Elena Partners Fund LP
First Quarter 2025 Investor Letter
May 12, 2025

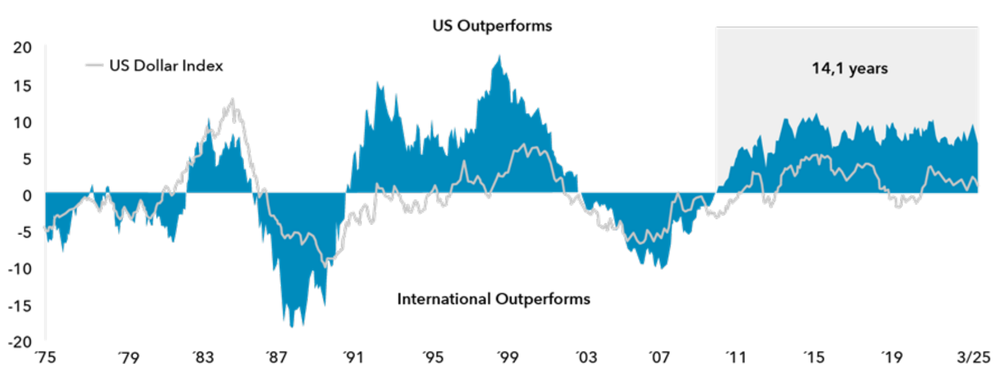
Dear Investor:

During the first quarter of 2025, the Fund produced a net return of 7.2% compared to -4.2% for the S&P 500 and -1.2% for the MSCI All-Country World Index. Throughout the quarter, gross exposure averaged 121% while net exposure averaged 60%. Our long portfolio generated an 8.4% gross return, whereas our short portfolio produced a -0.2% gross return. At the end of the quarter, the five largest holdings—Landis+Gyr Group AG, Lottomatica Group Spa, Grifols SA, Kelt Exploration Ltd, and Prosus NV—accounted for 43% of the Fund's net asset value.

Market Commentary
Since our inception in 2020, we have primarily invested outside the United States, not solely based on our macro view, but on a combination of our expertise and bottom-up research. Most non-US markets have significantly lagged the US over the past fifteen years, creating compelling valuation disparities. We were early to capitalize on these opportunities and have managed to counterbalance the portfolio's unfavorable geographic mix with effective stock selection, outperforming the MSCI ACWI ex US (MXWDU Index) by over 6% annually while investing 78% outside the US and maintaining a net long position of 44%, on average[1]. This quarter, our absolute and relative performance finally benefited from a break in US momentum and a shift towards international equity markets. This trend continued into April.

As the chart below illustrates, periods of US vs. non-US outperformance/underperformance can last over a decade once capital flows shift and the trend gathers momentum.

US Equity vs. International Equity 5-Year Monthly Rolling Returns (%)

