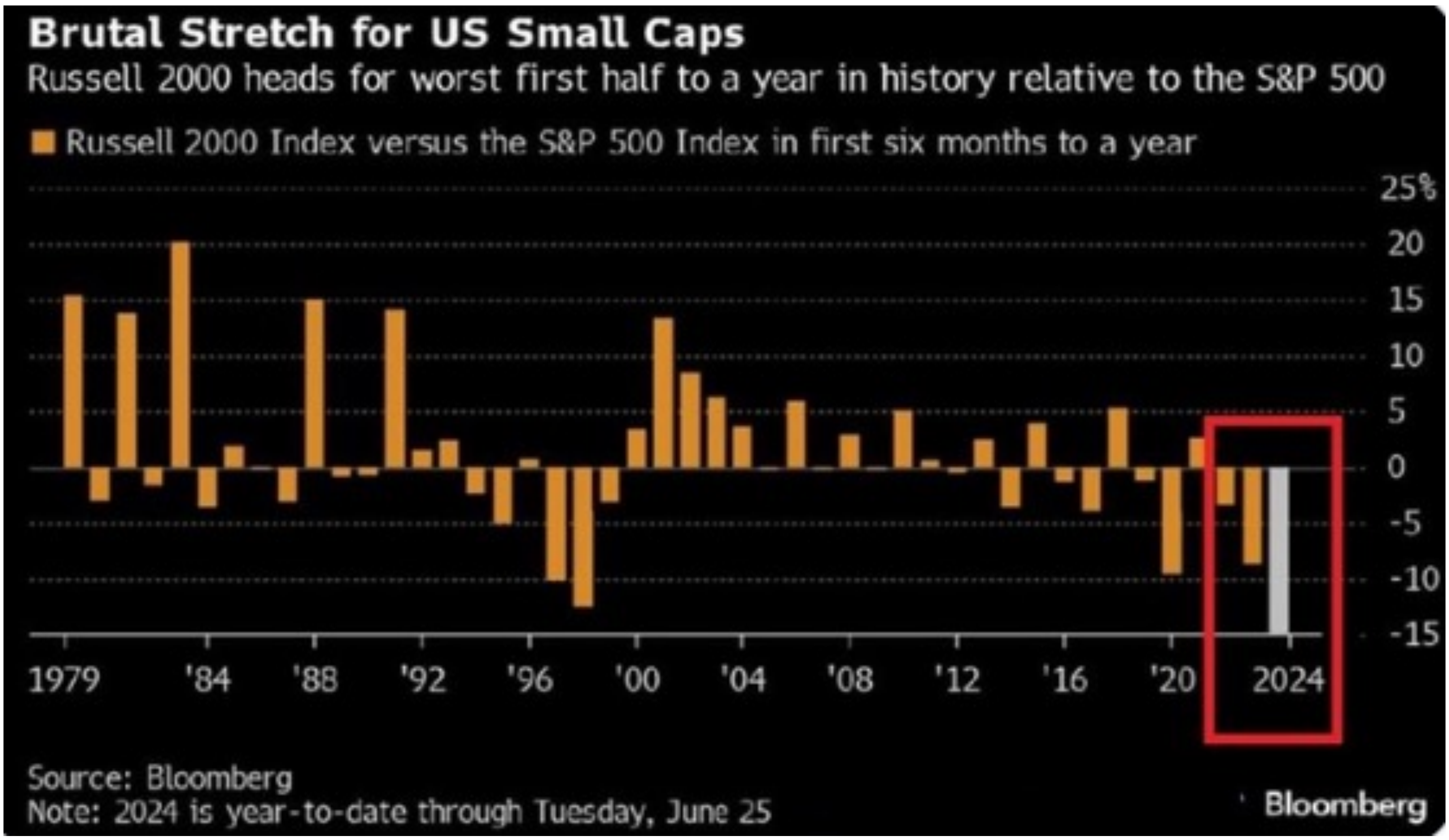
Introduction

The second quarter marked a rebound from the first quarter's underperformance. We attribute this quarter's performance to strategic stock selection and a focus on sectors less impacted by recent selloffs, such as consumer discretionary and energy. This quarter showcased what we believe is the Micro Opportunities Strategy's inherent downside protection compared to the benchmark. While our portfolio may underperform during periods of heightened speculation, such as the meme stock craze which reemerged this quarter, our long-term focus on acquiring high-quality companies at inflection points is designed to yield a more sustainable strategy and superior returns. (Click here for Q2 2024 Factsheet with detailed performance reports).



