Mid-Year Letter June 30, 2026

"The idea that a newly issued security (IPO)—brought to market at a time of the sellers choosing and surrounded by massive hype—is the single best bargain among thousands of global businesses is absolute nonsense. It makes no sense to buy a security precisely when an insider decides to sell. Frankly, it isn't worth spending five seconds thinking about IPOs."

- Warren Buffett

Market Statistics as of 06/30/26

Index	2026 2nd Quarter	2026 YTD 6 Months
DJIA	13.38%	9.76%
S&P 500	15.20%	10.21%
S&P 500 (equal weight)	11.39%	12.13%
S&P Mid Cap	14.47%	17.34%
Russell 1000 Growth	16.74%	5.33%
Russell 1000 Value	13.87%	16.26%
Russell 2000	21.49%	22.57%
NASDAQ Comp.	21.60%	13.13%
Long Term Treasury Bonds	0.84%	0.85
Inv Grade Corp Bonds	1.43%	1.00%
Gold	-12.64%	-7.82%
3 Month T-Bill	0.89%	1.74%

The S&P 500 and NASDAQ just finished their best quarter since 2020, largely driven by AI-related semiconductor stocks. International stock indexes were also strong in the first half of 2026, as evidenced by the MSCI ACWI (ex Us) return of 16.6% (local currency) and 14.00% in USD terms. The equal weight S&P 500 index outperformed the S&P 500 (mkt cap weighted) for the first six months of the year, indicating a broadening of the market. The Mag 7, which has been so dominant over the past few years, was essentially flat on a total return basis for the first half of the year (up 0.1% including dividends). Small cap stocks have been the best performing asset class for both the first quarter and year to date. Value strategies outperformed growth strategies in the first half of 2026 by 10.9%, breaking a multi-year trend of growth (tech) dominance. For the first half, the leading sectors were industrials (+19.46%), information technology (+19.43%) and energy (+17.98%). Lagging sectors were financials (-2.06%), consumer staples (-1.11%) and communication services (+0.44%). As we look forward, not much has changed since our Special Market Update outlining the many risks we were seeing, which we provided to clients in early June. A summary of that update is shown below.

U.S. equity markets are exhibiting a confluence of risk factors that, in our view, warrants a meaningful shift in how portfolios are constructed and managed. This letter outlines our assessment of current conditions and the investment approach we believe is appropriate in response.
Valuations are at or near historic extremes. The Buffett Indicator — total market capitalization as a percentage of GDP — stands at approximately 230–232%, a record high and well beyond levels seen at the peak of the dot-com bubble. The S&P 500 trades at 22–23 times forward earnings, with a dividend yield of approximately 1.1%, near all-time lows. Historically, these levels have been associated with subsequent decade-long returns of 0% to negative 2% in real terms.
The market is bifurcated — and that creates both risk and opportunity. Extreme valuations are concentrated in a narrow band of large-cap technology and AI-related companies. Many other sectors — value stocks, financials, energy, industrials, healthcare — remain reasonably priced. After the 2000 dot-com peak, the Nasdaq fell 78% while value-oriented investors earned strong returns over the subsequent decade. We believe a similar dynamic is emerging today, and our portfolio positioning reflects it.
Structural changes have made markets more fragile. Approximately 60% of U.S. equity assets are now managed passively, concentrating capital in the largest index constituents regardless of valuation. The elimination of traditional market makers, the rise of algorithmic trading, and the proliferation of zero-day options and speculative instruments have removed stabilizing mechanisms and amplified volatility. Warren Buffett recently described this environment as “a church with a casino attached.”
Household equity exposure and the wealth effect present systemic risk. As noted by investor Paul Tudor Jones, American households are near record levels of equity ownership. A significant market decline would ripple through consumer spending and the broader economy — raising the question of whether the market has become the economy itself.
A historic wave of new equity supply is coming. SpaceX, OpenAI, and Anthropic — with a combined valuation approaching $4 trillion — are expected to enter public markets in 2026, potentially exceeding the total capital raised in all U.S. IPOs over the prior decade. This new supply arrives at a moment of stretched valuations and constrained monetary policy flexibility.
Our response: active, disciplined portfolio management. In this environment, we believe a static buy-and-hold posture risks unnecessary drawdowns and suboptimal after-tax returns. We intend to be more active — buying into weakness when prices fall below intrinsic value, and reducing exposure when algorithmic flows drive prices to unjustifiable levels. While this approach may generate more taxable events in some years, we view the cost of inactivity as potentially far greater than the cost of a tax bill. Our goal remains unchanged: to maximize after-tax, total returns across full market cycles.

