



KARL KAPITAL

2Q'26 Newsletter

“The only AI you have in your fund is actual intelligence!” – an investor

“Our mentality has to be 0-0, the way it's been. It has to be that way. Us moving forward with that mindset can really benefit us, but there's nothing to celebrate. It's not over yet. Not even close.” – Jalen Brunson

“Aerodynamics is for people that can't build engines.” – Enzo Ferrari

	Quarter-to-Date June 30, 2026	Year-to-Date June 30, 2026	Inception-to-Date June 30, 2026
P2 NEXXT FUND II LP¹ (pro forma net)	22.8 %	15.4 %	140.9 %
<i>Standard & Poor's 500 Index (SPX)</i>	15.2 %	10.2 %	178.9 %
<i>Financial Select Sector SPDR (XLF)</i>	9.0 %	(1.3) %	117.2 %
<i>Russell 2000 (RTY)²</i>	21.6 %	22.7 %	117.1 %
P2 NEXXT OFFSHORE MASTER FUND LP³ (pro forma net)	22.1 %	15.1 %	88.0 %
<i>Standard & Poor's 500 Index (SPX)</i>	15.2 %	10.2 %	148.8 %
<i>Financial Select Sector SPDR (XLF)</i>	9.0 %	(1.3) %	148.4 %
<i>Russell 2000 (RTY)</i>	21.6 %	22.7 %	111.9 %

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.



2Q26

Nexxt II had a positive return of 22.8% net of all fees for the second quarter of 2026, outpacing relevant benchmarks. The overall market was strong - the S&P 500 posted +15.2%, and financials (our area of focus) lagged, with the XLF posting a less impressive +9.0%. Typically, our hedged strategy is expected to underperform in such a bullish environment, but not this quarter, as every area of the portfolio contributed to performance. Every subsector we track generated positive performance, and perhaps most impressive is that most of our subsectors lost less than 100 bps on the short side despite a strong tape, with one subsector showing positive performance on the shorts. Performance was wide and diverse. We were profitable each month of the quarter, and no subsector contributed more than 30% to total net performance. Only four times has the team produced over 9% net monthly return; two of those times were in the current quarter. Unfortunately, as financial analysts, we simply do not have the vocabulary skills necessary to describe our excitement over this quarter's performance (and we are too stubborn to use AI to write this letter). What gives us the most satisfaction this quarter is that our returns were a function of our stock-specific decisions rather than excess net exposure. Our net exposure remained in our targeted 20-40% range, so returns were driven by the long/short spread. Given the continued dislocations across our coverage from geopolitical uncertainty and the market concentration in AI/semis (two areas we do not touch), we continue to be incredibly excited by the opportunity set in front of us.

Last 12-Months Performance												
Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Total
0.8%	2.4%	2.4%	(0.1%)	3.7%	2.7%	(0.9%)	(0.9%)	(4.1%)	9.6%	1.2%	10.8%	29.7%

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

Although the year started slow, our year-to-date numbers are now well ahead of where we stood at this time last year. Through the first six months of 2026, Nexxt II is up 15.4% net, again ahead of every major relevant index, except the small-cap Russell 2000. The most relevant comparison to our strategy, the financial sector ETF XLF, experienced negative returns in the first six months of the year of -1.3%, making Nexxt II's 15.4% net performance even more impressive. Since inception, P2 Nexxt's performance has exceeded the XLF despite only running at approximately 30% net exposure to the market and low correlation.

Like 2025, the year started with politically driven volatility. Last year, tariff announcements spooked the market, and economists waited for the economic consequences that never came. In 2026, the Iran war and its impact on oil, interest rates and inflation scared the market temporarily, and the market came roaring back on expectations for a quick resolution that has yet to happen. The Iran war is now in its fifth month, with resolution right around the corner in at least three of those five.

Offsetting the war's impact has been the overall strength of the economy and the US consumer. In the face of such negative headlines, we maintained our positioning and themes by following the data. As we have discussed many times with each of our investors, we maintain proprietary data sets on all our subsectors. What we have seen throughout 2026, and continue to see in the data, is strong consumer spending patterns, strong consumer credit, active capital markets both for institutional issuance as well as retail trading, and healthy bank balance sheets.



