Performance	QTD	YTD
DJ Industrial Average	-1.5%	12%
S&P 500	.6%	15.9%
Russell 2000	-4.6%	11.6%
allcapbros	-4.2%	35%

Our Q3 2021 performance was -4.2% compared to equity benchmarks that were in the range of flat to down 4.6%. Up through August, the outsized earnings moment continued and the margin compression that market participants were concerned about due to labor costs and commodity price increases did not materialize. This has been the primary driver of this year's upswing and the market continued to chug along through the first couple months of the quarter and then had the largest drawdown of the year in September at ~5%. Although it is always clear what the primary mover of markets is during a full-blown panic, it is usually a lot harder to isolate causality during a run-of-the-mill downturn. It could be any number of things, including no real explanation at all--the market does not need a catalyst to start to trend lower. Keep in mind the average yearly intra-year max-drawdown is roughly 10%. In this case, our best guess for the drawdown were contagion fears around the Chinese Real Estate developer, Evergrande that we wrote about here along with the fact that equity markets had been going practically straight up since its local bottom in March of 2020 – up almost 100%. There does not exist an infinite number of buyers and at some point sellers will outweigh buyers regardless of headlines- this cyclicality is normal market behavior.

We are pleased with the performance this year but are constantly assessing risk factors. A portfolio of names that are roughly uncorrelated in year one can start to be quite correlated in year two. This is because the world is always changing and risks present today may not exist tomorrow and vice versa. For example, a portfolio owning several companies with supply chains running through China may have been perfectly fine five years ago but that same portfolio needs to be seriously assessed against the risk of China-US tariffs or further tit-for-tat trade-harming escalations. It is important to constantly assess the entire portfolio against every conceivable risk continuously. This is where macro vigilance can help add to returns by increasing the likelihood that a portfolio of stocks is not unnecessarily correlated which will help mitigate both the size and frequency of deep drawdowns. We believe this is a far superior way to manage risk at the portfolio level than what every large asset manager's compliance department does – which is to generally keep a running static list of sector exposures & police these exposures against firm mandated constraints.

Positions

Franklin Covey was up 26% due to continued strength of its All Access Pass offerings. FC has timeless content on leadership and effectiveness (eg Seven Habits of Highly Effective People) that it has made available on a subscription basis- called All Access Pass. This segment has grown at a 25% CAGR for the last several years with high gross margins (85%). FC is also rolling up other brands onto its platform to address other current needs such as unconscious bias training. We believe FC has significantly more upside from today's levels given the moat around its content and valuation (12x 2023 earnings).

Centrus Energy was up 52% this quarter as uranium has been experiencing a rapid global sentiment shift. Countries such as China, Japan, and France have strong mandates to have a large portion of their energy needs met by nuclear. People's reaction to nuclear is generally polarized with some people thinking it will produce a radioactive wasteland while others see it as the future of energy. Nuclear energy has been dubbed “a successful failure” by Smil as nuclear energy is one of the safest, least pollutive, steady sources of energy the world has. Yet, due to a couple of infamous accidents the public has shunned it. We believe the fundamentals of nuclear energy will prevail as the world’s needs cannot be met by purely renewable energy. Wind and solar do not have a “baseline” of energy they can consistently provide. Couple a rising demand with a decrease in supply as large uranium miners have been shuttering in mines due to the economic infeasibility of low uranium prices, and the long term setup for uranium looks favorable.

American Outdoors Brands owns roughly 20 outdoor brands that range from gun accessories to fishing to gardening tools. These brands were acquired over several years by AOUTs parent Smith and Wesson before being spun off into AOUT in 2020. These brands were acquired at an aggregate price 50% greater than where AOUT trades. AOUT has dropped 35% due to softer guidance on its fiscal Q1 call as we believe the market is penalizing any company that is suspect of being a COVID play. AOUT has increased revenues 60% from 2019 levels and is set to equal that in 2021 with about a ten percent growth rate after that. AOUT brands prior to COVID had been growing at high single to double digit CAGRs. We are bullish on the name giving its brands, management, and the ever-growing TAM of outdoor accessories. AOUT currently trades at 12x 2020 earnings.

Whole Earth Brands dropped roughly 15% in Q3. FREE is using its distribution network to roll up other brands in the growing natural sweetener category. FREE also has an extremely profitable licorice segment where it enjoys almost 50% market share and high gross margins. We believe FREE can grow revenues mid to high single digits along with potential margin expansion through price hikes. Natural Sweeteners have quite different taste profiles and so have more stickiness with customers.