

I CAN CALCULATE
THE MOTION OF HEAVENLY
BODIES BUT NOT
THE MADNESS OF PEOPLE.

ISAAC NEWTON

$Ei = IQ^2$

FOUNDERS CAPITAL MANAGEMENT
2025 ANNUAL REPORT

Investing for the Long Term. Every Day.



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CAPITAL MANAGEMENT

An innovative money management firm investing in publicly traded equities and fixed-income securities. A deep base in business management with a truly global perspective. A drive to identify true fundamental value. A commitment to buy carefully and hold for the long term. A passion to provide customized investment solutions tailored to each client's financial goals and risk tolerance.

This is Founders.

Founders Capital Management, LLC

2025 Annual Report:

“Ei = IQ²”

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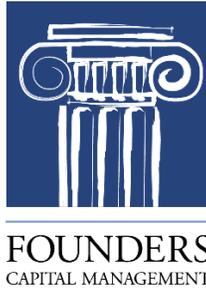
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2025 PRINCIPALS' LETTER

From: Founders Capital Management

“Ei = IQ²”

“I can calculate the motion of heavenly bodies, but not the madness of people.”

— Isaac Newton

Such was Sir Isaac Newton's sobering conclusion after he'd lost a fortune in the South Sea Company stock bubble of 1720. But here is key detail of the story: At first, Newton had recognized the risk and wisely sold his shares, initially doubling his investment. He had beat the market! As he watched the stock price continue to soar from the sidelines, however, he succumbed to the fear of missing out—that most human of emotions. The genius jumped back in, went all-in with his money, and watched the bubble burst and his wealth vanish. He knew the math, but he lacked the emotional control to stick to rational decision-making.

During 2025, we watched a similar mania unfold. If 2024 was the year the market fell in love with artificial intelligence (AI), then 2025 was the year the market was ready to marry it—at any price. The valuations of top AI-related companies rocketed to heights that disregarded all conventional standards for measuring value. While it's not possible to pinpoint the exact turning point, it's clear that investors are now buying into these companies at prices that defy logic and gravity.

The future of AI is not a distant concept—it's rapidly unfolding before our eyes. While the potential of AI is undeniably compelling, we must carefully consider the costs involved. Long-term financial success is not achieved by “investing at any price.” We've reiterated for decades: As Warren Buffett liked to say, “Price is what you pay; value is what you get.” When prices soar far above any reasonable assessment of intrinsic value, investing becomes a dangerous game. Price will always matter, no matter how thrilling an opportunity seems. When the music stops, those who paid triple what a seat is worth are bound to incur losses, no matter how exciting the band's performance seemed.

The Intelligence That Matters Most

The irony here: As the market marvels at machines approaching genius-level IQs, it overlooks the key fact that true investing success relies more on emotional intelligence than on pure logic. In investing, emotional intelligence (Ei)—the ability to recognize, understand, and manage our emotions to make disciplined decisions that support our long-term financial goals, rather than react to market swings—is the crucial differentiator between success and failure. At Founders, we view Ei as the ultimate force multiplier for wisdom—the steady anchor that keeps rational judgment grounded when the market loses its head. Ei sets humans apart from algorithms. AI may excel at recognizing patterns and analyzing data, but it lacks instinct, intuition, and lived experiences and—crucially—it isn't swayed by emotions like greed or fear. In practice, rational investing is constantly challenged by the powerful psychological currents of the crowd.

In this year's letter, we focus on the importance of recognizing and cultivating Ei in investing. Ultimately, it is our own human foibles—the ABCs of Arrogance, Bloat, and Complacency—that can pose the greatest risks to our wealth. Unfortunately, it's often when we think we've won the game that these flaws may leave us most vulnerable.

The Owner's Box and the Stadium Noise

Imagine that you are the owner of a professional sports team (your portfolio of businesses). You are sitting in the owner's box, high above the football field, where you can see the entire game.

Your team members (your collection of companies) are playing a long, 17-game season. Their "game" is their real-world business performance: inventing products, selling goods, generating cash flow.

Look around you: The stadium is filled with 100,000 screaming fans (the market). They are not investors; they are predominantly spectators and gamblers.

- The scoreboard (the stock ticker) is flashing red and green, changing every second. The spectators are fixated on it, convinced that whatever it currently displays is the whole game.
- The commentators (financial media) are inventing a new story every 30 seconds. "The star player looks tired!" "A new rookie is the future!" "It's going to rain!" Their job is not to provide accurate insight; it is to be loud and to keep spectators glued to the game.
- The gamblers (the "air pocket" speculators, which we will address later in this letter) are in the stands, betting on every single play and screaming "Do something now!" Their moods swing rapidly; you see them high-fiving one minute and tearing up their tickets the next.
- The non-bank lenders (the "shadow finance saloon" owners, which we will also cover later) are roaming the aisles trying to sell luxury suites (private credit investments), offering high-interest "stadium loans" (leverage) so that spectators can join the gamblers in betting.

The fundamental mistake is believing that the activity in the stadium has any effect on the game being played.

The spectators scream, the scoreboard flashes, and the commentators foment pleasure and panic. Down on the field, your team members just keep playing their game and executing on their business fundamentals.

As an intelligent owner, you mute the stadium noise, ignore the commentators, and never look at the second-by-second scoreboard. You just watch the field and ask the only relevant questions: "Are my players executing their plan, and is the team still playing well? Are they still scoring (generating earnings)?"

* * *

The Two Economies: A Market of Substance and Shadow

Investors looking at today's market are facing two fundamentally distinct economies. Recent analysis using Google's Gemini AI platform quantifies this split, and the numbers are eye-opening. On one side stands what we can call the "Economy of Substance" comprising the world's liquid, productive assets, including the stocks and bonds that generate tangible cash flows. This economy is immense, with an estimated value of \$275 trillion (representing the totality of global stocks and bonds but excluding real estate). This "earnings pocket" segment serves as the collective engine of global wealth, powered by the factories, offices, and innovations that produce profits and pay interest on borrowed funds.

Alongside it exists the "Economy of Shadow." This is the realm of non-productive assets, such as investable gold, art, and cryptocurrencies. Collectively valued at about \$16 trillion, these assets generate no income, and their value is not tied to economic fundamentals but instead relies on belief—a bet that someone or something will drive their prices higher in the future. We can refer to this segment as the "air pocket."

A defining psychological dynamic of this investment era is the battle between these two economies for investors' attention and confidence. While the tangible Economy of Substance is more than 10 times larger, the Economy of Shadow has captured an outsize portion of investor focus.

The difference between these two economies is straightforward: One is grounded in genuine business activity, while the other relies on superficial economic “bright shiny things.” In past decades, prudent investors have sought stakes in productive enterprises, such as railroads that transport goods or power plants that generate and sell electricity. Investors in these enterprises are buying a slice of future earnings. The substance economy’s \$275 trillion of liquid commerce represents all the business in the world—and growth that is tied to human ingenuity and ongoing commercial activity.

The \$16 trillion in the shadow economy plays by different rules. When you buy an asset that doesn’t produce anything, you are essentially relying on the “greater fool” theory—the idea that someone else, driven by either greater excitement or greater fear, will come along and buy it from you for a higher price. The assets in the shadow economy are inherently inert; their value rests entirely on the hope of future resale, not on intrinsic worth.

Furthermore, “shadow assets” turn over nearly five times a year, which means that the typical investor holds these investments for less than three months. Don’t mistake this frenetic trading activity for genuine value creation. Just like a casino bustling with activity, the primary dynamic underlying all that money changing hands is that the house always takes its share. In much the same way, the constant rapid-fire buying and selling of stocks incurs frictional costs—“hidden” expenses such as trading commissions, management fees, and research time—which is why companies running high-frequency “air pocket exchange platforms” (such as those trading cryptocurrencies) charge astronomical fees. Ultimately, a market dominated by high-speed speculation resembles a gambling parlor far more than an investing arena.

At the heart of investment psychology lies a dynamic interplay between fear and excitement, especially within the “shadow” sector. The Economy of Shadow thrives on powerful, simple narratives that tap into our most primal emotions. The forces driving surges in these assets—such as geopolitical instability, concerns about weakening fiat currencies, and shifts in monetary policy—are all rooted in narratives of fear that tell a compelling story: The system is fragile; you need a way out.

At the same time, a contrasting narrative of fortune emerges, best exemplified by the meteoric rise of cryptocurrencies. This story is equally potent: The old rules no longer apply; this is your chance to get in on the ground floor of a new era. In this environment, greed and the fear of missing out become as influential as the fear of systemic collapse, driving many investors to view unproductive assets such as gold and crypto as safe havens.

The tangled interplay of fear and greed is where the average investor gets hurt. You see the headlines, compelling stories circulate, and astonishing price movements command the spotlight. It’s easy to feel that you are either missing out or at risk; that this time is different. This emotion-driven outlook is reflected in the data: Over the past five years, the share of non-productive assets among total liquid investments has almost doubled, rising from 2.75% to roughly 5.5%. But even these numbers don’t fully reveal the underlying market instability. For example, a single government announcement in October 2025 regarding a 100% tariff on Chinese imports triggered a \$1 trillion wipeout in the crypto market in less than 24 hours, causing \$19 billion in forced liquidations of borrowed positions. Borrowing against non-productive assets set off a rapid chain reaction of sell-offs. This is the signature of a market built on emotional sentiment rather than on economic substance. When the narrative shifts, value can evaporate instantly, like a sack collapsing because there is no filler (underlying cash flow) supporting it.

The essential takeaway for any investor is to clearly understand which economy you are participating in. Are you an owner of productive assets that serve as the foundation for global wealth creation? Or are you participating in a speculative market in which values fluctuate based solely on the shifting psychology of the crowd?

In summary: The current market landscape is shaped by a psychological tug-of-war among investors. On one side stands the slow-and-steady, compounding growth fueled by genuine business and innovation. On the other, the volatile, narrative-driven realm of speculation. Financial innovations—such as the rise of decentralized finance—are increasingly blurring the boundaries by attempting to render digital assets productive, but the fundamental divide remains.

Today, the greatest risk for investors is not being on the wrong side of a trade but participating in the wrong economy altogether—mistaking the shadow for the substance, and learning the difference only when the tide goes out, exposing who was truly vulnerable.

