November 24th, 2025

Recurve Capital Partners LP – Q3 2025 Letter to Investors

Recurve was up moderately in Q3 2025, +4% on a gross basis and +3% on a net basis, which compared to S&P 500 returns of +8% and Nasdaq returns of +11%. The AI theme accelerated late in Q3, while many of the more cyclical areas of the market underperformed. There were no substantial changes to our portfolio positioning during the quarter, but we did rebalance exposure moderately.

In light of our rather substantive recent updates from our August, September and October monthly commentary, we will focus this letter on one thematic area of our investment process: our long-term investment horizon and our expectations around portfolio composition. We then offer an update on Cogent given its material impact to performance in November.

Long Term Horizons

I'd like to offer some details about our specific brand of long-term investing, since each investor's behavior can be quite different. Many investors talk about having long-term investment horizons, but most do not behave in a long-term way, with long-term mentality and behavior. At my first firm in the industry, we claimed to take a long-term approach to TMT investing. It was true that we analyzed businesses on a 2-3 year outlook and brought diligence and rigor to our research process, but I recall that one year our long book turned over 6x and our short book turned over 10x – definitely not long-term behavior. It is one thing to evaluate prospective investments using a multi-year outlook but trade those hyper-actively; it is another altogether to build fundamental conviction around a long-term view, and then to own stocks through periods of outperformance *and* underperformance to extract significant long-term gains.

Most market participants have difficulty holding on during both outperformance and underperformance, but for different reasons. They may love their longs, but many are fearful of mean reversion and that periods of relative outperformance will be followed by periods of relative underperformance. When their stocks outperform by too much or for too long, they may substantially trim or exit their great performers, hoping to dodge periods of underperformance and possibly to buy back those investments after corrections. In doing so, they may have missed significant additional performance on larger exposure that could compound tax-efficiently for years.

On the other hand, many investors suffering from relative underperformance believe the market's response must be a signal that they are wrong. They seek validation of their

theses in the liquid market – hoping for good returns but not too much, too fast! If the market "invalidates" a thesis through a period of poor stock performance, they may disqualify their research and their conviction, and assume they are wrong based on price action alone. Or they may lose patience and rotate capital into other ideas that are "working" currently.

These are understandable and exploitable phenomena to opportunistic investors with proper long-term orientation. Most market participants understand that there are only a few known paths to index-beating performance: leverage, God-like trading acumen, and letting the winners run. We explicitly avoid trying to beat the market through the first two: we do not use leverage, and we do not trade much. Therefore, we choose to play third game. It wouldn't do much good to own NVIDIA 3 years ago if you sold it after the first +30% move, just like it would have been highly regretful for us to have sold Carvana at $40 after it had risen 10x from its all-time low.

Let's be more specific about our strategy with regard to long-term investing. We'll go through some Do's and Don'ts first.

Do:

- Hold winners that are tracking exceptionally well to our long-term fundamental view, even if valuation feels stretched.
- Rotate exposure selectively when large relative moves in the portfolio create an compelling opportunity.
- Consider tax implications of every trading action, but not at the expense of risk management.
- Exit positions immediately the moment we think we are wrong about the long-term potential of the business. Even if we believe they are too cheap when we sell.

Don't:

- Hold onto stocks just because we want to act like we are long-term.
- Get stuck in a position or emotionally attached.
- Trade hyper-actively or try to dodge volatility.
- Buy or sell on valuation alone. We look at the intersection of fundamentals and valuation and the opportunity cost of capital.
- Trade a stock just because it has moved up or down quickly.

I try to do what is rationally optimal for long-term performance given the fact patterns I see in every situation, which evolve every day. There are times I believe certain of our stocks have run too far, too fast, but that doesn't mean I will make a trade. For example, I was tempted to reduce our position when RCL eclipsed $350/share earlier this year. I did not sell any stock when I thought it was "running hot" by perhaps 10-20% – that wasn't enough to derail an investment that I believe will be a >20% IRR on a 5-year horizon. With the stock now at $260/share, it is easy to say that I should have sold some at $350. However, our

primary goal at Recurve is to capture the move from $350 to $1,000+, not to miss out on the drop from $350 to $260, even if it makes our performance more volatile along the way.

One of the core assumptions embedded in my view of what is "rationally optimal" for long-term performance is that I am not an elite trader. I don't have elite timing for entries and exits, and therefore I do not let my feelings about short-term trading dynamics dictate my behavior.

