ORCHARD CAPITAL MANAGEMENT

Orchard US Small Cap Value Fund

2023 Year-End Portfolio and Performance Update

December 2023 Fund Returns vs Index and Category

Total Return %	1-Month	3-Month	YTD	1-Year
Investment	11.67	10.17	16.99	16.99
Category	10.99	12.40	17.10	17.10
Index	12.45	15.26	14.65	14.65
Quartile Rank				
Percentile Rank	34	83	46	46
# of Invest. in Cat.	455	452	415	415

Source: Morningstar Direct. Investment return for Institutional class as of December 2023 | Category: Morningstar US Small-Cap Equity as of December 2023 | Index: Russell 2000 Value TR USD as of December 2023

Portfolio Return, Attribution and Update

The Orchard US Small Cap Value Fund returned a strong 10.2% in the 4th quarter and 17.0% for the year. The Fund finished ahead of the index and just behind the category for the year. The underperformance during both the quarter and the outperformance for the year was dominated by security selection while allocation was a mild negative versus the index.

Our Quarterly performance was strongly positive in absolute terms, driven by significant positive returns in Financials, followed by Real Estate and Industrials sectors. The Industrials sector was also a strong relative contributor for the quarter, though both Financials and Real Estate were relative underperformers in Q4. Ultimately, we underperformed the index for the quarter as the index rocketed forward, up 15.3% after being down for the year. An assessment for the quarter could best be described as "the universe caught part of our lead" in the 4th quarter. But not all of it.

For the Year, the Fund rose 17.0%. The Financials, Industrials and Communication Services sectors were meaningful positive absolute and relative performers. Security selection was the biggest impact here in all three sectors. Despite the challenges faced by banks and financials throughout the year, our holdings performed quite well. Generally, our financials portfolio (banks, lenders and insurance) skewed more technology-enabled, more granular in funding and less exposed to rate rises and traditional credit shocks. This rewarded us throughout the year and enabled us to remain on offense in this challenged sector. Our single biggest contributor this year, though, was FTAI Aviation. Focused on refurbishment, specialty parts and leasing for the largest commercial jet engine fleet in the world, it emerged this year as a leader in a critical, growing space and as a stable provider to a market rocked by challenges to other engine providers. Consumer Cyclicals was the weakest absolute and relative sector. Frustrating performance from three of our holdings in the category dragged on our performance. Century Casinos execution was as expected, though its aggressive investment dragged on current earnings while keeping debt higher than expected. Revolve Group remains the "best house in a bad market" as its leading, machine learning and technology-driven online retail faced meaningful headwinds from the tightening belts of its main consumers. We still see the company as a leader with leading capabilities and growth in its current and key adjacent categories run by committed founder, but we were too early in our investment. Lastly, Trimas saw weakness in its main (and historically most attractive) division. All three were down in an up year. We hold all three as we see a strong thesis for each.

In summary, the quarter was a relative negative that generally mitigated a positive year (both absolute and relative). The start to the year provided us some relief versus last quarter as earnings continue to support many of our names.

Outlook

With the year concluded, we "won back" some lost performance versus the Index last year (though we outperformed the category average last year). Macro noise throughout the year has pushed sectors and factors around. Some have helped us and some have hurt us on a relative basis, but we have been rewarded overall when tangible events reflected directly on our stocks. For example, we have generally been beneficiaries of earnings news this year and our best performer (FTAI Aviation) rose each time on fundamental results and on concrete news that put its competitors on the back foot and increasingly put its assets in a better light. The shocks to the financial system were mitigated by a portfolio that has steered clear of the most susceptible banks and insurers. We do see a more balanced interest rate outlook, which will allow us to look again at some of the smaller banks and insurers that struggle under rising rate environments. However, we have been cautious to act in the face of the strong fundamental position that our fintech banks continue to enjoy.

Throughout the year, we benefited from event and news-driven opportunities, which increases the clarity or frequency of catalysts in our investments. Macro response was generally a drag on relative performance after the strength enjoyed by the index in the 4th quarter. Generally, we will take that trade – as catalysts drive our returns, they tend to be positive and less correlated with macro or market activity, while macro will often give as often as is takes.

There are several continuing trends that have informed our bottom-up approach. Nearshoring and infrastructure activity are slow to move but will likely drive industries for years. As domestic-driven activity enjoys relative growth, we expect smaller-stocks to benefit and for certain sectors and stocks to benefit disproportionately. We have continued to shift the portfolio in the direction of infrastructure, energy, and materials-sensitive names (though we like companies in other categories) and are now underweight both financials and real estate – partly a result of this trend.

We look forward to your continued support and engagement,

The Team at Orchard Capital Management