13D Activist Fund

A Qualitatively Analyzed Portfolio of Activism

January 11, 2024

Class I YTD Net Return: 10.85% Russell 2500 YTD: 17.42% AUM: $172 million

In the fourth quarter of 2023, the I shares (DDDIX) returned 15.76%, net of fees and expenses (versus 13.35% for the Russell 2500)[1,2]. This was a nice ending to a disappointing year, and hopefully a sign of things to come as growth stocks are giving way to value stocks for the first time in many years. 2023 was a very interesting year for shareholder activism and a year that we think will one day be looked back on as an inflection year with the SEC officially publishing new amendments to the 13D rules and the first full proxy season mandating the use of a Universal Proxy Card.

While there was a slight drop off (8.0%) in the total number of activist campaigns this year from last, there was still a continuation of an uphill trend if you exclude 2022 with a 12.0% increase from the number of campaigns in 2021. More importantly, there was a substantial increase (14.9%) in the total dollars invested in activist campaigns from 2022, continuing the trend since 2020 with total dollars invested up 41.2% between 2020 and 2023. Essentially, in 2023 versus 2022, activists mounted fewer campaigns at smaller companies, but took larger ownership percentages.

Fund Performance(1)(2)	MTD	QTD	YTD	1 Year	3 Year	5 Year	10 Year	ITD
13D Activist Fund (DDDIX)	**11.89%**	**15.76%**	**10.85%**	**10.85%**	**3.01%**	**10.58%**	**8.09%**	**11.27%**
Russell 2500 TR	10.72%	13.35%	17.42%	17.42%	4.24%	11.67%	8.36%	11.34%

Calendar Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
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 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.

We expect activist campaigns to increase materially in 2024 for two main reasons. First, when activism drops in one year, it generally increases in the next year because activist campaigns are very time consuming and longer term than they generally get credit for. We expect many of the activists who slowed down this year to be more prolific next year. Second, over the past five years, the market has been rewarding growth companies with less

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[1] Data is presented through 12/31/2023, 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.

regard to profitability. That script is flipping now, but many companies have management teams that are built for revenue growth more than profitability. These management teams need to either learn new skills or be replaced, which provides significant opportunity for activist investors.

The biggest change in 2023 was that activists had some level of success in 96% of their campaigns that have been resolved (other than ones withdrawn or pending) – we have never seen success numbers like this before. This is a huge change from 2022 where at this time last year, activists had settled or at least partially won only 70% of their resolved campaigns. We believe the Universal Proxy Card was, and will continue to be, a game changer for activists. Now that the activists had success in their activist demands, the next step is executing on the activist agenda and creating value for shareholders. We see this step happening over the next several years.

During the fourth quarter, we added three new positions: Catalent Inc. (CTLT), Fortrea Holdings Inc. (FTRE) and Frontier Communications Inc. (FYBR).

Catalent Inc.

Catalent Inc. is an investment by Elliott Management. Elliott is an experienced activist investor who has been successful in many industries utilizing different activist strategies, but first made its name in activism primarily through strategic activism and getting companies sold. It is an extremely powerful activist tool possessed by few when an activist can tell a company to fix their problems or the activist will buy the company, take it private, fix the problems itself and then sell it. Elliott has not relied on that type of activism lately, but has historically made a lot of money implementing it.

Catalent is an outsourced manufacturer in the Pharma industry. This is a stable business in a growing industry operating in an oligopoly. They are one of the three largest global contract development and manufacturing organizations (CDMOs), next to Lonza and a division of Thermo Fisher. The Company was always seen as a market leader, but in the middle of 2022 the tides began to turn, largely due to two main factors. First, the Company was negatively impacted by a COVID cliff – during COVID, the government mandated that they shut down much of their manufacturing and start producing COVID vaccines. This production led to $1.5 billion in revenue that recently went to zero. Second, they had several self-inflicted wounds, including an acquisition that did not pan out like they expected and operational and regulatory issues. These are fixable issues that have sunk the stock from $142.35 in September of 2021 to $50.25 today, but do not necessarily adversely affect the long-term intrinsic value of the Company, which makes for an excellent opportunity for an activist.

