

July 3, 2024

Second Quarter Update and Outlook

The outsized performance of a narrow group of stocks in the first half of 2024, including the second quarter, is worth noting. For the second quarter, the large capitalization-oriented S&P 500 returned 4.3%, while the S&P SmallCap 600 Index returned a negative (3.1%). For the full first half of 2024, the comparison is even starker; the large capitalization weighted S&P 500 returned 15.3% while the S&P SmallCap 600 Index returned a negative (0.7%). Investors remain enamored with the growth prospects of some of the largest publicly traded U.S. based companies, mostly in the technology and communications services sectors. The other nine industry sectors that make up the S&P 500 trailed by a wide margin. At the top of the first half returns by industry sector was the 28.2% return of the technology sector; trailing at the bottom was real estate with a negative (2.5%) return.

Growth stocks often lead markets during periods of low interest rates combined with low inflationary periods. One reason given is that investors are willing to pay more for investments if the cost of money is low and the prospective real returns large. This doesn't really square with the current environment in which inflation and interest rates are higher than they've been in most of the past 23 years. In addition, short term U.S. government interest rates are currently higher than long term U.S. government interest rates. This inverted yield curve often describes the early stage of a recessionary economic environment, not an economy growing resiliently. A lot of past investing norms have to be put aside to try to understand the current stock market anomalies.

	Quarter	1Yr	3Yr	5Yr	Since Inception	
					May '04	Nov '05
LSC Opportunistic Value Equity (net of fees)	0.7%	11.4%	6.0%	8.6%	6.2%	N/A
LSC Fully Invested Value Equity (net of fees)	0.4%	14.2%	7.5%	9.8%	N/A	7.7%
Morningstar US Value TR USD	-1.5%	14.9%	7.9%	9.8%	8.4%	7.9%
S&P 500 Total Return Index	4.3%	24.6%	10.0%	15.0%	10.4%	10.4%
MSCI ACWI Value Total Return Index	-0.3%	14.7%	5.6%	7.8%	7.2%	6.4%

**Performance periods greater than 1 year are annualized.*

Reported LSC Strategy returns are net of annual management fees. Index returns do not include an imputed management fee. Client account performance will differ, due to timing, price and/or investment objective considerations. LSC Strategy and benchmark returns include dividends and/or interest.

We sold ProShares Short S&P 500 exchange traded fund early in the quarter. The investment performed poorly, in view of the strength of the large company weighted stock indexes. Also, during the quarter, we added San Juan Basin Royalty Trust to LSC portfolios. The unit holders are entitled to a revenue stream, depending on the profitability of these natural gas wells operated in northwestern New Mexico. The underlying owner of the assets is Hilcorp, the largest privately owned energy company in the U.S., by volume. Our interest in investing in San Juan Basin Royalty Trust reflects the large increase in electricity needs that the U.S. is likely to face over the next decade. Plentiful U.S. reserves of natural gas have historically provided a low emission, low-cost form of base electricity load to residential and commercial customers. We believe natural

gas demand will rise over time as utilities perceive natural gas as economic, reliable and less controversial among its many fuel alternatives.

Should investor concern creep into parts of our inflated markets, a likely pullback in the U.S. popular stock market averages could be significant. An unexpected catalyst for a reversal could be an adverse cash flow event experienced by the largest of investors, the U.S. pension funds. Over the years the trend towards illiquid investments such as real estate, private equity and private lending, has served to bulk up pension fund investment returns. A negative reversal of cash inflows could create a cascading negative effect that spreads to many asset classes, including publicly traded equities, especially those that are widely held in passive investing strategies. Our holdings include attractively priced international stocks as well as smaller U.S. based companies, both of which are underrepresented in most of the popular indexed investments.

Sincerely,



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The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed do not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings.

It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein.

Upon request, LSC will furnish a list of all recommendations made since inception, this list shall include the name of each security, date and nature of each such recommendation, market price at the time of each recommendation, price at which the recommendation was made and price it was to be acted upon, and market price of each security as of the most recent practicable date.

Lesla Sroufe & Company claims compliance with the Global Investment Performance Standards (GIPS). To obtain a compliant presentation as well as a list of composite descriptions, please email: info@sroufecocom.

Definition of Firm: Lesla Sroufe & Company (LSC) is an SEC registered, Seattle, Washington based firm. LSC is a women-owned investment management company that specializes in the selection and management of securities that are deemed to be undervalued. The firm's investment philosophy is top-down, value oriented and often contrarian. LSC seeks securities that are deemed out-of-favor with mainstream investors and are priced under their potential fair value. LSC manages money for institutions and private clients.

Composite Definitions:

Opportunistic Value Equity Composite: The Opportunistic Value Equity Composite includes taxable and nontaxable, discretionary, fee paying portfolios with a Value Equity strategy that may include U.S. companies, ADRs, and ETFs. Additionally, the strategy utilizes an opportunistic and dynamic cash allocation that ranges from 0% to 50% depending on perceived values within the equity universe. Portfolios with a minimum asset level of US \$50,000 are included in the composite. This composite was created in November 2013. Each account within the Opportunistic Value Equity Composite is individually managed and as such allows for Client-Imposed mandates and restrictions. A list of composite descriptions is available upon request.

Fully-Invested Value Equity Composite: The Fully-Invested Value Equity Composite includes taxable and nontaxable, discretionary, fee paying portfolios with a Value Equity strategy that may include U.S. companies, ADRs and ETFs. Additionally, the strategy focuses on maintaining an equity weighting of greater than 90% (the strategy does not include cash). Portfolios with a minimum asset level of US \$50,000 are included in the composite. This composite was created in November 2013. Each account within the Fully-Invested Value Equity Composite is individually managed and as such allows for Client-Imposed mandates and restrictions. A list of composite descriptions is available upon request.

Benchmarks: The primary benchmark is the Morningstar US Value TR Index, an unmanaged index that tracks the performance of those Morningstar US Value companies with lower price-to-book ratios and lower forecasted growth values. The secondary benchmark is the S&P 500 Total Return Index, an unmanaged broad-based measure of market performance. The benchmarks provided are for comparative purposes only to represent the investment environment during the time periods shown. The composite differs from the index content and asset allocation of the Morningstar US Value TR Index, an unmanaged index and the S&P 500 Index, also an unmanaged index.

Fees: Net-of-fees performance returns are calculated by deducting the actual management fee which ranges between 0.4% - 0.80% annually. The management fee for the composite ranges between 0.45% - 0.80% annually. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. Valuations are computed and performance reported in U.S. dollars. As of January 2022, net-of-fees returns are calculated using the actual gross returns less 0.80% annual management fee applied on a monthly basis, though fee discounts are available depending on the account size.