

The Greatest Risk

Economic and Market Overview

At its core, the practice of investing involves committing capital and assuming *risk* with the expectation of potential for financial *reward*. Defining the operative word in the first half of this axiom is far more challenging than quantifying that in the second half. Indeed, *reward* in the context of investing is simply one's return on investment, or the growth of the capital initially committed. *Risk* remains an elusive concept despite the immense totality of thought that has been devoted to the topic over history.

Labels under which risk is commonly categorized are numerous: market risk, liquidity risk, currency risk, credit risk, and diversification risk, to name a few. Modern portfolio theory¹ quantifies risk as volatility (a premise with which we largely disagree). The Financial Industry Regulatory Authority (FINRA) posits "Risk is any uncertainty with respect to your investments that has the potential to negatively impact your financial welfare."² Howard Marks, the co-founder and co-chairman of Oaktree Capital Management, in his 2011 book *The Most Important Thing*, states "The possibility of permanent loss is the risk I worry about, Oaktree worries about and every practical investor I know worries about."³ Marks has written prolifically on the topic of risk and in a 2015 memo to Oaktree investors, went so far as to call out "the risk of not taking enough risk."⁴

Investment options to which one can commit capital (and in doing so, assume risk) are near-endless. At one end of the spectrum is a riskless investment, which is the basis for the "risk-free rate of return" against which incremental investment risk is measured. While the existence of a truly riskless investment can be debated, it is generally understood to be a short-term U.S. Treasury security, which as of the writing of this letter, provides a "risk-free rate of return" of 3.51%. Moving up the risk spectrum, a broad-based index of investment-grade corporate bonds and U.S. Treasury and agency securities currently provides a yield of about 4.34%, and in 2025, returned 7.30% to an investor.⁵ A broad-based index of non-investment-grade corporate bonds has a yield of 7.02%, and in 2025, returned 8.50% to an investor.⁶ Equities, widely considered a riskier investment than bonds, offer an even greater return: in 2025, the S&P 500 index returned 17.88%, including dividends and other distributions.⁷

Making riskier investments doesn't guarantee a higher return; if it did, those investments wouldn't be risky. Take 2022: the S&P 500 index returned -18.11 %, while high-grade bonds returned -13.01% and high-yield bonds returned -11.22%. Similarly, in 2011, the S&P 500 index returned 2.11%, lagging high-grade bond returns of 7.84% and high-yield bond returns of 4.38%.⁸

¹ Modern portfolio theory, introduced by economist Harry Markowitz in 1952, is a mathematical framework for constructing broadly diversified investment portfolios based on the expected return and quantified risk of various asset classes. We believe there are serious shortcomings in this approach to investing, particularly in its definition of risk.

² <https://www.finra.org/investors/investing/investing-basics/risk>

³ Howard Marks, *The Most Important Thing: Uncommon Sense for the Thoughtful Investor* (Columbia Business School Publishing, 2011).

⁴ Howard Marks, "Risk Revisited Again," Oaktree Capital Management memorandum, June 8, 2015.

⁵ This references the Bloomberg US Aggregate Bond Total Return Index (USD Unhedged). Index performance returns do not reflect any management fees, transaction costs, or expenses. Indices are unmanaged and one cannot invest directly in an index. Source: FactSet Research Systems Inc. Yield data was retrieved on January 13, 2026.

⁶ This references the ICE BofA US High Yield Index. Index performance returns do not reflect any management fees, transaction costs, or expenses. Indices are unmanaged and one cannot invest directly in an index. Source: FactSet Research Systems Inc. Yield data was retrieved on January 13, 2026.

⁷ This references the S&P 500 index (total return). Index performance returns do not reflect any management fees, transaction costs, or expenses. Indices are unmanaged and one cannot invest directly in an index. Source: FactSet Research Systems Inc.

