

KATHMANDU CAPITAL

Dec 18, 2024

Dear Partners,

In the third quarter of 2024, the fund generated a return of -14.99% gross of fees and -14.99% net of fees. This compares to 5.48% for the Standard & Poor's 500 Index and 6.61% for our MSCI ACWI Total return benchmark. Since inception, we have realized a return of 3.77% gross of fees and -0.88% net of fees, versus 29.02% for the Standard & Poor's 500 Total Return Index and 26.85% 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%
3 rd Quarter (Inception)	7.56%	6.46%	-3.79%	-3.64%
4 th Quarter	-6.65%	-6.65%	11.20%	11.03%
2024	3.35%	-0.26%	20.59%	18.66%
1 st Quarter	21.42%	17.80%	10.09%	8.20%
2 nd Quarter	0.13%	-0.40%	3.85%	2.87%
3 rd Quarter	-14.99%	-14.99%	5.48%	6.61%
Since Inception	3.77%	-0.88%	29.02%	26.85%

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

In the past quarter, we experienced our first significant drawdown, primarily driven by the decline in our oil & gas holdings. Despite OPEC+ extending production cuts and global supply being ill-prepared to absorb significant demand shocks, the market remains fixated on next year's demand outlook. This reflects concerns over a potential global recession driven by trade tensions, European economic slowdowns, skepticism about China's recovery, and a potential production surge following the end of the Russia-Ukraine war and OPEC+ supply release. Consequently, oil prices plummeted to \$70 by the end of the quarter. While we remain optimistic about the long-term prospects of the oil & gas industry, we acknowledge the challenges of holding cyclical names over the long term, particularly when the market chooses to overlook short-term catalysts such as the extension of production cuts and escalating geopolitical tensions in the Middle East. With this in mind, we made the decision to reallocate our portfolio this quarter, significantly trimming our oil & gas positions to preserve cash and refocus on other opportunities. We will revisit the industry once the setup becomes more favorable.

Market Commentary

The recent drawdown, coupled with the ongoing boom in the equity market, has led to significant underperformance in our portfolio. While we acknowledge that this will not be the last time our portfolio experiences large drawdowns—given its concentrated design, which we believe entails the potential for significant drawdowns but also even greater upswings—this experience has nonetheless provided a valuable opportunity to reflect on and refine our approach as value investors. The traditional value investing strategy of “catching the falling knife” and waiting for Mr. Market to eventually align with our perspective may not always be the most effective path to achieving exceptional performance. This is particularly true in today’s momentum-driven market environment, where investors chase the “hottest” ideas, while out-of-favor stocks, such as our oil and gas holdings, fall even further out of favor.

This is not to suggest that the value investing philosophy is flawed or outdated. Rather, it serves as a reminder that we must remain humble, adaptable, and open-minded as we navigate shifting market conditions. As my favorite athlete, Kobe Bryant, once reflected, early in his career, he tried to force the game to happen and take control. Over time, he learned to adapt to the flow of the game, letting it come to him. He later attributed much of his success to this evolved mindset.

Similarly, in investing, while conducting thorough research is essential, we must also remain open-minded to market dynamics, flexible in expanding our circle of competence, and adaptable in adjusting both our investment strategies and trading execution to allow opportunities to come to us. While we firmly believe that the valuation gap between large-cap U.S. growth-oriented equities and small- to mid-cap international value equities will eventually converge, we have now broadened our perspective to explore opportunities in high-quality “growth” businesses that may appear expensive or even be frowned upon in the traditional value sense. However, as we stated in our first letter to investors, the primary goal of our fund is to prioritize our partners’ interests and deliver satisfactory long-term returns—not to conform to any specific style box. We will continue to evolve and adapt to uphold our promise to our partners.

As always, we are deeply grateful for our partners’ unwavering support and patience as we continue to evolve and grow as investors. Together, we will navigate these short-term challenges and work toward long-term success.

Portfolio Update

At the end of the second quarter, we held approximately 12% of our portfolio in cash and introduced a few initial positions to the portfolio.

Below is the quarterly update on our current holdings:

Deep Value Gems

NagaCorp (3918.HK)

During the quarter, Nagacorp reported a decline in gross gaming revenue, particularly in the premium and referred VIP segments, as it continues its transition into a mass-market gaming hub. The company also “ripped off the bandage” by recognizing additional impairment on its Vladivostok project in Russia—a necessary move, in our view.

