Investors,

For the first quarter of 2024, Deep Sail Capital Partners (the "Fund") returned 13.0% net of fees while averaging 84% net long exposure. Please consult your individual capital account statements for your individual net returns.

Performance Summary	Net Returns		Deep Sail Capital Vs Benchmark	
	Q1	Strategy Since Inception - Annualized	Q1	Strategy Since Inception - Annualized
Deep Sail Capital Partners LP	13.0%	8.4%		
Russell 2000	5.2%	8.6%	7.9%	-0.2%
Russell Mid Cap Growth Index	9.5%	11.3%	3.5%	-2.9%

In the first quarter, the fund outperformed our benchmarks, the Russell 2000 index and the Russell Mid-Cap Growth Index. Both the long portfolio and the short portfolio generated positive returns for the fund in Q1. The long portfolio performance was driven by strong performance within several microcap companies, including Creative Realities (for which I described my investment thesis in the Q3 2023 investor letter) and Atlas Engineered Products (for which I described my investment thesis in the Q2 2022 investor letter).

The short portfolio generated a positive return for the fund in Q1, partly driven by the regression to the mean in some high-flying shorts like Affirm Holdings, Tesla, and Archer Aviation.

Market Commentary

"*It's so over/We are so back*" has become the meme of the market in Q1 and early Q2 2024. In hindsight, this meme has described investor sentiment going back even further, likely to the peak of the COVID bubble. The meme is not just about investor sentiment, there are real economic issues, policy moves, and geopolitical concerns that have caused rapid shifts in near-term sentiment.

The Fed has enjoyed a golden age of what seems so far to be "good" policy decisions and timing. Every time you think the Fed is finally out of tricks and backed into a corner, they seem to just pull-out a save by the skin of their teeth. Rampant inflation, excessive national debt, an overinflated housing market, regional wars, slowing growth post "covid bump," and a trillion-dollar hole in the balance sheets of commercial real estate have not slowed down this economy or this Fed. Every day when you think we have finally peaked and *it's so over*, you wake up the next day to find Bitcoin ramping or bond prices falling (until recently) and realize *we are so back*.

I won't lay this praise all on the Fed, as the Treasury and the Fiscal Policy of the Biden administration have been overspending and overprinting, which always helps short-term. The AI revolution, kicked off in 2023 with the release of ChatGPT, has also spurred a sizable uptick in investment and excitement over new products and new industries.

As I discussed in our Q4 investor letter, these shifts in investor sentiment have been occurring faster and faster. The likely conclusion is that sentiment has now arisen in the "*It's so over/We are so back*" daily flip-flops of sentiment. Going a bit deeper though, it does feel a bit to me like prior to the housing crisis of 2008, around 2007, when similar sentiment dynamics arose. Investors are quick to abandon ship because they see the writing on the wall and are worried that we may be in for a reset in global markets. Thus, they make a quick jump to an *It's so over* mentality.

As I have said multiple times in my investor letters, markets are extremely difficult to time correctly. Picking a top or a bottom in markets is nearly impossible over multiple times. But knowing when you're closer to the top or the bottom is also important. I believe we are closer to the top right now than the bottom, and I have been slightly adjusting the fund exposure to support that view, although with shorts the most important thing is getting the timing right. As always, I want ***to be prepared for anything, not surprised at anything, and own quality companies that can deal with anything.***

Long Portfolio Summary

	Q1
Average Long Exposure	116.3%
Contribution (gross)	12.1%

Best Performing	Q1 Contribution	Worst Performing	Q1 Contribution
Creative Realities	4.2%	Elastic	-0.9%
Atlas Engineered Products	2.6%	SDI Group	-0.9%
Adyen	2.2%	Five Below	-0.7%

In the first quarter, the long portfolio outperformed both of our benchmarks, the Russell 2000 Index and the Russell 2000 Midcap Growth Index, by a significant margin for the second quarter in a row. The best performing positions in the quarter were Creative Realities, Atlas Engineered Products, and Adyen. All three were positive, driven by good earnings reported in Q4 and positive momentum continuing from Q4. Overall, microcaps within the portfolio did very well, as the market in Q4 2023 and Q1 2024 seemed to be more interested in microcaps than all last year.

