KARL KAPITAL

3Q'25 Newsletter

"Obviously, there has been fraud in the market, but besides the fraud, we think credit is fine." – executive for a leading private credit fund

"I feel like a teenage girl that just realized Taylor Swift is a sellout." – Steve Fullerton after a company reported poor results

"Sell before the shovels touch the dirt." – an old investing adage that reminds us of today's data center craze

	Quarter-to-Date September 30, 2025	Year-to-Date September 30, 2025	Inception-to-Date September 30, 2025
P2 NEXXT FUND II LP[1] (pro forma net)	**5.6 %**	**16.1 %**	**96.1 %**
Standard & Poor's 500 Index (SPX)	*8.1 %*	*14.8 %*	*146.5 %*
Financial Select Sector SPDR (XLF)	*3.2 %*	*12.6 %*	*115.7 %*
Russell 2000 (RTY)[2]	*12.4 %*	*10.4 %*	*73.7 %*
P2 NEXXT OFFSHORE MASTER FUND LP[3] (pro forma net)	**5.5 %**	**16.3 %**	**53.5 %**
Standard & Poor's 500 Index (SPX)	*8.1 %*	*14.8 %*	*119.9 %*
Financial Select Sector SPDR (XLF)	*3.2 %*	*12.6 %*	*146.6 %*
Russell 2000 (RTY)	*12.4 %*	*10.4 %*	*76.4 %*

[1] The returns listed above for **P2 Nexxt Fund II LP** (a 3(c)(1) fund; the "Fund") are unaudited estimates generated by Karl Kapital which are subject to modification by our independent administrator and/or auditors. The Fund performance figures are net of all fees and expenses, including management fees (1.5%) and the performance allocation (20% if applicable). Fund returns are inclusive of the reinvestment of dividends and other earnings, including income from new issues. The Year to Date and Inception to Date performance figures have been calculated using a hypothetical investor that made an initial investment on day 1, October 1, 2019, and pays full fees, (1.5%/20%) with no intra-year contributions or withdrawals. The performance statistics from October 2019 to October 2020 are from a proprietary account which was not subject to any administrative/operating expenses, management fees or performance allocation and did not participate in new issues. A model 20% performance allocation and 1.5% management fee, representing the expected fees applicable to typical fund investors, has been applied retrospectively. The performance of the Fund, which may pay possibly differing fees and expenses and participate in new issues, may differ, perhaps materially, from the performance shown and does not reflect the performance of any other funds or accounts managed by Karl Kapital. Individual investor returns may vary based on the timing of their contributions, withdrawals and/or varying fee arrangements. Please note that this table contains unverified performance estimates and may be subject to change. Past performance is not a guarantee of future returns. This is not an offer or a solicitation to invest in P2 Nexxt Fund II LP. All indices comparison returns are shown with dividends reinvested.

2 Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees or expenses. Past performance does not indicate future performance and there is a possibility of a loss.

[3] The returns listed above for **P2 Nexxt Offshore Master Fund LP** (a 3(c)(7) fund; the "Fund") are unaudited estimates generated by Karl Kapital which are subject to modification by our independent administrator and/or auditors. The Fund performance figures are net of all fees and expenses (excluding direct feeder funds operating expenses), including management fees (1.5%) and the performance allocation (20% if applicable). Fund returns are inclusive of the reinvestment of dividends and other earnings, including income from new issues. Inception to Date performance figures have been calculated using a hypothetical investor that made an initial investment on day 1, November 1, 2020, and pays full fees, (1.5%/20%) with no intra-year contributions or withdrawals. The returns only reflect the performance of Fund and do not reflect the performance of any other funds or accounts managed by Karl Kapital, including, as applicable, that of any onshore or offshore feeder fund of a specified portfolio. Individual investor returns may vary based on the timing of their contributions, withdrawals and/or varying fee arrangements. Please note that this table contains unverified performance estimates and may be subject to change. Past performance is not a guarantee of future returns. This is not an offer or a solicitation to invest in P2 Nexxt Offshore Master Fund LP. All indices comparison returns are shown with dividends reinvested. P2 Nexxt Fund II LP and P2 Nexxt Offshore Master Fund LP ordinarily invest in parallel, however, the performance of each of the funds may differ, perhaps materially, due to a number of factors including without limitation that each may pay differing fees and expenses or participate in new issues. Karl Kapital, LLC began managing the Funds effective as of January 1, 2025. Prior to this date, the Funds were managed by Phase 2 Partners, LLC.

