July 28, 2021

Dear Investor,

Client accounts were substantially ahead of both the S&P 500 and our risk weighted benchmark for the first quarter of 2021. Our investments in smaller businesses were the primary contributor to the strong start to the year.

While still trending upward, the stock market has recently been volatile. One reason for the volatility is that improving economic activity, combined with government stimulus, could lead to high inflation. This would likely force the Federal Reserve to raise short-term interest rates. That, in turn, could lead to a recession.

While that's a longer-term risk, I remain optimistic about the outlook for the economy this year given the progress on vaccine distribution. In the event inflation rises substantially, I'd still expect good earnings performance from many of our holdings. I think this is particularly the case for technology companies like Microsoft, Google and Amazon. These businesses do not require large investments in materials and capital equipment, reducing their sensitivity to goods inflation.

Notes on our Holdings

One of our best performing holdings this year has been The Joint Chiropractic, which owns and franchises chiropractic centers. The Joint offers recurring chiropractic care at an affordable monthly price. The company's scale provides advantages over local competition from the standpoint of marketing and other shared services. The company's chiropractic centers performed admirably over the last year, and should see accelerating growth in the months ahead as Covid concerns ease.

I recently purchased shares of Opsens, a manufacturer of guidewires used to measure blockages in coronary arteries. Once inserted, these guidewires can also be used to place a stent in the artery. Competing products require a separate guidewire to place a stent, increasing procedure time, cost, and risk. Opsens just signed a contract with one of the large medical group purchasing organizations, which should increase the usage of its guidewires in US hospitals. In addition, the company has developed a new product for aortic valve interventions that is now being reviewed by the FDA. If approved, that product would significantly expand addressable markets.

Infusystems Holdings remains our best performing long term investment, and has continued to perform well this year. The company has historically leased, serviced and collected insurance payments for infusion pumps. Infusystems is now leveraging its expertise to lease and service devices that use vacuum suction to treat wounds. The wound care market is dominated by a single company, KCI, that was acquired by 3M in 2019. There are indications that 3M has reduced service levels, frustrating some customers and providing a window for Infusystems to more quickly establish itself.

Infusystems has always generated a good deal of free cash flow, but for several years the company struggled to reinvest those funds. With its move into wound care the company has identified a large new market in which to invest. Early results suggest a high rate of return on investments in this market, which will support Infusystem’s growth in the years ahead. In addition, the company anticipates adding more products to its lease and service portfolio, supporting further growth.

As always, please contact me with any questions.

Doug

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