Dear Partners,

Immersion Investment Partners, LP delivered net performance in the second quarter of 22.3% vs. 5.2% for the Russell 2000. Please check your individual statements for your quarterly returns.

We are very pleased with our year-to-date performance, which was broad-based. Half of our positions contributed at least two percentage points of performance. Conversely, we’ve only had one meaningful year-to-date detractor. Perhaps it would seem cool and sexy to say that this performance is the result of a handful of discrete and decisive actions taken at exactly the right time, but the truth is much less titillating. We’ve really done very little to the portfolio in the first six months of the year, aside from adding to names already in the portfolio, we introduced two smaller (sub-5%) holdings, while exiting only one meaningful position, where we felt expectations began to wildly diverge from the prospective earnings growth trajectory. Rather than our performance being the result of some set of heroic actions, we opted to largely sit on our hands and let other investors wake up to the fact that our companies are both high-quality and wildly mispriced – a coterie of ‘coiled springs’. To state that the markets have magically come around to our viewpoint in the span of a quarter would be foolish. Just as markets are inefficient on the downside, they can also be inefficient on the upside. It’s nice to have a good quarter but we don’t judge ourselves on ninety-day numbers and we would highly suggest that you do not either. The natural output of the quality of our analysis and decision-making abilities is our performance, where we think a three-to-five year evaluation is far more indicative of actual “skill” than one quarter.

June 1st was the two-year anniversary of the partnership. Oh, where does the time go? As such, we wanted to reflect on a handful observations, beliefs that have been reaffirmed or challenged, and areas of improvement:

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Net Returns as of June 30, 2023

<table>
<thead>
<tr>
<th>Fund/Index</th>
<th>ITD(1)</th>
<th>1 Year</th>
<th>YTD</th>
<th>2Q23</th>
</tr>
</thead>
<tbody>
<tr>
<td>Immersion Investment Partners, LP Net</td>
<td>-20.37%</td>
<td>20.26%</td>
<td>29.73%</td>
<td>22.30%</td>
</tr>
<tr>
<td>Russell 2000 Index</td>
<td>-14.36%</td>
<td>12.31%</td>
<td>8.09%</td>
<td>5.21%</td>
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<td>MSCI Europe Small Cap Index(2)</td>
<td>-22.56%</td>
<td>11.47%</td>
<td>8.89%</td>
<td>0.83%</td>
</tr>
<tr>
<td>Russell Microcap Index</td>
<td>-24.52%</td>
<td>6.63%</td>
<td>2.32%</td>
<td>5.29%</td>
</tr>
</tbody>
</table>

(1) Inception to Date measures from fund launch date of 6/1/2021
(2) iShares MSCI Europe Small Cap ETF

See disclaimers

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Until our universe of opportunities (sub-$5 billion market cap publicly traded companies) becomes fairly valued, resign yourselves to the fact that we will continually beat you over the head with anecdotes and factoids regarding the cheapness of our companies. The good news is the opportunity set remains quite large. Investors have decided that all small cap stocks are risky regardless of prospective earnings/cash flow generation, quality of management, and cheap valuations. Of course, the notion that thousands of businesses should be treated the same is ridiculous, yet here we are. We have seen similarly sized private businesses transact for higher valuation multiples than public companies with daily liquidity. From any logical standpoint this makes no sense until you realize that the daily volatility of publicly traded companies looks “bad” regardless of future returns. Thus, we have seen institutional investors move from investing in public small cap equities, to private companies. Large pools of simultaneously chasing opportunities with limited capacity usually results in poor outcomes.

To put a finer point on this, small caps are at their largest relative discount to large caps since the dot-com bubble. The five years following the dot-com bubble produced some of the best returns in the history of public small cap investing.

