



July 17, 2025

Dear Investor:

I hope this letter finds you well. Choice Equities Fund generated gains of +30.0% on a net basis in the second quarter, taking year-to-date gains to +21.6%. This compares to gains of +8.5% for the Russell 2000 and +10.9% for the S&P 500, taking year-to-date returns to a loss of -1.8% for the Russell 2000 and a gain of +6.2% for the S&P 500. Since inception in 2017, the fund has generated annualized gains of +13.4% versus +7.1% and +14.7% for the Russell 2000 and S&P 500, respectively.

## **EXECUTIVE SUMMARY**

In this letter, we provide a brief summary of equities markets in the first half of 2025. We offer updates on a couple of holdings with closer looks at Genius Sports Limited (GENI), Magnite, Inc. (MGNI) and Modine Manufacturing Company (MOD). Lastly, I conclude with a few thoughts on the current outlook.

## **MARKET COMMENTARY**

True to the theme of “things changing quickly” as discussed in our 1Q quarterly letter, market dynamics again changed quickly in the second quarter. After the S&P 500 experienced a sharp decline from early year highs in February to its April trough, markets staged a swift recovery, rebounding to reach a new all-time high in June as the second quarter came to a close. To highlight the fast moving nature of the market seen in the first half of the year, the four-month round trip for the S&P 500 – from the February market high into bear market territory (of a 20% market decline) and back to a new high in June – marked its quickest move from a high into a bear market and back to a new high again in history. For the quarter, the S&P 500 generated gains of +10.9% while small caps climbed +8.5%, producing a smaller rebound than larger peers after also producing a greater decline in the first quarter.

It would be tempting to neatly summarize this brief but highly spastic episode in the financial markets as simply being symptomatic of Mr. Market’s manic tendencies: happy and optimistic one day, focusing on all the things that could go right; and despondent and pessimistic the next focusing on only the things certain to go wrong. But markets don’t just decline by 20% for no reason. Real and present risks to earnings did emerge, primarily from tariffs and the increasing threat of global trade wars which induced a substantial decline in business confidence. In tandem, forward earnings estimates likewise declined, creating a change in trend from their prior upwards trajectory, with markets repricing an updated outlook accordingly.

Since the market bottom in early April, many pieces of legitimately positive news have emerged, and many of the more negative earnings outcomes that were priced in at lower market levels look unlikely to materialize. The all-in tariff rate continues to remain a guessing game at best, but few today view the ~50% level once contemplated on imports across the board as sustainable or likely. Fiscal policy, once viewed as a negative to economic growth has become a growth positive input with the recent passing of the One Big Beautiful Bill. And disruptive, but potentially favorable developments across the geopolitical landscape suggest an increasing likelihood of de-escalatory actions from global powers as well. Today, it seems investors as a collective group are again taking a cautiously optimistic view that corporate health and strong earnings are again on the horizon.

## PORTFOLIO COMMENTARY

The recent quarter highlights the lumpy and opportunistic returns that the market can sometimes present for a reasonably concentrated portfolio as market volatility produced several opportunities in which we were able to capitalize on attractive price-to-value dislocations. In some cases, like that of MGNI in which shares traded in a very wide range during the quarter, these actions were rewarded quickly. This holding, our largest position by size (at a mid-teens weighting in shares and supplemented by a small position of call options totaling less than 50 bps at cost), was the largest driver of returns in the quarter. Shares of Celsius Holdings, Inc. (CELH) and contributions from VIX options were the other most impactful drivers of return in the quarter, though several smaller positions together made a meaningful contribution in aggregate as well.

Today, the top six holdings are consistent with those highlighted in the first quarter and include Barnes & Noble Education, Inc. (BNED), CELH, GENI, MGNI, MOD and Par Technology Corporation (PAR). A few brief updates on GENI, MGNI and MOD are included immediately below.

GENI – The digital gaming rights provider continues to execute as expected with several favorable developments recently occurring. In June, the NFL re-upped and extended its data rights deal with GENI to 2029, well in advance of the 2027 expiration date of the previously existing agreement. Genius also recently secured an exclusive data rights deal with the NCAA through 2032. Together, these data rights deals, as well as the lion's share of data rights deals which were renewed last year, give the company a great deal of visibility into its data costs going forward, paving the way for future incremental revenues to flow through to the bottom line at very attractive incremental margins going forward.

With sports-betting now legal in Brazil, legalization in a handful of meaningful U.S. states still to come and a trend that favors continued growth in in-game betting where the company generates a higher take rate on bets placed, incremental revenue opportunities should continue to follow at a healthy pace in a market that itself should continue to grow at a low-double digit rate. Ad revenues are also quickly emerging as meaningful source of new revenues, with Genius's nascent FanHub engine producing another attractive revenue stream for advertisers seeking to tie ads directly to specific players.

