Second Quarter 2026 Letter to Leaven Partners, LP Limited Partners

	Q2 2026	YTD	1-Year	3-Year	5-Year	Inception†
Leaven Partners, LP	-4.6%	-1.5%	14.5%	59.6%	57.3%	101.1%
S&P 500 (SPXTR)	15.2%	10.2%	22.9%	77.6%	87.8%	209.9%
MSCI EAFE (EFA)	8.6%	9.8%	20.2%	59.4%	53.1%	91.1%
Vanguard Total World (VT)	13.8%	11.9%	24.7%	73.3%	67.0%	146.1%

Leaven Partners, LP are time-weighted gross cumulative returns (unaudited) as provided by our prime broker, Interactive Brokers. Performance data (net of fees and expenses) is provided by Liccar Fund Services.
†Trading began on March 16, 2018.

Dear Partners,

In the second quarter of 2026, fund assets depreciated by -4.6%. Over the three-year period, the fund is up 59.6%[1] compared to the S&P 500 return of 77.6%.[2]

Investment Terms and Service Providers

Investment Structure:	Michigan LP
Management Fee:	0%
Performance Fee:	25% over 6% hurdle
High Water Mark:	Yes
Initial Lockup Period:	3-year
Minimum Investment:	$50,000
Auditor:	Summit LLC
Prime Broker:	Interactive Brokers, LLC
Custodian:	Interactive Brokers, LLC
Fund Administrator:	Liccar Fund Services
Legal Counsel:	Cott Law Group, PC

Following poor performance in March, which I highlighted in my previous letter, the portfolio enjoyed a brief respite at the start of April before resuming its downward slide from mid-April through the end of June.

Our value-oriented holdings experienced what I can best describe as an “air pocket”. The shifting air currents in the markets have led to a reignited appetite for momentum and all things related to AI and semiconductors and a return to shunning traditionally ‘boring’ stocks.

In aviation, an air pocket is not a hole in the sky but a patch of thin air where shifting air currents cause a sudden, uncomfortable drop even though the plane itself remains sound. The market has been in a similar state of shifting currents. Stocks that exhibit Growth, Momentum, and Volatility characteristics are driving returns, while our holdings that have traditional valuation and defensive characteristics have been out of favor. At the same time, earnings momentum around AI and semiconductor-related companies has pulled capital toward a narrow set of stocks, and that tidal flow of money is exiting cheaper, ‘boring,’ balance-sheet-resilient businesses. You might

[1] This equates to a 15.0% annualized gross return, before fees and expenses, for the 3-year period.
[2] The SPXTR is a benchmark index that tracks the performance of the 500 largest publicly traded companies in the United States, including the reinvestment of dividends. The "TR" in "SPXTR" signifies that it's a total return index, meaning it reflects both price changes and income from dividends, which are reinvested back into the index.

say the bid on our holdings dried up, as we did not experience a sudden sell-off but rather a gradual yet perpetual drift lower.

To be clear, I'm not suggesting that our recent performance is mechanically tied to investors dumping tiny Japanese industrial businesses (of which we own) to fund participation in the SpaceX IPO. What is relevant, however, is the broader pattern in markets: capital chases prevailing themes, and flows tend to reinforce themselves. When a narrative captures investors' attention, buying in the favored areas often requires selling something else, and that selling can trigger additional, largely indiscriminate selling. Likewise, strong buying can attract more buyers simply because prices are rising. Our portfolio sits on the wrong side of that dynamic in the short run, not because the underlying businesses have changed, but because the current market currents are flowing toward different themes.

Today's equity markets have their own version of thin air: a handful of AI-and space-related stories being valued at truly stratospheric levels. SpaceX, for example, came public at roughly a $1.8–2.0 trillion valuation—**about 90 times its sales**—despite generating only a fraction of the revenue and free cash flow of the established mega-caps it now sits alongside. Short-seller Jim Chanos has aptly called it a 'hopes and dreams' IPO, a bellwether of how far markets are willing to extrapolate narratives into outer space.[3]

And it's not just the short sellers that are concerned about the numbers; even one of the lead underwriters (i.e., investment banks) of the SpaceX IPO has cautioned investors while still promoting the stock:

> *"Funding Risk: We forecast **no Free Cash Flow-positive year before 2035** and average external capital needs of roughly $84 billion per year from 2027 to 2034. If debt markets cannot absorb this financing need, SpaceX may need to issue equity, reduce growth investment, or slow deployment."*[4]

These are the kinds of markets where even the greats get taken out to pasture. Long-tenured investors and business builders who have compounded capital through multiple cycles suddenly find themselves dismissed as relics of a slower, more 'boring' era. In a market dominated by AI story stocks, mega-IPOs, and constant style rotations, patience, discipline, and valuation work look out of step.

John Neff ran Vanguard's Windsor Fund from 1964 to 1995, compounding at roughly 13–15% annually versus about 10–11% for the S&P 500 and beating the index in the majority of his years. His low-P/E, dividend-plus-growth discipline meant he consistently favored "boring," cash-generative businesses over whatever was fashionable at the time. In the mid-1990s, as the seeds of the dot-com bubble were being sown and investors increasingly demanded aggressive participation in ever-higher multiple tech stocks, Neff stepped down; his final years at Windsor

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[3] https://www.reuters.com/legal/transactional/short-seller-jim-chanos-doubts-spacex-valuation-says-ipo-fueled-by-hopes-dreams-2026-06-10/
[4] https://x.com/RealJimChanos/status/2074856501575913721?s=20

saw relative performance pressure as growth and speculative names dominated the market, and he retired before the post-bubble recovery that would have rewarded his investors.

