



**QUARTERLY UPDATE**  
**FIRST QUARTER 2026**

## Q1 2026 Results

During Q1 2026, the Saga Portfolio declined 23.0% net of fees, compared to a 4.3% decline in the S&P 500 Index, including dividends.

Since inception on January 1, 2017, the Saga Portfolio has returned 298.7% net of fees, compared to 240.3% for the S&P 500 Index. Annualized net returns since inception are 16.1% for the Saga Portfolio and 14.2% for the S&P 500. Returns for individual accounts may vary depending on the timing of contributions during the period; please refer to your statement for account-specific performance.

| <b>Performance</b> |                                   |  |   |
|--------------------|-----------------------------------|--|---|
|                    | <b>Saga Portfolio<br/>(gross)</b> | <b>Saga Portfolio<br/>(net) <sup>(1)</sup></b> | <b>S&amp;P 500<br/>Index <sup>(2)</sup></b> |
| 2017               | 16.0%                             | 14.3%  | 21.8%                                       |
| 2018               | 2.1%                              | 0.6%   | -4.4%                                       |
| 2019               | 65.6%                             | 63.2%  | 31.5%                                       |
| 2020               | 123.8%                            | 120.5%   | 18.4%                                       |
| 2021               | -9.6%                             | -10.9%   | 28.7%                                       |
| 2022               | -84.7%                            | -84.9%   | -18.1%                                      |
| 2023               | 209.2%                            | 204.6%   | 26.3%                                       |
| 2024               | 115.4%                            | 112.2%   | 25.0%                                       |
| 2025               | 46.4%                             | 44.2%  | 17.9%                                       |
| <b>Q1 2026</b>     | <b>-22.7%</b>                     | <b>-23.0%</b>                                  | <b>-4.3%</b>                                |
| <b>Cumulative</b>  | <b>346.8%</b>                     | <b>298.7%</b>                                  | <b>240.3%</b>                               |
| <b>Annualized</b>  | <b>17.9%</b>                      | <b>16.1%</b>                                   | <b>14.2%</b>                                |

(1) Saga Portfolio serves as a model for client accounts. Net returns assume 1.5% management fee, or 0.375% applied at beginning of each quarter.

(2) S&P 500 performance includes dividends. Please see disclaimer at the end of this letter regarding comparison to indices.

I have shifted toward writing annual letters because, over a three- or six-month period, there is often little genuinely new to say about either how the Saga Portfolio is managed or the underlying businesses we own. Frequent updates also risk repeating the same core ideas and drawing unnecessary attention to short-term market fluctuations. Even so, the first quarter brought the first material drawdown in the Saga Portfolio in three years, and I thought it was a good opportunity to address it directly and explain more clearly how I think about drawdowns.

The quarter brought renewed focus to headline risks, including concerns around AI disruption and geopolitical tensions involving Iran. Any development that could materially affect the long-term value of a business deserves serious attention. That does not mean the goal is to guess what stock prices will do in the short term. It means assessing whether new information changes a company's intrinsic value. In many cases, that direct impact on a company's core value drivers and long-term prospects is smaller than short-term share price movements might suggest.

The Trade Desk provides a useful example of how I think through those issues in practice, and I will return to it later in the letter. Its stock price drawdown reflects not only the broader market response to recent headline risks, but also company-specific concerns about the business and its outlook. Before turning to the Saga Portfolio more specifically, however, I think it is helpful to step back and revisit a few broader ideas about compounding, volatility, and what the Saga Portfolio is trying to do.

## The Power of Compounding

For most of human history, there was little opportunity to compound wealth in any meaningful way. Economic growth was nearly nonexistent, surplus capital was scarce, and living standards improved little across generations.

What changed was not simply that people became smarter or worked harder. It was that some societies developed traditions that were more conducive to progress. A culture of criticism emerged, making it easier to question assumptions, challenge authority, correct mistakes, and search for better explanations. As error-correction improved, knowledge grew more quickly. The Enlightenment, and later the Industrial Revolution, turned that knowledge into practical improvements in production, transportation, communication, and health. Living standards rose and, for the first time in history, wealth could compound on a broad scale.

