



May 12, 2025

Dear Investor:

I hope this letter finds you well. Choice Equities Fund generated losses of -6.3% on a net basis in the first quarter. This compares to a loss of -9.5% for the Russell 2000 and -4.3% for the S&P 500. Since inception in 2017, the fund has generated annualized gains of +10.2% versus +6.3% and +13.7% for the Russell 2000 and S&P 500, respectively.

EXECUTIVE SUMMARY

In this letter, we provide a brief summary of equities markets in the first quarter of 2025. We discuss our top seven portfolio holdings which include Barnes and Noble Education, Inc. (BNED), Celsius Holdings, Inc. (CELH), Croc's Inc. (CROX), Genius Sports Limited (GENI), Magnite, Inc. (MGNI), Modine Manufacturing Company (MOD) and Par Technology Corporation (PAR). Lastly, I conclude with a few thoughts on the current outlook.

MARKET COMMENTARY

Comments in our prior quarterly letter's outlook section became dated quickly. Optimistic consumer and business sentiment soured across the first quarter of the year as expectations for business-friendly policy initiatives from the new administration were instead met with a shock and awe campaign of fiscal policy initiatives and executive orders that have been announced at a breakneck pace – to be followed shortly thereafter by the announcement and implementation of stunningly high tariffs on an astoundingly high number of imported goods.

Accordingly, near-term hopes for a return of animal spirits or corporate deal-making have been replaced with tariff-coping mechanisms and scenario planning efforts to navigate an operating environment that has become quite complicated, quite quickly. Few are believers in animal spirits. Fewer still are relieved or giddy.

Against this backdrop, markets exhibited considerable volatility during the quarter. After peaking in early February, just as “American exceptionalism” became an adopted expression of US corporate vitality, markets rolled over and began a steady descent. For the quarter, the S&P 500 was down -4.3% with the Russell 2000 down -9.5%. The selloff continued into April with a climatic plunge punctuated by President Trump's “Liberation Day” speech with the S&P 500 brushing up against the accepted “bear market” criteria of a 20% decline from a recent market high. Market declines have thus far been followed by a quick recovery with most indices having since bounced back to early April levels as the administration seems to be walking back from the highest of their announced tariff levels in pursuit of trade deals.

PORTFOLIO COMMENTARY

As the quarter developed, I began to question the view I had expressed at the outset of the year. Though I liked our holdings, I began to invest in asymmetric market hedges around the edges of our portfolio. In February and then again in March, I purchased two separate VIX call spreads, spending ~150 bps in aggregate which we were able to monetize to produce ~600 bps of gains which contributed to a very small gain for the portfolio during the month of April.

The recent volatility also presented us an opportunity to make purchases of some new positions at attractive prices. MOD is a new holding while CELH is a new position in a business we have previously

owned. Orion Engineered Carbons (OEC) and Caesars Entertainment Inc. (CZR) were sources of funds for these purchases. Though both are cheap statistically and attractively valued, I feel our other holdings are more attractive on a growth-adjusted basis and are compelling companies that will execute as expected in today's operating environment. My investment in Hain Celestial Group, Inc. (HAIN) was short-lived. We owned shares for just a few months, ultimately exiting in January and February as industry headwinds proved too strong to allow the company to execute their turnaround.

Today, our top seven holdings are BNED, CELH, CROX, GENI, MGNI, MOD and PAR. As Magnite is currently our largest holding, I will lead with commentary here. Much of this discussion is augmented by the attached slide deck, which accompanied my presentation of the investment case of the company in Omaha at the 2025 BTIG Best Ideas event during the weekend of the Berkshire Annual General Meeting.

MGNI – As highlighted last year in the 2Q 2024 letter, the onboarding of Netflix as a customer in its CTV segment is happening now as expected. As stated then, Netflix is expected to be Magnite's largest customer by yearend as its ad-supported offering grows in subscriber numbers. Additionally, a few weeks ago, Netflix publicly shared its goal to produce \$9B of ad-generated revenues by 2030. As Magnite is Netflix's exclusive provider of supply-side platform (SSP) services for serving ads programmatically, this goal suggests Netflix's ads plans alone could double Magnite's CTV revenues over this time. Given the high incremental profits associated with the ad exchange business model, one can expect EBITDA and cash flows to triple over this same time frame. And this is just for Netflix, as this growth is occurring against a backdrop in CTV where industry ad revenues should continue to grow at a mid-teens rate as ad dollars hasten their transition away from linear TV.

As for the DV+ side of the business (i.e. areas outside of CTV that include mobile, audio, digital-out-of-home and desktop ads), tailwinds continue to gather as well. A few weeks ago, the Department of Justice ruling on the Google ad tech trial came out, in which they ruled that Google has acted as a monopoly in their ad tech business to advantage themselves while disadvantaging publishers and fellow ad tech competitors like Magnite. The trial date to weigh potential remedies has been set for September 22nd. The impact on MGNI's DV+ business, which is about one half of their revenues and EBITDA, is likely to be somewhat unpredictable, with outcomes being greatly influenced by what proposed remedies are realized, when they are implemented and any further judicial appeals that may follow. However, at a minimum, one can expect the weakening of a monopolistic competitor, which holds ~60% share versus MGNI's #2 position in the market near a ~6% market share, to bolster Magnite's own competitive position. The presentation from Omaha is attached, and I look forward to updating you on further developments.

