

Qualivian Investment Partners Q2 2024 Investment Letter

September 2024



We continue to apply a simple three-step investment strategy: 1) buy good companies, 2) don't overpay, and 3) do nothing.

Terry Smith

Overview

Qualivian Investment Partners is an **investment partnership focused on long-only public equities**. We own a concentrated portfolio of 15–25 understandable companies with **wide moats**, long **reinvestment runways**, and **outstanding capital allocation**. Since we expect them to **compound capital at a mid-teens rate**, we hold **them** for an extended period. **We are seeking investors who are aligned with our long-term investment time horizon**. We **do not short securities**. We **do not use leverage**. We **do not use derivatives**. We are **not macro investors**. We believe that only a relatively small number of exceptional companies are worth investing in over the long term.

Our Formula

Long-Term Orientation + Long-Term Investors + Focused Portfolio + Quality Compounders = Maximizing Chance for Outperformance

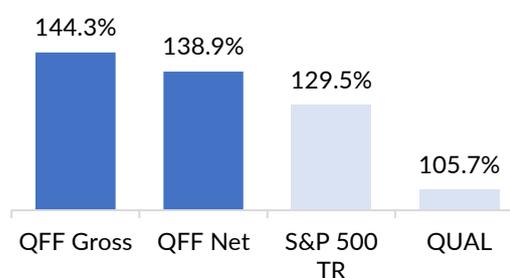
Our investors should understand how we invest so they make the right decision. We encourage investors who agree with our long-term horizon and philosophy to contact Aamer Khan (aamer.khan@qualivian.com) at 617-970-9583 or Cyril Malak (cyril.malak@qualivian.com) at 917-742-2039.

¹ Qualivian Focus Fund inception date is December 14, 2017.

² Note the higher gross performance compared to Founders Class shares in the Qualivian Focus Fund (QFF). This reflects that we do not flow fund management

Cumulative Performance Since Inception¹ Through June 30, 2024

Qualivian Focus Fund (QFF) SMA ITD Performance



Qualivian Investment Partners introduced a Separately Managed Account (SMA) product for investors in early 2024 managed in the same manner as the Qualivian Focus Fund. The terms reflect a lower management fee than in our Founders Class shares. As explained further in Appendix 1, the performance above represents the actual performance of the Qualivian Focus

Fund adjusted by removing fund expenses and the management fee charged to fund investors and applying the lower management fee for SMA investors (the “SMA Performance”). As a general matter, all performance numbers herein represent the SMA Performance as adjusted.²

SMA Performance

Since inception through June 30, 2024, we have **outperformed the iShares MSCI USA Quality Factor ETF (QUAL) by 38.6% and 33.2% on a gross and net basis**. **Similarly, we have outperformed the S&P 500 by 14.8% and 9.4% on a gross and net basis, respectively.**

expenses (capped in our commingled fund, QFF, at 50 bps to cover expenses such as Fund Administration for example) through the SMA product. In addition, the lower management fee (35 bps annualized) is reflected in the Net performance fee.

Our detailed performance summary is presented in Appendix 1 for both our Founders Class shares in our pooled vehicle, as well as the performance reflecting our SMA terms.

Portfolio Highlights

Portfolio Changes in Q2 2024

We trimmed our positions in Berkshire Hathaway (BRK.B) and Meta Platforms (META) and used the proceeds to initiate a new position in Murphy USA (MUSA), a Quality Compounder that we think can continue to grow revenue and EPS organically and via consistent share repurchases.

For our top 3 and bottom 3 contributors in the quarter, please refer to Appendix 2.

We have discussed how our long-term investment horizon is a key competitive advantage of our investment approach in our previous letters. We now give a more in-depth discussion about the advantage of a long-term approach.

Let's first invert the question.

What Happens If You Don't Invest for the Long Term?

In 1900, there were 4,000 American millionaires. According to Haghani and White :³

- If only a quarter, or 1,000 of those millionaires had \$5 million and spent 2% a year and invested the rest in the market at long-term average market returns, and their succeeding generations did the same, then how many billionaires would there be today?
- The Answer: 16,000 billionaires.

- There were only 756 billionaires in the United States in 2023.
- This means that 15,244 potential billionaires never materialized! This number does not include the billionaires from businesses created after 1900, e.g., Henry Ford, Jeff Bezos, Warren Buffet, Bill Gates, etc. If this category was included, the 15, 244 number would be much higher.
- The Lesson: invest for the long term and let the power of compounding work without interruption.

Time Arbitrage: Long-Term Investing in a Short-Term World

Competitive edges in investing are few, and they tend to erode due to rapid exploitation. However, there is an exception to this: a long-term investing approach in a short-term world. This is referred to as time arbitrage.

Time arbitrage only works if there is an imbalance between short-term and long-term investors. If all investors were long term, then it would not lead to above average results.

However, if the proportion of investors shifts in favor of short-term investors, then time arbitrage becomes a viable strategy. We will discuss below why the proportion of short-term investors has risen and will continue to rise. This will increase the competitive edge of time arbitrage.

Short Termism Has Increased

There are several factors behind the increase in short termism:

³ The Missing Billionaires: A Guide to Better Financial Decisions, September 2023

