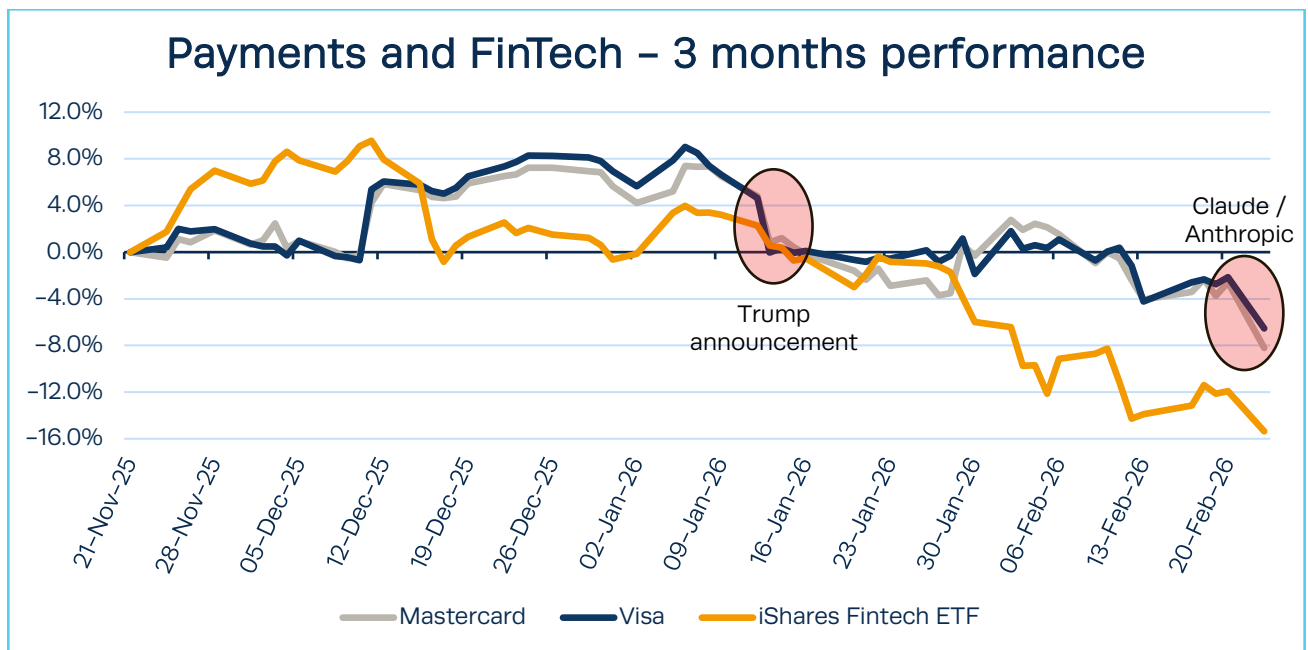


Visa and Mastercard

The global payments sector is currently navigating an unprecedented period – defined by political volatility, regulatory intervention, and rapid technological evolution. Beginning in early January 2026, the market experienced a severe dislocation following President Donald Trump’s dual announcements regarding the financial sector: a demand for a 10% hard cap on credit card interest rates for a twelve-month period, and the public endorsement of the Credit Card Competition Act (CCCA). These political manoeuvres immediately catalysed a sharp sell-off across the sector – impacting both credit issuers who bear balance sheet risk and the payment networks that merely facilitate the routing of transactions.

