

Gondolin Capital, LP
Fourth Quarter 2022 Investor Letter
 January 13, 2023

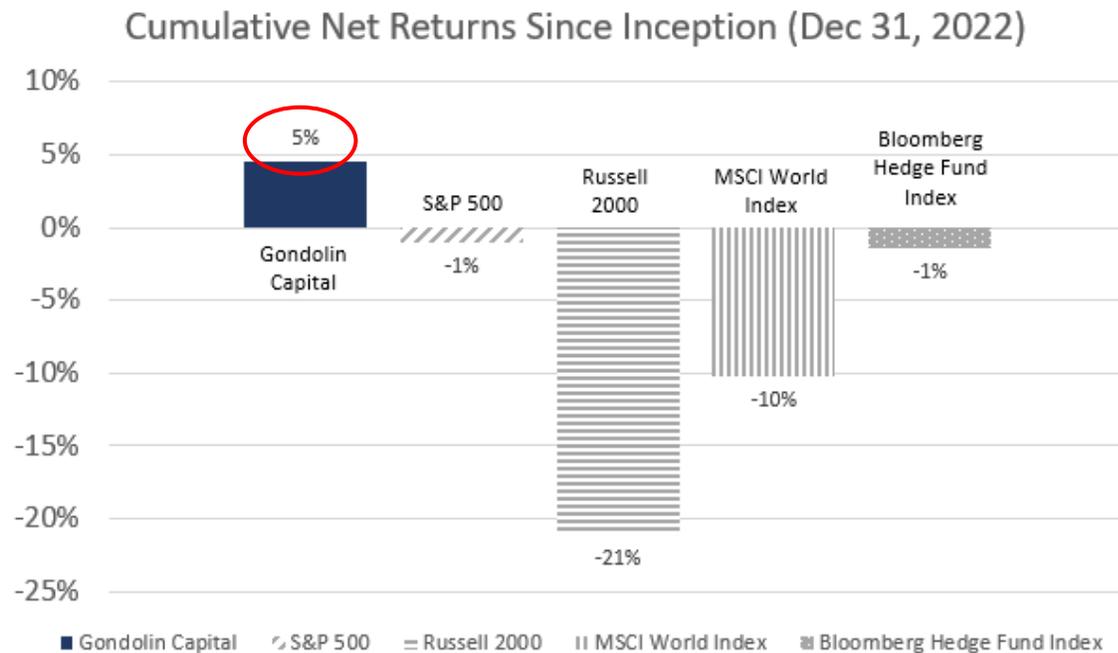
Dear Investor,

In 2022, Gondolin returned **-12.0%**, versus -19.4% for the S&P 500, -21.6% for the Russell 2000, -19.5% for the MSCI World Index, and -1.5% for the Bloomberg All Hedge Fund Index. **Since inception**, Gondolin has returned **+4.5%** (*net of all fees*), compared with -1.1% for the S&P 500 index, -21.1% for the Russell 2000, -9.9% for the MSCI World Index, and -1.5% for the Bloomberg All Hedge Fund Index. Gondolin continues to outperform all major indices since its inception and avoid any cumulative capital losses. As of January 13, the assets under management have reached an all-time high of \$3.6M, with limited partners growing from 15 to 19 over the year.

Returns vs Benchmarks	4Q2022	YTD 2022	Since Inception*	Annualized Returns*
Gondolin Capital, LP	4.9%	-12.0%	4.5%	2.4%
S&P 500 (US Large Cap)	7.1%	-19.4%	-1.1%	-0.6%
Russell 2000 (US Small Cap)	5.8%	-21.6%	-21.1%	-11.4%
MSCI World Index (Global)	9.4%	-19.5%	-9.9%	-5.3%
Bloombg. Hedge Fund Index	2.5%	-6.7%	-1.5%	-0.8%

*Fund was incepted February 23, 2021

Note: returns are net of performance and management fees



Market and Performance Commentary for 2022

Calendar year 2022 saw significant weakness in the global stock markets, while the fourth quarter of the year reflected a mild rebound across the board, as ongoing weakness in the economy (employment, affordability, spending fears) are taking shape amid higher interest rates, with this all being countered repeatedly by investors seeking great deals in the stock market (as we are). As outlined in the 3Q22 letter, by October of this past year, the stock market had witnessed a generational decline of -25% YTD; one of the key mantras of this fund will be to never let a good crisis go to waste – and in 4Q22 we were significant buyers of our favorite undervalued equities, taking the un-shorted cash value down to just 6.5% of the portfolio. *As of the time of this writing (Jan 13), this strategy has already paid substantial dividends year to date, as we are outperforming the market by the widest magnitude (+15%) since the fund's inception.* From here on, however, I will report just on the prior year occurrences and outlook for 2023.

