April 3, 2023

Members of IMG,

Happy spring quarter! First, we would like to dedicate a brief section of this letter to the idea of patience. FISV and PFMT were the strongest performers in the IMG portfolio these past couple months, with both holdings experiencing significant double-digit returns since the beginning of this year. When these holdings were initiated in Fall 2021, we initially observed minimal progress yet remained patient. Our buyout thesis for RADI also finally materialized during this quarter (see exited positions) which we had anticipated since last spring. All in all, we would like to remind readers that oftentimes our greatest successes come to fruition slowly. IMG has faith in our discipline and patience, and the previous examples substantiate our philosophy.

Second, we would like to illuminate the Portfolio Committee's development. We trained a new cohort of the Committee over the winter and are excited to see a growing community of eager, young investors within IMG. As portfolio managers, we are pleased with the development of IMG's "conveyor belt" of knowledge within the Committee. To reflect this, all members of the newly inducted Committee have contributed small portions to the following investor letter. This upcoming quarter we will initiate another cohort of members to the Committee, and hope to achieve much of the same educational goals that we did with the last cohort.

With regards to the rest of the letter, we will begin by reflecting on the Committee's performance in the Winter of 2023 as well as the broader portfolio's performance and recent market/factor trends. We will then outline the rationale behind our positions and our outlook on the company.

Portfolio Overview

Ticker	Sector	% Weight	IRR
Legacy Holdings:			
ADBE	Technology	5.0%	7.62%
ADSK	Technology	9.1%	5.12%
BN	Financials	9.3%	0.17%
FISV	Technology	8.0%	7.20%
GTX	Industrials	8.6%	N/M
LBRDA	Communications	7.6%	-31.72%
MCO	Business Services	5.4%	N/M
MSGS	Media	0.8%	N/M
PFMT	Business Services	8.0%	33.95%
WM	Consumer Staples	9.9%	11.89%
New Holdings:			
APG	Business Services	7.4%	N/M
PRM	Industrials	4.8%	N/M
Exited Holdings:			
RADI	Infrastructure	N/A	N/M

Winter Quarter PortComm Performance Review

Winter (4-3-23)	Decision
APG	Buy
PRM	Buy
OSW	Not Buy
VRRM	Not Buy
UFPT	Not Buy
ATTO	Not Buy

At the end of winter quarter, the Committee voted to buy two out of the six stocks pitched. Inadvertently, both companies are involved with fire-related services. APG is a life safety and specialty services provider with their primary business focused on fire safety systems. The Committee liked the stability and mission critical nature of this undervalued business. As for PRM, this is a fire retardant solutions provider for the fire safety industry, which the Committee believed to exhibit a wide moat in addition to being overly punished by the market. However, we concede that there is decent corporate governance risk within the management compensation of this business; hence, our weight in PRM is smaller than for APG. As always, we look forward to seeing the pitches this upcoming quarter and to continue building rapport between the Committee and our pitch groups.

To briefly touch upon our decisions for the other pitches, OSW could have been a buy (it nearly was), but the Committee agreed that valuation at these levels is not compelling. Additionally, we were not convinced on the growth opportunities of VRRM's business, valuation for UFPT seemed too high, and the ATTO senior notes appeared less attractive after further diligence over the quarter.

Portfolio Performance Review

IRR Since Inception	S&P Comparable Period IRR	YTD IMG Return	S&P Comparable Period Return
6.58%	8.61%	7.67%	7.85%

While in a period of extreme economic uncertainty, the portfolio has lost much of its historical gains. To reiterate our point on the importance of patience, we remain dedicated to our philosophy. While we still slightly lag behind the S&P in recent performance, our ultimate goal is long-term alpha. We look forward to evaluating portfolio performance in the upcoming months and years.

Legacy Holdings Performance Review:

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

Current Price: $380.08 Cost Basis (Nov 11, 2019): $296.20 (7.62% 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 switch 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 12% since our last update, reflecting broader market optimism in the technology sector following a difficult 2022. Their stock price has therefore fully recovered from its decline following the Figma acquisition, which, in spite of potential antitrust litigation, is expected to be completed by the end of the year. Adobe's Q1 strong performance this quarter can be partly attributed to their Q1 earnings report, where they announced revenue and earnings growth that beat market expectations, and raised their guidance for the rest of the fiscal year.

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. Adobe has been mostly successful in building and defending their moat over the past two decades, and regardless of the ultimate outcome of their attempt to acquire Figma, we think that this will continue to be the case.

