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July 20th, 2026

I am happy to report another excellent quarter of performance for our strategy. In Q2, we gained 18.91% net of fees (19.24% gross), bringing the 2026 YTD gain to 20.84% net (21.49% gross). This performance was driven by large gains in our holding in Enova International (NYSE: ENVA). Although it was the biggest contributor to Q2's performance, Enova was the largest detractor to performance in Q1. Until Enova's merger with Grasshopper Bank receives full regulatory approval and is completed, we should expect elevated volatility in the company's share price. We continue to believe that the merger with Grasshopper will be transformative for Enova, opening many new markets for the company and reducing its funding costs.

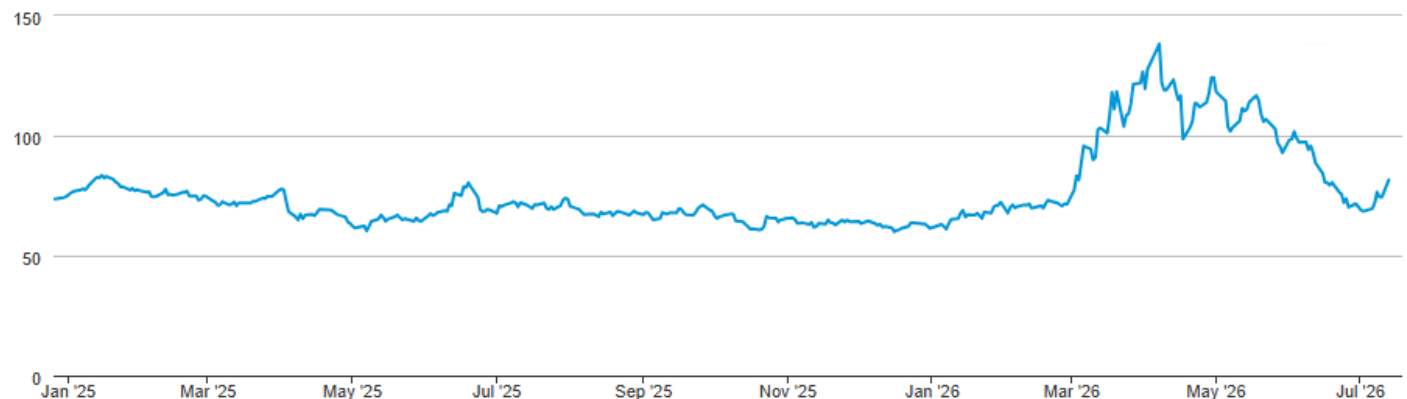
In Q1, we built up positions in Petrobras and SM Energy, which have been a drag on performance. The 2026 Iran War has led to less of a disruption to commodity markets so far than many analysts expected at its onset. The main idea behind this investment in energy stocks was to act as a counter-weight to the damage that would occur to the rest of our portfolio from an extreme increase in oil prices. In a scenario where oil prices reached extreme levels above \$150/barrel, the gains in those energy stocks would offset losses in the rest of the portfolio.

In the last week, full-scale fighting has resumed as both the United States and Iran abandoned the ceasefire reached after the signing of the memorandum of understanding on June 17, 2026.

In this letter I will give a brief overview of the major factors that allowed the price of oil to reverse most of its initial price increase. Many of these buffers that protected world markets are nearing exhaustion, and the shortages that failed to occur in the first phase of the 2026 war may still come to pass. The price of Brent crude has increased by over 15% in the last week.

