



July 14, 2025

Recurve Capital Partners LP – Q2 2025 Letter to Investors

EXECUTIVE SUMMARY

- Recurve returned +31% gross in Q2 and +14.8% YTD. Carvana was our largest contributor and Cogent was our largest detractor year-to-date.
- We discuss our decision tree framework which helps inform our portfolio sizing decisions to capture outsized winners and avoid large losers.
- Founders Class is open for the next \$35M or until January 31, 2026.

Dear Investor,

Recurve had a strong second quarter, returning over +31% on a gross basis, which compared to +10.6% for the S&P 500 and +17.8% for the Nasdaq. On a YTD basis, Recurve returned +14.8% gross and +12% net¹ compared to +5.5% for the S&P 500 and for the Nasdaq.

Communicating relevant performance commentary in a dynamic top-down market environment is challenging and near-term results can be misleading – both up and down. We had an optically great Q2 primarily because the first quarter was choppy and because we didn't get shaken out of our positions when volatility spiked. Zooming out to what matters most, our companies are generally tracking well toward our medium- to long-term targets in underlying earnings per share.

The choppiness of our returns this year is a good reminder of known choices and compromises I make while managing Recurve's portfolio. Trump 2.0 has delivered significant market disruption and volatility during his first six months. I chose not to be reactive to those disruptions and instead looked to take advantage of volatility opportunistically, which usually accentuates our own volatility in the short term. Regular followers of Recurve will recognize this familiar pattern over time.

We own disruptors with strong secular, share-gaining growth opportunities that deliver attractive growth in normalized earnings per share over the medium- to long-term. We do so while accepting volatility as it comes, whether it's elevated or depressed, along our holding periods. Certain performance metrics like Sharpe Ratio may swing between a

¹ Net returns are based on Class A fee structure for capital invested on January 1, 2025.

range of decent to great depending on the environment we are operating in – and that’s okay. I am not optimizing for the Fund’s Sharpe ratio – I would happily accept higher volatility at times to generate greater returns, even if the “cost” was a lower Sharpe.

For me, there is significant psychological comfort in knowing that it’s “okay” to experience volatility. The market is built upon daily volatility and it’s not worth fantasizing that we can consistently dodge gyrations in performance while also targeting above-market returns.

For others, volatility creates a completely uncomfortable and unsafe psychological environment. This is the beautiful tension that translates into the push and pull of markets. Thankfully (for us), most of the active capital deployed in markets feels unsafe and uncomfortable around volatility and I try to use this to our advantage when I see opportunities.

I guide Recurve through the markets by creating as much value as possible at the intersection of my analytical processes and my temperament – especially in environments that feel uncomfortable for others. Inevitably, I’ll encounter more pockets of volatility, and my approach will remain consistent: stay steady, avoid fear-based decisions, and be ready to pounce when compelling opportunities arise. Q2 was a good reminder of that approach.

Next, let’s discuss an important “decision tree” framework that Recurve uses regularly in our process.

Decision Tree Framework

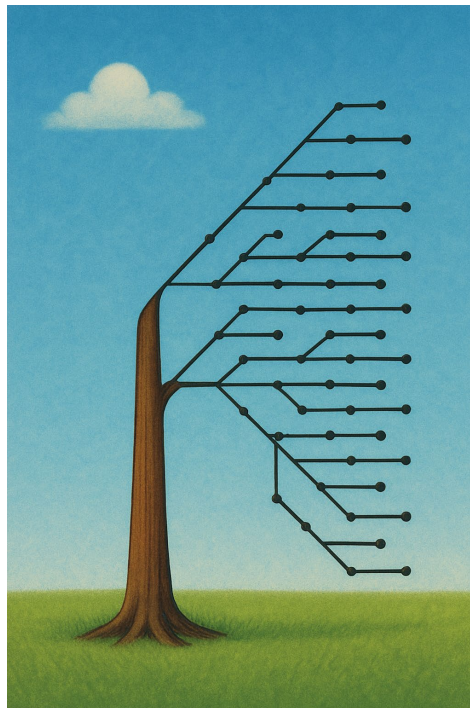
Followers of Recurve know that we have had a position in Carvana for many years. It has become our largest position by far and every decision not to sell despite its elevated concentration has been highly accretive to our performance. It’s also the position that has caused me to lose more sleep and learn more about myself as an investor than any other company in my 20+ year career.

Carvana offers a useful canvas to explore how I apply a decision tree framework to help navigate investment decisions.

