ROD CAPITAL MANAGEMENT

Dear Investor,

In this letter we will review our performance in Q2 2022 including our biggest impact performers as well as our investment focus for the remainder of the year.

Rod Capital Q2 2022 Results

In the second quarter of 2022, Rod Capital was down -16.51%. The S&P 500 and Russell 2000 were down -16.11% and -17.27%. The NASDAQ and Small Cap Growth were down -22.27% and -19.24%.

In the first half of 2022, Rod Capital was down -26.46%. The S&P 500 and Russell 2000 were down -19.97% and -23.45%. The NASDAQ and Small Cap Growth were down -29.22% and -29.46%.

The first half has been a period where huge speculative bubbles such as ARK Innovation ETF (ARKK), Netflix (NFLX), and Shopify (SHOP) dropped around 60%, 70% and 80%, as growth valuations were slashed across the board. In the second quarter, Bitcoin dropped around 60%, further pressuring growth valuations. Even energy companies and companies involved in acquisitions – among the only places that were up in the first quarter - were down in the second quarter.

Our top performers in the first half were mostly short positions: Leading the way were Microstrategy (MSTR) and Carvana (CVNA), which produced the strongest results (they were down about -70% and -90%). We also saw success with our hedging bets against overvalued electric vehicle makers such as Rivian (RIVN), Tesla (TSLA), and Nio (NIO).

Our worst performer was our largest position going into the first half: a Korean semiconductor company that we believe is in late-stage acquisition discussions. Unfortunately, the lending market slowdown has disrupted and delayed most merger & acquisition (M&A) processes. Around a third of our losses relate to our exposure to M&A. Outside of that, Meta Inc. (META) and Callaway (ELY) contributed over a quarter of the losses.

Our short-term earnings-based strategy showed very modest signs of life with a +1.07% return in the first half. It continues to take a far back seat to macroeconomic conditions and the long-term portfolio performance.

Q2 2022 Review

If you want to torture yourself, become an active equities investor. Your life will be moved this way and that by the whims of crowds and the mysterious collective economic forces that have a way of humbling you in ways you never knew were possible. I have been through many tough periods like this, unfortunately. It is never an easy or consistent journey when it comes to succeeding in markets.

As Q2 began, the market was still weak and I continued to see no better place to hide than the high conviction equities in our portfolio that were reported to be involved in acquisition discussions. What better place to be than companies that are already involved in deals or ready to make a deal for a premium to shareholders like ourselves?

So, we increased these positions and decreased other positions. I thought this was really clever. But the fierce pullback in markets did not just hit equities as we feared but also the lending market, which is unique. This has considerably slowed down deal-making and, in turn, we saw significant declines in the short-term value of these equities that are involved with deals.

In retrospect, we could have hedged these stocks that are involved with leveraged buyouts with aggressive shorting of bond ETFs. But frankly, we didn't anticipate such a strong deflationary wave across all assets in an inflationary environment. That is a hell market. And we've been through some hell! Thankfully, the deal making has not completely stopped. It has only slowed down. We still believe that we will see positive returns from our "For Sale" equities.

<u>2H 2002 Investment Focus</u>

There is good reason to be cautious about the upcoming earnings seasons and overall conditions. Nevertheless, the big picture has become clearer. Governments and monetary policy were too loose and saturated mature economies with too much cash. This caused an asset bubble and that bubble has burst. Rather than moving on to more dependable investments, many have fled to cash with the added geopolitical pressures.

Those fleeing to cash look smart right now. But it probably won't look smart to cower for too long. Historically and logically, cash is still trash. When the fight with inflation prevails – likely with an economic slowdown - the long-term trends of easing financial supply will continue. If the fight with inflation does not prevail, stocks with strong book and fundamental values will rise with inflation. That is why we are carefully, methodically, and opportunistically increasing both our net and gross exposure.

The basic composition of our portfolio today is still conservative. It involves large net exposure to equities that may be acquired, some net exposure to companies with strong book values, and limited to neutral exposure to speculative stocks - whose days will return once inflation is under control.

Last quarter, we continued to hold the South Korean semiconductor company that we discussed in our previous letter as our top position. While we were hoping for a deal by now, we did not anticipate a semiconductor and overall market meltdown that has stalled and reduced the value of that and other deals. However, the chances the deal happens continue to be good and the underlying company is high quality – so we wait.

As of today, our largest position is now Twitter (TWTR). This stock at our average price is a spectacular opportunity thanks to all of the misinformation in the media and turmoil in the markets. You may have heard that Mr. Elon Musk is walking away from his deal to acquire Twitter. There is plenty to read and hear about this situation. The interesting thing about it is that most of the information out there is extremely wrong. Twitter's deal with Musk is nearly impossible to break – even if the richest man in the universe regrets the price he is paying and has decided to do whatever it takes to get out or get a price cut. Delaware courts are fast, efficient, and would love to make an example out of a high-profile person with a history of being perceived as above the law trying to weasel out of a merger contract in such a transparent way. For that reason, this situation is likely to end with a modest price cut settlement – which would still be a 30-40% return from our average price. We are thus increasing our overall exposure given the low-risk high reward of this special situation and will be nimble as the risk-reward adjusts.

On the short side, we are back to shorting Tesla (TSLA) again. It's not because we are masochists. The stock now has an overhang of the Twitter purchase causing Elon Musk to have to eventually sell Tesla shares to finance the deal. Musk is also becoming an increasingly polarizing and distracted figurehead which we believe is reducing the buzz of the Tesla brand and overall innovation at the company. Moreover, our long-term thesis on Tesla is that other carmakers will catch up and challenge Tesla's electric vehicle dominance and that Tesla's margins are unsustainable in a higher interest rate environment.

Our largest new position is Nextdoor (KIND). The stock fell because their SPAC lockup period expired at the same time as the market was collapsing which allowed us to buy in at an amazing price. Advertisers love them and say they get better ROI there than elsewhere (YELP, ANGI). They are growing overseas, have more cash than their enterprise value and can stay alive for years on that, board members are buying significant stock, and there is a share buyback. Management is former Block employees so they are pretty growth oriented, but we believe they will adjust to some caution in this environment. I spoke with the CEO and asked if they could partner with any company, which one would they pick and she mentioned Snap Inc. (SNAP) - which is interesting because our initial investment was made in part because we believe at such a low price, Snap would want to acquire them to diversify their advertising audience by age, since Nextdoor has a more mature audience. Nextdoor also collects the most accurate and detailed data in the social media space. Obviously if it weren't for antitrust issues, we believe Meta would have already bought them since their relative valuation is peanuts. Nextdoor's CEO has a passion and vision for a 'kinder' social media experience which is antithetical to how most people think of them. We like them at these prices for the growth and acquisition prospect at these bargain prices.

Our portfolio today reflects a distressed market, where we have moved our net exposure into distressed special situation stocks that have a higher likelihood of producing results in a sideways market. We continue to have strong conviction in our positioning long-term and have high hopes for the remainder of the year. As always, thank you for your commitment to Rod Capital Management. We are grateful that you are making this journey with us.

Please let us know if you have any questions. We hope you and your families are well and I look forward to writing you once again in a few months.

Best Regards,

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