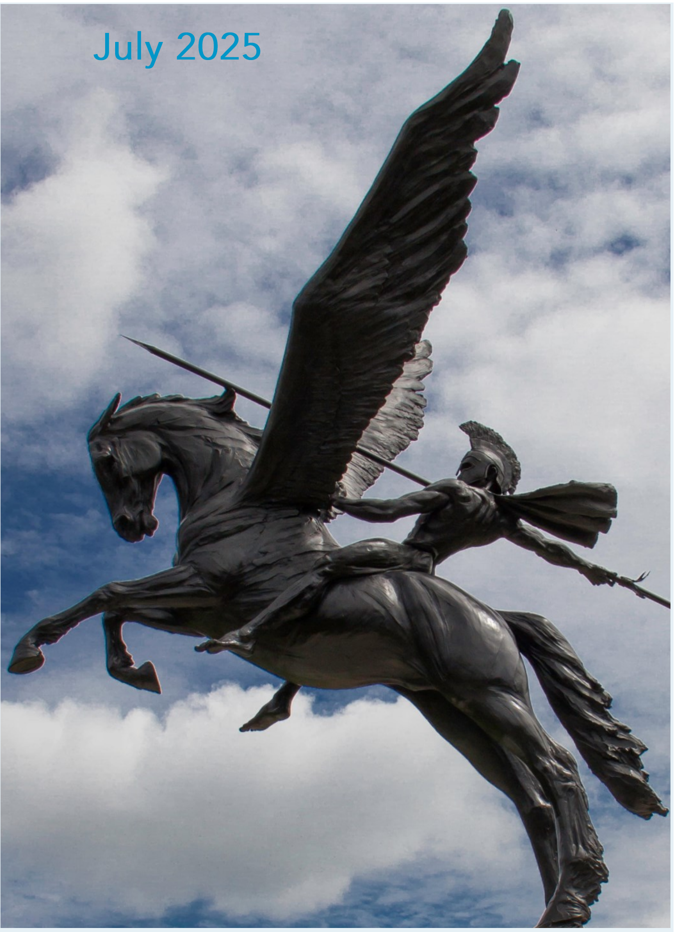
July 2025



Belleros Capital Management

The Passionate Investor

2Q2025 Market Review and Commentary

Market Review *

- *Stocks **outperformed** fixed-income markets with the Russell 3000 climbing 11.0% (including dividends) and the Bloomberg U.S. Aggregate Bond index rising 1.2%.*
- *Small caps were weak(er) relative to large cap stocks as the Russell 2000 rose a less sanguine +8.5%, while the S&P 500 increased 10.9%.*
- *Growth **underperformed** Value during the quarter (as determined by the Russell 3000 market index which includes large, mid, and small capitalization stocks).*
- *International or developed, non-U.S. equity markets (as determined by the MSCI EAFE**) **outperformed** U.S. markets in U.S. dollar terms (+11.8%).*
- *The MSCI Emerging Markets Index **outperformed** developed, non-U.S. equity markets (international) in U.S. dollar terms (+12.0%).*

** Unless otherwise noted, performances stated above reflect data provided by Standard and Poor's, Russell Investments, NASDAQ, MSCI, and Barclay's Capital.*
*** The MSCI EAFE Index is a large capitalization, developed market benchmark that tracks non-U.S. or international equity markets.*

Quarterly and Year-To-Date Performance

Index	QTD	YTD
S&P 500 (Large Caps)	10.9%	6.2%
S&P 500 Equal Weight	5.5%	4.8%
Russell 2000 (Small Caps)	8.5%	-1.8%
Russell 3000 (All Caps)	11.0%	5.8%
NASDAQ	18.0%	5.9%
Bloomberg US Aggregate Bond Index	1.2%	3.9%
MSCI EAFE (USD)	11.8%	19.5%
MSCI Emerging Markets (USD)	12.0%	15.3%

