

Tuesday, July 2, 2024

Dear Clients and Friends,

“Markets can remain irrational longer than you can remain solvent.” This pithy quote is attributed to John Maynard Keynes, although no written evidence of him saying it seems to exist. Nevertheless, it is consistent with my observation that over the short run, emotions move markets. This is precisely why we believe in the concept of matching investment strategy with investment objective. Additionally, we believe when investing in long-term investments such as stocks, our primary focus should be on estimating the economics of businesses and paying reasonable prices for these businesses based on our estimate of their long-term earnings power.

Artificial Intelligence (“AI”) is widely expected to increase productivity, and thus contribute to growth in real GDP and higher standard of living, as human inventions and innovations have done throughout history. Where AI ranks among these important developments is unknown, but it is reasonable to guess it could be similar to other digital technology productivity inventions such as spreadsheets and word processing, and perhaps even “infrastructure” like cloud storage and the internet. Yet even among companies involved in these transformational businesses, long-term investment returns depend on growth in profits over time and the valuation of the business at the time of the investment.

Nvidia is the leading producer of graphics processing units (“GPU”) necessary for AI. The company’s current valuation is over 20x revenues¹, implying very high investor confidence in growth in profits for many years to come. In the year 2000, Cisco Systems, the leading maker of the routers and switches vital for building out the internet, carried a valuation similar to Nvidia’s today². While Cisco has grown revenues and profits considerably over the past 24 years and remains a leader in its markets, the company’s market value is actually less than at its peak in 2000. This illustrates the importance of paying reasonable prices for businesses, even those with tremendous growth prospects.

Sincerely,



Ric Dillon
CEO & CIO

VELA Fund Returns (% , as of June 30, 2024)

	Inception Date	1 Year	3 Year (Ann.)	Since Inception (Ann.)
VELA Small Cap Fund (CI I)	9.30.20	13.66	6.21	18.82
Russell 2000 Total Return Index		10.06	-2.58	9.96
VELA Large Cap Plus Fund (CI I)	9.30.20	16.75	7.90	15.63
Russell 1000 Total Return Index		23.88	8.74	14.86
VELA International Fund (CI I)	9.30.20	7.66	2.21	9.10
MSCI World Ex US Index		11.22	2.82	9.06
VELA Income Opportunities Fund (CI I)	3.31.22	6.88	-	0.12
Russell 3000 Total Return Index		23.13	-	9.24
50% Russell 3000/50% Bloomberg US Agg		12.57	-	4.05
VELA Short Duration Fund (CI I) ⁴	12.15.23	-	-	2.52
Bloomberg 1-3 Yr Gov/Credit TR Index		-	-	1.84

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 1.16%; Large Cap Plus VELIX 1.38%; International VEITX 1.15%; Income Opportunities VIOIX 0.90%, Short Duration VESDX 0.69%.

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 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 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.

The Bloomberg 1-3 Year Government/Credit Bond Index is an unmanaged index that includes all medium and larger issues of U.S. government, investment grade corporate, and investment-grade international dollar-denominated bonds that have maturities of between 1 and 3 years and are publicly issued.

You cannot invest directly in an index.

The VELA Funds are distributed by Ultimus Fund Distributors, LLC. (Member [FINRA](#)). VELA Investment Management and Ultimus Fund Distributors are not affiliated.

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The views expressed are those of VELA Investment Management, LLC as of 07/02/2024 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.

The VELA International Fund invests in a diversified portfolio of non-U. S. equities from a broad market capitalization spectrum. The fund may invest in non-U.S. securities and U.S. securities of companies domiciled in non-U.S. countries that may experience more rapid and extreme changes in value than a fund that invests exclusively in securities of U.S. companies. These companies may be subject to additional risks, including political and economic risks, civil conflicts and greater volatility, expropriation and nationalization risks, currency fluctuations, regulatory risk, higher transaction costs, delayed settlement, possible non-U. S. controls on investments, and less stringent investor protection and disclosure standards of U.S. market.

The Short Duration Fund is newly organized and has little or no operating history. While the Adviser has experience in investment-related activities, the Adviser has limited experience managing registered investment companies.

Nvidia (NVDA) and Cisco (CSCO) are not held in any VELA Funds as of 07/02/2024. A complete list of holdings can be found at www.velafunds.com.

Footnotes:

¹Source: Factset

²Source: Factset