October 22, 2023

Members of IMG,

Welcome to our first investor letter for the 2023-2024 school year. As the new portfolio managers, we are excited to continue IMG's tradition of identifying high-quality businesses while forming a differentiated view. In today's highly volatile macro environment, we plan to manage IMG's portfolio with patience and reflection. Firstly, we plan to re-evaluate our original theses as they begin to play out and trade more keenly based off these new narratives. Secondly, we hope to deliver more nuanced portfolio updates by establishing company-specific KPIs and explaining movements in stock charts while continuing to analyze the impact on the broader portfolio. Finally, we have noticed that previous IMG pitches previously not added to our portfolio may present attractive opportunities due to shifting industry dynamics and investment theses. During our weekly pitch deliberations, we look forward to discussing among the Committee whether these prior pitches would be attractive additions to our portfolio.

Our revisiting of Charter in the spring raises the importance of questioning why we still hold certain positions in our portfolio. We hope to see future pitches providing updated research with a clear analysis of how the investment thesis has evolved.

This coming winter quarter as we welcome a new class of Portfolio Committee members, we will emphasize developing a broad range of skills. On top of offering a deeper understanding of financial analysis, we will emphasize exposure to different investment philosophies, historical market cycles, and specific case studies in order to sharpen the Committee's analysis. Knowing how much the current Committee members benefited from voicing their opinions, we will encourage members to actively exchange ideas, ask insightful questions, and present their takeaways after building their models.

In the next part of the letter, we will outline specific reasons behind the Committee's decision to hold every company pitched this spring. Following that, we will outline the rationale behind every past position or decision in the portfolio and our outlook on the company. We have also invited the existing portfolio members to update the performances of their coverage companies.

Portfolio Overview

Ticker	Sector	% Weight	IRR
Legacy Holdings:			
ADBE	Technology	7.2%	14.9%
ADSK	Technology	9.1%	5.12%
APG	Business Services	7.4%	N/M
BN	Financials	9.3%	0.17%
GTX	Industrials	8.6%	N/M
LBRDA	Communications	9.6%	-22.72%
MCO	Business Services	5.4%	11.6%
MSGS	Media	0.8%	N/M
PFMT	Business Services	8.0%	33.95%
PRM	Industrials	4.8%	N/M
WM	Consumer Staples	9.9%	11.89%
Exited Holdings:			
FISV	Technology	N/A	17.69%

Spring Quarter PortComm Deliberations Review

Spring (6-23)	Decision
MTCH	Not Buy
SKY	Not Buy
XPEL	Not Buy
SHC	Not Buy
VEEV	Not Buy
CHTR	Hold

The spring quarter pitches ranged across a range of unique niches, such as online dating and car accessories. Along with five new stocks, we saw the first "refresher" pitch where the group spent the quarter examining our current holding, Liberty Broadband (Charter HoldCo), to understand if their hybrid fiber-coaxial network is still well-positioned for data demand growth with new fiber overbuilding dynamics since its addition to the portfolio in June 2021. The Committee reached the conclusion that, despite major questions around terminal value and fiber's likely eventual dominance, LBRDA still belongs in our portfolio due to the low bar of anticipated growth for Charter and the ability to own the equity at a discount through the LBDRA vehicle. Also, our existing position in Fiserv has been exited as payments grew more commoditized, and as the stock price approached our price target.

Another first in IMG history occurred this spring as the Committee voted to pass on all five new stocks pitched. Most pitches checked the business quality hurdle quite easily but lacked mispricing or were too vulnerable to a macroeconomic downturn. To briefly touch upon our decisions, we thought XPEL was a phenomenal growth story that we missed the boat on, and at 30x earnings, the price tag was now too expensive with concerns around displacement via car manufacturers making wraps in-house. For Match Group, both the Committee and the pitch group agreed its trajectory of declining payers made it an unattractive long-term investment candidate without an adequate catalyst. Sotera Health's litigation-related discount to intrinsic value was realized days before our deliberations, so the Committee agreed to revisit the stock if a future sell-off occurs. Lastly, although we are bullish on the eventual return of the prefabricated housing sector, Skyline Champion's lack of differentiation from its peers and the short-term housing freeze deterred us from investing.

