



July 15, 2026

To our clients & friends:

For the second quarter of the year ended June 30, 2026, the Giverny Capital Asset Management ("GCAM") model portfolio performed as follows:¹

GCAM Performance	Quarter ended <u>6/30/2026</u>	Year-to- date ended <u>6/30/2026</u>	One-year ended <u>6/30/2026</u>	Three- years ended <u>6/30/2026</u>	Five-years ended <u>6/30/2026</u>	*Annualized Since Inception <u>6/30/2026</u>
Portfolio Return -Net	13.70%%	5.89%	13.09%	17.63%	9.92%	17.52%
S&P 500 TR	15.20%%	10.21%	22.33%	20.62%	13.41%	20.36%
Excess Return -Net	-1.50%	-4.32%	-9.24%	-2.99%	-3.49%	-2.83%

* Inception Date 04/01/2020

Returns longer than one year are annualized

I have written about this before, but over decades stock appreciation correlates closely with earnings growth. Over shorter periods, however, these two metrics can fluctuate. As Benjamin Graham once put it, in the short run the market is a voting machine, but in the long run it is a weighing machine. Psychology rules the market day to day, but earnings growth and returns on capital determine long-term returns.

Right now, the market seems to me like a voter with some pretty extreme views. The US market has been strong for a while, deservedly so in my opinion, as US earnings growth is the best in the world by a wide margin. In that sense, the market still acts like a weighing

¹ GCAM's model portfolio is a Poppe family account ("portfolio"). The portfolio does not pay an advisory fee, but the returns presented herein assume the deduction of an annual advisory fee of 1% to show what a client account's performance would have been if it had been invested the same as the portfolio. The returns reflect reinvestment of dividends and other earnings. Past performance is not necessarily indicative of future results. **Important disclosures appear at the end of this letter.**

The S&P 500 Index returns include the reinvestment of dividends and other earnings. The Index is an unmanaged, capitalization-weighted Index of common stocks of 500 major US companies. The Index does not incur expenses and is not available for investment.

machine: stocks and earnings keep growing together. Look closer, however, and we see some weird outcomes. For the first half of the year, the S&P 500 Index generated a very healthy 10.2% return. Yet 210 stocks in the Index generated a *negative* return. At the same time, about 200 stocks outperformed the 10.2% overall return.

Roughly 40% of the Index outperforming the average and 60% underperforming is not so unusual, but two-thirds of that lagging group underperforming by more than 10 percentage points seems like a lot. Even this level of dispersion might make sense if most of the earnings growth in the Index was concentrated in the 200 stocks that were up double digits. This is not the case. We own Index constituents such as Charles Schwab, JP Morgan, Mastercard and Progressive Corp. that continue to grow their earnings per share at healthy rates and in some cases at higher rates than usual, but whose stock prices are lagging.

Schwab, for example, earned \$4.87 per share in 2025 and the consensus of Wall Street analysts calls for earnings per share, or EPS, of \$7.62 in 2027. That would represent a two-year growth rate of 56%, or 25% per year. As of June 30th, the shares were down 8% for the year and trading at \$92.27, or 12 times the 2027 EPS estimate. The Index trades for more than 20 times the forward estimate. We added to Schwab during the quarter, making it our third-largest position.

Similarly, Wall Street analysts expect Mastercard to compound EPS by 15% over the next few years, roughly the same rate as the past 20 years. The stock was down 10% in the first half of 2026 and has lagged the Index over the past five years. JP Morgan has compounded earnings in the low teens over the past decade, with growth accelerating recently, but the stock lags the market this year.

The consensus of Wall Street analysts says Progressive will report lower earnings this year than last, as auto insurance rates are in decline after years of rate inflation. Progressive's growth rate is indeed slowing, but for the first half of 2026 its EPS rose 7%. Despite this, the share price dropped 4% for the first half of the year. We added to our position in June. For the first time in years, Progressive has been buying back its stock.

In some cases, the market is saying that earnings may grow in the near term, but over time Artificial Intelligence (AI) applications are going to enable lower-cost competitors to enter the business. This speculative narrative has been true for Constellation Software, which we discussed in our last letter to you. This thesis will be tested over time, but for now Constellation continues to grow adjusted earnings per share and free cash flow per share by roughly 20% annually. The stock dropped 21% in the first half.

All of this is to say, we're out of sync with the Index and we're not inclined to change course. I believe we own high quality earnings compounders that will benefit from implementing AI

