April 2025

To Our Valued Partners:

The Almitas Opportunity Fund earned a net return of 0.7% in the first quarter of 2025 compared to returns of -4.3% for equities, 2.8% for fixed income, and -0.4% for hedge funds (Figure 1.1 below). This brings our cumulative net return since inception (12/31/2013) to 483.7% and our annualized net return since inception to 17.0% versus 12.4%, 2.0%, and 4.9% for equities, fixed income, and hedge funds, respectively. Retail-oriented Permanent Capital Vehicles, which comprise the majority of the fund's investments, delivered respectable performance in the first quarter with US Closed End Funds (CEFs), Business Development Companies (BDCs), and Mortgage Reits generating returns of 2.0%, 1.3%, and 5.7% respectively (Figure 1.2). CEF, BDC, and Mortgage Reit annualized returns since the Fund's inception are 5.7%, 7.7%, and 3.9%.

Figure 1.1: Total Return vs Market Benchmarks

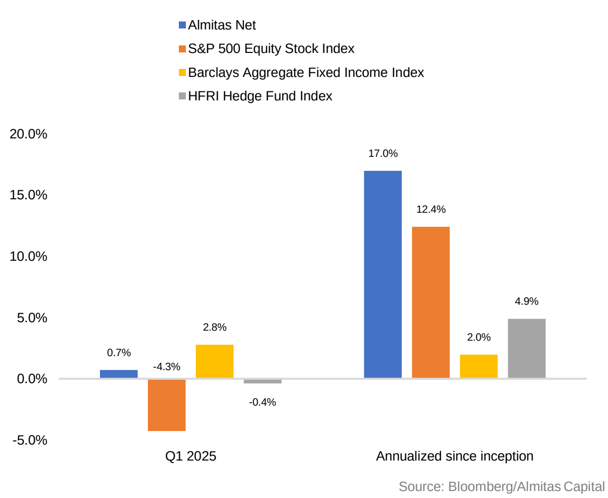
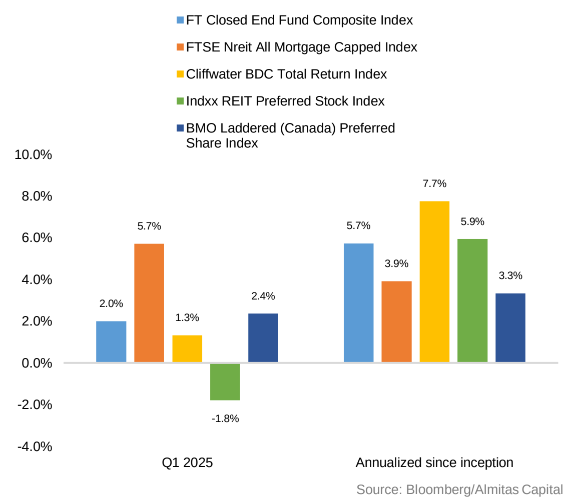


Figure 1.2: Total Return of Selected Specialized Indices



The outperformance in recent years of U.S. large cap growth stocks reversed itself in the first quarter, with the Magnificent Seven (Amazon, Apple, Google, Meta, Microsoft, Nvidia, and Tesla) stocks slumping -16.0%. Value stocks (S&P 500 Value Index), which had been trailing for the prior two years, beat growth stocks (S&P 500 Growth Index) 0.3% versus -8.5%, and an equally weighted measure of the S&P 500 Index outperformed the traditional market weighted return -0.6% versus -4.3%. International (MSCI World ex-U.S.) and emerging (MSCI Emerging Index) also outperformed in the first quarter with returns of 6.2% and 3.0%. One exception to the trend reversal was small capitalization stocks (Russell 2000 Index) with their -9.5% return. We benefited during the quarter from the outperformance of international and value equities as well as the positive returns from retail-oriented stocks (CEFs, BDCs, and Mortgage Reits).

