13D Activist Fund

A Qualitatively Analyzed Portfolio of Activism

July 17, 2023

Class I YTD Net Return: 4.63% Russell 2500 YTD: 8.79% AUM: $184 million

In the second quarter of 2023, the I shares (DDDIX) returned -.33%, net of fees and expenses (versus 5.23% for the Russell 2500)[1,2]. This was a disappointing quarter and first half of year. It was hard to compete with a surging tech market, with the NASDAQ composite up 31.7% in the first six months, its best start of a year ever. This follows a year where it dropped 30% in the first six months of 2022, versus a 14.8% decline for DDDIX. As a value fund with little growth stock exposure, our performance relative to our benchmark, which does have growth stock exposure, is expected to be choppy in the short term, but we believe it to be consistent in the long term. We like to think of ourselves more as the tortoise than the hare. We are not likely to have volatile surges and declines like we have seen from momentum growth stocks, but believe we can have consistent performance over the long term aided by an activist catalyst that we expect to deliver alpha. Coming off of an AI-induced tech rally, we think this is a great time to reduce exposure to growth stocks and enter value stocks.

Fund Performance[1][2]	MTD	QTD	YTD	1 Year	3 Year	5 Year	10 Year	ITD
13D Activist Fund (DDDIX)	**6.66%**	**-0.33%**	**4.63%**	**1.31%**	**10.62%**	**5.38%**	**9.10%**	**11.23%**
Russell 2500 TR	8.52%	5.23%	8.79%	13.58%	12.29%	6.55%	9.38%	11.12%

Calendar Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
DDDIX	21.25%	36.57%	15.47%	-10.92%	19.57%	23.75%	-13.48%	27.15%	18.92%	19.52%	-17.51%
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%

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.

The 13D Activist Fund will give investors exposure to value stocks. Activists are value investors who identify undervalued stocks and are their own catalyst to close the valuation gap. We believe that a confluence of factors (flat/down markets, higher interest rates, universal proxy, etc.) makes this an excellent environment for activists to start taking positions and effecting change to optimize shareholder value, and that change will play out over the next 18 to 24 months. If you build your portfolio through diversified style allocation, think of the 13D Activist Fund as a portfolio of value stocks with change agents. If you are the type of investor who more actively manages their portfolio based on your own market analysis, and, like us, you believe shareholder activism is an advantaged strategy in these markets, the only question is what is the best way to get exposure to the strategy of shareholder

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[1] Data is presented through 06/30/2023, 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.

activism. We believe the 13D Activist Fund is the best way to get diversified, lower cost, liquid exposure to this strategy.

During the second quarter, we added four new positions: Canadian National Railway Co. (CNI), Envestnet, Inc. (ENV), Exelixis Inc. (EXEL) and Masimo Corp. (MASI).

Canadian National Railway Co.

Canadian National Railway Co. is an investment by TCI Fund Management, an extremely experienced and successful European activist who occasionally takes an activist position in North American companies. TCI filed a 13D and advocated for (i) CNI to withdraw from the merger with Kansas City Southern, (ii) the immediate resignation of Chairman Pace and CEO Ruest and (iii) the appointment of Jim Vena as CEO and Gilbert Lamphere as director to get the Company to focus on operational excellence.

TCI commenced a proxy fight and settled for two board seats, but that was just the beginning of the changes. Since filing their 13D in the summer of 2021, the Company withdrew from the merger with Kansas City Southern; the 14 person board was decreased to an 11 person board with only two of the 14 directors remaining; Tracy Robinson was named as the new CEO; and Shauneen Bruder was named the new Board Chair. While TCI did not get their first choices for CEO and Chairman, that is ok because the issues here were not operational issues that required an all-star CEO. The key metric to evaluate rail company performance is operating ratio - operating expenses as a percentage of revenue. When Pershing Square and Hunter Harrison came into Canadian Pacific, CP had an operating ratio of 81% and Harrison was able to get it down to 64.7%; and when Mantle Ridge and Hunter Harrison came into CSX, the company had an operating ratio of 70% which Harrison was able to get down to 58.4%. CNI's operating ratio when TCI filed its 13D was 61.6% versus the industry leader at 55.1%, so there was not a ton of room for improvement. Removing the Chair and CEO and reconstituting the board is what was needed to change the culture at the Company, and TCI did an excellent job of that.

