February 9, 2021

Dear Investor:

I hope this letter finds you well. I am pleased to report another strong quarter of investment performance. Choice Equities Fund generated gains of +23.1% on a net basis in the fourth quarter, finishing the year with gains of +76.3%. This compares to the Russell 2000's +31.4% gain in its best ever quarter and +20.0% annual return. The S&P 500 produced gains of +12.2% for the quarter and +18.4% for the year. Since inception in January 2017, our portfolio has generated net annualized returns of +25.7% versus +11.3% and +16.1% for the Russell 2000 and S&P 500, respectively.

EXECUTIVE SUMMARY

In this letter, we discuss the major drivers of performance for the year, while briefly reviewing the highly volatile conditions that accompanied 2020. We also discuss existing portfolio holdings Magnite Holdings, Inc. (MGNI), At Home Group, Inc. (HOME), Select Interior Concepts, Inc. (SIC) and highlight new positions Viad Corp. (VVI) and Pitney Bowes, Inc. (PBI). Finally, we provide a few thoughts on the outlook, and our expectations for a broadening economic recovery.

QUARTERLY COMMENTARY

The COVID-19 pandemic continues. Still. On the bright side, a viable path to normalcy seems to lie just across the rapidly approaching horizon. Vaccine distribution has begun. Warmer weather is just a few months away and the possibility of imminent herd immunity suggests the beginning of the end of the pandemic may be at hand. Heartened by this backdrop, additional stimulus and a bit less uncertainty on the political front, investors pushed equities of nearly all stripes higher as stocks have begun to price in strong earnings with more normal operating conditions emerging sometime this year. Our portfolio likewise performed well in the quarter, driven primarily by gains in Magnite as the company no longer seems to be flying under the radar.

As it relates to the year on the whole, I cannot help but think of things from the perspective of an allegorical index-investing Rip Van Winkle. Were he to wake from a 365 day slumber and see market performance ended where it did – a high teens up year for his investment in the S&P 500 that, while an attractive return and a strong market year, fits squarely within the bounds of normal – he might move merrily along his way with hardly a second thought. But oh! The times he would have missed!

Of course, the rest of us know the way that "typical" annual return was achieved was anything but. The COVID-19 pandemic, which seemed to shut our economy instantly as if it had an on/off switch, produced a number of crazy feats in the markets. It began with the fastest descent into bear market territory in history. An all-time high on the VIX followed. The Russell 2000 had its worst ever quarter and then, just a few months later, its best ever quarter. A number of other "best since" and "worst since" types of records fell. All in all, the experience produced such a dizzyingly long list of superlative performances of both the negative and positive variety that it became hard to keep track. Oil futures even went negative.

With these highly volatile conditions as a backdrop, I'm quite pleased with our performance for the year. I like to think our portfolio is designed to both endure and capitalize on volatility – and this year's chaotic market certainly provided quite the test. In pursuit of these counterbalancing goals, our net exposures typically fall in the 70% to 90% range. This affords us an opportunity to outperform on both sides. That means losing less in a down market from lower exposure levels and hopefully making more in a flat or up market through strong stock selection. While we managed to lose less than the small cap index in the first quarter decline (albeit, barely!), we quite handily outperformed during the rebound. Though we did move net exposure levels up above 90% in both April and May, exposure levels came back down soon thereafter and ultimately averaged under 70% for the year.

More importantly, as I have hoped would be the case for a concentrated fund that is set up to prosper primarily if we can pick good stocks, our outperformance in the up market came from strong stock selection. With opportunities in ample abundance, I opted to spread out our holdings a bit more than we have in some other market environments. Most businesses we loosely categorized into one of two buckets: Digital Advertising Beneficiaries or Small Cap Value stocks. No positions were sized at more than low double digit percentage weightings at cost. And though it is clearly true most any purchases made this past spring performed well, several of our picks performed exceptionally well. Celsius Holdings, Inc. (CELH) and Digital Turbine, Inc. (APPS) were our best performers in terms of price appreciation from our purchases in the $4s, while longtime holding Magnite was the largest contributor of absolute performance for the year. We also had a number of multi-baggers from our value picks like HOME, Bluelinx Holdings, Inc. (BXC), TravelCenters of America, Inc. (TA) and Citi Trends, Inc. (CTRN).

Before moving on from this discussion, it is clear I should note that this past year presented abnormally fertile conditions for stock picking. The pandemic created low purchase prices across the board, and then – aided by highly effective income replacement strategies pursued by the federal government – quickly improving outlooks shortly thereafter. Accordingly, 2020 was our best year yet. It will certainly be difficult to beat and attempting to do so seems a foolhardy goal at best. But that does not mean we cannot still prosper in our long-running quest to outperform the markets.

