13D Activist Fund

A Qualitatively Analyzed Portfolio of Activism

July 16, 2024

Class I YTD Net Return: -4.03% Russell 2000 YTD: 1.73% AUM: $139 million

In the second quarter of 2024, the I shares (DDDIX) returned -8.08%, net of fees and expenses (versus -3.28% for the Russell 2000)[1,2,3]. This was a very disappointing quarter in both absolute and relative terms. On an absolute basis, it has made us take a deep look at our portfolio and pare it down to a more concentrated portfolio of 24 positions where we have strong conviction in the activist catalyst (versus 28 positions last quarter) and we believe going forward the number of positions in the portfolio will remain in the low 20s. Our analysis has shown that cutting the losers earlier and focusing on the winners and the newer campaigns should generate more alpha. On a relative basis it has made us realize how irrelevant benchmarks can be in the short-term, particularly in a large cap, tech-fueled market for a SMid-cap value fund. And it is even hard to find large cap winners this year. There is a record low for the percentage of S&P 500 stocks that are outperforming the S&P500 this year – just over 20%. Unless you hold a handful of top large cap tech stocks, you will have a hard time outperforming the market this year. It is for this reason that some activist hedge funds are doing away with benchmarks all together.

Fund Performance[(1)(2)]	QTD	YTD	1 Year	3 Year	5 Year	10 Year	ITD
13D Activist Fund (DDDIX)	**-8.08%**	**-4.03%**	**1.67%**	**-4.10%**	**6.42%**	**6.45%**	**10.44%**
Russell 2000 TR	-3.28%	1.73%	10.06%	-2.58%	6.94%	7.00%	10.03%
Russell 2500 TR	-4.27%	2.35%	10.47%	-0.29%	8.31%	7.99%	11.07%

Calendar Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
13D Activist Fund (DDDIX)	21.25%	36.57%	15.47%	-10.92%	19.57%	23.75%	-13.48%	27.15%	18.92%	19.52%	-17.51%	10.85%
Russell 2000 TR	16.35%	38.82%	4.89%	-4.41%	21.31%	14.65%	-11.01%	25.53%	19.96%	14.82%	-20.40%	16.93%
Russell 2500 TR	17.88%	36.80%	7.07%	-2.90%	17.59%	16.81%	-10.00%	27.77%	19.99%	18.18%	-18.37%	17.42%

Past performance does not guarantee future results. The fund performance data quoted here represents past performance. Current performance may be lower or higher than the performance data quoted above. Investment return and principal value will fluctuate, so that shares, when redeemed, may be worth more or less than their original cost. There is no guarantee that any investment strategy will achieve its objectives, generate profits or avoid losses. For the most recent month end performance information, visit www.13DActivistFund.com or call 1-877-413-3228.

As someone with high standards and with a vast amount of my own investable income in the fund, I would like to have positive returns that outperform the market every year and every quarter. But, I know that is unrealistic.

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[1] Data is presented through 6/30/2024, unless otherwise stated. Returns are shown for the Fund's Class I share class (DDDIX) net of the Total Expense Ratio of 1.51%. Inception to date (ITD) returns are calculated on an annualized basis using daily performance. All returns include dividend and capital gain distributions. The Total Expense Ratio represents the expense ratio applicable to investors and is comprised of 13D's management fee, indirect expenses such as the costs of investing in underlying funds and other expenses as noted in the Fund's Prospectus. There is neither a front-end load nor a deferred sales charge for DDDIX. Please see the Fund's Prospectus.

[2] Indices are provided for general comparison purposes only and may include holdings that are substantially different than investments held by the Fund and do not reflect the strategy of the Fund. Comparisons to indices have limitations because indices have risk profiles, volatility, asset composition and other material characteristics that may differ from the Fund. The indices do not reflect the deduction of fees or expenses. Performance of equity indices reflects the reinvestment of dividends. Indices are unmanaged and investors cannot invest in an index.

