

# LEGACY RIDGE CAPITAL MANAGEMENT, LLC

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## Legacy Ridge Capital Partners Equity Fund I, LP

### 2025 Annual Letter

To December 31 <sup>st</sup> 2025:	<u>LRCP Equity Fund I</u> <u>Gross</u>	<u>LRCP Equity Fund I</u> <u>Net</u>	<u>S&amp;P 500</u>	<u>Russell 2000</u>	<u>MSCI World Index</u>
Trailing 1-yr Total Return:	8.0%	7.0%	17.9%	12.8%	21.6%
Trailing 2-yr Total Return:	64.7%	50.1%	47.4%	25.8%	47.8%
Trailing 3-yr Total Return:	124.8%	92.8%	86.0%	47.1%	83.0%
Trailing 4-yr Total Return:	152.8%	112.6%	52.3%	16.9%	50.6%
Trailing 5-yr Total Return:	258.5%	181.5%	96.1%	34.2%	84.4%
Trailing 6-yr Total Return:	296.5%	206.8%	132.1%	61.1%	114.8%
Trailing 7-yr Total Return:	306.5%	214.5%	205.3%	102.2%	175.1%
Trailing 8-yr Total Return:	291.0%	202.5%	191.8%	77.5%	156.1%

The figures above are on a cumulative basis and are unaudited. Future results will also be presented on a cumulative basis in this section. Annual results will be illustrated below for those who wish to measure us based on 12-month cycles. However, we view the cumulative results as most meaningful since we are trying to build wealth far into the future and the annual results are only important in as much as they contribute to a 3, 5, 10, and 20-year track record.

Annual Results:	<u>LRCP Equity Fund I</u> <u>Gross</u>	<u>LRCP Equity Fund I</u> <u>Net</u>	<u>S&amp;P 500 Energy</u>	<u>AMZ</u>	<u>XAL</u>
2025:	8.0%	7.0%	7.9%	9.8%	4.8%
2024:	52.4%	40.3%	5.7%	24.4%	-1.0%
2023:	36.5%	28.4%	-.6%	26.6%	28.2%
2022:	12.5%	10.3%	64.2%	30.5%	-35.0%
2021:	41.8%	32.4%	53.3%	39.9%	-1.7%
2020:	10.6%	9.0%	-33.7%	-28.8%	-24.2%
2019:	2.5%	2.5%	11.8%	6.5%	21.3%
2018:	-3.8%	-3.8%	-18.1%	-12.4%	-22.4%

To reiterate, our goal is to have good absolute returns first and foremost, which should lead to good relative returns versus the broader markets. However, I also think it's important to highlight the performance of the primary sectors in which we feel we have an advantage and in which we invest. There is no reason to present this other than for transparency reasons. Owning a highly concentrated portfolio will prevent our results from looking like anything we compare them to in most years, but knowing the performance of energy broadly, midstream energy specifically, and North American airlines will add some context for those partners who wish to do some higher-level analysis. Please see the accompanying disclaimer & footnotes at the end of the letter for a broader description of each of these indices.

*“The one problem with the investment business is that things don’t come along in an orderly fashion...It will happen again. But I don’t know when. It could be next week, it could be five years off, but it won’t be 50 years off. We will be bombarded with offerings that we’ll be glad we have the cash for.”—Warren Buffett at the 2025 shareholder meeting.*

## **RESULTS FOR 2025**

Our partnership returned 7% net of a 1% performance fee last year. Not great.

It’s hard to put a finger directly on the primary factors that led to our subpar relative investment performance. We came out of the gate fast, melted down like everyone else after Liberation Day, struggled to recapture positive momentum for a few months despite smartly deploying capital at the depths of the drawdown, made some real headway November through mid-December, then gave some back as year-end tax loss selling weighed on a couple stocks. Shift the calendar end date from December 31<sup>st</sup> to January 6<sup>th</sup> and our returns would have been 4%+ better. Such is the never-ending, often inexplicable, volatility of a highly concentrated value investor. Had we been employed by a large multi-strategy fund we would have been fired multiple times last year, including on New Year’s Eve.

Since 1871, when measured over a 5-year period, 80% of an equity investor’s total return has come from a stock’s dividend yield plus the dividend or earnings growth rate, with the remainder coming from changes in valuation, i.e., multiple expansion or contraction. Conversely, when measured over only a 1-year period, 60% of an investor’s total return comes from valuation changes<sup>1</sup>. Considering that we entered the year with 27% *cash*, a 6% dividend yield and 2-3% dividend growth, I guess it’s not terribly surprising we returned 8% gross last year—the market thought neither more or less of our companies and the cash flow they produce!

