July 2023

	Merion Road Small Cap Fund	IWM (Russell 2000)	Barclay Hedge Fund Index
Annualized Since Inception	**16.6%**	**8.6%**	**5.2%**
Q2 2023	**5.2%**	**5.3%**	**2.1%**
2023 YTD	**3.5%**	**8.1%**	**4.4%**
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	**11.6%**	**11.2%**
Q2 2023	**13.4%**	**8.7%**
2023 YTD	**29.2%**	**16.8%**
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 gained a bit over 13% during the second quarter bring the year to date returns to 29%. Valuations for the market and our portfolio have bounced back from a tough 2022. Given the fact that opportunity costs have increased (i.e. cash is now yielding ~4%) and I have a reduced sense of conviction in future earnings, I have generally been a net seller. While I still maintain a large position in many of the companies I have discussed previously, I have pared back on our holdings and our cash currently sits around 20%. I am constantly looking for new investments and would have no problem deploying the entire cash balance today should a new idea arise.

One new addition to the book has been Endeavor Group Holdings ("EDR"). EDR is a conglomerate of various entertainment assets led by legendary executive Ari Emanuel. Its properties include owned sports (primarily the UFC), events, and talent representation. Earlier this year EDR announced that it would merge the UFC with the WWE to form a new publicly traded company called TKO Group Holdings ("TKO"). From a business perspective this makes a ton of sense as EDR will assume management and control the vote with 51%. While Vince McMahan has created tremendous value at WWE, he has always been a polarizing figure and more recently has faced sexual misconduct allegations. With WWE television rights deals coming due next year it makes sense to bring a proven industry leader like Emanuel to the helm. Furthermore, EDR should have strong negotiating power by combining the WWE with the UFC, an increasing popular and mainstream sport.

Given that WWE is currently a publicly traded company, we already have a public mark on TKO. At 16x EBITDA TKO seems to be fairly priced, perhaps at a small discount. If you believe that the value of live sports will continue to grow, which I do, then this should be a nice investment over time. It still seems like early innings for UFC growth and there is the potential for EDR to improve monetization at WWE. For instance, Emanuel is on record saying that the rate card for SmackDown is 30% cheaper than the rest of the Friday night lineup.

Backing out the value of TKO, the remaining EDR business is currently trading at <5x EBITDA which seems entirely too cheap. Roughly 40% of EBITDA comes from their events business where they own, operate, or represent more than 800 events annually. This includes owned properties in sports (Miami Open, Madrid Open, Euroleague Basketball), fashion (New York Fashion Week), and art and collectibles (Frieze, Barrett-Jackson). They also serve as the manager for high-profile events like Wimbledon, the Super Bowl, the Olympics, the Premier League, and the Final Four. As consumers continue to place a premium on experiences this business should grow as well. Another 50% of their EBITDA comes from their ownership of William Morris Agency ("WME"), one of the largest talent representation businesses. In 2021 they represented clients in 8 of the 10 top box office grossing films, arranged 330 scripted series, closed 150 new book deals including 87 best sellers, and represented 3 of the 4 headliners at Lollapalooza. While growth has been spotty over the past 5 years, this is a high return on capital, industry leading business that should deserve a decent multiple. As I write this, reports have emerged that WME competitor, Creative Artists Agency, is in talks to sell itself for $7bn; while it is hard to say what this implies for WME, it highlights the value of this business.

A large reason for the depressed valuation of EDR is the fact that conglomerates typically trade at a discount to their sum of the parts. To EDR's credit they recently closed on the divestiture of IMG Academy and are using part of the proceeds to repurchase stock. The private equity firm Silver Lake is a large shareholder and understands how to unlock value after taking Dell through multiple stages, culminating with the spin-off their majority ownership in publicly traded VMWare. It is not unfeasible that a similar situation ensues here when TKO becomes eligible for a tax-free spin.

The Merion Road Small Cap Fund returned 5% during the second quarter. We benefitted from building a mid-sized position in Circor ("CIR") shortly before it announced that it would be acquired by KKR at a 55% premium. I owned CIR last year and had a poorly timed sale given macro-uncertainty and their outsized European exposure. Fortunately, I kept it on my radar and noticed that their financials proved more resilient than my expectations and their long-awaited sales process was gaining steam. I sold our stock after the initial deal announcement but repurchased some subsequently as a bidding war has emerged between KKR and Arcline. Though it seems like we may have seen the last offer, the door is still open for a competing bid and the cost for such optionality is low. Our position in the IT staffing company and data & analytics company, Mastech, sold off in April on no news and was our largest detractor. Their most recent quarter was disappointing, but not entirely unexpected given macro headwinds and their outsized exposure to the banking industry.

During the quarter I built a position in Distribution Solutions Group ("DSGR") ahead of their rights offering. In addition to exercising our basic subscription rights I put in for over-subscription and was pleasantly surprised to receive additional shares. DSGR is a specialty distribution platform formed when Lawson Products combined with two privately held entities, Gexpro Services and TestEquity in early 2022. Lawson is a North American industrial MRO distributor serving 80k customers across a range of industries including manufacturing, automotive, government/military, and construction. Lawson maintains cabinets at the customer location that they frequently restock with a myriad of low-ASP products. This allows their customer to reduce downtime and streamline product management. Gexpro is a global specialty distributor of highly specified products serving manufacturers in various markets including renewables, power generation, aerospace/defense, and consumer/industrial. Lastly TestEquity is a global distributor of electronic production supplies and test and measurement solutions into aerospace/defense, industrial electronics, semiconductor production, and wireless communication. In aggregate these can be described as low churn, highly recurring business models.

While DSGR is organized as a platform company with the three entities retaining prior leadership, they have a strong a focus on leveraging the benefits of the three entities. This includes things like corporate synergies in IT and insurance, leadership incentives for cross-selling, and enhanced go to market strategies. Since they closed the merger, DSGR has grown revenue organically at a mid-teens rate and consolidated EBITDA margins have expanded nicely. Importantly, DSGR has a fully built-out M&A team with a disciplined investment framework around risk and returns and a developed pipeline. Management is fully aligned with shareholders as they own 10% of the company, while the former owner of Gexpro and TestEquity, Luther King Capital Management ("LKCM") owns another 65%. LKCM has significant experience investing in distribution companies and brings financial expertise to the table.

In March of this year DSGR announced that they would acquire Hisco and merge it with TestEquity. Hisco is a mission-critical distributor that serves electronic assembly, aerospace/defense, medical and other industrial customers with things like adhesives/sealants/tapes, soldering, and cleaning supplies. While Hisco's product mix differs from TestEquity, there is alignment on the industries they serve and their supplier base. This should enhance their customer value proposition and provide for cross-selling opportunities. Operationally the two companies have meaningful overlap and there is the opportunity for consolidation. Furthermore, Hisco's Mexican footprint will benefit TestEquity in supporting nearshoring trends. DSGR made this acquisition at a stated EBITDA multiple of just 9.4x with the potential to bring it down to mid-7x when accounting for synergies. It was funded it with debt as well as cash raised from the aforementioned rights offering. LKCM exercised their subscription rights and put in for over-subscription as well.

DSGR is currently trading around 9x pro forma EBITDA. This seems like a reasonable valuation for a company with a strong management team and board of director's executing a thoughtful acquisition plan in a fragmented industry.

Sincerely,

Aaron Sallen

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