

Volatility = Opportunity

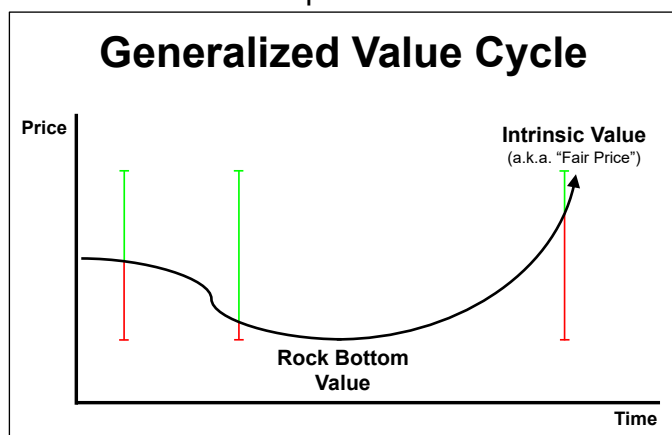
Friday, July 11, 2025

Dear Kopion Clients,

Kopion enjoyed good results during the first half of 2025, returning 9.5% before fees (8.9% after fees). The Russell 2000 and S&P 500 returned -1.8% and 6.2%, respectively.

Many years ago, I attended a mathematics lecture on a facet of chaos theory known as self-similarity. A self-similar system has a structure that repeats itself and thus looks similar at both large and small scales. When you zoom in and out, you see a similar pattern. For example, when viewed from space, a hurricane looks like a gigantic spiral of clouds. This massive spiral, however, contains a host of small “mini-hurricanes” near the ground. This general concept is applicable to investing. At the macro scale, the stock market cycles through lows and highs, and this larger pattern is comprised of similar cycles at the individual stock level. To be clear, individual stocks do not always follow the same patterns, especially over the long-term. This is why the stock market isn’t strictly self-similar in the mathematical sense. Nonetheless, there is a general pattern that often plays out at both the market level and the individual stock level. An illustration of this pattern might be helpful.

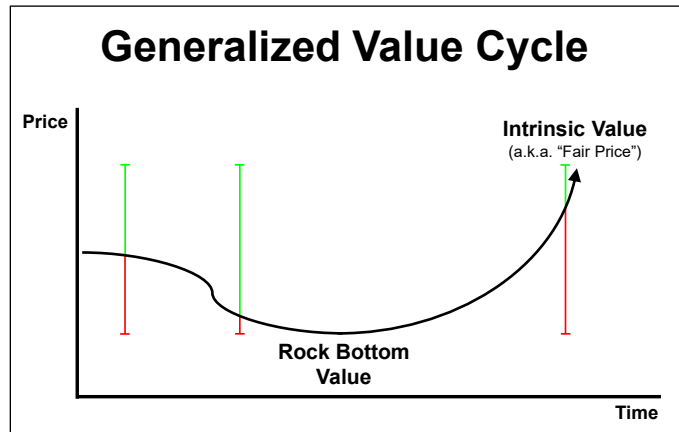
At various points in time, an individual stock will trade down to a “rock bottom” valuation as shown in the picture on the right.¹ You could think of this as the price that it would trade to during a panic. The underlying business, however, has an intrinsic value, or fair price, that the stock will eventually gravitate towards or even overshoot. The distance between the stock’s price and its rock bottom value can be thought of as its downside (the red bars in the picture) and the distance between the price and its intrinsic value can be thought of as its upside (the green bars in the picture).



¹ For illustrative purposes only. In practice, the Rock Bottom Value and the Intrinsic Value are both estimates, which can prove incorrect for a variety of reasons such as unforeseen developments or mistaken analysis. In addition, these estimates change over time.

This concept can also be applied to the stock market as a whole because it similarly cycles down and up, which creates upside or downside at the system level.

Those of you with perfect memories might remember this illustration. It is from Kopion's marketing presentation where I use it to communicate the concept of value investing and especially how a given stock's risk-reward proposition counter-intuitively *improves* as its share price *declines*. This diagram, however, also illustrates some other aspects of how we manage the portfolio. The first is the importance of investing in compounders.



Same illustration as prior page, repeated for convenience.

