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Friends of Long Lake,

Unlike last quarter, when in-bound client questions were abundant, this quarter has been relatively quiet. As such, we have returned to our normal self-directed writing style, albeit with a new format. So, without further adieu, we would like to provide our thoughts on the market and provide a brief update on three new equity holdings: Century Bancorp (CNBKA), Chicken Soup for the Soul Entertainment (CSSE), and Inspired Entertainment (INSE).

At present, Wall Street appears focused on three major issues:

1. The Presidential election
2. Additional stimulus
3. Covid-19

Election and Stimulus

Beginning with the election, Wall Street believes Joe Biden will become the 46th president of the United States. How do we know? As the old saying goes, follow the money. In September, Biden received nearly [5x the amount] of donations from Wall Street than President Trump received. Additionally, trades that would benefit under a Biden regime have started to work (new energy vs. coal or the dollar vs. peso). Currently, polling data place Biden ahead of Trump both nationally, and in most of the key swing states. While 2016 polling data famously ended up being non-predictive, the margins are wider in 2020, and thus likely more indicative of the actual outcome. It is certainly possible the data could once again be inaccurate, but for the time being, it appears the race is Biden's to lose. For readers who are interested, [this overview] provides a number of reasons

How 2020 battleground polls stack up to 2016

RealClearPolitics poll averages as of October 9

State	2016 poll average	2016 final vote	2020 poll average
MAINE	CLINTON +4.5	CLINTON +2.9	BIDEN +12.8
MINNESOTA	CLINTON +6.2*	CLINTON +1.5	BIDEN +9.4
NEW HAMPSHIRE	CLINTON +0.6	CLINTON +0.3	BIDEN +9.0
PENNSYLVANIA	CLINTON +1.9	TRUMP +0.7	BIDEN +7.1
MICHIGAN	CLINTON +3.4	TRUMP +0.3	BIDEN +6.7
NEVADA	TRUMP +0.8	CLINTON +2.4	BIDEN +6.0
WISCONSIN	CLINTON +6.5	TRUMP +0.7	BIDEN +5.5
FLORIDA	TRUMP +0.2	TRUMP +1.2	BIDEN +3.7
ARIZONA	TRUMP +4.0	TRUMP +3.5	BIDEN +2.7
IOWA	TRUMP +3.0	TRUMP +9.5	BIDEN +1.4
NORTH CAROLINA	TRUMP +1.0	TRUMP +3.7	BIDEN +1.4
OHIO	TRUMP +3.5	TRUMP +8.1	BIDEN +0.6
GEORGIA	TRUMP +4.8	TRUMP +5.1	TIE
TEXAS	TRUMP +12.0	TRUMP +9.0	TRUMP +4.4

*AVERAGE OF FIVE POLLS CONDUCTED IN MINNESOTA PRIOR TO THE 2016 ELECTION. REALCLEARPOLITICS DIDN'T HAVE A 2016 AVERAGE FOR MINNESOTA.

why 2020 is not like 2016. However, before completely calling the race for Biden, it is worth noting Trump is gaining ground in most battle ground states and is actually ahead of where he was in 2016. Las Vegas odds place his election chances at ~41%, which is up from 34% a few weeks ago.

From our perspective, we feel the case can be made that it may not matter to Wall Street who wins the White House. Biden is viewed as fairly moderate, his policies are unlikely to really rock the boat, and he is the expected outcome (i.e. Biden is already "priced" into the market). Should Trump make a late surge and retain the Presidency, it would likely be positive for stocks given the perception that his policies (taxes, regulations etc.) are generally more favorable for corporations. There may be some noise around a contested election, but resolving the dispute is usually accomplished in fairly short order.

One area of potential risk may come in the form of, assuming he wins, Biden's ability to maintain office for the entirety of his term. On the surface, Vice Presidential candidate Kamala Harris' politics appear less friendly towards the business world and, therefore, could have a negative impact on the market if she were to replace Biden. This is not our base case, but do feel there is greater than a 0% chance of occurrence.

