Bill Chen | Managing Partner
230 Park Ave, 3rd Floor | New York, NY 10169
PH: (347) 688-8056 | www.rhizomepartners.com

Dear Partners,

For the third quarter of 2022, Rhizome Partners generated a net loss of 4.8%. The loss for the Standard & Poor's 500 Index was 4.9% and the National Association of Real Estate Investment Trusts (NAREIT) Index lost 10.8%. During the quarter, our hedging efforts generated about 2.9% in gains. Our portfolio was down broadly across the board during the quarter, as expected in a bear market. Since inception, the portfolio has comprised a 62% general market exposure, 23% cash/SPAC (special-purpose acquisition company) holdings, and 11% market-neutral investments.

Time Period	**S&P 500[1]**	**Hypothetical 10% Absolute Return**	**FTSE NAREIT All Equity REIT Total Return[2]**	**Rhizome Partners Class B Net Return[3,4]**
April 10th thru Dec 31, 2013	18.2%	7.2%	-4.9%	19.50%
Full Year 2014	13.7%	10.0%	28.0%	19.2%
Full Year 2015	1.4%	10.0%	2.8%	-5.8%
Full Year 2016	12.0%	10.0%	8.6%	11.5%
Full Year 2017	21.8%	10.0%	8.7%	5.6%
Full Year 2018	-4.4%	10.0%	-4.0%	-7.2%
Full Year 2019	31.5%	10.0%	28.7%	17.8%
Full Year 2020	18.4%	10.0%	-5.1%	23.7%
Full Year 2021	28.7%	10.0%	41.3%	24.9%
Q1 2022	-4.6%	2.4%	-5.3%	-9.9%
Q2 2022	-16.1%	2.4%	-14.7%	-9.1%
Q3 2022	-4.9%	2.4%	-10.8%	-4.8%
Year To Date	-23.9%	7.4%	-27.9%	-22.0%
Cumulative Return Since Inception	171.1%	146.8%	76.4%	108.3%
ınualized Return Since Inception	**12.4%**	**10.0%**	**6.1%**	**8.1%**

1. S&P 500 returns include dividend reinvestments and are fully invested.
2. FTSE NAREIT All Equity REIT Total Return starts on 3/31/2013 and includes dividend reinvestments and is fully invested.
3. Net return is net of expenses and incentive allocation for Class B. Individual partners may experience returns that are different from the Class B return.
4. Rhizome Partners Class B Net Return is accomplished while holding 23% cash and SPACs while comparable indices are fully invested.
Class B Net Return also includes 11% of investments that are workouts/special situations/hedged. Total market exposure was only 62% since inception.

Macro Developments

In the value-investing world, *macro* is a dirty word. A manager is supposed to focus solely on company fundamentals and bottom-up analysis. In our Q1 investor letter, we pointed out that interest rate policy is likely the most important factor to consider in 2022. Since then, the 10-year U.S. Treasury yield increased from 1.5% to 3.8% at the end of the third quarter. Even though employment data and gross domestic product (GDP) growth have been healthy this year, major equity and fixed-income indices have sold off worldwide. At quarter-end, the S&P 500, the Russell 2000 Index, and the NAREIT All Equity REIT Index were down 23.9%, 25.0%, and 27.9%, respectively. The total return for iShares 20+ Year Treasury Bond ETF, a previous short position of Rhizome Partners, was down 31.0% by the end of the quarter. This is only the third time in market history that both equity and Treasury bonds have sold off in the same year. As we described in detail in our first-quarter letter, investors are starting to reprice risk across all asset classes.

After the Great Financial Crisis, the idea that a portfolio manager or a chief executive officer should also be a "chief risk officer" resonated with investors. After thirteen years of near zero interest rate policy, investors largely abandoned this concept. We've stuck to our strategy of constantly seeking out and hedging tail risks in our portfolio. Most years, we lose 1-2% of our partners' capital, similar to the way a homeowner's insurance premium will expire without a claim. During Covid, we received a large cash windfall that we were able to reinvest into attractive opportunities. In 2022, we've utilized a hybrid strategy of shorting fixed-income ETFs and put options to hedge interest rate and systemic risks to our portfolio. As chief risk officer, I will continue to protect our partners' capital from tail risks.

