Alpha Wealth Funds, LLC

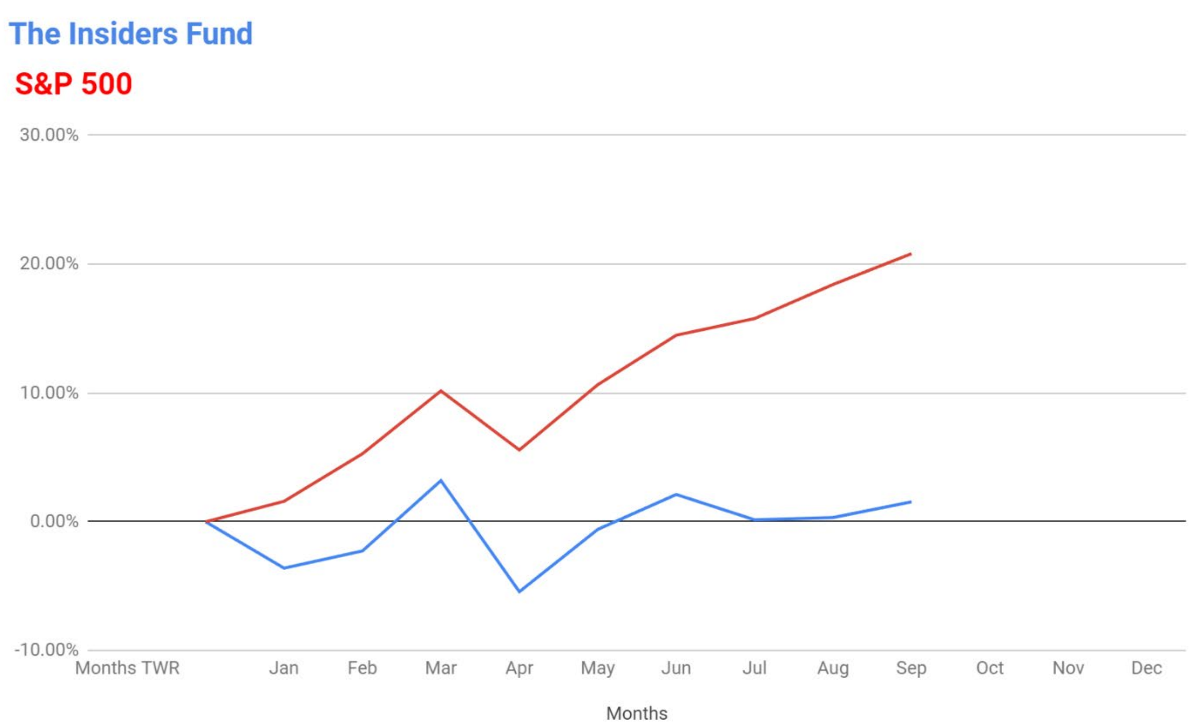
“the opportunities never stop”

October 2024

The Insiders Fund, LP 3rd Quarter 2024 Partner Letter

“mea culpa”

The Insiders Fund was up ~-0.56% for the 3rd Quarter, bringing 2024’s returns to ~1.6%. The S&P 500 was up 2.02%, bringing its YTD return to ~21.35%. Your 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.



Winners and Losers:

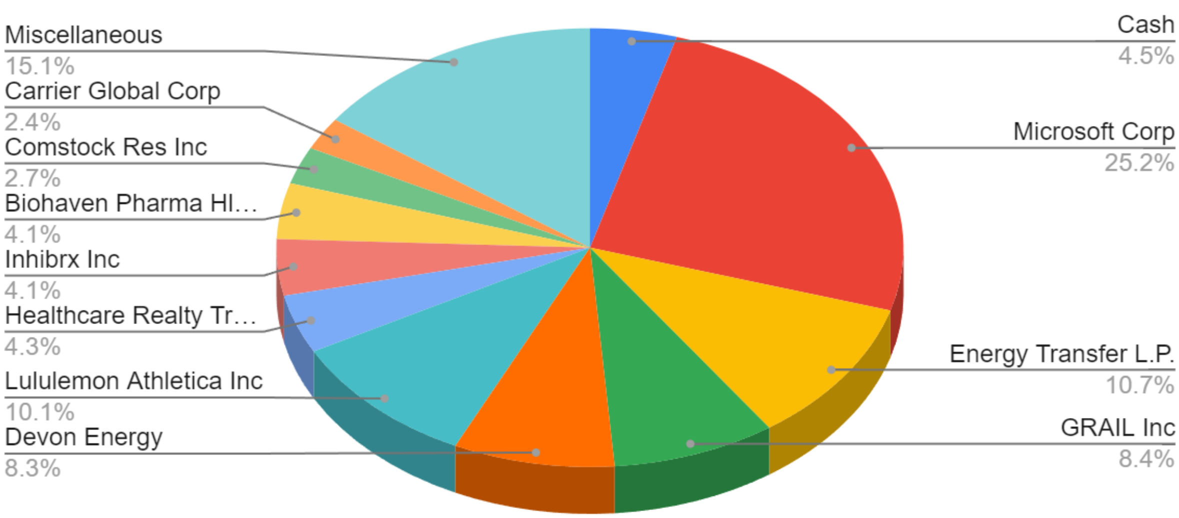
This letter serves as our report card. While 2024 was the best start for the S&P 500 in 27 years, it marked the worst relative performance for the Insiders Fund since the strategy's inception in 2001.

