SMOAK CAPITAL

Dear Fellow Investors,

The fund returned 32.4% for 2024 (net of fees), ahead of the S&P 500's return of 25.0%. For the broader markets, 2024 was a lot like 2023, with returns driven by the largest, most profitable tech companies. If sentiment for AI wasn't already at a fever pitch in 2023, it may have reached one in 2024. Obviously the continued development of AI will benefit consumers and companies in many ways, some we can already see today and others we'll only figure out later. As an individual and consumer, I share a lot of the same excitement for AI, but as an investor I'm much more uncertain. Winners can be very hard to determine early on in a large, rapidly growing industry that everyone wants a part of. For that reason, unless an easy to understand and undervalued AI-related stock comes along, I'll likely be sitting on the sidelines watching the AI fireworks unfold.

Predicting the future is hard to do, but essential in investing, and the further out you project the harder it becomes. For most situations, I'm trying to think about what will likely unfold over the next year or two. One scenario where the financials of a company for the next year or two may be drastically different than the past is when small and/or underfollowed companies experience a significant change. With many analysts and investors following larger companies, significant changes are typically priced in much quicker. For small and/or underfollowed companies, that's not always the case. And in certain situations, it may be relatively simple to determine a new intrinsic value post-change. It just takes some digging and reading through filings and press releases. Two of our current largest (and previously undisclosed) holdings fit this pattern, and I'm excited to discuss them later in further detail.

Turning back to 2024, I was very pleased with the fund's performance for the year. Our strongest contributors were 3 of our largest holdings: FitLife, QEP, and Azeus. I made the difficult decision to sell most of our FitLife investment later in the year. I still believe in the company and especially the management team but the proximity to my assessment of fair value and other opportunities were the deciding factors to sell much of our position. The fund still owns shares and if the right opportunity presents itself, I'd be happy to repurchase shares at a later date. QEP was a new position during 2024 where a core profitable business had been hidden by lackluster acquisitions. A change in management and strategic direction led to a divestment of the subpar segment, which drastically improved the BS while also improving earnings. Despite a significant run up, I believe QEP shares are still undervalued at only 4.5 EV/EBIT.

Year	Net Return	S&P 500	Alpha
2H 2018	11.5%	-6.9%	18.4%
2019	108.3%	31.5%	76.8%
2020	38.7%	18.4%	20.3%
2021	69.1%	27.9%	41.2%
2022	18.2%	-18.1%	36.3%
2023	14.9%	26.2%	-11.3%
2024	32.4%	25.0%	7.4%
CAGR	***42.0%***	***14.4%***	***27.6%***

Azeus reported very strong results again for their half year ended 9/30/24, Revenue rose 27.5% YoY, Gross Profit 35.6%, and operating income was up over 75% YoY. Shares trade at close to a 6% dividend yield and execution continues to be phenomenal. While the HK contract continues to contribute to growth and benefit the bottom line, Convene's core software revenue growth has quietly increased back above 22% YoY. Although I'm not sure it's material yet, I suspect some of this acceleration in growth could be due to their new Convene ESG software product. I think Azeus has a high likelihood of success in their new ESG software given their a) expertise of low cost of software development, b) multilingual product-set and culture, and c) geographic location (many countries in SE Asia with different ESG regulations, timelines, and languages). Given Azeus's current customer base, cross selling ESG software to existing board portal customers likely gives them a heads up against competition as well. I have also noticed Azeus' strong and persistent hiring for ESG-related positions across a number of geographies.

The fund's 32.4% net return for 2024 brings cumulative annualized returns to 42.0% since inception vs. 14.4% for the S&P 500 over the same time frame. $100,000 invested in Smoak Capital since inception (June 2018) has now grown to $980,635. I'll continue to be selective and opportunistic adding new partners or capital going forward, with my key goal being maintaining high returns for the fund.

I sincerely thank you for entrusting me with your hard-earned resources. With patience, focus, and a process-oriented mindset, I'm confident our portfolio returns will continue to exceed the broader market over the long-term. As always, feel free to reach out anytime with questions or concerns.

Best Regards,

Daniel B. Smoak

Please keep reading below for an in-depth discussion on two of our investments:

F.I.L.A. S.p.a. (MIL:FILA)

FILA is an Italian-based company that makes pencils, paper, paints, and many other products for the fine arts, school, and hobby/leisure sectors. While you have likely never heard of FILA (and no this is not the sportswear company), you may have heard of one or more of its brands (Dixon Ticonderoga, Canson, Giotto, Strathmore, or others). FILA has assembled and grown this strong portfolio of brands through strategic M&A and operational expertise, increasing Sales and Adj EBITDA over 200% since their IPO in 2015. Most importantly, FILA completed a transformational IPO of its fast growing Indian subsidiary, DOMS, last year and the market has yet to recognize the valuation implications. **FILA's stock trades at around €9.50/sh and its stake in DOMS is currently valued at over €9/sh, ascribing almost no value to the remaining business generating €105M adj EBITDA per year.**

