MARRELLO
CAPITAL

February 2, 2026

Partners,

During our slightly truncated 2025 – inception was January 13 – the Partnership returned 36.6% net of all fees[1] and expenses as compared with 18.9% and 22.9% for the S&P 500 Total Return Index and MSCI World Index, respectively.[2] Although a promising start, I'll reiterate a point I've regularly made in our early correspondence viz. that our performance relative to global stock markets during brief and arbitrary timeframes should be afforded little weight given the capricious behavior of stock prices over short intervals. The trajectory of our returns throughout 2025 is illustrative of how sensitive quotations can be to fleeting market sentiment: on a gross basis, we experienced more than a 60% trough-to-peak recovery from the April lows notwithstanding limited turnover in our portfolio throughout the year. I can assure you the intrinsic value of our investments did not remotely exhibit that much variance during the period. Over longer time horizons, however, the influence of sentiment on securities prices cedes to the underlying fundamentals of the business. The informational value of stock prices is therefore a function of time: effectively worthless in the short run and determinative in the long run. The Partnership's success towards its objective – generating absolute returns – should accordingly be evaluated with that in mind.

The primary function of these letters – to be delivered twice per annum – will be to elucidate aspects of our investment process (which are certain to evolve over time) and highlight some of the investments we have made. With this being the inaugural letter, an extended word about the Partnership's investment philosophy is in order.

We start from the premise that the Pareto Principle dictates portfolio outcomes: the majority of an investor's returns will be driven by a small proportion of their investments. That means our path to sustainably achieving excess returns will be predicated on availing ourselves of the occasional big winner while mitigating, as best we can, the damage inflicted by our losers. Our approach to both security selection and portfolio management therefore attempts to optimize for asymmetry – i.e. we want to maximize the surface area of potential right-tail outcomes while insulating ourselves from the risk of meaningful loss.

At the broader portfolio level this entails a few considerations. The first is refraining altogether from investing on margin, which can quickly turn a small mistake into a permanent impairment of capital. We also do not engage in short selling and use derivatives only sparingly (e.g. long-dated options contracts). In lieu of these tools, I prefer to augment upside potential through concentrated position sizing. We have to ensure that we make our winners count; a tiny allocation – e.g. 1% of our portfolio – to a position that multiplies in value is generally a squandered opportunity. Concentration, to state the obvious, cuts both ways, and therefore

[1] Fees are comprised solely of a 22% performance allocation after a 5% hard hurdle. The General Partner does not charge a management fee.
[2] Please refer to the disclaimer at the end of this document regarding comparisons to indices.

position sizing is principally a function of the potential risk of loss: investments with minimal risk of impairment can justify a larger allocation. My preference is to allocate 5%-10% of our capital to new investments and allow the portfolio to organically concentrate itself over time. Winners will earn their right to comprise a larger share of the pie.

Next, we strive for extended holding periods. Achieving right-tail outcomes requires that we resist the temptation to sell our winners too early, allowing us to benefit from their continued compounding. To be clear, this does not mandate that we will be wed to our positions. If I consider an investment has become fully priced, or otherwise if in time I lose confidence in my prior assessment of the business (which will frequently be the case) we will move on.

Our portfolio composition has begun to reflect these dynamics. Presently, we have 16 investments, and our top 5 positions comprise well over half of total assets. Our top 3 holdings – D-BOX Technologies (15%), AST SpaceMobile (13%), and Zegona Communications (11%) – have earned their spots at the top by each returning roughly four times our initial investment. Despite the tremendous contribution these investments made in our first year, I believe they continue to be very asymmetric and thus have largely refrained from profit-taking. To make what I hope is an obvious statement, having multiple investments return fourfold in such a short timeframe requires some degree of good fortune and Partners should not expect this to be a repeatable outcome.

Now for the approach to security selection. Those of you with preexisting familiarity with our top three holdings will rightly conclude that I am not particularly dogmatic about sourcing investment ideas. For instance, while I consider myself a "value" investor, I do not view traditional value investing metrics like low price-to-book or low price-to-earnings as determinative, or in some cases even at all instructive, in assessments of valuation; indeed, I am not strictly opposed to investing in unprofitable businesses, or even those without meaningful revenues (e.g. ASTS), given the right constellation of surrounding features. Moreover, while I am biased towards growing businesses with their best days likely ahead, I am not opposed to a timely investment in a business that may be in decline provided the price is right. And while our focus is on smaller companies (<$1B market capitalizations), I am happy to go wherever the opportunity is.