Source: FactSet

Inside this issue

Tim Hai, CFA®, CAIA®

“Risk is not inherent in an investment; it is always relative to the price paid. Uncertainty is not the same as risk. Indeed, when great uncertainty – such as in the fall of 2008 – drives securities prices to especially low levels, they often become less risky investments.”
— *Seth Klarman*

Company Description

Belleros Capital Management actively manages direct stock portfolios on a fully discretionary basis for institutional clients. Our primary goal is to help them outperform their benchmarks by exploiting short-term market inefficiency through a long-term investment strategy that produces investment portfolios that are differentiated in nature and is concentrated in its number of holdings. The strategy seeks to invest in the stocks of quality companies at a price that is sufficiently below our calculation of its intrinsic value. Additionally, the strategy is all capitalization in nature but tends to have a small and mid-capitalization bias that we believe is secular in nature.

Market Commentary

Stocks fell briefly into bear market[1] territory last quarter as the Trump administration followed through on its election-year promises to renegotiate trade terms globally. Volatility surged after the administration officially announced its Liberation Day as the start of a negotiation period between the U.S. and its trade partners. A second, albeit short “war” between Israel and Iran (with support from the United States) added to stock market volatility and global instability, especially in the oil/energy markets. A weakened economic outlook, negotiations in congress for a spending bill that was projected to cost several trillion dollars (adding to an already high level of debt nationally), and a country downgrade by Moody's helped the U.S. dollar fall more than 10% in value (its quickest pace of decline in 50 years; see HERE).

However, a few things occurred to help the stock market recover from its lows by quarter-end. Several countries successfully lobbied a pause in tariffs[2], which was viewed by many as a sign of wavering by the administration (and hope that the worst-case scenario for tariffs wasn’t a strong possibility). The predicted economic weakness also failed to materialize during the quarter as the biggest concerns with respect to tariffs collapsed. The quick end to the Israel/Iran war also added levity later in the quarter. Benign inflation and unemployment data outweighed a widely expected slowdown in gross domestic product (“GDP”)[3], as imports[3] rose due to pre-tariff inventory stocking. Perhaps the biggest contributor to the stock market rebound was the strength in quarterly earnings as reported by businesses.

[1] A bear market occurs when the index in question falls by 20% from its previous high.
[2] Tariffs are taxes or “duties” imposed (by the host country) to manipulate the level the imports of foreign goods and products coming into the country. Additionally, tariffs generate revenues for the host country and may be used to protect home grown or manufactured products that are deemed to be at an unfair disadvantage relative to imported goods. Tariffs are sometimes imposed in retaliation for another country’s imposition of a tariff.
[3] GDP is a measure of economic strength (or weakness) and imports are consumer goods and/or services that are purchased from outside the country. Rising imports functions as a detractor to GDP in its calculation.

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Market Commentary…(Cont.)

Technology stocks (i.e. the NASDAQ) rose 18% and domestic large caps (i.e. the S&P 500; +10.9%) experienced the biggest swing from highs to lows and back to highs – all in the same quarter. These stocks outpaced most other asset classes including bonds (the Bloomberg US Aggregate Bond Index; +1.2%) and smaller company stocks (the Russell 2000 index; +8.5%). Globally, the MSCI EAFE and MSCI Emerging Market indexes returned +11.8% and +12.0%, respectively, outpacing U.S. stocks in dollar terms. These stocks were heavily influenced (positively) by the falling U.S. dollar (which benefits international investing after accounting for currency movement).

Case In Point

We mentioned last quarter (read it HERE) that the stock market is generally inefficient as evidenced by high volatility in absolute and relative terms (to bonds). It oftentimes exhibits excessive volatility. Stocks routinely enter corrections4 and bear market territory (there have been 27 corrections over the past 50 years alone!). There have been three bear markets since 2020. The 2020 COVID bear market lasted 33 days in length. The 2022 inflation/Federal Reserve -induced bear market lasted 282 days. Last quarter's bear market lasted a paltry 127 days. All three of these bear markets were of shorter duration than the average bear market which lasts (roughly) 300 days (read it HERE). This suggests that corrections and bear markets may be more "ordinary" and commonplace, than "extraordinary" and rare.

