CLIO ASSET
MANAGEMENT LLC

April 23, 2025

Dear clients,

As previously disclosed, the Clio Core Portfolio returned +3.5% during the first quarter of 2025.

Net Returns (incl. Dividends) through 3/31/2025	Clio Core Portfolio	S&P 500 Index ETF (SPY)	Clio Relative
Q1 2025	3.5%	(4.3%)	+7.8%
Last Twelve Months	1.6%	8.3%	(6.7%)
Last 5 Years (Annualized)	16.5%	18.5%	(2.0%)
Since Inception (Annualized)	14.2%	12.4%	+1.8%
Since Inception (Cumulative)	137.3%	113.5%	+23.8%

Global markets across nearly all asset classes have been turbulent following the US government's various trade and tariff announcements. Over the seven weeks from February 19 through April 8, the S&P 500 dropped 20%.

As of yesterday, the Core Portfolio had declined (2.9%) in the month of April, bringing the year-to-date return to +0.5%. The S&P 500 Index ETF (SPY) is down (5.7%) in April and down (9.8%) for the year.

The primary purpose of this letter is to provide additional details regarding the changes I have made to the Portfolio since the start of the year – including one exit and two new buys, totaling roughly 8% of capital. The bulk of Section II below will be devoted to a discussion of our new investment in Palvella Therapeutics. Palvella may strike some clients as being an atypical addition given Clio's history of investing in more mature businesses, but I hope you'll come away with a sense of my conviction in the opportunity and the reasons I believe it deserves a place in the Portfolio.

I. INVESTMENT PERFORMANCE

The Core Portfolio has held up reasonably well year-to-date given the broader market volatility. The outperformance compared to the S&P 500 has been driven by two primary factors:

1) The Core Portfolio entered the new year with nearly 40% of capital invested in O'Reilly Auto, AutoZone, and Berkshire Hathaway – which are each up c. 15-17% year-to-date through yesterday. The auto parts retailers have been viewed as potential tariff beneficiaries, the idea being that consumers will forego new car purchases at higher prices and instead opt to fix and maintain their existing vehicles. I believe this to be a logical view, although I do not expect reported revenues and cash flows to drastically improve in the near-term as a result.

   Additionally, given the non-discretionary nature of most auto parts purchases, these companies should be able to pass on tariff pricing increases to end customers. Falling oil and gasoline prices have provided an additional tailwind, as lower fuel costs spur more miles driven, which causes parts to break and need repair.

   Berkshire Hathaway shares have performed well as investors reward the company's exemplary capital allocation skills. Having sold nearly $150bn in public equities at high prices in 2024 (including nearly $125bn in Apple stock, in what has been probably the most successful investment of all time), Berkshire now sits on more than $300bn in cash & short-term Treasuries. Shareholders are optimistic that Warren Buffett and his team will find attractive uses for this cash in the current turmoil.

   The rest of the Portfolio, however, has mostly gone down this year along with the broader market. Our investments in technology companies (ServiceNow, CDW) and consumer discretionary/housing (Hilton, Builders FirstSource) are down in a range of c. 10-30% on a combination of rising interest rates, government cutbacks, and slowing consumer spending.

2) The largest tech companies (the so-called 'Magnificent 7'[1]), which drove the bulk of S&P 500 returns in 2023 and 2024, are down c. 23% this year on average, through yesterday's close. Investors have begun to worry more intensely about the broader return-on-investment profile of massive AI investments – a topic I have addressed in previous letters.

   The arrival of a low-cost Chinese AI model called DeepSeekR1 provided the initial spark for a large tech selloff in February. More recently, these companies have been hit as the market tries to assess the varying impacts on their business models of the trade and tariff headlines. Given their weightings in the S&P 500 Index, these seven companies continue to have a disproportionate impact on 'market' returns.

When I set out to build Clio seven years ago, a primary goal was to provide clients with institutional-quality, deep fundamental equity research and portfolio management while stripping away as many barriers to long-term after-tax performance as possible.

In my view, the typical institutional asset manager is at a structural disadvantage when it comes to maximizing investment returns. One of several reasons for this is that their own clients often view them as part of certain style, sector, or market capitalization 'bucket' – i.e. small cap value; large cap growth; US healthcare; European financials, etc.

