TRAN CAPITAL MANAGEMENT

Midcap Equity Strategy | Second Quarter 2026

Dear Clients and Friends,

We hope you are enjoying the summer. The second quarter was a strong one for our portfolio, and we are pleased to share that our Midcap Equity Strategy returned 16.9%, net of fees, for the quarter, bringing our year-to-date return to 12.3%, net of fees. This compares to second quarter returns of 11.1% for the Bloomberg U.S. Mid Cap Index and year-to-date returns of 12.1%. The broader S&P 500 Index returned 15.2% with year-to-date returns of 10.2%.

After a difficult first quarter shaped by war, spiking oil prices, and market volatility, the second quarter demonstrated what we believe to be the enduring value of patient, research-driven investing in high-quality businesses. When markets sold off earlier this year, we held conviction in our portfolio companies and selectively added to our positions. That discipline contributed meaningfully to our second quarter results.

Volatility to Start 2026

Three positions were the primary drivers of our outperformance during the quarter: ARM Holdings, Palo Alto Networks, and Bloom Energy.

ARM Holdings (ARM) was our strongest contributor during the quarter. We discussed our holding in Arm at length in our last two quarterly letters. ARM's CPU platform powers most of the world's mobile devices, and increasingly, the chips running artificial intelligence workloads in data centers. In late March, ARM successfully launched its *Arm AGI CPU*, which was not only its first fully in-house designed chip but also one that was specifically catered towards handling the demands of agentic AI workloads. The market responded enthusiastically, and we believe this launch marks an important inflection point in ARM's growth trajectory. The rise of AI agents from services such as Claude, OpenAI, OpenClaw/NemoClaw, etc. are increasing the needs of CPUs for data centers, and we believe Arm is one of the best positioned companies to serve this need through its leading CPU platform.

Palo Alto Networks (PANW) also contributed meaningfully to our performance. Palo Alto Networks is a long-time holding in our strategies. Cybersecurity is one of the most essential categories of enterprise spending, and that demand is only intensifying as businesses expand their digital footprints and AI adoption increases the surface area for potential threats. Palo Alto shares were unfairly punished alongside the broader selling of software early in the year. During the quarter, Palo Alto continued to demonstrate the strength of its platformization strategy, convincing customers to consolidate their security needs onto a single integrated platform rather than managing a patchwork of point solutions. We believe that increasing AI-driven, real-time threats will require real-time responses where all parts of enterprise security to communicate effectively. Palo Alto seems best positioned to win in this market, making it a long-term share gainer in an industry with secular tailwinds.

Bloom Energy (BE) also contributed meaningfully to our performance. Electricity has become the binding constraint on the AI buildout. Operators can secure GPUs far faster than they can secure power, with grid interconnection queues now stretching for years. Bloom's solid oxide fuel cells address this bottleneck, delivering reliable on-site power in a fraction of the time it takes to wait on the grid (i.e. months, not years). We believe BE's solution is now cost-competitive with gas generation, as BE drives down cost each year. During the quarter, that value proposition translated into a landmark agreement with Oracle for up to 2.8 gigawatts of fuel cell capacity, with an initial 1.2 gigawatts already contracted and deploying, validating BE's technology. BE reported 1Q26 revenue that more than doubled year-over-year and the company swung firmly to GAAP profitability. Management raised full-year guidance to roughly 80% growth at the midpoint.

Looking Ahead

As we enter the second half of the year, we remain constructive on the outlook for our portfolio and the broader market. In our view, the strong market returns we have seen this year are being driven by something durable: genuine earnings growth. The table below shows the consensus forecasts for S&P 500 earnings in 2026 and 2027 at quarter-end for the past one-year. Compared to one year ago, consensus forecasts for S&P 500 earnings in 2026 increased 16% while forecasts for 2027 increased 21%. Meanwhile, the S&P 500's price return was also 21%, meaning multiples stayed the same for the market despite the incredible return. This is an important distinction. Markets powered by multiple expansion or speculative enthusiasm can reverse quickly, but markets anchored in improving corporate profitability tend to reflect a more sustainable foundation. We believe that is the environment we are in today.

