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The Importance of V-E-L-A

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The decline in equity markets in recent weeks, while buffered in recent days by hopes of tariff negotiations, was the largest percentage decline since the COVID pandemic in 2020. This is due to uncertainty created by the Trump administration's tariffs levied on countries across the globe on April 2nd. We believe that the core tenets of our firm, spelled out in our acronym V-E-L-A, are most important when uncertainty is highest, as they enable us to act rationally for the benefit of the long-term success of our client portfolios.

Our **Valuation-centric** approach to investing centers on paying a price significantly below what we believe a business is worth, which we believe will lead to above-average investment returns over the long-term. While in the long run the stock market tends to be rational, in our observation, human emotions such as fear and greed tend to drive market prices in the short run. This can create wide gaps between where businesses are priced in the market and their actual value. The market has certainly turned more fearful recently, driven by tariff-related concerns. Businesses have the tendency to go "on sale" in the market when uncertainty is highest and, as Warren Buffett has famously stated, "uncertainty, actually is the friend of the buyer of long-term values." In recent days and weeks, the VELA investment team has opportunistically bought shares of businesses at significant discounts to our estimates of their values.

Our investment team is leveraging our **Experience**, having managed investment portfolios through business and economic cycles over many decades. We believe that most of the companies we own in the VELA strategies will emerge from this current environment in a stronger competitive position than they are now due to competitive advantages such as scale and balance sheet strength. Our conviction is derived from our experience, having followed many of these businesses for decades and witnessing them get stronger through adverse environments.

Perhaps most importantly, we possess a **Long-term** investment philosophy at our firm. We seek to buy durable businesses with strong long-term prospects and solid balance sheets, run by talented and owner-oriented management teams. When analyzing and valuing businesses, VELA takes a minimum five-year view. Having a long-term philosophy enables us to 1) think rationally about a company's prospects through a business cycle; 2) look through inevitable, short-term vicissitudes in company fundamentals; and critically, 3) allows us to possess the temperament to buy businesses at attractive prices when markets are clouded by near-term uncertainty, as they have been over the past several months.

Finally, at VELA we are **Aligned** with our clients. We "eat our own cooking" and invest in the VELA strategies alongside our clients.

To summarize, the current environment is creating opportunities for the VELA investment team to buy, in our estimation, very good businesses with strong balance sheets at significant discounts to our estimates of intrinsic value. We believe that many of these companies will emerge from the current environment in a stronger competitive position. While nobody has a crystal ball to perfectly forecast when markets will turn, we plan to continue our practice of buying shares of very good businesses at attractive prices. Financial markets are never without challenges; since the firm's inception, we have navigated pandemic shutdowns and re-openings, supply chain constraints and shortages, the war in Ukraine, inflation, a rapid rise in interest rates, a regional banking crisis, exuberance surrounding the prospects of artificial intelligence technology, and war in the Middle East.

Today, we have tariffs. While we do not know what challenges the next five years will bring, we believe that a Valuation centric approach to investing – practiced by Experienced investors – with a Long term time horizon – and Aligned with our clients – is paramount at moments like this and provides us with a good chance to outperform passive indices over the next five years. We thank you for your trust and support.

Bobby Murphy serves as VELA's Director of Research, as well as a Portfolio Manager on the All Cap Concentrated, Large Cap/Large Cap Plus, and Income Opportunities Strategies. VELA Investment Management is a 100% employee-owned investment management firm committed to a valuation-centric philosophy, intensive research process, and collaborative team structure.

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Intrinsic Value is a measure of what an asset is worth, arrived at by means of an objective calculation or complex financial model. Intrinsic value is different from the current market price of an asset. However, comparing it to that current price can give investors an idea of whether the asset is undervalued or overvalued.