(Since this communication, SpaceX successfully completed the largest initial public offering in history, with the shares quickly surging before now trading below the initial offering price of $135 per share). During the first half the narrow leadership in the market has persisted, with investors and traders focused on beneficiaries of AI spending. We remain steadfast in our approach of owning businesses where the share price trades with a “margin of safety”, with an equal focus on both risk and reward.

LIVE OAK PRIVATE WEALTH CLASSIC VALUE STRATEGY
COMMENTARY & THOUGHTS

"Success in investing doesn't come from buying good things, but from buying things well. If you don't know the difference, you're in the wrong business."

- Howard Marks

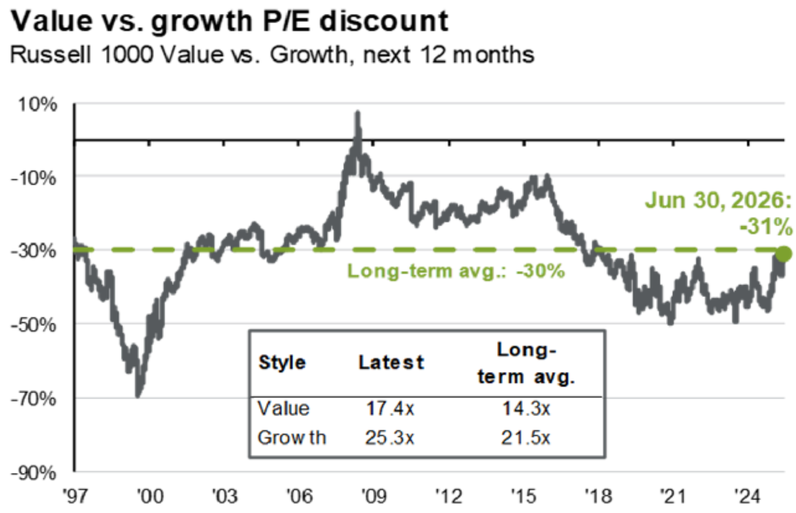
As we head into the second half of 2026, it's worth revisiting the thesis we laid out at year-end 2025. At the time, we noted that the market's historic concentration — with the top ten names representing 41% of the S&P 500 — set up conditions ripe for a rotation from the Magnificent Seven toward the broader S&P 493, and that we believed our portfolios were well positioned for a "value renaissance".

Returns	2021	2022	2023	2024	2025	2026 YTD
S&P 500	**27%**	**-19%**	**24%**	**23%**	**16%**	**10%**
S&P 493	**23%**	**-12%**	**11%**	**14%**	**13%**	**15%**
Mag 7	**40%**	**-40%**	**76%**	**48%**	**23%**	**0%**
Return share	***32%***	***56%***	***63%***	***55%***	***46%***	***1%***

Source: FactSet, S&P, JP Morgan Asset Management

For the first half of 2026, the market has rotated largely in the direction we anticipated. The Magnificent Seven, as a group, have generated essentially flat returns through the first half of 2026, while the S&P Equal Weight Index and value-oriented strategies have meaningfully closed the performance gap that had opened over the prior three years — a gap that, at its peak, was the widest on record. We believe that this is important for investors, because it validates the underlying premise: that valuation and concentration risk matter. We are encouraged by a broadening market, rather than a market driven by just a few mega-cap tech companies. We continue to believe that the ultimate winners from AI will be companies that boost efficiency through the use of AI, rather than the hyperscalers who have enormous cap-ex budgets with negative implications for free cash flow. Some of the areas that we believe will benefit include financials, healthcare and manufacturing. The more important question for the second half of 2026 is whether this is the start of a sustainable rotation, or merely a pause before mega-cap technology reasserts leadership. We believe the conditions that triggered the rotation in the first place — extreme concentration, a valuation gap between cap-weighted and equal-weighted indices near historic extremes, and mounting scrutiny of AI capital expenditure returns — remain firmly in place.

