Q1 2026 Commentary

April 24th, 2026

Dear Investors and Prospective Investors,

Please see our Income and Value returns below.

Investment Strategy Total Returns	1Q 2026	YTD	1 Yr	Inception[1]
Income Strategy Returns, Gross	-5.00%	-5.00%	1.33%	8.66%
Income Strategy Returns, Net	-5.23%	-5.23%	0.38%	7.76%
Value Strategy Returns, Gross	-6.04%	-6.04%	1.23%	9.12%
Value Strategy Returns, Net	-6.26%	-6.26%	0.24%	8.21%
Index[2]	-3.33%	-3.33%	0.58%	3.74% / 5.46%[3]

1. Inception date for Income and Value are 3/1/2024 and 5/1/2024, respectively. Inception returns are annualized
2. MVIS US Mortgage REIT Index, Total Return Net. Inception returns are annualized
3. Inception returns for the Benchmark when compared to Income and Income + Value, respectively.

Q1 2026 returns for the Income Strategy was -5.00% (gross of fees) and -5.23% (net of fees), underperforming the Benchmark's return for the same time period by 1.90%.

For the same period, the Value Strategy returned -6.04% (gross of fees) and -6.26% (net of fees), underperforming the Benchmark by 2.93%.

Underperformance in our opinion can be attributed to:

1. Potential inflation shock from the Iran War and that spilling over to the financial sector
2. Private credit fears resulting from poor credit underwriting and liquidity issues
    a. We have very minimal BDC exposure, yet one of our holdings (RITM) is indirectly impacted by the private credit issues. We find the selloff in this name to be much overdone and unjustified. **We have added more to our RITM position over the last quarter and still see it as significantly undervalued.** See more in the below sections.

Despite all of the volatility and a disappointing quarter, our strategies are still outperforming our Benchmark on a long-term basis. See our fund fact sheets (Income and Value). On an absolute return basis, our inception returns for both investment strategies well exceed our benchmark inception returns (inception returns are annualized). In addition, the volatility of both strategies is less than our Benchmark.

As long-term investors, our goal is to earn investors long-term compounding returns with diversified investments that are not correlated with the broad market. We are not trying to capitalize on the AI wave or big tech concentration; we are simply investing in industries that we believe investors have a lack of exposure to. As detailed in previous newsletters and also below, we believe certain subsectors of the market such as Mortgage REITs are both misunderstood and under allocated to, and providing that investment expertise is part of the Firm's value thesis.

Given the above, my conviction is that an allocation to either the Income or Value Strategies could be beneficial, since they can achieve several key objectives, mainly:

1) **Diversification.** Provides diversification away from the broad market via exposure to mortgage REITs, preferred stock, and other small cap investments

2) **Higher Dividend Yield.** This allows investors to earn what I believe is a higher-than-average dividend yield than the broad market, with the trailing twelve-month dividend yield being **9.42%** for Income and **7.10%**[1] for Value
   a) The yields may go higher given that they are backward-looking and we have added some investments that have trailing twelve month yields higher than our investment strategies.

3) **Investor Friendly.** The fund structure is in my opinion very investor-friendly, as there are no lockups of capital, a simple fee structure of 1% annually with total assets managed by our firm under $1mm (see disclosure brochure for more information on fees), and all clients are in separately managed accounts so that investors have full visibility and transparency into what they own

In the foreseeable future, Going forward, our strategy will remain the same. We believe that the long-term investment horizon for small cap dividend stocks, especially mortgage REITs, is still attractive given that A) we do not believe the long-term fundamentals, both from a managerial and business/operational viewpoint has changed and B) the income generated may be viewed as an attractive hedge in times of volatility.

To existing investors, thank you again for your trust over the last year and to prospective investors, learn more "HERE" and please reach out if you have any questions.