Recurve makes trades based on the opportunity cost of capital for all the options in front of us. For example, I sold some RCL a few months ago because I really wanted to add to Paymentus, which felt like an accretive rebalance in the portfolio when there was a large delta in relative performance. If such a compelling opportunity to rebalance did not exist, I would rather hold onto our position than hold cash. This is a good example of how almost every trading decision is originated in Recurve's portfolio – never in isolation, always considering all alternatives for capital.

Long-Term Portfolio Composition

Part of running a long-term strategy requires us to be simultaneously patient with core positions that we expect to generate significant value over time and also to ruthlessly exit other investments that are not tracking to our long-term thesis. This dynamic within the portfolio should result in low turnover among those core positions and higher turnover in ones that have not yet graduated to "core." I will explain this dynamic in more detail below.

Our idea generation process tends to focus on companies with relatively wide ranges of outcomes at the time of our original assessment and investment. I try to find fundamentally interesting companies that have invested significant resources in creating competitive differentiation that can carry on and strengthen well into the future. Ultimately, I want our companies to be "inevitable" winners in their end markets by generating so much customer surplus that they will benefit from significant feedback loops that are the engine for incredible market share gains and economic productivity in the future.

However, investing in them when the "inevitability" of the outcome is a foregone conclusion is less interesting to me, even if they may turn out to be decent equity outcomes. My classic examples of this dynamic are Visa and Mastercard. Everyone knows that they are great businesses. That consensus view makes them less interesting to me. I hope to find more Carvana-like situations from a few years ago: a best-in-class, disruptive business model that was still debated vigorously with regard to the inevitability of its outcome.

Our portfolio should hold a healthy mix of "core" positions that have crossed the chasm and proven themselves as inevitabilities (for us, CVNA, RCL, AMZN, Brunello Cucinelli) and more debated investments that have yet to win over the market with their inevitability – e.g. CCOI, RH, ELF, PAY. It is my responsibility as a portfolio manager to maintain a healthy balance of risk and opportunity. The highest potential IRRs would come from overweighting

the debated companies. If they work out, they should generate superior IRRs, as Carvana has in recent years. The lowest risk portfolio would tilt more toward the "core" positions, but most likely we would sacrifice return potential.

It is difficult to know for sure what is "optimal" on a long-term basis at any moment in time, but my approach is to anchor the portfolio with core positions that I believe can compound normalized earnings above 20% per year over the medium term and to round out the portfolio with interesting and more debated investments that could produce significantly superior IRRs if our research is proven correct. My hope is for every "debated" investment to graduate to a "core" investment, but realistically that will not happen. Our batting averages should be higher in "core" and lower in "debated," but I believe our slugging percentages likely will trend toward a similar level over time.

Cogent Update

Because it is highly relevant today with a -59% drawdown in November alone (through November 21st), I want to offer updated thoughts on Cogent (CCOI) and also discuss our long-term approach to it in light of the discussion above. Memorializing a live view of a volatile situation is uncomfortable, but in the name of transparency, I will give readers the full view of how I am assessing and navigating this situation.

As I have been working on this letter (partially why this is published so late in the quarter), Cogent suffered its worst trading day in history, falling -35% after reporting earnings and bleeding further from there. Our readers and investors will know all about Cogent – we have owned the stock since inception and have written about it ad nauseum. Since we launched, it had been a decent but not exceptional performer for us on a total return basis. After its Q3 2025 earnings report, it has turned into a sharply negative outcome. I will provide some context and discuss our response to it so far, and my plan for it going forward.

<u>Q3 2025 – What Happened?</u>

Cogent fell -35% on its earnings report (and continued to fall) for 2 primary reasons: (1) it cut its dividend 98% and (2) it reported fewer-than-expected wavelength additions in Q3, causing some investors to lose faith in the long-term potential in the business. #1 was expected by many investors (hence a >10% dividend yield before the cut) and likely caused some technical selling. #2 was a continuation of a slower-than-expected trends in the new wavelength business, despite increasingly bullish conference commentary by the company during the quarter.

There were some other puts and takes, but they are less significant than the items above. Of note, Cogent purged significant low- and negative-margin revenue from the acquired Sprint business over the last two quarters, reducing its annualized revenue by about $50M across Q2 and Q3. The faster we lose negative margin revenue, the better! Additionally, Cogent announced two positive updates: (1) it began leasing large blocks of IP addresses to brokers on take-or-pay contracts, nicely accelerating its ~100% margin IPv4 leasing

business; and (2) it signed an LOI to sell two data center facilities for $144M, with the deal likely to close in Q1 2026.