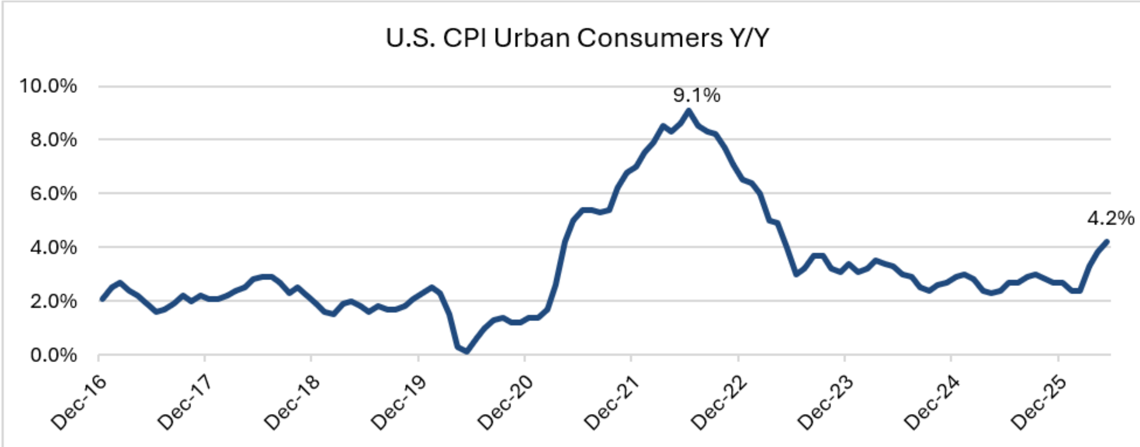
	6/30/25	9/30/25	12/31/25	3/31/26	6/30/26
2026 estimated EPS	$ 295.7	$ 301.2	$ 309.6	$ 323.5	$ 341.6
Total increase in estimated EPS since 6/30/25		2%	5%	9%	16%
2027 estimated EPS	$ 327.3	$ 333.9	$ 352.0	$ 374.0	$ 397.6
Total increase in estimated EPS since 6/30/25		2%	8%	14%	21%
S&P 500 Price	$ 6,205	$ 6,688	$ 6,846	$ 6,529	$ 7,499
Price return since 6/30/25		8%	10%	5%	21%
2026 P/E	21.0x	22.2x	22.1x	20.2x	22.0x
2027 P/E	19.0x	20.0x	19.4x	17.5x	18.9x

Source: Bloomberg

On the macro front, we expect conditions to remain volatile. Inflation has been above the Federal Reserve's 2% target for several years, and despite periods of lower trends, recent inflation data points suggest that inflation has been increasing. With housing costs, energy, and auto prices on the rise, CPI increased to 4.2% in May.

Meanwhile, expectations of rate decreases have flipped to a potential hike this year. When interest rates rise, high multiples stocks and interest rate sensitive companies tend to decline. Further, the U.S.'s midterm elections will be in full swing over the next few months. We suspect potentially disruptive policies and political "ideas" will be debated which could add to market volatility. We will closely monitor these developments and will distill any potential macro changes to how these policies may affect our portfolio companies.

Against this backdrop, our portfolio companies continue to grow at what we believe are attractive rates. ARM Holdings is early in their AI-driven growth cycle. Palo Alto Networks is capturing share in a cybersecurity market that only gets more complex with AI. TSMC will continue to benefit from the compute needs of data centers providing training and inference for agentic AI. We are excited about the prospects for each of these businesses and for our portfolio.



Source: Bloomberg

As always, we remain vigilant. Geopolitical tensions, evolving trade policy, and the potential for unexpected macro shocks are risks we monitor closely. But our approach does not change with the headlines. We will continue to own leading businesses with essential products and services, add to our positions when the market gives us attractive entry points, and hold with conviction when the short-term noise obscures the long-term opportunity.

We are grateful for your continued trust and partnership, and we look forward to updating you at the end of the third quarter. Please do not hesitate to reach out at (415) 461-3800 with any questions.

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 Mid Cap 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 composite inception date is February 1, 2026. Because the composite has not completed a full calendar year, annual returns are not yet available. Performance is presented from inception through June 30, 2026.

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 measures the performance of U.S. mid-capitalization companies. The performance of an unmanaged index reflects no deductions for fees, expenses, or taxes, which would affect the 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 Mid Cap Equity investment information is available including the complete portfolio upon request.

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