13D Activist Fund

A Qualitatively Analyzed Portfolio of Activism

January 11, 2022

Class I YTD Net Return: 19.55% Russell 2500 YTD: 18.18% AUM: $262 million

In the fourth quarter of 2021, the I shares (DDDIX) returned 2.40%, net of fees and expenses (versus 3.82% for the Russell 2500). This capped off a strong, outperforming year for the Fund as we navigated our ways through a new presidential administration, an inflationary environment and of course a global pandemic that refuses to go away. We have talked many times before about how we believe the growth/value rotation, end of COVID, ESG movement and SPAC-mania are all positive factors for shareholder activism well into the future, and we still strongly believe that to be true. But a new factor has arisen this quarter that we believe could benefit shareholder activism in the United States more than any other single factor or event in the past 15 years – the Securities and Exchange Commission ("SEC") mandate of a universal proxy card.

The total return for the 13D Activist Fund, net of fees and expenses, for the period ending December 31, 2021 are:

	ITD	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Yr
13D Activist Fund I	**14.70%**	**7.83%**	**2.40%**	**19.55%**	**19.55%**	**21.82%**	**14.13%**	**14.71%**
Russell 2500 TR	14.23%	3.28%	3.82%	18.18%	18.18%	21.91%	13.75%	14.15%
Mid Cap Value TR	13.51%	6.28%	8.54%	28.34%	28.34%	19.62%	11.22%	13.44%
SP US Activist Interest Index TR	6.96%	2.59%	-2.33%	33.86%	33.86%	23.42%	12.00%	6.97%
Lipper Percentile Rank	12th	N/A	N/A	85th	85th	26th	21st	12th
Lipper Ranking	24 /196	N/A	N/A	293/ 346	29/ 346	72/ 275	52/ 246	24 /196

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
13D Activist Fund I	**21.27%**	**36.58%**	**15.46%**	**-10.92%**	**19.57%**	**23.78%**	**-13.47%**	**27.15%**	**18.93%**	**19.55%**
Russell 2500 TR	17.88%	36.80%	7.07%	-2.90%	17.59%	16.81%	-10.00%	27.77%	19.99%	18.18%
Russell MidCap Value TR	18.45%	33.46%	14.75%	-4.78%	20.00%	13.34%	-12.29%	27.06%	4.96%	28.34%
SP US Activist Interest Index TR	22.36%	57.62%	-4.74%	-17.85%	13.68%	8.96%	-14.04%	10.07%	27.71%	33.86%

* Inception Date is December 28, 2011

On November 17, 2021, the SEC adopted final rules that will require parties in a contested election to use universal proxy cards for all shareholder meetings held after August 31, 2022. Under the new rules, both the company and the activist will be required to use proxy cards that include the names of all director nominees presented for election at a shareholder meeting, giving shareholders, for the first time, the ability to vote by proxy for their preferred mix of company and activist nominees.

Under the current proxy voting regime, each of the company and the activist has their own proxy card mailed to shareholders with their own nominees on it. The activist's nominees are never on the company's card and the company's nominees are not necessarily on the activist's card. I say "not necessarily" because the SEC short slate rule allows an activist to include some of the company's nominees on the activist's card in order to fill up the full slate, but not all of them. Even with the short slate rule, shareholders cannot vote for their desired combination of company and activist nominees in a contested election unless they actually attend the meeting in person and split their votes by ballot, something very few shareholders do today. The new rules will allow shareholders to vote by proxy for a mix of all directors up for election without the need to attend the meeting in person.

Universal ballots have been used in Canada for many years and the topic has been a major conversation in the US activist community for more than 10 years, when the SEC first became serious about potentially adopting it. It will now be adopted and will be a major boon for activists and a huge benefit for all shareholders. It will most definitely make proxy fights less expensive and less complicated and make it easier for shareholders with less activist experience to successfully elect director candidates. It should certainly make it easier for activists to get minority board representation, which is what they seek in 95%+ of activist engagements, but could make it a little more challenging for them to get majority control of the board, something that is rarely sought after and should be difficult.

