

The Micro Opportunities Strategy delivered strong absolute returns in the fourth quarter but underperformed the benchmark, leading to relative underperformance for the year. The quarterly results were primarily driven by stock selection rather than sector allocation, which is consistent with our bottom-up investment approach emphasizing individual company analysis over sector-level positioning. While we do not actively bet on sector allocation, some sectors remain more attractive than others, as detailed below.

Sector Highlights

Sector positioning reflects key investment themes we are pursuing across the firm. The Materials sector was a standout performer this quarter, driven by our investments in the nuclear power and uranium, which continues to present significant long-term opportunities.

In the Financials sector, we remain overweight, particularly in banks, which are benefitting from the Federal Reserve's ongoing rate-cutting cycle. Although Fed Chair Powell recently signaled that rate cuts may be slower in 2025, we think the market overreacted and has now priced in too few cuts for 2025. The lowering of short-term rates and the rise in the 10-year Treasury yield has provided two key benefits for banks; first, it has lowered funding costs for banks on the short end of the yield curve, and second, it has steepened the yield curve, enabling banks to expand their net interest margins heading into 2025.

Valuations in the banking sector are reasonable compared to the rest of the stock market and investors are underweight, which means there is still room for outperformance in the sector. However, we are closely monitoring the risk of 10-year yields rising too quickly, which could create stress within the financial system.

Within the Information Technology sector, we are investing in themes such as the "picks and shovels" for AI and the reshoring of industrial production due to tariff risks from the new administration. Specifically,

Aehr Test Systems (AEHR), (discussed in this strategy's [Q3 2024 quarterly letter](#)) stands to benefit from increased investment in AI chips.

In the Industrials sector, our focus has been on companies with primarily domestic operations, which can avoid potential tariff impacts from the incoming administration. For example, Mayville Engineering Company (MEC) is well-positioned to capitalize on reshoring trends.

Conversely, the Energy sector's outlook for 2025 is mixed. While we are not outrightly bearish, we see risks associated with a potential resurgence in drilling under the new administration and OPEC, which could depress oil prices and negatively impact equities in this space. Instead, we are focusing on energy infrastructure investments, which are less vulnerable to short-term price fluctuations.

Top Performers & Detractors

Among individual stocks, Coastal Financial Corporation (CCB) was the top performer for the quarter. CCB operates as the bank holding company for Coastal Community Bank, serving small- and medium-sized businesses and individuals in the Puget Sound region of Washington. The post-election rally in bank stocks provided a boost, but more importantly, CCB's Banking-as-a-Service (BaaS) segment, which partners with major firms like Walmart and Robinhood, is expected to drive significant growth in 2025 as these firms roll out their banking products.

On the other hand, A-Mark Precious Metals (AMRK) was the largest detractor. AMRK benefitted earlier in the year from rising gold prices but faced headwinds as gold prices declined post-election and earnings disappointed. The company's business model, which experiences shrinking margins when buyers turn into sellers during gold price surges, remains misunderstood by the market. Despite recent challenges, we remain confident in AMRK's long-term potential and expect margins to recover as gold prices have come down.

Strategy Additions

This quarter, we made several strategic adjustments to the portfolio. We initiated a position in Uranium Royalty Corp. (UROY), which aligns with our long-standing focus on the nuclear power and uranium theme. UROY provides exposure to uranium prices through a diversified portfolio of royalties, streaming interests, and physical uranium holdings. Its portfolio includes royalty interests in premier North American assets such as Cigar Lake and McArthur River. UROY offers a less risky way to capitalize on the upside in uranium prices compared to Centrus Energy (LEU), which we exited during the quarter. While LEU had risen sharply on expectations of winning government contracts, geopolitical risks tied to Russia's ban on enriched uranium exports posed a significant threat to its core business, which we believe is misunderstood by the market.

Another addition to the portfolio was SuRo Capital Corp. (SSSS), a publicly traded investment fund specializing in venture-backed private companies. This investment provides exposure to high-growth themes like AI, with holdings in companies such as OpenAI and CoreWeave. SSSS also trades at a significant discount to its net asset value, which we believe is unwarranted given the potential for a more active IPO market in 2025. Notably, ServiceTitan (TTAN), one of SSSS's investments, recently went public and saw a strong market debut. We expect more companies in its portfolio to follow suit, which should help close the valuation gap in SSSS stock.

Looking Ahead

Looking ahead, microcaps began to outperform large caps following the presidential election but ended the year trailing due to the Federal Reserve's signaling of fewer rate cuts in 2025. Despite this, we believe the market is underestimating the likelihood of additional rate cuts, which should provide tailwinds for microcaps. Additionally, with the incoming administration's focus on tariffs and reshoring,

domestic-oriented microcaps may be better insulated from geopolitical risks than large-cap multinationals, which face potential challenges in regions like China and Taiwan.

While volatility may persist, we see it as an opportunity to acquire high-quality companies at attractive valuations. As 2025 unfolds, we believe microcaps are well-positioned to benefit from domestic economic tailwinds and reduced exposure to international uncertainties. Our strategy remains focused on identifying undervalued microcaps with resilient business models that can thrive in this evolving macroeconomic environment.

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 – Q4 2024

5 Best - Absolute Contribution

Ticker	Company	Average Weight	Contribution
CCB	Coastal Financial Corporation	4.82%	210 bps
LEU	Centrus Energy Corp. Class A	1.93%	169 bps
ARIS	Aris Water Solutions, Inc. Class A	3.88%	134 bps
PWP	Perella Weinberg Partners Class A	5.09%	124 bps
DCTH	Delcath Systems, Inc.	2.82%	66 bps
5 Best Total		18.54%	703 bps

5 Worst - Absolute Contribution

Ticker	Company	Average Weight	Contribution
AMRK	A-Mark Precious Metals, Inc.	2.50%	-119 bps
MEC	Mayville Engineering Company	3.96%	-110 bps
ANIK	Anika Therapeutics, Inc.	1.15%	-100 bps
UROY	Uramium Royalty Corp	1.72%	-74 bps
LMNR	Limoneira Company	7.42%	-43 bps
5 Worst Total		16.75%	-446 bps

Disclosures:

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