TMR CAPITAL

Performance

TMR Long Short Opportunities, LP				
	Gross	Net	S&P 500	Eureka Long Short HF Index
Sep 2020 - Dec 2020	16.2%	12.4%	12.1%	11.8%
2021	19.2%	14.1%	28.7%	10.3%
2022	11.0%	7.1%	-18.1%	-8.0%
2023	27.9%	20.5%	26.3%	9.0%
2024	13.5%	10.2%	10.4%	5.0%
Cumulative	**122.8%**	**82.3%**	**58.3%**	**27.6%**
Annualized	**25.1%**	**18.2%**	**13.7%**	**7.0%**

TMR Long Only Opportunities, LP				
	Gross	Net	S&P 500	Eureka Long Short HF Index
Oct 2019 - Dec 2019	0.5%	0.0%	9.1%	4.9%
2020	63.3%	44.5%	18.4%	18.7%
2021	13.3%	8.9%	28.7%	10.3%
2022	7.4%	4.3%	-18.1%	-8.0%
2023	28.8%	21.1%	26.3%	9.0%
2024	19.7%	15.4%	10.4%	5.0%
Cumulative	**208.2%**	**129.1%**	**86.1%**	**43.2%**
Annualized	**28.4%**	**20.2%**	**14.8%**	**8.3%**

Quarter Review

We are invested in some of the strongest trends in the market and are doing it in a unique way, given our focus on owning highly undervalued securities that generate strong FCF with downside protection and going through major inflections. The categories we are invested in are: Energy Services, AI, Infrastructure/Building Materials, UK Housing Shortage, Special Situations.

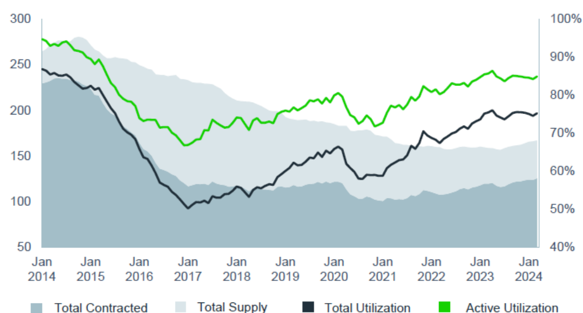
Energy Services

ESG and other anti-fossil fuel policies have created an attractive set-up for insufficient supply driving energy prices higher. Meanwhile, demand will likely be more inelastic than many market participants expect for decades. We believe that being long the growth of offshore development capital expenditures via long positions in offshore energy equities represents the best risk/reward. We are long offshore drillers with scale, low-cost operations, strong balance sheets, and trade at attractive multiples of FCF and fractions of their replacement cost. We see day rates increasing meaningfully over the coming years and think that earnings, FCF, and valuation multiples expand meaningfully as the offshore drillers reprice their rigs to market rates. Our thesis is tracking as offshore drillers continue to contract their fleet at higher day rates and offshore capex continues to rebound.

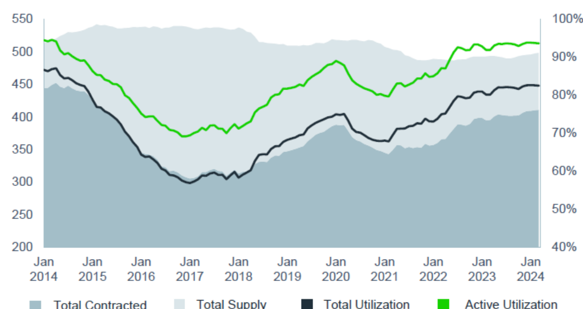
Many energy service providers went bankrupt in 2020 when drilling activity severely contracted. The offshore drillers have emerged from the bankruptcies and reorganizations over the past decade with clean balance sheets, more pricing power from the reduction in capacity and consolidation, more discipline and focus on FCF, and thus will experience significantly higher ROCEs than previous cycles. With energy prices rebounding along with the natural decline rates of oil wells, upstream energy companies will need to increase capital expenditures on exploration. The continued use of fossil fuels will eventually force E&P companies to increase their capital expenditures for offshore exploration and development to offset the natural decline rate of 4.5% – 6.7% per year. Oil & Gas exploration companies will need to increase capital expenditures significantly just to keep their reserves above 10 years. The rate of decline is increasing with time and offshore fields decline much faster than onshore fields. With oil demand inelastic over the next decade+ at least and projected to grow 1%-2% per year, supply will need to grow HSD at least just to offset the natural decline rate of natural resources necessitating increased capital expenditures from E&P companies. Increased upstream spending is expected to lead to more demand for offshore drilling services.