[4] A correction occurs when the index in question falls by 10% from its previous high.

"In the short run, the market is a voting machine but in the long run, it is a weighing machine."
— Benjamin Graham

Investment Philosophy

Market Efficiency (or Inefficiency)

Stocks are inherently volatile assets due to the sheer number of participants involved, the diversity of their motives, and the wide range of emotions they employ. Stocks are frequently prone to excessive volatility when emotions particularly run hot. We believe this excessive volatility is a sign of short-term stock market inefficiency. However, we believe the stock market is more efficient over the long-term as rational investment behavior reasserts itself. Similarly, excessive volatility causes the market prices of stocks to deviate from their intrinsic values.

As time progresses, the market prices of stocks generally return to their intrinsic values. We believe that stock market inefficiency as represented by excess volatility is exploitable and represents an opportunity for profit. In our experience, excessive volatility can and does extend to all manner of companies and stocks. Even the best companies and their stock can be affected by stock market inefficiencies and come to exhibit excess volatility, creating exploitable investment opportunity for the astute investor.

"We steer clear of the foolhardy academic definition of risk and volatility, recognizing, instead, that volatility is a welcome creator of opportunity"
— Seth Klarman

Investment Philosophy

The Main Source of Risk to Long-term Investors

Belleros Capital Management believes that the investment community's definition of risk as volatility is inappropriate and generally does not apply to all participants. Although the effects of volatility can be particularly disastrous to investors that have near-term income or liquidity requirements, long-term investors can and should be less constrained by it. As opposed to gambling or speculation, we believe that investing is by definition a long-term strategy.

We believe that stock market volatility is a source of investment opportunity for long-term investors, especially when it is excessive. Investors with a strategy to benefit and exploit stock market inefficiencies and excessive volatility should therefore concern themselves with (and try to avoid) greater risks such as a permanent loss of capital, the risk of outliving one's wealth, or the failure to meet their long-term investment and retirement goals.

Lesson Learned?

What lessons can we draw from this? For one, the stock market is not as efficient as we have been led to believe by passive investors and market efficiency experts. Stocks are volatile and at times, excessively so. This represents an opportunity (but not guarantee) to add value over the long term. Fees and conflicts of interest (e.g. over diversification) are realistic concerns for those who wish to generate value add from their investments over the long term. However, investors who can minimize these issues may be in a good position to succeed over the long term.

Ill Timing

The other lesson, perhaps, is that market timing is quite difficult to get right on a consistent basis. Market timing involves taking action to avoid a stock market decline and getting back in (the stock market) quickly enough to benefit as stock prices rebound. A long stock market correction or bear market may allow enough time for some market timers to benefit from each side of the trade. More than likely, the timing will not be perfect. Then, it's wash, rinse, and repeat. The process starts all over. Getting it consistently right is difficult because outcome is almost purely based on luck (in our opinion). Unfortunately, for most people, there is great potential for a permanent loss of capital (as stocks are sold into a falling market) and even higher opportunity costs as stocks go back up.

The short duration of corrections and bear market suggests that the strategy has an even lower probability of success over multiple cycles. Market timers probably enjoy a few triumphs from time-to-time. However, like a casino in Las Vegas, the house usually always wins.

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Closing Remarks

The stock market was quite volatile during the quarter. In a return to fashion, balanced or diversified portfolios that had similar exposures to stocks and bonds performed well (as historically expected). Recall that in 2022 however, as inflation soared near forty-year highs and interest rates were increased by the Fed to over 5% (from less than 0.25%) in a quite short-period of time, these hybrid portfolios failed to offer safety from their bond exposure. The ubiquitous 60/40 portfolio (60% stocks to 40% bonds) was labeled a failure. Normalization and mean reversion has returned and the sky no longer falls. We could use more of that across the investment landscape. It's been a very wet spring and wet summer to start. I jokingly refer to it in biblical terms (forty days and forty nights). After a long stretch of drought across the country, we needed it. Hopefully all the rain leads to plentiful fall crops and not spoilage. I wish everyone a wonderful rest of summer. All the best.

