

To: Clients of Eagle Point Capital
From: Matt Franz and Dan Stuart, Principals
Subject: Spring 2026 Portfolio Update
Date: April 1, 2026

In this update, as in previous, our objective is to explain what you own and why you own it. First we will highlight one aspect of our investment philosophy. Next, we will review each of our investments and recent transactions. We will conclude with a reminder of the “rule of three” and a reprint of our Fundamentals memo. Investing is simple but not easy, and success is made or lost on the application of the fundamentals.

We also encourage you to visit our website, www.eaglepointcap.com, where we archive past letters, and our blog, www.eaglepointcapital.substack.com, where we share investment research.

Your quarterly brokerage statements will soon arrive in the mail. The statement will include your quarterly performance and holdings. You can access more detailed account information on the Interactive Brokers or Charles Schwab websites. Please contact us (matt@eaglepointcap.com or dan@eaglepointcap.com) with any questions.

If you feel like the world is changing at an ever-faster pace, you are not alone. Since we started Eagle Point Capital in 2017, we’ve witnessed the rise of cryptocurrencies, EVs, autonomous vehicles, drone warfare, GLP-1s, generative AI, and large language models. We’ve watched fads in ESG, FAANG, SPACs, memestocks, memecoins, and the metaverse come and go, and watched the Magnificent 7 compound into the most concentrated market since the 1930s.

We survived a global pandemic that severed supply chains and ushered in an era of protectionism and tariffs. Inflation soared to forty-year highs, ending the zero-interest rate era and causing a wave of bank failures.

A hot war has raged in Europe for four years, along with conflicts in Israel, Palestine, Venezuela, and Iran, reshaping the geopolitical order and causing defense budgets to bulge.

We could never have predicted these events. Even if we had, we wouldn’t have predicted the market’s reaction to them. If you knew what was going to happen, would you have predicted that the S&P 500 would return 15% per year from 2017 through 2025?

Our investment strategy is grounded in our business-owner mindset. We own meaningful stakes, at attractive valuations, in a selection of the world’s best businesses. This is exactly what the world’s wealthiest individuals have always done.

Though we own publicly-traded securities, our mindset is that of a private, long-term owner. **Instead of trying to anticipate change, we invest in areas that are unlikely to change.**

Technology changes but human nature doesn't. Humans have been consuming nicotine for over 10,000 years and gambling for at least 3,000. That bodes well for British American Tobacco, Philip Morris, and Brightstar Lottery. Humans have been wearing jewelry as a status symbol for at least as long, which benefits Watches of Switzerland. AutoZone and Dollar General deliver convenience, which never goes out of style.

McKesson, the oldest company in our portfolio, is a great illustration. McKesson began delivering pharmaceuticals by horse and buggy in 1833, almost 200 years ago. The world has changed a lot since then, but what hasn't is the need to get pharmaceuticals from point A to point B safely, securely, and efficiently. That is a societal need that will never change.

Today McKesson uses trucks and vans, but someday it may use drones or something else entirely. The world is certain to change in ways we cannot fathom. Those changes will inevitably have a trickle-down effect on McKesson. We're confident McKesson can weather the change for a few reasons.

First, as discussed, McKesson's core service of delivering pharmaceuticals will never be obsolete. The specific means of delivering them may change, but the core service won't. McKesson is a technology consumer, not a technology supplier, and will adopt beneficial technologies as they become available.

Second, McKesson operates atop a stable and consolidated industry with a fragmented customer base. Growth plods along at a slow but steady pace. Scale advantages protect the industry from new competitors. The total addressable market is not large enough for a new competitor to justify the tens of billions of dollars of investment it would take to replicate McKesson's physical infrastructure. It cannot be disrupted overnight.

We favor businesses with physical infrastructure advantages because the physical world changes slower and is harder to disrupt than the digital world. We particularly like physical networks, like McKesson, AutoZone, and Dollar General, which are hard to replicate. Unique and irreplaceable assets, like Brookfield's 235 hydroelectric facilities, 30 port terminals, and 14,300 miles of natural gas pipelines, are great too.

Digital businesses like Zoom, Dropbox, and Evernote were once thought impregnable. Low switching costs, a rapid pace of change, and fierce competition proved otherwise. Now they are considered commoditized products that can be swallowed by larger platforms or replaced by a better user interface. They are neither enduring nor robust.

