November 6, 2025

Dear clients,

Through the first nine months of the year, the Clio Core Portfolio returned +15.6%.

Q4 Intra-Quarter Update

Subsequently, in October, the Portfolio declined -2.4%, even as the Nasdaq Composite continued its impressive march higher – with seven consecutive monthly gains for that index since the tariff-induced April lows.

Our portfolio holdings generally reported solid Q3 earnings in October. However, monthly performance was negatively impacted by O'Reilly Auto and Autozone which fell 12.4% and 14.4% respectively in October, dragging down the Portfolio by c. 4.1%. Following strong year-to-date share price performance through August, both companies sold off on investor concerns around slowing inflation/pricing gains.

I viewed the quarterly reports positively, as the businesses continue to execute well against their long-term market share opportunities. With each company controlling only a little over 10% of a fragmented market, the runway for reinvestment and share gains remains long. I believe O'Reilly and Autozone will continue to leverage their dual-market strategy and logistics superiority to deliver very attractive Returns on Incremental Invested Capital (ROIIC). These dynamics should enable superior equity value creation over the long run, irrespective of quarterly pricing fluctuations. Combined, ORLY and AZO represent about 27% of the Portfolio.

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. As I have written before, this dynamic is not 'by-design' – in other words, I have not sought to intentionally construct a 'defensive' portfolio or to avoid higher growth investments. I have continued to manage the Portfolio as I always have, by assembling what I believe are attractive individual investments on a bottom-up basis, with a reasonable level of end-market diversification at the Portfolio level.

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 theme, dragging down the heavily tech-weighted indices, I believe the Core Portfolio should fare much better. Either way, I remain solely focused on delivering

attractive absolute returns in order to sustainably grow our collective investment over many, many years. As it stands today, I believe the Portfolio exhibits lower growth but greater durability and ROIC than the broader market, and I remain optimistic about its future prospects.

Seven Years of Clio Asset Management

The Core Portfolio strategy marked its 7th anniversary on October 1st. It feels like we have seen it all over these seven years – steadily climbing bull markets and swift and deep bear markets; a global pandemic, multiple wars, fraught elections, and high inflation; incredible corporate success stories and some spectacular failures.

Through it all my core beliefs about investing have remained unchanged. For those who can think in decades or even generations and who have the emotional fortitude to withstand significant volatility, I still believe that equities remain the most attractive asset class to preserve and grow wealth over time. Within this universe of equities, Clio aims to own a concentrated, high-conviction portfolio of high-quality, durable businesses led by superior management teams with a track record of intelligent capital allocation.

The world of investments can be complex – but often unnecessarily so. My goal for Clio Asset Management is to help simplify things for all of us. As always, every operational and investment decision I make is guided by Clio's two north stars: Simplicity and Alignment. In the current environment of rapid technological change, simplification for me means a heightened prioritization of **durability and longevity** when it comes to evaluating our existing holdings and potential new investments.

In this letter, I plan to provide a Portfolio update, discuss Clio's performance track record through the first seven years, and convey some thoughts on the broader theme of Artificial Intelligence.

I. PORTFOLIO UPDATE THROUGH Q3 2025

The Core Portfolio performed well during the third quarter and through the first nine months of the year. Broader equity markets were supportive, although we continued to see the world's largest technology companies and those exposed to Artificial Intelligence drive the bulk of the market's gains.

The S&P 500 Index ETF (SPY) was up 14.7% for the year through September 30th, while the equal-weighted S&P 500 Index (RSP) was up just 8.8%. The SPY has outperformed the RSP for each of the last three years, and seven out of the last ten. Such consistent outperformance is anomalous by historical standards.

Companies with exposure to AI infrastructure are generally booming, while many other sectors of the economy are facing sluggish or recessionary demand environments. Additionally, the bifurcation in spending patterns between higher-income and lower-income consumers remains especially striking and worth monitoring.