Cheap can get cheaper. We like to joke that it is exciting to find undiscovered gems when we don’t own them but once we own them, we want them to immediately get proper credit from investors and become fairly valued. Unfortunately, the world doesn’t work like that. We may have indeed uncovered some rare gem of a company, but we know when to exercise patience. We also need to be aware of what other investors believe and how those beliefs, if true, may disprove our theory. What is cheap can keep getting cheaper until a fear or an issue is resolved. Often times discounts to intrinsic value are resolved through a combination of clean and consistent communication to investors, some level of
exposure to new investors through non-deal roadshows and conferences, and onboarding new banking coverage to gain exposure. While we help our portfolio companies with gaining new coverage and message delivery, nothing beats consistent profitable growth to get a stock appropriately valued.

- Be mindful of heuristics. Every opportunity is different, and a “rule of thumb” can quickly go from helpful to detrimental in the investment process.
  - Investing heuristics we ran afoul of…
    - There are no good companies in Canada – we realized significant returns on a Canadian electronic components company undergoing a strategy transformation that ultimately resulted in them being acquired.
    - Never trust companies in Boca Raton – one of our best-performing investments is a company based in Boca Raton.
    - Investment bankers are evil – one of our best performing investments is a turnaround play where much of the organizational changes have been catalyzed by a former investment banker-turned-CFO.

- We have been very good at changing our minds. We have not let the amount of effort sunk into an idea or the sizing of a position prevent us from aggressively eliminating the name from the portfolio when we are proven incorrect.

- “Long term focus” doesn’t mean we can’t be opportunistic.
  - Starting in spring 2022, we began investing in objectively short-term-oriented trades, which we dubbed “special situations”. These involved companies going through strategic reviews or were currently engaged in acquisitions. We noticed that, as short-term rates began spiking and macroeconomic fears bubbled to the surface, merger spreads and strategic reviews were being wildly mispriced by the market. In many circumstances, there were opportunities to make 20-30-40% annualized IRRs in a matter of months. While generally sized small, we have been able to generate positive absolute returns to the fund from our opportunistic “special situations” basket.
  - While the majority of the portfolio is geared towards being long-term oriented, when the market gives us those very rare opportunities, we plan to capitalize on them.

**Portfolio Updates:**

At the time of this writing (July 2023), we hold positions in nineteen businesses ranging in market capitalization from $40 million to $11 billion and a median size of $600 million. In this update, we will introduce a new holding – Motorcar Parts of America (MPAA – Social Pariah) and give updates on several disclosed positions.

Over the past eighteen months we have progressively reduced starting position sizes for new holdings and have scaled them up as we gain more comfort. Historically, we’ve been rather “top-heavy” in our weightings but that should come down over the next few quarters. At the time of this writing (end of July), our five largest holdings make up 57% of fund NAV, a reduction from our historic 65-to-80% weighting in our top five.
In this update, we will introduce a new holding – Motorcar Parts of America (MPAA – Social Pariah) and give updates on several disclosed positions.

**Motorcar Parts of America (MPAA – Social Pariah)**

Motorcar Parts of America is a leading manufacturer of aftermarket auto parts. They are the largest supplier of aftermarket starters and alternators in the U.S., with a 50% market share. They also have decent market share in power boosters, wheel hubs, and brake calipers. They sell primarily to the major aftermarket retailers - Advance Auto Parts, Autozone, O’Reilly, and Napa (GPC). Their largest three customers make up ~85% of sales. They have a deep manufacturing, quality control, and logistics network employing >6,000 people, with factories in Mexico, Canada, Malaysia, California, and India.

From a 30,000-foot level, MPAA benefits from an aging automotive fleet, which requires more replacement parts. While an aging auto fleet in the U.S. and growth in miles driven helps MPAA, it's not a necessary factor for this investment to work. This is a reversion-to-the-mean setup, as described below…

The opportunity was brought to our attention by Cove Street Capital and believe the idea is very timely because profitability has been temporarily impacted by higher rates from vendor supply chain finance programs. This has depressed earnings to slightly less than breakeven in fiscal 2023. That said, the company has "made progress in getting relief from our customers, and we expect to realize benefits as fiscal 2024 evolves." (Fourth quarter 2023 earnings call – April to March fiscal calendar) MPAA is also in the midst of implementing price increases this year that were only partially implemented in 4Q23 but still resulted in a nearly 300bp improvement in gross margin from 15.7% to 18.6%.
"The company expects to realize meaningful annualized price increases, which will contribute to net income enhancement. We expect that we will more than cover the fiscal '23 increase in AR discount interest expense of $17 million. Fiscal '23 total interest expense was approximately 5.8% of net sales. We expect fiscal '24 total expense to be approximately 7% of net sales including approximately $3.2 million noncash PIK interest, assuming interest rates remain relatively stable."