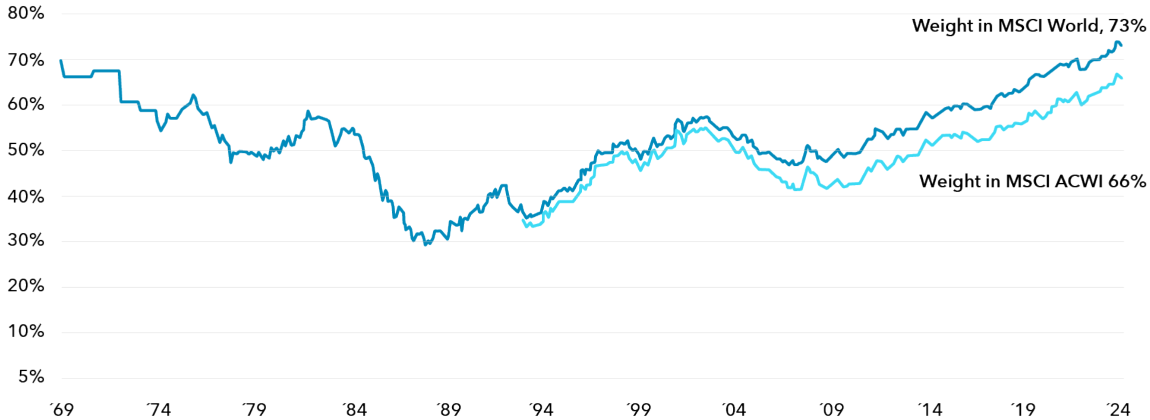


Source: Hartford Funds

[1] The Elena Partners Fund continues the strategy the investment manager executed for a single client via an SMA starting in December 2019. In January 2024, the securities in the SMA portfolio were contributed to the Fund. Deloitte audited the SMA track record, and the audit report is available upon request.

The elements preceding previous regime changes, such as lopsided positioning and extreme valuation disparities, are present today. US and international investors are significantly over-indexed to US equities relative to history.

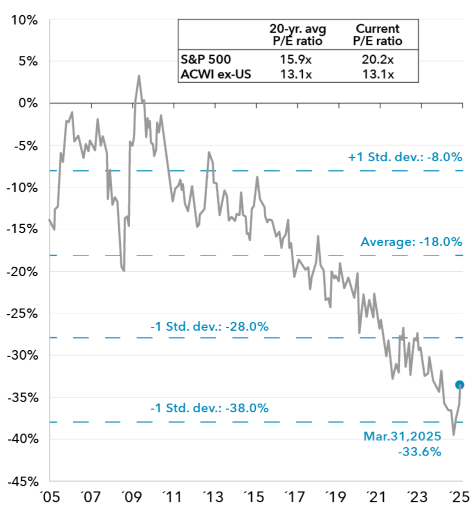
MSCI USA Weight in Major Global Benchmarks



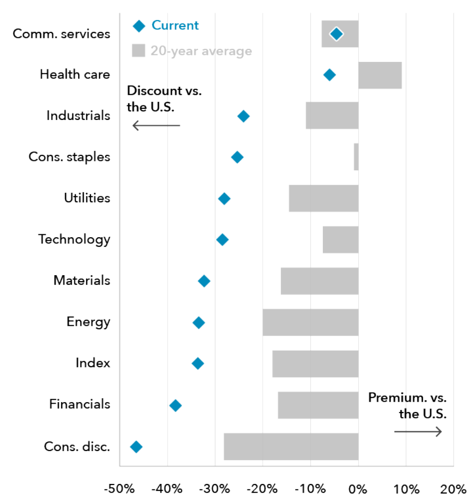
Source: MSCI

International valuations are currently at a two-standard-deviation discount compared to US equity valuations based on forward PE ratios. Most valuation measures, once adjusted for sector and quality, support this perspective.

International: Price-to-Earnings Discount vs U.S.
MSCI All Country World ex-U.S. vs S&P 500 next 12 months



International: Price-to-Earnings Discount vs U.S. by Sector
MSCI All Country World ex-U.S. minus S&P 500, next 12 months



Source: JP Morgan Asset Management

Given that our long exposure is currently 100% outside the US, a sustained shift in capital flows toward international markets would provide favorable tailwinds for our portfolio. Regardless of whether this occurs, we see a target-rich environment where we can continue to deliver attractive returns by executing our value-based, special situation investment strategy.

Economic Commentary

In the 1980s and 1990s, the "Washington Consensus" referred to the standard reform package prescribed by US-based institutions (US Treasury, IMF, World Bank) for indebted Latin American countries. The recommended policies included trade liberalization, deregulation, privatization, liberalization of foreign direct investment, fortification of property rights, adoption of freely floating exchange rates, fiscal reform, and the abandonment of industrial subsidies and protectionism in favor of investment in health, education, and infrastructure. These were touted as "orthodox" economic principles.

