2024 Fourth Quarter Letter

February 18, 2025

To My Partners:

Tourlite Fund, LP returned 0.4% for the Fourth Quarter of 2024 and 14.2% for the full year. The Fund has annualized returns of 10.2% since inception, compared to 11.6% for the S&P 500 and 4.2% for the Russell 2000.[1,2] We believe this to be strong considering our continued near-zero net exposure since inception in April 2022.

	Q4 2024	2024	Annualized Return[3]
Tourlite	0.4%	14.2%	10.2%
S&P 500	2.3%	25.0%	11.6%
Russell 2000	0.3%	11.5%	4.2%

Gross Contribution & Average Portfolio Exposures

	Gross P&L 2024	Q4 2024		
		Gross P&L Q4 2024	Avg. Dollar Exposure	Avg. Beta-Adj. Exposure[4]
Longs	37.3%	3.8%	70%	80%
Shorts	(17.6%)	(4.1%)	(60%)	(70%)
Indexes / Hedges[5]	1.1%	1.3%	(9%)	(8%)
Gross Contribution	**20.8%**	**0.9%**	**Gross: 139%**	**Gross: 158%**
			Net: 1%	**Net: 2%**

[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] Changed beta-adjusted exposures to be relative to the Russel 2000 as of Q4 2024. Prior beta-adjusted exposure levels were adjusted to reflect this. 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, we have maintained a cautious stance on the equity market, maintaining near-zero net exposure. We continue to see downside risks to broader equity markets due to stagnant real earnings, particularly in the consumer sector and among lower-quality businesses, while valuations remain broadly elevated.

While S&P 500 performance was driven by a split of earnings growth and multiple expansion, the majority of earnings growth came from mega cap technology companies. For the Russell 2000, earnings growth remained nearly flat, and all of the index performance was attributed to multiple expansion.

The recent rally in low-quality, speculative stocks is reminiscent of late 2021. Many valuations have become stretched, with businesses trading at excessive revenue multiples despite having little to no path to profitability. Speculative themes—such as crypto, AI, quantum computing, and nuclear energy—have gained momentum, and many low-quality companies with promotional management teams are capitalizing on market hype. This dynamic creates what we believe to be an attractive opportunity for short selling, similar to the environment in the second half of 2021 and throughout 2022. While timing market tops is inherently difficult, we are poised to capitalize on these opportunities as they emerge.

Following the recent election and a Republican sweep, broad equity markets experienced a rally. Coincidentally or not, Trump assuming office amidst an "AI bubble" draws parallels to previous Republican presidents who took office near market peaks: Hoover during the Roaring 20s, Nixon during the Nifty Fifty era, and George W. Bush during the Dot-Com Bubble. Each of these administrations, like Trump's, promoted tax cuts and deregulation, coincided with an inverted yield curve, and preceded a greater-than-50% decline in the S&P 500. While we are not predicting a 50% correction, history may not repeat itself, but it often rhymes.

Portfolio Update

During the quarter, our net beta adjusted exposure generally fluctuated within the range of +/-10%, with an average of 2%. Gross exposure ranged between 114% and 179%, with an average of 139%. We maintain our view that a net exposure range of 20-30% remains optimal for our portfolio construction.

In the fourth quarter, our average gross exposure was lower compared to prior periods due to two factors:

1. Adjusted position sizing and exited long positions: We reduced long exposure in certain positions as valuations became less compelling. To maintain near-neutral net exposure, we correspondingly lowered short exposure.

2. Active portfolio management: We increased portfolio turnover, especially on shorts, by opportunistically trading around positions. This approach aimed at capturing steeper sections of the alpha curve, where we expect higher probability stock price moves.

We believe enhancing our ability to trade opportunistically around both long and short positions within our universe can generate incremental returns on top of core holdings while also contributing to reduced volatility.

Our portfolio's sector concentration was as follows: consumer (~35%), industrials (~35%), technology (~13%), other (~17%).[6] The majority of our "other" sector exposure (including sector hedges) represents our special situation healthcare investments. As discussed in our prior letters, we remain short consumer and long industrials. Our average dollar exposure for each sector was: consumer (-25%), industrials (+24%), technology (-5%), and others (+11%).

