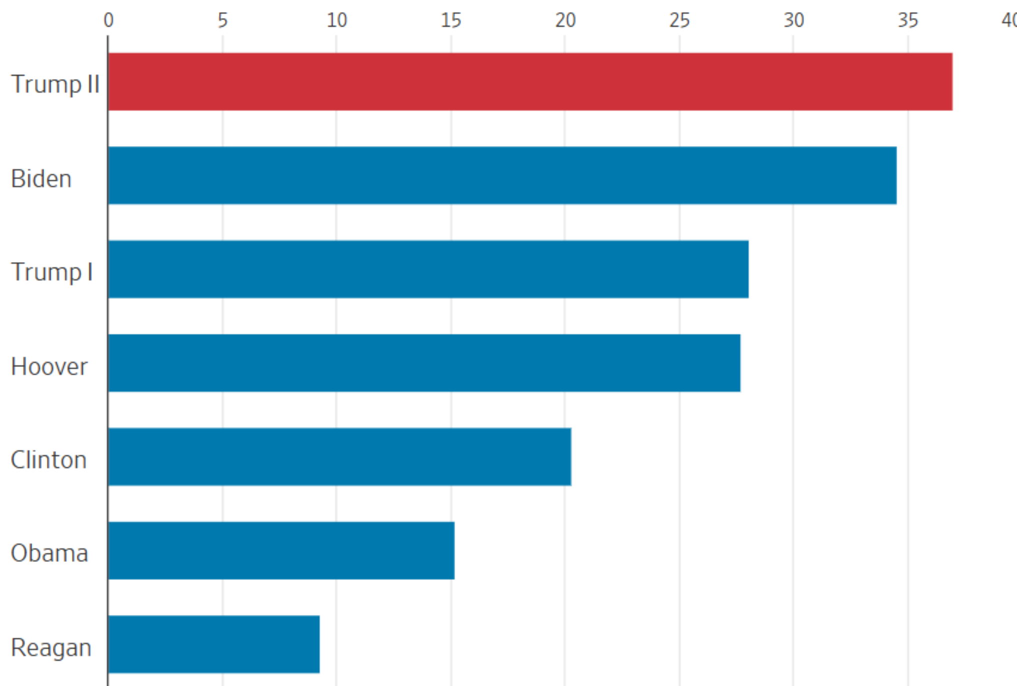
2024 FOURTH QUARTER INVESTOR LETTER January 26, 2025

Election Came and Went…Markets Remain Broadly Expensive

The supposedly "most important election in our lifetimes" (highly unlikely) came and went. Roughly half of the U.S. was ecstatic with the outcome and the balance felt catatonic. Markets initially rallied, largely in the hope of tax extensions and perhaps prospects of regulatory relief. Some of the more speculative areas of the market (Tesla shares, artificial intelligence themed investments, "normal" cryptocurrency, Dogecoin and other weird/"less normal"(?) cryptocurrency) were among the biggest beneficiaries. This relief rally faltered after a December Federal Reserve meeting suggested fewer rate reductions in 2025. The Federal Reserve's "dot-plot" implies 2 rate cuts (3.75-4% range) versus an implied 4 rate cuts following the September meeting. Some have speculated that the Federal Reserve will need to keep rates higher to counterbalance potentially inflationary impacts from further budget deficits and possibly large new tariffs. As has been discussed in past letters, interest rates act as a type of gravity on financial assets and a 10-year bond yield of 5%+ (~4.6% currently) could be a substantial headwind, especially for some of the more speculative areas previously mentioned. Thus far, this has not happened as broader US markets continue to trade among the highest valuation levels in history and are the most expensive for the start of any new presidential administration.

