Portfolio Manager Commentary
Fourth Quarter 2025

Portfolio / Index	Q4-25 Return	1-Year Return	3-Year CAGR	Since Inception CAGR
Focused Growth Composite	+2.0%	+7.4%	+28.3%	+12.9%
S&P 500 Total Return Index	+2.7%	+17.9%	+23.0%	+14.3%

Returns are net of fees as of 12/31/25 and annualized if period is greater than 1 year

Dear Client,

Happy New Year! 2025 was a tumultuous year that saw markets crater during the tariff driven uncertainty around Liberation Day only to rally sharply and close out the year with solid gains. During 2025, the global trade order was re-written over a series of executive orders and tweets, the legislation that will govern the next four years was passed in July, and Iran's decades long nuclear program came to an abrupt end on a random summer night in June. Against this backdrop, the AI revolution continued to gain steam and expectations for a slowdown in data center infrastructure spend proved incorrect. The Federal Reserve continued its easing cycle and the Federal Funds rate has finally reached parity with the 2 year bond at 3.5%. 2025 was an active year in terms of outside influences but the biggest question facing investors surrounds the size, duration and impact of the AI revolution. That hasn't changed as we look towards 2026. In this letter, I will discuss what we expect (hope) will be a quieter year on the political and central bank front. I'll also address the concerns around a potential AI bubble and why we believe this investment cycle is very different from the cycle that created the dot.com bubble 25 years ago. As always, I'll detail the rationale behind our recent portfolio moves. We look towards 2026 with a sense of optimism. The Trump administration has made a clear bet on growth and the restructuring of global trade seems to have occurred without triggering an outright trade war. The rules of the road that will govern the next four years legislatively are largely in place and we think there is upside to the growth agenda from deregulation. We view this as a solid backdrop for equities.

The first year of any presidential term is typically heavy on policy. This is even more the case when one party controls the White House and both houses of Congress. Sprinkle in the fact that Donald Trump took office having already served one term and having had four years to think about what he wanted to accomplish in a second term and 2025 was a very active year in terms of policy. We expect 2026 to be more subdued on that front and dominated by breathless talk and speculation about the outcome of the mid-term elections. That said, we will be keeping a close eye on the upcoming Supreme Court ruling regarding the legality of the Trump tariffs. On a practical basis, a ruling against the administration means that a large swath of the tariff's President Trump has imposed under the International Emergency Economic Powers Act (IEEPA) to negotiate trade deals would be invalidated. I have no idea what happens to the over $200B that we have collected in tariffs over the last year but I don't think the bond market would cheer a court ordered refund of those proceeds. Finally, and this is the part most pertinent to investors, I think we can all assume that should tariffs that were imposed under the IEEPA be invalidated, similar tariffs will be imposed under other sections of the law where the administration's legal standing to impose tariffs is on more solid ground. This means that tariffs could be a central topic for investors in the early part of 2026 just as they were throughout much of 2025. While I don't think we will see repeat of the volatility we saw last Spring, my preference would be that tariffs fade into the background as an investment topic. Beyond that, I don't expect any legislative efforts that approach the magnitude of the One Big Beautiful Bill that passed last July and by early Summer, every US politician will be focused on their primary reason for serving- reelection.

The worst job in the universe is coming open in the Spring of 2026 as President Trump will appoint a new Chairman of the Federal Reserve. In case you are wondering, if asked, I will not serve. I feel sorry for Jay Powell. I think we can all agree that he made a terrible mistake by keeping rates at 0% and continuing quantitative easing in late 2021/early 2022 as inflation was rising. That said, reasonable people can disagree upon the speed at which this current easing cycle has occurred, but, absent some sort of unforeseen economic shock, we are probably within 25-50 basis points of the neutral rate so all of the fighting over the last mile of the journey seems unnecessary. President Trump is advocating for rates to be taken down several hundred basis points towards zero arguing that this would allow for massive savings by refinancing our debt. Sadly, I don't think this is the case. A step function drop in the Fed Funds rate at this point would simply steepen the yield curve rather than taking down rates in unison across every bond duration. The Fed has already cut rates 175 basis points in this cycle and mortgage rates have hardly moved. We had one chance this lifetime to refinance much of our debt at sub 2% rates and that was four years ago when most global interest rates were near zero but the Treasury Secretary at the time, Janet Yellen, was asleep at the switch. There will no doubt be plenty of handwringing over whoever President Trump nominates to be the next Fed Chair, but it is important to remember that this person is only one vote on a larger committee and the bond market, not the Fed Chair, ultimately sets interest rates.

