To Our Esteemed Clients,

2024 marks the ninth year that Triple Summit Advisors, LLC has been in operation, and the eighth full calendar year of results. We take the new year as an opportunity to reflect and to share our views in our annual letter to clients. The goal of these annual updates is to tell the story of significant holdings in Triple Summit's actively managed equity strategies and explain why certain investments performed the way they did.

For the markets, 2024 was a continuation of 2023: more good times, with returns that were well above average. After a 26.3% return for the S&P 500 in 2023, the market achieved a 25.0% return in 2024, driven by the same dynamics of gains in large tech companies. To put these two consecutive years into perspective, the average return of the market over the last century or so was closer to 10% annually. Given how most of our client assets are invested for the long term, we have no complaints about strong market performance, but do want to note that we should not get used to returns like these becoming permanent.

To perhaps no one's surprise, our work and attention primarily focused on the markets in 2024. However, we know that for most people, the markets took a back seat (like, really far in the back) compared to the election last year. We will share our thoughts on the financial ramifications of the election in the final section of this letter. First, though, let's review a financial planning topic for which we often receive client inquiries.

The Tax Benefits of Self-Employment (Or: How I Learned to Stop Worrying and Love the U.S. Tax Code)

The U.S. tax code is highly favorable to the self-employed over those who work for others. Period, full stop. We could argue the pros and cons of this societal choice and discuss the history of how we arrived here, but we are not particularly interested in value judgments on this topic here in our annual letter (although we would be more than happy to discuss our views offline if anyone cares to go down that particular rabbit hole). Instead, because we field questions on this topic often from clients who are considering a side hustle or starting their own business, we want to note some of the major ways in which the tax code favors self-employed individuals/business owners over those who are paid on a W-2:

- Business owners can take deductions for valid business expenses such as travel, meals, office supplies, and costs related to a home office.
- For entities taxed as S-corps, business owners do not owe payroll taxes on profit distributions.
- Business owners typically have access to a wider variety of retirement plans as well as greater control over the timing and amount of retirement contributions.
- Business owners typically have much greater control over the timing of expenses and income, which can have a meaningful impact on taxes.

- Business owners may be able to take a deduction for Qualified Business Income (QBI), allowing them to exclude up to 20% of their QBI from federal income tax. (This deduction is set to expire this year, although we do not expect that to happen; please see the final section of this letter for additional discussion of how our tax code may change again here in 2025).

These tax advantages are unavailable to employees because the tax code views business owners as responsible for providing workers with the necessary resources to complete their jobs. Therefore, only business owners can deduct from their income the cost of providing those resources. Of course, as attractive as additional tax benefits may be, business ownership is not for everyone, and we would never recommend anyone start a business just for the tax benefits. However, if you are already considering starting a business, please reach out any time and we would be more than happy to discuss the ways that you can make the tax code work for you.

Global Compounding Value ("GCV") - Summary

For 2024, the Global Compounding Value ("GCV") strategy had an *unaudited* return of 20.5%, net of fees. Since inception (06/30/16), the GCV strategy has had a cumulative *unaudited* return of 162.64%, net of fees. For the past 12 months, the GCV strategy underperformed the S&P 500 Total Return Index by -4.52%. We note that these returns represent the composite of client accounts invested in this strategy, and that individual client accounts will have differing returns due to a number of factors, including the timing of investment contributions, as well as legacy positions held in certain accounts.

Top 3 Performers (2024 total return in parentheses):

- **ANET (87.7%), META (66.0%), FTNT (42.4% - Partial Year)**

Top 3 Detractors (2024 total return in parentheses):

- **POOL (-13.1% - Partial Year), MTCH (-10.2% - Partial Year), ASML (-7.5%)**

<u>GCV Performer Spotlight: Arista Networks (ANET)</u>

Arista Networks is a computer networking company that specializes in the development and sale of cloud networking solutions. Their primary products include high-performance switches and routers that are designed for use in data centers, cloud computing, high-frequency trading, and other environments that require high-speed data transfer and low latency. Arista's products are known for their use of software-driven cloud networking principles, which aim to provide more agile, scalable, and efficient network infrastructures. Their flagship product is the Extensible Operating System (EOS), a network operating system that is designed for programmability and automation, allowing network engineers to manage and control network resources more effectively. In addition to hardware and software, Arista offers a range of services, including post-deployment support, consulting, and training to help customers optimize their network performance. The company's solutions are often used by large data centers,

