

Investor Letter for the calendar year: 2025

Author: Timo Buss

Re: AI Narratives, Microsoft and a Bank in Brazil

Dear fellow investors,

Thank you very much for taking the time to read my investor letter. I have been advising the Patient Capital Fund for Hamburg-based fund boutique Covesto Asset Management since January 1, 2020 and I'm acting as its CIO since May 1, 2025. Once a year, I would like to report to you the considerations which were important in advising the fund during the past calendar year, whether new significant investments were made, how the portfolio structure and performance at year-end turned out and, at the end, devote myself to one particular topic.

This year's particular topic is: The fund's investment in Nubank, preceded by a review of the operating progress of the ten largest holdings during the most recent reporting season, including an assessment of which software companies may prove casualties of AI – and which beneficiaries.

The investor letter begins with a table showing the portfolio structure and a performance overview.

Portfolio Structure of Covesto Patient Capital (ISIN: DE000A2PR0E7)

NAV* as of 31.12.2025	€157.16
Weight of the largest investment	9.6%
Weight of the five largest investments	37.8%
Weight of the seventeen largest investments	84.8%
Weight of cash	0.2%

*The NAV refers to the I tranche that was launched on 11.02.2020 at €100.00

My investment strategy for the Patient Capital Fund focuses on low trading activity with a very high concentration in the best investment ideas. The largest positions in the fund are regularly weighted near the maximum regulatory limit of 10% of the fund volume, the top 5 positions often make up ~40% of the fund volume (2025: 37.8%) and the top 17 positions represent >80% of total assets (2025: 84.8%). **I have invested ~100% of my liquid assets in the fund and will not make any investments in the capital market other than acquiring additional shares of this fund.**

On the next page, I would like to inform you about the ten largest holdings of the fund as of year-end.

Alphabetical Listing of the Ten Largest Holdings of Covesto Patient Capital

Alimentation Couche-Tard

Alphabet

Fomento Económico Mexicano

LVMH

MercadoLibre

Microsoft

Nu Holdings → *NEW*

VEF

VISA

Watches of Switzerland Group

The label *NEW* indicates positions among the ten largest holdings that were not part of the portfolio in the previous year (2025: 1). Out of last year's ten largest holdings, none was sold entirely. All other movements are due to price changes or additions/reductions of long-term holdings. In case you would like to check upon the holdings more frequently, you can access the portfolio structure which is updated daily [here](#) including a breakdown by country, sector and currency.

In the past calendar year, I recommended adding one new company to the top 10: Nu Holdings, described on p. 9. Nine of the fund's ten largest holdings were already part of the portfolio during the previous year and movements are primarily due to price changes.

Performance Overview Net of All Costs (ISIN: DE000A2PR0E7)

Period	Covesto Patient Capital*	DAX**	Delta
	(1)	(2)	(1)-(2)
2020	10.2%	3.6%	+6.7%
2021	22.4%	15.8%	+6.6%
2022	(21.6%)	(12.4%)	(9.3%)
2023	30.3%	20.3%	+10.0%
2024	23.2%	18.9%	+4.3%
2025	(0.8%)	23.0%	(23.8%)
cumulative since 2020	68.3%	84.9%	(16.6%)
annualized since 2020	9.1%	10.8%	(1.7%)

*The performance relates to the S tranche in 2020 only and to the I tranche from 2021 onwards (launch date: 11.02.2020)

**The fund is not limited to German companies. Therefore, I'm of the opinion that a tabular comparison with the domestic DAX index is only partially meaningful. A comparison with so-called world indices (in EUR), for which the renowned index providers regularly charge high fees, would be more substantiated in terms of informative value

The table shows the performance of the fund since I started advising it. After every five calendar years of performance, my plan is to provide a detailed interim results discussion. My goal in advising the fund is to outperform both the national as well as a global index in the long run (no return guarantee). Over very long periods, global equity markets have historically delivered nominal annualized returns in the

high single-digit to low double-digit range, depending on the period and the index. Since 2020, the fund delivered an annualized return of 9.1% and a cumulative return of 68.3%, net of all costs.

Operating Review of the Largest Holdings This Reporting Season

Most companies report fourth quarter results in January or February. In the table below, you can see how eight of the ten largest year-end holdings of Covesto Patient Capital have continued to grow their earnings attractively. Exceptions are two European companies active in the luxury goods sector, LVMH and Watches of Switzerland, that experienced operating income declines in the single-digit percent range, albeit with sequential improvement. Overall, it can be assumed that the ten holdings have grown their combined intrinsic value in the mid-teens percent year-over-year.

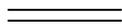
Holding	country	revenue in m, quarter ended Dec-25	revenue in m, quarter ended Dec-24	Δ yoy	earnings ¹ in m, last quarter	earnings in m, prior year	Δ yoy
Alimentation Couche-Tard	CAN	<i>not reported yet but highlighted good momentum in Feb-26</i>					+5% est.
Alphabet	USA	\$113,828.0	\$96,469.0	+18%	\$35,934.0	\$30,972.0	+16%
FEMSA	MX	\$12,018.0	\$11,424.0	+5%	\$1,340.0	\$1,223.0	+10%
LVMH	FR	€22,717.0	€23,930.0	(5%)	€8,743.0	€8,918.0	(2%) H2
MercadoLibre	UY	\$8,759.0	\$6,059.0	+45%	\$889.0	\$820.0	+8%
Microsoft	USA	\$81,273.0	\$69,632.0	+17%	\$38,275.0	\$31,653.0	+21%
Nu Holdings	BRA	\$4,857.3	\$3,100.7	+57%	\$894.8	\$552.6	+62%
VEF	SE	-	-	-	-	-	+23%
VISA	USA	\$10,901.0	\$9,510.0	+15%	\$5,835.0	\$5,119.0	+14%
Watches of Switzerland Gr.	UK	-	-	+8% est.	-	-	(SD%) H2 est.
<i>average</i>				<i>+18%</i>			<i>+15%</i>

¹Earnings represent operating income for Alimentation Couche-Tard, Alphabet, FEMSA, LVMH (H2 numbers), MercadoLibre, Microsoft, and Watches of Switzerland Group. Earnings represent net income for Nu Holdings and VISA. For VEF, the year-over-year delta of +23% is the NAV of \$433.8m as of Q4/25 divided by the NAV of \$353.0m as of Q4/24.

