January 2024

	Merion Road Small Cap Fund	IWM (Russell 2000)	Barclay Hedge Fund Index
Annualized Since Inception	**16.6%**	**9.0%**	**5.5%**
Q4 2024	**11.2%**	**13.6%**	**5.0%**
2023 YTD	**11.5%**	**16.4%**	**9.3%**
2022	(16.9%)	(20.4%)	(8.5%)
2021	42.5%	14.5%	10.0%
2020	29.5%	20.0%	11.0%
2019	17.9%	25.4%	10.6%
2018	15.7%	(11.1%)	(5.2%)
2017	35.7%	14.6%	10.3%
2016 (Jul-Dec)	1.3%	18.7%	5.4%

	MRCM Long Only Large Cap	SPY (S&P 500)
Annualized Since Inception	**11.9%**	**11.6%**
Q4 2024	**9.8%**	**11.2%**
2023 YTD	**38.7%**	**25.7%**
2022	(34.9%)	(18.2%)
2021	20.4%	28.7%
2020	54.3%	18.3%
2019	25.2%	31.2%
2018	(6.0%)	(4.6%)
Dec 18 - Dec 31	0.1%	(0.5%)

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 portfolio increased 9.8% in Q4 2023, bringing our full year results to 38.7%.

In my previous year-end letter, I reviewed our three largest positions (Ferguson, Alphabet, Copart) and the rationale for holding them despite their recent underperformance. These positions accounted for our largest dollar contribution this year, increasing 52%, 59%, and 61% respectively. Of course macro factors helped with inflation slowing, a resilient economy, and a shift in the rate outlook from hikes to cuts. Nonetheless, these companies demonstrated strong fundamentals that reflect their attractive business quality and market positioning. While we are not out of the woods yet, the recent volatility is yet another reminder of the importance of having a long investment horizon.

During the quarter I meaningfully increased our position in Summit Materials ("SUM") which I just discussed in my Q3 letter. In October the company released the preliminary proxy statement for their pending acquisition of the U.S. operations of Cementos Argos. This document contained two positive factors. Most notably, in the background section of the merger the company announced that it had received a proposal from a third party to acquire SUM at a price of $38/share. The board concluded that this offer was not a superior proposal to the value creation from their own acquisition of Argos. While an acquisition of SUM is off the table at this point, it highlights the strategic value of SUM assets. Secondly, management's internal projections for SUM on a standalone basis and pro forma for the acquisition were quite strong (combined EBITDA is projected to grow at an 11% CAGR over the next 3 years inclusive of synergies). Near-term I believe SUM is worth $45 (+25% from current levels) with longer-term upside as infrastructure plans hit the market.

The Small Cap Fund increased 11.2% in Q4 and 11.5% for the entire year. From an attribution perspective, +5.2% came from the risk-free rate, +3.9% from our market exposure, and +2.5% from alpha.

Like the broader small-capitalization market, most (all) of our returns came in December. Unlike the index, however, this was driven by a few catalysts that positively impacted our portfolio. Entering

December our second largest position was in an oil and gas company, Unit Corp (“UNTC”). UNTC declared a special and common dividend equal to 40% of its then market capitalization. The stock traded well following this news as it accelerated the return on our investment and reaffirmed management’s alignment with shareholders. Though I normally shy away from commodity businesses, I felt comfortable with this name given its strong balance sheet, valuation disparity, and dedication to returning capital. Furthermore, I hedged our exposure to energy prices by shorting another company in the sector. Similar to UNTC, our position in the small radio broadcaster, Saga Communications (“SGA”), benefitted from a special dividend equal to 10% of its then market capitalization.

