Truffle Portfolio
3Q 2026 Investor Letter

Dear Long Term Investors,

I hope this letter finds you well. Since the S&P 500 set its last record high on 6 Oct, the market has been hit from almost every direction. The index is now about 12% below that peak, many AI stocks have fallen much further, and trillions of dollars of value have been wiped off US stocks. This time even Bitcoin and gold offered little shelter. If your portfolio made you hurt this month, you are not alone.

Many of you have asked me the same question: "*Has the AI boom finally burst?*"

I do not think so. What I see is a sharp pullback caused by several shocks arriving in a span of few weeks. And when I look at history, I see something more important. **Periods like this have been some of the best times to own quality businesses.**

In this letter I will walk you through what happened, why I see opportunity in it, and how some of our core holdings are doing.

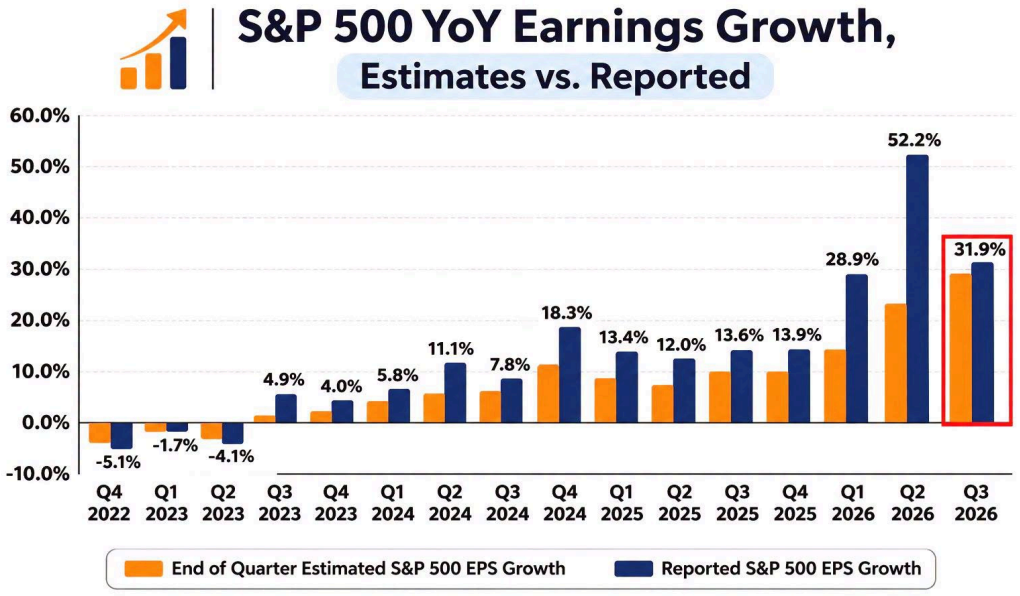
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6 Shocks in 7 Weeks

1. Big Tech's spending bill. The first worry was AI capital expenditure, the money tech giants pour into data centres, chips and power generation. Alphabet (Google) alone spent $51.4B in Q3 and says its spending will rise significantly again in 2027. That pushed its free cash flow below zero for a second straight quarter. Investors are asking: **when will all this money start to pay back?** I think we will get a clearer answer in the first half of 2027.

What gets lost in the noise is that **profits are still growing fast**. S&P 500 earnings grew about 32% year on year in Q3 2026, and 84% of companies that reported beat estimates. **Fear is high, yet the earnings underneath are strong.**

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Source: Company filings, FactSet

