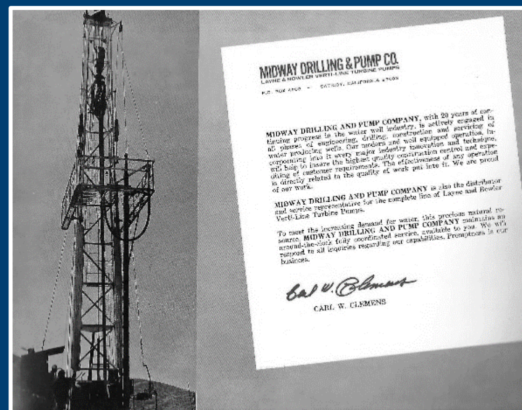
MIDWAY PARTNERS

CAPITAL MANAGEMENT

Midway Partners Capital Management was named after a business that was founded by Jordan Lampos' grandfather and great grandfather, Midway Partners Drilling & Pump Co. It was founded in 1945 and operated for almost 75 years.

While not affiliated or in the same industry, the two companies share a common set of core values. Midway Drilling & Pump Co. built a reputation of integrity and trust with clients. Midway Partners Capital Management aims to do the same.

The picture shown is a page from the company's 1965 brochure.



MIDWAY DRILLING & PUMP CO.
LAYNE & BOWLER VERTI-LINE TURBINE PUMPS

MIDWAY DRILLING AND PUMP COMPANY, with 20 years of continuing progress in the water well industry, is actively engaged in all phases of engineering, drilling, construction and servicing of water producing wells. Our modern and well equipped operation, incorporating into it every major industry innovation and technique, will help to insure the highest quality construction control and expediting of customer requirements. The effectiveness of any operation is directly related to the quality of work put into it. We are proud of our work.

MIDWAY DRILLING AND PUMP COMPANY is also the distributor and service representative for the complete line of Layne and Bowler Verti-Line Turbine Pumps.

To meet the increasing demand for water, this precious natural resource, **MIDWAY DRILLING AND PUMP COMPANY** maintains an around-the-clock fully coordinated service, available to you. We will respond to all inquiries regarding our capabilities. Promptness is our business.

Carl W. Clemens

CARL W. CLEMENS

MIDWAY PARTNERS
CAPITAL MANAGEMENT

midwaypartnersllc.com

Re: Quarter Ending September 30, 2023

Dear Partners:

Quarterly Update

Three quarters of the way through 2023, we believe that the Partnership is performing well. Since its inception on a gross basis, the Partnership has outperformed the S&P 500 by a small margin. On a net basis since inception, the Partnership is slightly behind the broad index by roughly (0.8%).

The table below provides a breakdown of the Partnership's performance.

Net Return	YTD Q3 2023	2022	Compounded Total[1]
Midway Partners[2]	**7.0%**	**(13.3%)**	**(0.3%)**
S&P 500[3]	13.0%	(18.1%)	0.5%

(1) Compounded since inception as of July 1, 2021.
(2) Returns are based on Founders' shares net of all management fees and Fund expenses.
(3) Total index return including dividend reinvestment.
Note: Individual returns may vary given the date of original investment.

Our net return YTD is 7.0% through September 30, 2023, while the S&P 500 has moved higher by 13.0%, both inclusive of dividends. Since inception, the Partnership has returned (0.3%), versus the broad market up about 0.5% on a compounded annual basis.

Portfolio Update

The only major portfolio adjustments in the quarter were additional investments into existing positions. Most of these were in our banking and lending investments, OZK and LEGH. As we stated previously, we would like the Partnership to be more concentrated with a handful of big positions in companies that we believe will be materially larger in the future and continue to generate significant earnings. When the prices of these companies have moved in our favor as a buyer, we have purchased more stock and will continue to do so.