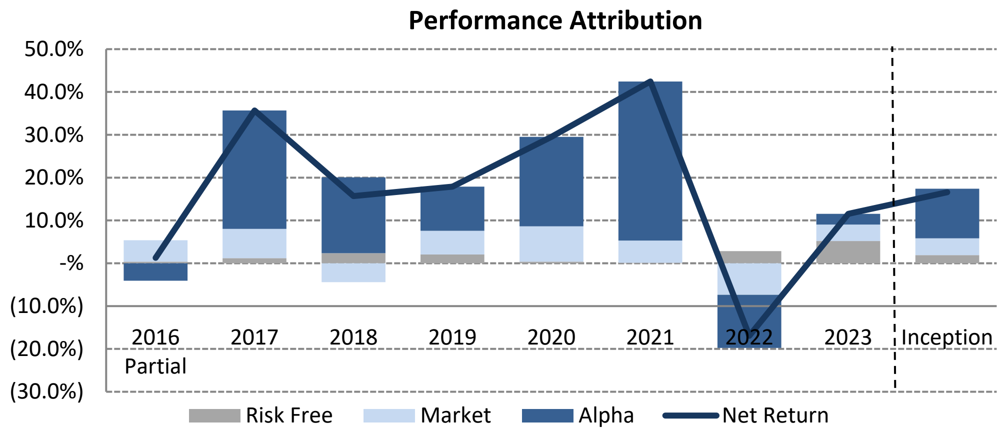
I initiated a new position in Duckhorn Portfolio (“NAPA”) in December. NAPA is a top 3 players in the U.S. luxury wine category (as defined by bottles costing >$15), with the majority of sales coming from its Duckhorn brand and the more affordably priced Decoy label. Like their spirit and beer brethren, NAPA benefits from stable demand, established distribution, and brand equity. Unlike other alcohol categories, the wine industry is highly fragmented as small players with romantic ideations of owning their own vineyard abound. While this dynamic creates a fertile hunting ground for acquisitions, it also creates a greater level of competition that makes the business less reliable than say Jack Daniels.

It’s been tough sledding for NAPA’s stock as it has fallen ~60% over the past few years; this is a result of multiple contraction as earnings have grown. NAPA is an odd-duck (see what I did there) as the only “real” publicly traded wine company – the others are all a fraction of the size and unprofitable. This lack of comparability likely means that it receives less attention than it deserves. Additionally, investors are concerned with macro uncertainty (slow-down in the wine category, distributor destocking) and idiosyncratic issues with the company. Notably, their well-regarded CEO abruptly retired in the middle of last year. Just a few months later, and while operating with an interim CEO, NAPA announced its largest acquisition to date. Add in the fact that the majority of consideration is in the form of equity and there are reasons for investors to be worried. With the stock falling to <8x EBITDA, valuation seems compelling enough to step in.

The pending acquisition is for Sonoma-Cutrer, the Chardonay portfolio currently owned by Brown-Forman. Sonoma-Cutrer is a great fit for NAPA as it fills out a portion of their portfolio that was previously underserved, maintains extremely strong brands, aligns with their luxury footprint, and provides significant production resources. My understanding is that Brown-Forman wanted to focus on running their core spirits business but also maintain financial exposure to the luxury wine segment. As such, almost 90% of the purchase price is in the form of stock and Brown-Forman will receive 2 board seats at NAPA. I read this as a positive. Perhaps the best run spirits company is taking a large financial and governing position in what is relatively a small company (NAPA boasts a market cap of $1bn compared to Brown-Forman’s $27bn). While it is unfortunate that the company does not have a full-time CEO, they benefit from a proven interim operator in Dierdre Mahlan who formerly ran Diageo North America. Given the stability of the business, NAPA has time to choose the right individual for the long-term.

Ultimately, the stock should re-rate higher as earnings reaccelerate, they name a new CEO, and they close/integrate Sonoma-Contrare. Pro forma for the acquisition, NAPA is trading at about 8x EBITDA and 12x free cashflow. This is a significant discount to spirit and beer peers that boast double digit EBITDA multiples and high-teen free cash flow multiples.

Over the past 7.5 years the small-cap fund has gained 16.6% per year. +1.9% has come from the risk-free rate and +3.9% from the market (the Russell is up 9.0% during this period but our portfolio has had a beta of 0.43). The remaining +11.6% of returns have come from good stock picking.



I wish everyone a healthy, happy, and prosperous 2024.

Sincerely,

Aaron Sallen

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