CLIO ASSET
MANAGEMENT LLC

May 27, 2026

Dear clients,

The start date of the modern era of Artificial Intelligence is often pegged as November 30, 2022 – the day OpenAI publicly released ChatGPT. Subsequently, AI has been the most important factor driving market movements across nearly all asset classes globally.

Since that day, the Clio Core Portfolio's annualized return of 12.7% is reasonable, but it pales in comparison to the 20.8% yearly return of the S&P 500 (SPY) – which has in large part been driven by AI.[1] I think it is fair to say that the Core Portfolio has been on the wrong side of the Artificial Intelligence investment boom over the last 3 ½ years.

Recently, with each passing month, I find myself feeling worse about Clio's short-term performance and yet better about the future prospects of the Portfolio. Intuitively this dynamic makes sense, but it has been a frustrating experience to watch big tech and AI infrastructure stocks skyrocket while the rest of the market gets left behind.

Investors today are squarely focused on companies with the following attributes: bottlenecks; catalysts; and momentum. These qualities are typically fleeting, in that they often resolve themselves or reverse within a year or two. They are generally not indicative of long-term value creation over a 5-7+ year period, which is the universe of companies where Clio searches for its investments.

- A bottleneck refers to a temporary chokepoint in a relatively commoditized value chain in which supply cannot keep up with demand; as a result, the commodity supplier can temporarily charge monopoly-like prices on its increased volumes, leading to explosive growth in revenues and earnings. We are seeing this dynamic play out, for example, in the memory chip market today.
- A catalyst refers to an upcoming event which will unlock the value of an investment, often within the next 3-6 months. Examples could be a major new contract win, a positive earnings release, an acquisition by a larger competitor, or a favorable regulatory or legal decision.
- Momentum describes the strategy of buying the recent winners (and/or selling recent losers), with confidence that the recent trend persists.

[1] *Annualized performance from November 30, 2022 through April 30, 2026.*

The strategy of buying the winners which are temporarily benefitting from AI bottlenecks has been extremely profitable in recent years. Clio's strategy of owning durable, steadily growing businesses with long reinvestment runways has not worked nearly as well lately.

The first strategy requires one to behave as a renter of a security, with no qualms about moving in and out of companies and sectors every few months. The latter requires the mindset of a business owner – open to embracing the inevitable ups and downs of business performance as long as the underlying drivers of long-term value creation remain structurally intact. Whether a strategy works in a given cycle is driven as much by market psychology as by company fundamentals.

That said, I have been more active than usual over the past few months in making portfolio adjustments to enhance the robustness of our holdings in an AI-driven world. The Core Portfolio, as it stands today, holds some of the highest quality companies with the best business models that I have encountered in my career. Many are trading at their lowest valuations in nearly a decade, and I believe the Portfolio is well placed to handle a variety of future economic scenarios, including a selloff of the AI market leaders, an economic recession, and/or a rise in inflation.

I have taken advantage of the selloff in non-AI stocks to add two holdings from Clio's Focus List (Linde and Copart), purchased a highly defensive medical supply distributor which recently went public (Medline), and bought what I believe to be the most durable company in the "AI universe", Alphabet. Brief overviews of these companies are included in Appendix D.

I have most of my personal capital invested in the Core Portfolio, and I feel a deep responsibility to sustainably grow your capital alongside mine. Despite the recent underperformance, I have strong conviction that I would rather own the Core Portfolio over the next five years than an S&P index laden with AI infrastructure stocks.

In this letter, I plan to provide updates on the current state of the markets, recent portfolio changes, and individual company developments.

I would welcome a one-on-one conversation with each of you to discuss how the profile of the Core Portfolio currently fits into your broader asset allocation strategy and objectives, as the investment landscape and the composition of the overall market has changed meaningfully over the past several years.

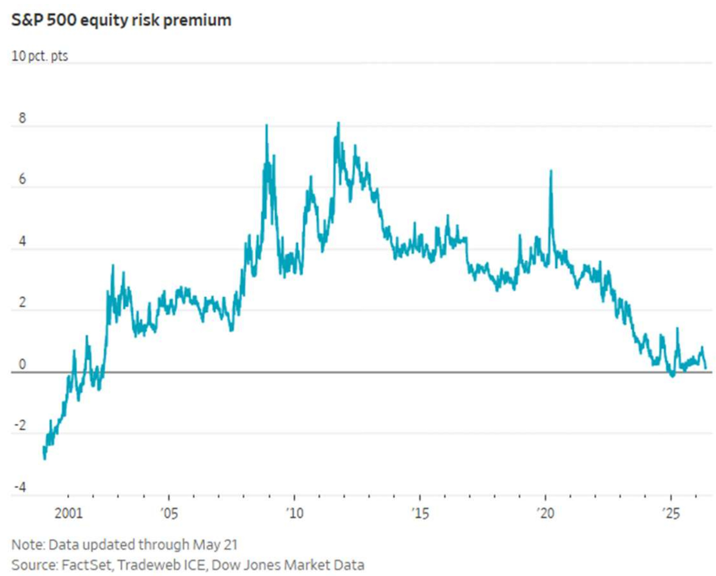
Lastly, I believe our investment in Palvella Therapeutics presents a uniquely attractive opportunity, with the potential to return 2-3x or more over the next 2-3 years. Given the characteristics of the investment (a clinical-stage biotech company) and the mandate of our Investment Policy, I am unlikely to add materially to our holdings in the Core Portfolio.

That said, for those clients who may desire to allocate capital to a higher risk/reward investment with limited exposure to broader macro/market dynamics, I believe Palvella is a very compelling candidate. Should you wish to discuss increasing your exposure to this investment outside of the Core Portfolio strategy, please reach out to me about potential implementation options. I am finalizing a new presentation which outlines the current investment thesis and valuation scenarios.

I. THE CURRENT MARKET ENVIRONMENT

For owners of index ETFs covering the broad market, like the S&P 500 (SPY), annual returns since 2023 have been outstanding. I hold index funds personally in 529 accounts for my children and have been very pleased with the performance. But I am growing increasingly wary about the underlying trends driving the market.

The S&P 500, Nasdaq 100, and Russell 2000 indices are each at all-time highs. The S&P "Equity Risk Premium", a measure of the compensation demanded by investors for the risk of holding stocks vs. a 10-year Treasury bond, has essentially fallen to zero – a level not seen since the early 2000s.[2]



At the same time, sector leadership has been extremely narrow, with consumer, financial, and health care stocks meaningfully lagging the technology sector. Defensive stocks (i.e. those which tend to hold up better during economic downturns or recessions) have performed particularly poorly.

In my last letter in November, I noted the following:

> *For some time now, the Core Portfolio has often exhibited an inverse correlation to the Nasdaq over shorter time periods of days and weeks. When the Nasdaq and large tech stocks sell off hard, the Core Portfolio is often flat to positive. When the Nasdaq surges higher, the Portfolio generally underperforms the broader indices…*
>
> *Candidly, I don't foresee much likelihood of a change in this dynamic anytime soon. Thus, if megacap tech and the Nasdaq continue to drive the market higher, it is likely that the Core Portfolio will continue to underperform the S&P 500. If the market sours on the AI infrastructure*