Europe Brent Spot Price FOB

Dollars per Barrel



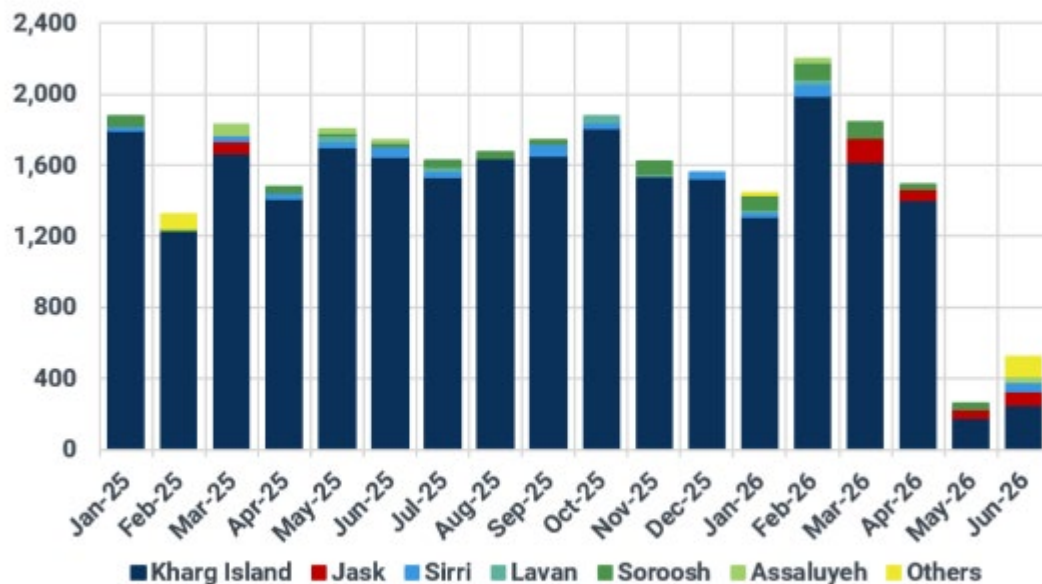
Source: U.S. Energy Information Administration

Pre-war Inventory Build

The US military buildup around Iran became obvious by late January 2026. This led many countries to begin building up their petroleum reserves. Countries within the Persian Gulf area began exporting their petroleum as quickly as possible before military conflict complicated energy exports.

From mid-February to the start of the conflict on February 28th, Iran tripled its oil exports.

Iran oil exports by origin port, kbd



Source: Kpler

Oil still leaving the Middle East

Saudi Arabia has an East-West bypass pipeline (total capacity of 7.0 million barrels per day) that takes oil from the Persian Gulf production rigs to their port of Yanbu on the Red Sea. Additionally, the UAE's current Habshan-Fujairah oil pipeline has a capacity of 1.5 to 1.8 million barrels per day (with a major capacity expansion planned for future years).

During the fighting and the closure of the strait, significant oil volumes were still flowing on ships. Even through the US blockade announcement on April 13th, 2026, a limited number of Iranian tankers were getting past the blockade by taking advantage of Pakistani and Indian territorial waters to deliver oil to those countries without entering international waters. This was called the “coastal corridor” loophole.

In addition to the Iranian ships getting past the US blockade, ships from other countries were getting past the Iranian imposed blockade. Some ships were also sailing past the strait by turning off their Automatic Identification System (AIS) broadcasting and running the Iranian blockade.

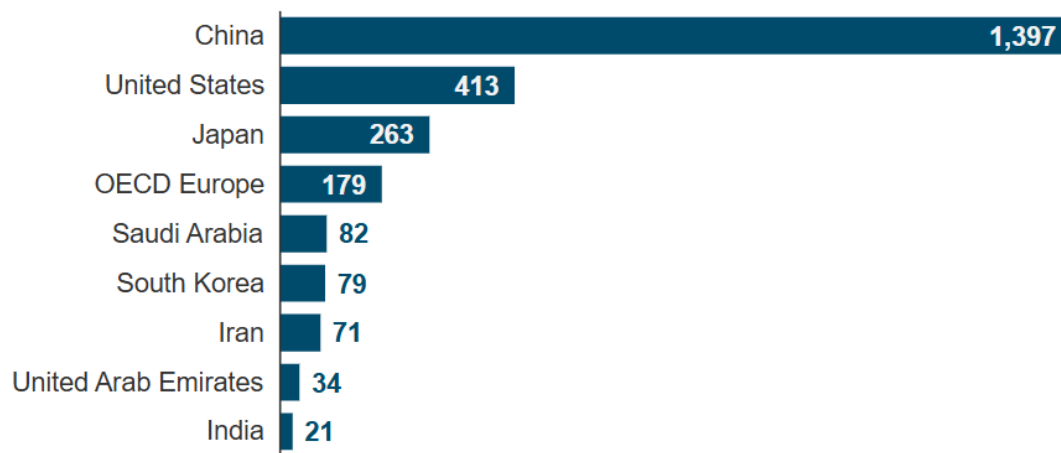
With Iran's IRGC forces degraded by US-led strikes, their ability to interdict traffic is far from complete.

