RF Capital Management LLC

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Dear Investors,

In the third quarter of 2026, RF Capital returned +17.34%[1] net of all fees. In comparison, the iShares Micro-Cap ETF (IWC) returned -7.40% and the iShares MSCI ACWI ETF (ACWI) returned +1.14%. That represents outperformance of 24.74 and 16.20 percentage points, respectively.

The third quarter's results followed changes we made to our investment process earlier this year. In Q1, we narrowed our focus to companies with strong revenue growth, a clear reason for that growth to continue, and sustained price strength. In Q2, we sold some legacy holdings and increased our allocations to our best ideas. We began to see the results in Q3.

Our two largest positions at September 30 contributed a combined 22.17 percentage points, more than the portfolio's net return. We added to both during Q3. Those gains were partly offset by losses elsewhere, including 2.32 percentage points from a position we exited during the quarter.

The earnings results released during Q3 reinforced our conviction in our top two holdings. One company grew revenue 48% year over year. Its higher-margin business accounted for most of that growth and lifted gross margin. Operating profit also rose even after excluding a one-time gain tied to an acquisition. The other company ran 17% more tests than a year earlier and generated positive cash flow from operations. We view test-volume growth as a more useful measure of underlying demand than the headline revenue figure. In both cases, the operating results supported our expectation of further earnings growth. The question remains how much of that progress can continue and how much is already reflected in the share prices.

At September 30, our five largest holdings made up 67.39% of the portfolio and cash was 5.51%, compared with approximately 43% and 38%, respectively, at the end of Q2. As we noted in July, our five largest holdings already represented approximately 63% of the portfolio when we wrote the letter. Much of the increase in concentration came from deploying cash into businesses where we saw the most attractive opportunities for earnings growth. Concentration is not an objective in itself. We are willing to allocate substantial capital to our best ideas, but position size must continue to be justified by the underlying business and its prospective returns.

We also sold several older holdings and established new positions during Q3. One sale in particular, Musashi, illustrates how our standards for allocating capital have changed.

[1] RF Capital returns are calculated on a composite basis. Individual returns may vary based on the timing of investment and the fee schedule. Past performance is not indicative of future results.

MUSASHI CO. (7521.T)

Musashi is a Japanese supplier of printing, financial, and election equipment. We originally purchased it as a net-net, meaning its market cap was below current assets less total liabilities. The investment case rested primarily on the discount to balance-sheet value, rather than the prospect of sustained earnings growth.

On August 4, Musashi reported that sales fell 25.9% and operating profit fell 99.5% year over year for the three months ended June 30. In the same release, management expected sales to fall 16.3% and operating profit to fall 87.3% for the fiscal year ending March 2027. The company still had substantial cash, but we saw little reason to expect earnings to recover.

We bought Musashi at an average price of ¥2,275.28 per share and sold the entire position during Q3 at an average of ¥2,776.98 per share for a 22.05% price gain. Although the shares remained inexpensive relative to assets, we preferred to deploy capital toward businesses with a clearer path to higher earnings.

LOOKING AHEAD

We continue to search globally for underfollowed businesses with the potential for substantially higher earnings and cash flow per share over the long term. Much of our current research is focused on companies with market capitalizations below US$50 million. We believe this part of the market offers opportunities to find businesses whose improving operating results have yet to attract significant investor attention.

Q3 was an exceptional quarter, both on an absolute and relative basis. We remain focused on finding new opportunities and increasing our ownership in businesses where our conviction is strongest.

On October 27, RF Capital completed its ninth year of operations. Thank you for your trust and continued support.

Regards,

Roger Fan
Chief Investment Officer
RF Capital Management LLC

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