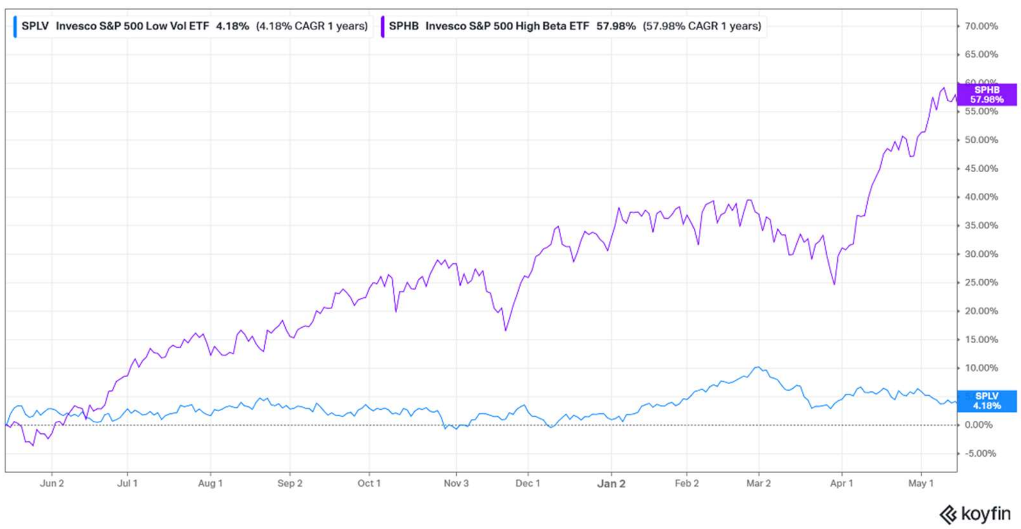
[2] *Source: https://www.wsj.com/finance/stocks/the-risk-premium-for-holding-stocks-over-bonds-is-vanishing-95be5b9d?mod=hp_lead_pos7*

theme, dragging down the heavily tech-weighted indices, I believe the Core Portfolio should fare much better.

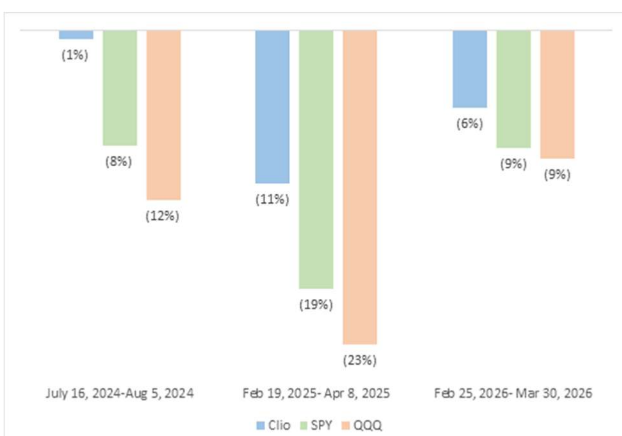
This dynamic has persisted into 2026. I see it on a daily, if not hourly basis. But zooming out, there are a couple of different ways to illustrate the Portfolio's behavior.

The first is the concept of beta – a measure of a company's stock price relative to the overall market (e.g. the S&P 500). The market has a beta of 1.0 by definition, so anything higher means more volatility, and anything lower means less. I estimate that the weighted-average beta of our 14 investments is around 0.8 – which is likely the lowest it has been since inception.

Low-beta stocks have massively underperformed high-beta over the past 12 months – and especially in the last eight weeks.



The Core Portfolio's defensiveness can also be demonstrated by its performance during the three largest market selloffs over the last three years, as compared to the S&P 500 (SPY) and Nasdaq 100 (QQQ):



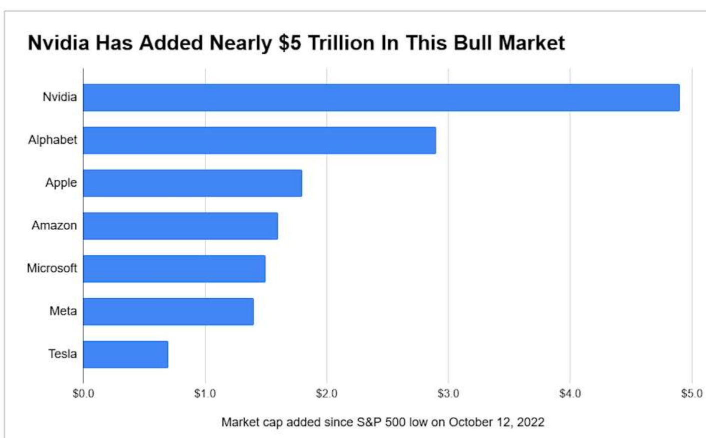
In each case, however, the market rebounded swiftly, with tech and semiconductors leading the way. And in each case, the Core Portfolio lagged significantly on the upswing. This is not the type of Portfolio behavior I seek. I have sought to attract an investor base which can withstand drawdowns in exchange for higher long-term returns, and so this dynamic over the past three years has been frustrating. At the same time, I remain highly focused on preservation of capital and durability, and our Portfolio holdings reflect these priorities.

The S&P 500 bottomed just over six years ago, on March 23, 2020, in the early days of the Covid pandemic. Since that day, the index has more than tripled despite multiple sweeping economic, geopolitical, and societal changes. We've experienced economic lockdowns, massive fiscal and monetary stimulus, staggered reopenings, a surge in inflation followed by a surge in interest rates, major elections, and wars in Eastern Europe and the Middle East.

But for the past 3 ½ years, the most important market "story" has been the rise of Artificial Intelligence. This story has evolved in stages.

The first stage began in late 2022 with the launch of Chat GPT from OpenAI, and saw the rise of Nvidia (NVDA), which held a near-monopoly on designing the advanced semiconductors which powered the "training" of AI models. From October 2022 to today, NVDA's market cap has grown from c. $280 billion to over $5 trillion – a pace and scale of value creation that is unprecedented in the history of financial markets.

A second stage, from 2023-2025, saw the rise in fortunes of the rest of the "Magnificent Seven" – Amazon, Alphabet (Google), Microsoft, Meta (Facebook), Apple, and Tesla. These companies were deemed to be emerging winners across multiple vectors in an AI-first world. The scale of wealth creation was staggering:



Source: Bloomberg, Yahoo Finance

Concurrently, other sub-sectors which serve as critical inputs or chokepoints in the AI infrastructure supply chain began to climb – datacenters operators, server equipment manufacturers, power generators, and some construction firms. In this stage, the market was not yet broadly penalizing potential "AI losers". Companies like Chegg (a learning / study platform) and Teleperformance (a French operator of outsourced call centers) were hit hard, but the damage was relatively contained.

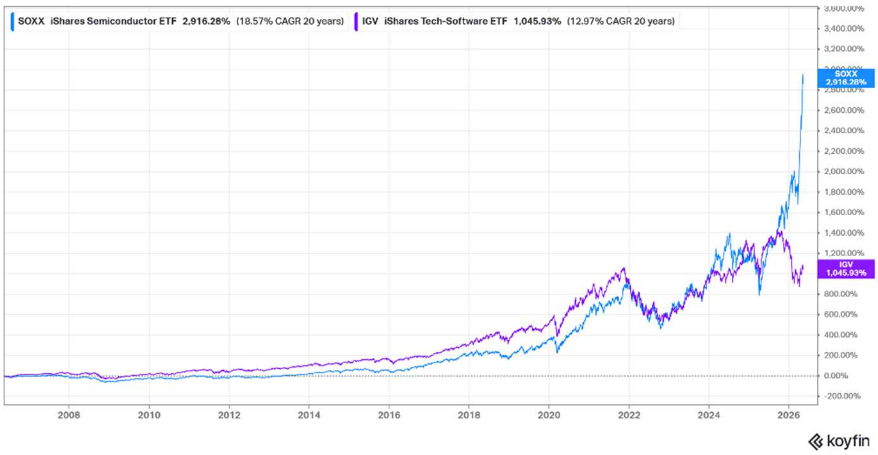
This dynamic has changed meaningfully over the last nine months, and has gone into overdrive since late March. In this latest stage, the basket of AI winners has broadened to include nearly everyone in the semiconductor industry, most notably those companies which support "AI inference" (as opposed to training, where Nvidia is king). Inference is the process of using a trained AI model to make predictions, decisions, or generate content, and it requires significant computing power and memory bandwidth.

