LRT CAPITAL MANAGEMENT

THE VISION TO SEE UNREALIZED VALUE

July 1, 2021

June 2021 - Investor Update

Dear Friends & Partners,

Our investment returns are summarized in the table below:

Strategy	Month	YTD	12 Months	24 Months	Inception
LRT Economic Moat	+4.43%	+17.21%	+46.03%	+4.98%	+27.28%

Results as of 6/30/2021. 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.

In the LRT Economic Moat strategy, as of July 1st, 2021, our net exposure was 92.1% and our net beta-adjusted exposure was 61.98%. We currently have 38 long positions and our top 10 positions account for 53.6% of our total long exposure. We believe that we are very well positioned for an eventual market correction, which we are certain is coming at some point this year. The likely catalysts for this upcoming market decline are fears of higher interest rates and inflation, or the prospect of the U.S. Federal Reserve ending or simply curtailing its asset purchase program which began last year in response to the Covid-19 pandemic.

As of July 1st, 2021, firm assets under management stood at approximately **$104 million**.

As valuations in the broader stock market remain near all-time-highs investors face a difficult dilemma. Government bonds offer negative real returns, corporate debt yields almost nothing and "high yield" debt has become a joke. The current valuations in the stock market for many high-flying companies imply extraordinary profitability for many years to come. For many companies, these expectations are going to be impossible to meet.

Investors often focus on news and macro events as a source of potential risks to their investments, but the real "risk" to most companies is the most obvious: competition. Competition in the capitalist system nearly guarantees that, over time, highly profitable companies become only averagely so. Very few companies ever escape the destructive forces of competition. Companies that withstand competitive pressures and maintain high profitability for decades must by definition have

Investment Terms and Service Providers	
Investment Structures:	Delaware LP
	BVI Professional Company
Management Fee:	1%
Performance Fee:	20%
High Water Mark:	Yes
Lockup:	None
Minimum Investment:	$1,000,000
Redemption:	Monthly, 30-day notice
Auditor:	EisnerAmper LLP
Prime Brokers:	Interactive Brokers
	Wells Fargo Prime, BNP Paribas
Fund Administrator:	NAV Consulting
Legal Counsel:	Winston & Strawn LLP
	O'Neal Webster (BVI)
Compliance:	IQ-EQ (Blue River Partners)

some sort of structural advantage in order to do so. Warren Buffett coined the term "moat" to describe these structural forces – a term that we like and use to describe our investment approach as well. We believe that it is in today's investing environment – one of very high valuations where most assets are priced to "perfection" – investors should pay extra attention to moats. Understanding the nature of competition within industries in order to predict which companies can sustain high profitability for longer than normal is now more important than ever – we believe it may be the only path for investors to not suffer substantial losses if the current stock market valuations were ever to revert back to historical norms.

Moats: Wide, Deep and Full of Alligators

For many, stocks are merely pieces of paper and investing is a form of gambling. Even the phrase "playing the stock market" suggests a glorified form of roulette. Yet stocks represent ownership in real businesses, and over the long term (3-5 years) stock prices closely track the earnings and cash flows of their underlying companies. While these seem like basic points, investing in common stock makes the investor a co-owner of the businesses invested in.

The mindset of an owner changes the whole perspective on stock market investing. A business owner knows the long-term value of the business; a single bad quarter doesn't change the investing premise. A business owner invests for the long term. If the stock price declines while the competitive position of the business doesn't, a business owner is happy, because it enables him to increase his ownership in the company at a better price.

It is of course easy to say that one should buy more of an attractive business when its share price declines. In reality, it is easy to panic when prices are falling. The discipline you need to go against emotions and sell in a panic is one that comes from process. There is no automatic rule that says buy or sell when a stock's price goes up or down. Everything depends on the individual situation. However, investment decisions should be guided by reason and logic, not emotion. Temperament is as important as intelligence when it comes to investing.

There are two main ways to make money in the stock market. The first is by jumping in and out of stocks, attempting to time highs and lows. Few, if any, people can do this with consistency, much less overcome all the costs associated with doing so. There is no easy way to know when the stock market will rise or fall. Moreover, with time the economy grows, and stock prices increase. Someone who is constantly going in and out of the market runs the risk of prices rising while he waits for a decline. Over the long run, the opportunity cost of not being invested in stocks far outweighs the risks of investing through a bear market.

The second way to make money, and the one that LRT strongly advocates, is to buy stocks in companies that are compounding their intrinsic value faster than the average because they have strong and improving competitive positions. Ideally LRT seeks to buy stock in such companies when they are experiencing short term difficulties and their shares trade at a discount to their historic valuations. Once shares have been acquired, the shares should be held for as long as possible – that is as long as the companies' competitive position remains strong. Besides allowing the companies to compound their value, such long-term orientation has a number of other advantages. It facilitates tax efficiency and optimization by only paying long term capital gains and deferring taxes for as long as possible. It also reduces commissions and other trading costs such as bid-ask spreads. Investors should resist the urge to shuffle between stocks with similar risk/return profiles. However, this should not be an excuse for inaction and holding onto shares of a company where the competitive position is clearly deteriorating.

To this point, the discussion has been on buying and holding companies with a strong competitive position, but what exactly is a strong competitive position and how to separate short term issues from the long run drivers of profitability? A company with a profitable business is typically in a highly competitive environment. Without a strong defense – a moat – competitors will soon imitate the company's services, lower prices, steal customers, and erode profit margins to the point where an excellent business becomes average at best. An economic moat – a term coined by Warren Buffett – is what keeps competitors at bay. A moat is any form of sustainable competitive advantage that allows a company to earn high returns on invested capital for an extended time. The most important quantitative markers of a business with an economic moat are high returns on invested capital – well in excess of the company's weighted average cost of capital, or WACC. Perhaps an example will help to illustrate this.