Shiller P/E Ratio[1] at Start of Presidency



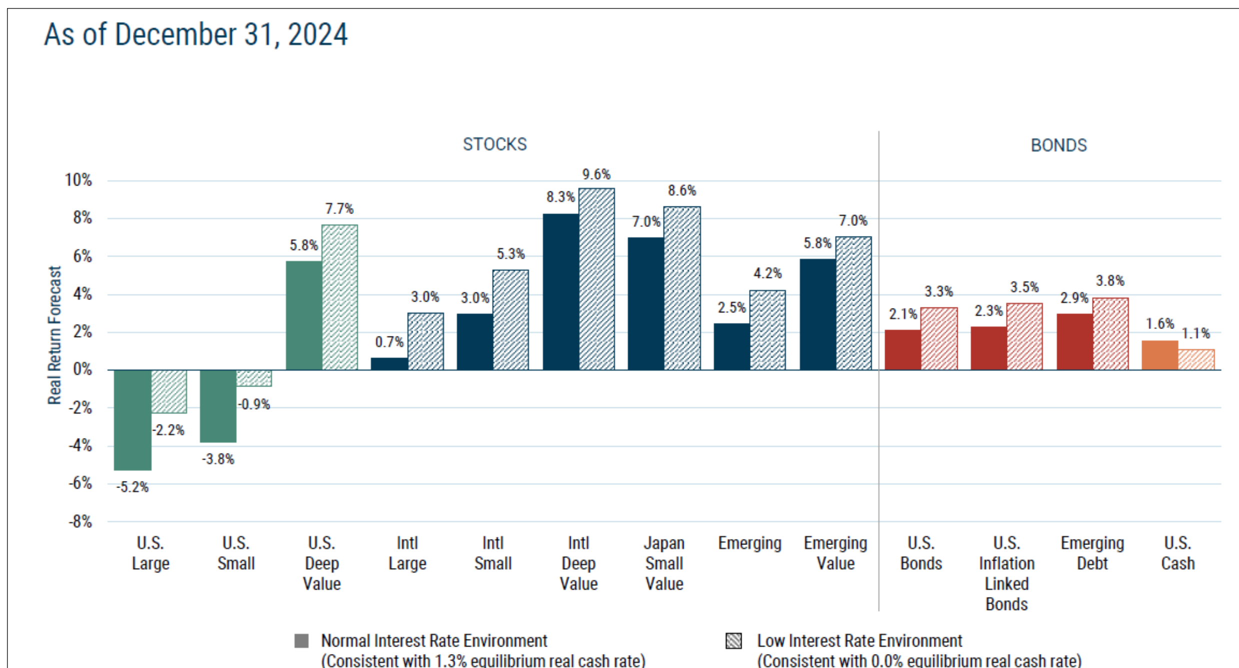
Source: Robert Shiller, Start of Inaugural Month (WSJ Jan 21, 2025)

Meanwhile, markets outside the US continue to trade at extreme discounts, as do value stocks relative to their growth brethren. The dollar rose another ~7% during 2024 and is among the highest levels in the

[1] The Shiller P/E ratio, also known as the cyclically adjusted price-to-earnings (CAPE) ratio, is a metric used to assess the value of a stock or market. It's calculated by dividing the current price of a stock by the average of its earnings over the past 10 years, adjusted for inflation.

last 25 years and this strength has negatively impacted several of our foreign holdings. High valuations often portend lower returns and lower valuations higher returns. Asset Manager GMO has long written about this relationship and in December provided 7-year return forecasts that appear to provide the financial equivalent of the "…the last shall be first and the first shall be last." While GMO's forecast would (conveniently) mirror what we see from a bottom-up perspective, it should be noted that calling any market turn is nearly impossible, and it is also true that one could have (wrongly with the benefit of hindsight) made similar arguments for the past several years. That said, broader valuations appear stretched, policy variability is high and a return to zero interest rates appears unlikely. While not impossible, it seems less likely that what worked so well over the past several years will repeat, and we therefore still believe that it would be a mistake to blindly abandon multiple out-of-favor names and chase the highest priced businesses.

7-Year Asset Class Real Return Forecasts



Source: GMO LLC December 2024

As we will discuss further, we still see enormous value in several of our "babies" that have been thrown out with the bathwater. That said, we are trying to better discern which babies to pursue. Some have performed strongly and still sport pedestrian valuations, while others have struggled more than we anticipated and simply must be discarded either because the investment did not play out as anticipated or simply because there are better opportunities elsewhere. As we will detail further below, we substantially reduced our LILAK position throughout the year and tax-loss sold and selectively reduced our Megacable position. In our last letter, we noted that we were "close" with a couple of newer names, and we still believe one or more will get over the finish line. That said, we are cognizant that all risk assets would likely selloff if a broader market pullback materializes. While our primary investments are in the common stocks of the names discussed below, we have, depending on the account, selectively purchased several preferred stocks where appropriate.