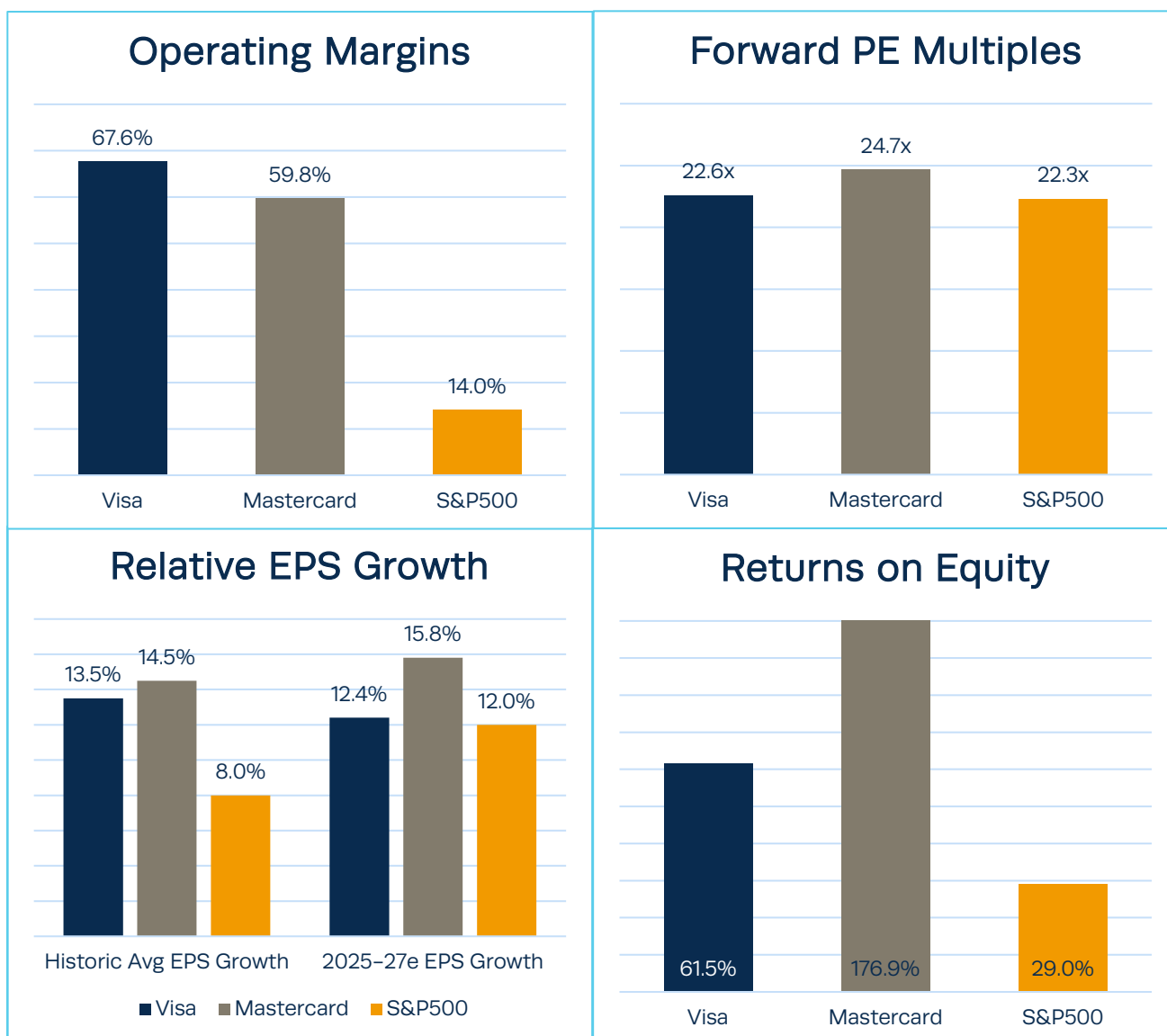


The Visa and Mastercard Investment Case

The recent market turbulence has temporarily obscured the underlying fundamental superiority of the global payment networks. The investment thesis for Visa and Mastercard is anchored in their unparalleled business models, the depth of their competitive moats, and their unique defensibility across macroeconomic cycles.

We consider Visa and Mastercard as two of the most high-quality business available. They maintain dominant market positions in one of the most critical verticals of our day-to-day lives – payments. Over the last decade and more, both have compounded earnings comfortably into the double-digits growth ranges. And, looking ahead, we expect this to continue. The benefit of the network business model is that once they reach scale, and incremental revenue flows through almost straight to the bottom line.

Visa has been a long-term holding of Odyssey and the Odyssey Global Fund. It was one of the initial holdings into the Fund itself and has generally remained a stalwart of the portfolio. Mastercard has been a more recent inclusion. While we would normally prefer the dominant player in any industry, Mastercard’s non-US business and push into Value-Added Services (VAS) is more differentiated than Visa’s portfolio, which is why we chose to split our payments exposure between the two names.



While share prices have tended to be volatile toward any news flow that insinuates any risk to their dominance, the underlying fundamentals and growth prospects of both Visa and Mastercard remain attractive. Despite historically trading at a wide premium to the market, the recent derating from between 27–30x forward PE multiples means both Visa and Mastercard now trade within 10% of the S&P500's valuation, despite offering stronger growth expectations, better return metrics, and wider operating margins. Nor is debt a concern for them.

The Tollbooth Business Model

Visa and Mastercard do not operate as banks. They do not issue credit cards, they do not hold consumer deposits, and they do not earn interest revenue from revolving consumer debt balances. Rather, they function as the central nervous system of global commerce, operating an asset-light, capital-efficient "tollbooth" model. In the standard four-party payment system (involving the consumer, the merchant, the acquiring bank, and the issuing bank) Visa and Mastercard provide the digital rails that allow these entities to communicate, authorize, clear, and settle funds in milliseconds.



