July 22, 2022

Dear Investor:

I hope this letter finds you well. Choice Equities Fund generated losses of -17.4% on a net basis in the second quarter, taking year-to-date performance to -34.6%. This compares to the Russell 2000's -17.2% loss for the quarter and -23.5% loss year-to-date and the S&P 500's loss of -16.1% for the quarter and -20.0% loss year-to-date. Since inception in 2017, the fund has generated annualized gains of +15.7% versus +5.6% and +12.0% for the Russell 2000 and S&P 500, respectively.

EXECUTIVE SUMMARY

In this letter, we discuss the major macroeconomic events of the quarter and their influence on market performance. We also take a closer look at how the stocks within the market performed in the first half of the year. I highlight two new positions in Crocs, Inc. (CROX) and SiteOne Landscape Supply, Inc. (SITE). Finally, I conclude with a few thoughts on the current outlook and provide a few big picture charts that inform our optimistic view of the coming years.

QUARTERLY COMMENTARY

2022 has been a tough year so far for owners of almost all assets. Equities, bonds and basically everything other than energy-related equities and commodities have produced meaningful losses at the halfway point. Headlines remain bleak. According to the University of Michigan study, consumer sentiment recently hit all-time lows. Declining optimism and increasing interest rates have led to reduced trading multiples across the market. Though earnings thus far have remained resilient, the decline in market multiples has the S&P 500 off to its worst start to a year since 1970, with its decline past the -20% threshold sending the index into bear market territory. Likewise, the Russell 2000 experienced its worst start to a year ever, with trailing four year returns again going negative, much like we saw in the spring of 2020.

At times of such market duress, I find it useful to look at how the stocks in the market have behaved rather than just the market-cap weighted indices which contain them. I believe this can a) help us better contextualize how we got here, and also b) inform us of the opportunity set going forward. To that end, the table below, which breaks out the performance of the stocks of several important indices into quintiles by average price performance, highlights just how far-reaching the first half's selloff has been.

	Russell 2000	S&P 500	Midcap 400	Nasdaq Composite
Index	-23.5%	-20.0%	-20.1%	-29.2%
Median Stock	-28.4%	-21.9%	-19.6%	-26.5%
1st Quintile	1.9%	3.9%	3.6%	-4.40%
2nd Quintile	-16.2%	-11.3%	-12.3%	-15.0%
3rd Quintile	-28.4%	-21.8%	-19.8%	-26.5%
4th Quintile	-42.6%	-29.7%	-29.6%	-39.3%
5th Quintile	-64.9%	-40.9%	-42.4%	-59.6%

Though it is perhaps unsurprising that a subsegment of small caps were among the worst performers, declining nearly -65% since the year began, it is a bit eye-opening to see the components of the Nasdaq producing similar performance. This is even more remarkable when considering mega-caps like Netflix, Inc. (NFLX) and Meta, Inc. (META) landed in the fifth quintile, together accounting for nearly ~$700B of market cap that has evaporated.

PORTFOLIO COMMENTARY

Against this backdrop, our holdings have not been immune with our portfolio experiencing market-like performance in the recent quarter. All of our equity holdings declined in price, while light hedging activity added about 2% to our return.

As always, during the quarter, I attempted to balance the sometimes competing aims of protecting capital with increasing future prospective returns. This is not always an easy balance to achieve, as our portfolio orientation which is primarily constructed around owning equities means that from time to time we will incur mark-to-market losses. Our performance thus far this year reflects this fact. Even so, despite the disappointing performance thus far, or to some degree because of it, I believe our portfolio of companies are trading at unusually high discounts to fair value. I also believe our holdings are well-positioned competitively, well-managed and offer attractive growth prospects. I provide updates on existing holdings below and highlight two new holdings, both from the "fifth quintile."

CROX – Crocs, Inc. trades at 5x this year's earnings and 6x EBITDA. Like many of its peers in the consumer space, the valuation implies the market regards the company as a one-time pandemic beneficiary, and business prospects offer little growth beyond this year. While it would be ill-advised to suggest the company did not benefit from the pandemic's effects on consumer spending of goods, I think this view is incomplete and neglects to incorporate the tremendous success the management team has achieved since they arrived five years ago.

Most recall Croc's original success as having come from pretty much out of the blue, as the funny-looking but comfortable clogs sent the stock on a meteoric rise shortly after its IPO in 2006. Many also conflate the stock chart with a fad driven boom and bust cycle, even though a closer look at clog volumes actually shows fairly consistent growth over the last twenty years. Even so, the company was not without its problems, primarily from management missteps as an overburdened cost structure created profit headwinds.