The first quarter now seems like a distant memory given the tariff driven market volatility in April. The impact of tariffs on everyday life hit home in a conversation with my 91-year-old father, who still works as a CFO for a small, Los Angeles-based fabric importing company. "Liberation Day" on April 2 had a profound impact on his business, as it did on millions of other Americans and their respective businesses or employers. The proposed 25% tariff on imports from South Korea (where they source their fabric) was enough to entirely wipe out the company's net profit margin, unless the additional tariff costs can be passed on to customers or absorbed by their supplier. With uncertainty over who might absorb these increased tariffs, assuming they are even implemented, the most viable option was to cancel future orders and wait for clarity.

This same story is playing out in companies across the U.S. and the world. Consumers don't have a crystal ball to help determine how tariffs will impact them, and consumer sentiment, as measured by the University of Michigan's long-running survey, just registered its fourth-lowest level since 1977. While we all wait for clarity, the risk of a recession increases along with prospects for continued financial market volatility.

As we have discussed in previous letters, we focus on investments less frequently followed by Wall Street research analysts and which often have lower institutional ownership. Our view is that the greater the attention from research analysts and institutional investors, the more efficient market pricing and the less likely we are to have an investing edge. As Warren Buffett has said, if you want to win in poker, it is best to understand your opponent and play against those with less skill. This is what draws us to CEFs with retail investors representing over 80% ownership. With our dataset on U.S. CEFs going back to the 1980s, we have identified consistent behavioral flaws among CEF investors. These include the fear and greed response where investors chase CEFs and tighten discounts in times of good performance before fleeing during market selloffs, driving discounts wider. We see similar patterns with other heavily retail-owned products such as BDCs, Mortgage Reits, and Preferred Stocks. Our success capitalizing on inefficient investor behavior and the resulting mis-pricings has enabled us to outperform the return of these asset classes as well as the overall equity and fixed income markets since inception.

A drawback of our investment strategy is the greater-than-average price volatility in retail-oriented investments. Taking CEFs as an example, the price volatility is a function of both 1) changes in value of the underlying holdings (NAV) and 2) changes in the discount to NAV. As we model most of the CEF universe in depth, we can forecast the NAV changes with good precision. However, predicting discount changes is far more challenging. When markets are stable, daily and weekly discount movements tend to be minor and follow a random path, often driven by non-market factors such as fund-specific news. In contrast, when market movements are extreme, the fear and greed response of individual investors takes over and CEF discounts become directional, widening in selloffs and narrowing in rallies. This directional movement in discounts, which we call "discount beta", magnifies the NAV price movement and results in greater price volatility. We observe similar patterns among other retail-oriented products including BDCs and Mortgage Reits. While these discount movements can be extreme in volatile markets, as markets stabilize, fund discounts tend to revert to historical levels.

In April 2025, we observed this "discount beta" pattern where CEFs, BDCs, and Mortgage Reits all underperformed the broader equity and fixed income markets as the market sold off in early April. As markets recovered later in April, discounts narrowed back in, albeit not fully recovering from their early April discount widening. The market correction in early April is nothing new and we experienced similar or more severe selloffs in 2015, 2018, 2020, and 2022. In each case, discounts widened, leading to a more attractive investing environment. While volatility is always unsettling, in the long-term, it is beneficial to our strategy as it helps to plant the seeds for future opportunities.

Before reviewing the Fund's investment sectors, Figure 4.3 below shows our current Fund exposures. During the first quarter, we added to our equity exposure, primarily through purchases of international CEFs. We trimmed our cryptocurrency exposure modestly as the premium of cryptocurrency futures contracted from 4th quarter levels.