Small-cap stocks continued to lag behind their large-cap counterparts this quarter. Although we highlighted the potential for the S&P 500's outperformance relative to the Microcap ETF to reverse in our last quarterly letter, this trend intensified. While predicting market bottoms is challenging, we maintain that the risk-reward balance favors small and micro-cap companies, especially considering that much of the S&P 500's recent gains are concentrated in a few AI-driven stocks. This last quarter, AAPL and NVDA accounted for roughly 75% of the &P 500's total return. An investor can continue to bet on these large names continuing to outperform forever. Or considering there is cyclicality to everything an investor can buy smaller companies that have been overlooked. Historically, extreme relative underperformance often precedes a period of sustained outperformance for the underperforming asset class.

Macroeconomic Landscape

The macroeconomic landscape was relatively quiet this quarter. The market adjusted its expectations for Federal Reserve rate cuts, now anticipating only one this year. The market may be underestimating the potential for more aggressive rate cuts in 2025, which also could be front-loaded.

Last quarter, we indicated a recession was unlikely in this year, highlighting positive macroeconomic factors supporting our outlook, including stable inflation, declining unemployment claims, and increased housing starts. However, recent trends such as rising weekly unemployment claims and slowing housing starts, particularly in the multifamily sector, warrant close monitoring.

While AI has contributed to large-cap outperformance, we also see potential benefits for microcaps particularly in the tech sector and semiconductor space. We view these companies as the picks and shovels of AI. Veeco Instruments (VECO), discussed later in this letter, exemplifies this opportunity.

We continue to be optimistic about the healthcare and industrial sectors. Beyond profitless biotech, high-quality med-tech companies with strong returns on invested capital and healthy margins remain attractive in the micro-cap space. Industrials should continue to benefit from stimulus spending and a favorable macroeconomic environment. While we view financials positively and think some of the pessimism surrounding the sector is overblown, their full potential may be delayed until rate cuts materialize. Nevertheless, as the year progresses and fears of a financial meltdown subside, we expect valuations to improve as banks await rate cuts.

In closing, while microcaps are still underperforming large by a significant margin, we think this is a good opportunity based on the risk/reward of large to small. On the positive side with many small caps selling off in the micro space, we see many more quality companies come into our investing universe.

Top Contributors

Veeco Instruments Inc (VECO) was our top performer during the second quarter, benefiting from the AI boom. It's challenging to find companies in the small cap space that are leveraged to the growth of AI; however, VECO has become a key supplier; arming the companies competing to produce AI chips and servers.

VECO is an innovative manufacturer of semiconductor process equipment. In simple terms, VECO makes the machines that make the chips that go into everything. VECO traditionally specialized in equipment used to make memory and storage products, which tends to be a very cyclical business, given the commodity nature of those products. Because of this, the stock historically traded at a discount to its peers. VECO has diversified into laser annealing technology, an important step in the manufacture of leading-edge semiconductors. New design wins at semiconductor fabs that produce leading-edge chips going into iPhones, wearables, AI servers (NVIDIA chips), etc. enabled VECO business to grow through the memory downturn of 2021-22.

We believe that VECO's leading market position will bring more sustainable (less cyclical) revenue, earnings, and share price growth for the long-term.

Top Detractors

Our top detractor was Perion Network Ltd. (PERI). Perion provides digital advertising solutions to brands, agencies, and publishers. PERI was impacted when their largest customer, Microsoft (MFST), revised the relationship between the two companies by excluding a number of PERI's publishers from Bing's search marketplace. This dropped PERI's Microsoft sales exposure to around 5% of total revenue. We were comfortable with staying in the stock after talking with management and thinking there was a margin of safety in PERI's roughly $480M net cash position. However, the cash position didn't provide the downside protection we anticipated as the stock now trades below its cash position. Analyst estimates for next year are for the company to do roughly $45 million in EBITDA, making PERI one of the cheapest names, but, as we found out this quarter, cheap can always get cheaper.