[3] The Fund has switched from the Russell 2500 benchmark to the Russell 2000 because we believe it is more correlated to our portfolio and because it is the benchmark used by most of the activist funds we follow.

No fund outperforms through every part of every cycle. While we have outperformed through inception, our recent underperformance does not feel good at all. I was conveying this feeling to a client recently, who responded that he believes that if you do not have underperforming funds in your portfolio, you are not diversified enough. He went on to explain that despite the present challenging environment for SMid-cap stocks, he wants to have SMid-cap value in his portfolio when the cycle changes and as a believer in activism he likes having a catalyst oriented SMid-cap in his portfolio. Neither he nor I know exactly when the cycle will change, but it certainly is well past time for SMid-cap to rebound. Midcaps have underperformed large caps for six of the past eight years. In the decade prior to that, midcaps had outperformed large caps eight out of the ten years[4]. Furthermore, small cap stocks have even a wider disparity of underperformance verse large cap stocks. Small cap weightings in the Russell 3000 are at a 20 year low, and so are their relative valuations verse large caps.

As I said, during the second quarter, we began the process of rationalizing our portfolio to a smaller number of stocks with strong conviction. Accordingly, we exited seven positions (more on that below) while adding the following three new positions: Twilio Inc. (TWLO), Match Group Inc. (MTCH) and Vestis Corp. (VSTS).

Twilio, Inc.

This is an activist campaign of Sachem Head Capital Management. On March 30, 2024, Sachem Head and Twilio Inc. entered into a Cooperation Agreement, pursuant to which the Company appointed Andy J. Stafman (Partner at Sachem Head Capital Management) to the Board. Twilio is comprised of two main business segments – Twilio Communications, which accounts for approximately 90% of revenue, and Twilio Segment, which accounts for 10% of revenue. The Company is considered to be the industry gold standard for communications infrastructure, providing messaging, voice, and email solutions to their customers.

Twilio went public in June of 2016 with $65 million of sales and a $15 share price. Over the next five years it was a hyper-growth stock in a market that has put a premium on growth stocks more than any other market possibly in history. It was growing at 50%+ annually through 2021 when it had revenue of $2.8 billion and a stock price as high as $443.49. After 2021, the revenue growth started slowing to 8.5% today and estimated 5-10% in the coming years; and as much as a growth market rewards hyper-growth stocks, it punishes growth companies when revenue growth slows. So, with $4.2 billion of revenue today, the Company's stock price is down to $58.84 per share. Down 87% from its highs even though it is still growing the top line at 8.5% per year.

The bigger problem is that despite the level of revenue, even at $4.2 billion, the Company has never even come close to being profitable. That is ok, if you are a hyper-growth company, but if you just have normal growth, you better show profitability if you want to attract investors. Part of this problem is the inordinate amount of stock-based compensation the Company pays - $676 million in 2023 (leading to an operating loss of $877 million). This has partly been the cause of the Company's share count doubling since 2017 from approximately 90 million shares to 180 million shares. But there are several signs that the Company has been heading in the right direction even prior to Sachem Head's appointment to the board. Stock-based compensation has declined in 2023 by 15.4%, and the Company has substantially reduced its headcount, cutting employees by 18% in the past year from 8,156 in 2022 to 5,867 in 2023. More importantly, Twilio's co-founder and former CEO Jeff Lawson resigned in January 2024 and was replaced by former CFO and COO, Khozema Shipchandler. This is not meant to denigrate Jeff Lawson - he is truly a visionary entrepreneur and technologist who created an incredible product and company, but he is not the best person to be CEO at this juncture. What the Company needs, and has gotten, is a more financially minded operating executive to continue to rein in expenses and bring the Company to profitability. Finally, in March 2024, shortly after the CEO transition, the Company announced an additional $2 billion share repurchase authorization that it is targeting to complete during FY 2024 and the completion of an operational review of its underperforming Segment business in which management committed to right-size costs and replaced the President of Segment.