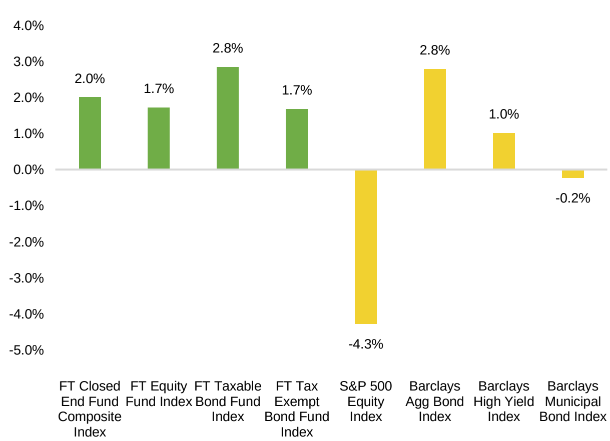
Figure 1.3 Opportunity Fund Investment Allocation as of 3/31/2025

Fixed Income Exposure	**26%**	**Equity Exposure**	**76%**
US Fixed Income	**21%**	**US Equity**	**16%**
Closed-End Funds	17%	Closed-End Funds	11%
Preferred Stocks	3%	Holding Companies & Other	11%
Debt and Other	1%	Equity Hedges	-6%
Mortgage Reits	1%	**International Equity**	**59%**
Business Development Companies	0%	Closed-End Fund	55%
International Fixed Income	**5%**	Holding Companies & Other	4%
Closed-End Funds	5%	**Crypto (Long)**	**24%**
		Cryptocurrency Hedges	**-23%**
		Net Exposure	**102%**

Closed End Funds

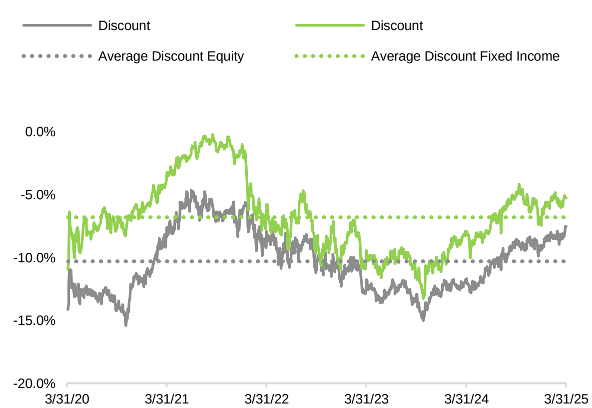
U.S. CEFs outperformed the market in the first quarter with a 2.0% return versus a -1.5% return for a 60/40 blend of U.S. equities (S&P 500) and fixed income (Bloomberg Aggregate). U.S. Equity CEFs performed particularly well with a 1.7% return versus a -4.3% return for the U.S. equities (S&P 500), led by greater underlying exposure to international and value stocks. Taxable and tax-exempt fixed income also performed well versus their respective indices (Figure 1.4). U.S. Equity and Fixed Income CEF discounts narrowed 1.5% and 1.6% over the quarter, finishing the quarter at 7.5% and 5.2% respectively, levels significantly tighter than their 5-year averages (Figure 1.5). As the market sold off in April, CEF discounts gave up their first quarter tightening and then some. However, as the equity markets recovered later in the month, discounts recovered some of this widening.

Figure 1.4: Q1 2025 Total Return of Closed End Fund Sectors vs Market Indices



Source: Almitas Capital, Bloomberg

Figure 1.5: 5-Year Median Equity and Fixed Income CEF Historical Discounts



Source: Almitas Capital, Bloomberg

Relative to their long-term, 25-year average discounts, U.S. Equity and Fixed Income CEFs finished the first quarter trading at their 26th and 49th discount percentile (Figures 4.6 and 4.7). Over the last 25 years (6,300 daily observations), discounts have been at narrower levels 26% and 49% of the time and wider 74% and 51% of the time. As a result, at 19%, it is measurably lower than normal.

