



For the third quarter of 2025, BAM's strategy returned 11.7% gross and 11.4% net of fees versus 12.6% for the Russell 2000 Value. For the prior 12 months, BAM returned 16.0% gross and 14.9% net versus 7.9% for the Russell 2000 Value.

Performance		Annualized Returns*						
		YTD	1Yr	3Yr	5Yr	7Yr	10Yr	Incept.
Ballast Portfolio ¹	Gross	6.9%	16.0%	17.2%	18.0%	10.1%	12.5%	12.5%
	Net	6.1%	14.9%	16.0%	16.8%	9.0%	11.3%	11.3%
Russell 2000 Value ²		9.0%	7.9%	13.6%	14.6%	6.4%	9.2%	9.2%
Alpha** (net of fees)		-2.9%	7.0%	3.2%	3.7%	3.7%	4.2%	4.2%

*Annualized 3-Year, 5-Year, 7-Year, 10-Year and (since Inception performance start date 10/01/15) returns reported through 9/30/2025.

** Presented as geometric, annualized cumulative excess return after fees.

A Quick Review of the Q

We significantly outperformed in early 3Q25, which bled off during the second half of the quarter. We think the initial returns were driven by great execution from the management teams of our holdings that surfaced during earnings reports in July and early August. As broadly experienced by other quality focused equity managers, a rally in low-quality companies created a stiff headwind.

We are confident fundamentals still trump sentiment and that protecting the downside drives superior compounding at our three-year investment horizon. We will see how it plays out during Q3 earnings season in the months ahead.

Our Latest Thinking

Although we only invest bottom-up, we still pay attention to macro and the world around us. The following points, elaborated below, are some of what we have been thinking about recently:

Things we are excited about:

- 1) **The Industrial economy.** We are bullish on companies with exposure to construction and capital investment supported by massive AI, power and reindustrialization investments supported by financial commitments from companies (U.S. and foreign alike), and the change in tax code permitting immediate capex expensing (reducing current taxes).

- 2) **Natural Gas.** Everyone is talking about the power requirements to feed all the new AI capacity coming on line. Less talked about is that the only feasible way to create new dispatchable capacity in the near term is with gas-fired generation.
- 3) **High-end consumer.** The wealth effect from this multiyear bull rally puts them in a great place to continue buying.

Things we are most worried about:

- 1) **Low-end consumers.** The combination of net deportation and lack of the '23/'24 era stimulus turned into a stiff headwind in '25 and is likely to persist heading into '26.
- 2) **Housing – specifically multifamily.** Much of the multifamily housing built the last several years was utilized by immigrants, which the change in immigration policy may turn into a headwind.
- 3) **Stuff reliant on China.** Despite significant stimulus thrown at the economy, China's GDP continues to struggle in dollar terms. We think its mercantilist system is unlikely to pull it out of the slump any time soon.

A potential catalyst for assets to flow out of AI stocks into other equities, particularly small cap value? Keep a careful eye on the first time one of the mega-cap companies investing in AI infrastructure misses its goal in an asset raising effort.

Forthcoming white paper teasers: Can private equity sustain its 30% valuation premium to a high-quality small cap portfolio given the asset class's illiquidity, opacity and manager-estimated valuations? How serious a risk is hidden leverage stacking? How lightly regulated private credit and equity entities, BDCs, and CLOs facilitate leverage ratios that would make a bank regulator cower in terror.

Now on to the nitty gritty...

What Excites Us

Companies linked to U.S. Capital Investment

Stated simply, the massive, expected capital investment over the next several years in the United States, coupled with spending from previous, Biden-era programs yet to be spent. The numbers are difficult to nail down, but we are talking about **incremental spending of between \$10 trillion and \$20 trillion in foreign direct investment between corporate and sovereign entities.** The balance of funds from the Infrastructure Act and the Inflation Reduction Act is another ~\$1 trillion. And the change in tax law from the Big Beautiful Bill that allows companies to expense capital investment rather than capitalizing the investment and amortizing/depreciating it over time is a huge incentive for companies to invest in capital

projects now rather than later. Some of this spending ought to trickle down to consumers through increased jobs and wages, but companies serving the Industrial economy should see the most direct benefit.

Natural Gas below \$4 is not compatible with AI Electricity Forecasts

If AI electricity demand projections are in the right ballpark, **Natural gas is unlikely to stay below \$4**, absent a significant new low-cost basin or LNG project curtailments. Prevailing natural gas prices are too low to hedge the capital needed to add enough wells to meet an estimated 25% increase in demand. Our gas related companies all have compelling investment cases at prevailing prices. Their leverage to higher prices is **a free option for BAM's portfolio companies**.