Amid debate over whether AI may compress their future growth, some of these companies' share prices have recently declined, and the fund's current NAV is ~12% below its all-time high of €163.33 a year ago. Meanwhile, broader market indices and especially sub baskets like metals, gold, resource extraction, space and satellites, non-profitable technology, semiconductors, and memory have fared better over the past 12 months – resulting in a temporary underperformance of the fund's strategy.

Such a development is two-edged. On the one hand, any fund advisor who cares deeply about his co-investors getting attractive financial results is mindful how for newly joined investors starting their journey with a drawdown feels far from ideal. On the other hand, when the portfolio companies continue

to prosper – with stellar returns on capital and durable double-digit earnings per share growth – share prices, and ultimately the fund’s NAV, should follow intrinsic value over time. Over any single year, more than 60% of share price movements are driven by changes in valuation multiples – reflecting shifts in sentiment rather than fundamentals. Ultimately, however, these fluctuations fade and shareholder returns converge toward the sum of dividend and net buyback yield plus earnings per share growth.



The Covesto Patient Capital Fund holds positions across diverse sectors. One sector has recently fallen out of favor: software. At year-end, 13% of assets were invested in software companies based on the STOXX subsectors classification and 45% of assets were allocated to the United States. At the time of writing, the average U.S. software-as-a-service (SaaS) company is down roughly 20-25% year-to-date. Below, I outline the negative AI narratives for the fund’s software holdings – and why there are compelling reasons to question the durability of these narratives and their relevance to intrinsic value.

AI Narratives, Microsoft and “Shoot First, Ask Questions Later”

In software you may recently have come across the terms “SaaSocolypse” or “SaaSageddon”. Behind these labels lie investors’ fears that AI coding tools based on large language models (LLMs) will reshuffle the software landscape. I am well aware of how the nature of writing code is evolving. As someone without a computer science degree, I try to take advantage of it by immersing myself in tools like Anthropic’s Claude or Lovable to automate routine tasks and stay informed on their capabilities. Full-time programmers are increasingly moving from writing code to supervising multiple AI coding agents. The immediate effects are higher productivity and lower software production costs. At first glance, this sounds like good news for incumbent software companies. Yet, at a second order, “SaaSageddon”-proponents outline five hypotheses why it could ultimately harm incumbents:

- A) Corporate vibecoding:** To save costs, corporates could start vibecoding their own SaaS applications,
- B) Fewer seats:** Generative AI (Gen AI) could reduce overall white-collar employment and thereby shrink the total addressable seat count for the SaaS industry,
- C) Lower margins:** Even if incumbents master the agentic transition, a larger share of their revenue may come from AI features built on costly, low margin API calls to leading LLM providers,
- D) Higher competition:** New entrants could build better designed and cheaper versions of incumbents’ products, while incumbents simultaneously encroach on each other’s turf,
- E) Agents don’t click:** If AI agents replace humans as the primary SaaS user, incumbents may need to reorient around APIs, permissions and outcomes rather than user interfaces.

I'll now apply all five hypotheses to **the fund's largest software holding, Microsoft.**

As a reminder, Microsoft is the largest software firm in the world with undisputed market leadership in Office suites, PC operating systems as well as a strong no. 2 position in hyperscale cloud services. In its current FY26, MSFT will likely generate around \$330bn in revenue and an operating income above \$150bn (46% margin). Azure is the primary growth engine, at \$100bn in run-rate revenue with 38% growth in the most recent quarter – something unprecedented at this scale. Microsoft 365 (M365, primarily Office) should contribute another \$100bn in revenue with growth in the double-digits and commercial seat growth in the mid-single digits. Together, Azure and Microsoft 365 account for roughly two thirds of total revenue and M365 Commercial surpassed 450m paid seats last quarter.

A) Corporate vibecoding: This point strikes me as the least sensible. Every successful SaaS company is built on the premise “build once, sell repeatedly”. Independent software companies exist in the first place because it is economically inefficient for each corporation to code and maintain its own solutions. Redundancy is costly. Falling production costs – for startups and incumbents alike – don't change that.

