Long Cast
ADVISERS LLC

Dear Friends:

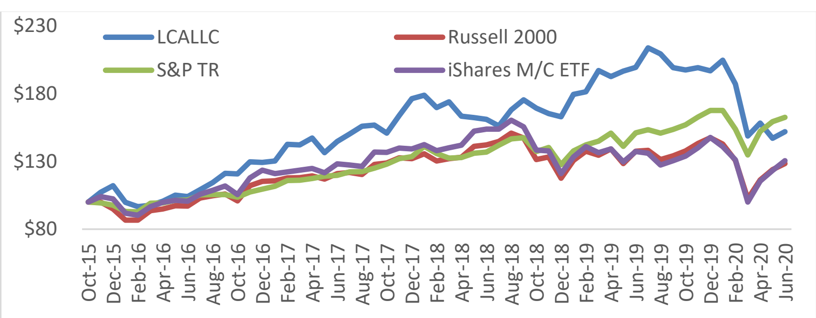
For the 2Q20 quarter, cumulative returns on accounts managed by Long Cast Advisers improved 2%, net of applicable fees. This was worse than the iShares MicroCap ETF (+31%), the Russell 2000 index (+25%), and the S&P Total Return index (+21%). (I have replaced the Dow as a comparable with the iShares Microcap ETF given our focus on small / micro-cap companies.) Year-to-date cumulative returns on accounts managed by Long Cast Advisers are down 23% vs down 13% for the Russell, down 12% for the iShares Microcap ETF and down 3% for the S&P TR.

Returns for separate accounts managed by LCA ranged from -11% to +10% for the quarter, with the tails skewed on the downside by one account heavily concentrated in a single stock (at the request of the client) and on the upside by a new account that came with a portfolio I am slowly transitioning to ours'. The median account return was 2.7%.

Since inception in November 2015 through quarter end 2Q20, LCA has returned a cumulative 52% net of fees, or 9% CAGR. *Past performance is no guarantee of future results.*

Because our portfolio is comprised of just a handful of typically small "off the beaten path" businesses that we tend to own for long periods, it is expected that returns will vary considerably from the baseline. As a reminder, LCA will not invest in companies exposed to the hydrocarbon or defense industries, a small effort to align capital growth, business ownership and personal ethics.

| | Long Cast | R2000 | IWC | S&P TR |
|---|---|---|---|---|
| 2015 (2-mos) | 12% | -5% | 2% | -2% |
| 2016 | 15% | 21% | 21% | 12% |
| 2017 | 36% | 15% | 13% | 22% |
| 2018 | -8% | -11% | -13% | -4% |
| 2019 | 21% | 25% | 22% | 31% |
| 1Q20 | -24% | -31% | -32% | -20% |
| 2Q20 | 2% | 25% | 31% | 21% |
| YTD to 6/30/20 | -23% | -13% | -12% | -3% |
| Cumulative chg | 52% | 28% | 30% | 62% |
| CAGR | 9% | 5% | 6% | 11% |
| LTM | -24% | -7% | -5% | 8% |




**PERFORMANCE / PORTFOLIO HOLDINGS**

A lot has been written about the state of the markets; about outperformance of larger caps vs smaller caps; about the FANGs or the FAANGs or MAGA stocks; about flat index returns in what could be the worst economy since the depression; about bitcoin, gold or silver; etc. None of that is relevant here.

Our 2Q20 and YTD portfolio returns lag the market b/c the 2Q20 and YTD returns of our largest holdings - services companies whose operations are negatively impacted by COVID – significantly lag the market. Two of our top three holdings at the beginning of the year, which are also two of our longest held assets, are CTEK (down 39% ytd) and QRHC (down 34% ytd). I believe these companies still offer long term opportunities for long term investors and that is why we continue to own them.

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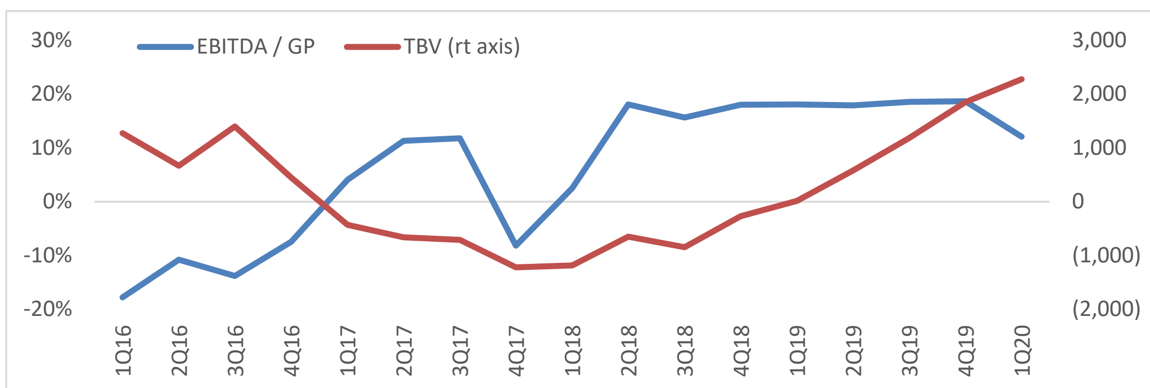
**CTEK** does cybersecurity, HIPAA compliance and technology audit related services for healthcare institutions. It has in the last 12-months transitioned to new (and better) management and a new (and better) Board and new (and better) shareholders. The old shareholder base was rightfully frustrated.

