



# BLACK BEAR

VALUE PARTNERS

July 9, 2026

## Black Bear Value Partners Q2 2026 LP Letter

*“Those are my principles. If you don’t like them...well, I have others.” – Groucho Marx*

To My Partners and Friends:

- Black Bear Value Fund, LP (the “Fund”) returned -3.6% in June and +1.5% YTD.
- The S&P 500 returned -1.0% in June and +10.2% YTD.
- The HFRI Index returned +0.5% June and +7.1% 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%	-2.0%	-5.1%	-3.6%							1.5%
	HFRI Index - Value	2.3%	1.2%	-5.0%	6.3%	1.9%	0.5%							7.1%
	S&P 500	1.4%	-0.8%	-5.0%	10.5%	5.3%	-1.0%							

Summary Performance Net of Fees and Expenses							
		June	QTD	YTD	3Y	5Y	Inception
Black Bear Value Fund		-3.6%	-10.4%	1.5%	-3.3%	4.0%	6.0%
HFRI Index - Value		0.5%	8.9%	7.1%	14.5%	7.7%	9.2%
S&P 500		-1.0%	15.2%	10.2%	20.5%	13.4%	15.4%

Strategy Exposure @ 06/30/2026			
	LONG	SHORT	NET
Equities	97.6%	-43.2%	54.4%
Preferred Equity	0.0%	0.0%	0.0%
Fixed Income/Credit	0.0%	-23.8%	-23.8%
<b>Total Investments</b>	<b>97.6%</b>	<b>-67.0%</b>	<b>30.6%</b>
Cash	54.4%	0.0%	54.4%
T-Bills	0.0%	0.0%	0.0%
<b>Total Cash/T-Bills</b>	<b>54.4%</b>	<b>0.0%</b>	<b>54.4%</b>

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	
Core Natural Resources		CNR	
PrairieSky Royalty		PSK.TO	
Tidewater		TDW	
Warrior Met Coal		HCC	

Note: As 6/30/2026

Gross Concentration Breakdown	
	Long %
Top 5 positions	63%
Top 10 positions	98%

Note: As 6/30/2026

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

After several disappointing years, I'd be lying if I said I haven't thought about the Groucho Marx quote more than once. It's tempting after a stretch like ours to reinvent yourself—to chase what's working, rewrite your investment philosophy, or convince yourself that discipline is overrated. That won't be this letter.

I remain confident in our long-term opportunity, but please do not confuse confidence with satisfaction or complacency. I am deeply dissatisfied with our recent results. This letter is an attempt to explain why I believe the gap between our performance and the underlying value of the portfolio has become unusually wide—and why I remain invested alongside you.

Today's market reflects extraordinary optimism in many of the largest and most widely owned securities. That optimism is not reflected in the areas where we are invested. I believe our defensive positioning remains the prudent course—not because I expect to predict the next market move, but because I believe we own quality businesses at sensible prices with very little, if any, future success already embedded in their valuations. Our short book is concentrated in businesses whose valuations appear to assume bullish business fundamentals or capital structures that we believe are unlikely to prove durable.



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We remain heavily invested across the energy and commodity complex. Years of capital underinvestment have left these industries vulnerable to unexpected increases in demand or disruptions in supply. Our investments span natural gas, oil (both onshore and offshore), and thermal and metallurgical coal. While the ultimate outcome of the Iran conflict is unknowable, I believe the need for these commodities will continue to grow over time. These markets remain structurally tight, making them susceptible to significant price moves when unexpected events occur.

We also continue to own businesses positioned to benefit from the long-term need for additional housing, as well as select financial services companies, including a bank turnaround we have discussed in prior letters and a large-cap bank undergoing what we believe is an underappreciated merger.

As discussed previously, many of our portfolio companies are emerging from capital investment cycles and entering the most cash-generative stages of their development. Some have begun to re-rate, but I believe we remain in the early innings. In the meantime, these businesses continue to compound value by generating substantial free cash flow, paying dividends, repurchasing shares, and strengthening their competitive positions.

