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January 30, 2025

	Q4 2024	Full Year 2024	ITD[1],[2]
Software Fund **Net of All Fees[3] Performance**	**10.2%**	**38.6%**	**32.0%**
Russell 2500	0.6%	12.0%	10.7%
Russell 2000	0.3%	11.5%	9.9%
Russell 2500 Growth Index Software and Computer Services	11.7%	13.3%	17.7%

The Praesidium Strategic Software Opportunities Fund, LP (the "Software Fund") gained 10.2% net of fees in Q4 2024. The top three contributors to the portfolio during the quarter were: Intapp Inc, ServiceNow, and CyberArk Software, and the detractors were Zeta Global and Tyler Technologies.

For the full year 2024, the Fund gained 38.6% vs a gain of 12.0% for the Russell 2500 and 13.3% for the SMID-Cap software index. The top five contributors for the year were Intapp Inc, Zeta Global, ServiceNow, CyberArk Software, and Tyler Technologies. The only detractors in 2024

[1] ITD Returns are annualized as of December 31, 2024. The performance information in the above table is subject to important disclosures beginning on page 7.

[2] Past performance is not necessarily indicative of future results. An investment in any product discussed herein, like any investment, contains risk, including the risk of total loss of capital. There can be no assurance that historical trends will continue. Inception for the Software Fund is December 1, 2022. The performance information in the above table is subject to important disclosures beginning on page 7.

[3] Net of All Fees Performance is estimated, unaudited and net of accrued management and incentive fees for a representative investor invested in the Software Fund. All figures calculated in U.S. Dollars on day 1 under the Software Fund's standard fee structure. See Legal Disclaimers for additional information.

were JFrog and a very small loss in Zuora. We believe this was a very good hit rate given the wide dispersion within the overall software sector's performance in 2024.

During Q4, we started a new position in Descartes Systems Group and sold out of our profitable investments in Zeta Global (on price appreciation) and Zuora, Inc. (due to the sale of the company to an acquirer).

Current Enterprise Software Valuations

The disparity between large-cap and SMID-cap software names remains wide. Over the past three years, the large-cap software index is up +26% while the SMID-cap software index is down 9%[4]. More importantly, we believe this has resulted in SMID-cap software stocks trading at attractive *absolute* valuations that are discounting high rates of returns by our estimates. As a Barclays Research note points out[5], software valuations are below the 10-year historical average (Barclays estimates by approximately two turns) and are currently at the historical pre-2020 average (ex-Covid). This top-down backdrop coupled with a wide disparity of stock price performance of software businesses over the last couple of years continue to offer us a fertile investing environment as it did for us in 2024.

Portfolio Update

The breakdown of the portfolio at the end of 2024 by software category was as follows:

On premise-cloud transitions ~ 38%

Long-term cash flow compounders ~ 28%

Underappreciated secular change winners ~ 18%

Growth lifecycle transitions ~ 8%

Undermanaged software franchises with new management ~ 0%

Software consolidators ~ 8%

Praesidium seeks to diversify the portfolio amongst different types of software business models. We recently increased our exposure to the Software Consolidator category and have a lot of experience and historical success investing in software consolidators over the past 15 years. These are companies that are skilled in making acquisitions in complementary businesses at attractive valuations where they have the opportunity to earn high cash on cash returns. The consolidators have experienced management teams who can integrate the newly acquired businesses and successively drive higher profit margins and cash flows. As a result, these software consolidators

[4] Bloomberg IGV and Russell 2500 Growth Index Software and Computer Services Indices
[5] Barclays U.S Software 2025 Outlook: Recovery and AI to Drive Software Outperformance

are able to compound their own total free cash flow at attractive rates, often in the mid-to-high teens. We write about our newest addition, Descartes Systems, below.

AI and Software Companies

The software companies in our portfolio are taking advantage of their dominant market positions and deep experience investing in AI to roll out products that incorporate GenAI. As GenAI use cases ramp up and show an attractive ROI for customers, we expect the adoption of AI-embedded products from our software companies to accelerate. We've done a significant amount of work in this area and are increasingly optimistic about what the GenAI future holds for our software portfolio companies.

During much of 2024, the focus of investors when it came to AI was almost exclusively on GenAI infrastructure (namely semiconductors). There was a narrative that software companies, in particular SMID-cap software companies, would find it difficult to compete in a GenAI world. GenAI was seen as a threat to the entire application software business universe. We believed this was off-base as we have discussed over the past year. There will be winners and losers, for certain, but to paint software with such a broad brush and say that software was dead as a result of GenAI was misplaced, in our opinion. The ultimate goal of GenAI is to improve the efficiency of application software and to broaden the scope of work that can be automated. Our research shows there will be many software companies that will successfully harness and incorporate GenAI, which will expand their competitive moats, and increase their own intrinsic values to the benefit of their shareholders.

Software companies with 'sticky customers' and vast amounts of customer data and domain knowledge should be in an advantageous position to create significant value with AI-enabled products and services. In other words, companies that act as the system of record for their customers' mission-critical applications stand to benefit the most. We strongly believe our portfolio companies are in a great position to do just that going forward.

Update on Software M&A

While down from the 2021 peak in software M&A, software deal count was above pre-Covid levels, and software M&A measured by dollar volume was the third highest in the last 20 years[6]. We had written in prior quarterly update letters that 2024 would likely be a good year from a takeover standpoint given the attractive valuations in the space, the dry powder by private equity firms, and a growing appetite by strategic acquirers to augment their own businesses. Our current view is that we expect these conditions to continue through 2025 but with the added positive element of a more favorable regulatory/ approval landscape (which may embolden more strategic acquirers to look at M&A). A continued strong software M&A environment is positive, we believe, because potential deals will help establish a floor on valuations, as well as offer another

[6] Barclays research note January 10, 2025

way, in addition to the long-term compounding cash flows of a business, for shareholders to realize value for their software investments.