The chart below on the following page shows that the Russell 1000 Value index continues to trade (on a price/earnings basis) at a sizeable discount to the Russell 1000 Growth index. While both the Value and Growth indexes trade at premiums to their long-term averages, we are finding a number of high-quality companies that meet our valuation parameters. We remain concerned about valuations in the S&P 500 index, where roughly 40% of the S&P 500's market cap is in stocks trading above 10 times sales. Today, the S&P 500 cap-weighted index is highly concentrated, with 25 names comprising over 50% of the index. Furthermore, it is estimated that 45%-50% of the index is essentially technology, which could be problematic in the event of a cyclical tech downturn. We much prefer the S&P 500 equal weight index and value indexes (strategies) that dilute the exposure to mega-cap technology.



Source: ***JP Morgan Guide to the Markets***

First Half Portfolio Activity

Portfolio activity for the first half of 2026 was higher than normal. As we mentioned in our June Special Market Update, the bifurcation in the market has created an opportunity to reduce exposure to areas of the market we believe are overvalued, while seeking out areas of the market where genuine value remains. It should be noted that due to timing, liquidity, cash flows, tax constraints and other circumstances, all individual portfolios are unique and may differ in some ways from the portfolio changes you see below. During the first half of 2026, we sold out of our positions, in Zimmer Biomet (ZBH), Qualcomm (QCOM), Mosaic (MOS) and Vishay Intertechnology (VSH). VSH positions were sold from portfolios that were tax-exempt, or in taxable accounts where the holding period was long term. For the VSH shares we continue to hold, we are monitoring from both a valuation and holding period basis. During the first half of the year, we initiated positions in Copart (CPRT), McCormick (MKC), Clorox (CLX) and Toyota Motor (TM). A brief explanation of the rationale behind our purchase and sales follows:

In the case of both Zimmer Biomet (ZBH) and Mosaic (MOS), our sales were driven by disappointing earnings. ZBH earnings came in above consensus; however, margin pressures and the resignation of the CFO led to our decision to eliminate the position. With Mosaic (MOS), the sale was driven by a major profit miss, due to surging raw material costs (sulfur). The closure of the Strait of Hormuz was largely responsible for the spike on sulfur prices and uncertainty continues with regards to when sulfur prices will normalize. Our sales in Qualcomm (QCOM) and Vishay Intertechnology (VSH) were due to surging share prices in the semiconductor sector. Hypercalers aggressively accelerated their capital expenditures for datacenters, with the semiconductor industry being the primary beneficiary. We used the strength in QCOM and VSH to eliminate or reduce positions, as we concluded the shares had become fully valued.

Purchases included two consumer staples, McCormick (MKC) and Clorox (CLX). Consumer staples have been sold down to levels that we find to be attractive from a valuation perspective. MKC shares were added to the portfolio at $46.02 on 5/13/2026. McCormick is a global leader in spices, seasoning mixes and condiments. The shares yield over 4% and traded over $104 per share in 2022. The Live Oak Private Wealth value portfolio has owned MKC on two separate occasions and we last exited the position on 3/11/2025 at approximately $86 per share. Clorox (CLX) shares were added to the portfolio on 5/19/2026 at a price of $92.95 per share. CLX is a leading manufacturer of recognized brand names such as its namesake bleach, Kingsford charcoal, Hidden Valley Ranch, Glad Bags and several other household brands. Clorox shares were purchased 60% below their all-time high of over $238 per share in August of 2020. CLX shares currently yield over 5.1%. With both MKC and CLX our clients are getting paid bond-like returns as we patiently wait for sentiment to improve towards the consumer staple sector.

We also purchased shares of Copart (CPRT) and Toyota (TM) in the second quarter of 2026 as we felt that the weakness in the shares offered a good opportunity for our clients, given the valuation and strong balance sheets. Copart is a leading provider of online auto auctions and vehicle remarketing services and acts as an intermediary between sellers (primarily insurance companies) and buyers (dismantlers, used car dealers and exporters). CPRT and RB Global's IAA together control approximately 80% of the US salvage auction market. Copart currently holds roughly 50% of the market, in what is essentially a duopoly. While competition is fierce, we are attracted to CPRT's valuation (purchase price of $33.24 on 5/1/2026), as shares have fallen approximately 46% from the highs reached a couple of years ago. Copart's balance sheet shows cash of $5.2 billion and no long-term debt. CPRT resumed buying back shares in the second quarter, it's first such buyback in seven years. The purchase of Toyota Motor (TM) at $183.39 was another opportunistic purchase, as we were attracted to the share price, which was down approximately 23% since earlier in the year. As you probably know, TM is the world's largest automaker by volume. The company is a leader in hybrid technology, battery technology, and is also a force in automation and robotics. TM shares currently trade around 10 times estimated earnings, which we believe offers an attractive entry point.