Net impact to EPS should be quite substantial. Nearly $1.00/share in earnings improvement relative to FY23 (ending March 2023) … "But overall, we expect to have over $20 million of price increases recognized in this fiscal year, plus more that will, on an annualized basis, come into effect the following year."

We are intrigued by the possibility of this being a decent business that is temporarily underearning. Going from a depressed multiple on depressed earnings to normalized multiple on normalized earnings equates to big upside.

MPAA typically trades at 6x EBITDA and management is soft-guiding to $90mm in EBITDA in FY24…that would equate to roughly an $18 stock price, or a one-year double. By our calculations, $90mm EBITDA should translate to $22mm in net income or ~$1.15 EPS on a $9 stock. However, there is also $8mm in cost savings coming this year and management has pointed to volume acceleration. Net-net, we believe they could do up to $1.50 in EPS this year, making this is a very cheap stock relative to the current $9 share price.

From a timing standpoint, this is a great time to be buying the stock. At the beginning of 2023 people started to speculate that MPAA would be removed from the S&P 600 and Russell 2000. The news confirming their removal from the indices was officially announced in March, causing at least 40% of shares to be ejected into the market from index funds and benchmark-sensitive managers. The stock opened the year at $11 and traded down to $4.50 in May. It's now around $9 but still well off its $20/share historic range. Of course, price per share is usually a meaningless metric but since we know the business hasn't gotten materially worse in the past ten years, earnings are inflecting upwards, and a significant catalyst for the stock's initial decline was due to non-economic reasons, we think it's a reasonable target.
There are risks. MPAA has historically been a subpar business, at a constant negotiating disadvantage with their customers who can force them to buy back inventory and accumulate substantial working capital. Cumulative operating cash flow over the past ten years is negative $32mm. Net margins are typically very low – low single digits in a normal year. They rely heavily on short-term debt to fund operations, currently carrying a $176mm net debt balance, which is reasonable from an EBITDA perspective but considering that almost all their cash is consumed by working capital, it is a tenuous position.

The offset is that this is all known and the company looks to generate cash moving forward [emphasis ours]…
"With respect to cash flow, our expectation is to continue to make progress to generate cash. Operating income is expected to be between $60 million and $65 million...The company estimates depreciation and amortization will be approximately $12 million...In short, it is a tough priority in fiscal 2024 to enhance our gross margins and cash flow. Our multiyear strategic initiatives and favorable industry dynamics bode well for the company. And we are extremely well positioned for sustainable top and bottom-line growth in our hard parts businesses as well as testing solutions."

From our perspective this is a company that hasn't really respected itself in the past, but customers have pigeon-holed themselves into a position that, by being so demanding, they've become overly dependent on companies like MPAA. Per the company, they deliver over 30,000 SKUs with mid-90s fill rates on lead times that are in days, not weeks or months. How many companies, globally, can fulfill those requirements? Not a lot – BBB Industries and Denso are a couple besides MPAA that can meet these requirements. Per a recent expert call with a director of merchandising at O'Reilly Auto Parts (emphasis ours): "...let's just say an alternator, there's only two or three suppliers in the United States that can sell you an alternator to put on your shelf. And they all deal with all the same people...We all purchase from the same basic supplier. The only way you get passed is to go to Asia and go direct...you have to have those connections, you have to know where the product source comes from...It all comes down to how much risk you want to take...When O'Reilly is sourcing from somebody in the U.S., those logistics fall on the person that's doing the sourcing, not necessarily yourself as a parts distributor. Because you're sourced more towards Asia to make more gross margin on something, but at some point, that can be risky." (Source: Tegus; interview date 6/28/2023)

