

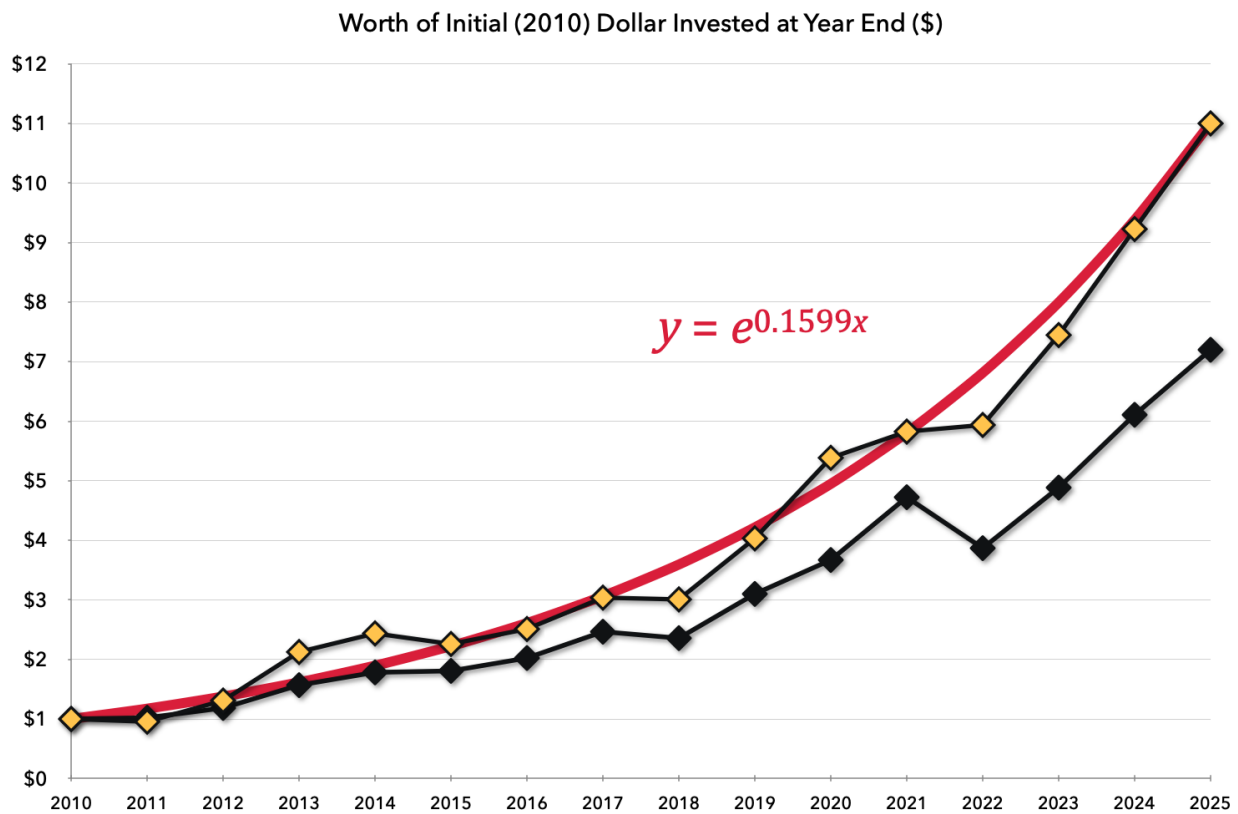
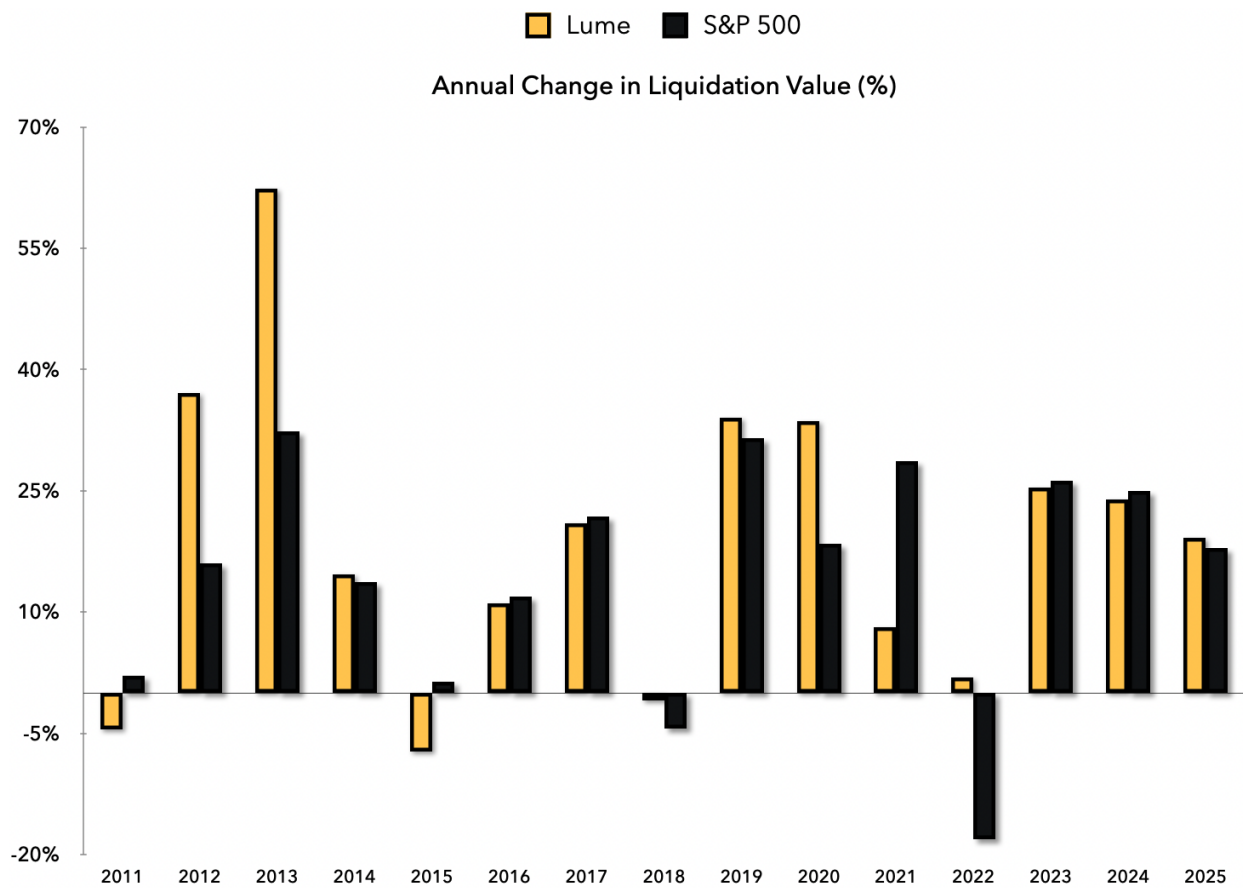


