



January 14, 2025

Dear clients,

The Clio Core Portfolio returned +5.7% during the second half of 2024, and +10.0% for the full year.

Net Returns (incl. Dividends) through 12/31/2024	Clio Core Portfolio	S&P 500 Index ETF (SPY)	Relative
Q4 2024	(4.0%)	2.5%	(6.5%)
Full Year 2024	10.0%	24.9%	(14.9%)
Last 5 Years (Annualized)	12.6%	14.5%	(1.9%)
Since Inception (Annualized)	14.2%	13.7%	0.5%
Since Inception (Cumulative)	129.3%	123.0%	6.3%

Since I last wrote to you on July 1, the Portfolio produced a strong Q3 (+10.1%) following generally positive earnings reports from our twelve investments. Some of that momentum carried through November following the presidential election. However, the Portfolio fell 6.0% in December, leading to an overall weak Q4. A table of H2 and full-year returns by company is included in the Appendix.

While there was little company-specific news during the last month of the year, most non-tech sectors in the market (consumer staples, industrials, energy, financials, real estate and health care) were all down in a range of 5-11% on a combination of rising interest rates and fears of a cyclical slowdown. Clio's industrial and housing-related investments were particularly impacted during the month.

In this letter, I will spend some time discussing recent performance as well as provide updates on each of our holdings.

I. INVESTMENT PERFORMANCE

While I remain pleased with the performance of the Portfolio since inception, the returns over the past three years on both an absolute and relative basis to the S&P 500 have been disappointing to me, especially when

compared to the first three years. Overall, however, I continue to believe the Portfolio is doing what it has been designed to do.

At launch, I noted that the Core Portfolio would not be managed to track or beat any particular benchmark, but would strive to deliver absolute returns over a multi-year period. Since inception, the Portfolio has compounded at 14%, giving Day One clients roughly a 2.3x return on their investment. While broader equity markets have been supportive of this result, I believe the 14% return generally tracks to my estimate of the economic value creation of the underlying investments. In other words, Clio's holdings in aggregate have been fairly and appropriately rewarded by the market.

The Portfolio today looks quite similar to that of six and twelve months ago. Even by Clio's historical standard of low portfolio turnover, 2024 was an outlier. After making three new investments (AutoZone, Visa, and Hilton) in the second half of 2023, I made only one new purchase in 2024 (in January, of Builders FirstSource). Trading activity for the remainder of the year was minimal.

As I wrote about in my July letter, Clio's limited exposure to the largest US technology stocks has been a drag on returns the past two years. This has been an error of omission on my part, as I do follow and study companies like Nvidia, Meta, and Amazon, but have chosen not to own them. Today, ServiceNow and Visa are Clio's only growth tech holdings, comprising about 14% of the Core Portfolio.

A key question going forward is: do I anticipate major changes to the composition of the Portfolio or the overall strategy, perhaps embracing a significant ramp in exposure to Big Tech and the so-called 'Magnificent 7' stocks? For now, the answer remains No.

There are two primary reasons for this: 1) I continue to like our holdings, and I believe they each have solid runways for multi-year value creation ahead; and 2) I remain skeptical that the massive investments being made by the largest technology companies, especially in the realm of consumer-focused Artificial Intelligence, will produce attractive returns on capital.

That said, I am constantly on the lookout for new investments which might have more attractive characteristics than our existing holdings. It would be reasonable to expect one or two new purchases this year, in line with Clio's historical record of portfolio turnover.

Towards the later stages of evaluating an investment, I like to pose a final gut-check in the form of what I call the 'Rip Van Winkle' test. I ask myself: if I were to fall asleep for 10 years, what is my level of confidence *today* that the company will still be a strong, value-creating business when I wake up *in that uncertain, distant future*? In other words, a question about *durability*.

Over the past three years, the Portfolio has become much more skewed to 'brick-and-mortar' businesses – like paint, building products, auto parts, hotel management, and medical equipment. I believe these companies are highly durable, and provide a more compelling long-term risk/reward profile than the cohort of large technology companies investing hundreds of billions of dollars into projects which have very real risks of long-term commoditization.

