ROD CAPITAL
MANAGEMENT

LONG / SHORT & SPECIAL SITUATION FUND

Offices in Los Angeles, CA and Las Vegas, NV
admin@rodcapitalmanagement.com
310.801.8748

Dear Investor,

In this letter we will review our performance in Q2 2023 including our biggest impact performers as well as our investment focus for the remainder of the year.

Rod Capital Q2 2023 Results

In the second quarter of 2023, Rod Capital was up 3.43%. The S&P 500 was up 8.74% and the Russell 2000 was up 5.19%. Year to date, Rod capital was up 19.38% while the S&P 500 was up 16.87% and the Russell 2000 was up 8.08%.

Our top performer in the quarter was Magnachip Semiconductor Corp (MX), whose near book value price is being supported by a shareholder buyback program. The company is also splitting up its two businesses, most likely to shop them separately for acquisitions. Nextdoor Holdings Inc. (KIND) was our second-best performer in the quarter. The stock benefited from being added to the Russell 2000 Index and rose from having nearly no enterprise value. We trimmed these positions during the quarter. The success of these two positions demonstrate the benefit of accumulating shares of companies with low enterprise values.

Our worst performers in Q2 were our short positions in Opendoor Technologies Inc. (OPEN) and Tesla Inc. (TSLA). Opendoor was up 128% on investor enthusiasm about a business that we believe is unsustainable and Tesla has become, in part, a stock promotion company and our largest short position.

Q2 2023 Review

With the regional banking crisis fading away into the distance, the stock market went into a speculative frenzy once again, echoing some of the 2021 fervor. The defining moment of the quarter happened in late May, when NVIDIA (NVDA) reported surging demand that they attributed to a transition to accelerated computing and artificial intelligence (AI). This caused a buying frenzy as every company that was touting their AI capabilities – imagined or not – was rewarded for their vision.

During the quarter, for example, Tesla was up 26% despite the fact that they reduced prices to support demand and sell side analyst estimates were reduced. Investors ignored the numbers and continue to believe that Tesla is primarily a highly value software company. Indeed, Tesla continues to sucker people into paying up to $15,000 for their software – which, like a timeshare, has limited to no resale value. As the economy tightens, people will question what value they are getting from large extra expenses like these.

But it wasn't just Tesla and NVIDIA with unusual rises during the quarter. Apple (AAPL), Amazon (AMZN), Alphabet (GOOGL), Microsoft (MSFT), and Meta (META) were all up 15%-35% while the rest of the market was relatively flat. Thankfully, we hold Meta, whose performance was the highest of these and whose valuation had hit incredible lows. Nevertheless, of these seven mega cap stocks which represent over 20% of the total U.S. stock market value, we held only a net 3% position in those stocks and continue to be underweight the mega caps due to their high collective valuation.

2023 Investment Focus

The market has returned to ignoring value and rewarding high risk businesses, as it did in 2021. Yet, this is in a much higher interest rate environment and at a time when workers are demanding more pay and benefits. Also, deal-making and credit markets continue to slump while the phenomenon of excessive options gambling in the stock market persists.

Regulators have been asleep for a long time and are waking up while cash burns and investors get more and more diluted. It has been an economy driven in part by stimulus and inflation, the beneficiaries of which seem to have been an outsized number of liars and fraudsters.

How can this possibly end well?

This is where our hero, the federal reserve chairman, swoops in and increases interest rates and tells everybody not to expect anything to get easier. This is how the economy will work toward a healthy normalcy and away from excess. It will be a difficult process.

With more rate hikes, another crisis will probably unfold, possibly in commercial real estate. So the way we are positioned is around 40-50% net exposure to short-term special situation stocks. For example, all year we have held a position in Activision (ATVI) for the pending merger with Microsoft. We have not believed that regulators have demonstrated reasonable arguments against the acquisition and believe it will close. This has become our top special situation position and is unaffected by market dynamics.

Also, we have a conservative 40-50% net exposure in our long/short positions, with a neutral net position in businesses with high growth expectations and low exposure to high flying mega caps. Our low exposure to mega caps and neutral position in high growth stocks has a lot to do with our short position in Tesla (TSLA). Tesla is making all of its profits from software that has no resale value. We believe demand for the extra software upsells will dry up as word gets around about its lack of value, and this will squeeze Tesla's margins considerably. As a result, we see 75% downside risk to a company that is relatively "safe" to short given its massive size (safe from a devastating short squeeze).

On the long side, we have seen some early success in our investment in Sphere (SPHR), an amazing Las Vegas concert arena that cost $2.3 billion dollars, took years to conceive and build, on contributed land by Las Vegas Sands (LVS) and plans for a second Sphere on purchased land in London. We were able to make this a top investment at a valuation of less than $1B and recent viral publicity has exceeded our expectations.

We have also taken on a position in Eventbrite Inc. (EB), which was one of our top contributors in the second quarter. This company has been quietly carving out a moat around small and mid-sized event ticketing and has tremendous growth potential. We believe that the long-term value of being a hub and gate-keeper for community in-person events should rise as improvements in stay-at-home technology increases the natural desire to search for other ways to get outside of the home.

On the hedging side, we have had a rough time with some of our short positions recently. This involves some yelling at the market Gods and having to trim down positions to keep us safe. Nevertheless, we believe our short positions will insulate us in the event of sudden painful market drops as market participants are forced to get more serious about valuations in the current credit environment.

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,
Perry Rod
Chief Investment Officer
Rod Capital Management LLC

Contact: bardia@rodcapitalmanagement.com
Website: www.rodcapitalmanagement.com

DISCLAIMER

This material does not constitute an offer or solicitation to purchase an interest in Rod Capital Partners, LP (the "Fund"). Such an offer will only be made by means of a confidential offering memorandum and only in those jurisdictions where permitted by law. An investment in the Fund is speculative and is subject to a risk of loss, including a risk of loss of principal. There is no secondary market for interests in the Fund and none is expected to develop. No assurance can be given that the Fund will achieve its objective or that an investor will receive a return of all or part of its investment.

The 2016-present Fund results are compared to the performance of the S&P 500 Total Return Index (the "SPX") and Russell 2000 Index (the "RTY") and others for informational purposes only. The Fund's investment program does not mirror those indexes and the volatility of the Fund's investment program may be materially different from them. The securities included in those indexes are not necessarily included in the Fund's investment program and criteria for inclusion in those indexes are different than those for investment by the Fund.

This material contains certain forward-looking statements and projections regarding the future performance and asset allocation of the Fund. These projections are included for illustrative purposes only, are inherently speculative as they relate to future events, and may not be realized as described. These forward-looking statements will not be updated in future.

PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.