July 30, 2025

Dear Partners,

I hope this update finds you well – ideally enjoying your summer vacations, getting ready to depart for them, or having just returned from them (in order of preference!). It's been a volatile first half of the year for global equity markets. In this update, I'll share a few thoughts on our fund's performance so far this year, briefly discuss the macro environment, and highlight developments across some of our holdings.

Fund Performance

Our fund had a good first half of the year, up 18.7% net.[1] I am very optimistic as we enter Q3 (which historically[2] has been the fund's strongest quarter) and pleased to report that the quarter has been off to a great start, with July shaping up to be one of the best months the fund has had so far.

We continue to demonstrate low correlation with the major market indices, and it is noteworthy that in the first four months of the year (Jan. 1 – Apr. 30), a period during which market indices experienced large drawdowns and were negative YTD[3], our fund had a positive return. I also find it particularly encouraging that our positive performance was achieved despite the fact that two major positions (GOSS and LUNR) registered very large pullbacks (50% and 73%, respectively) during the first half of the year. Our portfolio has enjoyed a durably strong performance since April, and I believe that we are still in the "middle innings" of the rally for most of our positions.

Fund Updates & Microcap Discussion

Investor-Only Website Area

We recently shared the password for the investor-only part of the website – please contact ir@phestos.com if you need help accessing it. We plan to post more frequent updates and hopefully interesting content there, and we welcome your feedback and ideas.

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[1] Return for a hypothetical investor who subscribed at inception. Individual investor returns will vary depending on subscription timing.

[2] Admittedly not a very long history: Q3 has been the best performing quarter in each of the three calendar years the fund has been active so far (2022-2024); I hope the tradition continues in 2025.

[3] The SPY ETF was down 5.1% and the small-cap IWM ETF was down 11.6% during 1/1 – 4/30/25.

Microcap discussion

Over the past two years, the fund's focus has shifted towards investing in small- and micro-cap stocks. The result has been rewarding in terms of returns, despite the fact that the small-cap space in general is not performing particularly well. It is the nature of life in general, and of investing in particular, to not always be sure whether a positive outcome was just the result of luck. Even theoretically, the question of how to determine whether an investing track record is the result of skill or luck remains an open one. Various methods are routinely used, usually involving an expression of skill measured as units of return over units of volatility (examples include: the Sharpe ratio, the Sortino ratio, etc.); the issue with most of these is that they equate volatility to risk, which, for reasons I have discussed in previous updates, is conceptually problematic, especially when it comes to retail investors (as opposed to institutional investors with stricter constraints and well-defined time horizons). The fund's academic advisor, Dr. Fanis Papamichalis,[4] undertook the task of evaluating the extent to which our good performance so far in microcap stocks has been the result of skill. To that end, he analyzed the performance of more than 3,000 US-listed microcap stocks from April 1, 2023 to July 21, 2025. Over that period, Phestos invested in three microcap stocks[5], *all three* of which performed exceptionally well. Microcaps are a market segment that is "feared" by many investors due to the volatile nature of their results. Very small companies are inherently risky and tend to behave as "option plays" with binary outcomes: they either "take off" and generate outsized positive returns, or, more often than not, they result in large losses (and even total loss of capital in the form of bankruptcy and delisting.) Of the three micro-cap stocks Phestos invested in, *all three* had generated returns in excess of 100% as of July 21, 2025. To estimate the probability that this could have been achieved by pure chance, Dr. Papamichalis conducted a statistical simulation of the performance of 100,000 unique portfolios, each constructed by picking three stocks at random, equal-weighted, from the universe of U.S.-listed microcaps.

The complete analysis will be posted over the next few days in the investors-only area of our website. I summarize the key findings below:

- The probability that three microcap stocks picked at random would *all* return more than 100% was 0.6%; the probability that *none* would have a negative return was just 9.82%.

[4] Dr. Papamichalis is a Lecturer at the Yale University Economics Department.

[5] These were: ASP Isotopes (NASDAQ:ASPI), Mama's Creations (NYSE:MAMA) and Falcon Metals (ASX:FAL). These stocks had a market capitalization below $150 million at the time of our initial investment. We have excluded from the analysis two micro-cap (at the time of initial investment) stocks that Phestos has invested in but has held for less than one year as of July 21, 2025; these are: Luca Mining Corp. (LUCA) and Greenland Resources (MOLY). They will be included in future updates of the same analysis.

- The expected total return of an equal-weighted portfolio consisting of three random microcap stocks for the period April 1, 2023 – July 21, 2025 would be 26.7%, or 10.7% annualized. The average return of the three microcaps Phestos picked was 811%, *more than thirty times* higher.[6]
- Of the entire universe of three-stock portfolios of microcap stocks, the return of our microcap portfolio would have ranked in the 97th percentile; meaning, only 3% of *all possible* portfolios would have generated a higher return.[7]

The above figures give us confidence that skill was indeed involved in the selection of the microcaps we have invested in so far, and we are likely to increase our allocation in this space. We continually try to evaluate what drives our investment performance.

Market Commentary

The first half of the current year was a great example of the value of simply "trusting the process" and not overreacting to short-term market volatilities. If a hypothetical passive investor (say, someone who has 60% of their portfolio in the S&P 500 and 40% in long-term treasury bonds) who is checking their portfolio once every six months logged in at the end of June to check their balance, they'd probably think that not much had happened during the first half of the year. Their portfolio would be up 4.6% YTD, a pretty average performance.[8] And yet, during that six month period, we saw: the worst quarter for equity markets since 2022; 20%+ pullbacks for the S&P 500 and the Nasdaq; some of the largest single-day declines *and* rallies over the past 20 years; and remarkable geopolitical developments, such as the U.S. announcing staggering tariffs against pretty much every country in the world and the U.S. bombing Iran(!). All that, to end up with a "boring" 6% return for the S&P 500.

