

Quarterly Letter to Shareholders on Public Equity

This letter focuses on the performance of our Japanese public equity portfolio only.

It does not represent the overall performance of Hiroshi Capital. Total returns, capital allocation, and non-equity holdings will be covered in separate letters.

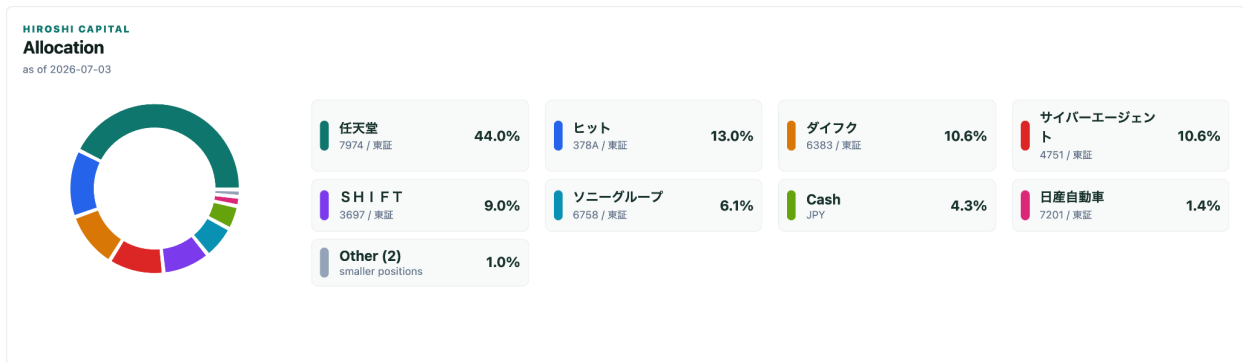
Performance

| Quarter              | Portfolio | TOPIX (TR) | Nikkei 225 (TR) | Vs TOPIX (TR) | Vs Nikkei (TR) |
|----------------------|-----------|------------|-----------------|---------------|----------------|
| 2026 Q1              | -1.43%    | 3.48%      | 2.03%           | -4.91%        | -3.46%         |
| 2026 Q2              | -0.60%    | 14.37%     | 37.32%          | -14.97%       | -37.92%        |
| 2026 Q3<br>(To date) | 5.17%     | 1.75%      | -0.45%          | 3.42%         | 5.62%          |



Holdings

During the Q2 quarter, we became more concentrated in our highest-conviction ideas. The most important change was a significant increase in Nintendo, funded partly by reducing or exiting several lower-conviction positions.

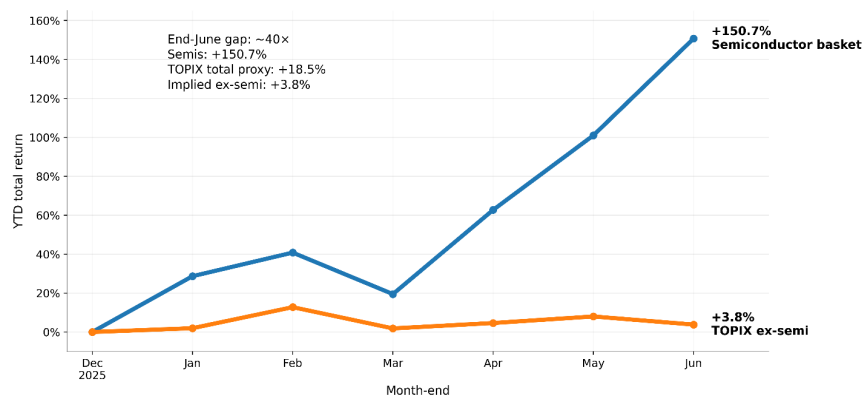


## Overview

In Q2, our portfolio lagged the market significantly. The main reason is clear that we had limited exposure to the semiconductor and AI-related companies that drove the index.

### Japan 2026 YTD: semiconductors vs. TOPIX ex-semiconductors

Monthly return path, 31 Dec 2025 = 0%; latest point: 30 Jun 2026.



Semiconductor basket = Nikkei Semiconductor Stock Index (Total Return). TOPIX path uses 1306 NEXT FUNDS TOPIX ETF dividend-included NAV as a monthly TOPIX TR proxy; ex-semiconductor is implied, not an official JPX/Nikkei index:  $R_{ex} = (R_{TOPIX} - 10\% \times R_{semi}) / 90\%$ .

When we split the index between semiconductor-related companies and the rest of the market, the difference becomes clear. The headline return of the market was very strong, but a large part of that return came from a narrow group of AI and semiconductor-related companies. There is a clear divergence, and we did not own enough of those companies to keep up.

Regarding AI, we do believe in its long-term revolutionary nature. We use AI every day, have created multiple software tools with it, and recognize how powerful it already is.

But like many other revolutions, the market tends to overestimate the short-term impact and underestimate the long-term potential. The way we think is what assumptions are already embedded in today's prices.

Howard Marks articulated this idea well in his memo “Is It a Bubble?”:

“Because there’s no history to restrain the imagination, the future can appear limitless for the new thing. And futures that are perceived to be limitless can justify valuations that go well beyond past norms – leading to asset prices that aren’t justified on the basis of predictable earning power.”