The Earnings Pocket vs. Air Pocket Lesson

Confusing speculation with genuine investment certainty (mistaking shadow for substance) is a timeless and enduring error. For this reason, the following fundamental truths bear repeating:

1. **Investing Means Owning a Part of a Business, Not a Token or Gold Bar.** At its core, the vast majority of global wealth is built on productive enterprises—companies that create products, provide services, and generate the earnings that drive long-term value. Investing in non-productive assets like cryptocurrencies and gold is essentially making a bet on market sentiment that relies entirely on someone in the future being willing to pay more than you did. We'd rather own a piece of a wonderful business that gushes cash than a digital token or a shiny rock that does nothing but sit idle, hoping for a rise in its popularity driven by either greater greed or greater fear.
2. **Activity is Not the Same as Productivity.** Both cryptocurrencies and gold have very high “turnover,” meaning they are traded with astonishing frequency. The entire crypto market, on average, changes hands nearly five times a year. But this frenetic activity does not create any real value. It's more like a casino, with the chips moving quickly from player to player. There's lots of motion, driven by emotion, but there's no generation of tangible output. When an asset produces nothing, rapid trading is a hallmark of speculation, not true investment.
3. **Fear is a Potent Salesman for Barren Assets.** It's no surprise that recent years have brought a surge of interest in both cryptocurrencies and gold. Ongoing geopolitical instability, concerns about inflation, and unpredictable government policies have fueled collective anxieties. When confidence in traditional financial instruments and systems falters, investors often seek refuge in assets perceived as safe and outside of the mainstream system. While gold has a long-standing reputation as a safe haven in turbulent times, today's global currencies are fiat and are no longer tied to precious metals. Ultimately, investors in non-productive assets are simply exchanging one type of faith (trust in government-backed currency) for another (belief that other speculators will continue to value the particular asset in the future).
4. **The Real Compounding Happens in Business Earnings:** Relentless “noise” and sensational headlines will always be features of the shadow economy. In contrast, long-term wealth is quietly cultivated in the fields of productive businesses. Over time, the compounding returns generated by successful businesses create genuine intrinsic value for their owners—this is the foundation of true wealth creation.

At Founders, we will remain steadfast and focused, operating within the earnings pocket and leaving it to others to navigate the ethereal air pocket.

“Compound interest is the eighth wonder of the world. He who understands it, earns it... he who doesn't... pays it.”

This quote is often credited to Albert Einstein, although some trace the phrase to John D. Rockefeller. Regardless of its true author, the saying is commonly used to highlight how compound interest can create exponential wealth over time. As earnings on one's principal generate additional earnings (interest on interest), the growth accelerates, creating a powerful snowball effect that rewards patience and time. We believe that investors who understand this concept earn it, while those who don't understand it end up paying a steep price.

The psychological tug-of-war between substance and shadow extends beyond the public markets. A new, and perhaps more systemic, version of this same dynamic is reshaping the very foundations of our financial system. A shift from the traditional “bank cafe” to new “shadow saloons” is being fueled by the same underlying human behaviors: A relentless quest for high returns and a pervasive lack of emotional intelligence.

The Two Banks: Traditional Banking and Shadow Banking

The landscape of banking has changed dramatically over the past 25 years. In the past, our financial system was dominated by traditional banks—institutions focused primarily on collecting deposits and issuing loans to individuals, mortgage seekers, and local businesses. Today, traditional banks account for only about half of all banking activity. The remainder is handled by another form of banking known as “shadow banking.” Shadow banks also provide loans, but they often cater to borrowers who may not meet the criteria of traditional banks, such as those seeking high-risk corporate financing. Let’s take a closer look at the key differences between traditional and shadow banking.

To help illustrate the landscape of modern finance, imagine two distinct establishments: On one side is the “First National Bank Cafe,” a brightly lit and tightly regulated place where the health inspector (the Fed or the FDIC) is always in the building. The cafe is required to keep plenty of reserve capital stashed away in the freezer for emergencies. Because of these requirements, the menu is pretty plain: Basic loans and simple savings accounts. It’s a safe operation, but it’s not particularly exciting—or lucrative.

Across the street is the “Shadow Finance Saloon.” This vast, dimly lit venue is expanding rapidly. Currently valued at \$250 trillion, it now represents about half of the global financial system, according to the Financial Stability Board. The saloon serves up many of the same offerings as the bank cafe—mainly borrowing and lending money for a profit—but it operates with almost no regulatory oversight, making it a riskier but potentially more lucrative operation.

Why Does the Saloon Exist?

The answer lies in our letter’s central theme: The triumph of intellect (IQ) over emotional intelligence (Ei). Wall Street devises innovative financial products that target investors’ core emotional weaknesses: The desire for higher returns and the fear of missing out on what the “smart money” is doing.

Wall Street’s motivation for creating these products boils down to two fundamentally human factors:

1. **Incentives (or: Getting around the regulatory rules):** The strict safety regulations governing traditional banks are expensive. Bankers figured out that they could move their most profitable (and risky) operations to the saloon next door to avoid the costly inspector. This practice is called “regulatory arbitrage.”
2. **Psychology (or: The chase for higher yields):** Over the past decade, investors have grown increasingly hungry for higher returns. The few percentage points of interest offered by the regulated bank cafe just doesn't satisfy their appetites. Meanwhile, the saloon dangles the prospect of much higher returns, luring investors who avoid asking questions about the saloon’s hygiene in their desperate quest for extra profit.

The 2008 Fire

The saloon's real problem isn't its menu; it's the lack of plumbing.

The First National Bank Cafe is funded by stable, insured deposits. You and I leave our money and conduct business there because we know it's safe.

The Shadow Finance Saloon is funded by uninsured “hot money” from other big players (called “repos” and “commercial paper”). This money is only loaned overnight. It's the financial equivalent of a payday loan.

In 2008, the world realized that the saloon's most popular dish—securities built from subprime mortgages (MBS and CDOs)—was toxic and that investors had overindulged. Traditional cafes that had loaned saloons the hot money needed to produce its popular feast panicked and demanded their funds back—all at once.

This was the “run.” The saloons, with no safety net and no lender of last resort, were forced to sell everything to cover their debts—triggering a “fire sale” that crashed the entire global financial system.

It turned out that the regulated banks and the shadow saloons had been deeply connected. The bank cafes had been lending the saloons money and also directly and indirectly buying their toxic dishes. When the saloons caught fire, they almost burned the bank cafes down with them.

So, What Now?

After the 2008 fire, the regulators installed some new fire alarms and sprinklers in the saloons—money market fund reform and “skin in the game” (requiring banks to keep a portion of their loans on their balance sheet vs. selling 100% to investors).

But human nature remains the same, and risk didn't disappear—it just moved. Just like squeezing a balloon, the air simply relocates to another area.

The risk migrated to new, even more poorly lit corners of the market, such as “private credit”—lending to businesses that have difficulty obtaining loans from traditional banks (think “subprime” borrowers). According to the International Monetary Fund (IMF), private credit has surged from about \$700 billion to roughly \$1.7 trillion over the past five years, with an additional \$500 billion sitting in the wings, ready to be invested. Altogether, some \$2.2 trillion currently is either invested in or earmarked for private credit. A lot of money is circulating in this sector. In addition, private credit is projected to grow exponentially each year for the next five years, to command increasingly higher interest rates, and—eventually—will likely become available to everyday investors.

Essentially, it's the same old story in brand-new packaging: Massive amounts of lending are taking place outside of the purview of regulators, built on complex financial structures and funded by investors chasing a little extra yield.

Notably, in August 2025, a landmark policy shift was initiated to allow individuals to invest in private credit through their 401(k)s and other retirement accounts, presenting the opportunity to pursue very high yields that can grow tax-free. Seems too good to be true!

What's crucial to remember is that risk is always present in financial markets—it just evolves and takes on new forms. The new policy shift enabling broader retirement account investment in assets like gold, cryptocurrency, private credit, private equity, and more has been referred to as the “democratization of investing,” a term that is growing in popularity. The concept of democratizing investing—making financial opportunities that were previously available only to high-net-worth individuals available to the mainstream public—is not new. It actually became popular in the 1920s, when regulations were not fully developed and banks offered everyday people opportunities to participate in the stock market. We all know how that worked out—individuals poured money into speculative securities, leveraged their investments excessively, and were swept up in a market mania. Ultimately, capitalism became more like gambling and drifted away from its original purpose of empowering people to own shares of productive businesses that generate earnings over the long term.

The Saloon's Most Dangerous Rooms

Charlie Munger famously said, “All I want to know is where I'm going to die so I'll never go there.”

These are the rooms to avoid in the Shadow Finance Saloon (what we think of as the “investment graveyard”): Private credit, artificial intelligence (AI), gold, cryptocurrency, private equity, and pre-IPO investing (such as AI companies).

Private Credit (The VIP Room)

The saloon's biggest new room is Private Credit. This is the one that the head of the IMF said keeps her awake at night.

As we mentioned previously, because the First National Bank Cafe is now so heavily regulated, it had grown too expensive for the appetites of riskier (but profitable) customers. The Shadow Finance Saloon stepped in and built a massive, private, underground VIP room to serve up those big, juicy loans.

This new room has all the classic dangers:

- **It's Opaque:** “Private” is just a euphemism for “secret.” The windows are blacked out. No one knows exactly who is in there, what games are being played, or if the high rollers can actually cover their markers (lines of credit extended by casinos to patrons for gambling).
- **The Customers are Risky:** The only people in this room are the ones the conventional First National Bank Cafe threw out for being too leveraged (too drunk). This whole high-stakes game has grown up in a booming economy and has never been tested by a real “last call” for the money.
- **It's Still Connected:** The “safe” bank cafe owner, spotting an opportunity for additional profits, is secretly lending money to the saloon to help build this new back room (and arranging for the increased securitization of these loans that ultimately end up in the hands of investors). If the game goes bust and the bank cafe's loans to the shadow saloon default, the fire will spread from the saloon right back into the “safe” bank cafe’s own kitchen.

AI, Gold & Crypto (The Unlicensed Poker Room)

AI, Gold, and Cryptocurrency are like a bunch of wildcatters that set up a high-stakes, completely unlicensed poker game in the saloon's basement.

The game is wildly volatile. The chips (crypto) can be worth a fortune one minute and nothing the next. The “stablecoins” they use to keep score are just homemade IOUs from the game's organizer. If everyone tries to cash in their IOUs at once, the whole game collapses. The saloon (organizer) is then forced to “fire sale” its real assets (like stocks) to cover the panic, spilling the crisis into the rest of the market.

Leverage (The House Money)

The common danger lurking in all the saloon’s rooms is leverage—the borrowed cash, or “house money” everyone is using to make their bets bigger. It's what turns a single bad hand into a total wipeout. It's the gasoline poured on a small fire, and the saloon is soaking in it.

401(k)s (The Final, Most Dangerous Gamble)

The latest—and most alarming—development: The saloon owners are now trying to convince the town to let regular folks [401(k) investors] risk their retirement savings in the high-stakes games happening behind closed doors of that new, windowless VIP room.

