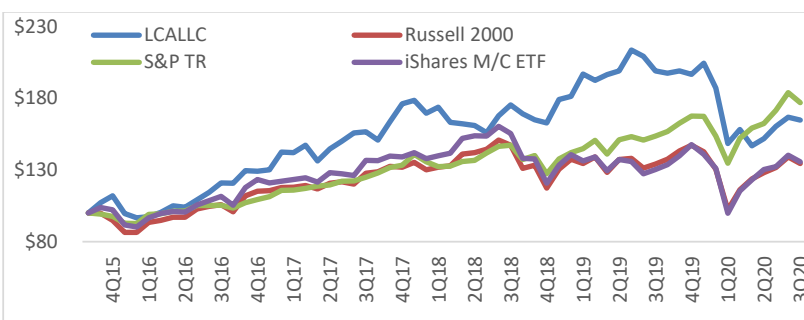


Dear Friends:

For the 3Q20 quarter, cumulative returns on accounts managed by Long Cast Advisers improved 9%, net of applicable fees, in line with the S&P Total Return index and better than the iShares MicroCap ETF and the Russell 2000 index. However, year-to-date cumulative returns continue to lag these indices by a wide margin. Since inception in November 2015 through quarter end 2Q20, LCA has returned a cumulative 66% net of fees, or 11% 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%
3Q20	9%	5%	4%	9%
2020 (YTD 9/30)	-16%	-9%	-8%	6%
Cumulative chg	65%	35%	36%	77%
CAGR	11%	6%	6%	12%
LTM	-17%	0%	4%	15%



PERFORMANCE / PORTFOLIO HOLDINGS

The major culprit in our negative returns is our heavily weighted exposure to **CTEK**, which is down more than 50% YTD. I’ve written extensively in prior letters about this company, which provides cybersecurity services primarily to healthcare institutions. We are a year into a new Board, new management and new long term and aligned shareholders. The end market is spending. The company has a [regarded brand](#) in the h/c cybersecurity advisory. CERN recently paid \$35M for a healthcare focused cybersecurity company, likely smaller than ours. It’s not been easy to own but I think value will be recognized over time and our patience will pay off.

During the quarter across all accounts, I added to **SIFY** (data centers in India and trading for less than 4x EBITDA), **LSYN** (podcast hosting) as well as to **RBCN** and **SMIT**. When I initially bought these latter two stocks, they were trading with negative enterprise values (ie less than the value of the cash on the balance sheet). RBCN still is. Both are headed by CEO’s who are patient and motivated value investors.

SMIT “put its cash to work” in 3Q20 with the \$1M acquisition out of bankruptcy of Ample Hills, a Brooklyn based ice cream manufacturer and retailer that had been capitalized over the last five years with \$12M in equity capital and \$4M in bank debt, was profitable at the store level but was lost in the mire of a dysfunctional expansion. Construction issues at the Red Hook was a major factor in the bankruptcy.

The company has a strong following locally but was under-managed by its founders, whose [podcast about their entrepreneurial adventures](#) will leave you shaking your head. Business is about the over indulgences of the customers, not the capital allocators. They are no longer involved in the business.

Many return paths are possible on this \$1M purchase. Co-packing (using the equipment to produce for other vendors) increases capacity utilization. Store footprint. Wholesale distribution. Each could have high returns. (More info about Ample Hills in [this BK filing](#). Many more details about SMIT on this [thorough blog post](#) by Low Tide Investments).

More recently and subsequent to 3Q20, I've closed positions in smaller holdings to reallocate capital to Garrett Motion (ticker: **GTXMQ**), a company that is currently in bankruptcy (the MQ is a suffix that indicates it's no longer trading on the major exchanges but is in BK and trades on the OTC). The idea came to me from a friend who is in the business and excellent at the analysis of unusual opportunities like this one.

GTX is a profitable, cash flow positive operating business (it makes components for car engines) that I had actually looked at as an investment two years ago but passed on b/c its former parent, Honeywell, encumbered it with an unusual asbestos-related liability prior to the spinoff. The bk is an effort to disencumber itself from this liability. Take away the liability and it is a sustaining business.

The crux is that there is now a bidding war for the company in bankruptcy that leaves by my back-of-the-envelope analysis at least ~\$6.00 / share in value for equity shareholders, and possibly much more. The complexity of the case means that we will unlikely stay for the last dollar of value, but we are already deep in the money on this investment.

I have also more recently added to **FRMO**. The company on the face of it, is simply a ~5% owner of the revenue of another asset manager called Horizon Kinetic. Both FRMO and Horizon Kinetic are run by Murray Stahl and Steve Bregman and I believe the creation of FRMO was a way for them to convert taxable income from Horizon Kinetic into investment capital (and ultimately a lower-taxed capital gain) with which they can pursue unusual investments that are not available through the more traditional structure of a mutual fund.

