Monday, October 31, 2022

Dear Clients & Friends,

Now in our third year of operation, I remain pleased with both the results we have produced for our clients and the team we have built thus far. With 22 colleagues[1] (10 of whom hold the CFA designation) guided by the extensive industry experience of both our executive and investment leadership, I feel strongly that we are well positioned for continued success in the future.

Financial markets are expecting the Federal Reserve to continue their efforts in tightening the money supply, with the yield curve discounting another 75-basis point (0.75%) increase in interest rates this week, and further rate increases at the December meeting[2]. Additional tightening in 2023 is likely, although much data between now and then will guide the extent of such.

Worldwide economic activity is slowing as central banks around the world fight inflation with interest rate increases. China continues rolling COVID lockdowns, limiting their economic growth, and the war in Ukraine creates various issues, especially for energy prices. As a result, most countries face economic recession over the next 12 months, pressuring corporate profits accordingly.

With these events in mind, I am reminded by our All Cap Concentrated (ACC) portfolio managers, Jason Downey, CFA and Bobby Murphy, CFA, of a salient quote from Warren Buffett: "Predicting rain doesn't count. Building arks does." Amidst current market volatility, we believe we have upgraded the quality of our portfolios by adding to existing positions in high conviction ideas, as well as adding new positions in companies we have long admired. We strive to invest in companies that are resilient and can take advantage of adverse environments through attributes such as balance sheet strength, competitive positioning, and opportunistic capital allocation. We are pleased with our present positioning and with the combination of business quality and favorable valuation (relative to our estimate of intrinsic value) across our portfolio companies, which we feel is integral to our goal of outperforming the broader U.S. market over the next five years and beyond.

The table below shows results for our separately managed ACC strategy composite versus the relevant benchmarks. Our goal is for client returns, net of fees, to be at least three percentage points (annualized) above the benchmarks over rolling periods of five years and longer. We feel this time period permits us to focus on the long-term prospects of each business we evaluate and allows us to take advantage of the stock price dislocations and volatility that frequently disrupt short term performance.

Total Returns (%), All Cap Concentrated Composite (as of 9/30/2022)

	Composite Inception Date	1 Year	2 Year (Annualized)	Since Inception (Annualized)
Composite Net Return*	**07/01/2020**	**-7.84**	**16.33**	**17.43**
Russell 3000 Index		-17.63	4.23	7.88
S&P 500 Index		-15.47	4.83	8.31

Thank you, as always, for your support and interest in VELA.

Sincerely,

Ric

Ric Dillon
CEO & CIO

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Composite Description: The “All Cap Concentrated Composite” includes all pooled funds and all fee paying and non-fee paying, taxable and tax-exempt, segregated accounts that seek to provide long-term capital appreciation by investing in a concentrated portfolio of equity investments of companies of any size market capitalization that the portfolio manager(s) believe are undervalued. The Russell 3000 Index (total return) serves as the composite’s benchmark due to the composite’s broad market capitalization and domestic company focus. Securities in the strategy are identified using a valuation-oriented, fundamental analysis approach. Key material risks include equity market risk, small cap and mid cap company risk, concentration risk, and the general risk that the composite will underperform its benchmark. The composite inception date is July 1, 2020 and the composite creation date is January 8, 2021.

Performance Calculation: Returns presented are time-weighted returns (TWR). Valuations are computed and performance is reported in U.S. dollars. The composite results reflect the reinvestment of dividends, capital gains, and other earnings. Composite returns and benchmark returns are presented gross of withholding taxes on dividends, interest income and capital gains.

Fees: Gross returns are presented before management fees and custodial fees (if applicable) and reflect the deduction of actual transaction costs. Net of fees returns are calculated by deducting a model management fee of 0.0625%, 1/12th of the firm’s standard management fee for segregated accounts of 0.75%, from the monthly gross composite return. This timing methodology differs from the billing/fee policies for the composite’s constituent portfolio(s), additional details are available upon request. The standard management fee schedule for segregated accounts is as follows: 0.75% on all assets, billed quarterly in arrears. Composite and benchmark returns are presented gross of non-reclaimable withholding taxes.

The Russell 3000 TR Index is a market-capitalization-weighted equity index maintained by FTSE Russell that tracks the performance of the 3000 largest U.S. traded stocks across all market sectors, inclusive of dividends, capital gains, distributions, and interest. You cannot invest directly into an index.

The S&P 500 Index is a composite of 500 of the largest companies in the United States. The S&P 500 Index is unmanaged and does not represent the performance of any particular investment.

Performance includes reinvestment of dividends and other earnings.

[1]*Includes 21 full-time employees and one outsourced CCO.*

[2]*Source: https://www.wsj.com/livecoverage/stock-market-news-today-2022-10-20/card/treasury-yields-surge-to-new-post-great-financial-crisis-highs-fed-expected-to-raise-rates-to-5--ky36jKwWZpdJfULDcn4a?mod=Searchresults_pos4&page=1*