Revenue is generated through a complex matrix of fractional fees levied on the volume and quantity of transactions that traverse their networks. These revenues are broadly categorized into three primary streams:

1. **Service and Assessment Fees** – Charged to issuers and acquirers based on gross payment volume. Because these fees are tied to the nominal dollar value of transactions, Visa and Mastercard possess an inherent, frictionless hedge against inflation. As the cost of goods and services rises, the nominal transaction value increases, resulting in higher assessment fees without requiring any commensurate increase in the networks' operating costs.
2. **Data Processing Fees** – Fixed fees charged for the technical routing of authorization, clearing, and settlement messages. This stream provides a highly stable baseline of revenue that scales directly with transaction velocity, insulating the networks from fluctuations in average ticket sizes.
3. **International Transaction Revenue** – Generated from cross-border volume fees. This represents a highly lucrative, premium-margin segment that thrives on global travel and international e-commerce. Despite temporary macroeconomic headwinds, cross-border volume growth has remained remarkably durable, with Mastercard reporting a 14% expansion in this segment during the fourth quarter of 2025, and Visa reporting 12% growth.

Because the marginal cost of processing an additional transaction is effectively zero, nearly all incremental revenue falls directly to the bottom line. This generates massive free cash flow that management teams deploy toward strategic acquisitions and aggressive share repurchase programs.

The Evolution Toward Value-Added Services (VAS)

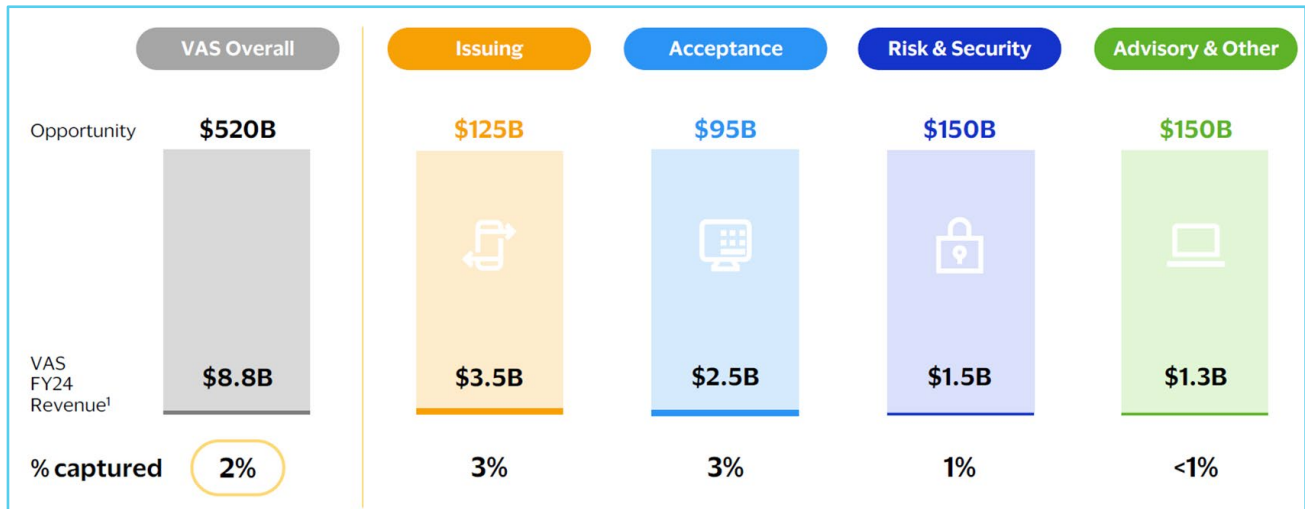
While the core payment rails provide the foundation, the most critical evolution in the investment case for both companies is their aggressive expansion into Value-Added Services (VAS). As the secular tailwind of cash-to-digital payment conversion reaches saturation in highly developed markets, Visa and Mastercard have pivoted to monetizing the data, security, and intelligence surrounding the core transaction. Mastercard has a greater exposure to VAS, which is one of the reasons we decided to diversify from only holding Visa.

VAS encompasses a broad suite of offerings, including cybersecurity infrastructure, advanced fraud prevention algorithms, risk advisory consulting, and data analytics. This segment is rapidly becoming the primary growth engine for both networks. In the fourth quarter of 2025, Mastercard reported that its VAS revenue grew by 22%, significantly outpacing the 10% growth of its core payment network. Similarly, Visa reported a 28% expansion in VAS during the same period, bringing the segment to approximately 27% of its total global revenue.

Not only is the VAS sector fast-growing, but it is also incredibly fragmented – providing another lengthy runway of growth for these businesses. As shown in the following chart from a Visa presentation, across the various verticals, Visa captured less than 5% across a more than \$500 billion opportunity.



The Value-Added Services opportunity (identified by Visa)



The transition to VAS dramatically increases switching costs. Clients rely on proprietary security products—such as Mastercard Threat Intelligence, Mastercard Credit Intelligence, and Visa's network tokenization tools—to defend their platforms against cyberattacks, optimize approval rates, and maintain regulatory compliance. This unbundling of services allows Visa and Mastercard to exercise significant pricing power, continually extracting more yield per transaction even if the base assessment fees face competitive pressure.