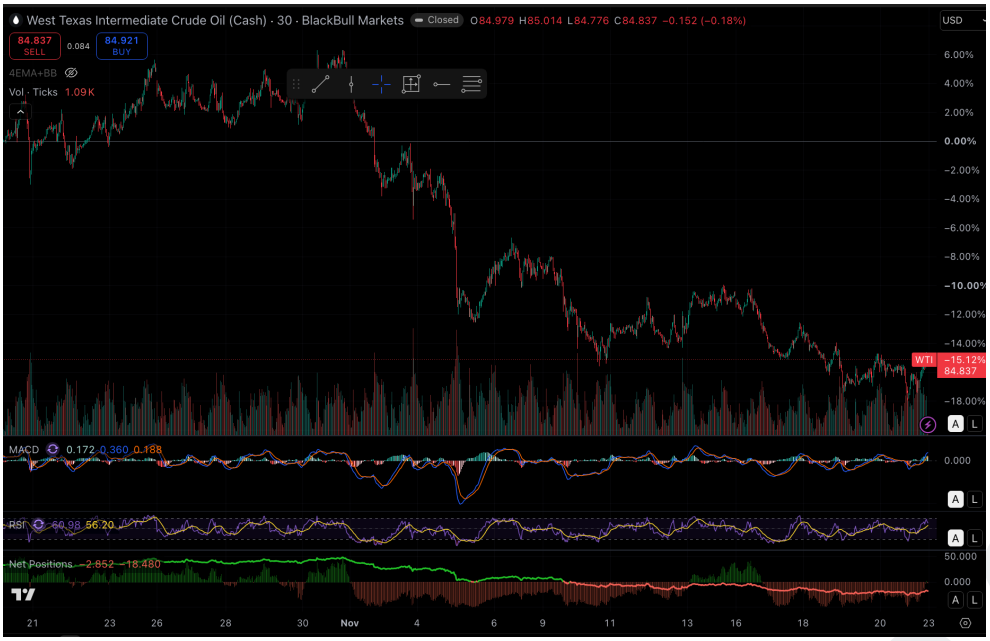
2. A new Congress. On 3 Nov, Democrats won control of both the House and the Senate. Markets had grown used to the idea that the White House would act quickly whenever stocks fell hard (aka Trump Put). With a divided government from Jan, investors feel that support is weaker, and some now fear tough new AI rules.

My view is that **more regulation and perhaps new taxes on AI are likely. A full ban is very unlikely**. Whichever party leads Washington, it will not want to fall behind China in AI, and AI does provide a significant number of jobs too. I think the market is pricing in a harsher outcome than what will actually happen.

3. A Fed that has turned hawkish. The Fed raised rates by 0.25% in Sep, its first hike since 2023, to a range of 3.75% to 4%. It paused in Oct, but two members wanted another hike, and markets expect one more on 9 Dec. Fed Chair Kevin Warsh has said inflation is too high and has been for too long. **Higher rates raise the cost of funding the AI buildout**.

One blessing is Oil price, which fell for two straight weeks into mid Nov. If the Iran war winds down and energy costs keep falling, I expect the Fed to soften its stance during 2027.

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Source: Tradingview

4. Nvidia loses its founder. On 12 Nov, Jensen Huang resigned as Nvidia's CEO following the disclosure of personal conduct that the board said fell short of company standards. I think this case is publicised enough so I won't go into the details. Suffice to say, this event has a huge impact on Nvidia. Nvidia is one of our holdings, and I explain below why I am still holding it. Nvidia shares fell as much as 14% that day before closing about 4% lower, and chip stocks swung hard in the days that followed. Valuations have come down with prices.



Source: MacroMicro.me

On 20 Nov, the S&P 500 traded at 17x times its expected earnings for the next 12 months, the lowest in three years, even as AI demand keeps growing.

5. A record listing. Anthropic priced its IPO at $83 a share on 18 Nov, above its target range of $70-78. It raised about $68B, plus another $26B sold privately to strategic partners at the same time. Together, that beats the record SpaceX set in Jun. A deal this size soaks up cash from the market. Bitcoin, for example, fell about 19% in the run up, much as it did before SpaceX listed.