In Q1, we closed three positions and opened two new positions. After evaluating the last few years' returns, I determined that the positions for which I posted a write-up in our quarterly letter have done significantly better than our overall portfolio. For example, Creative Realities has returned 93% since we posted our Q3 2024 quarterly letter, widely outpacing our benchmarks and our long portfolio. At the time of posting our Q3 2024 letter, Creative Realities was about 4% in the fund. If it had been an 8% position to begin with, the fund would have been up about 7% more over that same period. This same phenomenon has occurred with RCM Technologies and Atlas Engineering Products. The conclusion can thus be drawn that if I am comfortable sharing a long thesis on a company in our investor letter, then I should be comfortable sizing up the position to a top 5 position in the fund. That is exactly what I have done with Shelly Group, which I summarize my long thesis on below.

Current Position: Shelly Group

Shelly Group is one of the more unique opportunities that I stumbled upon in my time as an investor. Shelly Group is a 20-year-old Bulgarian-headquartered company that was originally named Teracomm Ltd. and later changed its name to Allterco AD prior to renaming the company Shelly Group in 2023. The company shares trade on the German and Bulgarian Stock exchanges. For the last 10 years, the company has focused on development in the smart device and internet of things (IoT) markets. Shelly found early success in the smart device market with the MyKi, a kid's digital watch similar to an Apple Watch, in 2015. Shortly after that, in

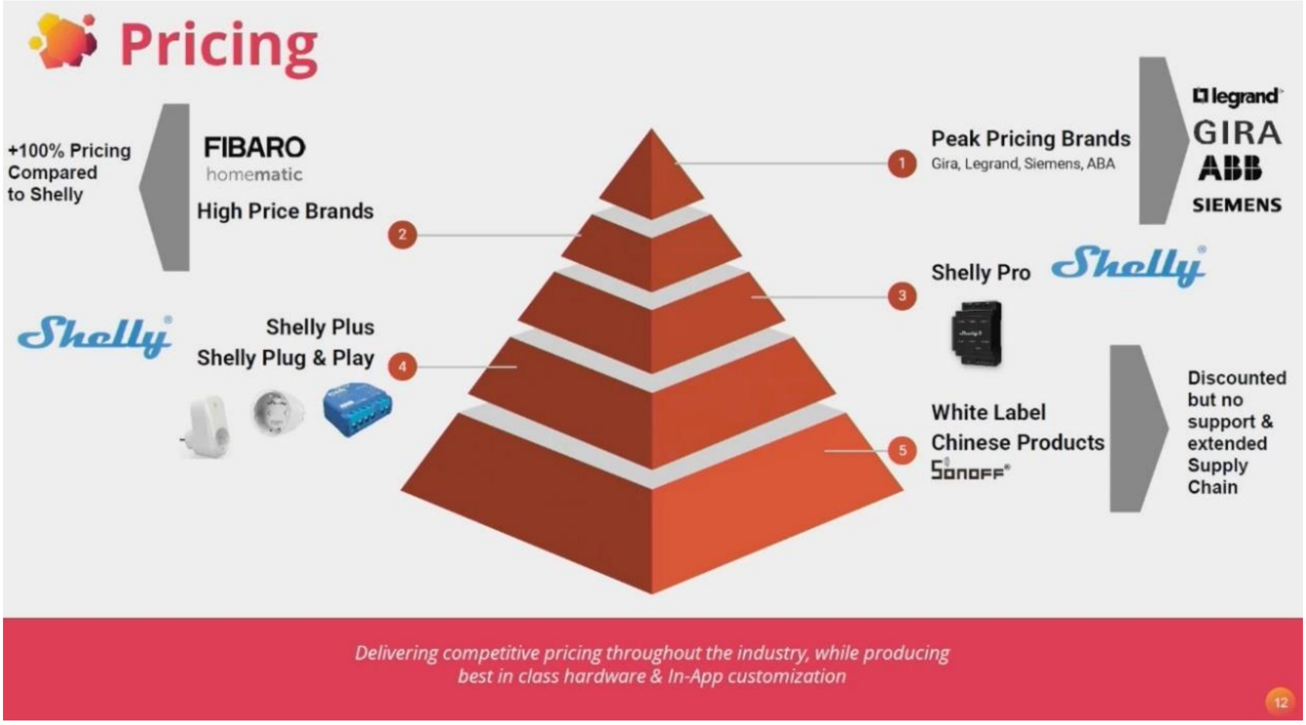
2018, the company launched their Shelly brand of home automation devices, which focused on ease of use, versatility, and open programmability. Early success with smart home relay switches used to automate, track, and optimize power switches has eventually allowed Shelly to expand to a wider IoT offering, which now includes energy metering, security, lighting, and control systems. Since their launch, Shelly IoT home automation devices have become well known within the DIY community as the most versatile IoT devices, delivering the highest value. There is a significant community of DIY enthusiasts in Europe that are customer advocates for Shelly Group smart home products. At the current point in time, I view Shelly Group as a very early disruptor in the IoT space. The company has a large and growing TAM, with a massive opportunity to expand into the US and into the professional installer vertical.