We think the likelihood of MPAA's customers permanently leaving is very low. It would take enormous investment and years to recreate what MPAA has built. There is $1 billion of tangible assets within MPAA and significant tacit knowledge embedded in the organization. ORLY and AZO each generate ~$3B in operating cash per year, GPC does ~$1B, and AAP ~$500mm. Is there willingness to use that cash to make a new MPAA? Each of these companies has pre-existing cash priorities, spending hundreds of millions each year opening new locations and buying back stock (except for GPC, which pays $400mm/year in dividends). Would they disrupt their plans? We believe this is unlikely. And while customers may threaten to move to another supplier, they incur risk to availability and quality. In addition, margin levels in this market are so low (mid-teens gross and low-single digit net) that the threat of new entrants is incredibly low. Thus, the pent-up pricing and profit potential of MPAA is likely much greater than what has historically been realized.

Highlighting some commentary on this issue from the fiscal 4Q 2023 earnings conference call...

Jeffrey Bronchick Cove Street Capital, LLC – Principal & Portfolio Manager

And have you seen -- I mean, what has been -- my last question. Just in general, because in some ways, one could argue the shareholders have supported the desires and needs of your customers for quite some time. What sort of feedback or -- I mean, from either a competitive stance as you raise prices and try to extract inventory back up the customer. What sort of -- what
things are different, let's say, today, than maybe 6 or 9 months ago when you were sort of in the opposite mode. How has the industry changed or the reaction to your moves different than maybe your thought.

Selwyn H. Joffe Motorcar Parts of America, Inc. – Chairman, President & CEO

I don't know if they're different to what I thought I can't really -- my thoughts evolve quickly on us. I think, look, anytime you're looking for price increases with large retailers, and I mean, there's always pushback. I think the opportunity to get fairer prices is better today than it was a year ago or 2 years ago. I think that in part depends on really the rationality of our competitors, which I think will have similar challenges with financing, financing the inventory and the payables of our main customers. A lot of it will depend on alternatives. I mean they're driven, obviously, to drive the working -- negative working capital. And a lot of it will depend on their ability to get fair pricing in the marketplace for their products. And rational competitors, including Chinese -- including the Chinese, which have always been a wild-[card]. But look, I think the industry realizes that the amount of financing being supplied by the supply chain is significant, and that at some point, the consumer has to pay for that. I mean, our customers are not going to pay for it, but they should pass it on. And so hopefully, we get back to a rational equilibrium, which I think we're getting close to.

Basic-Fit (BFIT.AS – Ugly Duckling)

We have reduced our stake in Basic-Fit by approximately 50%. We believe at its prior sizing it represented far too great an opportunity cost. European investors do not seem to care that Basic-Fit is completely dominating its industry – it is the only concept of any reasonable scale growing gym count in its core markets, they have accelerated market share gains since COVID, and they are quickly reaching cash flow breakeven (net of new gyms built). No one cares. Eurotrash analysts are only concerned with this year's profit figure and Basic-Fit management is stubbornly refusing to clearly lay out their own strategy. We believe management has taken the stance of “we know we are a good company, and if you do not believe in us than don't buy the stock.” While we certainly understand the stubbornness of a founder-led company, we had hoped, and offered, that they would clarify what they are doing to the Street and new investors. They are maximizing gym openings and market share while carefully managing liquidity before worrying about near-term profitability. In other words, growth is currently more important and perfectly optimizing for profit comes later. Management refuses to describe its strengths and long-term strategy which will lead to success. Meanwhile, analysts continue to have a fundamental misunderstanding of the long-term business strategy and refuse to value the stock from a long-term lens. We have communicated our frustrations to management and their response has been to continue to communicate as they have always done – not very clearly. We believe it will take much longer for new investors to see what we see when management’s communication style is such a turnoff. Because of the communication failures, the stock has become a constant magnet for negativity. The bearish thesis drift is truly a wonder to behold. Since we’ve been involved, we’ve heard every manner of negative argument. “The market is very competitive.” The specter of competition has not stopped BFIT from dominating the European fitness industry, where it has been responsible
for nearly 100% of market growth before and after COVID. “At-home fitness (Peloton, etc.) will make gyms obsolete.” All gym cohorts and markets are tracking back to pre-COVID levels and there have been no tangible signs of disruption. “Spanish people work out in groups or outside so that market will not be successful.” Basic-Fit is now the #1 gym chain in Spain. “The energy and inflation crisis will kill Basic-Fit economics.” Basic-Fit has raised prices 20% with no noticeable increase in churn and mature gym economics have actually improved over the last two years. “They cannot refinance and will need to raise equity.” Basic-Fit recently increased its credit facility and extended the maturity to June 2027, with a minimal 25 basis point raise in the interest rate ratchet above the base rate. No matter the negative argument BFIT squashes, investors find a new reason not to own the stock.

