May 1, 2023

Dear Partners,

Performance and Positioning Review – Q1 2023

Through Q1 2023, McIntyre Partnerships returns were approx. 35% gross and 28% net. This compares to the Russell 2000 Value's decline including dividends of -1%. This brings the partnership's CAGR since inception to 22% gross and 17% net. In the winners column, OSW and STHO contributed 100-500bps, while SHC and MSGE contributed over 500bps. In the losers column, no investment lost more than 100bps.

2023 started off strongly for the market, only to see a pullback later in the quarter in response to bank failures and rising cyclical risks. In January, most major indices rallied sharply, and our benchmark, the Russell 2000 Value, gained over 10% in the month, only to reverse course entirely in March and end the quarter down 1%. Thankfully, the fund managed to keep up early on and hold onto our gains. I attribute this largely to the idiosyncratic, catalyst driven nature of our holdings. In early January, SHC announced the settlement of substantially all of its outstanding Illinois litigation, which drove shares up 100%. As the market is still digesting SHC's legal situation, the shares have been range bound since, neither participating in the market's rally into mid-quarter, nor falling as the market corrected in March. In response to the rally, I have adjusted our position size, but SHC remains the fund's largest position and I plan to maintain a sizeable investment for the foreseeable future. Beyond SHC, the fund also registered gains in two large and long held investments, MSGE and OSW, which rallied 34% and 33%, respectively. MSGE benefited from both strong earnings and anticipation of its value-unlocking spinoff, which I discuss below, while OSW rallied on a faster than anticipated return to profitability and the ongoing recovery in cruise travel. As cruise travel has not yet fully recovered from the pandemic, I believe the sector can improve further as capacity returns, even if overall consumer spending broadly pulls back. I also reduced our investment in the record labels, particularly WMG. I remain bullish on the record labels' long-term prospects, but the shares had rallied significantly despite only incremental news. More recently, the labels have pulled back, and I will consider resizing our investment if the selloff continues. I also initiated one new top-five investment in Star Holdings (STHO), a recent spin-off I describe later in the letter.

Regarding the market, I am cautious on the economy and share the widely held fears that rising rates and bank sector turmoil may trigger a recession. However, I remain largely invested, as I believe our portfolio has only modest cyclicality and our largest investments have relevant catalysts within the next 12 months. My caution instead shows up not in our overall positioning but rather in keeping an exceptionally high bar for any new investment, particularly for anything with a cyclical end market, such as construction or commercial real estate. I believe I have identified a handful of cyclical investments that could double in the next five years, but I'm hoping one might fall a further 30-50% if results get worse along the way. For the time being, I am sitting tight with our less-cyclical holdings and hoping an idea or two I am tracking slips through the cracks.

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Portfolio Review – Exposures and Concentration

At quarter end, delta adjusting for our interest rate hedge, our exposures are 104% long, 12% short, and 92% net. Our five largest positions are SHC, MSGE, GTXAP, OSW, and STHO, and account for roughly 81% of assets.

Portfolio Review – New Positions

Star Holdings (STHO)

STHO is a recent spinoff of a liquidating portfolio from the STAR/SAFE merger. As a quick back story, STAR was a financial business and REIT that made some poorly timed investments prior to the Great Financial Crisis. The business and stock eventually recovered, and the company spent the bulk of the 2010s cleaning up the prior mess and searching for new business ideas. During this time, the company started a business focused on ground leases, which eventually was IPOed under ticker SAFE with STAR retaining a majority ownership in SAFE and operating as its third-party manager. As SAFE successfully executed and grew, the value of SAFE eclipsed that of all STAR's other assets and the decision was made to merge the entities and internalize the manager. However, a small portfolio of workout assets from STAR's prior businesses remained, and STAR spun these assets out prior to the merger to clean up SAFE's balance sheet. That portfolio of workout assets is STHO. However, complicating matters, the workout assets may have some capital needs, and STHO has agreed to effectively cover the cost of SAFE's internalized manager for the first three years, which means STHO has modest cash needs initially. As STAR had minimal assets beyond its significant holdings in SAFE, management decided to capitalize STHO with a small cash buffer and a significant number of SAFE shares.

I believe STHO's odd structure has a resulted in an opportunity to buy an orphaned security at an attractive price. While STHO's history is convoluted, its current assets are straight forward. For every one share of STHO, we own one share of SAFE, $360MM in book value real estate, and $250MM in "effective" net debt. At current prices for STHO and SAFE, that implies STHO's NAV is ~$35/sh. compared to STHO's current price of $16. We have hedged some of our position by shorting SAFE shares, partially locking in this spread.

