Alpha Wealth Funds, LLC

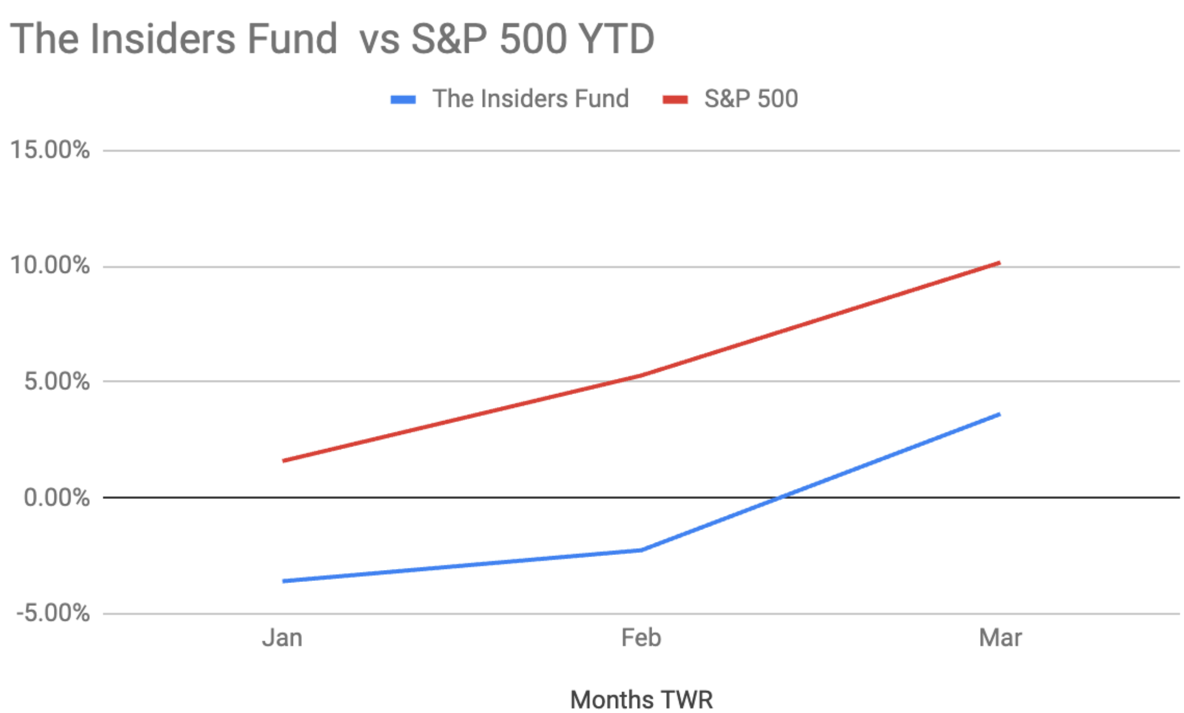
"the opportunities never stop"

April 5, 2024

The Insiders Fund, LP 1st Quarter 2024 Partner Letter

the Internet moment has arrived

The Insiders Fund's was up ~5.45% for March, bringing 2024's returns up to ~3.0%. The S&P 500 was up 4.63%, bringing its YTD return to 10.16%, the best start of the year for the index since 2019. Your own returns will vary slightly from this based on the date of your investment and fee arrangements. NAV Consulting provides the official results for the Fund.



Paying close attention to what insiders are doing with their own money has historically been a very successful way to invest. However, it doesn't always outperform the market, and many times, it underperforms. *That doesn't mean we underperform, as witnessed by last month.*

We're in a period of insider underperformance now. Academically, this observation is impossible to prove because it depends on your definitions, as do most theories. For example, which insiders are we observing? Are they corporate officers or directors or 10% shareholders? How much are they buying? These are all groups that are required to report insider transactions in a timely manner.

If you follow the Insiders Blog, I go into quite some detail about this. The bottom line is that there has been a noticeable lack of insider buying in recent months, and what has occurred is not often in well-known names nor particularly profitable ones. *That being said, our mandate is that we prefer companies that insiders are buying, but we are not handicapped by that preference either.* You will notice that in our current holdings.