Overall, this is a huge win for shareholders and activists and not a welcome change for corporate boards. As pioneering activist investor Barry Rosenstein said to us in March of 2012: "Having a universal ballot will also lead to a better board because it gives shareholders a greater choice, a larger selection of competent nominees and an ability to mix and match their votes. The only ones that it hurts are inferior directors." Consistent with this, premier activist defense attorney and creator of the poison pill, Marty Lipton, told us in December of 2011 that he is not for universal ballots because he did not believe it was necessary to "supplement the activists' toolbox." One thing is clear however, universal ballots are good for shareholders in that it gives them the most flexibility in putting together the most optimal board. Accordingly, institutional investors like State Street and CalSTRS have told us they wholly support universal ballots.

Starting in August of 2022, we expect to see (i) more shareholders nominate directors because of universal ballots, (ii) experienced activists have more confidence that they will win at least some board representation in a proxy fight, which should lead to a much larger number of settlements and (iii) a lot more companies with shareholder representatives on the Board. All three of these things are huge positives for shareholder activism and we believe will have an overwhelming positive effect on the entire strategy of shareholder activism and corporate engagement.

During the fourth quarter, we added two new positions and exited four. We exited GCP Applied Technologies, Inc. (GCP) after it agreed to be acquired by Paris-based construction materials company Saint-Gobain for a meaningful premium; and we exited Box. Inc. (Box), Merit Medical Systems, Inc. (MMSI) and The Hain Celestial Group, Inc. (HAIN) when the respective activists reduced their positions below 5% and exited their 13D filings. During the quarter, we added Dollar Tree, Inc. (DLTR) and US Foods Holding Corp. (USFD)[1].

Dollar Tree

DLTR is an investment by Mantle Ridge, an activist investment vehicle launched by Paul Hilal, a veteran activist who was a former Senior Partner at Pershing Square. Hilal is an incredibly experienced activist investor with a unique mix of analytical abilities, communication skills and likability that you rarely see in the activist

[1] The Fund's Top 10 Holdings as of 12/31/2021: PAPA JOHN'S INTERNATIONAL INC 5.51%; CHENIERE ENERGY INC 5.25%; OLIN CORP 5.06%; EVOLENT HEALTH INC. 4.73%; HOWARD HUGHES CORP. 4.48%; LKQ CORP 4.37%; ARAMARK 4.21%; HOWMET AEROSPACE INC. 4.17%; ENVIVA INC. 3.83%; TREEHOUSE FOODS INC. 3.78%

world. Mantle Ridge is very selective with its investments and while many activists look for 3-4 good ideas a year, Mantle Ridge looks for one good idea every 3-4 years. Hilal's approach has generally been to constructively engage with the Company, amicably get the required level of board representation for the given situation, bring in the right senior management team and then decide how to best optimize the portfolio of assets. This is Paul's third investment at Mantle Ridge, the first two being CSX and Aramark; and he played a leading role in several Pershing Square investments including Air Products, Ceridian and Canadian Pacific.

Previously, Starboard Value was involved at Dollar Tree. In January 2019, they outlined two opportunities they felt the Company should be pursuing – exploring strategic alternatives for Family Dollar, which the Company owns, and evaluating and testing a multiple-price point strategy. Starboard ultimately dropped its proxy fight for seats on the Board after the Company expressed openness to test multiple price points in its stores. However, it is almost two years later and not much has changed.

DLTR's stock traded as high as $120.37 on April 6 but fell to $84.26 on September 24 after the Company reported bad earnings and guidance for two consecutive quarters due in part to ocean freight headwinds. To stop the stock price dive, and possibly to head off a rumored activist, the Company announced that it would implement the multi-price point strategy and do a $1 billion stock buyback, despite the fact that they still had $1.5 billion of capacity on its previously announced buyback.

