



For the first quarter 2026, BAM's strategy returned 2.2% gross and 1.9% net of fees versus 5.0% for the Russell 2000 Value.

Performance		Yearly Returns					Annualized Returns*					
		2021	2022	2023	2024	2025	YTD	3Y	5Y	7Y	10Y	Incept.
Ballast Portfolio ¹	Gross	41.8%	-13.3%	18.6%	14.7%	8.3%	2.2%	12.7%	8.0%	11.7%	12.6%	12.2%
	Net	40.4%	-14.2%	17.4%	13.5%	7.2%	1.9%	11.6%	6.9%	10.6%	11.5%	11.1%
Russell 2000 Value ²		28.2%	-14.5%	14.6%	8.1%	12.6%	5.0%	13.8%	5.8%	9.1%	9.6%	9.6%
Alpha** (net of fees)		12.2%	0.3%	2.8%	5.4%	-5.4%	-3.0%	-2.9%	1.4%	2.4%	3.9%	3.2%

* Annualized 3Y, 5Y, 7Y, 10Y and since inception (performance start date of 10/01/15) returns reported through 03/31/26.

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

“In the short run, the market is a voting machine but in the long run, it is a weighing machine.”

– Benjamin Graham

The three partners at Ballast have been doing this a long time – roughly 30 years for each of us, in fact. We have experienced a lot of different market environments in that time, but this past quarter proved to be one of the most head-scratching/frustrating in our careers. Through mid-February, on the back of earnings reports for 2025, the Ballast portfolio was performing quite nicely (up about 13% as of February 15th). Most of our owned businesses were executing at or above our expectations, and the market rewarded that. And then, the war happened...

The fact that we were thrown a curveball is nothing new – that’s happened repeatedly throughout our careers, and **our portfolio construction and risk management specifically account for lack of certainty in future events**. What did leave us scratching our heads a bit was the stock price reaction for a large swath of our portfolio companies to an event that is unlikely to affect them – or at least to a much lesser degree than several businesses directly in the crosshairs of higher oil and shipping prices.

As one might expect, our Energy businesses fared quite well on an absolute basis (up ~32% during the quarter). **Unfortunately, our Energy exposure has significantly less “juice” than traditional E&Ps**, which represented one of the top three worst biggest detracting sectors for the quarter. The rewards-to-risks for most of our Energy companies are tied to idiosyncratic drivers, typically under management’s control, with much lower beta to commodity prices due to royalty structures, long-term contracts or hedged positions. As a result, despite a ~75% higher weight than the Russell 2000 Value, our Energy exposure significantly underperformed companies dependent on the double-edged sword of oil prices.

A couple of our Materials businesses performed quite well. Notably, Ecovyst (+32% in Q1 2026) and Advansix (+42% in Q1 2026) benefit from closure of the Strait of Hormuz restricting the supply of fertilizer

and sulfuric acid. Outside of that, best performers were stock/company-specific stories that continue to play out.

The other two big detractors were Healthcare and Consumer Staples – defensive sectors underperformed into a war...huh. In fairness, our biggest position in Staples is Turning Point Brands (TPB) – one of our best performing stocks in 2025 – sold off after announcing increased investment to drive faster growth, which the market apparently did not like. Notably, when the company reported Q1 earnings on May 7th, **the stock was up 13% on higher revenue growth** – go figure. Healthcare remains the most vexing sector. Unprofitable companies dependent on high-risk, binary outcomes dominated the stock market performance of profitable, recurring revenue, undervalued Healthcare companies.

The good news is, we have a proven 20-year-plus process and we have been through this before. While we certainly pick our heads up and recognize the world around us, we do not manage money using the market as our guide but rather relying on deep fundamental analysis that provides insight into where the puck is going.

Outlook

Outside of the complexities surrounding the war with Iran, the single biggest issue that seems to umbrella every business right now is of course AI. We have been asked a great deal about this – both how we are positively exposed and the potential risk – so we wanted to spend a minute discussing that here.

