

October 24, 2024

Dear Investor:

I hope this letter finds you well. Choice Equities Fund generated losses of -1.8% on a net basis in the third quarter, taking year-to-date gains to +5.5%. This compares to the Russell 2000's +9.3% gain for the quarter which brings year-to-date gains to +11.2%. The S&P 500 generated a quarterly gain of +5.9% taking year-to-date gains to +22.1%. Since its inception in 2017, the fund has generated annualized gains of +15.0% versus +7.8% and +14.5% for the Russell 2000 and S&P 500, respectively.

EXECUTIVE SUMMARY

In this letter, we provide a brief summary of equities markets in the third quarter of 2024. We then highlight a couple of recent developments of companies within our portfolio and share a few thoughts on holdings Ceasars Entertainment Inc. (CZR), Genius Sports Limited (GENI) and Hain Celestial Group, Inc. (HAIN). Lastly, I conclude with a few thoughts on the current outlook.

QUARTERLY COMMENTARY

In contrast to the historically concentrated and narrow market of the second quarter and much of the last two years, the inverse played out to some degree in the third quarter as the market showed tentative signs of broadening. The Fed instituted its first rate cut in four years. And though markets had brief episodes of high volatility in July and August, most equities cohorts gained in the quarter aided by attractive earnings growth. Large cap stocks gained, though performance within the Mag 7 was bifurcated with winners and losers which in aggregate trailed several other areas of the market that produced high single-digit gains. While the broadening market is welcomed, if this one quarter marks a change in market leadership, it is likely just the beginning given prior leadership cycle shifts have historically measured seven to ten years on average.

PORTFOLIO COMMENTARY

While we had a handful of small contributors in the quarter, we had a few detractors as well, producing a down 1.5% impact to the portfolio in total.

OEC – Orion Engineered Carbons was again a primary detractor in the quarter and remains a frustrating investment. Valuation remains undemanding, particularly in the context of EPA investments that have already been made that are likely to produce attractive free cash flows growing at a mid-tens rate going forward. But of late, this company's sometimes unusual misfortunes continue. In the most recent example, the company has fallen victim to wire fraud which have depleted some of the funds earmarked for near term share repurchases.

MGNI and CROX – Magnite, Inc. and Croc's Inc. remain holdings in the portfolio and were recently discussed in detail on the Yet Another Value Blog podcast, which can be found here: [YAVB podcast](#). As discussed herein, both remain well-positioned in their respective industries and represent attractive values on anticipated cash flows in years to come. Magnite, as highlighted, looks attractive on its own merits, though shares could become particularly interesting should a handful of industry anti-trust events break their way.

PAR – PAR Technology Corporation continues to win new logos in the enterprise restaurant arena for its unified digital commerce offering and is now successfully expanding into the convenience store channel,

under the recently acquired Stuzzo banner. Building on continued successes in cross-selling products to existing customers with various unmet needs, the company looks set for 20% organic growth for the foreseeable future. As the company has managed to hold operating expenses nearly flat for each of the last six quarters, attractive EBITDA margins into the mid 20 percent range and beyond are likely to soon emerge.

CZR and GENI – Both Caesars Entertainment, Inc. and Genius Sports Limited operate in and around the entertainment, casino and gaming space. Caesars is a bit more well-known and discussed in brief below. Genius is not as well-known but possesses a bright future as a fast-growing company that has become a critical cog in the sports betting value chain. The company has exclusive data rights deals with many leagues including the English Premier League and the NFL (which owns an equity stake in the company) which afford the company the right to collect, synthesize and share pre-game and in-game data with their casino and sportsbook partners to generate betting lines. A more in-depth memo has been attached for existing investors.

Caesars Entertainment is the owner of a strong casino and entertainment brand, with a diverse portfolio of properties strategically focused on both physical and digital growth. The company's leadership in the U.S. casino and resort industry is underpinned by its expansive footprint, including marquee properties on the Las Vegas strip, new and existing regional casinos in growing markets, and its growing Caesars Sportsbook platform. With the ongoing recovery in leisure and travel post-pandemic, combined with the secular tailwinds in online sports betting and iGaming, Caesars is well-positioned to capture growth across multiple segments. Recently emerging from a sizeable multi-year investment cycle, shares of Caesars look attractive on a mid-teens yield of forward cash-flows. Some recent refinancings and a share buyback highlight the improved look of the company's financials.

HAIN – Hain Celestial Group is a recent addition to the portfolio. Since taking the helm in January 2023, CEO Wendy Davidson has been instrumental in driving the company's transformation. Davidson has simplified the business by divesting non-core brands, focusing on higher-margin, core products, and implementing effective cost-saving measures. These initiatives have already led to noticeable improvements in operational efficiency, lower working capital needs, margin expansion, and a more consistent and desirable brand portfolio, positioning the company for attractive sustainable growth. As a result of these efforts, which have positioned the company well for several dollars of free cash flow per share in coming years, Hain Celestial Group now has lower leverage than most of its peers and stronger top and bottom-line growth prospects, yet the company trades at a highly discounted multiple on a forward-looking view. A more detailed internal memo has been attached for existing investors.

OUTLOOK

The long-awaited election is now just around the corner. Recent polling indicators suggest the presidential race has tightened and remains too close to call. Further down the ballot ticket, current indications suggest divided government remains a likely outcome. Though certain companies and industries will become marginally more favored or less as determined by what policies the incoming administration may be able to enact, more lasting and powerful economic themes discussed previously and inherent in our portfolio are likely to continue. Among them: companies must continue to adapt to a digitizing world as restaurants and other industries move to cloud-based software platforms; aging infrastructure must become modernized as supply chains continue to mobilize around their reshoring efforts; and people continue to seek gaming entertainment in physical and mobile casinos.

In the near term, a resilient economy is underpinning an earnings profit cycle that looks to be beginning anew for many. A more moderate monetary policy environment seems to have also had a positive effect on capital markets, as deal activity is beginning to emerge from a multi-quarter period of depressed

activity. Of late, a broadening market has followed. Should such a change continue, it could have years farther to go as prior leadership cycle shifts suggest.

CONCLUSION

I am excited about our current holdings. Even so, I know our approach will not yield outperformance each and every quarter, but I continue to believe it will be well worth our while over the long haul. Perhaps more importantly, given the overwhelming majority of my investable assets are invested alongside yours, we would never ask investors to assume risks we ourselves will not.

Thank you for your continued support as we work to grow our capital together. As always, we are happy to discuss our investment outlook with you at your convenience. Please reach out any time.

Best regards,

A handwritten signature in black ink, appearing to read "Mitchell Scott", with a stylized flourish at the end.

Mitchell Scott, CFA
Portfolio Manager

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1. All market and company data is sourced from Factset and company filings and is current as of 9/30/24.
 2. CEF uses the S&P 500, Russell 2000 and the Barclays Hedged Long/Short indices as its primary benchmarks. The S&P 500 and Russell 2000 are common large and small cap US equities-based indices. The Barclays Hedged Long/Short index (an index of equities-based hedge funds) serves as an appropriate benchmark over the long-term given the index has a similar long-term goal of capital appreciation through equities investing.
 3. CEF Net Returns are consistent with the 1% management fee and 18% performance fee offered to clients.