By now we assume most readers understand the huge demand for electricity that AI brings about, at least directionally if not with certainty. Incremental capacity estimates are mostly in the 100GW range. Natural gas-fired generation is the most practical solution in the short to medium term. To meet expected AI demand "if" these power needs were met exclusively by natural gas, supply would need to increase ~15 BCF/day. LNG exports under development add an incremental ~12 BCF/ day by 2030. **Adding 27 BCF/day (+25%) in 5 years is not trivial.**

Since 2010, the most production increased in any 5-year period was 22 BCF/day—and that was still early innings for Marcellus, Haynesville, Eagle Ford and Permian (associated gas). Maintaining current 105 BCF/day production requires significant ongoing investment just to offset natural decline rates. The Barnett, which sparked the shale revolution, peaked around 5 BCF/day but is just 1.5 BCF/day now. We will not speculate when other plays might be exhausted, but if/when that happens, the price of gas is likely to increase significantly.

Natural gas is the most practical solution to AI's electricity needs because: (1) it can be built quickly in smaller increments at relatively low cost per GW, (2) is nearly as cheap to operate as coal (but much cleaner), (3) it can cycle up and down fast. AI datacenters have significant changes in power demand and need their power supply to be able accommodate the rapid power fluctuations while maintaining >99.99% uptime.

Wind and Solar projects are not suitable at this scale without costly batteries, power electronics and redundant capacity to ensure adequate load following, even if prior subsidies were still in place. Coal is a viable solution for base load with capital costs in the range of \$3-4m/MW and operating costs a bit lower than gas, but it does not cycle as fast as needed to maintain grid stability. Mothballed plants may be restarted but increased pollution and CO2 emissions make greenfield additions a heavier lift.

Nuclear could add base load, but its scale, timing, capital cost and execution risk are considerable. The most recent new facility, built on a site already permitted, took 18 years and cost \$34b, considerably longer than the initial 11-year timeline and \$14b budget. That incremental 2.3 GW cost almost \$15 million per MW compared to around \$1.5m for gas. Nuclear does have lower operating costs per MWhr but even at \$5 gas to set the marginal price of electricity, payback would be more than 120 years. New projects are

likely to run more smoothly and cost less in the current environment, but execution risk is still significant, and the costs need to be cut by much more than 50%.

High-End Consumer Spending

No surprise here – the financial markets and asset prices continue to buoy the Haves and we do not see anything on the horizon likely to spoil that. **Even with the possibility of a significant pullback of the Mega Cap Tech stocks, demand for items of want appears rock solid at the moment.** Outside of something dramatic, like unrealized financial contagion stemming from something like Private Credit and the relationship with Banks, we would expect the high-end consumer spending to remain robust.

What worries us

The economic well-being of lower-income households is a stark contrast with the early post-COVID years. We believe the well-documented wealth and income gaps between haves and have-nots is likely to get worse, dragging on aggregate demand, before it can get better for several reasons:

- 1) Deportation shrinks the population, which immediately hits demand. Wage gains, where/if they arise, are second-order effects.
- 2) Less government stimulus: COVID-era policies like student loan and mortgage forbearance are done and it is hard to see much fiscal room or congressional interest for increasing transfer payments to consumers.
- 3) Until inflation comes down from its current 3% run rate, lower-end households are disproportionately more stressed.

Regardless of political and economic views on immigration policy, the immediate impact is less incremental demand for goods and services. Exact numbers are scarce, but with the border seemingly locked down and deportations stepped up, the U.S. likely went from 1-2 million migrants per year entering the United States during the previous administration to something close to zero today. In 2025 to date, roughly 2 million people were deported through active enforcement and self-deportation (according to the Department of Homeland Security).

Applying Maslow's hierarchy of needs, the most obvious impacts will include food/grocery stores, housing, and transportation. We have already seen two subprime dealers/lenders go bankrupt. Alleged fraud notwithstanding, it was probably inevitable for Tricolor because a large majority of its customers were migrants, many undocumented. We have also seen snippets of fraud and credit losses tied to multifamily housing via construction loans at regional banks. It may well extend to companies operating multifamily housing. We suspect this dynamic will be more pervasive in the coming quarters.



With respect to single family housing, FHA loans are now restricted to U.S. Citizens, which likely contributes to the new home supply/demand imbalance. The chart above shows a precipitous decline in the percentage of FHA loan locks (a proxy/precursor for closings) granted to non-permanent residents.