Nor is there much to gain from self-development as the average U.S. company spends less than 5% of revenue on software and IT. Instead, a lot could go wrong. Another drawback to A) is that companies will focus on their core competencies, and writing code has never been the bottleneck in building a successful SaaS product to begin with. Instead, the demanding elements lie beyond the code: maintenance, go-to-market, intimate knowledge of customer needs, partnership integrations, security, user training, support, etc. As HubSpot founder, Dharmesh Shah, recently put it:

*“My company, HubSpot, is a software company. We have hundreds of professional engineers – just about all of them use AI for product development too. They are brilliant and know how to build production-grade products. Even with this powerful army of talent, the number of internal, core SaaS applications that we have replaced with a vibe-coded variant is exactly ZERO. The number of applications we plan to replace is also exactly ZERO. It's not the absence of talent that keeps us from rolling our own SaaS apps, it's the presence of focus. It would be silly to try and replace our HR, team collaboration, expense tracking and 100+ other SaaS apps we use when we can just buy them. Just doesn't make sense. That's us – as a software company at some scale. If you're a non-software company, it makes even less sense for you. Doesn't matter how good the AI coding tools get. Let's say you **could** vibe code a replacement for that SaaS app you're using, who's going to maintain it? Who's going to keep up with industry trends? What are you going to do when the 20-something genius that vibe-coded it over a weekend leaves the company? Who do you call when there's a major bug?”*

B) Fewer seats: This point carries more merit than A). It hinges on whether Gen AI will make each of us more productive or simply redundant. If the former is true, M365 is unlikely to see a decline in paid seats. If the latter is true, two implications follow: First, inference would expand materially, and Azure could see stronger long-term growth than currently priced in. Second, it's difficult to believe that all of Microsoft's customers will materially reduce headcount while only Microsoft itself needs to continue running its business with 228,000 employees. In FY25, Microsoft paid a median salary above \$200k,

while each employee generated an average \$1.2m in revenue. Given that the average salary exceeds the median, Microsoft is looking at \$60-70bn in total staff costs compared to an expected EBIT of \$150bn. Depending on the pace of workforce reduction across the average corporate and Microsoft, it retains a lever to offset some of the hypothetical negative implications of B).

C) Lower margins is another „SaaSageddon“-argument and it doesn’t cause me a lot of concern. SaaS players may need to shift some seat-based pricing toward outcome- or usage-based pricing. For Microsoft this is an unlikely roadblock as it has deep experience with Azure’s consumption-based pricing and with hosting OpenAI’s API business, priced per token. It is true that agentic products – so long as they rely on API calls to LLMs – represent one of the most expensive forms of AI revenue compared to traditional software. However, inference costs are declining faster than Moore’s law. If agents deliver excessive benefits – potentially saving companies millions in labor costs – I don’t see convincing arguments why vendors shouldn’t be able to price to value. Nor is it hard to imagine how Microsoft’s IR department could spin up a compelling logic for investors to focus on absolute incremental profit dollars going forward instead of gross margins. Consider the precedent: hyperscale cloud services operate at 30%+ operating margins vs 60%+ for legacy software. Yet Azure’s launch in 2010 has not impaired Microsoft’s total shareholder return or valuation multiple – arguably the opposite.

D) Higher competition: This is a difficult one. As for the risk that new entrants could build better-designed and cheaper versions of Microsoft’s products, I’m bringing bad news: There’s already a better point solution for team chat than Teams (Slack), a more elegant presentation builder than PowerPoint (Keynote), a more versatile collaborative workspace than Loop (Notion) and a sleeker e-mail client than Outlook (Spark). Many consumers – including myself – have migrated entirely to the Apple ecosystem in their private lives. Yet, due to the integration of Microsoft’s product suite, network effects, and habits, most office environments still gravitate around M365. This integration has lasting value.

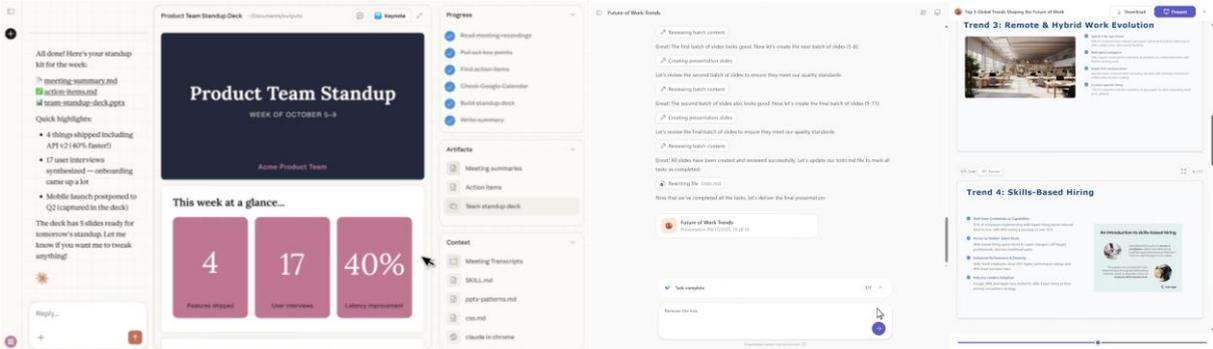
Frontier AI Labs like DeepMind, Anthropic or OpenAI are unlikely to devote scarce engineering talent to rebuilding incumbent SaaS products. Instead, they allocate their most valuable developers – earning paychecks like rockstars – to higher-impact opportunities: LLM-native products previously impossible.

Anthropic relies on Salesforce to manage its sales pipeline; for HR on Workday. OpenAI is a Slack power user rather than building its own communication tool. At the recent Cisco AI Summit, NVIDIA founder Jensen Huang dismissed the “SaaSageddon” narrative as “*the most illogical thing in the world*”, asking why AI would reinvent a tool instead of simply using it. For mission-critical, daily-use SaaS applications, I share his view. Yet his analogy carries a subtle risk: **Incumbents may not face competition through direct imitation, but via an alternative path to the same outcome.** I’ll return to this “tools vs. outcomes” question under E).