So what you really get with FRMO is a balance sheet partially capitalized with Horizon Kinetic revenues and used to make investments. That balance sheet includes partnerships that invest (long / short) in traditional stocks and generates partnership fees for FRMO, plus a few weird and unusual assets.

Included among these partnerships is one called South LaSalle, a vehicle used to buy seats on the Minneapolis Grain Exchange (MGEX), of which it is the largest owner. In general, exchanges, even small one's like MGEX, tend to be excellent investments since they fulfill a role that is difficult to replace and have high returns on capital.

Why is this important? Recently, MGEX announced its sale to the Miami International Holdings (MIH). MIH is a private company that owns the Miami Exchange and is rolling up other regional exchanges, including the Bermuda Stock Exchange, which was another FRMO investment.

MGEX has “de-mutualized” in order to facilitate the acquisition but the market for seats on the exchange is still open and one could, today, [buy one of those seats](#) in order to eventually become a part owner of MIH, a private and growing roll up of regional exchanges. Were Long Cast Advisers a partnership with pooled money, I would have bought a seat on the MGEX in order to have direct exposure to this acquisition. But since we are an SMA, my only way to do this is by adding more FRMO.

Right now, South LaSalle is ~8% of FRMO’s book value. Post deal, FRMO, through its South LaSalle partnership, will be a not insignificant part owner of the MIH, whose substantial value I think will be recognized over time. I try to buy FRMO when it is trading for less than 2x BV and am especially excited as I think this could be a material catalyst. More info on FRMO as a whole can be found on [this blogpost](#) written by a wonderful investor and entrepreneur from Iceland who I met at the FRMO shareholder meeting a few years ago.

IN CONCLUSION: LESSONS FROM DISCOMFORT

This year to date has been humbling. Watching our portfolio (CTEK notably) decline and (still) not (quite fully) rebound with the rest of the market has been hard for me, both personally (as a client of this business) and professionally (as the investment manager of your capital). I appreciate your patience through this period.

It would be stupid to experience this discomfort and not reflect on ways to improve. The least I can do – given underwhelming returns - is offer honesty, transparency and authenticity and express how I intend to grow, learn and change vs “everything is great, the market is wrong” when that simply isn’t the case.

So here is one lesson learned: I have been a buy and hold investor my entire life; generally, I rarely sell stocks. However, as a manager tasked with growing our capital and without the natural reweighting mechanism of pooled capital, buy and hold ad infinitum is simply not realistic.

I could avoid this problem by transitioning to pooled capital, and I might at some point (I would grandfather in fees on existing capital), but I think that within the SMA constraint there is an essential discipline of portfolio management that I think I am learning, and I mention this b/c I’ve been very upfront that I’m still evolving from an analyst to a PM, so this feels like a big step in that process.

Specifically, and without getting into too much detail, it’s an awareness that I don’t need to improve on “the next best idea” in the portfolio (something I heard a long time ago), I just need to improve on the worst. I know this sounds obvious, but it’s a simpler framework that sharpens the focus on the three elements that ultimately drive shareholder returns; growth, margin expansion and re-valuation.

I’ve come to this insight through reflection and through help from other portfolio managers who have been generous enough to share their time and thoughts with me over the last few months. Here are five other insights that stand out.

- I continue to believe one should “punch the ticket” infrequently, but public equities offer advantages over private equity and private companies in the form of liquidity and it is unwise to not use that advantage when appropriate.

- There is a difference between owning companies over their entire life cycle vs owning them over periods when they are “under-valued” to “over-valued” (however one wishes to define those terms). I expect I will continue to focus on companies we can be part owners of for long periods, but sometimes there are opportunities for “renters”. It’s essential to be comfortable with both.
- I am embarrassed to admit this, but I recognize that I have a bias of my own ideas vs other people’s ideas. I think creativity is an important part of this business, but not at the expense of rational, reasonable and objective decision making.
- The PM’s role among many is to “fight entropy”. Sometimes doing nothing is the best decision. Knowing the difference is part of the work. Buy and hold can’t simply be an excuse for complacency.
- Changing one’s mind is as essential to this business as making up one’s mind in the first place. To paraphrase the words of a kind a thoughtful PM who shared this concept with me: “Frequently changing ones’ mind suggests immaturity while positive change doesn’t happen frequently enough.” Amen!

As always, I appreciate your entrusting me with your capital and the responsibility of being its steward. I look forward to continuing this conversation in the future.

Sincerely / Avi
November 2020
Brooklyn, NY