Still, in the vast majority of cases, a handful of considerations are paramount: 1) is demand for the company's offering reasonably likely to grow, or at least persist, into the foreseeable future? 2) are the economics of providing that offering attractive? 3) does the company possess a durable competitive advantage such that it can continue to operate over the long term without competition eroding those economics? 4) are shares of the business substantially mispriced based on a conservative assessment of the present value of its future cash flows? and 5) can the company's management team be trusted to prudently allocate capital and run the business for the benefit of its shareholders? Over time these letters will attempt to flesh out these various considerations, but given the significance of the final inquiry to our results this year – viz. management quality – some further elaboration on this topic is worthwhile.

In much the same way our partners have forfeited control of their capital by entrusting me to allocate it prudently, I am in turn delegating the allocation of our capital to the management teams operating the businesses we invest in. Principal-Agent problems are a structural feature of public market investing: we have neither control over how the business' affairs will be conducted nor perfect information about the business itself. It is therefore essential to take efforts to appraise the character and competence of management teams. While certain steps can be pursued to color this inquiry – e.g. conversations, a review of track records, etc. – there is no amount of due diligence that can entirely overcome these agency costs: even extensive evidence of past honesty and execution is not probative of future behavior.

Assessments into managerial quality are not merely about the appraisal of risk. A great management team can radically transform outcomes for shareholders and turn what may appear a compelling investment into an exceptional one, whether through flawless execution or the pulling of levers largely invisible from the outside. The market credits managers with long track records of such maneuvering by placing premium valuations on their businesses. However, where track records are less extensive, management quality can often be an area of extreme mispricing. It follows that acquiring a variant view on this item can be immensely profitable. A core position in our portfolio is illustrative.

Vodafone Spain is the third largest telecommunications company in Spain. For more than two decades it was operated as a controlled subsidiary of Vodafone Group (which, coincidentally, we are also long, but that's for another day). Initially serving as a valuable growth engine for its parent, the subsidiary fell into distress in the late 2010s through a combination of poor strategic decisions, a troubled acquisition, and destructive competitive dynamics. As Vodafone Spain's financial metrics deteriorated, it failed to earn its cost of capital and became a drag on the parent's balance sheet, itself overleveraged. Facing mounting pressure from shareholders to refocus its strategy, the parent looked to divest the flailing Spanish subsidiary.

Enter **Zegona Communications.**

Zegona is a London-listed special purpose vehicle with a narrow mandate: raise financing to acquire a telecom asset, implement a strategy to improve the asset's valuation, and eventually exit and return all proceeds to shareholders, at which point it lies dormant in wait for its next opportunity. This is simply the leveraged buyout playbook common in the domain of private markets, only here the 'limited partner' equity interests are structured as publicly listed securities. Zegona is managed by its founders Eamonn O'Hare and Robert Samuelson, both of whom have extensive experience as European telecom executives. Through Zegona, they previously achieved two successful exits of smaller Spanish telecom assets. They are manifestly terrific managers and capital allocators, as you'll see. However, due to their prior successes coming from relatively small assets in an underfollowed jurisdiction, their capabilities have, until recently, gone largely unnoticed by the market.

In early 2024, Zegona acquired Vodafone Spain for €5.0B, representing a highly attractive acquisition multiple of between 4-5x EBITDA made possible by the target's challenges and Vodafone Group's unwillingness to devote further resources towards rectifying them. Zegona financed the deal with a crafty use of leverage that would result in explosive upside to the equity if they executed on their strategy: 6% of the purchase price financed by equity placed at £1.50/share, €3.8B of debt, and €900m of vendor financing from Vodafone Group structured as an additional equity component, but redeemable at the £1.50 issuance price plus interest. Importantly, because this seller note was accounted for as equity, redemption of the interest would be akin to extinguishing ~70% of Zegona's share count – meaning us ordinary shareholders would see our interest in the enterprise multiply upon its repayment.

Pursuant to the acquisition, Zegona filed a highly-detailed 250-page prospectus that articulated a comprehensive four-step plan to create value at Vodafone Spain: replace management, cut costs, stabilize revenues, and wipe out the vendor financing using proceeds from an accretive monetization of its underutilized fiber infrastructure. If this plan were successful, Zegona shares represented a mouth-watering bargain to my estimate of fair value somewhere in the mid-teens. But this was a big assumption to make. Most public companies communicate compelling narratives as to why they represent attractive investments; seldom do they translate these narratives into reality. Here is where one's assessment into management becomes crucial.