Figure 1.6: 25 Year Median US Equity CEF Discount

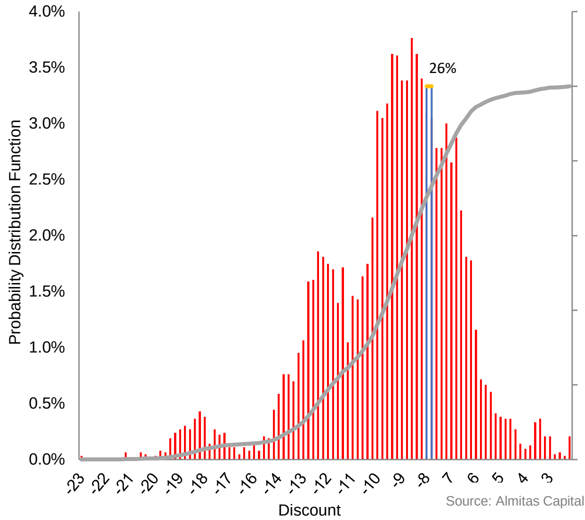
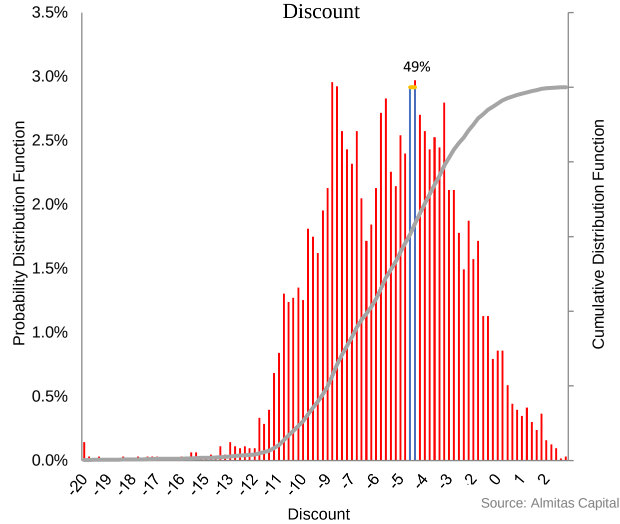


Figure 1.7: 25 Year Median US Fixed Income CEF Discount



In the UK, pressure from activists and value investors continues. We saw the first investment trust IPO in the U.K. since 2023 and it happened to be a fund with a mandate focusing on activism among the UK Investment Trusts (the U.K. name for Closed-End Funds). We also saw a large U.S. CEF activist launch several activism campaigns in the U.K during the quarter. As a result, fund boards and managers are becoming even more proactive in speaking to investors. I just spent a week in London and a number of Investment Trust boards and chairpersons were interested in soliciting our feedback. We are seeing greater emphasis on value creating corporate actions such as mergers, share repurchases, tender offers, and continuation votes. In March alone, there were several mergers announced in the alternatives CEF sector, especially among real estate funds.

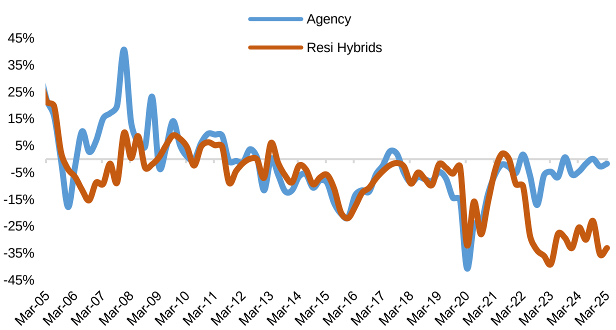
The renewable energy sector continues to be a disappointment, with discounts widening further in the first quarter. Even trusts managed by best-in-class managers have seen their discounts widen to over 30% of NAV. We added more to the renewable CEF sector during the first quarter and are continuing to focus research efforts in this area. At quarter end, CEF investments represented 88% of the Fund with the largest four markets being 58% U.K., 19% U.S., 8% Canadian, and 2% Australian listed CEFs.