⁸ In this paragraph, investment returns for the S&P 500 index reference total returns, which includes dividends and other distributions; investment returns for high-grade bonds reference the Bloomberg US Aggregate Bond Total Return Index (USD Unhedged); investment returns for high-yield bonds reference the ICE BofA US High Yield Index. Index performance returns do not reflect any management fees, transaction costs, or expenses. Indices are unmanaged and one cannot invest directly in an index. Source: FactSet Research Systems Inc.

These historical comparative returns illustrate an important point: just because risk isn't realized, doesn't mean it isn't present. Take two anecdotes from business history with vastly different outcomes:

Facing declining market share, on April 23, 1985, The Coca-Cola Company temporarily changed the formulation for their flagship product with the introduction of New Coke. By the company's own admission, "The ill-fated move unleashed an unprecedented avalanche of consumer complaints and bad press."⁹ An employee recalled, "When senior leadership made the decision to change the formula, they underestimated the deep psychological attachment people had to Coca-Cola." This risky move was reversed only 79 days later, but not after a blip in the company's history was immortalized in the annals of corporate gaffes.

In an article entitled "Apple's Chief in the Risky Land of the Handhelds", published on August 19, 2002,¹⁰ *New York Times* writer John Markoff suggested:

There are signs that, with the new version of the Macintosh OS, Mr. [Steve] Jobs, Apple's founder, chairman and chief executive, may be approaching a precipice like the one that led to the downfall seven years ago of the man who was then Apple's chief executive, John Sculley.

Mr. Sculley's great tumble came after he staked his and Apple's reputation on the ill-fated Newton handheld computer – an ambitious product based on handwriting-recognition technology that was ahead of its time. And now come signs that Mr. Jobs means to take Apple back to the land of the handhelds, but this time with a device that would combine elements of a cellphone and a Palm-like personal digital assistant.

Like his predecessor, Steve Jobs determined to stake his and Apple's reputation on a new device – a risky call if there ever was one. But, in mid-2007, Apple introduced the iPhone, which quickly grew in adoption and popularity. For the fiscal year ended October 31, 2025, the iPhone accounted for 50.4% of Apple's revenues, or nearly \$210 billion.¹¹

Assuming significant risk can end in disaster, as in the case of The Coca-Cola Company, or pay off handsomely, as in the case of Apple. The outcome of these decisions, however, does not define the unambiguous assumption of the risk involved.

For the better part of the past year, we repeatedly highlighted emerging economic risks, topics that we rehashed in our last quarterly letter.¹² We remain vigilant about these risks, which are largely systemic and over which we have no control. We can, however, control how we position client portfolios for these risks, and how we react if and when these risks materialize. We maintain high cash levels across most client accounts, which is a result of exiting positions that have become fully valued, partially offset by some reinvestment of sale proceeds. Over the coming months, we expect additional sales or liquidity events, which, in the absence of new investment opportunities that adequately balance risk and reward, will push cash levels even higher.

We have long stated that "concentrated positions provide us the potential to profit from the ability to assume prudent idiosyncratic risk." As opposed to systemic risks (i.e., persistent inflation, rising unemployment, stretched equity valuations), idiosyncratic risks, or those that are specific to a single company or investment, are easier to identify, understand, and control or avoid. For example, we urge companies to have robust executive succession plans when a CEO represents a meaningful competitive advantage, or to cultivate relationships with multiple vendors for difficult-to-source manufacturing inputs. Our job is to weigh the idiosyncratic risk assumed in an investment and compare that to the expected return of that investment. We only commit capital when we believe we can adequately identify and monitor risk, advise companies on mitigating risk, intervene when risk materializes, and realize appropriate compensation for our clients for the assumption of these risks in the form of an expected investment return.

We define risk as the likelihood of the permanent impairment of capital. Understanding risk is nuanced and complex, spanning the gamut from monitoring macroeconomic developments to developing a detailed understanding of a company's financial statements. Risk management requires constant attention over the life of each investment we make. However, if we are to generate investment returns, the greatest risk is not taking risk at all.

