

Performance Snapshot and Summary

The Future Fortune Capital results for the nine months to September 2025 as well as since inception are shown below.

Period	Returns
2025 YTD (Jan to Sep)	22.4%
2025 Q3 (Jul to Sep)	8.9%
2025 6 months (Jan- Jun)	13.5%
2024	47%
2023	27%

Annualized Return of our fund (since inception) - 34.86%

Annualized Return of S&P500 (over the same period) - 20.64%

2025 Q3 numbers are as of 25 September, 2025. The 2023 and 2024 are audited results. 2025 numbers are under the current investment fund structure. These returns are gross and do not reflect the performance-based fee. Our current investors will receive the positions list along with tax documents with the next letter.

Since inception, we have turned \$1,000 into \$2,284 before performance fees, compared to \$1,802 for the S&P 500 (including dividends reinvested) over the same period. While this is encouraging, there is still a long way to go. As always, we urge you not to extrapolate historical performance, as that is simply a recipe for everyone to get upset.

As we have stated before, the comparative results we mention to the broader index are just that, a way to put our performance in context. We do not operate our fund on a day-to-day basis thinking about the index. As a student of economic and investment history, I know very well that an investment practice focused too much on relative performance inevitably slides into mediocrity. You do not need us or this fund if your goal is to replicate an index, which you could do with a Vanguard index fund for a <0.2% expense ratio.

We have not employed shorting, cryptocurrencies, leverage, derivatives, or synthetic structures. Our results have been achieved through old-fashioned business fundamental-driven investing, and we intend to stay that way.

I want you to understand the returns you have given up because of this approach. If we had employed a "conservative" leverage, which we could have obtained with a couple of clicks, our year-to-date returns could have been anywhere between 45% and 60% instead of the reported 22.4%. As "mouthwatering" as that sounds, when things take a downturn, we could be forced to sell out of the businesses we have carefully chosen to invest in for the long term. As a famous quote goes, "Only when the tide goes down, we know who's swimming naked," and we intend to be a fully clothed enterprise at all times!

This brings me to a question that I have been posed quite a few times recently by potential partners: “What is your edge?” It has prompted some reflection, and here are my thoughts.

We possess three distinct competitive advantages over the typical investment funds.

Our first advantage is the **alignment of incentives**. When we evaluate a potential investment, we delve deep into the incentive alignment of the management to the shareholders, so we are no stranger to the power of incentives. To better understand this, let's briefly discuss the fee structure of the overall industry. On one end of the spectrum, you have index funds, like the Vanguard S&P fund, whose expense ratio ranges from 0.02% to 0.2%. The “actively managed” funds of large corporations such as Charles Schwab and Fidelity have expense ratios ranging from 0.5% to 1.5%, with a typical average of 0.75%. For example, the Schwab® International Core Equity Fund SICNX has a net expense ratio of 0.86% and has returned +4.71% since inception(*Source: <https://www.schwabassetmanagement.com/resource/sicnx-fact-sheet>*). After accounting for the expense ratio, an investor would have netted an annualized 3.85% return over the last 15 years. This is not an indictment of any particular fund, but it illustrates how in large actively managed funds, your capital is a drop in the ocean, and the investment manager has no real skin in the game to focus on returns but rather on increasing assets under management. On the other side of the spectrum are the hedge funds, where the typical fee structure is 2% & 20%, where 2% is earned on AUM every year just for breathing. A typical investment of the hedge fund manager's own capital in the fund varies from 1% to 2%.

Contrast this to our fund, where your investment manager's >85% of his own investible capital is invested alongside yours. Our fee structure means we don't earn anything until 5% of compounded returns. The power of incentives is undeniable, and we strongly believe that we are set up to maximize the absolute returns on your capital and not to maximize AUM to line our pockets.

