Letter to Investors October 8, 2026

As we have written many times in the past, our firm's charter over the long term is seeking and investing in financially strong companies with a demonstrated ability to grow earnings and cash flows while remaining attentive to the price we pay. This is the foundation of our Quality Growth stock approach.

Since the end of the Federal Reserve's zero bound interest rate policy in 2021 and the launch of ChatGPT in November 2022, enthusiasm for Artificial Intelligence ("AI") technology has helped a relatively small and narrow group of companies account for much of the stock market's (S&P 500 Market Cap Index) gains over this period. This has overshadowed many other established companies with strong financial results and when taken together, has created a challenging cycle to navigate managing a diversified stock portfolio. As the table below shows, disparate index returns during the current 5-year cycle have been material.

Period Ending - 9/30/2026

INDEX	3RD QTR	YTD	1 Yr	3 Yr	5 Yr
Annualized S&P 500 MARKET CAP (TR*)	2.30%	12.75%	15.74%	22.87%	13.78%
Annualized S&P 500 EQUAL WEIGHTED (TR*)	-1.87%	10.03%	11.56%	15.71%	8.77%
Dow Jones Industrial Average (TR*)	-2.34%	7.19%	11.50%	16.99%	10.57%
Carderock Capital Stock Portfolio**	-2.19%	7.54%	10.24%	14.13%	6.88%

**Total Return*

*** Average return across all Carderock Capital accounts. Individual returns will differ.*

We believe AI has the potential to improve productivity and create meaningful opportunities across the economy as proven by our firsthand experience in conducting market research and analysis, as well as boosting our own internal productivity by using it. But we also see its limits. From an investment perspective, however, we must consider its promise alongside the cost of development. The pace and scale at which AI is moving can only guarantee market chaos and dislocation that could cause unintended and negative consequences. From our perspective, the lynchpin of this cycle is very clear; financial benefits and higher productivity must be shared widely by investors, developers, and users. If not, the downside risk to the markets can be perilous. It is always tempting to drift towards "what's working in the market," but we know from stock market history, transformational cycles never produce the outcomes (winners and losers) that today's narrative is claiming. Technological progress alone does not establish what an economy, business, or its stock is worth. Ultimately, profits and utility do.

Factors Driving Our Decision Making

- Technology firms are collateralizing debt to sell to pensions and insurance companies, using tools not dissimilar to the mortgage crisis of 2007-2008.

- The overshoot in inflation and hike in yields likely will not be resolved until the AI buildout slows down.

- Incumbents in AI development (Microsoft, Google, Amazon) are better positioned financially than upstart competitors to offer a full suite of models to end users using AI to enhance productivity.

- Open-source AI models will likely undercut OpenAI and Anthropic's ability to increase prices for workflows where lower intelligence is "good enough."

- Collectively, our Quality Growth issues have grown earnings 17% over the past year and 18% over five years, exceeding their stock price performance by a considerable margin.

To be very clear, for the past five years it has been an extremely bifurcated and narrow market: "AI related stocks" and "everything else." Until the economy experiences lower inflation, declining interest rates, and fiscal responsibility, the "everything else" will most likely come up short.

So, what can go right? It turns out that many things can, and as sanguine as markets are on AI's development, we are equally optimistic about companies whose fundamentals will not be overwritten by mere lines of code. In the end, we will remain flexible enough to recognize legitimate threats from AI, while not letting the market purely guide our decisions. Diversification across industries and sectors remains our focus.

As always, we welcome your questions and appreciate the confidence you have in Carderock Capital.

Warmest Regards,



Daniel A. Kane, CFA
President



Stephen F. Knapp, CFA
Director of Research



Jeanne C. Goedecke, CFA
Portfolio Manager

We invite you to review our regulatory disclosure brochure (Form ADV Part 2) and Client Relationship Summary (Form CRS) as filed with the U.S. Securities and Exchange Commission (SEC) pursuant to the Investment Advisers Act of 1940. You can access these materials through our website (www.carderockcapital.com) or through the SEC's Investment Adviser Public Disclosure database, available on their website at https://adviserinfo.sec.gov/firm/summary/104570. With reference to Rule 206(4)-2, Carderock Capital urges you to compare the information on your statement with the statements received from your custodian. Please contact us if you have any questions.