Why? For the same old reasons: The saloon owners would rake in enormous fees pitching an exciting new product to investors who are eager for more than the meager returns offered by the bank cafe's boring savings account.

The problem is that many of these “alternative” bets are completely unsuitable for retirement money.

- **The Doors are Locked:** Once you’ve put your money in, you can't just take it out. The money is locked up for years. If the saloon starts to fill with smoke and panic sets in, the owners can simply “gate” you—literally locking the door and preventing you from leaving with your cash.
- **The Fees are Highway Robbery:** An analysis of fee structures via Gemini shows costs ranging from between 1% and 2% of your invested assets, plus 10% to 20% of any profits. The fee structure is complicated and steep, and it amounts to the saloon “house” taking a huge cut of your stack of chips every hour, whether you're winning or losing.
- **It Invites a Panic:** Imagine millions of everyday, anxious savers—who are not professional gamblers—all sensing the first sign of trouble and stampeding for that locked door at the same time. Their stampede could cause the very “run” they're afraid of.

In short: We're setting the stage for history to repeat. An even bigger, more dimly lit, and more precarious saloon is being built—and this time, we're inviting the town's retirees to gamble their life savings inside.

Important Notes About This Discussion

- **We are not prognosticating a market crash.** Rather, we are highlighting emerging risks entering the financial system which, if left unaddressed, could lead to significant harm. We will closely monitor these developing risks and assess their potential impact on the financial system. Our hope is that regulators will recognize these emerging financial risks and establish strong safeguards and clear rules for participants.
- **Founders is not going there—we will not travel on these investment avenues in any direct manner.** We will continue to decline and/or disregard opportunities to purchase assets that are esoteric, unproductive, and/or unsafe.

The Human Psychology of Money

The Primal Brain in Investing

The human brain is an evolutionary marvel. It is a survival machine, honed over millennia to protect us from immediate, physical threats. It is wired for fight or flight, not rational and objective behavior. This primitive circuitry is the source of the unedited, stream-of-consciousness inner monologue—the “voice” that “talks” to you throughout the day. When we experience uncertainty or strong emotion—like the fear of losing out, or greed in our desire for gain—that inner voice becomes a screaming carnival barker.

Compounding this: The voice is a masterful storyteller that despises a vacuum and will rush to complete any narrative, either seeking “facts” that reinforce its story or filling an information vacuum with little regard for facts. Imagine hearing about a company with a groundbreaking battery and a visionary founder poised to change the world. The narrative isn’t mere information; it’s an invitation to dream about a better future. The story activates the same parts of your brain that light up when you watch a great movie, triggering a shot of dopamine (the brain’s reward chemical) and making you feel smart and validated when others buy into the same story. Ultimately, a good story is psychological catnip for money—the more sensational it is, the more powerfully it captivates our emotions.

We have stated many times before: The market doesn't reward good stories. It pays for sustainable cash flows. It pays for durable competitive advantages. It pays for sensible management that allocates capital wisely. These fundamentals are often, frankly, quite boring. They don't make for a thrilling tale to tell at a cocktail party, but they are what actually drive long-term success.

Unfortunately, most market participants struggle to distinguish compelling narratives from actual business realities. Many seem to be on a never-ending quest for the investment that will deliver a triumphant conclusion to their financial story. The market becomes like a trip down the Colorado River rapids, hoping a thrilling adventure will lead to riches or—worse—safety, only to be capsized by the waves of speculation.

Speculation is distinctly different from investing. Investing is the act of laying out money today to buy a piece of a business, with the expectation that its productive ability will generate greater returns for you in the future. In contrast, speculation is the act of buying an asset simply with the hope that someone else—a bigger fool, perhaps—will pay a higher price for it later, regardless of its true intrinsic value.

A compelling narrative feels like a shortcut past the hard work of rigorous analysis. While a good business is often backed by a good story, a good story does not necessarily indicate a good business. In fact, some of the best investments have the duller stories—companies that make paint, sell insurance, or ship packages, year after year. They simply do their job, reliably and consistently.

Our internal voice presents a fascinating psychological paradox—it stems from a brain shaped for survival on the African savanna, not for navigating the complexities of Wall Street. It is exquisitely tuned to do two things very well: Detect immediate threats and recognize patterns to anticipate what lies ahead. A rustle in the tall grass? That could be a lion—time to run. Dark clouds gathering? A storm is coming—time to find shelter.

This system kept us alive for millennia, but it can be disastrous when applied to modern financial markets.

A 10% drop in your investment portfolio is not something to fear, like a lion. In fact, to long-term investors, it may signal the opposite: It may be an opportunity to buy great businesses at a discount. But your brain doesn't always interpret it that way. The part of your brain that processes market volatility (the amygdala) is the same part that activates your fight-or-flight instinct. Your primal brain perceives a screen awash in red as a mortal threat. The impulse to sell everything and run is not a failure of character; it's a success of evolutionary wiring.

Our ancient cognitive wiring also drives an innate urge to predict the future. An incomplete story creates a feeling of uncertainty that leaves us uneasy, so our brains instinctively try to “complete the story” by guessing what will happen next. Headlines about political chaos and looming financial calamities trigger this response, suggesting that the only safe assets worth owning are gold and cryptocurrency. Similarly, news about rising interest rates or impending runaway inflation causes our brains to jump ahead, creating a narrative about an impending stock market crash that results in our own financial ruin.

This compulsion to forecast is a fool's errand. The market's short-term movements are impossible to predict, much like trying to predict which raindrop will hit you in a thunderstorm.

A far more useful question to ask when an investment's stock price drops is, “Is the business I own still a good business?” But answering this question requires genuine research and patience. It's much easier to ask, “What do I feel will happen next?” Our brains naturally gravitate toward the easier questions, relying on our emotions for guidance. When we feel fear, we conclude that the market must be risky and may rush to sell or buy “safe assets.” When we feel euphoria, we conclude that the market is safe and may buy more speculative investments. This is like trying to steer a ship by the color of the sky instead of using a compass.

The true battle of investing is not fought against the market itself or against participants like hedge funds and high-frequency traders. It is an internal civil war waged every day inside each investor's mind, driven by the conviction that their own narrative will triumph. Ultimately, it's you vs. the ancient, emotional, story-driven, pattern-seeking part of your own nature, all in the pursuit or preservation of money—but why? What fuels our psychological attraction to money?

The Most Powerful Proxy

We are drawn to money because it serves as the most effective proxy ever invented. It is a straightforward and measurable way to represent some of our deepest and most complex human desires: Freedom, security, and the respect of others.

Our primal, narrative-driven minds (the same wiring that once contended with lions lurking in tall grass) see money as the ultimate survival tool. It is a shield against uncertainty, providing a sense of safety and security. The instinct to gain and hold onto it, even stashing it under a mattress, is a rational and understandable impulse.

It's that third desire—for admiration—that ultimately feeds the “air pocket” speculators and powers the “Shadow Finance Saloon.” We fall into a trap described by Morgan Housel's “Man in the Car Paradox:” We see someone in a Ferrari and think, “Wow, that person is so cool.” So we work and speculate to buy the Ferrari, believing it will earn us the same admiration from others. The irony is that when we're the person behind the wheel, other people don't think about us at all. They simply imagine themselves in the car, thinking, “Wow, if I had that car, people would think I'm cool.”

There is an old saying: “Money screams, but wealth whispers.” It's easy to mistake flashy displays of possessions for genuine, established wealth, which presents in quiet, understated ways.

Being “rich” is often associated with having a high income that pays for visible assets like a spacious house, a luxury car, and designer clothing—purchases that signal status to others. “Wealth,” in contrast, is less obvious. Wealth is built through long-term investments, like shares in businesses and bonds that quietly accumulate value. Real wealth is the result of disciplined decisions that provide greater freedom, options, and control over your life. It is the buffer that enables you to survive and to seize new opportunities when those in the Shadow Finance Saloon are forced to sell in the fire sale.

This highlights the greatest and most valuable benefit that money provides: The freedom to control your own time.

The ultimate purpose of money is not to buy more things; it is to secure your personal freedom. It means having the power to wake up each day and choose how you want to spend your time. With financial independence, you can switch careers, take a sabbatical, retire on your own terms, and weather life's challenges without being forced to sell your most valuable assets. Ultimately, this freedom is the only "product" money can buy that delivers infinite returns.

This is why the art of spending—or, perhaps, saving—is ultimately inseparable from the art of investing. These practices go hand in hand—both are fundamentally exercises in Emotional Intelligence (Ei).

Speculators, driven by intellect (IQ), often invest in status symbols or place money in "fear assets" such as gold and cryptocurrencies, forever chasing moving goalposts of social standing and/or security. They are trapped in a game they can't win, as the feeling of having "enough" or "not enough" is always just a step away.

Investors, guided by Ei, recognize that the most valuable thing their money can "buy" is true independence. They understand that saving is more than simply deferred consumption; it is an investment in immediate freedom. They know that lasting wealth is built in the space between earnings and ego and thus set aside the urge to appear "smart and right" in favor of genuine financial growth.

Founders' entire philosophy—of staying in the "earnings pocket" and steering clear of the "shadow" economies—is built for this one purpose. We strive not just to compound cash flows; our goal is to compound each individual's ability to live life on his or her own terms.

The essence of Ei in building and protecting wealth lies not only in how you accumulate assets—it requires a clear understanding of why you are pursuing wealth in the first place. It is about defining what "enough" means for you and then harnessing the power of compounding—not simply to achieve financial success, but to sustain lasting wealth in all its forms: Time, options, and the freedom to live the life you want.

This is the only game truly worth playing. Ultimately, our real goal is investment wisdom.

Seeking Investment Wisdom

We view investment wisdom not as a fixed endpoint, but as the stable center of a philosophical triangle held in balance by three timeless virtues: Temperance, Courage, and Moral Justice. Each virtue embodies a vital aspect of Emotional Intelligence (Ei); if any one falters, the balance is lost, and the entire structure collapses.

Temperance is the discipline of emotional restraint—knowing what "enough" truly means. It is "Ei" in action, the quiet voice that counsels "no" when the crowd, driven by greed or fear, screams "yes" at any price.

Temperance is the discipline to resist the siren song of the "air pocket" and to turn away from the Shadow Finance Saloon's promises of easy gains or soaring prices. This virtue is our defensive engine, protecting us from the arrogance of bull markets and the compulsion to mistake a good story for a good business.