MOD – This is a new position we began purchasing in March and April. Under CEO Neil Brinker, a former Danaher executive, the company has implemented many of the same elements of the Danaher Business System (DBS) playbook, enabling the company to produce attractive growth in revenues, cash flows and earnings since he took the helm as CEO in 2020. In this time, the company has built leadership positions in the manufacturing of thermal management solutions for the electric vehicles and data center sectors where robust demand will be driven by the growing need for global electrification and digital transformation.

Many know and revere elements of the DBS playbook like the 80/20 focus rule or the lean / kaizen operating principles, but another good example of these principles in action can be found in Modine's go-to-market approach for data center coolers. Here, their focus on the Voice of the Customer enables them to earn attractive margins by selling the highest cost, most premium equipment. Due to system design, product durability and low cost of maintenance, these products represent outstanding value for its customers as they offer the lowest total cost of ownership relative to other products available.

Today, the company trades around ~20x NTM PE, with the company expecting to grow cash flows and earnings at a high teens rate or better sustainably over the next several years. As a result of the recent market selloff, the company has enacted a \$100M share repurchase to capitalize on shares' attractive valuation.

CELH – I repurchased shares in Celsius shortly after they announced the \$1.8B acquisition of Alani Nu. CELH shares suffered last year as the company's valuation transitioned from that of a high-growth beverage brand to that of a slow-growth consumer staple as sales growth softened and ultimately briefly went negative due to a large inventory build last year in the convenience store channel in conjunction with their reliance on Pepsi as a distribution partner. A competitive response in sugar-free offerings from Monster and Red Bull at the same time convenience store traffic patterns declined on a year-over-year basis for the first time in many years further exacerbated these problems. Lapping these issues will make for easy comparisons, as the company has again begun posting sales growth on a year-over-year basis. The Alani Nu acquisition also gives them ownership of a rapidly growing upstart brand. With the two brands together, the company has ~16% share of the energy drink market and offers the most attractive growth profile of any beverages or staples company at one of the cheapest valuations available in the market in an end market that should offer durable and attractive growth in most economic environments.

PAR – Par continues to win together with its “better together” unified digital commerce offering. Most recently, the company announced another new large customer win with Popeye's 3,500 unit chain, as well as several still-unnamed chunky customers that are also in the pipeline. ~20% organic topline growth, strong gross margins and minimal operating expenses are allowing attractive operating leverage to shine through, with strong EBITDA growth following as expected.

CROX – Investor dissatisfaction with the performance of HeyDude since its acquisition has been a persistent drag on the company's trading multiple. It is my view that HeyDude is turning the corner, and is returning to growth, as marketing guru Terrance Reilly has now been in charge of the brand for almost a year and channel reports support a cleaned-up inventory position and renewed customer interest in the brand. Shares continue to trade at a single-digit multiple of earnings, with the company being a consistent purchaser of its stock given its clean balance sheet. Should earnings growth resume and continue as expected, a low teens (or better) earnings multiple seems likely. Tariffs, particularly on Vietnam where the company sources ~45% of their goods, are a wild card. Should these remain in place, this year's profits could be impaired by as much as ~10% until the company can address their supply sources further. On the other hand, these tariffs could be removed in short order.

GENI – The digital gaming rights provider is executing as expected and should continue to post high teens topline growth and EBITDA margin expansion on the back of the secular growth in online sports betting. Shares trade at an ~35% discount to Sportsrader, with the two operating in an emerging duopoly of sports betting data provision that is increasingly becoming appreciated by investors.

BNED – Trading at a mid-single digit multiple of this year's EBITDA, the company is executing effectively on transitioning existing school locations to their more profitable First Day Complete offering. It is reasonable to believe EBITDA could double or better over the next three years, making this a highly attractive valuation for a company that benefits from counter-cyclical demand patterns. Additionally, shares are likely to be added to the Russell 2000 this summer, driving index demand for shares this spring.

OUTLOOK

News events of recent weeks have increasingly pointed to a thawing of trade tensions and thus a moderately improving global outlook for businesses globally (albeit from a quite depressed level of expectations). It is also noteworthy that forward earnings estimate revisions have accompanied these

developments and earnings estimates have quit declining. Or, said differently, the second derivative or rate of change in the anticipated growth of earnings has marginally improved, potentially confirming an improving economic outlook.

Regardless, as one can surmise from the discussion of our prior outlook, our outlook remains susceptible to becoming dated quickly. Today's dynamic market environment simply underscores this view. Despite the uncertain times, I believe our holdings offer a considerably higher degree of certainty of positive business outcomes, despite what news headlines we may encounter along the way.

CONCLUSION

I 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 3/31/25.
 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.