SAGA PARTNERS

# ANNUAL UPDATE

## 2025

## 2025 Results

During 2025, the Saga Portfolio ("the Portfolio") increased 44.2% net of fees compared to the overall increase for the S&P 500 Index, including dividends, of 17.9%.

Since inception on January 1, 2017, the cumulative return for the Saga Portfolio is 417.9% net of fees compared to the S&P 500 Index of 255.7%. The annualized return since inception for the Saga Portfolio is 20.1% net of fees compared to the S&P 500's 15.1%. Please check your individual statement as specific account returns may vary depending on the timing of any contributions throughout the period.

| Performance | | | |
|---|---|---|---|
| | Saga Portfolio (gross) | Saga Portfolio (net) (1) | S&P 500 Index (2) |
| 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% |
| Cumulative | 492.9% | 417.9% | 255.7% |
| Annualized | 21.9% | 20.1% | 15.1% |

(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.

## Why Share Prices Tell Us Very Little

People often describe the stock market as a casino, with prices bouncing around for no obvious reason. It can feel that way if one focuses on what a stock will do next and consumes financial media designed to make every day sound like a crisis that demands immediate action. But at its core, the stock market is a system for price discovery and capital allocation. It allows ownership in businesses to change hands and helps fund companies that are solving real problems. When it works well, it supports innovation, productivity, and rising living standards.

Every day, the market sets prices for thousands of companies. Those prices reflect millions of competing explanations and expectations about business value, compressed into a single number. But that number is not a precise measurement of what a business is worth. A share price is better understood as the market's current conjecture about value, expressed in dollars. Like any conjecture, it is incomplete, fallible, and often wrong.

Stock prices change as people update their explanations and act on them. Sometimes those updates reflect real changes in long-term earning power. Often, they are driven by shifting narratives even when the underlying business has changed little. When uncertainty is high, small changes in interpretation can move prices significantly. That is why much of what passes as analysis does little to improve our understanding of how businesses actually create value. For that reason, I treat short-term performance as a description of market behavior, not a reliable scorecard for investment quality. Saga is structured to think and act over multi-year periods, without the constraints that push most investors toward short-term decision making. Much of the market is focused on predicting how prices will move over the next few weeks or months, rather than what returns might be if one owned the business for decades.

Many investor letters explain which holdings “contributed to” or “detracted from” results and then retrofit explanations for those moves. That can sound analytical, but it often implies a level of short-term predictability that does not exist. The narratives are usually constructed after the fact, making outcomes feel more knowable than they were at the time decisions were made.

If we cannot reliably predict stock prices, how should we decide which businesses to own?

## Explanations, Not Predictions

The answer is to base decisions on explanations of businesses, not on short-term predictions about stock prices.

If stock ownership is taken seriously as partial ownership of a real business, the right question becomes: how would this company be evaluated if it had to be owned for the next ten or twenty years with no ability to sell? This constraint shifts attention away from forecasting near-term earnings or share price movements and toward understanding what the business can become over time.

Thinking in decades is a humbling constraint. Very few businesses endure, and far fewer thrive. Many advantages that look durable in the short run turn out to be temporary. Knowledge is hard to create, but once discovered it tends to spread.

That is why excess returns are rare. Competitive markets act as an error-correcting system. When a company earns unusually high profits on capital, it often signals a better way of solving a problem or a constraint others have not yet overcome. Eventually, those profits attract attention, capital, and imitation. Competitors learn, customers demand more, and alternatives emerge. Returns compress unless the company keeps improving faster than competing solutions.

Sustained excess returns usually require something more durable: capabilities others cannot replicate, coordination problems that remain hard even after a winner sets the standard, or constraints that are difficult to copy, such as trust, distribution, regulation, or deep integration into customer workflows. Even these protections are not permanent in a world where invention and competition persist. The most durable advantage is often not a static moat, but the ability to keep creating and applying new knowledge to better serve customers.

Given those realities, very few companies meet the standard required for long-term ownership. The key is having a good explanation for how a business creates value over time. What matters is not precision, but whether the explanation is hard to vary.

Easy-to-vary explanations are vague, non causal, and hard to test. They are often only loosely connected to how a business creates value, which allows them to be adjusted to fit almost any outcome and to explain winners only after they have already won. High return on invested capital is not an explanation. It is the result that needs to be explained. More commonly, easy-to-vary explanations lean on outside conditions like rates will fall or the macro environment will improve, or rely on labels like network effects or brand, without specifying the underlying mechanism or what evidence would refute the thesis.

A hard-to-vary explanation is the opposite. It is a causal account of the mechanisms that generate value, constrained by how the world actually works. Changing key elements should break the logic of the thesis. It should answer a few essential questions: What problem does the company solve? Why do customers choose it? Why is that difficult to replicate? How can the business continue to improve? What evidence would refute the thesis?

The explanation comes first. Forecasts can follow, but they remain fallible because the future can contain genuinely new and unpredictable knowledge.

Once there is a working explanation, valuation becomes practical. How large could the business become? What must be true for growth to continue? Does the advantage strengthen or weaken with scale? What could break the model? In practice, risks like reliance on a single gatekeeper, regulatory exposure, leverage, or loss of trust often matter more than small changes in discount rates.

The next step is to compare that explanation to the one implied by the current share price. The price reflects the market's prevailing conjecture. A spreadsheet cannot predict the future, but it can make assumptions explicit. If the market's implied explanation matches the explanation in hand, there is little reason to expect excess stock returns. If it does not, and the explanation in hand is better, that is where opportunity exists.

Returning to the thought experiment of owning a stock for twenty years helps filter out noise. What share prices will do along the way is unknowable, so portfolio management becomes the discipline of enduring volatility without being forced into poor decisions. That is why Saga avoids margin, options strategies, and short selling. The goal is not certainty. It is resilience: building a portfolio grounded in sound explanations, with position sizes that allow for error without catastrophic loss.

**Why Beating the Market is Hard**

With that framework in mind, the next question is why outperformance remains so rare in practice.

The S&P SPIVA After-Tax Scorecard illustrates how difficult this is. Over the ten years through 2024, 95.5% of actively managed "All Domestic" U.S. equity mutual funds underperformed their benchmarks after taxes. Over twenty years, 97.7% underperformed.

The idea that there is a simple way to beat the market is self-limiting. Any method that is both simple and repeatable would be copied, competed away, and ultimately reflected in prices. That is why the most obvious bargains that existed decades ago, such as companies trading at large discounts to conservatively appraised assets or special situations with a clear catalyst, appear far less frequently today. It is also why pattern investing and rules of thumb tend to disappoint. Past correlations can look convincing, but they rarely explain what is actually driving value or why the market is misjudging it.