In its most simplistic form, there are two basic elements to an activist campaign – success in the activism (i.e., getting the Company to adopt your agenda) and executing the activist agenda. Elliott has already accomplished the former. On August 29, 2023, Elliott and the Company entered into a Cooperation Agreement pursuant to which the Company appointed four new directors to the 12-person Board, one of whom is Steven Barg (Global Head of Engagement at Elliott); established a Strategic and Operational Review Committee charged with conducting a review of the Company's business, strategy and operations, as well as the Company's capital-allocation priorities; and appointed John Greisch as Executive Chair of the Board and as chair of the newly formed Committee. While this committee's purview is business, strategy and operations, we expect it will put an emphasis on strategy.

This is a very strategic asset and there are likely to be several interested acquirers. In fact, on February 6, 2023, Bloomberg reported that fellow life sciences conglomerate Danaher has expressed interest in purchasing Catalent at a "significant premium". At that time, Catalent was trading at $56.05 per share. Additionally, companies like Merck could be interested in buying the Company or parts of it. Another possibility is an acquisition by private equity, of which Elliott's PE arm could be an interested party. While as an activist Elliott will do whatever they feel is necessary to enhance shareholder value, in the past they have made significant use of the strategy of offering to acquire their portfolio companies as the best catalyst to enhance shareholder value. We would not be surprised to see that happen here. Catalent is definitely the right size for Elliott, who recently partnered on buyout deals for Citrix Systems Inc. and Nielsen Holdings, each for more than $16 billion. Elliott has also recently shown interest in this industry, partnering with Patient Square Capital and Veritas Capital to acquire Syneos Health Inc (SYNH) for $7.1 billion. That acquisition is expected to close in the second half of 2023. Like Catalent, Syneos is an outsourced pharma solutions company - they outsource R&D for pharmaceutical companies, whereas Catalent outsources manufacturing.

Elliott quickly got the Company to pursue a strategic exploration agenda, which indicates to us that there was not a lot of pushback by management. We expect that this review will conclude with a sale of the Company. However, it is worth noting that the Company has a relatively new CEO at the helm, Alessandro Maselli, who was promoted from President/COO in July 2022. A lot of the operational issues happened during his watch and if this does turn from a strategic review to an operational review, there is no guarantee that he keeps his job.

Fortrea Holdings Inc.

Fortrea Inc. is an investment by Starboard Value. Starboard is a very successful activist investor and has extensive experience helping companies focus on operational efficiency and margin improvement. Starboard has made 13 previous 13D filings in the Health Care sector and has an average return of 38.64% versus 13.23% for the S&P500 over the same period.

Fortrea was spun out from Labcorp on July 3, 2023, as a Phase I – IV clinical development business. The Company is one of the top seven contract research organizations ("CRO") that control 80% of the market. Over the years, drug companies have spent an increasing amount of money on R&D and with a material portion of that outsourced, the CRO industry has grown accordingly. So, there are strong secular tailwinds driving growth for the CRO industry, but to be a successful CRO, it helps to have global scale. Fortrea has operations in 90+ countries with a focus on more than 20 therapeutic areas, which has allowed them to conduct over 5,000 trials over the last five years. However, despite having global reach and scale, the Company's adjusted 2023 EBITDA margins are only 9% (with projected 2024 margins of 13%), significantly below the peer median of 18%. This is not unusual for a company that has recently been spun out of a larger company as it could be saddled with a bloated cost structure in the spinout and been somewhat neglected operationally as a smaller part of a large company.

So, now it is in position to be run more efficiently with management solely focused on the CRO business. The crucial factor in achieving this is having the right CEO for the job, and Fortrea has that. On January 9, 2023, Tom Pike joined Labcorp as President and CEO of their Drug Development Clinical Development business and retained his CEO seat at Fortrea, upon completion of the spin-off on July 3, 2023. Pike has a track record for improving CRO profitability and when he was CEO at Fortrea peer IQVIA (fka Quintiles), he increased margins by 425 basis points between 2012 to 2016, and led the stock to substantially outperform the market by 48% over that time. He has already committed to increasing margins at the Company from 9% to 13%, but this still falls short of peer performance. Starboard believes that the Company can reach pure margin levels of 18% and they have a great deal of experience helping portfolio companies run more efficiently and improve margins either as an active shareholder or member of the Board.

