

RULE ONE PARTNERS LLC

RULE ONE FUND 2025 ANNUAL LETTER

March 10, 2026

Dear Shareholder,

In 2025, the stock market handed out rewards generously to those willing to embrace risk with open arms. We chose not to participate—we make no excuses for it. Investing, as we practice it, has never been about chasing the highest return in any single year. It is about hewing faithfully to Rule #1: seek wonderful businesses, buy them at sensible prices with a margin of safety, and work diligently to avoid the permanent loss of capital. The long-term rewards tend to look after themselves if we stay true to that discipline.

Let me speak plainly about risk, for it is the one thing we can control while returns remain partly at the mercy of Mr. Market's moods. Our portfolio's Beta for the year stood at 0.59, compared to 0.82 for the Dow. In simpler terms, we carried roughly 28% less market risk than the index—higher than our long-term average of around 0.44, owing to some price swings we'll touch on shortly, but still a deliberate choice. When the market charges upward as it did in much of 2025, lower-risk approaches naturally trail. When storms arrive, they tend to protect capital. That is no accident; it is by design. This year, the market chose to punish caution rather than reward it.

To make sense of what happened, consider the backdrop. Many investors keep their capital fully deployed and seek advantage by shifting from one sector to another. Since October 2022, coincident with the release of ChatGPT from OpenAI, the so-called Magnificent 7 stock prices have risen so fast that today these 7 companies represent over one-third of the entire S&P 500's market capitalization. The growth rate of these stock prices has far out-paced the growth rate of their revenue and earnings, likely in anticipation of massive profits to be had in the future as AI develops into agentic products.

The last half of 2025 was not an environment that favored strict attention to valuation. It was one that richly rewarded expansion of price multiples, often without corresponding growth in underlying business value.

Some shareholders have asked why we did not join the rush into those strongest performers or venture into the hottest momentum in artificial intelligence. The answer is straightforward and unchanging: We invest only where we can form a reasonable estimate of cash flows over the next 5 to 10 years—or longer—and purchase at a clear margin of safety below our conservative estimate of intrinsic value. In 2025, many of the market's darlings traded far above those estimates. Buying them might have lifted our short-term reported results, but it would have substituted greater long-term risk for temporary comfort. We decline that trade.

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Our average cash position remained above 45% throughout the year. That liquidity lowered our beta, cushioned against sharp declines, and—predictably—served as a headwind in a buoyant market. Over time, cash has typically contributed 4–6% annually through Treasury yields and modest option premium income. In 2025, subdued volatility and narrower premiums cut that contribution roughly in half. Cash did not disappoint us; it simply waited. Liquidity is not idle—it is preparation. When euphoria gives way to fear, as it inevitably does, that preparation becomes opportunity.

Our three largest holdings—Netflix (NFLX), Lululemon Athletica (LULU), and Sprouts Farmers Market (SFM)—accounted for about 29% of the portfolio. Their market prices fell an average of 25.9% during the year, even as the underlying businesses continued to perform well, with operating earnings across these three rising approximately 25.6%. Price is just whatever Mr. Market is feeling; value is what we own.

Take Sprouts Farmers Market as an example. We began acquiring shares at an average of around \$26 in 2020. By July 2025, the market quoted \$180—a compounded annual return from our purchase of about 47%. We held firm, convinced no better compounding opportunity existed for that capital. By year-end, after the pullback, our compounded return stood at roughly 25% per year—still excellent. Compounding is rarely linear; sharp swings are part of ownership and can also create potential opportunities for an investor.

In the 2013 Berkshire Hathaway annual letter Warren Buffett wrote: *“It should be an enormous advantage for investors in stocks to have those wildly fluctuating valuations placed on their holdings – and for some investors, it is. After all, if a moody fellow with a farm bordering my property yelled out a price every day to me at which he would either buy my farm or sell me his – and those prices varied widely over short periods of time depending on his mental state – how in the world could I be other than benefited by his erratic behavior? If his daily shout-out was ridiculously low, and I had some spare cash, I would buy his farm. If the number he yelled was absurdly high, I could either sell to him or just go on farming.”*

When Sprouts stock price hit \$180 in July, the shout-out was high but not absurd, so we kept ‘farming’. Lately, the neighbor’s offers have grown far more attractive, and we’ve begun adding modestly.

Netflix offers a similar tale. We bought during pessimism in 2022 at an average of \$38.72, confident the business could grow owners’ earnings at 15–20% annually for a long time. By mid-2025, the ‘neighbor’ shouted, “\$133.91”—a compounded return of about 51% per year from our entry. We judged it not absurdly high and held. Later declines brought the year-end price to \$93.76 and our compounded return to around 28.7%. As I write, the shout-outs are turning decidedly lower—potentially quite attractive.

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Lululemon followed its own path: acquired in 2024 at a cost basis of \$228, peaking near \$335 mid-year before closing around \$208. We watch patiently for a level that invites meaningful addition.