[1] *The Magnificent 7 moniker refers to Apple, Microsoft, Nvidia, Amazon, Alphabet, Meta, and Tesla.*

While specialization can be helpful, this categorization can limit the opportunity set of the managers and incentivize them to own their benchmark's recent winners, whether or not they have developed internal conviction on the investment. For example, when a large index weighting like Nvidia quadruples, like it did from 2022-2024, and takes various index benchmarks up along with it, many firms feel real pressure to have exposure.

From the outset, Clio's approach with the Core Portfolio has entailed broad flexibility, with just a few limiting guardrails via the Investment Policy Statement (IPS). First, it limits the asset class universe to stocks – as I have always believed that equities are the best way to preserve and grow investable wealth in a tax efficient way over a long time. Equities are also my specific area of expertise. Second, the IPS outlines a set of investment criteria which I believe are indicative of high-quality businesses which can create durable value. Third, the IPS communicates that Clio will aim to concentrate the Core Portfolio's investments in roughly 8-12 securities. And lastly, the IPS notes the objective of generating absolute returns, and thus Clio does not manage its holdings or exposures in relation to any benchmark.

As I see it, this is a quite flexible mandate, and has allowed Clio to own all sorts of different businesses since inception – companies with market caps greater than $1 trillion and less than $1 billion; US companies, but also Swedish, Norwegian, Dutch, and UK firms; technology startups under 10 years old but also a 150-year old paint manufacturer; and a variety of business models and sectors – manufacturers, distributors, retailers, franchisors, insurers, software developers, media creators, payment processors, healthcare suppliers… the list could go on. While I make relatively few trades each year, I am constantly on the lookout for new and interesting opportunities which might fit our criteria.

Over the years, the Core Portfolio has taken on different 'personalities' and behaved in different fashions over shorter time periods. In 2019 and 2020, the Portfolio owned a significant amount of high-growth technology companies (software and payments) and acted more like the Nasdaq Composite. At June 30, 2021, the Portfolio held 26% of its capital in international stocks, thus looking more like the ACWI All-World Index (which is split roughly 65%/35% US/International). More recently, the Portfolio has exhibited a lower revenue-growth profile with less technology exposure, often behaving in an almost inverse fashion to the Nasdaq.

All of these 'personalities' are arbitrary, in that I don't construct the Portfolio to ever track any index. They are simply the result of bottom-up stock picking and my conviction in the individual investments, combined with a desire to have some degree of balance around end-market demand exposure at the Portfolio level (i.e. US vs. non-US revenue; enterprise vs. SMB vs. retail customers; discretionary vs. non-discretionary purchases, etc.).

The irony to me in all this is that, without intentionally trying to do so, the Core Portfolio has managed to outperform all these indices since inception – even the mighty Nasdaq, despite having minimal exposure to megacap tech over the years.[2] Had I chosen to explicitly manage the Portfolio relative to a benchmark, I doubt I could have achieved these results.

And this is where you come in. My strong belief remains that Clio's client base remains its most important competitive advantage. Only by having long-term, patient investors who understand Clio's process, goals, and

[2] *A table showing the Core Portfolio's net performance since inception along with various Index ETFs is provided in the Appendix.*

investment philosophy can I ever hope to achieve our objectives. Misalignment between clients and fund managers is the biggest killer in this business.

Clio will continue to manage the Core Portfolio without regard to a benchmark. Nevertheless, I'm pleased with our relative performance record since inception, as I think it helps validate my original motivations for designing Clio's structure, strategy, and client base the way I did. I remain very confident in our current holdings and believe the quality of the Portfolio has steadily improved over time. Thank you for entrusting me with the ability to execute on Clio's original vision.

II. PORTFOLIO UPDATE

As I mentioned in my last letter, I made very few changes to the Core Portfolio in 2024 – a few minor tweaks here and there, and only one new investment (in January 2024, at just a 3% position size). This year's choppy market has already presented some opportunities to make more changes to the Portfolio than last year, although we're talking about buys and sells totaling roughly 8% of total capital – so still not a significant amount of turnover. In the first quarter, I trimmed Sherwin Williams, added slightly to Visa and Hilton, and exited Danaher. In April, I purchased Adyen and Palvella Therapeutics.

The Core Portfolio had owned Danaher since November 19, 2021. On January 31, I sold the Portfolio's 4% position at c. $230/share. Over those 3 ¼ years, the investment returned -6.5%, during which time the S&P 500 rose about 35% - a disappointing outcome.

