CLAYTON PARTNERS LLC
PRIVATE INVESTMENT

Clayton Capital Appreciation Fund, L.P.

Q1 2025

April 15, 2025

To Our Partners:

During the first quarter, the Fund declined 5.9%, while the S&P 500 and Russell 2000 were down 4.3% and 9.5%, respectively. Since inception in January 2003, we have compounded partner capital at 10.6%, net of all fees and expenses, versus 10.8% for the S&P and 9.2% for the Russell.

On the long side of the portfolio, the major contributors to our first quarter performance were JYNT and EPSN and major detractors included TAC, VTOL, CRC and MOVE. Other than our oil and gas hedges, our modest short book was a slight detractor.

We entered the year with a cautious posture and were disappointed that our portfolio results ended the quarter looking much like the overall indices. We certainly did not anticipate the wildly erratic policy announcements that we witnessed to start the second quarter. However, as we discuss below, there are businesses in our portfolio that are extremely attractive investments after the sell-off and we are adding to them. We don't think that can be said for the market as a whole.

Outlook

We are currently navigating one of the most complex and challenging investment landscapes in recent memory. Geopolitical tensions, notably the intensifying trade restrictions and tariffs introduced by the Trump administration, have added substantial uncertainty. For the last thirty years, globalization and open trade facilitated low inflation, high productivity, and robust corporate profits, all of which significantly benefited investment portfolios. However, the recent shift toward protectionism and national economic priorities threatens to reverse many of these gains, introducing higher structural inflation and increased capital costs, fundamentally altering the rules under which markets have operated for decades.

The shift toward reshoring, driven by persistent trade conflicts, will not unfold without significant friction. A rapid reversal of decades-long global supply chain integration is economically and operationally impractical. Firms like Apple have already signaled strategic shifts toward production in countries like India and Brazil, underscoring the significant realignment underway.

Investors must recalibrate their expectations accordingly, acknowledging that previous assumptions regarding global supply chains, input costs, and profit margins are likely obsolete.

Our investment approach remains cautious yet opportunistic. We have deliberately chosen not to react too quickly to the volatility created by the tariff policy gamesmanship. We have no crystal ball to figure out where all this turbulence takes profit margins, inflation, or the markets. We know that uncertainty can create risk as well as opportunity, but with such enormous dispersion in potential outcomes it seems prudent to proceed judiciously.

As we look at the investment landscape, we are finding opportunities in companies we feel are significantly less impacted by direct tariff decisions today (domestic services, senior housing, essential government services) where prices are dislocated beyond what would be expected in most scenarios. Meanwhile, we are also researching companies that appear to be in the direct path of possible changes (auto related, clothing, discretionary goods) as these companies might become investable when the path is clearer. In all cases, we are looking at increasing our margin of safety and return requirements.

The market entered this year at a lofty starting point. The S&P 500 began the year trading at 22x earnings with expected earnings growth of over 10%, according to FactSet. These optimistic projections were underpinned by expectations of continued economic expansion, easing inflation, and strong consumer spending. Even after a 10% pullback from the recent highs, the market remains expensive versus the long-term average in the 15-16x range. If the worst-case scenario emerges, there is plenty of potential for further downside.

With that said, we are finding some babies being thrown out with the bathwater. Bristow Group (VTOL) is a good example. Bristow operates a fleet of helicopters and has two business segments: 1) Search and Rescue (SAR) which provides essential offshore aid services for the UK and Ireland under long term contracts, and 2) Offshore oil and gas (O&G) which provides transportation for workers and materials to and from producing deepwater platforms where transportation needs do not vary materially with changes in commodity prices.

The industry underwent a massive contraction in the 2014-2018 timeframe, reducing the supply of helicopters and leading to almost no new aircraft orders. Today the global fleet is nearly 100% utilized and the timeline to produce a new aircraft is roughly two years. The stock is down over 20% on the year and has very little direct exposure to tariffs. The two largest SAR contracts are ramping up this year, obscuring their margin contribution. In addition, more than 60% of their underlying O&G contracts will be repriced in the next two years, which should lead to a substantial increase in profitability. After a lengthy investment period, the forward capital needs are de minimis. We expect them to generate nearly $7 of free cash flow in 2026. On a $28 share price, the 25% free cash flow yield is substantial. The company recently authorized a $125 million share repurchase program and indicated it is going to start paying a dividend in Q1 of 2026.

