Performance	QTD	YTD
DJ Industrial Average	7.8%	20.7%
S&P 500	11.1%	28.6%
Russell 2000	1.7%	13.5%
allcapbros	6.8%	44.8%

We finished the year up 44.8% with outsized contributions from FC, LEU, DFIN. Broader equity markets finished up between ~14% and ~28%. The highly infectious Omicron variant was not enough to spook investors and the market quickly looked through the rapid infections rates to a sentiment set on sooner rather than later herd immunity. No matter how bad events might be unfolding at this particular moment, if there is good reason to suspect the future will be bright, the market will quickly discount the near-term in favor of the long-term as it did here. The latter end of the year also saw commodities rallying, supply chain disruptions, wage pressures and surges in demand that all contributed to a month-over-month inflation print of 7% in December, the largest increase since June of 1982.

With inflation now a story it is important to think about implications regarding the companies in our portfolio. Although there may be some near-term margin compression, we believe the companies in our portfolio have the pricing power (and in most cases, a long runway for scalable growth) to greatly mitigate cost-pushing forces. The greatest risk that inflation presents to us in the near-term term is market risk. None of our stocks will ever be immune from drastic market selloffs. If inflation readings come in higher than expected this could very likely force the Fed to act sooner and to a larger degree as they kick start the rate tightening cycle going into 2022. This would undoubtedly spark a selling frenzy. Although this is a potential outcome, we believe it is unlikely the inflation readings are as high in 2022 as we are seeing in 2021 given that there is evidence of port decongestions and easing of supply chains. If this materializes as we foresee inflation will be lower next year and a disinflationary environment alone will certainly not lead to any drastic Fed action. Going into 2022, we will remain vigilant and alert observing how the market will react when the Fed begins to take the punch bowl away. We started the year with a quarter-turn of leverage and, as of the last day of 2021, we are sitting on about 10% cash. There are plenty of companies on our watchlist that we would love to see trading at bargain so we welcome the volatility.

Positions

We sold DFIN during the quarter given its massive two-year runup. Our position at time of sale was up north of 400%. Why sell now? This company is partially levered to capital markets activity and in large part IPOs. Of course we did not prognosticate the greatest IPO market since ‘99 when investing in this name but we strongly felt there was a drastically false narrative that claimed IPOs were dying and companies would just stay private or come to the public market via Direct Listing or through other innovative ways. There were all these great charts showing the decline in listings as evidence of this phenomenon. We understood well the dearth of IPOs was a cyclical phenomenon, not a structural one, and bought all we could in the face of this false narrative. This was our key insight and it paid off. For this reason, we keep a running list of narratives that we feel are widely accepted yet false. We believe this helps us find mispricings.

SES Imagotag was up 42% in Q4 2021 as it kept riding the ever growing trend of retailers going digital. SES is a market leader in the electronic shelf label industry and has grown both revenues and backlogs while competitors (Pricer) have lagged. SES is our largest position and although it is more expensive than our other names on TTM bases, we think given its leadership and the strong trend of retailers, it is one our cheaper names looking at a 3 year time horizon. It is also one of our more underfollowed names as it is a French company trading on the Euronext exchange with a relatively small market cap (1 B). SES has guided to a doubling of revenue in the year 2023 to about 800mm. We believe there is a good chance SES further distances itself from the pack and is a long-term capital compounder.

Paysign (PAYS) was our most disappointing pick in 2021 with a 40% drawdown from our cost basis. We believed PAYS was undervalued as the share price had gotten hammered due to the deluge of stimulus along with COVID inhibiting donors from giving plasma.However the long term fundamentals were still intact, plasma demand along with plasma centers were still growing even though supply had slowed. PAYS is a payment processor for the prepaid cards plasma donors get. It acts as a toll booth for the money the donors receive/spend and so the less money is given to donors, the lower PAYS revenue is. PAYS had been steadily growing its plasma business for the last several years and taking share from its main competitor Wirecard. Add to that in the end of 2020, Wirecard became embroiled in accusations that it was fraudulent and eventually became insolvent. Wirecard ended up selling its prepaid card division to Syncapay. We thought this boded well for PAYS as plasma centers (current and future customers) would be less amenable to using Wirecard as a payment provider given the reliability and customer service these centers required. Plasma trends even started picking up in Q4 which added to the setup. However the landscape started changing quickly with Bank of America entering the space and winning a large customer (almost 100 plasma centers or about ten percent of all plasma centers in USA) that PAYS thought it was going to win. This was surprising to us given the duopoly structure this industry had enjoyed for the last several years. Our valuation and reasoning was based off PAYS taking market share from a poor-performing incumbent. A new large entrant changed that dynamic. PAYS was guiding to have at least 400 plasma center customers at the beginning of 2021 and as of Q3 results, PAYS revised the number to 370. PAYS started 2021 with 343 centers. Normally we give some leeway (range) to KPIs with companies however given the zero sum environment PAYS is in, we found that we did not have as much conviction in the name as when we entered the position. We sold out of PAYS and will keep an eye on future results.

We added to American Outdoor Brands (AOUT) after another decline, we are about even with our initial cost basis. We think it is peculiar that AOUT is trading at roughly the same valuation as when it spunoff given 40mm more cash (20% of market capitalization),no debt, and better market fundamentals given the boost to outdoor activities. Mr. Market is penalizing anything that hasn't grown revenue significantly over 2020 deeming it a "COVID play" and thus transitory. We think the market is most likely over-correcting. AOUT is composed of high quality brands (almost 50% gross margins) that before COVID were growing at double digit CAGRs and with tailwinds such as the record number of new hunters and fishers that have entered the market, AOUT has strong longer term fundamentals. AOUT also emphasizes innovation with over 300 new products introduced per year to harness the full potential of their brands – Dock and Unlock- and to increase the TAM. New products introduced over the last two years make up about 25% of revenues. We believe AOUT has almost a 100% upside from todays levels.