

**FIRST QUARTER 2026 INVESTOR LETTER**

Dear Investors and Friends,

The NZS Growth Equity strategy (“strategy” or “portfolio”) had a gross return of -8.75% and net return of -8.91% for the first quarter as compared to -3.30% for the Morningstar Global Target Market Exposure Index (the “Index”) over the same period.

<b>PERIODIC RETURNS (%)*</b>	QTD	1Y (ANN)	3Y (ANN)	5Y (ANN)	SI (ANN)	
NZS GROWTH EQUITY (GROSS)	-8.75%	12.24%	15.27%	6.45%	14.95%	
<b>NZS GROWTH EQUITY (NET)</b>	<b>-8.91%</b>	<b>11.46%</b>	<b>14.47%</b>	<b>5.71%</b>	<b>14.16%</b>	
INDEX	-3.30%	19.81%	16.46%	9.43%	10.86%	
DIFFERENCE (% NET)	-5.61%	-8.35%	-1.99%	-3.72%	3.30%	

  

<b>CALENDAR YEAR RETURNS (%)*</b>	YTD 2026	2025	2024	2023	2022	2021	2020
NZS GROWTH EQUITY (GROSS)	-8.75%	18.76%	21.24%	35.29%	-32.99%	22.64%	63.51%
<b>NZS GROWTH EQUITY (NET)</b>	<b>-8.91%</b>	<b>17.94%</b>	<b>20.47%</b>	<b>34.44%</b>	<b>-33.44%</b>	<b>21.86%</b>	<b>62.49%</b>
INDEX	-3.30%	22.23%	17.20%	22.13%	-18.04%	18.57%	15.83%
DIFFERENCE (% NET)	-5.61%	-4.29%	3.27%	12.30%	-15.40%	3.29%	46.66%

\*Since inception: January 1, 2020; returns as of March 31, 2026.

**PERFORMANCE OVERVIEW**

Equity markets declined in the first quarter of 2026, with particular weakness in growth stocks as the market grappled with increased uncertainty and upward bias to inflation and interest rate expectations. The portfolio underperformed the index due to this slump in growth equities and our software overweight. The resilient head of the portfolio did provide ballast, declining less than the index, while the optional tail saw a sharp correction given the growthier nature of the stocks that reside there.

In the quarter, only the Materials sector contributed positively to the portfolio’s absolute returns, though the semiconductor sub-sector also contributed strongly; Lam Research, ASML Holding, and Taiwan Semiconductor were each top-five contributors to absolute returns. TSMC, ASML, and Lam Research continue to benefit from strong demand for compute in AI infrastructure, with ASML and Lam also benefitting from unprecedented demand for memory, which should fuel continued growth in semiconductor capital equipment spending. ARM Holdings was also a top contributor following introduction of the company’s first in-house CPU design, for which it set impressive revenue growth targets based on customer commitments. Linde PLC, a global provider of industrial gases, rounded out the top-five contributors.

The largest sectors detracting from absolute returns were Information Technology, Financials, and Healthcare. Workday was the largest absolute detractor in the quarter, driven by increasing concerns over the potential disruption to SaaS platforms. Constellation Software and Atlassian, as well as other software companies in the portfolio, were similarly pressured by this growing narrative, as the market generally sold software indiscriminately. Gartner was weak on AI disruption concerns that were worsened by a disappointing outlook for 2026, which was generally in line with the market's myopic view of software. Danaher was also a top-five detractor in the quarter.

## PORTFOLIO POSITIONING

Market weakness provided compelling new opportunities, heightening portfolio activity in the quarter. The resilient head of the portfolio outperformed the index in Q1, while the optional tail experienced a steeper decline. Following the outsized market sell-off, we believe valuations in certain pockets of growth equities are at the most attractive levels we have seen in some time. As such, we began harvesting from resilient positions and incrementally adding to optional ideas that have become increasingly compelling.

In addition to general weakness in growth equities, software fell sharply over AI disruption concerns. We continue to evolve the makeup of our software holdings and began adding to the sector in late February, as we think the broad-based software sell-off has likely provided some of the most compelling multi-year opportunities in the market. (There is an expanded discussion of our software positioning below.)

Healthcare has increased in weight in the portfolio in recent quarters as fundamentals have normalized after a long post-COVID hangover, and valuations have become less demanding. Increasing lifespans from GLP-1 adoption may provide tailwinds for several segments of the healthcare sector. Stryker, which had been on our watchlist as a strong fit for our framework, was added as a new resilient position after the valuation became more attractive. Intuitive Surgical was recently promoted from optional to resilient, and we introduced WuXi XDC as a new optionality position. These additions were partially funded by trims to Penumbra, which is being acquired by Boston Scientific. Other new additions to the portfolio outside of healthcare include optionality positions in Tyler Technologies and Sabre Corp. Amidst elevated optionality turnover in the portfolio, we exited Procore, Gartner, Floor & Decor, ServiceTitan, ServiceNow, Cognex, and Lemonade.