Accordingly, when Andrew Rees became CEO in 2017, he had his work cut out for him. Initially, he focused his efforts on taking costs out and making the operation more efficient. He shrunk the store count by more than a third and began optimizing their go to market strategy by emphasizing sales through the direct-to-consumer digital channel and through wholesaler channel partners. This enabled the company to devote greater resources to product innovation and marketing, a smart reallocation of corporate resources that offered great payoffs for the branded consumer products company. These efforts have paid off handsomely. Deft and efficient marketing spend with influencers on social media via platforms like Instagram put Croc's back in the limelight. Clever products like jibbitz, the fun and offbeat charms which can be appendaged to the clogs, grew a second consumables-like revenue stream. Growth and profitability for the core Croc's brand followed.

Today, management is focused on perpetuating the success of the Croc's clogs, with new product adaptions partly aided by a consistent new diet of jibbitzs. But they are also keen on duplicating their successful playbook in new markets, both geographically in markets like Europe and Asia where they have a lot of room for growth, and importantly, across new products like sandals, and most recently, lightweight loafers.

The company's December purchase of HeyDude was initially panned by investors. Management took on debt to finance the acquisition (though at 3x ebitda it looks quite manageable) and paid a full multiple for a nascent company – born in Italy but selling shoes in America – that most investors had never heard of. Despite the initial share price reaction, the HeyDude acquisition looks quite promising, particularly when considering the company catapulted to half a billion dollars in sales and a low 30s EBITDA margin in just over a decade's time. Now Croc's proven management team is intent on building on this strong start by bringing greater resources like increased marketing budgets and broader distribution to the promising brand. Proven industry veteran Rick Blackshaw has been appointed to lead the company's efforts. Accordingly, the recent acquisition broadens Croc's product line and adds another promising avenue of growth, positioning the company well to achieve its recent goals which imply multiyear sales and earnings CAGRs north of 20%. Insiders seem to agree the future is bright with several executives and board members making open market purchases all year long.

SITE – In some ways, quite a lot has changed since our first purchases of SiteOne Landscaping Supply, Inc. some six years ago. Yet in others, particularly regarding the company's competitive positioning, very little has. It was this durability in the company's competitive position that was core to our original investment thesis at the time. Today, after years of growth through acquisitions, the company continues to enjoy a near monopoly-like position in the specialized distribution vertical of lawncare and maintenance supplies, with our latest checks suggesting the company is now 5x the size of its closest peer. Equally promisingly, the industry continues to remain quite fragmented with small independent players.

The stock is off nearly 60% from recent highs. The share price decline suggests a meaningfully impaired growth trajectory. Yet, even assuming a 25% haircut to this year's likely EBITDA, shares still trade at the company's cheapest valuation on offer since coming public in 2015. The long horizon market growth and consolidation opportunity remains, only now the company stands to benefit from having the best balance sheet it has had at any point since being public. We are delighted to be able to repurchase this business at attractive prices.

FARM – Farmer Brothers Co. remains unloved and overlooked. I recently had the opportunity to visit with the company and some other shareholders while touring the new plant in Dallas, TX. Reviewing the visit on my flight home, I had two primary takeaways. First, this company's operating environment has been exceptionally difficult since this management team took over in late 2019. A great number of the company's customers were closed due to the pandemic, while coffee-focused day parts like breakfast and locations like hotels have been slower to return to normal purchasing patterns than others. Though the external environment has not cooperated, execution on items within the company's control have been more promising, as management has positioned the company to prosper when normalcy returns. Second, the company's market cap of $<90M seems quite at odds with the assets at hand and quality and depth of the management team. After accounting for liabilities and the network value including items such as land that are not on the balance sheet at updated prices, shares trade well underneath net asset value. The team remains steadfast in the belief a high single digit EBITDA margin can be achieved, suggesting our initial underwriting assumptions are still on the mark, albeit delayed. Additionally, I was encouraged to learn the new plant is still operating far below capacity, implying that in years to come, the company could almost double the current revenue run rate on the existing assets.

