KATHMANDU CAPITAL

July 23, 2024

Dear Partners,

In the second quarter of 2024, the fund generated a return of 0.13% gross of fees and -0.40% net of fees. This compares to 3.85% for the Standard & Poor's 500 Index and 2.87% for our MSCI ACWI Total return benchmark. Since inception, we have realized a return of 22.07% gross of fees and 16.61% net of fees, versus 22.32% for the Standard & Poor's 500 Total Return Index and 18.98% for our MSCI ACWI Total Return benchmark.

Please refer to your individual investor statements for an accurate view of your return, as investor returns may vary by class and the timing of your investment.

Time Period	Kathmandu (Gross*)	Kathmandu (Net*)	S&P 500 (SPXTR*)	MSCI ACWI (ACWI TR*)
2023	**0.41%**	**-0.62%**	**6.99%**	**7.36%**
3rd Quarter (Inception)	7.56%	6.46%	-3.79%	-3.64%
4th Quarter	-6.65%	-6.65%	11.20%	11.03%
2024	**21.58%**	**17.34%**	**14.33%**	**11.30%**
1st Quarter	21.42%	17.80%	10.09%	8.20%
2nd Quarter	0.13%	-0.40%	3.85%	2.87%
Since Inception	**22.07%**	**16.61%**	**22.32%**	**18.98%**

*Data provided by NAV Consulting, TR = total return index

In the past quarter, our returns were primarily affected by short-term volatility in oil pricing. This was triggered by OPEC+'s below-expectation announcement to gradually phase out the production cut starting in October 2024, coinciding with our increased investment in the sector as new capital flowed into the fund. While the decision did not surprise us, as we anticipated the production cut would not last indefinitely, the market reacted sharply to the announcement, sending Brent crude net long contracts to a 10-year low. Although our portfolio has recovered the lost ground, with oil prices rebounding to the $80 range at the time of writing, we advise our partners to continue focusing on our long-term absolute returns as a more accurate benchmark of our investment performance.

Market Commentary

Over the past year, we have witnessed one of the longest bull markets in history, driven by optimism in AI development, with big tech companies like Nvidia leading the way, surpassing $3 trillion in market valuation. The rise of algorithms, quants, and heightened retail participation has further stretched market valuations, with the Shiller P/E ratio standing at 36.1x, the third highest in history. A study suggests that only 24% of S&P 500 companies have outperformed the market year-to-date, a historic low. This has resulted in a significant valuation gap between large-cap and small to mid-cap equities, as well as between emerging market and U.S. equities. This has also made it incredibly difficult for active managers, especially those running value-oriented, international-focused, small-midcap strategies, to outperform.

Despite operating in an investment environment unfavorable to small-midcap international value strategies, our performance has largely kept pace with the market over the past year. We believe this reinforces our belief that our portfolio is well-positioned to thrive in any market. As such, we will remain committed to our approach of identifying great undervalued businesses in inefficient markets overlooked by institutional investors and outperforming retail investors through deep research, thorough due diligence, and maintaining patient, long-term convictions.

Looking back, we made our share of mistakes over the past year, such as overestimating the Federal Reserve's rate cut actions and underestimating short-term volatility in the commodity market. Fortunately, these mistakes only led to reasonable volatility in our concentrated portfolio and did not result in any permanent loss of capital. We attribute this to our refusal to invest with leverage and our insistence on investing only in businesses with strong balance sheets that offer at least a 3:1 upside/downside margin of safety, while maintaining highly probabilistic market views that are approximately right rather than precisely wrong. Nevertheless, we acknowledge and embrace these mistakes, as they keep us grounded and open-minded, which are vital for our growth as investors.

Looking forward, we believe the market is like a pendulum that swings from one extreme to another, and once it reaches one extreme, it will always swing back. We are seeing signs of this shift, with emerging market equities remaining resilient despite global monetary tightening and small-midcap enterprises rising faster than their large cap counterpart as the market pricing in a near term rate cut. We are confident that, given enough patience, our investment approach will eventually regain market favor and outperform.

We are excited about the future and confident in our ability to navigate the challenges ahead, believing that our dedication to fundamental investing and our commitment to rigorous research will continue to guide us in delivering long-term value to our partners. That said, you, our partners, are the best judge of investment aptitude. We advise you to continue focusing on our long-term absolute returns as the true indicator of our investment attitude. As always, you are more than welcome to reach out to us if you have any questions or concerns.