There is one additional dimension under **D) Higher competition.** As programmer productivity rises in incumbent firms, they may encroach on each other’s turf and expand into adjacent products. If so, this could favor Microsoft, which has historically proven more effective than peers at bundling services into M365. In recent years, expansion through M&A was off the table due to antitrust scrutiny. If Gen AI

prompts every SaaS giant to broaden its offering – though focus and domain expertise should prevent a level playing field – the advantage may tilt toward vendors already positioned as trusted partners for integrated solutions, such as Microsoft or SAP. A related concern is that product overlap could erode differentiation and pricing power. A counterargument is that leading LLM subscription tiers exhibit meaningful overlap too. Yet users who value marginally stronger reasoning in ChatGPT Pro (\$200/month) or superior video generation in Google AI Ultra (\$250/month) will happily subscribe to both – at price points well above M365 plans (\$36-57/month) or the \$30/month Copilot add-on.

E) Agents don't click strikes me as the most relevant pillar of the “SaaS-magedon” narrative. Leading Gen AI Labs are attempting to leapfrog M365’s flagship agentic product, “Copilot”, with their own “Cowork” agents. Claude Cowork and similar approaches do not aim to build a better slide editor or superior word processor per se. They are new routes to a desired outcome. Instead of manually assembling a presentation, a user can upload relevant materials and delegate the task to an agent that synthesizes a deck in the background (see below: Claude Cowork, left; Microsoft Copilot, right).



Current consensus is that every major software firm will introduce proprietary agents that users can prompt to fulfil tasks within the boundaries of each application. How the agentic race unfolds comes down, once again, **to whether the innovators get distribution before Microsoft gets innovation**. The incumbent holds advantages – but also weaknesses. On the positive side, Copilot can access customers’ proprietary data across SharePoint and draw on each user’s collaboration history within Teams and Outlook. Microsoft also has a trust benefit to deliver a secure, enterprise-grade agent framework that will not leak or delete your data. On the other hand, Copilot is not a compelling product yet and only 3% of M365 Commercial users (15m of 450m) see reason to pay for it.

To some extent, this situation reminds me of Google in 2023 when market participants worried users would rely on Bing, or ChatGPT entirely to have all their questions answered. Alphabet fell out of favor and shares briefly declined ~40% from a high of \$150 to \$92 in January 2023, when I recommended the fund make it its second-largest holding. Addressing whether the company could fend off new entrants, I wrote in my [2022 Investor Letter](#): “Google seems well prepared. Technologically, the company is on par, distribution costs serve as barrier to entry and, if necessary, a chatbot can be tested as a new vertical overnight (between Search, images, maps, news). The right timing will be crucial though.”

This was before Google began testing AI Overviews in May 2023 (6 months after ChatGPT), launched them in May 2024 (18 months after ChatGPT) and introduced AI Mode as a new vertical in May 2025 (30 months after ChatGPT). Like Copilot today, AI Overviews was initially unconvincing but improved materially over time. Microsoft is not a first mover but a fast follower. In 2017, Teams debuted as a clunky collaboration tool before evolving into a robust app. Copilot penetration is only 3%, yet paid seats grew 160% year over year, with indications that adoption and outcome quality are improving. As with Alphabet, Microsoft’s management appears constructively paranoid about the need to enhance its AI offerings. There is, however, one key difference: there was never any doubt that Alphabet housed one of the world’s frontier AI labs (DeepMind) while the same cannot be said of Microsoft to the same extent. It is therefore constructive that the company is allocating more resources to Copilot, and its CEO of AI, Mustafa Suleyman, has acknowledged Microsoft must start to develop own frontier foundation models, “*with gigawatt-scale compute and some of the very best AI training teams in the world.*”



In sum, AI coding agents are lowering software production costs. It’s naïve to assume this will not have downstream consequences for incumbents – it will. Yet important distinctions remain. Lightweight SaaS solutions that neither sit on sensitive customer data nor are deeply embedded in daily workflows will face greater pressure. Non-core SaaS companies down 50% or more may have corrected for good reason, and still warrant no attention, having never achieved GAAP profitability or demonstrated cost discipline.

By contrast, incumbents with core applications, world-class AI talent, and an agentic vision have a credible path to staying their customers’ preferred integration partner – and, in doing so, to creating long-term shareholder value. As with all fear-driven narratives, market participants tend to “shoot first, ask questions later”, selling software firms indiscriminately – strong and weak alike. **This is where the investors of the Covesto Patient Capital Fund represent a structural advantage.** A long-term oriented capital base allows the fund to look through the noise and I remain grateful for your trust.

I will conclude the letter with the thesis behind the fund’s first investment in a different sector: banking. Nubank (Nu Holdings) is a fully-digital bank in Latin America, serving 113m customers in Brazil, or 62% of the adult population, and has built a reputation for customer-centricity. Its stated goal is that customers “love Nu fanatically”. Last week, the company reported fourth-quarter results, with revenue growth of +57% and net income growth of +62%. Banks inherently carry risk. Nonetheless, Nubank exhibits some distinct characteristics that could merit a closer look.

A Bank Investment in Brazil

In 2010, 28-year-old David Vélez faces a dilemma. After several years as an investment analyst at Morgan Stanley and General Atlantic, he is certain he wants to start his own business – yet lacks a compelling idea. Entrepreneurial spirits run deep in the Vélez family. His father, one of twelve siblings, runs a button factory in Medellín,¹ and business conversations are common at the dinner table. Seeking inspiration for what should become his “life’s work”, David returns to his alma mater, Stanford University, to pursue an MBA. A classmate points him toward nearby VC firm Sequoia Capital, then considering opening an office in Brazil, and suggests he meet one of its managing partners: Doug Leone.

