January 6, 2025

December 2024 - Investor Update

Dear Friends & Partners,

Our investment returns are summarized in the table below:

Strategy	Month	YTD	12 Months	24 Months	36 Months	Inception
LRT Global Opportunities	-7.21%	+15.79%	+15.79%	+14.97%	-5.02%	+18.68%

Results as of 12/31/2024. Periods longer than one year are annualized. All results are net of all fees and expenses. Past returns are no guarantee of future results. Please see the end of this letter for additional disclosures.

LRT Global Opportunities is a **systematic** long/ short strategy that seeks to generate positive returns while **controlling downside risks** and maintaining a low net exposure to the equity markets.

For the month of December, the strategy return was **-7.21%,** bringing overall results to **+15.79% for the year**. All results are net of fees. Beta-adjusted net exposure was 23.53% at month end. The attribution of December's return was -0.61% from market beta, and -6.59% from our alpha generation.[1] Our longs detracted significantly from performance partially offset by our shorts. Top gainers on the long side included Taiwan Semiconductor Manufacturing (TSM), Williams Sonoma Inc (WSM), Burlington Stores, Inc. (BURL), Wyndham Hotels Resorts Inc (WH) and Deckers Outdoor Corp. (DECK) offset by losses on Integrated Electrical Services, Inc. (IESC), Exponent Inc. (EXPO), and HF Sinclair Corporation (DINO). See the appendix for additional disclosures.

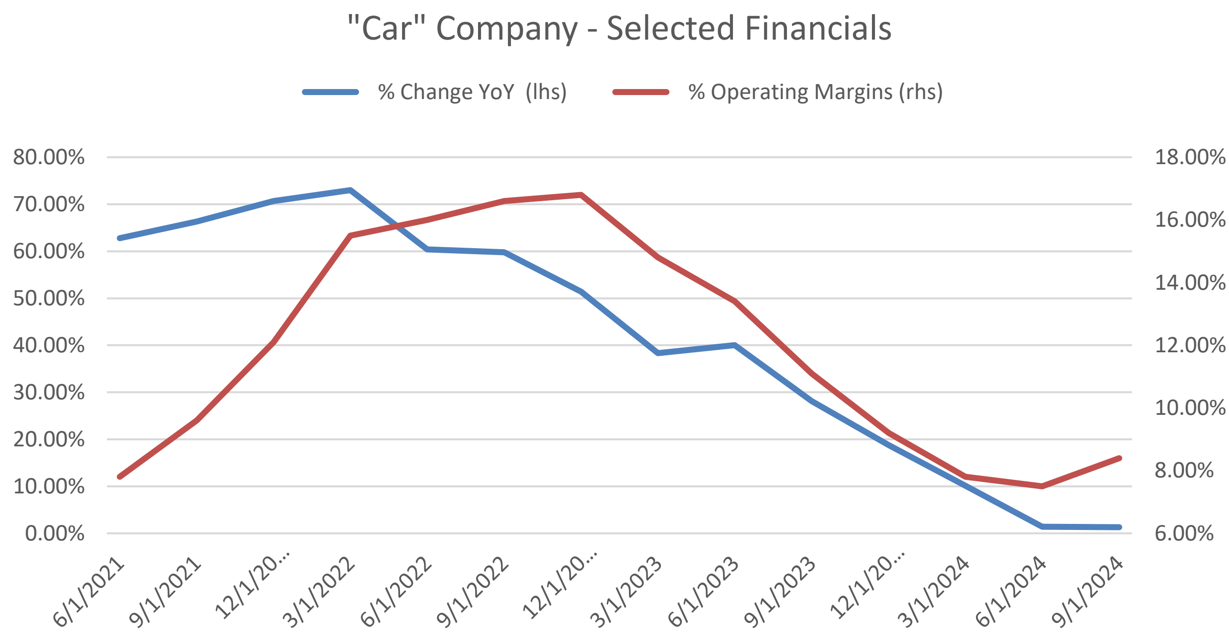
For the year, small cap stocks delivered approximately 11%, mid-caps 14% and large-caps 25%. In this context, we believe our 2024 returns were quite good. We delivered a +15.79% return with very little market exposure (beta < 25%), while not owning any of the Magnificent 7[2] stocks that drove more than 50% of the returns for the overall market in 2024. We believe we are very well positioned to take advantage of market opportunities and have very limited exposure to the overall market – something that we consider a strategic advantage given that we are in one of the most overvalued and overhyped markets in decades. We look forward to continued strong performance in 2025.

