

# Highline Capital

Inception / Year-End Letter September 22 – December 31, 2025

January 3, 2026

Highline Capital began managing capital on September 22, 2025. The period through December 31 represents a short “stub” period of just over three months and is too brief to draw meaningful conclusions regarding long-term performance or risk-adjusted results. Any early outcomes should therefore be viewed as anecdotal rather than representative. Our focus remains on process, discipline, and risk management rather than short-term results.

Our objective is not to “beat the market” in any given quarter or year, but rather to compound capital prudently over decades while avoiding permanent loss. As Benjamin Graham defined an investment: “An investment operation is one which, upon thorough analysis, promises safety of principal and an adequate return. Operations not meeting these requirements are speculative.” That definition remains as relevant today as when it was written.

## **Performance (Since Inception)**

From inception through December 31, Highline Capital generated a net return of approximately 8.85%. Over the same period, the S&P 500 returned approximately 2.45% and the Nasdaq Composite approximately 2.19%.

For broader context, during the full calendar year of 2025 the S&P 500 returned approximately 16.4%, the Nasdaq Composite approximately 20.4%, and the Dow Jones Industrial Average approximately 13.0%. While such comparisons can be useful reference points, we caution against placing undue weight on short-term results, particularly over a period as brief as this one.

Although Highline’s operating history currently spans only a single quarter, the results achieved during this initial period are broadly consistent with outcomes observed across our other capital pools managed using the same investment philosophy and risk management framework over the full 2025 calendar year. Those portfolios generated a time-weighted return of approximately 31% for the year. While differences in capital structure, constraints, and time horizons naturally exist, the parallel in performance provides additional confidence that the approach applied at Highline is directionally aligned with a process that has demonstrated strong results over a longer period.

Taken together, these results suggest that the early performance of Highline reflects process consistency rather than short-term market positioning, and that disciplined liquidity management, downside protection, and selective risk-taking remain central to the strategy.

## **Market Environment**

The final quarter of the year was marked by heightened volatility and a growing divergence between price behavior and underlying fundamentals. Investor attention was increasingly drawn to artificial intelligence–related businesses, where extraordinary growth expectations fueled both enthusiasm and concern. Debate around whether the current environment constitutes an “AI bubble” has become widespread.

We do not attempt to predict the timing or magnitude of market corrections, nor do we invest based on macro forecasts. What matters to us is not whether excess exists, but how portfolios are constructed when excess inevitably corrects. History shows that periods of rapid growth often carry the seeds of their own undoing: businesses expanding at extraordinary rates are frequently forced to prioritize continued expansion over prudence, discipline, and balance sheet strength. Over time, the weight of that growth can become a liability rather than an asset.

There is no shortage of speculative activity at this point in the cycle, nor is there a shortage of past examples where widely admired companies failed to meet expectations once conditions normalized.

## **Positioning and Risk Control**

Throughout the quarter, Highline emphasized capital preservation, liquidity, and optionality. We maintained meaningful exposure to short-duration government securities as both a stabilizing anchor and a source of future opportunity. Equity investments were limited to businesses meeting strict quality and valuation criteria, with a clear focus on downside protection.

Options strategies, where employed, were used conservatively and opportunistically to improve entry prices or generate income, rather than to increase leverage or directional exposure.

As Howard Marks has often noted, return is easy to measure, but risk is not. Risk reveals itself only in difficult periods, much like insurance proves its value only after an adverse event. The true test of an investment process is not how it performs during favorable markets, but how it behaves under stress.

## Technological Change and Investment Cycles

A significant portion of current market debate centers on whether artificial intelligence will fundamentally change how work is done. Framed this way, the discussion presents a false dilemma. Technological progress has *always* altered the nature of work and commerce—railroads, automobiles, electricity, and the internet all reshaped the economy in profound ways. Artificial intelligence is unlikely to be an exception.

What is less certain—and far more relevant for investors—is how value accrues over time. History suggests that the importance of a technology does not guarantee attractive investment outcomes. At the height of the automobile boom, hundreds of car manufacturers existed; today, only a handful remain. The same pattern has repeated across industries and cycles: early enthusiasm often gives way to competition, commoditization, and consolidation, with only a small number of long-term winners emerging.

As Warren Buffett has often observed, things are rarely as good or as bad as they seem. Periods of rapid innovation tend to inflate expectations, while the eventual normalization of growth exposes weaker business models. Companies growing at extraordinary rates are frequently compelled to reinvest heavily simply to sustain that growth, limiting their ability to act prudently and, in some cases, causing them to collapse under their own weight.

It is also important to distinguish between different layers of technological benefit. Some companies operate at the center of the innovation itself, requiring continual capital investment and facing intense competition. Others are beneficiaries of the technology's diffusion—businesses that use increasingly powerful tools at falling costs to enhance productivity, improve customer experience, and strengthen existing advantages. Historically, much of the durable value from transformational technologies has accrued to these downstream users rather than to the early infrastructure providers.

For our part, we do not attempt to forecast which companies or business models will ultimately prevail. Instead, we focus on risk, valuation, and resilience. The question is not whether artificial intelligence will matter—it almost certainly will—but how portfolios are positioned when optimism fades, competition intensifies, and cycles inevitably turn.

## **Perspective**

While we are pleased with results to date, we remain acutely aware that short-term success can foster false confidence. Our emphasis remains on discipline, humility, and preparation for less favorable conditions. We are comfortable holding cash when opportunities are scarce and prepared to act decisively when fear or dislocation creates attractive risk-reward opportunities.

## **Closing Thoughts**

We recognize that the decision to entrust capital to Highline is not one taken lightly, and it is not a responsibility we take lightly either. Stewardship of capital carries with it a deep obligation to act thoughtfully, conservatively, and with integrity. We are grateful for the trust placed in us and remain fully aligned alongside our partners.

Highline Capital was built to endure across market cycles. Our goal is simple: protect capital first, and allow disciplined, long-term compounding to do the rest.

Harrison Groll