Courage is the essential counterpart to temperance. Where temperance shields, courage empowers decisive action. It is the strength to be long-term investors in intrinsic value, even as our "primal brains" perceive a 10% market drop as a mortal threat. Courage is the conviction to stand apart from the herd and the steadfastness to ignore the market's daily noise. True courage is not the absence of fear; it is the rational mastery over it. It is the quality Sir Isaac Newton demonstrated when he initially sold his shares, and the one he abandoned when he succumbed to the crowd behavior and re-entered the market, acting against his better judgment.

Moral Justice is the guiding compass that gives purpose to temperance and courage. Moral justice is our fiduciary core—the ethical imperative to reject the saloon's toxic offerings and refuse to participate in systems that profit from speculation. Moral justice ensures that our methods align with our ultimate goals. It is the simple but profound act of staying in the "earnings pocket," investing in productive enterprises, because we understand that investing is not a game to be won but a means of empowering individuals to achieve financial freedom.

Without courage, temperance amounts to indecision. Without temperance, courage plays out as reckless speculation. And without moral justice, both virtues are reduced to mere tools in a game that is disconnected from the true purpose of wealth. Investment wisdom comes from the balanced integration of all three: The temperance to say no, the courage to say yes, and the moral justice to discern between the two and act appropriately, with purpose and integrity.

Ultimately, in the practice of investing, perfection is unattainable. Mistakes, though unintentional, are inevitable. What matters is the effort to grow wiser and more capable every day. That is all we can ask of ourselves.

* * *

Founders' investment philosophy is deeply rooted in the principles of value investing, with a strong emphasis on identifying companies with potentially enduring competitive advantages. We seek businesses in which we can discern a clear vision for the future, a strong competitive position today, and the ability to withstand the inevitable storms of the market. We're particularly drawn to companies with differentiated business models, strong brands, or innovative cultures—the kinds of qualities that are hard to replicate. While others chase short-term gains, we remain patient and disciplined, waiting for opportunities to acquire compelling businesses at attractive prices. Given the increasingly skewed market behavior that leans toward speculation, we are keeping one of our favorite quotes top of mind:

“The less prudence with which others conduct their affairs, the greater the prudence with which we should conduct our own affairs.”

—Warren Buffett

We will continue to invest with our eyes wide open and with the confidence that we have acquired a collection of securities at prices that will provide a fair return over time (despite gyrating markets and higher-than-normal speculation). This includes our investments in selected fixed-income instruments that offer a commensurate risk/reward relationship, as well as acquiring interests in strong individual companies through the equity market that are very profitable and have a wide competitive moat. Our investment activity in all market conditions confirms our conviction about another Warren Buffett quote:

“We will continue to price, rather than time, our purchases. In our view, it is folly to forgo buying shares in an outstanding business whose long-term future is predictable, because of short-term worries about an economy or a stock market that we know to be unpredictable. Why scrap an informed decision because of an uninformed guess?”

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MANAGEMENT'S DISCUSSION & BUSINESS REVIEW

Equity Holdings: 2025 Highlights

The intrinsic value of our aggregate equity holdings continued to strengthen during 2025, bolstered by increasing demand for artificial intelligence (AI) that positively impacted several of our major holdings. We remain confident in our capital allocations and expect intrinsic value growth over the long term, despite ongoing and significant price volatility that is expected to persist.

Given uncertain market circumstances, we'd like to reiterate the following points about our core holdings:

- **We are confident in the high character demonstrated by the leadership of the companies in our aggregate portfolio** and believe that the companies are managed in a resilient manner that allows them to adapt in changing times.
- **We view ourselves as true business partners in companies that are focused on building sustainable and secure businesses that increase long-term profitability**, as opposed to shareholders that are interested only in a rising stock price that may not reflect genuine business value.
- **We believe that we own a collection of businesses that are both “valuable” and “invaluable” and that their increasing intrinsic business value will be realized over time.**
- **Our invested companies have durable competitive moats, with business models that are enduring, resilient, and able to adapt to a changing marketplace.** Our companies possess long-term competitive differentiators in their respective industries and the capability to generate sustainable earnings into the foreseeable future.

As long-term investors, we believe that the wonderful franchises in which we have an ownership stake will continue to strengthen their long-term enterprises, independent of any short-term gyrations in their stock prices.

The following is a summary of business highlights from representative portfolio companies during 2025, along with our expectations for their future growth.

CONSUMER GROUP

Facing continued headwinds from food inflation and shifting purchaser trends, our Consumer Group continues to demonstrate impressive resilience. While some fret about the future of consumer spending on established brands, we remain optimistic about the opportunities ahead. People still crave connection, comfort, and little moments of joy, and that's where our investments in iconic brands like PepsiCo, Nestlé, and Coca-Cola come in. These aren't just companies; they're part of the fabric of our lives, woven into daily routines and shared experiences around the globe. That kind of deep-rooted consumer connection doesn't disappear overnight—it's a source of potentially enduring value, and we're confident that these franchises will continue to adapt to changing consumer preferences for decades to come, just as they have over past decades.

PepsiCo

PepsiCo delivered another robust year, demonstrating that even when consumers tighten their belts due to inflation, they rarely give up their small indulgences. Amid real economic headwinds, PepsiCo managed to keep costs in check while achieving some sales growth and maintaining profits, reaffirming that its ubiquitous snacks and beverages are truly “necessities of pleasure.”

Rather than simply adapting to a changing market environment, PepsiCo is helping to shape it. The company is positioned to benefit from a growing global population, expanding emerging markets, and continually evolving consumer preferences—especially those focused on health and convenience. With iconic brands like Pepsi, Gatorade, and Lay's, along with strategic new investments in high-growth areas such as Celsius energy/health

drinks and the acquisition of Siete Foods (a leader in better-for-you snacks), PepsiCo is actively poised to capture the full spectrum of consumer demand.

One of PepsiCo's greatest strengths continues to be its global distribution network (a competitive advantage shared by our holding in Coca-Cola). This intricate system acts as the circulatory system of the global consumer goods industry, delivering products to every corner of the planet with unmatched efficiency. In our view, this infrastructure is virtually impossible to replicate, and it serves as an instant accelerator for the company's promising new acquisitions, like Siete, plugging them immediately into a global marketplace.

But PepsiCo's competitive moat extends beyond logistics: It includes a deep understanding of what people want. Whether it's the familiar crunch of a classic Dorito or the appeal of a healthier snack, PepsiCo has a product for every palate and occasion. With the middle class expanding rapidly in countries like China and India, the growth potential of PepsiCo's portfolio of products is vast.

We believe PepsiCo is a classic example of a company built to last—a true economic castle in the business world.

In addition, we appreciate companies that pay you something while you wait. PepsiCo continues to demonstrate its commitment to shareholders, delivering a refreshing increase to its annual dividend. Combined with the company's ongoing stock repurchase program, these actions reflect management's confidence in the company's future.

This combined shareholder yield, reaching approximately 4.25%, is a compelling return in today's market. It underscores the stability of PepsiCo's strong competitive position and the multi-decade runway we see ahead. As long-term investors, we are happy to own a piece of this resilient and adaptable business empire.

Nestlé

As we noted last year, we recognized Nestlé's price dip in late 2024 for what it was: An opportunity. The market's emotional swings can sometimes result in temporary mispricing, even for world-leading companies. When Nestlé, the largest food company in the world, experienced a significant stock decline, we took advantage of the chance to increase our stake in a company with a century-long track record of resilience and adaptability.

Nestlé's core business is simply unshakeable. With a portfolio of more than 2,000 brands—ranging from Kit Kat and Nespresso to Gerber baby food and Purina pet food—it is one of the world's most formidable food empires. While the headlines may scream about the latest tech fad, the universal need to eat, drink, and feed pets remains constant, providing Nestlé the most stable revenue stream imaginable. This kind of fundamental demand doesn't disappear overnight.

In addition, Nestlé holds a remarkable secret, an asset that most investors overlook: A 20% ownership stake in L'Oréal, the world's largest cosmetics company. That's right, the company known for its baby food also has a substantial and valuable partnership in the beauty business. We estimate this stake alone to be worth upwards of \$45 billion—a significant chunk of Nestlé's entire market capitalization. Finding such a treasure chest within an already magnificent castle reinforces our conviction that the company's underlying value exceeds the market's current assessment.

Nestlé's operations generate massive cash flow, creating a steady stream of shareholder returns. This global food giant presents a feast to any long-term investor. The company's dividend yield exceeds 3.25%, and its robust share buyback program pushes shareholders' total yield to approximately 4.5%. This commitment to returning value year after year reflects a capable management team that is both confident in Nestlé's future and dedicated to its owners.

Nestlé is the kind of business that provides both sustenance and satisfaction—a foundational holding that will enrich our portfolio for years to come.

Both PepsiCo and Nestlé exemplify the kind of companies we seek in the consumer space: Strong global brands that operate with a deep understanding of human needs. They aren't just selling products; they're

building enduring connections with people around the world. In a world of constant change, this is a recipe for lasting success. In our view, these are the kinds of businesses that can weather any storm, delivering stability and growth for decades to come.

TRANSPORTATION GROUP

How does that bulky package find its way to your doorstep? How do groceries make it to the store shelves and, ultimately, to our table? It is a modern marvel—an intricate web of trains, planes, and delivery trucks that keeps the world running smoothly. At the core of this vital network are a handful of industry titans. Our Transportation Group is anchored by two such giants: CSX Corporation and FedEx Corporation, closely followed by Union Pacific Railroad and UPS.

These companies are much more than service providers; they are the arteries of our economy, connecting businesses and consumers across continents. As populations grow and international commerce expands, the demand for this sophisticated circulatory system will only increase.

These organizations have built their moats not with bricks and mortar, but with time and steel. They've spent decades—and, in the case of railroads, nearly two centuries—forging infrastructure networks that are virtually impossible to replicate. Building a railroad that spans a continent or assembling an air fleet capable of delivering millions of packages every day requires immense capital, meticulous planning, and a legacy of expertise that newcomers simply cannot reasonably achieve.

These are capital-intensive businesses, sensitive to the ups and downs of the economic cycle. But that's precisely what makes them so compelling and their competitive advantages so formidable. The secret is the "network effect:" The more they connect, the more valuable they become. Like a snowball gathering speed and size as it rolls downhill, every new mile of track and additional flight path strengthens their market position. This self-perpetuating advantage creates an insurmountable barrier to potential competitors, ensuring that the select few entities that dominate this vital sector are well positioned for lasting success.

CSX Corporation

CSX is a living history lesson, with roots that stretch back to the Civil War and the sweeping economic expansion that followed. For nearly two centuries, CSX has kept trains running, evolving from a simple rail line into a modern marvel—a 20,000-mile network of steel rails that serves as the circulatory system of the eastern U.S.

