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**Zorea Capital Equity Portfolio 2Q 2025 letter**

Fellow investors,

Our performance for the second quarter of 2025 was 9.7% (gross) and 9.2% (net). This brings 2025 YTD performance to 18.5% (gross) and 17.5% (net). Net performance is calculated with our standard fee schedule 'M' which charges the highest management fee from our different alternatives but no performance fee. As long-term investors, we emphasize that judging our results over a short period of time is not informative.

	<b><u>Zorea Capital Equity</u></b> <b><u>(Gross)*</u></b>	<b><u>Zorea Capital Equity</u></b> <b><u>(Net)*</u></b>
2025 YTD (through June 30th, 2025)	18.5%	17.5%
2024 (inception May 1st, 2024)	6.6%	5.8%
<b><u>Annualized:</u></b>		
1 year	22.8%	20.7%
Since inception	22.2%	20.0%

*\*See important performance disclosures at the end of this letter. Inception is May 1, 2024.*

The market sentiment has shifted dramatically in recent months. Three months ago, panic seemed to permeate in the market. Today, exuberance is perhaps a better descriptor. That is despite the fact that, today, the US seems to be in a worse situation to deal with its ballooning deficit than only three months ago. Policymakers are yet again deferring action; and the market, with its perpetual short-term focus, seems unconcerned. The S&P500, a proxy of the US market, is now trading at a trailing Price to Earnings ("PE") of 28.6x<sup>1</sup> and reaching all-time highs. This is despite downward revisions in earnings estimates for the fourth consecutive quarter.

Our portfolio's strong YTD performance is attributable to a combination of earnings growth and multiple expansion<sup>2</sup>. Notably, companies within our portfolio that were previously impacted by concerns over tariffs and fiscal tightening saw broad price recoveries. For those interested, please refer to our [1Q 2025 letter](#) for a more detailed discussion of our views on the tariff and government austerity 'risks' within our portfolio. Despite the increase in valuation this year, our portfolio's PE ratio at the end of the quarter was 14.6x, representing a 45% discount to the broader market<sup>3</sup>.

We caution against extrapolating our since inception results into the future<sup>4</sup>. Our performance remains sensitive to short-term fluctuations and changes in underlying valuations. Recent market

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<sup>1</sup> Source for the data in this paragraph is S&P Global.

<sup>2</sup> An increase in our portfolio's PE ratio.

<sup>3</sup> As represented by the S&P500.

<sup>4</sup> Past performance is not indicative of future results. See our 'Disclaimers and disclosures' for more information.

movements have benefited us, which flatters our current performance numbers relative to our long-term expectations.

### Avoiding biases

As the great late Charlie Munger said “if you make a public disclosure of your conclusion, you’re pounding it into your own head.” Writing these letters subjects us to anchoring bias, escalation of commitment bias, and confirmation bias. Please note that no investment operation has had a perfect success rate. We will not be the first. As such, we reserve the right to change our minds and hope to do so quickly and swiftly when appropriate. We take on no obligation to communicate changes of opinion.

### Portfolio metrics – half year update

In our [4Q 2024 letter](#) we introduced the bellow table, which outlines six metrics for evaluating the financial characteristics of your portfolio. We have included historical data for context. Note that the information presented below differs from the *ZCE Holdco EPS growth* metric published last quarter.

	2024	1H2025
Revenue per share growth (LTM)	9.8%	7.9%
ROE (LTM)	20.6%	20.0%
PE (LTM)	15.8x	14.6x
PE (LTM, ex-cash & index)	10.7x	12.8x
EPS Growth (LTM)	12.8%	8.1%
Dividend Yield (%)	1.4%	1.3%

*Source: Zorea Capital estimates, public filings, S&P Global. Market price data is as of quarter-end, financial data is latest reported as of the same date. Please refer to important disclosures at the end of this presentation.*

The recent decrease in *Revenue per share growth* is primarily due to our new investment in Aker BP (detailed in the next section) and the corresponding liquidation of our Megacable position to fund this investment. We anticipate this switch will temporarily impact *Revenue per share growth* for the next 18 months as Aker BP works to bring new projects online. Despite this short-term dynamic, we expect that this transaction will ultimately enhance the long-term cash flows of our portfolio.

Regarding *EPS growth*, we believe the current figure is temporarily suppressed due to non-fundamental factors. This metric can be susceptible to short-term noise, which can sometimes make it less informative. We expect this metric to trend back up in the coming quarters. Here is some context. Aercap (“AER”) and Ryanair (“RYA”) are currently depressing this metric with negative EPS growth. Yet, both companies are growing intrinsic value; AER has grown Book Value per share by 10% in the last 12-months and RYA continues to strengthen its market position in Europe.

