January 9, 2023

Members of IMG,

We welcome the new year! Last quarter included some changes to the portfolio (namely, we exited ETSY and KSS while adding MSGS and GTX) but was mostly characterized by (in our opinion, value-additive) inactivity. We consider our investments on a multiyear time horizon and hesitate to trade on short-term noise, especially in the face of negative market sentiment. Well respected investment professionals have sounded the macro alarm; consider Howard Marks's "Sea Change" memo from December 2022 as well as Elliott Management's Q3 2022 Letter:

> Howard Marks: "In my 53 years in the investment world, I've seen a number of economic cycles, pendulum swings, manias and panics, bubbles and crashes, but I remember only two real sea changes. I think we may be in the midst of a third one today."
>
> Likewise from Elliott Management: "What we have been anticipating for some time is now here. It is the other side of the bubble mountain: Serious inflation due to policy mistakes, interest rates rising from their lows and stock and real estate prices falling from their Olympian heights."

IMG hasn't been ignorant to macro noise, but we aren't letting it distract us either. Our investment style has always been partial to long term investments in fundamentally quality public companies with sustainable competitive advantages and high growth potential, and we have sharpened our focus on this search. In this period of macro volatility and bearish market sentiment, we have peeled our eyes for opportunity, which disproportionately arises in times of broad shock and panic. Although many investors in the market today may hold a bleak view, we still see ample opportunity on a bottom-up basis in the companies we hold. As a final note, we would like to give a huge thank you to Class of 2025 PortComm for their contributions to the Committee and are excited to welcome our new class of Committee members!

With regards to the rest of the letter, we will begin by reflecting on the Committee's performance in the Fall of 2022, as well as the broader portfolio's performance and recent market/factor trends. Following that, we will outline the rationale behind every past position or decision in the portfolio and our outlook on the company.

Portfolio Overview

Ticker	Sector	% Weight	IRR
Legacy Holdings:			
ADBE	Technology	4.8%	4.65%
ADSK	Technology	9.6%	2.97%
BN	Financials	9.5%	-8.63%
FISV	Technology	7.5%	-0.27%
LBRDA	Communications	8.9%	-34.64%
MCO	Business Services	5.7%	N/M
PFMT	Business Services	7.8%	53.56%
RADI	Infrastructure	7.8%	N/M
WM	Consumer Staples	9.3%	11.57%
New Holdings:			
GTX	Industrials	8.3%	N/M
MSGS	Media	0.8%	N/M
Exited Holdings:			
KSS	Consumer	N/A	N/M
ETSY	Consumer	N/A	N/M

Fall Quarter PortComm Review

Fall (1-05-23)	Decision
TIPT	Hold
UMG	Hold
PAR	Not Buy
MSGS	Buy
STNG	Not Buy
GTX	Buy

The Committee voted to buy two out of the six stocks pitched in the fall quarter. Garrett Motion (GTX) earned a unanimous buy from PortComm (see New Positions for our investment rationale). Madison Square Garden Sports (MSGS) was narrowly admitted after a contentious debate. As a result, we have weighted these positions proportionately in the portfolio, with MSGS making up a much smaller position as compared to GTX. All in all, we look forward to seeing the pitches this upcoming quarter and continuing to build rapport between the Committee and our pitch groups.

To briefly touch upon our decisions for the other pitches, we think UMG is an excellent business but not at the right price (would reconsider <$20), and we do not think it is the right time to buy TIPT (possibly in ~2-4 years when a Warburg exit is closer). We think that at this time PAR goes in the "too difficult to get a read on" pile due to limited public disclosure, and finally, we were not comfortable enough with the volatility of TCE rates for STNG.

Portfolio Performance Review

IRR Since Inception	S&P Comparable Period IRR	Fall 2022 IMG Return	S&P 500 Comparable Period Return
5.32%	10.81%	14.32%	8.55%

While in a period of extreme economic uncertainty, the portfolio has lost much of its historical gains. We hope to utilize this macroeconomic environment to buy severely discounted stocks and position the portfolio for a strong recovery as markets correct in the future. On the bright side, our recent performance has been promising (notably driven by ETSY and PFMT), but the true test will be whether we can sustain this in the long term. We are still very hopeful in many of our positions and look forward to seeing how they perform in the upcoming months.

