MANAGER'S REPORT MAY 2026

K10

MACRO OUTLOOK

In May, the Kapitalo K10 fund returned 0.85%, compared to 1.07% for its benchmark. The FX and equities books contributed positively to performance. Negotiations aimed at ending the war and restoring shipping flows through the Strait of Hormuz continue to make progress, although a definitive agreement has yet to be signed. Vessel traffic remains extremely limited, while global oil inventories have declined significantly and are now approaching critically low levels. Sales from strategic petroleum reserves and weaker Chinese demand have kept oil prices broadly stable. We view this as a fragile equilibrium and believe that, absent the normalization of shipping through the Strait, oil prices are likely to resume their upward trajectory over the coming weeks.

The market continues to believe that a return to the most intense phase of the conflict would impose significant costs on both sides and therefore remains anchored in the expectation of a diplomatic resolution. This factor, combined with the resilience of the global economy and strong corporate earnings momentum, has supported a meaningful appreciation in risk assets.

The impact of the war has become evident in inflation across several countries, while the drag on global economic activity has remained modest. Business confidence indicators have been only marginally affected and continue to point to growth close to potential. Nevertheless, there is a significant regional divergence. In the United States, consumer spending continues to expand despite the adverse effects of the conflict, supported by a meaningful fiscal impulse and a robust investment cycle linked to artificial intelligence. As a result, the U.S. economy continues to outperform other developed markets. This strong economic backdrop has led to a reacceleration in the U.S. labor market.

Against the backdrop of a stronger labor market and higher inflation, the Federal Reserve (Fed) has adopted a more neutral communication regarding the next steps in monetary policy. In a recent speech, Christopher Waller illustrated this shift by noting that the labor market appears to be stabilizing and that the main risk to the Fed's mandate now stems from the possibility that higher energy prices could have a more persistent impact on inflation.

The growth differential in favor of the United States, together with a Fed increasingly focused on inflation risks, supports a stronger U.S. dollar, particularly against developed market currencies. We added long positions in the U.S. dollar against the euro and the British pound.

In Brazil, the conditions supporting the continuation of the monetary recalibration cycle are gradually fading. Economic growth and employment have accelerated, the government continues to announce fiscal stimulus measures, inflation has deteriorated in recent months, and inflation expectations continue to rise. We adjusted our rates book by reducing our receivers in Brazil.

In our June 2025 Manager Letter , we discussed an investment thesis on Colombia. Below, we provide an update in light of the recent election results.

COLOMBIA:
A HIGH PROBABILITY OF A REGIME CHANGE

Since mid-2025, we have observed a combination of factors that, in our view, created a highly favorable backdrop for the election of a more right-leaning president in the 2026 elections. The current left-wing administration is unpopular, while public concern over security and corruption has continued to increase. The government's candidate, Senator Iván Cepeda, lacks charisma, has high rejection rates, was one of the architects of the unsuccessful Total Peace Plan, has longstanding ties to guerrilla groups, and selected a vice-presidential running mate from the same political spectrum who added little electoral appeal among centrist voters.

The first round of the presidential election took place at the end of May, with right-wing candidate Abelardo de la Espriella finishing first, approximately three percentage points ahead of Iván Cepeda. Several key political figures have already endorsed Abelardo in the runoff election, and a straightforward analysis of vote transfers suggests a high probability that he will become Colombia's next president.

Abelardo de la Espriella is a lawyer and entrepreneur who entered public life only recently. He has campaigned under the slogan of "extreme consistency"—a political concept developed by himself that rejects traditional politics—while advocating zero tolerance toward crime and narco-terrorism, a substantial reduction in the size of the state, and the defense of fundamental values such as freedom, private property, and family. His running mate, José Manuel Restrepo, is an orthodox economist with a strong academic background who previously served as Minister of Finance under the administration of Iván Duque.

Colombia is currently facing a severe fiscal crisis, which represents its main macroeconomic vulnerability. During Gustavo Petro's administration, public spending expanded by approximately three percentage points of GDP, mainly through income transfer programs and healthcare expenditures, resulting in nominal fiscal deficits of around 7% of GDP.

Maintaining this policy mix would likely increase public debt by three to four percentage points of GDP per year during the next presidential term, pushing public debt above 70% of GDP by 2030. Fiscal deterioration, worsening debt dynamics, and the suspension of the fiscal rule—which had previously outlined a medium-term fiscal consolidation path—have resulted in credit rating downgrades and higher risk premia across Colombia's local interest rate curve.

In his government platform, Abelardo proposes restoring fiscal discipline, achieving a fiscal surplus in the short term, and strengthening the independence of the fiscal rule committee to prevent excessive government spending. The task is challenging: a fiscal adjustment equivalent to roughly 4% of GDP will be required to stabilize the debt-to-GDP ratio. Nevertheless, Colombia's tax burden remains relatively low (27.5% versus the Latin American average of 29.8%), and there is room to reduce expenditures—estimated at approximately 1% to 2% of GDP through subsidy reductions and tighter control of personnel expenses—making such an adjustment feasible. Moreover, restoring a more credible fiscal framework, supported by a medium-term fiscal consolidation plan and a mechanism capable of stabilizing public debt over time, would reduce the Treasury's interest expenses.