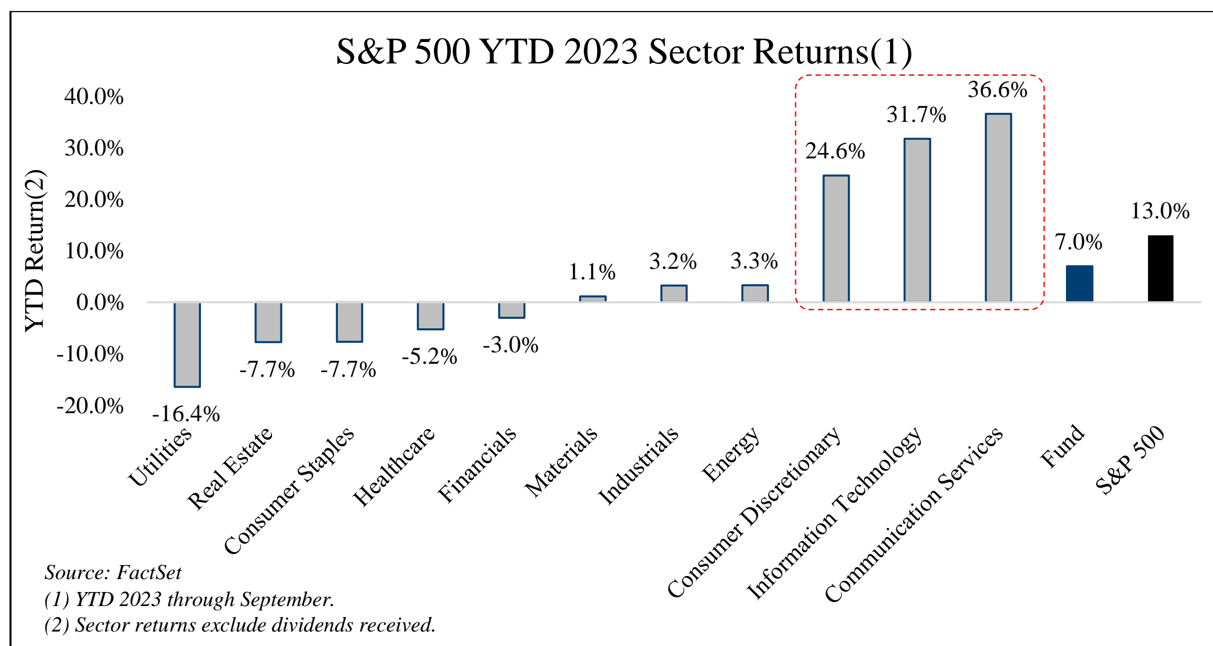
It is important to note that the Partnership has significant additional resources available to take advantage of opportunities as they arise. As of the quarter ending September 30, 2023, we held about 10.4% of total net capital in cash and equivalents up from 6.3% at June 30, 2023. The majority is invested in short duration treasury bills, that because of the rise in interest rates, is earning reasonable, liquid, and dependable nominal returns. This opportunism may contribute to

more modest results in the near-term but will allow us to be aggressive when prices move in a favorable direction as a buyer.

We do not see additional portfolio concentration as adding long-term risk. However, it may add volatility in the short-term as security prices fluctuate. Additionally, turning over the portfolio or adding numerous new positions we believe would detract from long-term performance (especially when taxes are considered). We believe that maintaining five to eight large positions in high-quality companies purchased at attractive prices presents the best opportunity to generate satisfactory long-term results. Similarly, think of all the entrepreneurs and small business owners who have the vast majority of their capital tied up in one company or one business for most of their lives. We don't see why our investing strategy should be any different. We plan to expound on our position sizing methodology for the Partnership in future letters.

Efficient Market?

On the surface the S&P 500's YTD return of 13.0% appears healthy and a good rebound from 2022. The picture begins to muddy when the performance is segmented by sector. Below is a sector breakdown of YTD returns.



Eight of the eleven sectors have returns that range from dreadful to modest. It is clear that something peculiar is happening within Consumer Discretionary, Information Technology, and Communication Services. Each of these sectors include the mega capitalization (mega cap.) companies that are driving most of the broad market's return in 2023. Below is the sector weighting of the mega caps. along with their YTD returns.

Mega Cap. Company Sector Weights		Approx. Market Cap. Sector Weight[1]			Returns[2]	
		Dec. 2022	Sep. 2023	Change	2022	YTD 2023[3]
Communication Services						
Google	GOOG	42.1%	45.0%		-41.9%	44.1%
Meta	META	10.7%	19.5%		-65.5%	146.7%
% Total Sector Market Cap.		52.8%	64.5%	11.6%		
Consumer Discretionary						
Amazon	AMZN	26.7%	31.7%		-49.3%	52.4%
Tesla	TSLA	12.1%	19.2%		-64.3%	103.8%
% Total Sector Market Cap.		38.7%	50.8%	12.1%		
Information Technology						
Apple	AAPL	27.4%	26.3%		-29.1%	30.2%
Microsoft	MSFT	23.8%	23.1%		-29.2%	31.4%
Nvidia	NVDA	4.8%	10.5%		-51.0%	197.8%
% Total Sector Market Cap.		56.0%	59.9%	3.9%		

(1) FactSet market capitalization and sectors.
(2) Returns based on FactSet market capitalization changes, excluding dividends.
(3) Period from 12/31/2022-9/30/2023.

