Bretton Fund

June 2026

2026 Q2 Shareholder Letter - Bretton Fund Fund Fund Details Investment Process About Us News Invest In Letters - July 30, 2026 2026 Q2 Shareholder Letter July 30, 2026 Dear Fellow Shareholders: A year ago, we wrote to you about the travails of our UnitedHealth investment. The stock lost over half its value in about a month, an extraordinary change for a steady business that serves as the health insurance provider to one in seven Americans. There were two core problems the company faced: unexpectedly higher healthcare usage and chasing unprofitable business. The company has since executed on its turnaround plan, raising rates to reflect the higher usage and getting out of markets it couldn't make money in. We bought more after the stock tanked, and it has since rebounded, returning 37% over the past year and 80% off its lows. We think there's more to come. The stock added 2.5% to performance in the quarter. That's the good news. The bad news is that the boom in spending for artificial intelligence data centers has made our overall performance lag the broader market. We are believers in AI and its capabilities, and our largest holding continues to be Alphabet, arguably the leading beneficiary of AI. The stock added 3% to performance this quarter. But we are wary of the size and sustainability of the industry's data center buildout. The amount being spent on chips, memory, and facilities is staggering and cannot be maintained. Computer memory in particular, a notoriously crummy industry with poor returns, is seeing nearly insatiable demand as AI companies undertake an expensive landgrab for computing power. Stock prices have surged to absurd levels over the past year-Micron by 600%, SK Hynix 500%, Sandisk over 3,000%-and along with the broader semiconductor space, they have driven much of the return of the market. The short-term surge in spending by AI providers like Google, Microsoft, OpenAI, et al., is rational behavior given first-mover advantages and the market's potential, but this buildout phase won't last forever. The amount of computing power required to power AI is dropping dramatically-often 50% in a few months-and the need to spend as much on semiconductors will dissipate. Nothing fundamental has changed about the memory business, and the sector will see a painful downturn at some point. We will appear out of step until that happens, but we are not going to jump into valuations that make no sense to us just to keep up with this trend. Our other significant positive contributor was American Express, which added 0.7%. The main detractors for the fund this quarter were TJX (-1.6%), Berkshire (-0.6), and AutoZone (-0.3%). Total Returns as of June 30, 2026 2nd Quarter 1 Year Annualized 3 Years Annualized 5 Years Annualized 10 Years Annualized Since 9/30/10 Inception (A) Bretton Fund 10.67% 10.48% 15.23% 10.70% 13.81% 12.39% S&P 500 Index (B) 15.20% 22.32% 20.61% 13.41% 15.51% 14.80% (A) 1 Year, 3 Years, 5 Years, 10 Years, and Since Inception returns include change in share prices and, in each case, include reinvestment of any dividends and capital gain distributions. The inception date of the Bretton Fund was September 30, 2010. (B) The S&P 500(R) Index is a broad-based stock market index based on the market capitalizations of 500 leading companies publicly traded in the US stock market, as determined by Standard & Poor's, and captures approximately 80% coverage of available market capitalization. Performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. You may obtain performance data current to the most recent month-end at here or by calling 800.231.2901. All returns include change in share prices, reinvestment of any dividends, and capital gains distributions. The index shown is a broad-based, unmanaged index commonly used to measure performance of US stocks. The index does not incur expenses and is not available for investment. The fund's expense ratio is 1.35%. Portfolio as of June 30, 2026 Security % of Net Assets Alphabet Inc. 15.88% UnitedHealth Group Incorporated 7.11% JPMorgan Chase & Co. 6.20% American Express Company 6.16% Ross Stores Inc. 5.83% The Progressive Corporation 5.75% Bank of America Corporation 5.66% AutoZone Inc. 5.04% Visa Inc 4.82% Mastercard Inc. 4.45% NVR Inc. 4.25% Microsoft Corporation 4.12% Eagle Materials Inc. 4.10% The TJX Companies Inc. 3.58% SAP SE 3.40% Constellation Software, Inc 3.23% S&P Global Inc. 2.99% Dream Finders Homes Inc. 2.32% Berkshire Hathaway Inc. 1.97% Moody's Corporation 1.96% Cash 1.17% *Cash represents cash equivalents less liabilities in excess of other assets. In addition to creating euphoria in semiconductor stocks, the excitement around AI has killed software stocks on the premise that AI will enable new competitors to create cheaper alternatives and also allow customers to develop their own software to replace their current systems. That will absolutely happen, but we are not convinced it will happen to all types of software. The indiscriminate selling allowed us to add two new positions this quarter: SAP and Constellation Software. SAP Silicon Valley lore begins in 1957 when the Traitorous Eight left Shockley Semiconductor to found Fairchild and the modern chip and venture capital ecosystems. SAP began somewhat similarly: in 1972 IBM assigned five German engineers to build an enterprise software package, then decided to transfer the assignment to a different unit, and the original five went 20 miles down the road and bootstrapped their own product. Half a century later, SAP is the largest enterprise software company in the world. Giant corporations use its software for everything from HR to complex manufacturing as the brainstem of their operations. And now there are questions of whether AI tools will allow companies to create