The primary value creator here will be margin improvement. The Company's nearest publicly traded peer Sinch AB, a smaller and lower quality business built through M&A of even smaller Twilio competitors, has generated

[4] This is comparing the S&P Midcap 400 Index to the S&P 500.

positive operating profits and net income for several years with negligible to no stock-based compensation. Twilio should be able to do even better. While the Company has demonstrated good intent and is doing a lot of the right things already, there is still plenty of upside potential for them on further margin expansion and reduction in stock-based compensation.
This is a situation where the activist and management are like minded, which led to a quick and quiet settlement rather than a public proxy fight. It is always a great start to an activist engagement when the activist goes on the Board to help management execute on a plan they all agree on, as opposed to convincing management that the activist's plan is better. We believe Stafman will be a valuable asset to the Company in overseeing their margin expansion and other plans but also expect that he will hold management accountable if they fail to do so. Additionally, we think there is a strong possibility that Twilio gets their top line growth up as well. Gardner and IDC still project an industry growth rate in the mid to high teens, and as the market leader Twilio should be at the high end of the range.

Finally, Sachem Head is not the only activist actively engaged with Twilio. Legion Partners and Anson Funds (who hired Sagar Gupta, former Senior Analyst and head of TMT investing at Legion Partners, in October of 2023) both have activist campaigns here. Both funds have been calling for the divestiture of Segment, one of the Company's business units. On March 5, 2024, the Company announced that it concluded an operational review of Segment and have decided not to divest Segment and, in connection therewith appointed Thomas Wyatt as president of Segment, where he formerly served as chief product and strategy officer.

Match Group Inc.

Match Group Inc. is an investment by Elliott Investment Management. Match Group is by far the global leader in online dating apps with over 45 brands, the most notable of which are Tinder and Hinge. Tinder is the most downloaded dating app in the world and accounts for over half of the Company's revenue at approximately $1.9 billion and has over 50% EBITDA margins, but lackluster growth. Hinge accounts for $400 million of the Company's revenue but has been growing at over 100% per year. This is a market leading company with an amazing financial profile – growing top line, high EBITDA margins and asset light generating revenue through a subscription model. However, their stock price performance compared to both peers and the broader market has been abysmal, with the stock down over 60% since the Company's separation from IAC Inc. in July of 2020.

The opportunity here is to get growth back up – it has gone from a 35% CAGR to high single digits; and get margins well above 40% - currently at 36%. The main problem here is oversight, primarily in the form of management turnover. Match Group (the holding company) has had four CEOs in six years, and Tinder, the largest business, has had six CEOs in eight years. With the median tenure of a Tinder CEO at one year, it makes it nearly impossible to implement a long-term strategic plan. Moreover, the Company has also done some bad strategic deals, including their June 2021 acquisition of Hyperconnect at the top of the market in a deal valued at $1.73 billion, which has already incurred $270 million of impairment charges. So, investors have many doubts about the Company, including: is this the right leadership team, is Match a growth or value company and is Tinder a melting ice cube?

The first thing that needs to be done is getting the right CEO at Tinder to set a decisive long-term vision for the Company. This happened contemporaneously with Elliott's campaign – on January 9, 2024, Faye Iosotaluno became Tinder's CEO after serving as the company's COO since August 2022. With the right leader at the helm of Tinder, a margin restoration should require no more than basic blocking and tackling, particularly since the Company has very stable and competent CFO in Gary Swindler who has been there for 8.5 years. Next, they can regain their strong growth with more investing in certain demographics or monetization opportunities around pricing and bundling. This is a lot like the situation Elliot saw at Pinterest – declining user base (like Tinder) and monetization opportunities to pursue. Elliott announced its Pinterest investment in July of 2022, went on the board in December of 2022 and has had a 140% return there versus 24% for the Russell 2000.