6. Fear feeding on itself. Put all of this together and you get a market where the mood is **"sell first and ask later"**. VIX recently jumped to 35. When fear and cash squeeze arrive together, almost everything falls at once, good companies included. Once that cash comes back into the market, I expect prices to settle.



Source: Tradingview

Why History Tells Me This Is an Opportunity

The S&P 500 has entered a correction. Even if this pullback deepens into one, I want to show you why I am calm, and why I see this period as a chance. Four facts from market history guide my thinking.

Pullbacks like this are normal. Since 1950, the S&P 500 has fallen 10% or more from a high nearly 40 times, roughly once every two years. Each one felt like the end of the world while it was happening. Each one passed.

Recoveries are usually quick. Since 1946, declines of 10% to 20% have taken about four months on average to recover.

Buying during the fear has paid well. Goldman Sachs studied corrections going back to 1950. Investors who bought the S&P 500 at 10% below its high, without trying to pick the exact bottom, earned a median return of 15% over the next 12 months.

The recent record is even stronger. Here is how the S&P 500 did in the year after each time it first closed in correction territory since 2010.

Correction began	S&P 500 one year later
May 2010	+24%
Aug 2011	+16%
Aug 2015	+15%
Jan 2016	+20%
Feb 2018	+5%
Nov 2018	+19%
Feb 2020	+28%
Feb 2022	-7%
Oct 2023	+41%
Mar 2025	+20%

Nine times out of ten, investors who stayed in were higher a year later. The average gain was about 18%.

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Some of you will remember Apr 2025, which I wrote about in my 3Q 2025 letter. The S&P 500 fell almost 20% from its Feb high to its Apr low on tariff fears, and my inbox was full of worried messages. By 27 Jun it was back at a record high, less than three months after the low.

I cannot promise this time will look the same, and prices could fall further from here. Feb 2022 reminds us that some declines take longer to heal. But today the market is pricing in higher rates, tough AI rules, weak returns on AI spending and leadership turmoil all at once. **When that much bad news is already in the price, the odds start to favour patient owners of great businesses.**

This is also why I do not try to time the bottom. The best days in the market often come right after the worst ones, and missing a handful of them can cut long term returns sharply.

Now let me turn to some of our own holdings.

Our Core Holdings: Leaders and Laggards

I have grouped some of core holdings by how their share prices have done this year against the S&P 500, which is up only about 1% after the sharp selloff on 20 Nov. Leaders are beating the market. Laggards are trailing it.

Holding	Group	Share price this year (to 20 Nov)
Costco (COST)	Leader	+28%
Apple (AAPL)	Leader	+26%
Cintas (CTAS)	Leader	+17%
Interactive Brokers (IBKR)	Leader	+11%
HEICO (HEI)	Laggard	About flat
Broadcom (AVGO)	Laggard	-12%
Alphabet (GOOG)	Laggard	-16%

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Copart (CPRT)	Laggard	-21%
Nvidia (NVDA)	Laggard	-33%

The Leaders: Beating the Market

Four holdings are beating the market this year. Two are the steady, everyday businesses that prove boring is beautiful, Costco and Cintas. The other two are Apple and our newest position, Interactive Brokers.

Apple Inc. (AAPL)

Apple is up about 26% this year, and it is the only one of the big tech names trading near its record high.

The results back it up. In the quarter that ended 26 Sep, revenue rose 12% to a record $114.5B. iPhone revenue jumped 17% to $57.6B, a record for the Sep quarter, and Services hit an all time high of $31.6B. Net income was $30.7B. This was John Ternus's first quarter as CEO. For the holiday quarter, Apple guided revenue growth of 7% to 10%, which its CFO says would be the best revenue quarter in the company's history. The new foldable iPhone Duo only starts counting from this quarter (although I am worried about its muted reception).

I like that Apple's growth comes from people buying its products, which gives us balance against our AI spending names. The risk here is valuation. After this run, Apple is one of the most expensive of the big tech stocks.