It remains too early to determine what policies will ultimately be implemented, particularly since Abelardo does not enjoy broad support in Congress. Nevertheless, the potential exists for a transformational shift in Colombia's economic policy, particularly in fiscal management. Such a policy shift could prove comparable to the reforms implemented in Brazil following the impeachment of Dilma Rousseff in 2016 and those introduced in Argentina after the election of Javier Milei in 2023. Should this scenario materialize, correcting the fiscal imbalance would likely lead to a substantial decline in risk premia across Colombian assets over the coming years.

POSITIONS

Currencies

We continue long in the Chilean peso and the U.S. dollar, and short the Thai baht and the euro. We closed our long position in the South African rand and added a new short position in the British pound, both versus the U.S. dollar.

Commodities

We continue short coffee, wheat, and zinc, and long oil, diesel, copper, and aluminum. We closed our long positions in gold and soybean oil. We added a new short position in U.S. natural gas.

Equities

We maintain long equities in U.S. technology and Argentina. We closed our short position in the U.S. small caps index.

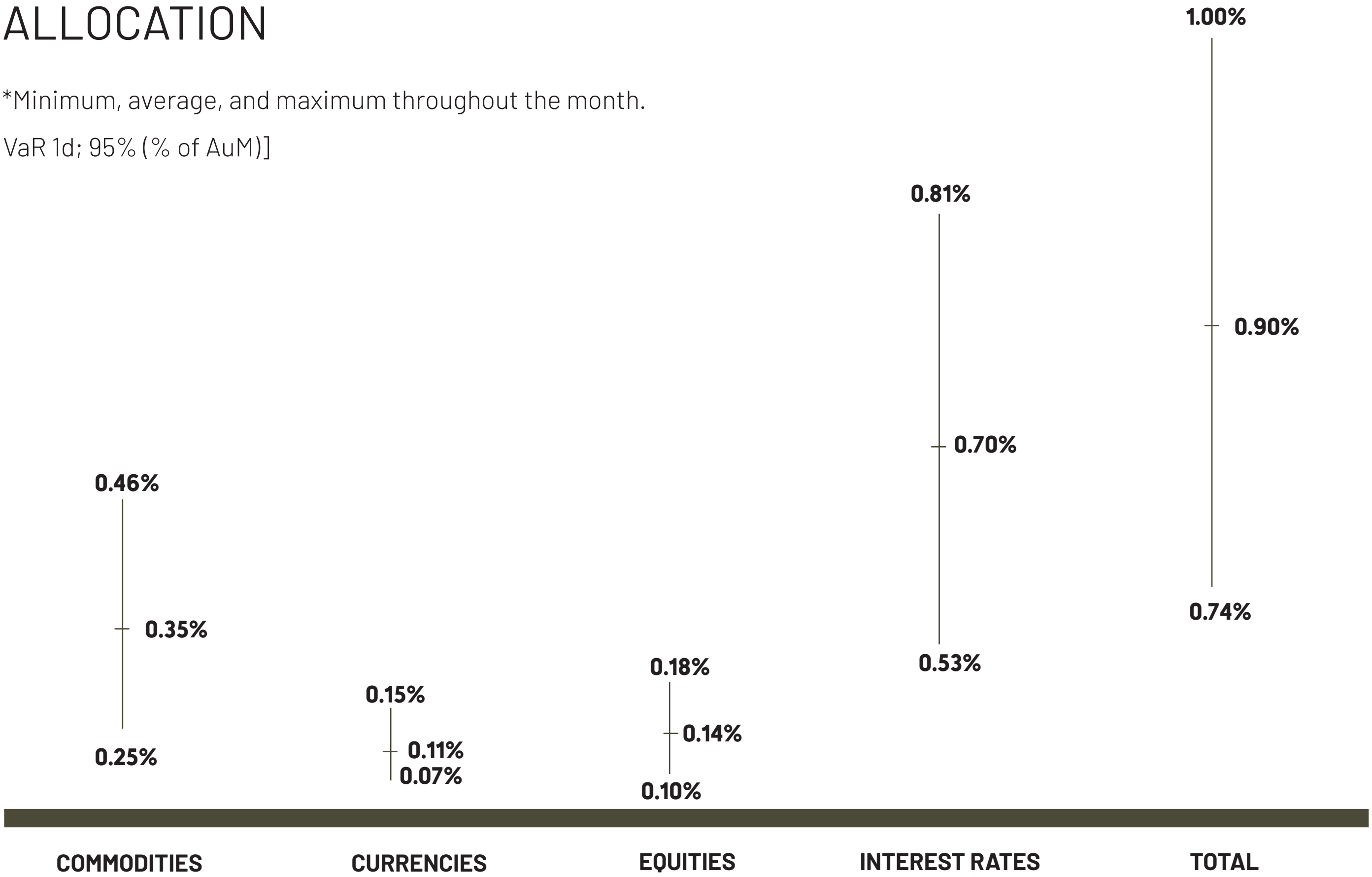
Interest Rates

We reduced our receivers in Brazil, Sweden, Mexico, the United Kingdom, and Canada.