Competitive Moats

The competitive moats protecting Visa and Mastercard are characterized by institutional analysts as "nearly undisruptable" due to the insurmountable barriers to entry involved in replicating a globally accepted payment infrastructure.

The primary moat is derived from extreme network effects and vast operational scale. In the US, Visa commands an estimated 49% share of total credit card volumes, while Mastercard holds 37%, leaving alternative networks with single-digit market shares. This ubiquity creates a self-reinforcing flywheel: merchants are compelled to accept Visa and Mastercard because consumers overwhelmingly carry those cards, and consumers demand those cards because they are universally accepted.

The structural defensibility of this duopoly was recently validated by the renewal of Mastercard's credit partnership with Capital One. The renewal agreement secured Mastercard as the primary network for a massive portion of Capital One's newly acquired credit accounts. This proves that the superior security, processing speed, and global acceptance advantages provided by the incumbent networks supersede the minor cost differentials that alternative networks might offer.

Regardless of macroeconomic turbulence, foundational consumer spending remains highly resilient. This cyclical resilience, combined with unyielding pricing power and minimal capital intensity, enables Visa and Mastercard to consistently compound earnings at double-digit rates, solidifying their status as premier, best-in-class assets. Furthermore, as digital payments continue to disrupt cash alternatives, there is more payment volume available for Visa and Mastercard.



Breaking Down the 10% Interest Rate Cap

As touched on previously, the re-rating of the payments sector in early 2026 was triggered primarily by political rhetoric rather than an immediate change in statutory law. On January 9, 2026, President Trump declared that the administration would no longer allow the American public to be "ripped off" by credit card companies, calling for a strict 10% cap on credit card interest rates for a twelve-month period.

The market's initial reaction was to indiscriminately liquidate exposure across the entire payments ecosystem. However, rigorous analysis reveals a vast chasm between political pronouncements and legislative reality, alongside a misunderstanding of network versus issuer exposure.

Issuer Vulnerability Versus Network Insulation

The proposed 10% interest rate cap is explicitly targeted at the net interest margin of issuing banks, not the transactional fee revenue of the payment networks.

In the payment ecosystem, the issuing bank assumes the entirety of the credit risk. The issuer extends the unsecured loan to the consumer and bears the financial loss if the consumer defaults. If a 10% statutory cap were imposed, the fundamental mathematics of unsecured lending would weaken. Issuers would be forced to drastically tighten their underwriting standards, slash existing credit limits, and completely shut out high-risk borrowers. Furthermore, to offset the loss of interest income, issuers would be forced to aggressively increase annual fees, eliminate grace periods, and get rid of lucrative rewards programs.

While this represents a risk for the issuing banks, the direct impact on Visa and Mastercard is relatively muted. As mentioned, the networks operate the toll roads – they do not own the vehicles traveling upon them. Because Visa and Mastercard do not extend credit or earn interest, their revenue streams are insulated from the compression of net interest margins.

The potential risk to the networks from a rate cap is a second-order effect – a contraction in total payment volume (TPV) due to reduced credit availability. However, evidence suggests that this volume contraction would be mitigated. If consumers lose access to revolving credit lines, underlying consumption needs do not disappear. Spending might shift from credit cards to debit cards, or alternative financing vehicles like "Buy Now, Pay Later" (BNPL).

Given that Visa and Mastercard operate the dominant rails for both debit transactions and the underlying funding mechanisms for BNPL providers, a shift in payment mix would likely remain largely within their ecosystem. That said, tighter credit standards could modestly dampen aggregate spending at the margin, particularly among revolving borrowers who historically exhibit higher purchase velocity. However, historical precedent during prior tightening cycles suggests that while growth rates may slow, payment volumes do not structurally contract, and mix shifts typically remain on network. As such, the second-order volume risk appears cyclical rather than structural.

Legal Feasibility

The safeguard against the 10% interest rate cap is the immense legal and constitutional friction required to implement it. The executive branch lacks the statutory authority to mandate interest rate ceilings. The US Supreme Court has long held that the President's power to issue sweeping



economic orders must stem either directly from an act of Congress or from explicit constitutional provisions.

The current judicial landscape is highly hostile to executive overreach in economic matters. A definitive precedent was established just weeks after the 10% cap announcement. On February 20, 2026, the US Supreme Court issued a sweeping 6–3 decision in *“Learning Resources, Inc. v. Trump”*, striking down the administration's attempt to unilaterally impose global tariffs. The Court explicitly ruled that emergency executive powers cannot be weaponized to impose unauthorized economic taxes or duties. This ruling serves as a clear indicator that any attempt to bypass Congress and impose a 10% credit card rate cap via executive order would be immediately enjoined by federal courts.