On the valuation front, the portfolio’s *PE* has decreased YTD despite strong performance. That is a result of trading decisions we made. The *PE (ex-cash and index)* is up 19.6%, closely mirroring our YTD performance, with the number also being impacted by trading decisions.

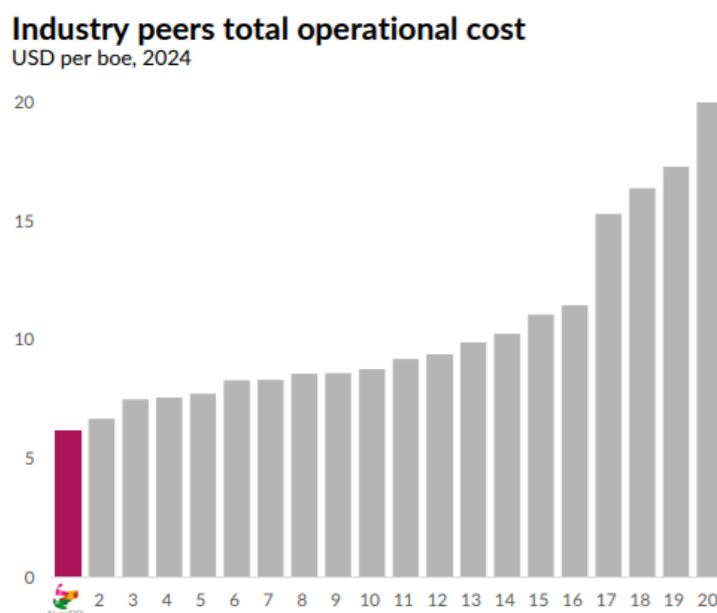
### New investment: Aker BP (“AKER”).

This quarter we initiated a position in AKER, Norway’s second largest oil and gas producer. AKER is exclusively focused on the Norwegian Continental Shelf (“NCS”), a region known for its rich resources and stable operating environment. Our investment thesis is rooted on the following three points: (1) a low-cost position, (2) the runway and proven ability to deploy capital effectively, and (3) a record of superb execution. At our purchase price AKER offers a dividend yield of 11%.

Since Karl Johnny Hersvik assumed the role of CEO in May 2014, AKER has demonstrated a remarkable performance. During this period, Brent Crude prices are down ~37%. Despite the weakness in oil prices, AKER shares have returned an impressive 7x during the period<sup>5</sup>. Karl and his team have assembled a portfolio of top-tier assets in Norway, and have masterfully used M&A during periods of oil price weakness to create significant shareholder value. In essence, our bet is that the ingredients are there for the company to keep performing as it has in the last decade.

### *An attractive cost position*

AKER’s existing fields are exceptionally cost efficient, with 2024 operating costs at \$6.2 per barrel. To put this in perspective, US shale producers typically face operating costs ranging from \$26 to \$45 per barrel, depending on location. A significant contributor to AKER's low-cost position is its stake in Johan Sverdrup, a world-class asset that accounts for 54% of the company’s LTM production. Johan Sverdrup features operating costs of approximately \$2.0 per barrel and offers decades of reliable production. In addition, AKER also has operations in five other main areas, each at varying stages of their lifecycle. These have a combined cost position in the high-single to low-double-digit dollars per barrel range. In addition, the company is hard at work developing their Yggdrasil field, which is scheduled to begin production in 2027. Yggdrasil is a large field expected to add decades of low cost production for the company.



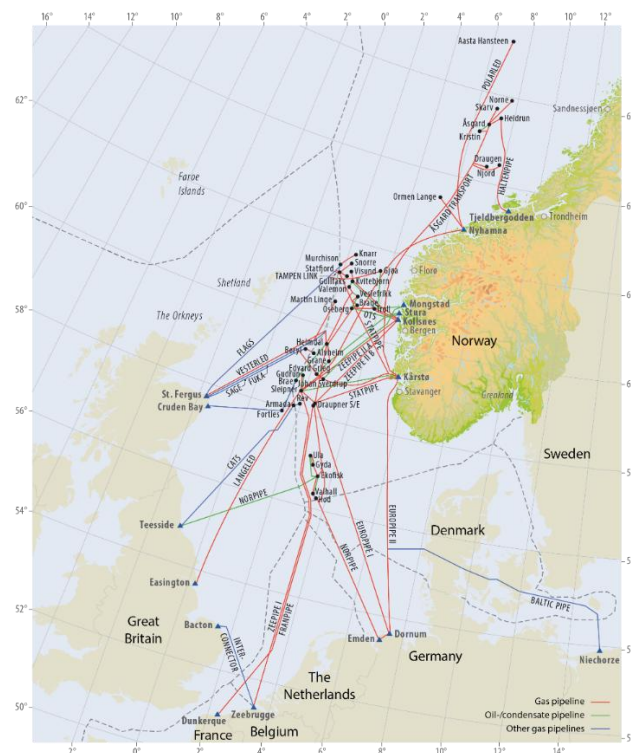
<sup>5</sup> Source: Factset, assuming dividend reinvestment.