Nexxt II was profitable in all seven of the subsectors we track. The diversity in performance contribution was impressive this quarter, with five of the seven subsectors contributing 4% gross or more in the quarter. Banks were the best performing subsector despite only one bank making the top five winners list (so bank contribution was wide). Banca Monte Dei Paschi (BMPS IM) in Italy was our largest bank winner following its takeover proposal from Intesa Sanpaolo (ISP IM). Brokerage/asset management was the second-best performing subsector, contributing positive returns via both longs and shorts. FlatexDEGIRO (FTK GR) in Germany, a thematic winner on German pension reform, was the largest contributor to brokerage but did not make the top five winners – again showing the diversity of returns. Financial technology/business services was the third best performing subsector and benefited from two of the fund's top five winners for the quarter – Flywire (FLYW), which we will discuss later, and Affirm (AFRM), which we highlighted in our last letter. Mortgage finance/homebuilders was the fourth largest contributor, benefiting from a new investment in Compass (COMP) discussed below. Specialty finance, the fifth largest contributor, still contributed nearly 400 bps to gross performance. Specialty finance benefited from the much discussed (some would say too much) position in debt collector Encore Capital (ECPG), a top five winner for the quarter. Insurance and non-financials were the remaining subsectors, both contributing positively to performance.

All of our top five winners were long positions and, unlike recent quarters that have been dominated by foreign winners, this quarter, four of the five top winners are US companies. Flywire was the firm's biggest winner for the quarter and one we have highlighted in past newsletters as a top holding. Flywire continued to deliver strong results despite the student visa headwinds it faces in some of its core markets, topping both revenue and EBITDA expectations during the quarter. Compass, the largest brokerage firm in the U.S. was the fund's second largest winner and a key beneficiary of our new theme “Healing Housing Market”. Affirm, the buy-now-pay-later company, was the third largest winner. As discussed in last quarter’s newsletter, we believed the market was overly discounting fears surrounding consumer credit and funding, providing an excellent entry point for what we view as a scaling and highly profitable company. The company delivered on this outlook during its investor day in May, helping the shares to gain nearly 80% during the quarter. We have since exited the position. The overly discussed Encore Capital was the fourth largest winner. The company continues to exceed estimates with full year 2026 estimates now 60% above where the year started. Finally, our multi-year holding in Banca Monte Dei Paschi was the fifth largest winner as the former and now current CEO Luigi Lovaglio successfully regained control of the company and board in April after being dismissed earlier in the year. In June, larger rival Intesa Sanpaolo made a takeover offer for the company in June, highlighting the bank’s underlying value.

Four of our top five detractors were shorts and, to put these losses in perspective, the largest loser lost less than our eighth largest winner. The biggest loss was in a transportation logistics company that we made money in during 2025 and in the first quarter of this year but rallied during the quarter on improving trends in transportation. We have since exited the position as our data shows trends continuing to improve. Futu (FUTU), the Hong Kong-based online broker that we have highlighted many times as a top winner, was our second largest loser in the second quarter. In a quarter that experienced record retail trading activity, this retail broker was unfortunately caught up in a Chinese government crackdown on investor money leaving the country and Futu was fined along with several of its peers. A short on what we believe is an overvalued investment bank was the third largest loser. While we fully acknowledge that trading is robust and capital markets wide open, we believe the company is



overearning with little valuation support in a normalized environment. A short on a Spanish bank was the fourth biggest loser. Finally, a short on a title insurance company rounded out the top five losses.

Second Quarter 2026 Sector Performance*		
Sectors	Gross	Net
Banks	6.3 %	5.6 %
Brokerage / Asset Management	5.1 %	4.6 %
Fintech / Business Services	4.9 %	4.4 %
Mortgage Finance / Homebuilders	4.3 %	3.9 %
Specialty Finance	3.9 %	3.4 %
Insurance	0.6 %	0.5 %
Non-Financial	0.4 %	0.3 %
Total	25.5 %	22.8 %

*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.

