August 18, 2021

Dear Investor:

I hope this letter finds you well. I am pleased to report another positive quarter of appreciation for our portfolio. Choice Equities Fund generated gains of +6.2% on a net basis in the second quarter, for year-to-date gains of +37.1%. This compares to the Russell 2000's +4.3% gain for the quarter and its +17.5% return for the year thus far. The S&P 500 produced gains of +8.6% for the quarter and +15.2% for the year. Since inception in January 2017, our portfolio has generated net annualized returns of +31.5% versus +13.6% and +17.2% for the Russell 2000 and S&P 500, respectively.

EXECUTIVE SUMMARY

In this letter, we discuss recent drivers of performance for the quarter. We also provide updates on Select Interior Concepts, Inc. (SIC), which was recently acquired, and provide a link to our recent interview with Hidden Value Stocks which includes further discussion of current investments like Farmer Brothers. We highlight new position Identiv, Inc. (INVE). And finally, we provide a few thoughts on the outlook.

QUARTERLY COMMENTARY

Markets continue to calm from recent frenetic activity. Meanwhile, the COVID-19 pandemic continues… with concerns about the surging delta variant now front and center here in the US. The push and pull of an economy on the cusp of reopening continues to be the principal force driving markets. One month, the reopening themes like small caps and value stocks outperform; the next, a rotation ensues to the favorite large cap tech holdings that take the baton. While such inputs are difficult to handicap with precision, these conditions appear here to stay, at least in the short term, until a resolution to the delta strand can be confirmed.

The second quarter was a solid for one for our portfolio. As previously mentioned, the buyout of At Home was a contributor to the positive performance in the quarter. We provided some further thoughts on this in a recent interview with Hidden Value Stocks. The interview which can be accessed here also provides further context to our investment approach by discussing various positions over the years and also contains our latest thinking on FARM and SIC.

As it relates to SIC, an update is due from just a few weeks ago, as CEO Bill Varner and the team have unlocked a good deal of value for shareholders. Entering this spring trading around $7 and 7x EBITDA, the team first sold the RDS business for 11x. Then a couple months later, they sold the ASG business for 13x EBITDA at a price of $14.50. From a long-term perspective, I would have liked to see the refocused company direct their new cash reserves to pursuit of the market consolidation opportunity in the granite and quartz distribution business, but this is a successful outcome which has created value for all shareholders involved. Congratulations to Bill Varner and the team in executing the two-step transaction.

POSITION COMMENTARY

We have one new core position to discuss that I believe has an attractive risk / reward proposition and tremendous potential over the coming years.

INVE – Identiv products, software and systems are designed to connect physical places and objects to the digital ecosystem. With a platform that encompasses Radio Frequency ID (RFID) and Near Field Communications (NFC) technology, the company's stated mission is to software-enable the entire physical world. In essence, the company seeks to attach its chips or tags to various physical products which enables them to connect to software systems and communicate digitally. In some ways, with these end markets driven from growing use cases by the Internet of Things (IOT) applications, this company looks a little bit like a semiconductor manufacturer. But in others, it looks like the market leader in the manufacture of high-end mission-critical parts with rapidly growing use cases in end markets that have consumables-like consistent demand patterns. With an addressable market that is potentially in the hundreds of billions of units, Identiv stands to benefit from numerous secular trends as a trusted North American-based producer.

In recent years, the company has built a reputation for itself within the industry as a reliable partner. The company produces quality parts and systems by engaging with its customers throughout the complete product life cycle from design to spec to build to service. The company's premium level products are differentiated from peer offerings, partly due to their high level of customization but also from their well-regarded reputation for security, an important feature in the digital world. The company touts a 100% customer retention level within its RFID business and has an A+ customer list including CVS, a number of entities within the United States government including the Department of Defense and the White House and at least one but potentially two really large companies whose names both begin with the letter A.

The company is organized into two segments, both of which are built around the company's expertise in RFID and NFC technology applications. The Identity segment is focused on things. Product offerings include tags, antennas, in-lays and readers with embedded RFID solutions to make physical devices more responsive, secure, feature-rich, interactive and customer-connected. These solutions address a wide range of IoT applications from things like access control to asset tracking, product authenticity, customer engagement, tamper detection and transportation access. For example, by placing a reader near a tag, you could learn about a product's travel history, recent storage temperature or access a website that contains the product's instructions.

