

April 25, 2024

Dear Investor:

I hope this letter finds you well. Choice Equities Fund generated gains of +14.2% on a net basis in the first quarter. This compares to the Russell 2000's +5.2% gain for the quarter. The S&P 500 generated a quarterly gain of +10.6%. Since its inception in 2017, the fund has generated annualized gains of +15.0% versus +7.8% and +14.5% 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 quarter of 2024. We then highlight a couple of recent developments of companies within our portfolio by taking a closer look at Croc's Inc. (CROX), Shake Shack, Inc. (SHAK) and Par Technology Corporation (PAR). We also take a first look at a recent addition in H&E Equipment Services, Inc. (HEES) and the infrastructure tailwind that should drive cash flows for years to come. Lastly, I conclude with a few thoughts on the current outlook.

QUARTERLY COMMENTARY

Equities markets picked up in 2024 where they left off at yearend with many themes continuing on from 2023. The S&P 500's strong price appreciation was aided by strong earnings growth from its largest constituents. Large cap tech stocks again posted market leading earnings growth, a familiar refrain but one that may soon fade as the baton of leading earnings growth looks to be passed to other players in the market. Resurgent earnings, AI enthusiasm and inflation continuing its decline off from recent highs remain the primary drivers behind the market's overall move. Small caps were up 5%, and look set to begin a new profit cycle with earnings growth expected to resume in the coming 1Q reporting season and accelerating through 2025. A few charts in the Appendix highlight their return to earnings growth and attractive valuations. Today's market seems primarily focused on the pace of the decline in inflation, its impact on monetary policy, and of course, as always, earnings.

PORTFOLIO COMMENTARY

Shares of Croc's Inc., (CROX) and Shake Shack, Inc. (SHAK) appreciated meaningfully as recent earnings results were positively viewed and some bear point debates began to move into the rearview mirror. We will briefly discuss these results and take another look at Par Technology, given the attractive pair of acquisitions the company has just announced, and take a look at H&E Equipment Services, Inc. (HEES), a position initiated last year, which like some other holdings, stands to benefit from a big increase in infrastructure-related spending in coming years.

CROX – In the case of Croc's, the stock continues to trade at an attractive high-single-digit multiple of earnings. Importantly the company is making significant progress in turning the tide for HeyDude after sales of the brand hit an air pocket due to higher-than-wanted inventories in the wholesale channel last year. Inventory levels have improved, enabling average selling prices to move higher while the new HeyDude distribution center in Las Vegas has also now become operational. Along with an expansion of HeyDude-specific outlet stores, which are very high margin and drive nearly a third of Crocs' brand North American sales, it looks like the Croc's playbook is nearly fully in place. And just last week, the company announced Terence Reilly would return to the company as president of the brand. Bringing Reilly back into the fold seems a very promising move. He deserves a great deal of credit for Croc's resurgence which he described as taking it "from meme to dream" when he was previously with the company as head of marketing from 2013 to 2020. He clearly seems to have a knack for creating buzz around a brand, given

his recent success at Stanley where he was CEO after driving sales of the famed “Stanley Cup” up ten-fold to \$700M in just four years. (An insightful interview with him on his approach to marketing and management – and the back story on how Stanley went viral by giving away a car to a car collision survivor – can be found [here](#).) It seems prospective marketing success can often be as hard to predict as it is important to a brand’s vitality. But here, it looks like Reilly is a proven winner. Might he again be able to create a sensation around a brand like HeyDude, one that has high affinity amongst existing customers yet still low-brand awareness more broadly? Given recent operational improvements, the brand seems well positioned to again focus on playing offense and improved brand performance may be right around the corner.

SHAK – As for Shake-Shack, targeted marketing has helped spur an increase in foot traffic. Aided by self-help initiatives like kiosks and efforts to optimize supply chain efficiencies, incremental sales are beginning to flow through at higher profit margins than many had previously thought. Incoming CEO Rob Lynch of Papa Johns looks to expand on the recent profitability progress as the young brand continues a shift towards a coming-of-age era marked by greater professionalization relative to its scrappy upstart days when the concept began as a hot dog stand in Central Park. For a company with ample white space in its growth plans, the emerging improvement in profitability levels has been impactful to valuation.

