Kopion Asset Management

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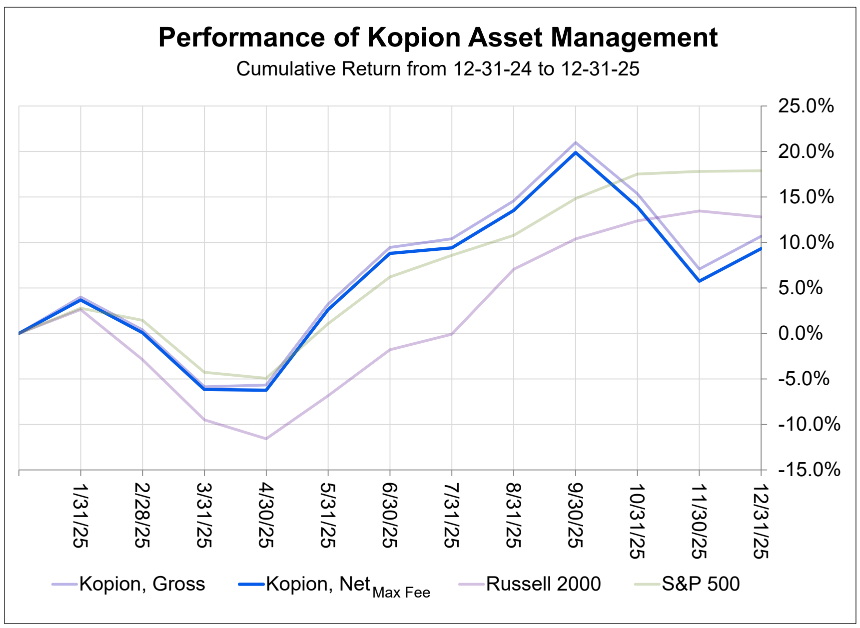
Refueled

The Silver Lining of a Short-Term Decline

Thursday, January 15, 2026

Dear Kopion Clients,

Kopion enjoyed good results in 2025, returning 10.7% before fees (9.5% after fees). The Russell 2000 and the S&P 500 returned 12.8% and 17.9%, respectively.



As shown in the chart on the right, Kopion's results were excellent through the first nine months of 2025. A setback in October and November reduced our 2025 return from "excellent" to "good," but it came with an important silver lining.

Towards the end of September, many of our stocks were getting ahead of themselves and their valuations were becoming progressively less attractive. This is normally a part of the ebb and flow of investing in the stock market. Around that time, however, one of our largest positions, PROS Holdings, announced that it was being acquired for over a 50% premium to its recent trading range. This immediately vaulted PROS from representing 7.0% of our portfolio to 9.6%. The deal was all-cash and expected to close in the fourth quarter. While we had experienced great returns year to date that were further boosted by the PROS acquisition, we were now facing the undesirable prospect of needing to reinvest a large amount of cash at a time when valuations were becoming stretched. This put three of my priorities for the portfolio in tension with one another:

1. Remaining fully invested—Historically, a relatively small number of very strong trading days have produced a disproportionate amount of the stock market's long-term results. Benefitting from those days is important, but their timing is

unpredictable. The best way to ensure they are captured is thus to stay fully invested.

2. Value-based position sizes—As explained in our letter for the first half of 2025, Kopion sizes its positions based on the underlying stocks' individual risk-reward propositions. As a given stock's price falls and its value becomes more attractive, we generally add to its weight. Conversely, if its price goes up too quickly and its expected return decreases, we generally reduce its size.
3. Reasonable maximum position sizes—Kopion spends a tremendous amount of time researching the companies that we invest in. This reduces our risk of negative surprises, but no amount of research can give us perfect foresight. We respect this reality by limiting each company's maximum position size, typically based on its maturity and quality.

