SANTA MONICA PARTNERS, L.P.
Founded 1982

Tel. 914.833.0875
.
www.smplp.com

July 1, 2026

Dear Partner:

Partners' capital increased 5.9% in the quarter ended June 30th and 17 % for the first six months of 2026.

This July 4, 2026, our nation celebrates its Semi quincentennial, 250 years since the signing of the Declaration of Independence. From the 13 colonies declaring that "all men are created equal" and endowed with the rights to "Life, Liberty and the pursuit of Happiness," the United States has grown into the world's largest economy with a GDP of $32+ trillion and equity markets exceeding $75 trillion in value.

The free-market constructs that power our financial markets are themselves a founding-era invention; 24 brokers signed the Buttonwood Agreement in 1792, just 16 years after independence, creating the institution that would become the NYSE. Over 150 years, the S&P 500 has averaged nearly 10% annual returns, SMP has delivered about 15% compounded, proof that America's entrepreneurial engine never stops.

From the telegraph to the transistor to the internet to AI to space travel, American innovation has defined every era of human progress. As we look ahead to the next 250 years, I remain bullish on the greatest long-term investment there is: America!

U.S. markets will be closed on Friday, July 3, in observance of Independence Day. I wish everyone and their families a safe and proud celebration of the American Semi quincentennial.

It should come as no surprise that the key to our performance has been a rise in Texas Pacific Land Corp. (TPL) which has come as a response to the news of Data Center action to come on its property. One newsworthy item was news of a stirring at Eric Schmidt's company in which TPL has a $50 million investment. Another was the announcement a week or so ago of Chevron having a deal with TPL wherein it will supply water and more in what could be perhaps the world's largest data center project. Chevron and Microsoft signed a 20-year agreement to power a massive AI data center in West Texas, known as Project Kilby**.** The 2.7-gigawatt campus will operate on dedicated, on-site natural gas generated from the Permian Basin and is not initially connected to the local power grid. TPL reached an agreement with Chevron U.S.A. Inc.to provide land and brackish water resources for Chevron's "Project Kilby." The development is a large-scale power generation facility located in Reeves County, Texas, designed to supply power to a major customer-operated data center.

Key Details of the Deal:

- Land Contributions: TPL provided surface acreage for the development in exchange for cash consideration.
- Water Rights: TPL secured the exclusive right to source and supply aquifer-derived water (brackish groundwater) for the power plant and associated infrastructure.
- Water Stewardship: Supplying brackish groundwater reduces the demand for shared, drinkable freshwater resources. TPL is also advancing solutions to reuse desalinated water produced during oil and gas operations.
- Broader Context: Project Kilby is a massive initiative—often associated with Microsoft—involving a planned 2.67-gigawatt power facility.

The CEO of TPL has publicly stated that annual revenues from a data center including not only land rent or sales but annual water purchases to provide air conditioning as well as electricity could be on the order of $120 million or more a year. TPL's current quarterly revenue is just short of $250 million. So, bear in mind the opportunities for TPL. I have long thought that data center revenues could in time be greater than the present oil and gas and related activities bring in. A couple of years ago I asked my friend Murray Stahl, who was the most brilliant person I have ever known in my life and sadly and very unexpectedly passed away in April, if he thought that was possible. He was an insider and answered unequivocally yes.

We have opportunistically implemented a covered call overlay strategy across several core equity positions, including Balchem, Bel Fuse, Mastercard, and Texas Pacific Land, in response to recent share price dislocation and elevated market volatility. This approach allows us to monetize higher option premiums driven by the recent increase in implied volatility, generating incremental income while maintaining exposure to these high-conviction holdings. The strategy is designed to enhance portfolio yield and provide a modest buffer against near-term downside. We view this as a disciplined way to take advantage of current market conditions without altering our long-term investment theses for these companies.

The current net proceeds received for the option sales so far in the first half of 2026 have been: $3,288,114.15. I apologize to all tax paying partners for purposely earning some short-term profits causing you to have to have some higher taxed material gains for the first time ever this year. Be assured we are *not* in any way altering our 44-year long-term investment strategy.

Over the years, I have written that I intend as always to let our flowers grow and only cut our weeds. There is no change there.

I would appreciate it if you would contact me by telephone or email if you have any questions to ask or comments to offer.

I wish you a great summer and all the best!

Warmly,

Larry

Lawrence J. Goldstein
(914) 833-0875 Office
(914) 262-9569 Cell