

Truffle Portfolio

3Q 2024 Investor Letter

Dear Long Term Investors,

As we close another quarter in 2024, it's time to review our journey, the Truffle Portfolio's recent performance, and what lies ahead in the market. Let's start with some updates on this quarter's performance and delve into key trends that are shaping our strategy.

Performance Overview: A Cautious, Long-Term Focus for Capital Preservation

For the year thus far, the Truffle Portfolio has returned 11% on average compared to the S&P 500's 21%. As a reminder, each investor may experience slight variations due to personalized account timings and holdings. To check your specific returns, please visit your online portal.

While our return trails the broader market, this aligns with the cautious stance we adopted going into 2024. Given the high market valuations, we didn't see many great businesses selling at fair prices and opted to hold more cash, anticipating a potential market downturn. Our goal is to protect and grow capital over the long term rather than pursue fleeting highs in an overheated market.

"You can run through a dynamite factory with a lit match, but that doesn't make you a hero." – **At Truffle, we're not here to risk your capital in frothy markets. We're focused on safety first, ready to deploy cash strategically when truly high-value opportunities arise.**

The Truffle Portfolio is built with discipline, and our conservative approach is rooted in the principles of capital preservation and sustainable growth. We're committed to providing investors a stable foundation, even in unpredictable markets. The same philosophy that served us well in challenging years will continue to guide us forward.

Market Insights and the Current Economic Landscape

Strong Employment Amidst Low Inflation

One surprising feature of 2024 has been robust employment figures alongside stabilizing inflation. Unemployment has remained low, while wage growth has moderated. This mix allows for sustained economic growth without the inflationary pressures that typically trigger aggressive Federal Reserve intervention.

Federal Reserve Stance on Interest Rates

After navigating a high-interest-rate environment, the Fed appears more focused on lowering rates now. This suggests we may be at or near the peak for this cycle, which could pave the way for broader liquidity flow back into equities, properties, and other asset classes as investors seek higher returns than what money market funds currently offer.

Corporate Earnings Resilience

Strong corporate earnings continue to underpin our confidence in the equity markets. Unlike past crashes driven by “ghost earnings” or excessive leverage, today's environment is characterized by real consumer spending and well-managed corporate balance sheets. Our portfolio has benefited from this, particularly in sectors that have lagged but are now positioned for solid returns.

Positioning and Portfolio Direction in 2024: Focusing on Value and Stability

Our core strategy remains the same: to invest in undervalued, high-quality businesses with proven earnings and stable growth potential. This quarter, we've focused on sectors previously overlooked, particularly banking and asset management, where quality companies are trading at favorable valuations.

Sector Insights: From Growth to Value

While the market remains in a generally bullish state, we're carefully rotating toward "value" stocks—solid, profitable businesses with reasonable valuations. With interest rates likely to slide lower for an extended period, we believe this shift will continue to favor well-established companies. Our careful, selective approach positions us well to capture gains while minimizing exposure to volatility.

Portfolio Now Open for New Investments

In response to growing demand, the Truffle Portfolio is open for fresh funds from both new and existing investors. This funding window offers a unique chance to join the Truffle Portfolio as we prepare for upcoming opportunities in sectors that we believe are undervalued and ready for growth. For those interested in opening or topping up accounts, please find the details below:

For New Accounts

- Minimum investment: S\$50,000 (Cash)/ (SRS)
- Application: [Apply Here](#)

For Topping Up Existing Accounts

- Minimum investment: S\$10,000
- Follow instructions at [Funding Portal](#)

Reminder: SRS investors should fund their accounts by 31 Dec for tax benefits. [Read our SRS Guide here.](#)