Balancing these three priorities became challenging in late September, as a growing proportion of our holdings were rising to valuations that warranted reducing their sizes. The resulting cash needed to be redeployed for us to remain fully invested, but that would gradually become more difficult as a shrinking list of still-attractive stocks approached their maximum position sizes. During October and November, however, several of our stocks declined sharply, with a few reaching multi-year low valuations. This group also included some of our highest quality compounders. These declines took some of the shine off of our 2025 return. But they also opened the door for us to refuel the portfolio for the future by reinvesting the PROS proceeds on much more attractive terms. We steadily redeployed our PROS position into these stocks, and I am happy to report that we ended the year almost fully invested. In my view, this modest late year setback was a worthwhile price to pay to reinvest the PROS proceeds at compelling prices. This was also a natural extension of Kopion's ongoing investment process whereby we capitalize on volatility. Altogether, we exited 2025 with a healthy return outlook for the coming years, with large positions in many undervalued businesses.

As an aside, it is worth mentioning that we are always actively prospecting for new companies to add to the portfolio and are well into valuation work on two in particular. True compounders, however, are relatively rare, and obtaining them at reasonable prices adds to the challenge, especially at a time when many stocks are trading at high valuations. This touches on a fourth priority for the portfolio: Upholding quality standards for the companies we invest in.

I would like to briefly discuss the taxable income that Kopion produced in 2025 for the taxable accounts that we manage. 2025 was a heavy year for realized capital gains for four reasons:

1. One of our most successful investments ever, Ansys, was acquired in July for a combination of cash and stock in the acquirer. I felt that the stock in the acquiring company was overvalued and sold it shortly after the deal closed.
2. The already mentioned deal for PROS Holdings closed in December. Over the spring and summer, I had concluded that PROS' stock was very undervalued, which led me to gradually increase the size of our position by 80%. This was vindicated in late September when the company announced that it was being acquired for over a 50% premium. Unfortunately, however, the quick closing period and all-cash consideration locked a relatively high proportion of our capital gains into the short-

term category. We are long-term investors, so this degree of short-term capital gains is unusual for us.

3. As I touched on in our client letter for the first half of 2025, our intra-portfolio volatility has been quite high. This necessitated trading both to take advantage of attractive opportunities and to manage risk as some stocks got well ahead of themselves. This naturally produced more realized capital gains.
4. Over the last several years, we have regularly, though judiciously, lowered the realized capital gains of the taxable accounts we manage through a maneuver commonly known as “tax loss harvesting.” Following multiple years of strong returns and proactive tax loss harvesting, we entered 2025 with a relatively limited inventory of unrealized capital losses remaining. This reduced our tax loss harvesting opportunities, leaving us more exposed to the realized gains that naturally occurred during the year.

Many investors are recognizing that large portions of the stock market have become overvalued and poised for weak returns over the next several years. This is most pronounced among large stocks,[1] though Kopion itself was beginning to experience this problem to some degree around the time the PROS deal was announced. Following our portfolio’s setback in October and November and our reinvestments into the most attractive parts of it, our portfolio entered 2026 at a much more attractive overall valuation. Indeed, a number of our stocks began the year with valuations near multi-year lows. We are very fortunate to have been able to redeploy our PROS proceeds into these opportunities and keep the portfolio’s “value content” at a healthy level. That doesn’t mean we won’t experience short-term declines, but we believe that the long-term outlook for our portfolio remains bright.

Thank you for your continued confidence and support.

Best regards,

Terry Ledbetter, Jr., CFA

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[1] Jakab, Spencer, “Value Method Points to Rough Years Ahead,” The Wall Street Journal., November 5, 2025. See also: Hur, Krystal, “Wall Street Expects Rally to Keep Going,” The Wall Street Journal., January 5, 2026.

PERFORMANCE DISCLOSURES

Period	Kopion, Gross	Kopion, Net $_{\text{Max Fee}}$	Russell 2000	S&P 500
Annualized*				
1 Year	10.7%	9.3%	12.8%	17.9%
3 Years	22.1%	20.6%	13.7%	23.0%
5 Years	10.9%	9.5%	6.1%	14.4%
10 Years	12.2%	10.8%	9.6%	14.8%

*Ending 12-31-25

Past performance does not guarantee future results. Investments with Kopion may lose value.

