

Gondolin Capital, LP
2024 Annual Letter
 January 17, 2025

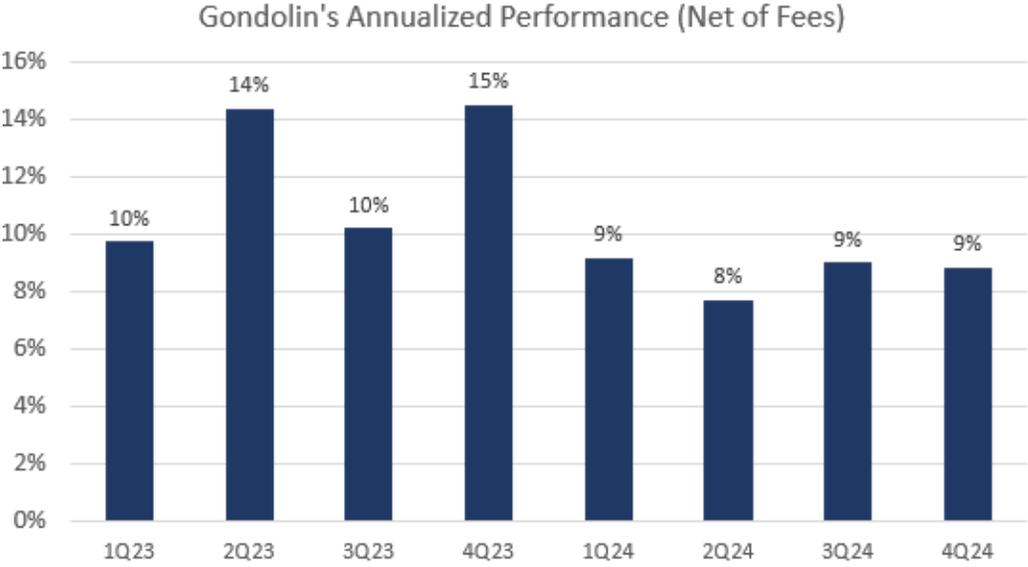
Dear Investor,

In 2024, Gondolin returned **-4.1%**, culminating in our first year of underperformance versus the broader market since Gondolin launched in 2021. **Since inception**, however, Gondolin has returned **+40.3%** (net of all fees), compared with +45.0% for the S&P 500, +24.8% for the MSCI World Index, and +17.8% for the Bloomberg Hedge Fund Index.

Gondolin is currently averaging **+9.2%** annualized net returns. Despite temporary losses in the short book in 2024 and volatility with one large position, we are well-prepared for the market turbulence ahead, expect great things from our larger holdings in 2025, and continue to target >12% annualized returns for the combined portfolio.

Net Returns vs Benchmarks	4Q2024	YTD 2024	Since Inception*	Annualized Returns*
Gondolin Capital, LP	3.2%	-4.1%	40.3%	9.2%
S&P 500 (US Large Cap)	1.8%	21.3%	45.0%	10.1%
Russell 2000 (US Small Cap)	0.0%	10.0%	-0.1%	0.0%
MSCI World Index (Global)	-1.2%	15.7%	24.8%	5.9%
Bloombg. Hedge Fund Index	1.0%	11.1%	17.8%	4.3%

*Fund was inception February 23, 2021
 Note: returns are net of performance and management fees



Performance Commentary for 2024

Following a +47% gain in 2023, Gondolin's portfolio value took a step backward in 2024, generating a -4% unrealized loss. The -4% loss resulted from a +5% gain from the long equity portfolio and a -9% loss from the short equity portfolio as the market reached its highest valuation level since the dot com bubble in 1999. More on this later in the letter.

A snapshot of the fund's largest holdings can be found below:

As of December 31, 2024						
Gondolin Capital Holdings	Ticker(s)	Date of Purchase	\$ Value At Cost	\$ Value Current*	Total Return %	% Total Assets
The Dallas Morning News	DALN	Apr-23	\$627,327	\$1,162,357	85%	24%
Natural Gas Positions**	EXE, EQT, ET	Feb-21	\$599,301	\$816,003	36%	17%
Cannabis Real Estate Inv. Trusts	IIPR, NLCP	May-23	\$364,901	\$421,412	15%	9%
Viasat, Inc.	VSAT	Feb-21	\$894,618	\$411,059	-54%	8%
Willscot Holdings Corp	WSC	Jul-24	\$313,348	\$270,109	-14%	5%
Gannett, Inc.	GCI	May-24	\$167,117	\$228,368	37%	5%
Uber Technologies	UBER	Jul-24	\$193,430	\$180,357	-7%	4%
<i>Other Positions</i>	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	<i>\$709,084</i>	<i>n/a</i>	<i>14%</i>
Long Equity Portfolio				\$4,198,747		85%
Short Equity Portfolio				(\$882,610)		-18%
S&P 500 Put Options				\$107,359		2%
Cash (Money Market Funds @ 4% Yield)				\$1,517,790		31%
Total Assets Under Management (AUM)				\$4,941,287		100%

