MERION ROAD

January 2025

	Merion Road Small Cap Fund	IWM (Russell 2000)	Barclay Hedge Fund Index
Annualized Since Inception	**16.7%**	**9.4%**	**5.9%**
Q4 2024	**5.5%**	**0.3%**	**(0.1%)**
2024	**17.4%**	**11.4%**	**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	**14.6%**	**13.5%**
Q4 2024	**9.0%**	**2.5%**
2024	**32.4%**	**24.9%**
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 had good performance for the quarter and year, increasing 9.0% and 32.4% respectively. These figures compare favorably to the S&P which increased 2.5% and 24.9% for the same periods. Our biggest contributors were Victory Capital (+5.7% contribution), Interactive Brokers (+3.9%), and Amazon (+3.8%). Our biggest detractors were Ferguson (-1.0%), Wesco (-0.6%), and Caesars (-0.6%).

In my 2024 year-end letter I discussed our investment in Summit Materials. The company agreed to sell themselves in November at a price of $52.50/share, 37.5% above the prior year-end level. I sold some stock into to the news announcement as discussions were leaked ahead of time and the return profile became less attractive. I decided to hold the rest of our stock as a merger arb position (with the benefit of deferring taxes a year). I have replaced this economic exposure by adding to our other cement position, CRH.

In order of size our top three positions to end 2024 were Clean Harbors ("CLH"), Victory ("VCTR"), and Alphabet ("GOOG").

<u>Clean Harbors</u>: Our thesis has not changed since initiating a position in Q1. Earnings have generally exceeded expectations due to structural improvements to the specialty waste sector. Just this month GFL announced the sale of their environmental services business in a transaction valued at $8.0bn or ~17x LTM EBITDA. Despite recent price appreciation, CLH is still trading at 13x trailing EBITDA. As discussed previously, I believe there is a multi-year runway for both organic revenue growth (onshoring, PFA's) and margin expansion.

<u>Victory</u>: We are still waiting for all closing conditions to be met for VCTR to close the Amundi transaction. As part of the shareholder vote we were provided with management guidance for standalone operating performance of the two businesses. After adjusting for subsequent AUM growth and announced cost synergies, the pro forma cashflow should conservatively exceed $6.00/share which would put the stock

at <10x FCF. In Q4 the company exhausted their prior share repurchase plan, that had $95mm remaining, and re-upped for another $200mm. In other words, they continue to generate prodigious cashflow and return it to shareholders.

Alphabet: We have held GOOG for a long time (since 2018) on the basis of its immense business quality paired with an undemanding valuation, improving treatment of minority shareholders, and multiple options for value creation. Recently we have seen Alphabet bashed for losing the AI race to now heralded for its progress. I remain excited about their prospects with several near-term, mid-term, and long-term tailwinds. Near-term, Google Cloud continues its rapid growth and their latest large language model, Gemini 2.0, appears to have made significant progress to better serve consumer needs and improve GOOG's other product offerings. Mid-term, Waymo is on the cusp of becoming a real value driver for the company; there are abundant articles discussing Waymo stealing share from the ride-share economy and launching in new geographies. Long-term, GOOG's recently announced quantum computing chip positions it well for a future (many, many years away) where computing process are fundamentally different than today. All of these options are embedded in a company that already has an established and dominant earnings stream.

The Merion Road Small Cap Fund similarly had a good quarter, up 5.5%, bringing our 2024 returns to 17.4%. This again compares favorably to our primary benchmark, the Russell 2000, which was up 0.3% and 11.4% respectively.

In order of size our top three positions to end 2024 were United Bank of Alabama ("UBAB"), Monarch Cement ("MCEM"), and Bel Fuse ("BELFB").

