2H 2025 Investor Letter — February 25, 2026

Dear Investor,

For the six months ended December 31, 2025, Bonsai Partners Fund, LP, appreciated 7.5% net of fees and expenses. The S&P 500 Total Return Index appreciated 11.0% during this period.

Bonsai Partners Historical Returns Summary

	2025	2024	2023	2022	2021	2020	2019	2018	Since Inception	Annualized *Since Inception*
Bonsai Gross Return	**16.4%**	**10.8%**	**22.7%**	**-26.5%**	**-13.9%**	**277.9%**	**60.3%**	**-17.6%**	**399.9%**	**25.1%**
Bonsai Net Return	**15.3%**	**9.7%**	**21.5%**	**-27.3%**	**-14.8%**	**247.9%**	**56.1%**	**-17.7%**	**325.2%**	**22.3%**
S&P 500 Return	17.9%	25.0%	26.3%	-18.1%	28.7%	18.4%	31.5%	-8.6%	179.0%	15.3%

Performance data shown represents past performance. Past performance is not indicative of future results. The period October 22, 2018, to April 30, 2021, presents time-weighted returns of a representative Bonsai Partners, LLC ("Bonsai") managed account with the same strategy and risk profile as Bonsai Partners Fund, LP, (the "Fund") which launched on May 1, 2021. Results from May 1, 2021, reflect the time-weighted returns of Class A shares of the Fund.

Gross returns from October 2018 to April 2021 include transaction and commission fees. Gross returns from May 2021 to the present include transaction and commission fees and fund operating expenses, such as administrative and audit fees but do not include management or performance fees. Net returns reflect the gross returns (as described) reduced by a 1.0% management fee and a 10.0% performance fee above a 6.0% cumulative compounding hurdle.

All performance figures are calculated internally by Bonsai Partners and are therefore estimated, unaudited, and subject to adjustment. The investment return and principal value of an investment with the Fund will fluctuate so that an investment, when redeemed, may be worth more or less than its original cost. Actual performance for a particular investor may be lower or higher than quoted performance due to different fee structures, share classes, beginning periods, capital additions or withdrawals, or individual compliance related mandates. Please refer to important additional disclosures at the end of this letter.

Obvious and Hidden Moats

Midway through high school wrestling practice, our coach called us into a circle on the mat. The humid gym fell silent as he reached into a bag, pulled out a popsicle stick, and snapped it in half. The crack echoed. He did it again, letting the fragments drop to the mat for effect. Then he grabbed a handful of sticks, stacked them neatly, and tried to break the bundle. He strained. The wood bent, but the stack held firm.

He looked up and finally spoke: "**Individually, we are weak. Together, we are strong.**" We understood immediately, and the lesson stayed with us throughout the season.

This same lesson applies to companies. Competitive advantage doesn't always come from a single source; instead, it can come from many smaller competencies. When those pieces work together, they create a powerful advantage that is difficult for outsiders to see. **A hidden moat**.

Moats can be obvious or hidden. An **obvious moat** is one a neutral observer can recognize immediately, such as high switching costs, network effects, or economies of scale. **Hidden moats**, by contrast, are not apparent at first glance. Because obvious moats are easy to identify, they are often more fully priced by the market, while hidden moats often remain underappreciated.

Companies with diffuse competitive advantages often look ordinary from the outside until the financials, over time, make their advantage clear. This gap creates "investment friction," because the thesis is difficult to explain or share before the numbers tell the story. But that friction is exactly where the opportunity lies. When the market struggles to understand an idea, the potential for mispricing is highest.

In our 1H 2025 letter, we discussed one form of hidden moat: when the market has not yet internalized the mental model needed to understand a company's strength. In this letter, I want to explore another: when a company's advantage is built from a web of small, interlocking advantages that are hard to see individually but powerful in combination.

The Capability Stack

Jim McKelvey, co-founder of Square, makes a similar argument in his book *The Innovation Stack*. He claims that a stack of smaller, interlocking innovations is much stronger than one massive breakthrough. While each innovation might seem modest on its own, together they form a wide moat. I believe this concept extends beyond just technology. When applied to a company's broader abilities, I consider this a company's **"capability stack."**

Capability stacks live inside an organization's systems and routines, and they ultimately show up through better products and/or lower costs. You can see capability stacks expressed through Aldi's low-cost leadership or Toyota's manufacturing excellence. In both cases, there is no silver bullet. Instead, a maniacal focus on small improvements builds distinct capabilities that, stacked together, set these companies apart. To beat a capability stack, a rival can't just win on one front; it must match the incumbent in dozens of ways simultaneously and recreate the connections between those capabilities.

A capability stack endures not only because it is complex, but because it takes time to build. In business and investing, it's easy to assume money can buy anything. If a competitor has a lead, you simply spend more to catch up. But money can't buy the experience that determines what to build or how those advantages fit together.