The Philadelphia Semiconductor Index (SOXX) is up 165% in the last year, and up 80% in the last eight weeks alone. As a result, these semiconductor companies have gone from comprising 6% of the S&P 500's value to close to 25% today. If you own an S&P 500 index fund, your returns have been extremely attractive, but nearly ¼ of your money is now concentrated in one of the most cyclical, competitive, and fast-moving sectors on earth.

At the same time, the market has begun to significantly punish companies it deems at risk of disruption from AI. Since last fall, a key catalyst has been new product releases by Anthropic, the maker of the popular AI model known as Claude.

The software sector was the first and hardest hit, followed by dramatic selloffs across consulting & accounting firms, information services, real estate brokerage, insurance brokerage, payments, wealth management, and freight and logistics providers, just to name a few. A performance chart of the Software (purple line) and Semiconductor (blue line) Index ETFs over the past year shows the magnitude of the shift:

Zooming out to the last twenty years, however, and we can see that these sectors mostly moved together. Each is heavily reliant on the other from a technology, distribution, and end-customer demand perspective. The dislocation of the past year is highly anomalous and speaks to both the greed and fear surrounding this technology platform shift of AI.

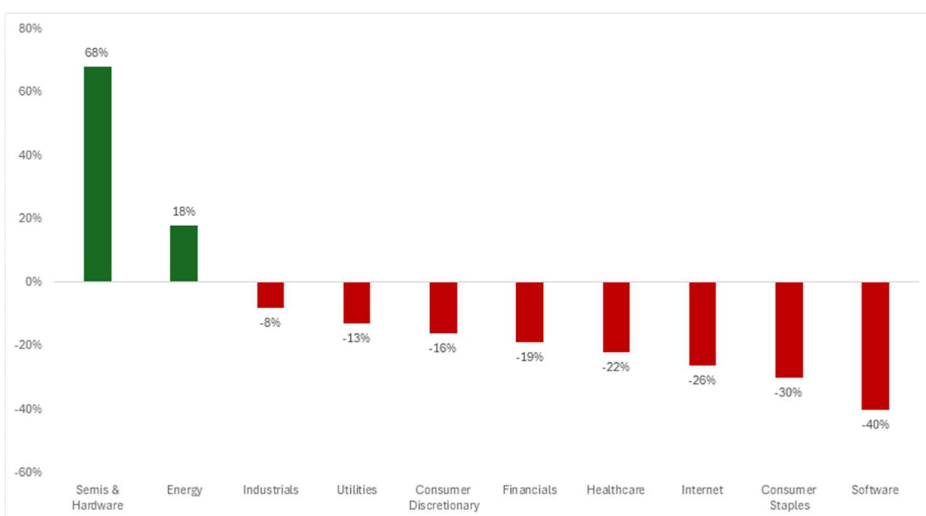


The Core Portfolio has had very little exposure to the companies benefitting from the AI infrastructure buildout - mainly just via Ferguson, which generates about 15% of its revenues from its Commercial / Mechanical segment which supports datacenter construction projects. On the other hand, the Portfolio has had ample exposure to companies in the sectors deemed at risk.

The war in Iran has further complicated the picture by driving up oil prices, which has negative implications for inflation, interest rates, and consumer spending should the war persist. With consumer spending driving 70% of America's GDP, these risks are real, but nothing that we haven't faced many times before.

The end result of these dynamics over the last year has been a complete breakdown of market breadth – with two sectors (semiconductors and energy) in positive territory, while the rest of the market sputters.

Relative Performance vs. the S&P 500 of the Median Stock by Sector (Last 12 Months to May 5, 2026)[3]



[3] *Sources: Bloomberg, Coatue Management Public Markets Update, May 2026*

Much has been written over the last couple of years on the question of whether the AI investment theme is a 'bubble' – or simply a well-justified 'boom'. There is frequent debate as to how the current situation compares to the internet / telecom boom & bust of the late 1990s. Are we still early, as in 1996? Are we in 1998? Or are we in February 2000, just before the peak? Any conclusions drawn rely as much on market psychology as they do on economic fundamentals.

While understandable, I find it interesting that commentators are so focused on an episode from 25 years ago when we have a much more recent experience to learn from and which seems entirely neglected in the current dialogue. In 2020-2021, in the wake of Covid lockdowns, the hot sectors were all things digital – software, electronic payments, e-commerce, and internet-enabled businesses. Clio was lucky to have exposure to several of these themes pre-Covid, which led to a banner year in 2020.

In late 2020 and into 2021, I significantly reduced the Portfolio's weighting to software and payments following a huge run, as valuations had reached unattractive levels. In 2022, the Nasdaq dropped 33%. The Core Portfolio was not spared, dropping 24%, but many growth/tech funds got hit extremely hard that year – down 40-70% in many cases.

That experience has no doubt influenced my choice of investments over the subsequent four years. The technology sector has been an amazing wealth creator – but it moves extremely fast. Identifying individual technology companies with a durable advantage over a 5-to-7-year horizon is particularly challenging when capital is flooding into the sector.

And yet, the mood amongst the 'smart money' today would suggest that the scars of 2022 have healed, and the ordeal has now been completely forgotten. Tech funds are back in vogue, and the belief is once again that the world has been permanently and irreversibly transformed.

In 2020, the idea was that consumer behavior had changed forever. We were all going to work remotely in perpetuity and order everything online for home delivery. Today, the idea is that all knowledge work will eventually be replaced by AI, followed by a robotics revolution that will then replace physical labor. AI needs chips, datacenters, and electricity – everything else is superfluous.

I find the annual Sohn New York Investment Conference to be a great barometer as to the mood of the market. Each year in May, a group of hedge fund stars as well as "Next Wave" fund managers (the up-and-comers) get together to pitch stocks and raise money for charity.

In May 2021, online subscription businesses were all the rage:

> *"[One fund manager] said he believed Germany's HelloFresh had a huge opportunity to capture market share with meal-kit delivery companies currently accounting for a mere 1% of the grocery market…. 'It's possibly the best business model I've seen in 20 years,' he told attendees. 'HelloFresh differentiate themselves by owning the whole value chain.'*

[Another manager] pitched Peloton, another subscription fee-based business. 'Our core insight is fitness is undergoing a once in a generation structural shift from offline to online,' he said. He argued that shares could soar to $300 by 2025 [from $95 at the time]…. Shares of Peloton rose 6% in response.

One fund manager said that a struggling retail business could be revived with a little e-commerce magic via Amazon:

[Another investor], chief executive at a multi-billion-dollar fund, said he liked Walgreens Boots Alliance, Inc. since new CEO Rosalind Brewer took over in March. 'She was on Amazon's board and left Amazon's board, and we know Amazon has interest in pharmacy, and she came to be the CEO of Walgreens,' he said. [4]

The Sohn conference marked the top, or close to it, for each of these businesses. Walgreens fell 78% from $55 to $12 before being acquired in mid-2025 by a private equity firm. Hello Fresh and Peloton have each dropped a staggering 95%.

So what was on investors' minds at the Sohn Conference two weeks ago? Well, AI of course:

"At Sohn 2026, artificial intelligence is on the tip of everyone's tongue. The highlights of this year's presentations include young funds run by alumni of big-name firms. [One investor] used his AI agent assistant, Eve, to tee up his pitch for Axon Enterprises, which makes tasers and body cameras worn by police. Naturally the company's upside is tied to AI.