Welcome to Little Johnny's Baked Goods Company! Little Johnny opens a baked goods stand at the local farmers' market. He needs $100 to pay for the entrance fees, buy flour, sugar, nuts, etc. The $100 is his invested capital. Johnny gets $50 from his father and $50 from his mother. His dad has a high-risk tolerance and invests in the equity of the business. His mother is more conservative and simply makes Johnny a loan at 5%. Dad expects a 10% return. The business is financed 50% with equity and 50% with debt. As a result, Johnny's weighted average cost of capital is $50/$100 * 10% + $50 / $100 * 5% = 7.5%.

Johnny's baked good business turns out to be a success. After a weekend of sales, paying all his bills and paying himself a reasonable salary, he's left with $10. His business has earned a return on invested capital of 10% ($10 / $100). His weighted average cost of capital (WACC) was 7.5% - therefore he has earned excess returns on capital. Hearing about Johnny's success, his dad is very happy. After paying the interest on the loan to this mother of $2.5 ($50 * 5%), he is left with $7.5 – a return of 15% when only 10% was expected. Being a common stockholder feels good to Johnny's dad!

Unfortunately, Johnny's business does not have a sustainable competitive advantage – it lacks a moat. Johnny's sister Claire has heard about his success and wants in on the action. She convinces her mom and dad to fund her baked goods store in the same way they did for Johnny's. The parents don't want to show favoritism to only one of their children, so they agree to put up $50 in equity and $50 dollars in debt. They agree on the same terms as they did with Johnny. Claire sets up her shop right next to Johnny's at next weeks' farmer's market.

The next weekend, the kids compete for customers – offering discounts to lure more shoppers to their respective stands. As a result, neither makes as much money as Johnny did when we alone. When the day is over, Johnny and Claire each earn $6 (again after paying all expenses including their salaries). Their return on invested capital is now 6% ($6 / $100). After paying $2.5 to mom, each of the children is left with only $3.5 to pay dad – a return of 7% on his $50 investment. Since dad was expecting to earn 10% on his capital, he is not happy. The kid's businesses have failed to earn their cost of capital.

While this example is simple, it goes to show the importance of investing in companies with moats i.e. "durable competitive advantages". LRT seeks out companies that have the potential to out earn their cost of capital for many, many, many years. Unfortunately, most investors focus too much on daily news and not enough on the long-term forces impacting the business. Moats are structural forces that shape the industry and competitive dynamics – they don't change quickly and are usually not affected by short term news events. At LRT, we believe moats have at least four broad categories to consider: intangible assets, network effects, switching costs and scale / process-based cost advantages. Let me give you some examples of each to make this clear.

Intangible assets are things like patents, brands, regulatory licenses, intellectual property, and other assets that can prevent competitors from replicating a company's business. The most obvious example are pharmaceutical companies such as Novartis and Pfizer which sell branded / patented drugs. Less known examples are aerospace manufacturers such as Transdigm and MTU Aero which make products that are both technically complex and require extensive regulatory approval. Finally, consumer brands such as Coca-Cola and Procter & Gamble are able to sustain high profit margins thanks to the pricing power afforded them by their brands.

Network effects are one of the most powerful sources of competitive advantage and they occur when a company's product or service becomes more valuable to new and existing users as the installed customer base grows. The most obvious example are payment networks such as Visa and MasterCard. Merchants accept payment cards because so many consumers carry them, and consumers want MasterCard and Visa branded cards because they are so widely accepted and convenient. A less known example is Booking.com – a company that dominates the boutique hotel booking business. Consumers choose Booking's services because they have the largest number of hotels worldwide (over 650,000 properties) and hotel operators use Booking because they want the simplicity of dealing with a single booking channel. Hotels choose Booking because they know the company can deliver the largest number of customers.

Switching costs arise when it is expensive or inconvenient for customers to change suppliers, giving the company in question pricing power. Take a service or product that is mission-critical and complex such as electronic medical records (EMR) software sold by Cerner. Customers don't change vendors because of a small annual increase in price. The risk and complexity of seeking out another supplier is simply not worth it unless there is a magnitude of difference between the offerings. Similarly, software companies such as Adobe and Autodesk, which make complex software packages benefit from switching costs. Professionals spend their entire careers learning how to use a particular software package and changing vendors for a small gain can create enormous risk for a critical business function. As a result, the providers of such software benefit from pricing power and relatively stable market demand.

Finally, scale or process-based cost advantages tend to occur in businesses that aggregate demand such as distributors as well as businesses with high fixed and low marginal costs. FedEx and UPS benefits from cost advantages as they have a high route density which translates into low cost per package – an advantage that a new market entrant would struggle to replicate. In fact, several companies have tried to break the FedEx / UPS duopoly – so far unsuccessfully. Less known is C.H. Robinson Worldwide, a company in the logistics business which aggregates shipping demand from thousands of customers and places cargo with truckers, rail and other forms of transport. The company's scale gives it pricing power over its suppliers which is unobtainable to smaller companies. A new entrant into the industry would have to endure years of losses in order to build the scale it would need to compete effectively. As a result, C.H. Robinson Worldwide, enjoys a stable market share and strong returns on invested capital.

LRT focuses exclusively on investing in companies with wide and expanding moats – strong and growing competitive advantages. However, simply investing in companies with wide moats is no easy route to riches. In order to outperform the market, it is important to purchase wide moat businesses when their market price deviates substantially from their long-term value. Over time, prices and value will converge but in the short term (less < 3 years), almost anything can happen. One must have the emotional and financial discipline to ride out short-term volatility. That's why it is important to avoid emotional reactions and maintain adequate diversification.

Timing the market by jumping in and out of stocks is a mistake. Trying to predict the macro economy or daily stock movements is a fool's game. The best strategy is to stay invested through bear markets and focus on analyzing businesses and their competitive positions. In the short run the market is driven by unpredictable investor sentiment, but in the long run, company earnings are all that really matters. Only if the competitive position of a business deteriorates does it make sense to sell the stock and replace it with another one.