Hilal has a track record of creating shareholder value by bringing in a rock star CEO, most notably at Canadian Pacific and CSX with Hunter Harrison. In this case, we believe he has found the Hunter Harrison of consumer goods stores – someone who has grown up working every facet of the industry and has a proven record of creating value at the highest level. It has been reported that he is working with Rick Dreiling, the former CEO of Dollar General. We believe these reports to be true for two reasons: (i) Dreiling is on the board of Aramark with Hilal and the two are working very well together there and (ii) Dreiling is the exact type of CEO that Hilal looks for in an investment like this. Dreiling has had a successful four-decade long career, with success at Longs Drugs, Safeway, and Duane Reade. But, perhaps his biggest success was in 2008 when he was brought in by KKR to Dollar General. In just seven years, Dreiling took the Company's value from $4.5 billion to $25 billion, and it is now worth $53 billion. At the time Dreiling took over Dollar General, Family Dollar was also worth approximately $4.5 billion, and it is still worth $4.5 billion today. After Dollar General, Dreiling, a Lowe's board member, strongly advocated that Lowe's select Marvin Ellison for the CEO job. As a player/coach, Dreiling partnered with an experienced CEO in Ellison (former Chairman/CEO of JC Penney and senior executive at Home Depot for 12 years), and gave him the added benefit of his decades of experience and knowledge in a range of retail formats. Since then, Lowe's has returned 171.2% versus 68.9% for the S&P500.

That player/coach structure is exactly what is needed at DLTR. Bob Sasser was the Company's CEO from 2004 to 2017 and has since been its Executive Chairman while the Company is on its second CEO in the four years since Sasser. This is not surprising as it is very difficult for a new CEO to operate and make necessary changes, with the old CEO looking over his shoulder. Bringing in Dreiling as Chairman with a CEO he can partner with like he did at Lowe's should work great here. That CEO could even be current CEO Michael Witynski – it is too early to tell as he has only been CEO since July of 2020 and working in Sasser's shadow the whole time.

With a new team in place, two things can be done to create shareholder value. First, aggressively implementing a multiple price strategy, which has proven to work elsewhere. In early 2009, Dollarama introduced $1.25, $1.50 and $2.00 price points and same store sales growth more than doubled due to increases in the average ticket and store traffic. Dollarama has continued to add additional price points, with a $4.00 ceiling, and over the past ten years, average same store sales have increased from ~2% per year (prior to 2009) to ~6%, gross margins have increased from ~33% to ~40%, and EBITDA margins increased from ~14% to ~25%. Further, when DLTR trialed this strategy, they found a 6% same stores sale lift from only dedicating 10% of its square feet to items in other price points. By increasing that mix and merchandising the stores for optimal sales, these improvements could even be greater, as Dollarama discovered.

The second area for value creation is with Family Dollar, but not to sell it as Starboard advocated, at least not immediately. With Dreiling involved, he can do for Family Dollar what he did for Dollar General, and maybe even quicker. Dreiling was able to massively improve Dollar General in seven years, but with the benefit of that experience he should be able to improve upon that with Family Dollar. For example, it took Hunter Harrison 12 years to turn around Canadian National and he did it in four years at Canadian Pacific. After turning around Family Dollar, that could be a good time to explore a potential sale of it.

