



Q3 2025 Commentary

October 20th, 2025

Dear Investors and Prospective Investors,

Please see our Income and Value returns below. Despite the volatility so far this year, our long-term view is that diversification into what we believe are high-yielding equity and preferred securities has a place for investor portfolios and that our held securities are still undervalued on a long-term basis.

Investment Strategy Total Returns	3Q 2025	YTD	1 Yr	Inception ¹
Income Strategy Returns, Gross	2.55%	6.57%	8.69%	11.71%
Income Strategy Returns, Net	2.32%	5.87%	7.72%	10.84%
Value Strategy Returns, Gross	2.10%	1.43%	9.45%	11.15%
Value Strategy Returns, Net	1.85%	0.67%	8.36%	10.27%
Index ²	3.51%	5.06%	-2.76%	4.90% / 7.39% 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.

Q3 2025 returns for the Income Strategy was 2.55% (gross of fees) and 2.32% (net of fees), underperforming the Benchmark's return for the same time period by 0.96%.

For the same period, the Value Strategy returned 2.10% (gross of fees) and 1.85% (net of fees), underperforming the Benchmark by 1.66%.

Underperformance in our opinion can be attributed to another "junk" rally, as markets started to price in greater certainty of rate cuts. Firms with poor credits in their portfolios may be perceived by the market to be bailed out by lower rates. However, in line with the Firm's methodology and conservative approach, we are OK with underperforming our Benchmark from time to time if it means that we are allocated to what we believe are the best managed REITs and firms in general.

Case in point, 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, and in the case of the Income Strategy, is roughly 60% as volatile as the index.

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 achieve several key objectives, namely:

- 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 **8.64%** for Income and **7.17%**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

Going forward, our strategy has not changed. 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

Business Development Company (BDC) Update:

Part of the discourse surrounding the market, especially in income-oriented stocks as of now is the performance, or rather underperformance of BDCs as an asset class and whether or not that is from stress within private credit or from somewhere else entirely. As a reminder, a BDC focuses on providing credit for small-medium sized firms. BDCs are what is known as a Regulated Investment Company, and must invest at least 70% of its assets in nonpublic US firms with market values sub 250mm. Like REITs, as long as BDCs meet certain requirements, they can distribute their income free of corporate tax provided that they distribute at least 90% of taxable income to investors in the form of dividends.

Given the illiquid nature of the loans they originate typically, publicly traded BDCs can be used as a proxy for estimating the health of private credit overall.

In running the Investment Strategies, we aim to hold minimal BDC exposure (approximately 6% in Income) mainly because we find a lot of the names to be lower-quality when viewed on a deeper level. Why is that? Two reasons:

1) Credit

- a) On paper, BDCs have low non-accruals/non-performing loans relative to the rest of their loan portfolios. However, we take issue with this considering that many BDCs rely on structuring loans with Payment-in-Kind income, or PIK. PIK essentially takes a portion or all of a firm's debt interest payments and instead adds it to the existing loan balance. Obviously structuring a loan with PIK vs. cash interest can have its benefits to the borrower but our view is that loans with this feature carry significantly more credit risk than loans without this feature. And unfortunately, many BDCs rely on a significant amount of PIK income as a % of their total investment income. So much so that should credit conditions in the economy deteriorate, we think that defaults will be significant, especially in firms that carry PIK as a % of income of 10% or greater.

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

- b) See a chart below of what is in our view the largest and most recognizable publicly traded BDCs. Some of the largest names have a significant PIK Income as a % of Investment Income.

2) Floating Rate Income

- a) BDCs typically generate floating rate loans indexed off of short-term rates. Should the fed funds rate continue to decline, BDCs may earn less investment income, while credit risk may increase if fed cuts are a precursor to a recession.