The hard reality is that long-term stock returns are lopsided. Over any decade, most stocks deliver ordinary results and many disappoint, while a small minority drives a disproportionate share of wealth creation. That skew is exactly what you would expect in a world where progress depends on new knowledge. Creating something genuinely better is hard, and competition erodes anything that is easy to copy. In mature categories, differentiation typically fades and excess profits drift toward average. Many public companies that are considered "high quality" are simply executing well understood playbooks in mature markets. Even a great business can be a mediocre investment if the share price already assumes a great outcome.

The rare long-term winners tend to emerge when a company finds a genuinely better way to solve an important problem and then scales that advantage to many more customers. When the reason for success is deep and causal rather than a temporary tailwind, advantages can compound. Learning curves improve the product, scale lowers unit costs, reputation and distribution expand its reach, and switching costs or network effects increase customer stickiness. These forces are not linear. Once a company gets ahead, the same mechanism that created the lead can make it easier to widen. Early on, that trajectory is hard to value because the evidence is noisy and the end state is uncertain. That is why meaningful mispricings can persist for long periods.

This is the central challenge in active investing. It is not enough to find good companies. To outperform, you need two things. First, a resilient mechanism for why the business can keep solving problems better than the alternatives as it learns and adapts. Second, a share price that implies a meaningfully weaker future than the one the mechanism suggests. Even when you have both, the path is rarely smooth. Markets continually revise their guesses, and share prices can swing wildly for reasons that may have little to do with long-term fundamentals.

Institutional portfolio management makes beating the market that much harder. Most professionals are judged on short horizons, so strategies are selected to look safe quarter to quarter and stay within the comfort zones of clients and committees, not to be right over a decade. That pressure pushes portfolios toward wide diversification and consensus holdings. Add benchmark constraints, tracking error limits, position size rules, and investor flows that tend to arrive at the worst times, and it becomes extremely difficult to own the rare winners at meaningful size and hold through enough volatility to capture outperformance.

A system optimized for short-term optics tends to produce closet-index portfolios. It is no surprise that long-term underperformance after fees is common in professional investment management and that passive index funds have attracted so much capital.

**Saga Case Studies: Carvana and GoodRx**

A philosophy only matters if it improves decision making in the face of conflicting information, especially when narratives shift and share prices fall. The key distinction is between volatility that creates opportunity and new information that breaks a thesis.

<u>Carvana</u>

The used car market is enormous, but its structure has historically limited the scale of any single player. Dealerships are built around local inventory, local reconditioning, local financing, and local delivery, so selection is constrained and unit costs stay high.

Carvana is easy to misunderstand because it is not simply selling cars on a website. It is an integrated system designed to break those constraints by centralizing inventory, industrializing inspection and reconditioning in purpose-built facilities, building a dense logistics network, and embedding financing into the same flow.

The mechanism is cumulative learning and operating leverage. Each part of the system improves the others, which is why the advantage compounds rather than scales linearly. Higher throughput lowers delivery and reconditioning cost per unit. Broader selection improves conversion. Faster turns reduce capital intensity. More transactions improve pricing, logistics, and credit decisions. Over time, this creates a system that is hard to copy because it requires years of operational learning, national infrastructure, funding relationships, and enough volume for the machine to improve through repetition and cover high upfront fixed costs.

When we invested in 2019, the market's expectations embedded in the stock price were far weaker than what the mechanism suggested. Carvana was still reporting losses, so the easy story was a cash-burning retailer that would eventually hit a wall. The question I kept returning to was simple: is the mechanism beginning to show up where it should? I looked for improving unit economics in older cohorts, a strengthening customer proposition as selection and delivery reliability improved, evidence of operating leverage as utilization rose, and a balance sheet that could fund the company until it reached scale and profitability. Over time, the evidence increasingly pointed to an integrated system whose economics should improve with density. It also pointed to the difficulty competitors would have replicating the full stack cost structure and customer experience once an operator had already moved down the learning curve.

Then 2022 arrived. Used car affordability deteriorated, interest rates rose sharply, volumes fell, and execution issues hit at the wrong time. The share price collapsed. The key question was not whether prior expectations were wrong, but whether the causal explanation had been refuted.

The thesis would break if demand structurally shrank, if unit economics failed to improve as utilization recovered, or if competitors matched the experience and economics without comparable infrastructure. I did not see evidence of that. The mechanism looked intact, and the company had enough liquidity to resize costs and fund the business through the downturn. We held and added opportunistically at depressed prices. As management improved efficiency and restored profitability while maintaining customer service, fundamentals improved and shares recovered from their lows.

<u>GoodRx</u>

GoodRx is a useful counterexample. I originally bought it because the value proposition looked durable as a pharmaceutical marketplace. It aggregated discount card pricing across multiple pharmacy benefit managers (PBMs), helping cash pay consumers access negotiated prices. It also appeared to have a defensible advantage through scale and a patented interface that enabled contracting with multiple PBMs in one place. The flywheel was intuitive. Better prices attract more consumers, which pushes PBMs to compete harder for that demand.

One of the key risks was the pharmacy point of sale. Pharmacies were already squeezed on insured prescriptions and historically relied on higher margin cash pay transactions. Discount cards pushed those prices down and shifted bargaining power away from pharmacies. In the first half of 2022, I learned a thesis breaking fact. Kroger stopped accepting GoodRx coupons at the counter.

Management previously claimed that pharmacies were effectively required to honor these discounts through PBM contracts. In reality, they could opt out and impose a price floor. This was not a temporary headwind. It changed the industry structure by making GoodRx's advantage contingent on pharmacy participation in a way I had underestimated. I sold our shares.

