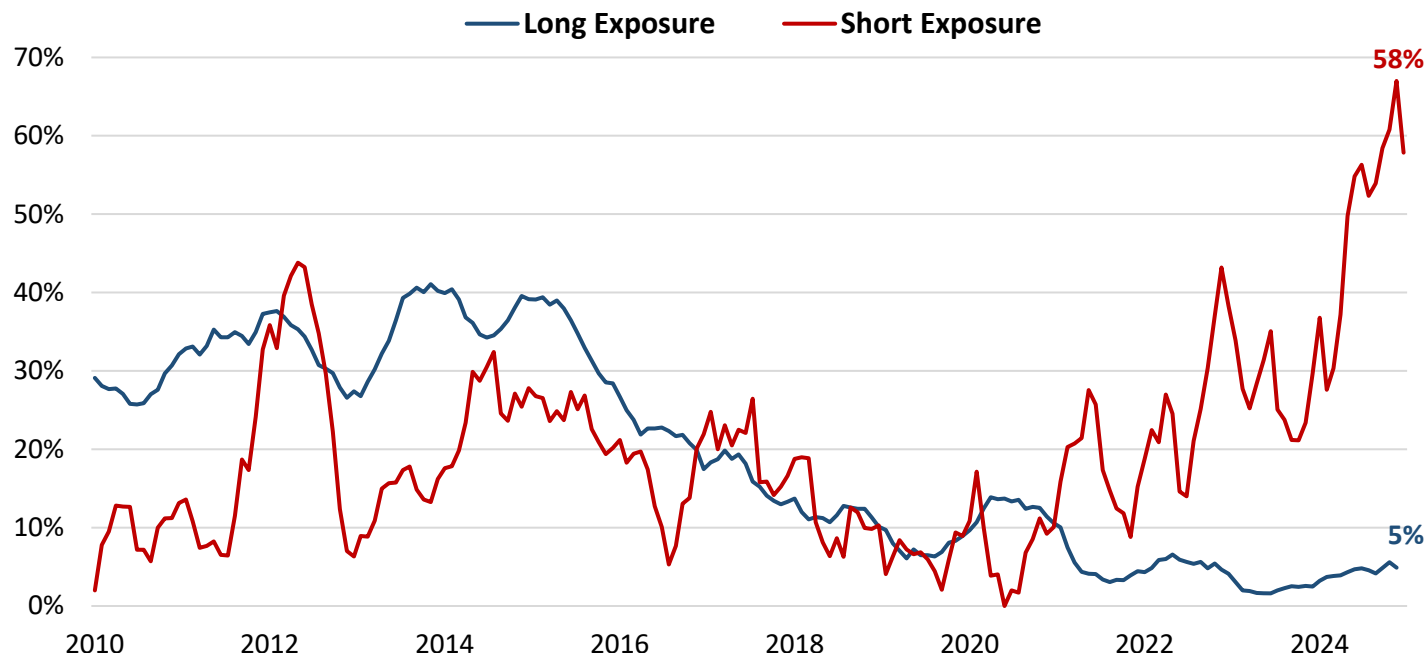
Contrarily, the **red line** shows our model portfolio's short exposure in technology since KCR's founding. You can see that today, **59%** of our short model portfolio is made up of tech stocks.

**Effectively, our evidence-based stock selection process has swung from unambiguously bullish tech to record levels of bearishness.**

The impact is even more dramatic in KCR's Small & Mid Cap **long** and **short** model portfolios. In the Small & Mid Cap space, our **Technology Long exposure** is virtually non-existent compared to our ~30% weight through 2016. As a gentle reminder, a 30%+ sector bet over nearly 6 years is no small thing.

Today, only **5%** of our SMID Long book is in Tech.

## Technology Exposure in KCR SMID Portfolio



Source: Kailash Capital Research, LLC; Data from 1/31/2010 - 7/31/2025

The red line shows our Small & Mid Cap **short model portfolio's exposure** to Tech. Between 2010 and 2020, you may notice that our short exposure in Tech was ~equivalent to our long exposure. Even more notable, in the Covid Crash, our short book had virtually no exposure to Technology.

Today **58%** of the Small & Mid Cap short model portfolio are IT names. To new readers, our comprehensive, evidence-based ranking methodologies contemplate everything from valuation, balance sheets, earnings quality and managements' track record of capital allocation. Equally important, unlike many sell side quantitative models that re-shuffle their positions monthly, if not daily, our model portfolios are slow moving and typically have holding horizons no shorter than 1 year.

**Important note for DIY Financial Advisors: Being Long or Short 58% in any one sector is a great way to look like a genius or a fool in short order!**

Below we present the fundamental characteristics of the Tech we like, and tech we dislike. On the following pages, we present our Top 10 Ranked Long and Bottom 10 Ranked Short Tech names for Large Cap and SMID.