PAR – Par Technology’s Brink segment is getting bigger. When discussed in our last quarterly letter, the segment looked poised to grow to over \$150M later this year in annual recurring revenue (ARR), from \$20M four years ago, with announced deals in the pipeline further putting the segment on a path towards a \$200M run rate next year. But now, after announcing acquisitions of Stuzo and TASK simultaneously in March, the company looks to be on a path for run-rate ARR to approach \$300M later this year, with substantial continued growth beyond as the company begins to penetrate new accounts and new geographies with an expanded menu of additive service offerings.

Together, the two deals look like a masterstroke of capital allocation for CEO Savneet Singh, as both have strong strategic merit and impressive financial implications for the company’s fundamentals. The Stuzo deal, which brings Par a loyalty platform software provider focused on C-stores and fuel retailers, will contribute nearly ~\$50M in ARR by yearend at 40%+ EBITDA margins, and will also eliminate a competitor as the company was previously targeting this market with their Punnnch offering. The TASK deal is equally exciting from a strategic perspective. As an Australia-based global foodservice transaction platform tailored for major global brands, it will also contribute ~\$50M in ARR from its end-to-end transaction management platform with customers like Starbucks and McDonalds. This broadened reach opens a path to international geographies where Par had a limited ability to serve previously. The two deals plus other big recent customer wins like Wendy’s and Burger King more than double the size of the ARR revenue base from a year ago and meaningfully improve the company’s profitability profile. The deals were in part financed by a PIPE offering and came with just 20% shareholder dilution, partly aided by the expected sale of the company’s Government business which looks increasingly likely.

Contemplating further profitable expansion from here is no great stretch either, as the company now has relationships with multiple owners of multiple restaurant brands, who have shown a preference to use the same vendors where they can. Now, the company is truly positioned as a one stop shop of software unified commerce offerings, with far broader addressable markets to grow into internationally, within the convenience store space and with other adjacent product rollouts in payments, back office, loyalty, online ordering and drive-through that all connect to a restaurant’s point-of-sale (POS) operating software. Today Par looks increasingly well-positioned to emerge as the winner-take-most with its mission-critical POS based software offering in the restaurant enterprise software space. Equally noteworthy, today the company also trades at a little more than half the multiple of ARR as most of its peers.

HEES – H&E Equipment Services, Inc. is one of the top equipment rental companies in the U.S., providing construction and industrial related equipment, parts, and services in 30 states to the commercial, industrial, infrastructure and residential construction markets. As the #4 player in a business geared towards local economics with a strong presence focused in the industrially active region of the Sun Belt in the US, the company has ample scale to demonstrate pricing power in markets that primarily operate based on local market share dynamics.

The industry remains fragmented but is top-heavy, with the top four consolidating the industry and together now approaching 40% of market share. This industry structure provides scale benefits to HEES but also suggests small bolt-on acquisitions can move the needle on company financials. Here the company has a proven track record of entering new territories through tuck-in acquisition and expanding in tangential geographies organically, enjoying a post-pandemic branch CAGR of 10%.

The largest company in the space, United Rentals International, Inc. (URI), is now approaching 1,500 branches in North America, nearly 11 times HEES' size, having pursued a successful bolt-on acquisition strategy dating back to Bradley Jacob's original founding of the company in 1997. Since then, the rental industry has achieved more sophistication than prior cycles as the largest players now have the size and technology to add pricing discipline to the industry. Equally importantly, the industry should enjoy secular growth tailwinds in the coming years. The Infrastructure Investment and Jobs Act (IIJA) allocates more than \$1 trillion in funding over ten years for infrastructure projects, complementing the initiatives under the Inflation Reduction Act (IRA) and the CHIPS Act. In 2023, construction spending in the manufacturing sector reached \$225 billion, more than doubling the previous peak in 2015. However, the combined expenditures of the IIJA and IRA represent a threefold increase in spending when adjusting for inflation, compared to the Federal-Aid Highway Act of 1956 and the post-World War II reconstruction efforts, illustrating the magnitude of investment soon to come.

