May 10, 2021

Dear Investor:

I hope this letter finds you well. I am pleased to report another strong quarter of investment performance with Choice Equities Fund generating gains of +29.2% on a net basis in the first quarter. This compares to the Russell 2000's +12.7% gain and the S&P 500's gain of +6.2%. Since inception in January 2017, our portfolio has generated net annualized returns of +31.7% versus the Russell 2000's gains of +13.8% and the S&P 500's return of +16.7%.

EXECUTIVE SUMMARY

In this letter, we discuss drivers of performance for the year, and offer a brief discussion of our brief investment in Barnes and Noble Education Company, Inc. (BNED). We also discuss new portfolio holding Farmer Brothers, Co. (FARM) and provide a few thoughts on At Home Group, Inc. (HOME), which received a takeover offer last week. Finally, we provide a few thoughts on the outlook, offer a business update and conclude with a well-deserved thank you to our Limited Partners.

QUARTERLY COMMENTARY

The COVID-19 pandemic continues… still. But there is much to be thankful for as the worst effects of the health crisis look decidedly behind us. The United States is among the countries leading the race for vaccine distribution with aspirations of achieving 70% participation in just a couple months. Regardless of the pace of the remaining vaccine uptake, the fact that those most at risk have had an opportunity to be vaccinated is a critical first step towards the beginning of the end. Both people and markets appear to be planning for this welcome conclusion, an event that appears to be nearly at hand.

As mentioned in our Q4 letter, despite a market that has been calming down from the frenetic activity of last year, it was an eventful start to the year for our portfolio. Core positions which we typically envision holding over a multi-year time horizon generated the bulk of our returns, but other investments with sometimes shorter time horizons also supplemented performance. Sometimes, these shorter horizon investments may fall into our special situations bucket as these candidates may not necessarily have the long-horizon growth opportunity that our core holdings possess. Sometimes, there may be an event in the not too distant future anticipated to catalyze a successful investment. Other times, share prices can just get too cheap. This can be particularly true around economic bottoms, given Wall Street's tendency to take two points of earnings and cash flows and draw a line between them that extrapolates these trends far into the future. Though these investments may not offer the long term hold potential others do, they all fit our investment criteria as well-run companies. Perhaps more importantly, all offer attractive risk / reward dynamics as cheap stocks with improving outlooks.

BNED – As a case in point, our recent investment in shares of Barnes & Noble Education captures this theme quite well. The cash flows of the campus-based retailer of books and apparel became quite challenged with students no longer on campus. Shares fell meaningfully as a result, suggesting shares were quite attractive on normalized cash flows. Even though their source of revenue had momentarily dissipated, their competitive position remained unchanged. They were still the only store-based retailer of scale with a presence on college campuses and entrenched relationships with universities. Additionally, our view of normalized cash flows contemplated little in the way of upside from early successes in the company's promising new initiatives like their bartleby digital self-study program or their First Day Complete courseware offerings. Accordingly, late last year with a bit more certainty around the trajectory of campus re-openings, we initiated a position. With shares more than doubling in just a few months and no longer offering the margin of safety and attractive risk / return characteristics we have elsewhere, we exited our position to reinvest the funds in our other holdings.

FARM – One of those other new holdings is Farmer Brothers, Inc., though this one seems to offer higher upside if our expectations of improvement in profitability prove to be on the mark. As one of just six coffee roasters and distributors in the United States, the longtime family run company has produced reliable profits for most of its 100-year existence. But the last few years have certainly been trying. Beginning in 2018, prior management bungled a sorely needed transition from its severely antiquated roasting facilities, resulting in stockouts, cost overruns and a general inability to get coffee beans to its end customers in a dependable and cost-efficient manner. After the missteps, and perhaps some infighting on the future direction of the company from third-generation family members who once held meaningful ownership positions, it appears the board eschewed the family's input and opted to go the route of becoming a professionally run company run for public shareholders.

Shortly thereafter, Farmer Brothers installed CEO Deverl Maserang in September 2019, an executive with impressive consumer goods turnaround experience. He also looks to be quite well versed in coffee logistics from his prior time as a VP, Global Supply Chain for Starbucks. Unfortunately for the company, just as it looked like they might be making some progress on turnaround initiatives, the pandemic hit. Customers everywhere shut their doors, and volumes declined by 70% this past spring.

Though the pandemic's impact on operations was of course unwelcome, recent signs suggest the company did not let the crisis go to waste. Management was able to hasten their cost cutting efforts. And the company was also able to make continued progress on its multi-year initiative to replace its old, unionized facilities with highly automated equipment, a transition which was completed this past January. Now, the company is ready to leverage the state-of-the-art facilities that have both lower operating expenses and capital expenses.