Second Quarter 2026 Winners & Losers*	
Winners	Losers
Flywire	Transportation Logistics Short
Compass	Futu
Affirm	Money Center Bank Short
Encore Capital	European Bank Short
Banca Monte Dei Paschi	Title Insurance Short

*P2 Nexxt II LP

Year-To-Date

Similar to the second quarter, the diversity of results year-to-date was excellent. The portfolio was positive in six of its seven subsectors and returned positive performance on both longs and shorts. Specialty finance was the largest contributor in the first half, with positive returns on both longs and shorts, and the fund's biggest winner year-to-date in Encore Capital. Financial technology/business services was the second-best performing subsector, also delivering positive returns on both longs and shorts, led by longs in Affirm and Flywire and a short in a consulting company (we have since covered following weak second quarter results). Mortgage finance and banks were essentially tied for third and fourth driven by the homebuilders and Compass in mortgage, and the European banks. Finally, brokerage/asset management was our fifth best performing subsector, driven by positive short performance on our negative private equity theme. Non-financials rounded out the winning subsectors, while insurance was our only negative subsector subtracting just 21bps of gross performance.



By name, the largest year to date winners are names previously discussed or highlighted below: Encore Capital, Compass, Affirm, and Flywire. The exception is the fifth largest winner, AJ Bell, a UK-listed investment platform serving direct-to-consumer investors and advisors. AJ Bell (AJB LN) is benefiting from several factors: 1) new regulatory rules for 'Targeted Advice' enabling direct-to-consumer platforms to serve more clients, 2) struggles at recently taken private Hargreaves Lansdowne pushing many clients to AJ Bell and others, and 3) UK government initiative to entice savers to invest for their own retirements.

Detractors for the year are Futu, on the regulatory crackdown, United Wholesale (UWMC), a mortgage originator that made a desperate and failed attempt to acquire Two Harbors (TWO), Wealthfront (WLTH), a robo-advisor offering and recent IPO that failed to meet growth expectations, Eurazeo (RF.FP), the private equity portfolio and manager discussed in previous letters which was hurt from disappointing fourth quarter 2025 results, and a short on a UK asset manager that was taken private at a large premium.

Year-to-Date 2026 Sector Performance*		
Sectors	Gross	Net
Specialty Finance	5.8 %	4.6 %
Financial Technology	4.4 %	3.4 %
Mortgage Finance / Homebuilders	3.5 %	2.8 %
Banks	3.3 %	2.6 %
Brokerage / Asset Management	2.1 %	1.7 %
Non-Financial	0.7%	0.6 %
Insurance	(0.2) %	(0.2) %
Total	19.7 %	15.4 %

*P2 Nexxt II LP

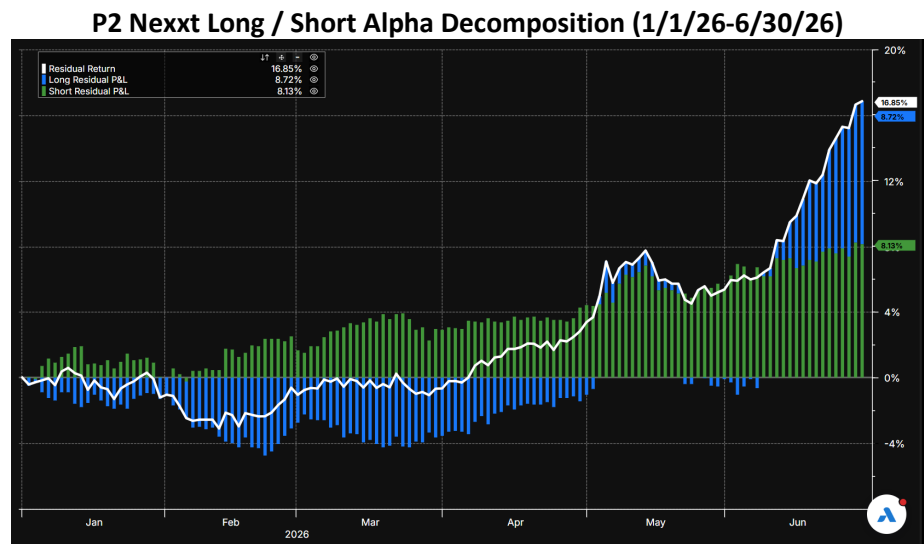
Note: Sector net performance= (fund net performance/fund gross performance) x sector gross performance.
The sector gross returns are based off raw stock performance.