China reducing imports

The biggest variable that has buffered the price of oil from a greater increase has been the reduction of imports from China. China entered March with the largest strategic oil inventories in the world, 1.4 billion barrels. This inventory would be enough to last several months of consumption without any imports. Additionally, China can also import over land from Russia and has domestic production.

China, the United States, and Japan hold most strategic oil inventories in 2025

Estimated strategic crude oil inventories in selected countries (as of Dec 2025)
million barrels



Data source: U.S. Energy Information Administration, *Short-Term Energy Outlook* (STEO), March 2026

Note: Other estimates derived from the International Energy Agency, China National Bureau of Statistics, Vortexa Analytics, Kayrros, Kpler, Argus Media, and Global Trade Tracker.

China was able to reduce its imports through several coordinated moves. First, they placed a domestic price cap on the price of gasoline. Normally, these price caps would cause severe shortages. However, China also banned the export of refined petroleum products. This combination of export ban and price caps crushed the margins of their domestic oil refiners, with some turning negative. The refiners naturally would want to cut their production below their required floor, which normally requires Chinese government permission, and many refiners received this permission. The net effect of all of this is that the domestic consumers in China had access to refined products with less of an increase than was seen in many other countries. Oil imports declined from 11.7 million barrels per day in February to 7.8 million barrels per day in May (based on customs data). According to JPMorgan analysts, they calculate this Chinese import reduction comprised 74% of the total decrease in global crude oil trade caused by the conflict.

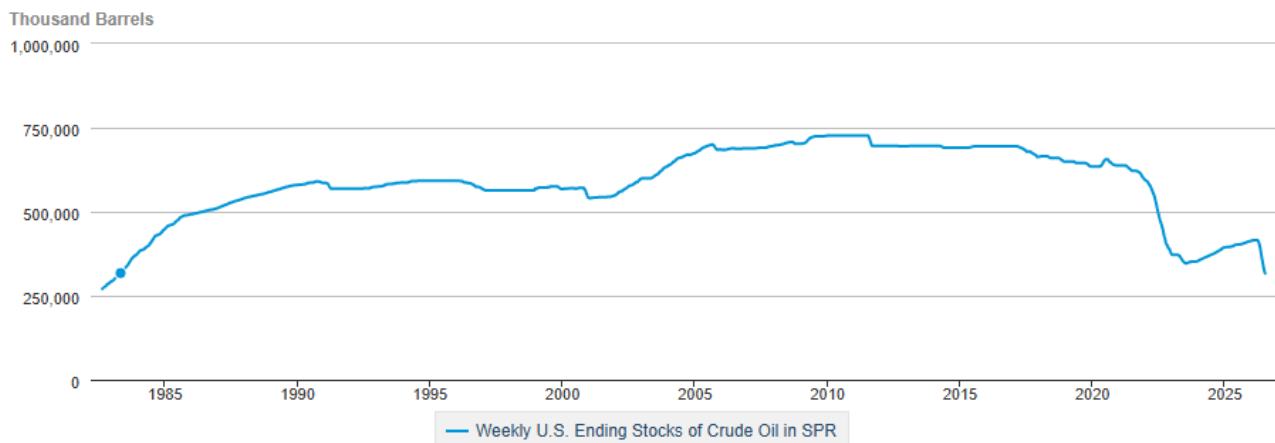
China voluntarily absorbed most of the supply shock itself rather than bidding for scarce supply. In a June 8th research note, Société Générale analysts noted that the 14% loss in global crude supply resulting from the Strait of Hormuz closure has increased prices by about 30%. By comparison, the 1973 OPEC oil embargo disrupted 7% of the global crude supply, yet prices skyrocketed by more than 130%.

