FOUNDATION RESOURCE MANAGEMENT

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Quarterly Commentary

2nd Quarter 2026

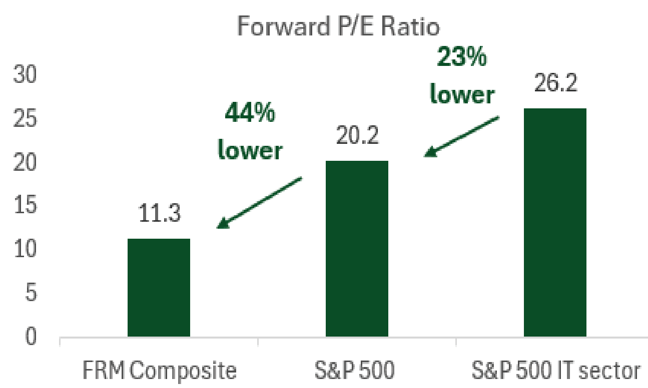
A Tale of Two Opportunities

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair." – Charles Dickens

The opening line from the 1859 novel *A Tale of Two Cities* by Charles Dickens sets the stage for a story contrasting London and Paris during the French Revolution. Mr. Dickens uses the juxtaposition of the two cities as well as different characters to add depth to the story and highlight differences to dramatic effect. After a quarter in which the S&P 500 was up 15% (its best quarterly performance since the second quarter of 2020 and second-largest quarterly gain since the 2008 Great Financial Crisis) and FRM's composite equity portfolio was down slightly, we thought it might be interesting to compare two different investment opportunities from today's stock market. One which piqued our interest and resulted in the newest addition to your portfolios and the other one from which we will stay far, far away despite the market's intense interest.

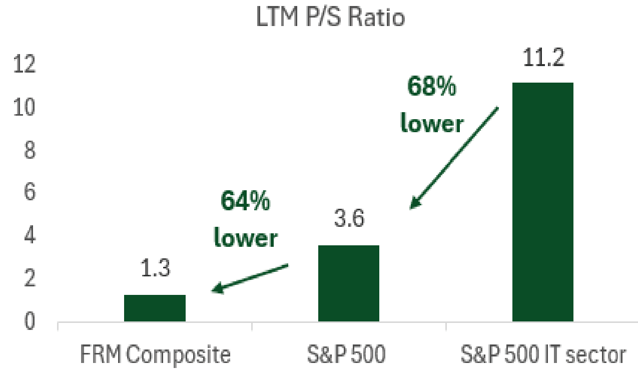
The S&P 500 performance was driven by the Information Technology (IT) sector, highlighted by a historic 88% quarterly gain in the Philadelphia Semiconductor Index (see the Portfolio Updates section for a discussion of where most FRM client accounts benefitted from that increase). This outperformance by the IT sector has driven it to a historic high of 40% of the

