

Monday, January 6, 2025

Dear Clients and Friends,

We begin the new year with optimism for the US, which remains the strongest country in the world in terms of our economy and military strength. The financial markets reflect this optimism, with equity indices at or near all-time highs.¹

The new administration has signaled a strong desire to reform federal spending in order to reign in budget deficits, which add to an unsustainable federal debt level, with the Department of Government Efficiency (“DOGE”). Currently our federal budget is about 25% of Gross Domestic Product (“GDP”), with the deficit running at about 6% of GDP. Nearly 75% of the annual budget is mandatory spending (including Social Security, Medicare, and interest payments), with discretionary defense spending at 14% of the total budget.² The financial (and political) challenge for DOGE is enormous.

Independent of Congress and the Executive Branch, the Federal Reserve pursues their dual mandate of low unemployment and inflation. Two years of tightening monetary policy have helped to reduce inflation rates below the 3% level, approaching their stated goal of 2%. With the strong economy, unemployment has remained around the 4% level, which economists consider “full employment”.³

With the Fed Funds rate now at 4.25-4.50%, the yield curve is relatively flat, with the US Treasury 10-year and 30-year bonds yielding about 4.60% and 4.80% respectively.⁴ In my opinion, these levels are at odds with lofty equity valuations, which should lead to equity returns over the next ten years much lower than the previous ten years. Additionally, this long-term return forecast should be accompanied by considerable volatility in market indices over the short term (one year or less). As always, VELA will continue to serve our clients with our valuation-centric investment philosophy with our goal of competitive long-term investment returns.

Sincerely,

A handwritten signature in black ink that reads "Ric".

Ric Dillon
CEO & CIO

VELA Fund Returns (% , as of December 31, 2024)

	Inception Date	Annualized			Since Inception
		1 Year	3 Year	4 Year	
VELA Small Cap Fund (CI I)	9.30.20	10.77	5.19	11.24	17.19
Russell 2000 Total Return Index		11.54	1.24	4.48	11.11
VELA Large Cap Plus Fund (CI I)	9.30.20	14.62	7.09	12.02	15.09
Russell 1000 Total Return Index		24.51	8.41	12.66	15.30
VELA International Fund (CI I)	9.30.20	3.58	3.78	4.66	8.15
MSCI World Ex US Index		4.70	1.91	4.49	7.89
VELA Income Opportunities Fund (CI I)	3.31.22	7.30	-	-	1.51
Russell 3000 Total Return Index		23.81	-	-	10.92
50% Russell 3000/50% Bloomberg US Agg		12.11	-	-	5.32
VELA Short Duration Fund (CI I)⁴	12.15.23	5.26	-	-	5.20
Bloomberg 1-3 Yr Gov/Credit TR Index		4.36	-	-	4.63

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 1.13%; Large Cap Plus VELIX 1.20%; International VEITX 1.12%; Income Opportunities VIOIX 0.87%, Short Duration VESDX 0.66%.

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:

Investing involves risk including the possible loss of principal. 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.

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.

VELA Investment Management, LLC is a registered investment adviser. Information presented is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial adviser and/or tax professional before implementing any strategy discussed herein. Past performance is not indicative of future performance.

The views expressed are those of VELA Investment Management, LLC as of 01/06/2025 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.

A complete list of holdings can be found at www.velafunds.com.

Footnotes:

¹Source: S&P Dow Jones Indices LLC via FRED®

²Source: [U.S. Treasury](#)

³Source: [U.S. Federal Reserve](#)

⁴Source: Board of Governors of the Federal Reserve System (US) via FRED®