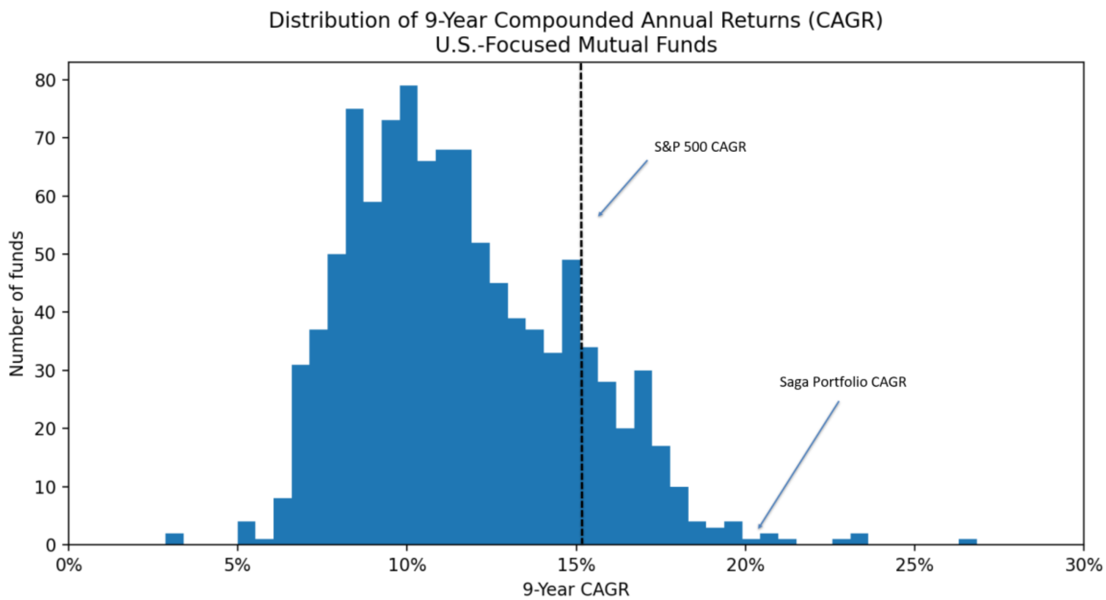
To date, I consider GoodRx one of the biggest mistakes of commission in the portfolio, but the mistake was the purchase, not the sale. Selling at a loss was the right decision because the thesis was broken and the original explanation no longer held. It was not about the stock price.
The contrast between holding Carvana through extreme volatility and selling GoodRx is the point of the framework. A falling stock price is not a reason to sell. A broken causal explanation is.

**Reflections on Nine Years Managing the Saga Portfolio**

Since inception at the beginning of 2017, the Saga Portfolio has compounded at 20% per year net of fees, 5% ahead of the S&P 500. To put those results in context, I screened Morningstar's database of U.S.-focused mutual funds. Among roughly 1,100 funds with a nine-year track record, the Saga Portfolio would rank near the top over the same period.

The chart below shows the distribution of annualized returns for those U.S.-focused mutual funds. The key point is how skewed the outcomes are. A small minority outperform the S&P 500, and those that do typically outperform by only a few percentage points. Most funds underperform.

One important point is survivorship, which likely understates how widespread underperformance really is. The distribution reflects only funds that still exist and have long track records. Many others were merged or liquidated over time, biasing the results upward.




*Source: Saga Partners, Morningstar*

It also helps to understand how the portfolio has evolved. In 2016, I left my job to manage a portfolio full-time with a simple goal: invest my own capital in the way that made the most sense to me, write openly about the process, and partner with investors who shared that philosophy. In 2017, Michael Nowacki and I launched the Saga SMID Cap Portfolio as co-portfolio managers, focused on small and mid-cap stocks where we expected to find the most overlooked opportunities.

At the beginning of 2019, Michael decided to focus on providing wealth management services, and I became the sole manager of the Saga Portfolio. Since then, I have managed the portfolio more opportunistically, trimming or exiting positions that became less compelling and concentrating more heavily in the opportunities I think were best, regardless of market cap. That shift increased concentration and reduced turnover. It also increased short-term volatility, but I expected it would improve the portfolio's long-term compounding potential.
Since 2019, the Saga Portfolio has compounded at 24% per year, net of fees, ranking 4th out of approximately 1,500 U.S.-focused mutual funds in Morningstar's database with a seven-year track record.

| | Portfolio | 7 Yr CAGR (2019-2025) |
|---|---|---|
| 1 | Baron Partners Fund | 30.8% |
| 2 | Baron Focused Growth Fund | 26.0% |
| 3 | Alger Focus Equity Fund Class I | 24.3% |
| 4 | Saga Portfolio | 24.0% |
| 5 | Baron Opportunity Fund | 23.2% |
| 6 | Virtus Silvant Focused Growth Fund | 22.3% |
| 7 | Fidelity Advisor Growth Opportunities Fund | 22.2% |
| 8 | Federated Hermes MDT Large Cap Growth Fund | 22.1% |
| 9 | Alger Capital Appreciation Portfolio | 22.0% |
| 10 | Voya Russell Large Cap Growth Index Portfolio | 21.9% |

*Source: Saga Partners, Morningstar*

Unlike firms that launch multiple strategies and later close underperformers, Saga has run a single portfolio with a single approach. The record includes the full distribution of outcomes, including mistakes.

It also includes the 2022 drawdown, for which I take full responsibility. That period was a reminder that markets can move to extremes when prices are marked daily and narratives shift faster than fundamentals. Some of our companies faced real challenges, but share prices can overshoot in both directions. The worst outcome during periods of heightened skepticism is being forced to sell and lock in losses that later prove temporary. The key is having the flexibility to hold through pessimism and, when appropriate, act opportunistically when prices fall well below any reasonable estimate of long-term value.

If the Saga Portfolio has an edge that has contributed to its long-term results, it is not better forecasting or superior resources. It is structural. Many professional investors operate under constraints that encourage decisions that are easier to explain, protect careers, and require continuous activity. Those constraints make meaningful outperformance difficult.

The Saga Portfolio is managed with the sole intention of compounding capital over long horizons. A small number of exceptional businesses drive most long-term returns, but their share prices can be volatile. My decisions are guided by my understanding of those businesses and a willingness to look wrong for extended periods when the underlying explanation remains intact.

In practice, that means I spend most of my time reading, observing, and thinking. Action is infrequent. I only act when I think it will improve the portfolio's long-term returns, not to appear active or prudent.

**Portfolio Review**

Portfolio activity in 2025 reflected the same philosophy that guides the strategy. I do not make changes simply because share prices move or because I feel a need to do something. I invest when I can explain how a business creates value, why its current share price underestimates its long-term earnings power, and why its expected return is more attractive than the other opportunities I can evaluate. A concentrated portfolio will sometimes be volatile when sentiment changes quickly, but that volatility is not itself a reason to act. What matters is whether new evidence has changed my explanation of the business and whether its share price remains attractive relative to my estimate of long-term value.

I did not initiate any new positions during 2025. The most notable activity was increasing my positions in The Trade Desk and Wise. I added to The Trade Desk as its share price declined. The decline appeared to reflect growing concern that slower growth represented a permanent weakening of the company's competitive position. I continue to think that the market underappreciates The Trade Desk's position as the leading independent buying platform serving a large and growing market. I also added to Wise as customer adoption, payment volume, and use of the Wise account continued to grow.

The capital for these additions came primarily from trimming Carvana. Carvana remains a large position, and I continue to think it is undervalued. However, as its share price appreciated toward the end of the year, the gap between its price and my estimate of long-term value narrowed. At the same time, the expected returns in The Trade Desk and Wise became more attractive relative to Carvana, leading me to reallocate capital accordingly.

More detailed discussions of each holding are included in the appendix. For readers interested in a deeper analysis of The Trade Desk and the digital advertising market, I also published a separate write-up (link).