	FCF/EV	P/S	Fwd P/E	ROE	Total Yield	3 Yr Sales Grth	36m Beta
Large Cap Long Tech	6%	1.7x	16.0x	45%	6%	4%	1.2
SMID Long Tech	17%	1.6x	11.1x	8%	4%	-9%	1.0
Large Cap Short Tech	0%	7.3x	29.6x	1%	-1%	115%	1.8
SMID Short Tech	-8%	10.5x	41.7x	-31%	-12%	200%	3.1

Source: Kailash Capital Research, LLC; Data from 7/31/2025

**Exhibits****KCR Large Cap Universe**

KCR Top 10 Ranked IT Firms				KCR Bottom 10 Ranked IT Firms			
KCR Agg Rank	Ticker	Company Name	Market Cap (\$m)	KCR Agg Rank	Ticker	Company Name	Market Cap (\$m)
8	NTAP	NETAPP INC	20,930	627	SAIL	SAILPOINT INC	12,434
10	CSCO	CISCO SYSTEMS INC	269,597	622	FSLR	FIRST SOLAR INC	18,739
11	LOGI	LOGITECH INTERNATIONAL SA	13,794	619	MSTR	MICROSTRATEGY INC	106,966
12	IBM	INTL BUSINESS MACHINES CORP	235,814	618	MRVL	MARVELL TECHNOLOGY INC	69,295
13	JBL	JABIL INC	23,950	608	ROP	ROPER TECHNOLOGIES INC	59,176
15	FLEX	FLEX LTD	18,762	606	ALAB	ASTERA LABS INC	22,548
16	DELL	DELL TECHNOLOGIES INC	90,627	597	AMD	ADVANCED MICRO DEVICES	284,917
17	QCOM	QUALCOMM INC	159,088	595	CRWV	COREWEAVE INC	49,707
23	ZM	ZOOM COMMUNICATIONS INC	22,465	587	TYL	TYLER TECHNOLOGIES INC	25,202
24	CHKP	CHECK POINT SOFTWARE TECHN	20,178	582	ENTG	ENTEGRIS INC	11,871

Source: Kailash Capital Research, LLC; Data from 7/31/2025

**KCR Small & Mid Cap Universe**

KCR Top 10 Ranked IT Firms				KCR Bottom 10 Ranked IT Firms			
KCR Agg Rank	Ticker	Company Name	Market Cap (\$m)	KCR Agg Rank	Ticker	Company Name	Market Cap (\$m)
31	DXC	DXC TECHNOLOGY CO	2,466	1533	AAOI	APPLIED OPTOELECTRONICS INC	1,217
35	NTCT	NETSCOUT SYSTEMS INC	1,544	1531	SOUN	SOUNDHOUND AI INC	4,147
43	TDC	TERADATA CORP	2,007	1530	DGNX	DIGINEX LIMITED	1,219
48	PLUS	EPLUS INC	1,718	1525	QUBT	QUANTUM COMPUTING INC	2,038
59	ADEA	ADEIA INC	1,404	1524	RGTI	RIGETTI COMPUTING INC	4,161
74	AKAM	AKAMAI TECHNOLOGIES INC	11,148	1522	AUR	AURORA INNOVATION INC	10,673
78	YOU	CLEAR SECURE INC	2,753	1519	MARA	MARA HOLDINGS INC	5,826
92	DAKT	DAKTRONICS INC	796	1517	CIFR	CIPHER MINING INC	2,025
95	HLIT	HARMONIC INC	976	1516	BTDR	BITDEER TECHNOLOGIES GROUP	2,479
96	RNG	RINGCENTRAL INC	2,306	1512	HUT	HUT 8 CORP	2,211

Source: Kailash Capital Research, LLC; Data from 7/31/2025

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<sup>i</sup> L2’s market neutral products typically run 70% long, 50% short with net 20% exposure and, despite no post portfolio creation optimization, our realized ex-ante beta has been around 0.10.

<sup>ii</sup> Returns reflect the net performance of Knights of Columbus Long/Short Equity Fund (Ticker: KCEIX) which L2 is the sub-advisor of and is managed using L2’s Market Neutral strategy with a USCCB Catholic Compliant overlay. Data from 12/31/2020 – 7/31/2025

<sup>iii</sup> IBID

<sup>iv</sup> [60/40 Portfolio: Buying a Ticket on the Titanic](#), [Investing in Stock and Bond Bubbles](#), [Staples vs. Bonds](#), [Stock Yield, Bond Yields, & Safety Investing](#), [Stocks vs. Bonds](#), if you would like more please just let us know

<sup>v</sup> In this case, we are specifically speaking to our long/short products