HEADWATERS CAPITAL

www.headwaterscapmgmt.com

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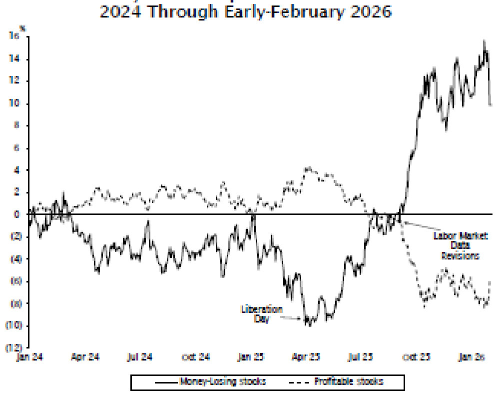
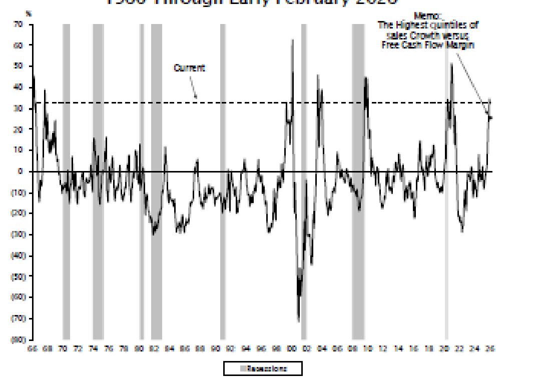
This letter will start with a brief overview of the state of the markets, followed by an exciting business update. By almost every measure, 2025 was one of the narrowest markets in history, matched or surpassed only by the tech bubble of 1998-2000. Returns for large caps continued to outpace small caps and returns within each portion of the market were dominated by AI infrastructure plays and speculative, unprofitable companies. In 2025, 65% of the Russell 2000's return came from AI infrastructure plays (*Source: Empirical Research)*. The remainder of the index's returns were dominated by a speculative frenzy in unprofitable companies. The graphic below illustrates how extreme the bifurcation in performance was between unprofitable stocks and quality stocks.

Exhibit 27: Money-Losing and Profitable Small-Capitalization Stocks
Cumulative Relative Returns[1]
Daily Data Compounded
2024 Through Early-February 2026



Source: Empirical Research Partners Analysis.
[1] Equally-weighted data.

Exhibit 28: Money-Losing Small-Capitalization Stocks
Trailing Nine-Month Returns[1]
Relative to Profitable Small-Capitalization Stocks
1966 Through Early-February 2026



Source: Empirical Research Partners Analysis.
[1] Equally-weighted data.

The result of the recent price action is a market that is as concentrated as it has ever been, arguably even more concentrated than it appears given the profits of many of the leading companies are tied to AI infrastructure spending. Valuation disparities between winners and losers have reached historic extremes and quality businesses today trade at historically cheap multiples. Today's market simultaneously presents as many opportunities and risks as I can ever remember. If you believe that earnings are the long-term driver of stock prices, the trade in unprofitable companies will ultimately reverse. It is debatable whether the AI trade will persist, but it is a singular bet on how much CAPEX five companies will spend building data centers. If you own the small cap index, you are increasingly exposed to both AI CAPEX and unprofitable companies. In a historically concentrated market levered to a singular theme, I believe the value of an actively managed portfolio will prove valuable going forward. Which leads me to a business update for Headwaters Capital.

Beginning April 1, 2026, I will be joining ZWJ Investment Counsel as a Portfolio Manager. Founded in 1982, ZWJ is an Atlanta based Registered Investment Advisor managing $4.2 billion in client assets for individuals, families, foundations, and charitable organizations. Similar to Headwaters Capital, ZWJ believes in an active approach to investment management, investing directly in the equities and fixed income securities of publicly traded businesses. Leveraging a team of experienced investment professionals, ZWJ generates and monitors all investment ideas internally and takes a long-term ownership approach to the businesses owned in the portfolio. I am thrilled to join a team that shares the same investment philosophy and rigor that was the foundation of the Headwaters Capital strategy. I am excited about this new chapter and look forward to sharing more details in the coming weeks.

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Important Disclosure

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Investing in small- and mid-size companies can involve risks such as less publicly available information than larger companies, volatility, and less liquidity. Investing in a more limited number of issuers and sectors can be subject to greater market fluctuation. Portfolios that concentrate investments in a certain sector may be subject to greater risk than portfolios that invest more broadly, as companies in that sector may share common characteristics and may react similarly to market developments or other factors affecting their values.

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