## Conclusion

If you follow markets closely, you will never run out of reasons to worry. There is always a new alarming headline and a new prediction that "this time is different." Even into the first quarter of 2026, attention has shifted to new concerns, with share prices reflecting those concerns. Some risks are real and can affect the value of specific businesses. More broadly, pessimism tends to dominate because the future is inherently uncertain and there are an infinite number of things that can go wrong.

Yet none of that prevents progress. It comes from businesses solving real problems for their customers. Markets do not always reflect that progress in real time. Sentiment shifts constantly, often driven more by perception and narrative than by changes in underlying fundamentals. These shifts are not abstract. They shape how people feel, how they act, and ultimately how capital is allocated.

As investors, we operate within that system. Investing on behalf of others adds another layer of complexity. Every decision is visible. Outcomes are judged continuously. The prospect of loss carries a different weight when it affects more than just your own capital. After nine years managing the Saga Portfolio, I have felt that pressure, especially during 2022. Periods like that test not just the portfolio, but the framework behind it.

What has kept me focused on Saga's core philosophy is a simple principle. I manage the portfolio with the same rigor I would apply to my own capital, because it is. In practice, that means owning fewer businesses, accepting more volatility, and at times holding positions that may appear uncomfortable or controversial—not because I seek that out, but because the best opportunities rarely feel obvious or easy in the moment.

Even with that principle, managing other people's capital has, at times, constrained my willingness to concentrate further when opportunities appear especially attractive. When the possibility of being wrong affects others, it inevitably shapes decision-making. In hindsight, outcomes often appear clear. In real time, they rarely are.

The experience of 2022 made that reality more concrete. Long-term investing is not just about identifying good businesses, but owning businesses that can endure difficult periods and emerge stronger. Periods of declining stock prices are when the underlying explanation is most tested and criticized. Rarely does a falling share price come with reassuring news. It often feels uncomfortable, and at times it should.

Yet those periods are also when expectations reset and opportunities are often most attractive. For long-term owners, lower prices are not a problem if the thesis remains intact, but an opportunity to allocate capital more effectively. That is why I would rather see our companies make strong fundamental progress while their share prices remain depressed, even if it makes the Saga Portfolio's results appear weaker in the interim.

My responsibility is not to avoid volatility. It is to ensure the portfolio can endure it and, when appropriate, benefit from it.

When I assess the portfolio today, I am highly encouraged by its prospects. The businesses we own generated record operating profits in 2025 and are expected to do so again in 2026. They continue to strengthen their positions, while valuation multiples across much of the portfolio remain near historical lows. I do not know what share prices will do over the next year, but the gap between price and value appears compelling over the long term.

I remain fully invested alongside you and am grateful for your trust as we continue to compound value over time. Please feel free to reach out if you have any questions or would like to connect.

Sincerely,

Joe Frankenfield

# Appendix

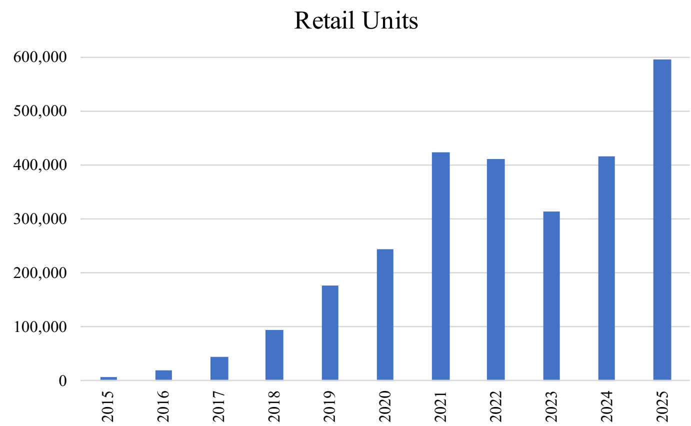
<u>Carvana</u>

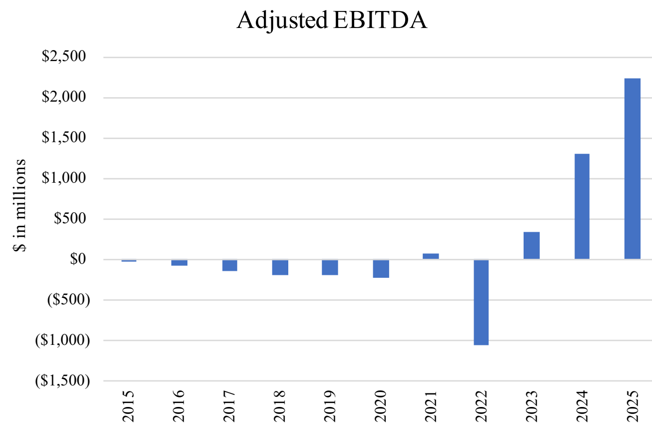
The used car market has historically been fragmented and local. Most dealerships source, recondition, and sell vehicles within a limited geographic area, restricting selection and making it difficult to achieve meaningful scale. The result is an expensive and often frustrating experience for customers.

Carvana has built a fundamentally different model. Its integrated platform brings together vehicle acquisition, inspection and reconditioning, inventory management, financing, logistics, and the customer-facing retail experience. By managing the entire process, Carvana can offer customers a wider selection and a simpler, more transparent experience while steadily lowering its cost to buy, recondition, and sell each vehicle.

The advantages of this system should strengthen as it grows. Higher volumes allow Carvana to make better use of its reconditioning centers and logistics network, spread fixed costs across more vehicles, turn inventory faster, and offer a broader selection. Each transaction also gives the company more data and operating experience that can be used to improve the system. Better economics allow Carvana to offer a better customer experience, which attracts more customers and inventory and further strengthens the model.

In 2025, Carvana grew retail units by 43% while industrywide used car volumes remained roughly flat. It generated $2.2 billion of EBITDA and an EBITDA margin of 11%, demonstrating that rapid growth and expanding profitability can occur together.




*Source: Saga Partners, Company filings*

Carvana spent much of the past several years building infrastructure capable of supporting volumes well above its current run rate. As more vehicles move through that infrastructure, fixed costs are spread across a larger base and margins improve. The results in 2025 provided further evidence of what the system can produce as utilization rises. Carvana also continued to reduce debt and strengthen its balance sheet, ending the year with net debt equal to 1.2 times EBITDA and $4.4 billion of committed liquidity.

The long-term question is how much of the roughly 40 million-unit U.S. used car market can eventually move toward a model like Carvana's. Nearly 20% of total U.S. retail spending now occurs online, although adoption varies widely by category. More complicated and logistically intensive purchases tend to move online more slowly, and buying a used car is about as complicated and logistically intensive as retail gets.

