Dear Investors,

In Q2 2025, Luna returned 19.4% on net assets under management. This brings our year-to-date performance to 14.7%.[1]

Reflecting on Mistakes & Cleveland-Cliffs

Mistakes are an inevitability of investing, and these letters serve as a good mechanism for reflecting on what hasn't gone right. One of the many thought exercises we go through before making an investment is trying to visualize, if an investment goes wrong, what will be the most likely reasons – a pre-mortem if you will. This is helpful as it allows us to think about the risks we are accepting, the likelihood those risks become a reality, and what must happen in the world for that reality to come to fruition. Post-mortems are in many ways inherently easier – the emotional weight lessens once we no longer have skin in the game and hindsight makes everything clearer. With a position closed, we gain the distance needed for what is, ideally, an honest and unflinching self-assessment. This brings us to perhaps one of the most difficult aspects of investing: recognizing, *during* an investment, when a position has shifted from a portfolio laggard to a clear mistake that must be exited.

Our investment process, like many, is composed of two factors – 1) the collection of information and data (qualitative and quantitative) and 2) the subjective interpretation and application of judgment to make the ultimate investment decisions. The subjective component incorporates our investment experiences, industry knowledge and company specific analyses, while hopefully excluding our personal biases that unconsciously can impact our judgment.

Inherently, once we've entered an investment, objectivity is compromised. With money committed, we're impacted by biases such as loss aversion, confirmation bias, sunk cost fallacy, and anchoring etc. To be clear, these biases can emerge at various points in the decision-making lifecycle — not just post-initial investment — but their influence tends to intensify once we've taken a position. Though we're certainly conscious of these psychological traps, the reality of human nature makes pure objectivity a challenge, especially once financial and, candidly, reputational capital is on the line (we include reputational, as we often share investment ideas with peers and partners). With that context in mind, we hope the following reflections will shed light on our thinking around the investment that has resulted in our greatest loss since inception.

[1] Net asset value calculations are provided by Interactive Brokers and returns are after expenses and fees. Clients should always check their individual statements for returns which may vary due to timing and other factors. Past performance is not indicative of future returns.

Lucy Chou - lchou@luna.partners | Nate Rubinstein - nrubinstein@luna.partners

Cleveland-Cliffs (CLF) has been in the portfolio since day one. In that time, we have actively managed the position, and as a percentage of our portfolio, it has fluctuated between mid-teens and the low 20s percent (~14% of the portfolio as of Q2'25 end).[2] During that time, it has contributed -13% to our overall performance. Had that allocation returned nothing e.g., dead money, our portfolio returns since inception would be 34%, instead of 21%.[3] Based on this alone, our investment in CLF could be viewed as a mistake. But as we've learned over the past few years, rarely are investment decisions cut and dry.

Our thesis in Cleveland-Cliffs is less straightforward than many of our other investments. As mentioned in past letters, we invest in four types of business models: Compounders, Shooters, Cyclicals and Transformers. Compounders are market leaders in relatively mature markets (think cash cows). Shooters operates in fast-growing markets with long secular tailwinds and have competitive advantages that will result in future market leadership (aka pre-Compounders). Cyclicals and Transformers have similar qualities to Compounders / Shooters but operate in a cyclical industry or are undergoing transformative action (e.g., major M&A, turnaround stories etc.) respectively. Our portfolio is primarily composed of Compounders and Shooters, and when we do invest in Cyclicals or Transformers, both our diligence and return thresholds are higher given the lower quality / higher risk profile.

For those less familiar with the company, CLF is a US-based, vertically integrated steel manufacturer. It operates both blast furnaces (traditional, "virgin" steelmaking) and electric arc furnaces (recycling steel). Over the last decade, CLF has undergone two significant transformations. Lourenco Goncalves became CEO in 2014, and at the time, CLF was a diversified miner. He pivoted the company by divesting several assets, refocusing the business on US iron ore (primary raw input for steel), and prioritizing profitability and balance sheet health. The second transformation began in 2020 when he decided to buy two of his largest customers, AK Steel and ArcelorMittal USA, reinventing the business into a vertically integrated steel producer. We entered into our investment in the company during the first year of integration following the flurry of M&A. The investment was predicated on the belief that the market did not properly understand the new business's potential or the domestic steel environment.

This corporate transformation is set against the backdrop of the steel industry which continues to go through its own evolution. While demand is still highly dependent on both general economic activity as well as several key

[2] Inception as of 10/1/2021. Today as of 6/30/2025. Data per Interactive Brokers.
[3] Statistics calculated using data from Interactive Brokers, from inception date of 10/1/2021 through 6/30/2025. Returns are net of fees.

industries (e.g., construction, infrastructure, and automotive), other factors have been reshaping the environment. These factors include 1) industry consolidation –> less cyclicality, more supply discipline, 2) electric arc furnace proliferation –> tightening scrap supply, and 3) prioritization of domestic made steel –> less reliance on imports.

