July 2022

	Merion Road Small Cap Fund	IWM (Russell 2000)	Barclay Hedge Fund Index
Annualized Since Inception	**22.1%**	**8.0%**	**5.0%**
Q2 2022	**(6.0%)**	**(17.3%)**	**(7.2%)**
2022 YTD	**(2.8%)**	**(23.5%)**	**(9.9%)**
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	**9.1%**	**9.5%**
Q2 2022	**(20.5%)**	**(16.1%)**
2022 YTD	**(31.8%)**	**(20.0%)**
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 second quarter was challenging for our portfolios and the market as a whole. Equities moved lower as investors digested the impact of rising interest rates, the likelihood of a pending recession, and inflationary pressures. Of course, year to date losses are not enjoyable. During periods like this we must remind ourselves that the underlying fundamentals of our holdings is what matters, not the most recent price. Prospective long-term returns appear attractive as many high-quality businesses are trading at depressed levels. That is not to say that the market has found a bottom, as I have no idea when that will occur. But rather that many of our stocks should generate good returns when held through an economic cycle.

The Long Only portfolio was down a bit more than 20% during the quarter. Our largest holding, Alphabet ("GOOG"), was unsurprisingly the largest detractor for the period. GOOG needs no introduction as it likely touches all of our lives multiple times a day. The biggest risk to GOOG is their exposure to advertising budgets, a historically cyclical category spend. While GOOG was able to grow their topline during the 2008-2009 period, they did so by taking share from traditional media. Today digital advertising already accounts for ~65% of total US ad spend; therefore, the potential benefits from further share gains are likely to be outweighed by a shrinking pie. Obviously, this is very short term oriented and will be a footnote 5 or 10 years down the road. But even looking at near-term operating performance, it is possible that advertising might prove to be less cyclical than prior periods. With the growing presence of e-commerce and direct to consumer offerings, the "advertising as the new rent" argument makes sense to me.

While their cash cow (search) is an excellent business that would be hard to displace, other assets like Google Cloud and YouTube are deserving of even higher multiples. Furthermore, the company owns several assets that are under-monetized like maps, Android, and Waymo. Equally as important is the increasingly shareholder friendly posture of the company as exemplified by their improved financial disclosure, increasing share repurchases, and pending share split. At 19x trailing earnings ex. cash on the

balance sheet (but inclusive of losses incurred in the fast-growing cloud business as well as other "moon shots"), it is hard to think of a more attractive risk-adjusted return.

The Long Short portfolio was down 6.0% during the quarter and averaged a beta adjusted net exposure of 35%. We started off the quarter strong with the announced acquisition of Manning & Napier ("MN") for $12.85. I initially bought the stock back in April 2020 when it was trading around $3.00-$3.50 following the agreement to repurchase 75% of their outstanding shares from the former Chairman of the company. At that time the company was valued below its pro forma net asset value which largely consisted of cash on the balance sheet. Buying a company below cash value is not sufficient to generate a positive return in and of itself, as often times these are lower quality businesses with a questionable earnings profile. MN, on the other hand, is an established asset/wealth manager with nearly $20bn under management, highly profitable operations, and a revamped management team. This was truly a unique situation perhaps made possible by the magnitude of the share repurchase. We held our investment as valuation remained attractive especially considering the enhanced management team and improving fundamentals. The industry is ripe for consolidation and a buyout was always the icing on the cake.

After exiting MN, I started purchasing another sub-scale asset/wealth manager trading at an attractive valuation, Westwood Holdings ("WHG"). Fund flows are the primary determinate of the health of the business and an initial review of WHG did not paint a pretty picture (they experienced flows of -26%, -26%, and -18% for the 2018-2020 periods). Lost in consolidation, however, is the company's large and underperforming international business that skewed the numbers. WHG closed this division at the end of 2020 and reported positive flows of 6% the following year. Equally as important is profit margin. With assets shrinking from $25bn to $14bn, EBITDA margins had contracted from 32% to 11%. In April I bought a starter position in WHG as it was attractively priced in its current iteration with upside potential should margins revert to industry norms.

In May WHG announced the acquisition of Salient Partners, a $4.5bn manager with significant exposure to energy infrastructure and alternative investment products. I have since increased our position as the deal seems like a good one. Valuation is reasonable and this acquisition will go a long-way in getting WHG back to scale. Importantly, this is an asset acquisition and WHG will not assume their real estate portfolio (lease liabilities); similarly, WHG should be able to realize cost synergies in the C-suite and back office. Down the road there is a potential for WHG and Salient to leverage each other's distribution capabilities as WHG has historically focused on the RIA market whereas Salient has invested in wholesale relationships. In a presentation deck WHG stated that they expect "significantly greater than 100% Year 1 EPS accretion." WHG is currently trading around $12.50, has over $3.50 in cash on their balance sheet when adjusted for the acquisition, and should generate between $1.20-$1.50/sh in FCF depending on how the equity markets perform. Importantly, this earnings level still leaves room for margin improvement through incremental scale. And, of course there is always the potential for a larger player to acquire WHG; just last year Americana Partners offered to acquire WHG at $25/share (nearly 2x current levels).

Sincerely,

Aaron Sallen

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