For the second quarter of 2026, BAM's strategy returned 12.8% gross and 12.6% net of fees versus 17.2% for the Russell 2000 Value. Year-to-date through June 30, the portfolio returned approximately 15.3% gross and 14.7% net versus roughly 23.1% for the index.

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%	15.3%	14.9%	9.0%	13.5%	13.7%	13.2%
	Net	40.4%	-14.2%	17.4%	13.5%	7.2%	14.7%	13.8%	8.0%	12.4%	12.6%	12.0%
Russell 2000 Value[2]		28.2%	-14.5%	14.6%	8.1%	12.6%	23.0%	18.7%	8.2%	11.4%	11.0%	11.0%
Alpha** (net of fees)		12.2%	0.3%	2.8%	5.4%	-5.4%	-8.3%	-7.2%	-0.4%	1.9%	3.9%	2.7%

* Annualized 3Y, 5Y, 7Y, 10Y and since inception (performance start date of 10/01/15) returns reported through 6/30/26.

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

The second quarter delivered solid absolute returns for the Ballast portfolio. While we lagged the Russell 2000 Value on a price basis, our holdings continued to execute well and performed meaningfully better than the broader index on a fundamental basis.

On an adjusted EPS basis, 73.9% of portfolio companies with consensus estimates beat expectations, compared with only 64.6% for the Russell 2000 Value. The portfolio's weighted-average EPS surprise was +10.3%, in sharp contrast to the index's -2.7% (the index figure was pulled negative by a handful of large-weight misses). Median surprises were similar (+7.2% vs. +6.5%), indicating that the typical company in both universes beat by a comparable margin, but our weighting favored stronger beats while the index's weighting favored misses. Year-over-year, the portfolio's weighted-average adjusted EPS growth of +79.6% roughly doubled the index's +39.6%. On a median basis the two groups were essentially in line (+14% for the portfolio vs. +15.1% for the index), confirming solid underlying earnings momentum across our holdings.

Our companies earned 16% ROE over the last 12 months compared to just 1.2% for the index despite substantially less leverage – only 71% Debt/Equity and 0.8x Net Debt to EBITDA for our companies compared to 115% and 5x for the Russell 2000 Value. Our stocks are also cheaper, trading at 13x consensus earnings compared to the index at 23x. More importantly, consensus earnings imply 20% ROE for our companies over the next 12 months compared to 7% for the index. This matters because stocks should not outperform the underlying returns to the businesses once they have closed the discount to intrinsic value.

Our process and people have not changed. The businesses we own are compounding real economic value faster than the index, starting from a cheaper base, with better balance sheets and strong competitive positions to ensure staying power. As with past beta rallies, we are confident our returns will mean revert when the tide starts to go out.

AI Compute Spending and the Russell 2000 Value

AI-related capital spending, especially around compute infrastructure, was a notable driver of Russell 2000 Value performance in Q2. The relentless build-out of data centers, power systems, high-speed networking, and supporting construction activity lifted a range of small- and mid-cap suppliers. Some of these companies are legitimate, cash-generative businesses with durable demand; others are more speculative, thinly capitalized, or only tangentially linked to actual compute deployment. The index's heavy weighting toward unprofitable or marginally profitable names amplified the effect: When capital is flowing freely into AI infrastructure, even lower-quality equities can re-rate sharply on the promise of future volumes.

This created a headwind for quality-focused strategies. Our process deliberately avoids the most speculative end of the spectrum – companies whose valuations rest primarily on narrative rather than current cash flows or proven unit economics. As a result, we participated in the theme through more measured exposures but did not fully capture the upside of the highest-flying names. We have seen versions of this movie before. Periods of intense capital spending often produce temporary outperformance by lower-quality participants; history suggests that when the spending pace inevitably moderates or when financing conditions tighten, those same names experience disproportionate drawdowns.

The principal risk around the current AI-compute boom is precisely this overbuild and subsequent digestion phase. Mega-cap technology companies continue to announce large capital budgets, but the first meaningful miss on fundraising or a slowdown in deployment could trigger a rapid reassessment of demand forecasts. At that point, the speculative layer of the Russell 2000 Value would likely underperform most severely. We monitor this closely, not because we expect an imminent collapse, but because our portfolio is constructed to withstand it.

