"If you're in the business of making something, be in the business of making something great."

-Bob Iger, CEO of Walt Disney

Dear Shareholders,

We recently added The Walt Disney Company to the Union Street Partners Value Fund portfolio after its share price declined 60% from its high-water mark in 2021. We recognize that the controversy surrounding the company's shifting distribution model and political posturing elicits mixed emotions from both Wall Street and Main Street. Despite this narrative, we believe there is still plenty of magic at one of America's most iconic and competitively advantaged businesses.

Here's why we're confident in Disney's long-term investment potential:

1. Disney's uniquely advantaged business model and deep content library position the business to thrive over the long term.
2. Bob Iger, who began his second stint as Disney's CEO in 2022, is an experienced and credible executive. He will guide Disney through an evolving media landscape and refocus the company on profitability and growth.
3. Recent share price weakness gives us the opportunity to invest at an attractive price.

Brief history and overview

Disney characters and stories have captivated audiences and created a loyal following for 100 years. Originally founded on October 16, 1923, as an animated film producer, Disney has grown into a vast media conglomerate that includes box office films, theme parks, resorts, cruises, the broadcast network ABC, and a wide collection of cable networks including Disney Channel, ESPN, FX, and National Geographic.

First class content creation has been and will continue to be the heart and soul of the company. As of October 2022, The Walt Disney Studios film library has content from 100 years of production, including a total of 5,100 live-action titles and 400 animation titles.

In 2022 Disney generated over $83 billion in annual revenues and over $12 billion in operating income via its two business segments:

1. Disney Media and Entertainment Distribution (DMED): $55 billion in 2022 revenue and $4.2 billion in operating income.
    a. Linear networks including ABC, Disney Channel, ESPN, FX, and National Geographic.
    b. Direct-to-consumer includes Disney+ streaming, Hulu, and ESPN+ streaming networks.
    c. Content Sales and Licensing, which includes monetizing existing content through third-party television and on-demand services, theatrical distribution, DVD sales, music sales, and live events on Broadway and around the world.
2. Disney Parks, Experiences and Products (DPEP): $28.7 billion in 2022 revenue and $7.9 billion in operating income.
    a. Parks include Walt Disney World Resort in Florida; Disneyland Resort in California; Disneyland Paris; Hong Kong Disneyland resort; Shanghai Disney Resort; and third-party operated Tokyo Disney Resort.
    b. Experiences include Disney Cruise Line and Vacation Club, National Geographic Expeditions, and a Disney Resort and Spa in Hawaii.

Disney's magic is creating enduring characters and stories that become franchises. Once a successful character franchise is developed at the box office, Disney then distributes the story through its television channels, streaming networks, merchandise outlets, theme parks, cruises, and resorts. For decades families have made the pilgrimage to Disney theme parks to interact firsthand with their favorite Disney characters in a setting that is safe, clean, and appealing to visitors of all ages.

The *Cars* animated film franchise is a relatively recent example of Disney's repeatable strategy in action. *Cars'* first film debuted in 2006 and had two subsequent sequels. The films generated $1.4 billion in box-office revenues on a budget of $495 million. Post box office, it is estimated that *Cars* generated over $10 billion in total merchandise sales. The franchise is a leading attraction at three of Disney's theme parks and is a draw for subscribers to Disney+ streaming service.

Disney's ability to drive incremental profit and consumer engagement from its content after the box office creates a virtuous profit cycle. Box office success drives profits throughout Disney's diverse businesses, which enables reinvestment to create new stories and characters. Walt Disney himself outlined this business strategy on a napkin in 1957 (see graphic below), and the company has been executing it ever since.

The return of Bob Iger

Few people have better skills, credibility, and institutional knowledge to lead a vast organization like Disney than Bob Iger. Iger took over as CEO of Disney in 2005 after Michael Eisner's 21-year reign. Iger grew Disney through a series of successful acquisitions (Pixar, Marvel, Lucasfilm, 21st Century Fox) that deepened Disney's roster of stories and characters. Over Iger's 15-year tenure, Disney's total shareholder return was 554% versus the S&P 500's return of 244% over the same period.

