

January 4, 2021

December 2020 - Performance Update

Dear Friends & Partners:

Our investment returns are summarized in the table below.

Strategy	Month	YTD	12 Months	24 Months	Inception
LRT Economic Moat	+4.36%	-16.56%	-16.56%	+20.25%	+26.70%
LRT Market Neutral	+1.15%	+5.20%	N/A	N/A	+5.20%

Results as of 12/31/2020. Periods longer than one year are annualized. All results are **net of all fees and expenses**. Past returns are no guarantee of future results. Please contact us if you would like to receive a full performance tearsheet. Please see the end of this letter for additional disclosures.

December was a good month for both of our investment strategies. The Economic Moat Strategy performed well, as did the Market Neutral Strategy. The Market Neutral's strategy performance is particularly notable given the sharp outperformance of small-cap stocks during the month (8.64%) vs. the broad market S&P 500 (3.7%). Small-cap outperformance typically acts as a headwind for the Market Neutral Strategy given that we are predominantly hedged with small and mid-cap index ETFs.

Expect a longer letter, detailing our thoughts for the year, next month. Until then, should you have any questions or concerns, please reach out. I look forward to hearing from you.



Lukasz Tomicki
Portfolio Manager
LRT Capital

Appendix I: Attributions and Holdings

LRT Economic Moat		LRT Market Neutral	
<i>Top Holdings – weights as of 12/1/2020</i>		<i>Top Holdings – weights as of 12/1/2020</i>	
The Clorox Company (CLX)	5.43%	Novo Nordisk A/S (NVO)	3.54%
Target Corp. (TGT)	4.21%	The Clorox Company (CLX)	3.46%
Domino's Pizza, Inc. (DPZ)	4.12%	Becton, Dickinson and Company (BDX)	3.17%
Becton, Dickinson and Company (BDX)	3.92%	AO Smith Corp. (AOS)	2.97%
Church & Dwight Co. Inc. (CHD)	3.55%	Amerisafe, Inc. (AMSF)	2.88%
BWX Technologies, Inc. (BWXT)	3.40%	RLI Corp. (RLI)	2.73%
Credit Acceptance Corp. (CACC)	3.22%	BWX Technologies, Inc. (BWXT)	2.71%
BlackLine, Inc. (BL)	2.93%	Target Corp. (TGT)	2.68%
Papa John's International Inc. (PZZA)	2.90%	Domino's Pizza, Inc. (DPZ)	2.62%
McCormick & Company, Incorporated (MKC)	2.83%	American Water Works Company, Inc. (AWK)	2.60%
Top Holdings Total	36.51%	Top Holdings Total	29.36%
<i>Hedges – weights as of 12/1/2020</i>		<i>Hedges – weights as of 12/1/2020</i>	
iShares 20+ Year Treasury Bond (TLT)	37.07%	Vanguard Mid-Cap ETF (VO)	-18.49%
		Vanguard Small-Cap ETF (VB)	-17.28%
		iShares Core S&P Mid-Cap (IJH)	-16.73%
		iShares Russell 2000 (IWM)	-16.53%
<i>Return Attribution</i>		<i>Return Attribution</i>	
Long Equity	3.42%	Long Equity	5.16%
Hedges	-0.46%	Hedges	-4.28%
Unlevered Gross Return	2.78%	Unlevered Gross Return	0.89%
Leveraged Gross Return	4.45%	Leveraged Gross Return	1.51%
Net Return	4.36%	Net Return	1.15%

Net returns are net of a hypothetical 1% annual management fee (charged quarterly) and 20% annual performance fee. Individual account results may vary due to the timing of investments and fee structure. Please consult your statements for exact results. Please see the end of this letter for additional disclosures.

Appendix II: Investment Philosophy

In the past twenty-four months we saw a large increase in the number of LRT Capital partners (the term we use to describe our clients). With so many newcomers, it is important that we write about our investment philosophy again.

Here are the key points:

- Exceptional stock returns come from exceptional business returns on a **per-share** basis.
- We seek to invest in high-quality companies, i.e. those possessing sustainable competitive advantages (moats), the ability to grow and reinvest capital over time, and management that excels at capital allocation.
- We only purchase companies whose shares trade at a discount to our assessment of their intrinsic value.
- It is futile to predict short-term market movements. We seek to hold our investments for as long as possible.
- The financial markets are dominated by short-term traders who see stocks as casino chips. This occasionally allows us to purchase shares in great companies at large discounts to their true worth.
- If we are right about the trajectory of the businesses we invest in, over time we will be right on the trajectory of their stock prices.

We view stock market volatility as a source of opportunity. Volatility allows us to profit by acquiring shares in superb businesses at attractive prices. The more that markets (the “other” participants) are irrational, the more likely we are to reach our ambitious performance objectives.

Over the long run, stocks are the best investment asset class, but our experience has taught us that our investment process will not generate linear returns. In some years, our portfolio will outperform and in others it will generate a below average return. This is a certainty that we must accept. We are long-term investors and we do not try to dance in and out of the market.

In summary, our investment strategy can be summed up in three steps:

- Only seek out high-quality companies.
- Do not overpay.
- Do nothing – patience and discipline are the keystones to success.

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