Many investors, including myself in the past, use an upside/base case/downside framework to evaluate their investment decisions, ultimately driving toward a risk/reward ratio. While the concept makes sense, in practice I have found it to be a poor framework for me because of its rigidity. Companies often overshoot to the upside and downside, and they rarely perform to the “base case.” A framework that breaks often is not very useful. Even worse, this framework can be a crutch that leads investors to sell at “upside” price targets or buy at “downside” price targets when both could lead to substantial sub-optimal outcomes (opportunity cost or loss of capital). Our goal is to find great companies that we can hold for years and as long as they keep creating significant shareholder value – not simply exit them the moment they approach a near-term, rigid upside price target.

However, it is nonetheless important to utilize a disciplined approach rather than make subjective judgment calls at every turn.

I prefer to use companies' paths through their decision trees as our primary framework. Investment performance (positive or negative) is primarily determined by a company's fundamental outcomes as time progresses. If a company performs well and rises up the branches of the decision tree, we get great outcomes. If it is sinking to the bottom branches, we get bad outcomes. Our assessment of probabilities attributed to regions of the tree helps us determine potential for capturing significant value that is unrecognized by the market.

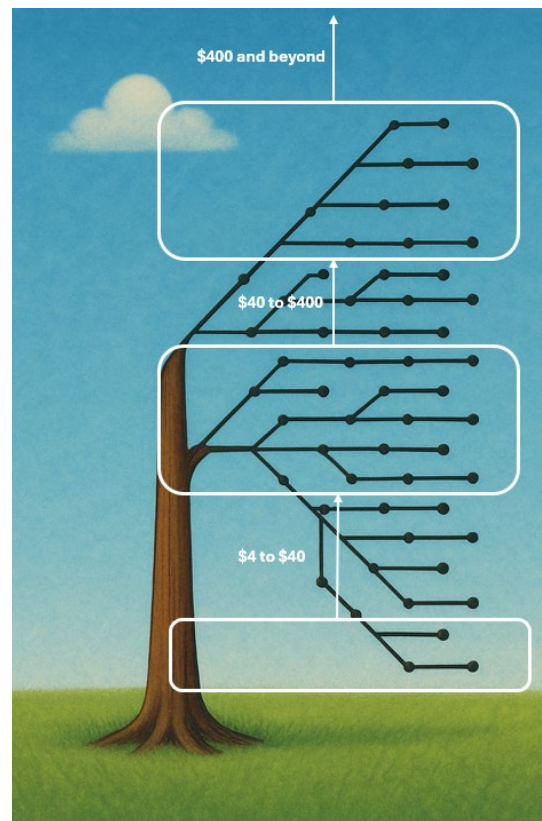


Drawn by ChatGPT

The highest quality companies with rock-solid balance sheets have effectively eliminated the bottom branches from their decision trees. Everybody knows they are high quality, but they may still generate future excess returns by sprouting new branches toward the sky. Most often, they do so by finding new ways to deliver more value to customers, generate new growth, and ultimately materially outperforming expectations.

While it makes me cringe a little to go back and read years-old material, we first wrote about this decision tree concept in our [November 2022 monthly performance update](#). That update included a detailed discussion on how we thought about Carvana in the depths of the panic and it may be worth revisiting if you are curious to see how we applied this concept back then.

Below is a rough approximation of the decision tree Carvana presented in 2022 and the path it took up the tree over the last three years.



Let's describe the journey up the tree in more detail:

1. In 2022, when the stock declined -99%, the market believed bankruptcy was a foregone conclusion. The company was burning cash and was highly levered. There were news reports about creditors banding together to restructure the balance sheet, which easily could have wiped out the equity. The market was urgently pricing in the lowest branches of the decision tree.
2. In 2023, Carvana started turning around its business which was reflected in vastly improving unit economics. The inflection in operational execution was visible early in the year, but the company was able to significantly cut off the bottom branches of the tree by executing a debt restructuring transaction in the summer of 2023. This eliminated the extreme downside cases of 2022, but the market was not pricing in Carvana's ability to reach the upper parts of the tree. It was hard to blame the market at the time – Carvana had flattened out its growth at levels below 2022's while it focused on improving its internal operations.
3. In 2024 and early 2025, Carvana began to stabilize its industry-leading unit economics while returning to growth rates that far exceeded analysts' expectations from late 2022 and early 2023. The return to growth has started to bring into play the

upper branches of the tree. In early 2025, the company publicized its expectations of achieving 3M retail units sold within 5-10 years, roughly 5x the current run-rate of the business at the time.

As you can see, each step along this journey up the decision tree has created about 10x in equity value from the bottom. As we look forward, Carvana has a proven best-in-class business model and is now performing solidly in the upper half of the tree. We expect the tree to keep growing taller. The combination of removing the bottom branches while not sacrificing the growth of new upper branches is what allows us to hold an extraordinarily large position in Carvana – especially now that it is generating significant free cash flow and deleveraging rapidly.