<u>Legacy Holdings Performance Review:</u>

Adobe (ADBE):
Design, editing, and rendering computer software company

Current Price: $341.98 Cost Basis (Nov 11, 2019): $296.20 (4.65% IRR) Price Target: N/A

Investment Rationale:

Adobe is famed for its powerful moat against competitors. Through its first mover advantage and extensive product suite, Adobe is able to maintain high customer switching costs and prevent customers from going to competitors. Adapting a new software would be too costly and time-consuming to be feasible for customers because Adobe has solidified itself as the industry standard. As a result, Adobe has an extremely sticky customer base and strong pricing power. At the time of the investment, Adobe was transitioning to a subscription pricing model, which was the core of the thesis. However, even after this thesis played out, the Committee continued to hold with the belief that Adobe was still at the forefront of a burgeoning industry with several growth opportunities remaining.

Performance:

Adobe's stock has recovered about 23% since the announcement of its Figma acquisition for an eye-popping 50x ARR earlier in September, which had raised concerns about management's confidence in the existing business and capital allocation competency. Its stock reached a low of $275.20 per share on September 30th– the last time the stock was worth this price was October 2019, a month before we initiated our original position. For us to recover our gains from before the Figma acquisition, we would need the stock to rise another 16% from its current price.

Outlook:

Admittedly, we are no longer in love with Adobe. The easy arrival of Figma as a new entrant signaled a deterioration of its first mover advantage, which we had previously believed to contribute to its untouchable moat. We have slowly trimmed our position in Adobe, and it now forms a substantially smaller portion of the portfolio relative to our other positions. That being said, we still think this is a high-quality company at a currently cheap valuation and chose to retain our position.

Autodesk (ADSK):
3D design, engineering and entertainment SaaS provider

Current Price: $192.47 Cost Basis (Dec 5, 2019): $175.79 (2.97% IRR) Price Target: N/A

Investment Rationale:

Like fellow portfolio company Adobe, Autodesk has an extremely sustainable moat: high customer switching costs. Autodesk software is the industry standard for companies in architecture, manufacturing and the digital media space. The Company continues to face significant competition in the construction space. However, for many industries, companies that use Autodesk cannot reasonably switch providers because the switch would demand too much time, money, and resources. The Portfolio Committee decided to invest in Autodesk because of the Company's decision to transition from a licensing model to a SaaS model. Autodesk slowly encouraged customers to switch to SaaS by temporarily lowering prices, leading to a decline in EBIT and unstable free cash flows. However, after prices normalized in 2018, subscriptions and deferred revenue skyrocketed. Customers had no choice but to accept these changes because the alternative would be too costly. Autodesk's aggressive acquisition strategy further preserved their moat. By engaging in at least one acquisition each fiscal year, the Company could continuously expand their product suite to ensure subscription and revenue per customer growth. Furthermore, the Portfolio Committee believed that there was room for growth in the construction industry due to a push towards digitization.

Performance:

Autodesk saw a decline in its stock of around 2% since our last investor letter. Q3 2023 earnings were strong with revenue up 14% and a 300 bps operating margin expansion. However, we were disappointed by a decrease in guidance in free cash flow because of "less demand for multi-year, up-front and more demand for annual contracts."

Outlook:

The Committee has become somewhat concerned by the interim operating performance of Autodesk. However, we remain confident in the long-term fundamentals of the Company as they work to widen their strong moat. The company has successfully introduced three new industry clouds which will further connect data and workflows, optimizing customer value. In addition, the company continues to benefit from strong tailwinds in the digitalization of various building industries. The portfolio committee would like to solidify a proper exit timeline for our investment.

Brookfield Corporation (BN*):
Alternative asset management company focused on private equity, infrastructure, real estate, and other areas

Current Price: $33.84 Cost Basis (Feb 26, 2021): $40.06 (-8.63% IRR) Price Target: N/A

Investment Rationale:

The research path that led to Brookfield was a bit unorthodox. The group was looking for a way to play the idea that physical retail is unjustifiably depressed in the eyes of the market and that there are good real estate assets out there for those who look closely. They ended up settling on Brookfield Asset Management, which doesn't necessarily represent a direct bet on real estate, but instead relies on the company's superior asset allocation in the space to drive further flows and more fees. We were also particularly attracted to the fact that Brookfield was willing to step in and buyout a partially owned real estate focused subsidiary, Brookfield Property Partners (BPY) that was trading at around ⅔ of NAV. Additionally, Brookfield's huge asset base and long-standing reputation is attractive, as private equity and alternative asset managers have seen huge allocation increases in recent years.