Danaher has a tremendous track record of strategic re-invention and shareholder value creation over the past forty years. Admittedly, my initial purchases were not timely, as the company was temporarily over-earning due to one-time Covid-related spending. It subsequently suffered as customers digested large inventory builds, in addition to other headwinds in customer demand.

While challenging end-markets are typically not reason enough to justify an exit from an investment, in Danaher's case I developed two more serious concerns about the company's longer-term prospects. First, I don't believe the current management team has exhibited the same ability to prudently allocate capital as did prior leadership, especially when it comes to large acquisitions. Secondly, my analysis began to indicate that Danaher was consistently losing market share across some of its key product lines. As such, I decided the Portfolio's capital would be better invested elsewhere.

In early April, I re-initiated an investment in Adyen (ADYEY). You may recall that this Dutch payment processing company was a Day One investment for Clio on October 1, 2018, and produced a solid investment return over the 5-year course of our ownership. I sold our holding in late 2023 on my concerns around the competitive environment. PayPal, which owns a competitor to Adyen called Braintree, had begun slashing prices to the point where it was probably earning negative margins. PayPal's risky strategy was to use Braintree as a loss leader to gain market share and bolster its larger branded consumer business. Adyen refused to engage in this race to the bottom and saw some revenue headwinds as a result. It was unclear to me at the time how long PayPal would continue to play this game, and if industry's margin structure would be permanently impaired.

I have continued to monitor the broader payment processing space closely – in particular Adyen, which I have always viewed as having an incredibly impressive management teams and culture. After my sale of Adyen, PayPal hired a new CEO who smartly abandoned the price-cutting strategy. Additionally, several once-heralded venture-funded startups in the industry have fizzled out, further boosting my confidence in Adyen's technology and cost advantage.

Adyen reported solid Q4 earnings in February but subsequently sold off more than 30% as part of the wider tariff-induced market declines, at which point its valuation on a multiple of EBITDA and free cash flow was the lowest in its history. I bought a 3% position in early April and will likely look to add to the investment over time.

As I write this section on April 17th, a large complicated transaction has just been announced in the payment processing / merchant acquiring space where Adyen competes. Global Payments (GPN) is acquiring Worldpay from FIS and simultaneously selling its Issuer Solutions business to FIS – a roughly $40bn transaction. Both Global Payments and Worldpay were Day One Clio investments but subsequently made the large acquisitions that got them in the mess they find themselves in today. In July 2019, I wrote the following, prior to selling both stocks over the ensuing months:

> "With each new deal comes a meaningful longer-term challenge associated with integrating the core technology platforms and re-engineering the underlying payments infrastructure to be as unified as possible. Indeed, you may recall this concept as being one of the primary attractions underlying Clio's investment in European payments processor Adyen, as I noted in my October 19th, 2018 investor letter: 'As a result of its more recent founding in 2006, Adyen's technology platform and code base were built from scratch to facilitate unified commerce around the world, in addition to the functionality to provide data and analytics to its customers.'"

GPN and FIS/Worldpay have performed terribly over the past five years, in large part due to their history of bulking up via acquisitions which they then fail to integrate. I expect the latest iteration of this strategy that has just been announced to also end in failure, which gives me increased confidence that Adyen will continue to gain share. The market seemed to agree, at least initially, with GPN stock down 17% on the day of the latest deal.

Palvella Therapeutics Inc. (Nasdaq: PVLA; share price: $27.50; market cap: $375 million)

For the purposes of the remaining discussion, I think it is useful to re-post the following section from the Core Portfolio's Investment Policy Statement:

> "Clio will seek to invest the Core Portfolio in a concentrated set of high-quality publicly-traded companies, focusing particularly on those with the following characteristics:
>
> - Strong fundamentals and competitive advantages
> - High returns on capital
> - A high-quality management team and positive corporate culture
> - Attractive reinvestment opportunities
> - A purchase price that represents a discount to Clio's estimate of the company's intrinsic value

Clio's universe of potential investments will include a broad range of industries, geographies, and market capitalizations."

By way of background, I have been familiar with Palvella Therapeutics since it was founded in 2015 and a personal investor in the company since 2018, which came about through my relationship with the company's CEO, whom I have known for 25 years. Palvella is an early-stage biotechnology company focused on developing and commercializing new therapies to treat serious, rare genetic skin diseases.