OEC – Orion Engineered Carbons hosted their first ever analyst day in early June. It was an effective presentation. The company highlighted the great progress they have achieved in recent years, upfitting their plant and equipment to meet EPA regulations and how this mandated capex will soon subside. Management also highlighted how well positioned the company is to capitalize on the secular growth drivers associated with growing demands for carbon and rubber black. With just a few key players, it is an oligopoly-like industry structure where incumbents also enjoy regionalized monopoly-like dynamics due to the cost of transport of carbon black. On the back of growing needs for EV tires and batteries which will drive increasing demand for their products, the company laid out a credible plan that equates to a high teens EBITDA CAGR in coming years. At recent prices, shares trade at 6x PE and 5x EBITDA.

OUTLOOK

Below I will touch on some of the critical elements that inform our outlook over the coming years. The key tenets include sentiment, valuation and balance sheets. As I feel this story is better told in pictures, I encourage you to see the Appendix where we have included several charts that support this discussion.

Picking up from where we left off in the discussion of our outlook from 1Q, the primary elements remain. It is difficult to find good news anywhere. War, underperforming supply chains, 40-year highs in inflation, and tightening monetary policy have piled on to pandemic-weary citizens and pushed consumer sentiment to all-time lows. Investor and corporate attitudes have followed, with numerous other surveys conveying a similar message.

Accordingly, such swift changes in attitudes have made today's investing environment quite unpredictable, while presenting one of the more crosscurrent-filled economic landscapes that we have encountered in quite some time. This state of confusion seems to reflect consensus public opinions about today's state of affairs. However, my own personal view is that the landscape is not so puzzling because all the news is universally bad. It is actually because the news is not all universally bad that makes today's environment so interesting.

So where is the good news? Well, to be fair, it's not actually in the *news* these days, but there are a number of material positives that seem to be unappreciated as it relates to today's investing environment.

For starters, valuations have again become the friend of market participants favoring a multi-year time horizon. Large cap stocks' forward PE multiples were recently one multiple turn below their 25-year averages, while small caps are about as cheap as they have been as an asset class both in absolute terms and relative to large caps at any point in the last 20 years. Additionally, good news can be found by examining balance sheets. The critical entities of our economy – consumers, corporations and lending institutions – each possess balance sheets that are in outstanding shape, and in aggregate reside at levels of health not seen in 20 years or more. These fundamental underpinnings of our economy are meaningful positives with lasting implications. Of course, one could be forgiven for not having these facts top of mind as they do not sell papers or generate mouse clicks.

The declining valuations and low sentiment travel in pairs. And the low sentiment is driven by real worries. For investors, the next item of concern regards the likely path of earnings, as most have already assumed earnings are set to decline in the back half of the year. Perhaps this will prove to be the case. Or perhaps many of the early signs that suggest inflation is peaking will prove to be further substantiated with additional incoming data, circumstances which would likely invite a slower course of monetary tightening, and together likely lead to an improved outlook for earnings. It is a tough call. Macroeconomics almost always is.

That is why we operate a concentrated portfolio, where we can focus on a few specific companies, that are positioned well competitively that trade at discounts to their expected value. In this environment, there appear to be quite a few pockets in the market where considerable earnings weakness has already been discounted. In past environments like this, we have typically done well in subsequent quarters and years as the market declines allow us to home in on market mispricings and concentrate our portfolio in our best ideas.

CONCLUSION

The down markets and down quarterly statements are not enjoyable. But they are a part of the process in the construction of our portfolio that is long equities. Though I would have liked for our portfolio to have performed better thus far this year, I believe the seeds have been sown for another outstanding five-year period. Together, the intersection of valuations and balance sheets present a compelling multi-year dynamic, an environment in which I feel our investment approach is quite well placed to capitalize. And we have encountered tough markets before. Indeed, our first five years featured two bear markets, and despite this – or because of it – we were able to turn $1 into $3.42, versus $1.76 for the Russell 2000 and $2.33 for the S&P 500.

Accordingly, 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 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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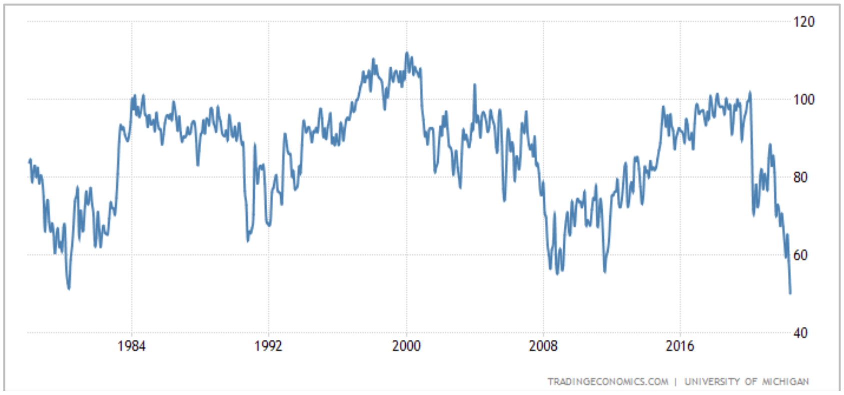
1. All market and company data is sourced from Factset and company filings and is current as of 6/30/22.
2. CEF uses the S&P 500, Russell 2000 and the Barclays Hedged Long/Short indices as its primary benchmarks. The S&P 500 and Russell 2000 are common large and small cap US equities-based indices. The 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.