internet companies, and financial institutions that require robust and reliable networking capabilities. Within the 10 Point Scoring System that we previously mentioned in the 2023 Annual Letter, Arista Networks scored a 9 when we initiated the position. It is a high growth, high profitability, high ROIC company that we feel is a less risky way of playing the AI infrastructure investment boom. While there are challenges that could cause the stock to be volatile in the medium term (competition from Cisco and Nvidia; excessive revenue dependence on big tech companies), we believe Arista Networks is in a prime condition to weather any storm and continue to deliver outstanding performance for the foreseeable future.

GCV Detractor Spotlight: Pool Corporation (POOL)

Pool Corporation is the world's largest wholesale distributor of swimming pool supplies, equipment, and related outdoor living products. Founded in 1993 and headquartered in Covington, Louisiana, the company operates under the brand POOLCORP and serves a wide range of customers, including pool builders, retailers, and service professionals. Recently, the pool industry has seen a significant slowdown in new pool construction, with a reported 15% decline in 2024 and 50% drop from the peak levels during the pandemic. This reduction stems from a post-COVID normalization of demand, where the surge in home improvement projects has tapered off. Furthermore, high interest rates and persistent inflation have squeezed consumer budgets, reducing spending on big-ticket discretionary items such as new pools or major backyard upgrades. Lastly, the entry of private equity into the pool supply market has led to increased competition, particularly from national accounts and consolidations. This shift has changed the customer mix, requiring Pool to adapt its sales strategies to serve larger, more consolidated clients effectively. Despite these challenges, we believe Pool has historically demonstrated resilience through its flexible business model, operational discipline, and continuing strategic initiatives. 2025 may continue to be a transitional year, but in 2026 and beyond, we believe Pool will break out of its current trading range and deliver outstanding operational performance (and hopefully, commensurate stock price movement).

Global Opportunistic & Event-Driven ("GOED") - Summary

For 2024, the Global Opportunistic & Event-Driven ("GOED") strategy had an *unaudited* return of 0.24%, net of fees. For the past 12 months, the GOED strategy underperformed the Index by -24.78%. We note that these returns represent the composite of client accounts invested in this strategy, and that individual client accounts will have differing returns due to a number of factors, including sizing limitations, the timing of investment contributions, and legacy positions held in certain accounts.

Top 3 Performers (2024 total return in parentheses):

- **CPH.TO (50.7%), FAR.AX (47.2%), WED.TO (37.7%)**

Top 3 Detractors (2024 total return in parentheses):

- **YELLQ (-96.0%), SQNS (-72.7%), CPRI (-58.1%)**

Welp, this was a very, very bad year for this strategy. There are no ifs, ands, or buts about it. One of the unique characteristics of the GOED strategy is that we aim to invest in situations where its returns are uncorrelated with the broader markets (i.e., the S&P 500). So, ideally, even if the markets are going down, the positions we are invested in would go up or at the very least stay flat. Unfortunately, the opposite can also be true: the markets generally went up last year, but a number of our litigation-based investments have dropped significantly in value due to adverse court decisions. As such, we'll go over the details of the top 3 detractors below (all litigation-based investments).

Yellow Corporation (YELLQ)

Yellow Corporation, a major less-than-truckload (LTL) carrier, filed for Chapter 11 bankruptcy on August 6, 2023, in the U.S. Bankruptcy Court for the District of Delaware. Prior to its collapse, Yellow employed approximately 30,000 workers, including 22,000 unionized Teamsters members. As part of its operations, Yellow contributed to multiemployer pension plans (MEPPs), which are jointly funded by multiple employers under collective bargaining agreements. When Yellow ceased operations and withdrew from these plans, it triggered substantial "withdrawal liability" under the Employee Retirement Income Security Act (ERISA), designed to cover the unfunded vested benefits of the pension funds left behind.