I made my first investment in the company's Series A fundraising in March 2018 prior to launching Clio and have subsequently invested in four of the company's additional private financings over the past seven years. Palvella is one of just four small private investments I currently hold, and the majority of my invested capital remains in the Clio Core Portfolio strategy alongside yours.

Palvella closed its reverse merger and PIPE financing on December 13, 2024 at around $15/share, after which it began trading on the Nasdaq. As I studied the company more closely over the ensuing four months, I developed conviction that Palvella meets the criteria listed above for the Core Portfolio, despite being at an early stage of its lifecycle.

By early March, the stock had traded up to the $28-29 range. I decided I would be comfortable owning up to a 1.5% position in the Core Portfolio should the stock ever fall back to a range of $20-22. That opportunity came more quickly than I expected, as the broader market and in particular biotech stocks fell sharply in early April. As a result, I built our 1.5% position in Palvella at an average price of $20.69 over the course of four days, from April 4-9. The stock is currently trading around $27, and I do not intend to further increase our investment in the near to medium term.

I believe Palvellas's technology, vision, strategy, team, and balance sheet are all aligned to give the company a much higher probability of long-term value creation than is implied by the current stock price.

Technology and Product Pipeline

The key driver behind the company's current value and its long-term opportunity is its technology platform, which it calls Qtorin. Palvella developed Qtorin internally under the leadership of Chief Technical Officer Braham Shroot, Ph.D., who has over 30 years of experience in drug R&D, specifically for skin disorders. Having previously worked at multiple biotech companies, Dr. Shroot holds over 50 patents and has authored more than 260 scientific journal publications. He spent 21 years as head of research at Galderma, which has a portfolio of dermatology products focused on acne, rosacea, psoriasis, and skin cancers, among other products.

Following two years of internal R&D and more than 80 prototypes at a likely cost of several million dollars, Palvella finalized its development of Qtorin in 2018. Qtorin is an anhydrous (i.e. waterless) gel which provides various benefits when compared to existing treatments and therapies. It can deliver a high concentration of an active therapeutic/drug directly into the epidermis and dermis (the site of the target disease), while limiting the risk of the drug being absorbed into the bloodstream, which can cause unwanted side effects. The gel is stable at room temperature (which is quite difficult to achieve) and has been shown to be well tolerated by patients with minimal skin irritation.

Importantly, Palvella believes that Qtorin is a compatible delivery mechanism for more than 15 different drug molecules, which could be used to treat a broad range of rare skin diseases. In the first instance, Palvella is using the Qtorin gel to deliver *rapamycin*, an existing drug which was initially developed as an immunosuppressant for use in organ transplants in the 1990s. Rapamycin inhibits the growth of certain cells and was found to be effective in off-label use for some skin diseases.

However, prior to Qtorin, rapamycin has only been available in pill form. Taken orally, very little of the actual drug can reach the dermis, providing limited therapeutic benefit, but causing significant side effects and risk of adverse interactions with other drugs. Accordingly, the FDA has never approved oral rapamycin for treatment of skin diseases – the risks simply outweigh the benefits.

Palvella is currently running a Phase III clinical trial for the use of Qtorin rapamycin in treating microstatic lymphatic formations (MLM), a debilitating genetic skin disease affecting c. 30,000 people in the US. The disease originates at birth and can have a serious impact on a patient's quality of life, including the need for frequent hospitalizations. Current treatment options include surgery, chemotherapy injections, or off-label drugs with significant toxicities – each of which is suboptimal vs. a targeted topical gel. The Phase II trial, completed in 2023, showed significant improvement in patient outcomes.

The FDA has given Palvella's MLM product candidate various official designations which can be beneficial in the remaining approval and commercialization process. Breakthrough Therapy Designation and Fast Track Designation provide benefits including an expedited priority review process and the ability to submit application data on a rolling basis. Orphan Drug Designation provides 7 years of marketing exclusivity after approval – essentially shielding a product from competition from other drugs targeting the same rare disease.

Additionally, the Phase III trial was awarded a $2.6m Orphan Product Grant by FDA last November – one of 7 such grants out of 51 total applicants. Industry research has shown that drug candidates receiving these various designations and grants from the FDA have a higher probability of final approval than the typical applicant. From an IP perspective, on April 22, Palvella was granted its fifth issued patent by the USPTO for Qtorin rapamycin, which extends patent life through 2038.