[1] Numbers may not add up due to rounding.
[2] NVDA, AAPL, TSLA, MSFT, AMZN, META, GOOGL

Do Fundamentals Matter?

I have always followed the maxim that in the short-term markets are driven by sentiment, but that over the longer term, stock prices follow earnings. Hence an investor that could correctly forecast long term business fundamentals and ignored short term noise would be rewarded with superior performance. Over the past three years my belief in this theory has been severely tested.

Take for example a certain "car" company. As the business was transitioning from a high-growth enterprise to a mature and large-scale operation, you might have forecasted that competition and market saturation would lead to slowing sales growth and declining profit margins. And as the chart below shows, you would be correct in your analysis.

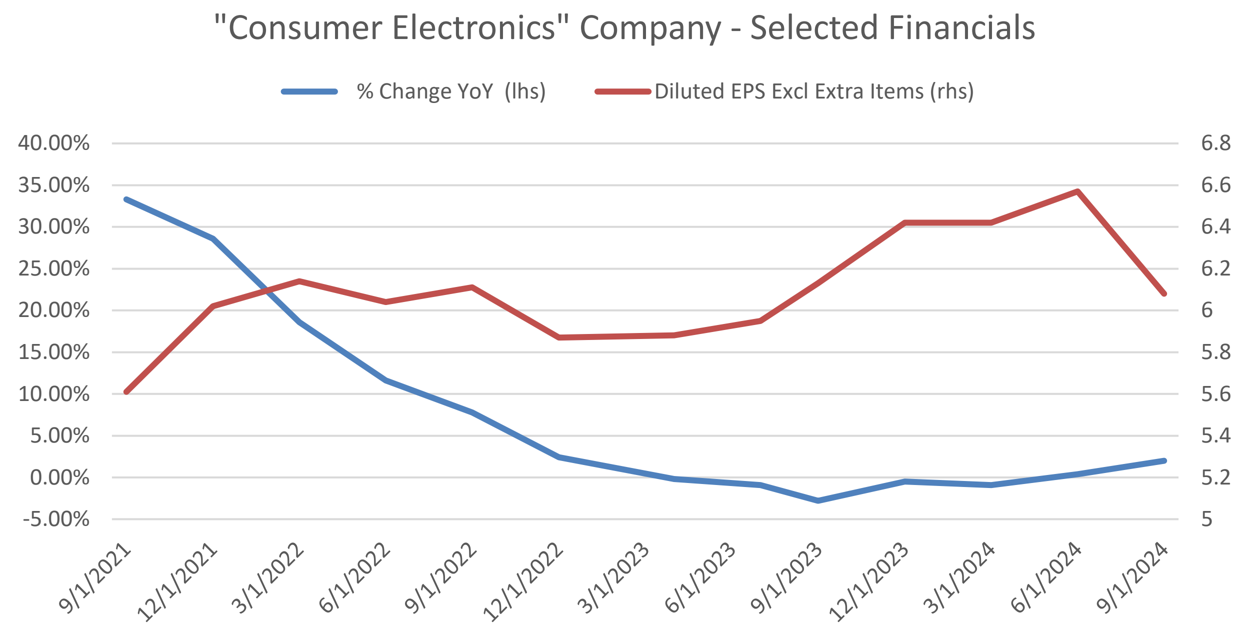


Source: Bloomberg

This company started the period at a very high valuation: P/E of 135x, EV/EBITDA 65x, P/S of 12x. These are valuation metrics that we believe imply very high growth and profitability going forward. What's more, at the beginning of the period, short-term interest rates were 0% and the U.S. 10 Year bond yield was a 1.5%. Perhaps in such an environment a company with strong margins and high growth rates deserved such a valuation multiple.

