

**Gondolin Capital, LP**  
**Fourth Quarter 2023 Investor Letter**  
 January 11, 2024

Dear Investor,

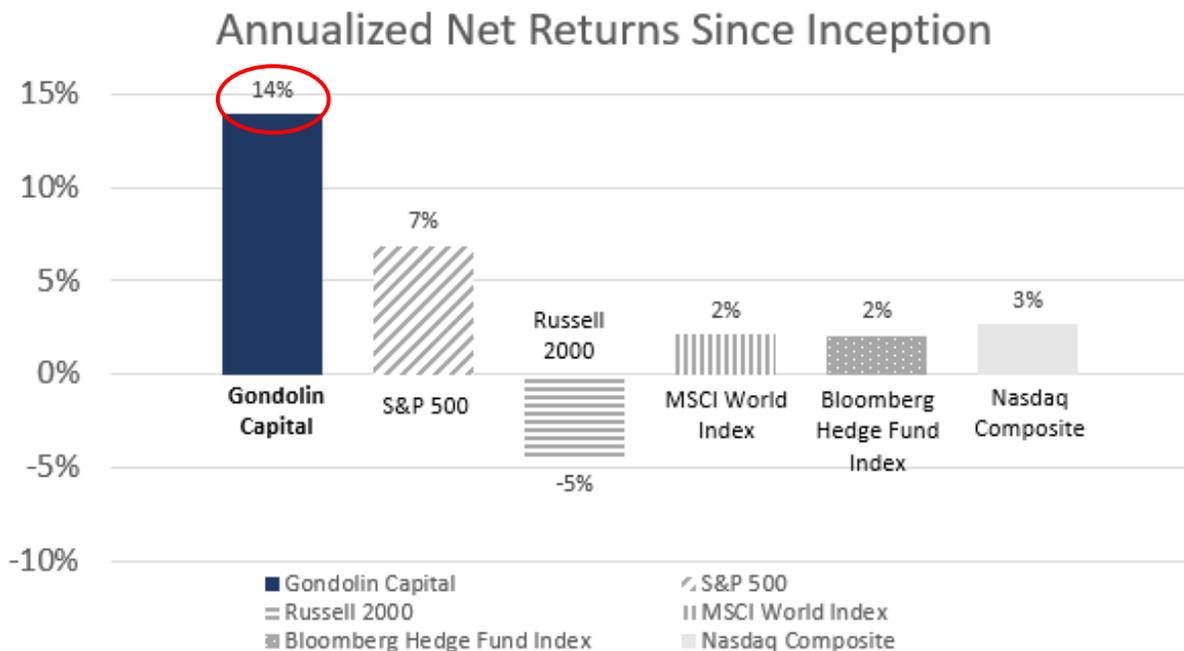
**In 2023**, Gondolin returned **+40.6%**, versus +24.2% for the S&P 500, +15.1% for the Russell 2000, +20.4% for the MSCI World Index, and +7.6% for the Bloomberg Hedge Fund Index. **Since inception**, Gondolin has returned **+47.0%** (*net of fees*), compared with +22.9% for the S&P 500.

Gondolin continues to outperform all major indices since its inception while also beating the market by an average of 7% annually. Annualized returns are currently +14.5%, while by the end of 2023, assets under management reached a new high of \$4.9M.

| Net Returns vs Benchmarks   | 4Q2023 | YTD 2023 | Since Inception* | Annualized Returns* |
|-----------------------------|--------|----------|------------------|---------------------|
| Gondolin Capital, LP        | 14.3%  | 40.6%    | 47.0%            | 14.5%               |
| S&P 500 (US Large Cap)      | 11.2%  | 24.2%    | 22.9%            | 7.5%                |
| Russell 2000 (US Small Cap) | 13.6%  | 15.1%    | -9.2%            | -3.3%               |
| MSCI World Index (Global)   | 11.0%  | 20.4%    | 8.1%             | 2.8%                |
| Bloombg. Hedge Fund Index   | 4.2%   | 7.6%     | 5.9%             | 2.0%                |

\*Fund was incepted February 23, 2021

Note: returns are net of performance and management fees



Note: Fund inception was February 23, 2021

## Market and Performance Commentary for 2023

This past year was a good year for the stock market, following widespread declines in 2022. It was also a record year for Gondolin, as we generated a +41% return in 2023, nearly double the market's return of +24%. A global decline in inflation expectations has recently led investors to believe that the Federal Reserve will soon cut interest rates, pre-emptively returning broader market valuations back to levels of exuberance not seen since 2021. For our part, much of our ongoing outperformance versus the market continues to result from the significant and concentrated equity investments we made in the Fall of 2022.