It is highly irregular and rare to find a near-bankrupt company that then goes on to become a high-quality secular growth story. We rarely see a journey through the whole decision tree, parsing the bottom branches as well as the highest branches. In other words, Carvana is an extreme example of this framework where balance sheet leverage and operational variance created a wide dispersion in future expectations.

Throughout our investment process, we try to assess where our companies are trending within their decision trees fundamentally and where the market is pricing them on that tree. Large differences create opportunities for alpha. We want positions to be growing in size as they rise through the decision tree, assuming valuation is not uncomfortable on a medium-term outlook. We tend to be more careful with sizing decisions when companies are falling to the lower branches, or when prices are rising well ahead of fundamentals. A temporary journey to lower branches can generate opportunities for significant accretion to the portfolio, but a longer-term visit to the lower branches often indicates deeper problems with the business. Being able to assess which is which in the moment can mean the difference between significant outperformance vs. significant underperformance.

At Recurve, we seek to own companies with knowable mature-state economics that are still quite far away from reaching those economics (said another way, companies with incremental margins much higher than current margins). Within those types of companies, we focus on ones that generate significant customer surpluses because those types of companies generate dependable growth over longer-term horizons. Our decision trees tend to have a healthy degree of variance in them because we are betting on both future revenue growth and margin expansion to produce attractive CAGRs in free cash flow per share.

Many of our companies and those we are drawn to have invested in purpose-built, modern operating infrastructure that are disruptive to competitors who have not (and often cannot) replicate their unique operating platforms. These competitively differentiating “platform” investments often are the foundation for delivering substantial consumer surplus and are funded through a combination of debt, equity, and/or reinvestment of free cash flow. When they are funded by debt, the dispersion of outcomes increases due to high operating

leverage (especially at below-maturity utilization rates) combined with financial leverage (Carvana being a prime example of this). When they are funded by reinvestment of cash flow, the risks are relatively benign (e.g. Amazon or Microsoft investing in data centers) because they can be turned off without sacrificing much – unless the company in question completely misses a new platform shift which threatens its legacy business.

I aim to build a portfolio with both types of companies to balance the risks and opportunities and generate a nice overall return stream. The highest IRRs will come from the debt-funded companies that become self-funding in the near- to medium-term, but they are inherently riskier if we get them wrong, and we are prudent with our aggregate exposure to them.

Portfolio Update

Our portfolio across Q2 remained quite steady, but our opportunistic approach around volatility added some value as discussed above. On a gross basis, our actual performance exceeded our “no trading” performance by about +360 bps in Q2. On a year-to-date basis, we have added about +160 bps of gross performance compared to our “no trading” portfolio at year-end 2024. While we are happy to have added value from our activity, this is only one of several of metrics we utilize to assess the quality of our decisions. It is somewhat misleading and potentially dangerous to use in isolation without also accounting for risk management considerations.

Below is our quarter-end portfolio and YTD gross attribution:

Company	Position on 06/30/2025	YTD Gross Attribution
Carvana	47.9%	24.3%
Cogent Communications	14.8%	-6.9%
Royal Caribbean Group	10.3%	3.5%
e.l.f. Beauty	7.3%	2.0%
RH	6.5%	-5.7%
Amazon	4.8%	0.0%
Paymentus	4.2%	0.2%
Brunello Cucinelli	4.0%	0.5%
Others (Exited)	0.0%	-2.5%
Total	99.6%	15.4%

Recurve’s performance has been heavily driven by a small handful of positions and, in this period, our slugging ratio is significantly outperforming our batting average. This is a decent outcome – especially when our biggest position has generated the highest YTD gain.

However, the large negative contributions from both Cogent and RH have been frustrating. Both are down for valid reasons, but I nonetheless expect great results from these companies over the coming years and they should become meaningful positive contributors to performance.

If you'd like to hear our latest thoughts on Cogent (as of June 2025), I would suggest listening to my appearance on Yet Another Value Podcast (link [here](#)). Andrew Walker led a great discussion, and I think we covered a lot of ground in about 90 minutes.

RH became a lightning rod for tariffs in April. As of this writing, presumably "stable" future tariff rates have been established in its largest source markets (especially China and Vietnam) which have taken the worst-case scenarios off the table (i.e. the bottom branches of the decision tree have been trimmed). There are still a few more tariff negotiations to come, but they are relatively small in exposure and we estimate that RH can offset the gross profit impact of these new tariff rates with about a 6-7% price increase. The company already pushed through HSD/LDD price increase across many SKUs in April/May. In other words, the gross profit impact already has been mitigated. With the most significant headline risks behind us, we see a cleaner operating environment going forward which should allow RH to resume and sustain its double-digit growth for years to come.