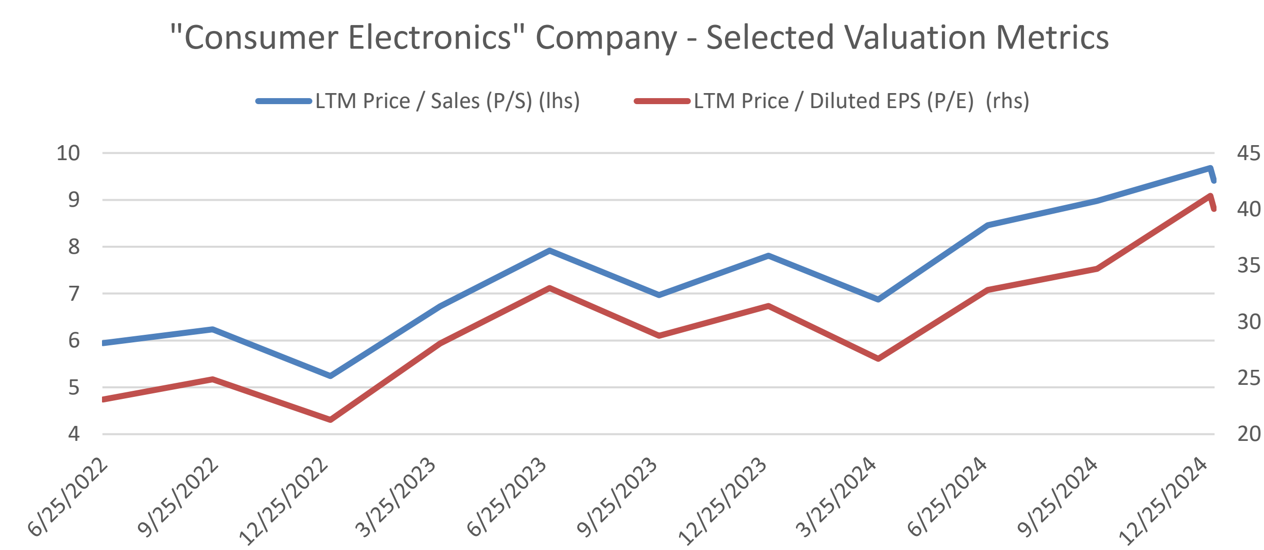
Today the short-term interest rate is 4.25% and the U.S. 10 Year bond is at 4.6%. So what became of our "car" company, given the sharp rise in interest rates, the collapse in the company's margins (cut in half) and revenue growth (down to 0%!!!)? You might have expected the company's valuation to collapse and with it the stock prices. And yet, the company in question currently trades at a P/E of 132x, a EV/EBITDA of 66x, and a P/S 12x. The company in question is Tesla, Inc. (TSLA) for those that haven't figured it out yet.

This is not an isolated incident. Let's look at another. This company is a very large consumer electronics business. Below is a chart of the company's revenue and earnings per share over a similar period to Tesla's.



Source: Bloomberg

Overall, over this period revenue grew by 6.89% and earnings per share by 8.38% (EPS grew faster due to share buybacks). Cumulative inflation over this time was more than 25% - so in real terms the company is shrinking. What do you think happened to the company's valuation over this time? The chart below might surprise you.