Notable Stock Price % Change Year to Date as of June 30, 2026

Positive	**Negative**
Vishay Intertechnology (VSH)* +271.15%	Sony (SONY) -21.64%
Cisco Systems (CSCO) +52.49%	Copart (CPRT)*** -18.00%
Qualcomm (QCOM)** +38.87%	Walt Disney (DIS) -15.40%
Merck (MRK) +22.08%	Lowe's (LOW) -8.57%
SLB Ltd. (SLB) +21.13%	Schwab (SCHW) -7.65%

**VSH shares have been sold in a number of accounts (non-taxable and taxable where holding period was long-term*
*** QCOM shares were sold from portfolios on 5/11/2026*
**** CPRT shares were purchased 5/1/2026 and returns are for 5/1/26 through 6/30/26*

LIVE OAK PRIVATE WEALTH FOCUSED OPPORTUNITY STRATEGY
COMMENTARY & THOUGHTS

"It requires a great deal of boldness and a great deal of caution to make a great fortune, and when you have it, it requires 10 times as much skill to keep it"

- Ralph Waldo Emerson

The LOPW Focused Opportunity Strategy is currently suffering from and is a victim to the money flow in the market due to the changing market structure and indexation. The market, as stated earlier is currently dominated by momentum rather than fundamental facts like profitability, returns on capital and growth – which our strategy is based on. The momentum in the semiconductor and AI infrastructure stocks literally seemed to "suck all of the air out of the room" during the first half of the year. The rotation out, (selling) of solid businesses at quite reasonable valuations, such as Abbott Labs and Microsoft, affected our performance. Stock price dispersion within our strategy is extreme and while we are biased, we sense indiscriminate selling in many attractive positions in our strategy. Several notable investors are now changing their stripes as performance pressures increase. Consistent with our investment philosophy for 40 years, we remain steadfast and focused purely on owning businesses we understand, trade at significant discounts to our own estimates of value in the long term, rather than changing our stripes to chase the market's momentum that has been concentrated in 20 stocks. Many long-term clients are aware of this, and we usually do underperform when extreme concentrated momentum strategies are in vogue, but harking back to 2007 and Citigroup... "We hear the music, but we are not getting up and dancing". While we are disappointed in our first half of 2026 results, it is outweighed by our conviction in our process and our attractive portfolio going forward.

First Half Portfolio Activity

<u>Lennar</u>

In January of this year, we entered into an initial position in Lennar at $105.60. It is well known what is going on in housing today. All of us have witnessed the incredible run up in housing values in the last several years. Great for us owners, but difficult for buyers. Houses are expensive relative to most incomes, and the down payment needed is large. Mortgage costs, insurance costs, etc. are higher than in the last many years. There is a shortage of housing in the US. Some say 2 to 3,000,000 houses. Houses are not easily produced.... It takes time and this provides a tailwind of demand.

According to Bulder Magazine Lennar is number 2 in the US housing industry, which is consolidating. The large US home builders used to be capital heavy, and their balance sheets were levered with debt for land that they needed to build houses on. Now they are more capital light, with better balance sheets as they now control land with options (less money upfront). This has freed up cash flow and produced a higher ROIC. Lennar may sell 80 to 90,000 homes in the upcoming year at a normalized average selling price of $420,000. This yields $35 billion in revenue at the midpoint. Margins have been volatile and currently are on the lower end of historical ranges, but we assume a 13% net margin... and $4.5 billion in pretax profit. Lennar makes another $500 million in annual profit from ancillary financial services, mostly mortgage originations. Lennar is actively buying back its own shares in the open market, and outstanding shares are 247 million. Lennar could earn $18.00 a share, and our entry price was $105.60- or 6-times earnings. We think Lennar deserves a rerated (higher) price earnings ratio due to higher returns on capital, less cyclicality and less levered balance sheet. So, let's hope for a 12X multiple? This equates to a hoped-for target of $216.00 a share.

Lastly, the Trump administration, like them or not, is trying to address the issue of U.S. housing affordability. Recent noise out of the administration regarding limiting large institutions from buying single family houses, encouraging Fannie Mae and Freddie Mac to buy back mortgages in the market to hopefully lower mortgage rates, to a crazy but good idea of making your current mortgage rate portable! None of these stimulant ideas from Trump are in our thesis but could help.

