SUSTAINABLE VALUE STRATEGY

The Sustainable Value strategy outperformed its benchmark, the Russell 2500 Value Index, over the past year. Relative returns were predominantly driven by positive stock selection, though allocation effect contributed positively as well. Alpha generation was broad-based, with positive alpha in eight of eleven sectors. The three sectors with relative underperformance–Health Care, Consumer Discretionary, and Communication Services– in aggregate cost the strategy less than 100bps combined.

Sector Highlights

Avoiding a permanent loss of capital in any holding is critical, especially in a focused strategy. Over the past year only five holdings had a negative contribution to return exceeding 50 bps, and only one –Atkore Inc. (ATKR)– had a contribution worse than a negative 100bps. Atkore was a top ten holding; the other four had an average position size of just 1%, mitigating their impact.

In contrast, the five largest average positions all had positive returns, with an average price increase of 30% and a combined contribution to the portfolio of over 6%.

The strategy also outperformed its benchmark in Q4. Relative positive returns were split evenly between allocation and selection effect. Two sectors – Consumer Staples and Consumer Discretionary – delivered negative relative returns driven by weak stock performance. The Consumer Discretionary sector was weighed down by a recent purchase in Capri Holdings Limited (CPRI) as well as weakness in a longer-term holding Crocs, Inc. (CROX). In Consumer Staples, Limoneira Company (LMNR) underperformed due to weaker-than-expected avocado crop guidance; we believe this issue is temporary and remain bullish on their long-term potential.

The best performing sectors in Q4 were Information Technology (IT) and Health Care driven by strong stock selection. InterDigital, Inc. (IDCC) was the top performer in IT and Exelixis, Inc. (EXEL) was the top performer in Health Care.

Top Contributors and Detractors

The top contributor over the past year was Modine Manufacturing Co. (MOD). Strong growth in data centers drove a more than doubling in the stock price. A significant driver of our thesis revolves around data centers, which shows no signs of slowing. While estimates vary, most forecasts predict a doubling of data center demand by 2030. Modine is well positioned to capitalize on this trend. The market has very much recognized its potential. As valuations rose, we trimmed the position over the year and exited completely in Q4. While we believe in the management team's ability to execute and the positive industry outlook, the valuation no longer made sense for us.

Our worst performer of 2024 was Atkore Inc (ATKR). Atkore faced challenges in the solar sector, including delays in ramping up a manufacturing facility and pricing weakness in the HDPE market. Despite an attractive valuation and strong balance sheet, poor industry fundamentals and a potential legal overhang drove us to exit the position in the quarter. We will keep Atkore on our watchlist and wouldn't be surprised to own it again once their fundamentals improve.

The worst performer in Q4 was Capri (CPRI), which owns the brands Versace, Jimmy Choo, and Michael Kors. Capri's stock sold off drastically after a judge sided with the Department of Justice claim that a proposed merger with Tapestry Inc. (TPR) would create a monopoly in the "affordable handbag space." The sell off cost the portfolio 123 bps in contribution to return. The holding was sized on the low end of our range so the only positive takeaway is that it never became a full position.

InterDigital, Inc. (IDCC) was the top performing stock in Q4. InterDigital's strong performance reflects ongoing momentum in its intellectual property licensing business and favorable litigation outcomes. With the potential to achieve $650 million in annual recurring revenues in 2025, and $1 billion by 2030, we believe IDCC remains well-positioned for continued growth in 2025.

Strategy Sells

Five holdings were sold in the quarter. Three have been discussed above; Modine, Atkore and Capri. The other two sales were Evercore (EVR) and Charles River Laboratories, Inc. (CRL). Evercore rose 75% in 2024 and we felt that high expectations were priced into its valuation. We recycled the proceeds into Mr. Cooper, another financial firm that trades for less than 10x earnings. We also parted ways with Charles River after having owned it since 2017. We trimmed Charles River over the years and sold our last toehold at a significant gain from our original cost basis.

Strategy Additions

We added four new names in the quarter.

Mr. Cooper Group Inc. (COOP), operates as a non-bank servicer of residential mortgage loans in the United States. The company operates through the Servicing and Originations segments. COOP benefits from a higher for longer interest rate scenario because consumers are staying in their homes longer and will not refinance their low-rate mortgages. COOP also benefits from scale being the largest mortgage servicer in the country, while trading at a single digit P/E and mid-teens ROE.

