Investors,

In the first quarter of 2025, Deep Sail Capital Partners (the "Fund") returned 0.02% net of fees while averaging 80% 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	0.0%	11.3%		
Russell 2000	-9.5%	8.0%	9.5%	3.3%
Russell Mid Cap Growth Index	-7.1%	12.5%	7.1%	-1.1%

In the first quarter, the fund outperformed our benchmarks, the Russell 2000 index and the Russell Mid-Cap Growth index, by 9.5% and 7.1%, respectively. The short portfolio drove the relative performance for the quarter, as the market overall declined. The positive contribution from the short portfolio outweighed the negative contribution from the long portfolio in the quarter, despite the average short exposure of just 47% vs. 128% for the long portfolio. This is exactly the outcome that the long/short hedged strategy is designed to deliver.

Market Commentary – It may already be too late

Since our last quarterly update, the world has changed a lot. Trump came out swinging since he became president of the United States with all sorts of negative economic and geopolitical moves. The U.S. economy is entering a period of structural adjustment, marked by mounting pressures at home and abroad. On the domestic front, government austerity measures introduced by Trump and through DOGE will pressure the labor market. Trump's tariff strategy has created significant near-term uncertainty for global businesses. While the recent 90-day tariff pause may provide temporary breathing room, allowing companies to make more rational decisions about their supply chains, the deeper reality is hard to ignore: **the rational decision for many global firms is to reduce exposure to the U.S. entirely**. Between policy whiplash, geopolitical unpredictability, and economic uncertainty, it's increasingly logical for businesses to shift focus away from the US and to other more stable markets like Europe, Asia, and Latin America. The international trust and reputation that the US once had is quickly eroding under Trump.

Trump's geopolitical moves further compound the issue. America's pullback from its role as global military stabilizer, highlighted by the decreased NATO support and inconsistent Ukraine policy, has pushed allies to redirect defense spending toward European firms. This shift, paired with domestic dysfunction and perceived legal instability, has shaken confidence in the U.S. as the world's most reliable economic partner. The result is visible in capital flows and currency markets, as the U.S. dollar continues to weaken amid rising skepticism.

The implication for U.S. markets is that there is a clear negative downward pressure. A U.S. recession seems extremely likely, and **the point of no return may have already passed.** Markets in general were at a very shaky point when Trump took office, with valuations near all-time highs and the recent Quantum AI bubble (which I highlighted in the fund's Q4 2024 Investor Letter) stalling.

Amid all this, behavioral dynamics still confuse investors. There's a striking lack of memory when it comes to market drawdowns or lessons learned from those drawdowns. Recency bias and incentive-driven optimism blind many to structural risks, especially retail investors. Every downturn brings the same surprise, the same disbelief — as if bear markets weren't part of the cycle. Interestingly, several highly regarded institutional investors seem to believe that now is the time to derisk and raise cash, including Warren Buffett and Steve Cohen.

The negative camp is stacked right now for the reasons I laid out above. While temporary policy pauses may slow the decline and tariff deals will boost the market in the near term, the rational long-term response from businesses and investors alike is clear: hedge against the U.S., not towards it.

Long Portfolio Summary

	Q1
Average Long Exposure	127.5%
Contribution (gross)	-15.0%

Best Performing	Q1 Contribution	Worst Performing	Q1 Contribution
Mercado Libre	1.4%	ClearPoint Neuro Inc	-2.4%
Topicus	1.1%	e.l.f. Beauty Inc	-2.0%
Sanuwave Health Inc	1.0%	Vertiv Holdings Co	-2.0%

In the first quarter, the long portfolio outperformed both of our benchmarks, the Russell 2000 Index and the Russell Midcap Growth Index, by a slight margin. In general, our long portfolio performed in line with the broader market, with a few exceptions. ClearPoint Neuro traded off 22% in Q1 after returning an incredible 120% return in 2024. The results and potential for future growth at ClearPoint are stronger now than they were at the end of 2024, with multiple of their key partners progressing significant clinical trial milestones in Q1, including uniQure with their Huntington's disease therapy AMT-130, which recently received breakthrough therapy designation from the FDA along with its orphan drug and fast track designation. We continue to hold our ClearPoint Neuro position as we believe the company is still in the early innings of a multi-year period of extremely high revenue growth.

