THG

The Holdsworth Group, LLC

Alternative Investments for High Net Worth Investors

Advisory Services and Capital for Companies and Family Offices

Mark K. Holdsworth
Zachary D. Levenick
M. Christian Mitchell
Robert T. Blair

140 S. Lake Avenue, Suite 304
Pasadena, CA 91101
(626) 765-9950

www.holdsworthgroup.com

"It would be so nice if something made sense for a change."

- Lewis Carroll

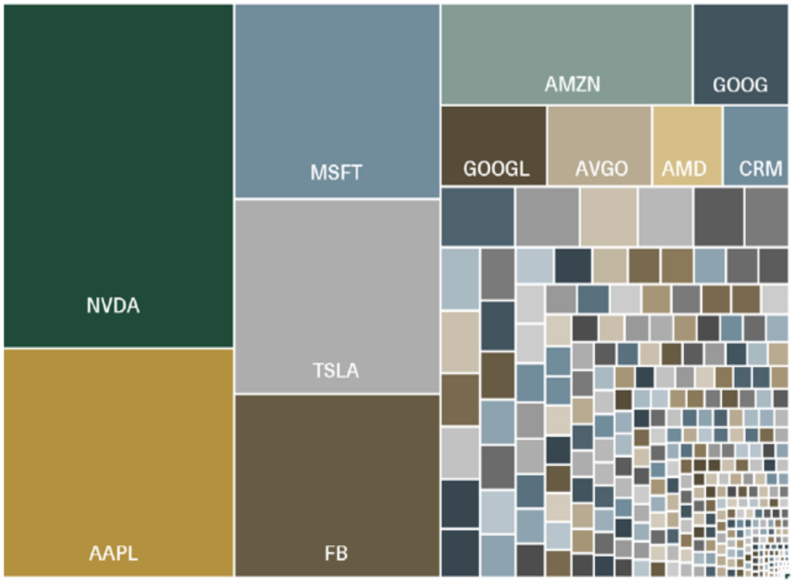
FIRM UPDATE

We are pleased to announce that Bob Blair has more formally joined us to help us expand our business and introduce us to new partners interested in our deep value approach. Bob has over 28 years of experience in private equity and consulting, including the last 16 at KCB Partners, a large family office based in Pasadena. For 16 years, Bob served on KCB's investment committee for private equity and real estate.

THE BIG PICTURE

The Concentration of Equity Returns persisted for the 1st half of 2023. As the graph below shows, stock returns this year have been extremely concentrated in a few names. It is probably safe to say that no one needs THG to identify and invest in these 11 mega-caps. If, however, you are interested in finding something off the run, do give us a call.

Weighted Contribution as Share of /Total S&P 500 YTD Performance as of 6/30/23



Source: Bloomberg, First Republic Investment Management, as of June 30, 2023

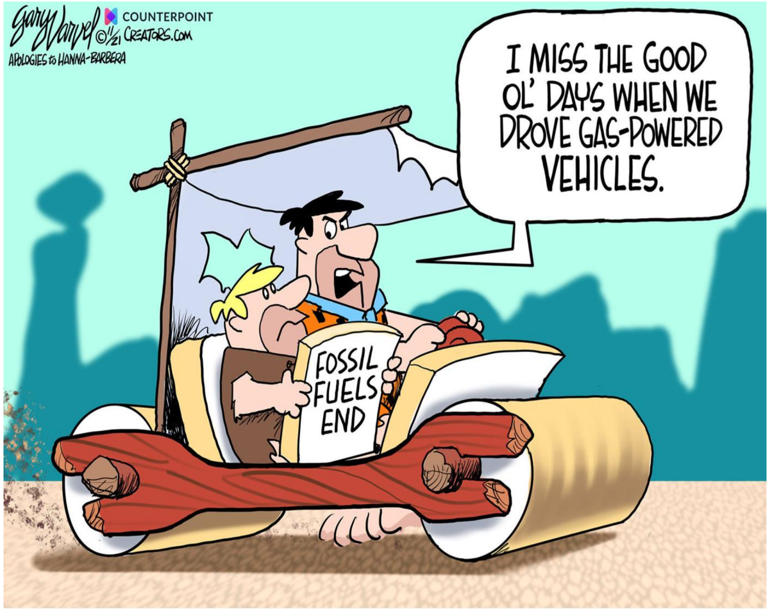
Where to invest today? From our seat, we continue to prefer liquid public markets over illiquid private investing:

- Liquidity is precious, especially when interest rates have risen: Why tie up capital for 10-15 years in this environment?
- Transparency and fairness matter: Although new SEC rules attempt to limit the practice, many private asset funds quietly grant preferential terms to certain favored investors.
- Avoid the capital recycling maelstrom: Many private-equity-owned businesses are struggling to service out-sized debt loads, so sponsors are calling fresh capital to shore up these poor performers.
- Keep the exit in mind: The surfeit of capital in private markets continues to be deal-hungry - more firms were taken private than public in the first half of 2023.

If private equity looks bad, consider venture capital. "The Mass Extinction Event for startups is underway," said Tom Loverro at venture firm IVP. With funding dried up, and exits non-existent, "it's like the entire industry went out drinking and is now suffering the consequences," continued Loverro. If this doesn't sound like a bust, we don't know what does.

Real estate continues to suffer from the effects of a dramatic rise in interest rates over the past eighteen months. Buyers and sellers seem to be at a standoff over valuation with few transactions being completed. Those with floating-rate loans or office investments are particularly vulnerable. So much of the increase in real estate prices over the past decade has been due to the prolonged availability of cheap debt financing. Real estate is, to us, a place to tread very carefully for the time being. We note, however, that the cost of home ownership remains significantly above the cost of renting, so we still like the multi-family space if we can find a solid deal with a solid operator with an outstanding long term track record (we know many).

Private credit looks to us like the best place to be, compared to the three strategies mentioned above. Many problems with private credit, however, remain. Capital has flooded into the space, so sourcing attractive opportunities is difficult. Covenants and leverage metrics continue to be weak, and then there is the matter of semi-subjective valuation. Many credit vehicles generate current income from their yield spread, but how many actually pay it out? As with any strategy, for us, it comes down to the quality and size of the manager.



garyvarvel.com

Folks, let's get real! Reuters reported in June that global energy demand rose 1% in 2022, and despite recent growth in renewable energy, fossil fuels still account for 82% of global supply. Not surprisingly, coal's share of fuel for power generation remained dominant at around 35%, while coal prices hit record levels: up 145% in Europe and 45% in Japan. In addition, coal consumption actually rose 0.6% to its highest level since 2014, driven mainly by Chinese and Indian demand. While we agree it is imperative that the world move to renewables to combat climate change, it is important to remember where we are in that journey and what is practical today. It is clear to us that, like them or not, fossil fuels are likely to be with us for a long while.
ESG and other initiatives have driven capital out of the energy space in recent years. This has opened valuation gaps, and many important, high-quality companies trade at deeply discounted prices. We are not afraid to invest in the very best of these.

INVESTMENT & CONSULTING UPDATE

Real Estate

- Evaluating two apartment buildings in Northern CA
- Evaluating an industrial/outdoor storage facility under long term lease

Public Securities

- Purchased a coal producer with a **16%!** current cash pay yield
- Purchased a manufacturer of specialty high performance industrial mats
- Added to our position in a large engineering & construction company's discounted bonds
- Exited our position in a leading company that provides natural gas compression services
- Evaluating participating with an activist in a major retail company

Funds, Private Equity and Venture Capital

- Evaluating a couple of fund spin-outs where we would back the general partner
- Evaluating a tax lien fund
- Evaluating a fund rolling up small manufacturing companies in the Midwest
- Evaluating a fund rolling up small HVAC companies
- Added to our investment in PlantsExpress.com
- Evaluating a proprietary payments fintech company focused on the convenience store industry

Consulting

- Working with a large private company in the business services space, helping the owners with succession planning and perhaps a sale of the company