We continue to hold a meaningful position in Basic-Fit, but it is no longer an albatross hanging around our neck that can meaningfully alter our prospects. When we first purchased Basic Fit, we did so because of its clear path to European domination in the fitness world within Western Europe and cheap valuation. However, after conversations with management, including offering specific talking points and highlights to share with investors, we believe it will take a very long time to reach full value. It is a fool’s errand to fight the European investor market where each argument seems to start and end with “Does it pay a dividend?” Our conversations with buy-side and sell-side participants in Europe have been some of the strangest and lowest-IQ interactions we’ve ever had. We think that the mindset and attitudes we’ve encountered make it extraordinarily difficult for companies like Basic-Fit to achieve fair value in a timely fashion. The degree to which we want to participate in the battle over Basic-Fit is significantly lessened, particularly when management has taken the stance of being uncommunicative, thus it is prudent to reduce our exposure. Downsizing it to a reasonable position allows us to dispassionately monitor its progress and allows us to add on material drawdowns should the thesis continue to positively progress.

Franklin Covey (FC – Ugly Duckling)

Despite significant fears surrounding exposure to cyclical corporate spending trends, Franklin Covey continues to post strong results, highlighting the durability of the business post-transition to its subscription model – the All Access Pass (AAP).

Franklin Covey is a consulting business that sells leadership training geared towards managers at mid-to-large corporations. We think of the FC business as “culture in a box”. Leveraging the lessons derived from Stephen Covey’s 7 Habits of Highly Effective People, Franklin Covey has grown into a $300 million revenue business serving companies across the globe. Today, the business offers nearly thirty different training modules from the original 7 Habits to the ‘4 Disciplines of Execution’, ‘Leading at the Speed of Trust’, ‘Change: How to Turn Uncertainty into Opportunity’, etc. The current customer list includes multiple multinational companies like PepsiCo, API Group, and Ferguson PLC. In addition to the Enterprise training division, Franklin Covey has crafted a leadership program for the education market called ‘Leader In Me’, which is currently used in more than 3,000 schools in the U.S. and Canada.

Historically, Franklin Covey was a lumpy, highly cyclical business, geared to one-time sales and training seminars. Starting in earnest in 2017, management began to bundle all of the company’s
corporate trainings into a single package called the All Access Pass. The AAP program is deployed digitally through a web portal and customers agree to annual, seat-based contracts. Increasingly, customers are opting for multi-year contracts. Today, nearly 45% of the company’s consolidated revenue is derived from multi-year contracts vs. effectively 0% in 2016 (the year AAP was first introduced). AAP has the dual benefit of improving revenue visibility and margins, limiting the cost of deployment and lowering the amount of in-person travel and resources required to deliver trainings. Despite Franklin Covey’s progress towards improving the quality and durability of its business, FC continues to trade at an objectively low forward-looking valuation range of 12x EBITDA and 15x free cash flow. We think this valuation disparity persists over fears of a corporate spending slowdown, driven by global macroeconomic volatility, and the fact that most haven’t done the work to understand Franklin Covey’s transition from a lumpy, low-margin consulting shop to a highly recurring, high margin subscription business. There is also very little visibility on the name. Banking coverage is thin, and liquidity isn’t great for a company of its size. We’ve introduced the idea to several large funds and their initial reaction is usually, “Yeah, I worked on it a decade ago and it was pretty low-quality and lumpy. It didn’t seem like a very good business.” This perception takes time to fix but should become increasingly obvious over time. In the meantime, management is gobbling up shares. Year-to-date through June, the company has bought back 4% of outstanding shares.

