The Sustainable Value strategy outperformed its benchmark, the Russell 2500 Value Index, in the first quarter amid broad based equity declines. Relative returns were predominantly driven by positive stock selection, though allocation effect contributed positively as well. Quality factors showed strength during the quarter, which we believe contributed significantly to our positive relative performance.

The strategy is deliberately positioned to weather challenging market conditions. We focus on profitable companies with good returns on capital and solid balance sheets, typically maintaining holding periods measured in years. When economic regimes change, the portfolio may not be perfectly aligned with new economic scenarios immediately. It's worth noting that fewer than a handful of stocks in the strategy were bought after the November election, meaning our portfolio wasn't constructed in anticipation of significant economic policy reversals – and certainly not a macroeconomic policy created before the advent of cars and the lightbulb.

We anticipate a slowing economy and substantial headwinds to global trade without a drastic change in strategy from the current administration. We are cognizant that these positions could represent a negotiating tactic subject to reversal, but it is difficult to handicap and even more difficult to make long-term investment decisions predicated upon it.

The strategy was running with slightly higher than typical cash levels heading into the end of the quarter. As we write this letter the markets are in a "sell first, ask questions later" mentality. Market resets like this happen fairly infrequently. The S&P 500 notched two -5% days post "Liberation Day." That had only happened four other times over the last century; The Crash of 1929, 1987's Black Monday, 2008's Global Financial Crisis and 2020's Covid Pandemic.

With small-caps now already in bear market territory (defined as a decline of 20% or more from recent highs), we're strategically considering how to allocate capital toward companies likely to lead in the recovery phase. While defensive sectors like utilities and consumer staples might seem intuitively appealing given tariff uncertainties, we recognize that bear markets typically bottom at approximately 30% declines—a level we're already approaching.

We believe we can effectively balance cyclicality, and tariff impacts by focusing on domestically-oriented companies across industrial, financial, healthcare and real estate sectors. While tariffs will affect all companies to some degree, we're prioritizing those with minimal exposure or where market expectations have significantly overestimated negative impacts, particularly for businesses demonstrating adaptability to changing conditions.

Sector Performance Highlights

Relative alpha generation was concentrated in three sectors: Health Care, Consumer Discretionary, and Financials. Alpha generation is entirely driven by stock selection. The strategy also delivered absolute positive returns in Health Care, Consumer Discretionary, Utilities and Real Estate. Among these, our benchmark only recorded positive absolute returns in Utilities.

Consumer Staples notably diverged from its typical defensive characteristics. Our long-term holding Limoneira (LMNR) sold off after announcing the conclusion of its strategic review without an outright sale of the company. Limoneira represented the strategy's worst performer this quarter. We are preparing a deep dive outlining our investment thesis in detail, which we will publish by the end of April. In short, our thesis remains that the company's assets currently trade at less than half of their true private market value. This is supported by the fact that:

- Management's strategy to increase cash flows and returns on capital is sound, focusing on:
    - Converting lemon acreage to avocados which are 5 times more profitable per acre
    - Monetizing land and water rights
    - Optimizing existing lemon acreage to improve cash flow stability and lessen market volatility.

Our top-performing position was Mr. Cooper (COOP), a relatively recent addition from last year. As one of the nation's largest mortgage servicing companies, Mr. Cooper announced a merger with Rocket Mortgage late in the quarter at a substantial premium to its market valuation. This transaction is expected to close later this year, and since the combined entity will become a large-cap company, we plan to redeploy these proceeds into a new position aligned with our small and mid-cap mandate.

Strategy Buys and Sells

Position Adjustments

We trimmed several positions in the quarter as they grew in size: Interdigital (IDCC); Farmer Mac (AGM); and Ciena (CIEN). We also exited a number of positions entirely: CNX Resources (CNX), Steris (STE) and Carlyle Group (CG).

The majority of additions to existing holdings went into the Utility, Health Care and Real Estate sectors.

Additions

Pinnacle Financial Partners

We recycled the Carlyle proceeds into Pinnacle Financial Partners (PNFP). Pinnacle is a high-performing regional bank headquartered in Nashville, Tennessee, with a relationship-centric business model focused on commercial and affluent clients across the Southeast.

The firm differentiates itself through a unique talent-first strategy, consistently hiring seasoned revenue producers who drive peer-leading loan and deposit growth. PNFP maintains strong asset quality with conservative loan-to-value (LTV) ratios and has proactively repositioned its securities and loan portfolios to optimize for interest rate volatility.

Its strategic investment in Bankers Healthcare Group (BHG) enhances fee income and provides selective opportunities to purchase high-yielding, SBA-guaranteed loans. With industry-best Net Promoter Scores (NPS), a culture recognized nationally, and robust capital management, PNFP trades at a discount to historical valuation multiples. It currently trades at book value which presents an attractive opportunity for long-term investors seeking high-quality regional bank exposure with scalable earnings power and embedded growth levers.

Energy Transition Investments

During the quarter, we increased our exposure to the energy transition by adding Range Resources (RRC) and Antero Midstream Corp (AM) to our portfolio. Both companies play critical roles in energy and electrification. Electrification is expected to see significant demand growth in the coming years and decades.

Range is a low-cost producer with a track record of strong and evolving efforts in responsible business practices and capital allocation. Range has 30 plus years of high-quality inventory, a balance sheet levered below 1x debt to EBITDAX, and trades at a 10% free cash flow yield. While Range focuses on natural gas production, Antero specializes in transporting, gathering and processing natural gas as well as operating water handling for its customers. It acts as a toll company with stable cash flows and sports a 5.6% dividend yield. We believe that Range and Antero are both attractively valued, boast experienced management teams, and benefit from significant competitive advantages.

Future Outlook

Forecasting economic conditions over the next several quarters remains challenging. The closest historical precedent occurred in the 1930’s when the protectionist policy Smoot-Hawley Tariff Act exacerbated the Great Depression rather than alleviating economic challenges. While free trade has been fundamental to global economic development since WWII, we acknowledge that some countries have used economic leverage to artificially undercut prices. Nevertheless, we remain skeptical that broad global tariffs will achieve their intended objectives.

We will continue to analyze and monitor the macroeconomic developments, but our primary focus remains identifying and investing in resilient companies positioned to navigate current uncertainties while capitalizing on long-term opportunities. Our disciplined approach to sticking with quality businesses with strong fundamentals remains unchanged.

As always, thank you for your trust and confidence. Please contact us directly with any questions about the strategy or specific holdings.

Adam Peck, CFA
Founder & CIO

Sustainable Value Strategy
Largest Contributors and Detractors – Q1 2025

5 Best - Absolute Contribution			
Ticker	Company	Average Weight	Contribution
COOP	Mr. Cooper Group, Inc	2.73%	62 bps
EXEL	Exelixis, Inc.	4.38%	42 bps
DGX	Quest Diagnostics Inc.	3.29%	37 bps
BJ	BJ's Wholesale Club Holdings, Inc.	1.57%	37 bps
IDCC	InterDigital, Inc	5.22%	34 bps
	5 Best Total	**17.19%**	**212 bps**

5 Worst - Absolute Contribution			
Ticker	Company	Average Weight	Contribution
LMNR	Limoneira Company	4.91%	-153 bps
ECG	Everus Construction Group, Inc	1.48%	-73 bps
HAE	Haemonetics	3.08%	-62 bps
CIEN	Ciena Corporation	2.19%	-52 bps
CNX	CNX Resources Corp	0.32%	-51 bps
	5 Worst Total	**11.98%**	**-391 bps**

Disclosures:

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