Although the stock continues to trade at a significant discount to its Macau peers, we expect the valuation gap to narrow as the new international airport facilitates more direct flights and boosts tourism, driving increased business for Nagacorp next year. That said, we are mindful that this quarter’s underperformance occurred despite an overall improvement in Cambodia’s visitation numbers. As a result, if the Chinese

economy and tourism remain subdued, we will reassess our position and consider reducing our exposure, reallocating our capital to cash or other opportunities.

Gigacloud Technology (GCT)

We have initiated a small position in Gigacloud. GCT specializes in cross-border e-commerce and logistics for furniture and bulky items, positioning itself as a leading B2B marketplace with a global footprint. Although the company is publicly listed and headquartered in the United States, it strategically capitalizes on the manufacturing capabilities of Asia and Southeast Asia to source high-quality, low-cost furniture and bulky items at just 20-25%¹ of their retail price.

On the surface, GCT might seem like another “too good to be true” Chinese business. This perception has been further amplified by allegations from two short sellers, Grizzly Reports and Culper Research, who claimed that GCT is a fraudulent enterprise and much less profitable than reported. However, third-party data, proprietary research, and due diligence confirm that GCT is a legitimate and highly profitable operation. In fact, it is a hidden category leader with a significant cost advantage and formidable barriers to entry that are expected to strengthen over time.

Unlike most e-commerce giants, GCT faces virtually no direct competition, aside from a couple small startups. Companies like Alibaba B2B focus on different categories, while Temu, Shein, and Amazon concentrate on smaller, easy-to-transport consumer products, deliberately avoiding the bulky item segment due to its inherent logistical complexities—bulky items occupy significant space, are more difficult to manage, and present challenges for inventory control and on-time delivery. This is why you rarely see an Amazon Prime tag on furniture listings.

GCT has not only mastered the complexities of the bulky item segment but also holds a significant cost advantage, with warehousing costs being a fraction of those at competing facilities thanks to its scale. This scale has also enabled GCT to outsource furniture shipping to companies like FedEx at rates 90%+² lower than standard shipping fees. Beyond the substantial upfront costs of building a logistics infrastructure, GCT has cultivated strong customer relationships through a network of over 200 product managers who oversee supplier partnerships in Asia and buyer relationships across Eastern markets. These relationships are highly sticky, driven by GCT’s compelling value proposition as a scaled player: low flat-rate shipping costs, reliable on-time delivery, and seamless end-to-end supply chain management—all without requiring buyers to assume inventory risks.

Importantly, the barriers to entry are set to grow even stronger as GCT’s online marketplace continues to scale, leveraging and amplifying its network effects. Furthermore, the company’s strategic expansion into Europe and adjacent markets, coupled with consistent market share gains, positions it to potentially double its current revenue and total addressable market within the next three years.

Despite achieving a remarkable 5-year CAGR of 84% and delivering triple-digit ROTC, GCT currently trades at just 4.8x EV/EBIT, reflecting a significant “Chinese discount.” We project at least 99% upside over the next three years, even under conservative assumptions of substantially slower growth and the an EV/EBIT multiple well below what investors would typically assign to a business of this caliber. As the market moves beyond its biases and begins to fully appreciate GCT’s exceptional fundamentals, we anticipate a significant re-rating of the stock. Should the market fail to recognize its value, GCT is well-

¹ Independent product study and personal experience

² Conversation with GCT partners

positioned to address its undervaluation through share buybacks, supported by a debt-free balance sheet, and \$260 million in cash. We plan to share a detailed analysis of the company with you in the coming days.

Cyclical/Secular Gainers

Oil and Gas Basket (Undisclosed)

WTI prices plunged from the \$80 range to \$70 during the quarter, causing a significant decline in the share prices of our holdings. This drop was primarily driven by market concerns over the health of the global economy and the potential return of Russian and OPEC+ supply, which the market believes could lead to an oversupplied market as early as 1Q25. Despite OPEC+ extending production cuts and global supply being ill-prepared to absorb significant demand shocks, the market remained fixated on next year's demand outlook, effectively pricing in a recession-like scenario—a stark contrast to the optimism reflected in the broader equity market.

While we remain confident in the long-term prospects of the oil and gas industry, we acknowledge the challenges of holding cyclical stocks over extended periods, particularly when market sentiment fails to respond to short-term catalysts or accurately reflect underlying long-term supply and demand dynamics. Although the timing was less than ideal, we made the decision to realize some capital losses by significantly trimming our positions. This move was intended to preserve cash and reallocate the capital toward other opportunities. We will live to fight another day and patiently wait for the game to come back to us.

