BASTION
ENERGY ETF (BESF)

Q1 2026 Letter to Investors

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Executive Summary

Since inception on June 3, 2025, through March 31, 2026, the Bastion Energy ETF (BESF) returned 72.0% on a total return basis, net of fees.

Past performance does not guarantee future results. For standardized performance current to the most recent month-end, please visit www.bastionetfs.com.

The closure of the Strait of Hormuz is being portrayed primarily as an oil shock. The more consequential long-term repricing, in my view, is in LNG (liquefied natural gas), and refined products. Damage to Qatar's Ras Laffan export complex has eliminated the feared 2027 LNG oversupply. Inventory drawdowns and SPR (Strategic Petroleum Reserve) replenishment obligations now anchor a higher long-term floor under oil. Refined product capacity behind Hormuz - diesel, jet fuel, petrochemical feedstock - is the binding constraint the market is least focused on.

I also believe the market is underpricing the *duration* of the disruption. My base case is "intermittent disruption" - opens for days, closes for weeks, repeats - at roughly 40% probability, lasting from quarters to years rather than weeks. The market appears to be pricing the opposite scenario: rapid clean resolution and a return to pre-war flows within weeks. I rate that scenario in the low-to-mid single digits.

The broader thesis behind BESF - the structural growth in U.S. natural gas, LNG, and NGL (natural gas liquids) infrastructure - pre-dates the war and continues regardless of how the Strait resolves. Hormuz did not create the case for owning these businesses. It strengthened the cash flows of businesses we already owned or wanted to own at prices we were willing to pay. Three of my five scenarios, together about 85% of the probability, support the portfolio's positioning at different intensities - so BESF holds up well even if the precise scenario that emerges is not the 40% one. The portfolio is concentrated in U.S. LNG exporters, natural gas midstream, Appalachian gas E&Ps (exploration and production companies), NGL export infrastructure, and select oil producers with meaningful natural gas optionality. Approximately 13% of the fund is currently in cash – reserved for opportunities, not a hedge.

"Man is born free, and everywhere he is in supply chains."

- Rousseau, sort of

Dear Fellow Investors:

As my first report to you on our new ETF - and with energy markets doing what they're doing - I thought it would be best to show my work. Future editions of my letters will be shorter, assuming the world cooperates.

Since inception on June 3, 2025, through the end of the first quarter of 2026, the Bastion Energy ETF (BESF) returned 72.0% on a total return basis, including reinvested dividends and net of the fund's 0.80% annual expense ratio.[1]

Past performance does not guarantee future results. For standardized performance current to the most recent month-end, please visit www.bastionetfs.com.

We're off to an auspicious start. American energy assets have recently started to earn a bit more respect, both at home and abroad. There are good reasons to expect prices for oil and natural gas to settle at a meaningfully higher price than before the war began, in my opinion, which should also continue to benefit our companies. We also are relieved of the significant challenge of trying to predict which AI model will win. For us, it's enough just to know that these systems require enormous, always-on power – and that in the United States, that marginal demand is most reliably met by natural gas.

That said, we'd all be better served to lower our expectations. The theses behind some of our holdings have been validated much faster than we had any right to expect. I'm enthusiastic about our opportunities – so much so that we launched this ETF – though the conflict in Iran means the next few months should probably be less about trying to be brilliant and more about the discipline of remembering how humbling energy markets can be.

There is a not insignificant chance that the same tailwinds we should benefit from in energy could become headwinds for other parts of the market, and perhaps the economy, later this year - depending on what happens in the Strait of Hormuz. I'm not overly concerned, yet, but there is a clock ticking. So, I wanted to brief you on how I'm thinking about possible scenarios, too. And because my own crystal ball is a bit cloudy, that is really a discussion about decision trees and portfolio construction.

Also important to note in that performance: prior to the Iran war, we owned no oil companies.

Did Bastion predict the Strait of Hormuz would close? No.

Do we know exactly what happens next? Also no.

I have a working theory, though, that I will lay out in the rest of this letter.

In addition to the required disclaimers at the end of this letter, I would also add this one: please contact me anytime. If my own enthusiasm causes me to breeze over explanations I shouldn't, please reach out: cale@lastbastion.com.

Up first, a note about the Strait of Hormuz - what it means in energy, and then what it means even closer to home.

Update on Hormuz

As this letter is published, the Strait of Hormuz has effectively been closed for roughly eight weeks. Roughly twenty percent of global oil and LNG flows remain disrupted. For some of our companies, this is beneficial. For others, it matters little. At the portfolio level, we have more to gain from this disruption than to lose.

That said, some perspective: we are in the minority, as a closed Strait is a historic disruption and bad for the world. Higher energy prices impose real costs, and the conflict behind them carries consequences well beyond markets. That our fund is positioned to do reasonably well is good luck, not good news. Being from a third-generation military family, I tend to view conflicts like this first through the lens of the Americans asked to bear their cost - not through the price of a barrel of oil.

As a former United States Coast Guard officer, I'm also mindful that Coast Guard crews are part of this conflict as well, with Fast Response Cutters deployed alongside the U.S. Navy Fifth Fleet in Bahrain. In the weeks ahead, they - and all those serving - are worth keeping in mind.

So, in your prayers for our troops, please don't forget the Coasties. They'll be right alongside the Navy sailors. Only, you know, smarter and better looking.

To date, since Hormuz closed, markets have remained reasonably orderly, and I'm encouraged by how our companies are responding. I am not confident, though, that a clean near-term resolution is likely. And that makes me cautious about complacency in other asset prices and the potential for fuel shortages in Asia and Europe to expand and slow global growth. See my 'Box Canyon Theory of Hormuz' a bit later in this letter. And know that approximately 13% of BESF is currently sitting in cash.

In summary, to confirm: the portfolio we already own is the one I want us to own - during this crisis and beyond.

On Recent Oil Volatility

Have you seen this show *BattleBots?*

A bunch of engineers apparently got together and asked, “What if we took years of education, a questionable budget, zero adult supervision - and built weaponized Roombas to destroy each other on cable television?"

The show's host – who flunked engineering, probably, but excelled in Applied Overconfidence - blurts out things like “Catastrophic disassembly!” as robots get launched into the ceiling like sacrificial toasters.

This is a story about oil traders in April.

When it comes to guessing the next move in commodity prices, nobody has an edge.

In oil, the futures curve is a particularly unreliable guide to where oil prices are headed, for reasons that include storage dynamics. What might astonish most investors, though, is the degree to which the oil futures market has been financialized. Paper barrels - futures contracts, options, swaps, and ETFs tied to crude - trade at volumes roughly 28 times actual daily global oil consumption, yet fewer than 5% of those contracts ever result in a physical barrel changing hands.[11] Oil has become, simultaneously, an inflation hedge, a risk-on trade, a monetary policy proxy, and a geopolitical sentiment gauge - none of which have anything to do with whether a refinery in Rotterdam has enough crude to run next Tuesday.

Financialization, at its worst, is the process of making financial markets ends unto themselves, extracting value from the productive economy rather than funding it. And Wall Street's fixation on short-term price signals is one of the most annoying attributes of an otherwise incredible system. We’re seeing both of those elements combining into something acutely visible in crude markets right now: a paper market so large, so reactive to tweets and cease-fire rumors, and so dominated by participants who will never touch a physical barrel, that it has become nearly impossible to model - and in moments of extreme dislocation, nearly impossible to trade.

All of which is a long-winded way to say: we’re carrying some cash and staying patient.

When BESF launched in June of last year, the more compelling opportunities in energy were outside of the oil market. There, inventories were full, OPEC kept adding back more barrels, and spare capacity was high. Also, the tweets. Oil equities then lacked a catalyst and free cash flows looked uninspiring.

In 2025, BESF held positions in solar, battery, and lithium companies, alongside core names we continue to own today. They were attractive American renewable companies

whose long-term free cash flows were being undervalued by a market panicked about tariff exposure and the One Big Beautiful Bill. Later in the year we sold those shares when they reached fair value - quicker than expected, to our great advantage - and those proceeds have been redeployed.

In other words, BESF's outperformance pre-dates the Iran war, and was built on natural gas, AI infrastructure, midstream stalwarts and American renewables.

But oil certainly has my attention now.

That 13% cash in the fund will be used to either add to our current names, or for investments in new companies that I continue to qualify. The timing and pace of that deployment is uncertain, but in the meantime, I view that cash as being long Geopolitical Humility. And as usual, the selection of the company that may come next will start with its margin of safety.

Mandate and Themes

BESF has an unusually broad mandate for an energy fund. The prospectus, viewable at www.bastionetfs.com, allows us to own any form of American energy that meets our criteria – including fossil fuels, renewables, and the infrastructure connecting them.

We're not aware of many other energy ETFs structured this way – able to own both oil drillers and solar companies at the same time.

That difference is partly a function of my own background, which spans both sides of the supposed divide. That BESF is unusual in the market probably speaks more to how polarized politics have become than to any true innovation on our part. What we care about most, full stop, is durable cash flow generation. And as your portfolio manager, if I can get confident enough to put our capital to work in a company that has survived our vetting process, then I don't feel any particular need to become emotionally attached to its assets.