Significant supply rationalization over the past several years has improved market balance

Benign Environment Floater Supply and Utilization



Jackup Supply and Utilization



Benign environment floater supply has declined by
41% to 166
from a peak of 281 in late 2014

Majority of current supply are modern assets
Only 16%
of current supply is > 20 years of age

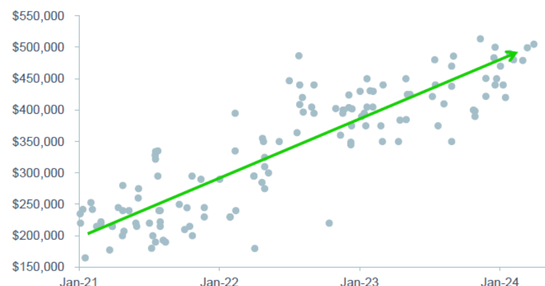
Jackup supply has declined by
~8% to 497
from a peak of 542 in early 2015

Limited useful lives remaining
32%
of current supply is > 30 years of age

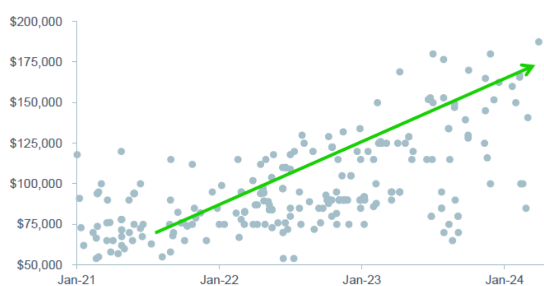
Source: S&P Global Petrodata as of April 2024

Day rates have increased meaningfully since early 2021

Day Rates for 6th & 7th Generation Drillship Fixtures[1]



Day Rates for Benign Environment Jackup Fixtures[2]