Julian Robertson's Tiger Management is the canonical case of a value-oriented hedge fund closing shop in the teeth of a bubble. Tiger had grown to roughly $22 billion of assets with a long history of strong returns, but between 1998 and early 2000 it lost nearly 40% as it stayed short overvalued "New Economy" stocks and long more traditional "Old Economy" value names. In his March 2000 letter announcing Tiger's closure, Robertson explicitly cited massive redemptions and the "irrational" market, where earnings and price took a back seat to mouse-clicks and momentum, as reasons he could no longer run the strategy in that environment. Months later, the dot-com bubble burst, and value stocks returned to favor.[5]

There are plenty of examples of managers facing outsized pressure today. But one that caught my eye is Fundsmith. Fundsmith, run by the legendary Terry Smith, is an example of how sustained style pressure can push even a storied manager toward a strategic rethink, much as Neff retired ahead of the dot-com frenzy and Robertson closed Tiger in the teeth of it.

Since its launch in November 2010, Fundsmith Equity has delivered a cumulative gain of about 613% to the end of 2025, comfortably ahead of roughly 468% from the MSCI World index and around 291% from its peer group. That long record was built on a very consistent "buy good companies, don't overpay, and do nothing" mantra, focused on high-quality, high return on capital cash-flow compounders. However, recent years have dented that record: the fund underperformed its MSCI World benchmark in each of the last five calendar years, returning just 0.9% in 2025 versus 12.8% for the index, and is now behind over one-, three-, and five-year horizons. In the first half of 2026 it lost about -2.9% while the MSCI World gained roughly 11.2%.[6]

Against that backdrop, Terry Smith has begun to revise what had always been the most distinctive part of Fundsmith's process: the "do nothing" leg of the mantra. In the first half of 2026, portfolio turnover jumped to roughly 52%, a record high for a fund that historically prided itself on very low turnover and long holding periods. In his semi-annual commentary, Smith explicitly linked this change to an environment dominated by passive flows and momentum, where large-cap index constituents and daily price moves of 30%+ in even big stocks distort the relationship between fundamentals and prices; he wrote that a pure buy-and-hold approach "can only work if you are not subject to flows, and we are," and stated that the fund will now incorporate more fundamental and share-price **momentum** into decisions and lean less on buying quality names after setbacks (the "falling knife" approach).

> *"We will take more account of momentum - both fundamental and share price — in our investment decisions. In particular, we will be much less willing to deploy the time-honoured technique of buying quality companies when they hit a glitch. This was used to good effect, for example, by Warren Buffett to buy Berkshire Hathaway's stake in American Express during the salad oil scandal*

[5] https://www.washingtonpost.com/archive/business/2000/03/31/robertson-to-close-tiger-funds/bad674b9-96b1-4d95-9e42-bb361495abc7/

[6] https://www.fundsmith.co.uk/media/lfhpxi1x/fundsmith-equity-fund-semi-annual-letter-to-shareholders-2026.pdf

(look it up) and by us,for example, in buying Microsoft at the end of Mr Ballmer's tenure as CEO. But in the current momentum driven market buying shares in companies which have hit a glitch is like trying to catch the proverbial falling knife. All we are getting is cut fingers[...]"[7] Terry Smith

History is littered with value and quality managers who hit the air pockets of a bubble and either retired or closed shop rather than abandon their discipline. John Neff stepped away from Windsor just as the late-1990s growth frenzy was gathering pace; Julian Robertson wound down Tiger in March 2000 after a nearly 40% drawdown from staying long 'old economy' value and short the most speculative tech, only months before the dot-com bubble burst. Today, the pressure may show up in subtler ways. Fundsmith Equity, which compounded capital impressively for more than a decade on a simple 'buy good companies, don't overpay, and do nothing' formula, has now endured five years of underperformance. In response, whether wisely or not, Terry Smith has sharply lifted turnover and begun to weave momentum into what was once a near-textbook buy-and-hold strategy—a dramatic shift in course.

It may not surprise you that I raise these points at a time when our fund is lagging year-to-date, and that the S&P 500 has risen roughly 15% this quarter and we are down over the same period. I am acutely aware of how difficult these numbers are to report and for you to receive, and I recognize that periods like this are when managers are most often fired. I constantly evaluate and refine our process, but I believe that completely overhauling our strategy in an environment of peak earnings and peak valuations is unsound. I could, of course, be wrong, but I remain firmly convinced that a disciplined value approach will be rewarded in due time.

In Closing
I am grateful for your participation in Leaven Partners and that you have entrusted me with managing your assets. I look forward to reporting to you at our next quarter-end.

In the meantime, if there is anything I can do for you, please do not hesitate to contact me.

Sincerely,

Brent Jackson, CFA

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[7] https://www.fundsmith.co.uk/media/lfhpxi1x/fundsmith-equity-fund-semi-annual-letter-to-shareholders-2026.pdf

solicitation of any offer to buy any interests in the Fund. If any offer is made, it shall be pursuant to a definitive Private Offering Memorandum prepared by or on behalf of the Fund which contains detailed information concerning the investment terms and the risks, fees and expenses associated with an investment in the Fund.

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