We can roughly divide the Core Portfolio into thirds when it comes to their year-to-date performance through September 30th. The top third includes three of our largest investments: O'Reilly Auto (+36% YTD); Autozone (+34%); and Ferguson (+30%), along with our newest investment, Palvella Therapeutics, which more than tripled since we purchased it in April (+203%).

The middle third consists of: Adyen (+11% since our April purchase); Berkshire Hathaway (+11% YTD); Visa (+8%); Hilton (+5%); and Sherwin-Williams (+2%).

The bottom third is comprised of our holdings which declined year-to-date through September 30th: S&P Global (-2%); Builders FirstSource (-5% from Jan. 1 through our exit in mid-August, described in further detail below); CDW (-8%); and ServiceNow (-13%).

In August, I sold our investment in Builders FirstSource (BLDR) at an average price of $138.58. As a reminder, BLDR is a building products distributor which I first purchased for the Portfolio in early 2024. Overall, we lost about 21% on this investment – albeit on a relatively small position size which generally represented about 3-4% of total capital during our holding period.

My original thesis on the stock was that the company had a long runway for share gains in a fragmented market – and that with further scale they could continue to improve margins and returns on capital even in the face of a slow housing market. To the company's credit, they have managed to keep their margins quite strong, but sales have disappointed to the downside, and the market share opportunity has not materialized as expected.

Recent developments have also clouded the outlook on the competitive front. Home Depot and Lowe's have each made major acquisitions in the professional / contractor building products distribution segment in the last year. Additionally, serial entrepreneur Brad Jacobs is targeting this sector with his latest acquisition vehicle, QXO. Competitive intensity is rising, even as the overall end markets of new single- and multi-family residential construction remain quite weak. At the time of writing, BLDR shares are at $110, down a further 20% from our exit price.

I did not initiate any new investments in Q3. Clio made its most recent investment in Palvella Therapeutics (PVLA) in early Q2 at a price of $20.69. I wrote about the PVLA thesis at length in my last letter. So far, the investment is playing out better than expected, and the management team has done a commendable job in communicating its strategy to the market and executing on promised milestones.

Palvella has made two key hires since April – a chief commercial officer and a chief innovation officer – and the company's clinical trials remain on track. We are expecting topline data for the Phase II trial for Cutaneous Venous Malformations in mid-December, and Phase III data for Microcystic LMs in Q1 2026. The company announced in September a third planned indication for Qtorin rapamycin to treat angiokeratomas. Subsequently, in early November, Palvella announced its first non-rapamycin based program – using Qtorin to deliver pitavastatin to treat a debilitating pre-cancerous skin disease called DSAP.

As the company has continued to tell its story following its December 2024 stock market listing, investors have begun to more fully appreciate the many opportunities for Palvella to utilize its Qtorin gel to treat a wide range of rare diseases in a highly capital efficient way. Additionally, the broader biotech sector performed well over the summer as investors gained more clarity on the regulatory and pricing environment under the new administration. Palvella shares ended Q3 at $62.69, up 203% from our cost basis. While the stock has moved up more quickly than I expected, the Palvella story is still in its early stages. I will continue to closely monitor the regulatory approval process for its lead products, as well as the company's execution of its commercial initiatives to bring its therapies to market.

Despite some of our Portfolio companies facing sluggish end markets, I have been impressed by and large with management execution and their ability to profitably deliver market share gains.

In many cases, my analysis of both third-party industry data and competitor results suggests that market share gains are holding or accelerating for most of our companies (in contrast to the situation at Builders FirstSource, a key reason for exiting our investment as discussed above). Should demand rebound off currently low levels, these companies are in a good position to deliver strong incremental margins and free cash flow growth.

O'Reilly Auto and Autozone are significantly outperforming peers Advance Auto and NAPA in the professional parts segment. Smaller private competitors are struggling to keep up. The retail/DIY market remains soft as low-end consumers are deferring maintenance on their vehicles – a dynamic which can last but so long. Sherwin-Williams is outgrowing competitors Masco (Behr) and PPG in architectural paints, and management feels confident enough in their competitive position to implement a 7% pricing increase in January.