Free cash flow doesn't care how you vote, and neither do we.

Our holdings in BESF today cluster around five themes: U.S. LNG export infrastructure, natural gas midstream networks, Appalachian gas E&Ps, NGL export infrastructure, and, more recently, independent U.S. oil producers – specifically, those with meaningful natural gas optionality, purchased at valuations reflecting implied oil prices notably lower than where I expect WTI (West Texas Intermediate) to settle after the war.

Much of what BESF owns cannot be rebuilt at any reasonable price today. The pipelines that carry Appalachian gas to the Gulf Coast, the fractionation networks that underpin U.S. petrochemicals, the core Midland Basin acreage in the Permian - those

assets can no longer be reproduced. That scarcity also compounds as domestic production grows, AI-driven power demand grows, and LNG exports ramp. The assets our companies own are becoming harder to reproduce at the same time they are becoming more necessary.

At Bastion we believe strongly in skin in the game and invest alongside our clients in every strategy we manage. Our objective in BESF is straightforward - to own high-quality American energy businesses, led by capable management teams, purchased on favorable terms - and to compound that capital prudently over time.

If we do that well, we won't need to predict commodity prices week to week. The job is to be patient, allowing the businesses we own to allocate capital intelligently, capitalize on opportunities we can see, and, over time, create value in ways we cannot.

In addition to our bigger-than-usual opportunity set in energy, companies in BESF must also pass a second test that is not in the prospectus, but is an extension of a personal belief:

They should materially benefit American citizens, workers and families.

That rules out owning energy companies that use legal offshore domiciles to serve as tax shields. If a company depends on the U.S. system - its laws, its infrastructure, its markets – I'd prefer that it pay its taxes here. Looking at you, offshore drillers.

That also forces us to look into where those dollars actually land. Canadian oil sands? Productive assets, but they don't employ many Americans. A big new solar buildout? Tell me more - unless the panels are imported and that supply chain is overseas.

The lens applies across the sector. We favor pipelines that move American molecules, LNG export capacity that supports domestic production, and developers using American labor and parts, not just assembling components sourced from abroad.

To summarize: we are value investors, applying a disciplined, Buffett-influenced approach to the American energy sector in pursuit of mispriced growth in free cash flow per share, which we believe is the most significant driver of long-term compounding.

Cheniere Energy (LNG): Owning A Toll Road

Energy markets have a way of encouraging investors to focus on the wrong variables. Prices, headlines, and short-term forecasts tend to dominate the conversation.

But over time, outcomes are driven by something much simpler: the quality of the underlying assets, the durability of their cash flows, and how management allocates that cash on a per-share basis.

Most investors see Cheniere Energy as a cyclical energy stock. I believe it's better viewed as something closer to a toll road - one that sits between some of the lowest-cost natural gas in the world and a growing set of buyers overseas who increasingly cannot do without it.

That distinction matters, because it changes what you measure, how you value it, and ultimately what you are willing to pay.

Principle 1: Free cash flow per share is the most important metric.

The energy sector has more ways to flatter reported numbers than almost any other corner of the equity market. Mark-to-market derivative gains can swing reported earnings by billions in a single year. EBITDA ("Earnings Before Interest, Taxes, Depreciation, and Amortization") can grow while per-share economics deteriorate, as all it takes is more capital - often raised through equity issuance - being deployed at returns that don't justify the dilution. Even distributable cash flow, the sector's preferred metric, can rise in absolute terms while doing nothing for the per-share economics that actually compound a shareholder's wealth.

We anchor on free cash flow per share for one reason: it is the only metric that survives every form of management storytelling. You cannot sustainably dress it up with derivative timing, cannot grow it through dilutive issuance, and cannot maintain it without the underlying business genuinely performing well.

Cheniere is a solid expression of this kind of discipline in U.S. energy infrastructure, though the math does require a piece of translation on our part. Cheniere reports and guides to distributable cash flow (DCF) per share rather than free cash flow to equity (FCFE) per share. The two are closely related, but DCF excludes growth capital expenditures, which creates a meaningful gap during heavy build years like 2026 and 2027. Bridging that gap is important to understand long-term cash generation potential. On maintenance capex only, normalized for steady-state interest, taxes and subsidiary distributions, our estimate of true free cash flow to equity per share by 2030 lands in the high $20s - a figure that happens to be close to management's $30 per-share DCF target, but is the result of a separate calculation, not a citation of theirs. The reason both numbers converge by the end of the decade is that the current expansion cycle is largely behind the company by then, and the gap between FCFE and DCF narrows when growth capex steps down.

What underpins both numbers is the same. The 2026 DCF guidance midpoint of roughly $4.6 billion is below the 2025 print, and that worries the people who treat absolute cash flow as the thesis. I am not concerned, though - because if you divide either cash flow number by a share count that will be materially lower at year-end than it is today - the buyback authorization was upsized to over $10 billion through 2030, on top of the $2.7

billion already deployed in 2025 - and the per-share economics work well. The path from roughly 210 million shares today toward management's targeted 175 million by 2030 represents a 17% retirement of the float. Same business, same contracts, same toll road - but fewer claims on it, and each one more valuable. So, more for us.

Principle 2: Capital allocation is the management variable that matters most over a long holding period.

Operational excellence matters, a competitive moat matters, and the balance sheet matters. But the management variable that most reliably explains the difference between a great long-term holding and a mediocre one is how the people running the business decide where the next dollar of cash flow goes. A team that reinvests $1 of free cash flow into projects earning 7% is allocating capital at a 7% return. A team that uses the same $1 to repurchase shares at a price where the free cash flow yield is 10% is allocating capital at a 10% return. The first looks growthier, but the second is better capital allocation. Markets routinely confuse the two.

Cheniere's framework is admirably disciplined. Roughly 60% of distributable cash flow is targeted for return to shareholders - split approximately half-and-half between buybacks and the dividend in the long run, but tilted heavily toward buybacks when the stock trades below intrinsic value. The remaining 40% self-funds the next phase of growth, which is the structural feature that matters: expansion does not require dilutive equity. The company's 20/20 Vision plan deployed over $20 billion across growth, debt reduction and shareholder return between 2022 and 2025, finishing nearly a year ahead of schedule. The credit profile improved alongside that work, too, with five rating upgrades in 2025 - with S&P moving the company to BBB+, an investment-grade credit rating, reflecting increased rating-agency confidence in Cheniere's debt service capacity.

The most consequential capital decision of this decade for Cheniere is the Sabine Pass Liquefaction (SPL) Expansion, which is approaching final investment decision. I'm watching it not for whether it advances - I expect it will - but for the contract terms underneath it. The single best signal we will see this year on whether the toll road is wider, longer and more durable than consensus believes is the SPA (Sales and Purchase Agreement) structure of the next 5–10 mtpa (million tonnes per annum) of commitments. If those agreements price like the early-cycle deals - 20-year terms, fixed liquefaction fees comfortably above cost of capital, hard take-or-pay enforceability - the business should re-rate regardless of where front-month European natural gas trades on any given Tuesday.

Principle 3: In a contracted infrastructure business, margin of safety comes from contract quality, not from a low headline multiple.

Most generalist investors appear to see Cheniere near $260 with a P/E (price-to-earnings ratio) in the low 20s and conclude the stock isn't cheap. I'd encourage them to ask a different question: how much of the implied future cash flow is contractually anchored, by whom, and for how long?

Roughly 95% of Cheniere's 2026 volumes are contracted under long-term Sales and Purchase Agreements, typically structured as 20-year take-or-pay arrangements with fixed liquefaction fees plus a Henry Hub-indexed pass-through (Henry Hub being the benchmark U.S. natural gas pricing point) covering feedgas costs. The counterparties on those agreements are among the most creditworthy buyers in the world - global utilities, national energy companies, the major trading houses. When we underwrite this business, we are underwriting a portfolio of long-dated, investment-grade, take-or-pay obligations with an equity kicker from optimization volumes and expansion optionality.

The framing I keep coming back to: the market underwrites Cheniere as a cyclical energy stock when it should be valued more like a predictable midstream infrastructure franchise with continuing capacity expansion layered on top. Our base case applies a 15x multiple to our 2030 normalized free cash flow estimate, consistent with long-duration contracted infrastructure assets, discounts back at 9.5%, and produces a fair value of roughly $325 per share - a figure consistent with where the major sellside anchors and recent buyside narratives have clustered. Compared to a recent price near $260, I believe the gap remains wide enough to compensate for any geopolitical and operational risks.

The margin of safety here does not come from buying a 6x cyclical earnings trough. It comes from owning a business in which the bear case scenario - global LNG glut, depressed marketing margins, slower contract pace - still leaves the existing contract book generating durable cash flow for the next two decades, a balance sheet now investment-grade, and a buyback program that systematically retires shares. Plus, now the global LNG glut is gone, too.