Cogent's selloff reminds me of when I owned Equinix and the stock fell -33% on its Q3 2010 earnings, missing expectations just weeks after the management team had been at conferences and on non-deal roadshows talking numbers up. It was and remains a big no-no for management teams to give bullish commentary and then miss the very next quarter. Despite the panic around Equinix in the market at the time, the stock roughly tripled within two years and is up 11x since then.

Now, let's go through different angles of this long-term investment more specifically.

Fundamental View

If we ignore management's short-term financial guidance for its freshly reconfigured network running a brand new wavelength service, with which Cogent has no past experience, the company has done reasonably well. It transformed its network and is prepared for at least a decade of growth. The company is ramping up its customer activity on the new network at a nice pace, growing nearly 100% y/y from a small base. It is now a roughly $45M run-rate business that should grow to be hundreds of millions of dollars within a few years. With >90% incremental margins, Cogent will produce significant margin expansion and cash flow growth from this business. However, the business has ramped slower than expected in the first few quarters, largely because Dave Schaeffer, Cogent's founder and CEO, has expected a discontinuous, "hockey stick" growth curve which has not materialized.

My research on the company suggests that the main problem is Dave's communication of "hockey stick" growth – not the viability of the network or Cogent's services. This is a startup business selling into a whole new segment and he has been expecting customers to it like a mature one – and customers are taking their time to validate Cogent's claims about performance, reliability, and quality. Thankfully, there have been no concerns on those fronts, but that doesn't mean customers give an upstart operation the full benefit of the doubt.

Away from the wavelength business, Cogent has a stable and moderately growing legacy business, a portfolio of unused and under-monetized assets that it is actively monetizing, and a Sprint business that should stabilize and generate positive EBITDA over the coming years. In a "break glass in case of emergency" scenario that overstates the situation today, Cogent could monetize Cogent Fiber, the entity that owns the fiber network and the physical facilities supporting the wavelength and fiber business. There are other paths that could be explored before that, like selling dark fiber (similar to what Lumen has done, generating significant buzz and stock gains) on the fiber network. Cogent has a physically diverse and unique fiber network with near-ubiquitous data center-to-data center connectivity and rapid provisioning capabilities. It is valuable whether Cogent is operating

it or someone else is. At such low equity valuations, many options for value creation should be on the table.

How Have We Traded Cogent?

When a stock is at a 10+ year low, all our trading metrics will look poor. We had trimmed about 20% of our Cogent position in the $70s earlier in the year because I felt our position was too big without full customer validation and acceptance of Cogent's network as a viable, long-term solution that would generate significant growth. Ironically, the further we got into the year, the more conviction I developed around the long-term viability of the business – but the worse the stock traded, especially now. These divergences between stock performance and qualitative conviction can be significant opportunities for future value creation.

Coming into Q3 2025 earnings, we hadn't traded Cogently perfectly by any means, but I tried to take advantage of technical selling from Dave's margin call/forced liquidation in August. Combined with relatively poor ex-Cogent performance in the portfolio, we entered Q3 2025 earnings with about a 14% position.

After Cogent's dramatic selloff in November, I sold 80% of our position, resulting in <2% of exposure. While this may be surprising to readers, I did this to capture tax losses which will largely offset significant gains we had realized in Carvana earlier in the year. This is a rare combination of events in the portfolio that are rather exceptional for us and which warrant more transparency.

We never let tax considerations lead the investment process or dictate trading decisions, but in this case, I did not think we were at risk of missing out on a big recovery in the stock during the wash sale period, for reason I outline below:

1. Cogent has been put squarely in the penalty box by investors, and Dave likely will not be overly motivated to execute one of many potentially accretive actions until he has a new compensation plan in place. The process to finalize his new comp plan is underway but is unlikely to be completed before year end. He must first resolve his personal financial situation so he will be able to retain upside in Cogent going forward.
2. We will not get another fundamental update until February, when Cogent announces its Q4 2025 earnings.
3. The company is unlikely to repurchase significant stock until it receives proceeds from selling data centers (earliest Q1 2026). The board has prioritized debt reduction and credit metrics for now.

In summary, I saw this selloff as an one-off window of opportunity to reduce the tax burden for Recurve's investors.

I firmly believe that Cogent is on a path to create significant value – especially from here these depressed share price levels – but I must also recognize that Dave Schaeffer has

communicated expectations that have been unrealistically optimistic, and that this new wavelength business may require a longer seasoning period than expected before reaching its full potential. I plan to increase our position significantly from current levels after the wash sale period ends, but I will be judicious about our sizing. We will carry a larger-than-normal cash balance for a few weeks as we navigate this period.

