2023 Q4 Update February 8, 2024

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 significantly less directional market risk and having low correlation to overall equity markets.

The firm launched in March 2023, so the completion of Q4 2023 marks ten months of investment activity. Q4 was a strong quarter for Jackson Peak, which returned +12.0% gross / +9.9% net.[1] Broad equity markets declined in October, continuing the trend we saw in Q3, before staging a sharp reversal to recover in November and December. It's fair to say that equity markets surging vertically is generally a suboptimal environment for absolute return-focused long/short strategies, given net exposure is considerably less than the market and struggling companies (short candidates) tend to outperform in vertical markets. Despite this environment, Jackson Peak's security selection and risk management of the short book enabled us to perform well during the quarter.

Since it is year-end, we would like to reflect on our performance since inception ten months ago. Our strategy has outperformed relevant long-only and long/short benchmarks, net of fees, and we have accomplished this while staying true to our stated objective of achieving attractive risk-adjusted, absolute returns. Since inception, we have maintained considerably less market risk (41% average net exposure), remained uncorrelated (0.38 beta; 0.32 correlation) to traditional equity strategies, produced positive returns in seven out of ten months, and achieved this while focusing on maximizing risk-adjusted returns (3.79 monthly / 2.09 daily Sortino ratio).[2]

	Jackson Peak Capital		Benchmark References	
	Long/Short		*Long-only*	*Long/Short*
	Average Net Exposure	Net Return	MSCI ACWI	HFRX Equity Hedge Index
Q4 2023	**53%**	**+9.9%**	**+11.2%**	**+3.6%**
Since Inception (Mar'23 - Dec'23)	41%	+18.5%	+17.7%	+5.9%

MARKET UPDATE

Q4 began where Q3 left off with heightened geopolitical risk, long-term interest rates and Fed policy driving equity markets lower by > 2% in October and the 30-year Treasury yield above 5%. From the July peak to October trough, the broad equity market declined 11%. However, markets staged a sharp reversal in late October/early November.

[1] Jackson Peak Capital returns referenced in these materials are net of all fees (management and performance) and expenses unless otherwise noted; returns are not annualized. Clients should always check their individual statements for returns, which may vary due to time of onboarding and other factors.
[2] Risk metrics are sourced from Interactive Brokers. Metrics are calculated on a monthly basis unless otherwise noted.
Note: the MSCI ACWI is an ETF that tracks the MSCI All Country World Index, designed to track broad global equity-market performance. Total performance including dividends is presented. 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 given Jackson Peak's strategy invests across geographies and market cap sizes.
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 strategy is long/short, we note it above as a reference point for our returns.

A key driver of the reversal was a surprise in the Treasury's Quarterly Refunding Announcement, which amounted to an "issuance twist" that had a higher % of short-dated Bills relative to longer-dated notes than expected. In short, the concerns from higher long-term interest rates that were a major driver of the preceding selloff were relieved by these latest actions. 30-year Treasury yields retraced the entire move higher, moving from 5% on 10/31 to 4% on 12/31. Additionally, comments from the Federal Reserve throughout the quarter continually signaled that they are pleased with the progress in reducing inflation to their goal as the data continues to go their way. At the December Federal Open Market Committee (FOMC) meeting, members projected three rate cuts in 2024, more than expected, which caused short-end rates to drop rapidly and price in the first cut as soon as the March 2024 meeting. Perhaps more importantly, a growing chorus from the Fed is supportive of the idea of targeting real interest rates during the cutting cycle. This idea gives aircover for the Fed to cut before real weakness appears in the economy and acknowledges the issues caused by rising, positive real rates (see last quarter's letter).

Following these latest actions by the Treasury and Fed, the market ended up with a cocktail of conditions like those following the Silicon Valley Bank collapse earlier in the year: positioning was offsides, this time largely due to geopolitics, just as liquidity was flooding the system and financial conditions easing from the Fed and Treasury. Fast-forward to December 31st, equity markets (as measured by ACWI) rallied 15% from the October trough to close the year ~5% below the all-time high made in 2021 and more speculative parts of the market (e.g. ARKK) gained 50%+ from the October trough.

As we begin 2024, market sentiment indicators are flashing extremely bullish. For example, to start the year, the National Association of Active Investment Managers (NAAIM) index reached the highest reading since November 2021. Reasons to be bullish include the Fed likely lowering rates in 2024, Presidential election year incentives, Treasury supporting liquidity, and the economy/labor market holding up.