Recognizing these insurmountable legal barriers, the push for a rate cap has been forced into the legislative arena, where bills like the 10 Percent Credit Card Interest Rate Cap Act remain permanently stalled in committee, viewed by institutional analysts as politically unviable. With these judicial roadblocks, the administration's approach has softened considerably toward a voluntary market initiative, proposing the creation of "Trump Cards" – a program wherein the administration encourages banks to voluntarily offer specific 10% APR credit products to targeted, highly prime consumers.

For Visa and Mastercard, the introduction of a voluntary, segmented 10% APR credit product does not meaningfully alter the economics of the network model. While isolated product experimentation by issuing banks could modestly influence mix dynamics, the networks remain economically insulated because they do not earn interest income and continue to monetize transaction volume regardless of pricing structure. As such, any voluntary initiative would represent incremental product variation rather than a structural threat to network volumes or fee architecture.



The Credit Card Competition Act (CCCA)

While the interest rate cap targets the issuers, the Credit Card Competition Act (CCCA) represents a direct regulatory assault on the Visa and Mastercard network duopoly. Endorsed by President Trump in January 2026, the CCCA seeks to fundamentally alter the routing mechanics of the US credit ecosystem.

Legislative Mechanics

The core objective of the CCCA is to break the exclusive network agreements that currently dominate credit card issuance. The legislation mandates that any card-issuing bank with assets exceeding \$100 billion must enable at least two unaffiliated payment networks on every credit card they issue, stipulating that at least one of these two networks must be a provider other than Visa or Mastercard.

Morgan Stanley estimates that approximately \$3.86 trillion of total credit card purchase volume would fall under the purview of the CCCA. This represents a staggering 80% of Visa and Mastercard's total US credit volume, equivalent to roughly 19% of their combined global volume.

Implementation Friction

Despite the daunting volume metrics, the CCCA is an unlikely catalyst for systemic disruption. The primary barrier to the CCCA's success is the sheer technological and operational friction required to implement a dual-routing credit mandate.

Implementing the CCCA requires a structural overhaul of the entire US financial infrastructure. Every covered credit card in the wallets of US consumers would need to be physically reissued. Furthermore, issuing banks would be forced to construct entirely redundant technological pipelines to handle authorization messaging, complex risk modelling, dispute resolution, and chargeback management for the newly mandated secondary networks.

Compounding this friction is the severe lack of viable alternative networks capable of absorbing trillions of dollars in complex credit routing. Alternative domestic networks were fundamentally architected to process relatively simple, single-message PIN-debit transactions. Credit card ecosystems are materially more complex, requiring sophisticated fraud modelling, chargeback infrastructure, dispute resolution frameworks, rewards integration, instalment functionality, and global acceptance interoperability.

Replicating this multi-layered credit architecture at scale would require enormous capital expenditure, regulatory coordination, and operational retooling. In attempting to close this capability gap, alternative networks would likely erode the very cost advantage that underpins their competitive positioning, limiting the magnitude of sustainable fee compression.

Pricing Reorientation and the Durbin Precedent

If the CCCA were fully implemented, Visa and Mastercard possess significant structural pricing flexibility that could partially or substantially offset routing fee compression over time. By unbundling core transmission from higher-margin Value-Added Services, the networks could reallocate monetization toward security, analytics, tokenization, and fraud management services that remain indispensable to issuers and merchants.



Historical precedent following the Durbin Amendment demonstrates management's willingness and ability to reorient pricing architecture when regulatory pressure compresses specific fee categories.

Currently, Visa and Mastercard offer bundled pricing that includes core authorization, clearing, and settlement, alongside advanced security features. If forced to compete on the baseline routing fee, the networks would simply lower the cost of basic transmission while drastically increasing the price of their proprietary VAS. By monetizing these indispensable ancillary services, the networks should be able to recoup some of the revenue lost to routing competition.

This exact dynamic was witnessed following the implementation of the 2011 Durbin Amendment, which mandated dual routing for US debit cards. Following the legislation, Visa introduced the Fixed Acquirer Network Fee (FANF), a pricing reorientation that charged merchants a fixed access fee completely agnostic to transaction routing. Consequently, both Visa and Mastercard continued to compound revenues and expand margins unabated.

Forecasts by Morgan Stanley quantifies the manageable nature of the CCCA threat. In a highly punitive scenario assuming a rapid 10% displacement of US credit volume to alternative networks, coupled with a severe 25% compression in network fees, the total net revenue impact for 2026 is estimated at just 3.5% for Visa and 2.5% for Mastercard. A low-single-digit revenue headwind over a multi-year implementation timeline represents a minor earnings speedbump, not a foundational fracture in the investment thesis.



Agentic Commerce and the Future of Payments

While regulatory headlines dominate the short-term narrative, the long-term structural evolution of digital commerce remains the more important variable in underwriting the durability of the payment networks. The near-to-medium-term investment case for Visa and Mastercard remains anchored in steady volume compounding, expanding VAS penetration, and operating leverage within an asset-light model.