Admittedly, DOMS is currently trading at a more than healthy 35x fwd EBITDA, but slashing that valuation by over 65% to a more reasonable level still gives you extremely attractive look-through valuation (*deducting DOMS stake @12x fwd EBITDA(€150M) from FILA's market cap of €487M)* for the core FILA operations of **3.2x P/EBITDA** and around **5-6x my estimate of 2025 FCF**. US listed comparables of FILA, which look inferior by many metrics, trade at 3 or 4x that valuation. I believe US-listed peers (NWL probably closest comp) are the most appropriate because North America is FILA's largest and most profitable geography making up over 50% of Sales and nearly 60% of EBITDA.

A quick side note of the valuation of DOMS. DOMS is a very valuable and successful company in its own right, largely due to FILA's deliberate involvement in their operations, strategy, and growth since 2015 (FILA still has 4 board members on DOMS' board). Consensus Revenue growth estimates for FY26 and FY27 for DOMS are 25.8% and 22.7% respectively, and DOMS grew revenue 34.9% YoY in its latest quarter. DOMS is a profitable, fast growing business with a large runway ahead of it as India's per capita spending on stationery and art material is far behind other developing countries and should continue to increase. At the time of their IPO, FILA's projection was for DOMS to grow revenues and profits by 20% per year for the next 5 years. DOMS looks to be easily on pace to match that and likely exceed it. Given their fast growth, high margins, and strong profitability, it's not hard to see why the market has awarded DOMS with a high multiple of EBITDA. One can quibble about whether DOMS is worth 10x, 20x, or 30x EBITDA, but no matter what it has substantial value as well as FILA's core operations.

FILA's most iconic and well known brand in the US is Dixon Ticonderoga. Despite being introduced more than 100 years ago, Ticonderoga is still the #1 graphite pencil brand in the US with over 50% market share. If the name doesn't ring a bell at first, the iconic yellow and green #2 pencils with "TICONDEROGA" in green lettering certainly will. Not to be outdone, FILA's portfolio of fine art paper brands (Canson, Strathmore, and others) boast over 50% market share globally. FILA also owns many other brands which are strong in their own product categories and geographies (paints, brushes, markers, modeling clays, and more). Because of FILA's breadth of product and geographic diversification, its cash flows are extremely resilient as evidenced by its track record of no year below a 10% operating margin since 2010.

Why does this opportunity exist? I believe there are a multitude of reasons:

- Lack of interest in Europe, more specifically in the smaller, less followed Italian Exchange
- Mismatch between where most profits are earned and brand loyalty resides (outside Italy) and the listing exchange
- Deconsolidation of DOMS beginning in Q1 2024 makes reported financials look weaker than reality due to the impact of DOMS results only being reported outside of operating results. (E.g., Reported sales and operating income drops of 10-15% in recent quarters is entirely due to DOMS deconsolidation. When adjusted for, sales for 2024 have been relatively flat and adj EBITDA is growing)
- Lack of overlap between shareholders/investors in FILA and DOMS.

FILA's business is seasonal with a particularly strong period during back-to-school shopping. During the 4th quarter, when receivables from this period are paid down, FILA generates a large portion of its cash flow for the year. FILA also sold another 4.6% of its ownership in DOMS in December for €91M. Because of these factors, net debt will be much improved at YE from the end of Q3, perhaps down to only 1-1.5x EBITDA. Historically, FILA has been very focused on paying down debt (reduced net debt by over €220M since end of 2018), often taken on during its large acquisitions. I believe management's focus has not changed and the company could be debt free by as early as 2027, likely spurring them to search harder for accretive M&A. As an added benefit, FILA has revised its dividend payout target going forward to 20-40% of adjusted earnings so dividends will increase substantially going forward.

I believe FILA's stock represents an incredible value for a **high quality business with iconic consumer brands** at only **3.2x core EBITDA** when assigning a reasonable valuation to DOMS. If both pieces are valued at even close to fair value, I believe upside is in excess of 100%. I also believe that improved earnings, FCF, and net debt in 2025 will be a catalyst for shares to begin to re-rate. If you're interested in learning more about FILA I would suggest starting with their in-depth capital markets day presentation from November 2024.