In 2023, the portfolio experienced a \$1.7M gain from our long equity positions, resulting in a 53% positive impact to the portfolio. The largest contributors to this gain were our investments in trucking services firm XPO Logistics (+\$143,000), travel platform Expedia (+\$131,000), ride services platform Uber Technologies (+\$121,000), casual family restaurant Red Robin (+\$119,000), and cannabis cultivation landlord Innovative Industrial Properties (+\$109,000). These five positions accounted for nearly 40% of the overall gains in the long equity portfolio and mostly resulted from monetizing valuable real estate (Innovative, Red Robin) or from oligopolistic travel platforms seeing ongoing strength in demand (Expedia, Uber). We have since exited Red Robin and XPO due to tremendous re-valuation of their equities (+126% and +170%, respectively), but we remain owners of Uber, Expedia, and Innovative Industrial despite similar strength.

To zoom in a bit more on two of our largest positive contributors in 2023, our investments in Red Robin and XPO Logistics are good reflections of what we're trying to achieve at Gondolin. Red Robin is a *fair* business that we obtained at an *excellent* price, while XPO is an *excellent* business that we obtained at a *fair* price. Sit-down restaurants face notorious amounts of competition from local mom and pop establishments as well as new fast-casual concepts like Chipotle, Cava, and Shake Shack. Yet, Red Robin's owned real estate was worth nearly half of its entire enterprise value and the business was still generating good cash flows, so we obtained shares nearly half off a conservative estimate of its intrinsic value, and soon after recognized a gain >100% as they monetized their real estate and began to turn their operations around.

For XPO, the case was a bit of the opposite in terms of value versus quality, but resulted in a similar outcome. A recent spin-off from a trucking conglomerate, XPO resides in the upper echelon of "quality" in the trucking sector: delivering goods piecemeal in a single truck for sometimes dozens of customers over shorter distances than traditional long-haul trucking. This is called "less than truckload" freight. This kind of operation has high barriers to entry because it

requires a scaled real estate portfolio of warehouse locations that numbers in the hundreds across the country.

As XPO continued to invest heavily into its warehouses and truckers, its quality against larger rivals (Saia and Old Dominion) was questioned, and at one point, XPO's earnings were trading 70% (!) below peer valuation levels. When XPO began to reap the benefits of these investments in 2023, margins rose, revenue and earnings growth accelerated, and XPO shares saw a 180% gain from its stock price lows in 2022 as they re-approached the valuation levels of its high-quality peers. Having the flexibility to obtain concentrated positions in all types of businesses, and across the "quality spectrum", is going to continue to be our strategy for alpha generation versus the broader market, as it greatly increases the amount of pitches that we can swing at.

More recently, and as outlined in the 3Q23 report, our cannabis positions (Innovative Industrial, Green Thumb, New Lake Capital) have experienced a collective gain of \$230,000 in 2023 as the DEA looks to reschedule marijuana as a Schedule III drug (from currently Schedule I), a much safer controlled substance in-line with the likes of anabolic steroids and testosterone pills. In 2024, I look forward to seeing ongoing consolidation among operators and resilient pricing of cannabis products supporting strong and growing cash flows for this industry over time. As cannabis has been shown to have countercyclical demand (like alcohol and cigarettes), we can potentially expect even stronger performance if there is a recession.

Our largest position, satellite operator Viasat (VSAT), rebounded significantly in the fourth quarter as investors await the next satellite launch in 2024. We added further to our position when the shares crashed in September and have seen outsized returns from that re-investment, providing a \$64,000 gain for all of 2023. Due to the rebound in the stock, our Viasat position is back to a value of ~\$700,000 (nearly 14% of assets). I look forward to reporting on the satellite launch's anticipated success in the coming months.