"On July 3, 2008, the European Central Bank hiked its benchmark interest rate by 25 points, two months before the financial crisis. So far this month, the Federal Reserve, Bank of Japan, and ECB have raised their respective rates. Are central bankers committing the same blunder today? Yes, say many economists. The wars in Iran and Ukraine are 'supply shocks that rate hikes can't fix,' Moody's Analytics chief economist Mark Zandi argues. One problem with the above analysis is that supply shocks are always with us. Since Covid ended, we've suffered shortfalls of energy, lumber, used cars and computer chips-and much else besides. Protracted periods of high inflation may condition the expectation of more of the same until the expectation becomes the facts. Trichet's error was hiking rates as economic activity hit stall speed. The opposite is true today." Evan Lorenz, *Hike Away!,* **Grant's Interest Rate Observer**, September 25, 2026.

"Financial connections between tech firms are substantial. A new paper by Sona Asset management argues that 'The AI financing web increasingly reflects the characteristics of a closed-loop system', where money committed to AI labs eventually flows back to the source providing it. The incestuous network of revenue-capex-financing connections does mean that if you want to understand the creditworthiness of one element of the system, you're going to have to look at the system as a whole. And that's really the point of the work: to examine how single points of failure might impact the AI universe. Because we live in a world where firms do sometimes fail." Toby Nangle, *Joining The Dots Between Big AI*, **Financial Times**, September 18, 2026.

"The ground has shifted beneath the bond market. A higher cost of longer-term money could have deleterious effects further down the track, but with stocks close to records and the US economy humming along more strongly than thought, it's hard to say they have been felt yet. The good news is that there are few better times to buy when the air has been expelled. Bonds represent a more valid alternative than they've done in a generation – and investors will have to scrutinize the rosy projections for S&P earnings very carefully (which they should be doing anyway), as the bond market no longer provides a cushion in the event that profits disappoint." John Authers, *The Bond Rout Has a Silver Lining,* **Bloomberg**, September 28, 2026.

"In the past year American markets have digested the largest-ever initial public offering (SpaceX), equity raise by a public company (Google) or a foreign firm (SK Hynix), private-funding round (OpenAI) and private-debt deal (Broadcom). A new paper calculates that if 183 gigawatts of new data center capacity is built by 2032, the capex bonanza will be larger as a share of the economy than America's railway and dotcom booms combined. Most market participants are now wondering 'What might break?' The queasy stories are piling up, and yet the market is within a hair of its all-time high. Better, maybe, to keep going while the machine still whirrs." Schumpeter, *The Era of Speedball Capitalism Has Dawned,* **The Economist**, September 30, 2026.

"Much has been made of the circular and interconnected relationships inside the AI, data center and chip markets. We simply ask: who is ultimately on the hook for all these financings? All of the risk converges on just eight names: Meta, Oracle, Microsoft, Amazon, Google, Nvidia, and on a look-through basis, OpenAI and Anthropic. All eight of these counterparties are issuing debt into investment grade markets which is then bought by insurance companies. One of the great ironies of this market is that the same risk the insurance industry finds too big to insure in the property market as a liability, it swallows whole as an asset when it arrives as an investment grade bond." In The Gaps, *The Hangover,* **Ares Alternative Credit Newsletter**, Fall 2026.

Why We Are Buying These Five Companies

At Carderock Capital, we believe attractive long-term investments begin with strong businesses. We favor companies with a history of growth, leadership in their industries, and profits supported by lasting customer demand. These five holdings reflect those qualities and offer opportunities we believe can reward patient ownership.