The pension funds, led by Central States, filed claims totaling over $7 billion against Yellow's bankruptcy estate, with some estimates suggesting the aggregate liability across all funds could exceed $10 billion when including potential Pension Benefit Guaranty Corporation (PBGC) obligations. These claims represented one of the largest unsecured creditor pools in the case. Yellow challenged the size and validity of these liabilities, arguing that:

1) The pension funds' calculations inflated the withdrawal liability beyond what was reasonable or legally required. The company asserted that the actuarial assumptions (e.g., discount rates, mortality tables) used by the funds resulted in an exaggerated shortfall, which Yellow should not be fully responsible for given its financial distress and cessation of operations.
2) PBGC, a federal agency that insures multiemployer pension plans and steps in to guarantee payments if funds become insolvent, unfairly amplified its obligations by not adjusting for Yellow's specific circumstances or the broader economic context of the trucking industry's decline. Yellow sought a judicial determination that these regulations overstated its liability, potentially reducing the claim size.

Generally speaking, within large bankruptcy cases, reducing the size of pension liabilities is critical for the recovery of other creditors and equity holders. A smaller claim pool would increase the likelihood of higher recoveries for other unsecured creditors and potentially leave a significant amount of residual value for shareholders. We evaluated the legal positions of both the pension funds and the company, and referenced historical bankruptcy cases where there

had been some dispute about the size of pension claims. We came to the conclusion that it was closer to a 60/40 proposition (with 60 towards the company) versus the implied win probability of 20% or so based on the purchase price of ~$5.00 for YELLQ equity. We found that to be a reasonable reward / risk ratio.

On September 13th, 2024, Bankruptcy Judge Craig T. Goldblatt rejected Yellow's challenge to the pension liabilities. The court upheld PBGC's authority and the pension funds' claims, reasoning that 1) Congress explicitly empowered PBGC to set withdrawal liability rules under ERISA, leaving no room for the bankruptcy court to override those regulations; and 2) Yellow's argument for a tailored reduction lacked legal standing, as the statutory framework prioritized protecting pension beneficiaries over debt relief in this context.

Sequans Communications S.A. (SQNS)

In August 2023, Renesas Electronics Corporation (a Japanese company) and Sequans Communications S.A. (a French company) signed a Memorandum of Understanding (MoU) for Renesas to acquire all outstanding American Depositary Shares (ADS) of Sequans for $3.03 per ADS, valuing the deal at approximately $249 million. The tender offer commenced on September 11th, 2023, aiming to integrate Sequans' cellular IoT technology into Renesas' portfolio to bolster its position in the fast-growing IoT market. The deal progressed with regulatory approvals from Taiwan and other jurisdictions, and the tender offer was extended multiple times to meet closing conditions, including securing at least 90% of Sequan's fully diluted shares. We initially established a position in SQNS because we believed that it was a reasonable merger arbitrage investment.

However, on February 23, 2024, Renesas announced the termination of both the MoU and the tender offer. The primary reason was an Adverse Japanese Tax Ruling from the Tokyo Regional Taxation Bureau. Under the terms of the MoU, either party could terminate the agreement if Renesas received confirmation that completing the acquisition would require it to recognize a taxable gain and pay taxes under Article 66-6 of Japan's Act on Special Measures Concerning Taxation. This ruling likely made the financial structure of the deal untenable for Renesas, as the additional tax burden would have increased the cost beyond what was initially planned, undermining the deal's economic viability.

Capri (CPRI)

The litigation between the Federal Trade Commission (FTC) and Capri Holdings Limited related to the FTC's efforts to block a proposed $8.5 billion ($57 per share) merger between Tapestry, Inc. and Capri Holdings, announced in August 2023. The FTC filed its lawsuit against Capri and Tapestry, Inc. on April 22, 2024. The FTC initiated legal action to halt Tapestry's acquisition of Capri, arguing that the merger would harm competition in the "accessible luxury" handbag market, defined as handbags priced between $100 and $1,000. Tapestry owns brands such as Coach and Kate Spade, while Capri owns Michael Kors, Versace, and Jimmy Choo. The case

focused on the more affordable Coach and Michael Kors brands. The FTC contended that combining these companies would eliminate direct competition between Coach and Michael Kors. The FTC also contended that this competition historically led to better prices, discounts, and promotions for consumers, as well as improved wages and benefits for employees. The agency estimated that the merger would give Tapestry over 50% control of the accessible luxury handbag market, potentially allowing it to raise prices and reduce consumer choice.