RISK FACTOR ALLOCATION

*Minimum, average, and maximum throughout the month.

VaR 1d; 95% (% of AuM)]



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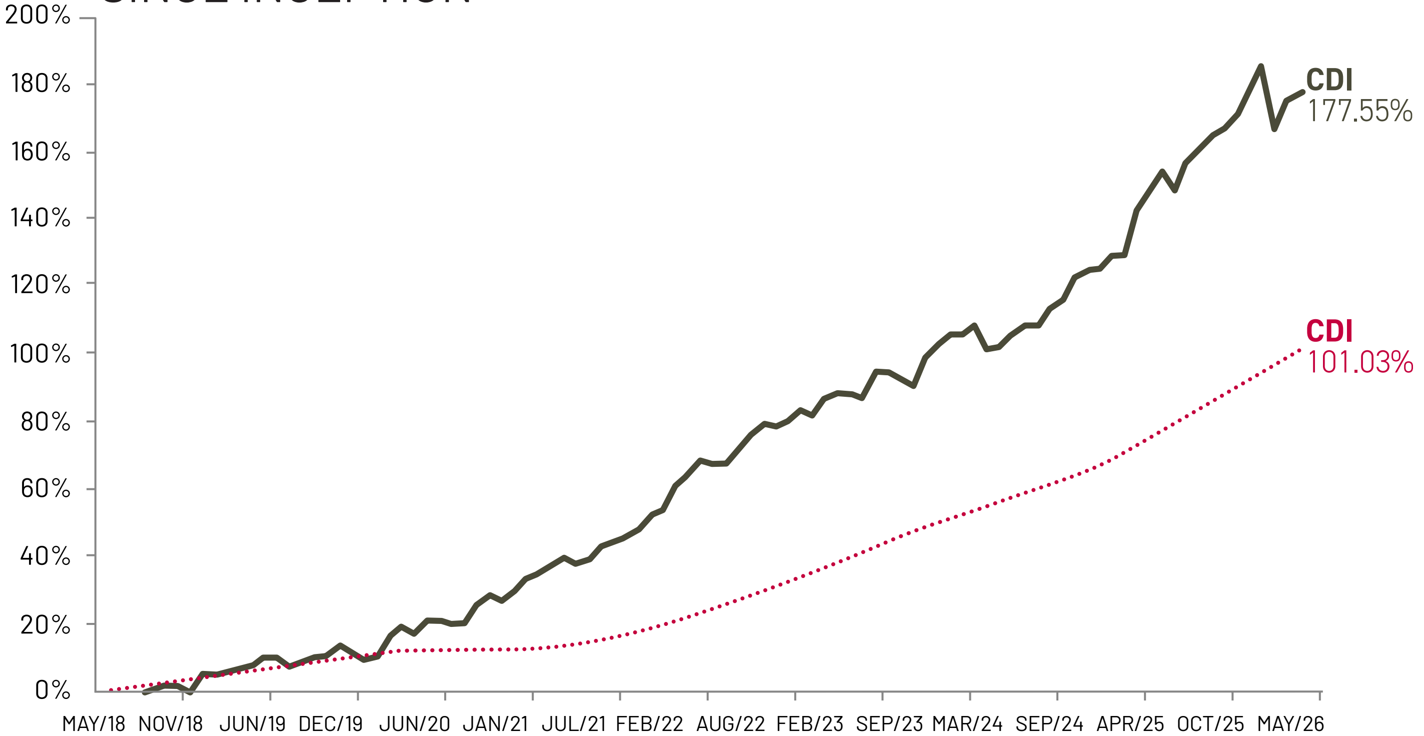
PERFORMANCE ATTRIBUTION

K10 FIQ	MAY/26	2026	12M	24M	60M	SINCE INCEPTION
Interest Rates	-0.05%	-0.01%	-2.68%	3.09%	4.69%	21.78%
Currencies	0.06%	-0.18%	-0.18%	2.42%	5.13%	5.12%
Equities	0.73%	0.99%	2.02%	4.55%	21.97%	48.51%
Commodities	-0.86%	-3.38%	0.31%	5.88%	22.42%	67.57%
Fees	-0.10%	-0.74%	-2.52%	-7.24%	-28.46%	-66.46%
Benchmark (CDI)	1.07%	5.66%	14.76%	28.28%	75.91%	101.02%
Performance	0.85%	2.35%	11.71%	36.99%	101.66%	177.55%
%Benchmark	79.31%	41.44%	79.36%	130.80%	133.92%	175.75%

PERFORMANCE SINCE INCEPTION



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