Housing, inflation and rates interaction

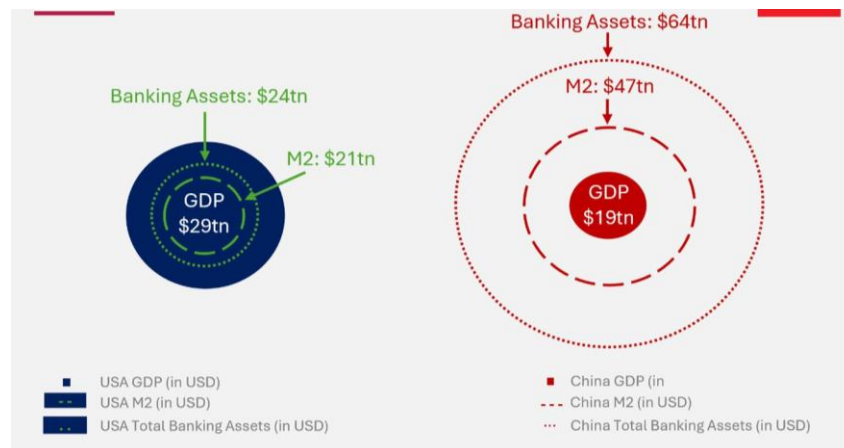
A related side point, **we are less concerned with new homes than with existing home sales for a couple reasons.** New homebuilders have gotten the memo on affordability and are dropping prices (either through interest rate buydowns or simply building smaller homes). That appears to be spilling over to existing homeowners with prices broadly softening throughout the United States. Falling prices are zip code specific, but the broad trend is clearly downward, especially in the Southeast where new home supply is quite bloated relative to recent demand. The good news is that two ways of fixing the affordability crisis are through the combination of reduced interest rates and lower prices. Notably, housing makes up 33% of the CPI calculation, so falling rental rates and housing prices, along with lower energy costs and a slumping jobs market, **likely gives the Fed all the cover it needs to continue lowering rates from here.**

Avoid Exposure to China

Tariffs are a significant headwind to Chinese exports that it hardly needs on top of its preexisting banking/leverage problems.

Why, despite multiple rounds of stimulus, does China's growth remain sluggish? Our best guess is the overvalued real estate market and troubled banking system continues to consume the stimulus. China's

banking system is the ultimate case study in “extend and pretend.” State-sponsored banks simply do not write off troubled loans in the same way as capitalist systems that eventually take their lumps allowing resources to move to more viable endeavors. The scale of this problem is clearly reflected in China’s ratio of banking assets to GDP, which dwarfs the U.S.



Source: [China's Gold Rush - by Michael Nicoletos](#)

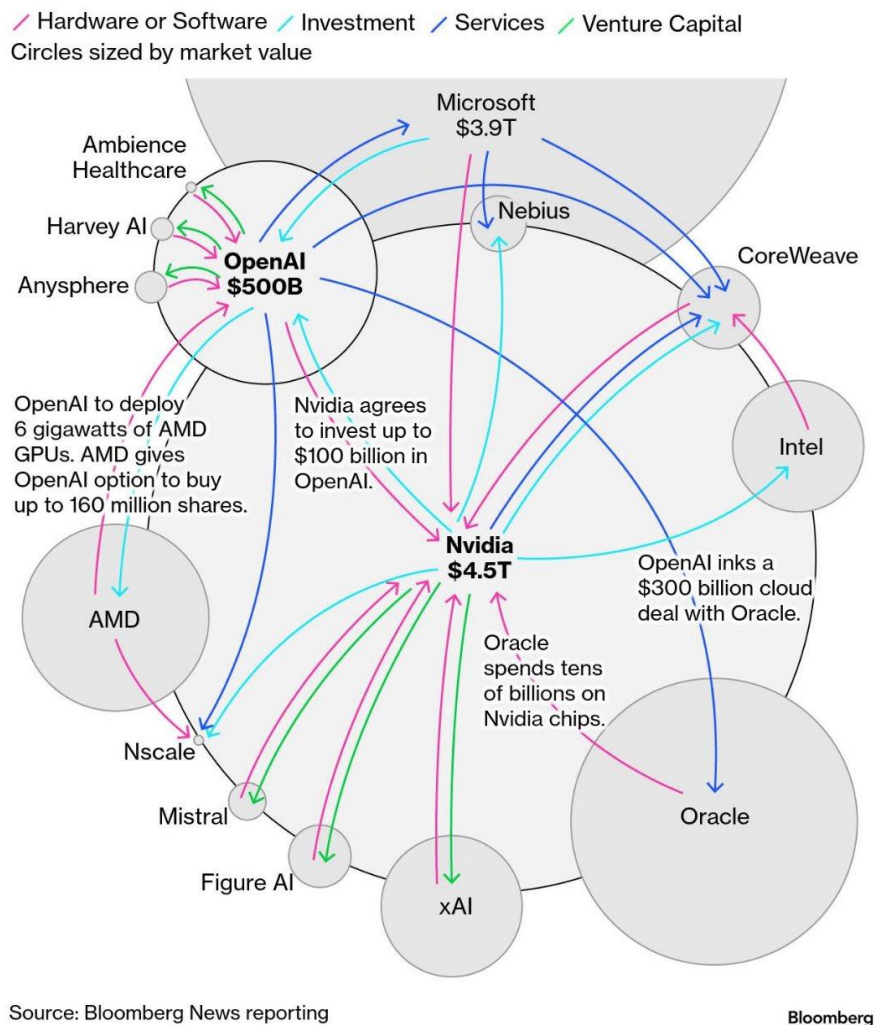
China’s mixed economy is predominantly mercantilist in orientation, with GDP dominated by capital investments and exports. In the short run, it must maintain exports or risk a supply/demand imbalance that could exacerbate the deflationary banking system impulses. Longer term, it could solve the problem by increasing domestic demand and curtailing incremental capacity additions. Xi Jinping understands that China needs structural changes to increase domestic consumption, but that likely takes a decade or more to move the needle. Meanwhile, democracies with advanced economies are largely united in shielding further deportation of manufacturing and technology transfer, with tariffs from the United States being the most obvious example.