Stock investors should think like business owners. To maximize investing success, LRT maintains its focus on companies with strong competitive advantages as their long-term future earnings are much less uncertain than companies lacking moats.

LRT's approach to long term investing is properly assessing the strength and durability of a company's moat – not trying to predict short term price movements and holding a portfolio of companies with deep and enduring moats, while maintaining adequate diversification, along with discipline. As such, market volatility does not become a concern but a welcomed catalyst delivering opportunities for fund performance.

Our Portfolio

The top ten investments in our portfolio as of 7/1/2021, in order of position size, are presented on the following pages. All valuation metrics and returns are as of 7/1/2021 unless otherwise stated. For a relative valuation context, the S&P500 is currently trading at 37.26x trailing and 22.52x forward earnings, respectively – one of the highest valuations ever recorded.[1] The Russell 2000 trades at a forward PE ratio of over 32.05x – also an extremely high number. We believe our portfolio will generate far superior returns than the S&P500 going forward.

The table below gives additional insight into our portfolio exposure. We are dramatically underexposed in technology, communication, and financial services, while being overexposed in consumer cyclicals, consumer defensives and basic materials. These sector weightings are an outcome of where we currently see opportunities, and not a top down decision based on macro predictions. We will happily own many technology companies if their valuations become more attractive.

Portfolio Statistics *as of 7/1/2021*[2]			
Sector Allocations (Long Exposure, %)			
S&P 500 Sector	**Portfolio**	**S&P 500**	**Delta**
Industrials	24.01	9.26	14.75
Consumer Cyclical	21.69	11.86	9.83
Healthcare	12.54	13.09	-0.55
Financial Services	9.76	14.76	-5
Basic Materials	7.05	2.46	4.59
Consumer Defensive	6.93	6.47	0.46
Real Estate	6.31	2.55	3.76
Communication Services	4.58	11.1	-6.52
Energy	4.52	2.78	1.74
Technology	2.61	23.13	-20.52
Utilities	0	2.54	-2.54
Market Cap Allocations (%)			
Large			29.62
Mid			52.21
Small			18.17
Country Allocations (%)			
United States			85.34
Canada			8.23
Denmark			5.40
Singapore			1.04

[1] https://www.wsj.com/market-data/stocks/peyields

[2] Source: Morningstar, Sentieo.

#1 - Domino's Pizza, Inc. (DPZ)

Domino’s Pizza is the world’s largest franchisor of pizza restaurants with over 13,800 locations in 85 countries. As for any restaurant operator, the key metric to consider for Domino’s Pizza is same-store-sales (SSS) growth. Growing same-store-sales are ultimately how a restaurant business increases earnings from its existing assets. On this criterion the company continues to impress, with SSS having grown in the U.S. for 40 consecutive quarters, and an astounding 109 straight quarters internationally.

Two-thirds of the company’s stores are currently abroad, and the international segment remains the company’s largest growth opportunity, as the penetration of convenient fast food remains lower abroad than in the United States. Pizza is a product with exceptionally high gross margins, one that “translates” well across different cultures, and one that literally “travels well”, not losing much of its appeal when delivered in a cardboard box. The rise of 3rd party delivery platforms such as Uber Eats, Doordash and Grubhub is challenging the pizza category as it has expanded the number of choices consumers have for convenient takeout. However, the economics of food delivery remain challenging for most restaurants and platforms alike[3], while pizza delivery continues to be highly profitable. Regardless of how the “delivery wars” currently playing out end, Domino’s financial results show little impact of this increased competition, and the company continues to deliver exceptional financial performance.

Domino’s Pizza stock is not optically cheap at 29x forward earnings, however, the company has routinely reported earnings growth of over 20% in almost all quarters since 2009. Given the company’s high growth rate, international growth opportunities, and capital light business model, which allows for returns on invested capital of over 40%, we are happy to continue to hold the shares.

In late April, Domino's Pizza reported Q1 2021 earnings. Comparable sales in the U.S. were +13.4% beating expectation for a rise of +9.7%; Company-operated stores saw comparable sales increase +6.3% during the quarter, while franchised outlets saw a gain of +13.9%. International stores saw comparable sales increase +11.8% vs +6.0% consensus. Operating margin reported was 19.0% of sales vs. 18.2% consensus. While net income was down 3.2% from a year ago, this was driven by a change in the company’s tax rate, rather than poor business performance.[4] The company added 175 net new stores to its system during the quarter (36 US, 139 International). Domino’s Pizza continues to aggressively repurchase its shares and currently has an active $1 billion repurchase plan in place.

Shares are +22.23% year-to-date and +27.38% over the past twelve months.

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[3] DoorDash lost $312 million in Q4, 2020. Source: DoorDash, 8-K Earnings, Update, 25-Feb-21

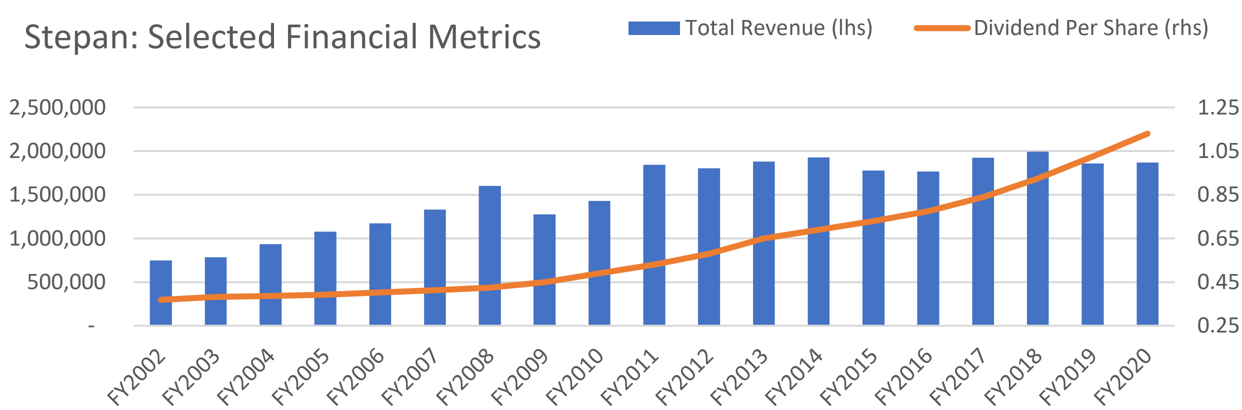
[4] Source: Domino’s Pizza, 8-K Earnings, 29-Apr-21