Performance Commentary

In 2024, we saw significant outperformance from our long portfolio relative to both the S&P 500 and Russell 2000. While our short book outperformed the inverse S&P 500, we slightly underperformed the inverse Russell 2000. We can attribute this underperformance to any one of a handful of top short detractors. Our top 3 detractors from our short book resulted in approximately -11% toward performance. All three of these were larger short positions in higher beta stocks that saw significant share price appreciation over our holding period.

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 Portfolio[7]

		Gross P&L Adj. For Hedges[8]	Relative to S&P 500	Relative to Russell 2000
2024 YTD	Longs	37.3%	10.1%	25.4%
	Shorts	(14.5%)	12.7%	(2.6%)
Annualized Inception to Date	Longs	15.0%	2.5%	10.6%
	Shorts	(4.6%)	7.9%	0.2%

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

Fourth Quarter Gainers & Detractors

Gainers	Detractors
FTAI Aviation	FTAI Infrastructure
RealReal	Latch
Undisclosed Long	Consumer Short
Technology Long	Sable Offshore
Technology Long	Technology Short

Full Year Gainers & Detractors

Gainers	Detractors
FTAI Aviation	Short
FTAI Infrastructure	Latch
Sable Offshore	Technology Long
Arbutus	Technology Short
Roivant	Consumer Long

Top Gainers

1. **FTAI Aviation (FTAI)**

   FTAI emerged as one of the top-performing stocks in 2024, with its share price increasing over 200%. This performance was driven by robust aerospace after-market tailwinds and the growing market share of its PMA parts business, as the company consistently exceeded market expectations quarter after quarter.

   The fourth quarter brought significant developments for FTAI, despite a share price retracement in the last five weeks of the year. In November, the company announced FAA approval for its second PMA engine part. In late December, FTAI announced a Strategic Capital Initiative (SCI) with private credit investors to acquire mid-life aircraft, tapping into a potential $30 billion market as aircraft lessors offload older planes as they make new purchases. Under this arrangement, FTAI secures the rights for the engine maintenance contracts, which are projected to generate ~$200 million in incremental annual aerospace EBITDA by 2026 when fully ramped.

   When we analyze the SCI and factor in the multiple revenue streams (management fee, incentive fee and maintenance revenue), we believe the return on invested capital will be 80%+. We calculate a combined ~$2.50 per share of earnings from SCI. If the first SCI deal is successful, FTAI could raise one of these 7-year funds a year.

In January 2025, FTAI was the subject of a short report claiming FTAI is a leasing business portraying itself as an aftermarket business and an accounting scheme. We disagree with the claim that FTAI is just a leasing business and believe that FTAI is a value-add aftermarket maintenance business that follows industry standards for leasing accounting. On January 21st, RBC hosted a lunch with FTAI where management publicly addressed many of the claims of the short report.

With these recent positive developments, decline in share price in January, and multiple positive catalysts on the horizon, we believe FTAI is well-positioned for continued success heading into 2025.

2. <u>RealReal (REAL)</u>

RealReal was part of our "broken stocks" basket, where we believed the market unfairly left the stock for dead. Having held this stock for over a year, we actively managed our position as the share price climbed from $2 to $9.

The market's initial reaction to the announcement that the existing CEO would step down, succeeded by Rati Sahi Levesque, a member of the founding team from 2011, was one of "shoot first, ask questions later." We saw this as an overreaction, particularly as the company significantly raised its fourth-quarter guidance above consensus expectations and positioned itself to improve its debt refinancing prospects.

3. <u>Undisclosed Long</u>

We are long on an energy company that we believe has substantial upside potential as management focuses on debt reduction and unlocking shareholder value.

4. <u>Technology Long</u>

We took a long position in a financial technology company we believe was fundamentally undervalued and misunderstood by the market. A combination of high short interest from perceived regulatory risks and improving business fundamentals drove the stock price to more than double in the fourth quarter. After a substantial gain and a narrowing gap between market perception and intrinsic value, we exited the position. Notably, the stock continued its upward momentum through year-end.

5. <u>Technology Long</u>

We initiated a small position in a low-quality business that we believed had been largely abandoned by the market. Having previously shorted this company multiple times, we saw an opportunity when its deeply depressed share price presented a favorable risk-reward, as new management aimed to turn the business around. We entered the position while the stock traded near all-time lows, convinced that the fundamentals were beginning to improve. After the share price nearly doubled, we exited, as we no longer found the risk-reward compelling.