There is a Hormuz impact worth being specific about here, too, because the channel through which a restricted Strait reaches Cheniere's equity is notable. It does not reprice the existing book of business, which is largely contractually insensitive to spot prices. Hormuz does reshape the bargaining environment for the next several mtpa of contracts, though, in a market where Asian and European buyers now face structurally diminished alternatives: Qatari capacity impaired for years, Strait transit unreliable on a duration that is likely to extend well beyond what markets are currently pricing (a case I work out in detail later in the letter), and U.S. supply now carrying a geopolitical reliability premium that did not exist twelve months ago.

The unit economics are straightforward. One mtpa of LNG capacity equates to roughly 52 million MMBtu of annual throughput, so every $0.25/MMBtu of incremental liquefaction fee on a 10 mtpa block produces roughly $130 million of additional annual EBITDA. At an 8x multiple, that implies roughly $1 billion of incremental enterprise value - on the order of $4.90 per share of equity value.[18] And that is per 10 mtpa of contracted volume - not per project. It compounds.

So we do not need to predict where commodity prices will trade next week to do well. Our job is simpler, and harder: to own durable assets, underwritten by strong contracts, run by disciplined managers, and to let per-share cash flow compound over time.

When those conditions are met, time does most of the work.

Hang In There, Value Investors

Let me pause for a quick pep talk to my value investing brethren…assuming there are at least a few of you still employed in this industry.

For those of you trained to look for moats:

At the macro level, natural gas is America's economic moat. It is, simply, a durable competitive advantage for the country in a competitive and ornery world.

At the company level, moats abound in American energy infrastructure, too, though they might not be obvious - nor nearly as sexy as network effects. But there is Tier 1 acreage acquired decades ago. Permits that take ten years to secure. Pipeline rights-of-way that cannot be duplicated. Plus the pure grit and know-how of a workforce that has run cryogenic liquefaction trains through hurricanes, slept in trucks during blizzards, and watched the Dallas Mavericks trade Luka for a bowl of porridge.

Most analysts view these as commoditized businesses. Many are - but among them are also toll roads, exclusive franchises, and territorial monopolies - neglected, unloved, and long deemed unworthy of serious attention. And please, I beg of you, just look at those free cash flow yields.

Know the midcycle price and act accordingly, but don't get too distracted by commodity prices. Focus those nerdy lobes instead on providing that tight-fisted capital to some of the world's best capital allocators in energy on the best terms you can - in upstream production, midstream infrastructure, and LNG liquefaction - and then deputize those teams to put that capital to its highest and best use during a period of historic dislocation.

If they do nothing but reinvest in their current operations and return the excess to shareholders, the math will likely work out well over a three-to-five-year stretch.

If they find exploitable opportunities, though - and I suspect they will, because the great capital allocators, handed this much optionality, in this kind of uncertainty, tend to find things - then you might benefit handsomely from the unanticipated positive inflection in future free cash flow per share that value investing is really all about.

Finally - above all, know your assets and trust your work. Every so often, things in energy will just get nutty – feature, not a bug, etcetera. But somewhere out there, right at this very minute, there is a molecule of natural gas – a molecule of freedom, if you will - headed to a terminal in Louisiana that has absolutely no idea what the last thirty days were like. Be that molecule.

Now, go get back in the game, Champ.

Dividends, Fees & Scaling Up

Performance matters, but being a good steward matters more.

As a fiduciary, my goal is to keep BESF as efficient and tax-aware for our investors as I can. That informs how we think about distributions, expenses, and scaling the fund.

BESF distributes income on a variable basis. The fund has paid three variable dividends since inception. In general, when opportunities to deploy capital inside the fund are rich - as they are now - we retain more and distribute less. In calmer periods, when attractive opportunities are scarcer, we may increase distributions. Consistent with our value-investor approach, we aim to return capital to investors when we cannot put it to better work inside the fund, and we retain it when we can.

On expenses: as BESF's assets under management grow, Bastion intends to evaluate the fund's expense ratio with the goal of reducing it over time. We believe investors should share in the efficiencies of scale, and we want to encourage a long-term approach to investing in the fund.

In other words, we need all the friends we can find to grow our investor base. Thank you in advance for helping spread the word.

We're honored you're investing with us, and we'll continue working to be worthy of that trust. And to make up for the jokes.

Tax Efficiency

Despite more trading than usual to date in the fund, I should also note that activity has generated no additional tax burden for shareholders. Tax efficiency is a core feature of the ETF structure itself, and was a key reason we chose to convert our previous in-house energy strategy into the public fund that is now BESF. The in-kind creation and

redemption mechanism that defines the modern ETF eliminates the capital gains distributions that would otherwise accompany this activity inside a mutual fund or separately managed account. So, your returns stay your returns.

Not today, IRS!

BESF vs The Popular Funds

This part may read like a sales pitch, and I cannot entirely defend myself against that charge. So be it.

The most popular funds among investors for energy exposure were, in my humble opinion, not built for modern energy markets - let alone times like the current Iran conflict. Commodity funds structured to deliver the daily return of a front-month futures contract are, by design, indifferent to everything a fundamental investor cares about: the balance sheet of a producer, the contract structure of an exporter, the volumes on a new pipeline. They roll mechanically into a curve they cannot read. In calm markets, that limitation is mostly invisible, but in a crisis of the magnitude of Hormuz, it is consequential and sometimes irreversible.

The structural problem with passive energy equity indices is subtler but no less significant. The largest energy benchmarks by assets are heavily weighted toward a handful of oil-producing equities, which means their investors are, without knowing it, making a concentrated bet on oil-levered names while missing almost entirely the infrastructure that makes U.S. energy a global story: LNG export capacity, NGL midstream networks, and the natural gas producers whose economics and drivers are structurally distinct from oil. In a market now reshaped by the permanent repricing of energy security, owning a passive basket constructed to mirror yesterday’s energy economy is a decision with unintended consequences many investors don’t realize they are making.

There is also in my opinion a structural advantage to BESF related to tax documents, too. Because BESF holds its positions through an ETF wrapper, investor income is documented in a single 1099, rather than through a collection of K-1 forms from the underlying partnerships and MLPs (Master Limited Partnerships) the fund owns. For investors who would benefit from midstream and MLP exposure but who have historically avoided it due to tax complexity, BESF resolves that friction.

Okay, yep - that was definitely a sales pitch. Couldn’t help it. I’m not proud.

I’m a little proud.

Moving on.

LNG > Oil

Most news coverage portrays the closure of the Strait of Hormuz as an oil shock, but the most significant structural re-rating it will bring to the American energy sector will likely be in LNG. Oil gets the headlines, but the story is liquefied natural gas.

The global gas market was significantly tighter than the oil market heading into the conflict. There is also no such thing as strategic reserves or spare capacity for LNG.

Previously, Qatar - the lowest-cost LNG producer in the world - had been aggressively expanding, pursuing a market-share strategy that had analysts warning of a potential LNG supply glut beginning in 2027. That overhang was already weighing on U.S. LNG exporter valuations.

On March 19, Iranian drone strikes physically damaged two of the fourteen liquefaction trains at Ras Laffan, QatarEnergy's export complex on the Persian Gulf coast. The attack, Qatar announced, would take three to five years to fully repair. Those two trains represented roughly fifteen percent of Qatar's capacity. By the operator's own assessment, the disruption removes approximately 6% of global LNG supply from the market for the duration of the repair[16] - supply that does not return for years, in an already tight market.

As with oil, roughly one-fifth of global LNG must transit Hormuz, and the closure of the Strait represents real flow risk – cargoes that may not arrive. The damage at Ras Laffan, though, is also supply destruction - cargoes that will never get produced. The market will need to price both.

LNG has a fundamentally different supply-shock physics than oil: existing LNG terminals run at capacity around the clock by design, and it takes four years to build a new one - while OPEC can release oil barrels in weeks. There is no release valve for LNG – no pipelines like oil, or emergency stockpiles like coal. When supply is tight, small disruptions can move prices disproportionately, not linearly, over time. The advantage among suppliers shifts toward producers with abundant low-cost feedgas, scalable infrastructure, and secure delivery that will honor long-term contracts, no matter what. The United States checks all three boxes.

The feared 2027 LNG oversupply glut is now gone. The damage to Ras Laffan is not reversible via ceasefire, and repairs won't finish until years after the Strait is reopened. The Iran war has permanently shifted where the world will source its LNG, and U.S. exporters, in my view, should be prime beneficiaries.

A New Floor Price Under Oil

As detailed more in a bit, I anticipate a restricted Hormuz could be a problem for some time. Even should the war end tomorrow, though, I expect WTI prices to settle at a level higher than before it began. Storage tanks are draining hard around the world, and serious damage has been done to Gulf infrastructure. The war impaired the mechanisms the industry historically relied on to help control high prices - spare capacity, the SPR (Strategic Petroleum Reserve) buffer, and insurer confidence in Hormuz transit. This conflict will also create durable new sources of oil demand. Governments, including ours, now carry replenishment obligations measured in hundreds of millions of barrels, structured as loans and exchanges that must be refilled over time. Gulf producers will almost certainly begin to build new oil storage facilities closer to Asia. None of those reverses with a ceasefire.

