Zorea Capital Equity Portfolio 4Q 2025 letter

Fellow investors,

Our performance for the fourth quarter of 2025 was 4.4% (gross) and 3.9% (net). This brings our full-year 2025 performance to 28.2% (gross) and 26.0% (net). Net performance is calculated using our standard fee schedule 'M' which charges the highest management fee from our different alternatives but no performance fee. As long-term investors, we emphasize that evaluating our results over a short period of time is not informative.

	Zorea Capital Equity (Gross)*	Zorea Capital Equity (Net)*
2025	28.2%	26.0%
2024 (inception May 1st, 2024)	6.6%	5.8%
Annualized:		
1 year	28.2%	26.0%
Since inception	20.6%	18.5%

**See important performance disclosures at the end of this letter. Inception is May 1, 2024.*

For 2025 our top three contributors were HCA, Ryanair, and Aercap. Shares of these companies appreciated between 50% and 66%[1] during the year. Collectively, these three companies represented 27% of our portfolio at the start of the year, which allowed their positive performance to truly drive overall results for the portfolio. Of these, both HCA and Ryanair experienced significant share price weakness over the prior two years for reasons we believed were largely non-fundamental. During those periods, we increased our exposure. So far those decisions have proven to be good decisions. As a reminder, we generally avoid adding to investments when their share prices decline due to a deterioration in fundamentals. We do, however, are inclined to add when we believe that the weakness in share price performance is disconnected from the long-term prospects of the company.

Our bottom three contributors for the year were Charter, T-Mobile, and Teqnion. Charter was our weakest performer, as company fundamentals deteriorated throughout the year. That investment began the year at a modest size and is now what we consider to be immaterial. We don't currently expect to be long-term shareholders of the company. T-Mobile, by contrast, performed very well operationally. The shares declined on concerns of a more competitive environment and the retirement of former CEO Mike Sievert. While we continue to like the business, we have not added to the investment, as we would like to see the new (externally hired) CEO prove himself. Lastly, Teqnion was a small investment that we owned for less than a month. We sold it for a small loss after concluding that our thesis was incorrect.

[1] For Ryanair the performance figure is for the ADR, RYAAY, which is the security our accounts hold.

We share these details to provide additional insight into how we think about trading decisions and position sizing within the portfolio as new information emerges.

Looking at the portfolio at year-end, we are more constructive about its long-term prospects than we were a year ago. Over the past twelve months, we substantially reduced exposure to lower-conviction holdings and added two new investments – Aker BP and BBB Foods – that we are quite constructive about (see our 2Q25 and 3Q25 letters for full discussions). As always, some holdings will inevitably disappoint, while others should exceed expectations. With that said, 2025 was a particularly strong year, and we caution against extrapolating these results into the future. Over the fullness of time, we will have some years that are better than others, and we emphasize that one year is not particularly informative for judging our results. Our job is to continue improving our portfolio. When we write to you next year, our goal is to be able to say – again – that the portfolio is materially better than it was at the beginning of the year.

Cash and equivalents represented 10.6% of the portfolio at year-end. Philosophically, we do not like holding elevated cash balances for extended periods. That said, given certain excesses we observe in the market, we are comfortable maintaining some dry powder while we evaluate new opportunities. Our pipeline of potential investments remains robust.

Avoiding biases

As the great late Charlie Munger said "if you make a public disclosure of your conclusion, you're pounding it into your own head." Writing these letters exposes us to anchoring bias, escalation of commitment bias, and confirmation bias. Please note that no investment operation has had a perfect success rate. We will not be the first. Accordingly, we reserve the right to change our minds and hope to do so quickly and swiftly when appropriate. We take on no obligation to communicate changes of opinion.

Portfolio metrics – year end update

In our 4Q24 letter we introduced the table below, which outlines six metrics for evaluating the financial characteristics of your portfolio. For more information on the usefulness of these, please refer to our 4Q24 letter under the section titled "How we suggest you track our progress." The metrics are updated on a semi-annual basis and presented in these letters. To help provide context, we also include comparable data for the S&P 500. The idea of adding the S&P 500 is so you can contextualize our metrics with those of the largest, most successful companies in the United States. Please refer to the important disclosures about our methodology towards the end of this letter.