Third Quarter 2025 Review

Nexxt II returned +5.6% net for the quarter, exceeding the 3.2% total return of the XLF (the Financial Services ETF) and capturing the majority of the S&P 500's return despite the fund maintaining very low net exposure. Our consistency continued, posting positive returns in each of the three months (+0.7%, +2.4%, +2.4% net). For the year, we are ahead of all major indices while maintaining very low volatility (our worst month this year is down 20bps). Because this is a third quarter update, rather than a year or half-year, we plan to keep this letter succinct with an eye to elaborate more at year end along with themes for 2026. The best way to highlight our outsized returns balanced with consistency and low volatility is to simply highlight the numbers below for our last twelve months.

Last 12-Months Performance												
Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep-25	Total
1.6%	6.5%	-0.4%	-0.2%	0.8%	0.1%	3.8%	3.5%	1.7%	0.7%	2.4%	2.4%	25.0%

P2 Nexxt II LP returns net of fees. See first page for full disclosures. [4]

Last quarter we highlighted that we achieved the hedge fund pinnacle: producing positive returns in every subsector we cover. We admittedly slipped this quarter with just two subsectors producing losses (fintech and insurance), although the losses in both were limited. Banks led returns this quarter and for the year. Our bank themes, which skew to European banks, continue to generate solid results. Brokerage/asset management was the second largest contributor, followed by mortgage finance/homebuilders.

Third Quarter 2025 Sector Performance*		
Sectors	**Gross**	**Net**
Banks	4.3%	3.7%
Brokerage / Asset Management	1.0%	0.9%
Mortgage Finance / Homebuilders	0.7%	0.6%
Specialty Finance	0.6%	0.5%
Non-Financial	0.1%	0.1%
Insurance	(0.1%)	(0.1%)
Financial Technology	(0.2%)	(0.2%)
Total	**6.5%**	**5.6%**

**P2 Nexxt II LP*

Note: Sector net performance= (fund net performance/fund gross performance) x sector gross performance.
The sector gross returns are based off raw stock performance.

[4] The performance results shown for periods prior to January 1, 2025, represent the performance of accounts managed at another entity, Phase 2 Partners, LLC. The persons primarily responsible for achieving the prior performance results now manage accounts at Karl Kapital LLC. The accounts managed at Phase 2 Partners, LLC are sufficiently similar to the accounts managed at Karl Kapital LLC such that the performance results provide relevant information to clients and investors. All accounts that were managed in a substantially similar manner are included in the performance results unless the exclusion of any such account would not result in materially higher performance and does not alter the presentation of any applicable time periods.

In the bull market we have experienced since the April tariff fear lows (S&P 500 positive each of last five months), it's not surprising that all five of our top individual name winners were longs. Mercury General (MCY), the auto/homeowner insurer, was our top winner. As previously discussed, we made Mercury the fund's largest position when skeptics predicted the Palisades Fires would make the company insolvent. Our analysis was correct. MCY's second quarter earnings were 131% above estimates, and the stock has doubled from its low. We have reduced our Mercury position. Close Brothers (CBG LN) in the UK was our second largest winner and part of our 'Lighter UK Regulation' theme. Close is the most exposed lender to the UK's review of the auto finance industry. We bought CBG shares at 30% of tangible book, a price we felt adequately discounted for the likely liability. We still believe the court rulings and FCA proposals are unfriendly to business, but manageable, and Close Brothers' shares have doubled this year. We exited Close Brothers. Mr. Cooper/Rocket (the companies merged this year), we highlighted the last two quarters. We shouldn't be so redundant, but our conviction was so high we couldn't resist. Shares reached our bull case scenario in less time than we expected, to prices we estimated to reflect deal synergies that had yet to happen and a normalization to mortgage volumes that is yet to occur. We exited the position, crystallizing it as our third-largest winner in the third quarter. Flywire (FLYW), the college payments company, was the #4 winner after posting better-than-feared second quarter results. The market is concerned that student visa restrictions will hurt Flywire's prospects, and we agree, but feel investors are overlooking Flywire's international exposure to markets that are benefiting from this shift. Rounding out the top five was a familiar name, Futu (FUTU), the Hong Kong-based online broker that has been on our leader board several times over the last two years, begging the question, 'Why weren't we bigger!?' Retail trading globally is on fire and no fire burns hotter than Futu's 40%+ account growth.

