



January 2025

	Merion Road Small Cap Fund	IWM (Russell 2000)	Barclay Hedge Fund Index		MRCM Long Only Large Cap	SPY (S&P 500)
Annualized Since Inception	15.9%	9.7%	6.6%	Annualized Since Inception	14.0%	14.0%
Q4 2025	8.5%	2.1%	1.6%	Q4 2025	(0.0%)	2.7%
2025	9.2%	12.7%	12.4%	2025	9.6%	17.7%
2024	17.4%	11.4%	9.4%	2024	32.4%	24.9%
2023	11.5%	16.4%	9.3%	2023	38.7%	25.7%
2022	(16.9%)	(20.4%)	(8.5%)	2022	(34.9%)	(18.2%)
2021	42.5%	14.5%	10.0%	2021	20.4%	28.7%
2020	29.5%	20.0%	11.0%	2020	54.3%	18.3%
2019	17.9%	25.4%	10.6%	2019	25.2%	31.2%
2018	15.7%	(11.1%)	(5.2%)	2018	(6.0%)	(4.6%)
2017	35.7%	14.6%	10.3%	Dec 18 - Dec 31	0.1%	(0.5%)
2016 (Jul-Dec)	1.3%	18.7%	5.4%			

Note: All returns are net of management and performance fees. Past performance is not indicative of future results. Returns for the Merion Road Small Cap Fund for the period prior to fund launch (01/13/22) reflect a basket of SMAs.

The Long Only strategy was roughly flat during the fourth quarter bringing our 2025 returns to 9.6%. While this is a respectable number on an absolute basis, it lagged the broader market. The elevated returns for the S&P this past year were largely concentrated amongst the largest companies who happen to have meaningful exposure to the AI trade. This dynamic is demonstrated by the fact that the S&P 500, a dollar weighted index, generated a 17.7% return for the year while an equal weighted index (each company in the S&P 500 is given the same allocation) returned 11.2%. Since launching the strategy, I have had a positive mental tilt towards technology; our AI exposure currently sits at about 22% of the portfolio, split amongst GOOG, MSFT, and AMZN. This feels large to me. But when you realize that the Magnificent Seven¹ currently account for 34% of the S&P it means that I am underweight AI relative to the market as a whole.

I feel comfortable where we are at. I do not closet benchmark the index and I do not manage the portfolio to monthly or yearly performance. I am simply trying to outperform the market over the long-term and do so while managing my risks. As I am writing this letter our cash sits at 16% of the portfolio while a relatively safe merger arbitrage position accounts for another 6%.

During the quarter I acquired shares in Janus Henderson Group (“JHG”) after they received a non-binding acquisition proposal by their largest shareholder to acquire the company at \$46.00. With the stock trading below this initial salvo and at a relatively modest premium to its unaffected price, I viewed the risk / return profile to be attractive. I acquired shares over the next few weeks as the market continued to doubt the likelihood of an eventual transaction. A definitive agreement was reached at the end of December to sell the company at a price of \$49.00 / share. I continue to own shares as the IRR to close remains attractive.

¹ Nvidia, Alphabet, Microsoft, Meta, Tesla, Apple, Amazon.