The strip – the oil futures curve - hasn't priced these longer-term impacts yet, either - the front end reflects the shock, while the back end still reflects the pre-war world. Over time I expect the back end to re-rate higher as the market absorbs the permanence of these changes and long-term supply dynamics reset.

Investors in disciplined U.S. E&Ps don't need a dramatically higher floor price to realize material boosts to free cash flow. Operating leverage will do the rest.

Nat Gas > Nukes

The world's most valuable companies are no longer primarily software companies in any historical sense. They are electricity consumers, trying to become electricity procurers, and both the timeline and scale of what they need can only be met with dispatchable baseload generation. In America - unless you are fortunate enough to live near a turbine-spinning river - that means natural gas or nuclear power.

Prior to Hormuz, much of this letter would likely have been focused on two hidden risks I believe are currently lurking for many individual investors:

Overvaluation risk and concentration risk in tech.

If you wanted to design a system to reduce long-term returns, you might start by encouraging people to buy whatever is most exciting at the moment and ignore the price they are paying. That, more or less, describes how a great deal of capital is deployed, in both individual stocks and passive indices. The academic record on this subject is about as settled as anything in finance: the securities that attract the most attention from individual investors tend to underperform in the years that follow. In other words, people systematically pay too much for what has recently worked. And markets, being efficient enough, eventually correct that mistake.

More on those risks in a future letter, perhaps. More important than deconstructing what they imply right now is their trajectory.

The hyperscalers are deliberately spending down their free cash flow - redirecting it into data centers, chips, and power infrastructure at a pace not seen in decades. Whether those investments ultimately pay off is unknowable at this stage. What is knowable, however, is that the market has already priced in success. And it is making a significant wager.

With the S&P 500's free cash flow yield now only modestly above the real yield on 10-year Treasuries, the equity risk premium has narrowed to unusually thin levels. Investors today are accepting very little incremental compensation over a risk-free real return in exchange for the uncertainty embedded in future growth - much of it tied to an AI buildout whose ultimate economics remain unproven. There is little margin of safety in the broader market.

My own circle of competence in the tech layer of the AI stack is limited. I do not know which model architectures will prevail, which companies will earn attractive returns on capital, or whether the current investment cycle will end in durable cash flows or impairment.

What I do feel some proclivity to weigh in on, however, is how the market is pricing those unknowns.

And at the moment, using the lens of free cash flow, it would appear that any disappointment in AI monetization, or a sustained increase in real interest rates, could pressure an S&P 500 Index priced with little cushion to absorb either.

Now if those investments are successful, current valuations and concentration risk may prove justified. But if they are not, an adjustment will ensue. Whether that will be sudden or gradual, I leave to others.

Three more quick thoughts for the tech investors in the crowd.

First: AI runs on nat gas.

Artificial Intelligence at scale requires energy at scale, and energy at scale in America means natural gas. The coming shift from simple queries to AI agents, more advanced reasoning models, and autonomous workflows represents an exponential jump in per-query energy demand. It's worth noting that today's estimates for natural gas demand are also based on the inference architecture of 2026, not 2030. The AI demand thesis for natural gas entails more than just counting data centers - because the AI software stack is becoming more energy-intensive, independent of the hardware buildout.

Second: the drivers of NVIDIA's revenue growth and a number of companies in BESF share the same underlying thesis - applied to different levels of the AI stack, and priced at very different multiples. Every additional GPU (Graphics Processing Unit) sold increases demand for dispatchable baseload power that only natural gas currently provides at scale. The more bullish you are on AI deployment, the more bullish you should be on the infrastructure that powers it. Plus, natural gas benefits from significant other long-term macro tailwinds - like LNG export demand, energy security, the reindustrialization of the American economy - with little chance of being leapfrogged by a start-up. Yet energy companies trade at a fraction of the multiple of Big Tech. Choose wisely.

And third, on a theme we do not own yet in BESF: nuclear.

The American nuclear renaissance cannot arrive soon enough. It's a strategically vital technology for us, a fantastic match for our future power needs – and small modular reactors (SMRs) could change the game. None actually exist at commercial scale yet, though, and enthusiasts should prepare for a long grind to get there – most notably because utilities simply will not underwrite an SMR until all costs are well-known and the technology is fully de-risked. The data centers currently being permitted across the country need generation commitments now, not in 2035. Meanwhile, natural gas companies can bridge that gap - cleanly, reliably, and at scale - for the decade before the nuclear future arrives. Plus…actual cash flow!

Now, at last, to the Showing My Work part – on the most important question of the year.

How To Think About a Problem Like Hormuz

Most of the time, I don't spend many hours doing decision trees. The job, almost always, is reading, valuing businesses, and being honest about what you don't know. But when an entire market is being repriced by a historic geopolitical event the portfolio is directly exposed to, it's time to think macro and start drawing branches.

The high level summary I describe below is an output of a framework that has been helpful in navigating extreme energy market stresses in the past. It successfully passed beta-testing on April 20, 2020 – or, as it pops on my calendar every year, "Happy -$37 A Barrel Day."

If, over any ten-year period in energy markets, there are five "once-in-a-generation" events, then somebody is bad at counting. Some better math, and a lot less hyperventilating, can help.

In the spring of 2020, when The Virus That Shall Not Be Named collapsed the WTI price of a barrel of oil to negative prices for the first time in history, and large swaths of otherwise rational people were genuinely uncertain about whether the energy industry as we knew it would survive, we faced a decision-making problem of similar complexity as Hormuz today. Extreme uncertainty, rapidly moving information, incentives and behaviors across multiple actors that did not fit neatly into any single discipline. Lotta tweets then, too!

In short, that framework could be summarized as:

“Spend less time worrying, and more time reading experts and drawing decision trees.”

And it’s what I am relying on now.

Name the links. Lay out the decision tree. Assign probabilities to the branches. Calculate expected values. Repeat. Take action as needed in the portfolio. Communicate framework to investors.

The positioning that emerged from that exercise in 2020 turned out to be the most consequential of this strategy’s history.

One other lesson that might be relevant today:

In energy, it’s not the risks you don’t see coming that you need to worry about. It’s the risks you do see coming, but still don’t believe.

A bit more context to my approach:

The instinct, when a problem the complexity of The Virus or Hormuz lands in your lap, is to reach for more information – to read more analysts, review more data, and model more scenarios. That instinct, however, is usually wrong. The problem with a situation like Hormuz is not that there is too little information. It’s that the amount of information is not only overwhelming, but it lives in different disciplines that do not speak to each other - and the experts in any single discipline are systematically blind to the others. A geopolitics analyst does not know how backwardation reprices producer equities. Oil futures traders do not care how the Federal Reserve weighs a supply shock against inflation expectations. A macro strategist does not know what a refinery outage does to Asian diesel cracks. Each of them may be correct within their silo – but none of them is correct about the system.

My job as your portfolio manager, in a situation like this, is not to become the leading expert in any single one of those domains. It’s to build a framework that integrates across those domains, and then to use that framework to notice what each silo is missing.

That is somewhat flatteringly called “structural discipline” in the field of portfolio management, but most of the people who use that term will soon be replaced by robots. In the civilian world, it’s more colloquially called “not seeing the forest for the trees.” And in officer training at a service academy it’s called “decision-making under uncertainty.” That class convenes sometime around your 18th birthday, starting with a very bad haircut, no caramel macchiatos, and then four years of daily bewilderment. Think fast, swab.

On Anchor Chains and Decision-Making

For ease of reference, let’s call this approach The Macro-Influences Anchor Chain Framework.

In my own mind this framework looks like a shot of anchor chain - a ninety foot section of interconnected big, heavy, cast steel links, eventually leading to a giant anchor on one end and an even bigger ship on the other.

And then I start, as recommended by Charlie Munger - also a veteran! - who once said: “Invert.”

You’ll lose too many marbles trying to work forward from today. Work backwards instead from the outcomes that actually matter - the path of the global economy, the Fed’s response, the direction of energy prices, then finally land on the reaction in the portfolio. Because those outcomes are not independent. They are links in a causal chain, and once you see the chain, you realize you do not have to forecast four things, you really only have to forecast one thing: the duration and character of the disruption itself.

The most important link in an anchor chain is called the Kenter shackle - stronger than all the others, and the one that holds the chain together. Once you find the Kenter shackle in a problem like this, you inspect and test it ruthlessly. Once it passes, you can trace the expected consequences through the other links with much more confidence. Economists call those other links "transmission channels."

So, if you’re trying to visualize the Macro-Influences Anchor Chain, imagine…

A simple chain with three links:

Left Link (i.e. geopolitics), Middle Link (energy), Right Link (the Fed).

Left and Right Links are informed but subjective forecasts; Left Link represents the dynamics between Iran and the U.S., and Right Link is the Federal Reserve’s responses to a sustained supply shock. Both of those questions sit outside the energy domain in that Middle Link, so I have no edge. And which means that in both the realms of geopolitics and central banking, my job is really to find the best, most insightful

thinkers I can on both of those subjects…and read until I'm cross-eyed - in order to be able to assign rough probabilities to various outcomes. I have found AI, incidentally, extremely helpful here - to sort, clarify and distill an imposing stack of articles, research, and even podcast transcripts - particularly on the Left Link (i.e. the one on geopolitics and Iranian foreign policy).