Strategy Additions

We initiated a position in Bridgewater Bancshares, Inc. (BWB). BWB operates as the bank holding company Bridgewater Bank, which provides banking products and services in Minnesota. This fits one of our portfolio themes that the banking sector currently offers good risk/reward. Not only does BWB trade below book value but it is also the most sensitive to rate cuts out of the banks we own. While rate cuts look to have been pushed out, we still believe BWB has a quality franchise in the Minneapolis/St. Paul region.

We also added Quinstreet (QNST), an online performance marketing company that provides services such as qualified clicks, leads, calls, applications, and customers. QNST's largest segment is auto insurance and the company is poised to benefit from the resumption of marketing spending by Progressive Auto.

We also added Aris Water Solutions (ARIS), a company providing water handling and recycling solutions for the oil and gas industry. ARIS gathers, transports, and, unless recycled, handles produced water generated from oil and natural gas production. It also develops and operates recycling facilities to treat, store, and recycle produced water. ARIS' model is inherently based in sustainability. Their focus is to recycle water and reuse it multiple times. In fact, ARIS reduced groundwater withdrawal by more than 270 million barrels in the past 3 years. The company also has a strong competitive moat as their pipeline infrastructure took years to build out and would be expensive and time consuming to duplicate.

Stock Sales

We exited our positions in Atomera (ATOM), Terran Orbital (LLAP), and Information Services Group (III). While each company presented intriguing opportunities, challenges such as delayed commercialization for ATOM, deteriorating financials for LLAP, and delayed AI spending for III led us to seek more promising prospects.

Atomera Incorporated (ATOM) is a semiconductor materials and intellectual property licensing company focused on deploying its proprietary Mears technology into the $600+ billion semiconductor industry. Atomera is working with 24 semiconductor manufacturers to trial its Mears technology, which can lead to increased yield and profitability for its customers. We bought ATOM after the announcement that it signed a commercial license agreement with ST Microelectronics NV (STM), a leading semiconductor producer. ATOM's attractive license business model required STM to pay royalties for each wafer produced using ATOM's Mears technology but production by STM has been delayed. As a result, royalty revenue has been delayed and ATOM may be forced to raise capital in the meantime. We were not willing to take that risk.

We decided to part ways with Terran Orbital Corporation (LLAP) which manufactures and sells satellites for aerospace and defense industries. While the macro story for space is very intriguing and a huge opportunity, LLAP's financial situation continued to deteriorate. LLAP signed a multi-billion dollar deal with a European company to provide them with satellites but that company appears to have funding issues, delaying the project. This, in turn, has delayed LLAP's profitability, a concern as the company is already leveraged. LLAP's largest customer Lockheed Martin (LMT) did put in a lowball offer to buy them at $1 per share, causing the stock to spike well above $1. We used this opportunity to sell our shares, anticipating the board to reject the offer. Since selling, LMT has pulled the offer, causing the stock to crash below $1 again.

We also sold Information Services Group, Inc. (III) which operates as a technology research and advisory company. We initially saw III as a way to play the corporate AI spending spree, but this has not materialized. After speaking with management, we believe it may not happen until 2025. While the AI boom is evident in the market, it has been driven primarily by large hyperscale companies (GOOG, META, MSFT, etc) buying NVDA chips. According to III, many companies are still researching what to do with AI and have delayed spending on AI projects.

Company Deep Dive: Limoneira (LMNR)

Limoneira, a company with a rich history dating back to 1893, stands out not only for its longevity but also for its commitment to environmental stewardship and sustainable business practices. We believe the company's stock is significantly undervalued, with potential upside of 50-100%.

