# TRAN CAPITAL MANAGEMENT

**Multi-Cap Growth | First Quarter 2026**

Dear Clients and Friends,

We hope you are well. As we write this letter, the Trump Administration is preparing for a second round of negotiations with Iran to possibly end the war and reopen the Strait of Hormuz. We've been diligently focused on the conflict and positioning our portfolio for the changing risk environment. As it stands today, negotiations are ongoing and there seems to be a fragile pathway towards de-escalation.

As we reflect on the first quarter of 2026, we are reminded that while the markets are volatile, holding onto high-quality companies and initiating new investments during periods of market drawdowns are critical actions that can generate attractive long-term returns. During the first quarter, our **Multi-Cap Growth Strategy** returned -5.97%, net of fees. Our benchmarks, the S&P 500 Index and Bloomberg U.S. Mid Cap Index returned -4.35% and +0.90%, respectively.[1]

## Volatility to Start 2026

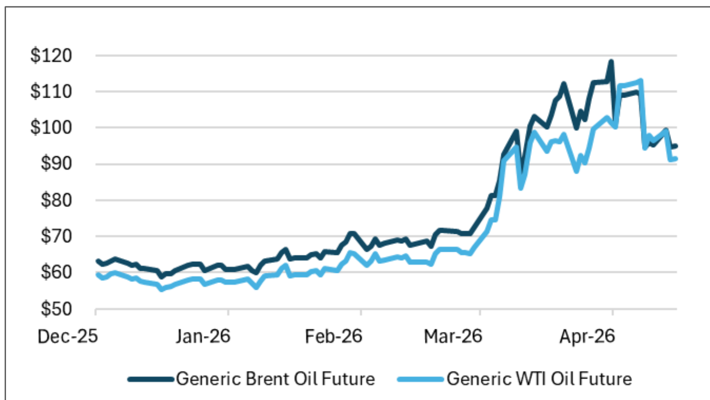
The first quarter began with elevated volatility. While the S&P 500 was modestly positive through the first two months of the year, rising approximately 0.7% during that time period, that headline figure masked significant underlying dispersion. Advancements in AI, particularly the release of new agentic tools such as Claude Cowork and OpenClaw (formerly ClawdBot), triggered a sharp selloff across software stocks. At the same time, increased capital spending in the race to build AI infrastructure began to pressure free cash flow for hyperscale cloud providers. The result was a meaningful broadening in market performance, a dynamic we highlighted in our previous letter when discussing concentration risk in the S&P 500.

This shift was reflected in index returns. While the S&P 500 rose 0.7% through January and February, the S&P 500 Equal Weight Index and the Bloomberg U.S. Mid Cap Index each gained ~ 7%. Our portfolio, which is intentionally differentiated from the benchmark, performed well during this period despite the indiscriminate selling of software stocks (more on this later in the letter).

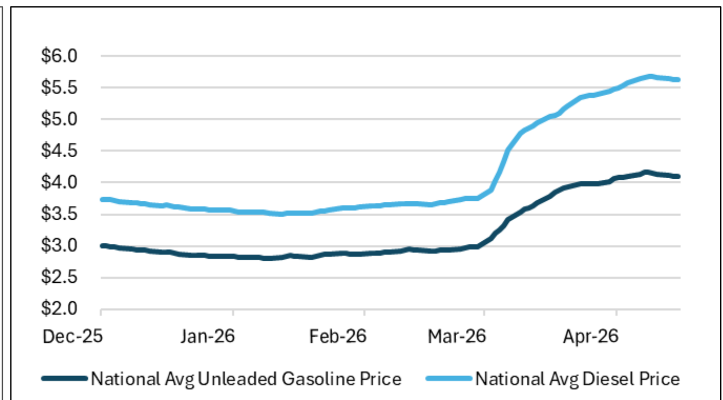
More volatility soon followed. On February 28, the U.S. launched targeted military strikes against Iran, leading to a sharp escalation in geopolitical risk. Oil prices surged approximately 60% to over $115 per barrel, while the broader equity market declined roughly 5% in March alone. Despite damage to much of Iran's military and missile capabilities, Iran was still able to close the Strait of Hormuz. Over 20% of the world's oil supply and roughly half of seaborne oil exports pass through this strategically important gateway. While the U.S. is largely energy self-sufficient, oil is a globally priced commodity; thus, supply disruptions abroad directly impact energy prices at home.

