

Dear Clients and Friends,

Over the length of my 46 year career, and certainly in the three years of VELA, the market has given us no small share of surprises. The first quarter of 2023 has been no exception.

Inflation rates, at 6% as of February 28th, continue to be substantially above the Federal Reserve’s 2% target, which is the reason for their two ¼ point hikes in the first quarter¹. As Chairman Jerome Powell indicated in his March update, we can likely expect this trend to continue for the foreseeable future as “the process of getting inflation back down to 2 percent has a long way to go and is likely to be bumpy”².

In the five days from March 8-12, three financial institutions became casualties of their management teams’ failure to navigate the Fed’s ongoing efforts at monetary tightening^{3,4}: Silvergate Capital, Silicon Valley Bank (“SVB”), and Signature Bank, the latter two of which were seized by the FDIC after dramatic outflows of deposits (“runs on the bank”), and subsequently sold by regulators. These events came as a complete shock: on March 7th and 8th Federal Reserve Chairman Powell’s semi-annual update to congress expressed no concern for the banking system. By Friday, March 10th, SVB was placed into receivership⁵. By Sunday March 12th, Treasury Secretary Yellen announced that all depositors of SVB (and Signature Bank) would be guaranteed in full, in hopes of avoiding other potential bank runs⁶.

Our domestic portfolios were adversely impacted by the decline in bank stock prices on March 9th and 10th. First Republic Bank (“FRC”) is a bank I have long admired due to their differentiated level of personal service. We viewed FRC’s portfolio of lower-yielding securities as a temporary headwind to earnings due to the company’s business model and positive deposit trends through the 2022 year-end. In light of the magnitude and speed of the run on Silicon Valley Bank, my colleagues revised significantly lower our estimate of intrinsic value for FRC, and we sold the stock.

VELA Fund Returns (as of March 31, 2023)

	Inception Date	1 Year	2 Year (Annualized)	Since Inception (Annualized)
VELA Small Cap Fund (CI I)	9/30/2020	-5.43	0.56	20.32
Russell 2000 Total Return Index		-11.61	-8.74	8.74
S&P 600 Total Return Index		-8.82	-3.93	15.49
VELA Large Cap Plus Fund (CI I)	9/30/2020	-7.73	3.53	14.29
Russell 1000 Total Return Index		-8.39	1.86	9.32
S&P 500 Total Return Index		-7.73	3.30	10.06
VELA International Fund (CI I)	9/30/2020	5.08	0.87	9.54
MSCI World Ex US Index		-2.74	0.11	7.85
VELA Income Opportunities Fund (CI I)	3/31/2022	-9.15	-	-9.15
Russell 3000 Total Return Index		-8.58	-	-8.58
50% Russell 3000/50% Bloomberg US Agg		-6.37	-	-6.37

Mutual fund performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Investors may obtain mutual fund performance data current to the most recent month-end by calling 833-399-1001.

The total expense ratio for the VELA Funds Class I is: Small Cap VESMX 1.19%; Large Cap Plus VELIX 1.84%; International VEITX 1.19%; Income Opportunities VIOIX 0.92%.

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Following these events, we have reduced our exposure to smaller, regional banks and shored up existing positions in larger financial institutions in which we have a greater degree of confidence. We continue to maintain our valuation discipline and focus on striving to provide positive, transparent long-term results for our clients.

Sincerely,



Ric Dillon
CEO & CIO

Investors should carefully consider the investment objectives, risks, and charges and expenses of the fund before investing. The prospectus contains this and other information about the fund, and it should be read carefully before investing. Investors may obtain a copy of the prospectus by calling 833-399-1001.

Important Information:

The Russell 2000 Index is a small-cap stock market index of the smallest 2000 stocks in the Russell 3000 Index. The S&P Small Cap 600 Index is a stock market index established by Standard & Poor's. It covers roughly the small-cap range of American stocks, using a capitalization-weighted index. Prior to 3/1/22, the Small Cap Fund compared its performance only against the S&P Small Cap 600 Index. VELA believes the Russell 2000 Index is a more appropriate and accurate index against which to compare the Small Cap Fund's investment strategy and, therefore, the Russell 2000 Index replaces the S&P 600 Index as the Small Cap Fund's primary benchmark as of 3/1/22.

The Russell 1000 Index is an unmanaged market capitalization-weighted index comprised of the largest 1,000 companies by market capitalization in the Russell 3000 Index, which is comprised of the 3,000 largest U.S. companies by total market capitalization. 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. Prior to 5/1/2022, the Large Cap Plus Fund compared its performance only against the S&P 500 Index. VELA believes the Russell 1000 Index is a more appropriate and accurate index against which to compare the Large Cap Plus Fund's investment strategies and, therefore, the Russell 1000 Index replaced the S&P 500 Index as the Large Cap Plus Fund's primary benchmark as of 5/1/2022.

The MSCI World ex US Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries excluding the United States.

The Russell 3000 Index is a market-capitalization-weighted equity index. The index tracks the performance of the 3,000 largest U.S.-traded stocks, which collectively account for roughly 97% of all U.S.-incorporated equities. The secondary index for the fund is a blend of the Russell 3000 TR (50%) and The Bloomberg Aggregate Bond Index (50%). The Bloomberg Aggregate Bond Index broadly tracks the performance of the U.S. investment-grade bond market. The index is composed of investment-grade government and corporate bonds.

You cannot invest directly in an index.

The VELA Funds are distributed by Ultimus Fund Distributors, LLC. (Member [FINRA](#))

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The views expressed are those of VELA Investment Management, LLC as of 4/4/2023 and are subject to change. These opinions are not intended to be a forecast of future events, a guarantee of future results, or investment advice. Third-party information in this report has been obtained from sources believed to be accurate; however, VELA makes no guarantee as to the accuracy or completeness of the information.

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Footnotes:

^{1,2}**Source:** <https://www.federalreserve.gov/newsevents/testimony/powell20230307a.htm>

³**Monetary Tightening:** an action undertaken by a central bank such as the Federal Reserve to slow down overheated economic growth. Central banks engage in tight monetary policy when an economy is accelerating too quickly or inflation is rising too fast. Two methods of monetary tightening are increasing the federal funds rate (the rate at which banks lend to each other), which increases borrowing rates and slows lending, and selling assets from the Federal Reserve balance sheet.

⁴**Source:** <https://www.bloomberg.com/news/articles/2023-03-10/svb-spectacularly-fails-after-unthinkable-heresy-becomes-reality#xj4y7vzkg>

⁵**Receivership:** a situation in which an institution or enterprise is held by a trustee or 'receiver', who takes over the custodial responsibility for the property of others, including tangible and intangible assets and rights, especially in cases where a company cannot meet its financial obligations and is said to be insolvent.

⁶**Source:** <https://www.wsj.com/articles/bank-collapse-crisis-timeline-724f6458>