Source: Aker BP from Wood Mackenzie. Companies included: Aker BP, BP, Chevron, ConocoPhillips, Diamondback Energy, DNO, Eni, EOG Resources, Equinor, ExxonMobil, Galp Energia, Harbour Energy, Hess Corp., Marathon Oil, OKEA, Pioneer, Shell, TotalEnergies, Tullow Oil, Vår Energi.

AKER's cost position can be attributable to several factors. Reservoirs in the NCS can have large deposits of light crude. Large reservoirs allow companies to amortize fixed production and drilling costs over more barrels. Light crude also presents several advantages. It has lower [viscosity](#), allowing it to flow more easily through reservoir rocks, pipelines, and production equipment. This reduces the cost and energy required to extract the oil and transport it. It also allows for higher recovery rates. Light crude also tends to have less impurities, reducing the need for on-site treatment before transport.

Beyond these natural advantages, the NCS benefits from a stable, business-friendly tax<sup>6</sup> and regulatory regime. There is also a well-developed infrastructure of pipelines. This pipeline system is open access and partly owned by the Norwegian government. The government's involvement with the pipelines stems from a desire to keep tariffs low for oil and gas producers. This network makes it cost effective to transport the produced oil and gas to refineries across Europe.

Pipelines on the Norwegian continental shelf



Source: [Norsk Petroleum](#).

<sup>6</sup> Oil and gas producers pay high taxes in Norway, but the tax regime is such that it allows producers to generate attractive returns.

### *The runway and discipline to deploy capital in an accretive matter*

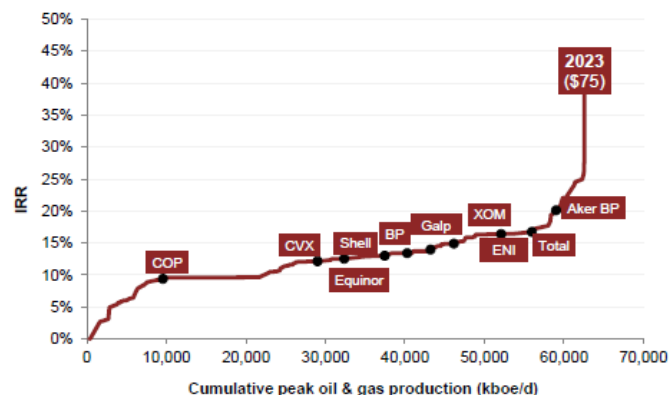
We view oil and gas production as largely a capital allocation and execution game. Companies evaluate prospective projects and determine whether their development represents an efficient use of capital. Execution is then crucial in realizing the projected outcomes. Oil producers can also pursue M&A to add both production and reserves. In an industry prone to herd behavior, being countercyclical and disciplined can produce tremendous value. AKER has been countercyclical and disciplined when pursuing both organic and inorganic opportunities. These have been instrumental in letting the company achieve its current record of success.

Currently, AKER holds 1.6bn barrels of oil equivalent in 2P reserves within the NCS. These high-quality reserves represent about 10x 2024 production. These reserves are in a combination of standalone reservoirs and in reservoirs near current production facilities. Standalone projects that only leverage existing infrastructure in limited ways have NPV break-evens in the \$35-\$40 price per barrel equivalent range (using a 10% discount rate). Assuming a mid \$60s oil price translates to unlevered post-tax IRRs in the 20s%. Importantly, even if oil prices fall and stay around \$40 a barrel (40% below current levels), a scenario we see as very unlikely in the long term, the company still earns a 10% expected return on these projects.

Projects where the company can leverage its current infrastructure (ILXs and IORs) have even better economics and less execution risk. These projects have lower break-evens but are more limited in scope. Given their attractiveness, 80% of current exploration projects are focused on these types of projects.

Goldman Sachs ("GS") recently compared the economics of new projects for AKER and its European peers. According to GS' estimates, as illustrated in the chart below, AKER's projects are positioned at the forefront of the industry, with prospective new projects stacking towards the top of their new project universe.