Average day rates have increased
>2x
since early 2021

Leading-edge day rates are
≥$450K
per day

Active utilization for 6th and 7th generation drillships
≥90%

Average day rates have increased
~2x
since mid-2021

Leading-edge day rates in several regions are
≥$150K
per day

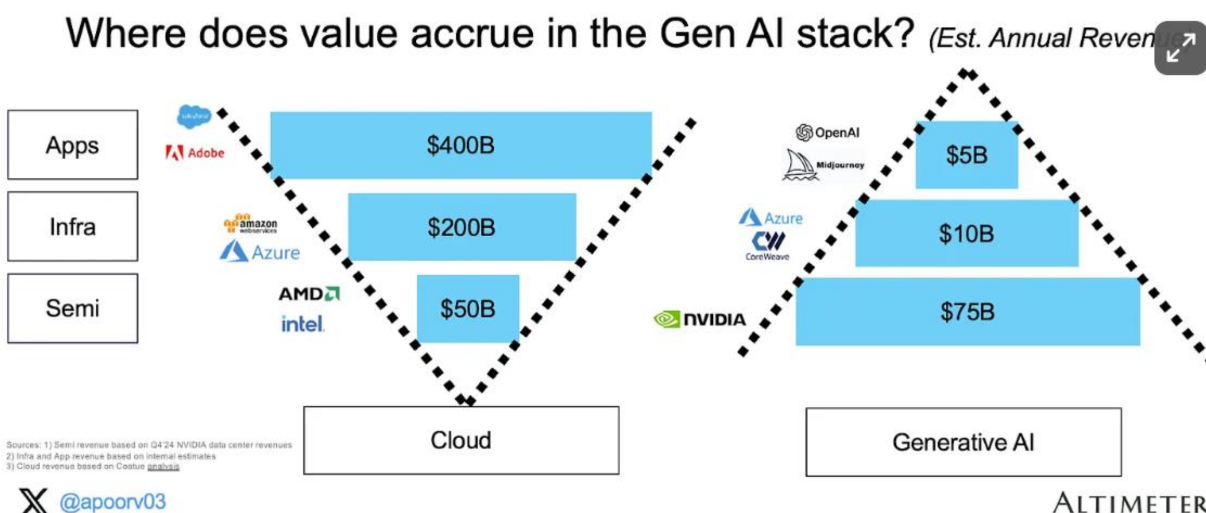
Active utilization for benign jackups
>90%

Source: S&P Global Petrodata as of April 2024; Valaris analysis.
1 6th & 7th generation drillships per S&P Global Petrodata. Excludes priced options. Excludes fixtures awarded for work in India.
2 Excludes priced options and owner operated fixtures. Excludes fixtures awarded for work in India and harsh environment locations, e.g., Norway and the North Sea.

AI

Artificial Intelligence will likely be one of the most important technological innovations over the next several decades and we are in the early stages. It's been 18 months since the "iPhone moment of AI" when ChatGPT was launched to the world.

The Generative AI (GenAI) stack is comprised of Semiconductor companies such as Nvidia, Infrastructure companies such as AWS, Azure, CoreWeave, and finally the Application layer such as OpenAI and MidJourney. The Semi layer generates 90% of all GenAI profits today.



Our long exposure to AI has been focused on various semiconductor companies and other picks & shovel AI infrastructure stocks. Some of our AI longs aren't pure play AI companies, and we were able to purchase our stakes at "value multiples" before the market started appreciating the AI component.

Major technological innovations tend to lead to extreme bubbles and subsequent busts and AI has the potential to become a greater bubble than even the Dotcom boom from 1995-March 2000. We have successfully navigated these boom/bust dynamics in technology during Covid with some of our best longs and shorts coming from 2020-2022. In our Q1 2021 letter, we noted the beginnings of a regime change away from the Covid winners and towards old economy businesses. The ARKK ETF (composed of fast growing unprofitable technology stocks) peaked that same quarter and subsequently declined 90%.

From our Q1 2021 letter:

> "This quarter saw the beginnings of a regime change in market leadership. Economically sensitive companies and Covid losers rebounded sharply while many of the Covid winners underperformed. Our long portfolio has gone through a similar rotation as described further in this update. Using the traditional definitions of value and growth, we believe that after deep economic recessions

"value" stocks become the new "growth" and "momentum" stocks and as such we are positioned appropriately."

In our year end 2021 letter, we complained about the extremely speculative environment we were in:

