



Peapod Lane Capital LLC

Contrarian Micro & Nano Cap Value

Dear Friend,

Thank you to our clients for their continued support.

Peapod returned 37.5% net during 2023. It was a good year. We have now outperformed the Russell 2000, Russell Microcap, and Russell Microcap Value Indexes in 6 of the last 7 years.

We first started thinking about this note in early November. At the time, we were reminded of the Ides of March. Not Julius Caesar, but March 15, 2021. The microcap indexes hit their peak in March 2021 and at some point, were down nearly 40% from their highs. Obviously since then, Mr. Market had a pronounced mood change with large rallies in November and December. Over the very long run, the smallest stocks have had some of the best returns. But not always, and this has not been the case over the past decade, as the difference in returns between the largest stocks and the smallest stocks is stark. Is this time different and will they forever remain laggards? Or is now the time to consider an allocation to the microcap and nanocap space and Peapod? Even with ho-hum performance for the indexes, Peapod returned 14.5% annualized since February 2017.

A postmortem for 2023. 65% of our positions had positive returns. We generated a median positive return of 39% on winners and a median negative return of 17% on losers (average positive returns were 60% and average negative returns were 19%). Multiply those numbers alongside position sizing and that gets to the overall return. In the years where Peapod has done well, we have had several stocks with big returns. 2023 was no exception. During the year, Peapod held 83 stocks at different points in time and 11 of those (13%) had returns that were greater than 100%.

As we look forward to 2024, we remain optimistic. We continue to own a portfolio of “net-net” style stocks. These are not “story” stocks that are going to be talked about at cocktail parties or on financial news TV, but they are the ones that have historically worked out for us. In fact, if you are at a cocktail party and want to end a conversation maybe you should start talking about one of our positions. Boring, cheap, and forgotten is what we look for. One of our larger positions is an industrial company that has been profitable 17 out of the past 20 years. Recent performance has been disappointing and as a result the stock trades at a discount to net current assets. No typical sell-side analyst will pound the table with a buy rating, and few will even cover it given its small market cap. No one is going to create the story that this company is going to do x, y, and z to grow revenues and maximize profits. We will tell you the unexciting story, the company could be liquidated at a profit to shareholders given where the stock is trading, and it trades at an attractive multiple to average long-term earnings. Forgotten by everyone else, it is a bread-and-butter type of position for us.

In the past, we have talked about the role that behavioral finance plays in our process. We have generally talked about it from the perspective of other people’s biases. We attempt to buy when the seller is despondent and selling because the stock is down as opposed to any regard to underlying value. We are also aware of our own biases and strive to mitigate any damage that they may cause. One of the benefits of having done this long enough is that we have had periods where everything we touch seems to go up and other times where everything we touch seems to go down. In all cases, we have continued doing what we have always done without any changes to our decision-making.

We have never talked about business analysis versus security analysis versus portfolio management. Each plays a role in the ultimate portfolio and the returns it will generate. The best business in the world purchased at too



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high a price won't have very good returns. Likewise, the worst business in the world purchased at a super low price can have a very good return so long that the business isn't ultimately heading to zero. We do our business analysis differently from many (we believe most) others. We try to understand the value of a company from the perspective of asset values. What hard assets they may own? What's the liquidation or replacement value of those assets and is that value being grown or eroded? This allows us to take a different perspective as we make our investments. We think about security analysis as the price Mr. Market may be offering and how that compares to the underlying private market, liquidation, and/or replacement value. One of the things that we think we have done well with over time is buying at a low enough price that most of the potential issues are already priced into the stock. Often on our stocks, it doesn't take much in the way of good news to change sentiment. We have talked about buying at a fantastic price in the past and believe that our returns are created by buying at attractive enough prices. Buying at a low enough price can protect the downside and create upside returns.