Shelly is more than just an IoT device designer and reseller. Shelly has developed on their own IoT chip, the "Shelly Chip," which is optimized for smart home usage which is launching in their 3rd generation devices. Shelly is also working on their own Operating System to run on their devices, as they currently use a third-party OS called Mongoose OS. Shelly is creating an open system for running IoT devices selling directly to consumers, while their competitors are taking the opposite approach of creating a closed system exclusively sold through professional installers. I think the Shelly approach will end up with a larger share of the IoT market in the end and offer more value to their customers than the alternatives.

High Quality Business Model

The focus of the business since 2018 has been the design and marketing of smart home and industrial building optimization devices, representing over 97% of their 2023 revenues. The niche that Shelly Group fills is the DIY home automation niche, but as they expand their portfolio of products and their geographic footprint, they are beginning to expand into the professional installer market. Shelly's revenue growth since they launched their IoT offerings has been explosive, going from zero to $75 million in just 5 years, most recently showing growth of 57.3% in 2023. This explosive growth is driven by one major factor: ***Shelly delivers the best value to its customers.*** Shelly stands out from its competition on all metrics, including affordability, ease of use, available resources online for troubleshooting, and programmability.

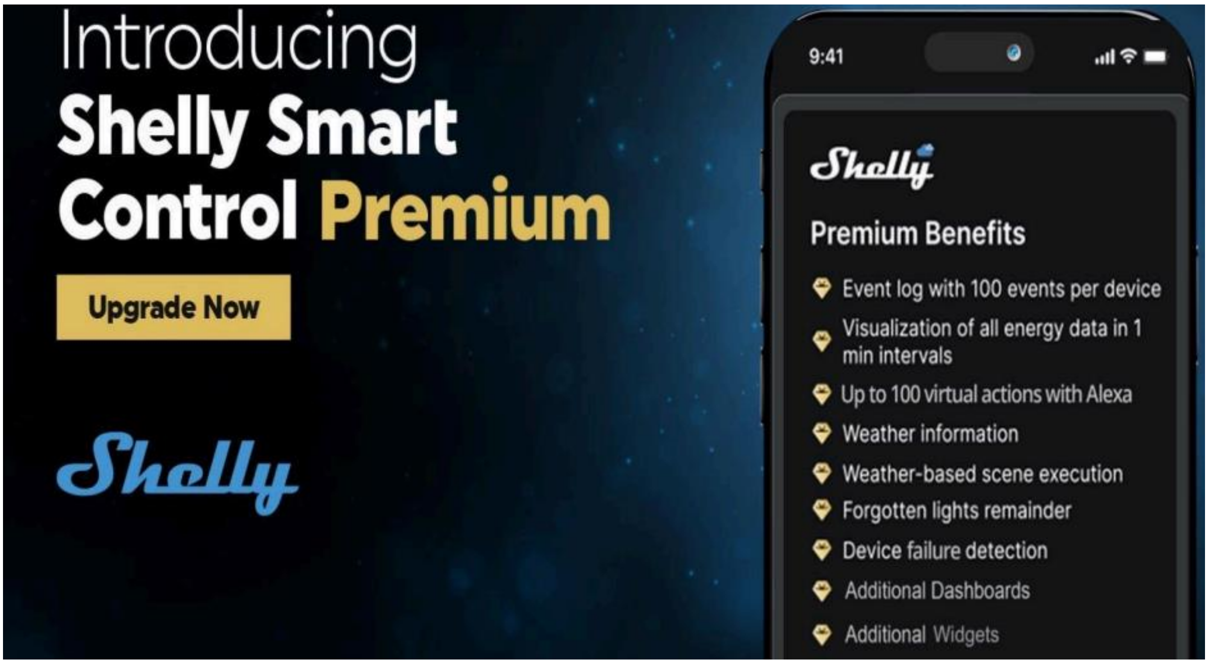
I will briefly touch on each of the metrics. ***On affordability***, Shelly is priced between high-priced, often closed systems from Western European and US companies like Gira and Siemens and low-quality white-label Chinese products.



