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ELM RIDGE

"Still Kicking"

Second Quarter Report • June 30, 2024

"Graham and Dodd investors are people who place a very high value on having the last laugh. In exchange for the privilege, they have missed out on a lot of laughs in between."
– Michael Lewis

Elm Ridge	2nd Quarter 2024	2024	2023	2022	Inception-To-Date Annualized
Net Performance	**-3.2%**	**1.7%**	**-15.4%**	**48.6%**	**6.0%**
Gross Long Contribution	-3%	5%	7%	15%	11%
Gross Short Contribution	0%	-3%	-21%	25%	-5%
S&P 500	**4.3%**	**15.3%**	**26.3%**	**-18.1%**	**7.5%**

Run it Back

"I wouldn't have seen it if I hadn't believed it."
–**Marshall McLuhan**

"The young man knows the rules, but the old man knows the exceptions."
–**Oliver Wendell Holmes**

"My incentive in starting Vanguard, I'm very blunt about this, it was my means of preserving my career. That's a very selfish thing."
–**John Bogle**

The markets continued to fly and did not bring our forsaken holdings along for the ride, with both pieces eerily similar to where we sat in February/March 2000 when I sent this out to our investors:

> The public is withdrawing money from value, index and basically all non-tech and biotech funds at a record pace… We had a number of companies go from 5x cash flow to 4x while their businesses continue to improve… The valuation gaps are unprecedented and have soared well past the nifty-fifty era of 1972-3 and 1929 as well. I can't tell when it will end, but I am not going to chase the mania because the very attributes (blind faith, chasing momentum) that would enable the fund to capitalize on the current craze will mean that the fund will follow it over the cliff when it collapses. I am confident that this will at some point reverse (I have well over 1/2 my liquid net worth in the fund)… and will stay the course, but do not know when. I do not want to strain our friendship so If these results make you uncomfortable, I'll waive the tie-up. On the other hand, if you have other money benefiting from current trends… then the fund provides a good hedge for an era when fundamentals, and stock prices once again matter.

We'd argue that the same holds true today.

And, as I did for much of the last three months, I'm going to turn it over to Sheetal, who invests almost exactly as I would, but has a much more measured personality and usually forsakes the provocative proclamations that I so enjoy. Recalling a discussion while I was still stuck in a hospital bed

> The investing business is designed to go too far. Anything that works attracts capital, which in turn, drives up prices of the things that are working and attracts even more money. Professionals may realize it will end badly but they are never going to turn away new money, even if they are forced to invest it in higher priced or riskier copies of what has been working to this point.
>
> It's like the Big Short is happening all over again. Back then everyone chased higher yields by gobbling up mortgage-backed securities, which fueled riskier and riskier loans to homeowners. Now they're now buying similarly sliced and diced CLOs [Collateralized Loan Obligations] supporting hard to believe private credit and real estate results churned out by PE firms. Everyone along the chain – fund managers, allocators and corporations – is incentivized to play along. No one knows when it will end, but the more capital they throw at what's working, the farther we'll fall when we run out of new people to buy in. As usual, retail investors will probably take more than their fair share of the pain.

And Now for Something Completely ~~Different~~ the Same[1]

"Consistency is the last refuge of the unimaginative."
–**Oscar Wilde**

"Someone sent me a postcard picture of the earth. On the back it said, "Wish you were here."
–**Steven Wright**

"A clear conscience is usually the sign of a bad memory."
–**Steven Wright**

Personally, the last quarter was nearly the ultimate suck, as I was laid up in a hospital bed keeping me from the chain sawing, crashing mountain bikes, whacking tennis balls into the net, rehashed storytelling – and of course, stock market research – that you've come to know and love/are bored with. All gripes aside, I want to thank all of you who really went the distance in helping me get through it.

To add to my agony, when the underpaid nurses, PT folks and care assistants found out what I did for a living, they would almost always explain how well they were doing with whatever they had in the stock market (starting with 401k's but supplemented whenever possible as returns got better) with portfolios filled with Nvidia, Apple, Microsoft et al, and some index products dominated by the same names. Then they would mention how comfortable they were with a more stable investment product with what seemed like a bunch of random letters in its name (most likely fixed annuities), i.e., the retail packaged PE and real estate that most of you own.

Indeed, those making bank selling these complicated financial gizmos are turning a blind eye to their associated risks. If something didn't happen in either the last ten years (for those whose careers started after the Great Financial Crisis), or since long rates began their 25-year almost monotonic decline back in the mid-nineties (older folks), then it is completely out of mind. When the word "historical," meaning unprecedented, gets tossed around

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[1] For the Millennials among you, this letter's Boomer Dictionary/Reference Guide is a short one.

And Now for Something Completely Different: From *Monty Python's Flying Circus*, first parodied how unrelated subjects used to be announced on television and was the title of a 1971 film consisting of completely unconnected sketches. No link forthcoming as I just went through about ten clips on YouTube, and none would stand the test of time.

Hung out a shingle: From those ancient times where a white collar (they wore suits back then) worker needed to work out of a physical office with the shingle referring to the sign with their name usually hanging from a post or over the doorway.

Hooey: Nonsense.

without any associated time frame, you can usually rest assured that anything prior doesn't count. Here's one former GS head of annuity sales, who has since hung out his own shingle, discussing Fixed Index Annuities with supposedly zero downside.