Top 5 BDC Summary (As of 10/20/2025 market close)²

Ticker	Name	Market Cap	TTM Dividend Yield	Price/NAV	Non Accrual as a % of Fair Value (Q2 2025)	PIK Income as a % of Investment Income (Q2 2025)
ARCC	Ares Capital Corp	13,761	9.84%	0.98x	1.20%	17.6%
OBDC	Blue Owl Capital Corp	6,439	12.68%	0.84x	0.70%	6.27%
BXSL	Blackstone Secured Lending Corp	5,976	11.87%	0.95x	0.10%	5.90%
FSK	FS KKR Capital Corp	4,156	18.88%	0.68x	3.00%	13.30%
MAIN	Main Street Capital Corp	5,199	5.11%	1.80x	2.10%	2.30%
Average		7,106	11.68%	1.05x	1.42%	9.07%

Source: SEC Filings, TIKR.com

BDCs have been a focal point of the market recently given two notable bankruptcies within private credit: Tricolor Holdings and First Brands. While it is too early to say whether or not these firms will cause contagion for private credit, our view is that these firms failed from sheer fraud. But are these one-offs, or are they indicative of poor underwriting standards across private credit? If the former, then there should be nothing to worry about. But if it is the latter, then are BDCs even attractive despite the deep discounts in some of the names?

Total returns highlight this fear. Per the S&P BDC Index, year to date returns are at -4.76% as of market close 10/20/25. That is not to say that BDCs will never be a good place to put capital to work as there certainly are pockets of opportunity in our opinion. However, like mentioned above, our view is that to put capital to work in BDCs, we need to deploy a conservative angle and buy into the following: A) Strong loan portfolios with minimal non-accruals, B) Portfolios that are not reliant on PIK income to a significant degree, and C) Strong management teams that can grow the book conservatively but also manage credit losses in times of stress, because those times inevitably will happen.

All that being said, if we can achieve those three criteria and buy at a notable discount to net asset value, that is when we consider adding to our investment strategies.

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

Update on the Mortgage REIT “1.0 vs. 2.0” Thesis

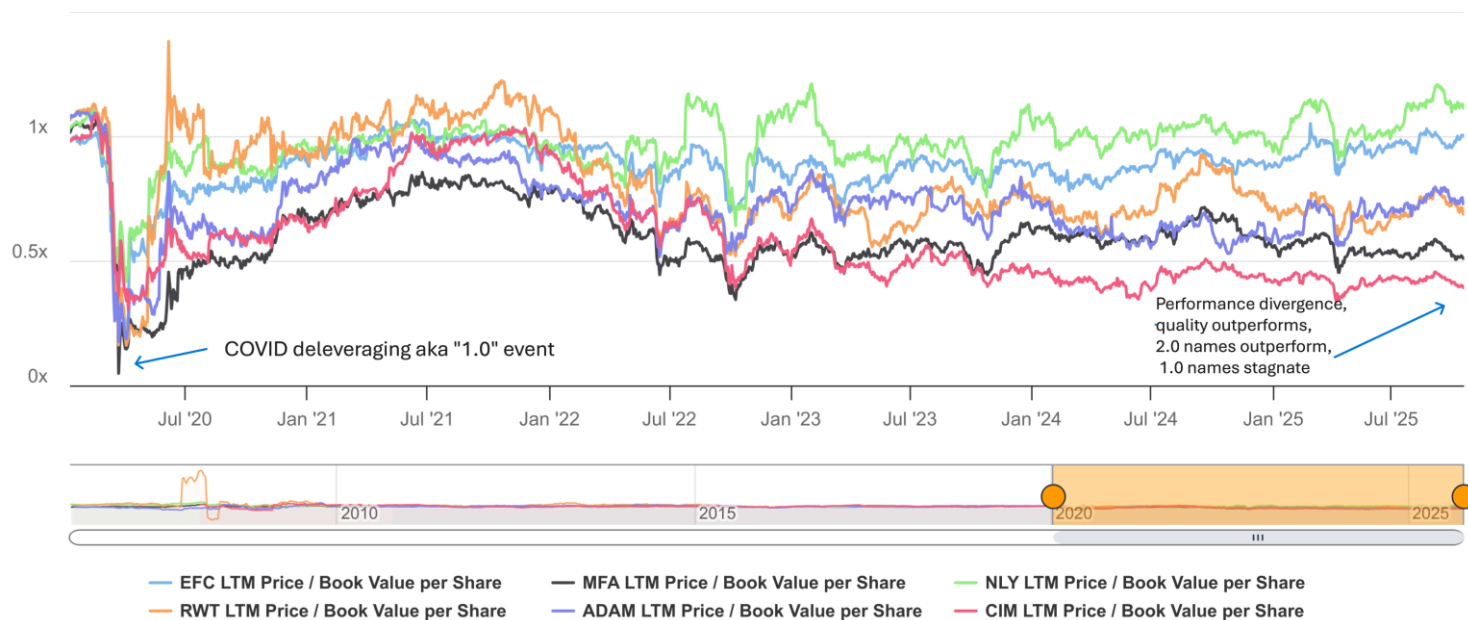
For further context, please read our Q1 2025 Commentary [HERE](#).

