LVS ADVISORY

Investment Results	Full Year 2019	Full Year 2020	Full Year 2021	Full Year 2022	Full Year 2023	Since Inception[1]
LVS Event-Driven (net of fees)	**7.0%**	**13.2%**	**9.1%**	**3.8%**	**6.2%**	**45.6%**
Benchmark: High-Yield Bond Index	*13.4%*	*5.0%*	*4.0%*	*(11.4%)*	*12.5%*	23.4%
LVS Growth (net of fees)	**-**	**61.8%**	**16.1%**	**(35.8%)**	**7.0%**	**29.0%**
Benchmark: S&P 500 Total Return Index	-	*18.4%*	*28.7%*	*(18.1%)*	*26.3%*	57.6%

Note: investment performance is presented net of all fees and expenses. Investment results are as of December 31, 2023.
(1) LVS Event-Driven was incepted on January 1, 2019. LVS Growth was incepted on January 1, 2020.

February 2, 2024

Dear Investors,

The end of 2023 marked LVS Advisory's 5-year anniversary and an interesting 5 years it has been! I am extremely grateful to all the clients of LVS Advisory as well as the peers and mentors that I have met on the journey.

While it normally takes about 7 years to experience a full market cycle, over the last 5 years we experienced several compressed cycles. 2020 came with a short-lived economic depression where the unemployment rate spiked and the economy experienced the sharpest quarterly decline in recorded history. This was followed by a euphoric market bubble in 2021. We experienced the highest rate of inflation in 40 years in 2022 which caused the Federal Reserve to hike interest rates at the fastest pace in modern history. Today we are experiencing dis-inflation and we are in the early stages of an interest rate cutting cycle. *And this was all in just 5 years!*

I am encouraged by our investment performance given the difficult macroeconomic environment since inception. LVS Event-Driven has not had a losing year and has performed significantly better than lower-risk asset classes. LVS Growth has tracked the ups and downs of the market – overshooting when the market is strong and undershooting when the market is volatile. Importantly, we have constantly learned and adapted to position ourselves for the best possible results. As we enter 2024, I have never felt better about the robustness of our investment strategies.

Renaming the Defensive Portfolio to "Event-Driven" Portfolio

I decided to rename the Defensive Portfolio to the "Event-Driven" Portfolio. This doesn't reflect a change in the strategy but rather it more clearly specifies our style of investing.

My investment thesis when launching the Defensive Portfolio in 2019 was that we could generate stock-market-like returns with greater downside protection by investing in uncorrelated event-driven ideas. The name "Defensive Portfolio" simply described our focus on capital preservation, but it created some confusion as to what "defensive" actually means.

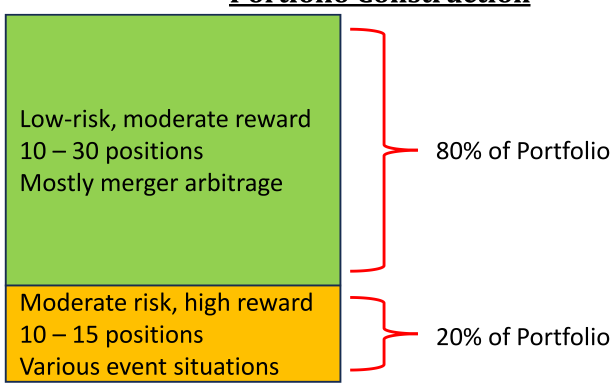
Ok, but what *do we invest in*?

Our focus has been and will continue to be merger arbitrage where I believe we can consistently generate attractive returns with minimal risk. However, I have consistently learned and incorporated new types of event-driven situations over the years.

For example, in 2019, I incorporated SPAC arbitrage into our portfolio. At one point in 2020, the risk-adjusted return of buying SPACs below liquidation value became so compelling that SPACs accounted for two-thirds of our overall portfolio. SPACs subsequently became a hot area of the market and we were able to capitalize by selling our shares at attractive prices in early 2021. The time to invest in SPACs came and went and we no longer have holdings in the asset class.

I have written about many different types of event-driven investments over the years. The uniting theme is that our investments have tangible events that will catalyze the asset prices higher. The presence of a clear catalyst reduces our correlation with the broader stock market and provides clear entry and exit points.

Portfolio Construction



Due to our focus on capital preservation, the Event-Driven Portfolio has a highly considered approach to portfolio construction. First, we aim to be diversified across a number of situations. At the time of writing, the portfolio holds 30 positions. Second, we categorize every investment as either "low risk, moderate reward" or "moderate risk, high reward". The riskier bucket drives higher returns and the less risky bucket preserves purchasing power (read: beats inflation) while reducing volatility.