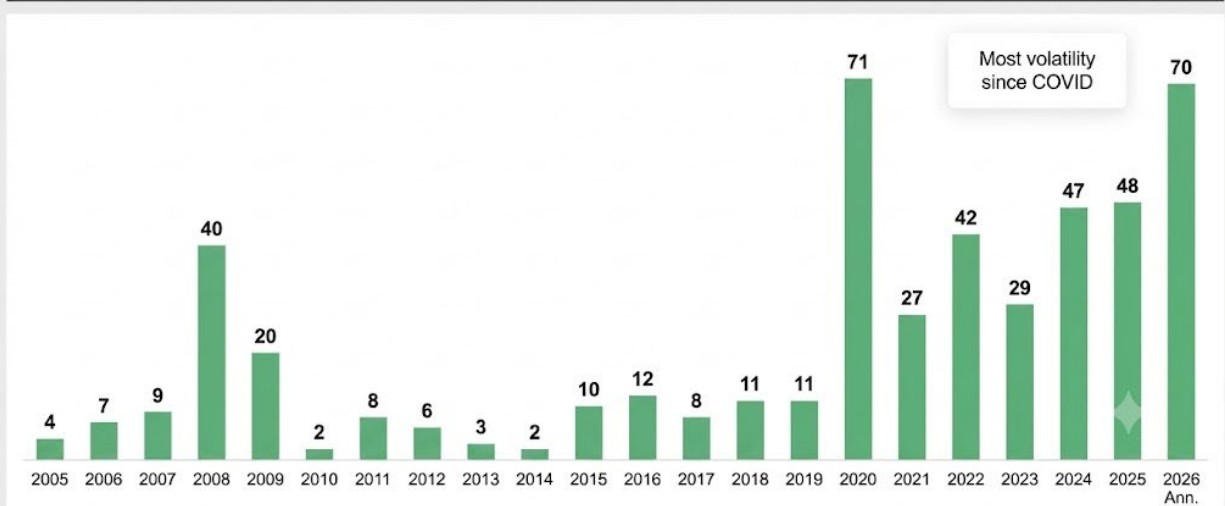
capabilities and are likely to maintain their dominant competitive positions. We're generating a good return, but I think our companies overall are performing better than their stock prices would indicate.

So, the market in some cases is marking down companies we own despite their healthy earnings and high returns on capital. That doesn't make it a voting machine; perhaps it just makes it annoying. However, the flip side of that coin is that the market over the past few years increasingly has become skewed to chasing momentum.

The chart below shows the number of days per year that the US Momentum Index (an index that tracks recent winners and market trends) goes up or down at least 1.5 percentage points. Honestly, I spent most of my investing career never thinking about the Momentum Index. In a bygone era of, oh, a decade ago, there might've been 10 days a year when the Momentum Index swung wildly. Since the pandemic, the number has risen significantly.

The daily moves are very volatile

of days with +/-1.5% move (US Momentum Index)



Investors understand that advances in Artificial Intelligence likely will have a profound effect on economic growth, labor productivity and corporate earnings. They also understand that almost unfathomable amounts of money are being invested in AI data centers without much visibility as to what the ultimate returns will be. There is a push and pull, then, between fear of missing out on a revolutionary technological advance and of being wiped out if the advance ends up delivering disappointing financial returns.

Most of us took US history and know that the construction of the railroads 150 years ago created enormous national wealth while bankrupting many early investors and causing an

economic depression in the 1880s. The dotcom bubble in the late 1990s played out similarly: technology stocks soared for several years but ultimately investors lost fortunes on stocks like Lucent, Nortel, Global Crossing and peak-level Cisco Systems, even as society benefited from more robust communications infrastructure and new internet businesses.

This push and pull between greed and fear creates itchy trigger fingers. In May, we had a single day in which one of our holdings, AAON, Inc., reported strong earnings and saw its stock rise 31%, while another holding, Installed Building Products (IBP), reported mildly disappointing earnings and lost 28% of its value. AAON has a terrific business unit that makes cooling systems for data centers, where demand is strong. Upward we go! [Reality check: AAON subsequently gave back a fair amount of the one-day increase.]

On the other hand, IBP's primary business is installing fiberglass insulation into new home construction, and it has a large presence in the Northeast. Home construction overall is sluggish, and the Northeast had its harshest winter in years, making construction delays common. IBP's weaker volumes were not surprising, but the stock cratered. We expect IBP's shrewd management will respond to the lower valuation by buying back stock.

Not surprisingly, we're seeing huge fundraising efforts by tech giants to take advantage of the optimism of investors. Massive IPOs either completed or on tap from AI darlings like Space Exploration Technologies, Open AI and Anthropic, plus chunky secondary stock and/or debt offerings from Alphabet, Amazon, Nvidia, Oracle and others may eventually drain what has been a very deep pool of investor liquidity.

Are we in a bubble? The demand for more AI computing capacity seems insatiable. Corporate America is remarkably efficient, with profit margins and returns on capital far higher than they were a generation ago, making it hard for me to second guess the spending involved. The market is strong for good reasons, yet this feels like a moment where people are betting on moonshots. I recently listened to a bullish AI investor say the investment thesis depends on AI developing cancer treatments or solving intractable physics problems: it needs to make the economy larger. The investment is so high that automating office work or upgrading chatbots won't create sufficient returns.

The moonshots may happen, but what if they don't happen soon? In the meantime, some terrific companies are being left behind. As I still believe the market is a weighing machine, I think the best course is to continue to own those companies in addition to our technology leaders.

Our two largest positions are Alphabet and Arista, which I believe have strong positions in the emerging AI economy. Alphabet has a near monopoly in search, a robust cloud data

center business, a leading computer chip used in AI data centers, a highly profitable asset in YouTube and the premier autonomous driving platform in Waymo. It has built a tremendous collection of assets.