> "In the last quarter of 2019, 2020 and 2021 we have noticed increasingly extreme speculative behavior by retail investors perhaps rivaling the speculative excesses of 2000 and 1929. We have also seen many signs of capitulation from short sellers. We remain committed to single name short selling in our Long Short strategy and opportunistic ETF short selling in our Long Biased strategy. A large and diversified short book enables us to generate strong absolute returns without the market/drawdown risks typical of long only funds. Short selling gives us the cash and stability to add to our favorite longs in times of market stress when other market participants lack both the cash and willpower to invest when terrified."
>
> "2009-2019 has been a difficult decade for short selling and the challenges reached a crescendo in 2020 and the first eleven and a half months of 2021. 2009-2019 was difficult because of low volatility, the longest bull market in history and unprecedented loose monetary policy. However, the bull market from 2009 until 3Q 2019 lacked an essential ingredient of a true bubble: frenzied retail investor participation. With the introduction of commission free trading, boredom from being at home due to Covid and unprecedented monetary and fiscal stimulus in response to Covid, nearly 50 million retail investors (some speculating in stocks for the first time) entered the market from 4Q 2019 – 2021 setting the stage to end the longest (but mostly boring) bull market in history with an epic bubble driven by frenzied trading of stocks and options by retail investors."
>
> "The rampant speculation is not noticeable when looking at the major indexes such as the S&P 500. However, underneath the surface, there is rampant speculation in certain segments of the market such as Meme stocks, certain SPACs, clean tech and to a lesser extent growth-oriented "innovation" stocks. Shorting perceived frauds, fads and failures that are heavily promoted to retail investors was a significant source of alpha for us in the beginning of 2021 right after the January meme stock mania but between the last two weeks of May and end of June caused us significant losses. Furthermore, many of these promotions started 2020 as micro caps and grew to become multi-billion-dollar market cap companies at their peak in 2021 (with little if any change in the fundamentals) which provided plentiful supply for our short book."

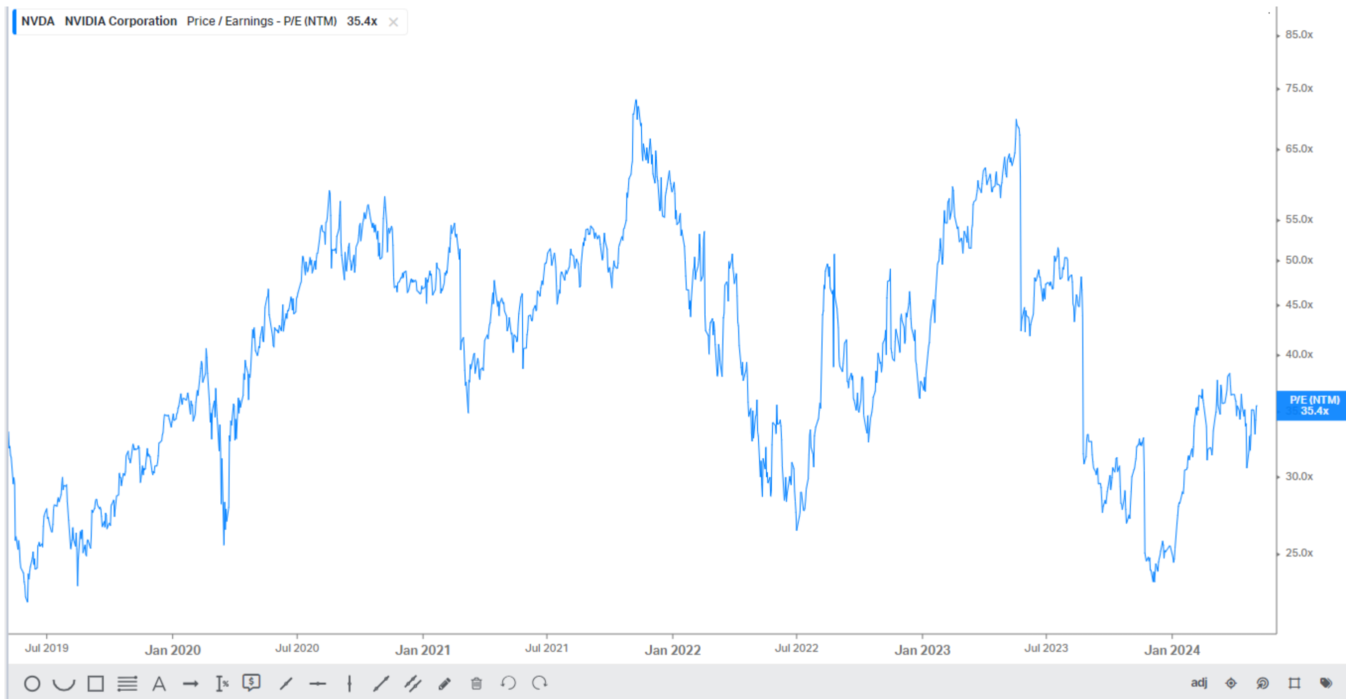
Which is why we called our Q1 2022 letter "Brace for Impact":