Brown and Brown

We had started buying a small position in Brown and Brown, the insurance broker late last year, after the shares declined from $125 to around $80 on fears of lower property market insurance pricing. We attended a specialty insurance conference in Richmond in January where many of the top insurance analysts were present. We came away from that meeting less encouraged by our thesis for Brown and Brown. We stopped adding to the position and decided to sell the small initial investment in April. Brown and Brown is a great insurance broker with scale and we fully intend to revisit an investment in the future when hopefully the insurance pricing economics are more in our favor.

Intercontinental Exchange (ICE)

During the first part of this year, we began buying small positions in Intercontinental Exchange (ICE) in some accounts. ICE plays a vital role in the financial ecosystem with its array of financial exchanges, such as the New York Stock Exchange (NYSE). Elsewhere in this valuable ecosystem lie impressive scale and strong competitive positions in clearing houses and data, especially derivative (options) trading. ICE also holds leading positions in several fixed income and mortgage technology business lines. Exchanges, such as the NYSE generate 70% of the company profit and the fixed income and data services 15-20% and mortgage technology 10-15%. We like the fact that CEO Jeff Sprecher's significant stock ownership is aligned with our long-term goals.

We fully expect to build out the small position as we move through the summer and fall. We expect volatility to allow for better entry on a larger scale.

Other Portfolio Updates

Mastercard

Announced on March 17th, Mastercard will acquire stablecoin infrastructure company BUNK to enhance its stablecoin offerings. This move should create internal cohesion between Mastercard's existing payment infrastructure and stablecoin payments. Mastercard and Visa can add value when stablecoins are used in payments, particularly when it comes to security.

Thermo Fisher

The company has seen 2 consecutive quarters of decent business growth as the industry starts to return to more normalized growth since the pandemic surge. Funding for biotech research at universities and the government (NIH) are still in question and China is still lackluster. We feel the stock is a coiled spring due to its very attractive fundamentals and valuation.

Berkshire Hathaway

At the center of many news headlines recently, Berkshire Hathaway's new CEO Greg Abel wasted no time deploying $17 billion of the company's cash pile, barely putting a dent in the larger reserves. Berkshire, rather surprisingly, committed $10 billion to Alphabet's (Google) recent capital raise and announced a deal to acquire Taylor Morrison Homes in an all-cash deal for $6.8 billion. We feel this transaction bodes well for our purchase of **Lennar**. Berkshire Hathaway shares are attractively prices versus the market and with the company's cash hoard of $375 billion, they have a lot of optionality.

Alphabet (Google)

Earnings continue to amaze. Sales were up 22% in the recent quarter, with cloud revenue up 63%. Margins rose; core search revenue was up 19%. Google's overall strategic positioning to the A.I. revolution appears very sound. As our biggest position, we are watching intently the probabilities of monetization of the large spending around AI infrastructure.

Microsoft

Microsoft, one of our other long-time technology and A.I. investments, struggled in the first half. The stock that is, the business performed fine as revenues are increasing 12-15% with an enviable operating margin of 46%. Earnings are growing at a 15% rate year over year. Azure cloud grew 40% in the most recent quarter. The stock has been caught up in a basket of enterprise software stocks perceived to be threatened by A.I. Time will tell, but at 19 times earnings we feel the shares discount the AI threat.

Danaher

Danaher shares we hope bottomed in May. We were asked recently in a client meeting what has been going on with Danaher. The life sciences industry has been on a roller coaster since 2020, with Danaher shares the lead car. We feel these stock price levels represent 35-40% discounts from reasonable value. Life sciences end markets are getting healthier, and this could lead to the company's shares being higher as profit growth accelerates. Also, as many large U.S. pharma and biotech companies "re-shore" to the U.S., Danaher is positioned to benefit. But, honestly this significant portfolio position is testing our patience.

Lululemon

Our problem child investment in Lululemon continues to be a sore spot in the portfolio. We have sold some shares for tax reasons in portfolios where warranted. We obviously know it has been a mistake not selling all shares much earlier. So, while it is painful to defend and be reminded every day, we continue to hold the position as we feel the worst-case scenarios are baked into the price. Say what you will about the fashion change away from athleisure, and the Lulu brand, but this is still a significant, global brand. At less than 10 times forward earnings, fresh creative direction and efficient management of capital, the shares intrinsic value are just too cheap to sell now. We will use the shares as offsetting tax loss sales if needed, and we don't intend to add new shares until there is more clarity regarding the company's adaptation to new styling and marketing push to drive brand awareness.