Since Elliott engaged at Match, another activist, Anson Funds, launched an activist campaign there. Anson sees value in the Company's platform approach should, which should allow it to reduce its customer acquisition cost (CAC) relative to customer lifetime value (LTV) by cross selling among its apps. There is also a tremendous opportunity for technological improvement through the use of AI on both the front-end and back-end of Match's

apps. Match certainly recognizes how these opportunities could lead to increased revenue and better margins. Accordingly, management already expects savings of $60-$70 million leading to improving the margins of Tinder from 50% to 55% and the Company as a whole from the low 30s to at least 40%.

From an activist perspective, Anson sees several levers that could be pulled to add value. First, the Company could create shareholder value through a portfolio review. MTCH has a valuable portfolio of dating apps, but cannot focus the necessary attention on all of them. The ones that are not growing, not profitable and somewhat neglected could be much more valuable in a joint venture or in the hands of someone else who may have geographical or strategic synergies with the app. Second, the Company could certainly improve investor communications - since their separation from IAC in July of 2020, the Company has not held a single investor day, which is not encouraging to the shareholder community. Finally, the Company should improve its corporate governance. De-staggering the board is an easy improvement, but more value would be attained through a board reconstitution. Despite being divested by IAC almost four years ago, six of the ten current board members are or formerly were affiliated with IAC. Removing some or all of them and replacing them with directors with AI-experience, public Company CEOs who are experienced with investor communication and/or a shareholder representative would go a long way to restoring investor confidence and having a board who could effectively oversee operations and capital allocation.

Finally, while not at the forefront of anyone's campaign, there may also be a strategic opportunity. Match has 70 million users, revenue of $3.36 billion, EBITDA of over $1 billion and only a market cap of $9 billion. There are not a lot of companies like that out there.

On March 25, 2024, the Company came to an agreement with Elliott pursuant to which Laura Jones (Chief Marketing Officer of Instacart) and Spencer Rascoff (co-Founder and former CEO of Zillow) were added to the Board and the Company entered into an information-sharing agreement with Elliott to facilitate ongoing collaboration toward the Board's goal of driving shareholder value. More recently, on July 16, Starboard Value announced they had a position in Match and was pushing for margin improvement or a sale of the Company.

Vestis Corp.

Vestis Corp. is an investment by Corvex Management. Vestis is the uniform rentals and workplace supplies business spun off from Aramark in September of 2023. It generates a vast majority of its revenue from its recurring rental business in the United States. In their September 2023 Analyst Day, the new company sought to wow the market, promising 5-7% organic revenue CAGR and 18-20% adjusted EBITDA margins on a five-year time horizon. They got off on the right foot, reporting strong year-end earnings in November.

However, the party ended quickly last week when the Company reported its Q2 '24 earnings, citing issues related to pricing and customer retention which led to a downward revision to the Company's 2024 revenue growth and adjusted EBITDA margin outlook. The stock plummeted 45% on the news and is still trading 38% below its pre-reporting price. Apparently, the Company had been very aggressive on pricing in pursuit of their Analyst Day goals leading to a Q4 '23 customer retention decline from the low nineties to 85.8%. While this has since recovered back to the low nineties, the fact that it was not disclosed sooner is certainly part of the reason for the huge stock drop.

Corvex acquired approximately 25% of its position at prices as high as $19.39 per share prior to the stock falling, and really accelerated its purchases in the aftermath of the Q2 '24 results. If they thought that the Company was undervalued at $19 per share, they must be loving it at $10 per share, particularly since the retention issue that was the primary cause of the decline has been fixed. What has not been completely remedied is the communication issue and the loss of investor confidence because of that. That is where an investor like Corvex could be incredibly helpful.