Vision, Strategy and Roadmap

New drug development is inherently risky, expensive, and highly competitive. Industry studies have shown that it typically costs $1-2 billion to bring a new drug to market, and success rates for Phase III clinical trials is around 58%. Once approved, drugs often face intense competition from rivals with slightly different approaches to treating the same disease. Orphan drugs for rare diseases can be less expensive to develop (largely due to smaller, more focused clinical trials), but may lack market size opportunity.

I believe Palvella's vision and strategy, combined with the technology outlined above, make it a much more compelling investment opportunity than a typical biotech or pharmaceutical company. It has a differentiated product solution and a significant cost advantage in drug development, making it highly capital efficient with the opportunity to generate extremely strong returns on invested capital.

Palvella's vision is to be the leader in treating rare, genetic skin diseases for which there are no FDA-approved therapies. The company notes there are roughly 600 rare skin diseases, most of which are genetic. Of these, only

2% have an FDA-approved therapy. There are very few companies focused on this space – a rare niche of limited competition when compared to other disease areas like cancer, heart disease, diabetes, and arthritis.

Palvella's strategy is to focus its R&D investments on those rare skin diseases where the Qtorin gel has a credible opportunity of shepherding a drug to the skin and delivering transformational impact for patients for whom no effective alternative currently exists. Additionally, Palvella intends to internally commercialize any approved products – meaning it will build its own contract manufacturing capabilities and salesforce, which can be leveraged across multiple products. This platform-building approach contrasts with the strategy of many other biotech companies, who often desire to quickly sell assets to big pharma following positive trial data – leaving both the risk and reward of commercialization to others.

As mentioned above, Qtorin rapamycin for MLM is currently in a Phase III trial which is scheduled to end in Q1 2026. Should the data be positive, Palvella would look to submit a New Drug Application to the FDA in H2 2026, and hope for final approval by Q2 2027. Palvella has a second product candidate, also using Qtorin rapamycin, for a disease called Cutaneous Venous Malformations (CVM), which has 75,000 patients in the US. It expects Phase II trial results in Q4 of this year.

Additionally, the company plans to announce two additional product candidates later this year – one which would use Qtorin rapamycin for a third indication, and another non-rapamycin Qtorin product which would aim to deliver one of the 15 other drug molecules mentioned earlier to treat yet another rare skin disease.

Thus, by the end of this year, Palvella should have four separate 'shots on goal' in various stages of development, along with a robust internal R&D effort aimed at identifying further uses for Qtorin across a subset of those 15 drugs and 600 rare skin diseases. Palvella is a unique company with a compelling technology advantage, limited competition, and a long runway for re-investment. As of December 31, Palvella held $84 million of cash and no debt, enough to fund its operations and growth roadmap through H2 2027, thereby mitigating medium-term balance sheet/financing risk.

Palvella has told the market that it believes Qtorin rapamycin for MLM and CVM combined have the potential for greater than $1 billion in peak sales. I believe the eventual opportunity for these two product candidates to be quite a bit higher. With 100,000+ total patients (30,000 for MLM and 75,000 for CVM), and an average orphan drug price of $100,000+ per year, the Total Addressable Market would be north of $10 billion; $1 billion in annual sales would imply only 10% market penetration.

I believe that peak penetration will be higher. Successful orphan drugs often see penetration rates in the 30-50% range within 5 years of launch. There are 142 Vascular Anomaly Centers across the US which treat a significant percentage of this patient population. Palvella has developed strong relationships with many of these VACs – so it knows how to reach many of these patients. Physician surveys have shown very high enthusiasm for Qtorin, and patients currently have no other viable treatments. While these drugs would be expensive, insurers will likely cover them given the costly alternative of surgeries and frequent hospitalizations for MLM and CVM sufferers.

Should these first two product candidates be approved, I believe annual US revenue for Palvella could reach at least $1.5-2.0bn in the 2034-2036 time frame, with additional opportunities in non-US markets such as Europe and Japan. With very high gross margins, limited recurring R&D expenses, and reasonable estimates for Sales & Marketing expenses, these two products would be highly cash generative. Using a discount rate of 20% implies a

DCF enterprise value in the $2.0-$2.5bn range, or $150-175/share. At our entry price of just over $20, the market seems to be attributing very low odds of success for these two product candidates, as well as little to no value for the underlying Qtorin technology platform which should have multiple applications beyond MLM and CVM.

