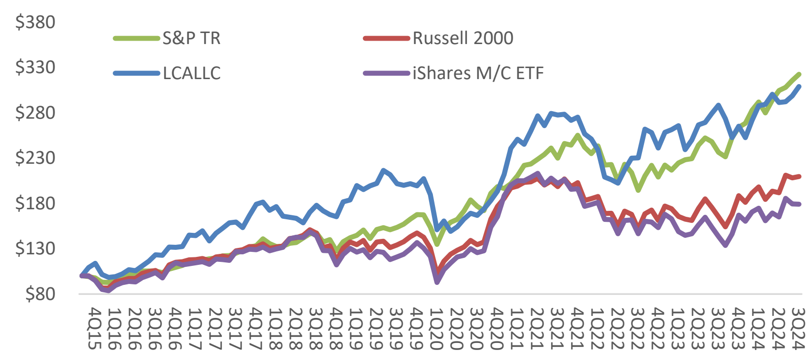
Long Cast ADVISERS LLC

Dear Partners & Friends:

For the 3Q24 quarter (ended September 30, 2024), cumulative net returns improved 6%. Year to date cumulative net returns are 16%. Since inception in November 2015 through quarter end 3Q24, LCA has returned a cumulative 209% net of fees, or 13% CAGR. As a backdrop to returns, on a cumulative net basis, since inception we comfortably exceed two widely used representative indices for passive small company investing, the iShares MicroCap ETF and the Russell 2000 Index, and are roughly in line with the S&P. *Past performance is no guarantee of future results. Individual account returns may vary*. [1]

Net returns	Long Cast	R2000	IWC	S&P TR
2015 (2-mos)	14%	-5%	-5%	-2%
2016	15%	21%	21%	12%
2017	36%	15%	13%	22%
2018	-8%	-11%	-13%	-4%
2019	21%	25%	22%	31%
2020	-3%	20%	21%	18%
2021	42%	15%	19%	29%
2022	-12%	-20%	-22%	-18%
2023	10%	17%	9%	26%
1Q24	9%	5%	5%	11%
2Q24	1%	-3%	-6%	4%
3Q24	6%	9%	9%	6%
2024				
Cumulative chg	209%	110%	79%	223%
CAGR	13%	9%	7%	14%
YTD	16%	11%	7%	22%
LTM	7%	27%	25%	36%



PORTFOLIO UPDATE

Though I provide quarterly updates, ours is not a quarter-to-quarter strategy. With the risk of repeating myself, we are long-term and patient investors, seeking what I call five-year doubles, which roughly equates to a 15% annualized return[2].

Since the impact on an overall portfolio from a stock that doubles equals its initial weight, and given our target returns, I think this argues for 15% weightings where price and expected growth are aligned with high confidence. I have learned to not be didactic so nothing is "written in stone" and not every position deserves a 15% weighting, but this is the conceptual framework that drives position sizing.

It also explains why new investment ideas are so few and far between. I continue to look, and lately have my teeth deep into a Tier-2 supplier to the Aerospace and Defense industry, but at the end of the day, and again where price and expected growth are aligned, sometimes I'm more comfortable owning more of what's already in the portfolio.

[1] Performance data is based on Interactive Brokers "Portfolio Reports" function; shown net of management fees, expenses, and commissions; unaudited; and unless otherwise noted, since inception in Nov. 2015. Past performance is not a guarantee of future results. Individual account performance may vary. Any investment entails a risk of loss including the total loss of capital. ADV form available through Broker Check; CRD # 175005

2 The math is simple 2^0.2 – 1 but I was turned onto the brilliant framing of "five year doubles" by Dan Roller, who manages a concentrated and idiosyncratic portfolio at Maran Capital.

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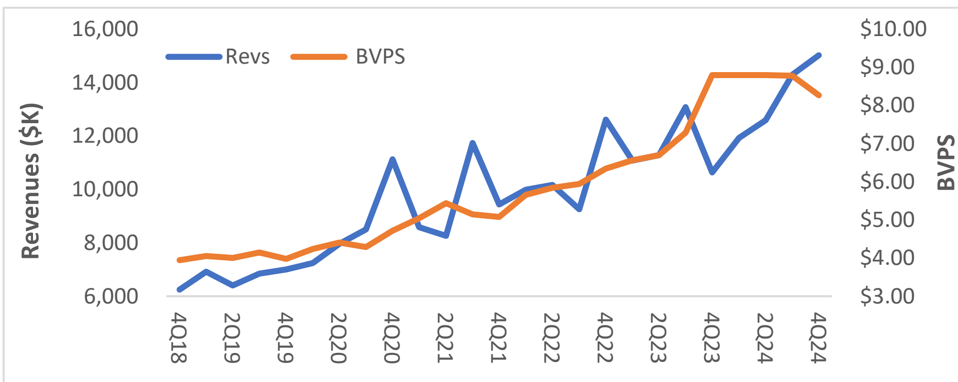
At quarter end, four stocks in the portfolio were around 15% positions (+/-5%) and the top-five represented 64% of portfolio. The top contributors to quarterly returns were MTRX, PDEX and PESI. Top detractors were ENVX, QRHC and SNES.