[Another manager] identified a company that's long been a key player in the AI value chain. He said Infineon Technologies could rise 58% by the end of next year. The German company manufactures semiconductors for automobiles and power plants, and should benefit from the increase in energy demand that has accompanied AI's expansion."[5]

Wall Street Journal correspondent Greg Zuckerman had this to say after attending this year's event: "It was <u>all</u> about AI and how we are *underplaying* the revolution and how to profit from it. There was not a bear in the den."[6]

Morgan Stanley data backs up this anecdotal evidence: "Hedge funds are more overweight semiconductor stocks than at any point in the last decade. The industry went from 5.5% of hedge fund portfolios at this time last year to 20% at present."[7]

I highlight the 2021 Sohn stock pitches not to criticize any of them on an individual basis. I've owned many losing stocks over my career and am acutely aware of how humbling this profession can be. I cite them rather

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[4] *Source: https://www.reuters.com/business/hedge-funds-bet-subscription-based-businesses-pharmacy-copper-2021-05-12/*

[5] *Source: https://www.businessinsider.com/sohn-pitches-former-lone-pine-coatue-kynikos-investors-2026-5*

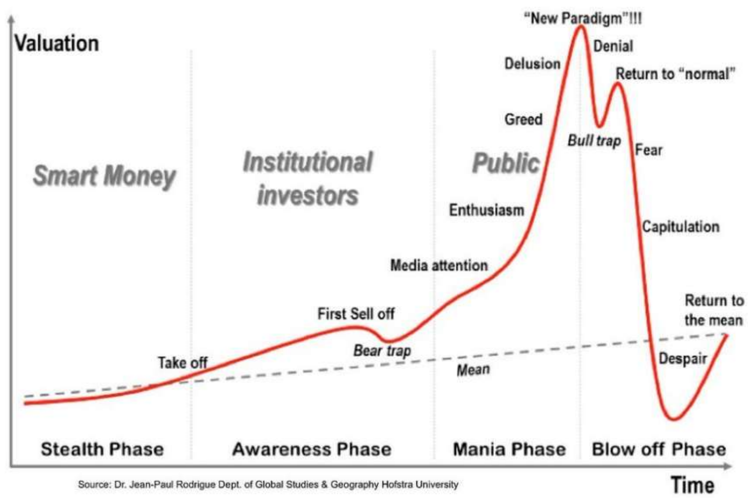
[6] *Source: https://x.com/GZuckerman/status/2054295544017699218*

[7] *Source: https://www.wsj.com/finance/investing/hedge-funds-are-making-a-killing-in-the-golden-age-of-ai-hardware-3a8dc34a?mod=finance_lead_pos4*

as an indication of the consensus mood amongst leading investors and as a potential warning sign that the AI trade is entering a more mature and risky phase.

It is worth keeping in mind the interconnectedness of three key dynamics in the market today: the continued rise in passive index investing at the expense of active management and fundamental stock picking; the increasing concentration of the major indices in tech/AI; and the recent outperformance of momentum-based strategies. These forces are mutually reinforcing and will likely be just as vicious, if not more so, on the way down than on the way up. I have included some charts on these trends in Appendix A.

Below is a well-known illustration of the psychology of market cycles over time. With respect to AI, if I had to guess, I think we have likely exited the Enthusiasm phase and have moved firmly into the Greed phase – which would suggest that there is more upside to come before we hit the peak. Time will tell if this time is, indeed, different.



II. PORTFOLIO MANAGEMENT AND INVESTMENT POLICY

I have tremendous respect for the wisdom of the market, and so it can be frustrating and humbling when it seems to be telling me I'm wrong quarter after quarter – that AI technology is the only future worth caring about, and that a wide swath of previously strong business models have become permanently impaired.

In this section, I will describe how I've approached this dynamic since the start of the year from a portfolio management perspective.

My first order of business has been to re-analyze the existing portfolio though the lens of potential impacts to company fundamentals from AI. This is a multi-step process and admittedly involves thinking through unpredictable outcomes. For each of a company's core business units, the process involves a fresh analysis of the unique selling proposition, customer relationships, pricing power, input costs, and competitive positioning in a world where Artificial Intelligence makes knowledge-work cheaper, faster, and more commoditized.

At the end of the day, I believe that human relationships still matter, and I am leaning into businesses that focus intensely on their customers' needs, treat their employees well, and have built a culture which allows for experimentation and adaptation in a fast-changing environment. But these companies must have an underlying asset base and differentiated position within their industry as a solid foundation on which to evolve.

A second order of business was to develop a framework for thinking through the AI value chain, and where sustainable long-term value is likely to accrue once various near-term bottlenecks are resolved. This analysis relies on the lessons of prior platform shifts (like the 1995-2005 internet infrastructure cycle and the 2007-2015 mobile app / smartphone era).

As technologies mature and capital floods in, returns on capital compress meaningfully, while economic productivity and consumer surplus rise. Figuring out who within the value chain has a sustainable economic position is key. An overview of the current AI value stack is included as Appendix B.

To me, the most interesting part of the chain for a long-term investor is the Proprietary Data layer – a key ingredient in making AI models useful for critical business decisions. And yet, many businesses with unique and powerful datasets have been penalized over the past year as though they are workflow providers as opposed to data providers.

The monetization of these datasets remains in the early stages, and I believe their value will become more apparent with time. In the Clio Portfolio, I see Visa, S&P Global, and Alphabet as particularly advantaged on this dimension. I am on the lookout for other beneficiaries of this theme which are trading at depressed valuations.

Relying on these two frameworks, I have made several adjustments to the Portfolio this year – exiting investments where I deemed the risks outweighed the opportunities, and doubling down on those I believe to have been overly penalized despite my view that they will be AI winners. Appendix C below provides more detail at the company level of the specific threats and opportunities that could emerge as a result of AI deployment.

In terms of the exits:

- I sold Adyen, a payments processing business, as growth has slowed despite significant investments in sales & marketing and R&D; more critically, I believe there is a reasonable chance that AI will significantly improve payment authorization rates at the network level (i.e. at the Visa and Mastercard networks), thereby reducing Adyen's core value proposition to its merchant customers.
- I sold CDW, a technology distribution and consulting company, as automated procurement processes for hardware and software reduce the need for a middleman in this segment of the market.
- I sold ServiceNow, as AI agents have the potential to orchestrate enterprise workflows at lower cost than the Now platform. Additionally, the shift from a seat-based pricing model to a consumption-based model may erode gross margins over time, dampening overall profitability.

Enterprise software is probably the most confusing sector of the market to invest in right now. It has been hit hard, and no doubt there will be some legacy players who are able to adapt, innovate, and thrive. However, the business models will need to shift significantly over the next 3-5 years, which could entail real organizational pain and a messy accounting transition. I plan to continue to monitor the sector closely for opportunities which combine compelling valuations with forward-thinking and aggressive management teams who are taking bold steps to adapt to the new era.

On the flip side, I doubled down on:

- Visa, where fears of agentic commerce, stablecoins, and microtransactions have led to unjustified valuation compression (the forward P/E multiple has declined from 32x to 23x in the last year – the lowest in a decade). I believe Visa will benefit from AI across its business lines and will maintain its critical role in powering money movement around the world.
- S&P Global, where the forward P/E multiple has fallen from 35x to 20x in 18 months on fears that its financial data platform might be disrupted. While a small portion of S&P's data bundle is openly available, the vast majority is unique, proprietary, and heavily embedded into customer workflows. As new distribution options proliferate, I believe S&P will have increasing monetization opportunities which will more than offset any churn. S&P's core credit ratings and index businesses remain strong with structural growth drivers intact.

In February and March, Clio initiated investments in four companies. A more detailed description of each business is included in Appendix A.

- Linde (LIN) is an industrial gas supplier. The company's end markets are returning to growth after three years of being flat-to-down. Linde operates in a stable oligopoly and has a unique business model in which its growth capex is essentially pre-funded by large customers at a double-digit return, while excess capacity can be sold to third-parties, thereby boosting total ROIC.
- Copart (CPRT) owns vehicle salvage yards and provides auction services for damaged vehicles, connecting a network of insurance company sellers to global buyers. Over the past year, Copart's forward P/E multiple has fallen from the low-to-mid 30s to 20x on temporary demand headwinds, better execution from competitor IAA, and shipment disruptions in the Middle East region.
- Alphabet (GOOGL) generates the bulk of its revenues from search ads. It is becoming increasingly clear that AI is additive to the overall search market, rather than a potential threat. Additionally, Alphabet is in prime position to be the leader in consumer AI applications while OpenAI and Anthropic fight for the enterprise market. The company has unique assets at each layer of the AI value chain (chips, datacenters, frontier models, proprietary data, and applications), a level of vertical integration that gives it much more flexibility and optionality in how it prices its services and allocates capital vs. competitors.
- Medline (MDLN) is a manufacturer and distributor of medical supplies. It has a powerful business model in which it first penetrates a customer with its broad third-party product portfolio, and then gradually moves to replace those products with its private-label brands, leading to improved

margins and returns on capital. The company IPO'd in December 2025 and has an impressive track record of execution, growth, and capital efficiency.

