



BLACK BEAR

VALUE PARTNERS

April 14, 2026

Black Bear Value Partners Q1 2026 LP Letter

“How long a minute is depends on what side of the bathroom door you’re on.” – Zall’s Second Law

To My Partners and Friends:

- Black Bear Value Fund, LP (the “Fund”) returned +1.9% in March and +13.2% YTD.
- The S&P 500 returned -5.0% in March and -4.4% YTD.
- The HFRI Index returned -4.6% March and -1.2% YTD.
- We do not seek to mimic the returns of the S&P 500 and there will be variances in our performance.

Monthly Performance Net of Fees and Expenses														
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year est.
2026	Black Bear Value Fund	8.0%	3.0%	1.9%										13.2%
	HFRI Index - Value	2.3%	1.2%	-4.6%										-1.2%
	S&P 500	1.4%	-0.8%	-5.0%										-4.4%

Summary Performance Net of Fees and Expenses						
	March	QTD	YTD	3Y	5Y	Inception
Black Bear Value Fund	1.9%	13.2%	13.2%	3.8%	6.8%	7.4%
HFRI Index - Value	-4.6%	-1.2%	-1.2%	12.7%	7.1%	8.5%
S&P 500	-5.0%	-4.4%	-4.4%	18.3%	12.0%	14.1%

Strategy Exposure @ 03/31/2026			
	LONG	SHORT	NET
Equities	89.2%	-45.0%	44.2%
Preferred Equity	0.0%	0.0%	0.0%
Fixed Income/Credit	0.0%	-12.5%	-12.5%
Total Investments	89.2%	-57.5%	31.7%
Cash	43.8%	0.0%	43.8%
T-Bills	0.0%	0.0%	0.0%
Total Cash/T-Bills	43.8%	0.0%	43.8%

Note: Includes delta-adjusted options position

Note: Cash balances include cash received from our short positions

Top 5 Gross Long Positions (Alphabetical)	
Builders FirstSource	BLDR
Five Point Holdings	FPH
Flagstar Financial	FLG
PrairieSky Royalty	PSK.TO
Tidewater	TDW

Note: As 3/31/2026

Gross Concentration Breakdown	
	Long %
Top 5 positions	63%
Top 10 positions	89%

Note: As 3/31/2026

Note: Additional historical performance can be found on our tear-sheet.

Zall’s second law (quoted above) succinctly describes the past couple of years. Time stretched uncomfortably as our positioning diverged from a market that rewarded very different, and often reckless behavior. Periods of underperformance are never pleasant, but they are often the price of maintaining a differentiated approach. During the early stages of COVID, the Fund underperformed only to see rationality return and 3 years of strong absolute and relative performance. Year-to-date results have been strong, particularly against a declining market, offering a reminder that patience – while rarely enjoyable in real time – has its benefits.

So far in 2026, both our long and short investments have been profitable for the fund year-to-date. We own businesses with significant upside and remote risks of permanent capital impairment. Our investments have long-term tailwinds that should stand to benefit the businesses for many years going forward. Our shorts are starting to have their business fundamentals questioned and have a long way to go down. We are in the early innings of a recognition of the underlying value in our portfolio.



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We have long held investments across the energy/commodity space where chronic capital underinvestment left the industry vulnerable to any unforeseen increases in demand or reduction in supply. The recent experience in Iran has brought some increased attention to this issue which is not going away without significant investment. We have been short the private credit complex for a couple of years and discussed our concern about the influx of capital and reduced lending standards in the space. The rush into the retail channel was a sign that the sponsors were looking for less-informed hands for their investments. Like energy, the thesis took some time, but the narrative has begun to shift. A key theme across our portfolio, both now and in the future, is that our ideas can take time, but due to our concentration, when they work, the portfolio can increase sharply with lumpy returns over time.

As discussed in prior letters, many of our companies are exiting capital-investment cycles and are starting large cash-generative parts of their lifecycles. While some have started rerating, we are in the early innings. In the meantime, many of these businesses produce lots of cash and distribute it to us via dividends or increase our ownership through stock buybacks.

The broader themes of the portfolio remain similar to our previous letter:

- Foreign stocks – we are finding opportunities outside of the U.S. markets with 18% of our portfolio in foreign-domiciled companies and held in the foreign currency.
- Housing (Distributor + large landowner in California) - Structurally underbuilt housing with a rising need as millennials form households. With rising mortgage rates, existing home supply should remain low and benefit the new homebuilders and by extension their suppliers and distributors. We added a housing ETF short discussed in our BLDR section.
- Metallurgical coal (coal for steel) – Significant underinvestment in a needed input for worldwide steel consumption particularly in Asia and India where high-grade met coal resources are limited.
- Royalties/Energy/Natural resources/Commodities – Significant underinvestment in natural gas, oil and thermal coal which are necessary for the world’s economies to function and grow. While renewables will play an increasing role, the change will occur over decades, and not years.
- Regional bank turnaround – Flagstar has an exceptional management/board that are ahead of the game in turning their businesses around. At the same time, we are short similar companies with management teams that are obfuscating/ignoring the issues and have unhealthy balance sheets (some rhyme with our shorts of Silicon Valley Bank/First Republic).