<u>Portfolio Performance Review</u>

IRR Since Inception	S&P Comparable Period IRR	YTD IMG Return	YTD S&P 500 Return
5.8%	8.22%	3.4%	10.5%

While holdings such as API Group and Adobe continue to excel, our portfolio's returns have been held down by a few poor performers such as LBRDA and PRM. While the economy has remained much more resilient than many anticipated, our portfolio has yet to cover much of its historical gains and still drags behind the index. With a concentrated portfolio, we've realized the importance of acting swiftly once we have lost faith in a thesis and revisiting companies like Charter where the landscape has changed since we last analyzed it. We are still very hopeful in many of our positions and look forward to seeing how they perform in the upcoming months and years. In the coming year, we hope to refresh our portfolio with many new names and buy down on positions that we are confident in.

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

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

Current Price: $540.11 Cost Basis (Nov 11, 2019): $296.20 (14.9% IRR) Price Target: $426

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 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 is up over 40% since our last update, reflecting broader market optimism in the technology sector following a difficult 2022 and investor hype surrounding its AI services. They recently released a suite of AI-powered tools (Firefly) and expect revenue from these services to ramp up quickly. Q3 revenues were $4.89 billion, beating expectations of $4.87 billion, and management raised its guidance for FY 2023 revenues. The EU recently announced that they were resuming their probe into Adobe's acquisition of Figma, but the deal is still expected to close (though Adobe may have to provide some remediations). A decision will be announced by February 5, 2024.

Outlook:

Despite their questionable acquisition of Figma, we believe that Adobe's underlying business remains strong. In contrast to many other software companies, Adobe's revenues have continued to grow in the face of economic uncertainty, which is a reflection of just how essential their Creative Cloud and Document Cloud product suites are to the workflows of countless companies and individuals. Still, while we are excited by their new Firefly product suite, we are concerned that the continued development of generative AI tools may erode Adobe's business model over the long term, presenting a terminal value risk. Further, Adobe is currently trading well above our price target of $426.05. Therefore, pending further information, we may decide to trim our holdings of Adobe.

APi Group (APG)
Life safety and specialty services provider

Current Price: $25.30 **Cost Basis (April 9, 2023): $22.42** **Price Target: $30**

Investment Rationale:

Our investment is primarily driven by the stability and mission critical nature of this undervalued business. The federal government mandates installation and regular inspection and maintenance of fire safety systems, which is a source of contractual revenue for APi Group. Thus, the business is protected against negative macroeconomic trends yet still benefits from other macro dynamics such as an increase in the construction of buildings and industrial complexes. Valuation-wise, we believe there is 35% upside to be made, with an implied multiple of 12.7x for the life safety segment.

The competitive landscape is also quite attractive for APi Group. While there has been increased private equity activity in the space (i.e. rolling up regional and mom-and-pop shops), APi Group's geographical footprint remains unmatched. We expect this market share dominance to continue well into the future, with over 480 locations spanning across the globe from big cities to smaller locales. Because installing and inspecting fire systems requires the installer to be in proximity to the consumer base, the more locations a company has, the more it is able to increase TAM penetration. APi Group has consistently demonstrated strategic and disciplined expansion into new markets through their M&A activity, most recently seen in their acquisition of Chubb.

Additionally, we are extremely confident in management's ability to catalyze growth for the company as well as their commitment and alignment with shareholders. Over time, we believe they have consistently displayed resourceful capital allocation and business strategy. Management has recently affirmed that they are committed towards shifting their focus towards greater inspection and maintenance, which offers much higher margins than installation. They have also announced deleveraging plans (due to a currently high debt load). We believe that they will successfully navigate these transitions while creating value along the way.

Performance:

APG has been a top performer in our portfolio since its addition. The stock is up around 18% since April and climbed 60% since last October. Intelligent capital allocation including its Chubb acquisition and its shift towards inspection and maintenance has grown the company's value. Over the summer, the company successfully integrated Chubb with Vipond Fire Protection (API subsidiary) ahead of schedule. The government stimulus related rise in infrastructure and commercial construction spending has also boosted the value of specialty services companies like APG.

Outlook:

As the stock moves towards our price target we will assess whether we should trim our position or reassess our estimation of intrinsic value as APG continues to expand margins and become a more capex and asset-light business. We will also monitor their ability to de-lever down to 2.5x and management's ability to judicially make bolt-on acquisitions to expand services and grow their geographic footprint.