The Premises segment is focused on places. The company applies the same RFID and NFC technology from its Identity segment to various security platforms to create a more secure, convenient and responsive experience in physical spaces. The platform is deployed across buildings worldwide, ranging from sensitive government facilities to schools, utilities, hospitals, shops and apartment buildings. Think of things like ID card readers, and video surveillance systems, which together create secure building spaces. Its Hirsch brand of security is widely known in the security industry and enjoys a very large installed base in federal, state and municipal facilities. It also produces a consistent stream of recurring revenue software sales for the company that today is ~30% of the segment but could grow to as much as half of segment revenues in coming years. To date, the Premises segment has generally been the more important segment of the two for the company, and it is likely to continue to perform well as it benefits from the broader trend of increasing investment in cybersecurity and surveillance needs.

But the Identity segment and its NFC opportunity is potentially at an inflection point. RFID (and NFC which is a subset of the broader RFID universe) have been promising technologies for years, but like many promising technologies, they have been slow to gain acceptance with use cases only emerging in trickles. The most prevalent use today is in the shipping and logistics industry, where the use of RFID chips (specifically RAIN RFID chips) is gaining broad acceptance. Low-cost tags of around $.01 per piece made by the likes of Avery Dennison and Impinj can be put on nearly every shippable item to track their location. Then dock and plant managers can access this information from up to 30 yards away or more with the help of specialized readers and confirm shipment arrival and accuracy.

But use cases for the NFC technology where Identiv has a stronghold in the marketplace have been a bit slower to develop. However, this technology received a strong vote of support in 2018, when Apple decided to open up NFC access beyond just its payments applications for other uses on its iPhones.

Apple's move means the iPhone can serve as a proxy for personal identification, and anything a user can put their iPhone near that has an NFC tag in it, can now be connected digitally in a nearly frictionless way. With Apple declaring the NFC technology a de facto market winner for personalized and secure digital communications, smartphone ubiquity means nearly 2 billion people in the world now have an NFC reader in their pocket. With NFC now a technology with widely agreed-upon appeal, a proliferation of further use cases could follow.

One promising use is in trial stages with CVS, which is using the technology to assist the visually impaired to access and retrieve prescription information through auditory communication by simply placing their phone near a pill bottle. Should the opportunity come to fruition, it could mean the production of hundreds of millions of units per year, at average piece prices likely above $.20. The company has three other elephant sized contract opportunities on the horizon as well. Two of them offer annual unit possibilities in the hundreds of millions, with unit prices ranging from $.20 to a $1+. All four could be game changers for the company on their own, each also with the possibility of adoption emerging sometime next year. Despite the potential the big wins carry, the long tail of growing new use cases and wins with a large and varied customer base remain the critical drivers for the company and reflect continued adoption for Identiv's products.

Doing just ~$100M in revenues this year, the company is probably a bit of overlooked because of its small size. But that could change. The company is run by a talented operator, Steve Humphries, one of the original cofounders of the business. He returned to the company in 2015 and has since reinvigorated the company and positioned it to capitalize on its leading role in these attractive end markets. He is eating his own cooking too. The proxy statement, as is often the case, is full of useful information. Among other interesting things, it highlights that Humphries has been taking his salary in stock for a few years now. At recent prices, shares trade around 3x this year's sales. The company is now profitable and stands to benefit from attractive unit economics and operating leverage as production continues to scale. A healthy balance sheet, high return on capital metrics, and leadership status in an important and quickly growing market, suggest today's price does not capture many of the opportunities that lie ahead for this company in coming years.

2021 OUTLOOK

Today's market offers plenty of puts and takes and ample data points to support views of optimists and pessimists alike. Optimists see: peaking inflation; an economy that has already surpassed its production of 2019, albeit with 8M fewer workers; and a new profit cycle emerging with S&P earnings power that looks to be higher than 2019 levels by 20% or better. Meanwhile, pessimists see: meme stonks and pockets of trading activity that make little sense on a fundamental basis; surging inflation, that even if peaking, is concerningly high; supply chain issues nearly everywhere that have recently been extended with the recent delta surge; and an economy that looks to be reengaging from its prior shutdown in fits and starts.

Of course, such claims can be made all the time. Though the above are factored into our portfolio decisions as always, our charge remains the same. By focusing on a select few names, we intend to tolerate and capitalize on volatility to turn the stock market into a market of stocks. On that score, we continue to find compelling pockets of value, and we continue to make efforts to position the portfolio with attractive risk and return characteristics.

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

1. All market and company data is sourced from Factset and company filings and is current as of 6/30/21.
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 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?*