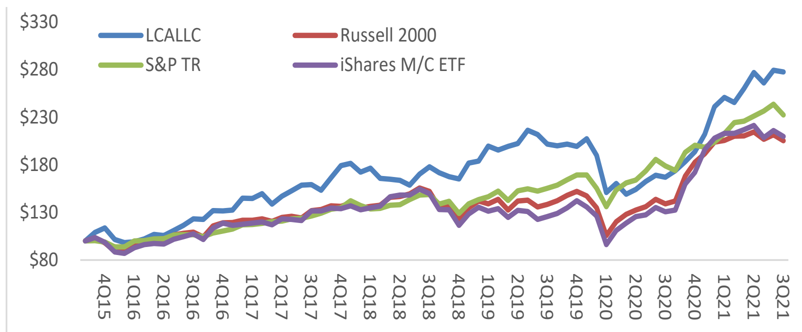
Long Cast
ADVISERS LLC

Dear Friends:

For the 3Q21 quarter (ended September 30 2021), cumulative net returns were flat. Individual account returns ranged from flat to +4%. Year to date cumulative net returns through 3Q21 were 43%. Since inception in November 2015 through quarter end 3Q21, LCA returned a cumulative 178% net of fees, or 19% CAGR. *Past performance is no guarantee of future results.*

Because our portfolio is comprised of just a handful of typically small "off the beaten path" businesses that we tend to own for long periods, it is expected that returns will vary from widely available indices.

	Long Cast	R2000	IWC	S&P TR
2015 (2-mos)	14%	-2%	-2%	-1%
2016	15%	21%	21%	12%
2017	36%	15%	13%	22%
2018	-8%	-11%	-13%	-4%
2019	21%	25%	22%	31%
2020	-3%	20%	21%	18%
1Q21	30%	13%	24%	6%
2Q21	10%	4%	4%	9%
3Q21	0%	-4%	-5%	1%
Cumulative chg	178%	105%	110%	132%
CAGR	19%	13%	13%	15%
YTD	43%	12%	22%	16%
LTM	66%	48%	61%	30%



Strong returns and client additions have pushed AUM across the $7M threshold. The business remains small but is growing purposefully and incrementally and I am grateful to have clients aligned with my long term, small company centric and research-intensive focus. I'm committed to building a durable and sustainable business based on a repeatable investment process and intelligent capital allocation. As a reminder, in a small effort to align capital growth, business ownership and personal ethics, LCA does not invest in companies exposed to the hydrocarbon or defense industries.

PERFORMANCE / PORTFOLIO HOLDINGS

Plusses in the quarter were INS and CCRN. Minuses were SANW, PDEX and CTEK, and I'll focus brief commentary on these.

SANW (which has since rebounded) is helmed by a management team experienced in the seed business. Products long in development (lead times, driven by growing cycles, take 6-8 years and scale isn't typically achieved until several years after product launch) are coming to market. They are one of three companies (along with Corteva and Advanta) launching a first ever dryland sorghum seed with herbicide tolerance in 2021, and they have an additional dhurrin free sorghum seed expected to launch in 2022. This latter product could enable wider adoption of sorghum as an alternative to more water intensive crops like corn. These new products could dramatically alter the company's growth curve and valuation and the way secondary crops are grown, worldwide.

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The seed industry is maybe the craziest I've ever analyzed, but it's also one of the oldest and most basic, and the problem solved by these products are important and address a large TAM. The working capital demands (inventory, growing in fields) stress the balance sheet at times, but we are invested alongside a large long term patient investor (MFP Partners) who has been instrumental in the company's transition away from pureplay alfalfa seed and who was long supported the balance sheet - as needed - and at not abusive terms.

I've written more sparingly about **PDEX**. It is, on the surface, a contract medical device manufacturer, which tends to be a good - not great business - but this company is more of a contract engineering firm – a better business – with a manufacturing capability wrapped around it.

The company's marquee product is essentially (I'm not doing it justice) a smart surgical drill with variable speeds and specific torque limiting technology originally designed for implanting craniofacial screws without slippage (best to *not* be a client). Recently, the company has been utilizing some of the same technology to expand into other addressable markets (thoracic drivers and ENT shavers) through existing and new distribution channels. The company is in the process of substantially expanding its manufacturing footprint with capacity for \$80M-\$100M in sales, up from under \$40M in FY21 (ended June 30th). The company has a history of patient management with a Chairman, who himself runs a hedge fund, and who is also a thoughtful, successful and idiosyncratic investor we are happy to patiently invest alongside.

