Zorea Capital Equity Portfolio 2Q 2026 letter

Fellow investors,

Our performance for the second quarter of 2026 was -1.7% (gross) and -2.2% (net). This brings 2026 YTD performance to -5.8% (gross) and -6.6% (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)*
2026 (through June 30, 2026)	-5.8%	-6.6 %
2025	28.2%	26.0%
2024 (inception May 1, 2024)	6.6%	5.8%
Annualized:		
1 year	2.0%	0.2%
2 year	11.9%	9.9%
Since inception	12.4%	10.4%

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

Despite our negative short-term performance so far this year, our companies have performed broadly in line with our expectations. As you will see later in this letter, at the end of the quarter our portfolio's annual revenue per share growth was 13.8%, while earnings per share growth was 25.7% / 17.2%[1]. Both our highest since inception. At the same time, our portfolio stands at what we consider to be a very attractive valuation, with a trailing PE ratio of 13.4x.

As we have consistently said, our long-term performance should closely track the long-term earnings power growth of our companies. Short-term deviations are expected. Valuation changes are an inherent feature of public markets, and we view them as largely unpredictable. Over the short term, they can have a material impact on our results. Over the long term, their impact should be much more limited.

We believe the current contraction in the aggregate valuation of our companies has been partly driven by the market's exuberance around AI. As capital flows into different areas of the AI "theme," market participants appear to be funding those purchases by selling other investments. This is a common feature of exuberant markets. In 1999, the peak of the internet bubble, the S&P 500 was up 21%, while Berkshire Hathaway was down 20%[2]. This was when Berkshire was still led by Buffett and

[1] Both figures are on a last twelve month basis. For an explanation of why we present *EPS growth* as two numbers please refer to footnote 3. As a reminder these numbers are estimates, see relevant disclosures.
[2] Source

operating at an exceptional level. Once the bubble popped, the relative performance sharply reversed.

As our readers know, we try to take advantage of valuation changes inside our portfolio when they occur. Depending on the company, we may adjust our exposure if we believe the valuation has materially disconnected from reality. These are marginal portfolio management decisions. What will drive our returns over the long term should be the fundamental performance of our businesses.

During the quarter, we completed the sale of our shares in Charter Communications. Our timing was fortunate, as we sold before their earnings report. We also reduced our investment in T-Mobile by half. Our work suggests that the company's culture is deteriorating, and we have not been impressed with the new CEO. The company continues to execute well, and its combination of best network and cost leadership should continue to produce profitable growth, but our level of confidence is lower.

To replace these sales, we initiated small investments in Constellation Software ("CSU") and Uber ("UBER"). Each position was sized at less than 3% of the portfolio.

Our CSU thesis is an extension of our Topicus.com ("TOI") thesis. We have developed increased conviction in the defensibility of these Vertical Market Software businesses as it relates to AI and believe there is a real possibility that AI will be beneficial to them. Here you can read how our thoughts have evolved on the topic. In addition, with capital leaving the sector, CSU and TOI may have an easier time executing acquisitions at accretive prices.

On UBER, ride sharing is going through a significant transformation as Waymo begins offering ride-sharing services with fully autonomous vehicles ("AVs"). Waymo has a head start, which has allowed it to gain some traction, but several AV competitors are also quite advanced. UBER has partnerships with many of the next wave of AV companies. We believe that within the next year or two, UBER should have a healthy amount of AV supply in its network. Once that happens, given UBER's network density, we believe Waymo will have a hard time matching the price and service levels that UBER will be able to offer. The best ride-sharing product is an AV on UBER. The market is UBER's to lose, but they must execute. If our thesis proves wrong, we believe our downside is limited by the physical and economic constraints on AV expansion.

For those interested in more detailed underlying position commentary, feel free to reach out. We usually provide more individual company commentary in our year-end letter but are happy to provide updates individually.

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 – half-year 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. Please refer to the important disclosures about our methodology towards the end of this letter.

