July 2024

	Merion Road Small Cap Fund	IWM (Russell 2000)	Barclay Hedge Fund Index
Annualized Since Inception	**16.3%**	**8.7%**	**5.8%**
Q2 2024	**0.6%**	**(3.3%)**	**1.1%**
2024 YTD	**5.6%**	**1.6%**	**5.5%**
2023	11.5%	16.4%	9.3%
2022	(16.9%)	(20.4%)	(8.5%)
2021	42.5%	14.5%	10.0%
2020	29.5%	20.0%	11.0%
2019	17.9%	25.4%	10.6%
2018	15.7%	(11.1%)	(5.2%)
2017	35.7%	14.6%	10.3%
2016 (Jul-Dec)	1.3%	18.7%	5.4%

	MRCM Long Only Large Cap	SPY (S&P 500)
Annualized Since Inception	**13.3%**	**13.2%**
Q2 2024	**1.5%**	**4.4%**
2024 YTD	**14.6%**	**15.2%**
2023	38.7%	25.7%
2022	(34.9%)	(18.2%)
2021	20.4%	28.7%
2020	54.3%	18.3%
2019	25.2%	31.2%
2018	(6.0%)	(4.6%)
Dec 18 - Dec 31	0.1%	(0.5%)

Note: All returns are net of management and performance fees. Past performance is not indicative of future results.
Returns for the Merion Road Small Cap Fund for the period prior to fund launch (01/13/22) reflect a basket of SMAs.

The long only portfolio returned +1.5% during Q2. Our recent addition of Clean Harbors proved timely and we benefitted from our meaningful allocation to Alphabet. These gains were largely offset by contracting multiples amongst our industrial / cyclical names. Delays in rate cuts are the most likely culprit, as well as potential concerns regarding the fed's ability to navigate a smooth landing. It is important to remember that these positions generate a large percentage of their earnings from non-residential and municipal customers where demand is less exposed to rate pressures. Furthermore, with allocations to mega projects still working their way through the system, they benefit from an embedded tailwind. And when rates do become more accommodative, I expect multiples to recover.

After a fairly active Q1, I did a lot less repositioning this quarter. One holding I have adjusted is a previously undiscussed name, Victory Capital Holdings ("VCTR"). VCTR is a traditional asset management firm with ~$175bn of assets under management ("AUM") that was taken private through a management buy-out in 2013 and relisted in 2018. The company is incredibly shareholder friendly. With a diligent focus on cost management VCTR operates at EBITDA margins close to 50% and generates prodigious cashflow. This cashflow has historically been used for shareholder returns (45% towards dividends and buybacks since IPO) and M&A. Since the initial management buy-out the company has completed 7 acquisitions which have grown their AUM from $18bn to $170bn, diversified the product offering and client base, and provided incremental operating efficiencies. I initiated a position in Q4 of 2021 when they sold off following a disappointing quarter, and added as valuation became increasingly attractive throughout 2022. As the risk/return dynamics became less favorable this year, I pared back on our holdings.

In April VCTR announced that they would acquire Amundi USA. I viewed this as an incredible acquisition and subsequently repurchased what I had sold earlier this year, and then some. I actually paid higher prices than what I had sold at; there is no use in being anchored to our prior selling price, especially when new information emerges. The transaction grants Amundi parent 26% equity ownership in VCTR in exchange for $104bn in AUM or 38% of the pro forma AUM. This is an attractive ratio and the fact that

VCTR operates with some debt makes it even more so. VCTR stock has moved up since announcement, but at current levels it implies that they are paying ~5.2x synergized EBITDA. I tend to trust their synergy targets as it only incorporates expense savings and VCTR has a track-record of exceeding these. The real kicker here is potential revenue synergies as VCTR and Amundi parent are concurrently entering into a 15-year distribution agreement for US/non-US investment products. Since Amundi is one of the largest European asset managers with $2.2tn in AUM, I would expect that this arrangement could lead to some meaningful flows for "tiny" VCTR – and the fact that Amundi is taking stock gives them financial incentives to do so.

The Small Cap Fund generated a +0.6% return in what was yet another tough stretch for small cap stocks, with the Russell falling over 3%. United Bank of Alabama ("UBAB"), which I discussed in my Q4 2022 letter, had a strong quarter as management made it clear that capital returns will be forthcoming. Despite recent stock appreciation, the company is still trading at ~6.5x normalized earnings and is incredibly overcapitalized given their low-cost perpetual preferred capital from the Treasury. This remains a relatively low risk opportunity that should generate attractive returns over a multi-year horizon. During the quarter I exited our position in Duckhorn ("NAPA") at a loss. Fundamentals came in worse than I expected and I ultimately realized that because the upside was less than my prior expectations, it did not justify current uncertainty.

Fortunately, there were several exciting opportunities that came across my radar during the quarter. One of which was Lakeland Industries ("LAKE"). LAKE makes protective clothing for personal and industrial uses. Whenever there is a health scare, revenues get a boost and the price spikes off of the potential for windfall earnings; as you may have guessed, they were a Covid darling with the stock moving up 400%+ at one point. Conceptually, they are known to be a trading security and not a real holding for long-term investors.

This all changed over the past year. The company replaced its entire C-suite and redirected its strategic focus to its nascent fire services division, which provides protective gear to fire departments. The firefighter turnout gear industry is $1.8bn globally and is led by market leader MSA Safety. The industry is estimated to grow 5% over the next several years and benefits from being non-discretionary in nature as it serves the safety needs of public workers. After MSA there are a host of smaller companies that provide a ripe field for acquisitions.

The company is now being run by Jim Jenkins. Jim previously served as the General Counsel and VP of Corporate Development for Transcat. Transcat is a highly regarded roll-up of calibration companies which I have followed for several years (wrote it up in my Q3 letter from 2019). The new team has already completed several acquisitions and, on a pro forma basis, fire now accounts for ~40% of their revenue (up from single digits a few years ago). While the company does not disclose purchase multiples, I estimate that they have been able to acquire companies at 5x-6x EBITDA. From a strategic perspective, they have been able to expand their product suite to not only offer a broader range of products, but also products that are certified for various regulatory bodies. Furthermore, LAKE owns its own manufacturing and has the opportunity to bring it in house for acquired entities. I would not be surprised to see additional acquisitions down the road as LAKE is still net cash.

MSA is currently running at 26% EBITDA margins though this includes presumably higher margin products like gas detection. European player Drager breaks out their "Safety" division margins which are at 15%,

though management has also discussed changing their focus from revenue growth to increasing profitability. LAKE is guiding to 12% for this fiscal year. It seems like there should be some upside to this over-time. In any case using a 12% margin off pro forma revenue implies that LAKE is trading around 7x EBITDA and 10x FCF. This compares incredibly favorably to MSA which trades at 17x EBITDA and 25x FCF. I would expect LAKE's multiple to expand as they realize their earnings power and more investors appreciate the ongoing transformation.

Sincerely,

Aaron Sallen

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