	Zorea Capital		
	2024	2025	S&P 500 (2025)
Revenue per share growth (LTM)	9.8%	11.7%	4.6%
ROE (LTM)	20.6%	18.3%	18.9%
PE (LTM)	15.8x	14.2x	29.2x
PE (LTM, ex-cash & index)	10.7x	11.3x	NR
EPS Growth (LTM)	12.8%	23.5%/16.5%	16.9%
Dividend Yield (%)	1.4%	1.4%	1.2%

Source: Zorea Capital estimates, public filings, S&P Global. Market price data is as of 12/31/25, financial data is latest reported as of the same date. Please refer to important disclosures at the end of this presentation.

For more information on why Zorea Capital's *EPS growth* was presented with two numbers, please refer to the following footnote[2].

As noted in previous letters, the longer the timeframe, the more informative these metrics become. Individual years can be subject to noise that distorts any individual metric. With that said, we are pleased – but not satisfied! – with the look-through metrics our portfolio achieved at year-end. Our portfolio's *Revenue per share growth* is approximately 2.5x that of the S&P500's. As a result, despite our strong performance for the year, the portfolio continues to trade at what we consider an attractive valuation. More importantly, we believe the underlying companies producing this output have strong, defensible businesses. Together, these characteristics provide the ingredients to compound capital at an attractive rate with a low risk of permanent impairment over the long term.

Please note that the *EPS growth* metric for both our portfolio and the S&P 500 is particularly noisy this year. We explain some of the drivers of this noise within our portfolio in footnote 2. With respect to the S&P 500, our work suggests that the index's currently reported figure overstates underlying earnings growth. For the index, current market expectations are for annual *EPS growth* of approximately 11% once 4Q25 earnings are finalized, which we believe is closer to current reality. Increasingly, we find *EPS growth* too noisy to be reliably informative in the context of our table. For that reason, anchoring on *Revenue per share growth* – supplemented by a subjective assessment of margins and value creation – strikes us as more useful. We are evaluating whether to discontinue reporting *EPS growth* in future letters and welcome client feedback on this point.

Disruption in software land?

Since Marc Andreessen wrote his famous WSJ article "Why Software Is Eating the World" in 2011, investors have come to view software (sold as a service) as one of the most attractive business models: recurring revenue, high gross margins, low churn (driven by entrenched products), and strong operating leverage. Unsurprisingly, well-managed leading software providers have historically traded at premium valuations.

More recently, the emergence of generative AI – and its ability to materially lower the cost of producing software – has begun to challenge that narrative. As AI systems automate increasing layers of coding, testing, and maintenance, barriers to entry may fall and hurt incumbents. In some applications, tools like ChatGPT or Gemini are better suited to perform tasks that were previously

[2] Zorea Capital's EPS growth for 2025 is presented as 23.5%/16.5%. The reason is that one of our portfolio companies, AKER BP, had negative EPS for the period. EPS is negative because of a large (and expected) investment that the company is undertaking in order to increase capacity. EPS growth cannot be calculated for a company with negative EPS. The industry standard for presenting look-through EPS growth when there is negative earnings is to exclude that company from the calculation. When we do that, we calculate a look-through EPS growth of 23.5%. Furthermore, we believe that this number overstates our portfolio's true EPS growth. As a result, we added a second calculation where we assume that AKER BP's EPS was down 100%. That leads us to a portfolio EPS growth of 16.5%. Both numbers were presented for our readers.

delivered via traditional software. At $25 per month for a ChatGPT subscription, these tools present a potentially existential risk for some companies.

Determining AI's ultimate impact on the world is a complex forecasting problem, where accuracy and confidence are unachievable goals. Our objective is not to predict outcomes, but to highlight dynamics that appear increasingly relevant. Two examples help illustrate the point.

We are subscribers of FactSet as our primary financial data platform. We value the product, though our bank account does not. Historically, there were few viable alternatives to FactSet, Bloomberg, or Capital IQ[3]. Today, that is changing. For our specific use cases, we believe we can replicate FactSet's functionality at a fraction of the cost, largely due to AI-enabled tools. While FactSet's customer base has historically been price-insensitive, it is difficult for us to envision a scenario in which the company can continue to grow subscribers while sustaining ~33% EBIT margins. We believe this dynamic helps explain why FactSet shares declined roughly 39% in 2025.

Our second example is Adobe. The company owns some of the most important applications in the creative ecosystem, including Photoshop, Premier, Illustrator, Firefly, and Acrobat, amongst many others. Adobe is managed by a capable management team and it benefits from meaningful lock-in with enterprise customers. However, AI has clearly weakened Adobe's historical dominance in certain areas. Competing tools, particularly Google's Nano Banana, can leapfrog Adobe applications in some use cases for a lower cost – and they are only getting started. Canva is another solution that is also fast encroaching but on simpler use cases. Adobe's Creative Cloud Pro subscription costs $69.99 per month and includes usage limitations on AI features. While professional designers are unlikely to abandon Adobe, many casual or semi-professional users now have credible, lower-cost alternatives. In our view, Adobe's 36% EBIT margins may represent a vulnerability in this new environment. This helps contextualize the stock's 44% decline since early 2024.

