PROSPER

STARS & STRIPES

November 7, 2023

Dear Investors,

During the third quarter of 2023, Prosper Stars & Stripes generated a net return of -2.0% compared to a loss of -5.1% for the long-only small cap Russell 2000 Index Total Return (the "Russell")[(i)] and a gain of +0.2% for the long/short equity UCITS peer group, represented by the HFRX Equity Hedge Index (the "HFRX")[(ii)].
Prosper Stars & Stripes is the UCITS Fund launched in May 2015 designed to run pari passu to the Roubaix Fund Composite (the Composite) [(iii)], launched in January 2010, where its long/short equity peer group is represented by the HFRI Equity Hedge (Total) Index (the "HFRI") [(iv)]. Average daily net exposure was 44.3% during the third quarter and 40.9% year to date compared to a 43.2% average since inception in January 2010.

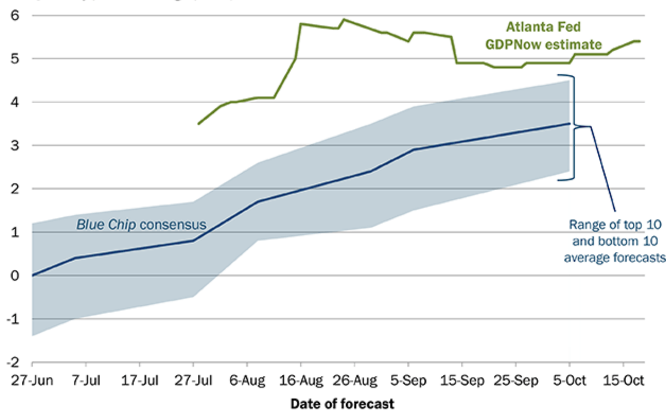
Year to date, the Composite generated a net return of +11.7% compared to a total return of +4.8% for the HFRI and +2.5% for the Russell. This brings the Composite's year to date alpha[1] generation to +9.2% versus the HFRI and +10.7% versus the Russell, which compares favorably to the Composite's annualized alpha since inception of more than six percent versus both benchmarks. As noted in the table below, the Composite outperformed the market over all trailing time periods and has beaten its peer group by almost 2x over time.

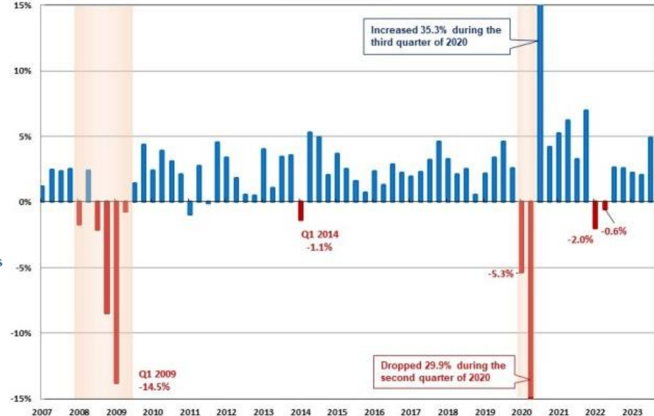
| *As of September 30, 2023* | Roubaix Composite | HFRI Equity Hedge Index | Russell 2000 Index |
|---|---|---|---|
| Quarter to Date | (1.70%) | (0.84) | (5.13) |
| Year to Date | 11.73% | 4.80% | 2.54% |
| Annualized 3 Years | 13.41% | 6.51% | 7.16% |
| Annualized 5 Years | 10.13% | 5.22% | 2.38% |
| Annualized 10 Years | 9.52% | 5.14% | 6.64% |
| Annualized Since Inception | 9.96% | 5.01% | 9.39% |
| Standard Deviation | 9.00% | 8.42% | 19.49% |
| Sharpe Ratio | 1.00 | 0.52 | 0.51 |
| Downside Deviation | 4.57% | 5.72% | 12.92% |
| Sortino Ratio | 1.99 | 0.77 | 0.78 |
| Bull Beta to Benchmark | | 1.05 | 0.48 |
| Bear Beta to Benchmark | | 0.10 | 0.08 |
| Annualized Alpha to Benchmark | | 6.31% | 6.20% |

[1] Alpha is a statistical measurement used to quantify the risk-adjusted excess return of a portfolio and reflects the Jensen's alpha formula: $Rp – [Rf + \beta (Rm – Rf)]$ where Rp is the return of the portfolio, Rm is the return of the benchmark, Rf is the risk-free rate, and β is the beta of the portfolio relative to the benchmark. When net alpha is greater than zero, the portfolio has generated a higher risk-adjusted return than the benchmark.

ECONOMY

The resilience of the U.S. economy has been the primary narrative driving markets during 2023. It was just a year ago that headlines proclaimed the near certain prediction of a recession over the next 3-12 months[2] that has yet to occur. In fact, GDP estimates for the just completed 3rd quarter initially predicted 0% growth but increased throughout the quarter towards a final reading of +4.9%.[3] If we exclude the sharp recovery from the pandemic shutdowns, this is the strongest quarter of economic growth since 2014 and one of the strongest three quarters since the financial crisis.[4] The typical leading indicators of an economic slowdown have failed to reconcile with the reality of a flush consumer and strong job market, frustrating both economists and investors. In fact, the GDP story over the past year has been that of above average economic growth that could be called a boom were it not for policy makers and market participants alike to routinely caution investors about a potential recession.

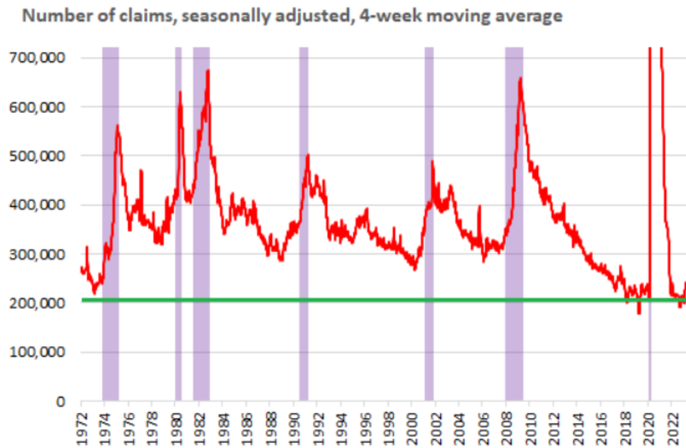


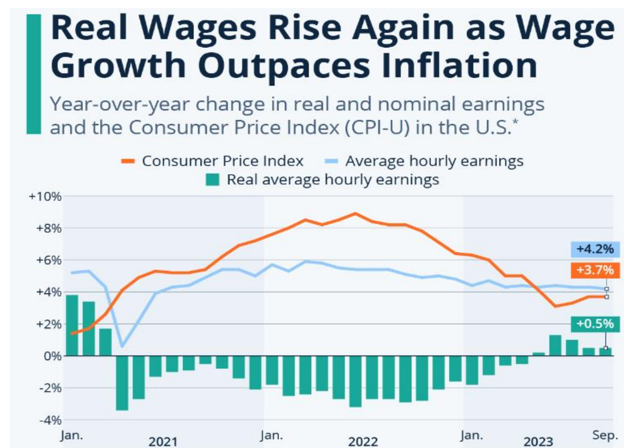




Source: Federal Reserve Bank of Atlanta, October 2023; National Association of Homebuilders, October 26, 2023