In addition to these specific changes I've made to the Portfolio this year, I have also decided to revise one element of the Core Portfolio's Investment Policy. At inception, I noted that the Portfolio would aim to hold between 8-12 individual investments. Over the past eight years, there has never been a period where the Portfolio held just eight or nine stocks; more often the number has ranged between 10 and 13.

Recently, I've found the 8-12 target range overly restrictive and counterproductive. The Core Portfolio strategy was designed to be unconstrained – for example, from a sector, geography, and market capitalization perspective. The 8-12 investment target was set as a way to force capital into my best ideas, which is a worthy goal. However, in the rapidly shifting market environment that exists today because of AI, I am finding more interesting new ideas that could deserve a place in the Portfolio – but not at the expense of selling an existing holding. As a result, I have set the new target range at 10-20 investments, but would expect to remain towards the lower half of that band in the near term. The Portfolio currently holds 14 investments.

III. PORTFOLIO COMPANY UPDATES

For the bulk of our Portfolio holdings, the story of the last year has been one of solid execution, disciplined capital allocation, and consistent market share gains – combined with somewhat painful multiple compression (i.e. lower valuations on a multiple of forward earnings).

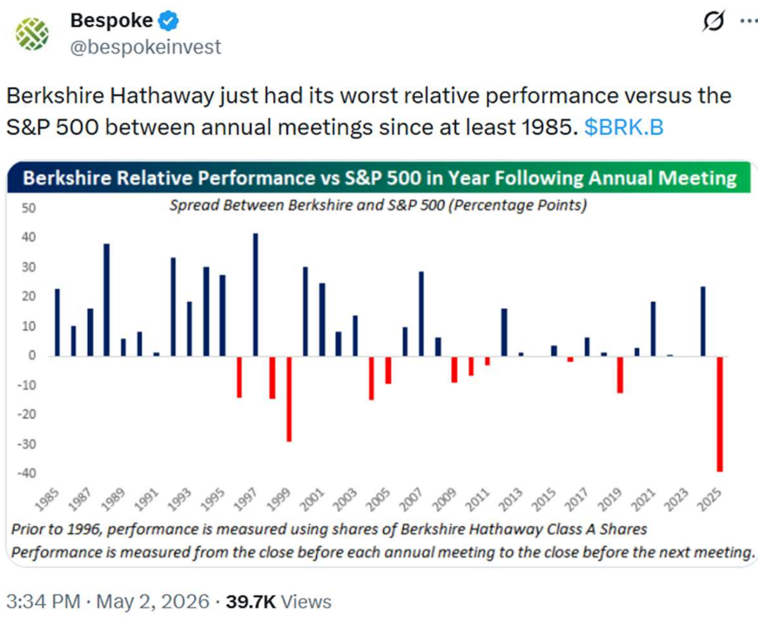
For O'Reilly Auto and AutoZone, same-store sales and cash earnings growth have accelerated over the past 12 months. And yet the stocks have gone down despite the rising market. As a result, ORLY's forward P/E multiple has compressed from 34x to 26x and AZO's from 26x to 18x. I believe the long-term opportunity remains as compelling as ever, and expect these stocks to generate low-double digit annualized rates of return.

Ferguson and Sherwin-Williams have been hampered by a sluggish housing and home improvement environment. Nevertheless, their competitors are suffering more than they are, and both companies are re-investing in their businesses and selectively raising prices which will put them in a strong position when their key end markets return to growth.

The story for Hilton remains largely the same – sector-leading unit growth, the best brand management in the industry, and exceptional capital allocation. The stock has performed well, up 17% year-to-date and 33% over the last twelve months, and as a result the forward P/E multiple has risen slightly. Regional conflicts and a stretched consumer are risks worth monitoring, but the long-term runway for Hilton remains powerful.

<u>BRK.B - Berkshire Hathaway</u>

A year ago, Warren Buffett announced his retirement as Berkshire Hathaway's CEO, passing the torch to long-time lieutenant Greg Abel. Since then, Berkshire shares have underperformed the overall market meaningfully.



A similar dynamic occurred in the late 1990s, only to sharply reverse after the Nasdaq peaked in early 2000. Berkshire shares are just not very exciting to investors when high tech is leading the way.

As Berkshire enters the post-Buffett era, I find its valuation the most attractive it has been in years. Greg Abel has shown himself to be an effective operator and manager, and I expect to see him work with more urgency to improve the financial returns of Berkshire's key operating subsidiaries – the BNSF railroad, the insurance businesses, and Berkshire Hathaway Energy.

Harvesting some of this low-hanging fruit should be sufficient to bolster the stock price. But an even bigger opportunity awaits should Abel prove his worth as a capital allocator. Berkshire holds more than $350bn in cash and is currently re-structuring its equity portfolio following the departure of investment manager Todd Combs.

The future optionality to deploy this excess cash at rates of return greater than that of Treasury bills is large. Berkshire has shown an ability over decades to wait patiently for market dislocations before deploying significant capital – although never at this scale. I am betting that Abel & Co. can rise to the occasion when the time comes, while prioritizing operating efficiency in the interim.

<u>PVLA – Palvella Therapeutics</u>

Last week, I attended the 2026 World Congress of the International Society for the Study of Vascular Anomalies (ISSVA) in Philadelphia, where Palvella presented recent clinical trial results to an audience of physicians who specialize in these rare diseases.

I was able to spend significant time with Palvella's leadership team, including the CEO, CFO, COO, Chief Scientific Officer, Chief Commercial Officer, and the new head of sales. I also had the opportunity to speak with a range of clinicians who specialize in rare vascular diseases – dermatologists, oncologists, hematologists, and pediatric specialists. I came away from these two days of meetings with an enhanced understanding of Palvella's opportunities in the rare disease ecosystem.

Since I last wrote to you about Palvella in November, the company has had what can only be described as a landmark six months. Despite the positive newsflow, shares are up just 11% year-to-date as the market awaits FDA approval for Palvella's lead product candidate.

In December, Palvella announced positive topline results from the Phase 2 TOIVA trial of Qtorin rapamycin in cutaneous venous malformations (CVMs) — the second of the company's two lead indications.

Then, on February 24th, Palvella announced positive results from the Phase 3 SELVA trial of Qtorin rapamycin in microcystic lymphatic malformations (MLMs) — the lead indication and the most important near-term value driver. The trial data was extremely strong and exceeded all primary and secondary endpoints.

Perhaps equally as important, the safety data were excellent: 95% of patients completed the efficacy period, 98% rolled over into the extension phase, and systemic rapamycin blood levels remained very low — confirming that the Qtorin platform is delivering the drug to the target site while keeping systemic exposure to a minimum. Pending a New Drug Application planned for the second half of this year, Palvella is on track to potentially become the first FDA-approved therapy for MLMs in the first half of 2027.

Alongside the Phase 3 data, Palvella completed a $230 million equity offering in February at $125/share, raising its cash balance to $260 million. Palvella now has the capital to fund its operations through the NDA submission, commercial launch preparations, and pipeline development without returning to the capital markets. The balance sheet has thus been effectively re-risked for several years.