After 5 years of managing the Event-Driven Portfolio, we have invested in hundreds of events. As a result of so many "at-bats" we have developed a tight investment process proven through varied market conditions. Hopefully, the name change will help demystify the strategy.

Event Driven Portfolio: Calumet

We recently initiated an investment in Calumet (NASDAQ:CLMT) in the event-driven portfolio. Calumet fits firmly within the "moderate risk, high reward" bucket of our portfolio for reasons that will be apparent.

Calumet is a refining and specialty chemical company with three hard catalysts expected to play out in the next year. First, the company is planning to monetize its renewable energy business through either an outright sale or an IPO. Second, CLMT is converting its corporate structure from an obscure master-limited partnership ("MLP") to a Delaware C-Corp. Finally, the company is in the process of refinancing its capital structure with low-cost debt from the Department of Energy. If these catalysts play out as expected, I believe Calumet's shares could be worth over $30 vs. the current share price of $16; although there are notable risks to achieving that outcome.

I spent a significant amount of time researching Calumet's renewable energy business and the more I learned about this asset the more I got excited about what it could be worth. The company invested ~$550 million over the past 3 years to reconfigure a dirty refining plant into a low-cost producer of renewable diesel and sustainable airline fuel. With an additional expansion project planned for 2025, Calumet is poised to become the leading provider of sustainable airline fuel ("SAF") in North America. SAF is a renewable jet fuel that currently represents the only viable way for the airline industry to decarbonize over the coming decades. SAF is a proven technology with millions of commercial miles flown and already has an established market in Europe. North American airliners are also eager to blend SAF into their existing jet fuels. While jet fuel is a commoditized market, SAF is in short supply and Calumet will have one of the first scaled operations when its Montana plant expansion project is complete in 2 years. The first stage of the renewable plant's production came online last year and is expected to generate over $200m in EBITDA in 2024.

Due to several unique characteristics of the plant including its physical location, access to cheap transportation, and access to cheap inputs, I believe Calumet's renewable energy business is a crown jewel asset that is worth more than the current market cap of the company. Calumet's management intends to take advantage of the current appetite for high-quality renewable projects by monetizing this asset. The company has an ongoing sales process and I believe unitholders will receive a premium valuation for the business at the end of this process.

The second catalyst is the conversion of the legal structure from an MLP to a C-Corp. LVS Advisory has had past success investing in companies undergoing C-Corp conversions. MLPs and other obscure legal structures cannot be purchased by most institutional investors due to tax reasons. MLPs are also not eligible for inclusion in a mainstream equity index. As a result, many sub-scale MLPs become orphaned securities with limited trading liquidity. On the other side of a C-Corp conversion, there is a wave of buying from active and passive funds that are suddenly able to own the stock. This improved trading liquidity can help re-rate a stock's valuation higher and open the door to other strategic options including a merger. Taking on a C-Corp conversion causes the General Partner and management team to lose some control over the enterprise; therefore, Calumet's C-Corp conversion demonstrates the General Partner's seriousness in realizing the full value of its assets for minority owners.

The final catalyst mentioned is the potential re-financing of CLMT's capital structure with low-cost debt from the Dept. of Energy ("DOE"). This is important because Calumet has a terrible balance sheet with high-interest debt. A low-cost DOE loan in conjunction with the increased cash flow from the renewables project will serve to massively de-risk Calumet's financial position overnight. This is where I see the most risk in the Calumet setup because the DOE financing looks promising but isn't guaranteed at this point. However, if the DOE loan were to fall through, there are likely other, albeit more expensive, sources of financing available.

It is unusual to find a company like Calumet with several hard catalysts and such a clear path to unlocking value for minority investors. In my experience, having multiple ways to get paid tends to increase the odds of success in an event-driven situation.

Growth Portfolio: 2023 In Review

2023 was a mixed bag for the Growth Portfolio. Our overall return for the year was disappointing; however, I was able to make some important adjustments to our investment process that I believe will improve our long-term performance.

I developed the following key takeaways after carefully reviewing our results:

1) Be more ruthless in cutting losers

The single biggest detractor from our performance in 2023 was a small handful of companies that we had held since 2021 or early 2022 and had become serial under-performers. While each company had different factors driving the underperformance, the commonality was that the businesses consistently failed to meet financial expectations.

The solution is clear, if a company develops a pattern of disappointment or I feel that management has developed a culture of over-promising, I need to be quicker to reduce and exit the positions. After taking a careful analysis of our entire portfolio in Q3, I identified and exited several positions that fit the criteria.