On the losing side of the portfolio, we did a better job of mixing longs and shorts. Our biggest loser was a short on a fintech company. Keeping this in perspective, the basis points lost on our largest loser was less than the basis points made on our sixth largest winner. Fortunately, we kept this position small. The shares have gone well past any fundamental valuation metrics. A short on a European bank (one of our few European bank shorts) was the second largest detractor as the shares rallied with the group and reported fine results. Eurazeo (RF FP), a private equity investor and manager we have highlighted previously, was the third largest loser. The June half-year results had disappointing negative portfolio marks, mostly driven by FX translation (the Euro rallied over 13% against the dollar) and shortly after the results, shares were eliminated from the MSCI Europe Index, which led to a selloff. The good news is that at this price, the €400m buyback is even more accretive. Skyward (SKWD), a specialty insurer, was the #4 loser in the quarter despite still being a winning position on the year. Competition in the E&S business has increased, pressuring prices and volumes at some peers, but many of these issues are not directly impactful to Skyward and we have increased our position as we view the shares as overly discounted. Finally, our long-held position in Kemper Insurance was our fifth-largest loser. Kemper pulled another Kemper and managed to miss second quarter estimates by 20c despite favorable industry trends. We have exited Kemper.

Third Quarter 2025 Winners & Losers*	
Winners	**Losers**
Mercury General	FinTech Short
Close Brothers	European Bank Short
Mr. Cooper	Eurazeo
Flywire	Skyward Specialty Insurance
FUTU	Kemper

**P2 Nexxt II LP*

<u>Outlook: 4Q'25</u>

Our net exposure currently stands at 30% on a dollar basis and 27% on a beta basis, near the midpoint of our targeted 20 to 40% net exposure over time.

Our top five holdings are Encore Capital (ECPG), Flywire (FLYW), Eurazeo (RF FP), NatWest (NWG LN), and Skyward (SKWD). These names have been highlighted in previous letters, so we will give brief updates on each.

- **Encore Capital** is the leading debt collection company in the US. The year started out rough when they took a large impairment to goodwill and portfolio marks with fourth quarter results. However, we could see via the cash collection vintages that actual cash collections were improving, and purchases were at record levels. Encore reported a beat to 1Q EPS estimates by 68% and 2Q EPS by 76% and we see trends continuing to accelerate. 2025 earnings estimates started the year at $6.65 and currently stand at $8.25, a 24% increase; yet shares are down 10%, compressing the P/E multiple to 5x. Fortunately, we are patient and believe it is unsustainable to have a growing earnings stream with a declining stock price and we still expect to be rewarded.

- **Flywire** is a name we have highlighted in the past as a leading international student payments platform. This year we initiated a long position following the shares trading down off of headwinds from the current administration deterring international students from coming to the US. While these headwinds exist, we believe the market is overlooking the company's much larger exposure to international markets, which account for over 70% of the education business versus the US at ~30%. We have seen initial signs of students choosing destinations such as the UK as an alternative to the US and believe that these tailwinds more than offset the headwinds experienced in the US. At just 8x EBITDA, with organic revenue growth of 15% and EBITDA growth over 30%, we view the shares as more than discounting any visa headwinds, and potentially an attractive target for private equity.

- **Eurazeo**, as mentioned earlier, the market was disappointed that Eurazeo took some small negative marks to their portfolio in 1H25, primarily driven by movement in FX. But let us focus on a few of the positives. Third-party fee-paying AUM was up over 4% in six months, realizations and capital return are on track to be 20% of the portfolio year-to-date or approximately twice the rate of the industry (keep in mind that lack of capital return has been private equity's biggest challenge in recent years), the dividend was increased by 10% and the company is on pace to buyback 9% of shares outstanding in 2025. We believe it is not coincidental that Eurazeo is more aggressive in taking negative marks (i.e., marking the portfolio more conservatively) and also able to liquidate more of their portfolio, while we suspect much of the private equity industry is unable to achieve exits due to portfolio marks that are above realizable levels.

- **Natwest** is one of the largest banks in the UK and is focused on retail and commercial banking domestically. We have held the shares for nearly 16 months as part of our 'Golden Age for UK Banks' theme, as declining regulation, improving growth, and structural hedge tailwinds provide an incredible backdrop for earnings growth over the next several years. We continue to see all of these trends remaining in place and at just 7x earnings with a nearly 20% ROTCE, we still see significant upside in the shares.

- **Skyward Specialty** was first highlighted in our first quarter newsletter and has since continued to differentiate itself within the specialty P&C and E&S markets. Skyward's mid-teens ROE and 17% written premium CAGR have resulted in a near doubling of EPS since 2023. Skyward's competitive moat comes from focusing deep domain expertise on niche markets. Examples include hospitals serving military bases, bonding for oil and gas well decommissioning, and crop reinsurance. We believe the runway for growth continues to be strong in their specialty verticals. Skyward recently added M&A to its list of tailwinds, acquiring a Lloyd's syndicate manager for less than 10x EBITDA. The fee-income nature of this brokerage business will add to Skyward's capital efficiency, product portfolio and distribution. Skyward currently trades at just over 10x our '26 EPS estimate, a 50% discount to the closest comparable, RLI Corp (RLI).

Operational

No material operational updates to report this quarter.

Thank you for all the support,

Karl Kapital

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