IMG INVESTMENT MANAGEMENT

September 30, 2022

Members of IMG,

We are excited to present the first investor letter of the 2022-2023 school year. As your new portfolio managers, we hope to improve how the Portfolio Committee functions in a variety of ways. Firstly, we hope to increase the Committee's focus on tracking and making decisions on existing positions. That is, we would like to create objective and trackable notes on when portfolio companies should be held and sold. We would also like to complement this with models on each company that are rigorously updated as quarterly earnings are released. Although the Committee spends a lot of time deliberating on IMG's quarterly pitches, we believe there can be added ongoing analysis and discussion of portfolio companies that were pitched in the past by prior members. We hope to increase the Committee's understanding of the entire portfolio by continuously monitoring and discussing key drivers of all portfolio holdings during the Committee's regular weekly meetings. In addition, when we select a new class of the Portfolio Committee this upcoming winter and spring, we would like to allocate an increased part of education on understanding the theses behind existing portfolio companies, with the hopes of creating a consistent "conveyor belt" of knowledge for the next generation's understanding of IMG's portfolio.

Beyond the existing portfolio companies, we hope to continue to improve many of the initiatives taken by last year's portfolio managers (we owe many thanks to Emily and Jacob!). We would like to continue to create a transparent relationship between the Committee, principals, and the entirety of IMG. We hope to do this with written feedback and further diligence from the Committee which can be communicated to pitch groups after each deliverable presentation. This will not only allow Portfolio Committee members to better recall the Committee's discussion of pitch groups' materials but also allows principals to distribute our comments to their entire pitch group. In addition, we believe the past portfolio managers did an excellent job of educating new members. We hope to continue our education in a similar fashion but would also like to create a more structured curriculum that can be reused in future years.

With regards to the rest of the letter, we will begin by reflecting on the Committee's performance in the Spring 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**

| **Symbol** | **Sector** | **YTD** | **IRR** |
|---|---|---|---|
| Legacy Holdings: | | | |
| ADBE | Software | -47.58% | -0.02% |
| ADSK | Software | -30.60% | 4.14% |
| BAM | Financial Services | -19.30% | 4.87% |
| FISV | Technology | -3.69% | N/M |
| KSS | Consumer Retail | -40.84% | N/M |
| LBRDA | Communications | -43.19% | -36.54% |
| PFMT | Healthcare Services | -23.60% | N/M |
| WM | Waste Management | 5.02% | 16.00% |
| New Holdings: | | | |
| ETSY | E-Commerce | -46.75% | N/M |
| MCO | Financial Services | -27.39% | N/M |
| RADI | Digital Infrastructure | -21.44% | N/M |
| Honorable Mention: | | | |
| GLV | Homebuilding | -18.13% | N/A |
| Exited Holdings: | | | |
| BWA | Auto Parts | -19.39% | -12.00% |

## Spring Quarter PortComm Performance Review

| PortComm | Equal Weight | S&P 500 |
|---|---|---|
| 12.67% | 6.49% | -1.43% |

| Spring (6-14-22) | Decision | Performance Since Decision | Performance Captured |
|---|---|---|---|
| CF | Not Buy | 25.22% | N/A |
| ETSY | Buy | 50.61% | 50.61% |
| GLV | Hold | 6.09% | N/A |
| MCO | Buy | 2.73% | 2.73% |
| RADI | Buy | -14.56% | -15.32% |
| UPWK | Not Buy | -31.13% | N/A |

At the end of spring quarter, the Committee voted to buy three out of the six stocks pitched. We commend the pitch groups for their efforts; pitches were of much higher quality overall than the quarter before (when only KSS had barely gained the majority of the Committee's vote to buy), and they offered us much more attractive opportunities. We look forward to seeing the pitches this upcoming quarter and to continue building rapport between the Committee and our pitch groups.

Notably, ETSY has been a superstar within the portfolio. We opportunistically bought shares while it was trading cheaply, with the thesis that it was being overly punished by the market. This has proven to be true as Etsy's second quarter revenue grew over 10% and has maintained pandemic gains despite a tough market, which prompted shares to soar. Additionally, the Committee dodged a bullet with UPWK but missed out on CF due to uncertainty and lingering questions around macro supply/demand for nitrogen fertilizer amongst international conflict. We underestimated the end of the pendulum swing, thinking that CF was at a near-high when it still had momentum to go. Many of the pitches last quarter give us substantive material to reflect upon, and we hope to continuously improve our portfolio management acumen moving forwards.