#2 - Stepan Company (SCL)

Stepan is an under-the-radar company with a market capitalization of approximately $3.0b.[5] The company is engaged in the manufacturing of specialty chemicals, primarily for the cleaning industry. The company's products are the principal ingredients in consumer and industrial cleaning products such as washing detergents, as well as shampoos, body washes, and fabric softeners. The company's specialty products include emulsifiers, food stabilizers, flavorings, and nutritional supplements.

Segment	Share of revenue[6]
Surfactants	68.98%
Polymers	27.97%
Specialty Products	3.05%

Don't let the dullness of the company's products fool you. While Stepan operates in a commoditized industry, the company has been an efficient operator and has been able to expand margins over time. What looks on the surface like a cyclical, commoditized business is in fact a very resilient provider of key inputs to daily necessities such as body and household cleaning products. Due to its resilience through different economic cycles, Stepan has been able to increase its annual dividend for 54 years in a row. What's more, payouts to shareholders did not come at the expense of reinvesting in the business. The company has grown earnings-per-share by a factor of 5x over the last two decades while maintaining returns on invested capital in the mid-teens.



Stepan reported excellent results for the first calendar quarter of 2021. Revenue was +19.5% year-over-year, net income was up +47%, and adjusted EPS +75%. The company beat estimates on both the top and bottom line. Revenue growth was driven primarily by higher prices +13%, followed by volume +6%. The company's management was very up-beat during the conference call citing very strong customer demand.[7]

Shares are +1.28% year-to-date and +25.08% over the past twelve months.

[5] As of 5/1/2021. Source: Sentieo.

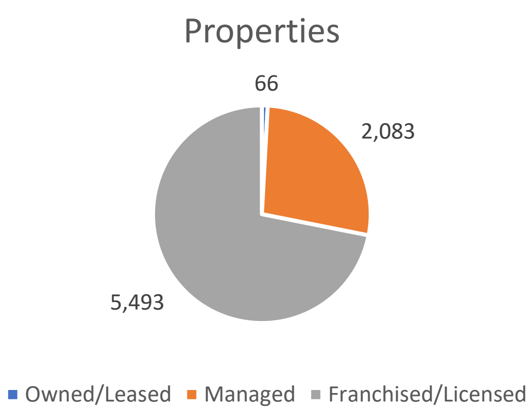
[6] Source: Stepan, 8-K Earnings, 27-Apr-21

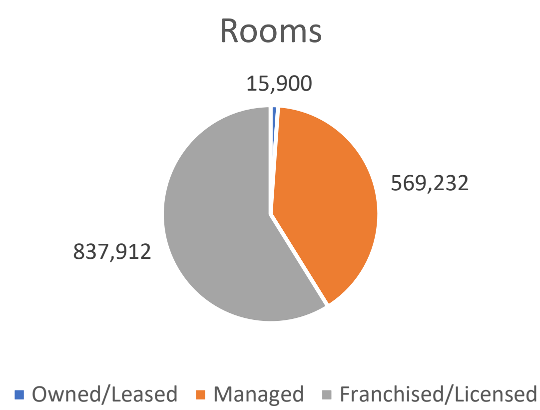
[7] SCL Stepan Company, Q1 2021 Earnings Call, Apr 27, 2021

#3 - Marriott International, Inc. (MAR)

Marriott is the world's largest hotel company followed closely by Hilton (HLT) and Intercontinental Hotels Group plc (IHG). The company owns a portfolio of brands from the low end (Courtyard, SpringHill Suites, Aloft), through the mid-tier (Marriott, Sheraton, Westin, Renaissance Hotels), to the luxury high end (JW Marriot, Ritz-Carlton, St. Regis). In total the company had 7,642 properties with over 1.4 million rooms as of the end of Q1 2021.[8]

The majority (85%) of Marriott's revenue comes from hotels in the United States, with the rest almost evenly split between Asia Pacific and Europe. Like it's smaller peer, Hilton, the company today is almost exclusively a manager and franchisor of hotels, not a hotel owner. The company owns 66 hotels, manages 2,083 and franchises 5,493. Like all franchise-based businesses Marriott requires very little capital to grow as it utilizes the investment capital of its hotel-owners/partners to expand. Marriott currently faces a difficult operating environment due to the Covid-19 pandemic and uncertainty about the future of business travel. However, the company is an excellent operator with a somewhat leveraged capital structure (the company acquired Starwood Properties in late 2016) – if pent-up demand for travel materializes post-Covid, as we expect it will, the company will quickly go from losing money to raking in profits.