Breakdown of PNL Components

Some LPs have requested our contribution breakdown by category which is reasonable. I wanted to provide for all if I was going to provide for some.

As you can see below, both our long and short investments had meaningful contributions YTD in a declining market.

<u>Q1 2026 Attribution</u>	
<u>Category</u>	<u>Contribution</u>
Equity Longs (Stocks we own)	10.7%
Cash/Tbills	0.2%
Equity Shorts (Bets against)	2.5%
Credit Shorts (Bets against)	0.0%
Total Gross Return	13.4%



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Credit Shorts/Equity Shorts

Our short equity exposure increased in the first quarter from ~39% to ~45% while our credit short remained in the low teens. While I do not name shorts specifically, there are some consistent themes represented. Some examples:

- Private credit lenders/private equity – We are short a basket of these businesses. While there are quality private investors, the space has become very popular with lots of LP money chasing returns. Some of these sponsors have paid extremely high prices and/or lent on unfavorable terms. Many have also lent into the AI/data-center space to businesses with questionable futures.
- AI wanna-be's/neo-clouds – While AI will have an impact on our lives, we are still very early in its lifecycle. There are many businesses that are “transforming” to benefit from the investor excitement with questionable business plans but intense stock promotion. While a source of pain to our PNL in 2025, the weak business fundamentals have become more apparent and the stocks have declined.
- Banks/Bridge lending– We are short a bank that rhymes with our Silicon Valley/First Republic short in the sense that I think the bank is technically insolvent. They have assets overmarked on their balance sheet and are playing games recognizing impending losses. Additionally, some of the bank's customers are getting their own bank charters and could no longer need their services. The bridge lenders (which also includes the bank) are seeing their tenants/borrowers catching colds and through aggressive accounting are pushing off the loss recognition. In time the dividends will be further cut, and the cash simply won't be there.
- Buy-now/pay-later lenders – These companies lend to the worst credits via small-dollar/short-duration loans. In a benign credit environment, they do ok, but they have 2 things working against them. One, the health/growth of the lower-end consumer is weakening. Second, it's a commodity product with a lot of competition. The combination of the above typically ends poorly for the business owners.
- Legacy data centers – These businesses consume capital and produce mediocre levered returns on capital (single digits). The accounting is squishy, and the economics are dreadful. They are massively levered and the general AI- “mania” has been a rising tide lifting all ships. Like real estate, not all data centers are created equal. A corollary would be the bifurcation between Class A office which is doing better (newer build data centers) and struggling Class B office (legacy data centers).

Top 5 Businesses We Own

Builders FirstSource (BLDR)

BLDR declined an additional 20% in the first quarter after a 28% decline in 2025 amidst weakness in the housing market. As noted earlier, we did add a housing ETF index short to the portfolio given some short-term concerns about the housing environment, particularly from increased rate risk/inflation risk.

Fundamentally, the Company performed well last year and generated \$875MM in free-cash-flow in 2025 translating to a trailing yield of ~10%. It seems likely that 2026 will be another year in this general range (adjusted for working capital swings). We have previously discussed the potential for short-term stock price fluctuations, but so long as the long-term thesis was intact, we would continue to own the business.

BLDR is a manufacturer and supplier of building materials with a focus on residential construction. Historically this business was cyclical with minimal pricing power as the primary products sold were lumber and other non-value-add housing materials. Since the GFC, BLDR has focused on growing their value-add business that is now 40%+ of the topline.



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Our long-term thesis remains intact as there is a structural shortage of housing in the USA. Higher mortgage rates reduce the supply of existing home supply as homeowners are locked into low-rate mortgages. As we have seen in recent history, the overall pie of housing activity may shrink, with new homebuilders capturing an increasing share of home sales.

I have lowered my estimates for the near-term cash generation of the business but still assume normalized free-cash-flow per share to be \$9-\$12 per year implying a free-cash-flow yield of 10-13% with no growth priced in. Long-term there are powerful tailwinds that benefit the scaled businesses in this space.

Five Point Holdings (FPH)

FPH is a real estate development company focused on creating large-scale, master-planned communities in some of the most supply-constrained and high-demand markets in California. They specialize in transforming underutilized land into residential and mixed-use environments. Their flagship properties are in Orange County, greater Los Angeles and San Francisco. This is a long-duration, asset-heavy investment that is driven by monetizing their land over time. Clearly this is quite sensitive to the housing environment in California which has been plagued by underbuilding and costly/slow regulatory timelines. While change takes time, the lack of housing supply is becoming more of an issue every day and is now gaining more attention at the state and local level.