On the pipeline front, the company has continued to move quickly, signaling that it will announce a fourth clinical indication for Qtorin rapamycin and an additional new product candidate before year-end. In short, Palvella's goal of developing a "pipeline-in-a-product" is being realized, with the Qtorin platform demonstrating a growing ability to address multiple rare skin diseases from a single technology foundation.

Lastly, Palvella has made a number of impressive hires in recent months who will help lead both commercialization and continued R&D.

Given the strong Phase 3 data, the well-funded balance sheet, the highly experienced team, and the accelerating pipeline, I think the long-term opportunity here remains substantial. In my base case scenario, I believe PVLA shares could be worth $300+ in the next 2-3 years.

IV. CLIENT BASE AND ORGANIZATIONAL UPDATE

At April 30, Assets Under Management totaled $131 million from 49 clients. There are no significant operational or organizational updates to report.

Thank you for your continued support. Please don't hesitate to reach out to discuss any aspects of this letter or your investment with Clio Asset Management.

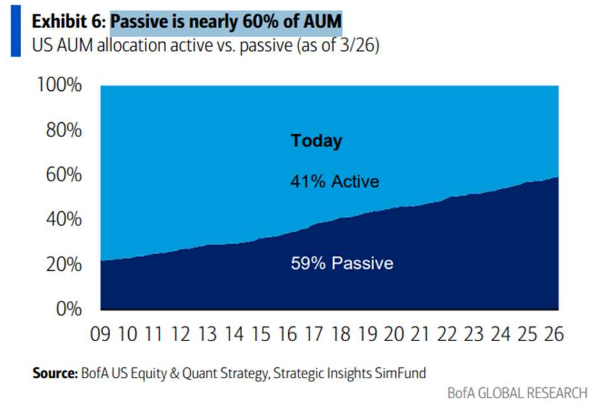
Sincerely,

James Aldigé

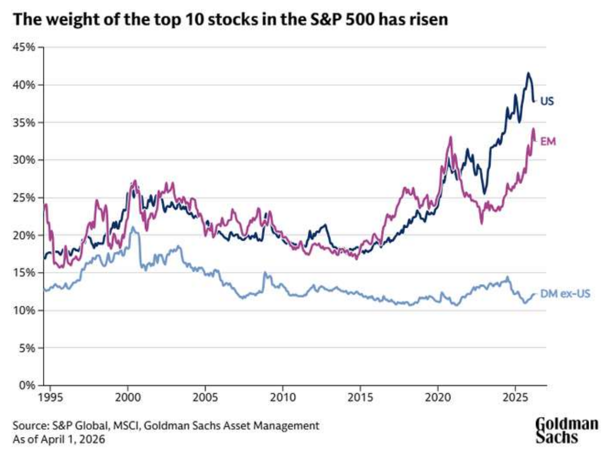
Clio Asset Management LLC

APPENDIX A: PASSIVE FLOWS, MARKET CONCENTRATION, AND MOMENTUM

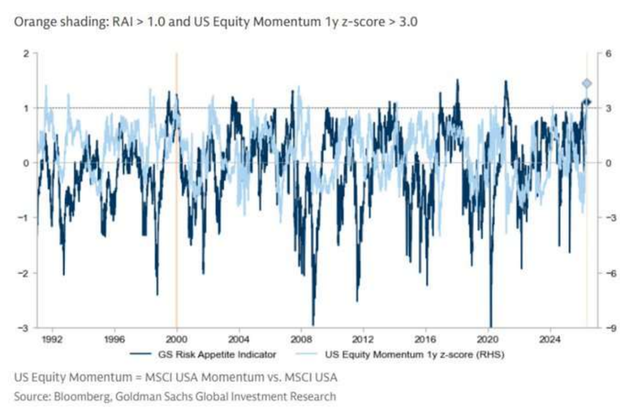
- Passively Managed Assets Have Risen from c. 20% to c. 60% of the market since 2009



- Market Concentration in the Top 10 Stocks Has Doubled in the Past Decade

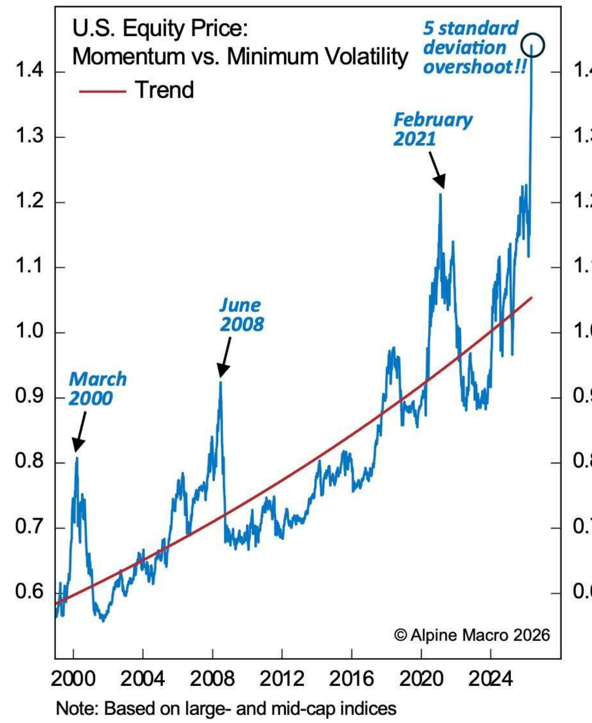


- Goldman Sachs' measures of risk appetite and momentum have reached the highest levels since early 2000. The Nasdaq peaked in March 2000, followed by a 70%+ decline.



- Momentum Stocks are reaching levels that have typically been followed by hard reversals

Chart 1: Momentum Stocks Go Full Tilt



Source: MSCI, Alpine Macro

- Semiconductor stocks now trade at a higher premium to their 200-day moving average than nearly all previous historical bubbles

Table 2: Past bubbles 35% vs 200dma at peaks...SOX now 62%

Peak price vs 200dma – SOX today vs historical bubbles since 1700

Bubble	Index	Start	Peak	Deviation vs 200dma at peak
Mississippi Co.	CAC All-Tradable	7/31/1718	1/31/1720	73%
Roaring 20s	Dow Jones	3/30/1926	9/3/1929	21%
Black Monday	Dow Jones	9/20/1985	8/25/1987	21%
Japan	Nikkei 225	10/23/1986	12/29/1989	12%
Dotcom	Nasdaq	9/23/1998	3/10/2000	55%
Saudi Arabia	Tadawul	5/27/2004	2/26/2006	28%
China	Shanghai	6/6/2005	10/16/2007	37%
Average				**35%**
AI	**Semiconductors (SOX)**			**62%**

Source: BofA Global Investment Strategy, Bloomberg, GFD Finaeon

BofA GLOBAL RESEARCH

APPENDIX B: THE ARTIFICIAL INTELLIGENCE (AI) VALUE STACK

Layer	Description
Physical Inputs	Land, power, water, raw materials, labor
Semiconductors	Both for training and inference; currently the highest-rent layer, generating immediate profits on datacenter buildouts
Datacenter Infrastructure	Server racks, cooling, power distribution; very capital intensive and commoditizing
Cloud & Compute Platforms	The 'hyperscalers' (Amazon Web Services, Google Cloud, Microsoft Azure) and other providers; likely to remain an oligopoly with utility-like returns
Raw & Open Data	Raw data from open sources and the internet; freely available with no long-term pricing power
Foundation Models	OpenAI (ChatGPT), Anthropic (Claude), Google (Gemini), xAI (Grok) – a highly contested layer
Proprietary Data	Unique data like clinical records, consumer behavior data, certain financial and legal records, contributory industry datasets; an area of significant potential untapped pricing opportunity; regulatory moats often reinforce data moats (HIPAA, FINRA). Compliance requirements entrench incumbents.
Application Layer	Software, copilots, agents. Historically the most valuable layer, but defensibility is less clear in an AI world. Regulatory requirements create switching costs. Vertical SaaS in regulated industries (healthcare, finance, legal) could be particularly advantaged but pricing model needs adjustment.