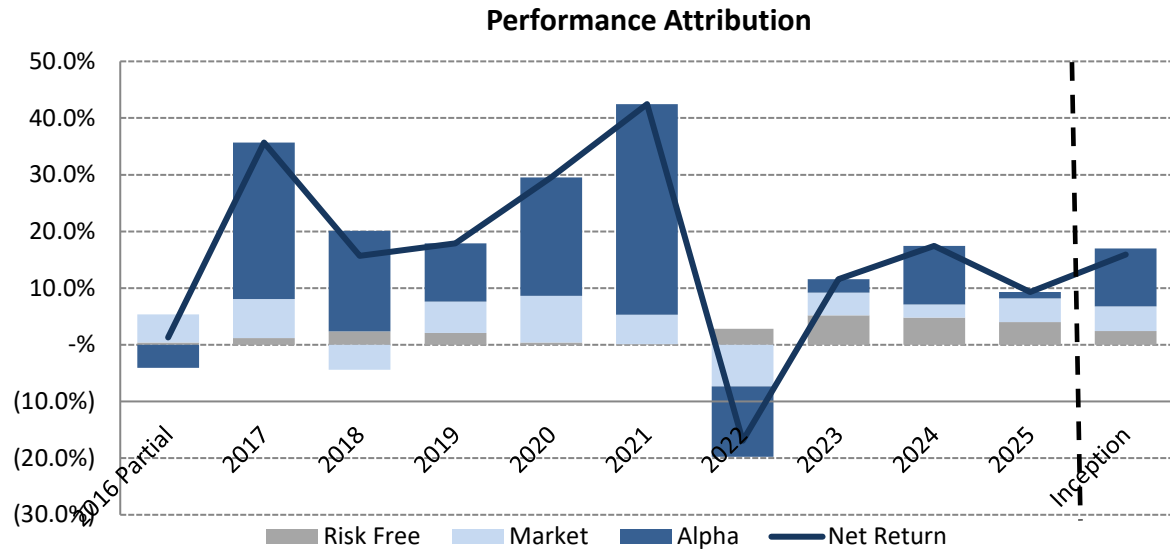
The Small Cap Fund returned 8.5% during the fourth quarter, bringing our full year returns to 9.2%. After being basically flat through the first 11 months of the year we ended on a strong note. Some of the largest drivers in the quarter were:

- Butler National (“BUKS”). BUKS issued their Q2 report with EBITDA increasing from \$6.5m to \$8.8m. Importantly, aerospace revenue, margins, and backlog have all moved up meaningfully. The company, management, and board of directors continue to buy stock despite the higher share price.
- Bel Fuse (“BELFA/B”). Last letter I discussed the capital structure arbitrage whereby I bet on the discount of the A & B shares collapsing. In November both classes of equity sold off on their Q3 earnings release, a report that I actually viewed positively. I took that opportunity to cover our shorts thereby positioning us to make money based on both a) overall valuations recovering and b) the B discount shrinking. Since then, both classes of equity have reached all-time highs and the spread currently sits in the single digits.
- Undisclosed Short. During the year I put a short position on a stock we had previously been long. The thesis was that management had wasted a boat load of cash on bad acquisitions and that earnings were being masked by accounting gimmicks and questionable add-backs. The stock fell 40% when the company reported their earnings in December and it became apparent that their guided EBITDA was a fantasy.

During the quarter I built a position in Ascent Industries (“ACNT”). ACNT is a small specialty chemicals company that is transforming from an over-levered conglomerate into a pure-play with a pristine balance. In early 2024 the company revamped its management team with the election of a new CEO & CFO, two individuals who have leadership experience working at large cap chemical companies (Dow Chemical) and turnarounds (Clearon – operations improved and business sold). Since then, ACNT has sold off its tubular steel assets, thereby eliminating \$70m of debt and leaving the company with almost \$60m of cash.

During this time management has been addressing the poor operating performance of its chemical assets. Their first focus was on stabilizing the current operations by raising price on money losing products and walking away from unprofitable business when necessary. From 2023 to the LTM period revenue shrank from \$84m to \$74m while gross profit improved from \$6m to \$17m. With that heavy lifting done, the company is turning to organic growth and M&A. Management has indicated that their facilities are currently running at just 50% utilization. In other words, they can bring the company to \$150m in revenue with little capital investments. Operating leverage and a shift toward proprietary products should allow the company to grow its EBITDA margins from mid-single digits to >20%. In December, ACNT announced a new program win that is expected to generate more than \$10m in annualized revenue at accretive margins. While the market is starting to give the company the benefit of some growth, significant upside remains if they hit their targets.

Below is a chart of our performance by attribution. For the year, the risk-free rate account for +4.0% return, our market exposure added +4.2%, and stock selection accounted for +1.0%. During this period our average beta adjusted net exposure was 48%.



Sincerely,

Aaron Sallen

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