13D Activist Fund

A Qualitatively Analyzed Portfolio of Activism

April 15, 2024

Class I YTD Net Return: 4.40%   Russell 2000 YTD: 5.18%   AUM: $170 million

In the first quarter of 2024, the I shares (DDDIX) returned 4.40%, net of fees and expenses (versus 5.18% for the Russell 2000)[1,2,3]. This was an understandable beginning of a year where the market still seems to be tied to Fed moves and an economy that cannot make up its mind as to whether it is shrinking or growing. The level of uncertainty in the market is causing sideways movements over a period of months that we believe will only end when the Fed makes its next move. Like almost everyone in the market, we expect that move to be down and we want to be fully invested on that day and thereafter.

Fund Performance[(1)(2)(3)]	QTD	YTD	1 Year	3 Year	5 Year	10 Year	ITD
13D Activist Fund (DDDIX)	**4.40%**	**4.40%**	**10.25%**	**0.72%**	**8.47%**	**8.04%**	**11.42%**
Russell 2000 TR	5.18%	5.18%	19.71%	-0.10%	8.10%	7.58%	10.55%
Russell 2500 TR	6.92%	6.92%	21.43%	2.97%	9.90%	8.84%	11.70%

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.

U.S. Activism continues to increase in the markets with 31 new campaigns in the first quarter, versus 23 last year (three of which were at Salesforce). While there were many interesting engagements to consider, some of which have been added to the portfolio and will be discussed later in this letter, we want to talk about one situation that we did not invest in, but was the only thing anyone has really been talking about in the activist world – Trian's engagement at Disney. While the media has framed this as a win for Disney and a loss for Trian, this has always been an uphill battle for Trian – fighting a proxy fight at Disney that was anti-Bob Iger. From the very beginning of the campaign, we steadily maintained two positions in our writings and my appearances on CNBC (**Ken Squire's CNBC Appearances**) – we think Nelson Peltz should get a board seat and we think he will not get one.

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[1] Data is presented through 3/31/2024, 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.

Trian had to run a perfect fight to have won, and they did not. They should have never nominated a second person, they should have distanced themselves publicly from Ike Perlmutter and they should not have made this about Bob Iger. Most people who supported the Company could not have even told you who Nelson Peltz was running against – it was not Bob Iger; it was Maria Elena Lagomasino, a director with little relevant experience who had been on the board for nine years.

The last thing I will say about the Disney fight is to add a little perspective to it. Every year in the United States, 98% of public companies nominate a slate of directors who go unopposed and are elected to the board as a mere formality. And that is ok for a vast majority of companies as shareholders generally do not have the resources, inclination and/or need to nominate opposing directors. But, very rarely (less than 2% of the time) a shareholder feels the need to nominate one or two (sometimes more) opposing directors just that year to give other shareholders who might feel like them an opportunity to elect someone new to the Board. Shareholders then vote in a democratic process and elect the board the shareholders want. The activist shareholder pays all of the costs and expenses of the nomination and solicitation on behalf of all shareholders and is only rewarded with an increase in stock price. Yet he is not commended for this, but often stigmatized or in some cases like in the Trian/Disney campaign referred to by media commentators as a "villain." The point being there are no villains here. This is a democratic process that is missing or not as developed in other countries and we should applaud shareholders who use it when they believe it is required.

During the fourth quarter, we added four new positions: Elanco Animal Health, Inc. (ELAN). Etsy Inc. (ETSY), Illumina Inc. (ILMN) and PENN Entertainment Inc. (PENN).

Elanco Animal Health, Inc.

This is an activist campaign of Ancora Advisors. Elanco is one of the largest global animal health pharmaceutical companies, developing and marketing products for both pet health and farm animals. They operate in a secularly growing industry, which has seen a massive wave of consolidation, and has been historically recession resistant. They are one of four players - including Zoetis, Merck Animal Health and Boehringer Ingelheim – who collectively have 80% market share. The Company was spun out of Eli Lilly in September 2018 and was met with a lot of excitement – in its first day of trading, the stock closed +50%. The reason why the stock was received so well was because management publicized opportunities to grow revenue at or above industry growth rates and to improve margins by approximately 1,000 basis points over five years. In 2018, Elanco's EBITDA margins were 21% versus 38% for Zoetis, its closest peer. While Zoetis's product mix allows for higher margins, that gap is still way too big and Elanco management targeted 31% EBITDA margins by 2023.

