

## Dear Ransome Opportunity Equity Investor: Performance

2020 turned out to be a surprising year from start to finish. Ransome Opportunity Equity (“Opportunity Equity” or “ROE”) delivered strong returns in the second half, advancing 10.54% and 25.28% (Gross of Fees) respectively in Q3 and Q4, outperforming the S&P 500 Index, which climbed 8.93% and 12.14%. For the year ROE returned 62.92% vs the benchmark at 18.40%. Annualized from inception, ROE has returned 59.32% annually, significantly ahead of the index, which returned 24.77%.

### Performance Analysis

(%) for periods ending 12/31/2020

	Ransome Opportunity Equity (Gross)	Ransome Opportunity Equity (Net)	S&P 500 Total Return Index <sup>2</sup>	Ransome Opportunity Equity Active Return
Q4	25.28	24.99	12.14	13.14
Q3	10.08	9.81	8.93	1.14
YTD	62.92	61.35	18.40	44.52
One Year	62.92	61.35	18.40	44.52
Inception <sup>1</sup> (12/31/18)	59.32	57.79	23.67	32.71
Cumulative	153.33	148.97	55.67	98.16

### Review and Outlook

Following a volatile first half, and strong Q2, the strategy maintained strong performance to close out the year. As we discussed in our Q2 update, a vigorous coordinated response by the Federal Reserve and Congress, including both monetary and fiscal support, not only served to cushion what could have been a much more damaging shock, but also supported relatively normal functioning of financial markets. Markets flush with liquidity serve as a cushion, but also have the potential to cause, or exacerbate, imbalances. The outsized performance by technology and growth factors in the second half of the year as an example. The divergence between growth and value factors is as extreme as it has been at major inflection points of the past (2000, 2008) indicating both caution and selectivity.

As we have stated, persistently low risk-free rates have served to bolster valuations. In fact, this factor when considered in its entirety, may be the most important determinant of performance throughout the post Global Financial Crisis period. The discount rate used to value cash flows are, in part, a function of risk-free rates. Therefore, as the risk-free rate falls so too does the required rate of return used in Discounted Cash Flow valuation assessments.

<sup>1</sup> Annualized

<sup>2</sup> The indexes are unmanaged. The index performance is not strategy performance; one cannot invest directly into an index.

S&P 500 Index measures the performance of the broad segment of the U.S. equity universe comprised of 500 widely held large cap U.S. companies. The index and strategy are with dividends, which positively impact the performance results



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Chief Investment Officer  
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Industry Start: 1997

The net result of lower discount factor is higher equity values. Additionally, low risk-free rates have served to instigate a significant change in the risk appetite, and to some degree, the requirement to accept increased risk (movement to the right along the Capital Market Line).

As the risks associated with fixed income investment have increased as market and policy rates approach the zero bound, investors have been pushed to engage in what I term Intertemporal Asset Class Substitution. That is, as historically low risk assets have embedded an ever-increasing amount of price/principal risk, coupled with de minimis income compensation, investors are faced with a decision regarding substitution of asset classes to fund long term needs. A phrase we heard often this year is TINA, or “There Is No Alternative” to equity. While this may not literally be the case, rates below 100 bps pose significant risks for fixed income investors, making what has historically been a stable risk offset asset look, on a potential price return basis, much more like high yield or equity which serves to make other asset classes look more attractive. As an example, should rates rise 200 bps, the 10-year treasury has the potential to drawdown 20% on a price basis.

While it is not our expectation that market rates will increase dramatically in 2021, assuming economic activity improves, an increase of +/- 100 bps would not be a shock. Improving economic activity resulting in increasing rates has the potential to weigh on higher valuation equity relative to alternatives. Alternatively, persistent economic weakness with the Fed out of ammunition in terms of policy rates, and while carrying historically inflated balance sheet, also has the potential to weigh on current factor leadership. My athletic experience often causes me to think in sport related analogies. In this case, a cycling analogy comes to mind; “everybody looks strong with a tailwind.” As we turn into what may be a cross or headwind, the environment may not be as universally flattering, and as such, disciplined risk minimization may well be the best return maximization strategy for 2021.

As mentioned previously, the dispersion between growth and value is at a historically significant level. Looking at a similar disparity during the 2008 Global Financial Crisis, EPS and weekly economic index movements coincided with increased dispersion between growth and value, similar to what we have seen recently.

However, As the economy and earnings recovered, not only did the dispersion mean revert, value outperformed, causing a complete reversal of the trough dispersion configuration, which had favored growth.

