Investors,

In 2024, Deep Sail Capital Partners (the "Fund") returned 38.1% net of fees while averaging 86% net long exposure. In the fourth quarter of 2024, the fund returned 11.8% net of fees. Please consult your individual capital account statements for your individual net returns.

Performance Summary	Net Returns			Deep Sail Capital Vs Benchmark		
	Q4	2024	Strategy Since Inception - Annualized	Q4	2024	Strategy Since Inception - Annualized
Deep Sail Capital Partners LP	11.8%	38.1%	11.3%			
Russell 2000	0.3%	11.5%	9.4%	11.5%	26.5%	1.9%
Russell Mid Cap Growth Index	8.1%	28.0%	13.6%	3.7%	10.1%	-2.2%

In the fourth quarter, the fund outperformed our benchmarks, the Russell 2000 index and the Russell Mid-Cap Growth index. For the full year 2024, the fund outperformed our benchmarks by 26% and 10%, respectively. The long portfolio drove the results for the quarter, with several quality and microcap portfolio companies performing well. For the second quarter in a row, Kraken Robotics was the fund's top contributor, as excitement about the future of their battery and sensor business continues to grow. The short portfolio generated a negative return for the fund in Q4 as we saw a huge bubble grow in low-quality speculative stocks (more on this below).

Market Commentary – The Quantum AI Bubble

The year 2024 concluded with the emergence of a new speculative bubble centered on AI and quantum computing. This bubble has several intriguing dimensions. Notably, the quantum computing frenzy gained momentum following Google's announcement of its new Willow quantum chip on December 10th. In the wake of this announcement, a wave of extraordinary stock movements unfolded, with shares of companies related to quantum computing—or even those whose names contained terms like "quantum" or "atom"—soaring dramatically. For instance, Quantum Corporation, a company entirely unrelated to quantum computing, has surged 170% since December 10th. According to its SEC filings, the company specializes in "*storing and managing digital video and other forms of unstructured data*," underscoring the disconnect between its business model and the quantum computing narrative driving its stock performance.

The second key aspect of this industry bubble is its disproportionate focus on lower-quality companies within the quantum computing and AI sectors, rather than established leaders in the sector. High-quality AI players such as Nvidia, Meta, and Arista Networks have been overshadowed since the November election by a retail-driven frenzy surrounding speculative, low-quality, and even dubious entities. This surge in interest has centered on quantum computing and AI companies with minimal revenues, fueled by heightened retail enthusiasm for a perceived quantum breakthrough.

This dynamic exemplifies what can be classified as an "Industry Bubble." Historically, such bubbles have offered some of the most attractive short-selling opportunities in financial markets. However, capitalizing on these opportunities requires patience, as bubbles often take time to run their full course.

The stock market has witnessed several industry-specific bubbles over the years, driven by hype, speculation, and overly optimistic growth projections, often in companies with new technology or entering a new market. The cannabis sector experienced a surge around 2018-2019 as legalization efforts expanded, but many companies faced profitability challenges and significant capital investment requirements, leading to sharp declines. Similarly, the electric vehicle (EV) boom in 2021 saw stocks like Rivian and Lucid skyrocket as investors bet heavily on the transition to green energy and government EV incentives, though almost all those companies could not sustain the momentum, and several of them are now bankrupt.

Within these industry-specific bubbles, companies can generally be divided into two categories: legitimate enterprises with real technology that, despite being wildly overvalued, are likely to endure, and impostor companies attempting to capitalize on the excitement but with little chance of survival once the bubble subsides. For example, during the EV bubble, Rivian stood out as a legitimate company, supported by a partnership with Volvo, an innovative "skateboard" platform enabling the production of multiple vehicle models, and a leadership team composed of seasoned technology and automotive executives. In contrast, Lordstown Motors exemplified an impostor company. Its CEO, Steve Burns, had a history of stock promotion, limited expertise in EV technology, and no significant proprietary technology. Lordstown was eventually exposed for misstating pre-orders to the financial community, stemming from exceptional short research conducted by Hindenburg Research (RIP).

While we believe that AI is in the early innings of a massive wave of investment, but the companies that have got caught up in this bubble are intentionally the lowest quality companies with the lowest floats, highest short interest, and most promotional management teams. These imposter companies are specifically attractive to short term speculators due to their low floats relative to the excitement behind the industry.

The quantum portion of this industry bubble appears to have already reached a potential peak on January 8th with the comments of Nvidia CEO Jensen Wong. During a Q&A panel at CES, Jenson said, *"Someday we'll have very useful quantum computers. We're probably five or six orders of magnitudes away, 15 years for useful quantum computers and that would be on the early side. 30 years is probably on the late side."* This pessimistic view is very much the same view as many people familiar with quantum computing. The technology is still very far from being commercially viable, and even when it is available, it will have a very narrow application around factorization, cryptography, and optimization algorithms. The day after these comments, most stocks within the bubble declined by over 40%, including Quantum Corp. (QCMO), Quantum Computing (QUBT), IonQ (IONQ), and D-Wave Quantum (QBTS), all of which the fund was short.