### **Too Much Cash - Big Mistake?**

Mathematically, the biggest investment mistake we’ve made over the life of this partnership, and most acutely over the past 5-years, is the opportunity cost of not owning more of our own portfolio. *Cash* as a percentage of assets has been as low as 4% (2022) and as high as 30% (today). Since 2021, we estimate that decision has negatively impacted our cumulative return ~20% before fees. However, the intangible and tangible benefits of holding cash, especially in the current environment, are meaningful.

The intangible benefit hopefully comes from meaningfully improved decision making due to less strain on our endocrine systems. While hard to measure, not being at Full Tilt all the time has to help lower blood pressure and improve sleep, both of which are necessary for us to think clearly and to maintain a level of stoicism during market spasticity. If it’s true that cooler heads prevail in a crisis, we want to make sure we are the cooler heads.

Additionally, *cash*’s meager returns makes capital allocation decisions much easier when stocks sell off and emotions run high. We have zero emotional attachment to *cash*, nor any

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<sup>1</sup> SG Global Strategy; as referenced in *Value Investing by James Montier*

pre-existing biases. It's just a place holder. That's not the case with existing businesses we own, and the multiple decisions, and potential mistakes, that arise from "do I sell X, which is down 25%, to buy more Y, which is down 40%?", is simplified to the single question of "Y is down 40%, do I have *cash* to buy more Y?" For us the answer is yes.

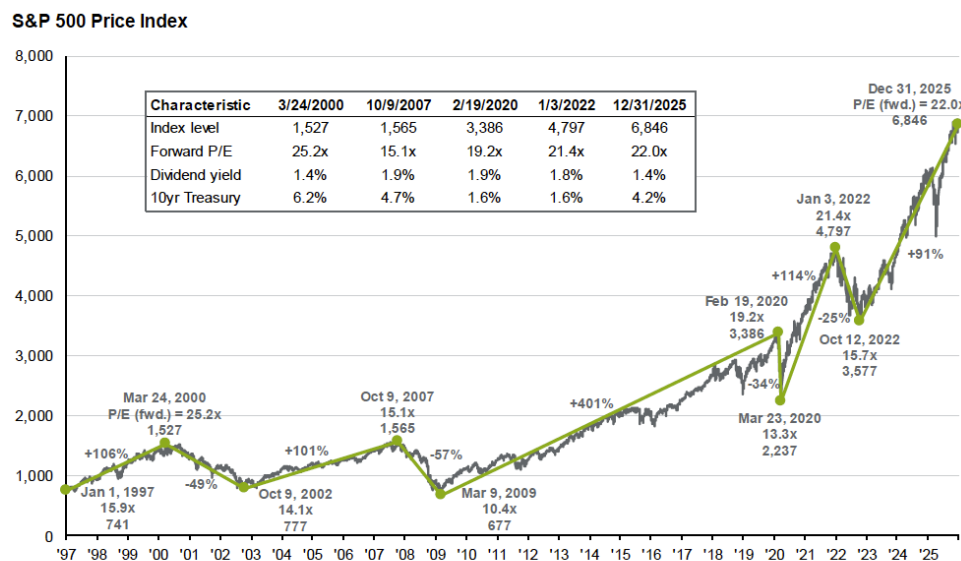
The tangible benefit to holding *cash* is obvious: it acts as a flotation devise if and when the ship starts taking on water. However, our allocation to *cash* should be viewed as a function of the opportunity set in front of us, not necessarily as a call on the general stock market, although, more often than not, they are highly correlated when the bough breaks.

Most of the names we've owned for several years have had decent performance, and despite earnings and dividends growing over that period most have also benefited from a moderate re-rating, thus narrowing the margin of safety. Equally distributing excess *cash* across our current portfolio doesn't appeal to us at this very moment, but circumstances can change quickly and we've had numerous bouts of idiosyncratic volatility in owned or followed names in the recent past. And sitting on our ass(ets)—as Munger would say—doesn't mean we've quit trying to find great opportunities. We're finding new ideas we think are cheap, we just aren't finding as many. Rather than make a new idea a 15%+ position in an effort to deploy more of our *cash*, which would make us uncomfortable, we initially invest 10% or less.