Chart 1: Forward P/E Ratio Comparison at 6/30/26



Source: Bloomberg, FRM

Chart 2: LTM Price to Sales Ratio Comparison at 6/30/2026



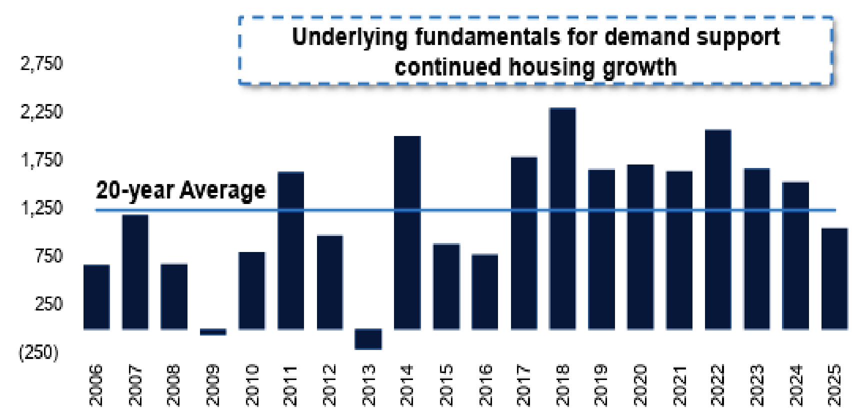
Source: Bloomberg, FRM

S&P 500's total market capitalization compared to the next largest sector, Financials, at 13%. (And the IT sector does not even include Alphabet Inc. (Nasdaq: GOOGL), Meta Platforms, Inc. (Nasdaq: META), Amazon.com, Inc. (Nasdaq: AMZN), Tesla, Inc. (Nasdaq: TSLA), or SpaceX (Nasdaq: SPCX).) As shown in Chart 1 on the previous page, the IT sector is trading at a forward Price-to-Earnings (P/E) ratio of 26.2x while the S&P 500 trades at 20.2x. Importantly, FRM's composite equity portfolio is valued at 11.3x forward earnings. Another important valuation metric is the last twelve months (LTM) Price-to-Sales and on that metric the IT sector is trading at 11.2x compared to the S&P 500 at 3.6x and FRM at 1.3x as shown in Chart 2. As our two following examples will show, investing opportunities are much more interesting to us at reasonable valuations. We believe that has strongly contributed to our soon-to-be 36-year track record.

The first opportunity we present is the one that piqued our interest and resulted in a new position in your portfolios this quarter: the U.S. housing market. High mortgage rates, continued increases in the cost of living, and AI incited job market uncertainty have kept many prospective buyers on the sidelines and have led to four years of depressed sales. Existing home sales have hit near-historic lows not seen since 2009 with current homeowners reluctant to move and give up their 3% mortgage rates. Homebuilders have resorted to offering incentives, such as paying part of buyers' mortgage cost, just to unload inventory. Data from the U.S. Census Bureau shows single-family housing starts were down 7% in May from the year before.[1] The latest NAHB/Wells Fargo Housing Market Index survey revealed that 35% of builders cut prices in June, up from 32% in May.[2]

How could we be excited about a market with this kind of backdrop? For starters, the U.S. housing market has favorable long-term fundamentals. U.S. Households continue to grow as shown in Chart 3.

Chart 3: Year over Year Growth in U.S. Households (000)



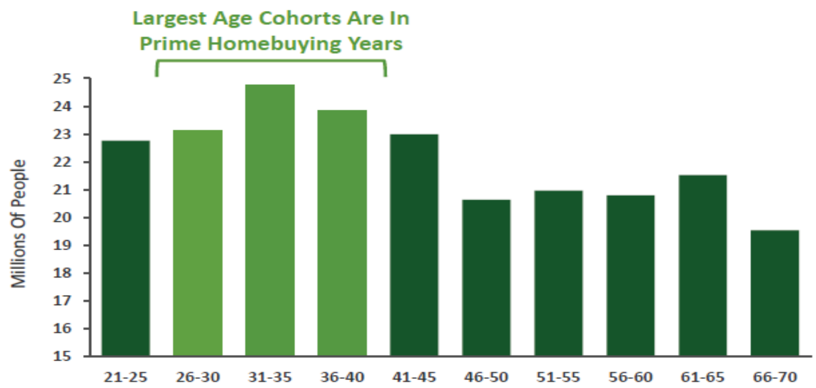
Source: Builders FirstSource, U.S. Census Bureau

[1] New Privately-Owned Housing Units Started: Single-Family Units (HOUST1F) | FRED | St. Louis Fed
[2] NAHB/Wells Fargo Housing Market Index (HMI) | NAHB

The country also has favorable demographics with the largest age cohorts in Generation Z and Millennials entering their peak homebuying years as shown in Chart 4. Moreover, the current homebuilding pace will not fully address the deficit resulting from a decade of underbuilding as shown in Chart 5. The shortages of U.S. housing have reached upwards of four million homes. While mortgage rates around 6.5% are high relative to the 25-year average of 5.1%, buyers are likely to return to the market if mortgage rates come down, which would trigger pent-up buyer demand. It is possible that if rates come down in the next recession, that could actually benefit the housing market.

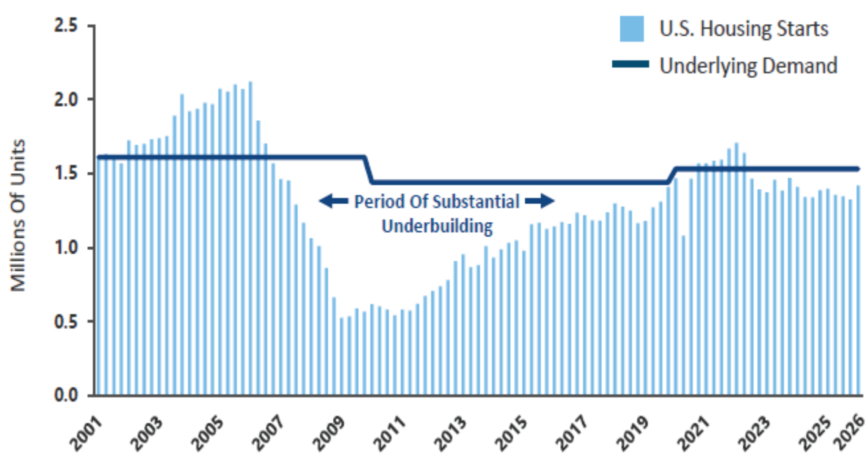
There is also potential in repairing and remodeling existing homes. As Chart 6 shows, the U.S. housing stock continues to age with the median age greater than 40 years. Spending on repair and remodel projects remains stable and could see increasing activity if housing demand returns to more normal levels.

