



January 27, 2025

Dear Investor:

I hope this letter finds you well. Choice Equities Fund generated losses of -6.2% on a net basis in the fourth quarter, taking year-to-date change performance to -1.0%. This compares to the Russell 2000's +0.3% gain for the quarter which brings year-to-date gains to +11.5%. The S&P 500 generated a quarterly gain of +2.4% taking year-to-date gains to +25.0%. Since its inception in 2017, the fund has generated annualized gains of +11.5% versus +8.1% and +15.0% for the Russell 2000 and S&P 500, respectively.

EXECUTIVE SUMMARY

In this letter, we provide a brief summary of equities markets in the fourth quarter of 2024. We highlight the recent takeout of portfolio holding H&E Equipment Services Company (HEES) at a 100% premium. We share a few thoughts on existing holdings Par Technology Corporation (PAR), Magnite, Inc. (MGNI), Croc's, Inc. (CROX) and Ceasars Entertainment Inc. (CZR) and discuss new purchases of a previous holding in Barnes and Noble Education, Inc. (BNED). Lastly, I conclude with a few thoughts on the current outlook.

QUARTERLY COMMENTARY

Megacap growth stocks drove gains across markets in the fourth quarter, expanding on trends exhibited throughout much of the year that favored larger and growthier equities. For the quarter, the Nasdaq 100 was up 4.9%, the S&P 500 up 2.4% and the Russell 2000 up .3%. The election in November spurred market enthusiasm and pushed stocks higher given views of the incoming administration's more business-friendly policies. This enthusiasm was unwound shortly thereafter as market participants began repricing interest rate expectations around a stalling of the Fed's recently initiated rate cutting campaign.

Post-election trading was particularly choppy and bifurcated, with the selloff picking up steam after the Fed's meeting in the middle of December. As the market priced out a second interest rate cut in 2025, equities headed lower, with smaller market cap sizes and lower-multiple value factors generally declining in greater proportion. The Russell 2000's -8.3% return was its worst ever performance in the month of December relative to the S&P, which itself declined -2.4%, since the small cap index's inception in 1984. (A table in the Appendix further details the performance across various market indices throughout the year and after the election.)

PORTFOLIO COMMENTARY

A bouncy but satisfactory double-digit return for the year appeared on track until the final weeks of December, as our portfolio finished the year on a down note in sympathy with the general direction of the late December trading activity.

For the quarter, holdings in PAR, MGNI and GENI were the primary positive contributors to portfolio performance. Holdings in CROX, CZR and HEES were the primary detractors. Though the components of our portfolio constitute a small sample size, the performance dichotomy of this subset of holdings also reflected the broader trends that occurred across the marketplace during the month, quarter and year where more growth-oriented, higher multiple equities outperformed their lower multiple, more value-oriented counterparts.

Efforts to invest down the cap scale and in securities where lower valuation multiples can be observed has provided little in the way of relative performance tailwinds of late. To be clear, this comment omits

the important caveat that there is always opportunity to improve portfolio management and security selection. Even so, commentary below, which is further supported by charts in the Appendix, highlights the rationale for remaining focused here as the case for tailwinds emerging seems to be growing stronger.

HEES – H&E Equipment Services was one of our lower-multiple holdings, so recent developments here, particularly in the context of a market that has seemingly been disinterested in low valuation equities, make it worth a closer look. As highlighted in a detailed write-up several quarters ago, the intrinsic value of the company and low valuation of the equity was apparent for all to see. However, despite clear signs of underlying value, HEES consistently traded at a significant discount to peers. Accordingly, it was quite encouraging to see this view of valuation validated in early January when United Rentals (URI), a larger industry peer, announced it would pay over a 100% premium to the prior day's trading price to acquire HEES in a \$4.8 billion transaction.

To see a 100% deal premium is rare. To see one in a ~\$5B transaction for a 6.9x multiple of LTM EBITDA for a company that is expected to be accretive to earnings in year one is even more noteworthy. The significant premium underscores the stark contrast between URI's perception of HEES's value and that of the broader market. It also highlights a theme we have discussed plenty of late, in which a great deal of value has been overlooked and is hiding in plain sight in many of the areas of the market in which we tend to focus.

Equally notable, the timing and implications of this acquisition extend beyond HEES itself. That the acquisition of the number four player in the industry was announced less than a week before a new chairman is sworn in at the FTC seems to be little coincidence. It also seems to reflect a broader embrace of corporate attitudes towards dealmaking, after a dearth of activity in recent years. With a new administration in place and expectations of an improved business climate, bankers and business owners alike are acting with a renewed sense of optimism and urgency. Given the relative dry spell of recent years, we anticipate stronger deal flow in the coming year. Even just this hint of a pickup in activity should be good for trading valuations across the small cap space, as acquisition multiple floors have been absent in many of these overlooked areas of the market for some time.