This letter is our report card to you. An informed investor will always lead to better results, and I firmly believe our results are better when we take the time to analyze what went right and what didn't. I should add that I used multiple research aids throughout this letter, including a few LLMs (large language models). *Any inaccuracies can be attributed to their hallucinations, not mine.*

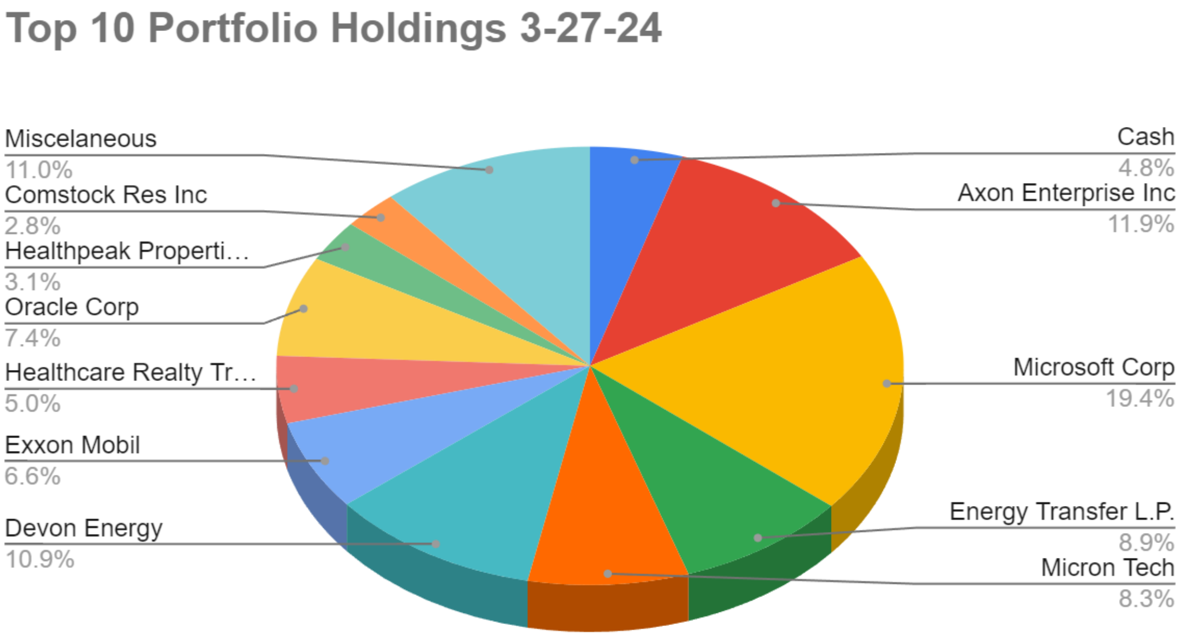
Winners and Losers:

We underperformed versus the benchmarks during the 1st quarter, primarily due to a poor showing in the 1st month of the year. Many things that worked well for us in December reversed at the beginning of the year. Oil and particularly natural gas plunged to levels not seen in decades. The good news is that energy has been one of the best performers in March.

We had our share of bad trades, too, with no one to blame but me. We lost money on Intel yet again. It has potential 10-bagger return from this depressed level, but I've learned an important lesson about the '*difference between being early and wrong. None.'* I'm paying particularly close attention to the impact of upcoming Intel chips and Microsoft OS releases in the fall that start to do AI on the edge.

Most things related to alternative energy, like solar and lithium batteries, were a drag on investor's performance. The kickback in interest rates and the threat of higher for longer pummelled our holdings in our medical REITs, even though this is one area of the office market that looks stable, even healthy. Biotech is soaring, and the coming revolution in synthetic biology and an aging population should auger well for this group. We had a massive amount of Amazon we sold right before their blowout earnings.

We also had some brilliant trades. Our investment in Axon Enterprises paid off brilliantly, Energy Transport pays us over 9% yield at our cost and has appreciated over 20%. We continue to have great faith in the management; insiders continue to purchase shares, and tax-advantaged dividends are a great asset to the portfolio. The best trade of the quarter was our last-minute purchase of Micron and Oracle before earnings. Both companies leaped higher on surprisingly good Q4 returns and forecasts for future growth. We still own both names in size, and you can read more about our investment thesis below.



