TRAN CAPITAL MANAGEMENT

Multi-Cap Growth | First Quarter 2025

Dear Clients and Friends,

We hope you're well. The stock market has been volatile so far this year. As we started 2025, there was widespread optimism that fading inflation and healthy employment trends coupled with the new administration's policy goals of lower government regulation and tax cuts extensions would spur continued economic growth and encourage corporate actions like capital investments and strategic mergers and acquisitions. In fact, equity returns were strong in January with the S&P 500 up +2.7%, the S&P Midcap 400 up +3.8%, and the Nasdaq index up +1.6%. That optimism quickly faded as President Trump ramped rhetoric on trade imbalances culminating with April 2nd's Liberation Day tariff announcements that surprised market participants with significantly higher than expected tariffs, triggering concerns of spiking inflation, retaliatory trade responses, and an increased risk of a recession.

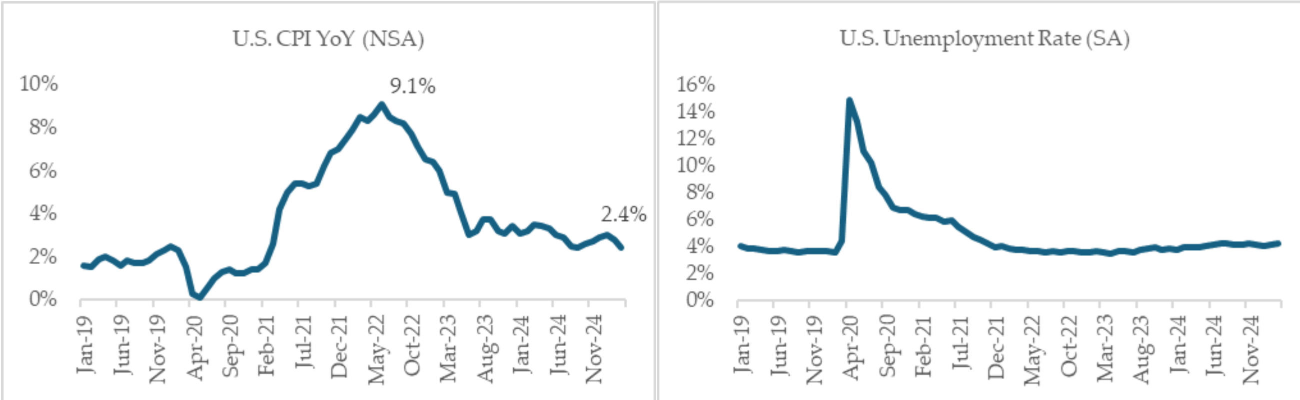
Equity markets sold off heading into April, with the S&P 500 Index returning -4.28%, the S&P 500 Midcap Index returning -6.11%, and the Nasdaq Composite returning -10.3% by the quarter end. TCM's portfolio experienced a similar patten with January up +4% but returning -8.5%, net of fees, for the first quarter.

We continue to digest the stream of news, tweets, and statements from the administration to contemplate the President's willingness to strike deals that could lower the initial tariff rates. However, President Trump's focus on trade imbalances – not just reciprocal tariff levels – complicates the scenario of a swift resolution. We have been increasing our cash level in response to this heightened uncertainty and would be ready to redeploy with more clarity on tariff relief.

While it may be too early to call a bottom, we do believe the market is getting closer to peak tariff fears, which could be an attractive set up if countries can negotiate lower reciprocal tariffs, lowering the temperature, and thus giving the President a win that enables his administration to move toward lower regulation and extending tax cuts. Thus, changing the market's narrative very quickly. However, an unwillingness to bargain would alter these assumptions as tariffs beget higher prices, weaken consumer spending, and create uncertainty for business investments, dealing a blow to economic growth.

