TRAN CAPITAL MANAGEMENT

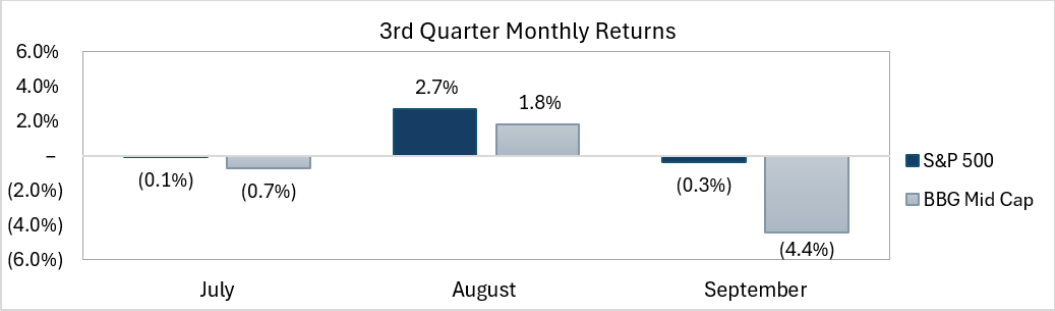
Multi -Cap Growth | Third Quarter 2026

TCM
TRAN CAPITAL MANAGEMENT

Dear Clients and Friends,

We hope this letter finds you and your family well. We are pleased to report another strong quarter for our portfolio, building on the gains achieved during the first half of the year. Our Multi-Cap Growth strategy returned 3.7%, net of fees, during the third quarter, bringing our year-to-date return to 14.6%.

The strong results came against a more mixed market backdrop. Following a robust second quarter, markets experienced greater volatility during the summer, with the S&P 500 Index (SPX) and Bloomberg U.S. Mid Cap Index (BMID) declining in July, rebounding in August, and pulling back again in September. Despite these fluctuations, the SPX gained +2.30% during the quarter, while the BMID declined -3.35%. Year-to-date, the indexes returned +12.73% and +8.38%, respectively. We are particularly encouraged by the portfolio's continued progress and the breadth of contribution across our holdings. As we have discussed in prior letters, we believe many of our companies remain in the early stages of realizing their long-term growth potential, providing us with continued optimism as we look ahead.



Source: Bloomberg

Unlike the AI-fueled semiconductor rally last quarter, our portfolio's performance in the third quarter was broader based. The iShares Semiconductor ETF (SOXX) returned -11% in 3Q after almost doubling in 2Q as investors digested headlines around competition from China-based open-source AI models, the slowdown in data center and power plant approvals, and concerns of AI safety and AI "doomerism". We continue to be invested in the picks and shovels of the AI buildout, from chip designers like **Arm Holdings (ARM)** to power and infrastructure providers like **Talen Energy (TLN)**, among others.

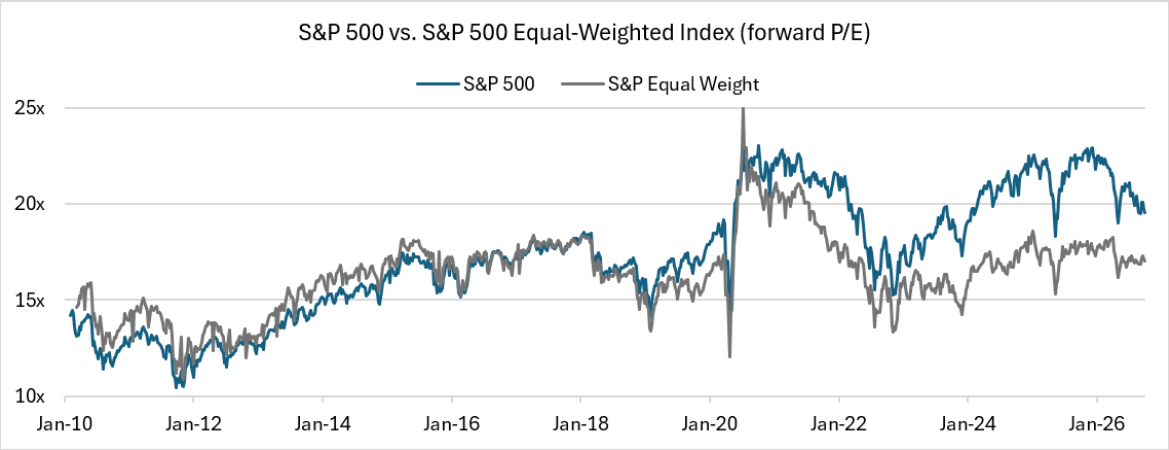
Our portfolio of direct and indirect AI beneficiaries also saw companies like **Palo Alto Networks (PANW)** re-rate higher on rising security and monitoring needs as we enter the age of AI agents. Outside of technology, renewed tensions in Iran and continued high oil prices benefited **Phillips 66 (PSX)**, which was our top contributor in the quarter. Improved biotech funding also benefited our life sciences holdings, such as **Danaher (DHR)**.

