Performance

Variable Net, 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%
Cumulative	**99.8%**	**64.1%**	**33.4%**	**24.8%**
Annualized	**23.7%**	**16.5%**	**9.3%**	**7.1%**

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%
Cumulative	**53.8%**	**37.3%**	**13.5%**	**11.2%**
Annualized	**20.3%**	**14.5%**	**5.6%**	**4.7%**

2022 Review

Our strong performance in 2022 was driven by our dedication to short selling and more resilient long portfolio. While the 2021 meme stock phenomena proved particularly challenging for short sellers, we stuck with short selling and in fact added to our short exposure by shorting more speculative bubble stocks. This paid huge dividends in 2022. In the long portfolio, our energy and deep value names helped offset declines in other areas of the portfolio.

Our top performers in 2022 were long positions in SMAR, HAL, BABA, TECK.B and a short position in RIVN. Our top detractors in 2022 were long positions in a basket of "unprofitable tech" companies (mostly purchased in November 2022) such as WIX, IAC, and ROKU as well as long positions in CTT and RICK. Our short investments generally worked out much faster than expected while our themes running through our long book did not inflect as much as we had hoped in 2022.

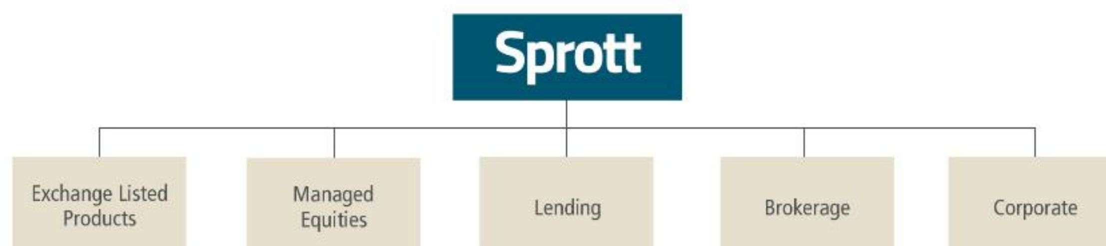
As we anticipated, the faster than expected rise in inflation and interest rates popped the bubble in speculative stocks and we covered those shorts throughout the year. On the long side, our bullish housing theme did not work in 2022 because of rising interest rates and affordability issues. However, we continue to believe that the long-run bull thesis on housing (underbuilding since the GFC and powerful demographic tailwinds) remains intact. Oil prices also did not increase as much as we expected. We continue to remain constructive on oil prices as headwinds in 2022 such as the SPR release and China Covid lockdowns turn into tailwinds. Finally, the basket of "unprofitable tech" stocks we purchased (mostly in November 2022) performed poorly in December (we think the main reason for the underperformance was tax-loss selling). However, we believe that our "unprofitable tech" basket has attractive unit economics and will continue to grow while improving their GAAP operating margins.

Current positioning

Our top five longs:

<u>Long: SII (Sprott)</u>

Sprott is an asset manager focused on natural resources. About 2/3 of their revenue comes from management fees and they have $21 billion in AUM, of which $16 billion is in exchange listed products.



Sprott is an attractive way to play a bull market in natural resources / gold / silver. When a bull market in gold / natural resources gets underway, many investors would prefer to gain exposure without having to take the political and geological risk of owning miners / E&P. Therefore, they will pay a premium to invest in ETF's that provide that exposure. We can gain exposure to the natural resources bull market by investing in a high margin asset manager where there are multiple ways to win: bull market in natural resources and the operating leverage that comes with increasing AUM and high margin recurring revenue streams.

We think that AUM can more than triple to $70 billion by 2026. EBITDA margins would expand from the operating leverage that comes from increasing management fees. We have EBITDA margins expanding from 40% to 65%. 15x 2026 EBITDA results in 369% upside for a 44% IRR.

Long: SE

They are a scaled internet company operating primarily in Southeast Asia in e-commerce, digital entertainment, and fintech. The company has evolved from being a re-publisher of mobile games to also becoming a powerhouse in e-commerce and an emerging leader in fintech. By re-investing all of its profits from its high margin gaming business, SE is now the leading e-commerce platform in Southeast Asia with over 50% market share in addition to having a fast growing fintech business.

SE benefits from powerful network effects, secular growth in digital adoption and has a long runway for growth. Despite that, valuation and sentiment are near all time lows.

In gaming, SE has developed one of the top grossing games of the past couple of years and their large user base contributes to a virtuous cycle. Popular games attracts more users which attract more game developers which results in more high quality content which attracts more users etc…

In e-commerce, as the number of buyers on SE's platform increases, the marketplace attracts an increasing number of sellers, resulting in increases in the volume and variety of products available on the platform, which increases the purchasing opportunities for each of those buyers. This results in greater monetization potential.