The dominant investor question for 2026 will be the same as it was for 2025: Are we or are we not in an AI bubble? Companies are spending hundreds of billions of dollars per year to build massive data centers capable of delivering enormous compute power. While the promise of AI is exciting and seemingly can extend as far as the imagination can take it, the current reality is that most people have not yet seen applications of AI that have a material positive impact on their lives. Investors are rightly asking what return can we expect on the enormous investment made to date and future investment being promised. Comparisons to the dot.com bubble are being made regularly and as someone who was cutting his teeth in the investment industry during that period, I can assure you that conjuring up those memories is going to garner attention. From our standpoint, while we have observed pockets of what we would characterize as speculative excess, we think there are critical differences between these two periods that will prevent a repeat of the massive overinvestment cycle around the turn of the century that took almost a decade to absorb. To understand why, we will take a quick trip back in time.

The term dot.com bubble is usually spoken in hushed tones and used by grizzled investment veterans to warn their younger counterparts about the dangers of excessive (or dare I say irrational) exuberance around the onset of a new technology. While a number of absurd companies managed to IPO around the turn of the century with business plans that didn't go far beyond having dot.com in the company name, I think a more accurate description of this period would be the telecom bubble rather than the dot.com bubble because that is where the true destruction of capital took place. Driven by the excitement of the dawn of the internet age, access to enormous amounts of capital, and cut throat competition, the telecom industry spent over a trillion debt financed dollars to lay the fiber networks that would now power the internet as we know it today. Given how central the internet and high speed communication is to our day to day life, it is fair to ask "ok, so what's the problem?". The problem is that it took 7-10 years for the applications to be built to fully utilize the capacity built at the beginning of century and in that process 23 major companies went bankrupt and almost all of the initial investors got wiped out. Cisco was the darling equipment provider of that day and although the company never faced financial peril, it did take 25 years for the stock to recapture its 2000 highs. When people point to Nvidia and warn about a bubble, this is what they are pointing to.

Now that I've sufficiently gotten your attention, let's take a look at what we view as the key differences between the telecom bust of 2000 and the present day that we believe will spare us a similar fate. Without question, the most important difference is that at the present time we don't have the compute capacity today to satisfy current demand. Whereas the fiber laid in 2000 was built for applications that had yet to be developed, we don't have enough compute power to meet today's needs. How can that be given that the overwhelming promise of the AI agentic age has yet to be realized? The answer is that we are at a point of convergence of three mega-trends that are driving insatiable demand for accelerated computing and the AI agents and robots of the future are only one leg of that stool. The first mega-trend is the transition of legacy data center infrastructure from CPU dominated to GPU dominated. The reason for this is simple. The accelerated computing made possible by GPUs allow for cheaper running of traditional workloads. As old CPU servers get replaced, they are getting replaced by GPU dominant servers. There is about a trillion dollars per year spent on "traditional" data centers so this is a large opportunity. The second trend unfolding is the replacement of recommender systems with GPU centric AI driven systems. This is another area where the capabilities offered by the much more powerful GPU servers make this transition a necessity more so than an option for companies relying on recommender systems because the GPU driven systems allow for much greater product capabilities than CPU driven systems. Meta is the best example of a company that is investing heavily in compute capacity for its own internal needs, but any search engine or social network would be as well. Indeed, Meta has come under increasing criticism for its level of CAPEX spending related to data center buildouts because in contrast to hyperscalers that are able to immediately rent out any new data center capacity and earn a measurable return, Meta's return on investment shows up in improved ad placement and measurement from its core business. The final trend on which the current IT infrastructure buildout relies is robotics and digital agents. Of the three, this is the only one where we are betting on the come. However, this is the area that captures most of the attention from those arguing that we are in an AI bubble.

The question of the AI bubble is going to dominate investor attention for the foreseeable future. This is going to lead to periods of both joy and frustration for investors. During the fourth quarter of 2025, OpenAI seemed to announce a new $100B+ partnership every three days for a couple of weeks with various participants in the AI buildout culminating in a plan to purchase over $300B of compute power from Oracle in the coming years. This led to some parabolic upside moves for the partners and sharp declines for any company deemed to be in OpenAI's path towards global domination. Then, one day the question was asked how a company with a revenue run rate of $20B, substantial on-going operating losses, and a relatively small credit line was going to outflank the largest, most financially powerful companies in the world in the quest for AI supremacy. All of a sudden, AI went from technology that will reinvent the world to a bubble relying on a series of questionable circular financing arrangements among industry participants. This is the back and forth that investors will have to endure as we work through the AI revolution. The reality is that there are going to be plenty of companies that light massive amounts of capital on fire chasing AI dreams. Some companies currently occupying leadership positions in attractive industries are going to see those positions diminished or outright usurped. Others are going to win and win big. Against this backdrop, we think that the infrastructure buildout of the massive amounts of compute power needed to drive the next generation of AI applications is the most secure part of the AI food chain. This explains our continued investment in Nvidia and ASML and our relatively new investment in Micron. The AI revolution will present other investable opportunities whether it be industries facing new competitive threats that compress valuation or outright new technologies. We will take our shots on some of these questions too. Overall, we remain believers in the AI revolution and are willing to accept the volatility that comes with investing behind this belief.