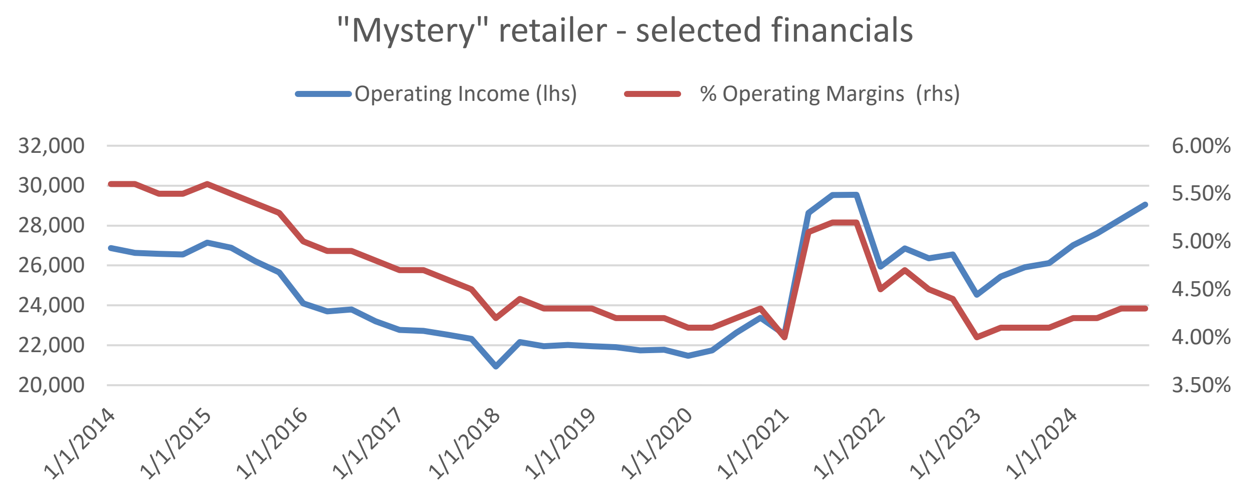


Source: Bloomberg

Not to beat a dead horse but remember that interest rates went up very sharply during this period. Higher interest rates could be expected to reduce the valuation of other assets – to paraphrase Warren Buffett: interest rates are to stocks like gravity is to apples. And yet, investors have been willing to pay a higher and higher valuation for this company over the past three years despite the company's sales and earnings growing slower than inflation. What's more the company share buybacks are now almost certainly value destructive for shareholders since the valuation of the company translates into an earnings yield of 2.5%, while cash pays 4.3%. The company is taking cash that yields 4.3% and uses it to buy shares yielding 2.5% - which one would you prefer to have 2.5% or 4.3%? (this is not a trick question). The company in question is Apple, Inc. (AAPL) of course. I don't have anything against Apple, but paying the highest valuation in history for the largest company in the world with earnings that are shrinking in real terms while it conducts value destructive share buybacks seems wrong to me.

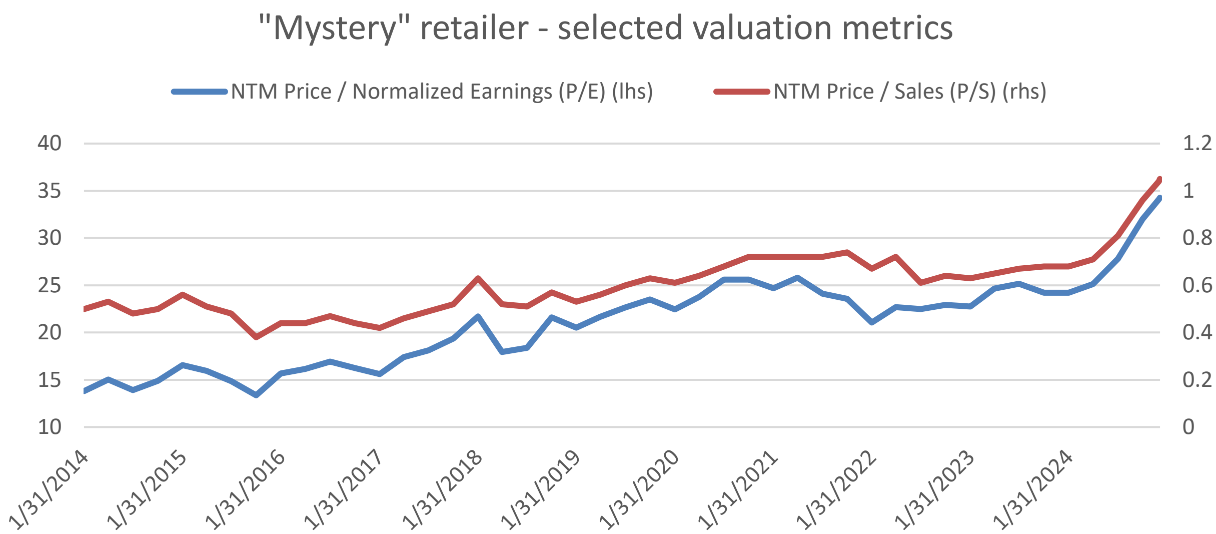
Both Tesla and Apple of course are members of the Magnificent 7 – stocks which we avoided in 2024. In both cases our analysis of the fundamentals was correct, yet the stocks rocketed higher during the year.