*Current Value includes dividends collected

**Natural Gas Positions include EQT Corp, Expand Energy, Energy Transfer

Our largest contributor by far in 2024 was **The Dallas Morning News (DALN)**. In the Fall of 2024 we increased our stake in DALN significantly, having now acquired ~3% of the total outstanding shares in the company. The evolution of this business from the dying, print newspaper-driven entity and into Texas' largest digital newspaper and one of the fastest growing digital news businesses in the country has been exciting to watch unfold.

Originally, our purchase of DALN's shares – which had a market capitalization of just \$25 million at the time – was predicated on the fact that the value of the business was trading significantly below the value of its cash and real estate, which we estimated at \$40 million. However, the sale of this real estate recently occurred in December 2024 and the value turned out to be >50% higher than estimated; therefore even despite our 85% gain in DALN's shares, the equity is still ~25% below its intrinsic value. We are therefore not selling any shares.

Furthermore, the growth of the digital subscription and advertising businesses (>10% per year) and recent restructuring of the operations has now produced a business we think will exhibit both a high degree of profitability in addition to attractive long-term growth, above our original expectations.

We recently met with the executive management team in Dallas and think their vision of the “digital transformation” will continue to improve the product in 2025, by adding features such as games (e.g., crossword puzzles), comment sections, and video news displays, while continuing to focus the newsroom’s effort on local and regional stories (local politics, sports, etc.), or how national news impacts the Dallas/Ft Worth area. These product additions should continue to drive new subscribers and lower churn of existing subscribers. Other large, regional digital newspapers, like the Boston Globe, have also managed this transformation well and have estimated valuations that are >2x the current valuation of The Dallas Morning News, so we continue to see substantial upside in the shares over the long-term.

Our stake in DALN has nearly doubled in value and now represents 24% of the total assets of Gondolin. While this is an unusually high percentage of our assets, our margin of safety rests with a subscription business model with no debt and an enormous amount of interest-generating cash.

At the opposite end of the spectrum, our biggest unrealized loss in 2024 was our position in **Viasat (VSAT)**, which fell >60% in value. We have not sold any shares nor plan to; Viasat’s second, already-completed mega-satellite (worth >\$1B) still waits to launch, something we’ve now been waiting for over two years. Meanwhile, throughout the year, Elon Musk’s Starlink – a formidable competitor – made great strides in launching and connectivity capabilities that brought about a great deal of fear over Musk’s ability to injure Viasat’s business prospects, notwithstanding a new friendship with the incoming president.

As a result, while Viasat’s revenue and profits continue to grow, *even in the absence of a new satellite launch*, the stock price has suffered greatly over this fear. I believe this risk is drastically overstated and that there will be multiple winners in the fast-growing satellite connectivity space, including SpaceX/Starlink, Viasat, as well as Amazon’s Kuiper network, the latter of which will soon be launching their network over the next few years.

Most recently, in November, Viasat’s management team signed amended compensation agreements that highlighted “change of control” provisions, potentially foreshadowing a sale of the business, possibly to Amazon or to another strategic acquirer if Viasat’s board of directors feels their share price will remain undervalued through an elongated satellite launch schedule. If

Viasat's leading shareholders do decide to sell the company, we would profit significantly on our shares, so we are somewhat agnostic to the outcome here, but I still see the business worth multiples of its current value in the face of an outright sale. We'll update everyone in 2025 as the next launch occurs but we're going to remain patient holders of the equity for now.

In the Fall, we also sold out of one of our larger holdings in **United Natural Foods (UNFI)**, which at one point was 6% of Gondolin's assets. UNFI's turnaround strategy has gone well, and they've decided to restructure their grocery distribution business in a way that continues to grow profits but has revenue flattish over the next few years as their independent grocer customers continue to lose at the expense of discount grocers like Sprouts and Trader Joe's, as well as to wholesale subscription models like Costco and BJ's. UNFI's new strategy will keep profits growing slowly but keeps a lid on our long-term upside potential, hence the sale. Nonetheless, the owned real estate assets were heavily undervalued at the time of purchase, and we generated an 80% return on our position, with the return contributing a +3.5% weighted average gain to the fund in 2024.