In 2020, Iger retired and Bob Chapek was appointed CEO. Chapek faced a challenge by assuming the CEO role at the beginning of the pandemic, which shutdown Disney's travel business and prompted many consumers to "cut the cord" with their cable provider. However, Chapek's ultimate undoing came from an unforced error when he pushed Disney into a heated political debate in Florida. Chapek's back-and-forth stance on the issues ultimately upset both employees and customers. Disney's board of directors stepped in and replaced Chapek with Iger in an effort to refocus the company on creating valuable content instead of trying to shape political discourse. We think politics and business simply don't mix, especially if leaders position their business to upset potentially 50% of the customer base; Iger believes the same.

Iger has said he wants to "quiet the noise" and focus on growing profitability. He reorganized the company so that creative teams have more accountability for their content and plans to reduce expenses by $5.5 billion. Bloated staffing levels were commonplace among large companies in the post-pandemic years, and prior Disney management had succumbed to the trend. We expect Iger to continue to reduce layers of bureaucracy and increase accountability leading to better content and higher earnings growth over the short and long terms.

Strong leadership is going to be critical because Disney's legacy media distribution model is in decline as cord cutting continues to cut into traditional cable subscriptions. Iger has been upfront about the threat to Disney's traditional linear (ABC, ESPN, etc.) business for nearly a decade and made early investments to give Disney a head start in streaming relative to other traditional media companies.

Disney's three streaming platforms are Disney+, Hulu (2/3 ownership stake), and ESPN+. Disney is expected to purchase the remaining 1/3 stake in Hulu from Comcast by the end of calendar year 2023. Hulu provides access to live TV and on-demand access to popular licensed programming. Changes to ESPN+ are expected and should house all of Disney's live sporting events and potentially be a gateway to non-Disney related sporting events.

We believe these three streaming services bundled together will create one of the broadest and most appealing streaming products available in the market. While Disney's streaming business is not yet profitable, we believe its profit-margin potential over the next three to five years is north of 20%. Bob Iger laid the groundwork for this business years ago; now it is up to him to execute on his vision. His past track record of success, commitment to quality content, and deep industry experience give us confidence that he is uniquely suited to position Disney's portfolio of content for success.

Shares are deeply undervalued

Based on our expectations of continued strong business momentum at Disney Parks, a credible path to profitability in streaming, and continued cost cuts across corporate layers, we believe Disney should earn roughly $6 per share in 2025, which will result in a well-below-market price-to-earnings ratio of 13x. In addition to an attractive earnings multiple, Disney's competitive advantages from its virtuous profit cycle position the business to grow earnings at an above average rate over the long term.

Our fair-value estimate for Disney is roughly $110 per share, representing over 35% in potential shareholder return from current market prices. Over the longer-term, we believe Disney's unique business model will drive earnings growth at an above-market rate and produce strong long-term shareholder returns.

Conclusion

In the media business content is king, and Disney's deep content catalog is an irreplaceable national treasure. While we aren't exactly sure how the distribution model of the future will look, we are confident Disney's family-friendly content and its capable management team will develop a path to profitability comparable to more established streaming platforms like Netflix. Disney's theme park business remains in a class of its own, and we believe families will continue to make their pilgrimages to Disney parks as they have for the past 50 years.

Recent controversy and uncertainty has hurt Disney's stock price but has not impaired its long-term advantages over its competitors.

We fully expect to be long-term shareholders of this iconic American business.

Don't bet against the U.S.A.
Sincerely,

Bernie McGinn, CFA, and McCoy Penninger, CFA
McGinn Penninger Investment Management, Inc.

The Disney business strategy:

TV
MUSIC
16mm FILMS
TV COMMERCIALS
BUSINESS FILMS
CREATIVE TALENT OF STUDIO THEATRICAL FILMS
RE-ISSUES
DISTRIBUTION CO.
PUBLICATIONS (BOOKS & COMIC BOOKS)
WALT DISNEY MAGAZINE
MERCHANDISE LICENSING
Disneyland
ART CORNER SHOPS
COMIC STRIPS