⁹ <https://www.coca-colacompany.com/about-us/history/the-infamous-1985-launch-of-new-coke>

¹⁰ Markoff, J. (2002, August 19). Apple's chief in the risky land of the handhelds. *The New York Times*, B1

¹¹ <https://www.sec.gov/ix?doc=/Archives/edgar/data/0000320193/000032019325000079/aapl-20250927.htm>

¹² <https://gvi-corp.com/the-more-things-change-the-more-they-stay-the-same/>

Portfolio Update

Our research analysts dedicate a great deal of their time to evaluating existing portfolio holdings, including understanding and monitoring risk, continuously assessing available information, and updating our valuation analysis as new information becomes available. The balance of their time is spent searching high and low for new investment ideas, and during the fourth quarter, many months of diligence and patience paid off as we added two new positions to our equity holdings.

On October 7, we purchased shares of CPS Technologies Corporation (CPSH). CPSH is a materials manufacturing company that specializes in injecting molten metals into porous substrates. The majority of the company's revenue is attributable to the manufacturing of aluminum silicon carbide base plates, on which sensitive electronic components are mounted for high voltage power switching applications, a product category in which CPSH has an established competitive position. The company has proven commercialization of other novel metallic-ceramic material products, and has several more under development. We expect ongoing commercial adoption to drive revenue growth and profitability over the next several years.

On November 21, we began purchasing shares of Lakeland Industries, Inc. (LAKE), a manufacturer of protective garments and accessories. Since its founding in 1982, LAKE grew into a large supplier of safety clothing for electric and gas utilities, petrochemical, hazardous material, and chemical handling companies. A few years ago, the company began dedicating resources to its nascent fire services business, and undertook several acquisitions. Today, LAKE derives more than half of its revenue from the sale of firefighter protective ensembles, including turnout gear, boots, helmets, and gloves. Two of our analysts visited the company's corporate headquarters in Huntsville, Alabama, in early November. They spent several hours with the management team understanding business strategy and capital allocation, and were impressed by the thoughtfulness of each. We believe there is significant room for growth as recent acquisitions are integrated and products are cross-certified under various regulatory structures.

On October 6, Heidrick & Struggles International, Inc. (HSII) announced that it had entered into a definitive agreement to be acquired by an investor consortium.¹³ We have held HSII in client accounts since mid-2020. At the time of our initial investment, we believed the company had a strong market position and was undervalued relative to its normalized midcycle earnings power. Over the course of our investment, HSII broadened its portfolio from executive search and placement services to include on-demand talent placement (i.e., short-term contract labor in technically specialized fields) and corporate culture and talent planning services, through both organic investment and acquisition. Our appraisal of the fair value of the business increased with these developments, and it came as little surprise to us that the company was eventually purchased at a significant premium to its stock price. The acquisition closed on December 10, 2025, and we received cash consideration of \$59.00 per share.¹⁴

During the fourth quarter, the share price of Gulf Island Fabrication, Inc. (GIFI), a position that we have owned in client accounts for many years, approached our appraised value. As we began to exit the position, on November 7, the company agreed to be acquired by IES Holdings, Inc. at \$12.00 per share in cash.¹⁵ The acquisition consideration is well above our appraisal of fair value, and we believe this represents an excellent investment outcome. The transaction is expected to close by March 31, 2026.

2020 Bulk Ltd. (2020.NO or TTBKF), a position that we have held in client accounts since November 2021, owns and operates a fleet of dry bulk vessels that engage primarily in the global iron ore trade. Over the course of the past year, the company has been selling vessels at attractive valuations and shrinking its fleet in the process. On November 16, the company entered into an agreement to sell its last two vessels. We have long admired the discipline of the company's business model, which eschews reinvestment for the certainty of cash distributions commensurate with the company's monthly earnings; the long-term consequence of this strategy is the eventual retirement of the company's assets and an associated liquidating distribution. With the sale of its last two vessels, we expect a liquidating distribution in the first half of 2026. We maintain exposure to the deep-sea dry bulk shipping, which we believe offers attractive structural investment tailwinds, through other positions.