Adyen continues to take significant market share from other enterprise payment processors, including Fiserv, Global Payments, and Worldpay, all of which are bogged down by legacy systems and messy acquisition integrations. Ferguson has performed very admirably this year, increasing pricing and margins while outgrowing competitors like Core & Main (in the Waterworks segment) and Watsco (in HVAC distribution). Ferguson is also benefitting from its expertise in servicing large infrastructure projects, including datacenters, through its Commercial & Mechanical segment.

Lastly, I would argue that three of our holdings are demonstrating impressive, tangible results from their use of Artificial Intelligence, but are not being treated by the market as "AI beneficiaries". ServiceNow, Visa, and S&P Global have each been investing in machine learning and AI for many years and have been rolling out new products and services which are driving measurable customer adoption and value creation. These businesses have strong competitive advantages that should allow them to leverage AI to enhance the customer experience, raise pricing, and improve margins.

And yet, the share prices of all three companies have been hurt this year as narratives have emerged that AI has more potential to *disrupt* these businesses rather than *benefit* them. While the specific arguments vary for each company, I disagree with those assessments in all cases, and I remain enthusiastic about the positive trajectories for these category-defining businesses.

II. INVESTMENT PERFORMANCE SINCE INCEPTION

Seven years is long enough to capture a full business and investment cycle, and thus an appropriate point to pause and reflect upon Clio's longer term investment track record. Relative to my expectations when I launched the business, here is how I personally grade Clio's performance:

1. Absolute returns: strong, and better than expected
    - Clio's primary goal has always been to deliver above-average rates of return, with a baseline minimum of objective of 6% annualized – my best estimate in 2018 of future developed market equity returns

- After seven years, my 6% estimate has proven low – but not dramatically so. From Oct. 1, 2018-Sep. 30, 2025, the Vanguard FTSE Developed Markets ETF (VEA) returned 7.8% annualized.
- Broad US equity markets have generally performed better than global averages, driven predominantly by the contribution from large caps and technology. While the Russell 2000 index of small capitalization stocks (IWM) has returned just 6.7% annually, the Nasdaq index (ONEQ) has delivered 17.1% annualized returns, helping to drag up the S&P 500 index (SPY) along with it (14.3% annualized). The Equal-Weight S&P 500 Index (RSP), which better reflects the average performance of the 500 companies in the index, delivered 10.5% annual returns.
- While 6% is admittedly a conservative goal, I don't think it's unreasonable to assume that we will in the future see multi-year periods where developed world equity markets fail to achieve that hurdle, and I believe it's worth being prudent when trying to forecast how equity markets will grow over time given starting valuations and global GDP growth.
- Against that backdrop, the Core Portfolio has handily exceeded the 6% hurdle over each of the following time periods: since inception (+14.9% annualized); last 5 years (+8.4%); last 3 years (+20.5%) and last 12 months (+10.9%).[1]

2. Returns relative to other active equity strategies: strong, and better than expected
    - According to Bloomberg data, there were 4,272 active US equity mutual funds in continuous operation from Oct. 1, 2018 through Sep. 30, 2025.
    - By my estimates, Clio would rank in the top 5% of these active managers for performance over the past seven years.
    - Interestingly, when I ran the analysis two years ago there were 5,552 US equity mutual funds in the five-year data set – implying that 1,280 funds (or 23%) have not even survived the last two years.
    - The average annualized 7-year return of these 4,000+ funds was just 7.0% - less than half of the 14.4% delivered by the S&P 500 Index ETF. Only 6% of these funds beat the S&P – with many of these winners having a specific mandate to invest in technology, semiconductors, or gold (which has surged nearly 150% in the last 3 years).
    - Industry data would suggest that the Core Portfolio has roughly matched the performance of the average private equity fund over the period, while exceeding average hedge fund and venture capital fund returns[2] – all the while benefitting from what I believe are generally lower fees, more transparency, and better liquidity.
3. Returns relative to the S&P 500 ETF: positive since inception, although poor over the past 4 years
    - Since inception, the Core Portfolio modestly exceeded the S&P 500 index through Sep. 30, 2025.
    - Over the past 4 years, however, the Portfolio has underperformed the S&P considerably.
    - Since November 2022, according to JP Morgan, "AI-related stocks have accounted for 75% of S&P 500 returns", and I have failed to capture much benefit from this theme.
    - While my personal ambition would be to beat the S&P 500 by a solid margin over the long-term, this personal goal in no way impacts how I manage the Portfolio.