Ironically, the US Administration's new industrial policy resembles the "Import Substitution Industrialization" model that countries such as Brazil and Argentina adopted in the middle of the 20th century, which had disastrous consequences. IMI encouraged the domestic manufacturing of previously imported goods to satisfy domestic demand. It protected domestic industries through high tariffs and import quotas to stimulate domestic investment and employment. The experiment resulted in low growth and the creation of inefficient, globally uncompetitive sectors. It was the ensuing economic crises that spawned the "Washington Consensus."

Given our direct experience with economic experiments in emerging markets, we feel compelled to share our views. We have included them in an appendix to this letter because they are only peripherally relevant to our investment process. Opinions on economic policy are inherently subjective, as economics does not adhere to strict, universally applicable laws. The outcomes of specific policies depend on complex, interrelated variables. Nevertheless, history provides valuable precedents. We believe the Administration's recently introduced economic policies are misguided, but we recognize that this view aligns with the established market consensus. One theory we propose, tangentially, is that the market volatility unleashed by an erratic policy environment favors a flexible investment approach that is conscious of macro factors, rooted in value, and adept at capitalizing on international opportunities.

Landis+GYR

We initiated a position in Landis+GYR (LAND SW) during the quarter. At 10.5% of NAV, it is now the largest holding in the portfolio. The opportunity arose from several developments over the past 12 months: the arrival of an experienced European activist; the initial excitement; the subsequent earnings disappointment; the abrupt departure of senior management; the market's overreaction to short-term disappointment; and the nomination of an experienced CEO who further lowered expectations but will ultimately unlock value through a series of corporate actions.

Landis+GYR (LAND SW) is a leading provider of integrated energy management solutions to electric utilities. The company provides software, services, intelligent sensors, and metering technology for grid and infrastructure management. Its clients are electric utilities. Formerly a subsidiary of Toshiba, Landis has remained an orphaned security since its listing on the Swiss stock exchange in 2018, lacking leadership, direction, and an engaged reference shareholder.

In July 2024, a European activist, Spectrum Entrepreneurial Ownership (SEO), announced that it had acquired a 5% stake at an average price of CHF 72 per share and that SEO partner, Fabian Rauch, would join the Company's board. The stock immediately rallied to CHF 83 per share. However, shortly thereafter, management delivered disappointing interim results and announced that the CEO would be stepping down. Peter Mainz, an existing board member and experienced industry executive, was appointed the new CEO. After a thorough 100-day review of the business, Peter Mainz delivered another round of negative news, announcing the impairment of a significant investment in a European EV charging subsidiary, an inventory obsolescence charge at the North American subsidiary, a further reduction in fiscal year 2024 (ending in March 2025) revenue and margin guidance, and a reshuffling of the leadership team in North America. This series of events precipitated a 40% drop in stock price from the high attained in July 2024, creating an attractive entry point for Elena Partners, 30% below SEO's initial cost basis.

Beneath the surface, Landis+GYR AG consists of two businesses: a "good" business and a "bad" business. The North American subsidiary generates 60% of revenues and 100% of EBITDA. It is a high-quality business operating in a consolidated market, where it and its competitor, Itron, each control 40% of the market. This subsidiary generates a 40% return on invested capital. Thirty-five percent of revenue comes from higher-margin software solutions, and their share is growing. The US business has an 18% EBITDA margin, allocates 10% of sales to research and development, and spends 1-2% of its revenue on property, plant, and equipment annually. Although the North American industry has not grown in the past decade, we are entering a new investment cycle driven by higher energy use and the introduction of more advanced grid technologies. The Company reported a 20% growth in new orders in the US during the last earnings call.

The European business primarily functions as a component business, operating in more fragmented markets where each country has different standards and market structures. For example, France has EDF as its sole buyer. Although Landis is the largest player, it only holds an estimated 11% market share. Previous management attempted to turn the business around but failed. The European subsidiary, which constitutes 36% of revenues, is breaking even.

