

TRAN CAPITAL MANAGEMENT

Partners Strategy | Fourth Quarter 2025



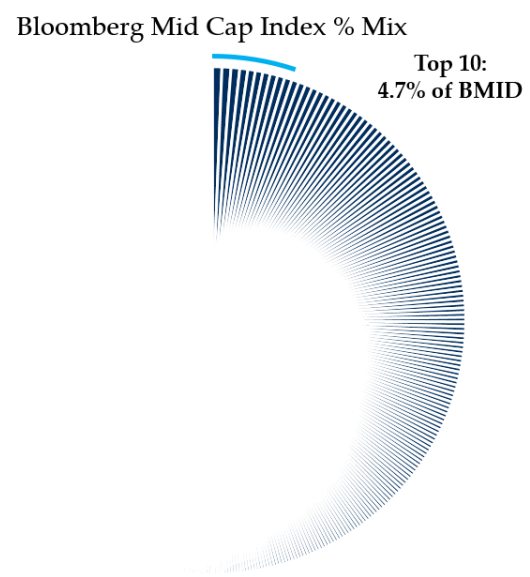
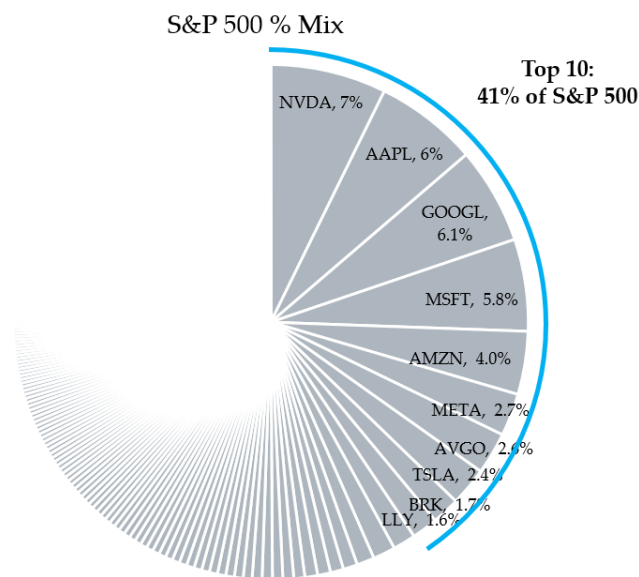
Dear Clients and Friends,

Happy New Year! We hope you had a wonderful holiday season. As we reflect on the fourth quarter and 2025 as a whole, we are reminded that while markets can be volatile, holding onto high-quality businesses and initiating new investments during periods of market drawdowns are critical to generating attractive long-term returns. These opportunities can arise at any point during the year, which is why a single calendar year's performance does not always reflect the full progression of our investment theses.

During the fourth quarter, our Partners Strategy returned -0.3%, respectively, net of fees, bringing year-to-date returns to 14.6%, net of fees. This compares with 4Q returns of 2.7% for the S&P 500 Index and 1.1% for the Bloomberg U.S. Mid Cap Index, and full-year returns of 17.9% and 10.9%, respectively. Approximately half of our portfolio is invested in mega-cap companies, with the other half allocated to mid-cap companies.