The job market once again acted as a strong pillar during the quarter. Despite many layoff announcements to start 2023, initial jobless claims have remained below pre-pandemic levels, which had already been a historical low[5]. The debate on the future trend of economic growth relies heavily on jobs. If unemployment remains low and the working population continues to grow, support for an ongoing favorable economic backdrop will remain. Further, wages continue to grow and put money into consumer's wallets. As inflation eased in the middle of the year, wages finally began to grow faster than inflation for the first time since early 2021.[6] With these factors in mind, it was then not surprising to see resilient consumer spending during the quarter.[7]

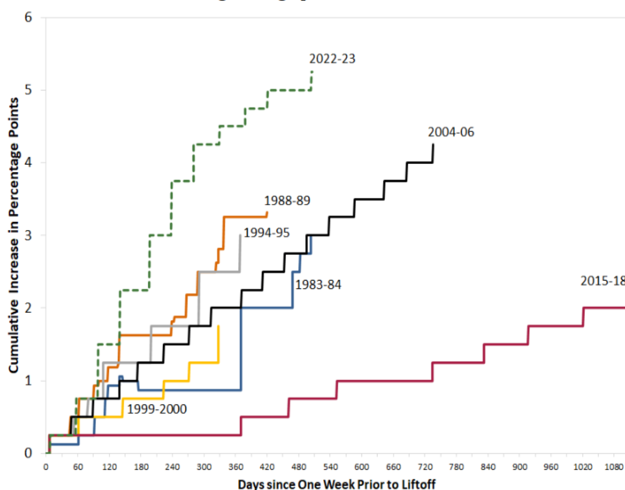
[2] Forecast for US Recession Within Year Hits 100% in Blow to Biden, Bloomberg, October 17, 2022
[3] GDP Now, Atlanta Fed, October 18, 2023
[4] U.S. Economic Growth Accelerates in the Third Quarter, National Association of Home Builders, October 26, 2023
[5] My Favorite Recession Indicator: No Recession in Sight Yet, Wolf Street, October 19, 2023
[6] Real Wages Rise Again as Wage Growth Outpaces Inflation, Statista, October 13, 2023
[7] The American Consumer Keeps Splurging: Treasury yields jump as investors worry about an extended stretch of elevated interest rates, WSJ, October 17, 2023

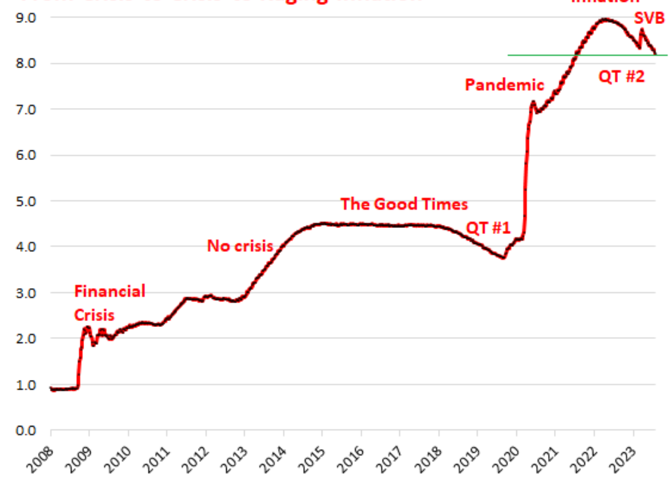



Source: Wolf Street, October 19, 2023; Statista, October 13, 2023

The economic growth measured by GDP and the health of the consumer measured by jobs and wages are all very strong. As a result, the U.S. Federal Reserve has been aggressively tightening monetary policy. The magnitude and pace of the increase in the Fed Funds Rate has been the strongest in history. Simultaneously, the Fed has continued with quantitative tightening by reducing some of its massive holdings of fixed income securities. The Fed's pivot from quantitative easing to quantitative tightening is dramatic. When the largest bank in the world shifts from being the largest buyer of key fixed income securities to the largest seller there will undoubtedly be far-reaching implications. Money supply has consistently, and at times dramatically, grown over time and it is now shrinking for the first time in the post-WWII era.[8] These changes are now filtering through the economy. The housing market has slowed dramatically with existing home sales running at the lowest level since 2010.[9] Delinquency in the low end of the credit spectrum for loans has risen past previous peaks.[10] These types of signals may portend slower growth in future periods.




Source: St. Louis Fed, Gauging the Fed's Current Tightening Actions, August 15, 2023; Fed Balance Sheet QT, Wolf Street, August 3, 2023

[8] US Money supply Falling at Fastest Rate Since 1930s, Reuters, March 30, 2023
[9] September 2023 Existing Home Sales Fall to Lowest Level Since October 2010, National Association of Realtors, October 24, 2023
[10] More People Are Missing Car Payments in Another Ominous Sign for the Economy, Business Insider, October 21, 2023

The global economic outlook paints a different picture. The downturn that has been feared in the U.S. has been underway internationally by some measures. Global GDP was already running at 2.4%, a level that some consider a recession. This is the slowest pace of growth outside of a crisis in four decades.[11] While bearish concerns have seemed misplaced, the global economy has already been under pressure with recent data demonstrating weakness. European economic growth has moved down to recessionary levels[12], Canada entered a technical recession[13], and growth in China has consistently disappointed while risks to its outlook increase.[14] While many investors focus on U.S. monetary policy, global central banks have already embarked on a rate cutting cycle in response to the weaker backdrop.

**World economic growth is stalling**

Global GDP annual percentage change, 2019–2024

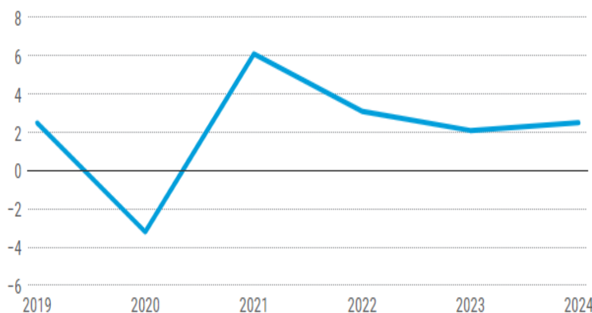
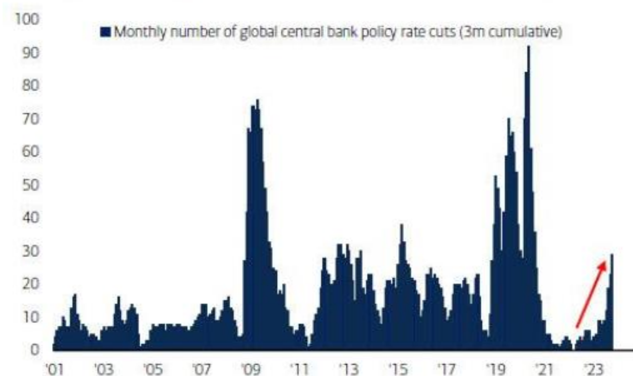



**Chart 6: Central banks now cutting rates at fastest pace since Aug'20**

Monthly number of global central bank rate cuts (3m cumulative)




Sources: UNCTAD Trade and Development Report, October 3, 2023 and Bank of America, Hartnett

In addition to slower global growth and a maturing economic cycle in the U.S., the geopolitical backdrop is more challenging. The armed conflict in Ukraine has reached a stalemate. What was supposed to be an easy victory for the superior Russian military has not played out, driving further disruptions to peace on the European continent and questions about energy and food security for the region and the globe. More recently, Israel was the victim of a horrific attack and the ongoing military response adds another hot war to the globe with potential implications for energy security and the risk that the conflict escalates. The upcoming U.S. presidential election is now only a year away. With the incumbent and the previous president the most likely candidates, the election leaves little prospect of a constructive political dialogue while international and domestic conflict and tension are on the rise and call out for strong leadership.