At the same time, the traditional used car buying experience is far more cumbersome than most other retail purchases. That makes the potential improvement offered by Carvana especially meaningful. Used cars may be more difficult to move online than books or electronics, but Carvana has already demonstrated that it can acquire, recondition, finance, sell, and transport vehicles at scale with attractive economics. For customers, the result is a meaningfully better experience across convenience, selection, and transparency.

I therefore think a significant share of used car sales can eventually move toward this model. Carvana is well positioned to capture that shift because no competitor currently operates with a comparable combination of scale, infrastructure, brand, and capabilities. Its system is not impossible to replicate, but doing so would require years of investment, operating experience, and enough volume to make the economics work.

Even after the recovery in Carvana's share price, I continue to view the shares as attractive relative to the company's future earnings power. The investment thesis does not require Carvana to dominate the used car market. The company already has the infrastructure to sell approximately 1.5 million retail units annually and expects to increase that capacity to roughly 3 million units with modest additional capital investment within its existing real estate footprint. At 3 million units and approximately $4,000 of EBITDA per unit, Carvana would generate roughly $12 billion of EBITDA.

I think customer demand can eventually support volumes well above 3 million units. Expanding beyond that level will require additional real estate and infrastructure, but the business should be able to fund those investments from the cash it generates as it grows.

If Carvana continues improving both its cost structure and the customer experience, each should reinforce the other and strengthen the company's position in the market. I do not think the current share price fully reflects Carvana's ability to approach 3 million annual retail units over the intermediate term, much less the opportunity that could exist beyond that level.

<u>Roku</u>

The shift from linear television to streaming has changed more than how television is delivered. It has also changed how viewers decide what to watch. Instead of choosing among a limited number of channels, viewers now navigate dozens of apps and a nearly endless selection of content. As those choices multiply, the interface that helps viewers find and watch content becomes increasingly valuable.

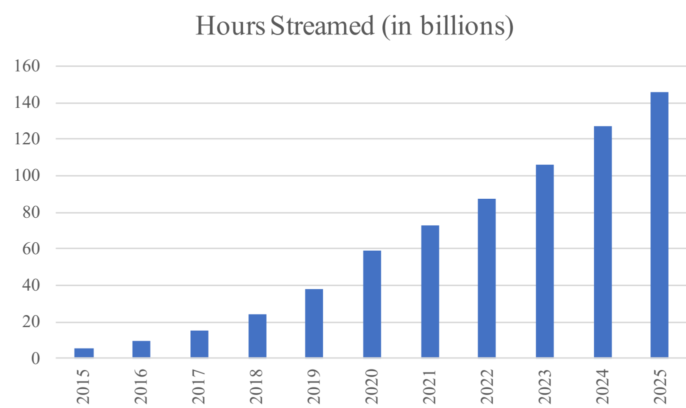
Roku occupies that position. Its operating system serves as the starting point for nearly 100 million households when they turn on their televisions. Roku helps viewers navigate content across different apps while helping streaming services, advertisers, and content owners reach those viewers.

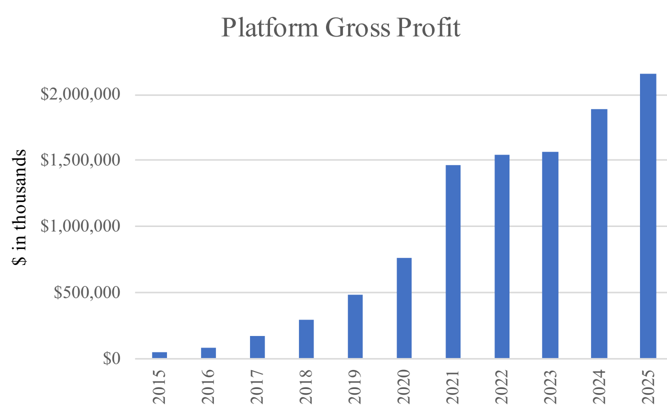
This gives Roku an important place between viewers and content providers. Through search, recommendations, home-screen placement, and navigation, Roku can influence what gets watched without having to produce most of the content itself. As more viewing takes place on the platform, Roku gains more information about what viewers want, improves its recommendations, and creates more opportunities to monetize their attention. Roku does not need to predict which streaming services or television shows will ultimately win. It benefits from being the platform through which those viewing decisions are made.

Roku's position is the result of decisions made over many years. Its early focus on simple, affordable streaming devices and broad access to content helped attract users. It then expanded by licensing its operating system to television manufacturers, allowing Roku to become the default interface on millions of new TVs. Unlike many of its larger competitors, whose priorities extend across hardware, content, commerce, and advertising, Roku has remained primarily focused on building the best operating system for television. That focus helped it establish a leading position in the U.S. market.

Today, Roku reaches roughly half of U.S. broadband households and accounts for nearly half of all television streaming hours in the country. That scale makes Roku increasingly important to both sides of the ecosystem. Viewers want a simple way to find and watch content, while content providers and advertisers want access to large and engaged audiences.

In 2025, Roku made progress on both engagement and earnings power. Streaming hours increased 15% to 146 billion, while Platform gross profit grew 15% to $2.1 billion. It also produced positive net income and record trailing twelve-month free cash flow, making the underlying earnings power of the business more visible.




*Source: Saga Partners, Company filings*

The Roku Channel provides one of the clearest examples of the value of controlling the television operating system. The service aggregates free, advertising-supported programming alongside premium content. In December 2025, The Roku Channel accounted for more than 6% of all U.S. streaming time.

The significance is not simply that Roku created another successful streaming service. Beginning in early 2025, The Roku Channel ranked second among apps on the Roku platform in the U.S. by engagement, ahead of Netflix. It reached that position while spending far less on content than the largest streaming services. This suggests that controlling distribution and discovery can sometimes be as important as owning the content itself.

The opportunity becomes even more meaningful when considering television advertising. U.S. television advertising is a roughly $90 billion market. Approximately $30 billion has already moved to connected TV, while about $60 billion remains tied to traditional linear television. Yet streaming now accounts for nearly half of television viewing. Advertising spending has not yet caught up with where audiences are spending their time.

As advertisers continue following viewers toward streaming, more of that spending should move to connected TV. Streaming also allows advertising to be targeted and measured at the household level, making it more useful to many advertisers than traditional television advertising. Over time, connected TV should be able to capture spending not only from linear television but also from other forms of digital video advertising.

Roku is well positioned to benefit from this shift. A large share of U.S. streaming takes place through its operating system, and Roku typically receives 15% to 30% of the advertising inventory shown by services on its platform. It can also earn money through advertising on The Roku Channel, home-screen placements, and subscription distribution. As viewing and advertising continue moving to streaming, Roku should have more opportunities to monetize its relationship with both viewers and content providers.

The investment thesis does not require Roku to become a fundamentally different company. It depends on Roku continuing to strengthen and monetize a position that should become more valuable as television viewing and advertising move toward streaming. If it does, I believe the company's long-term earnings power will prove materially greater than the current share price reflects.