Now, CNI is a refreshed company working for shareholders in an industry with strong tailwinds. First, the United States is making a push to improve its infrastructure, which should lead to more transportation of goods throughout the country and into and out of Canada. Second, with gas at higher levels, companies are going to be looking for the cheapest way to ship their goods. Third, North American companies have already been losing their willingness to rely on China as a distribution partner and are looking to keep their supply chain closer to home. The war in Ukraine and the possibility of China moving on Taiwan in the future has greatly elevated this concern. Finally, there is an ESG benefit here as railroads are an energy efficient way to transport goods. According to the association of American Railroads, using 50 rail cars to ship food from California to Ohio instead of trucks would take 126 trucks off the road and eliminate 391.5 tons of carbon dioxide from being released into the atmosphere. Additionally, we like the stability of a railroad in times of economic uncertainty.

Envestnet, Inc.

Envestnet is an investment by Impactive Capital, an activist hedge fund founded in 2018 by Lauren Taylor Wolfe and Christian Alejandro Asmar. Impactive Capital is an active ESG (AESG) investor that focuses on positive systemic change to help build more competitive, sustainable businesses for the long run. Impactive will use all of the traditional operational, financial and strategic tools that activists use, but will also implement ESG change that they believe is material to the business and drives profitability of the Company and shareholder value.

Envestnet provides wealth management services and software to the investment community. It has an excellent product with 90% retention and secular tailwinds. Envestnet was founded in 1999 by Jud Bergman and Bill Crager. Bergman was Chairman and CEO of the Company from 1999 through October of 2019 when he was tragically killed in a car accident. Bill Crager took over as Interim CEO and in March of 2020 became permanent CEO. Impactive has been a shareholder since the second quarter of 2021 when the Company started to invest in growth sacrificing short term profits. The Company spent $30 million more on new hires for future-looking projects in 2021 than it previously signaled, and that number has since been increased to nearly $50 million. This scared off short term investors and created a buying opportunity for funds like Impactive.

There were three opportunities here when Impactive first filed their 13D in 2022. First, the Company's growth plan could start working and result in structurally stronger and more profitable growth. Crager had said that "2022 is a year of execution for us." Second, if the growth does not materialize, there is an opportunity to cut costs significantly and improve operating margins. This Company should abide by the rule of 40 for software companies – its growth rate plus its operating margins should equal or exceed 40. Revenues grew by 19% last year, but operating margins were in the single digits. If growth stays at this level or declines, the Company can stop investing so much in growth and focus on efficiency and get operating margins to the high 20s. Third, there is a strategic opportunity to create value. The Company has reportedly considered selling or spinning off its Yodlee business (which could be worth over $1 billion) or sell the entire Company. In fact, in February of 2022 it was reported that Envestnet retained a banker to explore a sale of the Company in an auction geared to private-equity firms, with Advent International and Warburg Pincus reported as final bidders.

Well, the Company did not execute on its growth plan or improve its margins, leading to a 2023 proxy fight by Impactive. On March 27, 2023, Impactive and the Company entered into a Cooperation Agreement, pursuant to which the Company agreed to appoint Lauren Taylor Wolfe and Wendy Lane to the Board. This was the catalyst we were waiting for and why we decided to purchase a position in the Fund. Lauren Taylor Wolfe does not go on a lot of boards and with her focused on this Company as a director, we have confidence she will be able to create value for shareholders.

Exelixis Inc.

This is an investment by Farallon Capital, a $36 billion multi-strategy hedge fund founded in 1986. Farallon is not an activist investor but will pursue an activist agenda when they feel forced to do so. Exelixis, an oncology-concentrated biotechnology company, focuses on the discovery, development, and commercialization of new medicines to treat cancers in the United States. They have produced four marketed pharmaceutical products, including their flagship molecule, cabozantinib.

As the strategy of shareholder activism has become more mainstream it has been utilized by a larger breadth of investors. For the average investor it is hard to distinguish between shareholders using activism as a short term and opportunistic tool and real long-term investors using shareholder activism because the company is in desperate need of change and the shareholder has exhausted all other amicable options. This situation is the latter. Farallon did not buy a majority of their shares in the last 60 days like we often see from opportunistic investors filing 13Ds. They have been shareholders of the Company since 2018 and are just now going public with their concerns. They have given management more than enough time to create shareholder value. Moreover, they are not using an activist template like we see from novice activists where they criticize everything from board share ownership to executive compensation, but they are focusing on glaring company issues and opportunities.