We own **SNES** at a 1% weighting (at cost, a tiny position) because I read that the NYC city council would vote on mandating its product as part of the city's overall pest management system. This vote has not happened and as a result, this tiny position has been one of this year's largest detractors. I mention this as a reminder that it's a mistake to think that small positions are "safer bets", especially when considering their opportunity costs.

PDEX, a long time holding I've not written much about, was positively meaningful to returns. It is a contract manufacturer to the medical device industry, with a marquee torque limiting driver, basically an electric screw driver that consistently seats surgical screws into bone without stripping them. It is useful for various orthopedic and maxillofacial surgeries, to name a few end markets. The company supplies these products to one of the world's largest medical device companies.



I can't point to a single reason why the stock is suddenly "in vogue" but like many of our holdings, it has quietly been operating against a plan in a capital efficient and non-dilutive way, key attributes of a Long Cast Advisers style investment. The company recently completed the expansion of its manufacturing footprint and now has a capacity for $80M-$100M in sales, up from under $40M in FY21 (ended June 30th). The company has a history of patient management whose Chairman is a thoughtful, long term and idiosyncratic investor we are happy to patiently invest alongside.

One of our largest positions remains **CCRD**, which I've written about extensively over the years and about which there is some news. As you know, CCRD licensed to Goldman Sachs the issuer processing software behind the Apple Card, *the most successful credit card launch in history*. And as you know, CCRD is now enduring the turbulence created by Goldman's decision to retreat from consumer credit. A few thoughts to share:

Goldman revenues are going away, but not immediately. In fact, the agreement between Goldman and CCRD was just recently extended from 2027 through 2030, and at higher rates beginning in January 2025. Given this news, it seems CCRD will continue processing for Goldman until the Apple / Goldman contract expires in 2029. (At this point, this is how I picture the relationship between GS and AAPL.)

If you calculate the present value of a stream of cash flows for three years, and then add three more years, the change in value is significant. However, CCRD market value increased just 6% on the news, which implies the market doesn't view the GS cash flow stream as material. I see this as further evidence that the market is not efficiently valuing the company.

Either way, Goldman going away in ~~2027~~ 2030 is not going to sink the company and I don't think that could be said for other companies in a situation like this effecting +60% revenue customer. YTD CCRD has generated $2.3M in cash flow from operations and $0.16 in EPS. It has a healthy balance sheet ($3.42 net cash per share), no debt and continues to buy back stock (except in its restricted period between quarter-end and earnings).

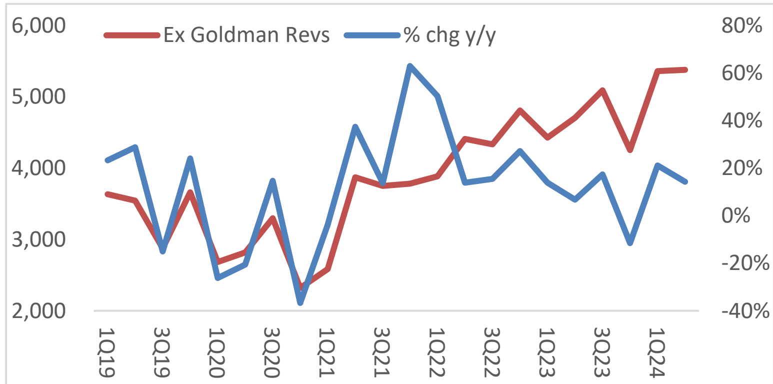
I don't share that criticism that CCRD management was wrong to allow itself to become overly reliant on Goldman revenues. The alternative – saying "no" to Apple / Goldman – would have been stupid. This was a tail event. The fact that we owned the stock for part of this tail is my fault, but by any metric, the business benefitted enormously from the engagement with Goldman. And we did too.

New reports indicate JP Morgan Chase will acquire the loan portfolio from Goldman but it's unclear if these reports are accurate. On the JPM 3Q call, Jamie Dimon was asked (in an impressively nuanced way) about buying the Apple Card loans and he responded "it's possible … but right now, I would say, no chance". This of course could be part of his negotiation.