On ease of use, Shelly's products do not require any centralized hubs or control devices and use WLAN or Bluetooth for easy connectivity. All devices can be managed via an app and are easily programmed through JavaScript. Most of their competitors force users into a specific control environment that requires specific devices to connect and program devices.

On available resources, Shelly Group has a vibrant online community of DIY enthusiasts located mainly in continental Europe but expanding rapidly to the US. The company has a Facebook group with almost 90,000 followers as well as a Shelly-supported online ticket system to answer customer questions. On top of that, they offer a knowledge base website with an easy-to-navigate structure that offers APIs, documentation, and installation guides.

On programmability, Shelly Group has a philosophy of openness and is agnostic to how their customers want to use their devices. Their devices are compatible with all smart home systems, including Google Home and Amazon Alexa. Connectivity to their devices is done through WLAN or Bluetooth, making them easily accessible to anyone with a smartphone or a wifi router. Their devices will also support the Z-Wave standard through their recent acquisition of Qubino in January. Their devices are programable through Javascript, certain APIs, and the Shelly app.



Outside of these main points of product advantages, the business model is extremely interesting due to the Shelly Cloud or Shelly Premium App, which works on a recurring subscription model. Shelly Group relaunched their Premium App in the fall of last year with new functionality and updated features like event logs, visualization, weather-based execution, device failure detection and a whole lot more. The app costs 4 euros a month and will begin to provide some gross margin leverage into the business model.

Outstanding Management

Shelly Group is run by Co-CEO's Wolfgang Kirsh, Dimitar Dimitrov, and Shelly USA CEO Svetlin Todorov. While the mix of CEO responsibilities spread across multiple people is not ideal, it does work in this situation, as the key members of the management team are also the company's largest shareholders. Dimitar and Svetlin were initially co-founders of the company, and they both own 30% and 32% of the shares, respectively. If you are looking for a founder-led management team with skin in the game, this is a near-perfect situation, with current management highly incentivized to grow the value of the company.

Sustainable Long Term growth prospects

Shelly has been able to take share quickly in the home automation market because the company is a software company with a user focus rather than a hardware company. While Shelly Group's focus has shifted over the years, its DNA is that of an engineering-led software development company. Shelly Group's initial foray into the IoT market was driven by their own developers' desire for a DIY home automation product that they could easily program themselves. From this core developer focus, the company has built a sizable business within the DIY home automation market, but they have three main levers they are working on that could provide substantial long-term growth opportunities: geographic expansion, adjacent product introduction, and penetration into the professional installer market.

Currently, Shelly Group revenues are broken down geographically into 49% DACH countries (Germany, Austria, Switzerland), 43.7% rest of Europe, and 7.3% rest of the world. Shelly Group is relatively new to Amazon and supplying its products to the US. Over the next few years, as the IoT and home automation markets mature, Shelly is in a prime position to expand into the US through both the distributor channel, the online channel, and the professional channel (more on that below). Management has said they expect the US to eventually be equal to the size of the DACH business, if not larger.