Finally, against a backdrop of significant market strength, our short book took (mostly unrealized) losses in the aggregate in 2023, contributing to an 8% negative impact to the portfolio's value. We did exit a few successful short positions in the fall (e.g., lithium stocks), while also adding to existing short positions tied to select social media, office space, and commercial construction stocks. The short book remains a good insurance policy in 2024 as macroeconomic risks abound.

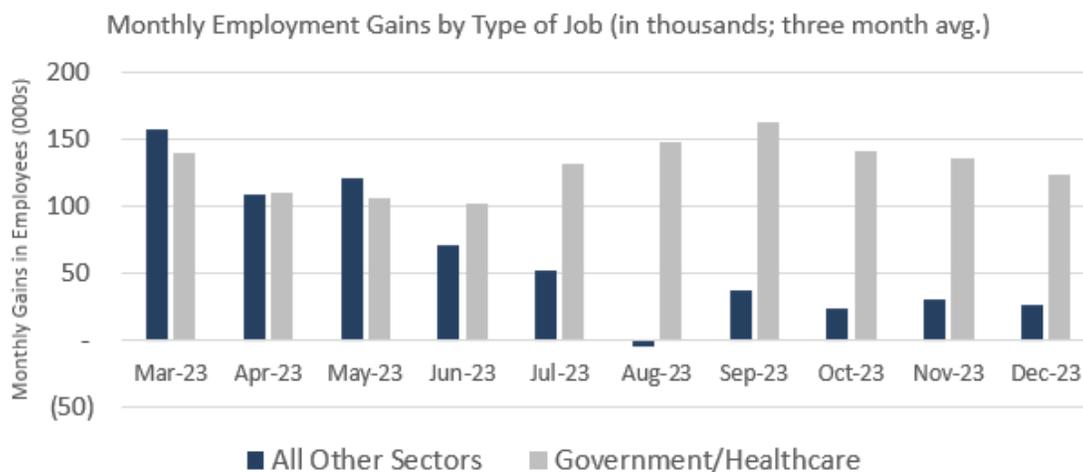
As of December 31, 2023, we are holding 16% cash, 20% short positions, and the balance (64%) in long equities, resulting in a record high level of cash and short positions. Few of our equity investments are exposed to cyclical downturns, with ~2/3 of our owned positions operating in

recession-proof industries, mostly in consumer staples, defensive industrials, and subscription businesses. The top 10 positions continue to comprise around 50% of the assets.

## Outlook and Positioning for 2024

Much of the global investment community increasingly believes that we will evade a recession after a near-record high increase in interest rates last year – I continue to believe, however, that our record-high deficits are an unsustainable band-aid over the recession that we would otherwise be in today. If you were to take current real GDP growth of +3% and subtract the 6% federal deficits that we’re currently running (as a percentage of national GDP), *we’d be experiencing a 3% decline in GDP, and would therefore be in the middle of a sizeable recession.*

To illustrate this further, we can witness the impact of these tremendous spending deficits in the job market, which remains the backbone of our services-driven economy (see below). Notice the significant deterioration in employment gains from non-government sectors, labeled “All Other Sectors”, comprised increasingly of employment *declines* in technology, manufacturing, retail, warehousing, and building/real estate services. *These are the lowest job gains since 2007.*



The current situation in the broader economy is therefore, in my view, a precarious one; rather than pricing in this broad-based weakening in the economy, the stock market has again in the aggregate found itself near all-time highs, creating a rare mismatch between forward economic perception and current economic reality. Multiple data points support walking into 2024 with due caution, particularly: (1) the non-government, non-healthcare job market seeing material the most weakness since 2007 (excluding COVID), (2) consumer loan delinquencies accelerating for most consumers in automotive and consumer credit cards, and (3) inflation re-acceleration driven by home prices, oil, and wages, likely keeping interest rates higher for longer.

