

2025 Annual Partner Letter.


January 3, 2026

Engine Check

A Brief Layover. As the pilots of your financial journey with CDT, we treat each change of the calendar year as a brief layover in our time together with you. Granted the solace of a little extra time before our next annual performance assessment, each yearend is an opportunity to momentarily exit the cockpit, grab an espresso and reflect on the previous 12 months. Before we begin this cathartic look back, we foremost would like to thank you for your continued support and confidence in CDT. As a team, we feel very strongly that we offer incredible value to our partners and we never take for granted the great responsibility and trust that you have charged us with. You and your family's financial wellbeing is our highest priority and is the ethos that drives our **Invest Above the Clouds** commitment. With that promise of safety in mind, let us dive into our annual engine check.

Engine #1 – Returns:

Performance. For the fifth consecutive year, CDT is proud to report a more than fair return for our partners. On a total return, and after fees basis, we outperformed our benchmark, the S&P 500 Total Return Index ([SP500TR](#)) and met our internal objective of a durable long-term high-teens return for our partners. Since our inception, for the past 5 years and 3 months, we have compounded capital at a **+22.5%** rate compared to the benchmark's very respectable **+16.2%** compounding return. In that same timeframe, we have produced a healthy **+12.81%** of **alpha**, which is a comparative measure of our historical returns against the SP500TR adjusted for risk. Our absolute and risk-adjusted outperformance reflects both our discipline and the continued evolution of our investment strategy.

	VNAV (Net of Fees)	S&P 500 TR	Relative Δ	10 Yr. Yield
2020	+22.8%	+12.1%	+10.6%	0.89%
2021	+36.2%	+28.7%	+7.5%	1.45%
2022	+9.1%	-18.1%	+27.2%	2.95%
2023	+20.0%	+26.3%	-6.3%	3.96%
2024	+11.7%	+25.0%	-13.3%	4.21%
2025	+18.6%	+17.9%	+0.7%	4.29%
5Yr. CAGR	+22.5%	+16.2%	+6.3%	

- β = 31.99%

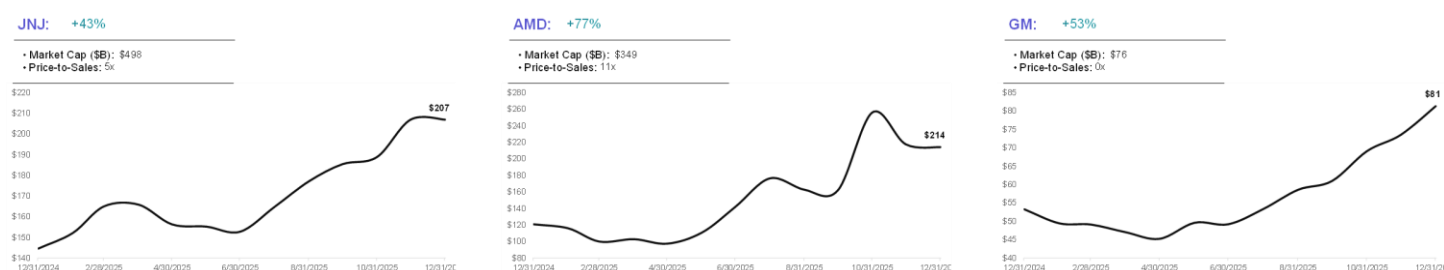
- α = 12.81%

*CDT returns are calculated net of fees; no fees were assessed in 2020 and only a performance fee was assessed in 2021. All return metrics are calculated on a total return basis which includes dividend reinvestment. The Average Annual 10-Year Treasury Yield is the Long-Term Assumed Risk-Free Rate

Investment Strategy. Investing boils down to an easy-to-follow logic sequence. Find and invest in above average people, endeavoring to do above average things, at companies that produce above average and reliable cash flows and most importantly, pay **below average** prices for your interest. There is no guaranteed formula for investment success, but we strongly believe that our criteria applied with diversification, patience, and a bit of luck is likely to produce rewarding long-term results.