Portfolio Holdings:

We keep a near-daily journal of our positions, thoughts, trade ideas. and market observations. On March 1st, I wrote that 70% of the portfolio should be devoted to AI, artificial intelligence. Of course, that would be highly risky, especially so since this is not an idea that has escaped many investors. *In spite of all the hype and press, though, I still don't think the market has realized how profound a moment in time we are at.*

Something significant is happening when staid Dell Technologies is up 31% on its latest quarterly earnings. A massive uptick in capex spending is underway, directly attributable to the stampede to embrace AI. After a year or more of belt-tightening in tech spending, that moment has arrived, almost all at once, when companies realize they have to invest in AI or be disrupted or obsoleted by a chatbot, robot, or some version of machine learning. *This is truly an "internet game-changing moment," and the spending free-for-all has just begun.*

The architect behind this 20-year evolution is Nvdia and a handful of researchers breaking ground on artificial intelligence due to the unprecedented leap forward in computing power, trampling Moores's law. According to Mustafa Suleyman in The Coming Wave, published in 2023, "..over the last decade, the amount of computation used to train the largest models has increased exponentially. Google' PaLM uses so much that were you to have a drop of water for every floating operation(FLOP) it used during training, it would fill the Pacific."

These knowable outcomes will be mind-blowing efficiencies in accomplishing routine tasks like answering emails, customer support, knowledge worker productivity, factory automation, etc. The list could go on for pages only limited by my imagination and your attention. The next layer is more complex, solving engineering problems, questions about the building blocks of life, diagnosis of rare, untreatable diseases, and so on, until we get to the questions we don't even know yet.

1. Microsoft (MSFT)

Business: At 19.4%, represents our largest position. We also own deep-in-the-money April and July call options, so the nominal value is closer to 32%. It's easier to ask what software business Microsoft is not in. The sprawling empire just continues to grow, encompassing every part of our lives. Microsoft supplanted Apple as the most valuable company in the world, so it's reasonable to ask, what's left in the tank?
An arms race is just beginning, but it's not the traditional weapons of war. No major company, let alone the world's largest company, has ever embraced a new disruptive technology with more speed and decisiveness than Microsoft.

- **Insider Buying:** None
- **Recent News:** In the **fourth quarter of 2023**, Azure's revenue surged by **29%** during Q4 2023, outpacing AWS's growth rate of **12%**[1] They completed the acquisition of Blizzard, cementing them as the 2nd largest video game company as well as the dominant personal and business computing platform.
- **Our Thesis:** It has everything to do with their CEO, Satya Nadella. Nadella took over the reins of Microsoft on February 4, 2014, as CEO. The company's

1 https://www.crn.com/news/cloud/2024/cloud-market-share-q4-2023-results-aws-falls-as-microsoft-grows

share price had remained stagnant for a decade. Many people, myself included, thought the growth story was over. The Internet browser wars were over. Microsoft Explorer was no longer the gateway to the Internet; Alphabet's Chrome browser supplanted it. 'Google it' became a household verb. Microsoft Bing was hardly even an also-ran. The worst, though, was losing the Windows desktop dominance to Apple. Today more than half the world views the Internet through a smartphone.

Nadella turned the battleship around by making ubiquitous Microsoft Office run on every platform, including Apple. As the world turned to cloud computing, he led Microsoft to become the #2 cloud vendor after Amazon AWS.

The trump card was dealt, though, when they acquired 49% of Open AI, the leading large language model and creator of ChatGPT4. Nadella and Bill Gates engineered the swift embrace of AI. Nadella, on numerous occasions, has explained how AI will be integrated into every Microsoft product, including the ubiquitous Office suite. There is no software business package that envelops personal productivity more than Office.

Not only does Microsoft have the rights to commercialize the IP, but the remaining business of the independent Open AI contractually runs its training and inference in Azure. Not a bad deal for $10 billion when Open AI is marking up its latest funding round at $80-100 billion pre-money.

Not resting to take a victory lap, just two weeks ago, Nadeall hired Mustafa Suleyman and his entire team at Inflection AI, a recently valued $4 billion start-up making an LLM personal assistant. Suleyman will lead Bing and all consumer-facing AI. Suleyman was one of the original co-founders of Deep Mind and led the technical team. Google acquired Deep Mind years in 2014. Deep Mind currently leads Google's AI efforts, but this is a very fluid situation.

Wedbush raised the firm's price target on Microsoft to $500 from $475 and keeps an Outperform rating on the shares. The firm cites incrementally bullish recent AI customer checks with "transformative" Copilot monetization on the doorstep for Microsoft and now starting to manifest across many customers and verticals. Microsoft is on Wedbush's Best Ideas List. The firm strongly views this as Microsoft's "**iPhone Moment,"** with AI set to change the cloud growth trajectory in Redmond. We couldn't agree more, and this is why we have such a high conviction bet in a company with no insider buying activity.

