Kopion
Asset Management

400 W. Louisiana St.
McKinney, TX 75069

214.425.7027

1996 or 1999?

Tuesday, July 21, 2026

Dear Kopion Clients,

Kopion enjoyed a nice first half of 2026, returning 13.1% before fees (12.5% after fees). The Russell 2000 and the S&P 500 returned 22.6% and 10.2%, respectively.

Back in 2023, corporate spending on Artificial Intelligence felt ebullient, and I read a prediction that 2024 would be the year in which executives took away their companies' "AI slush funds." That seemed like a very reasonable expectation at the time, but enthusiasm for AI was actually just getting started. By late 2025, and especially the first half of 2026, AI-related spending had taken on the characteristics of a land grab. For example, during 2026, the combined capital spending of just four AI leaders (Alphabet, Amazon, Meta and Microsoft) is expected to equate to 2.1% of U.S. GDP. That magnitude of capital investment is second only to the Louisiana Purchase in 1803. It exceeds the 1850's buildout of the U.S. railway network and the 1950's-1960's buildout of the U.S. interstate highway system.[1] This has led to bubble-like conditions in related parts of the stock market that many observers have compared to the late 1990's dot-com bubble. There is a sense in which AI has been getting treated as fairy dust that promises to magically transform a host of industries. Related stocks have thus been receiving tremendous premiums or discounts based on whether they can be included in the bucket labeled "fairy dust" or the bucket labeled "going to be displaced." To be fair, AI probably will be transformational in many ways over the long-term. But it is not fairy dust. It has technological and economic limitations, and the stock market must ultimately wrestle through and adjust to these limitations.

The timing of this reckoning remains unclear because human behavior becomes so irrational, and thus unpredictable, during bubbles. Charles Mackay's 1841 book, Extraordinary Popular Delusions and the Madness of Crowds provides one of my favorite examples of this. Mackay recounts the 1710's bubble in France's Mississippi Company, which was initially granted the exclusive rights to trade between France and the lower Mississippi River. While many investors were drawn into buying its stock at outlandish prices, some onlookers derided them as foolish speculators. The skeptics included two French scholars who congratulated each other on not participating in such nonsense. A few days later, however, both men were

[1] Bobrowsky, Meghan and Drew An-Pham, "Big Tech's AI Push Is Costing a Lot More Than the Moon Landing", *The Wall Street Journal.*, February 9, 2026.

embarrassed to encounter one another buying shares at the exchange![2] A more recent example was legendary fund manager Stanley Druckenmiller in early 2000. Druckenmiller strongly sensed that the dot-com bubble might burst soon, but he was tired of missing out on technology stocks' massive gains. He later confessed, "I just—I had to play. I couldn't help myself. . . Anyway, I pickup up the phone finally. I think I missed the top by an hour. I bought $6 billion worth of tech stocks, and in six weeks. . . I had lost $3 billion in that one play."[3] These examples illustrate a key dynamic of investment bubbles: many investors know they shouldn't participate, but they do so anyway.

The late 1990's dot-com bubble lasted from roughly 1996 until it popped in March 2000. Using that bubble as an analogue, I cannot say for certain if we are closer to 1996, the beginning, or 1999, near the end. There are some tentative signs, however, that we might be in the later stages of the bubble. Early on, AI efforts were primarily about technological possibilities—what the technology was capable of in theory. We are now, however, hearing early indications that traditional requirements are starting to be introduced to AI decisions. For example, do AI investments produce an attractive Return on Investment? And can that Return on Investment be realized while meeting traditional expectations for reliability, security, compliance, integration and change management? Those requirements can be arduous, and they were relaxed or waived during the early phases of exploring AI's potential. Today, however, they seem to be getting reintroduced. This would be like a teacher changing the grading rubric partway through the semester—the perceived "top students" would change.

Kopion's investment process seeks companies that are undervalued, which means that we actively steer away from bubble-like parts of the market. Against this backdrop, I thought it would be helpful to share some specifics of how we have been navigating this terrain within Kopion's portfolio.