Finally, our three natural gas positions continue to do very well (collectively up +30% in 2024), which include the two largest natural gas producers in the US, **Expand Energy (EXE; formerly Chesapeake Energy)** and **EQT Corp (EQT)**, as well as one of the largest gas pipeline owners in the world, **Energy Transfer (ET)**. We've discussed the importance of natural gas to the world at great lengths in former letters, so I'll refrain from going too deep again, but the thesis remains the same: a consistent, albeit slow-growing domestic demand for gas in industrial and residential use cases is likely to accelerate due to the fast-growing exports of liquefied natural gas (LNG) as the world weans off the dirtiest form of energy: coal.

In 2024 there were two positive developments that impacted our gas positions: (1) first, investment in large-scale data center projects tied partly to artificial intelligence (AI) investment have accelerated demand for natural gas-generated electricity, which now contributes ~50% of the US electricity usage, up from ~40% just 10 years ago; and (2) second, recent consolidation of the major natural gas producers has put the profit pool of natural gas production into just a few hands, from what was dozens of small players a decade ago. Over time this industry should continue to refine itself away from the boom/bust nature of large production surpluses and deficits and work towards a more harmonious stream of production (and profit) growth that matches demand; we're going to continue to hold these positions collectively in size, at 17% of Gondolin's assets while this transformation continues to unfold.

Given the very large gains in the stock market in both 2023 and 2024, needless to say, our short equity portfolio has suffered sizeable losses so far, but as 2022 proved, short equity books are

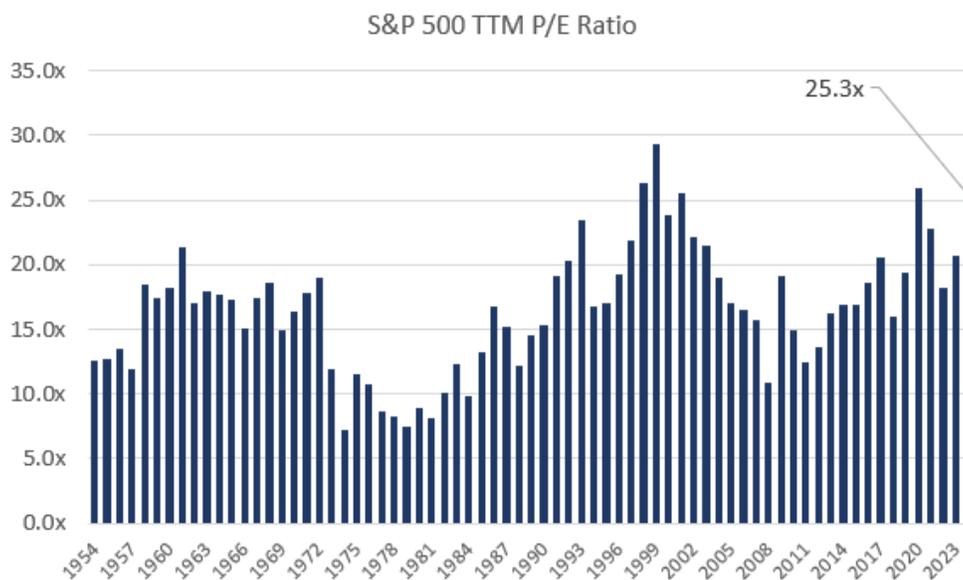
powerful hedges when market valuations come back to earth, a la 2001, 2008, 2011, 2020, and most recently 2022.

As of December 31, 2024, we are holding 13% cash, 18% short positions, and the balance (69%) in long equities, resulting in a high level of cash and short positions relative to our long-term target. Few of our equity investments are exposed to cyclical downturns, with ~2/3 of our owned positions operating in recession-proof industries, mostly in defensive industrials, rent collectors, and subscription businesses. The largest 10 positions comprise around 70% of the assets.

Market Commentary for 2024

The stock market again advanced to record highs in 2024, and we continue to be bearish the broader market, and particularly the S&P 500 valuation level. The S&P 500 has advanced +50% in the last two years, while corporate earnings growth has grown just +7% over the time, creating a significant rise in the valuation of the market versus profits generated. The presidential election victory of Donald Trump spurred market valuations (S&P 500) even further, to levels not seen since 1999 (price / earnings basis: see below); as a reminder, the last two times market finished the year at >25x its trailing earnings (1999, 2021), the index fell >25% within the next two years – it does pay to be patient and liquid.