Microsoft is reportedly working on a major version of Windows that will integrate AI deeper into the operating system[1]. This version codenamed Hudson Valley, is expected to launch in the second half of 2024. It's aimed at blurring the line between cloud and edge, which could turbocharge the slow growth operating system business.

2. Axon Enterprise, Inc. (AXON)

- **Business**: AXON is a leading provider of body cameras, Tasers, and other evidence-based public safety technologies used by law enforcement and security agencies worldwide. They have morphed into a SAS company by creating evidence.com, which stores the voluminous film evidence from the ubiquitous body cams.
- **Insider Buying/Selling**: There haven't been recent purchases since long-term director Partovi bought shares in June 2023. AXON has steadily plowed higher.
- **Recent News:** Axon Cloud and Services revenue grew 52% to $561 million. Annual recurring revenue grew 47% to $697 million. Annual net income of $174 million supports Adjusted EBITDA of $329 million. The Company projected full-year 2024 revenue of $1.88 billion to $1.94 billion, representing 20% to 24% annual growth.
- **Thesis:** The founder, Rick Smith, is a thought leader and a visionary in law enforcement. He envisions Axon transforming evidence.com, already a fixture in the legal system, into the government's operating system. Body cams and evidence.com are now the incumbents. The next step will be a land and expand takeover of the emergency and law enforcement response system.

  Axon is growing horizontally and vertically with investments in AI, drones, and augmented reality with the latest generation of Tasers. Axon has never

looked cheap fundamentally, but it's primarily been derisked from its earlier days when it had numerous competitors. Axon has been one of the best performers in the stock market, returning 7x what Google has done in the last 10 years.
In the last partner letter, we said that it was our highest conviction holding, and that proved correct. Axon is not likely to see transformational spending as other industries participating in 'the coming wave of AI.' Unfortunately, I don't anticipate near-term rapid price appreciation, as government spending is inherently limited to raising taxes. We are writing covered calls to keep earning and avoid capital gains tax.

3. Devon Energy(DVN)

- **Business:** As described in its 2022 10-K, DVN focuses on "unconventional exploration and production [E&P]" in North America, primarily targeting shale resources in five U.S. oil and liquids plays: the Delaware Basin, Anadarko Basin, Williston Basin, Eagle Ford, and Powder River Basin. Its Q3 earnings call highlighted that 60% of its production efforts would be in the Delaware Basin.
- **Insider Buying/Selling**: Insiders have been enthusiastic buyers.CEO Muncrief purchased $666,330 worth on 3/4/24.
- **Recent News:** Highlights from Q$ 2023-Fourth-quarter production exceeded top end of guidance range, averaging 662,000 oil-equivalent barrels per day • Delaware Basin production increased 6 percent year over year, driving results that were favorable to guidance • Record-setting oil volumes drove an 8 percent increase in total production during 2023 • Operating cash flow totaled $6.5 billion and free cash flow reached $2.7 billion in 2023 • Declared fixed-plus-variable dividend payout of $0.44 per share based on fourth-quarter results • Repurchased 5.2 million shares of common stock at a total cost of $234 million in the fourth quarter • Balance sheet continued to strengthen with cash balances increasing $114 million to a total of $875 million • 2024 outlook reaffirmed with capital objectives designed to improve efficiency and drive per-share growth • Board approved a 10 percent increase to the fixed quarterly dividend

- **Thesis**: Devon has excellent assets in the sweet spot of the Midland Basin and shareholder-focused solid management. There is likely market concern that Devon will need to pay up for a significant acquisition to compete with the potential economies of scale in the Permian that competitor Exxon might realize with its proposed Pioneer purchase. Sentiment about weaning off fossil fuels has become more realistic as we correctly anticipated, and any accretive acquisition would likely be greeted enthusiastically. We are positive on our equity holdings in Devon. Our long-dated options are near breakeven, but we have time for these to play out as well. We have a lot of leveraged upside with these LEAPS.