LILAK: Substantially Reduced after Missed Targets

We have discussed LILAK multiple times in past letters. Unfortunately, the investment has not played out as expected. In our 2024 first-quarter letter, we noted that we sent a letter to LILAK's CEO and CFO and

spoke with them following 2023 fourth-quarter results. In our first-quarter letter, we made the following comment:

While the valuation and insider purchases are certainly positive, investors need to see further signs of execution. Specifically, LILAK needs to hit/exceed Puerto Rican synergy targets and deliver the run-rate free cash flow that it discussed on its last earnings call. We also believe that LILAK's management team needs to decisively allocate capital.

Unfortunately, our confidence ebbed with each passing quarter as LILAK's management team consistently delayed Puerto Rico integration deadlines and continued to lose mobile customers. Despite the delayed deadlines, LILAK's team assured investors (publicly and privately) that it would hit EBITDA guidance in Puerto Rico. These assurances sounded credible as this same management team had turned around a challenging acquisition of Cable & Wireless (a deal that the team was not involved with) and ultimately brought margins to levels above our projections. Based on these assurances, as well as the prospect for significantly higher free cash flow and repurchases, LILAK's stock rallied from a depressed base for roughly the first nine months of the year. We meaningfully reduced our position size throughout the year, but we did not fully exit the position given the continued disconnect between LILAK's asset value and market price. At least short-term, this was a mistake.

The bottom fell out following Q3 results, as LILAK pulled its Puerto Rico guidance and provided no specificity on when it would hit its original EBITDA forecast. Instead, the team reiterated the same litany of excuses about the complications of the AT&T deal, including the complexity of legacy AT&T systems, the difficulty of rolling over legacy AT&T phone plans to current offerings and the longer-than-anticipated time to woo back customers who suffered from the above integration challenges. The stock justifiably sold off on the heels of this forecast. We have no doubt that these challenges are real, but the reality is that LILAK closed the "bet the farm" $1.95 billion deal in October, 2020 and had ~4 years to integrate the acquisition. LILAK simply misjudged the complexity and integration costs of the acquisition as well as AT&T's motivation to cooperate with any transition. With the benefit of hindsight, LILAK clearly overpaid for the AT&T business and this mistake was compounded by the rights offering that became necessary to fund the deal when LILAK's markets deteriorated post-COVID.

To be clear, we blame ourselves for this investment, not the management team. On reflection, we cut LILAK's management team too much slack. Despite a myriad of challenges (hurricane Maria, COVID, overbuilding in Chile), the prospects of a hockey stick inflection point in free cash flow always seemed just around the corner, especially as we witnessed this exact spike with another company in the same business (see Millicom update). We were further comforted by the management team's large personal holdings (relative to their net worth), constant insider purchases and the previously mentioned CWC turnaround. Our blinders prevented us from questioning LILAK's muted growth in certain markets and their less than credible assurances in Puerto Rico. Despite the missteps, we still believe that LILAK's liquidation value is materially higher than current market values. That said, our sense is that the management team is not interested in liquidating assets and instead remains committed to its original vision of a LATAM cable rollup. It would take very little good news for LILAK to rally from current levels and we will continue to follow the company's progress in deciding on what to do with our remaining position. But at present, we see more compelling opportunities and want to manage our overall LATAM exposure.

TIGO: Multiple Free Cash Flow Upgrades…Now a Massive Dividend

In many ways, Millicom (TIGO) has felt like a mirror image of LILAK the past couple of years from an execution perspective. As we described in previous letters, TIGO materially hiked its free cash flow guidance multiple times during 2024, substantially reduced leverage, monetized its tower portfolio via a sale/leaseback transaction and started a buyback/dividend program. Earlier this month, TIGO announced

a change to its shareholder return policy, increasing its dividend to $3.00 annually. Even with the recent jump following the announcement, TIGO currently trades at ~7.7x/6.6x 2024/2025 free cash flow and now yields over 11 percent on a forward basis. None of those trading metrics seem remotely reasonable. Part of the disconnect could stem from forced selling from Swedish shareholders as TIGO consolidated its dual Sweden/US listing (the Swedish listing will be canceled at the end of February). Given this setup, share repurchases versus dividends would appear to be a no-brainer, but this calculus is more complicated since activist Xavier Niel owns over 40 percent of the company, and the company has restrictions on buying at prices above Niel's low-ball $25.75 bid. As we have discussed, we are mindful of total LATAM exposure and will monitor total position size. That said, TIGO shares continue to look materially undervalued.