POSITION COMMENTARY

It has been an eventful beginning to the year, and I'm pleased to share our portfolio is off to a strong start. There are some pockets of odd market activity, and short squeezes have become the topic du jour. Along those lines, three of our core holdings have perhaps been influenced by these forces to some degree in the short term. A few days into the new year, one was attacked by a short-seller's negative report. Another surged after announcing strong holiday results. And two weeks ago, one clearly experienced a significant but brief short squeeze. With these events in mind, I thought our investors would be interested to know how we have handled these developments. While each case is different and evaluated on its own merits as is always the case, suffice it to say, we are attempting to capitalize on volatility based on our estimates of value as we always do.

MGNI – As alluded to above, Magnite, Inc. is no longer undiscovered. Shares surged on increased recognition of the company's advantaged positioning in the programmatic advertising landscape. Key customer wins like Disney / Hulu and Omnicom and tightening relationships with The Trade Desk suggest they are a share-gaining winner in this attractive growing market. However, a few days into the year, the company was attacked by a short-seller's report. The report claimed shares were overvalued and questioned management integrity citing merger-related accounting improprieties. Presumably, the authors found the shares a ripe target under the assumption investors would be quick to take profits after such a surge.

While I am typically keenly interested in understanding the bear case around any of our investments and hold the views of other market participants with great respect, in this case, I believe these claims to be baseless and without merit. In my three years of communicating with management (original write-up here, page 7), I have found them to be honest and credible at every turn. Though it is true shares have moved higher, and the company is no longer cheap on trailing metrics, it is also the case that the company is both exceptionally well-managed and exceptionally well-positioned in a rapidly accelerating market which together suggest company revenues and cash flows are likely to flourish in the coming years. As this is not my first encounter with these particular short sellers, I have some familiarity with their work. In prior years, I have owned a sell-off one of their short reports created. I have bought a selloff one of their short reports created. And now, the third time around, we have done a bit of both. Finally, as last week concluded, CEO Michael Barrett and the Magnite team struck again, this time purchasing SpotX and deftly positioning Magnite alone atop the list of exchanges competing to deliver programmatic CTV inventory of content providers to ad buyers.

HOME – Shares of At Home have also enjoyed a strong start to the year. There is some short interest in the stock, though levels have not changed much over the years. The company preannounced strong results for the holiday season early this January. So, the move higher might just be price appreciation that moves shares closer to our estimates of the company's intrinsic value. Though it may feel like ancient history, it was not that long ago in pre-pandemic times we expressed a view that we could envision *intrinsic value* approaching $40 per share in an upside case. But after events of the past year, it would seem the case for that view has only been bolstered. Consider that while a number of the company's competitors have exited the landscape (like Pier One or JC Penney), end market demand has only grown stronger. With growing customer counts and better real estate opportunities becoming available, the company should benefit from the re-suburbanization trend that is unfolding across all of the United States. Accordingly, we have not done much here other than monitor the investment.

PBI – Pitney Bowes, Inc. embodies several characteristics that seem to show up in many of our investments. Overlooked. Unloved. Misunderstood. Sometimes all three. Together, these forces have pushed PBI shares lower for years. Of course, it is not too difficult to understand how this came to be the case. The company's glory days back when it was lauded in Jim Collins' Good to Great for leasing mail meters and offering presort mail services have long since passed. Though these businesses continue to generate nice cash flows, mailing revenues have steadily declined for years. Consolidated financials are not pretty, with earnings declining consistently for much of the past decade. All this, for a 100-year-old company that – not so affectionately these days – goes by the moniker "the mail company."

But buried within those consolidated financials that paint the picture of a shrinking company, Pitney Bowes has been building a very promising e-commerce business. It has been a long time coming, but after first getting into the business eight years ago with their acquisition of Newgistics, the shipping business appears poised to thrive. Other factors suggest the company's fortunes may be turning as well. In recent years, the company has gotten serious about turning things around. Management has refocused the company around mailing, shipping and financing. They have sold off a number of non-core segments. In addition to refocusing the company and simplifying the narrative for prospective shareholders, these moves have also enabled the company to improve its balance sheet, with the majority of debt now supporting the company's financing business. So now, "the mail company" is shipping, financing and mailing, with the emphasis on shipping.

The Global Ecommerce business is promising. It serves a capacity-constrained segment of the economy that enjoys natural tailwinds from a package delivery market that has been growing steadily at a mid-teens annual rate for years. Its principal focus is on Domestic Parcel Delivery. Here it focuses on the middle mile, retrieving packages from small and medium size businesses and delivering them to the USPS, who handles final mile delivery. It also offers Cross-Border Solutions and Shipping Solutions, with a primary emphasis on offering transparent and easy to understand pricing models to its growing customer base.