4. Energy Transfer LP (ET)

- **Business**: ET is a diversified energy company with operations in pipelines, storage, processing, and distribution of natural gas, natural gas liquids, crude oil, and refined products. Their network spans across the U.S. and Canada. Based on Energy Transfer's last quarterly dividend of $0.305 per share declared on November 9, 2023, the current dividend yield is 9.06%.
- **Insider Buying/Selling:** Over the last 12 months, insiders have bought shares worth $75,927,055.02, and there have been no insider sales.
- **Our Thesis**: ET has acted well all year. Its business is not overly dependent on the price of hydrocarbons; it functions more as a toll road. LNG exports are growing, and ET is a prime beneficiary. Ironically, the healthcare and storage REITS sold off sharply in the last two months with the change in interest rate outlooks, yet Energy Transport seems unmoved by the change in the interest rate outlook. We are up 22% on our investment, not including the ~9% dividend yield we have been collecting.

5. Micron Tech (MU)

- **Business:**Micron Technology, Inc., known as Micron MU, is a leader in innovative memory solutions. Micron Technology, Inc. (MU) is headquartered in Boise, Idaho1. The company has a global presence with fabrication plants (fabs)

  Micron has a corporate history spanning over 45 years and has been instrumental in significant technology advancements, delivering memory and

storage systems for a wide range of applications. The company manufactures major memory and storage technologies like DRAM, NAND, and NOR, and offers products for diverse markets, including cloud server, enterprise, client, graphics, networking, industrial, and automotive.
It has a particular recent advantage in that NVIDIA's Blackwell architecture utilizes HBM3E memory, which is paired with each die to form an effective memory bus width of 8192-bits. This high-bandwidth memory is crucial for the performance of large AI models and reducing latency and energy consumption. Micron has sold out of this memory for 2024 and most of 2025.
- **Insider Buying/Selling:** None
- **Recent News**: They blew out the last quarter, turning profits instead of expected losses, and radically upped their guidance. They are sold out on High-Bandwidth Memory for 2024, and most of 2025, and the AI wave is just starting.
- **Our thesis**: Micron is a primary supplier for Nvidia's latest High-Bandwidth memory for the GPUs that are taking over the data center. The massive GPU AI training and inference models require an order of memory more than CPUs' traditional architecture, which has dominated the data center. The factories of tomorrow are data centers, and memory is at the epicenter.
Memory is a cutthroat business, and there undoubtedly will be competitors like Samsung, SK Hynix, and others. Unlike Nvidia, Apple, Google, Amazon, Qualcomm, and other fabless semiconductor factories, Micron manufactures the products it engineers, giving the Company a unique strategic advantage in this changing world order.

6. Oracle (ORCL)

- **Business**: The majority of the world's most important business databases run on Oracle's structured language databases.
- **Insider Buying/Selling**: None
- **Recent News**:
- **Our thesis**: More mission-critical structured data resides in Oracle databases than another competitor. Oracle, along with Microsoft and Intel were one of the technology growth engines that propelled stock returns of the late 80's and early 90's. I like to tell a story about when I was working at Bear Stearns and cold-called the current CFO of Amoco, now Exxon Amaco oil, and suggested he buy shares in Oracle. He did, and the next day, the stock dropped in half due to aggressive earnings assumptions that needed to be retracted. I called him back and suggested he double up, and remarkably he did. Many years later, in 2001, I added up the dollar amount of gains my Amaco client most likely made from that relatively small $400k transaction, now $32 million, four to five times his stated

net worth. Oracle has been a doormat of stock for a decade, but now I sense there's an era of rapid growth ahead as AI will revitalize demand for the data.

7. Exxon Mobil Corp (XOM)

- **Business**: XOM is one of the world's largest oil and natural gas companies, involved in the exploration, production, refining, and marketing of petroleum products. It operates in over 40 countries.
- **Insider Buying/Selling:** None of any import.
- **Recent News**: Exxon Mobil Corporation announced the following highlights for the fourth quarter of 2023: Earnings were $7.6 billion, or $1.91 per share, assuming dilution. Unfavorable identified items of $2.3 billion were included in the results, mainly from a $2.0 billion impairment due to regulatory obstacles in California. Earnings excluding identified items were $10.0 billion, or $2.48 per share, assuming dilution.

  The company increased Guyana and Permian production by 18% compared to 2022.

  Exxon Mobil Corporation also launched a new Mobil Lithium business that could supply up to one million EVs per year by 2030.