Public equity markets eventually made it possible for ordinary savers to own shares in productive businesses and thereby participate in the long-term growth of earnings power across the economy. Over the last century, the S&P 500 has generated returns of roughly 10% annually. Those returns did not come from stocks as abstract symbols on a screen. They came from businesses solving problems, serving customers, reinvesting capital, and growing their earnings power over time.

The math of compounding is simple:  $\text{initial capital} \times (1 + \text{annual rate of return})^n$ , where  $n$  is the number of years. Each variable matters, but time is what gives compounding its exponential power. Given enough time, even a relatively modest rate of return can turn a small initial sum into something very large. The longer compounding continues, the more the results become concentrated in the later years.

Benjamin Franklin understood compounding well enough to leave long-dated bequests to Boston and Philadelphia in his will, structured to earn interest over generations. But even Franklin might have been surprised by what public equity ownership eventually made possible. His £1,000 gift in 1790 was roughly equivalent to \$4,400 at the time. At an 8% annual return, that initial sum would have grown to more than \$300 *billion* by 2025. Few investors have a 200-year horizon, but the example illustrates how dramatic the effects of compounding can become over time.

That is why Warren Buffett made over 99% of his wealth after what most people would consider retirement age. That is not some strange exception. It is simply what happens when capital compounds for long enough.

## The Challenge of Compounding in Real Time

A 10% annual return over a century is a remarkable outcome, but in real time there are major obstacles that stand between investors and the benefits of compounding.

One is that there is no law that says progress must occur continuously or smoothly. Future returns depend on businesses continuing to solve problems, create value, and grow their earnings power. Because future returns are uncertain, investors can never know for sure whether a new risk is temporary or a sign that something more fundamental has changed. That uncertainty can tempt even long-term investors to prefer the apparent safety of cash or bonds, even at the cost of giving up much of the benefit of owning productive assets.

Even when businesses are improving over time, the experience of owning stocks is rarely smooth. Share prices move not only in response to business results, but also to changing expectations, criticism, uncertainty, and the continual discovery of new problems and possibilities. Drawdowns and reassessments are not interruptions to the process of compounding. They are part of what it looks like in real time.

The last decade is a good example. The S&P 500 returned an exceptional 14% annually over that period, yet it also experienced frequent drawdowns, including several declines of 20% or more. During the onset of the COVID pandemic, the S&P 500 fell by more than 35% in a matter of weeks despite being a highly diversified index.

S&P 500 Index drawdowns over the past decade:

| #  | Start    | End      | Decline | Headline Risk                             |
|----|----------|----------|---------|---|
| 1  | Nov 2015 | Feb 2016 | -14.5%  | Global growth fears, credit stress        |
| 2  | Jan 2018 | Feb 2018 | -11.8%  | Inflation, rising interest rates          |
| 3  | Sep 2018 | Dec 2018 | -20.2%  | Fed tightening, trade war                 |
| 4  | Feb 2020 | Mar 2020 | -35.4%  | COVID, global shutdown                    |
| 5  | Sep 2020 | Sep 2020 | -10.6%  | Election uncertainty, COVID resurgence    |
| 6  | Jan 2022 | Jun 2022 | -24.5%  | Inflation, Fed tightening, Russia/Ukraine |
| 7  | Aug 2022 | Oct 2022 | -19.3%  | Fed tightening, recession fears           |
| 8  | Jul 2023 | Oct 2023 | -10.9%  | Higher-for-longer interest rates          |
| 9  | Feb 2025 | Apr 2025 | -21.3%  | Tariffs, trade war                        |
| 10 | Jan 2026 | Mar 2026 | -9.8%   | AI disruption, Iran conflict              |

Source: Saga Partners, FactSet

That volatility can lead investors to believe they can improve results by timing the market in an attempt to avoid drawdowns. Yet short-term stock price movements cannot be predicted reliably for a fundamental reason. Prices reflect not only current facts, but future knowledge and future human responses that do not yet exist and therefore cannot be known in advance. That does not mean share prices are necessarily accurate. It means outperformance is unlikely to come from consistently predicting short-term market moves.