Fourth Quarter Portfolio Activity:

Table 1:

New Purchases / Additions
Alphabet (New)
Service Now, Snowflake, TransDigm

Eliminations / Reductions
Adobe (eliminated)
Comcast (eliminated)
BWX Technologies, ASML

During the fourth quarter of 2025, we sold long-time holdings Adobe and Comcast while welcoming Alphabet back into the portfolio. Our sale of Adobe along with a reduction in ASML and BWX Technologies was used to fund our new Alphabet position while proceeds from our Comcast sale were used to make modest increases in our weightings in Service Now, Snowflake and TransDigm. The reductions in ASML and BWXT followed a period of materially near-term outperformance and were driven both by a desire to get these positions back in-line with their long-term target while freeing up additional funds for our new Alphabet position. We maintain positions in both companies and remain enthusiastic about their future prospects.

Adobe: In our Q3-2025 investor letter, we wrote in-depth about the controversy facing the enterprise software space as it relates to the long-term threat or opportunity posed by artificial intelligence. While we believe that AI will prove to be a great benefit to those companies that can deliver AI infused products and digital agents to the world's largest companies, the threat of disintermediation has made the enterprise software sector a treacherous place to invest the past couple of years. Given the heightened uncertainty in this space, we decided to consolidate our investment in the area into what we believe are the two leading platform companies, Service Now and Salesforce.com and part ways with Adobe. While Adobe remains the leader in content creation software and already has several intriguing AI infused products, we view this company as a leading content creation app rather than a comprehensive enterprise software platform. If new AI products are going to dislodge prior software leaders, we think the best of breed apps are at greater risk than the platforms that connect workflows across every aspect of an organization. We expect our platform companies, Service Now and Salesforce, to deliver accelerating performance throughout 2026 as their AI solutions gain critical mass across the enterprise. Our confidence in Adobe's ability to do the same is lower. During times of increasing uncertainty, we seek to concentrate our exposure around our highest conviction ideas. In the case of enterprise software in 2026, this leaves Adobe as the odd man out.

Comcast: One of the great things about the stock market is that the investor gets to pick which questions to answer. I am done trying to answer the Comcast question. In our last letter, I acknowledged the fact that when it comes to investing in the cable space, the controlling issue is the quarterly change in broadband subscribers. As much as I'd like it to be a long-term vision on which companies are best positioned to deliver a superior lowcost converged telecommunications service offering, it is not. Once I made the decision to accept that reality rather than bemoan it, the terms for Comcast remaining in the portfolio became clear- show improvement in broadband subscriber trends or lay out a compelling case as to why that improvement is imminent or be sold. Neither of these bars were met with the release of third quarter results which meant that the only justification for holding the stock became valuation. Consequently, we sold our position in Comcast.

Alphabet: We sold our long-term position in Alphabet last year when it appeared that the government was going to slap competitive handcuffs on the company at the precise time that competitive threats in the form of generative AI search were forming to challenge the monopoly the company has held in search for almost 20 years. In August of 2024, Alphabet lost its anti-trust case when a federal judge ruled that its Google search engine was a monopoly that had used illegal means to stifle competition and maintain its monopoly status. The most glaring example of stifling competition was widely thought to be the $20B or so Alphabet pays Apple each year to serve as the default search engine for the iPhone. Indeed, ending this arrangement was one of six remedies that the government sought from this judge as was the forced divestiture of the Google Chrome search browser. In September of 2025, the same judge that ruled Google was indeed a monopoly that had used illegal methods to sustain its monopoly rejected the government's request end the contract with Apple or force the divestiture of Chrome. To be fair, the Apple contract is now limited to one year at a time so any new competitor that has 3 billion or so daily search users and an extra $20 billion hanging around is free to make a competitive bid. Alphabet is also going to form and pay for a technical committee that will decide with whom they must share some data. For the life of me, I don't know how the Google lawyers were able to keep from breaking out into hysterical laughter when they got these remedies. They certainly have more self-control than I do. The best comparison I can think of to this case is when a jury ruled against the NFL in the antitrust case brought by the USFL in 1986 and fined them a dollar that they were gracious enough to triple for punitive measures. Perhaps the greatest irony of this entire situation is that the potential competitive threat from a new set of generative AI search competitors was a key factor in the modest sanctions imposed on Alphabet.