Mortgage Reits

U.S. interest rates fell during the first quarter with the 10-year Treasury note yield declining 37 basis points (bps). Agency Mortgage yield spreads to Treasuries tightened early in the quarter but finished March slightly wider than at year end. We estimate that Agency Mortgage Reits generally earned their interest margins of 3 - 4% per quarter but lost 0 - 2% in book value. Overall, we expect Agency Mortgage Reits to post total returns of approximately 3% for the first quarter. In April the yield curve has steepened with short-dated Treasuries falling in rates more so than their longer maturity counterparts. Agency Mortgage spreads to Treasuries have widened modestly, leading to book value declines in the range of 2 – 5%. The Agency Mortgage Reit sector reached some of the highest premiums to book value in recent years during the first quarter, but since quarter end these premiums have diminished.

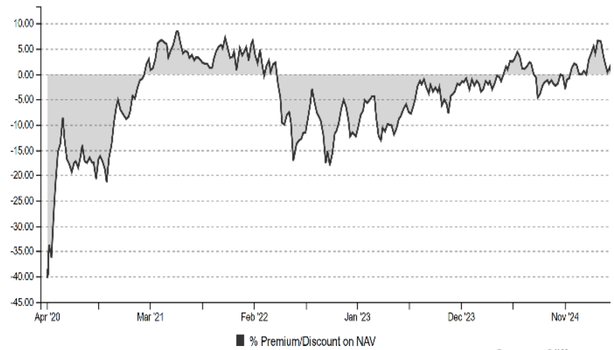
Residential and commercial credit mortgage Reits have not fared as well as their agency mortgage counterparts since the start of the year. We expect that increased credit spreads were a minor negative for book value performance in the first quarter, with continued spread widening since quarter end. We added modestly to Residential and Commercial Mortgage Reits during the first quarter and finished with 1% exposure to Mortgage Reits. Since quarter end, we have continued to add exposure.

Figure 1.8: Mortgage Reit Historical Discount/Premium to Book Value



Source: Almitas Capital, Bloomberg

Figure 1.9: BDC Historical Discount/Premium to NAV



Source: Cliffwater

Business Development Companies (BDCs)

BDCs posted a modest 1.2% return in the first quarter (Figure 1.2) after giving back some of the 4.75% returns from January, the highest of any month since November 2023. We have maintained an overall cautious view on the sector given the increased volume of capital chasing after opportunities in private credit; our experience tells us that when too many dollars chase a limited supply of a product, returns are usually worse on a forward-looking basis. We see the lack of covenants and lower spreads on new loans making it more challenging for BDCs to earn attractive risk-adjusted returns. We continue to find interesting tactical trading opportunities in BDCs given the significant dispersion in BDC discounts/premia but have looked to maintain a market-neutral position in the near term.

Final Thoughts

After a couple of years of market returns being driven by a handful of mega-cap stocks in the US, we believe that we are finally seeing a reversion to the mean. Investors are questioning if it makes sense to have more diversified portfolios, and those based outside the US are repatriating funds for investment into local markets. We believe that given our global focus, we are well-positioned to benefit from this change in fund flows and the shift away from all-out growth investing.

As we have described ad nauseum, we believe that the market, not unlike politics or sports, tends to have pendulum-like swings that can lead to extreme outcomes. While we may see intrinsic value for a security as $100, the tendency of the market pendulum to swing from between under and over valuation could result in the security trading as low as $70 or as high as $130. It is incumbent upon us not to get overly excited when the prices rally past our perceived value, nor to get glum when prices drop; our job is to understand market sentiment and take contrarian views where appropriate.