In Q1, the fund closed one position and opened three new positions. The new positions in Q1 included Nvidia, CoreWeave (which has since been closed in Q2), and Sanuwave Health.

Current Position: Arista Networks – Established Growth

Arista Networks is a prominent player in the cloud networking sector, specializing in high-performance switching and routing solutions tailored for data centers, campus environments, and AI-driven infrastructures. At the core of Arista Networks is Ethernet, which, as you all probably know, is the standard networking architecture for the internet. But for data centers and AI networking, there are two competing network architectures: Ethernet and InfiniBand (which is Nvidia's proprietary offering that they acquired through the Mellanox acquisition). Understanding the network architecture landscape is important to understanding where Arista fits into the broader AI landscape.

The company's growth is fueled by the increasing demand for scalable, low-latency networking solutions, particularly as enterprises and cloud providers expand their AI and machine learning capabilities. Arista's emphasis on software-driven networking, automation, and security positions it advantageously. While the CEO of Arista is not created as a founder but rather a founding executive, two of the original founders, Andy Bechtolsheim and Kenneth Duda, are still involved as the chairman/chief architect and CTO, respectively. Due to this, I consider the company founder led.

Ethernet vs InfiniBand vs Spectrum X vs Ultra Ethernet

Arista Networks' Ethernet and NVIDIA's InfiniBand represent two distinct approaches to AI data center networking, each with unique advantages, but the networking landscape is continually evolving. NVIDIA's InfiniBand offers ultra-low latency and high throughput, making it ideal for tightly coupled AI training workloads, ***but it is not necessary for general datacenter needs or running AI workloads post training***. InfiniBand's architecture ensures synchronized data flow across GPUs, minimizing idle times during complex computations. This has led to InfiniBand's dominance in large-scale AI training clusters, with approximately 90% of such deployments utilizing this technology. Jenson Huang summarized this important point: "AI only cares about the last student to turn in their partial product." This means that high utilization and high accuracy are of utmost importance during AI training, which is where InfiniBand excels.

While InfiniBand is more useful in AI training, Arista Ethernet focuses on scalability and cost-effectiveness. With advancements like RDMA over Converged Ethernet (RoCE), Arista's Ethernet solutions have significantly improved in performance over the years. Arista's

Etherlink AI platform incorporates dynamic load balancing and congestion control, catering to the demands of AI workloads. While Ethernet may have slightly higher latency compared to InfiniBand, its widespread adoption and flexibility make it a compelling choice for many data centers.

On top of these two current architectures, two more ethernet architectures are being developed in the near term, Nvidia's Spectrum X and Ultra Ethernet.

Architecture	ETHERNET	INFINIBAND	Spectrum X	Ultra Ethernet
Owner	Open Source	Open Source (Nvidia owns IP)	Open Source (Nvidia hardware/IP)	Open Source (Ultra Ethernet Consortium)
Pros	Handles multi-workload fabrics (i.e., several different AIs with varying	Simple to install	AI-optimized Ethernet	Designed for AI/ML workloads
	Easily adapted skillset for existing network	Self-optimizing	Improved performance with SuperNIC and	Low-latency enhancements to
			Standard Ethernet familiarity	Open collaboration (Broadcom, Arista, Intel,
Cons	Requires QoS tuning for optimal performance	Rare skillset	Proprietary NVIDIA stack	Still evolving
		Operationally difficult to support	Not as open/interoperable as	Not widely deployed yet
Max Bandwidth	800 Gbps	800 Gbps	800 Gbps	Targeting 800 Gbps+
MTU	9216 bytes	4096 bytes	9216 bytes	9216 bytes
Layer 3 Support	Yes	No	Yes	Yes
Delivery	Best Effort, enhanced to lossless	Lossless	Lossless Ethernet with congestion control and	Lossless, AI-optimized Ethernet
Load Balancing	Hash Values	Deterministic (NCCL)	Adaptive Routing + Performance Isolation	Adaptive, AI-aware
RDMA Support	RoCEv2	Native	RoCEv2 with enhancements (via	RoCEv2 / enhanced
Enhancements	Dynamic Load Balancing	Adaptive Routing	Adaptive Routing	In development:
	Weighted ECMP	SHARP	Performance Isolation	Telemetry
	VOQ		Telemetry-based Congestion Control	Adaptive Routing
	DSF		BlueField-3 SuperNIC	Flow Isolation
	Adaptive Routing		DDP	Application-level QoS
	EtherLink		Advanced Packet	Enhanced congestion
	Performance Isolation			
	DDP			