While my last two examples involved companies that might be deemed high-tech, my final one is decidedly not. This old company is a slow but steady grower. Unfortunately, its operating margins continue to decline and are now at close to the lowest level in over twenty years. Over the past decade the company's operating profits have grown at 0.9% per year – far below inflation.



Source: Bloomberg

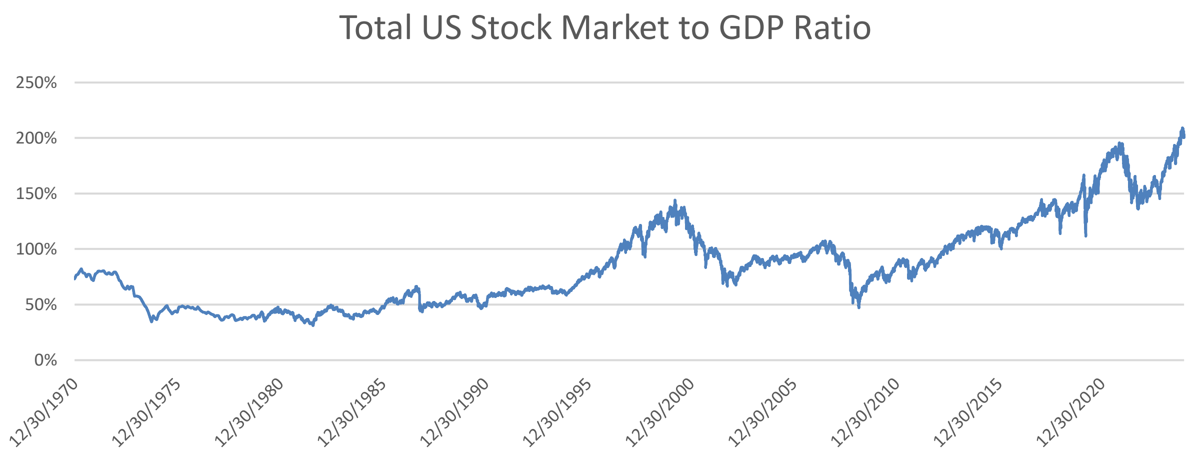
So, what became of the company's valuation over this time? I won't keep you waiting in suspense. Investors are now willing to pay the highest valuation ever for the company's shares, both in terms of earnings and sales (with declining profit margins!!!). The company in question, if you haven't guessed already, is Walmart, Inc. (WMT).



Source: Bloomberg

There are many more such examples: companies with poor fundamentals trading up to valuations that seem completely disconnected from the overall market and the level of interest rates. Short term market “manias” have always happened, but over the long term (3 years), fundamentals used to matter and stock prices followed fundamentals. This has clearly not been the case over the past several years. It has therefore been an extremely difficult environment for prudent investors who make decisions based on fundamentals. In fact, 2024 was the best year for the so called “momentum” factor – simply buying stocks that are going up in prices and selling those that are going down. Per Morgan Stanley, the US Momentum factor, returned 57% in 2024 while the US Value factor declined -17% during 2024.

The United States stock market remains overvalued by an amount rarely seen in history. The valuation of the market as measured by price-to-earnings, price-to-sales, price-to-book, or price-to-GDP are all either at the highest levels ever or very close to them. The last one of these, price-to-GDP deserves a special mention. You can see it in the chart below. Think of the economy, as measured by GDP, as a horse that must pull a cart (the total value of investments). As the cart gets bigger and heavier, the horse will go slower. Or put another way, the real economy (GDP) is what must produce returns for the financial economy (investments) – if the financial economy is larger relative to the real economy, the overall returns naturally must be lower.