This situation with Cogent rhymes with the selloff in Carvana in some ways, but it is different in some crucial (and beneficial) ways. Carvana levered up to buy ADESA at an inopportune time, leaving the company saddled with expensive debt and negative EBITDA. In retrospect, the ADESA acquisition turned out to be a major boon for Carvana's long-term differentiation and growth.

Likewise, Cogent's acquisition of Sprint has resulted in a highly leveraged balance sheet due to the negative EBITDA it absorbed and the cost to complete the asset transformations from Sprint. I believe the setup is similar to Carvana's exiting 2022, but for Cogent there isn't a single counterparty (like Ally for Carvana in 2022) that could make the machine grind to a halt. Cogent's outcome will be determined by Cogent's execution – not by an externality.

Cogent has a strengthening business in a nice growth market. The dividend cut feared by many has happened. There are no legitimate solvency concerns and major strategic action the company took in Q3 was positive for Cogent's credit metrics going forward.

Our medium-term view is that >$10 of FCF/share is still very much on the table, though due to slower ramping of the wave business, it may be delayed vs. our prior expectations. Still, a timing delay creates an opportunity to take advantage of major dislocations, and these dislocations can lead to long-term accretion if the company can navigate through this period effectively.

<u>What if the Market is Right and We are Stubborn?</u>
This is a valid and important question. I ask myself this all the time, especially now. I am ruthless about assessing the facts, both positive and negative. The most important swing factor to Cogent's long-term value is its wavelength business – it is the primary driver of revenue, EBITDA, and FCF growth going forward. Without the wavelength business, Cogent would not be interesting – there is not enough growth to meet our performance expectations.

I have conducted dozens of calls with customers, potential customers, competitors, former employees, vendors, and others in the ecosystem. The network works as advertised, and it is a unique and scalable asset that Cogent can operationalize into growth smoothly going forward – much more smoothly than its competitors. It has valuable and unique routes across many parts of the country that are desirable to customers. Cogent's pricing is highly compelling and customers love it. All these factors suggest timing is the primary culprit – not network viability, competitive dynamics, or product execution. I do,

however, believe sales execution may play a part and may require some tweaking. These are solvable problems, but clearly patience is required.

Today, Cogent has about a $45M run-rate business with another ~$75M of estimated signed contracts that are either (a) installed but not yet billing due to customer acceptance delays, (b) in process of being installed, or (c) waiting to be installed once customers are ready to begin working on their networks. There is another $50M or so of opportunities that being negotiated but are not yet signed. This is validation of strong customer interest – but that interest needs to convert to revenue and cash flow. Cogent is having success with highly discerning hyperscalers which should validate the quality of the network and service levels with all customer types. The longer tail of smaller customers took longer for Cogent's sales force to turn its attention to, but it now appears to be gaining traction in those segments as well.

As discussed above, I believe Cogent has the potential to be similar to another Carvana-like outcome in our portfolio over the next few years. It has traded down due to communication blunders, transitory issues, and technical selling pressure (Dave's margin call + dividend cuts), but improvements are well underway and they should start to appear in results over the next year. The Sprint acquisition was a very tough one to conduct openly as a public company because it was so messy, had so many moving parts, and because quarterly reporting created a lot of confusion with all those moving parts. The complexity of the fundamentals was exacerbated by poor management communication which has hurt credibility and sentiment over the short- to medium-term.

I wouldn't put myself or our partners through this level of volatility out of stubbornness or to appear to be "long term." The upside potential was before and is now exceptionally compelling over a long-term horizon. I have been anticipating material growth acceleration from Cogent ever since the network transformation was completed. Once that shows up in earnest, we should enjoy the fruits of a decade-long, easy-to-understand growth story.

Closing

Our readers know that I use quarterly letters to discuss more philosophical and process-level insights about Recurve. Concentrated, long-term investment strategies have produced some of the best long-term track records in the industry. However, some practitioners implement these types of strategies by mimicking behavior, not by filtering new information through sound and rational principles and frameworks. They may buy dips reflexively—or refuse to sell stubbornly—because they believe that's what they're supposed to do.

Our goal is to own long-term winners, in size, over a long-term horizon as much as possible. This is accompanied by a second goal: to exit other types of companies as quickly and efficiently as possible once we are convinced of disconfirming evidence. These two goals are in constant tension across the portfolio. How can a company be a long-term winner, and how much runway are we willing to give it, if it is in a nasty drawdown? Sometimes

those are life-changing opportunities; other times the market has figured out and properly priced fundamental deterioration. Such is the endless challenge of the long-term, concentrated, fundamental investor. I hope this letter has provided some more insight into our philosophy and process around our specific implementation of a long-term investment process.

Aaron Chan, Founder & Managing Partner

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