Performance	QTD	YTD
DJ Industrial Average	8.2 %	-1.1%
S&P 500	**9.0%**	**5.3%**
Russell 2000	4.6%	-9.6%
allcapbros	36.4%	82.1%

Positioning

We returned thirty six percent in Q3 2020, keeping the momentum we had coming into the quarter. Most of our returns were generated from our largest position and a few timely tactical plays. Given the extreme volatility we experienced in Q2 & Q3, the landscape was rife with tactical opportunities that we have done our best to capitalize on. To borrow from chess, the stock market currently is more like a blitz chess game, and in those games, victory is won through being a tactician rather than relying on longer term positional strategy.

It is hard not to be bullish as a deluge of fiscal and monetary stimulus have created an ideal situation for M2 explosion. With the Fed Funds Rate at near zero, valuations on risk assets have increased as a result of new sources of demand being pushed out on the risk curve and discounting future cash flows at lower rates. Valuation of higher duration growth companies are disproportionately affected relative to shorter duration value companies. The backdrop is set for increased equity prices in the future however uncertainty is staging a comeback. COVID cases in different parts of the globe have re-spiked and the market is clamoring for another fiscal stimulus bill that has stalled as both sides cannot seem to come to an agreement. There could also be increased risk to the downside as social unrest and the level of contestation surrounding the elected candidate proves higher than expected. Although our macro forecasts do little to drive our bottom-up selection, we do believe markets will continue to be volatile around the election and if a fiscal stimulus bill is announced, a large melt up in risk assets is likely. Conversely, if both sides still cannot agree to a stimulus bill by the end of the year, careful work will need to be done by investors around how bankruptcies in certain sectors will spread to other parts of the economy. Given the strength of our financial sector and the Fed's continual support, we do not believe a risk of contagion exists but what is instead likely in this case is a heterogenous impact across different parts of the economy.

Our focus at this time is to stress test our companies to make sure they have the balance sheet and business model to weather and even thrive in a world with no fiscal stimulus and second, third or even fourth waves of COVID. We have provided summaries on some of our positions below. More in-depth valuations and blog posts are on our website allcapbros.com.

Donnelley Financial (DFIN)

Donnelley Financial (DFIN) is still our largest position even after a significant run up. DFIN is a market leading provider of services and regtech to public and investment companies who need to be compliant with the SEC. DFIN's IPO segment is its bread and butter and is the flywheel with which it is able to tack on additional revenue streams. Given the abundance of capital, IPO levels have surged to their highest since 1999, and SPACs (special purpose acquisition companies) have gained popularity as they have become more legitimate. Both of these factors have given DFIN a significant boost to revenue. Their earnings are coming out in November 5th and we suspect it will be a home run. There are two main ways to win with DFIN, one is the cheap capital continues to provide DFIN with a boost in transactional revenue and the other is the natural progression of their business towards higher margin SAAS offerings.

ENDOR (E2N.MU)

E-sports, and in particular sim racing, are large beneficiaries of COVID as people who are quarantined will seek avenues for entertainment. Netflix CEO Reed Hastings wrote "We compete with (and lose to) Fortnite more than HBO" (Fortnite is an immensely popular multiplayer game played by about 350mm players worldwide). At it's roots, all forms of entertainment compete for our limited time and gaming is proving to be a more immersive and social form of entertainment than other forms such as watching TV. The simulation racing segment was particularly interesting due to how close the simulation is to reality, more so than other sports as the physical movements involved are the same. Last year a sim racer beat an F1 professional driver on a track which captures how realistic these games are.

The sim racing industry is an oligopoly and consists of three players with Endor being far and away the premium player with its Fanatec brand. Endor manufactures the equipment needed from the pedals to the direct drives. These are engineering intensive mechanical and electrical devices that require a high degree of fidelity. Endor hits all the checkboxes needed for a great investment. It is run by a passionate founder who owns about forty-four percent of the company, it dominates the niche it is in, it is illiquid, it is cheap on a DCF basis and it has multiple near term catalysts from new console releases to new lockdown measures. **We believe Endor can at least double from here.**

Franklin Covey (FC)

Franklin Covey specializes in helping companies that require *lasting* changes in human behavior. FC's strength is primarily in leadership, execution, and sales. They own timeless content such as Seven Habit of Highly Effective People and Four Disciplines of Execution. FC has been transitioning into a recurring SAAS model for the last several years with their All Access Pass offering. This subscription service offers the entirety of their content to companies at a discount to even single modality offerings from their competitors. It is also available in a range of modalities from live trainings to podcasts to bite sized daily emails.

Due to the pandemic, their other core business (non-saas) has been almost annihilated. FC's share price quickly dropped a cool fifty percent. We believe that the main value of FC is in their AAP offering and the market overreacted given the growth and resilience of this segment in COVID times.

Prior to COVID, their AAP offering had a 25% growth rate, 90% retention rate, and a 50% upsell rate. From their last quarterly report, **FC was already seeing demand for their offerings bounce back to 2019 rates and higher AAP sales by July.** It is possible that COVID even helps their business (we know, what business hasn't) as companies consolidate their trainings to those that provide the greatest value and convenience, right up FC's alley.

The training industry is growing larger each year with about 100 billion being spent on external providers such as FC. Given it's solvency and competitive advantages in a growing industry, Franklin Covey is significantly undervalued. The combination of a relevant brand priced at extremely competitive rates available in a convenient range of modalities should provide a bed rock for growth. **We believe FC can at least double from here.**

Closed Positions

Hostelworld (HSW-LON)

We exited out of Hostelworld not due to changes in fundamentals, but due to opportunity cost. Hostelworld does not seem to have any short term catalysts and our money could be re-deployed to more fruitful opportunities. We exited out at the same price we initiated the position. Once COVID starts relaxing its grip on the world, we will revisit this company.

Liberated Syndication (LSYN)

We closed our position as the podcast hosting industry has become immensely competitive. The main reason for this is Spotify rapidly becoming the defacto podcast host to attract podcasts and in turn attract advertisers. Without Spotify aggressively entering this space, LSYN would have been a great long-term hold. It is a reminder on how quickly large players can quickly enter smaller industries and how they always pose an existential threat to small players.

Final Thoughts

With a presidential election coming up, political gridlocks and COVID cases re-spiking, the market is likely to experience increased volatility. We have close to a twenty percent cash position currently and will look to utilize this post-election to either add to our names or invest in new ones. One thing is for certain, there will be uncertainty and opportunity ahead.