Going forward, STHO plans to liquidate over the next four years, which at current prices implies an ~22% annualized yield. I believe there are a few ways in which our return could be better, and a few which could hurt us. First, STHO could return cash and/or SAFE shares earlier than expected. Second, the marks on STHO's liquidating real estate are old and could prove conservative. Almost half of STHO's liquidating real estate is its investment in 30 acres of waterfront Asbury Park real estate, a growing "hipster" area of the Jersey Shore I am familiar with and think has potential. Third, SAFE is a portfolio of low-risk leases with exceptionally long duration, which makes SAFE extremely sensitive to interest rates. If inflation comes under control and/or if the Fed must pivot as the economy weakens, I believe SAFE shares could rally significantly. However, STHO is modestly levered, and the liquidation could take longer than expected. Balancing these risks, the fund has built a modest position, but I could see increasing it going forward.

Portfolio Review – Existing Positions

Madison Square Garden (MSGE) and Sphere Entertainment (SPHR)

After the quarter's end, MSGE completed the spin of the MSG arena, a catalyst I had been eagerly anticipating since it was announced in August 2022. The company separated into a SpinCo consisting of the MSG Arena and the Rockettes franchise, which assumed the ticker MSGE, and a RemainCo consisting of the Sphere development and MSG Networks, now renamed SPHR. To avoid confusion, I will refer to the company prior to the spin as "Original MSGE" and the SpinCo as "MSGE" going forward. As I anticipated, MSGE's form-10 included guidance and historical financials which were far above bear concerns and matched my projected earnings. $40 vodka sodas are indeed profitable. MSGE is now trading ~$32, yielding an EV of ~$2.3B which implies ~15x 2023 EBIT of $150MM, and ~21x fully taxed levered FCF/sh. of $1.50. While at first glance the stock appears reasonable yet not exceptionally cheap, MSGE will pay minimal cash taxes until FY2027, allowing rapid deleveraging and share buybacks, which along with modest MSD EBIT growth should result in $2.50 in fully taxed FCF/sh. by 2026. Further, MSGE retains the air rights above the MSG Arena, which I value at $300-$500MM and I believe will be monetized in the next five years. Given the "hidden assets" and predictability of MSGE's iconic holdings, I believe shares could double in the next five years, a strong return given the low-risk nature of these assets.

However, while the fund maintains a significant investment in the economics of MSGE, I believe SPHR is the more attractively priced piece. In the spin, SPHR retained a 1/3rd stake in MSGE, resulting in SPHR owning ~0.5 shares of MSGE for every one share of SPHR. At market prices of $32 for MSGE and $30 for SPHR, the market is ascribing ~$14/sh. for the remainder of SPHR, or $490MM given 35MM shares outstanding. For this $490MM investment, we get 1) the Sphere development, 2) the MSG Networks equity, and 3) an estimated $200MM in cash, net of the recently announced sale of Tao and further capex and start up costs for the Sphere. Given the $2.2B construction cost for the Sphere, not to mention opex already spent developing content and the ~$500MM of prime Las Vegas Strip land LVS contributed to the project, the market is effectively valuing the Sphere at cents on the dollar before it even opens. I find this even more interesting given the recent string of positive news regarding the project. Last week, tickets for the Sphere's opening show with U2 sold out in a matter of days. SPHR and the band are now set to open the venue in late September with a run of 17 shows for a total of ~340,000 tickets. Further, I believe the shows have an average ticket price close to, if not greater than, $500. There is an exceptionally wide gulf then between the market, which seems to discount the very viability of Sphere as anything beyond a spectacular bust, and Sphere customers, who seem excited to pack the value at prices well ahead of national averages. To size the opportunity, if the Sphere's Vegas residency business is consistently booked, say three packed shows a week for 40 weeks a year, combined with just modest execution on advertising and owned attractions, I believe the Sphere can generate over $1B in sales and over $200MM in operating profits, which at 15x valuation would yield ~$100/sh. for SPHR including its MSGE stake. I believe there is room for reasonable upside to both profits and multiple if this occurs.

However, I want to acknowledge that there are modestly higher risks to SPHR than MSGE: the project has yet to be opened and the business model is not proven, the MSG Networks term loan must be renegotiated by fall 2024, there could be cost overruns getting the Sphere ready to open, etc. The elevated execution risk gives me pause and impacts our sizing, but I believe we are being very well compensated for taking these risks. Further, I believe we have strong downside protection from our "cents on the dollar" purchase price for the Sphere and SPHR's remaining investment in the less risky

MSG Arena and Rockettes businesses. I have substantially rotated our position from MSGE to SPHR, though we retain a large investment in MSGE on a look through basis.

Business Updates

I am in the process of selecting an outsourced CFO/COO. If any partners have specific recommendations, I would appreciate them.

As always, please feel free to contact me with any questions.

Sincerely,

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(1) The Returns from January through August 2017 represent the performance results of a personal proprietary trading account managed by the Founder with a strategy similar to the strategy of the Fund. This information is presented for illustrative purposes only, the above results do not reflect the actual results of the Fund or the composition of its portfolio. From September 2017 onwards, returns are from the Fund. All net returns are calculated using a 1.5% management fee, 20% incentive fee, and 5% hard hurdle.

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