Before the pandemic, there were early signs of success. The Global Ecommerce segment had grown to well over $1B in sales, or nearly 40% of the whole company. But like a lot of promising young businesses, it was subscale and unprofitable. In 2019, the segment lost ~$70M, detracting ~$.30 from the company's $.68 of earnings that year. But the pandemic looks to have accelerated this segment's push to scale. In Q4 2020, domestic parcels shipped grew a promising 76% over last year. And by growing its top 1000 E-

Retailer (page 88) client count from 12 to 63 in 2020, Pitney Bowes just passed DHL and their 32 top 1000 E-Retailer count to move to number four on the list. Volumes are now near levels the company had previously suggested operations could become profitable. But due to a deluge of one-time and unabsorbed costs, the segment is still not profitable. Some costs are COVID related. Some come from unabsorbed warehouse facilities. Others reflect lower operational efficiency than one would expect from a scaled operation. But despite the fact profitability has been pushed out a bit, the company has clearly done the right thing for itself, by doing the right thing for its customers. Accordingly, it is likely to keep these customers, and there is little reason to suggest profitability cannot improve over time as previously envisioned.

A few months ago, when we began building our position, shares looked attractive with downside reasonably well protected due to a ~3% dividend yield and a ~20% free cash flow yield to equity. Upside looked attractive as well. Previously I had underwritten the investment with a view that the company could produce $1 of earnings or better in a couple years under the assumptions that SendTech segment revenues would continue to shrink from declining mail volumes at a mid-single-digit level annually while the Global Ecommerce business could approach the low end of their 8% – 12% operating margin target. Like all our favorite investments, downside looked reasonably well protected. And if things went well, we could make multiples over a multiyear time horizon.

Along the way, shares got caught up in a clear short-covering rally one week before the company's recent 4Q earnings announcement. As I am a bit unaccustomed to shares of 100-year-old companies spiking 90% or better in a day, we took some profits as shares began approaching our price target. However, recent evidence suggests the two critical assumptions referenced above might be too conservative. While one quarter does not a trend make, perhaps the terminal decline of the SendTech business may have been exaggerated, as success in cross-selling digital initiatives produced better than anticipated results. As for Global Ecommerce, now more than half of company sales, other industry participants seem eager to push pricing for services higher, a factor that would of course be a positive for the profitability profile the segment. Accordingly, after lower prices returned, we repurchased shares as recent levels seem to possess the same characteristics of low downside and promising upside considered at the time of our initial investment. We look forward to the company's analyst day to hear more from them on these subjects later this spring.

SIC – Moving along from any discussions around short-selling influences, finally, Select Interior Concepts looks to be turning the corner. New management has made a great deal of progress in streamlining company operations while taking unnecessary costs out of the business. Though incremental profits have not come through on the income statement just yet - largely a function of the company's position in the homebuilding cycle as its design center business does not book revenue until the home sale is complete – an inflection appears to be right around the corner as the company looks set to report the last of year-over-year revenue declines from the spring building pause this coming quarter. Recent deals in this consolidating space suggest significant value as well. Just last week, the company's only true peer was taken private by Blackstone at a 11x trailing EBITDA multiple, a promising figure in comparison to the company's current valuation.

VVI – Our investment in Viad Corp. can probably be thought of as a reopening play, which would be a fair characterization. For many "reopening plays", the attractiveness of the potential investment revolves around answering some version of the question: how long will it take for the company to get back to its pre-pandemic level of cash flows? So, on that score, an investment in Viad looks attractive as a reasonable case could made cash flows can meet or even exceed those levels in a couple years' time.

The company is comprised of two businesses: GES, the number two player in the event staffing business that supports trade shows and conventions; and Pursuit, a high-end destination hotel and attractions resort chain. Clearly, neither of these businesses is well suited to prosper in a pandemic. But much like other companies who have suffered during this episode, Viad was thriving before the pandemic struck. Both businesses are well-managed and possess strong competitive positions. While the GES segment is not necessarily a quickly growing business, it generates ample cash flow which the company has used to finance capital projects in its higher return, opportunity rich Pursuit business. On the back of Pursuit's 23% EBITDA CAGR over the last four years, together the company had grown cash flows at a very respectable low teens annual rate with reasonable expectations such growth could continue, or even accelerate.

The Pursuit business is pretty unique. It is a collection of high-end hotel and lodging properties. Many of the hotel property assets are leased through long-term exclusive ground rights agreements with select national parks in spectacular settings like Banff in Canada and Glacier Park in Montana. These resorts and their various attractions have become major destinations for clients, and the company had expansion plans for new sites like Flyover Las Vegas and Sky Lagoon in Reykjavik, Iceland coming online in 2021. The GES business was also performing well, and similarly, there are reasons to think cash flows could actually exceed prior peaks. Management looks to have capitalized on the recent period of dormant activity to reconfigure some employee contract structures. As a number of smaller players have not survived the downturn, the company also looks poised to capture greater market share once events and conventions return.

