



2023 Q3 Update

November 8, 2023

Dear Investment Partners,

Jackson Peak Capital's objective is to deliver attractive risk-adjusted, absolute returns. We are striving to achieve equity-like returns while taking less directional market risk and having low correlation to overall equity markets.

The firm officially launched in March 2023, so Q3 2023 marked our second full quarter of investment activity. Q3 was a strong quarter for Jackson Peak, which returned +11.8%.¹ It was a tough quarter for overall markets, but Jackson Peak's alternative, long-short investment approach found success with at least one notable win in each bucket of the portfolio (core longs, special situations, and alpha shorts). While a smaller contribution, the portfolio also benefitted from reducing net exposure and putting in place macro hedges in anticipation of a surge in long-term interest rates, which benefited as long-term interest rates rose and equity indices fell.

Jackson Peak Capital		Benchmark References		
		<i>Long-short</i>	<i>Long-only</i>	<i>Long-short</i>
	Average Net Exposure	Net Return	MSCI ACWI	HFRX Equity Hedge Index
Q3 2023	37%	+11.8%	-3.7%	+0.2%
Since Inception (Mar'23 - Sep'23)	37%	+8.3%	+5.8%	+2.2%

MARKET UPDATE

During Q3, we became more cautious with the portfolio's net exposure to the market when it appeared we might see a confluence of three things: 1) exhaustion in the AI rally due to overcrowding, 2) sustained move higher in interest rates and 3) suboptimal re-opening of the IPO market. These events led to the market coming off its year-to-date highs as equity risk premium began to be priced back into the market after being at historically low levels.

We became particularly focused on long-term interest rates when the Treasury's Quarterly Refunding Announcement (QRA) came in higher than the market anticipated for note and bond issuance at the end of July. This occurred while nominal growth expectations increased, and oil prices continued higher. These factors contributed to a sharp move higher in the 30-year Treasury yield, which rose from 4% at the time of the QRA to 4.75% by the end of the quarter.

We continue to be mindful of the level of rates, particularly real interest rates², since it's our view that it's still not widely appreciated just how accommodative interest rates were over the past ~15 years and the

¹ Jackson Peak Capital returns referenced in these materials are net of all fees and expenses. Clients should always check their individual statements for returns, which may vary due to time of onboarding and other factors.

² Nominal interest rate less the rate of inflation.

Note: the MSCI ACWI is an ETF that tracks the MSCI All Country World Index, designed to track broad global equity-market performance (3,000 companies from 23 developed countries and 25 emerging markets). As an index with broad equity exposure across geographies/market caps and a commonly used benchmark for long-only equity funds, we note it above as a reference point.

Note: the HFRX Equity Hedge Index is an index that maintains positions both long and short in primarily equity and equity derivative securities. Given Jackson Peak's long-short strategy, we note it above as a reference point for our returns.



potential widespread effects if real rates were to be significantly positive for a sustained period. Real interest rates were negative/near zero for the majority of the post-GFC era, serving as rocket fuel for assets since negative real rates effectively serve as a hugely beneficial positive carry trade for anyone with debt. However, if positive real rates are sustained and debt is repriced, the effect flips the other direction with negative carry / leverage hitting assets. Lastly, higher nominal and real rates also means other asset classes, such as fixed income, look more attractive, which means the required hurdle rate for risk assets is higher. All this is to say that we are monitoring the level of real rates closely to help inform our view of where the economy and certain companies may be vulnerable, particularly for short idea generation. Additionally, we are mindful of the heightened geopolitical risk globally, particularly following the recent tragic events in Israel. Our portfolio is built bottom-up, on a company-by-company basis, but we use macro awareness to help inform risk management and risk appetite.

PORFTOLIO POSITIONING

As of 9/30/2023, the portfolio's gross and net exposure were 125% and 35%, respectively. The portfolio's ten largest long positions comprised 62% of gross exposure as of 9/30/2023.

Jackson Peak entered Q3 with net exposure of 51% given the attractive opportunity set we saw for several names heading into earnings season and the market's willingness to price in a goldilocks outcome for the economy. As the quarter progressed, we pared back net exposure to reflect our growing concern regarding the recent surge and volatility of interest rates (particularly real rates) since the end of July.