Notable Stock Price % Change Year to Date as of June 30, 2026

Contributors	Detractors
Analog Devices 46.45%	Lululemon -45.06%
UnitedHealth Group 25.91%	Abbott Labs -27.58%
Alphabet/Google C 12.60%	ICE -23.99%
Ferguson 6.60%	Microsoft -22.87%
Apple 6.44%	Brown & Brown* -19.51%

**Brown and Brown shares were sold on 4/31/26*

LIVE OAK PRIVATE WEALTH INTERNATIONAL STRATEGY COMMENTARY & THOUGHTS

The MSCI EAFE Index has a good start to the year. Technology drove the performance, as in the U.S., but it was also intensely concentrated in the semiconductor manufacturers stocks in Asia and businesses viewed as beneficiaries of accelerating AI related capital expenditures. Conversely, businesses perceived to face disruption from AI, particularly software and IT services companies, like SAP and Accenture suffered. Our initial investments in these two businesses are based on our thesis that mission critical enterprise software companies and IT consulting with deep customer relationships will continue to prosper in the long-term. Obviously Geo-political risks continue unabated which weigh on currencies and capital flows. We can't know where the Iran conflict goes from here and its effects on global energy supply and inflation. China's economy continues to move from struggling to muddling through and trade and tariff policies still weigh on investors' minds as they approach global investing. We see many positives with our investees in our International Strategy.

First Half Portfolio Activity

LSEG

In February of this year, hoping to capitalize on "SaaSmageddon"…whereby seemingly all software or data providers by subscription were being completely thrown out of the market, we bought a new position in LSEG @ $25.52. Formally known as London Stock Exchange, LSEG is a leading global financial infrastructure and data provider, not unlike Bloomberg, S&P Global and Intercontinental Exchange. 44,000 customers in 170 countries, the company is integral to providing data and plumbing to the global financial system, utilizing a recurring revenue model. Recently, their proprietary data they sell from behind their paywall is being questioned by what is referred to as “vibe coding” which could be a paradigm shift in the way software is built and sold. Some of LSEG's software lies in its proprietary interface that many investors pay upwards of $22,000 a year per seat, which the markets are reacting to threats of declining revenue from a new AI product from Anthropic....Claude Cowork. This, like some of the Gemini and Chat GPT tools were originally seen as productivity tools is now being considered as a REPLACEMENT for entire categories of software. Any company with seat-based software pricing (or data providers like LSEG, **Moody's**, etc.) has been taken to the woodshed in the markets, as they jump to the conclusion that all will be replaced. But LSEG earns most of its revenue and profits from its FTSE Russell benchmarking/indices, Data feeds (quotes, etc.), Capital markets/forex and electronic fixed income trading (LSEG owns 51% of Tradeweb).

We think the selloff in LSEG is an overreaction and we find comfort in **Microsoft** (who knows something about software not to mention connectivity with Open AI) who actually owns a portion of LSEG. Microsoft is building a “vibe coding” interface for finance inside Excel and Teams thru co-pilot. Microsoft has a 10-year strategic partnership with LSEG that started in 2022. Our base case calls for perceived disruption of revenues to not pan out as the market is worried about today and mid-single digit organic growth going forward. Margins on the business are quite high at 48% pre-tax, so maybe they give up some of that? We like the “toll booth” framework on financial transaction activity, and a reasonable valuation of around 15-16 times earnings, down from 25. We don't love that it trades in London, as many really good UK businesses trade with a “UK discount”...but gain comfort in our margin of safety at 30%+ off the highs.

By the way...this same “SaaSmageddon” sell off has negatively affected our position in **Constellation Software**, **Microsoft**, and **Moody's**.

<u>SAP</u>

We initiated a new position in SAP, the world's largest vendor of enterprise resource planning (ERP) and business AI software. Based in Germany, SAP serves over 400,000 customers in more than 180 countries and handles a vast majority of the world's commerce transactions. SAP specializes in software, which is where the opportunity to invest in the shares came from. The company’s shares peaked last July at $313 and were crushed in the “SaaSpocalypse” in late January. We bought our shares on April 30 at $170 with the belief that the decline was overdone and that AI will not disrupt SAP’s core business. The core business of ERP software and confirmed migration of data to the cloud will lead to margin expansion. Switching costs for large scale ERP systems are high and we feel that SAP will continue to evolve as it has for over 50 years from manufacturing GPU’s and AI.