> Corebridge… the former AIG spin-off … [has] an S&P tied five-year FIA, 0% floor, **no downside risk**, 57% cap over that five-year time period. We measure the S&P on day one, we do so again five years later, and no fee structure…. If you look back over the last three decades and you measure five-year rolling averages, even if you're a knucklehead like me who likes to buy high and sell low, the average rate of return was 58%. When you have a product that has no downside risk in a 57% cap, said another way, that is like riskless S&P exposure based on historical rates of return. Now, obviously, this goes with saying that past performance is not going to be indicative of what we anticipate in the future, but should history repeat itself, you get to have all of the upside and none of the downsides, and you would think that would cost an exorbitant fee to do so, but it actually saves you money because it costs no fee in most instances

Note that it is extremely difficult in our business to distinguish between the Marjorie-Taylor Greene/Bernie Sanders types – who can capitalize on the fact that they genuinely seem to believe their sales pitch – and those (Josh Hawley, Tucker Carlson and Elizabeth Warren come to mind) who almost surely understand that they are pumping out a stream of hooey, but recognize that their personal success is tied to maintaining its pressure.

It doesn't really matter. Their message is nearly uniform and an eager public sucks it all up, producing the same recurring manias and crashes that have characterized markets for centuries.

Play it again, Sam.[2]

[2] As a creature of habit, I feel the need for at least one YouTube clip and *Casablanca* (starring Humphrey Bogart and Ingrid Bergman way back in 1942) wasn't that funny. https://www.youtub e.com/watch?v=zH4UBmjVuS4

Disclosures and Notes to Performance

Past performance should not be construed as an indicator of future performance. Inception is January 2000.

(a) The performance figures are estimates and unaudited. (b) All returns presented are calculated on a time weighted, total return basis (include all dividends, interest, accrued income, realized and unrealized gains and losses and commissions). Gross Returns do not reflect the deduction of a 1.5% management fee, applicable fund expenses, or a 20% performance allocation. Net Returns include dividends, net interest, and reflect the deduction of a 1.5% management fee plus applicable fund expenses; they are also net of a 20% performance allocation, if applicable; (c) These returns are not GIPS compliant. These returns are not AIMR compliant as they represent only the performance of the Series A, Class 1 shares. Individual investor returns may vary due to several factors, which include but are not limited to: the timing of subscriptions and redemptions; differences in fee structures; individual investor account high water marks, and differences in tax treatment. Because of certain governmental regulations, not all accounts are New Issue eligible. New Issues contributed approximately 9.6% gross to the performance figures presented for the year 2000, 0.6% gross for the year 2001, 0.09% gross for the year 2002, 0.48% gross for the year 2003, 0.47% gross for the year 2004, 0.30% gross for the year 2005, 0.17% gross for the year 2006, 0.24% gross for the year 2007, 0.03% gross for the year 2008, 0.01% gross for the year 2009, 0.03% gross for the year 2010, 0.05% gross for the year 2011, 0.00% gross for the year 2012; 0.05% gross for the year 2013; 0.05% gross for 2014; 0.01% gross for 2015 and 0.00% thereafter; (e) All performance figures are before-tax returns. Actual after-tax returns depend on an investor's individual tax situation and may differ from those above. (f) All historical performance and exposure statistics reported in this letter prior to October 1, 2001 refer to Elm Ridge Value Partners, L.P., a 3(c)1 limited partnership. (g) All S&P 500 performance percentages are shown with dividends reinvested. The S&P 500 has not been selected to represent an appropriate benchmark to compare Elm Ridge Management's performance, but rather is disclosed to allow for comparison of Elm Ridge Management's performance to that of a well-known and widely recognized index and is not intended to imply that the fund's portfolio is comparable to this index either in composition or elementary risk. The S&P 500 Index is a market-capitalization weighted index containing the 500 most widely held companies chosen with respect to market size, liquidity, and industry. The index is calculated on a total return basis with dividends reinvested. (h) The Form 13F that is filed on a quarterly basis by Elm Ridge contains the required details concerning our portfolio.

Where indicated, select performance results included in this document are hypothetical returns which have been compiled by Elm Ridge Management. Hypothetical performance results may have inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. One of the limitations of hypothetical performance results is that they are prepared with the benefit of hindsight. There are numerous other factors related to the markets in general or to the implementation of any specific trading strategy which cannot be fully accounted for in the preparation of hypothetical performance results and all of which can adversely affect actual trading results.

Any hypothetical performance results do not include the reinvestment of dividends, interest, and capital gains, and do not reflect the deduction of Elm Ridge Management's investment advisory fees. Thus, actual return will be reduced by the advisory fees and any other expenses which may be incurred in the management of the fund. All investments involve risk including the loss of principal.

Cumulative and annualized returns are shown. Cumulative returns represent the amount, including all interest or dividends and capital gains received on an investment over a period, usually expressed as a percentage of the amount invested. Annualized returns represent the increase in value of an investment, expressed as a percentage per year.

Contribution figures are estimated and may not sum due to rounding and compounding effects. Estimated Gross Long and Short Contributions are calculated independently by compounding the respective monthly returns.

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