As a brief overview, our investment thesis relies on investing in what we think are the highest quality names within the parameters of our investment strategies. In the case of both Income and Value, we place emphasis on income-producing equity securities, in which we view the best opportunity within that to be in the mortgage REIT subsector.

COVID was a watershed moment for mREITs and rate-sensitive investments in general. Due to the mass deleveraging and losses that occurred for mREITs in COVID, we believe we started to see a clear delineation between the firms that have been able to bounce back and innovate, grow earnings and a steadier firm profile versus those that have not. In other words, firms that have been able to successfully change (2.0) versus firms that have continued to struggle post-COVID (1.0). The thesis is that the market will start to differentiate the quality of the 2.0 bucket versus the 1.0 “legacy” investments. Elaborating, the thesis here is that many of the 2.0 names that are still trading at a discount to net asset value will start to accrete to 1.0x net asset value or greater. On the other hand, the 1.0 legacy investments may go in the opposite direction and highlight greater discounts to net asset value.

- a. If the trade takes a while to materialize, investors may earn dividends that I believe could range in yields from 6% to low double digits.
- b. See below for two comparison charts between the hybrid³ names held with the MVIS US Mortgage REIT Index as well as their 2024 economic returns⁴:

Price/Book Value Comparison Across Hybrid mREITs, 2020-Present ⁵



Source: TIKR.com

³ Defined as a mortgage REIT that invests in both agency and non-agency loans and securities

⁴ Defined as the change in book value *plus* the dividends paid

⁵ Information as of 10/17/25

Hybrid mREIT Comparison List

Ticker	Name	2024 Economic Returns	Beginning Price/Book (1/2/2020)	End Price/Book (4/25/2025)	End Price/Book (10/17/2025)	Change
CIM	Chimera	2.67%	0.96x	0.38x	0.39x	0.01x
EFC	Ellington Financial	9.31%	0.97x	0.95x	1.00x	0.05x
MFA	MFA	4.29%	1.01x	0.53x	0.51x	-0.02x
NLY	Annaly	11.78%	1.03x	1.00x	1.13x	0.13x
ADAM	New York Mortgage Trust	-10.44%	1.07x	0.59x	0.74x	0.15x
RWT	Redwood Trust	5.67%	1.04x	0.71x	0.69x	-0.02x
Average		3.88%	1.01x	0.69x	0.74x	0.06x

Source: TIKR.com

Using metrics such as economic return and price/book do not paint the entire investment picture when deciding to invest but I have found that economic returns are an indicator of management execution and price/book is how the quality of that execution is expressed in the public market.

After the selloff in April, most of the sector is higher and that is reflected in higher price/book multiple across this sample bucket alone. As mentioned in our Q1 commentary, our view is that the higher-quality names should outperform over the long term, and in our view, we have started to see that materialize.

Of the listed names, we were only able to identify two that we believe stand out in terms of quality: Annaly (NLY) and Ellington (EFC). We see these as higher quality compared to the rest of the list based on economic returns and our view on managerial quality. Naturally, these two saw the higher price/book accretion relative to the rest of the listed names⁶. However, one outlier, Adamas Trust (ADAM, formerly New York Mortgage Trust), outperformed EFC and NLY both on Price/Book accretion. ADAM has had a materially discounted valuation due to, in our view, managerial mishaps that led to the erosion of book value over the last few years. The last couple of quarters of earnings in our view have been fair for ADAM, and that coupled with the broad market recovery since April has led to outperformance relative to other names.

That being said, over the long-term, we do not think names like ADAM or other lesser-quality names outperform the “2.0” quality bucket. At the crux of it, all that matters in our view is managerial quality. Well-managed companies (aka the 2.0 firms) should command higher valuations relative to their less well-managed peers (aka the 1.0 firms). Firms can have the cheapest underlying assets or be valued at great discounts to their net asset value, but only quality management can unlock the underlying value in our opinion.

⁶ This list is comprised of all currently operating hybrid mREITS

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,

A handwritten signature in black ink that reads "Eric Kruglak". The script is fluid and cursive, with the first letters of each word being capitalized and prominent.

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.