In the context of our business model framework, we felt that what on the surface looked like a Cyclical business model with Transformer characteristics had the potential to become a Compounder over time.

Steel is an integral part of our economy, and while this is not an industry with high growth, we see sustainable volumes over the long-term growing in the LSD, supported by several secular tailwinds including infrastructure spending, green transformation and manufacturing onshoring. On the supply side, domestic steel is functionally an oligopoly with four American companies[4] that make up the bulk of the domestic industry (~1/4 of US consumed steel is imported – and dropping given tariffs).[5] This is a marked shift over the last few decades, as the industry has consolidated from over a dozen separate mill operations to a handful. CLF is the second largest producer of steel in North America, and in particular, is the largest supplier of steel to the automotive industry. It is also the most vertically integrated player, with the majority of its raw materials sourced internally. This allows the company to have greater cost control compared to peers. There's also a long-term industry concern around the ability of scrap supply to meet demand (scrap is a main input in electric arc furnaces for recycled steel) – CLF with its breadth of capabilities across blast furnaces and electric arc furnaces should benefit over the long-run from the potential upward pressure placed on scrap prices that could harm competitors. Lourenco Goncalves continues to lead the company and is the largest individual shareholder, and while he may not be media polished, he is a visionary and one of the best operators in the industry. The company has a market cap of ~$3.8B and ~$7.7B in debt. CLF has a book value (as of Q2 2025) of ~$6B, giving it a price-to-book ratio of ~0.6x.[6]

As we reflect on where our thesis fell short and the factors behind the investment's poor performance, a few areas stand out – chief among them, our timing. While we have many reasons to believe this company should become less cyclical over time, the market has not seen it that way (yet). The price action of the stock continues to be driven by the underlying commodity prices, mainly US hot-rolled coil (HRC) which has been depressed. The other consideration around timing was our expectations of management to integrate and rationalize their

[4] CLF, Nucor, Steel Dynamics and US Steel. US Steel was acquired this year by Nippon Steel (Japanese company) but its operations and HQ remain in the USA.
[5] Source: U.S. Department of Commerce, International Trade Administration. CLF earnings presentations.
[6] Source: Public filings as of Q2 2025.

Lucy Chou - lchou@luna.partners | Nate Rubinstein - nrubinstein@luna.partners

asset footprint, following its major acquisitions in 2020. It took several years for the company to finally begin to idle and close underperforming assets and consolidate its footprint and supply chain. Management has made this more of a priority in recent quarters, and this has led to closures of its coke and tin assets in Follansbee and Weirton, WV. This was followed by more recent capacity trims in non-core assets such as those in Riverdale, IL, Steelton, PA and Conshohocken, PA. We have been encouraged by recent commentary around strategic divestitures of similar assets and feel their proximity to power resources could make them attractive to data center developers. These operating adjustments are key to more consistent profitability for the company. Other tailwinds (manufacturing onshoring, infrastructure spend, scrap scarcity, etc.) that were part of our original thesis have been slow to have a meaningful impact on performance. We continue to believe in these trends, and as long-term investors, we are willing to give time to management and allow the industrial backdrop to evolve into a more advantageous operating environment.

Other factors that have negatively impacted the investment include broader macroeconomic uncertainty, as well as political instability as it relates to tariffs. We also have a more balanced view on management, specifically the CEO, since the underwriting of our initial thesis. In the early days of the investment, we viewed his bombastic communication style and blockbuster M&A deals as visionary and the exact type of shake-up the stagnant industry needed. This optimism has since been tempered. The Stelco acquisition in 2024 was expensive, and we felt it lacked a strong enough strategic rationale to offset the cost. Along those lines, we viewed their unsuccessful bid for U.S. Steel as a reasonably favorable outcome. We have also, as mentioned above, been disappointed by the amount of time it took to rationalize the asset footprint and prioritize cost reductions. Management seems to have realized some of these shortcomings and is now appropriately focused and there is limited optionality remaining on the M&A front. All that being said, we continue to have faith in the overall trajectory of the company and the management team going forward.

In summary, many of the pain points with this investment fall in to the “not if, but when” category, and while to date, this could be easily categorized as a mistake based solely on returns, we feel that time is what is required to ultimately realize this investment to its desired potential. Since inception, our ideal investment horizon has been 3 to 5 years plus. With other investments that have not gone our way, we have been much quicker to cut out of them and re-allocate the capital (particularly in scenarios where the balance of if / when skews unfavorably). In the case of our CLF investment, however, it may need the “5 years plus” in order to come to fruition.

Another way we evaluate an existing investment is by asking: if we didn't currently hold a position in the company, would we want to initiate one today? For CLF, the answer continues to be a resounding yes. Following this logic, and in line with the philosophy of value investors like Buffett, when CLF's share price has declined through the years, the company has become an increasingly interesting return opportunity. This has generally corresponded with increasing our investment in the company. Equally important, our investment horizon is longer than that of most market participants, which we view as a key competitive advantage. It allows us to pursue opportunities that require patience—and in moments like these, exercising that patience is essential.