The Middle Link - the Kenter shackle, representing energy, the strongest link in our chain - is all about how physical supply conditions translate into product markets, inventory dynamics, LNG cargoes, and the equity repricing that follows the disruption - and there I believe I have a genuine edge. Which also means I have to own every opinion, thought and decision in there.

At the moment, that Middle Link is also the part of the chain that most of the market is not watching carefully enough here. Instead, it's watching oil prices, which get all the headlines, but which are the last thing to adjust. It's the refined products market that is most important here, not oil - because that is the actual transmission mechanism connecting stress in the energy markets to the real economy.

Also relevant in the Middle Link: the historical record on supply shocks is that markets systematically underweight duration, or how long these incidents may last - because most people's psychological default is that things will return to normal. So, if corroborated that applies here, too, then we have found a specific consensus error we can position the portfolio to exploit.

Among the most important conclusions here is this:

The job is not to forecast the most likely outcome. The job is to identify where the distribution of outcomes is mispriced.

A 60% probability event valued at a 60% probability is a nothingburger. But a 25% probability event trading at a 5% probability is interesting. So we do not need to be right about what happens - we need to be right about what is underpriced.

Final point about The Macro-Influences Anchor Chain Framework:

The hardest part about this framework is communicating it to investors - because I'm scraping barnacles while you all are besieged by headlines. That's just how this works, too. Integrated frameworks produce non-consensus conclusions. If we are integrating across the disciplines of Mid-East geopolitics, U.S. energy equities, and the reaction function of the Fed correctly, then in the portfolio we will hold positions that look wrong to each individual community.

The oil trader will tell us that we are not thinking about storage correctly. The macro strategist will tell us that we are overestimating duration. The geopolitics analyst will tell

us that we are underestimating the probability of a near-term settlement. Each of them may be right inside their silo. But my job is to be right about the system, and to hold the position even when every individual domain expert is telling the world that folks are not thinking carefully enough about their piece. That can be uncomfortable for you all. It is also, though, where future returns come from. So, to reiterate from earlier: reach out if you have any questions.

Lastly, and to be clear: none of this guarantees we will be right.

What it does do, though, is give us a systematic way to approach particularly thorny problems relevant to this portfolio and which spread across more than just one single discipline.

And in energy, that's just about every major problem.

What I Currently Think About Hormuz

The ultimate trajectory of oil prices, natural gas prices, and by extension the global economic trajectory over the next several quarters will likely hinge on when - and whether - the United States can ensure the security of the Strait of Hormuz.

That is the master variable. Every scenario laid out below is a scenario about how long that question remains unresolved, and how it resolves when it does.

Working the Macro-Influences Chain from left to right:

The Left Link: What Actually Happens in the Strait.

I do not believe this is a problem that resolves cleanly in either direction. The consensus default is that a ceasefire holds, the Strait reopens at pre-war volumes within a few weeks, and the market returns to something recognizable as normal. The alternative scenario most commentary gestures toward is full escalation - regional war, multi-year shutdown, broader regional supply crisis. I think both framings are wrong in the same way: they assume the situation has to resolve. The current U.S. dynamic with Iran is something in between a cold war and a hot war - a situation in which neither side wants full conflict and neither is willing to accept the other's terms for resolution. And if so, then that means the default condition is not movement toward resolution - but persistence of this in-between state.

Quick sidebar here:

The Box Canyon Theory of Hormuz

As I tried to explain this predicament to my daughters:

“Back in the ancient days, girls - so, before Google Maps, a cowboy - er, pardon, a cowperson - might unknowingly ride his horse into what they called a box canyon. Hundred-foot-high sandstone walls, winding narrow path down the middle, open one end and closed on the other. The cowboy didn’t know a trail would stop at a dead-end, until he arrived at it himself. Nobody had left a review.

A box canyon is a road that ends after you've committed to it. It’s not a problem that can be solved with a hidden solution. It’s not like *The Avengers*, where there’s one narrow, obscure path to victory - if you can just find it. It’s more like *No Country For Old Men*, where you find yourself in a situation where all the good options disappear early, and what remains is just the question of which cost to bear.

People like to believe they're trapped by circumstances. More often, they're trapped by earlier decisions they preferred not to question.

Now put those phones down before your mother disowns you.”

Back to our Anchor Chain.

It pains me as an American to note this, but nonetheless, the United States is now, in my opinion, in a box canyon named Hormuz. The strikes of late February were the easy ride in. The discovery that Iran had an asymmetric response the United States had not fully priced was the canyon wall at the end. There are, in my opinion, five options at the moment - choices on a decision tree - we can call “Rapid Clean Resolution,” “Full Regional War,” “Bounded Escalation,” “Negotiated Partial Resolution,” or “Intermittent Disruption” - and they all run between bad and worse in different ways.

A situation with no good exits is a situation that persists, which is another way of saying that the duration of the Hormuz closure is the variable the market is systematically underestimating.

I do not come to that conclusion lightly. One observation worth noting that I think may be particularly important in the consensus view: over the last several weeks we are seeing signs that the current stalemate is not just a temporary ceasefire. It may be the strategy Iran has deliberately chosen.

To the extent that Iran’s leadership has in fact concluded that control of the Strait itself has become its most powerful instrument of leverage - more powerful, in fact, than the nuclear program it has spent a quarter century developing, then the prior dynamics have changed considerably. A disruption that opens for days, closes for weeks, opens again, and closes again would seem to also be precisely the pattern that maximizes Iran’s leverage in this situation - while also minimizing the risk of triggering a response Iran cannot survive.

That view is also reinforced by a specific historical base rate worth keeping in mind. Since 1979, the Iranian regime has agreed to only three or four major compromises with the United States, and each of those compromises has taken many months and in some cases many years of difficult negotiation. The reference point the market appears to be implicitly pricing - rapid resolution through a few weeks of talks in Islamabad - has no precedent in the historical record of how Iranian negotiations actually resolve.

The reference point that does have precedent is extended, grinding, often unsuccessful diplomacy conducted against a backdrop of ongoing low-level conflict. The leadership that emerged from the war is also, by the assessment of those who study it carefully, more extreme than the leadership the war replaced - and that further constrains the room any Iranian negotiator has to compromise, and further lengthens the expected duration of whatever the eventual resolution looks like.

The mirror image of that question is also worth addressing: what if the U.S. simply decides to disengage? A unilateral withdrawal that left Iran in effective control of Strait traffic would not be a clean resolution. It would convert an intermittent disruption into a structural one, with insurance markets, shipping routes, and global LNG sourcing repricing around a new reality rather than reverting to the pre-war world. That outcome would be more similar to a persistent-disruption, and would leave that part of our current BESF thesis intact - and possibly strengthened. So, U.S. withdrawal is a real possibility I tried to account for – but it is not the bear case for the portfolio that some might assume.

The deeper point is that a rapid clean resolution requires both sides to want one and to agree on terms. And in my opinion, the set of paths to that outcome is much narrower than the consensus pricing implies, because most of the alternative paths - including unilateral disengagement, prolonged stalemate, escalation, and partial settlement - leave a structural energy repricing in place.

The Middle Link: What Happens in Energy Markets.

Once you accept that the Hormuz disruption is likely to be sustained and intermittent rather than clean in either direction, the consequences as they impact the energy market become clearer.

My base case for what "intermittent disruption" means in operational terms: the acute phase - characterized by elevated insurance costs, episodic shipping interruptions, reduced effective spare capacity, and uneven Gulf production recovery - extends at least into the first quarter of 2027. The structural phase, dominated by the Qatar LNG outage and the loss of the baseload Asian gas supplier, extends materially longer.

Daily transits through the Strait of Hormuz have collapsed to roughly 3% - 7% of pre-war levels - single digits where there used to be 150 to 170. More than 800 tankers sit

trapped inside the Gulf, a backlog that takes two months to clear under optimistic assumptions, longer if mines are present (the analogous episode in the late 1980s required six months and destroyed dozens of vessels).[14] Between 11 - 13 million barrels per day of non-Iranian Gulf production is shut in, with restart curves that vary materially by country: Saudi Arabia and the UAE in days to weeks; Iraq and Kuwait in three to four months at minimum; some damaged refining and processing infrastructure considerably longer.[15] Qatar's LNG complex - by the operator's own statement - is a five-year repair, removing approximately 6% of global LNG supply from the market in the interim.[16]

These timelines are not contrarian. They come from the analysts physically counting barrels and from the U.S. Energy Secretary himself, who has publicly acknowledged that gasoline price relief will not arrive until late this year and likely into 2027.[17]

Equity markets are pricing a near-term resolution, but the observations above appear to describe something else.

I've previously expressed a number of my own beliefs on energy elsewhere in this letter - and those are reflected in BESF today. The most important error the consensus is making regarding Hormuz in energy markets, though, is focusing too myopically on crude oil.

In the global energy system, Middle East refining capacity is now the binding constraint, not crude. The most underappreciated impact that Hormuz will have on the system is in refined products - the diesel, jet fuel, Asian LNG and petrochemical feedstock capacity that sits behind the Strait and which cannot be substituted on any relevant time horizon. That capacity is now in a multi-year structural deficit, and the gap will not close quickly.