Chart 4: U.S. Population by Age



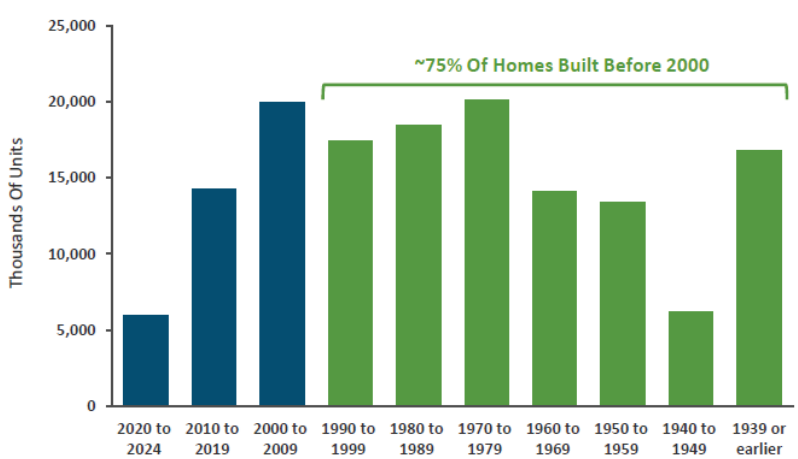
Source: Weyerhaeuser, Congressional Budget Office, U.S. Census Bureau

Chart 5: U.S. Housing Remains Underbuilt



Source: Weyerhaeuser, U.S. Department of Housing and Urban Development, U.S. Census Bureau

Chart 6: U.S. Housing Stock



Source: Weyerhaeuser, U.S. Census Bureau

Beyond the prospects for housing demand to improve from depressed levels, there is a chance to boost innovation in one of the least productive parts of the U.S. economy. Labor productivity in single family construction fell by more than 30% since 1970 and is essentially the same as it was in 1948. This productivity decline compares to labor productivity in the broader economy that has more than tripled over the period 1948-2023, according to data from the Bureau of Economic Analysis.[3] Factors outside the industry's control, like land-use restrictions, are responsible for 40% of the productivity gap, Goldman Sachs estimates. But a lack of innovation explains 20%. American homes are still largely built the same way they were a century ago, often referred to as "stick-built." More widespread adoption of modular construction, which is only used in 3% of new U.S. homes today, could be a way to make homes more affordable for buyers and more profitable for builders. A UBS study found that switching from traditional stick-built walls to modular open wall panels, which arguably represents the next logical possibility following roof trusses, can generate up to a 30% reduction in framing days with 20% less waste.[4]

We see plenty of reasons for optimism in today's tough housing market, not least because of the opportunity we see in the market's current valuation of industry participants. During the 2nd quarter, we purchased shares in one of the largest national lumber and building materials distributors with ~18% market share. This company is an active participant in pushing innovation with 48% of its sales from value-added products including prefabricated components. We were able to purchase shares in the company for around 0.5x sales and 13x normalized earnings. Our clients can read about the most recent addition to their portfolios in the Portfolio Updates section of this commentary.

The contrasting opportunity is a decidedly less terrestrial affair, which is part of the reason it has garnered much more excitement. By now most of you have guessed that the opportunity we are referring to is the recent initial public offering (IPO) of SpaceX (Nasdaq: SPCX). While we discuss above the stock market's lack of excitement about the U.S. housing stock being underbuilt by the amount needed to house around 10,000,000 people,[5] somehow SpaceX's goal to build housing and a city for 1,000,000 people on Mars has generated far more interest and market capitalization!

Before we go any further, we want to clearly establish a few points: 1) we are not rooting against, betting against or shorting SPCX shares and 2) we humbly submit that we do not know exactly what the future holds for either of these situations. This whole discussion is to help frame our investing discipline, explain why fundamental research and valuation matter to FRM, and explain why we prefer to maintain a margin of safety when investing our clients' hard-earned dollars.