- **Our thesis:** The thesis on Exxon is the same as that on all hydrocarbon investments. There are no viable substitutes in the near or intermediate term. The transition from hydrocarbons may take decades, if even possible.

  Our equity and option Leaps have turned profitable. We have a lot of leveraged upside with these LEAPS.
  If approved, Exxon's recent deal to acquire Pioneer Natural Resources will cement Exxon as the largest domestic producer in the most prolific basin in the country, ensuring adequate domestic oil supplies. Long-term demand for oil wasn't even close to rolling over, Darren Woods explained [2]as part of his rationale for the largest deal in Exxon's history.
  The company's share prices have been unduly punished. It seems highly unlikely that the U.S. would allow Venezuela to seize Guyana's oil reserves in blatant violation of the International courts when it would be clearly against American

[2] https://www.wsj.com/business/energy-oil/darren-woods-exxon-ceo-c35c476a?mod=hp_lead_pos8

and British interests. Both countries have recently sent warships for a show of force in joint exercises with the Guyana armed forces.

Exxon is doing many things right, increasing oil reserves and commercializing and deploying technology from its industry-leading R&D Portfolio. The Company is investing in novel green technologies, including lithium ore mining in the Arkansas Smack formation, building a world-scale plant to produce low-carbon hydrogen at Baytown, Texas, and joint LNG export facilities with the Qatar government at Golden Pass, Baytown, Texas. It is leading significant carbon capture and sequestration efforts with its Denbuy acquisition.

8. Comstock Resources (CRK)

- **Business:** CRK is an independent oil and natural gas exploration and production company focused on unconventional resources in the Haynesville and Eagle Ford shales. They operate primarily in Louisiana and Texas.
- **Insider Buying/Selling:** CRK has seen some notable insider buying over the last two years, although it has slowed appreciably with extraordinarily low natural gas prices. Jerry Jones, of Dallas Cowboys fame, owns 66% of the company.
- **Recent News:** In response to weak natural gas prices, Comstock plans to suspend its quarterly dividend until natural gas prices improve. In addition, the Company plans to reduce the number of operating drilling rigs it is running from seven to five. Two of the five drilling rigs will continue to be deployed in the Company's Western Haynesville play. As a result, Comstock plans to spend approximately $750 million to $850 million in 2024 on its development and exploration projects to drill 46 (35.9 net) operated horizontal wells and to turn 44 (38.2 net) operated wells to sales in 2024. Comstock expects to spend $125 million to $150 million on its Western Haynesville midstream system, which will be funded by its midstream partnership.

- **Our thesis**: Our thesis on Comstock is being tested as natural gas is trading at levels below what Comstock or, for that matter, most U.S. producers can profitably operate. US natural gas futures fell almost 38% to around $2.5/MMBtu in 2023. Record-high domestic natural gas production in the US has allowed utilities to build reserves, with the latest figures showing inventories 10% above the seasonal average. At the same time, milder weather reduced heating demand.

  Unfortunately for our portfolio, the Biden administration compounded the supply situation by slow-walking LNG export projects, stranding much sought-after American natural gas. Moving forward, prices are expected to recover in the coming years, driven by rising gas demand from new US LNG export plants in the US, Canada, and Mexico. Delays at Exxon Mobil and Qatar Energy's LNG export plants in Texas and Venture Global LNG's Louisiana plants may impact expectations for 2024..

  We have a long way to go in Comstock Resources (CRK)(a natural gas play) before we break even. The good news is that CRK rose 18% last week on news that a group affiliated with Jerry Jones of the Dallas Cowboys added ~$ $100 million worth of stock to his controlling interest. I'm very optimistic about Exxon and Devon, but Comstock has always been a speculative bet about the growth of the natural gas export market. We are writing covered calls and reducing our cost basis but are at risk of getting called away with a deep pocketed majority owner buying more shares.

9. Healthcare Realty Trust, Inc. (HR)

- **Business:** HR is a real estate investment trust (REIT) that owns 697 properties throughout the United States. Over the years, the Company has refined its portfolio primarily toward multi-tenant, on-campus medical outpatient buildings (hospital complexes), which provide stable occupancy, high tenant retention, and steady growth. Through the discerning acquisition and development of outpatient properties, Healthcare Realty's portfolio is well diversified by geography, tenant size, and physician specialty.

