U.S. EQUITY INVESTOR LETTER

June 30, 2025

To our investors and partners,

In early April, the shares of Berkshire Hathaway were running ahead of the S&P 500 Index on a year-to-date basis by over 25 percentage points. As this letter is being written, the shares now lag the index. That about sums up the gyrations of the stock market so far this year – an acute downturn, and then an equally sharp rebound; a large flight to safety, followed by a return of unbridled optimism.

It seems like ages ago, but it's only been three months since the stock market sold off sharply in response to the Trump administration's announcement of a sweeping set of import tariffs. The panic proved to be short-lived. The market has since recovered all of its losses and then some, as the administration has backtracked on some of the highest levies that were bandied about, and economic data have remained relatively resilient.

However, the jury is still out on what impact this administration's tariff policies will have on our economy. Some of the recent economic data appear to be buoyed by businesses and consumers rushing to buy goods before they become more expensive. Since many tariffs have yet to take effect and negotiations are ongoing, it's likely we won't know the final tariff details for some months. In fact, there may never be a "final" set of tariffs, as this administration clearly relishes keeping everyone on their toes. And that sense of uncertainty may, in the end, do more damage than the absolute tariff levels themselves. Businesses will find it difficult to make large capital outlays without some confidence about future costs and regulatory regimes.

In these last few months, we have been frequently asked by clients how we are dealing with the tariffs; our answer is that we are doing what we have always done when there is a significant shift in the macro-economic environment. First, we review our portfolio companies to see how they would fare under various scenarios, in this case emphasizing some of the more onerous tariff levels. After a comprehensive assessment, we made a couple of minor adjustments to our portfolios to dampen the tail risk, but otherwise left them unchanged.

And then, we double down on our commitment to only invest in companies where we feel we can make reasonable prognoses about their profitability many years from now. Our approach is best captured by Yogi Berra's famous comment that "it's difficult to make predictions, especially about the future." Instead of trying to forecast where tariffs will be next year, or three years hence, or even ten years hence, we instead ask ourselves a series of "what if?" questions. What if tariffs were X? What if tariffs were Y? What if the next administration keeps any inherited tariffs? What if the next administration abolishes them? And so on. And if a company can pass those questions with flying colors, then the current uncertainty can provide an opportunity for us. We have added to several holdings this year that we thought were unfairly penalized, based partially on exposure to tariffs.

We added to our investment in Texas Instruments. We have owned its shares since 2023, and through a combination of price appreciation and additional purchases, including recently, the investment is now one of the largest we have.[1] The company is the leading manufacturer of analog semiconductors

[1] Texas Instruments is owned in our Large Cap strategy portfolios.

in the world. While there are many kinds of semiconductors, they can mostly be categorized into two basic kinds: digital and analog. Digital semiconductors process information in binary form, where information is handled in discrete form, either on or off, like a light switch. Because of that, they are excellent at logic operations and data storage. The microprocessor at the heart of a laptop or smartphone, for example, is a kind of digital semiconductor, with the ability to execute commands, run software, and make calculations.

Analog semiconductors, on the other hand, can handle "continuous" information, like sound, movement, pressure, light, or voltage. So they're like dimmer switches, rather than binary on/off switches. The sensor in a car that measures tire pressure contains an analog semiconductor, since pressure happens on a continuum. The semiconductor in a smartphone camera that senses the amount of light coming in through the lens is analog. The chip in a laptop that controls the amount of electrical current flowing in to recharge its battery is an analog semiconductor.

Essentially, just about every electronic device relies on some sort of analog technology. And the increasing electronification of the world, and the increasing complexity of the electronic content, means that demand for analog semiconductors should increase strongly over time. And since Texas Instruments sells almost one out of every five analog semiconductors in the world, it should have a nice revenue tailwind over the next decade or more. The company isn't just the biggest; it's the low-cost manufacturer as well. It's in the midst of building out new plants that will allow it to bring some outsourced manufacturing capacity in-house, and we believe this will further extend its cost lead over the coming years.