Performance:

Brookfield's share price has declined by nearly 30% since our last investor letter. The Company's share price is reflective of broader market volatility in the alternative asset industry as well as a spinoff of the company's asset management business (BAM). More specifically, commercial real estate managers have suffered due to recent news on fund withdrawals from competitors as well as the poor performance of public REITs. This has been partially driven by commercial office vacancies, surging interest rates, as well as an uptick in defaults. Brookfield contains significant exposure to both reduced inflow into commercial real estate funds as well as the declining valuation of commercial real estate on its balance sheet.

Outlook:

The portfolio committee remains confident in our investment in Brookfield. The company has remained acquisitive in this difficult financing environment. We are excited about their continued increasing focus renewables, insurance, and infrastructure, diversifying from private equity and real estate. While we currently lack conviction on an exit strategy, we are comfortable in Brookfield's ability to navigate the economic cycle and drastically increase AUM in the coming years. In addition, the asset management spin off creates a more pure-play investment for our thesis.

**As a result of the recent corporate spinoff, our investment has shifted from BAM to BN*

Fiserv (FISV):
Legacy global payments processor providing merchant acceptance, financial technology, and SMB merchant solutions services

Current Price: $102.07 **Cost Basis (Nov 9, 2021): $102.39 (-0.27% IRR)** **Price Target: $125**

Investment Rationale:

As a legacy payments provider, Fiserv has been able to retain their market share in traditional payments processing while gaining market share in the financial technology space through their ownership of Clover. We believe Clover is an underappreciated asset with a strong advantage due to its ability to dominate the small business market as a result of existing relationships with merchants and merchant acquirers. Additionally, upon reviewing a rough valuation of Clover and Fiserv's other legacy products, we saw that the Clover is valued at approximately 12x EV/ EBITDA while the legacy segment of the business is valued at around 5-6x EV/EBITDA. Given the Company's strong market retention and continued growth in its market acceptance business, we believe the legacy segment of Fiserv is also being undervalued. The Company's scale can be rivaled only by Global Payments, a similarly trading legacy player that lacks a strong ISV product such as Clover. Given Fiserv's attractive multiple and strong core business, we view the Company as a buy.

Performance:

Since our last update, Fiserv has remained nearly flat and in line with our cost basis. Earnings were relatively consistent with our expectations with strong organic revenue growth. While Fiserv has not increased in price, we are continuing to see part of our thesis play out as the gap between Fiserv and its competitors' valuations has remained tightened.

Outlook:

Fiserv's valuation has seen little change since our original purchase. We continue to believe that the Company's Clover asset is significantly undervalued and can generate us alpha in the long run. The Company's legacy business continues to provide protection against market volatility for highly valued tech stocks. We believe our investment is still good, however we may reconsider our rationale. We are particularly interested in monitoring further growth of Clover as well as how the company performs relative to its peers as the economy and tech valuations rebound.

Liberty Broadband (LBRDA):
Holding company for a 26% stake in Charter Communications, a broadband/cable provider

Current Price: $83.07 Cost Basis (June 21, 2021): $160.81 (-34.64% IRR) Price Target: $240

Investment Rationale:

The broadband cable business is generally attractive due to the fact that many regions are monopolized and the necessity of internet access in today's age makes broadband a very tough service to dump. Charter's network consists mostly of hybrid fiber-coaxial networks, which we believe present far and away the most attractive option for most consumers: solid quality at a much lower price than pure fiber. Charter's move into mobile presents an additional source of upside, which we don't believe is appropriately priced into the stock. Charter's buildout is complete, and the company can now dramatically reduce CapEx and start to spit out massive amounts of cash flow. The company is also repurchasing shares and taking advantage of the leverage that operating in a stable business like broadband allows for. If all that isn't enough, the Liberty Broadband vehicle offers a chance to purchase Charter shares at a ~20% discount to market value. Liberty Broadband has also been selling Charter shares back to Charter, and using the proceeds to repurchase Liberty Broadband shares, effectively grabbing free money for shareholders (tax leakage has been minimal), and Liberty Broadband is selling the minimum amount required to comply with their agreement with Charter.

