THG

# The Holdsworth Group, LLC

**Alternative Investments for High Net Worth Investors**

**Advisory Services and Capital for Companies and Family Offices**

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*But I keep cruisin'*
*Can't stop, won't stop movin'*
*It's like I got this music*
*In my mind sayin', "It's gonna be alright"*

*-Taylor Swift*

## FIRM UPDATE

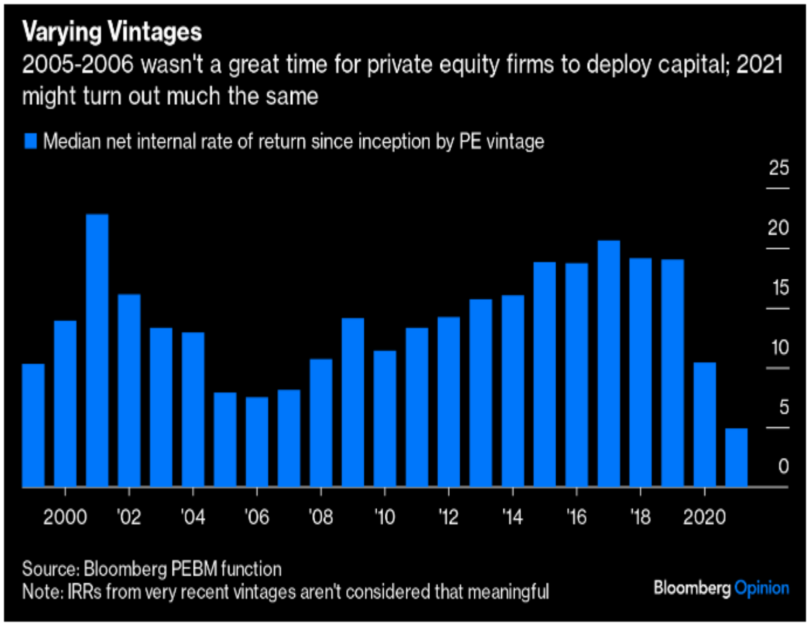
**The past few months have been quiet for us as markets reset and prices come down.** We continue to see big gaps between what buyers are willing to pay and what sellers are willing to accept, especially in real estate. In short, we are maintaining and building liquidity, while looking at many deals, but investing in few. We believe we are in the bottom of the first inning (sorry for the tired metaphor) of a major reset in prices. As we have mentioned in the past, we believe private assets are especially vulnerable to nasty write-downs.

We continue to favor investments with current yield over more speculative pure equity plays, as we manage through one of the toughest investment environments in modern history.

Artificial Intelligence (AI) is all the rage these days, but we have not invested in it. Although it's clearly a major growth area and it's already starting to change our lives, we don’t feel like we understand it well. At THG, we try very hard to invest in only what we know, and AI does not fit in that category.  On the other hand, we are investigating how AI can improve our investment processes. For example, could AI help us better identify attractive companies through a complex screen?  Perhaps it can help us better assess risk. One thing should be evident: ChatGPT did not write this newsletter! And, recently, I was speaking to one of my agriculture and farming friends and he mentioned using AI in his business. When I asked how that would work, he quickly explained: "Not that AI, I’m talking about Artificial Insemination!"

## THE BIG PICTURE

**Like a Fine Wine, It’s all About the Vintage.** Last quarter, we wrote about the hangover in venture capital. This quarter, we point out a few facts about private equity. After enjoying a 15-year party, the music has finally stopped. Many investors in private equity paid little attention to where we were in the cycle when they invested, i.e. **the vintage.** Indeed, the industry’s best returns tend to follow recessions, when valuations and competition are less frenzied. In fact, we have been experiencing this dynamic already in the value end of the public markets. Consider the chart below:



It is clear to us that private equity was at its peak frenzy in 2020, 2021 and 2022, when returns since inception are estimated to respectively be 10%, 5% and probably negative, maybe largely so. Looking forward, with debt costs at least double the levels of just two years ago, and with many deals financed through private credit market floating rate loans, returns will be much harder to come by.

**Doh! The D word?** We can't think of another person, maybe anywhere in the world, with a better view of the consumer economy than the current CEO of Walmart, Doug McMillon, who recently warned that "we may be managing through a period of deflation in the months to come." General merchandise prices "came down a little more aggressively in the last few weeks or months." If true, this would be an amazing turn of events from the high inflation environment of late. It appears that others agree with Mr. McMillon: the World Economic Forum reported in August that "some observers are now raising the spectre of deflation. This is currently the case in China, which has dipped into deflation after the economy experienced falling consumer prices in July." Not to be confused with disinflation, when the rate of inflation decreases, deflation is actually quite rare and it indicates a decrease in the average price of goods and services over a period of time. Deflation can have some nasty consequences as consumers delay purchases because they think prices are falling. That leads to a reduction in production, leading in-turn to job cuts and wage decreases, which can cause economic weakness. This is starting to sound to us like the Lost Decade in Japan in the 1990s.

**China has been in the news a lot, but not necessarily for this: China's controversial one child policy, implemented in 1982, has had a profound impact on that country.** Originally created to curb population, after 40 years other significant ramifications are evident. The policy was relaxed to 2 children in 2015, and in 2021 it was relaxed to 3, but side effects from the original policy remain. There are 32.5 million more men in China today than women aged 5 to 39. This imbalance makes it harder for men to find partners and start families. This has led to increased competition for partners and has contributed to social instability and tensions. Could this be a contributing factor to cross-border tension as well?

**You Go Girl!** I confess, I'm a Swiftie; not because I like her music (I might, but don't know it) but because of what she has accomplished. Can you imagine: Bloomberg reports the U.S. GDP increased by $4.3 billion because of her 53 concerts, all the while making countless concertgoers giddy with joy. Believe me, we need more Ms. Swifts in this world.

## INVESTMENT & CONSULTING UPDATE

**Real Estate**

- Evaluating preferred equity for an industrial property in Southern CA, apartments in Jacksonville, FL, apartments in Irving, TX, and a shopping center in NJ.

**Public Securities**

- Purchased an energy company yielding 21% current cash pay!
- Partially exited our position in a Canadian diversified industrial company.
- Exited our position in the bonds of a large engineering and construction company.

**Funds, Private Equity and Venture Capital**

- Evaluating the purchase of a well-known consumer brand out of Chapter 11.
- Evaluating growth capital for a company in the industrial water treatment space.

**Consulting**

- Continuing to work with a large family business contemplating a sale.