Industry bubbles present significant opportunities for our short portfolio, as they consistently drive several stocks to irrationally high valuations. This dynamic enables us to diversify idiosyncratic risk by targeting a broad mix of both legitimate companies and impostor firms within the bubble. With recent developments—such as Jensen's comments—indicating that this particular bubble may have already begun to deflate, we believe there remains considerable opportunity to short these companies, strategically using price surges as entry points and subsequent declines as exit points. As with previous bubbles, we anticipate that the process of price normalization will take time, likely six months to a year, for valuations to fully revert to their prior levels.

Long Portfolio Summary

	Q4
Average Long Exposure	129.5%
Contribution (gross)	23.0%

Best Performing	Q4 Contribution	Worst Performing	Q4 Contribution
Kraken Robotics	6.4%	Mercado Libre	-1.9%
Rocket Labs USA	6.1%	Evolution AB	-1.3%
TSS Inc	5.2%	Powell Industries	-0.6%

In the fourth quarter, the long portfolio outperformed both of our benchmarks, the Russell 2000 Index and the Russell Midcap Growth Index by a significant margin. Year to date, the long portfolio outperformed all of our benchmarks on both a net and gross basis. The best-performing position in the quarter was again Kraken Robotics, which I highlighted in our Q2 investor letter. Additionally, Rocket Labs USA and TSS Inc were up 161% and 66% in Q4. Rocket Labs is an exciting founder-led space, rocket, and satellite company that we believe has a multi-decade growth path ahead of it as investment in space development expands. TSSI is a strategic partner for Dell that has a significant opportunity around data center integration, specifically in the liquid-cooled data centers.

In Q4, the fund closed four positions and opened six new positions. The new positions in Q4 included e.l.f. Beauty, a high-growth, digitally-savvy cosmetics company and Vertiv a global leader in designing, manufacturing, and servicing critical digital infrastructure solutions that will significantly benefit from the coming Blackwell/Grace Nvidia upgrade cycle.

Current Position: Shelly Group Update

We initially wrote up Shelly Group in our 2024 1Q investor letter. Since our initial investment pitch in early 2024, we have only gained more confidence in the business, the leadership, and the strategy. Alone with our growing confidence in the business, the company has hit major milestones including, uplisting to Frankfurt XTRA exchange (April 2024), held their first Capital Markets Day (November 2024), converted the company's legal structure to a European Company or "SE" (December 2024) and continued to grow the business at +40%. Many of these actions make the company more attractive to western investors due to the increase regulatory and legal support. The current valuation is also 25% below (16x NTM EBITDA vs 21x NTM EBITDA) what the valuation was at the time of our previous writeup.

Along side continued revenue growth in the 40-50% yoy for the last three quarters, the company has rolled out several new products, and laid out a strategic plan to drive their business over the next 5 to 10 years. Shelly held a Capital Markets day on November 5th in which they shared an in-depth strategic vision of their home automation devices and software business. (Slides Here from the Capital Market Day).