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

Current Price: $207.58 Cost Basis (Dec 5, 2019): $175.79 (5.12% IRR) Price Target: N/A

Investment Rationale:

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

Fundamentally, company performance has been satisfactory. Autodesk experienced revenue growth in all segments as of last quarter's earnings, and it is particularly notable that the company is seeing more revenue coming from their SaaS model. The stock dropped 12.9% after earnings released despite mostly strong 4Q earnings due to the fact that management expects FCF to almost get cut in half to $1.2 billion. This is obviously concerning at first glance; however, we are overall happy with the company's growth trends and recent performance.

Outlook:

The Committee continues to hold Autodesk. Our view on this holding is oriented towards the long run, and we do not believe that the recent FCF guidance cut is a huge deal for long-term shareholders as this is only a reflection of Autodesk's new contract model. Instead of multiyear contracts with upfront payments, Autodesk will now charge annually. As such, cash collection rates will temporarily go down in 2024 even though Autodesk is signing new deals with customers at record rates.

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

Current Price: $30.22 **Cost Basis (Feb 26, 2021): $40.06 (0.17% 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 had a volatile quarter and has been flat since our last letter. Along with many other asset managers, BN launched a private credit fund with SocGen as well as a PWM fund with Oaktree. Other highlights of the summer include acquiring American Equity Life, an insurance platform and taking the world's largest freight company, Triton, private. The company continued to grow distributable earnings and also recently hosted an investor day where it outlined its plans for the future of the corporation and its various funds.

Outlook:
As capital markets have tightened, we believe Brookfield and others with access to large amounts of dry powder are further advantaged to make opportunistic investments. In the investor day, BN outlined a plan to 4.7x the value of their shares. The company is in the process of shrinking its real estate assets while deploying more capital into the insurance business. Although insurance is a great business to own, we bought BN due to the depressed value of real estate assets. To continue owning the stock, we want to spend a quarter "refreshing" our perspective on this new plan and compare valuations across other public alternative asset managers to see if BN is the best to own.

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

Current Price: $7.29 **Cost Basis (January 9, 2023): $7.62** **Price Target: $13**

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. 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.

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. The catalyst to a realization of its true value we believe will be driven by 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 re-enter the space (unlikely).

Performance:

GTX's share price is down 5% since our last update, which is largely a reflection of macroeconomic uncertainty and the overall market's performance. Q2 EPS beat analyst expectations by 18% and management raised its guidance for FY 2023 as demand for turbos has exceeded expectations, though EBITDA margins are expected to decline as the product mix shifts towards gasoline-powered vehicles.

Outlook:

To date, earnings have been roughly in line with our model's expectations, and none of the risks related to Borgwarner re-focusing on turbochargers or demand for EVs outpacing hybrid or ICE vehicles have materialized. As the Series A preferred stock has converted into common stock, it will draw more interest from investors and lead to greater liquidity and higher market capitalization. Furthermore, GTX has been more successful than we anticipated at developing technology for zero emission vehicles, which limits some of the terminal value risk.

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

Current Price: $89.82 Cost Basis (June 21, 2021): $160.81 (-22.72% 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. However, the market sentiment has slightly improved with the stock gaining 6% since our last investor letter due to higher-than-expected penetration in subsidized rural passings at 50%. That being said, Q2 had flat revenues, slower growth in new broadband subscribers, flat growth in internet customers, and a significant decrease in FCF due to increased capex spending on rural projects. There has also been worse performance for traditionally weaker businesses including advertising, video, and voice despite increased customer service costs, creating concerns around Charter's capital allocation strategies.

Outlook:

With increased competition from fixed wireless and fiber, we are questioning the long-term competitive dynamics and structural capital intensity of the cable industry against fixed wireless and fiber. Although Charter's Spectrum One offers inexpensive broadband and wireless, there is uncertainty surrounding customers and competition. As management identifies mobile as a key growth driver, we would have to track how much value is driven from Spectrum One while being aware of net internet additions. Although penetration gains in rural passings have exceeded expectations, we no longer buy into our original point on free cash flow generation post-buildout completion.