Year-to-Date 2026 Winners & Losers*	
Winners	Losers
Encore Capital	Futu
Compass	United Wholesale
Affirm	Wealthfront
Flywire	Eurazeo
AJ Bell	UK Asset Manager Short

*P2 Nexxt II LP

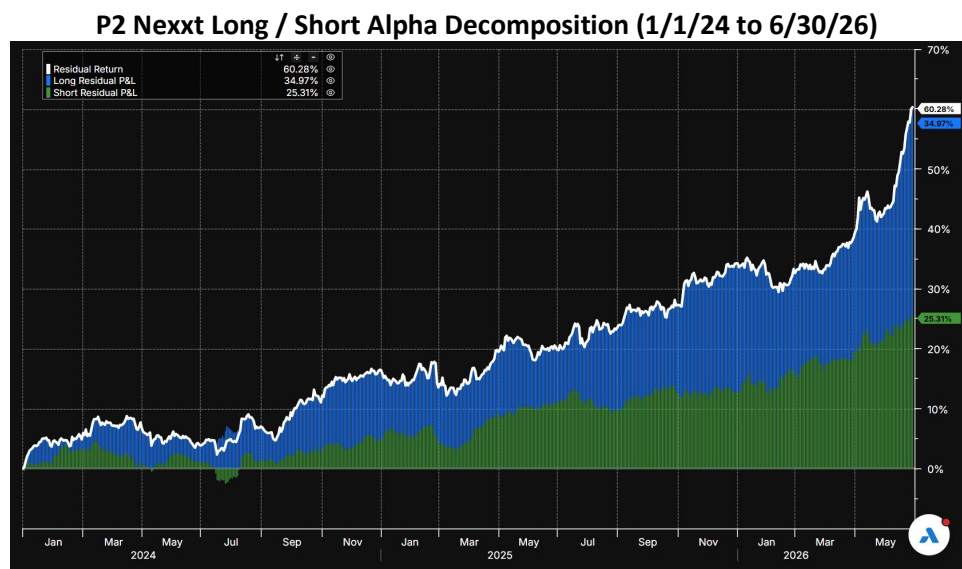


A new tool in our risk management framework has been the addition of more robust factor analysis and monitoring. While traditionally it is difficult to quantify the positive contributions from short positions, as the market generally rises over time, these tools have given us further insight into our return attribution. Importantly, year-to-date ~84% of our gross returns are from alpha (stock picking), with our alpha almost evenly split between both our longs and shorts. We believe that over time the strength of any portfolio comes from positive stock selection contribution on both the long and short side of the portfolio, so we are excited to share this data with our investors.



Source: Arcana, MSCI

Also important to us is the consistency of this performance over time. With 2.5 years of data following changes to our risk management on the short side at the beginning of 2024, the results have been excellent. We have driven significant alpha on both the long and short side of the portfolio with ~42% of our alpha coming from short performance. While on the surface there has been less excitement on the short side of the portfolio over the past several years, the data shows the effectiveness of our changes.



Source: Arcana, MSCI



Outlook: 2026

By this point in the year, we would have expected Washington headlines to slow as we approach the midterm elections. However, the Iran war seems to have no end. But sticking with the fundamentals and economics, it is reasonable that the stock market has performed so well. AI may or may not be a speculative bubble, but the capital expense budgets are real and stimulative. One Big Beautiful Bill tax benefits are a tailwind to the consumer and entice investment. We are seeing it in the data – consumers are spending, bank balance sheets are lending, capital markets are open, M&A is growing, and credit is strong. We continue to see some issues in the private credit market, and we expect these to get worse in the second half of 2026, but we see these as isolated to a flawed product structure (Has anyone noticed that the private credit industry claims to have minimal credit issues but has returned less than 0.5% in 1H26?). We continue to be constructive, but cognizant that valuations are higher than they were three months ago.