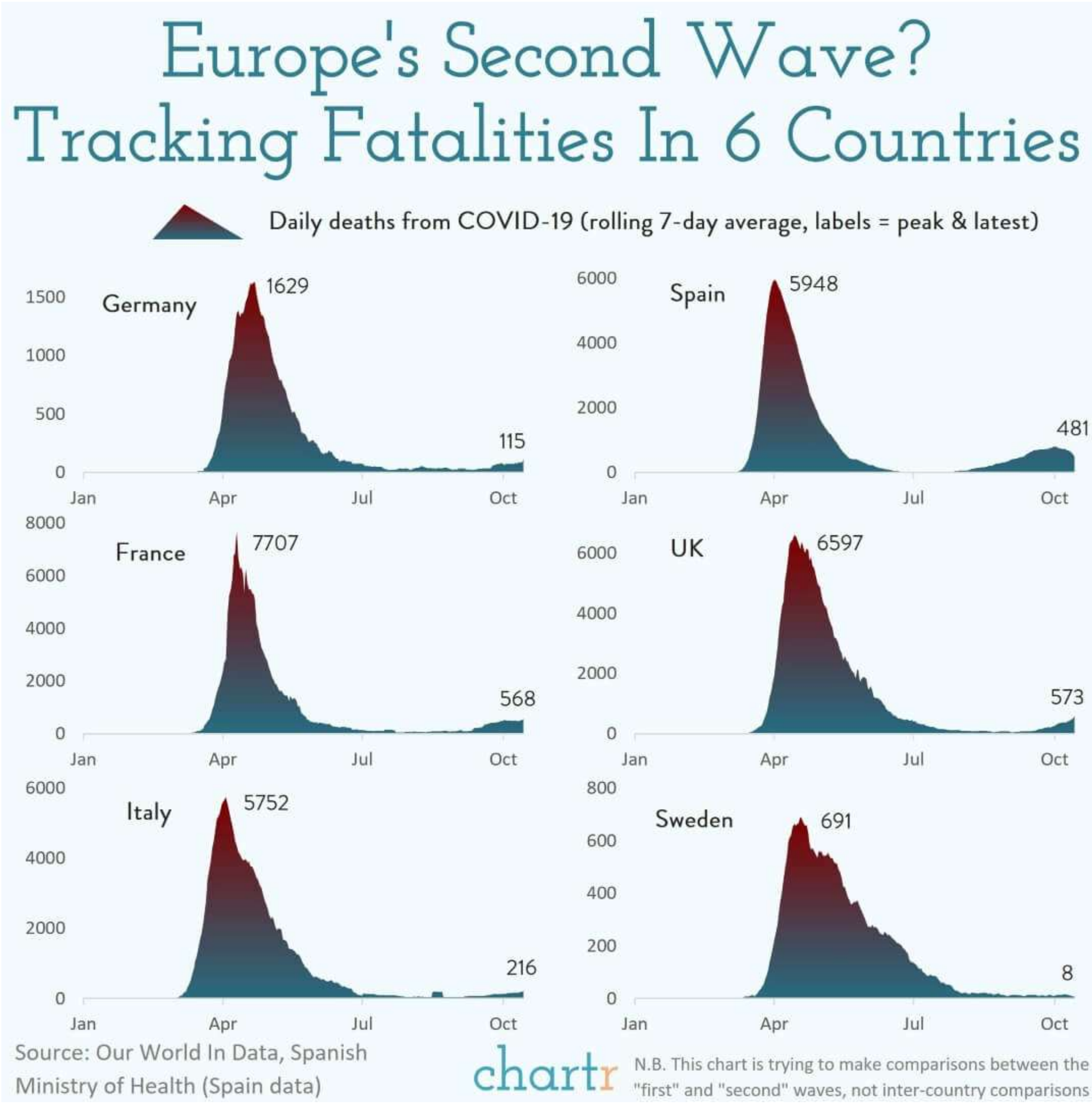
Staying in the political arena, additional government stimulus is another major area of focus. In typical fashion, despite both sides of the aisle having effectively the same goal, coming to a bi-partisan stimulus plan resolution is proving to be a challenge. As of this writing, the Democrats are pushing for a $2.2T deal while the Republicans are anchored to $1.8T. Despite the enormous amount of absolute dollars between the two sides, they actually do not appear to be far apart from reaching a deal. After all, what's a couple hundred billion between friends...