Beyond this base case, the emergence of AI (specifically agentic commerce) introduces incremental long-duration optionality. Agentic commerce represents the evolution of AI into autonomous, goal-oriented agents capable of executing multi-step purchasing decisions on behalf of consumers. If adoption accelerates meaningfully over the coming decade, it is likely to increase transaction velocity and heighten demand for secure authentication infrastructure – areas where Visa and Mastercard already possess scaled capabilities.

McKinsey projects that agentic commerce will precipitate a seismic shift in the digital economy, potentially driving up to \$5 trillion in global transaction volume by 2030. This transition removes the traditional friction points of manual discovery and checkout, inevitably leading to higher conversion rates and increased transaction velocity – another secular tailwind for volume-based payment networks.

Security and Network Tokenization

The automation of commerce introduces unprecedented challenges regarding security, authentication, and liability. When a transaction is initiated by an autonomous agent running in the background, traditional authentication methods are entirely bypassed.

This creates a critical dilemma for merchants: how to distinguish between a legitimate, consumer-authorized AI shopping agent and a malicious, automated bot. This friction point is exactly where the defensive moats of Visa and Mastercard transition into offensive growth drivers. The networks are leveraging their unparalleled global scale to serve as the ultimate trust layer for AI transactions.

The foundational technology enabling this trust is network tokenization. Rather than exposing actual 16-digit primary account numbers (PANs) to the AI agent, the networks provision secure, dynamic digital tokens. A consumer can provision a token to an AI agent that is mathematically restricted to a specific merchant category, capped at a maximum transaction value, or limited to a specific number of velocity runs. If the AI agent attempts to operate outside these predefined parameters, the network instantly declines the authorization. Visa currently manages over 17.5 billion tokens globally, providing an insurmountable infrastructure advantage.

The integration of agentic commerce perfectly aligns with the networks' strategic pivot toward Value-Added Services. The rise of automated, machine-speed transactions will exponentially increase the complexity of fraud vectors. To combat this, banks and merchants will become utterly reliant on the proprietary, AI-driven risk scoring and threat intelligence products offered by Visa and Mastercard. Ultimately, the agentic commerce revolution validates the "New Rules; Same Rails" thesis.



Recent Market Volatility

As shown in the performance chart at the beginning, in late February 2026, the broader technology and financial sectors experienced a sell-off driven by a confluence of macroeconomic shocks and AI disruption fears. The market was already fragile following President Trump's abrupt weekend announcement of a new 15% global tariff.

Into this highly uncertain environment, AI research firm Anthropic launched "Claude Code," a tool explicitly designed to automate the modernization and translation of legacy software written in COBOL. The initial focus point of this was IBM. Because massive, mission-critical systems at global banks, federal agencies, and airlines heavily rely on COBOL running on IBM mainframes, the realization that AI could rapidly automate this previously labour-intensive consulting work caused IBM shares to fall.

This is like what we have seen in the last few months as panic moves from one sector to the next. So far, we have seen the same take place across SaaS (software) companies, cybersecurity providers, logistics firms, and IT consulting. Analysts characterized this behaviour as a pure "sell first, ask questions later" mentality. While no one quite knows where exactly the AI theme ends up, what we do know is that it will change many sectors – some for the better.

This contagion ultimately dragged down Visa and Mastercard. The logic connecting the payment networks to this sell-off stems from their backend infrastructure. The global financial system, including the core authorization, clearing, and settlement engines of Visa and Mastercard, is entrenched in these exact legacy systems. Visa and Mastercard rely heavily on IBM mainframes and COBOL programming to process tens of thousands of transactions per second.

However, this presents a profound misunderstanding of network exposure. Visa and Mastercard's ultimate competitive moat are not their legacy COBOL code – it is their global acceptance network, their two-sided ecosystem of thousands of issuing banks and millions of merchants, and the embedded trust layer they provide. They do not monetize the manual maintenance of legacy codebases like an IT consulting firm, but they do monetize the velocity and security of global transactions.

As detailed above, we think that the proliferation of AI and agentic commerce could act as a volume multiplier and a catalyst for VAS and is more likely accelerant than disruptor. We view the Anthropic-induced dip in Visa and Mastercard shares as a headline-driven buying opportunity rather than a signal of fundamental deterioration.



