BLACKBIRD FINANCIAL

July 30, 2026

To My Partners:

During the first half of 2026, we outperformed the S&P 500 by 5.5 percentage points. Here are the figures:

BlackBird	**S&P 500**
15.7%	10.2%
Advantage	**5.5%**

Note: BlackBird Financial returns are presented net of all fees and expenses. S&P 500 returns include dividends. All figures are as of June 30, 2026.

Portfolio Activity

In my 2025 annual letter, I highlighted two of our investments that offered exceptional value: Tidewater and Builders FirstSource. At the time, I noted that both positions were relatively modest, adding: *"If prices decline, I intend to increase them substantially."*

In the immediate aftermath of the letter's publication, Builders FirstSource shares entered a sharp and sustained decline. Amid persistent weakness in the housing market, the company's market capitalization contracted from $12.2 billion to just $7.1 billion at its May low. As the valuation grew increasingly attractive, I added aggressively to our position, deploying capital from new partners and reallocating funds from several smaller investments. Builders FirstSource is now our largest investment and represents a substantial portion of the portfolio.

I will not pretend I knew where the nadir was. I did not, and I never do. We were simply buying a strong business at a substantial discount to its intrinsic value, and that was enough. I expect Builders to generate excellent returns over the coming years. More importantly, I believe the risk of permanent capital impairment over a multiyear holding period is exceptionally low.

Tidewater, by contrast, appreciated meaningfully over the same period, leaving little opportunity to increase our position. Readers seeking more information on both Builders FirstSource and Tidewater may refer to our 2025 annual letter.

We also initiated two new investments during the first half of 2026. Neither is currently large enough to materially influence our results, so I will reserve a fuller discussion for a future letter.

Current Market Environment

I make no attempt to forecast the course of the economy or the stock market. Instead, I devote my efforts to identifying businesses trading below their intrinsic value. That does not prevent me, however, from recognizing when market prices reflect expectations that are difficult to justify. Although the timing is unknowable, I believe the euphoria embedded in today's lofty AI valuations will ultimately end in tears.

None of this diminishes the significance of Artificial Intelligence. I believe it will profoundly reshape both the global economy and daily life. Yet even the most consequential technologies remain subject to the laws of economics. Three considerations are especially important:

1. Competition shifts much of the value to customers: Competition is fierce at every layer of the AI value chain, from semiconductors and cloud infrastructure to foundation models and end-user applications. This rivalry is highly beneficial to consumers, as companies invest aggressively to enhance their offerings and lower prices in pursuit of market share. For shareholders, however, the same forces can prove far less rewarding, as they steadily erode excess returns.

2. Overbuilding is almost inevitable: The history of transformative technologies, from railroads to telecommunication, reveals a remarkably consistent pattern: Expansion rarely stops at equilibrium; it typically continues until capacity exceeds demand. Several recurring forces help explain why:

Boundless expectations. New technologies tend to inspire unbridled optimism, leading executives and investors alike to view the potential market as virtually limitless.

The fear of falling behind. Convinced that a generational opportunity is at hand, the risks of underinvesting are regarded as far greater than those of overbuilding. Excess capacity may be costly, but falling behind can erode a company's competitive position and, in time, threaten its very survival. Faced with that asymmetry, the instinct is clear: when in doubt, build more!

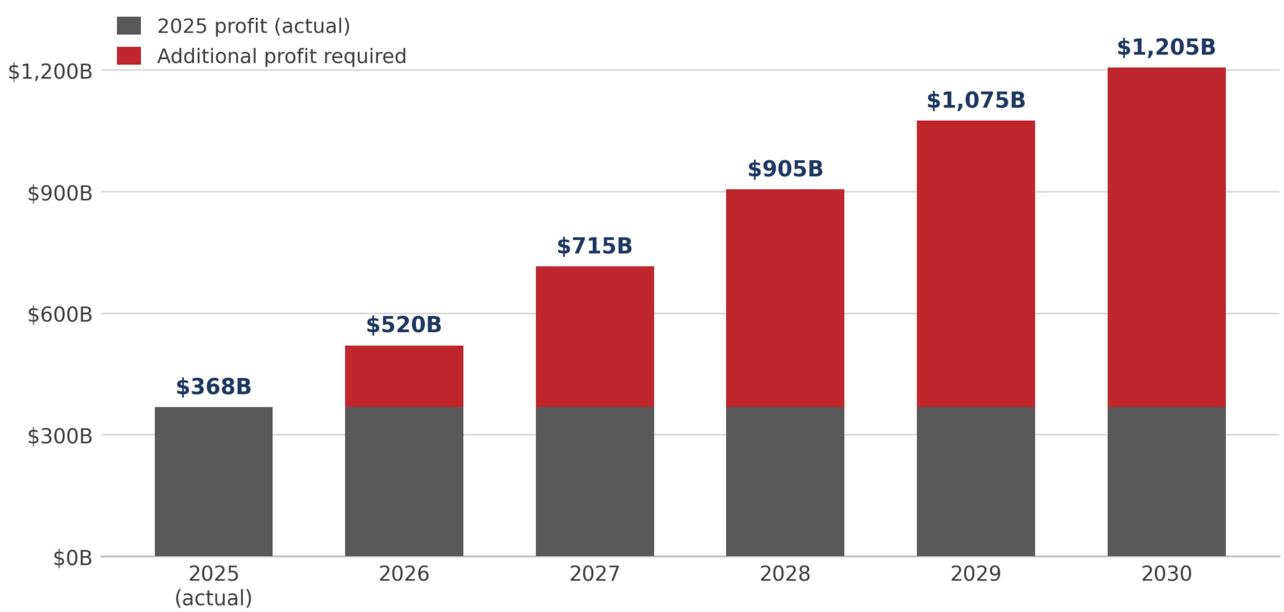
Inertia. The long lead times required for large-scale infrastructure make it necessary to expand capacity well in advance of projected demand. When the market begins to normalize, projects commissioned during the boom continue to come online just as conditions begin to cool. The resulting imbalance can take years to resolve.