In Silicon Valley, Doug is known as an opinionated, uncompromising investor who seeks outliers driven to do extraordinary things for whatever reason – maybe, in his own words: “*because daddy told them they weren’t good enough and they want to show daddy.*” Doug hires David as a part-time associate to research Brazilian startups. In practice, it becomes a full-time job on top of an MBA. David soon finds himself in the office by 04:30 am, using the four-hour time difference between São Paulo and Palo Alto to call founders, then attending class from 09:00 am before returning to Sequoia. His work takes him repeatedly to São Paulo, where he encounters what he later describes as the most painful customer experience of his life – opening a bank account in Brazil:

*“I had to go into this banking branch that had bulletproof doors. There were a lot of armed guards that asked me to leave the branch and leave my backpack in a locker and then, walk back in and wait 45 minutes for a branch manager to throw a bunch of paperwork at me and then, start this process of five months trying to open up a simple bank account. And there was so much anxiety and frustration and pure rage about how hard it was to get a simple bank account, to then pay some of the highest fees and interest rates in the world, that I didn’t understand how it was possible that Brazilians were putting up with this. **How isn’t anybody competing with these big banks and offering better solutions?** And I started talking to my friends in the space and my Brazilian friends, and said, “You know what? Yeah, these banks are horrible. But you know what? All the other banks are the same. There are no ideal alternatives. If you complain to your bank they’re going to say, ‘Well, where else are you going to go?’”²*

Two years in, Doug is impressed by David’s work ethic but underwhelmed by Brazil’s startup scene. He cancels Sequoia’s plans for a local office, giving David a shock yet also the final push to start his own business: a digital, customer-obsessed challenger bank in a country where 80% of deposits are controlled by five incumbents: Caixa, Bradesco, Itaú Unibanco, Banco do Brasil and Santander Brasil. With \$2m in seed funding and two co-founders – Christina Junqueira, a Brazilian banker at Itaú Unibanco, and Edward Wible, the company’s first software engineer – David launches Nubank in 2013. The team introduces its first product, a purple, no-fee Mastercard credit card, in 2014. After a slow start, it surpasses 1m customers by 2016. From there, the Brazilian customer base grows exponentially (2017: 3m, 2018: 6m, 2019: 20m, 2020: 33m, 2021: 52m, 2022: 71m, 2023: 88m, 2024: 102m, 2025: 113m).

¹ The factory is later rebuilt in San José, Costa Rica when the family relocates during Colombia’s 1980s cartel violence

² David Vélez in January 2025 on Sequoia’s Crucible Moments podcast: <https://sequoiacap.com/podcast/crucible-moments-nubank/>

Let's jump to today: Nubank is the largest private financial institution in Brazil, offering a full suite of banking products, including its savings account “NuConta”, personal loans and investments. It serves 131m customers – 113m in Brazil, 14m in Mexico, and 4m in Colombia – and generates \$15.8/2.9bn in revenue/net income as of FY25. The total credit portfolio stands at \$32.7bn, of which \$21.8bn are credit card receivables, against \$41.9bn in customer deposits. Nubank's rise rests on structural cost advantages – primarily in customer acquisition, cost to serve, cost of risk, and funding. These advantages enable reinvestment into lower product prices or superior customer service. The table below illustrates the magnitude of this edge in the form of a 21% efficiency ratio (non-interest expenses relative to revenue), a 30% return on equity (ROE) and revenue per employee five times that of peers.

<i>FY25 in USDm, unless otherwise stated (Avg. 2025 USD/BRL = 5.59)</i>	Itaú	Bradesco	Nubank	Inter&Co
Revenue	30,019	24,637	15,775	2,684
Net Income	8,026	4,236	2,872	235
Market Cap Feb-26	99,000	40,000	73,000	4,000
Shareholders' Equity	36,589	31,922	11,291	1,820
Return on avg. Equity	22%	14%	30%	14%
Customers in Brazil in m	100.3	110.5	112.7	42.0
Net New Customers in m	1.8	1.4	10.9	6.8
Branches	2,500	2,100	-	-
Branches per 100k Customers	2.5	1.9	-	-
Employees	92,500	82,095	10,000	4,100
Customers per Employee	1,085	1,346	11,270	10,235
Revenue per Employee	0.3	0.3	1.6	0.7
Avg. Monthly Revenue per Customer	24.9	18.6	11.7	5.3
Efficiency Ratio	39%	50%	21%	46%
Equity Ratio	7.0%	7.7%	15.1%	10.5%
CET 1 Ratio	12.3%	11.2%	13.0%	14.4%

Another observation: Itaú – widely regarded as by far the best-run incumbent bank – has preserved its historically strong economics (>20% ROE) despite the rise of digital banks. Itaú launched its own digital offering “iti” in 2019 before integrating it into its core app, while Bradesco introduced “next” in 2017. Both have since reduced costs and halved their branch networks. David's earlier painful customer experience would look different today: many incumbents have meaningfully improved.

Next, I outline the current state of play in Brazil and explain why, despite competitors attempting to retrofit customer-centricity onto legacy core systems and values, Nubank's clean-slate architecture may confer competitive advantages that are difficult to replicate.

If you have traveled to Latin America, you have noticed cash remains king in some countries, while financial inclusion and formal employment can be limited. None of this applies to Brazil. The share of informal employment is low around 35% compared to e. g. 55% in Mexico. There is virtually no unbanked population – in part due to Nubank enabling more than 25 million citizens to access their first credit card or bank account. 85% of all retail transactions in Brazil are conducted digitally: thereof 50PP via Brazil’s instant account-to-account (A2A) transfer system Pix, and 35PP via debit and credit cards.