APPENDIX C: AI IMPACTS ON OUR HOLDINGS

The table below summarizes, for each Clio portfolio company, an analysis of the primary risks posed by artificial intelligence, the primary opportunities, and our overall assessment of which force is greater over a multiyear investment horizon.

Ticker	Company	Potential AI Risk	Potential AI Opportunity	Verdict
ORLY	O'Reilly Auto	Autonomous and electric vehicles could reduce the number of cars on the road long-term, shrinking the total addressable market for aftermarket parts. AI-driven supply chain tools from competitors could erode O'Reilly's distribution advantage.	Greater vehicle complexity (sensors, cameras, driver-assistance systems) increases average parts content per vehicle and average ticket size. AI can also improve inventory forecasting and reduce working capital needs.	**Modest Incremental Opportunity; LT Drivers Remain Intact**
AZO	AutoZone	Same structural risk as ORLY: reduced vehicle ownership in an autonomous future could limit the long-run parts market. Commoditization of product search via AI could reduce the stickiness of AutoZone's store network for DIY customers.	AI-powered diagnostic tools can help professional installers identify the right part faster, increasing commercial segment conversion rates. Enhanced demand forecasting can improve in-stock rates and reduce stockouts vs. smaller competitors.	**Modest Incremental Opportunity; LT Drivers Remain Intact**
FERG	Ferguson	AI-enabled procurement platforms and digital marketplaces (e.g., Amazon Business) make it easier for contractors to bypass distributors entirely, pressuring Ferguson's intermediary role. Margin compression is a risk if AI reduces switching costs.	Ferguson can use AI to optimize complex project quoting, reducing errors and turnaround time, which is a meaningful advantage in commercial HVAC and plumbing bids. Predictive inventory management also lowers carrying costs across its large branch network.	**Balanced**

Ticker	Company	Potential AI Risk	Potential AI Opportunity	Verdict
			Commercial / Mechanical segment benefits from datacenter construction	
HLT	Hilton	Agentic-powered consumer options could proliferate and continue to improve matching and pricing, intensifying competition for leisure travelers. AI could also accelerate labor substitution in hotel operations, commoditizing service quality across all brands.	Hilton's Honors loyalty data becomes more valuable as AI enables more personalized pricing and offers. AI can also reduce operating costs (staffing, energy, housekeeping scheduling) and improve revenue management.	**Opportunity**
BRK.B	Berkshire Hathaway	GEICO could face AI-native auto insurers with superior underwriting models, and BNSF may see long-run pressure from autonomous trucking displacing freight rail. The conglomerate structure could slow the rate of coordinated AI adoption.	Berkshire's massive float and deep underwriting data give GEICO a strong foundation to rebuild AI-based pricing models and compete effectively. Its energy and utility businesses benefit from AI-optimized grid management as the energy transition accelerates.	**Balanced**
V	Visa	AI-powered payment rails and real-time settlement networks (e.g., stablecoins, CBDCs) could bypass Visa's network over time for certain payment flows, although impact should be marginal. AI also makes fraud and synthetic identity attacks more sophisticated and costly to combat. Visa, however, is best positioned to serve as a trusted	Card networks are firmly established as the dominant payment method and will retain their role as the identity infrastructure of the internet. Visa is already deploying AI across its fraud detection infrastructure, processing billions of transactions with real-time risk scoring, which is a durable moat built on decades of proprietary data. AI can also	**Significant Opportunity**

Ticker	Company	Potential AI Risk	Potential AI Opportunity	Verdict
		partner to banks and merchants in combatting fraud.	enhance value-added services (analytics, consulting) sold to banks and merchants. Agentic commerce and micropayments should expand the overall TAM for Visa payment rails.	
LIN	Linde	AI-optimized industrial processes could reduce energy consumption in customer facilities, lowering demand for industrial gases in certain applications. New AI-designed materials could also reduce reliance on specialty gases in semiconductor manufacturing.	AI data centers require substantial quantities of liquid nitrogen for cooling and ultra-pure gases for chip fabrication, making Linde a beneficiary of the AI infrastructure buildout. AI also improves the efficiency of Linde's own gas production and distribution operations.	**Opportunity**
GOOGL	Alphabet / Google	AI-powered search alternatives (Perplexity, ChatGPT) could threaten to disintermediate Google Search by delivering direct answers rather than ad-laden results pages.	Thus far, AI has proven itself to be expansive to the Search revenue opportunity. Alphabet is itself a frontline AI company. Google DeepMind, Gemini, and TPU infrastructure position it to monetize AI directly through Cloud, enterprise software, and new consumer products. YouTube's video library is a powerful training dataset moat that competitors cannot replicate.	**Opportunity**
SHW	Sherwin-	AI design and visualization tools (e.g., virtual room painters,	Sherwin can use AI for demand forecasting and custom color	**Small**

Ticker	Company	Potential AI Risk	Potential AI Opportunity	Verdict
	Williams	generative interior design apps) could reduce the consumer's reliance on in-store color consultation. D2C AI-driven paint brands could erode share in the DIY segment over time.	matching at scale, improving fill rates and reducing waste across its 5,000+ stores. Its Pro contractor segment — which is more relationship-driven and repeat-purchase oriented — is relatively insulated from AI disruption.	**Opportunity**
CPRT	Copart	Autonomous vehicles with advanced collision avoidance could reduce accident frequency long-term, shrinking the supply of salvage vehicles that Copart auctions. AI-enabled inspection tools from competitors could also reduce Copart's information advantage in vehicle valuation.	Total Loss Frequencies continue to rise as Assisted Driving features drive up repair costs. More complex ADAS and EV components in salvaged vehicles increase average vehicle values and buyer demand for parts. Copart can use AI-powered vehicle condition assessment and computer vision to streamline the intake and grading process, reducing labor costs and cycle times.	**Balanced**
SPGI	S&P Global	AI tools could commoditize certain credit analysis and research workflows that S&P currently monetizes through subscriptions, reducing pricing power in its Market Intelligence segment. AI-generated financial research from startup competitors could compete directly with S&P's proprietary data products.	S&P's proprietary datasets (ratings history, pricing data, reference data) are irreplaceable inputs for AI financial models, making its data more valuable as AI adoption grows in finance. The company is actively embedding AI across its platforms (Kensho) to deliver faster, richer analytics to enterprise customers. The value of unique, proprietary	**Significant Opportunity**

Ticker	Company	Potential AI Risk	Potential AI Opportunity	Verdict
			data goes up in an AI world.	
MDLN	Medline Industries	AI-powered procurement platforms and group purchasing organizations (GPOs) with AI-driven sourcing tools could reduce Medline's pricing power by making it easier for hospitals to commoditize medical supply purchasing. AI-enabled manufacturing optimization by lower-cost competitors could also compress margins in Medline's private-label products.	Medline can use AI to optimize its vast distribution network (one of the largest in healthcare), reducing logistics costs and improving fill rates for hospital customers. AI-driven demand forecasting also enables smarter inventory positioning across its supply chain, a meaningful advantage given the complexity of medical supply procurement.	**Modest Incremental Opportunity; LT Drivers Remain Intact**
PVLA	Palvella Therapeutics	AI-accelerated drug discovery by large pharma competitors could shorten the time to develop rival therapies for Palvella's rare disease targets, increasing competitive pressure. AI could also be used by competitors to identify patient populations more efficiently, limiting Palvella's first-mover advantage. Palvella's robust IP protections mitigate this risk.	Palvella can use AI-powered target identification and clinical trial optimization to reduce development timelines and costs. AI could enhance the ability to identify and recruit eligible patients for rare disease trials, addressing one of the execution risks in its pipeline.	**Opportunity**
NOW	ServiceNow	Open-source AI agents and general-purpose LLMs could replicate the workflow automation capabilities that ServiceNow monetizes, lowering switching costs and compressing pricing power.	ServiceNow is embedding AI natively across its platform (the 'Now Assist' suite), transforming it from a system of record into a system of action by automating IT, HR, legal, and customer service workflows end-to-end.	**High AI Exposure with Unclear Outcome; Multi-Year Transition Period**