## Portfolio Performance Review

| IRR Since Inception | S&P Comparable Period IRR | YTD Return | S&P 500 YTD Return | Sharpe | Calmar |
|---|---|---|---|---|---|
| 4.43% | 7.91% | -25.30% | -18.73% | N/M | N/M |

While in a period of extreme economic uncertainty, the portfolio has lost much of its gains and has yet to see many of the portfolio companies' theses materialize. 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. However, we are still very hopeful in many of our positions and look forward to seeing how they perform in the upcoming months

## Legacy Holdings Performance Review:

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

**Current Price: $296.06**  **Cost Basis (Nov 11, 2019): $296.20 (-0.02% IRR)**  **Price Target: N/A**

**Investment Rationale:**

Adobe is famed for its powerful moat against competitors. Thanks to its first mover advantage and extensive product suite, Adobe can maintain high 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 holds an extremely sticky customer base and strong pricing power. At the time of the investment, Adobe shares already had a high price tag; however, the Committee believed that Adobe was still at the forefront of a burgeoning industry with several growth opportunities remaining.

**Performance:**

Adobe has fallen 32% further since our last update, where it had already fallen 24% since the start of the new year due to a broader sell-off of equities in the technology space. Nearly half of the 32% drop is attributable to investor reaction to the recent announcement (September 15, 2022) that Adobe will buy Figma, an immature competitor in software, for $20B. Adobe paid an eye-popping 50x ARR for the company, raising questions about management's confidence in the existing business and capital allocation competency.

**Outlook:**

While we are not ecstatic about the price Adobe will pay for Figma, we concede that the rationale makes sense for the Company. Users cite Figma's cloud-based designed software as cheaper (free) than Adobe, which poses a competitive threat to Adobe's high pricing, especially considering Figma's high-growth potential. With this acquisition, Adobe defends its powerful moat, and we continue to believe in the future of the business.

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

**Current Price: $196.89 Cost Basis (Dec 5, 2019): $175.79 (4.14% IRR) Price Target: N/A**

**Investment Rationale:**

Like fellow portfolio company Adobe, Autodesk has an extremely sustainable moat: high switch 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:**

While Autodesk has continued to retain customers and solidify its moat within the architecture, manufacturing, and digital media space, the company's share price has suffered this quarter from general volatility in the software industry, falling around ~9%. Autodesk's EV/EBITDA multiple has fallen from a hefty 75x at the end of 2021 to now 46x.

**Outlook:**

The Committee has become increasingly concerned by the performance of Autodesk in the year. However, we remain confident in the fundamentals of the Company as they work to widen their already strong moat. They plan to connect many of their software products with core technology as well as increase data communication between platforms. In addition, they are beginning to offer enterprise bundles for all their programs. We believe Autodesk's effort to widen their moat will continue to help us see our thesis materialize.

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

**Current Price: $48.03** **Cost Basis (Feb 26, 2021): $44.59 (4.87% 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 17% since April. The Company's share price is reflective of broader market volatility rather than company-specific issues. Throughout the quarter, Brookfield has continued to perform well, benefiting from inflation because of their specialization in real asset investing, financed primarily by fixed-rate debt. In addition, they have continued to expand their energy business as input costs for competitive technologies have increased globally as well as their insurance businesses through further acquisitions.

**Outlook:**

Given continued macroeconomic uncertainty, the Committee still views Brookfield as a key investment in our portfolio as they continue to benefit from record high inflation. We also believe that the raising of interest rates might offer buying opportunities for big player who can access cheap debt. In addition, we believe that Brookfield's spinoff of 25% of their asset management business will allow investors to further realize their full value given their unique business model as an asset manager.

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

**Current Price: $103.65**    **Cost Basis (Nov 9, 2021): $102.39**    **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 unique emphasis on omni-channel retail and larger-scaled merchants. 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 fintech product such as Clover. Given Fiserv's attractive multiple and strong core business, we view the Company as buy.

**Performance:**

While we have seen extreme market-driven volatility in Fiserv's share price since the start of the year, the current price is in line with our cost basis. This is particularly notable when comparing the Company to competitors such as Block (formerly Square), Toast, and Lightspeed, all of which have seen declines of ~70% since our time of purchase due to a general selloff of many tech stocks. Direct competitor Global Payments has performed similarly to Fiserv, albeit without a product like Clover that competes in the broadly damaged fintech space. Fiserv has remained relatively resilient given the volatile industry the Company operates within.