Federal Signal FSS

We find Federal Signal attractive because its equipment performs essential Environmental Solutions and Safety and Security services: cleaning streets and sewers, maintaining infrastructure, and protecting communities. Its established brands and specialized expertise give it a strong position in these markets. We value its historical record of expanding the business, growing profitability, and a strong continuing income stream from parts and services after equipment is sold. In our view, aging infrastructure and equipment replacement creates lasting opportunities. Although customer spending can fluctuate, we believe the ongoing need for its products supports our conviction to the company.

Broadridge Financial Solutions BR

Broadridge provides services that financial institutions and public companies depend on every day. Its technology helps process transactions and deliver important information to investors. Long-standing customer relationships and repeat business give us confidence in the durability of its profits. We believe its history of growing sales, earnings, and growing dividends (2.5% current yield) reflects the value it provides and the strength of its industry position. As customers seek more efficient technology and digital communications, we see opportunities for Broadridge to deepen those relationships.

Expeditors International EXPD

Expeditors offer logistical services in both Air and Ocean Freight along with custom brokerage. Essentially, the company helps businesses move goods around the world and navigate complex customs requirements. By arranging transportation rather than owning planes and ships, it can grow without the heavy spending those fleets require. Its global network and experienced employees have helped it grow into a leading logistics provider. We value its financial discipline and the ability to grow sales and earnings without using long-term debt. In our view, increasingly complex supply chains make their expertise more valuable in the current global trade environment that seems to be constantly changing.

Ecolab ECL

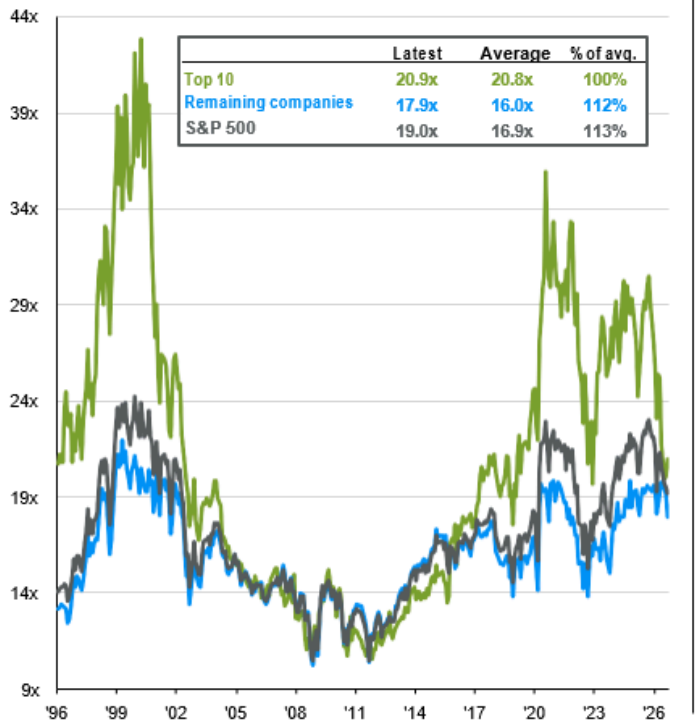
Ecolab solves everyday problems for Hospitals, keeping facilities clean, protecting food safety, and using water efficiently. Its industry leadership rests on technical expertise, service, and relationships built over many years. Repeat purchases, high switching costs, and hands-on service specialists have provided a dependable foundation for growth in profits, while solutions that save customers water, energy, and money encourage those relationships to endure. Water treatment for semiconductor factories and data centers offers further opportunity, supporting our confidence in its long-term prospects.

AstraZeneca AZN

We own AstraZeneca for its established medicines, scientific expertise, and opportunities to develop new treatments in the Oncology, BioPharmaceuticals, and Rare Disease segments in Healthcare. Its strengths in cancer care and rare diseases have helped build a growing global business. We value the breadth of its medicines, which reduces reliance on any single product, and the profitability it earns on successful treatments provides the support for further research and development. It's our belief the company's historical successful track record with promising new drugs and treatments coming online make it an attractive long-term investment.