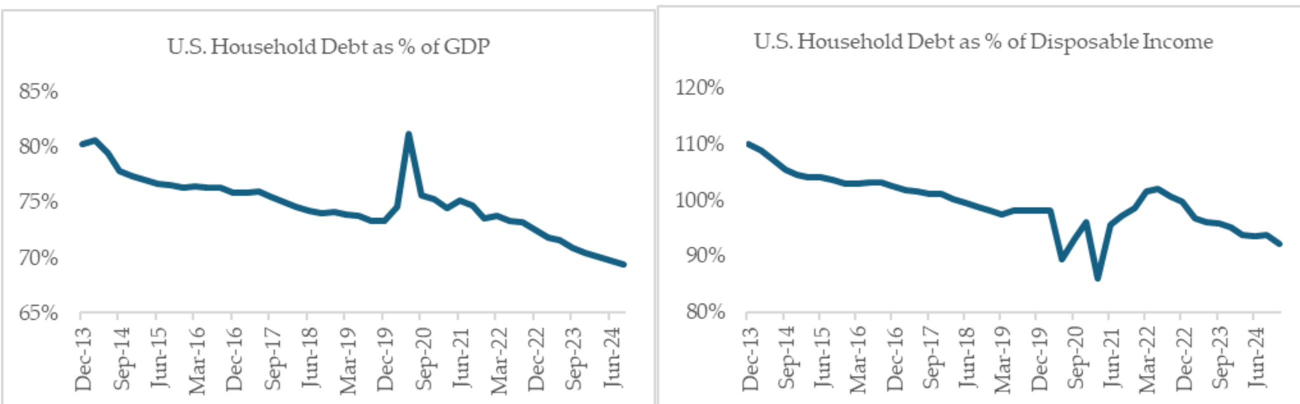
We are keeping a close eye on policy changes given these uncertain times. In the meantime, we remain focused on selecting individual companies that we believe offer important and essential products and services that can grow at attractive rates over the medium and long term. We are using the market sell-off to buy high quality businesses whose prices, we believe, represent attractive entry points.

Stepping back to a macro perspective, inflation and unemployment levels in the U.S. remain healthy. As we've written before, inflation spiked to over 9% in June 2022 and declined to 2.4% by March 2025. Similarly, U.S. unemployment levels peaked in 2020 at over 14% and declined to 4.2% as of March 2025



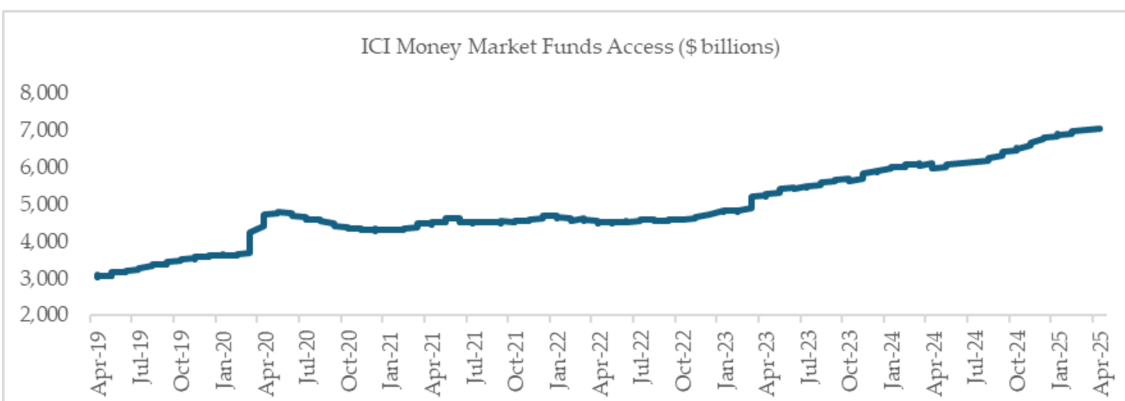
Source: Bureau of Labor Statistics | NSA = Not Seasonally Adjusted, SA = Seasonally Adjusted

Additionally, U.S. household debt levels remain healthy. These data points are important to put the recent market-sell off in context. The underlying health of the economy remains strong. U.S. household debt to GDP and debt to disposable income are at multi-year lows.



Source: Bloomberg

Moreover, there is a lot of cash on the sidelines. Cash as measure by money market assets has increased to over $7 trillion as of March 2025.



Source: Investment Company Institute (ICI)

Perhaps surprisingly, while the U.S. markets have pulled back, countries with the largest tariff exposures are positive. The table below compares the first quarter returns for the S&P 500 against the stock market indices of Canada, Mexico, China, and the EU. Every country was up at quarter-end heading into Liberation Day, except for the U.S. We believe this is a self-inflicted stock market drawdown. We believe policy adjustments or positive bi-lateral negotiations can reverse this trend.