[11] Trade and Development Report, UNCTAD, October 2023

[12] Europe's Economy Falters, Diverging From Strong Growth in the US – Economic growth in the eurozone contracted 0.1 percent last quarter, NY Times, October 31, 2023 and also Euro Zone October PMI at Near 3-Year Low, Stirring Recession Worries, Reuters, October 25, 2023

[13] Canada's Economy Is On Track to Enter A Technical Recession, Bloomberg, October 31, 2023

[14] China's 40 Year Boom Is Over. What Comes Next? The economic model that took the country from poverty to great-power status seems broken, and everywhere are signs of distress, WSJ, August 20, 2023

## MARKETS

Third quarter losses offset most of the market's Q2 gains. Equity market weakness during the quarter was primarily driven by rising interest rates as the economy remained strong and the trend of lower inflation improved, but at a modest pace. The reality that interest rates are competitive with the dividend and earnings yield of stocks is a new development. This is bringing back the classic stocks vs. bonds and even stocks vs. cash debates that have not been present since before the financial crisis. The small cap Russell 2000 Index ended the quarter with a year-to-date total return of only 2.5%. The large cap indices, however, outperformed substantially with the S&P 500 up 13% and the Nasdaq Composite up an astounding 35%. This performance continues to be dominated by seven technology stocks that accounted for ~90% of the year's gains in each index. For the S&P 500, the remaining 493 companies posted a return of just 2.5%,[15] in line with the Russell 2000. This historically narrow leadership should create opportunities as the extremes normalize.

| Asset Class | Index | 2022 | 1Q23 | 2Q23 | Jul23 | Aug23 | Sep23 | 3Q23 | YTD |
|---|---|---|---|---|---|---|---|---|---|
| Small Cap | **Russell 2000** | -20.5% | 2.7% | 5.3% | 6.1% | -5.1% | -5.8% | -5.2% | 2.5% |
| | **Russell 2000 Growth** | -26.3% | 6.0% | 7.1% | 4.7% | -5.3% | -6.7% | -7.4% | 5.1% |
| | **Russell 2000 Value** | -14.8% | -0.7% | 3.2% | 7.4% | -4.8% | -5.2% | -3.1% | -0.6% |
| Large Cap | **S&P 500** | -18.2% | 7.5% | 8.7% | 3.3% | -1.6% | -4.7% | -3.2% | 13.0% |
| | **S&P 500 Equal Wgt** | -11.6% | 2.9% | 3.9% | 3.5% | -3.2% | -5.1% | -4.9% | 1.7% |
| | **S&P 500 Growth** | -29.4% | 9.6% | 10.5% | 3.1% | -0.6% | -4.9% | -2.6% | 18.1% |
| | **S&P 500 Value** | -5.3% | 5.2% | 6.6% | 3.4% | -2.7% | -4.6% | -4.0% | 7.6% |
| | **Nasdaq 100** | -32.6% | 20.7% | 15.3% | 3.9% | -1.5% | -5.1% | -2.9% | 35.1% |
| Bonds | **U.S. High Yield** | -11.0% | 3.7% | 0.7% | 1.1% | 0.2% | -1.6% | -0.3% | 4.1% |
| | **U.S. Aggregate** | -13.0% | 3.2% | -0.9% | 0.0% | -0.6% | -2.6% | -3.2% | -1.0% |
| | **U.S. Treasury** | -13.4% | 3.3% | -1.5% | -0.3% | -0.5% | -2.3% | -3.1% | -1.3% |
| **Blend** | **60% SPY/40% AGG** | -16.1% | 5.8% | 4.8% | 2.0% | -1.2% | -3.9% | -3.2% | 7.4% |

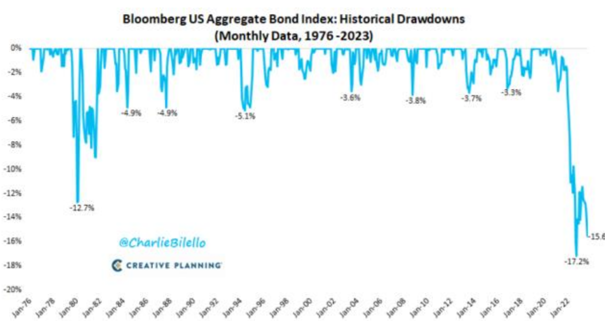
The energy sector was alone in the green within the Russell 2000 during the third quarter and continues to lead the index for the year as oil prices have risen sharply. Healthcare stocks were the weakest sector during Q3 as the smaller companies that populate the Russell 2000 Index are typically unprofitable and require funding to develop new products and services that is increasingly more costly in a higher interest rate environment. A combination of premium valuations and a higher prevalence of negative profitability began to put pressure on the technology sector, especially small companies that lack scale. The utilities sector suffered one of its worst quarters on record as rising bond yields made proxies like this less valuable as interest rates increased.

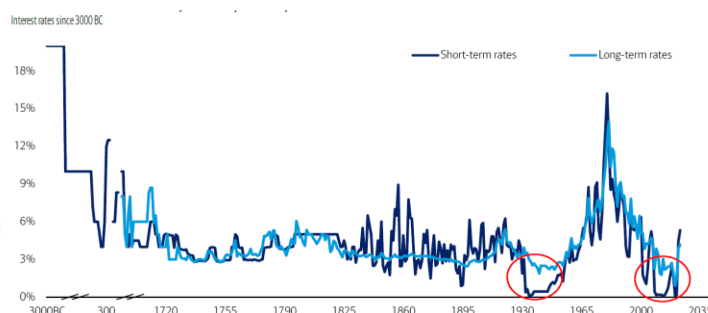
[15] Truist Market Navigator, October 4, 2023

| Russell 2000 Index Sectors | Weight | 2022 | 1Q23 | 2Q23 | Jul23 | Aug23 | Sep23 | 3Q23 | YTD |
|---|---|---|---|---|---|---|---|---|---|
| Energy | 8.2% | 53.1% | -3.8% | 1.5% | 13.9% | 1.9% | 2.1% | 18.6% | 15.8% |
| Industrials | 17.3% | -15.4% | 7.4% | 10.8% | 3.5% | -3.5% | -5.1% | -5.2% | 12.7% |
| Consumer Discretionary | 10.6% | -30.1% | 11.8% | 6.1% | 6.1% | -5.1% | -7.1% | -6.5% | 10.9% |
| Consumer Staples | 3.5% | -8.9% | 6.0% | 5.3% | 3.2% | -0.7% | -5.5% | -3.1% | 8.1% |
| Information Technology | 13.2% | -31.7% | 13.7% | 3.4% | 4.8% | -5.5% | -8.3% | -9.2% | 6.7% |
| Materials | 4.5% | -13.0% | 8.5% | -1.7% | 4.9% | -4.9% | -6.1% | -6.4% | -0.1% |
| Communication Services | 2.5% | -39.1% | 6.8% | 0.6% | 4.3% | -5.4% | -6.1% | -7.3% | -0.4% |
| Real Estate | 6.1% | -28.1% | 0.6% | 0.9% | 5.8% | -4.7% | -6.6% | -5.8% | -4.5% |
| Health Care | 14.8% | -28.5% | -1.9% | 13.3% | 2.2% | -8.7% | -9.2% | -15.3% | -5.8% |
| Financials | 16.2% | -15.3% | -8.7% | 1.8% | 13.3% | -6.3% | -4.6% | 1.2% | -5.9% |
| Utilities | 2.8% | -1.1% | 1.5% | -7.3% | 0.7% | -6.7% | -6.0% | -11.7% | -16.9% |
| Russell 2000 Index (IWM) | 100.0% | -20.1% | 2.7% | 4.7% | 6.0% | -5.0% | -5.9% | -5.3% | 1.8% |

Source: Novus, Sentieo, Roubaix Capital, LLC

The drawdown in the bond market has been of historic proportions. The declines have exceeded the losses generated during the last inflation crisis in the early ‘80s and compares to the ensuing ~40 years of progressively lower yields as bonds provided a source of stability and defensiveness during virtually every period of market stress. The post-financial crisis zero-bound world was never going to be sustainable, particularly when the logic was pushed to extremes with a significant proportion of global fixed income carrying negative yields by late 2020. The current three-year bear market in bonds is also the longest in history, double the next longest drawdown in the early ‘80s that lasted “only” 18 months. This is unprecedented and it speaks to a challenge in navigating markets when even the risk-free proxies carry mark-to-market risks. The narrative of lower for longer, or even lower forever, that was present in markets for the past several cycles[16] has given way to the very opposite – higher for longer. For very long-term context, Bank of America shows how unusual the zero bound interest rate period was relative to history, suggesting the dramatic recent moves are simply a return to a historically normal level.