their own software to replace their existing ones. The performance leaps AI has made in the past couple years are astonishing; run that cycle forward a few years and we should expect even more products that feel like magic. But even with incredible advances in the ease of AI-enabled software, we don't think people are going to tear out their mission-critical systems. The "intelligence" of AI is its ability to predict the next word in a conversation; it doesn't conceive of the conversation the way a human might. In most use cases this is fine and maybe even desirable: AI doesn't get confused or overloaded the way we do. Unfortunately, it also introduces hallucinations: no matter how amazing the prediction, sometimes it misses over some necessary details. Its answers are based on probabilities. When you are trying to run a large corporation, do you want to discover that your payroll system for 100,000 employees across 30 countries wasn't quite written right and skipped some tax in a certain jurisdiction? If you're running an oil refinery, how much confidence would you have that your homegrown, vibe-coded software got all the safety protocols exactly right? Some software is going to be displaced. But for the core SAP customer-a highly complex operation deeply integrated into SAP's software-we don't think this risk is huge. And on the other side of the coin, SAP is a beneficiary of AI as it's now able to produce more code more efficiently. SAP is a highly profitable company whose revenues are growing around 9% and earnings around 15% as their margins are set to expand as it pivots to the cloud and cuts expenses. We paid about 16 times the 2027 estimated earnings for these shares, a material discount to the rest of the market, and we think it is a nice add to our portfolio. Constellation Software When people think of business software, they often think of either widely adopted products like Microsoft Excel and fast-growing ones like Slack. These businesses usually raise venture capital to get off the ground and either go public or sell to a larger, publicly traded software company for a pricey multiple. But that's not the norm. The world is filled with millions of programs made for niche businesses that are limited in size by the nature of their product. Think management and accounting software for country clubs or the floor planning software for a car dealership. These are usually highly profitable businesses, but may only be growing 1-2% per year and are too small to go public and not growing fast enough to be attractive to a Salesforce or Atlassian. What happens to these businesses when their owners want to move on? Constellation Software was founded with these orphaned software companies in mind. Founder Mark Leonard discovered he could buy these companies for such a low price that the cash flows from the acquired businesses would quickly pay off the purchase price and also fund the purchase of additional small software companies. Constellation has successfully done this for 30 years and inspired copycats. Both SAP and Constellation are perceived to be at risk from AI. In Constellation's case, it's easier to see the fear. Consider software for dry cleaners that uses an interface that looks like it was written for the Commodore 64; surely it would not take long to design a competitor. Let's stipulate it can be done. Indeed, new entrants release competing products all the time. A new product could be made much more cheaply now, but what happens next? The competitor would have to go out and reach all the dry cleaners, thin margin businesses with other priorities, and persuade them to swap out the existing system. Will the new system bring in new customers? No. Will it allow for cost savings? Probably not. It will look better and have a more dynamic interface, but is that worth the transition? Again, probably not. Some enterprising dry cleaners will surely use Claude to create their own systems and save themselves $130 per month. But will most take the plunge and take on the associated maintenance and bug fixing that comes with that, or will they decide it is worth $130 to have someone else do that work? The software world is changing fast and the investors are rapidly trying to price that risk. We believe the price we're getting for these businesses that we feel are relatively insulated from AI are bargains. We bought Constellation for a little more than 13 times the 2027 estimated free cash flow per available share, which is expected to grow 15-20% in the coming years. As always, thank you for investing. Stephen Dodson Raphael de Balmann Portfolio Manager Portfolio Manager Prev Next Need to reach us? Call or email us. Contact Us The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained here or by calling 800.231.2901. Read it carefully before investing. An investment in the fund is subject to investment risks, including the possible loss of the principal amount invested. There can be no assurance that the fund will be successful in meeting its objectives. The fund invests in common stocks which subjects investors to market risk. The fund invests in small and micro-cap companies, which involve additional risks such as limited liquidity and greater volatility. The fund invests in undervalued securities. Undervalued securities are, by definition, out of favor with investors, and there is no way to predict when, if ever, the securities may return to favor. The fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. More information about these risks and other risks can be found in the fund's prospectus. The fund is a nondiversified fund and therefore may be subject to greater volatility than a more diversified investment. Distributed by Arbor Court Capital, LLC - Member FINRA / SIPC Privacy Preference Center Privacy Preferences