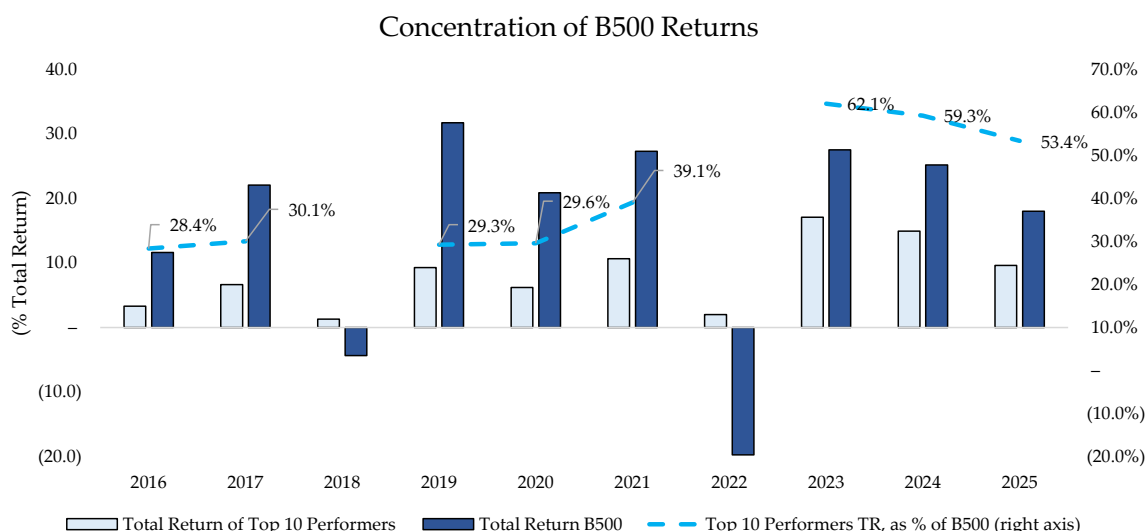
Concentration Risk in the S&P 500

As we seek what we believe to be the best opportunities to construct our portfolios, we have historically maintained a balanced exposure of roughly 50% in large-capitalization companies and 50% in mid-capitalization companies. In doing so, we are mindful of the growing concentration risk within the broader S&P 500 index. Today, the top ten constituents alone account for approximately 41% of the index, a level of concentration that we believe investors should carefully consider.



Source: Bloomberg

In fact, our research shows that over the past three years, the top ten companies for each year have contributed about 60% of the Bloomberg 500's/S&P 500's¹ annual returns, on average.



Source: Bloomberg, TCM Research

While we own some of these top ten companies, we believe that, in aggregate, this level of concentration risk in the index is material. Coincidentally, we have been identifying compelling investment opportunities among smaller, mid-cap companies. As a result, our portfolio construction has been underweight the largest companies, which contributed to underperformance relative to the larger index. However, we believe that over the medium term, actively investing in smaller companies offers the potential to preserve and grow capital while reducing overall concentration risk.

Volatility throughout 2025

During 2025, we experienced several notable shocks, including:

- January** – DeepSeek, a Chinese AI startup, shocked markets with the release of a lower-cost AI model. This development drove Nvidia's stock down 20% between January 23rd and January 27th. Despite this volatility, Nvidia still finished the year up 39%. **We held onto our NVDA stock during this period. Meanwhile, we also established a new position in GE Vernova (GEV) at approximately \$300 per share.**
- April** – President Trump surprised markets with an aggressive "Liberation Day" tariff schedule, which sent various equity market indexes down double digits over the span of a few days. Markets subsequently recovered, with the S&P 500 and Bloomberg U.S. Mid Cap Index finishing the year up 17.8% and 10.9%, respectively. **During the April market selloff, we added to our position in GEV, which ended the year at \$654 per share, a gain over 135%.**
- Fourth Quarter** – Concerns surrounding potential overinvestment in AI infrastructure and increased debt loads weighed on technology stocks throughout the quarter. This led to some notable declines, including a roughly 30% decline in Oracle's share price (not a holding).

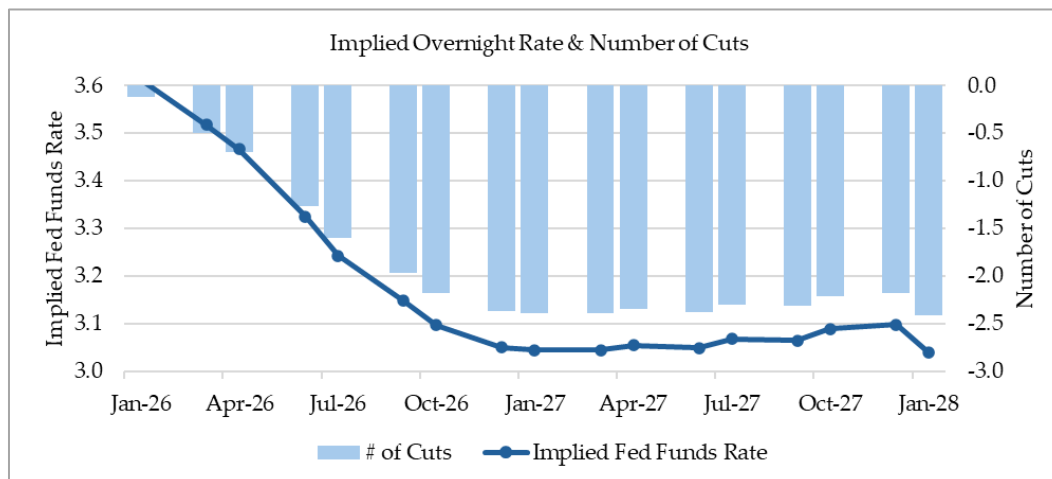
As we start 2026, we expect continued macroeconomic scares and geopolitical uncertainty, including the ongoing Russia-Ukraine war, tensions between the U.S. and Venezuela, continued fighting in the Middle East, and China's increasingly aggressive stance toward