Our investment in Polaris (PIL) last summer is a great example. Deploying 22% of our *cash* balance, we purchased a 7% position when the stock had over a 7% dividend yield and was trading at multi-year lows. We weren't forced to sell good value in order to purchase great value, which made the decision much easier and allowed us to be more opportunistic.

### Too Little Cash - Bigger Mistake!

Stocks look expensive, and the chart below from JP Morgan suggests more great buying opportunities could soon be on the horizon. Not hoarding a little cash at this point in the cycle seems reckless.



Source: FactSet, Federal Reserve, Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management.

At the very least, recent performance for the broader indices is long in the tooth. Most valuations are stretched and some are just bat\*hit crazy. We had similar sentiments back in 2019 and wrote about it. Back then the posterchild of the speculative mania was Tesla (TSLA). Now there are dozens of candidates, including TSLA still, but Palantir (PLTR) may be in the pole position. We admit we don't completely understand what the company does, but it seems super cool. What we do understand is basic arithmetic, and when the CEO goes on CNBC and passionately attacks short sellers, who are just betting the stock is expensive, and he says, "pick something that is not doing a noble task", not once mentioning valuation during the 10-minute interview, the hair on our neck stands up. We don't short (we don't particularly like that math either), but the implied math around Palantir's valuation is concerning.

PLTR has an enterprise value (EV) of \$400B and is expected to have generated \$2B of free cash flow (FCF) in 2025. If one assumes that the business grows by its historical topline rate of 30%, buying the whole business today would mean that you wouldn't see a return of your capital, let alone a return on your capital, for at least 15 years! But once you factor in a discount rate of say 10%, the investor's payback period moves to 23 years (that's ~\$650B of FCF in year 23—the B is for Billions—but the discounted value is only ~\$72B). One could also argue that as a software company, the odds of attaining that level of cash generation appear very steep. Even for a company as ubiquitous as Microsoft, FCF has never exceeded \$75B.

Oh, you're a really long-term investor you say? Okay, well the investor who plans to hold on to PLTR for 50 years and hopes to earn a 10% return on their initial investment would need FCF to grow 16% annually to justify a \$400B investment. That may not seem like much, but that means FCF would grow from \$2B today to \$3.5 *trillion* in 50 years' time. The combined FCF for all of the Magnificent 7 is expected to be just shy of \$420B for 2025!

The point in highlighting PLTR is not to victimize one overvalued company because most of the large tech companies are valued the same way. The average FCF yield for the entire Magnificent 7 is just 1.9%!<sup>2</sup> The point is to emphasize the age-old 'bird in the hand' adage – investor optimism for many of these high-growth tech stocks is predicated on an unwaveringly bright outlook and, in our view, assumptions that boggle the mind. No one can say what the future holds. We infer based on knowledge, judgement, and experience, but there's still a good chance we'll be wrong. That's why cash today is far superior to wishful thinking.

### "Straight Cash, Homie"

These were the touching words uttered by Minnesota Vikings wide receiver Randy Moss in 2005 when he was asked how he intended to pay an NFL fine. It also happens to be the most succinct description of our investment philosophy, and also our primary means of weathering any potential volatility.

GMO Founder, and self-proclaimed perma-bear, Jeremy Grantham's perfectly timed March 2009 article *Reinvesting When Terrified* implored investors to have a plan that would allow them to start inching back into the market, despite being scared to death.

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<sup>2</sup> FCF yield for the Mag 7: AAPL 3.3%, AMZN 0.7%, GOOGL 1.6%, META 2.5%, MSFT 2.1%, NVDA 2.1%, TSLA 0.3%

*“As this crisis climaxes, formerly reasonable people will start to predict the end of the world, armed with plenty of terrifying and accurate data that will serve to reinforce the wisdom of your caution. Every decline will enhance the beauty of cash until, as some of us experienced in 1974, ‘terminal paralysis’ sets in. Those who were over invested will be catatonic and just sit and pray. Those few who look brilliant, oozing cash, will not want to easily give up their brilliance. So almost everyone is watching and waiting with their inertia beginning to set like concrete. Typically, those with a lot of cash will miss a very large chunk of the market recovery...There is only one cure for terminal paralysis: you absolutely must have a battle plan for reinvestment and stick to it.”*

We hope to be one of the few partnerships ‘who look brilliant, oozing cash’, but we also plan to easily abandon our brilliance and invest all our cash when valuations tell us to. Our battle plan to do so is simple—we’ll continue to view stocks as streams of discounted future cash flows and not just flashing red and green tickers.