PayPal

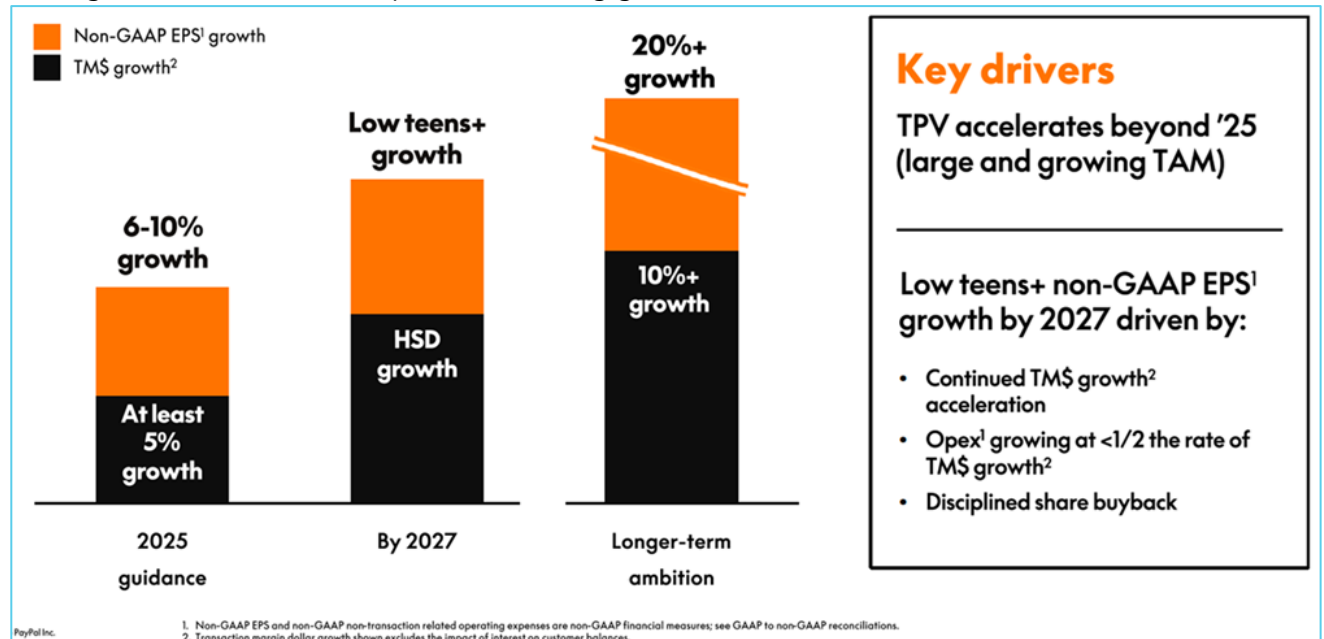
Compared to the structural invulnerability of the primary networks, payment processors operating higher up the technology stack have faced severe fundamental deterioration. The strategic decision to fully liquidate holdings in PayPal was not a reaction to transient macroeconomic headlines, but a response to investment thesis drift.

The Initial Investment Thesis

The original rationale for including exposure to PayPal was predicated on a classic operational turnaround narrative. The company possessed undeniable strategic value – it is a globally recognized brand, has a large ecosystem of 400 million active consumer accounts, and a dominant historical position in digital commerce checkout.

However, under previous management regimes, PayPal suffered from severe operational bloat and a complete lack of integration across its disparate, high-quality business units. The investment thesis posited that a renewed, rigorous focus on aggressive cost-cutting and back-end technological integration would act as a catalyst for operating margin expansion. The expectation was that driving operational efficiencies would drastically improve cash conversion cycles, generating billions in free cash flow to support aggressive share buybacks.

Management's outlook was for accelerating growth, which has since been withdrawn



The Strategy Pivot

The foundational thesis came under pressure in 2025 as management abruptly altered their strategic trajectory. Recognizing that aggressive volume growth in their unbranded processing division (Braintree) was structurally diluting overall corporate margins, PayPal intentionally throttled low-yielding payment volumes in a desperate bid to drive "profitable growth".



While attempting to engineer margin expansion via volume restriction, management inadvertently exposed weaknesses in the company's most important and highest-margin asset – the Branded Checkout button.

In the fourth quarter of 2025, PayPal reported a deceleration in Branded Checkout volume. The metric grew by an anaemic 1% on a currency-neutral basis, representing a massive 400bp deceleration from the prior quarter. This underperformed the broader e-commerce market and stood in stark contrast to the 8% volume growth achieved by the Visa and Mastercard networks over the exact same period. The data provided undeniable validation that PayPal was losing market share in a competitive environment, losing ground rapidly to frictionless digital wallets like Apple Pay and Google Pay.

The stagnation of the Branded Checkout division further delayed the turnaround thesis. Management confirmed this reality during their earnings guidance, forecasting a bleak outlook for transaction margin dollars in 2026, and entirely withdrawing their prior guidance that had promised accelerating growth into 2027.

Another Replacement of the CEO

In February 2026, the board of directors abruptly ousted CEO Alex Chriss after a tenure of only two and a half years, citing a failure to execute with the necessary speed and focus required in a crowded payments market.

Chriss was replaced by Enrique Lores, the current PayPal Board Chair and former CEO of HP. While Lores possesses a respectable pedigree in corporate restructuring, we question whether he has the deep operational experience in the rapidly evolving digital payments sector. More concerning, the appointment of Lores marked PayPal's third CEO in less than three years.