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 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:

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 $1.2bn. 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 Corporation (BN):
Alternative asset management company focused on private equity, infrastructure, real estate, and other areas

Current Price: $32.32 Cost Basis (Feb 26, 2021): $40.06 (-9.72% 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:

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. As such we believe Brookfield's depressed share price is reflective of broader market volatility rather than company-specific issues.

Outlook:

Given continued macroeconomic uncertainty, the Committee still views Brookfield as a key investment in our portfolio as it continues to benefit from record-high inflation. We also believe that rising interest rates create attractive opportunities for bigger players like Brookfield who can access cheap debt. Finally, Brookfield's recent spinoff of their asset management business should allow investors to further realize their full value, and we continue to hold BN.

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

Current Price: $112.83 Cost Basis (Nov 9, 2021): $102.39 (7.20% 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:

For most of its holding period, FISV has remained nearly flat and in-line with our cost basis. In recent positive development, however, this status quo has changed. The stock has increased 11% since our last letter, which was mostly driven by the jump after last quarter's earnings. We think the market has finally awakened to the Clover thesis, and our patience as investors has been rewarded.

Outlook:

We continue to hold Fiserv as our thesis plays out. In the upcoming months, the Committee will especially closely monitor any further growth from Clover. We may also consider decreasing our FISV position in the future as our initial price target looms nearer.

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

Current Price: $7.71 **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 up 5% since our last update, reflecting slightly better than expected earnings performance. In spite of broad economic uncertainty, management believes that global demand for turbochargers is stable, and expects to achieve financial results in the upper range of its FY 2023 outlook. The reopening of China has allowed them to significantly increase product volumes, and management anticipates that foreign exchange rates will continue to have a favorable impact on financial performance.

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. It will take several years to determine whether our key investment theses on EV adoption and turbocharger demand are correct, but the news so far has been promising, and we remain confident in our investment.

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

Current Price: $81.42 Cost Basis (June 21, 2021): $160.81 (-31.72% 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. The stock has lost 6% since our last investor letter. Q1 had flat revenues, slower growth in new broadband subscribers, 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:

We are beginning to question our original thesis around the market's misunderstanding of the cable industry's competitive dynamics. Although Charter's Spectrum One offers inexpensive broadband and wireless, there is uncertainty surrounding customers and competition. In addition, we no longer buy into our original point on free cash flow generation post-buildout completion.

On a brighter note, while the market severely punished Charter in December after announcing its rural capital expenditure project, we have been seeing more positive sentiment as the pace of penetration gains in rural passings have exceeded expectations.

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: $199**

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. Additionally, new sponsorships with sports gambling companies like Caesars Sportsbook continue to drive revenue upwards. In terms of its core assets, the New York Knicks are poised to make a playoff run and finish as a top five seed in the Eastern Conference for the first time since 2013. The New York Rangers have continued to be one of the premier teams in hockey and will return to the playoffs as a three seed.

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. With the Phoenix Suns selling for an NBA all-time high of $4bn in December and the Washington Commanders expected to sell for well above their Forbes and Sportico estimates, sports teams are clearly still highly sought after and rapidly appreciating assets. For the future, the Committee will continue to monitor any potential sale of either teams and any correlation between team success and stock appreciation.

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

Current Price: $304.30 **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.

Performance:

Moody's revenue has been declining slightly, largely due to the macro environment providing headwinds towards their MIS credit rating segment. On the other hand, the MA segment has continued to grow, which is now 50% of revenues. Overall, until the economy normalizes and credit issuance recovers, we do not expect any significant improvement in Moody's MIS segment, which management similarly admits. In addition, while we anticipate MA continuing to perform strongly, it is uncertain whether this will be able to actually increase their bottom line.

Outlook:

Despite Moody's recent struggles, we maintain our long position, largely due to their continued market dominance. The duopoly they share with S&P Global Ratings will continue to stay strong, and it is only a matter of time until the economy shifts back into Moody's favor. Eventually, we believe MIS will stabilize, and with MA continuing to grow, we look forward to these favorable outcomes.

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

Current Price: $3.31 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 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:

Although Q4 numbers were more than satisfactory compared to our base case estimate, we admit 2023 guidance was pretty disappointing, and management does not have a great historical record on meeting guidance. Management explicitly broke out $12-14mm in "growth spend" impacting their 2023 EBITDA guidance, which is new for them. Presumably they have been doing growth spend in the last couple of years at a similar level, so we are skeptical this is a valid excuse. The stock does not seem to care, however, and continues to remain at its elevated level since around mid-December of last year.