This is an example of a unique situation where Bristow's substantial and growing long-term government contracts are not being recognized by the market. At the same time their cyclical O&G segment is experiencing a unique supply/demand imbalance allowing Bristow and their peers to exert pricing power.

In March we welcomed Jean-Luc Axelrode to Clayton Partners. He graduated from Saint Mary's College with a degree in Economics and previously worked for UBS Wealth Management as a client service associate. Jean-Luc will be supporting both back-office operations and our investment process. We are happy to have him join the team!

Best regards,

Jason, Brian, and Alex

Clayton Capital Appreciation Fund, L.P.

Performance Update

	1st Quarter	Year-to-Date	Since Inception[1]	Cumulative
CCAF	-5.9%	-5.9%	10.6%	841.4%
S&P 500	-4.3%	-4.3%	10.8%	880.1%
Russell 2000	-9.5%	-9.5%	9.2%	607.2%

Portfolio Exposure at Month End

Long	51.5%
Short	-5.1%
Net	46.4%

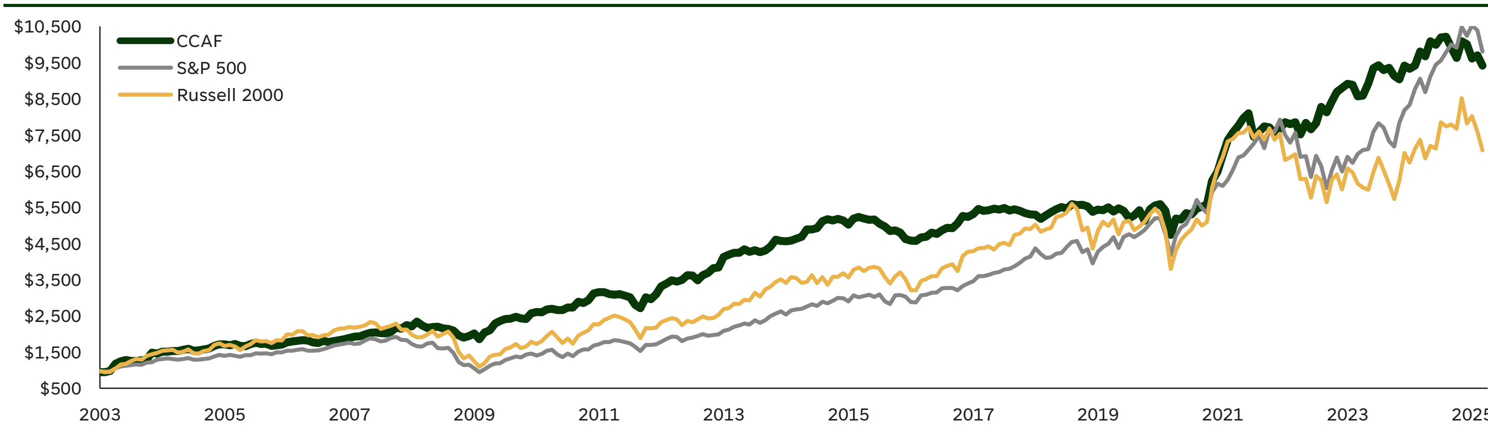
Overview

The Clayton Capital Appreciation Fund (CCAF) is value-oriented, opportunistic, and driven by its own grassroots research. Our Managing Partners have invested the majority of their liquid net worth in the Fund, creating true alignment with their investors' interests. We are focused on maximizing returns and controlling risk by investing with management teams that are *Thinking Right.*

Benchmark Analysis (ITD)

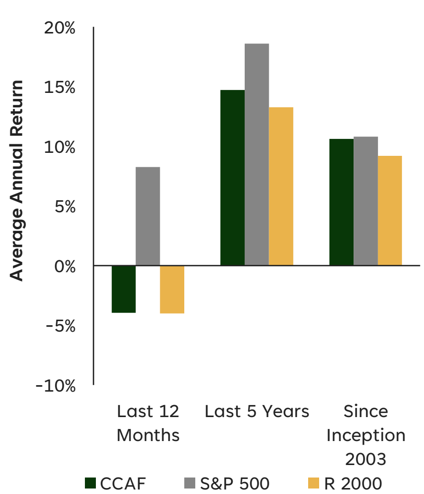
	S&P 500	R 2000
Annualized Alpha	6.7%	7.4%
Beta	0.39	0.33
Correlation	0.49	0.57