The companies above dominate the overall market return and their sector returns. They have increased their sector market weighting on a combined basis since the start of 2023. Meaning, they have seen their stock prices and market capitalizations appreciate more relative to the other sector constituents.

We know that we have commented on these mega cap. companies in prior letters, and we are not bringing them up now to critique their market prices or quality. What we find most interesting is that the largest companies in the world, followed by millions of investors, analysts, and pundits, can have such large stock price fluctuations. How can one assign any credibility to market prices, when the prices of these companies move down 30.0% to 65.0% in 2022 and then appreciate 30.0%, 50.0%, or even more than 100.0% in the YTD period 2023. How do those who believe in the wisdom of crowds and worship at the feet of efficient markets explain this? We think they may need to do some soul searching. If the market is indeed reflecting all relevant information, what information could be causing such drastic moves?

Did the cash flow expected to be produced over the lifetime of these companies change materially? Did they materially increase the return they will receive on the reinvestment of their earnings to a degree that justifies more than a 100% increase in market price? Do investors suddenly require a lower rate of return, making the cash they produce in the future worth more today (unlikely in this market with long-term bond rates climbing)? We believe the answer is obviously, NO (even with the miraculous support of AI). We think that anyone who looks to market prices as a source of relevant information on the value of a current or future investment, might also find it beneficial flipping tarot cards. A healthy irreverence for market prices and the information they supposedly contain is important when looking to profit by selecting securities that are underpriced relative to estimated intrinsic value.

If one thinks that there are numerous great opportunities in this market, then they don't know what they are doing. To generalize, equity securities are currently not cheap by any stretch of

the imagination (contrary to the imagination of many traders and market pundits). Even with the S&P 500 walking backwards by about (4.5%) (including dividends) during the month of September, we are not seeing great bargains. The S&P 500 is currently priced at about a 4.0% earnings yield. To produce satisfactory investment results given current prices, these companies will have to generate future growth and returns on their reinvested profits at levels that we feel are unlikely. We do not view this proposition as attractive.

With that said, we have found a few specific securities that meet our quality criteria and have begun to move into compelling price territory when compared to our estimates of intrinsic value. For example, a regional bank that has a history of producing between 12.0%-15.0% average returns on tangible book value (throughout the business cycle) selling for less than 1.20x tangible book value, fits into the attractive category. We expect that returns on tangible book value will fluctuate with macro cyclicality. However, with solid banking fundamentals (conservative underwriting, niche loan expertise, adjustable-rate loans, a stable core deposit base, and long-tenured management), we find the current price extremely compelling. We have one of these businesses in our portfolio – Bank OZK (OZK). As prices move toward tangible book value, we have increased our investment. Regardless of the direction of interest rates or the ever-present impending recession, we see opportunities like these as compelling long-term investments.

Margin of Safety

Given the level of concentration we seek in the portfolio, we need to have a mechanism to insulate against the fact that our estimated intrinsic value may be wrong. It is impossible to predict the future, and unforeseen events will affect the cash flows of companies (both positively and negatively) and, in turn, the market price per share. The primary mechanism we use to guard against intrinsic value mistakes is the Margin of Safety (MOS) or the discount to our conservatively estimated intrinsic value. We must demand this discount before we purchase a security. The MOS is one of the most important parts of the Midway Partners investing process. In order to apply the margin of safety, we must first begin with an intrinsic value estimate. Let's provide a few notes on how we go about this.

Reasonable and Probable

Conservatively estimating intrinsic value is the first step in the investing process. It is the culmination of information gathering, where we review a company, its competitors, and the industry, etc. This might be referred to as due diligence. However, we don't view this as a discreet event, but rather a continuous process that is always building on itself (compounding). As you may have noticed, we typically use the word "conservative" when discussing intrinsic value because it says something about our valuation process. To arrive at a conservative estimate of intrinsic value, we must believe that we understand the economics of a business and industry well enough to distill that information down into several reasonable and probable assumptions.

We do not use assumptions that require a company or its management team to perform operating miracles that have a low likelihood of occurrence. These might include unreasonably high or sustained revenue growth expectations, unrealistically high profit margins, unjustified profit

margin expansion, rapid business expansion without the requisite capital investment, acquisitions that unlock unlikely benefits, undesirably low discount rates, etc. Our valuations and the projections on which they are based are conservative and present the most likely company economics, in our opinion. They are reasonable and probable. This is how we define the "conservative" nature of our intrinsic value estimates. In our minds, when referring to intrinsic value, the "conservative" is always implied. Notice how market multiples or other pricing mechanisms play no part in the actual valuation process.