Then, on August 20, 2019, Elanco announced the acquisition of Bayer's Animal Health business for approximately $6.9 billion, which surprised the market and sent the stock down 24%. Elanco explained this acquisition as it being too good of an opportunity to pass up, as it would significantly expand scale and change the mix of the business. As a result, management accelerated the timeline of its margin target goal by a year and announced that because of this acquisition they would reach their goal of 31% EBITDA margins by 2022. But then, in 2020, management revised its guidance and stated that it was now hoping to achieve 31% EBITDA margins by 2024, a year later than even its first projection and two years later than its last projection. To confuse and frustrate shareholders even more, management has claimed that they have realized significant cost savings, but this is not resulting in margin expansion. In October of 2020, Sachem Head Capital Management filed a 13D on Elanco also taking issue with the Company's inferior EBITDA margins and progress in improving it. On December 13, 2020, Sachem Head settled for three board seats for William Doyle, Scott Ferguson and Paul Herendeen. Scott Ferguson has since resigned from the Board, but Doyle and Herendeen currently serve as directors.

Now, Ancora has taken an 2.55% position and intends to push for margin improvements, a board refreshment and CEO replacement. Ancora sees this as a complete failure of corporate governance and accountability. Aside from the fact that management has failed to improve margins at all over the past five years, they overpaid for Bayer and were late in converting their debt from variable to fixed resulting in much higher interest expenses. All this with a board that does not appear to hold management accountable. What is worse than this is that the board does not even hold themselves accountable and flagrantly ignores the wishes of the shareholders. Of the 12 directors on

the Board, four of them have received more than 50% votes against their re-election at their last election, with two of those receiving 62% and 71% against their election. Despite this, the board did not make any changes and kept all four on the Board. It is bad enough having a staggered board and plurality voting in uncontested elections in this day and age, it is another thing entirely to mock good corporate governance by egregiously ignoring 71% of your shareholders voting. And, by the way, the director who received 71% of votes against him was, and still is, the Chairman of the Company, R. David Hoover.

We rarely see a company set up so well for board refreshment and management change. A refreshed board and management team that can get gross margins from the mid-50s to the 60s and EBITDA margins up to the high 20s (even below management's promised 31%) would substantially increase shareholder value. On April 1, 2024, Ancora and the Company settled for two new independent directors, Kathy Turner (formerly held senior leadership positions in international commercial operations at IDEXX Laboratories, a global pet healthcare innovation company) and Craig Wallace (President of C.S. Wallace Investments & Strategy, LLC, an animal health and human healthcare investment firm). We think this was a horrible settlement for the activist and shareholders and expected to see at least someone from the activist on the board and would have liked to see a path to a new CEO. Accordingly, we decided to sell this position for a minor loss of less than 1%.

Etsy Inc. (ETSY)

Etsy Inc. is an investment by Elliott Investment Management. Etsy is a well-known e-commerce company that connects buyers and sellers and takes an approximate 20% commission on gross merchandise sales. In their first five years of trading after their 2015 IPO at $16 per share, they grew revenue at 20 – 40% annually. But things really changed for them when COVID hit, and in 2020, revenue jumped 111% to $1.7 billion with another 35% of revenue growth in 2021. Since then, the Company's growth rate (but not absolute growth) has been in steady decline (10% in 2022 to low single digits today) and the stock retreated back to $75 per share today. When the Company went public in 2015, it had $195 million of revenue, a $6.2 million annual operating loss and a $3.5 billion market cap with a $16 per share stock price. At its peak in November of 2021 it had $2.3 billion in revenue, $466 million in operating profits and a $295 share price. Today, it has $2.7 billion, $372 million in operating income and only an $8.1 billion market cap and a $67 share price. This is what happens to hyper-growth companies that slow their growth rate, and is exacerbated with fears of a recession and competition from Asia. And this is an opportunity for value investors, and more specifically activists.