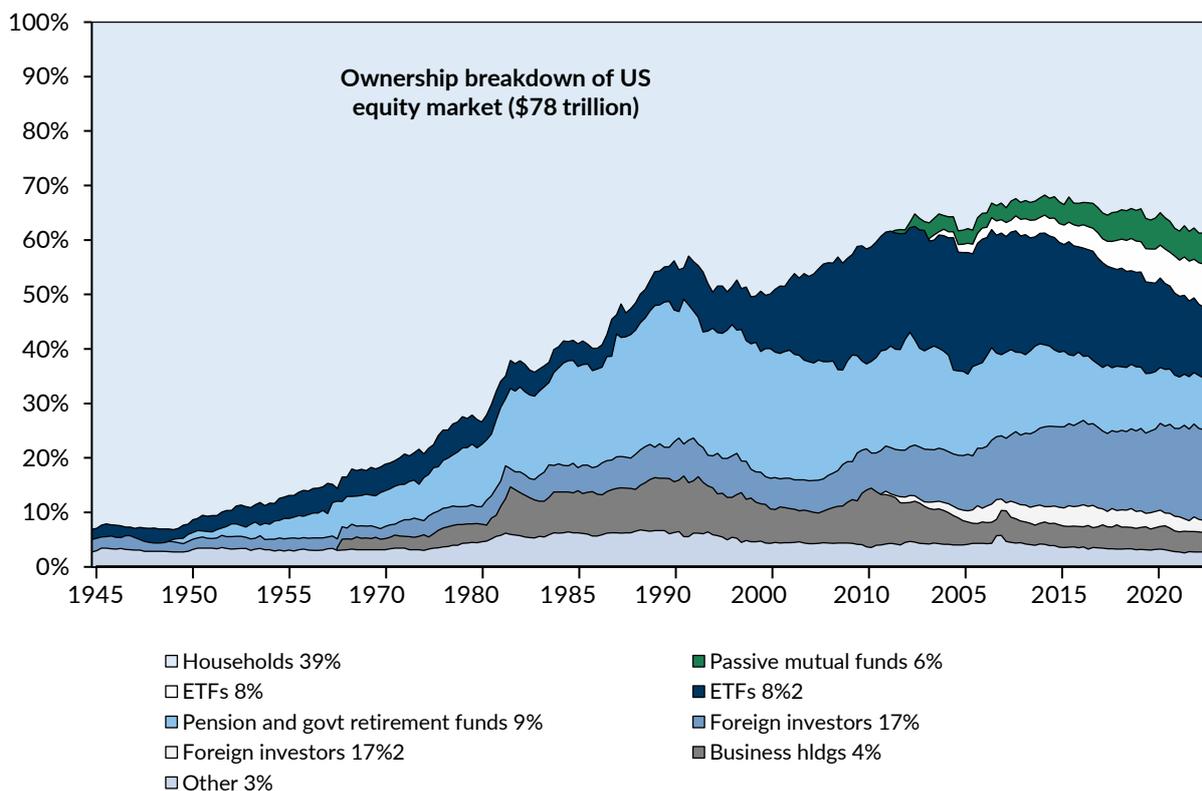
Change in Ownership of Equities

The ownership of stocks has shifted from households to financial institutions (active mutual funds, hedge funds, insurance companies, and pension funds). In 1950

financial institutions owned 10% of stocks. This increased to 60% in 2024.

The following graph shows how the ownership of equities has shifted in favor of financial institutions.

Financial institutions now own approximately 60% of US equities market



Source: Federal Reserve, Coraman Sache Global vestment Research.

Why does this matter? It is important because of the distinction between the investment profession and the investment business.

The Investment Profession vs. the Investment Business

The investment profession prioritizes investment performance over asset gathering and fee generation. Its portfolio managers tend to be long-term oriented, patient, and not driven by short-term asset inflows and outflows. It is akin to the medical profession which prioritizes the

patient’s health over the fees earned by doctors.

The investment business focuses primarily on asset gathering and fee generation. Most financial institutions are investment businesses. These firms often increase the number of their fund offerings to capture recent investment fashions. However, this negatively impacts fund performance.

Exhibit 14 below illustrates how the number of funds in a firm affects investment returns; the data shows that those firms with fewer funds tend to outperform.

⁴ Long-Term Investing in a Short-Term World, Legg Mason Capital, Michael Mauboussin, May 18, 2006.

Exhibit 1: Number of Funds versus Investment Returns

Shading highlights firms that manage fifteen or fewer funds

Firm	Equal-Weighted Outperformance	No. of Funds	Firm	Equal-Weighted Outperformance	No. of Funds	Firm	Equal-Weighted Outperformance	No. of Funds
Dodge & Cox	98	4	Waddell & Reed	61	45	Eaton Vance	49	73
First Eagle	97	5	USAA	61	31	Morgan Stanley Adv.	49	50
Calamos	91	8	Oppenheimer	60	48	Goldman Sachs	49	34
So. Eastern/Longleaf	90	3	MFS	59	61	The Hartford	48	33
American Funds	79	26	Prudential	59	49	Putnam	47	54
Royce	79	14	New York Life	58	22	John Hancock	47	35
Harris Associates	77	7	US Bancorp	57	37	Dreyfus	45	126
Vanguard	76	75	Columbia Mgmt.	56	72	Delaware	44	56
PIMCO	76	31	Alliance-Bernstein	55	57	Strong	44	42
Franklin Templeton	71	10	Banc One	54	36	Thrivent Financial	44	25
T. Rowe Price	71	72	Neuberger Berman	54	14	Trusco	43	24
Janus	70	21	Lord Abbett	53	27	Merrill Lynch	40	58
ING	69	60	Scudder	52	65	Aim	39	62
Nuveen	65	26	Van Kampen	52	43	Nations Funds	38	42
American Century	64	54	Federated	52	37	American Express	37	60
WM Advisors	64	15	Evergreen	51	57	BlackRock	36	32
Davis	62	7	Citigroup	50	57	Pioneer	33	24
Fidelity	62	207	Wells Fargo	50	39	JP Morgan	32	38

Public Ownership vs. Private Ownership

Similarly, investment firms that are privately owned are under less pressure to gather assets every year than publicly owned firms. They can focus on achieving good investment returns rather than asset

gathering. Publicly owned asset managers face market pressures to grow their assets under management to deliver growing revenue and earnings. This adversely affects investment returns as previously discussed. This can be seen in Exhibit 2⁵ below.

⁵ *Long-Term Investing in a Short-Term World*, Legg Mason Capital, Michael Mauboussin, May 18, 2006.

