



2024 Second Quarter Letter

August 1, 2024

To My Partners:

Tourlite Fund, LP returned 2.7% for the Second Quarter of 2024 and 8.9% year-to-date for 2024. The Fund has annualized returns of 10.1% since inception, compared to 10.5% for the S&P 500 and 1.0% for the Russell 2000.^{1,2}

	Q2 2024	2024 YTD	Annualized Return ³
Tourlite	2.7%	8.9%	10.1%
S&P 500	4.4%	15.4%	10.5%
Russell 2000	(3.3%)	(1.7%)	1.0%

Gross Contribution & Average Portfolio Exposures

	Gross P&L 2024 YTD	Q2 2024		
		Gross P&L Q2 2024	Avg. Dollar Exposure	Avg. Beta-Adj. Exposure ⁴
Longs	11.3%	0.1%	99%	119%
Shorts	(0.1%)	3.8%	(76%)	(110%)
Indexes / Hedges ⁵	1.4%	0.1%	(7%)	(8%)
Gross Contribution	12.6%	4.0%	Gross: 182%	Gross: 237%
			Net: 16%	Net: 1%

¹ Any net returns presented herein reflect the returns of the Fund assuming an investor “since inception”, with no subsequent capital contributions or withdrawals. These returns are not necessarily indicative of your net returns in the Fund, and you should follow-up with Tourlite if you have any questions about the returns presented herein

² Bloomberg Total Return

³ Annualized Return from Fund inception in April 2022

⁴ Beta-adjusted exposures are calculated relative to the S&P 500. Exposure represents YTD average

⁵ Includes currency hedges and other trading costs. Borrow cost included in short return

Market Outlook

Over the past few quarters, our cautious outlook on the equity market has remained unchanged. Despite rising expectations for the Federal Reserve to cut interest rates and mixed economic and company data, we maintain our conservative stance. We believe the Fed and the economy are in a difficult position. While the Fed appears to be shifting its focus from inflation to employment in hopes of achieving a “soft landing”, we believe reaccelerating inflation is a significant risk.

With uncertainty of the upcoming election, we anticipate the second half of the year could be volatile for equity markets. We believe that Trump or Harris (the presumptive favorite for the Democratic nomination at the time of this writing) may drive inflation through increased fiscal spending and growing budget deficit.

In our first quarter letter, we suggested that earnings expectations had bottomed out, barring a recession, for many businesses we monitor. However, in recent months, it has become apparent there remains additional downside to earnings expectations, especially in the consumer sector. We continue to believe valuations remain elevated.

Portfolio Update

During the quarter, our net beta adjusted exposure generally fluctuated within the range of +/-10%, with an average of 1%. Our gross exposure ranged between 155%-200%, with an average of 182%. As we have previously stated, in a normal environment, we believe a net exposure in the 20-30% range is optimal for our portfolio construction.

Our portfolio’s sector concentration was as follows: consumer (~39%), industrials (~30%), technology (~17%), other (~25%).⁶ The majority of our “other” sector exposure (~20% of total gross exposure, including sector hedges) represents our special situation healthcare investments. At the start of the quarter, we leaned long industrials and short consumer, and we further leaned into these biases over the quarter. Our average dollar exposure for each sector was as follows: consumer (-18%), industrials (+28%), technology (-3%), other (+8%).

Many companies in our long book are out of favor, longer duration assets that lack a near-term catalyst but are on a path to creating significant shareholder value. We view these as similar to the path of FTAI Aviation, which underperformed in 2022 until the thesis began to play out and the market started to recognize the business’s value. We believe this is the case with our biotech special situations (Roivant, OmniAb), delisted Latch, and fallen angels such as RealReal and Purple.

We remain excited about Roivant and APi Group, which we discussed in detail in prior letters. Both companies remain as large positions in the fund.

⁶ Average of industry gross exposure over the period. Other sectors include healthcare and real estate

While we had several highly profitable shorts during the quarter, shorting high beta companies remained very challenging. In mid-May we saw the return of the meme craze which has a systematic impact on markets, particularly on speculative companies.

Performance Commentary

In the first half of 2024, our long book performed strong relative to the Russell 2000, driven by our high-conviction positions. While the majority of the S&P 500's return can be attributed to the Mag7, we are pleased with our relative performance and believe the Russell 2000 remains a more appropriate benchmark for comparison. We continued to capture a positive spread between our long and short positions and believe the current environment remains favorable for our long/short stock-picking strategy.

Relative Performance of Long & Short Portfolio⁷

		Gross P&L Adj. For Hedges ⁸	Relative to S&P 500	Relative to Russell
2024 YTD	Longs	11.3%	(4.1%)	13.0%
	Shorts	(0.5%)	15.9%	(1.2%)
Inception to Date (April 2022)	Longs	18.8%	(6.2%)	16.5%
	Shorts	2.2%	27.2%	4.5%

Second Quarter Gainers & Detractors

Gainers	Detractors
FTAI Aviation	Latch
FTAI Infrastructure	Industrial Short
Technology Short	OmniAb
Industrial Short	Consumer Long
Technology Short	Purple Innovation

Top Gainers

1. FTAI Aviation (FTAI)

FTAI continues to benefit from overall aerospace market tailwinds, as ongoing shortfalls from OEMs are resulting in higher lease rates and extensions. During the quarter, FTAI announced the V2500 as its second focus engine after the CFM56. EBITDA related to the V2500 is expected to grow from \$40 million this year to \$100 million by 2026.