Performance:

Charter has continued to be punished as the market broadly buys into the thesis that MNOs will challenge legacy cable players and that fiber will be overbuilt. The stock has lost 9% since our last investor letter. Q3 earnings were mediocre with flat revenues and a pullback in repurchases to pay down liabilities. Management also announced an unexpected new CapEx plan. The discount between LBRDA and the underlying Charter stock it holds has increased to nearly 40%.

Outlook:

We are continuing to monitor and reevaluate possible concerns, especially around continued disappointing earnings and capex. In addition, we are beginning to question part of our thesis involving Charter's cash flow generation post-fiber buildout. While the investment is not an immediate concern, we are going to continue to closely monitor our position and thesis. We knew from the beginning that this would be a relatively slow-moving thesis, and we hope our long-term perspective will prove to be an edge for the portfolio.

Moody's Corporation (MCO)
Credit rating agency (CRA) and analytics data provider

Current Price: $290.79 **Cost Basis (July 1, 2022): $271.11** **Price Target: $380**

Investment Rationale:

The credit rating industry is a virtual duopoly between S&P Global Ratings and Moody's Investor Services. Since debt securities require two ratings before issuance, S&P and Moody's don't compete directly with each other; they together hold an 80% dominant market share, which gives both companies a monopoly-like position that they have held for roughly 100 years. Moody's Analytics (MA) is by far the leader in risk analysis software due to the platform's unparalleled access to data from Moody's Investor Services (MIS). Moody's Analytics is a subscription service with over 15,000 entity subscribers worldwide and extremely high retention rates (~96%), demonstrating their current and future dominance in the space. In addition, the group's research found that the MA and MIS segments historically have performed countercyclically, which could serve as a built-in mitigant in the case that one segment underperforms due to macro/credit concerns.

Moody's currently trades at around 19x EBITDA, commanding a high multiple due to its dominant monopoly-like market position and strong recurring revenue and growth opportunities, offering an exciting growth play bundled into a legacy blue-chip. Though it's not a cheap stock, the current market pullback offers a nice opportunity to buy, and the stock should serve as a steady compounder moving forward. The Group's model found roughly 35% upside. We view the company as a strong buy.

Performance

Moody's has gained 4% since our initial investment. After this quarter's earnings, we are more confident in the countercyclicality thesis between MA & MIS seeing their revenues decrease 16% and increase 14% respectively. The company is aware of the necessary tightening of their expenses and announced an acceleration of their "Geolocation Restructuring Program" to include additional savings.

Outlook

We still think this is a solid company (basically a duopoly) that will continue to be affected by the depressed debt issuance market. The growth of private credit poses a long term risk because it removes the necessity of a credit rating. We will continue to monitor this risk but do not believe it is an immediate concern for our portfolio.

Performant Financial (PFMT):
Healthcare payment integrity company serving CMS and private insurers

Current Price: $3.56 Cost Basis (Dec 29, 2021): $2.29 (53.56% IRR) Price Target: $6

Investment Rationale:

Performant Financial is formerly a student loan recovery business in the process of transitioning to the more attractive healthcare payment integrity space. Around 8% of all U.S. healthcare payments are inaccurate for one reason or another, creating a big problem for insurance companies. Insurance companies employ payment integrity companies to detect and resolve such inaccurate payments in exchange for a portion of the savings. Performant first found success in this market in 2017, winning one of five CMS contracts, but didn't fully commit to winding down the legacy business until it won a second CMS contract in March of 2021. The CMS contracts signal a competitive product and the potential for future penetration with larger private insurance customers.

The healthcare business has been growing as the company shifts their focus, but is still subscale, and Performant is heavily spending on acquiring and integrating into new customers. Because the space has incredibly similar economics across competitors due to the "eat what you kill" pricing model, comps can be appropriately used to frame Performant's progress and financial profile at "maturity." Assuming Performant matures to the low end of the comp set's margins and captures an exit multiple at the low end of the comp set range results in a price target ~100% above the current share price. We believe the company's small size (<$200mm) and historically poor financial metrics are causing investors to miss this opportunity As the transition plays out over the next few years there is a strong possibility that strategic acquirers could emerge.

Performance:

Performant Financial was re-awarded the CMS RAC region 2 contract, indicating affirmation of its healthcare payment integrity platform. Performant is now responsible for 50% of CMS auditing across the US, and recent performance has signaled that the market is waking up to this news (up 57% solely in December).