Outlook:

We continue to hold Performant despite a bleaker 2023 outlook. That being said, a trim is long overdue, and we are aiming to direct this holding more towards ~5-6% of the portfolio rather than the 8% that it sits at now. The rationale behind this is primarily driven by lower upside potential than we initially thought due to a lack of realized margin expansion and lower end market growth.

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:

Despite a momentary dip in share price, Waste Management has unsurprisingly withstood the recent market sell offs with increases from January to early April, increasing by nearly 4%. This was due partly to strong Q1 2023 results with a steady increase in revenue across all segments, which offset concerns around inflationary cost pressures and lingering supply chain issues. The acyclical company has served well in recent economic turmoil 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. We believe holding an acyclical, recession-resistant company bodes well for the portfolio.

New Positions:

APi Group (APG)
Life safety and specialty services provider

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

Investment Rationale:

Our investment is motivated by the stability and mission critical nature of this undervalued business. APi Group's source of contractual revenue comes from mandated installation the regular inspection and maintenance of fire safety systems. 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, with an implied multiple of 12.7x for the life safety segment at our cost basis.

While there has been increased private equity activity in the space (i.e. rolling up regional and mom-and-pop shops), we expect APi Group to retain market dominance within the localized markets they operate in due to the fact that installing and inspecting fire systems requires the installer to be in proximity to the consumer base. Furthermore, APi Group has consistently demonstrated strategic and disciplined expansion into new markets through M&A activity, most recently seen in their acquisition of Chubb.

We are confident in management's ability to catalyze growth for the company as well as their commitment and alignment with shareholders. CEO Russ Becker holds an impressively long tenure with the company, which he joined in 2002 and has since remained with for over twenty years. It is also worth noting the size of Martin Franklin's (co-chair of the board of directors) holdings within APG, giving him the largest inside ownership of the company. Over time, they have consistently displayed resourceful capital allocation and business strategy, and we think this pattern will continue. The company 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 high debt load. IMG believes in their ability to successfully navigate these transitions while creating value for shareholders along the way.

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

Current Price: $7.57 **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). To substantiate this, the top five years since 1960 with the most acreage burned have all occurred since 2007, fire suppression spending by the government and U.S. Forest Service has nearly doubled since 2012, and California has 6x'd their spending since 2010. As more U.S. states and countries 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 retardant 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 like Greece and Chile to sign retardant contracts with PRM to combat their new wildfire problems.

Overall, we believe this is a wide moat business due to its integration within the overall supply chain. The company mixes their products, controls all the transportation logistics, and has a presence in over 150 air bases around the country to offer an "all in one" model that no competitor can. This allows PRM to exhibit high switching costs, as the risk of changing retardant suppliers outweighs any marginal benefits from doing so. Furthermore, their customers are mainly state governments and the U.S Forest Service, whose financially stability lends itself to secure sources of revenue. These factors contribute to Perimeter's ability to raise prices and expand margins by 3-5% annually.

As for valuation, we think 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 structure, and the entry of a new competitor, Fortress, which is joining 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.

Exited Positions:

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

Sell Price: $15.00 **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. 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%.

We value Radius as a SOTP of the existing assets (YieldCo) and acquisitions operations (originations platform). Additionally, Bloomberg reported in May 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 existed 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.

Exit Rationale:

On March 1, 2023, it was officially announced that EQT Active Core Infrastructure and PSP Investments would acquire Radius Global Infrastructure for $15.00 per share in cash. The deal occurred at a worse price than we initially anticipated due to weak credit markets and a strong dollar. Ultimately, we do like durable and predictable streams of cash-flow, but our first mistake was in not realizing sooner that the valuation of these assets is very sensitive to the risk-free rate as well as foreign exchange. Second, we did not consider the private market's lower appreciation for leases vs towers. We were comping Radius mostly to TowerCos which was a mistake because they have slightly different growth profiles. RADI probably deserved a lower multiple than TowerCos, as opposed to the in-line multiple used to derive the initial price target. Finally, leverage exacerbated our mistakes (RADI was 9x levered).

Overall, we believe the Radius story offers us a lesson on the effectiveness of management to capture value for shareholders of the business. We already knew corporate governance issues were a risk going into this holding but should have predicted the consequences it would have on a buyout materialization price sooner.