

The VELA All Cap Concentrated Composite increased 5.54% net of fees during the quarter compared to a 12.07% increase in the Russell 3000 Index. Since inception, the composite's net annualized return is 16.69% vs 14.39% for the benchmark. *Detailed performance information can be found on page 2, table 1.*

**Top Contributors to Returns:** During the fourth quarter, Hub Group, Inc. (HUBG) and Graham Holdings Co. (GHC) were two of the largest contributors across most portfolios in the composite.

Hub Group, Inc. is an intermodal transportation and logistics company with a significant North American presence. While Hub Group's quarterly results came in below our expectations due to weaker than anticipated intermodal volumes and margins, the share price rebounded strongly through year-end based on signs of intermodal volumes bottoming. As the company moves through what we anticipate are trough earnings years, we have become increasingly constructive around the long-term prospects of the business, believing its normalized earnings power coupled with its current valuation presents a notably attractive long-term opportunity.

Graham Holdings Co. is a holding company with exposure across education, media, retail, healthcare, manufacturing, and other verticals. The company reported strong quarterly results buoyed by continued strength with its Kaplan business, partially offset by incremental weakness in its TV broadcasting and retail businesses. Management shares our long-term oriented mindset and have historically been good stewards of capital, illustrated in their approach to opportunistic share repurchases over the last two quarters (Q2'23-Q3'23), accelerating their repurchase activity to over \$100 million shares at an average price of \$585/share. This is significantly below our estimate of intrinsic value, resulting in accretive value for shareholders.

**Top Detractors from Returns:** The two largest detractors during the quarter across most portfolios in the composite were our largest contributors in our last quarterly commentary (Q3'23), Kirby Corporation (KEX) and Civitas Resources, Inc. (CIVI).

Kirby Corporation maintains a dominant position in the inland tank barge industry in the United States. Temporary headwinds caused some slight weakness in shares after reporting results, but similar to our commentary last quarter, fundamental performance continues to be strong as margins progress toward our normalized estimates for the core inland marine segment. Additionally, the supply side remains constructive with the industry fleet continuing to shrink, setting up a positive dynamic for the years to come. This ultimately resulted in an increase to our estimate of intrinsic value for the business, illustrating an example of when short-term share price movements

may not align with changes in our intrinsic value estimates that take a long-term perspective. Though shares did not experience a significant decline during the quarter, KEX's weight is amongst the largest in many of the portfolios in the composite, causing it to be a more significant detractor. This larger position sizing is indicative of our conviction level in the company's competitive positioning and their approach to opportunistic capital allocation.

Civitas Resources, Inc. is a producer of oil and gas in the DJ Basin in Colorado. Despite reporting positive fundamental results, shares reversed course following their strong Q3'23 performance due to weakness in the broader energy sector from falling energy spot prices. These short-term fluctuations can be inherent for a company like CIVI, though we remain cognizant of the overall energy exposure in our portfolio construction. We continue to find the opportunity attractive due to its reasonable balance sheet and ability to return meaningful amounts of capital to shareholders, having paid nearly \$14/share in cumulative dividends since it began its variable dividend program in the first quarter of 2022.

Amazon.com, Inc. (AMZN) is an example of a new company added to many portfolios in recent months. We believe the company is in the early days of its margin expansion story and has many opportunities to capitalize on this outside of improvement in its retail business (i.e. Advertising Services, Third-Party Seller Services, Subscription Services, AWS, etc.).

The year 2023 was defined by macroeconomic and geopolitical uncertainty, a potential technological step change in the wake of artificial intelligence, and market returns that were largely driven by the "Magnificent Seven" (AAPL, MSFT, GOOGL/GOOG, AMZN, NVDA, TSLA, META). This proved challenging for active investors who lacked significant exposure to these stocks, contributing over half of the Russell 3000 Index's total return for 2023<sup>1</sup>. As we ring in the New Year and look ahead to 2024, we enter an environment with above historic average valuation levels of the broader U.S. market<sup>2</sup>, driven in part by the prospect of multiple interest rate cuts and a "soft landing" in 2024. While we do not know what 2024 will hold for the economy, nor can we determine with certainty the direction or magnitude of interest rate moves, we strive to build a portfolio of resilient businesses that can thrive in a range of economic scenarios and hold true to our long-term, valuation-centric approach. In times such as now, we believe this disciplined approach is particularly relevant for our clients and should manifest itself in the value-add that we aim to deliver by outperforming the broader U.S. market over the next five years.