Arista is the leading provider of networking equipment for hyperscale data centers. As AI traffic grows exponentially, data center owners increasingly need signal to move seamlessly not only within a given data center, but between data centers. The demands on the routers and switches that direct the flow of traffic are considerable. As the most sophisticated networking provider, Arista's growth may accelerate in coming years.

Our fourth-largest position is Taiwan Semiconductor, which is up nearly 100% since we bought it last summer. TSMC is the primary supplier of leading-edge computer chips for nearly every major technology company, from Nvidia to Broadcom to Apple. Its growth is also accelerating, with June revenue up 68% from a year earlier.

So, we're invested in AI growth. That said, I'll repeat that our industry leaders outside technology are doing just fine. They have ample financial resources to invest in AI to improve process automation, data analytics and software code writing, while remaining excellent at the core parts of their businesses.

With that, the following charts show our best and worst contributors to performance over the first half of the year.

Top 5 Contributors for Six Months Ended 06/30/2026	Ending Weight %	Total Return %	Contribution to Return %
Arista Networks	9.0%	29.7%	2.7%
Taiwan Semiconductor	6.1%	54.2%	2.3%
Alphabet Class A	9.7%	14.3%	1.8%
AAON, Inc.	4.0%	66.7%	1.7%
Watsco, Inc.	4.3%	26.6%	1.0%
	33.2%		9.5%

Bottom 5 Contributors for Six Months Ended 06/30/2026	Ending Weight %	Total Return %	Contribution to Return %
Constellation Software Inc.	3.8%	-21.3%	-1.1%
Meta Platforms, Class A	5.1%	-14.5%	-1.0%
Kinsale Capital	5.7%	-15.6%	-0.9%
Charles Schwab	6.8%	-7.0%	-0.3%
Installed Building Products	3.3%	-10.5%	-0.3%
	24.7%		-3.7%

My two cents on the best and worst contributors is that our top five are terrific, have run up a lot this year and now are expensive. Our bottom five are terrific, unpopular with Mr. Market and, as a result, are attractively priced.

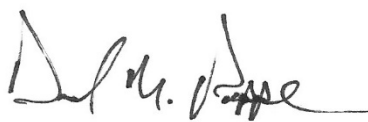
As for portfolio activity for the quarter, we trimmed Alphabet and Arista. We sold about 20% of our position in Arista in April in two tranches at an average price of about \$160. The stock finished the quarter higher than our sale price.

We sold 17% of our position in Alphabet in April at about \$380. Management subsequently sold \$80 billion of stock in a secondary offering at \$350 to raise money to fund more investment in data centers. I feel we did the responsible thing in trimming Alphabet as it got to nearly 12% of our portfolio. Arista and Alphabet remain our largest positions as of June 30. The valuations on both are high enough that future returns likely will be lower than we're used to, even if the businesses continue to grow.

We used the proceeds of those sales to add to our financial stocks. During the quarter we added to Charles Schwab in two tranches at \$92 and \$85; we added to Kinsale in the mid-\$330s and to TWFG, a consolidator of independent insurance agencies, at around \$19. In June, we bought more Progressive at \$205.

We will host our annual client meeting in New York City on the morning of Friday, October 9. I will provide an overview of the portfolio and our investment thinking and leave most of the time for your questions. My partner Francois Rochon will attend, as will analyst John Bleday. We hope to see many of you there and will provide clients with more details on the event in coming weeks.

With every good wish,

A handwritten signature in dark ink, appearing to read "David M. Poppe". The signature is fluid and cursive, with a long horizontal stroke at the end.

David M. Poppe

Disclosures

The performance returns presented herein are those of a Poppe family account (the “Portfolio”) that serves as the model portfolio of Giverny Capital Asset Management LLC (“GCAM”). The Portfolio is managed in accordance with the investment strategy that GCAM employs for its client accounts; however, the performance of a client account may differ from that of the Portfolio due to account size, client-specific guidelines or restrictions, tax considerations, cash flows into and out of the account and timing of transactions and other factors. Performance returns of the Portfolio as of the most recent quarter end can be found at www.givernycam.com/performance.

Past performance is not necessarily indicative of future results.

Top 10 Holdings* –June 30, 2026

Alphabet Class A&C	9.7%
Arista Networks	9.0%
Charles Schwab	6.8%
Taiwan Semiconductor	6.1%
Kinsale Capital	5.7%
Medpace Holdings	5.2%
Meta Platforms	5.1%
Progressive Corp.	4.7%
Heico Class A	4.7%
Watsco Inc.	4.3%

Total	61.3%
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** The holdings are those of the Portfolio as of the date indicated. Client account holdings may differ from those of the Portfolio due to account size, client-specific guidelines or restrictions, tax considerations and other factors. The Portfolio’s holdings are subject to change and are not recommendations to buy or sell any security. The percentages are of total assets. Top 10 holdings of the Portfolio as of the most recent quarter end can be found at www.givernycam.com/performance.*

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All investments involve risk and may lose value. For a discussion of risks, see Item 8 of GCAM’s Form ADV Brochure.

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