There are many opportunities to create value here. The first is to grow the top line. Growth at this Company can come from more sellers or more buyers and Elliott likely has a plan to grow both. At this revenue rate, we would not expect growth to get back to 40%, but it should certainly be a lot higher than 1%. Secondly, there is an opportunity to improve margins. During the COVID boom, the Company over-hired employees and as revenue doubled so did SG&A from $337 million to $657 million. But worse than that, as revenue growth slowed, expenses continued increasing to an SG&A of $1.1 billion today. Additionally, Research & Development grew from $122 million in 2019 to $465 million today, and that is on top of the $1.1 billion of SG&A. There is an opportunity to start cutting costs and getting EBITDA margins back up above 30% from the mid to high 20s. Lastly, the Company could do better in its capital allocation. This should be an easy task for a company like this with minimal CapEx and steady cash flow, and they should be using a good amount of excess capital to buy back shares. Instead, they made some acquisitions that have not played out like they had hoped. Specifically, in July of 2021, they acquired resale platform, Depop, for $1.63 billion and Brazil-based marketplace, Elo7, for $217 million. In 2022, the Company recorded over $1 billion in impairment charges following the adverse effect of these acquisitions.

This is an interesting activist campaign because there is not one silver bullet or one lever to pull to create stockholder value. Additionally, the Company has thrived under the leadership of long-term CEO, Josh Silverman, who has done a great job driving growth and value since 2016. In situations like this, it is even more important for an activist to be on the board to work through a turnaround plan over a period of years. On January 31, 2024, Etsy announced that it appointed Elliott partner, Marc Steinberg, to the Board as a director, effective February 5th. Elliott is a deep research activist and employs teams of industry executives, analysts and consultants in their due diligence. Accordingly, Marc is not going onto the board empty handed. He will bring with him a detailed and comprehensive plan to create value on the top line and the bottom line and knowing Elliott, they have probably

already shared that plan with management. Moreover, the fact that Marc was quickly and quietly given a board seat indicates that the Company is aligned with much of that plan.

There is one more important thing to note about Marc Steinberg – since December 16, 2022, he has been on the board of Pinterest, an investment where Elliott has a 97% return versus 22% for the Russell 2000. And there has been some M&A speculation surrounding Etsy, specifically that they could fit in very well with Pinterest. Another potential suitor for Etsy could be eBay, another company Elliott knows well, as Jesse Cohn served on eBay's Board from February 28, 2019, until September 10, 2020. This is certainly not Elliott's thesis here, but they are economic animals and know their fiduciary duties, and Etsy is a very strategic asset with only an $8 billion market cap – there are not a lot of those. If an acquisition opportunity comes along, Elliott will make sure the Board seriously considers it versus a standalone plan.

Illumina Inc.

Illumina Inc. is an investment by Carl Icahn. Illumina created GRAIL as a business unit in late 2015 and spun it out in January of 2016. Less than five years later, in September of 2020, Illumina agreed to acquire GRAIL back for $8 billion. They closed the acquisition a year later despite not getting approvals from the FTC or the European Union and with indications that there would be resistance from one if not both of the regulators. This angered the European Commission, who ultimately blocked the deal and levied the maximum fine. Illumina appealed the decision and set aside a $453 million liability reserve for the potential European fine. From the time the acquisition closed in August of 2021 until Icahn engaged March of 2023, Illumina's stock price fell by 57% from $522.89 to $225.88, eliminating $47 billion of shareholder value. Since then, the stock had continued to $139.79 when we decided to buy.

Icahn thinks Illumina is a great company but a quintessential example of what is wrong in corporate America. He takes issue with Illumina spinning off GRAIL cheaply just to overpay for it less than five years later, but that is just the beginning. Reasonable boards overpay for companies all the time, but we know of no other board that has ever consummated an $8 billion acquisition knowing full well that the regulators were likely going to have a problem with it. Icahn believes this is at least gross negligence and that Illumina directors that approved the acquisition could be personally liable. Icahn would like to see GRAIL divested from Illumina, potentially through a rights offering, and management focus on the core business of Illumina.