Exhibit 2: Investment Firm Ownership versus Investment Returns

Shading represents private firms

Firm	Equal-Weighted Outperformance	Firm	Equal-Weighted Outperformance	Firm	Equal-Weighted Outperformance
Dodge & Cox	98	Waddell & Reed	61	Goldman Sachs	49
First Eagle	97	USAA	61	Morgan Stanley Adv.	49
Calamos	91	Oppenheimer	60	Eaton Vance	49
So. Eastern/Longleaf	90	Prudential	59	The Hartford	48
Royce	79	MFS	59	John Hancock	47
American Funds	79	New York Life	58	Putnam	47
Harris Associates	77	US Bancorp	57	Dreyfus	45
PIMCO	76	Columbia Mgmt.	56	Strong	44
Vanguard	76	AllianceBernstein	55	Delaware	44
T. Rowe Price	71	Banc One	54	Thrivent Financial	44
Franklin Templeton	71	Neuberger Berman	54	Trusco	43
Janus	70	Lord Abbett	53	Merrill Lynch	40
ING	69	Van Kampen	52	Aim	39
Nuveen	65	Scudder	52	Nations Funds	38
American Century	64	Federated	52	American Express	37
WM Advisors	64	Evergreen	51	BlackRock	36
Davis	62	Wells Fargo	50	Pioneer	33
Fidelity	62	Citigroup	50	JP Morgan	32

The Buy Side Encourages Short Termism

- Incentives for fund managers and buy-side analysts:** one-year relative performance typically comprises a significant component of compensation. This incentivizes fund managers and analysts to:
 - Prioritize short-horizon investments (for example, those firms likely to beat quarterly earnings estimates) over long-horizon investments, and
 - Chase recent investment trends.
- Tenure of fund managers:** about a third of fund managers last less than 3 years and half last less than 5 years. Knowing that they might lose their job within a few years causes fund managers to focus on short-term investing to maximize their compensation which is heavily skewed toward short-term performance.

Wall Street Encourages Short Termism

- An entire industry (Wall Street) exists to make investors engage in constant trading activity. This benefits Wall Street more than the investors it serves. The constant drip of rating changes and estimate revisions, earnings reports, and new stock initiations play with the

investor emotions of fear and greed. If a buy-side firm held stocks for the long term and traded little, it would be of little interest to Wall Street.

- Furthermore, sell-side estimates tend to focus on the next quarter or 12 months. As seen in Exhibit 3 below, an analysis by Morgan Stanley⁶ shows that few sell-side estimates go beyond 2 to 3 years. Long-term estimates are rare.

Exhibit 3: Analysts typically focus on the next quarter’s earnings rather than long-term intrinsic value

Average number of published estimates



Source: Morgan Stanley Investment Management, calculations based on Bloomberg estimates for 4,601 companies over \$1 billion in market capitalization. Data as of September 30, 2016.

Rise of High-Frequency Trading and Hedge Funds Lead to Short-Termism

Equity prices at the margin are set by high-frequency traders (HFT) and hedge funds. They constitute more than 60% of all trading in US markets. HFT is quantitatively driven and has very high turnover rates. It relies on short-term signals like stock price correlations, macro factors, and earnings revisions.

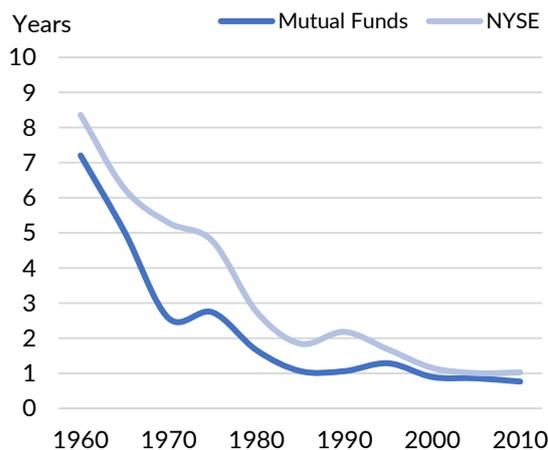
Furthermore, hedge funds have a high-water mark. This implies that if a fund’s performance underperforms its benchmark, it will not earn its carry, and its managers and analysts will not get paid. This often forces the fund to shut down. This encourages a short-term focus by the hedge fund.

⁶ Long Term Conviction in a Short-Term World, Morgan Stanley, 2018.

All This Leads to Higher Turnover and Shorter Time Horizons

All these factors have contributed to the increase in trading turnover over the past decades. Exhibit 47 below shows that the average stock is now held for less than 10 months versus an average of 5 years in 1975.

Exhibit 4: Average holding periods have fallen



Source: New York Stock Exchange, Morningstar. Calculated as inverse of turnover ratio. Data as of December 31, 2010.

Why Short-Termism leads to Investment Errors

In the short term, the fluctuations between a stock’s intrinsic value and actual price are greater than over a long horizon. This makes it easier to make investment errors.

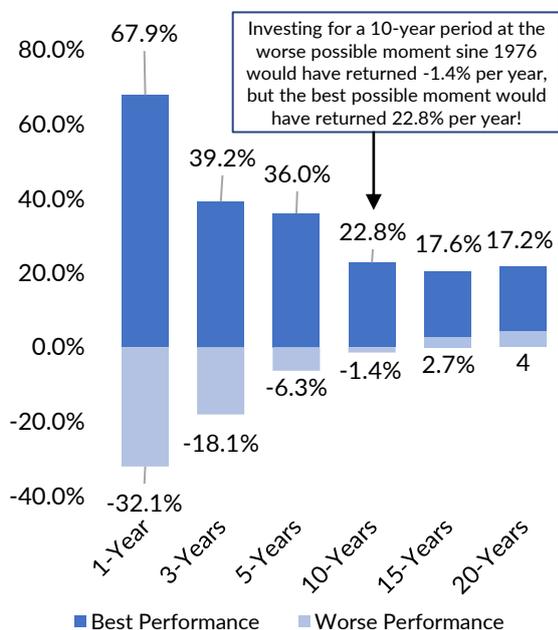
Given the amount of information produced, it is hard to distinguish noise from signal over the short term. There are fewer incremental data points (like earnings misses or beats, mergers, management changes) to go by. This means that a smaller sample size is used to make investment decisions, leading to less accuracy in estimating intrinsic value.