Our second advantage is **our ability to go wherever the opportunities are**. The investing world has become strictly rules-based, and managers are straightjacketed into narrow mandates (e.g., value, growth, foreign, mid-cap, large cap, etc.). These managers are unable to purchase investments outside these constraints, regardless of the case for doing so. At Future Fortune Capital, we have the broadest possible investment mandate, which has allowed us to make investments as diverse as a Chinese Property Management Company, a Latin American stock exchange, a German machine tools manufacturer, and an Australian mining company. The point is that we have more tools available to us than are available to most fund managers, and that provides us with an advantage to follow the opportunities rather than play within artificial boundaries.

Our third advantage is that we bring a **business owner mindset** to investing. A famous investor, Bill Miller, identified three types of advantages: informational, analytical, and psychological. In our view, the conviction required to buy when there is pessimism, sell when there is euphoria, and hold through a drawdown comes only from an in-depth understanding of a business's fundamentals. We do not think of ourselves as buying a stock, but rather as becoming a part owner of the business. This disciplined approach is made possible by the patience of our investor base. It simply would not work otherwise. Alright, that's the end of our marketing spiel!

Turning to the state of the markets, it is no secret that the markets are on all time highs. The current state of markets reminds me of a quote from a news article (updated for recent times)

"The Fed tightens, stocks go up.

The Fed loosens, stocks go up

The dollar falls, stocks go up.

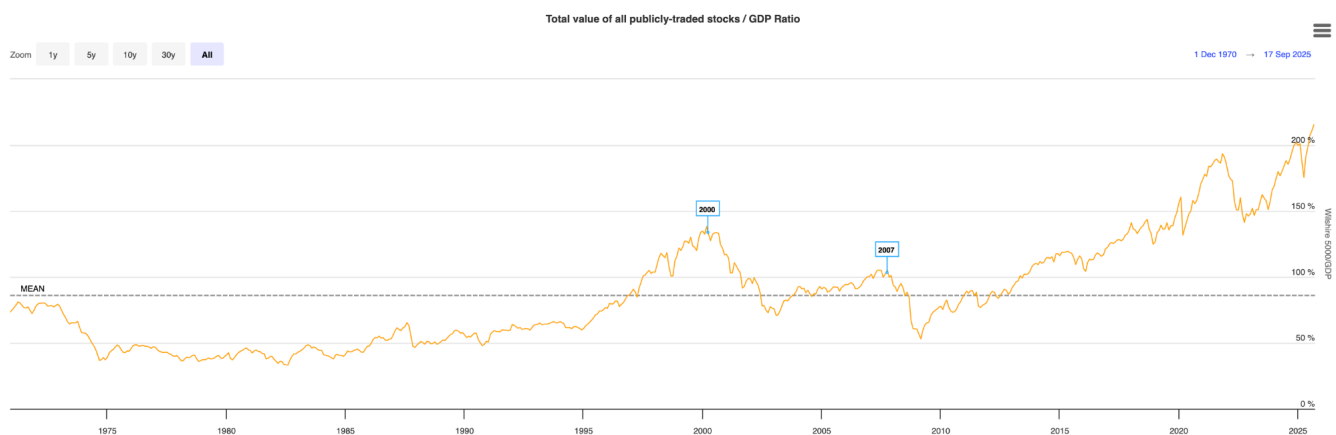
Oil soars, stocks go up.

Retail sales wobble, stocks go up.

Trade uncertainty persists, stocks go up.

Is this a great country or what?"

To put the current market in context, consider this chart mapping market capitalization of the publicly traded US companies to the US GDP. Currently, the ratio stands at an all time high of 240%.



Source:

Yahoo Finance: FT Wilshire 5000 Index

Federal Reserve Bank of St. Louis: US Gross Domestic Product

I believe it is safe to say that current market levels are high, at least based on historical levels. An important question is what this means for our portfolio. Do these elevated market levels mean we should sell our holdings and go to cash? And wait for a correction or a crash to deploy the capital?

Let's take a quick look at how our portfolio compares to the S&P 500's holdings and the valuation characteristics.

- We do not have a single portfolio company (not even one) that is also in the S&P 500 index.
- An overall market decline would inevitably have an adverse effect on our portfolio. However, a temporary decline would, in fact, serve us well by allowing us to deploy more capital.

