MIDWAY PARTNERS

CAPITAL MANAGEMENT

August 31, 2021

Re: Month One

Dear Partners:

The Partnership has officially completed its first month of investing.

It was an eventful month for the broader markets with the S&P 500 setting several new all-time highs throughout August. At first glance, this might seem like a terrible time to begin making any kind of public-equity investments, and it is true that many companies are trading for prices that we believe are unjustified given their historical and likely future free cash flows. However, the largest five companies make up almost 25% of the S&P 500's market capitalization. This leaves plenty of opportunity to hunt for quality companies selling at reasonable prices among the 495 other constituents of the index as well as the thousands of additional U.S. and global public companies – we are casting a wide opportunistic net.

We believe we have found several such opportunities. The Partnership invested about 28% of the capital subscriptions from July. This includes six long-equity positions. Over the coming months we will continue to build these positions and deploy capital defensively in additional opportunities where we believe positive outcomes outweigh the potential downside. In the meantime, we maintain a large cash balance.

Cash Balance

As they say, "cash has been trash" for a while now given the historically low interest rate environment and ever tightening spreads on investment and high-yield debt. This has led us to forego short-term treasuries or other money market instruments. Our strategy for generating modest income from our cash pile, while waiting for investment opportunities, is to sell out-of-the money put options at prices where we would be happy to purchase the underlying stock.

We collect a premium for selling this quasi-insurance and are obligated to purchase the stock at a pre-determined price. We enter these contracts typically from one to six months and at prices well below the current market price. These contracts typically generate between 5% and 10% annualized cash yields. If a stock's price falls below the strike price, we may be forced to purchase the stock at prices higher than the current market price at that time. We would likely be buying these stocks at the lower prices anyway, so why not get paid a cash premium while we wait for companies we like to go on sale?

This is not a strategy that we will always utilize, but with the market making all-time highs and extremely low interest rates, it gives us the opportunity to generate a reasonable return on a portion of our cash balance. The notional value of the put contracts sold totals about 12% of the month ending cash balance.

Stock Investments

As the Partnership makes investments, we will periodically comment on new or important positions within the portfolio. As of the month ending August 2021, the Partnership's largest position was Intel, Inc. (INTC). Intel's troubles have been well documented with delays in its next generation chip technology and notable customer and market share losses. These have caused the stock to decline to what we believe are attractive prices. We like situations where the stock price implies extremely low go-forward company expectations.

It's not that we don't expect Intel to face continued headwinds; we do. The good news is that the company does not need to produce miracles to outperform these low expectations and generate satisfactory returns for shareholders at these price levels. Intel's current market capitalization is about $215 billion. The last three calendar years 2018-2020, it generated an average of $17 billion of free cash flow (specifically, $21 billion in 2020 and $16.5 billion for LTM June 2021). If we assume Intel grows its free-cash-flow by only 2% annually (conservative even given its challenges) and a conservative equity return of 9%, the company's intrinsic value is about $250 billion. Given these low expectations and the price discount to intrinsic value, we think this is a fantastic opportunity with asymmetric risk versus return dynamics (in our favor).

Thinking about it another way, Intel only needs to grow its annual free cash flow to $21 billion over the next ten years by 2031 to justify these prices. It generated $20 billion in 2020. Given industry growth rates and reasonable rates of return on investment opportunities, we believe these expectations are quite achievable.

There are of course other reasons to like Intel:

- Operates in an oligopoly with two other large semiconductor manufacturing companies (Taiwan Semiconductor Manufacturing Co. and Samsung Electronics, Co.)
- Overall semiconductor demand growth
- Size and scale versus competitors
- Sturdy balance sheet
- Vertically integrated design and manufacturing
- Opportunity to expand contract manufacturing
- Attractive historical returns on net business assets
- Strategic nature of U.S.-based semiconductor technology to national security

Without an attractive price, these factors would only make this a potentially great company not a great investment opportunity. The relationship between intrinsic value and price is the key to great investment opportunities.

Performance and Communication

While the Partnership's initial investments in August produced a small gain, we caution partners from agonizing over daily, weekly, monthly, or even quarterly returns (positive or negative). Our focus is long-term, and our strategy is to invest in companies that produce cash and compound over time. This will not occur in a straight line not only with the underlying businesses but especially their stock prices.

Please see your individual account statement for current balances which should be received via email or through the investor portal.

While we are providing this letter following the first month of operations, we intend to fall into a quarterly cadence of delivering information to our partners. Letters will vary in length and detail depending on market and portfolio conditions. If interim updates are necessary, we will not hesitate to provide additional correspondence. The next letter will be sent following the September close and quarterly thereafter. Please feel free to reach out at any time with comments or questions.

Conclusion

The Partnership is actively taking new subscriptions from qualified clients. We welcome any referrals from current partners. Please contact info@midwaypartnersllc.com for more information.

This is the first step in a long journey, and we are honored that you have chosen to be a part of the Partnership.

Sincerely,

Jordan Lampos

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There are substantial risks in investing in securities of the partnership and each investor must have the financial ability, sophistication, experience, and willingness to bear such risks. Parties should independently investigate any investment strategy or manager, and should consult with qualified investment, legal, and tax professionals before making any investment decisions. An investor should not make an investment unless the investor is prepared to lose all or a substantial portion of its investment. There is no secondary market for the interests nor is any expected to develop.

Interests in the partnership have not been registered under the Securities Act of 1933, as amended, in reliance on registration exemptions thereunder. The partnership is not registered as an investment company under the Investment Company Act of 1940, as amended, in reliance on exemptions thereunder. The Investment Manager is exempt from both state and federal registration as an investment adviser and accordingly is not registered as an investment adviser in any state or with the Securities and Exchange Commission.