We think about portfolio management as the combination of security and business analysis to maximize overall portfolio returns while managing potential drawdowns. We currently own a little over 50 stocks. We get asked frequently why not be more concentrated and own 10 or 20. Why put money into our 50th idea versus our best idea? Earlier in our career, we shared that view. Over time, we came to realize that we missed a lot of opportunities. The type of investing we do is probabilistic. We do not look for catalysts, rather we look for a fantastic price. Each stock is cheap on its own based on a probabilistic set of outcomes, but since we are not looking for specific catalysts, we don't know which of these will move and when. We have had some of our biggest winners in percentage terms in stocks that we wouldn't have considered in the top 10. We are not yet up to the 100 stocks that Walter Schloss was reported to have held, a successful value investor that we admire.

Peapod's tenets for investing.

- Focus on asset value.
 - Asset values move differently than earnings do. Earnings and cash flows can swing wildly from year to year, asset values less so.
- Consider the margin of safety.
 - Avoid companies with financial leverage, which typically means a max of 1x debt to equity.
 - Avoid companies with unethical management teams and those that work with unethical investment bankers. Companies can and do dilute existing shareholders even at absurdly low valuations.
- Focus on paying a fantastic price.
 - A low price protects the downside and creates the upside returns.
 - We can still have a great return buying at a fantastic price and selling at a mediocre price.
- Be patient.
 - Do not expect a stock to go up immediately. Only by luck will we buy a stock at the absolute bottom, and we will be down on positions at some point.
 - Be willing to buy more if the stock trades down and nothing else changes.
 - Take a buy and be willing to hold approach.



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- Stay independent.
 - Do not worry about what anyone else is doing.
- Don't worry about the short term. We are not in the security price-guessing business.
- Treat Mr. Market as a source of opportunity.
 - Mr. Market is great at providing a guide as to what is fashionable and unfashionable today. Mr. Market is prone to swings in emotion.
 - The price a stock trades at and its implicit worth are two different things. Mr. Market is great at telling us the price part but oftentimes very wrong about telling us the underlying value part.
 - Mr. Market walks around with a hole in the pocket offering up opportunities to be taken advantage of by the patient and longer-term-minded investor.

We will repeat what we have said in the past. We do not do what everyone else is doing. We concentrate on being a big fish in a small pond. Our perspective of analyzing the companies we invest in from the perspective of asset value gives us a different perspective from the typical investor.

Please do not hesitate to reach out to us with any questions. We are currently open to new investors. We are capacity-constrained and will close to new investors at \$250 million AUM.

Best Regards,

Erik Conrad & Martin Friederichs



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P&L

	Cumulative Returns			Average Annualized Returns			
	Month	YTD	Inception	1 Year	3 Years	5 Years	Inception
Peapod <i>Gross</i>	12.3%	39.5%	186%	39.5%	23.2%	19.8%	16.4%
Peapod <i>Net</i>	12.1%	37.5%	156%	37.5%	21.4%	18.0%	14.5%
Russell Microcap Value	14.3%	9.3%	57%	8.9%	6.9%	9.5%	6.7%
Russell 2000	12.2%	16.9%	64%	16.9%	2.3%	10.0%	7.4%

**As of December 31st, 2023. Benchmark – Russell Microcap Value Index, Fees – 1.5% Annually. Peapod Contrarian Micro & Nano Cap Value Composite returns calculated from February 1st, 2017. Since Inception returns annualized. Investment Performance Disclosure – Please refer to the end of the document. Past performance is no guarantee of future performance.*