⁷ Long Term Conviction in a Short-Term World, Morgan Stanley, 2018.

Exhibit 5⁸ below illustrates the dispersion of returns over different time periods in the MSCI World Index between 1975 and 2023. The bottom of each bar represents the return for the worst possible entry and exit points for the different durations occurring between 1975 and 2023. Similarly, the top of the bar represents the best entry and exit points for that duration from 1975–2023.

For example, assuming the best entry and exit points were chosen, the best possible 1-year return (over all the 47 1-year periods from 1975–2023), was 67.9%. However, if the investment was made at the worst possible moment (over 1975–2023) and sold one year later, the return would have been minus 32.1%. The chances of an investor with a 1-year horizon choosing the best entry and exit points are low. Correspondingly, the chances of an investment error are significant.

Exhibit 5: Dispersion of possible returns if one were invested in MSCI World Index for various periods since 1975.



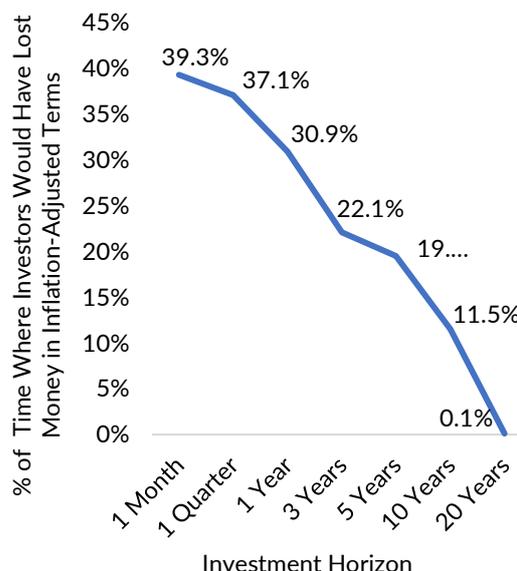
⁸ *The Short-Term Mistakes of a Long-Term Investor*, Saltus, November 15, 2023.

As the time horizon lengthens, the dispersion of possible returns shrinks. In investing for any 5-year period between 1975 and 2023, if an investor chose the worst entry and exit points, the average annual return would be -6.3% and if the investor chose the best entry and exit points over the same period, the best average annual return would be 36%. The narrowing of the dispersion greatly reduces the chances of an investment error.

Similarly, as can be seen from Exhibit 6⁹ below, for the S&P500, over the period 1871–2020, investing for one month would have given negative returns 40% of the time in 704 of the 1790 months in that period.

However, investing for 12 months would have lost money in only 30% of the time periods. Investing for 5 years reduces it to 10% and investing for 10 years would have lost money in only 11.5% of the time periods.

Exhibit 6: Short-term investors have faced significant risks of losing money, longer-term investors have not

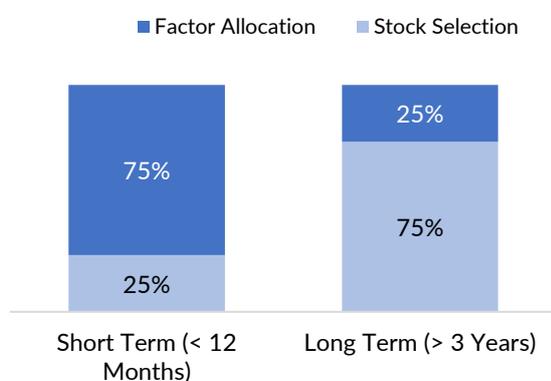


⁹ *The Data that Shows a Case for Long-Term Investing*, Schroders, 4/22/2020.

In the short term, returns are more dependent on factors such as cyclicity, sectors, geography, etc., which tend to be macro driven and are harder to predict. Over the longer term, returns are driven by stock selection, which is more dependent on firm fundamentals and is easier to predict. Lengthening the time horizon reduces the chances of making an investment error. This is illustrated in Exhibit 7¹⁰ below.

Exhibit 7: For longer term horizons, stock selection tends to drive returns

Estimated share of excess returns attributable to factor allocation and stock selection



Source: Morgan Stanley Investment Management. Data as of September 30, 2017. For illustrative purposes only.

In sum, lengthening the investment time horizon reduces the chances of investment errors and increases the chances of outperforming the overall market or one's benchmark. Rip van Winkle would have done just fine.

We now discuss a Quality Compounder.

United Rentals (URI)

The Elevator Pitch

URI is an emerging oligopoly with structural advantages in a consolidating industry. The business is simple, understandable, and has a low risk of disruption in the foreseeable future. URI is priced like a cyclical, but its cyclicity is

lessening due to changes on the demand side. The market has not fully figured this out. It has a shareholder-oriented team that has consistently delivered in the past.

Description

United Rentals is the market leader (15% market share) in North American equipment rental, followed by Sunbelt (owned by Ashtead) at 11%, and Herc at 4%. The rest of the industry is fragmented. The growth of this market is related to the spending on residential and non-residential construction in North America. Its growth is stable over an entire economic cycle, but over shorter periods is sensitive to the current phase of the economic cycle.

United Rentals serves the following three principal end-markets for equipment rental in North America: 1) industrial and other non-construction (49% of 2023 revenues); 2) commercial (or private non-residential) construction (46% of 2023 revenues); and 3) residential construction, which includes remodeling (5% of 2023 revenues).

Investment Thesis for URI

1. URI has a durable and growing competitive advantage versus smaller local or regional competitors, a fact that is not appreciated by the market.