Outlook:

Notably, EBITDA margins have not expanded as we had anticipated, but we still remain optimistic about future monetization of impressive revenue growth. We are not planning on selling our stake soon, but at these levels, admit that it may be time to trim.

Radius Global Infrastructure (RADI)
International aggregators of rental streams underlying wireless sites

Current Price: $11.76 **Cost Basis (June 7, 2022): $14.97** **Price Target: $22**

Investment Rationale:

Radius is a rollup of ground leases underlying critical digital infrastructure assets, primarily cell towers. The company was the first major player in the space, providing them a meaningful informational and experiential advantage in intelligently acquiring leases, and was brought public via SPAC in 2020 to provide greater access to capital to use for acquisitions. We view the ground leases Radius acquires as incredibly high-quality assets. They underlie towers and rooftops that are both expensive to move and subject to placement regulation in many areas. Towers themselves will continue to be beneficiaries of increased wireless demand and the equipment densification associated with the 5G rollout. Site churn is about 1% annually, and the number of towers carriers demand is widely expected to increase over the next 5-10 years. The leases are almost all triple net, meaning Radius doesn't pay insurance, maintenance, or taxes and realizes a ground cash flow margin of nearly 100%. 80% of in-place rents have contractual escalators tied to a local CPI, and the remaining 20% are primarily in the U.S., Australia, and Canada with fixed escalators of 3%. It is worth noting that Radius has heavy European exposure at ~65% of rents.

We believe this opportunity exists for a couple of reasons. First, the company's financials are obscured by the SG&A associated with the originations platform, which is growth spend and should be capitalized instead of expensed. Second, the company carries a "SPAC stigma" and is structured to ensure executives are handsomely compensated.

We value Radius as a sum-of-the-parts of the existing assets (YieldCo) and acquisitions operations (originations platform). Additionally, in May, Bloomberg reported that Radius was exploring strategic alternatives, including a company sale. Given this, it's worth speculating what Radius may command in a take-private. Private market transactions have consistently taken place at a 3-4 turn premium to the public markets, and our geography-weighted multiple for Radius is 25.4x. Plugging in this multiple returns a $20 per share YieldCo value, and a $5.50 per share originations platform value, for a price target of $25.50 and ~100% upside.

Performance:

Admittedly, we may have been overly optimistic on Radius's potential take-private valuation. Over the months of September and October, the stock plunged, and there have been continued sale rumors such as Stonepeak mulling over a bid on November 9 and most recently EQT on November 30. The stock has risen 25% since, yet it remains unknown whether a sale will go through. Notably, the stock price is still below our cost basis.

Outlook:

We are still waiting for our thesis to play out. Ultimately, we think the buyout portion of our thesis will materialize but at a worse price than anticipated due to weak credit markets and a strong dollar.

Waste Management (WM):
Waste management services provider

Current Price: $158.24 Cost Basis (Nov 18, 2019): $112.15 (11.57% IRR) Price Target: N/A

Investment Rationale:

Waste Management may seem to be a boring company in an unappealing industry to the average onlooker, but the company presents a much more attractive case to investors fond of a strong moat. Humans produce waste, all the time, rain or shine, recession or boom. Just imagine the sort of catastrophe that would be required for one to cancel their garbage pickup subscription. Additionally, increasing consumerism has meant more and more trash, and despite recent efforts to reduce trash and increase sustainability, we still think this is a clear long-term tailwind for the industry. Garbage pickup may be asset heavy, but most regions are only lightly competitive if not monopolies, with a small number of providers angling for their share of a customer base that is strong, recurring, and incredibly defensive. The general lack of competition at the regional level also gives Waste Management a great deal of pricing power.

Performance:

Waste Management has mostly moved in-line with the overall market. The stock dropped in mid-October along with the greater equity index from continued interest rate hikes but has slowly recovered since then. Starting off the new year, the S&P has rebounded bullishly, yet Waste Management stock lags behind. Fundamentally, this non-cyclical company has served well in recent economic turmoil with strong revenue and earnings beat in Q3 along with the announcement of a cash dividend.

Outlook:

The Committee continues to hold Waste Management. Given the current macroeconomic volatility, we think holding a non-cyclical, recession-resistant company bodes well for the portfolio. While we do not expect this to be a multi-bagger of any sort, we continue to believe that trash is cash (as indicated by our large weight in WM).