Valuation Multiples vs. Earnings Growth

One of the most significant events during the quarter was the Fed's decision in September to raise the Federal Funds rate by 25bps to 3.75-4.0% to combat inflation. Based on Fed Fund Futures, the market is pricing 3-4 more rate increases over the next year.

Inflation has been running above target. However, we believe this is in part due to higher energy prices and elevated housing costs. We are skeptical of higher rates being able to alleviate the energy supply shock caused by the Iran war or help lower housing costs. Nevertheless, we will continue to manage our portfolios with market conditions and macro risks in mind.

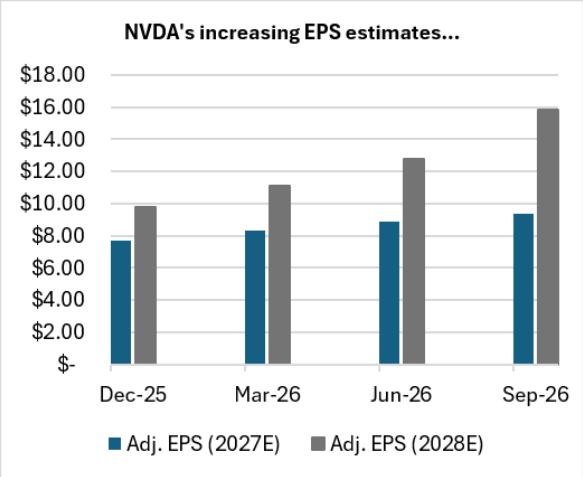
One of the core principles of investing is the time value of money – that a dollar today is worth more than a dollar tomorrow, so future cash should be discounted. As interest rates increase, the value of future cash flow is discounted at a higher rate, thus reducing its present value. To offset this, we seek companies whose growth rates are robust enough to withstand multiple contractions.

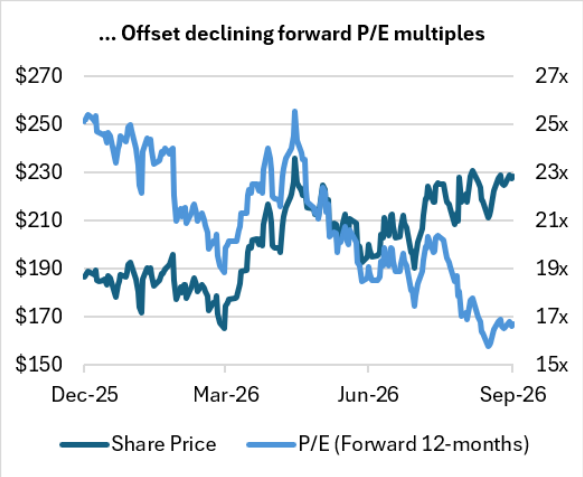


Source: Bloomberg

Fortunately, our portfolio and the overall market continue to grow earnings at a high rate. The chart above compares the S&P 500's forward P/E to its equal-weighted counterpart. As we've written in the past, the S&P 500 is a market cap-weighted index. Thus, the biggest companies have a pronounced influence on the index's metrics. In fact, the top 10 companies make up about 40% of the index. We believe the equal-weighted index is helpful to see what the overall market's P/E is. In both cases, the P/Es have contracted since the beginning of the year while the overall market returns have been positive. This suggests that earnings growth has been greater than the multiple contraction in the market.

An example of this is Nvidia (NVDA). Year-to-date, NVDA's P/E multiple has contracted from 25x at the start of the year to 16.7x at 9/30/26, or -33%. Yet, NVDA's stock has returned +23% YTD. Countering the multiple compression is an expansion of NVDA's EPS estimates; FY27 (January) estimates have increased +22% while FY28 estimates increased +61% since the start of the year.