Macro Picture: "Déjà vu all over again"

If you recall, in our late February update we expressed a cautious stance on U.S. equity indices, on the simple premise that the combination of high valuations and record high positioning is likely to produce below-average returns over the medium-term.[9] A few months later, we find ourselves in pretty much the same situation

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[6] Return calculated using the average cost basis for each stock, and assuming that each stock was held until July 21, 2025.

[7] Again, assuming equal weights for each of the three stocks.

[8] Assuming a 60% allocation to the SPY ETF and a 40% allocation to the TLT ETF.

[9] Just as described in the previous paragraph, "below-average return" might look smooth and orderly in larger timeframes, but gets a lot "uglier" the more one zooms in. It may simply mean something like 6%-7% annualized over the next five years; yet, for someone following the market daily and in real time, it usually means violent drawdowns, sharp rebounds, and periods of nerve-racking volatility.

when it comes to valuations and positioning (albeit, with a 20% pullback and a monster rebound in between – again, *a lot* has happened for those following the market day-to-day, but *not much* has happened for those following the market semester-to-semester), yet with a macro backdrop that is somewhat worse: first, U.S. growth is slowing (growth was negative in Q1); second, while tariffs have been somewhat walked back, a meaningful tariff increase is still taking place, and that is likely to negatively affect growth and/or corporate margins in subsequent quarters; and third, yields have started rising again and are currently higher compared to where they were in late February – more importantly, we now know that the U.S. federal deficit will not be closing any time soon, as some might have believed during the beginning of the second Trump Presidency. So, the conclusion is not very different today than it was five months ago: a large pullback (yes, *another* one) over the next twelve months is likely, as is that someone buying the S&P 500 index today will see lower returns over the next five to ten years compared to someone who bought at any time during the period from 2009 to 2020. Also, a reminder that large segments of the market are still in a multi-year bear market: small-caps and mid-caps have gone **nowhere** for the past four years, as their respective indices are *still* below their 2021 peak. It is the mega-caps (primarily Big Tech) that keep "saving" the overall market.

Portfolio Updates

Gossamer Bio (GOSS)

As discussed in the previous update, the only major catalyst for GOSS over the next twelve months is the conclusion of the PROSERA phase 3 study, which will be a "make or break" moment for the company. In its most recent earnings call the company's management disclosed that they now expect to announce topline results from PROSERA in February 2026, a slight delay compared to the previously expected timeline (December 2025). That said, there have been multiple positive developments over the past few months. In late February Gossamer presented additional data from its phase 2 trial, which further demonstrated (1) a solid safety profile and (2) a synergistic / complementary effect with Merck's Winrevair.[10] In June, the company announced that it had completed patient enrollment for the PROSERA study. More importantly, the enrolled patient population characteristics increase the likelihood of a positive outcome. Compared to the patient population in the phase 2 study, a much larger percentage of patients is now in Functional Class III (meaning, a more advanced stage of the disease); the patient population is also heavily skewed towards international patients, in contrast with the phase 2 population which was almost entirely comprised of U.S. patients. Both of these characteristics are important: there

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[10] Winrevair is the commercial brand name for the drug formerly known as sotatercept.

is strong evidence that seralutinib is more effective with patients in more advanced stages of the disease and, in previous studies (both Gossamer's phase 2 study as well as Merck's sotatercept studies), international patients showed greater improvement vs the placebo compared to U.S. patients.[11] Furthermore, while patients who receive background sotatercept treatment were not excluded from the study design, it turns out that only about a handful will end up being enrolled. This is favorable to Gossamer, since there are strong indications that sotatercept is more effective compared to other background treatments.

All of the above bode well for PROSERA's success probabilities and, consequently, for seralutinib's FDA approval odds. Gossamer's stock has recently rallied, but the company's valuation remains low compared to the potential should PROSERA demonstrate a statistically significant improvement for patients receiving seralutinib. While a small pullback here wouldn't be surprising, we continue to expect a market capitalization of *at least* $600 million as we get close to the PROSERA study data readout, compared to the current market cap of approximately $450 million.

New Positions: Junior Mining Companies

Over the past few months we have built positions in a number of junior mining stocks, all of them pre-production. This positioning is driven by an overarching thesis that we are still in the beginning of a durable upcycle for most metals, including silver, gold and others. In April we opened a sizable position in Vizsla Silver (NYSE:VZLA), a company developing one of the largest silver mines in the world, and in November 2024 we opened positions in Luca Mining (TSX:LUCA), a gold exploration company, and Greenland Resources (NEO:MOLY), a company developing a molybdenum mine in Greenland. These were added to a position we have had since last year in Falcon Metals (ASX:FAL), an Australian gold exploration company. I will expand more on these names and in our thesis for junior gold miners and physical silver in a future update, but for now I just wanted to disclose the positions.

As always, I am available if anyone wants to discuss any of the above in more detail.

With warm regards,

[11] There is no established reason as to why this happens; a possible reason is that U.S. patients typically receive better background medication and overall treatment.

For Phestos Fund, LP

Nikos Angelopoulos

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