	Peapod Monthly Returns (Gross)												Year		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Peapod	RMV	R2000
2017		0.7%	2.4%	3.5%	-2.4%	3.8%	0.0%	1.7%	6.1%	1.7%	4.7%	-1.1%	22.8%	13.1%	14.2%
2018	3.9%	-2.8%	1.2%	3.6%	4.6%	0.2%	-0.9%	-0.1%	1.4%	-7.0%	-1.2%	-7.8%	-5.8%	-12.0%	-11.0%
2019	7.5%	1.7%	-5.2%	0.5%	-9.6%	2.7%	1.4%	-4.6%	4.8%	-0.9%	2.4%	2.9%	2.3%	21.3%	25.5%
2020	0.5%	-6.2%	-20.2%	12.7%	3.0%	7.8%	6.6%	7.4%	0.5%	0.5%	11.8%	6.1%	29.1%	6.3%	19.9%
2021	4.8%	8.4%	3.0%	4.1%	7.6%	-0.1%	1.6%	4.5%	-2.8%	2.2%	-2.2%	3.4%	39.7%	34.7%	15.0%
2022	-3.5%	-0.8%	2.0%	-4.6%	-1.2%	-1.3%	3.6%	2.4%	-7.5%	5.1%	3.5%	-0.8%	-3.9%	-16.7%	-20.4%
2023	15.9%	0.8%	-1.2%	0.8%	3.3%	3.7%	2.8%	-3.6%	-1.3%	-4.6%	6.9%	12.3%	39.5%	8.9%	16.9%

	Peapod Monthly Returns (Net)												Year		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Peapod	RMV	R2000
2017		0.6%	2.2%	3.3%	-2.6%	3.6%	-0.1%	1.6%	5.9%	1.6%	4.6%	-1.3%	20.9%	13.1%	14.2%
2018	3.7%	-2.9%	1.0%	3.4%	4.4%	0.0%	-1.0%	-0.3%	1.3%	-7.2%	-1.4%	-8.0%	-7.5%	-12.0%	-11.0%
2019	7.3%	1.6%	-5.3%	0.3%	-9.7%	2.6%	1.2%	-4.8%	4.6%	-1.1%	2.3%	2.7%	0.6%	21.3%	25.5%
2020	0.4%	-6.4%	-20.3%	12.5%	2.9%	7.6%	6.5%	7.2%	0.3%	0.4%	11.7%	5.9%	26.9%	6.3%	19.9%
2021	4.7%	8.3%	2.9%	4.0%	7.5%	-0.3%	1.5%	4.4%	-2.9%	2.1%	-2.3%	3.3%	37.6%	34.7%	15.0%
2022	-3.7%	-1.0%	1.9%	-4.7%	-1.4%	-1.4%	3.4%	2.2%	-7.6%	5.0%	3.4%	-0.9%	-5.4%	-16.7%	-20.4%
2023	15.8%	0.6%	-1.3%	0.7%	3.2%	3.6%	2.6%	3.7%	-1.4%	-4.7%	6.8%	12.1%	37.5%	8.9%	16.9%

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Investment Performance Disclosure

Past Performance Does Not Guarantee Future Performance

Past performance of actual portfolios or composites of actual portfolios does not guarantee future results. No assurances or guarantees can be given or implied concerning future investment results for Peapod Lane Capital LLC or any investment index. Future returns may differ significantly from the past due to materially different economic and market conditions and other factors. Investments within portfolios, and therefore, portfolios, involve risk and the possibility of loss, including a permanent loss of principal.

Investment Return Methodology

Actual returns for individual client portfolios managed by Peapod Lane Capital LLC may vary and do not necessarily coincide exactly with the returns for the performance group composite. Peapod Lane Capital LLC's returns shown are a composite of the fully managed portions (i.e. discretionary assets vs. non-discretionary supervised assets) of all client accounts that have substantially the same investment objectives, dividends, interest, mutual fund capital gains distributions and other earnings reinvested. Returns are presented gross of management fee (management fee is 1.5% per year). Returns are presented net of all commissions incurred in the management of portfolio accounts. Returns include the reinvestment of income. Non-discretionary supervised assets held in clients' account are excluded from the calculation. All client accounts that met the composite criteria during the reporting period are included.

Peapod Lane Capital LLC launched on April 1, 2010. The Peapod Contrarian Micro & Nano Cap Value Composite returns begin on February 1, 2017. The performance has been calculated in accordance with industry best practices. All performance figures are based on estimated and unaudited financial information and may be subject to change.

Peapod Contrarian Micro & Nano Cap Value will hold cash. It is expected that cash will be between 0% and 10% of the account value. There can be no assurance that cash will not exceed 10% at any time.