Source: The Week in Charts, Creative Planning, October 8, 2023; US Equity Strategy in Pictures, BofA, September 29, 2023

[16] World’s Negative-Yielding Debt Pile Hits $18 Trillion Record, Bloomberg, December 2020, writing ‘27% of the world’s investment grade debt is now sub-zero … below the 30% peak reached last year.’

LONG POSITION HIGHLIGHTS[17]

| As of Sep. 30, 2023 | Roubaix Fund Composite – Gross Long Book | | | | | Russell 2000 Index Total Return |
|---|---|---|---|---|---|---|
| | Average Daily Exposure | Rate of Return | Total Contribution | Active(v) | Passive(v) | |
| Quarter to Date | 86.65% | (5.63%) | (5.91%) | (1.48%) | (4.67%) | (5.13%) |
| Year to Date | 83.79% | 21.28% | 15.53% | 13.46% | 1.92% | 2.54% |
| Annualized 1 Year | 83.85% | 28.98% | 20.87% | 13.39% | 6.52% | 8.93% |
| Annualized 3 Years | 86.91% | 23.44% | 19.52% | 13.22% | 6.31% | 7.16% |
| Annualized 5 Years | 87.87% | 14.72% | 12.98% | 10.10% | 2.70% | 2.40% |
| Annualized 10 Years | 84.64% | 16.45% | 13.88% | 7.45% | 5.96% | 6.65% |
| Annualized ITD | 79.07% | 18.42% | 14.17% | 6.66% | 7.12% | 9.39% |

The long book modestly underperformed the market during the third quarter but has significantly outperformed year to date. The total return of the stocks in the long book was more than 20% relative to the Russell 2000 total return of just 2.5%, driving year to date active contribution of +13.5% on top of passive contribution of +1.9%. While overall market leadership has been exceptionally narrow this year with just 7 stocks driving more than 90% of the total return of the S&P 500, the Composite's long book had 37 individual investments return more than 20% and 64 individual investments add positive alpha. This is consistent with the Composite's history of consistent and broad return contribution from a breadth of positions.

The largest contributor to third quarter long performance was Carpenter Technology (CRS). The portfolio has invested in the commercial aerospace supply chain and CRS is another situation where we see the combination of positive industry trends and company specific earnings growth driven investment. Commercial aerospace benefits from barriers to entry created by regulation, long production cycles and high switching costs. This enables value added suppliers to earn high margins. Industry wise, there is a long duration expansion cycle in aircraft manufacturing due to high overall demand for travel accentuated by the unusual circumstances that depressed supply for several years. In the case of CRS, the company has worked towards improving its sales mix towards higher value-added products. With additional capacity spending largely complete, we think incremental profits on the expected sales ramp should push margins towards 25% over the next few years from just 13% today. With potential for 40% profit CAGR through this cycle resulting in $7.00+ in earnings, we believe the stock can appreciate to $100+ (50%+) as the market gives the company credit for running ahead of schedule on its long-term 2027 targets[18].

The second largest long contributor to third quarter performance was Newpark Resources (NR). Newpark is comprised of two very different businesses. The focus of the company has historically been on its energy business that supplies fluids for oil & gas drilling. In this segment NR competes with larger companies and has had difficulty driving margins and cash flow to a consistently meaningful level. As a result, we took interest in the new management team's plan to focus on the other more attractive segment, Mats & Integrated Services. This business rents composite mats that are used in various industries to create a stable and safe work platform in settings where ground stability is an issue. With U.S. infrastructure spending rising, we expect demand to remain high for the

[17] Data reflects gross performance; net performance for the Composite can be found in the table on page 1 of this letter
[18] Carpenter Technology Investor Day, Carpenter Technology, May 16, 2023

foreseeable future. In addition, Newpark's Dura-Base composite mats have taken share from the traditional wood-based products, adding another layer of revenue growth. In June 2023, Newpark committed to exiting the energy business and fully focus on Dura-Base mats. As a result, we expect the company's valuation to re-rate higher due to faster growth, better EBITDA margins (from 10% to 25%+), and much higher free cash flow generation. During 2024 as the company emerges as a pure play infrastructure company with growing market share and positive operating leverage, we anticipate a 10x EV/EBITDA multiple on FY'25 EBITDA would result in a stock price over $11 (+50%), with upside from further multiple expansion possible.

The largest detractor in the long portfolio during the third quarter was Sotera Health Company (SHC). Healthcare sector growth is supported by an aging population, improving treatment options, and a regulatory framework that creates barriers to entry. Our approach leads us to invest in value-added parts of the supply chain where there is an opportunity for durable growth and margin expansion. The largest of SHC's three divisions benefits from the industry outsourcing sterilization of medical devices. The segment level margin of this business is high at over 50% and is likely sustainable due to the small portion of the total cost of the medical device. The company's stock price faced exceptional pressure last fall due to potential litigation risk that was largely mitigated early this year. It was at this point that we initiated a position on the premise that the resolution of litigation would allow the high margin business to be valued in a way like its peers. During the quarter, SHC fell in sympathy with the overall healthcare sector on slowing growth and broad inventory destocking. We think the industry negativity will subside while SHC's results should improve to support significantly higher valuation than the stock's current mid-teens P/E and 10x EBITDA. Assuming SHC trades towards a mid-teens EBITDA multiple as the legal costs and risks fade and a more constructive trend emerges towards medical device volume growth in 2024, we think the stock could appreciate to $20, which is approximately 50% higher from recent prices.

SHORT POSITION HIGHLIGHTS[19]

| | Roubaix Fund Composite – Gross Short Book | | | | | Russell 2000 Index |
|---|---|---|---|---|---|---|
| *As of Sep. 30, 2023* | Average Daily Exposure | Rate of Return | Total Contribution | Active(iv) | Passive(iv) | Total Return |
| Quarter to Date | (42.32%) | (8.86%) | 4.37% | 1.57% | 2.20% | (5.13%) |
| Year to Date | (42.94%) | 7.73% | (4.01%) | (2.99%) | (2.73%) | 2.54% |
| Annualized 1 Year | (42.65%) | 15.25% | (7.66%) | (3.80%) | (6.11%) | 8.93% |
| Annualized 3 Years | (44.60%) | 4.54% | (4.73%) | (0.37%) | (4.98%) | 7.16% |
| Annualized 5 Years | (45.30%) | 1.07% | (2.98%) | (0.51%) | (2.67%) | 2.40% |
| Annualized 10 Years | (41.35%) | 3.28% | (3.11%) | 0.45% | (3.52%) | 6.65% |
| Annualized ITD | (35.92%) | 4.82% | (2.64%) | 0.75% | (3.34%) | 9.39% |

The short book strongly outperformed during the third quarter with the stocks in our short book falling 9% relative to a market decline of -5%. Similar to the breadth of the long book, the Composite's short book had 37 investments in the third quarter fall more than 20% amidst the uptick in market volatility. A hallmark of the Composite's performance over time has been the consistent outperformance of the short book during times of market stress. Since the strategy's inception in 2010 the Russell 2000 Index has experienced a monthly decline of more than 2.5%

[19] Data reflects gross performance; net performance for the Composite can be found in the table on page 1 of this letter

approximately 24% of the time. During these months the Composite's reliance on a short book composed of individual company specific investments has delivered annualized alpha of almost 10%.