Megacable (MEGA): Solid Operators, Amazingly Inexpensive…But Capital Allocation Concerns Remain

MEGA has shown continued operational progress throughout most of 2024. The company has little leverage (~1.5x at Q3 2024), and this will likely continue to fall over the coming quarters and the stock continues to languish at near incomprehensible multiples (~3.9x last twelve months (LTM) EBITDA as of September 30, 2024). While it is undoubtedly cheap, we tax-loss sold shares as appropriate and have further reduced position sizes. Our concern stems from a couple of areas. First, MEGA has not provided extensive details on its various fiber cohort penetration levels (penetrations of homes passed from 1-12 months versus those from 12-24 months) and we worry that passings in the larger cities of Mexico City and Monterrey may prove more challenging. Despite this headwind, MEGA has been able to continue adding subscribers (along with competitors AMX and Totalplay) simply by picking off subscribers from a weakened Televisa, which does not have the balance sheet to upgrade its network despite facing three fiber competitors. Given its operational history and bombed-out valuation, we would be more enthusiastic if Mega committed to using increasing free cash flow to repurchase its undervalued shares. Unfortunately, the controlling Bours family has decided against buybacks and instead continues to pay dividends. A change in capital allocation priorities or consolidation within the industry could warrant a revisiting.

Arcos Dorados (ARCO): Rough 2024…Shares Substantially Undervalued

ARCO produced solid operating results throughout 2024 but negative currency movements, including a near freefall in the Brazilian Real (over 20 percent decline), drove investors to dump ARCO shares. As we noted in our Q3 letter, ARCO announced that it renewed its master franchise agreement (MFA) with McDonald's (MCD) at terms that were better than many anticipated. While we won't rehash the entire ARCO thesis (see our 2023 Q2 and Q3 letters for more color), we continue to believe that ARCO is a unique asset (the license to operate essentially all MCD restaurants from Mexico south) that was turbocharged by COVID's aftereffects. During and after COVID, a large percentage of restaurants closed and there was rapid adoption of drive-through and delivery sales. ARCO disproportionately benefited given its larger share of free-standing stores. ARCO has a strong balance sheet (including substantial real-estate value), strong incremental returns on capital and a substantial growth opportunity. Brazil faces macro challenges and further currency weakness is distinctly possible. That said, ARCO has a history of achieving same-store sale growth above inflation rates and Brazil has some of the highest delivery penetration rates and digital adaptation rates in all of LATAM. Furthermore, there is no reason for ARCO not to move its listing from New York to Sao Paulo and greatly neutralize the reporting impact from currency fluctuations. We strongly believe ARCO is mispriced at current levels.

Charter (CHTR): Still Hated…But Progress Continues and CHTR/Liberty Broadband (LBRDK) Terms Finalized

We discussed Charter (CHTR) in our 2024 Q1 letter and then reviewed CHTR's offer to repurchase Liberty Broadband shares in our Q3 2024 letter. CHTR continues to show operational progress. While there is likely to be some continued Affordable Connectivity Program (ACP) noise during the early part of 2025, CHTR has done an admirable job in retaining customers, and total losses are far lower than originally feared. While the stock (frustratingly) will bounce around with small changes in quarterly broadband additions/losses versus expectations, we still believe that CHTR's ultimate success will come down to whether they can create packages that encourage customers to jointly consider broadband and cell phone prices rather than mentally segregating the two bills. As we previously discussed, we are cautiously optimistic that CHTR's more aggressive broadband/bundling packages can do just that. We also believe that CHTR's streaming aggregation product could be another positive differentiator. During its third quarter conference call, CHTR announced that it did not expect to be a meaningful participant in the Broadband Equity, Access, and Deployment (BEAD) program. This cutback in expansionary capex after 2025 likely means a more rapid return to aggressive share repurchases, especially once the company's network investments are completed in 2027.

Separately, CHTR and LBRDK came to terms with the merger proposal that we discussed in our third quarter letter. The final deal was probably viewed somewhat disappointingly by LBRDK investors, considering that the exchange ratio was closer to CHTR's original proposal -- 0.236 shares of CHTR for each LBRDK share with GCI Communications (GCI) not included versus LBRDK's proposal for 0.29 CHTR/LBRDK including GCI. That said, the part that most frustrated some was disclosure that the LBRDK/CHTR deal will not close until June 2027. This later closing was designed so LBRDK could sell down CHTR and deleverage prior to the merger, but this also means that LBRDK likely will trade at a discount until closer to deal closing. While we understand the criticisms, CHTR was the only likely buyer for LBRDK, and this deal will simplify CHTR's capital structure and ultimately allow a collapse of the LBRDK discount.