One of the most speculative parts of the stock market in recent months has been companies participating in the physical build-out of AI data centers, including the IT hardware within these facilities. Coherent is a long-time Kopion holding that is the leading producer of photonic components, including the high-speed connections used in data centers. Coherent enjoyed a stupendous wave of demand in recent quarters, but its stock price rocketed even faster, far beyond our estimates of its intrinsic value. We thus gradually pared Coherent down to a very small position. Another example is BorgWarner, which produces automotive components. Earlier this year, the company announced that it had partnered with a data center developer to design a novel power generator based primarily on components that BorgWarner produces for the automotive market. This announcement quickly ushered the stock into the "AI company" bucket. We applaud BorgWarner's entrepreneurial culture that led to this new product development. But even in our optimistic valuation scenario, we expect the company to remain primarily an auto supplier for the foreseeable future, which warrants a more modest valuation. We thus trimmed this position aggressively as well.

On the other hand, many other companies have been labeled AI victims. In fact, entire categories have been labeled this way with little regard for the uniqueness of the individual

---

[2] Mackay, Charles, Extraordinary Popular Delusions and the Madness of Crowds, Harriman House Ltd, Hampsire, Great Brittan, 2018, p. 12-16.
[3] Jakab, Spencer, "Your FOMO Is Strong, But Pity Finance Pros", *The Wall Street Journal.*, June 3, 2026.

businesses. This has included many software companies since AI has proven to be effective at writing software code. Coding, however, is just one facet of designing, producing, testing, selling, distributing, supporting and maintaining software. Moreover, in our assessment, certain software companies are poised to be natural AI beneficiaries since their existing product platforms are the most natural home for AI functionality that can provide users with concrete benefits in a reliable, secure and economic fashion. We have added to these positions in our portfolio. One notable example is Tyler Technologies. Many years ago, Tyler was a core holding, but its valuation became so stretched that I progressively trimmed it down to a very small position and eventually completely exited the stock. We continued to admire the company, however, and maintained our research on it in hopes of reacquiring it some day. In our view, Tyler is among the best positioned of software companies to benefit from AI and is unlikely to be displaced. As its stock sold off with the broader software group, its valuation fell to levels that allowed us to gradually rebuild our position during the first half of 2026.

We have also seen examples in which our companies have swung between these two categories, from being viewed as AI victims to AI beneficiaries. For example, Cognex is a company that produces machine vision cameras and related software that enable a wide range of industrial automation. In the spring of 2025, concerns that Cognex would be displaced by new AI-based vision tools drove its stock price to its lowest point in over 8 years. In truth, Cognex already had its own industry-leading AI capabilities, so we viewed this perceived competitive threat as exaggerated. This led us to make Cognex a larger position in the portfolio. The stock has since rebounded so strongly that in recent months we concluded it was getting too much credit for its potential and have trimmed it back down to a junior position. This is just one of many examples I could offer of how shifting AI narratives have been driving large swings across the stock market.

In closing, I'd like to return to the question of whether we are early or late in the AI bubble. Internally, we have used the "1996 or 1999" framework to remember that bubbles can last for longer than one might expect. We have thus prepared emotionally for the possibility that this situation could extend for some time. If that proves to be the case, our emphasis on risk management will mean that we trimmed our stocks that have been swept up in the AI frenzy too early. This is ultimately an outflow of our value investing process, and I am at peace with that possibility. It is worth mentioning that we have attempted to respect this timing challenge by making the shifts described above gradually. Moving consistently, in small increments has been our way of striking a balance between being disciplined and remaining humble about our place in this cycle. To be clear, not all of our stocks have been affected by the AI theme, but the fairy dust vs. AI victim dynamic has created several excellent opportunities to shift funds from stocks that are badly ahead of themselves to others that we expect to benefit when traditional requirements are reintroduced. Hopefully that will occur in the next couple of years, but we are prepared to wait longer if necessary.

Thank you for your continued confidence and support.

