LEGACY RIDGE CAPITAL MANAGEMENT, LLC
kris@legacyridgecapital.com
nate@legacyridgecapital.com

Legacy Ridge Capital Partners Equity Fund I, LP

2024 Mid-Year Letter

To June 30th 2024:	LRCP Equity Fund I Gross	LRCP Equity Fund I Net	S&P 500	Russell 2000	MSCI World
Trailing 6-month Total Return:	25.6%	19.7%	15.3%	1.7%	13.7%
Trailing 1.5-yr Total Return:	71.4%	53.7%	45.5%	18.9%	40.7%
Trailing 2.5-yr Total Return:	92.9%	69.5%	19.2%	-5.5%	15.8%
Trailing 3.5-yr Total Return:	173.5%	124.5%	53.4%	8.5%	41.8%
Trailing 4.5-yr Total Return:	202.5%	144.7%	81.6%	30.2%	65.2%
Trailing 5.5-yr Total Return:	210.0%	150.8%	138.8%	63.4%	111.6%
Trailing 6.5-yr Total Return:	198.3%	141.2%	128.3%	43.5%	97.0%

The figures above are on a cumulative basis and are unaudited. Future results will also be presented on a cumulative basis in this section. Annual results will be illustrated below for those who wish to measure us based on 12-month cycles. However, we view the cumulative results as most meaningful since we are trying to build wealth far into the future and the annual results are only important in as much as they contribute to a 3, 5, 10, and 20-year track record.

Annual/Interim Results:	LRCP Equity Fund I Gross	LRCP Equity Fund I Net	S&P 500 Energy	AMZ	XAL
1H24:	25.6%	19.7%	10.6%	17.7%	-16.3%
2023:	36.5%	28.4%	-.6%	26.6%	28.2%
2022:	12.5%	10.3%	64.2%	30.5%	-35.0%
2021:	41.8%	32.4%	53.3%	39.9%	-1.7%
2020:	10.6%	9.0%	-33.7%	-28.8%	-24.2%
2019:	2.5%	2.5%	11.8%	6.5%	21.3%
2018:	-3.8%	-3.8%	-18.1%	-12.4%	-22.4%

To reiterate, our goal is to have good absolute returns first and foremost, which should lead to good relative returns versus the broader markets. However, I also think it's important to highlight the performance of the primary sectors in which we feel we have an advantage and in which we invest. There is no reason to present this other than for transparency reasons. Owning a highly concentrated portfolio will prevent our results from looking like anything we compare them to in most years, but knowing the performance of energy broadly, midstream energy specifically, and North American airlines will add some context for those partners who wish to do some higher-level analysis. Please see the accompanying disclaimer & footnotes at the end of the letter for a broader description of each of these indices.

RESULTS FOR 1H2024

The partnership returned 25.6% gross, 19.7% net of accrued performance fees through June. Despite being only 70% invested, concentrated in 9 cyclical companies, not hedging our positions, and animal spirits once again inflamed across markets, our performance has been decent on an absolute and relative basis. With Nvidia, Microsoft, Amazon, Meta and Eli Lilly contributing 55% of the S&P 500's return this year, none of which we own of course, we're happy to even be within earshot of the index, let alone beating it. Excluding the "Magnificent 7" the index only returned 6.3%, versus the 15.3% headline number. Broad performance across the market has certainly been respectable, but spectacular performance has generally come from a narrow sliver of Large Cap Growth stocks.

Being the progeny of a mutual fund company, our competitive spirit also incites us to compare ourselves to that corner of the money management world, even though we have completely disparate strategies and fee structures. Morningstar estimates a measly 18.2% of actively managed mutual funds outperformed the S&P 500 YTD; down meaningfully from the still paltry 27.1% annual average over the past decade.[1] And while our partnership returned 48% gross over the trailing 12-months, the best performing actively managed US stock fund, according to the WSJ at least, returned 42.4% (out of 1,218 in the survey)[2]. Net of fees our performance would be 500bps lower, but then again that fund was down 36.8% in 2022 and still charged investors 1.2%, while we were up 12.5% and charged investors 2.2%. Our performance-based fee structure prevents us from making a cent when we've had such poor returns (less than +4% in fact).

Nate and I continue to think our unconventional, yet logical approach is the right one for long-term success. Our primary focus is on absolute returns, and we will consider ourselves successful if we're able to outperform the market's historical long-term average—call it 12%ish. Inception-to-date our annualized return is 18.3% gross, 14.5% net[3]. So far, so good.