*In 2024 we will remain patient and continue doing what we set out to do nearly three years ago: buying equities that are significantly below their intrinsic value. One of my favorite investment quotes comes from the late Charlie Munger, the long-time partner of Warren Buffett, who once quipped “the big money is not in buying or selling, but in the waiting” and that is a bit of our 2024 strategy in a nutshell. We have exited a few more successful long equity positions in November and December, grown our cash balance meaningfully, and initiated additional short positions, while keeping the borrowed short equities in cash on the balance sheet. Our cash pile has subsequently grown to \$1.7M, versus \$4.9M of total investable assets as of this past week.*

## **Administrative Matters**

- **Gondolin Capital, LP has a new website: [www.gondolincapital.com](http://www.gondolincapital.com)**. When referring friends and family to Gondolin, please reference this website. You can also access the Opus website to see your Net Asset Value from the “Login” link. I will be publishing our “since inception” returns each quarter and hope to use this website as a vehicle to attract new investor interest. Thank you especially to those who continue to recommend Gondolin to others.
- *Due to the large gains from 2023, tax bills from realized gains will be higher than typical.* Remember to use 2022’s tax loss to offset 2023’s taxable gains. For those limited partners using cash accounts and continuing to add capital into the fund, feel free to ask for redemptions as needed to cover the taxes owed from capital gains.
- I am still accepting IRAs (Roth, SEP, and Simple/401k rollovers). These funds can remain tax-deferred investments within Gondolin and only require contacting the guardian of the account (e.g., Fidelity, Vanguard, State Street, etc.) and notifying them that you would like to initiate an IRA transfer into the limited partnership.

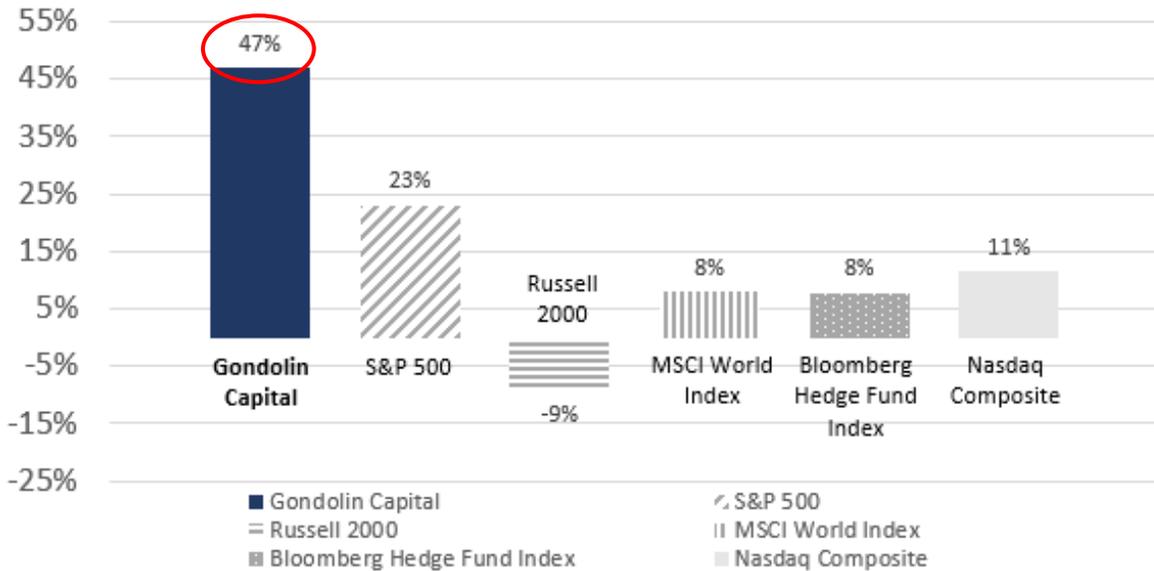
If you are a limited partner with Gondolin, please email me if you would like a copy of the quarter-end holdings. Please reach out via email ([aballantyne@gondolincapital.com](mailto:aballantyne@gondolincapital.com)) or by phone (248-719-3843) if you have any questions, would like to discuss the year’s results, or if you would like to place additional (or new) capital into the fund.

Sincerely,



**Adam Ballantyne**  
Founder and General Partner

## Cumulative Net Returns Since Inception



Note: Fund inception was February 23, 2021

## Gondolin's Cumulative Outperformance Vs S&P 500