Costco Wholesale (COST)

Costco is our best performer this year, up about 28%, and it trades within 1% of its record high. Like Cintas, it is a business I own for steadiness.

In Oct, net sales rose 12.6% to $24.5B. Comparable sales grew 11.1%, or 7.3% when you strip out higher gas prices and currency moves. Online sales jumped 22.5%. Costco also declared a special dividend of $30 per share, its largest ever.

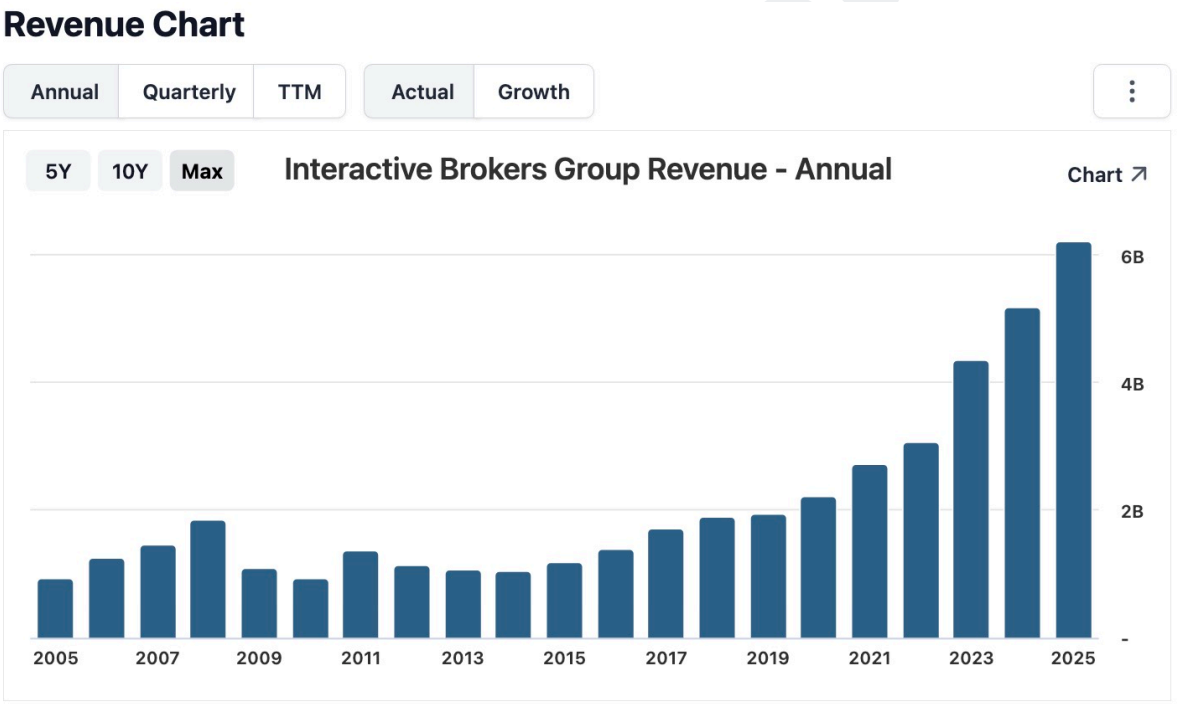
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Shoppers keep coming back whatever the headlines say. The risk here is valuation. The stock trades at about 46 times its expected earnings, so I am watching the next quarterly results closely.

A New Position: Interactive Brokers (IBKR)

I recently added Interactive Brokers to the portfolio. IBKR is a global online broker, and I want to tell you why I want to own the business.

In Q3 2026, net revenue rose 16% to $1.91B, with a pretax profit margin of 78%. Customer accounts grew 35% to 5.58 million, and customer equity grew 27% to $964.7B. The board also raised the quarterly dividend from $0.0875 to $0.15. The growth carried into Oct, with accounts reaching 5.68 million, up 34% from a year earlier.