At times, general sentiment may clearly swing to an extreme of fear or greed, and those moments can create unusually favorable opportunities. Even then, however, the core decision is the same: not to anticipate short-term shifts in sentiment for their own sake, but to judge whether prices imply better long-term returns than the alternatives available. The only practical way I know to navigate this reality is to invest where the gap between price and value appears widest, based on the best explanations available, and to do so with the expectation that the capital will remain invested for at least the next decade.

### Why Active Management Can Make Sense

A low-cost index fund is a sensible default option. It gives investors ownership of a broad cross-section of productive businesses while helping them avoid many of the errors that plague active management.

That matters because wealth creation in markets is highly uneven: a small number of companies account for a very large share of long-term returns, while most stocks underperform the market and many produce negative lifetime returns. Indexing ensures investors own the next Apple, Amazon, or Google before the market fully reflects the value those businesses will ultimately create, even though it also means owning many companies that decline or disappear.

This skewed outcome is not surprising in a knowledge-creating economy. Most companies do not discover fundamentally better ways of serving customers, and even those that once did often stagnate as new competitors emerge with better ideas. The few that continue finding better ways to solve important problems can create

extraordinary value, and the economic rewards can be far larger than those of the average firm.

The purpose of the Saga Portfolio is to invest in businesses that appear unusually well positioned to create substantial long-term value, but whose share prices still do not fully reflect that future earnings power. The goal is not to depend on macroeconomic forecasts, avoid drawdowns, or use leverage to chase extraordinary returns. It is to be selective and invest where the gap between price and value appears widest.

If that analysis is directionally correct, the portfolio should outperform not by predicting short-term market movements, but by owning more of the businesses that drive an outsized share of long-term wealth creation. Active management can make sense for investors willing to put in the time and effort required to identify better opportunities, understand them thoroughly, size them appropriately, and hold them through greater volatility. Given the power of compounding, even a modest edge can produce a materially different long-term outcome over time.

### **Evaluating Stock Declines: The Trade Desk**

A steep decline in a stock price can reflect a real decline in business value, but it does not automatically mean something is broken or permanently impaired. Rather, it is a prompt to reexamine the thesis and ask whether the market's criticism is correct, exaggerated, or mistaken in light of the business's underlying economics and competitive dynamics.

The clearest current example in the Saga Portfolio is The Trade Desk, which is facing the greatest market skepticism and has experienced one of the largest drawdowns among our holdings. The Saga Portfolio first bought shares in 2017 based on the thesis that programmatic ad buying would grow, demand-side platforms (DSPs) would consolidate into a small number of scaled winners, and one of those winners would be an independent platform. More than eight years later, the main elements of that thesis have largely been borne out. The Trade Desk emerged as the leading scaled independent DSP, while revenue, earnings, and market value grew substantially.

In 2025, however, The Trade Desk's growth slowed. It is therefore reasonable for the market to question whether the slowdown is temporary or whether something more structural has changed, especially given how much expected growth had previously been built into the valuation. The market's main concerns have centered on increasing competition, particularly from Amazon's DSP, and the possibility that AI could weaken the position of companies like The Trade Desk.

While these risks should be taken seriously, neither the competitive threat from a walled-garden DSP nor the potential impact of AI is new, and I do not think recent developments materially change the long-term thesis. What has changed is not the existence of those risks, but the market's interpretation of them. The Trade Desk's slower growth over the past year has led investors to attribute more of the slowdown to competition and AI rather than to near-term headwinds, and to question the durability of the company's competitive advantages more directly.

