B.D. STERLING
CAPITAL

Q3 2025 Letter
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To those following our investment journey:

This letter documents our personal investment journey and analytical process. It is shared for educational purposes and is not investment advice or a solicitation of any kind.

Portfolio performance for September 2025, Q3 2025, YTD 2025, and since inception (9/17/24) is summarized below.

	MTD	QTD	YTD	Cummalative
BD Sterling	9.93%	15.36%	36.64%	66.37%
S&P 500	3.55%	8.16%	14.75%	20.19%
Alpha (α)	6.38%	7.20%	21.89%	46.18%
Beta (β)	1.39	1.08	1.08	1.12
Sharpe Ratio	6.86	3.74	1.59	1.97

Cummalative number represents since inception (9/17/24)
Numbers are from Bloomberg LP and Interactive Brokers LLC
S&P 500 returns are calculated with IVV with dividends reinvested

The biggest change in our operations this quarter was creating a portfolio allocation model. Our main method before on figuring out position sizing was primarily based on vibes and level of conviction. As we continue our journey toward a fully professional structure, we knew we needed something concrete and repeatable. This new model gives us a quantitative basis for allocation decisions.

The model works by inputting an expected return for each holding with our valuation models, then translating 5 specific business risks (Volatility, Regulatory, Disruption, Valuation uncertainty, and Earnings quality) into weights from 0 to 1. We then run Monte Carlo simulation portfolios under some investing guardrails (All equity positions bounded from 3 to 15%, cash 1 to 5% max). For each portfolio simulated, the inputs are the expected return and composite risk metric for each stock and the combination of these metrics and different allocations create a composite sharpe ratio of each portfolio. We prioritize portfolios that deliver more return per unit of risk, i.e., close to the efficient frontier.

By far the most qualitative aspect in our model is the risk factors. We recognize that quantifying a company's risks is a tall task, but we try to mitigate this by writing down our reasonings for each weight we give. For example, GOOGL sits at a moderate level on Volatility and Disruption risk (AI risk reduced, not removed), low on Valuation uncertainty (diversified, durable cash engine), and strong on Earnings Quality despite near term AI capex. AMZN carries slightly higher Volatility and Valuation sensitivity due to thin retail margins, shifting AWS share, and heavy capex make small assumption changes matter, yet its Earnings Quality risk is improving as operating leverage shows. UNH scores are elevated on Regulatory risk and moderate on Disruption risk given Medicare Advantage scrutiny and pricing resets, but low Valuation uncertainty thanks to stable demand and diversified earnings. Travel (HLT, BKNG) gets modest Volatility/Disruption risks marks for cyclicality even with asset-light resilience, though valuation sensitivity is higher because macro turns prices towards a move fair value. ASML is low on Disruption risk (EUV monopoly), with cyclicality captured in Volatility and low Valuation variance. HOOD has a very high weight on Volatility and Valuation uncertainty because of the activity driven revenues widen outcomes, despite improving profitability. UBER includes explicit Disruption risk from robotaxis, balanced by better Earnings Quality risk as scale and margins improve.

All of these factors contributed to a model urging us to trim Robinhood (citing high activity sensitivity and valuation uncertainty) and increase positions in Amazon, Booking, and UnitedHealth, which delivered a better risk-adjusted return potential at the updated weights. Overall, we won't trim simply because the model thinks that our portfolio is slightly sub-optimal to the ideal portfolio. We act when there's a material disconnect between our holdings (as there was this quarter) and the model's best allocation, or when adding a new position which will require a large rebalancing anyways. In those cases, this framework is our tool for portfolio allocation and rebalancing in a more quantitative way.

On September 19, we held our 4th Rev Pup Dinner at Cole and JD's house in Austin. Cole is a Reville Fund Alum and bootstrapping a startup with JD Leaverton'22. They are boot strapping a start up called Servo! This dinner attendees included the CIOs and COOs of Sinn Fund, quants, TRIP students and others. Dinner discussions included Nuclear tech (OKLO, SMR, NNE, and another one that is developing a salt reactor in Rellis), Waymo vs Robotaxi, battery technology, Meta Ray bans, startups using converts vs SAFEs, among other things.

But what we were all looking forward to the entire night was the food. To give some context, we have a friend at UT whose dream is to open up his own restaurant. He has cooked his amazing food for us individually before, but never at a larger dinner scale. We invited him to cater, offering a trial run at serving a bigger crowd, and he blew our expectations out of the water. The appetizers were homemade Queso Fundido and Guacamole with Chips, then transitioned into some delicious Chicken and Campobello Tacos and ended the night with Tres Leches cake that just hit the spot. We can't wait to see him pursing his passions.

At Texas A&M we really harp on the 4th factor of production: Entrepreneurship. To recognize the inefficiencies our entrepreneurs exploit, we'll include a new segment in these letters whenever we uncover a standout case!

This months start up spotlight is Servo.com!

Servo is a company with a mission to revitalize America's skilled trades. Building agents and software to let tradespeople get more done, faster, and with less overhead. AKA an ERP + Shopify for services. Really awesome stuff!

Cole and JD are onto some really cool market inefficiencies. Feel free to reach out to learn more.

Rev pup #4!!
graciously hosted by
Cole Beneflied'23 and J. D. Leaverton'22

BD Sterling meets Servo

Elizabeth and I will be hosting out next Dinner in **Austin on October 28th!** Feel free to reach out if you will be in town!

Thank you to mentors and friends who shared insights and encouraged our journey.

September also marks 1 official year of operations. Since then we have returned 66% in the fund. Wasn't there someone else who started out of their college dorm room and returned a similar amount? Checking notes... oh right, Ken Griffin.

With much gratitude,
Bhuvan and Dhruv