With the threat of regulatory handcuffs stifling the company for the next decade safely out of the way, we were once again able to evaluate Alphabet on the merits of its business. Google search remains one of the greatest businesses in the world, but in the age of new competition from well-funded AI startups, the certainty of sustaining a monopoly in this space isn't as great as it once was. While we are certainly monitoring this threat and understand that sustained dominance in search will be predicated on maintaining leadership in cutting edge AI search models, it is important to remember that Alphabet is well funded itself has been working in the field of artificial intelligence for well over a decade. After a clunky initial response to ChatGPT, Alphabet has found its footing and the recent release of Gemini 3.5 is evidence that this company is going to be a major player in the frontier large language model arena. Further, YouTube stands to be a big beneficiary of the move from user generated content to AI generated content. The reason for this is simple. YouTube already pays for user generated content so even AI content generated on expensive Nvidia GPUs should be margin accretive. Finally, moonshot plays like Waymo that have been over a decade in the making are starting to show signs of paying off. Overall, with competitive pressures more understandable, regulatory threats in the rear view mirror and confidence in Alphabet's ability to be a leader in cutting edge AI, we added this technology juggernaut back into the portfolio during the fourth quarter.

Notable Fourth Quarter Contributors/Detractors:

Intuitive Surgical: Intuitive is one of those long-term holdings that we probably don't write about enough. Like a fish swimming effortlessly across a stream, this company simply makes progress quarter after quarter against its ambition to democratize top quintile surgical outcomes at a lower overall cost to the healthcare system through the use of robotic surgery. While relentless execution and an expanding competitive moat is not always appreciated in real-time by the market, every so often a set of results highlights the tremendous strides that have been made over time, often behind the scenes. Intuitive's third quarter results were one of those clarifying moments. Procedure growth was 20% during the third quarter, well ahead of expectations, and 240 of the company's new DV 5 systems were placed which highlights the strong customer demand for innovations that were many years in the making. Indeed, 18 of the 20 largest US hospital systems already have at least 1 DV 5 system in service. While the DV 5 systems will deliver greater productivity and ultimately unlock additional procedures that can be performed with robotic surgery, the prior generation of systems, the Xi, will be repurposed over time and drive greater robotic surgery adoption in emerging markets and smaller surgical centers that might not be able to afford the latest and greatest system. Finally, Intuitive's ION system which provides a safe way to biopsy lung nodules at an earlier stage is now 4% of procedures and growing at a rate of over 50%. These procedures have a higher average instrument usage than the traditional Da Vinci procedures so this is simply an additional source of long-term upside that is just now gaining critical mass. Intuitive's stock doesn't always reflect the consistent excellence of the underlying fundamentals, but the results announced in October were rewarded with a +27% increase in the share price during the fourth quarter. We look forward to continuing to watch this beautiful fish swim.

Meta Platforms: Shares of Meta fell 10% during the fourth quarter due to a large drop following the release of third quarter earnings. While Q3 results were outstanding and well ahead of expectations, it was the acknowledgement that 2026 operating expenses were going to increase materially from 2025 levels that weighed on the shares. Higher 2026 operating expenses were not a surprise to anyone paying attention given the massive increase in depreciation expense that will accompany Meta's data center CAPEX investment as well as the company's multi-billion dollar hiring spree over the summer to revitalize its AI efforts. However, the acknowledgement that expenses were headed materially higher after years of exemplary expense control seemed to crystallize concerns that Meta's AI investment would not yield attractive returns. As discussed above, hyperscalers like Amazon, Microsoft and Alphabet are able to quickly convert data center investment into revenues for their cloud service businesses. Meta is a different animal in that its data center investment is driving growth in its core advertising business and supporting intriguing new growth opportunities. Admittedly, Meta is asking investors for trust as it relates to the hundreds of billions of dollars of investment in compute power and cutting edge AI technologies. This brings back an eerie sense of déjà vu for investors who endured, and continue to endure, tens of billions of dollars of investment behind a Metaverse that has yet to show tangible signs of return. That said, I think the opportunity in front of Meta is enormous as it relates to delivering AI infused products to the army of small businesses that use its services to reach the more than 3 billion people that use its apps each day. Mark Zuckerberg is maniacally focused on staking out a leadership position in AI and the next major computing platform. The path to achieving this goal is going to be long and there are certain to be more periods when investor faith in the success of the mission will be shaken. That said, the upside of success is enough to make this journey one we want to take.

2025 was an unsettling year at times as the global trade rules were largely reset and major new legislation that will set the rules of the road politically for the next four years was passed. The Trump administration has made a heavy bet on domestic growth and we think that is a favorable macro backdrop for equities. The AI revolution continues to prove both exhilarating and challenging for investors to digest but ultimately, we think the investment occurring today is going to unleash unparalleled productivity gains, albeit with a serving or two of disruption along the way. We like the way our portfolio is positioned for this new environment and look towards 2026 with a sense of optimism. We thank you for the confidence and trust you place in us. As always, don't hesitate to reach out if you have any questions or topics you would like to discuss in greater detail.

Regards,

Ken Burke
Chief Investment Officer

Disclosure

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