On competition, the value proposition of an independent DSP remains the same: many advertisers still need a neutral tool to help them buy advertising across the open internet. That remains a structural advantage relative to a walled-garden DSP. Amazon may continue building a strong advertising business, but that does not mean it will be the best partner for buying advertising across the broader internet. More threatening to the long-term thesis would be the emergence of another scaled independent DSP with a similar value proposition and the ability to take meaningful share. So far, there is no evidence of that happening, and I think it would be very difficult for

another independent DSP to emerge at meaningful scale.

On AI, the main concern is that it could make it easier for advertisers and publishers to work directly with one another, reducing the need for certain intermediary functions. The Trade Desk is best understood not simply as a software provider, but as core infrastructure for advertising buyers across the open internet. If AI improves how campaigns are planned, optimized, and measured, that could strengthen rather than weaken its value. Advertisers would still need a system to coordinate budget allocation, data integration, measurement, and execution across the fragmented open internet. Greater automation could also make the product easier to use and help it move further down market by serving smaller and mid-sized advertisers more effectively.

While the share price has declined sharply, the core value drivers of the business and the size of its long-term opportunity do not appear to have changed nearly as much. If The Trade Desk remains the leading independent DSP and AI proves more helpful than harmful, the long-term opportunity is still substantial, and the recent slowdown is more likely to prove temporary than structural. The company processed roughly \$13 billion of ad spend over its platform last year, still only a fraction of the much larger open internet advertising market.

If that is right, the current valuation appears unusually attractive. With a market capitalization of roughly \$10 billion, about \$1.3 billion of net cash at year-end, and the ability to generate nearly \$1 billion in free cash flow this year, the market seems to be pricing in a level of pessimism that I find hard to reconcile with the company's long runway to grow earnings power.

One aspect of the current situation reminds me of the experience with Carvana in 2022. Not because the businesses are similar, but because in both cases market sentiment deteriorated far more than my long-term view of underlying value. Three years ago, selling a company widely viewed as a high-quality business like The Trade Desk to buy a deeply out-of-favor company like Carvana seemed absurd to many. Today, in some respects, market sentiment appears to have swung in the opposite direction. My long-term view of both companies has changed little despite the swings in their share prices. Declining stock prices rarely come with reassuring headlines. When those headlines push market sentiment far beyond what I would consider a conservative estimate of intrinsic value, they can create compelling mispricings.

Those reallocations were not attempts to trade around short-term price movements. They reflected changes in relative opportunity as prices moved far more than my estimate of underlying business value. In both cases, after I added to each holding, the shares fell further. The goal is not to identify the precise bottom, but to judge whether the current price offers an attractive long-term return relative to the alternatives available. For long-term owners of The Trade Desk, a depressed share price can be beneficial if it allows the company to repurchase more shares at attractive prices—just not our shares at current prices.

## Conclusion

Everything seems obvious in hindsight. In real time, investing looks very different: knowledge is incomplete, conditions change, and prices often move far more than business value. That is what makes investing difficult, but it is also what creates the possibility of mispricing. The goal is not to know in advance exactly what stock prices will do, but to build the best explanations we can, compare them with the prices being offered, and act accordingly. Nothing about short-term market fluctuations changes that process.

For much of the last three years, several of our holdings have appeared unusually attractive to me, which is one reason there have been so few new companies added to the portfolio. It has been difficult to find other opportunities that seem clearly better. I have often wanted to add more to a position, limited only by my reluctance to sell anything else.

When I look at our companies today, I see businesses that continue to strengthen their competitive positions and have long runways to grow their earnings power, even if that growth does not always occur in a straight line. Their shares also trade meaningfully below what I think they will ultimately be worth. I do not know what their share prices will do over the next quarter or year. But based on the best explanations I have today, I expect the companies we own at current prices to compound our capital at attractive rates over the long term.

I remain grateful for your trust and partnership as we continue working to compound capital over time. Please feel free to reach out if you have any questions or would like to connect.

Sincerely,

Joe Frankenfield

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