There is no question that technological evolution has proceeded at an accelerating rate both organically, and as a result of the pandemic, which has necessitated significantly expedited alterations in personal and business behavior, that may have otherwise taken years. This process of acute creative destruction pits the old against the new, and tends to promote speculation regarding differences between this cycle of innovation, and those experienced in the past. This is not a new phenomenon. However, to expect that in this instance the balance between the innovative leaders and the more cyclical “old economy” businesses will not normalize is to commit the greatest sacrilege an investor can commit, effectively proclaiming; “this time it is different.” The truth is it is never entirely different, because, human nature has not changed for thousands of years, however, elements of difference do occur which necessitate a degree of flexibility of thought.

As I was finishing up this summary, Howard marks latest Memo *Something of Value* hit my inbox. If at all possible, I typically stop what I am doing and read Howards memos with great interest. I am not alone here I am sure. A great deal of the note recounted interactions between Howard and his son regarding their respective approaches to investing, and how the bright line between a “value” style and “growth” style may not be entirely necessary or productive. I suggest you take the time to read the note as it aligns with our firm philosophy regarding “styles” and what is required, in terms of thought flexibility, as it relates to successful active investment management.

As you may have heard me say in the past, all investing is value investing to some degree, as no rational person would knowingly decide to allocate capital to something they believed was worth less than its current price. The final page of Howard’s memo recounts a conversation he had with a well known value investor. He questioned the manager as to how he could hold fast growing companies, like Amazon, long before the companies were universally acknowledged as winners. The answer; “they looked like value to me”, Howards conclusion, “I guess the answer is, value is where you find it.” We continue to look for opportunities which fit our definition of value. Given the dispersion we mention above, those opportunities may come in the more traditional form, but we don’t rule out the more flexible variety.

### Top Contributors to Performance Quarter Ending 12/31/2020

	Contribution %
Square, Inc.	3.70
Brookfield Asset Management, Inc.	2.89
Raymond James Financial, Inc.	2.88

**Square, Inc.** together with its subsidiaries, provides payment and point-of-sale solutions managed payments, instant transfer, Square Card, Square Capital,

and payroll. Additionally, it provides Cash App, which enables to send, spend, and store money. We initiated a position in Square in late March as valuations became more attractive. We believe Square to be a financial technology product and service leader whose growing suite of business and retail offerings will continue to attract users desiring a more efficient and streamlined financial services experience. As of this writing Square has returned just shy of 500% from our entry point.

**Brookfield Asset Management, Inc.** is a leading global alternative asset manager and one of the largest investors in real assets. The company manages over \$577 billion of assets across real estate, infrastructure, renewable power, private equity, and credit. Between 2016 and 2020, client assets under management increased from \$236 billion to \$577 billion, a CAGR of 25%. Fee related earnings (FRE) and FRE plus performance fees have increased at a CAGR of 20% and 32 % respectively over the same period. Perpetually low interest rates are supportive of strong allocation to alternatives which will benefit well established players such as Brookfield. The stock had suffered during the COVID lockdowns as office and retail real estate holding performance was viewed as a liability. However, as reopening hopes have improved, so has Brookfield share price performance.

**Raymond James Financial, Inc.** provides a broad range of retail and institutional financial products and services including underwriting, distribution, trading, and brokerage of equity and debt securities, securities transaction services, including the sale of equities, mutual funds, fixed income products, and insurance and annuity products to retail clients; mutual funds; investment advisory and margin loan services; custodial, trading, research, and other support services. Notwithstanding record results across many of its business lines in 2020, compressed net interest margin in its RJ Bank division weighed on the shares as policy rates moved toward zero in response to COVID. Optimism over economic recovery, and rotation to more reasonably valued issues, supported Raymond James shares late in the fourth quarter. We believe RJ will continue to benefit from improvements in net interest margin, while continuing to attract independent Investment Advisors to its platform.

### Top Detractors from Performance Quarter Ending 12/31/2020

	Contribution %
Walgreens Boots Alliance, Inc.	-.07

### Portfolio Structure and Investment Strategy

Opportunity Equity invests in businesses across the capitalization spectrum whose equity is valued below our assessment of intrinsic value at inception. We favor businesses with exceptional management, strong competitive advantage, have a business model with strong recurring revenues from a growing market and are positioned to benefit from or capitalize on secular trends. Portfolios are concentrated in a small number of holdings (typically less than 20) and limit non equity securities (typically equity derivatives) to 20% of assets.