AI coding tools will accelerate the pace of competition and change in the digital world. The physical world will be affected, but slower. Physical businesses will have a better opportunity to adapt. It would take a lot of time and money to replicate McKesson's physical infrastructure, with no promise of any customers when it was done.

Third, McKesson provides a mission-critical service. The American medical system rests on its shoulders. Yet it earns net margins of 1-2%. It provides significant value relative to its cost, which gives it bargaining power.

To generalize, Eagle Point looks for:

1. Products and services that satisfy timeless human desires;
2. A stable and consolidated industry with predictable and moderate growth;
3. A fragmented customer base;
4. A competitive advantage or "moat" which creates a barrier to entry;
5. Hard to replicate physical infrastructure;
6. A mission-critical product or service;
7. Products with a low price relative to their value; and
8. A business that is not dependent on rapidly changing technology.

Few businesses have all of these qualities. McKesson is one of the rare ones. The more qualities a business has, the better they're positioned to confront change from a position of strength.

Businesses that hinge on technology are too fragile to interest us as investments. We prefer cockroach-like businesses: very hardy and almost impossible to kill. Cockroaches have existed for 320 million years, outlasting the dinosaurs and surviving every mass extinction in Earth's history. They're not pretty, but they are robust, just like our investments.

The Giant Panda is the opposite of the cockroach, and an example of what we avoid. While cute, cuddly, and beloved worldwide, they are evolutionary specialists hyper-optimized to live in a narrow band of bamboo forests in central China. They thrive in this environment, but struggle to adapt to even minor changes. As climate change and deforestation shrink their natural habitat, they teeter on the precipice of extinction.

If McKesson is a cockroach, adapting to the tumult and technological change of the last two hundred years, then Nvidia and TSMC may be pandas. They're beloved by investors because they dominate the cutting edge of their industries. But the technology in their fields is changing rapidly. It is unclear if they will be able to change with it. They must continuously disrupt and reinvent themselves before their competitors do. The odds are that eventually they'll stumble. No one bats one thousand forever. History is littered with companies, like Intel, that looked dominant but could not adapt as their environment changed.

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Chegg is a panda with a cautionary tale. The company spent a decade building a database of 120 million answers to textbook questions and sold access to students for \$20 per month.

ChatGPT's release in late 2022 disrupted Chegg's business model overnight. It gave students instant, unlimited, and customized homework help for free. Students, notoriously tech forward and price sensitive, immediately cancelled their Chegg subscriptions *en masse*. Three years later Chegg's stock has lost 99% of its value.

McKesson provides a physical service that technology improves. Chegg provided a digital service predicated on information scarcity that technology erased. Chegg's customers did not have any switching costs, so the pace of change was rapid and severe.

If the last nine years have taught us anything, it is that the future will be volatile, uncertain and unpredictable. Fortunately, we don't need to predict it to thrive. By focusing on timeless human desires and mission-critical physical infrastructure, we've anchored our portfolio to the areas of the world least likely to change quickly. By stocking our portfolio with cockroaches instead of pandas, we gain resilience to the technological changes that inevitably occur.

We may not make trendy investments, but we are confident that by prioritizing durability over novelty, Eagle Point will continue to survive and compound through whatever environment the next nine years may bring.

Before we continue with the rest of our letter, we want to thank you for your continued support and trust. Investment managers can only afford to be as patient as their clients allow. Your patience and trust contribute as much to our success as anything we do at Eagle Point Capital.

We are grateful that you support EPC's long-term approach to investing. Our clients have proven to be exceptional and stoic investors, which provides us all with a significant competitive advantage. We are honored that you entrust us with your capital, and we are proud to be your investment partners.

Please contact us (matt@eaglepointcap.com or dan@eaglepointcap.com) with any questions about your account or your investments. If you know any like-minded investors who would enjoy this letter, please forward it to them or put them in contact with us.

Best,

Matt and Dan

The portfolio-specific portion of this letter is reserved for current clients and prospective clients. If you are interested in becoming a client, please contact us (matt@eaglepointcap.com or dad@eaglepointcap.com).

The Rule of Three

Francois Rochon of Giverny Capital is one of the investors we admire most. He coined the Rule of Three, which we've decided to adopt as our own. It is a rule of thumb based on empirical stock market data that will help level-set expectations.