The crucial investment point: This continental network is truly irreplaceable, protected by a competitive moat built not with dollars alone but by two centuries of hard work, political cooperation, and painstakingly acquired land rights. That enduring, tangible advantage is why we remain long-term owners.

CSX experienced another year of slowing momentum in 2025. Profits dipped slightly—not unusual for a railroad tied directly to the broad economy. We think of it as a train climbing a long incline—it might lose a bit of speed, but it keeps chugging along.

The real story now is the company's strategic pivot. Having already captured the easy efficiency gains from Precision Scheduled Railroading (PSR), management is now shifting from cost-cutting to aggressively driving profitable volume growth and service improvements—the industry's next chapter. We see signs of this in CSX's targeted infrastructure projects (such as the Howard Street Tunnel rebuild) and strategic new intermodal partnerships aimed at capturing business from higher-cost trucking competitors.

CSX remains a fundamentally sound business. Even in a slower year, the company returned a healthy chunk of cash to its owners—around \$3.0 billion—through dividends and buybacks.

Looking ahead, we expect the CSX locomotive to pick up steam. With the U.S. economy poised for a rebound, increased infrastructure investment on the horizon, and enhanced network efficiency from recently completed modernization efforts, CSX is positioned for strong operating leverage.

We anticipate that per-share earnings will increase by about 15% next year. Because the rail network operates with predominantly fixed costs, we expect this earnings growth to drive significant free cash flow, enabling even greater returns for shareholders.

Some investors get impatient when a stock plateaus; they see the price stall and look to switch tracks. But that's where discipline comes in. We're not in this for the quick buck; we're in it for the long haul. Like a well-built locomotive designed for endurance, CSX is designed to go the distance. And for those of us willing to stay on board, the journey ahead looks rewarding.

FedEx Corporation

In a world that's increasingly interconnected, FedEx is the invisible force that delivers the goods, ensuring that everything from vital factory components to surprise holiday gifts reach their destinations on time. FedEx moves billions of packages across continents and oceans every year, connecting businesses and consumers in a global choreography of commerce.

But FedEx is more than planes and trucks: It's a network of innovation, constantly evolving to meet the demands of a digital world. The surge in e-commerce, which has fundamentally transformed how goods move, has provided a powerful tailwind. FedEx has been at the forefront, pioneering overnight delivery and becoming synonymous with speed and reliability.

As global trade continues to expand, FedEx remains a vital link in the supply chain—a “nervous system” for international commerce. Its planes crisscross the skies, its delivery trucks are a familiar sight, and FedEx’s strategic position at the nexus of international trade provides the company access to operational data that few competitors or technology solutions can match. This intricate logistics network is what sets FedEx apart. Its business is not just about rapid delivery; it's also about unmatched reach and reliability, with those capabilities only getting stronger over time.

FedEx’s commitment to efficiency is evident in its DRIVE program, a multi-year initiative that has successfully achieved its structural cost reduction goals. This effort is about refining the performance of an already exceptional operation, fully integrating air and ground networks to boost resilience and profitability. By harnessing advanced and emerging technology, including artificial intelligence (AI), FedEx is enhancing service while reducing costs, shoring up its competitive moat.

Despite a slight dip in earnings in 2025 due to ongoing economic uncertainty, we see a company that is flexing its financial muscle. The numbers reflect a management team that is focused on the long haul.

At FedEx’s current price, investors are getting a solid entry earnings yield of nearly 6.25%. That's an attractive return, especially when you factor in the expansion of global markets and as the DRIVE program’s benefits take hold. The company’s operating leverage is poised to drive strong earnings growth over the next five years.

FedEx is a company with a strong franchise, a wide and expanding competitive moat, and a clear path to increased profitability. We believe this company will continue to deliver a package of value to its shareholders for many years to come. The company’s operational streamlining and cost-cutting measures promise even greater profitability. That's music to our ears, because it means more of those earnings will flow down to the bottom line and, ultimately, back to shareholders.

As the global economy continues to grow, so will demand for FedEx's services. With its wide competitive moat, strong management team, and promising outlook, we believe that FedEx will continue to deliver significant value to shareholders for many years to come.

TECHNOLOGY & COMMUNICATION GROUP

The technology sector has always been a whirlwind of innovation, where today's giants risk becoming tomorrow's relics. The launch of the iPhone nearly 20 years ago demonstrates how a single device can transform the world. Today, the explosive growth of artificial intelligence (AI) is making it clear that raw computing power has become the ultimate competitive advantage. This is no longer just a software race; it's become a battle over infrastructure.

Look at the giants we hold: Microsoft, Alphabet, and Meta. Collectively, they are committing hundreds of billions in capital expenditures—more than \$225 billion projected for 2025 alone—primarily to build the physical backbone of AI: High-powered data centers, specialized chips, and high-speed networks.

This new AI reality is fueling costly competition within the technology industry:

- Amazon, Microsoft, and Alphabet are locked in a furious battle for AI cloud dominance, spending heavily on their AWS, Azure, and Google Cloud platforms to support the complex demands of generative AI workloads. Alphabet alone raised its 2025 capital spending forecast to more than \$90 billion in anticipation of this surging need.
- Meta is aggressively scaling its infrastructure, committing tens of billions to accelerate AI integration across Facebook, Instagram, and WhatsApp to enhance ad performance and user engagement. Meta's leadership is betting that dynamic computing capacity will be crucial to achieve its ambitious AI goals.
- Other major players, like OpenAI, have committed to colossal multi-year, multibillion-dollar investments in computing capacity, underscoring that access to energy and specialized chips is the new currency of innovation. OpenAI's ambitious push includes a \$300 billion, five-year contract with Oracle to secure computing infrastructure as well as a commitment to invest \$1.4 trillion on computing power and equipment over the next eight years through a series of deals. Many of these deals include “circular financial” arrangements, whereby large public technology companies such as Nvidia and AMD provide capital to OpenAI in exchange for future product commitments.

The True Bottleneck: Energy

This spending surge has created a zero-sum technological arms race, forcing every major tech player to make massive, high-stakes bets. But the real constraint in this sector isn't capital—it's the power grid.

One AI-powered search can devour 10 times the energy of a standard Google search. A single modern data center can require as much electricity as 1,000 Walmart stores or even a small city. Projections indicate that data centers could consume up to 12% of all U.S. electricity by 2030, which would require more than \$2 trillion in data center development and a staggering \$5 trillion in total AI infrastructure investment, according to a McKinsey study. These extraordinary numbers are driving landmark technology deals and a land grab in this emerging market.

Ultimately, the new competitive barrier is access to energy. Even as data center developers attempt to “bring your own power,” the investment required to supply electricity to future data centers is estimated to be approximately \$720 billion in grid spending and \$50 billion for new U.S. power generation capacity, according to a recent Goldman Sachs study.

Let's put this in perspective: U.S. investor-owned electric utility companies (IOUs) collectively manage assets worth approximately \$2.32 trillion as of December 31, 2025. A substantial portion of this represents physical infrastructure, with \$1.51 trillion recorded as net property in service. To meet the anticipated demand, power utilities will need to invest about one-third of their current total assets, and approximately 8 times the industry's annual operating income (currently around \$97 billion) over the next five years. All told, U.S. electric utilities will need to raise around \$150 billion of capital each year for the next five years to support projected data center energy requirements. One has to ask: Is this capital available, and is the projected power delivery even possible, within the next 60 months?

We can see that predicting the future of technology is, indeed, a fool's errand. But our approach is grounded in realism: The next era of innovation will be built and secured by the companies that own the underlying infrastructure and have priority access to energy resources. Our strategy is to focus on the companies that we believe are best positioned not merely to survive, but to thrive by owning the essential tools of the future—strong balance sheets and the strategic vision to successfully execute these multibillion-dollar bets and capture the high-margin returns that follow.

Microsoft

Microsoft continues to be a fascinating case study in adaptation and resilience. A decade ago, this company was widely dismissed as a relic, anchored to the fading fortunes of the desktop PC era. Many investors fell victim to “anchoring bias,” judging the company by its legacy rather than recognizing its future potential.

But then Satya Nadella arrived. He understood that Microsoft’s future was not about installing Windows on every desktop but about placing Azure at the heart of every data center. Under his visionary leadership, the company executed a transformative pivot from traditional software licensing to a secure, enterprise-focused cloud- and subscription-based model.

The results of this strategic shift are now clear. Azure revenue surpassed \$75 billion in 2025, growing at a remarkable 34%. The company’s legacy desktop licensing business has been fully supplanted by the Microsoft Cloud, which now generates nearly \$169 billion in revenue and continues to grow at 23%. This wasn’t about Microsoft just catching up; this was about the company building a new, more formidable empire.

Microsoft’s biggest story of 2025 is what its strategic pivot ignited: The AI Infrastructure Arms Race. Microsoft went beyond investing in OpenAI—in which it currently holds around 27% ownership valued at \$135 billion—and began investing in the physical infrastructure needed to power AI. Microsoft is now among the leading tech titans that are collectively committing hundreds of billions to build specialized AI data centers and secure custom chips. This development marks what could be called the Second Great Reinvention, this time defined by capital investment.

Microsoft's capital expenditures have surged as the company races to keep pace with demand that still exceeds its capacity. This aggressive spend is forcing a complex financial trade-off: While it is driving short-term revenue, it is also compressing gross margins for the cloud segment. This is the necessary cost of staying ahead—the need to own the infrastructure of the future.

Unlike the speculative nature of the dot-com bubble, Microsoft’s ambitions are anchored to tangible revenue streams. The Copilot family of AI products is a game-changer, seamlessly integrating advanced AI tools into essential applications such as Microsoft 365. These innovations have already helped caregivers in the healthcare industry save more than 100,000 hours on documentation, allowing them to place greater focus on patients.

Microsoft is transforming AI from a novelty into an essential tool for daily business operations. By integrating these technologies deeply into customers’ everyday workflows, the tools become indispensable to users, driving sustained profitability. This integration creates a competitive moat wide enough to swim laps in.

Beyond the headlines and AI hype, we remain focused on the fundamentals, and Microsoft’s remain exceptionally strong. The company has been a money-making machine, generating a mountain of it—well beyond \$101 billion in net income for the year and an impressive \$136 billion in operating cash flow, which supports the company’s increasing capital expenditures. This financial strength enables Microsoft to fund the massive AI build-out while also rewarding owners generously. In 2025, Microsoft returned more than \$37 billion to shareholders through dividends and buybacks, underscoring its commitment to creating intrinsic value and sharing its success with stakeholders.

Microsoft’s track record of adaptation, innovation, and disciplined execution sets it apart. Over its history, the company has confronted industry disruptions and emerged stronger. We believe that Microsoft will continue to be a core holding in our portfolio for many years to come.

