



Dear Fellow Investors,

The fund returned 10.6% for the first half of 2025 (net of fees), ahead of the S&P 500's return of 6.2%. AI and mega-tech continued to drive performance of broader US markets, but it was a volatile half-year due to tariff uncertainty. While the US stock market bounced back relatively quickly, the US dollar has not. Unpredictable trade policy most likely contributed to this shift in capital flows to Non-US countries. While I've already been increasing my focus to non-US markets over the years, trade policy or lack thereof in the US has only increased my desire to look outside the US, especially given valuation differences.

One market that has caught my attention is Japan. Like many, I have been skeptical of how widespread efforts to improve capital allocation would become, but capital efficiency reforms and policies have continued to build momentum. The historical tendency of many Japanese companies to hold excess cash and investments in addition to other issues have been a drag on valuations for many years. The encouraged capital efficiency changes are a clear and low-risk way to eliminate this issue and unlock excess value. While not all Japanese companies are implementing material changes, many are. Buybacks in Japan have more than doubled since 2022 and dividends are up over 70%. M&A has also picked up considerably in terms of overall value and number of deals. Japan's stock market value has only recently surpassed its lofty mark set back in 1989, a very long comeback that has certainly had a huge impact on investor psyche. Price often drives investor's narratives for companies and markets, and now that I've seen consistent evidence of Japanese companies' commitment to improved capital efficiency I'm eager to continue researching small Japanese companies leading the way. I've found a number of promising candidates and have begun building positions but am not ready to discuss anything specific yet.

The fund's strongest performer for the first half of 2025 was Azeus. Shares are up over 40% this year including dividends thanks to strong results yet again as the Hong Kong contract continues to build. Importantly, the HK contract will be most impactful through the next two years, then shift to a lower, but high-margin recurring revenue stream of around 38M HKD per year. Outside of the HK contract, core Convene software revenue continues to grow over 20% YoY and hiring for software sales, development, and ESG-specific roles has remained strong. The business continues to fire on all cylinders, and I'm eager to see what they're able to accomplish in the future. While Azeus stands alone as the largest contributor YTD, there is a basket of smaller positions that have also provided modest returns, some Japanese positions, QEP Co., Leon's Furniture, etc.

The biggest detractor from performance for the first half of 2025 was IG Design Group. I purchased some shares last year and this year, but overall the position (thankfully relatively small) is down well into the double digits. Shares fell sharply in January after a disastrous trading update and have recovered modestly since. I'll discuss IG Design more comprehensively later, but

| Year | Net Return | S&P 500 | Alpha |
|---------|------------|---------|--------|
| 2H 2018 | 11.5% | -6.9% | 18.4% |
| 2019 | 108.3% | 31.5% | 76.8% |
| 2020 | 38.7% | 18.4% | 20.3% |
| 2021 | 69.1% | 27.9% | 41.2% |
| 2022 | 18.2% | -18.1% | 36.3% |
| 2023 | 14.9% | 26.2% | -11.3% |
| 2024 | 32.4% | 25.0% | 7.4% |
| 1H 2025 | 10.6% | 6.2% | 4.4% |
| CAGR | 40.5% | 14.3% | 26.2% |



my core thesis is the legacy “DG International” division is much more profitable and stable than their long struggling “DG Americas” division and they likely could sell at least the real estate in the US and perhaps some of the ongoing business for a considerable sum. Unfortunately, their 4th largest customer in the US went bankrupt and not long after tariffs put extreme pressure on their supply chain, putting them in a much more precarious position. I still hold shares because I believe the downside is limited at these levels, especially since they have completely exited DG Americas, but it’s still a little messy.

The fund’s 10.6% net return for 1H 2025 brings cumulative annualized returns to 40.5% since inception vs. 14.3% for the S&P 500 over the same time frame. \$100,000 invested in Smoak Capital since inception (June 2018) has now grown to \$1,084,584. The fund is closed to new investors for the time being but I’ll reconsider adding new investors on an opportunistic and selective basis at some point in the future.

I sincerely thank you for entrusting me with your hard-earned resources. With patience, focus, and a process-oriented mindset, I’m confident our portfolio returns will continue to exceed the broader market over the long-term. As always, feel free to reach out anytime with questions or concerns.

Best Regards,

Please keep reading below for an in-depth discussion on some of our investments:

F.I.L.A. S.p.a. (MIL:FILA)

FILA reported a strong Q1 with revenues up 4% and adjusted EBITDA up 7% YoY. FILA has also committed to paying .80/sh in dividends for 2025, .40 was paid in May and .40 will be paid in November. They reaffirmed previous guidance for 2025 but cautioned Q2 could be softer due to tariffs, from delayed customer orders and/or softer US consumer spending. Understandably, shares pulled back on these comments. More surprisingly, last week when Intermonete (one of the equity research firms covering FILA) published a revised 2025 EBITDA target of €95m (vs. €102m previously) due to US consumer weakness, it sent the stock down almost 15% on heavy volume. What I thought was seemingly priced in, apparently caught some by surprise, so again FILA looks very undervalued in my eyes. At 8.50/sh, FILA shares trade at only 5x EV/EBITDA if you only give them credit for the 6% ownership in DOMS they can sell without impacting their shareholder rights at all. They still own a remaining 20% of DOMS, worth 283m. I believe the reason they changed the relevant rights threshold at DOMS from 26% to 20% is very clear. They intend to sell another 6%. But in order to maximize leverage in any negotiation with a potential buyer, there is no reason to definitively declare your intention to sell.