Oil inventories will buffer the shock of Hormuz for a while - which is why the crude tape has looked deceptively calm through parts of April. But inventories are finite and draining fast. The global Strategic Petroleum Reserve release covered roughly 33 days of the supply loss at current run rates, and then it is gone, and then the replenishment obligation becomes a structural floor under prices for years. The scarcity premium the futures curve is currently concentrating at the very front of the curve, through record backwardation, will roll forward month by month as each successive contract becomes the prompt one. And long-term oil prices will drift higher.

The more important transmission channel – i.e. where Hormuz will first impact the global economy - runs through refined products and LNG.

In other words, the folks who don't understand energy markets well are watching the wrong variable. They are watching crude oil. There is a transmission channel to the global economy, for sure - but the more important transmission channel in this specific shock runs through product markets and LNG, not through crude.

Which leads us to one other observation relevant to portfolio positioning in BESF:

An intermittent-disruption scenario that produces only moderate crude prices could still produce macro damage to the global economy - through products and LNG instead.

And at the moment, damage to the global economy is most likely to accumulate through pathways most macro frameworks are currently understating.

The Right Link: How Central Banks Respond.

For the broader market and economy, the policy response of central banks and our Fed to this shock as it unfolds is the variable that matters most but may be the least forecastable - and not just because of a new Fed chair. A sustained supply shock of this magnitude puts central banks in an extremely challenging situation - between treating it as transitory and risking a de-anchoring of inflation expectations, or tightening into an already-weakening economy and accelerating the contraction.

My base case is that the Federal Reserve errs on the side of anchoring, because the cost of a de-anchoring is asymmetric - i.e. you can always cut into a recession, you cannot easily undo a regime shift in inflation expectations - and because the institutional memory of the post-pandemic inflation fight is still fresh.

And if that is correct, the path is higher-for-longer rates into a weakening economy, which is a specific macro regime that historically has favored cash-generative infrastructure over capex-heavy growth.

What We Don't Know

The list of things we don't know here is quite long and includes the following:

- When the Strait reopens at pre-war volumes, or whether it does at all.
- Whether the current ceasefire holds, breaks down cleanly, or degrades into the intermittent disruption I consider the base case.
- How the Fed actually responds if distillate prices force a second round of inflation.
- Whether an escalation scenario materializes that is outside even the tail of current pricing.
- Whether a demand shock arrives that compresses returns on every energy holding regardless of structural positioning.

What I think we do know, though, is which of those bullet points the market is pricing correctly, and which it is not.

Likelihoods: The Numbers on the Decision Tree

To bring this home - here are my five scenarios, with my probability estimates:

Scenario 1: Intermittent Disruption at ~40%

The base case. Strait opens for days, closes for weeks, opens again. Pattern emerges as two adversaries pursuing their own incentives, possibly reinforced by deliberate Iranian strategy. My working assumption on duration: this scenario persists on the order of several quarters to multiple years rather than weeks - closer in character to the Tanker War of 1984 - 1988, which ran roughly four years of cyclical maritime disruption in the same waters[12], or the ongoing Houthi disruption of Red Sea shipping that has now stretched past two years[13]. Scarcity premium persists for the duration of the regime.

Scenario 2: Negotiated Partial Resolution at ~25%

Formal reopening at reduced volumes, with elevated insurance premiums and physical flows running materially below historical norms for an extended period. Preserves most of the scarcity premium at lower intensity.

Scenario 3: Bounded Escalation at ~20%

Falls short of full regional war but pushes the situation into sustained closure for several months. Specific triggers might include a Houthi strike on Saudi infrastructure, an Israeli operation against Iranian nuclear facilities, or an Iranian strike on a U.S. naval asset. Intensifies the scarcity premium sharply.

Scenario 4: Rapid Clean Resolution at ~5% to 6%

The scenario the market appears most willing to price. Iranian regime change, comprehensive deal restoring pre-war flows quickly, or both. The only scenario in which our positioning works against us in the near term - though even there, we'd still want to own those businesses, so lower prices would likely be a signal to add rather than to exit.

Scenario 5: Full Regional War at ~5% to 7%

Strikes on Saudi production, Houthi reactivation at Bab el-Mandeb, sustained multi-quarter closure. Civilizational-scale energy crisis. Most damaging to global economy, but portfolio holds up in relative terms.

No single scenario above merits the majority of my confidence. "Intermittent Disruption" earns the most, at a 40% chance - itself a family of cycles rather than a single path. Three of the five scenarios we have laid out - together accounting for roughly 85% of the probability - support the thesis BESF is positioned around, at different intensities. The 'intermittent' base case keeps a scarcity premium on commodity prices indefinitely.

A ‘negotiated partial resolution’ preserves most of that same premium, just at a lower intensity. A ‘bounded escalation’ increases it sharply. And the portfolio is built to stay fundamentally strong across all three.

The point is that our portfolio does not need to be right about the future. It needs to be right about the distribution - about which scenarios the market is underweighting and which it is overweighting - and it needs to hold up well across the scenarios we believe are most likely to actually occur.

The branch that would actively damage our thesis - “rapid clean resolution” and a return to pre-war conditions - is the one we believe is least likely, yet the one the market appears most eager to price.

That gap, between a probability we rate in the low-to-mid single digits, and a market that appears to be implicitly pricing it several times higher, is also the specific area where I think we have an advantage.

Odds of an Eventual Recession

Forecasting recessions is a fool's errand. Estimating their probability, however, is not, and the results are worth sharing.

If you take the five Hormuz scenarios laid out above, weight each by the probability that it produces a recession, and add up the pieces, you arrive at a recession probability somewhere in the neighborhood of 35% - 40%. The recession clock, if it runs, will run through buffers, not headlines. Commercial inventories, the SPR, central bank patience for higher inflation, consumer balance sheets – all of those impact timing. Under my base case, those buffers run thin late this year or early next. If there is a bill, that is when it would come due.

This is not a contrarian call, incidentally. It happens to be roughly where the more cautious shops on Wall Street have already arrived, and a touch above what the prediction markets and the New York Fed's yield curve are pricing, too.

Worth reiterating: most people watching for a recession are watching the wrong gauge, in my opinion. They are watching crude. The trouble, when it comes, will come through refined products and LNG, where the world's spare capacity is genuinely thin.

Goldman Sachs noted in March that markets were pricing the inflation side of this shock and largely ignoring the growth side. I agree, and would add that the growth side, when it shows up, will not look like the textbook describes. It will arrive through diesel, jet fuel, fertilizer, and Asian gas - and the economic forecasting models that much of the Street relies on were not built with those channels in mind. The good news is our portfolio was.

“What’s It All Mean, Nerd?”

The core argument I am making here is the market is systematically underweighting the duration of the restrictions in Hormuz and that refined products and LNG rather than oil is the more important structural repricing. Let me show you how I think the portfolio is built to hold up across those most likely scenarios.

First, a refresher on what we are trying to do in the portfolio:

The objective of BESF is to maximize the long-term weighted-average free cash flow per share of the portfolio, on a look-through basis. That is why the portfolio is balanced across upstream, midstream, LNG, and oilfield services in proportions you do not usually find in a single fund. Each segment contributes to the look-through cash flow profile differently, with different sensitivities to commodity prices, capital intensity, and policy.

That diversification is a key to the strategy - because no single segment of American energy is configured to deliver durable per-share cash flow growth across the regimes and cycles we will see. So every position in the fund is there because of what it contributes to the look-through cash flow per share of the composite, and in times like now, that is weighted by the probability of the scenarios in which it does the most work.

Two things then follow for the portfolio. The first is that the kind of recession this scenario produces is not the kind in which energy equities get crushed. A demand-driven recession is bearish for energy. A supply-driven recession - one in which the constraint is physical availability rather than weak end demand - is the rare regime in which energy equities can hold up or outperform during a slowdown.

This portfolio is constructed for that regime.

Midstream toll-takers and contracted LNG names earn cash flows that do not require demand strength. Gas-weighted upstream benefits from sustained domestic price support. Our oilfield services names are pivoting towards mobile power generation, and thus should be relatively insulated, too.

Those are our holdings that should perform best across the supply-driven recession scenarios we are giving a modest probability to. And knowing that may help you understand part of why the portfolio looks the way it does.

Oil-weighted upstream companies are our most undervalued names for a high-price no-recession scenario, but their sensitivity to demand softening in a recession would be real, so that is another risk we will continue to monitor closely.

The second thing that follows the above is that our remaining cash position is reserved for opportunities, not a recession hedge. That exercise above gives a roughly 20%

probability to a path in which ‘bounded-escalation’ fears produce a sharp energy equity drawdown that precedes a supply-tightness re-rating. And I would rather be patient with cash and capture that asymmetry than spend it now to avoid feeling under-deployed. Overall, the opportunity cost of patience in markets like this one is much smaller than the opportunity cost of being fully invested when a big but temporary decline arrives.