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

- Housing (Distributor + large landowner in California) - Structurally underbuilt housing with a rising need as millennials form households.
- 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.
- 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**

Year-to-date, our long investments generated 4.1%, while our short positions reduced returns by 2.3%. Although frustrating in the current market environment, we believe our short book continues to provide valuable downside protection should market conditions change.

<b><u>YTD 2026</u></b>	
<b><u>Category</u></b>	<b><u>Contribution</u></b>
Equity Longs (Stocks we own)	4.1%
Cash/Tbills	0.3%
Equity Shorts (Bets against)	-2.1%
Credit Shorts (Bets against)	-0.2%
<b>Total Gross Return</b>	<b>1.9%</b>



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### Credit Shorts/Equity Shorts

We maintained our short equity exposure at approximately 43% during the second quarter. We also increased our credit short exposure by adding a short position in high-yield credit, a position we have owned in prior years. Credit spreads have tightened back to historically low levels, and we believe the market is materially underestimating the risk of future credit impairment.

While I do not discuss individual short positions, our short book continues to reflect several recurring themes that are largely unchanged from the first quarter:

- Private credit lenders/private equity – We remain short a basket of companies exposed to the private credit ecosystem. While there are many thoughtful investors in the space, it has attracted enormous amounts of capital in recent years. In our view, that has led some sponsors to pay excessive prices and extend credit on increasingly borrower-friendly terms.
- AI “wannabes” – AI will undoubtedly reshape many industries, but we believe we remain early in its economic lifecycle. Many companies have repositioned themselves as AI beneficiaries despite questionable business models, relying more on promotional narratives than durable competitive advantages.
- Banks/Bridge lending– We remain short a bank that reminds us of aspects of our Silicon Valley Bank and First Republic shorts. We believe its reported financial strength materially overstates its underlying economic reality. More broadly, many bridge lenders—including this bank—are extending and restructuring troubled loans rather than recognizing losses. We believe those losses are being deferred, not avoided, and expect additional dividend reductions and capital pressure over time.
- Buy-now/pay-later lenders – These companies lend to some of the weakest consumer credits through small-dollar, short-duration loans. While the model can perform adequately in benign credit environments, we believe it now faces two headwinds: weakening lower-income consumer health and intense competition in what is ultimately a commodity product. Historically, that combination has not produced attractive long-term economics.
- Legacy data centers – These businesses require significant capital investment while generating only mediocre leveraged returns on capital. We believe the accounting often obscures the underlying economics, leverage remains elevated, and enthusiasm surrounding AI has indiscriminately lifted valuations across the sector.

### Top 5 Businesses We Own

#### Builders FirstSource (BLDR)

BLDR appreciated approximately 9% during the second quarter but remains down roughly 13% year-to-date amid continued weakness in the housing market. New home demand has softened as affordability challenges continue to weigh on buyers. We expect 2026 free cash flow to be approximately \$500–800 million, representing a 5–9% free-cash-flow yield. While housing activity remains near cyclical lows, we believe BLDR should be able to sustain this level of cash generation.

As a reminder, BLDR is a manufacturer and supplier of building materials focused primarily on residential construction. Historically, the business was highly cyclical, with limited pricing power because much of its revenue came from commodity products such as lumber. Since the Global Financial Crisis, however, the company has transformed its business, growing its higher-value-added operations to more than 40% of revenue. That shift has improved margins, increased returns on capital, and made the business meaningfully more resilient across the housing cycle.



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Housing affordability is unlikely to improve materially in the near term absent a significant decline in mortgage rates, which we do not expect. That said, we believe the underlying fundamentals continue to improve. As new housing supply remains constrained, rental rates should continue to rise, making homeownership relatively more attractive. At the same time, as higher mortgage rates become more normalized and wages continue to increase, both actual affordability and consumers' willingness to finance homes at today's rates should gradually improve.

