

TRAN CAPITAL MANAGEMENT

Partners 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 Partners Strategy returned 19.8%, net of fees, for the quarter, bringing our year-to-date return to 14.2%, net of fees. This compares with second quarter returns of 15.2% for the S&P 500 Index and 11.1% for the Bloomberg U.S. Mid Cap Index, and year-to-date returns of 10.2% and 12.1%, respectively.

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 Talen 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.

Talen Energy (TLN), a name we have discussed at length in prior letters, continued to reward patient shareholders. As longtime readers know, we first purchased Talen in the second quarter of 2024 based on our conviction that the company's nuclear power assets would become increasingly valuable as data center operators sought reliable, carbon-free electricity. That thesis has continued to play out. The explosive growth in AI infrastructure is driving unprecedented demand for power, and Talen's long-term agreement with Amazon Web Services positions it as a direct beneficiary. The quarter served as another reminder that when the

underlying business fundamentals are sound, short-term price volatility, like the drawdowns we experienced during the DeepSeek scare and Liberation Day, ultimately gives way to value recognition.

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

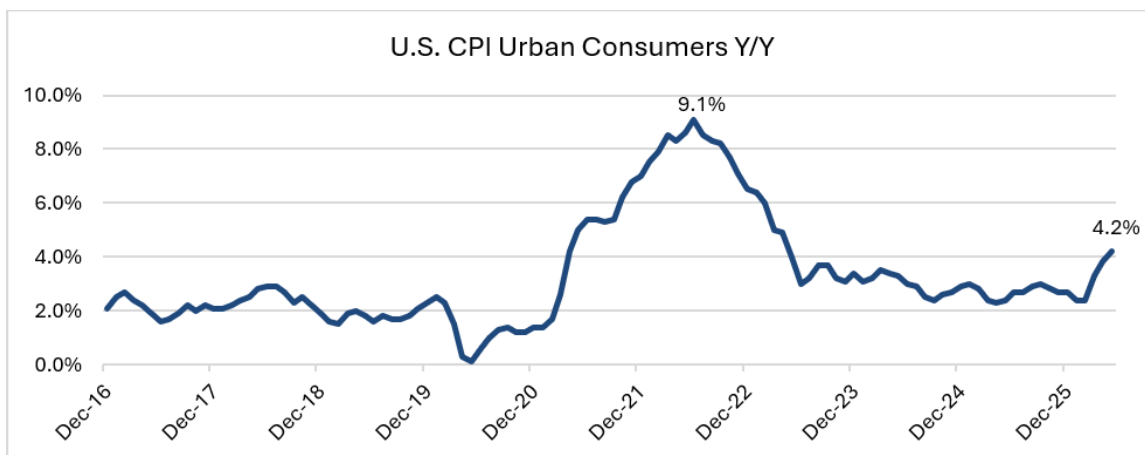
Source: Bloomberg

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. Talen Energy is positioned at the intersection of two powerful long-term trends: the electrification of the economy and the insatiable power demands of AI infrastructure. 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

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Chairman & CIO



Michael N. Im

Michael N. Im
Co-PM & Director of
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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 June 30, 2026, are 20.18, 18.12, and 7.39 respectively. The 1-year, 3-year and 5-year returns of the S&P 500® Index as of June 30, 2026, are 22.33, 20.61 and 13.41 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.

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.

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