The new CEO, Peter Mainz, knows this industry well. He was on Landis's board before being appointed CEO last November. Earlier in his career, he served as CEO of Sensos, a subsidiary of Xylem and the fourth player in the industry. From 2015 to 2020, he participated in a successful activist campaign that targeted Itron (ITRI), Landis' US competitor. He joined Itron's board in 2016 and oversaw a fourfold increase in Itron's share price. We believe that he sees an opportunity to unlock value at Landis.

At CHF 53 per share, Landis+GYR has a market capitalization of US$1.8 billion and an enterprise value of $2.1 billion. It generates $1.9 billion in revenue and $230 million in EBITDA. The company has engaged bankers to sell its European subsidiary. Pro forma for the sale, Landis is debt-free and trades at 7x EBITDA and under 10x PE. Itron, its US-listed peer, trades at 15x EBITDA and 20x PE. The new management team is based in the US. Peter Mainz has indicated that the company will transfer its primary listing to a US exchange in 2026. When the company re-lists, it will likely trade closer to Itron's valuation, suggesting a CHF 100 per share price, assuming no leverage. If management executes a levered recapitalization, which we view as likely, it could trade at CHF 120 per share or higher. We are very excited about this setup.

Please call us if you would like any additional information or clarification.

Sincerely,

Orlando Muyshondt
Orlando@elenapartners.com

Views of US Economic Policy Based on Empirical Observations in Emerging Markets

- Trade deficits indicate that a country's economic actors (businesses, households, government) collectively consume more than they produce. The gap must be filled by borrowing from abroad. The United States has been running trade deficits consistently since the mid-1970s, accumulating a negative US$26 trillion net international investment position (NIIP) and becoming the world's largest external debtor. The Administration is right to be concerned about the unsustainability of this trend, but the policy prescription to correct it seems misguided.

- The only way to eliminate the trade deficit is by increasing production and/or decreasing consumption. Countries must become thriftier and begin saving and investing. We are unaware of any country eliminating a sizable trade deficit while running large fiscal deficits. If the Administration is serious about reducing the trade deficit, it must lower the fiscal deficit. Contractionary fiscal policy would initially be recessionary.

- Attempting to rapidly and forcibly reduce a large trade deficit (greater than 3% of GDP) will trigger a sharp recession. Production is fixed in the short term, leaving reduced consumption as the only alternative to achieve the adjustment. The following are examples of abrupt reductions in trade deficits accompanied by deep economic contractions: Mexico 1994, Thailand, Korea, Indonesia 1997, Russia 1998, Brazil 1999, Argentina 2000, Iceland 2008, Greece, Spain, Portugal, Ireland 2010-2013, Sri Lanka 2022. These countries reduced their trade deficits, not because they wanted to, but because they lost access to external financing necessary to fund the deficit.

- In the short term, tariffs are inflationary. They increase the cost to the end consumer.

- While reindustrializing by protecting local industry from foreign competition may sound appealing, history suggests that countries are better served by adopting policies aligned with David Ricardo's Theory of Comparative Advantage (1817). Many historical examples show that countries embracing free trade have flourished economically by fostering innovation, specialization, efficiency, productivity gains, and providing firms with access to larger markets. England in the late 19th century and the Asian Tigers of the late 20th century come to mind. Free trade is not a panacea; it is accompanied by unfair trade practices and negative externalities that must be addressed and mitigated. However, no example exists of countries flourishing economically for an extended period under protectionist or autarkic policies. The Latin American experiment with the Import Substitution Industrialization Model of the mid-20th century seems especially relevant today. A country cannot reindustrialize by simply turning on a switch; it takes decades and requires a well-thought-out, judiciously implemented industrial policy and upfront investment in technical training and infrastructure.