Their most meaningful cash generative asset is held in a Joint Venture obscuring the cash-flow generation of the business. Using conservative assumptions, we calculate a NAV estimate that is up to 3x higher than today's share price. There are a wide range of possibilities, and the timing is difficult to predict. Like BLDR, the need for affordable housing is extreme, especially in the metro communities of California. As the landowners, FPH stands to benefit from any positive shift in regulation/red tape. Our downside is well protected in the meantime. I am not providing much financial detail as we have continued to accumulate stock given the recent weakness.

Flagstar Financial (FLG)

FLG increased by ~5% in Q1. Flagstar Financial is the former New York Community Bank (a mashup of Flagstar Bank, New York Community Bank and assets from Signature Bank). Like our past SHORT investments in Silicon Valley Bank and First Republic, FLG had a hole in their balance sheet (from soured multifamily and office real estate vs. long-duration securities). That is where the similarities end.

FLG raised over \$1BB in additional capital, led by former Treasury Secretary Steven Mnuchin. They revamped the management team and brought in a superstar CEO in Joseph Otting who successfully turned around OneWest Bank post GFC (formerly known as IndyMac Bank). Mr. Otting and his team are my kind of managers – they are plain-spoken, hardworking and plan for the worst while hoping for the best.

The turnaround is going well, and they recently reported their first profitable quarter since the new management team took over.

The valuation is extremely compelling. At quarter-end the bank was trading at ~83% of a conservatively marked balance sheet. This is in contrast with similar banks (who are NOT conservatively marked) trading at 120-150% of their tangible book value. At these prices the downside seems low and could see this business up 45-100% over the next 1-3 years as it is more appropriately valued.



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PrairieSky Royalty (PSK.TO)

PSK.TO increased by ~21% in Q1 (dividend included). We have owned PrairieSky over the last 5+ years. As a reminder PSK.TO is a pure-play oil and natural gas royalty company that owns one of Canada's largest portfolios of subsurface mineral rights and royalty interests across Western Canada. Importantly, the company does not operate or drill oil and gas wells itself; instead, it leases its land to third-party energy producers and collects high-margin royalty revenues based on production without incurring operational costs or capital expenditures. Businesses like this should trade at a meaningful premium to the average company due to the lack of capital intensity and long duration of healthy cash flows.

Likely due to both being an energy company and being in Canada we can own the business at a 5-8% yield assuming stable production and steady oil energy prices (this does not presume current elevated energy prices). Additionally, the business is run by an exceptional CEO and Board that understands capital allocation at a deep level. Given the lack of global investment in energy development and potential for inflation, our ownership serves as a positive yielding long-term business investment with a call option on higher energy prices and/or needed production.

Tidewater (TDW)

TDW increased by ~65% in the first quarter as investors rotated into energy and energy-adjacent stocks. Additionally in February, TDW acquired Wilson Sons, a leading Platform-Specialty-Vehicle (PSV) operator in Brazil.

Tidewater is a marine services firm that operates one of the world's largest fleets of offshore support vessels (OSV's). They serve the energy industry by transporting crew and supplies, towing and anchoring drillships and supporting offshore construction projects. The long-term outlook for international and offshore markets is strong while the near-term is a little cloudier. As current resource plays (the Permian) slow down, worldwide demand will continue to grow and require more oil. It is expected that offshore capital commitments will rebound in the next 1-2 years.

What's striking about this industry is the lack of investment in the OSV fleet. Since the GFC, global shipyard capacity has shrunk by nearly 60%. In addition, newbuild investment is lacking as many banks have pulled back from lending. Over the next decade, as fleets age, the global OSV market is expected to shrink by ~40%.

This adds up to a potential for large pricing moves, in our favor, coupled with high utilization. TDW generated ~\$350MM in free-cash-flow in 2025 which is a trailing ~8% FCF yield. In a more normal environment, I'd expect them to generate \$500mm-1bb which gets to ~12-25% yields. Importantly their share buybacks were historically limited by debt covenants, and they will have minimal debt post-acquisition.

Fund Updates

K-1's and our financial statements were delivered ahead of the tax filing deadline so a big thank you to our new team at CohnReznick. You should see large short-term capital losses on your K-1 from 2025.

Concluding Thoughts

My job is a balance of protecting our capital while taking appropriate risks to grow it over time. In the last 2 years our businesses have performed well but with minimal reaction from the stock market, while our short positions had questionable business performance coupled with optimistic stock price reactions. In previous



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letters I've discussed that things can reverse quickly, and while comfortable in that inevitability, the timing was hard to predict.

The year is off to a good start. In our year-end letter I talked about our portfolio as a coiled spring. That feeling remains and we are operating from a position of strength. I will end this letter the same way I ended the last one... While our returns can be lumpy, we make up ground quickly. I anticipate that to be the case now,

If you would like to join or add-on, feel free to reach out. Thank you for your trust and support.

A handwritten signature in cursive script, appearing to read "Adam".

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