And that concludes the first and last Legacy Ridge Partners' marketing campaign for the year!

Portfolio Update

Our level of caution—as measured by the percentage of assets held in cash—is relatively high and we averaged ~30% in cash and equivalents over the first 6-months of the year. With most of that idle cash currently earning 4%+, the opportunity cost of such a position is somewhat minimal while the opportunity set available to deploy said cash is very minimal. Few sectors seem out of favor.

One of the sectors we know well which had been out of favor for several years has quickly come into favor: Independent Power Producers (IPPs). We've written consistently about NRG and VST since the 2019 letter, have owned each, or both, since 2018, and invested a meaningful amount of our assets in VST specifically the past few years. Nate and I intend on spending more time in the year-end letter on our updated views on the IPPs and our learnings from the on-going investment, but we were a bit surprised

[1] https://www.wsj.com/finance/investing/why-your-fund-manager-cant-beat-todays-stock-market-a5a14688?mod=saved_content

[2] https://www.wsj.com/finance/investing/top-stock-mutual-funds-tech-heavy-fd619b98?mod=saved_content

[3] Fund inception to date annualized returns for the indices mentioned in this letter are as follows: S&P 500—13.5%; Russell 2000—5.7%; MSCI World—11%; S&P 500 Energy—8.2%; AMZ—9.6%; NYSE Arca Airline Index—(9.8)%.

how quickly the narrative around these companies changed. Our Blue Sky 2030 estimates of intrinsic value converged with the share price 6-years before we thought probable. In the 2019 letter, with respect to VST, we wrote:

> *"Over the next decade management should have close to $15 Billion to deploy to share repurchases. If you assume they have to pay an average price for the stock that's higher than the current one, and they can only repurchase 60% of shares outstanding instead of the 100% the math implies, FCF per share in 2030 would be $14. That's a $70 stock at today's valuation, but a $140 stock at a more reasonable FCF yield of 10%.*"

And…

> *"The IPPs are un-investable for most money managers, so there we are. When they become investable we'll probably be long gone."*

We're not exactly long gone, but sentiment has certainly surpassed investable. After 5+ years of VST trading between $17 - $26 a share—and $26 exactly a year ago—it hit a high of $107 in May on the heels of the Artificial Intelligence (AI) narrative and the implications for electricity demand. While we agree with the prevailing consensus view that more Data Centers will be built, Data Centers require base load energy, and that the US will probably be short base load energy, predicting the rate of any technological advancement is not our area of expertise, and we feel the margin of safety has dissipated. Therefore, what had been our largest position entering 2023 and 2024, and has been our greatest contributor to performance, is now one of the smaller positions in the fund.

In addition to Vistra's performance compelling us to reorder the top of the portfolio, two other positions had news warranting brief updates: Summit Midstream Partners (SMLP) continues restructuring the business and balance sheet, and Equitrans Midstream (ETRN) is getting acquired by EQT (EQT).

Summit Midstream is more a bet on the jockey than the horse. This wasn't the case when I made the initial investment several years ago and I'm guilty of shifting my original investment thesis, as one is prone to do when a stock goes down over 70%. Nine out of ten times this is a big mistake, but our current wager that Heath Deneke and team will straighten this company out is looking like a decent one. Within the past couple months the company divested $700mn worth of assets (the Enterprise Value was only $1.6 billion the day before the announcement), added long-term take-or-pay contracts to the Double E pipeline, and announced a C-corp conversion.

The asset sales occurred in two separate transactions, allowing SMLP to fully exit their position in the Utica and Marcellus basins at a 7.4x multiple. After the asset sale, management embarked on a broader refinancing package, issuing new Senior Secured 2nd Lien Notes due 2029 at 8.625%, while redeeming all other maturities with a little help from the credit facility. With several quarters of FCF capable of paying down the ~$120mn drawn on the revolver, by 2026 the only debt remaining should be $575mn from the new Notes. The chart below illustrates the progress made since Heath joined the company.