**Outlook:**

Fiserv's valuation has seen little change since our original purchase. We continue to believe that the Company's Clover asset is significantly unvalued and can generate us alpha in the long-run. The Company's legacy business provides protection against the correction taking place for highly valued tech stocks. Thus, the Committee has decided to retain our shares in Fiserv.

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

**Current Price: $29.33 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. However, with Kohl's special situations opportunity having lost momentum and the share price seeing significant losses, the committee is currently taking more time to reevaluate our investment thesis and will update our findings in the next quarterly letter.

**Performance:**

Kohl's had a weak performance in the fiscal second quarter, citing softer consumer spending, and is no longer considering a buyout as buyers fear entry into a weak consumer retail environment. Earlier this year, Kohl's rejected an offer of $64 per share. Currently, shares trade at ~$29 per share. The committee purchased Kohl's as an abnormally smaller portion of our portfolio due to its unique thesis. Therefore, its current losses have been less harmful to the portfolio's assets than they could have been otherwise.

**Outlook:**

Consumer discretionary across the board has been punished by the market because of inflation concerns and softening demand. Retail as an industry has seen a significant downturn over the last several months. We are concerned for our position in Kohl's and are evaluating whether to potentially shave our position as we lose conviction in their ability to perform well during an environment such as this one. However, we are expecting the stock's return to be more binary than the average portfolio's stock as our investment was based on a few binary events. In addition, current EV/2020 EBITDA yields 7.6x, which is a relatively normal historic multiple considering trough earnings, indicating that it's probably undervalued unless we enter a deep recession.

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

**Current Price: $91.23 Cost Basis (June 21, 2021): $160.81 (-36.54% 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 34% since our last investor letter. Most concerningly, we have seen a 21K loss in broadband subscribers in Q2 of 2022.

**Outlook:**

Our entire thesis was centered around the market's misunderstanding of the cable industry's competitive dynamics, and as such we do not view this selloff as a massive concern. However, we are continuing to monitor and reevaluate possible concerns, especially around disappointing quarterly net add figures. Our next investor letter will detail our findings. We are also monitoring new management as Charter recently replaced their longstanding CEO. 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.

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

**Current Price: $1.91 Cost Basis (Dec 29, 2021): $2.29 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:**

The stock has been range bound since entering the portfolio, violently bouncing between $2-3 a share due to illiquidity. Management has regained some credibility with a few quarterly beats, on the heels of 2021's continually aggressive guidance. Margins haven't meaningfully inflected yet, and the widely anticipated bounce back in hospital utilization rates hasn't happened. The stock has drifted downwards into the end of the summer.

**Outlook:**

The expectations baked into Performant are at rock bottom. Using a reverse DCF, we find that the current share price can be justified assuming 13% healthcare revenue growth through 2025, 13% EBITDA margins in 2025, and an 11x EV/EBITDA exit multiple, discounted at 12%. We believe the company can exceed each of these metrics. Performant has grown healthcare revenue 20+% this year without any contribution from their recently won CMS contract. Comps in the space have EBITDA margins of 23-40%. Transaction comps have exited in the past four years for 19-23x EBITDA (with 8-17% growth profiles).

The legacy business was finally laid to rest in Q2, and we expect the next several quarters to be pivotal in proving to the street that Performant can show operating leverage. The company has already proven they can win business and grow revenue. If EBITDA margins inflect as we anticipate, the stock could rerate towards our $6 price target in a hurry.

**Waste Management (WM):**
Waste management services provider

**Current Price: $170.91 Cost Basis (Nov 18, 2019): $112.15 (16.0% 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:**

Despite a momentary dip in share price, Waste Management has unsurprisingly withstood the recent market sell offs with steady increases throughout July and early August, making up more than its crash. This was due partly to strong Q2 2022 results. The non-cyclical company has served well in recent economic turmoil.

**Outlook:**

The Committee will continue to hold Waste Management for the foreseeable future. Given the current extreme macroeconomic uncertainty, holding a non-cyclical, recession-resistant company bodes well for the portfolio. In addition, we are bullish on Waste Management's recent expansion into the recycling industry.

## New Positions:

**Etsy (ETSY):**

E-commerce marketplace for specialized hand-made goods

**Current Price: $108.19 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. The Company's superior free cash flow conversion rate of above 100% is a result of the exceptional pricing power it have over sellers.

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.

**Moody's Corporation (MCO)**
Credit rating agency (CRA) and risk management firm based in the U.S.

**Current Price: $278.51 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 has extremely high retention rates (~96%), demonstrating their current and future dominance in the space.