"Fools make feasts and wise men eat them ."
-- Benjamin Franklin

"Wide diversification is only required when investors do not understand what they are doing."
— Warren Buffett

Investment Philosophy

Diversification (or Not)

Belleros Capital Management believes the idea of portfolio diversification is counter-intuitive and works against our active management goals. The idea of diversification is meant to limit the impact of stock market volatility. We believe stock market volatility represents an investment opportunity that is exploitable. Therefore, limiting the opportunities we seek to exploit would seem rather perverse. Diversification is a sliding scale. Too little and you risk putting all your eggs in too few baskets; too much and your portfolio and expected return mimics the broader stock market (index).

We believe excessive diversification (in addition to high investment-related fees) is a main contributor to poor active management performance relative to passive/ index investing. We believe investors who seek excess returns above and beyond what one could expect to receive from the broader stock market should choose an investment manager that minimizes fees and seeks to differentiate their investment portfolio to ward off the indexing-like characteristic of diversification.

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Investment Strategy

*We seek to exploit stock market volatility in the short-term through a **long-term**, active investment management strategy that seeks to purchase higher **quality** stocks with sustainable competitive advantages and economic moats, and at prices below our calculation of intrinsic value (otherwise known as "**value** investing"). These characteristics help us defend against what we believe is **the biggest risk in investing: a permanent loss of capital.** In addition, we intend to show our discipline and conviction in our investments by employing a concentrated portfolio mandate that is differentiated and allows us to focus on only the best investment candidates available. Further, we seek to show our conviction through our portfolio weighting scheme which skews exposure to the best investment candidate.*

- Active investment management
- Long-term investing
- Seek higher quality opportunities
- Value investing
- Minimizing permanent losses of capital
- High conviction
- Invest with confidence
- Disciplined approach
- Volatility is an opportunity
- Concentrated stock portfolio
- Differentiated from the index

"Risk is not inherent in an investment; it is always relative to the price paid. Uncertainty is not the same as risk. Indeed, when great uncertainty – such as in the fall of 2008 – drives securities prices to especially low levels, they often become less risky investments." — Seth Klarman

"We don't have to be smarter than the rest. We have to be more disciplined than the rest." — Warren Buffett

Biography

Tim Hai, CFA®, CAIA®

Chief Investment Officer and Senior Portfolio Manager

- 28 years of experience in the investment industry
- 16 years of equity portfolio management experience
- 6 years experience overseeing public equity and fixed-income assets for a $10 billion multi-employer pension plan
- 8 years exp. manager research and due diligence
- M.B.A. - Loyola College of Maryland, 2000
- B.S. Finance – University of Maryland, College Park, 1996

Tim has 28 years of diversified investment experience that includes the research and direct investment management of stocks and bonds for high net worth and small business clients. Additionally, Tim has experience in manager research and due diligence, having helped oversee and manage a $10 billion institutional pension fund. Tim had direct oversight of the pension fund's equity and fixed-income investment portfolios that were managed by outside investment managers. Tim had specific oversight over the pension fund's $1.2 billion concentrated managers program that sought to extract value add from some of the country's best investment managers through a mandate that required high conviction and a limited number of stock positions.

Tim received his B.S. in Finance from the University of Maryland, College Park and his MBA from Loyola College of Maryland. More recently, he also completed coursework in international investing and currency management with the Oxford International Investment Programme at the Said Business School at the University of Oxford, United Kingdom. Tim holds the Chartered Financial Analyst ("CFA") and Chartered Alternative Investment Analyst ("CAIA") designations. He is a member of the CFA Institute and the CFA Society Washington, DC. He is also a member of the Washington, DC Chapter of the CAIA Association.