Rumour of a potential takeover?

More recently, Bloomberg published reports that PayPal was fielding unsolicited takeover inquiries from private equity consortiums and at least one major industry rival exploring a full acquisition. The dissemination of these takeover rumours triggered a violent, algorithmically driven short-covering rally, sending PayPal's stock surging by nearly 10% on massive trading volume.

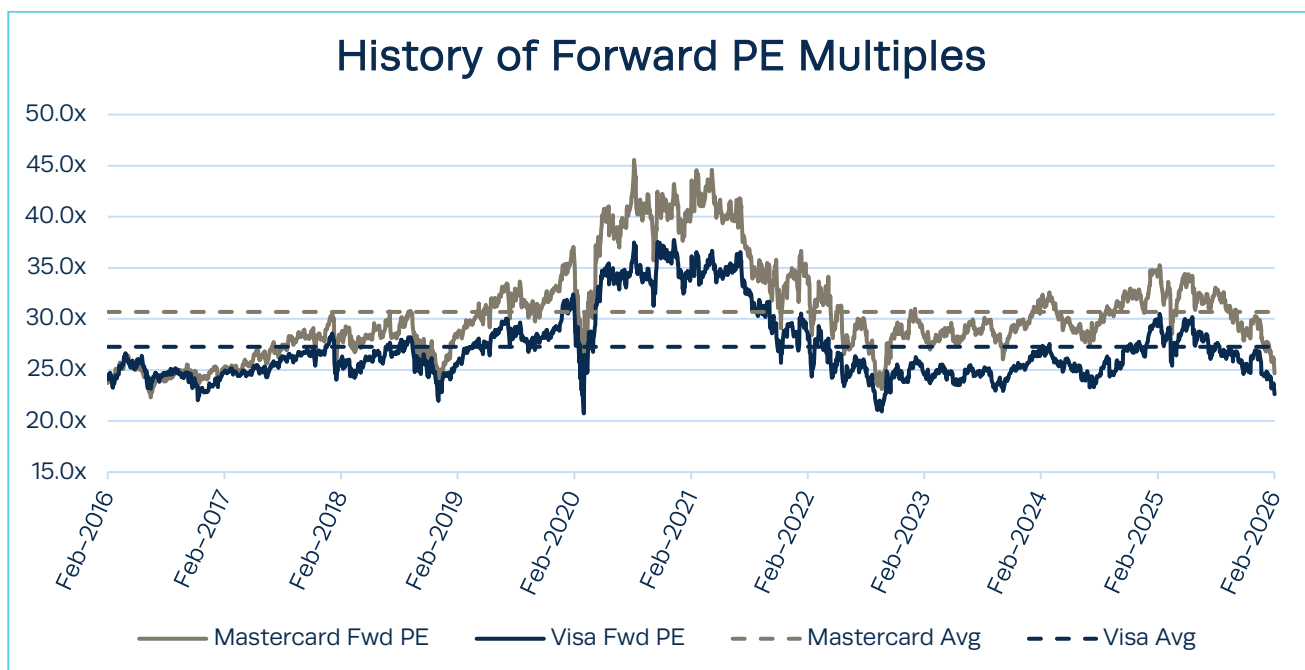
While a private equity buyout or a strategic breakup could unlock the deep intrinsic value, that is not an investment thesis we want to back in a time of uncertainty. With the core thesis of margin expansion questioned, the highest-margin business unit losing market share, and the overall strategy being entirely rewritten under a brand-new executive team, we would prefer to not hold the share.



Conclusion

The recent volatility in global payment equities reflects a convergence of political rhetoric, regulatory uncertainty, and technological speculation rather than a deterioration in the structural economics of the dominant networks. The proposed 10% interest rate cap primarily affects issuing bank profitability, not the volume-based toll-road economics of Visa and Mastercard. While the Credit Card Competition Act introduces theoretical routing pressure, implementation friction, ecosystem complexity, and pricing flexibility materially limit the magnitude of long-term earnings impairment.

At current valuations (now trading close to broader market multiples despite structurally superior margins, returns on equity, and growth characteristics), Visa and Mastercard represent high-quality infrastructure assets temporarily repriced due to headline risk. At current prices, Mastercard and Visa are trading at discounts of 20% and 17% to their 10-year average forward PE multiples. Current valuations are almost at trough multiples.



In contrast, PayPal's investment case shifted from operational leverage and margin expansion toward strategic uncertainty and competitive erosion within its highest-margin business. Given management instability and thesis drift, we elected to reallocate capital toward businesses with clearer structural advantages and more predictable compounding dynamics.

In periods of uncertainty, we prefer ownership of the rails rather than the vehicles operating upon them and retain favourable outlooks for Visa and Mastercard.