Since Icahn engaged Illumina, he has won a board seat for an Icahn portfolio manager, Andrew Teno, the Chairman and CEO have been replaced and the Company has decided to divest GRAIL. This is a classic example of when a stock goes down while the activist catalyst strengthens. There is not a lot of more activism that needs to be done here, just execution of the activist agenda that has already been implemented. We do not expect the stock to get back to the $500s, but think there is considerable upside as GRAIL is divested and the new management team executes the business plan.

PENN Entertainment Inc.

PENN Entertainment is an investment by HG Vora Capital Management. PENN is a sports betting company operating across two segments, their legacy brick-and-mortar regional casino operations and their upstart interactive division covering online gaming and sports gambling. Their legacy bricks and mortar business is a well-run, stable and consistent free cash generator which generates more than enough cash to invest in the high growth interactive business while also returning capital to shareholders. The casino business does approximately $6 billion in revenue and $2 billion in property level EBITDAR. With $930 million in rent and $100 million in corporate overhead, the mature, low-growth casino business alone could be worth $30 per share (the stock is trading at $17 today). But the Company's outlook got much better on August 8, 2023, when they signed a deal with Disney to be ESPN's official partner in the ESPN BET app. This is where the Company's growth prospects lie. So, then why is the stock still trading in the mid-teens, well below where it was trading on August 7, 2023? Why isn't Penn management getting any credit for this potentially valuable joint venture?

The answer is because of management's recent blunders, one of which was in this same area – interactive gambling. In 2020, Penn took a 36% stake in Barstool Sports and ultimately acquired 100% of the Company in

February of 2023 for a total of $550 million in order to grow their share of the online gaming market. However, this did not work out like they had planned and in order to do the deal with Disney, they sold Barstool back to its founder, Dave Portnoy, for a grand total of $1 and only six months after acquiring it. And that might not have been their worst acquisition in the past three years. In October of 2021, Penn paid $1.9 billion to acquire Score Media and Gaming Inc. (theScore), a Canadian online sports media brand. At the time of their acquisition, theScore made almost no revenue and had no EBITDA – a prime example of the 2021 valuation bubble. So, it is no wonder that the market does not trust Penn management to optimally capitalize on this joint venture with ESPN despite the attractive potential and deal terms.

For $150 million a year over ten years, Penn Entertainment gets the ESPN brand and consumer trust that comes with it and integration into ESPN's app and television programming content. For example, ESPN anchors, commentators and content will be referring to the "ESPN BET" betting line. This type of product placement is worth more than $150 million in advertising each year and even with another $150 million of third-party advertising, ESPN BET's $300 million marketing budget will be nothing compared to the $1 billion DraftKings and FanDuel pay annually. Penn keeps 100% of all revenue generated from ESPN BET, but Disney is motivated for it to succeed because as part of the deal, Disney received warrants in Penn that were valued at $500 million at the time of grant. The partnership has already hit the ground running, as the ESPN BET app launched in November and was immediately the top downloaded app in the entire app store, and remains in the top three of online sports betting apps. As for their ability to execute, the one silver lining from the acquisition of theScore is that their technology and double-digit market share of the Canadian online sports betting and casino market is proof of concept that they have the ability to make this work and be a top player among the likes of DraftKings and FanDuel in the U.S. FanDuel currently has an implied value of approximately $20 billion and DraftKings has a market cap of $16.5 billion, while Penn has a market cap of $2.6 billion, which is not even the value of their casinos. If this interactive strategy works and Penn can steal market share with the strong brand appeal of ESPN, even if they can approach just half the value of DraftKings, the stock could increase 2-3x.

While Penn's management team has destroyed shareholder value through poor strategic and capital allocation, they are very good operators of the regional casinos. All of the fixes here can happen at the Board level. First, investors need to see a board that will oversee management and hold them accountable to executing solely for shareholder value creation. That alone could erase the negative value currently attributed to ESPN BET. Moreover, Penn has been a racetrack and casino business for over 50 years and is now venturing into the 21st Century with interactive gaming. The Company does not have any industry operators on the Board and the directors they do have are more analog than digital. They need to seriously reconstitute this Board with directors qualified to oversee an interactive gaming strategy. Moreover, despite burning through cash with ill-advised acquisitions, the Company still has $1.0 billion of cash on its balance sheet, almost 40% of its market cap, and investors would want to see a board that will optimize capital allocation and the Company's balance sheet.