I had no prior familiarity with O'Hare and Samuelson, but an abundance of clues were available that strongly suggested they possessed the competency and motivation necessary to execute:

- They had extensive and successful experience in a single sector within a limited geography. **Narrow expertise in a niche area** often suggests a potential informational and competitive edge;

- The low acquisition price, clever financing structure and the detailed action plan around how to unlock value indicated **an intimate understanding of capital allocation** and focus on creating **per share** value;

- Their commentary around improved market structure and intense industry consolidation in the Spanish telecom sector disclosed **thorough familiarity with capital cycles and competitive dynamics;**

- Zegona's website was devoid of investor relations materials, including investor presentations which are ubiquitously used by public companies (especially those in the midst of major transformations) to market themselves in an accessible way. This **nonpromotional posturing** signaled their strategy was not a marketing narrative, but a *bona fide* plan of action.

- After closing the deal they quickly and decisively executed on pieces of their strategy, including securing term sheets to spin off the fiber assets and announcing a major reduction-in-force. A significant green flag is managers who **act precisely in accordance with their words**.

- Finally, they were very **aligned with shareholders**, owning meaningful shares of the company and structuring their compensation around the appreciation of the share price.

Fast forward: Zegona's execution has been near-flawless on each prong of their strategy. They have transformed a topline that was melting a few percent annually and not only stabilized it, but have actually positioned it for likely low single-digit growth in the years ahead. Meanwhile, management's ruthless cost-cutting initiatives have resulted in unlevered cash flow roughly doubling to ~€820m, implying a margin of 23%. Assuming no expansion of the acquisition multiple, this exceptional effort alone may have warranted a high single-digit share price. But management has magnified the value of these operational improvements through a brilliant case study in financial engineering and capital allocation.

Spain is one of the most overbuilt fiber markets in Europe. As a consequence, Vodafone Spain and its two largest peers have been hamstrung by the high fixed costs and capital intensity of operating underutilized fiber networks, which has dragged on cash conversion and depressed ROICs. Recognizing a shared interest in solving this problem, the operators adopted a playbook that has become increasingly popular in the broader telecom space: spin off the fiber assets and contribute them into equity joint venture vehicles with ownership determined roughly in proportion to the size of the party's network. If done correctly, this restructuring can unlock tremendous value.

Pooling of network infrastructure can generate significant cost synergies through economies of scale, de-duplication, and the sharing of capex burdens. Operators effectively become tenants to the joint venture, taking on leases to access the fiber network with those payments more than offset by lower capital expenditures and achieved cost synergies. The net result is increased total free cash flow across the ecosystem and improved ROICs. Moreover, because pure-play fiber infrastructure assets produce predictable and high-margin cash flows, these joint ventures warrant substantially higher valuation multiples (15x-20x EBITDA) and can handle significantly more leverage (>6x Net Debt/EBITA) than integrated telecoms. Successfully monetizing this arbitrage is where the magic happens.

Through the combination of debt recapitalizations and partial sales to third-party investors, Zegona generated €1.8B of proceeds by monetizing these fiber joint ventures. Further, based on the marks set by the partial sales, Zegona's retained equity in the joint ventures sits at ~ €400m. This €2.2B sum crystallized by the fiber spin-offs alone represents an incredible 44% of the €5B acquisition price for Vodafone Spain! From another lens, based on recent commentary from the company, the leases will cost the operating entity roughly €100m per annum net of all the savings attained elsewhere, implying management achieved a 22x multiple on these transactions.

The final cherry on top is how those €1.8B of proceeds have been allocated. First, €1.4B was paid out through a £1.62/share special dividend, which is notable not only because it exceeds the placement price of the equity – i.e. initial investors have seen their entire basis plus some returned already – but because its payment extinguished the €900m vendor financing, collapsing Zegona's fully diluted share count by more than two-thirds.[3] Of the remaining €400m of proceeds, half were applied to debt reduction and the other half is being returned through an ongoing buyback program.

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[3] While Zegona's common shares went ex-dividend prior to the year-end, this special dividend was not distributed until January 2026.