The best performing short position during the third quarter was Doximity (DOCS), a digital platform for U.S. medical professionals. The company itself has several good qualities that originally attracted our attention. The business has access to 80% of U.S. physicians, which creates a valuable platform for companies to reach providers. This has driven a healthy advertising ecosystem that saw DOCS revenues grow almost 5x since 2019 with an industry leading EBIT margin over 40%, a rarified level for any company. With these positives in place, our concerns grew that the business disproportionately benefited from the unique aspects of the pandemic. During the health and policy response driven crisis, in-person meetings were dramatically reduced, increasing the relative value proposition of DOCS. Further, with healthcare profits soaring, advertising budgets were flush and spending was high and rising. We anticipated that the management team and the market would overestimate the revenue growth of the business and the stock would see pressure as the difficulty of managing to lower growth rates. The company cut its revenue growth guidance in half in August, driving shares down by more than 30%. We covered our short position with a strong gain at the end of the quarter.

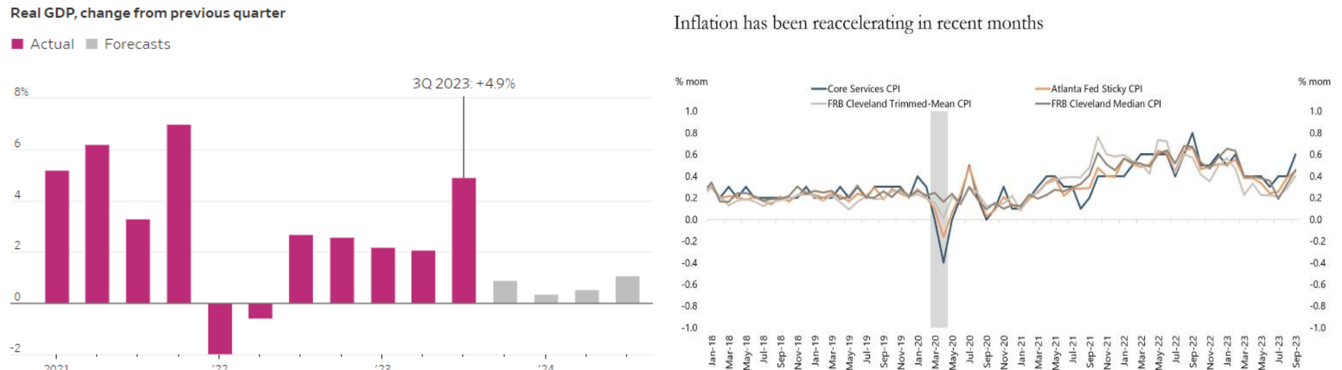
The second best short in the quarter was PureCycle Technologies (PCT). PCT was a part of the class of companies that came public during the pandemic bull market as a special purpose acquisition company (SPAC). Most SPACs came to market with unprofitable near-term outlooks but were readily funded by the insatiable risk appetite at the time across capital markets. In the case of PCT, the promise was alluring if they could successfully recycle used plastic into something equivalent to virgin plastic, solving one of the world's greatest refuse problems. However, collecting, cleaning and refining plastic waste into nearly perfect plastic is a very difficult task, and the company has not yet delivered a commercial result. Another element of SPACs was a misalignment of fiduciary interests, which is a key flag for identifying shorts in our investment process. Since SPAC sponsors and management teams are paid handsomely for the capital raise itself rather than operating the business successfully, we viewed the sudden turnover of several key members of the management team with skepticism. While we exited our short with a 40% gain in the quarter, it was our fourth successful short trade in the company, and we plan to revisit it again if the stock once gain rebounds with a turn in the overall market.

The largest detractor in the short portfolio during the third quarter was Upwork (UPWK). The company grew rapidly in recent years as the work from home phenomenon went to unprecedented levels. The company acts as a marketplace for freelance workers to find projects and employers gain the benefit of paying only for what they need. This type of arrangement was turbocharged during the pandemic as more work was done remotely and outsourced. We anticipated that this trend would moderate and that growth expectations for the company would abate. In early August UPWK reported results that caused the stock to rally. Abiding by our stop-loss discipline and acknowledging that our timing may be too early we exited the position.

## OUTLOOK

Economic growth has been firm all year and the recovery may have self-reinforcing characteristics. Labor markets and the broad economy suffered from a lack of supply during the pandemic. These disruptions have subsided and allowed equilbium to reestablish itself in an unusually healthy way – more jobs, more supply of goods and services, and slowly but surely - lower costs. However, a combination of factors suggests that this narrative is at risk going into 2024. GDP growth is unlikely to be sustainable at Q3 levels, which is much stronger than historical trends.

Enough components of CPI are proving to be sticky and may suggest a generally higher level of inflation is the new baseline. As such, this year's sharply higher interest rates may not decline as quickly as they have in past cycles.[20]

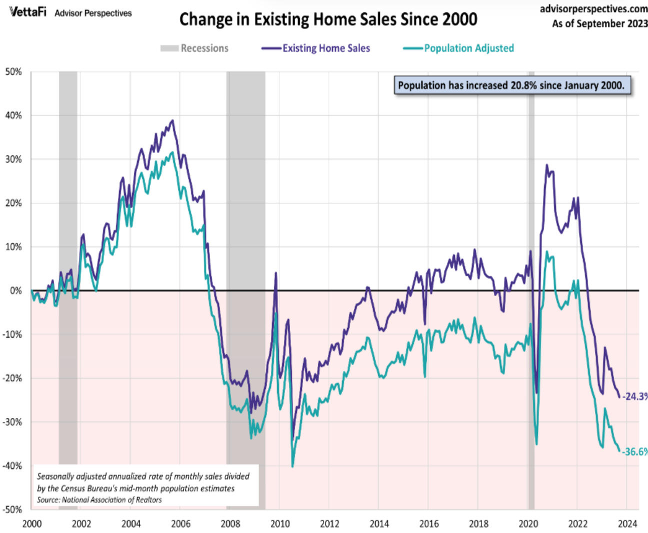


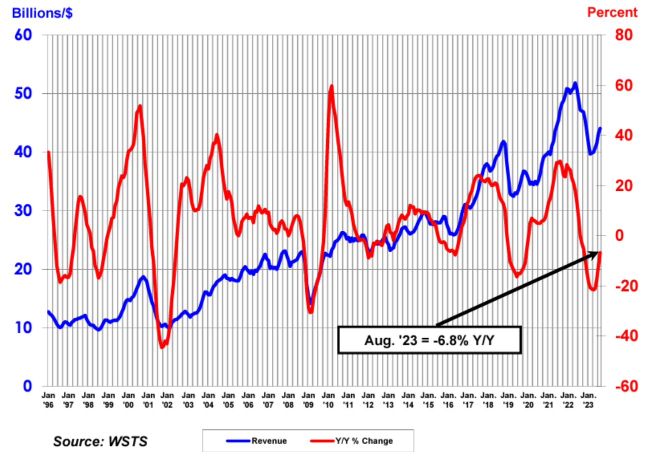

Source: US Economy Grew a Strong 4.9%, Driven by Consumer Spree That May Not Last, WSJ, October 26, 2023; Inflation Reaccelerating in Recent Months, Apollo, October 26, 2023

Persistently strong consumer spending in the face of substantially higher interest rates continues to test the market narrative. The pandemic forced consumers to make dramatic changes in spending behavior – the service economy was shut down for nearly two years as working from home became the new normal while the goods economy conversely boomed as consumers had time and resources to spend on things. Supply chains were disrupted by rolling geographic shutdowns, and then by the surprising acceleration in consumer demand. While these situations were broadly understood, the ramifications and normalization of supply and demand is still impacting many businesses. During the third quarter earnings seasons that is currently underway, companies have been citing weaker demand more frequently. This may signal that the strength in spending that has lasted long enough to be taken for granted, may finally be waring.[21] As a result, a single narrative to capture the state of affairs has remained elusive. Instead, identifying trends in the cycle of individual industries and company specific narratives is where the portfolio continues to focus.