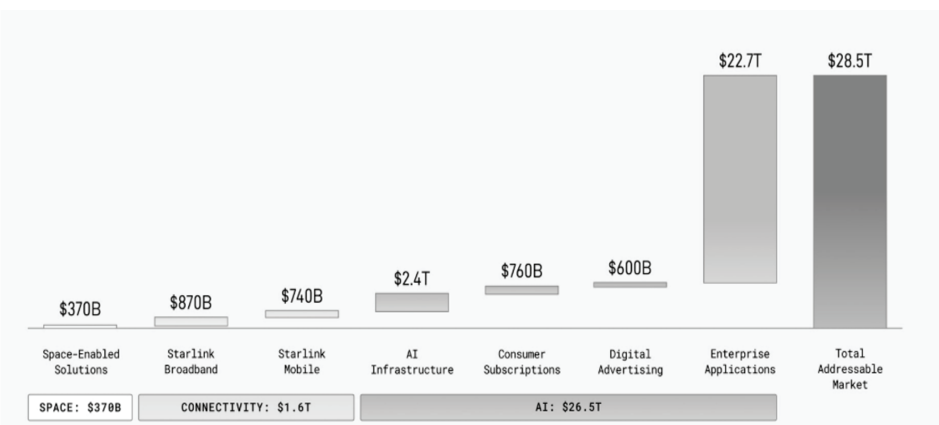
SpaceX was founded by Elon Musk in 2002 with the goal of lowering the cost of space transportation, in part by creating a reusable rocket, and ultimately making life multi-planetary and colonizing Mars. While it is the most distant of the operating goals for the company, we

[3] Five Decades of Decline: U.S. Construction Sector Productivity | Richmond Fed
[4] Offsite construction | UBS Global
[5] 4,000,000 units x 2.53 (the average U.S. household size)

do think the Mars colonization contributes to the excitement around the company and its high IPO valuation. Ultimately the company states that "establishing a self-sufficient city on Mars will require upwards of one million people and millions of tonnes of cargo to be delivered to the Red planet. By launching more than 10 times per day to maximize transfer windows that open up every approximately 26 months, several thousand Starships…"[6] Colonizing Mars is a fantastically ambitious goal. Starship is currently being developed and, while not yet operating commercially, it has completed 12 launches. Designing and successfully launching the biggest and most powerful rocket ever built in history is an amazing achievement. However, SpaceX will need thousands of operational versions launching 10 times a day to achieve its extra-terrestrial goals. SpaceX currently maintains an active fleet of 24 reusable Falcon 9 first-stage boosters, and they average about one launch every two or three days.

SpaceX operates across three core business divisions: Space, Connectivity, and Artificial Intelligence (AI). Space is the segment discussed above that designs, builds, and operates reusable rockets for commercial and government payloads and will ultimately operate in the smallest addressable market among the company's business segments as shown in Chart 7. The Connectivity segment, the only profitable segment, operates Starlink's global satellite internet constellation providing broadband and wireless services to consumers, businesses, and mobile networks worldwide. Starlink will target the company's second largest addressable market. Lastly, the AI division is the company's segment focused on AI, including xAI, the large language model Grok, its recent $60 billion acquisition Cursor, data centers, and the X platform. This is the largest potential addressable market by far, mostly driven by the company's estimates of the Enterprise Application market size of $22.7 trillion (which is 75% of 2025 US GDP). The Total Addressable Market (TAM) figures in Chart 7 were published in Form S-1 that SpaceX filed before the IPO. Interestingly, they did not include a timeframe for each market to reach the size stated. (For context, the current size of the US broadband market is somewhere around $138 billion, with FRM holding Comcast as the largest provider with around 29.4 million residential subscribers. The current size of the US mobile (wireless telecommunications) market is around $336 billion, with FRM holding Verizon, the largest wireless provider, with around 146 million subscribers.) Starlink, a very successful business, currently generates $11.4 billion in revenue and has