Alphabet (Google)

Alphabet continues to be the best example of a “learning machine” that has woven itself into the fabric of the global economy. Over the past year, the company confirmed its significant financial power and also successfully defended its core business that many feared was under serious threat.

The Moat Survives the Barrage

For the past five years, Alphabet has operated under a cloud of uncertainty as the landmark federal antitrust case loomed overhead. The Department of Justice sought dramatic measures, including proposals to force the divestiture of Alphabet’s popular Chrome browser or Android operating system, which could have seriously damaged its dominance in search and advertising revenue.

The verdict, delivered in September, largely favored Alphabet. The company retains Chrome, and the court ruled that Google may continue making substantial payments to distributors like Apple to secure its position as the default search engine. While Alphabet must end certain exclusive contracts and share certain aggregated user data with “qualified competitors,” the structural foundations of its business remain intact. This judicial outcome removed a massive overhang, allowing investors to breathe a sigh of relief and sending the stock soaring to a new all-time high.

The AI Arms Race and the Cost of Leadership

Alphabet's strength today is reflected in its aggressive capital expenditures, underscoring the new reality that leadership in the artificial intelligence (AI) race requires a balance sheet capable of supporting massive investment.

In 2025, the company posted its first-ever quarter surpassing \$100 billion in revenue, fueled by double-digit growth in search, YouTube, and, critically, Google Cloud.

- **CapEx Surge:** Alphabet increased its 2025 capital expenditures several times, now expecting to spend between \$91 billion and \$93 billion, primarily on data centers and AI infrastructure. This massive investment highlights the escalating costs of staying ahead in AI computing.
- **Cloud Momentum:** Google Cloud (GCP) continues to be one of the company’s fastest-growing segments, driven by surging enterprise demand for AI infrastructure and services. Operating profit in this segment is also improving.

These continuous investments allow Alphabet to maintain its core differentiator: The ability to collect, analyze, and leverage one of the largest and most dynamic datasets in the world. Google continues to evolve as a learning machine, adapting rapidly to market trends and delivering the most user-friendly experience in the market.

The Value Equation

Alphabet continues to be a money-making machine with a balance sheet that we believe is built for the long haul. While its massive market capitalization—which now exceeds \$3.8 trillion after the favorable ruling—may appear elevated, we remain focused on the company’s underlying value.

Consistently strong cash generation and disciplined capital allocation reinforce our confidence in Alphabet’s future. The company’s board has committed to a substantial \$70 billion share buyback program while continuing to pay an annual dividend of \$0.84 per share. This commitment to returning capital, even while funding one of the largest infrastructure build-outs in history, underscores Alphabet’s financial strength and its focus on owner value.

Alphabet offers investors a piece of a powerful, historically resilient franchise—one that has successfully protected its legacy, is aggressively investing in its future, and continues to grow at a healthy clip. At today's price, we believe Alphabet still offers a compelling opportunity to own a piece of the digital future. Rather than just adapting to technological change, Alphabet is creating it. For investors able to see beyond the short-

term commotion of a challenging antitrust lawsuit and focus on long-term potential, we believe Alphabet is a treasure worth holding onto.

Meta Platforms (Facebook & Instagram)

Investing can sometimes feel like a roller coaster ride: You strap yourself in, excited about the rousing ride ahead, but every now and then, the twists and turns exceed your expectations. That's what we experienced in 2022, right after we had invested in Meta. Not long after we had added it to our portfolio, Meta's stock price took a nosedive, leaving us in the painful position of having to question our decision-making.

But here's the thing about roller coasters: Steep drops are often followed by exhilarating climbs. That's exactly what happened with Meta over the past few years. The company not only erased its initial losses but made tremendous gains. (Thank heaven we stayed in our seats during the ride and didn't bail out!)

When Meta's stock took a tumble, it became a test of conviction: Had we misjudged Meta's potential, or did we simply misjudge the market's patience?

In 2025, Meta proved that its underlying engine continues to be sound. The company's most recent results validate our decision to "hold on during the ride." The company is firing on all cylinders: In its most recent third quarter, revenues grew 26%, to \$44.5 billion. Earnings per share soared by 41%. This explosive growth—driven by massive user engagement and a 22% surge in ad impressions—is proof that Meta's core business is healthier than ever.

But the real story is the cost of sustaining it. Meta is currently engaged in the AI arms race, and its bet requires a balance sheet built for brute force. The company committed to spending a staggering \$70 billion to \$72 billion on capital expenditures in 2025, primarily to build a formidable new moat: The vast AI infrastructure required to maintain its lead. This massive commitment is nearly double Meta's 2024 capital expenditures and is what triggered the recent 11% drop in the stock price as investors consider when this heavy spending will start to create measurable value.

The Dual Bet: Intelligence and Experience

Microsoft has shown us that the future lies in the cloud; Meta is showing us that the future will be built on data and chips. With its pervasive network of Facebook, Instagram, and WhatsApp now reaching more than four billion users monthly, Meta's massive user base is an unparalleled resource that fuels its AI engine, enabling the creation and delivery of personalized experiences and ads that keep users engaged.

To fund this aggressive capital campaign, Meta has used financial ingenuity. Its recent joint venture with Blue Owl, which leverages external financing to acquire data centers, is a savvy (and, hopefully, one-time) move, enabling Meta to accelerate its massive infrastructure build-out while focusing its own robust cash flows on its core business, AI development, and rewarding shareholders.

Meta is also placing an expensive bet on Reality Labs (RL), the division behind the company's metaverse ambitions. RL lost \$3.8 billion in the third quarter of 2025 alone and is projected to post a loss of approximately \$17 billion for the year. Despite the company's decision to reduce Meta's budget to the Metaverse area by up to 30%, the heavy loss of funding the long-term vision for Reality Labs is still high and represents the company's price of keeping a dream alive. While returns from this segment remain uncertain, we view RL's research and development expenses over the next decade to be a necessary investment to maintain Meta's leadership in digital human connection.

Beyond the visionary bets, we focus on the fundamentals—the shareholder pact. Meta is generating enormous cash flow and is dedicated to returning it to its owners. Over the past year, the company repurchased more than \$30 billion in stock and continued its dividend payout of \$2.10 per share. Meta's commitment to disciplined buybacks and dividends, even while spending aggressively on the future, confirms management's confidence in the intrinsic value of the business.

Meta has faced disruption head-on, corrected its course with humility, and emerged stronger, exemplifying a fundamental principle: In a volatile world, you must practice resilience every single day. We believe that Meta will be a core engine of growth in our portfolio for many years to come.

FINANCIAL SERVICES GROUP

Berkshire Hathaway

Berkshire Hathaway is more than just a company—it's a storied institution, a testament to the power of long-term thinking and patient capital allocation. Berkshire is a financial fortress, built on a foundation of enduring values, investment principles, and a deep understanding of human nature.

The year 2025 marked a historic moment: Warren Buffett, the architect of this fortress, announced his intention to step down as CEO at year-end, passing the baton to Greg Abel. This transition, quietly signaled over the past few years, is now reality.

The passing of Charlie Munger last year, followed by this inevitable change at the top, marks the end of an era, but Berkshire's legacy is positioned to endure. Charlie's wisdom lives on in the company's cultural DNA, woven into the company's decentralized structure and the deep bench of talented managers he and Warren cultivated.

The Fortress Holds Strong

Over the course of 2025, Berkshire's diverse portfolio of businesses continued to hum along, generating profits and weathering economic headwinds. Operating earnings jumped 34% in the third quarter, largely due to improved insurance underwriting. This resilience remains a hallmark of the conglomerate.

Beyond the changing of the guard, Berkshire's most notable story in 2025 was Warren Buffett's continued selling of equity positions. Over the past three years, he has been a net seller of stocks, trimming significant stakes in companies like Apple and Bank of America. We didn't interpret this as a sign of Warren's diminishing faith in these companies or a belief that the market was overpriced. Rather, he likely viewed current valuations and associated business risks as no longer meeting his required margin of safety. In addition, he may have been seeking to give Greg Abel, Berkshire's new CEO, the flexibility to allocate capital according to his unique talents and vision. Most likely, both factors played a role.

Either way, this capital discipline has left Berkshire sitting on a record mountain of cash and equivalents, swelling to an unprecedented \$382 billion by the end of September 2025. This war chest is not idle; much of it is parked safely in short-term U.S. Treasuries, reflecting Berkshire's unwavering commitment to prudent capital allocation. It is also a tangible reflection of the firm's disciplined commitment to safety and liquidity until attractive investment opportunities emerge.

Berkshire's Next Chapter

Greg Abel, a proven dealmaker and previous leader of Berkshire Hathaway Energy, has inherited a company that is financially sound, operationally diverse, and sitting on one of the largest cash reserves in U.S. corporate history. A thought-provoking point: Looking ahead, Greg Abel will be making decisions on allocating \$1 trillion or more in capital over the next ten years—the equivalent of Berkshire's current market capitalization.

Abel's mandate is clear: Uphold Berkshire's culture of prudence and decentralized management, and be ready to deploy cash and Berkshire earnings only when the market offers opportunities.

Where is Greg Abel likely to allocate capital to further increase the intrinsic value of Berkshire? Mr. Abel has a strong background and expertise in developing energy infrastructure. We would not be surprised if Berkshire focuses more heavily on energy infrastructure in the future, especially since growing energy demands outpace the industry's current capacity for capital investment.

Consider this: Berkshire is currently sitting on enough cash to buy more than one-third of U.S. public electric utility companies that it does not currently own. Berkshire Hathaway Energy, the company's electric utility division, has a current equity value of about \$50 billion, representing roughly 4% of total equity value in the

U.S. electric utility sector. Notably, Berkshire Hathaway Energy's share of industry net earnings is also around 4%, amounting to slightly more than \$3 billion. Given these strong financials, we'll be looking for Berkshire's presence in the electric utility market to increase significantly.

The torch has been passed from Warren Buffett to Greg Abel, but the company's strategy remains steadfast: Pursue and own enduring value guided by strict financial discipline, especially in turbulent markets. Berkshire is structured for longevity, emphasizing resilience and sound capital management.

Berkshire Hathaway will report another good year in 2025, with its various businesses gaining ground. The company's unmatched diversity, strength, and adept capital management act as ballast that enables the enterprise to adapt to and prosper in evolving economic conditions.

Berkshire's per-share book value is expected to rise another 9% over the preceding 12 months—an amazing feat given the scale of Berkshire's enterprise and the large amount of low-producing cash currently sitting on Berkshire's balance sheet. Warren Buffett and Greg Abel continue to create tremendous value for shareholders through the prudent allocation of capital, making ownership of this wonderful company exceptionally rewarding.