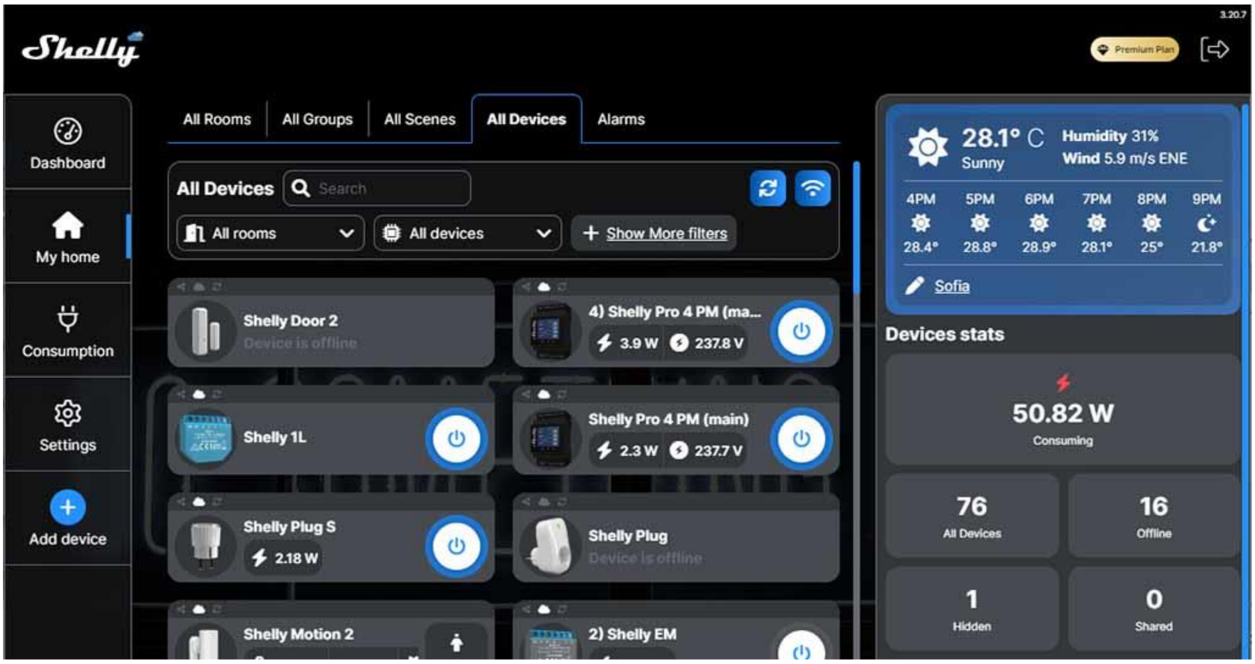
Updated Vision and Strategy

Shelly Group's new business strategy represents a calculated push to solidify its position as a leader in the smart home market while expanding into adjacent opportunities like home security and commercial / industrial monitoring. Shelly is expanding their business from being solely a device manufacturer to becoming an integrated smart home platform with software revenue streams. This evolution is backed by years of strong technological innovation, robust customer engagement, and strategic market expansion efforts to expand outside of their core markets in Europe. The group's commitment to addressing consumer needs with scalable, efficient, and eco-friendly solutions aligns perfectly with broader trends favoring sustainability and automation.

At the core of Shelly's strategy is the development of their software offerings that pair well with their devices and add value to the ecosystem. This integrated ecosystem accessible via app or in home is designed to provide seamless management of smart home functionalities, including energy optimization, predictive maintenance, and advanced security. The company is leveraging its proprietary data lake and cloud solutions to create a foundation for recurring revenues through high margin subscription-based services. With a focus on community-driven innovation (Shelly has a loyal base online of automation enthusiasts), Shelly's products are shaped by user feedback, enhancing customer loyalty and accelerating market adoption.

The Shelly ecosystem brings to the average consumer a truly smart home interface that many have dreamed possible for decades, but only extremely expensive high-end systems would allow. The Shelly app becomes your smart dashboard to managing everything from when lights are on to the height of your shades.

Shelly App Home Dashboard



Source: Shelly Corporate Website

Growth Drivers

Shelly has multiple levers that it is working to continue its extremely fast revenue growth path (+40% since 2022). **Geographic expansion** will be a significant driver of Shelly's growth in the next few years. The company is doubling down on decentralizing its sales operations to enhance regional engagement and improve customer experiences. New hires in key markets, including the Nordics and the United States, are expected to boost local sales and deepen relationships with distributors and resellers. Over 50% of Shelly's revenues currently come from DACH countries (Germany, Austria, and Switzerland), but long term they believe the US will wildly outpace DACH countries.

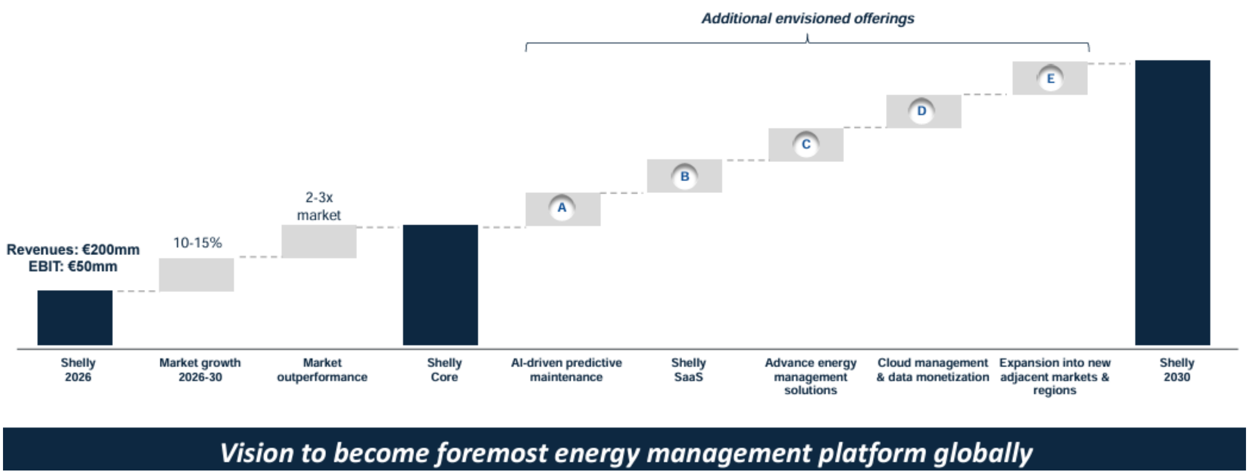
New hardware product launches have significant greenspace within home automation devices. Shelly has major product expansions coming in cameras, smart locks (through the LOQED acquisition in July 2024), and intelligent sensors. Shelly currently offers 92 hardware product SKUs as of Q3 2024, which is heavily weighted to energy and lighting management devices. They expect to add both new devices in new and existing categories as well as offering additional series of Professional focused devices which will be focused on the higher end professional installation market. I expect the company to significantly expand their offerings at quickly until they fill out their home automation device offering.