Recently the company has stated it is now targeting a 30% EBITDA margin by 2030, a step higher from the prior target of 25%. With strong incremental margins and attractive topline growth likely near 20% for the next several years, the company looks set to grow EBITDA at a ~30%+ CAGR for the next several years. This financial algorithm will sustain the company solidly into the Rule of 40 club (which sums EBITDA margins and revenue growth) for the foreseeable future where most peers trade at 6x sales or better. Today trading at less than 4x sales and at an increasingly wide valuation disparity relative to larger peer Sportsradar Group (SRAD), it stands to reason strong revenues and incremental profits and greater investor understanding of this company and its duopolistic industry structure will continue to provide tailwinds to shares in time.

MGNI – Market volatility and economic concerns were the primary forces pushing MGNI to trade in such a wide range during the first half of the year, as markets briefly priced severe cuts to ad budgets into the stock. As economic storm clouds lifted, evidence began to emerge that ad budgets largely remain intact relative to prior expectations, and though the company suspended its guidance for the second half of the year, it seems its prior views will likely be sustained. Aside from positive channel checks, encouraging peer reports and general news of resilient ad spending, perhaps more interestingly, these checks suggest that advertiser television ad budgets now favor CTV (i.e., streaming) over traditional linear TV, a shift in advertiser TV budgets long underway that has reached the critical equilibrium mark. Netflix is of course some part of this, as their advertising efforts continue to gain scale, but the tide is also turning more broadly.

The company's recent earnings call also produced some noteworthy data points, as management highlighted the benefits of potential market share gains should the DOJ force any remedies on Google as a result of the ad tech trial ruling issued in April. The remedies trial remains set for September 22<sup>nd</sup>. Developments there will likely be contested and remain somewhat unpredictable. A second ad tech trial will soon start in August in Texas, which is also likely to have some ramifications on potential outcomes. Suffice it say, court filings and testimony transcripts make for interesting reading, and we are tracking developments closely. For now, and until further news breaks, it is encouraging to see the company continuing to announce a steady stream of new customer wins, recently adding Amazon, Pinterest, Redfin and Paramount Australia to a customer list that has been growing impressively lately.

MOD – Since our introduction of this new holding last quarter, Modine Manufacturing Company (MOD) has continued to execute effectively under CEO Neil Brinker's leadership, leveraging the Danaher Business System (DBS) playbook to drive robust performance. Despite offering a wider than expected initial guidance range for FY 2026 due to difficult to forecast macro conditions at the time of reporting last quarter, the company still expects to sustain attractive topline growth which can be leveraged into mid-teens earnings growth in coming years. These financial results should be supported in part by durable demand for its data center cooling products in its Climate Solutions segment as well as sizeable margin enhancements in its slower growing Performance Technology segment.

The transformation, now four years in under CEO Brinker, is off to a promising start as the company continues to move its mix of business units into higher return, more attractive end markets. Thus far, management has proven adept at targeting smart tuck-in acquisitions in high growth end markets where it can leverage its climate control technological expertise while also pruning its portfolio of businesses by parting ways with business units serving less attractive end markets. Some parallels can be drawn by examining the long-term success of companies like Roper Technologies, Inc. (ROP), given a shared philosophical view in how the application of a lean and Kaizen focused operational playbook can be supplemented with smart acquisitions informed by the 80/20 philosophy to shape an attractive portfolio of businesses. The \$100M share repurchase program, initiated last quarter, should enable the company to capitalize on the stock's current trading multiple of ~16x NTM P/E, a valuation which should prove attractive given the long-horizon growth opportunity in front of the company.

## **OUTLOOK**

As discussed in our last quarter's outlook, events of recent weeks have continued to point to an increasingly positive environment for earnings. Worth noting, these developments followed after much of the investment community lowered outlooks and took expectations and forward estimates down, setting up positive revisions to earnings growth and expectations from here.

Regardless, as one can surmise from our discussion of "things changing quickly", this view remains susceptible to becoming dated quickly. Despite this caveat, I believe our holdings offer an attractive blend of forward returns based on our views of prices and values and likely developments of positive business outcomes. But should things again change quickly, I will adapt and seek to position our portfolio accordingly.

## CONCLUSION

As I typically conclude, I am excited about our current holdings and our prospects for continued attractive returns in the coming quarters and years. I am also equally excited about the developments that AI and related initiatives are bringing to our research process. Our ability to find and filter through relevant information continues to improve and grow more productive, and I look forward to continuing to develop these abilities going forward.

In closing, 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 6/30/25.
  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.