While the ex-CEO of Berkshire Hathaway has spent countless hours sharing his wisdom on the importance of moats, valuation techniques, and staying within your circle of competence, it’s the business-owner’s mindset that has had the most impact on us. There’s a truly profound, yet subtle, implication from the business owner’s mindset when it comes to being a fractional owner versus being the sole proprietor. By owning businesses outright, all capital that wasn’t required for maintenance or profitable growth within the subsidiary was mailed to Omaha. This point is key within the context of Buffett’s ‘snowball’ approach to investing (i.e., compounding returns).

Unfortunately, owning businesses outright is not in the purview of our partnership, but we do try to replicate the model as closely as possible with the types of securities we own. How we’ve approached investing in the Energy sector, and specifically the Exploration & Production sub-sector, exemplifies our approach.

### **Mach Natural Resources & Kimbell Royalty Partners**

Rather than a full company description of Kimbell Royalty Partners (KRP) and Mach Natural Resources (MNR), we’ll focus on the differences and then the similarities. Kimbell owns mineral rights. That means they don’t own land, they don’t have an obligation to drill, they don’t even have to put up capital to benefit from the assets they own. Put simply, they possess the rights to a commodity that another party wants to extract and that party will pay a percentage of revenue to extract the commodity. KRP owns approximately 158K net royalty acres, an interest in over 131,000 wells, 68 million barrels of oil equivalent (BOE) of reserves, and produces 25,530 BOE per day. KRP has more than 14 years of drilling inventory, and a production decline rate of ~14%. Lastly, next year’s dividend is expected to be \$1.43/share, or a 10.8% yield.<sup>3</sup>

Mach is different from KRP in the sense that MNR is a non-traditional exploration and production (E&P) company. The company buys or leases producing acreage and then drills additional wells when and where they think they have a knowledge or operational

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<sup>3</sup> Consensus estimate from LSEG as of 1/28/2026

advantage. Before tackling the MNR business model, it's important to distinguish between land leases and mineral ownership. Owning minerals means just that! KRP can sit on the minerals it owns until judgement day. There is no obligation to drill, just the promise (or expectation, assuming the purchase was strategic) that an oil and gas company shows up and requests to drill a well. Leasing a parcel of land conveys the right, but typically not the obligation to drill a well. If the E&P does find oil and gas, they must pay the royalty owner a fee (to KRP, for example). The terms of the lease contain stipulations. The most important stipulation is how long the lessee can sit on the minerals before attempting extraction. However, if and once the minerals are flowing, that acre is contractually viewed as to be held by production (HBP). As long as HBP is in effect, the acreage remains with the lessee. It's worth noting here that 99% of MNR's 2.8M acres are held by production.<sup>4</sup> Additionally, MNR has an interest in 12,600 operating wells, 653 million BOE of reserves, and produces 151,000 BOE/d. And finally, consensus estimates for next year's dividend are \$2.20/share, or a 19.3% yield.<sup>5</sup>

In one sense, MNR has an ownership interest in the minerals under the surface acres they own, but only until production declines to the extent that it's uneconomical to continue producing. Compare that to KRP, which owns the minerals into perpetuity or until they sell. But there's a very important element of MNR's strategy – they only buy proved developed producing (PDP) acreage and they never buy acreage at a premium to PDP PV-10. That means MNR buys land that is currently producing oil and gas, of which the present value of estimated cash flow from the acquired wells discounted at 10% is greater than the purchase price<sup>6</sup>. That also means the purchase price only takes into consideration a stream of estimated cash flows, not the upside optionality of drilling and discovery of incremental oil and gas reserves (or selling off acreage to wildcatters who believe there's more opportunity in the ground!).

The similarities between KRP and MNR really boil down to the capital allocation philosophies of both management teams. Both companies allocate all cash that isn't required for maintenance or profitable growth to shareholders. KRP's capital allocation policy stipulates that 75% of distributable cash flow be distributed to shareholders. The remaining 25% goes toward paying down debt. While both KRP and MNR strive to adhere to important metrics (i.e., 1.0x leverage), MNR goes a few steps farther in defining four operating pillars (and reiterating them at the beginning of each earnings call!):

- *(I) Maintain low leverage* - 1.0x or less;
- *(II) Acquire cash flowing properties* - Buy PDP assets at less than PV10, then focus on reducing costs;
- *(III) Disciplined reinvestment rate* - Less than 50% of cash flow is used for drilling wells and paying down debt. The balance goes toward shareholder distributions;
- *(IV) Maximize distributions* – This pillar drives all other decisions.

