October 2024

	Merion Road Small Cap Fund	IWM (Russell 2000)	Barclay Hedge Fund Index
Annualized Since Inception	**16.5%**	**9.6%**	**6.1%**
Q3 2024	**5.4%**	**9.2%**	**3.7%**
2024 YTD	**11.2%**	**11.0%**	**9.4%**
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	**13.6%**	**13.6%**
Q3 2024	**5.1%**	**5.7%**
2024 YTD	**20.5%**	**21.8%**
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 increased by +5.1% during the quarter bringing our YTD returns to +20.5%. We own several industrial and cyclical positions that will generally outperform should the U.S. achieve a soft landing. While our investment in each of these names is based on their own merits, I am comfortable with our broader portfolio construction given what I view to be the most likely economic outcome.

During the quarter I bought two REIT's which will benefit from lower interest rates but are more immune to economic gyrations; from a risk-management perspective, these provide nice diversification should my broader assessment be off. The first was Four Corners (FCPT), a well-run triple net lease REIT that we owned a few years ago. Additionally, I purchased the newly spun-off Curbline Properties (CURB) when the standalone company was available for trading in the when issued market.

CURB is the recent "good co" spin-off from the shopping center SITE centers. It consists of a portfolio of convenience real estate in suburban markets with a geographic concentration in high growth areas like the Southeast and Southwest. Over 50% of leases serve restaurants with the balance taken by businesses like medical offices, beer & wine retailers, and fitness centers. Unlike office or malls, these properties are not being obviated by scary trends like work from home or online shopping. 96% of properties are currently leased and leasing rates have been strong with average new spreads of +28% and renewal spreads of +8%. The portfolio requires relatively low capital investments given their standardized site plans.

Since 2022 CURB has purchased almost 1.0mm of gross leasable area (GLA) for nearly $700mm imputing an average price of $710/GLA. This 1.0m in GLA represents 37% of the entire portfolio today. CURB was spun with over $600mm of cash and no debt, giving it plenty of fire power to continue rolling up the industry. Management believes that this is an active submarket with most buyers being private entities, positioning CURB to be the preeminent public acquiror.

I think it is fair to assume that valuation levels today should be higher than properties acquired over the past couple years given the improved economic outlook and where we are at in the interest rate cycle. Yet, when CURB became available for trading in the when issued market, it was valued at ~$20/sh which implied just $554/GLA. Given the differential between where the public market was valuing the company and the prices they paid for the same assets, along with an attractive free cash flow yield, I decided to build our position.

The Small Cap Fund returned +5.4% for the quarter and is up +11.2% YTD. This compares to the Russell 2000, our primary benchmark, up +9.2% and +11.0% for the respective periods. As a reminder, I use the Russell since it is the most widely followed small cap index. But it is not a perfect benchmark for the fund. For instance, the average market cap for the Russell is $3.6bn while our positions are typically in the $100-$300mm range. Furthermore, several of our holdings are too small to even be included in the index. This is part of the reason why the fund has exhibited relatively low correlation to either the Russell or the broader market.

During the quarter I increased our market exposure and we ended the period with a beta adjusted net exposure of 43%. This is inline with our long-term average. I am generally looking to increase this figure given attractive valuation multiples within our investment universe on an absolute basis and relative to alternatives (i.e. large cap valuation multiples, bond yields).

United Bank (“UBAB”) appreciated modestly despite mixed Q2 results. During the quarter the Treasury announced proposed disposition guidelines for institutions that received ECIP capital. As a reminder, UBAB received $124mm in perpetual preferred equity through the ECIP program that costs no more than 2.0% p.a. and have little to no voting rights. Within the proposed disposition guidelines is a framework for ECIP participates to buyback the security at a price equal to the present value of future interest payments. Based on prevailing rates, the Treasury estimated that this would result in a purchase price between 7% and 28% of the principal amount. This is obviously great news, but is not new.

An alternative disposition venue would be for a “mission-aligned nonprofit affiliate” to buy the ECIP capital. UBAB already has a subsidiary nonprofit established, not that it matters as there is no mention of how long the nonprofit must have been operating. Should the nonprofit purchase the ECIP preferred equity, the Treasury states that the price will be set at just 0.5% of the principal amount. Functionally this means that UBAB could repurchase $124mm of preferred equity for $0.6mm (and not say $25mm). These are still just proposed guidelines, and any repurchase cannot occur for another several years; nonetheless, this could further bolster the longer-term return of our investment.

Sincerely,

Aaron Sallen

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