- Economies of scale and scope leading to further consolidation and an increasingly oligopolistic market: The top 3 rental companies should continue to consolidate share at the expense of smaller regional and local players over the next 5–10 years due to:

¹⁰ *Long Term Conviction in a Short-Term World*, Morgan Stanley, 2018.

- *Scale of their branch networks: Having greater branch coverage/density within local markets and a greater breadth of coverage nationally, allows URI to better serve customers with much higher levels of product availability and customer service levels.*
- *Trend toward “One-Stop-Shopping” for larger accounts: Larger national and regional accounts want to deal with fewer equipment rental providers across all their equipment needs to reduce project complexity. Furthermore, URI’s growth in Specialty Equipment rental has further enabled it to meet customers’ equipment needs on the project site in a one-stop fashion, allowing it to penetrate new customer segments and verticals and gain a greater share of wallet.*
- *Purchasing scale: As the largest equipment rental player across all General and Specialty equipment rentals, URI can leverage its scale to get better pricing when purchasing its equipment from OEMs.*
- *All these factors give URI better operating margins and ability to serve their customers versus the industry, especially smaller regional and local competitors.*
- URI has technological advantages that cannot be matched by smaller players:
 - Its scale has enabled it to invest extensively in its technology platforms allowing its customers to view (1) equipment availability, rental rates, bundling options, etc. and (2) to anticipate equipment failure and reduce customer downtime via telematics. These capabilities lower customer costs and make URI the preferred supplier.
- As a result of its competitive advantage, URI has increased its revenues and EBITDA at a 12% CAGR, and its EPS at a 25% CAGR over the past 5 years.
 - While URI’s revenues, EBITDA, and EPS growth in 2022/2023 were boosted by rental pricing growth in the mid-to-high single-digit territory due to supply-chain constraints (like every other sector in the economy), we view the components of future revenue and EPS growth for URI under a more normalized backdrop as being:
 - Organic top-line growth of 6–8% which translates to 6–8% EPS growth, all other things being equal.
 - Operating margin expansion of 20–40 bps per year due solely to operating leverage from growing top line 6–8%, which adds 1–3% to EPS growth.
 - Acquisitions that can add 1–3% to EPS growth.
 - Opportunistic share repurchases that can add 1–3% per year to EPS growth.
 - This means URI can conservatively deliver low- to mid-teens EPS growth for the foreseeable future. Even in a recessionary backdrop, URI should deliver high single-digit EPS growth on low-to-mid single-digit topline growth.

2. The market does not appreciate that URI's end markets are becoming less cyclical due to the following secular trends:

- The trend toward increased equipment rental penetration at the expense of equipment sales should continue, providing a powerful through-cycle tailwind to equipment rental growth.
 - The compelling economics of renting versus buying equipment when one considers total cost of ownership (upfront capital outlay, idle time, maintenance/repair costs, etc.) is driving the move to the use of rental equipment.
 - Higher projected equipment rental penetration should rise from 55%–60% to 65% over the next 5 years in North America. It is higher in other developed countries, like Japan (70%) and the UK (>80%).
- Step up increase in demand over previous economic cycles: The next demand cycle will be considerably stronger than previous demand cycles due to increased government spending on non-residential construction resulting from:
 - Infrastructure Bill (\$550Bn over 5 years),
 - Inflation Reduction Act (\$1+Tr over 10+ years), and the
 - CHIPS and Science Act (\$200 Bn over 5–10 years), as well as
 - Announced commercial planned investments in:
 - LNG (\$100+Bn over 5 years), and
 - Electric vehicle/battery spending (\$300 Bn over 5 years).
- Taken altogether, these lead to an average increase in non-residential construction spending per year of around \$300 to \$330 billion. Being conservative (assuming delays in some projects) and only assuming \$200 billion per year in extra spending, this still constitutes a large increase over the \$950 billion spent in 2023 on US non-residential construction. This extra spending is expected to continue for at least 5 years.
- To put this in context, during the 2009 “great” recession, non-residential construction dropped 22% peak-to-trough over a 2-year period or roughly 11% per year. Assuming 1) there was no boost from the above-mentioned infrastructure spending, and 2) there was another (severe) recession, then non-residential construction spending could dip by 11% on \$950 billion or around \$105 billion. This dip would be more than offset by our conservative assumption of \$200 billion of annual incremental non-residential construction spending resulting from the announced federal and commercial plans cited above over the next 5–10 years.

3. URI has a demonstrable record of deploying capital via M&A to enhance its scale, enter new market verticals/customer segments, as well as returning excess capital to shareholders.

- **M&A:** URI is disciplined in what they are willing to pay and acquisitions typically have minimum required IRR of high teens to low 20% (well above their minimum 10% hurdle rate required for capital deployment) to compensate for higher risk associated with M&A:
 - While URI does their fair share of smaller tuck-in acquisitions of local mom and pop operators, that does not really move the needle for them, and they typically deploy capital toward larger acquisitions that either offer them an entry point into a new product category (typically in Specialty rentals) or a new geographic market/customer vertical.
 - Given leverage of 1.6X Debt/EBITDA, well below the company's target of 2–3X, and considerable FCF¹¹ generation, the company has flexibility to make a sizable acquisition if the opportunity arises.
- **Share Repurchases/Dividends:** The company deploys excess FCF in a balanced fashion toward share repurchases and dividends (which it recently initiated in Q1 2023). In the past 5 years, the company has

reduced the diluted share count by 20%.

Valuation

- URI is currently trading at 15.1X NTM P/E and 0.7X NTM relative P/E to the market, richer to its historical ranges in absolute and relative terms to the market (+1 standard deviation above its 10-year average in both cases). We believe the company is becoming less cyclically volatile and should be rewarded with a higher multiple.
- Its FCF yield (4.4% on 2024 estimates) plus our 3-year forecast FCF growth (10–15%) suggest an expected return of 14.4% to 19.4% per year over the next 3 years.