Terry Ledbetter, Jr. began managing his first diversified investment account on 2-4-04 while employed by Friedberg Investment Management (FIM). Mr. Ledbetter left FIM on 7-31-09 and founded Kopion Asset Management, LLC (Kopion), which became a legal entity on 8-24-09. Importantly, when Mr. Ledbetter founded Kopion, he continued to manage the same accounts that he had been managing while employed by FIM. The accounts, investment strategy, and investment process all remained the same. The performance information cited throughout Kopion's marketing materials includes all of the diversified investment accounts managed directly by Mr. Ledbetter since 2-4-04, which is when he began managing his first diversified investment account. This information is provided for both Mr. Ledbetter's entire performance history as well as for the portion of Mr. Ledbetter's performance history that occurred after Kopion was founded and became a legal entity.

The performance information cited throughout Kopion's marketing materials has been thoroughly documented, and it has been calculated using normal industry protocols, which are described in more detail below. This information has not, however, been audited by an independent third party. Dividend and interest income in these accounts was reinvested. Returns for these accounts have been asset-weighted to calculate historical returns. Said another way, the accounts were aggregated into a single group and then performance was calculated for that single group. This group includes some sub-accounts and securities that were carved out of larger accounts in order to exclude assets like mutual funds that Mr. Ledbetter did not manage directly. Those mutual funds were managed by professionals at third party firms, and Mr. Ledbetter's involvement was limited to being a passive shareholder of those mutual funds. In addition, some of those mutual funds followed fixed income strategies, which were very different from the strategy used by Mr. Ledbetter when he was employed by FIM and later at Kopion. Performance information that includes assets like mutual funds that were not managed directly is available, and Kopion will provide it promptly upon request.

Kopion reports its Time Weighted Returns (TWRs). TWRs make adjustments for deposits and withdrawals so that those transactions do not influence performance results. Consequently, deposits do not increase the return, and withdrawals do not decrease the return. TWRs thus allow for performance comparisons between Kopion's (and Mr. Ledbetter's) history and market indices.

Kopion reports both "gross returns" (which are returns before Kopion's management fee) and "net returns" (which are returns after deducting Kopion's management fee). Kopion's management fee schedule is graduated, which means that the fee rate begins to decrease after an account's dollar value exceeds a certain threshold. The label "Net $_{\text{Max Fee}}$" indicates that the net returns being presented reflect Kopion's maximum fee rate for all periods presented. The words "net" or "after fees" without the words "Max Fee" in subscript lettering indicates that the net returns being discussed reflect actual fees.

Kopion has provided the returns of the Russell 2000 and the S&P 500 indices in order to provide the broader stock market context of Kopion's (and Mr. Ledbetter's) returns. The Russell 2000 tracks the performance of relatively small publicly traded companies, and the S&P 500 tracks the performance of relatively large ones.

Kopion does not “benchmark” its portfolio against indices in the traditional sense of carefully managing the portfolio for comparison against a specific index. Instead, these two indices are used as broad indicators of the stock market’s performance. Kopion (and Mr. Ledbetter) has primarily focused on small and medium sized firms, but it (and he) has also invested in some large companies as well. This is why Kopion has provided the results of both the Russell 2000 and the S&P 500. These indices cannot be invested in directly, but mutual funds and exchange-traded funds that track these indices (“index funds”) are available in the market. Kopion’s (and Mr. Ledbetter’s) investment strategy carries more risk than investing in an index fund that tracks either the Russell 2000 or the S&P 500. This is primarily because Kopion’s (and Mr. Ledbetter’s) strategy involves investing in a relatively small number of stocks and those stocks are primarily for small to medium sized companies. This approach results in greater volatility and greater risk of capital loss than index funds tracking either the Russell 2000 or the S&P 500.

Indices’ performance figures have been obtained from sources believed to be reliable.