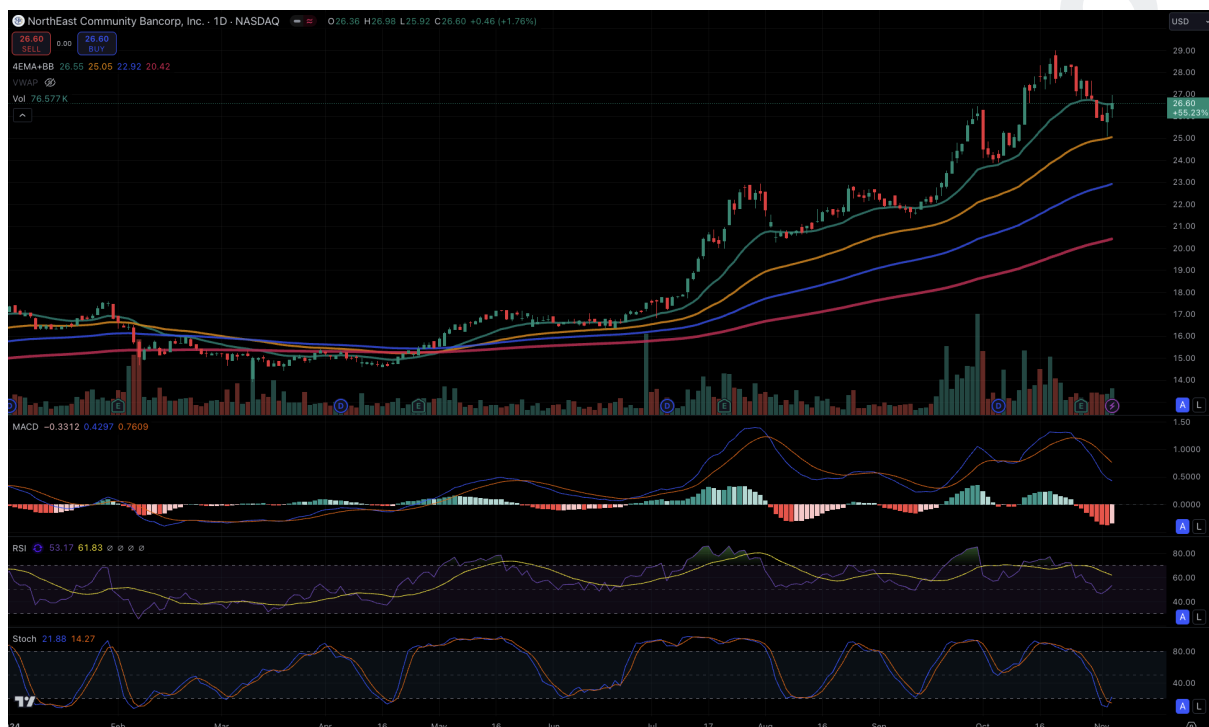
Our investors benefit from a clear, principled approach to investing, one that focuses on identifying undervalued opportunities and emphasizes long-term growth over short-term gains.

Update on Key Holdings

Spotlight on Northeast Community Bancorp, Inc. (NECB)

Our focus on “niche monopolies” has reaped rewards. In this letter, I would like to discuss one of the key holdings - **Northeast Community Bancorp, Inc. (NECB)**.

NECB, a community bank with a market cap of \$300 million, exemplifies the type of high-quality, undervalued business we seek. With a strong market position and a return on equity (ROE) of 16.65%, NECB has achieved a 55% gain in 2024 YTD.