> "In our 1Q 2021 letter we talked about the beginnings of a regime change in market leadership where old economy stocks with durable businesses would vastly outperform fast growing unprofitable technology companies. In subsequent letters, we further discussed the reasons for this change. Chief amongst them was the enormous emphasis over the past decade (leading up to November 2020) on investing in "disruptive" but unprofitable consumer and technology companies

> with fast organic revenue growth perceived to be addressing large TAMs that would "change the world". As a result, capital has flowed out of less exiting old economy businesses. We posited that the pendulum had swung too far and that there were several hard catalysts for a reversal. Such catalysts include structurally higher inflation leading to higher interest rates which might burst the speculative bubble stocks, and the transition from a world of insufficient aggregate demand to a world of insufficient aggregate supply for key commodities. The bubble stocks cracked in mid-February 2021, recovered somewhat throughout the year before making their next move lower beginning in November 2021 when Jerome Powell retired the word "transitory" when describing inflation, signaling the end of an era of loose monetary policy."

To be clear, we are not macro investors or market timers. We analyze companies bottoms up using rigorous fundamental analysis, primary research, and focus on durable, predictable FCF, catalysts, and inflection points. When markets reach extreme levels (bullish or bearish), our bottoms up analysis of hundreds of companies each year will give us clues as to the overall market environment. With our investments, we are looking for multiple ways to win: earnings/FCF acceleration and multiples expansion. Similarly, when we are constructing our portfolio we are looking for multiple ways to win: strong securities selection and thoughtful portfolio construction around net, sector, and factor exposures along with strong risk management.

There have been a lot of headlines regarding AI valuations and whether we are in another bubble. We believe we are in the early stages of the AI bubble and that there is significantly more froth in AI startups vs. mid & large cap AI beneficiaries. We believe the valuations of many of the mid & large cap AI beneficiaries range from reasonable to rich (compared to historical valuation multiples) but certainly not in bubble territory. For example, NVDA is often cited as an obvious bubble stock and often compared to Cisco during the 1995-2000 Internet bubble. Many investors may be surprised to learn that NVDA trades at 35x NTM P/E and that despite the stock increasing from 59 per share in 2020 to 887 per share today, the P/E multiple has remained constant. The share price growth has been in line with the growth in EPS.



NVDA could very well be overearning, in which case it may be overvalued, but having shorted nearly one hundred bubble stocks in 2021-2022 this does not look like an "obvious bubble" today.

In-line with previous technological innovations, there will be plenty of hype, frauds, fads, failures, and extreme valuations. However, we believe that AI is very real, will benefit many companies, and that we are still in the early stages of this AI cycle.

Unlike metaverse or crypto, the AI use-cases are tangible and with massive reach, including a knowledge worker base of 1.5 B, and large and small enterprises adopting AI. While some normalization of demand is reasonable to expect over the next 5-10 years in this compute cycle, we also expect to see the rise of several new use-cases: for example, LLMs and edge inference could breathe fresh life into the iPhone cycle. Sovereign demand is also very real, which can be a multi-trillion dollar opportunity as sovereigns want to build their own AI systems. Some sovereigns could be as large as a cloud customer for AI data centers. As large as Training can be, Inference will likely be an even larger market, with Amazon estimating that for every $1 spent on training, up to $9 is spent on inference. Currently, industry estimates are at about 60-70% of current inference workloads being performed on CPUs. From our research, we believe that as LLM and other multi-domain use cases gain traction, the market is going to shift away from CPUs as they cannot meet GPUs in price performance for handling the compute requirements of LLMs.