In addition to the upgraded operating facilities, management's view, which seems to be confirmed through conversations with former employees and competitors, suggests there are a lot of other areas of low hanging fruit on which the company can improve operationally as well. Indeed, the company has several key initiatives in place which together should reinvigorate the more profitable Direct Store Distribution (DSD) segment. Recently, they have rolled out HighJump handheld devices to their delivery representatives, a software-based platform focused specifically on DSD models to maximize sales while reducing distribution costs through improved inventory tracking and fulfillment functions. The HighJump technology also enables pre-sale opportunities for their customers, an initiative which alone could drive double digit growth on each delivery route. Additionally, the company is rolling out new SKUs for promising upstart brands such as High Brew that can benefit from the delivery capabilities a larger operation like Farmer Brothers can offer.

A return to cash flows from the level of just two years ago would likely produce an attractive investment result given the recently depressed prices (which look to have gotten some additional downward pressure from non-fundamental, index-mimicking sellers as the company will fall out of the Russell 2000 this summer). But a number of factors here also suggest better results could be in the offing. In Mr. Maserang, we now have a well-regarded CEO in place who is aligned with shareholders. His focus on profits and efficiency rather than just volumes is a welcome change from years past. He will also have the added benefit of using upgraded operations to deliver coffee to customers who are finally re-opening their doors. Altogether, it does not take a wild-eyed optimist to conclude a meaningful improvement in profitability in coming years may be on the horizon.

HOME – Last week as I was wrapping up a draft of this letter, At Home received a buyout offer from a private equity firm for $36 a share. The deal looks like a good one – for Hellman & Freidman. Though the offer carries a fairly standard ~20% premium to recent trading prices, the 9x multiple on Wall Street's potentially low 2022 EBITDA estimate is several turns below peers' current trading levels. The offer looks particularly uninspiring when considering how At Home is thriving in a strong category where its competitive position and ability to capitalize on its large market opportunity have only been enhanced by the recent exits of several competitors. Even so, regardless of where the offer price settles, this one has been a good one for us since our involvement in late 2019.

2021 OUTLOOK

It seems to be almost unanimous opinion our economy is set to boom. Consumers are flush by nearly any measure. To take one, the personal savings rate is now at an all-time high. On another, which perhaps underscores just how truly weird this pandemic has been, this recent recession is the only one in modern history that witnessed per capita disposable income actually increase. Such is the backdrop for a consumer with obvious pent-up demand from having been couped up and denied their normal societal activities for well over a year now. Of course, on the other hand – and there is always another hand – it is fair to question how much of this good news has already been captured in market prices. Certain pockets of the market look extended. Risks in the form of supply chain disruptions, surging inflation and general uncertainty on the trajectory of the reopening of our economy pose obstacles our markets and economies have not confronted in quite some time. As is always the case, the future is full of risks and opportunities and remains inherently unknowable.

Against this backdrop, we continue to make efforts to position the portfolio with attractive risk and return characteristics. This primarily starts at the position level, where in addition to the new position highlighted above, we have begun building positions in a couple of companies that have more open-ended growth opportunities. (In one case, the founder's recent return to this small company with big end markets and his decision to take his salary in stock seem particularly noteworthy.) But these positioning efforts also continue at the portfolio level. At present, we own 17 companies, and find ourselves nearly fully invested on the long side. As an offset, some market hedges serve to bring our net exposure down to a little north of 70%, a fairly typical portfolio posture that is intended to position our portfolio to perform well in most market environments.

CONCLUDING REMARKS

Too often in these letters I default to our standard closing, but in this case before doing so, I would like to extend a sincere thank you to our fantastic base of Limited Partners. Just over four years ago, I started this partnership with little more to offer prospective investors than a bargain: accept some volatility and join us in our journey to outperform the markets and grow our capital together.

With one of the more volatile periods in memory in the rearview mirror, I'm pleased that together we have been able to endure and capitalize on this market volatility as envisioned. And directly as a result of your support and referrals, I'm equally delighted to report our continued success in adding to our already strong base of Limited Partners. With these additions, our operation has become a scaled and sustainable business with clients of all shapes and sizes. Individuals, institutions and family offices have joined us at the Founder Share class level, while groomsmen and friends who go back to kindergarten have entrusted us with their IRAs. All in, we now have a diverse and well-credentialed group that spans multiple countries and includes CEOs, hedge fund managers, real estate executives, entrepreneurs, business owners, consultants, lawyers, rocket scientists, in-laws, businesspeople of all types and most importantly, just a lot of really good folks with whom I am genuinely pleased to work. We have the right people with the right expectations. As you might expect, I could not be more delighted with the people who have joined us, and I consider this opportunity to manage your capital a true privilege.

Of course, along with the growth and new commitments, come new responsibilities and – just as excitedly, more resources. So, as always, we will be reinvesting in our business. As always, the primary emphasis will be on research, but we will also be focusing closely on improving our client services functions. Most importantly, while I'm delighted with the progress on our journey thus far, I remain as focused on this next year as I am the next twenty, and I continue to be truly excited about what is yet to come.

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

1. All market and company data is sourced from Factset and company filings and is current as of 3/31/21.
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?*