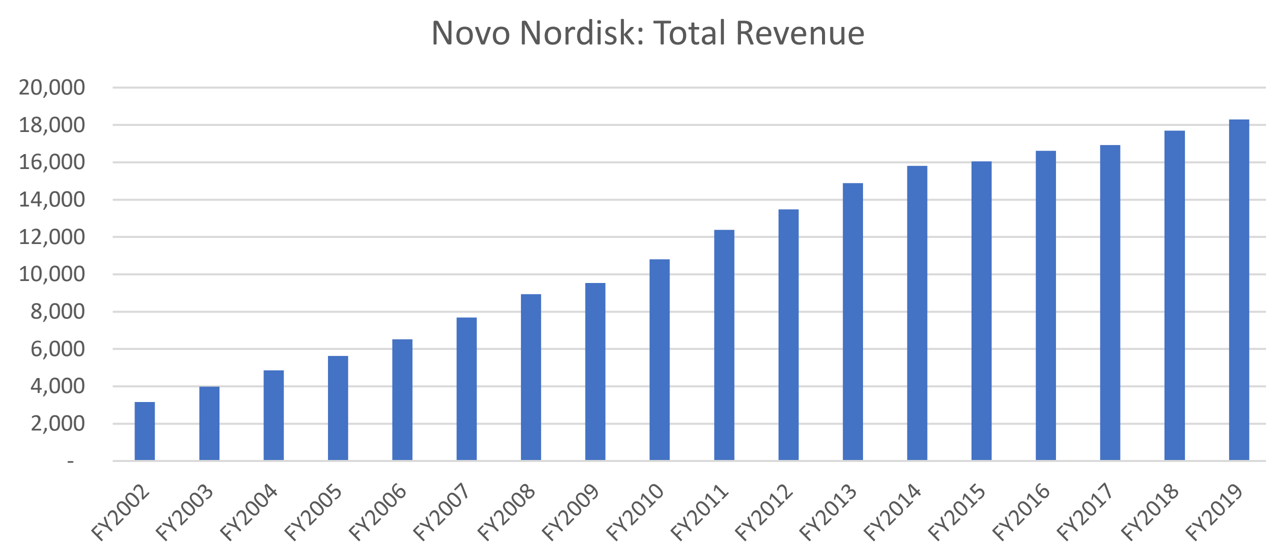
Shares are +3.49% year-to-date and +59.24% over the past twelve months.

[8] Source: Marriott, 10-K/A, 02-Apr-21

#4 - Novo Nordisk A/S (NVO)

Novo Nordisk is the global leader in insulin, which is, sadly, a growing business as more and more people around the world suffer from diabetes. Millions of people need daily injections of insulin to stay alive[9], a number that, unfortunately, is likely to continue to grow by millions more in the coming decade. It may seem at first glance that insulin should be a commoditized business, after all, it was discovered and synthesized over a hundred years ago, but nothing could be further from the truth. There are many types of insulin and Novo Nordisk has spent billions on R&D over the years to develop new products. On February 11th, the company reported favorable results from a phase-3 trial of Semaglutide, a drug that is currently used for Type 2 diabetes treatment. The study evaluated the use of Semaglutide for weight loss treatment in non-diabetic patients and found a significant impact on weight loss for patients receiving Semaglutide vs. the placebo control group. If Semaglutide is approved for weight loss treatment, we expect it will be meaningfully accretive to the company's bottom line.

The company's proprietary product line supports returns on invested capital of over 40%, and while sales growth is relatively slow (+6% annualized CAGR over the past decade), the company's shares trade at a reasonable valuation of only 22x forward earnings. For a company with an extremely predictable business, high returns on capital, and an easily forecastable future, we believe this to be highly attractive.



Shares are +21.64% year-to-date and +30.77% over the past twelve months.

[9] According to the WHO there are 422 million diabetics worldwide. This is estimated to increase to over 570 million by 2030.

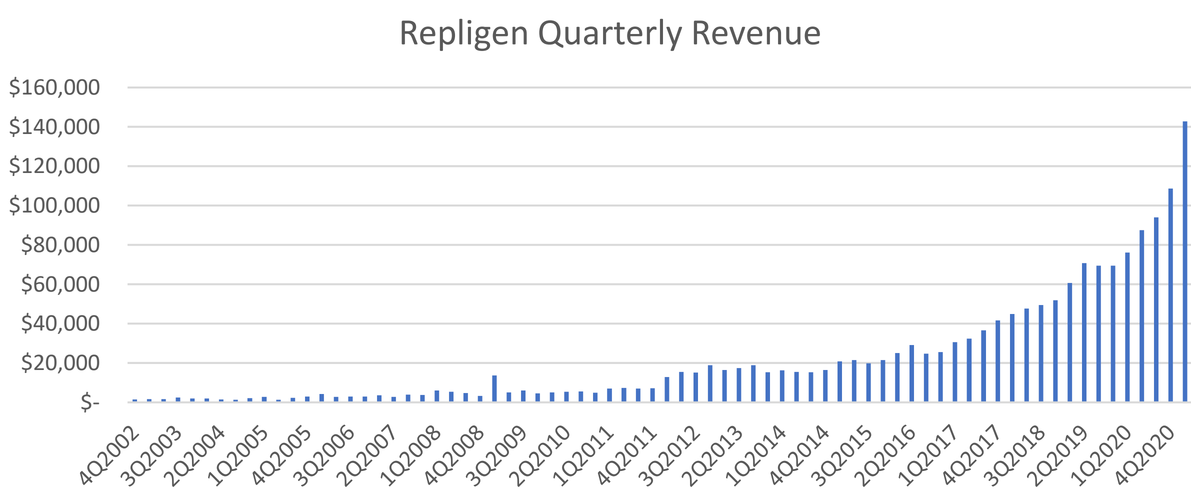
#5 - Repligen Corporation (RGEN)

Based in Waltham, MA, Repligen makes equipment for the biologic drug manufacturing industry. The company's main products are focus on filtration (48% of revenue), chromatography[10] (20% of revenue), process analytics products (9% of revenue), as well as select proteins used in the manufacturing of biological drugs (22%). We believe that biological drugs represent the most exciting frontier of medicine today, with monoclonal antibodies and gene therapy amongst the most promising approaches to tackling rare diseases.

The manufacturing of biological drugs is very different than that of traditional, "small molecule" drugs. Whereas the construction of a traditional line for a traditional small molecule drug might cost as little as $5 million dollars, the development and scaling of a biological manufacturing line can cost well over $100 million. Every biological manufacturing process is different, but their common feature is that the active ingredient in the drug is created by living cells and usually consists of a complex protein that is administered to the patient by injection. In the most general of terms the manufacturing of a biological drugs has the following stages:

- Creation and selection of cell culture to produce desired protein.
- Growth and amplification of selected cells – usually in a bioreactor.
- Filtration, purification, and isolation of active ingredient.
- Testing, quality assurance and packaging.

