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Ashva Capital Management LLC – Q2 2026 Letter to Investors

August 7, 2026

Dear Partners,

The first half of 2026 has been an encouraging period for Ashva Capital. **Through June 30, Ashva Capital LP generated a 23.1% net return, compared with a 9.6% gain for the S&P 500 over the same period.**

In our Q1 and April update, we wrote that the worst markets often reveal the best investment opportunities. The first quarter tested that proposition. Prices moved much faster than intrinsic business values, volatility rose sharply, and many high-quality companies were repriced in a matter of weeks. April then reminded us that returns rarely arrive in a neat or emotionally convenient sequence.

The second quarter reinforced the same lesson from the other direction. Discipline through volatility allowed us to participate as fundamentals reasserted themselves and several of our highest-conviction positions appreciated substantially.

We are pleased with the result, but quarterly performance is not the objective. Our objective remains to compound our partners' capital at attractive rates over long periods while avoiding permanent impairment of capital.

Performance is the outcome; process is the cause.

That principle has not changed. What has evolved is our willingness to place greater weight on fundamental momentum. We still want high-quality businesses at reasonable valuations, but increasingly prefer situations where earnings, free cash flow and the underlying economics of the business are improving rather than merely waiting for a cheap business to get better.

Our largest investment today, Micron Technology, illustrates this philosophy particularly well.

Markets Ultimately Follow Earnings

In our prior letter, we argued that the secular backdrop for U.S. equities remained constructive even as the first-quarter correction generated unusually negative headlines. We continue to hold that view, while remaining selective on valuation and skeptical of businesses whose AI narratives run ahead of their economics.

There is no shortage of reasons to worry about the stock market. Valuations remain above long-term averages. AI-related capital expenditures are enormous. Index concentration is high. Geopolitical uncertainty persists. And some areas of the market exhibit the unmistakable characteristics of speculation.

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But beneath all that noise, American businesses are generating far more earnings.

As of August 7, with 88% of S&P 500 companies having reported second-quarter results, 86% had exceeded earnings estimates and 76% had exceeded revenue estimates. Both figures are above their respective five- and ten-year averages. In aggregate, reported earnings were 29.2% above estimates - potentially the largest earnings surprise since FactSet began tracking the metric in 2008.

The headline numbers require context. FactSet now estimates blended year-over-year S&P 500 earnings growth of 50.4%, the highest rate since Q2 2021 if it holds. Extraordinary non-operating gains at Alphabet and Amazon materially inflate that figure. Excluding those two companies, however, earnings growth would still be 32.0% - hardly a weak result.

The strength is also broader than two companies. All eleven sectors have seen their Q2 earnings growth rates improve since June 30 as estimates moved higher and companies delivered positive surprises. Ten of eleven sectors are reporting year-over-year earnings growth, and eight are reporting double-digit growth.

Revenue growth tells a similar story. The blended Q2 revenue growth rate has risen to 15.0% from 12.2% at June 30, which would be the strongest result since Q4 2021. All eleven sectors are reporting year-over-year revenue growth. The blended S&P 500 net profit margin stands at 16.9%; even excluding Alphabet and Amazon, it would be 15.0%, still the highest level since FactSet began tracking the metric in 2009.

Valuation still demands discipline. The S&P 500 trades at approximately 20.0 times forward earnings, modestly above its five-year average of 19.9 times and its ten-year average of 19.0 times. Yet since June 30, the index price has risen 2.8% while the forward twelve-month EPS estimate has risen 4.7%. In other words, earnings expectations have recently risen faster than prices. Our conclusion is straightforward: the market is not cheap, but its advance is being supported by unusually strong and improving fundamentals.

The forward outlook remains constructive as well. FactSet reports consensus expectations for S&P 500 earnings growth of 27.4% in Q3, 25.2% in Q4 and 30.0% for calendar 2026. Just 33% of the companies that have issued Q3 EPS guidance have guided below consensus, well below the five-year average of 58%. We do not treat consensus estimates as facts, but the breadth of positive revisions and guidance supports our view that the current earnings expansion is more than a one-quarter phenomenon.

In Q1, we wrote that headlines compress time, markets exaggerate emotion, and business value compounds slowly. Q2 offered a useful reminder of the other half of that equation: when earnings and cash flow improve, stock prices eventually notice.

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Micron Technology: When a Cyclical Business Begins to Change

Our largest position is Micron Technology (MU).

At first glance, that might appear unusual for a strategy centered on predictable cash flows and high-quality businesses. Memory semiconductors have historically been anything but predictable.