The collective result of all these actions is a share price that has appreciated more than tenfold in two years since the acquisition and now sits at £16/share (£17.60 including the special dividend). The Partnership's investment at an average price of ~£4/share made one year ago has therefore already produced a 340% return. You may, in light of this result, be surprised to hear that I have recently taken the occasion to meaningfully add to our position near this all-time high. Yes, I think there is still a lot of juice left for management to squeeze and they've earned my confidence in their continued ability to do so. A brief word on the path forward.

Shares outstanding presently sit at ~233m, good for a market cap just shy of €4.3B. Adding €3.4B of net debt gives us an enterprise value of €7.7B. As noted, unlevered cash flow is running at ~€840m, implying a ~9x multiple, which drops down further if we back out the retained €400m fiber JV stakes. Though this represents a moderate discount to peers, which trade at 11-12x, Zegona's capital structure magnifies the equity upside from closing this discount (i.e. each turn of multiple is worth an additional ~£3/share). This discount explains management's current focus on share repurchases (>£1m daily) which, in addition to being highly accretive, are presently providing a solid floor on the share price.

Management expects Vodafone Spain's revenues to grow low single digits moving forward given GDP growth tailwinds and contribution from a number of levers including pricing, increased convergence, and a nascent wholesale business. Additionally, they believe unlevered cash flow margins can reach 25% in the near term. That would suggest more than €900m of unlevered cash flow in the next twelve months, which needs to be adjusted to account for the fiber leases. Meanwhile, net debt is expected to drop a further €400m to €3B, which, along with an expected refinancing, will see interest expense decline from €220m to €150m, resulting in a big step up in free cash flow to equity, all of which will be returned to shareholders. Assuming a reduction in share count to 225m and an 11x multiple, these moderate (and potentially conservative) achievements would justify a share price in the mid £20s, a highly compelling ~50% return potential given what I view as very limited downside from here.

But beyond this, there remains another exciting avenue the market appears largely unattuned to. Namely, management intends to apply the spin-off playbook again this year, now with Vodafone Spain's radio access network infrastructure: contribute underutilized mobile network assets (spectrum, tower leases, equipment, etc.) into a JV, achieve cost synergies through capex sharing, elimination of redundancies, and economies of scale, and monetize those savings at an accretive multiple. Vodafone Spain currently has fixed costs to operate its network similar to those of its competitors despite having half of the customers, paying in the range of €270m annually just for spectrum and tower leases. Spinning these assets off into joint ventures could achieve some €150m of cost synergies. Assuming a multiple and leverage ratio in line with those achieved by the fibercos, we could see upwards of €2B generated from this process by my estimates. This ambition remains preliminary, but for anyone interested in more color on this general strategy, I'd refer you to a helpful Barclays note titled "Consolidation 2.0 – Sizing the RanCo Opportunity" from June 2025. In any case, successful execution on this item, which I believe is more likely than not, could result in shares doubling or more from here.

While I chose to highlight Messrs. O'Hare and Samuelson here, they are by no means the only mispriced managers we have invested with:

- Abel Avellan at ASTS is fearlessly tackling the notoriously challenging frontier of space-based communications and possesses certain attributes found only among the rarest breed of founders – despite his rapid ascent of the Forbes List, he takes no salary, has sold effectively none of his shares despite several billions worth of gains, and has even been reported to spend the occasional night sleeping on the factory floor;
- Craig Mull at Cipher Pharmaceuticals owns some 40% of the business and the company's shares have seen more than a tenfold increase in value during his reign almost entirely on the back of his obsession with cost control and demonstrated capital allocation prowess;
- Thomas Gallagher at Miami International Holdings has, in a relatively short period of time, seen his derivatives exchange capture nearly 20% of the market for options, disrupting a long-standing oligopoly enjoyed by much larger incumbents.

At least half of our investments lie in companies that are either founder-led or are operated by managers with substantial shareholdings. While extensive alignment by no means guarantees a successful investment, it does, in many cases, significantly tilt the odds in one's favor.

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We remain open to welcoming additional, like-minded partners. If our approach resonates, feel free to reach out to me directly; our minimum investment requirement will continue to be $50,000 for a limited time.

For our existing partners, I thank you for your ongoing support. Beyond these letters, you will continue to receive email updates every month or so. As always, do not hesitate to reach out directly with any questions or concerns.

Sincerely,

Dylan Marrello

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