

The Micro Opportunities Strategy outperformed this quarter and is now ahead year-to-date. This quarter's outperformance is largely driven by stock selection, particularly in the Industrials and Financials sectors, which we believe will continue to lead. Though we remain cautious about Consumer Discretionary, we're optimistic about the long-term potential in small-cap stocks.

### Sector Highlights

In the Financials sector, banks benefited from the anticipation of interest rate cuts, recently realized with a 50 basis points (bps) reduction. As predicted in our last letter, the Federal Reserve acted faster than the market anticipated. We believe further reductions are likely if current conditions persist. Specifically, we've been targeting liability-sensitive banks - those with high deposit rates that can quickly adjust downward as rates drop.

The Industrials sector is also poised to benefit from both the rate cuts and the ramp-up in infrastructure spending. We have positioned the portfolio to capitalize on both trends. While timing can vary, a general rule of thumb is that it takes about six to nine months for rate cuts to fully work through the system. By mid-2025, we expect many industrial companies should begin to see the impact of these rate reductions.

We continue to see long-term opportunities in residential construction, specifically the underbuilt single-family housing market. Despite recent challenges posed by higher interest rates, the rate-cutting cycle and easier year-over-year comparisons position this sector for outperformance going into 2025. Our preferred investment in this space has been Tecnoglass Inc. (TGLS). Although this stock has been a strong performer over the long term, we will be looking to reinvest this capital in the future.

Conversely, we are cautious on Consumer Discretionary at this time. While we do not foresee a recession, we do expect a slowdown in the economy, particularly in consumer spending. Pandemic-era excess savings have largely been depleted, and with

inflation easing, it will be difficult to sustain the elevated levels of consumer spending we've seen in recent years. Although there are individual companies in this sector that we like for the long term, we believe we can afford to wait for better prices and/or opportunities.

### Top Performers & Detractors

Limoneira Company (LMNR) was our top performer this quarter and we believe it remains undervalued relative to its intrinsic value. Over the past 24 months, Limoneira has made significant progress in unlocking value from its asset base. The company has strengthened its balance sheet by divesting non-core assets, entering strategic partnerships on certain real estate holdings, and transitioning its fruit production to a less capital-intensive model. While recent performance has been strong, we continue to hold high expectations for the company's future.

On the other hand, Veeco Instruments Inc. (VECO) was the largest detractor. VECO, a semiconductor manufacturing equipment provider, benefitted from the surge in enthusiasm around AI in the first half of 2024, which drove a 60% gain in the stock, outperforming the broader semiconductor index (SOX). However, market sentiment toward AI stocks cooled in the third quarter, and VECO gave back much of its earlier gains. We trimmed our position during the quarter but continue to hold the stock, as we believe that AI-related investments will outpace most other areas of technology over the next three to five years, positioning VECO to benefit in the long term.

### Strategy Additions

We initiated a position in Aehr Test Systems (AEHR) during the 3rd quarter. AEHR is a worldwide provider of burn-in functional test systems in which electronic components are subjected to elevated voltages and/or temperatures for a duration of time (2 – 48 hours). Burn-in screens out "infant mortality" failure in electronic components prior to the components making it into a module, allowing for higher yields at the critical module production stage.

The increased quality and reliability requirements of the automotive integrated circuit markets, and the increased heat-tolerance required AI of chips, are driving new opportunities for AEHR testers. The stock was weak during the first half of 2024 as the global electric vehicle (EV) market, AEHR's primary market to-date, slowed. This provided an opportunity to purchase the stock. In fact, China's EV production, which relies on AEHR equipment, remains resilient. Importantly, in September AEHR announced its first order to support production test and burn-in of AI processors. We believe the use of burn-in will become more prevalent in semiconductor production, which will drive accelerated growth for AEHR over the next 3-5 years.

We also initiated a position in Mama's Creations, Inc. (MAMA), which together with its subsidiaries, manufactures and markets fresh deli-prepared foods primarily in the United States. The company offers beef and turkey meatballs, meat loaf, chicken, sausage-related products, and pasta entrees. It sells its products directly to supermarkets, club chains, and mass-market retailers, as well as through websites. MAMA's recently has won new business with Costco that will be rolling out this year. While the center aisles of the grocery store have been in secular decline, MAMA has focused on the deli/fresh food section which has been growing 8-10% a year. Management has done a good job turning around the business from low teens gross margins to the high twenties. This has also resulted in a consistent high teens/low twenties ROIC. MAMA's small size gives them plenty of room to grow in a secular growth part of the grocery store.

### Looking Ahead

We have highlighted this theme in previous letters, but we believe this is an excellent time to invest in microcap stocks and expect the small-cap space to be positioned to outperform large-cap stocks in the near term. Small-caps outperformed large caps in the third quarter, marking a potential shift in market dynamics as the rate-cutting cycle begins. While there may be

volatility along the way, we view dips as buying opportunities in most cases. As we approach the U.S. presidential election in November, it is important to remain disciplined and separate political opinions from the investment process. Historically, the stock market has performed well under both Democratic and Republican administrations. If we do see volatility around the election or geopolitical events, we will most likely view it as a buying opportunity.

Thank you for your trust and confidence and please reach out with any questions.



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

**Micro Opportunities Strategy**  
 Largest Contributors and Detractors – Q3 2024

5 Best - Absolute Contribution			
Ticker	Company	Average Weight	Contribution
LMNR	Limoneira Company	6.89%	169 bps
MEC	Mayville Engineering Company, Inc.	4.60%	134 bps
TGLS	Tecnoglass Inc.	4.52%	122 bps
LEU	Centrus Energy Corp. Class A	3.13%	113 bps
AMRK	A-Mark Precious Metals, Inc.	3.03%	108 bps
<b>5 Best Total</b>		<b>22.17%</b>	<b>646 bps</b>

5 Worst - Absolute Contribution			
Ticker	Company	Average Weight	Contribution
VECO	Veeco Instruments, Inc.	4.13%	-143 bps
NR	Newpark Resources, Inc.	3.99%	-77 bps
AEHR	Aehr Test Systems	1.90%	-72 bps
TTGT	TechTarget, Inc	2.58%	-67 bps
IMXI	International Money Express, Inc.	2.57%	-42 bps
<b>5 Worst Total</b>		<b>15.17%</b>	<b>-401 bps</b>

*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.*