By and large, the management teams of the Portfolio companies are executing well despite choppy end-markets. They continue to invest in high-return initiatives as competitors retreat, which should enable outsized market share gains in more normalized demand environments.

II. PORTFOLIO UPDATE

When ranked by full-year 2024 returns, the twelve companies in the portfolio can be divided roughly into thirds. The top third consisted of ServiceNow, Hilton, Berkshire Hathaway, and O'Reilly Auto; the middle third of AutoZone, Visa, S&P Global, and Sherwin-Williams; and the bottom third of Danaher, Ferguson, Builders FirstSource, and CDW.

Enterprise software provider **ServiceNow** (+50% for the year) reported strong customer growth and margins throughout the year, as it continues to innovate and execute at a high level. In May, the company held a well-attended Investor Day and customer conference in Las Vegas, and in September it released its Xanadu platform update with significantly more enterprise AI capabilities. Investors have also grown more comfortable that Artificial Intelligence will be a net positive to the company rather than a threat. In contrast to several peers, ServiceNow has benefited from its decision to forego major acquisitions, and to also avoid layoffs during the 2022 downturn (which I referenced in my June 2023 letter). At a conference this past September, CEO Bill McDermott spoke to the company's intense focus on taking care of its customers, which requires taking care of its employees. ServiceNow exemplifies a culture that Clio looks for in all of its portfolio companies:

“As you know, a few years ago, things were pretty questionable out there, and companies were laying people off like it was a sport. And we took a very distinct position on that and said, ‘We will not lay off anybody at ServiceNow.’ And while there might be some uncertainty in the horizon, once we get cleared, we're going to need all these great people because we only hired 10s and maybe 9s, but definitely not 8s and 7s. So we're going to need them all. And I think really making ServiceNow the best run company in the information technology industry, where we can say with pride, we take the innovation, we take the culture and we take the way we lead the company, no matter what your position is, so seriously because we're all working for the customer and their customers and they're going to need us now more than ever. Every day, they need us now more than ever.”¹

Hilton (+36%) demonstrated this year the strength of its brand for both guests and hotel owners alike, growing its Adj. EBITDA by 12.5% through Q3. As a capital-light “C-Corp” providing branded services to third-party hotel/property owners, Hilton's revenues and earnings are driven primarily by (a) RevPar – revenue per availability room – a combination of both occupancy and pricing; and (b) growth in its global hotel footprint. Following a stronger 2023, RevPar growth was tepid for most hotel companies in 2024. Hilton has consistently achieved the industry's best RevPar due to its Honors loyalty program (with 203 million members), its superior technology and distribution channels, and its brand management (tiering, location, service). This higher system-wide RevPar attracts more hotel owners to the Hilton brand, leading to superior Unit Growth (which should continue in the 6-7% range).

With limited capital expenditure requirements, Hilton uses its cash to pay a small dividend, buy back a significant amount of its shares, and make targeted acquisitions. In 2024, the company acquired the Graduate and NoMad

¹ Source: Goldman Sachs Technology Conference, September 11, 2024.

brands and announced a partnership with Small Luxury Hotels of the World (SLH), each of which will be additive to Net Unit Growth over time.

As a diversified holding and investment company, **Berkshire Hathaway** (+25%) always has some good news and bad news to report amongst its subsidiaries. Overall, though, 2024 went well. Consolidated Operating Earnings through the first nine months grew 17%, led primarily by increased margins at GEICO. After a disappointing Q1, the BNSF railroad returned to growth in Q2 and Q3. The Energy division generally performed well last year, but its financial results were dented by larger-than-normal litigation and regulatory expenses.

Following the death of vice chairman Charlie Munger last November at age 99, the annual meeting in Omaha in May saw greater participation from Buffett's named successor as CEO, Greg Abel, as well as insurance head Ajit Jain. The biggest development at Berkshire last year was the reduction in its huge stake in Apple by more than 60%, leading to a cash position of over \$300 billion at September 30th. At age 94, Mr. Buffett has been increasingly vocal about what he expects from Berkshire after he is gone, and I have high confidence that the team he has put in place will continue to allocate capital in much the same way as the company has historically.