Chart 7: SpaceX Form S-1 Estimates of Total Addressable Market



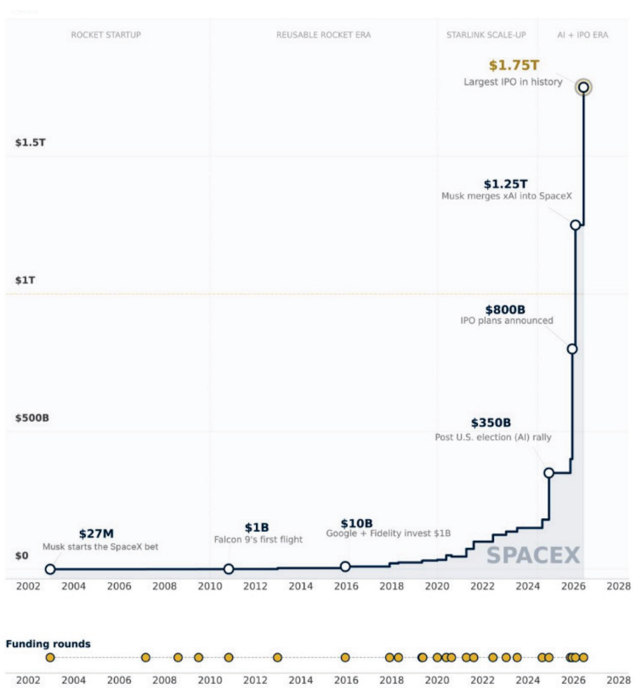
Source: Space Exploration Technologies Corp. Form S-1

[6] SpaceX - Mission: Mars

around 12 million global subscribers with 2.7 million located in the US.

If SpaceX is correct about the potential size of the markets in which the company operates, there is plenty of room for growth. If growth does maintain at such high levels, an open question is how much competition these fast-growing markets will attract. We have already referenced the competition that is present in the market for SpaceX's most profitable business, Starlink. For the space segment, the company is the dominant player with an 82% share of all US space launches and revenue of $4.1 billion. The segment currently loses money and Blue Origin, one potential competitor backed by Jeff Bezos, just completed a new $10 billion round of fundraising. The AI segment is likely the most competitive market in which SpaceX operates, at least on Earth. The company has pointed to the prospect of developing and operating solar-powered data centers in space where they have none operating today. (Interestingly, there is exactly 1 high-end Nvidia H100 GPU (Graphics Processing Unit) operating, in space and it is not operated by SpaceX. It is aboard the Starcloud-1 satellite operated by AI-startup Starcloud.) A small AI data center on this planet might have 300 to 400 GPUs, while a hyperscale AI factory has 50,000 to over 200,000 GPUs. Nvidia's base enterprise units, like Nvidia DGX H100, pack 8 GPUs into a single chassis. We believe it will take some time to develop a scaled AI data center presence in space.

Chart 8: SpaceX Fundraising History



Source: PitchBook, Reuters, Boyan Girginov

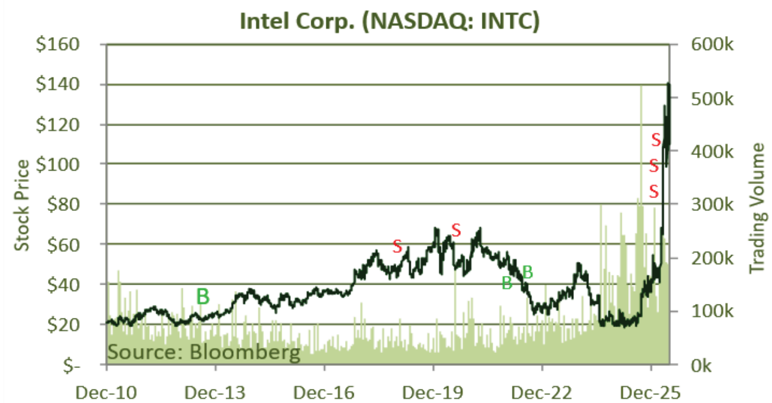
SpaceX completed the largest IPO in history on June 12 and has since been valued at somewhere between $1.75 trillion and $2 trillion. As shown in Chart 8, the return so far has been tremendous for early investors. However, SpaceX must have many things go right for investors purchasing shares at the current valuation to earn a reasonable return. The company is not profitable, so we cannot compare a P/E ratio to judge the reasonableness of its valuation. However, SpaceX does have revenues and in 2025 they grew 33% to reach $18.7 billion. Shares are currently trading at over 100x sales. If the company continued this level of growth (33% a year) for a decade and the stock price did not change over that timeframe, it would bring the price-to-sales ratio to 6x. That is almost twice where the S&P 500 trades today. This also does not consider the amount of money SpaceX is likely to need to raise to fund its ambitions by selling shares and diluting existing shareholders.