Users of AI as the Longer-Term Beneficiaries

Over a multiyear horizon we believe the largest economic gains from AI will accrue less to pure compute providers and more to the companies that successfully embed AI into existing products, services, and workflows. Infrastructure spending is necessary and currently very large, but it is ultimately a means to an end. The enduring value will be created by businesses that already possess customer relationships, proprietary data, domain expertise, and high switching costs – and that can use AI to lower their own costs, improve their offerings, and widen competitive moats.

This is where Ballast is deliberately positioned. We own a combination of "picks-and-shovels" businesses that supply critical components and power to the build-out, alongside a set of high-quality operating companies that we expect to be net beneficiaries as AI tools become practical and widely adopted. The latter group is particularly attractive because many of these stocks have been treated by the market as if they are at risk of disruption, creating valuation opportunities. In reality, their entrenched positions and data advantages make them more likely to leverage AI than to be displaced by it.

Bel Fuse (BELFB) designs and manufactures critical electronic components – power conversion and protection modules, high-speed connectors, and magnetic components – that sit at the heart of high-density AI compute racks and networking equipment. As server power densities rise and data-center operators demand greater efficiency and reliability, Bel's products become more rather than less essential. The company already generates solid free cash flow, maintains a conservative balance sheet, and has a long history of adapting to successive technology cycles. We view its current valuation as still reflecting only modest credit for the multiyear AI infrastructure wave, while the downside is buffered by its diversified end markets and established customer base.

Solaris Energy Infrastructure (SEI) provides mobile and modular power-generation solutions, increasingly under long-term contracts that supply both primary and backup power to AI data centers. Management has successfully pivoted a substantial portion of the business toward this higher-visibility, higher-margin opportunity. Because data-center operators require extremely high uptime and rapid deployment, Solaris's ability to deliver and maintain generation capacity on short notice is a genuine competitive advantage. The contractual nature of much of the revenue reduces commodity-price sensitivity relative to traditional energy producers and gives us confidence that the company can compound value even if the broader AI spending narrative experiences periods of digestion.

Criteo (CRTO) operates a leading advertising platform that helps retailers and brands deliver personalized performance marketing at scale. AI is already core to its business – powering real-time bidding, product recommendations, creative optimization, and audience targeting across a large first-party data network. As AI models improve, Criteo's ability to turn retailer first-party data into higher-ROI advertising should strengthen rather than weaken, particularly in a privacy-centric, cookie-limited environment. The company generates consistent free cash flow, maintains a net-cash balance sheet, and continues to expand its retail-media footprint. We see it as a clear long-term beneficiary of AI applied to commerce rather than a compute play, yet its current valuation does not fully reflect that trajectory.

Holdings Pressured by AI-Related Fears

A distinct and interesting subset of our portfolio consists of companies that were penalized during the quarter (and in prior periods) because the market grouped them with businesses perceived to be at risk of AI disruption – or simply misunderstood how AI is likely to interact with their models. In several cases the opposite is true: These companies are more likely to use AI to reinforce existing advantages.

Climb Global Solutions (CLMB) is a value-added distributor of specialized software and technology solutions, including cybersecurity, data-management, and emerging AI-related tools. The stock has repeatedly sold off alongside pure software names when investors fear that generative AI will render large categories of software obsolete. That framing misses the point. Climb does not write the software; it sources innovative products and sells them effectively into enterprise and mid-market channels. Whether the next wave of tools is traditional software or AI-native applications, someone still needs to distribute, implement, and support them.

We have seen similar dynamics in other holdings whose peer groups or surface-level descriptions invite AI-disruption narratives. In each case our research indicates that network effects, workflow integration, domain-specific data, or distribution advantages make displacement far harder than the market assumes – and often position the company to adopt AI as a force multiplier. These temporary sentiment overlays are exactly the kind of misunderstanding our process is designed to exploit.

Broader Outlook

Beyond the AI theme, the economic backdrop remains constructive. Leading indicators in manufacturing, industrial production, and private nonresidential construction continue to point toward acceleration. Immediate expensing of capital investment, residual spending from earlier infrastructure legislation, and announced foreign direct investment commitments all support tangible activity in the industries where many of our holdings operate.