General Motors learned this the hard way when it tried to replicate the Toyota Production System (TPS). Even through a joint venture with Toyota designed to transplant TPS into GM factories, GM never matched Toyota's results. They could copy individual processes, but they lacked Toyota's decades of trial, error, and adaptation. GM's culture and legacy made it exceptionally difficult to internalize the Toyota "way" rather than just imitate the tools. Time was the missing ingredient. TPS only works after years of dedication, continuous feedback, and iteration. Accumulated know-how takes many years and the right inputs to replicate.

TSMC has built a similar stack of advantages. From the outside, it's not glaringly obvious what separates it from Intel or Samsung. Yet, it has accumulated thousands of small, interlocking advantages that make competing with it an enormous task. Even if a rival could map every one of TSMC's process steps for a particular technology, which no single person at TSMC knows, it would still lack the ecosystem, culture, and customer scale that make the system work.

I observed this same dynamic when I studied Costco as a young analyst. From the outside, it looked like just another discount retailer with a few quirks. Only in hindsight did it become clear that Costco's edge comes from the accumulation of hundreds of difficult to replicate capabilities, such as charging membership fees, paying employees more, capping product margins, and limiting SKU selection. Individually, none of these choices look like a decisive advantage. Collectively, they create a system that is nearly impossible to reverse-engineer. Hidden and valuable.

Case Study: Wise's Hidden Moat

Wise is one of our largest positions and a classic example of a hidden moat. Its competitive advantage is notoriously hard to explain because there is no single "killer feature" to point to. Instead, over the past decade, Wise has built a capability stack optimized for speed, transparency, and price, all working toward a singular radical mission: making cross-border payments instant and nearly free. It's the combination of capabilities, not any one element, that competitors struggle to match.

If we peel back the layers of Wise's stack, three capabilities stand out:

- **Vertically integrated infrastructure:** Rather than "renting" rails from large banks, Wise connects directly to local payment systems and, when possible, central banks. This eliminates middleman tolls and reduces handoffs, which improves both speed and reliability.
- **Scale Economies Shared:** Most financial services price services based on what customers will tolerate. Wise prices bottom-up: underlying cost plus a small, fixed margin. As Wise gains efficiency through scale or operational improvements, it passes the savings back to customers through reduced prices rather than expanding profit margins. This self-imposed cap on profitability is difficult for legacy incumbents, optimized for quarterly earnings, to compete with. Lower prices attract more volume, and more volume improves unit economics, creating a virtuous cycle.
- **Back-office automation:** Wise's "full speed, min fees" promise is powered by proprietary tooling built from the ground up across dozens of back-office processes. By replacing manual work with purpose-built software across the payment journey, Wise has pushed its cost-to-serve structurally lower than peers.

Assessing the Threat: Stablecoins

New risks are uncomfortable, but taking them seriously is part of staying intellectually honest about an investment thesis. The potential rise of stablecoins could reshape cross-border payments, so it is a development worth monitoring for its implications for Wise.

A cross-border payment can be thought of in three basic steps: (1) **pay-in**, where the sender funds the transfer; (2) **treasury**, where value is made available in the destination geography; and (3) **pay-out**, where the recipient receives funds.

In theory, stablecoins can commoditize the treasury step by providing a more uniform set of rails. If that layer becomes easier for everyone, some of Wise's advantage could narrow. Even so, the rest of Wise's stack remains meaningful, especially the pay-in and pay-out integrations, the pricing model, and the automation that keeps cost-to-serve low.

It is also not obvious that stablecoins outperform Wise even within treasury. Consider the "stablecoin sandwich," a common way stablecoins mimic a cross-border transfer. A user converts fiat (USD) into a stablecoin (USDC), transfers the stablecoin, and then converts back into fiat (GBP). That requires two conversions. Wise, by contrast, typically only needs to source the destination currency. Eliminating an extra conversion step should, all else being equal, be faster and cheaper.

This explains why many payments companies remain excited about stablecoins while Wise is relatively indifferent. For much of the industry, stablecoins can be faster than existing rails. For Wise, they are not clearly faster or more efficient than what it already built. If stablecoins become a dominant standard, Wise is well-positioned to adopt them as another component inside its existing stack rather than as a replacement for it. We continue to monitor this closely.

In Summary

Hidden moats are hard to explain, and that is precisely what can make them valuable. By the time the market agrees a moat is unassailable, much of the easy money has already been made. Wise's strength comes from its capability stack: many small, interlocking advantages that add up to a formidable whole. In our view, that system is exceptionally difficult to replicate, particularly given Wise's scale as the largest non-bank cross-border payments provider and its structural cost leadership.

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Concluding Thoughts

As always, thank you for your partnership. We expect K-1s will be distributed by mid-March, and our audited financial statements are available through the investor portal.

Please don't hesitate to contact me with any questions or comments.

Fondly,

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