

Dear Clients and Friends,

We hope you had a wonderful holiday season and wish you a Happy New Year. As we reflect on 2023 and position our portfolio for 2024, there are a few insights that we'd like to share.

First, time in the market is more important than timing the market. The fourth quarter of 2023 was particularly strong as investors grew more confident that the Federal Reserve's rate tightening cycle had come to an end. In prior letters, we discussed how inflation had been moderating and our view that the Federal Funds Rate of 5.50% was adequately restrictive to combat slowing inflation. While we didn't know when it would happen, we believed that an inflection point was near. It appears the market inflected positively in November. During the fourth quarter, the S&P 500 returned 11.7% while our Partners Strategy returned 14.5%, net of fees. This strong performance helped more than offset a peak-to-trough drawdown for the S&P of -9% from July through October. For the full year, the S&P 500 returned 26.3% compared to our Partners Strategy return of 27.6%, net of fees, a robust bounce back from 2022 when the S&P returned -18.1%. As the market waxes and wanes, we remain near fully invested and use market fluctuations to capitalize on new opportunities.

Second, the market broadens out. 2023 was resilient in many ways. We experienced several important events including two regional wars, the collapse of several U.S. regional banks, and continued stress for commercial office buildings. The market's return was strong but narrow. In 2023, the S&P 500's returns were led by seven mega-cap technology companies, or the "Magnificent Seven" (Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta and Tesla). In fact, these seven stocks contributed 21.6% of the market's 26.3% return. Meanwhile, the S&P 500 Equal Weighted Index returned 13.8%, a strong but less impressive return relative to its market-cap weighted counterpart.¹

We are proud that our strategy returned 27.6%, net of fees, to beat the market despite constructing a portfolio that looks very different than the overall market. Our active share is about 85%, meaning our portfolio's names and weights are 85% different than that of the S&P 500, which again saw seven companies drive much of the performance for the year. Since the October lows, the market has started to broaden out, which we believe should benefit our portfolio.

Third, valuation matters. While the overall market's P/E is about 20x estimated earnings for 2024, this is lifted by higher valued technology companies. As shown in the table on the next page, the overall market's P/E is closer to 18x excluding the Magnificent Seven, who trade at over 27x. Many sectors are also selling at a discount to the market multiple. We think this is an important and relevant observation as we start 2024.

Fourth, earnings growth drives stock prices. While there are many factors that influence a company's stock price, we believe that over time, earnings growth is one of the most important factors that drive stock prices. Over the past two years, as interest rates increased, the multiple investors paid for stocks declined. Now that the Federal Reserve's tightening policy is coming to an end, we believe multiples will stabilize and company fundamentals will again take the front seat in driving stock price appreciation. We see this as a strong set up

¹ TCM and Bloomberg

for our portfolio, which consists of companies that can grow earnings faster than the overall market. For 2024, our portfolio is expected to grow earnings 15% compared to the S&P 500's earnings growth of 12%.²

Sector	P/E Ratio NTM			Sector	P/E Ratio NTM		
	1/3/2023	12/29/2023	Change		1/3/2023	12/29/2023	Change
S&P 500	16.9x	19.8x	2.9x	<u>Near-Cyclicals</u>			
S&P 500 ex-Magnificent 7	16.2x	17.9x	1.7x	Financials	13.6x	15.1x	1.5x
Magnificent 7	20.4x	27.5x	7.1x	Real Estate	33.8x	37.6x	3.8x
Russell 2000	23.9x	25.8x	1.9x	Energy	9.7x	10.8x	1.2x
S&P 600	11.9x	15.3x	3.4x	<u>Defensives</u>			
<u>Cyclicals</u>				Healthcare	17.6x	18.3x	0.7x
Info Tech ex-Mag7	17.2x	23.8x	6.5x	Consumer Staples	20.5x	19.4x	(1.1x)
Discretionary ex-Magnificent 7	17.8x	18.3x	0.4x	Utilities	18.5x	15.7x	(2.8x)
Comm. Services ex-Magnificent 7	12.6x	13.4x	0.9x				
Materials	16.0x	19.7x	3.7x				

Source: Fundstrat and Bloomberg estimates

Portfolio Positioning

We hold a portfolio of leading companies that provide essential services that we believe will result in attractive revenue and earnings growth. For instance, 35-40% of our portfolio consists of technology companies like **Microsoft (MSFT)**, **Amazon (AMZN)**, **Intuit (INTU)**, and **Palo Alto Networks (PANW)**. These companies provide essential services that can withstand many economic stresses. Additionally, demand for these company's services continues to grow as customers invest in generative AI and these companies embed AI into their own solutions.

About 10-15% of our portfolio is invested in healthcare services companies. These include **Danaher (DHR)**, **IQVIA (IQV)**, and **Catalent (CTLT)**. These companies provide essential products and services that enable the discovery and commercialization of drugs and offer investors an opportunity to participate in the growth of some of the most innovative therapies.