We have no ability to predict when this will normalize - it may continue for longer than we expect. But if we frame it probabilistically, the question becomes: are we closer to the bottom of the expectations cycle, or closer to the top?

Our view is that the market is currently pricing in too many perfect scenarios.

The market is no longer just pricing in higher AI demand. It is increasingly pricing in an entire future state: AI agents everywhere, humanoid robots entering workplaces, companies becoming more efficient almost immediately, and large parts of labor being automated within a short period of time.

We are not saying this future will not happen. Many parts of it will likely happen, some may happen in a tangential way, and some may happen in ways even more powerful than people currently imagine.

But we think the market is confusing direction with timing and certainty.

There is a difference between saying “AI will change the world” and saying “AI will change the world in the next few years, smoothly, with the economics flowing directly to today’s winners.”

The second statement requires much more confidence.

Currently, many assumptions need to work at the same time. Demand must keep accelerating. Margins must stay high. Supply must remain tight. Competition must not catch up. Capital spending must earn attractive returns. Enterprises must adopt quickly. Users must change behavior. Infrastructure must scale. Regulation must not slow deployment. And the economic benefits must accrue to the companies the market is already rewarding today.

The memory sector, specifically, is a perfect example.

Currently, there is a mismatch. Demand has moved much faster than supply, so higher sales and margins are being recorded. But when high margins appear in a cyclical industry, capital follows. New supply gets built across the globe. Eventually, supply catches up to demand and might even overshoot it.

Unlike NVIDIA, where software integration and ecosystem advantages create a much deeper moat, many memory companies do not have the same degree of protection. The products are important, but the economics are still vulnerable to supply pressure.

We are not saying the sector cannot continue to perform, timing is impossible to predict. But we are not comfortable underwriting current economics as permanent.

With that said, this kind of market gives us an opportunity. While money and attention move toward AI and semiconductors, other high-quality companies can be left behind.

## **Nintendo**

We significantly increased our holding in Nintendo.

We were actively looking for ways to own more of it, and we sold some lower-conviction positions to fund the increase. This does not mean the companies we sold were bad, we do still believe they are good companies. But none of them matched the quality of Nintendo at the price the market was offering us.

The main concern from Mr. Market seems to be RAM prices (or at least that is the reason many people use to rationalize the weakness). This, we do not view it as any significant problem.

Currently, AI demand is creating a shortage of memory. Demand moved faster than supply. But supply will respond. More capacity is being built, and if the economics remain attractive enough, supply will eventually catch up to demand, and normalizes the price of memory.

Thus if taking a longer-term view, we do not think a temporary memory-cost issue has any effect on the long-term intrinsic value of the company.

Of course, the RAM issue could also be a superficial explanation. The deeper concern may be entertainment itself.

People have two eyes and limited attention. From that perspective, Nintendo does not only compete with Sony, Microsoft, and other game companies. It also competes with Meta, YouTube, Netflix, TikTok, and every other product trying to capture human attention.

AI creation tools may also make it easier to produce more characters, more games, and more entertainment. In that sense, the supply of entertainment may increase significantly.

But we think Nintendo's IP has a different economic nature from ordinary entertainment assets.

A weak character, like a commodity product, can be generated easily, but it can also be replaced easily. More supply hurts when the product is not differentiated. But a luxury product competes on a different ground. Its value does not come only from availability or novelty. It comes from trust, memory, emotional attachment, and the accumulated meaning built over a long period of time.

This is how we think about Nintendo's strongest IP.

There are two main reasons why we view Nintendo as a “luxury” character IP brand.

The first is the interactive nature of games. By the nature of Nintendo’s business, its characters are not merely watched, but are interacted with. Players move with them, explore worlds with them, fail with them, and grow up with them. This makes the relationship different from simply watching a movie or a show. The character becomes part of the player’s own experience, not only someone else’s story.

The second is trust. Nintendo’s games usually reach a very wide range of players, from small children to young adults to people in middle age. This is very rare. Parents who grew up with Nintendo often have little hesitation introducing Nintendo to their own children. That level of trust is extremely hard to copy. The only comparable example we can think of is Disney, but even there, the IP is usually watched rather than interacted with.

This combination of interaction and trust is what we think makes Nintendo’s IP so valuable. And we do not think this asset has been fully monetized.

Most of Nintendo’s IP value is still expressed through games. That is already a strong business, but we believe it is only one part of what these assets can become. The success of recent movies, Pokémon cards, Super Nintendo World, merchandise, and licensing gives us some early evidence of what may be possible. But we do not think this is the full expression of Nintendo’s IP value. We think it is still early.

The core idea is simple: Nintendo owns a group of assets whose true economic value is still mostly hidden. We believe this “invisible” intrinsic value is much, much higher than what the market is suggesting.

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## **Final note**

In the first half of 2026, we lagged because we did not chase the semiconductor and AI-related companies that drove the market. That may continue to hurt us in the short term as momentum can continue far beyond what seems reasonable, but we will not be chasing the last dime.

Probabilistic thinking is something we take seriously. We do not need certainty but attractive odds. At current prices, we believe the odds are better in the companies we own than in the parts of the market where expectations already appear extremely high.

More to come,  
Hiroshi Sakakibara