Fund Update

Founders Class terms apply to the next \$35M of new commitments or until January 31st, 2026 (our fifth anniversary), whichever comes first. Allocations are strictly first come, first served. To secure an allocation to receive additional materials, please email aaron@recurvecap.com.

My goal was to create strong structural alignment with investors for the strategy Recurve employs, i.e. since we are targeting high returns, we should offer a fee structure that becomes "market rate" only if we achieve those targeted returns. Creating a fee structure that varies based on our gross performance was my way of achieving that.

CONCENTRATION AND LIQUIDITY FRAMEWORK

Overall Philosophy

We allow exceptional winners to grow.
We do not trim reflexively.

Target Band

Portfolio positions generally range from sizes 5-30% of NAV. We expect Carvana to drift toward the mid-20% area as AUM grows.

New Capital Allocation

Incremental AUM will be deployed across the rest of the portfolio and future ideas until oversized positions trend toward the mid-20% level.

Liquidity Snapshot

A 25% position in Carvana at \$100M of AUM would still give us ample liquidity to exit within one day at 25% of ADV.

Oversize Review Rule

Positions above 35% for two consecutive months will be subject to <3 days of exit liquidity at 25% of ADV.

While the feedback on our existing fee structure has been quite positive, it also has led to some confusion because it appears to be rather unique in the marketplace. As such, in the coming months I plan to add an another fee class option that is more straightforward and popular, while still maintaining strong alignment between partners and Recurve.

I hope you have a great rest of the summer.

A handwritten signature in black ink, appearing to be 'A. Chan', with a horizontal line extending to the right.

Aaron Chan, Founder & Managing Partner

IMPORTANT DISCLOSURES

Confidentiality. This document is confidential and may not be forwarded, copied or otherwise distributed, in whole or in part, without the prior written consent of Recurve Capital LLC (“Recurve”). This document is solely to provide general background information about Recurve and to determine your level of interest in the fund to be managed by Recurve (the “Fund”). It may not be used for any other purposes. The information herein is a summary only and is intended to be reviewed in detail with Recurve. Prospective investors should not rely solely on the contents of this document or any information herein in connection with any prospective investment.

No Offer or Solicitation. This document does not constitute an offer to sell any securities of the Fund. Such an offer may only be made after you have received the Fund’s offering documents. Any decision to invest in a Fund must be based solely on the information in the Fund’s offering documents, regardless of any information investors may have been otherwise furnished. All of the information herein is subject to, and qualified in its entirety by, the terms described in the Fund’s offering documents. Before you make an investment in the Fund, you should carefully and thoroughly review those offering documents. Recurve cannot assure investors that the Fund will achieve its investment objectives. Further, many of the investment techniques and activities described in this document are high risk activities that could result in substantial or complete losses.

No Duty to Update. The statements herein are subject to change at any time in Recurve’s sole discretion. Recurve is not obligated to revise or update any such statements for any reason or to notify you of any such change, revision or update. For example, the discussions regarding investment objectives, processes, typical or ideal portfolio construction, gross or net exposure, position sizing, other portfolio limitations, other investment characteristics and team composition represent Recurve’s current focus and intentions and are subject to change at any time without notice. Depending on conditions and trends in securities markets and the economy generally, Recurve may pursue any objective, employ any technique or purchase any type of security that it considers appropriate and in the best interest of the Fund.

Forward Looking Statements. This document contains forward-looking statements based on Recurve’s expectations and projections about its future investment methods and techniques and its team. Those statements are sometimes indicated by words such as “targets,” “expects,” “believes,” “will,” “ideal” and similar expressions. In addition, any statements that refer to expectations, annual returns, projections or characterizations of future portfolio composition, events or circumstances, including any underlying assumptions, are forward-looking statements. Such statements are not guarantees of future performance or approach and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Prospective investors are cautioned not to invest based on these forward-looking statements and projections. Recurve’s investment approach and an investor’s returns could differ materially and adversely from those expressed or implied in any forward-looking statements as a result of various factors.

No Representation as to Accuracy of Information. Certain information contained herein has been provided by, or obtained from, third party sources. While Recurve believes that such sources are reliable, it cannot guarantee the accuracy of any such information and does not represent that such information is accurate or complete.

Service Mark and Copyright Information. The “Recurve Capital” name and mark is a service mark of Recurve.