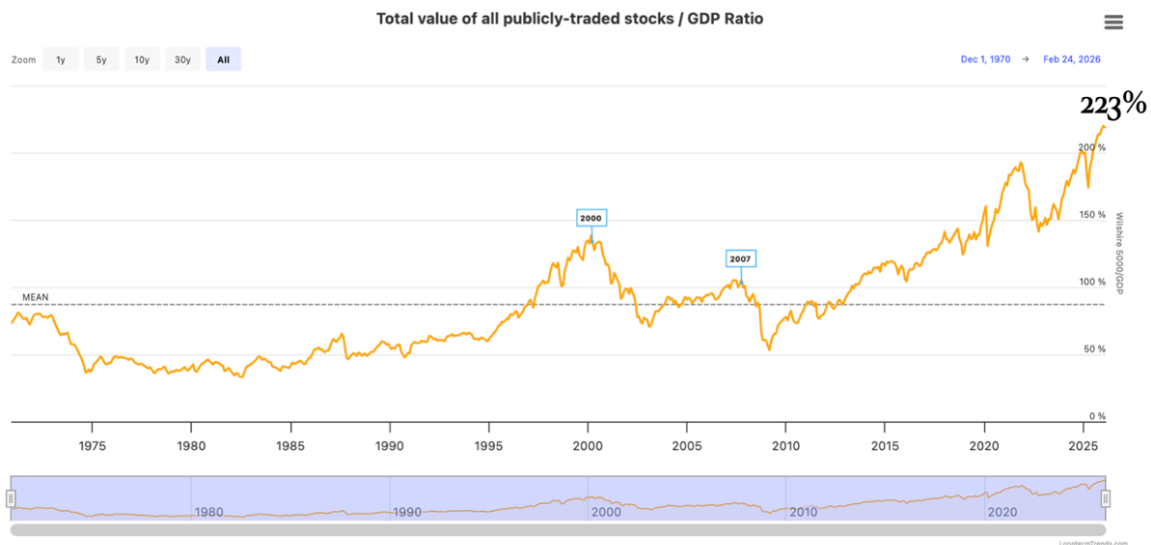
What is fascinating to us is that all three of these businesses grew stronger in 2025 despite Mr. Market's changing opinions. Investing for us is about price, value and patience while avoiding straying into businesses we do not understand, tolerating excessive debt, or—particularly now—reaching for returns when prices scream euphoria across much of the landscape.

Two charts may help you understand our concern about this market:

The first is the Wilshire GDP Ratio, a relationship between the price of the entire US stock market and the revenue of the United States. In an article in the December 2001 issue of Fortune magazine titled “Warren Buffett on the Stock Market” Buffett was quoted as saying, “*The ratio of total market capitalization to GDP is probably the best single measure of where valuations stand at any given moment.*” He went on to say that when the ratio is around 80% stocks are likely undervalued and offer strong future returns. At around 100%, markets are roughly fairly valued. When it climbs far above 100%, expected future returns fall sharply.

Below is the Wilshire GDP Ratio from 1970 through 2025. Major market crashes are noted in 2000 and 2007. Since 2022 the ratio has been significantly elevated and as I write this today it stands at 223%.

Wilshire GDP Ratio



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In my 40 years of experience, when the market is priced well above its historical value, it eventually will do one of two things: It will go sideways for many years until US revenue catches up with the price of the market or it will go down. Or both. For example, from 1941 until 1964, the market went up, got overpriced and then went sideways or down for 17 years. Here is the Dow Jones Industrial Average Index from 1965-1983. Note that the Dow Index peaked in 1966 at almost 1000 and then stayed at or below that price until it finally broke out in 1983.

Dow Jones Industrial Average 1964-1983



More recently, the result of an over-heated market was a major decline in the Index. That was the case from 2000-2002 when the Dow fell from 11,722 to 7,286, a decrease of nearly 40%. And again from 2007-2009 when the Dow collapsed from a high of 14,164, to a low of 6,547, a drop of 54%. These market crashes can be life-changing for some investors, and we do our best to avoid them by choosing not to participate in reaching for stocks that are not on sale. This cost us in relative performance for 2025, but it preserves discipline and optionality. We are not here to maximize returns in euphoric periods; we exist to protect and compound capital intelligently, staying ready when corrections arrive. Some years that stance appears overly prudent. Others may reveal it as prescient.

The second chart was created by Robert Shiller, Yale professor in behavior finance and Nobel Prize winner in 2013 for a body of work that includes the excellent 1999 book, *Irrational Exuberance*, where Shiller shows that the market is emotional and can, therefore, significantly misprice stocks. When the 'Shiller PE' is high, above the mid-20's, the market will reprice in the following years. Therefore, buying the S&P 500 index when the Shiller PE is high can produce a long period of below average

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returns. And by 'long period', Shiller means 20 years. With the Shiller PE at 40, we think it is a time to be prudent with our capital and ignore the soaring market returns in favor of readying the portfolio to take advantage of a market crash.

