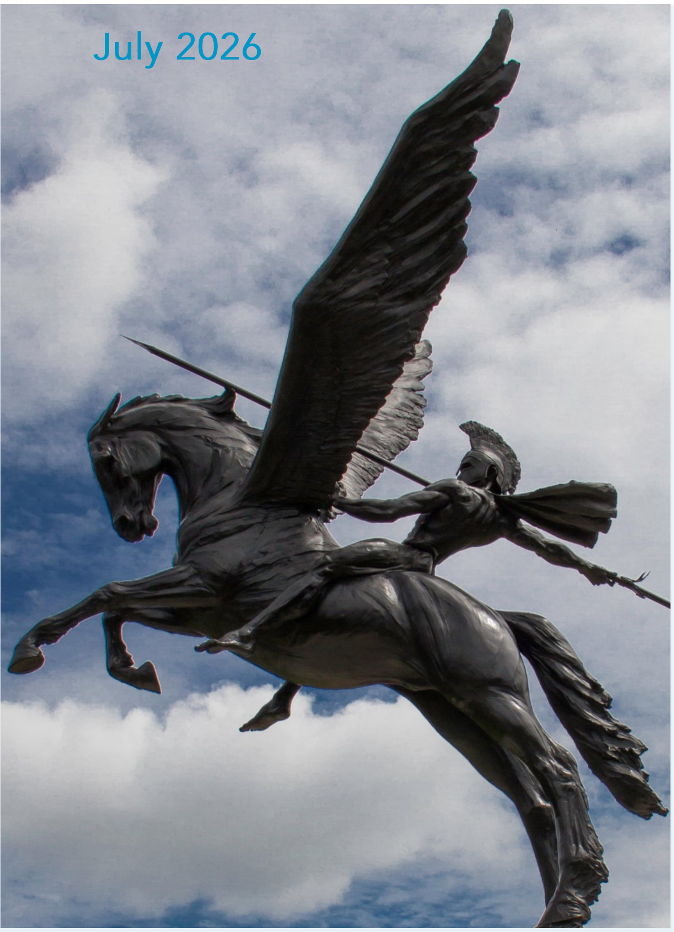

July 2026

Belleros Capital Management

The Passionate Investor

2Q2026 Market Review and Commentary

*Market Review **

- *Stocks outperformed fixed-income markets with the Russell 3000 rising 15.4% during the quarter (including dividends) and the S&P U.S. Aggregate Bond index falling 0.1% during the quarter.*
- *The Russell 2000 index (+21.6%) of small cap stocks outperformed the S&P 500 index (+15.2%) of large cap stocks.*
- *International or developed, non-U.S. equity markets (as determined by the MSCI EAFE**) underperformed U.S. markets in both U.S. dollar (+10.8%) and local currency (+11.5%) terms.*
- *The MSCI Emerging Markets index outperformed developed market stocks in both U.S. dollar (+24.1%) and local currency (+24.1%) terms and during the quarter.*

Month and Quarter-to-Date Performance

Index	QTR	YTD
S&P 500 (Large Caps)	15.2%	10.2%
S&P 500 Equal Weight	2.4%	12.1%
S&P 1500 Growth	17.5%	5.2%
S&P 1500 Value	3.6%	16.6%
Russell 2000 (Small Caps)	21.6%	22.6%
Russell 3000 (All Caps)	15.4%	10.9%
NASDAQ	21.6%	13.1%
S&P US Aggregate Bond Index	-0.1%	0.06%
MSCI EAFE (USD)	10.8%	9.4%
MSCI EAFE (Local)	11.5%	11.7%
MSCI Emerging Markets (USD)	24.1%	23.9%
MSCI Emerging Markets (Local)	24.1%	26.8%

** 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.*

Inside this issue

Tim Hai, CFA®, CAIA®
CIO and Sr. Portfolio Manager

"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

Risk seekers drove stocks globally as investors purchased stocks tied to artificial intelligence ("AI") specifically, and technology stocks, generally. The tech heavy NASDAQ index climbed 21.6% during the quarter in response. Investors were understandably emboldened by optimism and hope of an ending US/Iran war. More importantly though, they were jubilant as company fundamentals continued to strengthen, and the trend broadened to many other companies beyond the technology space. However, not all AI stocks performed equally during the second quarter. Semiconductor-related AI stocks were favored while software companies with AI exposures were not.

Most stock market indices fared well during the second quarter. The S&P 500 index of large cap stocks, and the broader Russell 3000 index that also includes mid-cap and small cap stock rose 15.2% and 15.4%, respectively, largely on the coattails of the AI and tech performance. Small cap stocks outperformed large caps considerably (+21.6%) unlike over the past several years. Internationally, emerging market stocks were also heavily favored by investors (+24.1% in US dollar). Stocks from more developed countries rose a more measured 10.8% in US dollars.

Naïve Benchmarks

Retail investors often think of the S&P 500 as "the stock market" given its ubiquitous popularity. However, the index only includes 500 large cap stocks and is chosen by committee. The index is weighted by market size, meaning the largest companies dictate its movement. The performance of a handful of its largest constituent companies (e.g. the top ten stocks), many of which are technology-related, disproportionately drives overall index gains (or losses) compared to the remaining companies. The index as an investment strategy is inherently narrow in its approach, as S&P 500-only investors will lack exposure to small-cap stocks (like those in the Russell 2000), international markets such as emerging markets, and bonds. A more appropriate stock market proxy would be inclusive of other market sectors and geographies beyond those in the US – regardless of performance.

