# 13D Activist Fund

*A Qualitatively Analyzed Portfolio of Activism*

October 23, 2024

Class I YTD Net Return: 0.92% Russell 2000 YTD: 11.17% AUM: $140 million

In the third quarter of 2024, the I shares (DDDIX) returned 5.16%, net of fees and expenses (versus 9.27% for the Russell 2000)[i,ii,iii]. We were happy to see a good absolute return for the quarter despite failing to keep up with the Russell 2000 benchmark. This frustrates us but does not discourage us. We include a benchmark in our materials because FINRA and financial reporting customs mandate we do, but we believe benchmarks, particularly in the short term, have been rendered somewhat meaningless in markets like we are experiencing. Over the past two years, it has been virtually impossible for a SMID value fund to keep up with the Russell 2000 when a handful of AI-related tech stocks have such an outsized impact on the index. As a result, over the past three years, the Russell 2000 has returned 5.6% cumulatively, but the equal weighted Russell 2000 index has lost 5.4% cumulatively over the same period.

Coming into 2023, we had outperformed the Russell 2000 four of the past six years and the two years we failed to, we were within 250 basis points of the benchmark. Coming into 2023, we had been outperforming the Russell 2000 since our inception by 179 basis points annually after all fees and expenses. Year to date the fund is up 92 basis points and the Russell 2000 is up 11.17%. Despite this, we are still outperforming the Russell 2000 since inception. We do not think this phenomenon can last and we are already seeing signs of the markets regaining their interest in value stocks and shareholder activism. I was not running a fund in the year 2000, but I imagine value fund managers had a similar frustration as internet stocks continued to rise with little regard to fundamentals and intrinsic value. We believe we have a strategy that works and think that the long-term risk/reward proposition for value stocks with a catalyst versus growth stocks at today's entry point has never been stronger.

| Fund Performance[(i)(ii)(iii)] | QTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year | ITD |
|---|---|---|---|---|---|---|---|
| **13D Activist Fund (DDDIX)** | **5.16%** | **0.92%** | **16.82%** | **-1.87%** | **7.87%** | **7.39%** | **10.66%** |
| Russell 2000 TR | 9.27% | 11.17% | 26.76% | 184% | 9.39% | 8.78% | 10.59% |
| Russell 2500 TR | 8.75% | 11.30% | 26.17% | 3.47% | 10.43% | 9.50% | 11.57% |

| 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% |

**Performance as of 9/30/2024. The Inception Date of the Fund is Dec. 28, 2011. 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.**

We just had our annual activist conference on October 22, and it was as vibrant and exciting as we have ever seen. We had activists from Starboard Value, Elliott Management, Sachem Head, Impactive Capital and JANA Partners, to name a few, present investment ideas. But our favorite presentation was from Keith Meister, the founder of Corvex Management. In the past, he had presented on companies like Kindred Group, Exelon Corporation and Energen Corp. This year, without a new activist engagement he liked, his pitch was "Follow Other Activists." He said that he likes this because "you have a very smart investor who has probably done a lot of work, who is aligned, who owns a very large stake, and who probably de-risked the situation because they are doing the work for you and inside the board room." He went on to say that "this market today is so focused on what is working, the momentum stocks, things tied to the right themes" that it creates a "huge opportunity right now investing in high quality businesses on the right side of change with active shareholders who have been successful in getting a lot of change to be implemented and we are waiting to see the benefits." He then said that the three last things he bought that he is most excited about are stocks where other activists are doing the work and he is just following them. He then pitched Illumina (Icahn), Dollar Tree (Mantle Ridge) and Fortrea (Starboard).

As I said in our last letter, we have been rationalizing our portfolio to a smaller number of stocks with strong conviction by focusing on efficacy of catalysts. Accordingly, we exited three positions (more on that below) while adding one new position: Bausch & Lomb Corp. (BLCO).

*Bausch & Lomb Corp.*

This is an activist campaign of Carl Icahn. On February 11, 2021, Carl Icahn filed a 13D on Bausch Health Companies Inc. ("BHC") stating that he intends to engage in discussions with the Company's management and Board regarding ways to enhance shareholder value, including the Company's ongoing strategic review, and such discussions may also include possible board representation. On February 23, 2021, Icahn and the Company entered into a Director Appointment and Nomination Agreement, pursuant to which the Company agreed to increase the size of the Board from eleven to thirteen directors and appoint Brett Icahn and Steven Miller, both Icahn portfolio managers, as directors.

In May of 2022, BHC spun off Bausch & Lomb Corp. ("BLCO") as a separate publicly traded entity but retained an 88% ownership. On September 14 it was reported that BLCO has retained Goldman Sachs to explore a sale of the Company. At the time BLCO had an enterprise value of $9.9 billion, but this value is depressed by various factors including its control ownership by BHC and the large amount of debt on the BHC consolidated balance sheet – $20.4 billion, of which $4.6 billion is BLCO debt that is consolidated at BHC. As a result, a sale of control to a new entity would solve both of these issues and likely garner a much higher value than BLCO presently trades at, greatly benefitting BLCO stockholders of which BHC is the largest.