⁷ Performance of short portfolio is relative to the inverse of selected Index

⁸ Represents gross return on invested capital. Long and short P&L adjusted for respective contributions of hedges

In the company's second-quarter earnings report in July, FTAI exceeded expectations by beating consensus estimates and raising management guidance. Most notably, FTAI increased its 2026 EBITDA target by 25%, from \$1 billion to \$1.25 billion. Even with the continued appreciation in share price, we believe the outlook for FTAI's stock remains strong with multiple catalysts for the remainder of the year.

At the top end of the recently raised Aerospace EBITDA guidance, FTAI has already achieved 46% of the \$325-\$350 million target. This segment has posted approximately 30% quarter-over-quarter growth for the past four quarters. Additionally, it seems increasingly likely that additional one or two PMA parts approvals will be secured by the end of the year, providing a further boost to the aerospace segment.

While we believe that continued strong numbers will benefit the share price, we also see further upside potential from closing the valuation gap between FTAI and its aftermarket aerospace peers.

2. FTAI Infrastructure (FIP)

We remain confident in the attractiveness of FIP as its story unfolds through the remainder of 2024 and into 2025. We believe FIP is at an inflection point, similar to where FTAI was a year ago. As several assets continue to mature, we expect an acceleration in earnings and the potential monetization of certain assets. In addition to the two core assets, Transtar and Jefferson Terminal, there is significant upside for the Long Ridge Energy Terminal asset. Long Ridge can be converted to host data centers, significantly enhancing its EBITDA potential.

3. 4. 5. Multiple Shorts

We had multiple successful short positions as positive contributors during the quarter. These three businesses fall into our fades/frauds category. We believe their strong share price performance in the first quarter was due to management misleading investors. As the market has become aware of our concerns and the share prices retraced, we have significantly reduced the size of our positions and have completely exited two of the three.

Top Detractors

1. Latch (LTCH)

We believe the share price does not adequately reflect the business fundamentals and, at the end of the quarter, was trading at nearly a 50% discount to our estimated cash value per share. On the business side, Latch is rebranding as Door and released a product video in June on [Door.com](https://www.door.com), showcasing the progress Jamie Siminoff has been making. Additionally, on June 24th, Latch announced the acquisition of HelloTech for the assumption of \$6 million in debt.

2. **Industrial Short**

While this business was a highly profitable short in the first quarter, it was affected by the mid-May rally in highly speculative companies. This prompted us to actively manage our risk and reduce our position size. We continue to believe that this business is a terminal zero, likely to dilute shareholders over time and increase the free float of shares.

3. **OmniAb (OABI)**

We believe OmniAb presents one of the most compelling asymmetric opportunities in the market, even without a near-term catalyst. As a holder of royalties on future drug sales, OmniAb offers substantial upside potential. The company's royalty on Immunovant (IMVT) alone could account for 50-100% of its current market capitalization. Despite the recent share price retracement, CEO Matt Foehr has shown strong confidence by personally purchasing over 1.1 million shares in the past 12 months at prices between \$4.24 and \$6.25.

We remain excited about the long-term prospects of OmniAb. As one Value Investor Club member commented: *“Picks & shovels! So many shots on goal you can't miss! Compounding cash-flow monster.”*

4. **Consumer Long (RICK)**

After 18 months, we believe same-store sales (SSS) growth has started to normalize. Despite the decline in SSS over the past year, the business remains highly cash flow generative and benefits from strong insider ownership. According to our estimates, the business is currently valued at less than 10x earnings. Management has accelerated the pace of share repurchases, which should be highly accretive for shareholders in the long term.

5. **Purple (PRPL)**

In our prior letter, we wrote:

Purple is part of our “broken stocks” basket where we believe current valuations present attractive asymmetric opportunities. These businesses have significant upside once macroeconomic headwinds abate and business fundamentals reaccelerate. Purple has new management, changed its business model, sentiment on housing related stocks is bottoming and consensus estimates are low.

We don't necessarily believe these share prices will return to their all-time highs, but in many cases, a 2-5x is within reach under reasonable assumptions. Purple and RealReal (REAL) are the two largest in the basket.

After a nearly 70% increase in its share price during the first quarter of 2023, Purple saw a 40% decline in the second quarter. We believe the business will begin to see positive comparable sales growth and positive free cash flow throughout the remainder of 2024. Once the home improvement cycle turns, we see significant upside potential for this business.

Operational Update

We are excited to welcome Hanbo Xiao to Tourlite as an investment analyst. Before joining Tourlite, Hanbo was a Senior Analyst at Forge First Asset Management, a Toronto-based hedge fund, where he built out the firm's consumer efforts. Prior to that, he served as a Senior Equity Research Associate at Desjardins Capital Markets. Hanbo is an alumnus of Western University's Ivey Business School and was a member of the university's Putnam Competition Math team. He is also a CFA charterholder. Please join us in welcoming Hanbo to the team!

Reagan Wong left Tourlite this summer to pursue a new opportunity. We wish Reagan all the best in his future endeavors!

Closing Thoughts

In July, I had the pleasure of visiting Andros, Greece, a one-hour ferry ride east of Athens. Andros is home to our namesake, the iconic Tourlitis Lighthouse. We hope you enjoy the photos!

Your trust and support are appreciated, and we are available for any questions. The fund is currently open to new subscriptions. Qualified clients can reach out to ir@tourlitecapital.com.



Sincerely,

A handwritten signature in black ink that reads "Jeffrey G. Cherkin". The signature is written in a cursive, flowing style.

Jeffrey G. Cherkin

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