¹ The Bloomberg 500 Index is a close proxy for the S&P 500 Index

Taiwan. While we closely monitor these events, we will try to distill how such conflicts may impact our portfolio companies and allocate capital to businesses whose products and services can grow at attractive rates even amid turbulent conditions.

U.S. Economy Remains Strong

We would contrast these macro concerns with the strength of the U.S. economy. For instance, the U.S. GDP, now approximately \$31 trillion, grew at a 4.3% annualized rate in the third quarter. Moreover, inflation has remained moderate with the CPI rising 2.7% in November. Given the slowdown in inflation, market participants expect the Federal Reserve to remain in a rate-cutting cycle with potentially two more rate cuts in 2026. Historically, when the Federal Reserve is cutting interest rates, the stock market has done well as lower borrowing costs tend to stimulate economic activity and support valuation multiples.



Source: Bloomberg

Together, GDP and CPI indicate that the U.S. economy is growing faster than many expected while inflation continues to come down to more reasonable levels. This backdrop supports continued growth in corporate revenues and earnings in 2026. Consistent with this view, our portfolio is expected to generate 17% EPS growth in 2026 compared to 11% growth for the S&P 500 and 12% growth for the Bloomberg Mid Cap index.

Individual Stock Selection

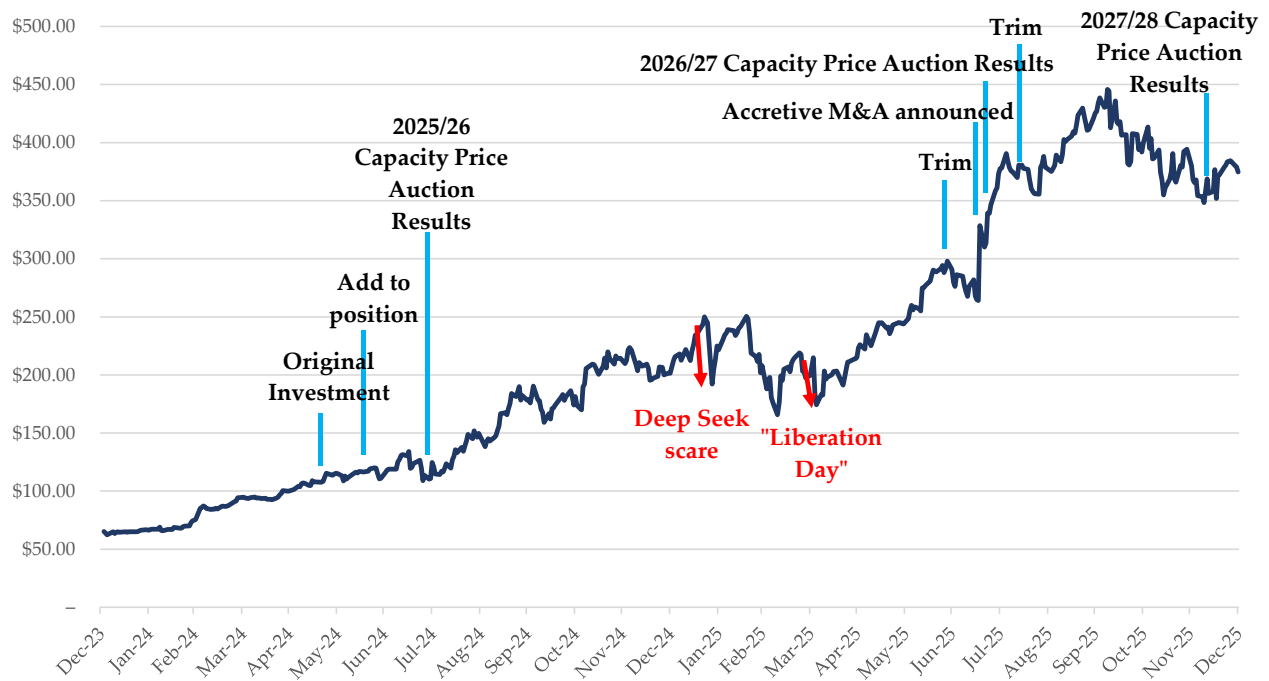
Our biggest contributor in 2025 was **Talen Energy (TLN)**, a leading independent power producer. Long-time readers will remember that we first purchased Talen in the second quarter of 2024 based on the thesis that the company would benefit from higher energy prices and that Talen had the potential to sign long-term power purchase agreements with leading datacenter customers. Our thesis is playing out as Talen has successfully signed a 20-year contract with Amazon Web Services at escalating prices.