In 2022, our long portfolio, which averaged between 70-75% of total assets, fell with the rest of the market (-24%, or -18% on a weighted basis), and we added significantly to this book as it continued to drop. I expect this to pay off meaningfully throughout 2023. The short book, on the other hand, which averaged 15-20% of the total assets throughout the year, gained >40% in value in 2022 and contributed +8% to the fund's aggregate net returns for the year. This dual outcome was generally as expected from a portfolio perspective, and helped to drive *unrealized* losses that were nearly half that of the stock market's losses, so the year was a win for the fund and consistent with its objectives. Of course, we could have made the short book substantially larger, and took on significantly more risk to do so, or we could have avoided buying undervalued companies at cheaper and cheaper prices in the second half of the year, but both of these moves would have risked the long-term market-beating gains that this fund is seeking.

Our largest 10 holdings are mostly the same since 3Q22, and continue to comprise >50% of all managed assets. We added further to our largest holding **Viasat (VSAT)**, and after recent gains sold off both **Cleveland Cliffs (CLF)** and **Penn National (PENN)**. We added to our **Expedia (EXPE)** and **Dropbox (DBX)** holdings, as well as added a new restaurant holding, **Red Robin Gourmet Burger (RRGB)**, which already stands at 3.7% of assets. I look forward to discussing the Red Robin turnaround thesis further in subsequent quarterly write-ups. We continue to have a strong bias towards travel related names (Uber, Expedia, Hawaiian Airlines) and stock price movements occurring already in the first two weeks of the year suggest that investors are starting to catch on that travel should be quite resilient in 2023.

Our largest position, **Viasat (VSAT)**, now at 12% of total assets and \$418,000 in owned market value, has been flat since we acquired shares in early 2021. However, the outlook for Viasat's business remains very strong. As outlined in the 3Q letter, Viasat Viasat will be launching the three highest capacity satellites in the world – by a factor of 3x, providing internet services to homes, businesses, airlines, cruises, oil rigs, and the military around the world where low speed, and sometimes no or very low-speed internet, currently exists. This is our top idea for 2023.

After material gains in our **housing-related** exposure we have reduced our weighting of these positions to 14% of total assets, from a peak of 20%, as investors caught on to how cheap many of those stocks had become, especially those tied to valuable assets such as the homebuilders. We sold off homebuilder **DR Horton (DHI)**, as well as lumber manufacturer **West Fraser (WFG)**, as each neared all-time highs. We continue to own homebuilder **MDC Holdings (MDC)**, home sales platform **Zillow Group (ZG)**, Florida hurricane windows manufacturer **PGT Innovations (PGTI)**, roofing manufacturer **Beacon Roofing (BECN)**, and lumber distributor **Builder's First Source (BLDR)**.

We remain well exposed to travel names, including **Uber Technologies (UBER)**, **Hawaiian Airlines (HA)**, and **Expedia (EXPE)**, which has grown from 10% of total assets to 13%. The market is still not taking in account just how well airlines and travel companies have done in prior recessions, and I continue to believe that is where the opportunity lies.

After a 30% realized gain, we sold out of one of former largest holdings, **Cleveland Cliffs (CLF)**, rotating some of the proceeds into **Algoma Steel (ASTL)**, now at 5% of total assets, and this has become our second largest position in the fund. Algoma is the largest steel plate producer in Canada – and is growing its overall steel capacity by 30% in 2024 through a major redevelopment of its existing operations, transitioning from a primary steel manufacturer to a recycled steel manufacturer. Similar to Viasat, Algoma is building something substantial in size relative to its current business (one of the largest new standalone recycled steel mills in North America), but not getting any credit for the end results. While we are still >1 year away from completion, we want to get a sizeable position well ahead of the facility's completion. Our engagements so far with management have also been very positive, as both the CEO and CFO have expressed confidence in both the cost of construction and estimated growth in capacity as we near the half-way point of development.

