

Question: What do all these companies have in common?

 Chevron	 Hyperion	 FICO	 Kelly-Moore Paints
 Tesla	 SpaceX	 McAfee	 Align Technology
 Sendoso	 Green Dot Corporation	 Oracle	 Blaze Pizza
 Neutrogena	 Boingo Wireless	 Obagi Cosmeceuticals	 AECOM
 Tanium	 Arctic Wolf	 Ruiz Foods	 PARSONS
 X	 Home Franchise Concepts	 CBRE Group	 Pabst Brewing

Answer: Major companies that have moved their headquarters out of California in the last several years. Thousands more small companies have left or closed. Why does the California government not seem to care?

THE BIG PICTURE



"What, Me Worry?"
- Alfred E. Neuman

What is inflation anyway? The late Milton Friedman wrote that "inflation occurs when the quantity of money rises appreciably more rapidly than output, and the more rapid the rise in the quantity of money per unit of output, the greater the rate of inflation. There is probably no other proposition in economics that is as well established as this one." Why do so many pundits over complicate a ham sandwich?

Price Risk vs. Fundamental Risk. At THG we try to keep it simple. We look for investments with durable long term fundamentals, and we try very hard not to overpay. Consider Nvidia Corp, which per Bloomberg currently trades at a total enterprise value to EBITDA of 43x. While the fundamentals of the company probably remain sound, what justifies this astronomical valuation? It seems priced for perfection, particularly in a historically very cyclical industry prone to large swings.

We have written extensively about private equity and private credit in recent quarters and now we offer this: private strategies have grown to enormous scale, with private equity managing over \$9 trillion in assets and private credit more than \$2 trillion. That's the good news. The bad news is that, taken together, these two asset classes are so large and intertwined that they now pose a potentially systematic risk much as sub-prime mortgages did in '07-'08. The clues are already there according to Bloomberg: portfolio companies' ability to cover interest expense is at its lowest level since 2008 and stakes in private equity funds now trade well below where they are marked. We'll see how this plays out, maybe soon.

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INVESTMENT & CONSULTING UPDATE

Real Estate

- Closed a follow-on investment for an apartment complex in Jacksonville, FL, targeting a 20% IRR.
- Closed a value-add apartment deal in Austin, TX.
- Evaluating the purchase of a deeply discounted loan to a student housing complex.

Public Securities

- Continued to search for yield and conserve dry powder in volatile markets.
- New investment in a large defense contractor based in the U.K.
- New investment in a leading provider of aircraft maintenance, repair and overhaul.
- Exited document services company following premium takeover offer.

Funds, Private Equity and Venture Capital

- Evaluating an early stage fund led by Stanford students.
- Evaluating the purchase of a chain of convenience stores in the Southeast.

Consulting

- Continuing to work with a large family business contemplating a sale and establishing a family office.