October 15, 2024

Q3 2024 INVESTOR UPDATE

At our 8-year anniversary we thought we 'd note a milestone or two of interest. Over the past year we entered into two new sub-advisory agreements with fast growing wealth managers – one in Florida and one right here in San Diego. We're excited to be partnering with like-minded investors who appreciate our unique approach, and the investment results it continues to produce. As each year passes, we bring better closure to the question of whether our returns have merely been an anomaly, or the direct result of a mindset that grows increasingly unusual despite its rational simplicity. We've spent the past 8 years focused solely on delivering reliable income and compounding at historically attractive rates, yet continue to radically outperform across *all three* of our core investment strategies: Municipal Bond, Taxable Fixed Income, and Value Equity.

EQUITIES

Equity+ accounts gained ~16.2% since the start of 2024. As always, we encourage you to ignore our short-term performance, no matter how good (or bad). To distinguish between true talent and mere coincidence, a good rule of the thumb is the longer the time frame, the more meaningful the data. From our inception eight years ago, your portfolios have appreciated almost 3.5x, or ~16.3% annually, net of fees. I'm proud to say our results have far surpassed our expectations since starting the firm.

During the quarter, there were a few transactions in your portfolio:

(1) We sold our long-term holding in McKesson. This was a very successful investment—a 4 bagger—that generated an annualized gain of ~25% over our holding period. We sold as the market price far surpassed the economic reality of the business and we saw a better risk/reward proposition in cash.

(2) We also bought shares in two very high-quality businesses: McGrath Rent and Willscot MobileMini. Both manufacture portable storage containers and mobile workspace solutions. These companies are recurring cash flow machines, have pricing power, and a profitable growth runway tied to infrastructure projects and reshoring supply chains in the U.S. We pounced on them when the markets were volatile in early August and expect to earn long-term returns in the double digits.

<u>Other thoughts:</u> I try to avoid commenting on market trends, so I will confine my observations

to this: The world feels risky. Asset prices are high.

For now, most people don't seem to be paying attention, but this won't last forever. At some point, the complacency will wear off and investor's focus will return to the compelling risk/reward imbalance associated with owning classic underpriced cash flows. We will do quite well when this plays out, and if history is a guide, someone will slip and sell us something at an attractive price along the way. It happens more often than you'd think.

-Joe Di Scala, CFA

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FIXED INCOME

After operating through one of the most difficult interest rate environments in close to 100 years, it's a pleasure to be operating in one in which current rates offer an attractive if not spectacular return. Apropos of Joe's comments above, money market rates in the vicinity of 5% provide plenty of latitude for us to wait patiently for attractive opportunities, as well as the ability to act quickly when they do arise.

Income+ as of 9/30/24:

Cash Yield:	5.6%
Avg. maturity/float:	2.1 years
% Discount to par:	6.4%

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US Treasury 10 Year Yield: 3.8%

Muni+ as of 9/30/24:

Cash Yield:	4.7%
Avg. maturity/float:	2.8 years
Discount to par:	4.0%

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Bloomberg AAA 5yr Muni Yield: 2.5%

-Arch Peregoff