However, Talen's stock price did not go up in a straight line. As you can see in the chart on the next page, Talen's stock dropped over 20% during the DeepSeek scare and over 14% during Liberation Day. These drawdowns hurt our reported performance during the first and second quarters of 2025, but by holding onto our shares, we were able to wait for the market to digest the news, analyze the potential impact on Talen (very little), and wait for the stock to recover.

We eventually trimmed Talen in the second and third quarter because the stock had grown to over 10% of our portfolio. At current prices, Talen is selling at 19x estimated 2026 earnings with expected earnings growth of over 20% in both 2026 and 2027. We bring this up as a reminder that headlines can drive sharp, indiscriminate declines in stock prices even when the news has little relevance to the company's operations.



TCM Investment in Talen (TLN)



Source: Bloomberg and TCM Research

As our research continues, we have added a few new investments where we believe business prospects are improving but have yet to be rewarded by the market. One such example is **International Flavors & Fragrances (IFF)**. IFF is a global specialty ingredients company that serves customers across consumer packaged goods, food and beverage, beauty and home care, and industrial end markets. The company tends to be the leader in their space and enjoys being #1 or #2 in most of its product categories.

Several years ago, IFF undertook two large, transformational acquisitions that left the company highly levered. Under new leadership, IFF has been focusing on its core business, selling underperforming divisions, and allocating capital in a more appropriate and shareholder friendly manner. While turnarounds take time and hard work, we believe that management is making the right decisions to improve the company's long-term growth prospects and returns on capital. Moreover, the stock was trading at 14x estimated 2026 earnings when we started our position, which we believe offered an attractive entry point. IFF has yet to contribute meaningfully to our performance, but we are confident that improving growth and capital allocation discipline will drive outperformance in the future.



TCM Investment in International Flavors & Fragrances (IFF)



Source: Bloomberg and TCM Research

Looking Forward

After a period of volatile yet positive market returns, we believe it is especially important to remain focused on owning high-quality companies that can continue to grow through uncertain times. We are mindful of how unsettling global macroeconomic and geopolitical events can feel, but we remain focused on constructing a portfolio of what we believe to be leading businesses capable of compounding value at attractive rates. We are excited for the growth prospects of our portfolio companies. We will continue to monitor macro events closely, maintaining conviction in our holdings and, when appropriate, potentially add other leading companies during periods of turbulence.

Thank you for your interest and trust in us. If you have any questions, please do not hesitate to contact us at (415) 461-3800.

Sincerely,



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Chairman & CIO



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Important Disclosure

Performance is provided as supplemental information and is based on the 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, and 5-year net of fees returns of the Partners Strategy Composite as of December 31, 2025, are 14.59, 18.87, and 7.79 respectively. The 1-year, 3-year, and 5-year returns of the S&P 500® Index as of December 31, 2025, are 17.88, 23.00, and 14.43 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 information is available including the complete portfolio upon request.

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