Parts of the economy have already been in a recession. Higher interest rates on the back of rising home prices have created the worst profile for housing affordabilty in decades.[22] Any improvement from the current depressed level of housing turnover would require mortgage rates or home prices to fall substantially.[23] While this weakens the near-term outlook for companies levered to home sales volumes, it also lays the foundation for future growth from a lower base. This same logic applies to other areas of discretionary spending that consumers can defer and/or require financing. Another area that was whipsawed during the pandemic boom and bust cycle is semiconductors. Supply shortages drove demand to unsustainably high levels, but have since normalized and driven a 20%+ decline in revenues that is similar to past industry cycles. We think these rolling cycles in housing, semiconductors and other industries offer opportunities for the portfolio to invest in the best company specific situations that can then benefit from improving industry trends as they develop.

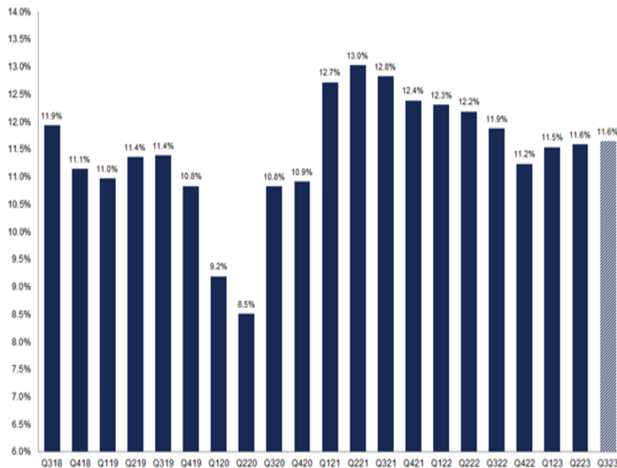
[20] Bond Yields Singal the End of the New Normal, FT, November 2, 2023
[21] Bank of America Warned Consumers They Would be Pushed to the 'Point of Pain' and CEO Brain Moynihan Says We've Now Reached That Point, Yahoo! Finance, October 18, 2023
[22] Housing Affordability Is Now At Its Worst Level Since 1983, Black Knights Says, Realtor.com, September 1, 2023
[23] What it Will Take to Make Homes Affordable Again for Millions of Americans, CNBC, October 25, 2023




Source: Existing Home Sales Drop to Lowest Level Since 2010, [Advisor Perspectives] October 19, 2023; Global Semiconductor Sales Increase 1.9% Month-to-Month in August, [Semiconductor Industry Association], October 4, 2024

Corporate profits are a key driver for the outlook for stocks. With that in mind, the last year has not been kind. A profit recession began in the 4th quarter of 2022 and has continued through 2023.[24] As of the writing of this letter, Q3 profits have turned positive suggesting the earnings slump has ended. Corporate pricing power was strong in 2021 & 2022 as demand for goods accelerated during the pandemic. Thereafter, rising input costs justified higher prices. But, demand began to normalize over the past year while labor and other input costs remained elevated. This has put downward pressure on margins for 7 quarters. While the recession discussion has mostly focused on the overall economy, corporate profits have been in a recession in some fashion for more than a year. If in fact the profit recession is over, the magitude of the decline will be among the shallowest compared to past periods of declining earnings. However, the 3 to 4 quarters of length is similar to past cycles and that lends crediblity to a more positive view going forward.



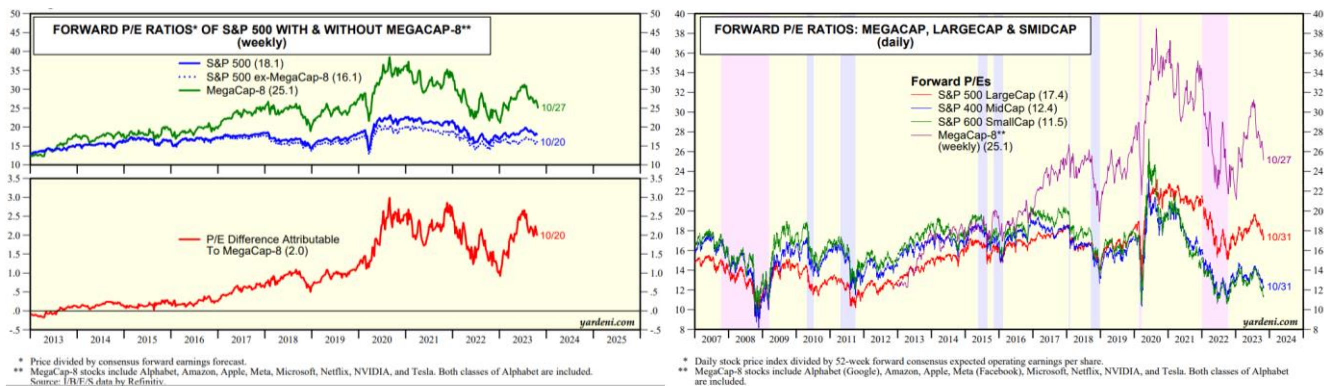

**Historical S&P 500 profit recessions**

| Profit recession (ex-post) | | | S&P 500 LTM EPS | | |
|---|---|---|---|---|---|
| Start (first negative EPS qtr) | End (last negative growth qtr) | Length (qtrs) | Peak | Trough | Decline |
| 31-Mar-70 | 31-Dec-70 | 4 | $3 | $3 | (7)% |
| 31-Dec-74 | 30-Sep-75 | 4 | 6 | 5 | (10) |
| 30-Jun-80 | 30-Sep-80 | 2 | 12 | 12 | (3) |
| 31-Mar-82 | 31-Dec-82 | 4 | 13 | 12 | (10) |
| 31-Dec-84 | 31-Mar-85 | 2 | 17 | 17 | (2) |
| 30-Sep-86 | 31-Dec-86 | 2 | 17 | 15 | (10) |
| 30-Sep-89 | 30-Jun-90 | 4 | 26 | 22 | (13) |
| 31-Dec-90 | 30-Sep-91 | 4 | 24 | 20 | (17) |
| 30-Sep-98 | 31-Dec-98 | 2 | 45 | 44 | (2) |
| 31-Dec-00 | 31-Mar-02 | 6 | 57 | 44 | (23) |
| 30-Sep-07 | 30-Sep-09 | 9 | 92 | 51 | (45) |
| 30-Sep-15 | 30-Jun-16 | 4 | 119 | 116 | (3) |
| 31-Mar-20 | 30-Sep-20 | 3 | 165 | 142 | (14) |
| **Median S&P 500 profit recession** | | **4** | | | **(10)%** |
| **31-Dec-22** | **30-Jun-23** | **3** | **$222** | **$217** | **(3)** |

Source: S&P500 Reporting A Lower Year-Over-Year Net profit Margin for the 7th Straight Quarter, [Factset], October 23, 2023

[24] Investors Eye Profit Reboud After Yearlong Earnings Recession, [Bloomberg], October 4, 2023

With earnings declines ending, the market valuation has taken on increased importance. The market's P/E multiple is a function of the prevailing risk-free rate and the equity risk premium investors are willing to accept. In the zero-bound world, the risk-free rate was artificially low, and investor risk appetite drove a sharp increase in the equity risk premium. This year's rapid tightening of policy has driven the risk-free rate to almost 5% during an earnings recesion. As a result, market multiples have declined materially this year when the headline indices are adjusted for their unique characteristics. For large caps, the 'Magnificent 7' drove performance for the overall index while also supporting the valuation of the market. Dominated by 7 stocks trading at ~25x forward earnings, the headline S&P 500 trades at 18x forward earnings, but this falls to 16x when excluding these megacap stocks. For small caps, valuation is much lower at just 11.5x for the S&P 600 Index. These measures show that the broad market has better value than some would think, and small caps are historically cheap assuming reasonably accurate forward profit estimates.