Our top five positions currently are: Encore Capital, Compass, LPL Financial (LPLA), Flywire and Flatex. We have previously discussed Encore and Flywire, so below are highlights of the names we have not previously discussed:

- 1) Compass – Compass is our newest position within the top five and one we are quite excited about despite the current overhang on housing. Following its acquisition of rival Anywhere Real Estate, Compass is now the largest real estate broker in the US with approximately 340,000 agents and a 35% share of the transaction market nationally. We see the transaction as transformational for the company, providing it with true scale for the first time in the real estate industry. The scale is important both operationally, given the inherent leverage in the platform from a predominantly fixed cost basis at the corporate level (post-broker payouts), and strategically as it has dramatically changed the company's competitive positioning within the housing ecosystem.

The management team at Compass has done an excellent job growing EBITDA despite the housing market headwinds in recent years. This growth has been a result of strong expense management and execution. The Anywhere deal adds more flexibility to continue executing on this effort. We believe the company has provided conservative expense synergies in its original deal guidance, already upgrading synergies three times since the deal closed. Using analysis of other scalable platform businesses (most closely resembling the independent advisor markets), we see further synergy upside from the deal.

Competitively, the company now sits as the 800-pound gorilla for the housing ecosystem. What this means for Compass is that it is time to take back the economics in the brokerage industry that have been ceded to listing portals such as Zillow and Homes.com over the past fifteen years. To capitalize, the company has embarked on a "Private Listings" initiative, which we believe can create a closed loop network around their listing inventory. No more piggybacking from the listing portals that previously used free MLS data to drive consumer traffic. We are still in the early innings of this strategy and see monetization opportunities in the future with the recently announced Redfin/Rocket partnership as a great initial example.

Finally, we believe we are in the early stages of a normalizing housing market (discussed further in our "Healing Housing Market" theme below). While this could take several years to fully normalize, we see annual home transactions increasing nearly 40% during this time from a 4mn run rate currently to over 5.5mn annual transactions.



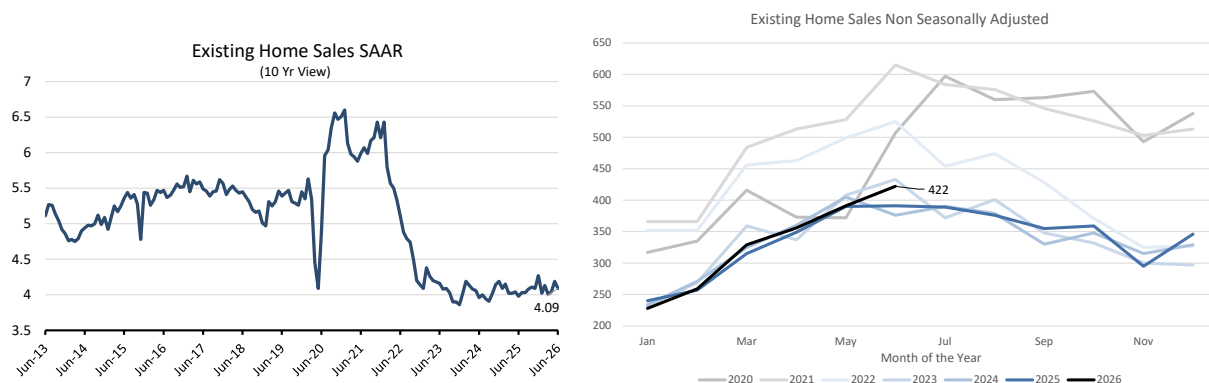
Combining a normalized housing market, deal synergies, and leveraging proprietary data, we believe Compass's annual EBITDA could grow to >\$2.5bn from the current Street estimates of \$800mn in 2026. With high free cash conversion, a shrinking debt load, and strengthening market share in the housing ecosystem, we see the historic 10x multiple as a fair, if not conservative multiple.