Darling Ingredients Inc. (DAR) is a global leader in the production of sustainable ingredients derived from animal by-products, food waste, and other organic residuals. The company operates in three segments: Feed, Food, and Fuel. It has significant exposure to renewable energy through its Diamond Green Diesel JV with Valero Energy Corporation (VLO), which produces renewable diesel and sustainable aviation fuel. This business should start to see a significant ramp in 2025. Darling's vertically integrated operations support the circular economy, focusing on reducing waste and creating value-added products like biofuels, collagen, and specialty food ingredients. Darling trades for 11x Wall Street’s 2025 earnings estimate.

National CineMedia, Inc. (NCMI) operates the largest in-theater advertising network in the U.S., partnering with major cinema chains to deliver pre-show advertising and marketing content. NCMI’s dominant market position and exclusive partnerships with leading cinema chains provide a competitive moat in the theater advertising space. The resurgence of box office attendance, driven by strong movie slates and a post-pandemic recovery, supports revenue growth over the next couple of years. It has a net-debt free balance sheet and sports a double digit free cash flow yield.

Exelixis (EXEL) is a commercial-stage oncology company focused on developing therapies for cancer; its blockbuster commercial asset, Cabozantinib, derived ~$2B in global revenues in 2023 and 2024. The company also has a compelling early-stage pipeline. EXEL is not in the business of me-too programs and trying to get FDA results that are just good enough; FDA approval is the starting line, not the finish line. EXEL manages its portfolio of current and prospective drug candidates to drive innovation to improve the standard of care for patients, having found that generating differentiated data that moves the standard of care is what drives value for patients and EXEL over the long-term. The stock trades at a below-the-market multiple and a 25% discount to its five-year average forward valuation.

Outlook

We remain cautiously optimistic for the year ahead, expecting the Federal Reserve to guide the economy toward a soft landing. Though we would not be surprised to experience shocks to the economy, particularly in sectors sensitive to evolving tariff discussions with Canada and Mexico. To mitigate risks, we continue to minimize exposure to China in both supplier and customer relationships. While Information Technology presents some customer concentration risks, they are limited to a small number of holdings.

As has historically been the case, we expect future relative performance to be primarily driven by stock selection rather than allocation. Thematic trends, particularly the growth of artificial intelligence, are likely to persist and provide opportunities. As small-cap investors, we often engage with the "picks and shovels" of AI growth, such as semiconductor equipment providers and companies that enable data transmission.

Our portfolio adjustments reflect a focus on stable, resilient cash flows. Recent additions like NCMI and EXEL align with this approach, while our interest in utility-related investments is driven by the projected doubling of electricity demand over the next five years to support AI growth. We are also exploring opportunities in industries poised to benefit from U.S.-China trade tensions.

Finally, Limoneira (LMNR) remains a compelling investment. Trading at under $25 per share, we estimate its net asset value may exceed $40, supported by water rights and land sales which are expected to materialize in 2025.

As always, thank you for your trust and confidence and please reach out with any questions.

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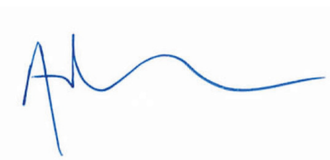

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Sustainable Value Strategy

Largest Contributors and Detractors – Q4 2024

5 Best - Absolute Contribution			
Ticker	Company	Average Weight	Contribution
IDCC	InterDigital, Inc.	4.96%	153 bps
EXEL	Exelixis, Inc.	3.42%	84 bps
CIEN	Ciena Corporation	2.33%	71 bps
SKWD	Skyward Specialty Insurance, Inc	3.53%	71 bps
CNX	CNX Resources Corporation	3.80%	55 bps
	5 Best Total	**18.04%**	**434 bps**

5 Worst - Absolute Contribution			
Ticker	Company	Average Weight	Contribution
CPRI	Capri Holdings Limited	1.03%	-123 bps
ICFI	ICF International, Inc.	2.39%	-74 bps
CROX	Crocs, Inc.	1.60%	-53 bps
AMKR	Amkor Technology, Inc	2.59%	-44 bps
VECO	Veeco Instruments Inc.	1.73%	-38 bps
	5 Worst Total	**9.34%**	**-332 bps**

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