As a business that was run for many years as a non-core part of Aramark, this business did not get the focus that its pure play peers would get. Now, as a standalone company, the Board and management team are comprised of some talented and experienced operators. Chairman Phillip Holloman is the former President & COO of Cintas and director Tracy Jokinen was the CFO of G&K Services, a uniform services company that was acquired by

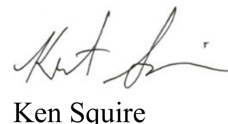
Cintas in 2017. In the uniform rental and workplace supplies space, Cintas is the gold standard. For a Company and industry not many think much about, Cintas has delivered a total shareholder return of over 1,200% in the past decade and has a market capitalization of $70 billion. Presently, Cintas has just over three times the revenue of Vestis and just over six times the EBITDA, but almost 25 times the enterprise value. The goal here would be to make Vestis into Cintas, but just getting halfway there would be incredible for shareholders and Chairman Holloman is uniquely positioned to deliver on that.

Corvex Management does not take activist positions to be operators or micro-managers of the day-to-day. And thankfully that is not what is needed here with this board and management team. But where Corvex does excel is exactly where the Company is lacking – market communication and capital allocation. These are issues that a lot of companies have, but particularly newer companies that have not been public very long. Simply put, Corvex thinks and acts like an owner in the public markets and would be a great partner with this management team in making Vestis the best public company they can be.

This is not an opportunistic, short-term investment for Corvex. By going over 10% they are signaling that they are in this for the long-term. They went into this wanting a seat on the board and just over a month later, on June 18, Keith Meister (Founder, Managing Partner and CIO of Corvex) was appointed to the Company's Board. This is truly a collaborative, symbiotic effort where all sides roll up their sleeves and work together at what each does best to create value for shareholders.

During the quarter, we exited Illumina, Inc. (Icahn), Dana Incorporated (Icahn), Dollar Tree Inc. (Mantle Ridge), Elanco (Ancora), GoDaddy Inc. (Starboard), Ironwood Pharmaceuticals, Inc. (Sarissa) and US Foods (Sachem Head). We exited GoDaddy when the activist reduced its position and exited its 13D filing and US Foods after the activist resigned from the Board. Both were good investments for the Fund. We exited Elanco, Illumina, Dana, Dollar Tree and Ironwood as part of our portfolio rationalization analysis because the catalyst either got weaker or was not working after a significant amount of time. While it is only a small amount of time, all five positions continued to decline after we sold our position.

We appreciate your support and please feel free to call with any questions.



Ken Squire

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Glossary. The **Russell 2500 TR Index** is a broad index, featuring 2,500 stocks that cover the small- and mid-cap market capitalizations. The Russell 2500 is a market cap-weighted index that includes the smallest 2,500 companies covered in the Russell 3000 universe of United States-based listed equities. The **Russell 2000 Index** measures the performance of the small-cap segment of the US equity universe and is a constructed to provide a comprehensive and unbiased small-cap barometer by being completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. **CapEx** stands for Capital Expenditures. **EBITDA**, or earnings before interest, taxes, depreciation, and amortization, is a measure of a company's overall financial performance and is used as an alternative to net income. **Fed** refers to the US Federal Reserve System. **FTC** stands for Federal Trade Commission. **M&A** stands for Mergers & Acquisitions. **S&P 500** Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. The S&P is a float-weighted index, meaning company market capitalizations are adjusted by the number of shares available for public trading. **SG&A** refers to Selling, General and Administrative Expenses.

Top 10 Holdings as of 6/30/2024: 1) Insight Enterprises, Inc. 7.4%; 2) Frontier Communications Parent Inc. 7.3%; 3) Southwest Gas Holdings, Inc. 6.5%; 4) Exelixis, Inc. 5.7%; 5) Twilio, Inc. 5.5%; 6) MDU Resources Group 5.3%; 7) Etsy, Inc. 4.9%; 8) Asbury Automotive Group 4.8%; 9) Vestis Corp. 4.7%; 10) Azenta, Inc. 4.7%. Allocations should not be viewed as predictive composition of the Fund's portfolio, which may change at any time.

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