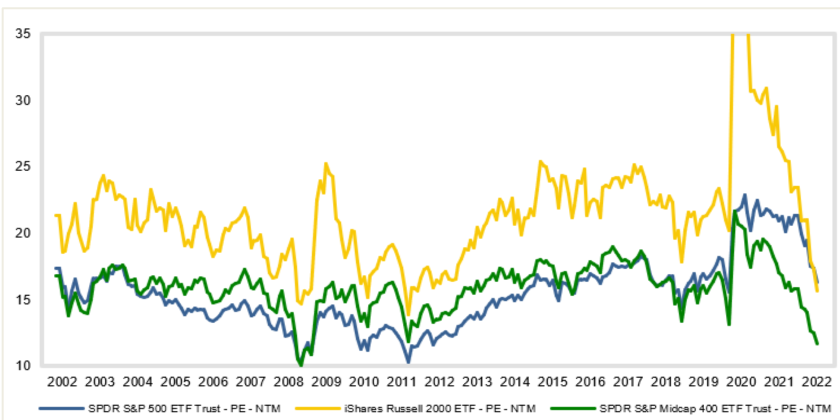
APPENDIX

University of Michigan Consumer Sentiment Survey: Last 44 Years



- June's recent reading of 50 marks an all-time low for a data series that dates to 1978

Forward 12 Months Market PE Multiples: Last 20 Years



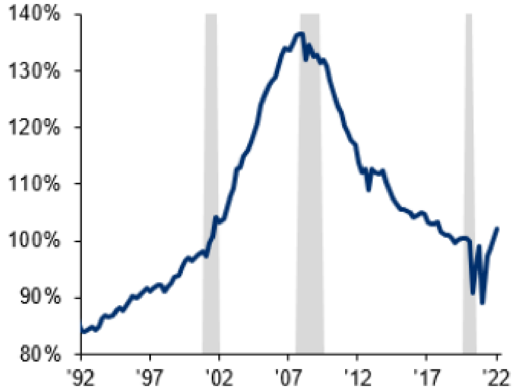
- Recent declines suggest attractive prices based on earnings estimates

Russell 2000 N12M PE Relative to S&P 500 N12M PE

- On a relative forward earnings basis, the Russell 2000 is nearly as cheap as it has been at any point versus the S&P 500 in the last 20 years
- From 6/2002 to 6/2005, small caps' +41% return outperformed large caps' +20% return by 21%

Balance Sheets

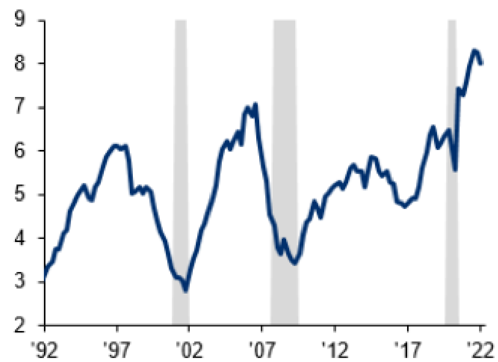
Households have de-levered their balance sheets
Household liabilities as a % of disposable personal income



Source: Federal Reserve Board and Wells Fargo Economics, Haver Analytics. Data as of Q1 2022.

- ➢ Household liabilities relative to disposable income reside near twenty-year lows

Nonfinancial corporate interest coverage ratio at highs
EBIT/net interest expense ratio, non-financial corporate sector



Source: Federal Reserve Board and Wells Fargo Economics, Haver Analytics. Data as of Q1 2022.

- ➢ Corporate balance sheets and corporations' ability to service debts are currently in their best position in twenty years

The U.S. banking sector is currently well capitalized
U.S. com bank ind: Tier 1 risk-based capital as % of risk-weighted assets

Source: Haver Analytics. Data as of Q4 2021.

- ➢ US banks are well-capitalized