Comus Investment, LLC

	Comus Gross	Comus Net	S&P 500	Russell 2000	MSCI EAFE Small-Cap
2016*	32.60%	30.87%	12.26%	22.77%	1.55%
2017	36.03%	33.50%	20.17%	14.65%	33.50%
2018	-4.47%	-6.99%	-4.39%	-11.01%	-17.58%
2019	11.17%	8.65%	31.48%	25.52%	25.47%
2020	10.33%	7.81%	18.40%	19.93%	11.69%
2021	18.87%	16.35%	28.71%	14.78%	18.67%
2022	-9.73%	-12.25%	-18.11%	-20.47%	-21.24%
2023	8.17%	7.54%	7.50%	2.73%	5.36%
Cumulative	145.31%	108.99%	127.5%	76.82%	54.20%
Annualized	13.68%	11.10%	12.46%	8.48%	6.38%

*April 1st – Dec 31st, 2016

The compounded performance figures represent all realized and unrealized losses and gains in the firm's brokerage account after commissions and on a currency-adjusted basis over the specified period, as recorded by InteractiveBrokers. Index returns represent total return including dividends.

Dear Partners,

April 3rd, 2023

In the first quarter of 2023, our investments experienced a total return of 8.17% before fees and 7.54% after fees, versus 7.50% for the S&P 500 index, and 5.36% for our comparable benchmark. At this point, you will have received reports with the details on your balance, fees, holdings, and performance from InteractiveBrokers for the past quarter.

Our performance this quarter was frankly lackluster given the strong results of our companies as well as Hong Kong's promising economic data. The Hang-Seng is flat year-to-date, and investors remain fearful of the region with rising political risk and the recent flight to safety keeping valuations subdued. With Hong Kong in recession three of the past four years and investors therein experiencing nothing but pain in that time, most remain wary. In the future our exposure to HK will drop substantially, but these are unique circumstances and our purchases have been opportunistic. On average, our Japanese holdings have done well, with our basket of auto-parts manufacturers posting better results recently amidst improvement in downstream inventory and sales, particularly at Nissan, a large customer on which many of them depend.

Our biggest contribution in the past six months came from Sitoy, one of the leading OEM producers of luxury handbags in the world, supplying companies such as Coach, Lacoste, and Fossil. At one point seen as a quality company trading at 3x net worth, they experienced a 50% drop in sales in the past few years, with the market cap falling from $6 billion HKD to around $400m HKD recently. This past September, at the latter valuation, they announced a $100m HKD half-year profit on improved orders and a 40% YoY revenue rise, and investors didn't seem to notice until they posted another $100m HKD profit for the six months ending December 2022. There are very few people sifting through this type of situation overseas, and many of the shrewd value investors who trade the stock have taken profits with the expectation of inventory destocking at retailers in Europe and the US. Despite its rise, the stock remains relatively cheap at 4x earnings with a 10% dividend yield (this type of valuation is exceedingly rare to find on the NYSE), and if earnings don't immediately and dramatically recede there could still be upside from this price. We retain a position after its 2% contribution this quarter.

The S&P 500 outperformed other American indices this quarter, along with the Nasdaq which skyrocketed 17% primarily due to rising valuations of the biggest six companies, despite broad declines in sales and profits. Speculation that interest rates have peaked is a contributing factor, because investors will pay more for the same earnings when bond yields are expected to be lower, as it allows them to accept lower equity returns as well. Betting on the largest favorites at uncompelling valuations comes with enormous risk, and while it ensures an attractive profit most years, whenever an upset occurs, I believe it will have an outsized cost to annualized returns.

This is the exact opposite experience of our stocks priced with low expectations, which generally do poorly until positive surprises appear, and only then do prices mean-revert. While these surprises can often be unpredictable on a case-by-case basis, there is empirical support that they

might be predictable on average for a large portfolio of companies- like insurer loss ratios, but for good news. As Sitoy showed, there is usually a chance to buy even after positive change appears, which can help reduce uncertainty for many of our turnarounds.

I've been cautious of small American companies, as I believe the quality of corporate debt has deteriorated with years of near-zero interest rates, and it may begin to impact these borrowers if there is any shock to profitability. In my opinion, the best time to wade into US small-cap turnarounds will be when liquidity to borrowers is expanding rather than tightening, when borrowing costs for firms stop rising, and after the many weak ones falter. If they prove more resilient in the face of high leverage and future refinancings than I expect, that would also be a favorable outcome whenever opportunity arises. The coming months will provide insight into the impact of widespread unrealized bond losses on the banking loan supply to firms.

As always, feel free to contact me with any questions or comments you have.

Best,
Aaron J. Saunders
Owner & Manager, Comus Investment, LLC.
asaunders@comusinvestment.com