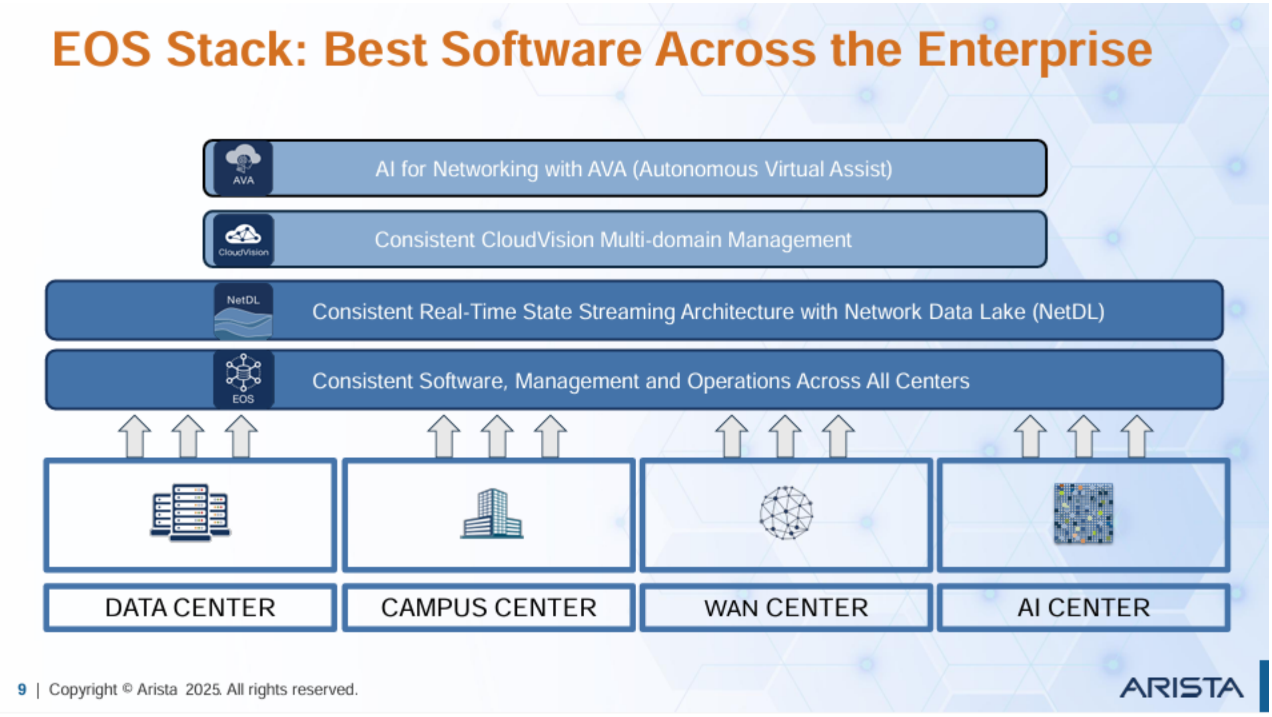
Arista is a major backer of the Ultra Ethernet Consortium, a group of companies including Broadcom, Cisco, Meta, and others. Ultra Ethernet is the next generation of Ethernet architecture, including new hardware and a full protocol stack, with the focus to "*deliver an Ethernet-based open, interoperable, high-performance, full-communications stack architecture to meet the growing network demands of AI & HPC at scale.*" Ultra Ethernet is slated to be fully available and deployable in late 2025 and early 2026, which Arista is anticipating adopting.