Hedging Results

Year-to-date, our hedging efforts generated a roughly 8.8% gross return for our partners. Netting out the cost of borrowing securities, we estimate the gross return to be roughly 8%. We share these results to help you better assess our performance as chief risk officer. We exited our short position in the twenty- year U.S. Treasury ETF at a 23% gross profit. Since we initiated our short positions, the junk bond, long-duration corporate bond, and emerging-market bond ETFs are, respectively, down 13.7%, 28.9%, and 22.6%, excluding interest payments and borrowing costs. Shorting fixed-income ETFs has generated a 4.8% gross return, which is roughly equal to the 5% gross return estimated in our Q1 investor letter. Shorting Prologis, Simon Property, and Realty Income Trust added another 1.5% in gross return. Our lone mistake in shorting this year was doing so with a small company that experienced a short squeeze. We quickly exited our 1% position. It is important to note that we had not discovered some newfound enthusiasm to become full-time short sellers. Shorting to hedge our portfolio simply felt like a one-foot hurdle in 2022. Year-to-date, our put strategy contributed a 3.2% gross return, despite half of the puts expiring worthless.

We notice that as the market continues to draw down, we typically experience about 30% of the drawdowns. Knowing that we can focus on finding deep bargains in this market gives us great comfort. It also gives me the confidence to invest in research talent. For the second time in two years, we identified a significant risk factor before it became generally acknowledged. One can argue that we got lucky in identifying Covid in 2020 and bought puts ahead of the event unfolding. But identifying two different structural risk factors in two years requires more than luck. We have a risk-management process that involves constantly seeking out the tail-risk factors. Equally important, we have the muscle memory to quickly allocate to tail-risk hedges and continuously replenish "insurance investments" as they expire. This risk-management process is an art, and we strive to continuously improve it.

Portfolio Construction for a Bear Market

It is important to clarify that our objective during a bear market is not to avoid mark-to-market losses. As equity investors, experiencing 20% drawdowns represents table stakes. But when the indices sell off more than 20%, some "unknown unknown" risks have likely emerged. Our goal is to buffer the drawdowns and generate cash during a bear market. At quarter-end, if we were to fully exit our short positions and liquidate all our puts, we would have a 28% cash position that we can allocate to new investments. If the indices continue to sell off, our cash balance would continue to rise. As the puts reach their strike prices, the cash balance could grow in a parabolic fashion. A deeper market drawdown would likely result in more outperformance for Rhizome Partners than for the indices. It

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would also result in a larger cash balance for us to put to work during potentially distressed time. We design our portfolio in this fashion because being greedy when others are fearful requires having cash on hand.

Unlike the general investing crowd, we are less worried about additional drawdowns. We gauge sentiments on Twitter and investment forums. Investors are starting to exhibit frustration with the selloffs followed by rallies. By contrast, our hedging strategy allows us to focus on hunting for exceptional long-term investment ideas that could generate multiples of the cost basis. Instead of laying off employees and cutting expenses, we have added four full-time interns and analysts, who work on various idea-generation projects for us.

Going on the Offensive

When should we go on the offensive? I believe the right answer is when we can identify 2-4 baggers that have low downside risk. There are many dislocations in the market, and we are actively researching multiple targets. The key is to diligently underwrite our targets and be ready to go on the offensive. We believe this kind of environment can lead to extraordinary returns in the coming years.