Importantly, FILA is not under any post-IPO lockup or other restriction on their remaining shares. In the right scenario, if they wanted, they could sell the entire stake. At present, FILA relies very little on DOMS for any manufacturing capacity. If they were to retain their stake and maintain



relevant shareholder rights, I think the path forward could be to increase utilization of DOMS as a manufacturing hub, thereby making FILA more of the capital-light brand owner and distributor. This would obviously take time and resources but DOMS has been consistently expanding capacity and could continue doing so. Then on the other hand, if FILA wanted to sell its entire stake in DOMS (valued around 370m), in my mind it would make sense to do so before becoming more intertwined. There are many other scenarios as to how this could play out, but curiously a common market perception seems to be that FILA will never sell any more DOMS.

FILA's management team has created significant value with a number of pieces over the years, most notably Dixon Ticonderoga and DOMS, and I believe will continue to do so. I think shares present a very attractive opportunity at current levels and have added to our position accordingly.

IG Design Group (LSE:IGR)

IG Design Group is a UK-based producer and distributor of gift packaging, craft and party supplies, homewares, and other items. After a number of years of growing earnings and dividends, IG Design acquired two large US competitors, first Impact Innovations in 2018 for ~\$75M, then CSS Industries in 2020 for ~\$95M. Integrating these US acquisitions did not go well and they've been struggling to bring their "DG Americas" division to profitability ever since. After hitting a high of over 7 GBP/sh in late 2019, supply chain struggles and the underperforming US acquisitions forced them to cut their once growing dividend entirely. The stock price proceeded to get cut by over 80% in 2022. They were able to stabilize the business and delivered a much better bottom line result in 2024, but only right before disaster struck again. One of their larger customers, Joann Fabrics, after initially restructuring in 2024, went bankrupt again in early 2025, which likely was the beginning of the end for DG Americas. Given the seasonal working capital demands of their business and uncertainty presented by tariffs, management decided to exit the US business completely. DG Americas was sold to a liquidator for a nominal sum of \$1 and a 75/25% split of net proceeds between the IG Design and the liquidator, respectively. Even if they receive a material sum from the liquidations, it will be a far cry from what they purchased the US businesses for 5-7 years ago. Clearly this was a terrible experience and outcome for the company and any unfortunate shareholders along for the ride.

You're probably wondering why anyone would want to touch this company and certainly wondering why I'm bothering talking about it. IG Design's core business, "DG International", has hummed along just fine throughout this entire debacle. During FY25, the DG International segment generated \$28.1m in adjusted operating profit before corporate costs. In fact, DG International has consistently churned out \$20-\$30m in adjusted operating profit for most of the last decade. They still anticipate some headwinds for FY26 and will incur some costs related to DG Americas for a couple months prior to selling to Hilco Capital (the liquidator). Importantly, management sees adjusted operating profit returning to \$13-15m in FY27. That target seems very achievable, especially since they can finally put all of their attention to their more profitable, stable segment.

The market cap today is around \$80m USD and they have \$85m in net cash, so there's not much good news baked in. While I don't expect much in terms of proceeds from the DG Americas liquidation, they have received \$8.4m so far. I've estimated DG Americas owns over \$30m of real estate and some smaller structurally profitable segments but it's unclear how well the good parts are



structured separately from the bad parts and also how material wind-up costs could be. For those reasons I'm keeping expectations low for any proceeds from the DG Americas liquidation.

While I truly think the bulk of bad news is behind them, owning even a small position has been a headache to say the least. When it comes to small LSE traded companies, and especially AIM-listed companies, I'm disappointed by the lack of respect given to minority shareholders, dark-room style trading on the AIM, and trading updates with as little information as possible. In my experience, it's always better to communicate to shareholders in a straightforward manner, delivering bad news clearly and up-front, owning up to mistakes, and discussing the path forward. Continually trying to paint everything in the most rosy way (especially significant mistakes) often leads to distrust of management. My favorite companies are ones that continually underpromise and overdeliver, and my least favorite do the opposite.

Important Disclaimer

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An investment in the Fund is speculative and involves a high degree of risk, including the risk of loss. The Fund's performance may be volatile and there is no assurance that the Fund will achieve its investment objectives or that investors will receive a return on their capital. The fees and expenses charged in connection with an investment in the Fund may be higher than those charged with other investments, and in some cases, may offset their trading profits. Investors could lose all or a substantial amount of their investment in the Fund. Investors must read and understand all the risks described in the Fund documents before making a commitment.

Smoak Capital Management launched in July 2018 and separately managed client accounts until launching the Fund in June 2021. The firm's investment strategy has remained consistent since inception, but results presented prior to June 2021 consist of qualified client SMA results net of fees.

Past performance is not indicative of future results or a guarantee of future returns. The performance returns presented herein represent the average return of the Fund's limited partners, include the reinvestment of dividends, interest, and other earnings, and are shown net of operating expenses, management fees and incentive allocations. An individual investor's actual returns will differ from the results shown herein due to factors such as the timing of capital contributions/withdrawals, different fee arrangements, and treatment of loss carryforwards. Thus, individual investor performance as well as the Fund's aggregate performance will differ from the performance presented herein.

The Fund's performance is shown compared to the S&P 500 Total Return Index. The S&P 500 Index, a widely used benchmark of US equity performance, consists of 500 large cap companies chosen for market size, liquidity, and industry group representation. Each company's weight in the S&P 500 Index is proportional to the total market value of all outstanding shares of such company. The S&P 500 Total Return Index measures the performance of the S&P 500 Index by assuming that all cash distributions are reinvested, in addition to tracking the components' price movements. Indices are unmanaged and are not subject to fees or expenses, nor can you invest directly in an Index. Due to their differences, performance of the Fund and the Indices is not comparable. Smoak Capital Management is not aware of an index that is directly comparable to the Fund's strategy.