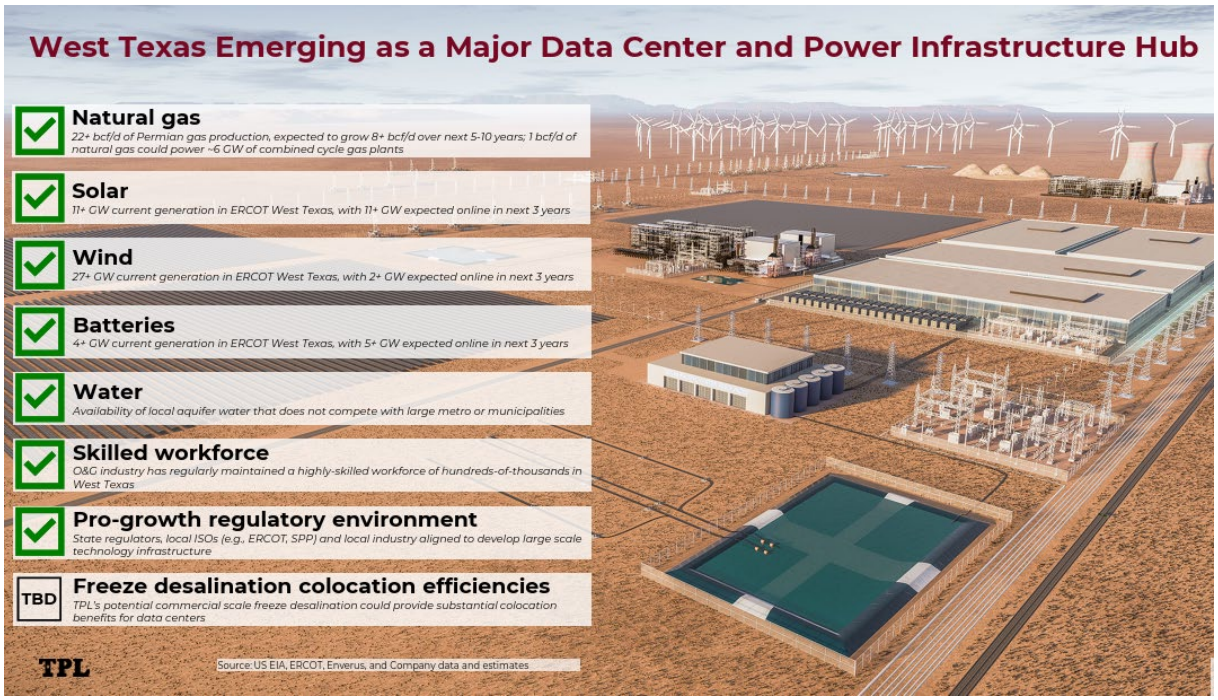
Source: Bloomberg

Portfolio Positioning

We seek to invest in companies who provide essential services or products that can grow at attractive rates through a market cycle. One of the best ways companies can do this is by expanding into new but related markets.

During the quarter, we added to our position in **Texas Pacific Land (TPL)**. TPL is a unique company whose management team is making investments to further strengthen the company. TPL is the largest private landowner in Texas with close to 900,000 acres of land. The company historically leased their land to oil and gas producers, earnings a royalty on production from their land. This capital-light model has been very profitable, with TPL earning over 65% net income margins.

Over the past five years, TPL expanded their services to provide brackish water sourcing and produced water transport and desalination to their customers. Their water segment enjoys over 50% net income margins. Both business segments are essential, have high barriers to entry, and enjoy superior returns. TPL is not resting on their success. Over the past year, management has been in active discussions to provide land, energy, and water to support data center and power generation buildouts in Texas. TPL is actively working with several hyper-scaler and energy companies to build sites that will generate multiple gigawatts of power to support data centers in a responsible and efficient manner. The AI labs need power and data centers to train their models and provide compute to their customers. We believe TPL can capitalize on this trend by expanding their business into a tangential and fast-growing market.



Source: TPL Investor Presentation

Looking Ahead

We suspect the fourth quarter will continue to be buffeted with cross currents. Whether it's continued conflict in the Middle East, the U.S. mid-term elections, or something else, there could always be some potential shock to our system. We will manage through these challenges, and when appropriate, buy more shares of our companies at lower prices. We believe that the underlying

businesses in our portfolio remain robust. Our companies are leaders in their industry, have strong competitive advantages, and in many cases are thoughtfully expanding their addressable markets.

We are grateful for your continued trust and partnership, and we look forward to updating you at the end of this year. 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

Winston Hu
Co-PM

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 September 30, 2026, are 12.68, 19.98, 6.17and 11.45 respectively. The 1-year, 3-year, 5-year and 10-year returns of the S&P 500® Index as of September 30, 2026, are 15.74, 22.8, 13.79 and 11.13 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 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.

All opinions and data included in this commentary are as of September 30, 2026, unless otherwise noted, and are subject to change without notice. The opinions and views expressed herein are of Tran Capital Management, L.P. ("TCM") and are not intended to be seen as fact, a forecast of future events, or a guarantee of future results. The information in this publication has been developed internally and/or obtained from sources believed to be reliable, but the accuracy or completeness of this information cannot be guaranteed. This publication is provided for informational purposes only and not does constitute a solicitation, investment advice or recommendation for any particular investment product or strategy. Economic forecasts and estimated data reflect subjective judgments and assumptions, and unexpected events may occur. Therefore, there can be no assurance that developments will transpire as may be forecasted in this publication. This information should not be used as the sole basis to make any investment decision. No investment strategy can assure a profit or protect against loss. Past performance is not a guarantee or indication of future performance.

The companies profiled should not be considered a recommendation to purchase or sell a particular security, represent only a small percentage of the entire strategy and the securities purchased for advisory clients, and may not remain in the strategy at the time you receive this letter. You should not assume that investments in the securities identified were or will be profitable or that decisions we make in the future will be profitable.

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