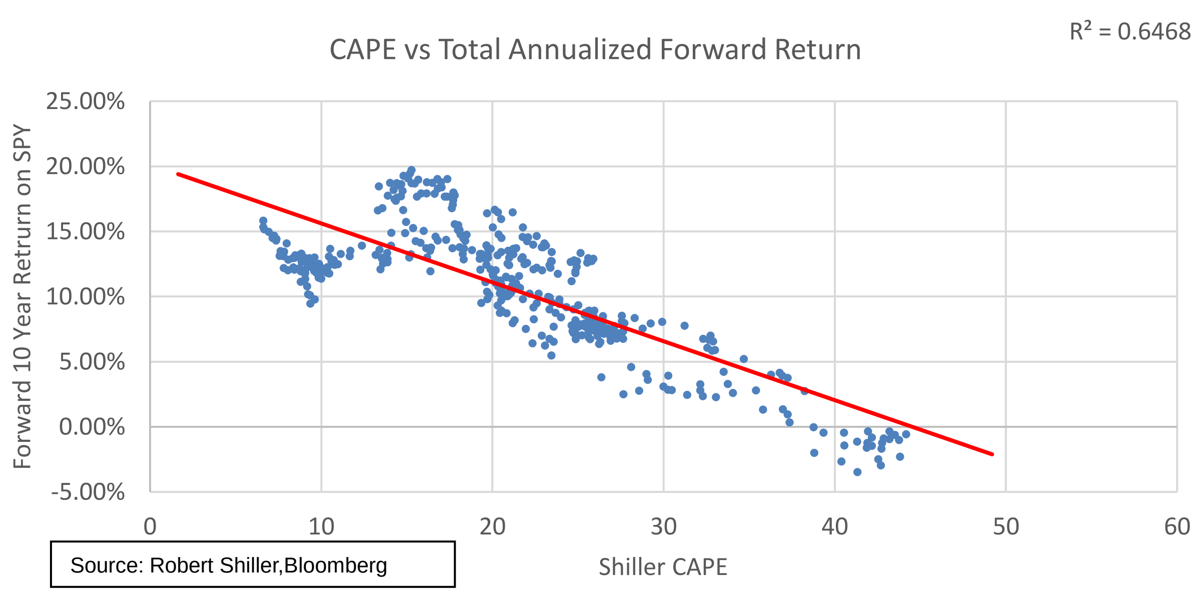


Source: Bloomberg

This simple analogy shows you why future investment returns are almost certainly lower when you start from a high valuation. This is also true empirically (see chart below). It is important to note that mean-reversion of valuation does not factor in this. Mean-reversion may make things even worse for investors, but you do not need to believe in mean reversion occurring to believe that future returns will be lower.

We are happy with our overall returns in 2024, given how extreme the environment has been for momentum and value returns and our continued cautious and defensive posture. Because of the extremely high valuation of the U.S. stock market, we believe that investors will be well served by having a lower-than-normal exposure to risk assets. Having said that, we do see opportunities in the traditionally more defensive sectors such as health care, consumer staples, as well as foreign stock markets where valuations are significantly lower than in the United States market.

Over the past year, we have been very critical of the hype and resulting valuations that investors are assigning to A.I. and we expect the A.I. bubble to burst in 2025. We believe that investors should take a cautious approach given the looming risks.



Source: Robert Shiller,Bloomberg

I take seriously the responsibility and the trust that you have given me as a steward of a part of your savings. As always, if you have any questions, please don't hesitate to contact me. I appreciate all your ongoing support.

Lukasz Tomicki
Portfolio Manager
LRT Capital

Attributions and Holdings as of 1/2/2025

LRT Global Opportunities	
Top Twenty Holdings (%) – As of 1/2/2025	
Exponent Inc. (EXPO)	4.31
Wyndham Hotels & Resorts, Inc. (WH)	3.22
Primerica, Inc. (PRI)	2.93
Chemed Corp. (CHE)	2.89
ConocoPhillips (COP)	2.82
Global Payments Inc. (GPN)	2.77
Cognex Corporation (CGNX)	2.30
Asbury Automotive Group, Inc. (ABG)	2.29
RLI Corp. (RLI)	2.26
Colliers International Group Inc. (CIGI)	2.13
Comfort Systems USA Inc. (FIX)	2.12
The Ensign Group, Inc. (ENSG)	2.09
Casey's General Stores, Inc. (CASY)	2.00
Interactive Brokers Group, Inc. (IBKR)	1.98
American Tower Corporation (AMT)	1.90
Darden Restaurants, Inc. (DRI)	1.83
Aspen Technology, Inc. (AZPN)	1.83
Extra Space Storage Inc. (EXR)	1.75
Toro Co. (TTC)	1.66
Simpson Manufacturing Co., Inc. (SSD)	1.64
Top Holdings Total (% of total long exposure)	**46.72**
Total Long Holdings	91