Under CEO Tony Hunt, Repligen has successfully reoriented itself away from selling commoditized inputs to the biological manufacturing process, towards selling specialized proprietary equipment – largely accomplished through M&A. Revenue grew at a CAGR of 22% before Tony joined the company and at 41% since then. Importantly, this growth has not come at the expense of margins of ROIC, which have remained very strong throughout the period.



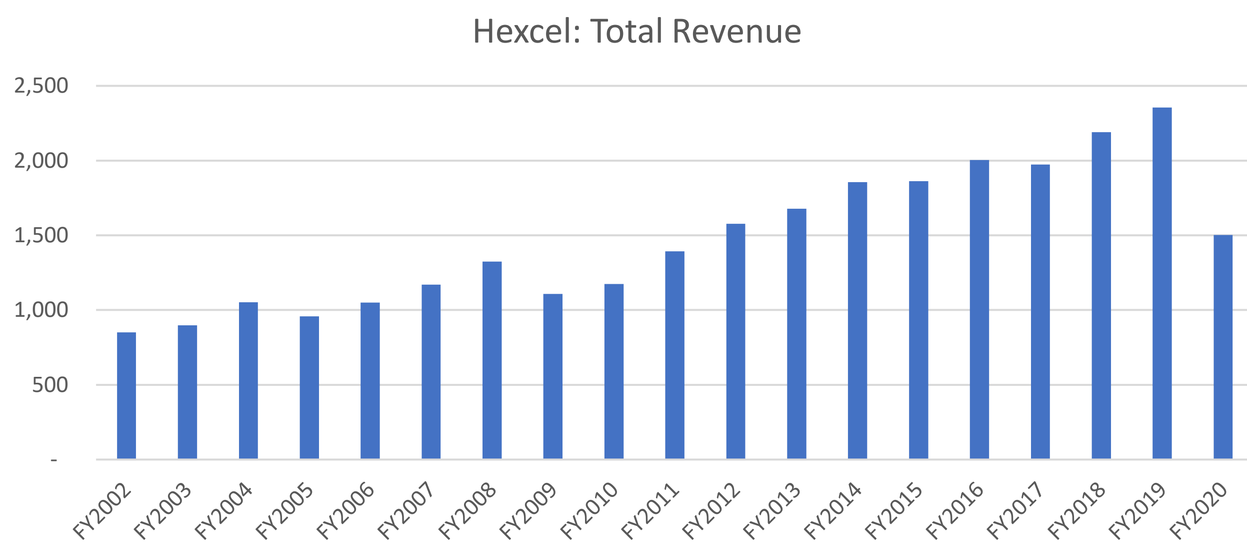
Shares are +4.17% year-to-date and +61.49% over the past twelve months.

10 https://www.nist.gov/video/what-chromatography-all-about

#6 - Hexcel Corp. (HXL)

Hexcel manufactures carbon fiber composite materials with the primary end markets being aerospace and defense. The company's stock price was hit heavily last year due to the decline in the aerospace market, but the stock is making an impressive comeback this year as the outlook for travel and aerospace demand improves. The near-term demand for lightweight, high-performance carbon fiber composites is still uncertain, but the longer-term trend is clearly very strong. As airplane manufacturers look to improve the fuel efficiency and performance of their planes, the primary way of doing this is to reduce weight. The 787, 777X and A350 are just the most recent examples of planes from Boeing and Airbus that utilize an increasing amount of carbon fiber materials in their construction.

Segment	Share of revenue
Commercial Aerospace	47.60%
Space & Defense	36.00%
Industrial	16.40%



Hexcel reported a loss of $0.17 per share for Q1 2021, while revenue declined 43% year-over-year.[11] Just as is the case with Marriott, we do not view these results as meaningful or indicative of a long-term trend, but rather a once in a century aberration due to the Covid-19 pandemic. Once Covid-19 recedes, we expect the demand for more fuel-efficient planes to return rather quickly, powering the demand for the company's light weight carbon composites.

Shares are +28.69% year-to-date and +37.99% over the past twelve months.

[11] Source: Hexcel, 8-K Earnings, Update, Other, 19-Apr-21

#7 - Watsco Inc. (WSO)

Watsco is a long time holding of our fund that recently made it into the top ten. The company distributes Heating Ventilation and Air Conditioning equipment (HVAC). The HVAC distribution business is approximately 80% replacement / 20% new construction. This is a great business due to the fragmented supplier base (seven major HVAC manufacturers) and fragmented buyers (thousands of HVAC contractors). This limits the bargaining power of both buyers and suppliers. Furthermore, while homeowners ultimately pay the bill, in most cases it is the contractor that makes the purchasing decision. Parts availability, speed of delivery and ease of installation play a major role in the purchasing decision with price being only a secondary consideration. Most HVAC equipment is bulky and difficult to ship – limiting competition from online players. Simply put, when your HVAC unit breaks on a hot summer weekend you don't spend time shopping around for the lowest price – fixing the AC unit becomes a priority no matter the cost. The company's earnings are also extremely predictable given that the majority of sales are tied to replacement demand which itself is a function of the installed base.

Watsco is the largest player in a very fragmented industry. The company earns mid-teens returns on invested capital and pays out the majority of earnings in the form of dividends. The company also expands through acquisitions over time, buying up smaller independent HVAC distributors. Most recently they have acquired Temperature Equipment, a Chicago based distributor[12]. Watsco also has the most unique long-term compensation policy for senior executives we have ever come across in corporate America – all stock grants vest at retirement or after 10 years, whichever comes later. This makes managers extremely long-term focused, something we believe is a real benefit for a company that grows primarily through acquisitions.

Watsco last reported earnings on February 11th, beating both top (EPS +24% YoY) and bottom line estimates. The company also raised its dividend in conjunction with reporting earnings[13]. Shares are up 18.85% year-to-date. We believe the shares are attractive at current valuations given the extremely predictable earnings the company enjoys, recession proof nature of the product and long growth runway. GAAP earnings are understated due to the amortization of intangible assets related to prior acquisitions.

