Executive Summary

Performance in the 1st quarter was ahead of the OE's benchmark and behind the S&P 500. Conservative positioning and some underperforming securities made it difficult to keep pace with the S&P 500. The S&P 500 continues to push higher. AI is still a huge part of stock market advances. Optimism that the economy will absorb the 500 basis points of Fed rate increases without falling into a recession led to a broadening of upward stock moves. Recent economic strength is pushing back the timeline for the Fed to begin rate cuts. While the economy is holding up okay at the outset of 2024, the OE is investing with the viewpoint that the later part of 2024 will provide more compelling purchase opportunities.

The Opportunistic Equity Strategy returned 6.4% in the first quarter of 2024, ahead of its benchmark and behind the S&P 500. While overall returns were solid for most equity indices, diversified equity investing lagged the S&P 500 once again. US small cap value stocks only managed a 2.9% return. Emerging Market stocks only managed a 2.1% advance. And EAFE stocks returned 5.8%, very respectable but not like the S&P 500.

As of 3/31/2024	QTD	YTD	1 year	3 year	5 year	Since Inception
Opportunistic Equity	6.4%	6.4%	16.7%	11.5%	N/A	18.5%
Benchmark	3.4%	3.4%	17.3%	2.4%	N/A	6.9%
SPX	10.6%	10.6%	29.9%	11.5%	N/A	14.0%

Inception: 1/1/2020

When optimism over domestic economic conditions improves, small-cap stocks tend to outperform. However, momentum continues to drive this stock market. Various momentum factor-based ETF's were up around 20% in the 1st quarter. Momentum is a strategy of investing in yesterday's winners assuming further outperformance. It is close to the opposite of contrarian investing, which looks for underperforming stocks that might be at a positive inflection point. The OE mostly follows a contrarian investment style.

The OE currently has the highest cash position it has ever maintained, over 16%. There are several reasons driving that high cash position. To start, a recession is still a very real possibility. The higher interest rates will slowly start damaging the economy. Affordability challenges have the potential to force a consumer pullback despite solid job and wage growth. Another reason for a high cash position is the stretched valuation of the S&P 500. In recent decades the correlation of small cap stocks and international stocks to the S&P 500 has been high. Therefore, it is logical to assume any selloff in the S&P 500 due to earnings growth fears would have the effect of pulling down small-cap and international stocks. Finally, the US election and geopolitical concerns could cause some investor concern later this year and that may create a pullback.

While trying to "time the market" is not a core tenet of the OE approach, tactical shifts have always been present. It is a dynamic environment, and it's expected volatility will return to this market in the later part of 2024.

The OE once again had a large dispersion in performance between the best and worst. Embraer had a strong return this quarter. Demand is solid for the aircraft they produce. Embraer operates in the smaller seat commercial space, business jets and has a defense division. All 3 divisions have solid demand and a path to improved profitability which is crucial for Embraer. Embraer also has a stake in an EVTOL maker that has some value and may receive some proceeds from its lawsuit vs. Boeing.

Impinj rebounded strongly in the 1st quarter. It is a very volatile stock. A positive legal verdict against NXPI helped the Impinj return but really the story here is how fast will high frequency RFID roll out to new companies and industries. There is a large untapped market here.

Criteo rebounded after disappointing investors in the 4th quarter about long-term growth prospects. There is a lot to sort out in the ad-tech marketplace over the next couple years. Criteo has some valuable technology, but it is in a very competitive market, so this stock is going to be volatile due to changing investor perception of who the ultimate winners and losers are going to be.

Advancers/Detractors	2024 1Q Return
Embraer SA	44.4%
Impinj, Inc.	42.6%
Criteo	38.5%
Hanesbrands, Inc.	29.8%
Hitachi, Ltd.	26.1%
Canadian Solar Inc.	<24.7%>
Thyssenkrupp AG	<20.1%>
Dropbox, Inc.	<17.6%>
Bayer AG	<17.0%>

Hanesbrands is looking to sell its Champion line to pay down some debt. Optimism over sales proceeds there helped the stock. Hanesbrands has a very solid innerwear position, strong market share and solid margins, outside of a blip recently from inventory destocking. One could argue its entire Economic Value can be derived from its innerwear business. In addition to that, they own the Champion brand. Champion has been an unperforming brand. I viewed Champion as having a lot of potential and there is potential with the revised marketing approach. However, there is the possibility Hanesbrands will sell Champion for a low price because of debt concerns and perhaps poor management.

Japanese stocks have continued to perform well, particularly the multinationals. The weak yen and the rise of Japanese stocks due to more market friendly activity are not the only reasons Hitachi has done well. Hitachi has some solid divisions. Its power grid business is well positioned to benefit from increased global investment there. Its connected industry and industrial digital business unit are well positioned for growth as well. The OE recently sold some Hitachi as the valuation is getting stretched.

Canadian Solar was the worst performing stock in the portfolio and it is a large holding so the performance meaningfully hurt returns. Canadian Solar has two divisions, one CSI solar is a Chinese module and battery maker. The other, Recurrent Energy, is a solar/energy storage developer. Canadian Solar has a market cap a little over 1 billion. Blackrock recently entered into a convertible preferred stock transaction with Recurrent for 500 million. This 500 million investment would convert into 20% of the stock outstanding. This investment indicates Blackrock believes there is a good chance in several years one division of Canadian Solar, Recurrent Energy, will be worth 2.5 billion overall or they likely wouldn't have done the deal. Meanwhile, its 62.5% ownership of its CSI solar division is worth over 4 billion in US dollars and that is after CSI solar had a meaningful selloff. Companies in solar deserve a discount because of the hypercompetitive space but the extent of this one is extreme.

Thyssenkrupp for the past year has had a market capitalization below the net cash on its balance sheet. It does have a meaningful pension liability but still the pessimism toward the stock is extreme. Most of the pessimism surrounds the competitiveness of the steel division. I view the steel division as an option for this company - the company is only overvalued if the value of the steel division is significantly negative. While Thyssenkrupp has its challenges, I think the company is taking the necessary steps to address the competitiveness of its steel division and the extreme pessimism is unwarranted.

Dropbox was trimmed right before its earnings selloff, so the return impact was not that strong. Nevertheless, it should have been sold outright. Another reminder that when tech stocks lose their growth, the selloff can be extreme.

Bayer continues to struggle with legal liabilities. In addition, the market for some crop protection products such as herbicides has slowed down meaningfully and the fallout from its weak late-stage pharma pipeline continues to impact the stock. The OE trimmed Bayer in the 4th quarter and chose to keep a modest position. There still is a positive story to be told for Bayer. It has some very good assets and once litigation troubles finally do go away, the path to deleveraging is pretty quick.

Looking ahead, the OE will continue to be cautious this year unless a large selloff takes place. The US economy is not going to be as strong as the recent resilience would indicate. Geopolitics, an uncertain election and an equity risk premium at low levels, all point to a dangerous market. The later part of 2024 will be when investors start to question the ROI on some of the enormous investments in AI that are taking place.

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