Best regards,

Terry Ledbetter, Jr., CFA

PERFORMANCE DISCLOSURES

Period	Kopion, Gross	Kopion, Net $_{\text{Max Fee}}$	Russell 2000	S&P 500
Annualized*				
1 Year	14.3%	12.9%	40.8%	22.3%
3 Years	19.2%	17.7%	18.6%	20.6%
5 Years	9.1%	7.7%	7.0%	13.4%
10 Years	14.3%	12.9%	11.6%	15.5%

*Ending 6-30-26

Past performance does not guarantee future results. Investments with Kopion may lose value.

Terry Ledbetter, Jr. began managing his first diversified investment account on 2-4-04 while employed by Friedberg Investment Management (FIM). Mr. Ledbetter left FIM on 7-31-09 and founded Kopion Asset Management, LLC (Kopion), which became a legal entity on 8-24-09. Importantly, when Mr. Ledbetter founded Kopion, he continued to manage the same accounts that he had been managing while employed by FIM. The accounts, investment strategy, and investment process all remained the same. The performance information cited throughout Kopion's marketing materials includes all of the diversified investment accounts managed directly by Mr. Ledbetter since 2-4-04, which is when he began managing his first diversified investment account. This information is provided for both Mr. Ledbetter's entire performance history as well as for the portion of Mr. Ledbetter's performance history that occurred after Kopion was founded and became a legal entity.

The performance information cited throughout Kopion's marketing materials has been thoroughly documented, and it has been calculated using normal industry protocols, which are described in more detail below. This information has not, however, been audited by an independent third party. Dividend and interest income in these accounts was reinvested. Returns for these accounts have been asset-weighted to calculate historical returns. Said another way, the accounts were aggregated into a single group and then performance was calculated for that single group. This group includes some sub-accounts and securities that were carved out of larger accounts in order to exclude assets like mutual funds that Mr. Ledbetter did not manage directly. Those mutual funds were managed by professionals at third party firms, and Mr. Ledbetter's involvement was limited to being a passive shareholder of those mutual funds. In addition, some of those mutual funds followed fixed income strategies, which were very different from the strategy used by Mr. Ledbetter when he was employed by FIM and later at Kopion. Performance information that includes assets like mutual funds that were not managed directly is available, and Kopion will provide it promptly upon request.

Kopion reports its Time Weighted Returns (TWRs). TWRs make adjustments for deposits and withdrawals so that those transactions do not influence performance results. Consequently, deposits do not increase the return, and withdrawals do not decrease the return. TWRs thus allow for performance comparisons between Kopion's (and Mr. Ledbetter's) history and market indices.

Kopion reports both "gross returns" (which are returns before Kopion's management fee) and "net returns" (which are returns after deducting Kopion's management fee). Kopion's management fee schedule is graduated, which means that the fee rate begins to decrease after an account's dollar value exceeds a certain threshold. The label "Net $_{\text{Max Fee}}$" indicates that the net returns being presented reflect Kopion's maximum fee rate for all periods presented. The words "net" or "after fees" without the words "Max Fee" in subscript lettering indicates that the net returns being discussed reflect actual fees.

Kopion has provided the returns of the Russell 2000 and the S&P 500 indices in order to provide the broader stock market context of Kopion's (and Mr. Ledbetter's) returns. The Russell 2000 tracks the performance of relatively small publicly traded companies, and the S&P 500 tracks the performance of relatively large ones. Kopion does not "benchmark" its portfolio against indices in the traditional sense of carefully managing the portfolio for comparison against a specific index. Instead, these two indices are used as broad indicators of the

stock market's performance. Kopion (and Mr. Ledbetter) has primarily focused on small and medium sized firms, but it (and he) has also invested in some large companies as well. This is why Kopion has provided the results of both the Russell 2000 and the S&P 500. These indices cannot be invested in directly, but mutual funds and exchange-traded funds that track these indices ("index funds") are available in the market. Kopion's (and Mr. Ledbetter's) investment strategy carries more risk than investing in an index fund that tracks either the Russell 2000 or the S&P 500. This is primarily because Kopion's (and Mr. Ledbetter's) strategy involves investing in a relatively small number of stocks and those stocks are primarily for small to medium sized companies. This approach results in greater volatility and greater risk of capital loss than index funds tracking either the Russell 2000 or the S&P 500.

Indices' performance figures have been obtained from sources believed to be reliable.