As you can imagine, tariffs are muddying the short-term outlook for Texas Instruments. About 40% of its sales go to China, with about half of those sales going to multinationals and half going to China-headquartered companies. Of course, a lot of those finished products that include Texas Instruments components are then exported outside of China, including to the U.S. The ultimate impact on Texas Instruments will depend not just on the amount of tariffs that the U.S. government imposes, but also on how the Chinese government may respond.

We don't know exactly how the political side of this will turn out, but we do know several things. The analog semiconductors that Texas Instruments makes are highly engineered and difficult to replicate. The company has a decades-old reputation for reliability that is exceedingly valued by its customers. Its semiconductors are low-priced, selling for an average of less than a dollar, and customers are not likely to risk the integrity of their products by switching suppliers to save pennies. Texas Instruments has plants all over the world, including a large presence in the U.S., and thus has the capacity to adapt to whatever changes in trade flows occur because of various tariffs.

One of the things that gives us confidence in the long-term future of Texas Instruments is its exceptional management team and culture.

When we consider a company for investment, we obsess about three things. How wide is the moat? How high and durable is its growth? How good is the management team? These are not the only things we consider; there are many others. But among the important ones, they are the hardest to assess, and thus where we tend to spend the most amount of time.

Texas Instruments grades well on all three, but it grades especially well on its management ethos, which we deem to be extraordinary. On its investor relations page of its website, right there at the very top, the headline says, "The best measure to judge a company's performance over time is growth of free cash flow per share, and we believe that's what drives long-term value for our owners." We couldn't agree more. Free cash flow is the cash generated that is available to shareholders, in other words, after all expenses are paid and capital expenditures are made. It's a more volatile measure of profitability than accounting earnings on a year-by-year basis, since one of the points of accounting is to attempt to smooth out the volatility inherent in businesses that spend money for future benefit. However, this means that there is an element of pliability to accounting earnings that can allow management to delude themselves into thinking that a company is earning more than it really is. (Sometimes, and more often than one might think, management is not deluded at all, but is trying to mislead investors or achieve accounting earnings targets to attain bonus compensation.) Thus, we prefer that management teams use free cash flow as a better long-term measure than accounting earnings, and Texas Instruments is one of the select few companies in the S&P 500 that uses it consistently and explicitly when making capital allocation decisions.

The "per-share" portion is important, because that is the ultimate metric for shareholders. If a company grows its profits by 10% but also grows its share count by 5%, then a shareholder is better off by 5%. Whereas, if a company grows its profits by only 5%, but shrinks its share count by 5%, a shareholder is better off by 10%.

This is not a complicated concept to grasp, but it's typically not something most executives think about until they have risen to, or near to, the very top of the organization chart, because their sphere of influence is not measured in per-share figures until then. And even once at the top, executives often find that their compensation depends as much on the absolute size of the pie, rather than the size of the slice. To see that this is the case, one has to only peruse a typical proxy statement of a public company, where executive pay is usually justified by comparing it to peer companies. And peer companies are almost always chosen on the basis of total figures, such as revenue size or overall growth rates, and not on per-share figures. This is inescapable to some extent, which is why it's extra important to enforce a culture of per-share accountability for top executives.

As much as we like Texas Instruments' focus on per-share free cash flow, we also like that it remains a company run by executives with engineering backgrounds, which we consider to be crucial for a semiconductor company. Current CEO Haviv Ilan is an electrical engineer by training, as was the previous CEO and current Chairman, Richard Templeton. They have stepped up the pace of new product introductions over the past several years, roughly doubling the number of new products introduced every year. Interestingly, like true engineers, they achieved this by not only increasing the number of R&D projects and the success rate, but by decreasing the failure rate of projects through analysis of what works and what doesn't.

Our portfolios are chock full of all-star management teams such as these, giving us confidence that they will leverage their companies' core strengths to navigate whatever environments may lie ahead.

We look forward to updating you at the end of the year.

Respectfully,

Haruki Toyama

DISCLOSURES & DEFINITIONS

This letter was written by Haruki Toyama, Head of Mid and Large Cap Equities and Portfolio Manager on the respective strategies.

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