FIVE MILE RIVER *Investment Management, LLC*

Five Mile River Investment Management, LLC

Client Quarterly Letter

1st Quarter 2026

April 9, 2026

PERFORMANCE

	Dow Jones Industrial	S&P 500* (Capitalization Weighted)	S&P 500 (Equal Weighted)
2026 Q1	-3.58%	-4.33%	0.67%

A Fast Start

The very strong first quarter performance of FMR portfolios has benefited from the large weightings in both energy and defense securities. Performance data for Q1will be forwarded to clients as soon as it becomes available through Informa Solutions and RBC. FMR employs three basic client investment strategies: income, balanced, and growth which have generated first quarter returns ranging from roughly +6% to +8%. This is in contrast to the major market indices' poor showing. FMR started exiting technology investments back in December of 2025. There was a reduction of approximately 1/3rd of FMR's technology investments, therefore avoiding the first quarter rout in the technology sector.

Also in the first quarter, FMR made a few selective purchases. UPS was added in part because of its 7% dividend yield that provides solid downside support. Importantly, its management team is excellent. They have successfully managed: a strike by union drivers; exiting Amazon's low margin business; and recently establishing a fuel price surcharge. UPS should begin to perform favorably when oil stops going up, and confidence resumes about the U.S. economy. Also, FMR started a small position in Amazon because it's decline created an attractive entry price determined through FMR's proprietary valuation screening tools.

FMR remains steadfast in "skating to where the puck is going" (a famous Wayne Gretsky quote). Actions taken in client portfolios have increased client cash levels to take advantage of the fact that corrections provide the absolute best time to find great stocks at bargain prices.

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Iranian War

No one can predict how long the Straits of Hormuz will be open as part of the recent cease fire. Therefore, FMR feels little compunction for any major reductions in our heavy weightings in energy and defense. Having said that, FMR did trim the 5%+ weightings in Raytheon and Exxon, consistent with FMR's stated risk management strategies. In FMR's Mid-Quarter Client Letter, dated March 13, 2026, it was hypothesized that the war in Iran could last far longer than "weeks," leading oil prices and inflation higher and lasting longer than anticipated.

The ongoing military campaign could include taking control of Karg Island, responsible for 95% of Iran's oil exports. This would give the U.S. control of Iran's oil exports, which is Iran's only source of state income. Importantly, this potential strategy for U.S. control of Karg Island, could give the U.S. substantial leverage over China.

China depends on Iranian oil, in addition to Venezuelan crude, for almost 2/3rd of its oil needs. Using oil as leverage over China may be the only way to curtail China's endless shipments of missiles and drones to Iran that have been responsible for extending the war. The temporary cease fire and the opening of the Strait of Hormuz has no doubt provided a relief rally for the equity markets.

As Persian Gulf producer storage is completely full, these producers are being forced to stop oil well production. Restarting limited oil production can take months, not days. Persian Gulf producers had accounted for 20% of world oil supply. Many producers, including Kuwait and Iraq will suffer permanently reduced production. This is because of the uniqueness of their oil deposits. Once production is stopped it can't be restarted. FMR's research indicates that if/when the Straits permanently open, the price of oil will probably stay well north of $80 per barrel. By comparison, FMR has invested in the dominant U.S. oil producers that have finding costs in a range of $40 to $50 per barrel.

1Q26 Market Results

As the first quarter of 2026 ended, the market had touched into correction territory. One FMR risk management strategy is to reduce or eliminate investments that decline 20% from clients' cost basis. In evaluating market risk, corrections are measured from price peaks. The S&P 500 has declined 6.7% from its peak value set on January 28th. What is most revealing is the divergence of component stocks versus the indices. The Russell 3000, probably the broadest index representing 98% of investable stocks, declined 9% from its high. Again, starting from the peak levels, the average stock in the Russell 3000 is down 29%, and more worrisome is that 26% of the Russell 3000 stocks are down 40% or more! FMR's 2025 year-end Client Letter (as well the mid-quarter letter dated March 13th) explained that during 4Q25 FMR began raising client cash levels by reducing or selling specific stock holdings.

As many of you will remember from previous client letters, Wall Street jargon on this subject can be confusing; "Pullbacks" decline between 5% to 9.9%, while "Corrections" decline from 10% to 19.9%. Both normally occur on average once a year. "Bear Market" declines more than 20%, currently what the average stock in the Russell 3000 is experiencing. Pullbacks and Corrections are typically short-lived and are often described as buying opportunities. FMR views the current environment with caution because some poor individual stock performance could be signaling that future indices may move into Bear Market territory. Geopolitical conflicts usually have a short-term impact on markets lasting approximately six months. This quarter's decline has more than just geopolitical roots. The other prominent issues include: whether high gas prices and ensuing inflation cause the Federal Reserve to start raising interest rates (a shift from its two-year policy of lowering interest rates); whether a possible Republican loss in the House triggers a Congressional impeachment stalemate; or if a Black Swan crisis occurs in Private Credit markets.

Private Credit

Trillions of dollars have been raised for investments in Private Credit. These investments often take the form of limited partnerships chartered to invest in private (non- public) companies. The general partner often then takes the reins (and salary) of the acquired private company, also charges a 1% management fee based on the acquired asset's value, and can receive a portion of future profits from either selling or bringing the company public (IPO). The credit extended to make the acquisitions of these private companies has in part been funded by the major banks. The banking exposure to private credit has been estimated somewhere between $500 Billion and $2 Trillion! Jamie Dimon, CEO of JP Morgan during their recent earnings conference call commented on the recent bankruptcies announced by two private investments, Tricolor and First Brands, as being just the "tip of the iceberg." Private Credit depends on financing from large bank lenders that are starting to flag deteriorating loan credit quality and collateral shortfalls. This will undoubtedly lead to bank loan losses and downward earnings revisions. The question becomes the eventual size of Private Credit losses and collateral exposure. The Q125 earnings by the banks over the next few weeks could potentially shed light on this. FMR continues to monitor this area closely.

Know what we don't know

There simply isn't enough information to gauge the scope of private credit deterioration and the subsequent impact on FMR's two bank holdings (JP Morgan and Goldman Sachs). Given this uncertainty, and possible downside risk, FMR reduced these holdings from 5% weightings to 3%.

An issue referenced earlier in this letter, will oil induced rising inflation cause the Federal Reserve to RAISE interest rates? This would certainly hurt high multiple (P/E) holdings. In light of this concern, FMR sold the two highest valued client investments, IDEXX Labs and Palo Alto Networks. Both companies were valued at over +40 X earnings while the S&P 500 is currently valued at 22 X earnings. Also, FMR reduced Applied Materials from a +5% weight to a 3% weight, again consistent with FMR's risk management strategies.

As is customary in FMR's Q1 Client letter, FMR makes available on request copies of our SEC filings, proxy voting guidelines, and privacy policies. Should you wish a copy of these documents, please contact Martha.

We wish you an enjoyable spring and encourage you to share your thoughts, as well as any questions you may have about your portfolio construction.

Sincerely,

Lee	Todd	Martha	Mary

**The S&P 500 Index is a market capitalized weighted index of 500 companies. It is a growth-biased index because the larger the capitalization of a company, the larger the weighting it contributes to the S&P 500 Index performance. The index referenced <u>includes the dividends</u> issued by these 500 companies. This index is used for a comparison for FMR accounts. The performance data included in this letter are not audited and have not been otherwise reviewed or verified by an outside party. While Five Mile River Investment Management, LLC endeavors to furnish accurate information, investors should not rely upon the accuracy or completeness of this information.*

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