Shelly Group has historically sold a small number of products within their brand, mainly focusing on power switches. Since 2022, the company has expanded the number of products from 50 to close to 100. These new products have come from expanding into adjacent categories like security and lighting, as well as product lines with additional features. Shelly ***Blu*** and Shelly ***Qubuino*** product lines have recently been announced or released and have specific product features like upgraded Bluetooth range or Z-Wave device capability. Compared to some of their professional home automation competitors, Shelly still lacks products in several verticals, like home networking, video monitoring, and other IoT categories. As time goes on the product lineup will significantly expand.

Reasonable Valuation

Shelly has a long history of profitability. They have had profitable net income every quarter since 2018. The company's management sees this profitability continuing even as their growth has taken off. Due to their asset-light model of outsourcing production, they can keep growing at a high rate without the need for incremental capex investments in production facilities. Due to this fact, there will be little need for capital on a go-forward basis outside of investments in inventory as they scale. I expect the only large capital outlays that they might make are either product expansion acquisitions or share repurchases, although due to their low liquidity, I don't expect them to buy back shares anytime soon.

Currently, the shares trade at around a forward EV/EBITDA of 21x, which I view as reasonable for a company growing revenues at 45% YoY (as was just pre-announced last week for Q1 results). I view the growth potential for Shelly Group as the largest of the companies in our portfolio, as their growth levers are enormous and their penetration globally is very small. The company issued a 2026 goal last year, in which they see growing revenues to +200 million euros with an EBIT of +50 million euros. If they can execute on their plans by 2026, you are looking at a company growing revenue and EBIT at close to 40% CAGR over that period.

I believe not only will Shelly grow at a 40% CAGR, but they could easily grow faster over that period and with better margins than forecasted. 21x EV/EBITDA seems fair to me for a company I want to own and allow it to grow for many years.

Conclusion

Shelly Group is in such a unique situation because it has many growth opportunities as well as shares that are largely inaccessible to many investors or undiscovered. With the management alignment, the software developer focus on hardware, and how they fit into the competitive landscape, I believe Shelly Group is remarkably well positioned to grow into a multibillion-dollar company. The plan the company has laid out suggests they will grow by 40% for the next few years and likely above 20% for many years after that. Shelly has all the elements of an exceptional investment.

Short Portfolio Summary

	Q1
Average Short Exposure	32.3%
Contribution (gross)	1.40%

Best Performing	Q1 Contribution	Worst Performing	Q1 Contribution
Affirm Holding	0.9%	ARM Holdings	-1.6%
Archer Aviation	0.7%	CAVA Group	-0.6%
Mobileye	0.5%	NextNav Group	-0.2%

Our worst-performing short position in Q4 was Affirm Holdings, the Buy Now Pay Later (BNPL) consumer lender, which became our best-performing short in Q1. The spike in the share price in Q4 was short-lived, and we continue to believe the long-term value of the business is much lower than the current market valuation. We believe similar dynamics are playing out right now in ARM Holdings, and we are benefiting from the recent decline in the share price.

During Q1, many shorts performed well in our portfolio, with 58% of our shorts generating a positive contribution. The opportunity set for shorts right now is diminished as many long-duration equities have traded down over the last month as interest rates have creeped higher.

While I believe we are near a market high and I expect that at some point over the next few years we will not be, I don't see any reason right now that the broader market will decline much further than it already has. I continue to be patient, as at some point I plan to increase our short exposure to higher-than-normal levels; we are just not there yet.

Top Holdings & Current Exposure

Top Holdings

Long Portfolio	Industry/Segment	% of NAV	Short Portfolio	Industry/Segment	% of NAV
Mercado Libre	Ecommerce	9.5%	Affirm	Credit Services	-2.5%
Atlas Engineered Products	Construction Supplies	9.3%	Arbor Reality Trust	REIT	-2.1%
Shelly Group	Electronic Equipment	7.8%	Digital Reality Trust	REIT	-1.9%
Evolution AB	Online Gaming	7.4%	Royal Caribbean Cruises	Cruiseships	-1.8%
Sanara Medtech	Medical Supplies	6.9%	Archer Aviation	EVtols	-1.8%

At the end of the first quarter the fund held 22 long positions and 31 short positions. The fund ended the quarter with an exposure of 116% long and 31% short or an 85% net long exposure.

Sincerely,

Sean
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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.