Our long-term investment thesis remains unchanged. The United States continues to face a structural housing shortage, and higher mortgage rates have further constrained the supply of existing homes by locking homeowners into low-rate mortgages. As a result, even if overall housing activity remains subdued, we believe new homebuilders are likely to continue gaining market share, an important benefit for BLDR given its significant exposure to new residential construction.

We have reduced our near-term cash flow estimates to reflect a slower housing recovery. Even so, we continue to estimate normalized free cash flow of approximately \$9–12 per share, implying a normalized free-cash-flow yield of roughly 10–13% before assigning any value to future growth. Combined with favorable long-term industry dynamics and BLDR's increasingly advantaged competitive position, we continue to believe the shares offer an attractive risk-reward.

### **Core Natural Resources (CNR)**

CNR declined approximately 23% during the second quarter and is down roughly 9% year-to-date, including dividends.

Core is one of the world's leading producers of both metallurgical coal, used in steelmaking, and thermal coal, used in power generation.

Thermal coal stands to benefit from growing global electricity demand following more than a decade of limited growth. While headlines often focus on renewable energy, we believe virtually every source of electricity generation will be needed to satisfy rising demand from AI, data centers, and broader electrification. Much of the developing world continues to rely on thermal coal as an essential source of baseload power, while global cement production, which also depends on coal as a key feedstock—is expected to grow meaningfully over the coming decades.

We also remain constructive on metallurgical coal. Demand is expected to increase over the next several decades, driven by industrialization and urbanization across India and Southeast Asia. At the same time, years of ESG-driven underinvestment have constrained new supply, with industry capital spending having peaked more than a decade ago. We believe this combination of growing demand and limited supply should support attractive long-term pricing.

Core offers multiple sources of value. The company owns a marine export terminal that we estimate is worth approximately \$500–800 million, or roughly \$11–17 per share. The operating coal business has the potential to generate approximately \$6–18 of free cash flow per share across the commodity cycle, which we estimate is worth approximately \$54–190 per share. Taken together, we believe Core's intrinsic value is approximately \$65–207 per share versus a quarter-end share price of \$80.

Coal earnings will always fluctuate with commodity prices, and there is inevitably a wide range of outcomes in any given year. At today's valuation, however, we believe the market is discounting an overly pessimistic



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scenario while assigning little value to the company's long-lived assets and favorable long-term industry fundamentals. In our view, that creates an attractive asymmetric opportunity.

### **PrairieSky Royalty (PSK.TO)**

PSK.TO declined approximately 1% during the second quarter and is up roughly 20% year-to-date, including dividends.

PrairieSky 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 drill or operate oil and gas wells itself. Instead, it leases its lands to third-party producers and collects high-margin royalty income based on production, without incurring the operating costs or capital expenditures required to develop those resources.

Businesses with this combination of asset-light economics, minimal capital requirements, and long-duration cash flows typically deserve premium valuations. Yet, likely because it is both an energy company and Canadian, PrairieSky can currently be purchased at an implied free-cash-flow yield of approximately 5–8%, assuming stable production and commodity prices.

Just as importantly, the company is led by an exceptional management team and Board with a demonstrated history of disciplined capital allocation. In a world where years of underinvestment have constrained future energy supply, we believe PrairieSky offers an attractive combination of current income, downside resilience, and long-term optionality. We are paid an attractive yield while owning a business that should benefit if energy prices rise or additional production is required to meet future demand.

### **Tidewater (TDW)**

TDW declined approximately 20% during the second quarter but remains up roughly 32% year-to-date.

Tidewater is the world's largest owner and operator of offshore support vessels (OSVs), providing essential marine services to the offshore energy industry. Its vessels transport personnel and equipment, tow and anchor drilling rigs, and support offshore construction and production activities.