Estimating future Return on Incremental Invested Capital (ROIIC) for a company like Palvella requires a somewhat different approach than my analysis of, say, a new O'Reilly or AutoZone store. At a very basic level, if I assume bringing a new drug to market on the Qtorin platform costs between $40-75 million, has a conservative 15%-30% chance of success, and can serve a similar patient population size as the MLM and CVM products, then the company can potentially achieve ROIICs on the order of 150%. While my assumption is that Palvella will be able to fund much of its new pipeline development with internally generated cash flows, I think there will also be solid appetite for these types of returns should the company want to raise outside capital.

My base case valuation attributes a 70% chance of success for the MLM product, a 40% probability for CVM, and $250 million of Qtorin platform value for further drugs to be developed. Taken together, these would imply a target share price of c. $115 in five years. A downside case would look something like both trials for MLM and CVM failing and the company being put up for sale. In this case, I estimate a downside valuation of $75 million for the platform/technology, and $40 million of remaining cash on hand, which implies a share price of c. $8.50.

Why does the opportunity exist for such a skewed risk/reward profile for Palvella? The company is new to the public markets and is just beginning to tell its story. It did not go public via a traditional IPO with an extensive investor education 'roadshow'. Rather, it listed via a reverse merger with an existing cash shell and an associated PIPE equity raise. It has a small market capitalization of c. $375 million and low but improving trading liquidity, which can make it difficult for larger institutional investors to own shares in any meaningful size. As Palvella executes on its roadmap and continues to tell its story to the market, I believe investor interest and trading liquidity will improve materially over the coming year.

Additionally, biotech stocks have generally been out of favor for some time, with relevant indices like the XBI and BBC down 25-50% since 2021. Recent turnover in leadership at FDA has further spooked some investors. On the other hand, investors in rare disease companies were encouraged last week by new FDA Commissioner Marty Makary's comments on April 18th:

> "It's been a little more than two weeks since Marty Makary took over as FDA commissioner and already he's announcing plans for a new, customized conditional drug approval pathway for therapies that could treat exceptionally rare diseases. "We're going to be rolling out a new pathway for drugs based on a plausible mechanism," the former Johns Hopkins surgeon told Megyn Kelly in an interview on SiriusXM last week. The approvals would be made "on a conditional basis," Makary said, without a randomized trial. Instead, the agency would closely monitor patients on the drugs until there's a clearer signal in the data, he said."[3]

Such a change to FDA's regulatory process for orphan drugs could significantly speed up the time-to-market while also reducing cost.

[3] *Endpoints.com, April 21, 2025: https://endpts.com/fdas-makary-floats-new-approval-pathway-for-rare-disease-drugs/*

Team

Palvella's management meets the high bar that Clio looks for in its portfolio companies. The team has created a patient-centric and shareholder-focused culture that aligns with its core mission. As noted earlier, I have known CEO Wes Kaupinen for more than two decades and have always found him to be a person of high integrity, with a very strong work ethic and natural leadership ability. Wes has spent his entire 25-year career in life sciences, firstly as a venture/growth investor for 8 years at Apax and Quaker Partners, followed by two years in corporate development at Insmed, a $12bn rare disease company. He has stayed true to his original vision for Palvella to build a durable, capital-efficient, and highly impactful rare disease platform.

Wes has recruited a strong leadership team and board of directors to Pavella. In addition to Dr. Shroot, Chief Scientific Officer Jeff Martini joined in 2020, bringing deep scientific and commercial experience to the company. Dr. Martini holds a Ph.D. in molecular pharmacology and worked for 9 years in R&D roles at Teva and Marinus Pharma.