PTSB: Irish Eyes Poised to Smile…But Need Clarity on Density Relief and Cost Cuts

We have detailed our PTSB in prior letters and admittedly 2024 was a disappointing year for the bank. PTSB slashed its medium-term guidance at the beginning of the year. The cut was driven by a higher than expected (and higher than necessary) cost base as well as some net-interest margin (NIM) pressure that has been exacerbated by faster than expected interest cuts from the European Central Bank (ECB). Given the languishing share price, it is fair to question whether the investment still has merit. We believe it does. The cost performance has been disappointing. As we detailed in prior letters, PTSB's employee base jumped from ~2,600 employees at the end of 2022 to over 3,200 as of June 30, 2024. Approximately 315 of these were related to the Ulster acquisition and the rest from new hires. While the company claims that some of these additions were required for the bank's regulatory transition to the Single Supervisory Mechanism (SSM), the reality is that PTSB simply misjudged loan demand and overhired. In December of 2024, it was reported that PTSB (finally) opened a voluntary cost reduction program to all employees and some reports suggested that up to 500 employees could be let go. While Irish news reports talk about "ruthless" redundancies, the reality is that PTSB must adjust its cost base, especially as there could be incremental fintech competition in 2025. Frankly, this action should have been undertaken 6-12 months ago. At a total cost of ~€70,000 per employee, the cost savings could approach €35 million (as a reminder, PTSB's market capitalization is ~€760 million) if the number is as high as press reports indicate.

While PTSB's Q3 trading update did reference NIM pressure from anticipated additional ECB cuts, PTSB also disclosed that Basel IV rules will reduce PTSB's total risk weighted assets by up to 4 percent. We estimate that these changes should take PTSB's total CET1 capital levels to ~15.5 - 15.7 percent by the

end of 2024, implying that excess capital above PTSB's 14 percent CET1 target could equal ~20 percent of the company's total market capitalization. All of this is BEFORE the much larger density reduction that we have discussed extensively in prior letters. Following this Basel IV change, PTSB clearly has the capacity to pay a dividend and repurchase shares based on 2024 earnings/ expected ending capital levels. The question is whether the regulators will allow a payout while PTSB is in the middle of the density review. Typically, any dividend/buyback request requires a bank to project estimated capital levels for the following year(s). This analysis is difficult, as PTSB will not know its new mortgage densities until the CBI completes its review. A seemingly obvious solution would be to apply for a smaller dividend/buyback and make some conservative assumption regarding mortgage density levels and then use normalized values after the 2025 review. While we acknowledge that a lack of dividend payout on 2024 earnings would be disappointing, the Basel changes increase our estimates of total excess capital. When all density reviews are completed by the end of this year, we continue to believe that excess capital and accumulated earnings (assuming no payout) could equal nearly 70 percent of PTSB's market capitalization.

It is also worth reiterating that the underlying macroeconomic backdrop for Ireland remains highly positive. Ireland's economy continues to post robust growth, unemployment remains low and budget surpluses are forecast for the next several years. This economic outlook, combined with the likely continued upward drift in housing prices, suggests that all three banks will have limited credit costs for the next several years. While most attention was understandably focused on the recent US presidential election, Ireland had its own election this past November. Roughly one year ago, the far-left party Sinn Féin (SF) looked to have a real chance to be part of a ruling coalition. Fortunately (from the perspective of Irish bank shareholders), SF badly slipped in the polls over the past several months and then had a series of recent scandals which sent its polling numbers plummeting. Center-right parties Fine Gael (FG) and Fianna Fáil (FF) secured 86 of the 88 required seats in the Dáil (lower house of parliament) and will form a governing coalition with a group of independent politicians.

Meanwhile, as noted in previous updates, there is substantial investor interest in taking out NatWest/Government shares and we believe an offering is possible. Currently, many investors who like the "Ireland story" see value in PTSB shares but own Bank of Ireland or AIB because of liquidity concerns. A follow-on offering would substantially increase PTSB's freely tradeable float and thereby open the name to a much wider subset of investors. In summary, simply returning some of PTSB's excess capital should materially rerate the stock, as repurchases anywhere near current levels (< 40 percent of tangible book value) are wildly accretive. Further reductions to PTSB's cost base and some new faces on PTSB's Board would also significantly bolster the investor case, as would an increase in PTSB's liquidity from a follow-on offering. For those who want to discuss these catalysts in more detail, please feel free to reach out to us.