Stock is down over 80% from its highs because:

1) SE was a Covid winner and now faces tough comps as economies reopen and consumers spend more time outdoors away from gaming and in brick & mortar stores.

2) Fast growing unprofitable tech stocks are suffering a "Great Depression" type drawdown.

SE will eventually lap its tough comps and digital adoption in finance, e-commerce and gaming is still a structural growth story. For example, SE's markets in Southeast Asia, Taiwan, and Latin America are some of the world's fastest growing in terms of GDP/Capita and at the early stages of internet penetration.

Investing styles / sentiment are cyclical. Eventually, investors will once again invest in fast growing unprofitable companies.

With continued 20%+ revenue growth and 30% terminal GAAP operating margins, 15x 2026 EBITDA gives you 412% upside for a 47% IRR.

Long: IAC

We view IAC as the anti-Berkshire Hathaway of technology / media. They have a unique portfolio of premium internet assets with significant growth potential including industry leading businesses in three large categories (Home Services, Digital Publishing, Care) and IAC has been one of the great shareholder value creation / capital allocation stories since 1995.

Right now, IAC is facing a perfect storm and valuations are as depressed as they've ever been. In the short-term, this is a multi-bagger and in the long-term it can compound at 20%+.

The sector and factor is out of favor: fast growing consumer & tech businesses (especially unprofitable long duration ones). However, investor preferences are cyclical.

It's largest business, Dotdash Meredith, formerly just Dotdash, is going through the integration process from acquiring Meredith, which is causing a lot of noise in the financials and is a couple months slower than expected. They are also suffering from a weak ad market. Both issues are temporary.

Angi, also a significant business is facing challenges of its own. On the one hand, it's the dominant home services marketplace, on the other hand, it's EBITDA margins went from 22% in 2018 to barely positive now. They seem to be mis-executing on their initiatives to shift towards a fixed price procurement model (which looks to be lower gross margin but should be more S&M and G&A efficient) and away from a marketplace / lead generation model. They are also combining all their products into one brand which is currently making their S&M less efficient. The CEO of IAC, Joey Levin, has just taken over as Angi CEO. Angi continues to be the dominant player in a structurally growing industry.

With a normalization of the business's revenue, earnings trajectory, and valuation multiple, we comfortably get 580% upside by 2026 for a 57% IRR.

Long: VAL

Valaris is a global offshore contract drilling company.

Valaris is a great way to be bullish on energy without taking much of the geopolitical or geological risk in upstream companies. Chronic underinvestment has created a shortage of offshore rigs at a time of a shortage in energy. 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.

Valaris is the best positioned offshore driller with the most scale, is the low-cost operator, and has the best balance sheet, yet continues to trade at a discount to peers and at a fraction of replacement cost. As Valaris continues to contract its fleet at higher day rates, shares should trade more in line with peers. As offshore capital expenditures rebounds, the entire offshore drilling sector should trade at substantially higher valuations.