	Zorea Capital		
	2024	**2025**	**1H2026**
Revenue per share growth (LTM)	9.8%	11.8%	13.8%
ROE (LTM)	20.6%	18.7%	19.9%
PE (LTM)	15.8x	14.1x	13.4x
PE (LTM, ex-cash & index)	10.7x	11.3x	11.4x
EPS Growth (LTM)	12.8%	23.5%/16.5%	25.7%/17.2%
Dividend Yield (%)	1.4%	1.4%	0.9%

Source: Zorea Capital estimates, public filings, S&P Global. Market price data is as of 06/30/26, 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* is presented with two numbers, please refer to the following footnote[3].

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 continue to see an improvement in *Revenue per share growth*. We believe our portfolio today is inherently faster growing and higher quality than it was a couple of years ago. Importantly, we have not loosened our underwriting standards in pursuit of growth.

Revenue per share growth is the primary driver of *EPS growth* over the long term, which is why we pay close attention to it. It is also less noisy than *EPS growth* over shorter periods, making the metric more informative over the near term.

A year ago, in our 2Q25 letter, we disclosed *EPS growth* of +8.1%. In that letter we wrote:

> *“…we believe the current figure is temporarily suppressed due to non-fundamental factors. This metric can be susceptible to short-term noise, which can sometimes make it less informative. **We expect this metric to trend back up in the coming quarters**.”*

[3] Starting in 2025 Zorea Capital’s EPS growth is presented as two numbers. The reason is that one of our portfolio companies, AKER BP, has had negative EPS since that 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 the look-through EPS growth that is presented in the first number. 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 the second EPS growth number. Both numbers are presented for our readers.

The current *EPS growth* rate is very healthy at 25.7% / 17.2%[4]. Just as last year's figure was temporarily depressed, we believe the current figure includes some noise, but this time in our favor, so we would not extrapolate it into the future. Our best estimate is that the portfolio's look-through earnings power is currently growing in the mid-to-high teens.

Musings about a peculiar time in the markets

For this letter, we added an Appendix at the end titled 'Musings about a peculiar time in the markets.' The Appendix shows some of the frothiness we are seeing in the market today. We think the information is relevant to anyone with exposure to the broad equity markets, but it is not directly linked to our portfolio, which is why we made it an Appendix.

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

Appendix: Musings about a peculiar time in the markets

We are seeing some perplexing conditions in the market. In this appendix, we share a few of the things we are observing. Our hope is that this context will help you make better decisions.

Unprofitable technology index on the rise

Goldman Sachs has developed an index that tracks the performance of publicly traded U.S. technology companies that generate revenue but have not yet turned a profit: the Goldman Sachs Non-Profitable Technology Index ("GSXUNPTC"). A rapid increase in this index is usually associated with a speculative growth/high-duration equity rally. One in which the market is rewarding narrative and future TAM. We view this as one sign of market froth.

As shown below, we are currently in the middle of a steep rally in the index.

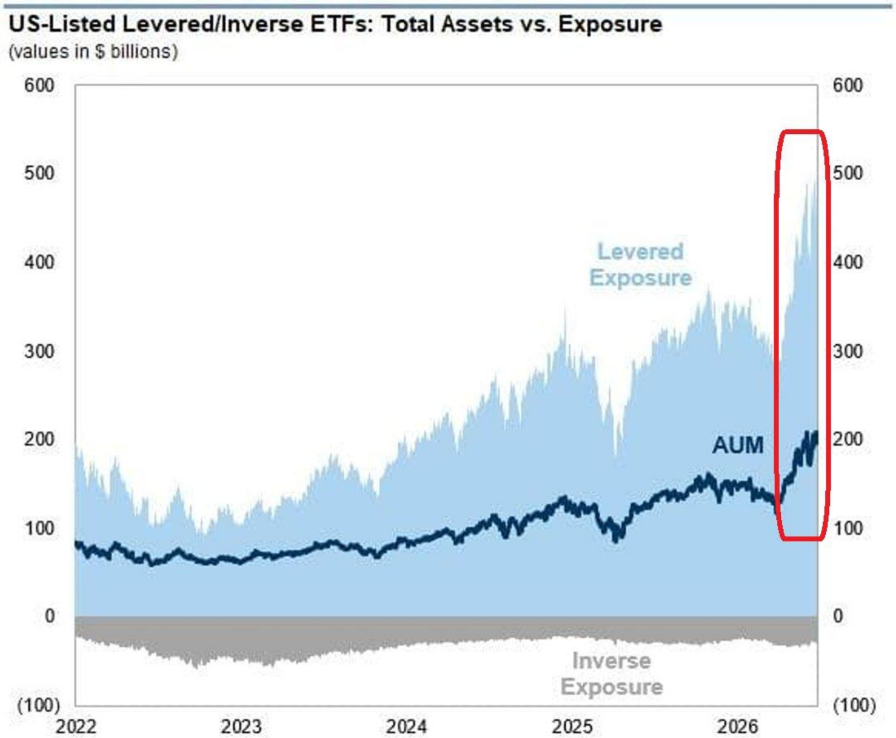
[4] See footnote 3.