While the chart above shows the U.S. market cap to GDP at 240% , the picture looks different when we see the rest of the world.

Region	Market cap to GDP Ratio	Our portfolio Allocation (Cash not accounted)
USA	240%	~9%
Europe	105%	~49%
China	63%	~27%
LATAM (Mexico)	27%	~6%

While this is only a proxy analysis and no single indicator or metric holds a monopoly on future prediction, the directional analysis shows that our portfolio is not concentrated in high-valuation markets. This tells me that the upside potential for our portfolio is still intact, and, more importantly, the downside risk is limited. I would consider our performance to be satisfactory if we are better than the indices in a recessionary market (your guess on the timing of a recession is as good as mine, but it is safe to predict that there will be one in the future), and in the boom markets, we maintain pace with the markets or even underperform a bit.

There is no substitute for careful analysis and picking the right businesses that we want to partner with for the long term. 99% of our time and energy is spent on identifying businesses that can allocate our capital at attractive rates of return for a long time.

"Investing is simple but not easy".

Job one, two, and three for your manager is investment performance, not asset gathering. We work under the assumption that if performance is reasonable then the level of interest in what we are doing will increase and, if appropriate, our fund will grow in time.

We work hard at being as thorough and thoughtful as we can in making investment decisions. We do this conscientiously and have our own money on the line with you. We have no interest in get-rich-quick schemes, and prefer to make money the old-fashioned way, through thoroughly researched and thoughtful stock picking. This approach requires patience but suits our temperament and we believe will lead to satisfactory results in the long run.

In the past, we have provided case studies on our major holdings to give you a glimpse into our analysis framework. I have also mentioned that we do not commit a single dollar of your

capital without a comprehensive analysis. In that vein, I have included a case study on one of our portfolio companies that represents just 1.5% of our portfolio. I don't envision this being a major holding for us, and it might not significantly impact the overall returns. However, I am providing this case study to reiterate that every dollar of yours is committed only after thoughtful and thorough analysis.

As always, we thank you for your confidence and value your support. If you know investors who value discipline over hype, we'd welcome an introduction. Our capital grows alongside yours - we succeed only when you do.

If you have any questions, please don't hesitate to reach out.

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Until next time,

Sincerely
Praveen KumarGovindarajan

Travelzoo(TZOO) Case study (Represents ~1.5% of our portfolio):

Travelzoo began with the merger of Travelzoo.com Corporation into Travelzoo Inc. in 2002. It has around 30 million members and caters to "travel enthusiasts" by providing them valuable travel deals. They are most popular for the weekly Top 20 email newsletter. As part of my research, we spoke to a few members and I personally signed up for their service and was impressed. Beyond the obvious discounts, Travelzoo's true value is its power of discovery. It consistently presents creative travel ideas—think a culinary tour of Portugal or a secluded safari lodge—that spark inspiration and push you beyond your standard vacation choices.

Historically (until January 2024), revenues were primarily generated from advertising fees: fixed fees for placement and variable fees based on clicks and impressions.

Over time, Travelzoo has diversified its revenue streams. In January 2020, it acquired a 60% stake in Jack's Flight Club, a subscription service for exceptional airfares. This marked Travelzoo's entry into paid subscription services.

Pivot to Paid Core Travelzoo Membership:

In Q1 2024, Travelzoo initiated a core strategic shift: all new members were required to pay an annual membership fee of approximately \$40. A concession was made to protect the existing user base: all members acquired before December 31, 2023 ("Legacy Members") were grandfathered in and exempt from the fee for 2024. This move created an additional high-margin revenue stream.

Since the pivot, Free Cash Flow margin and Return on Capital have nearly doubled. Management has effectively deployed capital, reducing the share count by 20%. Despite

these fundamental improvements, the share price has remained flat, creating a clear opportunity to investigate a potential market inefficiency.

To validate the investment thesis, the following critical questions must be answered:

Customer Acquisition & Conversion Efficacy: What are the metrics behind the new paid member growth rate?