Shares are +28.38% year-to-date and +66.46% over the past twelve months.

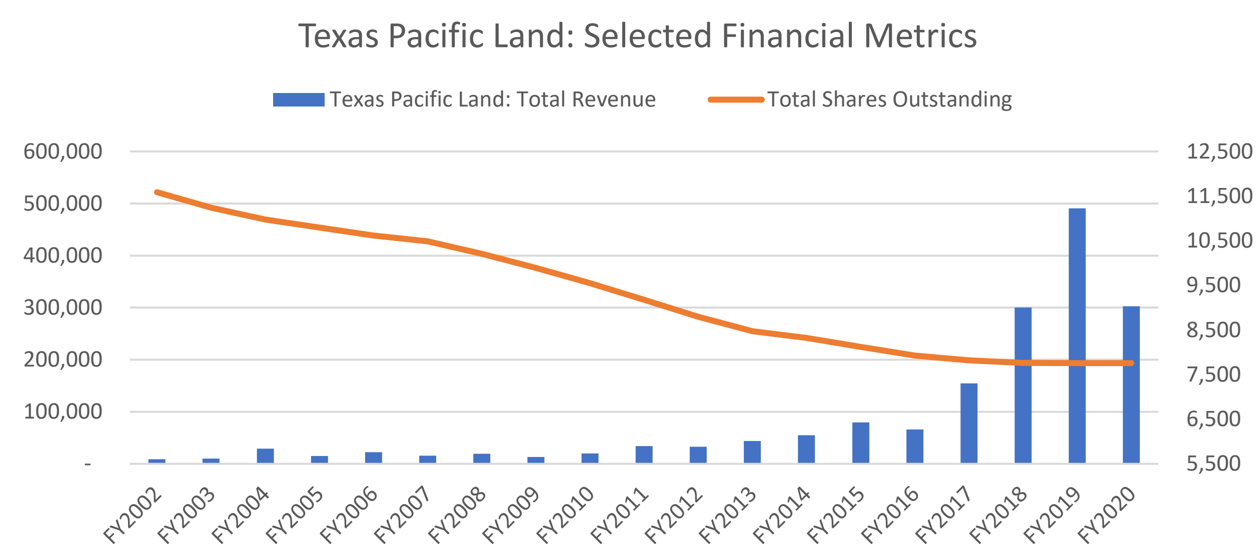
[12] https://seekingalpha.com/news/3673106-watsco-to-acquire-temperature-equipment-terms-not-disclosed

[13] https://seekingalpha.com/pr/18188930-watsco-s-fourth-quarter-eps-jumps-24-setting-new-records-for-sales-operating-profit-net

#8 - Texas Pacific Land Trust (TPL)

Long time readers will know that we rarely invest in commodity businesses. However, there are periods in the market where commodity-based businesses outperform the broad indexes by a wide margin. Therefore, in order to have balance in the portfolio, we have long searched for a competitively advantaged company in the commodity space. We believe that Texas Pacific Land Trust (TPL), meets that criteria. Formed out of assets of formerly bankrupt railroads, TPL controls the largest acreage of land in the Permian basin – the center of the US shale oil industry. The company has two main sources of income: 1) royalties from oil & gas extracted on its properties – essentially a free call option on future oil prices and production; and 2) a water business which develops water resources and sells services to the fracking industry. We see TPL as an effective way to diversify the portfolio into a commodity exposed business that has a history of smart capital allocation and low risk of financial distress during periods of low oil prices. The company has no debt, and $281 million in cash.[14]

The company uses most of its cash flows to pay dividends and repurchase shares.



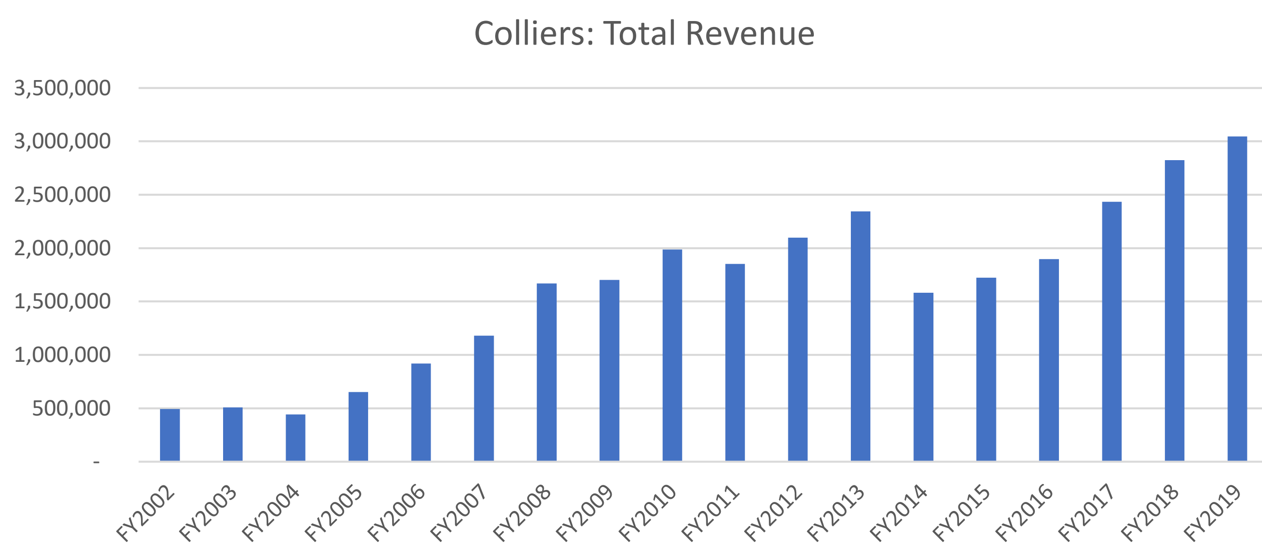
Shares are +120.04% year-to-date and +174.15% over the past twelve months.