Above Average People. At CDT, we leverage the insights of above average people to drive our investment process. Our proprietary insider activity algorithms are tasked with driving our stock screening process, which ensures that we are budgeting our research efforts and focus on only those companies in which we observe high conviction insider (CEO, CFO, Directors and other Named Executive Officers) purchasing activity. Put differently, we find and invest in companies in which above average people are also buying the shares of the companies they manage. Reliably, this process has yielded an excellent opportunity set for us to start from and the call out this year is the sheer diversity of the group. Below is a sample set of the companies that drove our returns this year. From global pharmaceutical companies, to airlines, to semiconductor designers, to regional utility companies, to car manufacturers, this year, we earned our stripes as proud generalists.



*Returns are for the full year 2025 and do not include dividends, the returns do not represent their contribution to the fund's overall performance.

Engine #1 is Humming. Our insider activity edge is only getting sharper and wider as our algorithms continue to evolve and benefit from experience as well as our continued research on the subject. Additionally, in partnership with our friends at [DNSC.AI](#), we have made great strides in incorporating AI into our day-to-day operations to further this ever-expanding lead.

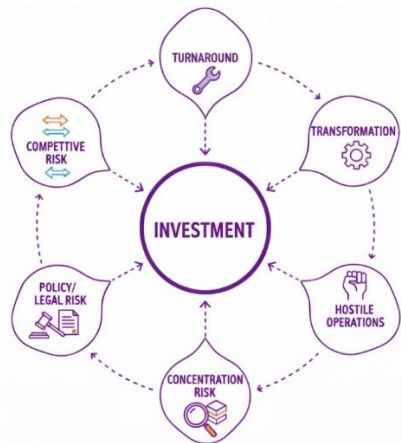
Engine #2 – Risk:

Risk Controls. Investing without strong risk controls is like boarding a long-distance flight knowing the plane has only one working engine. You will *probably* get to your destination, but at the slightest disturbance in the air, everyone would be gripping their passenger armrests so hard that it would leave a permanent impression behind. We want your experience with us to be far more comfortable than a white-knuckle ride in the sky. That is why risk management is woven into every part of the CDT investment process. We believe firmly that our risk practices are just as important if not more important than our insider and investing expertise alone.

Before we dive into our risk management strategy specifics, it is worth noting that we are an anomaly in the hedge fund space. We **do not** short single stocks, and we do not use esoteric financial instruments to hedge risk. Meaning, we eschew from the traditional [long-short model](#). It is our belief that mathematically, a strong long-only hedging strategy results in some, but significantly less performance drag during up markets and competitive protection during down markets.

Layers of Control. We underwrite our risk with two layers of controls, a [Micro Portfolio](#) and [Macro Portfolio](#) layer.

Micro Portfolio Risk. Each investment candidate is given a complete risk diagnostic or a check list of potential pitfalls that we use to calculate our version of an expected risk-adjusted return. Excess levels of debt; a business transformation; concentration risks; hostile nation operational risk, etc. This is a **critical** step in the valuation process of any business that most textbooks glance over or ignore completely. I can't tell you how many companies on the surface look great on paper