They take issue with the level of Research and Development ("R&D") and the lack of discipline and communication with respect to an R&D plan. Every company that spends a material amount on R&D should have a disciplined plan articulated to the market, but that is even more crucial for a company like Exelixis that spends over 50% of its revenue on R&D. In 2022, the Company had $1.6 billion in revenue with an R&D budget of nearly $900 million, leading to EBITDA of $222 million. This R&D budget is expected to increase to more than $1 billion in 2023. To make matters worse, the Company is investing in many projects in scientific and clinical areas in which they lack differentiation or a competitive advantage. Instead of becoming more focused and disciplined, they are doing the opposite, pursuing 27 indications, across 79 trials using at least three very different therapeutic modalities, a total that is much higher than any of their peers. Investors want to see a reasoned, disciplined R&D plan that explains the differentiated approach and competitive advantage the Company is exploiting so that they can assess the likelihood of success.

Farallon estimates that the net present value of the Company's cabozantinib cash flows alone (with a modest R&D program) is worth in excess of $33 per share. Farallon would also like to see the Company commit to a much larger share repurchase program than the $550 million they have announced. The Company has over $2 billion in cash and investments versus virtually no long-term debt; using a portion of this cash to buy back shares ahead of any R&D restructuring would not only create shareholder value but will help add discipline to management by forcing them to run a leaner operation without a cash stockpile on their balance sheet.

On April 5, 2023, Farallon sent a letter to the Company announcing its nomination of the following director nominees for election to the Board at the Company's 2023 Annual Meeting: (i) Tom Heyman, interim CEO at Interlaken Therapeutics, Inc. and former President of Johnson & Johnson's Corporate Venture Capital Group, (ii) David Johnson, Managing Partner of Caligan Partners, and (iii) Bob Oliver, the former CEO of Otsuka America Pharmaceutical and an executive advisor. Farallon made a very reasonable request to add three board members to the eleven-person board. We believe this is reasonable just based on the Company's obvious lack of discipline with respect to R&D and their serial underperformance compared to the market and its peers. However, other than three female directors added to the otherwise all male board since 2016, the Company has not added a new director since 2010, and eight of the 11 directors have been on the board between 13 and 29 years, for an average of over 20 years each.

On May 31, 2023, all three of Farallon's director nominees – Tomas Heyman, David Johnson, and Bob Oliver – were elected to the Company's Board at the 2023 Annual Meeting. This is what we expected would happen and we are particularly pleased with the addition of David Johnson, without whom we may not have made this investment. Farallon does not have a lot of activist experience, but David Johnson does. We see this as a perfect marriage of a long term shareholder with an experienced activist.

Masimo Corp.

Masimo is an investment by Politan Capital Management, an investment vehicle founded by Quentin Koffey. Most recently, Koffey led the activism strategy at Senator Investment Group. Prior to that, he led the activist practice at DE Shaw and before that he was at Elliott Associates.

Masimo is a global medical technology company that develops, manufactures and markets a variety of noninvasive monitoring technologies and hospital automation solutions. Their core business is Measure-through Motion and Low Perfusion pulse oximetry. They sell highly technical pulse oximeter devices to hospitals and operate in a duopoly with 60% market share - Nellcor controls the other 40% market share. Masimo has a solid core pulse oximetry business for hospitals. This is a high technology business that uses decades of studies to convince hospitals that their devices get more accurate readings and healthier outcomes. As a result, it is a very sticky business with high barriers to entry. This is a razor/razor blade business model with the devices using single-use sensors pursuant to five year contracts resulting in 80% recurring revenue for Masimo. While COVID temporarily helped them in 2020, by the end of 2021 the bump had subsided. They now have secular tailwinds in a trend to use devices like pulse oximeters instead of nurses as the nursing population is declining as well as more demand for pulse oximeters in hospitals as they open up for more elective surgeries after COVID.

