

January 30, 2024

Dear Clients and Friends,

Recent optimism regarding Fed policy has excited equity market participants, taking certain indices to all-time highs¹. While the path for Fed rate cuts may be slower than the most optimistic predictions, it appears likely that inflation rates will begin to trend toward the Fed’s target of a 2% level later this year². That being said, I believe that the zero interest rate policy of the last decade³ is highly unlikely to return, and that while the current 5.25-5.50% Fed Funds rate range will move lower, it will remain at a level above the target inflation rate.

A 3% Fed Funds rate in the context of a normal/upward sloping yield curve suggests a 10-year US Treasury around 4% and equity valuations, currently above 20x trailing EPS for the S&P 500, which are likely to come down toward a historic norm of about 16x^{4,5}. Yet there are quality companies in our portfolios which have both valuations and growth prospects that we consider better than average. This gives us confidence about our long term returns relative to the indices and passive alternatives.

Total Returns (%), All Cap Concentrated Composite (as of December 31, 2023)

	Composite Inception Date	1 Year	3 Year (Ann.)	Since Inception (Ann.)
Composite Net Return	07/01/2020	8.18%	9.54%	16.69%
Russell 3000 Index		25.96%	8.54%	14.39%

As always, we appreciate your support and partnership.

Sincerely,



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, 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.

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.

Performance includes reinvestment of dividends and other earnings.

Footnotes:

¹Note: The Dow Jones closed above 38,000 for the first time on Monday, January 22, 2024. As of the time of publication (Monday, January 29, 2024), the index has continued to fluctuate around 38,000. Source: <https://www.wsj.com/podcasts/minute-briefing/dow-closes-above-38000-for-first-time/b9b078e0-723a-400d-85c4-89c17355ffca?page=1>

²Source: https://www.federalreserve.gov/faqs/economy_14400.htm

³Refers to the 2010-2019 time period following the Great Recession during which the United States and industrialized European countries experimented with zero and in some cases negative interest rate postures, not inclusive of the 2020s.

⁴The PE (Price to Earnings) Ratio relates a company’s share price to its’ earnings per share. A PE Ratio of 1 indicates that a company’s share price is exactly in line with its’ earnings per share. The S&P 500 Index is used as a proxy for the broader equity market. In the scenario presented above, a decrease in average PE Ratios is driven by a decrease in share prices across the S&P 500, representing a small market contraction.

⁵Source: <https://www.multpl.com/s-p-500-pe-ratio>