QEP Co., Inc. (OTCQX:QEPC)

QEP designs, manufactures, and distributes flooring installation tools for the commercial and home improvement markets. QEP's main brands include QEP, Roberts, and Capitol among others. QEP's financials have been dragged down by underperforming acquisitions in the flooring sector in 2014 and 2019. Coinciding with a new CEO in late 2023, QEP began divesting their floor covering operations and completely reshaped the financials. QEP was able to collectively divest its flooring operations for a nice chunk of capital, bringing net debt from around $30M net debt at end of FY 23, to over $30M of net cash less than 2 years later, a nice $60M+ swing that was pretty much equivalent to their market cap at the time. Amazingly, after divesting this large portion of operations, earnings have improved dramatically with operating margins rising from only 3% to now over 10% as of last quarter. To anyone that dug and saw what QEP was earning prior to its floor covering acquisitions and read through their segmented results, this was hardly a surprise. QEP's tools business seems to always have been profitable and was simply overshadowed by a less profitable, more capital intensive floor covering business. Once removed, the underlying profitability of the tools business was able to come to light.

QEP's largest customer is Home Depot at around 2/3rds of Revenue. While this is a negative on one hand, they have had a strong relationship with Home Depot since Day 1. One of Home Depot's co-founders, Bernie Marcus, actually reached out to QEP's founder, Lewis Gould, over 40 years ago as their newly formed home improvement stores needed a flooring tool supplier. So while customer concentration on its face is concerning, you could find worse customers to be concentrated in than Home Depot for over 4 decades. Also, it's important to remember QEP would not be anywhere near where it is today if not for being an early supplier of Home Depot and riding their multi-decade growth wave.

Hand and Power Tools is also an industry with quite a bit of historical M&A, and also importantly, brands with lasting value. Industry leaders like Stanley Black & Decker (SWK) trade at healthy EV/EBITDA multiples of 12-15x, but many smaller M&A transactions are done at relatively similar valuations of 12-13x EV/EBITDA. This is likely due to the aforementioned brand value built up over years with flooring installers and DIY homeowners in addition to the likely synergies to a larger acquirer, who is acquiring the gross profit and whatever incremental SG&A needs to be kept. The closest comparable transaction to QEP in the last few years is Worthington's acquisition of Level5 Tools (a drywall tool company) at 2.4x Sales or 13x EV/EBITDA. Level5 is in a very similar vertical to QEP and although smaller in annual revenue, pretty comparable size-wise. Level5 may not have the same customer concentration levels as QEP, so perhaps you could argue for a lower multiple for QEP given that issue along with the majority insider ownership.

At $42.50/sh, QEP shares trade at only 4.5x EV/25eEBIT and I believe are worth 8-10x EV/EBIT, or $67-80/sh, implying upside of 60-90%. Since the management change in 2023, capital allocation has been excellent, mainly through the savvy divestitures, along with special dividends and some share repurchases. Management reiterated its commitment to enhancing shareholder value in December with the beginning of a regular quarterly dividend of .20/sh, so a dividend yield of almost 2% going forward. They also stated they intend to be proactive in considering additional ways of returning capital to shareholders, which may include share repurchases. I also believe it is likely they are considering acquisition candidates given their large cash balance. Given their subpar foray into flooring products, I expect any acquisition would align much closer to their branded tool expertise and they will likely be more cautious with acquisitions than in the past.

Important Disclaimer

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An investment in the Fund is speculative and involves a high degree of risk, including the risk of loss. The Fund's performance may be volatile and there is no assurance that the Fund will achieve its investment objectives or that investors will receive a return on their capital. The fees and expenses charged in connection with an investment in the Fund may be higher than those charged with other investments, and in some cases, may offset their trading profits. Investors could lose all or a substantial amount of their investment in the Fund. Investors must read and understand all the risks described in the Fund documents before making a commitment.

Smoak Capital Management launched in July 2018 and separately managed client accounts until launching the Fund in June 2021. The firm's investment strategy has remained consistent since inception, but results presented prior to June 2021 consist of qualified client SMA results net of fees.

Past performance is not indicative of future results or a guarantee of future returns. The performance returns presented herein represent the average return of the Fund's limited partners, include the reinvestment of dividends, interest, and other earnings, and are shown net of operating expenses, management fees and incentive allocations. An individual investor's actual returns will differ from the results shown herein due to factors such as the timing of capital contributions/withdrawals, different fee arrangements, and treatment of loss carryforwards. Thus, individual investor performance as well as the Fund's aggregate performance will differ from the performance presented herein.

The Fund's performance is shown compared to the S&P 500 Total Return Index. The S&P 500 Index, a widely used benchmark of US equity performance, consists of 500 large cap companies chosen for market size, liquidity, and industry group representation. Each company's weight in the S&P 500 Index is proportional to the total market value of all outstanding shares of such company. The S&P 500 Total Return Index measures the performance of the S&P 500 Index by assuming that all cash distributions are reinvested, in addition to tracking the components' price movements. Indices are unmanaged and are not subject to fees or expenses, nor can you invest directly in an Index. Due to their differences, performance of the Fund and the Indices is not comparable. Smoak Capital Management is not aware of an index that is directly comparable to the Fund's strategy.