In summary, Berkshire remains a fairly valued investment that is growing at an above-average rate on a per-share basis and offers a substantial margin of safety relative to any assets we currently own (or can contemplate owning) in today's market.

Wells Fargo

Wells Fargo, symbolized as the stagecoach of American banking, has finally reached the other side of the river after years of navigating treacherous financial currents. For nearly a decade, the bank's journey was slowed by regulatory hurdles and a series of headline-making scandals—baggage that weighed down its reputation and restricted its growth. Chief among these restraints was the Federal Reserve's asset cap, which forced Wells Fargo to “circle the wagons” and prioritize internal reforms to restore order.

During this period of forced introspection, Wells Fargo sought to bolster its profits using innovative lending strategies—often in the form of private credit—to obtain higher interest rates. In finance, however, easy gains seldom come without risk. While the stagecoach seemed safely parked at the “bank cafe” under the Fed's watchful eye, its horses were quietly being hitched to the “shadow saloon” next door to keep the earnings engine running on maximum horsepower.

Today, Wells Fargo stands as one of the largest players in private credit, a realm of non-traditional lending that we warned previously in this letter lacks both operational transparency and a lender of last resort. We aren't predicting imminent disaster—the institution remains. Nevertheless, it's clear that the road ahead is clouded with greater uncertainty and riskier potholes than we are comfortable traversing with our partners' capital. As owners, we'd rather be cautious and “early” than regretful and “too late.” Accordingly, we chose to liquidate our Wells Fargo holding at the beginning of 2026.

The most challenging aspect of investing isn't knowing when you are right; it's having the discipline to walk away from a profitable game when the rules have shifted in ways that no longer align with your principles.

American Express: The Anti-Fragile Franchise

American Express isn't just a credit card company; it's a membership to an exclusive club. The currency is prestige, the perks are plentiful, and the customer service is renowned. The Amex brand stands for luxury, travel, and the finer things in life.

What truly differentiates American Express is its integrated, proprietary business model. Unlike Visa and Mastercard, Amex serves as both the card issuer and the payment network. Imagine a private railway network: Amex owns the tracks, the trains, and the stations. It controls the entire transaction flow, providing comprehensive insight into purchasing habits and cultivating deep relationships with both cardholders and

merchants. This gives Amex a potentially powerful competitive advantage, allowing it to charge premium rates because merchants recognize that Amex cardholders are more likely to be high spenders.

Amex's true strength lies in the trust and relationships it has forged over time. The company has established a fortress around corporate travel and entertainment spending as it also continues to attract high-spending general consumers. This loyalty is the bedrock of Amex's competitive moat, resulting in a dual customer base that is less sensitive to economic turmoil.

The Numbers: Thriving in Uncertainty

Amex delivered another standout year, proving itself as an anti-fragile business that thrives when others merely survive.

- **Growth Surge:** In the third quarter of 2025, total revenue net of interest expense grew 11% to a record \$18.4 billion, with full-year revenue expected to grow by 9%. Diluted adjusted earnings per share (EPS) are expected to grow 10%, to \$15.50.
- **The Premium Pivot:** The successful refresh of Amex's U.S. Consumer and Business Platinum Cards reinforced Amex's leadership in the premium market. New Platinum account memberships doubled from pre-refresh figures, and net card fees increased 18% year over year.
- **Credit Quality:** Amex's focus on affluent, less-credit-sensitive consumers is reflected in its best-in-class credit metrics. While competitors contend with higher default risks in a higher-rate environment, Amex has the lowest projected credit card loss rate in the Federal Reserve's stress tests.
- **Returning Capital:** Amex continues to reward owners generously, buying back nearly \$6 billion worth of its shares in 2025 while distributing more than \$2.2 billion in dividends.

The Long Runway Ahead

Looking forward, we see a company that is still building its future: Amex is aggressively targeting Gen Z and Millennial customers while continuing to expand the reach of its global network.

We view Amex as a company built to last—a testament to the power of its strong brand, distinct psychology, and financial discipline. For investors seeking a company that not only weathers economic storms but emerges stronger from them, American Express continues to stand out as a compelling long-term holding.

RETAIL GROUP

The retail sector is a battlefield, a dynamic arena in which today's giants can quickly become tomorrow's relics if they lose their focus and competitive edge—just look at the cautionary tales of Sears and JCPenney.

Over the past year, our major retail holding, The Home Depot (followed by Lowe's), waged another tough campaign. High interest rates have put the brakes on the housing market, causing many consumers to delay big-ticket home improvement projects. But it's in challenging conditions that the best businesses demonstrate their strength and resilience.

We remain confident about the long-term prospects for the home improvement industry because these sophisticated franchises are built on five enduring pillars of retail success:

1. **Customer Service:** If potential customers walk into your store and get a whiff of poor service, they will turn around. Consistent, high-quality service is a non-negotiable component of retail survival.
2. **Product Superiority and Selection:** You must offer the right products at a fair price. Success is rooted in avoiding the cardinal sin of stocking the wrong products at the wrong price.
3. **Value Creation and Efficiency:** It is tough to make money in retail. A robust understanding of product turnover, disciplined expense management, and long-term capital allocation are the only things that create lasting value.

4. **Seamless Interconnected Retail:** Successfully integrating the in-store “bricks and mortar” experience with a strong “online channel” is essential for capturing today's multi-platform customer.
5. **The Professional Contractor (the “Pro” Segment):** This is the high-value, resilient customer. Catering to the time-sensitive needs of small- and medium-size contractors with dedicated systems, logistics, and service creates a durable customer base that insulates against fluctuating trends among general consumers.

Neglecting any of these fundamentals can jeopardize long-term success. While we expect the economy to improve in 2026, which will certainly help revenue, our conviction rests not on the broader economy but on the ability of Home Depot (and Lowe's) to consistently execute on these five pillars better than any other companies. As disciplined investors, we remain focused on the underlying value of these resilient retail franchises.

The Home Depot

The Home Depot, that familiar orange haven for do-it-yourselfers and contractors alike, has faced persistent economic headwinds over the past few years. Following the robust boom of the pandemic era, rising interest rates and a stagnant housing market have led to reduced spending on big-ticket projects.

But here is the essential fact to remember: Home Depot is built to endure. It's not just a store—it's a trusted partner, a vital resource, and the dominant player in a massive, essential market.

The Numbers: Stability in a Downturn

The company's results for fiscal year 2025 demonstrated stability—a noteworthy achievement in this retail environment. The company held the line on revenue and earnings despite ongoing economic pressures on homeowners. This is a testament to management's discipline and the non-discretionary nature of repair spending compared to spending on remodeling.

This stability offers powerful reassurance to long-term investors. While many retailers are struggling to stay afloat, Home Depot is preserving capital and patiently waiting for the economic cycle to turn.

The Moat: Built for the Pro

Home Depot's competitive advantage—its moat—now extends far beyond wide aisles and knowledgeable staff. The company is fundamentally shifting its focus to the professional contractor segment, creating advantages that are hard to match:

- **The High-Value Customer:** Professional contractors, compared to typical homeowners, are less sensitive to small interest rate changes. They are focused on speed, volume, and efficiency. They need specific materials promptly to keep their projects moving.
- **Unmatched Logistics:** Home Depot is aggressively investing in a specialized distribution and fulfillment network—a complex infrastructure capable of delivering heavy, bulky materials directly to job sites. This type of specialized logistics is nearly impossible for aggressive e-tailers like Amazon to replicate. Where else can you get 10 2x4s, a gallon of paint, and a miter saw delivered to a job site quickly from the same store?
- **Building Relationships:** Home Depot's commitment to expertise is profound. Home Depot employees undergo extensive training to ensure that when a contractor walks in, they get not just products, but expert guidance.

This strategic shift in focus means that even if the homeowner market slows, Home Depot's partnership with resilient, repeat-business Pro customers provides a powerful, stabilizing buffer.

The Long View: Waiting for the Wind

While the recent industry slowdown might worry some, we remain focused on the long haul. U.S. housing starts are expected to increase over the next few years, directly benefiting Home Depot's business.

Furthermore, total home improvement spending is projected to exceed \$600 billion by 2027, growing at a steady clip of 3%–4% annually.

Home Depot is a company with a vast physical footprint, robust competitive advantages, and disciplined leadership. For investors willing to take the long view, Home Depot continues to be a compelling business. This is a chance to own a piece of a company that's not just selling products but is committed to helping build homes, strengthen communities, and shape a better future.

MEDIA & ENTERTAINMENT GROUP

Think back to the last time you got lost in a good movie, a captivating TV show, or an engaging book. That's the enduring magic of media. The human desire for connection and escape makes storytelling an enduringly powerful and profitable realm.

Beneath those captivating stories, however, lies a complex and perpetually challenging industry. Over the past decade, the rise of the “streaming wars” has upended the industry as content producers raced to offer direct-to-consumer programming, forcing traditional companies to invest billions into building their own digital platforms.

The rules have changed: Distribution is now decentralized, customer loyalty is fleeting, and the battle for our attention—that most valuable currency—is fierce and relentless.

In this turbulent landscape, while content remains king, disciplined capital management has become crucial. Wall Street's focus has pivoted sharply toward sustainable profitability, operational efficiency, pricing power, and the long-term monetization of a global audience rather than simply subscriber growth.

This is why our focus remains on Disney. More than just a media company, Disney is a master storyteller, a dream weaver, and a creator of worlds that capture the hearts and minds of generations. In an industry in which capturing attention is the ultimate competitive advantage, Disney stands out with the most valuable vault of intellectual property in the world. We believe Disney is distinctly positioned to thrive for the long term by leveraging its enduring magic with renewed financial discipline.

The Walt Disney Company: The Enduring Kingdom of Dreams

Disney—the masters of storytelling—is the creator of worlds that have enchanted generations. From Mickey Mouse to Marvel superheroes, from Pixar's heartwarming tales to the epic adventures of Star Wars, Disney has an extraordinary ability to capture our imaginations and transport us to realms of wonder.

Think about the stories that shaped your childhood—the movies you watched over and over, the characters who sparked your dreams and aspirations. Disney's unique power lies not just in creating unforgettable content but in making memories that last a lifetime. This is what makes Disney invaluable: Its stories are timeless, its characters are iconic, and its magic never fades.

The Golden Goose Takes Flight

Disney's enduring value reminds us of the goose that lays golden eggs, year after year. The company's classic films are not just stored in a vault; they serve as annuities, continuing to generate revenue through re-releases, merchandise, theme park attractions and, most recently, streaming. Disney's business model has proven to be as resilient as the beloved stories themselves.