The Case for Diversification

The S&P 500 index of large cap stocks performed incredibly during the second quarter. Yet, it did not offer the best performance in the stock market. In addition to the NASDAQ outperformance mentioned above, the stocks of smaller companies and especially the stocks of less developed or emerging markets companies also offered quarter-leading performance. Investors in the S&P 500 or similarly undiversified investments would have missed out on strong gains from these stocks during the quarter and the past year.

Energy Stock Exposure

Energy and oil stock exposure (we believe) is often underweighted in most investment portfolios relative to its importance to the economy and world. Energy exposure is critical for portfolio diversification, acting as a structural hedge against inflation and geopolitical shocks. The S&P 500 has recently experienced energy exposures between 3% to 5% (see HERE). The energy sector is a big contributor to the global economy, and it undoubtedly influences the stock market. One needs only review the past six months to understand how important energy markets are to global GDP. Perhaps investment portfolios are structurally underexposed to energy and perhaps they shouldn't be.

"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.

A New Foil at the Fed

Kevin Warsh replaced Jerome Powell as Federal Reserve (the "Fed") Chair on May 22, 2026. We hope that his tenure is more successful than the last. Our readers will know that we are skeptical of the value the Fed adds to the economy and society. Its job is to moderate economic cycles and not add to the volatility. Recent failures have been quite painful for the economy and people living through it. The early 2000's Greenspan Fed kept interest rates too low for too long – the result being a real estate bubble that ended with the Great Recession. The 2020 Powell Fed famously thought post-COVID inflation was "transitory". He and the rest of the Fed believed supply chain bottlenecks and shifts in consumer demand would fade quickly. This assessment proved incorrect as inflation hit a 40-year high in 2022, forcing the Fed to aggressively raise interest rates in an effort to make up for lost time. This upended both economy and stock market for years to come. We hope Chairman Warsh all the best and good luck. We're not expecting much.

The Great Wealth Transfer

The "Great Wealth Transfer" is an historic, ongoing shift of an estimated $124 trillion (see HERE) in assets from Baby Boomers and the Silent Generation to younger generations like Millennials and Gen X. Older investors who are considering a transfer of wealth or philanthropy will want to prepare themselves and their investment portfolio for the hand-off. Importantly, they will want to do this while also ensuring that they minimize the risk that they outlive their wealth.

Successful transfers share certain traits or characteristics. For instance, successful transfers have in common benefactors that live comfortably within their means. Their sources of income in retirement is strong and varied between social security benefits, private pension, any purchased annuity, and their wealth. The best scenario for these retirees occurs when their income is strong such that they don't have to withdraw from or live off their wealth. The best prepared benefactors often have minimal debt or strive to minimize their debts. They also have their estate plan in order. They should have up-to-date wills or trusts, and/or have designated beneficiaries for their wealth to avoid probate.

The Great Wealth Transfer…(Cont.)

The most prepared among them will have their worst-case scenario planned for. We believe this means either having enough wealth on hand to pay for the costs of assisted living should they need it or have a long-term care ("LTC") insurance policy (purchased years in advance when they were cheaper and available) that helps pay for the worst-case scenario. They do not want to be a burden on their loved ones.

Lastly, they should make sure their investment portfolio has been reviewed and optimally invested (after ensuring that their own needs are cared for) for a future transfer of wealth. Investors should begin to incorporate the needs of their beneficiaries into how their investment portfolio is managed. The benefactor's loved ones or favorite charity will likely have a longer time horizon that necessitates a larger exposure to stocks. This may seem counterintuitive. However, at this stage in life, and an older investor's investment portfolio should perhaps be thought of as a "living entity", incorporating the long-term needs of the next generation alongside the benefactor's.

"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.

"Owners of stocks, however, too often let the capricious and often irrational behavior of their fellow owners cause them to behave irrationally as well. Because there is so much chatter about markets, the economy, interest rates, price behavior of stocks, etc., some investors believe it is important to listen to pundits – and, worse yet, important to consider acting upon their comments."
–– Warren Buffett

Please contact us to learn more about our investment strategy and how we try to add value for our clients.

Belleros
Capital Management

Closing Remarks

A wealth transfer can sometimes be thought of as a relay race in which teammates pass on a baton from one runner to the next. Passing the baton on requires both runners to run at a similar pace. This doesn't necessarily mean full speed. The investment analogy is that the asset allocation of the gifted investment portfolio should be prepared for the next generation. A benefactor will likely have their existing investment portfolio focused more on preserving capital and bonds. A potential recipient of that wealth will typically have a longer time horizon that necessitates growth and stocks.

An investment portfolio suitable to both of their needs should be considered. A successful transfer of wealth will be seamless and invested to optimize growth in the portfolio within reason. Importantly, it will still protect the benefactor first and foremost. However, it will also incorporate the growth needs of their loved ones or charity. As with all plans, investors desiring a transfer of wealth to a loved one or favorite charity must do so in advance. It can take years of planning and preparation. This way, nothing is rushed or a surprise. If you are in need of help in reviewing your finances and investment portfolio, or if you are interested in preparing yourself for the Great Wealth Transfer to benefit your loved ones or favored charity, we'd be happy to help!

I hope summer is going well for you and that all is well. It's been a little bit too hot for me though the experience is not quite unprecedented. Not to the extent that this past winter was cold and historical (in my opinion). I am happy that the summer seems to be coming to a close (in rather quick fashion). Until Fall, stay cool and hydrated. All the best.

"Give me six hours to chop down a tree and I will spend the first four sharpening the axe."

-- Abraham Lincoln

Belleros
Capital Management

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.