-Eric Kruglak

A Deeper Dive into Rithm Capital:

Much of the selloff we have seen market-wide has been tied to both the Iran War and especially the credit and liquidity issues we have seen in the private credit sector, specifically private credits held within Business Development Companies (BDCs). Unfortunately, much of the fear has spread to the mortgage REIT world in which we do not think there is much comparison (credits backed by riskier, more complex firms vs. credits backed by housing). **That being said, one of our largest positions, Rithm Capital (RITM), has been what we believe to be unjustifiably impacted by what is going on within private credit, so much so that we have been buyers of RITM over the last month or two.**

The genesis of RITM's price action for the quarter is as follows:

1. TCPC, Blackrock's publicly traded BDC, announced loan writedowns that reduced net asset value per share (NAV by ~19%. Minimal price action for RITM
2. On 1/30, Pennymac Financial Services Inc. (PFSI), an originator and servicer of mortgages in the US, reports an earnings miss driven by higher prepayments and tighter gain-on-sale margins (GOS, the margin they make from selling their loan production)
   a. Stock trades down 20%+ and drags down RITM by ~8%
3. On 2/3, RITM reports strong earnings and while slightly underperforming on book value, outperformed on loan originations and GOS margins. Minimal price action.
4. From there, you have a barrage of BDC-related announcements such as another TCPC writedown, MFIC dividend cut, and too much news about Blue Owl (OWL) and the record redemptions seen in their private funds
   a. Other alternative asset management firms such as Ares and Apollo gate redemptions on their private credit funds. This fear spills over to RITM which in some ways is now lumped in together with the asset managers versus the standard mortgage REITs
5. Not to mention the Iran War which attributed to interest rates spiking, and while RITM is a beneficiary of higher rates given their portfolio composition, the entire mREIT sector sold off

[1] Dividend yield does not reflect the deduction of all fees and expenses that a client or investor has paid or would have paid. Please refer to the Income and Value Strategies gross and net performance shown above to understand the overall effect of fees. Yield is calculated by dividing the income generated by all yield producing securities held over the past twelve months by the average balance maintained during the same period

RITM ended Q1 2026 ~ (13.2) %, which is a large part of why we underperformed this quarter. RITM as an originator is putting up what we think are better results than its most comparable peer, PFSI, and at the same time is being wrapped up in the private credit/BDC fears that we believe are unwarranted.

From a ten-thousand-foot view, RITM operates as three entities; 1) the mortgage originator and servicer NewRez, 2) the investment portfolio and 3) the asset management division via Sculptor and Crestline, an alternative asset management firm that manages private credit funds and has a wholly-owned insurance company and affiliated reinsurer. In short, private credit blowing up would in practice only impact their asset management division (you will see volatility from the investment portfolio and maybe lower mortgage originations, but on a purely credit standpoint, Sculptor/Crestline will be impacted by far the most).

Our clients know this, but our thesis surrounding RITM is not a secret to the market. RITM operates as a mortgage REIT yet if you conduct a sum-of-the-parts (SOTP) valuation on the firm, if you value those three components mentioned above, per the Company's own estimates, RITM could be worth anywhere between $15-23/share (page 37) versus where it is trading at as of end of Q1 $9.48/share. Part of how RITM would recognize this would be to reorganize the firm as a C-corp, and while how that looks is just us speculating, we assume the end result would allow for the market to recognize its true value. The mortgage originator, which in theory would not be impacted by the credit issues in private credit, is alone worth anywhere between $9-13 per share if you apply a 1.5x-2x book value multiple to it. Therefore, we think the current valuation is frankly absurd and has a lot of downside protection baked into it.

Even if private credit fears transform into serious contagion, Sculptor/Crestline presumably do not have any principal risk tied into private credit loans, rather they are placed within funds where they act as the GP. The LPs would lose money and would likely not reinvest future dollars into new funds, so there would be some valuation hit on the asset management division, but not nearly as much as the market fears in our opinion.

We have been adding RITM for clients amidst this drawdown.

We bring RITM up not only to explain this quarter's returns, but also to describe our long-term investment philosophy. In short, does it really matter if a stock that we believe has 50%, 100%, 200%+ return potential over a 2–3-year period experiences a short-term 10-20% drawdown? Absent any other information, does that impact our thesis and how we invest? No. And that is the mindset that we hope our current investors and future investors carry with them, because one bad quarter hurts your ego but if we are investing in long-term winners, then hopefully long-term your ego is the only thing that was hurt.