AI Thoughts

We have two incremental thoughts on the AI landscape at the moment. The first is the exhibit below from a Bloomberg article on the incestuous nature of spending in the AI ecosystem and with Nvidia specifically. Those around during the Dot.Com bubble will recognize the similarity with Cisco, Juniper, Nortel, etc. We heard one AI proponent defend these practices as similar to auto manufacturers financing of auto dealers. That feels like a stretch. What we do know is that the source of liquidity has changed. The capital spent on these behemoth projects started from excess cash on Mega Tech corporate balance sheets, then to cash flow driven investment, then to equity capital investment and now increasingly debt.

We will leave the readers to determine whether the below is a form of equity investment or vendor financing. The point is that the “easy money” to invest in new capacity has been spent. While AI hype might continue to source ever-growing funds from VC, sovereign sources or other means, we believe this does point to a source of stress – the AI providers do not make enough off previous investments to fund incremental growth. ChatGPT is highly unlikely to fund their investment with consumer-based subscriptions at \$20/month. Ultimately, this needs to work in the corporate setting, where companies

realize enough tangible productivity gains to justify the ongoing cost and significantly higher monthly rates.



To be clear, we are not only strong believers in technology, but active users today. The problem with AI from our perspective is we just cannot trust it...yet. While it has certainly gotten better over the last year, it still hallucinates enough that we must physically verify any and all answers it gives us with source data. While fostering a counter argument at a cocktail party might not require such a level of verification, investing capital does. We read that ChatGPT had hired 100 investment bankers to train one of its LMMs. Theoretically this outcome could be to have an LMM that could take the place of analyst level/junior investment bankers – building models and pitch books. While the work hours required of these folks may have changed in the last 30 years, the three partners at Ballast, who have all worked at investment banks, doubt that senior-level folks’ disdain for mistakes in a deal model have changed.

The point is, AI will in all likelihood be a huge, long-term productivity enhancement tool that ultimately creates and destroys companies and industries, just like the internet did. However, the timeframe and rate of adoption that allows these companies to realize returns on these massive investments will likely

take a while, just like the internet did. In 1999, we had the Y2K event that turned off the IT spending spigot. **We think the seminal event for AI infrastructure spend to slow might well be a failed funding round, and the markets subsequent extraction of lower spending levels going forward that bring about multiple compression for the biggest players in the space.**

Portfolio Additions

Criteo (CRTL) is a company that we owned before but has sold off significantly this year on fears of AI's impact on search, despite fundamentals improving. Revenues have returned to growth and there is also an underlying mix shift ongoing, where higher margins businesses are growing significantly faster. Valuation shows a significant concern (15% FCF Yield) on sustainability while the balance sheet is in a net cash position. Additionally, the risk of Google eliminating cookies has been mitigated (part of the reason the position was sold, at the time we did not feel the market fully reflected this risk). As far as concerns about AI, we believe they are overblown, in fact there are already signs that AI platforms are trying to adjust the business model as they try to figure out a profitable business model and are experimenting in how to integrate advertising.