If the card moves to Chase, one would expect the processing to move onto Chase's platform, but it's not impossible for CCRD to remain involved. You can get a tiny peek into the issuer processing world by comparing credit card statements between banks, something I never paid much attention to until I became a CCRD shareholder. I've held credit cards from all the major banks and Chase is the only one I've ever seen whose statements don't break out charges between purchasers on jointly held cards. It's a small design aspect that has nothing to do with card rewards or functionality, but it's annoying. If indeed Chase is the only issuer / processor that doesn't do this, it communicates that they don't really care. It's fine if they don't - it's not critical to their business - but Apple cares deeply about user experiences. If a partnership develops between the two companies, it will be interesting to see how they integrate, technically and culturally. There might be room for CCRD to intervene.

This episode will certainly offer insight into the criticality of CCRD's software. When Goldman took on the Apple Card, it wanted to make a splash in consumer lending, and they conceived a card that does things few others do, like end of month payments for all customers, daily cash, the ability to do installment payments through a revolving account tied into a single balance due and (obviously) a terrific app. Goldman's exit leaves Apple with few alternatives and therefore little leverage to demand the same design and functionality under a new processor. Presumably, if this transitions to Chase platform, Chase will try to map every existing function onto its legacy system (or maybe they'll just slap an Apple Logo on a Sapphire Card?), but if Chase can convert the card quickly and seamlessly without loss of functionality, we would have to revisit some of our assumptions about the CCRD product. (Given the recent extension, this seems an unlikely concern).

The question for investors as always isn't about today, but the future. The company will exit this year nearing a $25M run rate for non-Goldman revenue. It continues to enroll and launch new clients and if any are successful, maybe BANC's new commercial card or the recently launched Qatar Airways card, there's a compounding benefit, since CCRD is paid on active monthly accounts (not on outstanding balances). With little incremental cost for additional accounts, margins, currently at turmoil induced mid-single digits, should elevate back towards the historical average of ~25% (at least).



As a back of the envelope valuation exercise, if you normalize the aforementioned $25M in revenues against "normal" margins, that non-GS piece alone is trading at ~10x EBITDA, for a business that will likely grow faster than 15% annually. It completely discounts the GS cash flow stream or optionality on what may come next.

I have seen businesses in this industry generate extraordinary returns for investors. Private companies in the space raise money at valuations in the hundreds of millions and billions. With CCRD trading under ~~$100M~~ $80M EV, I see it confidently befitting a "five year double".

IN CONCLUSION: ON COMPLEXITY

I'm often asked what I think about the market, or what I think about interest rates, geopolitics, small cap valuations and more recently the elections. My stock answer is that I don't really spend a lot of time thinking about these things, which is only partly true. I just wish I thought about them less.

I surely enjoy *talking* about these things as much as the next person, but I don't tend to write about them for three reasons. First, to misquote Marx, macro-economics is the opiate of the investment class, and that is not my drug of choice. I don't want to be deadened by or lulled into a stupor writing things that sound smart but about which I have no greater odds of being right than anyone else.

Second, other people do it so much better than I do. The inference, of course, is that I enjoy reading what other people write about these issues, and I do. 100% It appeals to the same part of my lizard brain that makes conspiracy theories so fascinating, the more loose-ends tied up, the better. But fascinating and tied to reality, or likely to be right, or impactful to our stocks isn't correlated.

Which gets to the third reason: It's just too darn complicated! My woodworking hobby results in a YouTube feed oft filled with craft wood projects, and a recent one popped up for a double pendulum. We all know what a single pendulum does; it swings back and forth. Add *one piece* to the hanging part of the pendulum and it becomes chaotic and unpredictable.

I realize this analogy compares different things – one from the physical world and one from the realm of human behavior – but I think it's an appropriate metaphor for representing how small, exogenous and unexpected events can influence outcomes to a degree that makes predictions no better than random guesses. Randomness is an integral part of investing (and life) the same way rolling dice is an integral part of backgammon. To be a good investor, you have to be aware of that constant and in some cases, compartmentalize predictions as sweet nothings that help our lizard brains sleep. As a reminder of this to myself and you, perhaps at some point in the future, I'll make custom double pendulums as Long Cast's holiday gift to clients

All that said, I do feel strongly about two prediction I'm willing to share: I'm near certain that no matter who wins the Presidency, there will be another election in four years and if history is any guide, the budget deficit will be higher if a Republican is in office.

As always, I remain committed to building a durable and sustainable business based on a repeatable investment process and intelligent capital allocation. I remain grateful to have clients (by design) aligned with my long term, small company centric and research-intensive focus and I welcome the continued interest from individuals and institutions as I patiently grow the business.

Sincerely / Avi
Brooklyn, NY
October 2024