The industry has traditionally followed a brutal cycle. Strong demand causes memory prices and manufacturer profits to rise. High profits encourage additional capacity. Supply eventually exceeds demand, memory prices collapse and profits disappear.

Investors, therefore, learn very quickly not to forecast peak memory earnings as though they will continue indefinitely.

However, we believe something important may be changing now. Not that the memory cycle has disappeared - it has not.

Rather, the economics of the cycle may be becoming structurally more attractive.

AI Is Consuming Memory - and the Capacity Used to Make It

The most obvious catalyst is artificial intelligence.

In our Q1 letter, we described AI as both an opportunity and a threat. Our approach was selective: favor companies where AI strengthens the business model, expands the opportunity set, or is unlikely to impair the core economics. Micron fits squarely into the first two categories.

High-bandwidth memory, or HBM, is critical to AI accelerators. But focusing solely on HBM understates the opportunity. FactSet's latest Q2 data reinforce the strength of the broader semiconductor cycle: Semiconductors & Semiconductor Equipment are reporting 135% year-over-year earnings growth and 77% revenue growth, making semiconductors the largest contributor to Information Technology sector earnings growth. Micron itself reported FY Q3 2026 (Quarter ending June 30) adjusted EPS of $25.11 versus the $20.86 consensus estimate.

AI infrastructure requires HBM, conventional data-center DRAM and enormous quantities of NAND storage. Micron expects industry data-center DRAM and NAND bit shipments in 2026 to more than double their 2024 levels.

Meanwhile, producing increasingly sophisticated HBM itself consumes more DRAM wafer capacity. New memory fabrication plants take years to construct and require scarce equipment, skilled workers, power and permitting. Samsung expects shortages to extend into 2028.

AI is simultaneously increasing demand for memory while consuming more of the manufacturing capacity required to produce it.

This is exactly the distinction we emphasized last quarter: we have no interest in owning technology merely because it is technology. We want businesses where future cash flows justify the current valuation.

Scarcity alone, however, would not justify making Micron our largest position. Something more interesting is happening.

From Commodity Pricing to Contracted Scarcity

Micron's customers increasingly want certainty of supply, and they are willing to pay for it.

Micron has entered into 16 strategic customer agreements across data-center, consumer and automotive markets. These agreements cover approximately 20% of DRAM volume and one-third of NAND volume during their respective terms, and all contain take-or-pay provisions.

Management expects approximately half or more of future revenue eventually to be covered by strategic customer agreements once planned agreements are completed.

Fourteen agreements cover approximately $100 billion of cumulative revenue at minimum prices, while signed agreements include approximately $22 billion of projected customer deposits and related financial commitments.

We view this development as potentially transformative.

Historically, a memory manufacturer might spend billions of dollars constructing capacity based upon expected future demand, only to discover when the factory finally came online that competitors had done exactly the same thing. Supply would overwhelm demand and economics would deteriorate.

Micron is increasingly getting customers to make commitments before it builds.

Customer deposits can help finance capacity expansion while take-or-pay agreements provide greater visibility into future volume and pricing. That reduces the risk of constructing expensive fabrication capacity based solely upon an optimistic spot-market forecast.

The memory business remains cyclical.

But contracted scarcity may make the next downcycle look different from prior ones.

That is the heart of our investment thesis.

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What the Numbers Are Telling Us

The financial inflection at Micron is extraordinary.

In fiscal Q3, Micron generated approximately $41.5 billion of revenue, an 84.9% non-GAAP gross margin, an 81.2% operating margin and $25.11 of adjusted EPS. More important to us, the company generated approximately $18.3 billion of adjusted free cash flow after investing $7.1 billion in net capital expenditures. Micron finished the quarter with approximately $24.4 billion of net cash.

Micron is currently trading at approximately 12x FY26E EPS and 5.7x FY27E EPS.

The market is therefore not ignoring Micron's extraordinary profitability. Quite the opposite. It appears to assume that today's earnings are simply another memory-cycle peak and will eventually revert to historical norms.

That may prove correct.

But we believe the probability of a different outcome has increased materially.

AI has made memory strategically more important, HBM is consuming greater manufacturing capacity, conventional DRAM supply is tightening, and Micron's customer agreements are creating greater visibility into future volumes, pricing, and returns on new capacity. The business remains cyclical, but the cycle's structure may be improving.

This does not mean Micron deserves a permanently elevated multiple on peak earnings.

It means normalized earnings may ultimately settle at levels materially above the historical earnings investors are using as their mental anchor.

We are therefore not simply buying a cheap stock.

We believe we are buying a business whose quality, earnings power, and predictability may all be improving simultaneously, while its valuation continues to reflect considerable scepticism that those improvements will persist.