Revenue Dynamics & Cannibalization: Is the membership revenue additive, or is it cannibalizing traditional advertising revenue?

Economic Moat & Recession Resilience: What is the tangible moat? Will the business hold up in a potential recession?

Management Incentive Alignment: Is the executive compensation structure directly tied to the success of the pivot? Does management have significant skin in the game?

Valuation: What is the intrinsic value of the business? Is this a suitable entry point?

Question #1: Customer Acquisition & Conversion Efficacy

Before diving into the numbers, it's essential to address a key accounting principle. Travelzoo recognizes membership revenue ratably over the life of the subscription. However, the costs to acquire those members are expensed in full immediately.

A Simplified Illustration:

Cash Inflow: A new member pays the \$40 annual fee upfront.

Customer Acquisition Cost (CAC): The marketing spend to win that member is \$35.

In the Current Quarter: Only ~\$10 of the \$40 fee is recognized as revenue. Meanwhile, the full \$35 CAC is expensed. This creates an apparent net loss of \$25 for this customer.

Balance Sheet: The remaining \$30 is recorded as Deferred Revenue, to be recognized in future quarters.

This accounting mismatch causes earnings to be significantly under-reported in periods of member growth. This makes the growth of Membership Revenue and Deferred Income key leading indicators of future profitability.

Let's look at how these metrics are progressing:

Quarter	Membership Revenue (\$'000)	Membership Revenue QoQ Growth %	Deferred Revenue (\$'000) (End of Quarter)	Deferred Revenue QoQ Growth %	
Q2 2025	30,131	25.54%	85,002	8.42%	
Q1 2025	2,400	42.18%	7,840	20.62%	
Q4 2024	16,883	16.74%	650,078	66.67%	
Q3 2024	14,464	24.55%	39,009	21.88%	
Q2 2024	11,615	5.16%	320,010	0.00%	
Q1 2024	11,046	21.05%	320,011	60.00%	Start of Tzoo membership model
Q4 2023	9123	-23.36%	20,007	-28.57%	

Between 2023 and 2024, Membership Revenue CAGR is 30.25% and Deferred Income CAGR is 225%.

The true test is its ability to draw in paying customers and convert its large base of "Legacy members" (still 95% of the total). Management acknowledges that acquiring new paying members costs significantly more than acquiring free users, and they are still early in scaling these strategies. Current revenue growth is coupled with decreased operating profit due to these investments (CAC was \$38 in Q2 2025). Management expects membership revenue to reach ~25% of total revenue by 2026, implying a jump from ~\$5M in 2024 to ~\$22M in 2026.

Indirect calculations suggest growth is decent, but not yet staggering. However, for our thesis to hold, staggering growth is not a prerequisite.

Question #2: Revenue Dynamics & Cannibalization

We must consider if the new membership revenue strengthens or cannibalizes the existing advertising revenue (93% of 2024 revenue). If the paid membership cultivates a more engaged, high-quality audience, it could enhance the value for advertisers, allowing for better rates. However, there's a risk that a shift from free to paid might reduce overall audience size. Management aims to retain and grow the advertising business, implying a goal of synergy rather than cannibalization.

To assess this, let's examine quarterly advertising revenue since the pivot:

Quarter	Advertising(\$ millions)
Q4 2023	\$19.4
Q1 2024	\$20.9
Q2 2024	\$20.0
Q3 2024	\$18.7
Q4 2024	\$19.1
Q1 2025	\$20.7

Thus far, advertising revenues have not taken a hit. However, this is something to watch.

Question #3: Economic Moat & Recession Resilience

Travelzoo's "moat" comes from three key strengths built over 20 years.

First is its trusted reputation for quality. A team of experts personally vets every deal, building immense trust with its audience.

Second is its network and aggregation scale. Long-standing relationships with thousands of travel companies grant unique access to excellent deals.

Third, and most important, is its audience. Travelzoo's members are a powerful asset—typically affluent, older, and passionate about travel. Typically, 52-53% of their member base is 45 and older, with a significant portion having household incomes >\$200K. This wealthy, travel-ready demographic is highly attractive to advertisers.