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[1] *All return periods are through September 30, 2025.*

[2] *Sources: https://www.cambridgeassociates.com/insight/us-pe-vc-benchmark-commentary-calendar-year-2024/; https://www.hfr.com/family-indices/hfri/; https://www.bain.com/insights/outlook-is-a-recovery-starting-to-take-shape-global-private-equity-report-2025/*

- I purposely designed the Core Portfolio strategy to be unconstrained from a geographic, market capitalization, sector and benchmark perspective.
- In my opinion, explicitly managing an investment strategy vs. a specific index can lead to suboptimal outcomes, short-term thinking and misaligned incentives.
- While AI might be the hot sector of the last three years, next year it might be China or Latin America or oil & gas or healthcare – which may or may not flow through to S&P 500 performance.
- My philosophy remains grounded in the fractional ownership of exceptional *businesses,* with a 5-10 year time horizon – a horizon over which our companies will go through many ups and downs.

Against this backdrop, I believe the Clio Portfolio has delivered not only solid absolute returns, but has provided diversification benefits vs. the major indices. Unless we count Berkshire Hathaway's stake in Apple, the Magnificent Seven have not been a direct contributor to the Core Portfolio's gains since inception. Additionally, Clio's substantial outperformance vs. the Equal-Weighted index indicates to me that my stock-picking and portfolio management have added measurable value vs. a randomized strategy.

In summary, I believe I have generally executed well on Clio's stated objectives. I have a high bar for evaluating my own performance, and while I have been personally underwhelmed by our recent relative returns, my conviction in the strategy and in our current holdings remains high. We own some exceptionally durable businesses that should continue to create shareholder value over many years to come.

III. ARTIFICIAL INTELLIGENCE

Lastly, I want to expound a bit further on Artificial Intelligence – the subject which is on everyone's mind these days. It's not surprising that this is the hottest topic in global markets. According to J.P. Morgan research, since the launch of ChatGPT in November 2022, "AI-related stocks have accounted for 75% of S&P 500 returns, 80% of earnings growth, and 90% of capital spending."[3]

In this context, Clio's investment performance has been both bad and good. Bad in that I have almost entirely missed the opportunity to invest in the AI-related stocks that have driven the market's gains.[4] Good in that the Core Portfolio has actually performed quite well when compared to the broader 'non-AI' universe of companies.

The important question is: where do we go from here?

While I remain confident in the future prospects for the Core Portfolio, my assessment of the broader equity markets is less optimistic. As noted, the bulk of the US stock market's gains over the past three years has been driven by those companies exposed to the surging investment cycle related to Artificial Intelligence – the large

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[3] *Source: Michael Cembalest, Chairman of Investment Strategy for JP Morgan Asset Management, Sep 2025*

[4] *Since inception, Clio has owned ServiceNow (NOW), a software company which JP Morgan includes in its list of AI-related stocks; however, I would argue that that investors have considered NOW (and software more broadly) as a potential "AI-loser", a conclusion with which I disagree. NOW shares underperformed the SPY by 28 percentage points in the first 9 months of this year, primarily on fears of AI disruption.*

tech platforms ('the Magnificent Seven') along with the semiconductor and datacenter infrastructure supply chains.