In our Q3 2023 investor letter, we detailed how CEFs were at historically wide discounts, and how we sought to take advantage; in hindsight, this was a terrific time to invest, and our returns in the intervening 18 months demonstrated this. While we do not currently see as clear of a buying signal as we did then, we are beginning to see increased divergences from intrinsic value in many of the securities that we follow and are looking to take advantage by repositioning into these names. After what was an admittedly frustrating year where we felt our opportunity set was suboptimal, we now see a change in market conditions that imply more favorable investment opportunities. After taking a brief pause on accepting new capital, we are becoming more constructive on our ability to deploy additional capital.

It is that time of year again and we are once again headed to the Berkshire Hathaway annual meeting, the Warren's 60th. This year we are bringing 40 students from UCLA and USC along with many friends. If you are going to be in Omaha for the conference and would like to say hello, please reach out and we can save you a seat for the main event.

We usually get in line around 3:30 am to ensure our large group gets good seats together and thoroughly enjoy chatting with our fellow attendees. We will have plenty of coffee and Danishes so come on by if you are an early riser.

We will be out with our next investor letter in July. Until then, we hope you enjoy the return of warmer weather. As always, we are grateful for your support and partnership.

Ron Mass
Managing Principal

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This is not an offer to sell nor a solicitation of an offer to purchase interests in the Almitas Opportunity Fund, LP (the "Fund"). Securities of the Fund are offered to selected investors only by means of a complete confidential private placement offering memorandum (the "Memorandum") and related subscription materials which contain significant additional information about the terms of an investment in the Fund. While all the information prepared in this document is believed to be accurate, Almitas Capital makes no express warranty as to the completeness or accuracy of such information, nor can it accept responsibility for errors appearing in the document. This report is strictly confidential and intended exclusively for the use of the person to whom it was delivered by Almitas Capital. This report may not be reproduced or redistributed in whole or in part.

Performance results of the Fund are presented for information purposes only and reflect the impact that material economic and market factors had on Almitas Capital's decision-making process. Net quarterly returns are net of all fees to the investor. However, performance of individual investors may vary based upon differing management fee and incentive allocation arrangements, and the timing of contributions and withdrawals. All data, unless specified, is based on monthly returns of the Fund since 12/31/2013 based on a 1% management fee and 15% incentive fee, which are the maximum fees investors could be charged pursuant to the Fund's offering documents. Almitas Capital has the discretion to otherwise waive or lower fees for any particular investor. Performance was calculated using the Modified Dietz methodology to weight for intra-month flows on a daily basis. Performance numbers were prepared by Almitas Capital, and have not been compiled, reviewed or audited by an independent accountant. Performance estimates are subject to future adjustment and revision. The information provided is historical and is not a guide to future performance. Investors should be aware that a loss of investment is possible. Past performance is not indicative of future returns.

The investments discussed in this letter do not represent all of the investments purchased, sold, or recommended for the Fund. It should not be assumed that investments made in the future will be profitable or will equal the performance of the securities discussed. Additional information about the Fund's holdings and performance during the quarter will be provided upon request.

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Substantial risks are involved in investing in securities and other investment instruments. The prices of many of the securities and other investment instruments in which the Fund invests are highly volatile and market movements are difficult to predict. Investment analyses and decisions may frequently be required to be undertaken on an expedited basis to take advantage of investment opportunities. In such cases, the information available at the time of making an investment decision may be limited, incomplete or erroneous, and therefore no assurance can be given that all circumstances that may adversely affect an investment will be known. Depending upon the investment strategies employed and market conditions, the Fund may be adversely affected by unforeseen events involving such matters as political crises, military actions, terrorist attacks, natural disasters, public health issues (including viral outbreaks such as the COVID-19 coronavirus), changes in currency exchange rates or interest rates, forced redemptions of securities or acquisition proposals, regulatory intervention or general market conditions creating illiquidity or pricing anomalies or value impairment.

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Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. Under no circumstances does the information contained within represent a recommendation to buy, hold or sell any security, and it should not be assumed that the securities transactions or holdings discussed were or will prove to be profitable. There are risks associated with purchasing and selling securities and options thereon, including the risk that you could lose money.

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