With Tom Pike as CEO and margin guidance going in the right direction, we expect Starboard will be an engaged shareholder here and look for a board seat only if things do not progress as planned. In that case, there is no reason why this would not be amicable. Both Starboard and Pike share the same views regarding margin improvement and seem to be rowing in the same direction. With peer margins and peer multiples, Starboard sees this as a $47 - $72 stock.

Finally, there may also be compelling strategic opportunities to create shareholder value. Private equity firms and strategics have been frequent acquirers of CRO assets and recent transactions have been at higher multiples, with a median of 14x EBITDA. Moreover, this is a consolidating industry right now. As discussed above, Elliott Management recently partnered with Patient Square Capital and Veritas Capital to acquire Fortrea peer Syneos Health Inc (SYNH) for $7.1 billion. That acquisition is expected to close in the second half of 2023. Once margins are improved and the Company is running efficiently, there may be significant private equity and strategic interest here as well.

Frontier Communications Inc.

Frontier Communications Inc. is an investment by JANA Partners, who invested in this Company a well-known, large communications company. JANA has had past success in the communications space, catalyzing the sales of CyrusOne and Vonage Holdings last year, and they are using the same playbook here, pushing for a sale.

Frontier has been transitioning from a legacy wireline telecom provider to a scale provider in the fiber to the home market, with a fiber footprint today that is behind only AT&T and Verizon in homes covered. Fiber to the home is the superior technology for broadband due to its ability to offer the greatest bandwidth with a low cost to operate. Fiber to the home is largely operating in duopoly markets where markets are shared with an incumbent cable provider and share is split roughly 45% each.

The fiber market has attracted tens of billions of dollars of M&A and investment from mega cap wireless companies, and multiple private equity and infrastructure funds. Verizon and AT&T are spending billions to expand their footprints in fiber to the home, and T-Mobile has been reported to be looking to spend billions to get into the fiber market. Additionally, private equity and infrastructure funds have acquired a significant number of assets as they try to create scale targets for the large telecom companies to buy in a largely fragmented market. These funds have included Apollo, KKR, EQT, Macquarie Infrastructure Partners, Searchlight Capital Partners, Oak Hill, Madison Dearborn and Ares. In fact, Ares is the Company's largest shareholder and on May 26, 2023, they converted from a passive 13G to an active 13D with a reported ownership of 16% of the Company's stock. A 13G conversion signals that an investor is looking to potentially seek to influence management or control and is not a typical move by most private equity firms. Having said that, the Company's second largest investor and also a private equity investor, Cerberus Capital Management, converted from a 13G to a 13D on November 6, 2023. This is the first time they have taken such action in their history.

Frontier's stock trades at a low multiple, despite strategic and financial interest in the sector and the Company, and they have a consensus price target of $33 a share (versus $23.60 today). However, the Company faces numerous hurdles to achieving its value potential in the public market, including their lack of direct comps; the fact that they are a post-reorganization equity, making it difficult to get sponsorship; they are leverage funded – the entire model is based on using debt to fund their growth; they are in the midst of an ongoing business mix transition from copper to fiber; they deploy a lot of CapEx in an environment where CapEx is inflating; and the model is to prioritize growth at the expense of cash flow. The Company's current playbook is incompatible with the public markets. The solution here is obvious – the Company needs to immediately run a sales process.

During the quarter, we exited Crown Holdings, Inc. (Icahn) and Green Dot Corp. (Starboard) when the activists involved decreased their positions below 5% and exited their 13D filings.

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. CapEx stands for Capital Expenditures. **PE** stands for Private Equity. **R&D** is used as the standard acronym for “Research and Development.” SEC stands for the Securities and Exchange Commission. **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. **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.

Top 10 Holdings as of 12/31/2023: 1) Freshpet Inc. 6.13%; 2) Frontier Communications Parent Inc. 4.91%; 3) Insight Enterprises, Inc. 4.59%; 4) GoDaddy Inc. 4.46%; 5) Exelixis, Inc. 4.20%; 6) Wix.com Ltd. 4.08%; 7) Southwest Gas Holdings Inc. 4.06%; 8) Azenta Inc. 4.06%; 9) Treehouse Foods Inc. 3.95%; 10) US Catalent Inc. 3.45%. Allocations should not be viewed as predictive composition of the Fund’s portfolio, which may change at any time.

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