At the end of the quarter the largest market cap holding was \$2.30 trillion and the smallest \$3.09 billion. The median and weighted market caps were \$38.2 and \$296.67 billion respectively. Portfolios held 14 positions and the top 10 positions (inclusive of cash) accounted for 81.70% of total investments. No non equity positions we held in Q4. We believe our holdings offer significant appreciation potential, although we cannot guarantee that will be the case.

During December we trimmed all positions to a max of 7%, rebalancing the portfolio to limit stock specific and event risk and to raise cash for new portfolio additions.

### Portfolio Industry Relative Performance - Quarter Ending 12/31/2020

	Industry Return <sup>1</sup>	Holdings Average <sup>2</sup>	Relative
Software	8.03	33.89	25.86
Consumer Electronics	23.76	14.58	-9.18
Real Estate Investment Trusts	2.86	31.85	28.99
Real Estate Services	25.43	33.53	8.10
Asset Management	8.34	22.52	14.18
Capital Markets	17.87	31.49	13.62
Internet Retail	8.29	3.44	-4.85
Pharmaceutical Retail	7.55	-2.73	-10.28
Mortgage Finance	23.57	1.46	-22.11

<sup>1</sup> Based on S&P 500 industry composite 9/30/2020 through 12/31/2020.

<sup>2</sup> Unweighted average of portfolio holding returns in the referenced industry

### Portfolio Additions

**Virtu Financial, Inc.** (Capital Markets) – Virtu, provides market making and liquidity services through its proprietary, multi-asset, and multi-currency technology platform to the financial markets worldwide. The company completed several strategic acquisitions over the last several years and has been working aggressively on operational integration and to realize expected synergies. This process had been ahead of plan giving the company visibility for a reasonable baseline/normalized EPS. Because of the nature of the company's business, when markets are more volatile, spreads increase and significantly boost earnings, as was the case in 2020. With a dividend yield of close to 4%, and a business that improves when market volatility increases, we see Virtu is a natural portfolio addition, from a risk reward perspective.

**Walgreens Boots Alliance, Inc.** (Pharmaceutical Retail) is a leading healthcare and pharmaceutical retailer, operating over 9021 retail locations domestically, and some 4428 abroad. The announcement of an online pharmacy offering by Amazon put tremendous pressure on the shares of WBA in the fourth quarter. While it is impossible to dismiss the pressure of online fulfillment, we see opportunity in the WBA footprint as a means to deliver core medical services over time.

COVID related testing as an example of this. Services provided by local pharmacies are likely to increase in the future as other in store services will be seen a means to deliver care at the lowest cost and greatest convenience to consumers. WBA yields over 4% and is attractively valued based on our assessment of normalized cash flow.

### Portfolio Holdings 12/31/2020

	% Net Assets
Cash	22.35
Apple, Inc.	7.26
Square, Inc.	6.89
Raymond James Financial, Inc.	6.89
Blackstone Group, Inc.	6.72
Ameriprise, Inc.	6.71
Blackrock, Inc.	6.65
Brookfield Asset Management, Inc.	6.54
Simon Property Group, Inc	5.89
Virtu Financial, Inc.	5.80
Total	81.70

We continue to believe in the power of our approach and in the companies in the portfolio. Our focus each day is to identify opportunities which will add the greatest amount of value with the least amount of relative risk. The application of our strategy has achieved positive excess returns from inception. It is our commitment to steward your capital well, and validate your trust, by delivering exceptional performance for you, our investors.

Best regards,



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Portfolio Manager

The information provided above should not be construed as a recommendation to buy, sell or hold any particular security. The data is shown for informational purposes only and is not indicative of future portfolio characteristics or returns. Portfolio holdings may change over time without advance notice. The holdings identified do not represent all the securities purchased or sold in the composite. Holdings are provided for informational purposes only. The information contained herein is made available for educational purposes only and should not be used for any other purpose. The information contained herein does not constitute and should not be construed as an offering of advisory services or to buy, sell or hold any particular security or related financial instrument(s) in any jurisdiction. Certain information contained herein concerning economic trends and performance is based on or derived from information provided by independent third-party sources. Ransome Asset Management, LLC ("Ransome") believes that the sources from which such information has been obtained are reliable; however, it cannot guarantee the accuracy of such information and has not independently verified the accuracy or completeness of such information or the assumptions on which such information is based. This memorandum, including the information contained herein, may not be copied, reproduced, republished, or posted in whole or in part, in any form without the prior written consent of Ransome. Ransome makes no representation, and it should not be assumed, that past investment performance is an indication or guarantee of future results. Moreover, wherever there is the potential for profit there is also the possibility of loss. Stocks have historically been sensitive to economic cycles and investor sentiment that can affect volatility and risk. Returns can fluctuate and investors can lose money.