This focus differentiates it from a competitor like Groupon. Travelzoo's business is about 90% travel deals, while Groupon is focused on local offers.

Regarding a recession, while a downturn would hurt general travel spending, Travelzoo's affluent customer base is more resilient. They still travel but look for better value. A recession could actually help Travelzoo by creating more "distressed" deals from hotels and airlines needing to fill space, allowing the company to offer its members even more attractive deals.

Question #4: Management Incentive Alignment

Travelzoo's leadership has a deep, long-term commitment. The company was founded by Ralph Bartel in 1998, who remains involved as Chairman and is the largest shareholder, controlling about 37.5% of the company. This means his interests are firmly aligned with long-term success.

Ralph's brother, Holger Bartel, serves as CEO. This family leadership provides consistency, though the structure could benefit from stronger independent oversight. It is worth noting that Glassdoor reviews for the brothers are not glowing.

Regarding incentives, CEO Holger Bartel holds stock options that tie his wealth directly to shareholder performance:

400,000 options with an exercise price of \$8.14 (expiring March 2027).

600,000 options with an exercise price of \$8.58 (expiring March 2029).

For him to benefit, the share price must rise significantly above these levels. This creates a clear incentive to increase the company's value.

Question #5: Valuation

I built a conservative discounted cash flow (DCF) model with a five-year horizon. My assumptions are quite conservative:

Membership Revenue Growth: 4% annually.

Advertising Revenue Growth: 1% per year.

Free Cash Flow Margin: 18%.

Discount Rate: 10%.

Terminal Multiple: 10x Year 5 free cash flow.

To be extra conservative, I adjusted cash by subtracting merchant payables.

Putting this together, the estimated intrinsic value per share is approximately \$14. This represents a potential upside of over 40% from the current price. This conservative estimate provides a solid margin of safety.

Conclusion & What to Watch

While the company must still execute and prove its model, the current uncertainty creates a potential opportunity. The investment case hinges on tracking key metrics:

Paid Membership Growth: The pace of new subscriber additions and the conversion rate of legacy members.

Controlled Spending: Efficiency in managing Member Acquisition Costs (CAC).

Profitability: Improving Operating Margins as subscription scale kicks in.

Stability: Ensuring core Advertising revenue remains steady.

Success on these fronts could make the current price a very attractive entry point.

Core Principles of our fund

We do not—and cannot—guarantee returns. Markets are inherently uncertain. What we can pledge is unwavering adherence to these principles:

Value Over Hype

We invest in businesses priced below intrinsic worth, not fleeting trends or Wall Street darlings.

Capital Preservation as Priority #1

We obsess over minimizing permanent loss risk. Volatility is noise; capital erosion is the enemy.

Skin in the Game

My family's entire net worth is invested alongside yours. Our incentives are indivisible.

No Market Oracles Here

We focus on individual opportunities, not macroeconomic divination. We are not in the business of predicting the direction of the general stock market. If you think I can do this, or think it is essential to an investment program, you should not be invested in this fund

Transparency in Reporting

Performance figures reflect gross unrealized gains/losses (market value at period-end compared to the start of the period). Taxable outcomes may differ materially.

Forward-looking information:

Some information set forth in this letter constitutes forward-looking information which involves uncertainties and other known and unknown factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. When used in this letter, words such as “expects”, “anticipates”, “intends”, “may”, “believes” and similar expressions generally identify forward-looking information. In developing the forward-looking information contained in this letter, the manager has made assumptions (for ex.: with respect to the outlook for the global economy and publicly traded companies). These assumptions are based on the manager's perception of factors believed to be relevant (for ex.: historical trends, current conditions, expected future developments). Although the manager believes that the assumptions made and the expectations represented by such information are reasonable, there can be no assurance that the forward-looking information will prove to be accurate. Actual results or events may differ materially from those expressed or implied in the forward-looking information. Future Fortune Capital LLC undertakes no obligation to publicly update or revise these forward-looking statements