



Performance		Yearly Returns					Annualized Returns*				
		2021	2022	2023	2024	2025	3Y	5Y	7Y	10Y	Incept.
Ballast Portfolio ¹	Gross	41.8%	-13.3%	18.6%	14.7%	8.3%	13.8%	12.6%	13.1%	12.5%	12.3%
	Net	40.4%	-14.2%	17.4%	13.5%	7.2%	12.6%	11.5%	12.0%	11.4%	11.2%
Russell 2000 Value ²		28.2%	-14.5%	14.6%	8.1%	12.6%	11.7%	8.9%	10.1%	9.3%	9.3%
Alpha** (net of fees)		12.2%	0.3%	2.8%	5.4%	-5.4%	1.1%	3.6%	3.2%	4.2%	3.8%

* Annualized 3Y, 5Y, 7Y, 10Y and since inception (performance start date of 10/01/15) returns reported through 12/31/25.

** Presented as geometrically as the annualized cumulative excess return after fees.

Performance Overview

In 2025, Ballast Asset Management's (BAM) small cap value strategy delivered a gross return of 8.3% and a net return of 7.2% after fees, compared to 12.6% for the Russell 2000 Value Index. Not an excuse, but it is hardly surprising we lagged—the unprofitable companies in the index returned 31%, besting the profitable companies by 2500bps. We have to tolerate lagging in years like 2025 because the history and math are unequivocal—from 2000-2025 profitable companies outperformed unprofitable ones, more consistently and with fewer severe drawdowns.

From 2000-2025, a portfolio of the profitable Russell 2000 value companies compounded 250bps per year faster than a portfolio of unprofitable companies, for a total return of 928% compared to 468% for the unprofitable stocks. Unprofitable companies outperformed profitable companies by more than 500bps in only five years, just once in back-to-back years, and the returns always mean reverted.

Managing the asymmetry of gain/loss math is an important part of striving for superior long-term returns. Our risk-first, bottom-up search for high-quality holdings that endure and thrive across market cycles is not rooted in conservatism—rather it is a prudent, historically justified, approach to compounding. You do not have to make it back if you do not lose it. Moreover, we believe our approach to portfolio construction enables us to go on offense while others reactively play defense. More below.

Outlook for 2026: Accelerating Growth

BAM anticipates stronger U.S. economic growth in 2026 than the market expects. Consensus real GDP growth was 2.1% at the end of 2025, but indicators suggest material upside. The Atlanta Fed's GDPNow model surged to 5.4% in mid-January 2026, and third-quarter 2025 GDP was revised to 4.4%, also ahead of expectations. As an aside, historically, when unprofitable companies

outperform this much, the economy is accelerating off the bottom of the economic cycle and/or due to stimulus, e.g. 2003, 2009-10 and 2020. Key tailwinds include:

- **Leading Indicators:** S&P Global U.S. Manufacturing PMI has signaled expansion for the better part of a year (preferred over ISM due to its U.S.-focused, diversified panel). The ISM PMI and commodity prices (oil, copper, steel) may also indicate global acceleration.
- **Federal incentives:** The OBBB (Omnibus Budget Reconciliation Bill) enables full first-year depreciation for 2026 capital investments, acting as an investment tax credit with compounding multipliers. Tax refunds are expected up \$150b from 2025, and weighted toward lower-income groups with higher spending propensity.
- **AI and Capital Investment:** Estimates for 2026 AI investment are in the range of \$600b (50% above 2025 levels), of which McKinsey estimates 15% goes for datacenter buildings. With related infrastructure, AI's \$30-40b alone could boost nonresidential construction by about 5% from \$740b in 2025. Increased manufacturing investment would be incremental.
- **Industry level indicators send confirming signals:** Dodge Construction Index jumped over 30% year-over-year, signaling a nonresidential rebound. Surveys of trucking, a leading indicator itself, show improving demand and rates.
- **Employment, Productivity and Inflation:** 2025 payroll growth was subdued at 0.4%, but construction and transportation could add 660,000 to 1.1m jobs. Wage growth hit 3.8% year-over-year, paired with 4.9% productivity gains and -1.9% unit labor costs—enabling higher wages without inflation.