Today, HEES trades at a substantial discount to larger peers, despite a more attractive forward growth outlook and a greater margin expansion opportunity. It appears the market fails to appreciate the company's growth prospects but has also perhaps overlooked its somewhat recent transition to a high-margin pure play rental company after 2021 divestments of its crane distribution business. Pre-COVID HEES traded at or near parity with peers' 5-7x EBITDA multiple. Since the pandemic, HEES has traded at an average discount of two turns and today trades at a three-turn discount (5x EBITDA vs 8x). On a three-year view, we can envision the stock trading to \$115-\$140 with continued execution on its organic and tuck-in acquisition strategy and some multiple expansion towards peer levels.

OUTLOOK

Politics, geopolitics, monetary policy and AI continue to capture headlines. As it is an election year, we can count on political debates carrying on through the fall. But despite a relative lack of focus amongst the financial press, other important themes are emerging too. Aging infrastructure is being upgraded on a massive scale, driven in part by a growing trend towards deglobalization and a burgeoning US industrial renaissance that is unfolding from the growing need to digitalize and decarbonize much of our domestic manufacturing base. Large fiscal spending packages have spurred much of this need into action, though this cycle looks to only be beginning. Other industries like restaurant technology are also enjoying long-running tailwinds driven by an upgrade cycle as mission critical equipment moves to the cloud. Together, these forces and others look poised to drive a new profit cycle for many of these industry participants. Many of these companies reside in the small and mid-cap market indices, where current market expectations point to a profit cycle that is accelerating, but still trading at quite attractive relative and absolute valuations.

CONCLUSION

I am excited about today's opportunity set and our prospects for the years to come. Even so, 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

-
1. All market and company data is sourced from Factset and company filings and is current as of 3/31/24.
 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

Earnings Growth

EPS growth y/y	2020	2021	2022	2023	2024E	2025E
Russell 2000	-22%	114%	-7%	-12%	11%	28%
S&P 600	-34%	114%	15%	-17%	6%	18%
S&P 500	-15%	148%	6%	0%	10%	14%
NASDAQ	-3%	39%	-9%	13%	23%	14%
Mag 7	44%	42%	-3%	46%	29%	17%

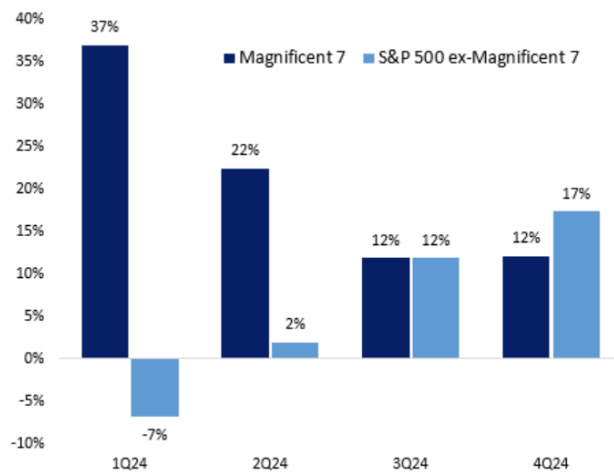
➤ Data from Factset. Russell 2000 data from Furey Research Partners excludes loss-making companies.

Richard Bernstein Advisors

Richard Bernstein Advisors

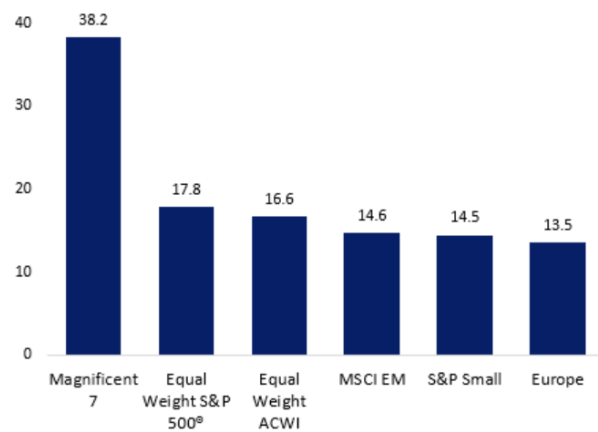
Get more for less

S&P 500® consensus quarterly EPS growth YoY*



Source: Bloomberg Finance L.P. *Estimated consensus forecast for aggregated float-adjusted earnings growth for companies where sufficient earnings estimates are available.

PE Ratios (as of 2/28/24 close)



Source: Bloomberg Finance L.P.