Such conflicts underscore the importance of energy security. Oil, natural gas, and their derivatives are critical inputs across the global economy – from transportation fuels and agricultural fertilizers to industrial gases such as helium, which is used in semiconductor production. All these products would cost much more or become uneconomical without reliable and affordable energy resources. We saw this locally as U.S. gasoline prices spiked from roughly $3 per gallon to over $4 by the end of March.

[1] Benchmark information is included for illustrative purposes only, see Important Disclosures.



Source: Bloomberg



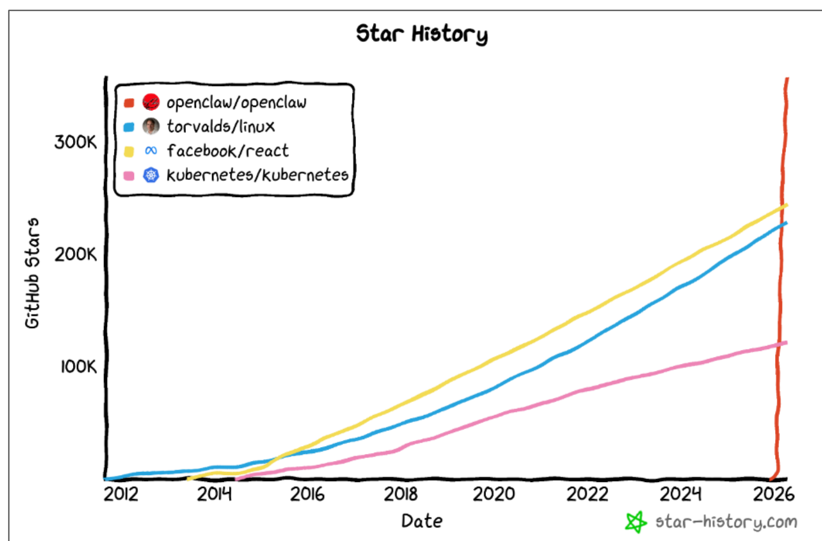
Source: AAA via Bloomberg

Against this backdrop, we added to our core energy positions. As long-time readers may recall, over the past few years, we have established positions in **Talen Energy (TLN)** to benefit from rising electricity demand from data centers and **GE Vernova (GEV)** to benefit from the requisite buildout of energy infrastructure. In January, we started a position in **Phillips 66 (PSX)**, a diversified midstream and downstream energy company involved in refining, transportation, and marketing of oil & gas products. This sleeve of our portfolio will become even more important as countries invest in energy security to protect their economies and populations from energy shocks. We recognize that energy prices can be volatile in the short term, particularly as geopolitical conditions evolve. In our view, this conflict is likely to drive sustained investment across the energy value chain, supporting long-term demand for the businesses we own.

## Agentic AI Disruption

In addition to the oil shock, markets are also digesting a rapid wave of new AI models and product releases from companies such as Anthropic and OpenAI. Most notable were the January releases of Claude Cowork and OpenClaw, which have seemingly ushered in the age of agentic AI.

These tools represent a meaningful step change in capability. Claude Cowork functions as a desktop assistant capable of completing multi-step tasks for non-technical users, while OpenClaw enables users to create autonomous agents that can operate independently on local machines. The adoption rate has been historic. As shown below, OpenClaw's growth in GitHub "stars" (a proxy for developer interest, think likes or bookmarks) has been steeper and faster than any prior major software project, reaching unprecedented levels within just two months of release (near vertical red line below).



Source: star-history.com

This rapid change in AI capability sparked concerns about the legacy SaaS model of building a software program once, selling it to millions of users, and raising prices each year. Investors are increasingly focused on the risk of disintermediation, pressure on pricing, and potential loss of traditional seat-based licenses. This sent all software stocks down regardless of current fundamentals, incumbency advantages, or moats. The iShares Expanded Tech-Software ETF (IGV), a commonly used proxy for the sector, declined approximately 24% during the quarter.

At the core of this concern is a fundamental question: *if AI agents can perform tasks directly, where does value accrue*? There is a growing perception that vibe coding and autonomous AI against could extract value away from software applications by pushing those solutions to the back end – or worse – bypass and make them obsolete altogether. We believe these risks are material, but we do not think all of enterprise software will become extinct. In our view, software is most vulnerable if it primarily provides a user interface to interact with underlying data to complete relatively repetitive tasks. By contrast, software may be more durable if it (1) is deeply embedded in complex workflows, (2) supports mission critical or high costs of failure operations, and (3) incorporates industry-specific expertise that is difficult to replicate.