Operating Company Updates

During the quarter, Clarus Corporate experienced a *gamma squeeze*, whereby shares went from $20 to $28 in a span of two weeks. We quickly realized that the options outstanding exceeded the number of shares outstanding. A 40% return in two weeks in a bear market is a gift from the market. We quickly sold two-thirds of our position, wrote call options with a $30 strike price, and received a premium equal to 18% of the stock price. The expiration of the option was less than two months. Shares quickly collapsed as the gamma squeeze started to unwind, and shares now trade at $12. We also discovered that a Brazilian hedge fund and some volatility trading firms were responsible for the meteoric rise and subsequent collapse. We believe the Federal Reserve Board's zero interest rate policies led to this type of speculation in options markets. Ironically, Federal Reserve Chair Jerome Powell's hawkish speech at Jackson Hole appears to be what stopped the gamma squeeze. What the Fed giveth the Fed taketh away!

We also exited more than half of our position in Cross Country Healthcare. We exited at an average of $27.29 per share, or almost 14 times normalized earnings per share. Although this is still a reasonable price for an asset-light business, we believe there are better opportunities in the current market. In addition, there are still questions about whether hospitals are staffed with too many travel nurses due to Covid, which results in elevated operating expenses. There is some risk to our normalized earnings figure.

Berry Global reported solid quarterly results and continues to generate a prodigious amount of EBITDA (earnings before interest, taxes, depreciation, and amortization) and free cash flow. For the 2022 calendar year, free cash flow will be $150 million less than the normal run rate, mostly due to increases in working capital. At quarter-end, Berry Global is trading at 6.5 times 2022 P/FCF (price to free cash flow), with a net debt to EBITDA metric of 3.9 times, which is the lowest in the past few years. Berry does have a 35% revenue exposure to Europe and roughly a 30% revenue exposure to industrial end markets. Everyday staples, such as shampoos and food packaging, represent 70% of Berry's products. During the Great Financial Crisis, plastic packaging companies with Berry's product mix experienced drops of less than 10% in EBITDA. Lastly, Berry has bought back 8% of the shares outstanding in the past three quarters. We feel very comfortable with the company.

Univar Solutions reported a 30.2% increase in revenue and a 52.7% increase in adjusted EBITDA during the second quarter. The company provided positive earnings guidance for the third quarter 2022 and for the full year. For the year 2022, free cash flow guidance was in the range of $400 to $450 million. At quarter-end, the stock was trading at 8.4 to 9.5 times price-to-free-cash-flow multiple. Univar's guidance also projects specialty chemical growth 2% higher than economic consensus as well as productivity improvements through organization. The company expects leverage to be between 2.0 and 2.5 times net debt to EBITDA and will return 20% to 30% of adjusted net income to shareholders. The company shrank its share count by 1.7% in six months and has the authorization to buy back 9.1% of the shares outstanding.

Ardagh Metal Packaging is most exposed to the economic crisis in Europe, with one-third of its EBITDA generated in Europe. Over the summer, there was serious concern about how Europe could source enough energy this winter. Europe has been stockpiling coal and natural gas and creating contingency plans. This is still a concern that we monitor, but it is hard to imagine Ardagh Meal Packing being cut off from power. In the long run, the aluminum can packaging industry is a rational oligopoly that will adjust supply to market demand. All four players—Ball Corporation, Crown Holdings, Ardagh Metal Packaging, and CanPack—are poised to earn high returns on invested capital. In the short term, the timing of the pass-through of input costs and challenges in the European market have temporarily impacted cash flow. Ardagh Metal Packaging's debt is fixed and termed out, with the nearest maturity in 2027. The company continues to generate a prodigious amount of cash flow, as all packaging companies do through all economic cycles. In addition, we are now receiving an 8.3% dividend, which we will reinvest into additional shares or other investment opportunities.

Real Estate Company Updates

FRP Holdings continues to post impressive results. Rents increased by 7.3% and 4.6% on lease renewals at Dock 79 and The Maren, respectively. The Cranberry Run warehouse is now 100% leased. The aggregate business experienced the highest quarterly revenue in company history, largely due to the recent acquisition in Astatula, FL. Of the 487 multi-family units at Bryant Street, 85% were leased at the end of Q2. Preleasing has begun at The Verge, the new multi-family near Dock 79, and The Maren. FRP Holdings received $16.9 million of the $18.5 million of the capital lent to the Amber Ridge project. The company has bought $140 million of short-term Treasuries, which may add $4-6 million of additional interest income per year. FRP Holdings' large cash balance has quickly shifted from being a heavy anchor dragging down returns to an opportunistic distress fund that could earn outsized returns in the coming years. In a year when we have a lot to worry about, FRP Holdings is the company we worry about the least.