### Software – Are you as sick of the “baby with the bathwater” idiom as we are?

It was recently suggested to us, and Gemini confirmed (of course), that it is highly unlikely a baby has ever been accidentally thrown out with the bathwater. We formally propose a more realistic phrase: “pulling out flowers with the weeds” and welcome any other suggestions. Regardless of our linguistic quibble, we do believe it is most likely that the blanket sell-off across software due to the AI disruption narrative is creating some wild mispricing of certain software companies that we believe will ultimately be able to adapt to AI. At the highest level, we break the risks into two buckets: 1) AI displacement of the incumbents via AI-native startups or internal vibe coding, and 2) seat risk, or the risk of layoffs due to AI efficiencies negatively impacting the revenues of SaaS, which is often sold by the seat.

For the risk of displacement due to AI, we ultimately focus on the NZS, or non-zero sumness, of the software businesses in which we are investing. This is simply because companies that are creating more value than they take are going to be much harder to disrupt. In some cases, AI has turned once high-NZS software products into zero-sum propositions; e.g., if their value lies largely in the code, then that value has been commoditized and the NZS impaired. We sold monday.com last November because we believe that much of the value of a project management tool lies in the code. Sources of value that go beyond the code include systems of record (SoR) for business-critical information, trust, scaled network effects, niche workflow context, tight hardware-and-software integration, institutional familiarity, incumbency, etc. We compare that value to the price of the software, which generally represents ~0-2% of customer revenues for the software companies we invest in (low tariff extractors are a theme throughout our portfolio). Tyler Technologies, which we added in the quarter, provides software for government administrative purposes, including public administration, property appraisal, tax assessment, court management, and public safety. We'd argue that Tyler's software acts as mission critical SoR whose value is much more than just the code; yet, their product usually represents only a fraction of a percent of a customer's operating budget. Even setting aside the risk-averse nature of municipal government customers, such high levels of NZS seem quite unlikely to be internally vbe coded or ripped and replaced for an "AI-native" startup with no track record. Despite this positive outlook, Tyler's stock has fallen >40% in the past year. Ultimately, we think the most likely outcome is that AI agents will interact with the existing high-NZS SoR rather than replace them. That brings us to the second, and in our opinion much bigger, risk to software from AI. We think AI is much more focused on generating ROI through the elimination of labor than displacing existing software platforms. Given that we believe the risk to labor from AI is a credible (if not likely) concern, we've positioned our software exposure accordingly. Roughly 70% of our software holdings are primarily vertical market software, i.e., companies servicing a specific vertical rather than broad enterprises; we believe the seat risk is significantly lower in vertical market software businesses. These include semiconductor design (Cadence and Synopsis), government and law enforcement (Tyler and Axon), and restaurants (Toast). We also own Roper and Constellation Software, which both provide vertical market software to a variety of niche, disparate industries through a decentralized operating model. We've manually categorized each of the underlying businesses that make up Roper (of which there are ~30) and Constellation Software (of which there are ~1,000) and feel comfortable that the seat risk faced by their underlying businesses is minimal.

The next largest bucket of software that we own has a consumption or take-rate based pricing model. For example, JFrog's binary artifactory is priced on the total amount of data storage and data transfer on its platform, which has seen dramatic growth due to the accelerated pace and volume of software being written by its customers enabled by vbe coding efficiencies. Snowflake and Cloudflare are optionality positions that also fit into this basket.

Higher seat-risk businesses are the smallest bucket of our software exposure and represent <3% of the total portfolio (Workday, Atlassian, and Figma). Should these companies successfully adapt and layer on consumption-based revenue streams to offset potential seat degradation (or should the seat degradation thesis simply not play out), they will likely be among the most asymmetric benefactors.

Lastly, in addition to focusing on companies creating high NZS and generally having less seat risk, we have also attempted to further push out the middle in software to companies that are truly “GAAP cheap” (i.e., backing stock comp out of free cash flow) or highly asymmetric. As always, we hold our views on software with a loose grip, but at present we are excited about the opportunities to position our sector holdings afforded by the indiscriminate market sell-off.

## CONCLUSION

Lastly, we want to leave anyone whose made it this far in the letter with the following line from our recent whitepaper [Portfolio Construction in Times of Accelerating Change](#): “pessimists may sound smart in the moment, but the future belongs to optimists.”

As always, thank you for your continued trust and support.

**The NZS Team**

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