Index	Total Return (YTD)
S&P 500 (SPX)	-4.28%
S&P/Toronto Stock Exchange Composite (Canada)	+1.52%
S&P/BMV IPC (Mexico)	+6.24%
FTSE China 50 (China)	+15.72%
STOXX Europe 600 (Europe)	+5.94%

Portfolio Positioning

One of our largest positions is **Talen Energy (TLN)**. Talen is a Houston, TX based independent power producer with energy assets in the Pennsylvania, New Jersey, Maryland (PJM) electricity grid. Talen owns 10.7 GW of power generation capacity, including a nuclear power plant that generates 2.2 gigawatts of power. Nuclear power has many advantages, including 24/7 reliability and carbon-free emissions. In 2024, Talen signed a long-term power purchase agreement with Amazon Web Services (AWS) to provide up to 960 MW of power to a collocated datacenter campus at its nuclear facility. This agreement was for one of Talen's two nuclear reactors at the facility, and we believe that Talen has the opportunity to contract out the remaining energy capacity. However, even without a second nuclear deal, our analysis estimates that Talen will generate over $12 per share in free cash flow (FCF) in 2025 and $20 per share in FCF in 2026.

We first purchased the stock around $115 per share in May 2024, which grew to $250 in February, but returned to around the $200 level at the end of the first quarter. Despite this volatility, we remain steadfast in our estimate of Talen's value. Although the stock price has fluctuated, we believe the company's cash flow and earnings growth remain robust. **Talen also agrees that their stock is undervalued, having repurchased 22% of their shares outstanding in 2024. Our analysis indicates that Talen has the capacity to repurchase another $1 billion, or 11% of the company's market cap, over the course of 2025 and 2026.** We believe any reasonable multiple on the Talen's $20 per share of FCF would generate a much higher price than current levels. This would especially be true if Talen secured a second long-term contract for the remainder of its nuclear energy generation.

Energy security is top of mind for every country. In fact, the U.S. and other leading countries are actively upgrading or building new energy power systems. During the market drawdown, we started a new position in **GE Vernova (GEV)**, a leading power equipment company that sells and services gas turbines, wind turbines and blades, and electric power systems for grids. The company's power equipment install base generates 25% of the world's electricity. We've tracked the company since they spun out of GE in 2024. GE Vernova's products are in high demand and at year end 2024, the company reported approximately $120 billion in backlog, which represents multiple years of revenue. Additionally, GE Vernova has the opportunity to increase their services attach rate from their current 25%. This would increase the company's revenue predictability and improve margins as GE Vernova focuses on executing their growth plan. We admire the company's essential products and services. **We also are comforted by GE Vernova's robust backlog of orders which gives us confidence that the company will grow over the next three to five years regardless of any macro scares in the headlines.**

Another company that has a high degree of recurring revenue is **CoStar Group (CSGP)**. CoStar is the leading provider of commercial real estate data. The company was formed over 30 years ago with this mission of providing data and analytics to real estate stakeholders. CoStar sells subscriptions to its proprietary database to real estate brokers, asset owners, investors, lenders, appraisers, and occupiers. Customers rely on CoStar's data, analytics, and insights to make informed decisions on valuing, purchasing, and leasing real estate. **CoStar's business model enjoys 90% annual renewals, 4-5% price increases, and high profit margins**. The company often reinvests their excess cash flows by buying tangential assets. Some of CoStar's acquisitions include Apartments.com, LoopNet, and Homes.com. CoStar often invests heavily after an acquisition to help integrate the assets and accelerate growth. CoStar has successfully deployed this strategy with Apartments.com, LoopNet.com, and various international assets. **Over the past two years, CoStar has been aggressively investing in Homes.com, which has resulted in a significant decline in profit margins. Our research suggests that CoStar will either see an improvement at Homes.com or management will dial back their investments. In either scenario, we see a path for margins to**

recover. Meanwhile, there are signs of an overall recovery in commercial real estate. We believe CoStar's recent stock price pullback represents an attractive entry point for a high-quality business with annual subscriptions to an essential database.