The Trade Desk

An advertiser's ultimate goal is to persuade more people to buy its products or services. Advertising can influence that decision by making potential customers aware of a product, helping them understand its value, and keeping it in mind when they are ready to buy. The media-buying problem is deciding which potential customers to reach, where and when to reach them, and how much to pay for their attention.

Solving that problem has become far more complicated as people spend their time across millions of websites, apps, streaming services, podcasts, and devices. Advertising space is now bought and sold through automated auctions occurring millions of times each second. No person could evaluate all those opportunities individually, so advertisers need technology that can compare them and decide where each additional dollar is most likely to produce the best result.

The Trade Desk was built to solve that problem. It provides software known as a demand-side platform (DSP) that helps advertisers and their agencies buy digital advertising. The platform evaluates available ad space across independent websites, apps, podcasts, and streaming services. This part of digital media, which exists outside the large closed platforms operated by Google, Meta, and Amazon, is commonly called the open internet.

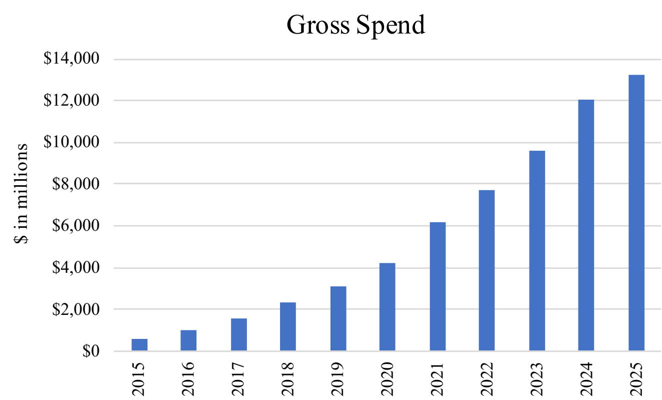
Much of digital advertising currently takes place within those closed platforms. They offer enormous audiences, valuable data, and relatively simple tools. Because a single company controls the audience relationship, advertising space, buying system, and measurement, it can make large campaigns easy to execute. The tradeoff is that the same company is both selling its own advertising space and helping advertisers decide where to spend. Advertisers must also rely heavily on it to identify the available opportunities and report how well the campaign performed. The convenience is real, but so are the potential conflict of interest and limited transparency.

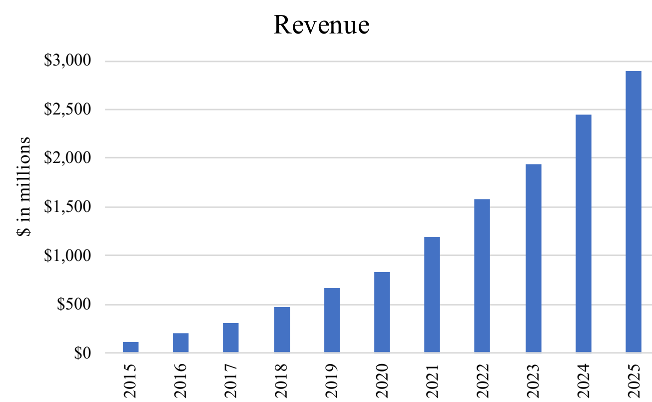
The Trade Desk operates differently. It does not own advertising space. Instead, its technology helps advertisers evaluate and buy ad opportunities across media owned by other companies, earning fees based largely on how much customers spend through its platform. Google's DV360 and Amazon DSP also provide access to media outside their parent companies' properties, but Google and Amazon themselves own significant advertising inventory. The Trade Desk has no owned media to favor, making it more closely aligned with the advertiser.

That independence is valuable only if advertisers can navigate the open internet efficiently. The open internet offers broad reach and more control over where advertisements appear and how results are measured, but it is far more fragmented. Thousands of independent media companies sell advertising across different websites, apps, podcasts, and streaming services. This creates additional complexity and cost for advertisers trying to compare opportunities across the market.

The Trade Desk is working to reduce that friction. OpenPath, for example, allows websites and streaming services to connect their advertising space more directly to The Trade Desk's buying platform. A digital advertising transaction can otherwise pass through several technology providers before an ad reaches the viewer, with each intermediary adding cost and complexity. If The Trade Desk can shorten that path and make it more transparent, less money should be lost to unnecessary middlemen and more of each advertising dollar should pay for the actual ad placement. That would improve the economics of the open internet for both advertisers and the media companies selling the advertising space.

Recent results have raised legitimate questions about whether this thesis is still playing out. In 2025, advertisers spent $13.4 billion through The Trade Desk, an increase of 11%, while the company's revenue grew 18% to $2.9 billion. Although 18% revenue growth would be strong for most companies, it represented a meaningful slowdown from The Trade Desk's historical growth rate. Over the previous decade, however, both advertising spend and revenue increased more than twentyfold as the company attracted larger customers and expanded across different forms of media and geographies.




*Source: Saga Partners, Company filings*

Several factors may help explain part of the slowdown. Management cited reduced spending by large consumer-goods companies and automakers, which together account for more than one-quarter of The Trade Desk's business. Comparisons with 2024 were also affected by political advertising surrounding the presidential election. At the same time, the company was working through internal execution challenges as it reorganized parts of its sales organization and moved customers onto Kokai, its new buying platform.

These factors should not be used to explain away disappointing results. They leave open two competing explanations: the slowdown could largely reflect temporary industry pressures and internal execution problems, or it could signal that The Trade Desk's competitive position is weakening. Future growth in advertising spend, customer retention, market share, and campaign performance should provide a clearer answer.

The central strategic question is whether advertisers will continue to value an independent platform capable of evaluating opportunities across the open internet. The Trade Desk's objectivity gives advertisers a reason to use it, while its scale makes it difficult to replace. Its platform has the data, infrastructure, and customer relationships needed to evaluate millions of advertising opportunities every second across different countries and forms of media.

Other independent demand-side platforms exist, but few can match that combination of capabilities while serving the world's largest advertisers. The Trade Desk's position is not guaranteed, but it would be difficult to reproduce. A competitor would need to build the technology, integrate with thousands of media and data providers, earn the trust of major advertisers and agencies, and attract enough spending to improve its data and support the necessary infrastructure.

The existing opportunity is already substantial. Global digital advertising is approaching $800 billion annually, with an estimated $200 billion to $250 billion spent across the open internet. The Trade Desk handled approximately $13.4 billion of that spending in 2025. The thesis therefore does not require the open internet to take meaningful share from the largest closed platforms. The Trade Desk can grow by capturing a larger share of a market that already exists.