Price Discounts

As we have said in the past, we will certainly be wrong in our estimates of intrinsic value (although we aim to be as accurate as possible). There will be times when we overestimate value and times when we underestimate value.

If we underestimate value, we will likely pass on the investment given that the market price will appear greater than our estimated intrinsic value. While we may miss out on a great opportunity, this error is unlikely to directly hurt investment results. The greater risk is that we overestimate intrinsic value by thinking that the market price is offering a great deal. Often, we will not know our intrinsic value estimate is erroneous until years down the road which presents a significant challenge when making investment decisions today.

The way that we combat this challenge is to use a MOS. We demand that the prices we pay for investments be below our conservative estimate of intrinsic value by a certain margin. The margin we demand is typically about 20%-30% below our estimated intrinsic value. Stated reciprocally, we demand that the market price be at most 70%-80% of the intrinsic value that we estimate. The MOS has several benefits and helps to manage risk, mainly guarding against hubris in our valuations and providing the potential for returns above our discount rate. Finally, the MOS provides us with the peace of mind that we are building a price buffer into our process.

If we can duplicate this process repeatedly for a handful of companies over several years, we believe that the investment outcomes will be satisfactory.

Price Discipline

The discipline to only invest when market prices provide a favorable MOS is one of the most difficult parts of investing, in our opinion. Think about it this way; a professional investor spends their long days poring over companies, financial reports, industry due diligence all with the intent of identifying a great company. At last, they have done it. They have found the perfect business – great growth, great margins, great returns on capital, great management. Then they turn to the valuation and quickly realize that given reasonable future assumptions the intrinsic value does not support the current market price (if they even do an intrinsic valuation). They can't let all that work go to waste. After all, they know that other managers are buying the stock. What do you think they do?

In most cases we believe that these managers will devise other strategies to justify their purchase. They might use ambiguous pricing techniques, i.e. exotic multiples, or cherry-picked comparable

peer groups, etc. to justify their purchase. After all, they need to show investors proof of all the hard work they have done and finding a shiny new portfolio position is the pudding. Unfortunately, we believe that this leads to suboptimal returns. It is difficult to spend considerable professional time on a potential opportunity to ultimately pass, but that is exactly what must happen most of the time if one wants to find the truly great investment opportunities.

Our partnership may not trade that often or turnover the top names in the portfolio frequently. We may go several letters with only a small amount of portfolio activity to report. Our goal is to be ready with a vault full of knowledge and due diligence, when the truly great opportunity (great company plus great price) comes along.

The Midway Partners Process

The obvious rebuttal to the above is that our entire process and the MOS is completely arbitrary. We can estimate any intrinsic value we want. Moreover, if we want a larger MOS, we just project a higher value. This rebuttal would be entirely correct. The only proof that we are applying these concepts in an impactful way is the returns that the Partnership generates over long periods of time. Our experience, judgement, and intellectual honesty are the primary investing tools we use to internally judge our investing process and decision making in the short run.

Our internal assessment of the Midway Partners investing process thus far, is that we must better adhere to our MOS discipline. In reviewing the Partnership's investments since inception, we believe that there is a direct link between the return on a particular investment and the MOS at the time the investment was made. Instances where our MOS discipline was more lenient, i.e. we accepted a smaller discount to intrinsic value, have been situations where the investment results have been disappointing. Our goal, therefore, is to be unwavering with our MOS discipline. If we do not receive an adequate MOS at the current market price, we will not invest. This may lead to higher portfolio cash balances in the future as we search for these opportunities.

It is important to note that we do not determine exactly when and if we make an investment. We are consistently valuing businesses and must wait for prices to move in our favor as a buyer. Companies often trade at prices at or near our estimates of intrinsic value and may never trade at a meaningful discount, thus never providing the MOS necessary to make an investment. In which case we wait patiently.

Conclusion

The Partnership is actively taking new subscriptions from institutions or qualified clients who share our common views on investing. We are actively looking to increase the number of Partners. We welcome referrals.

Also, for retail clients or those who do not wish to participate in the Partnership structure, Midway Partners Capital Management offers separately managed accounts using a similar intrinsic value approach. Please contact JL@midwaypartnersllc.com for more information.

As always, we are honored that you have chosen to trust Midway Partners Capital Management with your capital.

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.