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I am happy to report that the Global Value strategy returned 4.95% in Q4 (5.23% gross) and 22.27% net for 2024 (23.53% gross). This result compares quite favorably to other value investing strategies. 2024 saw a surging increase in stock prices for US tech giants that left the rest of the equity market behind in the dust. In fact, the tech sector was responsible for the majority of US equity returns in 2024. The Nasdaq 100 technology index returned 25.88% in 2024 while the global ACWI¹ returned 17.49% and the small-cap value Russell 2000 Value index returned 8.05%.

The past quarter has been an extremely eventful period with the US election, the parliamentary election in Georgia, continued easing from central banks, continued military conflicts around the world, and major technology advances. In this letter, I will give a brief overview of the major events that are likely to have the most impact on the strategy, rather than go in depth on a particular event.

The election of President Trump by such a significant margin, along with a popular vote victory, alleviated fear of a contested election. Since the election, there has been a significant rally in equity markets. Financial stocks benefited greatly due to expectations of reduced regulations and fewer impediments to merger and acquisition activity. With Republican control of both houses of Congress and the White House, there is also an expectation of lower corporate tax rates.

This election-related rally in financial stocks buoyed our investment in Enova, which was the biggest contributor to our performance in Q4 (and was a major benefit for the previous quarters in 2024). Although Enova's stock price has rallied considerably, the fundamental value of the business has also increased, such that it is still an attractive investment for us.

AI Advancement

AI continues to be the most important theme in technology development in 2025. At the start of this year, the world was shocked by the release of DeepSeek, a side project of the Chinese hedge fund High-Flyer. Despite a training budget that was orders of magnitude less than that used by US AI companies, DeepSeek produced an AI that was superior at reasoning tasks. Additionally, DeepSeek released the model weights as open-source! DeepSeek was able to achieve this result due to breakthroughs in model training. DeepSeek was able to get the AI model to develop advanced reasoning capabilities autonomously through the use of pure reinforcement learning guided by cleverly-designed reward functions. This obviates the need for supervised training

¹ The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

data and supervised learning. DeepSeek also had several other optimizations that improved training efficiency. This simplified way of training AI algorithms is quite powerful and will likely be used by other companies in the near future, further accelerating AI technology growth.

In a significant development for the AI infrastructure landscape, a consortium led by OpenAI and SoftBank has launched the Stargate Project, an ambitious \$500 billion initiative to build out AI computing capabilities. Beginning with an immediate \$100 billion deployment, the project will establish multiple data centers across the United States, starting with facilities in Abilene, Texas. Other technology partners include Arm, Microsoft, NVIDIA, and Oracle. The goal is to construct 10 data centers initially, with plans to expand to 20 locations of about half a million square feet each. This type of infrastructure spending will benefit electric equipment companies like Wesco, which we discussed in our Q3 2024 letter.

AI will be hugely transformative to the entire economy over the next 20 years. Rather than focus on investing in “AI stocks”, it may be more productive to consider how AI transformation will impact individual companies in the future. AI will be as ubiquitous as spreadsheet software is today and some of the biggest beneficiaries might not be technology companies at all. Companies with access to proprietary data sets, or that are in a position to deploy new technologies at scale quickly, may receive a greater slice of the economic benefit than the company supplying them with the AI tools/technology.

Russia-Ukraine War

The painful war in Ukraine seems to be moving towards a conclusion. Ukraine is experiencing equipment shortages and is facing a severe manpower problem in their armed forces. As a result, they have been steadily losing ground in the east in recent months, including losing the gains from their 2023 offensive and even more positions that were previously far behind the frontline during that period. On the other hand, Russia is facing increasing economic strains as they struggle to maintain the war effort. Between the significant combat losses Russia has experienced, the large amount of their population currently under arms, the labor demands of their armament industry, and the exodus of Russians who fled the country during the war, Russia is facing an acute labor shortage. This has caused a burst of inflation that interest rate increases have failed to bring under control. Despite the Bank of Russia having the key rate at 21.00% (the highest it has ever been this century), early inflation forecasts from the CBR for December 2024 show an inflation rate of 9.52%². These forces are crushing the real economy in Russia and the situation will only get worse as the war continues. Between the deteriorating condition of the Ukrainian army and the faltering Russian economy, both sides are strongly incentivized to find a diplomatic resolution soon.

Prediction markets, also known as information markets, are open markets where participants can make bets on the outcome of future events. At its basic level, investing is an exercise in forecasting the future. Tools that can assist us in making better predictions are therefore critical to success. Prediction markets are one such tool as they allow us to aggregate the collective wisdom of the crowd. They have shown their utility by giving more accurate predictions of election outcomes than public polling consensus³. Unless I have reason to expect a different

² https://www.cbr.ru/analytics/dkp/dinamic/CPD_2024-12/

³ <https://www.uc.edu/news/articles/2024/12/election-results-show-potential-of-prediction-markets.html>

outcome, I believe it's reasonable to rely on the prediction market probability as the expected probability of an event occurring. As of the writing of this letter, Polymarket, the world's largest prediction market, gives a 28% chance that "an armistice, ceasefire, or negotiated settlement is announced by both Ukraine and Russia regarding the ongoing war in Ukraine" before April 20th, 2025⁴. They also give a 64% chance of a "publicly announced and mutually agreed halt in military engagement, between Russia and Ukraine" before the end of 2025⁵.

The ceasefire, if it were to occur, would likely include a reduction or elimination of sanctions. Hopefully, this would unfreeze our Russian securities held in OFAC escrow. While this would have a direct benefit to investors who hold sanctioned investments, there will also be secondary benefits to other countries in the region. As the war continues, there is a constant danger of continued escalation and the threat that additional countries could be pulled into the conflict's maelstrom. These fears are manifesting themselves through reduced security prices and higher costs of capital for many of the countries bordering Russia. Furthermore, the increased cost of fossil fuels and electricity is causing a rapid deindustrialization of the countries in the European Union. Therefore, a peace treaty would likely lead to a rally in the stocks of these affected secondary countries. For Blue Tower, we can expect this would lead to a relief rally for our stocks with exposure to the Republic of Georgia.

This war has already destroyed the lives of millions of people and every additional day of fighting compounds the pain. I am hopeful that this year will see a lasting end to the conflict and a start to the process of rebuilding.

Thank you for your continued trust in the stewardship of your capital. Please contact me with any questions you have.

Best regards,

Andrew Oskoui, CFA

Portfolio Manager

Disclaimer: This commentary does not represent a recommendation to trade any particular security, but is intended to illustrate Blue Tower's investment approach. These opinions are current as of the date of this commentary but are subject to change. The information contained herein has been obtained from sources believed to be reliable but the accuracy of the information cannot be guaranteed. Past performance is no guarantee of future results.

⁴ <https://polymarket.com/event/trump-wins-ends-ukraine-war-in-90-days>

⁵ <https://polymarket.com/event/russia-x-ukraine-ceasefire-in-2025>