As always, we're grateful for the support of our investors, mentors and partners. We look forward to continuing to build those relationships, as well as developing new ones.

Warm Regards,

Lucy and Nate

07/01/2025

Appendix – Performance Since Inception

	Q4 2021	CY 2022	CY 2023	CY 2024	Q1 2025	Q2 2025	YTD 2025	Since Inception
Luna Partners (Net)	5.6%	-24.6%	36.7%	-3.4%	-4.0%	19.4%	14.7%	**20.6%**
Luna Partners (Gross)	5.8%	-23.7%	38.7%	-1.8%	-3.5%	20.0%	15.8%	**27.4%**
S&P 500	10.6%	-19.4%	24.2%	23.3%	-4.6%	10.6%	5.5%	**44.0%**
S&P MidCap 400	7.6%	-14.5%	14.4%	12.2%	-6.5%	6.3%	-0.6%	**17.5%**
S&P SmallCap 600	5.3%	-17.4%	13.9%	6.8%	-9.3%	4.4%	-5.3%	**0.2%**
Russell 3000	8.9%	-20.5%	24.0%	22.1%	-5.0%	10.6%	5.1%	**37.8%**

Note: Equity market returns above based on underlying index prices. Index prices are sourced from Koyfin, Yahoo Finance or other publicly available sources. S&P 500 is a popular stock market index representing 500 large companies. S&P MidCap 400 is a stock market index representing 400 mid-sized companies. S&P Small Cap 600 is a stock market index representing 600 small-sized companies. The S&P indices are composed of companies on the US stock exchanges, and each S&P index has distinct constituents. Russell 3000 is a stock market index representing the 3000 largest companies on the US stock exchanges.

Luna Partners' inception date is October 1, 2021. Luna's net performance is based on net asset value calculations provided by Interactive Brokers and calculated net of expenses and fees. Luna's gross performance is calculated before fees to Luna. Luna's portfolio typically consists of 10-15 long, US based public equity positions. Returns are presented on a time-weighted basis to be comparable to the index returns in the table. Past performance is not indicative of future returns.

Luna Partnership LLC is a state registered investment adviser located in Miami, Florida.

The views outlined in this newsletter are those of Luna Partners and should not be construed as individualized or personalized investment advice. Any economic and/or performance information cited is historical and not indicative of future results. Economic forecasts set forth may not develop as predicted. Although the information in this report has been compiled from data considered to be reliable, the information is unaudited and is not independently verified. We do not guarantee that the forgoing material is accurate, complete, or up to date. As a result, there's a risk that the information is not accurate.

Performance results reflect the deduction of advisory fees, brokerage commissions, and fund charges. Performance results reflect the investment of dividends and other earnings. This information is provided to you in a combined form, solely for your convenience and ease of review. Past performance is never a guarantee of future results. All investments have investment risks such as fluctuation in investment principal including the complete loss of principal invested.

Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for a given client or portfolio. Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of entire principal and potential illiquidity of the investment in a falling market.

Any questions regarding the applicability of any specific issue discussed above should be addressed with Luna Partners. All information, including that used to compile charts and/or tables, is obtained from sources believed to be reliable, but Luna Partners has not verified its accuracy and does not guarantee its reliability. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this newsletter, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio.

Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Luna Partners or from any other investment professional. To the extent that you have any questions regarding the applicability of any specific issue discussed above to your individual situation, you are encouraged to consult with Luna Partners or the professional advisor of your choosing. All information, including that used to compile charts, is obtained from sources believed to be reliable, but Luna Partners has not verified its accuracy and does not guarantee its reliability.

This newsletter does not constitute an engagement with Luna Partners. The information contained in this newsletter is general in nature and offered only for educational purposes. No investment decisions should be based upon this newsletter's contents. This newsletter is not a substitute for engaging Luna Partners for a personal consultation whereby all of your financial circumstances, risk tolerance and investment objectives can be considered. Information pertaining our investment advisory operations, services, and fees is set forth in the Advisor's Form ADV Disclosure Brochure, a copy of which is available from your investment adviser representative upon request. Please contact us at 201-953-5874 or by email at lchou@luna.partners with any questions you may have, or if you would like to review this report or your current investment strategy.

This newsletter was created by Luna Partners utilizing information provided by Interactive Brokers. The pricing for the investment positions listed in the report is based upon information received from the account custodian. The performance listed in this report may vary from the information provided on your account statement provided by your account custodian. Luna Partners is independent of Interactive Brokers. Luna Partners is relying upon the information provided by Interactive Brokers, and Luna Partners has not audited or otherwise verified the accuracy of the methodology, calculations or information in this report. As a result, the methodology, calculations and information presented in the report are not guaranteed by Luna Partners.