The last two pillars resonate the most with us. Additionally, incentives for each company are aligned with our interests and both management teams are highly focused on returning capital to investors mainly because they themselves are large shareholders. The Ravnaas

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<sup>4</sup> There is a non-immaterial number of acres that are also royalty acres within MNR's asset portfolio.

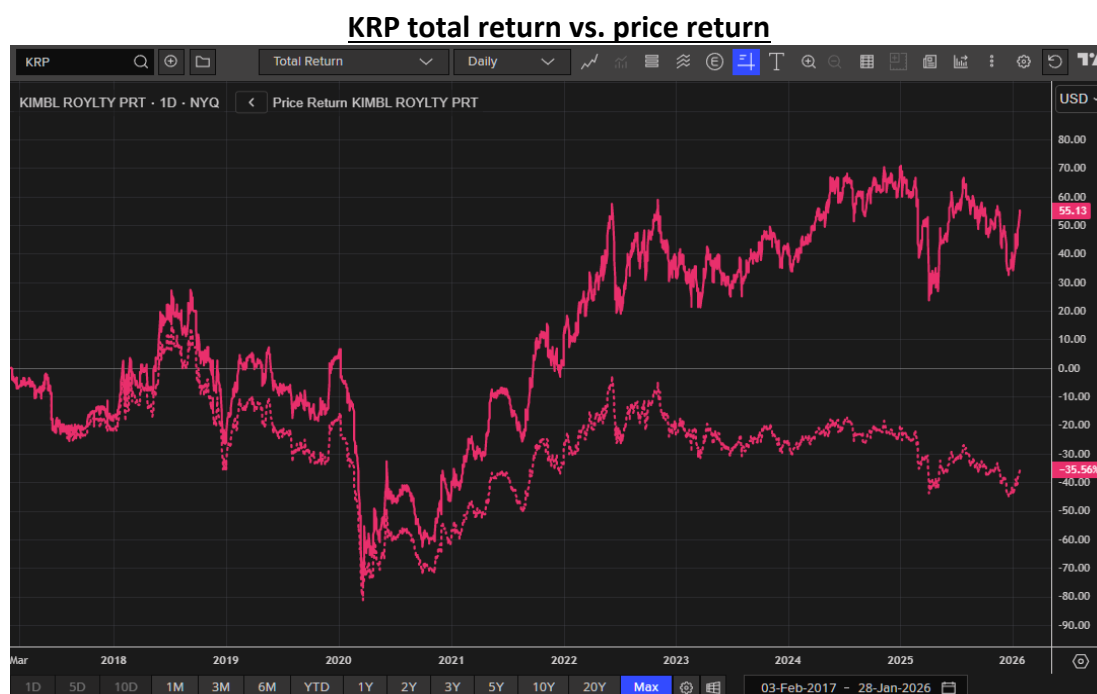
<sup>5</sup> Consensus estimate from LSEG as of 1/28/2026

<sup>6</sup> Note that the estimated cash flow is based on the futures curves for all relevant commodities at the time of purchase.

family, which founded Kimbell, owns over 4% of shares.<sup>7</sup> Tom Ward founded MNR along with private equity firm Bayou City Energy Management, who together own 8.1% and 44.4%, respectively.

Both companies view themselves as acquisition companies, and growth will almost always be inorganic. That's because KRP isn't involved in drilling and production decisions (they just own minerals) and because MNR only invests in drilling to keep production flat (though good drilling results may result in slight production growth here and there). One of the benefits of the grow by acquisition model, at least for these two businesses, is that there can be a significant amount of operating leverage. Especially in the case of KRP, buying (and owning) an incremental acre doesn't materially affect the cost structure of the business. To a lesser extent, the same can be said about MNR. Both companies emphasize the declining nature of SG&A per BOE produced. For MNR, the company tends to focus on acquiring assets in areas where they have significant experience and where they think they can lower costs. As a result, MNR has reduced production expenses for every acquisition they've made by 25-35%.

The share price performance for KRP and MNR, since their initial public offerings (IPO), have not been good. KRP's share price is down 36% and MNR is down 38% (to be clear, we haven't owned them since inception). But the total return for KRP has been a positive 55% because they've returned a total of 73% of the IPO price in the form of dividends! And the total return for MNR is only a negative 15% (at the end of 2025, the shares were valued at \$11.64, down from an \$18/share IPO price). It's extremely important to note that despite the declining share prices, both businesses have increased reserves, production, and acreage since they've gone public.<sup>8</sup>



<sup>7</sup> Deciphering the exact ownership is not possible given the two share classes

<sup>8</sup> This is also true on per share calculations, except for production due to the different barrel values for natural gas, oil, and NGLs.