[14] Source: TPL, Investor Presentation March 2021, 02-Mar-21

#9 - Colliers International Group Inc. (CIGI)

Colliers International Group is a commercial real estate brokerage and investment management company founded by Jay S. Hennick in 1976 in Toronto, Canada. From humble beginnings the company has grown, primarily through acquisitions, to become one of the five largest commercial real estate brokerages in the world (the others being CBRE, Jones Lang LaSalle, Cushman & Wakefield, and Savills). The company today offers a full range of services and reports in the following segments: Outsourcing & Advisory (45% of revenue; this includes Engineering & Design services, Valuation services and Property Management), Capital Markets (25% of revenue), Commercial Real Estate Leasing (24% of revenue), and Investment Management (6% of revenue). The company believes that about half of its revenue is recurring in nature. The Investment Management segment deserves special attention, as it is the result of an acquisition of the real estate investment management company Harrison Street in 2018. While the segment contributes the smallest part of revenues, it has a very high margin, contributing over 17% of the company's EBITDA.

Colliers has historically grown by acquisition and we expect it to continue to do so. The real estate services market is highly fragmented outside of North America presenting ample opportunities for Colliers to continue its growth strategy. The company has been a good steward of shareholder capital and spun out FirstService Residential (FSV) in 2014 to maximize the value of that business. This spin-out accounts for the drop in revenue in 2014 seen in the chart below.



Shares are +25.69% year-to-date and +95.59% over the past twelve months.

#10 - TFI International Inc. (TFII)

TFII International (formerly known as Transforce) is a recent addition to our portfolio – it is a Canadian logistics company with exceptional management operating in a consolidating industry. TFII came to our attention when they announced their purchase of the US operations of UPS Freight on January 25th, 2021. The company has a long history of growth through acquisition. Long time CEO Alain Bedard is fond of telling investors that he would rather own Scotiabank and get a 3% dividend than make deals that result in 3% returns[15]. This Canadian company also recently dual-listed in the United States.

UPS Freight, recently acquired by TFII, is a less-than-truckload (LTL) operation. LTL operations can build scale-based cost advantages as they require the consolidation of shipments in local hubs. This lends LTL operators to develop competitive moats based on local network density creating barriers to entry, as opposed to pure long-term trucking which is open to competition from anyone able to lease a truck. Pure play LTL companies such as SAIA, Inc. (SAIA) and Old Dominion Freight Line (ODFL) have historically generated very attractive returns for shareholders. Prior to the announced acquisition TFI already generated excellent returns for shareholders through very efficient operations and good capital allocation. Through the acquisition of UPS Freight US, the company immediately became one of the largest players in the US LTL market. The relatively low price paid for the asset (5.3x EBITDA pre-synergies, and the fact that UPS is taking a $500 million accounting charge on the deal) suggests TFII got a good deal. ODFL and SAIA both trade at over 15x EV/EBITDA.

We expect earnings to rise sharply at TFII over the next twelve months as the economy accelerates post-Covid. We are currently also long shares of Saia, Inc. (SAIA), the LTL operator headquartered in Georgia, based on the same investment thesis. If our SAIA shares were added to our TFII shares, together they would be our 5th largest position in the portfolio. Shares of Saia, Inc., are up +15.87% year-to-date and +88.42% over the past twelve months.

Shares are +77.8% year-to-date and +161.81% over the past twelve months.

[15] TFII Q2 2019 conference call.

Other notable portfolio changes made during June:

- **Church & Dwight Co. Inc. (CHD)** – position exited completely.
- **The Clorox Company (CLX)** – position exited completely.
- **McCormick & Company, Incorporated (MKC)** – position exited completely.

As always, I look forward to hearing from you and answering any questions you might have. Thank you for your continued interest and support.

Lukasz Tomicki
Portfolio Manager
LRT Capital

Appendix I: Attributions and Holdings as of 6/1/2021

LRT Economic Moat	
Top Holdings (%)	
The Clorox Company (CLX)	9.55
Domino's Pizza, Inc. (DPZ)	6.97
Stepan Company (SCL)	6.93
Marriott International, Inc. (MAR)	5.58
Novo Nordisk A/S (NVO)	5.12
Hexcel Corp. (HXL)	4.92
Repligen Corporation (RGEN)	4.70
Texas Pacific Land Trust (TPL)	4.45
Colliers International Group Inc. (CIGI)	4.45
TFI International Inc. (TFII)	3.67
Top Holdings Total	**56.34**
Hedges (%)	
SPDR S&P MidCap 400 ETF (MDY)	-13.58
iShares Core S&P Mid-Cap (IJH)	-13.58
iShares Russell 2000 (IWM)	-13.17
iShares Core S&P Small-Cap (IJR)	-12.73
Return Attribution (%)	
Long Equity	2.61
Hedges	0.13
Unlevered Gross Return	2.74
Leveraged Gross Return	5.48
Net Return	**4.43**

Portfolio Statistics			
Sector Allocations (Long Exposure)			
Sector	**Portfolio**	**S&P 500**	**Delta**
Consumer Cyclical	21.91	12.44	9.47
Industrials	21.63	9.06	12.57
Consumer Defensive	16.62	6.4	10.22
Healthcare	10.96	12.9	-1.94
Basic Materials	6.93	2.34	4.59
Communication Services	4.42	11.18	-6.76
Energy	4.45	2.67	1.78
Real Estate	5.17	2.53	2.64
Financial Services	5.59	14.4	-8.81
Technology	2.32	23.46	-21.14
Utilities	0	2.62	-2.62
Market Cap Allocations (%)			
Large			24.89
Mid			54.47
Small			20.64
Country Allocations (%)			
United States			84.53
Canada			9.31
Denmark			5.11
Singapore			1.05

Source: Morningstar, Sentieo.

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

Over the past 36 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.

In 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.

Disclaimer and Contact Information

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