While we remain bullish on the AI tailwind discussed in our Q2 letter, we did trim some exposure during Q3 amid what felt like could be a near-term peak in optimism. The whole market was crowded on one side of the boat with longs in high beta tech names just as the broader market was beginning to experience headwinds from uncertainty surrounding the path of interest rates and the economy. The portfolio retains exposure to names that have direct, "boots on the ground" operations in this stage of the AI cycle and will look to add back other beneficiaries when it is less crowded.

We've been focused on adding more special situation exposure over the past few months.³ We think the landscape of opportunities over the next 3 to 6 months in this bucket of the portfolio is attractive, and it also happens to align with our view during Q3 to reduce beta to the market. Jackson Peak participated in the Microsoft/Activision arbitrage (discussed further in the next section), and this win against the FTC and global regulators pushes the thesis forward that weak anti-trust cases will continue to be brought forward due to politics and the prospect of achieving marginal victories, even if the deals ultimately go through. For investors, this could cause the continued presence of large merger arbitrage spreads due to concerns of a delay by regulators or a long-shot regulator victory despite the merits of the cases pointing in favor of the defendants (corporations). The implication for Jackson Peak is that we are following the anti-trust cases of the large spreads closely and looking for an opening to swing hard at attractive risk/reward positions when the facts and timing of the cases align, as we did with Activision.

The case that is top-of-mind in Q4/Q1 is JetBlue/Spirit Airlines (SAVE) vs. DOJ. We will be following the trial closely as it progresses in October and November. Post-Q3, we acquired a position in SAVE calls in late October after they plummeted in value post-earnings and in the days leading up to the trial.⁴ Depending on our read of how the trial progresses, we will scale the position up (it is a subscale position today) or down. This arb is a lower probability than the Activision deal (note: it is a horizontal merger after all, not a vertical merger), but we think the market is mispricing the potential likelihood of success. The

³ Note: special situations is one of three buckets of the portfolio alongside core fundamental longs and alpha shorts. Fundamental longs comprise a larger % of gross exposure than special situations on the long side of the portfolio.

⁴ Likely due to perceived lower break price if the deal falls through and the absence of a pre-trial settlement that some speculated would occur.



significant spread results in a position with substantial positive expected value in our view, particularly when structured via options and position size managed judiciously.

A position that we scaled up post-9/30/2023 that we are excited about is Endeavor. We've been following the business over the past year and participated in the Endeavor/WWE merger arb. Endeavor is a holding company comprised of media (UFC, WWE, PBR, EuroLeague), talent representation, events/media rights and sports betting assets. Endeavor has been chronically undervalued as a public company, likely due to the discount applied for complexity relating to the holding company. In October, the company announced it was commencing a review of strategic alternatives to maximize value for shareholders. Later the same day, the private equity firm Silver Lake, who controls approximately 71% of the voting power of Endeavor, announced they were working toward a proposal to take Endeavor private. It's our belief that an opportunistic acquisition by Silver Lake is the most likely outcome as they can acquire an undervalued asset that they know well that's not being appreciated in the public market and act as a private company to realize value for their investors. What makes this an exciting opportunity for Jackson Peak is the downside protection offered by a credible potential takeout bid on an already undervalued business and the near-term upside if the strategic alternatives process unfolds as we think it can - combining the aspects of a fundamental long and event-driven investment into one.

On the short side of the portfolio, some themes⁵ we've been focused on are:

1. COVID over-earners: over-earned due to one-off factors that remain in the process of mean reverting while their valuations still imply normalized earnings that are too elevated
2. Leveraged cyclicals: too much leverage for cyclical/discretionary business, typically with floating rate debt
3. Housing gridlock: mortgage rates > 7.5% while bulk of housing stock locked in rates at ~3% has potential to keep a lid on transaction volume and cloud the outlook similar to last fall/winter
4. Disrupted: companies that are being disrupted (or potentially disrupted in the future) by emerging technology, such as artificial intelligence or GLP-1 weight loss drugs
5. Time's up: speculative IPOs from 2020-2022 that do not have product/market fit and are running out of liquidity runway

PERFORMANCE ATTRIBUTION

The largest drivers of performance (contributors and detractors) during the quarter are noted in the table below.