BLCO's estimated 2025 EBITDA is $966 million. Peers like Cooper and Alcon trade at a 19.5x and 18.5x EV/EBITDA multiple, respectively. Assuming an average multiple for BLCO of 19x yields an enterprise value of $18.35 billion. With $4.35 billion of net debt on the BLCO balance sheet, the implied equity value would be $14 billion. With 351.9 million shares outstanding, that is per share equity price of $39.79. While some of BLCO's business trades at lower multiples than the eye care business, even assuming a blended 15x multiple would yield an approximate $29 stock price. BLCO presently trades at $19.96 per share.

Every article you read about reported M&A announcements or explorations will include the phrase "the sale process may not result in a transaction" and this situation is no different. However, with four of ten directors at BHC being hedge fund portfolio managers and three of ten at BLCO (Brett Icahn, Icahn portfolio Manager Gary Hu and John Paulson), these boards do not think like your typical corporate board. Moreover, BLCO CEO Brent Saunders is a highly respected healthcare CEO, but also a noted dealmaker and would likely not show the resistance normally seen from CEOs of companies being sold.

Since we took our position, it was reported that TPG and Blackstone were the front runner to jointly bid for BLCO, with the Company potentially being valued at an enterprise value of $13 to $14 billion. Formal bids are expected as early as the end of October.

During the quarter, we exited Algonquin Power & Utilities Corp. (Starboard), Amarin Corporation (Sarissa) and Bloomin' Brands (Starboard). We exited all three of the positions as part of our portfolio rationalization despite the activists staying invested. Since we sold, Algonquin is down 8.9%; Amarin is down 21.1%; and Bloomin' is down 7.3%.

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

Ken Squire

**Important Disclaimer Information**

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The views expressed in this update are as of the date of this letter. These views and any portfolio holdings discussed in this update are subject to change at any time based on market or other conditions. The Fund disclaims any duty to update these views, which may not be relied upon as investment advice. The Fund's portfolio holdings are subject to change; there is no assurance that any of the securities discussed herein will remain in the Fund's portfolio at the time of receipt of this letter. In addition, references to specific companies' securities should not be regarded as investment recommendations or indicative of the Fund's portfolio as a whole. **References to certain specific companies' securities, revenue and operations is obtained from unaffiliated third parties and is subject to subsequent adjustments. 13D makes no assurances as to the accuracy or completeness thereof.**

**No Assurance of Investment Return and Important Risks:** In considering any investment performance information contained in the Materials, prospective investors should bear in mind that past or estimated performance is not necessarily indicative of future results and there can be no assurance that a Fund will achieve comparable results, implement its investment strategy, achieve its objectives or avoid substantial losses or that any expected returns will be met. Mutual Fund investing involves risk including loss of principal. There can be no guarantee that any strategy will be successful. Overall stock market risks will affect the value of individual instruments in which the Fund invests. Factors such as economic growth, market conditions, interest rate levels, and political events affect the U.S. securities markets. When the value of the Fund's investments goes down, your investment in the Fund decreases in value and you could lose money. The Fund is a non-diversified investment company, which makes the value of the Fund's shares more susceptible to certain risks than shares of a diversified investment company. The Fund has a greater potential to realize losses upon the occurrence of adverse events affecting a particular issuer. The value of small or medium capitalization company stocks may be subject to more abrupt or erratic market movements than those of larger, more established companies or the market averages in general. An investor should also consider the Fund's investment objective, charges, expenses, and risk carefully before investing.

**Index Comparison:** Historical performance results for investment indices have been provided for general comparison purposes only. Indices may include holdings that are substantially different than investments held by the Fund and do not reflect the strategy of the Fund. It should not be assumed that your account holdings correspond directly to any comparative indices. 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 or category. Index data is obtained from unaffiliated third parties and is subject to subsequent adjustments. 13D makes no assurances as to the accuracy or completeness thereof.

**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. **AI** refers to artificial intelligence. **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. **EV** refers to Enterprise Value. **FINRA** refers to the Financial Industry Regulatory Authority. **M&A** stands for Mergers & Acquisitions. **SMID** refers to stocks that fall between small-cap and mid-cap categories based on market capitalization.

**Top 10 Holdings as of 9/30/2024:** 1) Frontier Communications. 9.9%; 2) Insight Enterprises 8%; 3) Southwest Gas Holdings, Inc. 6.8%; 4) Exelixis, Inc. 6.5%; 5) MDU Resources, 5.8%; 6) Vestis Corp, 5.8%; 7) Asbury Automotive Group, 5%; 8) Janus Henderson Group, 5%; 9) Pearson PLC, 4.9%; 10) Twilio Inc. 4.4%. Allocations should not be viewed as predictive composition of the Fund's portfolio, which may change at any time.

The foregoing information has not been provided in a fiduciary capacity under ERISA, and it is not intended to be, and should not be considered as, impartial investment advice.

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[i] Data is presented through 9/30/2024, 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.

[ii] 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.

[iii] 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.