*As always thank you for your continued support.*

## Portfolio Managers



### Jason Downey, CFA

Portfolio Manager  
22 Years of Investment Experience



### Bobby Murphy, CFA, CPA

Portfolio Manager  
17 Years of Investment Experience



### Chris Brinich, CFA

Assistant Portfolio Manager (Added to strategy effective January 2024, following 12/31/23 Quarter End)  
6 Years of Investment Experience

## Disclosures:

The views expressed are those of VELA Investment Management as of 12/31/23 and are subject to change without notice. The opinions are not intended to be a forecast of future events, a guarantee of future results or investment advice.

Past Performance is not indicative of future results.

**Table 1. All Cap Concentrated Composite (July 1, 2020 through December 31, 2023)**

Year	Composite Net Return TWR (%)	Composite Gross Return TWR (%)	Benchmark Return (%)	3-Year Std Deviation		Number of Portfolios	Internal Dispersion (%)	Composite Assets (\$M)	Firm Assets (\$M)
				Composite Gross (%)	Benchmark (%)				
2020*	30.69	31.16	25.24	N/A	N/A	15	N/A	25.2	130
2021	32.48	33.46	25.66	N/A	N/A	31	1.06	56.7	253
2022	(8.30)	(7.61)	(19.21)	N/A	N/A	44	3.67	79.1	346
2023	8.18	8.99	25.96	17.55	17.46	41	1.91	67.6	394
1-Year**	8.18	8.99	25.96	-	-	-	-	-	-
3-Year*** – Annualized	9.54	10.36	8.54	17.55	17.46	-	-	-	-
Since Inception – Annualized	16.69	17.56	14.39	-	-	-	-	-	-

\*Partial period return for the period July 1, 2020 through December 31, 2020.

\*\*1-year return for the period January 1, 2023 through December 31, 2023.

\*\*\*3-year return for the period January 1, 2021 through December 31, 2023.

**Definition of the Firm:** VELA Investment Management, LLC (“VELA” or “Firm”) is an SEC-registered investment advisor that provides investment management services to institutional and individual investors.

**Compliance Statements:** VELA claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. VELA has been independently verified for the periods January 27, 2020 (date of Firm’s inception) through December 31, 2022. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm’s policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The All-Cap Concentrated Composite has had a performance examination for the periods July 1, 2020 (composite’s inception) to December 31, 2022. The verification and performance examination reports are available upon request.

**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 excluding bundled-fee portfolios, that seek to provide long-term capital appreciation by investing in a concentrated portfolio of 20 to 30 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.

**Composite Changes:** During the month of May 2022, the composite name was changed from “All Cap Concentrated – Combined Composite” to “All Cap Concentrated Composite” and the composite description/definition was updated accordingly. On October 31, 2022, the firm adopted the SEC Marketing Rule and transitioned from an actual to model investment management fee methodology for all composites in order to comply with the SEC Marketing Rule and the respective composite performance was retroactively updated since composite inception to reflect this methodology. On July 1, 2023, the composite description/definition was updated to include the number of equity investments that could be held in a portfolio. Beginning October 1, 2023, the composite description was updated to exclude bundled-fee portfolios.

**Minimum Asset Level:** The portfolio minimum for inclusion in the composite is \$250,000. After a portfolio has entered the composite, it is not removed unless its asset level falls below \$150,000.

**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%, 1/12<sup>th</sup> 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.

**Benchmark:** You cannot invest directly in an index. The Russell 3000 Index (total return) 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.

**Availability of Information:** A list of the Firm’s composite descriptions and a list of the Firm’s broad distribution pooled funds are available upon request. Policies for valuing investments, calculating performance, and preparing GIPS reports are also available upon request.

**Internal Dispersion:** Internal dispersion is calculated using the equal-weighted standard deviation of annual gross returns of those portfolios that were included in the composite for the entire year. For those periods with five or fewer accounts included for the entire year, “N/A” is noted because the dispersion is not considered meaningful.

**Ex-Post Standard Deviation:** The three-year annualized ex-post standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period, calculated using monthly gross returns. This measure is not shown for the composite and benchmark when less than 36 months of returns are available.

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Footnotes:

<sup>1</sup>“Magnificent Seven” collective average weight represented 22.3% of Russell 3000 and contributed 53.7% of the Russell 3000 Index’s total return during 2023; data obtained from FactSet

<sup>2</sup>Source: <https://www.multpl.com/s-p-500-pe-ratio>