- 2) Flatex – is the leading independent online broker in Germany with significant presence in the Netherlands and Belgium. Flatex has been an incredible management-led turnaround. (We made money short Flatex in 2021 when old management was overly promotional.) Oliver Behrens became CEO in October 2024, and he quickly de-emphasized the higher-risk products, closed out legacy regulatory issues, and now has the company positioned to be one of the key beneficiaries of German pension reform and an overall push for Germans to move from savers to investors. On January 1, 2027, the German government will introduce an “early start pension”, a system where every child ages 6-18 receives €10 per month into a funded pension account, which can then be used to buy ETFs (very similar to Trump Accounts in the US). We believe this is the first step to filling the retirement funding gap. German corporate pension plans are pay-as-you-go, which has led to a dramatic underfunding of corporate pensions.
- 3) LPL Financial – is the leading independent platform for breakaway brokers leaving wirehouses. Over the last decade, LPL has been an incredible compounder. LPL provides back-end operations, product due diligence, and compliance for its brokers and monetizes its services largely through interest earned on client cash balances (similar to most other brokerage firms). In 2026's AI mania, the market has become convinced that cash balance earnings are at risk because retail investors will soon have an AI agent that optimizes cash allocations, reducing the brokerage platform's profitability. It is possible that this could be a risk many years out in the future, but it is not today and more importantly, the cash balances are simply the cash register LPL uses to monetize the services provided to customers (custody, statements, compliance, due diligence, etc.). We believe LPL can change its monetization mechanism, which not only ends the AI cash sorting fears, but could be extremely multiple-enhancing. We believe the market overly discounts LPL's multiple because it relies on interest income and related interest rate risk. If LPL shifts its monetization engine to all fee-based, fee-based advisor platforms in the private markets are worth twice LPL's current multiple. Additionally, LPL is finalizing the integration of a major acquisition so we believe 2H26 will see improved profitability and accelerating organic growth.



New Theme: Healing Housing Market

We are long companies that benefit from improving housing activity as we believe we are at the beginning of an inflection point in the housing market and are in the early stages of recovery while the shares of these companies price in little to no future improvement. Currently, existing home sales (EHS) remain depressed versus both the boom Covid years and pre-Covid levels, averaging just over 4mn of annual sales since 2022. The current EHS trends represent levels 35% below the Covid boom and ~25% below pre-Covid levels. On a housing stock adjusted basis the numbers look even more extreme with existing home sales running ~35% below pre-Covid levels. Higher post-Covid mortgage rates have hurt home affordability, but despite this, home sales have been resilient in the short run with sales up 8% year-over-year in June.