While the near-term outlook has become somewhat less certain, we remain constructive on the long-term fundamentals. As growth from mature onshore resource plays such as the Permian moderates, global energy demand will increasingly require new offshore production. We believe offshore capital spending is likely to recover over the next one to two years as producers commit capital to replacing depleted reserves.

The more compelling part of the investment case, however, is on the supply side. Following the Global Financial Crisis, global shipyard capacity has declined by nearly 60%, while financing for new vessel construction has become increasingly scarce as many traditional lenders have exited the market. As a result, very few new offshore support vessels are being built. With the global fleet continuing to age, we expect the effective supply of OSVs to decline materially over the coming decade.

This combination of constrained supply and recovering demand creates the potential for meaningful increases in vessel utilization and day rates. Tidewater generated approximately \$350 million of free cash flow in 2025, representing a trailing free-cash-flow yield of roughly 8%. Under more normalized industry conditions, we believe annual free cash flow could reasonably increase to approximately \$500 million to \$1 billion, implying a free-cash-flow yield of roughly 15–30% at today's valuation.



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### Warrior Met Coal (HCC)

HCC declined approximately 13% during the second quarter and is down roughly 8% year-to-date.

Warrior Met Coal is a leading producer of premium metallurgical coal, which is used in steel production. Years of limited global investment in new metallurgical coal capacity have constrained future supply, which should provide a favorable backdrop when steel demand improves. Importantly, our investment thesis does not depend on a significant recovery in coal prices.

The company recently completed its Blue Creek development project, which had consumed the majority of its free cash flow over the past several years. With construction now largely complete, Blue Creek positions Warrior as one of the lowest-cost producers in the industry while allowing substantially more cash flow to accrue to shareholders.

Assuming a "lower-for-longer" metallurgical coal price environment, we estimate the business can generate approximately \$300–700 million of annual free cash flow, or roughly \$6–13 per share. At a quarter-end share price of approximately \$81, that represents an unlevered free-cash-flow yield of roughly 7–16%.

We also believe the market is assigning little value to the company's embedded growth opportunities. Blue Creek has the potential to support higher production over time, and a recent lease transaction with the Bureau of Land Management provides additional resource optionality. Together, we estimate these opportunities could add approximately \$3–30 per share of incremental value. If realized, we believe we own the business at an effective unlevered free-cash-flow yield of approximately 8–25%.

### Concluding Thoughts

Our businesses continue to execute. Many are producing substantial cash flow, buying back stock, paying dividends, and moving into the most cash-generative phases of their lifecycles. Yet many remain priced with a considerable amount of pessimism. On the other side of the ledger, our short book consists largely of businesses with some combination of excessive leverage, unrealistic expectations, deteriorating competitive positions, and, in a few instances, what looks like fundamentally misleading narratives. The odds remain tilted in our favor.

I hesitate to declare a market bubble because those judgements are easy to make in hindsight and often wrong in real time. It is enough to observe that much of today's market is priced with extraordinary optimism. Earlier this year Bank of America notes that the "AI Big Ten" – the Magnificent Seven plus Broadcom, AMD, and Micron – represented roughly 40% of the total U.S. market capitalization. That level of concentration is strikingly similar to previous periods of peak enthusiasm, including technology in 1999, Japan in 1989 and the Nifty Fifty in the early 1970's. History does not repeat perfectly, and this time may indeed be different. But when expectations become concentrated in a handful of widely owned securities, future returns rarely resemble the recent past.

Our returns have never arrived in a straight line. They have often been frustratingly uneven, followed by periods in which we recovered lost ground far more quickly than seemed possible only months earlier. I believe the ingredients for that kind of recovery are in place today.

That brings me back to where I began. After a difficult stretch, it is tempting to abandon discipline in pursuit of whatever is working today. I have no intention of doing that. I remain invested alongside you because I believe



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the gap between price and value across our portfolio is unusually wide, our businesses continue to improve, and patience is most valuable precisely when it is the hardest to maintain.

Thank you, as always, for your trust and patience. I believe both will be rewarded.

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

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