Top 3 Portfolio Contributors	Top 3 Portfolio Detractors
Long: Vertiv Holdings +328 bps	Long: Endeavor -66bps
Long and bullish options: NVIDIA +320bps	Short: Hayward Holdings -56bps
Activision arbitrage +284bps	Long: Enzo Biochem -52bps

For the contributors, the portfolio had a strong quarter with a notable win in each of the three buckets of the portfolio.

Core Fundamental Longs. Vertiv (VRT) contributed 3.3% to the portfolio as the stock gained 50% during the quarter, sparked by its Q2'23 earnings release in August. VRT's results displayed significant

⁵ Specific company names of shorts not publicly disclosed in letters, but please reach out if you would like to discuss in more detail the companies in the portfolio that align with the themes mentioned.



momentum as it serves the critical role of thermal management in AI data centers that are rapidly being constructed, as mentioned in last quarter's letter.

Special Situations. The Microsoft/Activision (ATVI) merger arbitrage came to a successful conclusion with the court denying the FTC's preliminary injunction request. The deal subsequently received approval from the UK CMA and closed in October. The ATVI position was an example of "staying around the hoop" of a significant arb opportunity. At first, the position led to a small loss in Q2 when the UK CMA initially blocked the deal in April, but we stayed close to the case, analyzed the FTC trial and scaled up the ATVI position as it became apparent FTC had a weak case, meaning the probability of the deal going through was mispriced by the market since the companies would likely find a solution to work with the UK CMA (only global regulator who had an issue) if the FTC lost.

Alpha shorts. A short position in Leslie's (LESL), a retailer of swimming pool supplies, contributed 1.3% to the portfolio. Our view was that LESL benefitted from two extraordinary events, a surge in pool construction during COVID and a spike in chlorine prices, that temporarily provided a significant boost to its business, and the market was too optimistic in extrapolating those results into the future. Additionally, the business is significantly leveraged. These issues came to a head in July when the company preannounced Q3 results that missed expectations materially, lowered forward guidance dramatically, and announced a CFO transition. The stock fell 41% the following day.

For the detractors, we successfully limited downside during the quarter with no position detracting more than 1% from the portfolio. The portfolio's long in Endeavor detracted 66bps as the market was skeptical of the WWE's latest media deal with USA Network, and the actor and writer's strike in Hollywood raised concern for the company's representation segment. Secondly, the portfolio's short in Hayward Holdings detracted 56bps. This short is driven by a bearish outlook on a slightly different area of the pool market described above in LESL. The stock remained resilient in Q3, but we're staying close to this name. Lastly, Enzo Biochem was a special situation long that detracted 52bps. It was undergoing a review of strategic alternatives while at the same time having downside protection from a large net cash position. However, events unfolded that indicated a sale might not be as near as previously thought (e.g. CEO change), so we decided to exit the position for now.

CLOSING

Q4 is off to a strong start for Jackson Peak, and I am excited about the opportunity set for our strategy. As discussed earlier, the micro and macro landscape remains dynamic, which I believe should continue to present investable opportunities for our long-short strategy that emphasizes asymmetric return profiles and downside protection.

Thank you for your continued interest, trust, and the opportunity to manage a portion of your assets. As always, if you have any questions regarding the portfolio, your account, or any other matters, please do not hesitate to reach out.

Last, but not least, if you know of anyone who would be interested in learning about Jackson Peak's alternative investment approach, please feel free to pass along my contact information.

Sincerely,

Patrick O'Brien
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About Jackson Peak Capital

Jackson Peak is an alternative investment firm that manages a single, concentrated, long / short equity portfolio. The firm's objective is to deliver attractive risk-adjusted, absolute returns. We are striving to achieve equity-like returns while taking less directional market risk and having low correlation to overall equity markets.

Jackson Peak's strategy aims to produce returns from purchasing high-quality, often overlooked companies below their intrinsic value and selling short companies that are competitively challenged and overvalued with deteriorating business fundamentals. We follow a value-oriented, research-driven approach that is focused on uncovering asymmetric risk/reward opportunities.

Appendix 1. Glossary of terms

Definitions

Long Exposure: market value of long positions / total portfolio value

Short Exposure: market value of short positions / total portfolio value

Net Exposure: Long Exposure – Short Exposure

Gross Exposure: Long Exposure + Short Exposure



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