PAR – PAR Technology Corporation continues to execute well. The company's analyst day in November highlighted a company that has come a long way in a short amount of time under CEO Singh's leadership. On the back of the Stuzzo banner which brings the company entry into the convenience store channel, Par is successfully growing share of wallet with existing customers by cross-selling various functionalities of their unified digital commerce offering. The company is now EBITDA positive and with the strong incremental margins inherent to the software model, the company expects a higher proportion of sales to continue to flow through to profits. The recent acquisition of Deleat should help the company drive growth in annual recurring revenue ARR above 30% this year. The possibility for new logo wins remains strong, and the company looks well positioned to continue winning share in the C store and enterprise restaurant space.

MGNI – Magnite continues to gain steam and solidify its lead as the largest independent SSP in the world. Recently the company was recognized by [Forrester](#) as scoring the highest amongst all SSPs for its current offering. Its CTV segment is garnering rave reviews for the quality of its tech stack and winning new customers. The recent Netflix addition looks to still be underappreciated by many, particularly given Netflix's rapid growth in advertising and plans to develop that into a \$4B+ piece of business with Magnite's help.

CROX – After a selloff on earnings down to ~8x earnings, valuation looks to embed flat earnings into next year and beyond. Shares are out of favor and will likely remain so until the company can return the

HeyDude brand to topline sales growth. Until then, the company continues to shrink the share count by steadily repurchasing shares priced at a low-double digit free cash flow yield.

CZR – Caesars Entertainment’s efforts to build a profitable digital gaming segment achieved critical mass in 2024 and are poised for further profitable growth into next year and beyond. The dual effects of emerging from a sizeable multi-year investment cycle alongside a digital segment that is profitable and growing should produce a more favorable look for the company’s financials. Shares look attractively valued at a mid-teens yield of free cash flow which are further supported by an active share repurchase plan.

BNED – Barnes and Noble Education, Inc. is a recent addition of a company we once held a position in several years ago. Then, as now, the thesis was built around the view the company’s long-lasting relationships with colleges and universities would enable it to complete a transition to a more profitable business model primarily reliant on transitioning from selling physical textbooks and general merchandise to a model focused on digital courseware materials. At the time, we exited the position at a small gain when it became apparent the operating environment would make such a transition difficult. Over the years, the company has made significant progress on their transition to a stickier, more digital-based offering, with substantial progress becoming more evident most recently. BNED managed to achieve this progress despite suffering through a suboptimal balance sheet that weakened the company’s ability to focus resources where they were most productive. However, since a massive rights offering this past summer and two additional equity raises, the company is now trading around 6x EBITDA, with less than two turns of leverage and executing on a plan that could see EBITDA double or better in the coming years. A more detailed write-up has been attached for existing investors.

OUTLOOK

It has been an eventful start to the new year and change is in the air. A new administration has made it clear they will pursue a pro-growth / pro-business agenda and that they will do it quickly, underscored by President Trump’s signing of a record 42 executive orders on his first day in office. Investors and businesspeople are watching closely to see what impacts reverberate across the economy and into their industries. Tariffs – how broadly distributed and at what level and pacing – seem to be the first issue most top of mind. Will they be inflationary as they have been in the past? Or could they be thoughtfully phased in and used mostly as a revenue-generating bargaining chip? What implications will these developments have for interest rates?

Recently appointed Treasury Secretary Scott Bessent’s 3–3–3 plan (3% GDP growth, 3 million incremental barrels of oil produced and a budget deficit of 3%), seems to offer encouraging steps in the right direction tying together critical areas around economic growth, disinflation and fiscal policy restraint. Perhaps this plan is optimistic, but it is encouraging to see a cohesive strategy tying important elements of the economy together. Behind these initiatives, a less confrontational regulatory environment seems a given, something that seems highly noticed in corporate boardrooms. Stanley Druckenmiller’s recent [quotes](#) summed up the sentiment succinctly: “I’ve been doing this for 49 years, and we’re probably going from the most anti-business administration to the opposite. We do a lot of talking to CEOs and companies on the ground. And I’d say CEOs are somewhere between relieved and giddy. So, we’re a believer in animal spirits.”

Recent changes seem to be creating and underscoring many opportunities in front of us. Of course, trade policy, inflation and fiscal largesse loom as some of the many risks to consider as well. Even today, as we are poised to share this letter, winds of change seem to be blowing in the markets, as investors re-evaluate megacap tech companies’ lofty AI spending intentions amidst the appearance of new competition and potential disruption. Aside from recent changing inputs, other themes highlighted previously continue at

work. After two years of down earnings, the Russell 2000 has begun to demonstrate earnings growth again, with attractive growth anticipated throughout this coming year. Perhaps this will be among the missing ingredients now at hand that can drive a broadening of returns across the marketplace. Reinserting deal activity into a landscape of mostly attractively valued small and midcap stocks where LBO math plainly works also seems like a noteworthy contributor to the cause. Entering 2025, a resilient economy continues to underpin an earnings profit cycle that has begun anew for many.