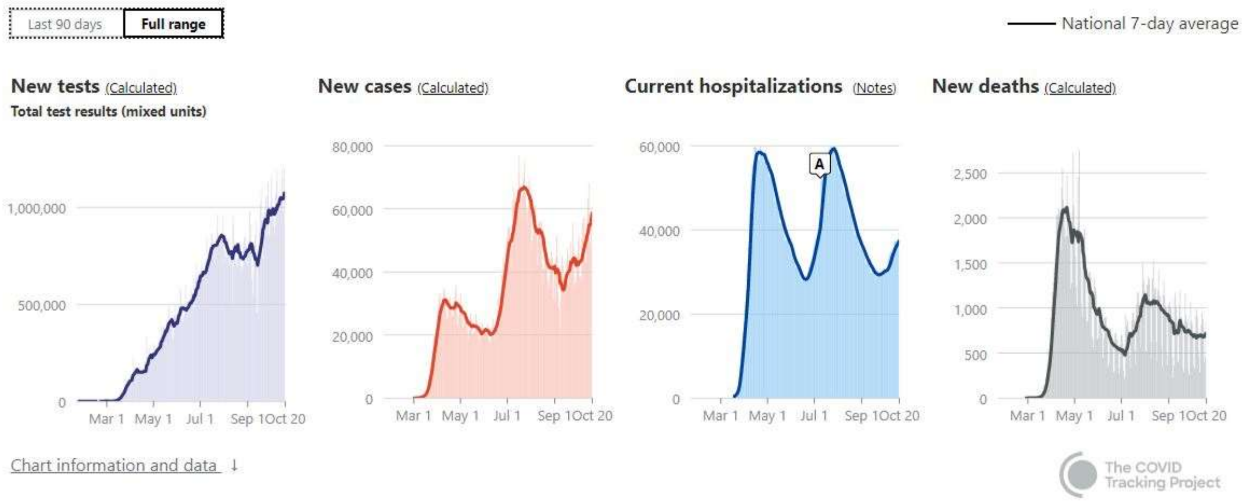
When it comes to throwing government money around and adding to the national debt, no one would accuse Wall Street of taking the long view. As such, the Street wants a deal, the larger and sooner the better. Interestingly, in this case, Wall Street may, in a way, get to have its cake and eat it too. We either get a quick deal prior to the election or a larger deal post-election (assuming a Biden victory). While it is difficult to ascertain a consensus number, most forecasts seem to project something in the ballpark of $2T pre-election. Post-election, depending on who controls the House and Senate, there are projections in the $3.5T+ range as the package could also include an infrastructure project.

Stimulus and accommodative Federal Reserve policies have been major underpinnings of the stock market's 2020 performance. At present, it does not appear either driver is at risk.

Covid-19

In our last update letter we attempted to tackle a common client question about why Wall Street does not seem to care about rising coronavirus cases. At the time, cases were climbing in the US and Europe, while deaths were declining. It was not entirely clear as to why, but we postulated that the infected base was younger, the most at-risk were taking more protective measures, clinical treatments were improving, and perhaps, the virus itself was becoming less virulent. For the most part, we were accurate and deaths continued to trend favorably. However, we are starting to see deaths moderately increase in both the US and western Europe. They are nowhere near the level experienced in April, but the trend is worth watching.





The question then becomes will we experience a major, lethal wave this fall/winter and will it result in another round of lock downs? Taking restrictive actions when there are rising cases without a commensurate rise in deaths may be difficult politically, particularly as some state Supreme Courts have begun to strip their Governors of unilateral executive order powers. Additionally, we are fairly close to having an approved vaccine, which would certainly help the overall situation.

On our end, one of the biggest questions we have is: when will citizens feel it is safe to return to "normal". Effective vaccines should help alleviate some fears, but there is likely to be a significant cohort of people who will not take them due to safety concerns and/or holding an anti-vaccination stance. If that is the case, then covid-19 is likely to permanently become part of life. What then? Perhaps we will reach some level of herd immunity and the sheer volume of covid cases will be reduced to localized flare ups with fewer cumulative hospitalizations and deaths? Perhaps the virus will weaken to the point where it becomes a non-issue for all but the sickest of the sick? Perhaps clinical care will improve to the point that even critically ill patients can be effectively treated? Even if these events do occur, what will it take for the general population to accept that the data are changing? It is certainly unclear how the future will unfold, but we do think there is real risk to certain parts of the economy should consumers remain reluctant to return to their prior life and spending habits. For those interested, this is a fairly long read on the history of pandemics and their outcomes (spoiler: most diseases do not disappear).

