

FIRM UPDATE

Our time has arrived. For years, call it almost 30, we have preached the virtues of value investing: that boring things like profits and free cash flow matter. We even called ourselves "Buffett-style", and when we did, eyes would glaze over. Now that capital markets have seized, free money has ended, banks are blowing up, and interest rates continue to rise, the era of financial engineering masquerading as investing has finally drawn to a close. Private asset valuations remain elevated and have only begun to reset. Those with high expectations for private equity and venture capital returns going forward may wind up with nothing but a trail of tears. We, on the other hand, are excited about the current environment and in particular the opportunity to buy discounted credit securities again. In these situations, one can earn a visible double digit current yield, and much more than that if a company can repay its debts. This is a business we know well - one we're uniquely qualified to pursue.

We're movin' and shakin'. Our investment partnership has been steadily adding assets as it continues to focus on discounted public securities. Every day, the opportunity set for us grows, as attractive companies at good valuations continue to multiply. By contrast, explains Warren Buffett in his recent letter: "private businesses are a different breed. They sometimes command ridiculously *higher* prices than justified, but are almost never available at bargain valuations." In the last few weeks we have added a position in a terrific, underfollowed public company that markets and transports crude oil, refined materials and dry bulk materials, at **below book value!** And, we're buying and evaluating a number of bonds in out-of-favor quality companies yielding 15+%. Last quarter, we wrote about our pivot to focusing on platforms, rather than single private investments: we are evaluating the purchase of an RIA, adding another investment vehicle focused on common equity micro-caps, and possibly seeding a team that lends to government contractors. Never a dull moment around THG! In addition, we are involved in a few consulting projects, one of which involves a public company, and two others helping owners with troubled assets. Alas, we fear we're probably in the early innings of the next troubled assets cycle. TARP anyone?



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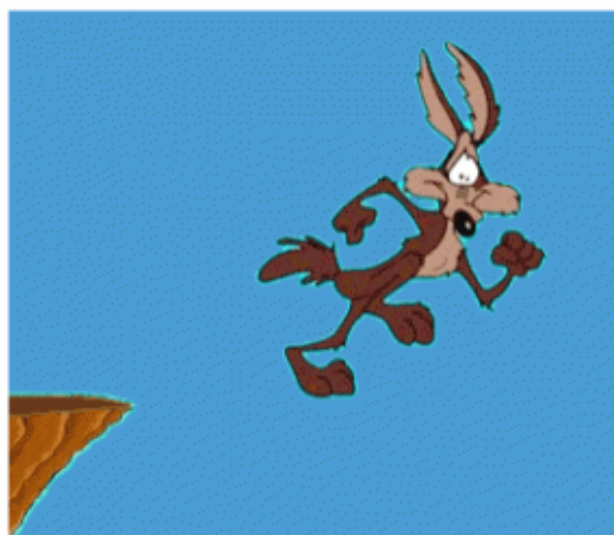
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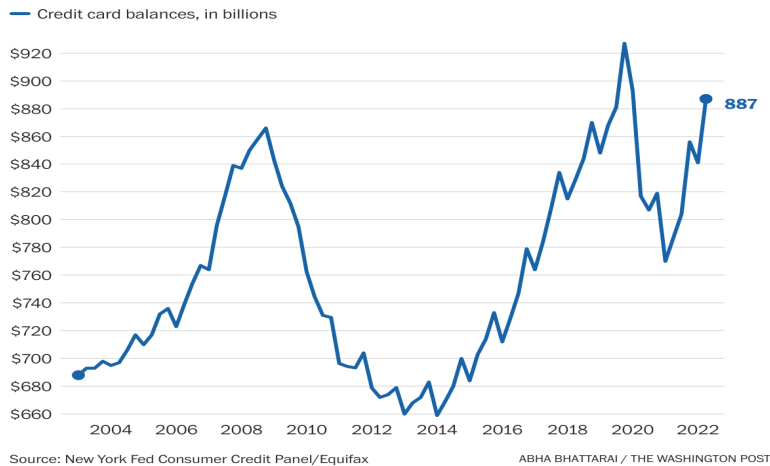
...we have not seen private asset valuations respond to the significant rise in the real riskless yield. This reminds me of the classic cartoon where Wile E. Coyote runs over the cliff and keeps running, still waiting for the pull of gravity.