Masimo was founded in 1989 by Chairman and CEO, Joe Kiani (who owns 8.5% of the Company's stock). He built a solid business and kept a small circle with a five-person board, however Masimo has become a public company run like a private company by a visionary founder. This worked fine for a while as he successfully built the pulse oximetry business, but now the milk is starting to spoil as Kiani pursues "pet projects." While some of these projects, like hospital automation businesses and brain function monitoring could be reasonable extensions of their core business, it has become obvious that the Company needs a more objective board to oversee the discipline of R&D spending. For example, after meeting with Masimo about integrating Masimo's technology into the Apple Watch, Apple began hiring Masimo employees, including its Chief Medical Officer, and in the fall of 2020, Apple introduced the Series 6 watch that can measure arterial oxygen saturation. Masimo sued Apple for allegedly stealing trade secrets and using Masimo's inventions, which isn't unreasonable. But, now Masimo has launched its own W1 watch to compete with Apple. This feels more personal than fiduciary. Moreover, on February 15, 2022, the Company announced that they entered into an agreement to acquire Sound United LLC, a consumer speaker business, for $1 billion. At 8 times EBITDA reasonable minds can differ whether they overpaid for this acquisition or not by a couple of hundred million dollars, but news of the acquisition sent the stock into a nosedive from $228/share to $144/share in a matter of one day. That is a loss of $4.6 billion in market cap for a $1 billion acquisition. Clearly, the market was concerned with the lack of strategic discipline at a company being run by its founder.

This is a story as old as activism itself – a Founder/CEO making a great product and using the cash flow to fund pet projects. Kiani seems capable of running the core business, but he has an empire building mentality that needs to be reined in by the Board. With a refreshed board that institutes discipline, operating margins should be in excess of 40% and the stock could double in three years time.

This is a company that has poor corporate governance that is in desperate need of shareholder representation on the board. On May 1, 2023, Politan submitted to the Company its formal notice of intent to nominate Michelle Brennan and Quentin Koffey for election to the Board at the 2023 Annual Meeting. Masimo refused to settle with Politan even though, with a five person board, they had more than enough room to add two directors without losing any incumbents like they would if they lost a proxy fight. Moreover, virtually everybody on both sides of this knew that Masimo did not stand much of a chance. On June 26, 2023, at the Company's 2023 Annual Meeting, Politan’s two director nominees - Quentin Koffey and Michelle Brennan - were elected to the Board as directors with 67% and 78% of the vote, respectively.

As board members, Politan could be very helpful to both management and shareholders in pursuing strategic projects. They will listen to management with an open mind and if they agree with a project, their support would give management cover with other shareholders to pursue it. However, at the end of the day they are economic animals and will do what is best for shareholders - if management cannot justify a project, Politan will be there to protect shareholder value. Politan now has two of five (possibly increased to seven) board seats. But even more important is that by winning a proxy fight they did not sign a standstill agreement and can get a majority of the Board next year. Moreover, founder and CEO Joe Kiani is up for election next year, so it is somewhat like the Sword of Damocles over his head. If he has ever been incentivized to create shareholder value, it is now.

During the quarter, we exited Howmet Aerospace, Inc. (HWM), Mercury Systems, Inc. (MRCY) and Rogers Corp. (ROG) when the activists involved decreased their positions below 5% and exited their 13D filings. We also exited Griffon Corp. (GFF) when the catalyst weakened in our opinion after the Company announced that it concluded its review of strategic alternatives with no viable transactions.

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

Ken Squire

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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.**

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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. **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. **NASDAQ composite**, refers to, and is a market capitalization-weighted index of more than 2,500 stocks listed on the eponymous NASDAQ stock exchange. It is a broad index that is heavily weighted toward the technology sector, followed by consumer discretionary and healthcare companies. The index is composed of both domestic and international companies. **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. "**Alpha**" refers to excess returns earned on investment above the benchmark return. "**Beta**" is a measure of the volatility–or systematic risk–of a security or portfolio compared to the market as a whole.

Top 10 Holdings as of 06/30/2023: ARAMARK 5.93%; TreeHouse Foods Inc. 5.87%; Insight Enterprises Inc. 5.59%; Dollar Tree Inc. 5.43%; Freshpet Inc. 5.06%; Crown Holdings 4.63%; Alkermes 4.27%; Southwest Gas Holdings 3.7%; Exelixis Inc. 3.43%; Janus Henderseon Group PLC 3.34%. Allocations should not be viewed as predictive composition of the Fund's portfolio, which may change at any time.

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