Pix launched in 2020 and was mandated for all major banks by the Central Bank of Brazil (BCB). It has since become a runaway success, used by more than 170 million Brazilians. What began as a peer-to-peer tool now replaces cash and debit cards at the point of sale. Today, it is common for consumers to unlock their phones, open their banking app, tap Pix, scan a QR code, and confirm payment.³ On its fifth anniversary, the BCB summarized Pix’s impact on payment behavior: *“Many people didn’t use the accounts they had. Or they only received their salary, withdrew everything, and used cash exclusively. After Pix, people realized the convenience of paying bills via mobile and changed this behavior, starting to actually use their accounts.”* Beyond physical retail, merchants such as Magalu often offer a 10% online discount for Pix payments, reflecting lower acceptance costs (0.3% vs. 2.3% for credit cards). This raises a natural question: if Pix is so dominant, why do credit cards remain Nubank’s most popular product in Brazil, and why does credit card payment volume continue to grow at a mid-teens rate?

First, Pix primarily transfers funds you already have, whereas credit cards generate funds you do not. That is why credit cards are *complementary* to Pix, while debit card and cash are *substitutes*. Second, a deeply ingrained Brazilian habit is to pay for most higher-ticket purchases in up to 12 equal monthly installments (“parcelado”) to preserve liquidity. With credit cards, these installments are interest-free to the consumer (“parcelado sem juros” or PSJ), while the issuer earns its return from the merchant through a high merchant discount rate (MDR).⁴ Pix initially offered no installment feature. Banks such as Nubank therefore created a product called “Pix no crédito”. Because the transaction remains a Pix, the consumer still qualifies for the 10% discount, and the merchant avoids the card MDR. However, there is a catch for the consumer: the bank must be compensated for providing financing of up to twelve months. As a result, “Pix no crédito” is *not* interest-free for the consumer who typically pays a 2-7% monthly interest rate on the installments. In many cases, this can prove more expensive than paying the undiscounted price with a credit card under “parcelado sem juros”.

In summary, interest-free installments are a key reason why cards remain both popular and necessary in Brazil. Additional benefits included fraud protection, dispute management and rewards. Pix has recently introduced a new protocol, “Pix Parcelado”, which mirrors “Pix no crédito” but draws on a dedicated bank credit line rather than the existing card limit. If adoption increases, banks are likely economically indifferent, as they continue to earn attractive returns through interest charges. As with “Pix no crédito”,

³ Nubank generates by far the most Pix transactions in the country with an estimated volume share above 25%

⁴ The merchant can either receive the installments over time, net of the MDR or the full price instantly, net of the MDR plus an anticipation fee as the bank assumes the risk of not receiving all 12 installments over the next year from the cardholder

compensation for credit risk shifts from the merchant to the consumer. The prevalence of PSJ also explains why, of around \$100bn in total credit card receivables outstanding in Brazil, only 24% earned interest in 2024. At Nubank, that share is somewhat higher: \$7.6bn of \$21.8bn in card receivables earned interest in 2025 (35%). In its oldest and most deeply penetrated product, Nubank therefore holds 25-30% market share. Relative to total financial retail industry revenue of around \$150bn in Brazil and above \$3tn globally, Nubank's market share stands at 10% and 0.5%, respectively.

Cultural and Financial Distinctions

Cardholders who consistently pay their balances in full are called *transactors*. They incur no interest charges and pose no default risk. In the U.S., commercial banks hold more than \$1.2tn in credit card balances, 70% of which revolve and earn interest. In Brazil, the proportions are reversed. Largely due to the prevalence of PSJ, only 24% of industry-wide credit card balances earn interest, and revolving credit is typically a last resort. **Brazilian revolvers, however, face some of the highest borrowing costs globally – currently averaging 15.2% per month, or 450% annually.** Bradesco (14.2% p.m.) and Itaú (13.0% p.m.) price below the industry average, while Nubank positions itself a notch more customer-friendly at 12.3% per month.⁵ These rates reflect elevated default risk. In Brazil, more than 60% of revolving balances ultimately default,⁶ compared with NCO rates of around 4% in the U.S. (or 6% when measured against revolving card balances only).

Turning to deposit yields Nubank offers its Brazilian customers, the company again positioned itself more competitively and accumulated \$33bn in local deposits. Since launching “NuConta” in 2018, it has raised expectations for returns on account balances. NuConta initially passed through 100% of the interbank rate (CDI, currently 14.9% p. a.), prompting incumbents to follow. However, differences remain in ease of access. Incumbent banks typically require customers to manually place funds into a certificate of deposit, reflecting the limits of fully embracing a customer-centric model. Nubank, by contrast, originally paid 100% of CDI automatically from day one, with daily liquidity and no action required. In 2022, automatic accrual was adjusted to begin after 30 days. To earn 100% of CDI immediately, customers must make three clicks in the app and move funds into a separate “money box” (“Caixinha”). To offset an otherwise worse customer experience, Nubank introduced Turbo Money Boxes (“Caixinha Turbos”), offering 115-120% of CDI to more engaged customers or those depositing over R\$900 per month. Such yields are typically unavailable to retail customers at incumbent banks.

