Investment Results	2019	2020	2021	2022	2023	2024	Since Inception[1]
LVS Event-Driven (net of fees)	7.0%	13.2%	9.1%	3.8%	6.2%	7.5%	56.5%
LVS Growth (net of fees)	-	61.9%	16.1%	(35.8%)	7.0%	36.7%	76.6%

Note: investment performance is presented net of all fees and expenses. Investment results are as of December 31, 2024.
(1) LVS Event-Driven was incepted on January 1, 2019. LVS Growth was incepted on January 1, 2020.

January 9, 2025

Dear Investors,

For the full year of 2024, the LVS Growth Portfolio gained 36.7% and the LVS Event-Driven Portfolio gained 7.5%, net of all fees and expenses.

In this letter, I will discuss the investment outlook for the Event-Driven Portfolio and discuss some of the process improvements that have been made to the Growth Portfolio over the past year.

Event-Driven Portfolio: A Strong Year Ahead for Arbitrage

The Event-Driven Portfolio delivered its best year of performance since 2021 despite a challenging environment for the asset class. Merger arbitrage, which comprises roughly 80% of the portfolio, has faced significant regulatory challenges under the Biden administration.

The S&P Merger Arb Index gained just 0.46% in 2024 and has only gained 1.2% since 2021. The asset class' returns have been lackluster primarily due to the number of blocked deals. When a deal is blocked, the target stock typically declines anywhere between 30% to 50% (a reversal of the takeout premium). Many of the blocked deals would not have traditionally been considered anti-competitive, making the asset class more unpredictable.

The Biden administration's anti-trust enforcement was not only successful in blocking announced deals but it was also successful in deterring potential deals. Although anti-trust enforcement isn't the sole cause, deal volumes under the Biden administration have been consistently below what was experiencing during the prior Trump admin, particularly over the last 2 years.

U.S. M&A Activity

	2017	2018	2019	2020	2021	2022	2023	2024
Number of Deals	15,558	20,764	21,559	18,422	25,170	21,274	14,812	15,217
Value ($ Billions)	$1,762	$2,431	$2,358	$1,897	$3,474	$1,998	$1,443	$1,688

Source: IMAA.

As a result of the difficult investing environment, many merger-focused investment firms have shut down. As I wrote in my 2023 year-end letter, we adapted to the environment by diversifying away from merger arb. We allocated 20% of the portfolio to non-merger related special sits such as the Talen Energy investment discussed in the Q2 2024 letter. Given our continued strong performance, in addition to our track record of not having a down year since inception, I would say our strategy has been working well.

The 2025 Outlook Looks Bright

While I tend to believe the influence of politics over stock market returns is over-discussed, in this case, I believe the election of Donald Trump changes everything for merger arb investors.

Right off the bat, Trump opted to replace Lina Kahn, Biden's aggressive anti-trust enforcer, with Andrew Ferguson. Ferguson noted that he would "reverse Lina Khan's anti-business agenda", which most likely will result in fewer anti-trust enforcement actions.

M&A activity is expected to explode higher in 2025. One interesting proxy for this anticipated trend is the share price appreciation of boutique investment banks which generate a disproportionate amount of fees from M&A deals. Every single US-listed investment bank outperformed the S&P 500 in 2024 and the average return for the subset of 'boutique banks' was greater than 60%. As an aside, we invested in a handful of investment banks during 2024 to participate in an M&A recovery.

Company	Ticker	1 Year Stock Price Return
Jefferies	JEF	103%
Evercore	EVR	70%
PJT Partners	PJT	61%
Lazard	LAZ	31%
Moelis	MC	38%
Perella Weinberg Partners	PWP	94%

As of 1/6/2025

The expected surge in M&A transactions combined with the exit of several large funds from the asset class could lead to a large supply/demand imbalance allowing for wider deal spreads translating into improved investment returns. We observed this in 2021 when a surge in M&A volume resulted in greater returns simply because there were too many deals.

We are ready and waiting to take advantage of this change of pace.

Growth Portfolio: Investment Process Improvements

The Growth Portfolio had an exceptionally strong year. Not only did we achieve an absolute return of 36.7% but we also outperformed the S&P 500 by over 11%. I attribute our results to several process improvements we implemented in 2023/2024. I alluded to the adaptations in the year-end 2023 letter, but I will discuss them in more detail here.

Embracing Portfolio Concentration And Diversification

Other than security selection, the most consequential decision an investor can make is how to size each investment to construct the portfolio. Among active stock pickers, there appears to be two schools of thought: you either run extremely concentrated (fewer than 15 stocks) or you run extremely diversified (over 50 stocks), with little middle ground.

The logic to being more concentrated is that you want to have most of your money in your best ideas so that you can generate stronger returns. The trade-off is that if you have fewer positions, your returns will be more volatile. Concentration works in both directions and individual stock picks that yield greater upside can also inflict greater downside on a portfolio.