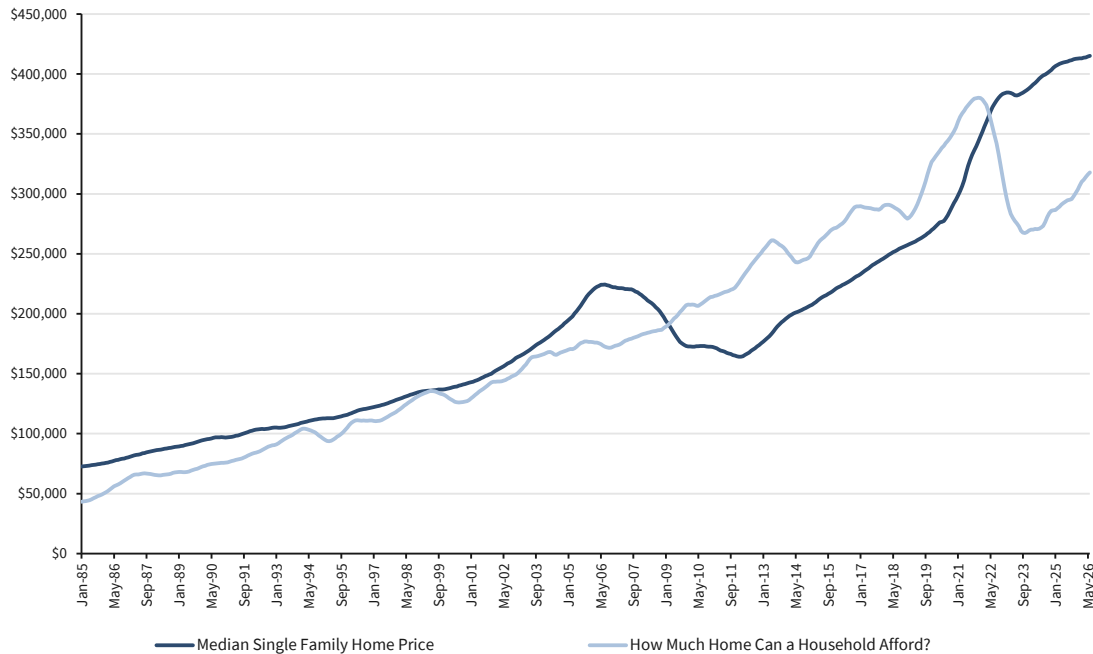


Sources: National Association of Realtors

There are several factors contributing to lower levels of home sales: 1) demand pull forward from 2020/21; 2) Low inventory levels following “golden-handcuff” mortgages of 2020/21; and 3) affordability levels declined to forty-year lows. These factors are thawing. Following three years of below-trend activity, underlying demand is rebounding with estimates of qualified homebuyers approaching pre-pandemic levels. Supply levels have also rebounded. Redfin shows active listings just 5% below 2019. The most important factor, affordability, remains a headwind, but is improving. Current consensus assumes mortgage rates need a steep decline to 4% to fix affordability, but time is a proper antidote. The three primary inputs to housing affordability are home price, mortgage rate, and income. While mortgage rates remain volatile, home price increases are slowing (decreasing in many MSAs as we have highlighted in our negative mortgage insurance theme) and wage growth is steadily increasing, making the current housing stock more affordable. If annual wage growth continues at 4%, we see a normalized housing market in the next three years, with stable mortgage rates and limited home price appreciation. The chart on the next page highlights the extremity of the recent affordability gap, but the recent improvements in the trend. We see the steps in place to a normalized housing market, suggesting activity levels 40% above the current state.



Affordability gap has been largest headwind to home sales but is improving.



Sources: National Association of Realtors, Census Bureau, BLS

As mentioned in our position discussion above, we are long Compass (COMP) as the primary beneficiary of these trends. We believe the real estate brokerage sector is the most directly impacted by increasing home sales versus mortgage originators that are subject to refinance origination trends, gain-on-sale margin volatility, and MSR marks. We are also long several housing-related names such as Somni Group (SGI), a mattress company formerly called Sealy Tempurpedic (mattress sales are correlated to housing turnover and spring-loaded for growth 😊), and Fortune Brands (FBIN).

Operational

On July 1st we launched our Market Neutral Fund and welcomed a new anchor investor for the strategy. For now, this is an SMA-only strategy, but we plan to launch a comingled product in the future. If you have any questions surrounding the strategy, please reach out to Rachael Clarke (rachael@karlkapital.com).

During the quarter, we had two personnel changes. Ian McBane finished his second tour with the team, re-retiring to support his family business. We wish Ian the best of luck and hope to see him at our next Hot Dog Lunch. Brian Lee joined us from CI Financial to support Andrew in bank coverage and insurance. Jack Spence will be working with Andrew to take on more responsibility for our real estate coverage. Finally, we are currently in late stages of adding a person in operations to support Rachael, further building out the team.

On more fun stuff, Jack Spence was married in May, the same day Justin's twins graduated from high school. Rachael's house is re-populated with college kids home for break and Andrew's son, Aidan celebrated his first birthday with friends, family, and a few stuffies.



The Karl team celebrated our successful second quarter by putting the pressure on newly hired Brian to pick the restaurant for our celebratory lunch. He picked Yank Sing, a well-known Dim Sum spot. Coincidentally, Yank Sing was also the first restaurant we went to when post-Covid reopenings started in 2021. Fortunately, we were able to leave our vaccine cards at home this time.

We also hosted over 35 people for our Hot Dog Lunch on May 1st. It was so much fun that we received many inquiries about the next one and now plan for this to be a quarterly tradition. With that, our next Hot Dog Lunch is scheduled for August 7th. If you are in town, we would love to have you come by – just RSVP to any of us.

Should you have any questions, please do not hesitate to call or email.

Thank you for all the support,

Karl Kapital



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