Understanding successes, failures, and luck is essential for improvement. With hindsight, it's clear that our major setback was missing out on the financial sector's 19% YTD performance and instead focusing on energy, the worst-performing sector, down ~7%.

We owned several names in the financial sector last year, but I was too bearish about the looming defaults in office properties and the underwater marks on bank balance sheets. I sold Oracle too early, but it was still the most profitable trade of the quarter. I reinvested funds into Microsoft. We let go of Axon because the AI opportunity in the public sector will be restrained by the taxpayer's appetite to have their taxes raised. It benefited AXON's performance and hurt Microsoft's as investors worried about ROI on their massive capital investments in AI data centers.

Paying close attention to what insiders do with their money has historically been a successful investment method. However, it does not always outperform the market, but it does keep exuberance in check when herd behavior runs markets higher than good economic sense should dictate. With that in mind, I am sharing a recent Wall Street Journal article, Corporate Insiders are Sitting Out the Stock Market Rally is no surprise. According to the author, "A review of insider purchases, leaving aside sales, also appears to show little enthusiasm lately. Officers and directors of U.S. companies bought $2.3 billion of their companies' stock this year through September, the lowest amount over such a period since 2014, according to data from the Washington Service. Last year, they bought $3 billion in the first nine months."

Portfolio Holdings 10-16-2024



Portfolio Holdings:

1. Microsoft (MSFT)

Business: At 25.2%, MSFT represents our largest holding. Our thesis on this is unchanged from last quarter. The sprawling empire continues to grow, encompassing every part of our lives. Apple and Microsoft are going back and forth for the crown of the market's most valuable company.

- **Insider Buying:** None
- **Recent News:** Q2 revenue increased by 18%, driven by growth across all segments. Analysts noted a slight decrease in Azure's growth rate and expressed concerns about Microsoft's significant investments in AI data centers. The CEO clarified that these investments are guided by demand signals.
- **Our Analysis:** There is an emerging trend where advertising-supported search, such as Google's, is experiencing challenges like those faced by network TV. It appears that paid search options, including Microsoft Copilot, are becoming more prevalent. Many users now use Microsoft Copilot for their queries instead of traditional search engines.

AI is experiencing constant change, with frequent job-hopping and significant venture capital investment in startups. Mustafa Suleyman, once CEO of Inflection AI and co-founder of Google's DeepMind, now leads Microsoft's new AI division, including Bing and Edge. Microsoft is aggressively investing to maintain its lead.
The company plans to release a major Windows update, codenamed Hudson Valley, in 2025. This version will integrate AI more deeply into the OS, aiming to bridge the gap between cloud and edge computing, potentially revitalizing the operating system business.

It is impossible for anyone to accurately predict where the enormous investments in AI data centers will go, but our bet is that the best is yet to come from Mr. Softie. We remain convinced that the future of AI is just beginning.

2. Grail Inc (GRAL)

- **Business**: In 2016, Illumina, the leading genomic testing company, discovered that methylation in DNA could predict early diagnosis of cancer. Illumina was so enthusiastic that they spun off an entirely new company to develop this technology based on machine learning. They felt it was the “holy grail of cancer diagnostics " and called it Grail.

  Not only does GRAIL detect over 50 kinds of cancer signals, but it also predicts the tissue type or organ associated with the cancer. GRAIL’s test screens for many deadly cancers, such as pancreatic, liver, and ovarian that lack recommended screening methods.

  The Galleri® test based on GRAIL’s methylation technology is recommended for adults at elevated risk for cancer (such as those aged 50 or older). It does not detect all cancers, but it complements routine screening tests. False positives and negatives can occur, so using it alongside healthcare provider recommendations is essential. The test is not yet FDA-approved, but your physician can order it for $995. Insurance does not cover it at this time.
  The test is undergoing further population scale testing under Pathfinder II and with the NHS, the United Kingdom’s national healthcare system.