# Lume Group

2025 Annual Report

*"Someone is sitting in the shade today  
because someone planted a tree a long time ago."*

– Warren Buffett



All figures pretax.

June 12, 2026

Lume Group's net liquidation value grew 19.2% in 2025, compared with a total return of 17.9% for the S&P 500. Over fifteen years, Lume's CAGR was 17.3% (versus 14.1% for the S&P), meaning that each dollar invested at the end of 2010 was worth \$11.00 at year-end 2025 on a pretax basis.

## The "10-Bagger" Tree

A "10-bagger" in investing lingo is what one calls an investment that grows to ten times its original size. It is often touted as a lofty goal among investors. There is a key variable missing here, though, and that's *time*. Any exponentially growing process will eventually 10-bag. The U.S. dollar loses half its value about every 25 years (its half-life). Thus, one should expect an item's dollar-denominated price to *double* every 25 years and 10-bag every 75-100 years (3-4 half-lives of the dollar) without any appreciation of value in real terms.

Reality bears this out. According to the Federal Reserve Bank of St. Louis, the average price of a gallon of milk is \$4.22 in the U.S. today. Depending on the source, the price of milk first hit 42 cents a gallon sometime between 1917 and 1935 (that was the price of milk *delivered* to your house by the milkman) – so milk has 10-bagged over roughly 100 years. That has nothing to do with the merits of an investment in milk, but merely inflation (devaluation) of the dollar.

So, not all 10-bags are worthy of writing home about. I've achieved an 11-bag in 15 years, which fortunately has outpaced inflation. The tree has grown considerably from a humble start.

Thinking in terms of exponentials is not natural for the human mind. I've fitted an exponential to the performance graph at the front of this

report. I did this by plugging in (0, 1) and (15, 11.00) into the generic exponential function  $y = C \cdot \exp(K \cdot x)$  and solving for C (C=1) and K (K = 0.1599). In the graph, y is the value of a single dollar invested at time x (in years). K is often called the continuous growth rate, and a value of 0.1599 means a continuous compounding rate of 15.99%.

## **Lower Your Expectations**

*"The secret to happiness is to lower your expectations."*

*–Charlie Munger*

So, I've achieved a 17.3% CAGR over 15 years, which resulted in an 11-bagger. Given the way geometric returns work, if I were to repeat this feat over the next 15 years, I would achieve an 11\*11-bagger or a *121-bagger* over the full 30 years. Don't get too excited, though. While the continuous growth rate ("K") of my fitted curve for the past 15 years is 0.1599, this could easily decline in the future. For one, American equities have performed meteorically over this entire time period. This has provided a great wind that has carried me across the sky – something unlikely to persist indefinitely.

So, the growing tree may reach maturity and slow. And contrary to trees in real life, my tree might even shrink some years (maybe in a row...). So, I won't get carried away with great expectations. All I can control through thick and thin is my investment process.

## **Forays into Europe & Japan**

Lume enjoyed a significant currency tailwind on European investments as the U.S. dollar declined about 13% versus the euro in 2025 (Lume reports all its results in USD). Meanwhile, the Japanese yen was largely unchanged versus the dollar in 2025.

On February 14, 2025, early in the term of the second Trump administration, Vice President JD Vance gave a historic address at the Munich Security Conference, and its reverberations continue to this day. The transatlantic alliance, as defined since the end of World War II, has been shaken at its foundations. It also seems that the “Peace Dividend” since the end of the Cold War has ended. After watching the speech, I swiftly moved to invest in European defense firms. Japan, too, may be shaking off its postwar pacifism. Certain indigenous defense firms (especially so-called “national champions”) are prime vehicles through which nations can channel increased defense spending.

At the start of 2025, my investments in Europe and Japan primarily consisted of cheap securities. By the end of the year, more of the European portion was allocated to defense and related firms. Europe’s general economic malaise may continue, but defense firms should be insulated from that effect.

## **Conclusion**

While this letter reports my investment outcome, my focus will always be on my investment *process*. Investing in reasonably priced, high-grade businesses while avoiding large, irreversible losses will let the tree grow so that it may one day provide an abundance of shade.

Signed,

*P. Dalal*