Source: Bloomberg.

Levered ETFs and margin debt

Levered ETFs have had a meteoric rise in 2026. The chart below shows the levered exposure embedded in these instruments. At close to $500 billion of exposure, levered ETFs are becoming an increasingly important part of the leverage composition in capital markets.

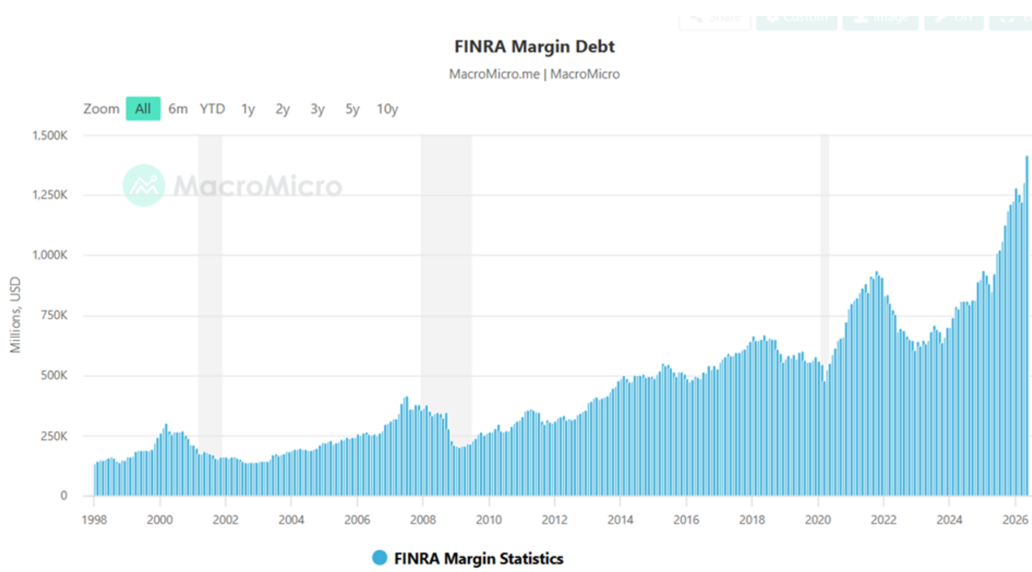
For context, FINRA margin debt currently stands at $1.4 trillion. That makes levered ETF exposure equivalent to approximately 35.7% of total U.S. margin debt. These instruments are inherently speculative, and their growing scale is another indication of the environment we are in.