Take Endor AG as an example, which was our worst-performing stock of 2023. When we purchased shares of Endor in early 2022, we knew that the company was dealing with supply chain issues. The management team had set the expectation that the supply chain issues would be resolved by the end of 2022. The company failed to deliver on its promise and reset expectations in early 2023 stating that the supply chain issues wouldn't be resolved until the end of 2023. At the same time, Endor noted that it was experiencing accounting issues due to some internal control deficiencies. We should have sold our shares at this point, but I felt that the stock which was down 50% from our original purchase price was too discounted, so we held. It took us an additional quarter (and an additional disappointment) to capitulate which resulted in a larger loss on this investment. Since we sold our position, the company has continued to miss expectations and the stock price has declined further. Endor is a great business but is poorly managed. The company will likely continue to disappoint until management team changes are made.

2) Scale into new positions more gradually

Another adjustment I am making is the tactic of more gradually buying into new positions. When we research a new stock, we usually spend a few months learning about the business upfront. In our holistic research process, we conduct financial analysis, interview the management team, speak with industry experts, and demo the products.

The funny thing about investing is that despite conducting copious research upfront, you don't really know what you own until you have owned it for several years and have really had a chance to witness in real-time how a company builds, executes, and adapts. And what you really want to see is how a company responds to challenges.

In the example of Endor above, the company folded under pressure and small problems became bigger problems. In the example of Netflix below, the company responded well to the challenges posed in the post-covid environment. Netflix's team very quickly assessed ways to improve their business model and executed expeditiously.

If we built our position in Endor more slowly, we could have ended up with a smaller economic exposure or at the very least averaged down at better prices. If we had built our position in Netflix more slowly, we would have (and actually did) average up at higher prices but make those incremental buys with greater confidence and conviction.

3) Continue to let winners run

To end on a positive note, there were things we did right in 2023. We underwrote some great new investments, but importantly, we added to those investments on strength. Then we let them run to maximize the upside potential.

Letting winners run can sometimes be easier said than done. When a stock works it becomes a larger portion of your portfolio and the valuation ratios generally look more expensive. There is a tendency to trim winners to book some gains. However, buying winners on strengthening fundamentals is often the best use of capital because we are already intimately familiar with those situations. There are also some interesting statistical truths in investing that support holding winners longer. Winners tend to keep winning because high-quality businesses have sustainable competitive advantages over competitors and growth trends tend to have momentum. These facts are often dismissed by the financial analyst community which tends to be short-sighted in assuming that successful businesses will quickly run into diminishing returns or robust competitive responses.

By contrast, selling winners to purchase new stocks is more mentally taxing. It requires additional upfront work and requires taking a tax hit on the gains realized. In other words, there should be a higher bar for buying a new stock vs. holding existing positions, especially when we already own a long-term winner.

There are several good examples I can draw from where we have let winners run to a high degree. The best example I can provide from our current holdings is Netflix. We purchased Netflix during the summer of 2022 at a price of around $200 per share. I summarized my investment thesis in the Q3 2022 letter, which was essentially that Netflix could successfully cut costs and grow revenue with the addition of the ad-supported tier and paid sharing. Either lower costs or higher revenue would have lifted Netflix. If they could execute on both, the stock would have significant upside.

By mid-2023, Netflix proved their ability to cut costs (supporting our thesis) but they were just starting to work on improving revenue growth. Investors were skeptical and we felt that the stock was still cheap relative to our assessment of value. We purchased more shares of Netflix at around $350 per share, 75% above our original cost basis. By the end of 2023 and into 2024 it became clear that Netflix could both cut costs and re-accelerate revenue growth. The stock is now over $550 per share and we haven't sold a single share. In fact, we see the fundamentals improving which should result in more upside.

As a result of buying the stock well in 2022, significantly adding to it in 2023, and letting it run, Netflix is currently our largest position at a ~14% weight in the Growth Portfolio. While there will be a time to sell Netflix, it won't be simply because the stock appreciated too much.

Until next time

On the personal front, my family moved from Manhattan to Central Florida in October. While you can't always time the market correctly, I am pretty sure we timed the seasons correctly on our move. I am taking full advantage of my new Floridian lifestyle – I recently learned how to play Pickleball and have already spotted several wild alligators! If you find yourself in the Sunshine State please reach out and I'd love to connect.

Thank you for your continued support and confidence.

Best regards,

Luis V. Sanchez CFA

ABOUT LVS ADVISORY

LVS Advisory is a boutique investment firm focused on providing active investment management services for individuals, families, and institutions. The LVS Event-Driven Portfolio is an absolute return strategy focused on capital preservation. The LVS Growth Portfolio is a global equity strategy focused on capital appreciation. Luis V. Sanchez CFA is the Founder and Managing Partner of LVS Advisory. Luis is a licensed Investment Adviser Representative and a CFA Charterholder. LVS Advisory is a Registered Investment Adviser based in New York City.

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