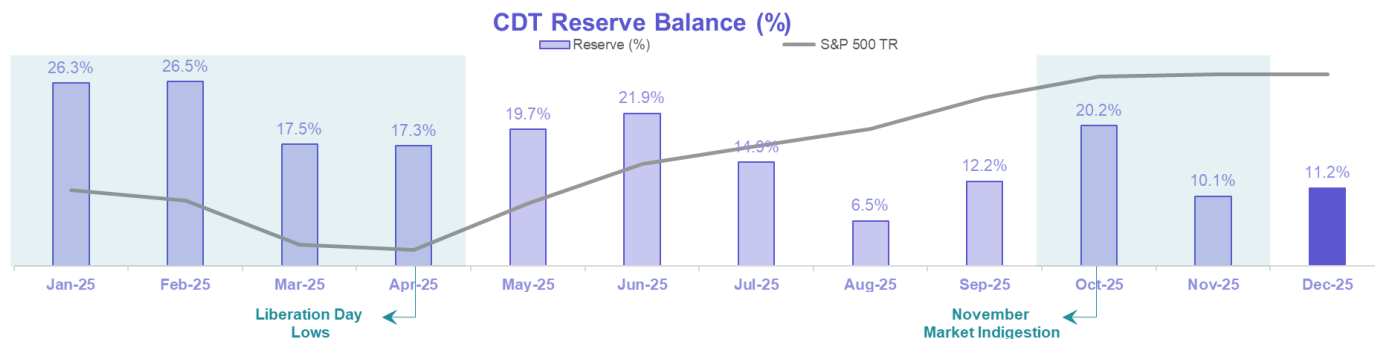


until we kick the tires. For example, back in November, Zebra Technologies ([ZBRA](#)) hit our insider radar. On the surface, the valuation of the **\$12.6B** business appeared attractive at less than a **14x P/E**, a modest debt burden and decent return on incremental invested capital. It looked like a worthwhile investment candidate – but the wheels came flying off when we did our risk review.

What these attractive statistics do not tell you is that management had entered into a transformative acquisition of commercial touch screen provider, Elo Touch for **\$1.3B**. The problem, management almost certainly paid too much for a business generating **~\$80M** in EBITDA (earnings before interest, taxes and depreciation) ([press release](#)). At over **16x EBITDA**, the acquisition blew out the capital structure with debt and presented significant execution risk resulting in an expected risk-adjusted return well below our threshold of safety. We wish the company well on their M&A journey, we

just won't be making that trek with them. Avoiding dodgy propositions like the one posed by Zebra is crucial to our performance during periods of market turbulence when market risks have an opportunity to compound company specific risks – internally, we have a saying that sums up this perspective, *it is our aim to compound capital, not compound risks*.

Macro Portfolio Risk. Reserves comprised of cash, cash equivalents (treasury bills) and government backed mortgage-backed securities fluctuate based on the output of a purely quantitative probability of risk model or PRM in which risk is defined as the loss of principle. The PRM framework relies upon several factors, but the principal factors are **Insider Sentiment** and stock market valuation. As we look back on how this strategy performed in 2025, there were two critical reserve builds and opportunistic releases that did exactly what our system was designed to do, anchor returns when the turbulence hits and then deploy sidelined capital at a market drop discount.

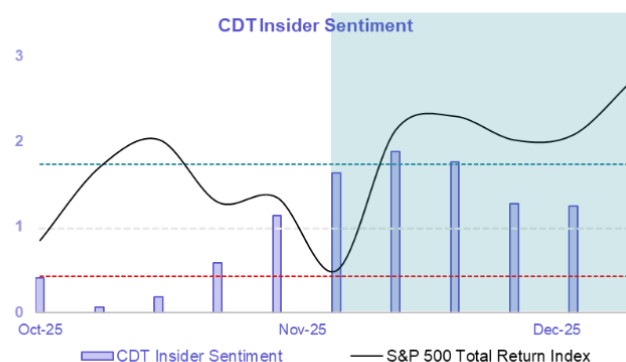
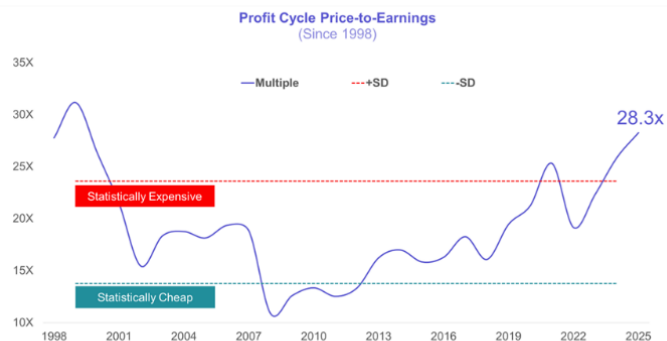