On December 10, 2021, Mantle Ridge nominated a full slate of eleven individuals for election to the Company's Board at the 2022 Annual Meeting. Mantle Ridge should have several advantages in a proxy fight. First, it is clear to many shareholders that the Company needs fresh eyes at the highest levels of the Board. While the Company has refreshed many board seats with new directors recently, the 4 directors with the most influence, including Sasser, have all been there for at least 13 years. Second, the Company has been severely underperforming – on a 1,3 and 5 year basis, the Company has underperformed the S&P500 by 11.06%, 40.27% and 71.02%, respectively, and the recent earnings misses are still fresh in the minds of shareholders. Third, since it has been rumored that Mantle Ridge is involved in the Company, the stock has gone up on heavy volume and the shareholder base has seen significant turnover, likely to more event-driven and activist friendly shareholders. Finally, Mantle Ridge not only has a track record of working well with incumbent boards, but Hilal has skills and characteristics that are generally attractive to boards. If the DLTR board checks up on him, they will no doubt see this, but they really need to look no further than Rick Dreiling for proof of this - he was an incumbent at Aramark and definitely on the other side of the table from Hilal when Mantle Ridge showed up there. Not only have they been able to work together at Aramark as they got to know each other, but they are now working together in this investment for Mantle Ridge. There is no higher endorsement for an activist investor. However, we do not expect that Mantle Ridge will get a majority of the Board here, but should get at least two or three directors either through a settlement or a proxy fight.

If Mantle Ridge is successful here in getting board seats, we expect that they will not only apply the governance, operational, financial and strategic activism that they are known for, but will also use their unique position as a director to keep an eye on any environmental and social issues or opportunities at the Company. For example, the distribution centers have never been completely integrated after DLTR bought Family Dollar. In fact, only one of the 26 serves both brands. This means that Family Dollar trucks are passing DLTR distribution centers to make deliveries and vice versa. Not only would integrating these distribution centers be good for the bottom line, it would also be beneficial to the environment by greatly reducing the emissions from these trucks as they make their deliveries. Also, a company like DLTR that serves the lower economic demographic of our country has many opportunities to institute programs and policies that benefit many of the most needy of our citizens. This is a main tenet of the benefits of Active ESG[2] (AESG™) investing. As an AESG investor, Mantle Ridge will be in a unique position to implement societal benefits that a passive ESG investor would never be able to do.

US Foods

USFD is an investment by Sachem Head, an activist hedge fund founded in 2013 by Scott Ferguson, the first investment professional hired at Pershing Square where he worked for nine years. Sachem Head has a history of solid value investing, but we believe that they really found their activist stride in 2020 with their investment in Olin. Scott Ferguson took a board seat at Olin – the first public company board seat he has taken in an investment that was not part of a group – and created tremendous value there where he remains on the board. His next activist 13D was at Elanco, where he again took a board seat and is in the process of creating value there. Taking board seats signifies both commitment and contribution and this philosophy and style is really paying off for Sachem Head.

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[2] Active ESG (or AESG) investors are investors who actively engage with portfolio companies to induce change to better the environment, social aspects and/or governance. The way to truly create real ESG change is to invest with the ESG investors who have someone in the boardroom.

In this investment, he already signals board interest through his 13D. He states in the filing that Sachem Head has entered into an agreement with Mr. Bernardo Hees who has agreed to serve as an advisor to Sachem Head and as a potential director nominee. This makes sense as Scott Ferguson is already on two public company boards and Hees has extensive industry and operating experience.

But to truly understand Sachem Head's thesis here, we have to go back to August of 2015, when Trian filed a 13D on USFD competitor Sysco and Nelson Peltz took a board seat creating significant value for shareholders by improving operating margins and focusing more on Sysco's higher margin businesses. Three years later in 2018, Sachem Head took a 2% position in USFD stating in a letter to investors that USFD could benefit from many of the same steps Sysco took at the urging of Trian. Sachem Head further stated: "With the help of an activist shareholder, Sysco meaningfully expanded profitability by improving discipline around pricing and increasing focus on high-margin private label goods and lucrative smaller restaurant customers . . . US Foods can implement many of the same initiatives while innovating in other areas, such as technology and central replenishment." In 2018, Sachem Head predicted that the Company could generate $3 in earnings per share in 2020 with a stock price of $45. Cut to 2020 and both gross and operating margins are worse than 2018, earnings per share is $1.66 and the stock price is $36.08. So, there is even more work to be done and more opportunity for value creation.