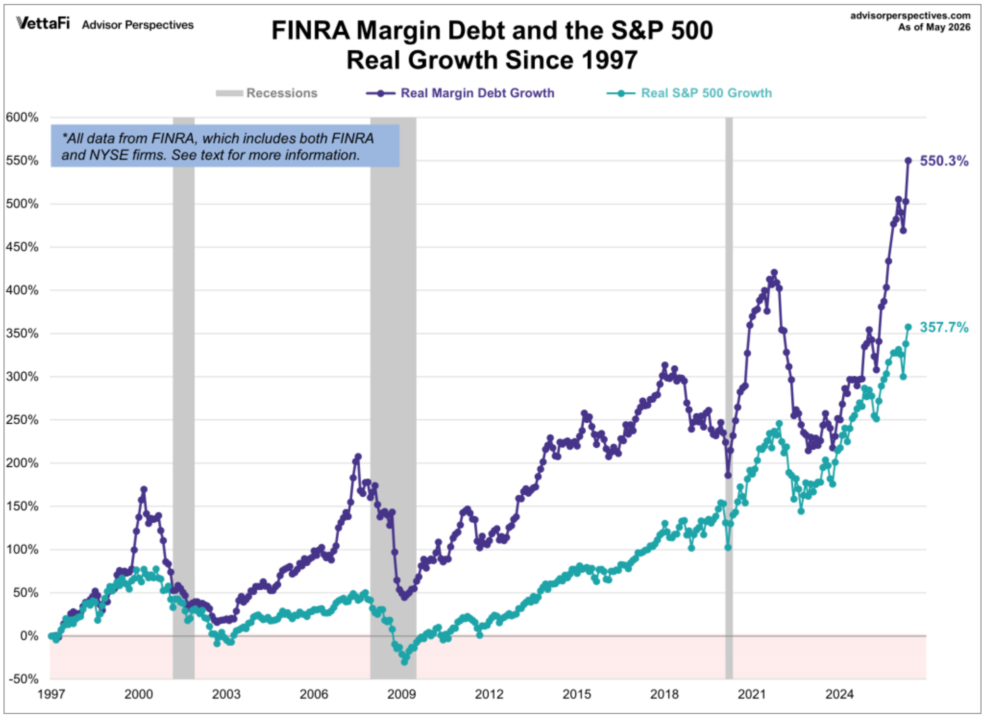
Source: Bloomberg, Goldman Sachs Global FICC & Equities

According to Citadel Securities data, the semiconductor industry represents 30% of current levered ETF assets under management ("AUM"), while technology excluding semiconductors represents another 37%.

If you were wondering whether the $1.4trillion in margin debt referenced above is significant, the two charts below should help answer that question. Note that absolute margin debt trends in a vacuum are not very informative, that is why we add the second chart which looks at the overall level in real (inflation adjusted) terms.



Source: https://en.macromicro.me/charts/415/us-margin-debt



Source: https://www.advisorperspectives.com/dshort/updates/2026/06/24/margin-debt-finra

S&P 500 earnings growth – will the laws of capitalism prevail?

We estimate that the S&P 500 is currently trading at 32x trailing earnings – nearly double its long-term average. However, earnings growth is also increasing at a brisk pace and is expected to be 24% in 2026[5]. Not bad for an index composed of the largest, more mature companies in the market.

What is driving that growth? Semiconductors and Semiconductor Equipment ("Semis").

We estimate that Semis accounted for approximately 32% of the S&P 500's 28% growth in 1Q 2026. Semis are now 19.7% of the S&P 500. Excluding Semis, the market is growing EPS at less than 10%.

