August 10, 2023

Dear Partners,

Performance and Positioning Review – H1 2023

Through H1 2023, McIntyre Partnerships returns were approx. 36% gross and 29% net. This compares to the Russell 2000 Value's return including dividends of 3%. In the winners column, CC, OSW, and our housing basket contributed 100-500bps, while SHC and MSGE/SPHR contributed over 500bps. In the losers column, no investment lost more than 100bps.

At first glance, the fund's Q2 appears uneventful. We ended the quarter largely flat and there was minimal turnover in our names. Under the hood, there was considerable volatility in our holdings from both a price and fundamentals perspective. The biggest news was in MSGE, which completed its long-awaited spin-off of SPHR. As I said last quarter, I substantially rotated our position into SPHR, though at a smaller size than our previous holding in the combined company due to SPHR's somewhat more speculative risk profile. While the combined stock was largely flat in Q2, after the quarter's end, SPHR shares have appreciated substantially due to the opening of the Shere's exosphere. I suggest partners watch videos of the Sphere in action, some of which can be viewed here. Personally, my favorite is the eyeball. While I am cognizant of the somewhat "retail" nature of a stock rallying on cool videos, I believe it is a significant positive that the Sphere has gone viral. For instance, New York Magazine's Approval Matrix recently labeled the Sphere as "Brilliant" and only slightly "Lowbrow." As SPHR intends to sell naming rights and advertisements on the exosphere, a national profile can drive additional revenues to the venue, which validates Sphere's innovative business model. I have trimmed our investment, but we retain a position.

SHC and GTX also had significant events in the quarter. After falling in early Q2, SHC shares rallied sharply as the Illinois settlement was finalized late in the quarter. Beyond the settlement, SHC's business has been largely as expected, minus some minor customer destocking that many industries are seeing as supply chains normalize. For GTX, the quarter saw the conversion of the GTXAP preferred shares into common equity. Further, the conversion occurred contemporaneously with GTX buying back roughly half of the controlling PE funds' shares, which reduced GTX's sharecount by ~20%. I view the buyback favorably and believe the share collapse could be a significant catalyst. Since the combination, GTX's trading liquidity has substantially increased, which should enable new investors to consider the stock who could not purchase an illiquid convertible bond. However, in the short term, this increased liquidity has resulted in several large shareholders exiting and trimming their positions. I am not surprised that certain shareholders, many of whom are focused on distressed debt, are exiting a profitable two-year investment now that they finally can. Once this selling pressure abates, I believe the increased liquidity, large buyback, and positive recent results could result in GTX reweighting.

The only significant "new" top five position is that I resized our position in the record labels. I never fully exited our record label investment, but as a GARP investment without a clear catalyst that had rallied significantly into YE2022, I decided to substantially reduce our investment earlier this year. During Q2, the record labels' share prices fell significantly, primarily over fears that AI music would displace the labels. Frankly, I find this line of logic silly. There is already no shortage of good but not great music. For instance, yours truly would be happy to serenade you with an original or a Weezer cover for a very low

fee. However, and unfortunately, my originals along with that of 99% of other musicians (I am using the term generously…) are not exactly what people line up to pay for. Only a small sliver of artists ever create music with mass appeal, and the economics of streaming those highly desirable songs are owned by the labels. I believe the number of people canceling their music services and abandoning their favorite bands to save two dollars a month by instead listening to strange AI knockoffs on as-of-yet-unlaunched AI competitors will be approximately zero. However, the market is open daily, stocks need stories, and AI frenzy was upon us in Q2. This dislocation in the labels' share prices for non-fundamental reasons lead me to rebuild a substantial position in the quarter. I should note that this type of trading around my longer term GARP ideas will not be uncommon, though I doubt we will sell and rebuy shares so quickly with any frequency.

Regarding the market, I remain cautious but nearly fully invested. I rarely have a strong market view, and I remain focused on looking for potential core holdings. I am hopeful that the macro volatility will create an opportunity for the fund, but I am in no rush to rotate our capital as I believe we have a strong portfolio at present.

Portfolio Review – Exposures and Concentration

At quarter end, delta adjusting for our interest rate hedge, our exposures are 96% long, 8% short, and 88% net. Our five largest positions are SHC, OSW, GTX, record labels, and SPHR, and account for roughly 75% of assets.

Portfolio Review – Existing Positions

Sotera Health Company (SHC)

SHC is the fund's largest holding. As the investment is changing from one driven by legal considerations to a GARP one, albeit a GARP idea where I believe there is room for substantial multiple appreciation towards peers, I believe a brief overview of our thesis and the primary drivers of the businesses is warranted. While legal risks remain and I am closely following them, the highest risk portion of SHC's legal troubles has passed with the settlement of the Illinois litigation. For now, there is little that would trouble me beyond a bad headline, and I would be a buyer in such a case.

On my estimates, which are slightly ahead of the Street, SHC is currently trading 13x 2024 EV/EBIT and 15x 2024 P/E. I often compare this to peer STE, which currently trades 19x and 25x respectively, as it implies 40-70% upside. However, it is important that partners understand I am comfortable owning SHC on a long-term basis solely on growth and earnings yield. I believe SHC is a highly probable 10% or better EBIT growth story, which combined with SHC's earnings yield results in a mid-to-high teens IRR with a decade or longer runway. While some of that growth requires capex, slightly lowering the impact of buybacks or M&A, I believe the highly predictable and minimally cyclical nature of SHC's growth is exceptional. SHC is diversified across pharma and medical device manufacturers. SHC works with 9 of the 10 largest pharma manufacturers and 40 of the top 50 med device manufacturers, with a 100% renewal rate across its 10 largest customers and an average customer relationship of 25 years. Critically, beyond STE and a smaller third player in the EU, SHC faces little competition. SHC is >10x the size of the regional players, who simply cannot match SHC's service offering. Combined, this has resulted in SHC has achieving an ~50% EBIT margin.

With a diverse healthcare customer base and minimal competition, the primary driver of SHC's growth is overall medical procedures, along with the additional growth from continued innovation in medical devices, further outsourcing, and SHC's consistent 3-5% price increases. Perhaps most importantly, it is difficult to envision a scenario in which SHC does not grow. Without a major competitor launching from scratch or a shift towards insourcing sterilization, neither of which is happening, the only thing that could drive a significant decline in SHC's revenues would be a decline in the number of medical procedures. While there are scenarios I can imagine in which procedures would substantially decline for several years, such as a pandemic that kills a significant percent of the population, enormous natural disasters like asteroid strikes, or World War III, it is difficult to think of an equity investment that would not be impacted by such events. Further, we all have bigger fish to fry than watching our retirement accounts in such scenarios.

While I still believe multiple expansion towards peers is probable and I am watching the legal risks closely, this durable, predictable growth is why I am comfortable owning our investment for many years. I suggest partners listen to my podcast presentation for a deeper analysis of our investment.

Business Updates

I am finalizing the process for adding an outsourced CFO/COO and compliance. I look forward to updating partners once we are up and running. Additionally, I am pleased to announce we have added Briana Barnhart, aka Bri, to the team as an administrative assistant. She can be reached at briana@mcintyrepartnerships.com if needed.

As always, please feel free to contact me with any questions.

Sincerely,

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(1) The Returns from January through August 2017 represent the performance results of a personal proprietary trading account managed by the Founder with a strategy similar to the strategy of the Fund. This information is presented for illustrative purposes only, the above results do not reflect the actual results of the Fund or the composition of its portfolio. From September 2017 onwards, returns are from the Fund. All net returns are calculated using a 1.5% management fee, 20% incentive fee, and 5% hard hurdle.

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