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Clipper Realty experienced sizable rent and occupancy increases in all their properties. From Covid lows, average rent has increased 40%, 13%, and 12% for Clover House, 10 West 65th St., and Tribeca House, respectively. Rent increases at Tribeca House have had the largest impact because it has the greatest number of market-rate units. The properties are 98% leased and the rent-collection rate was 97.3% in the second quarter. Vacancy in New York City continues to remain tight.

Howard Hughes Corporation reported strong results in its various business segments in the second quarter. Net operating income in the operating assets was up 14.6% year over year, with strong rent growth and leasing momentum in the multi-family assets. The land-sale business earned $71.3 million and has yet to slow down despite higher mortgage rates. The condo towers in Hawaii are selling, with Koula 96.3% presold and Victoria Place fully sold out. The closing of Koula condo units should generate over $200 million of cash flow in the second half of 2022. Fashion-brand Alexander Wang signed a 46,000-square-foot lease in the Fulton Market Building at the South Street Seaport. We believe this lease could increase the net operating income (NOI) by up to $4 million a year. My wife and I attended the official opening of the Tin Building at the seaport in late September. Acclaimed chef Jean-Georges Vongerichten has curated a great collection of food offerings. The Tin Building adds an exciting new feature to the seaport, further strengthening the ecosystem. We believe that the seaport could potentially flip from losing $20 million a year to generating over $25 million in NOI by 2024. That amount would still be below the original projection, but it would be nice to turn a thorn in the investor's flesh into a cash flowing asset. With all the restaurants and offerings available, we believe the South Street Seaport can drive exceptional rent growth over time.

Organization Updates

Both Henry and Calvin, two of our interns, decided to continue their internship with us. Calvin found the experience so rewarding that he's taking a semester off from college to continue with us. Henry continues to teach me about artificial intelligence, cutting-edge technology, and Gen Z trends. He also spends time researching broader themes such as the potential reshoring of manufacturing back to the U.S. Both Calvin and Henry impress me every day. Matthew, another intern, has transitioned out and will start his permanent job with Alliance Bernstein in early 2023. Carlos, our analyst in Lima, Peru, started with us in September and has already analyzed the historical capital-allocation track record of a target company. Bruno, our new analyst in Sao Paolo, Brazil, started in early October. We are currently putting both off-site analysts through an intense training program. I continue to mentor two talented college students. One of the students has already offered me an actionable idea that has the potential to become a 2-5 bagger. The other recently explained to me how Stanley Druckenmiller, who was a lead portfolio manager for George Soros, was a great analyst but Soros sized the trades optimally. Both college mentees are far more advanced than I was at their age. I greatly enjoy the mentoring experience and believe Rhizome Partners will be rewarded with a deep bench over time.

Sincerely,

Chong Tong Chen

Chong Tong "Bill" Chen

Bill Chen | Managing Partner
230 Park Ave, 3rd Floor | New York, NY 10169
PH: (347) 688-8056 | www.rhizomepartners.com

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The Fund commenced operations in April 2013 and has limited performance history. All performance of the Fund shown is from inception, net of applicable fees and expenses, presumes reinvestment of income and reflects the performance of the Class B Interests with a 1% Management Fee and a 15% Performance Allocation. The performance of Class A, which is also currently being offered and charges a 2% Management Fee and a 20% Performance Allocation, is not shown but is available upon request. Past performance is not indicative of future results. No representation is made that the Fund will or is likely to achieve its objectives, that the Investment Manager's investment process or risk management will be successful, or that any investor will make any profit or will not sustain losses.

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Bill Chen | Managing Partner
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