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

Current Price: $194.96 **Cost Basis (January 9, 2023): $184.75** **Price Target: $196**

Investment Rationale:

Our investment 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. Firstly, 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 amount of valuable sports teams has barely changed. This leads to a supply-demand imbalance which continues to drive value for sports assets. Secondly, 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, and this leaves room for significant upside if the Knicks were to become a contending team. Lastly, 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. In addition, with conservative League blended revenue multiples on a SOTP valuation, we found a 21% upside price target. The largest barrier to a higher-weighted investment was a 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.

Performance:
Since entering the portfolio, the stock has risen in line with the overall market as a whole. In its recent earnings report, KPIs including per-game revenues, season ticket renewal rate, and per-capita merchandise and food sales all showed strong year-over-year growth. Revenue has also been driven upwards $43M (79% YoY growth) due to increased sponsorships, new marketing partners, and anticipated growth in media rights fees. One sponsorship highlight is a partnership with Sphere, the new Las Vegas entertainment venue.

Outlook:
Due to our long-term horizon thesis as well as the uniqueness of this company's assets, there have been no substantial changes to our original view of the investment. In the 2022-2023 season, the Knicks advanced to the Eastern Conference semifinals, bolstering the value of the company as a whole. There was speculation this fall that Dolan would sell the NY Knicks and Rangers, two of the company's largest assets; however, it was affirmed this was not true in September. The Committee will continue to monitor the potential sale of either team and any correlation between team success and stock appreciation. Assuming the Dolans hold onto the Knicks for the foreseeable future, we may also look to exit if institutional capital makes further inroads into NBA team purchases, like we have seen in other leagues.

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

Current Price: $373.43 Cost Basis (July 1, 2022): $271.11 (11.6% IRR) 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 30x 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 market pullback at the time offered 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:

As the U.S. leveraged loan issuance recovered to a high point since the start of rate hikes this September, MIS has been growing at 6% in Q2 and 19% in Q3. The MA segment is also seeing low teen growth. Moody's revenue has been growing at a steady pace and the revenue has again overtaken MIS to make up 53% of Moody's overall revenue. This sustained growth in the MA party confirms the team's thesis, although the anticipated margin expansion and bottom-line growth have yet to happen.

Outlook:

It is certain that Moody's recovery was speedy and reflective of both a sound macroeconomic environment and a healthy business model. Nonetheless, due to Moody's strong share price performance that elevated the valuation, the company is now trading very close to the original price target. In the winter, the team will discuss revisiting and adjusting this position accordingly.

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

Current Price: $2.09 **Cost Basis (Dec 29, 2021): $2.29 (33.95% 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 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 ~180% 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:

PFMT's Q2 performance has been disappointing with healthcare revenues remaining flat at 10%, consisting of eligibility revenue growing at 13% while claims revenue growing flat at 5%. Compared to 2022, commercialization has started to ramp up with 22 total programs halfway through the year. Management seems to be optimistic with FY guidance at $111-118M total revenue, yet the market has become bearish since spring due to the lack of meaningful margin expansion despite the new commercial programs, presumably due to continued growth spend. This spring, PFMT's competitor Cotiviti was offered a valuation of $15 billion for a potential sale compared to their purchase price of $4.8 billion in 2018. With increased interest from financial buyers, a potential buyout scenario also seems likely as PFMT continues to win contracts away from larger players.

Outlook:

Although we have trimmed PFMT's position due to the lower margin expansion, the stock seems to trade at an attractive discount with potential upside from announcement of new government contracts, which will kick off officially in 2024. Going forward, we will track the mix of revenue between eligibility and claims since the claims business would drive higher incremental margins but is growing slower.

Perimeter Solutions (PRM):
Fire retardant solutions provider for the fire safety industry

Current Price: $3.14 **Cost Basis (April 9, 2023): $7.57** **Price Target: $9**

Investment Rationale:

Global warming continues to worsen and have a greater impact on our lives, which has resulted in a drastic rise in wildfires (due to rising temperatures and drier climates). As more U.S. states and countries try to battle these fires with aerial wildfire retardant, they seek a company with a proven track record and a product that has minimized wildfire damage for decades. In the fire safety industry, this company is Perimeter Solutions, which specializes in selling wildfire retardant along with other fire safety products and a small oil additives segment. In fact, PRM's decades of success in the United States have already caused Italy and other countries to create retardant contracts with PRM.