Business Development Company (BDC) Update / Carnage:

Since last writing about BDCs and the potential the Payment-in-Kind structure of certain underlying loan investments can cause in Q3 2025, a lot has gone wrong. Going off a list of some of the most notable developments in my opinion:

a) Several alternative asset management firms, including Ares, Apollo, Blue Owl and more, have gated redemptions in their private BDCs
    i) Blue Owl is a notable offender, with them gating redemptions on their flagship OCIC fund that has roughly $36bn in assets under management. Redemption requests came in to around 21.9% of shares
    ii) Blue Owl's tech BDC, OTIC, had a whopping 40.7% redemption request
b) Multiple publicly traded BDCs cut their dividends in light of lower rates and credit concerns, including FSK (KKR's public BDC), MFIC (Midcap Financial), and TCPC (Blackrock's public BDC)
c) As mentioned in the last section, TCPC wrote down several loan investments that caused NAV to decline by ~19%

Clearly there are credit concerns within the BDC sector (both public and private funds) and liquidity concerns as well on the private fund side. Much of what has happened in our opinion has been predictable yet the speed at which it is happening is concerning. But regardless of that, what is the core concern here? YTD returns of the S&P BDC Index is -12.8%, which while is unfortunate does not scream distress to us. Yet the redemptions on the private BDC side tell us another thing. Mainly

that the stated NAV of these private funds is wrong and that both the institutional and retail investors see that. Take a look at the chart below:

Top BDC Summary (As of 4/24/2026 market close)[2]

Ticker	Name	Market Cap	Share Price	TTM Dividend Yield	Price/NAV	Non Accrual as a % of Fair Value (Q4 2025)	PIK Income as a % of Investment Income (Q4 2025)
ARCC	Ares Capital Corp	13,405	18.67	10.28%	0.94x	1.20%	6.81%
OBDC	Blue Owl Capital Corp	5,598	11.27	13.40%	0.76x	1.10%	7.07%
BXSL	Blackstone Secured Lending Corp	5,435	23.40	13.16%	0.87x	0.50%	7.74%
MAIN	Main Street Captial Corp	4,871	54.06	5.20%	1.61x	1.00%	3.10%
GBDC	Golub Capital	3,498	13.29	11.59%	0.90x	0.80%	6.84%
Average		6,561		10.73%	1.02x	0.92%	6.31%

Source: SEC Filings, TIKR.com

The average Price/NAV of the top 5 BDCs is 1.03x, but if you strip out MAIN which usually trades at a significant premium, the Price/NAV of the remaining top 4 is 0.69x. Meaning that the top BDCs in the sector by size are on average trading at a ~30% discount to NAV. Typically, such deep discounts reflect concern about underlying credits. That is true but if you are a retail or institutional investor, this sounds like a great opportunity! All you need to do is liquidate your private BDC holdings at NAV, in which private funds are marked at 1.00x. So, sell assets at par to buy assets at a 30% discount. Seems simple, right? But when everyone has the same idea, coupled with underlying credit concerns on the private side, that leads to the mass redemption and gating we are seeing today. And that is happening because no investor rationally believes that the marks on the private BDC side are real.

It does not help that there has been mismanagement on the public BDC side as well. Looking at TCPC for example, one of their loans was marked at 100 cents on the dollar in Q3 2025. Infinite Commerce Holdings Inc, an “Amazon aggregator” was marked at par in Q3 and by Q4 was marked at zero. Clearly there are credit and underwriting issues on the public side as well, but we believe that by identifying the best managers, we believe we can avoid situations like this.

Speaking of bad management, it also does not help that some public BDCs appear to not believe in their own NAV. Case in point, FSK is trading at roughly 0.51x NAV and yet is requesting shareholder approval to issue shares at that level. BDCs need shareholder approval to sell shares below NAV, and it is insulting to current shareholders that they would even ask this, unless they themselves do not believe that their NAV is real. On the other end, MFIC despite their dividend cut, authorized a $100mm share buyback while trading at a discounted NAV. I do not believe that identifying good and bad managers especially in the BDC world is not rocket science.

So what? How do we look at BDCs now? What is the opportunity set?

As of now, our investment strategies have a minimal allocation to BDCs. Only in our Income Strategy do we have a 6% allocation to BDCs, and in fact we are invested currently in only one BDC, which we believe is the best managed in the entire sector. That may change if we see deeper discounts in public BDC NAV in a select number of managers.