All three forces are on full display in the current AI investment cycle. For example, Alphabet, Amazon, Meta, Microsoft, and Oracle are expected to spend an unprecedented $700 billion combined on capital expenditures this year alone, most of it devoted to AI infrastructure, with annual outlays projected to surpass $1 trillion by 2027! Believing the opportunity to be virtually infinite, these companies are willing to bet the farm to ensure they emerge victorious from this rivalry. This race is unlikely to de-escalate until a glut begins to form, thereby depressing returns until the excess is absorbed and the market finds equilibrium again.

3. The earnings hurdle is monumental: Given the staggering capital expenditure expected in the years ahead, companies across the AI ecosystem will need to generate astronomical earnings growth merely to sustain the returns on capital investors have come to expect. The arithmetic is sobering. Take the five largest spenders:

The Earnings Hurdle

Combined after-tax operating profit (NOPAT) Alphabet, Amazon, Meta, Microsoft, and Oracle must earn to sustain their blended 28% return on operating capital ($ billions)



Base year from each company's most recent annual filing (Oracle: fiscal 2026, ended May 2026). Invested capital is total debt plus stockholders' equity, less cash and marketable securities; NOPAT is GAAP operating income after each company's effective tax rate, excluding one-time 2025 tax-act charges. Capital grows with projected spending, net of depreciation — 2026 per company guidance, 2027–2030 anchored to Goldman Sachs' ~$5.3 trillion 2025–2030 estimate; the annual profile is illustrative and cash is held constant.

Additionally, reaching this hurdle will be even more difficult than it first appears as hundreds of billions of dollars in annual depreciation expense begin flowing through the income statement in the coming years.

To be clear, I am not suggesting that these companies will fail to achieve such ambitious results. My argument is simply that such an outcome remains aspirational, leaving shareholders in a vulnerable position. Like parents who expect too much of their children, investors may be setting themselves up for disappointment.

If these economic realities are so consequential, why have investors been so willing to overlook them? Investors tend to extrapolate the recent past into the future. Since the Global Financial Crisis, aggressive speculation has been richly rewarded, while more cautious investors have consistently lagged behind.

It is emotionally difficult for a conservative investor to watch glib speculators who bought Tesla or Bitcoin on little more than a dream vastly outperform despite having conducted none of the careful research or exercised any of the discipline that prudence demands. When this continues long enough, the pull to follow the crowd becomes nearly impossible to resist. Even rational investors can begin to relax their standards and accept risks they would never have considered previously.

A striking example of this behavior came in July 2007, as cracks began to emerge in the subprime mortgage market. Asked how long the credit boom could continue, Citigroup CEO Chuck Prince foolishly replied:

> *"When the music stops, in terms of liquidity, things will be complicated. But as long as the music is playing, you've got to get up and dance. We're still dancing."*

Sixteen months later, Citigroup stood on the brink of collapse. The destruction of shareholder value was so severe that, nearly two decades later, its shares remain roughly 75% below their pre-crisis peak.

Prince's remark demonstrates how a prolonged boom can cloud the judgment of even the most experienced executive. For years, banks with the greatest exposure to the subprime market, including Citi, had reported profits that vastly outpaced their more cautious peers. Each additional year of gains appeared to validate their approach and made restraint look increasingly misguided. Even as warning signs began to surface, Prince could not bring himself to step back and risk falling behind his competitors while the rally still had momentum. He could not quit.

In Berkshire Hathaway's 2000 annual letter, published in the wake of the dot-com bubble's collapse, Warren Buffett offered a memorable analogy to explain the psychology underlying this behavior:

> *"Nothing sedates rationality like large doses of effortless money. After a heady experience of that kind, normally sensible people drift into behavior akin to that of Cinderella at the ball. They know that overstaying the festivities, that is, continuing to speculate in companies that have gigantic valuations relative to the cash they are likely to generate in the future, will eventually bring on pumpkins and mice. But they nevertheless hate to miss a single minute of what is one helluva party. Therefore, the giddy participants all plan to leave just seconds before midnight. There's a problem, though: They are dancing in a room in which the clocks have no hands."*

I don't know how long we have until midnight comes, but when it does, as it surely will, many of today's celebrated executives and investors will find themselves surrounded by pumpkins and mice.

As for us, nothing changes. In Chapter 4 of Security Analysis, Ben Graham wrote: *"For investment, the future is something to be guarded against rather than to be profited from."* At BlackBird, we've always heeded that lesson and have avoided companies in industries that are evolving quickly. Naturally, this has precluded us from owning virtually everything that is related to AI.

Semi-Annual Review

Please use the link below to schedule your mid-year investment review:

https://calendly.com/blackbirdfinanciallp/judahspinner

Thank you for your continued confidence and partnership. I look forward to speaking with you soon.

Your fiduciary,

Judah Spinner, CFA