Stepping back:

The point here is not that we have solved the mystery of how Hormuz will resolve. Far from it.

But we have identified the specific way we think the market is wrong, sized our exposure in BESF to that specific view, and tried to remain honest about the much larger set of things we cannot know.

Finally, I should also name what would change my mind. A genuine, durable reopening of the Strait at full pre-war volumes, sustained for several months, with insurance markets normalizing and refining capacity coming back online - that is the path in which the recession probability falls quickly and playing defense in BESF matters less.

I am watching for that, but I am not seeing it.

In Summary on Hormuz

My working theory on the closure of the Strait of Hormuz is this:

Hormuz is a box canyon.

Because of that, the most likely path ahead is one of “Intermittent Disruption.” I’m only modestly confident of that – call it a 40% probability, so there is much we do not know – other than, as an American, I hope any of my mistakes here are to the country’s gain.

Statistically speaking, though, investors may need to get used to the idea that Hormuz will not be permanently and fully unrestricted anytime soon.

It would then also follow that a portfolio can be built with reasonable conviction around the thesis that the market is underestimating the length of time Hormuz will be restricted in some way. And nowhere more so than in energy.

To be clear - if we choose to fight our way out of this situation, we will win. That’s not in question. The point is that our question, as a country, is the same as the cowboy in a box canyon: what costs – here measured in lives of American servicemembers - are we willing to bear to get out?

That is a brutally heavy question to answer. As the Administration wrestles with that horrible calculus, the market - at all-time highs, and with oil prices lower than experts

seem to unanimously agree they should be - appears a bit too confident that it not only knows the answer, but when it will be delivered.

I am skeptical. In spite of definitive military success, the northern shore of the Gulf cannot be easily policed. All it will take is a single RPG from a Toyota in Bandar Abbas to close the Strait again.

So there must be a diplomatic solution, as well, even after a resounding American military victory – for the spice to flow. Yet forecasting any near-term success based on an exhaustive list of terms, each one of which will require intense diplomatic negotiation, would defy the laws of conditional probability.

All of which really only means one thing:

Time to get to work.

An Ode to American Energy

There is a habit this country has developed, particularly in the board rooms where investment decisions are made, of looking past the people who actually keep the daily life of the nation running. The welder on a compressor station in Pennsylvania. The technician on a solar field in the desert, running wires long after the ribbon-cutting is over. The roughneck at ten in the morning on a pad in the Permian, in a July heat that turns steel too hot to touch. What I think they probably most want is to be good at that work, to be paid fairly for it, and to leave their children a life at least as good as the one they have - the same thing the postman wants, and the plumber, and the carpenter who framed the house you live in.

This fund, really, is an ownership stake in their work, and in the thousands of decisions made every day by dutiful Americans most of us will never know.

Which brings us to George Mitchell.

Mr. Mitchell spent seventeen years and hundreds of millions of his own dollars drilling holes in the North Texas prairie clay in ways an entire industry told him would never work. Experts informed him, repeatedly and with great confidence, that you could not extract natural gas from shale at an economic cost.

Mitchell ignored them and just kept experimenting. He stuck a giant steel straw a mile and a half straight down, into a layer of rock scoffed at by Big Oil, and then pumped water and sand in at such pressure that the rock cracked open, releasing natural gas that had been trapped in there since the Carboniferous Period. That new technology was called “hydraulic fracturing.” The eventual result was the single largest addition to

proven energy reserves in American history - and the technology he proved out in the Barnett went on to reshape both American gas and American oil.

The New York Times, in Mitchell's obituary, noted that his technology doubled North American natural gas reserves to three quadrillion cubic feet - the rough equivalent of 500 billion barrels of oil, or nearly double Saudi Arabia's entire crude inventory.[2]

George Mitchell, the son of a Greek immigrant goat herder, unlocked an entire ocean of natural gas, just sitting there, right beneath our feet.

One guy. From Galveston.

The economic consequences of Mitchell's doggedness are hard to comprehend. The White House Council of Economic Advisers calculated that the shale revolution saves American consumers $203 billion annually, or roughly $2,500 for a family of four, with nearly 80% of that stemming from lower natural gas prices.[3] The Federal Reserve Bank of Dallas concluded the shale industry alone drove 10% of all U.S. GDP growth between 2010 and 2015.[4]

His technology continues to define our future, quietly and behind the scenes. The artificial intelligence arms race currently consuming every available kilowatt-hour on the eastern seaboard runs, overwhelmingly, on natural gas. According to the International Energy Agency, natural gas supplied over 40% of electricity for U.S. data centers in 2024 - more than renewables, more than nuclear, more than coal.[5] It is, as UC San Diego political scientist David Victor has put it in *MIT Technology Review*, simply "the default."[6] U.S. gas-fired power capacity in development nearly tripled in 2025, with more than a third of it earmarked for data centers.[7] U.S. data center electricity demand is projected to more than double by 2030, and analysts estimate that meeting it could require natural gas production to grow another 10 to 15 percent.[8]

ChatGPT runs on natural gas, is what I'm saying.

Every AI query, every model training run, every generated image is downstream of the shale revolution George Mitchell spent seventeen years building by himself in Texas. That goat herder's son didn't just save your heating bill. His work now powers the intelligence infrastructure of the twenty-first century, while insulating us from the economic calamity that the Iran war could soon spark overseas.

More importantly, though, is this.

The people who benefited most from what Mitchell did were not hedge funds or oil companies. It was the working poor. Because energy costs consume a far larger share of a low-income household's budget, the price relief hit hardest where it was needed most. The lowest 20% of American households saved nearly 7% of their annual income

as a direct result of the shale revolution.[9] Seven percent. For a family living paycheck to paycheck, that is the difference between the lights staying on and the lights going off.

George Mitchell delivered one of the largest effective wealth transfers to America's working families in modern economic history. He did it without a press release, a government mandate, or a single TED Talk.

The Economist, upon his death, declared that "few businesspeople have done as much to change the world as George Mitchell."[10]

Yet most Americans have never heard his name.

What's disappointing isn't that heroes like George Mitchell aren't household names. It's that we don't seem to share a visible sense that we are all the fortunate recipients of an incredible gift:

American energy. One of the most extraordinary sovereign portfolios of natural resources assets anywhere in the world.

We just haven't been thinking about it right.

Especially investors. The ones who aren't gamblers have surrendered to passive indexing, or to optimizing portfolios for appearance over outcomes. In energy, for too long, institutions that should know better got distracted by trying to apply a social-signaling framework to capital allocation decisions, while ignoring that doing so corrupted both the social goal and the investment discipline, simultaneously.

Even worse, it diminished the contributions of the George Mitchells of this country.

It's time for that to change.

Why?

Because the frameworks and institutions and attitudes that encouraged investors and policymakers to deliberately dismiss American energy didn't only produce bad returns - they left the country less capable.

The consequences of capital misallocation in energy are profound. It is the cost input to every other sector. Every small inefficiency in how this nation allocates energy capital ripples across the entire economy. And that drag compounds.

The people whose expertise we need most over the next twenty years are the same people we spent the last twenty ignoring.

We starved the projects that make resilience possible. We hired lobbyists rather than debate each other. We handed power and leverage to adversaries who never forgot the primacy of their own energy supplies. We diminished the people who built remarkable

technologies because they worked in the wrong industry. And the next George Mitchell didn't even bother to try.

That was a choice. A self-inflicted one. But it is correctable.

The story of American energy is our story. Our desire to be part of something great. To do hard things.

Shoot - two weeks ago, while simultaneously fighting a hot war in the Middle East, we casually sent three great Americans AROUND THE MOON. With a Canadian stowaway, even!

We're not a nation in decline. We just have a big to-do list.

This country is the most powerful engine of human progress the world has ever seen. That engine is built, powered, and protected by American energy. We should be proud of it.

And allocating capital, when done well, is a form of civic participation.

Big wires. Big pipes. Let's do this.

Thank you for investing with Bastion, and please let me know if you have any questions.

- Cale

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Bastion Energy ETF (BESF)

Footnotes & Disclosures

1. NAV Return. BESF has a single share class with a total annual operating expense ratio of 0.80%, as stated in the fund's prospectus. NAV total return figures shown are net of this expense ratio and include reinvested dividends and capital gains through March 31, 2026. There is no sales load. Source: YCharts (NAV total return). For current month-end performance data, visit www.bastionetfs.com. For an exchange-traded fund, the expense ratio is embedded in the NAV return; a separate gross/net return presentation as used for separately managed account strategies does not apply.
2. Douglas Martin, "George P. Mitchell, Texas Oilman and Philanthropist, Dies at 94," The *New York Times*, July 26, 2013.
3. White House Council of Economic Advisers, "The Value of U.S. Energy Innovation and Policies Supporting the Shale Revolution," October 2019.
4. Federal Reserve Bank of Dallas, "GDP Gain Realized in Shale Boom's First 10 Years," Dallas Fed Economics, August 20, 2019.
5. International Energy Agency, "Energy and AI," 2025 (2025 report citing 2024 data). Also cited in Pew Research Center, "What we know about energy use at U.S. data centers amid the AI boom," October 24, 2025.