Ticker	Company	Potential AI Risk	Potential AI Opportunity	Verdict
		Hyperscalers (Microsoft, Google) are investing aggressively in competing enterprise workflow and AI platforms, with the distribution advantage to win at scale. Revenue model shift from seat-based to usage-based consumption could erode gross margins.	This expands its total addressable market, and its installed base of enterprise workflow data gives its AI models a meaningful accuracy advantage over greenfield competitors. AI could also accelerate deal sizes and upsell rates.	**Required**
ADYEY	Adyen	The key risk is around authorization rates, which is Adyen's key advantage vs. legacy peers. The onset of "Intelligent Authorization" at the network level reduces the need for authorization at the merchant processor level, thus potentially rendering Adyen's entire value proposition obsolete.	Adyen's unified global data platform (spanning acquiring, issuing, and point-of-sale across dozens of markets) gives its AI fraud and authorization models a data breadth advantage that fragmented competitors cannot replicate. AI enables Adyen to offer merchants hyper-personalized checkout optimization, dynamic currency routing, and real-time risk scoring that meaningfully lift conversion rates, deepening switching costs.	**Medium AI Risk**
CDW	CDW	AI-powered procurement automation and increasingly capable vendor-direct purchasing platforms could disintermediate CDW's value-added reseller role, particularly for commodity hardware and software licenses. As AI simplifies IT architecture	CDW is a direct and immediate beneficiary of the AI infrastructure buildout: enterprise customers require significant expert guidance in designing, procuring, and deploying AI-ready servers, high-density networking, and storage. AI could also drive an	**Meaningful AI Risk**

Ticker	Company	Potential AI Risk	Potential AI Opportunity	Verdict
		decisions and automates vendor comparison, customers may reduce reliance on CDW's advisory services — compressing both margins and volumes.	accelerated hardware refresh cycle, with higher average order values than prior generations. CDW's own use of AI in sales productivity and customer analytics could further widen its operational advantage over smaller resellers.	

APPENDIX D: NEW INVESTMENT OVERVIEWS

Linde (LIN)

Linde is the world's largest industrial gas company, producing and distributing oxygen, nitrogen, argon, hydrogen, and a range of specialty and process gases to customers across virtually every major industry, including healthcare, semiconductors, chemicals, food and beverage, steel, and energy, among others. The business operates through a combination of on-site gas plants built directly at customer facilities, long-haul pipelines serving clusters of industrial customers, and merchant distribution via bulk tankers and cylinders. The on-site and pipeline segments in particular are characterized by contract structures that commonly span 15-20 years, with take-or-pay provisions and cost pass-through mechanisms that insulate Linde's margins against both volume and input cost volatility. These economics, combined with the sheer capital intensity and permitting complexity required to build competing infrastructure, make the industrial gas industry one of the more durable oligopolies in the global economy. Linde, Air Liquide, and Air Products together account for the vast majority of the market.

What distinguishes Linde is the consistency and quality of its returns. The company generated a 26% return on capital in 2025, and adjusted operating margins are well above 30%, both of which reflect the pricing power that comes from being the lowest-cost, most reliable supplier of an input that customers cannot afford to do without. The 2018 merger with Praxair created meaningful synergies and a network footprint that would take a competitor decades and hundreds of billions of dollars to replicate. Looking forward, Linde is also exceptionally well-positioned in some of the more compelling secular growth areas of the coming decade, like high-purity specialty gases for semiconductor fabrication, hydrogen for the energy transition, and gases for data center cooling and life sciences.

Copart (CPRT)

Copart is the dominant operator of online salvage vehicle auctions in the United States, and increasingly around the world. The company acts primarily as an agent, connecting insurance companies with a global network of buyers that includes auto dealers, dismantlers, rebuilders, and exporters across more than 170 countries. When an insurer declares a vehicle a total loss following an accident or natural disaster, Copart steps in to handle the towing, storage, title processing, and ultimate sale of that vehicle through its online auction platform. The company earns fees from both sides of the transaction, carries very little inventory risk, and generates free cash flow that is structurally insulated from the broader economic cycle. People get in accidents and cars get totaled regardless of where we are in the business cycle.

Copart's competitive moat is large. It has spent decades acquiring and developing its network of salvage yards. This process is extraordinarily difficult to replicate given land scarcity, zoning restrictions, and environmental permitting requirements near major metropolitan areas. The company has IT integrations and exclusivity agreements with many of the largest insurance carriers in the country, making it the partner of choice for an insurer looking to maximize recovery value on a damaged vehicle. And because both buyers and sellers are attracted to the platform with the deepest liquidity, Copart benefits from powerful network effects that strengthen its position over time. The result is a business with industry-leading margins, very high returns on invested capital, and a management team led by founder Willis Johnson (as Executive Chairman) that has been a model of long-term thinking and disciplined capital allocation.

Alphabet (GOOG)

Alphabet's products are woven into the daily fabric of modern life. Google Search remains the dominant information retrieval platform on the planet, commanding roughly 90% of global search market share, and generating tens of billions of dollars in annual advertising revenue from a business that requires almost no incremental cost to serve an additional query. YouTube is the world's largest video platform and a growing share of the global advertising market. And Google Cloud has transformed from a money-losing experiment into a business now running at a $60+ billion revenue rate with 30% operating margins. Taken together, the three core businesses generate extraordinary levels of free cash flow and have allowed Alphabet to maintain a net cash balance sheet even while funding one of the largest capital expenditure programs in the world.

Alphabet's core competitive position is as strong as it has ever been, and I believe the market has at times been too quick to assume that AI challengers like ChatGPT will fundamentally disrupt Google Search. In practice, Search and YouTube both continued to grow at double-digit rates through 2025, demonstrating that consumer behavior in information retrieval is more durable than the bear case would suggest. With respect to AI, Alphabet has strong assets at each layer of the value chain cited above – a network of 130 large-scale datacenters across 42 global regions; custom TPU semiconductor chips for ML/AI; a leading frontier model (Gemini); and perhaps the best data assets in the world. In my opinion, these assets give Alphabet a unique advantage in how it prices its products and allocates capital vs. competitors who may only compete at one layer of the chain.

Medline (MDLN)

Medline is the largest manufacturer and distributor of medical-surgical products in the United States, with roughly $27 billion in annual sales and operations in more than 100 countries. Founded in 1966 by the Mills family and taken private by Blackstone, Carlyle, and Hellman & Friedman in a $34 billion leveraged buyout in 2021, the company completed its IPO on the Nasdaq in December 2025.

Medline's product portfolio spans approximately 335,000 SKUs, including surgical and procedural kits, gloves and protective apparel, wound care, urological and incontinence care, and a broad range of consumable clinical supplies. These are products that hospitals, surgery centers, physician offices, nursing homes, and home health providers consume daily and cannot do without. The demand profile is highly non-discretionary.

What makes Medline distinctive relative to other healthcare distributors (like McKesson, Cardinal Health, and Owens & Minor) is its vertically integrated model. Unlike its peers, who are primarily pure-play distributors reliant on third-party manufacturers, Medline both manufactures roughly one-third of the products it sells through 30 global facilities and distributes the entire portfolio through its own fleet of more than 2,100 trucks and a network of 70 distribution centers, enabling next-day delivery to 95% of its US customers.

This integration gives Medline meaningfully higher margins than a traditional distributor, tighter control over product quality and supply chain reliability, and a more compelling value proposition to hospital systems that are under constant pressure to reduce costs. The "Prime Vendor" model — in which a hospital system consolidates its purchasing with Medline across a broad product portfolio — creates deep, sticky customer relationships that are difficult to dislodge once in place.

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