We define a compounder as a stock whose intrinsic value should increase over time because it has both:

- 1) Credible growth prospects
- 2) Advantages that give it a "right to win" over potential competitors

Critically, compounders' results are generally more predicable (relatively speaking), which makes them well suited to value investing and applying the thinking illustrated above. Consider the alternative: a company with more limited growth opportunities and / or more competitive threats has more ways for its financial forecast to fall apart. This means that an estimate of its intrinsic value is less reliable.

All of the stocks in our portfolio are compounders, but some are at more attractive prices than others. This leads to another way that the picture above illustrates how we manage the portfolio. Our stocks are conceptually at different points along the black line in the diagram above. They thus "compete" for size within the portfolio based on their place along this risk-reward spectrum. And we calibrate this to their individual risk levels. For example, some of our stocks are established compounders whereas others are earlier in their journeys and can be thought of as emerging compounders. At a given point on the black line above, our forecast for an established compounder is generally more reliable than our forecast for an emerging compounder. We can therefore allocate more of the portfolio's weight to an established compounder.

Kopion is purpose-built to find compounders, determine their intrinsic values, and weight them accordingly on a risk-adjusted basis. This type of clarity is always helpful, but particularly so during periods of market turbulence such as the first half of 2025. For many, the word "volatility" has a negative connotation, and we all know the uncomfortable and at times gut wrenching feeling of being on the downward side of it. For investment strategies that are more abstract or less tethered to strong investment theses, that discomfort may be warranted. But I believe that Kopion's work is on solid ground because we rely on highly researched businesses and thoughtful valuations. Kopion is essentially cutting through the vagaries and volatility at the stock market system level, and instead relying on concrete details at the individual stock level. Jonathan and I have a strong

handle of our companies' fundamentals, valuations and risks. So from our desks, "volatility" feels more like "opportunity" since price declines allow us to add to our positions in quality businesses at better prices.

During the first half of 2025, the stock market was unusually volatile considering the relative health of the economy. For example, during the initial tariff fears in early April, market indices dropped precipitously to bear market levels², but recovered so briskly that the market was almost flat for the month. Kopion's focus served us well as we navigated that turbulence. Our detailed valuation work equipped us to understand when a stock had fallen to bargain prices and should be added to and when a stock's valuation had become stretched and it needed to be trimmed. What was unusual about the first half was the speed at which some of our stocks moved in between these states. This process sometimes takes years, but the first half of 2025 was so volatile that we found ourselves repeatedly making these types of adjustments after just a few months. In fact, four of our stocks were so volatile that we added to them, later needed to trim them, and then added to them again all within the space of the first six months. Others had the opposite pattern, necessitating that we trim, then buy more, and then trim again, all within the first six months.

One final point is that Kopion's ability to navigate this type of volatility improved in late 2019 when Charles Schwab eliminated commissions on most trades. When I began Kopion in 2009, I only placed trades when they were large enough to make the associated "expense drag" from Schwab's commissions reasonable for our smaller accounts. Moreover, once I began a trade, I needed to complete it even if the stocks tilted against us over the course of the day, rendering the trade modestly less attractive than when we started. Today, by contrast, we are free to be sticklers on price and trade less than planned when necessary. In addition, earlier in my career I tended to add to beaten down stocks too quickly. Without commissions, we can now buy gradually in smaller increments on the way down and trim more gradually on the way back up. This has enabled us to strike a better balance between being proactive and patient. I believe this has improved our risk management and our ability to capitalize on volatility.

Market volatility could remain high over the coming months, especially as the U.S. continues to pursue aggressive tariff negotiations. Regardless of the environment, however, Kopion is blessed with an all-weather process to guide our decision making and capitalize on the opportunities.

Thank you for your continued confidence and support.

Best regards,

Terry Ledbetter, Jr., CFA

² At their lowest points in April, the Russell 2000 and S&P 500 closed 27.9% and 18.9% off of their recent highs, respectively. So the small company portion of the market that we focus on was well into bear market territory, whereas the large company index only approached the bear market threshold of -20%.

PERFORMANCE DISCLOSURES

Period	Kopion, Gross	Kopion, Net <small>Max Fee</small>	Russell 2000	S&P 500
Annualized*				
1 Year	20.1%	18.6%	7.7%	15.2%
3 Years	23.2%	21.7%	10.0%	19.7%
5 Years	19.3%	17.8%	10.0%	16.6%
10 Years	10.3%	9.0%	7.1%	13.6%

*Ending 6-30-25

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 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.