We hope this juxtaposition of investment opportunities continues to reinforce our investing approach and discipline. We view stock ownership as ownership of the underlying business.

We enjoy the hard work of research and fundamental analysis to understand and appraise the value of the underlying business. We continue to believe that paying an attractive price for that ownership is a very important part of the overall investing equation. The enthusiastic attention paid to the extremely overvalued parts of the stock market continues to give us a chance to own and invest in undervalued gems. For that reason, we are optimistic about the prospects for our clients' portfolios.

Portfolio Updates

We used the previously-mentioned dramatic appreciation in the semiconductor industry during the second quarter to trim your position in **Intel (Nasdaq: INTC).** Cumulatively across three different sales during the quarter we sold more than 65% of your position, taking out just over 1.5x our clients' initial cost.

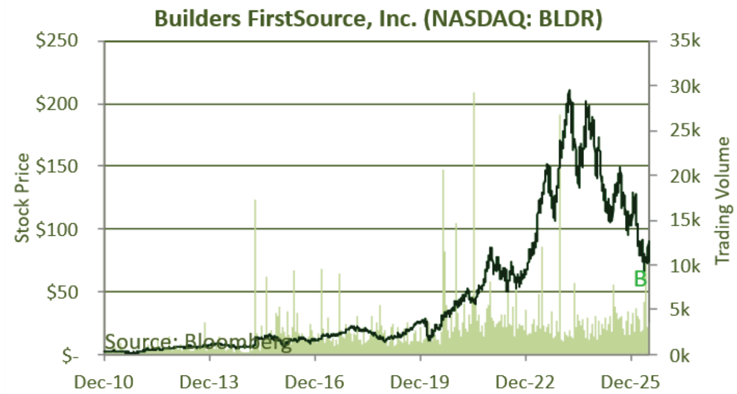


Intel's stock had languished in recent years, reflecting its struggle to stay competitive as platforms driving chip demand changed from CPUs (Central Processing Units) where Intel dominated to GPUs (Graphics Processing Units) where their competitors had the lead. Additionally, competitors shed manufacturing capability to focus exclusively on design while Intel doubled down on the more difficult and capital intensive manufacturing component of chip making. While Intel still dominated the market for core PC chips and data center CPUs, it had been losing some market share in these markets as key customers insourced chip design and competitors aggressively pursued Intel's market lead.

The early AI boom signaled a nail in Intel's competitive coffin as training the early AI models required mostly the GPUs that Intel's rivals dominated. But as AI chip demand has increasingly shifted to the "inference" work of running AI models and agents, the CPUs that Intel dominates are also benefitting from the AI spending spree. This shift has driven Intel's stock up around 200% in the first half of this year.

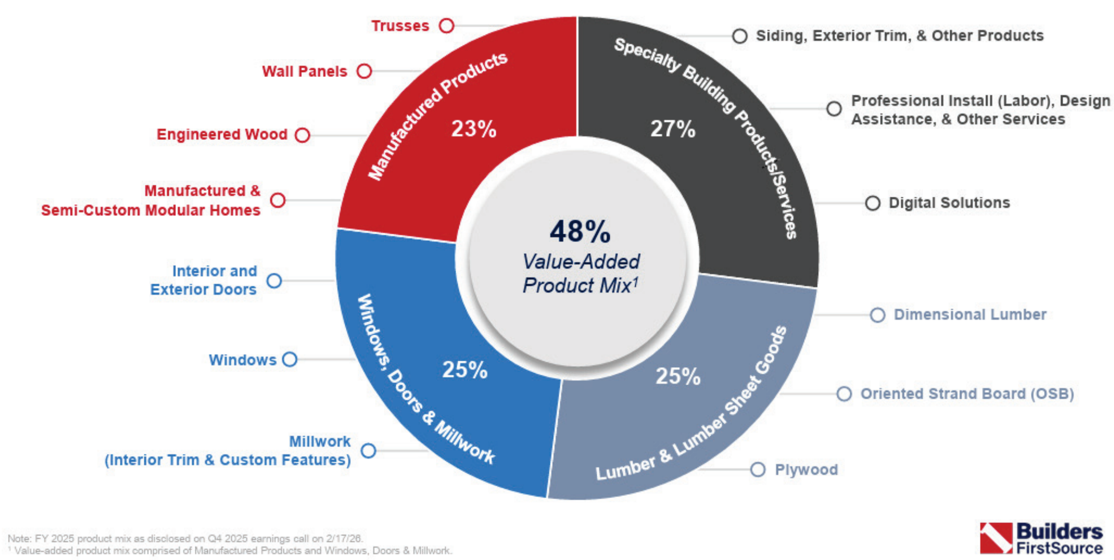
The future is still very uncertain for long-term chip demand after the frenzy of AI subsides. There is certainly a case to be made that demand will continue to be very strong for the chip manufacturing that Intel still maintains. However, the company continues to spend more than the cash flow it generates to try to keep up with the pace of change in its industry. As such, we were happy to use the chip frenzy to reduce your exposure to Intel at a very stretched valuation. Now that we have taken 1.5x our clients' original cost out of the investment, we are comfortable maintaining a very small relative position (~1.82% on average for accounts who own it) given the asymmetric outcomes possible in the chip industry.

