REDWOOD GROVE CAPITAL

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Opportunity Created by Mercurial Federal Policy

As I have gotten older, especially after I had kids, the passage of time seems to accelerate. What feels like a few months is really a year, a year is a decade. My twin daughters are about to become teenagers, and honestly, that does not seem to even "math" - as the they might say. Yet 2026 seems to buck that trend, with my perception of time slowing. The start of the year, just a few weeks old, feels like months. My conversations with friends and colleagues have echoed these experiences.

Curious about the pattern, I did some digging and discovered there is a term for this phenomenon: *collective chronopathy*. When a population experiences what researchers call "story turbulence," a rapid acceleration in the number and divergence of shared narratives, time itself is felt more slowly. The faster and more fragmented the stories, the more elongated the days can seem.

Anyone who has lived through a year marked by multiple, unrelated challenges recognizes this feeling instinctively. While it is certainly not universal across the United States, it does, at least anecdotally, appear to be unusually widespread right now.

This sense of distorted time is not just a psychological curiosity; it has real consequences for markets. When narratives shift faster than fundamentals can be assessed, investors can be forced to react to headlines rather than thoroughly weigh outcomes. In such environments, market volatility is driven less by economic changes and more by headline induced noise. These price dislocations and subsequent investment opportunities can become increasingly common. 2025 saw this effect, as quickly shifting federal policies - including the April tariff announcements, DOGE-related cuts, and the One Big Beautiful Bill - led to significant market reactions.

However, throughout the year, whipsawed markets increasingly became inured. A shorthand response—TACO (*Trump Always Chickens Out*) - was popularized to describe the inclination to discount abruptly shifting policy signals from Washington. While the market is not entirely immune to policy announcements - the events in Greenland this month evidence this - the response has lessened, with faster rebounds. **The increasingly muted response can now underestimate the substantive structural changes taking place below the surface.**

A common thesis in public-market investing is that stability and well-articulated policy changes are a prerequisite for sustainable returns. In practice, policy volatility and confusion can be advantageous for some companies. Companies that provide execution services can benefit when government retains funding and mandates but lacks the internal capability to deliver outcomes.

The evolution of disaster response following Hurricane Katrina provides a useful precedent. Despite broad authority under the Stafford Act and significant funding, the federal government lacked the operational infrastructure to respond in a timely manner. The solution was not institutional reform, but outsourcing. Emergency contracting to the private sector was required to expedite the response. The subsequent outsourcing model became the permanent operating model. FEMA (Federal Emergency Management Agency) transitioned from an *operator* to *outsourcer*. This model was reinforced—not reversed—by subsequent disasters, from Superstorm Sandy to the California wildfires.

Finally, 2025 was notable for the decline of climate driven disasters. While no major hurricanes made landfall in the United States - the first such occurrence in over a decade - several major storms, including three Category 5 hurricanes, formed in the Atlantic before turning north. While it was a positive development, we caution against extrapolating a single year of benign outcomes into a durable trend. Hurricanes and other climate driven natural disasters, for example, are often treated as transient news events, but the economic and operational consequences unfold over decades. Redwood Grove continues to incorporate forward-looking climate science into its underwriting, rather than relying on short-term historical variance. In short, Redwood Grove continues to focus on climate, not weather.

Closing Thoughts

In 2016, shortly after resigning from GoldenTree Asset Management, I began a fellows program at Stanford Business School. I was searching for collaborators who could help me build an asset-management firm that explicitly incorporated the economic impacts of climate change into an investment process. It was, in many ways, a lonely period. Few people understood what I was trying to do, and even fewer believed it could work.

By chance, I was introduced to Greg Serrurier, then a senior executive at Dodge & Cox—a man who had little obvious reason to take a meeting with me. We met at a local tennis club, and I will now admit I did not fully know why the meeting had been set, that is, until we began talking. Greg had been wrestling with similar concerns: that the investment community was underestimating how climate change would shape long-term economic outcomes. More than that, he was thoughtful, generous with his time, and—remarkably, given his career at one of the most established equity managers—entrepreneurial.

I've often described that moment as finally meeting someone fluent in a language I had been struggling to speak alone. Greg's enthusiasm was infectious. We kept talking. Soon after, while recovering from surgery, still in bed, he welcomed me into his home—nestled in a redwood grove—where we began the real work. Over the next year, we built the foundations of Redwood Grove's investment process, drawing on Greg's experience and perspective and adding our own share of experimentation and conviction.

The years that followed were not easy. Success was never guaranteed and at times, felt improbable. But working with Greg was never a burden. You don't really know someone by what they say, but by how they show up when the work is hard and the odds are long. It was in those moments that I came to know Greg best, and I could not have asked for a better partner in this endeavor.

As we have discussed with you in the past, this year marks a change in Greg's time at Redwood Grove, when Greg will transition to an advisor to Redwood Grove. His intentions have been clear from our first meeting: to help build something meaningful and then step back.

I am proud to call him a friend, and deeply grateful for more than a decade of partnership. If you have questions, please feel free to reach out as your continued investment reflects your confidence and consent to this long-planned transition.

We all look forward to seeing how he chooses to spend the chapters ahead.

With gratitude,

The Redwood Grove Capital Team

Ted Greg

Kellen

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