Ending Thoughts

We look forward to sharing our thoughts on our investment approach and to keeping you abreast of our performance and changes to the portfolio. If you would like additional information about Qualivian, please refer to Appendix 3 for links to prior Investor Letters, our investor presentation, and an interview that Aamer did with Insider Monkey. In the meantime, if you have any questions, please feel free to reach out to us at the links below.

With best wishes,

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¹¹ FCF = free cash flow.

Appendix 1: Quarterly Performance Tables

Performance for Qualivian Focus Fund Founders Class Share Terms

	A	B	C	D	Difference with QUAL		Difference with S&P 500 Index	
	QFF Gross Returns	QFF Net Returns ⁽¹⁾	QUAL ⁽²⁾	S&P 500 TR Index ⁽³⁾	A-C Gross	B-C Net	A-D Gross	B-D Net
Dec. 2017⁽⁴⁾	-2.9%	-2.9%	-0.1%	0.5%	-2.7%	-2.8%	-3.4%	-3.4%
Q1 2018	5.4%	5.3%	-0.2%	-0.8%	5.7%	5.5%	6.2%	6.0%
Q2 2018	4.2%	4.1%	0.9%	3.4%	3.3%	3.2%	0.8%	0.6%
Q3 2018	5.6%	5.5%	8.3%	7.7%	-2.7%	-2.8%	-2.1%	-2.2%
Q4 2018	-14.6%	-14.8%	-15.1%	-13.5%	0.4%	0.3%	-1.1%	-1.3%
2018	-0.9%	-1.5%	-7.4%	-4.4%	6.5%	5.9%	3.5%	2.9%
Q1 2019	17.7%	17.5%	15.4%	13.6%	2.3%	2.1%	4.0%	3.9%
Q2 2019	5.3%	5.2%	3.3%	4.3%	2.0%	1.9%	1.0%	0.9%
Q3 2019	2.4%	2.2%	1.0%	1.7%	1.3%	1.2%	0.7%	0.5%
Q4 2019	10.5%	10.3%	9.3%	9.1%	1.2%	1.0%	1.4%	1.3%
2019	40.2%	39.4%	31.6%	31.5%	8.6%	7.8%	8.7%	7.9%
Q1 2020	-14.8%	-14.9%	-19.8%	-19.6%	5.0%	4.9%	4.8%	4.7%
Q2 2020	30.2%	30.0%	18.4%	20.5%	11.8%	11.6%	9.6%	9.5%
Q3 2020	9.3%	9.1%	8.2%	8.9%	1.1%	0.9%	0.3%	0.2%
Q4 2020	7.6%	7.4%	12.0%	12.1%	-4.4%	-4.6%	-4.6%	-4.7%
2020	30.4%	29.6%	15.1%	18.4%	15.3%	14.6%	12.0%	11.2%
Q1 2021	2.5%	2.3%	4.8%	6.2%	-2.3%	-2.5%	-3.7%	-3.9%
Q2 2021	12.5%	12.3%	9.1%	8.5%	3.4%	3.2%	3.9%	3.8%
Q3 2021	-1.2%	-1.4%	-0.9%	0.6%	-0.4%	-0.5%	-1.8%	-2.0%
Q4 2021	4.4%	4.3%	10.5%	11.0%	-6.1%	-6.2%	-6.6%	-6.8%
2021	18.8%	18.2%	25.3%	28.7%	-6.4%	-7.1%	-9.9%	-10.5%
Q1 2022	-11.0%	-11.1%	-7.5%	-4.6%	-3.5%	-3.6%	-6.4%	-6.5%
Q2 2022	-17.6%	-17.8%	-17.0%	-16.1%	-0.6%	-0.8%	-1.5%	-1.7%
Q3 2022	-4.8%	-5.0%	-7.0%	-4.9%	2.1%	2.0%	0.0%	-0.1%
Q4 2022	6.4%	6.2%	9.6%	7.6%	-3.3%	-3.4%	-1.2%	-1.3%
2022	-25.8%	-26.2%	-21.7%	-18.1%	-4.0%	-4.5%	-7.6%	-8.1%
Q1 2023	8.4%	8.3%	8.9%	7.5%	-0.4%	-0.6%	0.9%	0.8%
Q2 2023	11.9%	11.7%	8.7%	8.7%	3.2%	3.0%	3.1%	3.0%
Q3 2023	-1.6%	-1.8%	-2.3%	-3.3%	0.6%	0.5%	1.6%	1.5%
Q4 2023	10.7%	10.6%	11.6%	11.7%	-0.9%	-1.1%	-1.0%	-1.1%
2023	32.1%	31.3%	29.1%	26.3%	3.0%	2.2%	5.8%	5.1%
Q1 2024	12.5%	12.3%	11.7%	10.6%	0.8%	0.6%	1.9%	1.7%
Q2 2024	2.5%	2.4%	3.9%	4.3%	-1.4%	-1.5%	-1.8%	-1.9%
ITD⁽⁵⁾	136.5%	127.4%	105.7%	129.5%	30.7%	21.7%	6.9%	-2.1%

⁽¹⁾ As of November 2019, we began calculating Fund net performance reflecting new proposed Founders Class share terms of gross performance less a tiered management fee (75bps for first \$20M, 65bps for next \$20M, and 50bps for anything above \$40M) and no performance fee. The scenario above reflects a \$50M Founders Class investment. We have recast all the historical net performance data to reflect these new assumptions. Prior to November 2019, our net performance numbers reflected the terms of our Class A Shares, which have different terms (1% management fee and 15% performance fee over the spread to the S&P 500 returns), resulting in different net performance than shown above.

⁽²⁾ QUAL represents iShares MSCI USA Quality ETF which replicates the MSCI USA Quality Index.

⁽³⁾ S&P 500 Total Return Index which includes reinvested dividends.

⁽⁴⁾ Dec. 2017 period represents Dec. 14 (Fund launch) through Dec. 31, 2017.