As we discussed earlier in this commentary, we also had the opportunity to purchase shares for your portfolios in the largest national lumber and building materials distributor with ~18% market share. The company, **Builders FirstSource (NYSE: BLDR)**, is headquartered in Irving, Texas and operates 570 locations across 43 states and in 48 of the top 50 CBSAs.[7]



Builders manufactures and sells a wide variety of building materials including lumber, flooring and roofing products, windows and doors, insulation, siding and cement. As seen in Chart 9, 2025 sales were comprised of 23% Manufactured Products, 25% Windows, Doors, and Millwork, 25% Lumber and Sheet Goods and 27%Specialty Building Products and Services. Almost 50% of BLDR's product mix is made up of value-added products.

Chart 9: Builders FirstSource - Products



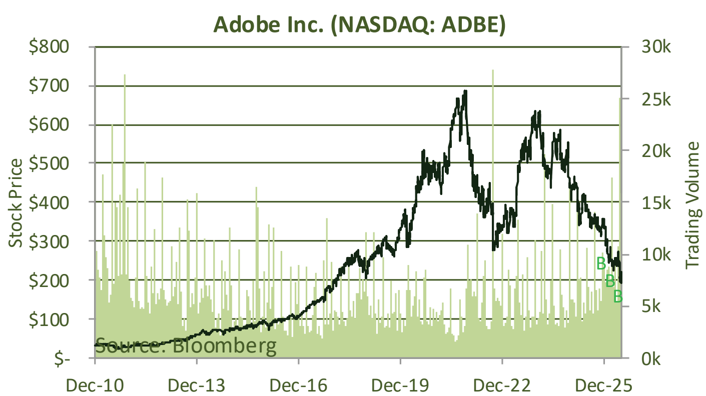
America's home-building industry is very fragmented. Around 15% of new single-family homes are sold by the top two builders, D.R. Horton and Lennar (this happens to be about the same amount these companies represent of Builders FirstSource total sales). Much of the housing in the U.S. is built by much smaller players who do not have the means to spend on research and development. There are tens of thousands of residential builders in America, and the annual

[7] As of 3/31/2026. Core Based Statistical Areas (CBSAs) is the collective term used to refer to metropolitan statistical areas and micropolitan statistical areas.

median number of new housing starts among members of the National Association of Homebuilders is six.[8] Builders FirstSource has an opportunity to help these smaller builders become more efficient through value-added products and digital tools. The company is investing in digital tools to facilitate builders moving from design to build, and while the uptake has been slow for these tools so far, Builders is leading the industry in this area.

Builders generates 66% of sales from new single-family residential construction (split about evenly between production and custom homebuilder), 24% from residential repair/remodel, and 10% from the commercial/multifamily market. By region, ~30% of sales are generated in the South, ~28% in the Southeast, ~24% in the West, and ~18% in the Northeast/Other region.

The company has a good balance sheet with a weighted average debt maturity of ~7 years and does not have any debt due until 2030. (Since the inception of its buyback program in August 2021, the Company has repurchased 102.6 million shares of its common stock, or 49.7% of its total shares outstanding, at an average price of $81.26 per share for a total cost of $8.3 billion, and recently announced $500 million of additional repurchases.) As we mentioned previously in the commentary, we were able to purchase shares in the company for around 0.5x total sales and 13x normalized earnings.