Looking Forward

We funded our new investments by trimming some current positions and selling investments whose businesses may be more cyclical and less robust than these new positions. Market sell-offs are not pleasant and it can be difficult to understand why and how quickly the stock market corrected. While no two periods are exactly alike, we've been through market sell-offs before. In fact, just last August (2024), the market sold off 10% due to concerns of strengthening Japanese yen triggering hedge funds derisking their yen carry trade. This caught the market by surprise and led to a swift 10% correction. Eventually investors turned their attention to the company's fundamental earnings growth and stocks recovered. Hard to believe but five years ago, COVID caused a global shut down, resulting in a 30% drawdown in the market before a quick reversal and all-time highs. Finally, 2022 suffered a bear market as the Federal Reserve aggressively tighten interest rates to fight persistent inflation and a robust jobs market. Today, inflation has declined dramatically, and the job market is more balanced in terms of job seekers and job openings.

This current stock market decline has been fast. In fact, since 1950, this has been the 5th fastest 10%+ decline. While this is scary, we note that in each of the previous declines, the market was up on average 20% twelve months later.

20 Fastest Market Corrections *from 52-week High*
Since 1950

Fastest 10% Correction from 52-week high

	52W High	10% Decline	# Days
1	2/19/2020	2/27/2020	8
2	1/26/2018	2/8/2018	13
3	9/23/1955	10/11/1955	18
4	6/12/1950	6/29/1950	17
5	10/5/1979	10/25/1979	20
6	10/7/1997	10/27/1997	20
7	3/24/2000	4/14/2000	21
8	2/13/1980	3/10/1980	26
9	7/15/1975	8/8/1975	24
10	4/23/2010	5/20/2010	27
11	7/17/1998	8/14/1998	28
12	7/16/1990	8/17/1990	32
13	7/15/1957	8/26/1957	42
14	9/12/1978	10/26/1978	44
15	10/9/2007	11/26/2007	48
16	1/3/2022	2/22/2022	50
17	8/25/1987	10/15/1987	51
18	8/2/1956	10/1/1956	60
19	9/20/2018	11/23/2018	64
20	7/16/1999	9/29/1999	75
Current	2/19/2025	3/11/2025	20

#5 fastest

Fastest Market Correction
Since 1950

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	Fastest 10% Correction				*S&P 500 Forward Return*			
	52W High	10% Decline	# Days	Cause	1M	3M	6M	12M
1	2/19/2020	2/27/2020	8	COVID	-14.7%	1.9%	15.6%	27.9%
2	1/26/2018	2/8/2018	13	Trade War 1.0	8.0%	4.5%	10.7%	4.9%
3	9/23/1955	10/11/1955	18	Eisenhower heart attack	9.6%	9.1%	19.7%	14.8%
4	6/12/1950	6/29/1950	17	Korean War	1.4%	11.3%	14.2%	20.2%
5	10/5/1979	10/25/1979	20	Volcker Shock	4.7%	13.4%	3.4%	29.9%
6	10/7/1997	10/27/1997	20	Asian Financial Crisis	8.5%	9.2%	26.3%	21.5%
	Average		16		2.9%	8.2%	15.0%	19.9%
	Median		18		6.3%	9.1%	14.9%	20.8%
	Win Ratio				83%	100%	100%	100%
Current	2/19/2025	3/11/2025	20					

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+20.8%

Source: Fundstrat, Bloomberg

We believe our portfolio's profit growth remains attractive and our company's valuations remain discounted to intrinsic value. We will continue to monitor all the cross currents carefully and may make further portfolio adjustments, but we firmly believe that holding a collection of leading companies that provide essential products and services will continue to generate attractive returns for our clients. Thank you for your support and interest. If you have any questions, please feel free to contact us at (415) 461-3800.

Sincerely,

Quoc K. Tran
Chairman & CIO

Michael N. Im
Co-PM & Director of Research

Eric A. Winterhalter
President

Important Disclosure

Performance is provided as supplemental information and is based on the Non-Taxable Multi-Cap Growth Equity 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 and 10-year net of fees returns of the Non-Taxable Multi-Cap Growth Equity Composite as of March 31, 2025, are -1.75, 1.44, 12.21 and 7.89 respectively. The 1-year, 3-year, 5-year and 10-year returns of the S&P 500® Index as of March 31, 2025, are 8.25, 9.06, 18.60 and 12.50 respectively. 3-year, 5-year and 10-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 Non-Taxable Multi-Cap Growth Equity investment information is available including the complete portfolio upon request.

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