Valara Capital Management, LLC

July 7, 2026

Dear Friend of Valara Capital Management,

For the second quarter and six months ended June 30, 2026, Valara Partners, LP. produced returns, net of fees, of -0.11% and 14.13%, versus 15.20% and 10.21%, for the S&P 500, respectively.

QUARTERLY REVIEW

Maybe it's because AI is so much on my mind these days, but things seem to be changing rapidly. It's not just AI itself but markets, geopolitics, economics, and longstanding institutions.

Part of my job is to listen to dozens of conference calls every quarter and I hear CEOs speaking confidently about their company's latest technology investments. Invariably, as the questions come in from the analyst community it becomes apparent that many of these executive teams are struggling to manage the pace of change that confronts them. It's not surprising, really, everything changes daily – the models themselves, their relative performance, the costs of chips (processing and memory), facility construction, power costs... Nobody knows how much they need of all the various inputs, nor what the ultimate consumers will be able to afford to pay (and therefore how much they can invest). The driving variable is getting "there" first. Shortages are moving from semiconductors to general electronic components (capacitors) and elsewhere; and, with token consumption (units of AI) soaring, corporate America has begun to reevaluate the costs of deploying the bleeding edge. It feels like an introspective pause may be coming. These things are difficult to judge.

The stock market has appeared relatively calm on the index level but that belies epic illiquidity, volatility and narrow leadership beneath the surface. Making some recent trades, of a few historically very liquid issues, it struck me anew how wide the bid/ask spreads have become. While ten years ago the spread would have routinely been $.01 to $.02 they are frequently now five to ten times that. I have become inured to it, but it is not representative of a healthy market. Semiconductor stocks broadly doubled in the second quarter with Micron Technologies leading the pack - up 250%.[i] For years, Micron was viewed as a commodity manufacturer of a rather mundane product and, at some point in the future, it very likely will be again. However, right now that commodity is in short supply and the stock has taken off like a rocket with the buying being panicked. Speaking of rockets, the SpaceX IPO was the largest ever and generated a huge amount of excitement. US Treasury rates have risen, and the US dollar has not been as strong as one would expect given the background of heightened global uncertainty.

Geopolitics remain surreal. While I am open minded on the rationale, Trump's attempt at a quick regime change in Iran has clearly (even embarrassingly) failed. Who knows, maybe there is a way to make "lemonade," but I don't see it at the moment. It's still unclear whether we have a peace deal or not; with Iran apparently playing for time as the West's inventory of critical inputs dwindles. Trump has repeatedly stated that Iran is losing billions of dollars as long as the Strait is closed. I don't think he properly understands their motivation. Whether we see it or not, Iran feels targeted, harassed and existentially threatened by Israel and the US. I don't think it's about the money. Meanwhile, Ukraine and Russia continue their relentless tit for tat.

The US economy has been a bright spot, with GDP and jobs surprising positively, although with heightened inflation. Corporate earnings have also been very strong. The rub is that virtually all of the GDP growth is attributable to AI spending and that is before accounting for the massive Federal deficits. Take these away and things would not look so great and it remains to be seen if the debt markets are able and willing to accommodate the elevated issuance.

PERFORMANCE COMMENTARY

Stocks bottomed for the year on March 29, then turned on dime as sentiment shifted positively around the war in Iran. Growth was the performance leader in the quarter (+16.48% - price only), led by technology in general and semiconductors, in particular (as noted above). The S&P 500 rose 14.83% while Value lagged slightly at 13.46%

(both, price-only), also driven by technology stocks. Clearly our sector weighting hurt us in the quarter – particularly our significant underweight in technology. Our overweights in Energy and Materials (albeit reduced) also detracted from performance in the quarter but were still positive for the year to date. At the stock level, we did have some significant winners including Franklin Resources + 41%, Baxter International +27%, Citigroup +23% Mohawk + 22% and BorgWarner + 18%. Our biggest laggards were Apache -23%, Murphy Oil -21%, Regeneron Pharmaceuticals – 19.3% and PanAmerican Silver -18%. Even with our winners our stock selection was a net detractor.

With the shift in the market back to growth, our trading slowed down quite a bit. We reduced Apache, Murphy Oil, Baker Hughes, BorgWarner and Citigroup, all into strength, and redeployed the proceeds into Franklin Resources (early in the quarter), Omnicom, Fidelity Information Services, Regeneron, Amgen and AIG. The net effect was to materially improve the portfolio expected return. We reduced our position in Mosaic as a risk control measure after the company clarified the impact of higher sulfur prices on their operations. Sulfur supply – a key ingredient in phosphate-based fertilizers – has been severely curtailed by the closure of the Strait of Hurmuz, causing Mosaic to begin reigning in production. A favorable resolution with Iran would relieve this issue but the timing remains unclear.

OUTLOOK

It is tempting to draw an analogy of the present market to that of the late 1990's internet bubble. Bank of America recently made this case. I lived through that period (professionally), and I can understand the comparison. Perhaps the primary difference is that many of the high-fliers of that time really had no earnings to speak of. Most of the public companies driving the markets today have considerable earnings. That being said, the assumptions embedded in valuations today seem extreme and that is where the comparison has merit. The mad rush into AI follows a decade plus of zero interest rates and nascent signs of credit strains are present. With things moving so rapidly it is hard to tell what mistakes may be being made and/or exposed. The world has never seen building and change at this pace before.

The markets in the second quarter certainly had the feel of speculative frenzy. Generally speaking, the companies that we own were not what the market was looking for. That said, our portfolio is made up of strong competitors, carefully picked for their future prospects, with attractive valuations in important industries. At some point I expect the market to slow down enough to reevaluate relative fundamentals and that our performance will benefit. When this happened in March of 2000 it launched a two and a half year run in which value outperformed the Nasdaq by 350%. Past is not prologue and timing is unknowable, but the set-up is getting very interesting for value stocks. As always, we will stick with the discipline that got us here. I appreciate your support and would welcome any questions you may have.

Sincerely,

Robert W. Simmons, CFA
Managing Member

This communication is provided by Valara Capital Management, LLC and is for informational and educational purposes only. It does not constitute an offer to sell or a solicitation of an offer to buy any securities, nor does it constitute a recommendation regarding any investment strategy or the suitability of any investment for any particular investor.

Investing involves substantial risk, including but not limited to: price volatility and the potential for significant or total loss of principal; cybersecurity, hacking, theft, and custody risks; regulatory, legal, *and tax uncertainty; illiquidity; and the possibility that such investments may not be suitable for all investors. Past performance is not indicative of future results. All investments involve risk of loss.*

The statements contained in this letter are based on current expectations, estimates, projections, opinions, and/or beliefs and constitute "forward-looking statements,". No representation or warranty is made with respect to such statements and future events may differ materially from those reflected or contemplated in such statements. As a result, investors should not rely on such forward-looking statements in making their investment decisions.

Clients should review Valara Capital Management's current Form ADV for important disclosures regarding fees, risks, conflicts of interest, and other material information. Clients and prospective clients should consult with qualified legal, tax, and financial professionals before making any investment decisions.

---

[i] YCharts price data – stock and ETF