Reasons to be bearish include heightened geopolitical risk, potential for the Fed cutting cycle to underwhelm expectations (~6 cuts are already priced into the forward rate curve for 2024), potential for long-term rates to revert higher if Treasury can't control market issuance expectations, possible resurgent in inflation due to financial conditions, and a market that has rebounded with elevated index-level multiples.

The market environment remains dynamic and how the data ultimately evolves along with the associated policy response is unknowable. We remain vigilant given similar enthusiasm was thwarted in July 2023 and left tail risks remain. Like we mentioned last quarter, we believe the path and volatility of real interest rates holds the key to how risk assets trade in this part of the cycle, and the aforementioned factors are the inputs that will drive real rates.

PORTFOLIO POSITIONING

To start Q1 2024, the portfolio's gross and net exposure were 111% and 75%, respectively. The portfolio's ten largest long positions comprised 57% of gross exposure as of 12/31/2023.

This contrasts with how Jackson Peak began Q4 2023 with net exposure of 35% given the continued vulnerability we saw in the market as geopolitical tensions rose and risk assets digested the increase in long-term rates. However, after the actions by the Treasury and Fed described above, we began raising our net exposure throughout November, culminating in the portfolio being as net long as we've been since inception throughout the month of December.

We made this change given the setup we saw unfolding for a chase into year-end coupled with a December FOMC meeting which we thought had a dovish skew due to the inflation data in hand and probability of more rate cuts in the Fed's Summary of Economic Projections (issued quarterly) than expected. Our view was that it was more likely for the Fed to want the optionality to cut as soon as March given the sharp decline in inflation than it was for the Fed to push back on the easing of financial conditions, resulting in a dovish/risk-on bias. This ultimately unfolded and benefitted our portfolio with a higher net exposure than normal and an event-driven thesis surrounding macro event days in November and December (discussed further in next section).

The portfolio's net long exposure remains towards the high end of our typical range. While the market has come a long way, we've maintained a bullish bias since we believe it will be difficult for equities to fall in an environment where the following are occurring in concert: most global central banks easing (or about to ease), the US government running a 7% fiscal deficit, and a perceived Treasury and Fed "put" to support assets and accomplish a soft landing. However, we have started to scale back into shorts that were covered in November and December that we expect to disappoint to the downside in 2024 regardless of the macro backdrop catalyzed by weak earnings, and we won't hesitate to reduce net exposure if the environment changes.

On the long side of the portfolio, a core theme we remain invested behind is the data center infrastructure buildout and AI chips arms race that we've discussed since our first letter in Q2. Some skepticism has crept into the market, and it's understandable given the huge ramp in 2023. However, our research continues to suggest 2023 was the start of a multi-year platform shift. Value will accrue to varying segments of the AI value chain at different parts of the cycle. We continue to see value in the "boots on the ground" winners in the data center buildout (Vertiv, Modine Manufacturing, Celestica). Our positioning in AI semiconductor companies (NVDA and AMD) has ebbed and flowed given we are cognizant (perhaps too much so) that these names are crowded positions across investor style types. We've done well in these chip stocks since inception and NVDA is currently a long, and we're trying to "let winners run" while using sizing to risk manage these names due to the market-wide positioning bias in semiconductors.

A core belief of our portfolio-level and security-level investment decisions is that we are looking for opportunities where there are multiple ways to win. As such, the AI value chain beneficiaries are just one part of the fundamental longs in the portfolio, and we have several other "bets" that diversify the portfolio that could not be more different in sector and factor exposure. One example is Burford Capital, a ~$3.2 billion market cap litigation finance company. We were long Burford for much of 2023, and we increased the size of the position in Q4.

