Dear Investor,

This is the first of our quarterly letters that we will begin providing this year that will include our performance and investment commentary. In this letter we will review our performance in 2021 including our biggest impact performers as well as our 2022 investment focus.

Rod Capital 2021 Results

In 2021, RCM had our first annual loss, down -4.75%. It was a year in which the larger market capitalization growth stocks performed well, but smaller growth stocks were left behind. The Russell 1000 Growth Index was up 27.59% while the smaller growth stocks, represented by the Russell 2000 Growth Index, was up only 2.82%. The S&P 500, which are large capitalization stocks, was up 28.68%.

Our top performer of the year was Fly Leasing (FLY), an air leasing company. We took on this position in 2020 on valuation and increased the size after highly credible sources were openly reporting about a strategic review and buyout offers for the 2 billion enterprise value company. The stock was trading well below our estimate of its net asset value and did not receive a significant premium from the news that it was shopping for bidders. The company was ultimately acquired for a premium as we expected. Our biggest long-term loser was our short position against Tesla (TSLA). Although we love the cars and brand, we bet that the valuation would get more reasonable rather than hit a trillion-dollar market valuation and were proven wrong.

Our real estate and air leasing holdings did well during the year as well as some of our technology picks. However, our hedges proved not only ineffective but completely offset our gains and more. We shorted too many speculative stocks which outperformed, making us more susceptible to weaknesses on the long side of our book.

2021 Review

The pandemic of 2020-2021 was a major disrupter of the short-term portion of our strategy. Our short-term strategy thrived from 2010-2015 before we were a hedge fund and from 2016-2019 after we became a hedge fund. In the first four years as a hedge fund, we returned 12%, 15%, 13%, and 15% on our short-term results alone. We hung our hat on those consistent results and kept our long-term market exposure light – which also produced positive results – albeit less consistently – at 2%, 15%, 5%, 18%. But our short-term strategy contribution fell flat after Covid to -2% in 2020 and -1% in 2021. Our long-term gain of 37% made up for the flatness in 2020, but our long-term strategy returned -4% in 2021, leading to our first annual loss.

Market exposure is a tricky thing. A fund can say that their net market exposure is low. Yet, they may be using that "low" exposure on high-risk options or highly leveraged equities that could quickly wipe them out during a market downturn. These are games we've never played and our long-term exposure has historically been conservative.

But when the relatively calm waters of 2010-2019 became choppy in 2020-2021, the tide rolled back and the long-term part of our strategy was left naked for examination. And what you're seeing for 2021 was a low exposure long-term portfolio that was so conservative that it was simply not participating in the kind of risk taking that the rest of the market was involved with.

In reviewing our results since inception, we've come to realize that we actually left too much money on the table by being overly conservative with our exposure for many years. It was simply because our short-term results were so consistent and we did not anticipate such a long disruption to that part of our strategy. So we actually hedged our value investments in an aggressive manner with speculative short investments and 2021 ended up being the worst year for that. Late in the year we found ourselves humbled by a seven-month drawdown despite an advance by the market, led by S&P 500 outperformance. Large cap growth went relentlessly higher while small cap growth went nowhere and guess what we were mostly in on a net basis – small cap growth. Our short-term strategy saw signs of life late in the year but those contributions continued to stall.

2022 Investment Focus

We have reason to believe that our short-term event trade contributions will become meaningful again in 2022 and beyond. This is because we had the emergence of meaningful sized opportunities late in the year whereas those opportunities were almost nonexistent in the year prior. If these opportunities show up, they will show up suddenly and in a big way. Nevertheless, after carefully examining our results since inception and prior to inception in private practice, we have come to realize that we should no longer just hang our hat on our short-term strategy results alone. We did this 'unnaturally' and only based on result consistency. Moving forward, we are removing our guidelines on maximum individual stock concentration on the long side, which had been at 5%. We realized this had arbitrarily held back our performance from our highest conviction positions. We are also being more thoughtful in how we hedge our book, better matching our more speculative long and short positions and less aggressively hedging our highest conviction positions.

Today, our top positions are a 14.2% position in Callaway Golf Co (ELY), 7.1% position in AeroCap Holdings and 6.9% position in PebbleBrook Hotel Trust. Callaway is our top pick because management is bold and aggressive about turning a sleepy value company into a growth company, and we believe their acquisition of Top Golf last year will prove to be a success. Aercap has great management as well and they will be rewarded for years to come in acquiring GE's airline unit and doubling their size. Pebblebrook Hotel Trust, we believe, is undervalued and a strong acquisition candidate due to the quality makeup of their resident-like hotel offerings.

Our top short positions outside of ETFs are -3.0% position in MicroStrategy Inc., -1.6% position in NIO, Inc., and -1.5% position in Carvana Co. MicroStrategy is our top short because it receives an unreasonable premium for its buying Bitcoin-with-debt program. Nio Inc. is a Chinese ADR popular with American investors who do not yet appreciate the flaws in their battery swapping business model. Carvana is an overvalued self-dealing company that is failing to undercut competitors and is about to face a fall in used car prices.

We do not believe that investors will just continue to ignore reality and throw their money at favorite names forever without proper risk management and due diligence. Now that interest rates are set to slowly rise, we see the stock market 'normalizing' and improving opportunity for professional outperformance as investors get pickier about what stocks they buy and sell.

When we make long-term investments in equities, the first thing we review is the quality of company leadership. We expect that leadership may make mistakes and hit speed bumps in the short-term, but our faith is based on the skill, experience, and long-term performance of management.

As a growing hedge fund, we are learning to look for investors with that same long-term perspective. We will make mistakes and there is a near-term price to pay for mistakes. However, in the long-term, these experiences help us improve our strategy and our future long-term results for our ourselves and our partners.

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Perry Rod
Chief Investment Officer
Rod Capital Management