- Dr. Steven Miran, the Chairman of the Council of Economic Advisers, presented a roadmap for reducing the trade deficit in November 2024, before joining the Administration[2]. He believes that the US's persistent trade deficits arise from a combination of unfair trade policies by trading partners, particularly China, and the overvaluation of the dollar, an unfair cost imposed on the US as the manager of the world's reserve currency. We believe that Dr. Miran underestimates the benefits that accrue to the United States as the controller of the world's reserve currency, such as advantages derived from seigniorage and a lower cost of capital. While real exchange rates impact a country's competitiveness, experience shows that real effective exchange rates (REER) are not the sole determinant of a country's trade balance. Switzerland, for example, has a presumably overvalued currency yet generates consistent trade surpluses. Historically, US trade deficits have not been eliminated by changes in the USD's real effective exchange rate (REER). The Plaza Accord of 1985 resulted in a 40% devaluation of the USD's real effective exchange rate (REER), but it did not structurally reduce the US trade deficit. We return to the prior point that deficits are a choice. Countries that want to generate trade surpluses must ramp up savings and investment while consuming less. Smaller fiscal deficits are an essential driver for correcting trade imbalances.

- The US is the World's largest economy, but it is a relatively closed economy, accounting for 10% of world trade. This share has been decreasing consistently since WWII.

[2] *"A User's Guide to Restructuring the Global Trading System"* Dr. Stephen Miran, November 2024. https://www.hudsonbaycapital.com/documents/FG/hudsonbay/research/638199_A_Users_Guide_to_Restructuring_the_Global_Trading_System.pdf

About Elena Partners
The Elena Partners Fund launched in January 2024. It continues an investment strategy that EPP, the investment manager, began implementing in January 2020 for an individual client via a separately managed account. After successfully executing the strategy for four years, we felt compelled to create a fund vehicle and open it to a broader investor base.

The strategy aims to generate attractive long-term returns by investing in a global portfolio of 10-20 undervalued equities and hedging up to half of the long exposure through individual alpha shorts, baskets of securities, and ETFs. The approach is bottom-up, fundamental, contrarian, and long-term oriented. We source ideas from an established knowledge base of companies covered over the past thirty years, from our network of contacts across various industries, and from peers on the buy side and sell side. We are generalists who organize the vast universe of securities by types of situations. We look for setups that have historically yielded profitable opportunities, such as orphaned securities, overreactions to short-term disappointments, management changes, turnarounds, and cyclically depressed industries and countries. We maintain a pipeline of ideas that we continuously research and monitor. We trade infrequently and adjust the portfolio when we identify a better opportunity, when a security is no longer undervalued, or when our thesis is no longer valid. A maximum of twenty long positions compels us to be disciplined in managing the portfolio. Strict limits on position size, industry, and country concentration ensure we are sufficiently diversified to withstand the inevitable setbacks and errors in judgment.

Since January 2020, we have generated an 11.6% net compounded annual return in US Dollars compared to 9.8% for the MSCI All Country World Index, 5.5% for the MSCI All Country World Index ex-US, 12.8% for the S&P 500 Index, and 5.0% for the Russell 2000. Over that period, the portfolio's net exposure averaged 44%, and gross exposure averaged 92%. The portfolio's Beta to the SP500 Index averaged 0.38.[3]

[3] The Elena Partners Fund continues the strategy the investment manager executed for a single client via an SMA starting in December 2019. In January 2024, the securities in the SMA portfolio were contributed to the Fund. Deloitte audited the SMA track record, and the audit report is available upon request.

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References are made to the MSCI All Country World Index, MSCI All Country World Index-Ex US, Russell 2000 and S&P 500 Indexes for comparative purposes only. The Partnership's portfolio is less diversified than the Indices. Returns for the Indices are stated, if at all, as a total return amount which includes dividends on a reinvested basis. Portfolio exposures are presented as of the date indicated and are subject to change. There is no guarantee that exposures will be similar in the future and may differ materially from those presented herein.

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