Burford is the world's largest litigation finance firm and has a history of realizing 30% IRRs on its investments. Burford's core business funds the expenses related to a claim in exchange for a share of the ultimate damages. We see multiple ways for this investment to work. First, Burford won a ~$6.2 billion (and counting given interest accrual; ~2x its current market cap) claim of damages against the Republic of Argentina following a ruling by the Southern District of New York in September in connection with a favorable ruling in the YPF/ Petersen and Eton Park cases. The market is applying a considerable discount (we'd argue giving zero credit) to this judgement due to Argentina's financial situation, but we believe the probability of a deal being struck between Argentina and Burford is high. We believe Argentina will come to the negotiating table for two primary reasons: 1) newly elected President Milei is a game-changer for this situation since he's made public comments supporting payment, a 180 degree shift from historical administrations in Argentina; 2) Argentina is reliant on the IMF and global bond investors for financing to run the country, and bond investors will require clarity on how the Burford claims will be resolved ahead of a likely restructuring of Argentina sovereign debt – this presents a natural catalyst and leverage for Burford to bring Argentina to the negotiating table within the next 12 months as the sovereign debt maturity wall approaches. Beyond this case, we believe Burford's broad portfolio of cases is underappreciated today, and they will continue to put points on the board as they work through the litigation backlog that moved slowly through the courts during COVID, temporarily depressing the value of its portfolio and earnings power. Additionally, the company has other potential windfall cases in the pipeline including the case it is handling for the food giant Sysco against its suppliers for price-fixing. Ultimately, we view Burford's valuation today as attractive even if you exclude the Argentina/YPF claim, creating an asymmetric return profile given our assessment of the Argentina situation.

On the short side of the portfolio, Q4 was a difficult quarter for shorting as markets went vertical, led by companies with the worst fundamentals, and this led to a significant short covering bid to stocks that are typical short candidates. We responded by being nimble and cutting exposure throughout the quarter given this macro environment made for a poor environment for driving positive absolute returns from shorting. However, looking ahead to 2024, we see attractive short opportunities in many of the same areas we've discussed previously (e.g., over-earners, overleveraged companies with poor fundamentals, disrupted companies), and the Q4 rally has provided more attractive entry points. One theme we've been particularly focused on is fading companies that have attempted to attach themselves to the momentum in GLP-1 weight loss drugs in a tertiary way but will be exposed if supply or distribution method do not unfold perfectly.

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
Event-driven: Bullish KRE, KEY options +1084bps	Long: Target Hospitality -252bps
Event-driven: Bullish XLU options +379bps	Long: Ranger Field Services -95bps
Event-driven: Bullish AGNC options +205bps	Short: Undisclosed software co. -70bps

For the contributors, the portfolio was led by the special situation/event-driven portion of the long side of the portfolio.[3] Several core fundamental longs contributed in a meaningful way as well (including Celestica and Mitek). However, event-driven stood out this quarter as it enabled us to drive strong returns during a macro-driven, violent market rally that was led by lower quality stocks that are not typical longs for us, and as discussed earlier, producing positive absolute returns from shorting was difficult in this market environment. Below describes how we were able to drive these returns within the event-driven sleeve of the long portfolio.

Special situation/event-driven strategy spotlight – Mispriced Convexity. Within the event-driven portion of the long portfolio, we look for some of the usual suspects: M&A, spinoffs, forced selling (or buying), activist involvement, etc. However, we also have a strategy that is a bit more unique, which we call Mispriced Convexity. This strategy identifies situations in which we believe the market is assessing the forward returns surrounding an event as a normal distribution when we believe the distribution is asymmetric. We look for these setups surrounding events where the market is not reflecting this convexity in the asset's pricing. It's assessing that the market will respond to a particular outcome non-linearly and the market is pricing in a linear response (or no response at all). The components of an attractive Mispriced Convexity setup include 1) minimal (or no) loss even if the event does not occur, 2) a large move in the desired direction occurs if the event does occur, 3) we have a bias on how the event will unfold and more importantly, a strong view on how the market will react, and 4) an asymmetric return profile that will provide alpha and/or provide a hedge to other parts of the portfolio.

During Q4, we identified several of these Mispriced Convexity situations as our view was that the macro backdrop from the Treasury and Fed (described earlier in this letter) would produce non-linear outcomes in certain rate-sensitive equities if events unfolded that improved the argument for pulling forward rate cuts. These events included each Nonfarm Payrolls report, inflation report, Powell speech, and FOMC

[3] Note: special situations/event-driven 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.

meeting in November and December. For each of these events, our view was that convexity was mispriced in regional banks (expressed via KRE and KEY calls), and we were able to express this view with a minimal amount of risk to the portfolio given our view of the ultimate convexity profile. These regional banks were ideal opportunities since they were mispricing the event risk and the market's reflexive response to the impact of lower bond and MBS yields healing bank balance sheets. We found similar opportunities in mortgage-backed securities (AGNC) and utilities (XLU) leading into the December FOMC meeting alongside the regional banks. These positions performed as we envisioned following dovish outcomes, returning many multiples of the capital invested. We find this Mispriced Convexity strategy to be a differentiator for Jackson Peak given our experience in both fundamental equities and macro, and this enabled us to outperform long-only equities in a near-vertical market environment that was difficult for fundamental long/short equity strategies with low net exposure like Jackson Peak.

