Valara Capital Management, LLC

October 12, 2025

Dear Friend of Valara Capital Management,

For the third quarter and nine months ended September 30, 2025, Valara Partners, LP. produced returns, net of fees, of 21.19% and 41.63%, versus 8.12% and 14.83% for the S&P 500, respectively.

QUARTERLY REVIEW

It was another eventful quarter. With the conclusion of the standoff in Gaza last week, one issue appears resolved (for now) but a handful of others have either newly cropped up or have gotten worse. The epic uncertainty persists and it's clear, from the following, that this is the new normal. Though the Middle East is settling down, the same can't be said for Ukraine. Despite Trump's oft-stated intent to end the conflict, he now appears to be back in the heavy armaments business. While the shutdown of the Federal Government can hardly be called a surprise, how and when it will end adds another dimension to the backdrop. Both Russia and China are proving intransigent on their respective issues with the United States. The labor market showed weakness in Q3 while inflation remained doggedly elevated. While the Federal Reserve cut 25 basis points (to the markets glee) the antagonism from the Trump administration is a very bad optic – the same is true with Trump's spat with the Bureau of Labor Statistics. Trump's interpersonal style, in general, is firmly established but still jarring. At times, it is flagrant enough to make one wonder if it is not partially theater. One newer issue failed to get much mainstream coverage – that being the startling cracks that have popped up in the credit markets. In the last few weeks there have been two noteworthy bankruptcies (First Brands and Tricolor) that have shaken the corporate credit markets and widened spreads. It's too early to say if these are a harbinger of a waning credit cycle but some of the details suggest it's worth watching closely.

With the above (minor chaos) as background, it is interesting to see gold/silver (metal), gold miners, large-cap tech and "profitless tech" (Goldman Sachs Index) all at the top of the leader board this quarter. Gold is frequently a chaos hedge – emerging tech, not so much. The GDX (VanEck Gold Miner ETF) was up 47% for the period, while GS profitless tech came in at a bit more than half that return (I don't have the exact number). Profitless tech requires easy and plentiful access to funding and liquidity. It requires a risk-taking preference in markets (high confidence). I believe that gold and tech are rallying on the same expectation – essentially, that the Federal Reserve has capitulated and, with the US Treasury, stands ready to proactively address any unexpected "setbacks." Markets seem to think that uncertainty will be emphatically Trumped – pun intended. If this is correct, it does not bode well for inflation or the US dollar.

With respect to gold prices and mining companies, I have been doing this long enough to have an enormous appreciation for the challenges of valuing cyclical industries. That however is the job. Most of my value manager peers long ago gave up on gold mining companies as too confounding - to their discredit/detriment. Gold is generally not consumed (money and jewelry) so its price reflects the demand for an above ground inventory to serve as a store of value. That demand can ebb and flow in long cycles. I fear we are about to find out that the same is true for US Treasuries. It appears that we have reached the point at which Governments have so badly mismanaged the gold alternatives that central banks have chosen to revisit it (metal) as a reserve asset. It will take a long time for the mining industry to adjust the above ground supply, but it will react to higher prices and begin to expand production. Just like any other industry, it will demand a price that provides an appropriate return (mining is risky) given the market costs for oil, equipment, labor, environmental protection, etc... As production increases, gold prices may ease – but the market clearing price will depend on the marginal costs of production. They will also ease as market participants reach their desired holding levels and the intensity of demand diminishes. The challenge of valuing gold mining companies lies in correctly assessing this process. Given the recent, panic like, rise in the metal price, anything can happen in the short run. A gut-wrenching correction would not be surprising.

PERFORMANCE COMMENTARY

It was a very unusual quarter for Valara Partners, LP. Small-cap stocks and growth led the market. Value lagged. The leading sectors (aside from Gold Miners, which were 4x Tech) were Technology, Consumer Discretionary and Communication Services. The worst performing sectors were Consumer Staples, Materials, Real Estate and Financials. With our, still large, overweight in the gold mining subset of Materials, our sector contribution was a big positive. That said, it was stock selection that drove our results in the quarter. Our largest position (Warner Brothers Discovery - WBD), which began the quarter at 7.45% of the portfolio, was up 70.4% in the period. WBD was the subject of takeover interest by Paramount Skydance but a deal has not yet been reached. We continue to think that WBD would do well with Paramount or on its own. Kinross Gold, Barrick Gold and Newmont were up 59%, 57% and 44%, respectively. Eleven of our 23 names were up 20%, or more, in the quarter. As always, we had our laggards, which included Fidelity National Information Services and Fluor Corp. Both companies reported issues with respect to their Q2 earnings. On balance, it was a very rewarding quarter – one that we have been patiently waiting for.

Not surprisingly, our trading activity picked up considerably as portfolio positions made big moves toward fair value. In the quarter, we eliminated our holding in Agnico Eagle and reduced our exposure to Newmont, Barrick, Pan American Silver and Kinross Gold. Over the past year, ending September 30, 2025, we have reduced our mining holdings by over 60%. The rise in stock prices leave us with still meaningful positions (justified by their remaining upside potential). We have continued to trim positions in the first two weeks of the fourth quarter. We also made partial sales of Warner Brothers Discovery and TechnipFMC. The proceeds from these sales were redeployed into a new position in Bunge Limited and additions to Murphy Oil, Fluor Corp, Viatris, and NOV Inc. These trades add meaningfully to our future outperformance potential.

OUTLOOK

I remain in the "so far so good" camp. Earnings in the second quarter were strong, with the highest percentages of companies beating expectations, on both the top and bottom lines, since Q2 2021. The economy appears to be growing moderately, even though the job market could be better. Much of this would be very different if we (the U.S.) were to cease the egregious deficit spending that has become routine. Last Friday's (China tariffs 2.0) sell-off is an example of how quickly things can change but for now the outlook is fraught but stable.

I find it interesting that profitless tech remains so well bid (confidently embraced). My market instinct is loudly questioning the sustainability of this. I lived through the late 1990's internet bubble and I remember feeling the same way... for a long time. So, while I know this can go on longer than one expects, I also know that a gusher of speculative money ($1.5 Trillion and rising, according to Gartner) ultimately brings about sloppy decisions, fraud, disappointment and big losses. Since the late 1990s, the Fed and Treasury have gotten a lot more sympathetic to the markets, which is the leading reason everyone seems to believe that this will inflate forever. I am no fun at cocktail parties because I believe "there is no free lunch" and "nothing that is too good to be true lasts forever." The nascent cracks that are showing up in the credit markets bear close attention. I continue to believe that we are late in the market and economic cycles. By rights, the next recession could be a doozy, even if only on a real (inflation adjusted) basis.

I don't mean that to sound scary. The great news is that, by reallocating capital into value names with compelling outlooks and good balance sheets, we have kept our weighted average P/E, on estimated normal earnings, at just 9x. Certainly, things can get bumpy, even scary - they occasionally do in this endeavor (investing). Do not forget that dislocation usually brings opportunity and that time and deliberate patience are our allies. We will approach what comes with the same process, discipline and rigor that we always have. Thank you for your continued confidence and support. Please feel free to call or email me with any questions or concerns you may have.

Sincerely,

Robert W. Simmons, CFA
Managing Member

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