Thursday, July 6, 2023

Dear Clients and Friends,

In the first half of this year, a very small group of AI-related technology companies (Apple, Microsoft, NVIDIA, META, and Alphabet) have attracted a great deal of excitement leading to their tremendous short-term appreciation[1]. For me, it is reminiscent of the dot-com era of nearly 25 years ago, which saw similarly exorbitant increases in technology stock prices as investors anticipated the growing importance of the internet, followed by a crash which ultimately resulted in an estimated loss of $5 trillion in wealth across the economy[2].

Similar to the early 2000's, the favored stocks of today reflect a growing separation between the price investors are willing to pay for the company and the sales revenues reported by most businesses[3]. This, in our opinion, is an example of speculation[4]. The trouble with short-term speculation is that it is driven by human emotion rather than the underlying prospects of the business, which makes it fundamentally unpredictable. With the benefit of hindsight, for example, we know that the internet was indeed an extremely important economic force, and yet most stocks purchased in 1999 were poor investments.

By contrast, we believe that over the long term (periods greater than five years), more measurable business results are the key determinants of value. Similar to the case in 1999, as money chases the new trend, valuations for the lowest two deciles of the market are as cheap as we've seen them since the inception of VELA (11/2019)[5]. While we don't estimate when market leadership may change, we are encouraged by present valuations and our ability to purchase what we feel are strong companies for discounted prices.

The other story of 2023, a theme of the past two years, has been the Federal Reserve's efforts at monetary tightening. The Federal Reserve has made clear their intention to continue efforts to reduce inflation to a level of 2%, or about half the current level. Last week, Fed Chairman Powell offered his opinion that it may be another 18-30 months before reaching the 2% goal, which suggests rates will stay relatively high over that period[6]. Higher rates generally lead to lower investments in areas such as new business lines or equipment, and thus, slower rates of growth. Thus, we believe that investments with higher current yields[7] are strong competition for highly valued stocks with little or no current yield dependent on rapid growth in earnings for several years.

VELA Fund Returns (as of June 30, 2023)

	Inception Date	1 Year	2 Year (Ann.)	Since Inception (Ann.)
VELA Small Cap Fund (Cl I)	9.30.20	12.41	2.67	20.75
Russell 2000 Total Return Index		12.31	-8.35	9.93
VELA Large Cap Plus Fund (Cl I)	9.30.20	8.17	3.74	15.22
Russell 1000 Total Return Index		19.36	1.89	11.74
S&P 500 Total Return Index		19.59	3.39	12.49
VELA International Fund (Cl I)	9.30.20	16.89	-0.41	9.63
MSCI World Ex US Index		17.41	-1.14	8.29
VELA Income Opportunities Fund (Cl I)	3.31.22	3.35		-4.98
Russell 3000 Total Return Index		18.95		-0.73
50% Russell 3000/50% Bloomberg US Agg		8.90		-2.30

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 1.82%; International VEITX 1.19%; Income Opportunities VIOIX 0.93%.

We continue to focus on providing our clients with competitive returns over the long term, confident in our investment philosophy and process.

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.

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 7/6/2023 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.

Control #: 17071999-UFD-7/5/2023

Footnotes:

[1]Source: Factset
[2]Source: TED (https://ideas.ted.com/an-eye-opening-look-at-the-dot-com-bubble-of-2000-and-how-it-shapes-our-lives-today/)
[3]Source: Bloomberg
[4]Speculation: The primary difference between investing and speculating is the amount of risk undertaken. High-risk speculation is typically akin to gambling, whereas lower-risk investing uses a basis of fundamentals and analysis *(Investopedia).*
[5]Source: Bloomberg
[6]Source: The Wall Street Journal (https://www.wsj.com/articles/powell-other-central-bankers-face-uncertain-inflation-outlook-30bd34e5?page=1).
[7]Current Yield: With equities, the current yield is calculated by taking the dividends received for a stock and dividing that amount by the stock's current market price *(Investopedia).*