On the financial side, as the company prepared for its Nasdaq listing and next stage of growth, Matthew Korenberg joined in October 2024 as CFO. Matt was intimately familiar with Palvella, having worked for 9 years at Ligand Pharmaceuticals which provided Palvella with growth financing through royalty deals in 2018 and 2023. Previously, he worked at Goldman Sachs for 14 years as a managing director in their healthcare investment banking practice. I view Matt's decision to move from Ligand to Palvella as a vote of confidence in the company's growth trajectory and odds of success. Collectively, the management team owns c. 20% of Palvella shares, providing strong alignment with minority shareholders.[4]

The board of directors is similarly impressive and comprised of experienced biotech investors and operators. Shortly after Clio built its stake, Palvella filed a Form 4 with the SEC indicating that Chairman George Jenkins purchased an additional $100,000 in the open market on April 9 at a price of $20.20 – another indicator that those who know the company best see good value at recent prices.

The team at Palvella has created the foundations for a durable, value-creating rare disease platform over the past decade. However, the progress has not been linear, and the company has seen its fair share of setbacks along the way. I have been impressed with how Wes and his team have responded to adversity, which I believe directly stems from the company's clear vision and strategy and their desire to make life-changing impacts on the patients they plan to serve.

Portfolio Construction and Risk Management

At this point, you may find yourself thinking: "OK. I understand Clio's investment thesis for Palvella. But why even bother with a 1.5% position? Isn't that just too small to matter, and likely just a distraction?"

This is where Clio's approach to portfolio construction and position sizing comes into play. A more typical new investment for Clio might enter the Portfolio at a 5% weighting, with the intention of potentially increasing over time. Additionally, many of Clio's investments have presented a risk/reward profile which looks something like: a base case IRR (annualized return) over 5 years of c. 15%, with a downside scenario of a potential 20-30%

[4] *The 20% ownership figure is a Clio estimate, pending confirmation in the company's annual proxy filing due by the end of April; prior to the reverse merger and PIPE financing, Palvella's directors and officers owned 31% of the company.*

loss. A 5-year 15% IRR is almost exactly a double, meaning a core 7% position would generate a profit of 7 percentage points. A 25% decline on a 7% position would generate a 1.75 percentage point loss.

Because of the wider range of potential outcomes for Palvella, a 1.5% position size presents similar potential outcomes. A 6x return over five years on a 1.5% position would generate a profit of 7.5 percentage points on total capital, while a 60% loss would imply a permanent capital impairment of just under 1 percentage point. Because the risk of permanent loss is higher, I am choosing to cap this investment at 1.5% for the time being, despite the somewhat more favorable risk/reward skew.

I certainly understand that some clients may find the profile of this new investment unusual, given Clio's history of owning larger, more mature businesses. I hope I've provided an adequate explanation of why I believe Palvella fits Clio's criteria and deserves a place in the Portfolio at a smaller-than-usual position size. I view Palvella as a uniquely attractive opportunity which originated with my personal familiarity with the company and my strong confidence in the management team. At the same time, I do not expect this profile of investment to become a recurring component of the Core Portfolio.

To those who still worry that biotechnology stocks are more suitable for a venture capital strategy or carry too much 'binary' risk around FDA approvals, I understand your perspective. But I'll also close this section with some additional food for thought on this front.

I would argue that many companies, not just biotech, exhibit embedded risks around new projects and incremental investments that can be underappreciated by the market. Most casual investors would not consider an S&P 500 index fund to carry 'venture capital'-type risk – after all, this is the product most experts tell us to own and lock away for decades. But the composition of the S&P 500 index has changed meaningfully in recent years. Heading into 2025, the Magnificent 7 comprised 33% of the index's total value. This year, these seven companies are planning to spend $380-420 ***billion*** in capital expenditures – an increase of 60-75% over the $240bn they spent in 2024 (which was already a large step-up).

The vast majority of this $160 billion in incremental investment will be spent on cloud and AI infrastructure. Is this spend 'binary' in nature – meaning it either works or it doesn't? Will one of these companies emerge a relative winner in AI, while the rest are left behind? What about the hundreds of other VC-backed startups that are all attacking the AI opportunity with deep pockets and incredible competitive intensity? What about state-backed Chinese companies who are piggybacking off Western IP to build lower-cost alternatives?

In my opinion, there is a real chance that over a multi-year period, 1/3 of the S&P 500 index will have spent more than $1 trillion on projects which may generate substantial consumer surplus but minimal incremental cash flows for their investors. These are indeed risky bets.

