Marshfield Associates®

**September 2026**

We underperformed the S&P 500 Index this past quarter, a phenomenon not unusual in either our recent or more distant past. While we never enjoy underperforming, we believe it is a fundamental—indeed, necessary—part of pursuing and maintaining our discipline.

Let us elaborate. Our philosophy is a relatively simple one to express, but it's one that takes fortitude to execute. Our goal is to outperform the market over the long term, without exposing your principal to undue risk in the process. We do this by buying stock in what we deem to be excellent, high return companies with both room to run and an attractive price. So far, so "simple". The complexity arises not just in the systems and practices we put in place so we can act on this philosophy with rigor and timeliness but also in our unwillingness to stray from that discipline even when the incentives to do so seem overwhelming. It is our view that even small tweaks to process or discipline to make it easier to participate in the market's upward thrust are corrupting forces that would leave us without the feedback system integral to the faithful execution of our philosophy. Thought experiment #1: buy just a little Nvidia at an astronomic price that makes no valuation sense. Ok, when do we sell the position? When it goes from crazy to insane? Where is that line? Thought experiment #2: hedge our bets by investing some or all of our cash in Index shares. Fine, so when do we sell those shares--before or after the market starts sliding downward? If before, how do we know when to pull the trigger, and if after, how do we avoid taking a (potentially sizeable) hit on the perfectly good cash we sank into the Index? Yeah, no thank you.

But what if AI is this century's fire, electricity, or steam engine? Perhaps, but we have no way of knowing that and one thing we never do is embrace a story for which we have no way of predicting the odds or the knock-on consequences. To wit: we're keenly aware of second and third order effects like new entry and the (salutary) impact of competition and are meticulous about factoring those in. Understanding those collateral effects are not just useful but indeed critical to a full understanding of who wins and who loses in the wake of any big new development. See, e.g., the history of the auto industry.

Given that we're not buying into the current craze, this is where we're supposed to tell you what a mess the world is, that stagflation might be around the corner, that AI could well be a looming bubble, that the deficit is huge and oil and diesel are lofty. But that's not what underlies our analysis, either. What dictates our investing behavior is neither scenario dependent nor top-down thinking of this sort. It is a bottom-up assessment of individual companies and valuations with reasonable assumptions about growth, margin, and excess fixed capital spending. Yes, we do take AI into account where we think it might matter. Certainly, we know that interest rates have risen and might rise further. It's all part of the mix in how we think about sensitivity analysis and how to account for an uncertain future. But we give nothing a pass on real world expectations

and the immutable laws of supply, demand, and competition simply because other market participants might be doing so. Nor, on the other hand, are we comfortable making airy-fairy predictions about imminent doom.

We take satisfaction in doing what we are supposed to do and what you hired us for. If we're not exactly overjoyed by our lagging the market—remember that all of our own public equity portfolios are invested exactly as yours are—we are proud of our collective resistance to forces that would have us abandon what has served us so well over the years. Our belief is reinforced by our history. Having taken, from time to time, what we thought were small steps to "adjust" our buy discipline, we were in each instance resoundingly rebuked. A fair-weather adherence to what should be an abiding commitment is, in the end, no strategy at all other than a costly replication of the index we are committed to outperform over time.

While we stand firm on not buying into the current – or any – craze, the market did give us the discounted buy price we require on several names in Q3. Accordingly, we were able to purchase a 3% position in Domino's and NVR for traditionally managed accounts that did not own them. Similarly, we had the opportunity to increase the position sizes of both Arch Capital and Visa to 5% and of Progressive to 7% in accounts that did not yet own these securities at these levels. At the end of Q3, we were investing 21% on day one for new traditionally managed accounts.

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