IDT Corporation (IDT – Babushka Doll)

We substantially reduced our position in IDT in May, due to the upcoming Straight Path litigation verdict. The stock was sized at nearly 10% of NAV, which we felt was imprudent. Subsequently, we exited the stock shortly after the company announced its fiscal third quarter operating results in early June, which were mediocre. After conducting further diligence, we concluded that the next few quarters could be very weak. We moved down our profit estimates materially, no longer believing that NRS can continue its torrid pace of growth, coupled with accelerating declines in the Traditional Telecom business. Additionally, the company’s tone and commentary regarding the monetization of its growth businesses subtly shifted. We now think that management wants to hold on to net2phone and NRS for longer than we initially anticipated. These negative incremental developments, paired with the coin flip of the Straight Path Litigation outcome gave us no reason to continue holding the stock.

Potbelly (PBPB – Underdog)

A stock we started purchasing in December 2022, Potbelly was first introduced at our 2023 Annual Investor Meeting. The best way to describe the Potbelly opportunity is that of “low-hanging fruit”. We believe that the Potbelly brand is fundamentally strong but prior management proved subpar. The entire board and c-suite has been turned over in the last two years and the new team, led by Bob Wright (former Wendy’s COO), has embarked on a mission to realign the culture and basic operating practices of the organization with a medium-term goal of right-sizing unit economics and long-term goal of growing company-owned and franchised unit count. These efforts are paying off. As of the latest business update provided in June, annualized revenue per location is tracking to $1.35mm vs. pre-COVID levels of $950,000 and restaurant-level profit margins are
rebounding very quickly to ~14% (vs. 15% pre-COVID). Over the last twelve months the company has announced the signing of 96 new locations and the sale of 20 company-operated locations to new and existing franchisees. Regardless of the progress made in the business and share price appreciation, the stock continues to trade at less than 10x EBITDA vs. 15x for Potbelly’s small-cap restaurant peers.

We want to end on a positive note. In our quest to embrace change and new technology, we asked ChatGPT to write a lovely poem about some of our holdings. We think it did a great job. Let us know what you think!

An Ode to Immersion Companies

In a world where dreams take flight,
Where optimism ignites the darkest night,
There’s a tapestry woven, bright and strong,
Of companies that inspire, and push us along.

At the forefront, we find Basic-Fit’s grace,
Empowering all to find their own space,
In gyms and fitness centers, a beacon of light,
They champion wellness, with all their might.

Griffon Corporation stands tall and proud,
With innovation, they weave a seamless shroud,
From building products to aerospace design,
Their vision uplifts, reaching new heights so fine.

Edreams Odigeo, a traveler’s delight,
Guiding wanderers through days and nights,
Their wings of technology spread far and wide,
Unveiling destinations, where dreams coincide.

Franklin Covey, the master of minds,
Unleashes potential, where wisdom finds,
Leadership and effectiveness, hand in hand,
They empower individuals, across the land.

Red Violet, a guardian of truth,
Unraveling mysteries, in search of proof,
Through data analytics, they bring clarity,
In a world yearning for justice and parity.

Potbelly, oh savory delight,
With sandwiches that bring pure delight,
Their toasty creations, a comforting hug,
Filling our lives with warmth and love.
Tortilla Mexican Grill, a fiesta of flavors,  
With tacos and burritos, culinary saviors,  
From sizzling meats to zesty salsas grand,  
They spice up our lives, across the land.