For the detractors, the largest was Target Hospitality. This was an event-driven investment predicated on a thesis that government contracts relating to the crisis at the US Southern Border would lead to a meaningful re-rating of the company's equity. Ultimately, our thesis on the company receiving the contract was correct although the structure of the contract was suboptimal. If the structure was more fortuitous, this investment would have made us multiples of what we lost, so this is why we thought the risk-reward was attractive ex ante. Ranger Energy Services also led to losses during the quarter. The company underperformed this past quarter as energy production levels remained low. Note, this position was functioning dually as a hedge against a prolonged spike in oil prices. Lastly, a short in an undisclosed software company led to a loss of 70bps as small and mid-cap software equities rallied meaningfully during the quarter as a factor.

CLOSING

Q1 is off to a strong start for Jackson Peak, and I continue to be excited about the opportunity set for our strategy to drive strong risk-adjusted returns as we have accomplished since inception. 2024 should be an eventful year filled with investable opportunities from developments in key thematic areas (AI), more special situations (higher M&A volume; election year), the likely beginning of a rate cutting cycle, and the constant nature of markets driving valuations to attractive (or unattractive) levels. I'm confident in Jackson Peak's process and growing index of research that will position our portfolio for success as these opportunities arise.

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.

During Q4, we welcomed new investors to Jackson Peak, and I'm excited to grow the partnership further in 2024. 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
patrick.obrien@jacksonpeakcapital.com

About Jackson Peak Capital

Jackson Peak is an alternative investment firm that manages a 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

Disclaimer:

The information presented is for discussion and educational purposes only and is not intended to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and, unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial adviser and/or tax professional before implementing any strategy discussed herein.

While Jackson Peak Capital (Jackson Peak) believes all information herein is from reliable sources, no representation or warranty can be made with respect to its completeness or accuracy. Any projections, market outlooks, or estimates in these materials are forward-looking statements and are based upon internal analysis and certain assumptions, which reflect the views of Jackson Peak and should not be construed to be indicative of actual events that will occur. As such, the information may change in the future should any of the economic or market conditions Jackson Peak used to base its assumptions change.

The description of investment strategies in these materials is intended to be a summary and should not be considered an exhaustive and complete description of the potential investment strategies used by Jackson Peak discussed herein. Varied investment strategies may be added or subtracted from Jackson Peak in accordance with related Investment Advisory Contracts by Jackson Peak in its sole and absolute discretion.

Any specific security or investment examples in these materials are meant to serve as examples of Jackson Peak's investment process only. There is no assurance that Jackson Peak will make any investments with the same or similar characteristics as any investments presented. Jackson Peak may buy, sell, sell short, cover, change the form of its investment, or completely exit from its investment in its portfolio holdings at any time for any or no reason. Jackson Peak hereby disclaims any duty to provide updates or changes to the analyses contained herein including, without limitation, the manner or type of any Jackson Peak investment. The investments are presented for discussion purposes only. The reader should not assume that any investments identified were or will be profitable or that any investment recommendations or investment decisions we make in the future will be profitable.

Any index or benchmark comparisons herein are provided for informational purposes only and should not be used as the basis for making an investment decision. You should not rely on these materials as the basis upon which to make an investment decision. There can be no assurance that investment objectives will be achieved. Clients must be prepared to bear the risk of a loss of their investment.

Past performance is not indicative of future results. Performance metrics herein reference those under Jackson Peak's standard fee arrangement and represent those managed according to Jackson Peak's long/short strategy for those above the firm's account minimum size. Results may vary for clients depending on timing and other factors, and all clients should refer to their own statements. All performance figures are unaudited and are subject to change. Source data for Jackson Peak Capital Returns and the MSCI ACWI is Interactive Brokers. Source data for the HFRX Equity Hedge Index is the index published by HFR on its website.