New Positions:

Garrett Motion (GTX):
Designer and manufacturer of turbochargers for the automotive industry

Current Price: $7.62 **Cost Basis (January 9, 2023): $7.62** **Price Target: $12.65**

Investment Rationale:

IMG sees a green light on Garrett Motion. We think this is a high-quality business gaining share in an effective duopoly with a strong competitive moat. Our diminishing belief in BorgWarner (see last quarter exited positions) drove us towards its duopoly twin, Garrett. While BWA has heavily scaled back their R&D investment into turbochargers over the past 5 years in favor of diversifying M&A into the EV space, GTX continues to offer the best-in-class engineering for their E-turbos, the turbos used in hybrid cars. With BorgWarner investing heavily into the EV space and Garrett maintaining a stronghold in turbochargers, the relative success of these businesses hinges on our view on the demand for ICE vehicles vs. hybrid cars vs. EV.

Although there has been substantial public excitement surrounding the transition to electric vehicles, we think investors will realize that EV adoption is a slow and steady process as the metals and materials used to build the batteries cannot currently be produced in a quick (nor environmental) fashion. The market is also assuming that a drop in ICE will lead to reduced turbo demand, yet turbos are more common in hybrids than ICE cars, which is beneficial for Garrett. We believe e-turbos represent a meaningful growth opportunity for Garrett.

With regards to valuation, Garrett is mispriced due to a mixture of illiquidity, capital structure complexity, bankruptcy overhang, and terminal value risk. Our base case arrives at a target of $12.65 per share with a 63% upside to the current share price. Garrett is highly illiquid, held by a few investors, with the majority of its capital structure consisting of preferred stock. We believe a catalyst for value realization is the conversion of its preferred stock around the end of 2023 to early 2024, followed by strong e-turbo performance. There are some material risks that we want to monitor as we hold the stock, but overall, our belief is that GTX provides an attractive risk/reward. Such considerations to monitor are the aforementioned demand for hybrid cars vs. ICE vs. EV and to possibly pay attention to BorgWarner's push to reenter the space (unlikely).

Madison Square Garden Sports (MSGS):
Sports holding company for the New York Knicks and Rangers

Current Price: $184.75 **Cost Basis (January 9, 2023): $184.75** **Price Target: $198.57**

Investment Rationale:

MSGS was a unique and contentiously debated addition for the IMG portfolio. As a result, we purchased the equity for only around a 1% weight in the portfolio. Madison Square Garden Sports Company is the holding company for what we believe to be two extremely valuable assets: The New York Knicks and The New York Rangers. Our investment in the company revolves around our belief in a permanent supply demand imbalance of professional sports teams, the Knicks long term value, and the value-destroying owner, James Dolan.

Sports teams broadly represent a strong investment. They are long sustaining assets with loyal fanbases to provide consistent revenues into perpetuity. Forbes' sports team valuation methodology has served as a valuation benchmark in the industry. These valuations, which are based on a multiple of revenue, have consistently only risen. In the past 20 years, billionaires have grown exponentially, however, the number of valuable sports teams has barely changed. This leads to a supply demand imbalance which continues to drive value for sports assets. In addition, as a result of recent legal changes, institutional capital has been able to invest in sports teams. For example, we saw Arctos Capital take a 13% stake in the Golden State Warriors as well as Redbird Capital take a 10% share in Fenway Sports Group.

For MSGS, the Knicks propose an especially interesting investment opportunity. Regardless of the team's performance, they have continued to increase in value similarly to the league average. This is as a result of the team's strong history and New York City's massive metropolitan population. However, this leaves room for significant upside if the Knicks were to become a contending team. In addition, IMG believes that the current owner, James Dolan, is creating a significant discount, 32%, in valuation due to management's compensation structure and poor treatment of shareholders. By calculating the management's future extraction value, IMG found this discount to be overstated in MSGS's market valuation. In addition, with conservative League blended revenue multiples on a sum of the parts valuation, we found a 21% upside price target. A 100% upside can be obtained using a higher premium Knicks and Rangers multiple. The largest barrier to higher weighted investment was the lack of a near term catalyst. However, we believe that upside can be obtained through either a full sale of the team, a minority investment, or value extraction through the sale of other NBA teams.