Source: Yardeni Research, Stock Market Briefing: The MegaCap-8, October 31, 2023; Style Guide: LargeCaps vs. SmidCaps, October 31, 2023

Pressure on small caps overall and within certain sectors during the quarter provided opportunities to re-invest in stocks where the evolution of the investment story and the risk-reward of the stock became more favorable. The healthcare sector declined as pressue on multiples from higher rates met with a broad based slowdown. The pandemic encouraged aggressive spending in the sector that continues to normalize. With profits under pressure after several strong years, spending on drug development slowed during 2023, altering the revenue trajectory of this typically reliable sector. Small companies reduced spending on funding concerns and large companies de-stocked inventories after scrambling to keep up with demand and fighting supply chain shortages throughout the pandemic.

The portfolio re-invested in BioLife Solutions (BLFS) for this reason, as well as company specific changes. BLFS's most profitable segment is its cell processing segment which sells media that is used to develop and manufacture a wide range of therapeutic products. In recent years, the company made several acquisitions to broaden the business on the cell processing cornerstone. However, these acquisitions have not been as successful as the company planned and combined with the pressures present in the industry today they are making radical changes. The company is in the process of selling its most problematic business by year end. Further, in mid-October the company announced its long standing CEO of 17 years stepped aside to reinstate an executive who generated success at BLFS in the past. We think this combination of factors make for a compelling investement as BLFS could rapidly move from losing money to making money with the potential to earn $0.75 in 2025 after divesting its money losing business and driving up margins in cell processing as the industry rebounds. We think with prospects of growing revenue in the high teens to low 20s with margins running at 20%+ should drive valuation at 25x earnings, which would be a 50% return to recent highs.

The portfolio also reinvested in Bio-Rad Laboratories (BIO), a position that was a successful investment back in 2019. Along with the broader healthcare sector slump this year, the market cap of BIO has shrunk to $8B from morem than $20B in 2022. BIO made an investment in a German company, Sartorius, that is comparable to the U.S. listed Repligen (RGEN), a bioprocessing company that enables the manufacturing of biological drugs. In 2017 BIO carried the value of its 35% stake at cost, which was $92.8 million, but has since increased to ~$8.5 billion at year end 2022 and ~$6 billion at recent market prices. The enterprise value of BIO is ~$7.8 billion and the company is expected to earn $550 million in EBITDA in 2024. If we back out the Sartorius stake from BIO's enterprise value and apply a 30% discount (20% in tax, 10% incremental discount), then the core business here is valued at just 7x EV/EBITDA. This compares to peers that trade at multiples that are typically twice as high. As a result, we think the value here is very compelling and believe a 40% return from here is reasonable, assuming the stock trades at 20x free cash flow and gets reasonable credit for its ownership in Sartorius.

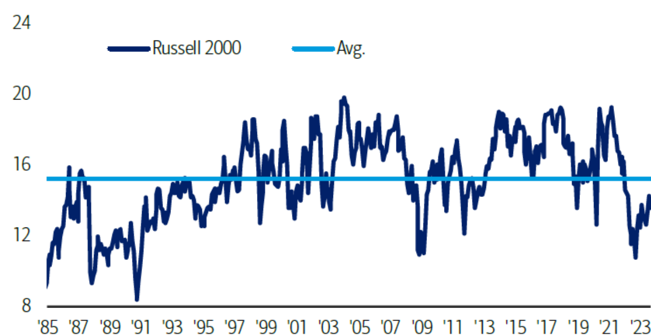
Another opportunistic reinvestment for the portfolio was in WEX (WEX). The company is the second largest of fleet payment solutions business behind FLEETCOR Technologies (FLT). The stock has declined recently with the broader sell off in payment stocks. WEX certainly has a degree of cyclicality that has caused investor concern. Its main customers are in transportation, an industry that has remained in the doldrums since the pandemic driven boom came to an end, and has yet to develop a recovery. After the company reported another earnings report that demonstrated continued top line and margin performance, we bought the stock. While recession concerns are legitimate, we feel an EV/EBITDA multiple of less than 9x and an earnings multiple under 11x for 2024 more than account for these risks. Further, the company has continued to grow its other segments, corporate payments and benefits. Based on segment operating profits, these two business were equal in size to the core mobility segment and continue to grow faster. With corporate EBITDA margins over 40% and high single digit growth, we believe the stock is likely to appreciate as earnings continue to grow and the business gets more credit for a well diversified and growing payments business. Assuming a conservative mid teens earnings multiple, the shares have the potential to appreciate 40%.

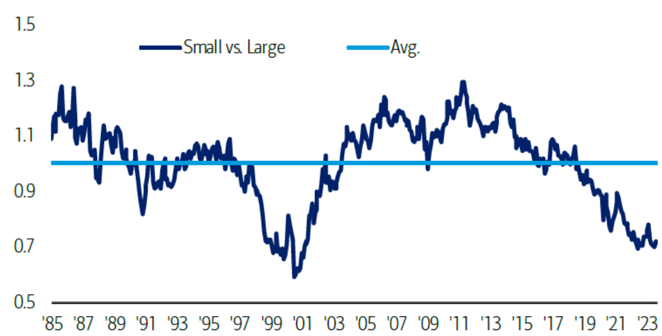
The portfolio continues to see opportunities to invest on the short side of the market. In the most recent earnings season the boom-bust from the pandemic cycle has continued. The portfolio successfully exited its short position in Fox Factor (FOXF) and it is a good example of converging trends causing short opportunites. FOXF's sales in markets such as aftermarket auto and bicycles benefited from excess spending in 2021-2022. However, these are durable goods and the company, along with many of its peers, overestimated the sustainability of demand. Q3 organic revenue declined 24% and forced the company to make a similar downgrade to its Q4 outlook. Further, the company has been assigned credit for an acquistion strategy that grew the business over the last decade. But, as we discussed regarding the economy and rates, the backddrop has changed from low and lower rates that characterized previous cycles. This suggests past valuation multiples gave the company too much credit for an interest rate driven roll up strategy. The company also announced they acquired a baseball bat company, acknowledging the growth challenges by going back to the same strategy of buying low growth businesses with debt. We exited the position on the steep sell-off in early November but view the narrative as broken in the current market and will monitor the stock's risk-reward profile going forward.