-Antti Ilmanen



THE BIG PICTURE

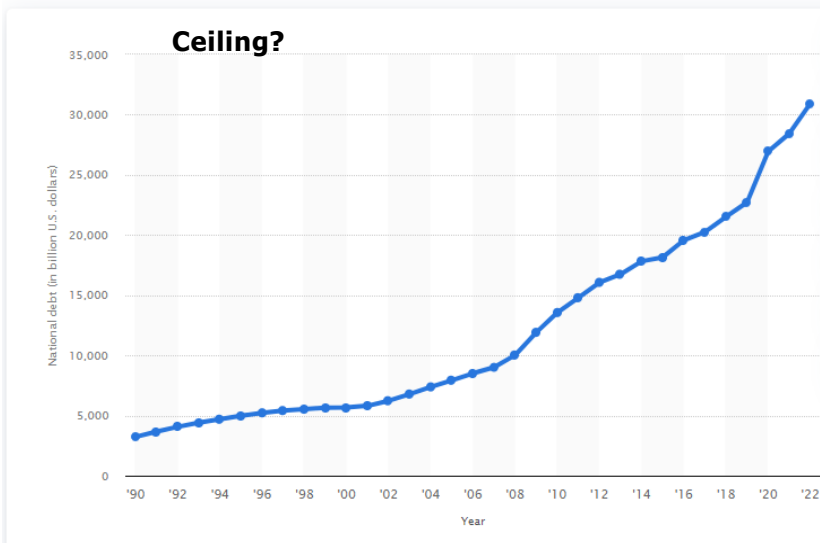
Americans are relying more on their credit cards



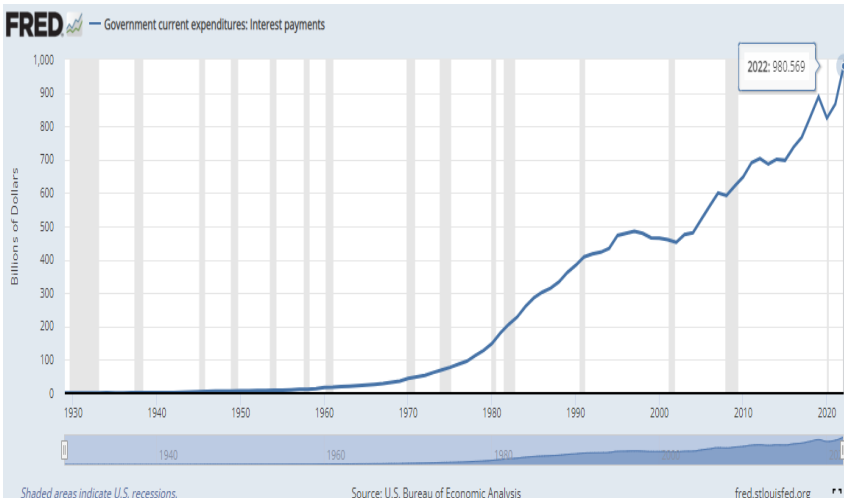
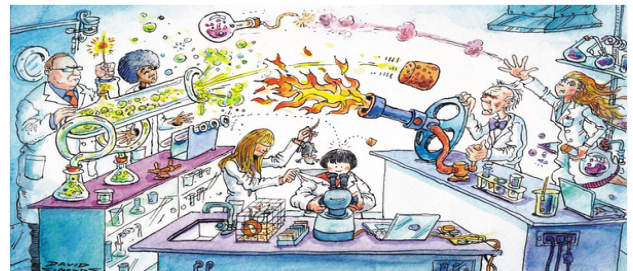
A Note on Succession Planning. Over the years, we have come to realize that proper succession planning is among the hardest things to execute. In fact, most enterprises do it poorly, or worse, not at all. It can be complicated, emotional, time consuming, and fracturing to an organization. But, it must be done. Some of the worst offenders of lack of planning in this area are family offices and family businesses. Public companies have a stated mandate to have a succession plan in place at all times. The best succession plans begin the day the CEO starts in his or her position. For family offices and businesses, we like the idea of a qualified family member in a position of senior leadership, but this can be delicate. Gen 2 must be qualified and trained, and most importantly want it. Even for family members it is imperative to incent the right behavior by setting goals and targets and compensating to those. And most importantly, don't stand still; keep inventing and moving forward or the organization will wither and die.

Public debt of the United States from 1990 to 2022

(in billion U.S. dollars)



From the Science File. At the end of last year, the Energy Department announced the first-ever **gain in energy** from fusion in a laboratory – the first time reactions produced more energy than it took to induce them! How this happened is beyond the scope of this update, but it's exciting! Imagine being able to produce 50% more energy out of a series of reactions than the amount of energy used in the reactions themselves. Although likely years away from practical applications, imagine the possibilities!



INVESTMENT UPDATE

Real Estate

- Evaluating apartments in Tampa, FL
- Evaluating light industrial/flex space in Utah

Public Securities

- In addition to adding credit securities, we've been adding high quality equities with a double digit dividend yield.

Funds, Private Equity and Venture Capital

- Evaluating: (i) An app that helps one source commercial insurance, (ii) A recap of an EdTech hardware/software collaboration solution for schools and businesses and (iii) Growth equity for a profitable manufacturer of innovative marine propulsion technology

You get the point!

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