FEEDS RECORD MATERIAL (TUNES AND TALENT)
PUBLICIZES PRODUCTS OF MUSIC DIV.
PROVIDES SUBJECTS FOR LATER USE IN LONGER THEATRE PRODUCT
FEEDS FILMS TO
USES TV TO PAY OFF COST OF OWN FILM
HELPS 'KICK OFF' FILMS (NEW AND RE-ISSUES)
FEED TUNES AND TALENT TO
KEEPS FILMS IN MIND WHEN THEY'RE OUT OF CIRCULATION
PROVIDES ART FOR RECORD JACKETS
SOURCE OF IDEAS FOR ALBUMS
FEEDS IN RAW MATERIAL FOR BOOKS
PLUGS FILMS
FEEDS FILM TO
PROVIDES INTERCHANGE OF STARS
PLUGS MOVIES
PROVIDES ADDITIONAL MARKET (AS PREMIUM USER) FOR MDSE DIV
PLUGS MERCHANDISE
PROVIDES SHOW SETTINGS AND PROMOTES PROGRAMS
PLUGS PARK
PARK PROVIDES CUSTOMERS FOR BUSINESS FILMS
PROMOTES DISNEYLAND THRU RENTED FILM OF PARK
STUDIO PROVIDES SALEABLE & USABLE MATERIAL, POSTERS, SKETCHES
STUDIO MFGS AND TESTS NEW RIDES
PARK PLUGS MOVIES
PROMOTES FILMS
FEED MATERIAL TO
PLUGS PARK ('DISNEYLAND U.S.A.')
STUDIO FAN MAIL FILLS OUT MAILING LIST FOR CATALOGUE
PLUGS FILMS AND STARS
PROVIDES ARTICLE MATERIAL
PROVIDES CHARACTERS
EXPLOITS FILMS
PROVIDES ADDITIONAL SALES OUTLET
PROMOTES PARK THRU PUZZLES, ETC
TURNS CONCESSIONAIRES INTO LICENSEES, TOO
FEEDS CONCESSIONAIRES INTO PARK
PROMOTES CHARACTER MDSE
PLUGS DISNEYLAND
PROVIDES ARTICLE MATERIAL
FEEDS MATERIAL FOR REPRINTS

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Fund holdings are subject to change at any time and should not be considered recommendations to buy or sell any security.

As of October 12, 2023, The Walt Disney Company represented 3.14% of the Fund's net assets, respectively.

There can be no guarantee that any strategy will be successful. All investing involves risk, including the potential loss of principal. There are risks associated with investing in the Fund that may adversely affect the Fund's performance. The principal risks associated with an investment in the Fund include market risk, non-diversification risk, risk of investing in undervalued securities, REITs, Master Limited Partnerships ("MLPs"), investment companies and ETFs. Factors such as domestic economic growth and market conditions, interest rate levels, and political events affect the securities markets and may affect the value of the fund. Non-diversification increases the risk that the value of the Fund could go down because of the poor performance of an individual security in the Fund's portfolio. Undervalued securities are, by definition, out of favor with investors, and there is no way to predict when, if ever, the securities may return to favor. REITs may be subject to, among other factors, certain risks associated with the direct ownership of real estate, including declines in the value of real estate, risks related to general and local economic conditions, overbuilding and increased competition, increases in property taxes and operating expenses, and variations in rental income. MLPs are generally considered interest-rate-sensitive investments. During periods of interest rate volatility, these investments may not provide attractive returns. To the extent the Fund invests in other investment companies, the Fund will indirectly bear its proportionate share of any expenses (such as operating expenses and advisory fees) that may be paid by certain of the investment companies in which it invests. Investment in ETFs carry specific risk and market risk. If the area of the market representing the underlying index or benchmark does not perform as expected, the value of the investment in the ETF may decline. Read the prospectus carefully for more information about these and other risks associated with investing in the Fund.

Before investing, you should carefully consider the Fund's investment objectives, risks and charges and expenses. The Fund's prospectus contains this and other important information and should be read carefully before investing. To obtain a current copy of the Fund's prospectus, call 1-800-673-0550.

Operating income is a measure of the profitability of a company's core business operations and is calculated by subtracting operating expenses from revenue

Price to earnings ratio; P/E: A ratio equal to a stock's market capitalization divided by its after-tax earnings over a 12-month period.

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