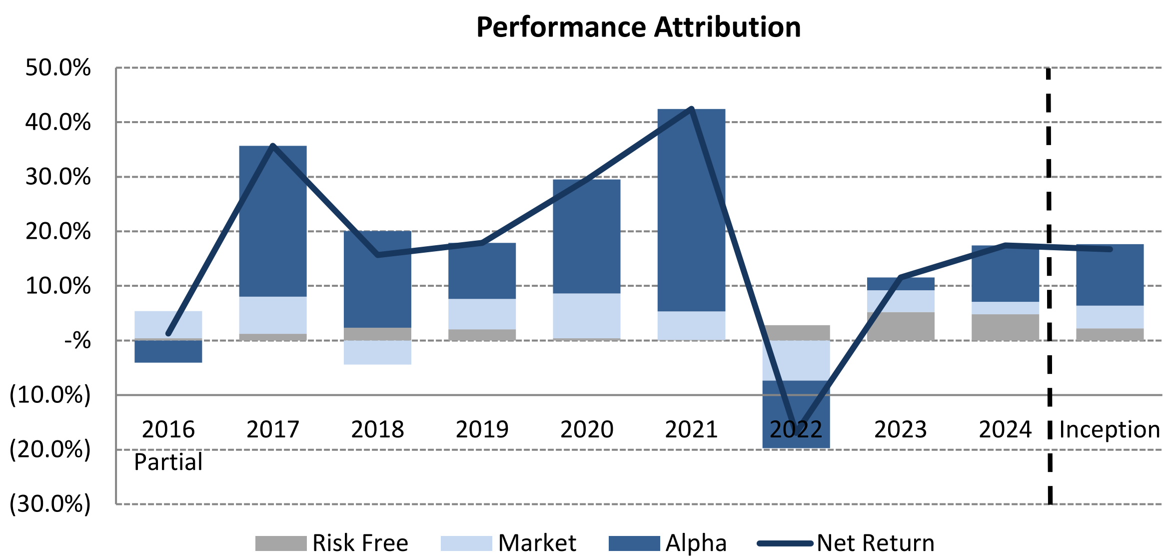
United Bank of Alabama: UBAB was both our largest position and positive contributor to performance for the year (the stock closed at $57.00, up 37%, and paid out some modest dividends as well). I estimate that the bank ended Q3 with more than $50.00/share in excess capital which they can use for share repurchases or business growth. In Q4 the company repurchased 5.5% of their shares outstanding in a block transaction struck at $54.25/share. UBAB will continue to benefit from their low-cost perpetual preferred capital, access to CDFI programs like New Markets Tax Credits and Capital Magnet Fund Awards, and top-tier operating platform. I believe that they can continue to generate $7-$8 in normalized earnings, putting them at 7.5x.

Monarch Cement: Monarch is a straight forward company – a single cement facility in Humbolt, KS and portfolio of related distribution assets. Illiquidity and a dual shareholder structure creates the opportunity to own a fantastic asset at a very reasonable price. For those who have been with me long enough, this is not unlike a former holding, Ash Grove Cement, which we owned into its announced sale at a premium of more than 100%. While I have traded around MCEM over the years, I initiated our current holding in mid-2023. MCEM has been going through a period of relatively heavy capital investments, highlighted by the recent funding of a solar project for $35mm. The completion of the solar assets should reduce the capital burden and lead to increased margins in the coming years.

Bel Fuse: I began buying BELFB in February of this year after the stock plunged due to a disappointing quarterly release. BELFB designs and manufactures an array of electronic components used primarily in networking / cloud, industrial, aerospace, and military applications. Prior to our ownership, the stock had had a strong run with the company bringing in an outside CFO to improve operations. Specifically, the revamped management team identified a path to bring margins in-line with their peers through a series of initiatives such as analyzing profitability by SKU, repricing business when appropriate, and incentivizing profits over sales. These efforts were incredibly effective, with EBITDA margins increasing from mid-single digits to mid-teens. The stock fell on their Q4 2023 earnings, however, as it became apparent that most of the low-hanging fruit had been extracted. I found the move to be excessive and used it as an opportunity to build our stake. Simply put, I believed the stock was experiencing transition pains as it moved from a margin enhancement play to a capital return story (BELFB had a large percentage of its market cap in cash / a cheap multiple, and had begun repurchasing stock).

Though this thesis has played out, a new one has emerged. In September the company announced that they would acquire Enercon, an Israeli-based electronic component manufacturer that predominately serves the aerospace and defense market. While the multiple paid was higher than BELFB's trading multiple, it appears deservedly so. Enercon is predominately a sole source provider of complex products (i.e. minimum order quantity of 1). This specialization leads to premium margins relative to both BELFB and other publicly traded peers. Furthermore, given the on-going turmoil in the Middle East, the demand for this regional military spending is only going to increase. Lastly, BELFB has the opportunity to achieve some cross selling – this includes BELFB selling some of their products into Enercon's customer base and opening up Enercon's products to BELFB's European customers that require local manufacturing.

As provided in prior year-end letters, below is a chart of our performance by attribution. For the year, the risk-free rate account for 4.8% return, our market exposure added another 2.3%, and stock selection accounted for the balance of 10.3%. During this period our overage beta adjusted net exposure was 35%.



I hope everyone has a happy and healthy 2025.

Sincerely,

Aaron Sallen

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