Last quarter we discussed our new purchase of **Adobe Inc. (Nasdaq: ADBE),** which we initially added to portfolios and then scaled larger during the first quarter. We had an opportunity to again add to your position in the dominant software company during the second quarter at an even more attractive valuation. Adobe had just released record second quarter revenue and profitability driven by AI growth across its product suite. Revenue in the second quarter grew 13% year-over-year or 11% on a constant-currency basis. Earnings per share grew 9.65% year-over-year. Additionally, Adobe raised their full-year revenue expectations by 2%. Unfortunately, this positive momentum was overshadowed by pessimism surrounding ADBE's CFO departing for another (we would say more speculative) opportunity at chipmaker Marvell. While conducting concurrent searches for a CEO and CFO is not ideal, we believe the stock price impact was overdone, and we were happy to have the opportunity to add to your ownership of this dominant and growing technology company at an even more attractive price. As the nearby table shows, in the four months since our initial purchase in February, Adobe has continued to grow their earnings while concurrently reducing their share count, resulting in an EPS growth of ~4.6% in four months. At the same time, the stock declined around -23% between our first and third purchase. We were able to reduce our overall average cost in your

[8] Who Are NAHB's Builder Members? – Eye On Housing

portfolios to $227 per share representing a 13x multiple of ADBE's (still growing) trailing 12-month GAAP earnings. It is rare for a value investor to find a high-quality growth company that can be bought at a value price, and time will tell if Adobe ends up being that. Fortunately, at Adobe's rate of cash generation and buybacks, we don't even need them to keep growing for Adobe to end up being a good investment. We continue to be very excited at the chance to own this durable software business.

FRM's Adobe Inc. Purchases	Initial 2/12/2026	Second 3/20/2026	Third 6/18/2026	% *Change*	Overall Average
FRM Average Purchase Price	253	247	194	*-23.32%*	227
Shares Outstanding (mm)	410.5	404.2	397.5	*-3.17%*	
Market Cap at Purchase ($mm)	103,857	99,837	77,115	*-25.75%*	
LTM GAAP Net Income	7,130.00	7,208.00	7,229.00	*1.39%*	
LTM GAAP EPS	16.71	17.17	17.48	*4.61%*	
FRM Price to LTM Earnings	15.1x	14.4x	11.1x	*-26.70%*	13.x

Expanding our Team

We are very excited to announce the hiring of the newest member of FRM's team. Steven Weeks joined us on June 29 as a portfolio accountant. In 2024 Steven received a Master of Accountancy from the University of Arkansas after completing his B.S. in Accounting there the previous year. He has also gained his Certified Public Accountant (CPA) license. Steven originally hails from Little Rock, as does his wife, Megan. Steven joins us from Forvis Mazars, LLP, where he was a senior audit associate. We are excited that Steven chose to join FRM! He will be invaluable as we continue to work to improve our operations and grow. We look forward to your meeting Steven, which is another reason to come by for a visit to our offices if you have not yet done so.

Capital Gains for Taxable Accounts

As many of our clients will know already, we have had the occasion to pare back some stocks in your portfolios that have neared our assessment of intrinsic value. Though we will do what we can to offset capital gains as much as possible, similar to last year, in many accounts we have run out of losses to harvest, so we want to warn our clients that many of you will have capital gains on which you will owe taxes this year. Remember that our aim is to grow your portfolios! Paying some of those gains to Uncle Sam is an unfortunate reality of investing. As always at year end, do let us know if there are other capital gains or losses that we should be aware of outside of the portfolios we manage for you.

Referrals

FRM believes that we offer something unique to our clients, and we are optimistic about our ability to continue to excel for them long into the future. We know that we are well on our way to doing so with three generations of disciplined investors still active in our firm. This gives us a unique blend of experience and energy that we are proud of, and it also sets us up for future growth. One of the main ways we have grown historically is through referrals from our clients. While we will never be the right manager for everyone, our clients seem to always be aware of who might be a good fit. Should you know of any person or institution who may be interested in our work, we welcome the opportunity to share information or meet with them. We take very seriously your continued confidence in our firm, and the honor of your referral is truly one of the most rewarding demonstrations of that confidence.

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As there have been no changes in our Privacy Policy, we are no longer required to provide our clients with a notice of our privacy policy on an annual basis. Our relationship with our clients is our most valuable asset, and we know that respect for your privacy is the very foundation of that relationship. Also, please contact us if you would like a copy of our Proxy Voting Policy. Our Proxy Voting Policy describes how we vote with regard to measures concerning stockholder/corporate democracy; routine matters such as the election of directors or the appointment of outside auditors; management compensation and "anti-takeover" provisions. Please contact us with any questions you may have regarding how we have voted the proxies of the securities that you hold.

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