1. One out of every three years, the stock market will decline by 10% or more.
2. One out of every three stocks we buy will not perform as expected.
3. One out of every three years, we will underperform the index.

Every few years, people forget that stock prices crash every few years. This is good news since crashes produce bargains, and bargains tend to produce higher returns. When we think and act like long-term business owners, volatility becomes our friend and not our foe.

Fundamentals

Attached is a copy of a short memo outlining our fundamentals. It explains our goals and methods. Investing is simple but not easy, and success is made or lost on the application of fundamentals.

Once, after winning two consecutive national championships, the Green Bay Packers lost a game due to sloppy play. Coach Lombardi called a meeting the very next day. When all the players were assembled, Lombardi held a football high up in the air and declared, “Gentlemen, this is a football!” From the back of the room, running back Paul Hornung shouted back, “Coach, can you slow down?”

In investing, as in football, success is made or lost on the application of the fundamentals. This document sets forth the fundamental operating principles of Eagle Point Capital. Through the up and down markets ahead, we will always return to the principles below to inform our attitudes and actions.

- Our objective is to avoid the permanent loss of capital while maximizing the increase in long-term, after-tax purchasing power of our funds. Put another way, we aim to build an indestructible long-term compounding machine.
- To achieve this objective we seek to make concentrated investments in businesses that:
 - (1) We understand.
 - (2) Have a demonstrated and enduring competitive advantage.
 - (3) Have a resilient balance sheet.
 - (4) Have honest and able management who run the company for the benefit of shareholders.
 - (5) Can be purchased for a reasonable price that affords a margin of safety.
- In other words, we aim to purchase, at a rational price, interests in easily-understandable businesses whose earnings are virtually certain to be materially higher five, ten, and twenty years from now. We prefer cockroach-like businesses — very hardy and almost impossible to kill.
- We think independently and do our own research. We don’t rely on the opinions of analysts or journalists, both of whom may have different motivations than ours. We rely primarily on S.E.C. filings for information.
- We do not diversify excessively. Good investments are hard to come by and we would rather concentrate our capital into our best ideas than spread among many mediocre ones. We typically own six to ten businesses and put 10% of our capital, at our cost, into each.
- We think and act like business owners. As owners, we focus on the fundamentals of the business and do not obsess over price fluctuations. When possible, we use periods of unjustified pessimism to purchase high quality companies at attractive prices. Likewise, we prefer to use

periods of unjustified optimism to sell companies for more than we feel they are reasonably worth. The market is our servant and not our master.

- The best way to measure our success is to compare Eagle Point Capital's return, after fees, to the S&P 500's total return (including the reinvestment of dividends) over five-year periods. Measurement over a shorter timeframe may reflect luck more than skill. The S&P 500 is our benchmark because it is widely followed, offers the potential for large, low-cost investments, and, we expect, will produce satisfactory long-term returns. Over time, we expect good relative returns to the S&P 500 to become excellent absolute returns.
- All accounts are managed *pari passu*. Clients may elect one of two fee structures:
 1. A two percent annual fee on assets under management charged quarterly in arrears.
 2. 25% share of profits in excess of a 6% hurdle rate, subject to a high water mark, charged annually in arrears. This option carries no management fee.
- Clients will receive a letter twice a year detailing what they own and why they own it. Our reports will be candid, emphasizing the positive and negative factors important to appraising intrinsic business value. Our guideline is to tell you the business facts we would want to know if our positions were reversed. We owe you no less.
- Eagle Point Capital is not in the business of predicting the general stock market or business fluctuations. If you think we can do this or that it is essential to an investment program you would be best suited looking elsewhere.
- We cannot guarantee results to clients. What we can and do promise is that:
 - Our investments will be chosen on the basis of value, not popularity;
 - We will attempt to bring risk of permanent capital loss (not short term quotational loss) to an absolute minimum by obtaining a wide margin of safety in each investment; and
 - We have virtually our entire net worth invested alongside Eagle Point Capital's clients. We eat our own cooking.

Many of you who are already familiar with Eagle Point Capital may feel, like Paul Hornung, that this material is unduly repetitive. However, we would rather have many bored clients than a single client with any basic misconceptions. As Charlie Munger says "A majority of life's errors are caused by forgetting what one is really trying to do." A firm grasp of our fundamental operating principles will help us stay the course in the future.