Portfolio Update

At the end of the second quarter, our portfolio remains fully invested in the same five positions we held since inception as we continue to search for new additions to our holdings.

Below is the quarterly update on our current holdings:

Deep Value Gems

NagaCorp (3918.HK)

We conducted further due diligence on the company over the past quarter. We spoke with tourists, local tour guides, regulars at the casino, and people working at the Naga Citywalk duty-free, and confirmed that overall traffic at Naga 1 and 2 is trending towards pre-COVID levels. This trend aligns with the official tourism data posted in May, which showed Chinese tourism visitations up 50% YoY to roughly 30% of 2019 levels and Phnom Penh airport arrivals up 10% YoY to 78% of 2019 levels. We expect the recovery to accelerate with the new international airport adding more direct flights, especially from China, next year.

In the backdrop, the new prime minister Hun Manet, a childhood friend of Nagacorp's current CEO Chen Yiy Fon, continues to deepen international ties with neighboring countries. Beijing has appointed its highly regarded “wolf warrior” diplomat Wang Wenbin as Cambodia's ambassador, demonstrating a commitment to strengthening ties and investments in Cambodia. Meanwhile, the United States has sent its defense secretary to discuss military exchanges, and Japanese companies like MinebeaMitsumi and Tsuho have committed to investing $400 million into the country. We believe Cambodia will continue to attract record foreign direct investments and strengthen international ties, which bodes well for the country's economic development and political stability, ultimately benefiting Nagacorp over the long run.

That said, the market still have low expectations for Nagacorp, as it trades at a discount to its historical average and Macau peers. We believe the regional monopoly is on track for a rerating once it pays down its July 2024 debt overhang. Additionally, as tourism recovers and Nagacorp evolves into a more organic business in the post-junket world, we foresee a 100%+ share price upside by 2029 for investors patient enough to wait.

Cyclical/Secular Gainers

Oil and Gas Basket (*Undisclosed*)

WTI experienced more volatility than our initial projection of $80 at the low range, dropping from a high of $86.91 to a low of $73.25 before rebounding back to the $80s during the quarter. This fluctuation occurred as OPEC announced it could end supply reductions as soon as October, exacerbated by China's GDP growth and refinery activity falling below expectations. Despite this, our portfolio has recovered all lost ground, and we continue to see strong oil prices supporting our holdings into the election season, aided by robust summer travel demand, historically low domestic inventory levels, and OPEC-Russia strategically reducing exports to support domestic demand and, perhaps, a Trump presidency.

However, beyond further geopolitical conflicts and an extension of OPEC reductions, which we view as unpredictable events, we see no near-term catalyst to support further oil price advancement post-election. Instead, a likely Trump presidency could call for a "drill, baby, drill" scenario that disrupts the ongoing supply-demand dynamics and plummets oil prices. Although this could be offset by a more aggressive Federal Reserve rate cut and SPR replenishment, we find ourselves at a potential exit point this summer. We will monitor the sector closely as the situation evolves and keep you posted on our decision.

Quality Compounders

Kaspi.KZ (KSPI.NASDAQ)

Payment momentum and income growth continue to drive the business and generate 20%+ top and bottom-line growth. As the world enters the AI era, we believe Kaspi is well-positioned to ride this wave with the help of its extensive database and top engineering talent in Central Asia, a huge opportunity yet to be fully addressed by the market. We continue to view KSPI as the best flywheel business in the world, a regional monopoly that has morphed into a government-like entity, effectively taxing the entire Kazakhstan population.

All eyes are now on the company's international expansion plan, which we believe will become more concrete once the Ukraine war ends. We believe KSPI is well-positioned to capture international expansion opportunities, aided by the management team's strong track record of making big, calculated bets when the right opportunity arises. With Kazakhstan poised to remain an important trade corridor between the East and the West post-Ukraine conflict, and its increasing importance on the international stage due to its uranium and oil & gas resources, we continue to believe this high-quality compounder should warrant at least a 20x P/E multiple.

VusionGroup, formerly SES-imagotag SA (VU.EPA)

VusionGroup reaffirmed its 2024 target of achieving €1 billion in sales and improving its adjusted EBITDA margin by 50-100 basis points. Additionally, the company implied room for an upward revision to the 2025 guidance as Walmart accelerates its ESL implementation. We continue to see strong revenue upside and margin expansion opportunities, as the company hinted at onboarding another large U.S. client by year-end and broadened its VAS offering. Although competitors like Hanshow are aggressively building their U.S. operations, we believe VU still has an edge in U.S. penetration due to its early mover advantage and the ongoing geopolitical tensions between China and the U.S., which may intensify if Trump takes office.