In terms of our positive exposure, we own several businesses that sell the picks and shovels, including:

- **Solaris Energy Infrastructure (SEI)** – Their now largest business line provides backup (and sometimes primary) power to AI datacenters through long-term contracts on the power generation machinery they provide, as well as maintenance and consulting services.
- **Bel Fuse (BELFB)** – a critical component supplier that provides much of the “plumbing” that makes high-density AI compute possible. Things like Power Conversion & Protection, High-Speed Connectivity and Networking components.
- **Climb Global Solutions (CLMB)** – a value-added distributor of emerging software/technology of direct relevance to AI including cybersecurity and high-speed data delivery that debottlenecks compute memory constraints.
- **Capstone Green Energy (CGEH)** – microturbines for distributed generation that when paired with an absorption chiller to convert waste heat to cooling are more fuel-efficient than ICE generators.

Climb is perhaps most interesting, especially because the stock sold off with all the software companies the market fears will become buggy whip manufacturers. Climb is a distributor – it gets paid for finding innovative software/technology and selling the heck out of it. Whether corporate network security,

datacenter load balancing or agentic AI from a disruptive start-up displacing legacy ERP systems, it makes no difference – someone needs to sell it.

The AI Risk

In terms of AI as a risk to existing companies, we put it in three buckets:

- **Commodities and Manual Labor** – Commodities are the most obvious – AI and robots cannot replace lithium, corn or natural gas. Labor-intensive industries might draw some argument, but we do not expect robots to hook up electrical wiring or crawl in attics to run water pipes anytime soon.
- **Companies that make/facilitate repetition** – These are the companies we think are most at risk. While the adoption curve and timeline remain unclear, this is where a massive amount of capital, management focus and agentic AI is squarely focused. Our modus operandi is to flat out avoid this area.
- **Companies that use AI to build bigger moats** – Herein lie the biggest opportunities in our mind – it's also where the fog of war is thickest and the proverbial baby has been thrown out with the bathwater. Companies with unique value propositions and dominant market share can use AI to widen their competitive moat through innovation or simply driving down costs. We get into a few of those names below.

Some Potential Winners

We added several positions lately that fit squarely into bucket #3 – companies we believe will benefit from the AI transition, but that either 1) are grouped into industries/sectors being sold by investors wholesale reducing exposure/outright avoiding the risk altogether or 2) the market believes are at risk but our research indicates the opposite. The first bucket is perhaps easiest to explain – simply do the work to separate the wheat from the chaff – something we have done often throughout our careers when market sentiment turns negative on entire industries due to risk (e.g., Healthcare companies during the debate on the Affordable Care Act during the Obama Administration or Energy companies during the COVID lockdowns). We often find unique, inexpensive businesses in those times that get undeservedly left for dead.

The second group can lead to more debate, but is also where our experience, due diligence and framework for seeking out asymmetric Reward-vs-Risk situations comes into play. Will we be right on all of these? Almost certainly not, and that is not the goal. The objective is to control the downside risk when we are wrong and capture the outsized upside opportunity when we are right. We give a couple examples below.

SPS Commerce (SPSC) – provides mission-critical vertical supply chain infrastructure for the retail industry. They connect over 115,000 trading partners, suppliers and retailers, creating **both a network and logistical lattice** that we believe would be difficult for an AI agent to replace. As stated above – this

is mission-critical to their customers, integrated into their customers and suppliers' systems and workflows. It is relatively inexpensive, and it just works. As my father always told me: "If it ain't broke, don't fix it."

Doximity (DOCS) – the leading digital platform for U.S. medical professionals. Think of it as the LinkedIn for the Healthcare industry. It's free to clinicians and includes a professional networking tool, curated newsfeed, productivity tools, and career management features. Notably, 85% of all U.S. physicians subscribe to it, along with 95% of graduating med school students. In addition to the productivity features above, Doximity has its own GPT (DoxGPT) that is a HIPAA-compliant AI assistant for clinicians. Think of an LLM whose source data are clinicians, hospitals, medical research journals, and pharmaceutical companies (i.e., not Reddit).

AI will be an existential threat for companies with management that put their heads in the sand. However, it is also an opportunity to widen the moat, to make their solutions cheaper, more efficient, easier to use and harder to go without. More than ever, we think identifying good management is crucial, especially at small companies which are often nimbler and where AI can be a big force multiplier.

Obvious winners are typically already priced for success, but there are likely to be a few idiosyncratic bargain winners among the value traps. For example, companies that already have the customers, are embedded in workflows and have high labor costs may see revenue growth slow, but profit growth may not if it leverages AI to remove costs and it only passes *most* of the savings through. In some cases, the competitive barriers may get so high that the companies get double leverage – prices go up and their costs go down.