SPDR Gold Shares (GLD)

We allocated a small portion of capital to the gold index as a cash-like holding. We view this position as well-suited to perform during challenging market conditions, providing a hedge against recession and rising geopolitical tensions, while also thriving in prosperous times as a safeguard against inflation in a lower interest rate environment. This position was not intended as a long-term holding, and we plan to reallocate the capital once we identify more suitable investment opportunities.

Quality Compounders

Kaspi.KZ (KSPI.NASDAQ)

Kaspi faced significant pressure during the quarter as headline risks from short reports by Culper Research spooked investors unfamiliar with the company, resulting in a single-day share drop of up to 22% following the report's release. The short report primarily raised concerns about secondary sanction risks, alleging that some Kaspi e-commerce sellers originated from Russia and that its banking services allow Russian citizens to open accounts. However, a closer analysis of the regulatory framework reveals that these claims are unfounded. There are no laws prohibiting Russian individuals from selling goods internationally, provided the products are not classified as critical resources subject to sanctions. Likewise, Russian citizens are legally permitted to open bank accounts abroad, as long as the bank does not facilitate money laundering. Kaspi, which primarily accepts deposits in Kazakhstani Tenge, has significantly less exposure to Russian accounts than many other domestic and foreign banks. Despite the noise from the short report, Kaspi remains our top investment idea, and we have taken advantage of the temporary market dislocation to increase our position in the company.

Additionally, we anticipate further re-rating as one of the largest overhangs—future growth potential—nears resolution, driven by Kaspi's recent announcement of its acquisition of a 65.4% stake in Hepsiburada, Turkey's second-largest e-commerce platform. While the deal represents a significant premium over Hepsiburada's public market valuation, it strategically positions Kaspi in a market with a population over four times larger than Kazakhstan's and a considerably higher GDP per capita. Against this backdrop, the

Turkish government's efforts to create a more level playing field for e-commerce players—including restrictions on the advertising spend of Trendyol, the Alibaba-backed leader in Turkish e-commerce—are likely to benefit Hepsiburada.

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

VusionGroup is making significant strides in penetrating the U.S. market, with 250 Walmart locations currently equipped with new ESLs, a number expected to reach 500 by the end of the year and 2,300 by 2026. Additionally, the company has announced new partnerships with prominent U.S. retailers, including Ace Hardware and Hy-Vee grocery stores. We anticipate further partnerships with additional U.S. retailers and project >30% topline growth through 2027.

Closing

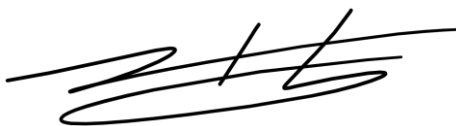
The Value Investing Program at Columbia Business School has not only been one of the most intense experiences of my life, but also one of the most rewarding as I have learned a great deal from the professors and guest speakers. *The Analyst Edge*, taught by Shayan Mozaffar and Adam Birnbaum, is by far my favorite class. The class focuses on developing the skills necessary to identify investment opportunities that generate the highest returns, with a strong emphasis on set-ups and executions, both fundamentally and technically.

The professors have encouraged us to stay open-minded in embracing diverse investing styles, broadening our toolkit to address a wide array of opportunities. We are challenged to conduct detailed bottom-up analyses, including comprehensive 100-page deep dives, while also developing big-picture theses through a top-down lens by examining the historical behavior of industries and individual stocks to identify optimal setups and execution strategies to capitalize on these ideas. The ultimate goal is to break free from the imaginary boundaries and limitations that often constrain investors, empowering us to pursue long-term outperformance that many might have thought unattainable. I am excited to apply these new insights in practice as we continue on this journey.

As one of the editors of the *Graham & Doddsville* newsletter, I am pleased to announce that the Heilbrunn Center for Graham and Dodd Investing, in collaboration with our newsletter team, has published the Fall 2024 edition. We encourage our partners to explore this issue, which features insightful interviews with exceptional investors and showcases some of the best stock ideas from my classmates. We are confident you will find it both informative and enjoyable, with much to learn and appreciate within its pages.

Next semester marks my final semester at Columbia Business School—it's incredible how quickly time has flown, and I am now nearing the finish line. I am deeply grateful for the unwavering encouragement and support of our partners throughout my time at school, the invaluable assistance of our interns who have helped free up my bandwidth, and the many lessons I have learned from my professors. I look forward to making the most of the upcoming semester and continuing to grow as both an investor and a professional.

Sincerely,



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