



From our **Fund Manager's Desk**

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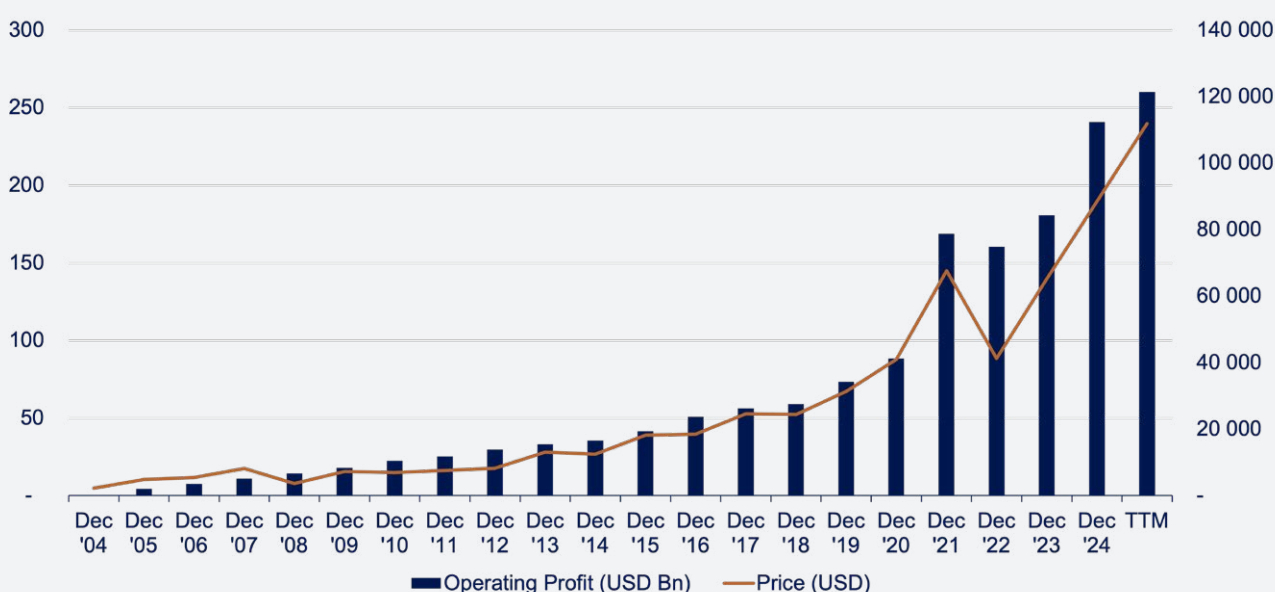
Alphabet: a quality compounder for a world in flux

We regularly explore the investment rationale behind the holdings in the Melville Douglas Global Equity Fund. In this edition, we highlight Alphabet, the parent company of Google and YouTube.

Our investment philosophy focuses on owning durable businesses with high returns on capital, defensible competitive advantages, and management teams with a proven track record of execution. Alphabet aligns perfectly with these criteria; it is a business that reinvests strategically, innovates relentlessly, and compounds value over time.

Alphabet is the quintessential 'quality compounder'. With billions of users across a dozen platforms, the company is deeply embedded in the daily digital fabric of society. These platforms are no longer just popular; they have become essential utilities. Over the last two decades, the company has successfully fended off numerous challenges to its position as the internet's dominant search engine and gateway to the World Wide Web. The results of this success are astonishing: since 2004, revenue has grown more than 100-fold to \$400 billion, and Alphabet is expected to report more than \$130 billion in operating profit for the 2025 financial year alone. This is a testament to the business's scale, resilience, and strategic excellence.