Within the short book, which returned >40% in 2022, we closed out of seven successful short positions tied to the tech bubble and other consumer-oriented stocks with unjustifiable valuations. We still remain short cryptocurrencies through **Coinbase (COIN)** but the position size has halved as a result of its success (now only 1% of assets). We also have covered our **Tesla (TSLA)** short and moved those borrowed funds into a short on lithium stocks including **Lithium Americas (LAC)** and **Albemarle (ALB)**. The electric vehicles craze has driven lithium mining stocks to all-time high valuations, has driven up capital spending plans into the many \$billions per year over at least the next few years, and has driven pricing expectations for lithium to all-time highs, with a dispersion in price versus cost that is likely to reverse as the first wave of EV adoption now begins to slow and may even retrace, as there remains a large cost differential between an EV vehicle and an internal combustion engine (ICE) vehicle. This will ultimately drive down lithium demand, despite record amounts of lithium supply coming to the market each year over the next five years, reminiscent I think of the US shale natural gas bubble in 2014. While these lithium shorts have already begun working for us, we are looking for an additional 40% in corrected (lower) valuations before moving on.

Expectations for 2023

In early 2022, I cited the strong potential for a somewhat stagflationary economy ahead, and I continue to believe that is the case going forward in 2023 and possibly beyond, though it remains unclear for how long or to what degree we see elevated levels of inflation concurrent with worsening (eventually) levels of employment. The job figures actually still continue to be very positive, making one realize that even significantly higher levels of interest rates have merely dented near-term spending expectations, not reduced the amount of consumer capital that is left to be spent into a low supply environment, and this remains a strong concern as it regards inflation expectations later this year. I expect the year ahead, from both an economic perspective and a stock market perspective, to be filled with volatility, as bad economic data (*inflation rebounding, unemployment, select bankruptcies, worse consumer sentiment/spending*) is likely to be consistently met with optimism around interest rates that will eventually fall and set up another economic cycle. With a concentrated portfolio of long equity positions with unique catalysts occurring this year, Gondolin is very well positioned to outperform the market again in 2023.

Portfolio as of January 12, 2022				Share	MktCap	Weight%	Value
Stock	Company Name	Holding	Sector	Price	(\$M)	Portfolio	Owned
VSAT	VIASAT INC	Long	Information Technology	\$37	2,806	11.8%	\$418,751
ASTL	ALGOMA STEEL GROUP INC	Long	Materials	\$6	662	5.0%	\$178,385
UBER	UBER TECHNOLOGIES INC	Long	Industrials	\$29	57,898	4.9%	\$173,919
SPOT	SPOTIFY TECHNOLOGY SA	Long	Communication Services	\$91	17,613	4.5%	\$161,606
WBD	WARNER BROS DISCOVERY INC	Long	Communication Services	\$13	31,933	4.3%	\$152,645
EXPE	EXPEDIA GROUP INC	Long	Consumer Discretionary	\$103	16,086	4.0%	\$141,391
MDC	MDC HOLDINGS INC	Long	Consumer Discretionary	\$36	2,540	4.0%	\$140,493
RRGB	RED ROBIN GOURMET BURGERS	Long	Consumer Discretionary	\$9	137	3.7%	\$131,084
ZG	ZILLOW GROUP INC - A	Long	Real Estate	\$42	10,206	3.6%	\$128,650
DBX	DROPBOX INC-CLASS A	Long	Information Technology	\$23	8,314	3.6%	\$127,779
<i>Other Long Holdings</i>						39.0%	\$1,384,791
Long Positions Weight						88.4%	\$3,139,495
Short Positions Weight						-17.9%	(\$635,081)
Cash and Short Position Weight						29.5%	\$1,047,677
Total Positions Weight (Long + Short + Cash) = Assets Under Management - >						100.0%	\$3,552,091

Please reach out via email (aballantyne@gondolincapital.com) or by phone (248-719-3843) if you have any questions or would like to discuss the quarter's results in greater detail.

Sincerely,



Adam Ballantyne
Founder and General Partner