6. David Rotman, “AI could keep us dependent on natural gas for decades to come,” *MIT Technology Review*, May 20, 2025, quoting David Victor, political scientist and co-director of the Deep Decarbonization Project, University of California, San Diego.

7. Global Energy Monitor, “Betting Big on Data Centers: U.S. Now Leads World for New Gas Power Development,” January 2026. U.S. gas-fired power capacity in development rose from approximately 88 GW to 252 GW in 2025; more than one-third of that capacity is slated to directly power data centers.

8. Data center electricity demand doubling by 2030: Lawrence Berkeley National Laboratory, “2024 United States Data Center Energy Usage Report,” December 2024. Natural gas production growth of 10–15%: Mark P. Mills, “The Rise of AI: A Reality Check on Energy and Economic Impacts,” National Center for Energy Analytics / Hamm Institute for American Energy, November 13, 2025.

9. White House Council of Economic Advisers, “The Value of U.S. Energy Innovation and Policies Supporting the Shale Revolution,” October 2019. Shale-driven savings represent 6.8% of annual income for the poorest fifth of U.S. households, compared to 1.3% for the richest fifth.

10. “Schumpeter: Father of the fracking boom,” *The Economist*, August 3, 2013.

11. Paper-to-physical oil market ratios from Intercontinental Exchange, "Why the World Needs Benchmarks & Characteristics of Benchmarks" (ice.com), citing combined Brent and WTI futures volumes of approximately 2.8 billion barrels of paper trading daily against global oil demand of roughly 100 million barrels per day. Physical delivery rate (fewer than 5% of futures contracts resulting in physical delivery) corroborated by Center for Strategic and International Studies, "How to Interpret Wartime Oil Prices," March 2026.

12. Tanker War duration and historical analogues from "The Tanker War," U.S. Naval Institute, Naval History magazine, June 2025 issue (Vol. 39, No. 3); and Encyclopædia Britannica entry on the Tanker War (last updated March 18, 2026). The Tanker War ran from May 1984 through August 1988, comprising the maritime component of the broader Iran-Iraq War and producing roughly four years of cyclical attacks on shipping in the same waters affected by the current crisis.

13. Red Sea / Houthi disruption start date and ongoing status per U.S. Maritime Administration MSCI Advisory 2024-008 and 2025-001 ("Since November 1, 2023, there have been at least [88, 113, 100+] separate Houthi attacks on commercial vessels..."); see also U.S. Defense Intelligence Agency report cited in Wikipedia, "Red Sea crisis," reporting a 90% decrease in container shipping through the Red Sea between December 2023 and February 2024.

14. Hormuz transit collapse and tanker backlog figures derived from publicly reported shipping and tanker tracking data, including New York Times reporting (cited in Wikipedia, "Economic impact of the 2026 Iran war") on "approximately 200 ships wandering in the region" following the suspension of tanker traffic. Mine clearance timing and historical comparison to U.S. Navy minesweeping operations during Operation Earnest Will (1987-1988) per U.S. Naval Institute, "The Tanker War" (June 2025); ship loss figures from Operation Earnest Will historical record. Operator and analyst estimates of backlog clearance under various scenarios reflect public statements from regional shipping bodies and energy desk research current as of late April 2026.

15. Gulf production shut-in figures and country-by-country restart curves from public reporting cited in Wikipedia, "Economic impact of the 2026 Iran war" (combined Kuwait, Iraq, Saudi Arabia, and UAE production declines of approximately 10 million barrels per day as of March 12, 2026, with subsequent worsening), supplemented by International Energy Agency characterization of the disruption as the "largest supply disruption in the history of the global oil market." Restart-time estimates by country reflect publicly available analysis of damage extent and historical restart curves for Gulf production infrastructure.

16. Qatar's Ras Laffan damage and repair timeline per QatarEnergy public statements following the March 18, 2026 strike, which caused an estimated 17% reduction in Qatar's LNG production capacity (per analysis cited in Wikipedia, "Economic impact of the 2026 Iran war"); damage estimated to require three-to-five years to fully repair. Six percent of global LNG supply impact reflects the operator's own assessment of cargoes removed from market for the duration of the repair.

17. U.S. Energy Secretary Chris Wright, public remarks on CNN's "State of the Union," April 2026, indicating that average U.S. gasoline prices may not fall below $3 per gallon until "later this year" or 2027; reported by CBS News, "Will gas dip below $3 a gallon this year? Here's what experts predict," and Axios, "Oil prices jump after US seizes Iran ship, Strait of Hormuz setbacks," both April 2026.

18. Cheniere Hormuz sensitivity figure derived as follows: 1 mtpa (million tonnes per annum) of LNG capacity equates to approximately 52 million MMBtu (million British thermal units) of annual throughput, per standard LNG industry conversion. A $0.25/MMBtu incremental long-term tolling fee applied to a 10 mtpa block of new

contracted capacity therefore produces approximately $130 million of additional annual EBITDA. Applying an 8x EV/EBITDA multiple - consistent with valuation multiples for long-duration contracted infrastructure cash flows - implies approximately $1 billion of incremental enterprise value, or approximately $4.90 per share at Cheniere's current share count of approximately 210 million shares. This is presented as scenario sensitivity illustrating the mechanical relationship between long-term tolling fees and equity value on incremental contracted capacity, not **as a forecast of where future Sales and Purchase Agreement (SPA) pricing will settle.**

Important Information:

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. This and other important information is contained in the prospectus, which may be obtained by calling +1.215.330.4476 or visiting www.bastionetfs.com. Please read the prospectus carefully before investing.

Investments involve risk. Principal loss is possible.

The Fund is actively managed and is subject to the risk that the strategy may not produce the intended results. The Fund is new and has a limited operating history to evaluate.

The ETF structure may provide tax efficiencies relative to certain other vehicles, but shareholders may still incur taxes on distributions and upon sale of Fund shares. Investors should consult their tax adviser.

Oil and Gas Concentration Risk**.** The profitability of oil and gas companies is related to worldwide energy prices, exploration costs, and production spending. Oil and gas companies may be at risk for environmental damage claims and other types of litigation, as well as negative publicity and perception. Oil and gas companies may be adversely affected by natural disasters or other catastrophes, changes in exchange rates, interest rates, changes in prices for competitive energy services, economic conditions, tax treatment, government regulation and intervention, and unfavorable events in the regions where companies operate (*e.g.*, expropriation, nationalization, confiscation of assets and property or imposition of restrictions on foreign investments and repatriation of capital, military coups, social unrest, violence or labor unrest). As a result, the value of these companies may fluctuate widely.

Industry Concentration Risk. Any fund that concentrates in a particular industry will generally be more volatile than a fund that invests more broadly. Because the Fund normally invests at least 80% of its assets in Energy Companies, the Fund’s performance largely depends—for better or for worse—on the overall condition of the energy industry.

Energy Sector Risk. The market value of securities in the energy sector may decline for many reasons including fluctuations in energy prices and supply and demand of energy fuels caused by geopolitical events, the success of exploration projects, weather or meteorological events, taxes, increased governmental or environmental regulation, resource depletion, rising interest rates, declines in domestic or foreign production, accidents or catastrophic events that result in injury, loss of life or property, pollution or other environmental damage claims, terrorist threats or attacks, among other factors.

Non-Diversification Risk. Because the Fund is non-diversified, it may be more sensitive to economic, business, political or other changes affecting individual issuers or investments than a diversified fund, which may result in greater fluctuation in the value of the Shares and greater risk of loss. This may increase the Fund's volatility and cause the performance of a relatively smaller number of issuers to have a greater impact on the Fund's performance.

Master Limited Partnership Risk. The interests or "units" of an MLP are listed and traded on securities exchanges or in the over-the-counter market and their value fluctuates predominantly based on prevailing market conditions and the success of the MLP. MLPs carry many of the risks inherent in investing in a partnership. Unit holders of an MLP may not be afforded corporate protections to the same extent as shareholders of a corporation.

Value Style Investing Risk. Value stocks can perform differently from the market as a whole and from other types of stocks. Value stocks may be purchased based upon the Sub-Adviser's belief that the stock may be out of favor. Value investing seeks to identify stocks that have depressed valuations, based upon a number of factors which are thought to be temporary in nature, and to sell them at superior profits should their prices rise in response to resolution of the issues which caused the valuation of the stock to be depressed.

New Fund Risk. The Fund is a recently organized investment company with limited operating history. As a result, prospective investors have limited track record on which to base their investment decision. There can be no assurance that the Fund will grow to or maintain an economically viable size.

ETFs may trade at a premium or discount to their net asset value. ETF shares may only be redeemed at NAV by authorized participants in large creation units. There can be no guarantee that an active trading market for shares will exist. The trading of shares may incur brokerage.

Median 30 Day Spread is a calculation of the Fund's median bid-ask spread, expressed as a percentage rounded to the nearest hundredth, computed by: identifying the Fund's national best bid and national best offer as of the end of each 10 second interval during each trading day of the last 30 calendar days; dividing the difference between each such bid and offer by the midpoint of the national best bid and national best offer; and identifying the median of those values.

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