ALPHABET: OPERATING PROFIT AND SHARE PRICE SINCE IPO



Source: Melville Douglas, FactSet Data, Google

The evolution of a giant

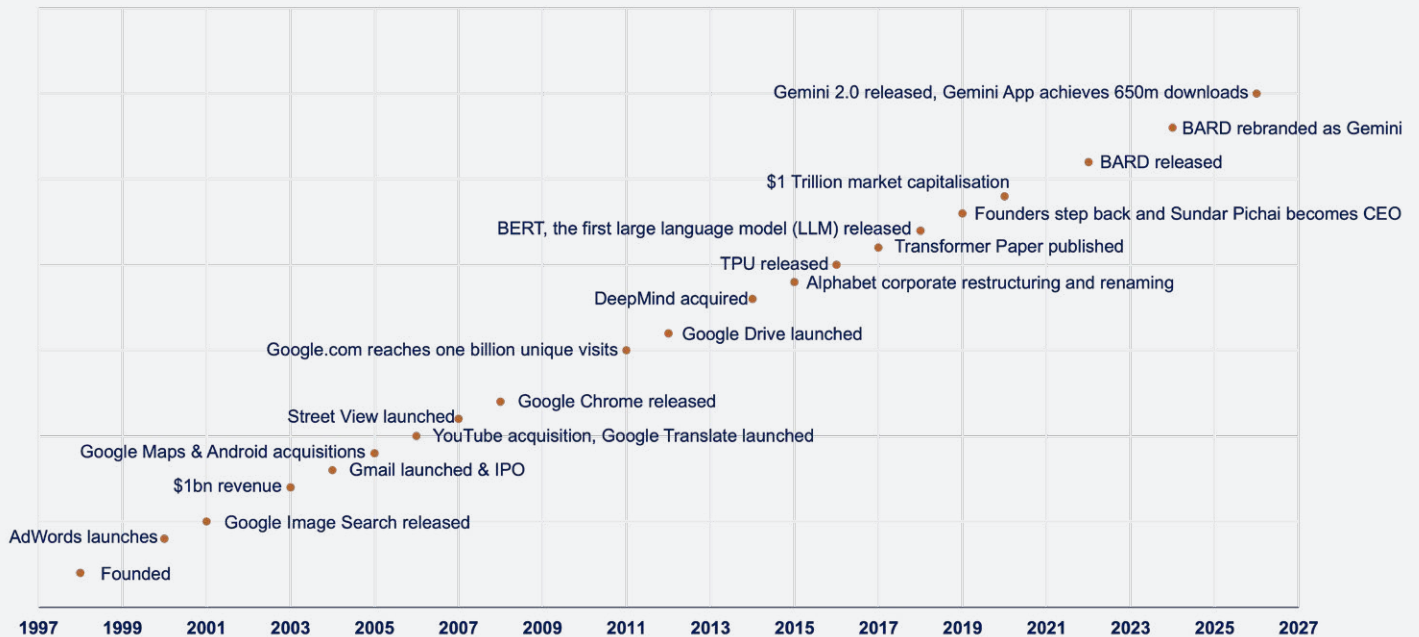
The company's history can be defined by three distinct eras. The first was the era of disruption. Google famously began as a Stanford PhD research project and graduated to a garage in Menlo Park, where it would become the product we know it as today. The founders' vision was clear:

 **To organise the world's information and make it universally accessible and useful.**

In its early years, Google solved the fundamental problem of a fragmented internet dominated by cluttered portals like AOL and Yahoo. The innovation that drove its success was the PageRank algorithm, which indexed the internet and made it easily searchable. This created an immediate competitive moat that remains robust today.

What followed those early years was a decade of strategic expansion. Assets such as Android, Chrome, YouTube, Google Maps, and Gmail were either launched with precision or acquired and seamlessly integrated. Each move was intentional, building an ecosystem that users loved, winning their loyalty and scaling exponentially. Alphabet's position at the centre of the internet was cemented through its control of the most important and frequently used digital properties.

ALPHABET MILESTONES SINCE FOUNDING IN 1997

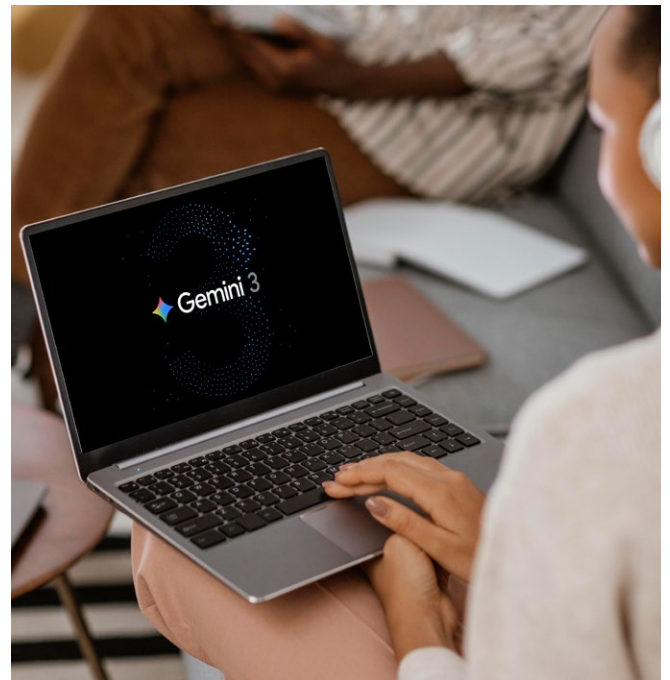


Source: Google, Gemini

This founding story reflects Alphabet's DNA: technical excellence applied to solving real-world problems. Having prevailed in the 'browser wars' and the shift to mobile, the company is now navigating the next frontier.

Alphabet began investing in Artificial Intelligence (AI) early on. In 2001, the company was using machine learning to improve search results and by 2006 they launched Google Translate, an early AI that could automatically process language translation. The 2014 acquisition of DeepMind, an AI lab, bolstered their AI capabilities and propelled them into becoming one of the most accomplished AI research organisations today.

Since its launch in early 2023, Alphabet's flagship AI has undergone the most aggressive product evolution in the company's history. Now rebranded as Gemini, the platform has rapidly transitioned from an experimental chatbot to a core engine integrated across Alphabet's entire multi-billion user ecosystem.