Mueller Industries (MLI) is a producer of copper tube, fittings, brass rods, HVAC components and electrical infrastructure/wiring. Mueller is vertically integrated and sources most of their material from scrap, which gives them a cost advantage. While not necessary to the thesis, the tariffs on competing products will likely serve as a tailwind to their business. The stock has been a good performer, valuation (9% FCF Yield) does not reflect the business mix changes that both reduce traditional cyclical exposure and improve the company's growth rate. The company maintains an incredibly conservative balance sheet with a significant net cash position.

ATN International (ATNI) operates two separate telecom businesses: one in the Caribbean, and one serving Alaska and rural southwestern U.S. It provides cable, fiber, wireless, carrier access, backhaul, towers and construction. Although slow-growing, capital-intense and seemingly overleveraged, it is so cheap ATNI could write off its entire domestic business with the related non-recourse debt, and still offer nearly 100% upside on the international business alone. ATNI has bought and sold several telecom assets over the years, but we are not relying on sum-of-the-parts for upside – winding down a major capex program should be an inflection point for free cash flow that we expect to approach a 20% yield at the current stock price. The Chairman's family owns 33% of the company, which we believe aligns management with shareholders.

Top Contributors and Detractors

In the third quarter, the portfolio underperformed the Russell 2000 Value by 90bps, returning 11.7% gross. Sector allocation was about 290bps contributor, more than offset by security selection.

The third quarter's top and bottom contributors are as follows:

Company	Ticker	End Weight	Total Return	Contribution	Company	Ticker	End Weight	Total Return	Contribution
Bel Fuse	BELFB	3.2%	44.5%	1.5%	Bioceres	BIOX	0.5%	-68.5%	-0.9%
Solaris Energy	SEI	3.2%	41.8%	1.4%	Carmart	CRMT	0.6%	-47.9%	-0.6%
Turning Point Brands	TPB	3.0%	30.6%	1.2%	Epsilon Energy	EPSN	1.3%	-30.9%	-0.5%
Climb Global Solutions	CLMB	5.2%	26.3%	1.2%	Fed Agri Mtg-C	AGM	2.8%	-12.9%	-0.5%
Composecure Inc.	CMPO	2.8%	47.8%	1.0%	Geo Group	GEO	1.7%	-14.4%	-0.3%

Regards,

Ballast Asset Management

Important Notes and Disclosures

The investment decisions we make for clients' accounts are subject to various market, economic, and other risks, and there is no guarantee that those investment decisions will always be profitable. Clients are reminded that investing in any security entails risk of loss, which they should be willing to bear. The past performance of the firm or its principal is no guarantee of future results.

Some information contained in this communication was obtained from third-party sources. While these sources are believed to be accurate, that information has not been independently verified.

¹Account returns are presented both gross and net of management fees. All account returns are net of transaction costs and gross of non-reclaimable withholdings taxes, if any, and reflect the reinvestment of dividends and other earnings. Monthly composite returns are calculated by weighting each account's monthly return by its relative market value. All returns are expressed in US dollars. **Past performance does not guarantee future results.**

The gross performance results presented do not reflect the deduction of investment advisory fees. Actual returns will be reduced by such advisory fees and other expenses as described in the individual contract and, where applicable, Form ADV Part 2A.

Net performance results do not reflect the deduction of investment advisory fees actually charged to the accounts in the composite but do reflect the deduction of a model investment advisory fee of 1.00%, which is the maximum advisory fee rate in effect for the respective time period. Actual advisory fees may vary among clients invested in the strategy. Returns for each client will be reduced by such fees and expenses as described in the individual contract and, where applicable, in Form ADV Part 2A.

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²The Russell 2000 Value Index measures the performance of the smallcap value segment of the US equity universe includes those Russell 2000 companies with relatively lower price-to-book ratios, lower I/B/E/S forecast medium term (2 years) growth and lower sales per share historical growth (5 years).

This presentation contains "forward-looking statements" which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "target," "project," "estimate," "intend," "continue" or "believe" or the negatives thereof or other variations thereon or comparable terminology. Because such forward-looking statements involve risks and uncertainties, actual results of Ballast Asset Management may differ materially from any expectations, projections, market outlooks, estimates or predictions (collectively, "Predictions") made or implicated in such forward-looking statements, and all Predictions contained herein are subject to certain assumptions. Other events which were unforeseen or otherwise not taken into account may occur; these events may significantly affect the returns or performance of any investment strategy. Any Predictions should not be construed to be indicative of the actual events which will occur.