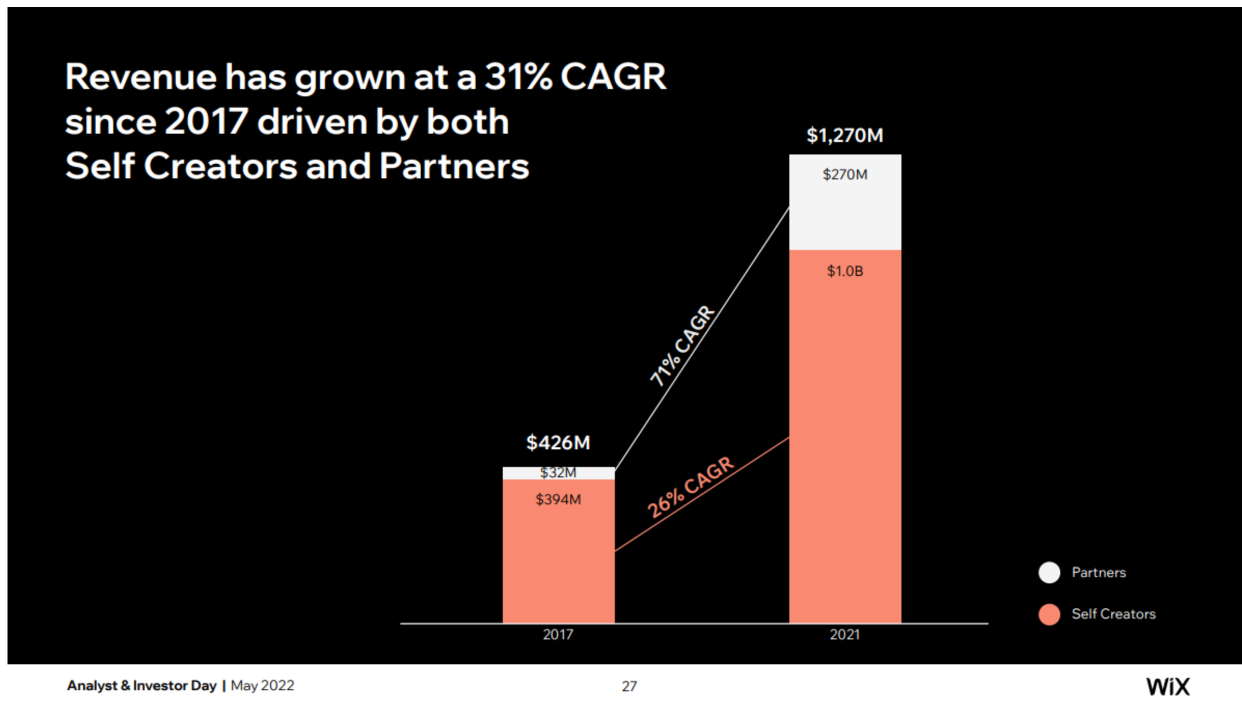
If utilization and day rates revert towards 2014 levels, 6x 2026 EBITDA results in 329% upside for a 41% IRR. Even if Valaris just trades at its replacement cost, there is 192% upside.

Long: WIX

WIX is a high-quality SaaS business focused on website solutions for small and medium businesses. At 3x NTM Revenue, WIX trades at less than half of the SAAS peer group despite continued strong fundamentals, strong growth and high ROCE prospects. The market views WIX as a lower quality version of Shopify that is no longer a high growth SaaS company with questionable unit economics.

For most of WIX's history, they did not compete with Shopify (which is focused on e-commerce vs. WIX focus on DIY web building market) but recently began making a push into e-commerce past 2+ years.

WIX's revenue growth has slowed to HSD in 2022 vs. c.29% growth in prior years. We think WIX revenue growth can re-accelerate to mid-teens growth (above consensus) driven by lapping tough comps from COVID, improving macro, and increasing contribution from Partners (agencies and freelancers that build sites or applications for other users, as well as B2B partnerships, such as LegalZoom and Vistaprint) which have higher growth and long-term margin potential.



The average WIX subscriber pays $221 per year for their website platform. This is a very small percentage of an entrepreneur's costs compared to the hassle of changing website platforms. From this low base, WIX can continue increasing ARPS by double digits YoY – especially as WIX focuses on higher value users such as website design firms.

WIX has experienced declining margins since 2019 which the market is beginning to attribute to questionable unit economics. However, margins have declined partly due to growth in new businesses (ex: lower margin payments business) and growth investments made during Covid to capitalize on the surge in demand. As margins in Business Solutions increase with scale and Covid related investments prove to be one time, WIX margins will improve.

Furthermore, a large portion of WIX's Sales & Marketing (S&M) expenses are "growth capex" on the income statement. WIX's freemium business model gives it a cost advantage on customer acquisition as it wins over half of its new subscribers each quarter from its base of registered users at no additional cost. A majority of WIX's premium subscriptions are generated from free traffic to their website.

We model WIX's long-run stead-state GAAP operating margins at 20%. Growth re-acceleration and margin improvement should cause shares to re-rate. 6x 2026 revenue gives us 284% upside for a 37% IRR.

Top five shorts:

As alluded to above, our short portfolio has changed dramatically throughout the year from a focus on higher beta speculative stocks at the beginning of the year to lower beta value traps / over-earning stocks at the end of the year.

Short A

They are a blue-chip consumer staples company serving drinks and food. The story is that Short A has benefited from unstainable unusually large price increases (10%-17%), taking several years of price increases in a single year, due to inflation, FX, and Russia / Ukraine. The price hikes will likely lead to volume declines. Volume declines are deadly for CPG companies because it leads to significant manufacturing fixed cost de-leverage.

The market believes that Short A's pricing power is sustainable which is why Short A trades at a peak earnings multiple on likely peak earnings. Historically, CPG companies were great businesses because they had brand, manufacturing, and distribution scale and sold a necessary product. Today, CPG companies are pivoting from great businesses to good businesses. CPG houses still own long-duration brands but there are undoubtedly less brand and distribution advantages today due to changing consumer behavior, the internet, and e-commerce.