The opportunity could become larger if more advertising dollars move to the open internet. Consumers already spend a meaningful share of their time there, but advertising spending has not fully followed them. The complexity and inefficiency of the supply chain are part of the reason. If The Trade Desk can make the open internet easier to buy and measure, it could benefit both by gaining share within the existing market and by helping that market grow.

At the current share price, I think the market is assuming that The Trade Desk's competitive position is more fragile and its remaining opportunity more limited than is likely. The company does not need to return to its historical growth rate to produce attractive results. If it maintains its position as a leading independent buying platform, it can grow by capturing a larger share of the advertising spending that already occurs across the open internet. Any expansion of that market would provide additional upside.

Because the recent concerns surrounding The Trade Desk deserve a fuller discussion, I also wrote a separate piece examining them in more detail (link).

Trupanion

Pet insurance is meant to help owners manage unexpected veterinary expenses. A pet owner should be able to approve the care their pet needs without the decision depending on what they can afford that day. Yet traditional pet insurance generally requires owners to pay the full veterinary bill upfront and wait to be reimbursed. Many policies also reset deductibles each year or limit how much they will pay. This can leave owners facing significant costs and uncertainty at the moment the insurance is supposed to help most.

Trupanion was built around a different experience. It prices policies based on the expected lifetime cost of caring for a pet, considering factors such as breed, age at enrollment, and location. Premiums can rise as the local cost of veterinary care increases, but they do not rise simply because the pet gets older. Its deductible is paid once per covered condition rather than resetting each year, and its core policy has no annual or lifetime payout limits.

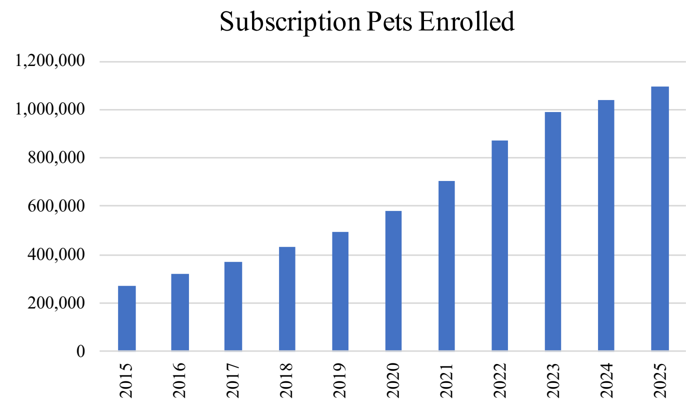
Trupanion also integrates its payment system directly with veterinary hospitals. At participating hospitals, Trupanion can approve a claim and pay its portion of the bill directly at checkout, often within minutes. The owner is responsible only for the deductible and their share of the covered bill rather than paying the entire amount and waiting for reimbursement. This reduces both the financial burden and uncertainty when a pet needs care.

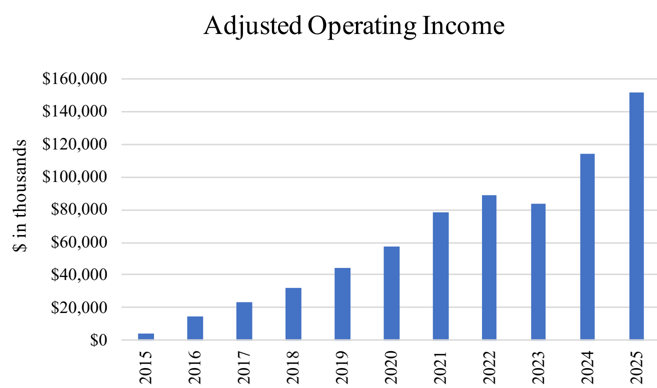
The basic economics are relatively simple. Trupanion collects monthly premiums, uses most of that money to pay veterinary bills, and uses what remains to operate the business, attract new members, and generate a profit. Because the relationship can last for most of a pet's life, the economics of any single year matter less than whether Trupanion accurately estimates the lifetime cost of care and retains the pet long enough to earn an attractive return.

A larger and longer-tenured base of enrolled pets gives Trupanion more claims data across breeds, ages, conditions, and geographic markets. More data does not automatically lead to better decisions, but it gives the company more information with which to estimate future veterinary costs, identify pricing errors, and improve its models. Scale should therefore help Trupanion become better at pricing risk, not simply make it larger.

In 2025, the business was still working through the effects of elevated veterinary inflation in 2022 and 2023, since Trupanion could not immediately pass unexpected cost increases through to members. Insurance price changes require regulatory approval and then take time to reach the existing pet base. Claims costs therefore rose faster than premiums, putting pressure on the profit earned from each pet.

Management responded by raising prices and limiting spending to enroll new pets until premiums caught up with higher veterinary costs. That slowed near-term growth but improved the economics of the existing pet base. In 2025, subscription pets increased 5%, while adjusted operating income, which excludes spending to acquire new pets, rose 33% to $152 million. By the fourth quarter, the subscription segment's adjusted operating margin had reached 16.5%.




*Source: Saga Partners, Company filings*

Slower enrollment growth has contributed to investor skepticism and the decline in the share price. The market may be interpreting that slowdown as weakening demand rather than the result of management limiting acquisition spending while restoring margins. With margins and expected lifetime profit per pet improving, Trupanion has begun investing more aggressively in growth.

There is still a large market in which to reinvest. Pet insurance covers only about 4% of dogs and cats in the United States, compared with roughly 28% in the United Kingdom. Differences between the two markets mean that U.S. adoption will not necessarily follow the same path. The comparison does show, however, that penetration can rise well beyond current U.S. levels.

The market appears to expect slower pet growth to persist and the long-term opportunity to be smaller than I expect it to be. That view gives too little credit to the improvement in profit per pet and Trupanion's renewed investment in growth. If the company can maintain its improved economics while adding pets at attractive returns, its earnings power should increase meaningfully over time. That potential does not appear to be reflected in the current share price.

## Wise

Moving money across borders remains one of the most inefficient parts of the global financial system. A bank will often send an international payment through one or more correspondent banks before it reaches the recipient. Each intermediary can add cost and delay, and part of the fee is often hidden in the exchange rate rather than clearly disclosed. Despite improvements elsewhere in financial services, sending money internationally can still take days and cost several percentage points of the amount being transferred.

Wise was built to reduce those costs and delays. Suppose a customer wants to send dollars from the United States to someone in the United Kingdom. Wise can receive the dollars through its U.S. network and pay the recipient in pounds from money it already holds in the UK. When customer flows move in both directions, Wise can offset them and only needs to transfer the difference between its pools of currencies. This allows more of the payment to move through domestic payment systems rather than through a chain of international banks.

Providing that experience across many countries and currencies requires far more than a simple app. Wise has spent more than a decade acquiring regulatory licenses, connecting to local payment systems, managing currency and liquidity needs, and automating compliance and customer service. A competitor might be able to reproduce any individual feature, but rebuilding the entire network across many markets would require significant time, investment, and operational experience.