That combination - fundamental momentum, improving business quality, and a valuation that discounts substantial mean reversion - is precisely the type of asymmetric opportunity we seek at Ashva Capital.

It is why Micron is our largest position.

What Would Prove Us Wrong

Conviction and certainty are not the same thing.

The larger a position becomes, the more important it is to understand what would invalidate the thesis.

Micron remains cyclical. DRAM and NAND pricing could decline. Hyperscalers could reduce AI spending. Competitors could build too much capacity. Micron could experience manufacturing problems with HBM4 or HBM4E. Korean competition could intensify.

We therefore intend to follow the evidence rather than fall in love with the story.

Among the developments that would cause us to reconsider the position are sustained declines in DRAM and NAND pricing, significant deterioration in gross margins before new supply becomes available, weakening data-center demand while capital expenditures continue rising, or material reductions in expected fiscal 2027 earnings.

This connects directly to a distinction we emphasized in Q1: volatility is the price moving around; risk is permanent impairment of capital. A volatile Micron share price is not, by itself, a reason to sell. A deterioration in the economics supporting our thesis would be.

Every investment thesis eventually encounters facts that challenge it. Our job is not to defend the thesis.

Our job is to defend our partners' capital.

Quality, Growth and Valuation

Micron also illustrates a broader evolution in how we think about GARP investing.

Traditional value investing often asks:

What is this business worth today?

Growth investing often asks:

How large could this business become tomorrow?

We believe the better question combines the two:

How much are we paying today for the cash flows this business can reasonably generate tomorrow?

That requires us to think simultaneously about business quality, growth, valuation, and fundamental momentum.

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This is an evolution of the framework described in our Q1 letter, not a departure from it. We still prioritize free cash flow, shareholder-friendly capital allocation, valuation support and resilience across multiple scenarios. What we are adding is a stronger preference for improving fundamentals.

But quality alone is insufficient.

Price matters. Growth matters. And increasingly, the direction of fundamentals matters. We would rather own a good business with substantial growth ahead of it than a great business whose strongest growth is already behind it.

Concentration Is a Feature, Not a Bug

Ashva Capital generally maintains a concentrated portfolio. This is intentional.

Owning hundreds of securities can reduce tracking error, but it also makes meaningful differentiation from an index extraordinarily difficult.

If we identify an investment where our conviction is high, the downside is understandable and the potential return is asymmetric, we want that investment to matter.

Concentration does not mean ignoring risk. It means defining risk correctly.

As we wrote last quarter, risk is permanent impairment of capital, not temporary price movement.

Consequently, position sizing reflects not merely expected upside but our assessment of downside, balance-sheet strength, valuation, business durability and the probability that our thesis is wrong.

Micron may be our largest position, but that does not make it sacred.

Using Options as a Complement, Not a Strategy

Our options overlay also remains consistent with the framework described last quarter.

We do not use options because we believe we can predict every short-term market move. We use them because properly structured option positions can create small, repeatable edges: generating income, improving entry points and shaping downside exposure while complementing our long-term equity ownership.

For businesses we would be happy to own at lower prices, selling puts can allow us to earn premium while waiting for a more attractive entry point. For positions we already own, covered calls can sometimes monetize elevated implied volatility and generate incremental cash flow.

The objective is not to maximize premium income in any single week or month. It is to apply a repeatable, risk-managed process over a sufficiently large number of opportunities.

The edge is not prediction. The edge is process.

Define the risk. Size the trade. Repeat the setup. Respect variance. Stay in the game.

The Job Isn't Finished

Strong performance creates its own risk. It can encourage investors to believe they are smarter than they are. Markets eventually provide a cure for that condition.

Our 23.1% net return through June is gratifying, but six months tells us very little about the long-term quality of an investment process.

The more important question is whether we are making rational decisions that can be repeated for many years.

That was the central message of our Q1 letter, and it remains the central message today: compounding only works if you survive long enough to let it.

The current environment offers extraordinary opportunities, particularly where technological change is producing genuine increases in earnings and free cash flow. But enthusiasm surrounding AI also makes discipline more important, not less.

We want to own businesses that get paid because AI exists. Micron increasingly appears to be one of them.

As always, we will continue searching for exceptional businesses, demanding sensible valuations, concentrating capital behind our best ideas, using volatility as an ally rather than an enemy, and changing our minds when the facts change.

Thank you for your continued confidence and partnership.

We remain substantially invested alongside you.

With Appreciation,

Ankur Shah

Ankur Shah

Managing Member

Ashva Capital Management LLC

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