<u>Accenture</u>

We initiated a new position in Ireland based Accenture on April 30 at $177.54, as too its shares are far off the peak of $308 last summer on disruption fears by AI. Accenture is the market leader in information technology services. It provides strategic advice systems implementation, IT outsourcing and business process outsourcing to very large enterprises. Accenture benefits from long-held, deep and trusted client relationships. It has partnered with 195 of its top 200 clients for 10 or more years. Accenture is a trusted brand to CEO’s and boards of directors for complex IT migrations that can cost hundreds of millions of dollars and affect mission critical daily operations.

We feel Accenture continues to deliver solid results; however weak new bookings growth spooked the market and fueled fears of AI disruption. This became even more apparent in mid-June as the stock took another leg down. Over the long-term we think Accenture is in a good position to capture AI oriented digital transformation demand, as evidenced by the 13% year to date increase in the number of large bookings with contract values over $100 million.

We funded the new investments in SAP and Accenture with proceeds from the sale of **Heineken**, **Pernod Ricard** and **Evolution AB**.

Alcon

During the first half of the year, we started buying shares of Alcon in selected accounts as the stock had dropped 20% from highs. We thought this discount was attractive, but the shares continued to languish, so we slowed our accumulation of more shares. We fully intend to buy more over the balance of the year.

Alcon is a pure play in opthamology across many markets from products used in the clinic to the operating room to sold in the pharmacy. They derive 56% of revenue from their surgical businesses, which they further split into equipment (9%), consumables (29%), and implantables (18%). The surgical business primarily addresses the treatment of cataracts, though they also have equipment and consumables for the diagnosis and treatment of myopia, retina problems and glaucoma. Vision care, which consists of the contact lens segment (27% of sales) and ocular health (17% of sales) is their other main division. Ocular health is primarily over the counter and prescription pharmaceuticals for treating dry eye, allergies and glaucoma. Alcon is the dominant player in most markets they operate in, often with #1 or #2 of market share.

Alcon from Wall Street's perception, had a disappointing 2025 and thus far in 2026, the stock is languishing as growth is not as consistent as some analysts think it should be. While not cheap at 24 times earnings, scale allows Alcon to outspend its peers on R&D providing a competitive edge on innovation while at the same time a large installed base of equipment and clinician workforce familiar with Alcon's products create a solid business proposition.

Spirits Industry – Reassessment

Much of our mistake in holding our spirits businesses, **Pernod Ricard** and **Heineken**, centered on whether the dropoff in volumes of spirits was cyclical or secular. It has proven so far to be a secular change, and the global alcohol beverage sector is managing through a structural shift. For years, the global alcohol beverage sector relied on price/mix optimization to offset declining volumes, however due to the stickiness of inflation, consumers are no longer accepting price increases, and many are trading down. Gross margins have contracted and as the industry has adjusted to lower volumes, smaller packaging, less premium products, and the bottom-line earnings have softened. We also failed to appreciate just how weak China could get. China is Pernod Ricard's biggest customer for Cognac. Other factors not fully appreciated in our original thesis relate to THC infused drinks and other non-alcoholic variants of beverages, GLP-1 effects, etc.

We have written in several past letters about our position regarding the spirits industry. Obviously we have been wrong by holding these stocks during this decline. We have felt that sentiment couldn't get any worse and the stocks were washed out and poised to perform better on any hint of good news. The sentiment has remained bearish, but when the dramatic selloff occurred with Accenture and SAP, we felt compelled to exchange these spirits laggards into higher quality businesses with more potential long term earnings growth at attractive valuations. It has been a bitter pill to swallow to sell these as we feel that we are at trough (bottom) valuations. Much of the decision also centered around our much-communicated effect of indexation and the flow of funds. According to CBOE Global Markets, fundamental active investors' share of trading is now down close to 10% in terms of volume of trades. Stocks in the spirits industry are not getting any flow of funds whatsoever due to the lack of momentum. In hindsight, or with one of our good clients' adjectives, "retrospectoscope", we were too slow leaving the party.

Evolution AB's ongoing legal battles and compliance risks regarding the move into unregulated gaming markets has proven difficult. Historically, Evolution enjoyed software-like EBITDA margins, but their expansion has actually hurt margins, and additionally the company opted to suspend the dividend to retain needed cash to fund further infrastructure build out. Again, we felt the investment in Accenture and SAP was an upgrade in quality and potential for growth.

