Dear Investor,

In this letter we will review our performance in Q4 2022 including our biggest impact performers as well as our investment focus for the remainder of the year.

Rod Capital Q4 2022 Results

In the fourth quarter of 2022, Rod Capital was up 14.79%. The S&P 500 was up 7.55%, the NASDAQ Composite was down -0.78%, and the Russell 2000 was up 6.20%.

For the full year of 2022, Rod Capital was down -22.54%. The S&P 500 was down -18.34%, the NASDAQ Composite was down -32.93%, and the Russell 2000 was down -20.54%.

In addition, Russell 2000 growth companies were down about -27% and the most speculative investments like Cathy Woods' ARK Innovation ETF and Bitcoin were down around -66%. Even investment grade corporate bonds and 20-year treasuries dropped -17% and -31%.

Our top performer in Q4 and the full year was Twitter (TWTR), which contributed 12.76% during the year. We took an opportunistic large position in Twitter as high-profile market misinformation about the Elon Musk buyout allowed us to benefit from his transaction with Twitter. We held firm to this position until the close of transaction.

Our worst performer in Q4 was Lionsgate (LGF A), contributing -4.55% during the quarter. We took on this new position as insiders acquired shares and the company announced plans to split its business and sell the parts. For the full year, our worst performer was South Korean semiconductor company Magnachip (MX) contributing -12.01%. The company was negotiating for a sale of its business when the bottom fell out of the semiconductor sector and persistent lockdowns in China drove this stock down near book value.

Q4 and FY 2022 Review

Thank goodness for the Twitter opportunity in Q4. This transaction was a good example of market inefficiency that has been kicking our butts in the last couple of years. The Tesla CEO bullied Twitter's board into an acquisition and then wanted to get a discount on the excessive price he paid when the market fell. He publicly made a ridiculous show of this, pretending Twitter was a fraud and that he no longer wanted to consummate the deal. In reality, there was no way out of the deal (outside of bribing a judge) based on Delaware law and precedent. Yet, the stock traded as if he had several ways out, and media talking heads gave many infuriatingly false and silly opinions about this. It was a case where there were facts and there were many baseless 'news' reports and opinions. Thankfully, there were also deadlines imposed by court proceedings, so the facts ultimately triumphed in a timely way. The Twitter position was our largest position we have taken in years and we are only disappointed it wasn't much larger. The whole thing was an amazing spectacle.

Meanwhile, most of the rest of the market was still not entirely functioning on facts and the only thing resembling deadlines were what interest rate hikes have been doing to kill timely financing hopes. Early in the year, we took large hits on equities that we hoped would be acquired. But the lenders all disappeared and we were left holding the bag. Thankfully, what we are holding still has considerable value and no longer has buyout premiums. So there's that. We see these companies recovering and some getting acquired in the coming year.

Aside from Twitter, our top gainers in the quarter were plane leasing company AerCap Holdings (AER) +2.68% and our short position in Tesla (TSLA) which contributed +2.41%. For the full year, seven of our top ten best positions were short positions such as NIO (NIO) +1.84%, Carvana (CVNA) +1.75%, and Opendoor (OPEN) +1.67%.

Although we are often making changes to the portfolio, our top worst performers in the full year are positions that we are sticking with for the future. Those were Magnachip (MX) -12.01% whose management we believe continues to pursue a sale, Lionsgate (LGF A) -5.09% whose management acquired shares and is looking to split up the company and sell, and Meta Platforms (META) -4.40% whose management has been a trainwreck with the stock falling a remarkable -65% during the year. We have not added to Meta's position due to the macro environment but believe the company has considerable room to grow from here given their still remarkable cash flows and underestimated market position.

<u>January 2023 Update</u>

December's drop seemed somewhat unusual and disorderly and we attributed it to considerable tax loss harvesting as investors sold off their losing positions at the end of the year. In the first couple weeks of January 2023, this theory seems confirmed as many of our same beaten down shares in December have had a strong bounce back. As of today, we are above where we left off at the start of December 2022.

<u>2023 Investment Focus</u>

As extreme interest rate hikes begin to moderate, what I am seeing is businesses are begrudgingly being pushed toward a new uncomfortable reality. Today's market is expecting and hoping that interest rates rise and then come down not long after so we can get back to boom times with speculation.

I think the only way the rates come down is if we have an extremely harsh downturn – which many seem to think is inevitable. But the facts are pointing toward something more uncomfortable – a slow multi-year process of deleveraging businesses that have been accustomed to low interest rates.

There are a few reasons I am leaning toward this view. For one thing, businesses can't seem to get enough employees. This is due to poor nationalistic immigration policies and excessive government stimulus still working its way through the system. Digging deeper, this is also due to declining worker productivity in a time where there is a shortage of workers and no shortage of convenient entertainment. We've all felt this. Everywhere you go people are not doing their jobs the way they were doing it five years ago. Extreme market events can change all of this but who can count on that? A market crash is not out of the question but the market is now flat on an inflation adjusted basis for three years now. I expect this trend to continue as my base case – decent market returns offset by uncomfortable above average inflation.

A jittery market with less accommodative government policies is rough for retail investors and ideal for a long/short fund. We are buying discriminately and confidently into broken stocks that we are willing to hold long-term, but especially hoping for short-term dealmaking gains and short selling opportunities. We hold until price targets or deals are achieved and replace completed deals with other deals. We have been early with this focus but continue to believe that we are in a time period where dealmaking – due to strong balance sheets – is sure to make a strong comeback.

One area where we expect dealmaking to occur in the next couple years is in the American media space. The aggressive entry of Apple (AAPL), Amazon (AMZN), and Alphabet (GOOGL) following Netflix (NFLX) into streaming has broadened the landscape of major television and film studios and increased competition for talent and content. The entrants take on the old guard led by Comcast (CMCSA), Disney (DIS), Warner Brothers Discovery (WBD), and Paramount (PARA).

In this environment, we have taken an opportunistic stake in Lionsgate (LGF A) which openly plans to split its business and sell the parts. Lionsgate is a unique opportunity because its assets can conservatively imply double the current share price in an eventual deal. We have smaller positions in other potential acquisition targets such as Roku Inc. (ROKU) and Vizio Holding Corp. (VZIO) and are listening closely to what media executives are saying publicly about consolidation.

Another new unrelated position we've taken on in recent months is Amkor Technology (AMKR). They do packaging and testing for semiconductors and they are pretty much the only player that outsources mostly outside of China while almost every competitor is in China. Acquiring these shares while semiconductor stocks have been decimated has been a nice opportunity because Amkor's business is strong and they are increasing market share because companies want to move more of their supply chain away from China.

Oh, and we are still shorting Tesla (TSLA) (even though I have two Teslas, I bought my mother one and my brother has one as well…and even though Mr. Musk said on his last conference call that Tesla will soon be worth four trillion dollars).

We hope you and your families are well, we look forward to the new year, and will write to you once again in a few months. Please let us know if you have any questions.

Best Regards,

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