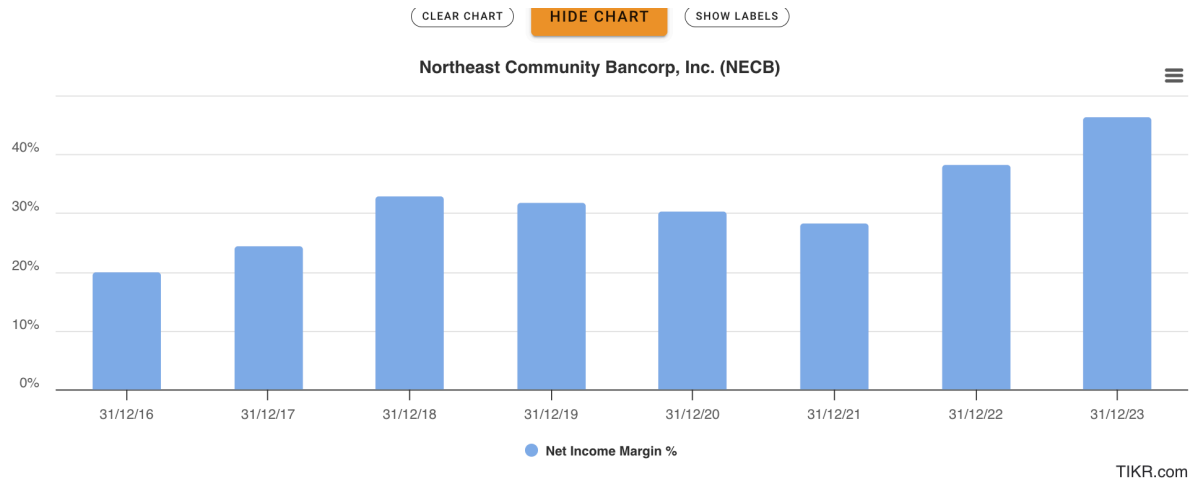


1. Regional and Community Focus

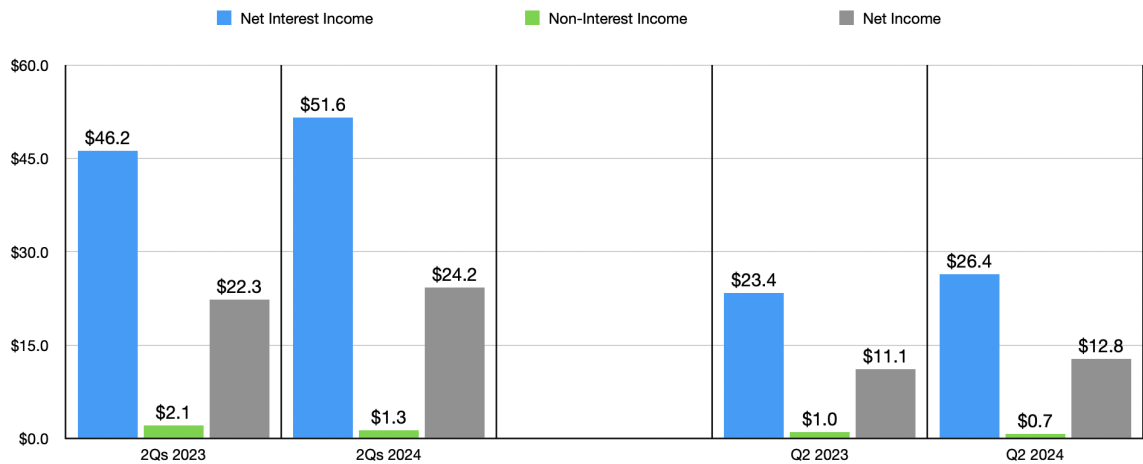
- NECB is a community bank, which means it serves a specific regional population with a deep understanding of local needs. This regional focus allows NECB to tailor its offerings, building strong relationships and trust with its clients. Community banks like NECB often prioritize personal service and local decision-making, which attracts loyal customers in the areas they serve.

2. High Profit Margins and Operational Efficiency

- NECB's net profit margin of 46.08% is significantly strong for a bank of its size, indicating careful cost management and effective lending practices. With an impressive return on equity (ROE) of 16.65%, NECB efficiently generates profit from shareholder investments, a key metric for investors seeking long-term value.



- NECB has managed to boost net interest income from \$39.7 million in 2021 to \$96.2 million in 2023, aided by both the expansion of its loan portfolio and favorable interest rates. This income surge has significantly bolstered profitability, with net income nearly quadrupling from \$11.9 million in 2021 to \$46.3 million in 2023. In the first quarter of 2024, net income showed modest growth to \$11.4 million, supported by strong interest income.