¹³ <https://heidrick.mediaroom.com/2025-10-06-Heidrick-Struggles-Enters-into-Definitive-Agreement-with-Investor-Consortium-Led-by-Advent-International-and-Corvex-to-Become-a-Private-Company>

¹⁴ <https://heidrick.mediaroom.com/2025-12-10-Heidrick-Struggles-Completes-Take-Private-Transaction-Backed-by-Advent-International,-Corvex-Private-Equity-and-a-Global-Network-of-Strategic-Investors>

¹⁵ <https://ir.gulfisland.com/news-events/press-releases/detail/282/ies-holdings-to-acquire-gulf-island-fabrication>

Turning to our fixed income positions, on November 10, TreeHouse Foods, Inc. (THS) announced an agreement to be acquired by Investindustrial for total consideration of \$2.9 billion.¹⁶ Investindustrial is a European private equity firm that in 2023 purchased THS's meal preparation business, allowing THS to pursue aggressive financial deleveraging. The transaction is on track to close in the first quarter of 2026, and we expect the THS bonds we own in client accounts to be redeemed at \$101.00 pursuant to the change of control provision contained in the bond indenture.

Finally, on December 10, HNI Corporation closed its previously announced acquisition of Steelcase Inc. (SCS).¹⁷ Earlier in the quarter, HNI Corporation made an offer to exchange the Steelcase Inc. 5.125% senior notes due January 18, 2029 (which we own in client portfolios), for substantially equivalent notes issued by HNI Corporation. Due to restrictions on the exchange notes, we opted to continue holding the SCS bonds, which became an obligation of HNI Corporation when the transaction closed. We believe the combined entity presents an improved credit profile.

From Our Library

We recently completed *Change the Culture Change the Game* by Roger Connors and Tom Smith. The book provides a framework for organizations to accelerate change and provide greater accountability for results, which is something that we've observed in many of the companies in which we've invested. We believe culture is a critical component of corporate success and long-term value creation, but its quantification remains elusive. Public company management teams would be wise to consider the advice contained in this text, such as the following:

As you take accountability for your culture and manage it well, you will produce amazing results that will greatly benefit yourself, the people you work with, your entire organization, and, most important, your customers.¹⁸

The insights we glean from one-on-one conversations with senior management help us evaluate whether a company has the cultural foundation to execute on its business strategy adapt to the ever-changing business environment. We believe that companies with clear accountability structures, aligned leadership, and a culture that supports execution (not just stated goals) are generally more likely to deliver consistent financial performance and long-term value creation.

Firm Update

Be Emesal and Kristin Mastantuono both celebrated their first anniversaries with the firm this quarter. Each has played an essential role in helping drive our research process as well as our marketing and brand development over the past year. Please join us in congratulating Be and Kristin!

In addition, we continue to expand our client base through a combination of referrals from existing clients and ongoing outreach. Thank you for the many introductions to some truly wonderful people over the past year!

Concluding Thoughts

If your investment objectives or financial situation have changed, please let us know. We're happy to discuss your investment objectives and planning for both current financial needs and long-term goals.

As always, we are deeply grateful for your ongoing trust and confidence.

Your Investment Research and Advisory Team
Global Value Investment Corporation

¹⁶ <https://www.treehousefoods.com/news-and-media/press-release-details/2025/TreeHouse-Foods-and-Investindustrial-Announce-Definitive-Acquisition-Agreement-for-a-Total-Enterprise-Value-of-2-9-Billion/default.aspx>

¹⁷ <https://www.steelcase.com/press-releases/hni-corporation-to-acquire-steelcase-inc/>; <https://www.steelcase.com/press-releases/hni-corporation-completes-acquisition-of-steelcase-inc/>

¹⁸ Roger Connors and Tom Smith, *Change the Culture, Change the Game* (Portfolio Penguin, 2011).



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