CONCLUSION

We believe our portfolio is well positioned in this changing environment, and we are quite excited about current holdings. Even so, I know our approach will not yield outperformance each and every quarter, but I continue to believe it will be well worth our while over the long haul. Perhaps more importantly, given the overwhelming majority of my investable assets are invested alongside yours, we would never ask investors to assume risks we ourselves will not.

Thank you for your continued support as we work to grow our capital together. As always, we are happy to discuss our investment outlook with you at your convenience. Please reach out any time.

Best regards,



Mitchell Scott, CFA
Portfolio Manager

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1. All market and company data is sourced from Factset and company filings and is current as of 12/31/24.
 2. CEF uses the S&P 500, Russell 2000 and the Barclays Hedged Long/Short indices as its primary benchmarks. The S&P 500 and Russell 2000 are common large and small cap US equities-based indices. The Barclays Hedged Long/Short index (an index of equities-based hedge funds) serves as an appropriate benchmark over the long-term given the index has a similar long-term goal of capital appreciation through equities investing.
 3. CEF Net Returns are consistent with the 1% management fee and 18% performance fee offered to clients.

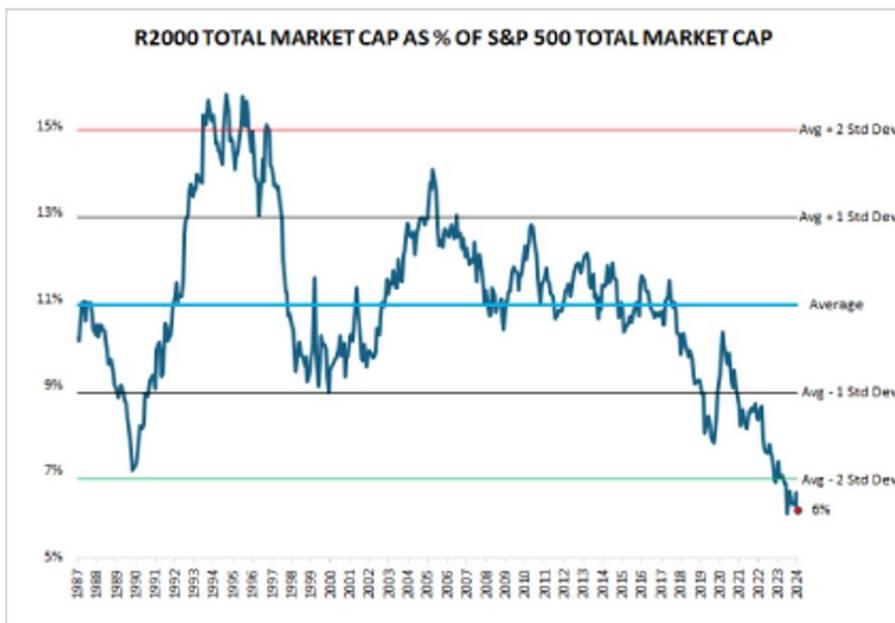
APPENDIX

2024 Market Returns

Market performance			
	2024	11/5/24-11/8/24	11/8/24-12/31/24
Magnificent 7	66.9%	7.4%	6.2%
NASDAQ	28.6%	4.6%	0.1%
NASDAQ 100	24.9%	4.4%	-0.5%
S&P 500	23.3%	3.7%	-1.9%
S&P 500 Equal Weight	10.9%	3.0%	-4.7%
Russell 2000	10.0%	6.1%	-7.1%

- Sourced from Charles Schwab
- Performance figures are price return statistics that do not include dividends.

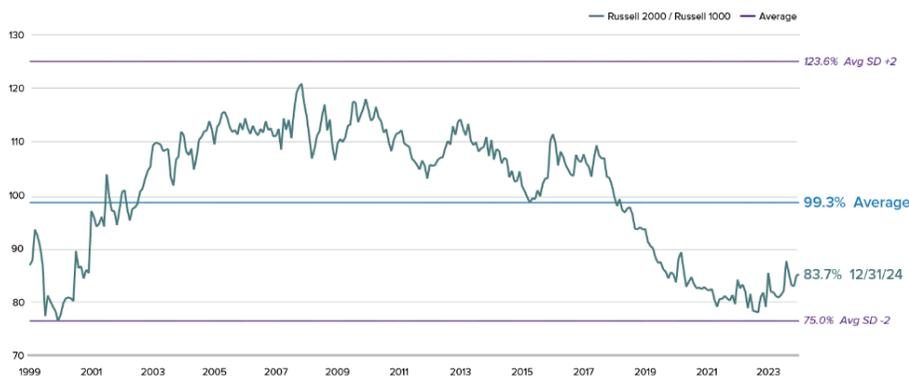
Russell 2000 Market Cap / Relative to S&P 500 Market Cap



- Sourced from Furey Research Partners

Russell 2000 EV / EBIT vs Russell 1000 EV / EBIT

Russell 2000 vs. Russell 1000 Median LTM EV/EBIT¹ (ex. Negative EBIT Companies)
From 12/31/99 through 12/31/24



- Sourced from Royce Associates