The portfolio also observes that high valuations and an overly positive bias to consumer discretionary spending supports certain stocks such as Floor & Décor (FND). The company is understandably a favorite of analysts and investors as they have consistently taken share in the home improvement market. The company's category focus and scaled model enables the consumer to get a rewarding experience and for the company to enjoy the benefits of scale. However, as spending in this category has been boosted by low interest rates, the housing wealth effect,

fiscal stimulus and job growth the outlook finds itself without room for improvement, much like the stock valuation. While low and lower rates can support a consumer focus stock like this, a higher interest rate deck is likely to pressure the multiple and the ability for the business to quickly rebound. In the just reported results, FND shocked the market by guiding 4th quarter comparable store sales to -14% and said negative comps are likely in 2024. We believe the stock's high teens EV/EBITDA multiple and 30x+ P/E multiple give them too much credit and we anticipate 20%+ downside as negative revisisions and lower multiples pressure the share price.

Overall, the economic outlook remains unclear, with valid arguments for both a bull and bear market narrative. The potential for a weakening backdrop signaled by the yield curve and leading economic indicators suggest caution may again be warranted. Facing this is resilient job and wage growth that continues to fuel consumer spending. Since the corporate sector often fares better than the overall economy, it may turn out that profits bottomed out in Q2 2023 with a relatively mild decline. Regardless of the near term economic trends, small caps have underperformed large caps by near record levels, pricing in a lot of the bad news and creating opportunities to invest at lower relative prices. We continue to identify ways to capitalize on weakness in our focus list long stocks while also prudently allocating short capital to benefit from business challenges during this unfolding cycle. Our emphasis on finding companies that have meaningful catalysts and near-term value drivers keeps us energized as we invest over the balance of 2023 and 2024.




Source: US Equity Strategy in Pictures, BofA, September 29, 2023

## INVESTMENT PHILOSOPHY

We believe the most important drivers of equity value over time are the strength or weakness of a company's business model, the advantages or challenges created by their financial structure, and the quality of the fiduciaries involved. We identify what we believe are the best long and short narratives in the small and mid-cap universe of U.S. stocks and track them on a focus list. Our list is dynamic as we evaluate new companies entering our market cap range due to price changes, IPOs, spin-offs and other corporate developments. Likewise, we eliminate stocks from our focus list when the long thesis plays out and they become too large for our approach, or if the short thesis drives the stock price to a level at which it transforms into a special situation with vastly decreased liquidity and/or increased price volatility. Base, bull and bear case price targets are derived from two year forward valuation, while also considering longer term trends discounted back appropriately. We deploy capital when these differentiated narratives present themselves with a compelling risk/reward profile relative to other stocks in our portfolio.

We concentrate our efforts on smaller companies due to their inherent structural inefficiencies that drive greater price dispersion, in turn enabling higher alpha generation on both longs and shorts. The investment landscape continues its trend of consolidating investment management and advice at ever larger financial institutions. The cost benefit of increased scale has an inverse effect on the ability of investment managers to buy and sell smaller stocks when considering reasonable liquidity parameters. Further, the rapid growth in passive and quantitative investing is reducing the amount of competition from fundamentally driven active stock pickers overall. As an increasing share of daily trading volume shifts to passive from active mandates, there is even less economic benefit to sell side equity research. This in turn reduces the amount of published information, particularly in smaller stocks with lower trading volume. Importantly, we think these inefficiencies are not just persistent, but should move even more in our favor over time.

Smaller companies are likely to remain a reliable source of mispriced investment opportunities that are either overlooked or are not practical investments for larger firms. We believe our structured fundamental investment process allows us to uncover such unique ideas and generate value through stock selection on both long and short investments. We tend to concentrate individual stock positions in 30-50 longs and 30-50 shorts to maximize the value of our research, and likewise do not utilize ETFs or options to hedge. Position level weights are optimized for exposure to changing fundamental factors, catalysts and risks. To manage overall portfolio risk, we avoid leverage on the long side, maintain consistent net exposure, and remain disciplined with our price targets and stop-loss levels. We believe our strategy is amongst the leaders in small cap l/s equity with a decade of compelling net returns, low volatility, and consistent capital preservation in weak markets.

Thank you for your ongoing support,

Christopher E. Hillary

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All figures are unaudited. These figures are based upon estimates. Estimates are subject to change. Historical results are not indicative of future performance.

i. The Russell 2000 Total Return Index is Russell Investments' Composite Index of 2000 small cap stocks, a widely recognized, unmanaged index of common stock prices. The benchmark index may or may not hold substantially similar securities to those held by the Composite, and thus little correlation may exist between the Composite returns and that of the Index. The Index is not available for direct investments; therefore, its performance does not reflect the expenses associated with active management of an actual portfolio. The return for the Index includes gross dividends reinvested into the index.

ii. HFRX Equity Hedge Index : Equity Hedge strategies maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. Equity Hedge managers would typically maintain at least 50%, and may in some cases be substantially entirely invested in equities, both long and short. Hedge Fund Research, Inc. (HFR) utilizes a UCITSIII compliant methodology to construct the HFRX Hedge Fund Indices. HFRX Equity Hedge Index is rebalanced on a quarterly basis and is composed of funds that have at least USD 50 million under management and have been actively trading for at least twenty-four months.

iii. The performance referenced in this letter shows the historical performance of the Roubaix Fund Composite (the "Composite"), unless otherwise noted. The accounts in the Composite have investment objectives, policies and strategies that are substantially similar. The Composite was composed of the Roubaix Fund, L.P. ("Roubaix Fund") and another pooled investment vehicle from 2010 to February 29, 2020 and is presently composed of the Roubaix Fund and Roubaix Offshore Fund, Ltd. ("Offshore Fund") since February 1, 2022. Accounts contained in the Composite are actively managed and characteristics may vary. Net performance for the typical investor reflects the deduction of 1.15% annual management fee, 15% annual incentive allocation and other expenses and includes gross dividends and other income reinvested in the portfolio. Net performance figures reflect the performance of a typical investor in the portfolio who invested at the beginning of the period and remained invested throughout the period. The performance for an individual investor may vary based upon various investor-specific factors including, without limitation, the investor's eligibility to participate in new issues. Advisory fees are deducted monthly while incentive fees are deducted annually and over time each will reduce the net return on a compounded basis. A fee schedule can be found on Form ADV, Part 2A for Roubaix Capital, LLC.

iv. The HFRI Equity Hedge (Total) Index tracks funds that maintain positions both long and short in primarily equity and equity derivative securities. Equity hedge managers would typically maintain at least 50% exposure, and may in some cases be entirely invested in, equities-both long and short. HFRI Equity Hedge (Total) is a fund weighted index and reflects monthly returns, net of all fees, of funds that have at least $50 million under management or have been actively trading for at least twelve months. The Index is not available for direct investment.

v. Roubaix utilizes Novus for portfolio attribution. The Novus Framework decomposes contribution into four factors: market (contribution attributable to market benchmark), category (contribution attributable to the specific sector benchmark), security (contribution attributable to stock selection) and trading (contribution attributable to position liquidation). Within the Novus Framework, we define "Passive Contribution" as equivalent to Market contribution, which is synonymous with 'Beta' to the relevant portfolio benchmark. We define "Active Contribution" as equivalent to Security + Trading + Category contribution, which is synonymous with portfolio manager 'Alpha'. Definitions of additional attribution terms discussed in this letter can be found in the pitch book for the Roubaix Strategy, which has preceded or accompanied this letter.

More frequent performance information is available upon request.

THIS SHALL NOT CONSTITUE AN OFFER TO SELL OR THE SOLICTIATION OF AN OFFER TO BUY ANY INTERESTS IN ANY FUND MANAGED BY ROUBAIX. SUCH AN OFFER TO SELL OR SOLICITATION OF AN OFFER TO BUY INTERESTS MAY ONLY BE MADE PURSUANT TO DEFINITIVE SUBSCRIPTION DOCUMENTS BETWEEN A FUND AND AN INVESTOR.