By consistently positioning itself more attractively than peers, Nubank reduces churn and increases the likelihood customers recommend the app to friends. In Brazil, Nubank's Net Promoter Score has long been around 90, well ahead of competitors. Active customers represent 83% of total accounts and more than 60% use Nubank as their primary bank. The company reports the lowest complaint index published by the BCB and service agents are incentivized to create “WoW” moments (e. g. personalized letters or

⁵ <https://www.bcb.gov.br/estatisticas/reporttxjuros/?codigoSegmento=1&codigoModalidade=204101>

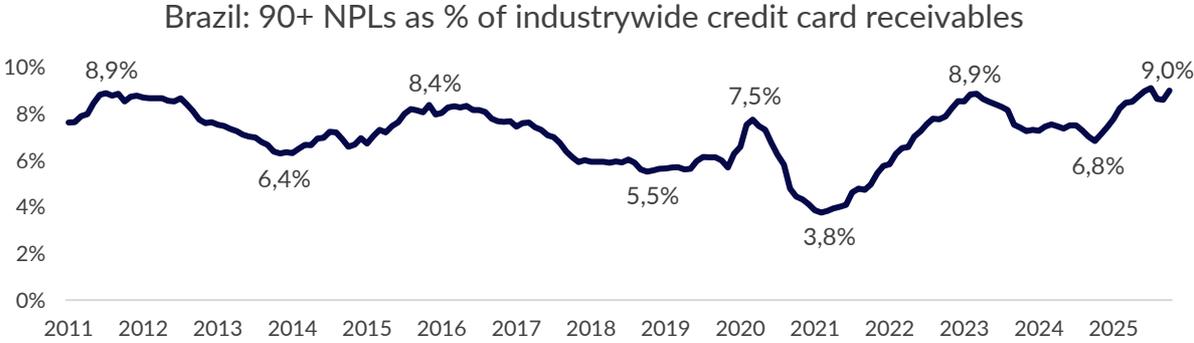
⁶ It is possible to track the lead indicator for later defaults, 90 days past due loans relative to total revolving balances here: <https://www3.bcb.gov.br/sgspub/consultarvalores/consultarValoresSeries.do?method=consultarGraficoPorId&hdOidSeriesSelecionadas=21127>

gifts to customers once a complex issue has been resolved). More than 80% of customers in Brazil (and 55% in Mexico) were acquired through unpaid word-of-mouth referrals. As a result, marketing spend remains exceptionally low for a retail credit card bank at \$303m, or 0.4% of total assets. Average customer acquisition cost (CAC) is \$7.0, compared with monthly ARPAC of \$13.3 and annual ARPAC of \$159.6. With a net income margin of 18%, Nubank should recoup its customer acquisition spend in almost one quarter – implying an unusually attractive LTV/CAC.

The company built its core banking system in-house and runs it entirely in Amazon’s cloud, enabling scalability alongside rapid growth. Cloud infrastructure costs are included in its “cost to serve” metric (monthly operations, transactional and support expenses per active customer) which has remained stable at \$0.8 since 2021, while monthly ARPAC has nearly tripled from \$4.7 to \$13.3. Driven by higher revenues and customers per employee, Nubank’s cost to serve is up to 85% lower than that of incumbents, while incumbent retail ARPAC is 3x higher. Given Nubank’s largely fee-free model and incumbents’ older, more affluent customer base, absolute levels will not converge, but cross-sell headroom remains – reflected in older cohorts already trending above \$25 ARPAC. Co-founder Cristina recently expressed her view that Nu could be 2-3 times larger in Brazil with its existing customer base.

Asset Quality and Underwriting Philosophy

As with any company, for everything that can go right, something can go wrong. For a bank, the primary risk is always asset quality: loans that deteriorate and must be charged off beyond prior provisions. The most prominent recent example of an asset-quality-driven crisis was the GFC in 2008, triggered by a surge in defaults in mortgages and mortgage-backed securities. Nubank is predominantly a credit card bank, and credit card loans are the riskiest form of unsecured consumer credit, with default rates up to ten times higher than most other lending categories.⁷ As of late 2025, 9.0% of industrywide credit card receivables in Brazil are classified as non-performing loans (NPLs) from borrowers at least 90 days past due (see below). Notably, this 9.0% 90+ NPL ratio exceeds levels observed in Brazil during the GFC, when the country was less severely affected than many others. In the U.S., the GFC temporarily pushed credit card NCO rates above 10% of balances – about 2.5 times the long-term average of 4%.



Source: BCB SGS Time Series 21129

⁷ An example: in the U.S. credit card default losses are almost comparable in absolute numbers to those on U.S. corporate bonds despite there being ten times as much U.S. corporate bonds outstanding (\$11.5tn as of 3Q25 according to SIFMA) than credit card balances (\$1.2tn)

Therefore, the question is not whether credit card lending leads to elevated default losses – it does. As an example, Nubank’s most recent 6.7% 90+ NPL ratio for its Brazilian consumer credit portfolio (cards and personal loans) compares with only 3.6% at Itaú, whose consumer credit mix includes a larger share of secured lending, such as mortgages.⁸ The more relevant questions are: **a) how well are credit card lenders compensated for assuming this risk, and b) whether they underwrite conservatively and maintain loss reserves in excess of NPLs throughout the cycle.**

With respect to a), despite higher defaults, credit card banks are attractively compensated, generating a ROA that is multiples of that of a typical commercial bank. On b), I look for management teams that maintain consistently high NPL coverage ratios (at least 125%) across the credit cycle. Anything less risks under-reserving and overstating current earnings at the expense of future results. By that standard, Nubank’s 90+ NPL coverage ratio (loan loss reserves divided by NPLs) has consistently been at or above 200% (Q4/25: 231%, Q4/24: 227%, Q4/23: 240%, Q4/22: 242%).

Credit loss allowance expenses totaled \$4.2bn in FY25, or 28% of the average interest-earning portfolio (IEP), resulting in a risk-adjusted net interest margin of 10%. Actual net charge-offs (NCOs) totaled \$2.8bn, or 19% of the average IEP. Thus, credit loss allowance expenses relative to NCOs amounted to 153% in FY25, well above 100%, indicating that reserves are being built rather than depleted. While Brazil’s macro backdrop remains top of mind for investors, David and his team have demonstrated the ability to develop the bank under persistent headwinds: high interest rates and inflation, an 8% GDP contraction between 2014-16, impeachment and corruption scandals.