Spectrum-X, already available in the market, competes directly with Ultra Ethernet as both target the growing demand for AI data center networking. Built on technology acquired through NVIDIA's Mellanox acquisition, Spectrum-X is tightly integrated with NVIDIA's AI stack, offering performance tuned specifically for its ecosystem. However, this integration comes with trade-offs: it locks customers into NVIDIA's proprietary environment and tends to be more expensive. Despite the competitive pressure from NVIDIA, Arista continues to offer a more cost-effective solution that delivers comparable performance for most data center workloads, making it an attractive alternative for organizations seeking flexibility and lower total cost of ownership.

Now that we laid out the competitive landscape in networking, let's talk about Arista's business model.

High quality business model

On top of the open-source Ethernet architecture, Arista Networks employs its proprietary software, including their Extensible Operating System (EOS) and CloudVision platform, to deliver high-performance, scalable, and programmable networking solutions tailored for modern data centers and AI-driven infrastructures. EOS is a highly programmable modular networking operating system at the core of running a data center network. EOS is the software layer of the network architecture that is the sticky part of the stack. CloudVision sits on top of the EOS software layer as a multi-domain management platform that delivers a zero-touch network operations product to clients. This allows corporations, universities, and government agencies to run large, complex data centers easily and manage across multiple locations to deliver consistent experiences for their users.



EOS and CloudVision are the core software components that differentiate the business, but the company also sells the hardware, including switches, routers, cabling, and other networking devices.

Arista's services revenue is their higher-margin business, with gross margins around 80% versus around 60% for their product revenues. The services business has been growing at a +30% revenue growth rate, driven in part by AI enterprise data center growth but also due to new offerings like network automation, security, and analytics.

From a competitive perspective, Arista is the relatively new company in the networking space. They compete with Cisco, HPE (via Aruba Networks), Juniper Networks, and Broadcom (via VMware), and most notably now Nvidia (via Mellanox). Nvidia competes with Arista mainly on the hyperscaler and AI networking front, while the others compete largely in traditional enterprise and campus sectors. Arista stands out from its competition due to its superior software architecture (EOS), its strategic focus on AI and hyperscale data centers, and its best-in-class hardware performance. Enterprises love Arista for their easy-to-deploy software and their deep technical engineering support. Overall, Arista has a very high net promoter score relative to their peers in almost every review website we checked online, including a 1st rank in every category on comparability.com (shown below).

Arista Networks Competitors

Arista Networks competitors include Cisco and Juniper Networks. Arista Networks ranks 1st in CEO Score on Comparably vs its competitors. See below how Arista Networks compares to its competitors with CEO Rankings, Product & Services, NPS, Pricing, Customer Services, Overall Culture Score, eNPS, Gender and Diversity Scores.

CEO Rank	1st	eNPS Rank	1st
Gender Rank	1st	Diversity Rank	1st
Product Quality	1st	NPS Rank	1st
Pricing Rank	1st	Customer Service	1st

See Arista Networks Culture vs Competitors:

1st	Arista Networks	86 / 100
2nd	Cisco	76 / 100
3rd	Juniper Networks	75 / 100

Outstanding management

Arista Networks is run by CEO Jayshree Ullal, a founding executive, who continues to serve as president and CEO. Andy Bechtolsheim, Arista's co-founder and Chief Development Officer, remains heavily engaged in product innovation and technology strategy, helping the company stay at the forefront of networking advances. The management team has been very successful at staying at the forefront of networking while maintaining a conservative balance sheet and prudent capital allocation strategy. The company has made a few small acquisitions over the last 8 years but generally focused internally for growth, spending 15% of revenues on R&D over the last 12 months. In software and technology, I prefer this strategy, as large acquisitions can take years to digest at this size and scale. The company has no long-term debt, and it has an ongoing share repurchase program that bought back $480 million in shares in the last year. Management has stated that they plan to continue to buy back shares as the main form of capital allocation, as the business is now in a place where it will generate significant free cash flow going forward.