Overall, we believe this is a wide moat business. The business exhibits significant pricing power, which is derived from the fact that PRM controls every part of the supply chain. They have a presence in over 150 air bases around the country to offer an "all in one" model that no one else can. Furthermore, its customers are mainly state governments and the U.S Forest Service, which allows it to exhibit high switching costs.

As for valuation, we thought that a ~10x EV/EBITDA valuation was too cheap for this company and believe the market is overly punishing the company for potential environmental lawsuits, an unfavorable management compensation scheme, and having a new competitor, Fortress Fire Retardant Systems, join Perimeter as the only approved companies on the U.S Forest Service Qualified Products List. Although Fortress's retardant is an entry threat, we believe PRM will retain the vast majority of its customers due to its historical success as well as state governments' risk-averse nature.

Performance:

So far in the portfolio, Perimeter Solutions has been a major disappointment. Their market capitalization has shrunk by >50% since we initiated our position in April. Although we understood the risks around the U.S. wildfire provider market transitioning from a monopoly to a duopoly and sized our position small accordingly, we underestimated the downside of this stock. The main contributors to this sell-off were the 64% less acres burned than the 10yr rolling average, one USFS air tanker dedicated to Fortress's FR-200 for the first time, continued egregious board compensation, and post-pandemic destocking in oil additives.

Outlook:

On the bright side, our primary research findings indicate that Fortress is pricing its retardant higher than PRM and has yet to win any state contracts. Furthermore, PRM's fluorine free foam recently became the sole product on the Department of Defense's QPL, meaning all airport authorities and government agencies using aqueous film forming foam (AFFF) must transition to PRM's product. That is to say, despite the plummeting share price, Perimeter Solutions is still the same competitively advantaged business that we bought into. This summer was an unfortunate storm of headwinds for the company, and we are looking to add more to the portfolio at these prices.

Waste Management (WM):
Waste management services provider

Current Price: $163.87 Cost Basis (Nov 18, 2019): $112.15 (11.89% 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:

Since spring, Waste Management has seen a decline in stock price due to Q2 results demonstrating a greater impact from a decline in recyclable prices, particularly for OCC and mixed paper, lower than expected collection volume from Hurricane Ian, and a decline in landfill and industrial volume. Due to decreasing natural gas and commodity prices and slower contributions from recycling acquisitions and sustainability growth investments, management has lowered guidance for revenue growth by 100 bps. Nonetheless, we still believe that WM is a great hedge to our portfolio that has historically served well in downturns while demonstrating superior capital allocation (i.e. reinvesting into the business while continuing to perform share buybacks and issue dividends).

Outlook:

The Committee will continue to hold Waste Management for the foreseeable future. Given the current extreme macroeconomic uncertainty, we believe holding an acyclical, recession-resistant company bodes well for the portfolio. However, we will continuously track WM's incremental revenue driven by newly introduced plants for the sustainability program and the ability to manage costs efficiently.

<u>**Exited Positions:**</u>

Fiserv (FISV):

Legacy global payments processor providing merchant acceptance, financial technology, and SMB merchant solutions services

Sell Price: $119.75 Cost Basis (Nov 9, 2021): $102.39 (17.69% IRR) Price Target: $125

Investment Rationale:

As a legacy payments provider, Fiserv was 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 believed Clover was 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 Clover was 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 believed the legacy segment of Fiserv was also being undervalued. The Company's scale was rivaled only by Global Payments, a similarly trading legacy player lacking a strong ISV product such as Clover. Given Fiserv's attractive multiple and strong core business, we viewed the Company as a buy.

Exit Rationale:

For most of its holding period, FISV has remained nearly flat and in line with our cost basis. In recent positive developments, however, this status quo has changed. Since our winter letter, the stock price has gained around 7% until we sold it in May, mostly due to momentum after Q1 earnings reported a strong 22% growth from Clover. We think the market has finally awakened to the Clover thesis, and our patience as investors has been rewarded.

We have exited our position in Fiserv due to having seen the initial thesis play out. Additionally, the Committee arrived at a consensus that there may be little upside left in the stock since operating margins have remained flat and organic growth has gradually slowed down. The timing was quite ideal as the stock almost reached the peak of its value in May before Q2 earnings were released.