Equity investing is based on the potential for a company's stock price to rise based upon anticipated changes in the market, within the company itself, or both. There is the risk that a company will not achieve its expected results, or that an unexpected change in the market or within the company will occur, which may adversely affect investment results. Other factors relating to a company or to overall market conditions may also contribute to price declines. Stocks have historically been sensitive to economic cycles and investor sentiment that can affect volatility and risk. Returns can fluctuate and investors can lose money. Not every investment opportunity will meet all of the investment criteria mentioned in equal degree. Please consider all risks carefully before investing. Investment in Ransome Opportunity Equity strategy is subject to many risks including sudden changes in overall market valuations and market liquidity. Concentrations in a smaller number of securities may involve greater risk and portfolio price volatility than investments in a more diversified strategy. Investing a significant portion of assets in the financial services sector may cause the strategy to be more sensitive to problems affecting financial companies. **Past performance is no guarantee of future results**

Ransome Asset Management, LLC is an independent registered investment advisory firm established in 2019 to manage equity portfolios for and provide advisory services to individual and institutional clients. The Opportunity Equity strategy was launched December 31, 2018 with the objective to generate superior risk adjusted excess return versus the S&P 500 Index using concentrated portfolios (typically 10-20 securities) and a value-oriented risk-controlled approach. Composite performance from inception represents a single non fee paying account of the firm Founder managed using the Firms Opportunity Equity strategy. Securities are selected using the Firms proprietary methodology which seeks to identify investments management believes to possess superior risk reward characteristics vs the benchmark which contains 500 holdings (The S&P 500 Index is an unmanaged index of 500 selected common stocks, most of which are listed on the New York Stock Exchange. The index is adjusted for dividends, weighted towards stocks with large market capitalizations and represents approximately two-thirds of the total market value of all domestic common stocks. Investments cannot be made directly in an index). Composite returns may have a lower correlation with the benchmark than a more diversified strategy. Returns are presented gross of management fees and custodial fees but net of all trading expenses and also net assuming an average 1% management fee. Firm management fee maximum is 1.5% and performance fee maximum is 35% of gross excess return for performance fee accounts. For accounts not subject to performance fee the Firm management fee maximum is 2.5%. Investor performance may be higher or lower.

Weighted average is a method of calculating an average in which each value is assigned a weight. **Sharpe Ratio:** is a risk-adjusted performance statistic that measures reward per unit of risk as measured by standard deviation. The higher the Sharpe ratio, the better a fund's risk adjusted performance. Sharpe ratios calculated using daily or monthly returns with the result being annualized. **Sortino Ratio:** is a modification of the Sharpe ratio that penalizes only those returns falling below a user-specified target or required rate of return, while the Sharpe ratio penalizes both upside and downside volatility equally. The higher the Sortino ratio, the better a fund's risk adjusted performance. **Treynor Ratio:** is a modification of the Sharpe ratio measures reward per unit of risk as measured by beta. The higher the Treynor ratio, the better a fund's risk adjusted performance. **Alpha:** measures the difference between a fund's actual returns and its expected performance, given its level of risk as measured by beta. **Beta:** measures a fund's sensitivity to market movements. The beta of the market is 1.00 by definition. Beta is calculated using a regression vs the benchmark index. **R-Squared:** measures how closely a fund's performance correlates to the performance of the benchmark index, and thus is a measurement of what portion of its performance can be explained by the performance of the index. Values for R-Squared range from 0 to 100, where 0 indicates no correlation and 100 indicates perfect correlation. **Tracking Error:** measures how closely a fund's return follows the benchmark index returns. It is calculated as the annualized standard deviation of the difference between the fund and the index returns. **Information Ratio:** measures the excess return of a fund divided by the amount of risk the fund takes relative to the benchmark index. The higher the information ratio, the higher the excess return expected of the fund, given the amount of risk involved. **Upside Capture:** explains how well a fund performs in time periods where the benchmark's returns are greater than zero. **Downside Capture:** explains how well a fund performs in time periods where the benchmark's returns are less than zero. **Active Share:** a term used to describe the share of a portfolio's holdings that differ from that portfolio's benchmark index. It is calculated by comparing the weight of each holding in the Fund to that holding's weight in the benchmark. Positions with either a positive or negative weighting versus the benchmark have Active Share. An Active Share of 100% implies zero overlap with the benchmark. Active Share was introduced in 2006 in a study by Yale academics, M. Cremers and A. Petajisto, as a measure of active portfolio management.