While our call for a broader market peak was too early, we’re going to continue to hold large amounts of cash and short equity positions to hedge against the expected turbulence ahead. We also think there will be much better opportunities to purchase great businesses at cheaper prices than what today affords.



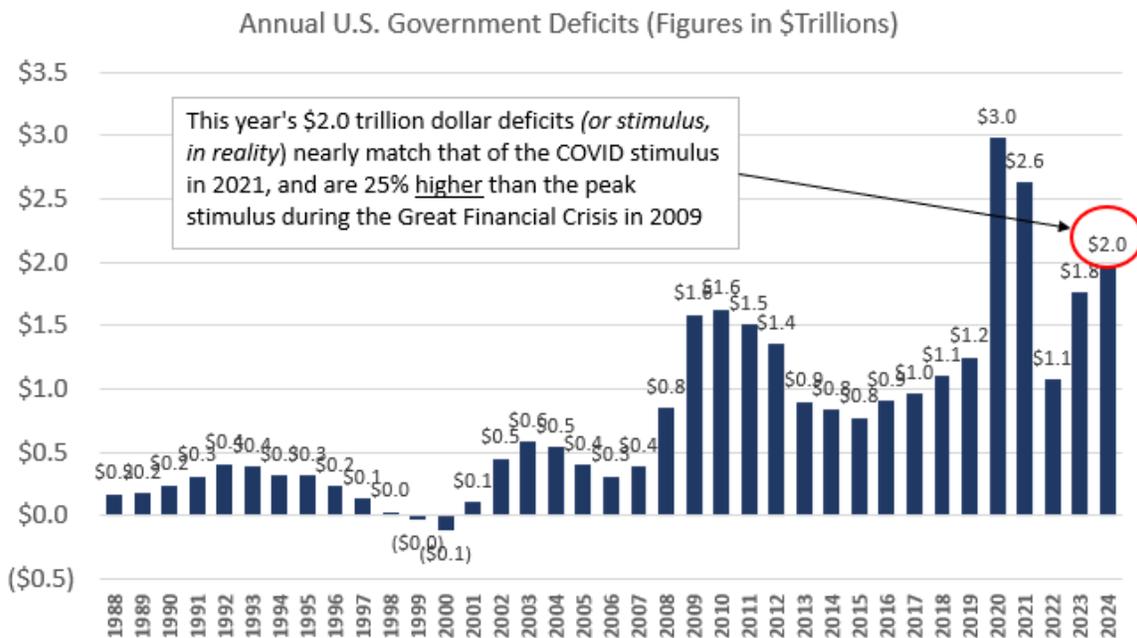
Source: Bloomberg, NYU Stern

The economy remains fundamentally weak as interest rates remain at a high level, inflation is slowing but remains elevated, employment stagnates (and is debatably now falling), and corporate bankruptcies rise. United States economic growth continues to rest on record-high, multi-trillion dollar government deficits that we think simply cannot last, creating a risk event for corporate earnings when this stimulus invariably fades.

Without these deficits, we would be removing >\$2 trillion in spending (~7% of GDP!), which is likely propping up millions of jobs in the utility, construction, healthcare, and defense industries. These deficits are also the saving and spending lifelines for tens of millions of Americans on social security fixed incomes, in addition to their Medicare and Medicaid benefits. Similar to the mortgage crisis, the deeper we allow government deficits to become entrenched as a driver of the economy, the worse it will be when the music stops.

Most other G-7 nations, including Japan, Italy, Germany, France, and the UK are seeing similarly sized budget deficits and have begun to enter austerity mode with new power regimes in place (similar to our own recent political changes). In fact, throughout 2024, only three major economies (US, Canada, China) so far escaped economic declines. If inflation persists at moderately high levels (>4% YOY), wage earners will continue to feel like they're on a treadmill, as costs (e.g., education, housing, property taxes) seemingly continue to outpace incomes. In fact, the only two times in the last 100 years that incumbent presidents lost back-to-back was 1976 (Ford) and 1980 (Carter) – both in the middle of inflationary cycles.

In sum - we're going to remain fundamentally cautious until this overspending bubble deflates.



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) 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.

I want to thank everyone for continuing to trust me with your investment capital and I'm looking forward to an exciting 2025. Wish you and your families the best.

Gratefully,

A handwritten signature in cursive script that reads "Adam Ballantyne".

Adam Ballantyne
Founder and General Partner