Mexico as the Potential Next S-curve and a Wild Card in the U.S.

For Nubank to grow its earnings over the coming years, management does not count solely on Brazil. Since launching in Mexico in 2020, Nubank has gained 14m customers, adding 1m per quarter, or +41% year-over-year as of FY25. A comparison of Mexico with Brazil five years post-launch suggests that several key metrics are tracking ahead of Nubank’s home market at a comparable stage.

	Customers	Customers % of Adult Population	Purchase Volume	Interest Earning Portfolio	Deposits	Cost of Funds % CDI	Cost to Serve	ARPAC inflation adjusted
Mexico ~5 yrs after launch (Q3/25)	13.1m	14%	\$2.1bn	\$0.9bn	\$6.1bn	125%	\$1.0	\$12.5
Brazil ~5 yrs after launch (Q3/19)	15.6m	10%	\$4.4bn	\$0.4bn	\$2.1bn	100%	\$2.7	\$6.7
<i>Factor</i>	<i>84%</i>	<i>140%</i>	<i>48%</i>	<i>225%</i>	<i>290%</i>	<i>125%</i>	<i>37%</i>	<i>187%</i>

⁸ Historically, Nubank’s 90+ NPL ratio for its credit card segment in Brazil has often been 100bps below the market average

Although Brazil's population of 213m exceeds Mexico's 132m, the opportunity might be comparable. More than 40% of Mexico's population remains unbanked and only 25% hold a credit card. Mexico's GDP per capita of \$14.2k also compares favorably with \$10.3k in Brazil. Mexican revenues are just beginning to inflect, contributing 7% to total FY25 revenue. The country briefly reached break-even in Q3/25 before returning to a loss in Q4/25, reflecting continued investment. Beyond Mexico, Nubank has received approval to establish a de novo bank in the United States. The entity must be capitalized within 12 months and commence operations within 18 months.⁹ Co-founder Cristina Junqueira has relocated to Miami to lead the effort, targeting the country's 68m Hispanic population.

With expansion into more sophisticated markets, investors question whether Nubank's current ROE of 30% is sustainable. The argument is that for example in the U.S., the average commercial bank earned a 1.2% ROA in 2025 and requires 9-10x leverage to generate a 10%+ ROE.¹⁰ However, one could also argue that entering additional countries and greater scale might ultimately increase – not reduce – ROE once the investment phase subsides. In its scaled home market, excluding the startup losses in other markets, the business already generates a ROE above 40%. In the U.S., a more relevant benchmark may be a subset of the banking industry aligned with Nubank's positioning rather than the entire universe.

Nine monoline credit card banks operate in the U.S., with more than half of their assets in consumer lending and more than 90% of that in credit cards. Revolving card balances carry an average annual interest rate of 22%. Net of funding costs, credit card banks earn a net interest margin of nearly 10% compared with 3% for the average U.S. commercial bank. Despite long-term NCO rates around 4% in card lending, **credit card banks generated an average 3% ROA and 23% ROE over the past decade**, according to FDIC data. Higher returns are possible but depend materially on marketing intensity. Credit card banks typically spend 1-2% of total assets on marketing. Capital One, the largest U.S. issuer., spent \$5.9bn in FY25 – more than Nike (4.7bn) or Coca-Cola (\$5.4bn). Nubank spent \$303m over same period. Whether Nubank has a chance to exceed the subset's average ROE or not, will depend on customer acquisition costs, success in unpaid referrals and customer churn rates. It won't be straightforward. However, Cristina often notes that there is room left for providers who credibly aim to treat customers better (see quote below). She may have identified an opening here given that large U.S. incumbent banks typically do not offer attractive, automatically accruing yields on savings accounts. Even the digital challenger bank SoFi passes through only 90% of the interbank rate.

“There's nothing about our business model that we feel that is specific to Brazil or Latin America even. If you think about this using Jeff Bezos' hat – People are always going to want to pay lower fees. They're always going to want to have better service. They're always going to want to have better options. They're always going to want to have a better experience. They're always going to want to deal with things in a faster, more convenient way than going to a branch. They're always going to want to get better yield on their deposits, on their savings, right? So those are all problems that we know how to solve, that we've been working on for a while now. So, we have a hypothesis that even beyond the people

⁹ With \$3bn in cash at the holding level, there should be ample liquidity to incubate the entity without raising new equity

¹⁰ To track the state of the overall progression of the U.S. commercial banking industry, I recommend the FDIC's Quarterly Banking Profile: <https://www.fdic.gov/quarterly-banking-profile>

that already know and trust us and are here in the U.S. – and there could be a few million of them – there’s a wider audience with whom this message can also resonate.”

At \$15 per share, Nubank has a market cap of \$73bn and trades at 17x NTM P/E. It appears conceivable that the position could contribute positively to the fund’s NAV development over the coming years.

* * *

The bottom line is the following: **The fund is invested in a portfolio of diverse, profitable, and growing companies with durable competitive advantages and a strong AI vision.** Volatility and sentiment shifts may temporarily obscure underlying business progress, but they can also represent opportunities to deploy capital. I remain confident that underlying fundamentals – not short-term narratives – will determine long-term returns.

As always, I welcome your questions and feedback. If you know someone who may be interested in learning more about the fund, please feel free to introduce us.

I remain grateful for your trust and look forward to speaking with you.

March 2, 2026

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