

October 12, 2021

For the nine months ending September 30, 2021, client accounts, in aggregate, performed ahead of both the S&P 500 and our risk weighted benchmark (70% S&P 500, 30% Barclays aggregate). For reference the S&P 500 rose 16% and the Barclays Aggregate Bond Index declined 1.7%. Individual client returns are reported on your personal letter. Our investments in smaller businesses were the largest contributor to this year's gains, followed by our investments in Alphabet and Microsoft.

Investors became more cautious in September and stocks pulled back from record highs. Investors are concerned about corporate profits following the summer resurgence of Covid, reductions in government benefits, supply chain constraints, and reports that businesses are struggling to hire workers. Added to this, inflation and Fed policy remain ongoing worries.

While the outlook has dimmed somewhat, economic growth should remain strong into next year. Consumer savings remain at record levels, supporting the demand for goods and services. First-time homebuyers are driving strong demand for new homes, an important contributor to economic growth. In addition, a fuller recovery of the travel and hospitality industry seems likely in the months ahead as Covid cases decline.

Notes on our Holdings

Shares of Infusystems fell sharply in August after the company reported disappointing quarterly earnings. Infusystems is a provider of ambulatory infusion pumps to doctors and is one of our longest held investments. The recent earnings disappointment reflected investments the company made in new products, which introduced additional costs. Those investments will benefit future results but for now are a drag on profitability.

I remain optimistic about our investment in Infusystems. The company recently entered the large wound-care market, providing doctors with pumps that drain wounds. 3M is the leader in this market. That company recently laid off a large part of its wound-care salesforce, frustrating some customers. Those layoffs also created a talent pool from which Infusystems hired skilled salespeople. Infusystems has begun to see some benefits of those hires and expects wound-care sales to grow substantially next year.

Infusystems is now in the early stages of introducing another pump for the treatment of lymphedema, a condition impacting millions of Americans. Lymphedema occurs when fluids build up in soft body tissue, often as a byproduct of cancer treatment. Infusystems has longstanding relationships with oncologists, making acceptance of this new product more likely.

Earlier this year I wrote about Opsens, a manufacturer of guidewires used to measure blockages in coronary arteries. Once inserted, these guidewires can also place a stent in the artery. Competing products require a separate guidewire to place a stent, increasing procedure time, cost, and risk. Opsens has a new guidewire for aortic valve blockages that is under regulatory review. If approved, this wire would represent a significant improvement over currently approved devices and would substantially increase Opsens' business. The company's share price has risen substantially in recent months in anticipation of a regulatory approval.

I reestablished a position in Radiant Logistics, a business we owned previously. Radiant provides freight-forwarding services, helping businesses deliver heavy equipment, temperature sensitive pharmaceuticals, and other goods that are complex to transport. Freight-forwarding is a relationship driven business, where the forwarder manages logistics for customers over long time periods. The business is in high demand due to port congestions and other supply chain blockages. Over the years, Radiant has grown by acquiring smaller operators, and will likely continue to do so. Despite doubling its earnings over the last few years, the share price has hardly moved. I think those shares are now too cheap and will rise in value as the company acquires more small operators and buys back its shares. It is also possible Radiant will be sold to a larger transportation company at a premium.

As always, please contact me with any questions.

Sincerely,

A handwritten signature in cursive script that reads "Doug".