($ in millions)	Pre-Heath	6/30/23	9/30/23	6/30/24 - PF	7/30/24 - PF
Unrestricted Cash		$14	$17	$210	$20
ABL Revolving Credit Facility		$328	$295	-	$120
8.625% Senior Secured Second Lien Notes (due 2029)					$575
8.50% Senior Secured Second Lien Notes (due 2026)		$785	$785	$785	-
5.75% Senior Notes (due 2025)		$259	$50	$50	-
12.00% Senior Notes (due 2026)			$210	-	-
Total Debt		$1,372	$1,339	$835	$695
Total Debt, net of Cash	**$1,814**	**$1,359**	**$1,322**	**$625**	**$675**
Series A Prefs	$300	$91	$94	$100	$100
Recource Obligations, net of Cash	**$2,114**	**$1,450**	**$1,416**	**$725**	**$775**
Double E Related:					
Sub Series A Prefs		$121	$123	$127	$127
Permian Transmission Credit Facility		$150	$148	$141	$141

Total net obligations are down 63% in 4-years and leverage has declined from 5.4x at the end of last year to 4x today. As a result, interest expense continues to decrease materially, from $127mn in 2023 to potentially as low as $50mn by late 2025.

Management has a leverage target of 3.5x before distributions on the preferred or common equity are reinstated, but we think there is a far better use of capital than dividends. The base business is worth $60-$70 a share in our opinion and Double E is worth $18+ a share, for a combined value of ~$80, or 125% above the current price. At such a steep discount to intrinsic value investors would be far better served by share repurchases than they would by dividends. We hope Heath and team change tact when that time comes, but regardless there is a lot of value left to capture.

Lastly, we wrote about Equitrans Midstream (ETRN) in the 2023 mid-year letter, primarily discussing that company's long and expensive journey completing the Mountain Valley Pipeline and the short-term opportunity we took advantage of. After all the hand wringing and stress with respect to that one project the whole business will end up right where it started, as part of EQT Corp. (EQT). In March, EQT announced they are acquiring each ETRN share for .3504 EQT shares. The transaction should close within the next several weeks.

EQT is the top natural gas producer in the United States with a dominant position in the Appalachian Basin and will become one of the lowest cost gas producers in the US, if not the lowest, after consummating this merger. Our fund is going to exchange the ETRN shares and become EQT owners. The investment checks important boxes for us: 1) a disciplined management team focused on tangible value creation; 2) an ability to generate significant FCF that gets returned to shareholders; 3) exposure to a commodity with strong secular demand trends, which gives us a call-option on higher prices. At only 5% of our assets it will start as a small position for us, but with natural gas prices volatile and back in the low-$2's we should have ample opportunity to exploit the volatility over time and hopefully make it bigger.

Kind Regards,

Kristopher P. Kelley
7-21-2024

Disclaimer & Footnotes

This letter is for informational purposes only and does not reflect all of the positions bought, sold, or held by Legacy Ridge Capital Partners Equity Fund I, LP. Any performance data is historical in nature and is not an indication of future results. All investments involve risk, including the loss of principal. Legacy Ridge Capital Management LLC disclaims any duty to provide updates to the information contained within this letter.

This letter may include forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors which may cause actual results and performance to be materially different from any future results and/or performance expressed or implied by such forward looking statements.

Performance for 2018 is provided by Richey May & Associates, our auditor, and was provided via a Performance Review for a separate account that was transferred into the Fund and constituted 100% of the assets of the Fund as of November 1, 2018. Results are net of fund expenses. All performance related figures for the Partnership are unaudited.

Indices are provided as market indicators only. It should not be assumed that any investment vehicles managed by Legacy Ridge Capital Management will, or intend to, match provided indices in holdings, volatility or style. Index returns supplied are believed to be accurate and reliable.

The S&P 500 is a market capitalization weighted index that measures the performance of the 500 largest US based companies. The Russell 2000 Index is a market capitalization weighted index that measures the performance of the smallest 2000 stocks in the Russell 3000 Index and is a common benchmark for smaller companies. The MSCI World Index is a market capitalization weighted index that is designed to be a broad measure of equity-market performance throughout the world. It is comprised of stocks from 23 developed countries and 24 emerging markets.

The AMZ is an index provided by VettaFi and measures the return of 19 Master Limited Partnerships on a total return basis. The S&P 500 Energy sub-index comprises those companies included in the S&P 500 that are classified as members of the GICS energy sector. There are currently 25 constituents in the S&P 500 Energy sub-index. The XAL is the NYSE Arca Airline Index. There are currently 16 constituents in the XAL, with most domiciled in the US.

This letter does not constitute an offer or solicitation to buy an interest in Legacy Ridge Capital Partners Equity Fund I, LP. Such an offer may only be made pursuant to the delivery of an approved confidential private offering memorandum to an investor. This reporting does not include certain information that should be considered relevant to an investment in Legacy Ridge Capital Managements investment vehicles, including, but not limited to significant risk factors and complex tax considerations. For more information please refer to the appropriate Memorandum and read it carefully before you invest.