Considering the pent-up demand for high-end travel and backlog of delayed conventions that exists, business could return quickly once things normalize. Though it is likely 2021 will be full of fits and starts and might produce some false starts, it also stands to reason 2022 and beyond have an opportunity to produce higher cash flows than previously thought. Perhaps more importantly, given the company has improved its balance sheet and was cash flow positive in its critical third quarter, it appears as if they have turned the corner, and we do not need such an optimistic scenario to unfold for a successful investment.

2021 OUTLOOK

As we look into 2021, it seems normalization will likely become an operative word. When news of successful vaccine developments hit in early November, shares of many of the businesses hit worst by the pandemic surged dramatically as prospects for businesses in the lower leg of the K in our K shaped recovery description, improved immediately. This seems justified, assuming continued success with distribution of vaccines, and suggests most businesses can rejoin the recovery that until now has been so disjointed and lopsided. Beyond that, an important question for markets, and the stocks within them, will be to discern which companies are lasting winners, and which ones have just been priced like it. Though it seems unlikely 2021 will provide quite the ample opportunities 2020 did, we continue to find many compelling values in companies that we believe should fare well in this environment.

CONCLUSION

In closing, while I know our approach will not yield outperformance each and every quarter, I continue to believe it will be well worth our while over the long haul. Perhaps more importantly, given the overwhelming majority of our 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,

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 12/31/20.
2. CEF uses the S&P 500, Russell 2000, a custom Blended Small/Large Benchmark 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 custom Blended Small/Large Benchmark is provided to capture a larger proportion of small cap performance versus large cap performance (at a 3:1 ratio) due to the similarly high proportion of small caps found on the Good Businesses Focus List as well as the strategy's general preference of having an investment mix more heavily weighted towards investment in small caps. 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 hypothetical results calculated from actual gross results in a manner consistent with the 1% management fee and 18% performance fee offered to clients.

APPENDIX 1

CEF GOALS, PHILOSOPHY, APPROACH AND ALIGNMENT

GOALS – We seek to generate market-beating returns over any rolling multiyear investment horizon while minimizing the risk of permanent impairment of capital. Additionally, we seek to communicate with our investors in a transparent and straightforward manner and ask only that they accept investment risks that we ourselves are willing to take. *Given the majority of our investable capital is invested alongside theirs, we invest our limited partners' capital as if it were our own, because it is.*

PHILOSOPHY - We approach investing in public equities as an opportunistic businessman would. We spend most of our time studying businesses and building circles of competence in areas likely to offer attractive investment prospects and invest in only our most compelling opportunities. We view risk primarily as the likelihood of a permanent impairment of capital and pursue a carefully balanced willingness to trade some short-term portfolio fluctuations for the opportunity to earn higher returns over the long-term. We focus on growing, understandable businesses and seek to buy them at a substantial discount to our estimate of their intrinsic value. When we find them trading at attractive prices, we often act in size and weight our best ideas accordingly. And all things being equal, we prefer to devote more of our efforts to small stocks where we believe greater price/informational inefficiencies can often be found.

APPROACH – We invest via a long-bias hedge fund structure and concentrate our long investments in our best 10 to 15 ideas. Our work begins with a two or three-year outlook, and we only pursue investments we believe are likely to offer us a reasonable chance to generate an annualized return of 20% or better. While we pursue long-term oriented investments and seek to compound capital in a tax efficient manner, we readily acknowledge the often-turbulent markets do not always fit neatly into this framework and know some trading activity is sure to follow as a result. In the short book, we seek to generate absolute profits in a few stocks where we have uncovered a company entering financial duress or an excessively optimistic valuation where we feel their earnings outlook is likely to worsen materially. We will also use industry or market specific ETFs to mitigate market risk and will look to employ options and other opportunistic hedges when conditions appear favorable.

ALIGNMENT – We believe appropriate alignment of interests is the bedrock upon which all successful partnerships are built. Our primary means of ensuring proper incentive alignment is through significant co-investment of our personal wealth alongside our limited partners. Secondarily, we offer an investor friendly fee structure. We charge a modest management fee to support investment operations and charge an annual incentive fee on new profits only. Finally, commensurate with our fee structure which is intentionally structured such that the majority of fund earnings will be earned only if we generate compelling investment results, we commit to operating the fund as a boutique shop with a limited asset size. As many of our best investments often come from small stocks, we believe it is important to preserve our ability to take concentrated positions in our best ideas. Our size and structure ensure we are incentivized to generate compelling returns, not gather assets.

Think of it this way. *On the one hand, we are incentivized to generate the best investment results possible. On the other hand, we are unwilling to invest in a way we feel is likely to result in a meaningful loss of our own investment capital. What more could one want from an investment manager?*