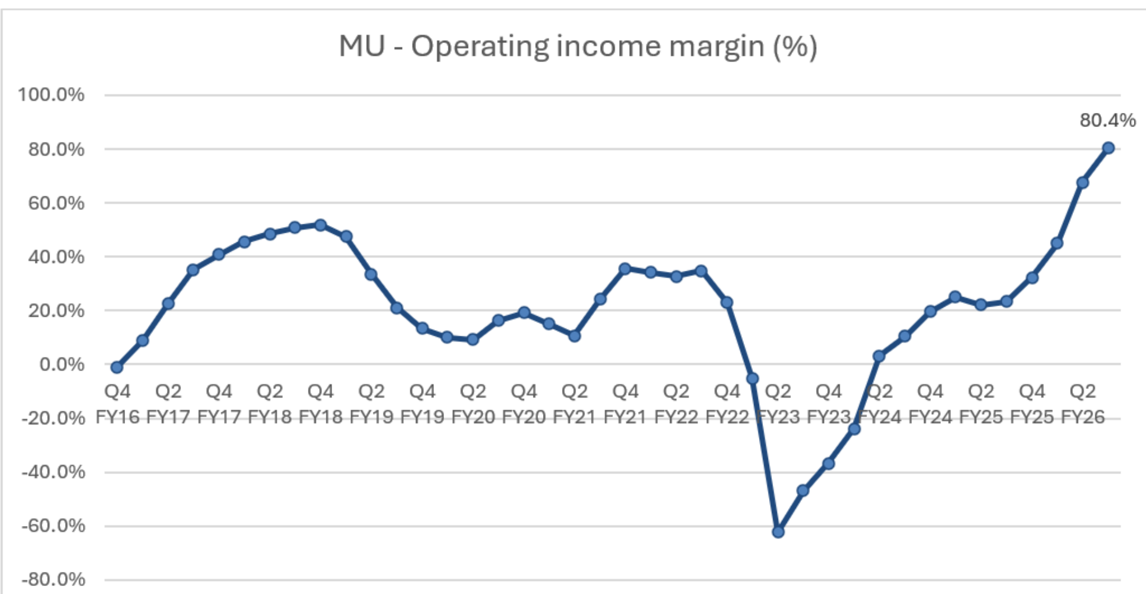
[5] JPM Guide to the Markets.

Source: Bloomberg, S&P Global, as compiled by Citadel Securities, GMI, as of June 2026. Figures are for illustrative purposes only. Past performance figures do not guarantee future results.

Semis is a highly cyclical industry currently going through a massive capex cycle driven by the aggressive AI buildout. The intensity of the buildout is causing supply shortages, allowing suppliers to earn extraordinary returns. The key question is how sustainable those returns are.

Take Micron Technology ("MU"), the largest contributor of earnings growth to the Semis industry in the US. MU is a manufacturer of slightly differentiated products required for certain AI workloads.

MU is a cyclical company whose revenues are heavily influenced by customers' capital spending cycles. As a result, its operating margins have varied significantly over time (see below). But nothing historically compares to what we are witnessing today. As of the last quarter MU's operating margins stand at an incomprehensible 80.4%.



Source: Company filings, Zorea Capital analysis.

For context, below are the five-year average operating income margins of some of the most differentiated businesses in the world:

- NVIDIA: 46.0%
- Microsoft: 43.1%
- Apple: 30.7%
- Visa: 63.9%
- Taiwan Semiconductor: 45.9%

It seems unlikely that MU, a manufacturer of a more cyclical and less differentiated product, can sustainably earn operating margins materially above some of the world-class businesses listed above. The current AI supply shortage is allowing MU and its peers to raise prices aggressively. But manufacturing supply shortages in large and growing markets are rarely permanent. In capitalism, excess profits tend to attract capital, and that capital eventually drives down returns.

This is not likely to happen overnight. It may take several years for the supply/demand picture to improve. But we believe investors should be careful extrapolating today's extraordinary profitability into the future.

Synthesizing the information in this appendix, it seems to us that the broad U.S. market is trading at high valuations on cyclically elevated earnings[6], with that cyclicality being particularly acute given the expanded role of Semis in the indexes. On top of that, high levels of leverage are making the system more fragile.

At Zorea, we are not directly participating in any of these excesses.

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[6] We haven't addressed the expected increase in the Hyperscalers' depreciation expense, which will begin running through their P&Ls in the coming years. We will leave that discussion for another day.

performance of any strategy we employ is not necessarily indicative of future results. There is the possibility of loss, including loss of principal.

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Performance information in this document reflects the actual performance of the account established by Zorea's Chief Investment Officer as of May 1, 2024. Reported net performance is net of all actual trading and other account expenses, reinvestment of all income, as well as Zorea's fees. *Zorea's fees, as presented here, are composed of our standard fee schedule for non-Qualified 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.

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Portfolio Metrics – notes on methodology:

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 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 and AKER BP are excluded from these three metrics as earnings are not meaningful.*
- *PE (LTM, ex-cash & index): This metric represents the calculation of the PE of our individual company investments. It excludes cash as well as any index exposure we may have.*