**Exhibit 9: Aker BP's project portfolio is more profitable than that of EU Integrated Oils & US Majors**  
Top Projects oil & gas IRR curve (%)



Source: Goldman Sachs Global Investment Research

From a humble start, the company has put itself in this position through impressive dealmaking. In 2014, AKER only had 206mm barrels of 2P reserves (vs 1.6bn today). Time and again the company has acted countercyclically to acquire high-quality reserves at attractive prices. We anticipate that management will continue to pursue accretive M&A opportunities should oil prices decline.

This is an important characteristic of the company that should not be overlooked. Yes, the company is exposed to movements in oil prices, making them cyclical. But their behavior can actually make them countercyclical over the long term. Low oil prices create opportunities for attractive capital allocation. Be it by acquiring from distressed sellers or by capitalizing on drilling tax incentives that can become available during periods of distress. The company's ability to monetize such opportunities is a valuable asset.

### *Execution*

AKER's projects are long dated in nature, they take many years to first oil, and require substantial upfront capital investments. For instance, the company's Yggdrasil project is budgeted to cost \$11bn in capex (pre-tax). NCS producers must commission large and complex offshore platforms capable of producing hundreds of millions of barrels over decades. Project execution is critical. Projects might look good on paper, but actually executing what is on paper can make the difference between high and mediocre returns on capital. On time and on budget outcomes are no easy to produce. AKER has a good track record in this area. Peers have not done as well. Vaar Energi, the NCS' third largest producer, has had large cost overruns and timing delays, especially in their Balder X project. Equinor, the NCS' largest producer, is better than Vaar but has also faced hiccups.

AKER has a process for executing projects that is unique. They call it the Alliance model, which is a collaborative approach to contracting and project execution with vendors. Through this model, the company forms long-term 'alliances' with select partners that foster intimate collaboration across parties. AKER's approach is different from the more traditional transactional model. Traditionally, suppliers are pitted against each other to lower bids, and parties generally operate in siloes. In this [video](#) from 2017, Karl and his interviewee talk about their thesis behind the Alliance model. They give details on how it works and highlight some of the benefits.

This approach has enabled AKER to maintain a high level of execution, which we expect to continue.

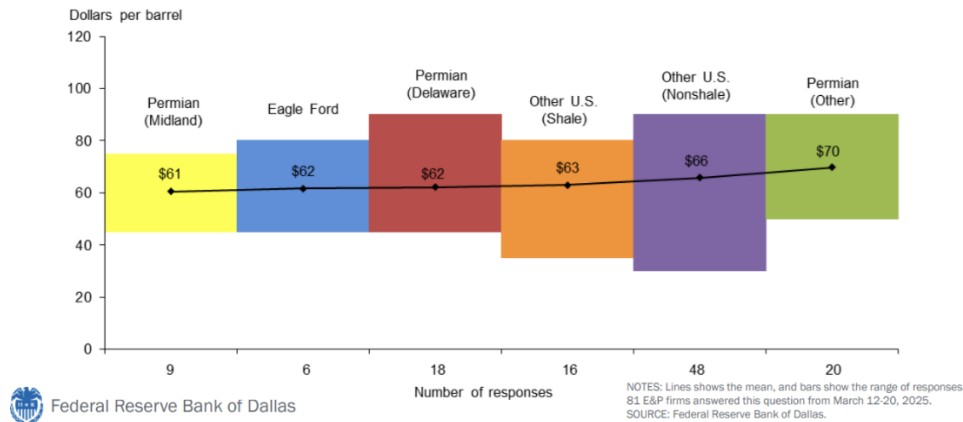
### *Oil prices*

We don't speculate on oil prices. With that said, we believe it is unlikely for oil prices to trend below the \$60s over an extended period. The reason is the marginal cost of new supply.

Currently US shale is the marginal cost supplier and likely to establish a long-term price floor. Oil fields are decaying assets, for production to remain steady, new wells must be drilled. That makes new well breakeven prices very important. The graph below from the Dallas Fed shows new project breakeven prices across US shale.

## Breakeven Prices for New Wells

In the top two areas in which your firm is active, what WTI oil price does your firm need to profitably drill a new well?



Source: <https://www.dallasfed.org/-/media/Documents/research/energy/energycharts.p>

These breakeven costs have been steadily increasing. In 2019 the mean breakeven prices in the Permian were: Midland \$48 (vs \$61 today), Delaware \$49 (vs \$62 today), Other \$54 (vs \$70 today). [Source](#). The Permian is by far the most important basin for US oil production, representing 48% of total US production ([source](#)). Should oil prices drop below \$60 a barrel, we expect US production to decrease.