Exited Positions:

Etsy (ETSY):
E-commerce marketplace for specialized hand-made goods

Sell Price: $140.27 **Cost Basis (June 29, 2022): $74.22** **Price Target: $125**

Investment Rationale:

Since the beginning of 2022, we have seen equities in the broader e-commerce space sell off due to their unprofitability and decreased consumer demand. However, we believe Etsy is being unfairly punished for its competitor's shortcomings. At the time of our investment, Etsy traded comparably to competitors despite their differentiated product offering and superior cash flow generation. This provided an opportune entrance opportunity for the IMG portfolio.

In a space marked by increased competition and unprofitability, Etsy has marked itself as a unique marketplace: both in product offerings and in cash flow generation. Unlike competitors such as Amazon, Poshmark, and eBay, Etsy offers handmade, often personalized products that can rarely be found on alternative websites. This point is exemplified by a survey conducted over the spring, wherein 87% of Etsy buyers stated that "Etsy has items [they] can't find anywhere else." Because Etsy has successfully established itself as the leading marketplace for unique, handcrafted goods, the company not only has strong customer retention, but an extremely sticky seller base. As a result, Etsy is able to routinely increase their transaction fees with immaterial seller churn.

All investments come with its risks, and for Etsy the risks come from a historically poor capital allocation strategy and the effects of a recessionary environment on consumer demand. Etsy's "House of Brands" strategy, in which the Company acquires similar marketplaces (Reverb, Elo7, and Depop) to gain market share, has come at a heavy price tag. These acquisitions have not compressed margins, but have not had a significant impact on revenue either. In terms of consumer demand in the event of a recession, while we acknowledge that Etsy is by no means immune to demand slowdown, we believe the Company is somewhat financially protected due to its pricing power. While we are still displeased with Etsy's capital allocation strategy and can never be certain of future macroeconomic trends, our confidence in the Company's core business and current buy-in opportunity ultimately outweighed these concerns.

Exit Rationale:

The portfolio committee made the decision to sell Etsy at a cost basis of $140.27 for around a 60% return. While remaining optimistic on the company, we decided that much of IMG's original thesis had been realized. It was also a good point to cash out our position as we were uninterested in the future holding risk of an expensive ecommerce company in this macro environment. Q3 2022 Earnings revealed how Etsy remained a resilient business during a tech downturn. The company was able to increase their Gross Merchandise Sales (GMS) take rate with a near flat GMS year over year, increasing revenue by 11.7%. In addition, ETSY continued share buybacks and invested heavily in optimizing search functionality on the platform. EBITDA was down only 5% year over year due mostly to increased marketing spend. Overall, the earnings proved Etsy's strength to the market, and valuation reacted accordingly.

Kohl's (KSS):
Department store retail chain with locations across the U.S.

Sell Price: $29.63 **Cost Basis (April 19, 2022): $61.75** **Price Target: $80**

Investment Rationale:

Kohl's Corporation is a US operated retail company that sells private and national branded apparel, footwear, accessories, beauty, and home products through their 1,100+ stores and online platform. Kohl's is a Company that has been marked by consistent underperformance: a dollar invested in Kohl's 20 years ago is worth less today. This underperformance has attracted the attention of notable activist investing firm Macellum, which on January 18, 2022, initiated a second activist campaign on the Company, calling for changes to the board, sale-leasebacks, a share repurchase program, and ultimately, the exploration of a sale process.

With this context, we believed that Kohl's provided us an investment opportunity with limited downside and high upside optionality. The Company's loyal customer base, expansion into athleisure, emphasis on female consumers, and 30-40% digital penetration demonstrated the stability of their core business. While the Company was currently trading at a reasonable price, we believed there could have been significant value creation through operational improvements, financial engineering, or a potential sale of the Company. The Kohl's thesis was certainly non-traditional when compared to our current portfolio. Rather than having confidence in Kohl's mispricing, we believed that we were purchasing Kohl's at a reasonable price, with significant upside opportunities available in the future.

Exit Rationale:

With Macellum having lost their activist battle and Kohl's management still refusing to change their strategy, the Committee has reevaluated our position in Kohl's. Especially in light of a tough retail downturn, we no longer believe that the buyout thesis will materialize, nor do we believe in the resiliency of the consumer business itself. In hindsight, we think our position in Kohl's ultimately offers a lesson in factor exposure. Out of our total loss on KSS, around 11.1% can be attributed to general market beta, 7.5% to retail beta more specifically, and 13.5% towards leverage. For company-specific reasons, we lost 19.6% (a minority of the total loss) and admit our mistake in believing the stock to be an opportunity with limited downside.