During the quarter, we made several portfolio adjustments in response to these dynamics. We sold **Salesforce (CRM)** and used the broad industry selloff to start a position in **Tyler Technologies (TYL)**. Tyler is a leading provider of software to state and local governments, courts, and school districts. Its software supports a wide range of essential municipal functions, including court systems, licensing, permitting, public safety, and tax and citation collections. *These functions are critical*. Additionally, there is an added layer of complexity that we believe strengthens Tyler's competitive advantages. For instance, most municipalities work with labor unions, and most labor unions negotiate nuanced and highly specific terms in their labor contracts. Tyler's software is designed to handle these complexities, enabling governments to remain compliant with evolving agreements and regulations.

Tyler has historically seen ~98% percent customer retention and we believe this continues given its combination of embedded workflows, regulatory requirements, and domain-specific expertise. Moreover, Tyler has leaned more into payments over the past few years, starting a shift from seat-based pricing to charging a commission on payment activity. Given the slow-moving nature of the public sector, Tyler should have an advantage in placing its growing suite of AI tools with customers. Tyler's share price declined roughly 50% from August 2025 levels to the low $300s in February when we started our position.

## Update on Arm

The U.S. economy remains resilient. GDP growth has continued, inflation has ticked up modestly due to higher energy prices but remains manageable, and unemployment stands at a stable 4.3% as of March. With earnings season about to begin, we believe the current economic is conducive to continued strong revenue and earnings growth across our portfolio companies. While monitoring and adjusting our portfolio for geopolitical risks is important, our primary focus remains on owning businesses that can grow through these unsettling times. One company we want to share an update on is **Arm Holdings (ARM).**

We introduced Arm in our year end letter. As a reminder, Arm is a leading provider of intellectual property for CPUs. The company earns royalties for its instruction sets and compute platforms that serve as the foundation for a large portion of global semiconductor designs. Rather than manufacturing chips, Arm has historically provided the core building blocks used in customer chip designs, earning royalties on each unit shipped. We were attracted to Arm's business model due to its high degree of revenue visibility and its ability to grow as customers adopted higher-value-added IP over time.

We also noted that Arm has a meaningful opportunity to expand its addressable market by moving further downstream and designing more complete, specialized chips, rather than solely providing the building blocks. Our thesis was confirmed in March at the company's *Arm Everywhere* event, which our team was fortunate to attend. At the event, Arm showcased its evolution towards offering more integrated CPU designs, drawing from its history of energy-efficiency architectures to develop chips optimized for agentic AI workloads. The rapid adoption of agentic AI tools like OpenClaw and Claude Cowork is driving an explosion in compute

demand, particularly in the form of queries and token generation. This had created bottlenecks in data centers and the need to better move, arrange, and orchestrate tokens. We believe this dynamic is driving further demand for CPUs within the data center, especially those that can balance performance with power efficiency – Arm's bread and butter.

Arm announced that Meta and OpenAI, among others, as initial customers for the AGI CPU. If successful, we believe this market expansion could materially increase Arm's earnings power, increasing EPS fourfold from ~$2 per share in fiscal 2027 to over $9 per share in fiscal 2031. Arm's stock rallied on this development, rising 38% during the first quarter. We believe Arm is positioned for many years of attractive growth from here.

### Looking Ahead

After a period of heightened volatility, we believe it is especially important to remain focused on high-quality companies that can continue to grow through these uncertain times. While global macro events can be unsettling, our approach will remain consistent: find and build portfolios of leading businesses that can compound value over time. We are excited for the growth prospects of our portfolio companies and will continue to monitor macro developments closely. Periods of market turbulence can create opportunities, and we will look to selectively adjust our positions and look to add other leading companies during that time.

Thank you for your continued trust and support. If you have any questions, please 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, 2026, are 14.40, 14.30, 4.57 and 9.44 respectively. The 1-year, 3-year, 5-year and 10-year returns of the S&P 500® Index as of March 31, 2026, are 17.80, 18.31, 12.07 and 14.16 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.*

*The Bloomberg U.S. Mid Cap Index is an unmanaged stock market index and is not available for direct investment. The Bloomberg U.S. Mid Cap Index represents the stocks of 200-400 mid-sized 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 Bloomberg U.S. Mid Cap Index may be greater or less than the volatility of the portfolios in the composite.*

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*Select assets shown; additional Non-Taxable Multi-Cap Growth Equity 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.*