3. Niche Lending Capabilities

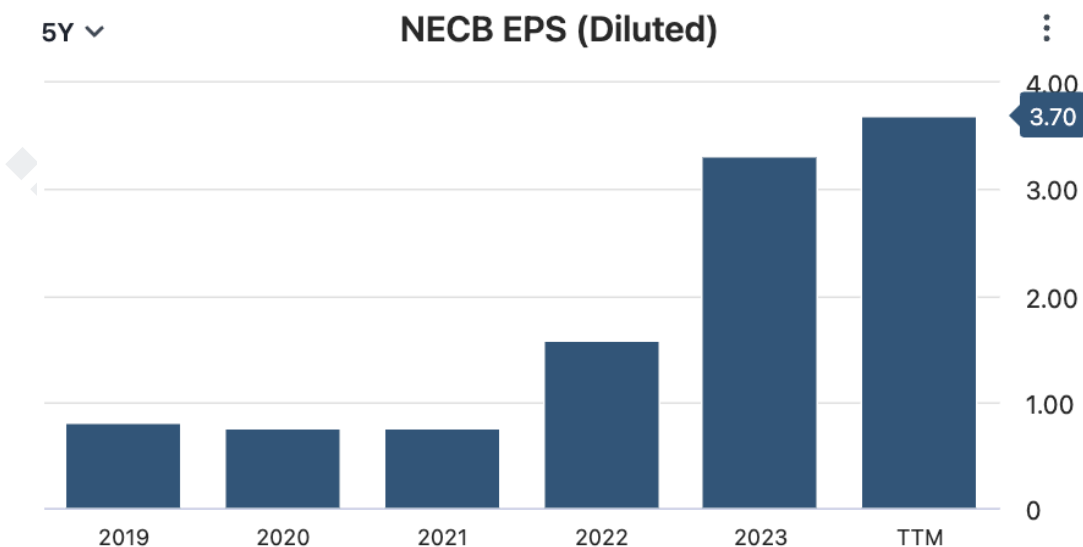
- Many community banks like NECB focus on niche areas, such as small business lending, real estate financing, or specialized loans that larger banks might overlook. By addressing specific community needs, NECB can often charge slightly higher rates while still being competitive in its area. This niche focus allows it to manage risks better since it has a deep understanding of the local economic landscape.

4. Adaptability and Local Knowledge

- Unlike large national banks, NECB's operations are typically more agile and responsive to local economic conditions. Its management team can make timely decisions regarding loan approvals, interest rates, and other services based on real-time information about the regional economy, allowing it to adapt quickly.

5. Consistent Earnings and Dividend Potential

- NECB's steady earnings growth, as well as its strong EPS (expected at \$3.70 for FY2024), signal a stable and potentially attractive investment for income-focused investors. Consistent earnings suggest that NECB has predictable cash flows, allowing for potential dividend distributions. Many community banks are valued for their reliable dividends, which appeal to conservative investors.



6. Limited Competition and Local Market Loyalty

- Community banks often face less direct competition in their target markets compared to larger financial institutions. This lack of intense competition allows NECB to secure loyal customers who prefer a bank that understands their unique needs. Such loyalty also reduces customer churn, enhancing long-term profitability.

Conclusion

NECB's growth trajectory and reliable earnings make it an ideal fit for the Truffle Portfolio's emphasis on undervalued, profitable businesses in overlooked sectors. As we continue to seek high-quality opportunities, NECB exemplifies the type of companies we prioritize—resilient, community-focused, and financially sound.

Going forward

Looking forward, we're optimistic yet cautious as we monitor the market for high-quality investment opportunities. **Our disciplined approach enables us to capitalize on attractive, undervalued opportunities as they arise.**

We're excited to invite new investors to join the Truffle Portfolio at a pivotal time. For those who value long-term stability over rapid returns, our investment philosophy offers a foundation built to endure and thrive across market cycles.

As always, we appreciate your trust and partnership. Please reach out if you have questions or would like to discuss your portfolio.

Thank you for your continued support and happy hunting.

Regards,

Pete