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.

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

**Current Price: $12.79   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 value Radius as a sum-of-the-parts of the existing assets (YieldCo) and acquisitions operations (originations platform). The ground leases are inextricably linked to the economics of cell towers themselves, and as such we use TowerCos as comps for these assets. Public TowerCos trade at 21-27x EBITDA, and the geography-weighted multiple we use for Radius is 21.7x. This suggests the existing portfolio is worth ~$15.50 a share, 20% above the current share price. To value the originations platform, we assume a steady stream of acquisitions continue for 7 more years, and discount the value created each year (Radius acquires these assets at ~16x EBITDA), giving us $3.50 a share for a total price target of $19 and ~50% upside.

Additionally, private equity and infrastructure funds have been pouring into the digital infrastructure space, even throughout the summer of 2022 when financing became very difficult. 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.

We believe this opportunity exists for a couple 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. Our model carefully accounts for the dilution this structure causes and fully bakes it into the price target. Additionally, much of the structure is directly linked to the Class A Common Shares we own, so while potential dilution is unfortunately heavy, our shares have to appreciate for it to occur.

**<u>Honorable Mention:</u>**

**Glenveagh Properties (GLV):**
Homebuilder selling houses and apartments across Ireland

**Current Price: €1.03  Cost Basis: N/A  Price Target: €1.32**

**Investment Rationale:**

We believe that the Irish housing market is 1) under extreme undersupply following the Financial Crisis, with housing prices still below pre-crisis levels, and 2) that there is consistent demand for home ownership due to Irish home prices being capped relative to nominal wage growth by a maximum loan-to-income (LTI) ratio on mortgages with no corresponding restriction on rents. Additionally, the government will begin supporting homebuyers by buying 30% equity of a house through the First Home Scheme beginning in July 2022, as well as offering income tax rebate for first-time buyers. These incentives will functionally raise the price of housing effectively set by the LTI cap. The government has also started plans to build ~50,000 affordable homes in the next five years, further boosting demand.

Glenveagh's affordability and location attractiveness create a compelling investment opportunity within this industry. The company offers affordable homes, 72% of which are priced below new home median and 96% of which are starter homes. 75% of homes are built in the Greater Dublin Area, with strong infrastructure and utilities. In terms of valuation, our base case yields an implied upside of 41%. The Committee voted this stock as a hold due to remaining diligence questions left about the government housing initiatives as well as our inability to purchase the stock from portfolio restraints. We will continue to monitor the stock.

## Exited Positions:

**BorgWarner (BWA):**
Original equipment manufacturer (OEM) for combustion, hybrid, and electric vehicles

**Sell Price: $37.75 Cost Basis (Feb 16, 2021): $46.25 (-12.00% IRR) Price Target: $51.94**

**Investment Rationale:**
Our decision to invest in BorgWarner is largely driven by the assumption that the Company will transition from being a legacy combustion vehicle OEM to an electric vehicle OEM through strategic electric vehicle (EV) related acquisitions. We also believe BorgWarner will leverage its current position as a trusted, leading combustion vehicle OEM to retain major customers as they integrate EVs into their fleets. Investing in BorgWarner, due to the Company's status as a legacy combustion vehicle OEM and their niche products within the vehicle supply chain, allows IMG to capitalize off the trend towards electric vehicles without risking the extreme volatility that is traditionally associated with the EV industry.

**Exit Rationale:**

Since our initial investment in BWA, the committee has slowly been shaving our position in the company. Our continued faith, though diminishing, stemmed from the belief that the Company could carve a meaningful position into the EV manufacturing space. What we have seen is that BorgWarner has put itself a winless position. The Company can either remain a combustion vehicle parts manufacturer and eventually lose sales to its EV counterparts or meaningfully transition into the EV space through heavy, pricy acquisitions. Initially, we had conviction that BWA's acquisitive strategy was overly criticized by the investors, but as the Company has continued adding on EV part manufacturers, most by adding Rhombus Energy Solutions, we now believe this approach is unsustainable.

Macro trends also have not been kind to the Company. Towards the beginning of our holding period, we recognized that the shortage of semi-conductors would lead to short-term supply constraints that would eventually be overcome. However, looking into 2022 a new issue arises as recessionary trends indicate that demand is falling as well. Overall, we no longer have enough conviction in both the future strategy of the company and the broader industry it operates within to warrant a continued position in the Company.