Readers of these letters are likely tired of me writing about **CTEK**, but certainly not as tired as those of us who actually own it. This was our largest holding pre-COVID and it is still down more than 50% from the COVID meltdown. There are various indications that we are past the trough and if they can finally show growth, the IRR on the investment going forward could be substantial, which is why we continue to own it.

Deferred revenues – that is, money collected ahead of work done – and "presold revenues" have improved sequentially for three consecutive quarters. Furthermore, the \$2.8M "Paycheck Protection Program" loan – this is more than 10% of the market cap – has been forgiven. The 2x new/old CEO – very much cut from the cloth of an entrepreneur and salesperson – has returned and new sale announcements have increased. Throughout our long ownership of this company, I have pushed for better management, better capital allocation and better shareholder representation on the Board. These efforts continue.

One of my lessons from owning CTEK – outlined one year ago in my 3Q20 letter – is to scale into investments, at least as a default. Buying small positions enables me to better gauge the availability of shares; owning small positions hones the appetite for work; selling these small positions costs little if the investments fail a more comprehensive assessment; and if they are exceptional businesses we can own for years, I can always buy more. Based on this principle, we have a number of smaller positions in the portfolio some of which I hope to grow into bigger ones but nothing new and exceptional to write about at present.

IN CLOSING: INVESTING LESSONS FROM A SEE SAW

I’ve been spending a lot of time thinking about, reading about and talking with others about the role of intuition in investing, and I’d expected to write about that. But driving in Manhattan recently, I saw this road sign that I’d never seen before: Kids on a seesaw. I was dumbfounded. I could guess it meant a playground was near, but there’s something incongruous about it, since seesaws barely exist in NYC playgrounds anymore.

Looking for more information led me to Donald Knuth’s page of diamond yellow signs. Oddly enough, I’d just seen an off-broadway musical loosely based on AI whose closing number was all about Donald Knuth. Clusters of randomness abide in the big city.

I’d never heard of Knuth before but he’s an “OG” computer language programmer and long-time Stanford professor with a side hobby photographing diamond yellow signs, *a collection that doesn’t include the seesaw.* And now he’s a muse for musical theater.

The show’s finale “80% happy” was based on this Knuth view:

> “I came to a philosophy finally phrased as "0.8 is enough". … If I had a way to rate happiness, I think it's a good design to have an organism that's happy about 80% of the time. If it was 100% of the time, it would be like everybody's on drugs and everything collapses and nothing works because everybody is just too happy. … There are times when I am down and I know that I've actually been programmed to be depressed a certain amount of time.”

As a kid, the seesaw made me +80% happy. They are far and few between now, which is unfortunate, because as far as simple machines go, this one teaches life features such as risk, uncertainty, trust and vulnerability. It also offers an important investing reminder: On the opposite end of every trade, there’s someone doing the opposite as you. As with a seesaw, it’s worthwhile to consider what that person knows that you don’t.

When one considers the demise of the seesaw, often the issue of safety comes up, but here, as with investing, there’s a mismatch between perception and reality. This is admittedly a small window into the long decline of the seesaw, but in a study of playground equipment covering the period from ’09-’14 seesaws topped the list of incidents, with 1,272, nearly 4x the number of swing incidents. However, the study footnotes that all but 33 incidents were due to a single product recalled in 2012. Excluding that recall, seesaws aren’t even a top-ten causer of incidents. At least over that five year period, the idea of risk loomed larger than its reality.

Finally, let’s consider the anachronistic sign itself: Anyone looking for an actual seesaw won’t likely find a playground in NYC. It calls to mind certain types of investors who try to mimic an investment style made successful by a certain someone in Omaha long before the advent of excel and reg-FD. I don’t mean to cast shade on value investing – I think I practice a form of it - but changes in accounting rules, new technologies, etc. means that anyone looking for Graham / Buffet type indicators of value may miss out on a lot of playgrounds of high return investments.

Thoughts on intuition will wait another day. In the meantime, I appreciate your entrusting me with your capital and the responsibility of being its steward. As always, I look forward to continuing this conversation into the future.

Sincerely / Avi
November 2021
Brooklyn, NY