Over the past decade, Disney has been focused on navigating the expensive, disruptive streaming wars. Disney wisely committed to building its own direct-to-consumer platforms (Disney+, Hulu, and ESPN), accepting massive short-term investment and losses to ensure long-term success. The big news of 2025 is that this grand strategic pivot has paid off: Disney's direct-to-consumer segment has achieved sustained profitability. This marks a defining moment, validating Disney's ability to make difficult and costly moves to secure the future of its content distribution.

With its distribution structure now fully in place, Disney has shifted its focus entirely to financial discipline. Disney is no longer in a spending race; the company has entered a new phase focused on maximizing profits.

- **Financial Fortitude:** In fiscal year 2025, Disney exhibited its trademark “magic touch,” generating revenues approaching \$95 billion and about \$9.5 billion in net profits. These results highlight the immense cash-generating power of the company.
- **Disney Experiences:** The Disney Experiences division, inclusive of Parks, remains a powerful cornerstone of the company, leveraging Disney's vast intellectual property to drive record-breaking results and serve as a reliable cash engine.
- **Relentless Innovation:** Disney continues to create new stories, invent new characters, and build new worlds that will capture the imaginations of children and adults for years to come.

Disney is a company that understands the human need for connection and escape. We believe it's built to last, sustained by the world's most enduring competitive moat: The unmatched emotional equity it holds in the hearts and minds of billions of consumers globally. Founders remains deeply committed to owning this one-of-a-kind franchise.

* * *

FIXED-INCOME INVESTMENTS

The Bond Conundrum: Rethinking Fixed Income in a Changing Market

Bonds have traditionally served as the ballast in the portfolio, the safe harbor in turbulent markets. The past five years have upended this expectation for many investors: While stocks charged ahead, the fixed-income market suffered steep losses. Despite a solid rebound in 2025, the Bloomberg U.S. Aggregate Bond Index is still nowhere near recovering the substantial losses it has accumulated since 2020.

We've always believed that investing in bonds should be no different than investing in a business: It's not enough to rely on perceived safety—you must ask: "Am I getting good value for my money?"

The Business Owner's Litmus Test

Imagine you have the chance to buy a straightforward, stable business at book value that consistently generates a 10% return on equity. You'd take that deal every time. Such an investment would double your capital in about seven years.

Contrast this with the current 30-year government bond, whose 4.9% yield barely allows you to double your money over approximately 15 years. This comparison highlights a common oversight: Settling for returns that barely keep pace with inflation is like buying a business that is barely surviving, with little prospect for meaningful growth.

Why settle for meager, long-term returns when your capital could be working harder elsewhere? The key is finding the right balance between risk with opportunity cost—a direct test of emotional discipline.

Staying Selective

While last year's dramatic yield curve inversion rewarded short-term U.S. Treasury bills, the curve's normalization has not eliminated the core risk: Committing capital for three decades at rates that may barely outpace long-term inflation. Furthermore, in other fixed-income segments, the rise of private credit has increased the risk of widespread corporate debt defaults, as highly leveraged companies must refinance old, low-rate debt into today's higher-rate environment. Meanwhile, private credit firms are rapidly expanding their high-interest loans to private companies, fueling more "yield-seeking" behavior.

In this environment, we remain firmly grounded in prudence and preservation of capital. We are not afraid to challenge conventional wisdom and continue to be highly selective with our bond allocations, favoring short-term, high-quality instruments that offer liquidity and a true margin of safety—primarily short-term U.S. Treasuries.

Successful investing is about making informed decisions, not following the herd. We apply the same disciplined, business-minded approach to both debt and equity: We focus on pricing, not timing, our purchases. Our goal is to ensure that our expected returns align with the enduring quality of each investment.

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WHAT'S NEW AT FOUNDERS?

Our Culture is Our Compass

At Founders, Emotional Intelligence (Ei) is the cornerstone of our business. While many in our industry chase the latest high-speed algorithms, we remain steadfast in our focus on the human factors that drive true and lasting success. Our culture is rooted in a simple, timeless code: Treat people, especially our clients, the way we would want to be treated ourselves. Always ensure that we stay in the circle of trust.

We reflect this ethos in our daily actions: We respect and trust each another, act with integrity, invest our money alongside that of our clients, and ask ourselves: How can I create value today?

We believe that keeping things simple and avoiding the bureaucracy that bogs down larger firms takes work, but it is essential. Living by this creed, Founders will continue to adapt and thrive; if we stray from it, we will be paving the way for organizations that embody these principles to replace us. We do not need artificial intelligence (AI) to tell us the secret to long-term success.

Beyond Capital Management

Our “others-centered” approach permeates every aspect of our work. We are committed to transparency—to fostering open, honest communication with our clients and within our team. We believe that trust is the foundation of every successful partnership, and we strive to earn and maintain that trust every day.

This year, we continued to expand our capabilities and expertise to better serve our client partners. Our offerings extend beyond managing assets—we guide families through the complexities of wealth, from estate planning and multi-generational asset strategies to private investments and philanthropy. Our mission is to help families, businesses, and individuals build financial legacies that will endure for generations to come.

Our Team: The Engine of Ei

Our team is the embodiment of our culture, with each member playing a vital role in our collective achievements:

- Anna continues to be instrumental in helping families manage and update their trusts and estates, safeguarding and preserving family legacies.
- Lisa remains the indispensable backbone of our operations, ensuring that compliance and client financial matters are handled flawlessly.
- Ted has been invaluable in overseeing our growing security filings, facilitating trading activities, providing critical equity research for our major investment decisions, and working in full partnership with me on capital allocation.

At Founders, we are building relationships, nurturing growth, and adhering to a simple code that keeps our firm agile, trustworthy, and enduring. We are deeply grateful for the trust our clients place in us. It is a privilege to partner with them on their financial journeys, helping them to achieve their goals and build a brighter future for themselves and their families.

The examples and descriptions of investments in this client letter do not represent all the investments purchased, sold, or recommended by Founders and instead represent:

- (1) the 10 largest equity positions held by Founders' clients;*
- (2) the largest equity position in each industry group to which Founders has allocated capital; and*
- (3) all equity positions that account for 3% or more of the total funds allocated by Founders to equity holdings.*

The performance of these investments was not a criterion in determining the representative list. It should not be assumed that the investments identified and discussed were or will be profitable.

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Founders Company and Investment Culture

What Do We Focus On?

- **We approach investments as business owners for the long haul**, as opposed to trading in pursuit of quick gains
- **We operate by the “Rs”**: Reputation (never lose it), Responsibility (embrace it), Reliability (demonstrate it consistently), and Results (deliver it through focused execution)
- **We act with integrity and character**—qualities that can be difficult to articulate but are unmistakable when practiced. In uncertain circumstances, we always prioritize the needs and interests of others ahead of our own
- **We practice “mindful investing,”** striving to fully understand every aspect of where our money is invested. We take full responsibility for our investment decisions and do not delegate money management or research to others
- **We seek to understand the true value of our assets**, whether directly held or through underlying assets
- **We care for our clients and for each other**—collectively, we are Founders’ greatest assets
- **We invest our own money alongside that of our clients**, “eating our own cooking” to ensure full alignment and accountability
- **We maintain a growth orientation** for clients over personal revenues and profits (growing knowledge and embracing quality matters, and enriching the lives of those we interact with)
- **We cultivate ideas and learn from mistakes**: Mistakes are bound to happen—we face challenges openly rather than sweep them under the rug
- **We foster a culture of continuous learning**, encouraging innovative thinking and dedicating ourselves to operating as an organizational “learning machine”
- **We share knowledge generously**, recognizing that hoarding knowledge is like hoarding love—the more you keep it for yourself, the less you have
- **We value insightful questions over easy answers**, believing that curiosity leads to better decisions
- **We emphasize preparation**, understanding that careful preparation is a key factor in achieving success

How Do We Approach Risk?

- **We pursue diversification, safety, and certainty** to eliminate speculation from our investments
- **We prioritize security** by investing in assets that are dependable, defensible, predictable, and protected. We analyze potential losses before considering gains, always evaluating what could go wrong with an investment
- **We remain vigilant to observable risks** and strive to identify emerging threats, including risk creep, aggregation risk, and events that may cause financial instability
- **We recognize that uncertainty is inevitable** and prepare for the unexpected, because it is bound to happen
- **We approach every situation with humility, mindfulness, and caution**, understanding that true wisdom begins with understanding the boundaries of our own knowledge
- **We maintain risk sensitivity by maintaining an adequate margin of safety**, considering valuations, interest rates, capital structure, liquidity, franchises, business models, and management risks
- **We recognize that the greatest risk is not market fluctuation**, but the erosion of real value from lower-quality investments that look attractive in the short term
- **We avoid partnering with individuals of questionable character**, understanding that reputation and integrity are our most valuable assets and can be lost in a heartbeat

How Do We Invest?

- **We focus on absolute returns over relative performance**, steering clear of misleading short-term comparisons that often lead to permanent losses. We are risk-averse and abhor losing money under any circumstance
- **We focus on gaining deep insight into industries and business ecosystems** rather than looking to unreliable macroeconomic forecasts
- **We remain flexible and opportunity-driven**, practicing situational judgment rather than adhering to rigid master plans
- **We avoid unnecessary transactional taxes and frictional costs** by taking action only when truly necessary
- **We enjoy the investment process**, finding fulfillment in studying and researching businesses
- **We recognize and adapt to the realities of the investment landscape** rather than expecting it to conform to us
- **We continually challenge and update our most cherished investment ideas** to remain objective and responsive to change
- **We accept investment realities**, especially when they conflict with our preferences
- **We analyze investments from multiple perspectives**, guided by the principle, “Invert, always invert”
- **We apply disciplined thinking around investment spreads**, seeking to maximize cash yields and practicing both short- and long-term arbitrage
- **We practice second- and third- level thinking** by always asking, “And then what happens?”
- **We seek deep insight and true value**, discerning the genuinely valuable from the superficial
- **We are mindful of the key elements to company evaluation**: Understanding the “industry ecosystem,” competitive advantage, strategic position, and potential threats to sustainability
- **We distinguish between certainty and uncertainty**, focusing on what is knowable and important, unknowable and important, and unknowable and unimportant, and valuing probable outcomes above all
- **We never speculate—speculation eventually leads to failure**

* * *

IMPORTANT NOTES:

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Certain information contained herein constitutes “forward-looking statements,” which can be identified by the use of forward-looking terminology such as “may,” “will,” “should,” “expect,” “anticipate,” “project,” “estimate,” “intend,” “continue,” or “believe,” or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events, results or actual performance may differ materially from those reflected or contemplated in such forward-looking statements. Nothing contained herein may be relied upon as a guarantee, promise, assurance or a representation as to the future.



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Investing for the Long Term. Every Day.