Then there is OPEC+. Some OPEC+ producers have very low-cost positions. We also think of them as marginal producers because they restrain supply. Within OPEC+, Saudi Arabia is really the one that can influence the cartel's behavior. They are the ones that dictate policy given their cost position and spare capacity. Saudi Arabia is interested in high oil prices. Oil revenues represent ~90% of government revenues for them, and their government spending usually requires oil prices in the \$80-\$95 range to balance their budget. Given the OPEC+ structure, long history, and the incentives of its members, we think it is unlikely for the cartel to flood the market with supply.

As it related to demand, there is a wide range of long-term demand estimates. Those estimates likely tell us more about the individuals coming up with them than about where demand might trend. Where there is broad agreement, though, is that in the next five to ten years demand is unlikely to change dramatically. By then, we expect to have received all (or most) of our investment back in dividends.

### Valuation

We initiated our investment in AKER around NOK240 per share, which is close to Book Value ("BV"). We believe the quality of the company's reserves is high, and that the company will be able to turn those reserves into cash flows in an efficient way. We are also positioning ourselves with a company that should be able to add quality reserves at attractive prices. Our valuation work suggests that AKER is worth a premium to BV, with the ultimate premium determined by prevailing oil and gas prices.



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We also get an 11% dividend which we believe is sustainable and likely to grow in the future.

### **Alignment**

A cornerstone of our portfolio management philosophy is to manage client portfolios in the same way we invest our own capital. At Zorea, we cannot guarantee results, but we can guarantee that we are in the same boat as our investors.

Thank you for your trust.

Yours truly,

Simon Bennaïm

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### Disclaimer and disclosures

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*Performance information in this document reflects the actual performance of the account established by Zorea's Chief Investment Officer as of May 1, 2024. Reported net performance is net of all actual trading and other account expenses, reinvestment of all income, as well as Zorea's fees.*



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Zorea's fees, as presented here, are composed of our standard fee schedule for non-Qualified Clients, consisting of a 1.8% management fee. Our Qualified Clients may elect from other fee schedules we offer. Qualified Clients who elect a different fee schedule may pay higher (or lower) fees and therefore realize lower (or higher) net returns depending on the portfolio's performance. The specific fee charged to a client will be identified in the client's advisory agreement.

Because this account was established prior to Zorea becoming a registered investment advisor, this means the performance results are 'hypothetical'. Different types of investments involve varying degrees of risk and there can be no assurance that any specific investment will either be suitable or profitable for a client's investment portfolio.

Index information is included for illustrative purposes only, as it is not possible to directly invest in an index. Indices are unmanaged, hypothetical vehicles that serve as market indicators. Index performance does not include the deduction of fees or transaction costs which otherwise reduce performance of an actual portfolio.

Broader market events will generally have some corresponding impact on our results and the client portfolios managed in accordance with our strategy. For example, if US equity markets rise overall, that will frequently help the performance of portfolios with exposure to US equities, while declines in the overall US equity markets will frequently hurt the performance of portfolios with exposure to US equities. Similarly, increases or decreases in interest rates will have an inverse relationship on bond market prices (higher interest rates generally result in lower bond prices, and vice versa) and also some corresponding impact on the returns of fixed income investments. No investment approach can guarantee a positive return or prevent loss.

**Performance results shown are not a guarantee of future results and are not a guarantee or prediction of how any client portfolio will perform.**

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Portfolio Metrics – notes on methodology:

For all companies we use latest reportable information as of the date of the quarter. The numbers are our best estimates and what we use internally. However, coming up with the different numbers

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*requires assumptions and some subjectivity. We try to be consistent with our methodology through time but there is no guarantee of accuracy. We use source documents for our calculations. The growth calculations under this table are a weighted average of the underlying growth of our investments. Some important callouts below.*

- *Revenue per share growth (LTM): only includes our single names (indexes are excluded). For CACC, SYF, and AER, we substitute Revenue growth for Book value growth as we see that metric as more relevant to underlying business growth.*
- *# of Positions: excludes T-Bills.*
- *ROE, PE, and EPS growth: all three of these metrics use 'earnings' either in the numerator or the denominator. For the companies that we see GAAP or IFRS Net Income as a good proxy of earnings power, we use that. For the companies where it isn't, we use the metric we deem most appropriate, which is usually Free Cash Flow or company adjusted earnings, but can be something else. We believe we are conservative when publishing these numbers, but we cannot guarantee that such is the case. Both ROE and EPS growth calculations excludes our exposure to indexes and cash. HCA is excluded from our ROE calculation because the company has negative equity.*
- *PE (LTM, ex-cash & index): This metric represents our calculation of PE of our individual company investments. It excludes cash as well as any index exposure we may have.*