Shelly's growth and margin expansion will be significantly impacted by **the push into software verticals** that sit alongside their devices which complete the ecosystem. While software is very small piece of Shelly's current revenue, over the next 5 years it will expand to be a significant revenue stream. Software offerings will include Shelly X Software (a no code software platform for developing and managing their devices), cloud management & data lake, energy management solutions, and the Shelly app. These software offerings will be monetized through a mix of subscription revenue and usage fees.

Shelly Group's traditional customers have been DIY-centric, due to the low cost and high flexibility of their devices. The company is shifting to add a **focus to professional installer market**. By expanding into the professional home installer market and the industrial IoT sector, Shelly is tapping into new revenue streams and broadening its customer base. This diversification positions the company to leverage the growing demand for integrated smart building solutions. The introduction of the Shelly Pro and Plus series, designed to cater to both professional installers and DIY homeowners, highlights this approach by offering innovative features that meet diverse customer needs.

On top of their main growth drivers that I highlighted, their road to 2030 Vision includes AI, predictive maintenance, and advanced energy management solutions as sources of additional growth. If Shelly executes on even 50% of their ambitions the company will be 5x larger in 2030.

CHARTING THE FUTURE: SHELLY'S 2030 VISION FOR GROWTH AND INNOVATION



Source: Shelly Group Capital Markets Day Presentation

Short Portfolio Summary

	Q4
Average Short Exposure	44.1%
Contribution (gross)	-10.3%

Best Performing	Q4 Contribution	Worst Performing	Q4 Contribution
Zeta Global Holdings	0.8%	Archer Aviation	-1.5%
Medical Properities Trust	0.6%	Dave Inc	-1.4%
Fenbo Holdings	0.5%	Quantum Computing	-1.1%

During Q4 the short portfolio performance was materially impacted by the Quantum and AI industry bubble that I described above. Only 40% of our shorts generated a positive contribution in Q4, significantly below our average for 2024. I believe the opportunity set for shorts at the end of 2024 was the best since the 2022 Covid bubble. This has already been realized in January of 2025 with the massive implosion in the Quantum and AI bubble, which the fund has materially benefited. I believe we will see some turbulence in US markets in 2025, that will be driven by government cutbacks in spending and increases to inflation. Thus, I have been slowly increasing our short exposure in 2025 and patiently await any signs that the high valuations in the stock market to be pressured downward with economic realities.

Top Holdings & Current Exposure

Top Holdings

Long Portfolio	Industry/Segment	% of NAV	Short Portfolio	Industry/Segment	% of NAV
Kraken Robotics	Defense Technology	17.2%	Archer Aviation	Evtols & Drones	-3.1%
Clearpoint Neuro	Medical Devices	11.5%	IonQ	Quantum Computing	-2.9%
Cellebrite	Software	10.1%	Arbor Reality Trust	REIT	-2.8%
Mercado Libre	Ecommerce	9.7%	Joby Aviation	Evtols & Drones	-2.6%
Shelly Group	Electronic Equipment	7.5%	Aurora Innovation	Automotive	-2.2%

At the end of the first quarter the fund held 20 long positions and 33 short positions. The fund ended the quarter with an exposure of 125% long and 45% short or an 82% net long exposure.

Sincerely,

Sean
info@deepsailcapital.com

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"Deep Sail Capital Partners" returns in this document are shown as net returns or gross returns where stated. Historical net returns assume a 1.5% and 15% management and performance fee, respectively. For Net Returns of fees and expenditures figures please reach out to the fund manager at the email info@deepsailcapital.com.

"Deep Sail Capital LLC" name was changed on April 7th 2022 from the previous name "Organon Capital LLC".
"Deep Sail Capital Partners LP" name was changed on April 6th 2022 from the previous name "Westropp Funds LP".

* - "Strategy Since Inception" refers to the Strategy inception date of July 2016. Deep Sail Capital Partners LP's predecessor incubator fund, "Westropp Funds LP" pivoted from a Value Investment style to a Growth at a Reasonable Price (GARP) style fund on that date. For more details on this transition or the calculation behind the "Strategy Since Inception" returns please reach out to the fund manager at info@deepsailcapital.com.