However, while Scott Ferguson does have extensive activist experience, he is already on two public company boards and does not have the operating experience of a Nelson Peltz (few activists do). So, he wisely partnered with Mr. Hees who has extensive operating experience. Mr. Hees is a former partner of 3G Capital and former CEO of Kraft Heinz and H.J. Heinz from 2013 to 2019. Interestingly, Nelson Peltz was a director of H.J. Heinz and served on the special committee of the board that negotiated the acquisition of Heinz by 3G Capital in 2013. Two years later, he started an activist campaign at Sysco, and two years after Hees left Heinz, he is starting one with Sachem Head at Sysco competitor, USFD. The blueprint to this campaign has already been written and Sachem Head seems to have recruited the right players for shareholder value creation. The only question that remains is does the Company see it that way?

Thank you very much for your support. We hope you are all continuing to stay safe and that your families remain healthy.

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. In addition, references to specific companies' securities should not be regarded as investment recommendations or indicative of the Fund's portfolio as a whole.

Historical performance results for investment indices and/or categories have been provided for general comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your account holdings correspond directly to any comparative indices. Past performance may not be indicative of future results and does not reflect the impact of taxes on non-qualified accounts. The data is not guaranteed. You cannot invest directly in an index. The Lipper Mid-Cap Core Funds Peer Group have been presented as investment strategies with similar investment styles. Lipper rankings are based on total return of a fund's stated share class, are historical and do not represent future results.

United Nations Principles for Responsible Investing ("UN PRI") The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General. The PRI is the world's leading proponent of responsible investment. It works: to understand the investment implications of environmental, social and governance (ESG) factors; to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI .

Special Purpose Acquisition Companies (SPACs) raise assets to seek potential acquisition opportunities. Unless and until an acquisition is completed, a SPAC generally invests its assets in U.S. government securities, money market securities, and cash. Because SPACs have no operating history or ongoing business other than seeking acquisitions, the value of their securities is particularly dependent on the ability of the entity's management to identify and complete a profitable acquisition. There is no guarantee that the SPACs in which the Fund invests will complete an acquisition or that any acquisitions that are completed will be profitable. Public stockholders of SPACs may not be afforded a meaningful opportunity to vote on a proposed initial business combination because certain stockholders, including stockholders affiliated with the management of the SPAC, may have sufficient voting power, and a financial incentive, to approve such a transaction without support from public stockholders. As a result, a SPAC may complete a business combination even though a majority of its public stockholders do not support such a combination. Some SPACs may pursue acquisitions only within certain industries or regions, which may increase the volatility of their prices.

The **Lipper Mid-Cap Core Funds Peer Group** have been presented as investment strategies with similar investment styles. Lipper rankings are based on total return of a fund's stated share class, are historical and do not represent future results. Historical performance results for investment indices and/or categories have been provided for general comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your account holdings correspond directly to any comparative indices. Past performance may not be indicative of future results and does not reflect the impact of taxes on non-qualified accounts. The data herein is not guaranteed. You cannot invest directly in an index.

The **Russell 2500** 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 Midcap Index** is a market capitalization weighted index comprised of 800 publicly traded U.S. companies with market caps of between $2 and $10 billion. The 800 companies in the Russell Midcap Index are the same 800 of the 1,000 companies that comprise Russell 1000 Index. The Russell 1000 Index is a compilation of the largest 1,000 publicly traded U.S. companies. The average Russell Midcap Index member has a market cap of $8 billion to $10 billion, with a median value of $4 billion to $5 billion. The index is reconstituted annually so that stocks that have outgrown the index can be removed and new entries can be added. **The S&P U.S. Activist Interest Index** is designed to measure the performance of companies within the S&P U.S. BMI that have been targeted by an activist investor, as defined by S&P Capital IQ, within the last 24 months.

Mutual Fund investing involves risk including loss of principal. 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.