Shiller PE Ratio



We end the year liquid, selective, anchored to intrinsic value, and comfortable with volatility. As Benjamin Graham observed—and Buffett has reminded us so often—the market in the short run is a voting machine, tallying popularity. Over time, it becomes a weighing machine, measuring true business performance. The votes did not favor us in 2025. But the moment of weighing is inevitable, and our companies' fundamentals remain strong.

We are grateful for your partnership and trust. The years ahead will bring their own tests and opportunities. We intend to meet them, with our capital and yours, the same way: patiently, rationally, and with an unwavering focus on Rule #1.

Warmest regards,

Phil Town
Managing Partner, Rule One Partners
Advisor for the Rule One Fund

Mutual fund investing involves risk. Loss of principal is possible.

The Fund may gain exposure to Equity Securities directly through investment in derivatives instruments, such as short put and covered call options, and other

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structured products. The Fund's exposure to derivative instruments may involve risks different from, or possibly greater than, the risks associated with investing directly in securities and other traditional investments.

The ETFs in which the Fund invests will not be able to replicate exactly the performance of the indices they track because the total return generated by the securities will be reduced by transaction costs incurred in adjusting the actual balance of the securities. This may result in a loss. The Fund may invest in foreign securities, which involve political, economic, and currency risks, great volatility, and differences in accounting methods. This risk is greater for investments in emerging markets.

Fund holdings are subject to change at any time and should not be considered a recommendation to buy or sell any security.

DEFINITIONS:

PE Ratio	A measure of how much investors are paying per dollar of earnings.
Margin of Safety	A principle of investing in which an investor only purchases securities when their market price is significantly below their intrinsic value.
DOW	The Dow Jones Industrial Average Total Return Index measures the total return performance of the Dow Jones Industrial Average (DJIA), including both price appreciation and reinvested dividends. The DJIA consists of 30 large, publicly traded U.S. companies across various industries and is widely recognized as a benchmark for the overall performance of the U.S. stock market.
S&P 500	The S&P 500® Index is a broad-based unmanaged index of 500 stocks, which is widely recognized as representative of the equity market in general.
Beta	Beta denotes <i>the risk of a portfolio relative to the S&P 500 index</i> . A beta greater than 1.0 suggests the portfolio is more volatile/risky than the index. A beta less than 1.0 indicates the portfolio is less volatile/risky than the index.
Standardized Returns	These are the return calculations that are the standard for all public mutual funds. Standardized returns are calculated as compounded annual growth rates (CAGR). See CAGR definition below.

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CAGR	Compound Annual Growth Rate. This is the rate at which the investment and investment interest is growing over time, typically multiple years. The excel formula name for calculating CAGR is “=RRI(”. It appears on an excel spreadsheet as “=RRI(nper, pv, fv)” where “nper” is the number of periods, “pv” is the beginning value of the investment and “fv” is the ending value of the investment. For example, if the original investment is \$100 and five years later it has doubled to \$200, the excel RRI formula would look like this: “=RRI(5,100,200)”. The result is 14.87%. This result is the amount that the original investment grew each year along with the gains (or losses) made on the investment each year. In other words, if an investment is compounding at 14.87% per year, it will double in size every five years. If you find this math rather amazing, it may help to know that Albert Einstein is widely credited with saying, "Compound interest is the eighth wonder of the world."
Shiller PE	The Shiller P/E ratio, also known as the <u>Cyclically Adjusted Price-to-Earnings (CAPE) ratio</u> , is a valuation metric that divides the current price of the S&P 500 by the average of its inflation-adjusted earnings over the past 10 years. Developed by Yale professor and Nobel Prize winner Robert Shiller, it smooths out short-term volatility to determine if the market is overvalued or undervalued. As of early 2026, the Shiller PE is roughly 39-40, significantly above its historical mean of around 17, suggesting high market valuations and potential for future lower returns.

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Investors should consider the Fund's investment objectives, potential risks, management fees and charges and expenses carefully before investing. This and other information are contained in the Fund's prospectus and summary prospectus, which may be obtained online at ruleonefund.com or by calling 1-833 RULE-ONE (833-785-3663). Please read the prospectus carefully before investing.

There is no guarantee that the Fund or the companies in its portfolio will pay or continue to pay dividends. As a non-diversified fund, the Fund may invest a larger portion of its assets in the securities of one or a few issuers than a diversified fund. A non-diversified fund's investment in fewer issuers may result in the fund's shares being more sensitive to the economic results of those issuers. An investment in the Fund could fluctuate in value more than an investment in a diversified fund.

As with all mutual funds, there is the risk that you could lose money through your investment in the Fund. Many factors affect the Fund's net asset value and performance.

Past performance is not predictive of future performance.

Not FDIC Insured · May Lose Value · No Bank Guarantees