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## Q1 2026 Right Tail Capital Investor Letter

During spring break this year our family spent several days in Kiawah Island, South Carolina. What struck me most about the place was how thoughtfully it blends the old and the new. Ancient live oaks and preserved marshland with tons of alligators sit alongside newer homes, parks, and family activities.

The most effective expressions on the island combine both. One afternoon, we walked through Night Heron Park, where a newly built deck winds around trees that have been standing for decades. The old and the new, woven together. The result is better than either would be alone.

Stock market commentary often feels like a frantic search for the new — the next technology, the next geopolitical conflict, the next industry shift, the next market narrative. Yet many of the principles that drive long-term investment success have remained remarkably stable. Jeff Bezos famously remarked that he is more interested in thinking about what will not change over the next decade than what will. That framing feels particularly helpful today.

At Right Tail, the foundation of our approach remains deep fundamental research, long-term ownership of high-quality businesses, and patience as compounding does its work.

Durable competitive advantages, high returns on incremental invested capital, aligned management teams, and reasonable purchase prices continue to matter enormously. Time remains one of the most powerful forces in compounding. I continue to study industries and businesses, both ones we own and ones we could potentially own.

While these principles remain constant, the tools available to investors are evolving rapidly.

Artificial intelligence is improving how information is gathered, processed, and synthesized. I have been spending more time with these tools thoughtfully — not to replace fundamental analysis, but to make the research process more efficient.

AI can help summarize large bodies of information, highlight inconsistencies across documents such as a management team's changing narrative over several years, and surface questions worth investigating further. One example is I'll often submit questions to one of the LLMs about a company while I'm researching it. In the past, I'd compile these questions into a list to work on later or discuss with the company. Now, AI can answer many questions almost instantaneously. Tasks that once took hours can sometimes be completed in minutes, which creates more time for the work that matters most: thinking carefully about businesses and long-term capital allocation.

However, AI is not a substitute for judgment. It does not meet management teams, assess incentives, understand the nuances of corporate culture, or develop conviction built over years of studying an industry. Those elements still require human experience, skepticism, and patience.



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The benefit is not that AI makes investment decisions easier. Rather, it allows more time to focus on the highest-value activities — understanding businesses deeply, refining investment decisions, and communicating with investors.

The core philosophy of Right Tail remains unchanged. What is evolving are the tools that help support the work. In many ways, the role of technology in investing is similar to what we see in places like Kiawah. New tools can enhance the experience, but the underlying foundation remains the same.

### **Current Markets**

Markets have been volatile as investors attempt to understand the implications of artificial intelligence across industries. Geopolitical tensions, including the conflict between the US and Iran, and other macro developments have also contributed to uncertainty.

I do not know how these events will unfold, and I'm pretty sure neither does anyone else. Rather than attempting to predict them, my focus remains on identifying businesses with durable economics and management teams capable of navigating uncertain environments.

Periods like this often create opportunities. Uncertainty can lead to price dislocations that allow patient investors to purchase strong businesses at attractive prices. I am digging into these pockets of uncertainty and always comparing them to our current portfolio holdings.

We have seen similar periods before.

The current market appears to reward two types of companies: those perceived to benefit directly from AI and those believed to be insulated from it. This atmosphere of technological fear reminds me of 2017, when Amazon was believed to be on the verge of disrupting every business model from industrial distribution to aftermarket auto parts. While Amazon did disrupt some, many fears proved overstated. Over time, the market rewarded the underlying cash-flow generating power of the survivors. I suspect we will look back on the current AI-driven volatility in a similar way.

We are balancing our core investing principles of deep fundamental research in a time when uncertainty seems high. Over time, the market will reward the long-term cash-flow generating power of businesses. We will continue to invest with a long-term mindset selecting the companies most likely to continue to thrive.

### **RTC Portfolio Spotlight - NRP**

NRP is predominantly a coal royalty company owning 13M acres of mineral interests. In any given year, free cash flow is typically 80%+ from mineral royalties and up to 20% from their JV in a soda ash mining company. Of the coal royalty revenue, 65-75% typically come from metallurgical coal



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royalties with the remainder from thermal coal royalties. I like that the business is primarily exposed to metallurgical coal, a key ingredient in making steel and one where limited new supply is being added.

Royalty companies earn revenue from any mining that is done on the land they own. They'll work out a contract with the mining company as to what percentage of revenue needs to be paid as a royalty. These can be fantastic businesses as I learned during my time at T. Rowe as a small cap metals and mining analyst. I came to appreciate companies like Franco Nevada, a precious metals royalty company with an eye for the long term. With properly capitalized royalty companies, time is really your friend in a number of ways. Land ownership allows the royalty companies to ride out the more difficult times. Furthermore, royalty companies benefit from significant operating leverage when commodity volumes and prices increase as their minimal costs (operating margins are typically 70-75%) remain unchanged. With a producer, it's not uncommon to see rising costs accompany rising prices. Based on my estimates, NRP has 25+ years of remaining reserves on its metallurgical coal royalties, and 70+ years of remaining reserves on its thermal coal royalties. That's a lot of duration. And yet the business trades at a high single digit multiple of normalized earnings. The market is saying we can only capitalize 8-10 years of earnings, yet we have 25+ years of reserves.

So what is the disconnect and why does the opportunity exist? For starters, cash flows have declined as each of their commodities are in year 3 of a bear market. From 2022 – 2024, operating cash flow (before interest payments) was \$250-\$310M. Last year, it decreased to \$165M as a result of their commodities not doing well.

The balance sheet has improved dramatically as the business has gone from ~\$1.4B in debt 10 years ago to debt-free by the end of this year. As debt is fully paid off, management will likely transition to distributing all cash to shareholders. Even over the last few years, there have been times when the business was producing a lot of operating cash flow which was mostly being absorbed by interest and principal payments on their debt. This is a significant change – so much so that I could argue that NRP is an entirely different business than it was before. The company is also a publicly traded partnership which prevents some investors from buying it.

With much less of the significant debt burden going forward, the company could produce \$15-25 per share of free cash flow (pre-tax) in a more reasonable operating environment. There's not a perfect comp for NRP but other publicly traded partnerships trade between a 6-10% dividend yield. NRP should fall somewhere in the middle based on how it's business stacks up. At \$20 of cash flow and a 10% dividend yield, we could be looking at a \$200 stock vs. \$125 today. At an 8% yield, we're talking \$250 or a double from here.

NRP is a high-quality business with a long reserve life that could potentially grow over time. Its commodities remain essential. There is also optionality in the company's large land base, which



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could be used for other productive purposes over time. For example, carbon capture initiatives are currently uneconomical, but NRP has participated in them in the past and could benefit if the economics improve.

The primary risks are a prolonged commodity downturn and poor capital allocation. While we are already in a commodity downturn which reduces some of this risk, conditions could worsen and lead producers to pause production. On capital allocation, management owns roughly 30% of the units, which gives me confidence they care deeply about how capital is deployed and have learned from past decisions.

To sum it all up, NRP is an inexpensive, quality business with some long-term optionality and a significantly improved balance sheet that should lead to a positive capital allocation change in the near future. It has a great risk reward and provides different exposures to the Right Tail Portfolio.

While the tools investors use will evolve, the principles that guide our decisions do not. Like that deck at Night Heron Park — built new, wrapped around something old — Right Tail's approach is evolving in form while staying rooted in what has always worked.

Best wishes for continued happiness and success,

Jeremy Kokemor



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