Visa (+22%) remained a consistent performer in 2024, reporting 10% revenue growth and 15% earnings growth for its fiscal year ending September 30th. The company in recent years has been investing heavily in 'Value-Added Services' (VAS) for its banking and merchant partners – offerings like risk & identity solutions, consulting & analytics, and account controls. VAS grew 22% in the most recent quarter and now makes up more than 30% of total revenue – a significant value driver on top of the core payment transaction-related business.

In September, the DOJ sued Visa for anticompetitive behavior, with their case resting on an odd claim that lowering prices for large customers (i.e. volume-based discounting, a common practice for nearly all businesses) is illegal. I do not think the government will prevail in this case, and any remedies will more likely impact Visa's banking partners' profits rather than Visa's. An interesting side note is that nearly 45% of the total S&P 500's market cap is under antitrust investigation by the FTC and/or DOJ (including Amazon, Meta, Google, Tesla, Nvidia, UnitedHealth, WalMart, Visa, and Coca-Cola).² Visa will hold an Investor Day in February.

S&P Global (+14%) benefitted in 2024 from a significant rebound in credit ratings revenue and index ETF inflows. The ratings business should continue to benefit from a solid debt issuance pipeline the next two years. The company's desktop analytics business (its CapitalIQ platform) has seen slower growth amidst weaker financial services spending, but should improve going forward due to its longstanding investments in analytical tools and proprietary data. The merger integration between S&P and IHS Markit is moving slightly ahead of plan. Martina Cheung, a 15-year veteran of S&P and former head of the credit ratings business, became CEO on November 1. She succeeds Doug Peterson, who served in the role for 11 years and shepherded the company through its split-off from the McGraw Hill conglomerate a decade ago. He will remain a board member and adviser through 2025.

Sherwin-Williams (+10%) shares performed ok last year despite a sluggish demand environment impacted by the lowest level of existing home sales since the Financial Crisis. Through Q3, segment profit grew 7.6% despite zero revenue growth. In August, the company held an Investor Day in Boston where it raised its long-term gross

² Source: Bank of America Equity Research, September 28, 2024.

margin target by 2 percentage points. Sherwin continues to re-invest in its business, gain market share, and gradually raise prices, all of which should lead to improved earnings when the housing market thaws. Several competitors are struggling to survive, with PPG selling its North American architectural paints business (\$2bn in sales) to a private equity firm, and regional player Kelly-Moore (c. \$400m in sales) shutting down entirely. In 2024, Heidi Petz succeeded John Morikis as Chairman and CEO, becoming only the 10th CEO in the 158-year history of the company. On November 8, Sherwin was added as one of the 30 constituents of the Dow Jones Industrial Average.

While very different businesses, **CDW** and **Danaher** both continue to manage through a lengthy ‘post-pandemic hangover’. Each saw a surge in demand from 2020–2022 which then led to customers having excess inventory and lower-than-normal demand over the ensuing two years.

CDW (–23%), which distributes and manages IT hardware and software for small and medium size businesses, was the Portfolio’s biggest loser in 2024. The company saw above-trend double-digit revenue growth in 2021 and 2022, driven by work-from-home device purchases and hardware cycle refreshes. Sales then declined in 2023 and 2024 as customers more closely managed their inventory and reduced IT budgets. While challenges remain, CDW should benefit going forward from the increasing complexity of the overall IT environment and their key role as a trusted “outsourced IT department” to SMBs. This is a company which has hit a rough patch, but whose stock has still compounded at a 19% annualized rate over the past decade. I believe their products and services will drive profitable demand over the coming years.