As Short A faces tougher comps next year and as pricing reverses, we see eps declining more than consensus. 18x our 2023 eps estimates results in 42% downside.

Short B

Short B is a data center REIT. These companies trade at high valuation multiples (10x Revenue, 80x P/E for Short B) of likely peak margins (47% EBITDA margins for Short B) because they have highly recurring revenue and have demonstrated strong profitable growth. However, they are being disrupted by the public cloud and companies building their own data centers. We think this could be like 2015 for Brick & Mortar retail where fears about competition from e-commerce finally kicked in and the sector de-rated.

For a lot of businesses, on-premise is no longer the most efficient way to distribute computing power. The public cloud, going online and connecting to a cloud service host, costs less and makes the cost structure more variable (no capex), eliminating the huge upfront capital costs needed to start a business. Companies are either tapping into the limited computing power assembled in their backyard, or into the vast power of a centralized, shared infrastructure. Computing projects that used to take weeks are now completed in a few hours on the public cloud, and at a tiny fraction of the cost. The public cloud is a low margin quasi-utility.

As Adrian Cockcroft, CTO of Netflix said, "there is zero revenue for traditional IT" in the public cloud.

The big public cloud players, Amazon, Microsoft, and Google, account for two-thirds of data center demand and are increasingly moving towards building and running their own data centers. The technology used by

legacy groups is becoming old and redundant and Big Tech groups can build more cheaply. This will render the independent real estate investment trusts redundant.

Businesses in secular decline trade for low single digit multiples of earnings and because of the amount of fixed costs involved (build and maintain the data centers), Short B should also get some operating de-leveraging. 35x our estimates of long-run eps results in 80% downside.

Short C

They are a sporting goods omni-channel retailer primarily in the eastern United States. They were a huge Covid beneficiary and over-earned. The market is over-extrapolating their recent success while our variant view is that their recent surge in revenues and earnings is more cyclical / one time vs. structural. The sporting goods category has been one of the biggest pandemic beneficiaries and is currently viewed as different owing to perceived sticky consumer behavior changes including adoption of healthy habits and migration to outdoor pursuits. Industry structure also appears more favorable including supply destruction and distribution consolidation by large brands most notably NKE.

We assume that revenue stays stable but operating margins fall to 3% driven by increased pricing competition from secular decline dynamics in brick & mortar and increased mix shift towards e-commerce. Selling online results in increased price transparency (and hence increased price competition), increased shipping costs (since you're shipping piecemeal rather than bulk), and increased return cost (since customers didn't get to try or see the purchase in real life). All these result in a structurally lower profit margin.

At 6x normalized EBITDA, there is 60% downside.

Short D

Short D is a Warehouse Club chain which primarily sells groceries (71% of sales), general merchandise (14% of sales), and gas & ancillary (15% of sales). Their core value proposition is selling groceries at a discount relative to conventional grocers.

Short D has been one of the largest beneficiaries of the COVID driven stay-at-home boom and the deurbanization trend. Furthermore, prior to the pandemic, Short D was a clear market share donor and the company's SSS ex. gas were negative in every year from 2013-2017. SSS only inflected to a positive LSD% rate in 2018-2019 when Wal-Mart moved to close several Sam's Club stores in Short D's core geographies.

Both drivers of SSS are transitory and Short D continues to face intense competition in a low growth industry. Unless SSS re-accelerates (unlikely), the upside is already priced in. Short D is already trading at peak multiples on what is likely peak earnings and trades nearly in-line with best-in-class staples retailer DG despite lacking the historical growth track record that DG has.

The rapid expansion of hard discounters Aldi and Lidl in Short D's core geographies represents an existential threat to Short D's business. When Aldi and Lidl entered the UK, the big 4 conventional grocers (Morrison's, Asda, Tesco, Sainsburry's) ceded 10 percentage points of market share and led to (25% and 43% declines in EBIT). Not to mention continued market share gains from Amazon Fresh and Costco.

As food inflation and pandemic gains levels off, investors will shift their focus to the competitive landscape. We think that comparable sales will start to decline and that EBITDA margins revert to 3.3% (where they were before Covid and before when Walmart closed their competing Sam's Club stores). 12x our 2023 EBITDA results in 30% downside.

Short E

Short E is one of the largest communication and marketing groups in the world. They are a disrupted ad agency business that has masked their revenue attrition with acquisitions (mostly other disrupted ad agencies). A fall in TV/radio/newspaper advertising has burdened Media planning arms of agencies, and decreased their relevance.

As organic revenue growth becomes challenged and the acquisition engine de-accelerates, we anticipate that revenue will shrink and margins will decline. At 4x normalized EBITDA, there is 50% downside.

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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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