⁽⁵⁾ ITD = Inception-to-date and represents the time period from Dec. 14, 2017 through June 30, 2024.

Performance for Qualivian Focus Fund with SMA Terms

	A	B	C	D	Difference with QUAL		Difference with S&P 500 Index	
	QFF Gross Returns	QFF Net Returns ⁽¹⁾	QUAL ⁽²⁾	S&P 500 TR Index ⁽³⁾	A-C Gross	B-C Net	A-D Gross	B-D Net
Dec. 2017 ⁽⁴⁾	-2.8%	-2.8%	-0.1%	0.5%	-2.7%	-2.7%	-3.3%	-3.3%
Q1 2018	5.6%	5.5%	-0.2%	-0.8%	5.8%	5.7%	6.3%	6.2%
Q2 2018	4.4%	4.3%	0.9%	3.4%	3.5%	3.4%	0.9%	0.8%
Q3 2018	5.8%	5.7%	8.3%	7.7%	-2.5%	-2.6%	-2.0%	-2.0%
Q4 2018	-14.5%	-14.6%	-15.1%	-13.5%	0.5%	0.5%	-1.0%	-1.1%
2018	-0.4%	-0.7%	-7.4%	-4.4%	7.0%	6.7%	4.0%	3.7%
Q1 2019	17.8%	17.7%	15.4%	13.6%	2.5%	2.4%	4.2%	4.1%
Q2 2019	5.5%	5.4%	3.3%	4.3%	2.2%	2.1%	1.2%	1.1%
Q3 2019	2.5%	2.4%	1.0%	1.7%	1.5%	1.4%	0.8%	0.7%
Q4 2019	10.6%	10.6%	9.3%	9.1%	1.3%	1.2%	1.6%	1.5%
2019	40.9%	40.4%	31.6%	31.5%	9.3%	8.9%	9.4%	9.0%
Q1 2020	-14.7%	-14.7%	-19.8%	-19.6%	5.1%	5.0%	4.9%	4.9%
Q2 2020	30.3%	30.2%	18.4%	20.5%	12.0%	11.9%	9.8%	9.7%
Q3 2020	9.4%	9.3%	8.2%	8.9%	1.2%	1.1%	0.5%	0.4%
Q4 2020	7.7%	7.6%	12.0%	12.1%	-4.3%	-4.4%	-4.4%	-4.5%
2020	31.0%	30.6%	15.1%	18.4%	16.0%	15.5%	12.6%	12.2%
Q1 2021	2.6%	2.5%	4.8%	6.2%	-2.2%	-2.3%	-3.6%	-3.7%
Q2 2021	12.6%	12.5%	9.1%	8.5%	3.5%	3.4%	4.1%	4.0%
Q3 2021	-1.1%	-1.2%	-0.9%	0.6%	-0.3%	-0.3%	-1.7%	-1.8%
Q4 2021	4.5%	4.5%	10.5%	11.0%	-6.0%	-6.0%	-6.5%	-6.6%
2021	19.4%	19.0%	25.3%	28.7%	-5.8%	-6.2%	-9.3%	-9.7%
Q1 2022	-10.8%	-10.9%	-7.5%	-4.6%	-3.3%	-3.4%	-6.2%	-6.3%
Q2 2022	-17.5%	-17.6%	-17.0%	-16.1%	-0.5%	-0.6%	-1.4%	-1.5%
Q3 2022	-4.7%	-4.8%	-7.0%	-4.9%	2.3%	2.2%	0.2%	0.1%
Q4 2022	6.5%	6.4%	9.6%	7.6%	-3.1%	-3.2%	-1.1%	-1.1%
2022	-25.4%	-25.6%	-21.7%	-18.1%	-3.7%	-3.9%	-7.3%	-7.5%
Q1 2023	8.6%	8.5%	8.9%	7.5%	-0.3%	-0.4%	1.1%	1.0%
Q2 2023	12.0%	11.9%	8.7%	8.7%	3.3%	3.2%	3.3%	3.2%
Q3 2023	-1.5%	-1.6%	-2.3%	-3.3%	0.8%	0.7%	1.8%	1.7%
Q4 2023	10.8%	10.8%	11.6%	11.7%	-0.8%	-0.9%	-0.8%	-0.9%
2023	32.7%	32.3%	29.1%	26.3%	3.6%	3.2%	6.5%	6.0%
Q1 2024	12.6%	12.5%	11.7%	10.6%	0.9%	0.8%	2.0%	1.9%
Q2 2024	2.6%	2.5%	3.9%	4.3%	-1.3%	-1.4%	-1.6%	-1.7%
ITD ⁽⁵⁾	144.3%	138.9%	105.7%	129.5%	38.6%	33.2%	14.8%	9.4%

⁽¹⁾ As of January 2024, we introduced a Separately Managed Account product based on our core Qualivian Focus Fund (QFF) strategy. We have recast QFF's gross and net performance above reflecting new SMA terms which do not include 50bps of fund management expenses (e.g., Fund Administration and tax filing fees) in our gross performance numbers less a flat 25bp management fee which is reflected in our Net Returns. This compares to the performance in our pooled vehicle, Qualivian Focus Fund, which does incur 50bps fund management expenses that is included in our calculation of its Gross performance (hence the 60bp differential in ITD Gross returns as of 12/31/2023), and which has higher tiered management fee (see Founders Class shares performance table for the management fee detail) which further explains the 93bp Net return differential in ITD Net returns as of 12/31/2023.

⁽²⁾ QUAL represents iShares MSCI USA Quality ETF which replicates the MSCI USA Quality Index.

⁽³⁾ S&P 500 Total Return Index which includes reinvested dividends.

⁽⁴⁾ Dec. 2017 period represents Dec. 14 (Fund launch) through Dec. 31, 2017.

⁽⁵⁾ ITD = Inception-to-date and represents the time period from Dec. 14, 2017 through June 30, 2024.