We believe BAM's bottom-up portfolio has significant optionality to faster growth. We believe holdings such as Cavco, Donaldson, Eagle Materials, Landstar, and Terex will do fine in muted scenarios while offering substantial upside to faster growth via low valuations and high incremental margins.*

Risk Management Drives Longer-Term Compounding

Ballast Asset Management's risk-first approach has consistently delivered above-market multi-year returns, from inception and at 3, 5, 7, and 10 year horizons. Over the five years ending December 31, 2025, downside capture stood at only 75% (gross) while upside capture reached 91%—classic characteristics of a high-conviction, fundamental, quality-focused process that protects capital during stress and participates effectively in recoveries.

Avoiding catastrophic drawdowns is essential—the more you lose, the harder it is to get back to even. For example, the unprofitable companies gained 68% in 2003 after losing 34% in 2002, for a

cumulative return of 11% 2001-2003. The profitable companies only gained 40% in 2003, but returned 36% cumulative because they only fell 2% in 2002. In 2008, the unprofitable cohort lost 55% and took five years to get back to the 2007 level. The profitable companies fell 28% and regained the 2007 level in two years. For more on this, check out our piece on [Volatility Gremlins](#).

While we are optimistic, as always there are risks. Some of the less obvious include: (1) private credit, now \$2.5-3t, pressuring investor protections, visible in public markets and high profile defaults last year, (2) broker margin debt at a record, (3) hedge fund basis-trade grown to \$1.5 trillion, (4) reduced transparency and illiquidity in private credit, and (5) market structure changes that increase the risk of rapid, highly correlated sell-offs.

How Ballast Can Add Value to Diversified Portfolios

BAM's downside-first, quality-focused strategy diversifies extreme large-cap concentration, avoids outdated indexes misaligned with value creation, and delivers private equity-like returns with transparency, liquidity, and reasonable fees (no capital calls). Embedded risk management—via self-financing, high-return companies with 3:1 reward-to-risk ratios—mitigates behavioral biases. Portfolio diversification across industries, end markets, and drivers hedges unknowns, driving outperformance (e.g., lower downside capture).

Portfolio additions

AdvanSix (ASIX), a Honeywell 2016 spin-off, is one of the lowest-cost, vertically-integrated global producers of Nylon 6 and coproducts. Nylon 6 and caprolactam markets have been at trough levels for an extended period. Co-products like ammonium sulfate, which serve different end markets, protect the downside supporting reasonable margins and a strong balance sheet with leverage below 2x. Domestic orientation insulates it from tariff risks.

Even without a cyclical recovery, free cash flow is poised to increase more than \$60 million annually. That incremental alone is about 11% of market cap. It is nearing the end of a capital cycle for growth and efficiency upgrades, and will potentially earn carbon credits for capturing CO₂ from its processes.

Management is aligned with owners by long-term ROIC and short-term FCF/EBITDA incentive compensation performance metrics, which with improved cash flow at the bottom of the cycle should enable it to remain opportunistic even if Nylon 6 conditions remain subdued.

Regards,

Ballast Asset Management

*Inclusion of portfolio holdings is for illustrative purposes, and mention of specific holdings is not indicative of that holding's performance within the portfolio.

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.

Ballast Asset Management, LP claims compliance with the Global Investment Performance Standards (GIPS®) and has been independently verified for the period October 1, 2015 through December 31, 2020. Verification assesses whether (1) the firm has complied with all of the composite construction requirements of the GIPS Standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS Standards. The verification report is available upon request. Verification does not ensure the accuracy of any specific composite presentation. A list of composite descriptions is available upon request.

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.