Candidly, these are situations that could experience choppy stock movements in the near term as this all gets sorted out. That can be painful for those that look at performance day to day or month to month, and therein lies an opportunity for time arbitrage. We take a minimum of a 3-year view on businesses we invest in, and so long as the downside is moderate, we are willing to allow stock prices to oscillate when we believe the upside is material enough to overwhelm short-term volatility.

Portfolio Additions

SPS Commerce (SPSC) – SPS Commerce, Inc. is a leading provider of cloud-based supply chain management solutions, primarily focused on intelligent integration and automation for trading partners in retail, grocery, distribution, manufacturing, and logistics. The core platform is a multi-enterprise network that enables Electronic Data Interchange (EDI), fulfillment, analytics, and collaboration tools to streamline order processing, inventory management, invoicing, and compliance across complex supply chains. ***The company connects over 115,000 trading partners (as of recent updates), with a heavy emphasis on the retail ecosystem where accurate, real-time data exchange is essential for omnichannel operations.*** SPS operates as a "network effect" business: value increases as more participants join, creating high switching costs and stickiness.

The company offers mission-critical vertical supply chain infrastructure with exceptional recurring revenue visibility and defensiveness; current sell-off appears disproportionate to ***fundamentals tied to physical retail/logistics volumes rather than discretionary SaaS spend.***

SPS Commerce delivers reliable, scalable automation that reduces manual errors, accelerates transaction cycles, improves visibility, and ensures compliance with retailer mandates (e.g., EDI standards from Walmart, Target, Amazon, etc.). For suppliers/brands, it simplifies connectivity to hundreds of retailers without custom integrations; for retailers, it provides aggregated insights and efficient onboarding of suppliers. The platform's intelligence layer (analytics, forecasting, exception management) helps prevent stockouts, overages, and chargebacks – directly impacting working capital and margins in a high-volume, low-margin retail environment.

Capstone Green Energy Holdings (CGEH) manufactures microturbines for on-site power generation. Founded in 1988, with early backers including Bill Gates, Paul Allen, Ford and NASA. Its microturbines are proven, field-tested technology that can achieve higher efficiency than ICE generators in combined heat and power applications, with lower operating and maintenance costs because it has far fewer wear parts. The microturbines are also well suited for urban environments due to low noise and favorable NOx emissions. Each microturbine installed adds a long-term service contract to its book of recurring, higher-quality revenue. It already has an installed base of over 10,000 microturbines representing roughly a gigawatt of distributed power capacity.

A new, commercially oriented CEO with manufacturing and marketing experience from Trane led Capstone's emergence from bankruptcy in January 2025. Prior management had failed to adapt when the expected market for CHP evaporated during the housing bust, eventually leading to bankruptcy in 2023. The new CEO has led a focused, operational turnaround that has driven gross margins from single digits to 30%+ and EBITDA margins from less than zero to about 15%. New management has also been cleaning up the balance sheet.

The base business offers an attractive asymmetric reward to risk, with biotech-like upside optionality without the binary downside. Although we viewed it only as upside optionality, datacenters are the perfect use case for microturbines when paired with absorption chillers to convert exhaust heat to cooling. Capstone can currently deliver ~40MW annually but has capacity to scale to ~350MW. For context, edge datacenters need about 100MW and hyperscalers approach 1GW (1,000MW). Even a single-edge computing deployment would be transformative.

Performance Attribution

In the first quarter of 2026, the portfolio underperformed the Russell 2000 Value, returning 2.2% gross and 1.9% net (about 300bps behind the index). Sector allocation was about 400bps tailwind, but more than completely offset by security selection, notably in energy as discussed above.

Top Contributors		Avg	Total	CTR
		Weight	Return	(BPS)
Kosmos Energy	KOS	0.8%	206%	154
Nat. Resource Pts	NRP	5.0%	17%	80
Bel Fuse	BELFB	3.3%	17%	79
Ecovyst	ECVT	2.5%	32%	77
IPGP Photonics	IPGP	1.1%	60%	65

Bottom Contributors		Avg	Total	CTR
		Weight	Return	(BPS)
Climb Global	CLMB	4.0%	-23%	-83
Collegium Pharma	COLL	2.4%	-29%	-63
Turning Point Br	TPB	3.3%	-20%	-62
Quidelortho	QDEL	1.3%	-42%	-61
Resolute Holdings	RHLD	1.5%	-40%	-57

Regards,

Ballast Asset Management

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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.**

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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).

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