While we expect there will be fluctuations in demand as there are in any major technology deployment cycle, we believe the AI investment cycle is durable and will provide many semis and other infrastructure picks & shovel stocks with a long runway for future growth as technology advancement in the industry is expected to drive future hardware refresh cycles to support expanded application workloads. We are currently in a massive capex boom in AI acceleration. The competitive drive to build the best LLM — which

is a function of data size, data quality, model size and computing power — has led to a demand for ever greater AI hardware/Data Center investments. The market believes that after a surge in AI capex for training these models and for enterprises experimenting with AI, demand will level off. However, after training comes inference, which the market underappreciates, as a much larger source of AI hardware demand. Demand can last for decades with the related inferencing and other computing ecosystem requirements. Inference is critical as it is performed real-time (i.e low latency at the prompt or the customer will search elsewhere, for example) in production unlike training --- which is performed as batch processing that can last several days.

Accelerated computing (using GPUs) only has a 2.7% penetration rate:

NVDA datacenter GPUs revs	56,000,000,000
ASP	20,000
# Datacenter GPUs shipping	2,800,000
# Cloud servers installed	26,000,000
# Total datacenter servers installed	104,000,000
% GPU penetration	2.7%

At just a 2.7% penetration rate we are on the cusp of one of the biggest data center refreshes in two decades.

Infrastructure/Building Materials

We are long a quality compounder purchased at an attractive valuation that is in a prime position to benefit from the golden age of US construction. They are one of the largest vertically integrated infrastructure and aggregates companies in the US and Europe with end market exposure in Infrastructure, Non-Residential, and Residential RMI (repair, maintenance, and improvement) and new construction activities. The recent government infrastructure spending programs (IIJA: $1.2 trillion over 5 years, CHIPS: $280B over 5 years, IRA: $369B in Climate & Energy over 10 years) are unprecedented. These tailwinds should begin to show up in the financials over the next several years and continue far into the out years. IIJA is the most transformative public investment program since the 1930s. The onshoring of manufacturing in the US has led to $200B+ of major commercial projects bringing significant earnings visibility for the best positioned companies in the space.

UK Housing Shortage

We wrote up Vistry (VTY) in our previous letter (up 40% YTD) and continue to maintain our long position. VTY is a 3.1B GBP market cap UK homebuilder trading at 10x P/E and 1x price/book value. While homebuilders trade on book value, VTY is transitioning to a capital light Partnership model (lower EBIT margins, higher ROCE, cycle-agnostic) which will unlock 1B GBP of excess cash for shareholder returns over the next three years - the transition should be complete by end of 2024. Should also see valuation

multiples expand as VTY becomes cycle-agnostic, and generates continued earnings growth with higher FCF conversion. Countryside (VTY's partnership brand) grew earnings from 2007-2010 and from 2019-2022. There is a severe housing shortage in England. 340k units need to be built each year and at that rate housing supply and demand would come into balance by the mid-2030s. Wide support from the UK government for financial aid to homeowners and initiatives to increase home construction.

Special Situations

We continue to be long Zenvia (ZENV) and outlined our thesis in previous communications. We have discovered some new developments regarding Zenvia's earnout obligations and as a result we're raising a $20M SPV to make a direct investment in Zenvia via a PIPE.

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Results are compared to the performance of the S&P 500 Index and the Eurekahedge Long Short Equities Hedge Fund Index (collectively, the "**Comparative Indexes**") for informational purposes only. The Fund's investment program does not mirror any of the Comparative Indexes and the volatility of the Fund's investment program may be materially different from the volatility of the Comparative Indexes. The securities included in the Comparative Indexes are not necessarily included in the Fund's investment program and criteria for inclusion in the Comparative Indexes are different than criteria for investment by the Fund. The performance of the Comparative Indexes reflects the reinvestment of dividends, as appropriate.

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