Equity Holdings Overview

The following section contains an overview of recent additions to client portfolios. It is meant to provide a brief summary of each position by providing a high level view of the major investment points. If readers have any questions regarding the companies, please do not hesitate to reach out.

Century Bancorp (CNBKA, $377M market cap)

Established in 1969 by Marshall Sloane, Century is a regional bank headquartered in Medford, MA. The firm operates 27 branches in Massachusetts and added its first branch in New Hampshire this year, bringing its total number of branches to 28 with over $2.3B on deposit and a loan book north of $2.4B. Century is one of, if not the, most conservative banks we have ever examined. The company has a very high quality loan portfolio, with a modest $3.6M in loss provisions as of the last quarter, and just $1.4M in currently nonperforming loans.

We feel there are multiple ways this investment could lead to success. First, sadly, Marshall Sloane passed away in April of 2019 at the age of 93. Mr. Sloane was integral in the bank's operations and was responsible for the bank's extremely conservative operations. The bank's new management team, comprised of Mr. Sloane's children (CEO - Barry, age 65; Vice-Chair - Linda, age 58) seems more willing to expand the bank's loan portfolio and aims to take share from competitors. While Century will likely never be an aggressive bank, simply moving away from its extreme conservatism should provide incremental areas of growth. Second, James Filler owns ~45% of Century's equity, a positioned valued at $115M. This is rather interesting, as Mr. Filler is the Lead Director of Servisfirst Bancshares (SFBS, $2.1B market cap), a regional bank based in Birmingham, AL. Given Mr. Filler's background, perhaps he too views Century as an attractive asset that could be better managed?

Chicken Soup for the Soul Entertainment (CSSE, $174M market cap)
CSSE operates an ad-supported video on demand "AVOD" network called Crackle and a production studio called Screen Media. Crackle was started in 2006 by Sony and follows a business model similar to that of basic Hulu - no cost to watch, but each show has a limited number of commercials that generate advertising revenue. In 2019, Sony sold the majority of Crackle to CSSE, as it sought a partner to invigorate the brand. In our opinion, AVOD is the way of the future, as consumers are faced with so many paid streaming options their monthly entertainment bills are beginning to approach what they were paying for traditional linear cable. On the last quarterly call, CSSE's CEO, Bill Rouhana, indicated all of their advertising slots were filled, a sign that demand is strong for the AVOD platform. Screen Media has also been a major contributor to CSSE's success, having produced a number of original content pieces, headlined by the hit war movie The Outpost.

CSSE is the only publicly traded pure-play AVOD. This is notable because the others have been acquired at multiples that would imply >$30/share for CSSE. Acquisition is not our base case, we believe CSSE management can grow the business independently, but everything has a price and Mr. Rouhana has bought and sold numerous companies in the entertainment space throughout his career.

Inspired Entertainment (INSE, $113M market cap)
INSE operates in the gaming industry and has two major areas of growth. First, the company provides Server-Based Gaming "SBG" products to a variety of operators. SBG kiosks are generally stand alone gaming terminals located in various places like a sports book or pub. The majority of INSE's SBG operations are in Europe, with most of their exposure in the UK, Italy, and Greece. However, the company has made in-roads in North America, gaining access to Illinois and Western Canada in 2020. Management believes they have significant opportunity to further penetrate the North American market. The second area of opportunity is the company's virtual sports initiative. Unlike actual sports betting, virtual sports betting occurs on computer simulated games with predetermined outcomes. Like real sports, the virtual game algorithm's incorporate upsets, luck, and randomness and are certified by an independent third party. Virtual sports betting can be difficult to conceptualize, but it is really no different in practice than betting

on any traditional casino game that has been virtualized. According to INSE management, over $10B has been wagered on virtual sports and the category is posting triple digit year-over-year growth. For those interested, virtual games can be watched here. Viewers will note a small "V" above the sports league and "V-Play" on the game stream, which denotes INSE's product.