P/E of top 10 and remaining companies in S&P 500

Next 12 months



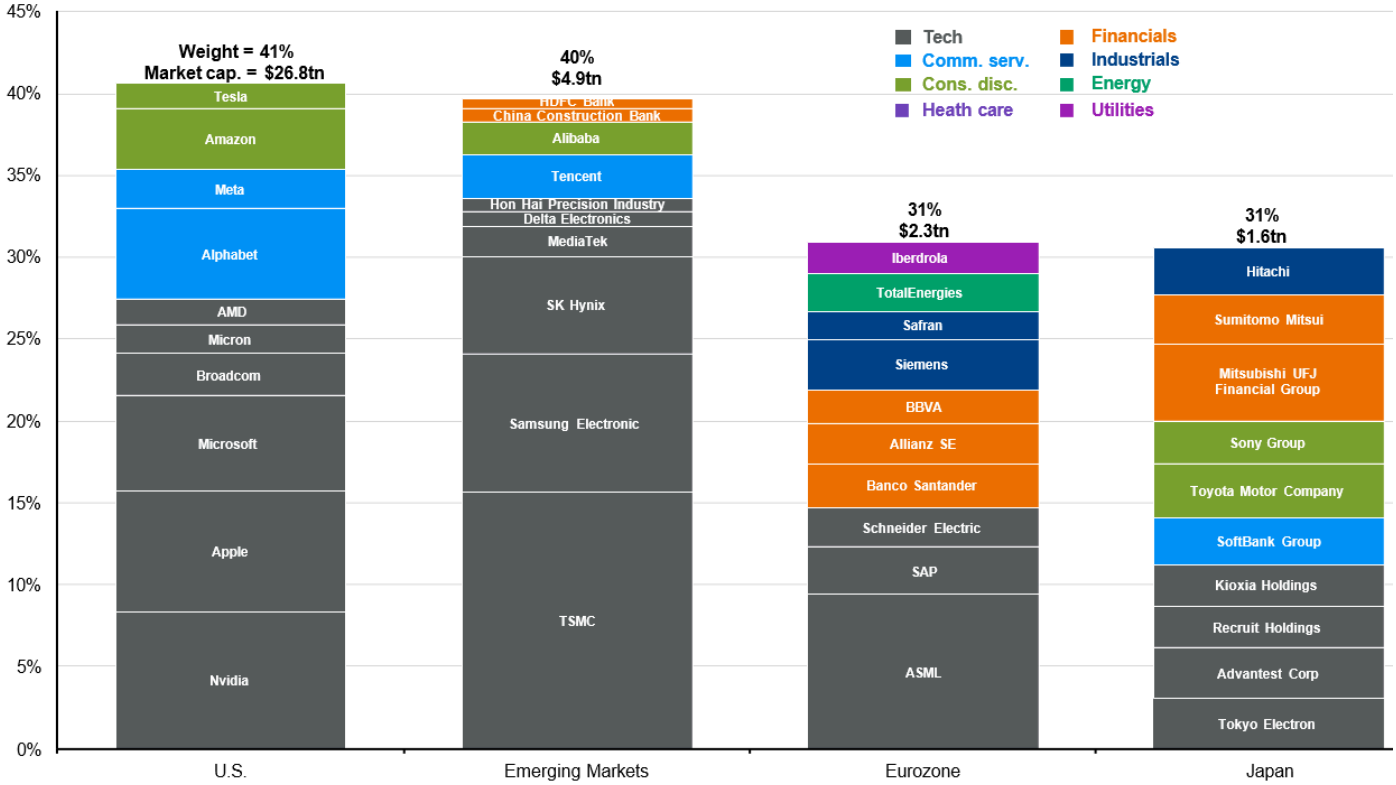
Weight of the top 10 companies in the S&P 500