Other Portfolio Updates

Constellation Software

Constellation Software continued to weaken during late January, as what has been named the "SaaSpocalypse" took any and all software stocks down. We still remain bullish as this serial acquirer of niche, mission-critical vertical software companies trades at 15 times free cash flow and growing at 15%. We believe the AI disruption fears are overblown and actually AI may end up being a tailwind. But boy were we early in our initial investment last year.

Taiwan Semiconductor continues to benefit tremendously from the staggering amount of capital expenditure in A.I. infrastructure. The company has increased its estimates of growth twice in the last 6 months while expanding margins as well. TSM continues to be our largest position in the International Equity strategy.

Phillip Morris remains positively positioned as the larger international smokefree and combustible segments continue to grow organically, driving gross margin expansion. We are hopeful the company will continue to grow mid to high single digits over the next 5 years, which is conservatively in line with past historical results from the company.

Accenture has weakened materially since our purchase. There seems no way to time an entry anymore. We thought entering after a 50% drawdown was enough, but it hasn't proven to be. We remain confident in our original thesis for the next 2-4 years. Accenture recently delivered solid 3rd quarter results, and the company is confident it remains in a good position to capture AI digital transformation demand.

Notable Stock Price % Change Year to Date as of June 30, 2026

Contributors	Detractors
Taiwan Semiconductor +57.15%	Accenture* -30.17%
Schneider Electric +18.65%	LVMH -26.66%
Development Bank of Singapore (DBS) +15.53%	Constellation Software -21.32%
Siemens +14.98%	SAP* -15.20%
Safran +12.89%	Alcon -14.86%

**Accenture and SAP were both purchased on 5/1/26 and returns above are for period 5/1 - 6/30*

FINAL THOUGHTS

Our investment team meets and talks regularly; we travel to company meetings and conferences and converse frequently with other investors we admire. The conversations so far this year have centered on how to adapt to this market environment. The aforementioned Special Market Update we sent out in June alluded to the many risks we see in the current environment.

One of the many challenges, if not the biggest, is that in order to keep up in this hot market, it has required many fundamental investment managers to change their processes which have worked historically. This process of buying and holding quality businesses that compound over the long-term and performing fundamental research work with prudent valuation discipline is not bearing as much fruit as it has in the past.

The markets are more narrative driven and are much faster moving. If you are naturally disciplined to focus on fundamentals and price to value, you appear out of sync. Additionally, if you have managed money for a long time as we have, and experienced prior narrative driven markets, you are more conscientiously aware of the risks.

There is broad acknowledgement from most of our outside investment contacts that stocks are expensive, and we are in the midst of a wealth bubble. Much wealth has been accumulated by the market's returns over the last 3 years and real estate gains. Just because we use the word bubble, doesn't mean to imply a risk of it popping. We have no ability to predict such a thing. But absolute valuations of the concentrated top stock market holdings are not being considered as a risk by the market today and a significant change that "may" come about, could have a negative wealth effect.

Many if not most investors naturally think about risk in terms of business quality and volatility, but we would argue that especially in a momentum driven market, the number one risk is a valuation risk. Many today underestimate this risk as paying too much for AI momentum or even Costco, can feel justifiable because excitement and enthusiasm of watching the upward action, mask the risk. The problem comes when momentum all of a sudden weakens and sentiment shifts, which can happen suddenly and without warning. When sentiment shifts and investors start thinking about valuations, sometimes it gets ugly to the downside.

Our philosophy that guides our portfolio construction remains grounded in an attention to valuation of high-quality businesses we can understand and offer a margin of safety, and capable management teams focused on efficient capital allocation.

In closing we don't know where the markets go from here or when market leadership will broaden further to others than technology, AI, infrastructure and semiconductors. We don't know if the structure of the markets will ever reverse or if valuation discipline will once again be important.

We are unabashedly conservative investors. Our mindset is always first and foremost on capital preservation. We remind ourselves daily of the old saying in racing, attributed to Rick Mears and the Indianapolis 500... "In order to finish first, first you must finish". Pushing the limits, chasing momentum in an expensive market in a rapidly evolving market structure isn't always the path to a successful finish.

We remain appreciative and humbled for trusting us with your family's wealth. We are grateful for you compensating us for something that we enjoy doing and is so important to us all in managing, protecting and growing your capital. It is a privilege to have this partnership with you and to be on this journey together. We look forward to our continued shared success together.

With warmest regards,

Frank G. Jolley, CFA
Co-Chief Investment Officer

J. William Coleman, III
Co-Chief Investment Officer

DISCLOSURES:

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