The company serves a mix of larger / urban hospitals and smaller / regional hospitals, though it definitely skews smaller. I have spoken with folks in hospital management roles and for all their COVID-related issues at the moment and the decline in elective surgeries, they still view cybersecurity as a critical issue and are still spending on it. These issues only compound in a world of telehealth. CTEK concurrently consistently ranks highly in various healthcare cybersecurity ratings.

Because of prior missteps, (ie not investing appropriately in sales and for whatever reasons, declining an opportunity to reverse merge with a large competitor, which explains the new Board) the company has lost its growth momentum. Now it is appropriately refocusing on living within its means. It will take time and patience but this is a business where demand is strong, supply is tight and their brand awareness within their niche is high.

**QRHC** is an asset lite waste services company. I have complained ad nauseum about their need for improved technology. I have given a bit of credit to the growth in gross profit despite flat to down revenues. I think it's worth time to give credit for the value re-created over the last few years despite zero consistent appreciation in the stock price.

While COVID impacted results will probably break the string of improvement in tangible book value (book value ex-goodwill and intangibles, which is appropriate b/c they haven't made an acquisition in years) I am confident that the ingredients that lead to these returns remain. They have started to talk about seeking acquisition. Pushing more sales through flat fixed costs is the secret to scale.




Our other top-five holdings are **INS**, **TBTC** and **PESI**.

In addition to these, I have been accumulating shares in three companies: A small podcast hosting company in the midst of improving governance and management; An Oregon-based propane tank monitoring company that recently acquired out of bankruptcy Ample Hills, a Brooklyn-based ice cream brand that has prime retail locations, an underutilized manufacturing facility and terrific flavors. It was capitalized pre-bankruptcy with $12M equity and $5M debt and was doing $10M in annual sales but generated a loss of $7M in 2019 due to poor management of its expansion. The company paid $1M for

this asset; And a niche specialty insurance company (their core business is New York State disability / paid family leave, and Midwest region short-term medical) that is miscategorized as a life insurance company and has been growing its already significant exposure to pet insurance (comps to TRUP), insurance technologies & lead generation (comps to EHTH and BFYT), and will be launching at year-end its Medicare supplemental insurance. After years of tracking this company, which has a long history of building shareholder value and buying shares below book value, we have started to become an owner of it, buying it likewise at book value.

**CONCLUDING THOUGHTS: ON LAG**

There are many intersections one can observe between COVID and investing and many have been written about, but the one that interests me is around “lag” and the difficulty people seem to have in dealing with it.

What I mean by lag encompasses the delay between the cause and the effect, the gap between the abstract and the tangible, or the difference between the distant and the present. It includes as well the predictable human preference to do what feels right in the “here and now” while ignoring long term planning for the “there and then”.

In March 2020, Bergamo, Italy had overwhelmed hospitals and limited supplies of medical talent and equipment but outside of that “hot zone” there seemed to exist an insouciance b/c it was “there” and not “here” (wherever “here” happened to be).

Then it happened in NYC. In April 2020 I talked with a friend in Dallas who said “it’s in the news, but it seems very distant,” which was a fair and reasonable observation. “Seems very distant” is a wonderful articulation of what I’m talking about when I mean lag.

There is presently a lot of virus in Dallas and my friend in Dallas, and his friends, and his family, and his employees, take precautions they didn’t take back in April. “Of course they do,” you might say, but that’s exactly my point. It’s obvious what to do when there’s more immediacy to the cause and effect but it’s harder to deal with these notions when there’s a lag.

Since the virus has a long incubation period and spreads easily, it seems wise and appropriate for as many people as possible to take small precautions “here” when there’s an outbreak “there” to avoid its spread, b/c once the virus achieves a certain concentration within “here’s” community, its momentum causes an outbreak. Unfortunately, and however predictably, people have a hard time wrapping their heads around changing behavior when there’s no tangible or present reason or reward at hand for doing so.

I used the term “momentum” to describe what happens in the midst of an outbreak. I consider momentum the opposite of lag. Something with momentum has an immediate feedback loop, while lag has a long delay. It is easy to ignore something with lag b/c it is not present and immediate. Concurrently, it is hard to resist something with momentum.

I hope the relevance to the market is apparent here. There are many stocks that seem to be in the midst of a cycle of momentum, which feeds its own momentum. It's easy to feel the urge to jump on that momentum. Few people have the urge to jump on lag.

Lag, however, is where I and other long term and patient investors spend our time. It is why I continue to own stocks that are under water, provided the reasons that I bought them in the first place haven't materially changed.

It would be trite and it would also be an over statement to say "I am comfortable with lag". Our YTD returns feel like a gut punch. Sometimes I wonder if focusing on small stocks is overly myopic. But I can sit with my discomfort or seek distraction from it in order to adhere to the principles of lag, b/c I think lag + analytical research + experience are my edges as an investor.

With the risk of sounding like a broken record, the problems solved by our investments tend to be material problems with large addressable markets. I believe our investments have long and wide opportunity pathways. They are small and cheap. They aren't "in orbit" like so many larger companies but they have in place the attributes and balance sheets to get them off the ground and into space without crashing and destroying themselves. The opportunity cost of owning them might seem high in a world where momentum rules the day, but I think time and patience and an adherence to lag will win out over time.

As always, I appreciate your entrusting me with your capital and the responsibility of being its steward. If you have any comments or questions, please don't hesitate to write.

Sincerely / Avi
July 2020
Brooklyn, NY