We highlight these examples not to single out FactSet or Adobe. They are true market leaders with strong products, capabilities, and hard-working employees who want to make their products better. We do it to help illustrate why there is merit to the change in narrative. While it is difficult to generalize, we believe that in cases where (1) the task can be performed well by AI, (2) incumbents charge high prices, and (3) there is a large addressable market, incumbent companies face a greater risk of disruption unless they successfully adapt.

What are we doing about it? First, we have looked at our portfolio and sensitized our exposure to potential AI disruption risk. While there are still many unknowns, we believe the portfolio's aggregate exposure is not material.

Second, we are actively exploring opportunities within the software sector. Periods of indiscriminate selling often present attractive entry points. We find it unlikely that all software businesses will be negatively impacted by AI. Our objective is to identify exceptional businesses with defensible positions and long runways, where AI is unlikely to be a material headwind. Any upside from AI would be incremental. We are dedicating significant time to businesses we have long admired but have

[3] All of which are priced relatively similarly.

never been able to invest in given their valuation. Adobe is an example where we concluded that fundamentals have deteriorated. We are maintaining our high standards.

Alignment

A cornerstone of our portfolio management philosophy is to manage client portfolios in the same way we invest our own capital. At Zorea, we cannot guarantee results, but we can guarantee that we are in the same boat as our investors.

Thank you for your trust.

Yours truly,

Simon Bennaim

Clients, consisting of a 1.8% management fee. Our Qualified Clients may elect from other fee schedules we offer. Qualified Clients who elect a different fee schedule may pay higher (or lower) fees and therefore realize lower (or higher) net returns depending on the portfolio's performance. The specific fee charged to a client will be identified in the client's advisory agreement.

Because this account was established prior to Zorea becoming a registered investment advisor, this means the performance results are 'hypothetical'. Different types of investments involve varying degrees of risk and there can be no assurance that any specific investment will either be suitable or profitable for a client's investment portfolio.

Index information is included for illustrative purposes only, as it is not possible to directly invest in an index. Indices are unmanaged, hypothetical vehicles that serve as market indicators. Index performance does not include the deduction of fees or transaction costs which otherwise reduce performance of an actual portfolio.

Broader market events will generally have some corresponding impact on our results and the client portfolios managed in accordance with our strategy. For example, if US equity markets rise overall, that will frequently help the performance of portfolios with exposure to US equities, while declines in the overall US equity markets will frequently hurt the performance of portfolios with exposure to US equities. Similarly, increases or decreases in interest rates will have an inverse relationship on bond market prices (higher interest rates generally result in lower bond prices, and vice versa) and also some corresponding impact on the returns of fixed income investments. No investment approach can guarantee a positive return or prevent loss.

Performance results shown are not a guarantee of future results and are not a guarantee or prediction of how any client portfolio will perform.

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<u>Portfolio Metrics – notes on methodology:</u>

For all companies we use latest reportable information as of the date of the quarter. The numbers are our best estimates and what we use internally. However, coming up with the different numbers requires assumptions and some subjectivity. We try to be consistent with our methodology through *time but there is no guarantee of accuracy. We use source documents for our calculations. The growth calculations under this table are a weighted average of the underlying growth of our investments. Some important callouts below.*

- *Revenue per share growth (LTM): only includes our single names (indexes are excluded). For CACC, SYF, and AER, we substitute Revenue growth for Book value growth as we see that metric as more relevant to underlying business growth.*
- *# of Positions: excludes T-Bills.*
- *ROE, PE, and EPS growth: all three of these metrics use 'earnings' either in the numerator or the denominator. For the companies that we see GAAP or IFRS Net Income as a good proxy of earnings power, we use that. For the companies where it isn't, we use the metric we deem most appropriate, which is usually Free Cash Flow or company adjusted earnings, but can be something else. We believe we are conservative when publishing these numbers, but we cannot guarantee that such is the case. Both ROE and EPS growth calculations excludes our exposure to indexes and cash. HCA is excluded from our ROE calculation because the company has negative equity. TBBB is excluded from these three metrics as earnings are not meaningful.*
- *PE (LTM, ex-cash & index): This metric represents out calculation of PE of our individual company investments. It excludes cash as well as any index exposure we may have.*