As you may recall, my academic background is in economic history – a field which attempts to explain the determinants of long-term economic growth and relative changes in prosperity. While I spend most of my time at Clio analyzing specific companies and industries based upon their unique bottoms-up fundamentals, I rely on my academic experience to provide frameworks to think about larger top-down phenomena which play out over many years and decades. My views on Artificial Intelligence as both a societal trend and an investment theme are thus shaped by my understanding of past historical innovations, as well as the experience of having invested during the dot-com bubble, the global financial crisis, and more recently the Covid era.

AI has the potential to unleash significant economic growth, but the spread of outcomes remains wide – both at the societal and individual company level. My belief is that the users of AI (consumers and regular businesses) are likely to reap the largest benefits, while the investment returns for most of the suppliers of this technology will likely disappoint in this first stage of development.

In order to grow our wealth through investments, we first have to preserve that wealth – which means avoiding bets where the probabilities of significant loss are not in our favor. This does not mean that Clio is opposed to investing in growth or technology companies – indeed, some of our biggest winners since inception have been in high-growth software and digital payments. And our two newest investments in April were in Adyen and Palvella Therapeutics – two businesses that are relatively more early stage and higher-growth potential than most of the Portfolio. But it does mean that I will not risk our capital in companies, sectors, or trends (as hot as they might seem) where I do not have conviction in the durability of the business model and future returns on capital.

It can be helpful to reflect back to some of the 'hot' investment themes of just the past decade – many of which were pegged by experts as having addressable markets worth tens or hundreds of billions of dollars. Think e-scooters, residential solar, electric vehicles, 3D printing, the metaverse, meal kit delivery, or green hydrogen, to name just a few. Not only did the forecasted demand not materialize, but most of the companies in these sectors failed to create viable, positive-ROIC business models.

A similar dynamic is playing out today in areas like quantum computing, nuclear technology, robotics, drones, autonomous driving, and health-tech. The biggest theme of all is, of course, AI infrastructure, where market participants are very much taking an "if-you-build-it, they-will-come" approach. The supply of this technology is outpacing current demand on a system-wide level. And perhaps the demand will eventually materialize, but I remain skeptical that it will flow through to solid pricing, revenue, and cashflows for the providers of these technologies. Most current AI offerings are relatively undifferentiated, and consumers are unlikely to pay top dollar for leading-edge subscriptions when next-best alternatives will be available for free or a fraction of the price.

Finally, it's worth noting the significant transformation in the business models of some of the largest key players in AI like Meta, Alphabet, Tesla, Microsoft, and Oracle. Historically, these companies were relatively "asset-light" – selling software subscriptions or advertising and benefitting from network effects and global scale on a relatively small base of invested capital. As they push more heavily into AI, they are becoming increasingly

"asset-heavy", with capital expenditures more akin to legacy telecom companies or utilities. For example, from 2013-2021, Oracle spent an average of $1.4bn annually on capex, or 3.7% of sales. Over the coming three years, the company is expected to spend an average of $50bn annually, or 55% of sales, well in excess of operating cash flow. Historically, step-function changes in asset growth almost always lead to disappointing future returns.

As uncomfortable as it may feel at times, I remain committed to prioritizing absolute returns over chasing relative winners where I lack conviction. In an era of accelerating technological and societal change, I'm taking a slow-and-stead-wins-the-race approach. Our Portfolio holdings are excellent companies with strong leadership, and they have significant share gain opportunities in stable, modestly growing industries. I think this is a recipe for success in delivering compelling risk-adjusted, after-tax returns over many years.

IV. CLIENT BASE AND ORGANIZATIONAL UPDATE

At September 30, Assets Under Management totaled $141 million from 51 clients. There are no significant operational or organizational updates to report.

Clio's client base remains its most important competitive advantage, allowing us to remain steadfast in our objective to buy and hold exceptional companies for many years. Thank you for your continued support.

Sincerely,

James Aldigé

Clio Asset Management LLC

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