- **Insider Buying/Selling**: A recent little-known investor group, CRCM Funds, filed a Form D indicating that it owned 10% or more of the outstanding shares.
- **Recent News:** Illumina completed the spin-off of Grail to its shareholders at the end of the second quarter of 2024 and provided the company with approximately $1 billion in funding. Grail reported its first publicly traded quarter, announcing a 30% reduction in the workforce to align its operations and ensure sufficient resources for the expected FDA approval in 2027 and the NHS final results. The Pathfinder 2 Galleri test readout is scheduled for the second half of 2025 for the initial 25,000 participants. The complete study results are anticipated in 2026.

Thesis: Cash burn will reduce significantly as most sunk costs are behind them. The significant RSU incentives should encourage management to act accordingly.
Insurance reimbursement is not crucial for the initial Grail story. Analysts focus too much on this aspect. Awareness of the test is just starting, and early cancer detection improves survival odds.
This investment carries elevated risk but also a substantial potential upside. Despite negative publicity and litigation issues, the Company's shares trade at around $14, with $28 in cash and no debt. It remains the leader in its field of MCED (multi-cancer early detection)

We can risk an 8% loss with a potential 20X return.

If Congress approves Medicare coverage for MCED tests and Galleri gets FDA approval, this could become the most commonly prescribed diagnostic test, validating Illumina's $8 billion acquisition. With just a 1% false positive rate, the blood test presents minimal downside.
The key question is whether the test offers more benefit than harm. Politically, withholding FDA approval seems unlikely. Wealthy individuals are already using the test, supported by institutions like Mayo Clinic and Cleveland Clinic.

3. Lululemon_Athletica (LULU)

- **Business**: Lululemon is known for its vertically integrated, high-quality, stylish workout clothes and accessories. Founded in 1998 by Chip Wilson, the company has grown significantly and is now the category killer in the activewear market.
- **Insider Buying/Selling:** CEO Calvin McDonald bought ~$1 million in September at $260. Earlier in the year, Morfitt bought $1.4 million at $389
- **Our Thesis**: LULU has spawned successful imitators, including Vouri and high-end yoga wear vendors. The stock price got ahead of itself during the Pandemic as yoga pants became the “blue jeans” of the modern female. Pull-forward demand distorted the hyper-growth of earlier years, but by no means is the Company in secular decline as some analysts have compared to Nike. Lulu has a bulletproof balance sheet, double-digit sales growth in male clothing, and a rapidly expanding international presence, particularly in the Chinese market. Former Sephora CEO McDonald took over the reins in 2018.

He has been instrumental in driving the company's growth and expanding its international presence.

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:** Insiders continue to purchase shares, most recently in August at $15.68. 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 25% on our investment, not including the ~8% dividend yield we have been collecting.
  Nuclear energy is undergoing a renaissance and could present alternatives to natural gas-fired electricity plants. ET could be a source of future funds if more compelling ideas present themselves, although I am loathe to pay the capital gains on an investment yielding ~8%.

5. Devon Energy(DVN)

- **Business:** As of December 31, 2023, the company had proved reserves of 1,817 million barrels of oil equivalent (1.112×1010 GJ), of which 43% was petroleum, 28% was natural gas liquids, and 29% was natural gas.
- **Insider Buying/Selling**: Historically, the CEO, Muncrief, has been an enthusiastic buyer, but his last significant purchase was in March.
- **Recent News:** Earnings Per Share (EPS): $1.41, surpassing the Zacks Consensus Estimate of $1.29 Revenue: $3.91 billion, exceeding the consensus estimate of $3.87 billion. Net Income: $1.34 billion, compared to $1.07 billion in the year-ago quarter. Devon Energy recently

completed a strategic acquisition in the Bakken region, acquiring Grayson Mill Energy, a Bakken-focused energy producer, for $5 billion. This acquisition includes $3.25 billion in cash and the rest in stock. Devon doubled down on fossil fuels. The market would have preferred stock buyback.

- **Thesis**: Devon has excellent assets in the Delaware, the sweet spot of the Midland Basin, and now it's a significant player in the Bakken. Before the deal, Devon classified itself as the 3rd largest domestic oil and gas producer. The market doesn't seem to differentiate between a barrel of oil in the U.S. versus a barrel abroad.
  Although the transition from the internal combustion engine to electric cars seems to have stalled or, at a minimum the timetable being pushed out, there has been no re-rating of oil and gas asset values. It's still the cheapest sector in the market.

6. 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**: Multiple insiders have accumulated shares since August.
- **Recent News**: The stock has performed well since Healthcare Realty Trust entered a strategic joint venture (JV) with KKR in May.
- **Thesis**: We are inclined to hold our profitable position in HR while collecting an outsized dividend yield of 6.82%. Healthcare could be a future source of funds like Energy Transport. Still, we are reluctant to sell these winners and pay taxes on our gains, especially while these high-yielders can increase their dividends in a market where interest rates are expected to continue declining.