Hedges (%) – As of 1/2/2025	
iShares Russell 2000 (IWM)	-15.25
iShares Core S&P Small-Cap (IJR)	-15.85
Vanguard Small-Cap ETF (VB)	-16.87
iShares Core S&P Mid-Cap (IJH)	-17.90
Vanguard Mid-Cap ETF (VO)	-20.06
Overall Net Exposure (%)	**42.13**
Beta-adjusted Net Exposure (%)	23.52

Return Attribution	
Return Attribution (%) – December 2024	
Long Equity	-9.35
Hedges	6.76
Unlevered Gross Return	-2.59
Leveraged Gross Return	-7.12
Net Return	-7.21
Beta contribution	-0.61
Alpha contribution	-6.59
Net Return	-7.21

Top Contributors – *December 2024*
Vanguard Mid-Cap ETF (VO)
iShares Core S&P Small-Cap (IJR)
iShares Russell 2000 (IWM)
iShares Core S&P Mid-Cap (IJH)
Vanguard Small-Cap ETF (VB)
Taiwan Semiconductor Manufacturing Company Limited (TSM)
WilliamsSonoma Inc (WSM)
Burlington Stores, Inc. (BURL)

Top Detractors – *December 2024*
Integrated Electrical Services, Inc. (IESC)
Exponent Inc. (EXPO)
HF Sinclair Corporation (DINO)
Saia, Inc. (SAIA)
Comfort Systems USA Inc. (FIX)
UnitedHealth Group Incorporated (UNH)
Albemarle Corporation (ALB)
Primerica, Inc. (PRI)

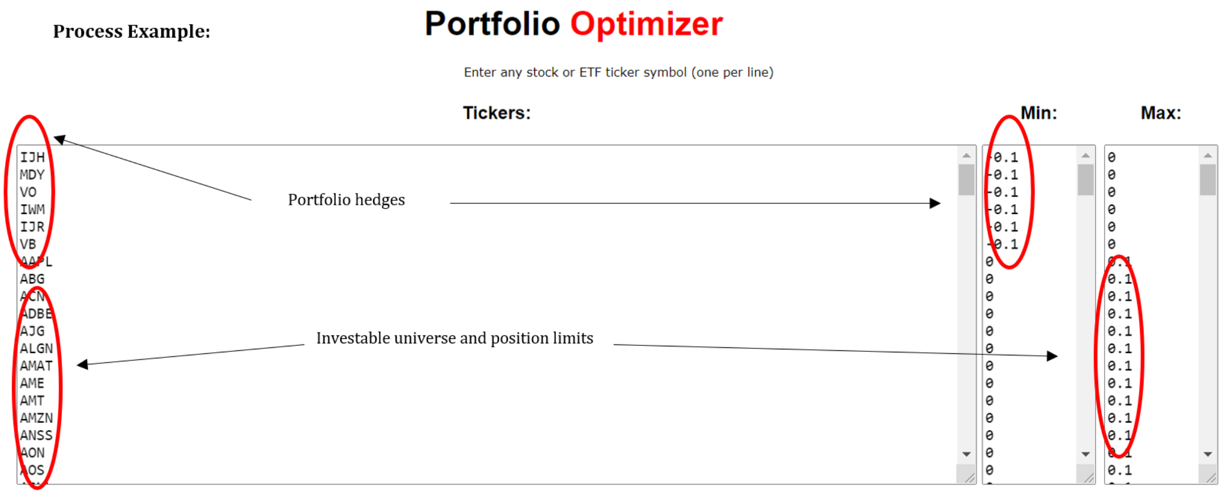
Source: Bloomberg, Sentieo.

Numbers may not add up due to rounding. Net returns are net of a hypothetical 1% annual management fee (charged quarterly) and 20% annual performance fee. Individual account results may vary due to the timing of investments and fee structure. Please consult your statements for exact results. Please see the end of this letter for additional disclosures.

Appendix I: Portfolio Construction Software Overview

LRT separates the discretionary and qualitative **process** of selecting the equity holdings from the portfolio construction **process** which is **systematic** and **quantitative**.