Source: Stockanalysis.com

Two things attract me. The first is the cost advantage. IBKR is highly automated, which is how it keeps 78 cents of every revenue dollar before tax. The second is that it benefits from the very volatility that worries investors today. When markets swing, people trade more, and larger customer balances and margin loans mean more interest income. Owning IBKR lets us own a slice of investing itself.

Cintas Corp. (CTAS)

Cintas is the steady one. It supplies uniforms, mats, restroom supplies, first aid kits and fire protection to more than one million businesses in North America. Boring is beautiful.

In the quarter that ended 31 Aug, revenue rose 10.9% to $3.01B, the first time Cintas has crossed $3B in a quarter. Organic growth, which strips out acquisitions, was 8.9%. Gross margin hit a record 51.5%, operating income grew 15.2%, and management raised its full year guidance.

Cintas is also buying its rival UniFirst for about $5.5B, bringing together two of the largest uniform providers in North America. The two companies agreed not to close the deal before 11 Dec, and Cintas expects to complete it by year end. While the market obsesses over AI headlines, I value a business whose customers keep paying for the same services month after month.

The Laggards: Trailing the Market

These five holdings trail the market this year. HEICO is roughly flat, while Broadcom, Alphabet, Nvidia and Copart are down. In every case, I believe the business is in better shape than the share price suggests.

HEICO Corp. (HEI)

Long time readers will remember HEICO as our case study in conviction from my 3Q 2025 letter. The share price is roughly flat this year, but the business keeps delivering.

HEICO makes replacement parts for aircraft and specialised electronics for aerospace and defence. In the quarter that ended 31 Jul, net sales rose 23% to a record $1.41B, operating income rose 34%, and net income rose 33% to a record $235M. Organic growth was 14%. The company also kept buying small, niche businesses, such as Sherwood Avionics in Apr, which repairs critical parts for defence and commercial aircraft.

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Airlines need to keep their planes flying whatever the stock market does. HEICO is one of the clearest examples in our portfolio of a business that compounds quietly through every cycle.

Broadcom Inc. (AVGO)

Broadcom has been a frustrating stock. It is about 37% below its Jun record high, after a 12% drop on 20 Nov alone. The business keeps getting stronger.

In its fiscal Q3, revenue rose 86% to $29.6B. AI chip revenue more than tripled, up 221% to $16.7B, and the company produced $13.7B of free cash flow in a single quarter. Broadcom also shipped OpenAI's first custom AI chip. For the current quarter, CEO Hock Tan guided AI revenue to $21.7B, up 236% year on year.

In my 1Q2026 letter, I shared Hock Tan's target of more than $100B in AI chip revenue for 2027. He has since raised that target to about $115B. So why did the stock fall? It slipped after the Sep results because investors wanted an even bigger forecast, then dropped 10% in a single day in the 5 Nov selloff. When Nvidia's CEO resigned on 12 Nov, Broadcom actually rose about 6%, as some investors bet customers would spread their chip orders.

I find that gap between the share price and the business very attractive. Broadcom reports again on 9 Dec, and I will be watching closely.

Alphabet Inc. (GOOG)