Or take the case of companies in the large-cap pharmaceutical sector, which are often labelled 'defensive value investments' based on their strong near-term cash flows, low P/E multiples, and high dividend payout ratios. The casual investor may not appreciate the significant risk posed by patent expiry and the ensuing entry of generic competition. For example, between now and 2030, Pfizer faces patent cliffs on drugs representing 33% of its current revenue; Merck is in an even worse position, facing a 56% cliff, including $26 billion of revenue at risk from a single cancer drug, Keytruda, which goes off-patent in 2028. To replace these revenues, Pfizer and Merck will need to spend tens of billions of dollars trying to develop their next blockbuster – or, more likely, by buying

smaller, more innovative firms. Is this a VC-type, binary risk to these stocks, which are included in millions of conservatively managed retirement accounts around the country?

My point here is not to dismiss any of the real risks Palvella faces in achieving its vision and executing its strategy. The path to FDA approval and revenue generation will not be without its challenges. It is more to highlight that every investment has risks – even the companies that many observers consider relatively 'safe'. My job in building the Clio Portfolio is to try to develop a deep understanding of the drivers of risk vs. return for a limited number of companies which fit our criteria, and then to entrust our capital to superior management teams who can create durable shareholder value.

III. CLIENT BASE AND ORGANIZATIONAL UPDATE

At March 31, Assets Under Management totaled $128 million from 50 clients. There are no significant operational or organizational updates to report.

On March 13, our family welcomed our third daughter, Emmy Aldigé, into the world. Everyone is doing well and adjusting nicely to life as a family of five. Back in my April 2019 where I announced the birth of our middle daughter, Clara, I joked: "She is looking forward to spending Saturday mornings reading the Wall Street Journal with her father and big sister Louisa." I am proud to report that Clara (now six) actually read a Journal article to me last week – about the rare axolotl salamander which has become a cult favorite among the younger generation: https://www.wsj.com/world/americas/mexico-axolotl-conservation-5f7179c7

As always, thank you for your support, and please feel free to get in touch with any questions, comments, or concerns.

Sincerely,

James Aldigé

Clio Asset Management LLC

APPENDIX

Clio Core Portfolio Net Returns vs. Various Index ETFs since inception (Oct 1, 2018-April 22, 2025)

Investment / Index ETF	Return Since 10/1/2018 (Annualized)	Clio Relative Performance (Annualized)	Description
Clio Core Portfolio	13.6%	--	
S&P 500 (SPY)	11.2%	+2.4%	500 leading US companies, representing c. 80% of US public equity market capitalization; capitalization-weighted
Equal-Weight S&P 500 (RSP)	8.6%	+5.0%	Same as above, but constituents given equal weightings quarterly
Nasdaq Composite (ONEQ)	12.5%	+1.1%	Includes all companies listed on the Nasdaq exchange; heavy technology exposure; capitalization-weighted
Russell 2000 (IWM)	2.9%	+10.7%	2,000 smaller US-listed companies; capitalization-weighted
Dow Jones Industrial (DIA)	8.2%	+5.4%	30 US 'blue-chip' companies; price-weighted
MSCI All-Country World (ACWI)	8.5%	+5.1%	3,000 global stocks across developed and emerging markets; capitalization-weighted

Current Clio Core Portfolio (as of April 22, 2025)

Investment	Position Size
O'Reilly Auto (ORLY)	19.1%
AutoZone (AZO)	11.5%
Berkshire Hathaway (BRK.B)	10.9%
CDW (CDW)	8.3%
Ferguson (FERG)	8.1%
Hilton (HLT)	7.7%
Visa (V)	7.1%
ServiceNow (NOW)	6.8%
S&P Global (SPGI)	5.0%
Sherwin Williams (SHW)	4.8%
Adyen (ADYEY)	3.4%
Builders FirstSource (BLDR)	2.9%
Palvella Therapeutics (PVLA)	2.0%
Cash & Equivalents	2.4%

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Performance comparisons to benchmarks such as the SPDR S&P 500 ETF Trust ("SPY Index ETF", "SPY", or "S&P 500 Index ETF") are provided for information purposes only. The SPY is an exchange-traded fund which seeks to provide the investment results that, before expenses, correspond generally to the price and yield performance of the S&P 500 Index. The S&P 500 Index is a diversified large cap U.S. index that holds companies across all 11 GICS sectors, and as such may differ materially from the securities managed by Clio in client accounts. Benchmarks such as the S&P 500 Index and the SPY may be of limited use in understanding the risks and uncertainties inherent in the investment strategies managed by Clio.

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