7.,8. Biohaven Pharma (BHVN) and Inhibrx Inc (INBX)

Business: Both Biohaven and Inhibrx participated in major pharmaceutical acquisitions, which were purchases of specific drugs, not the companies themselves.

Pfizer acquired all outstanding shares of Biohaven for $148.50 per share in 2022, after which Biohaven spun off its non-CGRP pipeline into a new company, Biohaven Ltd. Following the deal, insiders heavily bought the stock, and they continue to purchase even at the price of the recent secondary at $47.50.

On January 23, 2024, Sanofi agreed to buy all outstanding shares of Inhibrx for $30 per share in cash. Before this acquisition, Inhibrx spun off its non-INBRX-101 assets into a new company, Inhibrx Biosciences, Inc.

INBRX-109 is a tetravalent therapeutic candidate targeting death-receptor 5, currently in Phase 2 clinical trials for unresectable or metastatic conventional chondrosarcoma.

INBRX-106: A hexavalent sdAb-based therapeutic candidate targeting OX4, in Phase 2 clinical trials for various cancers, including non-small cell lung cancer, melanoma, head and neck cancer, gastric cancer, renal cell carcinoma, and urothelial cell carcinoma.

- **Insider Buying/Selling:** Insiders are heavy buyers of the spun off INBRX. They have purchased almost $10 million worth of stock between $13.83 - $17.32.
- **Recent News:** None of any import. Information about catalysts is scarce.
- **Our Thesis:** We do not delve deeply into the medical science behind this investment. However, there is a reasonable probability that it holds significant potential, like Biohaven's success.

9. 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:** Jerry Jones, of Dallas Cowboys fame, owns 66% of the company and continues to accumulate more stock, most recently purchasing around~$150 million worth in August at prices averaging $8.03-$11.30 per share. CRK closed on Friday at $11.45
- **Recent News:** Very weak natural gas prices weighed heavily on the second quarter financial results. Natural gas and oil sales, including realized hedging gains, were $278 million. Operating cash flow was $118 million or $0.41 per diluted share. Adjusted net loss was $58.2 million or $0.20 per share for the quarter.

- **Our Thesis:** We have achieved a paper profit by reducing the cost basis through covered calls on our investment in Comstock Resources. The current administration's policies on LNG export projects have influenced the supply situation, making American natural gas less accessible internationally. Prices are anticipated to recover in the coming years due to rising gas demand from new LNG export plants in the United States, Canada, and Mexico. If there is a change in administration, this stock may be a direct beneficiary.

10. Carrier (CARR)

- Business: Carrier Global is a leading provider of heating, ventilation, and air conditioning, HVAC, refrigeration, fire, and security solutions. Spun out from United Technologies in 2020, the Company has executed well. The share price is up 480%.
- **Insider Buying/Selling:** None
- **Recent News:**
  Net Sales: $6.7 billion (+12% vs Q2 2023)
  EPS: $0.87 (double-digit growth, significant operating margin expansion)
  Net Debt Reduction: ~$5 billion in Q2
  Share Repurchase: ~$1 billion planned for H2 2024

- **Our Thesis**: We wanted to participate in the secular macro trends such as increased demand for air conditioning due to global warming and data center cooling demand. There was no insider buying and the stock has never looked ‘inexpensive.’ We are up over 50% on our original cost and continue to reduce our cost basis through timely covered call writing.

Our Outlook:

The Insiders Fund is highly concentrated, and the prospects of just a couple of companies can have an outsized result. However, it is not immune to market forces either. For the moment, this is Goldilocks market. Interest rates are headed lower, employment is stable, and the ongoing conflict in the Middle East does not appear likely to create an oil shock, although that is far from an educated guess.

The market's fundamentals are weak compared to historical data, and insider buying is minimal. The S&P 500 price-to-earnings ratio is 21.6, 30% above its 25-year average of 16.4, with insignificant insider purchases.

As you are undoubtedly aware, a presidential election is imminent. The market anticipates a favorable outcome regardless of the victorious candidate. However, it does not consider the potential turmoil of an uncertain election. The most unfavorable scenario is an extended and contentious post-election period.

We appreciate your trust and confidence in allowing us to assist you in managing your finances. We acknowledge the weak performance year to date. Historically, the 4th quarter has been a favorable period for market investments. The Fund is off to a strong start in October.

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 do not believe there is a substitute for one-on-one calls. If you would like to schedule a meeting, please contact us at calendly.com/hsax/phone.

The Insiders Fund is inviting you to a tentative scheduled Zoom meeting on Oct 24, 2024, 04:00 PM Mountain Time (US and Canada)

[Join Zoom Meeting](https://us02web.zoom.us/j/89665672646)
https://us02web.zoom.us/j/89665672646

Meeting ID: 896 6567 2646

Stay tuned for the email calendar invite.

Sincerely yours,

Harvey Warren Sax