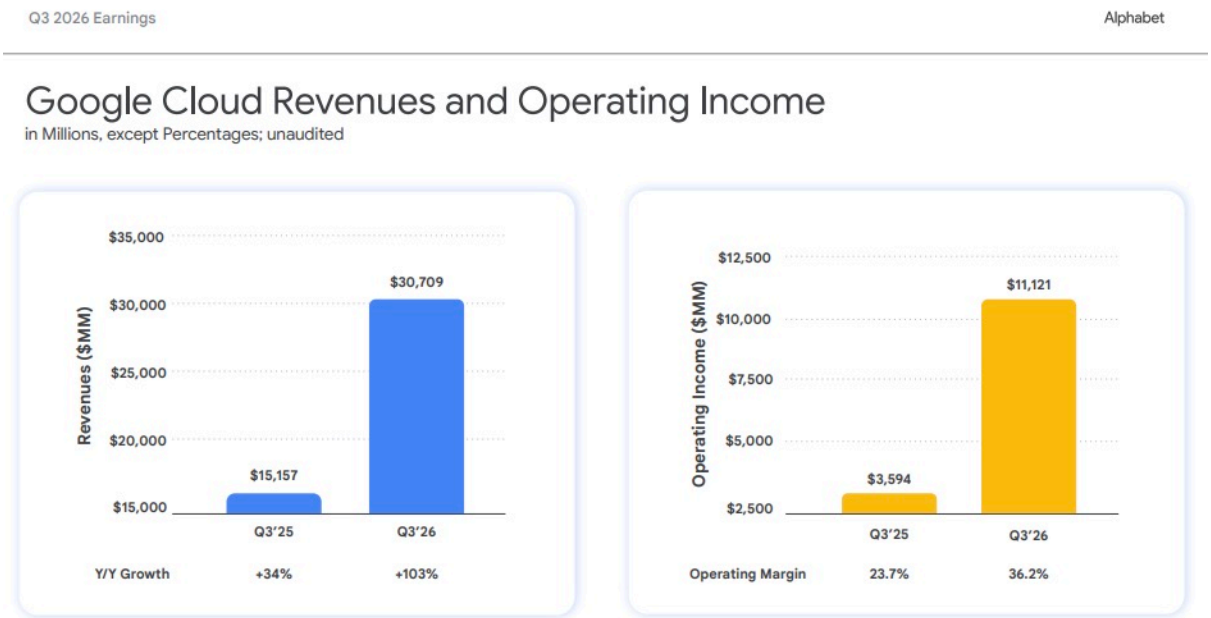
Alphabet reported Q3 2026 revenue of $127.6B, up 25% from a year ago. Google Cloud more than doubled, up 103% to $30.7B, as companies line up for its AI infrastructure and TPU chips. The Gemini app reached one billion users. And what about Search? Sundar Pichai said query growth was the highest it has been in five years.

Remember the paper and computer screen story from my 1Q2026 letter? This is it playing out. AI was supposed to kill Search. People are searching more than ever.

I want to be honest about the weak spots too. Earnings per share fell to $2.12 from $2.87, partly because of an $8.7B equity loss. Capex of $51.4B pushed free cash flow negative for the second quarter running. This sits right at the centre of the market's

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AI spending worry, and I am watching it closely. With Cloud growing above 100%, I believe this spending is already turning into revenue, and I am happy to stay patient while it compounds.



Source: Alphabet Q3 2026 Earnings

Nvidia Corp. (NVDA)

Nvidia is the holding that has tested my nerve most this quarter. The shares have fallen about 48% from their Oct peak, first on AI spending fears and then on Jensen Huang's exit. On 20 Nov alone, they dropped 14%.

However after Huang left, Nvidia reported its third quarter. Revenue more than doubled, up 103% to $115.8B. Data centre revenue, the AI chips that power everything I described above, rose 110% to $107.6B. The new Vera Rubin platform has started shipping. For the current quarter, which has one extra week, management guided revenue to about $130B, and that assumes zero data centre chip sales to China.

Nvidia also returned $28.1B to shareholders in a single quarter through buybacks and dividends.

The risk here is leadership. Nvidia is now run by interim CEO Colette Kress, its long time CFO, while the board searches for a permanent CEO. Jensen was the face of the

AI boom, and optics matter when the spiritual leader is gone. But the products, the customers and the order book stayed strong. I believe the market is pricing Nvidia as if the person was the business. I am holding, and I am watching closely who the board picks.

Copart Inc. (CPRT)

Copart's story this year has been about fewer insured cars and fewer total loss claims, as consumers cut back on auto insurance. In the quarter that ended 31 Jul, revenue rose 2.4% to $1.15B, but net income fell 17.4% to $327M as facility and vehicle costs rose. Full year revenue was flat at $4.67B. I am not going to dress up that profit drop. It was bad.