Top Detractors

1. **FTAI Infrastructure (FIP)**

   We continue to view FIP as a highly attractive opportunity with multiple potential catalysts. While there haven't been any recent hard catalysts, we see a strong likelihood of positive developments ahead. All four of FIP's assets appear poised for a meaningful inflection point in 2025.

   In early February, Long Ridge successfully priced its notes as part of its debt refinancing. Meanwhile, FIP is actively pursuing the acquisition of GCM Grosvenor's 49.9% stake in Long Ridge. We expect this transaction to be highly accretive, as FIP plans to issue stock in exchange for what we believe to be an undervalued position in Long Ridge. Additionally, we see significant upside potential in Long Ridge through a potential data center deal later this year.

2. **Latch (LTCH)**

   Latch was a significant detractor last year, with its share price continuing to decline and trading at a discount to cash. In November, the company announced that Jamie Siminoff would be stepping down at the end of 2024. This was viewed negatively by the market, as there had been optimism around Jamie's leadership since he joined over a year ago.

   I had the opportunity to meet with Jamie and several team members at the ISC East Convention in New York in November. Based on these discussions, it appears the business is performing well operationally, with the key challenge now being execution.

   In December, Latch released its long-awaited 2022 financials, which we see as a positive step forward. This paves the way for several potential catalysts in 2025, including the completion of current filings (2023 and 2024 financials) and the possibility of an uplisting.

3. **Consumer Short**

   We maintained a short position in this consumer stock, which we believe is trading at an unjustified premium relative to its peers. Despite the company's end consumers facing persistent downward pressure, these headwinds had not yet impacted on its performance as of the third quarter. In our view, this resilience stems from undue preferential treatment by its domestic retail partners.

In December, the company issued a secondary offering priced at a notable discount to the current trading levels, reinforcing our thesis. Looking ahead, we anticipate insider selling and continued challenges in its end markets. These pressures are now compounded by heightened international trade tensions and broader geopolitical risks.

4. Sable Offshore (SOC)

Sable, an exploration and production (E&P) company, acquired an offshore asset from Exxon off the California coast that had been shut down following a pipeline spill. In July, the California State Fire Marshal approved the pipeline's restart, and in September, Sable settled with Santa Barbara County for the necessary permits to install new safety valves. With these approvals in place, production was initially slated to resume late in the fourth quarter of 2024.

However, in October, the California Coastal Commission issued a cease-and-desist order, halting repair work on the exposed section of the pipeline that crosses Santa Barbara's coastline. In response, Sable chose to collaborate with the commission to meet its demands, delaying production into at least the first quarter of 2025. On February 13th, 2025, Santa Barbara Country sent the Costal Commission a letter stating Sable had the required permits to complete the required work.

We believe Sable has every legal right to resume production at the Santa Ynez Unit and that these near-term obstacles are temporary. Additionally, a Trump administration could help accelerate the restart process. At its current share price, we believe Sable remains significantly undervalued relative to the quality of its oil assets, which rank among the best in the U.S.

Since initiating our position, we have held a combination of common equity and call options. While the call options generated strong gains following the Santa Barbara settlement, they have since been a drag on performance. We continue to see substantial upside in Sable shares.

5. Technology Short

We were short a business who saw a significant share price appreciation due to the positive news of an industry competitor. We initiated a short position as we believed this company was unlikely to experience a similar benefit. While we believed the long-term view to be correct, the shares were caught in the midst of an overall rally in highly shorted stocks.

Additional Commentary

Roivant (ROIV)

We continue to believe Roivant offers an attractive risk reward and multiple ways to win. Excluding Roivant's cash balance and Immunovant (IMVT) stake, the remainder of Roivant (ROIV stub) is valued at less than $2 per share. We believe Roivant's stake in Arbutus and its exposure to the LNP litigation could alone be worth up to $4. In addition to ROIV, we remain shareholders in Arbutus.

Operational Update / Closing Thoughts

In September, we brought on a consultant whom I have known and collaborated with for several years. With a decade of experience in short-selling and event-driven strategies, we are excited about the valuable synergies this addition will create.

The fund is currently open to new subscriptions. Accredited investors can contact us at ir@tourlitecapital.com with any questions or inquiries.

Sincerely,

Jeffrey G. Cherkin

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