Customers generally do not care which company moves their money as long as it arrives quickly, reliably, and at the lowest possible cost. Wise is organized around those priorities. Greater volume can lower the cost of each transaction by spreading fixed expenses across more payments, improving the use of its infrastructure, and allowing more customer flows to offset one another. Wise uses part of those savings to lower prices while retaining enough profit to invest in its network, products, and future growth.

Lower prices and faster payments attract more customers, which brings additional volume and creates more opportunities to reduce costs. Most new Wise customers still come through recommendations from existing users, providing evidence that customers value the experience enough to tell others about it. The cycle depends on Wise continuing to reduce its costs at least as quickly as it lowers prices. So far, the company has been able to lower its average fee while continuing to grow volume and profit.

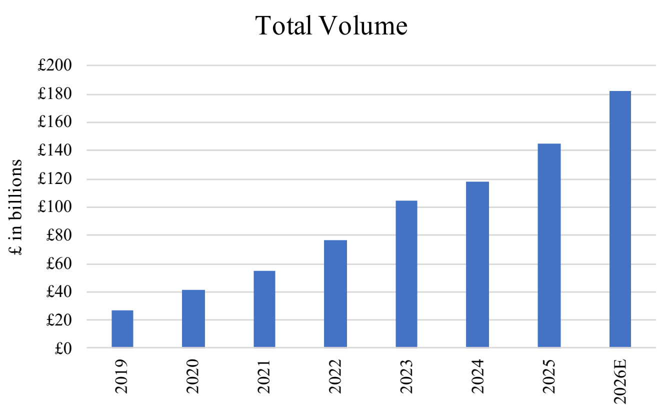
The business is also becoming more than a service for occasional international transfers. Customers increasingly use Wise to hold, convert, spend, and receive money across different currencies. They now hold or invest more than £25 billion through Wise. As customers use more of these features, Wise becomes more involved in their everyday financial lives and has more opportunities to earn revenue beyond an individual transfer.

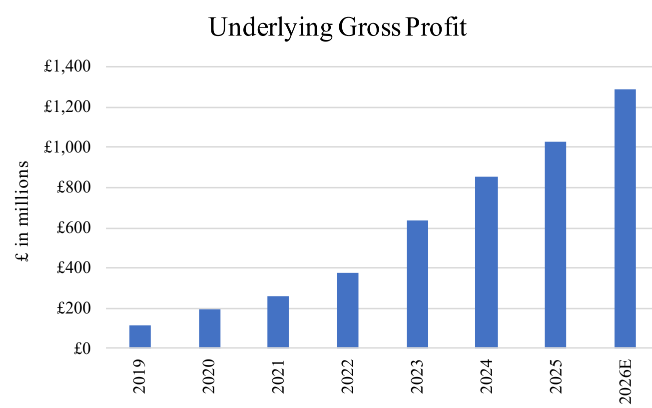
Wise is also making its infrastructure available to banks and other financial institutions through Wise Platform. Rather than asking a bank to give up its customer relationship, Wise allows the bank to offer faster and lower-cost international payments using Wise's network behind the scenes. Building those capabilities internally would require connections to payment systems, regulatory approval, liquidity management, and operating infrastructure across many countries. If integrating with Wise provides a better outcome than building or maintaining that infrastructure internally, more institutions should choose to use it.

Wise Platform could eventually allow Wise to serve customers who never interact directly with the Wise brand. The opportunity is significant even though progress will take time. Large financial institutions have long purchasing and integration cycles, and Wise must compete with other payment networks and technology providers. The important question is whether Platform partnerships ultimately bring meaningful volume onto the network.

The broader market is large, although not every payment is equally addressable. More than £30 trillion moves across borders annually. Wise expects to process more than £180 billion in fiscal year 2026, representing well under 1% of total cross-border flows. Its share of consumer transfers remains in the low single digits, while its share of business and institutional payments is much smaller.

Against that large opportunity, recent results remain strong. Cross-border volume is expected to grow roughly 25% in fiscal year 2026, while underlying gross profit is expected to increase 26% to approximately £1.3 billion. Wise expects to earn an underlying profit-before-tax margin of approximately 15% while continuing to lower prices and invest in growth. Customer adoption remains strong, and greater use of the Wise account continues to increase the amount customers hold and spend through the platform.




*Source: Company filings, Saga Partners*
*Note: Wise's fiscal year ends March 31. 2026E reflects consensus estimates, including Q4 FY2026, to present full-year figures consistently.*

Investors have focused on Wise's declining take rate, which is the average fee it earns on the money moving through its network. A lower take rate does not necessarily mean the business is weakening. Wise has deliberately lowered prices as its costs have fallen. If those lower prices attract enough additional volume, both customers and owners benefit. The risk is that competition forces Wise to cut prices faster than it can reduce costs, causing volume to grow without a similar increase in profit.

Wise faces real competition from both incumbent banks and newer digital providers. Banks have large customer bases and established relationships, while companies such as Revolut continue to improve their products. Some competitors can also subsidize international payments with profits from other services. Wise has built an advantage, but no advantage is permanent. It must continue earning customers' business by providing a faster, cheaper, and more reliable experience than the alternatives.

Stablecoins and other new technologies could also change how money moves across borders. They may make it cheaper to move value between currencies and reduce the importance of parts of Wise's existing network. However, moving value between currencies is only one part of completing an international payment. Someone still needs to receive the customer's money, follow local regulations, convert between currencies, and deliver the funds into the recipient's bank account. Wise's licenses and connections to local payment systems should therefore remain valuable.

Wise should also be able to use stablecoins if they become the cheapest and most efficient way to move money. That outcome is not guaranteed. The important question is whether Wise can adopt better technology while maintaining its advantages in local payment access, compliance, and customer relationships. If Wise remains focused on solving the customer's problem rather than protecting its existing technology, better payment methods could strengthen its network. If stablecoins allow competitors to match Wise's speed and cost without replicating its infrastructure, they could weaken Wise's position.

More broadly, it would be concerning if Wise's prices began falling faster than its costs, customer growth became increasingly dependent on expensive marketing, Wise Platform partnerships failed to generate meaningful volume, or regulatory problems limited the company's access to local payment systems.

Interest earned on customer balances has boosted recent profits. Because interest rates may fall or Wise may return more of that income to customers, I value the business using a normalized level of interest income. Even on that basis, the market appears to assume that competition and lower prices will meaningfully limit future earnings growth. At the current share price, the investment does not require Wise to dominate global payments or materially expand its margins. If Wise can continue gaining customers and volume while reducing costs enough to maintain a profit margin near its long-term target, its earnings power should increase meaningfully over time and provide attractive long-term returns for owners.

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