HG Vora has extensive experience as investors in the gaming industry, but we do not expect they will be looking for a board seat for themselves here. Instead, we expect them to use their extensive contacts in the industry to propose multiple highly qualified board members with relevant experience. HG Vora is not an activist for activist sake, rather they are a behind the scenes investor who will become active if necessary. The fact that they are filing this 13D is a sign that management is not acquiescing. While they have not historically run proxy fights, do not confuse their constructive nature with weakness. They have a very large investment here and a ton of conviction and they will take this to a proxy fight if forced to. It would behoove the Company to work constructively with HG Vora in identifying new director candidates because the next annual meeting does not set up so well for them in terms of a potential proxy fight. While only two directors on the nine-person, three class, staggered board are up for election next annual meeting, both of them have served on the board for over 28 years and one of them, David Handler, is the Board Chair. Moreover, this is a shareholder base that is not afraid to oppose management - at the 2022 Annual Meeting, following an ISS recommendation, 58% of shareholders voted down the CEO say-on-pay proposal. While HG Vora would only be able to get two seats through a proxy fight, removing the Chair would send a strong message to the rest of the Board and a message Handler might not want to risk being sent. Although he has been on the Board for 29 years, at 58 years old, Handler is still young, and likely would keep his board seat through a settlement.

Finally, at this valuation and with the growth potential and the ESPN brand, there is always a chance that this all becomes moot from a well-timed and high premium acquisition offer from private equity or a strategic. Private equity funds like Apollo and TPG have owned casinos before and have gone through the licensing scrutiny and this could also be a very appealing asset to strategics like Hard Rock, Boyds, Churchill Downs and MGM.

During the quarter, we exited Catalant Inc. (Elliott), Freshpet Inc. (JANA), Masimo Corp. (Politan) and Wix.com Ltd. (Starboard). Catalant is a position we entered at $39.80 per share in Q4 2023 and we exited in Q1 2024 when on February 8 it was announced that the Company would be acquired for $63.50 per share. This was a nice catalyst for us that came sooner than expected, but somewhat expected. In our letter last month, we said: "This is a very strategic asset and there are likely to be several interested acquirers." and "We expect that this review will conclude with a sale of the Company." We also exited Freshpet when JANA Partners sold some shares and exited its 13D. This was another good position for us, having started our position at $47.40 per share in September of 2022 and selling last quarter at $89.04 per share. Masimo was a different type of exit. We bought that position in April of 2023 at $187.40 per share because we were confident that Politan would win their proxy fight. They did win the proxy fight, but the stock declined consistently over the rest of the year as the Board essentially ignored the two Politan directors in the room. After hitting $88 per share, we bought more and sold our entire position last quarter at $131.44 per share. Politan has announced they are running another proxy fight this year for two more seats and control of the board. We do not want to own this stock if they lose that proxy fight but would like it a lot if they win. We will wait on this one to see what happens and where the stock is trading when it happens. Finally, we sold Wix.com Ltd. last quarter when Starboard sold some shares and exited its 13D. We acquired that position in September of 2022 at $73.53 per share and sold it last quarter at $126.62 per share.

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

Ken Squire

Important Disclosures

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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 3/31/2024: 1) GoDaddy Inc. 5.1%; 2) Southwest Gas Holdings Inc. 4.9%; 3) Insight Enterprises, Inc. 4.9%; 4) Frontier Communications Parent Inc. 4.8%; 5) Elanco Animal Health Inc. 4.6%; 6) Exelixis, Inc. 4.2%; 7) Azenta, Inc. 3.8%; 8) US Food Holding Corp. 3.8%; 9) MDU Resources Group 3.8%; 10) Treehouse Foods, Inc. 3.8%. Allocations should not be viewed as predictive composition of the Fund's portfolio, which may change at any time.

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