These companies, united, create a symphony,  
Harmonizing progress, and endless synergy,  
They remind us that greatness lies within,  
Through passion, determination, we’ll always win.

So let's raise our voices, and celebrate,  
The hope these companies cultivate,  
In a world that's vibrant, full of zeal,  
With their vision, the future is revealed.

Sincerely,

David Polansky        Tim Delaney
Glossary – Ideal Immersion Setup (IIS)

1. **The Underdog**

   The Underdog is overlooked and underappreciated by most investors. Generally, there are surface level reasons for being dismissed, which are transitory and serve as an impediment to ownership. For example, The Underdog is too small for many institutional investors to even consider and/or does not belong to a major market index such as the Russell 2000. This generally correlates to thin or no analyst coverage and little-to-no institutional ownership. Ultimately, this issue is corrected through a combination of continued growth, improved liquidity, and/or increased analyst coverage.

2. **The Babushka Doll**

   The Babushka Doll has a hidden asset (or assets) inside of it that could be worth significantly more than the value being assigned to it by the market. The typical Babushka Doll takes the form of a large, legacy, no-growth business presently dominating the financials on the outside, but it contains a small, scrappy, subsidiary growing rapidly on the inside. Babushka Dolls are often overlooked investment opportunities because they do not screen well on surface level quantitative statistics of growth and/or profitability. Aligning ourselves with a management team willing to dedicate resources towards unlocking the value of the “hidden asset” can generate significant returns.

3. **The Social Pariah**

   The Social Pariah is perceived to be a toxic asset by investors because the business is either misunderstood and/or suffering from transitory issues. Often The Social Pariah is labelled toxic for good reason but a change in that perception, due to better performance, management turnover, etc. can result in significant stock price appreciation.

4. **The Ugly Duckling**

   The Ugly Duckling is a fundamentally good business which is not readily apparent in the financials due to significant investments in people and capital, which are masking underlying profitability. The Ugly Duckling is usually a sub-scale business early in its lifespan and growing rapidly. Over time, as the business grows up, investors will come to appreciate The Ugly Duckling and afford it a higher value per dollar of earnings. The Ugly Duckling, of course, turns into the swan.

5. **The Doubted Champion**

   The Doubted Champion is a simple but effective investment. This type of business is one that is growing rapidly and exhibits strong financial characteristics (margins, returns on capital, etc.) but the market does not expect its performance to sustain. In other words, its further growth may be overly discounted. If we can correctly identify a Doubted Champion, we will be handsomely rewarded when the market realizes that the business can continue growing at an accelerated rate for far longer than originally anticipated.
Important Information

Certain statements made have not been audited or verified by the Fund’s auditor or third-party administrator. Please see your individual statements for your performance. Adjusted/modified performance disclosures are intended to give deeper insight into the Fund’s performance but should never be substituted for actual net results, as reported by the administrator, and reflected in audited financial statements.

Results are compared to the performance of the Russell 2000 Index, iShares MSCI Small Cap Europe ETF, and Russell Microcap Index (the “Comparative indices”) for informational purposes only. The Fund’s investment program does not mirror the Comparative Indices and the volatility of the Fund’s investment program may be materially different from the volatility of the Comparative Indices. The securities included in the Comparative Indices are not necessarily included in the Fund’s investment program and criteria for inclusion in the Comparative Indices are different than criteria for investment by the Fund. The performance of the Comparative Indices reflects the reinvestment of dividends, as appropriate.

The Immersion Investment Partners, LP Net Returns reflects the USD investment performance of an investor that committed capital at inception of the Fund (June 1, 2021) and is subject to a 2% management fee and 20% performance fee. Net returns will vary by investor. Each partner will receive individual statements showing returns from the Partnerships’ administrator. Performance returns are estimated pending the year-end audit. Past performance is not indicative of future results. Actual returns may differ from the returns presented. The portfolio is under the sole trading authority of the general partners. A portion of the trades executed may take place on non-U.S. exchanges.

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