This respite provided to the world at the expense of China's reserves may be coming to an end. The Chinese reserves are finite and it appears that the country will resume participating in the global oil markets at its past level of activity in the near future. Earlier this month, China began removing some of the restrictions on their refineries and easing export bans on refined petroleum products.¹

Ceasefire over, war continues

Speaking at the NATO summit in Ankara, Turkey, President Trump stated that the U.S. ceasefire and the June Memorandum of Understanding (MoU) with Iran are "over". As the war continues and the traffic through the strait remains impacted, eventually the inventory buffers around the world will be exhausted. In the chart below, we can see the decline in the stocks of the US strategic petroleum reserve. After that point, the only way to balance the supply/demand equation will be demand destruction through higher oil prices. There is simply not enough new capacity available in a short enough time period to completely replace the Hormuz traffic. The oversupply of oil trapped in the Gulf will eventually fill all of the storage capacity and require the capping of oil fields. While some oil fields can be capped without severely damaging the long-term production of the field, others can be permanently damaged by capping.

Weekly U.S. Ending Stocks of Crude Oil in SPR



eia Data source: U.S. Energy Information Administration

Beyond Hormuz hedge: Energy a good investment in current environment

Oil and gas exploration and production is an industry that is not in line with Blue Tower's ideal investment profile. Typically, we want companies that produce a differentiated (non-commoditized) product or service, have low maintenance capital expenditure requirements, possess a sustainable competitive advantage, and operate in markets with structural barriers to new competition². We like companies with predictability and consistent margins. Oil and gas E&P has none of these traits.

However, beyond being a good diversifier relative to our other portfolio positions, oil and gas in current conditions is an attractive investment on its own. Valuations of oil and gas companies are

¹ Thukral, Nidhi Verma. "Exclusive: China Lifts Fuel Export Curbs for July, Sources Say." *Reuters*, 8 July 2026, <https://www.reuters.com/business/energy/china-further-eases-fuel-export-curbs-july-sources-say-2026-07-08/>

² This is a subset and not an exhaustive list of all of the characteristics that we look for

cheaper than they have been historically, with their price-to-sales ratios, EV-to-EBITDA, and price-to-book ratios all lower currently than the median of the last 24 years. This is against a backdrop of a current US equity market that is among the most expensive historically.

The shale decade of 2010–2019 was defined by value destruction of shareholder capital through over-investment. Production growth was funded by serial equity and debt issuance, with returns on capital that were below the long-term cost of capital. In recent years, oil companies have become more hesitant to deploy capital towards increasing production on marginal projects. This discipline allows the companies to generate free cash flow that can be returned to shareholders through dividends and buybacks or to deleverage the balance sheet. The price spikes of 2026 provided a test of the industry's newfound spending discipline. We can see that despite the short-term spikes, producers have been hesitant to increase spending and have maintained their existing plans.

Although EV adoption will eventually lead to declining oil consumption, new cars will stay on the roads for an average of 12 to 16 years. The existing stock of vehicles is primarily internal combustion and will remain so for years to come, ensuring continued demand. Furthermore, the increasing number of vehicles in emerging markets means that overall oil demand is still rising globally.

The growth of AI investment and increasing numbers of data centers required to support it will also increase energy demand. Some analysts believe that the limiting constraint to AI growth will be the electricity and energy to supply the data centers. Over the long-term, higher demand for electricity from data centers will likely decrease per-unit electric costs by allowing the transmission costs to be amortized over a larger quantity of electricity but it will take years for that buildout to occur. All forms of energy are in competition with each other on some level (with effort, industrial processes can substitute between them). The difficulty for the over-burdened electric grid to provide sufficient power is leading some data centers to use on-site natural gas or propane generators, with diesel backup generators also used by some facilities.

xAI uses a massive fleet of mobile and stationary natural gas turbines to power its data centers, including the Colossus facilities in the Memphis, Tennessee, and Southaven, Mississippi areas. Because local utility grids were unable to immediately provide the enormous power required for the AI clusters, xAI bypassed traditional permitting and construction timelines by installing dozens of trailer-mounted gas turbines.

I continue to believe that the Iran crisis is far from over and will be difficult to fully resolve for the reasons I outlined last quarter.

Sincerely,

Andrew Oskoui, CFA

Portfolio Manager

Disclaimer: This commentary does not represent a recommendation to trade any particular security, but is intended to illustrate Blue Tower's investment approach. These opinions are current as of the date of this commentary but are subject to change. The information contained herein has been obtained from sources believed to be reliable but the accuracy of the information cannot be guaranteed. Past performance is no guarantee of future results.