- Liberation Day.** The unexpected size of the Trump 2.0 tariffs roiled markets in the spring. At the depths of the April lows, the market decline reached hysterical levels and flirted with the bear market marker of **-20%**. Needless to say, having **~1/5th** of the CDT portfolio in reserve was an incredible asset. We absorbed the shock with some protection in place - and then deployed that capital at awesome discounts to the recent past. Incredibly, the returns on that deployed capital did not take long to materialize as tariff relief announcements assuaged market fears and the S&P 500 TR ended the month down only **-.68%**.
- November Indigestion.** Similar, but on a much smaller scale to Liberation Day, in November, we observed wild swings in the stock market during which, at the low declined **-4.55%**. Once again, going into the month with **~1/5th** of our assets in reserve proved to be an incredible benefit as we quickly deployed our reserved capital and reaped a tidy return as the market recovered intramonth.

If you are wondering about the fluctuations in our reserve during the rest of the year, most of the movement is related to changes in **Insider Sentiment**. Our sentiment measure is a proprietary metric that we derive by analyzing the purchasing behavior of corporate insiders. Intuitively and born out statistically, when the world's most informed and influential people

are finding value in the market and purchasing their shares, the probability of risk in the whole stock market declines, while the opposite is true if insider purchase activity is muted.

Currently, our reserve is set to ~13.5% of our managed assets. If not for a higher-than-normal **Insider Sentiment** as shown below on the right, a historically elevated market valuation of >28x our estimate of through-the-cycle earnings at current interest rates would place our reserve closer to 20%.



Wall of Worry. As previously mentioned, our reserve process is entirely quantitative, it does not allow for analyst bias to influence the numbers, however, as good practice we still keep track of and stay up to date with concerns we deem a significant threat to the market and potentially our investments. Some of our major concerns are the following:

- Private Credit Accounting:** Similarly to the way our partners compensate us for a job well done with performance fees, private credit fund LPs pay their managers based on their return performance as well. In our case and in the case of private credit, returns are in part defined as the appreciation or depreciation of the fund's owned assets, but with one **major** difference. The assets we buy are public securities, meaning their value is widely known. Private assets, however, have no market value available at all and are subject to manager input which can result in massive distortions in the reported value of assets. Underscoring this point, here is an article outlining how two private credit behemoths, Apollo and KKR mark the exact same loan at significantly different asset values ([Bloomberg](#)). Given that [Moody's](#) estimates that this market could grow to \$3T in value by 2028, we believe that the systemic importance of private credit on the entire financial system is widely underestimated, especially when you consider the incentive structure in which manager pay is tied to the asset values they in part determine themselves.
- Artificial Intelligence Growth Constraints.** Resource constraints such as land, electricity and labor could slow the progression of data center construction, which in turn can slow AI company growth. While financial constraints could potentially halt it altogether. This is an important development to watch as the composition of the stock market today is overwhelmingly reliant upon the success of AI as a transformative technology with a blistering growth trajectory in order to justify its rich valuation.
 - Resource Constraints - Electricity ([Financial Times](#))
 - Financial Constraints - Oracle & Blue Owl ([CNBC](#))
 - Market Concentration ([Apollo](#))

Engine #2 is Humming. The combination of our two-layer risk control structure has produced a historically strong track record of risk management as evidenced by healthy alpha generation. Our micro controls keep us from stacking or compounding risks, while our macro controls position us to absorb and ultimately profit from market turbulence.

Above the Clouds.

2025 was another successful year. We generated strong after-fee returns for our partners, continued to refine and augment our process through our never-ending pursuit of research, and last but not least, we launched CDT Wealth, an exclusive wealth-management platform designed specifically for you, our limited partners.

As this reflection draws to a close, we remain committed to our pursuit of [Investing Above the Clouds](#). The year ahead will bring new challenges, but also new opportunities for our playbook to identify and capitalize on. With a tremendous amount of momentum entering 2026, we are excited for what lies ahead.

We sincerely thank you once again for your trust and look forward to serving you and your families in the year to come.

David Papson

Best Regards,

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