% of market capitalization, % of last 12 months earnings



Top 10 companies in regional indices

Index weight on the first day of the current month

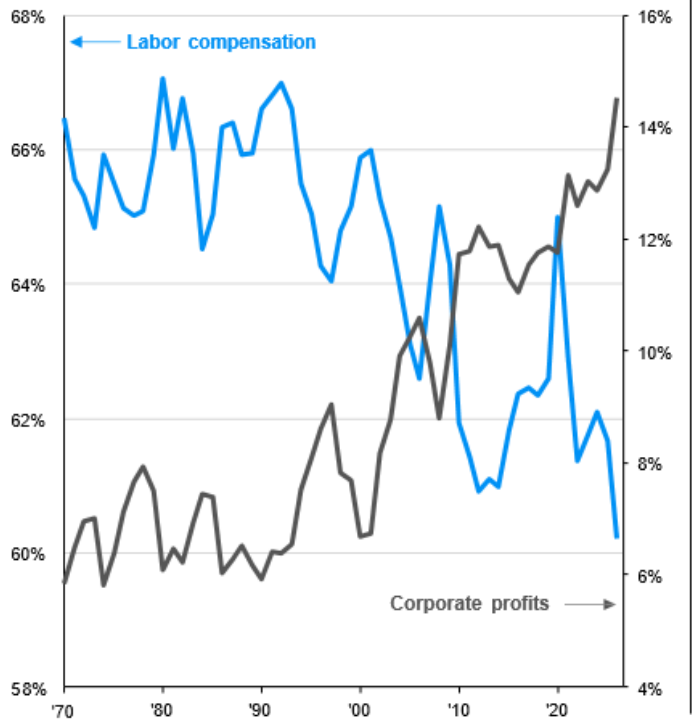


Forward P/E ratio is the most recent S&P 500 index price divided by consensus analyst estimates for earnings in the next 12 months, provided by IBES since January 1996 and FactSet since January 2022. The remaining stocks represent the rest of the 490 companies in the S&P 500, and their P/E ratio is calculated by backing out the nominal earnings and market cap of the top 10 from that of the S&P 500. All markets are represented by their respective MSCI Index except for the US, which is the S&P 500. Eurozone is MSCI European Monetary Union Index. Past performance is no guarantee of future results Data are as of September 30, 2026.

Sources: FactSet, Standard & Poor's, J.P. Morgan Asset Management, MSCI, and Bloomberg

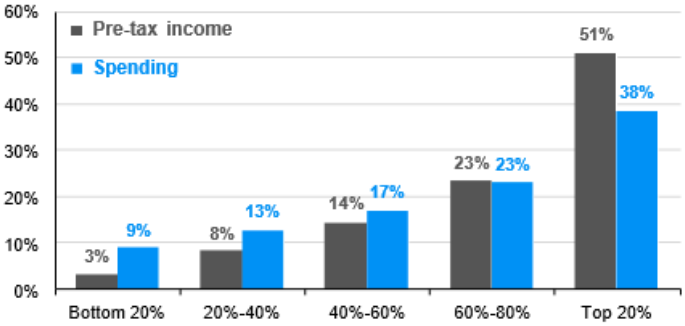
Labor compensation vs. corporate profits

Share of national income, annual and 2Q26



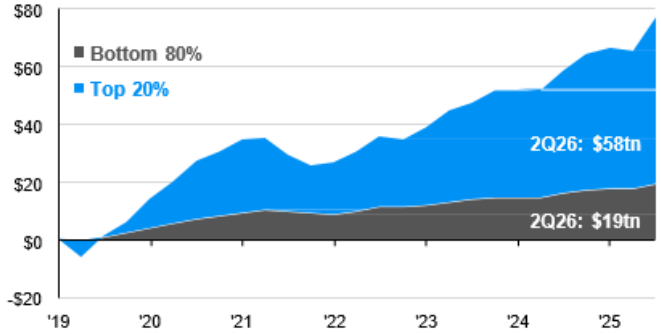
Consumer share of total pre-tax income and spending

