Wednesday, February 1, 2023

Dear Clients and Friends,

Financial markets have begun 2023 in a decidedly positive direction[1]. This may seem surprising given the Federal Reserve's (and other central banks') ongoing monetary tightening efforts, which have led to slowing economic activity in recent weeks. Added to the continuing interest rate quandary, US Treasury debt levels are at all-time highs[2], increasing the likelihood of fiscal policy headwinds. Yet market valuations, while down considerably from highs a year ago[3,4], do not suggest that investors believe economic fundamentals will decline much further.

Near term uncertainties, such as those mentioned above, underscore our belief that over the short term, markets move on emotions: an ebb and flow as market participants react to current events. Over longer-term periods, conversely, we believe markets tend to behave more rationally as much "noise" is resolved over time. This explains our reasoning for including "Long Term" as one our four foundational pillars (the "L" in VELA). Forecastable economics: rather than speculate on short term market movements driven by emotions, we focus on appraising businesses over the long term. This approach is designed to provide value-added returns above passive alternatives over five years (and longer), which can have a meaningful compounding impact on portfolio values.

While we do not know what additional challenges the next five years will bring, we strive to invest in companies that are resilient and can take advantage of adverse environments through advantages such as balance sheet strength, competitive positioning, and opportunistic capital allocation.

Total Returns (%), All Cap Concentrated Composite (as of December 31, 2022)

	Composite Inception Date	1 Year	2 Year (Annualized)	Since Inception (Annualized)
Composite Net Return*	**07/01/2020**	**-8.30%**	**10.22%**	**20.27%**
Russell 3000 Index		-19.21%	0.76%	10.07%
S&P 500 Index		-18.11%	2.66%	10.62%

We remain grateful for the trust and confidence our clients have shown in us, and we are committed to rewarding that trust by striving to achieve superior investment returns while maintaining the highest integrity. We thank you for joining us on this journey.

Sincerely,

Ric

Ric Dillon
CEO & CIO

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.

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.

You cannot invest directly into an index.

Performance includes reinvestment of dividends and other earnings.

Footnotes:

[1]Source: Bloomberg Web (https://www.bloomberg.com/quote/SPX:IND#xj4y7vzkg)

[2]Source: US Treasury (https://fiscaldata.treasury.gov/datasets/debt-to-the-penny/debt-to-the-penny)

[3]Source: Wall Street Journal (https://www.wsj.com/market-data/stocks/peyields)

[4]P/E Ratio: The price-to-earnings (P/E) ratio relates a company's share price to its earnings per share. A high P/E ratio could mean that a company's stock is overvalued, or that investors are expecting high growth rates in the future. Companies that have no earnings or that are losing money do not have a P/E ratio because there is nothing to put in the denominator.