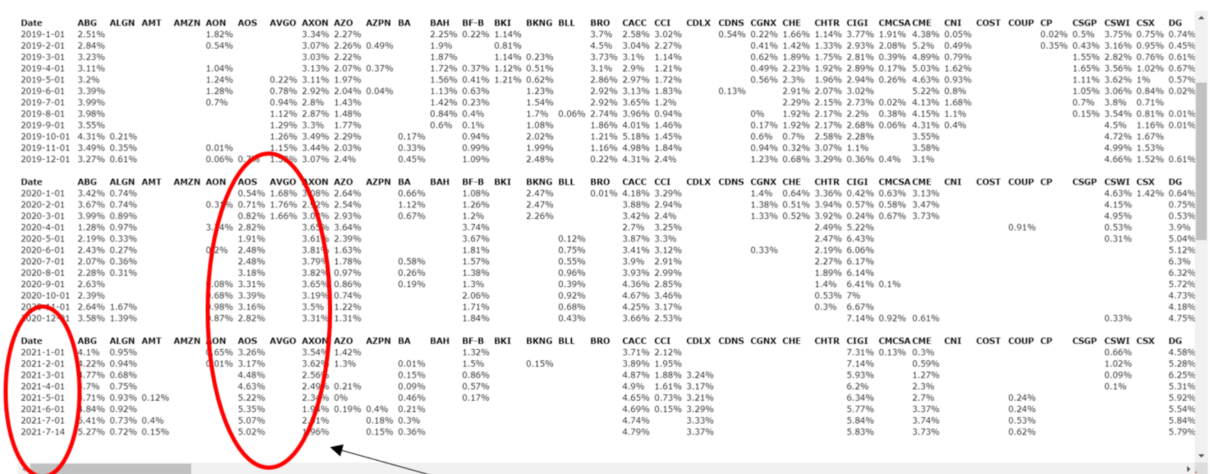
Process Example:



Our quantitative process considers each position's contribution to portfolio volatility, contribution of idiosyncratic vs. systematic risk and portfolio factor (size, value, quality, momentum, vol, etc.) exposures.

The system outputs target portfolio weighs for each position. We trade mechanically to rebalance the portfolio each month to the targeted exposures. This eliminates emotions, human biases, and overconfidence risk. Visit https://www.lrtcapital.com/risk/ to learn more. Visit: https://hubs.ly/Q02kfbbK0 to see more examples.

Example system output:



Position weights over time

Rebalancing dates, and current date target allocation (7/14/2021 in this example).

Disclaimer and Contact Information

LRT Capital Management, LLC is an Exempt Reporting Adviser with the Texas State Securities Board, CRD #290260. Past returns are no guarantee of future results. Results are net of a hypothetical 1% annual management fee (charged quarterly) and 20% annual performance fee. Individual account returns may vary based on the timing of investments and individual fee structure.

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Investment in the Fund involves significant risks, including but not limited to the risks that the indices within the Fund perform unfavorably, there are disruption of the orderly markets of the securities traded in the Fund, trading errors occur, and the computer software and hardware on which the General Partner relies experiences technical issues. All investing involves risk of loss, including the possible loss of all amounts invested. Past performance may not be indicative of any future results. No current or prospective client should assume that the future performance of any investment or investment strategy referenced directly or indirectly herein will perform in the same manner in the future. Different types of investments and investment strategies involve varying degrees of risk—all investing involves risk—and may experience positive or negative growth. Nothing herein should be construed as guaranteeing any investment performance. We do not provide tax, accounting, or legal advice to our clients, and all investors are advised to consult with their tax, accounting, or legal advisers regarding any potential investment. For a more detailed explanation of risks relating to an investment, please review the Fund's Private Placement Memorandum, Limited Partnership Agreement, and Subscription Documents (Offering Documents).

Indices are unmanaged, include the reinvestment of dividends and do not reflect transaction costs or any performance fees. Unlike indices, the Fund will be actively managed and may include substantially fewer and different securities than those comprising each index. Results for the Fund as compared to the performance of the Standard & Poor's 500 Index (the "S&P 500"), for informational purposes only. The S&P 500 is an unmanaged market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. The investment program does not mirror this index and the volatility may be materially different than the volatility of the S&P 500.

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LRT Capital Management, LLC
108 Wild Basin Road, Suite 250
Austin, TX 78746
Office: +1 512 320 9085
www.lrtcapital.com