- **Insider Buying/Selling**: There hasn't been recent buying at these depressed prices, and it's a source of concern.
- **Recent News**: In Q4 2023, Normalized FFO totaled $150.7 million, or $0.39 per diluted common share. This represents a decline in FFO, which has unnerved some investors. At the end of September, the multi-tenant leased percentage was 87.2%, 210 basis points greater than occupancy.
- **Thesis**: We are adding to our positions here as the broad brush of throwing out the medical REITs with the overall office market REIT debacle is mistaken. Hospital and Dr. visits show few if any, real signs of obsolescence. The opposite, in my view is likely with an aging population and the promise of a new era in synthetic biology. AI will usher in a new era of investment in biotech beyond the success of recent GLP drugs The market has not yet started pricing in this, but recent price action in the names that suggest this may be starting. Healthcare Realty yields 9.%. We also own HealthPeak Properties (PEAK) at a ~6% current dividend yield.

10. Miscellaneous

We have a handful of plays in synthetic biology and alternative energy, including gene editing pioneers like Illumina (ILM) and Salt Lake City-based Recursion Pharmaceuticals(RXRX). Other areas of interest continue to be alternative energy, primarily solar. More solar energy strikes the earth than multiples of the world's daily consumption, and it is completely renewable. At the moment, there is overcapacity, and much of it is dominated by Chinese companies. We have an investment in Solar Edge (SEDG).

Our Outlook:

In addition to the AI trend I've already written extensively about, there are two other trends that I think are important to consider. We might wish it to be otherwise, but the future is unknowable and rarely predictable for anything but fleetingly short periods. Add to that uncertainty, seven of the world's 10 biggest countries will vote in national elections this year. According to Foreign Policy,[3] "In every one of them, democracy is at a tipping point." There might even be a black swan nesting in the U.S. with an uncertain outcome of a Presidential contest.

Last quarter I wrote about black swan events, "... Israel and Gaza, and another is festering in the war between Ukraine and Russia. You can now add the accelerating tensions and economic distress in China, which could all coalesce into a battle over the independence of the country of Taiwan. I daresay the U.S.'s intense interest in Taiwan's freedom and independence is a ruse for safeguarding the production of the next generation of semiconductors, the future of AI, and the tip of the spear for advanced computer technology. Military and economic dominance will be determined by access to advanced chips that can run artificial intelligence applications. The factories of tomorrow will be AI data centers spun up on chips currently made exclusively in Taiwan.

Another significant trend is the beginning of the Great Transfer of Wealth. The generational transfer of wealth from Baby Boomers to Millennials, often referred to as the "Great Wealth Transfer," is expected to unfold over the next few decades. Estimates suggest that Baby Boomers (those born between 1946 and 1964) are set to pass down significant wealth, with figures ranging from $30 trillion to $68 trillion in the United States alone, depending on the source and the specifics of the estimate. This transfer is anticipated to occur gradually, but we are witnessing the early stages, almost an irrational, violent stage, like birth itself.

I've been struggling to explain the speculative frenzy I sense in the markets. Stocks routinely go up and down 20% on earnings or even something as trivial as an analyst upgrade or downgrade yet the underlying market seems calm, benign even. The VIX, the current mathematic model for measuring short-term volatility, steadily trends lower.

Today's frenetic trading reminds me of the stock market craze surrounding MEME stocks and AMC, which led to the movie The Dumb Money. Does this volatility exist, or am I allowing my bias to distort my argument? In other words, is this more than just a lifetime of experience talking?

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[3] https://foreignpolicy.com/the-magazine/?issue_id=411131710

Once again, we thank you for your trust and confidence in having us assist you in managing your money. This is one of the highest honors anyone can achieve, and I don't take it lightly for one moment. This is one of the most exciting times to be alive as an investor. We have 50-yard seats on one of the most significant change periods in the world. I don't remember a time I've been more excited about our portfolio holdings.

Please discuss any concerns or thoughts you want to share at the upcoming partner meeting. The Zoom partner call information is below. I especially look forward to those one-on-one calls as I don't believe there is a substitute for one on one's. If you would like to schedule, please do so at calendly.com/hsax/phone.

The Insiders Fund is inviting you to a tentative scheduled Zoom meeting on Thursday, April 11th, at 4:00 PM.
Join Zoom Meeting
https://us02web.zoom.us/j/84691784938

Meeting ID: 846 9178 4938

Stay tuned for the email calendar invite.

Sincerely yours,

Harvey Warren Sax