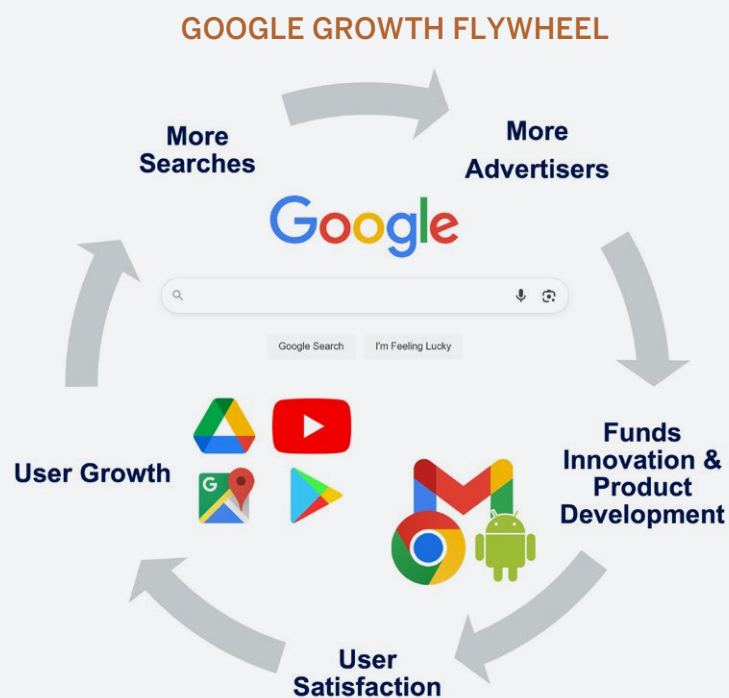


The adoption curve has been historic: the Gemini app reached 650 million monthly active users by late 2025 and is expected to exceed one billion users in 2026. While OpenAI's ChatGPT remains a formidable first-mover, Alphabet is fast catching up with models that are now considered to be industry-leading.



Strategic execution: The business engine

Alphabet's business model is a masterclass in building a virtuous cycle. Better search results attract more users, who in turn attract more advertisers to bid for limited, high-value advertising slots. The resulting profits fuel further innovation, leading to even better products that capture more of the user's time. This self-reinforcing loop defines Alphabet's competitive moat – a network where every stakeholder gains more value as the system grows.



Source: Melville Douglas, Google

This dominance is not a result of luck. By controlling search distribution through Android and Chrome, Alphabet ensured Google remained the default gateway to the internet. This distribution superpower remains critical in the age of AI and Alphabet is leveraging its advantage over its competition. Gemini is now the default AI assistant on Android's three billion devices, powers AI Overviews for over two billion Search users, and has been selected by Apple to help power the next generation of Siri voice assistants. We expect the integration of AI into these properties to become an indispensable foundation of the user experience.



A consistent history of disruption

Alphabet has never shied away from being a disruptor. When Gmail launched in 2004, the promise of 1GB of free storage was mistaken for an April Fool's joke because the industry norm was measured in megabytes. This willingness to make radical bets, in what the company calls moonshots, has allowed Alphabet to redefine products and business models time and again.

Just over a decade ago, Google engineers realised that the company's internal demand for AI compute was going to outpace its infrastructure and would soon consume all the data centre capacity it already had. To solve for this, the company embarked on developing its own specialised AI chip, the Tensor Processing Unit (TPU). Today, almost all of Google's AI processes run on its advanced TPUs. Not only do these chips provide Alphabet with a competitive cost advantage over its peers, but the company has also begun a strategic shift toward commercialising the hardware itself. It is moving to direct deployments of TPUs within the data centres of major partners like Anthropic and Meta Platforms.



Source: blog.google/innovation-and-ai/infrastructure-and-cloud/google-cloud/ironwood-tpu-age-of-inference/

Alphabet is increasingly bringing its AI leadership into the physical world through Waymo, its autonomous driving arm. Waymo has solidified its position as the leader in robo-taxis by scaling to over 450,000 paid rides weekly across five major markets and surpassing 127 million fully autonomous miles. While competitors often capture more headlines, Waymo has quietly edged ahead in bringing this technology to commercial fruition and is expected to continue its aggressive expansion in the years ahead.

Among Alphabet's other bets are moonshots in drug discovery, industrial robotics, and quantum computing. Any one of these could grow to become a significant business in its own right.

Architect of the future

In a world in flux, we prefer to own businesses that are the architects of change rather than its victim. Alphabet redefined the internet era through product innovation and experimentation, and its advancements in AI suggest it is positioned to achieve similar success in the future.

In the Melville Douglas Global Equity Fund, we take a long-term view on the companies we own, and Alphabet has been a staple of the fund since its inception. The company meets all the criteria for a durable compounder and is one we believe can continue building on its strengths for years to come.



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