If the acquisition premium is truly reflective of the long-term value of a business we own, then we are comfortable selling to an acquirer. We are invested in great companies and only want to give them up if we are paid an appropriate price. Approximately 33% of our software holdings have been acquired over the last 17 years, and we are in constant dialogue with the management teams and Boards of our portfolio companies, discussing with them what we believe the intrinsic value of the business is. We believe this proactive approach has helped considerably in receiving the best price when our companies are acquired. In fact, numerous Board members have contacted us post the sale of their businesses to praise the valuation work we provided them that led to the best outcome for shareholders.

New Position in Descartes Systems Group (DSGX)

We built up a new position in Descartes Systems Group during the fourth quarter. Descartes is a Canadian-based software company (that reports in US dollars) that we had owned in the past and are very happy to be shareholders of once again. It is about a $10 billion market cap company (at the time of our investment) with about $250 mil in net cash on its balance sheet. Our research shows that Descartes is a market leader with a strong competitive position, has a world-class management team, and enjoys a long runway for growth with strong reinvestment opportunities.

Descartes is the leading provider of software for the transportation management and logistics industry and serves as the back-office system for its customers' freight management operations. Customers use the software to enhance supply chain visibility and tracking, optimize their logistics, navigate the complex global trade environment, and comply with disparate international trade laws and requirements. Drivers of growth in demand include increased complexity in logistics/supply chains, a greater need for real-time information for freight management, the pressure to automate manual processes, the need to manage the flow of freight more efficiently, and a desire to perform analytics by customers on their supply chains.

Our research indicates, as with other software businesses we invest in, Descartes provides mission-critical software to its customers. As a result, the Company enjoys world-class retention rates of 96%. The software is incredibly sticky, with the primary reason for churn being customer bankruptcy.

Descartes is the #1 player in its field, with no clear #2. Based on our research, Descartes has a very strong reputation amongst customers and is widely considered the best-in-class provider within its industry. It is unique in being the only software provider with an end-to-end freight & logistics management software platform, whereas its competitors mostly offer point solutions or a handful of individual modules that often lack the functionality of Descartes's products. As a result, the company enjoys win rates well over 60% and continues to take market share. Competitors in the space include: WiseTech, Intra, SBS Commerce, Blue Yonder, E2Open, Project 44, 4 Kites, and Road Net.

Descartes is highly profitable with EBITDA margins in the low 40's and incremental margins substantially higher than that. This is a result of a world-class business, scale, and a disciplined management team with laser-like focus on profitable growth. We have spent a lot of time speaking with Descartes's senior management and regard the executive team as exceptional. They manage expenses with incredible detail and the senior team, led by CEO Ed Ryan, has been together and running Descartes for close to 20 years. When Ed Ryan and the current team took over, the Company was levered, had a bloated cost structure, and wasn't generating much cash. We believe this led to a ROI-driven, cost-conscience culture within Descartes that still permeates the Company today. We credit management's operational skill and financial discipline with transforming the business into the profitable cash flow machine that it is today.

Descartes has maintained a strong track record of double-digit revenue growth, with half stemming from organic expansion and half from acquisitions. Based on our analysis and the market opportunity ahead of the Descartes, it's our view that the Company should be able to continue to profitably grow its revenue at that level for the next several years.

We categorize Descartes as a software consolidator given its focus, discipline, and successful execution with M&A over many years. Since 2015, the Company has made over 40 acquisitions with an average size of about $40 million each. The management team is highly skilled at identifying opportunities and then integrating the acquisitions to drive up the margins of the acquired businesses. Descartes will cross-sell the newly acquired company's products across its existing base of 26,000 customers to drive revenue growth. Ed Ryan and his team are extremely disciplined in the price they pay for companies. Based on our conversations with management, they always buy companies that are profitable (even though they are smaller, tuck-in acquisitions) and pay, on average, less than 10x pre-synergies EBITDA. Management seeks to recoup their full purchase price on each deal in 5-6 years or less and have done that with almost every single acquisition they have completed over the last 15-20 years, with one exception.

Interestingly, Descartes, over the last two to three years, hasn't made many acquisitions compared to its historical pace. This is because, according to the Company, asking prices for private software companies had become too high and the Company determined it would not be able to meet its ROI targets. In fact, last year, the Company made only two acquisitions, their fewest in many years. This is a great example, we believe, of management's discipline with M&A, and we strongly believe it has been the right strategy during that time. Over the last 9 months, however, the Company has seen a favorable re-pricing of deals for private companies as asking prices have come down meaningfully. And, according to the CEO and CFO of Descartes, the M&A environment for the Company is as good as they have seen it in some time. In fact, in calendar 2024, Descartes announced 6 new deals. We believe this sets the Company up for strong profitable growth going forward as the management team works to integrate those newly acquired businesses and reap the synergy benefits.

We initiated our position in Descartes at about a 3% current free cash flow yield and we are forecasting a mid-teens free cash flow per share growth rate over the next several years from a combination of solid top-line growth (organic and through M&A) coupled with further margin expansion. We are excited to partner once again with such a high-caliber management team with a historically strong track record.

Conclusion

We thank all our partners for their continued trust and support in Praesidium. As always, feel free to reach out with any questions.

Sincerely,
Praesidium Investment Management Company, LLC

Kevin Oram Managing Partner	Peter Uddo Managing Partner

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