The logic to being more diversified is that not only will you have less volatility (read: lower overall risk), you will have also purchased embedded optionality of more potential winners. In other words, sometimes stocks with smaller position weights can drive meaningful portfolio return even if they start out as small positions – this is one of the key reasons the S&P 500 is such a good portfolio. For example, Nvidia started 2024 at a 3% weighting in the S&P 500. The stock appreciated by 171% and ended the year at a 7% weight in the index. As a result, Nvidia drove 20% of the S&P 500's overall returns for the year despite starting out as a relatively small weight.

There are merits to both concentration and diversification. My resolution has been to embrace both concentration and diversification to optimize returns while reducing overall risk exposure. We've invested a disproportionate amount of capital in our best ideas but we also hold many smaller positions. Today the Growth Portfolio has 32 total positions but our top 7 stocks account for over 50% of our capital. The average size for the bottom 25 stocks is 1.9%.

Prior to 2023, we ran relatively concentrated and owned between 12 – 20 stocks at any given time. Our elevated concentration made our results more volatile during 2022. There isn't a fixed formula for how many stocks we can own or how large our top 5 – 10 positions will be. The change has been implemented by allowing our winners to run, more aggressively cutting stocks when they fail to track our thesis, and sizing new positions smaller at the onset.

Our 2024 results demonstrate that these portfolio management changes have resulted in clear improvements to our key metrics. The strongest gainers in the portfolio were indeed the stocks we over-weighted at the top of our portfolio. Our largest position drove 21% of our overall returns. However, if you remove our largest gainer, the overall portfolio would've still outperformed the S&P 500, proving that the bottom of the portfolio can still drive strong returns even if we make some mistakes with our large holdings.

We are also intentionally more diversified by factors including industry, size, and valuation. This should put us in a better position during the next market downturn. Overall, I am pleased with how our portfolio construction has evolved.

<u>Experimental Positions</u>

A key challenge I've experienced with investment research is that it is not difficult to figure out if a stock is *probably a good idea,* but it is extremely difficult to figure out if a stock is *surely a great idea* worthy of a large position size. Much of the issue stems from building conviction that one has an edge in understanding a business or a market mis-pricing in an otherwise extremely competitive and efficient market.

The concept of "experimental positions" refers to our smaller-sized stocks that we are still researching and/or waiting for something to happen to build our confidence in the long-term prospects. I have found that you don't really understand a stock until you have been a shareholder for a period of time. Even a 1% position creates mental inventory and motivation to understand the less obvious aspects of a business.

When a new investment idea enters our research process, I will typically spend several weeks focused on understanding all aspects of the business and financial metrics. There is usually an obvious character flaw that we will uncover that will disqualify a stock from entering our portfolio. For example, a business may look competitively advantaged but the governance structure is unattractive. If a business checks all the boxes we are now willing to buy a 1% - 2% experimental position if we aren't already over-exposed to that business model or investment theme.

Our research process continues after the initial purchase. We experience the quarterly reports in real-time with greater context of all the expectations and emotions of the moment. We spend more time speaking with the company, competitors, and experts with the gained perspective of a seasoned owner. Gradually we find that our confidence either keeps building or we figure out that the situation is more nuanced than we initially assessed.

Every experimental position will ultimately be classified as either having the potential to be a larger holding or added to our sell list. Medpace (discussed in the Q3 2024 letter) is a good example of a stock that has gone through this process. We initiated a small position in 2023 after some initial diligence and continued to better understand the business. When the stock declined over 30% from its highs in 2024, we were ready to make the position larger and understood the dynamics underlying the price decline which gave us confidence it was a buying opportunity.

On the other hand, if Medpace's stock price fell for reasons that questioned our investment thesis, it would be easier for us to sell the stock and move on.

I have found this process of turning over experimental positions to be extremely accretive. Some investors strive to reduce turnover and only let new stocks into their portfolios with a high bar. I believe modest portfolio turnover is a sign of progress. We still want to keep a high bar and a long-term orientation for our larger, concentrated bets, but the experimental positions have improved our mental flexibility and nimbleness to explore new investment themes.

<u>Slowing Down the Pace of Investment</u>

The final key investment process change we made was creating rigid rules around how quickly we can build new positions. There is now a mandatory 6 month cool off period between each time I buy a stock. This rule has intentionally slowed down the ability for us to amass a large position in a single stock, providing a helpful guard rail on getting too big too fast.

This rule is mostly a way to combat my own biases and may not be helpful for other investors. In review of the since inception performance, I found clear evidence that our worst performing investments were the situations where we accumulated too quickly.

The rule dovetails nicely with our portfolio of experimental positions because it allows time for us to get to know our companies and removes some mental pressure to make quick decisions. By slowing down the investment process, we can make more calculated, rational decisions. We may trade off some short-term upside if there is a time-sensitive catalyst, however, the effect of the rule also forces us to think longer term about what positions we want to continue adding to over a period of years, not weeks or months.

Final Thoughts

Every strong investment process should continuously improve and adapt because markets change over time. There are many examples of investment strategies and processes that used to work but became stagnant over time. I am committed to studying our successes and failures and drawing the right lessons. I will continue to be transparent about what has worked and what could have been improved.

Until next time

Thank you for your continued support and trust in LVS Advisory.

Best regards,

Luis Sanchez

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 Central Florida.

LVS ADVISORY

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