By pre-tax income cohort, 2024



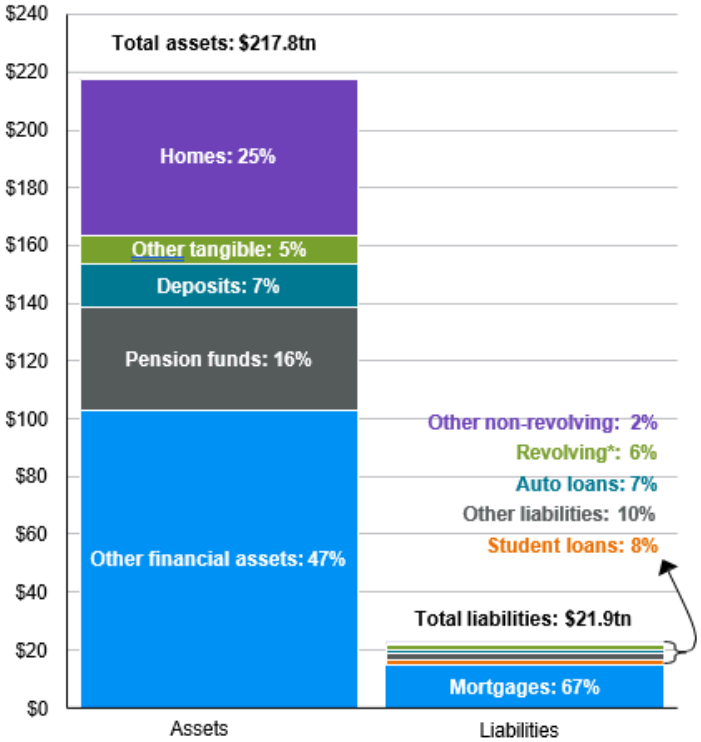
Net worth growth by income cohort

Cumulative growth from 4Q19, by pre-tax income cohort, USD trillions



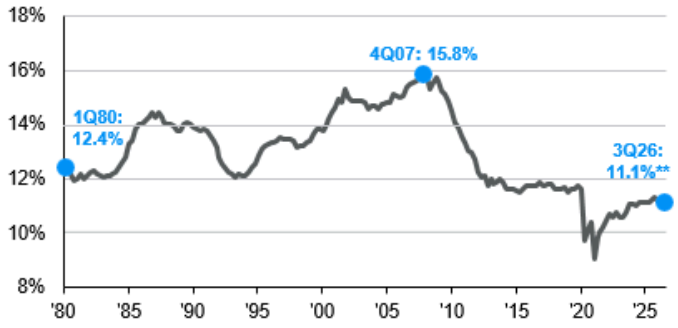
Consumer balance sheet

2Q26, USD trillions, not seasonally adjusted



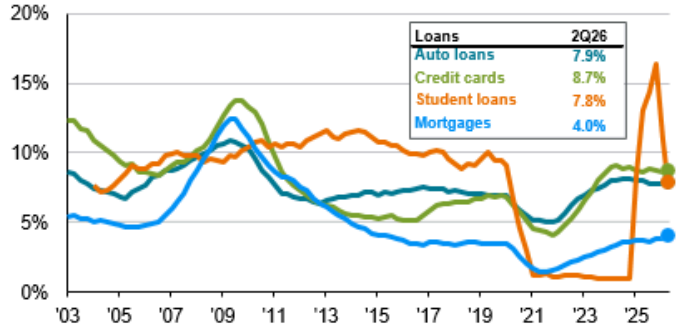
Household debt service ratio

Debt payments as % of disposable personal income, SA



Flows into early delinquencies

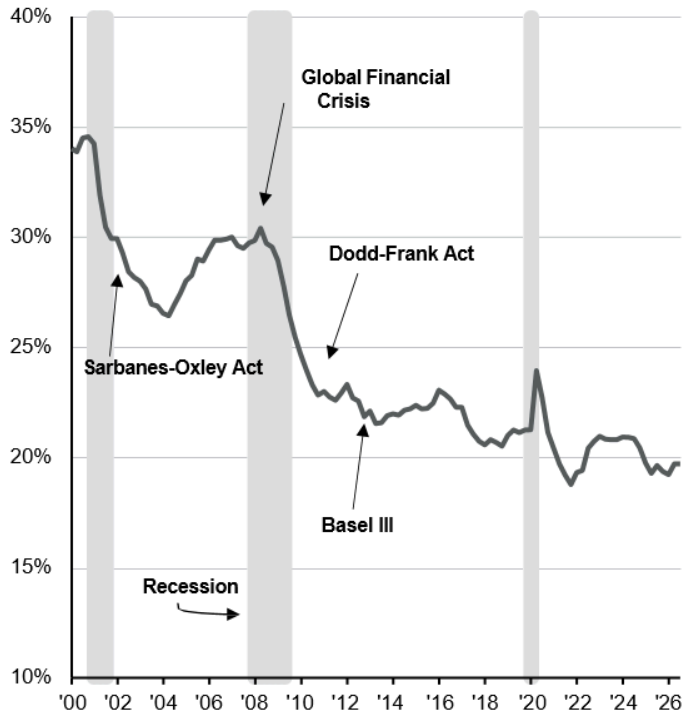
% of balance delinquent 30+ days



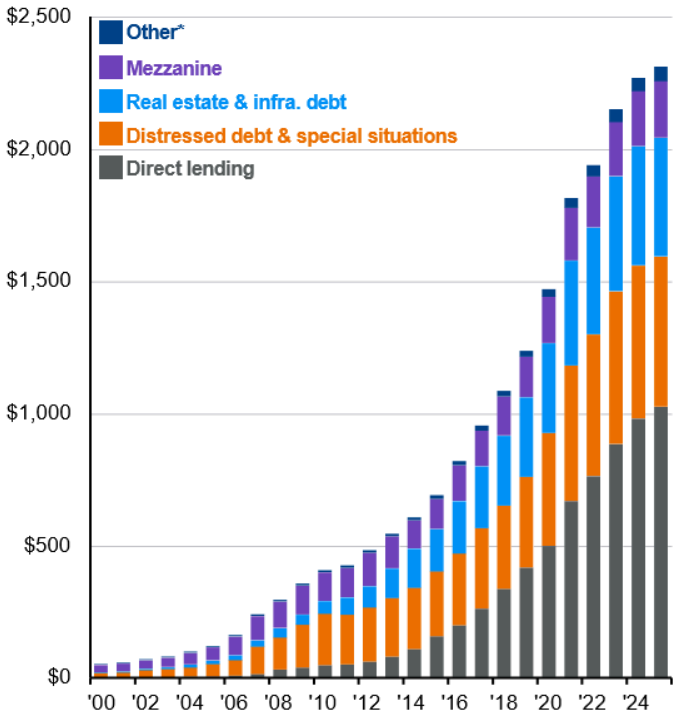
(Top Left) Labor compensation includes wages and benefits. Corporate profits are calculated after tax and with capital consumption and inventory valuation adjustments. (Top Right) Data sourced from the 2024 Consumer Expenditure Survey. (Bottom Left) Data include households and nonprofit organizations. *Revolving includes credit cards. Values may not sum to 100% due to rounding. ** Periods for which official data are unavailable are JPMAM estimates. (Bottom Right) Household debt service ratio data from 1Q80 to 4Q04 are JPMAM estimates. Due to the moratorium on delinquent student loan payments being reported to credit bureaus, missed federal student loan payments were not reported until 4Q24. Data are as of September 30, 2026.

Sources: FactSet, BEA, BLS, FRB, Standard & Poor's, J.P. Morgan Asset Management, and Bloomberg

U.S. bank lending
% of total nonfinancial corporate debt, quarterly



Global private credit AUM by type
USD billions, end of period



(Right) 2025 data are as of 3Q25. *Other includes venture debt and fund of funds. Data are as of September 30, 2026.

Sources: FactSet, Federal Reserve, Prequin, Standard & Poor's, J.P. Morgan Asset Management, and Bloomberg