Cumulative Performance[2]

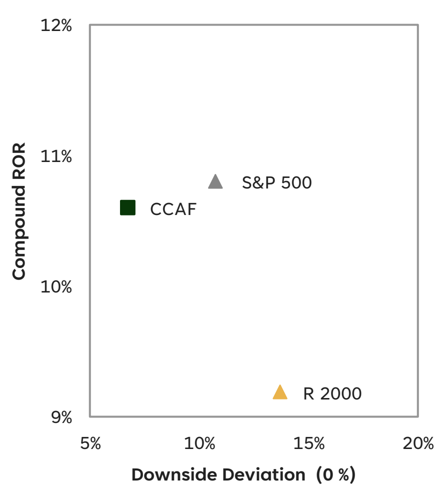


	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
CCAF	46.1%	17.4%	-0.4%	8.8%	20.5%	-13.2%	32.0%	21.2%	-0.7%	24.0%	19.1%	12.5%	-10.1%	13.2%	1.4%	1.2%	3.4%	16.7%	18.4%	14.6%	7.1%	6.3%	-5.9%
S&P 500	28.7%	10.9%	4.9%	15.8%	5.5%	-37.0%	26.5%	15.1%	2.1%	16.0%	32.4%	13.7%	1.4%	12.0%	21.8%	-4.4%	31.5%	18.4%	28.7%	-18.1%	26.3%	25.0%	-4.3%
R 2000	47.3%	18.3%	4.6%	18.4%	-1.6%	-33.8%	27.2%	26.9%	-4.2%	16.3%	38.8%	4.9%	-4.4%	21.3%	14.6%	-11.0%	25.5%	20.0%	14.8%	-20.4%	16.9%	11.5%	-9.5%

Relative Performance



Risk vs. Return



Statistical Analysis (ITD)

	Fund	S&P 500	R 2000
Compound ROR	10.6%	10.8%	9.2%
Standard Deviation	11.6%	14.6%	19.8%
Downside Deviation (0%)	6.7%	10.7%	13.7%
Maximum Drawdown	-20.9%	-50.9%	-52.9%
Largest Month Gain	20.3%	12.8%	18.4%
Largest Month Loss	-12.4%	-16.8%	-21.7%

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Disclosures

[1] Clayton Capital Appreciation Fund was founded in January 1st, 2003. Performance numbers are since inception, net of fees and expenses.

[2] Shows the actual returns of a hypothetical $1,000 invested in January 1st, 2003, net of fees and expenses with no additional contributions or withdrawals and participation as an unrestricted investor in "new issues."

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Disclosures Regarding Performance Calculations. The Fund’s performance results reflect the reinvestment of dividends and other earnings and the deduction of the Fund’s actual costs and expenses, a 0.25% quarterly management fee charged to the Fund quarterly in advance and an annual 20% special profit allocation allocated to CP, with no additional contributions or withdrawals and participation as an unrestricted investor in "new issues." In estimating the Fund’s performance results, management fees and special profit allocations have been deducted as if payable or allocable in each period in which returns are shown, rather than quarterly or annually, respectively.

Compound Rate of Return and Largest Month Gain/Loss are net actual costs and expenses, as summarized above.

The Fund’s performance results are based on the Fund’s audited financial statements from inception through the most recent fiscal year for which audited results are available. Results for periods for which audited financials are not yet available are based on the Fund’s internal records and are subject to adjustment after the Fund’s audit is completed. The performance results themselves were prepared by CP and have not been reviewed by any third party.

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CP believes that the comparison of the Fund’s performance to any single market index is inappropriate. The S&P 500 Index measures the performance of 500 large publicly-held companies in the U.S. The Russell 2000 Index measures the performance of the smallest 2,000 stocks in the Russell 3000 Index (the latter being a capitalization-weighted stock market index that seeks to be a benchmark of the entire U.S. stock market). The Fund’s portfolio may contain equity (including restricted securities) and fixed income investments and cash, includes short sales of securities and margin trading and is not as diversified as the S&P 500 and Russell 2000. The index returns reflect the reinvestment of dividends and other earnings. Due to the differences between the Fund’s investment strategies and the composition of the market indices included above, no such index generates returns that are directly comparable to the returns generated by the Fund’s investment strategy.