Danaher (flat on the year), a manufacturer of life science equipment and supplies, saw huge growth in 2020 and 2021 as demand for vaccines and diagnostic equipment fueled its core businesses. Sales slumped hard in 2023 and were basically flat in 2024. Bioprocessing has likely now bottomed, and customers have mostly worked through their excess inventory. As a result, DHR should see incremental improvement over the coming quarters as it trends back to a high-single digit revenue growth rate. In September, the company held an investor day near their headquarters in Washington, D.C., where they highlighted the strength of their Diagnostics segment (40% of total revenues) and new growth areas such as infectious disease, neuro, and oncology.

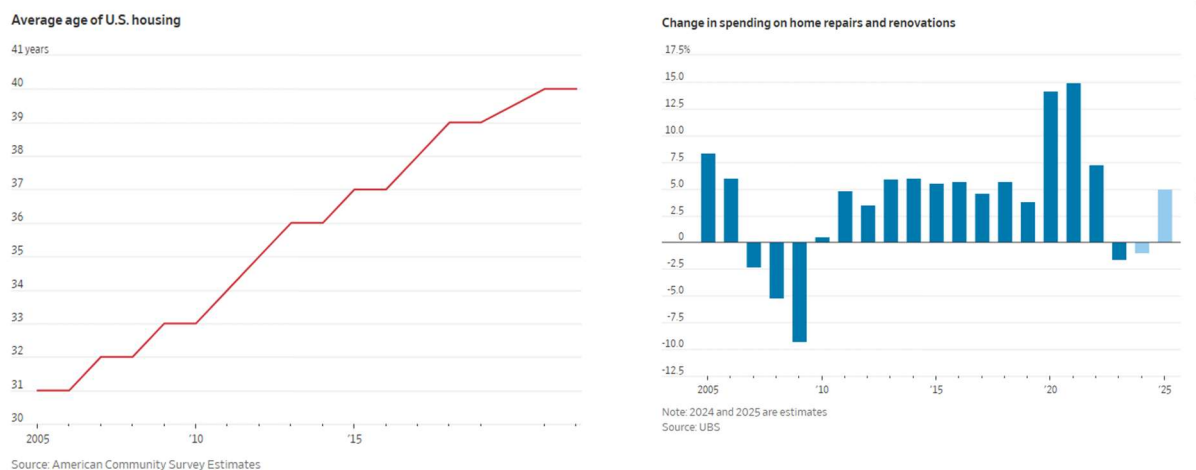
Builders FirstSource (–14% for the year, and –19% from Clio’s first purchase in late January) was a loser this past year. The company’s stock price is highly sensitive to housing starts and mortgage rates, with home price affordability remaining challenging for many buyers. Nevertheless, the company continues to execute on its multi-year plan to improve margins and returns on capital through a higher mix of value-added products (such as trusses, windows, and doors). As the largest player in its category, BLDR has been re-investing in its internal technology platform as well as targeted M&A to expand its geographic and product reach. In November, CFO Peter Jackson was named CEO, succeeding Dave Rush, a 25-year veteran of the company.

Ferguson (–9%) faced similar headwinds from a slow housing and construction market. FERG derives roughly half its sales from the Residential market (est. down 7% in 2024) and half from the Commercial market (est. down 4% in 2024). In both segments, Ferguson gained significant share and outperformed peers by 3–4 percentage points. On its December earnings call, management noted that it is refusing to cut spending to boost short-term earnings, but rather remains committed to investing across the business in areas such as digital tools, a larger trainee class, HVAC expansion efforts, and new teams to support capital project deployments in areas such as data centers, semiconductors, and biotech manufacturing. This is a company and management team which has

improved company-wide ROIC from 19% in 2017 to 31% in 2024, and I fully support their continued efforts to invest across their highly fragmented markets.

Overall, 2024 was a difficult year for the three housing-exposed holdings in the Portfolio (SHW, FERG, and BLDR). I believe the outlook for 2025 and especially 2026 are brighter. While elevated home prices and mortgage rates remain a challenge, housing starts should grow modestly, and there are signs of re-emerging demand for Repair & Remodel (R&R) projects. The age of the US housing stock continues to rise, and the significant pull-forward of R&R demand during the Covid years is in the process of being digested. Additionally, modest commodity price inflation should support pricing and margins for these distributors after 2+ years of deflationary headwinds.