Risks persist. Lower-end consumers face ongoing pressure, certain multifamily housing segments could soften, and China-related supply chains remain a source of uncertainty. Financial-system leverage – visible in margin debt, basis trades, and the rapid growth of private credit – continues to elevate the probability of sharp, correlated drawdowns when risk appetite shifts. None of these risks is new to us; they are precisely why we emphasize balance-sheet strength, diversified real-economy drivers, and a disciplined sell process that removes ego from exit decisions.

Our process is unchanged. We begin with downside analysis, require a minimum 3:1 reward-to-risk ratio, document the handful of critical theses that must remain valid, and construct the portfolio so that no single macro outcome can inflict permanent capital loss. That framework has allowed us to compound capital attractively across very different market environments while capturing less of the downside than the Russell 2000 Value. We see no reason to deviate from it now.

Performance Attribution

In the second quarter of 2026, the portfolio underperformed the Russell 2000 Value, returning 12.8% gross and 12.6% net (about 460bps behind the index). Sector allocation was about 70 bps tailwind, but more than completely offset by security selection, notably in technology being the entire net driver of security selection. The Technology sector of the Russell 2000 Value increased by an eye-popping 78% while the portfolio's holdings increased by 36%. The AI speculative fervor in the market to try to find the next bottle neck within the AI ecosystem in efforts to find the next multi-bagger. While some of these companies may grow significantly and justify the stock prices, there is a heavy dose of "hopium" priced into these stocks. We focus on buying companies where the business as it stands today provides, at a minimum, support to the price when we invest. Additionally, the portfolio's exposure to energy given the complicated dynamics surrounding the Strait of Hormuz was a drag on performance. The shortages that were expected have failed to play out and the consensus view that the Strait of Hormuz situation is always on the cusp of re-opening, caused a significant sell off in energy related commodities. While our overweight position in Energy cost the portfolio 200 bps, stock selection was positive resulting in a net drag of 150 bps. Oil prices fell from over $100/bbl to $70/bbl. In addition to the impact on Energy stocks the belief that the Strait of Hormuz situation also impacted a number of Materials names in the portfolio. Notably, gold in the quarter fell to 4,700/oz to 4,000/oz. It is thought that many of the Middle East countries used gold as a source of liquidity and pressured the price. Overall the Materials sector was a 150 bps performance drag split between allocation and selection. Looking forward, we do believe that the Strait of Hormuz situation will drive a modest structural shift as many countries may have been awakened to the risk and that the path to normalization will take longer than current consensus expects. Notably we believe that at a minimum many countries may be hesitant to reduce their exposure to coal, invest in storage of at-risk commodities, and diversify supply sources of LNG. The portfolio was already positioned in a manner that will benefit from this potential change as we believed even before this conflict the companies represented good value.

Top Contributors	Ticker	Avg Weight	Total Return	CTR (bps)
Geo Group Inc	GEO	2.78%	75.79%	175
Bel Fuse	BELFB	2.63%	68.27%	142
Consensus Cloud Solutions	CCSI	2.03%	60.70%	104
Extreme Networks	EXTR	1.34%	114.66%	104
Bruker Corp	BRKR	1.65%	66.76%	91

Largest Detractors	Ticker	Avg Weight	Total Return	CTR (bps)
Natural Resource Partners	NRP	4.93%	-19.25%	-109
Kosmos Energy	KOS	2.35%	-24.10%	-55
Core Natural Resources	CNR	1.84%	-23.51%	-54
Patrick Industries	PATK	1.97%	-18.76%	-46
Genpact	G	1.26%	-25.74%	-41

We remain available to discuss any aspect of the portfolio or our thinking in greater detail.

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.

[1]Account 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.

[2] The 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).

Indices are shown for informational and comparative purposes only. An Index is unmanaged, does not reflect transaction costs, management fees, or other expenses (which would reduce returns), and cannot be purchased directly. An Index's composition may differ materially from how a portfolio is constructed – including holdings, guidelines, restrictions, sectors, correlations, concentrations, volatility, and tracking error, all of which may change over time – and no representation is made that any portfolio will track or reflect any Index shown.

The specific securities discussed in this letter are presented for illustration only and do not represent all securities purchased, sold, or held in client accounts. They should not be considered a recommendation to buy or sell any security, and it should not be assumed that investments in the securities identified were or will be profitable. A complete list of holdings and the methodology used to calculate contribution to return are available upon request.

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. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. A GIPS composite report can be obtained by calling 469-502-3652.

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