Finally, we strive to invest in companies that are led by executives who reinvest earnings and cash flow in strategic and smart ways. This is perhaps one of the most enjoyable parts of our work. We analyze our prospective company's business models, competitive positioning, and capital allocation. When we find companies that meet our criteria, we often wish that we could buy the whole company. Here are a few examples of companies with strong capital allocation.

AerCap (AER) is a leading airplane leasing company. In 2021, AerCap purchased GE's airplane leasing business at about 40% discount to equity book value. This was a once in a lifetime opportunity and catapulted AerCap as the largest lessor in the market. AerCap's GE transaction was financed with fixed term debt at below 3% and a GE equity stake. Since this acquisition, AerCap has de-levered the balance sheet, achieved investment grade status, sold certain assets at a material gain, reduced GE's equity stake to 0%, and pivoted to share repurchases by buying back ~18% of its market cap in 2023. Despite the stock being up over 28% in 2023, we believe AerCap is still selling at a discount to its true book value and are encouraged for book value growth over the next several years.

Entegris (ENTG) is a leading semiconductor materials and services company. Entegris' advanced materials and process solutions are used by all the major semiconductor manufacturers to reduce defects and maximize yields during the chip manufacturing process. In 2022, Entegris purchased CMC Materials for \$6 billion, a competitor with complimentary products. After the acquisition was completed, Entegris integrated much of CMC's products and announced over \$1 billion of non-core asset sales. Most of these sales will be completed

² Weighted-average earnings growth based on Bloomberg consensus estimates.

in the first half of 2024, the proceeds of which will help Entegris pay down the debt they issued to purchase CMC Materials. We believe the combined company is well positioned as semiconductor manufacturing recovers and accelerates over the next three-to-five years.

Danaher (DHR) is a leading provider of life science equipment and diagnostics solutions. Danaher’s management has a terrific history of smart acquisitions and strategic spin-off of slower growing segments. We’ve owned Danaher for nearly 10 years. Over that time, Danaher has transformed from a global industrial conglomerate to one that is focused on life sciences and healthcare, raising its organic growth rate from low-to-mid-single digits to mid-single-digit-plus. In 2023, Danaher took another step in that direction by spinning off its more cyclical water quality and product identification businesses into Veralto (VLTO). Danaher now has the capacity to make another value-enhancing acquisition. With capital markets thawing, we wouldn’t be surprised to hear from Danaher over the next one to two years.

Looking Forward

As we start 2024, we want to let you know how grateful we are to invest on your behalf. We love our work and wouldn’t be able to do it without your support. We are happy to have produced strong 2023 results and are focused on continuing to find great companies to grow your assets. If you have any questions, please contact us anytime at (415) 461-3800 and we look forward to seeing you in 2024.

Sincerely,



A handwritten signature in black ink that reads "Quoc K. Tran".

Quoc K. Tran
Chairman & CIO



A handwritten signature in black ink that reads "Michael Im".

Michael Im
*Co-PM &
Director of Research*



A handwritten signature in black ink that reads "Eric A. Winterhalter".

Eric A. Winterhalter
President



Important Disclosure

Performance is provided as supplemental information and is based Partners Strategy Composite. Performance results reflect all income, gains and losses and the reinvestment of interest and other income. All rates of return are reported "NET" of fees. Additional information regarding the policies for calculating and reporting returns is available upon request. A complete listing and description of all TCM composites and performance results is available upon request.

The 1-year, 3-year, 5-year net of fees returns of the Partners Strategy Composite as of December 31, 2023, are 27.56, 3.38, and 15.74 respectively. The 1-year, 3-year, 5-year returns of the S&P 500® Index as of December 31, 2023, are 26.29, 10.03 and 15.71 respectively. 3-year, and 5-year performance figures are annualized.

The S&P 500® is an unmanaged stock market index and is not available for direct investment. The S&P 500® Index represents the stocks of 500 leading U.S. publicly-traded companies from a broad range of industries. The performance of an unmanaged index reflects no deductions for fees, expenses or taxes which would affect performance of actively managed assets. The volatility of the S&P 500® Index may be greater or less than the volatility of the portfolios in the composite.

Benchmarks and financial indices are shown for illustrative purposes only and are provided for the purpose of making general market data available as a point of reference only. Such benchmarks and financial indices are unmanaged, assume reinvestment of income, do not reflect the impact of any trading commissions and costs, management and incentive fees, and have limitations when used for comparison or other purposes because they, among other reasons, may have a different trading strategy, volatility, credit or other material characteristics (such as limitations on the number and types of securities or instruments). No representation is made that any benchmark or index is an appropriate measure of comparison.

Select assets shown; additional Partners Strategy investment information is available including the complete portfolio upon request.

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The most recent ADV Part 2 can be found at www.trancapital.com or by calling (415) 461-3800.