Select Housing Market Data³



After-Market Autoparts Distribution (ORLY and AZO)

In my last letter in July, I spent three pages discussing Clio's holdings in autoparts distribution and why I believe **O'Reilly Auto** (+25%) and **AutoZone** (+24%) are well placed to be the 'last men standing' in the category, analogous to Lowe's and Home Depot in home improvement. That thesis continued to play out during H2, with the #3 and #4 players, Advance Auto (AAP) and Napa (GPC), reporting weaker than expected sales and earnings. Advance Auto, which has gone through multiple management teams and turnaround efforts over the past decade, began another painful restructuring. The company announced in November that it is shutting down its entire West Coast presence – more than 700 stores – which should provide nice share gain opportunities for many years for ORLY and AZO. Advance also sold its WorldPac wholesale distribution business in order to focus on its 'blended box' strategy – something that ORLY and AZO have been mastering for decades. AAP stock ended the year down 25%.

Despite tepid discretionary DIY/retail sales, ORLY and AZO continue to do well in their DIFM/Pro segments and are gaining share across most categories. One major leg of the bear case continues to recede, as consumers have shown that they are not as interested in Electric Vehicles as many investors had believed for the past several

³ Source: <https://www.wsj.com/economy/housing/this-old-house-home-buyers-best-deals-are-on-builders-lots-defc1311>

years. Across the US and the world, auto manufacturers are retreating from their loss-making EV investments, a trend which will likely accelerate if subsidies are removed under the new US administration.

In August, I met with management and toured O'Reilly's distribution center outside of Chicago. This team continues to impress me with their focus on serving the customer and training their employees. Brad Beckham became ORLY's fourth CEO in January 2024, having worked at the company for 28 years across multiple roles and geographies. I would encourage anyone who is interested to learn more about Brad's impressive path to the top job and the overall company culture and history by reading this profile:

<https://www.biz417.com/advice/leadership/brad-beckham-oreilly-automotive-ceo/>

III. CLIENT BASE AND ORGANIZATIONAL UPDATE

At December 31, Assets Under Management totaled \$138 million from 51 clients. There are no significant operational or organizational updates to report.

Year-end tax forms (1099s) should be available in your Schwab and Clio portals by mid-February.

Sincerely,

James Aldigé

Clio Asset Management LLC

APPENDIX

Investment	% of Portfolio at 12/31/24	H2 2024 Total Return	Full Year 2024 Total Return
O'Reilly Auto (ORLY)	18.0%	+12.3%	+24.8%
AutoZone (AZO)	10.0%	+8.0%	+23.8%
Berkshire-Hathaway (BRK.B)	9.6%	+11.4%	+25.3%
CDW (CDW)	9.5%	(21.8%)	(22.6%)
ServiceNow (NOW)	9.4%	+34.8%	+50.1%
Sherwin-Williams (SHW)	8.9%	+14.4%	+9.9%
Ferguson (FERG)	8.6%	(9.6%)	(8.6%)
Hilton Worldwide (HLT)	8.0%	+13.4%	+36.1%
S&P Global (SPGI)	5.4%	+12.1%	+13.9%
Visa (V)	4.9%	+20.9%	+22.3%
Danaher (DHR)	4.2%	(7.9%)	(0.3%)
Builders FirstSource (BLDR)	2.8%	+3.3%	(14.4%)
Cash and Equivalents	0.7%		
<i>Clio Core Portfolio</i>	<i>100.0%</i>	<i>+5.7%</i>	<i>+10.0%</i>
<i>Select Index ETFs</i>			
SPY (S&P 500 ETF)		+8.4%	+24.9%
RSP (Equal-weight S&P 500 ETF)		+7.5%	+12.8%
ONEQ (Nasdaq Composite ETF)		+9.2%	+29.3%
IWM (Russell 2000 ETF)		+9.6%	+11.4%
DIA (Dow Jones Industrial Index)		+9.7%	+14.8%

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