Despite initially categorizing VusionGroup as a special situation investment, we now view it more as a quality compounder that can outgrow the economic cycle and benefit from inflation as retailers look to hedge inflationary pressures. We will continue to monitor the development as we head to Taiwan to conduct further due diligence on the company's upstream suppliers.

Closing

As Kathmandu Capital reaches its one-year mark, I would like to express my deepest gratitude to our partners for your unwavering support. Without it, our existence would not have been possible. Since the formation of Kathmandu Capital, our promise has been to provide satisfactory returns while upholding our partners' interests above all else. I hope we have not disappointed you in delivering this promise.

Looking ahead, we will continue to honor our commitments while striving to change the misconceptions about the hedge fund industry and its practitioners held by investors, especially those not familiar with such investment concepts in the East. We hope that, through our investor letters and diligent work, we demonstrate that hedge fund managers are not greedy capitalists gambling with your capital, but responsible stewards dedicated to capital preservation and capable of generating sustainable, satisfactory long-term returns. Our goal is not to set a higher standard but to establish a minimum bar for fund managers, emphasizing integrity, transparency, and long-term value creation.

To put weight behind our words, we have adopted Buffett's 0% management fee partnership structure and invested the majority of our net worth alongside our clients to ensure alignment of interests. We have also remained steadfast in the investment strategy we promised by turning down a $10 million commitment from an asset manager in Hong Kong—an investment that would have multiplied our asset under management—to avoid diverting our focus towards newly IPO stocks and short-term speculations.

We believe our integrity and character will set us apart and enable us to attract the right lifetime partners. After all, our conviction to adhere to these principles is what made us believe we were capable of starting our operations in the first place. While our fund is still in its early stages, with just a few million dollars of assets under management, we are keenly aware that fees could be a concern for our partners. As a result, we are pleased to announce that we have decided to override the terms stated in our subscription agreement and absorb all formation fees of the fund as a small gesture of appreciation to give back to our partners.

Although Kathmandu Capital is still an infant fighting for survival in this competitive business, we want to reassure you that, regardless of the circumstances, you can count on us to remain fully committed to the fund. We hope our words and actions serve as a testament that we will continue to strive to provide you with satisfactory long-term returns while always putting your interests at heart.

We look forward to another great year and many more to come.

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Following in the footsteps of Warren Buffett and numerous successful value investors, I am pleased to announce my acceptance into Columbia Business School's renowned Value Investing Program. Each year, the program selects only 40 first-year MBA students, and this year's selection process was more competitive than ever. Being chosen is a tremendous honor and validation. After all, a shot at getting into this program was the primary reason I chose to join Columbia Business School in the first place. I look forward to rigorous training from world-renowned investors and academics such as Michael Mauboussin and Tano Santos in the coming academic year, aiming to develop as an investor for the long-term benefit of our partners.

Operationally, our new cohort of interns has started their term. I am proud to announce that over the past year, our interns have achieved a 100% placement rate upon completion of their internship program. Among those leaving us, most have secured positions at local Taiwanese hedge funds or top investment institutions like J.P. Morgan, while others have chosen to pursue higher education, gaining acceptance into prestigious master's programs at universities like Cambridge. We wish them the best of luck in their career endeavors and anticipate a collaborative and successful journey ahead with our current team of interns.

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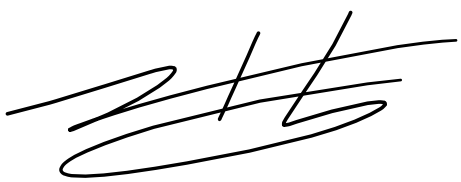
With Columbia Business School now on summer break, I have more time to visit Asia to conduct further due diligence on our current holdings and meet prospective partners. We will spend most of our time in Taiwan, with additional visits to Hong Kong and Shanghai from early to mid-August. We are always happy to reconnect with old friends and open to meeting new ones who are interested in learning more about the story of Kathmandu Capital or myself. If you would like to speak with us, please feel free to reach out at vlo@kathmandupartners.com.

Sincerely,



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