CAB Payments: Buyout Offer Comes…But Quickly Slips Away with Guidance Cut

We detailed Cab Payments (CAB) in previous letters, but we wanted to provide a quick update following a bumpy fourth quarter. In early October of 2024, CAB disclosed that it had received an upwardly revised bid from StoneX Group (Stone) for £1.45 per share. The revised offer followed multiple approaches from Stone since July of 2024 and the two firms ultimately engaged in extensive merger discussions. Even after CAB disclosed Stone's approach, CAB traded at a wide discount to the offer as investors were skeptical that a final deal would be consummated. Unfortunately, Stone ultimately pulled the offer, citing a drop in CAB's earnings projections. CAB's disappointing fourth quarter forecast was driven by lower total flows into emerging markets and a pullback in "take rates" (the rate Cab receives per foreign currency and payment transaction). Furthermore, an expected seasonal pickup in flows from International Development Organizations (IDO) did not materialize as expected, partly due to election uncertainty. In a brief trading update earlier this month, CAB further quantified some of the above

negative trends. Not all the news was bad, as CAB increased its volumes 7 percent in 2024 while total SWIFT[2] payment flows around the world dropped 4 percent and flows into CAB's core Sub-Saharan Africa market dropped 2 percent (i.e., CAB took market share). While CAB has no debt and now trades at less than half of what Stone offered in October of last year, it has also become clear that the new executive team (like the previous one) has shown little ability to accurately forecast revenue. Additionally, CAB faces headwinds from a stronger dollar, which likely will continue to limit emerging market foreign exchange and payment flows. We sold shares for tax purposes as appropriate. At current share prices, significant upside is possible, but we will need to see some operational progress before increasing our position further.

Compass Diversified (CODI): Too Cheap on Many Levels…Lugano is a Monster

We had a chance to attend CODI's investor day in New York earlier this month and we further increased our position size in the name. We provided a detailed update on CODI during our Q3 letter -- including details on one of the more unheralded growth businesses that we have seen (Lugano Diamonds) -- so we will not rehash the investment in detail. We would simply reiterate that CODI's 9[3] portfolio companies are the highest quality batch in its history, led by Lugano Diamonds and BOA. Lugano is an absolute monster, having increased EBITDA from $21 million in 2020 to ~$180 million+ in 2024, and the company appears to have substantial growth ahead. BOA (shoe dials) should also continue to be a faster grower (perhaps mid-teens), as the company makes advances in the alpine skiing and workforce categories. While admittedly there are multiple assumptions involved (including the critical assumption on Lugano's value), our best "liquidation" estimate is that CODI's various subsidiaries are worth ~$36 versus the ~$21 current price. If CODI retains all of its remaining subsidiaries and if one makes some normalization for Lugano's aggressive working capital trend (if you don't…then this means EBITDA likely grows far faster than we think), we believe the company could generate ~$2.70 a share in free cash flow by 2027 (~8x free cash flow), and this is before any deals which are a near certainty. For those who want a fuller discussion on the name, we presented the company at *MOI's Best Idea Conference* and would be happy to pass along the full presentation link to those who are interested.

In closing, we suspect that there will be substantial headline noise in the months ahead regarding various new government policies/actions. That said, we believe that total returns will likely be far more impacted by starting valuation levels and future interest rate movements. We see a broadly expensive overall market but multiple individual names that appear inexpensive on a relative and absolute basis. While there will continue to be a strong temptation to chase what has worked well for the past several years, we think this is a mistake. We own multiple names that trade far below intrinsic value, and many could rise substantially from current levels and still would trade at material discounts. That said, we are committed to doing a better job of recognizing when investments are not tracking their original thesis and then moving on where appropriate. We have done our best to articulate this distinction above. We continue to hold substantial personal investments in the above names. While not all investment decisions will work out as expected, we still believe that a small number of holdings can drive substantial value in the years ahead.

Thanks for your continued support.

Patrick

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[2] A SWIFT payment is a way to send or receive money electronically across borders using the Society for Worldwide Interbank Financial Telecommunication (SWIFT) network.

[3] CODI had 10 subsidiaries as of the third quarter but announced a sale of Ergobaby in December 2024 for ~$100 million.

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