In January of 2024, we introduced a Separately Managed Account (SMA) product that replicates our core pooled vehicle product (Qualivian Focus Fund – QFF) for interested investors. The key difference is that the SMA product will not incur the typical fund management

expenses, such as fund administration, tax filing and audit fees, which we cap at 50 bps in QFF. Furthermore, the SMA product will incur a lower management fee of 35 bps annually, as compared to the tiered management fee in QFF (75 bps for the first \$20 million, 65 bps for the next \$20 million, and 50 bps for anything above).

Appendix 2: Top 3 and Bottom 3 Contributors for Q2 2024

Our top three contributors in Q2 2024 were Alphabet (GOOGL), Amazon (AMZN), and TJX Companies (TJX). Our bottom three contributors were Mastercard (MA), O'Reilly Automotive (ORLY), and Visa (V).

Top 3 Contributors

Alphabet (GOOGL): Q2 2024 revenues and EPS beat expectations, with total revenues growing 14%, Search ad revenues growing 14%, YouTube ads growing 13%, and Google Cloud revenues growing 29%. Revenue growth in the quarter constituted a continued sequential improvement from earlier quarters in the year, suggesting a continued rebound in Alphabet's core business except for YouTube ad revenues, which missed expectations and showed deceleration in the growth rate as compared to Q1 when it grew 21%. Operating margins improved by 310 bps vs. the same quarter last year.

Management continued to highlight developments with their generative AI program, which is seen as a foundational platform with opportunities across their businesses but particularly in search and cloud. However, this comes with material capex investment well ahead of the expected economic benefits from Gen AI, and the level of spending is leading investors to worry about the ROI on that spend for Alphabet, as well as the other hyperscalers (Microsoft and Amazon). We continue to have confidence in Alphabet's ability to generate strong revenue, earnings, and cash flow growth well above the S&P 500's in the years to come and view it as a core holding for the long term.

Amazon (AMZN): Amazon's Q2 2024 results missed consensus revenue expectations slightly while beating EPS expectations nicely. Revenue grew 10.0%,

including continued reacceleration in AWS (Amazon Web Services) which grew 19%; however, North American and International ecommerce revenue growth both showed slight deceleration in their growth rates from prior quarters. Advertising revenues grew 20%, which decelerated a bit from prior quarters as well.

Encouragingly, the company continued its streak of delivering impressive cost efficiencies in Q2 with operating margins jumping 420 bps vs. Q2 2023. Q3 2024 guidance was also a bit lower than consensus expectations sparking some short-term concerns about the strength of the consumer. We remain comfortable with our long-term outlook for Amazon's ecommerce and AWS businesses, and expect they have new avenues of growth to exploit in scaling their advertising and generative AI business in the years ahead. However, we recognize that there is trepidation about the level of capex spending required to scale their generative AI business.

TJX Companies (TJX): TJX's Q2 2024 results beat top- and bottom-line expectations, logging in a +4% same-store-sales (SSS) comp. Both their MarMaxx (TJ Max and Marshalls) delivered better than expected SSS comps at +5%. Operating and pre-tax margins also beat street expectations largely on better freight expenses. As a result, TJX increased their 2024 guidance.

We continue to believe that TJX will be a market-share winner at the expense of department stores who we believe are structurally disadvantaged. TJX's "treasure hunt" format, offering superior brands at substantial discounts, is Amazon-resistant, and we think will deliver strong above-market returns to shareholders over the long haul.

Bottom 3 Contributors

Mastercard (MA): Q2 2024 revenues and EPS beat consensus expectations, growing 11% (+13% on a constant currency, CC, basis) and 24% (+27% on a CC basis) respectively. Overall payments volume increased 9%, with highly profitable cross-border volumes growing 17%.

Management qualified their expectations for a solid FY2024 anchored around continued stable consumer spending, while noting there is uncertainty regarding the overall macroeconomic backdrop heading into the back half of 2024 and 2025. In the event of a weakening consumer, management noted they would adjust investment priorities as well as the company's cost structure as appropriate if trends softened further.

We continue to expect that over the longer term, MA will continue to drive and benefit from the digitization of payments globally.

O'Reilly Automotive (ORLY): The company reported Q2 2024 revenue growth of 5% on a SSS comp of 2.3%, while EPS grew 7%, both of which missed expectations. Management as well as competitor commentary suggested slowing demand industry wide. Operating cost leverage from a growing topline was offset by wage inflationary pressures, resulting in operating margins coming down by 40 bps year-on-year. The company revised full-year guidance down for revenue, same-

store-sales comp growth, and EPS to account for the miss in the quarter.

ORLY is the leader in the automotive retail parts marketplace and has outexecuted the competition, especially the smaller mom and pop auto parts stores that cater to the retail and auto mechanic shops in the US. Furthermore, its historical deployment of its excess cash to repurchase its shares continues to be a key linchpin of its ability to generate shareholder returns more than the market. While we are maintaining a watchful eye on slowing market trends, we continue to see ORLY as a long-term core holding in the fund.

Visa (V): FQ3 2024 revenues and EPS came inline versus consensus estimates with revenue and EPS growing 10% and 12% respectively. Payment volume increased by 7% and the highly profitable cross border volume increased by 14%. Operating margins at 67.1% missed consensus expectations at 67.4%. Management's commentary on consumer spending for the back half of 2024 suggested a cautious but stable backdrop. Similar to our thoughts on MA, while we do not view V as immune to the macro backdrop, we continue to expect that over the longer term, it will continue to drive and benefit from the digitization of payments globally.

Appendix 3: Links to Additional Information

Investor Presentation	QIP Focus Fund Final June 2024
Insider Monkey Interview	https://www.insidermonkey.com/blog/exclusive-interview-with-aamer-khan-of-qualivian-investment-partners-886994/
Last 4 Investor Letters	QIP Q1 2024 Final.PDF QIP Q4 2023 Final.PDF QIP Q3 2023 Final.PDF QIP Q2 2023 Final.PDF

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