Two things keep me in this position. The balance sheet is still very strong, which allowed Copart to buy back $1.63B of its own shares last fiscal year. And management is putting that strength to work. In Sep, Copart agreed to buy ACV, a digital marketplace where car dealers trade used cars with each other, for about $1.9B in cash. The deal closed on 16 Oct. ACV gives Copart a big presence in cars sold between dealers, which reduces its reliance on insurance volumes.

The international business also keeps growing, with overseas revenue up 14.1% in the Apr quarter. Insurance cycles turn. When claims recover, I believe Copart will come out of this cycle larger and more diversified than it went in. Copart reports its next quarter on 1 Dec.

Looking Ahead

I will not pretend to know what the next few weeks will be. The debate over AI spending and regulation will stay with us into 2027.

Step back and look at what we own. A search and cloud giant growing revenue 25% year on year. The leading designer of custom AI chips, with AI revenue more than tripling. The maker of the chips that power the AI buildout, with revenue more than doubling. A dominant car auction platform using its cash pile to expand. A uniform and safety business with record margins, an aerospace parts compounder posting record profits, and a fast growing global broker. Apple, with record iPhone sales, and

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Costco, with sales growing at double digits. These are the businesses I want to hold through a pullback like this.

History shows that the investors who do best through corrections are the ones who stay invested in quality and keep their nerve. That is what I intend to do with this portfolio, alongside you.

In Oct, I decided to sell a portion of our holdings and raise cash. The market felt frothy to me. Prices climbed fast, and excitement around AI stocks ran very high. I did not know when a pullback would come, but I wanted cash ready for it. That decision worked out well. When the selloff hit, part of our money sat safely on the sidelines. Now that the market is retreating, we have cash ready to deploy into quality businesses at better prices.

I will likely deploy more funds during this dip. Buy the dip, as they say. I will not try to call the exact bottom, so I plan to add in stages, focusing on the quality names above where the gap between the share price and the business is widest. When prices fall and the businesses stay strong, patient investors get paid.

A Personal Note

Corrections like this test everyone, me included. I read every message you send, and I know some of you are worried as you watch your account value fall. That worry is fair, and I think about the trust you have placed in me every single day.

My job is to stay disciplined when the noise is loudest, keep doing the research, and tell you plainly what I see, good and bad. That is what I have tried to do in this letter.

Portfolio Now Open for New Investments

With the current market fluctuation, I am heartened that some of you approach me proactively to add more funds to the portfolio. I really appreciate the confidence and am very happy that you have a similar mindset as me.

Therefore, **I would like to share that the Truffle Portfolio is open for fresh funds from both new and existing investors**. This funding window offers a unique chance to join the Truffle Portfolio as we prepare for upcoming opportunities

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in sectors that we believe are undervalued and ready for growth. For those interested in opening or topping up accounts, please find the details below:

For New Accounts

- Minimum investment: S$50,000 (Cash)/ (SRS)
- Application: Apply Here

For Topping Up Existing Accounts

- Minimum investment: S$10,000
- Follow instructions at Funding Portal

Deadline is 31 Dec 2026.

Reminder: SRS investors should fund their accounts by 31 Dec for tax benefits. Read our SRS Guide here.

Our investors benefit from a clear, principled approach to investing, one that focuses on identifying undervalued opportunities and emphasizes long-term growth over short-term swings.

Looking forward, we're optimistic yet cautious as we monitor the market for high-quality investment opportunities. **Our disciplined approach enables us to capitalize on attractive, undervalued opportunities as they arise.**

As always, we appreciate your trust and partnership. Please reach out if you have questions or would like to discuss your portfolio. You can reach me at petetanpy@phillip.com.sg

Thank you for your continued trust and support.

Regards,
Pete

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