In general, we evaluate what we believe are the top managers and perform a full analysis on their management quality. By “top managers”, we do not mean the biggest sponsors but rather the names that we have researched that have the best record on their loan portfolio. Meaning, have they been able to keep credit in check? How have non-accruals trended? **What is PIK income as a % of Investment Income (This is important as a firm that relies less on PIK income is safer in our minds. PIK is a very large negative indicator of credit quality in our opinion). How has that trended over the last several**

[2] Top 5 largest BDCs that have been publicly traded for at least one year.

quarters? Most of the managers we invest in or even consider have less than 5% of their investment income derived from PIK loans.

After we are comfortable with management, we perform several scenario analyses to stress the loan portfolio in a variety of different scenarios and see how that impacts the BDC equity. For those of you who have a structured credit background, this will seem familiar. For those who do not, we start by looking at the underperforming/non-accrual credits to get a better understanding of them. From there, much like a non-agency mortgage bond, we run three initial analyses: 1) Liquidating 1x the non-accruals, 2) liquidating 1.5x (bear case), and 3) liquidating 0.5x (bull case). On the recoveries from those liquidations, which depends on the underlying credits but in general we err on the conservative side. So, for instance, if historical recoveries come in at 50%, we may assume 30-40% and run multiple different scenarios with differing liquidation %s to determine a conservative total return potential.

We find that treating BDCs like a form of structured credit is the best way of approaching them from a quantitative standpoint, and that by treating the leveraged firms like this we believe we have avoided a lot of the pain that the sector has experienced.

That is the opportunity set at hand. Buying quality managers at 30-40%+ discounts to NAV AFTER running multiple stress tests on the underlying collateral to ensure that we have a margin of safety. This is likely what other top tier credit firms are doing as well, and that they are either approaching BDCs the way we are and looking to buy quality firms at deep discounts, OR buying the underlying private credit loans from BDCs that are force-liquidated.

Closing Thoughts:

Thank you for taking an interest in the firm.

If you wish to learn more about the firm, please visit www.penduluminvest.com or reach out to me directly. I am always happy to have a conversation on our investment strategies as they may be appropriate for investors looking to diversify away from the broad market.

To existing investors, thank you again for your trust with your hard-earned capital, and to prospective investors, I hope I can earn yours.

Thank you,

Eric Kruglak
Founder & Managing Member, Pendulum Asset Management LLC

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Performance data currently includes all clients invested per the strategy they have chosen. The Firm has the discretion to exclude portfolios from the performance data set if the invested assets are not within each strategy's targeted holdings. For example, if a client wants to be in the Income Strategy, but is only in index ETFs, we would exclude that portfolio from performance data set. Certain portfolios include restrictions on investment strategy, including but not limited to limiting the treasury bill/money market allocation. As the Firm's discretion, as long as the client's core equity and preferred investments align with the intended strategy, they are included in the performance data.

Strategy Returns presented are time-weighted total returns that have been adjusted for cash flows and include the reinvestment of income. Strategy/Composite results have been aggregated monthly and weighted based on beginning-of-month portfolio valuations.

Past performance is not a guarantee of future results.

Performance includes the reinvestment of dividends, interest and other earnings. Certain investments may not have dividend or interest reinvested. Reinvestment into securities and/or treasuries and money market instruments are up to the Firm's discretion.

Net returns reflect the deduction of management fees. Management fees are dependent on client assets under management.

The benchmark used for both strategies is the MVIS US Mortgage REIT Index, Total Return Net (MVMORTTR). This index tracks the performance of the largest and more liquid companies in the US Mortgage REITS Industry. The index includes price returns and dividends but withholds dividends for tax purposes. This is a modified market cap-weighted index, and only includes REITs that derive at least 50% of their revenues from Mortgage, such as REITs that are primarily engaged in the purchase or service of commercial or residential mortgage loans or mortgage related securities. MVMORTTR covers at least 90% of the investable universe.

The volatility of the index represented in this material may be materially different from that of client portfolios. The index has been selected as client portfolios have a significant allocation to the Mortgage REIT sector. The underlying exposures, and specifically the securities in the selected benchmark index or indices, may vary substantially from that of the strategy presented.