Substantial long term growth prospects

Arista sits in a prominent position in the networking sector with many large tailwinds, including AI data center investment and the adoption of Ultra Ethernet. Their growth will be driven by the rapid expansion of AI-driven data centers and the increasing demand for high-performance networking solutions over the next 10 years.

The global AI data center market is projected to reach $100 billion by 2030, growing at a compound annual growth rate (CAGR) of 30% over the next five years. In the United States alone, the AI data center market is expected to grow at a CAGR of 25.3% from 2025 to 2030, with services being the fastest-growing segment. (Source)

Arista will not only benefit from the growing AI data center market but also by offering new and additional products to manage more complex data center environments.

Reasonable valuation

Arista's valuation has always been on the higher end of the companies that we follow. This is largely due to the growth and financial profile of the company (high gross margins, little need for reinvestment). Arista is currently trading at 24x NTM EBITDA and 31.4x NTM earnings. That seems expensive for even the best businesses, but with an 18% growth rate CAGR and a mid-20s ROIC, I believe over the next three years Arista will generate slightly above the rule of 40. Based on the current valuation, we project that over the next 3 years, Arista can generate an IRR of above 25% per annum.

Short Portfolio Summary

	Q1
Average Short Exposure	47.4%
Contribution (gross)	15.8%

Best Performing	Q1 Contribution	Worst Performing	Q1 Contribution
IonQ Inc	2.0%	Medical Properties Trust Inc	-0.4%
Applovin Corp	1.8%	Palantir Technologies Inc	-0.3%
Rigetti Computing Inc	1.3%	Aurora Innovation Inc	-0.3%

During Q1, the short portfolio performed well above our benchmarks. 81% of our shorts generated a positive contribution in Q1, largely driven by the overall market decline. The opportunity set for shorts at the end of 2024 has largely been corrected in Q1, as there was a massive implosion in the quantum and AI bubble. I believe we will still see turbulence in US markets in 2025 that will be driven by government cutbacks in spending, tariff impacts, and resulting high inflation. Due to this belief, I have been keeping the funds' short exposure above our normal gross exposure level and anticipate that when the market begins to decline from these impacts, I will increase short exposure further.

Top Holdings & Current Exposure

Long Portfolio	Industry/Segment	% of NAV	Short Portfolio	Industry/Segment	% of NAV
Kraken Robotics	Defense Technology	15.5%	Quantum Computing Inc	Quantum Computing	-2.8%
Mercado Libre	Ecommerce	10.0%	Rigetti Computing Inc	Quantum Computing	-2.2%
Clearpoint Neuro	Medical Devices	8.8%	Tesla	Electric Vehicles	-2.2%
Shelly Group	Electronic Equipment	8.5%	Carvana	Automotive	-2.0%
Cellebrite	Software	8.1%	IonQ Inc	Quantum Computing	-1.9%

At the end of the first quarter the fund held 22 long positions and 34 short positions. The fund ended the quarter with an exposure of 125% long and 48% short or an 76% net long exposure.

Sincerely,

Sean
info@deepsailcapital.com

Disclaimer Deep Sail Capital LLC ("Deep Sail Capital") is an investment adviser to funds that are in the business of buying and selling securities and other financial instruments. This information is provided for informational purposes only and does not constitute investment advice or an offer or solicitation to buy or sell an interest in a private fund or any other security. An offer or solicitation of an investment in a private fund will only be made to accredited investors pursuant to a private placement memorandum and associate subscription documents. Past performance is no guarantee of future results.

"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.