**Talbot Financial – Second Quarter 2025 Review**

Please find attached your Talbot Financial Second Quarter 2025 portfolio review to supplement your monthly account statements available from Schwab. The report provides a performance summary of your investment portfolio compared to the S&P 500 Total Return Index ("Index"), Talbot Financial's benchmark, and lists your investment portfolio holdings by industry sector.

**Investment Review**

The Index increased 10.9% for the second quarter and 6.2% year to date. Specific to the second quarter, it was not a steady climb as the Index declined 11% in the first week of the quarter, only to rebound nearly 25% by the end of June. The volatility underscores the importance of not overreacting to short-term market noise and adhering to a disciplined investment strategy focused on drivers of long-term growth.

Our steadfast focus remains on companies with strong balance sheets, exceptional cash flow generation, and sustainable competitive advantages. A strong balance sheet, with a low debt-to-equity debt ratio and ample liquidity, provides financial resilience and flexibility, especially during economic downturns or periods of market volatility. Exceptional cash flow generation offers a company the ability to fund operations, reinvest in growth opportunities and pay dividends without relying on outside financing. Lastly, sustainable competitive advantages protect a company's market position, pricing power and profit margins.

We believe companies with these attributes are best positioned to adopt and deploy artificial intelligence (AI). Their balance sheets and cash flows provide the capital needed for the significant upfront investment in AI, as well as the ongoing investment required to optimize the capabilities of AI for improved productivity. Strong competitive advantages, whether through scale, proprietary data or brand strength, afford these companies a structural edge that amplifies the benefits of AI. The combination of these characteristics allows these companies to be early adopters, implement at scale, and capture AI-driven efficiencies and market share more quickly.

JP Morgan is an example of a Talbot Financial portfolio company taking an early lead in the adoption and utilization of AI. Backed by its $18 billion technology budget, JP Morgan is rapidly deploying AI at scale and is already projecting AI-related annual cost savings of $1.5 billion. Some early examples of how JP Morgan is embracing AI include:

- An Intelligent Q&A Model AI is deployed in call centers to deliver quicker, more precise responses to external questions. Internal surveys show that it has improved speed, employee satisfaction, and customer experience.
- AI-powered fraud detection software is used to monitor $8 trillion in daily payment flows for real-time anomalies and fraud. Management expects the software to save the firm as much as $200 million per year from fraud-related losses.
- A generative AI assistant model is now used for drafting emails, summarizing documents, and generating code. It is currently used by 200,000 employees and measurably boosting overall employee productivity.

While smaller peers are experimenting with AI, JP Morgan is already integrating AI into its core operations to drive efficiency, improve decision-making, and enhance customer service and employee experience. We believe these efforts will widen the company's leadership role within the financial services sector.

JP Morgan is just one example of a company within your Talbot Financial portfolio leveraging its competitive advantage through its investment in AI. Every company in your portfolio is doing the same and one of the reasons why we are comfortable holding positions through the bouts of market volatility that are inevitable.

We welcome the opportunity to review your portfolio in person, by phone or on a Zoom conference. Please contact us for a review, or to answer any questions you may have about your portfolio.

Sincerely,

Talbot Financial, LLC

www.talbotfinancial.com