While the business itself might not seem exciting at first glance, its longevity and 15% market share in the

US lemon industry—up from just 4% in 2011—speaks volumes about the quality of its operations. However, the primary reason for our enthusiasm is that the market has not appropriately valued their extensive holdings of land and water rights.

Limoneira has publicly stated that the value of their agricultural land and water rights is between $450-$550 million. Additionally, the sale of less productive agricultural land to developers, along with their development joint venture, is expected to be worth another $100-$150 million over the next six years. The company also holds close to $100 million in equity in their real estate JV, with $15 million of that expected to be distributed.

Considering these assets at fair value, Limoneira's total value could reach as much as $800 million. After subtracting debt, this translates to approximately $41 per share, significantly higher than the current market price of around $20.

To address the significant discount at which the company trades relative to its fair market value, the board of directors has engaged investment banker Stephens Inc. to explore strategic alternatives. We anticipate an announcement before year-end, as the company initiated this process last December. Even without a transaction, we see upside potential as the management team focuses on improving operations, monetizing non-core real estate assets, and enhancing cash flows.

As part of this effort, they have modernized their packing facility to transition from growing their own lemons to packaging and marketing lemons for third parties. While revenues remain the same, this transition aims to provide more stable and consistent cash flows.

Limoneira is also pivoting towards avocado production, a more profitable segment with growing demand in the United States. Over the past ten years, US avocado consumption has grown at a 4.4% CAGR, reaching 8.7 pounds per person annually.[1] In comparison, avocado consumption in Mexico is 23.5 pounds per person per year![2] While it is unlikely that the US will reach Mexico's consumption rate in the near future, we believe that US avocado consumption will continue to increase.

The management team has outlined various operational initiatives that they believe could potentially improve cash flows by up to $30 million over the next seven years. If these improvements materialize, a 50% increase in cash flows within three years seems achievable, potentially translating to a 50% increase in stock value.

We also commend Limoneira's commitment to sustainability, with 44% of its operations now powered by renewable energy, up from over 30% the previous year. Additionally, the company uses high-efficiency irrigation systems for 85% of its water usage, conserving water and supporting sustainable agricultural practices.

Limoneira exemplifies the potential for a company to achieve both financial success and positive environmental impact. We believe the company's focus on renewable energy, efficient water use, and strong management make it a compelling long-term investment opportunity.

Thank you for your trust and confidence and please any questions.

Nathan Fredrick
Portfolio Manager

1 https://investors.missionproduce.com/static-files/138cbb32-d96f-4e4e-8a67-197d17bf7cad

2 https://www.statista.com/statistics/973735/avocado-per-capita-consumption-volume-mexico/o

(Disclosures and chart showing strategy largest contributors and detractors on next page).

Micro Opportunities Strategy

Largest Contributors and Detractors – Q2 2024

5 Best - Absolute Contribution			
Ticker	Company	Average Weight	Contribution
VECO	Veeco Instruments Inc.	6.84%	202 bps
LMAT	LeMaitre Vascular, Inc.	4.88%	109 bps
MEC	Mayville Engineering Company, Inc.	5.27%	82 bps
PWP	Perella Weinberg Partners Class A	4.28%	62 bps
CCB	Coastal Financial Corporation	3.19%	59 bps
	5 Best Total	**24.46%**	**514 bps**

5 Worst - Absolute Contribution			
Ticker	Company	Average Weight	Contribution
PERI	Perion Network Ltd	1.40%	-131 bps
HBIO	Harvard Bioscience, Inc.	2.89%	-115 bps
TCMD	Tactile Systems Technology, Inc.	2.95%	-94 bps
HDSN	Hudson Technologies, Inc.	2.15%	-64 bps
III	Information Services Group, Inc	0.97%	-62 bps
	5 Worst Total	**10.36%**	**-466 bps**

Disclosures:

Reader should not assume that investments in the securities identified were or will be profitable. Timing differences of purchases and sales may have a modest impact on the actual contribution numbers presented. The holdings identified do not represent all the securities purchased, sold, or recommended. The calculation's methodology along with details on all holding's contribution to the overall account's performance during the measurement period are available upon request. Past performance does not guarantee future results.