The case went to trial in federal court in New York starting in September 2024. During the proceedings, the FTC presented internal emails from Capri's CEO, John Idol, showing that Michael Kors closely monitored Coach's pricing and designs to remain competitive, underscoring the rivalry between the two. The FTC argued this competition would be lost post-merger. Tapestry and Capri countered that the market was broader and more competitive than the FTC's definition, pointing to the declining relevance of Michael Kors (with its average handbag price dropping to $92, below the FTC's threshold) and competition from other brands and retailers such as Nordstrom. They also highlighted Michael Kors' loss of market share and retail partnerships as evidence that the merger wouldn't stifle competition. Upon reviewing the documents from both the FTC and Capri, we felt that Capri had a more compelling case. Specifically, the FTC's definition of "relevant market" was overly broad and ambiguous, the FTC did not produce any tangible evidence that would directly tie economic harm to any relevant market, and the FTC did not (or more likely, was not able to) obtain testimonies from any industry participants or consumer watchdogs or retailers to cast a negative, anti-competitive light on the deal. The only minor downside risk that we saw was not related to legal merits: we did feel that Jennifer L. Rochon, the judge on the case, was relatively young and had only been on the bench in her present role since June 2022. From a cynic's point of view, she may have had future career aspirations in the Appeals Court (or even the Supreme Court), and effectively "punting" on the case here and issuing an injunction would be the "path of least resistance" to keep her judicial record pristine.

The judge issued her opinion on October 24th, 2024, and granted the injunction for the merger. Subsequently, Capri and Tapestry mutually agreed to terminate the merger on November 14th, 2024.

Despite these setbacks, we remain confident in the long-term potential of litigation-driven investments. This asset class continues to offer unique opportunities for outsized returns, although we will adjust the size of our bets going forward due to the murky regulatory landscape. Furthermore, we will increase the diversification of these investments across a broader range of jurisdictions and case types (and not strictly stick with the usual adversaries in the DOJ or the FTC). Lastly, for more prominent litigation-driven investments, we will be more proactive in engaging with legal experts to better assess downside risks. We remain committed to this strategy and believe that the lessons learned from these unfortunate setbacks will make us better positioned to capitalize on future opportunities. While we cannot guarantee success in every case, we are confident that a properly sized, diversified, and disciplined approach to litigation-based investments will ultimately deliver value to our investors.

The Road Ahead

In this final section of the letter last year, we focused on two themes: one was the continued rise of AI applications throughout the economy, and the other was the continuation of relatively sanguine conditions in the financial markets from 2023 into 2024. On the first theme, we have seen changes in which companies, which models, and which applications are currently in vogue over the last year. However, our observation remains the same in that AI will likely continue to change the way work is done, if not necessarily in ways that are entirely foreseeable. On the second theme, economic conditions in early 2025 have begun to feel quite different from the smoother 2023-2024 years due to both sustained high interest rates and the unpredictability of the second Trump administration. Market participants value predictability and stability over all else, affording those companies and industries that display consistent growth high valuation multiples. The administration currently appears determined to offer the opposite of this dynamic, with new and unexpected policies announced almost daily. We simply do not know which tariff will be threatened or which government agency will be axed or which international ally will be frozen out next. It remains to be seen whether the markets will adjust to this new style of governance and/or if the administration will reduce its level of activity over time, but for now we note that the markets do appear more sensitive to White House policies than in the recent past.

One thing we do feel confident in is the desire of the administration to pass an expanded tax bill this year. At the time, the 2017 Tax Cuts and Jobs Act (TCJA) under the first Trump administration was the largest overhaul of the tax code in almost three decades. However, because the TCJA passed via the reconciliation process, many of its provisions are scheduled to sunset at the end of this year. Our base case view is that Republicans will look to keep the vast majority of the provisions from TCJA and expand certain limits (such as the state and local tax cap) while further reducing income tax rates, especially for higher income earners. There is also speculation that Republicans will implement a more radical overhaul of the tax code espoused by conservative think tanks, including policies such as eliminating deductions and credits, reducing the number of tax brackets, and implementing a national consumption tax. With current Republican control of both the White House and Congress, a new tax bill is highly likely to pass this year. When the bill does pass, we will be ready to digest it and discuss with you how it will affect your finances.

We remain deeply grateful for your continued trust in us. We look forward to staying in touch this year and providing a formal update in our letter next year. If we can ever do anything to be helpful in any way, please do not hesitate to let us know. We look forward to serving as your trusted advisors for many years to come.

Sincerely,
Wei & Dan
February 28, 2025

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