### MNR total return vs. price return



It's worth highlighting one final benefit of owning shares in KRP and MNR. The taxes on capital gains and qualified dividends are important tax considerations for any investor. KRP and MNR both benefit from preferential tax treatment for the income they provide. MNR is a master limited partnership (MLP), which means that dividend income reduces the tax basis in the price at which an investor buys. Even though KRP is not an MLP (i.e., you won't receive a K-1 at the end of the year), the corporate structure allows for the passthrough of certain tax breaks that make distributions a non-taxable reduction of basis as well.

We think that owning shares in MNR and KRP is as close as one will get in public markets to owning a business outright.<sup>9</sup> The dividend policies ensure that we get all the cash we would want to pull out of the business and still have competent management running it. Simultaneously, the income allows us to allocate capital in a way that benefits our partners. Buffett and Munger believed that the concept of the cost of capital was severely flawed.<sup>10</sup> They suggest that the only thing an investor should be concerned about is whether or not an investment opportunity had a greater expected return than any other investment opportunity of which they're aware. We're searching and we'll continue searching to the best of our abilities. Until we find another good idea, we're happy cashing in dividend checks so that we can buy more shares in the companies we know well and like.

### ***Portfolio & Partnership Update***

Not much has changed in our portfolio since the mid-year letter. As previously mentioned, cash built from 22% to 30% from ongoing dividends and because we exited a small position

<sup>9</sup> REITs may offer some comparable opportunities, but that's out of our wheelhouse

<sup>10</sup> In particular, the Capital Asset Pricing Model, or CAPM as it's known

that had done really well the past couple of years but had run its course as a value proposition. Our portfolio is flatter than it has been in some time but is still concentrated in only 10 names. The dividend yield is just under 6%.

We have started charging certain costs to the partnership. Audit and tax will now be expensed through the fund going forward. Our operating expense ratio is ~25bps.

Kind Regards,

Legacy Ridge Capital Management, LLC  
1-31-2026

## **Disclaimer & Footnotes**

*This letter is for informational purposes only and does not reflect all of the positions bought, sold, or held by Legacy Ridge Capital Partners Equity Fund I, LP. Any performance data is historical in nature and is not an indication of future results. All investments involve risk, including the loss of principal. Legacy Ridge Capital Management LLC disclaims any duty to provide updates to the information contained within this letter.*

*This letter may include forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors which may cause actual results and performance to be materially different from any future results and/or performance expressed or implied by such forward looking statements.*

*Performance for 2018 is provided by Richey May & Associates, our auditor, and was provided via a Performance Review for a separate account that was transferred into the Fund and constituted 100% of the assets of the Fund as of November 1, 2018. Results are net of fund expenses. All performance related figures for the Partnership are unaudited.*

*Indices are provided as market indicators only. It should not be assumed that any investment vehicles managed by Legacy Ridge Capital Management will, or intend to, match provided indices in holdings, volatility or style. Index returns supplied are believed to be accurate and reliable.*

*The S&P 500 is a market capitalization weighted index that measures the performance of the 500 largest US based companies. The Russell 2000 Index is a market capitalization weighted index that measures the performance of the smallest 2000 stocks in the Russell 3000 Index and is a common benchmark for smaller companies. The MSCI World Index is a market capitalization weighted index that is designed to be a broad measure of equity-market performance throughout the world. It is comprised of stocks from 23 developed countries and 24 emerging markets.*

*The AMZ is an index provided by Alerian and measures the return of 32 Master Limited Partnerships on a total return basis. The S&P 500 Energy sub-index comprises those companies included in the S&P 500 that are classified as members of the GICS energy sector. There are currently 28 constituents in the S&P 500 Energy sub-index. The XAL is the NYSE Arca Airline Index. There are currently 14 constituents in the XAL, with most domiciled in the US.*

*This letter does not constitute an offer or solicitation to buy an interest in Legacy Ridge Capital Partners Equity Fund I, LP. Such an offer may only be made pursuant to the delivery of an approved confidential private offering memorandum to an investor. This reporting does not include certain information that should be considered relevant to an investment in Legacy Ridge Capital Managements investment vehicles, including, but not limited to significant risk factors and complex tax considerations. For more information please refer to the appropriate Memorandum and read it carefully before you invest.*